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After almost 7 months of calendar year 2010, the S&P 500 finds itself exactly where it began the year 29 weeks ago, i.e., a 0% total return YTD through last Friday (7/23/10). The high point for this year occurred 3 months ago (4/23/10) when the stock index was up +9.8% YTD as of that date, but the US stock market has since given back all of those gains (source: BTN Research).

Fed Chairman Ben Bernanke sounded a lot like a Washington politician last week. In his 2-day testimony before separate Senate and House committees, Bernanke reluctantly had to admit the shortcomings of our nation's current economic recovery, while at the same time not sounding so dire as to scare an already skittish US investor. The country's top central banker acknowledged an "unusually uncertain" economic outlook for the USA, but attempted to reassure Americans that his Fed members "remain prepared to take further policy actions as needed to foster a return to full utilization of our nation's productive potential" (source: Federal Reserve).

Depending upon whether you were reading the European press or its American counterpart, the bank stress tests that were performed on 91 European banks were either far more stringent than those conducted on US banks in 2009 or were woefully lacking in substance. The tests, which assumed a fall of 20% in stock prices and a concurrent sharp increase in interest rates, identified 7 failing European banks and another 12 near-failures. Of these 19 targeted banks, 13 were from Spain or Greece (source: Financial Times).

Notable Numbers for the Week:

1. **VOTING AND STOCKS** - Midterm elections will be held in the USA on 11/02/10 or just over 3 months from today. In **midterm election years** since 1950, the S&P 500 has averaged a gain of +8.0% (total return). The last time midterm elections were held **with a Democrat in the White House** was 1998 (Bill Clinton was president). The S&P 500 gained +28.6% in 1998. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the US stock market (source: BTN Research).
2. **GOING DOWN?** - More than half of **retired Americans** surveyed (56%) believe that in their lifetime Social Security will be **forced to reduce** the promised level of benefits scheduled to be paid to them (source: Gallup).
3. **NEW JOBS** - The financial regulatory reform bill signed into law by President Obama last Wednesday (7/21/10) will require an estimated **800 new SEC jobs** to fulfill roles created as a result of the legislation (source: SEC).
4. **BIG BANKS** - The 3 largest banks in the USA have 54% of the **\$12.1 trillion of assets** controlled by all domestic commercial banks (source: Federal Deposit Insurance Corporation).

Sincerely,

Victor J. Melfa, III
Investment Advisor

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