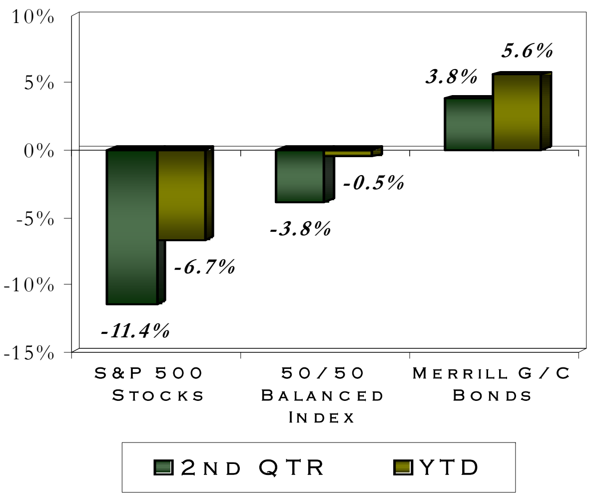
SECOND QUARTER 2010

CCM Investment Advisers

JULY 15, 2010

MARKET COMMENTARY

MARKET PERFORMANCE



MARKET SUMMARY

The second quarter was the worst for stocks since 2002, with the Standard & Poor's 500 Index falling 11.4%, bringing its year-to-date decline to 6.7%. The catalyst was fears that fiscal problems in the Eurozone and slowing economic growth in China would lead to a double-dip U.S. recession. Stock selection has been most challenging, as only four industry groups (consumer discretionary, consumer staples, finance, and industrials) outperformed the market return for the year. Confoundedly, those sectors have faced the most formidable headwinds from unemployment, sticky credit, finance reform and a strengthening U.S. dollar.

The bond market was generously rewarded from increasing aversion to risk assets, and the benchmark Merrill Lynch Government/Credit Index delivered an outsized total return of 3.8% for the second quarter. For the year, the Index is up 5.6%. Treasury issues were particularly rewarded, as the 30-year bond declined to less than 4% in yield and the 10-year yield dipped under 3%. Curiously, the decline in yields coincided with heightened global fears regarding runaway government deficits (the "Keynsian Endpoint" scenario).

ECONOMIC FORECAST

Though the global economic recovery will likely not be V-shaped, we believe fears of a double-dip recession are overblown. Continued weakness in unemployment and the housing sector are deserving of concern, but there are ample arguments for further growth. Unemployment remains stubborn, but the ongoing productivity boom and low inflation have pushed real hourly earnings to a record high, which should buoy consumer spending.

The recent decline of 30% in pending sales all but eliminates the housing sector from providing economic upside over the near term. European fears may be exaggerated, however, as the decline in the Euro has boosted exports, and correspondingly, industrial production has spiked nearly 10% year-over-year. The trend line growth in China has slowed, but the economy is still growing at a pace of nearly 10%. In addition, the gradual appreciation of the yuan should be conducive for U.S. exports to this booming region.

Our reflective economic index, which is highly reliable at assessing current economic output despite the large degree of lag in the economic statistics, shows the economy growing in excess of 3%. Credit Suisse's highly respected predictive model places the odds of a U.S. recession at **zero** over the coming six months. All in all, we have tempered our outlook for the economy, but believe fears are overstated and the economy should continue to slog its way through for the remainder of the year. However, we expect continued disappointment regarding employment and housing/construction.

FIXED INCOME STRATEGY

Bonds are attractive under only one scenario - that the future for the U.S. economy follows closely to the blueprint of Japan during their long period of stagnation since the early 1990's. While this is certainly possible, we believe our stimulative federal policy, though flawed in many regards, has placed our economic recovery on a self-sustaining upward path. Our strategy remains the same, and we are firmly entrenched in spread product in the short to intermediate end of the yield curve. We are very confident regarding credit strength, as credit upgrades for the second quarter outnumbered downgrades for the first time since the credit freeze and corporate balance sheets are positively flush with cash.

EQUITY STRATEGY

Valuations for large cap stocks are at multi-decade lows, with the forward price/earnings multiple for the S&P 500 at 11.5x, and the multiple for our equity selections standing at approximately 10.5x. Meanwhile, stocks are down by roughly a quarter since 2000 while profits have doubled, interest rates have been halved, and sideline cash continues to amass. What is required for success is faith in the U.S. economic model, a long-term perspective, and at times, a strong stomach.

Although the Euro-Mess has weighed on recent performance, our favorite industry group is technology - one of the select industries where America still carries a decided intellectual advantage over its global competitors. Forward earnings have grown nearly 25% to a record high, while heavyweights such as IBM, Microsoft, Intel, Hewlett-Packard, Oracle and Cisco trade at multiples as low as 10x (and even mighty Apple at only 15x) and balance sheets are immaculate. Microsoft, for instance, maintains cash approaching 20% of market capitalization.

ASSET ALLOCATION

The expected return spread between stocks and bonds stands at 598 basis points - the largest differential since 1979. From another perspective, 10-year Treasuries yield 3% versus an equity earnings yield in excess of 8%. While it is tempting to gorge on equities at this point, we are still highly cognizant of our mandate as conservative investment managers and will maintain just a modest overweight position in quality names. High profile economic bears such as Paul Krugman make some valid arguments, and though we dismiss his thesis of the "Third Depression" as very low probability, we are placing added emphasis on risk management during this period of uncertainty.

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