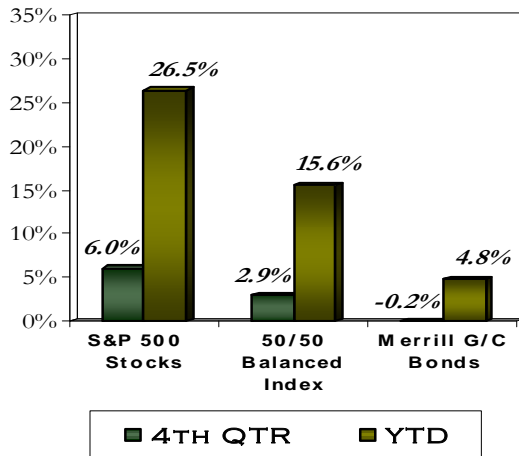


MARKET COMMENTARY

MARKET PERFORMANCE



*For a copy of CCM's performance composite, please contact your CCM representative.

MARKET SUMMARY

Cheap money and an improving economy led to a banner year for risk assets, particularly equities. While U.S. performance lagged that of many international bourses, the benchmark Standard & Poors' 500 Index managed an impressive annual return of 26.5%. For the fourth quarter, performance was a solid 6.0%. In 2009, growth stocks handily outperformed value, distressed financial shares rebounded, and globally-themed shares shined. Although we avoided the zombie banks, we are thankful to have otherwise been firmly in the sweet spot with our selections over the course of the year.

A returning investor appetite for risk was evident in the bond market as well, and lower-grade credit issues handily outperformed Treasury issues. Despite a late uptrend in rates and a corresponding 0.2% fourth quarter loss for the benchmark Merrill Lynch Government/Credit Index, bonds delivered a 4.8% total return for the year. Sector performance diverged widely, with corporates returning 19.8% versus a Treasury loss of 3.7%. With the sharp upwards tilt in the yield curve over the year, short-term issues easily bested longer term bonds.

ECONOMIC FORECAST

Employment remains the critical economic variable, and even with a negative surprise in December recent data show pronounced improvement. We are, however, quite suspect of the latest advances in the housing market, as much demand has been pulled forward by generous tax incentives. Regarding inflation, **policy actions** are quite inflationary, but **economic conditions** remain deflationary. Weakness in the U.S. dollar is concerning, but further downside should be mitigated by the **relative** condition of the U.S. government balance sheet, as our fiscal situation is not as dire as Japan or much of Europe.

With all considered, we expect 2-3% real growth with subdued inflation in 2010. While the recovery began with a boost from inventory restocking, consumption should now begin to rebound as employment improves, and the recovery should then become self-reinforcing in the second half of the year. Longer term, though, we have deep concerns. Governments are fighting a global crisis caused by excessive borrowing and spending with the use of the **exact same ammunition**. Unfortunately, the positive structural effects of deleveraging in the private sector are being negated by profligate fiscal policy.

FIXED INCOME STRATEGY

Recent upswings of 60 basis points in yields are tempting, but consistent with our longer-term economic concern, we believe it is too early to extend portfolio durations. In terms of mix, we continue to eschew Treasury issues almost in entirety. Where we remain optimistic is for spread issues, particularly the lower tranche of investment-grade corporate bonds. Credit spreads contracted significantly during 2009, yet value is still offered. As the economy gradually improves we expect further out-performance in the sector and will remain over-weighted.

EQUITY STRATEGY

The naysayers stress that recent equity gains have been built on a shaky foundation. We give some credence to that notion, particularly in regards to profits improving mainly from corporate cost-cutting. Where we diverge is in our positive stance on the combination of a strengthening global economy, a weak U.S. dollar and the corresponding demand pull for domestic brands. Accordingly, we gravitate towards companies deriving over 50% of revenues from abroad. Due to downside economic risks, we are also employing defensive characteristics in our portfolios. In this component of the strategy, health care issues, dividend-payers and consistent earners receive particular focus.

ASSET ALLOCATION

It is doubtful that equity returns for 2010 will be as outsized as those in 2009, yet continued progress on the earnings front should result in further gains. When compared to the weak outlook for bonds, stocks are especially attractive. However, should bond yields continue their recent uptrend they will slowly gain appeal. Relative valuation is quite dynamic over time and it is difficult to be too specific, but another 50-100 basis point increase in intermediate-term rates would likely tip the pendulum towards a move to a baseline asset allocation.

CONCLUSIONS

ECONOMY	The economy should muddle through the year with sub-par growth, mainly due to employment weakness and a housing demand vacuum once incentive programs expire.
BONDS	Although recent rate upswings have restored some semblance of sanity to Treasury valuations, they remain quite unattractive. Stay focused on short term spread issues.
STOCKS	We expect much more subdued equity returns for the year, but are still hopeful for the stock market. We continue to focus on domestic exporters and are also augmenting the defensive characteristics of our portfolios.
BALANCED	Bonds are offering better value as a whole, but still pale versus stocks. An asset allocation move towards bonds is likely to be within 100 incremental basis points of yield away.

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