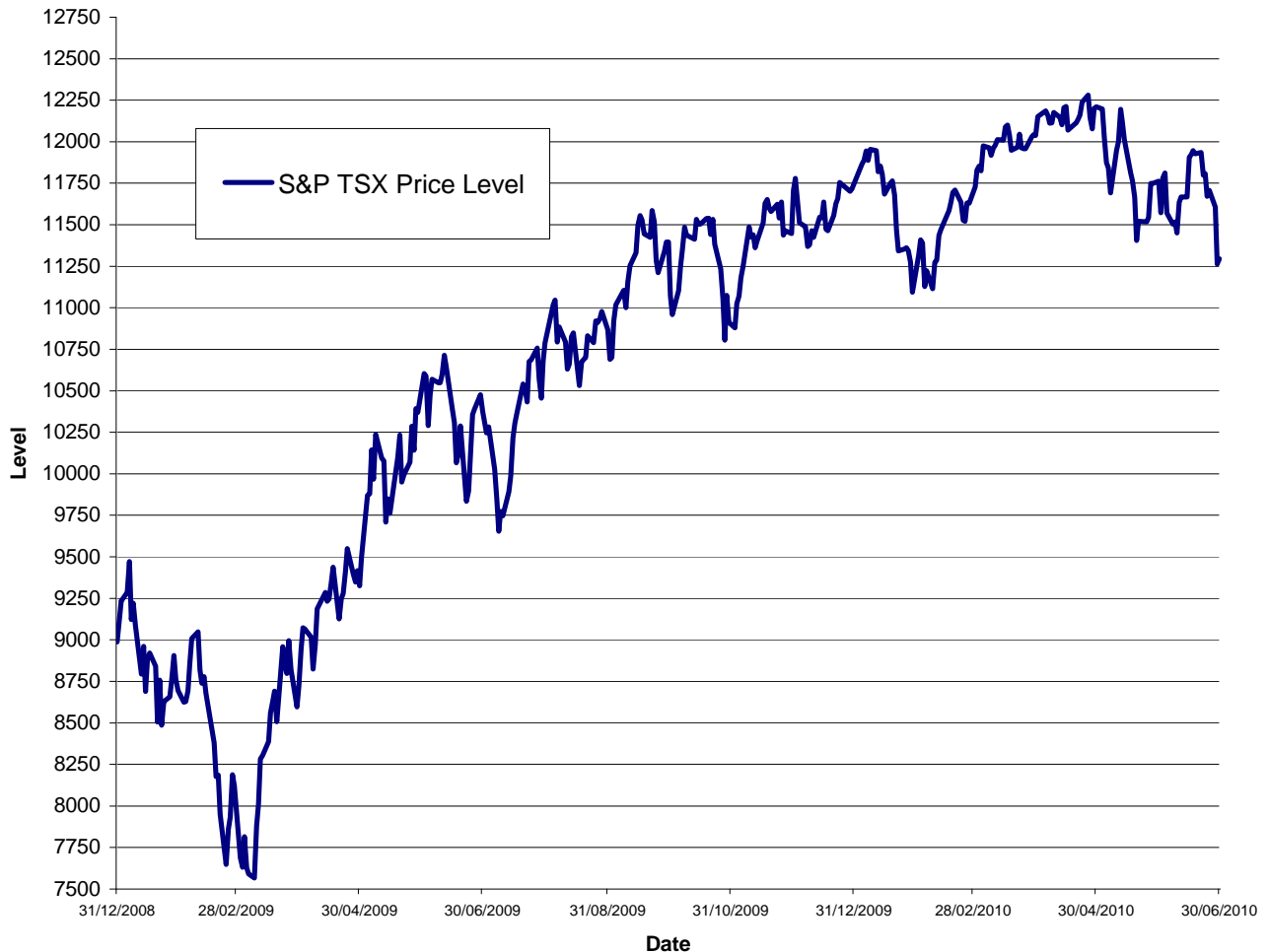




## Blue Marble Capital Management Limited – Quarter 02, 2010 Market Discussion Letter

### Not Getting Much Better

#### S&P TSX Chart to June 30, 2010



#### Common Equity Markets in Canada during the Second Quarter 2010

In our first quarter commentary we argued that it was correct to stay on the sidelines in spite of the fact the Canadian equity market had posted a 2.48% gain for the period. Well the events of the second quarter have proven our thoughts and strategies correct. From the first quarter end value of 12,037.73 the TSX moved to a closing high of 12,280.97 on 26 April, 2010 and from there is has been a steady and bumpy ride down to the closing value at the end of the second quarter of 11,294.42 for a year to date return of minus 3.85%.



We have been on the sidelines with respect to common stocks for the last 8 months and have no compelling reason to change now. Ultimately the issues we raised in our first quarter letter are coming to fruition and the future impacts will likely cause even more issue with world equity markets. Of particular concern is the amount and continuing generation of massive levels of debt by most countries around the world in the name of stimulating economic growth. At the latest G8/G20 meeting that ended coincidentally with the quarter it was decided that the richest nations on the planet would, against the exhortations of the president of the United States to the contrary, begin working on reducing their debt levels through the adoption of austerity measures and budgetary cutbacks. This happened in 1929 as well. I suspect this time, as previously, it will end in tears.

Looking to the third and fourth quarters we are very cautious. Indeed, and not to sound like a broken record, this will be a year when not-losing money will be as good as making money when it comes to investments for we believe that few common stocks are going to escape the price/earnings ratio reductions and revenue reductions that will go hand in hand with not only governments, but businesses and consumers alike cutting back spending and quite possibly entering a period of economic stagnation.

#### **Preferred Equity Markets in Canada during the First Quarter 2010**

We have continued to purchase preferred shares in Canadian Banks and Insurance companies throughout the first half of 2010. The returns remain compelling. For the greater part of the quarter cash yields obtained for clients ranged from 5.00% to 6.00% per annum. When contrasted with 5 year interest rates in the 3.00% range and subject to full marginal taxation, we believe that a significant bargain has been obtained.

In addition to the generous current income yield, when capital gains are considered the returns are even better. On the average a yield to first par call date, the date at which the institutions whose shares we have purchased will most likely start calling back the shares at \$25.00 per share, were in the range of 7.00% to 8.00%. These rival long term common equity returns. These shares have and will fluctuate in price over time but as they continue their journey towards the par call date they should move towards \$ 25.00 per share. And in the interim we are collecting a generous tax advantaged dividend.

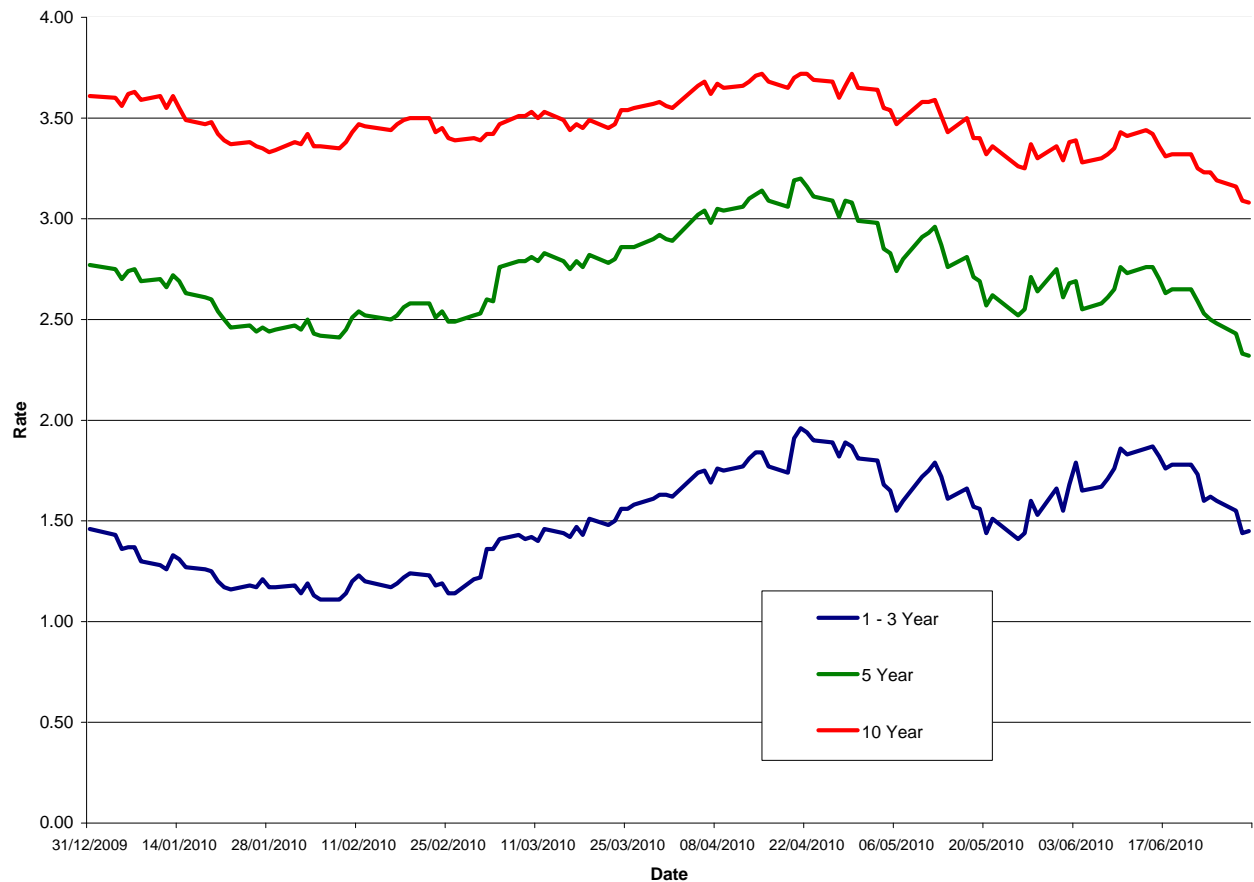
We will continue to watch this market as we believe that when investors start looking elsewhere for common stock alternatives they will be looking in this sandbox. And when they do and are prepared to pay prices we believe are warranted, we shall sell them the toys we have been purchasing at significant discounts over the last year so that they may also play. That is of course as long as there is another sandbox for us to play in. Should there be none, we will hold onto these investments for our clients. Frankly, based on our assessment of current world markets, it is unlikely we shall be selling anytime soon.

#### **Debt Markets in Canada during the First Quarter 2010**

If we could find one word to describe the bond markets of Canada during the first half of 2010 it would be "CONSIDERABLY BORING" and very similar to our comments in the first quarter of 2010. However as equity markets the world over have fallen so too have the yields on AAA rated debt in countries like Canada. We expect more of the same to happen throughout the year as the prospect for low common equity returns stir more demand for safe investments like bonds.



### Government of Canada Bond Rates to June 30, 2010



As you can see from the chart above, the rates on Government of Canada bonds have declined significantly during the period as investors look for safety. It just so happens that for most clients we were able to purchase bonds just before they started their sharp yield slide around the middle of June. We are not sure if it was brains or luck but we will take either one for now. We expect yields to remain about the same to lower over the next 6 months.

### Conclusion

The second quarter of 2010 has proven our investment thesis of the first quarter correct. We expect more difficulty ahead and plan to remain steadfast in our conservatism unless compelling information to the contrary suggests we change that view. We are not optimistic that information is shortly forthcoming if at all.

Trevor Giles  
Managing Director