



## **VERTEX MANAGED VALUE PORTFOLIO**

### **Third Quarter Report, 2009**

In our previous quarterly missive, I highlighted that our largest holdings, property and casualty insurance companies, looked poised for some excellent results and they did not disappoint. I estimated Fairfax Financial's book value growth to be between \$50 and \$60 a share and the actual number was \$61.00 with earnings over \$15 per share. Partner Re, our second largest position, earned over \$8 per share. Other P&C holdings had similar results. Although these firms' stock prices moved up during the quarter, at six times earnings and trading at or under book value, these great companies trade at a conservative third to a half of the price to value metric of Canadian banks, oil or metals companies that comprise most of the TSX index. I will hazard a bet that our P&C portfolio will yet again blow away the latter in earnings and book value growth in the third quarter. To highlight the magnitude of this disparity, CNQ (a Canadian oil stock) earned 30 cents last quarter and is priced at two times book value yet trades at the same stock price as Partner Re! Thus at these tremendous discounts, there is little downside risk in our P&C equities at today's prices as demonstrated by last year's flat to positive stock price performance in the worst market meltdown since the great depression.

Fascinating as the past year's stock market volatility was, even more interesting were the cheap opinions thrown about during this period. A well know newsletter writer called Warren Buffett an "idiot" because Berkshire stock was down 45% last year. I think the idiot comment reflects more on the commentator than Buffett as Berkshire's book value per share fell only 9.5%. Buffett cannot control Berkshire's stock price and as any preschool teacher will tell you – name calling like that gives us more information about the commentator than Buffett. "Buy and hold is dead" was another opinion widely thrown around – thankfully your penman didn't cave as buy and hold worked very well indeed last year. Buying and holding overpriced companies may not work, I'll give 'em that, however buying and holding inexpensive assets does make sense until those asset values rise to dangerous levels. Lululemon is an example of a growth stock we were able to purchase below book value and under 10 times earnings during the panic. It now trades at seven times book and 40 times earnings – levels I consider dangerous, therefore it was sold this quarter. Given what's happened in the economy and markets, it seems the most overvalued of all things are opinions, including my own. For example, it was my opinion when oil was in the mid \$30 range that the world would likely not see \$50 oil again for a very long time.....WRONG.....it's now at \$72 – higher than I ever thought it would go – ever! I guess the key lesson here is like a bumper sticker I once saw that said "Don't Believe What You Think!" Anyway it was a great quarter and with any luck at all, investors will soon begin to recognize and pay at least a modest amount for our stocks as compared to today's market favourites.

## PERFORMANCE

<b>Net Asset Value</b>	<b>Rate of Return (Class A)</b>					<b>Since Inception*</b>
	<b><u>3 Mos.</u></b>	<b><u>1 Yr.</u></b>	<b><u>2 Yrs.*</u></b>	<b><u>3 Yrs.*</u></b>	<b><u>5 Yrs.*</u></b>	
<b>\$13.4978</b>	<b>17.77%</b>	<b>10.32%</b>	<b>4.20%</b>	<b>1.46%</b>	<b>5.00%</b>	<b>7.81%</b>

\*Annualized

Past performance is not indicative of future results

All data are based on the Class A unit values

## THE PORTFOLIO

The top 20 holdings in the Vertex Managed Value Portfolio at September 30th, 2009 are:

Fairfax Financial Holdings	Ingersoll-Rand Co.	West Fraser Timber Co.
Partner Re Ltd.	Pfizer Inc.	SFK Pulp Fund
Platinum Underwriters Holdings	Internat'l Forest Products	Schering-Plough
Montpelier Re Holdings	Genworth Financial Inc.	Citigroup Inc.
Mattel Inc.	Timberwest Forest Corp.	Norbord Inc.
Johnson & Johnson	Aspen Insurance Holdings	Biovail
Walt Disney Co.	XL Capital Ltd.	

## ASSET MIX

Cash	0%	Canadian Equities	24%
Fixed Income		Foreign Equities	68%
Canadian	4%		
Foreign	4%		

Vertex One Asset Management