

VERTEX BALANCED FUND

Second Quarter Report, 2000

The Current Scene

We are experiencing one of the greatest transfers of wealth in history, only superceded by the plundering of wartime. It is all very subversive and most are not paying any attention but behind this market there is something sinister going on. Management and shareholder's interests have completely deviated.

Here is how the story unfolds

A mutual fund purchases shares of Semi Tech Optical Line Enterprises (STOLE). STOLE seems to be a very attractive business growing its sales 35% a year, they are in the right "space", don't you know. Most of this growth has come from acquisition. Acquisition in the corporate world is the process of buying sales. Your penman could write a whole chapter on the magic of acquisitions but that's for another letter. Continuing on with our story. Now the executives at STOLE are no dummies. In fact, STOLE shares have risen to such a high value that most of the executives sold shares in the company a year ago at half of today's value. Nonetheless, they are happy to sell more at twice the price which they already considered way more than the stock was worth. I know that's a lot to swallow but stay with me. Now STOLE executives come across Techo Hyper Intelligent Electric Focus Corp (THIEF) whose shares are trading at a good price of far more than they are worth but have some sales that, when added to STOLE's, offer the necessary growth to satisfy Wall Street for the next quarter. STOLE pays THIEF shareholders 2 times far more than THIEF is worth. After the transaction is completed, THIEF management sells their shares in the market. The end result is STOLE management has made a killing selling stock into the market, stock that they did not pay for. (Stock that's not paid for is called either an option or seed stock). THIEF management has made a killing selling their stock into the market. There are now twice as many shares of STOLE outstanding, management and insiders now have real dollars and the mutual fund owns diluted stock (paper) in a company where management have sold their stock.

I won't tell you the surprise ending. OK I will. The result is that when STOLE and THIEF corporations finally blow up, working people who put their savings into mutual funds will carry the loss while the insiders are relaxing on their \$10 million yachts.

In the New Economy, it's all about innovation and the most innovative feature of the New Economy to distinguish it from the Old Economy is how entrepreneurs make their fortunes selling stock to the public without the hassle of having to sell too much in the way of goods and services. Contrast this behaviour to that of Warren Buffet, founder of Berkshire Hathaway Corporation and one of the world's greatest investors. Although Mr. Buffet is the largest shareholder of Berkshire, he has never sold a share.

Our mission is to avoid these over valued companies. Contrary to today's accepted practices, we think it 's a bad idea to give money to companies where management is bailing out while simultaneously diluting shareholder's equity at a speed that makes Intel's latest semi-conductors seem slow.

So now you may have a pretty good idea about what we don't own. If the stock is mentioned on CNBC and ROB TV daily, we don't own it. A high school student can buy those stocks for you for less than the price of mowing your lawn.

The Portfolio

The portfolio is virtually unchanged since your last report. Most companies in the portfolio have been buying back shares in the market. That's right, your share of the pie is getting bigger in each of these investments. In addition, insiders are buying. Management has faith in their businesses and buys shares along side investors like you and I, a novel concept in our current investment climate.

Enough about stocks already, let's move on to bonds. It seems that interest rates have stabilized. Bond yields have declined over the quarter, which mean prices have risen leading to a positive contribution to the bottom line. It has been a rough ride for bonds over the last couple of years as investors have lusted after stocks. We'll not spend any time on predicting where interest rates are going, suffice it to say that current yields are running somewhat north of 6%.

In keeping with the spirit of our times in which predictions have become very fashionable, it would be unfair of us not to share Vertex's view of the future. Below are our top three predictions:

Survivor II will be a big flop
 Bell Bottoms will go out of style.....again
 Peace in the Middle East will not be forthcoming

The top 10 holdings at June 30th were as follows:

C. I. Fund Management	Onex Corp.
Trimark Financial	Olin Corp.
Sun Life Financial	Royal Bank of Canada
CIBC	St. Paul's Company
Intelligent Polymers Ltd.	Bank of Montreal

Asset Mix

Cash	6%
Fixed Income	31%
Canadian Equities	46%
Foreign Equities	17%

Performance

We are pleased to report that the Vertex Balanced Fund returned 25.4% for the year. This compares very favourably to the average balanced fund at 13.4%.

	Net Asset Value	Rate of Return			
		<u>1 Mo.</u>	<u>3 Mos.</u>	<u>6 Mos.</u>	<u>1 Year</u>
June 30, 2000	\$12.53	2.16%	4.05%	13.79%	25.39%