VERTEX BALANCED FUND

Second Quarter Report, 2001

After two rough quarters, it would be fitting to write some lengthy prose on the economy and the benefits of long-term investing and why the Vertex Balanced Fund is well positioned for the future. Time to get serious so to speak, to deviate from our whimsical style and project a sense of the warm and fuzzies. To be fitting, though, is to conform and to conform is a one-way ticket to Mediocrityville and Mediocrityville is a town to avoid no matter what the journey. The townsfolk in Mediocrityville live in a state of mind called fear. In writing it is fear of offending sensibilities or in investment – fear of under-performing ooooh “the index”.

So, that being said, you are NOT going to get any fitting prose. Nope. You are in for more of our usual banter.

Let’s begin by talking a little about bonds. Yes, bonds, bonds, bonds. You know we own ‘em cause we keep telling you so. Rather say we didn’t though. They just haven’t done any good at all lately. It’s not that they have done anything particularly bad; it’s just that they haven’t done anything particularly at all. So let’s pretend bonds are like airbags and crumple zones on an automobile where it’s costing a little money for a pleasant safety feature. It seems that investors fear inflation still, and when inflation fears prevail bond prices drop. Oh Please. A plane ride is now the same price as greyhound. Teenagers can afford new cars, cell phones, CDs and an occasional ecstasy trip on income earned as a Starbucks barristo. People will argue that services are expensive. Oh sure, a spa at the Savoy is pretty expensive for your average barristo yet she CAN afford it. Forty years ago it would have been unthinkable unless you had the prefix Lord or Lady. The world is in an age of global competition. This forces businesses, countries and people to deliver more for less. Delivering more for less drives innovation and innovation drives costs down and lower costs mean lower prices and lower prices mean deflation. This age of global competition is new - NOT. Since the beginning of recorded history the world has been in deflation with occasional blips of inflation. Recent history, the 70’s, however, has colored a whole generation. This is the generation that is represented by the baby boomers. Those under the age of 25 (the Starbucks barristo) listen to their parents talk about inflation like I listened to my Grandparents talk about the World Wars. Interesting but hard to conceptualize. Baby boomers consider 6.5% mortgages cheap. The next generation might view these rates as usurious. Oops, that’s sort of economic talk and could possibly be inferred as a prediction. An apology is in order for the digression. Sorry. Suffice it to say that long-term bonds continue to be an excellent hedge against deflation and that, to make a long paragraph short, is why we own ’em – about 35 percent of the portfolio in all.

Now why on earth would anyone want to own stocks right now? There is one good question, one that I'll attempt to answer. It seems daily they drop. They go down down up down down up and then down. Quite a pattern really. The good, the bad, the ugly and most of all, the ones with really cool names. The latter are the same as rock stars. Does anybody remember Patsy Gallant? Saw her last week on Much Music's Retro Boogie Dance Party - "From LA to New York from New York to LA". Painful. Somebody shoot me. Anyway, wherever you find Patsy is where you will eventually find all of the stocks with really cool names. So what about the rest? Why were investors willing to pay 50 to 100 times earnings a year ago for companies with dubious prospects and now have trouble justifying paying 14 times earnings for firms with track records as consistent as Jean Chretien's poor command of English? The answer lies in the perception of risk. As bizarre as it seems, it blows me away too - brace yourself reader. People think it is less risky to own stocks when prices are high and more risky to own them when prices are low. Come again. Let's review. The more stocks rise the more they buy, the more stocks fall the more they sell. Huh? That is how it works. Isn't that absolutely ridiculous? Fortunately for us, that is the way it works. I say fortunate because it allows for the opportunity to pick up great companies at discount prices. That is why your fund owns stocks and is buying more. Honeywell International and Finning, the world's largest Caterpillar dealer, have been added this quarter bringing total equities up to 60 percent. So while we were promoting the merits of owning bonds for the last three years as most got drunk on stocks, we are now buying stocks whilst others are nursing their hangovers. People are getting close to that stage where, yes, most of us have been there - "Why did you let me do that honey? Ooh I'll never drink again"

Is it possible to be too early? Actually, it is quite probable. In fact, the odds are 50/50. But, if the odds are 50/50 and our stocks generate 3% dividend yields and the market has an upward bias of 8% plus over time, trying to pick a bottom is a loser's strategy.

As a footnote, bonds did end up out-performing stocks for the three years ended this quarter.

Forward thinking investors will note then that this is an excellent time to purchase more units of the Vertex Balanced Fund. The fund owns the following: Canadian and Provincial Guaranteed bonds that are 7% cheaper than year-end and equity investments in companies trading at valuations not seen in five years and banks that rip all of us off regularly - better to own them and collect dividends than complain about service fees.

My wish is that stocks I like will get cheaper, not more expensive. The cheaper they are, the less I pay for each dollar of earnings. The internal growth of each company will take care of the rest. That is just good business.

The Portfolio

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

Fairfax Financial Holdings	Mattel
Honeywell	CIBC
AT&T Canada	Royal Bank of Canada
C.I. Fund Management	Sun Life
Emera	United Technologies Corp.

Asset Mix

Cash	5%
Fixed Income	35%
Canadian Equities	36%
Foreign Equities	24%

Performance

The Vertex Balanced Fund returned 3.69% for the year ended June 30, 2001.

	Net Asset Value	Rate of Return					
		1 Mo.	3 Mos.	6 Mos.	1 Yr	2 Yrs	3 Yrs
Jun. 30/01	**$12.30**	**-2.73%**	**-0.22%**	**-6.52%**	**3.69%**	**14.03%**	**10.49%**