VERTEX BALANCED FUND

Third Quarter Report, 2001

"With recent events indelibly marked in our conscience we remain cautious in our approach with 15% of the portfolio in cash. The economy is slowing and may already be in a recession. We will consider allocating more funds to equities when the future becomes more visible".

That's how the letter from your other fund manager will read. Now here is ours and before you get started, let's get a sneak preview: The fund is now 60% invested in equity with no cash. Our bond positions are unchanged with 40% in long dated government guaranteed strip coupons.

Caution – well, that was the right thing to do – LAST YEAR.

LAST YEAR the future seemed so certain. Certainty was certainly certain. But now there's no certainty. Things seem so certainly uncertain but certainly that can't be. Can it? It certainly can. If one more investment pundit drones on about how the future is now uncertain and how the market hates uncertainty, I think I'll pull an Elvis and shoot the TV set. The future is as uncertain now as it was yesterday and the day before and the day before that, and the day before that day - as it was two years ago when investors were certain stocks were going higher and the business cycle had certainly been eliminated. Yes. The future is as uncertain now as it ever was in history. Hello Mcfly. That's why it's called the future and not the past. Everybody on CNBC should be given PhDs in stating the obvious. Death, taxes and Tammy Fay Baker's bad hair are certain – the rest is uncertain. OK well not everything. I am certain that the new grim reapers on Wall Street will be just as wrong and hazardous to your wealth as the old technology bulls were. Internet Queen Mary Meeker has been dethroned and so, too, will be this new group that are quick to bring up comparisons to 1929 and the great depression. Fortunately, your fund had an ample supply of bonds over the last three years. Martha Stewart would describe this as "a good thing" and this has helped tremendously in protecting your hard earned capital. Now, though, is not a time to be timid.

Market bears make a splash once every 10 years and then fade into obscurity, often ending up writing esoteric literature from a small trailer situated on the outskirts of a ghost town long forgotten in the desert. Bears have a high propensity to marry their ideology. Stocks will start going up and the bear will be wrong for the next ten years. Although a conventional bull can suffer from the same ideological bondage, a bear market can hurt the bull but only for a short time, whereas bull markets destroy bears. Down markets are nasty but quick. Up markets last a long time and dividends will skate a bull nicely onside. The probability of equities (including dividends) being lower five years from now is equal to the probability of Saddam Hussein's Scud Missiles hitting a predefined target.

Here's the thing. Major world stock markets have tanked. I'm not kidding, they've really tanked. On average, losses have been around 40% (NASDAQ excluded). The NASDAQ could have been included but it's a market that suffers from a permanent lack of earnings and it would lack integrity to use it for the purpose of dramatic effect. Allow me though to provide some color on this situation, and reader, I'm not going anywhere we haven't been before but read carefully cause things have changed. Stocks are now cheaper than a 10-year-old Cadillac in 1980 – cheaper than a free bus ride on New Year's Eve – cheaper than a liquidator having a liquidation sale. Not all stocks are cheap however. There are still some leftovers from the days of tech hopes and dreams that could be used as examples of why stocks are expensive, but the majority are trading at price to value ratios not seen since we used to drive around in those 10 year old caddys. This makes me bullish. In fact I'm so bullish I'm growing horns and a tail. Fortunately this transformation occurred after returning from Spain or I'd be lucky to escape being knifed by a matador. Growing horns and tail could have other meanings but considering an overwhelming urge to buy stocks it must be the call of the bull.

Why so optimistic? Well, optimistic is a poor choice of words. How about excited? Yes, that's better, excited. Yes, yes. Reflecting upon the various positions in the fund, some have dropped in price – a lot. Of course, my reaction was the same as yours probably is right now because I know you looked at the quarterly return on the last page, first. Come on, admit it. Anyway, "ouch" was my reaction followed by, "wish I hadn't owned that" and "oops, that one hurt" and so on. Then I got over it and realized that this time, right now, in the present as the Buddhists would say, has a high probability of being one of the great times to invest in equities. So what have we done? First of all, not one share has been sold since September 11. Additional shares of Odyssey Reinsurance have been purchased. Insurance companies are in a rare minority of firms that are winning more business and raising prices. It seems that investors have forgotten that insurance companies are in the business of providing insurance. That is their sole reason for existence. They have something called "reserves" for the purpose of "paying claims". More Honeywell, United Technologies, Rockwell, Tidewater, and Patterson Energy has been bought. These companies have huge revenues, great cash flows, attractive dividends and low or no debt. All have been around through good times and bad but are trading on average at less than ten times normalized earnings. Since the delusional brainwashed scumbags, (with visions of multitudes of subservient virgins dispensed by Allah to satisfy their sexual desires), decided to take out the World Trade Center, Boeing has become a bargain. Boeing is a company with over $50 billion in revenue, over $5 billion dollars in free cash-flow and although a manufacturer of jet liners they also manufacture the following: AV 8B Harrier II, B1-B Lancer, B-2 Spirit, B-52 Superfortress, F/A-18 Hornet, F/A 18/F Superhornet – AH-64 Apache, RA-66 Comanche, Conventional Air Launched Cruise Missile, GBU-15 Guided Missile System, Standoff Land Attack Missile (the SLAM) and let's not forget the Standoff Land Attack Missile Expanded Response (the SLAMER) Boeing is also short listed for the contract on the new Joint Strike Fighter. For the preceding reasons, Boeing has now been added to your fund.

To conclude, one has to have a sense of humour in times like these. What were the chances of two airplanes taking out the World Trade Center in NYC, knocking for a loop both insurance and stocks with aerospace subsidiaries - our two largest exposures! Go figure. Both are way overdone. We were lucky, however that prior to the attack the fund was less than 50% in stocks. And I say lucky cause that's just the plain truth. We've been given a gift and it won't be wasted.

Our goal has always been to deliver equity-like returns without equity-like risks. Thus far that goal has been achieved. Let's focus on better returns. It will happen, and when it does it will happen big and your fund will be there.

The Portfolio

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

Fairfax Financial Holdings	CIBC
Honeywell	Royal Bank of Canada
Emera	United Technologies Corp.
Finning Int'l.	Boeing
Mattel	Tidewater

Asset Mix

Cash	0%
Fixed Income	40%
Canadian Equities	30%
Foreign Equities	30%

Performance

The Vertex Balanced Fund returned -6.27% for the year ended September 30, 2001.

		Rate of Return					
	Net Asset Value	**1 Mo.**	**3 Mos.**	**6 Mos.**	**1 Yr**	**2 Yrs**	**3 Yrs**
Sep. 30/01	**$11.6732**	**-6.76%**	**-5.12%**	**-5.33%**	**-6.27%**	**11.39%**	**11.85%**