VERTEX BALANCED FUND

Second Quarter Report, 2002

As my fingertips hit the keys, “the market” as defined by the Dow Jones Industrial Average, the S&P 500, the NASDAQ, the S&P/TSX (formerly TSE 300) Composite and all the European Indexes is down this year by 9 to 30%. Of course, this only matters to investors with very short investment horizons, in which case, being a Vertex One unit holder, it is an immaterial statement of fact and of no consequence. Of no consequence also is that both Vertex funds are up this year. The truth is they could just as easily have been down over the six-month period and no conclusions can be drawn as to Vertex’s skill as money managers over such a short period. We can only be thankful that money hasn’t been lost in 2002. I will say this though. To the end of June, your fund is up 10.5% annualized for the past four years and there is a good probability that your fund will be up a lot more over the next five years.

Your V1 portfolio managers have no idea at all where the stock market is going in the near term. While on the subject of markets, I’d like to highlight just how crazy it is to ever be concerned about “the market”. The NASDAQ has 3,808 member companies, yet the top 20 firms represent 44% of the index by weight. This means that less than 1% of stocks are responsible for 45% of market ups and downs. The PE multiples on the top three companies representing 25% of the index are those of Microsoft (PE 45), Intel (PE 64) and Cisco (PE 90). So three stocks representing 25% of the market have an average PE of 66. What about the other 3,805 stocks? OK, so that’s the NASDAQ. Now let’s move on to the S&P 500. The picture is not much better. The top 15 firms represent 29% of the index by weight and have an average PE of 27. What about the other 485 companies? This illustrates just how absurd is it to say the market is overvalued because the S&P or NASDAQ PE multiple is too high. Four years ago there was a bull market in 100 stocks and two years ago a bear market began for these 100 stocks. As a result of this massive distortion of reality I think it best that all of us ignore once and for all “the market”.

That was a long paragraph but an important one to bring us to why our allocation to equities is going up to 70%. For every Cisco at 90 times earnings, there are ten firms to be found trading at PE multiples of ten or under, they just don’t show up when viewing “the market”.

Price earnings ratios are only one indication of value, nonetheless, a good starting point for finding good investments for your portfolio and lots have been found. We like banks, insurance companies, power producers and grocers. Drugs are also looking interesting for the first time in many years.

Markets go up and down but our investment process hasn’t changed. V1 buys excellent businesses at cheap prices and when we can’t find any, bonds are preferred. Never do we predict interest rates or the direction of the market.

To conclude, "the market" may be expensive but stocks are not. Equity weightings are going up in the same industries that have always been attractive to us yet now are attractively priced. These are financial services, power, food, drugs and telecommunications. Businesses in these industries have consistent cash flow and don't have to resell their customers everyday. Most pay great dividends, suggesting a lot about their profitability. They are simply great businesses. Bonds are being reduced in favour of the equities.

Thanks as always for your support.

Vertex One Asset Management
For more information please visit our web site at: www.vertexone.com

PERFORMANCE

The Vertex Balanced Fund returned 10.57% for the year ended June 30, 2002.

	Rate of Return						
Net Asset Value	**1 Mo.**	**3 Mos.**	**6 Mos.**	**1 Yr**	**2 Yrs***	**3 Yrs***	**4 Yrs***
$11.6744	**-3.34%**	**-0.26%**	**4.62%**	**10.57%**	**7.07%**	**12.86%**	**10.51%**

*Annualized

THE PORTFOLIO

The top 20 holdings in the Vertex Balanced Fund at June 30th were as follows:

Bank of Montreal	Bank of Nova Scotia	Canadian Western Bank 5.5%
Mattel	CIBC	Royal Bank of Canada
Fairfax Financial Holdings	Nexfor Inc.	Emera Inc.
Kroger Co.	Prudential Financial Inc.	AT&T Canada Inc.
ACE Ltd.	Safeway Inc.	Reliant Energy Inc.
Aurizon Mines Ltd.	Odyssey Re Holdings	Sun Life Financial
Boeing Co.	Cambior Inc.	

All bonds are government guaranteed

Asset Mix

Cash	14%
Fixed Income	34%
Can Equities	29%
For Equities	23%