VERTEX BALANCED FUND

Third Quarter Report, 2002

Although down 7.6% for the quarter, a review of past returns reveals that it was not by far our worst. Down 7.6% pales in comparison to the negative 10% endured for the three months ended August 31 of 1998. Of course if June is included, the return is negative 11% for a four-month period. For those that have been with us a year, your return is positive 7.67% and for four years 10.76% annualized. While these numbers may be alarming to some and comforting to others, they are meaningless when considered in context of the spec of time they represent in an investment program and above all, they are history.

The question is – will our returns be higher over the next five years in the Vertex Balanced Fund or will we do better in term deposits, Canada Savings Bonds or maybe real estate?

To answer this question, the proxy for a "riskless" investment right now is 4%, the rate banks are willing to pay us for a five year term deposit. Of course, the bank stocks themselves yield 4% placing an investor in quite a quandary. This highlights best the investment dilemma for us all. If the banks go broke, it doesn't matter whether we bought a bank term deposit or a bank stock, we are in rough shape regardless. Every investment becomes risky in context of another and always, hindsight will make one decision look right and another wrong. Twelve months hence the decision that became right will turn out to be wrong and so forth and this process continues for the duration of an investment program which, it turns out, is the same time span as your life and most likely continues into the next generation. Furthermore, any snapshot in time will show clearly what the right course of action WAS but will give us no indication of what WILL BE. Thus a prudent investment program takes into account all potential outcomes and places savings in a basket of investments that includes assets that respond differently to various conditions that will continue to vary! That is exactly what your balanced fund is.

Having said all of this maybe term deposits will beat the Vertex Balanced fund over the next five years but the probability is low. The reason is simple; your balanced fund holds 32% government guaranteed bonds yielding above 5.5%. It also includes a diversified portfolio of quality companies including a large position in Canadian banks with an average portfolio yield of more than 4%. So it is incumbent upon the world to throw us a major catastrophe in order for stock prices to be lower than they are now. At the time of writing, stocks of the Toronto Stock Exchange and the S&P are lower than they were six years ago so we would have to experience an 11 year low for this scenario to come true in the year 2007. This has only happened once in the last century, that is, if you had purchased stocks at the very top in 1929. Since the TSE, S&P 500 and NASDAQ are off 40 to 80 percent from their highs, this is likely not to be the case for investors in the Vertex Balanced Fund today.

With regard to your portfolio, I'm going to sound like the same broken record as in previous letters with an exception being that most technology stocks are now undervalued. This is a first for your Vertex Balanced Fund letter. Our favourite companies are still annuity stream revenue generators - banks, insurance, investment management, utilities, food and drugs. These firms have dividend yields in excess of bond yields and have a long track record of growing both earnings and dividends at a modest but steady pace. On the technology front, many firms are now trading below tangible book value. I'm not suggesting Nortel, Cisco, JDS Uniphase et al are good value. These household names are either still expensive or may go broke but many firms in the electronics business with track records since the sixties will prosper as our world continues to become more electronic.

At time of writing, your fund is 68% equities and 32% fixed income. Bonds have served their purpose well. Panicking investors, (mostly professionals) have poured billions into bonds and we have happily traded our expensive bonds for their cheap stocks thus sticking to our contrary approach.

Finally, I offer my apologies to those unit holders who enjoy our whimsical, not too serious style reports. Although we have always taken our role in managing your money very seriously, we have aimed to take an informative, yet entertaining, approach to our letters. In respect of just how painful these last months have been for investors, a more serious style was used. I look forward to writing your next letter in our usual style.

Vertex One Asset Management

PERFORMANCE

The Vertex Balanced Fund returned 7.67% for the year ended September 30, 2002.

Net Asset Value	Rate of Return						
	1 Mo.	**3 Mos.**	**6 Mos.**	**1 Yr**	**2 Yrs***	**3 Yrs***	**4 Yrs***
$10.7865	**-4.35%**	**-7.61%**	**-7.84%**	**7.67%**	**0.46%**	**10.14%**	**10.79%**

*Annualized

THE PORTFOLIO

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

CIBC	SFK Pulp Fund	Canadian Western Bank
Mattel Inc.	Boeing Co.	Kroger Co.
Bank of Montreal	Nexfor Inc.	Emera Inc.
ACE Ltd.	Prudential Financial Inc.	Transocean Inc.
Bank of Nova Scotia	Safeway Inc.	GSI Lumonics Inc.
Fairfax Financial Holdings	Odyssey Re Holdings	Sun Life Financial
CI Fund Management	Honeywell Int'l.	

All bonds are government guaranteed

Asset Mix

Cash	0%
Fixed Income	32%
Can Equities	38%
For Equities	30%

For more information please visit our web site at: www.vertexone.com