

VERTEX BALANCED FUND

Fourth Quarter Report, 2002

Your fund had a fine quarter; 6.46% above 0%. Speaking of zero, many credit an Arab resident of what is now modern day Iraq - Abu Ja'far Muhammad ibn Musa al-Khwarizmi as the inventor of zero. Abu's major contribution was his work "Kitab al-jabr w'al-muqabalah". Translation - "restoration and balancing". We now call his mathematics algebra named from al-jabr. Medieval Christians considered Arabic numbers the work of Satan! Come to think of it, modern Christians like George Bush think the same way. Didn't Bush call Iraq part of the "Axis of Evil"? Can't seem to stay on the topic - focus man, focus! Yes right - you were up 2.9% for the year.

What's next? Well, there are many factors that must be considered, weighed, analyzed and distilled in order to figure out investment strategy and tactics for 2003. There is of course war in Iraq and war in Korea. Let's not forget the economy, the war on deflation and threat of inflation. It would also be prudent to consult Mothers Against Drunk Driving, the Pope, a few Hollywood actors and other "experts" on matters concerning human affairs. Forgive me if I have forgotten anything or anybody. No malice intended. There may be a few more variables but this is of no consequence. To make sense of this information, a probability must be assigned to each event occurring. An assumption on how each event will affect the market for equities, fixed income investments, real estate, gold and other assets. Assuming that our assumptions are correct and no variables of importance have been left out, we are now in a position to make our strategic allocation of investments for the coming year. Assumptions upon assumptions placed on economic and political events and how they interact between and among each other linearly and laterally? - there's a winning formula. Sounds like Wall Street not Vertex. If there are no objections, I'll just talk about other things.

Nothing has changed since our report to you for the third quarter of 2002. Firms held for investment purposes comprise 70% of total assets. These equity investments remain very attractively priced. Some are priced below what it would cost just to replace real assets alone, irrespective of franchise value. This only occurs when investment sentiment is at an extreme. Contrast this with what's happening in real estate where froth is beginning to bubble. In Vancouver, four years ago, there was no bid for real estate. Last year, there were bidding wars. Now, builders are purchasing lots for \$500,000 - adding \$350,000 to build and finance, then selling the new home for \$1,250,000. A \$400,000 profit equates to 47% above tangible or real book value. This isn't to say that \$500,000 is too much for a lot or \$350,000 is too much for a building. It's the price to book value that's worthy of observation.

Economies cycle but the world never changes and relative value is what counts. Human beings' penchant for buying expensive assets and selling inexpensive ones based on recent negative or positive experience has no end. Fighting this overwhelming tendency is the most important job of a professional investor. Bay Street and Wall Street are the pushers and we are the addicts. Note to self and anyone listening: if you want to be wealthy, don't buy what "the Street" is selling. The "Street" will sell you anything your current appetite desires. What are "they" selling now? - mostly Income Trusts. Hiding behind the Income Trust banner are a lot of.....expensive assets.

Few tasks are more difficult than purchasing inexpensive assets. The reasons **for** will be few and the reasons **against** will be many. An inexpensive stock comes complete with ten reasons **against** and will be inclusive of nine reasons why it should be even cheaper. Now it stands to reason that it would be most unreasonable to purchase such an investment but that is exactly what your fund manager does. The Vertex Balanced Fund is loaded with equities where the for/against ratio's numerator is two and the denominator is 10. This has been our method from the beginning. It's boring but it works.

To all our unit holders we offer a big thank you for your support. For those original investors kind enough to give us a chance, your return has been a healthy 8.9% annualized. You may remember when our funds had less than \$5 million in combined assets. Now the Vertex Balanced Fund has over \$40 million invested and the Vertex Fund close to \$90 million.

PERFORMANCE

The Vertex Balanced Fund returned 2.97% for the year ended December 31, 2002.

Net Asset Value	Rate of Return						
	<u>1 Mo.</u>	<u>3 Mos.</u>	<u>6 Mos.</u>	<u>1 Yr</u>	<u>2 Yrs*</u>	<u>3 Yrs*</u>	<u>4 Yrs*</u>
\$11.0408**	-1.78%	6.46%	-1.64%	2.91%	0.83%	8.67%	10.15%

*Annualized

**Post-Distribution

The distribution on December 31, 2002 was \$0.4426 per unit held.

THE PORTFOLIO

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

CIBC	CTS Corp.	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%	Canadian Equities	41%
Fixed Income	30%	Foreign Equities	29%