VERTEX BALANCED FUND

Fourth Quarter Report, 2004

Here's my only prediction for 2005. Many people, yes, many, many, many, many people will make many, many, many predictions about many, many things in 2005. No I lie – I have one more prediction. Many predictions, yes, many, many, many, many predictions made by many, many, many people will be wrong about many, many things. Human behavior seems quite predictable but the future certainly isn't – people like to think they know what they don't know but they really don't know what they don't know and quite often don't even know what they think they do know. Peter Piper Picked ….. How's your pattern recognition?

This delusion is particularly acute in investment "professionals". Remember the "professionals" who told you to expect returns under 6% for the next decade. They've been wrong by about 15% annualized for the last two years. How about CNBC's latest pontificator from a firm that begins with a P whose prediction a couple of years ago was for the Dow and S&P to be about 50% lower than they are today and for interest rates to have gone up dramatically…….OOPS!! PIMCO picked a peck of …. Smart people do dumb things all the time but the dumbest of all is to delude oneself into making a prediction of the future. Why do so many intelligent people do this? The answer is probably as simple as this: When someone asks a person what might happen?, the three words that are hardest to say but most accurate are I DON'T KNOW. It just doesn't make you feel very smart to say I DON'T KNOW. I guess we're trained from an early age that not knowing an answer to a question makes you dumb. Paradoxically, the smartest answer is the one that makes you feel dumb and the dumbest answer is the one that makes you feel smart. Life's weird that way. This is just half the equation and begs the question of why anyone would ask another to make a prediction? My guess is people spend more energy seeking the comfort of knowing the future in an unpredictable world than the energy required for critically thinking…..why would the other guy know any more about the future than I do? Enough already….just contemplating on paper and didn't really mean to bring the reader into all this.

Well, the US dollar creamed us again. Had your fund not owned American companies, it would have been up another 1.75% or maybe not – it's hypothetical after all. It's better than 2003 though where the cost of having US dollars was 6%! Maybe at the end of 2005 we'll document the positive performance contribution of the USD but who knows? Here's what we do know: On the surface, everything looks marvelous for Canada. At least David Dodge thinks so. The problem is that commodities are driving it all. Take out oil and ore and it would look very bleak indeed. Canadian manufacturing has been decimated. Hollywood North is in trouble. Our cheap dollar **<u>was</u>** our competitive advantage. What we're left with is an economy based largely on dirt…..and I mean that in the nicest way….you know…..the stuff in the ground. This is great as long as dirt prices remain at current levels or rise. If these prices drop, what are we left with? There are only a limited number of jobs at Starbucks. I make a wicked cappuccino though so I'm not worried.

Despite the USD drag, your fund performed not too badly in 2004 with a return of 11%. The best part of all is Revenue Canada, (pardon me as I have trouble keeping up with name changes), CCRA will be shut out for a second year in a row. What this means is that you're in one of the most tax efficient funds around and, after tax, your jean pockets are still jingling.

If there was just one thing to highlight this year, I can't think of it. The market did what the market did. Interest rates went where they went and our companies just kept raising dividends, buying back stock and reducing debt. Oh ya, there is just one thing - yes there is. Some premium came back in options for insurance stocks with Elliot Ness - I mean Spitzer's investigations into insurance commissions. Mr. Spitzer believes chief financial officers purchasing million dollar insurance policies for their companies are in need of protection from big bad insurance salesmen. Wow - insurance brokers get paid commissions - what a revelation. Thank you Elliot, for saving us. Anyway, when Elliot speaks, stocks get slammed and when stocks get slammed, option premiums go up. In a simultaneous development, pharmaceutical firms pulled drugs that supposedly were killing the odd drug addict. Please don't get the wrong image. A modern drug addict wears a business suit or other fashionable attire and doesn't resemble Courtney Love in any way. I'm talking about the TV ad watchin', self medicatin', "please ask your doctor for a prescription of…….", kind of drug addict. It's been discovered that some everyday legal drugs, when taken in excess, will kill a certain percentage of users so the pushers have decided it's in their best interest to lay low, making statements of concern for the public and such, so the drug stocks got slammed along with the insurance stocks.

All this action, as mentioned above, raised option prices but also dividend yields forcing us to write covered calls, strangles and straddles on Ace, QLT, Merck, Pfizer and Bristol Myers. For various reasons, mostly to make money, the same was executed on Patterson UTI, Tidewater, Bank North, Toronto Dominion, CIBC and the TSX. My apologies to the CEO's if any names were missed but it's a longer list than usual. Now you've got to give credit where credit is due. V1 has come up with a totally new strategy. Above mentioned were the covered call, the straddle and the strangle. These strategies generally involve buying a stock, selling a put option and a call option, collecting a dividend on the stock, and premiums on both options sold. Boring as it seems, the strategy is quite lucrative at times. Now check this out. There are stocks out there in such demand from traders who are short that they are willing to pay over 10% for the privilege of borrowing stock from owners. Our new strategy is a twist of the strangle so we'll call it the "WRANGLE". It goes like this: Just like a strangle, a stock is bought and a call and a put are sold slightly above and slightly below where the stock is trading yielding two premiums in our favor. The twist is when our stock is lent out to short traders who are willing to pay us an additional 10% or more. It's very lucrative. We'll need to trade mark the wrangle. Unfortunately we're all sworn to secrecy on V1s "WRANGLES". I'm still trying to find that little R thing on my keyboard representing R for trademark. Anyway, remember you heard it here first in case we have to litigate.

Those readers accustomed to these balanced fund reports will find that last paragraph a little racy maybe even a little dirty but with the risk of offending those unit holders used to our Maytag repairman approach, I've never been one to pass up juicy opportunities when they show up like those mentioned above. Don't think of it as deviation from our discipline, rather look at it as cashing in a few scratch and win tickets given away at the local supermarket.

What will the market do this year? Who knows but we'll be looking for new opportunities as they unfold. We may actually see the second derivative of the WRANGLE – mmm, I think we'll call it the MANGLE!

PERFORMANCE

The **Vertex Balanced Fund** returned 11.15% for the year ended December 31, 2004

	Rate of Return					
Net Asset Value	**3 Mos.**	**1 Yr.**	**2 Yrs.***	**3 Yrs.***	**4 Yrs.***	**5 Yrs.***
$14.7681**	**7.88%**	**11.15%**	**15.73%**	**11.29%**	**8.02%**	**11.44%**

*Annualized
**Post Distribution

The distribution on December 31, 2004 was $0.0184 per unit held.

THE PORTFOLIO

The top 20 holdings in the Vertex Balanced Fund at December 31st were as follows:

Fairfax Financial Holdings	Bank of Montreal	CTS Corp.
CIBC	Enerflex Systems	Tidewater Inc.
Mattel Inc.	TSX Group	Laurentian Bank of Cda.
Northbridge Financial	ACE Ltd.	Canadian Western Bank
CI Fund Management	Honeywell Int'l.	TD Bank
Norbord Inc. (formerly Nexfor)	Emera Inc.	Manitoba Telecom
Bank of Nova Scotia	Sun Life Financial	

All bonds are government guaranteed

ASSET MIX

Cash	0%	Canadian Equities	52%
Fixed Income	25%	Foreign Equities	23%