VERTEX BALANCED FUND

Year End Report 1998

In our previous report we mentioned that Russia and Asia didn't deserve credit for the effect their financial problems were having on global stock markets. Capital markets do need a catalyst for corrections to occur and Russia was as good a reason as any to trim valuations back after a tremendous run up in the spring. Since the "Russian Crisis" and the "Asian Crisis" developed (subsequently dubbed the "Global Crisis"), stock markets have recovered around the world with the U.S. indices reaching new highs. Investors seem to be bored with emerging market worries and are less inclined to view upsets in these economies as having a material impact on developed markets. Brazil blew up last week after taking $40 billion from the International Monetary Fund. This time though, stock markets only stumbled for a few days and then recovered. Thus, one must look at other factors to uncover what might affect asset prices over the next year.

The Current Scene

Investor sentiment is very different than it was three months ago. A couple of interest rate cuts was all it took to fix the "Global Crisis" and investors are more confident than ever that stocks are a winning proposition. They have proved an ability to hold on through tough markets and are now ready to go further than just dating stocks. Investors are going to take the final plunge and marry their newly found best friend. Marriage involves a total commitment though; giving up those last few GICs and having absolute trust in the market regardless of its more unattractive features. A small quarrel in the summer and its expeditious resolution only served to strengthen the relationship and move up the wedding date. Unfortunately there is no prenuptial available and your new partner isn't limited to just half in the event of a nasty breakup.

On the positive side, interest rates have continued to trend downward, and technology is rapidly becoming more useful. Both of these positive developments result in reduced cost structures for businesses.* On the negative side the stakes are getting higher. In other words, investors are not considering the downside risk when making stock purchases over the short run. A decline in bond yields has led to rising stock prices even as earnings growth is slowing.

* Please refer to our April 98 commentary in your files or on our website at www.vertexone.com

Y2K

No year-end report would be complete without a Year 2000 comment. Both Vertex One and our Trustees are ready for year 2000. Whether you and I will be able to cook eggs benedict on New Year's day is another story. Have some dry cereal around just in case! It is fair to say that we can expect a few hiccups. Both Canadian and U.S. power utilities have so many chips embedded in their systems, they don't even know which chips are date sensitive. Therefore, instead of pulling apart systems and testing each computer chip, they have chosen to replace chips upon failure. From a market perspective, (Y2K has been discussed at length on television, on the Internet and in the newspaper), it is rare that well-known concerns cause markets to move. Y2K definitely falls into the category of well known, thus, it is like purchasing a used car. Dents and rust you can see are not an issue, you'll just adjust for them in the price.

The Portfolio

Currently U.S. ten-year treasury bonds are yielding 4.6%. Historically, the real interest rate (interest rate minus inflation) on U.S. Treasuries has been 2.5%. The world is flush with over-capacity, prices are coming down in everything from airline tickets, computers, and long distance telephone rates to automobiles. There is very little inflation, possibly none. In order for ten-year treasuries to deliver a real return of 2.5%, rates would have to decline by another 1% to 2%. For this reason, we continue to hold more bonds than stocks in the fund. Equities have increased from 25% in September to 40% at year-end, due to increasing stock prices and the addition of Olin Corporation, Celestica and Husky Injection Molding Systems.

Performance

We are pleased to report your fund performed very well during the quarter with a return of **8.95%**, outperforming the average Canadian balanced fund.* More importantly, this return was captured with very little exposure to equities (approximately 35% on average during the quarter).

* source www.globefund.com

Fund Unit Value

The fund opened on April 3rd of this year with a value of $10.00 per unit. Monthly unit values can be found in most papers under the mutual fund heading "other funds" and also on our web page at www.vertexone.com

1998	Net Asset Value	Quarterly Return
April 3	**$10.00**	
April 30	**$9.78**	**-1.43%**
June 30	**$10.22**	**2.17%**
Sept 30	**$9.34**	**-8.54%**
Dec. 31	**$10.05***	**8.95%**
Return since inception	**1.80%**	

*After distribution of $0.1277 per unit on December 31, 1998

Thank You!

Thank you for your patronage over the past year, and for the referrals you have sent our way. We will strive to maintain the high level of service you have come to expect, and look forward to a prosperous 1999.