VERTEX BALANCED FUND

First Quarter Report, 1999

The Scene

Stealing the scene this quarter were the Internet and technology issues where .com has really come to mean .$$$ for those on the inside of these firms, investment bankers and speculators. Internet related stocks and technology issues led the market by a wide margin leaving traditional stocks, (those that have cash flow and earnings) in the dust. The Internet is used extensively by Vertex One because it is inexpensive and in most cases free. It is an excellent medium of information and great for you and I as consumers. The dilemma from an investment perspective is that most Internet related companies run on business models that are very hard to validate. For example, investors have pored billions into companies whose plan is to sell products at cost or below in order to gain customer loyalty and "make money on the advertising". Unfortunately, even if it proves to work, which is doubtful, these stocks are already priced in the billions of dollars. Xerox definitely revolutionized business with the copier; RCA did wonders for Television and had exponential growth, yet Xerox and RCA's stocks declined for many years even as sales boomed for both companies. Additionally, they had patents and large barriers to entry, which are sadly lacking for most Internet related companies. Of course there is a silver lining in every cloud. Companies and consumers can take advantage of the wholesale and free offerings over the web. These products will be available cheaply on the Internet until the aforementioned business model is proven not to work, or investors stop financing these ventures, whichever comes first.

Valuations

In past reports, we have discussed stock market valuations and believe it is important to revisit this subject. Although the U.S. market has continued upward led by a very few extremely high priced stocks, most stocks in the U.S. and the TSE 300 are still below their previous highs. We remain confident that stocks trading at reasonable business values contain considerably less risk than those few stocks leading the indices. These stocks will eventually be recognized as not being able to keep up with investor expectations. Valuations are as high as they have ever been with many stocks now trading at 50 times earnings or above. This is just not rational. The market trades at 32 times earnings and the average over history is about 14.5 times. When investor sentiment changes history will repeat itself and companies trading at below average valuation ratios will trade places with those trading above.

Inflation Vs Deflation

Fears of renewed inflation caused bond prices to fall slightly during the quarter although there are still very few signs of inflation. The only real potential for renewed inflation comes from two sources, rising energy and commodity prices and a prolonged war in Kosovo. The former we do not believe is sustainable for the reason that oil prices have been trending down throughout history like most commodity prices. This is due to technological advances in exploration and extracting resources. Finding and development costs have decline from $25 a barrel in the 80's (inflation adjusted) to under $10 today in non-OPEC countries. Also, the Middle East, which contains two thirds of all known reserves and where oil costs approximately $2 per barrel to produce, needs cash. Prices for most other goods and services continue to fall driven by advances in technology. In our view inflationary times are not in sight.

At the time of writing this report Japanese 10-year bond yields are 1.5%. Certainly, this gives some insight into where yields can go in a deflationary environment. The Japanese consumer is reticent about purchasing products today that he inevitably will purchase cheaper next year. This is manifested in a personal savings rate of 20% while Americans' saving rate is negative. America is quite clearly on a consuming binge driven by buoyant stock market indices.

The Portfolio

At quarter end the Vertex Balanced Fund held a mix of 50% bonds, 50% stocks with 20% of the portfolio in foreign securities (mostly U.S.). Although it is not our mandate within the fund to trade securities, Husky Injection Molding was sold prior to the company announcing material earnings warning. Cogeco Cable and Onex Corporation were added and CIBC was sold in favour of Toronto Dominion Bank. TD owns Waterhouse Securities, the second largest discount broker in the US and its value has yet to be recognized in TD's stock price. All three companies have exposure to the Internet without the downside risk; Cogeco Cable (Internet through cable), Onex (owns Client Logic which provides back office fulfillment to Internet retailers), T.D. Bank, (Waterhouse Securities delivers brokerage services via Internet). In addition, your fund owns PICO holdings which in turn owns P.C. Quote, an investment web site providing quotes and investment information in partnership with CNN. These investments fit perfectly with Vertex's strategy of finding businesses with very favourable risk/return tradeoffs. Over time, investors will recognize the value in these securities.

Fund Unit Value

The fund opened on April 3rd of 1998 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.

		Rate of Return			
	Net Asset Value	**1 Mo.**	**3 Mos.**	**6 Mos.**	**Since Inception**
March 31, 1999	**$10.02**	**1.26%**	**-0.31%**	**8.61%**	**1.49%**