VERTEX BALANCED FUND

Second Quarter Report, 1999

The Current Scene

The Fed only raised rates by a quarter percent, the war in Kosovo is over, corporate earnings are strong and the consumer continues to spend. Asian economies appear to be rebounding with Japan joining the list of best performing markets in the world. Canadian cyclical stocks are rallying on the strength that a synchronized global recovery is underway and demand for commodities should lead to rising prices. So is the backdrop for current investment choices. We are experiencing the first period in many years that stock prices have increased dramatically while bond prices have fallen, a scenario that only occurs with an expectation of rising inflation combined with substantial corporate profits. Although corporate profits have been stronger this year than last, we do not expect rising inflation. Allan Greenspan, Chairman of the Federal Reserve has made it clear that inflation will not be tolerated and will act aggressively if warning signs appear on the horizon.

Even with stronger corporate earnings, by the Fed's own valuation model, stocks are overvalued by 42%. Over the next 12 months, the consensus earnings forecast of industry analysts for the S&P 500 is $55.28. This is a 22.7% increase over the latest available four-quarter trailing sum of earnings. Recently, the fair-value of the S&P 500 Index was 958.06, derived simply as the 12-month forward earnings divided by the 10-year Treasury bond yield, which was 5.77%. At the same time the S&P 500 closed at 1360.97, suggesting that the market was 42.1% overvalued, i.e., above the fair value - and this assumes that analyst expectations are correct.*

History has shown, however, that analysts' forecasts have been very optimistic. At the start of each year between 1982 and 1998 analysts made bottom-up estimates of all companies in the S&P 500. Compose these numbers into a weighted average and you get a forecast of S&P 500 index earnings. Those forecasts called, on average, for a 22% gain in earnings. The actual rises averaged out to 7%.** Thus if we plug 7% (the actual annual growth in earnings) into the Fed model, it suggests an overvaluation of 63%.

The Portfolio

With this information in hand we remain cautious, as has been the case since the Vertex Balanced Fund began. It is not our intention and is against our philosophy to predict markets though it is our intention and philosophy not to expose your fund and your savings to undue risk. Over-valuations do exist in the market as a whole yet the stocks in your fund remain excellent value relative to the market. The portfolio consists of 50% long-term government guaranteed bonds and 50% stocks - which is at the lower end of our range.

* www.yardeni.com
**Forbes May 3, 1999

The top 10 holdings at June 30th were as follows:

C.I. Fund Management	Uni-select
Celestica International	Chase Manhattan Corp
Cogeco Cable	Intelligent Polymers
Nexfor	SLM Holdings
Onex	Pico Holdings

Performance

We are pleased to report that for the year ended June 30th; the Vertex Balanced Fund returned 3.75% vs. 0.6% for the average balanced fund.

	Net Asset Value	**Rate of Return**			
		1 Mo.	**3 Mos.**	**6 Mos.**	**1 Year**
June 30, 1999	**$10.47**	**1.35%**	**4.44%**	**4.12%**	**3.75%**

Also enclosed is a copy of the second quarter 1999 report to unitholders of the Vertex Fund Limited Partnership for your information. The Fund returned 17.95% for the year ended June 30th. If you haven't already purchased units of the Vertex Fund, please give us a call at 681-5787.