



VERTEX BALANCED FUND

Fourth Quarter Report, 2003

It's just after New Years and as is traditional this time of year, reflection is on the agenda. It was a year in which reflection would suggest our quarterly letters might have been a bit boring. I don't mean like boring boring but boring enough to illicit just one complaint. I mean, Vertex now has almost 900 clients and we only had one complaint. In previous years, there were fewer clients and more complaints. These are telling statistics. You see, if the writing goes mainstream then it follows management has gone mainstream and that doesn't bode well for investment performance. This is not lost on us. We'd be comfortable with a client complaint rate of about .5% and we'll be disappointed if at 2004 year-end there has been no improvement in the upset ratio.

Continuing with the reflection theme, at the beginning of 2003 it was declared we remained in a "bear market". I was reminded daily that it was a bear market and in a bear market things are supposed to happen. Things are supposed to happen in a certain orderly way. Generally, that way is supposed to be down with a few "bear market rallies" on the long journey to middle earth. One might as well have declared the market red, yellow or even made of green cheese for all it matters...some stocks are goin' to the moon don't you know! Anyways eh, it would've cost anywhere from 10% and up (20% for your fund) to have commenced 2003 with a view stocks were going down cause it's a bear market thus highlighting the folly of declarations of this nature. The declaration of markets is one of many humorous aspects of our occupation along with the deluge of projections, pop investment wisdom, useless comparisons and other clichés from prognosticators. It seems that humans are really good at predicting the direction of stocks as long as stocks are currently heading in that particular direction and it's not tomorrow yet.

Further reflection reveals there was virtually no trading in your fund during the year and the little trading undertaken turned out to be a mistake anyway so I really don't want to tell you about that. Ok I will anyway. There were a few stocks sold to capture denied losses from a previous year. The trajectory these stocks followed subsequent to their sale was above the trajectory of the stocks placed in their favour by a wide margin. Moreover, it turned out there was no tax liability at all for 2003 thus the whole trade was moot. Note to self and anyone else who cares: "Never let a tax decision take precedent over an investment decision". To add insult to injury, the best performing stock in your fund was bought at \$6, sold at \$11 and is now at \$25. That pretty much sums up all the research results on trading. Trading lowers one's investment returns over time - end of story.

Let's now talk about the Canuck buck, the Loonie, the former Northern Peso. All there is to say about it is this. Your return in 2003 was 6% lower resulting from the depreciation of your US stocks in Canadian dollar terms. Fortunately, your US stocks performed quite well thus mitigating this currency drag.



People often say to us “Guys, why don’t you give the reader more info about the portfolio?” So I says “Here it is, check out the chart below from Morningstar”.

Investment Valuation	Stock Portfolio	Morningstar Balanced III
Price/Earnings	13.6	20.2
Price/Book	1.2	2.3
Dividend Yield	1.8%	1.7%

This chart compares the Vertex Balanced Fund’s stock portfolio to other balanced funds’ stock portfolios. Note the low price to value of our portfolio verses other funds. In a nutshell, when purchasing companies, we pay less than our competitors by a factor of almost half. I have no idea what the other guys are doing but if I ran a department store, and they were my buying agents, I’d fire them. My store would have to find customers dumb enough to pay twice the price as the shop next door. Customers aren’t that dumb so I’d have to fire those buying agents. Simple. Ask Donald Trump what he’d do. Maybe we’ll find out on “The Apprentice” tomorrow night.

Your portfolio consists of 75% equities (stocks) and 25% bonds, largely unchanged in a year. Most, and I really mean most of your companies raised their dividend in the last 12 months. Nothing like getting a raise! Speaking of raises, I’ve always wondered if I’d ever work for free. Because when you think about it, buying a company that doesn’t pay a dividend is kind of like working for free and if they keep issuing shares like most non-dividend paying companies do, it’s kind of like you’re paying the company. Hmmm?

Ok, ok, I’ve blabbed irreverently for almost two pages but haven’t talked much about performance at all so moving right along your fund was up 20.5% for the year. With that, I will ask you to get out your cheque book and write a big fat \$14,500 contribution for your RRSP. The deadline is approaching fast and we got grief last year for not reminding people.

PERFORMANCE

The Vertex Balanced Fund returned 20.49% for the year ended December 31, 2003.

Net Asset Value	Rate of Return					
	<u>3 Mos.</u>	<u>1 Yr.</u>	<u>2 Yrs.*</u>	<u>3 Yrs.*</u>	<u>4 Yrs*</u>	<u>5 Yrs.*</u>
\$13.3030	6.42%	20.49%	11.35%	7.00%	11.51%	12.15%

*Annualized



THE PORTFOLIO

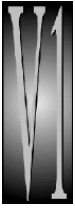
The top 20 holdings in the Vertex Balanced Fund at December 31st were as follows:

CIBC	CTS Corp.	Kroger Co.
Mattel Inc.	Boeing Co.	Emera Inc.
Bank of Montreal	Nexfor Inc.	Transocean Inc.
ACE Ltd.	Prudential Financial Inc.	Sun Life Financial
Bank of Nova Scotia	Odyssey Re Holdings	Enerflex Systems
Fairfax Financial Holdings	Honeywell Int'l.	Kemet Corp.
CI Fund Management	Canadian Western Bank	

All bonds are government guaranteed

Asset Mix

Cash	0%	Canadian Equities	50%
Fixed Income	25%	Foreign Equities	25%





VERTEX FUND

Year End Report, 2003

Everything worked for Canada in 2003. Everything worked for the Vertex Fund as well although it took awhile to get started as the fund was down after the first quarter of the year. I was sure that we were going to have another down year in the markets, of say 20% being the most likely scenario, but it turns out that my track record for predicting stock market movement is intact. 100% wrong. It's too bad that I'm cautiously optimistic for 2004. Hopefully I'll be wrong about that as well. Luckily we have been better about sniffing out opportunities for the fund than predicting market movement, so think twice about asking us what we think about the markets.

We started the year having one of our biggest exposures to the Canadian dollar since the inception of the fund and as the year progressed we continued to get even more bullish on the dollar to the point that by year end we had no exposure to the US dollar. This helped avoid over a 10% currency loss if we had maintained 50% US dollar exposure. The Canadian dollar has even lagged the Australian and Euro dollar this year, which will make it very hard for non American companies to compete with the U.S. Canadian manufacturing will get decimated this year if the dollar does not recede its appreciation versus the American dollar. America is determined to get out of this recession by depreciating their dollar at a record pace. Canada has used this strategy well over the past decade, but in pure American fashion, they have done it in double time.

This means that it is Canada's time to shine with an amazing rally in golds, oils and base metals all under the auspices of the first Prime Minister of Canada that I have ever taken a liking to. Perhaps it's because the House Martins were one of my favorite bands in University when they sang "It's Happy, Happy, Happy Hour Again". We may even see Alberta vote Liberal in this year's Federal Election.

As merger arbitrage waned this year we found the next best thing - companies that converted to unit trusts. Baytex Oil and Gas, Dundee Realty, Bonavista Energy, Crescent Point and Focus Oil and Gas were all names that we had large positions in and still do to this day with the exception of Baytex, whose balance sheet gives us the creeps. It's rather odd owning investments that new shareholders will give you an increased multiple for a tax payment that the old shareholders would not. It's all for this reason that we own shares in Penn West Petroleum as we believe there is an outside chance that management will convert this company into a unit trust.

The golden time of gold shares occurred in the last quarter, although we are still smarting from being too early in this sector as the fund had suffered a 12% downdraft in these names in July 2002. Patience has been a virtue as it helped our performance this year with additional exposure in the base metals in names like Sherrit, Cameco and Noranda. Today our total exposure in golds, oils and base metals represents 45% of the portfolio. We feel this will position us well for Canada's shiny time in 2004.



Last year about this time our unitholders started to think about their taxes and we fielded quite a number of calls from unhappy shareholders who realized that they had lost 2.4% of their funds with us and received a tax bill to boot. Well sometimes it's better to be lucky than smart or perhaps just patient as this year both our funds have **no** taxable distributions, so please read the one year performance number below as your after tax rate!

Happy New Year and please feel free to call us with any question or comments at any time.

Vertex One Asset Management

PERFORMANCE

The Vertex Fund returned 48.91% for the year ended December 31, 2003

Net Asset Value	Rate of Return					
	<u>3 Mos.</u>	<u>1 Yr.</u>	<u>2 Yrs.*</u>	<u>3 Yrs.*</u>	<u>4 Yrs.*</u>	<u>5 Yrs.*</u>
\$35.8701 <small>*Annualized</small>	19.47%	48.91%	20.53%	15.99%	21.56%	29.88%