

1st Quarter Report to Vertex Fund Limited Partners April 18, 2001

Dear Limited Partner:

2000	Net Asset Value per Share	Performance Year to Date
January 1	\$25.05	
March 31	\$24.50	-2.2%
Since Fund Inception (February 6, 1998)		145%

Great minds discuss ideas
Average minds discuss events
Small minds discuss people.

This great line came from Eleanor Roosevelt. Behavioural Finance is an idea that is becoming prevalent amongst the finance community. The media expresses this theorem that says people do not always make rational investment decisions. The stock market assumes that investors have equal access to information before we transact. Does the person who buys a used car from a used car dealer know as much as the salesman about the car? NO! Do stock analysts know as much about a company as insiders? NO! (Which is why we watch insider trading religiously). But equity investors today make their belief on rational expectations based on prejudicial recent history, which was based on erroneous information. "My neighbor made a killing in the stock market, it can't be that hard to make a profit." The neighbor did not disclose his losses as his ego got in the way. The common belief was that technology was becoming such a large part of the economy you had to own a tech fund; the information that was missing was valuation.

In a way we are blessed as we all got a chance to see what a real investment bubble looked like. One that rivaled the one in the 1920's. And it wasn't a bubble, till we all believed making a killing on the stock market was a game we could all master based on reports from the media, stock analysts, neighbors and taxi drivers. Sir Isaac Newton was considered by Einstein to be the greatest intellect of our time yet he, during the South Sea bubble, invested and sold making a fortune. Unfortunately, he could not take the fact that all others around him were still coining it and ribbing him about his early sale, so he bought back in and lost his fortune. Behaviour over information won out. The buy on the dip mentality has finally succumbed to that of valuation.

As all equity indices were for the collective mindset, in a bear market over this last quarter, we realize that the key investment criterion is capital preservation. The Vertex Fund had its poorest return on capital over the quarter since the Russian debt crisis in September of 1998, with a negative return of 2.2%. Our goal is to achieve a positive return on capital and we will be working overtime to achieve our goals in this environment for the year 2001.

An interesting fact about the power of compounding: If an investor made 15% annually on his dough for three years and then lost 15% in the fourth year, what rate of return does he have to make to get back to a 15% five-year compound return? **56%**. Ouch! Earning 56% return is unrealistic in this environment, so we are thankful that merger arbitrage has reduced the volatility of the portfolio while preserving capital. We can still be equity investors with 25% of the portfolio looking for value, although that part of the portfolio has had negative returns we know the bull will come back.

Thank you for your support and please call us if you have any questions!
Sincerely,

Vertex One Asset Management
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