VERTEX FUND

Third Quarter Report, 2002

We usually gauge market sentiment by the volume of incoming phone calls and our own mood swings. For the last three months the phone has been ringing regularly and our mood swings have been all over the map. One has to travel back to 1981, which happened to be the bottom for stocks, to find a more painful quarter. Although it's possible to see more weakness there is also light at the end of the tunnel. This bear market has lasted 30 months versus 18 months, which is the average length of all previous bear markets. Blue chip stocks today are yielding more than some bonds.

Equity investors are in their third year of losses with the average North American share index being down 30% this year alone and the Nasdaq now down 75% from its peak. Our biggest priority is to preserve capital in a down market which is sometimes easier said than done, and the last quarter was certainly a challenge for us. Being fixated though on the short term has never achieved any wealth creation in the long run.

All declines do come to an end and the S&P now sells at 16 times next year's earnings which is roughly the same level equities traded at on a forecasted level in 1981. Although we have no idea where the bottom is, our optimism is elevated for the first time in years and there is excitement in the air at Vertex about the prospects of equities versus Government of Canada bonds.

Recently a number of Canadian oil and gas companies have converted themselves into Unit Trusts in which we have participated. These transactions are within the merger arbitrage area of your portfolio and we have decided to continue to hold these units yielding between 14 and 19% with the potential of larger payouts and yields over the next six months. Our portfolio weighting in merger arbitrage is now over 30%. The fund also maintains a 9% weight in gold as a hedge against financial crisis. These companies have access to capital for the first time in 20 years allowing investment in new efficient production. Many gold companies have issued shares with a purchase warrant which enables us to take advantage of the volatility of these shares on the long and short side with little risk.

As more companies have to pay the piper for leveraging their balance sheets, we see the chance for bankruptcy increasing. We have increased naked shorts to 12% of the portfolio in names such as Air Canada, Deutsche Telecom and CIT. In the case of Air Canada, there is little chance of it surviving in its current form. With over $10 billion in debt, Air Canada pays $1.5 million a day in interest costs giving debt free carriers such as Westjet an enormous competitive advantage.

As always, please feel free to call us at any time.

	Rate of Return						
Net Asset Value	**1 Mo.**	**3 Mos.**	**6 Mos.**	**1 Yr**	**2 Yrs***	**3 Yrs***	**4 Yrs***
$25.8460	**-0.94%**	**-9.26%**	**-9.51%**	**-2.57%**	**1.01%**	**20.79%**	**28.71%**

*Annualized