VERTEX FUND

Year End Report 2004

A New Year has sprung and for a brief moment in time people see things anew and a universal mind cleanse appeases us all. Many of us set goals at the beginning of the year but most of us forget about them all too soon and great plans go to waste. Our language has the ability to shape thought. To paraphrase Albert Camus: "Once you name something it becomes real". So let's name this year 2005!

So what will really become of 2005? We are half way through the first decade of the 21st century and every day we review our need to allocate capital to those assets that we believe will have the highest return. Our recent trading activity proves that we prefer to show up late to most parties or investment ideas (much like some of you that bought our fund recently - smart going). Ford recently launched a new GT car that accelerates in 0-100 km/h in less than four seconds for about $140,000 US. You can now pick one up on EBay for $210,000. Do you think Ford makes $70,000 US on every GT sold? No way hoser! If everyone collectively sold their car on delivery they would make at least twice the margins that Ford did. All Ford had to do was take years to design, plan manufacturing, manufacture, distribute and sell the vehicle. Perhaps all buyers of cars should form a consortium to take all realized profits annually and take the company public via an income trust and realize 10 times profits. You can see what I mean by showing up late, as the almost last trade is usually the best trade.

Allocating capital to strategies that are event driven are a turning point in that investors believe that new events are better than non-events. Investors believe Air Canada is new again and the excitement builds. We sold the majority of our stock in Air Canada early, and it's a lesson that we learned again in Algoma after booking nearly a $10 million dollar gain in the Vertex Fund after the company came out of bankruptcy and people believed the company was better because it was new again. We sold our Algoma shares at $21 and they closed the year at $30. Leaving $10 million dollars on the table seemed the gentlemanly thing to do. NOT! (Reminder to self: trends last longer than you think!)

Owning shares in oil and gas companies that converted to Income Trusts was a very successful strategy for us in 2004, with Penn West Petroleum, Starpoint, Ketch, Paramount, Bonavista and Canadian 88 to mention just a few, helping us add fairly large incremental returns. And for the first time in over a year we started writing options again. Ideally we would like to make 5% per annum in option strategies (straddles and strangles) in quality US names such as Sandisk, Merck, Pfizer, Bristol Myers, Palm One etc. Additionally we also started employing this strategy in companies that we didn't think were all that great but had great option premiums and lending returns. This list of losers included Martha Stewart, Cal Maine Foods and Deckers Outdoor Corp.

Another lesson that we needed to learn is the power of reinvesting income and dividends. You will notice that the Vertex Fund paid a capital gain distribution (which was reinvested in units of the Fund) this year on each class of share. Over time the concept of compounding is a powerful concept that even Albert Einstein had trouble grasping so his move from Economics to Physics was based on taking the easy road. His last education trade was his best. The biggest fact that still rattles my cage is that the Dow Jones Index in 1896 was at 40. Most of us know that the DJIA closed 2004 at around 10,800. That is some growth with every dollar growing over 250 fold during that time. That's not so hard to comprehend is it? What do you think the Dow Jones Index would be at today if you reinvested that small dividend you got each year back into your portfolio of 30 stocks?

Now I really want you to take a guess!!! Where would the Dow Jones index have finished the year in 2004 if dividends had been reinvested? Think about it and then proceed to the next paragraph.

The answer is 782,760*. Now that's compounding growth! And we all thought buying low and selling high was the road to riches. Capital gains are not where it's at; it's reinvesting which is the key! You can take this lesson and learn from it. Please change your Will now and lecture your grandchildren to "Never sell my Vertex Funds!"

Canada's strength this year in equity markets and currencies was based on one word, Commodities. Oil, Uranium and Coal were our favorites that gave us favorable returns on the long side. Asia consumes one tenth of the oil that North Americans do and as they trade their bikes for traffic jams and their farm homes for air conditioned and heated apartments, we think that even if a recession occurs this year oil and uranium consumption will not decline because user demand on the end of the demand curve will not change based on economic activity.

We have never had an opinion on the stock market for the past seven years that the fund has been in existence and over the coming 12 months we have no idea what it will bring, but we will try to sell slower and reinvest more!

* This is my best guesstimate based on a study by Roger Clarke and Meir Statman (great name eh?) The DJIA crossed 652,230, Journal of Portfolio Management (winter 2000) 89-93

Happy New Year!

The **Vertex Fund** returned 20.20% for the year ended December 31, 2004.

	Rate of Return					
Net Asset Value	**3 Mos.**	**1 Yr.**	**2 Yrs.***	**3 Yrs.***	**4 Yrs.***	**5 Yrs.***
$40.1268	**7.39%**	**20.20%**	**33.79%**	**20.42%**	**17.03%**	**21.29%**

*Annualized