VERTEX FUND

Third Quarter Report, 2008

We had held our own in these markets until this September when this grizzly bear market caught up with us. Perhaps Warren Buffett put it best saying this was an "Economic Pearl Harbour". September was our worst performing month in our history with a loss of 22.6% and a decrease of 31% over the quarter.

In 1998 the fund declined 38% from its peak and had its worst monthly loss of over 18% during the Russian debt crisis (Long Term Capital). At that time we were dealing with an amount of $1 trillion that Long Term Capital had levered itself with that needed to be unwound. This time we are working off $2 trillion in sub prime debt on a trade that needs to be liquidated by banks and insurance stocks.

Peak	Trough	Months	Recovery Length	Depth	Next 12 months	Events
Jun-08	Sep-08	3	0	-34.36%	?	credit crises
May-02	Nov-02	6	13	-14.32%	45.11%	post 9/11, Enron + Worldcom
Apr-98	Oct-98	6	12	-38.45%	67.60%	Russian Debt Crises / LTCM

This past month all stars fell to Earth in the investment community as returns collapsed and none could do anything right (except the Vertex Managed Value Portfolio which was up in September and had a great quarter). Not one hedged strategy that we have seen had positive returns in September.

Eightly-plus year old money managers like Marty Whitman and Stephen Jarislowsky who speak from a long time perspective say they have never seen a bear market like this. We have seen most portfolios from professional money managers who had returns in excess of 20% annualized, average 25% losses this year and we are ashamed to say that we have been no better. During the last five years we have had a great run in Canadian resource stocks and our long exposure over this time helped create our performance. In one month this has all changed. We were caught off guard and misjudged the selling of other funds that were levered and had to liquidate regardless of the cost or value of the stocks and bonds or money markets funds that were held. The oil stocks that we owned in Encana, Petro Canada and smaller names like Western Zagros (which now trades below the cash value in the company) saw some early declines of 60% in one month and explained a large percentage of our losses this quarter. We had mentioned before in our letters we had anticipated people would move from financial assets to real assets and our thinking was that our 10% weighting in gold and silver would act as a hedge in a crisis but even those investments have sold off. Almost all assets have sold off except for cash under a mattress as investors did not even trust their banks. Not a single hedge worked during this past quarter.

The panic was so intense that in the United States, treasury bills yielded negative interest rates after transaction costs as people switched from corporate money market to government money market funds. Imagine buying treasury bills and being guaranteed to lose money. According to the financial times over $100 billion was pulled from money market funds during this rush to the exit that was contained when the US government decided to guarantee all money market funds.

After the crisis in 1998 we found that there was only one strategy to make money and that was merger arbitrage. Spreads have increased substantially as the market has doubted that deals would close. In fact, the only area where we had positive returns was in deals that closed:

Rothmans
Sleep Country Canada
Accrete Energy
Xantrex Technology

Event driven investing in long stocks which has worked so well over the past five years looks to be challenging for some time to come. We have sold off our long standing position in AGF Management, as the spin out of their trust company looks like it will now be years away and their assets are exposed to mutual fund sales which we expect to suffer.

We have increased our risk arbitrage exposure to over 60% and hope to be at 80% shortly at the expense of long exposure. Although merger arbitrage yields increased which caused our stocks to suffer, these deals going forward are more historically attractive – averaging 40 to 100% plus annualized. We have tended to stay away from deals in excess of $5 billion where we see financing as a risk.

The following deals are examples of the returns we estimate in Merger Arb on an annualized basis:

First Calgary Petroleum	119%
Tanganyika Oil	100%
Grey Wolf	29%
Merrill Lynch	42%
Constellation Energy	13%

This past week four European banks failed and one more American bank was added to the list. These bailout packages have been well executed and we no longer expect any Canadian banks to fail as the global support package is clear on how to save a bank - Canada stands on guard for thee.

This past quarter has been gut-wrenching for us and we know it is tough in these times to focus on the long term when we live in a short term oriented world. We don't know when the market will turn and recover like past sell-offs but we are encouraged to see Warren Buffett has started buying stocks. We have also purchased more units in the Vertex Fund personally this past month as we will see the returns pay off over the years to come for the market pain that we are currently going through.

Please call us with any questions or comments.

PERFORMANCE

The Vertex Fund (Class A) returned -25.56% for the year ended September 30, 2008.

	Rate of Return (Class A)					
Net Asset Value	**3 Mos.**	**1 Yr.**	**2 Yrs.***	**3 Yrs.***	**5 Yrs.***	**Since Inception***
$41.6797	**-31.48%**	**-25.56%**	**-4.21%**	**-0.62%**	**11.41%**	**17.56%**

*Annualized

Past performance is not indicative of future results
All data are based on the Class A unit values

Vertex One Asset Management