

3<sup>rd</sup> Quarter Report to Vertex Fund Limited Partners, October 15, 1998

Dear Limited Partner:

<u>1998</u>	<u>Net Asset Value</u>	<u>Year to Date Performance</u>
February 9	\$10.00	
March 31	\$11.72	17.20%
June 30	\$11.85	18.50%
September 30	\$9.42	-5.80%

Since launching the Vertex Fund, markets have been behaving like a Dickens novel, providing us with the best of times and the worst of times, from an exciting first quarter to this last quarter which was the most difficult we have ever seen. World markets have turned into a bear with amazing correlation between them. Deflation is becoming a global ill that has caused government bonds to rally and Japan has seen its long bonds trading below 1% while its equity market has decoupled from its bond market.

These factors are causing a liquidity crunch around the world that have made for unprecedented widening in corporate bond spreads over governments. So much liquidity had been in the North American market that funds such as Long Term Capital (oxymoron for Short Term Capital) had levered its portfolio to a notional value of almost a trillion dollars on an equity base of \$5 billion.

As these funds deleverage themselves and reduce global liquidity, it may be a good time to remind our Limited Partners that the Vertex Fund does not use leverage in any of its positions. Although it is never easy to see a bear market coming, the risks in the market are always high and when starting this fund we tried to limit the downside by not using index derivatives, leverage or futures of any kind.

Given that a majority of stocks on NASDAQ and the TSE are down 50% from their highs, this bear market has been swift and it is only a matter of time before the wealth effect (or lack thereof) will cause a consumer slowdown or perhaps a recession in North America. In this environment we have added long term government bonds to the fund and currently have a cash presence of 30%.

Please call us or email us if you have any questions.

Sincerely,

Vertex One Asset Management  
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