

VERTEX MANAGED VALUE PORTFOLIO

Fourth Quarter Report, 2008

In June of 2007 I wrote a report titled “An Entitlement to High Returns” in reference to investors’ expectations of high double digit returns. Here are a few excerpts from that letter:

“I’m not going to talk a lot about your fund in this report for the simple reason that very little has changed over the last few years. The elevator story is this: your fund is invested in equities that are trading at price to value ratios much lower than the market with dividend yields much higher than the market and has no exposure to commodities where I perceive the most risk is concentrated today. Believe me, it would be far easier to party like Paris Hilton every time the TSX hits new highs, really it would, but this party will end and people’s life savings are at risk so I abstain.”

And abstain we did.

The debacle that was 2008, although painful, was one that had to be. After years of economic expansion, exacerbated by easy credit, the business cycle’s less likable phase showed up. Many are looking for scapegoats to blame for today’s economic trough but few seem to remember the term “business cycle”. There is a growth phase and there is a decay phase. There are no immediate catalysts in view to indicate when, where or how a new economic expansion might commence but with a high degree of probability, it will.

“A bull market is born of pessimism with a dose of fear and ends in optimism with a sprinkling of euphoria.”

Having come from optimism and euphoria, we are now in a psychological state of extreme fear and pessimism. To refer back to “An Entitlement to High Returns”, double digit returns were expected when investors should have been focusing on double digit risk. In 2008, returns were double digit yet negative, not positive. What are investors’ expectations today? On mass, most expect negative returns and are focused on risk. **I am completely reversing my stance and will go on record to say investors should now be expecting double digit returns.** The risks have virtually disappeared or are so well known and thus priced in to most assets for investors can’t see things could ever change for the positive again. Like Swiss clockwork, investor behavior never fails to give patient investors ample opportunities to make great returns with lower risk. Companies are being given away at sale prices as investors’ fears are the underlying characteristic in pricing investments. Negative sentiments are a friend if you are a long term investor.

We are beginning 2009 with an excitement not felt since starting Vertex in 1997. Incidentally, many stocks are trading at prices lower than 1997. Although headlines are ugly, each passing day results in our being closer to an inevitable recovery. Stocks will move up prior to this occurring and will gain momentum when it becomes obvious economies are improving.

Our objective is to participate fully when this occurs by being fully invested as has always been our policy. Today it's like being in a ballroom after a great drunken party – the guests have all dropped their jewelry on the floor and are at home nursing a hangover. There are gems everywhere and your penman is picking them up. Just as the tech crash saw trillions in wealth evaporate and was then largely forgotten, this crash will also be thrown in the trash can of history and forgotten. As a good friend reminds me when times are good or bad there are four words to remember: This Too Shall Pass!

PERFORMANCE

Net Asset Value	Rate of Return (Class A)					Since Inception*
	<u>3 Mos.</u>	<u>1 Yr.</u>	<u>2 Yrs.*</u>	<u>3 Yrs.*</u>	<u>5 Yrs.*</u>	
\$12.3713**	1.11%	1.84%	-6.54%	1.01%	3.80%	7.12%

*Annualized

**Post-Distribution

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

THE PORTFOLIO

The top 20 holdings in the Vertex Managed Value Portfolio at December 31st, 2008 are:

Fairfax Financial Holdings	Pfizer Inc.	Sun Trust Banks Inc.
Montpelier Re Holdings	Ingersoll-Rand Co.	JP Morgan Chase
Mattel Inc.	Odyssey Re Holdings	Bank of America
IPC Holdings Ltd.	Seamark Asset Mgmt.	QLT Inc.
Johnson & Johnson	Merck & Co.	Biovail
Partner Re Ltd.	Manitoba Tel	BCE
Walt Disney Co.	Zions Bancorporation	

ASSET MIX

Cash	2%	Canadian Equities	20%
Fixed Income		Foreign Equities	65%
Canadian	8%		
Foreign	5%		

Vertex One Asset Management