

VERTEX BALANCED FUND

First Quarter Report, 2007

After back to back 9.5% return quarters, clearly it was time for a break. That's what I said to my colleagues. "No one's going to believe this is sustainable and they'll think we're cheatin' ". With that decision made and with our two largest holdings Fairfax and Mattel trading at new highs it was time to tone down the returns somewhat so we blew a hole in the portfolio with Angiotech and Novastar Financial! Of course I'm kidding but these two holdings along with the large decline in the US dollar (roughly 55% of the portfolio is USD) led to a bit of a flat tire for your fund leaving us with a meager .35 of 1%. The major culprit was the USD as its decline was responsible for erasing over one percent potential return for the quarter.

So that's the history. That was then – what you really want to know is what's happening now. Well I'll tell you what's going on now then. It's business as usual. If one reviewed our past reports, there's one consistent theme. Popular stocks have never been on our menu – the more unpopular the more I'm interested and vis versa. Thus those stocks causing the most pain in prior years – where business associates, investors, friends and family said "you know Wood, you're really a total loser to own these dogs" are being sold down. These include Odyssey Re, Mattel and Merck. Odyssey hit \$19.50 last summer and now trades at \$40. Mattel hit \$15 and change last summer and now trades just under \$30. Merck we bought for \$28 after the Vioxx noise and it is now trading just under \$46. The only one I haven't mentioned is Fairfax which traded just over \$100 last summer and is at \$262 today. The reason I haven't mentioned Fairfax on the selling list is it's still most inexpensive. As a side note, all of these stocks either paid juicy dividends during our period of ownership (Mattel, Merck) or generated outsized lending revenue from short sellers (Fairfax, Odyssey).

It seems a novel concept to buy more shares of companies when prices fall and sell shares when they rise. Most participants seem to enjoy the good feeling of being with the crowd and instead purchase more shares as prices rise and enjoy selling shares when prices fall. It's strange behavior but whatever makes ya feel good I say. In case the reader missed it in prior reports, we bought Fairfax all the way down to \$89. We bought Seamark Asset Management all the way down to \$6.30. We bought Level 3 Communications all the way down to \$2.29. More recently, we've bought Novastar Financial (in the sub-prime business) all the way down to \$4.90 and Angiotech all the way down to \$5.38 (USD). The reason I'm telling you all of this is it's important to understand what you own and why. We all make mistakes. Maybe one of these companies will fail. It's certainly within the realm of possibility. Although it hasn't happened to us yet, it's likely that one day it will. Getting back to the point - buying shares when they're inexpensive and buying even more as they get less and less expensive will lead to an overall low cost base for the entire position so when it does turn, it doesn't take much of a lift in the stock price to skate one onside so to speak. More importantly, we'll never be crying with the crowd

when the popular stocks melt down as they did in 2000. Vertex Balanced Fund owners always cry alone yet we've never really had much reason to cry unless missing out on the latest hot gold stock brings tears to your eyes – wa wa wa.

PERFORMANCE

Net Asset Value	Rate of Return (Class A)					
	<u>3 Mos.</u>	<u>1 Yr.</u>	<u>2 Yrs.*</u>	<u>3 Yrs.*</u>	<u>5 Yrs.*</u>	<u>7 Yrs.*</u>
\$15.0900	0.35%	15.00%	11.02%	9.25%	10.35%	10.07%

*Annualized

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

THE PORTFOLIO

The holdings in the Vertex Balanced Fund at March 31st, 2007 include:

Fairfax Financial Holdings	Angiotech Parm.	XL Capital Ltd.
Montpelier Re	Merck & Co.	Kemet Corp.
BCE Inc.	CTS Corp.	Novastar
Partner Re	Seamark Asset Mgmt.	QLT. Inc.
Mattel Inc.	Sceptre Asset Mgmt.	Harleysville Group
Level 3 Comm.	Odyssey Re	Vishay Intertech Inc.
IPC Holdings Ltd.		

ASSET MIX

Cash	0%	Canadian Equities	28%
Fixed Income		Foreign Equities	48%
Canadian	18%		
Foreign	6%		

Vertex One Asset Management