



CEDAR FUND

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January 30, 2019

Dear Fellow Partner:

Cedar Fund finished 2018 with a return of -4.4% compared to the S&P 500 index's -4.4% and the Russell 3000 Value index's -8.6%. The per unit value of Cedar Fund is \$4,107.10.

YOUR INVESTMENT INTEREST

Cedar Fund is pleased to provide you with the following information concerning the value of your partnership interest:

<u>Partner</u>	<u># of Units</u>	<u>Cost Basis</u>	<u>Market Value</u>
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COMMENTARY

2018 was a year of ups and downs in the stock market, punctuated by the volatility swing we experienced in December. Uncertainty with our government, turmoil in the world market's and lack of confidence in the generally positive economic news regarding job growth, consumer confidence levels, low unemployment, and expanding businesses were major factors in the market's ride in 2018.

The following is an adaption taken from "Storm Shelter," by Ron Blue, Thomas Nelson, Inc. Publishers that seems just as applicable today.

The first step in defeating uncertainty is to realize just how common—and normal—it is. Today's financial forecast—shaped by such things as the federal budget deficit, inflation, tax-law changes, interest rate shifts, wars, terrorist attacks, job layoffs, and swings in the stock market—is fraught with questions and concerns. Yet this uncertainty is nothing new.

After almost five years of consecutive gains in the stock market we have many espousing that we are on the brink of another recession. This may or may not be true (no one can predict the future); however, we often find ourselves tempted to make decisions based on fear over the current economic environment. Interestingly, our economic environment has always been one that would allow us to paint a pretty significant picture of gloom and doom.

In 2001, we had just suffered a terrorist attack unlike any we have seen before on U.S. soil which precipitated a decline in the stock market not seen since the great depression. In the early nineties, we had the Gulf War – our first war in decades. Who knew what the economy would do during this time or how it would affect our personal finances? Analysts in the early eighties predicted an inflationary blowout from which the U.S. might never recover. Ten years earlier, in 1972, we were saddled with Watergate and an oil crisis that threatened to throttle the world's economy. The early 1960's brought the Cuban missile crisis, a presidential assassination, and made a nuclear holocaust seem possible, if not imminent. In 1952, in the shadow of the newly erected Berlin Wall and the Ko-

rean War, bomb shelters were among the best selling items in the U.S. In 1942, we faced Pearl Harbor and then felt the full force of our entry into World War II. In 1932, we awoke to the nightmare of the Great Depression.

We could fill pages recalling the various events that present serious economic uncertainty, so the issue is not will there be economic uncertainty (because there will), but rather do these circumstances dictate a different reaction from what I've had in the past or a different plan for my personal finances?

Just as uncertainty is nothing new, our fear stemming from that uncertainty will always be there as well. As opposed to just giving into the fear (and thus making bad decisions) or trying to ignore it (and thus losing sleep at night) we must face our fears in order to develop the right perspective.

In times like these, our emphasis is focused on the following fundamental and important principles of conservative and prudent investing:

- Never try to predict the direction of the stock market. It is impossible to anticipate what the market is going to do in the immediate future. Stay fully invested and do not raise or lower cash positions in response to a questionable guess at the market's direction.
- Invest for the long term, that is, five years and beyond. We are investors, not traders. Using a patient, disciplined approach allows one to succeed over market cycles. Value is found wherever it may live, even when contrary to general opinion. This requires sound judgment, discipline and focus on absolute (not relative) returns.
- As consumers we seek discounts to purchase a product for less than its value. This is a trait that prevails when we go to the grocery store, eating out at a restaurant or buying that important item we feel we need. As investors we favor active managers who buy stocks selling at discounts to their perceived value. This is an important way active managers seek to reduce their risks. Warren Buffett believes this trait is not learned but rather is an innate attitude.

PERFORMANCE AS OF 12/31/18

Investment	2018	5 Year	10 Year
Cedar Fund	-4.4%	3.8%	7.5%
Harfam Partners	-5.8%	1.8%	5.1%
Berkshire Hathaway	2.8%	11.5%	12.2%
First Eagle Global	-8.3%	3.5%	8.5%
FPA Crescent	-7.4%	3.3%	8.9%
IVA Worldwide	-7.3%	2.6%	7.3%
Longleaf Small Cap	-6.5%	5.3%	14.5%
Sequoia Fund	-2.6%	1.7%	10.2%
Tweedy Browne Global	-6.7%	4.4%	9.3%
Russell 3000 Value	-8.6%	5.8%	11.1%
S&P 500 Index	-4.4%	8.5%	13.1%
MSCI ACWI Index	-9.4%	4.3%	9.5%

INVESTMENT SUMMARY

Cedar Fund continues to be built around three groups of investments:

- Six mutual funds that comprise 51% of the Cedar Fund portfolio. Each fund follows a different approach of value investing, ranging from traditional value to growth at a reasonable price.
- Berkshire Hathaway, which may be thought of similar to a high quality index fund but without the underlying risk of lower quality companies included in most index funds. Berkshire comprises 34% of Cedar Fund.
- A core group of two privately managed interests, four mutual funds and Berkshire Hathaway in Harfam Partners, the partnership of the Harris and Harper families, makes up 15% of Cedar Fund. Harfam allows Cedar Fund access to investments not available through mutual funds.

Berkshire Hathaway (+2.8%) and Sequoia (-2.6%) outperformed the S&P 500's one year return. Berkshire Hathaway leads all managers/funds in the one year (+2.8%), three year (+15.7%), five year (+11.5%) and fifteen year (+9.0%) returns.

After a disastrous year in 2016, Sequoia Fund managed by Ruane Cunniff turned in a second straight year of solid performance. We feel confident that the management changes and re-focusing on the firm's established investment philosophy have brought stability to the fund.

In 2018, Harfam Partners sold its position in FPA Capital and purchased Oakmark Fund, a diversified fund that seeks long-term capital appreciation by generally investing in larger capitalization U.S. companies. The fund is managed by Bill Nygren and Kevin Grant. Its 10 year performance record at 13.9% fits nicely near the top of our managers. Oakmark utilizes an intensive, fundamental research process to identify companies that aligns with our value criteria.

Cedar Fund finished its 30th year with \$21.5 million under management and 37 partners. We started Cedar Fund in 1988 with \$1.4 million of assets and 16 partners. Over the 30 year period ending December 31, 2018:

- An initial investment of \$100,000 in Cedar Fund has grown to \$1,640,155, compounding 9.8% per year.
- An initial investment of \$100,000 in in the S&P 500 index has grown to \$1,729,400, compounding 10.0% per year.

PERSPECTIVE

Thirty years ago when Ed and I decided to face the uncertainty of investment management, little did we expect what it has become today. Our vision was to serve others by implementing an investment philosophy that entailed:

- a prudent approach to invest capital and provide the opportunity for superior returns over the long-term;
- placing your interests above our own;

- during times of volatility and uncertainty, a patient, disciplined approach focused on long term financial needs and goals.

We are deeply grateful for your confidence and trust in our stewardship of your investments over many years. I remain committed to watching closely the activities of the different managers in Cedar Fund.

OTHER INFORMATION

- In February you will receive by email a Form K-1 for tax reporting purposes.
- In March you will receive by email Cedar Fund's audited financial statements.
(A printed copy can be provided at your request.)

If you have relocated or changed your mailing address, please let us know your new address via email as soon as possible so that we can include the correct address on your K-1.

Cedar Fund's website (www.cedarfund.harfam.org) provides access to current charts, past annual reports and past financial statements. The username to access the second page is "cedarfund" and the password is "43091".

I welcome any comments or questions you have about Cedar Fund, its holdings and its investment philosophy. I can be reached by phone at (765) 277-1710 or by e-mail at Mark@harfam.org.

Regards,



Mark W. Harris, President, Harris Harper Counsel Inc.
General Partner, Cedar Fund L.P.