

Cedar Fund, L.P.

3464 Boston Twp. Line Road
Richmond IN 47374-9421

Phone 765-962-3431
Fax 765-962-1991
E-mail: Cedarfund@harfam.org



Cedars of Lebanon • Ezekiel 31
Symbol of majesty and strength

Edward S. Harris
(314) 579-9377
EHarrisca@earthlink.net

David F. Harper
(765) 966-9306
DHarperCPA@aol.com

Mark W. Harris
(765) 962-3431
Harfam@screamnet.com

March 3, 1997

Dear Cedar Fund Partner:

The Cedar Fund increased **9.2%** in 1996, substantially behind the 23% for the S&P 500 index. The net asset value of a Cedar Fund unit rose to \$96,704 from \$88,538 at the beginning of the year. The Cedar Fund has grown 20.4% a year in the last five years and 19.4% a year since it started eight years ago.

Berkshire Takes a Breather

The Cedar Fund lagged the market last year because Berkshire Hathaway's stock price increased only 6.2%, indicating investors may believe the stock is fully and fairly valued. Berkshire's price rose 380% in the five years ending 1995 as the general investing public discovered Warren Buffett and propelled Berkshire from being an undervalued stock to a fully-valued one. This drove Berkshire from 30% of Cedar Fund's total assets to 60%. We expect the stock to take a breather while the rest of the Cedar Fund assets, especially Harfam Partners, catch up. Buffett warned last year that Berkshire's stock price of 2.2 times book value is "not undervalued." Buffett seemed to confirm this recently when he purchased Flight Safety International, at least partially, with Berkshire stock. Stock swaps often indicate buyers believe they are using overvalued stock to purchase other companies. Some even suggest that Berkshire deserves being overvalued as recognition of a Buffett "premium." Even if fairly or moderately overpriced, the stock remains a solid investment. We have a company growing at 26% a year (in book value) and run by the world's best investment manager.

Unrealistic Market Expectations?

The market's sparking gain last year is a bit deceptive. Most of the gain was achieved by a small, select group of large capitalization blue chip stocks. "Briny Associates calculates that without its 50 largest stocks, the S&P 500 would have been up an ordinary 9.4% instead of its extraordinary 20.3% (without dividends)," according to the Wall Street Journal. Also, without its 100 largest stocks, the NASDAQ would have been up only 14% instead of 22.7%. The large cap blue chips have become the new "momentum" stocks. Managers buy the stocks when earnings start to accelerate and dump them when the earnings plateau or drop. This suggests there may be greater risk in the more liquid large cap stocks than in the small and mid cap stocks. If a few stocks can drive the indices higher, they can also drive them lower.

Vanguard, the mutual and index fund company, also points out that the combined return of 37.5% in 1995 and 23.0% in 1996 return is nearly three times the 10.7% average annual return for large cap stocks between 1926 and 1996. In addition, the nearly 70% cumulative return of the S&P 500 index for

Page 2 -- 1996 Cedar Fund Letter

1995 and 1996 is the fifth best two-year period (out of 70) from 1926 to 1996. Vanguard says these dazzling returns may blind some investors to the "risk" half of the reward/risk equation of investing. We believe the Cedar Fund, with its emphasis on managers averse to risk, is well positioned to withstand and profit from any market corrections.

Mutual Series Funds Sold

Michael Price sold his Mutual Series Funds (Shares, Beacon, Discovery, Qualified and European) late last year to Franklin Advisors, who also own the Templeton group of funds. This sale illustrates the difficulty investors have in keeping up with the hectic pace of consolidation among money managers and mutual funds. We do not have an immediate concern since the five analysts Price leaves in charge are quite capable money managers. We will continue to monitor them.

Harfam Partners

Harfam Partners helped boost the Cedar Fund's return last year by posting a 19.2% gain. The total is slightly higher than most of the individual managers because of an upward revaluation of the private stock (Community Bankshares) held by Harfam. We are making adjustments in managers which should enhance the partnership's future performance. Harfam's managers and their results last year are:


1996 Harfam Performance	
20.1%	Ruane Cunniff
18.9%	Tom Russo
18.6%	Emerald Partners
<u>12.3%</u>	<u>Steel Partners II</u>
19.2%	Harfam - Total Return

Cedar Fund To Open

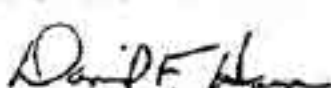
On April 1 the Cedar Fund will accept new money from existing partners and from new investors. Thereafter, the fund will open each quarter for new contributions. You soon will receive information on the opening. One reason we are able to respond to requests to open the fund is because of the accounting approach known as "layering." This allows new investors and new deposits to enter without buying into the existing unrealized capital gain of the partnership. If you have any questions about the opening, please give us a call.

The Cedar Fund financial report for 1996, prepared by the CPA firm of Geo. S. Olive & Co., is enclosed. We will continue to work hard to earn your confidence in our stewardship of your assets.

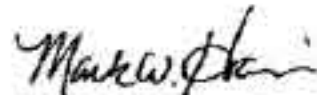
HARRIS HARPER COUNSEL, INC., *General Partner*



Edward S. Harris, Pres.



David F. Harper, Vice Pres.



Mark W. Harris, Sec.-Tr.

The Cedar Fund is a limited partnership operated by the general manager Harris Harper Counsel, Inc., a Registered Investment Advisor.