

Harris Harper Counsel, Inc.

Registered Investment Advisor

Cedar Fund • Harfam Partners

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*Cedars of Lebanon • Ezekiel 31
Symbol of majesty and strength*

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March 10, 1998

Dear Cedar Fund Partner:

The Cedar Fund increased 27.1% in 1997. This was behind the 33.5% for the S&P 500 index but ahead of the 25.4% for the Dow Jones Industrials. The Cedar Fund has grown at a rate of 20.2% per year since it started nine years ago. The value of a Cedar Fund unit increased to \$122,940 from \$96,704 a year earlier.

For the first time in history, the stock market scored three consecutive years of gains more than 20%. The greatest bull market in modern history is continuing its run into 1998 with the S&P 500 up about 8% through February and Berkshire Hathaway stock up 22%.

These are all reasons for continued caution. This is also the reason we favor managers who invest by the concept of a margin of safety, i.e. buying stocks that are selling at a discount to a standard of value. This is an important way managers reduce their risks. Interestingly, Warren Buffett believes this trait is not learned but rather is an attitude that an individual seems to possess.

All our managers follow the margin of safety as they seek the intrinsic value of companies. Warren Buffett of Berkshire Hathaway, our largest holding, values companies by calculating the future stream of earnings discounted to the present. William Ruane of the Sequoia Fund, a long-time friend of Buffett's, looks at the price to book value ratio of companies that are selling less than the market as a whole and less than their industry peers. FPA Capital's Robert Rodriguez carries the lowest average price earnings ratio of all our managers, nearly 30% below the market average. His colleague Steve Romick of the FPA Crescent Portfolio calculates the down-side risk in the stock price of his companies before he looks at the potential for growth. Tweedy Browne and Mutual Discovery's Michael Price tend to look at the asset values of companies and buy at a discount from that. Barr Rosenberg's U.S. Small Cap Fund does complex computer modeling to uncover firms that are undervalued. This attention to risk management by our managers is the best protection against a stock market decline.

This emphasis on active managers and the margin of safety points out another advantage of the Cedar Fund. Long term, the Cedar Fund is running about 1% ahead of the S&P 500 index, so why not buy an index fund instead of the Cedar Fund? Since index funds are passively managed, there is no way to avoid a market downturn. Active managers using the margin of safety, on the other hand, can select stocks less vulnerable to a market decline. Thus, the Cedar Fund has all the benefits of an index fund with less risk.

Harfam Partners

Harfam Partners, our investment partnership of money managers, increased 27.6% for the year, a shade better than Cedar Fund. Ruane Cunniff soared 45.3% aided by a 30% position in Berkshire. Ruane Cunniff also runs the Sequoia Fund. Steel Partners, a micro cap manager, had the largest increase at 48%, although the gain came largely in just one or two stocks that were takeover targets. Most of the rest of the portfolio,

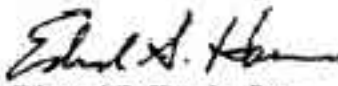
especially in prior years, was just average; therefore, we terminated Steel Partners. Harfam's primary managers and their results last year are:

<u>1997 Harfam Performance</u>	
45.3%	Ruane Cunniff
24.7%	Tom Russo
18.7%	Emerald Partners
48.0%	Steel Partners II

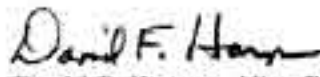
Finally, there is one housekeeping matter. The current Cedar Fund unit value of \$122,940 seems a bit unwieldy, so effective January 1 we are splitting the value of a unit by 100 to 1 to a new unit of \$1,229.40. There is no change in the value of your investment since the decrease in the value per unit is offset by an increase in the number of total units. Sort of like trading in a \$100 bill for one hundred \$1 bills. Please call us if you have any questions about this change or any other aspect of the Cedar Fund.

Enclosed with this letter is additional information on the Cedar Fund. Also enclosed is the 1997 Cedar Fund financial report, prepared by the CPA firm of Geo. S. Olive & Co. We thank you for your investment in the Cedar Fund.

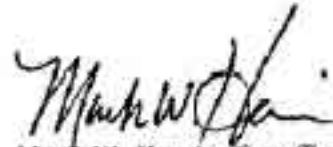
HARRIS HARPER COUNSEL, INC., *General Partner*



Edward S. Harris, *Pres.*



David F. Harper, *Vice Pres.*



Mark W. Harris, *Sec.-Tr.*

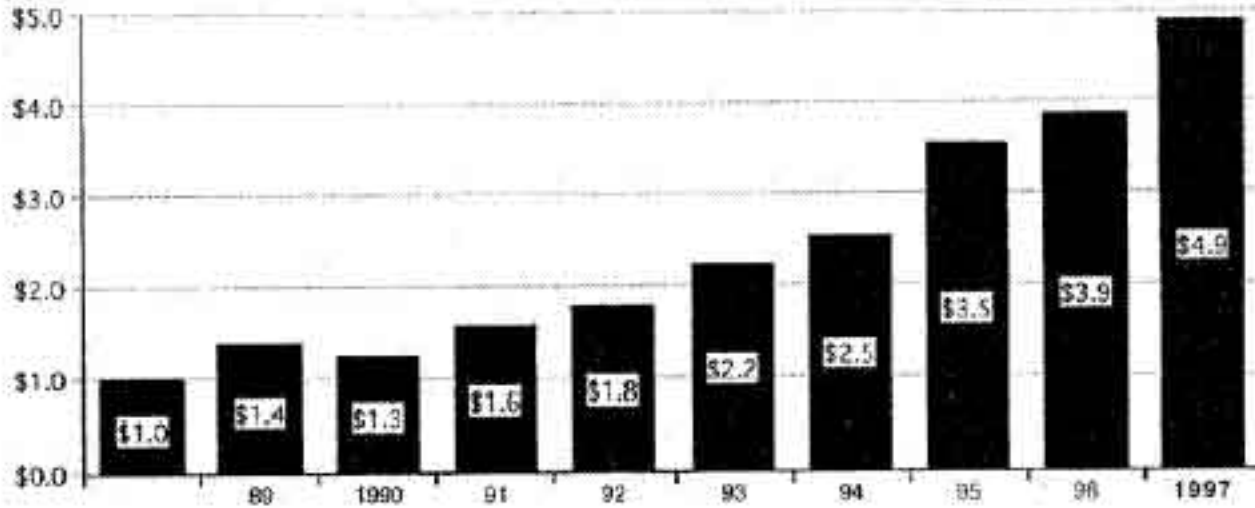
The Cedar Fund is a limited partnership operated by the general manager Harris Harper Counsel, Inc., a Registered Investment Advisor.

Cedar Fund Returns

December 31, 1997

RETURN	1989	1990	1991	1992	1993	1994	1995	1996	1997
Cedar Fund	37.3%	-8.9%	24.5%	15.0%	24.9%	13.0%	39.8%	9.2%	27.1%
+/- S&P 500	5.6%	-5.8%	+6.0%	7.4%	14.8%	11.7%	2.3%	-13.8%	-6.4%

Growth of \$1 Million



Average Annual Return

