

Cedar Fund, L.P.

3464 Boston Twp. Line Road
Richmond IN 47374-9421

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



Cedars of Lebanon • Ezekiel 31
Symbol of majesty and strength

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

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

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

March 22, 1999

Dear Cedar Fund Partner:

The Cedar Fund increased **26.8%** in 1998, a shade off the 28.6% for the S&P 500 index. The Cedar Fund has grown at a rate of 20.9% per year since it started ten years ago. The value of a Cedar Fund unit increased to \$1,309 from \$1,229 a year earlier. The most striking characteristic of the stock market last year is how a few large, mostly technology, companies were responsible for most of the market's gain (chart below). In addition, the larger the company the better the stock performed. Small companies continue to underperform the market as they have for several years.

1998	Index	Stock Type
85.3%	Nasdaq 100	Large technology
39.6%	Nasdaq	Technology
28.6%	S&P 500	Large company
18.1%	Dow Jones	Large company
-2.6%	Russell 2000	Small company

"It is important to realize that the strong performance of the 'stock market' in 1998," according to Eric Ende of the FPA mutual funds, "was driven by a tiny group of companies, many technology related, which had extraordinary gains. The ten largest S&P 500 companies were up 38% in 1998 - they account for 20% of the S&P's market cap. The ten largest Nasdaq companies, up 115% in 1998, now account for 40% of that index's market cap. Viewed slightly differently, fifteen companies accounted for over half of the S&P gain in 1998, while only ten companies produced over two-thirds of the Nasdaq's gain."

Because of their underperformance, small stocks are currently undervalued in the entire market. Therefore, we are increasing slightly our commitment to the small cap mutual funds in the Cedar Fund, including a new one, **Longleaf Partners Small Cap** fund run by Mason Hawkins of Memphis, TN. About 15% of the Cedar Fund is now in small cap stocks. We eliminated Mutual Discovery fund because its long-time manager Michael Price retired and because the fund is simply too large to achieve decent returns. The Mutual Series group has swelled to nearly \$20 billion in assets.

For the first time, Berkshire Hathaway accounts for half of the Cedar Fund. This is the result of the enormous success of Berkshire's stock; it has grown faster than the rest of our other funds. While we prefer not to have such a large concentration in one position, **Warren Buffett is simply the best money manager in the world. We would rather have him caring for your money than selling the stock, putting the proceeds in a lower performing fund and having you pay the capital gains tax.** We will continue to monitor very closely the investing activities of Buffett and his colleagues at Berkshire. For this reason also, we will spend a little more time discussing the businesses of Berkshire.

Berkshire Hathaway

Summary of Operations - Berkshire Hathaway scored 52% this past year accounting for most of the increase in Cedar Fund's value. Berkshire acquired two significant companies last year, General Re Corp., the largest property-casualty reinsurer in the U.S. with operations in 124 countries, and Executive Jet Aviation, which sells fractional shares of jets and operates the fleet for its many owners. Buffett said the operating businesses "exceed my hopes" and "GEICO, once again, simply shot the lights out." The public equity portfolio, however, "did not perform nearly as well as did the S&P 500." Berkshire has large investment positions in several major public companies. It owns 11% of American Express (up slightly), 8% of Coca-Cola, 8% of Gillette, 17% of the Washington Post (all three unchanged) and 9% of Federal Home Loan Mortgage Corp. (down slightly).

The Chairman Speaks - In his 1998 annual report, just released, Buffett offers the following tidbits:

- Cash is \$13 billion. The unusual size is awaiting a large acquisition but because of high equity prices "we see nothing on the horizon." "Cash never makes us happy. But it is better to have the money burning a hole in Berkshire's pocket than resting comfortably in someone else's."

• Selling McDonalds was "a very big mistake." Its stock has risen 82.7% since January, 1998. "Here I need to make a confession (ugh): The portfolio actions I took in 1998 actually decreased our gain for the year....You would have been better off last year if I had regularly snuck off to the movies during market hours."

• Buffett says "the attitude of disrespect that many executives have today for accurate reporting is a business disgrace." He criticized the effort to manipulate earnings by reporting big one-time restructuring charges, as well as the failure to report honestly the expense of issuing stock options.

The View of an Outsider -- Buffett's negative tone on the stock market and Berkshire's prospects should be viewed in light of his habit of setting low expectations. One analyst says the powerhouse of Berkshire is GEICO, the direct marketing auto insurer, which along with other insurance operations account for 80% of Berkshire's revenues. This makes Berkshire "possibly the most talked-about and the least understood company in the world," according to the analyst, who sees it more as an insurance than a holding company. GEICO's market share is expected to climb from 3.5% now to 13.5% in ten years, second only to State Farm. The analyst, who is the first from a major Wall Street firm to be invited by Buffett to examine the company, suggests that Berkshire is currently undervalued at \$70,000. The stock is worth closer to \$95,000 per share.

Harfam Partners

Harfam Partners, our investment partnership of money managers, increased 17.3% for the year. Harfam's primary managers and their results last year are:

1998	Harfam Performance
36.3%	Ruane Cunniff
23.8%	Tom Russo
5.2%	Emerald Partners
-4%	FPA Capital
.9%	Community Bankshares

Enclosed with this letter is a profile of the Cedar Fund with more information on the managers and the past performance of the fund. Also enclosed is the 1998 Cedar Fund financial report, prepared by the CPA firm of Geo. S. Olive & Co. We appreciate your confidence in allowing us to manage your money in the Cedar Fund.

The Indiana Securities Division requires that Part II of Form ADV, Investment Advisor Registration be made available to investors. Upon your written request, we will provide you with a copy of Form ADV.

HARRIS HARPER COUNSEL, INC., *General Partner*

Edward S. Haczis, *President*

David F. Harper, *Vice President*

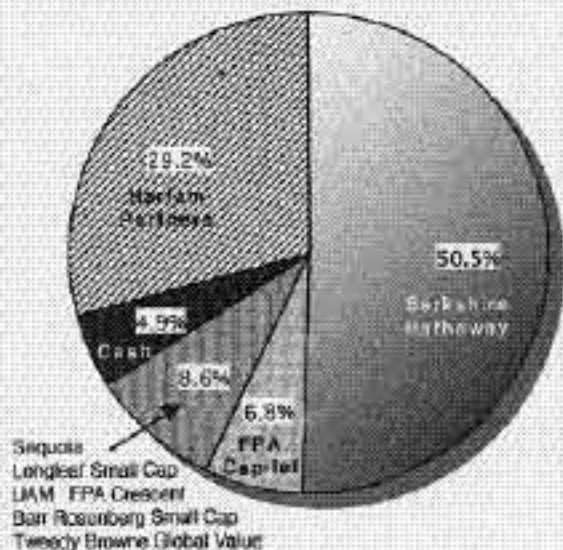
Mark W. Harris, *Sec.-Treas.*

The Cedar Fund is a limited partnership managed by Harris Harper Counsel, Inc., a Registered Investment Advisor.

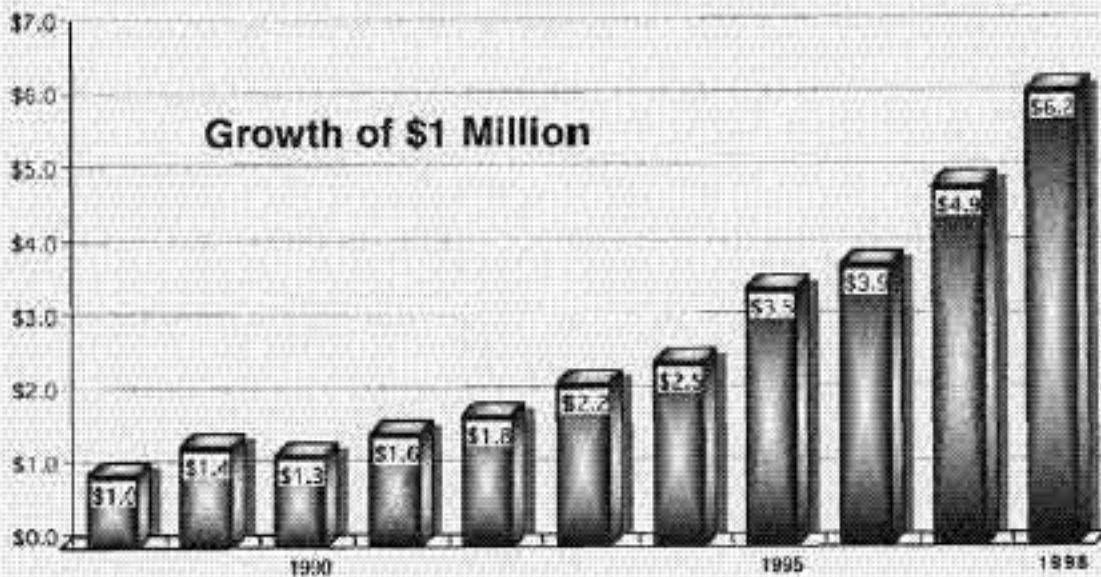
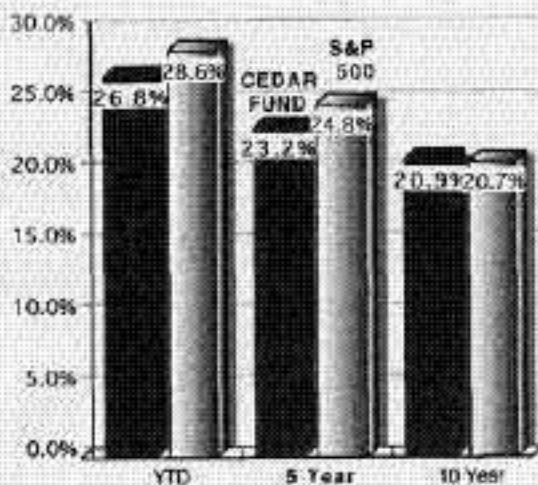
CEDAR FUND

December 31, 1998

Managers



Average Annual Return



Returns by Year

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Cedar Fund	37.3%	-8.9%	24.5%	15.0%	24.9%	13.0%	39.8%	9.2%	27.1%	26.8%
S&P 500	31.7%	3.1%	30.5%	7.6%	10.1%	1.9%	37.5%	23.0%	33.5%	28.6%
S&P 500 - 9.0	2.8%	-5.9%	21.0%	0.0%	1.0%	1.7%	2.3%	10.0%	24.6%	18.0%

MANAGERS - CEDAR FUND

December 31, 1998

FUND	Assets \$ Tril.	YTD %	TOTAL RETURN		S&P 500	RISK-ADJUSTED		RISK	
			1998	1997		Alpha	Beta	Std. Dev.	Corr. Coef.
Berkshire Hathaway	\$6,790,000	30.5%	\$2.0	\$4.0	30.4	30.8	0.99	2.1	
Hartman Partners	\$3,926,010	29.2%	17.3	16.0	18.0	NA	NA	NA	
*FPA Capital	\$916,315	6.8%	-0.4	19.8	20.1	1.85	1.02	19.2	
UAM FPA Crescent	\$99,897	0.7%	2.8	15.1		1.00	0.50	22.9	
*Sequoia	\$224,223	1.7%	35.3	28.1	21.8	2.13	0.84	33.5	
Tweedy Brn Global	\$363,906	2.7%	11.0	13.7		1.66	49.00	22.7	
*Longleaf Small Cap	\$183,622	1.4%	12.7	18.5	13.5	1.90	0.57	22.9	
*Barr U.S. Small Cap	\$301,796	1.3%	4.1	18.3		1.10	0.95	19	
Cash	\$638,528	1.7%							
TOTAL	\$13,445,347	100%				*1.00-US Equity Avg			
S&P 500 Index			28.6	24.1	19.2			32.9	

Berkshire Hathaway is the insurance company operated by the legendary investor Warren Buffett. Berkshire assembles a mutual fund as Buffett manages a portfolio of large U.S. stocks, including Coke, Gillette and American Express. The remaining one-third of the Omaha-based firm's assets are entire companies purchased by Buffett that have exceptional return on equity characteristics. The most notable example is Geico, the auto insurer, which has high profit potential. Buffett describes himself as an asset allocator who deploys the cash generated by Berkshire's businesses into the most attractive investments available.

Hartman Partners is an investment partnership that hires money managers to directly invest funds in separately managed accounts. Current managers include Ruane Cunniff, manager of the Sequoia Fund, Tom Russo, formerly of Ruane Cunniff, and Emerald Partners, formerly of Michael Price's Mutual Shares. Other holdings include FPA Capital, Sequoia and Berkshire Hathaway. The partnership also has minor positions in two small private bank companies in Colorado and California.

FPA Capital is managed by Robert Rodriguez whose strong aversion to risk guides his search for undervalued mid-cap stocks. Based in Los Angeles, Rodriguez is unusual among value managers because of his interest in technology stocks, an emphasis different from our east-coast managers. The fund is closed to new investors. First Pacific Advisors also manages the UAM FPA Crescent Fund, the FPA New Income Fund, an excellent bond fund managed by Rodriguez, FPA Potential Fund, run by Eric Ende, and Source Capital, a closed-end fund.

Sequoia Fund has one of the best long-term records on Wall Street. Managed by William Ruane and Robert Goldfarb, the fund takes concentrated positions in large U.S. stocks. When Warren Buffett Equidated his partnership many years ago, he recommended his limited partners go into the Sequoia Fund. The fund is closed to new investors.

Tweedy Browne Global Value Fund traces its roots back to the classic value investor Benjamin Graham. Managers John Speers and Chris and Will Bovee use strict value criteria for stocks discounted from current market prices. The Global Fund, concentrated primarily in Europe, is a sister to the Tweedy Bovee American Value Fund, an excellent U.S. stock fund.

Longleaf Small Cap is a sister fund to the well-regarded Longleaf Partners Fund managed by Mason Hawkins and Staley Cotes. Based in Memphis, TN, these two managers bring a conservative, publicity-shy Midwesterner flavor to value investing. The fund, which is closed to new investors, takes concentrated positions in small cap stocks selling for less than private market value. Longleaf also offers two other funds in Realty and International stocks.

Barr Rosenberg U.S. Small Cap fund uses quantitative computer models to identify undervalued small cap stocks. Developed by Barr Rosenberg, this fund resembles a small-cap index fund with less volatility than the Russell 2000. The fund is closed to both old and new investors.

UAM FPA Crescent is a balanced fund, 60% stocks and 40% bonds, managed by Steve Rozick of the FPA group. Because of the bond component and Rozick's strong attention to risk, the fund has low downside risk with near-equity returns.

