

# Cedar Fund, L.P.

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Cedars of Lebanon • Ezekiel 31  
Symbol of majesty and strength

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Dear Cedar Fund Partner:

1999 was a very disappointing year for the Cedar Fund and for us, your general partners, personally. The fund lost 9.3% compared to a 21% increase for the S&P 500 index and 27.3% for the Dow Jones Industrials. The value of a Cedar Fund unit decreased to \$1,414 from \$1,559 the previous year. The decline is similar to the 8.9% drop suffered in 1990 and the worst in the eleven-year history of the Cedar Fund. Much of the poor performance was due to a 20% drop in Berkshire Hathaway stock, giving back some of the 105% gain it achieved in the two prior years.

### Berkshire Hathaway

In his annual report to shareholders, Chairman Warren Buffett confessed, "We had the worst absolute performance of my tenure and, compared to the S&P, the worst relative performance as well. Relative results are what concern us: Over time, bad relative numbers will produce unsatisfactory absolute results. Even Inspector Clouseau could find last year's guilty party: your Chairman." This is typical Buffett: self-deprecating and taking the blame personally, which we think is probably a bit overdone.

There were two main difficulties at Berkshire last year: a flat year for the portfolio of public stocks and poor business at General Re. Otherwise, the company is quite healthy with several important core businesses growing at more than 20% per year. The public stocks as a whole showed little change in value for the year while the S&P 500 was up 21%. Buffett opened the door slightly to selling some of his "permanent" core stocks if they become unattractive as businesses when he says "...we haven't yet scaled back our portfolio in a major way (emphasis ours)." Buffett once referred to these core stocks of Coke, Gillette, Freddie Mac and the Washington Post as "inevitables" (will never be sold), but they may not be as inevitable as they once were.

General Re. Buffett says, "Had an exceptionally poor underwriting year in 1999 ... Our business was extremely underpriced, both domestically and internationally, a condition that is improving but not yet corrected." General Re, one of the world's three largest reinsurer of catastrophic insurance and Berkshire's largest operating business, is also experiencing some management problems. While Buffett does not take the General Re managers to the woodshed publicly, in typical Buffett fashion his silence (absence of praise) on them is deafening. All the other Berkshire managers received heaps of compliments. On the positive side, there are a number of encouraging signs at Berkshire:

- "Despite our poor showing last year,..." Buffett says, "I expect that the gain in Berkshire's intrinsic value over the next decade will modestly exceed the gain from owning the S&P (emphasis ours)." This is saying quite a lot since the S&P is not really an index but rather a managed portfolio of superior businesses that are number one or two in their industry.
- For the first time ever, Berkshire may buy back stock "when we think it's fairly dramatically underpriced (emphasis ours)." Buffett hints that could occur at \$45,000 per share or lower. If Buffett thinks Berkshire is a good buy, then we think it should remain as a solid holding in the Cedar Fund. Berkshire recently traded at its lowest price relative to book value in seventeen years. One estimate is that the stock is worth close to \$80,000 per share.
- Several of Berkshire's major businesses are growing rapidly. Geico, the second largest business, is growing earned premiums at 18% per year and the growth rate continues to climb. Four years ago the direct marketing auto insurer's growth rate was only 10.9% and has grown every year since. New insurance policies grew by 21.5%. Representing a third of Berkshire's insurance business, auto insurance is the fastest growing part of that segment. Geico is the third largest auto insurer in the U.S.
- Aviation Services' revenues grew 116.3% last year. One analyst believes Executive Jet will grow revenues by 25% a year for the next five years. The private jet timeshare service will go global becoming one of Berkshire's largest businesses.

We are comfortable with our holding in Berkshire Hathaway and believe it offers one of the best places to keep our investment, especially if the economy begins to show weakness and the stock market turns down.

#### Two New Funds

Two new mutual funds were added to the Cedar Fund portfolio this year: **Selected American** and **Legg Mason Value Trust**. They replace UAM FPA Crescent and Barr Rosenberg U.S. Small Cap Fund which were eliminated because of underperformance. One reason both of the new funds were selected is because of a willingness to include technology among their investments. Both have beaten the S&P 500 index over the past five years and are value managers with strategies resembling growth stock managers. The major index funds have done better than active managers for the past five years or so. When active managers start outperforming the indices, as should eventually happen, then these two funds should show even better returns.

Selected American is run by Christopher Davis who works closely with his father Shelby, an excellent money manager for many years. The fund has a five-year average of 27.3% per year, slightly better than the S&P 500. Selected American is a no-load clone of the Davis NY Venture, a load fund.

William Miller of Legg Mason Value Trust was chosen by Morningstar, the mutual fund rating service, as manager of the year in 1999. Miller has outperformed the S&P 500 for an unprecedented nine straight years. The fund is also very tax efficient because of a tendency to hold stocks for a long time. Miller has an uncanny ability to "think outside the box."

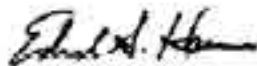
#### Hartam Partners

Hartam Partners, our partnership of money managers, declined -3.3% for the year. Hartam's primary managers and their results last year are:

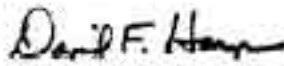
| 1999   | Hartam Partners      |
|--------|----------------------|
| -16.5% | Ruane Currieff       |
| -2.2%  | Tom Russo            |
| 20.0%  | Emerald Partners     |
| 14.2%  | FPA Capital          |
| 3.0%   | Community Bankshares |

We are grateful for your willingness to see investing as a long-term process and your patience to ride out the difficult years. Enclosed are a summary of Cedar Fund performance and the 1999 Cedar Fund financial statements which were audited by the CPA firm Olive. 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.

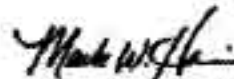
HARRIS HARPER COUNSEL, INC., *General Partner*



Edward S. Harris, 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.*