

# 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:

Cedar Fund increased a very satisfactory **16.2%** as compared to a **-9.1%** for the S&P 500 index in 2000. The value of a fund unit is \$1,642, up from \$1,414 the year before. Berkshire Hathaway contributed much of the gain with a 27% increase in its stock price for the year. For the past five years the annual average of Cedar Fund is 14% versus 19.4% for the S&P 500. Since the fund's inception in 1989, the annual averages are 16.2% and 17% respectively.

Many of you probably noticed the substantially higher taxable income and capital gains generated by your Cedar Fund investment last year. There were two main reasons. First, two investment partnerships that Cedar Fund indirectly invested in had extraordinary and largely non recurring capital gains to report. Second, four of the mutual funds owned by Cedar Fund had larger than normal 2000 taxable distributions. The large gains are not surprising because our mutual fund and investment managers tend to sell stocks when the market is extraordinarily high. Cedar Fund is normally quite tax efficient and we believe that the size of your taxable gains last year was unusual and will not occur on a regular basis.

Stock market worries are spreading from Wall Street to Main Street. Investors watch in horror as their tech portfolios plunge 60%. As each day passes, economists predict a longer and deeper recession. Companies routinely warn their earnings will decline. Individuals are getting concerned about their retirement and children's education funds. What is an investor to do? We recommend you carefully review all your assets outside Cedar Fund (call us if you would like our opinion). If there are holdings you are uncomfortable with, consider putting them into Cedar Fund, which will open April 1 to receive new contributions. The managers in Cedar Fund invest in companies that will be less adversely affected by an economic decline.

How long will the stock market drop? Our guess is the market will move sideways in a broad range for a few years for two reasons. First, we are coming out of the longest economic boom, about ten years, in U.S. history. Historically, the average business cycle is about four years and the average recession lasts 13 months. Second, the stock market returns were extraordinary for the five years ending 1999—24.6% annual average for the Dow Jones. To revert to normal returns, it will take the stock market six years of no growth assuming a historical stock return of 11%, according to one market analyst. So the pain may last awhile.

Enclosed is the 2000 Cedar Fund financial statements which were audited by CPA firm Williams, Keckler & Ratcliffe LLC. The statements list our investments. Also enclosed is the year-end value of your investment in 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.

We appreciate your participation in the Cedar Fund. We believe that your patience as long term investors will be rewarded in difficult as well as good markets.

HARRIS HARPER COUNSEL, INC., *General Partner*

Edward S. Harris, *President*

David F. Harper, *Vice President*

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