

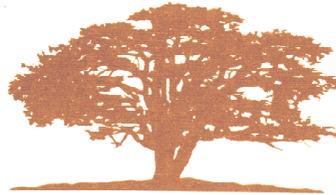
Cedar Fund

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Cedars of Lebanon • Ezekiel 31
Symbol of majesty and strength

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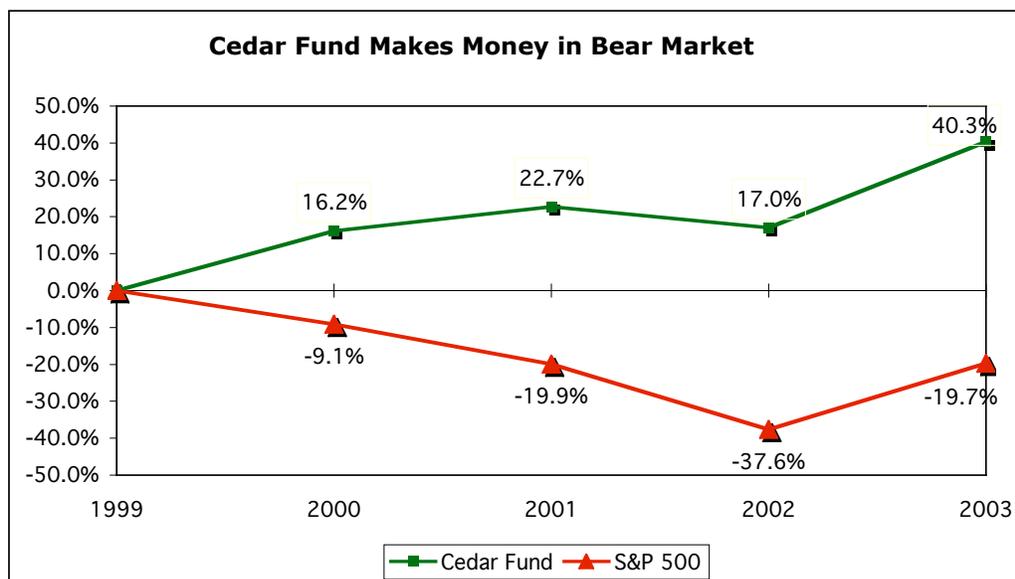
March, 2004

Dear Fellow Partners:

The Cedar Fund increased 19.8% in 2003, while the S&P 500 returned 28.7%. The big gainers last year included lower quality companies both in technology and in the small-stock sector. This year we may see a flight to higher quality companies should interest rates rise, the economy grow slowly and stock valuations remain high. Our mutual funds should do well as investors seek safety in high quality investments. This has already happened as evidenced by Berkshire Hathaway's (BRK.A) 12% rise in value in early March on the news that profits soared a spectacular 90% last year. Here are the performance comparisons through 2003:

	From Inception		
	<u>1 Year</u>	<u>5 Year</u>	<u>15 Year</u>
Cedar Fund	19.84%	4.93%	14.79%
S & P 500 (with dividends)	28.69%	-0.57%	12.21%

This is the 15th anniversary of the beginning of the Cedar Fund. An investment of \$100,000 in the Cedar Fund 15 years ago would have increased eight times to \$792,000. This is more than 40% higher than what a similar \$100,000 investment in the S&P 500 Index would have earned.



Even more striking is what happened over the three recession years of 2000 to 2002. The Cedar Fund increased about 17% while the S&P 500 plunged over 37%! Stated another way, a \$100,000 holding in Cedar Fund rose to \$117,000 while the S&P 500 dropped to almost half that value at \$62,000 during this period. This underscores the principle that good investors make most of their money in bear (down) markets. The above chart “Cedar Fund Makes Money in Bear Market” illustrates this point by comparing the Cedar Fund and S&P 500 over the past four years, including the three recession years of 2000 through 2002. As the market eventually turns up, as it did in 2003, the Cedar Fund will too, preserving and building on the gains made during the severe market decline.

The Cedar Fund portfolio was bolstered by a 23.4% increase in Harfam Partners, its second largest position. Sequoia Fund, the third largest holding, increased 17.1%. Berkshire, the largest holding, rose 15.8%. Core insurance businesses led the way and most of Berkshire’s other operations also contributed to the 2003 gain. Warren E. Buffett, chairman of Berkshire Hathaway, delivered his usual warning that the company’s “performance in the future will fall *far* short of what it has been in the past.” Fortunately, predicting is one thing Buffett does poorly (or else he is the world’s greatest sandbagger!). Over the past five years, Berkshire’s annual earnings have grown a remarkable 28% on average. In his annual report, Buffett does imply that the high level of profits achieved in 2003 may be more typical of Berkshire’s earnings in the future.

One notable feature of the Cedar Fund portfolio over the years is how rarely we have changed the holdings. This buy and hold approach produces superior returns. A recent study showed how the changing of investments can hurt performance. From 1984 to 2002, the average stock mutual fund delivered an average annual return of 10.2% (536% cumulative). The average individual stock investor, who changes investments frequently, achieved an average annual return of 2.6% over those years (63% cumulative). The average investor tends to chase performance and switch funds, which causes inferior results. When we invest in a new mutual fund, we do so with the intention of holding it at least ten years.

In these fragile and uncertain times, you can sleep comfortably knowing you are invested in companies of high quality with strong safety. Risk is reduced by investing in companies with solid financial statements and high operating margins. Most of these companies have strong growth prospects, giving the Cedar Fund portfolio good upside potential with strong downside protection.

Our fund managers have not been involved in the scandals plaguing the mutual fund industry. In fact, several are quite outspoken in their condemnation of excessive and illegal activities. We select fund managers with the highest integrity and honesty and they demand the same from the CEO’s of companies in their portfolios.

Cedar Fund Information

The Cedar Fund is an investment partnership for our family and friends. Separate account management is also available. In addition, we can help you select mutual fund options in your corporate 401(k) plan. Just a reminder: the Cedar Fund opens every calendar quarter to accept new money. The next opening is April 1.

Enclosed are: (1) 2003 Cedar Fund financial statements audited by CPA firm Ramsey, Rodefeld, Kassens & North, LLP, which list our investments and (2) the year-end value of your investment in Cedar Fund.

On our web site www.cedarfund.harfam.org are: (1) this annual letter, (2) the annual CPA audit report, (3) historical performance and (4) portfolio holdings of Cedar Fund and Harfam Partners.

Available upon request: (1) Printed copies of any document on the web site and (2) Form ADV, Investment Advisor Registration, which the Indiana Securities Division requires be made available to investors upon written request.

We thank you for entrusting your investment decisions to us and count it a privilege to serve you in this way. Your comments or questions are welcome any time.

HARRIS HARPER COUNSEL, INC., *General Partner*

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David F. Harper, *Vice President*
Mark W. Harris, *Sec.-Treas.*