

Cedar Fund

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Cedars of Lebanon • Ezekiel 31
Symbol of majesty and strength

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Dear Fellow Partners:

Last year the Cedar Fund increased 4.5%, just short of the S&P 500's 4.9%. Although the fund's results have been disappointing for the past couple of years, the annual average over the past five years of 6% for the fund continues to run well ahead of the S&P 500's annual return of 0.5%. We believe the fund's low risk protects us in any downturn in the market. Furthermore, the fund makes good returns in bear markets. In the six years since the top of the stock market bubble in 2000, \$100,000 invested in the Cedar Fund rose to \$155,454 while the S&P 500 lost money to \$93,395.

Most of our money managers did well for the year, but Berkshire Hathaway, which remained unchanged, held the overall results back. Good performances came in from FPA Capital, 16.5%; Tweedy Browne Global Value, 15.4%, FPA Crescent, 10.8%, Longleaf Small Cap, 10.8% and Harfam Partners at 8.8%.

One significant change in managers was made last December when we replaced the Clipper Fund with First Eagle Global Fund. In a surprising move unusual among mutual funds, most of Clipper's portfolio managers walked out the door on December 31. This gave us an opportunity to add more international exposure with First Eagle Global. First Eagle Global's Manager, Charles de Vaulx, has compiled an impressive return of 17.9% annually over the past five years. First Eagle's intensive company research is a good compliment to the quantitative style favored by John Spears and the Browne brothers at Tweedy Browne Global Value Fund. The addition of First Eagle Global, which is now closed to new investors, means that for first time of Cedar Fund's history all the money managers are either closed to new investors or have high minimums. This gives us a substantial advantage over other funds.

Berkshire Hathaway is the fund's largest holding and the weakest performer of the past couple of years. We are hesitant to sell large amounts of Berkshire because of the large capital gain that will result in higher taxes for you. There are still several arguments for continuing to hold Warren Buffett's stock. Most analysts estimate the stock to be significantly undervalued by 25% to 40%. Since about 50% of Berkshire's assets are in bonds or cash, the stock provides

good resistance to downturns. Berkshire's earnings have grown 108% over the past three years. Buffett is also able to attract favorable deals not normally available to professional investors. One major concern is the large asset base, which makes it difficult to grow earnings as rapidly as in the past. Buffett himself has noted this concern. For the moment the earnings are compounding nicely but will lessen in the future. The other major concern is the future of Berkshire when Buffett, who is 76 years old, dies. Many Buffett watchers believe the stock will drop in value upon Buffett's death, but that it will be temporary because of the corporate culture Buffett will leave behind. No one will be able to replace Buffett, but his successor mostly likely will be able to generate returns that are higher than most investment managers. As managers of the Cedar Fund, we believe these are legitimate issues, which we will continue to monitor and evaluate.

Investing is a long-term process and we appreciate your commitment to it through the Cedar Fund. If you have any questions or comments, feel free to call or write any one of us. The Fund will open for additional money on April 1, and every calendar quarter thereafter. Enclosed are: (1) 2005 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. The holdings of both Cedar Fund and Harfam Partners may be found on our web site www.cedarfund.harfam.org using user name: *Cedar Fund* and password: *43091*. The following is 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.

HARRIS HARPER COUNSEL, INC., *General Partner*

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