

# Cedar Fund

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**Cedars of Lebanon • Ezekiel 31**  
*Symbol of majesty and strength*

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Dear Fellow Partners:

Our 20th year in investing was also our most challenging. In 2008 the Cedar Fund fell 29.7% compared to a loss of 37% for the S&P 500. The value of your Cedar fund unit declined to \$2,003. The five year average annual return for the fund was 0.2% compared to -2.2% for the S&P500. Although it is of little comfort, the Cedar Fund decline was less than the major indices. However, the Cedar Fund has less risk than those stocks in the indices because of our managers' focus on a margin of safety.

	2008	5 Year	10 Year	Inception
Cedar Fund	-29.7%	0.2%	2.5%	11.6%
S & P 500	-37.0%	-2.2%	-1.4%	8.9%

The best performing funds were FPA Crescent (-20.6%) and First Eagle Global (-21.1%). FPA Crescent is a Balanced or Allocation fund with about 40% in fixed income and cash. First Eagle Global was helped by commitments to gold and fixed income. The worst performing fund was Longleaf Small Cap (-43.9%) which was hurt by the severe drop in small capitalization companies. Early in the year we eliminated

CEDAR FUND	RETURN
FPA Crescent	-20.6%
First Eagle Global	-21.1%
Harfam Partners	-25.0%
Fairholme	-29.7%
Berkshire Hathaway	-31.8%
FPA Capital	-34.8%
Tweedy Browne Global	-38.3%
Wintergreen Fund	-39.1%
Longleaf Small Cap	-43.9%

Private Capital Management and replaced it later with the Wintergreen Fund, run by David Winters of the Mutual Series Funds. At the end of the year we sold Artisan International Value at a loss to offset large gains from the sale of Berkshire Hathaway stock, thus reducing your capital gains for the year. Since Artisan International Value was named *International Manager of the Year* by Morningstar, we may add it back into the portfolio later.

As one would expect, Berkshire turns out to be the most fascinating of our holdings in 2008. Warren Buffett, the Chairman, has been quietly making investments in such venerable companies as General Electric, Goldman Sachs, Swiss Re, Harley-Davidson, Wrigley/Mars, US Gypsum, Tiffany and Dow Chemical. Buffett has invested billions of dollars in companies that will generate a 10% return or higher over the next few years. But Buffett is not done. He also has options to buy common stock in

these same companies that may reap handsome profits in the future. It is possible he could end up owning as much as 20% of some of these companies. With deep pockets and a sterling reputation, Buffett is building a substantial income stream of returns into Berkshire's earnings over the next decade.

Harfam Partners declined 25.0% in 2008, about 12% better than the S&P 500 Index. Late in the year two new funds were added, Centaur Value Fund and Sellers Capital Fund. The managers of these two funds, Zeke Ashton and Mark Sellers, are about forty years of age, which provides more long-term stability for

Harfam Partners. Had we held Centaur for the entire year, it would have been our best manager, since it declined only 6.9% for the year. In the accompanying Harfam performance table, the Centaur and Sellers figures are for the full year. Our actual return differs because we purchased them in the last quarter of the year. Early in 2009 we were disappointed to learn that Community Bankshares will report a significant loss due to write downs in their loan portfolio.

	2008	5 Year	10 Year	Inception
Harfam Partners	-25.0%	2.4%	5.2%	10.8%
S & P 500 Index	-37.0%	-2.2%	-1.4%	8.9%

Investing in 2008 was the story of two different stock

markets. In the first part of the year, the market struggled along as financial institutions attempted to deal with declining credit quality. The Cedar Fund fell about 9% during this period. Everything changed in mid-September when Lehman Brothers went bankrupt. That event seemed to wake up the investing public to all the hidden risks accumulated in the credit market lying just below the surface. We had become a nation of over-spenders and under-savers. Most people understood this but were in denial of the long-term danger. All asset classes fell in unison; no one escaped the carnage, except cash. The Cedar Fund declined about 20% in the last quarter of the year. The market decline was significant and historic. As a result, the impact of frozen credit markets spread rapidly throughout the economy causing

HARFAM PARTNERS	RETURN
Centaur Value	-6.9%
Community Bankshares	-16.3%
First Eagle Global	-21.1%
Sellers Capital	-23.4%
Fairholme	-29.7%
Eagle Capital	-30.2%
Ruane Cunniff Goldfarb	-30.9%
Semper Vic Partners	-31.5%
Berkshire Hathaway	-31.8%

companies to experience sharp earnings declines resulting in large layoffs. At this point, the magnitude and the length of the recession are unclear. Dealing with this uncertainty requires a large dose of humility. Matt McLennan, the co-manager of the First Eagle Global fund puts it well: "the exact form the events took in 2008 was difficult to predict a year ago...the future is uncertain, and I think it took the events of 2008 to make many people realize that that is indeed the case...When you have the humility to do that, you tend to invest in a way that is somewhat different from the herd. You insist on a valuation margin of safety in every investment that you make. You avoid aggressive capital structures and aggressive behavior."

We appreciate your confidence in our ability to navigate in these difficult markets. While we do not like to lose money we do feel that we are well positioned to deal with the future. Please feel free to call or write any of us to discuss any questions or issues. Enclosed are: (1) 2008 Cedar Fund financial

statements audited by CPA firm Ramsey, Rodefeld, Kassens & North, LLP, which list our investments and (2) our privacy policy that explains the confidentiality of your personal information. The holdings of both Cedar Fund and Harfam Partners may be found on our web site, [www.cedarfund.harfam.org](http://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.

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