



CEDAR FUND

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Dear Fellow Partners:

In 2009 the Cedar Fund increased 10.9% compared to 26.5% for the S&P 500 Index. The value of your Cedar fund unit climbed to \$2,221. Despite its strong gain, the S&P 500 Index still has not recovered from its loss of 37% the previous year. To get back to even, the S&P 500 Index needs to gain another 32%.

What a difference a decade makes. The last ten years is described as “the lost decade of stock investing” (Wall Street Journal, October 15, 2009). That certainly has been the case with the S&P 500 Index. If you

invested \$100,000 at the beginning of 2000, it was worth \$90,900 at the end of 2009. However, the same amount invested in the Cedar Fund increased to \$157,000. So it was not a lost decade for Cedar Fund partners.

| | 2009 | 5 Year | 10 Year | Inception |
|-----------------|-------|--------|---------|-----------|
| Cedar Fund | 10.9% | 1.1% | 4.6% | 10.9% |
| S & P 500 w/div | 26.5% | 0.4% | -0.9% | 9.2% |

| CEDAR FUND | RETURN |
|----------------------|--------|
| FPA Capital | 53.8% |
| Longleaf Small Cap | 49.3% |
| Fairholme Fund | 39.0% |
| Tweedy Browne Global | 37.9% |
| Wintergreen Fund | 32.8% |
| FPA Crescent | 28.4% |
| IVA Worldwide | 23.3% |
| First Eagle Global | 22.9% |
| Berkshire Hathaway | 2.7% |
| Harfam Partners | -0.7% |

Last year the market took a wild and bumpy ride. After the 37% decline in 2008, the market opened 2009 with a growing gloom over the failure of Lehman Brothers three months earlier. The market plunged another 25% in a sense of panic before hitting bottom in early March. Then in a remarkable reversal the market soared 68% over the course of the year to finish up at 26.5%. To put the total decline in perspective, the fall from top to bottom was 52% over ten months (May 2008 to March 2009). FPA Capital led all Cedar Fund managers with a sparkling 53.8% return. It was followed closely by Longleaf Small Cap at 49.3%. These two funds did well because they contain small- to medium-sized companies. Cedar Fund was held back by Berkshire Hathaway’s 2.6% return and a -0.7% return in Harfam Partners. These latter two managers account for nearly 60% of Cedar Fund’s total assets.

Berkshire Hathaway is a significant holding of both Cedar Fund and Harfam Partners. While Warren Buffett’s company did not do well in performance, there is comfort in knowing that Berkshire carries less risk than most other companies. Berkshire has come to life recently when late last year Buffett announced that he was buying Burlington Northern Railroad, one of his biggest purchases ever. The transaction included cash and Berkshire Hathaway Class B shares which split 50-to-1. This sharply increased the number of Class B shareholders, which caught the eye of the managers of the S&P 500 Index, who finally agreed to include Berkshire. The result has been a pop in Berkshire stock of about 20% this year, while the rest of the stock market struggles along with little movement.

Harfam Partners had a strong 39.0% return from Fairholme and a solid 27.8% from one of our newest funds, Centaur Value. All the gains in Harfam were offset by two significant losses. Community Bankshares is down around 50% over two years because of bad loan losses. We failed to sell shares earlier when we had the opportunity. This is one risk of holding private companies which are illiquid. Eagle Capital, one of our largest holdings, missed the 26.5% stock market gain because of being largely in cash and finished -5.1% for the year.

We made a number of changes in Harfam Partners' portfolio this past year. Sellers Capital was eliminated because of poor performance. Our commitment to Eagle Capital was substantially reduced. We added a new micro cap fund,

Springhouse Capital, managed by Brian Gaines. He works with Gotham Capital of New York City, which is run by the well known manager Joel Greenblatt. IVA Worldwide, a mutual fund run by former managers of First Eagle Global, was also added. We increased our commitment to Fairholme, whose manager, Bruce Berkowitz, was named Equity Manager of the Decade by Morningstar. This major realignment of managers should benefit Harfam Partners.

| | 2009 | 5 Year | 10 Year | Inception |
|-----------------|-------|--------|---------|-----------|
| Harfam Partners | -0.7% | 0.5% | 5.5% | 9.7% |
| S & P 500 w/div | 26.5% | 0.4% | -0.9% | 9.2% |

What will the next decade look like? One of the smartest investors, Bill Gross of Pimco, says: "Pimco is a 'new normal' company. We believe the new normal means slower growth in the years ahead, including the second half of 2010. There are three reasons for this. One is deleveraging -- paying down debt -- a process now under way. No. 2 is re-regulation, which hasn't taken place yet. No. 3 is de-globalization. Various countries around the world will produce slower growth than what we've grown used to, and this leads to lower returns on assets...It is a longer-term, you-better-be-careful type of outlook." (Barron's, February 1, 2010) We think Bill Gross's words carry weight. He runs the largest bond mutual fund in the world and was recently named Morningstar's Bond Manager of the Decade.

| HARFAM PARTNERS | RETURN |
|------------------------|--------|
| Fairholme Fund | 39.0% |
| Centaur Value | 27.8% |
| Semper Vic Partners | 25.8% |
| Springhouse Capital | 23.5% |
| IVA Worldwide | 23.3% |
| First Eagle Global | 22.9% |
| Ruane Cunniff Goldfarb | 9.9% |
| Berkshire Hathaway | 2.7% |
| Eagle Capital | -5.1% |
| Community Bankshares | -30.0% |

We want to thank you for your understanding that investing is a long-term endeavor. We appreciate your confidence in our effort to achieve that goal. Please feel free to call or write any of us to discuss any questions or issues. Enclosed are: (1) 2009 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 website, 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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