



Managing Member – Tim Eriksen Eriksen Capital Management, LLC 567 Wildrose Cir., Lynden, WA 98264

January 22, 2014

Subject: Cedar Creek Partners 2013 Unaudited Results

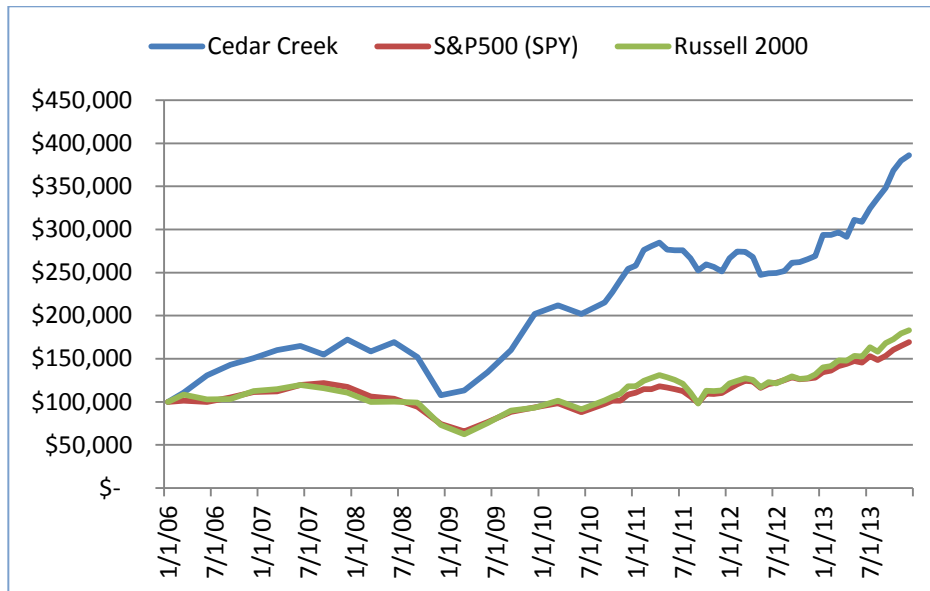
Dear Partner:

All the major indices experienced a strong year, with the Russell 2000 (small caps) and the Nasdaq (technology) performing the best, both increased over 38%. Cedar Creek, despite maintaining a cash balance of nearly 20%, increased by 43.6%, net of fees and expenses.¹

	Dec '13	2013	Inception	Ave. Annual
Cedar Creek	1.7%	43.6%	286.3%	18.5%
DJIA (DIA)	3.2%	29.6%	83.9%	8.0%
Russell 2000	2.0%	38.8%	83.0%	7.9%
NASDAQ	2.9%	38.3%	80.3%	7.7%
S&P 500 (SPY)	2.6%	32.3%	69.3%	6.8%

* fund inception January 15, 2006. Index Returns as reported on Yahoo! Finance, Morningstar, Dow Jones and Russell.

\$100,000 invested in Cedar Creek at inception (January 15, 2006) would have grown to \$386,410, net of fees and expenses, versus \$183,005 for the Russell 2000 and \$169,275 for the S&P 500 (SPY).



¹ While, no single index is directly comparable to Cedar Creek Partners, we believe that it is important to compare our performance to a passively managed approach. At the core of our investment philosophy is the belief that we can generate superior risk-adjusted returns by holding a more concentrated portfolio of under-valued securities, than an index holding a far greater number of securities. Index returns are calculated from information reported on Yahoo! Finance, Dow Jones, and Russell (see DISCLAIMER for more information).

We are quite pleased with the fund's results in 2013. Obviously all the indices and the fund performed significantly better than their respective historical averages. We trust that both index investors, and investors in Cedar Creek, fully recognize that 2013 results were unusually high. We have no idea what 2014 will bring. While it would be nice if excellent years were predictable, they clearly are not.² Since we cannot predict the timing of events we continue to focus on searching for securities that we believe are worth more than what they are currently trading for and holding them until fair value is realized, or a more attractive opportunity presents itself.

Refresher

Periodically we think it is good to briefly revisit how the fund approaches investing. We adhere to a bottom-up value approach to investing. In other words we are not trying to predict future global or national economic conditions and then, based on those results, look for investments that will prosper if our analysis proves correct. While some may be able to succeed at investing that way, we prefer to think more like a small business owner/buyer. Whether the national economy grows at two or three percent is not very relevant to how much a prospective business owner would pay for the local fast food franchise or a rental property, for example.

We look at the nature of the business to see if it has good characteristics (high margins, low capital intensity, good management, potential growth, pricing power, etc.) and then look at the price being asked for the business. How much is the seller asking us to pay for the current cash flow and how likely are those cash flows going to continue? Are the cash flows increasing, or subject to decline? If we believe there is a meaningful discount between the price the seller is asking and what we believe the business (i.e., its free cash flows) is worth then we make the decision to make a purchase. Then, based on relative attractiveness and overall risk we decide how large of a position to make it in the portfolio.

Year in Review

The most notable contributors to returns for 2013 were Hennessy Advisors (HNNA) up 160%, First Internet Bancorp (INBK) up 65% on our average exit price, Blucora (BCOR) up 80%, Teton Advisors (TETAA) up nearly 90%, and Conrad Industries (CNRD) up 120%.³ Combined they accounted for over 85% of the funds overall gains for the year. It is not surprising for a small number of securities to account for nearly all the gains in a concentrated portfolio. That is how the portfolio is designed. The most attractive security will have the highest weighting and is most likely, in our opinion, to generate the greatest returns.

Four of the five largest contributors were micro caps and the fifth was a small cap (Blucora), which is also not surprising. We like to fish where others are not. Micro caps due to their small size are largely ignored by Wall Street. As a result micro caps tend to trade at lower valuations, and, at times, prices are slow to respond to new

² For clarification – we do think that, in general, excellent years are more likely to occur when the market is trading at a lower price-to-earnings ratio than when at a higher ratio.

³ Teton Advisors suffers from periods of illiquidity and wide bid/ask spreads.

information. Until we are forced to focus on larger companies we intend to take advantage of the opportunities our small size affords.

Two of the five largest contributors were asset managers (Hennessy and Teton). The asset management industry is easily our favorite space to invest. The industry scores high on nearly all of the characteristics of a good business noted earlier.

Without giving away any secrets, the reasons for the success in the space is general optimism and simplicity. By general optimism, we do not view the world through the lens that disaster is right around the corner. We invest largely as if present conditions will continue, unless there is compelling evidence to the contrary. This approach was reinforced growing up in the Central Valley of California, which is the raisin capital of the world. The raisin farmer has to pick the grapes and then let them sit out on paper or trays in the warm California sun to turn into raisins. Each year, he has to operate under the assumption that the weather will be warm and sunny in the late August/early September drying season, yet he must be prepared to take action if there is compelling evidence of rain coming, since it will damage the crop.⁴

By simplicity, we love how easy the asset management business is to understand and predict. Most asset managers disclose their assets under management (AUM) on a monthly basis. In addition their fees are public knowledge. This means that revenues are incredibly easy to estimate accurately with very little work. The biggest issue on the cost side is salaries. If salaries are kept reasonable (as a percentage of revenue), not only are current earnings very predictable, but earnings at various AUM levels are as well. That leaves the quality of the firm's investment approach and products as the primary factors to assess.

Of our top five performers in 2013, we have only exited one position so far – First Internet Bancorp (INBK), which had a share price spike late in the summer. We believe the valuations on the remaining four are still reasonably attractive, although clearly not as attractive as when we first purchased. Yet at the same time we have modestly sold some of our holdings. The reason for this is that some positions, such as Hennessy, have risen faster than the overall portfolio, resulting in an increase in their position size. Thus Hennessy, while less attractive now versus a year ago, absent modest selling, would be a larger position. This would be contrary to sound portfolio construction.

What We Would Prefer not to Talk About

It is also important to look at our failures as well. We only had two securities negatively impact overall returns by more than 0.1 percentage points – Monument Mining (MMY.V) and Revett Minerals (RVM). In aggregate they reduced overall gross returns by 6.5 percentage points. Both are in the precious metals space (Lesson #1).

Revett suffered a mine collapse on its only property (Lesson #2) that halted production and forced substantial resources to be spent on regaining access to their copper and silver deposits. While we had purchased the security based on the potential of their Rock Creek mine, which was still in permitting, we decided it was best to sell due to the length of time it would take to re-start the existing mine, and more importantly, the

⁴ In high school or college I was actually hired for a day to go into the vineyard and take the paper the raisins were still drying on and wrap the paper around the raisins in order to protect them from pending rain.

impact the added expense would have on the ability of Revett to develop Rock Creek without materially diluting shareholders. In the mining business when a company becomes desperate for funds, shareholders typically lose out to the group providing high cost funding.

Monument Mining (MMY) was a hedge if gold prices rose and was also supposed to be a great opportunity to make money if prices remained fairly stable. The company's Selinsing mine is one of the lowest cost gold mines in the world, with a cash cost of under \$500 per ounce and production of 50,000 ounces annually, it generates approximately \$35 million in annual cash flow. It has expected reserves of just four to five years, but it seems probable that additional reserves will be found nearby. The company had a net cash balance, and was trading at around two times earnings. In other words, we believed it had the potential to easily go up three or four fold.

Unfortunately management must have slept through most of their finance classes. Instead of shrinking their share base and waiting patiently for a good property to purchase, management chose to buy a property that would cost hundreds of millions of dollars (it did not have) to develop. It then proposed issuing more shares at less than two times earnings. Essentially shareholders were having their ownership of a low cost, low risk producing gold mine diluted in order to own a high cost, high risk polymetallic project.

To date, management has spent over \$90 million on the Mengapur project versus its current market cap of just \$60 million. What is worse is that Monument had \$40 million in cash as of their most recent quarterly report and no debt. The market is saying that under current management: \$40 million in cash plus a mine producing \$35 million in annual cash flow for the next four to five years (conservatively valued at \$130 million), plus Mengapur (\$90 million invested to date) is worth \$60 million. If you do the math, existing management is "worth" a negative \$200 million.

We have tried to show management the error of its ways and how buying back shares would be in shareholders best interest, since they would effectively be buying more of a great low cost mine (on a per share basis). Sadly, management doesn't get it (Lesson #3). In fact, they have just agreed to buy another high cost gold mine for \$25 million. No wonder, its share price fell by nearly 50% during 2013.

In the words of Duck Dynasty's Si Robertson, "There are things you just can't fix. (You) can't fix stupid, can't fix a neutered dog and you can't fix junk!" (Lesson #4)⁵ Thus, we have nearly sold out of the position, but plan on keeping a token position that will not impact overall returns. The purpose is to "force" us to keep up with the story in order to sear into our memory the lessons learned.

Cash Levels and Fund Repositioning

The fund's cash levels, excluding short credits, finished December at 22.6%. The higher percentage is in line with our approach of waiting more patiently for excellent opportunities, and is also a reflection of a portion of our position in AIG being purchased via in the money call options. We closed out two minor positions during the month due to their size not being impactful to overall fund results. There were no new

⁵ And with that I just won a \$10 bet with my son that I could seamlessly get a Duck Dynasty reference in my letter.

positions initiated. We have done some modest rebalancing based on overall attractiveness of current holdings.

Room for New Members and/or Additional Funds

We still have plenty of room for existing partners to increase their investment and for others to join. Please consider referring friends of yours who may be potential new investors. The basic requirements are 1) that each invests a minimum of \$50,000 and 2) that new members are accredited (high net worth) individuals. Subsequent investments must be for a minimum of \$10,000.

If this letter was passed on to you and you would like to be added to our monthly distribution list, please email me at the email address below. This will allow you to receive our updates on a regular basis. Should you have any questions regarding the fund, please don't hesitate to call or email.

Sincerely,



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DISCLAIMERS

Fund Performance

The financial performance figures for 2013 presented in this report are un-audited estimates based on the best information available at the time of the letter, and are subject to subsequent revision by the Fund's auditors. Past performance may not be indicative of future results and no representation is made that an investor will or is likely to achieve results similar to those shown. All investments involve risk including the loss of principal.

Net Return reflects the experience of an investor who came into the Fund on inception and did not add to or withdraw from the Fund through the end of the most recently reported period. The reported net return figures will therefore include the impact of high water marks in the cumulative return. Individual investor returns will vary depending upon the timing of their investment, the effects of additions and withdrawals from their capital account, and each individual's high water mark figure, if any.

Index Returns

The S&P500 Index returns are reported using the S&P500 Depository Receipt Trust (SPDR) which trades under the ticker symbol SPY. Reinvested dividends are included in these figures. A spreadsheet showing the SPY performance versus the fund since inception is available upon request.

Nasdaq performance excludes dividends, which historically have been immaterial to the total return of that index. In recent years more technology stocks have begun paying dividends thus the inclusion of dividends would increase the reported figures.

Russell 2000 performance is from data reported on Russell's website, and includes reinvested dividends.

DJIA returns are reported using the SPDR Dow Jones Industrial Average which trades under the ticker symbol DIA. Reinvested dividends are included in these figures. A spreadsheet showing the DIA performance versus the fund since inception is available upon request.

While reported returns for SPY and DIA will likely be a few tenths of a percentage lower than the representative index annually, we believe they are a better reflection of what a non-institutional investor would earn following a passive investment approach.

Index returns are provided as a convenience to the reader only. The Fund's returns are likely to differ substantially from that of any index, and there can be no assurance that the Fund will achieve results that are superior to such indices.

Share Prices

Share price figures for listed stocks are from Yahoo! Finance and unless specified otherwise are the closing price as of the previous month end. Share price figures for unlisted stocks are closing bid prices as reported on otcmarkets.com.

Forward Looking Statements

This letter and the accompanying discussion include forward-looking statements. All statements that are not historical facts are forward-looking statements, including any statements that relate to future market conditions, results, operations, strategies or other future conditions or developments and any statements regarding objectives, opportunities, positioning or prospects. Forward-looking statements are necessarily based upon speculation, expectations, estimates and assumptions that are inherently unreliable and subject to significant business, economic and competitive uncertainties and contingencies. Forward-looking statements are not a promise or guaranty about future events.