

# Alpha Wealth Funds, LLC

“the opportunities never stop”

April 12, 2018

## The Insiders Fund, LP 1st Quarter 2018 Partner Letter

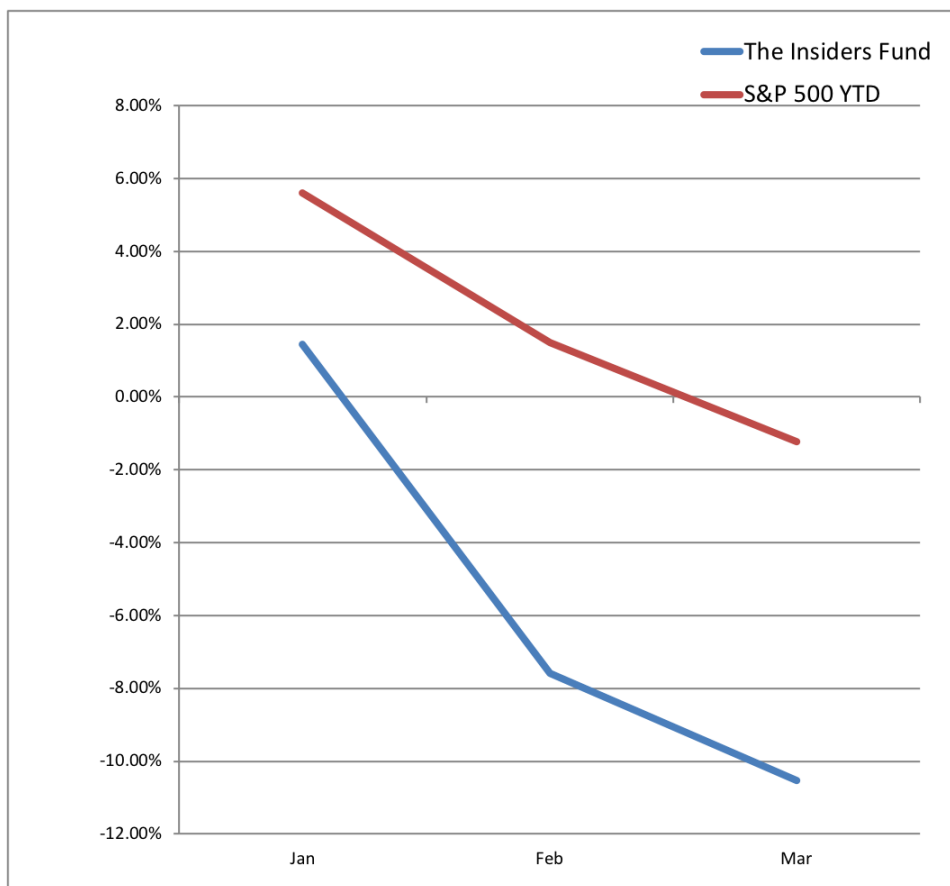
*If you could start all over would you buy this today?*

### Results and Benchmark Comparisons:

Last quarter 2018 was challenging. Nothing much went right with trading or the strategy of following insider buying. I look at every one of our positions every day and play a mental exercise. Do I think it will go up or down, or do I just don't know? For most of this quarter, I clearly didn't know. This was one of the most unpredictable periods I've witnessed. February was easily one of Wall Street's wildest months since 2008. The Dow plummeted more than 3,200 points, or 12%, in just two weeks. Then stocks raced back to life, at one point recovering about three-quarters of those losses. February ended with more drama. The Dow tumbled 680 points during the month's final two days, leaving it down about 1,600 points from the record high in late January.

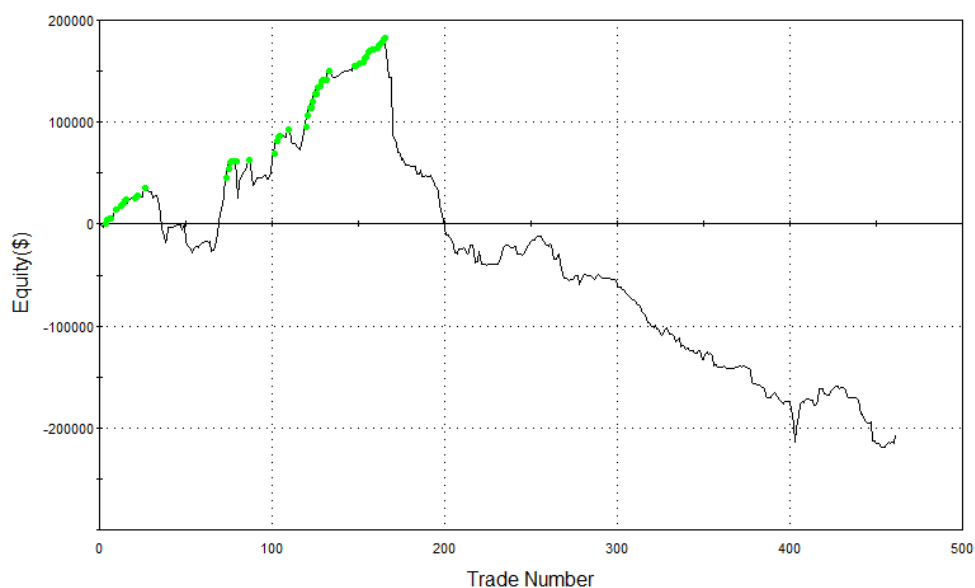
The fund was **down 3.20%** for the month of March, **down 10.53%** for the quarter and YTD 2018 net of all fees. Your own individual returns may vary based upon timing of withdrawals/additions and fee arrangements. The benchmark index, S&P 500, was down **2.54%** and **-0.76%% total return** (dividends reinvested) during these same time periods.

This letter serves as both a report to the partners of how their investment is doing and serves as a kind of report card to me. I am a strong believer that if you don't analyze past results thoroughly, you can't improve upon them. **The only consolation I can give my partners is that we have concentrated positions, of which, I am highly confident all but one will work. The one I'm not confident about, I'm optimistic, but it will take time.** Please read further in the holdings section for more detail on this.



### The Insiders Fund vs. S&P 500 without dividends

Equity Curve Line (1/2/2018 11:20:52 - 4/6/2018 07:33:18)



### The Equity line says it all

Winners	P&L	MV
[FB] FACEBOOK, INC. CMN CLASS A	59,529	15,303
[AGN] ALLERGAN PLC CMN	56,174	0
[IBB] ISHARES NASDAQ BIOTECHNOLOGY ETF	46,044	0
[CY] CYPRESS SEMICON	42,981	0
[KTOS] KRATOS DEFENSE	32,189	0
[AMZN] AMAZON.COM INC CMN	31,592	0
[RE] EVEREST RE GROUP LTD CMN	<b>29,870</b>	0
[NWL] NEWELL RUBBERMAID INC CMN	28,961	0
[WBA] WALGREENS BOOTS ALLIANCE, INC. CMN	27,019	67,590
[SMH] SEMICONDUCTOR HOLDINGS	26,118	
Losers		
XRAY] DENTSPLY SIRONA	-188,211	549,450
[SVXY] PROSHARES SHORT VIX SHORT-TERM FUTURES	-107,029	28,225
[TEP] TALLGRASS ENERGY	-105,570	602,158
[HAIN] HAIN CELESTIAL	-88,107	773,955
[DEPO] DEPO MED INC	-81,665	13,674
[UAL] UNITED CONTINENTAL HOLDING INC CMN	-81,637	848,875
[BCO] BRINKS CO	-74,500	707,000
[INOV] INOVALON HLDGS	-70,480	63,000
[GOOG] GOOGLE INC. CMN CLASS A	-61,595	200,912
[TTS] TILE SHOP HLDGS	-51,966	29,00

### The Insider Fund Winners & Losers

## Current holdings:

*The best way for you to follow our investments is through the client portal. There, you can find daily performance and details on all our holdings. If you haven't been able to log in, please let me know and I will have our fund administrator, NAV Consulting, send you new login credentials.*

No review of the top 10 holdings would be replete without asking ourselves these questions. What if I did nothing and let the investments ride from the previous quarter? How would they have done? With that in mind, I examined the top 10 holdings from the end of the 2<sup>nd</sup> quarter to the end of the 3<sup>rd</sup> quarter of 2017. Those results are outlined below.

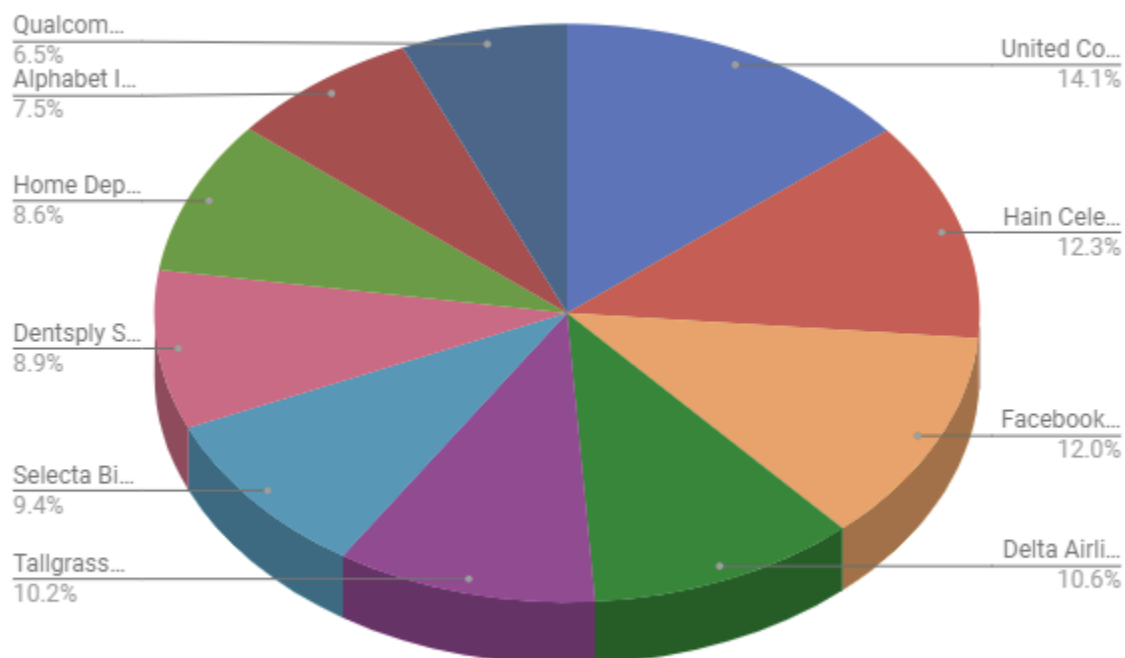
Symbol	Description	Price 12-29-17	Price 03-29-18	Percent Change
DAL	Delta Airlines	56	54.81	-2.13%
UAL	United Continental Holdings	67.4	69.47	3.07%
XRAY	Dentsply Sirona	65.83	50.31	-23.58%
BCO	The Brinks Co	78.7	71.35	-9.34%
SELB	Selecta Biosciences Inc	9.81	10.19	3.87%
TEP(HP)	Tall Grass Energy Partners, LP	45.85	37.89	-17.36%
DEPO	DepoMed Inc	8.05	6.59	-18.14%
KTOS	Kratos Defense and Security	10.59	10.29	-2.83%
LC	Lending Club	4.13	3.5	-15.25%
POST	Post Holdings	79.23	75.76	-4.38%
	<b>Average Return</b>			<b>-8.61%</b>

**Buy and Hold was Slightly Better**

### Top Ten Holdings of the Fund

The Fund is an active trader and often times by the time this letter is done, these holdings have changed significantly. For example, we loaded up on Facebook going in the recent congressional hearings and unloaded all of it the last day of the hearings for a very timely and profitable trade.

Symbol	Description	Market Value (Acct)	Percent Holdings
UAL	United Continental Hldgs Inc	\$856,000.00	13.93%
HAIN	Hain Celestial Grp Inc	\$743,701.50	12.10%
FB	Facebook Inc	\$725,604.00	11.81%
DAL	Delta Airlines Inc	\$639,581.91	10.41%
TEP(HB)	Tallgrass Energy Partners LP	\$619,854.11	10.08%
SELB	Selecta Biosciences Inc	\$566,964.92	9.22%
XRAY	Dentsply Sirona Inc	\$539,000.00	8.77%
HD	Home Depot Inc	\$521,850.00	8.49%
GOOG	Alphabet Inc Cl C Cap Stock	\$454,230.00	7.39%
QCOM	Qualcomm Inc	\$394,568.00	6.42%



Market volatility has leapt and seems poised to remain high. Many stocks are in correction mode. You know the headlines. I don't pretend to play the macro game. I follow insiders with the conviction that they likely to know their business prospects better than most. Many of them are losing money right now.

The Insiders Fund is sitting on substantial unrealized losses, a little more than 8% of the value of the fund. I believe it's important to know what you own.

With losing positions, the most important question an investor can ask is this. If you could start all over, would you buy this stock today? In our case, I answer yes... with a big BUT.

As the market comes down, an investor usually finds more opportunities. We bought Facebook and Google on the most recent pullback for a trade. We've already traded out Facebook for nice profits, so you won't see any analysis here.

**United Continental (UAL)** together with its subsidiaries, provides air transportation services in North America, the Asia-Pacific, Europe, the Middle East, Africa, and Latin America. The company transports people and cargo through its mainline and regional operations. As of December 31, 2016, it operated a fleet of 1,231 aircraft.

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*UAL is lagging its competitors, American, Delta and Southwest, in efficiency and profit margins, and ratios like PRSAMS & CASMs. UAL recently provided guidance of \$6.50-\$8.50 for 2018 and showed how capacity growth could lead to \$11-13 per share in EPS by 2020. It's impossible to find any large cap stocks trading for cheaper multiples than the airline group. UAL has significant China trade risk as it is the most exposed U.S. major to Mainland China accounted for about 6.1% of United's UAL, -2.91% \$36.6 billion in revenue over the last 12 months, according to an analysis conducted by FactSet.*

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**The Hain Celestial Group, Inc. (HAIN)** manufactures, markets, distributes and sells organic and natural products. Hain CEO, Herbert Simon, bought \$2.3 million of stock at \$34.43, which now trades at \$33.05. Our average price \$35.47 is down 6.97% on that position. Activist shareholder, Glen Welding, bought \$49 million at \$34.83 adding to his 11.76 million share stake. The Company says it will consider all strategic options.

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*HAIN was as high as \$70 in August 2016. We are down 9.93%. Our DCF value of \$35.54 doesn't make the stock cheap, but we have to believe there is more to it than that. A buyer would pay some kind of premium, yet no buyers have emerged, at least not at levels management is inclined to bite at. Has private equity lost its appetite for consumer products companies? Have they been Amazon-ed?*

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**Brinks (BCO)** The Brinks Company provides secure transportation, cash management and other security-related services worldwide. The company offers cash-in-transit services, including armored vehicle transportation of valuables; automated teller machine (ATM) services, such as cash replenishment, replenishment forecasting, cash optimization, ATM remote monitoring, service call dispatching, transaction processing, installation, and first and second line maintenance; and network infrastructure services.

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*New management have been steady buyers of stock all the way up and all the way down. Most recently, one C level officer bought \$1.3 million on February 22, 2018 at prices between \$72.18 - \$75. We are down 10.63%. Our fair value DCF estimate has BCO worth \$116 per share.*

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**Tall Grass Energy Partners (TEP)** through its interests in Tallgrass Equity, LLC, provides crude oil transportation services to customers in Wyoming, Colorado, and surrounding regions of the United States. The company operates through three segments: Natural Gas Transportation; Crude Oil Transportation; and Gathering, Processing & Terminalling.

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*Tall Grass recently announced a merger of TEP and TEGP, eliminating the IDR (incentive distribution rights) of TEGP. TEP shareholders will get two shares of newly issued TEGP stock, yielding over 10% with decent dividend growth prospects. TEP has been the subject of short seller articles and publicity. CEO Dehaemers bought \$7.8 million worth of stock in November and December last year at an average price of \$44. Our average cost is \$43.62. We are down 14.04% on TEP but feel confident this will ultimately be profitable. We are getting over 10% dividends while we wait.*

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**Selecta Biosciences (SELB)** is a clinical-stage biopharmaceutical company that researches and develops nanoparticle immunomodulatory drugs for the treatment and prevention of human diseases. Their lead product candidate is SEL-212, which is in phase I/II clinical trials for the treatment of refractory and chronic tophaceous gout. Selecta Biosciences, Inc. was founded in 2007 and is headquartered in Watertown, Massachusetts.

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*It's unusual to see insider buying in biotech and technology stocks as they are historically sellers with generous option grants and stock-based compensation. So we have to take note when we do see buying, especially when the company is also the subject of a feature article in January's Scientific America. This is a highly speculative investment and we are prepared to lose our investment here for the opportunity to hit it out of the park. SELB has the potential to be, quoting the famous manager of the Magellan Fund, Peter Lynch, a '10 bagger.'*

*Four officers and directors took advantage of a steep 65% price drop, on what the market perceived as disappointing drug trial results, to purchase over \$1.3 million worth of SELB in November at prices from \$9.24- \$10.26. One of the most fertile areas in medicine is the new class of drugs known as biologics. Unfortunately, some people have antigens that attack these drugs rendering them ineffective. SELB is developing a platform technology that could be used in a variety of applications to thwart the body's own antigens and allow greater use of biologics. There are various catalysts coming in 2018. [Click here for the investor presentation.](#)*

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**Dentsply Sirona (XRAY)** designs, develops, manufactures and markets various dental and oral health products, as well as other consumable healthcare products, primarily for the professional dental market worldwide. The company operates in two segments, Technologies & Equipment; and Consumables.

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*The interim CEO and CFO bought \$8.1 million worth of stock in November 2017 at prices from \$66.04-\$65.08. Our average cost is \$61.97. The interim CEO has since been replaced with a new CEO, though the switch has not arrested the slide in the stock. We are down 19.24% on XRAY. Our fair value puts XRAY at \$73, which seems low for management to be buying such a large quantity of stock.*

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**Home Depot (HD)** operates as a home improvement retailer. It operates The Home Depot stores that sell various building materials, home improvement products, lawn and garden products, and décor products, as well as provide installation, home maintenance, and professional service programs to do-it-yourself and professional customers. The company also offers installation programs that include flooring, cabinets, countertops, water heaters, and sheds; and professional installation in various categories sold through its in-home sales programs, such as roofing, siding, windows, cabinet refacing, furnaces, and central air systems, as well as acts as a contractor to provide installation services to its do-it-for-me customers through third-party installers. In addition, it provides tool and equipment rental services.

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*It's unusual to see high quality names like Home Depot attract much insider buying as insiders tend to buy their company's stock when the price is depressed. That seems to be the case with Home Depot, as Directors Brenneman and Codian took advantage of recent price pull back to pick up \$4.2 million worth of HD stock at prices ranging from \$178.66 to \$178.29. Our fair value DCF model has HD worth \$218.*

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**Alphabet Inc. (GOOG)**, through its subsidiaries, provides online advertising services in the United States and internationally. The company offers performance and brand advertising services. It operates through Google and Other Bets segments. The Google segment includes principal internet products, such as Ads, Android, Chrome, Commerce, Google Cloud, Google Maps, Google Play, Hardware, Search, and YouTube, as well as technical infrastructure and newer efforts, including virtual reality.

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Recent price declines due to a mini “FANG” rout drew our attention back to Alphabet. GOOG has strong barriers to entry in the global search market. YouTube is rapidly expanding into paid and curated content. Recent publicity with Facebook privacy concerns have weighed on the stock creating a significant pullback. Google was recently the feature stock in Barron’s.

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**Qualcomm** director Livermore bought \$491.3 thousand of QCOM last May at \$54.59. Our average price is \$54.59. Merrill Lynch added Qualcomm to its *Number 1 Focus List* on March 20th with a \$75 price target. This would be too low if Qualcomm management's predictions are accurate. Qualcomm stated that it expects to earn much more than Wall Street analysts have predicted. The company projected between \$6.75 to \$7.50 in earnings per share on a revenue of \$35 billion to \$37 billion, which is higher than the \$3.79 prediction Wall Street analysts provided.

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*The company said their upbeat expectations revolve around their 5G technology and hope of a favorable end to the bruising licensing fight with Apple, their biggest customer. They also expect to finally close their acquisition of electronics manufacturer, NXP Semiconductors. Qualcomm pays an over 4% dividend and is the prime beneficiary of 5G. With the merger of NXPI, they will be one of the largest purveyor of chips to both the automotive and cellular industries, both secular growth industries.*

*Recently, Paul Jacobs, former CEO and Board Chairman, told the company he wanted to lead a leveraged buyout of the Company and resigned from the board. CNBC called him delusional as he had no way of getting the money to buy Qualcomm and the stock promptly tanked. It’s hard for us to not take Paul Jacobs seriously. He has a Ph.D. from Berkeley in electrical engineering and Qualcomm has 130 thousand patents. Qualcomm is at great risk if it gets turned into a pawn in the China trade wars. China is QCOM’s largest market, earning 57% of their revenues from China in 2016. Qualcomm also has risks associated to FTC action about unfair licensing policies although we do think a lot of this is in the stock.*

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## Housekeeping:

We've brought on a talented young partner in the firm, Alpha Wealth Funds. Chase Thomas, a Park City native and BYU graduate bought part of Alpha Wealth Funds, my firm and your General Partner to The Insider Fund hedge fund.

I've been told by friends and professionals that I should add financial planning to my business. I've always agreed with that, but I never had the right person to do it. Now, I believe I do.

In doing my due diligence, I was impressed with the almost cult-like following shown by his clients. 100% of his referrals are from existing clients and he has never lost one. Prior to us, Chase worked at Fidelity and was responsible for \$500 million in 401k assets before striking out on his own. Chase holds a very prestigious professional certification. He is a Certified Financial Planner, professional (CFP).

However, here is what really blew me away.

The average after-fees client was up 36.4% last year, while his hedge fund prototype accounts were up over 100%. We're watching him closely to make certain we encourage and do what we can to foster repeat performances. I look forward to introducing you to him in the next few weeks. I think you will be as impressed as I was. You may learn more about Chase Thomas on the [Alpha Wealth Funds site](#).

## Our outlook:

There are three things bothering the market and four things bothering me.

- 1) The lack of stability in the White House is taking its toll on investor confidence.
- 2) The radical trade agenda of Peter Navarro, Trump's trade guru on China, is threatening to undermine a world order that has allowed China to become the 2nd biggest economy in the world.

*I make no choices politically, left, right, globalist or nationalist. I only want to be able to anticipate when to zig or when to zag. If you haven't read Peter Navarro's latest treatise on China, Crouching Tiger, you should. If you are wondering if we are going to be in a trade war, it could be much worse. In the mind of Peter Navarro, the biggest question is; "Is War with China inevitable?" and he is not talking about economic kind of war.*

- 3) The third thing is interest rates. A rise in interest rates makes stocks less valuable. That's just math.  
*I share these three concerns and this last concern that not much is being made of.*
- 4) Insiders are largely absent from this market. See below.

### Ratio of # Companies Bought / # Companies Sold vs. S&P 500



Insiders are boycotting the market by and large

As always, we greatly appreciate the honor and responsibility of managing your investments. Please feel free to reach out to us anytime.

Sincerely,



Harvey Warren Sax

President