

Alpha Wealth Funds, LLC

“the opportunities never stop”

February 20, 2018

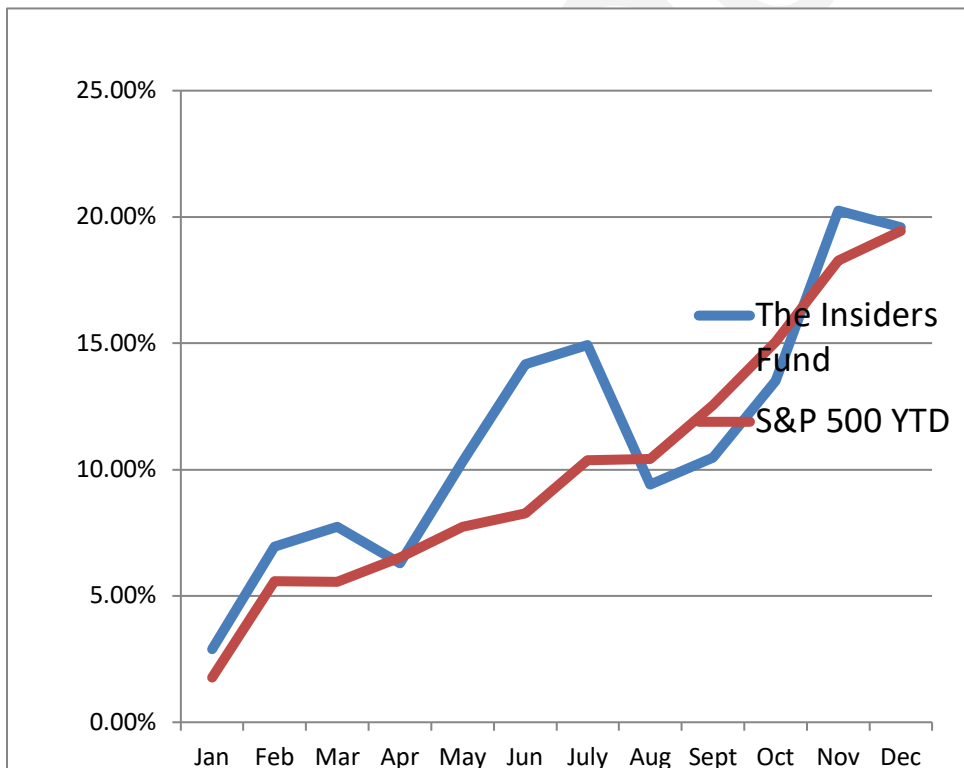
The Insiders Fund, LP 4th Quarter 2017 Partner Letter:

We are in it to win it!

Results and Benchmark Comparisons:

The Fund returned net of all fees – 0.52% for December, 7.91% for the quarter, and 18.81% for the year 2017 versus the S&P 500 which returned 0.98%, 6.6% , and 18.74% during the same periods. If you include dividends reinvested the S&P 500 returned 21.8%.

Your own returns may vary depending on timing and breakpoints.



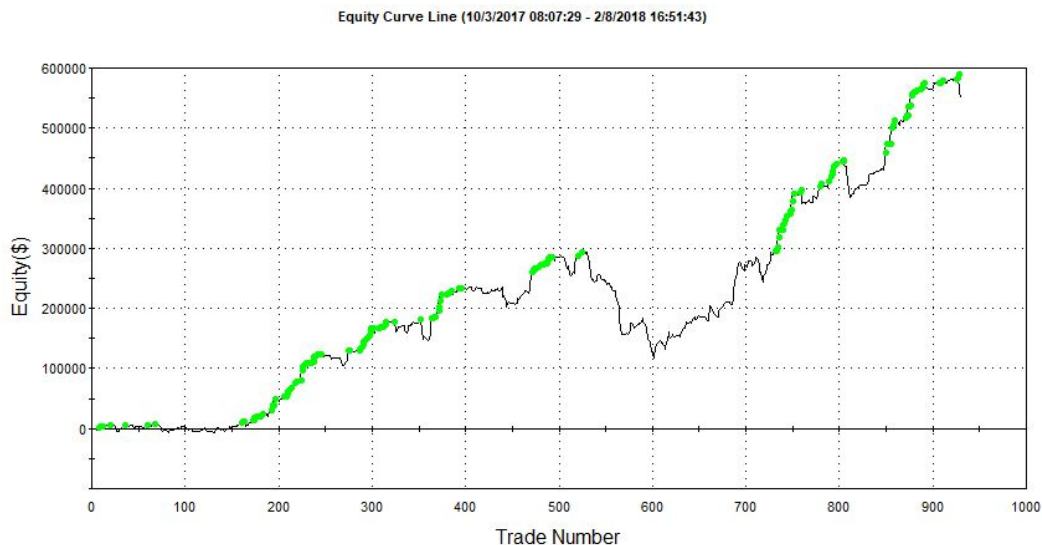
The Insiders Fund vs. S&P 500 w/o dividends

Winners and Losers 4th Quarter 2017:

| Top 10 Winners | Gain/(Loss) | IRR % |
|------------------------------------|--------------------|--------------|
| DELTA AIR LINES, INC. CMN | 95,090 | 27% |
| UNITED CONTINENTAL HOLDING INC CMN | 89,220 | 18% |
| WALGREENS BOOTS ALLIANCE, INC. CMN | 78,559 | 12% |
| APPLE INC. CMN | 74,006 | 47% |
| QCOM JAN 19, 2018 50.000 C | 58,087 | 790% |
| DAL JAN 18, 2019 45.000 C | 56,819 | 55% |
| HAIN CELESTIAL | 56,146 | 61% |
| ULTA SALON COSMETICS & FRAGRAN CMN | 55,067 | 25% |
| FACEBOOK, INC. CMN CLASS A | 49,523 | 38% |
| QUALCOMM INC COM | 48,285 | 46% |

Top 10 Losers

| | | |
|------------------------------------|----------|------|
| AMC ENTMT HLDGS | (66,653) | -29% |
| DIEBOLD INC | (65,048) | -21% |
| CSRA INC | (63,071) | -86% |
| INOVALON HLDGS | (51,708) | -10% |
| TILLYS INC | (41,692) | -31% |
| APPLIED OPTOELE | (33,976) | -14% |
| AVIS BUDGET GRO | (32,995) | -31% |
| OMEGA HEALTHCARE INVESTORS INC COM | (29,019) | -26% |
| SIMON PROPERTY GROUP INC | (23,638) | -13% |
| GOGO INC CMN | (22,675) | -43% |



The Equity Line Says It All.

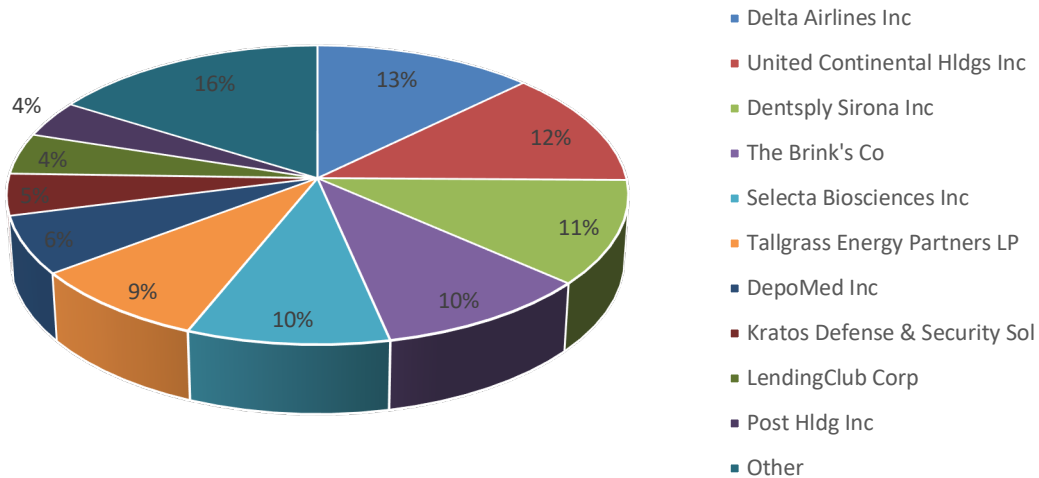
The Insiders Fund portfolio tends to be invested in a relatively small number of stocks. It also may use leverage, short sales, derivatives, or hold large amounts of cash. As a result, the appreciation or depreciation of any one security held by the Fund will have a greater impact on the Fund's net asset value than it would if the Fund invested in a larger number of securities. Although that strategy has the potential to generate attractive returns over time, it also increases the Fund's volatility.

The Insiders Fund is set up with mark to market accounting. This tax election means we can both have long term capital gains and no restraint on our capital loss carry forwards. We do not give tax advice and recommend you consult your own advisors, but the way the Fund reports is that short term capital gains are considered business income or loss and not subject to \$3000 capital loss forward limitations. We are also able to segregate stocks for long-term capital gain treatment. We never plan to lose money but in the unfortunate circumstance that we do, you are likely to have far better tax implications than in your other stock market investments.¹

¹ Making the Sec. 475(f) election offers at least one monumental advantage. Sec. 475(d)(3) provides that the gains and losses recognized on the deemed sales are treated as ordinary income or ordinary losses. This rule is extremely valuable because it allows traders (who make the election) to avoid the limitation on the deduction of capital losses. By making the election, traders can use losses to offset all other taxable income without limitation. Moreover, because these are business losses, traders can add to or create a net operating loss that they can carry back two years and forward 20 years.¹⁴ The wash sales rules do not apply.¹⁵

While the mark-to-market election converts capital losses to ordinary losses, it also converts capital gains to ordinary income. As a practical matter, this presents little concern because the capital gains of most traders would be short term, which are treated as ordinary income. However, traders who want to preserve the possibility of long-term capital gain treatment for certain securities may do so by taking advantage of another special rule. Under Sec. 475(f)(1)(B), any security that is acquired is deemed to be acquired for trading purposes, unless the security is clearly identified in the dealer's records as being held for investment or other purposes. An individual can easily segregate trader transactions from investor transactions by simply using separate accounts for each. An individual may be a trader using the mark-to-market method while at the same time being an investor for the segregated investments.

Top Holdings 2-14-18



Top Ten Holdings of the Fund:

Delta Airlines (DAL) provides scheduled air transportation for passengers and cargo in the United States and internationally. The company operates through two segments, Airline and Refinery. Its route network is centered around a system of hubs, international gateways, and airports in Amsterdam, Atlanta, Boston, Detroit, London-Heathrow, Los Angeles, Minneapolis-St. Paul, New York-LaGuardia, New York-JFK, Paris-Charles de Gaulle, Salt Lake City, Seattle, and Tokyo-Narita

Catalysts – DAL had a remarkable run over the summer of 2016 aided by the revelation that Warren Buffett was buying the airlines after years of saying he would never touch one. (It's an interesting statistic that stocks outperform for a few months

after word is out that Buffett is buying aka the Buffett effect) We traded this name successfully (our biggest winner last quarter) exiting parts of our deep in the money LEAP position and trading around the name. We have a core position in Delta as well as United Airlines we intend to hold for long term capital gain appreciation.

Again, recent insider activity alerted us to this stock laggard. After a 12% pullback from late January due to United Airlines' earnings conference call (see our comments on UAL), DAL has attracted some insider buying again. A director picked up nearly \$763.9 thousand worth at an average cost of \$50.93.

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.

Catalysts - our largest position, United Airlines, announced 4th quarter earnings and plummeted 20% from peak to trough. The topsy-turvy relations with United continues. The Fund lost 3% of paper profits on this news. UAL said they would earn around \$11-13 in 2020 and the market thought that was horrible. In our view that makes UAL as inexpensive a large cap profitable stock that we know of. For more info refer to our post on January 23rd.

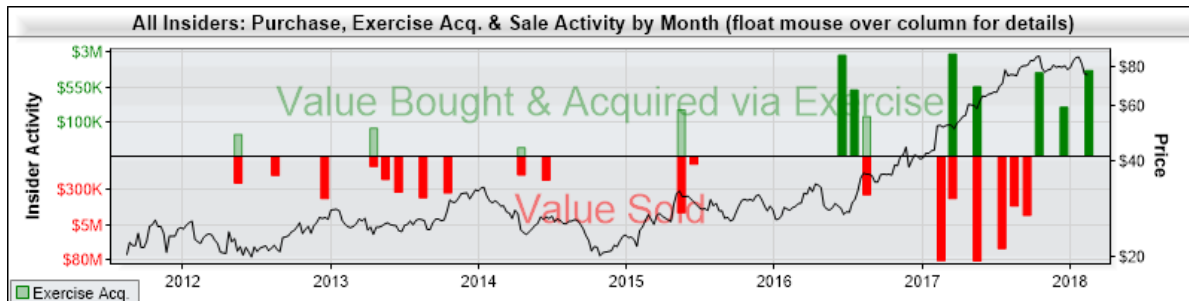
<https://www.theinsidersfund.com/2018/01/airline-nosedive-dal-ual/>. Then last week when the market corrected, all stocks sold off further erasing both large gains in UAL and Delta. This brings up two points I'd like to make. If you are not subscribed, please do so. This is where we try to communicate most directly and immediately. Informed investors with convictions will ultimately be more successful than those who lack it.

Dentsply Sirona (XRAY) designs, develops, manufactures, and markets various dental and oral health products, and other consumable healthcare products primarily for the professional dental market worldwide. Sirona is the manufacturer of 3D dental printing equipment that has revolutionized the industry by creating on-the-spot custom crowns and other dental implants.

Catalysts - On conventional metrics, XRAY doesn't appear undervalued but two insiders bought large amounts of stock late last year. The CFO bought \$3.3 million at an average price of \$65.85 on Nov. 13, 2017 while the interim CEO bought \$5.1 million the same day. The market has turned cautious on this name as the Company named someone else to the CEO position. The IR person explained it to me. The Board had an opportunity to hire someone with strong manufacturing experience. The new CEO has yet to purchase stock, nor has the interim CEO sold his. We continue to believe that synergies and cost savings from the merger of Dentsply and Sirona have yet to be fully realized from the 2016 merger that created the preeminent dental manufacturing company in the world.

Brinks (BCO) provides secure transportation, cash management services 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 services, and first and second line maintenance; and network infrastructure services.

Catalysts - We struggle to find a compelling valuation case to own Brinks, but it has the most persistent and some of the largest insider buying of any stock that we follow. Catalysts are not always apparent, and we have learned when there is smoke there is likely to be fire if one is patient enough. Management also continues to buy stock near 52-week highs as opposed to the value buying we usually see. This is the most bullish signal of insider buying.



Selecta Biosciences (SELB) is a clinical-stage biopharmaceutical company, researches and develops nanoparticle immunomodulatory drugs for the treatment and prevention of human diseases. Its 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.

Catalysts - 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 it and 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 investor presentation.](#)

Tall Grass Energy Partners (TEP) is a family of companies that include the publicly traded partnerships Tallgrass Energy Partners, LP (NYSE: TEP) and Tallgrass Energy GP, LP (NYSE: TEGP), and the privately

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held Tallgrass Development, LP. Operating across 11 states, Tallgrass is a growth-oriented midstream energy operator with transportation, storage, terminal, water, gathering and processing assets that serve some of the nation's most prolific crude oil and natural gas basins.

Catalysts - Large insider purchases by the CEO counter the short seller's case for TEP. Electrified vehicle fleets replacing petroleum-based products will take decades to happen if at all. Even the most optimistic Tesla type outcome will require larger amounts of natural gas to power electric plants.

The CEO has been a consistent buyer of stock in large dollar amounts. His most recent purchases between Nov. 8 and Dec. 6, 2017 were for \$6.2 million at an average price of \$43.43. The stock yields over 8% at current levels. Additionally, during the earnings call on Feb. 14, 2018, management said it expects distribution growth of 7-10% if it remains a stand-alone entity for all of 2018. The company recently said they were going to simplify the complicated MLP structure sometime in 2018. Tallgrass Energy Partners (TEP) was upgraded to Overweight from Equal Weight at Barclays by analyst Christine Cho, who lowered her price target to \$43 from \$50. The analyst said her analysis suggests a Tallgrass Energy GP (TEGP) acquisition of Tallgrass Energy Partners(TEP) is the most likely scenario. She valued Tallgrass Energy Partner at \$43 in this scenario.

Depomed (DEPO) is a specialty pharmaceutical company focused on products to treat pain and other central nervous system conditions. The company currently markets FDA-approved products: Gralise®(gabapentin) tablets for the management of Postherpetic Neuralgia (PHN); Cambia® (diclofenac potassium for oral solution) for acute treatment of migraine attacks with or without aura in adults 18 years of age or older; and Zipsor® (diclofenac potassium) liquid filled capsules for relief of mild to moderate acute pain.

Catalysts - DEPO stock dropped sharply through 2017 as negative publicity about opioid abuse and fears of stricter legislation and litigation weighed on its Nucynta franchise. In December 2017, Depomed announced the signing of a definitive commercialization agreement with Collegium Pharmaceutical, under which, Collegium will commercialize the NUCYNTA® pain franchise and Depomed will receive a royalty rate on all NUCYNTA revenues based on certain net sales thresholds. This may relieve the cloud over this stock and may be the logic behind the CEO's purchase

of 75 thousand shares at an average price of \$8.16 which increased his holdings by over 200%.

Kratos Defense and Security Solutions (KTOS) Kratos' primary focus areas are unmanned systems, satellite communications, microwave electronics, cyber security/warfare, missile defense and combat systems. Kratos has primarily an engineering and technically oriented work force of approximately 2,700 with a substantial number of the company's employees holding national security clearances. Virtually all of Kratos' work is performed on a military base, in a secure facility or at a critical infrastructure location. Kratos' primary end customers are national security related agencies.

Catalysts - KTOS is at the right place at the right time. With defense spending set to increase under the Trump administration, we don't expect this mid-tier company to be independent for much longer. Perhaps that is some of the logic behind the steady price rise accompanied by insider buying and the absence of any insider selling for the last few years.

Lending Club (LC), together with its subsidiaries, operates as a peer to peer online marketplace that connects borrowers and investors in the United States. Its marketplace facilitates various types of loan products for consumers and small businesses, including unsecured personal loans, unsecured education and patient finance loans, auto refinance loans, small business loans and lines of credit.

Catalysts - Founder, Chen Tian Qiao, purchased \$107 million worth of stock in Dec. 2017 at average price of \$3.88, increasing his holdings by over 47%. Fintech is a hot investment area and its founder has a successful track record.

Post Holdings (POST) operates as a consumer packaged goods holding company in the United States and internationally. It manufactures and sells ready-to-eat cereal, hot cereal, egg, refrigerated potato, cheese & other dairy case, and pasta products; and markets and distributes ready-to-drink beverages, bars, powders and other nutritional supplements.

Consumer product companies are out of favor with the investment community these days as brands have faced sluggish growth and changing demographics. This hasn't stopped the Chairman of the Board from taking advantage of recent market volatility to add \$7 million to his holdings at already depressed prices.

Housekeeping:

We have lots of stuff going on this year. We're investing in our business as well as the market. We recently added Stafford Newsome as our Director of Communications. Stafford is a very impressive young man, recent graduate of BYU, informed with the latest stats and knowledge on social media as well as traditional practices. He comes highly recommended from faculty and peers.

By now, most of you have heard from Michael Ross, our registered investment advisor at Alpha Wealth Funds. Mike is a good friend and an even better listener. Please feel free to voice any concerns, cares or, could we dare say, referrals to Mike. If I do my part and with a little luck from the market, you will see big things from us this year. I've been so focused on managing the Fund's portfolio that I've neglected sales and marketing. I can either manage your money or I can do sales, but I can't do both. That's what Mike and Stafford are doing. If you think we've done a decent enough job for you OR YOU TRULY BELIEVE IN THE INSIDERS FUND's core beliefs, we'd be immensely grateful if you would refer us to friends and families. There is no greater honor for us than a referral from our partners.

Our outlook:

As I wrote in the last partner letter, corporate insiders have talked a good game about the improved business prospects under the Trump administration, but, seen by this recent chart below, their money doesn't align with their mouth. Insider buying is at anemic levels, but we did see some step up in activity as the market sold off sharply this month. Though the rebound has been so sudden and sharp, that insiders, like the public, have had little time to even respond. My hunch is that, had the sell-off persisted, we would have seen a marked increase in activity.

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



Stepped up Insider Buying Always Calls the Bottom

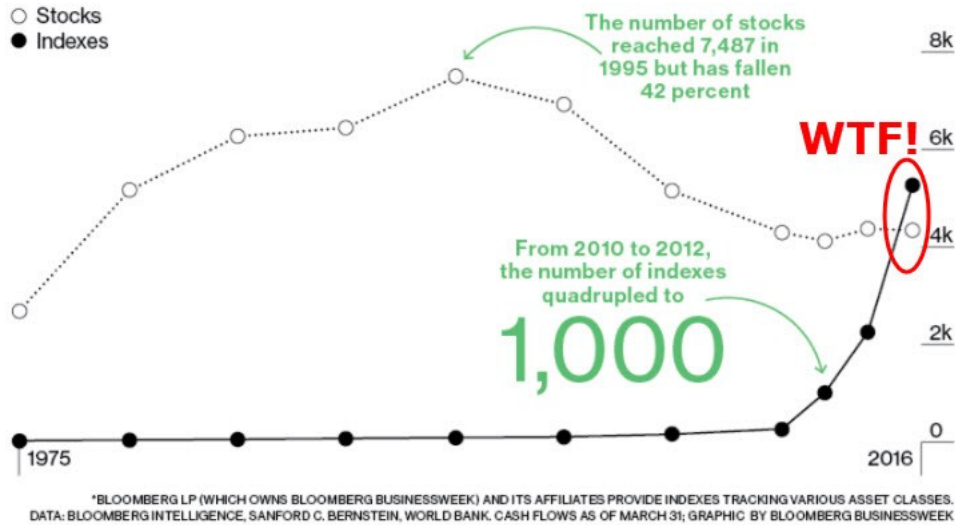
February has been a wakeup call. Investor’s sense of complacency has been roiled with a record one day rise in the volatility index (VIX) and a sudden sharp drop in the indices. There have been a lot of articles about the end of the bull market, the bull is long in the tooth, late in the innings, etc.

None of that really concerns us as we are not index investors. Most of the stocks we invest in historically do better than the market in protracted corrections. Generally, their prices are already depressed and tend to be value stocks that insiders have conviction in. As you may recall, our February 5th blog post “Insider buying always calls the market bottom”. There are always bargains in every kind of market. What’s in short supply is patience and conviction.

We continue to hunt for mispriced securities, value opportunities and insider driven opportunities, but our suspicion is that many of the best short term alpha plays will be shorts themselves. It’s just been too painful to stand in front of momentum stocks when we’ve had markets relentlessly head higher, regardless of earnings or lack of earnings. That may be changing as bearish sentiment is on the rise. Rising revenues with little prospects of meaningful profits (cloud-based software, Amazon, Netflix, P.E.ratios of 50+) have propelled the broad indices higher.

The popularity of passive investing in ETNs and ETFs is a bigger bubble, in my opinion, than cryptocurrency. **There are more ETFs and indices than there are stocks.** As the number of publicly traded companies has shrunk, the number of indices and ETFs purporting to track them has exploded. That makes no sense at all, yet legions of investors have bought into this. When the market sells off, will they have the necessary conviction borne from knowing what you own to weather the storm?

The Rise of the Benchmark



We believe in Insiders Not Indices.

Our suspicion had always been that the recent market sell-off was due more to technical issues with the collapse of a popular ETN than a sudden rise in interest rates. Interest rates could be a problem for the market but not at this level. The litany of potential market problems is endless though; geopolitical, cyber hacking, technology breakdown aka 'flash crash', and so on. We will also make mistakes from overly aggressive postures, lack of conviction, bad luck, etc. *But we will not make mistakes we can't recover from.* We are equally likely to hit a ball or two out of the park. We have large concentrated positions that insiders are buying. **We are in it to win it.**

Sincerely,

Harvey Warren Sax

President