Alpha Wealth Funds, LLC

"the opportunities never stop"

Oct 9, 2020

The Insiders Fund, LP 3rd Quarter 2020 Partner Letter:

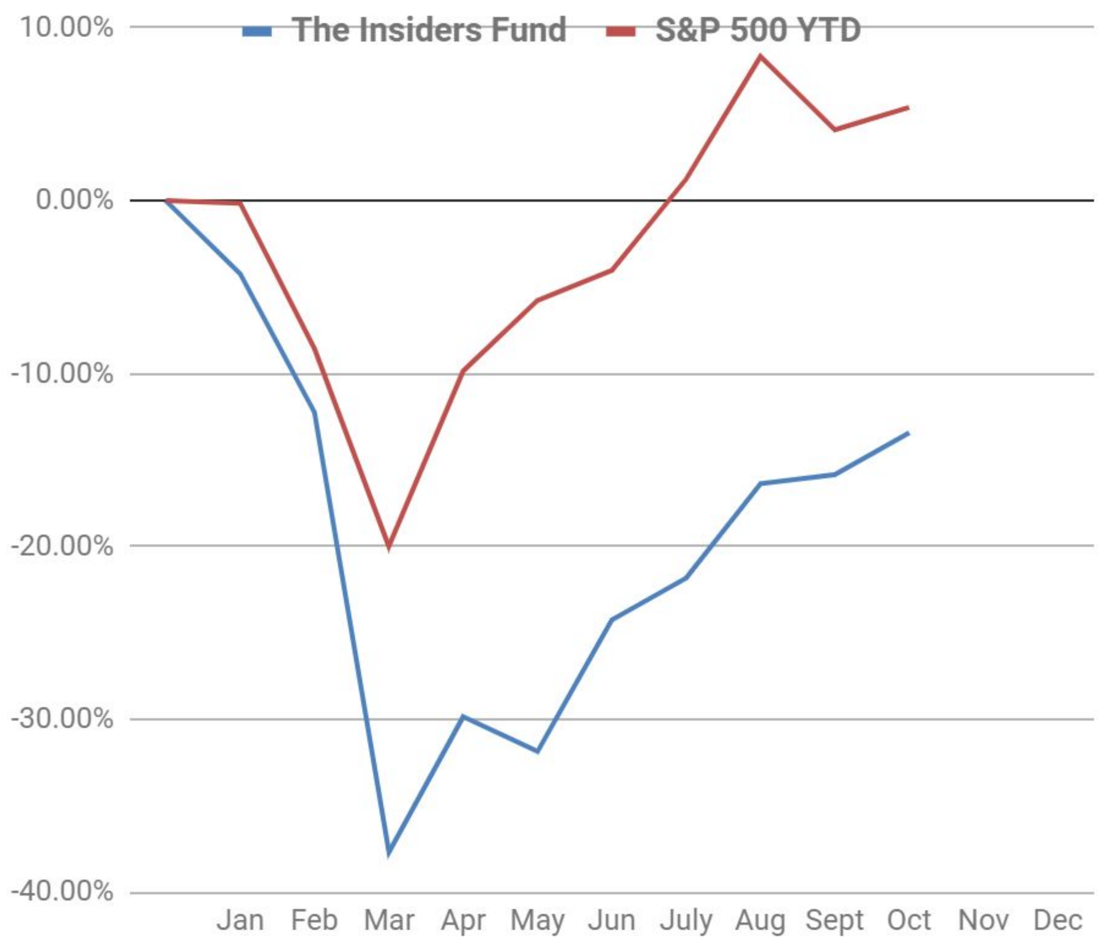
After significant underperformance, The Insiders Fund has a hot hand

Results and Benchmark Comparisons:

The Insiders Fund was up 0.62% for September while the S&P 500 was down 3.92%, suffering the worst September since 2011. The Insiders Fund was up 11.09% for the quarter versus 8.78% for the benchmark. Year to date we are down 15.85% versus the S&P 500 up 6.69%. The capitalization weighted indices like the S&P 500 have been dominated by mega cap tech stocks which have been largely immune to the effects of the pandemic; at least their stock prices have reflected as much. The RSP, an equal weighted S&P 500 index was down 6.56% during the same YTD time period.

Our primary goal this quarter is to get back to the highwater mark and if possible generate a tax operating loss for the partners. We are making good progress as of the time of writing, the Fund was up 5% in October.

1887 Gold Dust Lane, Suite 203A, Park City, UT 84060
wk. 435-658-1934 ▪ fax: 206.984.4109 ▪ email: hsax@theinsidersfund.com



The Fund has Outperformed in Recent Months.

This letter is our report card to our partners. We strongly encourage you to read it carefully as often the difference between success and failure in investing boils down to understanding what you own. Investments rarely align themselves with monthly or quarterly results, so it's important to understand the logic behind the reported results. *I believe success in the stock market is often about investors with conviction taking money from those that lack it*. I have added dynamically updated spreadsheets tracking the performance of the notable insider buys to better aid in our understanding of how well the strategy of following insiders works versus the implementation of it. Clearly some insider trades are better than others. [Insider buying]

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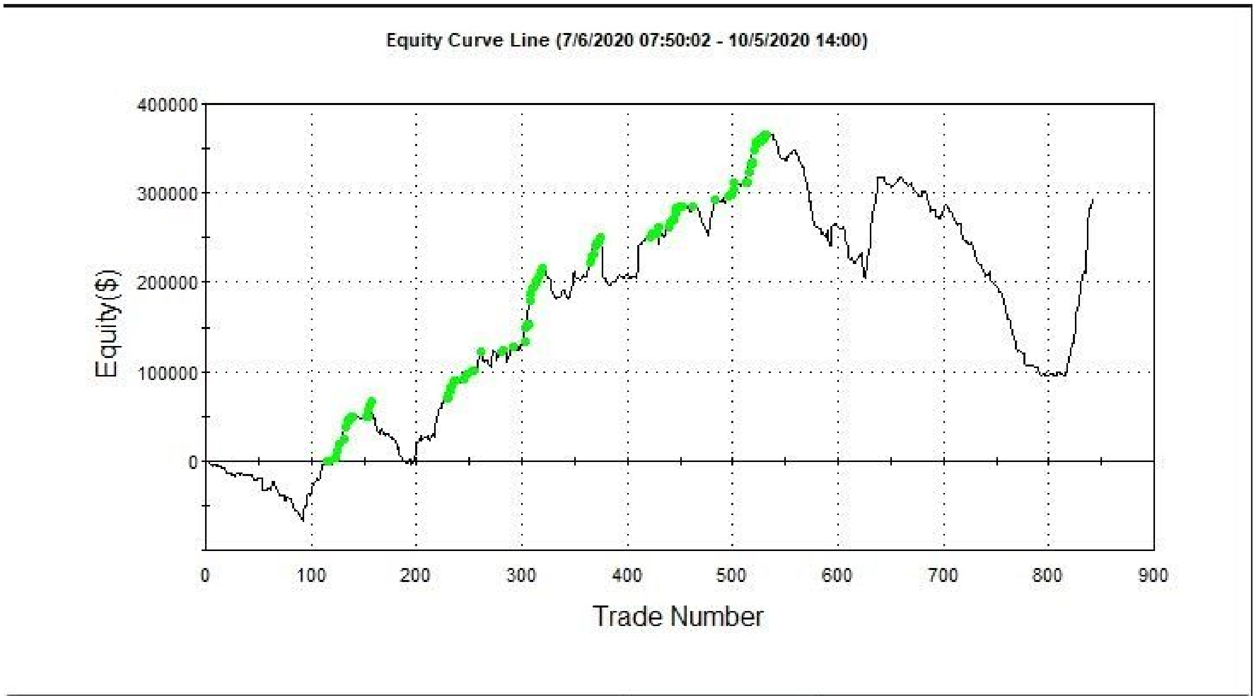

Strong quarter in spite of the low win ratio and September Market Sell Off

We made 818 trades in the quarter with only a 46.21% profitability ratio. Most of the trades, 646, were on the long side. Our short side trades were actually more profitable at 49.42%. Although profitable, the quarter returned half of what the 2nd quarter did. This is very correlated to the market performance.

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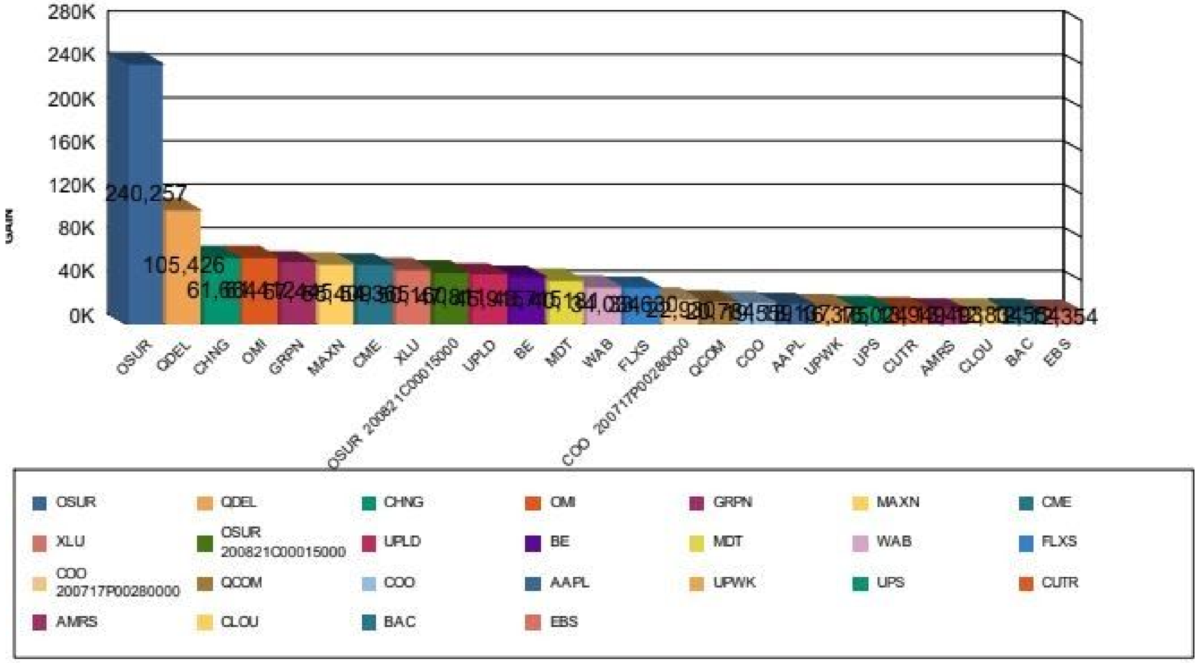
TradeStation

Top 10 Gainers
THE INSIDERS FUND, LP
19216811
From 06/30/2020 to 09/30/2020



One of the things I am constantly on alert for is would it have been better to buy and hold or to trade.Our biggest winners in the 2nd quarter were in the financial sector such as **Lincoln Life**, **Principal Financial**, **Berkshire Hathaway**, **S&P Regional Bank ETF**, and **Occidental Petroleum**. I have no regrets in how we traded these names as they have done very little since we traded into more profitable investments. In the case of **Occidental**, we saved ourselves considerable monies as the stock has made new lows.

In the case of the top gainers from Q3, the picture is mixed. We had an enormous winner in **Orasure** and we traded that well. On the other hand, we had significant profits in **Quidel** but left large amounts of money on the table as we underestimate the demand for Covid testing. We had no other regrets.

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TradeStation

Top 10 Losers
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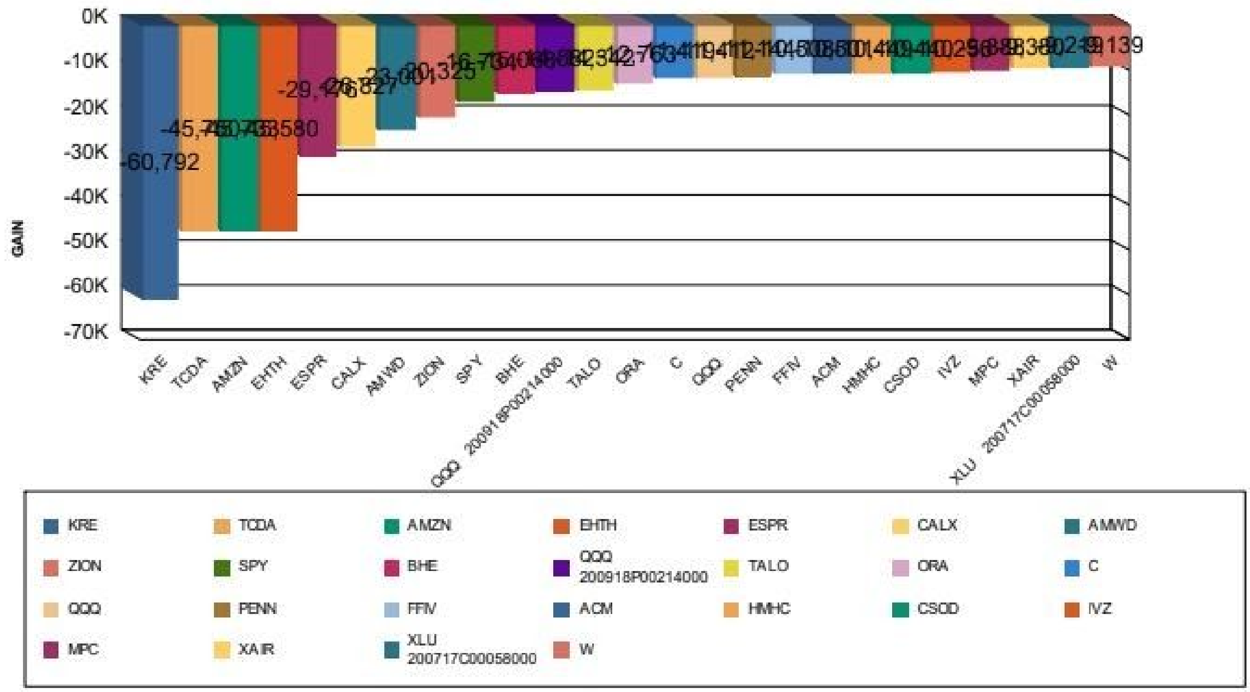
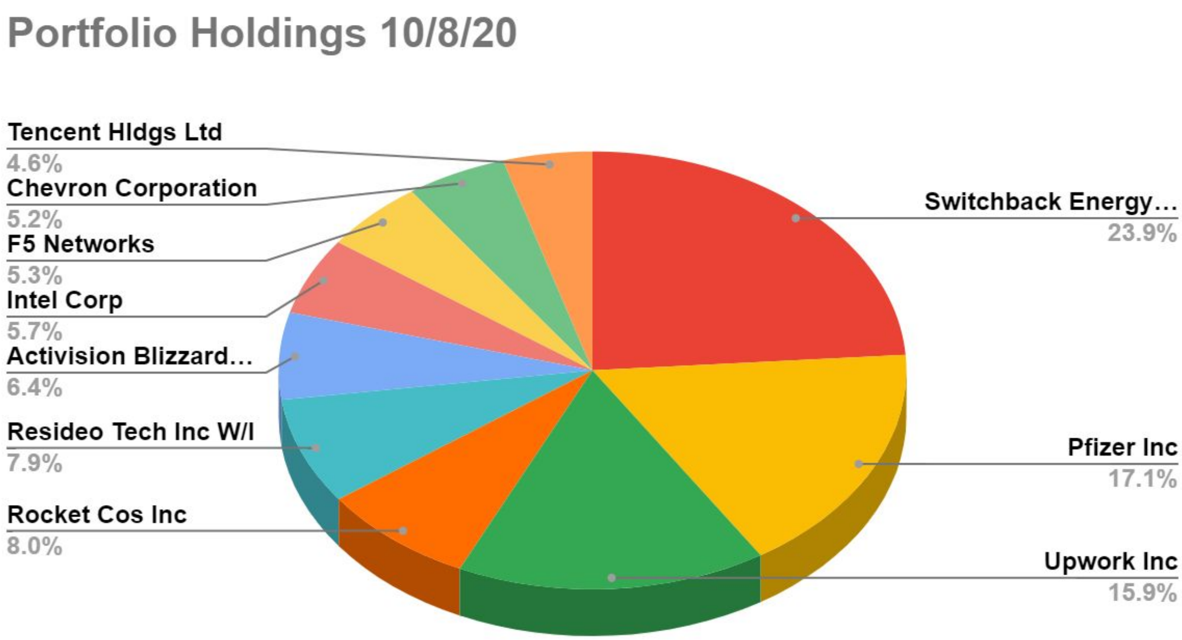


We did much better by taking profits and redeploying our capital elsewhere. I'm not going to beat myself up about the losing trades with the exception of Amazon. We are value buyers by inclination and struggle with trading momentum stocks. TCDA was a disappointment as we had the CFO buying $1 Million worth of Tricida at $30.09 The current price is $9.30. No insiders have stepped up to take advantage of the steep drop in price and neither are we.

Current holdings:



Because the fund is an active trader, we may highlight an individual holding if it's a new position, major holding or represents some change to our normal holdings. The best way for you to follow our investments is through the client portal. There, you will find the daily performance and details on all of 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.

The Fund is 129% long. As we approach the Presidential election, this allocation will likely taper off if the election outcome seems uncertain. The Insiders Fund can go to cash rapidly as we have done several times this year.

"It was the best of times, it was the worst of times" quote from A Tale of Two Cities perfectly describes the pandemic effect on the winners and losers. If your business depends on the close proximity of people, you are hurting. On the other hand if your business enables remote working, recreating while socially distancing, or related to single family home nesting, you're prospering. Our current holdings largely reflect this:

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We have highly concentrated positions. 59% of the Fund is in three positions, two of which, **Upwork** and **ChargePoint**, we plan on holding indefinitely. The Insiders Fund has a small footprint and we can easily change our allocations as the circumstances change.

It brings to mind, when George Soros busted the English pound, he was quoted as saying, "When you know you're right, there's no such thing as betting too much."

Switch Back Energy is a SPAC that was recently combined with ChargePoint. **Chargepoint** is a global leader in the emerging electric vehicle charging infrastructure. There are currently four significant players in this market, Tesla, Electrify America, EVgo, and **Chargepoint.** Volkswaggen owns Electrify America, LS Power, privately owned, bought EVgo. It's an unprecedented market opportunity. California has banned combustion engine automobile sales after 2030. It's not hard to imagine that happening across the nation.

Founded in 2007, **ChargePoint** is a category creator in EV charging, helping to make the mass adoption of electric mobility a reality. It operates in every segment, from commercial to fleet to residential. ChargePoint has created one of the world's largest charging networks with a capital-light model by selling individual organizations and businesses, known as site hosts, everything they need to electrify their parking spaces - networked charging hardware, software subscriptions and associated support services. Charging is matched to parking duration, from energy-managed AC level 2 to DC fast charging. The parking spaces owned by ChargePoint's site hosts are seamlessly integrated into one network available to the driver in a top-rated mobile app. ChargePoint's winning operating model and high-quality solutions foster loyal site hosts who expand their charging footprint as EV penetration rises, creating a virtuous loop of brand awareness, satisfied drivers, organic networked charging hardware and recurring SaaS revenue.

SBE, which will change its name to **ChargePoint**, serves customers through its software-defined hardware portfolio, comprehensive suite of software solutions and robust network and services designed for a wide range of use cases. ChargePoint's offerings have attracted a growing customer base of more than 4,000 organizations and businesses, building a network of more than 115,000 public and private places to charge.

Prior to going public with a SPAC, **ChargePoint** had attracted funding from both private venture investors and large strategic investors, including German automakers Daimler AG ,BMW, and the venture arm of oil company Chevron Corp. There is no way to properly value ChargePoint. The electrification of the transportation market is a generational event and probably the most significant technological change since the advent of the Internet.

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ChargePoint seems a likely long term leader. There will undoubtedly be consolidation and intense competition in the race to EV charging infrastructure dominance. **At the moment, SBE is the only way to play it in the public markets besides Tesla.**

While we were accumulating our position in **SBE**, Kyle Bass, filed a 13G showing he had accumulated 9% of the company. He tweeted "Today we filed a 9% ownership stake in **Switchback Energy (SBE)**. **Switchback** is merging with **ChargePoint** which is already the largest EV charging network in the US. With 4,000 commercial customers, 62% of the Fortune 50 are using ChargePoint.

Pfizer is the likely leader in the Covid vaccine race. We are supposed to get a read out on their phase III trial imminently. There are different opinions on how much money the company will make on this vaccine-from nothing to $16 billion per year which would match the peak year sales of their best selling drug, Lipator. **PFE** has a broad portfolio of drugs, upcoming trials, and a rock solid dividend of 4.12%. With or without Covid, Pfizer seems like a solid investment. With Covid, it may just be a turbo boost to the stock and worth an outsized bet on its vaccine success. We don't plan on being long term investors in this name but the risk reward ratio at the moment seems outstanding.

Upwork is the category killer in the rapidly evolving market of freelance work and the management of talent both onshore and offshore. The global marketplace for talent is one of those giant TAMs(Total Addressable Markets-venture capitalists like to throw around this term). **UPWK** is the leading online marketplace for freelance talent such as software talent, creative and design, finance and accounting, consulting, operations, customer support, etc. More than 30% of the Fortune 500 use Upwork including clients such as Airbnb, automattic, BISSEO, GE, and Microsoft. ***Think Ebay for outsourcing.***

We have been using both sides of Upwork's platform for years, both as a buyer of services and seller. It has competition from **Fiverr** and **Freelancer.com** but in my opinion, **Upwork** is the leader when it comes to more durable businesses migrating to their platform. **Upwork** also had very sizable insider buying near prices we accumulated it at. It started out as a profitable trade but we decided that this was a long term holding. We initiated it at 13% of our portfolio but has grown to about 18%.

Rocket Companies is my head scratcher. **RKT,** the owner of Quicken Home Mortgage went public in a hot market with the biggest IPO of the year to date. They priced their IPO at $18 per share, which was below the $20-$22 per share price talk. This was stunning to me and probably to its CEO and Founder, Jay Farmer who bought 204,000 shares at $18 as well as Director Tellem who picked up 35,000 at $18.

Quicken Home Mortgage is to the mortgage industry what Netflix was to traditional TV and cable. **RKT** closed out its IPO week at $18.96 in spite of announcing preliminary 2nd quarter

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revenue up 152% compared to 1st quarter 2020 and 300% compared to second quarter 2019. In addition, **RKT** reported preliminary Q2 adjusted net income $2.8B, an increase of 335% compared to first quarter 2020 and 995% compared to second quarter 2019. Adjusted EBITDA of $3.8B grew 317% compared to the first quarter of 2020 and 868% compared to the second quarter of 2019. Closed loan origination volume of $72.3B increased 40% compared to the first quarter of 2020 and 126% compared to the second quarter of 2019. HOLY MOLY- I would have thought it would double on these kinds of numbers.

So what is wrong with **Rocket**? Most analysts believe that the pace of mortgage financing and origination will decline next year yet **Rocket** is the 800 lb gorilla in the room. Gorillas have a way of getting their way and Fintech is a growth industry. We have accumulated an 8% weighting in this Fintech gorilla. It's another name, we plan on holding long term.

Resideo Tech is the new company Honeywell spun out to incorporate their home automation business. The smart home is a secular growth market. **REZI** has considerable insider buying. There is a lot of competition from giant tech players like Amazon and Google but Resideo has a broad array of products including UV germicidal lights you can place in the HVAC return of your home that will disinfect the circulating air.

Google recently invested $450 million in a partnership with **ADT.** **REZI** at $1.5 billion market cap versus **ADT** at $6.3 billion looks like a good long term investment but the proof will be in the pudding. If Apple wants to be a player in the smart home market, they would be wise to buy or invest in REZI. We also own a small stake in **Vivint Smart Home**, another name with considerable insider buying.

Activision Blizzard and **Tencent Holdings** represent an 11% exposure to the online gaming market. Neither name has any insider buying that we are aware of but this November will mark the first new game stations from XBOX and Sony in years. Gaming is a giant market and with Covid-19 hammering the movies and in person gatherings, gaming is a sure winner. Activision Blizzard has the #1 XBOX game, Call of Duty. Tencent is the #1 gaming company in the world. It owns 40% of Epic Games, the originator of Fortnite. The Chinese gaming market alone

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dwarfs the U.S and Tencent should have little impact from Trump's trade war. In fact we believe, as does the market, that a Biden administration will be better for Chinese stocks like Tencent.

If you have millennials or Gen Z in your family, you already know that gaming and YouTube are the winners in the entertainment world of the future. Just to give you an idea of the scale, Fortnite did a premier concert with the #1 KPop band, BTS. The band members were portrayed by avatars. I think of a big concert as 20,000 people showing up, perhaps in the Beatles heyday, stadiums and arenas held 80,000 people. Try thinking in numbers like 28 million in the online world. This dwarfs anything known before in the entertainment world and these companies are good at figuring out how to monetize this.

We don't know the values of either of these companies except to say, we want to participate in the future as it plays out in the gaming world. To put some things into perspective, Mark Zuckerberg gives every new employee of Facebook a copy of Ready,Player,One- a novel about how people all relate in a virtual 3D world. Think Oculus, think gaming. We also have a small position in Take Two Interactive and would be buyers of **Electronic Arts** on any pullbacks. We have a small loss in **ATVI** and a small profit in **TCEHY**. I like both names long term.

F5 Networks and **Intel** are both ways we can invest in value based technology stocks. Thomas Dean, VP, at **FFIV** bought $1.1 Million worth at $138.52 down from its high of $155. FFiV is currently trading around $127 per share.

F5 is an American company that specializes in application services and application delivery networking. F5 technologies focus on the delivery, security, performance, and availability of web applications, including the availability of computing, storage, and network resources.

Intel has fallen out of favor but it is the U.S. company with the most experience and talent in building semiconductor factories. Inevitably this industry will get some repatriation as the bipartisan agreement that fabless semiconductor manufacturing abroad represents broad security and technology risk long term. There is no better play in repatriation of semiconductor manufacturing than **INTC**.

Chevron is the blue chip of the oil and gas world. This is a contrarian play. We are not long term investors in the sector but when the news is so bad, the sentiment is so bad, there may be short term trading opportunities. **CVX** also has a 6.8% dividend yield that appears safe for now. We have a theory that a Democratic win would mark the bottom of oil prices as regulations will curtail supply and that will help prices. That's the bottom line for most oil stocks. Higher crude prices, higher stock prices.

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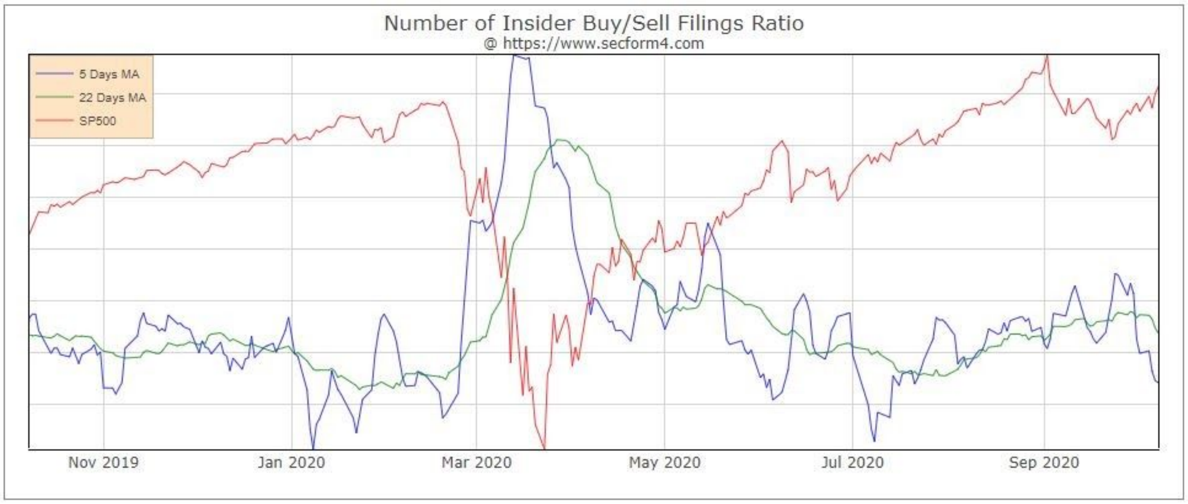
Our Outlook:



Insider buying has all but disappeared

Insiders buy their stock when they think it's undervalued. There is not much of that going on at the moment. Although the major indices concluded the best six months in Wall Street in around 20 years, rational players would have to conclude the real economy and the stock market bear little in common at this moment. The rally in the market from it's March sell-off has been mostly a liquidity ignited event fueled by record amounts of money printing by the Federal Reserve *but that is showing signs of changing.*

The market is pricing in a Democratic President. It also looks like it's pricing a considerable Democratic sweep. Invesco Solar Energy TAN, the largest of the ETFs, is up 34% in the last two weeks. Recent favorable odds forecasting a Democratic victory combined with a friendly Fed feed into a bullish scenario for markets. The consensus opinion seems to anticipate both increased fiscal and financial stimulus. On the other hand, a Democratic sweep might lead to lower corporate profits, increased taxes and regulation that might weigh on stock prices.

Housekeeping

Taxes, taxes, and then there are damn taxes. It's likely if the Democrats win, that taxes on households above $400,000 in annual income will be going up.Its probably safe to assume even if Republicans win, tax rates will have to rise to support the enormous amount of deficit spending the pandemic has caused. I want to take a moment to reemphasize the tax

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advantaged nature of investing in The Insiders Fund as well as The Volatility Advantage Fund. Both funds deploy something known as mark to market accounting.

"*Under Sec. 475(f)(l)(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."*

The net effect of this is we have the best of both worlds. With mark to market accounting there is no carryforward limit of capital losses as the gains on the appreciation of the fund are treated as ordinary business income or losses. If we have a loss in net asset value, as we do at the time of this writing, most investors will be able to fully deduct it from your taxable income as well as carry it forward indefinitely until you use up the tax loss.

In the past we have mostly had short term gains which have generated large operating income on your K-1. We have been rapidly earning money since June at a rate 3X the market. We are now sitting on large unrealized capital gains. We will be segregating those positions as held for long term capital gains. The net result is that we may show a taxable loss on your K-1 this year when you could very well have a profit on your investment. This is truly the best of both worlds from a tax perspective.

As a rule I don't believe in investing based on tax consequences but I don't like paying taxes anymore than the next person. You might ask why we haven't been more aggressive before with this and the answer is simple. We just didn't have the opportunities we see now. Again, we don't provide tax advice and you should always consult with your own independent tax advisors.

Sincerely,

HWS

Harvey Warren Sax
hsax@theinsidersfund.com
Partner, Alpha Wealth Funds, LLC
Fund Manager of The Insiders Fund, LP

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