



Alpha Wealth Funds, LLC

“the opportunities never stop”

January 13, 2021

The Insiders Fund, LP 4th Quarter 2020 Partner Letter:

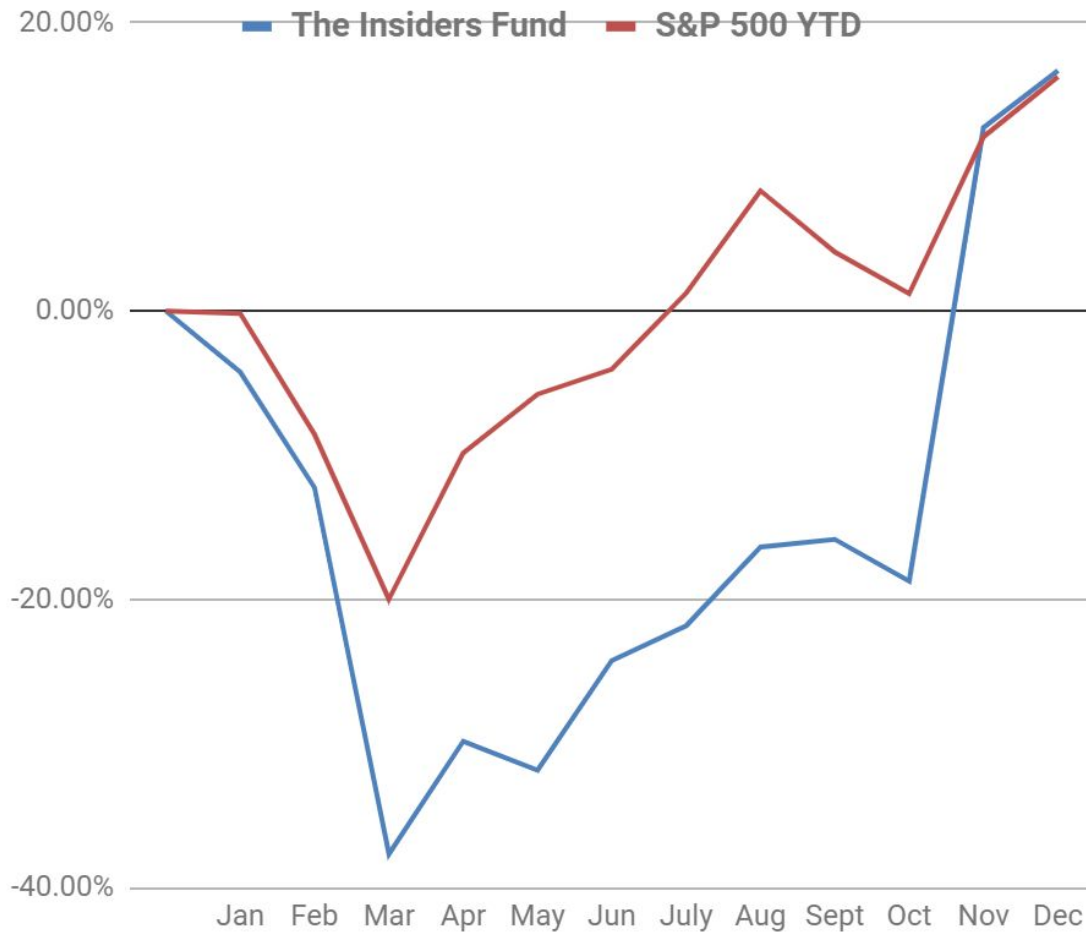
“When you know you’re right, there’s no amount of money too much to bet” -George Soros

Results and Benchmark Comparisons:

The Insiders Fund was up 2.51% for December 2020 while the S&P 500 returned 3.7%. The Insiders Fund was up 37.20% for the 4th quarter versus 11.7% for the benchmark. For the calendar year 2020, we returned 14.99% (after all fees and expenses) versus the S&P 500 up 18.40% (includes dividends). Individual returns will vary based on when you invested and breakpoints. NAV Consulting provides the official returns for the fund. The audit and tax forms will be provided directly to you from Akram Fund Services, a PCAOB member accountancy firm.

Last quarter we wrote that “Our primary goal this quarter is to get back to the highwater mark and if possible generate a tax operating loss for the partners....”

That turned out to be an understatement largely because of the stratospheric performance of ChargePoint, our largest holdings in the previous quarter, and Upwork.



The Fund has Outperformed in Recent Months and Continues up over 6% MTD in January

This letter is our report card to our partners. We will post this on our website as well as all of our past letters. I like to read the old letters, dust off the crystal forecasting ball, and see if we can improve our results. I encourage you to read it carefully as often the difference between success and failure in investing boils down to understanding what you own. *Success in the stock market is often about investors with conviction taking money from those that lack it.* Investments rarely align themselves with monthly or quarterly results, so it's important to understand the logic behind the reported results.

The chart above helps to put things into perspective. As we mentioned in previous partner letters, we entered March with a portfolio perfectly positioned to be heavily damaged by the Pandemic with concentrations in airlines, mall-based REITs, and

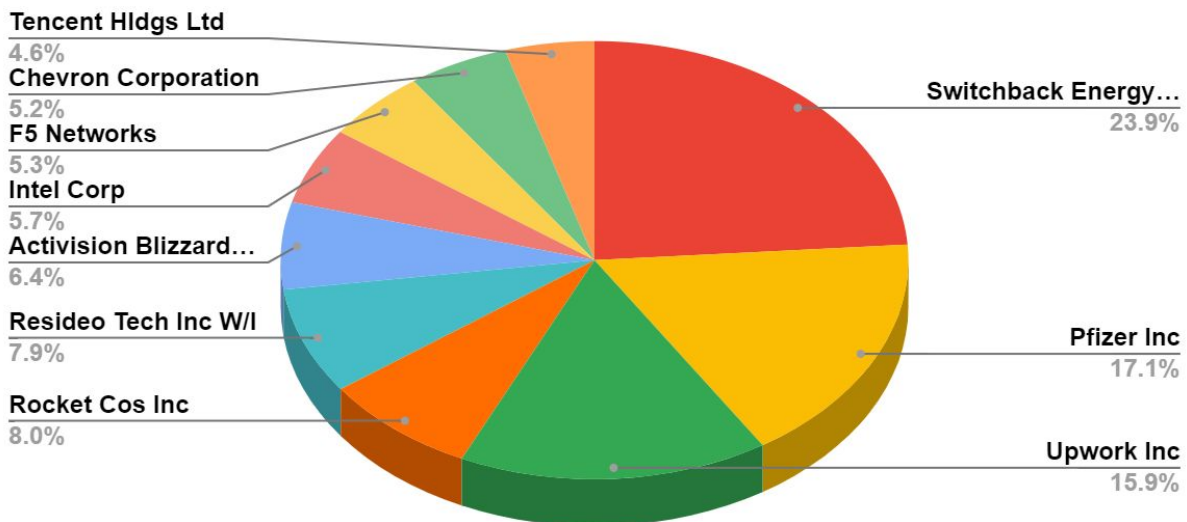


exposure to oil and gas stocks. By the time we unwound these positions, the damage was done.

I often tell partners and potential investors, we will make mistakes. We will occasionally get it wrong. Anyone that tells you otherwise is a charlatan. But what I try to reassure investors is *that our strategy of paying close attention to what insiders are doing with their own money is the best way of not losing theirs.*

In the 4th quarter, we correctly anticipated the work from anywhere theme and the outcome of the Presidential election with its emphasis on renewable energy investments. If you take a look at the 3rd quarter partner letter on the website, you will see how prescient and timely our investments were.

Portfolio Holdings 10/8/20



We had great hopes for Rocket Co but the stock in spite of good financial results it has not performed well so we cut exposure to the name and now hold a very small position. All it will take is for Rocket to announce they're buying a fintech and the stock will soar. If option prices come down enough, we may buy more but it seems dead money for

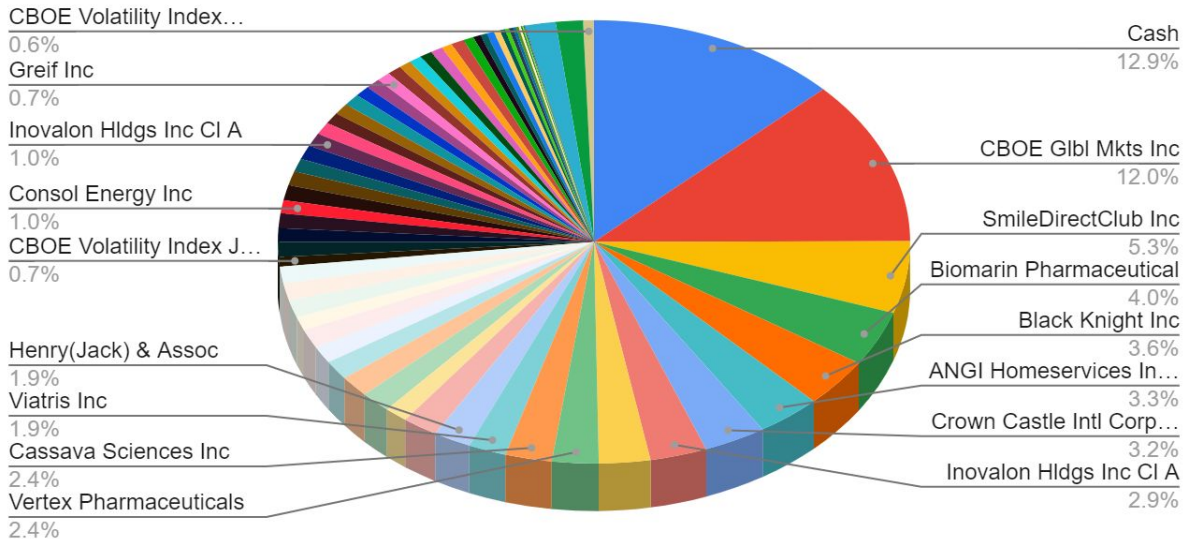
now. Even so, we bought more today as we pined this letter. Intel was a poor performer until an activist investor spoke up. Pfizer in spite of its Covid-19 success was a lackluster performer.

Taxwise we would have been better off holding all the other positions including Switchback Energy, but when stocks triple as SBE did on the back of speculative euphoria and little else, investors that don't ring the register look foolish in hindsight. We took profits and now have some taxes to pay although our effective tax rate will be lower as several positions were held over and marked for long term capital gains treatment; more on that later, though.

Our goal of getting back to even was eclipsed and we booked handsome profits for the year.

Current holdings:

The Insiders Fund Holdings 12/31/20



When I sat down to start this letter, I had the usual misgiving about describing our holdings. The Insiders Fund is a small nimble fund and we can move things around



very quickly. By the time I finish the letter, the portfolio positions and relative percentages may barely resemble what I started with, making me think this is perhaps a fool's errand. Nevertheless here is a snapshot at the end of the year. You may note that we went from 129% long weighting at the beginning of the 3rd quarter to 80% net long with 13% in cash at the beginning of the new year. Simply put the runup into the end of the year has decreased the opportunities and our portfolio reflected that.

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 client portal tracks our daily NAV with an occasional lag. 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. We are also asking NAV to make more info available to our partners pertaining to portfolio holdings and attribution. We will be emailing a preliminary monthly performance report with the portfolio holdings attached. I ask you not to share the holdings as one of our advantages is our relatively small size. We don't mind you piggybacking off our research and trades but if others are interested, well you know the rest.

We pay close attention to what companies that insiders are buying, especially those that are worth significantly more on traditional models like discounted cash flow. It's even better if Wall Street analysts are not falling all over themselves with buy recommendations and the company is a near-monopoly. Unfortunately, those stocks are far and few in between but **CBOE Global Markets** fits that description.

CBOE is our largest holding, constituting about 13% of the overall asset value of the Fund. and one that we have identified as being held for long-term capital gain. CBOE offers both call and put options on thousands of publicly listed stocks and the popular VIX marketplace. CBOE is currently one of the largest U.S. equities market operators on any given day. They operate four U.S. equities exchanges – the BZX Exchange, BYX Exchange, EDGA Exchange, and EDGX Exchange. We have significant unrealized gains in CBOE.

Smile Direct is a poor man's Invisalign. **SDC** produces 3D-printed clear aligners. SmileDirectClub aligners are a competitor of traditional braces and clear alignment companies like Invisalign. Communication with licensed orthodontic professionals and other SmileDirectClub staff takes place virtually. Impression kits are sent to customers, after which teeth molds are reviewed by dentists or orthodontists who oversee the



treatment process. The company reportedly works with 225 licensed professionals and that number seems to be growing.

We have significant unrealized gains in **Smile Direct**. The CEO, Katzman, bought \$10.3 million worth of stock at \$8.07. There is a large short interest in the name, about 28%, creating the opportunity for a short squeeze. I think that Smile Direct is a direct beneficiary of both the virtual Zoom type world we have been living in and the get back to normal world as the Pandemic ends. People have spent a lot of time staring at one another on their computer screens and when they meet in the real world, everyone will be smiling. Let's hope we smile with them.

If I had to make a bet on what would be the best performing sector of 2021, I'd say small-cap biotech. We are all witnessing first hand how the Covid-19 vaccine promises to return normalcy to our world. This will likely increase investor enthusiasm for the role biotechnology plays in our world. It may also serve to lessen the political pressure on drug price controls. Without potential profits, pharmaceutical companies will not make the necessary investments to discover new drugs. The average cost to bring to market a new drug is now over \$1 billion and a decade in the making.

Biotech is the hardest sector for the average investor to evaluate. Hedge funds and brokerages employ teams of physicians and scientists to help them understand and gauge the potential for drug discovery. We don't pretend to have that ability. But what we do have, we exploit, and that's watching the companies where insiders are buying and selling. Perhaps no sector more than biotech is insider behavior so heavily scrutinized. Does anyone remember Martha Stewart, Sam Wachtell, and the story of Imclone? In that case, insiders were selling in advance of the negative drug trial news that was not yet public.

We are highlighting two small speculative biotech plays and one informatics company that we own. We don't have monstrous size in these names as we did in Switchback and Upwork as the risk is too great but we do have significant exposure 2-4% of the Fund.

Cassava Sciences is our 200 bagger potential. If you read our blog or Twitter you have heard me talk about this development stage biotech working on a new approach to Alzheimer's. This is straight from the [blog](#), on September 29th, 2020

SAVA is a developmental stage biotech pioneering an entirely new approach to tackling Alzheimer's. There have been so many high profile costly failures that any glimmer of



hope is rewarded with astounding price movement. Two buys, one particularly large by the 94-year-old director Sanford Robertson ignited the stock. Director Roberston bought 1,491,759 shares at \$6.98 after the news of positive phase 2 results. We have been following SAVA since the first insider buys by Robertson last December in the \$2 range. This week in the aftermath of Phase 2 trials, Robertson and its CEO came back to the buying board. Robertson is the lead Independent Director, salesforce.com, inc. and a founder of Robertson Stephens & Co. and Francisco Partners Management LP. It's CEO Remi Barbier bought 10,000 shares at \$9.59. His last purchase was at \$5.31 in December of last year. It's prudent not to read too much into these buys but the chance to own a legit Alzheimer's lotto ticket is too much to pass up.

Alzheimer's disease is a progressive disorder that causes brain cells to waste away (degenerate) and die. Alzheimer's disease is the most common cause of dementia — a continuous decline in thinking, behavioral and social skills that disrupts a person's ability to function independently. It's fatal and takes a horrible toll on the victim as well as their family. Alzheimer's is the third. leading cause of death in the United States, and the only top-10 deadly disease not to have a treatment or cure. It is the golden fleece of the biotech world. Next to a cure for cancer, there is no bigger prize in the pharmaceutical market.

Casi Pharmaceuticals is a smart play on the growing middle-class demand for better health care in China. Again we [blogged](#) about this name on November 29th naming it our pick of the week. We wrote:

Casi stands out. This under the radar name has both massive insider buying and pedigree management. CEO Wei-Wu He bought 227,471 shares of Casi Pharmaceuticals at \$2.15 per share. He also bought 4,125,426 shares at \$1.9 back in July. In fact, he has been a buyer of **CASI** since 2016 and has yet to sell a share. He has been Chairman of the Company since February 2012 and Executive Chairman since February 2018 and Chief Executive Officer since 2019. Prior to joining CASI, Dr. He was the CEO of OriGene Technologies, Inc. and remains Chairman of the Board of Directors. He also is the founder and General Partner of Emerging Technology Partners, LLC (ETP), a life science focused venture fund established in 2000. Dr. He has been involved in founding or funding over 60 biotech companies throughout his career, some of which went on to be acquired by significantly larger firms. In the earlier



part of his career, Dr. He was one of the first few scientists at Human Genome Sciences, and prior

to that, was a research fellow at Massachusetts General Hospital and Mayo Clinic. Dr. He is an author of more than 30 research publications and inventor of over 32 issued patents. Dr. He received his Ph.D. in Molecular Biology from Baylor College of Medicine and received an M.B.A. degree from the Wharton School.

It's President, Mr. Zhang joined **CASI Pharmaceuticals** in September 2018 as President of CASI Pharmaceuticals (Beijing) Co., Ltd., which is a subsidiary of CASI Pharmaceuticals, and became President of CASI Pharmaceuticals in September 2019. Mr. Zhang has more than 20 years of management experience in the healthcare and biopharmaceutical industries in the U.S., Asia Pacific, and China. Prior to joining CASI's Beijing office, Mr. Zhang was Vice President, Head of Public Affairs and Corporate Responsibility at Novartis Group (China), where he focused on the public affairs/public relations strategy, including initiating Novartis' China policy focusing on China FDA (NMPA) new drug approval reform, intellectual property protection, generic quality consistency evaluation and new regulations on biosimilars.

CASI is dedicated to the development and delivery of high-quality pharmaceutical products and innovative therapeutics to patients worldwide while targeting the China market. CASI has built a fully integrated, world-class biopharmaceutical company dedicated to the successful development and commercialization of innovative medicines. With over 100 employees in China and the U.S., CASI personnel are trained in global operations and have extensive expertise in U.S./China clinical, regulatory and commercial requirements and standards. The Company says it intends to execute our plan to become the leading platform to launch medicines in the greater China market leveraging our China-based regulatory and commercial competencies and our global drug development expertise. I think **CASI** has blockbuster potential combining what could be two of the hottest investment themes of 2021, biotech, and China.

The last name we are highlighting is **Inovalon**, a medical informatics play. One of the things that the Pandemic brought to light is that we might know how many gallons of gasoline was bought last week, last month, or last year; we know to the penny the dollar amount of credit card transactions every day, but when it comes to the public health we are in the dark. We still don't know how many people have Covid and we are a year into the Pandemic.



This is a no brainer that we as a country will have to spend magnitudes more money on healthcare data. There are few companies better positioned than **Inovalon** and none with a significant amount of insider buying. CEO Dunleavy has bought \$millions of dollars worth of **INOV** without selling a share.

Our Outlook:



Insiders buy their stocks when they are cheap

Insiders buy their stock when they think it's undervalued. Nothing shows it better than the graph above. Note the blue line which is the ratio of insider buying versus selling and the red line which is the S&P 500. In March during the panic of the Pandemic when the market collapsed, insiders were buying hand over fist, at a rate we haven't seen since 2008.

We wrote in our last partner letter, “**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.**

We are bullish. Cash is trash and we are entering the roaring 20's. This time it's not the 1920s but the 2020s. Speculation is rampant, nowhere better exemplified than in the proliferation of Wall Street's latest craze, the SPAC.

SPACS are just giant holding tanks for cash and connected avarice promoters that will buy up record amounts of private companies or give their investors their money back. Inevitably that will drive up the prices of companies, wages, wealth, and inflation until the bubble pops.

For the time being, it's clearly a party for people with money in the market. Unfortunately that's only a small slice of America. The wealth disparity will only become more apparent and higher taxes will be the attempted remedy.

Housekeeping

Taxes, taxes, and then there are damn taxes. It's likely that taxes on households above \$400,000 in annual income will be going up. I want to take a moment to reemphasize the tax-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)(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.”

The net effect of this is we have the best of both worlds. With mark to market accounting, there is no carry forward limit of capital losses as the gains on the appreciation of the fund are treated as ordinary business income or losses. In the unlikely event, we lose money, you will be most likely be able to write the full amount off all sources of income. We can allocate stocks held for long term capital gain treatment as well.

As a rule, I don't believe in investing based on tax consequences but I don't like paying taxes any more than the next person. Our New Year's resolution is to make more money, pay less taxes. We've started the year with substantial unrealized gains that we plan to hold for long term capital gains treatment.



Thanks again for your continuing confidence. It's a great honor that you allow us to help you with your investments and we work hard every day to earn that privilege.

Sincerely,

A handwritten signature in black ink, appearing to read 'HWS'.

Harvey Warren Sax

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Partner, Alpha Wealth Funds, LLC

Fund Manager of The Insiders Fund, LP