Alpha Wealth Funds, LLC

"the opportunities never stop"

October 10, 2021

The Insiders Fund, LP 3rd Quarter 2021 Partner Letter

'What's the difference between being early and wrong? None."

Results and Benchmark Comparisons:

The Insiders Fund was down 2.3% for September 2021 while the S&P 500 returned -4.76%. The Insiders Fund was down 3.66% for the 3rd quarter versus 0.23% for the benchmark. For the trailing 12 months, the Fund returned 71.9%% (after all fees and expenses) versus the S&P 500 up 30.0% including 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 are provided by Berkower, a PCAOB member accountancy firm.

This letter is our report card to our partners. We will post this on our website with all 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 the partner letter carefully as often the difference between success and failure in investing boils down to understanding what you own. 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 you is that our strategy of paying close attention to what insiders are doing with their own money is the best way of not losing yours.

During the quarter, our win ratio was 49.70%. Our long trades were slightly worse at 46.68% while our short trades had a strong winning ratio of 55.46%. Overall, it was a spectacularly dull and uninteresting quarter. We made enough money in the first two months of the year, that I should have packed it up and gone on vacation but that would not have been fair to all the new investors. Instead, we worked our tails off with nothing to show for it.

September proved promising. It was the worst month in the market since the Pandemic started. The overall market went down nearly 5%, tech stocks sold off closer to 8%. A 10 percent sell off is considered a full blown correction. Our active We traded several indices and ETFs that are designed to allow you hedge or bet on the course of inflation.

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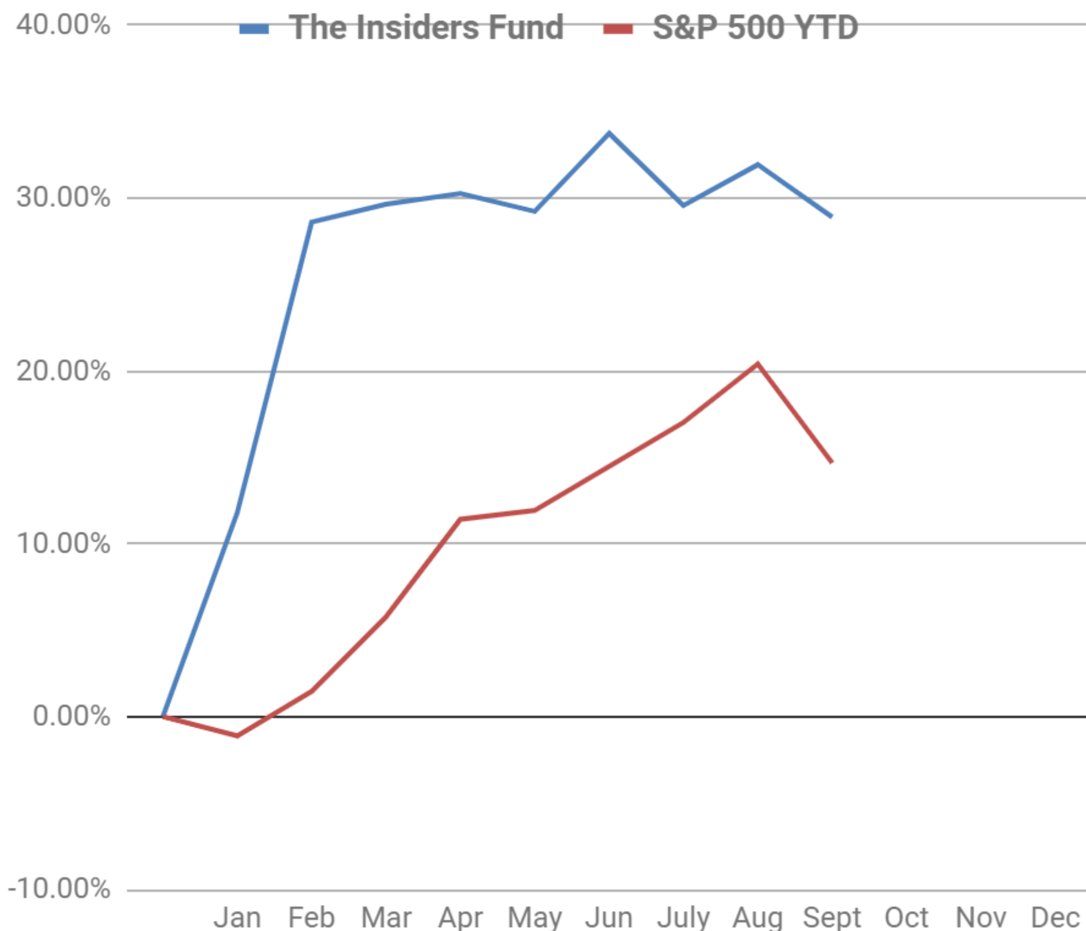
We've been spending a lot of time trying to figure out ways to profit from inflation. There are a few ETFS that purport to track various measures of inflation. We bought them across the board, with the idea, while none were exactly what we were looking for, the basket might be the best approach. We were late to the trade but made money on all of them. Inflation is a good bet, but things don't go up in straight lines. We're buyers back on any pullbacks.

We also initialed futures trades in oil and gas, copper, and even gold. We're exploring ways to bet on rising costs. We raised our cash in our futures account five-fold in order to have sufficient hedging funds and also to be able to bet more aggressively on commodities if there are opportunities that arise.



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Winners and Losers:

One of the things that I've really been trying to improve on is the tax harvesting of our investments, asking a question each quarterly report" would we have been better off holding than selling. Out of our top winners, they are all lower today than what we took profits on. No long-term investors made more money than we did on Vistra, Amazon, or Facebook. On the other hand, we got whipsawed badly in Upwork. With that glaring exception, most everything we bought or sold is worse off or no better today than if we had held.

Issuer Name	Realized Gain
Vistra Corp	127,213.24
Amazon.com Inc	103,429.43
Upwork Inc	73,209.01
Advanced Micro Devices Inc	69,729.85
Facebook Inc	55,447.36
Upwork Inc	49,041.72
Cirrus Logic Inc	46,011.45
ALPHABET INC	43,760.05
Upwork Inc	43,060.72
Louisiana-Pacific Corp	35,846.71

3rd Quarter 2021 Top 10 Realized Winners

Issuer Name	Realized Gain
Upwork Inc	(401,460.58)
8x8 Inc	(79,870.87)
Container Store Group Inc	(67,973.98)
Container Store Group Inc	(66,447.43)
The Greenbrier Companies Inc	(65,029.93)
Norfolk Southern Corp	(62,379.71)
Vertex Pharmaceuticals Inc	(59,270.49)
Bed Bath & Beyond Inc	(54,418.62)
Bright Health Group Inc	(46,058.40)
SPDR S&P 500 ETF Trust	(38,871.56)

I wrote in the last partner letter that to my great surprise; Cassava SAVA is higher than where we sold it in the 1st quarter. That is not true anymore. In fact, we have made some money going the other way, shorting Cassava. It turns out that the results of their exciting Alzheimer's trials left many unanswered questions about data harvesting and its integrity. I wrote in the last later, "Ironically the FDA's approval of Biogen's Alzheimer's drug, seemed to provide a justification for Cassava's own drug that plans to enter Phase III. The opposite result is just as likely to happen. The criticism about the FDA approval could cause the FDA to be *more* cautious about what drugs they approve for Alzheimer going forward."

We traded Vista well as it was one of the largest positions when we took some profits. We were able to buy it back substantially cheaper and now have a 4% position in the utility.

As you can see in the Top 10 holdings, we are heavily skewed toward dividend paying stocks, mostly electric utilities and Midstream Oil and Gas pipelines. Our top ten picks have an average dividend yield of 4.39%. This is striking when bonds and risk-free returns are so low.

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Cash is still our largest holding, at 23.7%. We don't' think cash is trash, even with rates this low. Cash gives us a lot of optionality.

We still have a large bet on rising interest rates in the form of December 23 put option on the 30-year treasury. Although this position has moved in our favor, I'm not as concerned about rising rates as I was. I'm more concerned now about stagflation, moderate rise in rates and a slow down in growth.

Evergy at 11.7% weighting is our largest holding. EVRG is in the enviable position of not only being a monopoly, but they are in the long-term process of replacing their costs of energy, natural gas, and coal, with renewables like wind and solar. Kansas and Missouri are in some of the best wind corridors in the U.S. Not only do they get to replace cost inputs that are classified as an expense; they get to do it with long-lived assets that provide "free power" from wind and sun, but that are also likely to get government-backed incentives from tax breaks and PPAs(Power Purchase Agreements) make the world greener by reducing carbon emissions.

The Solar Energy Industries Association (SEIA) is increasing its goal for Solar+ Decade, aiming for solar to account for 30% of U.S. electricity generation by 2030. The organization's previous goal was 20% by 2030, and this revision aligns with the Biden administration's clean energy targets while accounting for the growing urgency to tackle climate change and reduce carbon emissions in the electricity sector.

It doesn't take much imagination to understand why sophisticated investors like Elliott and BlueScape are buying Evergy. What's befuddling to me is why others don't get it. I wrote in our last partner letter's subtitle.

"There will be a giant transfer of wealth from the oil and gas industry to the regulated electric utility industry"

Just the opposite of that happened. Oil and Gas stocks soared, and the utility sector lagged. It recalls that the adage, 'What's the difference between being early and wrong? None." This is your classic asynchronous trade- massive upside with very little downside risk. We'll keep trying this theme to either we hit it, or insiders abandon it.

Director Wilder bought $11.5 million of EVRG in the last two weeks. He is part of an investment group, BlueScape Energy Partners that has announced its intention to invest heavily in EVRG along with the activist investor group, Elliott. These folks did not get rich by being stupid. Normally we exclude hedge funds from our insider buying analysis, but EVRG is a case of hedge funds buying and the CEO and CFO buying. That is a powerful combination too obvious to ignore.

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Investments rarely align themselves with monthly or quarterly results, so it's important to understand the logic behind the reported results.

I've been refining an investment strategy since 2001 when I stopped being an insider myself and concentrated on managing capital instead of people. It's humorous that this week's Bloomberg Business Week Cover Reads Is It Luck or Insider Trading?

It's only common sense to realize that corporate insiders know their business prospects better than anyone else. What is striking and alarming is that so few insiders are willing to buy their stock at current prices. That goes a long way toward explaining the 24% cash holdings of our portfolio.

Even when insiders are buying, it's not a sure thing like the Business Week article tends to imply. We are sitting on large unrealized losses in Casi Pharmaceuticals, Mustang Bio, and Crown Castle Intl, all companies with large insider buying. They are relatively small investments so we didn't discuss them in this letter but have mentioned Casi numerous times in the blog. We believe they will all work in time otherwise we wouldn't still own them.

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Utility stocks performed poorly in September, the last month of the quarter. Stocks in general lost ground in September but utilities outpaced the losses. The only two logical explanations for this are the market's anxiety about the end of tapering and the potential for interest rates to rise and the rapid rise in natural gas, the basic fleet fuel for 24% of the nation's energy. No question that in a rising interest rate environment, interest rate sensitive investments will underperform. Utility stocks comprise 22.1% of the portfolio at the time of this writing.

We don't pretend to have any edge when it comes to macro trends or event trading. When insiders are buying in clusters at a company or in a particular sector, we pay a lot of attention. Perhaps there is a market moving event or a macro theme likely to play out.

In the case of regulated electric utilities, we have very strong convictions that there is major investment opportunity forming. Very few analysts and market pundits are even talking about it. In the interim, we are earning over 3% in dividend income while we wait for this investment theme to play out. By no means are we the only ones paying attention. We have been blogging about this for months. Markets don't behave in linear fashion. People have a way of coming to a group consensus in lightening speed.

It's not to say, we are the only ones of this like mind. Barron's Andrew Barry hinted at some of our logic in his piece last week in Barron's entitled 12 Stocks and Fund to Play the Coming Green Boon for Utilities. He writes," electric utilities are at the center of a seismic shift away from coal and toward wind and solar power over the next 15 years. That is expected to be a huge boon to both the environment and investors—and utility company stocks and funds are a cheap way to plug into this critically important transition."

We wrote in our last letter, "That's only a small part of our investment thesis. Utilities are regulated monopolies and allowed to earn an agreed upon ROE. The world's transition toward electrifying the transportation industry will lead to much greater use of electricity in the average household. As the transportation fleet gets electrified, this will become a huge money transfer from the oil and gas industry to the regulated utility industry. Most every end-use of fossil fuel in transportation, heating, cooling, and other uses should be replaced by electricity. Even Elon Musk at his most recent shareholder meeting said, "you really need for a sustainable energy future, you have to address electricity at the homeowner level. This is essential. But there will still be a very prosperous future for utilities because electric power will approximately double. And then if you transition heating to electric as well, it approximately triples".

But not so fast…

One might think its incongruous that are two heaviest weightings are diametrically opposed world views. I am not convinced that the combustion engine automobile is going to disappear but if it does, it won't happen in the time frame that justifies the current discount of the oil and gas sector. In the interim, we expect prices of hydrocarbons to soar as the drive to net zero carbon isn't properly planned. We have a heavy weighting in Midstream Gas and Oil and integrated fossil fuel behemoth, Exxon. We have also been long oil futures for brief periods.

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Some might find this objectionable, but I don't see the world racing to vegetarianism when the meat and dairy industries contribute 14.5% of the total manmade C02 emissions according to the US EPA. Just to be clear, I do believe in global warming. I just don't believe we are going to address it with a carbon tax, just yet. It will have to get worse, perhaps much worse before that will happen.

Markets have a way of coming to a group conclusion suddenly and violently. It's very possible that my view about electric utilities could become the consensus view and interest rates concerns will be overridden by reevaluation of their growth prospects. If that were to occur, we would have no problem dramatically increasing our exposure to the sector.

We have three very high conviction trades to ride into the new year. Increasing oil and gas prices, pass through cost input inflation, and possibly the revaluation of the regulated electric industry into a much higher growth multiple.

On the other hand, fears of rising energy prices and an increase in interest rates may trump all and utilities continues to disappoint. We have no problem changing our tune here. I remind myself all the time, we fall in love with people, not stocks.

Our Outlook:

Our base case is that we are going to go into a period aptly described as stagflation. Signs of inflation are everywhere. Certainly, some of this is supply disruption caused by Covid but the pass through of energy and labor costs are a different matter altogether. Transitioning to a net zero carbon world will be awfully expensive.

Equity prices, real estate prices and all forms of asset prices are based in part off low interest rates. The market will be overly sensitive to any changes in the Fed's monetary policy. The consensus view is that the Fed will begin tapering in the 4th quarter of 2021 and interest rates will not rise until the 4th quarter of 2022. Changes to this assumption will increase volatility.
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The Democrats are determined to tax our hard-earned gains and the Republicans are equally determined to assure we don't have any by obstructing any kind of Democratic agenda. We are left to fend for ourselves- which many say is not a bad scenario.

The Government apparently has only enough money to fund itself through November, so we better make our gains quick before the country goes broke in December. All kidding aside this is not a great set up for a Santa Claus rally.

Rising interest rates, government dysfunction, and inflation are not a promising set up. The bottom line is we have become exceedingly cautious. The lack of insider buying is telling.

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Almost everyone is expecting some kind of correction as equities are as overpriced as anyone can remember. Ironically that means we're not likely to get much of one as markets tend to defy the expected. We will put our large cash balance to work as we find the opportunities but it's not burning a hole in our pockets either.

Housekeeping:

Please note that our blog at theinsidersfund.com/blog is now a paid subscription service but free to partners in The Insiders Fund using the promo code INSIDERFREE.

We have two new talented folks joining Alpha Wealth Funds. Jenny Boder comes over from Fidelity and is determined to give ups a woman's perspective on things. We can hardly wait. Be on the lookout for her voice in the alphawealthfunds.com/blog. Feel free to reach out to her at jboder@alphawealthfunds.com.

Mark Kress, a Bay Area resident, reached out to me while he was working on a Fund of Funds idea that he wants to target family offices with. He wanted to include The Insiders Fund in his basket of successful and talented emerging fund managers. He believes that he can smooth out volatility and produce outstanding performance with this diversified fund. We are helping him launch it and will be part owners. It is fittingly called Alpha Diversified Fund. Be on the lookout for more about Alpha Diversified. Mark's a very smart guy, Berkeley MBA and CFA and I'm convinced he's on to something. You can reach him at mkress@alphawealthfunds.com.

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,

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Fund Manager of The Insiders Fund, LP

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