ALPHA WEALTH FUNDS

Alpha Wealth Funds, LLC

"the opportunities never stop"

April 2022

The Insiders Fund, LP 1st Quarter 2022 Partner Letter

" History doesn't repeat itself, it rhymes."

Results and Benchmark Comparisons:

The Insiders Fund was up 4.75% for March 2022 while the S&P 500 returned 3.58%, its first positive month of the year. For the 1st quarter, The Insiders Fund was up 1.90% versus the benchmark down 4.60%. NAV Consulting provides the official returns for the fund. The audit and tax forms are provided by Berkower, a PCAOB member accountancy firm.

Ironically cash was the best-performing asset class in the 1st quarter after getting trashed last year by just about every asset class I can think of. Longer-term, cash is proven to be the worst investment as inflation has steadily eroded purchasing power.

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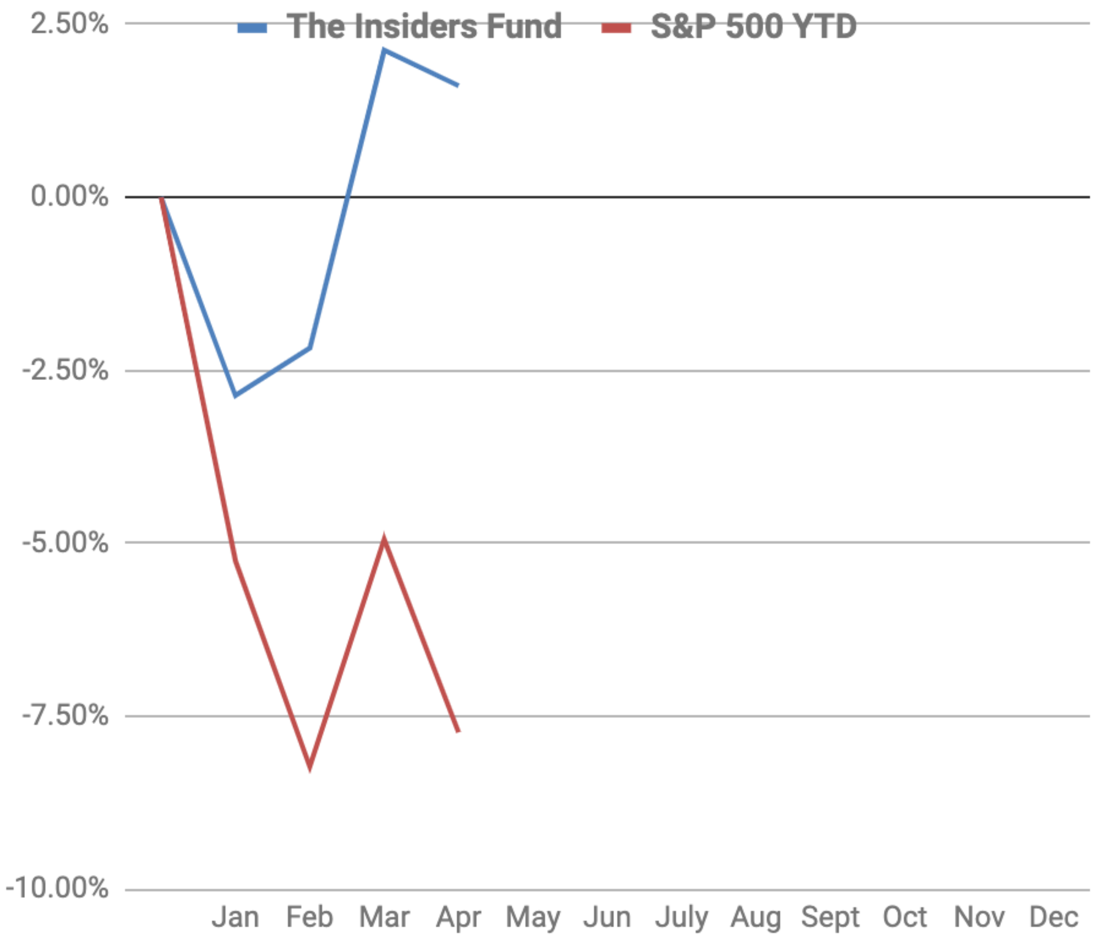

The Insiders Fund Outperformed the S&P 500

Winners and Losers:

1st Quarter 2022 Top 10 Realized Winners

I'm rethinking this part of the partner letter as realized winners and losers are kind of meaningless without including unrealized winners and losers. Then again unrealized winners and loser profits and losses can disappear making the inclusion pointless. The actual percentage return is really all that matters and the numbers speak for themselves. The Fund is nearly 7 percentage points better than the S&P 500 through March and this outperformance has increased in April.

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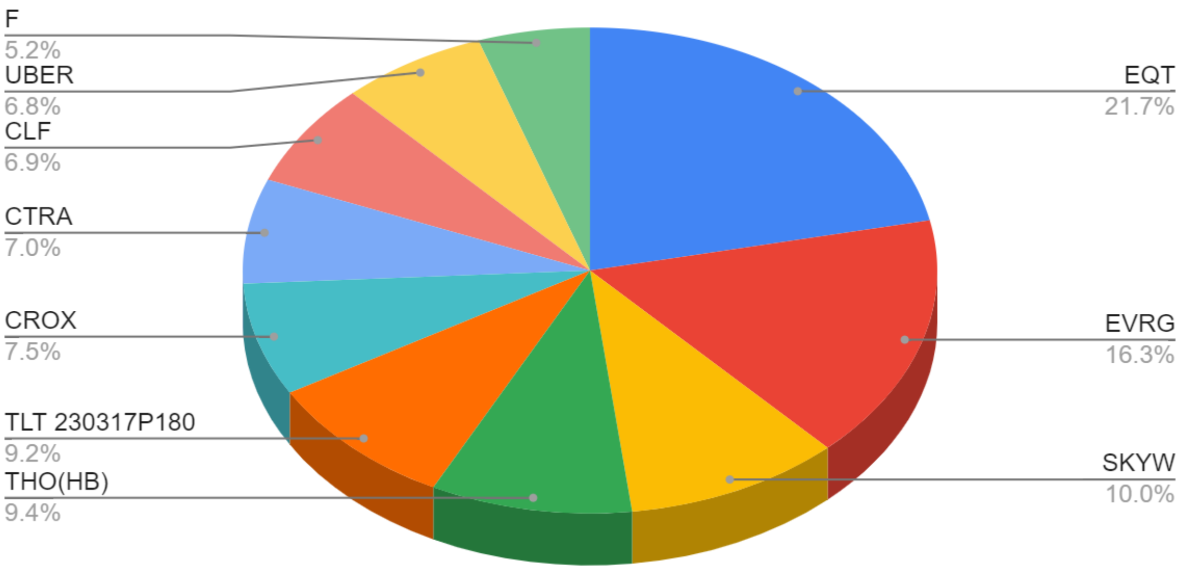
Current Holdings:



Top 10 Holdings The Insiders Fund April 10th, 2022

Stock valuation methods can be primarily categorized into two main types: absolute and relative. We've blogged on this subject before and if interested, this is an informative site if you want to learn more about this. We are proposing a 3rd methodology, wallet share.

For example, the energy sector, which includes monies spent on heating and cooling at work and at home, transportation costs, and electricity generation all consume large amounts of natural gas and oil. These vital necessities consume a large share of everyone's wallet. The price of gasoline and natural gas goes up and yet we have no choice but to fuel our cars, heat and cool our homes and keep the lights on. Common sense would tell you that something that is this price inelastic should have an investment premium. Yet when the sector is viewed as a percentage of the market capitalization of the S&P 500 it is grossly underrepresented.

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Heat Map of the S&P 500

The energy sector as a whole is just a fraction of the weighting of any of the tech giants like Apple, Microsoft, or Google yet I daresay that no one is going to forgo heating their home or turning their lights on so they can buy an iPhone. Yet from a share of wallet point of view these energy companies are extremely underweighted.

Index investing plays such an important role in institutional and even in the average person's stock market portfolio. When you invest in the stock market you are automatically allocating your dollars toward the market-weighted capitalization that the S&P 500 index funds are using, unless you choose an equal-weighted ETF like RSP.

You will see from an analysis below of our holdings, we are making a very large bet on energy from natural gas producers to electric utility companies. Energy is grossly underrepresented in the S&P 500 as seen above in the heat map of the market. The Ukrainian Russian war has brought this home. Even as the European countries are sending weapons and money to Ukraine to fight the Russian aggressors, they can't afford to turn off the Russian stream of

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natural gas and oil. They are fighting the enemy and simultaneously paying blood money to Russia to continue the war.

This insanity will stop. It has already caused a sea of change in thinking. The E.U. is moving as fast as possible to substitute renewable and friendlier sources of energy for their Russian dependency.[1] A big part of that solution will be buying LNG (liquefied natural gas) from the United States. The U.S. is fortunate in having a 100 year natural gas supply in the ground, making us the Saudi Arabia of natural gas.

EQT Corporation is our largest holding, representing 21% of the overall portfolio. EQT is the largest U.S. gas producer and has an attractive position in the core of the Marcellus Shale, which sits at the bottom of the U.S. natural gas cost curve. From their recent 10K- “We are a natural gas production company with operations focused in the Marcellus and Utica Shales of the Appalachian Basin. Based on average daily sales volume, we are the largest producer of natural gas in the United States. As of December 31, 2021, we had 25.0 Tcfe of proved natural gas, NGLs and crude oil reserves across approximately 2.0 million gross acres, including approximately 1.7 million gross acres in the Marcellus play."

In December 2021, the Company reaffirmed their commitment to attaining investment grade credit metrics and outlined a leverage and debt reduction strategy with the goal of reducing total debt by at least $1.5 billion by the end of 2023. On March 28th, 2022 they announced that EQT Corporation had achieved investment grade standing from two credit rating agencies. In addition, they announced a $1.0 billion share buy back and the reinstatement of a quarterly cash dividend at an annual rate of $0.50 per share of our common stock starting in the first quarter of 2022.

Admittedly we are late getting so heavily invested in energy but the ground rules are changing in profound ways. For example, Friday, April 8th, Mizuho analyst Vincent Lovaglio raised the firm's price target on EQT Corporation to $64 from $35. The analyst increased his long-term natural gas price forecast to $3.65/mcf from $3.30/mcf to reflect a greater expected call on U.S. natural gas exports as Europe seeks to displace Russian gas imports. At the time of this writing natural gas is priced close to $7/mcf. Lovaglio highlights EQT as a top pick.

Hedging production plays a major role in the profitability of E&P companies. In 2021 EQT realized an average gas price of $2.38 ($/Mcf) while the average price of the commodity was $4.17 ($/Mcf). Essentially starting in 2024 most of their production is currently unhedged.

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[1] https://ec.europa.eu/commission/presscorner/detail/en/ip_22_1511

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Additional LNG export capacity in 2024 and further out years will give EQT huge pricing optionality.

For example, natural gas trades at different prices in different parts of the world. There are three global benchmarks for natural gas, at hubs in the U.S., Europe, and Asia. In Europe, the hub is in the Netherlands and the futures contract is known as Dutch TTF. Currently, it's trading at $42 per million British thermal units. In Asia, it's the Japan Korea Marker, or JKM, which is trading at $37. In the U.S., gas trades at the Henry Hub in Louisiana and has been trading at about $4.60.

Much of U.S natural gas is a stranded asset as we and our friends in Europe don't have the infrastructure in place to currently fulfill overseas demand. This will change dramatically as pipelines, LNG processing, exporting, and importing facilities get built. The switch to renewable energy is well underway and that is a risk to hydrocarbon energy companies but one that is grossly overstated. The wind will be behind the back of U.S. natural gas producers for many years to come. The International Energy Agency estimates that natural gas will continue to represent a major share of global energy use through 2040.

We plan to hold EQT for five years or longer although we would not be shocked to see a significant pullback when the war winds down in Europe. We own it in both our investment account and trading account and will likely sell the shares purchased in the trading account.

Evergy (EVRG) is our 2nd largest holding at 11.01% of the Fund, down from 15% in the last letter, in spite of slightly increasing our share count and EVRG rising substantially in price. Our thesis about electric utilities entering an unprecedented growth phase due to the adoption of EVs may be playing out in the minds of market participants. XLU, the utility ETF is at record highs in spite of the rapid rise in interest rates, normally a negative for utility stock prices. I say maybe playing out because an alternate interpretation is that the yield curve is inverting and utilities are a defensive play that will do well in a recession. Such are the competing narratives of the market. Whichever thesis is playing out we are currently winning.

We like being long-term investors in all of our regulated electric utility stocks. Publicly traded electric utility companies are basically monopolies that are allowed to earn a guaranteed rate of return on invested capital by the states and municipalities they operate in. The way they increase profits is by spending more.

Charging your EV vehicle is going to create significant new revenues for an industry that normally grows 2%-3% per year. We think regulated electric utility stocks are the safest and most likely industry to dramatically exceed earnings estimates over the next decade as the auto industry transforms to EV's away from the combustion engine. According to Elon Musk during December 2021 quarterly earnings call, he said "you really need for a sustainable energy future,

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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". While we wait they are paying good dividends.

Evergy is 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 short-term cost inputs with long-lived assets that provide "free power" from wind and sun, but utilities are also likely to get government-backed incentives like tax breaks and guarantees to make the world greener by reducing carbon emissions.

There is a reasonable case that as people put more solar roofs on their homes, it will dampen the prospects of the electric utility industry. Several recent rate cases, particularly in California, have diminished that concern as the government realizes that having a strong electrical grid is a critical energy infrastructure that everyone should pay their fair share of even if they put solar on the roof of their homes.

Our biggest concern last year, when we started accumulating utilities, was that rising rates would clip their wings before the market realized the industry was getting transformed. To hedge against this we bought these deep in the money puts on the 20 year Treasury Bond ETF, **TLT** that expire in January and March of 2024. This is the cheapest form of insurance we could find and it represents a 9.2% weighting.. As it turns out it's looking like a very good investment in its own right as the Fed picks up its fight against a 40 year high in inflation that is dominating the economic discussion.

It's pretty simple, really. Higher interest rates make stocks less attractive. The TLT has an SEC yield of 2.70% based on the 4-8-22 closing price of $125.24. The Ten Year Treasury Bond yield is 2.70%. I think the economy can handle a normal yield curve and it's only a matter of time before 20 yr yields steepen. What started out as a hedge to protect the utility portion of the portfolio, may serve as a low cost insurance policy against rising rates impacting the overall market. Right now rising rates look like a very good bet.

Sky West SKYW Pent up demand and low valuation provides us a path to exceptional profits in this indispensable airline. Although we are very bullish on natural gas, we're not anywhere near bullish on oil prices and oil stocks from these levels. Declining oil prices should bolster profits for Sky West and help consumer spending. The Chairman of the Board recently made the largest open market purchase in history buying $3.6M worth of stock at $25.33. Delta said it had its biggest day in history two weeks ago. Merger activity with JetBlue and Frontier are both bidding to take over Spirit. This should get interesting for SkyWest. Since we wrote this first draft, SKYW has already turned into a nice winning contribution to our portfolio.

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Thor Industries, Inc. designs, manufactures and sells recreational vehicles (RVs), and related parts and accessories in the United States, Canada, and Europe. The company offers travel trailers; gasoline and diesel Class A, Class B, and Class C motorhomes; conventional travel trailers and fifth wheels; luxury fifth wheels; and motor caravans, caravans, campervans, and urban vehicles. It owns the iconic brand, AirStream.

Insiders have been large buyers of **THO**. Rising interest rates and gas prices have slammed sentiment on all the names in this category. There is talk of demand pull forward from the Pandemic but this is not likely as the company could not manufacture enough RVs to meet this demand. The Company has a one year backlog.???February RV (not sure what this is)??? This is the kind of company that private equity will buy. I'm confident that management has had conversations to this effect already. One director purchased nearly $2 Million worth of stock, another Director $1 Million, and two more bought shares recently. The Company has a one year backlog.

Much of retail stocks are in the tank. Bargain multiples can be found in this stock with massive insider buying. They have a one-year wait time on Airstream. I think private equity will take out this company, rebrand it as Airstream and bring it public again when gas prices settle down and interest rate jitters subside. This one is going to be a homerun for patient investors.

Crocs CROX stock has been pummeled and insiders have responded by buying nearly $3 million worth of shares since February 17th. This is the kind of name that should attract private equity. Trading at just 6.30 TTM earnings, Price to Free cash flow of 8.24 with an attractive balance sheet and a household name, Crocs makes an attractive buyout candidate or sale to a strategic buyer.

Coterra Energy CTRA was formed as the result of the merger between Cabot Oil and Gas and Cimarex Energy**.** Mizuho analyst Vincent Lovaglio raised the firm's price target on Coterra Energy to $44 from $38 and keeps a Buy rating on the shares. The analyst increased his long-term natural gas price forecast to $3.65/mcf from $3.30/mcf to reflect a greater expected call on U.S. natural gas exports, as Europe seeks to displace Russian gas imports. He believes the U.S. will need to support 2bcfd-plus annual export growth longer-term, "with persistently high global gas prices providing an opportunity for gas producers able to take on international price exposure."

Cleveland Cliffs CLF is a very cheap vertically integrated domestic steel manufacturer. We are up 52% on this position we are holding for the long term. It's easy to imagine a world where the U.S. places more strategic importance on domestic steel as a way to assure military strength and economic resilience.

Uber UBER is supposed to be GAAP profitable this year according to its CEO KHOSROWSHAHI who purchased $8.9M of stock at $44.92 on November 15th 2021. It's hard

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to imagine how Uber could possibly be unprofitable but it has for most of its life as a public company.

U.S. ride-hailing and food delivery giant Uber raised its guidance for adjusted profitability in the first quarter, a rosier-than-anticipated outlook triggered by a spike in demand.
In a fresh 8-k filing this morning, Uber said it now expects adjusted EBITDA — a heavily-modified profit metric that strips out a host of costs, including share-based compensation — of $130 million to $150 million in the first quarter. That's up sharply from its prior guidance of $100 million to $130 million, provided during its Q4 2021 earnings call last month. We are increasingly ambivalent about this name and lowered our position by half since the first draft of the partner letter.

Ford F- We traded out of Ford successfully as we said we would in the 4th quarter partner letter. The stock sold off and we are back in now for the long haul. Ford has a massive opportunity electrifying the #1 selling vehicle in America, the F-150. Chairman William Ford bought $5million worth of stock on 3-24-22 at $16.81 per share.

My Outlook:

I wrote in the last partner letter, "2022 is likely to be a lot more challenging than 2021." That appears to be an understatement. The major averages like the S&P 500 belie the carnage seen in many high flying tech stocks which are down 40-70% from their highs achieved last February. That doesn't mean we don't think we can make money. Quite the contrary. The tag line "the opportunities never stop" is one I truly believe.

The Fed won't be able to significantly impact inflation which has little to do with interest rates. Covid induced supply chain disruptions, shift to renewable energy, Ukraine war, housing shortages remaining from the aftermath of the Great Recession in 2008-9, Government dole and PPP checks, etc. The bottom line is that there are many factors beyond the control of monetary policy. Of course, this won't stop them from trying. It likely will slow economic growth and activity.

Just the perception of the Fed raising the Fed funds rate and reducing their balance sheet has already had a profound impact on the share prices of homebuilder stocks. Rising short-term rates eventually will temper stock market enthusiasm and real estate speculation, etc but it won't change the inflation picture in any big way. The bottom line is that being green and made in the USA is more expensive.

None of this will stop the Fed from raising rates and they will continue to raise them until they break the stock market or the economy or both. At that point, they stop. Soon after that, the

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patient becomes sick enough and the economy falls into the recession that the yield curve predicted. It's a self-fulfilling prophecy.

Powell, during one of his recent press conferences, said he had great respect for Volker who ran the prime up to 18% in the most glaring example of a heavy-handed Federal Reserve Chairman. The inflation of the '70s was created by the Arab oil embargo when OPEC protesting the Arab-Israeli war, "sanctioned" the West by quadrupling the price of oil.[2] Oil is the primary cost input in the global economy, especially then. His success in breaking inflation by raising rates into the stratosphere was like bleeding the patient to cure it in my opinion. Nonsensical. A few years later, oil prices cratered and Walmart began importing deflation from everything made in China. We are in a somewhat mirror opposite picture now.

Buying stocks, companies with productive assets that can increase prices in inflationary periods offer the best protection of wealth. Even in times of war, stocks can produce positive returns. The stock market went up during World War II for example. This paragraph is not my commentary. It belongs to none other than Warren Buffett. I just so happen to agree with it.

Housekeeping:

First of all my apologies for getting you the K-1 so close to April 15th. I've heard that complaint from others that aren't clients of ours. Nonetheless, we've been on our accountants about this for weeks now and have turned around every document they requested in a timely manner. There is no excuse for it and we are paying lots of money for this which only makes it more aggravating. Once again we might make a switch for next year unless we can have a meeting of the minds. You should not get alarmed by us shopping for better services. In fact you should expect it. You are paying for these services in the hedge funds with the notable exception of Alpha Diversified Fund. We agreed to cover all expenses for the 1st year so our limited partners would not be unduly penalized for being in this small fund. At the moment, no one is complaining as Alpha Diversifed Fund is up 10.2% through March.

One of my goals last year was to make the partners a lot of money and **have you keep as much of it as possible through efficient tax management.** Well, if you were in the fund since the beginning of the year, you did make a lot of money. Unfortunately, you are paying a lot of taxes - even with the favorable tax treatment, I've written about in the past.

We have three different accounts set up under the Insiders Fund, investor, trader, and futures account. We primarily use the futures for hedging purposes. For now, forget the futures account. The investor account has long-term and short-term capital gains treatment, probably the same as your personal account unless you elected for professional trader status with the IRS. The

[2] 1973 Oil crisis

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investor account allows us to avoid capital gains altogether until we dispose of a position and if we hold it for one year or longer we can get a lower capital gains tax rate. The disadvantage of this tax status is that it's difficult to effectively trade. You are subject to wash rules and $3000 annual taxable loss limitations.

We solve that problem by having another account labeled trader account which takes advantage of mark-to-market accounting and section 475 accounting treatment with the IRS. The trick to this is that we buy the securities we aim to hold for the longer term in the investor account and the ones we want to make quick profits on in the trader account.

If only it were that simple. I will give you a couple of examples that illustrate the problem. We got extremely lucky with a biotech company that insiders were buying, SAVA Pharmaceuticals. They are developing a promising Alzheimer's treatment. I thought the science made some sense and we made a relatively small investment but it had a large impact. It went from $8-$120 in just two or three months after we purchased it. When it was trading at $120 in after-hours, I went to sleep that night saying to myself- if you don't sell this stock first thing in the morning you are a greedy idiot. I sold out the following morning as soon as the market opened at around $100 per share, nearly 12 x our investment in two months. Since then the science has gotten more controversial and the stock is trading at $19.93 today. Obviously, we did the right thing.

On the other hand, we had a large position in CBOE in our investment account. I am very bullish on all monopolistic, enduring kinds of businesses like electric utilities and global financial exchanges. CBOE owns the options markets. We had big profits in CBOE last year but did not take them, and watched in frustration as the stock declined from $134 to $114 today. We still own CBOE and hope to get long-term capital gains treatment when we sell it, assuming we get our profits back.

On December 31st, 2021 we had significant realized profits in both accounts, investment, and trader. We had fairly large unrealized losses in the investment account where we could not use them to offset the realized gains. Today we have large unrealized profits in the investment account and not as large but meaningful unrealized losses in the trader account. This is exactly where we want things to wind up on December 31st. Unfortunately, we don't get to pick the date the IRS uses to close the books.

I generally say investing with tax harvesting in mind usually leads to poor investing and bad tax planning but that doesn't mean we are not going to try and do it. If you're interested in more information on wash sales, professional trader status, and mark-to-market accounting, this is who I refer to.

https://greentradertax.com/how-to-avoid-taxes-on-wash-sale-losses/

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Giving Back Program

We've spent a lot of time and brain cells trying to figure out what we're doing with the giving back program. The funds we collected are still undistributed. First of all, we found out it's impossible at this point to get the tax deductions directed to you. This was our earned income and there doesn't seem to be any practical way of directing any tax deductions your way. In fact, if funds were in an IRA it could even be deemed an early withdrawal and result in penalties. The best we can do is get some recognition headed your way.

At this point, we have not distributed the 10% earned incentive fees. It's sitting in our bank account like a hot potato. Unfortunately, we are getting taxed as if we received it. The good news is that we have some time to figure this out as the funds won't count as 2021 income but instead 2022. We have explored setting up a public charity, a foundation, and a donor-advised fund. Our goal would be to set up something that would not only direct monies to worthy recipients but also give us the broadest latitude to allow our clients to donate gifts and assets to the entity and receive taxable benefits; for example, appreciated stock, real estate, or some other tangible asset that could provide you with a tax deduction. We welcome any input you might have on this in the way of legal and accounting expertise or if you can refer us to third parties. I can say unequivocally, our heart was in the right spot, we just need our brain to catch up with it.

Once again I want to thank you from the sincerest part of *my* heart for giving us the opportunity to help you with your investments and help you live the life of your dreams through smart financial planning and outstanding financial performance. There is no greater honor we are likely to receive. We know you have many options and we should not take your business for granted for one single moment. If you think we are doing otherwise, I insist you bring it to my attention.

Sincerely yours,

HWS

Harvey Warren Sax

P.S. Big shout out to limited partner Terry Evans who once again agreed to review a notoriously bad proofreader such as myself.

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