ALPHA WEALTH FUNDS

Alpha Wealth Funds, LLC

"the opportunities never stop"

October 10, 2022

The Insiders Fund, LP 3rd Quarter 2022 Partner Letter

"Uncertainty is the Trump Card, an unprecedented sharp rise in interest rates, the largest land war in Europe since WWII, and a 40 year high in inflation "

Results and Benchmark Comparisons:

The Insiders Fund was down 3.61% for September 2022 while the S&P 500 lost -9.02%. The Insiders Fund returned 14.75% during the 3rd quarter versus the benchmark down 4.88%. YTD, the Insiders Fund is up 1.10% versus the S&P 500, down 23.88%. Your results will likely have minor differences due to fees and time of investing. NAV Consulting provides the official returns for the fund. The audit and tax forms are provided by Berkower, a PCAOB member accountancy firm.

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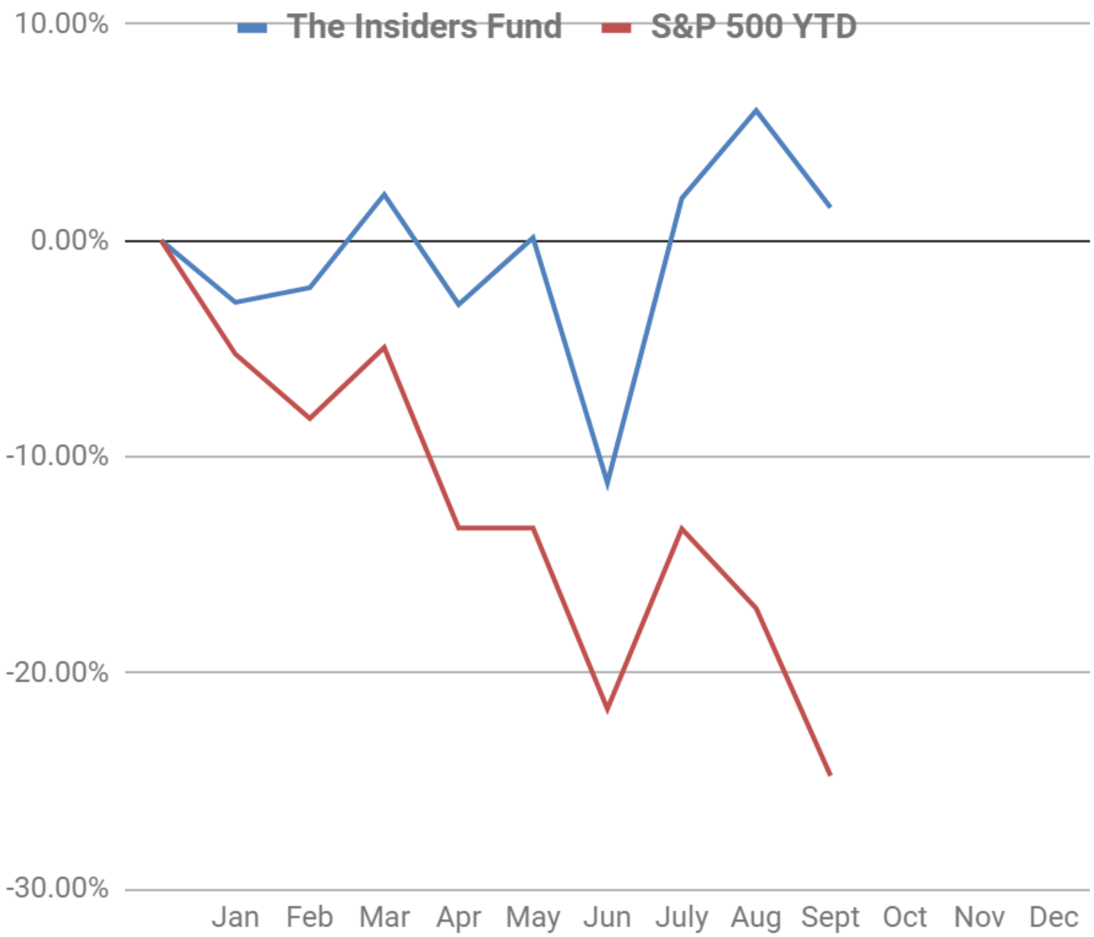

The Insiders Fund has Outperformed the S&P 500 by 25 percentage points YTD

This is an extraordinary time of uncertainty. A few things we do know. Years of zero interest rates and quantitative easing are being unwound in a surprising, Paul Volkeresque about-face by the Federal Reserve in an effort to fight inflation. It was only last year that the market pundits were referring to Fed Chairman Powel and Treasury Secretary Yellin as the most dovish duo of monetary and fiscal policymakers in history. The market loved it. Cheap money is an accelerant for all kinds of assets. It is also kindling for inflationary fires.

The rapid rise in interest rates from near zero, the surrogate war between Russia and the West with a horrendous price paid by Ukraine, hedge funds and investors clustered around overpriced tech stocks, and domestic political discord are all ingredients for a toxic investment climate. As a result, we have maintained high levels of cash. We are small and nimble enough to be able to

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deploy it rapidly, though, when opportunities present themselves, and that is beginning to happen.

It's our goal to make money in any kind of market, bull, bear, or directionless.

Winners and Losers:

With the winners, you look at how much you might have left on the table and the taxable consequences. We want our long-term winners to wind up in the long-term capital gains account we have, and the losers in the trading account. The rapidly changing events, most notably the Fed pivot at the Jackson Hole economic summit, have blown that playbook apart. Right now we are concentrating on making money, protecting capital, taxes be damned.

We did several things right in the quarter; for example; **Activision** (Microsoft has agreed to purchase them), **Cowen** (purchased by Toronto Dominion), arbitrage plays like **Spirit** bought out by JetBlue, **Nielsen** bought out by Elliot Partners, and **Mandiant** bought out by Google. We traded out of natural gas companies like **Energy Transfer** only to buy it back at lower prices. We traded out of **Evergy, AES, Avangrid, and NextEra** only to get a second crack at the utility group after their recent collapse in price. Our timing couldn't have been much better on Carvana. We've even got a 2nd trade underway as Carvana has given back all of its gains.

We also did a few things that cost up money, like reinitiating a position in **Ford** after we had made a handsome profit. Continuing to have faith in **SkyWest** although clearly, the market doesn't appreciate their unique position in being the only airline serving dozens of smaller communities. **Lam Research** has disappointed as the semiconductor industry goes through some kind of contraction, regardless of the headlines proclaiming widespread shortages. We lost money on Yelp. We lacked conviction.

The Fed's unexpected pivot to sharply higher rates forces us to reevaluate balance sheets and the ability to service debt at much higher interest rates. For example, **Enhabit**, a spin-off home healthcare play from Encompass looked promising to us with all the M&A in the space, Amazon going after One Medical and CVS in exclusive talks to buy Cano Health. The steep rise in rates makes a one-time distribution to its parent Encompass a risker proposition than I initially thought.

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We managed to lose money on both sides of the semiconductor trade, shorting Alteryx and going long on Lam Research.

One thing that has not changed is that we prefer to invest in companies where management is stepping up and buying material amounts of their own companies' stock on the public market.

Top Holdings:

As we entered the last day of September we were positioned 55.43% long, 26.92% short and 17.65% in cash. I am cautious about being too short as this is clearly the consensus trade. When everyone is on the same side of the trade violent countermoves can happen without warning.

In the past, I've used a pie chart to illustrate our holdings. I've even provided a link to the daily trading journal I maintain which has a list of the 40-50 names we hold in our Fund. Whatever I do right now, I can assure you will be obsolete by the time you get this email. The events on the ground are changing so rapidly that I would be negligent if we didn't change with them. This is what the Fund looks like on 9/30/22

Energy Transfer (ET) is one of the largest natural gas pipeline companies in the country. It represents about 7.27% of the portfolio. It is largely immune from commodity price fluctuations as most of its revenue is based on fixed-price contracts for transporting oil and gas along the pipes. It pays out a current 8.34% yield. ET has significant insider buying as well.

Natural gas is the preferred fuel for electricity generation. The wind is behind the backs of both producers and transporters as domestic power generation is transitioning from coal to cleaner burning natural gas. Foreign demand for LNG is off the charts in great part due to the Russian weaponziation of the energy markets. Russia has the largest natural gas reserves in the world. The United States is a close second. The US is racing to build pipelines to transport natural gas from the producing fields like the Marcellus to LNG export facilities. A significant portion of the Fund is invested around this macro theme.

SandRidge (SD) at 4.3% is our second largest equity holding. This is an under-the-radar oil and natural gas producer. Its primary areas of operation are the Mid-Continent in Oklahoma and

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Kansas. I met with management at the Enercom conference in August and I blogged about it in the Enercom notes in The Insiders Report.

SandRidge has no debt, no hedges, basically printing money at these commodity prices. ~75% of wells can operate profitably at $40 WTI crude and $2.00 Henry Hub gas price. They won't have to pay taxes for the foreseeable future either due to the huge 1.7Biillion net operating loss carryforward. Its largest holder is Carl Icahn who knows a thing or two about the oil and gas industry.

Comstock Resources (CRK) constitutes a 3.4% weighting. I also met with management at this company last August. Comstock is one of the largest producers in the Haynesville, a premier natural gas basin with direct access to the high value Gulf Coast markets and the LNG corridor that is so much in demand. They claim to have the industry's lowest cost structure. They have ~1600 high return Haynesville/Bosser net drilling locations which should support decades of drilling. Significant recent insider buying reinforces my confidence in this name.

Electric Utilities we owned a number of electric utility stocks last year as there was insider buying across the sector. Our investment thesis was that the eventual replacement of the combustion engine with electric vehicles would usher in a new growth era in an industry that historically has grown at a low rate of ~2% per year. The risk in our opinion was that utility stocks are interest rate sensitive as they traditionally pay above-average reliable dividends. If you recall we hedged this exposure to interest rates with a short on the long Treasury bond TLT.

We hypothesized that interest rates would inevitably rise and this interest rate-sensitive sector might falter. These stocks were big winners. Insiders stopped buying at these elevated prices. The sector had a remarkable run. Energy and utility stocks were rare winners in this bear market. We felt it was time to take profits and sold out of the group. This was a good trade, good timing and we even made money on the hedge short TLT put option.

The XLU (utility industry ETF) was trading at an all-time high on September 12th at $78.22. Just three weeks later XLU closed at $63.78, down 18%. That's remarkable volatility for a historically stable part of the market. XLU has a 5yr beta of 0.54. That means it's historically half as volatile as the market.

Beta is the fundamental underpinning of modern portfolio theory. A sector ETF with a beta of half the market should not lose 18% of its value when the market was down 10% during that time. Beta is a backward-looking statistic, and in my opinion, unreliable in establishing value.

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The collapse of the XLU is proof. It does support the maxim, though, that past performance is no guarantee of future results.

Dominion Resources (D 4.15%), **Avangrid (AGR 4.45%)**, and **Evergy (EVRG 4.01%)** are all trading below prices insiders were eager to pay. They are now yielding 4% or more with a high probability of increasing these dividend payouts over the coming years. I expect when the 3rd quarter earnings blackout ends, insiders will once again buy these stocks if they are still on sale.

Utilities are the classic recession play. People will stop paying most bills before they turn off the lights. When the Fed's rate hiking cycle ends, these stocks will work well from these depressed levels. We expect to buy more of these falling knives. There is no modern society without electricity. Without electricity, there is no internet or power to operate the computer controlled interconnected world. These businesses cannot fail, will not fail, and are enduring government sanctioned monopolies. There is a reason Warren Buffett is a big buyer of utility stocks.

These are high conviction buys. It's impossible to time a bottom and purchasing these names will likely be a bit painful if the Fed continues to use its hammer to fix every problem. The 10 Yr. Treasury Bond was trading at a 3.37% Yield on September 12th, 2022. It closed Friday, Oct. 7th at a 3.87% yield. A ½ point rise in yield could explain an 18% sell-off if utility stocks were bonds.

Utility stocks are not bonds. They are common stocks and unlike bonds are likely to raise their dividends during the next 10 years. In fact, if our thesis about EV growth reshaping the utility industry is correct, these dividend increases might be greater than they've been in the past.
On the radar are plans to reestablish positions in NextEra, AES, VST, and and others that have seen aggressive insider buying

Short S&P 500 December Futures contract if the Fed continues its aggressive rate hikes, the market is likely headed lower.

Normalizing the yield curve -we've gone from one of the steepest yield curves in years to one of the most inverted. At some point, the yield curve should normalize. Goldman Sachs and others think that a recession is likely but will be mild for a number of reasons including relatively strong personal balance sheets (majority of personal debt in low 30-year mortgage fixed rates) and high employment with a large number of open job positions. This leads us to the conclusion that if the Fed is to be successful in diminishing the demand side of inflation, they will not see immediate results from the rapid rise in interest rates and may have to raise them higher and/or for longer to get the intended results. This and its potential to hedge the overall portfolio is our logic for shorting the inverted part of the yield curve, the 30 Year Treasury Bond.

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Declining wealth effect. We are looking for ways to express this idea. Companies like **Costco Wholesale Company (COST**) have deservedly commanded a higher premium in the market than the average retailer. Our short bet is that Costco's core customer base is a more affluent consumer and one likely to be more impacted by the stock market's 25% drop in value. The wealth effect has been wind to the back of Costco for decades. Now rising costs and declining wealth will diminish the animal spirits of the Costco shopper. When you're priced for perfection like Costco stock is, a bit of reality coming home could be an outsized drag on stock prices.

Another short is everyone's favorite stock to own, **Apple Computer.** Apple recently has traded at a higher P.E. ratio than its historic range. The declining wealth effect as well as the troubles in China with Covid lockdowns and the increasing deterioration of relations between the U.S and China will be headwinds for Apple. Our short weighting provides further hedging for the portfolio as well.

We have a variety of small moonshot-type bets in alternative energy names, biotech, and likely beneficiaries of the transformation of the combustion engine to electric vehicles. According to Goldman Sachs, climate-related spending and infrastructure investment are likely to grow too, aided in part by long-lasting federal spending programs. The new Inflation Reduction Act includes $369bn of energy and climate incentives over the next 10 years to curb US carbon emissions by 40% by 2030.

THOR America loves camping. Americans love the outdoors. Venture to any national park, and you will come to that conclusion, and many of them, more than ever, like doing that in an RV as opposed to hard ground and extensive prepping. The leading company in the business has over a one-year backlog, they're struggling to keep up with trading at a record 3.72 price-to-earnings ratio. Analysts have been downgrading Thor on rising costs, rising rates, and perceived reduced demand.

Thor Industries, Inc. was founded on August 29, 1980, when Wade F. B. Thompson and Peter Busch Orthwein acquired Airstream from Beatrice Foods. The name "Thor" combined the first two letters of each entrepreneur's name. Airstream had not fared well during the economic downturn of the late 1970s, losing $12 million the year before it was acquired. Thompson and Orthwein had also previously acquired the Hi-Lo Trailer Company. Thor restructured Airstream and returned it to profitability within one year. It's now one of the iconic names and aspirational purchases of boomers, millennials, and Gen Z.

Its portfolio of brands comprises Airstream, Bison, CrossRoads, Dutchmen, Jayco and Starcraft, among others. It is the world's largest RV manufacturer. In North America, Thor operates and controls a 50% market share in a near duopoly with Berkshire Hathaway-owned Forest River,

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which sports a 30% market share. Oddly enough, both companies are headquartered in Elkhart, Indiana.

Thor is an exceptionally well-managed company, carefully gauging retail interest in order to align its production capacity in a rapidly changing macroeconomic environment. During its latest

quarter, the Company reported Q4 EPS of $5.15 versus a consensus of $3.89 on revenues of $3.82B versus expectations of $3.68B. I keep waiting for the earnings cuts and inventory build that would accompany the predicted downturn. Analysts are pegging the forward P.E ratio of 8.3 versus the absurdly low 3.51X it is currently trading at.

Soaring gas prices might be close to peaking even with OPEC's latest output cut. The Baker Hughes drilling count has increased dramatically in the last 12 months. Give it another 12 months you possibly see oil in the $60s.

Co-Founder and Chairman Orthwein just purchased $1.45MM on the open market, his largest purchase in five years. Granted we are fighting the diminishing wealth effect, but even as it is, you can't find a cheaper vacation short of sleeping on the beach and surfing in Nicaragua. Management at Thor must be frustrated with the price action of the stock as results have been outstanding, but the stock has gone nowhere. The Company is also a leader in bringing EV technology to the RV industry.

With no controlling founder's block of stock to stand in the way, I can see Thor being a private equity deal or leveraged buyout. When interest rates normalize, a change of name to AirStream could be a hot IPO.

My Outlook:

Bear markets tend to be short-lived. The average length of a bear market is 289 days or about 9.6 months. We're now a little over 9 months into this correction. It's impossible not to speculate when it will end. The truth of the matter, with so much uncertainty in the world, no one really knows. Anyone that tells you differently, is either disingenuous or naive.

I urge you not to fall victim to the risk aversion trap of pulling your money out of the market. With two-year Treasuries yielding over 4%, it's a tempting option not to worry about the wild swings in the stock market. This in hindsight will prove to be a surefire way to miss out on the inevitable market rally. Opportunities are created in the bear market.

We are not macro investors and have no better crystal ball than the next investor. We look for our clues from the behavior of insiders, the people running the company, not hedge funds or institutional investors but CEOs, CFOs, officers, and directors of the companies we invest in. All bear markets for the last 20 years have ended with a crescendo of buying from insiders. That

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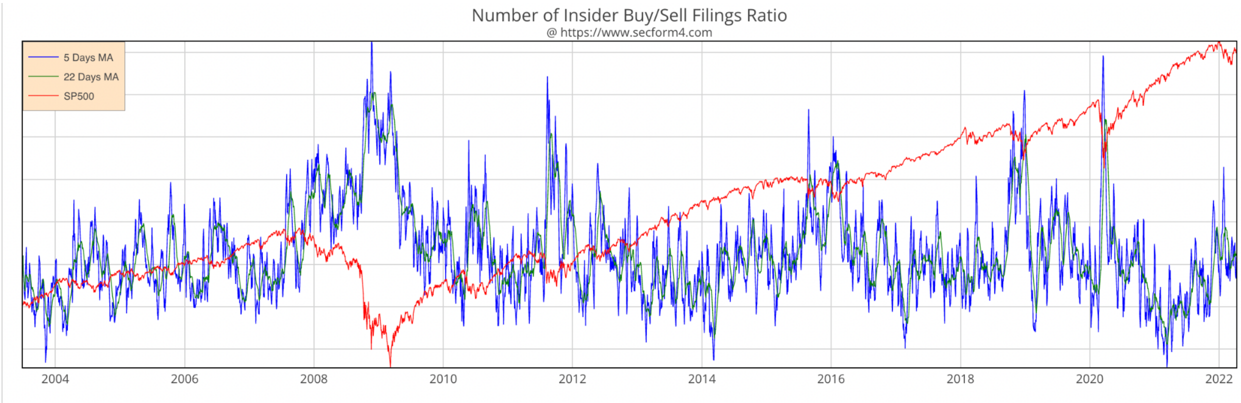
has not happened yet, but I suspect we will see an uptick in buying as the 3rd quarter earnings blackout ends..



The blue line represents a ratio of insider buying to selling. The higher the blue line, the more buying. The red line is the S&P 500.

You can see that in the fall of 2008 and Spring of 2009, during the Great Recession, insiders were huge buyers, then again in the 2011 downgrade from AAA of the U.S. Debt, the Fed pivot on interest rates at the end of 2018 beginning of 2019, and last, the Pandemic during the Spring of 2020. We don't see any sign yet of the explosion of insider buying that we would need to call and end to the bear market, but we do see insiders starting to buy in beaten-up sectors like REITs.

I wrote that "the economy is slowing but at a gradual rate, not collapsing. No economic collapse is on the horizon unless the Fed follows the past Fed Chairman Volker playbook and raises rates beyond my expectations."

That's exactly what happened.

Interest rates were showing signs of bottoming, but Federal Reserve Chairman Powell opened the gates of hell for equity investors when he pronounced on September 21st that not only would the FED hike rates into the 4%-5% or higher ranges and were determined to keep them there for the foreseeable future until inflation was clearly on a path to their 2% per annum target.

The Fed's about-face in aggressively hiking interest rates really bothers us. Not only do we think it is wrong-headed but we think it's likely to break something before it's reversed. Inflation is a problem, no doubt, but it's not at all clear to me that the Fed has that much control over it and

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the cure for it might be worse than the disease. I wrote in a blog post, August 26th about the Jackson Hole annual economic summit:

Powell lectured the global audience on the three things that the Fed had learned over the decades of studying inflation.

1. Inflation is the Fed's responsibility, and it will do everything it can to tame it even if it involves economic hardship for some.
2. Inflation leads to lower employment and a worse economy for all, particularly the least well-off.
3. If inflation expectations get rooted in popular thinking, it leads to a cycle of wage hikes and price hikes that ultimately chokes off the economy.

Powell glaringly omitted the main thing they haven't learned. Energy is the root cause of this inflation as it was 50 years ago. Russia is starving Germany and the rest of Europe of gas as it prosecutes the war in Europe. This is the tail that wags the dog. Complicating the picture is that ESG and nearshoring or bringing back the supply chain are also impacting prices. **Being green and made in America isn't going to be cheap.** Slowing down demand from interest rate hikes will be a painful way to catch up with supply.

Warren Buffett was interviewed on May 6th, 2019 on CNBC, and asked if the market was cheap.? He answered the moderator, “I think stocks are ridiculously cheap if you believe... that 3% on the 30-year bonds makes sense,” However, he doubts that low rates will always be the reality.

At the time of that interview, the S&P 500 was at 2932 versus the 3600 level it is at today. The 30-year bond was at 3% versus the 3.9% today.

Why is this important?

If you can figure out the course of interest rates, you’ll have a better chance of being successful in this market that is fixated on them. Since the largest amount of debt in the U.S. household is tied to historically very low fixed-interest mortgage rates, this latest round of Fed interest rate hikes may not have the immediate effect of lowering consumption and slowing down inflation. So where does that leave us knowing that rates will likely remain higher for longer?

It’s hard to imagine the market rallying until the Federal Reserve breaks something.

I don’t know what that break will look like, but I can speculate. Sure there will be collateral damage amongst a variety of businesses and consumers caught with large amounts of variable

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rate debt, over-leveraged hedge funds, and emerging market debt-laden economies, but the largest debtor we can think of is the U.S.Treasury.

In 2011, S&P shocked the world by downgrading the U.S. top-notch AAA rating. Back then we were struggling to come out of a global recession with huge debts, unemployment of 9.1%, and fears of a possible double-dip recession. Could it happen again?

According to the New York Time on October 4th America debt rose above $31 trillion, a number really too big to comprehend. The C.B.O. warned about America's mounting debt load in a report earlier this year, saying that investors could lose confidence in the government's ability to repay what it owes. Those worries, the budget office said, could cause "interest rates to increase abruptly and inflation to spiral upward." Isn't inflation what Powell is trying to tame? Perhaps it's no coincidence lately that Bitcoin has been more stable than the S&P 500.

The Fed doesn't control the long end of the yield curve, and markets have been signaling for weeks now that long rates look like they have peaked. The market thinks the Fed will either blink or the economy will dramatically slow in 2023, and the Fed will start lowering rates.

Housekeeping:

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. I'm happy to announce our nonprofit, Alpha Wealth Foundation, is now established and will soon apply to the IRS for status as a private foundation described under Section 501(c)(3). As mentioned in the past letter, we have a local attorney, Bruce Olson of Ray Quinney & Nebeker, who is advising us on this matter. Bruce is expert in these matters, helped draft the Utah law for nonprofit corporations, and has generously agreed to serve as secretary to the Foundation. We highly recommend him in these matters should you need assistance.

During this learning process, my partners and I decided that we would invest the funds we donated last year from our 10% incentive deductions to help them grow into an enduring source of giving year-end, and year-out. Starting next year, we will begin donating to the charities and nonprofits you chose and once again ask you for charitable suggestions.

One of the benefits of the Foundation beyond the good we hope to achieve is that, upon confirmation of our tax exemption, any donor will be able to contribute "qualified appreciated stock" (basically publicly traded stock up to 10% of the value of a corporation's outstanding stock) to Alpha Wealth Foundation and deduct the full market value for the stock at the time donated, regardless of your cost basis. In other words, if you had $100,000 worth of publicly traded stock that you were considering selling for profit, you could donate it instead, and rather

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than pay taxes on your gains, you could claim 100% of the value as a fully taxable deduction." Of course, we always encourage you to consult your tax advisor in such matters.

Once again, we thank you for the trust and confidence you have shown in having us assist you in managing your money. Please feel free to reach out and discuss any concerns or thoughts you might want to share. We especially look forward to the Zoom partner call where we will go over the latest thoughts on the market, risks, and opportunities or any matters you would like to bring up. It's a new format for us, so we're pretty excited about it. Stay tuned for the calendar invite for Thursday, October 13th at 5 PM MST. We plan on recording the call and will send out info on how to access it.

Sincerely yours,

HWS

Harvey Warren Sax

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