ALPHA WEALTH FUNDS

Alpha Wealth Funds, LLC

"the opportunities never stop"

January 11, 2023

The Insiders Fund, LP 4th Quarter 2022 Partner Letter

"The Insiders Fund just had the biggest year in its history since its 2010 inception.

Why is everyone so gloomy?

The Insiders Fund was down 4.42% for December and down 1.38% for 2022. The benchmark S&P 500® was off 5.90% in December, bringing its total 2022 return to -18.11%. The 3 yr. annualized return is 12.92% versus the S&P 500 7.66%. 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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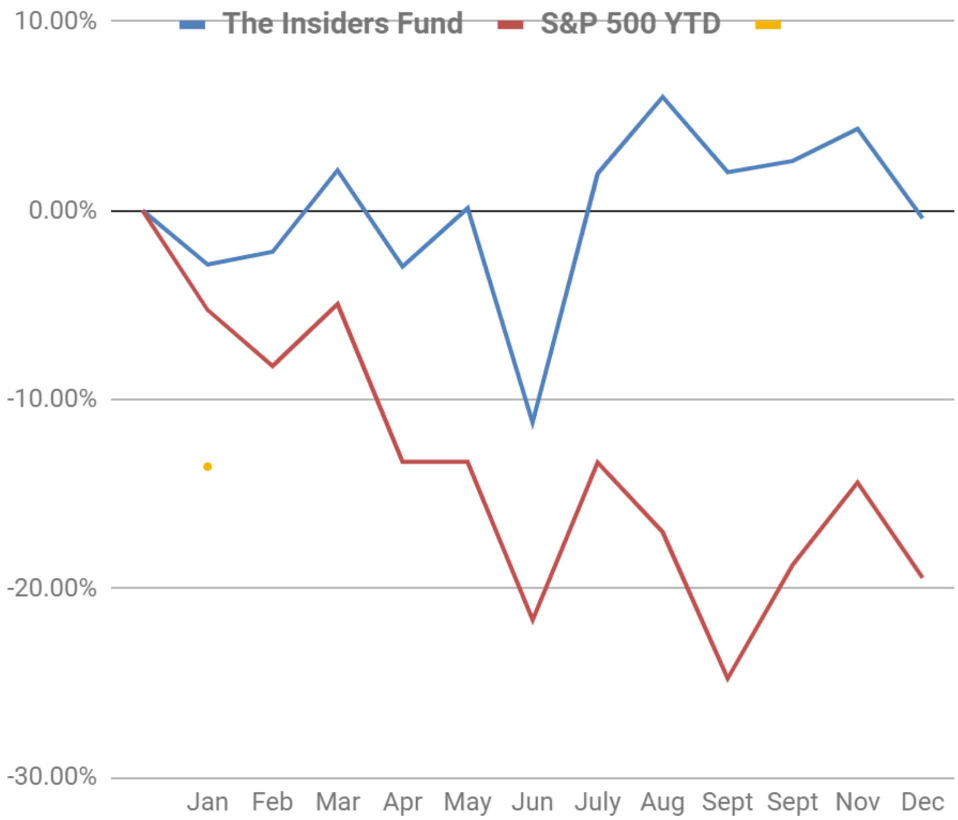

The Insiders Fund's ~17% outperformance of the S&P 500
was the largest since its 2010 inception.

The New Year inevitably brings comparisons to last year and previous years. It was the worst year for stock market investors since 2008, but it actually turned out to be the best *outperformance* year the Fund has ever had. Outperformance is the difference between the Fund's return and the return of the benchmark S&P 500 index.

Outperformance is not very satisfying when you lose a percent or just break even. It is very comforting, though, to know that you didn't dig yourself into a big hole you have little chance of getting out of. According to Fidelity, the average IRA balance plunged 25% year over year in the third quarter. Investors will need a 33% return just to get even. Not an easy feat.

Investors will blame the Federal Reserve which found its inner Paul Volker. It was the 1980s redux for the Fed, with financial conditions tightening so much they sent the 10-year Treasury yield on the biggest rip in history and spun the dollar up to 20-year highs. Lay the blame at Putin's doorstep for starting the largest land war since World War II, causing an energy shock that raised prices, adding to the fastest inflation rate in 40 years.

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But I don't blame these extraneous events, which investors have no control over. We had our opportunities, mostly on the short side. We took small gains or even losses when significant profits could have been had if more patient or confident.

With one-year Treasuries yielding 4.7%, it's a tempting option not to worry about the wild swings in the stock market and just let your money earn a risk rate free rate of return. Over 18% of the Fund is sitting in short-term deposits doing just that. There is no need to pay us high fees to manage a risk-free investment. No question we will have to do better this year.

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 Last year, if you had a profit and didn't sell, it was likely to evaporate as our gains in two natural gas stocks turned into large paper losses contributing to a poor 4th quarter performance.

Relative to the market, we had a poor showing for the final quarter of the year. We lacked conviction in our shorts Costco and Lululemon, and our natural gas holdings got pummeled. Natural gas prices closed in the depth of winter at prices last seen before the start of the Russian invasion of Ukraine. Perhaps we could have foreseen that, but I'm happy to say that our risk management mitigation efforts tempered a 40% drop in commodity prices with minor unrealized paper losses- about 3-4% of the value of the portfolio. Although markets are bearish about natural gas prices in the short term, producers are well-financed, and the gas in the ground isn't losing any value.

We hypothesized that interest rates would inevitably rise and the interest rate sensitive utility sector might falter. Energy and utility stocks were rare winners last year, and we sold out of EVRG and other utilities at a profit with the exception of **Dominion Energy,** where we have a 2.3% weighting, and **Avangrid**. Dominion has an outsized dividend of 4.32%. Analysts cite regulatory risk and the company's ongoing strategic review. Dominion forecasted 2023 growth and commitment to the dividend. **Avangrid (AGR 1.03% weighting) and D** are trading below prices insiders were eager to pay.

Insiders as a group did not have a good 2022. They were wrong more often than not. Insiders may know their business better than anyone else, but their macroeconomic chops might not be any better than yours. The largest land war in Europe since WWII and the biggest interest rate increases by the Fed in twenty years were two black swan events in the same year.

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Top Holdings:

JP Morgan Ultra Short Term Income ETF 18% weighting in the Fund. JPST Invests primarily in a diversified portfolio of short-term, investment-grade fixed- and floating-rate corporate and structured debt while actively managing credit and duration exposure.

- Targets portfolio duration of less than one year; duration as of 9/30/22 was 0.27 years.
- Targets portfolio duration of less than one year; duration as of 9/30/22 was 0.27 years.
- Top decile returns with top decile risk-adjusted returns since inception.1
- Competitively priced expense ratio vs. peers at 0.18%

Energy Transfer (ET) is one of the largest natural gas pipeline companies in the country. It represents ~ 8.25% of the portfolio. It is mainly 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. ET represents about 8.25% of the portfolio.

Natural gas is the preferred fuel for electricity generation. Domestic power generation is transitioning from coal to cleaner burning natural gas and renewables. Foreign demand for LNG is off the charts in significant part due to the Russian weaponization of the energy markets. Russia has the largest natural gas reserves in the world. The United States is a close second. The US is adding capacity to transport natural gas from the producing fields like Haynesville to LNG export facilities. The Marcellus and Utica, the country's largest natural gas deposits, lack pipeline capacity for LNG exports. For now, natural gas may have abundant supplies and downward pressure on prices, but long-term fundamentals are likely permanently altered due to the European boycott of Russian gas.

CME Group The CME Group enables market participants worldwide to efficiently manage risk within and across multiple asset classes by trading futures, options, cash, and over-the-counter products. CME Group provides primary price discovery and referential pricing information to customers in both listed and cash products through its market data in a variety of formats, including real-time, historical, and derived data. The CME Group also provides customers with market education resources through industry-leading research and analytics tools. CME was established in 1898 as a non-profit corporation. It founded CME Clearing in 1919, which is now part of CME. CME was demutualized in 2000, and its parent company, CME Group, completed an initial public offering of Class A common stock in 2002.

There are a lot of reasons this stock should work The moribund interest rate business has finally come back to life. Volatility is elevated, and this last November was the best November in their

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history. A director bought $8.M worth of stock at $170 last January. That was nearly a year ago, so the trading signal is gone. More recently, director Tierny purchased $264k last week, and the conspiracy is brought back to life. Is there a merger CME could do? What do they see in $CME?

My hope for the next catalyst is that they raise prices. After all, what's the point of a monopoly if you can't raise prices? That will pop the stock. A pop here, a pop there, and before long, you get a popping portfolio.

SandRidge (SD), at 4.7%, is our 4th 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 Kansas. I met with management at the Enercom conference in August, and I blogged about it in the Enercom notes in The Insiders Report. I recently had a virtual meeting with management aided by one of our partners, a senior executive in this industry.

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 1.7 billion net operating loss carryforward. Its largest holder is Carl Icahn. He controls the board of directors and management.

Comstock Resources (CRK) constitutes a 4.2% 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. However, the short term outlook is bearish as a warm European winter and inventory buildup will not take up excess U.S. natural gas until more LNG and pipeline infrastructure is in place.

The Mosaic Co at 2.0% and **CF Industries** at 0.19% are both fertilizer plays. The Mosaic Company is the world's leading producer and marketer of concentrated phosphate and potash crop nutrients Natural gas is the main input cost of fertilizers. These two North American-based companies should have long-term structural advantages due to ample U.S. natural gas despite the cyclicality of pricing. Russia was the largest producer by country in the world in 2021, with over 15% of global production, and China, second with 13.3%. These look like cheap out-of-favor stocks with 4 & 5 P.E.ratios. These formidable U.S. fertilizer companies offer compelling long-term value.

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Upland Software is a potpourri of software companies and solutions. We were initially attracted to this by the large insider buy but have since been disappointed. The company has built a diverse family of software applications under the Upland brand. Upland Software products compete in market categories with a combined $25B+ TAM, and their target industries are just 24% complete with their digital transformation.

The Company received a $115 million investment in the 3rd quarter of last year from a private equity fund that has a good track record with software development companies. I'm not a fan of growth by acquisitions, but the valuation is very low. We're sitting on a 21% unrealized loss on this investment which represents about a 2% weighting.

National Storage Affiliates NSA is s a self-administered, self-managed real estate investment trust dedicated to the ownership, operation, and acquisition of high quality self storage facilities located within high growth markets. It yields 6% and has meaningful insider buying at these levels. Higher interest rates have caused REITs, in general, to reprice. Founder and Executive Chairman Nordhagen purchased more than $5 million on the open market since last November. We have an unrealized loss of 7% that will quickly turn profitable when interest rates normalize. I think the fear of refinancing shorter-term debt is overblown. Historically the Company has a history of raising its dividend.

Rocket Cos is the largest mortgage originator in the country. CEO Farmer and Director Mathews have purchased millions of dollars worth of stock through 10b5-1 plans. We can't predict the timing, but there will be historic pent-up demand for mortgages when interest rates normalize. Rocket is a likely survivor and represents a true contrarian play. We've purchased leaps out to 2024 as well.

Albemarle Corp represents only a 1.50% weighting but contributed a significant part of our December paper loss. ALB is the largest U.S. lithium chemical company. The global automotive demand for this critical battery mineral is unlikely to ebb anytime soon. There haven't been recent insider purchases, but the price has dropped to levels where insiders have stepped up in the past. The prospects for Albemarle are only getting stronger.

United Airlines Holdings UAL is the most likely international airline beneficiary of China's pent-up travel demand from Covid travel restrictions. The Chairman of the Board purchased $1M at $39.74 on December 12, 2022. UAL is just a 1.3% weighting and will likely be a short-term trade.

We have a variety of small moonshot-type bets in alternative energy names like Fluence, Crowdstrike, a leading security SAS company, a small drone-based defense company, Kratos, and a small Chinese biotech, Casi Pharmaceutica. According to Goldman Sachs,

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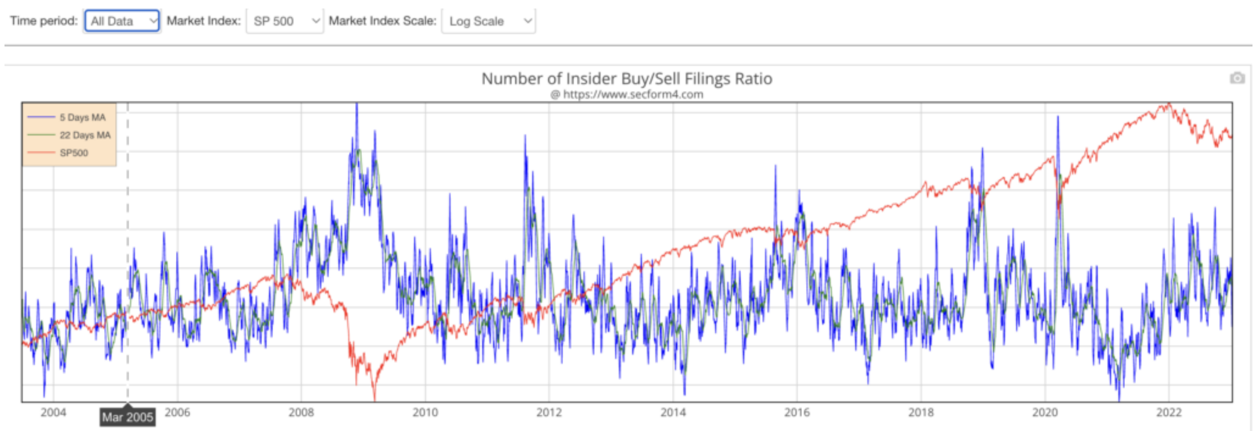
climate-related spending and infrastructure investment are likely to grow too, aided in part by long-lasting federal spending programs. The new Inflation Reduction Act includes $369bn of energy and climate incentives over the next ten years to curb US carbon emissions by 40% by 2030. We own a few names that could be beneficiaries, such as **Fluence**, **Graftech**, **Primori**s, **Canadian Solar**, and **Lithium Americas.**

My Outlook:

When does the bear market end? 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 12 months into this correction. It's impossible not to speculate when it will end, but with so much uncertainty in the world, no one really knows. Anyone that tells you differently is either disingenuous or naive.

Instead, 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 that purchase material amounts of their own company's stock in the open market.



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.

All bear markets for the last 20 years have ended with a crescendo of buying from insiders. The above chart goes back as far as we have records. The most prominent bear market over this span was the Great Recession of 2008. Insiders hit the ball out of the park this time as well, calling the bottom in the Spring of 2009, once again in 2011 with the U.S. Debt downgrade and the euro crisis, and with precision every significant dip since. Will they do it again? Probably, but they haven't yet wrung the all-clear bell yet. We don't see any sign yet of the explosion of

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insider buying that we would need to call an end to the bear market, but we do see insiders starting to buy in beaten-up sectors like REITs.

The limits of U.S. Treasury debt financing might be tested this year as tax receipts could decline in a recession while monetary spending increases unrestrained. The Fed's decision to hold interest rates higher for longer is on a collision course with ballooning deficit payments due to higher interest rates. Already a group of Republican congressmen have reportedly held hostage Speaker of the House Kevin McCarthy over commitments to address the deficit and balanced budgets.

The Fed doesn't control the long end of the yield curve, and markets have been signaling for weeks now that long rates likely 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.
But markets are often wrong.

Fundamental secular changes are underway that might not allow the Fed to think they have room to lower interest rates. For example:

Going Green- Climate change has become the consensus view. Going green is expensive. It's as simple as that.

Reshoring- Wars, Covid, populism, and China hostility have created the backdrop to bring manufacturing back to the U.S. or near the U.S. Building new factories is not cheap or quick. Made in America costs more.

Demographics- Seniors are retiring now at peak numbers during a period of record-high employment. They are close to 18% of the population. Higher rates might not slow the economy much as seniors have an increased capacity to spend due to higher returns on the fixed-income part of their portfolio. At the same time, shortages will likely persist, keeping wages high and, thus, inflation.

All of these things are likely to keep rates higher for longer or potentially even higher than expected due to the Federal Reserve's intransigence. Ultimately the Fed will be right, as very high rates will destroy demand, as well as jobs, people's savings, and the country's balance sheet. Foolish behavior is not uncommon among learned people. For hundreds of years, medical doctors bled patients thinking that could help their ills.

If there is anything we can learn about investing from the past, it's that the best-performing sectors or groups usually become the worst and vice versa in the following years. Of course, the timing of this reversion to the mean is unknowable, and all the difference between winning and losing. There is an old maxim on Wall Street; what's the difference between bearing early and wrong in the market? The answer is "none."

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Housekeeping:

Giving Back Program

Alpha Wealth Foundation is now established and has applied to the IRS for status as a private foundation described under Section 501(c)(3). Our legal counsel says it could be six months or more before the IRS rules. Once effective, we will begin donating to the charities and nonprofits you chose and once again ask you for charitable suggestions. We will keep you posted on this matter.

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. Although we plan on doing a partner Zoom call next week, there is no substitute for one-on-one conversations. I especially look forward to those calls. If you would like to schedule, please do so at calendly.com/hsax/phone.

Zoom Partner Call Info where we will go over the latest thoughts on the market, risks, and opportunities or any matters you would like to bring up.

Topic: The Insiders Fund Partner Meeting (will not be recorded)
Time: Jan 16, 2023 03:00 PM Mountain Time (US and Canada)

Join Zoom Meeting
https://us02web.zoom.us/j/6233049088?pwd=YlloRFJmeDBHRnI5Z25zUWlXaVc0dz09

Meeting ID: 623 304 9088
Passcode: insider

Stay tuned for the calendar invite for Monday, January 16th at 3 PM MST.

Sincerely yours,

HWS

Harvey Warren Sax

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