ALPHA WEALTH FUNDS

Alpha Wealth Funds, LLC

"the opportunities never stop"

July 12, 2023

The Insiders Fund, LP 2nd Quarter 2023 Partner Letter

"We might not be able to be better than the next guy, but we can be a better version of ourselves."

The Insiders Fund was up 5.45% for the month of June, 2.52% for Q2, and 2.90% YTD. During the same periods, the S&P 500 was up 6.6%, 8.74%, and 16.89%. The Insiders Fund's 3-year annualized return of 25.29% compares favorably to the S&P 500's 14.60%. The 3-year Sharpe Ratio, a popular measure of risk-adjusted return, was 0.75 versus the S&P's 0.57. The most remarkable thing about the second quarter was the lack of anything remarkable. The largest variance in portfolio value was a 1.45% move from a 40% rip in SoFi.

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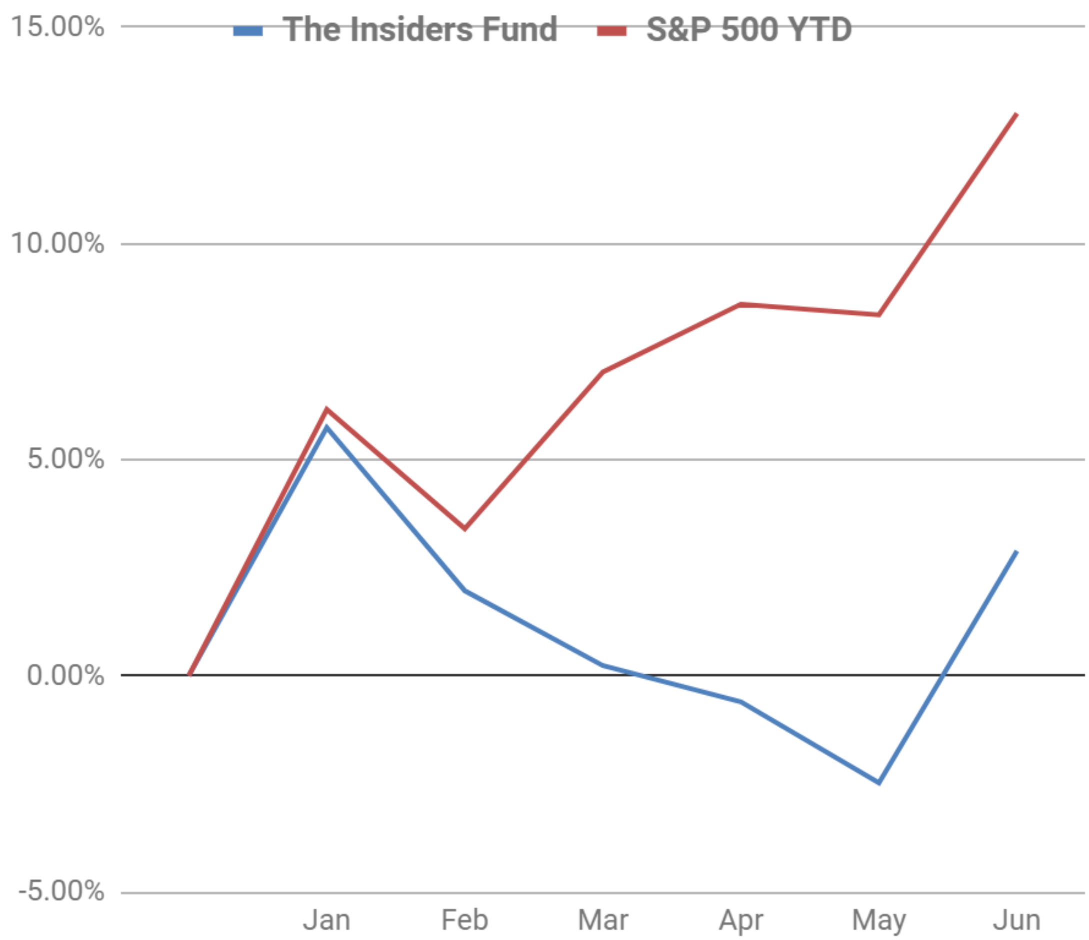

We have some work to do to catch up with the market's heady returns year to date.

This partner letter is much like a report card. We hope you will take the time to review it. An informed investor will always lead to better results. Although we were fully invested early in the second quarter, we largely missed the stunning rebound rally of the tech sector from its historic 2022 sell-off.

There was little insider buying to hint at what, in hindsight, was obvious, the reversion to the mean. Stocks and sectors that are the worst-performing sectors usually have a sharp rebound and become the best-performing ones. The difficult part, of course, is the timing, the matter of when this reversion trade will happen.

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This happened much sooner than I expected. The Nasdaq 100 had its biggest first six months ever. It is obvious that these profitable, enormously cash-rich companies should be a beneficiary of the Fed's monetary tightening policy. The promise of a revolutionary change from large language model advances in artificial intelligence gave these names an afterburner surge.

How a manager beats or underperforms the market is not always readily apparent or easily understood. It is referred to as attribution, and there are some sophisticated software models that purport to do that. Our fund administrator provides you with this with your current portal. In our case, it is simple. We owned a lot of oil and gas stocks.

Winners and Losers:

QTD TOP GAINERS

Sofi Technologies Inc	0.90%	1.40%
Guardant Health Inc	0.89%	0.85%
Sofi 01/17/2025 Call 5	0.58%	0.59%
Tesla Inc	0.53%	0.71%
Pra Group Inc	0.49%	0.49%
Microsoft Corp	0.47%	0.45%
Intel Corp	0.39%	0.46%
Comstock Resources Inc	0.39%	(0.64)%
Fluence Energy Inc	0.37%	0.55%
Charles Schwab Corp	0.35%	0.14%

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Group Summary	**5.37%**	**5.00%**

QTD TOP DECLINERS

Zions Bancorp	**(0.60)%**	**(0.53)%**
Spdr S&P Regional Banking ETF	**(0.45)%**	**(0.52)%**
Albemarle Corp	**(0.37)%**	**(1.48)%**
Apple Inc	**(0.35)%**	**(0.70)%**
Devon Energy Corp	**(0.25)%**	**(0.28)%**
Sandridge Energy Inc	**(0.23)%**	**(0.95)%**
Vicarious Surgical Inc	**(0.21)%**	**(0.49)%**
Lockheed Martin Corp	**(0.19)%**	**0.22%**
Alphabet Inc	**(0.17)%**	**0.37%**
Sarepta Therapeutics Inc	**(0.17)%**	**(0.17)%**
Group Summary	**(2.99)%**	**(4.52)%**

We had only one winner or loser that accounted for more than 1% of the portfolio during the quarter, and that was SoFi, with just under 1.5%. Investors like low volatility but want high returns, supposedly diametrically opposite outcomes. This is an area where we need improvement. The portfolio can benefit from more volatility. For example, we increased our exposure to oil and gas as the sector sold off. We reduced our exposure to regional banking despite the huge pick-up in insider buying that accompanied the dramatic sell-off after the Silicon Valley Bank failure.

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You learn more from the losers than the winners. We followed a host of insiders into the regional bank sector following the collapse of Silicon Valley Bank. This was a mistake. Fortunately, we recouped this loss from regional banking with our investment in SoFi. Our investment in Charles Schwab is now in the black. When the Fed stops its aggressive rate hiking, Schwab should do well.

We made a gaff in our investment in Albemarle. We were shaken out from this position by negative headlines about Chile's expropriation of lithium mines and the collapse in the pricing of spot lithium in the Chinese markets. The only thing worse than selling at the lows is staying out of a long-term winner because you got cold feet. We went back into Albemarle and have healthy unrealized profits in the name.

Our investments in oil and gas did nothing to help during the quarter. All were pretty much lower, except for SandRidge. SandRidge paid a remarkable $2 per share dividend and did not even go down in price ex-dividend. We took some money off the table in SandRidge as their oil and gas reserves are the least promising. Valuation is still compelling, but we are disappointed they have done nothing to take advantage of their massive carry-forward tax loss on their books.

We traded covered calls in many of our energy names during the weak quarter, reducing our cost basis. The prospects for all the companies look exceptional. The valuations combined with fundamentals and management's financial discipline make this the most compelling sector in the market.

We lost a small amount of money (less than 1%) hedging with the S&P 500 and Nasdaq indices and futures. We lost a minuscule amount going long gold.

Top 10 Holdings as of 7/7/23:

Symbol	Description	Market Value (Acct)	
ET(HB)	Energy Transfer L.P.	$1,339,800	6.03%
CRK	Comstock Res Inc	$1,284,820	5.78%
COP	ConocoPhillips	$1,186,914	5.34%
LMT	Lockheed Martin Corp	$1,146,250	5.16%
DVN	Devon Energy	$1,457,885	6.56%
EOG	EOG Resources	$1,009,131	4.54%

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KRE	SPDR S&P Regional Bank	-$1,036,750	-4.67%
ALB	Albemarle Corp	$997,584	4.49%
SOFI	SoFi Technologies Inc	$979,683	4.41%
SCHW	Charles Schwab Corp (The)	$949,061	4.27%
KTOS	Kratos Defense & Security Sol	$958,500	4.31%

The discussion below is about the current top ten holdings.

Oil and gas producers and infrastructure plays accounted for 33.4% weighting of the portfolio. Unfortunately, there is not much discrimination in the market as this group seems to all go up or down lock step with the underlying commodity. Management gets little credit for running a good business or a poor one.

We are long-term bullish on energy and its most significant by-product, electricity. On the last Zoom call, I discussed that our oil and gas holdings were where insiders were buying. It was also 25% of the portfolio. That is the limit of exposure to any sector I am comfortable with. I asked your opinions about increasing exposure, where I saw the most significant reward potential and there was a consensus that we should. Combined with the energy exposure that the lithium economy represents, our portfolio is now 38% correlated to fossil fuels and alternative energy.

Artificial intelligence may get the limelight and headlines today, but there is no computing without vast amounts of electricity. There is no 21st-century or industrialized economy without electricity. That is the business of the future, and whether it is generated by fossil fuels, sun, wind, oceans, geothermal, nuclear, or fusion, it all results in the same thing, an unending consumption and demand for electricity.

I disagree with the conventional wisdom that energy has up and down cycles. Every price swing is unique and eccentric to the times. For example, our current situation is that the Biden administration sold off massive amounts of oil from the Strategic Petroleum Reserves to cushion the supply shock from sanctions on Russian crude. The administration has yet to refill the reserves as they promised they would as this is an emergency stockpile maintained by the Department of Energy. Russia has sold as much oil as possible to support the war effort. The Fed has undergone an unprecedented surge in interest rates to slow the economy. Years of ESG mandates and investor disappointment has curbed the capital flow into oil and gas exploration and development. China is reopening from a 3-year self-imposed Covid shutdown. We are where we are. The price of oil is where it is.

The supply chain for energy is fragile. On July 5th, The U.S. Navy said it had intervened to prevent Iran from seizing two commercial tankers in the Gulf of Oman, in the latest in a series of attacks on ships in the area since 2019. We are only one tanker blown up from sending shipping

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insurance rates to the moon, and with them, the price of oil and gas. I have said this before - there will be volatility with these commodity products, but the market mistakes it as cyclical. It is not cyclical-every era is unique and long term- it is existential.

Energy Transfer (ET) is one of the country's largest natural gas pipeline and petroleum companies. It represents ~ 6.03% 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 9.65% yield. ET has had massive insider buying as well.

Natural gas is the preferred fuel for electricity generation. Domestic power generation is transitioning from coal to cleaner burning gas and renewables. Foreign demand for LNG is off the charts in 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.

Comstock Resources (CRK) constitutes a 5.78% weighting. 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 has pressured natural gas to multi-year lows.

Several insiders bought additional shares in March at prices from $9.94 to $10.05.

ConocoPhillips (COP) is an American multinational corporation engaged in hydrocarbon exploration and production. It represents a 5.34% weighting in the portfolio. Approximately one-third of the company's U.S. production is in Alaska, where it is the largest producer of oil. As of December 31, 2019, the company had proved reserves of 5,262 million barrels of oil equivalent (3.219×10^{10} GJ), of which 50% was petroleum, 37% was natural gas, 8% was natural gas liquids, and 5% was bitumen. Conoco, like many oil and gas companies, is paying a variable dividend, currently yielding 5.12%

Lockheed Martin at 5.16% weighting helps me sleep better at night. The world is a dangerous place, more dangerous than at any time in my lifetime. Even in the Cuban missile crisis era, the U.S. only had one nuclear-armed adversary. Now we are confronted with the alliance of two nuclear superpowers and rogues states like North Korea and Iran on the way to obtaining

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nuclear weapons. China and Russia have explicitly stated their intent to replace the U.S led world order that has provided security and prosperity since World War II. Lockheed is the largest U.S. defense contractor and is as much portfolio insurance as it is an investment.

Devon Energy(DVN) at 6.56% is our single largest exposure to any individual stock. Devon has had consistent CEO open market purchases of stock, over $1.1 Million worth this year. Devon's operations are focused onshore in the United States. The company's portfolio of oil and gas properties provides stable, environmentally responsible production and a platform for future growth.

Devon reported net earnings of $995 million, or $1.53 per diluted share, in the first quarter of 2023. Adjusting for items, analysts typically exclude from estimates, the company's core earnings were $952 million, or $1.46 per diluted share. Oil production reached an all-time high of 320,000 barrels per day in the first quarter. Operating cash flow totaled $1.7 billion, and free cash flow reached $665 million in the first quarter. The Company declared a fixed-plus-variable dividend payout of $0.72 per share based on first-quarter results. Share buyback activity accelerated with $692 million of repurchases year-to-date. The board of directors increased share-repurchase authorization by 50 percent to $3.0 billion.

EOG Resources (EOG) at 4.54% weighting, is a low-cost domestic oil and gas company with acreage in all the major producing basins. The company has a strong balance sheet, a variable dividend structure, and a culture of returning free cash flow to shareholders. Director Kerr purchased $2.6 Million of stock in January at $130.49, The President and COO have been selling small amounts for a few years at a regular pace. It looks more like financial planning than opportunistic sales.

KRE S&P Regional Bank ETF- This is a short position representing a 4.6% weighting. The Fed’s regime of higher for longer is causing a flight of capital from this group as they are either unwilling or not capable of competing for depositors with the higher interest rates that Treasuries and money markets are offering. The risks of refinancing a moribund office market at much higher interest rates are going to fall squarely on the shoulders of the regional bank sector. I expect many office building developers to just walk away and leave the banks holding the bag. The short position may also offset some risk with our position in SoFi and Charles Schwab.

Albemarle Corp represents 4.85% weighting. ALB is the largest U.S. lithium chemical mining and producing company. The global automotive demand for this critical battery mineral will unlikely ebb anytime soon. The CEO, President, and General Counsel all were buyers last May on the headline risk that Chile was nationalizing the lithium reserves.

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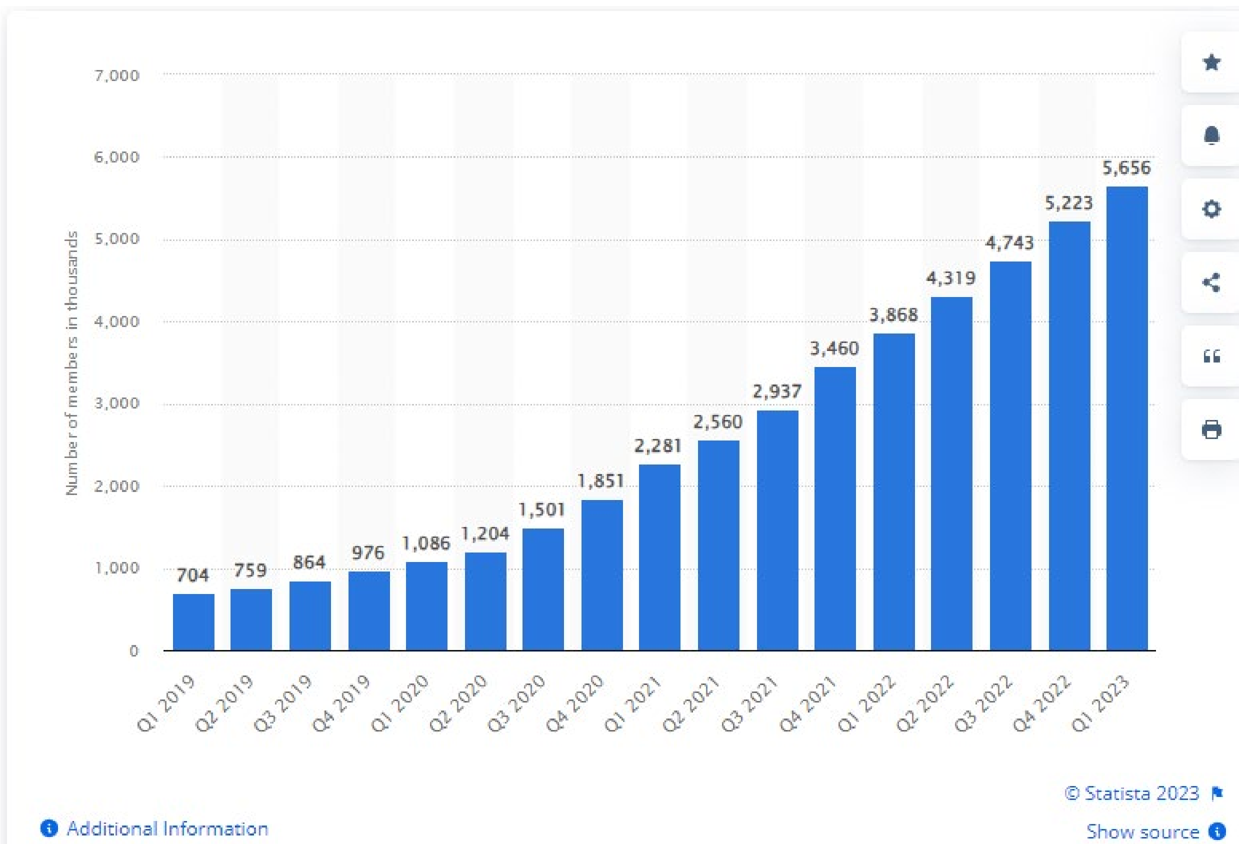
There is no substitute on the horizon for this unique metal, lithium. It is essential to the batteries that power electric vehicles, utility-scale battery packs, and all forms of personal and household electronics.

SoFi Technologies (SOFI), at 4.41% weighting, aims to be a one-stop shop for financial businesses. Customers are referred to as “members” by the firm. Its lending and financial services products allow members to borrow, save, spend, invest, and protect their money. The company started up in 2011 and has made a set of financial solutions that can only be done on an integrated digital platform. Everything SoFi does is oriented around assisting members in “Getting Your Money Right,” and the company strives to develop and create methods for members to attain this objective.



I’ve blogged repeatedly about SoFi. I think SoFi might just be the new version of banking. They are growing deposits by over 45% year over year while most brick-and-mortar banks are seeing customers flee for higher paying money markets and Treasuries. SoFi’s average loan customer earns $160,000 per year with a FICO score of 760. This is the cream of the crop, and they are demographically young and educated. A customer for life here can create enormous value. SoFi has repeatedly said they will be GAAP profitable by the fourth quarter.

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We also purchased shares in **Charles Schwab (SCHW),** the 10th largest bank in the country and one of the world's largest custodians of stock market assets. Several insiders purchased material amounts of stock as the stock cratered on reports that Schwab's bond portfolio was so deep in the red that the company had negative equity. We are in the black here as the stock has had a minor rebound.

Kratos (KRTS) is one of two companies competing on a top-secret stealthy autonomous drone program for the U.S. Air Force. We have grown more confident in the broadness of Kratos's portfolio and have upped our exposure to this high return high-risk name to over 4% as Kratos has little risk of going out of business and has a high asynchronous return risk reward potential.

The Air Force plans to have thousands of these drones accompany manned 5th and 6th-generation fighter jets in a fully networked space and ground combat theatre. The air force refers to this as the trusted wingman program. They have been testing numerous Kratos Valkyrie drones for a few years, and a contract award could be imminent. Unfortunately, everything about this program is classified. Most of my knowledge is gleaned from digging around defense wonks on YouTube.

https://www.youtube.com/results?search_query=kratos+valkyrie

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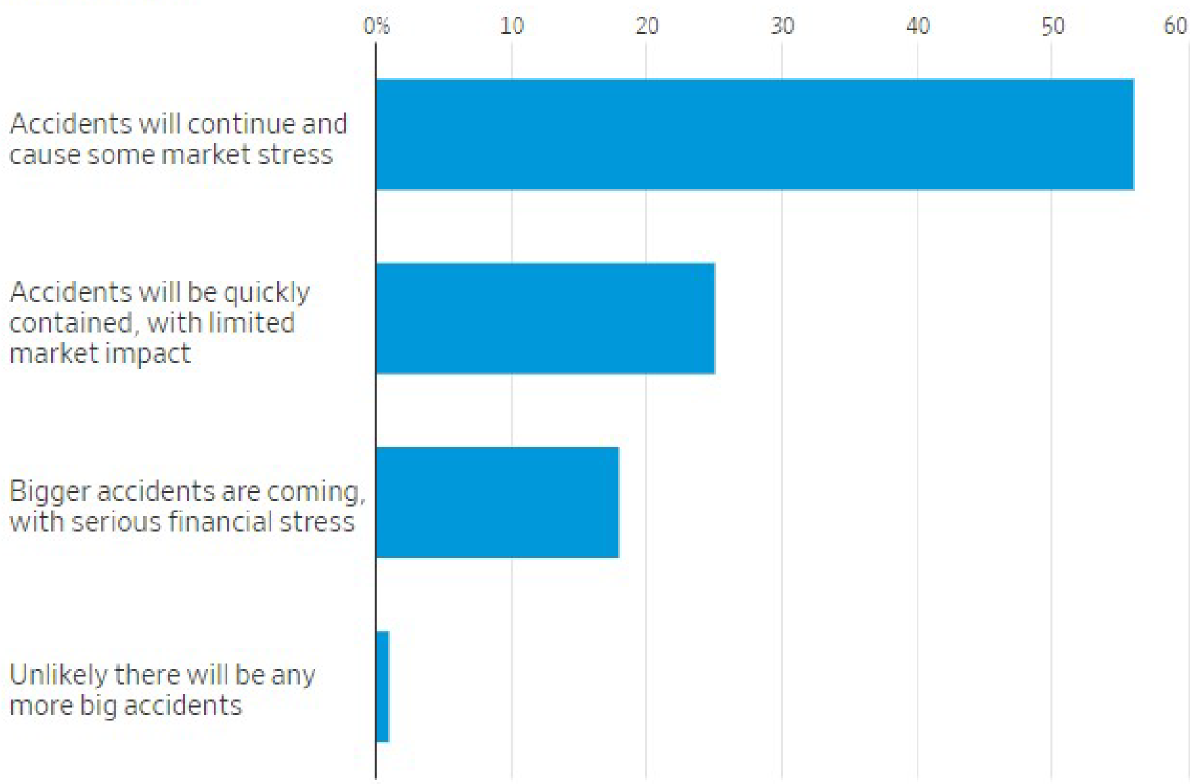
Our Outlook:

I wrote in the last partner letter that inflation would be stickier than expected because of the following factors. Going green is expensive, made in America is not cheap, and the Fed raising interest rates like this will eventually break something else, and they would be forced to halt interest rate hikes before reaching their inflation target.

Response from market professionals when asked if higher rates will cause more accidents in global markets



Note: Based on survey of 400 global participants conducted June 27-29.
Source: Deutsche Bank Research

The Fed is likely on hold, IPO's are not flooding the market, and the political rhetoric, although obnoxious, is not a risk until next year. Of course, you never know where a black swan may land, but The Insiders Fund is nimble and, as you can see repeatedly, capable of large returns in a very compressed period.

We are heavily skewed toward energy and hydrocarbons. Solar, wind, and other renewables will inevitably supply a greater proportion of electricity generation, but hydroelectric, at

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~14%, is already in decline. The world's most promising sources of energy from rivers and dams were built in the last century, and drought from climate change threatens them. Natural gas will be in demand to replace coal and necessary for the foreseeable future even after peak growth declines in 2050 according to the IEA. The sun does not always shine, and the wind does not always blow. There is no known substitute for airplane fuel, war machines, and chemicals created with petroleum and natural gas.

The race to electrify the automobile transportation fleet is not well thought out and will cost trillions, not billions, and take decades if ever, to complete. Substituting one scarce resource for another is hardly an environmental gain. Automobile manufacturers saw how Tesla was valued more than all of them combined and came to what I call a Ted Turner moment. Scientific and government consensus that the world needed to move away from combustion engines coalesced with corporate FOMO.

A similar thing happened at the dawn of the internet when Ted Turner merged CNN and his media company into America Online- a dial-up modem internet access company that would soon be obsolete. When Mary Powers of GM was told that they had no inventory of EV vehicles to meet their Wall Street forecasts, she reportedly said in frustration to her 40-person lithium battery supply team. "You told me you had this all figured out."

Free markets, although brutal and uncaring, prove out real demand and solutions, while bureaucrats think that if they wish it, it will happen, neglecting what markets tell them. Ironically, GM and Ford's shares have been rallying on strong combustion engine vehicle sales, not electric.

Toyota noted that "more than 300 new lithium, cobalt, nickel, and graphite mines are needed to meet the expected battery demand by 2035," and they could take decades to develop. I am an environmentalist but substituting one scarce resource of fossil fuels for another one, like lithium batteries, is a fool's errand. But that does not mean we will not try. Does anyone suspect the reason the Chinese are pushing EVs so hard is that they have no oil? They must import it, and it creates dependencies on the US Navy to secure the sea lanes. If they were deeply concerned about the environment, they would stop using coal for 50% of their electric generation power.

Once again, we thank you for your trust and confidence in having us assist you in managing your money. Admittedly we have some work to do to catch up with this year's heady stock market returns. We might not be able to be better than the next guy, but we can be a better version of ourselves. Newer partners hopefully will take heart in our 3-year record, some 70% better than the market.

Please feel free to discuss any concerns or thoughts you want to share. Although we are doing a partner Zoom call next week, there is no substitute for one-on-one conversations, especially if you cannot make the Zoom call. I especially look forward to those calls. If you would like to schedule, please do so at [calendly.com/hsax/phone.](calendly.com/hsax/phone)

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Zoom Partner Call Info: We will go over the latest thoughts on the portfolio, markets, risks, opportunities, or any matters you would like to bring up. I will not record the Zoom call as you should attend. You may have ceded control of your investments to me, but not the responsibility of being informed.

Topic: The Insiders Fund Partner Meeting
Time: July 17, 2023, 04:30 PM Mountain Time (US and Canada)

Join Zoom Meeting
https://us02web.zoom.us/j/81978594486

Stay tuned for the email calendar invite.

Sincerely yours,

Harvey Warren Sax

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