Alpha Wealth Funds

Alpha Wealth Funds, LLC

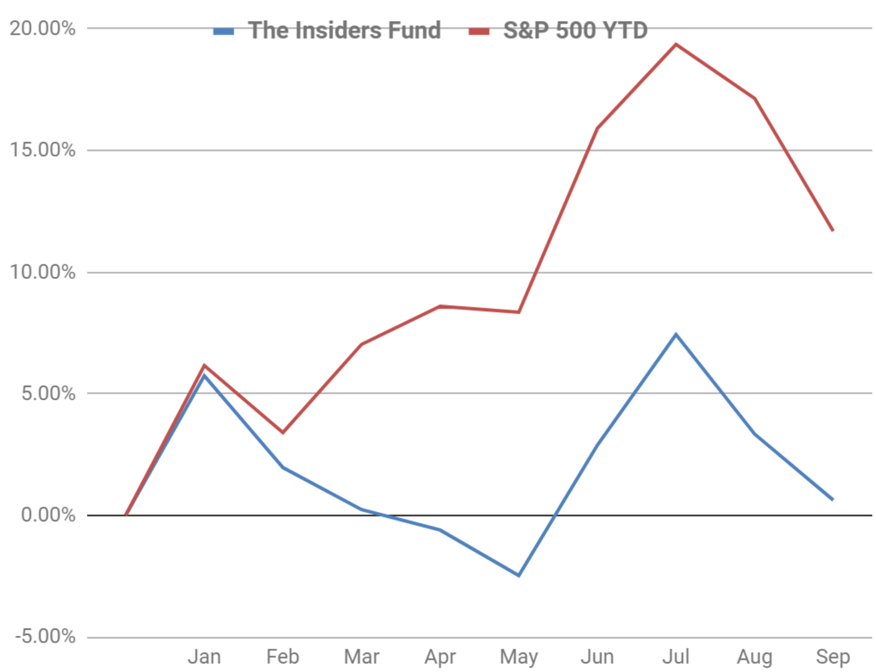
"the opportunities never stop"

October 16, 2023

The Insiders Fund, LP 3rd Quarter 2023 Partner Letter

"The black swan has been spotted."

The Insiders Fund was down 2.60% for the month of Sep, -2.25% for Q3, and more or less flat, up 0.63% YTD. During the same periods, the S&P 500 was down 4,87% -3.27% for the quarter, , and up 13.07% YTD. Tech stocks that took the brunt of the selloff in 2022 made a stunning comeback in the 1st quarter of 2023. We avoided 2022's gut wrenching losses but largely missed the tech snapback rally fueled by the promise of AI. We have been wavering between small gains and losses all year.



The Insiders Fund's 3-year annualized return of 20.16% is double the Index's 10.15% comparable period return.

1887 Gold Dust Lane, Suite 203A, Park City, UT 84060
wk. 435-658-1934 ▪ fax: 206.984.4109 ▪ email: hsax@theinsidersfund.com

We Can and Will Do Better

An informed investor will always lead to better results. You may have allocated some control of your investments to me, but not the responsibility of being informed. *It will make us **both** more successful.* I should add that I used multiple research aids all throughout this letter including Googles' remarkable LLM, [Bard](). When opinions are clearly other than my own, I will cite the origin.

Winners and Losers:

I have always believed you learn more from the losers than from the winners, maybe because human nature is to brush the losers under the bed, so we don't have to look at them and assume responsibility. We followed a host of insiders into the regional bank sector following the collapse of Silicon Valley Bank. Insiders are normally the best-informed investor group but there are occasions when even insiders are blindsided by current events. This is the case now. The meteoric rise in interest rates combined with the multitude of non-brick and mortar banking type options, private credit, and shadow banking are creating fault lines in the business model.

Not all insiders will be proven wrong in their purchases of regional banks but I don't think as a group they can be relied on as they have been in the past. Our indiscriminate but diversified follow the pack model was a mistake, a reminder that insiders are not always right. Fortunately, we recouped this loss and more from regional banking with our investment in SoFi, the largest gain during the quarter representing 1.75% of the portfolio.

Even though SoFi's average customer FICO stores are over 760 and consumer income $160,000 plus, at the end of the day, Sofi is an asset light bank. They should be valued like any other business, on a multiple of the owner's earnings, which there are none yet. No regrets. It was our biggest winner and it's trading less than what we sold it for. We can always get back in SoFi if it can show profits not just clever marketing slogans.They have a vision of a one stop financial destination but so do a lot of other profitable entities. For now it just looks like a highly leveraged personal loan vendor with a lot of stock options and RSUs yet to be issued, further diluting shareholders.

Unfortunately we gave some of these SoFi and Schwab profits back with a small, 0.76%, loss in the Regional Banking Index. The Fed's higher for longer policy has been devastating for regional banks. The underwater held for sale loan portfolio and unrealized office real estate loan losses are looming over their balance sheet like the Sword of Damocles.

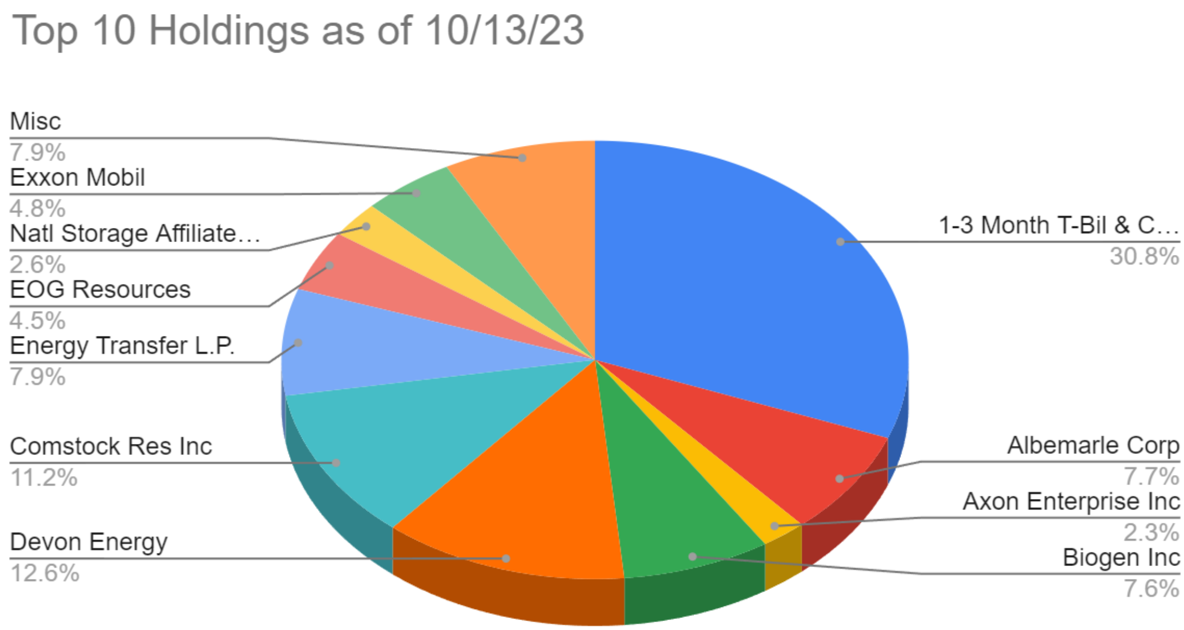
1887 Gold Dust Lane, Suite 203A, Park City, UT 84060
wk. 435-658-1934 ▪ fax: 206.984.4109 ▪ email: hsax@theinsidersfund.com

We were blind sided by the collapse in price of Insulet (PODD) and Tandem Diabetes (TD). I don't know if the hype of these new drugs by Lilly and Novartis, Ozempic and Wegovy, will end diabetes or disrupt WalMart's grocery business but the market is voting with its dollars. I was under the impression they were weight loss drugs, not cures for diabetes. Apparently insiders were blindsided by this as well. Whether this is hype or science, I have no idea, but the market has spoken, devastating the price of these stocks. We cut our losses to just 1.2% of the portfolio. The biggest lesson I have learned over these years is to take losses early before they become significant. Move on, learn from the past, don't live in it. We sold Insulet at prices between $227and $175. It closed Friday at $132.38.

Buffet's much acclaimed 1st two rules of investing. **Rule #1 Don't lose money. Rule #2 Don't forget Rule #1**. should be amended by also don't keep your head in the sand. Not to take anything away from the GOAT, while walking the floor at the annual Berkshire Woodstock of Capitalism in Omaha, I noticed one of their portfolio companies was World Book Encyclopedia.

The biggest regret of the quarter and it cost us a half percent was selling most of Kratos, the stealthy drone defense manufacturers I have written about. I sold that after the quarter ended but I thought I'd commiserate a bit with you. I met with the CEO and CFO during the Miramar Marine Air Show in San Diego last month. My biggest concern and their biggest concern was a continuing resolution with the Congress. Small defense contractors are very dependent on new spending programs. With no progress in sight, I sold out most of our profitable position. Shortly after, war broke out in Israel and the stock reflexively popped 11% that day leaving us a half percent or so of missed profits. Our oil stocks more than made up for that though. We will revisit Kratos in a big way when it look like Congress can create a new budget, not just a continuation of one that doesn't pave the way for Kratos to revolutionize the trusted wingman program of AI autonomous stealthy [Kratos XQ-58 Valkyrie]() drones accompanying 5th generation jet fighters all networked in space, air, and ground control.

1887 Gold Dust Lane, Suite 203A, Park City, UT 84060
wk. 435-658-1934 ▪ fax: 206.984.4109 ▪ email: hsax@theinsidersfund.com



Our oil and gas related exposure has risen from 33.4% to approximately 37.7% of the portfolio. The conventional wisdom is that energy has up and down cycles. It's convenient to dismiss price swings in oil and gas stock as cyclical but every major move is unique and eccentric to the times. This is a report card not a history lesson so we are focused on the present.

No discussion about crude is complete without a discussion of geopolitics and the energy supply chain. The supply chain is much more fragile than most perceive. That was the genesis of the Strategic Petroleum Reserve. The United States started the petroleum reserve in 1975 to mitigate future supply disruptions as part of the international Agreement on an International Energy Program, after oil supplies were interrupted during the 1974 Arab oil embargo.

Biden sold off record amounts of crude from the country's Strategic Petroleum Reserves to thwart soaring inflation. I don't want to assign motives and engage in politics but soaring gas prices at the pump is bad for the incumbent party in front of Midterms. A series of emergency drawdowns to prevent soaring prices due to the Russia invasion of Ukraine, exchanges and planned sales since 2020 have reduced crude oil inventories held by the U.S. Strategic Petroleum Reserve (SPR) to a 40-year low [1].

As of October 14, 2003 , there were 346.8 million barrels of oil in the SPR. The U.S currently consumes 20 million barrels per day and imports about half of it. Russia has sold as much oil as possible to support the Ukraine war effort. The Fed has undergone an unprecedented surge

[1] https://www.dallasfed.org/research/economics/2023/1003

1887 Gold Dust Lane, Suite 203A, Park City, UT 84060
wk. 435-658-1934 ▪ fax: 206.984.4109 ▪ email: hsax@theinsidersfund.com

in interest rates to fight inflation. This has made the cost of capital expensive and oil and gas production is capital intensive as producing fossil fuels results in a depleting asset. Years of ESG mandates and investor disappointment has curbed the capital flow into exploration and development. Producers in the U.S have gained economic discipline and remarkable efficiency to produce more with less using remarkable innovative fracking techniques. Yet there are many limits to production growth including skilled labor and political resistance to fossil fuels. China is reopening from a 3-year self-imposed Covid shutdown. OPEC enforced production cuts, emerging markets demand, and geopolitical hazards make this a very difficult market to predict.

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 insurance rates to the moon, and with them, the price of oil and gas. The current situation with Hamas's unprecedented slaughter of Israelis last week has ignited a full scale war with Israel. Iranian backed terror groups, and the sanctions on Russia oil have created potential for major global oil spikes, maybe the highest since the Arab oil embargo of 1974.

Last year **Exxon (XOM)** raked in more money than every publicly traded American company except Microsoft, Apple, and Alphabet yet it trades at just 1/6th,a fraction of their multiples. Exxon's recent deal to acquire Pioneer Natural Resources, if approved, will cement Exxon as the largest domestic producer in the most prolific basin in the country, ensuring adequate domestic oil supplies. It reaffirmed their long term commitment to fossil fuels. Long-term demand for oil wasn't even close to rolling over, Darren Woods explained [2]as part of his rationale for the largest deal in Exxon's history.

Fossil fuels have shaped mankind more than any single feature since their discovery of the Drake well, Titusville, Pennsylvania. On August 27, 1859, George Bissell and Edwin L. Drake made the first successful use of a drilling rig on a well drilled especially to produce oil, at a site on Oil Creek near Titusville, Pennsylvania.[3]

As the CEO of Exxon prominently pointed out in Friday's Wall Street Journal that long term demand for oil wasn't even close to getting exhausted, I feel even more so about the future of natural gas. It will long power the transition to cleaner energy. The entire energy complex trades cheaper than tobacco stocks yet. Energy represents 4.4% of the market weighted capitalization of the S&P 500. That translates into real dollar spending close to that spend on GDP, not far behind the ACTUAL total percentage of spending the average American household spends on computers, phones, and related technologies at 5.2% according to the Bureau of Labor Statistics.

[2] https://www.wsj.com/business/energy-oil/darren-woods-exxon-ceo-c35c476a?mod=hp_lead_pos8

[3] https://en.wikipedia.org/wiki/History_of_the_petroleum_industry_in_the_United_States#:~:text=Drake%20well%2C%20Titusville%2C%20Pennsylvania,-1879%20retail%20brochure&text=On%20August%2027%2C%201859%2C%20George,Oil%20Creek%20near%20Titusville%2C%20Pennsylvania.

1887 Gold Dust Lane, Suite 203A, Park City, UT 84060
wk. 435-658-1934 ▪ fax: 206.984.4109 ▪ email: hsax@theinsidersfund.com

Exxon under Darren Woods is changing the game and the perception of the Company. Their recent purchase of Denbury Resources (the ink is still wet) catapulted them as the biggest player in the new technology of carbon capture and sequestration. They claim that this acquisition will remove more CO_2 emissions from the atmosphere this year than all the EVs combined on the roads in the U.S.[4]

In time this obvious disparity between value and price will cause these energy stocks to get rerated. Even though there is a similar amount of money going out your pocket for technology as energy, one is valued six or seven times greater than the other in the stock market.

S&P 500 Sector Weighting

Sector	Index Weighting
Information Technology	28.2%
Healthcare	13.2%
Financials	12.5%
Consumer Discretionary	10.6%
Communication Services	8.8%
Industrials	8.4%

[4] Exxon under Darren Woods is changing the game and the perception of the Company. Their recent purchase, the ink is still wet, of Denbury Resources catapulted them as the biggest player in the new technology of carbon capture and sequestration. They claim that this acquisition will remove more CO_2 emissions from the atmosphere this year than all the EVs combined on the roads in the U.S.

1887 Gold Dust Lane, Suite 203A, Park City, UT 84060
wk. 435-658-1934 ▪ fax: 206.984.4109 ▪ email: hsax@theinsidersfund.com

Consumer Staples	6.6%
Energy	4.4%
Materials	2.5%
Real Estate	2.4%
Utilities	2.4%

Source: S&P Dow Jones Indices

An obvious ignored dependency, without electricity we don't even have computing. If we get a little lucky on the timing of this rerating of the sector, The Insiders Fund is poised to make large profits as there is a lot of beta in the already profitable Exxon and EOG long dated deep in the money call options. The Devon option leaps are less than $3 out of the money and expire in January 2025. There is significant upside asynchronous risk as these stocks trade like permanently moribund tobacco stocks.

Energy Transfer (ET) is one of the country's largest natural gas pipeline and petroleum companies. 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. ET has had massive insider buying as well. The 9% dividend yield, capital gains, and covered call writes have made this one of our most successful longer term investments.

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 but as part of the Biden Administrations ambition Inflation Reduction Act, Manchin negotiated the Mountain Valley Pipeline that will move stranded Marcellus and Utica natural gas to LNG facilities and other pipelines. For now, natural gas may have

1887 Gold Dust Lane, Suite 203A, Park City, UT 84060
wk. 435-658-1934 ▪ fax: 206.984.4109 ▪ email: hsax@theinsidersfund.com

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) 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. Although we are sitting on some losses, we think this will ultimately be very profitable as LNG export demand rises dramatically in the 2024 time period onward. Some estimates are as high as 50% growth in demand for stranded U.S. natural gas. Insiders have not sold a share this year.

Devon Energy(DVN) is our 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. It's also a possible consolidation target with good Permian acreage.

Devon Energy 2nd Quarter 2023 Highlights

Financial Results

- Net earnings of $690 million, or $1.07 per diluted share
- Core earnings of $755 million, or $1.18 per diluted share
- Operating cash flow of $1.4 billion
- Free cash flow of $326 million
- Cash balance of $488 million and an undrawn credit facility of $3 billion

Operational Results

- Averaged 25 operated drilling rigs
- Placed online 131 gross operated wells
- Upstream capital spending of $958 million
- Midstream, carbon and corporate capital totaled $60 million
- Operating costs of $14.75 per oil-equivalent barrel (Boe), a 6 percent improvement compared to the 2022 average

1887 Gold Dust Lane, Suite 203A, Park City, UT 84060
wk. 435-658-1934 ▪ fax: 206.984.4109 ▪ email: hsax@theinsidersfund.com

Source: Devon Energy Q2 2023 Earnings Release

Additional Highlights

- Devon Energy declared a quarterly dividend of $1.01 per share, payable on September 1, 2023 to shareholders of record on August 18, 2023.
- The company also announced that it has repurchased $1.2 billion of its common stock since the beginning of the year.
- Devon Energy increased its full-year 2023 production guidance to 600,000 to 610,000 Boe per day, from its previous guidance of 590,000 to 600,000 Boe per day.

Conclusion according to Bard. Devon is also a takeover candidate.

EOG Resources (EOG) 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 anything else. It is one of the largest independent oil and gas producers in the United States, with a strong track record of profitability and free cash flow generation. EOG also has a significant asset portfolio, including positions in some of the most prolific oil and gas fields in the country.

There are a number of factors that make EOG an attractive takeover target. First, the company is well-positioned to benefit from higher oil and gas prices. Second, EOG has a strong balance sheet and a low cost structure. Third, the company has a management team that is known for its operational efficiency and expertise.

In addition, EOG is currently trading at a discount to its peers. This could make it even more attractive to potential acquirers. Unlike Devon, EOG acts like a takeover candidate.

- Earned adjusted net income of $1.5 billion, or $2.49 per share. (Source: EOG Resources Reports Second Quarter 2023 Results: https://investors.eogresources.com/news/news-details/2023/EOG-Resources-Reports-Second-Quarter-2023-Results/default.aspx)
- Generated $1.0 billion of free cash flow. (Source: EOG Resources Reports Second Quarter 2023 Results: https://investors.eogresources.com/news/news-details/2023/EOG-Resources-Reports-Second-Quarter-2023-Results/default.aspx)
- Declared regular quarterly dividend of $0.825 per share. (Source: EOG Resources Reports Second Quarter 2023 Results:

1887 Gold Dust Lane, Suite 203A, Park City, UT 84060
wk. 435-658-1934 ▪ fax: 206.984.4109 ▪ email: hsax@theinsidersfund.com

https://investors.eogresources.com/news/news-details/2023/EOG-Resources-Reports-Second-Quarter-2023-Results/default.aspx)

Albemarle Corp (ALB) Albemarle is a leading global producer of lithium, bromine, and refining catalysts. The company's products are used in a wide range of industries, including electric vehicles, consumer electronics, and energy production. Albemarle is well-positioned to benefit from the growing demand for its products, driven by the transition to clean energy and the increasing use of digital devices.

It's 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.

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.

Albemarle continues to bedevil us. We have significant unrealized losses but have conviction that EV demand will continue to grow although perhaps not at the explosive rates early adoption showed. Even Exxon is making moves into lithium production by acquiring vast swaths of land in Arkansas, in the Smackover geologic formation.[5]

Albemarle Corporation reported strong second quarter 2023 results, with net sales increasing 60% year-over-year to $2.37 billion. The company's Energy Storage segment was the main driver of growth, with sales surging 120% to $1.76 billion. This was due to higher prices and volumes, reflecting tight market conditions for lithium and other battery materials.

Biogen (BIIB) is a global biotechnology company that develops and commercializes therapies for neurologic diseases, such as multiple sclerosis (MS), Alzheimer's disease (AD), and spinal muscular atrophy (SMA). Biogen is also developing potential therapies for other neurologic diseases, such as amyotrophic lateral sclerosis (ALS), Parkinson's disease, and Huntington's disease.

In the second quarter of 2023, Biogen reported revenue of $2.456 billion, up 15% year-over-year. This growth was driven by strong sales of its MS and SMA therapies. Biogen also reported non-GAAP diluted earnings per share of $4.02, beating analyst expectations of $3.95.

[5] https://www.nwaonline.com/news/2023/jul/21/wsj-exxon-mobil-plans-lithium-processing/

1887 Gold Dust Lane, Suite 203A, Park City, UT 84060
wk. 435-658-1934 ▪ fax: 206.984.4109 ▪ email: hsax@theinsidersfund.com

Here are some highlights from Biogen's second quarter 2023 earnings report, according to the company's press release:

- Revenue of $2.456 billion, up 15% year-over-year
- Non-GAAP diluted earnings per share of $4.02, beating analyst expectations of $3.95
- Strong sales of MS and SMA therapies
- Launch of new AD therapy, LEQSEBI, in the United States
- Progress on pipeline of potential new therapies for neurologic diseases

Biogen is well-positioned for continued growth in the coming years and in my opinion, a surprise upside from Leqembi. It's the only approved drug on the market for the most crippling disease for an aging population. Biogen suffered from a poor start with their Alzheimer's drug but momentum can pick up and provide a huge upside surprise.

Sources:

- Biogen Second Quarter 2023 Earnings Release
- Seeking Alpha Earnings Transcript for Biogen Second Quarter 2023 Earnings Call
- Zacks Investment Research Earnings Report for Biogen Second Quarter 2023

National Storage Affiliates Trust (NSA) is a self-storage real estate investment trust (REIT) headquartered in Greenwood Village, Colorado. The company owns and operates a portfolio of approximately 1,100 self-storage facilities in 42 states and Puerto Rico.

NSA has a long history of paying dividends to its shareholders. The company has paid a quarterly dividend since 1993, and has increased its dividend for 12 consecutive years. In the second quarter of 2023, NSA declared a quarterly dividend of $0.56 per share, representing a 1.8% increase from the second quarter of 2022.

The dirty secret of the self storage industry is most customers are there 3-5 years, trapped by circumstances beyond their control. It's easy for self storage vendors to hike rates without consequences as most tenants intend to leave anyway, just not now.

1887 Gold Dust Lane, Suite 203A, Park City, UT 84060
wk. 435-658-1934 ▪ fax: 206.984.4109 ▪ email: hsax@theinsidersfund.com

Our Outlook:

30% of our portfolio is in T- Bills and a small amount of cash. This speaks volumes about the uncertainty of our outlook and the lack of obvious opportunities outside of the energy sector. We are considering raising that exposure even higher but would like to have that conversation with you. Obviously we would like to be more diversified.

Utilities stocks have been crushed yet there is no let up in demand for electricity, just the opposite. Interest rates have likely peaked but ratepayers have gotten in the habit of suing their local utilities into bankruptcy because of forest fires caused by sparking electric wires. 5% returns on T-Bills is not a bad place to wait for better opportunities. They will come and we will be ready.

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. I also wrote, " that the political risk, although obnoxious, was not likely to become an issue until next year.The inability to elect a Speaker in the House has moved that timetable up. I added,…"of course, you never know where a black swan may land." **The black swan has landed. It's on the border with Israel and Gaza.**

The Insiders Fund is nimble and, although good returns have been missing in action lately, long time investors know we are capable of large returns in a very compressed period. We are heavily skewed toward fossil fuels. Although global disruptions to the supply of crude oil will spike the price, it's uncertain that that will move the stocks in the longer run. It may actually do the opposite if it throws the world into a recession. I am more confident than ever, though, that the market has underestimated the difficulty and cost of transitioning to a net carbon zero economy. Fossil fuels will be with us for a long time to come and none of us, when push comes to shove, will want to be without them until there are real alternatives.

Once again, we thank you for your trust and confidence in having us assist you in managing your money. Newer partners hopefully will take heart in our 3-year record, twice the returns of the S&P 500.

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)

1887 Gold Dust Lane, Suite 203A, Park City, UT 84060
wk. 435-658-1934 ▪ fax: 206.984.4109 ▪ email: hsax@theinsidersfund.com

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. The Zoom call will be recorded.

Topic: The Insiders Fund Partner Meeting
Time: October 18, 2023, 04:30 PM Mountain Time (US and Canada)

Join Zoom Meeting
https://us02web.zoom.us/j/86977414301

Stay tuned for the email calendar invite.

Sincerely yours,

Harvey Warren Sax