



Alpha Wealth Funds, LLC

“the opportunities never stop”

January 10th, 2024

The Insiders Fund, LP 4th Quarter 2023 Partner Letter

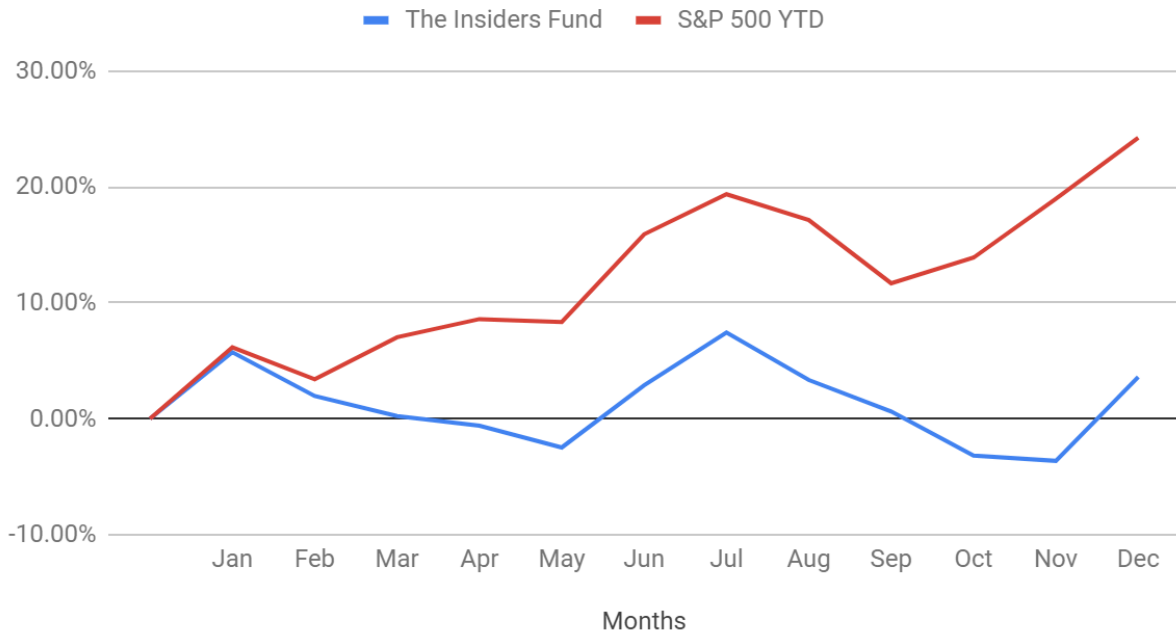
“Not just one, but multiple black swans have been spotted.”

The Insiders Fund's was up 7.51% for the month of December, bringing 2023's returns to 3.86%. The S&P 500 was up 4.42% in December, bringing its one-year return to 24.23%. Your own returns will vary slightly from this based on the date of your investment and fee arrangements. NAV Consulting provides the official results for the Fund.

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, but am happy to have ended the year with a strong print.



The Insiders Fund and S&P 500 YTD



As of December 31, 2023, the S&P 500 2-year Annualized Return is just 0.08%

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In the last quarter partner letter, I promised you that “we can and will do better.” We ended the year on a good note, but it has been a challenging two years in the market. Our meager results don’t tell the story. The stocks that led the rally last year got crushed in 2022. We avoided this volatility, preserved capital, and delivered a positive year.

This letter is our report card to you. An informed investor will always lead to better results, and I firmly believe our results are better when we take the time to analyze what went right and what didn’t. I should add that I used multiple research aids all throughout this letter, including Google’s beta LLM [Bard](#) and Microsoft’s [Bing](#), their implementation of Open AI’s ChatGPT. Any inaccuracies can be attributed to their hallucinations, not mine.

Winners and Losers:

1

https://ycharts.com/indicators/sp_500_2_year_return#:~:text=Basic%20Info,holding%20the%20S%26P%20500%20index.

2



You learn more from the losers than the winners. Sweeping the inconvenient losses under the bed is human nature. We don't have to look at them and assume responsibility. Was our thesis wrong, or was it a matter of timing, or did we just lack confidence in our convictions?

Historically, the Fund had self-imposed limitations of ~25% to any sector or industry. The logic is simple: individual names often perform similarly to the sector. A great house in a bad neighborhood will not likely be a great investment. At the time, valuations and validations of insider buying told us to weight oil and gas companies higher than usual. We raised our exposure to this sector to as high as ~40%.

This hurt our results last year as the sector was a significant laggard even though our investment thesis- *"that we have no viable substitutes in the near or intermediate term"* is gaining traction. The automotive industry is slowing down the production of EVs as the rapid adoption curve flattens out. Solar installations hit a glut of supply as the housing boom slowed down. Windmill projects got delayed or outright canceled because of bad economic returns.² We experienced this firsthand with our investment in Albemarle, the world's largest lithium producer. We did recoup some of the loss from our timely purchase of Enphase, a sizeable solar inverter company.

Although our thesis was correct, there is more to making money in the market than just predicting a sliver of the future. Everything a contrarian investor could wish for came to pass except one crucial component- *supply*. American producers excelled at innovation. Oil and gas drillers now routinely dig a mile and a half deep and an equal distance horizontally with stunning accuracy in finding trapped oil and gas reserves. The Biden administration compounded the supply situation by slow-walking LNG export projects, stranding much sought-after American natural gas at home. They emptied the Strategic Petroleum Reserve to fight inflation, reducing it to current levels not seen since 1985³. Cheap gasoline at the pump never lost any votes.

There are limits to continuing production growth, including skilled labor, rapid depletion of unconventional shale, and political resistance to fossil fuels. China's reopening from a 3-year self-imposed Covid shutdown has been tepid at best. OPEC-enforced production cuts, emerging market demand, and geopolitical hazards make this a tough market to predict. Energy represents just 4.4% of the market-weighted capitalization of the S&P 500, yet the actual consumer outlay rivals that of the technology industry's ~27% weighting. It truly is the Rodney Dangerfield of investing.⁴ For the under 65 crowd, that might be better understood as the red-headed stepchild.

2

[https://www.reuters.com/business/energy/equinor-bp-cancel-contract-sell-offshore-wind-power-new-york-2024-01-03/#:~:text=Jan%203%20\(Reuters\)%20%2D%20European.costs%2C%20and%20supply%20chain%20issues.](https://www.reuters.com/business/energy/equinor-bp-cancel-contract-sell-offshore-wind-power-new-york-2024-01-03/#:~:text=Jan%203%20(Reuters)%20%2D%20European.costs%2C%20and%20supply%20chain%20issues.)

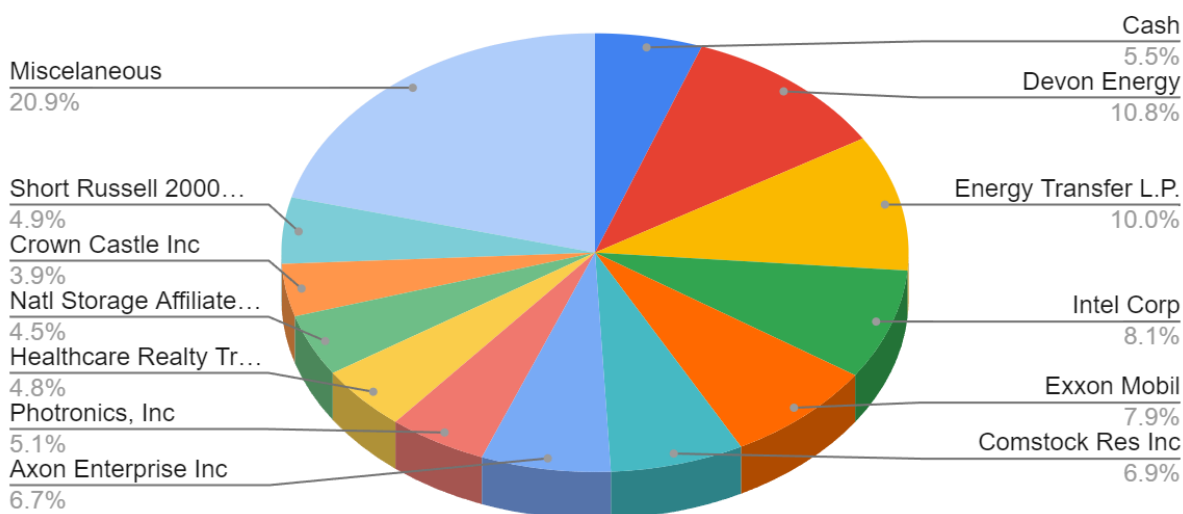
³ <https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=WCSSTUS1&f=W>

⁴ https://en.wikipedia.org/wiki/Rodney_Dangerfield

3

Despite this drag on performance, the Fund still had a profitable year. We maintained most of our exposure to this beleaguered sector. It represents significant unrealized losses that we expect to recover. We realized a loss on Biogen as the path to growth in their burgeoning Alzheimer’s franchise now seems unrealistic, tediously slow, and fraught with competitive risk. We reaped large unrealized profits with the rally in REITs. Photonics and Axxon were also notable winners in December. We still own these names, and you can read about them below.

Top Portfolio Holdings 1-2-24



Portfolio Holdings:

Here are some highlights of the portfolio at the beginning of the year. You’ll notice many of the same names from the previous partner letter and some new ones. The short position in the Russel 2000 is just a temporary hedging position. We often use short futures and indices to hedge our long equity exposure.

1. [Devon Energy\(DVN\)](#)

- Business: As described in their 2022 10-K, DVN focuses on "unconventional exploration and production [E&P]" in North America, primarily targeting shale resources in five U.S. oil and liquids plays located in the Delaware Basin, Anadarko

Basin, Williston Basin, Eagle Ford, and Powder River Basin. Q3 earnings call highlighted that 60% of their production efforts would be in the Delaware Basin.

- Insiders have been enthusiastic buyers. In the last 12 months, CEO Rick Muncrief has purchased over \$1 million worth of shares. COO Clay bought \$ 1 million on 3-14 at \$49.98 per share. A Director purchased \$250,000 in March. CFO Jeff Musser sold shares recently as part of a prearranged 10b-5 trading plan. (Source: SECForm4.com Insider Filings)
- Recent News: Their 3rd quarter free cash flow more than doubled versus the second quarter, and they rewarded shareholders with a 57% increase in the dividend payout, currently at ~6%. In the fourth quarter, management expects Devon's production to be around 650,000 BOE per day, of which oil is expected to approximate 315,000 barrels per day.
- Thesis: Devon has excellent assets and strong management. There is likely market concern that Devon will need to pay up for a significant acquisition to compete with the potential economies of scale in the Permian that competitor Exxon might realize with its proposed Pioneer purchase.

2. [Energy Transfer LP \(ET\)](#)

- Business: ET is a diversified energy company with operations in pipelines, storage, processing, and distribution of natural gas, natural gas liquids, crude oil, and refined products. Their network spans across the U.S. and Canada. Based on Energy Transfer's last quarterly dividend of \$0.305 per share declared on November 9, 2023, the current dividend yield is 9.06%.
- Insider Buying/Selling: Over the last 12 months, insiders have bought shares worth \$75,927,055.02, and there have been no insider sales.
- ET has acted well all year as its business is not overly dependent on the price of hydrocarbons as it functions more as a toll road. LNG exports are growing, and ET will be a prime beneficiary. Ironically, the healthcare and storage REITS we own have all rallied sharply in the last two months with the change in interest rate outlooks, yet Energy Transport seems unmoved by the change in the interest rate outlook.

3. [Intel Corp \(INTC\)](#)



- **Business:** INTC is a leading semiconductor manufacturer and technology company developing processors, chipsets, graphics cards, and other related technologies. They also provide cloud computing services through their Intel Xeon portfolio. Once the dominant semiconductor company, few analysts believe they can recover from this market shift. Nvidia has ~6X the market capitalization of Intel.
- **Insider Buying/Selling:** INTC has seen some insider buying in the last six months, with CEO Pat Gelsinger purchasing shares on multiple occasions. However, there have also been some insider sales by other executives.
- **Recent News:** Gelsinger rejoined Intel as their new CEO on February 15, 2021. It was a homecoming as Gelsinger began his career at Intel in 1979, becoming its first chief technology officer. Prior to this, he was the President and Chief Operating Officer of VMware. He led one of the most successful exits in the software industry culminating in a ~\$80 billion sale to Broadcom.

INTC recently announced plans to build multiple new fab factories in the U.S. benefiting from large government incentives. The company recently announced a \$20 billion chip factory in Germany, marking the company's most significant European investment to date. They also added to their significant foundry investments in Israel, where they are also getting Israeli government assistance. They are also focused on expanding their product offerings in artificial intelligence and other growth areas.

- Our thesis on Intel is that it is the only pure play on the U.S. and U.S. allied countries in semiconductor fabs. Intel has 15 wafer fabs in production worldwide at 10 locations. Advanced semiconductor manufacturing has been identified by both countries, the U.S. and China, as critical for their defense industries. All the other prominent names like Nvidia, AMD, Apple, and others employ a fabless business model highly dependent on the semiconductor factories of Taiwan Semiconductor, TSM. It's a matter of when, not if, China forces its reunification with Taiwan. Under any scenario, semiconductor companies are racing to reshore valuable intellectual and manufacturing technology. Intel is the primary beneficiary of this. If anyone can restore Intel to its glory days, it's Gelsinger. He is money in the bank.

4. [Exxon Mobil Corp \(XOM\)](#)

- Business: XOM is one of the world's largest oil and natural gas companies involved in the exploration, production, refining, and marketing of petroleum products. They operate in over 40 countries.
- Insider Buying/Selling: Director Jeffry Uben sold most of the shares held by investor Inclusive Capital on 11/28/23. In response to a request to comment on the Exxon stock sale, Ubben stated: "There is nothing to read into regarding the recent sale. Inclusive Capital is winding down one of its funds, which held shares of Exxon, along with several other positions."⁵
- Recent News: XOM reported strong Q3 2023 results on 10/28/23, benefiting from high oil despite low gas prices. They announced a \$10 billion share buyback program and increased their dividend for the 42nd consecutive year. ExxonMobil's dividend payments to shareholders have grown at an average annual rate of 5.8% over the last 41 years.
- Venezuela is drumming up its claims on neighboring Guyana's offshore oil territory. ExxonMobil is the first and largest oil producer in Guyana. The company recently started producing oil from its second offshore development in Guyana, Liza Phase 2, bringing the country's capacity to more than 340,000 barrels daily. ExxonMobil is the operator of the Stabroek Block with a 45% stake, alongside Hess Corporation (30%) and China National Offshore Oil Corporation (CNOOC) (25%).
- Our thesis on Exxon is the same as all the hydrocarbon investments. The world has no viable substitutes in the near or intermediate term. The transition from hydrocarbons may take decades, if even possible. If approved, Exxon's recent deal to acquire Pioneer Natural Resources will cement Exxon as the largest domestic producer in the most prolific basin in the country, ensuring adequate domestic oil supplies. Long-term demand for oil wasn't even close to rolling over, [Darren Woods explained](#)⁶ as part of his rationale for the largest deal in Exxon's history.

The company's share prices have been unduly punished. It seems highly unlikely that the U.S. would allow Venezuela to seize Guyana's oil reserves in blatant violation of the International courts when it would be clearly against American and British interests. Both

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<https://www.reuters.com/business/finance/activist-investor-ubben-shutting-down-inclusive-capital-wsj-2023-11-29/>

⁶ https://www.wsj.com/business/energy-oil/darren-woods-exxon-ceo-c35c476a?mod=hp_lead_pos8



countries have recently sent warships for a show of force in joint exercises with the Guyana armed forces.

Exxon is doing many things right, increasing oil reserves and commercializing and deploying technology from its industry-leading R&D Portfolio. The Company is investing in novel green technologies, including lithium ore mining in the Arkansas Smack formation, building a world-scale plant to produce low-carbon hydrogen at Baytown, Texas, and joint LNG export facilities with the Qatar government at Golden Pass, Baytown, Texas. It is leading significant carbon capture and sequestration efforts with its Denbury acquisition.

5. **Comstock Resources (CRK)**

Business: CRK is an independent oil and natural gas exploration and production company focused on unconventional resources in the Haynesville and Eagle Ford shales. They operate primarily in Louisiana and Texas.

Insider Buying/Selling: CRK has seen some notable insider buying over the last two years, although it has slowed appreciably with extraordinarily low natural gas prices. Jerry Jones, of Dallas Cowboys fame, owns 66% of the company.

Our thesis on Comstock is being tested as natural gas is trading at levels below what Comstock or, for that matter, most U.S. producers can profitably operate. US natural gas futures fell almost 38% to around \$2.5/MMBtu in 2023. Record-high domestic natural gas production in the US has allowed utilities to build reserves, with the latest figures showing inventories 10% above the seasonal average. At the same time, milder weather reduced heating demand. Moving forward, prices are expected to recover in the coming years with rising gas demand from new US LNG export plants in the US, Canada, and Mexico. However, delays at Exxon Mobil and Qatar Energy's LNG export plants in Texas and Venture Global LNG's Louisiana plants may impact expectations for 2024. We are writing covered calls and reducing our cost basis.

6. **Axon Enterprise, Inc. (AXON)**



- **Business:** AXON is a leading provider of body cameras, Tasers, and other evidence-based public safety technologies used by law enforcement and security agencies worldwide. They have morphed into a SAS company by creating evidence.com, which stores the voluminous film evidence from the ubiquitous body cams.
- **Insider Buying/Selling:** AXON has seen some insider buying from an investor/director, Pavi, near the \$220 level but ordinary selling from executives considering the excellent stock performance. A lot of key executive comp is skewed to stock performance.
- **Recent News:** AXON recently announced a collaboration with Microsoft to develop cloud-based storage and AI analysis solutions for police body camera footage. Axon Cloud & Services remained a key growth driver in Q3 2023, increasing 55% year over year, fueled by both expansion with existing customers and new logo wins. Net Revenue Retention (NRR) of 122% supported 54% growth in Annual Recurring Revenue (ARR), which has reached \$619 million. Sensors product revenue growth of 45% was catalyzed by the first full quarter of Axon Body 4 shipments and continued strength in demand for Axon Fleet 3. TASER segment revenue grew 12% over last year, driven by the ramp of TASER 10. We are pleased with our TASER 10 ramp — revenue grew more than 50% sequentially, demonstrating solid execution on this new product launch, and demand is exceeding the company's guidance.
- **Thesis:** the founder, Rick Smith, is a thought leader and a visionary in law enforcement. He envisions Axon transforming evidence.com, already a fixture in the legal system, into the government's operating system. Body cams and evidence.com are now the incumbent. The next step will be a land and expand takeover of the entire emergency and law enforcement response system.

Axon is growing horizontally and vertically with investments in AI, drones, and augmented reality with the latest generation of Tasers. Axon has never looked cheap fundamentally, but it's primarily been derisked from its earlier days when it had numerous competitors. Axon has been one of the best performers in the stock market, returning 7x what Google has done in the last 10 years. Google is up 407% versus Axon's remarkable 2,789%, according to [Finviz](#). It's our highest growth stock conviction

7. [Photronics, Inc. \(PLAB\)](#)

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- Business: PLAB is a leading provider of photomask technology and services used in producing semiconductors and other microelectronic devices.
- Insider Buying/Selling: PLAB has seen minimal insider activity in the last six months.
- Recent News: PLAB reported mixed Q3 2023 results, with revenue above expectations but profits below. We wanted to invest more in semiconductors without chasing obvious winners like Nvidia and ASML. The stock reacted well to this news, and we bought shares, recognizing that investors should take notice when stocks react well to disappointing news. It was one of our biggest winners in the 4th quarter.
- Thesis- Due to global conflicts with China, the semiconductor industry is undergoing an unprecedented reshoring and friend-shoring phase of its evolution. AI is creating a sense of urgency. PLAB is well situated to participate in this transition. It has been on a tear since 3rd quarter earnings release. It is due for a correction, but we plan on being longer-term investors

8. [Healthcare Realty Trust, Inc. \(HR\)](#)

- Business: HR is a real estate investment trust (REIT) that owns 697 properties throughout the United States. Over the years, the Company has refined its portfolio primarily toward multi-tenant, on-campus medical outpatient buildings, which provide stable occupancy, high tenant retention, and steady growth. Through the discerning acquisition and development of outpatient properties, Healthcare Realty's portfolio is well diversified by geography, tenant size, and physician specialty.
- Insider Buying/Selling: Director Singleton purchased ~\$538,000 at \$17.10 in August 2023.
- Recent News: HR reported Q3 2023 results with a ~89% occupancy rates. Leverage is very high due to the merger last July with Health Care Trust of America. Net debt to adjusted EBITDA was 6.6 times at the end of the quarter. Leverage is expected to decline from additional asset sales and underlying portfolio NOI growth. The



Company's variable rate debt reduced from 14.6% to 13.0% of net debt as of June 30 and September 30, respectively.

- Thesis: We started acquiring healthcare REITS and a self-storage REIT when we sensed that interest rates had peaked. It took a little while for the market to catch up with us, but this has been one of the best-performing sectors in the last two months.
- Healthcare Realty yields 7.20%. We also own HealthPeak Properties (PEAK) at a ~6% current dividend yield. The medical specialty is the only area of the office market that we would invest in. With interest rates coming down, an aging population, and a return to normalcy in medical visits after COVID, the industry has the wind to its back for the first time in 3 years.

9. [National Storage Affiliates Trust \(NSA\)](#)

- Business: NSA is a REIT that owns and operates self-storage facilities in the U.S.
- Insider Buying/Selling: There has been consistent insider buying in this name.
- Recent News: Several analysts have recently issued positive reports on NSA, and the stock has rallied strongly.
- Thesis: The company's occupancy rate has been trending lower after the pandemic surge but shows signs of stabilizing. Self-storage growth rates have been impacted by homeowners reluctant to move or sell their homes because of existing low-rate mortgages that cannot be replaced at current rates. Interest rate declines are expected to stimulate the housing market. Personal storage is also an area where raising rental rates is a given since the average term is less than two years. Few tenants balk about rents rising since they tend to be short-term renters anyway.

10. [Crown Castle Inc. \(CCI\)](#)

- Business: CCI is a REIT that owns and operates cell towers and other infrastructure wireless carriers use.
- Insider Buying/Selling: CCI has seen minimal insider activity in the last six months.



- Recent News: Activist investor Elliott Management, announced a stake in the company. CEO announced his resignation as Elliott sought management and strategy changes.
- Thesis: Our REIT investments have turned highly profitable as interest rates declined as we anticipated. It's a bit difficult to ascertain what's in the price of the stock as it leaped on the news of Elliott's stake. We might lose this name as we sold January 110 and 115 covered calls into the news.

Our Outlook:

The black swan has landed. There might even be a flock of them. One for sure is on the border with Israel and Gaza, another festering in the war between Ukraine and Russia.

Seven of the world's 10 biggest countries will vote in national elections this year. According to Foreign Policy,⁷ "In every one of them, democracy is at a tipping point." There might even be one nesting in the U.S. with an uncertain outcome of a Presidential contest.

The world is a dangerous place. We might wish it to be otherwise, but the future is unknowable and rarely predictable for anything but fleetingly short periods. The Insiders Fund is nimble. Recent results should reinforce that markets can move fast and, with it, the Fund.

Once again, we thank you for your trust and confidence in having us assist you in managing your money.

Please feel free to discuss any concerns or thoughts you want to share at the upcoming partner meeting. Although we are doing a Zoom call, 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.

Zoom Partner Call Info: We will review 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: January, 04:30 PM Mountain Time (US and Canada)

⁷ https://foreignpolicy.com/the-magazine/?issue_id=411131710



Join: Harvey Sax is inviting you to a scheduled Zoom meeting.

Topic: 4th Quarter The Insiders Fund Partner Letter

Time: Jan 15, 2024 04:00 PM Mountain Time (US and Canada)

Join Zoom Meeting

<https://us02web.zoom.us/j/82135724041>

Meeting ID: 821 3572 4041

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- **+1 253 205 0468 US**
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- **+1 346 248 7799 US (Houston)**
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Meeting ID: 821 3572 4041

Find your local number: <https://us02web.zoom.us/j/82135724041>



Stay tuned for the email calendar invite.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'HWS', is positioned below the text 'Sincerely yours,'.

Harvey Warren Sax