

August 2017

Elixir News



ELIXIROFINCOME.COM

CREATING INCOME FOR EVERYDAY PEOPLE BY USING TECHNOLOGY
TO HARVEST VOLATILITY.





THE ELIXIR NEWS

THE EDITOR'S MESSAGE


Hi everyone,

The Elixir News is an exclusive monthly publication to Elixir Bond holders, Equity holders and prospective investors. The monthly newsletter will include the following topics:

- Elixir's Income Performance
- Global Market Observations
- Economic Traveler Report
- Events & Announcements
- Equity Investors' Update

Going forward, the newsletter will be available on our website and via email within two weeks after a month is ended.

We hope you enjoy reading this newsletter and please feel free to let us know your commentt.


Sincerely,
William McNarland, CFA

August 2017
Edition

ELIXIR'S INCOME PERFORMANCE

The key monthly performance metric for Elixir is the income created from deposits interest and the DDVARH hedge. We have this number audited independently by a third party, My FX Book. The company has direct access to our accounts and can calculate our income performance directly. The goal is to produce 2% combined income from interest and hedge profits each month. For August, Elixir's performance exceeded our target with a 2.34% audited rate.

AUGUST GLOBAL MARKET OBSERVATIONS

The strong trend of global investors selling USD and investing in other currencies continued in August. One interesting example that shows how extreme this trend has been is the Mexican Peso. Since the inauguration of President Trump in January till the end of August, despite the conflicts over border security and an unfavorable renegotiation of the North American Free Trade Agreement, the value of Mexican Peso increased by 15%. I believe most investors would have bet on the Peso to fall, given Mexico's uncertain relationship with the US.

But for those forward-looking investors who invested in the currency in January, not only were they rewarded a capital gain returns of 15% on deposits in August, but also earned an interest rate of 6% annual. A very good trade for contrarian investors.

The trend of selling USD will not go on forever as all great parties must come to an end eventually. According to the historical data from the Commitment of Traders Report, the European, Canadian, Australian and New Zealand currencies are extremely overvalued at the end of August (and still are at the time of writing this report). To protect the investment against the upcoming reverse movement, proceeding without a hedge would be extremely foolish.

Another noteworthy global event in August was North Korea's missile launch. Within minutes after the warhead flew over Japan, fear entered into the global markets. As expected, the Japanese Yen and Swiss Franc went up significantly. Some investors may question why the Japanese Yen would increase in value when the country was potentially exposed to such catastrophic danger. The answer is simply because of the buying habits of investors. The Japanese Yen, Swiss Franc and USD are typically considered safe investments that people will flock to when there is fear in the global market place. For example, during the US housing crisis in 2008, investors rushed to buy US bonds and currency, even though the US was in deep trouble and caused the crisis in the first place.

THE ECONOMIC TRAVELER REPORT

I typically travel to a number of countries each year to see the real and current economic conditions of these countries. In August I felt compelled to confirm my views on the current states of Germany and South Africa. Overall, the trip to South Africa gave me comfort and encouragement, but the time spent in Germany left me with feelings of concern. Below are some highlights of my observations.

" SOUTH AFRICA HAS A LOT OF POTENTIAL. "

Infrastructure Development is often a good measurement of a country's internal growth. Evidence of improvements each time you visit a country is an independent way to sense if the GDP statistics are accurate. I chose to visit the nation's main city, Johannesburg.

Johannesburg's infrastructures are more developed compared to many first world cities. The city's freeways and train system are much better than many cities in Canada and the US. Even though there have been GDP dips created from the depressed mining industry, the infrastructure shows the improvement the country has made since the Apartheid. I believe many investors that are concerned about investing in South Africa would have more confidence if they actually saw what it was like on the ground.

Many investors are often hesitant to invest in a country that they feel has a high level of crime or corruption. I did not find South Africa or the city of Johannesburg unsafe. In my view, Johannesburg is as safe as some major cities in the US, such as New York, Detroit and Chicago. The stereotyping reputation of the city being one of the most dangerous places in the world is extremely exaggerated.

I took an UBER to Hillbrow, a neighbourhood that is supposedly the most violent and dangerous area of Johannesburg. It used to be the affluent central area of the city until it was hijacked in the 1980s and 1990s by gangs. The 70 plus story residential building "Ponte City" was once called the tallest slum in the world, the rich owners were kicked out and the building was taken over by gangs. They turned the "Ponte City" into a building of drugs, gun trading, prostitution and murder. The building has been featured in such movies as "District 9" and is frequently used as an example of how bad a city can get.

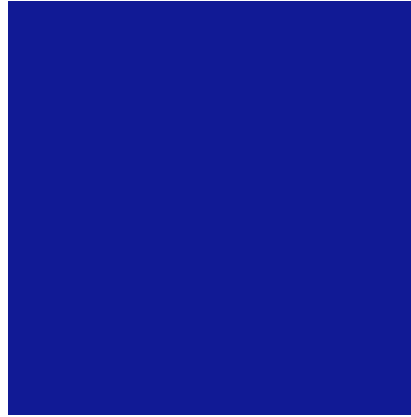
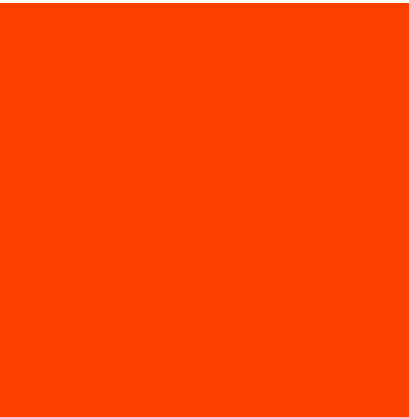


After being dropped off, I walked alone around Hillbrow and had lunch. The city made tremendous efforts cleaning up the area, and today it's mostly occupied by immigrants. The neighbourhood seemed like any other ordinary poor neighbourhood in North America to me. Nobody bothered me and I never felt unsafe. If you are interested in the history and recent restoration of "Ponte City", here are three interesting articles:



In my view, whether a city is safe or not can also be determined by walking alone at night. For example, I would personally not walk alone at night in parts of Detroit. During my visit in Johannesburg, I went for a 10km walk around the city at 3am one day because of bad jet lag. The night clubs and restaurants were full of people just enjoying their night. I felt perfectly safe during my 2-hour walk. I guess I did encounter a near death experience—I almost fell into a manhole with a missing cover.





The costs of hotels are always a good indicator of the current economic health of a country as they often adjust so quickly. The hotel costs in Johannesburg were similar to major cities in the US, which means a strong current demand and economic activity.

South Africa is attracting affluent immigrants and tourists. I went to the Sandton luxury mall and to my surprise, it was the nicest mall I had seen in all my global travels. I noticed a lot of shoppers from the Middle East and other parts of the world.

There is much criticism of the current President of the country and accusations that the country has slowed its development under his rule. I would agree with those who lack confidence in Jacob Zuma's abilities to lead the country, but it doesn't change my overall positive view of the country. I believe that the people of South Africa will elect new leadership in the presidential election next year as they've supported Nelson Mandela in the past.



Statistics show that the South African economy has almost tripled since the end of the Apartheid. The data is true—I could see the country's development while I was there. The economy, however, is still fairly dependent on the mining sector. As we all know, the mining industry has been in a challenging spot since 2012. This lowers the country's GDP and depresses the South African Rand, but I see it as an opportunity. It is an opportunity to invest low now and gain from the potential rebound of the mining sector in the future while enjoying high interest rates of around 7% while we wait.

In general, South Africa has a lot of potential. Yes, there are still many things that may scare off investors, but as always when there is nothing to worry about when investing in a country the opportunity is long gone.

"GERMANY IS CONCERNING"

The last time I visited Germany was four years ago. As I returned to many of my usual places in Frankfurt I was shocked at how things had declined.

I saw two things I had never seen in Germany before: multiple people begging on the street and homeless drug users. I believe that the integration of immigrants has been extremely challenging for this country. The most extreme example I saw was two blocks away from Deutsche Bank's head office; the street stunk of urine and was full of litter. I believe that the European Union is going to come under economic pressure from the challenge of integrating immigrants.

Hotel costs were very reasonable compared to the US, even though it was the peak tourist season—an additional indicator of slow economic activity that one would expect to lower the value of the Euro.

EVENTS AND ANNOUNCEMENTS



We will be hosting a number of dinners in **Richmond, Edmonton, Calgary and Toronto** to discuss some economic observations from recent trips to Mexico City, Frankfurt and Johannesburg. Details of each event will be sent via email at a later date.

We will be updating information regarding the trip to **Mexico City**. At the moment, the trip is delayed till January 2018.

