

June 2018

Elixir News



ELIXIROFINCOME.COM

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



Hi everyone,

I hope you are doing well; thanks for following our story. June was an average month for Elixir, with revenue of 2.01%. Our average 11-month monthly revenue is 2.49%, which is 0.49% above our monthly target.*

This June issue of the Elixir newsletter contains several insightful articles. Under Global Market Observations, I briefly discuss the outcome of Mexico's and Turkey's elections, the Trade War and Elixir's position in Chinese RMB. There is also an educational piece about the tools we use to hedge out volatility and reduce overall trading risk. In addition, because Elixir's first anniversary was July 12th, we have included a feature article about our seven focuses for the next six months. Starting in this issue, we are providing a Q&A section to share questions we receive from potential investors.

**This key performance metric is calculated based on realized revenue divided by bonds outstanding at the beginning of the month.*

The realized revenue is from interest earned on deposits and from rebalancing our hedge.

On the personal side, I participated in a three-day wilderness meditation and fast. On Friday, June 22nd, Eve dropped me off at a remote, boat-access-only location in British Columbia with no food, water or electronics. I set up my tent and sat by a mountain river, completely isolated from the outside world and from other people. For three days, I drank raw river

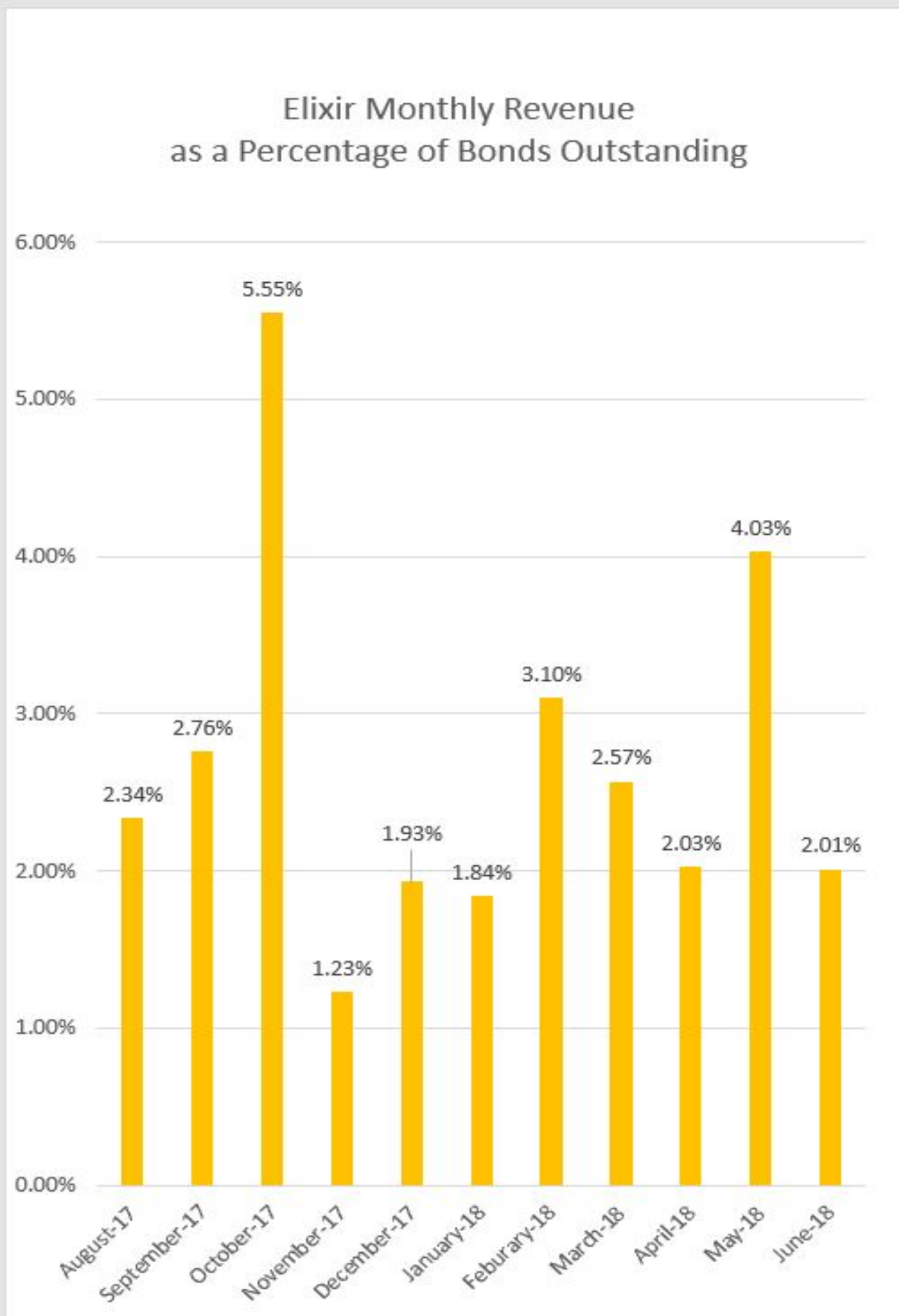
water and reflected on all aspects of life. The experience gave me much clarity and inspiration. Although one of my boots was chewed up and my tool bag was stolen by bear(s), the journey was easily one of the best experiences of my life. If you are interested in experiencing something like this, I would be happy to take you to my spot (though I can't guarantee that bears won't visit you).



Please feel free to reach out at any time. Vancouver's summer is very pleasant. If you happen to be in our city, let us know. It would be great to go out and spend some time boating.

*Regards,
Bill McNarland*

ELIXIR'S JUNE 2018 REVENUE PERFORMANCE



Elixir's financial target (from investing activities) is to produce revenue amounting to 2% of investors' bonds each month. Revenue comes from earnings on deposit interest as well as from capital gains from the rebalancing of our proprietary algorithms. Our algorithms and technology allow us to capture some of the daily volatility that underlying deposits and assets produce. As a reminder, Elixir is a company and uses GAAP accounting; the quoted revenue is realized (not unrealized) revenue.

June was an average month. Revenue performance as a percentage of redeemable bond deposits ended at 2.01%. This puts our 11-month average at 2.49% per month.

GLOBAL MARKET OBSERVATIONS

In our last newsletter, we talked about Mexico's and Turkey's elections. As some of you may have read in the news, Andres Manuel Lopez Obrador (AMLO) and Recep Tayyip Erdoğan won their respective presidential races, just as we predicted. In this month's Global Market Observation, I will discuss the immediate aftermath of these two elections.

In addition, I would like to provide a brief one-year review of our Mexican Peso trade, followed by some comments about the trade war and Elixir's position with respect to the Chinese RMB.

AMLO Won Mexico Election by a Landslide

Our pre-election prediction was accurate in that soon after the election, AMLO made reassuring comments to calm investors. He said that he is not interested in using congress to overhaul Mexico's landmark oil reform and that he will continue allowing foreign companies/capital into the sector. He also confirmed that he wants a respectful relationship with the US; leaders from both countries spoke positively of their first 30-minute phone call. The Mexican Peso reacted positively to AMLO's victory, with a jump of over 5% since our May newsletter.

A Year in Review: Elixir's Mexican Peso Trade: In

our April newsletter, we used the way in which Elixir trades Mexican Pesos as an example that explains our trading philosophy of "buy low, hold (collect interest) and sell high". At that time, we had profitably exited the Mexican Peso three times. Since then, we made another successful exit, which brought us to a total of four profitable exits since Elixir's inception a year ago, on July 12th, 2017.

I wanted to find out what our return would be if we had instead implemented a "buy and hold strategy" to trade the Mexican Peso this last year. As it turned out, if we had bought on July 12th, 2017 and sold on July 11th, 2018, our return would have been a loss of 5.97%!

The way in which we trade the Mexican Peso demonstrates that profit opportunities exist, even with a downward-trending currency; however, a sophisticated algorithm combined with efficient/accurate trading technology is necessary.

Re-Elected Erdoğan Appointed His Son-in-Law to be Turkey's Finance Minister

Our pre-election prediction was that Erdoğan would likely be re-elected and that the Turkish Lira would become more volatile as a result. Our prediction came true. Volatility was particularly high this week because Erdoğan

appointed his son-in-law, czar Berat Albayrak, to be the finance minister. In all fairness, 40-year-old Albayrak has a PhD in Finance, attended graduate school in the U.S. and has had experience as a corporate executive. However, investors reacted negatively to his appointment, worried about the fact that Turkey's chief economic policy maker will be answering to his father-in-law, who is already using his new executive powers to tighten his grip on the central bank.

As we said in our last newsletter, "We are content with the positions we have already purchased. The Lira pays very high interest and its daily and intraday volatility has been remarkable. (Some days, the lira's swings in value have been greater than 5% to the positive or negative.)" Erdoğan's re-election certainly doesn't make us want to add more Turkish Lira to our trading portfolio.

The Trade War

First, I would like to state my position: Trade is good. To me, trade is like water; we need it to survive. I don't think I need supporting evidence to convince people of this fact. My second position is that the US should not enter a trade war with China. American consumers, especially those in the lower and middle classes, depend on goods made in China. If you enter a dollar store or Walmart in the US, you will find that most of the products are from China. When China responds to US tariffs by adding tariffs of 10% to 25% on its export goods to the US, the result is that the US has forced China to create inflation of 25% on necessary goods for its own citizens. Affordability will be a concern for

the US's lower and middle classes. On the other hand, the US exports mostly soybeans and airplanes to China – products for which the Chinese can easily find other providers.

History tells us that trade wars hurt all countries involved. For deep analysis, I recommend reading a research paper by the International Food Policy Research Institute, called "US Trade Wars with Emerging Countries in the 21st Century – Making America and Its Trading Partners Lose Again".

Source: https://www.parisschoolofeconomics.eu/docs/koenig-pamina/article_us_tradewars_bouet_laborde_2017.pdf

What appeared above is my opinion about why trade wars are not good ideas. For Elixir, this trade war is positive; it creates fear and volatility, which means more revenue opportunities. We are well-positioned to withstand this ongoing trade dispute.

Adding Chinese RMB to Elixir's Trading Portfolio

Since the spring, the Chinese RMB has lost about 7% of its value compare to US dollars. We anticipate that the RMB will likely falls further during this trade war to fight back US tariff. Given this downward-trend, we have decided to add a small amount of RMB deposit to our portfolio for the first time. Like all our other deposits, our RMB deposits are held here in Canada and are not subject to restrictions like deposits being held in China. We have momentary liquidity and get paid interest while holding them. As the RMB falls further we will purchase more and sell them for a significant profit when the currency bounce back in value.

INVESTOR EDUCATION

ADDITIONAL STRATEGIES TO PROFITABLY HEDGE RISK

At Elixir, we make extensive use of hedging to reduce our overall risk. The primary variable that affects our assets' performance is volatility or fear. The VIX index, known as the "fear index", measures fear or volatility in the financial markets. When everything is running smoothly (within expectation) in the world, the VIX has a very low reading. This means the market experiences low volatility. For example, the VIX reading would be low when: economic growth is consistent, companies report higher earnings, interest rates are stable, there is no terrorism or threat of new wars, oil prices are low and the banking system is stable. The opposite is also true; the VIX index's volatility reading would be very high in the event of a terrorist attack or banking collapse, or when interest rates are unstable.

In general, we allocate half our balance sheet to assets that increase in value during periods of increased VIX readings and half our balance sheet to assets that decrease in value. The following list contains our current assets and how they react to general increases in the VIX Index:

Assets we own that would fall in value during periods of fear:

- Mexican Peso
- New Zealand Dollars
- Australian Dollars
- Canadian Dollars
- Turkish Lira

Assets we own that would increase in value during period of fear:

- Japanese Yen
- Swiss Franc
- US Dollars
- US Government Bonds

As a rule of thumb, more diversification is better than less diversification. Therefore, we are always seeking to identify other assets that we could include in our portfolio to provide a hedge during periods of increasing volatility. One extensive research study we conducted sought to determine how different assets react during high daily volatility. We identified the 30 days that experienced the highest daily volatility in the VIX over the last 20 years; then we studied various asset classes and made some interesting observations. Following is a summary of the highlights.

Gold

The common consensus is that gold would increase in value during periods of volatility. However, data shows that gold had increased on 57% of 30 high-volatility days and decreased on 43%. The median change during these days was 0.40%. To compensate for storage and insurance costs, gold maintains annual holding costs of 3.7% a year. Our study confirmed that owning gold during periods of increased volatility is not effective.

Oil

Oil is consistent in that it decreases in value when volatility increases. Oil fell on 77% of the 30 highest volatility days. The median drop was 1.54%. Shorting oil can create revenue. During certain periods, the yield from shorting oil can be as high as 10% per year.

Copper

Copper is consistent in that it falls in value when volatility increases. Copper fell on 80% of the 30 highest volatility days. The median drop was 0.82%. Shorting copper can create revenue. During certain periods, the yield from shorting copper can be as high as 6% per year.

Wheat

Wheat is consistent in that it falls in value when volatility increases. Wheat fell on 78% of the 30 highest volatility days. The median drop was 1.12%. Shorting wheat can create revenue. During certain periods, the yield from shorting wheat can be as high as 22% a year.

Through our research, we concluded that during times of high volatility, owning some short position on oil, copper and wheat not only diversifies our hedging strategies and provides additional protection for our portfolio but also provides us with a good income while we hold them.

FEATURE ARTICLE

Elixir's Next Six Months and Its Seven Focuses

When this newsletter is published, Elixir will be one year old. The company was formally registered in British Columbia on July 12th, 2017. Like all start-ups, Elixir underwent a critical time during its first year. On the original vision board, we were clear that we wanted to be a financial technology company that generated consistent revenue in its first year. We understood that above all else, the best way to attract more users to our technology and more investors to our bond/equity was to have a strong track record that proved our technology worked – that it was bringing in consistent income with manageable risk.

Through the capital we raised from our close circle, we made immense improvements to our technology. As a result, not only did our average monthly revenue for the past 11 months exceed our 2% target, but our trading risk fell significantly. We are very proud of our first-year achievement and are extremely excited about – and ready for – the next period of fast growth.

During the remaining six months of 2018, as we shift gears to nurture growth, we will focus on the following seven key areas.

1. Clearer Branding
2. ElixirTech 2.0
3. Growing ElixirTech-Driven Revenue
4. Strengthening Elixir's Balance Sheet
5. Making Elixir Eligible to Become a Registered Plan Investment in 2019
6. Elixir Executive Professional Development
7. Growing Elixir's Market Awareness

“Good fortune is what happens when opportunity meets with planning.”

— Thomas Edison

1. Clearer Branding

Some people in the marketplace still consider Elixir to be a “fund”, “hedge fund” or “portfolio manager”. We acknowledge that the wording in our existing marketing material may have caused this confusion. After many rounds of deliberation, we have drafted the following description of Elixir’s business activities:

“Elixir is a financial technology company. The company developed a proprietary trading technology called ‘ElixirTech’. ElixirTech allows traders to execute trading algorithms automatically. The company offers customised ElixirTech to portfolio managers and institutions to increase their trading efficiency, accuracy and profitability through automatic high-frequency micro trading. The company also applies ElixirTech to invest its own capital in the global currency and commodity market.”

By October 1st, 2018, all our branding materials, including marketing documents and our website, will reflect Elixir’s true business focus.

2. ElixirTech 2.0

During our first year in operation, we made significant progress in our trading technology. With ElixirTech 1.0, we no longer have to manually enter our trading algorithms into dealer partners’ platforms. Instead, our order flow and reporting are automatically executed. This has greatly increased our trading efficiency and accuracy. Another significant advantage of ElixirTech 1.0 is that the technology has opened a new profit area for us. It allows us to enter micro orders with values as low as \$0.10 and to capture profit at as low as 1/100 of a penny. We can execute hundreds of these orders within seconds. By contrast, in the manual entry days, these micro profit opportunities were costly to pursue.

In the next three months, we will focus our efforts on developing ElixirTech 2.0. This built-in artificial intelligence will be programed to automatically resubmit trades after profits have been taken. It will also be self-directed to sell again when the price meets the condition to do so. ElixirTech 2.0 will create the greatest shift in our trading activities at Elixir. We are currently profiting from daily market volatility. When ElixirTech 2.0 is complete, we will be able to capture momentary volatility!

Our goal is to complete, test and implement ElixirTech 2.0 by October 31st, 2018.

3. Growing ElixirTech-Driven Revenue

During our first year of operation, proprietary investing activities have been Elixir's only revenue source. Throughout the next six months, while we continue with our own trading, we will also develop a pricing plan for ElixirTech 1.0 and promote it to the market.

We are already in conversation with several portfolio managers, many of whom have expressed interest in adopting our technology for their trading activities. We will seek to materialize on those interests, earning consulting fees by customizing ElixirTech to each client's specific trading algorithm and earning a subscription fee from clients who use ElixirTech.

Our target is to secure our first technology client by December 31st, 2018. In 2019, Elixir will focus strongly on diversifying its revenue, especially growing ElixirTech-driven income.

4. Strengthening Elixir's Balance Sheet

During our first year, one of the biggest risks we identified involved redemptions on our liquid bonds. Current bond investors can redeem their bonds with one week's notice. Because our directors account for Elixir's majority bondholders, we did not encounter a redemption situation this past year that forced us to sell our position at an undesirable time.

One way to mitigate this risk is to always keep some capital on hand in the event of a redemption. However, this solution has two downsides. First, determining how much capital to reserve is difficult; second, the cash in reserve would not earn income, which would place more pressure on invested capital to earn a higher but potentially riskier yield.

The alternative solution is to add a fixed-term bond offering. Knowing bonds' maturity dates will help us adjust our investment portfolio in advance, without an unnecessary cash drag. We plan to start offering the following terms before September 30th, 2018.

Class A: Redeemable Bonds – 7% Annual Yield

Class B: 1 Year Bonds – 8% Annual Yield

Class C: 2 Year Bonds – 9% Annual Yield

Class D: 3 Year Bonds – 10% Annual Yield

Class E: 4 Year– 11% Annual Yield

Class F: 5 Year– 12% Annual Yield

When the fixed-term bonds mature and we don't hear from the investors, the bonds automatically convert into class A redeemable bonds, with a yield that remains unchanged.

To further strengthen Elixir's balance sheet and lower our debt-to-asset ratio, the company is also considering a small round of Interest-Paying-Preferred-Shares. The Preferred Shares will have a term of three years and pay an annual interest yield of 15%. In the fall, our new marketing documents will officially announce both new offerings.

5. Making Elixir Eligible to Become a Registered Plan Investment in 2019

Another important task on Elixir's Focus List this fall is to start the process of making Elixir bond a Registered Plan Eligible investment. Our goal is to prepare the draft tax opinion during the last quarter of 2018 and to have the 2018 financial statements ready during the first two weeks of 2019. We are seeking approval status in time for the 2019 RRSP season.

6. Elixir Executive Professional Development

Continuing education is a necessity if Elixir is to become a public company. Our board (of visionaries) has given its approval for me to participate in the Chartered Market Technician program. The CMT program offers an alternative philosophy of analysis which complements my CFA destination. I will start part-time this fall.

In addition, our board has given its approval for Qian to participate in the Governance Professionals of Canada Education Program (GPC-EP). This certification program teaches applied, relevant and best-practise governance tools that cover all the key governance functions of a public company. Qian has completed the program's first and second modules. Pending scheduling, she could finish the program before the end of the year.

7. Growing Elixir's Market Awareness

We will continue our marketing efforts to expand awareness of Elixir among capital raisers and investors. Thank you for your kind feedback about our monthly newsletter!

Our 2018 year-end goals are: to have 500 quality newsletter followers who are either potential investors or capital raisers; to have Elixir approved at two exempt market dealers for the 2019 RRSP season; and to have four vice-presidents in position to develop and execute a sales strategy for ElixirTech and Elixir Bonds.

Ending Remarks:

We appreciate our readers who have referred their business partners, friends and family to us throughout this past year. Through these referrals, we have met many sophisticated professionals and investors. We are thankful for all the new ideas, positive feedback and constructive criticism that helped us create this Focus List. If we focus on these seven items every day, 2019 will be a very exciting year for all Elixir's stakeholders.

ELIXIR FREQUENTLY ASKED QUESTIONS

We are starting to see some frequently asked questions from potential investors. Therefore, we have decided to create a new section in the newsletter, one where we share these questions and our answers. Here, we will discuss two topics.

How can you produce such amazing returns every month without monthly losses? This seems too good to be true.

You are correct; it would be too good to be true for a fund or portfolio manager to produce high returns every month with zero losses. However, Elixir is not a fund or portfolio manager. The performance number that we report is our revenue, not our performance. As a company, we gain revenue when we realize a profit. We realize

some profits every month, so our performance will always be positive. The key metric that we consider is realized revenue as a percentage of bonds outstanding.

How long would it take to unwind Elixir and return all funds back to bondholders?

We estimate that this would take about six months. We could fund about 50% in the first month and the balance within the next six months. As we grow, we will not be able to offer redeemable bonds for our whole balance sheet. This is why one of our main objectives is to add term deposits and preferred shares to our balance sheet, to reduce the risk of large redemptions. At first, most of our capital was from our directors, and we knew all our bond holders and their intentions personally. As we grow, we will have to make our balance sheet redemptions more predictable.

The ELIXIR Economic TRAVELER

The Mexican peso is a very important asset in Elixir's investment portfolio. Its volatility has created some impressive return for us over the last seven months. Most people have been to parts of Mexico that is tourism focused. Rarely would people visit the country's economic power cities, such as Mexico City and Puebla. When you spend some time in these cities, you will realize how real and vibrant the Mexican economy really is! After scouting the two cities with my wife personally last year, we have decided to organize our very first Elixir Economic Traveller tour to Mexico City and Puebla, Mexico.

These two cities also happen to offer unique cultural and sightseen experiences. There is so much to see and experience in Puebla, and we are only including some general highlights here. The city is the fourth largest in Mexico and located about a two-hour drive southeast of Mexico City. The city's golden age was during the Spanish colonial era in the 14th century. A walk around downtown is like travelling back in time to 14th-century Spain! With 366 magnificent churches and many other historical sites, the downtown area has been named as a World Heritage Site. The city is also surrounded by brilliant natural scenery. The Popocatepetl Volcano and Tuliman Cascades are only a couple of hours' drive away.



Mexico City & Puebla

Oct 31 - Nov 3, 2018

THE BEST TIME TO VISIT THESE TWO CITIES IS DURING HALLOWEEN AND THE DAY OF THE DEAD CELEBRATIONS. IF YOU ARE READING THIS, YOU ARE INVITED TO JOIN US!

We are still fine tuning the details but would like to share a general itinerary and costs. The plan is to arrive on October 31 and leave on November 3 from Mexico City. There are many airlines that fly direct from Vancouver, Calgary, and Toronto to Mexico City. Typically, fares start at \$500 in economy seating. We will be staying in luxury hotels. The cost for hotel accommodations will be about \$200 CAD per night, including breakfast and an evening cocktail party. With some ground transportation and an English-speaking guide, the total cost would be approximately \$1,500 per person.

If you are interested in joining us, please email me for details.