

October 2017

Elixir News



ELIXIROFINCOME.COM

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





THE ELIXIR NEWS

Hi everyone,

We hope you had a great October! This past month was very exciting for Elixir. Our revenue performance was at 5.55%, far exceeded our 2% monthly target and two additional independent board members were appointed.

In this October 2017 issue of Elixir Newsletter, we will explain how Elixir's revenue was made and reported, and introduce our new directors, Ms. Xiao Xu and Mr. Jason Zdyb. Highlights of my economic observations in Mexico and commentaries on the global market are also included. Finally, make sure to check out the "Events" page and mark your calendar for our upcoming holiday cocktail party.

We wish you a pleasant November and hope to see you soon at our party!

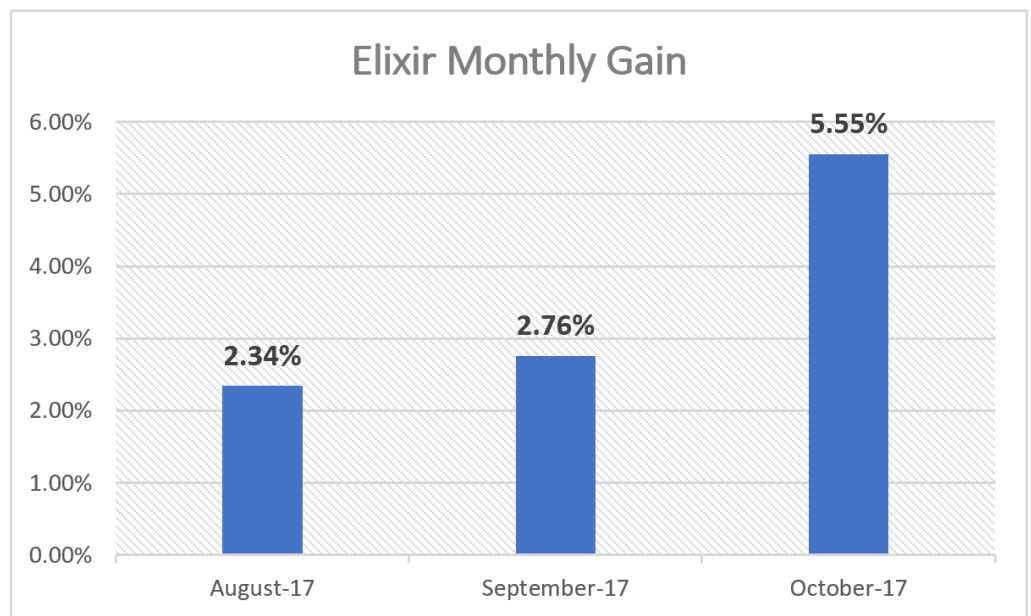
Sincerely,

William McNarland, CFA

**October
2017**

ELIXIR'S INCOME PERFORMANCE

Elixir's return target is to make 2% of investors' deposits each month. Revenue comes from earnings on deposit interests and from capital gains created by rebalancing the DDVARH hedge, which is audited independently by a third party, My FX Book. The auditor has direct access to Elixir's accounts and can calculate our income performance directly. For the month of October, Elixir's performance was at **5.55%**, far exceeding our monthly target.



October was certainly a great month for Elixir. At this time, we feel that our investors need to understand how Elixir's monthly performance report works and maintain realistic expectations going forward. Please see the Investor Education section for details.

OCTOBER GLOBAL MARKET OBSERVATIONS

Three months ago, in August, we discussed the overvaluation of the Canadian, Australian, New Zealand, and European currencies.

A month after that, we provided an update in our newsletter that these currencies had fallen by about 4%. Another month has passed since our last update, and these four currencies have maintained their falling trend, on average by an additional 3%.

Since the beginning of September, the South African rand, Mexican peso, and Turkish lira have also dropped by about 10% on average. These drops brought excellent opportunities to Elixir, as they strengthened our purchasing power.





Having said that, some anomalies occurred in the marketplace. One head scratcher was the disconnect between the price of oil and the Canadian dollar. As oil is Canada's main export, when the price of oil increases, the Canadian dollar should go up in value as well. The price of oil went up 21% from \$47 per barrel on September 7, 2017, to \$57 per barrel by November 7, 2017. Though we expected the Canadian dollar to rise during this period, it fell by 6%. This is a total divergence of 26%.

While we know that oil and the Canadian dollar will move together in the same direction again through time, a stable and correlated relationship, such as this pair, changing unexpectedly for a short term is a good reminder that our hedge alone is not enough to protect our portfolio.

Using low leverage (3 or 4 to 1) and broadly diversifying our deposits protects Elixir's balance sheet when a hedge anomaly happens. Having low leverage allows us to just wait and collect daily interest.

THE INVESTOR EDUCATION ELIXIR'S RETURN EXPLAINED

The DDVAR hedge is most profitable when a currency has repeated volatility in a narrow range because we can rebalance profitably sometimes up to three times per day. This ideal situation doesn't happen often, but we got lucky in October, when the Mexican peso was trading in the range between 17 and 18 MXN to 1 USD with a daily price change of about 1% per day. This volatility allowed the DDVARH hedge to take profits repeatedly and resulted in our 5.55% monthly return. Again, this rate of monthly return is very rare, so investors should maintain the 2% monthly return expectation going forward.

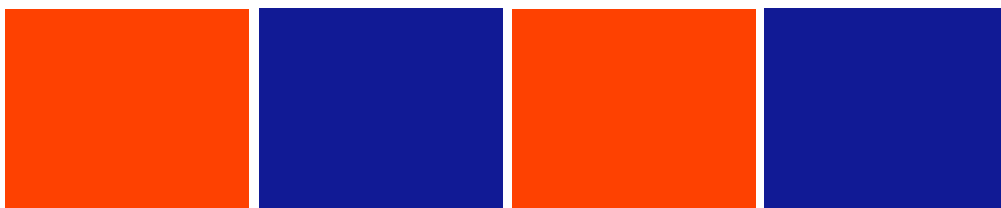
In addition to explaining the remarkably high earnings this month, we would also like to clarify some questions with regards to Elixir's accounting and reporting below.

1. How is Elixir's monthly performance number calculated?
2. Why does Elixir choose GAAP accounting instead of IFRS, and what's the difference between the two?
3. How does Elixir assure that a full picture of performance is given to investors?
4. What are the future plans for Elixir's reporting to investors?

How is Elixir's monthly performance number calculated?

As previously mentioned, our monthly revenue performance includes earnings from two activities. One is from interest earned on our deposits. The other activity comes from our hedge selling deposits. When the price of a deposit is higher than our original purchase price, our hedge will sell it for a spread profit.

We purchase each deposit with the goal to own it until our hedge sells it for a profit. While we wait for that profit position, we earn interest on the deposit. This waiting period can take hours, days, or even months in some cases. As it is our intention to hold onto this interest-earning deposit until we sell it for an additional profit, the deposit sits on our balance sheet at our original purchased price.



Why does Elixir choose GAAP accounting instead of IFRS, and what's the difference between the two?

Elixir is a private company, not a fund. GAAP accounting is commonly used by private equity limited partnerships or private investments, like mortgage investment corporations. IFRS is more common with hedge funds or mutual funds.

To use simple terms to explain the difference between GAAP and IFRS, GAAP accounting reports the interest and capital gains we received from exiting investment deposits. IFRS would include not only interest and capital gains but also unrealized profits or losses. Let's look at a simple real estate example.

Mike buys a house for \$1,000,000 on January 1, 2018. He will rent it out for \$3,000 per month, or \$36,000 per year. He plans to sell the house three years later for \$1,100,000 on December 31, 2020. Assume the value of the house will fluctuate each year. Let's look at a chart and see the difference in how GAAP and IFRS would report his earnings.

Date	House Value	Rental Income	IFRS Revenue	GAAP Revenue
Dec. 31, 2018	\$950,000	\$36,000	\$-14,000	\$36,000
Dec. 31, 2019	\$1,050,000	\$36,000	\$136,000	\$36,000
Dec. 31, 2020	\$1,100,000	\$36,000	\$86,000	\$36,000
Total Revenue			\$208,000	\$208,000

As you can see, IFRS and GAAP showed the same result after three years. The difference is that GAAP does not count the yearly unrealized change to the value of the house and only counts the gain or loss when the house is sold. IFRS would report change to house's value as revenue even though the gain or loss has not been realized. IFRS could potentially include the change to house's value monthly, quarterly, or annually. This does not make a lot of sense for Elixir, as we intend to hold onto a position and sell at a much later possible date. For this reason, we feel that GAAP-based accounting is most suited for our strategy.

How does Elixir assure that a full picture of performance is given to investors?

At Elixir, after holding a deposit for more than one month, if the value is more than 5% lower than our original purchase price, we will consider the position to be impaired. The board is committed to transparency and will update any impairments quickly to all investors through our monthly newsletter. These board decisions will also be reviewed independently by our auditors, as this will be a requirement to prepare to go public. Currently, Elixir has no positions that are impaired, and we feel confident that there is no reason to expect any impairment losses in 2017.



What are the future plans for Elixir's reporting to investors?

Our goal is to start an accounting audit by a large national firm in 2019 in addition to our current revenue audit by My FX Book. It is our intention to take Elixir public in the future. Pending any listing requirements down the road, we will evaluate whether to keep using GAAP accounting or switch to IFRS.



THE ECONOMIC TRAVELER REPORT MEXICO

Mexico is an amazing country. It is so close to us and provides with an exciting investment opportunity. This fall, I have had the opportunity to travel twice to Mexico, once to **Mexico City** and once to the **city of Puebla**.

Mexico is my favorite country to invest in. The country has high interest rates, a growing economy with falling inflation expectations, and an investment-grade debt rating by major rating agencies. Its currency is at a historic low with volatility. Let's look at these points in more detail.

High Interest Rates

Currently, the Mexican peso daily interest rate deposits pay 6.5% annual interest. At this rate, we are offered daily liquidity, and therefore, we can remove our deposit at any time. Among the freely traded currencies, only South Africa and Turkey have higher interest rates than Mexico. Compared to negative interest rates in Europe and Japan, these deposits are very attractive.

with twice the volatility compared to our Canadian dollar. This provides excellent opportunity to rebalance our hedges and create additional profits.

Historic Low Currency with High Volatility



As shown in this chart, the Mexican peso has dropped 85% in value over the last 20 years. I believe the currency is near its bottom. This gives foreign investors and companies very strong purchasing power to invest in Mexico's deposits, real estate, and manufacturing opportunities.

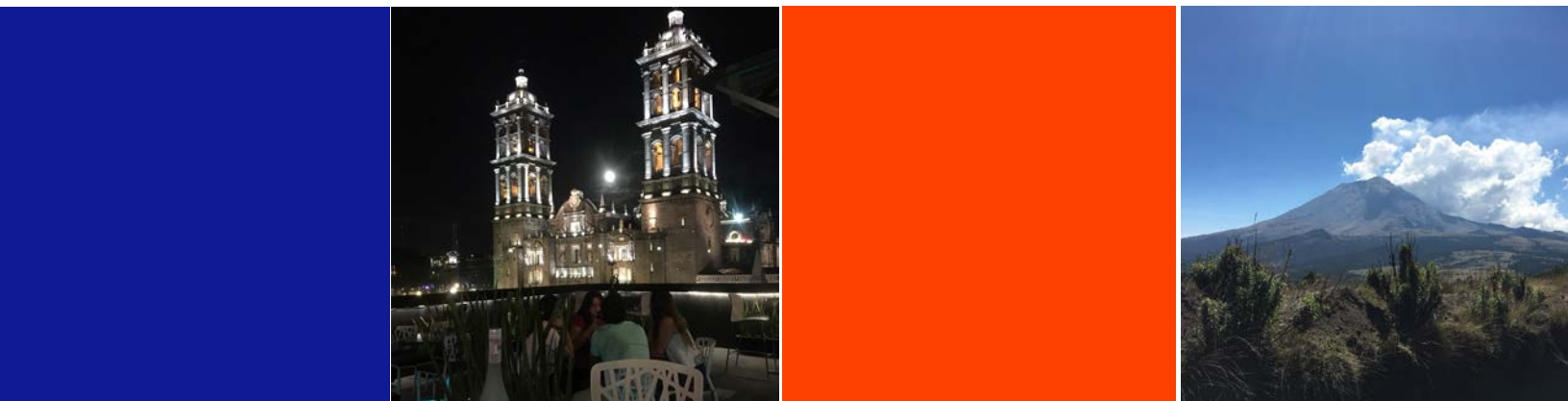
The Mexican peso is also very volatile with twice the volatility compared to our Canadian dollar. This provides excellent opportunity to rebalance our hedges and create additional profits.

Growing Economy and Falling Inflation

Typically, when countries are increasing their GDP and lowering their inflation, over time, their currencies will strengthen in value. According to economic forecast surveys by the company Trading Economics, the expected GDP growth in Mexico over the next three years is expected to be similar to the USA at between 2 to 3%. In the same economic forecast survey, the expected inflation rate is expected to drop from the current 6% to 3%. We believe that Mexico is positioned to improve its GDP while lowering its inflation rate. This should lead to a stabilization in Mexico's currency.

Investment-Grade Credit Rating

Mexico has an investment-grade credit rating by all three major credit rating agencies (Fitch, S&P, and Moody's). When a credit rating is increased, the currency normally goes up in value as well. When the credit rating goes down, currency value goes down, too. Take Venezuela as an example; the country's currency value dropped 95% when its credit rating lowered to non-investment grade.



Despite these positive reasons that make a strong case for investing in Mexico, many investors still feel hesitant to pour their money into the country. This is largely due to the uncertainty with the current renegotiation of the North American Free Trade Agreement (NAFTA). However...



The three points below highlight why we feel confident that Mexico is still a great investment opportunity even if NAFTA is significantly changed.

- The US needs Mexico to purchase its goods and services. Mexico is the third largest buyer of US goods, only slightly behind the European Union and Canada.
- The most important market for Mexican goods and services is Mexico. Domestic consumption of local goods and services make up 72% of country's GDP. Mexico is not as reliant on trade as many people would suspect.
- Mexico is going to replace China for manufacturing jobs. Manufacturing costs are lower in Mexico than in China due to Mexico's low currency value. Additionally, it is also much easier to start a manufacturing business in Mexico than in China, and there are no restrictions on repatriating a business's profits back to the home country.

For these reasons, we are still very confident in investing in Mexico and are not concerned about the potential changes to NAFTA. We believe that Mexico offers excellent investment opportunity and feel that this is an opportunity that will last and can be a source of profits over the coming decades.

EVENTS

Mark your calendar
for our Holiday
Cocktail Party!
Invitation with
location details will
be sent by email soon.



Vancouver, Nov 30th THU 4 – 6 pm
Toronto, Dec 7th THU 4 – 6pm
Calgary, Dec 11th MON 4 – 6pm
Edmonton, Dec 12th TUE 4 – 6pm

This month, we have appointed two additional independent board members. We are proud to introduce Ms. Xiao Xu and Mr. Jason Zdyb.

NEW BOARD MEMBER ANNOUNCEMENT

Xiao Xu has been a finance professional for over ten years. She holds a Certified Financial Planner designation, an insurance license for accident and sickness, and a license to advise on exempt market investments. Supported by numerous scholarships, she graduated with distinctions and obtained two bachelor's degrees from the University of Alberta in mathematics and finance and actuarial science. Xiao Xu grew up in Sichuan, China and is fluent in Mandarin and English.

Jason Zdyb is a licensed advisor on private securities in the provinces of Alberta and Saskatchewan and is formally an air force veteran who served 12 years in the Canadian Forces as a proud member of Princess Patricia's Canadian Light Infantry.

This brings our current board to four, and we expect to announce one or two more independent directors by the end of 2017.