July 2019

Elixir News

elixir

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

ELIXIROFTECHNOLOGY.COM

#201 - 4501 KINGSWAY
BURNABY, BC
ELIXIROFINCOME.COM

Hi, everyone,

I trust that you are doing well. I am pleased to announce that Elixir broke a new trading realized revenue record in July—a 6.64% increase compared to May 2019, which was our last record month!

To provide investors with a better understanding of our revenue and trading activities and performance, we have decided to include a new set of reporting metrics in the newsletter, starting with this July issue. Please go to the Elixir Trading Performance section to view the metrics for July, along with my commentary about why we thought these metrics would be helpful to investors.

On the world stage, the capital market was punched twice, back to back, on July 31 and August 1. In the Market Observation section, I share some highlights and my thoughts.

Another exciting announcement is that, during the last board meeting on August 6, 2019, the board approved a new trading strategy for Elixir's investment mandate, which will now include listed individual equities. In this newsletter, I will share our management proposal to the board. This proposal will help investors understand our rationale. In this newsletter, I also include our first machine-driven finding for buying, Husky Energy Inc.

Lastly, Eve and I have a personal achievement to share. On July 19, we entered a 21-day water fast. We did it to challenge ourselves, be role models of discipline for our kids and because of the many benefits that water fasting offers in terms of fat loss, detoxification and mental clarity. In the afternoon of August 9, we broke our fast. We lost a combined total of 58 pounds. We also each lost 5% body fat. It was the hardest challenge we've ever done, but we are proud that we conquered it!

I hope you have found this issue of the newsletter to be insightful. Please feel free to reach out.

Sincerely,
Bill
William McNarland, CFA
Elixir Technology Inc.
Chairman of the Board & CEO

BEFORE (APRIL 2019)

AFTER (AUGUST 9, 2019)

In July, our largest profit came from shorting the ratio between gold and silver. In June, we started shorting the relationship little by little as the price increased. On July 15, the gold and silver ratio climbed to an all-time high of $93.06. At this point, we took on a substantial number of small short-positions on this trade. Then the price started to fall, which enabled us to make a profit. By July 24, we had sold all our short-positions. At that time, the price of the gold and silver ratio decreased to $85.64.

Once again, our most memorable trading revenue came from Twitter. On July 9, 2019, via the Twitter platform, Carlos Urzua abruptly resigned from his position as Mexico's finance minister. He openly criticized the current administration's policymaking as "not based on evidence" or "free of extremism". This was great news for us, as we were shorting Mexican Pesos. Minutes after the tweet went public, we were able to automatically exit the majority of our positions and achieve significant revenue.

Aside from these two major events, we ground out some profit in the following areas: First, once again, we bought Euro and platinum at new multi-year lows and exited within a week. We were able to exit platinum twice in July. Second, we made some money off natural gas' daily vibration. However, overall, volatility wasn't substantially high in July. Third, we also profited from the insurance that we had purchased, in the past, on the stock market falling. This market downfall was due to the U.S. Federal Reserve Chairman's unfriendly speech to investors on July 31, 2019. I will talk more about this in the Market Observation section.

Elixir New Reporting Metrics

When Elixir started operations in August 2017, it was a straightforward company. Our tradable assets contained $200,000 in bonds outstanding from our first bond investor, who took a leap of faith and invested. That person was my wife, Eve. At the time, the most relevant metric to articulate our performance was "realized revenue as a percentage of bonds outstanding at the beginning of the month".

Today, we have raised substantial capital in all three types of securities (Bonds, Preferred Shares and Common Shares) that we offer. This means we must measure our performance differently. While realized revenue as a percentage of bonds outstanding is a great way to describe our business to bondholders, we must supplement it with five additional statistics. Following is a description of our new metrics reporting system. We have divided them according to specific investors' interests and relevancy.

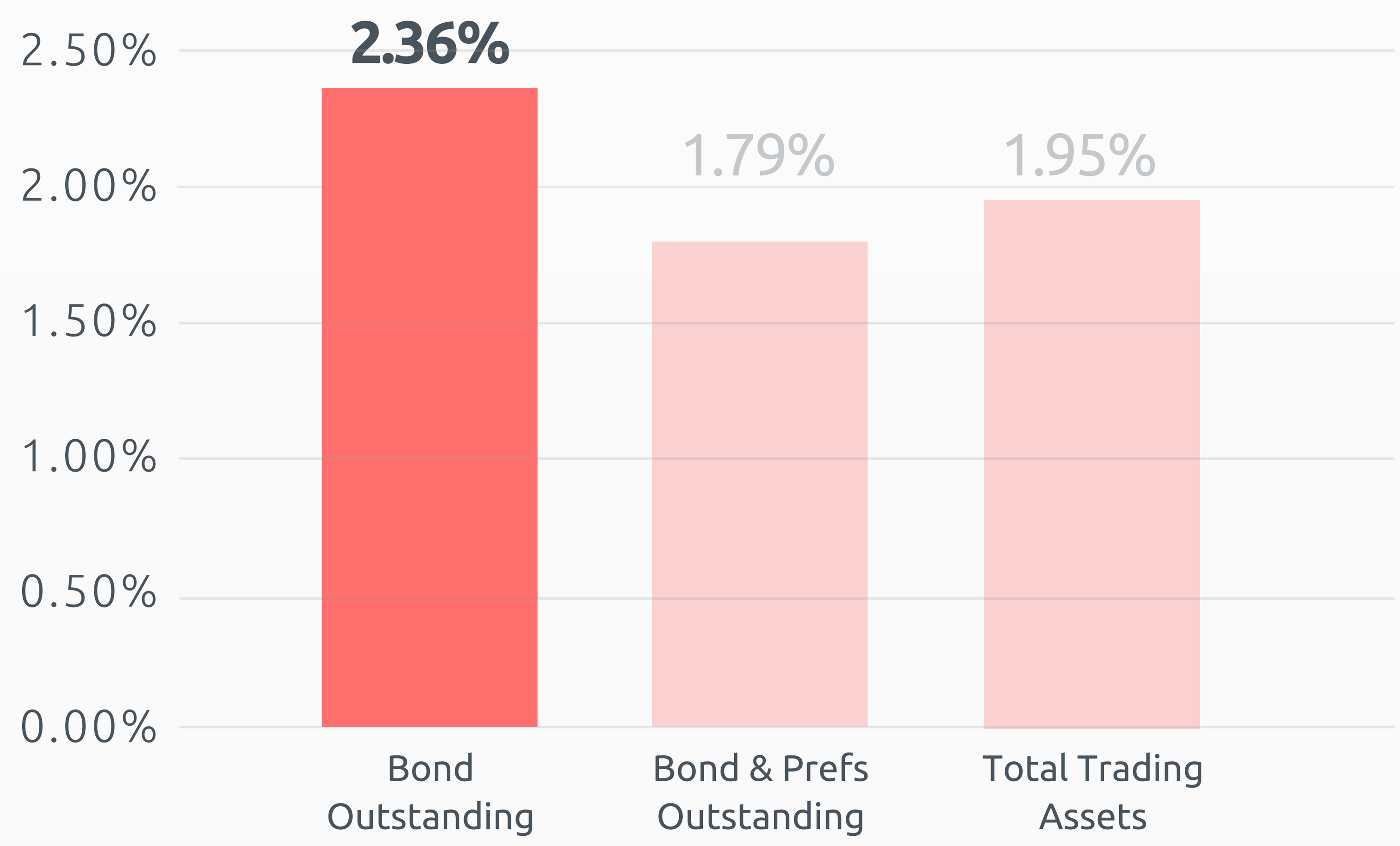
Metrics for Bondholders

1. **TOTAL REALIZED REVENUE** AS A PERCENTAGE OF BONDS OUTSTANDING **AT THE BEGINNING OF THE MONTH**

This is the metric we've been reporting in the newsletter since Elixir's inception. There are two things to point out. The first is that the total realized revenue here includes our trading income as well as other sources of income, such as our SAAS and software development revenue. The second is that we use bonds outstanding at the beginning of the month because funding doesn't become available for trading right away; it must first clear the bank and counterparties/custodians. This is an important statistic for bondholders because it indicates that we can cover their interest payments and make a spread. Take July as an example; our performance under this metric was 2.36%, which exceeded our monthly target of 2%.

JULY TRADING PERFORMANCE

Trading realized gain as a percentage at the beginning of the month

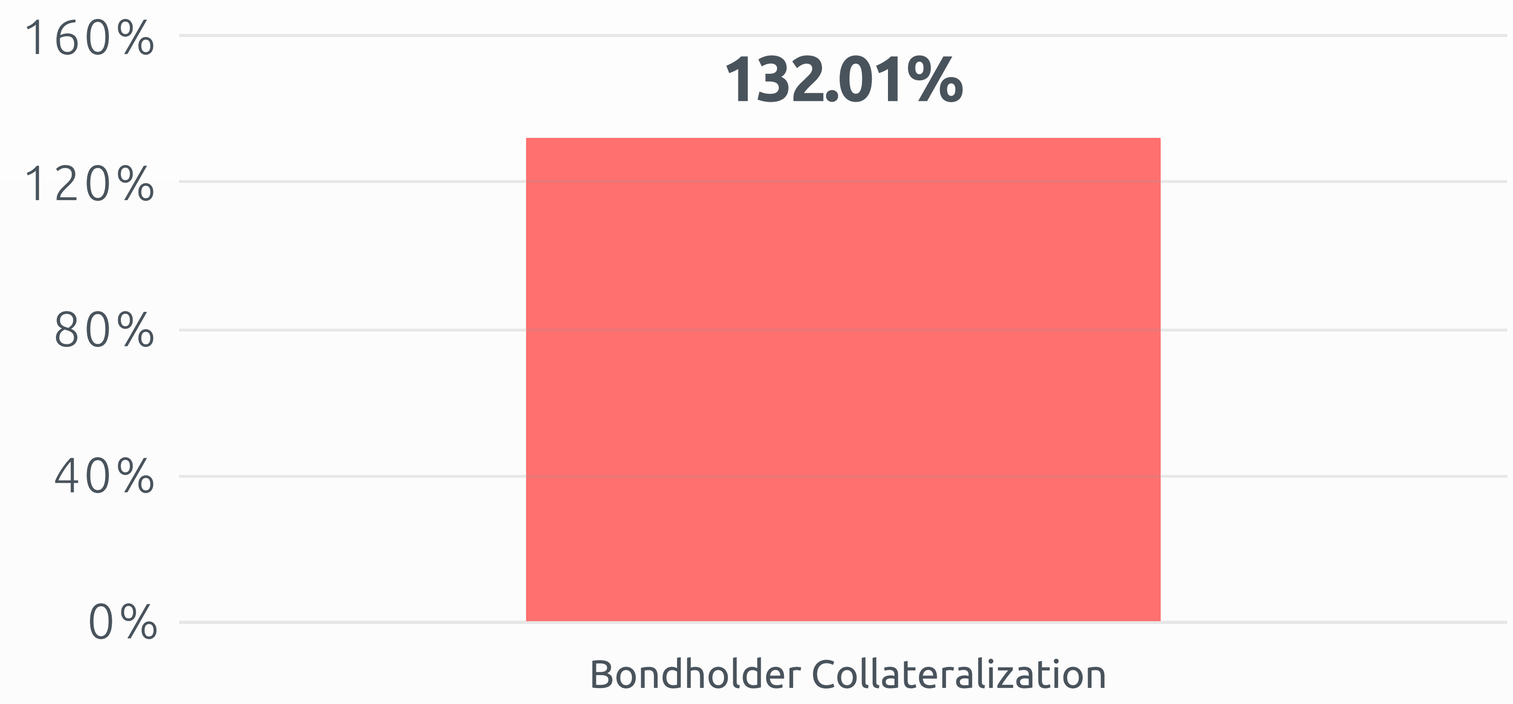


2. BONDHOLDER COLLATERALIZATION

Another important metric for bondholders is Elixir's collateral level for their bonds. This is critical because the bondholder should know whether the company has enough liquidation value to cover the bond principle. To calculate this, we take all our liquid assets, including our cash and trading assets, and divide it by our total bonds outstanding. These two numbers are both quoted from the end of the month.

As of the end of July, Elixir's bondholder collateralization was 132.01%. This means that the company has $1.32 to support every bond dollar invested. Therefore, bondholders can be confident that their bonds are well-secured.

JULY BONDHOLDER COLLATERALIZATION



FORMULA % = $\dfrac{\text{Month End Cash \& Trading Assets}}{\text{Month End Bonds Outstanding}}$

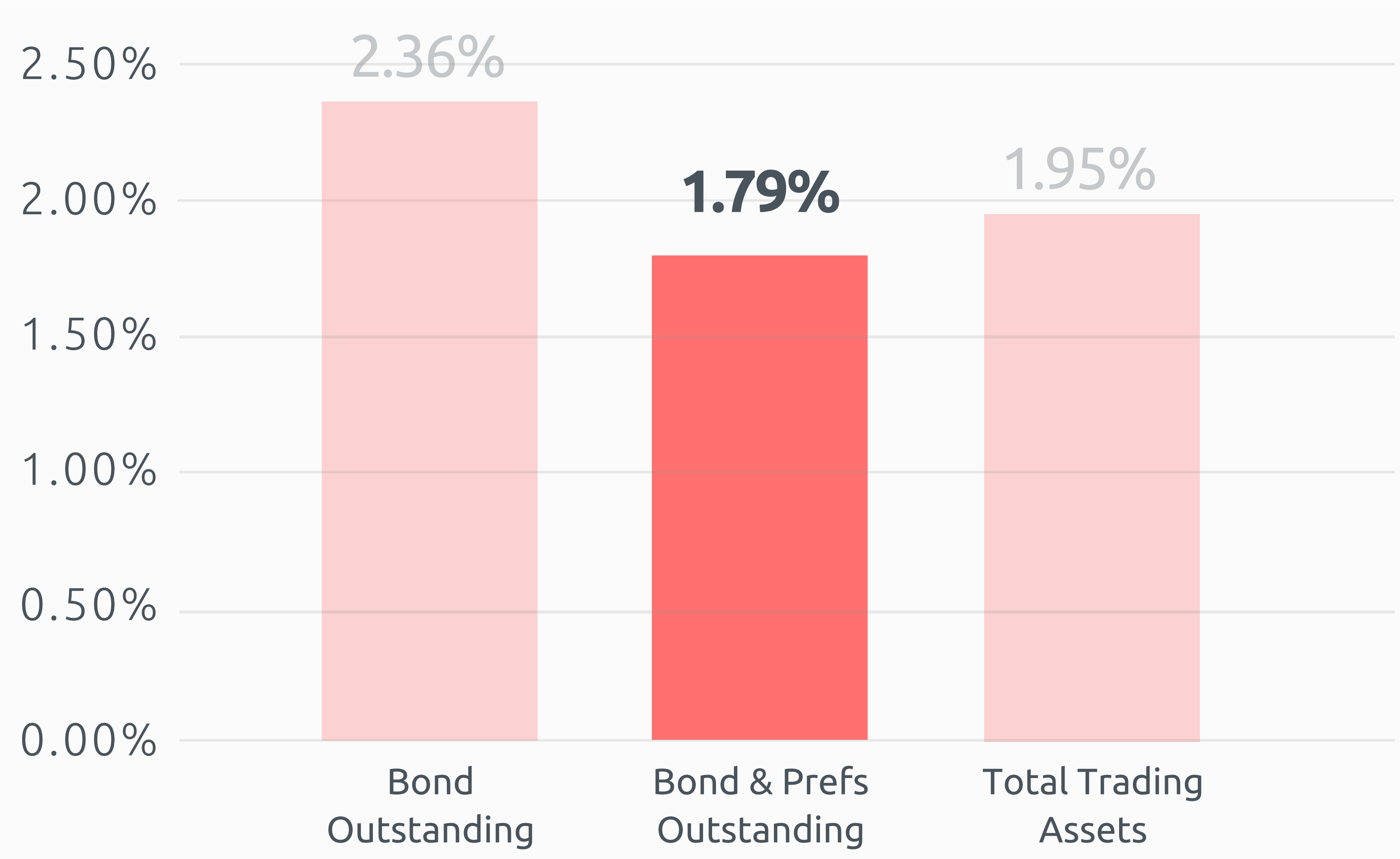
Metrics for Preferred Shareholders

3. TOTAL REALIZED REVENUE AS A PERCENTAGE OF BONDS AND PREFERRED SHARES OUTSTANDING **AT THE BEGINNING OF THE MONTH**

This new metric is the same as #1, except it considers the total bonds and preferred shares. This number will naturally be lower, as it is calculated based on a larger pool of funds. The statistic is most important for preferred shareholders because it demonstrates Elixir's ability to pay our preferred share distributions after we have paid bondholder interest. In July, our performance under this metric was 1.79%.

JULY TRADING PERFORMANCE

Trading realized gain as a percentage at the beginning of the month



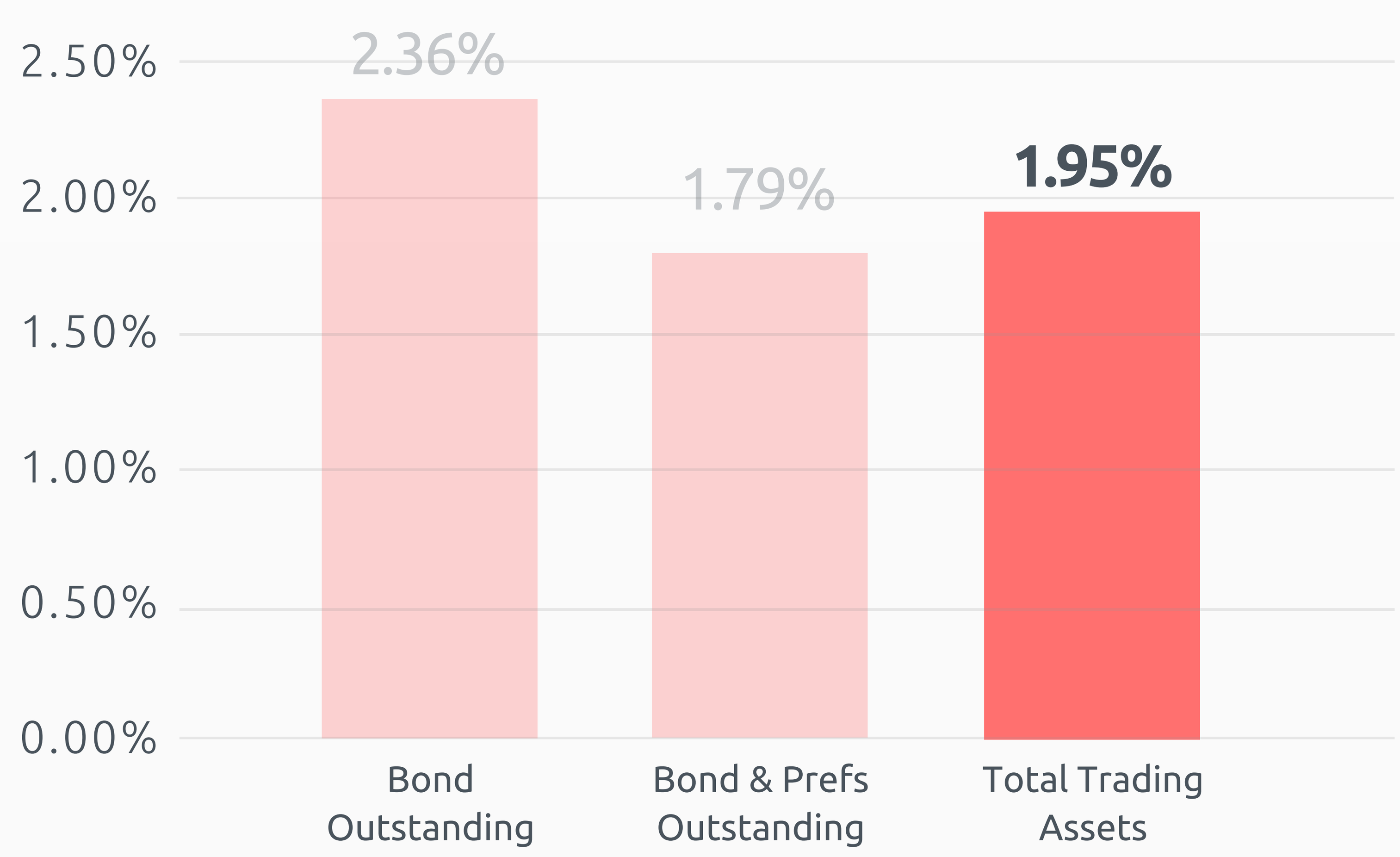
Metrics for Shareholders

4. TRADING REALIZED REVENUE AS A PERCENTAGE OF TRADING ASSETS **AT THE BEGINNING OF THE MONTH**

This metric compares monthly trading realized revenue to trading assets at the beginning of the month. Our trading assets are the total assets at our counterparties/custodians. This does not include our cash on hand. The metric provides a clear picture of our return against the capital we are using to generate it. In July, our performance under this metric was 1.95%.

JULY TRADING PERFORMANCE

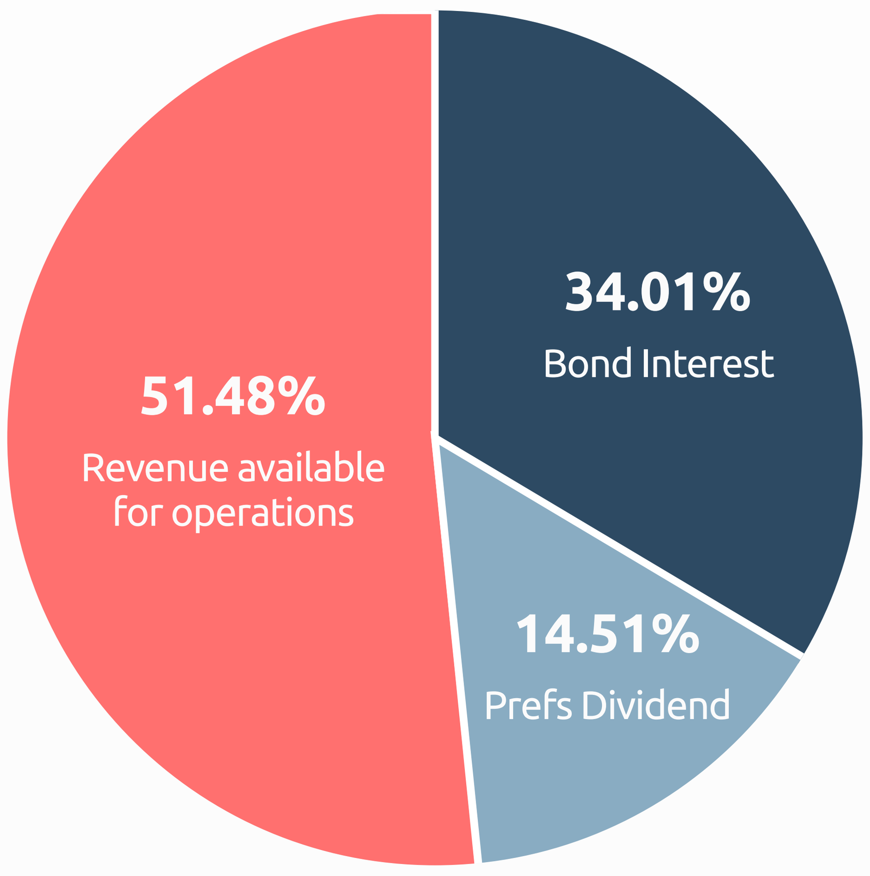
Trading realized gain as a percentage at the beginning of the month



5. REVENUE ALLOCATION

This new statistic is most significant to equity holders. It breaks out, by percentage, what we used our revenue for. It shows how much of our total realized revenue was used to pay bond interests and preferred share dividends and what remained to support operations and other capital improvements. In July, as shown in the chart, 34.01% of revenue went to funding bond interest, 14.51% paid preferred share dividends and 51.48% was available for operations and capital costs. In the future, as we make substantial consistent profits, the board may decide to pay shareholders a dividend.

JULY REVENUE ALLOCATION

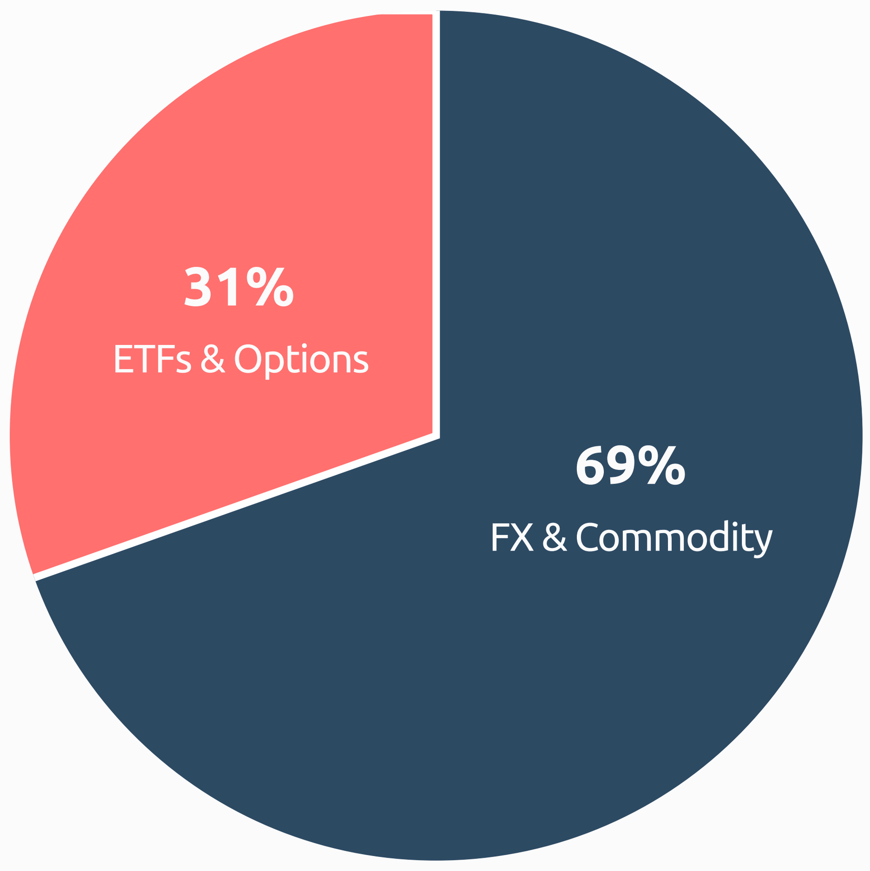


Metrics for the Curious

6. TRADING PERFORMANCE BY ASSET CLASS

For curious investors who want to know how we make our trading income among different asset classes, we have created this metric to show the split. In July, 69% of our trading revenue came from FX and commodities, while 31% came from ETFs and options. In the future, this statistic will become more detailed.

JULY TRADING PERFORMANCE BY INVESTMENT



ENDING REMARKS

We believe that the addition of these metrics will not only provide a more detailed and broader overview of our business by month, but also benefit different classes of investors by giving them the most relevant performance data, tailored to their specific interests.

Since I wrote you last, the market has experienced two extreme volatile events.

Between July 15 and July 30, the market had extreme low volatility. I wasn't worried because I knew that the last day of July would be a big day and had prepared our positions accordingly.

At 11:30 am PST on July 31, the U.S. Central Bank (U.S. Federal Reserve) Chairman, Jerome Powell, did what he was supposed to do. As we watched Powell speak on TV, our computer flashed vigorously. The stock market was dropping and volatility was increasing. Fear quickly entered the market, like a plague. Some of you must be wondering what happened.

JEROME POWELL THE U.S. CENTRAL BANK CHAIRMAN

Prior to Powell's speech, it seems that 90% of investors, including President Trump, believed that the Fed's mandate included keeping the stock market high, helping to grow the GDP as high as possible, supporting real estate prices with low interest rates and implementing measures to fight a trade war with China.

After hearing Powell's speech, investors were disappointed. They realized that "the shield" they thought had been protecting them was more or less imaginary. Powell reminded the world that the U.S. Central bank has only three mandates: to fervently guard against inflation, to promote a healthy job market and to ensure stable interest rates. That's all.

While I didn't have the delusional view that the Fed was the savior of the capital market, I was a bit concerned about whether Powell would stick to his guns and refuse to let President Trump bully him. I'm glad that he is tough and did what he was supposed to do. I left the office on the evening of July 31 knowing that Elixir had had a record month and that volatility would continue for a few more days as the capital market took time to digest Powell's speech.

The next day, I was in a cheerful mood when I woke up. I became even more cheerful when the universe delivered another big gift of volatility to us: President Trump announced a new round of tariffs on China. What an unexpected present! The announcement boosted fear, which has caused volatility to remain high ever since. It looks like trading revenue for August will break another record high.

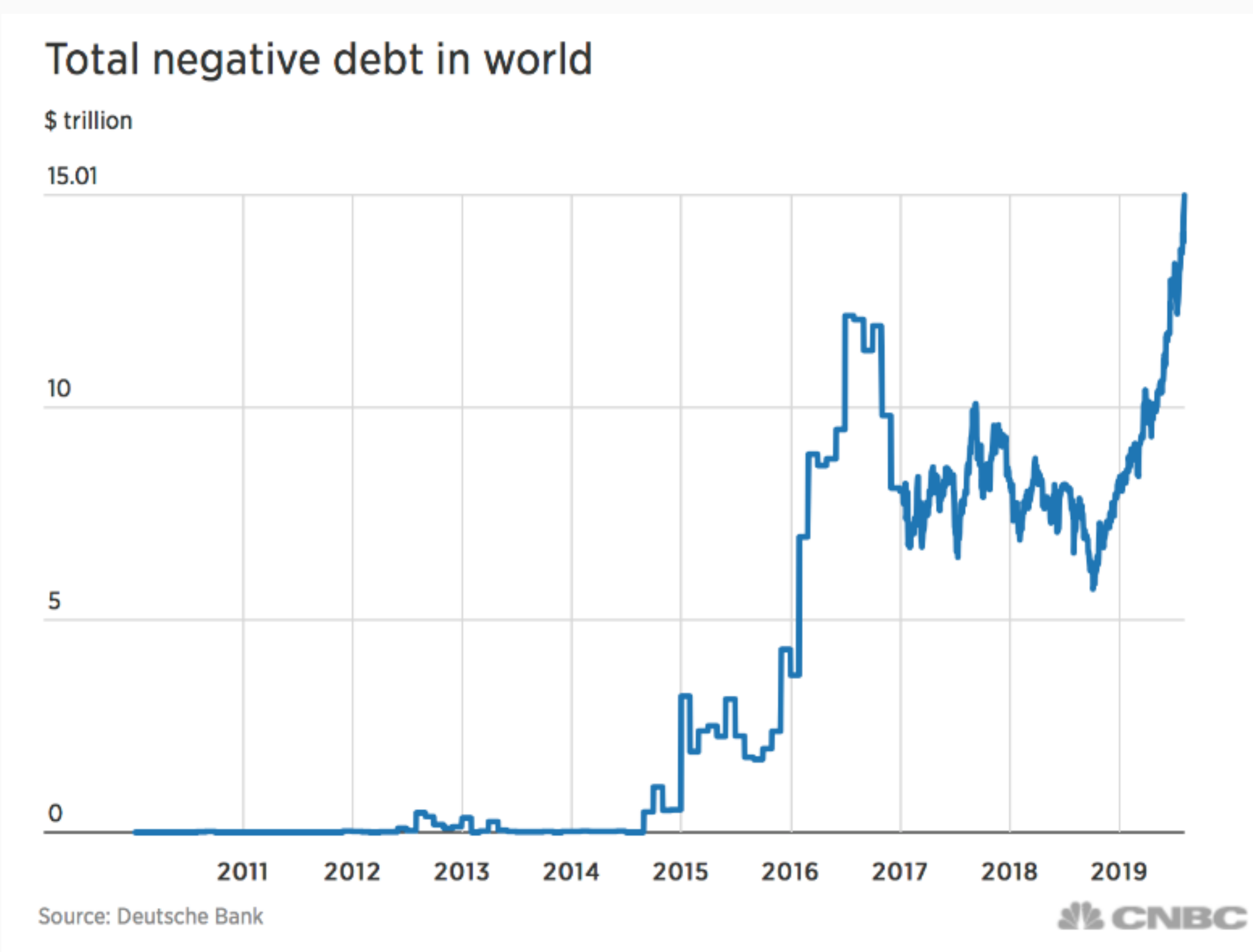
We believe that the best opportunity to drive returns for the remainder of August and for September is by shorting UK and German 10-year bonds. History tells us that now is a great time to short these bonds, as their yields have dropped too low, too fast. They should bounce back in value at some point. These trades may take a month or two to work out, but we believe the investment is a prudent one based on historical data and our algorithms.

Other Interesting Observations (Food for Thought)

1 The central banks of 23 countries are currently cutting interest rates, as they are worried about a recession coming. Yet the stock market is still close to an all-time high?

2 Aside from all the craziness with negative interest rate yields, spreads are getting out of whack. For example, in 2011, Greece 10-year bonds paid over 30% annually. On July 24, 2019, Greece's 10-year bonds offered a 1.96% annual yield. On the same day, U.S. 10-year bonds were paying 2.08%. Because Greece's 10-year bonds are rated as junk ("B+" by Standard and Poor's) and the U.S.'s are rated as strong ("AA+" by Standard and Poor's), isn't it baffling that Greek bonds have lower yields than U.S. bonds?

3 The amount of negative yielding debt globally is becoming staggering to think about.

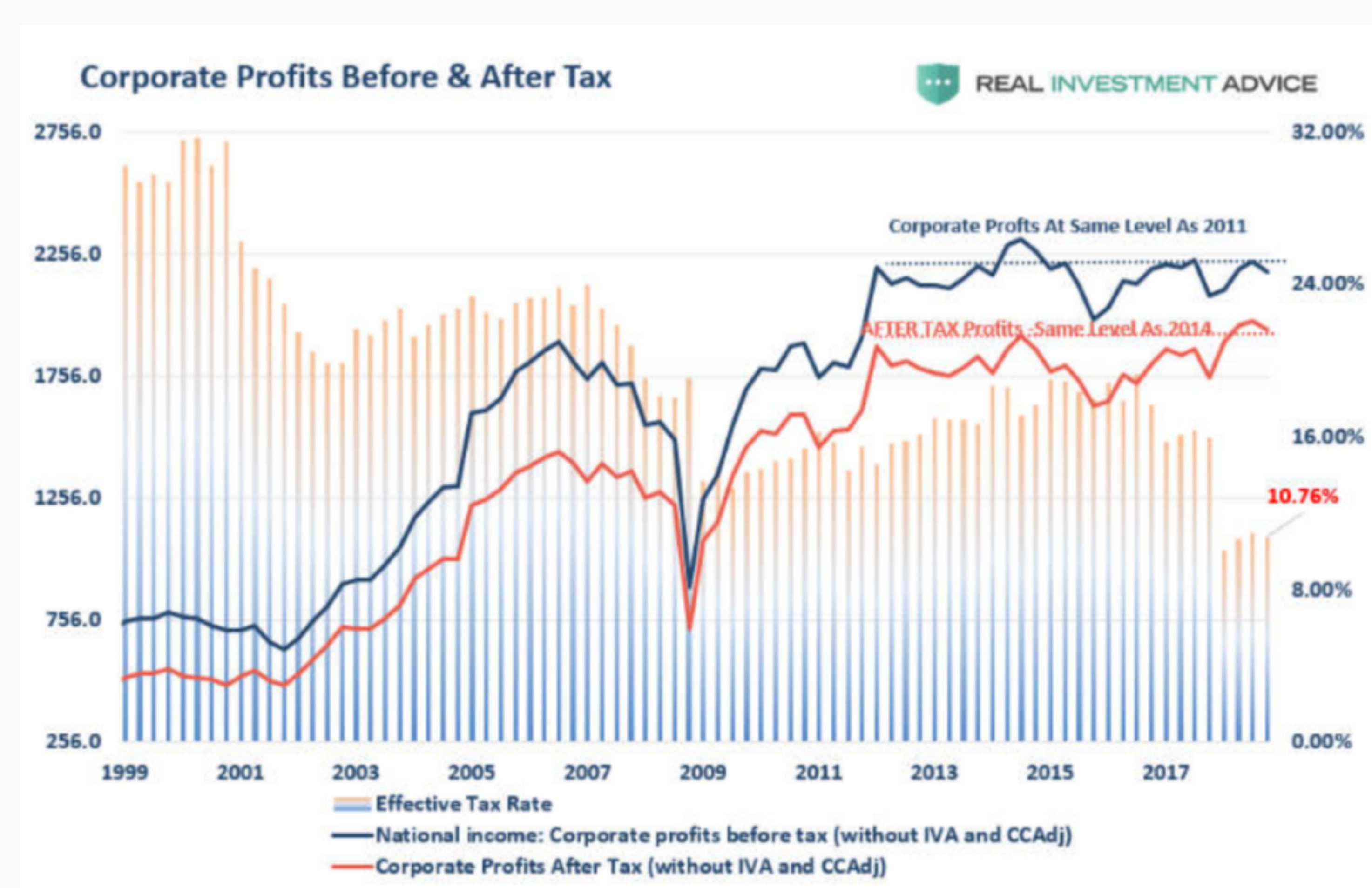


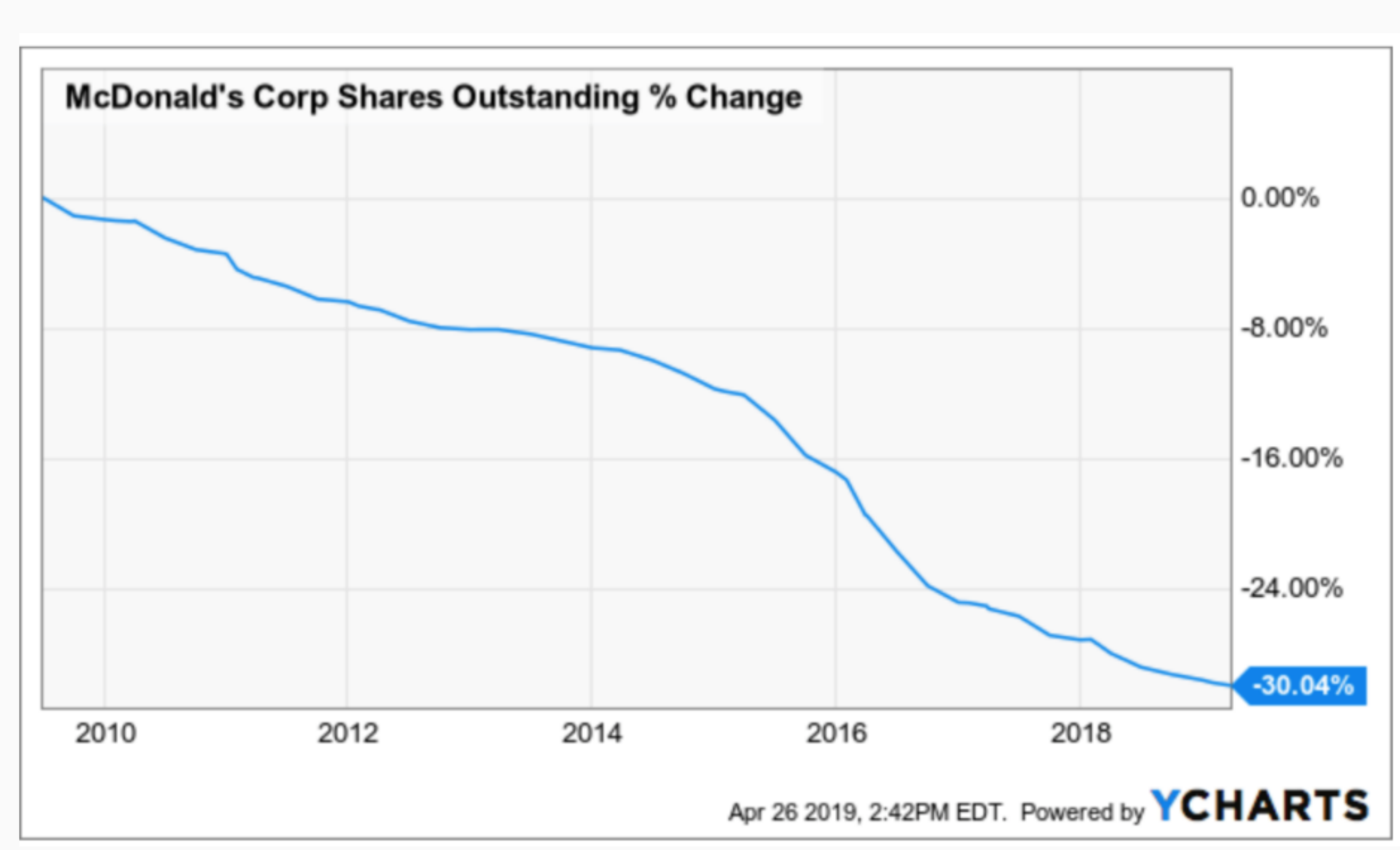
4 The Horizon's Marijuana ETF represents a broad group of companies in the cannabis space. It is down 40% in value since its peak earlier this year, but the average company in the ETF still trades at 25 times sales. When you complete the same calculation for the broad S&P 500 ETF, you realize that the average company is trading at 2 times sales. I can't help but think that this cannabis market will go up in smoke!

5 It seems that the U.S. has reached its "peak" car production level. This is a very sobering thought, as the automotive industry is the second-largest contributor to Canada's exports.

The younger generation is used to car-sharing and using transit, and cars are lasting longer. Automotive consulting firm, AlixPartners, predicts that total car sales will be down 2% in 2019, a further 4% in 2020 and a further 8% in 2021.

6 Jesse Colombo at Real Investment Advice in Texas did some great analysis. The following chart is the most thought-provoking one I've seen this year. Corporate profits for the last seven years have been flat, yet companies' earnings have grown substantially. Take a moment to think about that sentence. At first, I was a little puzzled. Then it dawned on me. As a whole, large U.S. public companies have not grown their profits in the last seven years. However, they have grown their earnings by issuing more debt. This money was used to buy back the company's shares. Think about it: If you have the same profit but fewer shareholders, your earnings increase even though your profits remain the same. As an example, the subsequent chart references McDonald's shares outstanding. It shows how much this number is dropping because the company is issuing debt to buy back its own shares.





Management Proposal to Include Selective Individual Stock in the Elixir Investment Mandate

The executive management is seeking board approval to include individual stocks in the Elixir investment mandate.

Background & Rationale

During periods of low market volatility, meeting our monthly trading performance target is challenging because we trade only FX, commodities, government bonds and ETFs. We must expand our investment mandate. A new source of trading revenue will help us meet our performance target.

On a macro level, excellent businesses that pay dividends will become inexpensive when the recession hits. To that end, Elixir can buy shares of these companies for a low price and earn dividends while the shares are in our holding position. This value-investing strategy fits Elixir's investment philosophy.

In addition to increasing our trading revenue, selective individual stock will give us more global exposure. We plan to write a report on each company that we are following. These reports will be published on Seeking Alpha. We will include the commodities we follow as well as those that have ETFs. Through this effort, not only will we receive feedback that challenges our thesis, but we will also attract sophisticated and accredited investors from across the world.

Internally, our machine-driven-analysis ability has strengthened. Machines will perform 95% of analytical work related to individual stock selection. This means that expanding the mandate will not add material cost to our operations.

Risk

We perceive that the board's decision regarding the addition of individual stock to our current mandate will be based largely on risk. In general, trading stock is riskier than trading FX and commodities. However, most stock trading losses stem from the trading of companies that have one or a combination of the following characteristics:

1. Trading at high historic or comparative valuations (Amazon 80 times earnings)
2. Long-term falling revenues (Sears)
3. No earnings and speculative (cannabis companies)
4. Fads (Krispy Kreme in 2001 and Beyond Meat today)
5. Cash flow not supporting earnings (Sino Forest)
6. Companies with debt issues (repeated collapses of airlines)
7. Companies that are highly leveraged (any bank during the 2008 meltdown)
8. No dividends to allow investors to wait (Amazon is an excellent business, but some investors had to wait years for the price to come back and earned no dividend.)

Our approach is to avoid companies that have even one of these red-flag characteristics. Our software will perform extensive data mining globally while our algorithm will act as a filter that enables us to shortlist companies without red flags. We will then perform qualitative analysis personally through in-person due diligence. We will consider only excellent businesses that meet all of our criteria. When we purchase one of these companies at a three-year historic low, the risk profile of trading these excellent companies will be similar to that of our existing investment.

We are trading stocks in a manner similar to how we trade FX, commodities, government bonds and ETFs: Start buying a small amount when we believe the price is at or near the bottom, then continue buying as the price declines. We will sell out our positions at a 2% profit. We will only "rent" these companies; we do not plan to own them for a long period of time. If we do get stuck, we will collect a nice dividend, one that will pay us to wait. This trading philosophy is much safer than the common practise in portfolio management.

Capital Allocation

We anticipate that no more than 25 names globally will show up on our radar for consideration. As with everything else we trade, we plan to start extremely small in each position. In extreme circumstances, when the market becomes extremely cheap, we will allocate a maximum of 5% of our total marketable securities to an individual stock and 25% of our marketable securities to all selected stocks combined.

Internal Bench Strength

Stock trading requires a significant amount of quantitative research and analysis. Companies such as Investors Group have hundreds of analysts working full-time. Because of this, we did not have the bench strength to include individual stock in our mandate in the past. However, we are ready now because of the analytical software we built over the summer.

On the qualitative analysis side, I am very experienced with stock trading due to my work as an analyst at Investors Group and National Bank Financial. Based on what I learned while working with these two firms, I am confident that our research ability is in much better shape, from both efficiency and accuracy standpoints, than that of my previous employers.

Additional Resources Needed

As part of our existing research budget, we will pay small fees to an individual in Boston, USA and to an individual in Bangkok, Thailand for an analytical project. In the future, I may be looking for contract analyst support. We will not require additional full-time employees for the next couple of years.

elixIR

First Machine-Driven Stock Finding: Husky Energy

Introduction & Summary

Husky Energy (OTCPK: HUSKF) is a Calgary, Canada-based integrated energy company that is currently trading at a 16-year low. At this low price, the company offers a safe dividend of over 5.4%. The company has a solid balance sheet that has been improving over the years. Because the company's earnings are diversified among refinery and oil production, it has lower earning volatility than most oil and gas production companies do. The report will consider the material reasons why the company is at a low price and identify the areas that are improving. The company's management is investing heavily in the company's future earnings growth, which should increase earnings. I believe that Husky Energy stock should significantly increase and that investors should receive a substantial dividend.

Husky Energy

1. Husky Energy is currently trading at a 16-year-low stock price. The stock is very inexpensive.

2. The stock offers a dividend yield of over 5.4% and is complemented by a strong balance sheet.

3. Husky is an integrated oil and gas company. Its earnings are only partially correlated to the volatile commodity price of oil and do not correlate to the price of natural gas.

4. Company management has substantial current and future strategies in place to increase its earnings.

5. Husky Energy's stock price has been low for three reasons. Some issues are improving and soon may be forgotten.

William McNarland's full Husky analysis is published on Seeking Alpha. **Please click here to view a PDF copy.**