September 2019

Elixir News

elixir

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

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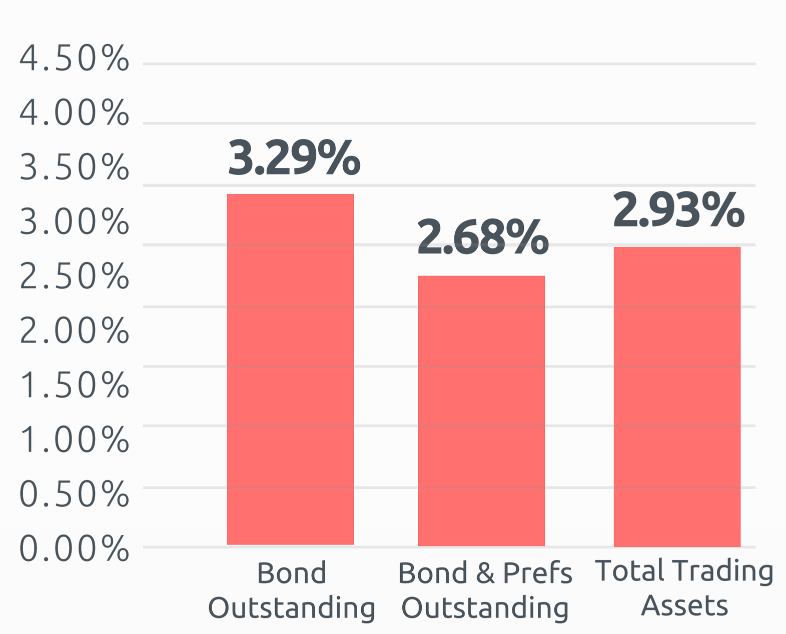
Hi, everyone,

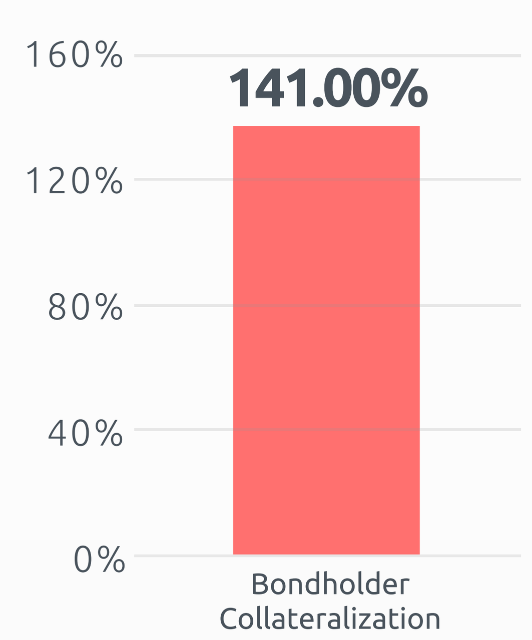
I trust that you are doing well and had a great time with family for Thanksgiving. September was another fantastic month for Elixir, as we realized a trading revenue that was 0.05% higher than our August record. This makes September our third consecutive month of breaking our revenue record! The following metrics charts provide a quantitative demonstration of our performance. For those who are interested, Elixir's historical performance metrics since inception (a 26-month track record) are included as an appendix at the end of this newsletter.

SEPTEMBER TRADING PERFORMANCE

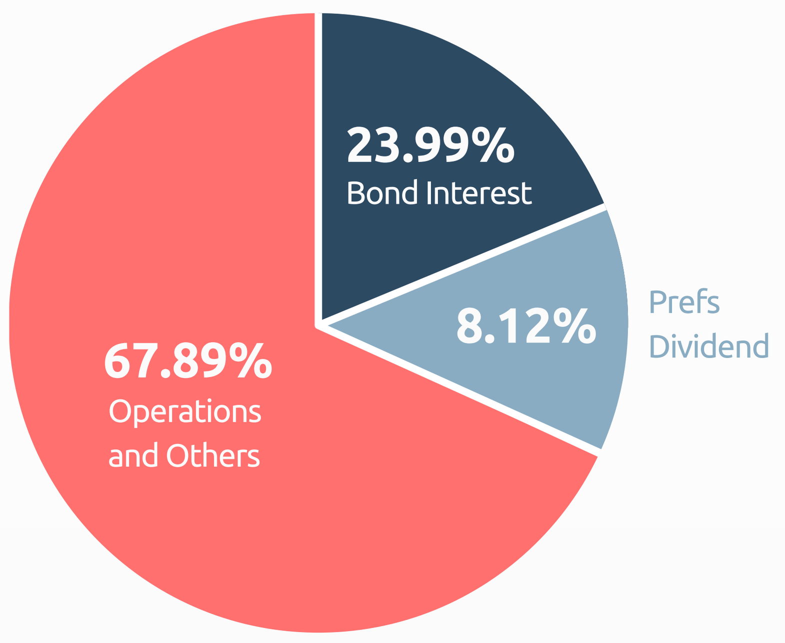
Trading realized gain as a percentage at the beginning of the month



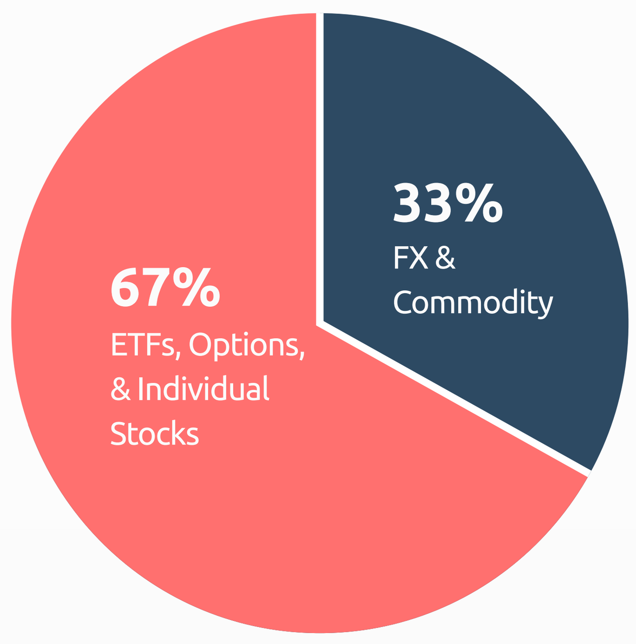
SEPTEMBER BONDHOLDER COLLATERALIZATION



SEPTEMBER REVENUE ALLOCATION



SEPTEMBER TRADING PERFORMANCE BY INVESTMENT



It is no coincidence that we have had three high-trading-revenue months in a row. This success is the result of improvements that we have made to our trading strategies; it is less market-driven and certainly not related to the addition of leverage. In this newsletter, I will share three points that explain the situation in detail. Additionally, under "Market Observations", I will talk about events that caught my attention for September and the beginning of October.

In this newsletter, we will also debut our latest software creation, The Elixir Invest Platform. I am very excited about this integrated software platform, not only because it provides an intelligent and immediate solution to our back-office operations, but also because it represents a major step towards the much greater vision we have for the future of Elixir.

In addition, I am pleased to share that we had a very successful investor update and celebration party on October 2, 2019. More than 70 guests took part in our evening of great food and live music. For those investors who couldn't attend, this newsletter includes a brief summary of the updates we shared at the party.

Finally, we are planning to host a few information sessions towards the end of November. Tentatively, we are looking at dates between November 25th and 27th. We will send out invitations as soon as we have finalized the dates and times.

I hope you find 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

For four months at the beginning of the year, we had less-than-ideal trading income. We have often stated that low market volatility was the cause. This is because Elixir's proprietary trading model is based on the use of technology to capture vibrations in the market, thereby allowing us to make a tiny spread profit. High volatility is a material contributor to Elixir's trading revenue.

Before May 2019, due to its limited investment mandate, Elixir was exposed to volatilities only in the currency, commodities and government bond markets. Despite this limited scope, we were able to make some money in these low-volatility markets. This was largely because our algorithm and technology were doing their job – grinding off small spread profit from identified opportunities through micro-market vibrations.

During the May and August board meetings, the directors approved a management proposal to include exchange-traded funds (ETFs), options and individual stocks in the Elixir Investment Mandate. The decision to include these new strategies directly led to Elixir's record-breaking performance in July, August and September. The fact that we have had three consistent months of high trading revenue is not a coincidence. While it would be bold to say that we can expect this same high level of trading revenue every month going forward, I am confident that the improvement will, at the very least, be lasting. I use September as an example to explain the three rationales behind my confidence.

First, our algorithm not only can identify, with a high level of accuracy, opportunities in the FX, commodities and bond markets (proven by our 26-month track record) but can also expand its search for profit opportunities in ETFs, options and individual stocks.

In the August newsletter, we shared that investor confidence would return in September and that, as a result, bond, gold and silver prices would fall. We also expected cotton and the British Pound to rally. These projections all came true, which enabled us to make a good profit. Additionally, a substantial chunk of our profit came from the major price increase in natural gas (a.k.a. widow maker).

It's important to note that although the aforementioned are commodities and currency, we were executing using ETFs and options through Interactive Brokers instead of through our direct ways at Oanda. On the stock front, for a third time, we were able to buy and sell our entire position in Husky Energy for a good profit.

Second, our revenue has added exposure to volatility in the stock and ETF markets. This concept is easy to understand. In the past, we were able to profit off volatilities in only the FX, commodities and government bond markets. When the vibration was low in these markets, our revenue experienced a drag. However, now that we have introduced new strategies, we can benefit from stock market volatility as well.

One encouraging observation is that, in September, the volatility level as measured by the VIX index averaged 16.78. This number is 16.86% lower than the 20-year VIX average of 19.61 for the same period. With that in mind, our record-breaking revenue suggests two things. One, though volatility was lower than its historical average, it was enough to create significant revenue. Two, there is still room for revenue to increase when volatility returns to its normal historical level. For our new readers and those who are not familiar with VIX, I will provide more information in the "New Reporting Metric" section.

The third reason for our revenue confidence is that there are still many ways in which our proprietary trading software can improve.

As you know, our software helps us catch small profits when our investments zigzag along their paths from point A to point B. In September, machine-driven profit accounted for a small percentage of our overall trading performance. This was because our software was able to grind off only small gains from micro-market vibrations. Going forward, when market volatility picks up (in other words, when more zigzagging is happening with our investments), our machine will pick up more profit opportunities.

While high market volatility could increase our machine-driven revenue, we have no control over this. Thus, perfecting our trading software will allow us to more assuredly boost our future revenue performance. Our trading software is still being built and not at all near its full potential. As of now, only one of our counterparties, Oanda, is fully equipped with machine-driven order entry and auto re-entry software. Therefore, our ability to sustain – or even increase – revenue depends on the building and implementation of our software at the three other trading custodians.

In summary, now that I have shared the three reasons why I am confident that Elixir's new level of trading revenue is here to stay, I hope that our investors feel this same confidence and recognize that we can improve this revenue number going forward. Also, please bear in mind that our revenue improvement has nothing to do with increased leverage; in fact, we have been actively lowering our leverage and drawdown. Staying away from high leverage is the foundation of Elixir's trading methodology. In future newsletters, we plan to comment on our use of leverage.

New Reporting Metrics

VOLATILITY RATING: CURRENT VS. 20-YEAR AVERAGE

Because volatility is a material driver of Elixir's trading revenue, it makes sense for us to include it as one of our monthly reporting metrics.

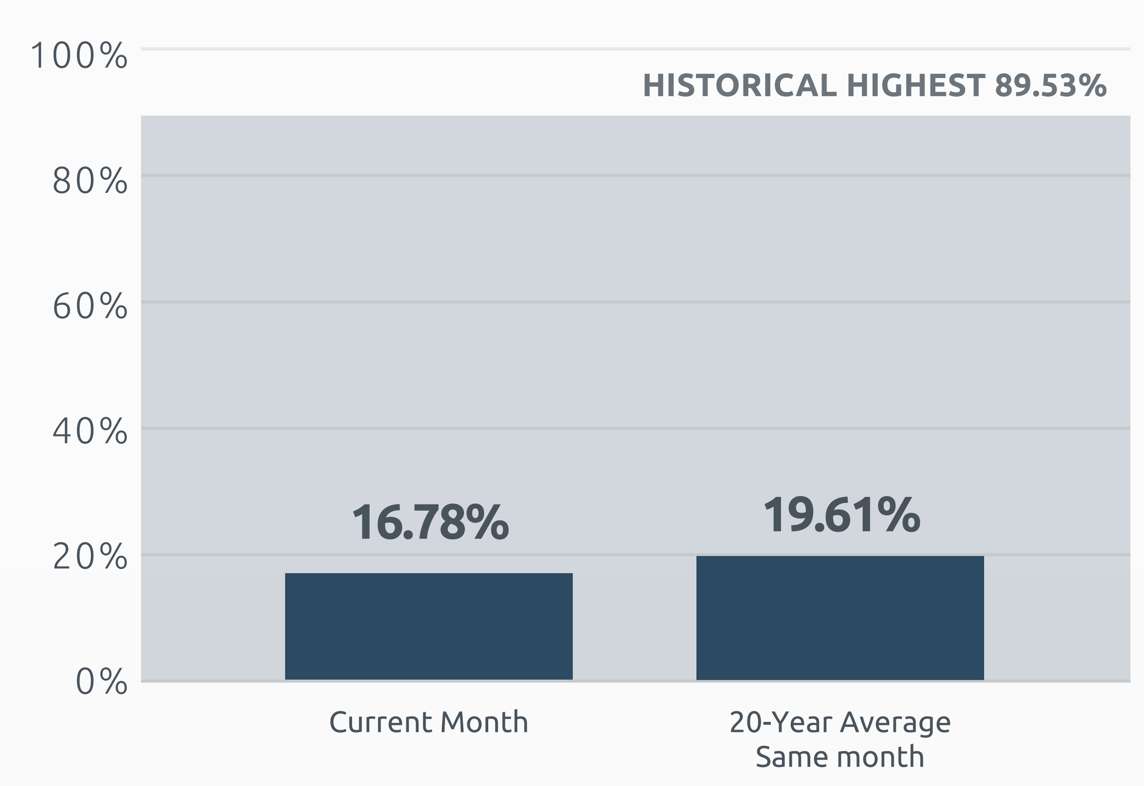
To brief our new readers who are not familiar with this financial term, volatility is measured by the VIX index – also known as the "fear gauge" in media references. The index is calculated by measuring investors' desire to either use the options market to speculate on future gains or use the options market as insurance to protect them from future losses. When the VIX number is low, investors are confident; as a result, asset prices often "take the stairs up slowly" to reach new highs. On the other hand, when the VIX number is high, investors are scared. People react to fear much more drastically than they do to confidence. Consequently, asset prices "take the elevator down quickly" and widely fluctuate in price. For Elixir, it is much easier to make money when the VIX number is high than when it is low.

To provide some perspective on our current market condition, I offer the following facts about the VIX index. The lowest VIX number recorded was 8.56, on November 24th, 2017. The market was extremely overconfident, then disrupted by extreme market volatility five weeks later, in January 2018. The highest VIX number recorded was 89.53, on October 24th, 2008. That time marked the peak of the great financial crisis in 2008.

I always think of this number as a good reminder of how severely volatile our market could become. The 20-year daily average of VIX is 19.61. The 2019 year-to-date average VIX reading is 15.91, which is 23.3% lower than 19.61. The VIX reading was even lower between January and April this year; as a result, our trading revenue experienced a drag.

Because we can't explain monthly trading performance without referencing the current-month volatility, it makes sense to include a volatility rating in our metrics reporting. A stand-alone number doesn't create a clear perspective for our investors, so I found it helpful to compare the current-month volatility reading to the 20-year historical average reading from the same month. This new metric allows investors to better understand the volatility level for the past trading month and how this level affects our trading revenue for the month.

VOLATILITY LEVEL AS MEASURED BY VIX



As of the time of this newsletter's writing at the beginning of October, our algorithm has brought several forecasts to our attention. Because the market is constantly changing and our algorithm updates daily, the following may not be relevant by the time we publish this newsletter. (This is something to keep in mind for investors who are thinking about executing on these findings themselves.)

For the assets that we follow, nothing is extremely cheap or expensive as of the time of this writing. Overall, our algorithm indicates that some overconfidence should return to the market. As a result, the prices of stocks and other risky assets will increase. When this happens, our strategy is to purchase insurance on volatility at cheap prices and sell it later, when fear returns and premium goes back up. As for bonds and gold, while we've seen the prices fall, we expect a significant further sell-off in the coming month.

Other Interesting Observations

1 CUSTODIAN AND BROKERAGE COMMISSION CONTINUES TO DROP

The fact that the custodian and brokerage commission became low and linear is one of the primary reasons why Elixir's micro trading is possible. I won't go into the details, as our offering decks provides extensive coverage of this topic.

On October 7, 2019, Charles Schwab, a leading brokerage company in the U.S., with about $3.72 trillion in client assets, announced that it no longer charges brokerage commissions for U.S. stocks, ETFs and options trades. Prior to Charles Schwab's zero-commission announcement, E-Trade, Interactive Brokers and TD Ameritrade had all dropped their commission fees as well.

How do brokerages make money if they don't charge commissions? Well, their bread and butter actually comes from their use of investors' cash balances to engage in proprietary trading or earn interest. The cash balances at these brokerages' accounts are extremely high. This is because, given the current historical low interest rates, investors don't have many attractive investment options. During times like this, many investors prefer to hold cash instead of investing it.

For Elixir, a lower commission is always welcome, as it reduces our trading cost. In fact, under certain circumstances, when we trade ETF, we would be paid a fee for providing liquidity to the market.

FREE OR DISCOUNTED

2 THOMAS COOK'S BANKRUPTCY

Thomas Cook

After a 178-year operating history, Thomas Cook closed its doors on September 23, 2019. More than 600,000 vacationers are stranded and 2.1 billion USD worth of debt went into default. Two factors contributed to Thomas Cook's fall: high debt and a slight slowdown in booking revenue.

The Thomas Cook story provides a preview of the fate that will befall many high-debt companies when the economy slows down even a little. Unfortunately, it seems that the slowdown is already happening. One of my indicators is that, globally, hotel and flight costs have been falling quickly for about a month.

Here is an example. I write this article while staying at the Intercontinental Hotel in Frankfurt. This hotel is within walking distance of the headquarters of the European Central Bank, Deutsche Bank and Commerzbank. I am charged 100 Euro a night, including taxes, breakfast, an evening meal with wine and even a suite upgrade. To the best of my memory, the last time I received this many perks, at this low of a rate, was just after the financial meltdown of 2008.

To me, Thomas Cook is the proverbial "canary in the coal mine". This next recession will be very difficult for many high-debt companies.

3 US HOMEBUILDERS ISHARES ETF

Earlier this year, I drove my motorcycle across the San Jacinto Valley to Palm Springs from San Diego. Throughout my journey, I was absolutely floored by the amount of home building activity taking place. I was suspicious of this housing boom, as I didn't think that the residents of this area enjoyed the same level of economic growth that the rest of the US did. Therefore, I conducted some research.

According to the US Census Bureau, the median household income for the San Jacinto Valley, including income from all family members, is only $44,707! This means that the housing boom I witnessed, in which residents are upgrading from mobile homes to nice three-bedroom townhomes, is made possible and supported only by cheap and easy financing. This is scary, but it is also a potential opportunity for us.

This year, the top-performing US industry ETF is US Homebuilders iShares. This ETF holds a collection of the largest homebuilders in the US. When the next recession hits and easy mortgage financing is no longer available, these homebuilder companies typically fall significantly in value. Therefore, when the time is right, I would consider shorting this ETF or one of its poorly constructed leveraged versions. This trade could be very profitable for us.

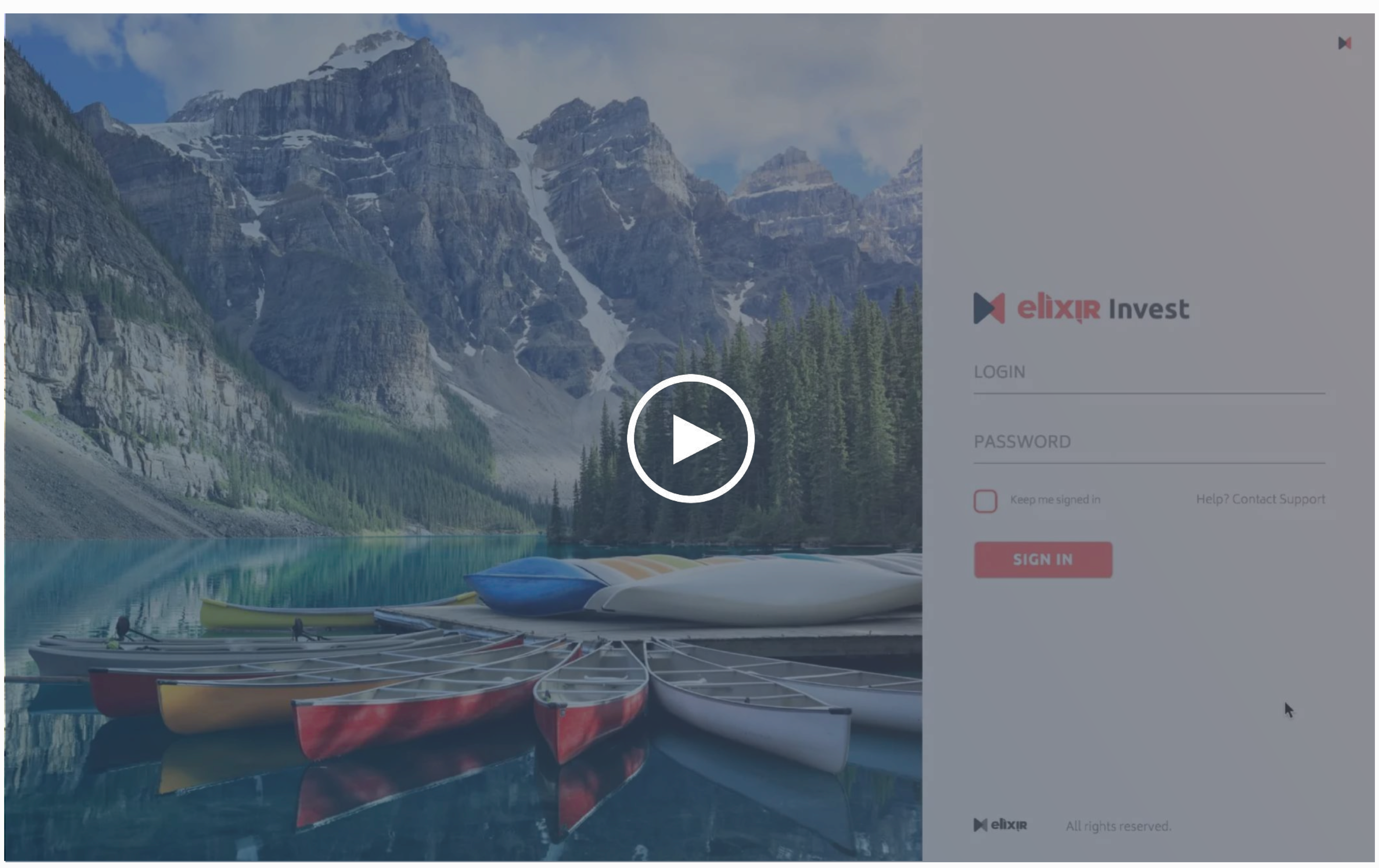
The Elixir Invest Platform

At Elixir Technology, not only do we create software tools to power our proprietary trading activities and support our governance efforts, but we also actively write software to automate our back-office operations. The Elixir Invest Platform is part of this back-office automation project and was completed in September 2019.

An investor has 72 different ways in which to invest with Elixir. Every option requires an independent set of purchase documents and disclosures required by regulators. When we handled this paperwork manually, we consistently ran into three issues.

First, filling out the document was a lengthy process, especially when the investor was choosing a combination of investments. Human labor is costly and inefficient. Second, at times, mandatory information was missing from the forms, creating delays in the investor's purchase. Third, it was hard to ensure that the most current purchase document, with the latest rate offering, was used. This led to either an unhappy investor or a loss that the company had to swallow.

The Elixir Invest Platform solves these problems. It brings high efficiency and accuracy to the process of investing with Elixir.



Brief Highlights of Company YTD Updates

Shared at the October 2nd Investor Update and Celebration Party

TRADING REALIZED REVENUE:

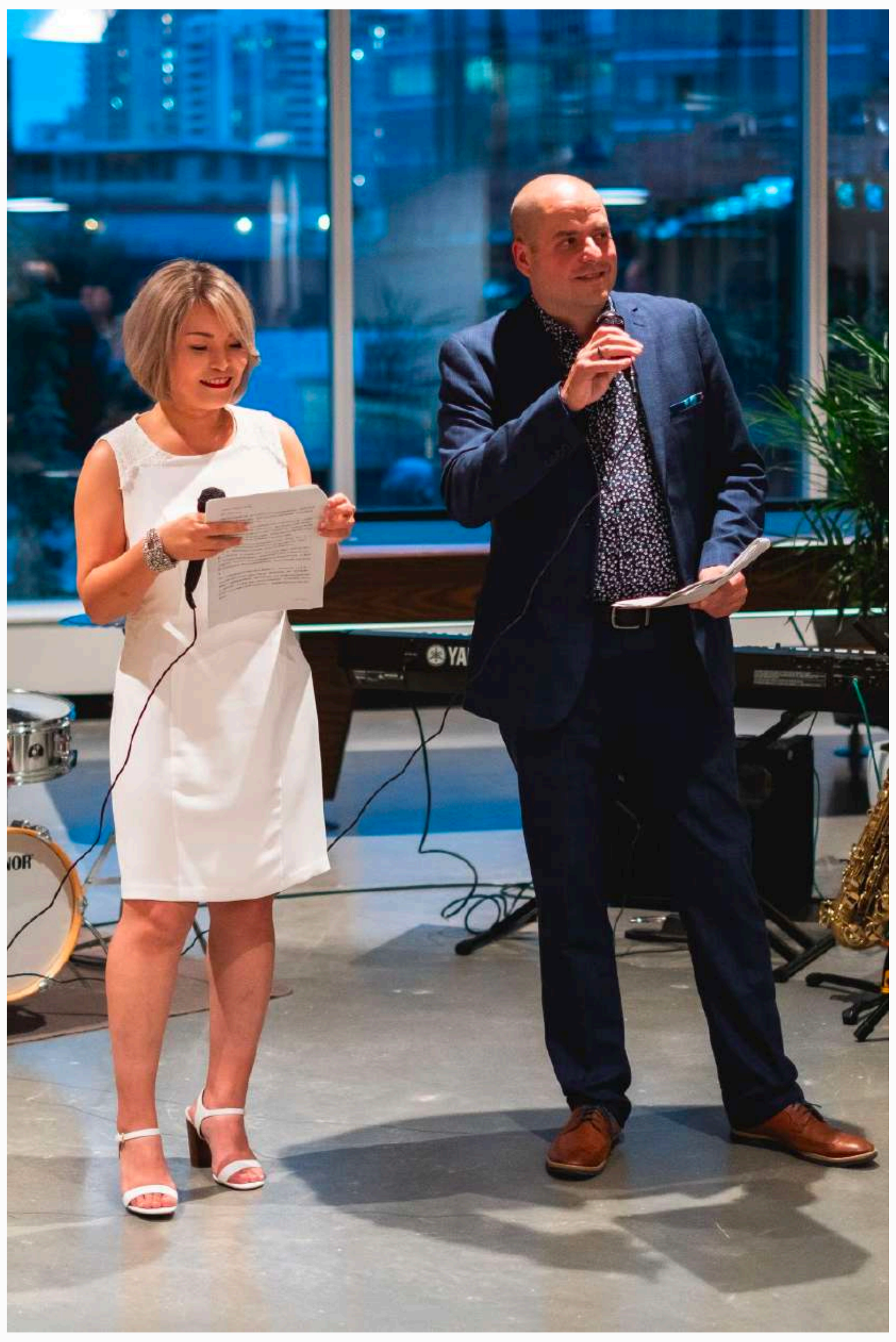
Elixir's 2019 third-quarter trading realized revenue is 18 times higher than that of the same quarter in 2018. Year-to-date trading realized revenue for 2019 is almost 7.5 times higher than that of the same period in 2018.

SOFTWARE DEVELOPMENTS

Prior to June, we had completed Elixir Portfolio Management 1.0, Elixir Trader 2.0 and the Elixir director dashboard. Between June and September, we created Elixir Stock Research software and the Elixir Invest Platform.

OTHER ACHIEVEMENTS

In August, Elixir was recognized for national excellence in Governance. We are shortlisted alongside RBC in the category of "Best Practices in Strategic Planning, Oversight and Value Creation by the Board". Other shortlist nominees are CRA, BMO Financial and Manulife. Winners will be announced in November.



Elixir Historical Performance Metrics

elixir	TRADING PERFORMANCE Trading realized Gain as a percentage at the Beginning of the Month			REVENUE ALLOCATION			BONDHOLDER COLLATERALIZATION	TRADING PERFORMANCE BY INVESTMENT	
MONTH	Bonds Outstanding	Bonds + Prefs Outstanding	Trading Assets	Bonds Outstanding Interest	Prefs Dividend	Operations & Others		FX, Commodity & Gov't Bonds	ETFs, Options & Individual Stocks
19-SEP	3.29%	2.68%	2.93%	23.99%	8.12%	67.89%	141.00%	33%	67%
19-AUG	3.32%	2.70%	3.29%	23.70%	8.12%	68.18%	137.28%	52%	48%
19-JUL	2.60%	1.96%	2.13%	33.99%	14.51%	51.51%	197.63%	69%	31%
19-JUN	1.74%	1.52%	1.48%	50.20%	15.41%	34.39%	144.36%	100%	
19-MAY	2.79%	2.73%	2.86%	33.43%	7.00%	59.56%	134.50%	100%	
19-APR	0.50%	0.49%	0.47%	100.00%	0.00%	0.00%	120.14%	100%	
19-MAR	1.48%	1.44%	1.72%	69.09%	2.42%	28.49%	119.91%	100%	
19-FEB	1.17%	1.14%	1.30%	83.67%	3.11%	13.22%	105.22%	100%	
19-JAN	1.62%	1.56%	1.51%	63.49%	2.54%	33.97%	132.09%	100%	
18-DEC	1.96%	1.90%	2.24%	52.37%	1.87%	45.75%	127.52%	100%	
18-NOV	4.83%	4.65%	5.83%	25.21%	0.98%	73.81%	135.46%	100%	
18-OCT	3.01%	2.89%	3.52%	41.41%	1.67%	56.93%	106.89%	100%	
18-SEP	1.53%		1.57%	100.00%	0.00%	0.00%	213.49%	100%	
18-AUG	2.58%		2.55%	61.03%	0.00%	38.97%	102.70%	100%	
18-JUL	1.54%		1.43%	100.00%	0.00%	0.00%	104.32%	100%	
18-JUN	1.86%		1.94%	95.03%	0.00%	4.97%	88.03%	100%	
18-MAY	4.03%		3.98%	48.25%	0.00%	51.75%	104.10%	100%	
18-APR	1.98%		1.98%	100.00%	0.00%	0.00%	102.09%	100%	
18-MAR	2.50%		2.50%	90.21%	0.00%	9.79%	100.09%	100%	
18-FEB	2.69%		3.05%	82.52%	0.00%	17.48%	100.11%	100%	
18-JAN	1.81%		1.80%	100.00%	0.00%	0.00%	99.55%	100%	
17-DEC	2.00%		1.98%	100.00%	0.00%	0.00%	100.88%	100%	
17-NOV	1.21%		1.12%	100.00%	0.00%	0.00%	101.44%	100%	
17-OCT	6.22%		6.14%	41.15%	0.00%	58.85%	107.67%	100%	
17-SEP	2.60%		2.81%	98.51%	0.00%	1.49%	101.39%	100%	
17-AUG	2.02%		2.02%	100.00%	0.00%	0.00%	120.24%	100%	