February 2020

Elixir News

elixir

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

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BURNABY, BC, CANADA
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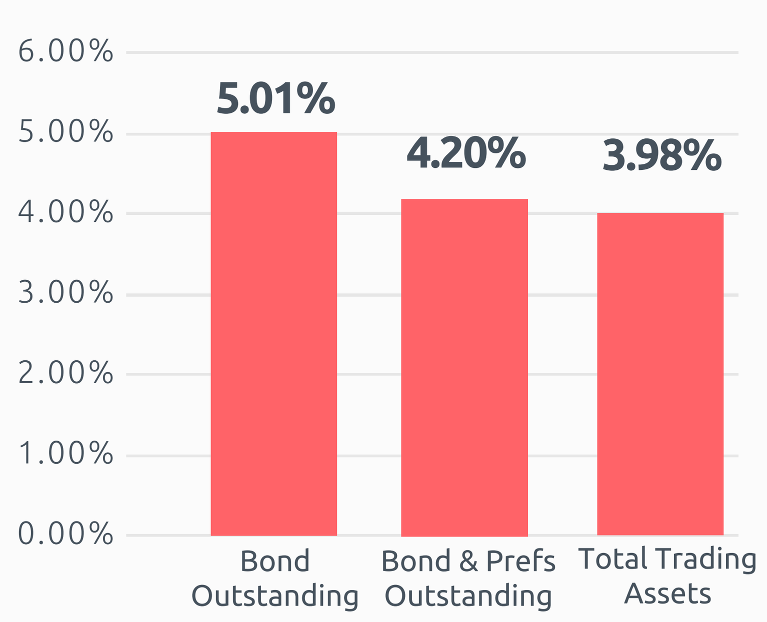
Hi, everyone,

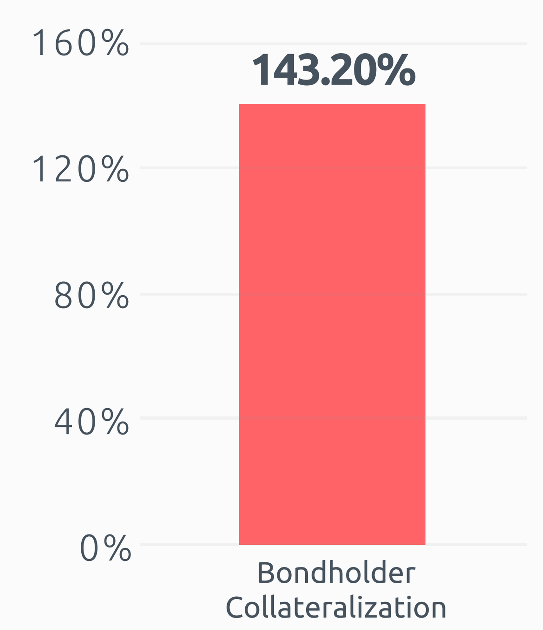
I would first like to report that February was another excellent month. In the "Performance Explained" section, I will talk about where we made our money. The following metrics charts provide a quantitative demonstration of our February trading performance. For those who are interested, Elixir's historical performance metrics since inception (a 31-month track record) appear in an appendix at the end of this newsletter.

FEB 2020 TRADING PERFORMANCE

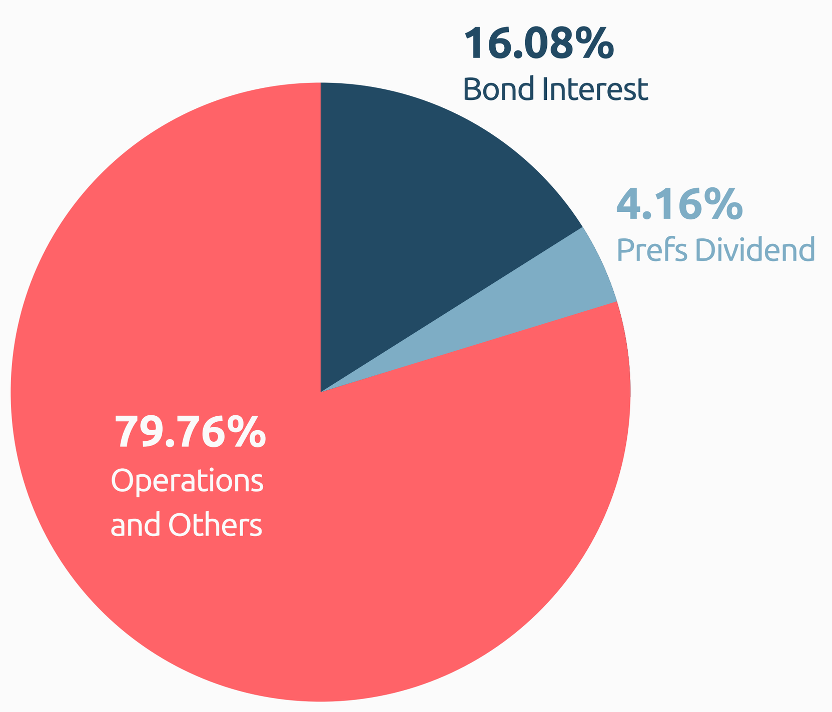
Trading realized gain as a percentage at the beginning of the month



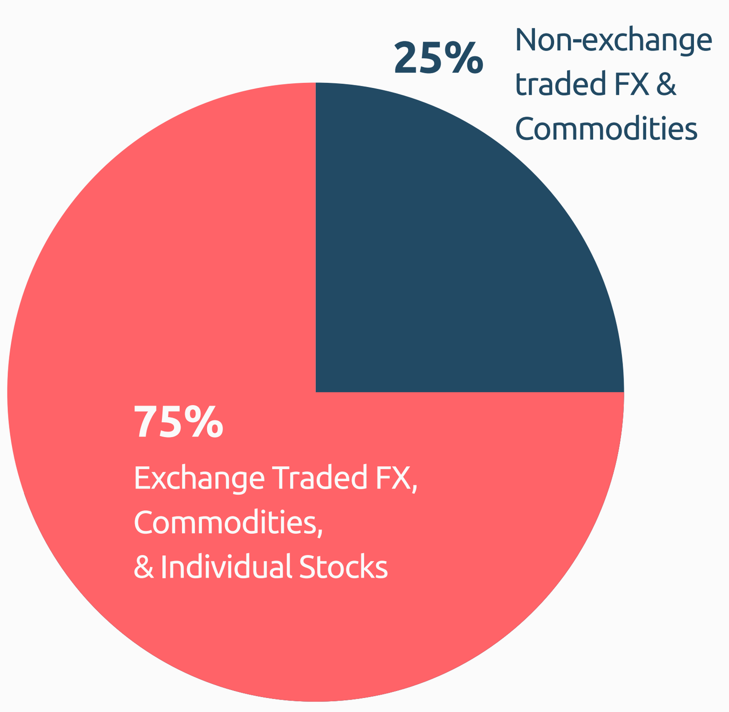
FEB 2020 BONDHOLDER COLLATERALIZATION



FEB 2020 REVENUE ALLOCATION



FEB 2020 TRADING PERFORMANCE BY INVESTMENT

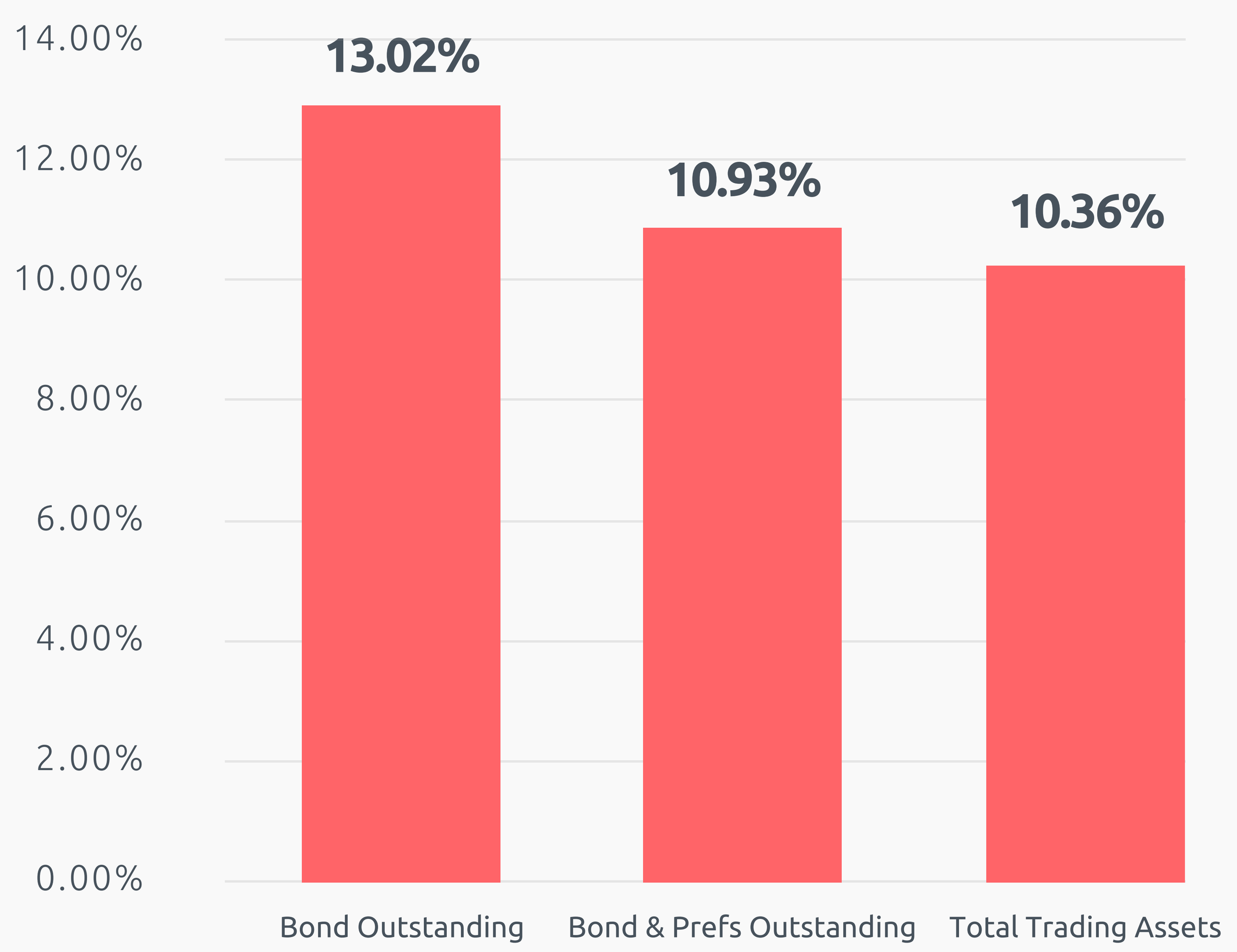


As you are aware, the market has been on an irrational one-way down since the last week of February. The severity is a lot worse than most people (including me) anticipated. While most (including me) expected a bounce at the beginning of March, this did not happen. In fact, things got a lot worse. I want to start this update by stating that in my 25-year career as an investment analyst, I have never seen the capital market being this mad. In some ways, what we experienced on Monday, March 9, 2020 and Thursday, March 12, 2020 were already worse than what took place in 2008. In the "Market Observation" section, I will share some insights to put this craziness into perspective.

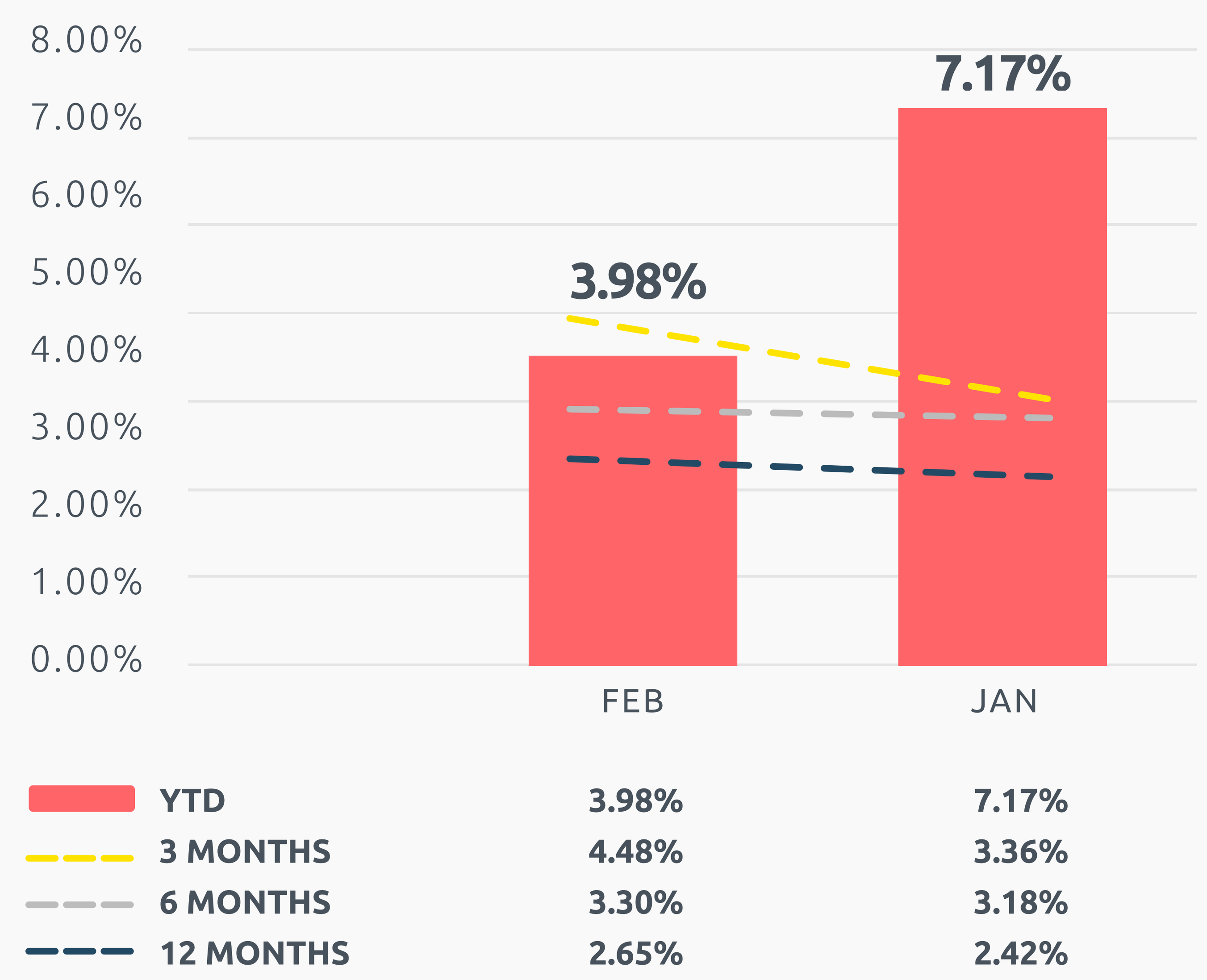
It was only a month ago that we were complaining about the lack of volatility in the market. We are certainly looking forward to a strong "up-and-down" trading environment in 2020. At this time, we are cautioning everyone that, even with the best plans, March 2020 could be our first down month. The trajectory for the year is still positive, as more up-and-down movements are expected to be active in a bear market. That said, the path to a great overall 2020 will be a bumpy one. We will perform extremely well in some months; in other months, we will see performances poorer than anything we've encountered in our last 31 months in business.

I want to assure all our investors that we will continue trading with discipline and will strictly follow our trading mandate. We will continue to transparently disclose our monthly performance. However, whether the monthly news is positive or negative, I would like everyone to start focusing on our performance from a Year-to-Date viewpoint. Beginning with this issue, we will add the following performance charts to our monthly reporting, so that our investors can stay informed about where we are on an annual basis and how our monthly performance compares to the 3-, 6-, and 12-month rolling averages.

YTD 2020 TRADING PERFORMANCE



YTD 2020 TRADING PERFORMANCE (ON TRADING ASSETS) COMPARED TO ROLLING AVERAGE



In addition to our regular updates, in this newsletter I include a feature educational article about Bob Farrell's "Ten Observations on the Capital Market." We will include an important rate change announcement at the end.

I hope you find this newsletter insightful. Please reach out anytime.

Sincerely,

Bill

William McNarland, CFA

Elixir Technology Inc.

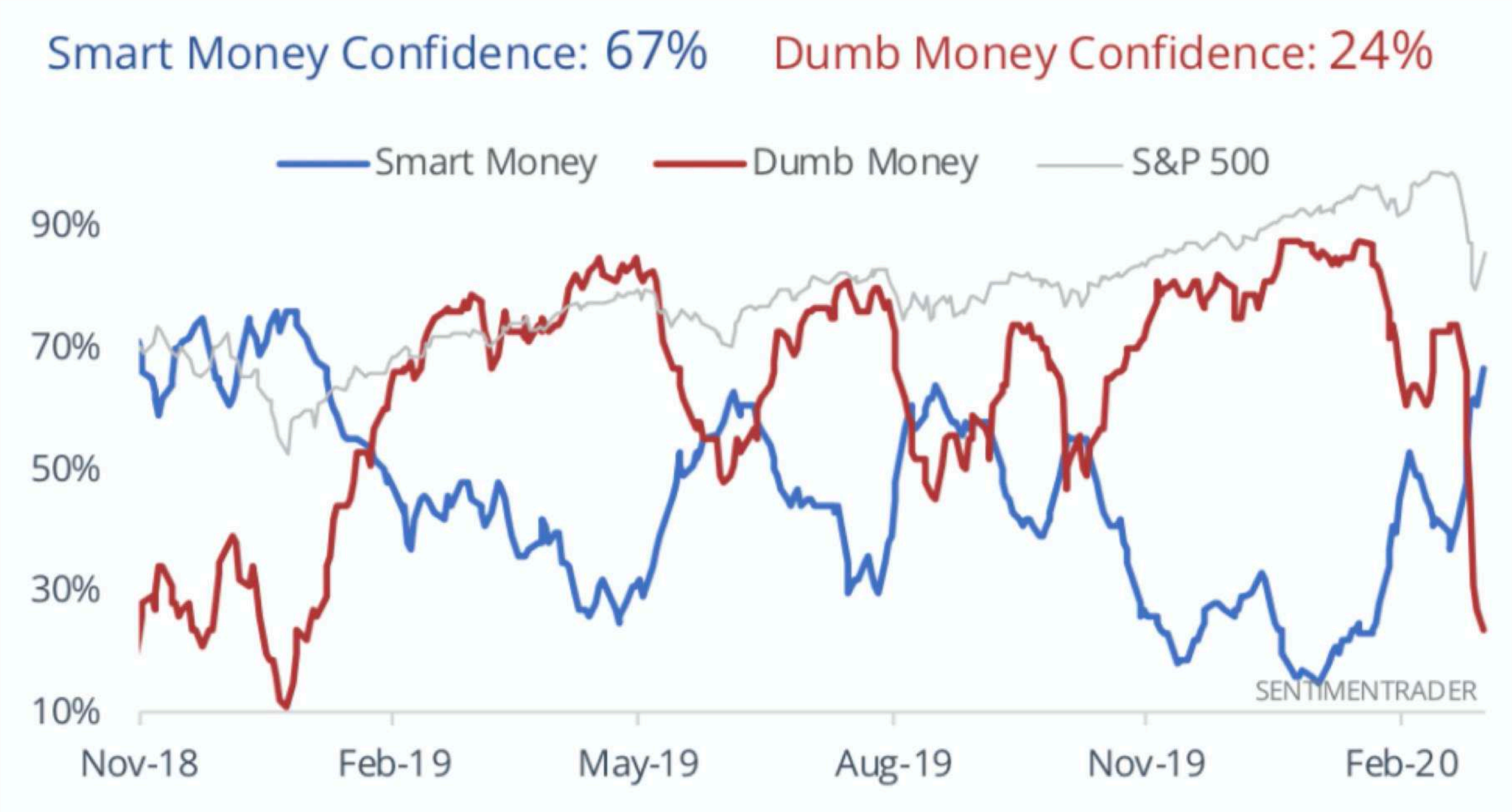
Chairman of the Board

In February, our above-expectation trading performance came mainly from selling off our portfolio insurance positions and trading natural gas.

First, volatility picked up in February. According to the VIX index, the volatility level was at 19.63, which was finally on par with its 20-year average of 19.61. During the last week of February, investors shifted from being extremely overconfident to being extremely fearful. The following chart, from the Sentiment Trader, demonstrates how quickly this shift took place. The shift allowed us to sell off our portfolio insurance for a substantial profit during the first half of the month.

It's worth mentioning that the gain from this trade is not as significant as what we experienced in January. The reason is that, at the time, we were not confident that fear would continue to build over the weekend. Therefore, we exited our position on a Thursday instead of holding it through the weekend.

We also profited from the extremely-high-level daily fluctuations in the natural gas market. On average, the price of natural gas changed by 1.98% a day in both directions, which is perfect for trading. On a small scale, we also took advantage of the 1.53% average daily fluctuations in the sugar market.



I want to begin this section by listing some new records that were broken in the capital market on March 9, 2020. Subsequently, I will share some additional observations that caught my attention.

- Oil went down 35% at the most extreme point of the day. During the first war between the U.S. and Iraq, oil experienced its most significant one-day drop ever on January 17, 1991. On that day, the price of oil fell by 33%. Surprisingly, in 2008, the worst day for oil was September 23, when oil fell by only 11.83%.

- The U.S. 30-Year-Bond yield dropped 9.96% on this day. The previous record was an 8.16% drop, which happened on December 16, 2008. That 2008 drop had beaten the previous record drop of 7.92%, which took place during the stock market crash of October 21, 1987. On December 18, 2008, people were so fearful that they were willing to buy U.S. 30-Year-Bonds with a yield of only 2.51%. I thought that was crazy. On March 9, 2020, people were buying it at a yield of 1.03%!

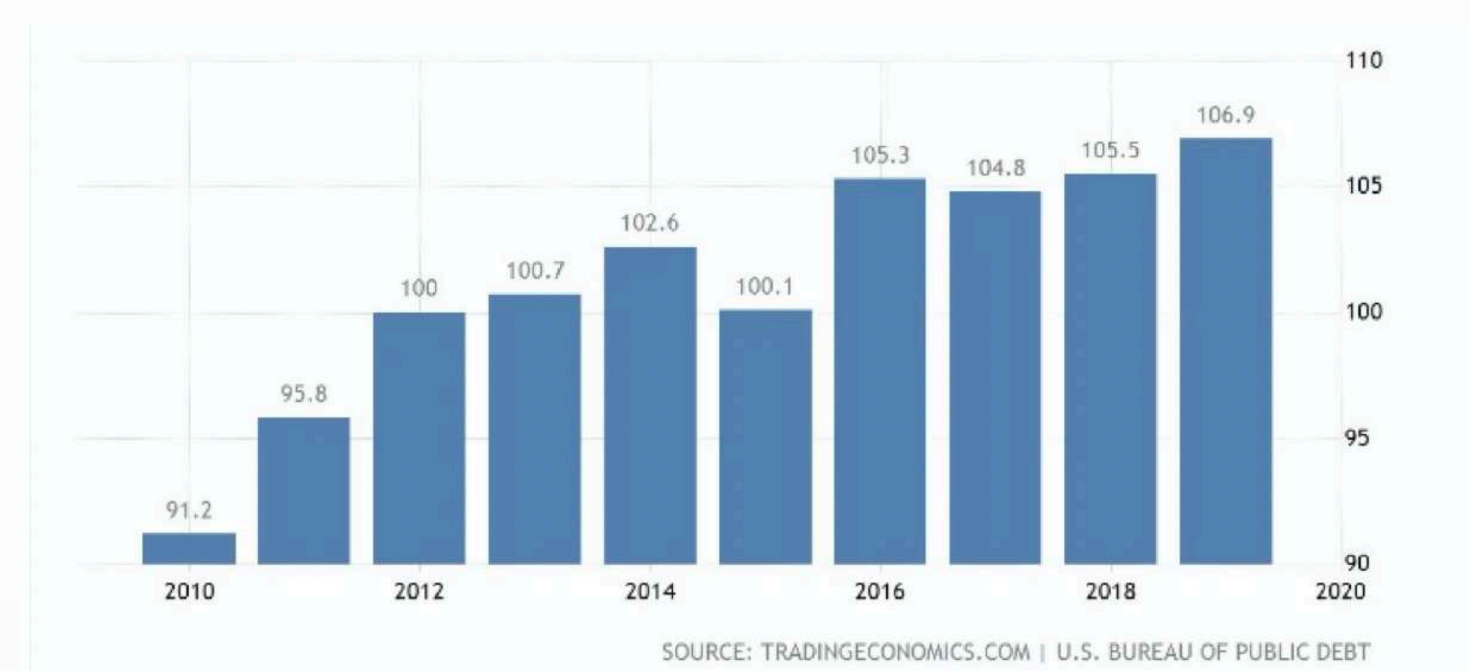
- The energy stocks index fell by 36.87% on this day. Preciously, energy stocks, as measured by the S&P Oil & Gas Exploration & Production Index, had experienced their worst day on October 15, 2008, which saw a loss of 17.96%. In 2008, large blue-chip energy companies such as Ovintiv (formerly known as Encana) experienced wild swings but remained within expectations. On November 20, 2008, Ovintiv had a one-day loss of 16.16%. On March 9, 2020, the stock lost 72.04% of its value.

Additional Observations

1 IS IT TRUE THAT THE COVID-19 OUTBREAK CAUSED THE MARKET TO CRASH?

It seems to be a common belief that the COVID-19 outbreak caused the severe selloff in the global capital market since the last week of February. In my view, holding the virus entirely responsible is a stretch. I believe that the sharp market correction is already overdue owing to the extreme level of leverage and reduced liquidity in the marketplace. The negative impact that the COVID-19 virus has had on China and the world's economy is merely a catalyst.

In the August 2018 newsletter (page 8), I first voiced my concerns about the extreme leverage and a shortage of real assets in the global financial system. Twenty months later, the situation has gotten a lot worse. One indicator out of many is the U.S. Debt-to-GDP ratio. The following graph shows that the U.S. Debt-to-GDP ratio has grown from 105.5 at the end of 2018 to 106.9 at the end of 2019. It is unsustainable for a country's debt to continue rising above its economic output. Companies and individuals are heavily leveraged to the point that it is almost impossible to withstand any calamity at this high level of leverage, forcing investors to sell-off.



Actual	Previous	Highest	Lowest	Dates	Unit	Frequency
106.90	105.50	118.90	31.80	1940 - 2019	percent	Yearly

In our January 2020 newsletter (page 4), I commented on the topic of market liquidity. In that issue, I warned that we would soon see some turbulence in the market because the U.S. Federal Reserve had decided to pull the liquidity support out of the repo market in April. The market reacted much more negatively and much faster than it did the last time the Fed decided to stop its support, back in 2008. As you can see in the following chart, the Fed has been swiftly adding short-term liquidity back to the market.

China has been facing a tremendous challenge since the COVID-19 outbreak began. However, it seems to be rebounding fast. We will be closely monitoring the effect the virus has on the GDP in China and globally. We are cautious and do not have a conclusive opinion at this time.

2 EVEN WARREN BUFFETT DIDN'T ANTICIPATE HOW BEAT-UP THE ENERGY MARKET WOULD BECOME.

On April 30, 2019, Warren Buffett's Berkshire Hathaway invested 10 billion USD in Occidental Petroleum. This investment included a combination of preferred shares, options, and common shares. At the time, the price was $62 per share. Buffett is a well-known investor due to his belief in the "value investing" philosophy. This means that when he bought Occidental, he believed that Occidental was a great company and that $62 per share was a great deal. At Elixir, we started slowly purchasing the same company at $38 per share (about 40% less than Berkshire Hathaway's purchase price).

On March 9, 2020, Occidental Petroleum's share price went down to $12.04 per share. The truth is, nothing changed internally with Occidental since Buffett—and we—bought it. The only material change was that the oil price declined sharply. The positive news is that we don't mind owning and holding a company like Occidental. While we wait for the energy market to stabilize, we will collect a dividend. The daily fluctuations in Occidental's stock price have been remarkable. These volatile movements are allowing us to buy on the falling days and take some small profits on the up days.

3 IT WASN'T JUST THE ENERGY MARKET; ALL ASSETS WENT DOWN.

There is no place to hide from the extreme one-way downdrafts. We put together the following chart to show how much various asset classes have fallen. Here is something interesting to contemplate: There have been no material changes in sugar consumption, yet the price of the commodity has fallen significantly. Why? Well, we don't know for sure, but a good educated guess would be leverage-driven forced liquidation.

Asset Performance (Price per unit)	20-Feb-20	09–Mar-20	12-Mar-20	Change
Crude Oil	$53.78	$31.13	$30.78	-42.77%
S&P 500	$339.00	$273.00	$248.11	-26.81%
Platinum	$1,010.00	$860.00	$762.24	-24.53%
Palladium	$2,595.80	$2,399.00	$1,770.00	-31.81%
Natural Gas	$1.96	$1.67	$1.82	-7.14%
Wheat	$5.67	$5.05	$5.06	-10.76%
Silver	$18.44	$16.57	$15.68	-14.97%
Copper	$2.60	$2.47	$2.44	-6.33%
Sugar	$0.16	$0.12	$0.12	-25.86%
Corn	$3.82	$3.68	$3.66	-4.25%
Soybeans	$8.98	$8.67	$8.59	-4.32%
Cotton	$0.69	$0.61	$0.60	-13.97%
Gold	$1,626.00	$1,658.00	$1,577.50	-2.98%
XOP	$19.20	$8.15	$8.24	-57.08%
AUD/USD	$0.6684	$0.6614	$0.6479	-3.07%
NZD/USD	$0.6390	$0.6329	$0.6264	-1.97%
GBP/USD	$1.2928	$1.3099	$1.2818	-0.85%
MXN/USD	$0.0539	$0.0475	$0.0467	-13.36%

4 U.S. STOCKS ARE VERY EXPENSIVE COMPARED TO WAGES.

During an investor meeting on March 10, I was asked about whether now is the right time to buy stocks, since we went through this sharp drop. While it's a good time for trading stocks and selling into market upswings, in my view, it isn't the right time to buy stocks to hold onto for the next decade.

For general investors, one good way to understand stock price is to look at buying power vs. stock price. The following chart shows how many weeks an average U.S. citizen would have to work to purchase one unit of the S&P 500. Please note, we quoted this chart in February. On a large scale, going back 50 years of data, the ratio has only fallen a small amount as of the time of this writing.

CHART 10: S&P 500 Relative to Average Weekly Earnings
United States (ratio)

Shaded regions represent periods of U.S. recession
Source: Haver Analytics, Rosenberg Research

The rule of thumb is that if it takes less than one week, it's a good time to get into the market. At the current valuation, it takes over four weeks for the average U.S. citizen to earn the money to buy a unit of the S&P 500. This is the first time that stocks have been this outrageously priced as compared to the wage growth of the average U.S. citizen.

FEATURE ARTICLE

Lesson from Bob Farrell

One economist I pay attention to is David Rosenberg. He predicted that the U.S. housing and credit bubble would cause a financial meltdown in 2008. Rosenberg often quotes Bob Farrell. Farrell was the Chief Market Strategist at Merrill Lynch from 1967 to 1992. During that time, he experienced the go-go markets of the late 1960s, the brutal bear market of 1973-1974, and the October crash of 1987. Farrell was a fundamental analyst by training and completed the same program that Warren Buffett took under the tutelage of Benjamin Graham at Columbia Business School. Throughout his career, he switched from being focused solely on fundamental analysis (Warren Buffett) to being more focused on technical analysis (Larry Williams). My journey with the two methods of evaluating securities has been quite like Farrell's. After 25 years of navigating the market, Bob Farrell shared his top 10 observations about the capital markets. I want to pass on his knowledge (with my commentary) to our readers and investors because these 10 rules are very similar to our views. That said, at Elixir, we do not blindly follow the wisdom of any one individual. We choose bits and pieces from many wise individuals. In a future newsletter, I plan to highlight some of the wisdom we have learned from various experts.

1. ALL MARKETS RETURN TO THE MEAN OVER TIME.

Eventually, prices always come back to the middle. This rule is especially true for asset classes that are driven by real supply and demand, such as commodities and inflation-adjusted currencies.

2. EXCESS IN ONE DIRECTION WILL LEAD TO THE OPPOSITE EXCESS IN THE OTHER DIRECTION.

This rule is one of the critical investment philosophies of George Soros. When correction happens, the market often overshoots in the other direction.

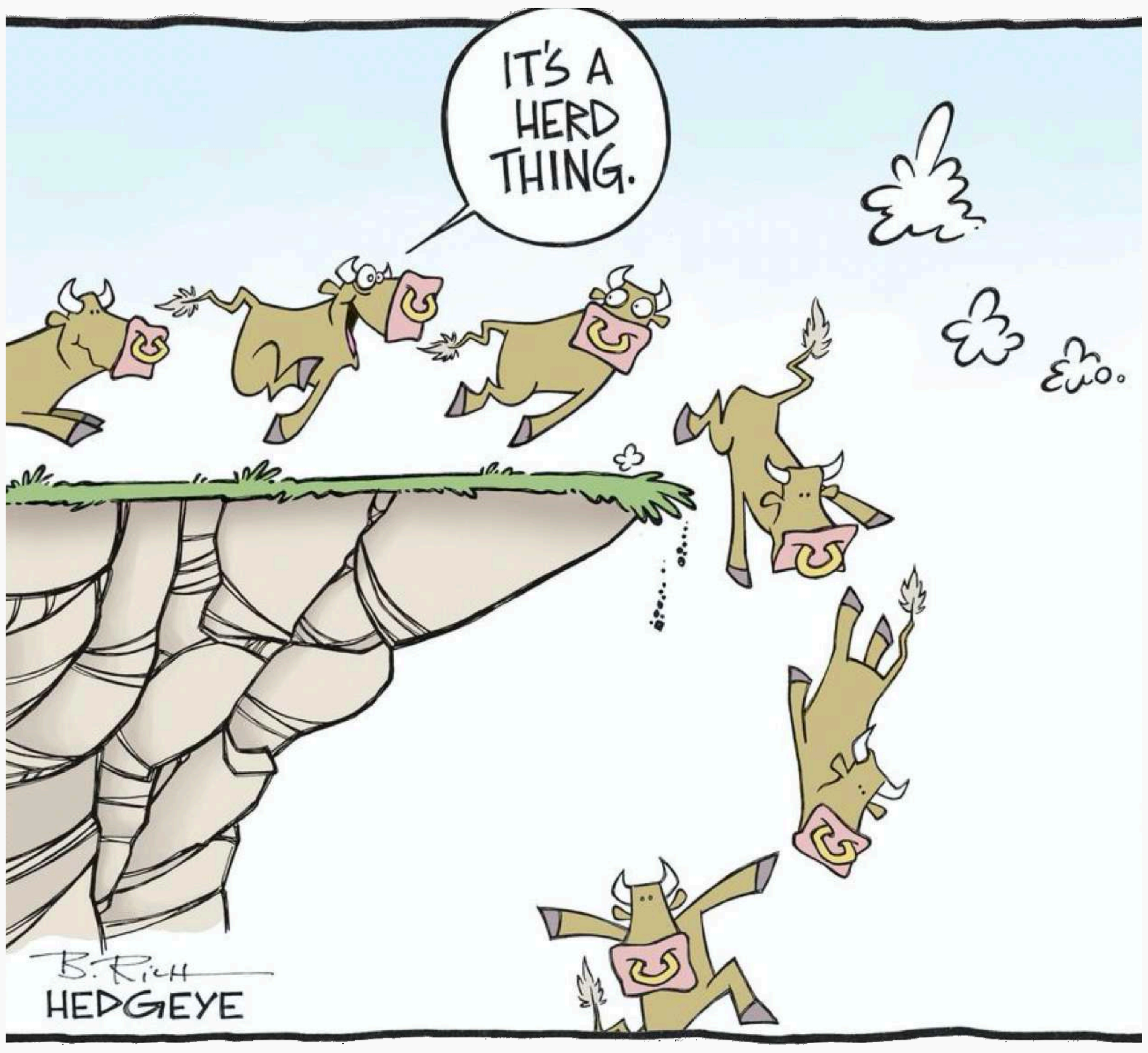
3. THERE ARE NO NEW ERAS – EXCESSES ARE NEVER PERMANENT.

"This time is different" is the most dangerous phrase in investing. We saw that investors poured capital into new technologies such as space travel (Virgin Galactic) and electric cars (Tesla). To us, these are fads and the bubbles will eventually burst. "Inventions that change the way we live" has been a common theme throughout history. Think about when we first encountered computers, cars, radios, trains, electric power, and biotech.

4. EXPONENTIAL RAPIDLY RISING OR FALLING MARKETS USUALLY GO FURTHER THAN YOU THINK, BUT THEY DO NOT CORRECT BY GOING SIDEWAYS.

Even if something seems cheap, invest only a little bit. You will need the capital to buy more if it keeps getting cheaper.

5. THE PUBLIC BUYS THE MOST AT THE TOP AND THE LEAST AT THE BOTTOM.



6. FEAR AND GREED ARE STRONGER THAN LONG-TERM RESOLVE.

It is impossible to eliminate the emotions of fear and greed when investing. As a solution, we trade based on our algorithm and execute using machines.

7. MARKETS ARE STRONGEST WHEN THEY ARE BROAD AND WEAKEST WHEN THEY NARROW TO A HANDFUL OF BLUE-CHIP NAMES.

When only a few companies are going up, the market is considered unhealthy. For example, if only Amazon, Facebook, Google, and Tesla are going up, the market may soon fall apart. At Elixir, we pay for a data service that dives deeply into this daily. The report warns us when only large companies are experiencing increases in share price, which helps us identify market turnarounds. We are considering ways to include this in our next round of algorithm updates.

8. BEAR MARKETS HAVE THREE STAGES – SHARP DOWN, REFLEXIVE REBOUND AND A DRAWN-OUT FUNDAMENTAL DOWNTREND.

After the first significant drop in a bear market, there will be a rally that investors often buy into significantly. However, to find the bottom, it is better to wait until the second dip. At Elixir, our algorithms take profits quickly so that we will profit from both falls.

9. WHEN ALL EXPERTS AND FORECASTS AGREE – SOMETHING ELSE IS GOING TO HAPPEN.

Typically, when experts reach a consensus, prices turn in the opposite direction. The reason is that when everyone thinks something is a buy, eventually no one else will be left to buy. As a result, the price will head in the other direction.

10. BULL MARKETS ARE MUCH MORE FUN THAN BEAR MARKETS.

A bear market typically has more volatility. At Elixir, we make more money in a volatile market. Therefore, I'm afraid I have to disagree with him on this point.

At the March 5 board meeting, the board approved:

- The issuance of a maximum of 5% of current outstanding Class A Common shares at $80 per share, effective June 1, 2020.
- The issuance of a maximum of $20,000,000 bonds at $1 per unit at the following rates and terms, effective June 1, 2020.

BOND TERM as of June 1, 2020	
Class A Redeemable Bond	5%
Class B 1 Year Bond	7%
Class C 2 Year Bond	8%
Class D 3 Year Bond	9%
Class E 4 Year Bond	10%
Class F 5 Year Bond	11%

- The extension of preferred shares at current rates to May 15, 2020. It also approved the issuance of a maximum of 20,000,000 preferred shares at $1 per unit at the following rates and terms, effective June 1, 2020.

PREFERED SHARES as of June 1, 2020	
Class A 1 Year Preferred Share	7.00%
Class B 2 Year Preferred Share	8.00%
Class C 3 Year Preferred Share	9.00%
Class D 4 Year Preferred Share	10.00%
Class E 5 Year Preferred Share	11.00%

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		Non-exchange traded FX & Commodities	Exchange Traded FX, Commodities, & Individual Stocks
20-FEB	5.01%	4.20%	3.98%	16.08%	4.16%	79.76%	143.20%	25%	75%
20-JAN	8.37%	7.21%	7.17%	9.56%	2.26%	88.19%	141.32%	11%	89%
19-DEC	2.83%	2.37%	2.29%	32.35%	8.07%	60.00%	122.92%	0%	100%
19-NOV	0.78%	0.64%	0.61%	100%	0.00%	0.00%	119.91%	4%	96%
19-OCT	3.56%	2.92%	2.81%	22.13%	7.21%	71%	134.27%	13%	87%
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%	