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Elixir News

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

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Hi, everyone.

I hope that you are all keeping warm. I am writing this newsletter from Cochrane, Alberta, where I have seen the coldest day I have ever remembered. That says a lot, as I grew up in Winnipeg! I have never seen a wind warning below -50 degrees. 2021 is proving to have some "firsts" for everything!

Cochrane, AB

Cochrane,AB ▶ Alerts in Effect

ALERTS IN EFFECT

Extreme Cold Warning

Issued at 04:35 Tuesday 09 February 2021

Extremely cold wind chill values between minus 40 and minus 55 continue.

This prolonged cold snap is expected to persist into the weekend for many areas of Alberta. There will be some moderation in temperature at times, typically during daylight hours.

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Watch for cold related symptoms: shortness of breath, chest pain, muscle pain and weakness, numbness and colour change in fingers and toes.

Extreme cold warnings are issued when very cold temperatures or wind chill creates an elevated risk to health such as frost bite and hypothermia.

Unfortunately, I have some sad news to share. Elixir has lost a friend and supporter: Jason Priest, who was a portfolio manager in Toronto and a lifelong friend of mine. He helped Elixir by providing consulting work on the algorithm and regulatory planning. Jason was unpaid; he simply wanted to help. The world has lost a great person, and the capital markets have lost a great analyst.

This month, our newsletter is a bit abbreviated, as we have been taking some time to reflect on the loss. The newsletter contains a short market summary and a feature article about the social media investing frenzy regarding GameStop.

Warmest regards,
Bill and Eve McNarland
Elixir Technology Inc.
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For the first time in a year, the capital markets did what they were supposed to do. Asset classes did not go up and down in tandem. There was a diversification benefit; this was very different from the theme of everything going up in 2020. This return to normalcy is excellent news. As you can see in the chart below, no pattern or theme prevailed; this provides perfect hedging and diversification opportunities. Based on January's market conditions, we look forward to a strong year in 2021.

Performance - January 2021	
DJIA	-1.96%
S&P 500	-1.02%
NASDAQ	0.26%
Russel Small Cap	4.85%
US Long Bonds	-3.63%
Gold	-3.22%
Silver	1.71%
Oil	6.57%
Natural Gas	2.28%
Soybeans	4.37%
Corn	8.34%
Coffee	-3.85%
Sugar	2.37%
USD/CAD	0.37%

However, there is still extreme speculation in the capital markets, pushing up prices in many asset classes. Here are some examples:

Corn

There is limited speculation each winter on the summer's supply and demand for agriculture. This year, the corn market is seeing rampant speculation indicating a possible strong demand from China and weak Russian production. This speculation has pushed up the price of corn by over 90% in four months. There is nothing unusual about this winter period; rumours about the next year's production and supply forecasts are typical. However, this year is uncommon in that the rumours have caused such a price increase. This demonstrates that, as with stocks, the enthusiasm of speculative investors has reached the agricultural market.

S&P 500 Call Options

The following chart from one of our analysts at Sentiment Trader notes that when call option activity by retail investors is at an extreme high (which is marked in red), the stock market falls in value. Notice that the chart at the bottom has gone absolute parabolic. This shows that when the stock market does finally drop, it will fall hard.

Technology Companies Without Earnings

Technology companies with no earnings have been very popular. The following chart from our analysts at Elliot Wave International shows that the average technology company without earnings has increased by over 400% since the fall. Nothing changed with these companies except for rampant speculation by investors. It can come down just as fast as it went up.

As we mentioned in our outlook for 2021, the insane speculation and price increase may continue for some months; however, a significant drop could happen at any time.

Feature Article: **FAQs About GameStop and the Social Media Investment Craze**

This article shares the responses to the Frequently Asked Questions I have received from our supporters and board of directors regarding the influence of social media-fueled investments like GameStop. This subject has received a lot of media attention, and I thought it would be a good idea to provide some insight and clarifications. At the end of the article, I include two points indicating how we can learn from this situation.

HERE IS A SUMMARY OF WHAT HAPPENED AND A CONSIDERATION OF THE CURRENT POPULAR NARRATIVES.

1 The capital markets have seen various "Pump and Dump" schemes and "Short Squeezes."

A. A "Pump and Dump"[1] scheme is when investors or companies try to organize buyers in low-volume companies to purchase in a short period to create excitement. The organized effort is often combined with the release of news or rumours to add to the excitement. New, unrelated buyers experience a "Fear of Missing Out" and purchase shares. The original buyers often sell for a profit to the new buyers. After the buying pressure runs out, the stock collapses in price.

B. A "Short Squeeze"[2] occurs when short investors are forced out of a heavily shorted stock. As a stock goes up, short-sellers have margin calls and are forced to buy back the company's shares, adding to the increased price. In small-volume stocks, the effect is magnified, and price increases can be 5X to 10X in short periods. One of the most famous "Short Squeezes" took place in 2008, when Volkswagen became the most valuable company in the world despite its being at the risk of bankruptcy.

The following chart shows the extreme price action in Volkswagen stock in 2008.

C. Since our last newsletter, a few companies—most notably, GameStop, American Airlines, and AMC Theatres—experienced a "Short Squeeze." However, this newsletter article focuses solely on GameStop, as it was a fascinating story combining a "Pump and Dump" and a "Short Squeeze."

2 In our view, the popular narrative of the GameStop saga is false.

A. The popular narrative is that small investors (millennials) could use social media to take down large hedge funds and control Wall Street. This happened by organizing trading strategies and sharing research on social media. The situation has changed everything, as the little guy has replaced the old suits. The only thing preventing them from assuming full control was that the famous brokerage house Robinhood started to restrict their trading. Robinhood may have had all kinds of motivations to go against its core customers.

- **B.** The truth, however, was that this was a classic "Pump and Dump" and "Short Squeeze." It was more extreme than usual, as many small retail investors joined due to the quick buildup of excitement on social media. The promotors on social media were not little guys; rather, they were experienced, middle-aged men. The real winners and losers were hedge funds and pensions, as well as the many retail investors that made or lost thousands of dollars along the way. Robinhood, the popular securities brokerage, had to stop trading to small investors due to capital and securities requirements.

HERE ARE SOME OF THE REASONS WHY WE ARE CONFIDENT THAT THE POPULAR NARRATIVE IS FALSE.

1 The creator of r/WallStreetBets is not a "little guy."

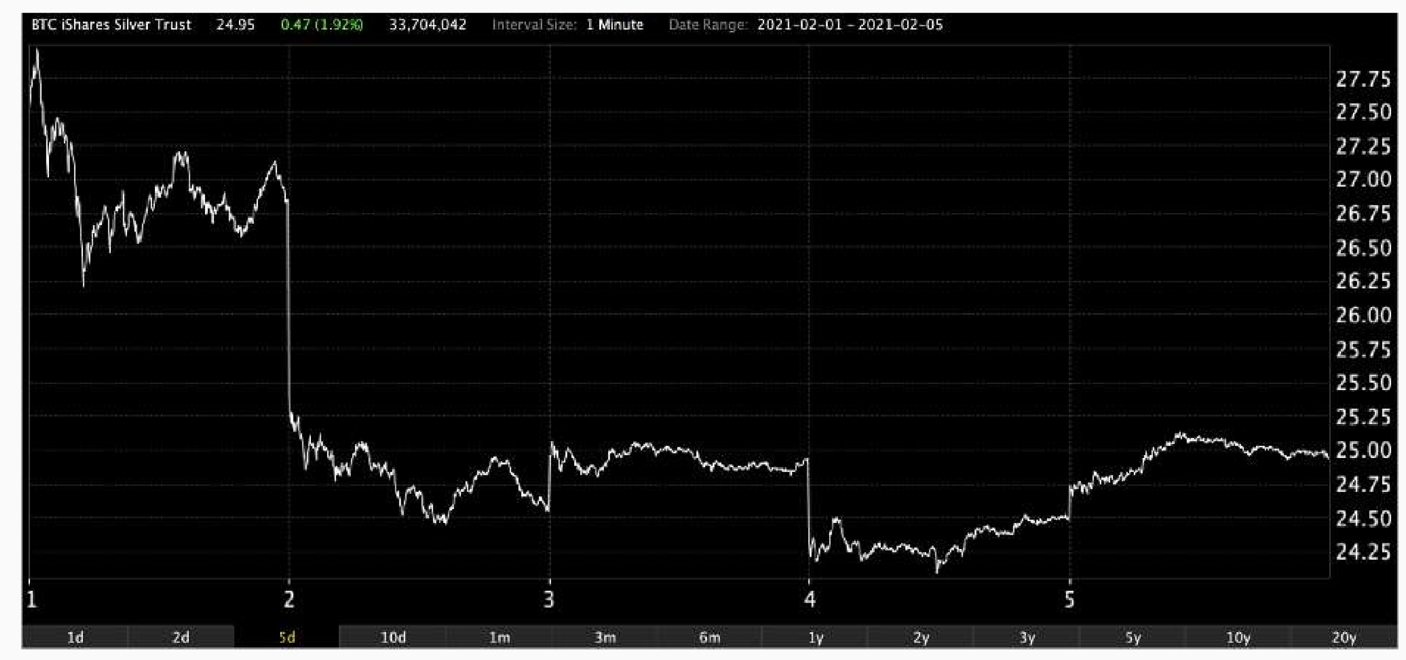
- WallStreetBets was created by Jamie Rogozinski, age 39, who does not seem like a "little guy" based on my research. It was easy to learn about him, as he wrote a popular book about creating WallStreetBets and summarizing all the craziness that has happened since he started the subreddit in 2012 [3]. Jamie lived in Mexico City, in an apartment with his physician wife, but has now moved to a gated home with his family for safety reasons [4]. He has since sold the movie rights to his life story to RatPac Entertainment.

2 The promotor of GameStop on r/WallStreetBets is not a "little guy."

- **1.** The promotor of the GameStop trade was known as "RoaringKitty" and "Deep#$@&%!Value". His name is Keith Gill.
- **2.** Gill is a 34-year-old Chartered Financial Analyst who worked in a marketing position at Mass Mutual. In his spare time, he started a YouTube channel and posted on Reddit about his thesis on GameStop shares and his love for Belgian beers. He is now reportedly under investigation, as regulars are looking at conflicts between his job at Mass Mutual and his online activities [5].
- **3.** The Wall Street Journal and Business Insider verified that Gill put $53K into GameStop, and at one point, it was worth $48 million. It was verified that he still had $22 million in shares at the last check and has decided to remove himself from the spotlight.
- **4.** We do not know if he currently holds the stock.

3 The large winners and losers in the GameStop craze were hedge funds and other large investors.

- **1.** Only people who completed cash-out made or lost on the trade. Overall, in the last two weeks, those who held GameStop did not make or lose capital. The following chart shows that GameStop was $60 a share two weeks ago and now it is $60 a share.



- **2.** The largest winners and losers related directly to GameStop were hedge funds:

  a. Hedge fund Senvest Management made $700 million. They are value investors that purchase significantly out-of-favour companies. They had no idea this would happen but managed to sell near the top at $400 / share [6].

  b. Melvin Capital lost USD 5 billion and was the largest loser by far [7].

  c. Maplelane Capital lost USD 1.58 billion.

  d. Keith Gill, the promotor, has not disclosed whether he sold. However, as referenced above, he could book a profit as high as $48 million.

- **3.** Other large institutions and companies benefited indirectly from the short-term craze in unpopular stocks.

  a. Ontario Teachers' pension plan unloaded $500 million of Macerich Co., an owner of malls in California, after its price increased 8X from its 52-week low [8].

  b. AMC, the US movie theatre company, raised $304 million in equity as its stock went up.

  c. American Airlines announced a $1.1 billion equity increase whose details will become known after their next reporting period [9].

- **4.** It appears from our initial analysis that:

  a. Many shareholders are still holding GameStop and are likely at a loss if they purchased in the last two weeks.

  b. As usual, the big winners and losers were hedge funds and companies.

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c. Some retail investors would have made money and some would have lost money, just like a typical day in the capital markets.

5. The often-referred-to "little guy" does not typically own stocks. Over 40% of Americans do not hold stocks or follow the capital markets [10].

4 Small groups of retail investors cannot control the prices of higher-volume stocks and commodities.

1. On Sunday, January 31st, many in the r/WallStreetBets community became focused on the potential of profiting from a Short Squeeze in the Silver market. They lined up to make many Silver purchases at the open market on Monday morning, February 1st, 2021. As you can see in the one-week chart for Silver, below, they were able to control the price of Silver for about 10 minutes. After that, Silver dropped and ended the week and month down 0.16%. Small retail investments are not able to move prices for long periods.

2. While the popular narrative has concluded that this small community has gained considerable control, we can see that manipulating the Silver market is not possible.

5 Is Robinhood to blame for restricting trading in GameStop?

1. Dave Portney was interviewed by Tucker Carlson on Fox News and expressed his view that the people of Robinhood need to go to jail. He feels that market manipulation and hedge funds are controlling Robinhood's decision to stop trading. This opinion is similar to many people's view that Robinhood had motives or faced pressures to prevent retail investors from taking over Wall Street [11].

2. Clearinghouses and regulators provide capital and margin requirements guidelines that are adjusted during periods of volatility [12] . Margin requirements can change at any time, and you may be restricted from opening new positions in trades exposed to high-volatility events. At Elixir, we use interactive brokers as our primary custodians, as do most hedge funds and portfolio managers. Every day, we notice restrictions on all kinds of companies, ETFs, and stocks that have changing regulations. This is an ordinary course of business; there is no conspiracy or need for anyone to go to jail.

3. Robinhood is not to blame for GameStop's decline in value. Interestingly, when GameStop restrictions were lifted on Friday, February 5th, the price increased by 19% but there was nothing out of the ordinary other than the volatility of the last two weeks. I believe that there is not much new interest in GameStop, and most of the shorts have been closed out. The story is in the past, just like Volkswagen in 2008.

6 **Is this illegal or ethical?** Following are guidelines that regulators will likely investigate and consider:

1. Keith Gill was employed by Mass Mutual, an entity regulated by the SEC in the US. Various rules prevent unsupervised opinions, research disclosure, and trades that are not reviewed by the compliance departments. I believe that the SEC, which has announced an investigation, will have lots of things to consider [13].

2. Keith Gill was a CFA, and a CFA must disclose their position or how they will profit along with their thesis opinion. If he sold out while suggesting that people hold on, that is a significant conflict of interest. As noted above, he has stopped posting on social media, and his holding or position is unknown.

3. If you are not a CFA, licensed person, or public company, you have limited restrictions regarding what you can say on social media about stocks.

7 What can readers of this newsletter learn from this situation?

1. We must always be careful of Short Squeezes. Only quick something that has a large volume and can't be manipulated. We learned a hard lesson in March 2020 when our counterparty, Credit Suisse, could not support their end of an agreement to provide liquidity, and we experienced a Short Squeeze. We are always mindful of how dangerous shorting can be. However, we will continue to do it carefully, as there are very few opportunities that make any current valuation sense to go long on right now.

2. Be careful of taking popular narratives at face value; you should always read multiple views and articles so that you can form your own conclusion.