



Sponsored Content –Direxion Funds

Leveraged Index Mutual Funds Evolve to Meet Market Needs

October 27, 2009

New monthly objectives allow greater manageability of exposure for short- to medium-term tactical strategies.

Leveraged Index Mutual Funds provide magnified (or inverse) exposure to their benchmarks and the ability for investors to navigate changing markets with flexibility. They allow users to pursue a tactical approach to investing, taking advantage of short-term market conditions.

*Until recently, these funds had **daily objectives**, rebalancing their leverage at the end of each trading day in order to match their stated exposure rate. This characteristic made it necessary for investors to monitor them daily in order to both track and manage the exposure rates applied to their investments in the funds.*

*These funds were suited for investors with very short timeframes — in some cases just weeks or days. However, with the advent of daily-leveraged **ETFs**, that are better-suited for the shortest trading timeframes and strategies, as well as the frequent monitoring necessary to manage daily-objective funds, investors have been left looking for tactical tools that are better-suited for the more short- to medium-term timeframes.*

Enter leveraged mutual funds with new monthly objectives.

How Monthly Leveraged Index Funds Are Different

Although Leveraged Index Funds are somewhat similar to non-leveraged mutual funds, there are three key differences that are important for investors to understand:

1. **Leverage:** Each dollar invested provides \$2 of exposure to the performance of the fund's benchmark index, which means 200% of the risk and volatility.
2. **Intra-month exposure levels:** Movement of the benchmark index before purchase will increase or decrease the exposure levels for purchases made during the month—with the exception of the last trading day of the month, when investors will receive true 200% (or 200% of the inverse) exposure.
3. **Monthly investment objectives:** The funds seek to magnify the returns of their benchmarks on a monthly basis. Returns for periods longer than a calendar month are **not** equal to the cumulative return of the benchmark multiplied by the fund.



[Who Are Leveraged Index Funds Intended For?](#)

A Quick Look at How the Funds Work

Each Leveraged Index Fund seeks to provide calendar month-leveraged investment results, before fees and expenses that correspond to the performance of its benchmark.

Bull funds attempt to provide investment results that correlate *positively* to the return of their benchmark. Conversely, **bear funds** attempt to provide performance results that correlate *negatively* to the return of their benchmark. As with any investment, this performance is not guaranteed.

Applying leverage to an index has the potential for greater gains or greater losses relative to the performance of the benchmark index.

Obtaining Exposure

Monthly Leveraged Index Funds generate their requisite 200% (or 200% of the inverse) exposure from equities and/or derivatives, typically in the form of swaps or futures. These derivatives are agreements that provide the ability to gain exposure to respective indexes and sectors without the need for a full dollar-for-dollar investment.

How Leverage Increases Exposure, Returns and Volatility

The use of leverage offers both positive and negative magnification of exposure and returns. This increases the level of volatility associated with Leveraged Index Funds.

For example, a Monthly S&P 500® Bull 2x Fund seeks to achieve a monthly return that is 200% of the price performance of the S&P 500 Index (minus fees and expenses). If \$10,000 is invested in the Fund, then the original investment will receive \$20,000 of exposure to the S&P 500 Index on a monthly basis. However, if the value of the S&P 500 declines by 1%, an investor should expect a loss of 2% on the \$10,000 investment.

Intra-month Purchases: Benchmark Movements Change Exposure Level

Investors who purchase shares of Monthly Leveraged Index Funds on trading days other than the last trading day of the calendar month (the fund's rebalance date) will likely obtain a level of exposure different than 2x or -2x.

An important fact to keep in mind:

When purchased on the last trading day of the calendar month, investors can expect to receive 200% (or 200% of the inverse) exposure to the fund's benchmark index. On any other trading day of the month, if the index has gained or declined, investors should expect to receive a slightly different exposure level, due to market activity.



If the index has moved in a direction that's *favorable* for the fund (i.e., a gain for a bull fund, a decline for a bear fund), an investor's exposure level—and risk—will be lower than 200%.

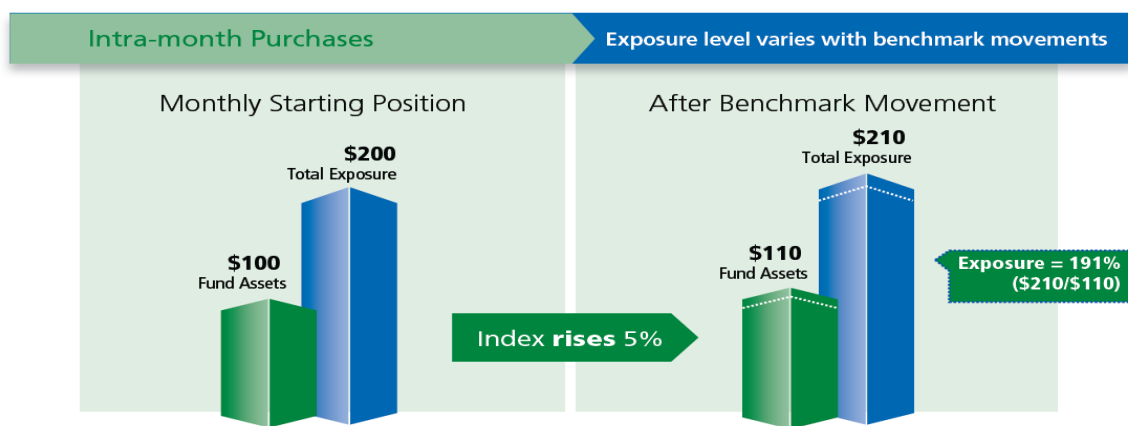
If the index has moved in a direction that's *unfavorable* for the fund (i.e., a decline for a bull fund, or a gain for a bear fund) before purchase, an investor's exposure level—and risk—will be higher than 200%.

Consider the following example of a hypothetical 200% leveraged bull fund with \$100 in assets and \$200 in exposure:

The graphic below shows that the fund's initial position has, as it should, twice the amount of exposure (\$200) as net assets (\$100).

A 5% intra-month benchmark gain (since the last trading day of the previous month, but before the fund is purchased) causes a \$10 increase in both total exposure and net assets. By dividing the new total exposure level of \$210 dollars by the new asset level of \$110, we see that the result is an exposure rate of 191%. So, investors who purchase the fund at this point will receive 191% exposure. While this exposure level is different than the fund's stated monthly goal, investors can identify their exposure level at the time of purchase by using the exposure calculator tools on Direxion Fund's website, www.direxionfunds.com.

Example: Bull Fund in Rising Market



This example does not take into account fund fees and expenses.

Also note that an investment made at this point will maintain its exposure level (in this case, 191%) until they sell the position or until the next fund rebalance, which will take place on the last trading day of the month — whichever event happens first.

Now consider an example of the same fund where the index declines:

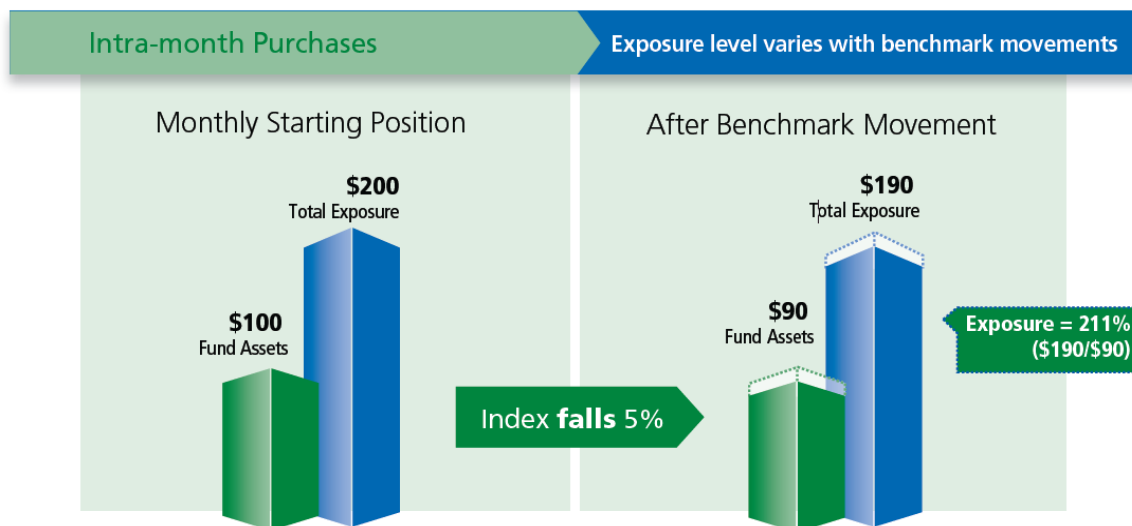
Again, in this example, the initial position offers \$200 worth of exposure and \$100 of net assets (a 2-to-1 ratio).

In this case, a 5% decline in the index (since the last trading day of the previous month, but before the fund is purchased) would cause a decrease in both total exposure and net assets for the fund.

In this example, the new total exposure level (at fund purchase) of \$190 divided by the new asset level of \$90 creates an exposure level of 211% for investors who purchase the fund at this time.

Again, an investment made at this point will maintain its exposure level (211%) until the next fund rebalance on the last trading day of the month, or until they sell the position in the fund — whichever event happens first.

Example: Bull Fund in Falling Market



This example does not take into account fund fees and expenses.



Degree of Variation in Exposure Level

The previous section illustrates how a fund's exposure level will vary with the movement of the fund's benchmark. But investors may wonder how *much* a fund's exposure level can vary during any month.

As shown in the table below, exposure levels won't change substantially, unless the benchmark index has moved significantly. For example, even in the case of an underlying index movement of 10% intra-month, an investor purchasing a 2x bull fund would still receive 183% exposure to the index for the rest of the calendar month.

Index Return	-15%	-10%	-5%	0%	5%	10%	15%
Bull Fund Resulting Exposure	242.86%	225.00%	211.11%	200.00%	190.91%	183.33%	176.92%
Bear Fund Resulting Exposure	-130.77%	-150.00%	-173.73%	-200.00%	-233.33%	-275.00%	-328.57%

Intra-month Exposure Management Tools

No matter when an investor takes a position in any Monthly 2x Leveraged Index Funds, Direxion makes it easy for them to determine the exposure level they can expect to receive.

The [Direxion Funds](#) website provides easy-to-use, real-time tools in order to help investors manage intra-month exposure levels. All tools use data that is updated every few seconds in order to provide real-time exposure levels based on the benchmark index movements.

Current Exposure Level Estimator

The **Current Exposure Level Estimator** allows investors to determine their exposure level for any Direxion Monthly Leveraged Index Fund on any given day.

				Estimated Current Exposure Level
Overview	Performance	NAVs	Distribution	Exposure Levels
Symbol	Fund	Index / Benchmark	Monthly Target	
				196%
				193%
Leveraged Index Funds				191%
Domestic Bull				
DXSLX	Monthly S&P 500® Bull 2x Fund	S&P 500®	200%	-213%
DXQLX	Monthly NASDAQ 100® Bull 2x Fund	NASDAQ 100®	200%	-223%
DXRLX	Monthly Small Cap Bull 2x Fund	Russell 2000®	200%	-233%
Domestic Bear				
DXSSX	Monthly S&P 500® Bear 2x Fund	S&P 500®	-200%	-213%
DXQSX	Monthly NASDAQ 100® Bear 2x Fund	NASDAQ 100®	-200%	-223%
DXRSX	Monthly Small Cap Bear 2x Fund	Russell 2000®	-200%	-233%

Direxion Calculators

Investment Calculator	Exposure Calculator
Determine how much to invest to obtain your desired exposure level.	Determine the exposure level your investment will provide.
Choose fund: <input type="text" value="Select fund name"/> Enter desired exposure: \$ <input type="text" value="10,000"/>	Choose fund: <input type="text" value="Select fund name"/> Enter investment amount: \$ <input type="text" value="10,000"/>
Total Amount to Invest = \$4,878 <input type="button" value="Submit"/>	Total Current Exposure Level = \$20,500 <input type="button" value="Submit"/>

Direxion's Investment Calculator

can help investors determine how much money to invest in order to obtain a desired benchmark exposure level (expressed in dollar terms).

Direxion's Exposure Calculator

can help investors identify the total exposure (in terms of dollars) that a specified amount of principal will generate.

Holding a Fund Through a Rebalance

Monthly Rebalancing for Monthly Objectives

Each month, market fluctuations cause the funds' net asset levels to rise or fall. This results in the need to rebalance each fund at the end of the month—to ensure that its exposure levels are reset to the correct ratio. Rebalancing enables each Direxion Leveraged Index Fund to track as closely as possible to 200%

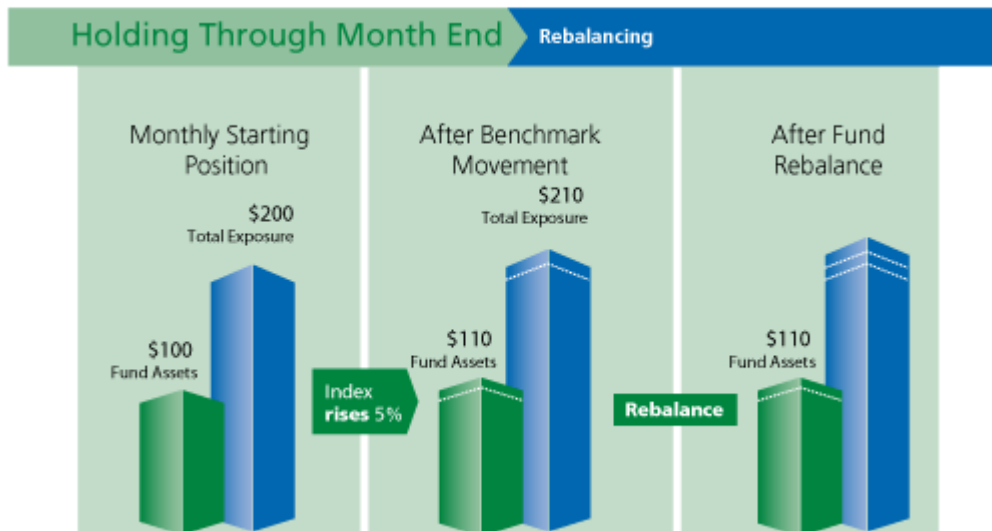
Each Monthly Leveraged Index Fund's exposure is rebalanced on the last trading day of the calendar month.



(or 200% of the inverse) of its benchmark index's performance for the upcoming monthly period.

The Effect of Rebalancing on Positions Held Through Month End

When an investor decides to hold a position in a Leveraged Index Fund through a month-end rebalancing, any gains will be added to the principal. This will *increase* the exposure, and, therefore, the risk of the investment. Conversely, any losses will lower the principal amount. This will *decrease* the exposure and the risk of the investment. Below is a hypothetical example of a **Monthly 2x Bull Fund** after the benchmark has risen by 5%.



Upon rebalance, the 10% (2x) gain would be added to the initial investment of \$100. The new position of \$110 would have an exposure level of \$220—220% of the initial (\$100) investment.

Investors should review the changing exposure levels of their position after each rebalance in order to assess whether or not continued investment in the fund (or maintaining their current investment levels) aligns with their investment objectives.

For more on how to manage monthly rebalancing and intra-month purchases, please refer to [Managing Intra-Month Purchases of Monthly Leveraged Index Funds](#).



Why Monthly Rebalancing Funds?

Monthly Leveraged Index Funds are different from other leveraged funds because they allow users to pursue a tactical approach to investing, with less need for intra-month position adjustments.

Although it is highly recommended that investors actively monitor and manage their investments in any Leveraged Index Fund, the exposure for a monthly rebalancing fund remains constant until month end.

For investors seeking to use leverage to execute short- to medium-term tactical investment maneuvers, Monthly Leveraged Index Funds may provide a more manageable solution.

Summary

Monthly Leveraged Index Funds are powerful investment vehicles for investors who are looking to gain magnified exposure to the markets. This article has provided a general explanation as to how these funds operate, as well as a description of certain risks that must be understood before any investment is made. It is also important to remember that, particularly in volatile markets, these funds must be watched closely to ensure that one's exposure levels are in line with their desired objectives.

An investor should consider the investment objectives, risks, charges, and expenses of the Direxion Funds carefully before investing. The prospectus contains this and other information about Direxion Funds. To obtain a prospectus, please contact Direxion Funds at 800.851.0511. The prospectus should be read carefully before investing.

Investing in index funds may be more volatile than investing in broadly diversified funds. The use of leverage by a mutual fund increases the risk to the fund. The more a fund invests in leveraged instruments, the more the leverage will magnify gains or losses on those investments.

The risks associated with the funds are detailed in the prospectuses, which include Adverse Market Conditions Risk, Adviser's Investment Strategy Risk, Aggressive Investment Techniques Risk, Commodities Risk, Concentration Risk, Counterparty Risk, Credit Risk, Currency Exchange Rate Risk, Debt Instrument Risk, Depositary Receipt Risk, Early Close/Trading Halt Risk, Emerging Markets Risk, Equity Securities Risk, Foreign Securities Risk, Gain Limitation Risk, Geographic Concentration Risk, Interest Rate Risk, Intra-Calendar Month Investment Risk, Inverse Correlation Risk, Leverage Risk, Lower-Quality Debt Securities, Market Risk, Market Timing Activity and High Portfolio Turnover, Monthly Correlation Risk, and Negative Implications of Monthly Goals in Volatile Market.

Date of First Use: September 12, 2009. Distributed by: Rafferty Capital Markets LLC.



www.advisorperspectives.com

For a free subscription to the Advisor Perspectives newsletter, visit:
<http://www.advisorperspectives.com/subscribers/subscribe.php>