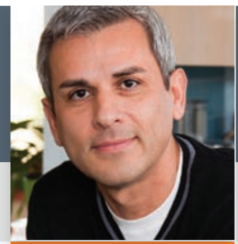
Direxion

ETFs | Funds

The Impact of Changing Market Exposure on Leveraged Index Fund Performance

Know When to Hold ’Em; Know When to Fold ’Em

The aggregate return of an investment over a particular holding period depends, in part, on whether or not an investor decides to expose investment gains from early in the period to investment performance later in the period.



	MARY: INVESTS $100 IN YEAR 1. LEAVES PRINCIPAL INVESTED THROUGH YEAR 5.			TOM: INVESTS $100 IN YEAR 1. WITHDRAWS HIS GAINS EACH YEAR.	
	Return	Principal & Gains		Return	Gains
Year 1	25%	$125	Year 1	25%	$25
Year 2	25%	$156	Year 2	25%	$25
Year 3	25%	$195	Year 3	25%	$25
Year 4	25%	$244	Year 4	25%	$25
Year 5	25%	$305	Year 5	25%	$25
Mary’s Account Balance, Year 5:		**$305**	**Tom’s Account Balance, Year 5:**		**$125**
Mary’s Total Investment Gains:		**$205**	**Tom’s Total Investment Gains:**		**$125**

Consider Mary and Tom, who each placed $100 in an equity investment for five years. Each year, that investment gained 25%. Mary decided not to touch her investment over that time period, whereas Tom withdrew the $25 gain annually.

Because of this, Tom starts each year with his initial $100 investment, while Mary’s investment is benefiting from gains on her gains (commonly known as “compounding”), increasing her balance each year. At the end of year 5, Tom has an account balance of $125, and total investment gains of the same $125. Mary’s final account balance is $305, and her total gains are $205. In favorable markets, a decision like Mary’s may prove wise, but in declining markets, Tom would likely have had better returns because Mary’s gains were exposed to market risk throughout the holding period.

Mary’s portfolio had more market risk during the period because she did nothing, while Tom’s risk remained the same each year. Decisions on how to modify a portfolio in response to gains or losses have an enormous impact on that portfolio over time.

These examples are hypothetical in nature. Past performance does not protect against a loss or ensure a gain.

Leveraged Index Funds

Direxion's Leveraged Index Funds seek to provide monthly returns that are a multiple of the returns of the relevant benchmark. In practice, this means that Leveraged Index Funds react to gains by increasing market exposure and react to losses by decreasing market exposure.

Why? Unlike Tom and Mary, who likely make decisions based on some combination of rational thinking and emotions, a Leveraged Index Fund's exposure is a product of its target magnification and its net assets. Favorable moves in the benchmark push net assets higher, which translates into an increase in exposure by a multiple of the gain in net assets. Conversely, unfavorable moves in the benchmark lead to a decline in net assets, which results in a reduction of exposure in an amount that is a multiple of the decline in the net assets. In essence, Leveraged Index Funds respond to gains by becoming more aggressive, while they respond to losses by becoming more defensive. In markets that are directional, this can be an advantage; in markets that lack direction, this can be a disadvantage.

LEVERAGED INDEX FUNDS KNOW-HOW

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The following scenarios illustrate how a 2x Leveraged Index Fund performs in various market scenarios.

SCENARIO 1: MARKET TRENDS STEADILY

If the benchmark index moves in a direction favorable to the fund (meaning up for a bull fund and down for a bear fund) in a linear trend, the fund's gain for the period may be larger than the cumulative index return multiplied by the fund's stated exposure rate. This is because, as the fund's net assets rise with the favorable market fluctuation, the fund must respond by increasing its exposure to the index, therefore amplifying the impact of subsequent favorable index movements.

Index Value	Index Monthly Return	Index Total Return	Index Total Return x 2.0	2x Bull Fund Monthly Return	Fund NAV	Total Fund Return
100					$20.00	
105	5.00%	5.00%	10.00%	10.00%	$22.00	10.00%
110	4.76%	10.00%	20.00%	9.52%	$24.10	20.48%
115	4.55%	15.00%	30.00%	9.09%	$26.29	31.43%
120	4.35%	20.00%	40.00%	8.70%	$28.57	42.86%
125	4.17%	25.00%	**50.00%**	8.33%	$30.95	**54.76%**

Return Difference: 4.76%

Perhaps surprisingly, if the benchmark index moves in a direction unfavorable to the fund (meaning down for a bull fund and up for a bear fund) in a linear trend, the fund's losses for the period may be smaller than the cumulative index return multiplied by the fund's stated exposure rate. This is because, as the fund's net assets decline with the downward market fluctuation, the fund must respond by decreasing its exposure to the index, which therefore reduces the impact of subsequent unfavorable index movements.

Index Value	Index Monthly Return	Index Total Return	Index Total Return x 2.0	2x Bull Fund Monthly Return	Fund NAV	Total Fund Return
100					$20.00	
95	-5.00%	-5.00%	-10.00%	-10.00%	$18.00	-10.00%
90	-5.26%	-10.00%	-20.00%	-10.53%	$16.11	-19.47%
85	-5.56%	-15.00%	-30.00%	-11.11%	$14.32	-28.42%
80	-5.88%	-20.00%	-40.00%	-11.76%	$12.63	-36.84%
75	-6.25%	-25.00%	**-50.00%**	-12.50%	$11.05	**-44.74%**

Return Difference: 5.26%

No fees and expenses are taken into account in this table.

SCENARIO 2: MARKET IS VOLATILE

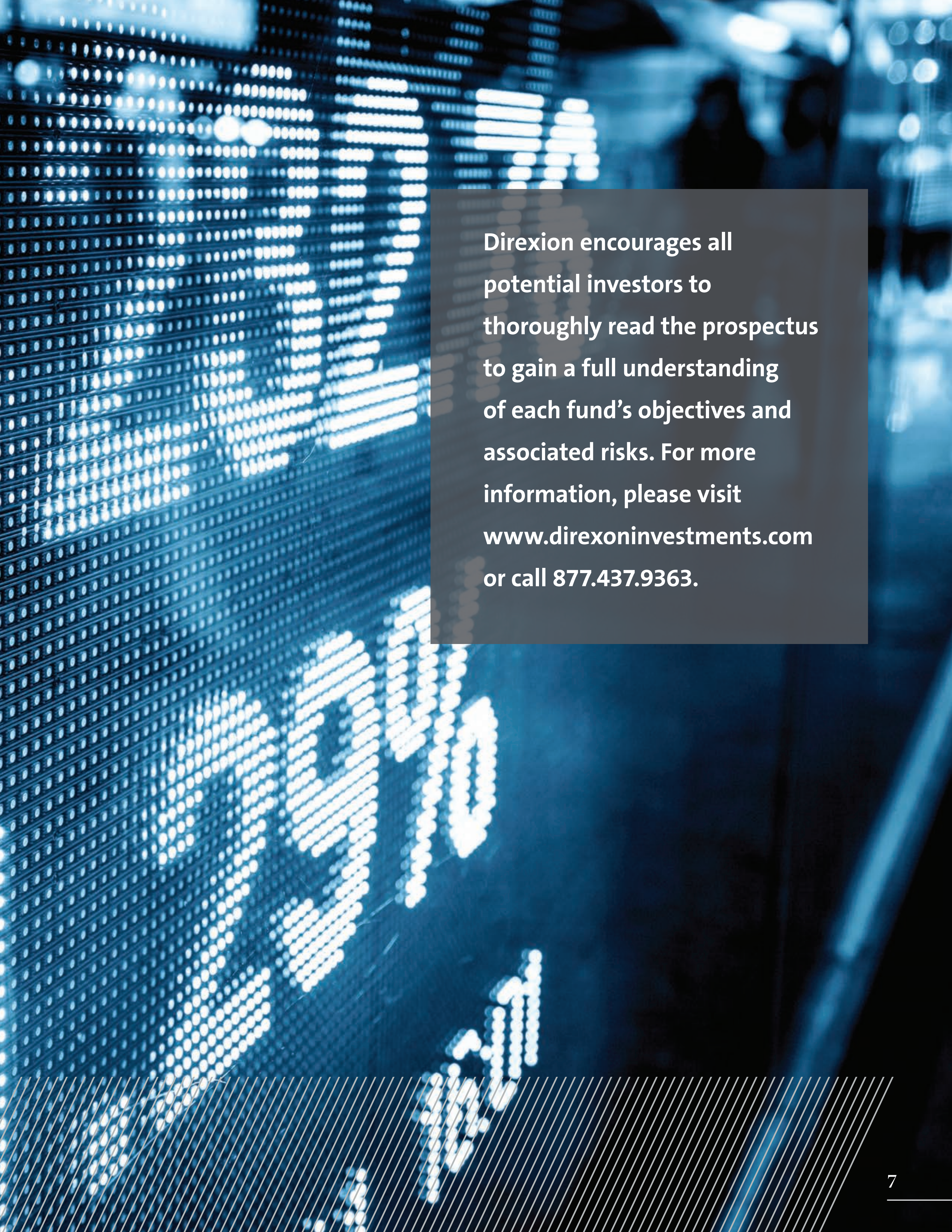
In volatile markets that exhibit no clear trend or direction, the impact of rebalancing can be harmful to the performance of leveraged index funds over time. As described above, the funds respond to gains by increasing exposure to the index, and respond to losses by decreasing exposure monthly. Increased exposure in advance of a loss will generate a larger loss, and decreased exposure in advance of a gain will decrease the impact and benefit of future gains for the fund. A continued pattern of this sort will typically cause the decay of the longer-term returns of the fund. In the table below, we see an example of a fund that had a negative return after a six day period of volatile, yet cumulatively flat, index returns.

Index Value	Index Monthly Return	Index Total Return	Index Total Return x 2.0	2x Bull Fund Monthly Return	Fund NAV	Total Fund Return
100					$20.00	
95	-5.00%	-5.00%	-10.00%	-10.00%	$18.00	-10.00%
100	5.26%	0.00%	0.00%	10.53%	$19.89	-0.53%
105	5.00%	5.00%	10.00%	10.00%	$21.88	9.42%
100	-4.76%	0.00%	0.00%	-9.52%	$19.80	-1.00%
95	-5.00%	-5.00%	-10.00%	-10.00%	$17.82	-10.90%
100	5.26%	0.00%	**0.00%**	10.53%	$19.70	**-1.52%**
					Return Difference:	**1.52%**

These numbers do not reflect the daily operating expenses and financing charges, are hypothetical in nature, and are not representative of actual Direxion Funds returns. Users of Leveraged Funds are encouraged to monitor the changing exposure provided by their investment and modify holdings as they deem necessary.

Decisions on how to modify a portfolio in response to gains or losses in Leveraged Index Funds are of significant importance. Direxion Funds are powerful investment vehicles for investors who are looking to gain magnified exposure to the markets. We strongly urge investors to continuously monitor their positions to determine if market activity has caused them to become over- or underexposed to the given index in which they are invested.

In order to remain aligned to the desired exposure, overexposed investors should consider taking some money off the table, and underexposed investors should consider additional investments. This strategy is especially important in volatile markets. These funds must be watched closely to ensure that the portfolio's exposure levels are in line with its desired objectives.



Direxion encourages all potential investors to thoroughly read the prospectus to gain a full understanding of each fund's objectives and associated risks. For more information, please visit www.direxoninvestments.com or call 877.437.9363.

Direxion

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Disclosures

An investor should consider the investment objectives, risks, charges, and expenses of Direxion Funds carefully before investing. The prospectus and summary prospectus contain this and other information about Direxion Funds. To obtain a prospectus, visit our website at www.direxioninvestments.com or contact Direxion at (877) 437-9363. The prospectus or summary prospectus should be read carefully before investing.

The use of leverage by a 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. Leveraged Funds seek daily investment goals and are designed to be utilized only by sophisticated investors, such as traders and active investors employing dynamic strategies. Such investors are expected to monitor and manage their portfolios frequently. Investors should (a) understand the consequences of seeking daily investment results, (b) intend to actively monitor and manage their investment, and (c) understand the risk of shorting.

Principal Risks: *An investment in the funds involves risk, including the possible loss of principal. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investment by the funds in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. The funds may invest in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. The fund may include investments in derivatives that are subject to market risks that may cause their prices to fluctuate over time and may result in larger losses or smaller gains. Additional risks are described in detail in the prospectus.*

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