

Direxion

ETFs | Funds

Understanding Leveraged & Inverse Exchange Traded Funds

AN EXPLORATION OF THE RISKS & BENEFITS



Direxion Leveraged & Inverse Exchange Traded Funds (ETFs) are daily funds that provide 100%, 200% or 300% leverage or inverse leverage and the ability for investors to navigate changing markets with bull and bear flexibility.

DIREXION

Direxion has been offering tactical trading tools and long-term investment solutions since 1997.

For financial advisors, individual investors, institutions, and active traders, Direxion specializes in providing solutions that seek to deliver:

- A means to pursue diversification, dampened volatility or excess returns
- Efficient access to non-correlated asset classes and strategies
- Flexibility to position portfolios opportunistically for near- and long-term market trends
- Liquid, cost effective access to sophisticated strategies

Our role is to complement your core investment strategies, not to replace them. Our funds allow you to seek opportunities in all market conditions offering fresh solutions to challenge old standards.

About Direxion Daily Leveraged ETFs

Although Direxion Daily Leveraged & Inverse ETFs share some similarities with non-leveraged ETFs, there are two key concepts that impact the way they are managed and the way they perform:

- **Leverage:** For 2X and 3X ETFs, each dollar invested provides \$2 or \$3 of the performance of the benchmark, which means 200% or 300% (or -200% or -300% for leveraged Bear Funds) of the risk and volatility.
- **Daily investment objectives:** The Direxion Leveraged & Inverse ETFs seek to magnify, or provide inverse exposure to the returns of their benchmarks for a single day; returns for periods greater than a day are a product of the compounded daily leveraged returns during the period.

This brochure is designed to provide you with detailed information concerning the composition of these funds, as well as the potential risks associated with them.

Fund Objectives

Each Direxion Daily Leveraged & Inverse ETF is designed to seek daily leveraged investment results, before fees and expenses, of 300% or 200% of the performance of its benchmark index, for a bull fund (“Bull Fund”), or 300%, 200% or 100% of the inverse (or opposite) of the performance of its benchmark index, for a bear fund (“Bear Fund”). There is no guarantee that the funds will achieve their investment objective.

Investor Suitability

These funds are intended for use only by sophisticated investors who:

- understand and are willing to accept substantial losses in short periods of time;
- understand the unique nature and performance characteristics of funds which seek leveraged daily investment results
- for a Bear Fund, understand the risk of shorting; and
- have time to manage positions frequently to respond to changing market conditions and fund performance.

These funds are not intended for use by conservative investors who:

- cannot tolerate substantial or even complete losses in short periods of time;
- are unfamiliar with the unique nature and performance characteristics of funds that seek leveraged or inverse daily investment results; and
- are unable to manage a portfolio actively and make changes as market conditions and fund performance dictate.

The impact of using Direxion Daily Leveraged & Inverse ETFs in portfolios

Direxion offers the highest amount of magnification available in the ETF marketplace today, which increases the level of volatility associated with a particular fund. For example, if the S&P 500® Index increases by 1% in a single day, the Direxion Daily S&P 500® Bull 3X ETF is designed to return approximately 3% on that same day (minus fees and expenses). Conversely, if the same index is down 1% in a day, that same fund would be expected to decrease by approximately 3%.

We recommend that prospective investors seek the advice of an investment professional before making an investment in Direxion Daily Leveraged & Inverse ETFs.

Inside Direxion Leveraged & Inverse ETFs

Composition and Exposure

To obtain the necessary exposure, Direxion Daily Leveraged & Inverse ETFs will invest all or a portion of their net assets in derivatives—typically swaps or futures. These derivatives are agreements that provide the ability to gain exposure to respective indexes and sectors without the need for full dollar-for-dollar investment. The Bull Funds will generate between 5% and 50% of their requisite exposure level from equities and the remainder from derivatives. The Bear Funds generate their entire -100%, -200% or -300% exposure through derivatives.

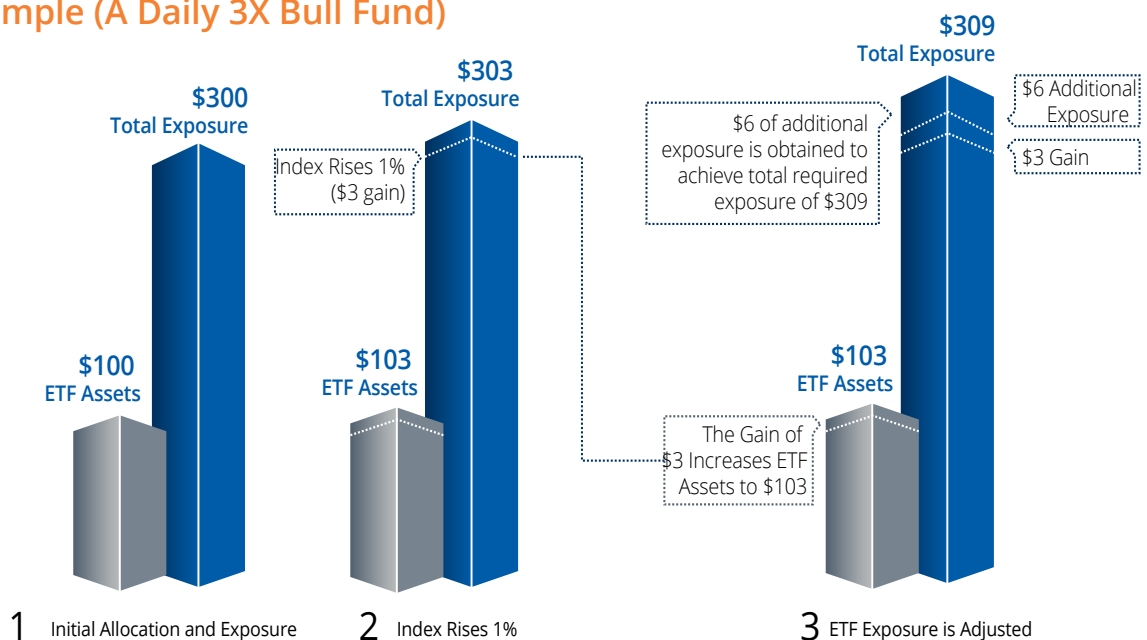


STRATEGY	EQUITIES	DERIVATIVES
Daily 1X Bear Funds	0%	100%
Daily 2X Bull Funds	5%-50%	150%-195%
Daily 2X Bear Funds	0%	200%
Daily 3X Bull Funds	5%-50%	250%-295%
Daily 3X Bear Funds	0%	300%

Hypothetical Example (A Daily 3X Bull Fund)

Index Rises 1%

(in millions)



1. INITIAL ALLOCATION AND EXPOSURE:

If a 3X ETF has \$100 million in net assets, \$300 million of net exposure to the fund's underlying index must be maintained.

2. INDEX RISES 1%

If the index increases by 1% in a trading day, the gross exposure would rise to \$303 million and net assets would rise to \$103 million, resulting in a \$3 million gain.

3. ETF EXPOSURE ADJUSTED

Since gross exposure must always equal 300% of net assets (\$103 million in net assets x 300% = \$309 million) at the beginning of each trading day, \$6 million of exposure must be added to the portfolio.

Managing Exposure in Changing Markets

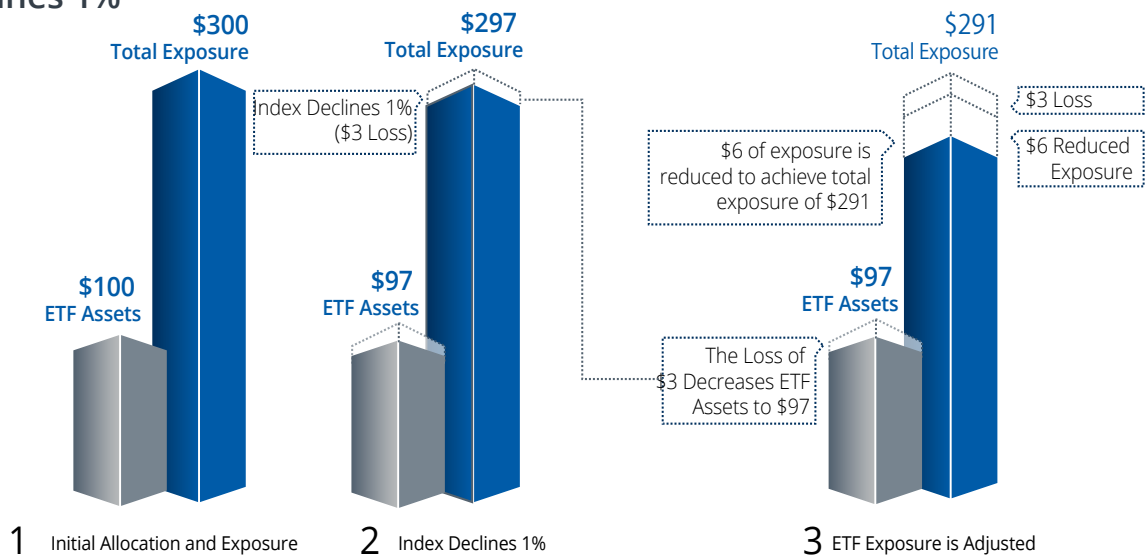
Because Bull and Bear Funds are designed to track the performance, or inverse of the performance, of their respective benchmark indexes, daily market fluctuations will cause the funds' net asset levels to rise or fall. These daily market fluctuations result in portfolio adjustments by the funds' adviser, Rafferty Asset Management, LLC ("Direxion") to help ensure that exposure levels for each Bull and Bear Fund are set at the correct multiple.

Direxion rebalances exposure daily by buying or selling swaps to ensure that each fund tracks as closely as possible to 300% or 200% for a Bull Fund, or 300%, 200% or 100% of the inverse for a Bear Fund, of the benchmark index's daily performance.

Hypothetical Example (A Daily 3X Bull Fund)

Index Declines 1%

(in millions)



1. INITIAL ALLOCATION AND EXPOSURE:

If a 3X ETF has \$100 million in net assets, \$300 million of net exposure to the fund's underlying index must be maintained.

2. INDEX DECLINES 1%

If the index decreases by 1% in a trading day, the gross exposure would decline to \$297 million and net assets would decline to \$97 million, resulting in a \$3 million loss.

3. ETF EXPOSURE ADJUSTED

Since 300% of \$97 million equals \$291 in exposure, the current exposure must be reduced by \$6 million from \$297 million to \$291.

A Closer Look at Some of the Risks

The Impact of Seeking Daily Leverage on Long-Term Performance

Each Direxion Daily Leveraged & Inverse ETF seeks to provide returns which are a multiple of the return of a particular benchmark index. Daily rebalancing has important implications for the performance of a fund for periods longer than a day.

Why? A daily leveraged fund's exposure is a product of its target magnification and its net assets. Favorable moves in the benchmark index push net assets higher, which translates into an increase in exposure by a multiple of the gain in its net assets.

Conversely, unfavorable moves in the benchmark index lead to a decline in net assets, which results in a reduction of exposure in an amount which is a multiple of the decline in the net assets.

Ultimately, a daily leveraged fund responds to gains by becoming more aggressive, and responds to losses by becoming more defensive. In markets which are directional, this can be an advantage, in volatile markets which lack direction, this can be a disadvantage.

The following three scenarios illustrate how a Direxion Daily Leveraged 3X Bull Fund performs in various market scenarios:

In trending markets with low volatility, the performance for periods longer than a day may exceed the return of the benchmark index, multiplied by the stated exposure level of the portfolio, as demonstrated by the first two scenarios to the below.

1. Market Rises 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 for a period greater than one day, the fund's gain for the period may be larger than the cumulative benchmark index return multiplied by the fund's stated multiple (e.g. 3X, 2X, etc.). 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 benchmark index, which therefore amplifies the impact of subsequent favorable index movements.

Day		1	2	3	4	5
Index Value	100	105	110	115	120	125
Index Daily Return (%)		5.00	4.76	4.55	4.35	4.17
Index Cumulative Return (%)		5.00	10.00	15.00	20.00	25.00
Index Cumulative Return 3X (%)		15.00	30.00	45.00	60.00	75.00
3X Fund Expected Daily Return (%)		15.00	14.28	13.65	13.05	12.51
Fund NAV (\$)	20.00	23.00	26.28	29.86	33.75	37.97
Actual Cumulative Return (%)		15.00	31.40	49.30	68.75	89.85

As you can see from the table, the difference between the indexes 3X return and the actual cumulative return is quite high.

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



2. Market Declines Steadily

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 for a period greater than one day, the fund's losses for the period may be smaller than the cumulative benchmark index return multiplied by the fund's stated multiple (e.g. 3X, 2X, etc.) 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.

Day		1	2	3	4	5
Index Value	100	95	90	85	80	75
Index Daily Return (%)		-5.00	-5.26	-5.56	-5.88	-6.25
Index Cumulative Return (%)		-5.00	-10.00	-15.00	-20.00	-25.00
Index Cumulative Return 3x (%)		-15.00	-30.00	-45.00	-60.00	-75.00
3X Fund Expected Daily Return (%)		-15.00	-15.78	-16.68	-17.64	-18.75
Fund NAV (\$)	20.00	17.00	14.32	11.94	9.84	8.00
Actual Cumulative Return (%)		-15.00	-28.40	-40.30	-50.80	-60.00

In this table, the difference between the indexes 3X return and the actual cumulative return is dramatic in the other direction.

3. Market is Flat, Yet Volatile

In volatile markets that exhibit no clear trend or direction, the impact of daily rebalancing can be harmful to the performance of leveraged ETFs over time. As described above, the funds respond to gains by increasing exposure to the benchmark index, and respond to losses by decreasing exposure each day. 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 benchmark index returns. You can follow the math to better understand how this occurs.

Day		1	2	3	4	5	6
Index Value	100	95	100	105	100	95	100
Index Daily Return (%)		-5.00	5.26	5.00	-4.76	-5.00	5.26
Index Cumulative Return (%)		-5.00	0.00	5.00	0.00	-5.00	0.00
Index Cumulative Return 3x (%)		-15.00	0.00	15.00	0.00	-15.00	0.00
3X Fund Expected Daily Return (%)		-15.00	15.78	15.00	-14.28	-15.00	15.78
Fund NAV (\$)	20.00	17.00	19.68	22.63	19.40	16.49	19.09
Actual Cumulative Return (%)		-15.00	-1.60	13.15	-3.00	-17.55	-4.50

In this final example, you can see that although the index remained flat, the actual cumulative performance was negative.

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

Market Price Variance Risk

Direxion Daily Leveraged & Inverse ETFs are a part of the Direxion Shares ETF Trust (“Direxion Shares”) are bought and sold in the secondary market on the NYSE ARCA, Inc., The Nasdaq Stock Market, LLC, and other exchanges. The market prices of the shares will fluctuate in response to changes in net asset value (NAV) and supply and demand for the shares. It is not possible to accurately predict whether the shares will trade above, below, or at their NAV. On occasion, ETFs may trade at larger-than expected premiums due to a lack of supply of outstanding shares available in the markets. The result could be that an investor may buy shares at a price that is somewhat inflated above the total market value of the underlying holdings of the fund. However, as more shares are introduced into the secondary market, supply and demand ordinarily return to relative balance. The result typically would be a natural decrease in the size of the premiums.

Counterparty Risk

Direxion Shares may invest in financial instruments involving counterparties for the purpose of attempting to gain added exposure to the benchmark indexes.

Counterparty risk is the risk of monetary loss a firm may be exposed to if the counterparty encounters difficulty meeting its contractual obligations under the terms of the transaction.

Direxion strives to minimize counterparty risk primarily by diversifying its portfolio of relationships for swap and futures contracts across multiple brokers. Direxion will regularly monitor the balance sheets of all counterparties and will suspend or terminate relationships with any organization that, in the opinion of Direxion or its affiliates, shows material signs of insolvency.

INAV (the Intraday NAV) is used as a reference for an ETF’s underlying value during trading hours, prior to market close. In many cases, the ETF will trade at a premium or discount to the NAV due to various factors, including supply and demand. Calculating INAV prior to purchasing an ETF allows you to determine whether you are purchasing it at a premium or a discount to the ETF’s NAV.



Terms leveraged & inverse ETF investors should know:

Beta

A measure of the systematic variability of a security or a portfolio in relation to a target index. A beta of more than 1.00 indicates that the security or portfolio would have higher volatility than the index; a beta of less than 1.00 indicates lower volatility.

Counterparty

In financial service terms, counterparty can refer to brokers, investment banks, and other securities dealers that serve as the contracting party when completing “over-the-counter” securities transactions. The term is generally used in this context in relation to “counterparty risk,” which is the risk of monetary loss a firm may be exposed to if the counterparty to an over-the-counter securities trade encounters difficulty meeting its obligations under the terms of the transaction.

Futures Contract

A contract, traded on a futures exchange, to buy or sell a standardized quantity of a specified commodity of standardized quality (e.g., a “basket” of corporate equities [“stock indices”] at a certain date in the future, at a price (the futures price) determined by the market price at the time of the purchase or sale of the contract.

Secondary Market

The financial market for trading of securities that have already been issued in an initial private or public offering. New ETF shares are created in the primary market in large lots called creation units by financial professionals called Authorized Participants. Once these shares are created, they become available for purchase to all investors in the secondary market.

Swap

A derivative in which two counterparties agree to exchange one stream of cash flows for another stream. These streams are called the legs of the swap.

The cash flows are calculated over a notional principal amount, which is usually not exchanged between counterparties. Consequently, swaps can be used to create unfunded exposures to an underlying asset, since counterparties can earn the profit or loss from movements in price without having to post the notional amount in cash or collateral.

(Direxion uses swaps to obtain additional exposure, or inverse exposure, to the benchmark indexes that the funds track.)

Frequently Asked Questions

Q: The target benchmark index for the Direxion Leveraged or Inverse ETF in which I invested was up 3% yesterday, but if I compare the fund's closing price from two days ago to yesterday's close, I only see a gain of approximately 7.5%. Shouldn't this return be closer to 9%?

A: Ordinarily, yes. But when we see this type of daily performance discrepancy, it is commonly due to the fund trading at an abnormally large price premium (as compared to the fund's NAV) at the time of the market close. This is usually caused by a higher demand for shares than are currently available in the market. That is, there are more interested buyers than there are sellers of shares in the market at that time. The result is a temporary inflation of the market price for the fund. This means that those investors who bought shares at this premium paid more than the actual net asset value per share, or more than the actual value of the underlying holdings per share in the fund. The disadvantage of buying at a premium is that the investor will essentially be "selling" a portion of the fund's return to the buyer. This is a reason for the difference in the expected daily returns that can sometimes be seen. The good news is that this situation is typically resolved relatively quickly. Historically, we've often seen that, as new shares are introduced to the market, supply and demand come back into relative balance and the price premiums ordinarily decline.

ETF shares trade on the open (or secondary) market throughout the day on securities exchanges (the NYSE ARCA in the case of Direxion ETFs). Direxion does not have any control over how they trade—whether at a premium or discount. As mentioned earlier, at times when supply is lower than demand, the shares can trade at significant premiums. We do recommend that when investors are considering a trade in any ETF, they check with their investment professional to see if the shares are trading at excessively large premiums or discounts, and consider the impact of this on their investment.

Q: Are Direxion Daily Leveraged & Inverse ETFs appropriate for buy and hold investing?

A: No, this is not recommended. Direxion Leveraged ETFs seek daily investment results. Investors who choose to hold a fund for periods longer than one day should recognize that their holding period is not in line with the fund's objective and such investors should regularly monitor and adjust their position to harness the daily objectives of the funds for their longer holding period.

Q: What happens if the value of the index that a Direxion Leveraged or Inverse ETF is tracking moves more than 33% in one day?

A: Each Direxion Daily Leveraged 3X ETF seeks daily exposure to its target benchmark index equal to 300% of its net assets. Consequently, a fund could theoretically lose an amount greater than its net assets in the event of a daily movement of its target index in excess of 33% in a direction adverse to the fund (meaning a decline in the value of the target index of a Bull Fund and a gain in the value of the target index for a Bear Fund). It is unlikely that this type of market activity would occur in a single day, given the trading curb rules that are in place on most exchanges, but in the event that it does, Direxion reserves the right to be responsive to index movements up to, but not beyond, a certain point. For example, if a Bull Fund's target index gained 25%, the Fund would be expected to gain 75%. However, if the target index gained 30%, the Fund's portfolio might not respond to the index gains which result in the difference between the 25% daily movement from 25% to 30%—meaning the Fund's return would be capped for the day at 75%.

This precaution is in place to mitigate some risk of the investment interests of shareholders. It is important to understand that an investor in Direxion Daily Leveraged ETFs cannot lose an amount greater than their initial investment.

Q: The target benchmark index for the Direxion Daily Leveraged or Inverse ETF in which I invested advanced 5% last month. So why, then, didn't the fund return 15% for the month?

A: Direxion Daily Leveraged ETFs investment objective to seek investment results of 300% (or 300% of the inverse), before fees and expenses, of the price performance of its benchmark index, is a daily objective, and does not necessarily apply to longer periods of time. As outlined in the section entitled "The Impact of Seeking Daily Leverage over the Long-Term Performance" (on page 6), the actual longer-term performance may be close to the daily targets—but depending on certain market movements and due to the portfolio adjustments required to pursue the daily investment targets set by the fund, performance over time may vary. This will, in some cases, be to the advantage of the shareholder; other times, it will be to their disadvantage.

In markets predominantly trending in one direction with low volatility, the performance for periods longer than a day may exceed the return of the index, multiplied by the target beta of the portfolio. However, in volatile markets, the pursuit of daily investment targets will typically have a negative impact on performance for periods longer than a single day.

Direxion Daily Leveraged & Inverse ETFs are investment vehicles for active, sophisticated investors who are looking to gain magnified or inverse exposure to the markets. This brochure has provided a detailed explanation as to how these funds operate, as well as a description of certain risks that must be understood before investment is made. It is also important to remember that, particularly in volatile markets, these funds must be monitored closely to ensure that one's exposure levels are in line with their desired objectives.



An investor should carefully consider a Fund's investment objective, risks, charges, and expenses before investing. A Fund's prospectus and summary prospectus contain this and other information about the Direxion Shares. To obtain a prospectus and summary prospectus call 866-476-7523 or visit our website at direxion.com. A Fund's prospectus and summary prospectus should be read carefully before investing.

Leveraged and Inverse ETFs pursue daily leveraged investment objectives which means they are riskier than alternatives which do not use leverage. They seek daily goals and should not be expected to track the underlying index over periods longer than one day. They are not suitable for all investors and should be utilized only by sophisticated investors who understand leverage risk and who actively manage their investments.

The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate. An investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. Returns for performance under one year are cumulative, not annualized. For the most recent month-end performance please visit the funds website at direxion.com. Short-term performance, in particular, is not a good indication of the fund's future performance, and an investment should not be made based solely on returns. Because of ongoing market volatility, fund performance may be subject to substantial short-term changes. For additional information, see the fund's prospectus.

Shares of the Direxion Shares are bought and sold at market price (not NAV) and are not individually redeemed from a Fund. Market Price returns are based upon the midpoint of the bid/ask spread at 4:00 pm EST (when NAV is normally calculated) and do not represent the returns you would receive if you traded shares at other times. Brokerage commissions will reduce returns. Fund returns assume that dividends and capital gains distributions have been reinvested in the Fund at NAV. Some performance results reflect expense reimbursements or recoupments and fee waivers in effect during certain periods shown. Absent these reimbursements or recoupments and fee waivers, results would have been less favorable.

Direxion Shares ETF Risks-An investment in the ETFs involves risk, including the possible loss of principal. The ETFs are non-diversified and include risks associated with concentration that results from an ETF's investments in a particular industry or sector which can increase volatility. The use of derivatives such as futures contracts and swaps are subject to market risks that may cause their price to fluctuate over time. The ETFs do not attempt to, and should not be expected to, provide returns which are a multiple of the return of their respective index for periods other than a single day. For other risks including leverage, correlation, daily compounding, market volatility and risks specific to an industry or sector, please read the prospectus.

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