Hedging

Streamline the Short: Strategic Hedging with -1X Inverse ETFs

The Strategic Need for Hedging

Traditional hedging approaches – such as short selling, options, or futures – are often operationally complex, costly, and margin-intensive. -1X inverse ETFs offer a less complicated, packaged solution: registered securities that trade like stocks, while using derivatives to achieve inverse exposure.

Key benefits of -1X inverse ETFs include:

- Tactical short-term hedging without derivatives or margin
- Quick implementation during volatile market conditions
- Ability to target broad market, sector, or single-stock exposure
- Eligible for use in ERISA accounts, where shorting is typically prohibited

Understanding -1X Inverse ETFs

Fund Objective: To provide the inverse (-100%) of the daily return of a benchmark index, sector, or individual stock.

Mechanism: These ETFs utilize derivatives, such as swaps and futures, to deliver their daily inverse performance. Unlike traditional derivative instruments, they are registered securities that can be traded intraday on exchanges like stocks.

It is important to note that because inverse ETFs reset daily, their performance over periods longer than one day may deviate from a simple inverse of the underlying asset's cumulative return, especially in volatile markets. Therefore, they are best suited for short-term tactical strategies requiring active monitoring.

Example: Tracking Performance Over 5 Days

There will be subtle deviations, over time, between the underlying and inverse ETF returns due to the compounding affected by the daily reset.

Day	Underlying Daily Return	Inverse Daily Return	Cumulative Daily Return	Cumulative Inverse ETF Return
0	-	-	0.00%	0.00%
1	-2.0%	+2.0%	-2.00%	+2.00%
2	+1.5%	-1.5%	-0.53%	+0.45%
3	-1.0%	+1.0%	-1.53%	+1.45%
4	+0.5%	-0.5%	-1.03%	+0.95%
5	-1.5%	+1.5%	-2.52%	+2.47%

For illustrative purposes only.

Types of Inverse ETFs

- **Broad Market and Sector Inverse ETFs:** Track major indices such as the S&P 500 or sector-specific indices
- **Single-Stock Inverse ETFs:** Target individual companies, such as Nvidia or Tesla

Strategic Applications of -1X Inverse ETFs:

1. Taking an Outright Bearish View

a. Express a tactical bearish outlook without using margin or complex derivatives
b. Defined downside risk profile
c. Easily deploy across indices or individual stocks

2. Hedging Unrealized Gains

a. Protect concentrated stock or index gains temporarily without triggering tax events
b. Single-stock inverse ETFs provide precise company-level hedging

3. Reducing Beta and Stock-Specific Risk

a. Reduce overall portfolio sensitivity during uncertain periods
b. Hedge sector, style, or company-specific risks

Comparison: Inverse ETFs vs Traditional Hedging Strategies

Strategy	Complexity	Cost	Liquidity	Liability
-1X Inverse ETFs	Low (Straightforward)	Low (ETF expense ratios)	High (Intraday trading)	Limited (Cannot fall below zero)
Short Selling	High (Margin Borrowing)	Medium-High (Borrow fees, margin costs)	Medium (Stock availability varies)	Unlimited (Short squeeze risk)
Sell Naked Calls	Very High (Options knowledge and risk oversight)	Medium-High (Execution and margin costs)	Medium (Only for qualified accounts)	Unlimited (uncapped losses if assigned)
Put Options	Very High (Options knowledge risk oversight)	High (Premium costs)	Medium (Options market depth dependent)	Limited (Premium paid)
Futures Contracts	Very High (Advanced knowledge, leverage)	Medium (Low fees, complex margin)	High (Institutional liquidity)	High (Losses can exceed margin)

Simulated 5-Day Return Example: TSLA vs. TSLS

The table below illustrates the cumulative impact of Tesla's (TSLA) largest 5-day drawdown in 2025 (Feb 21–27), during which the stock declined by approximately 22.23%. In contrast, a -1X inverse ETF (such as TSLS) delivered a cumulative gain of approximately 22.39%, reflecting its daily reset structure and effectiveness for short-term tactical hedging. This example underscores how inverse ETFs can mitgate risk when used with precision during periods of sharp equity declines.

Day	TSLA Daily Return	TSLS Daily Return (NAV)	TSLA Cumulative Return	TSLS Cumulative Return (NAV)
1	-4.68%	4.75%	-4.68%	4.75%
2	-2.15%	2.17%	-6.84%	6.92%
3	-8.39%	8.41%	-15.23%	15.34%
4	-3.96%	3.99%	-19.19%	19.32%
5	-3.04%	3.07%	-22.23%	22.39%

TSLS - Direxion Daily TSLA Bear 1X Shares. The performance data quoted represents past performance. Past performance does not guarantee future results. Brokerage commissions will reduce returns.

For standardized performance of TSLS see page 4

There will be subtle deviations, over time, between the underlying and inverse ETF returns due to the compounding affected by the daily reset. While -1X ETFs are optimized for daily performance, they may be less subject to decay than leveraged -2X or -3X products. For investors capable of monitoring positions frequently, -1X products can provide an effective short-term hedge or tactical bearish expression with a less volatile decay profile over moderate holding periods.

Summary

Compared to traditional hedging techniques, -1X inverse ETFs offer a streamlined, accessible, and cost-efficient alternative. They are particularly effective for tactical short-term hedging where ease, transparency, and execution speed are priorities.

For financial professionals seeking tactical, scalable, and efficient methods of risk management, -1X inverse ETFs – both broad market and single-stock – offer a compelling solution.

By using inverse ETFs to express bearish views, protect unrealized gains, or navigate tax rules such as the wash sale restriction, investors can achieve precise portfolio adjustments without the burdens of traditional derivatives or margin trading.

As with any hedging strategy, thoughtful execution, active monitoring, and professional oversight are essential.

TSLS Standardized Performance

	1M	3M	YTD	1Y	Since Inception (8/9/2022)	Expense Ratio* (Gross/Net %)
TSLS NAV	5.98	40.25	40.25	-54.59	-22.53	0.94 / 0.94*
TSLS Market Close	6.11	39.98	39.98	-54.54	-22.66	0.94 / 0.94*

As of March 31, 2025

**The Net Expense Ratio includes management fees, other operating expenses and Acquired Fund Fees and Expenses. If Acquired Fund Fees and Expenses were excluded, the Net Expense Ratio would be 0.84% for TSLL and 0.88% for TSLS. The Funds' adviser, Rafferty Asset Management, LLC ("Rafferty") has entered into an Operating Expense Limitation Agreement with each Fund. Under the Operating Expense Limitation Agreement, Rafferty has contractually agreed to waive all or a portion of its management fee and/or reimburse each Fund for Other Expenses through September 1, 2026, to the extent that the Fund's Total Annual Fund Operating Expenses exceed 0.95% of the Fund's average daily net assets (excluding, as applicable, among other expenses, taxes, swap financing and related costs, acquired fund fees and expenses, dividends or interest on short positions, other interest expenses, brokerage commissions and extraordinary expenses). If these expenses were included, the expense ratio would be higher.*

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.

Definitions

Short Selling: Short selling is an investment strategy that speculates on the decline in a stock or other security's price. An investor borrows shares and sells them on the open market, planning to buy them back later at a lower price. If the price drops, the investor profits by buying the shares back at the reduced price and returning them to the lender. It carries unlimited risk if the security's price rises instead.

Options: Options are financial derivatives that give buyers the right, but not the obligation, to buy or sell an underlying asset at a specified price before a certain date. The two main types are: Call options (right to buy) and Put options (right to sell).

Futures: Futures are standardized contracts obligating the buyer to purchase (or the seller to sell) an asset at a predetermined price on a future date. These are commonly used for hedging or speculation on commodities, currencies, and financial instruments.

Margin: Margin refers to borrowed money that investors use to purchase securities. It allows for greater exposure than the investor's cash alone would allow, amplifying both potential gains and potential losses. Trading on margin involves a margin account and is subject to margin requirements set by the broker and regulators.

ERISA: ERISA (Employee Retirement Income Security Act of 1974) is a federal law that sets minimum standards for most voluntary retirement and health plans in private industry to protect individuals in these plans. It governs fiduciary duties, reporting, and plan funding, but does not require employers to establish plans.

Swaps: Swaps are derivative contracts through which two parties exchange the cash flows or liabilities of two different financial instruments. The most common type is an interest rate swap, where one stream of future interest payments is exchanged for another, often switching between fixed and floating rates.

Beta: Beta is a measure of a stock's volatility in relation to the overall market. A beta of 1 indicates that the stock tends to move with the market. A beta greater than 1 implies higher volatility, while a beta less than 1 indicates lower volatility relative to the market.

Naked Calls: Naked calls are call options that are sold without owning the underlying security. This is a risky options strategy where the seller is exposed to theoretically unlimited losses if the security's price rises significantly, since they would have to purchase the security at market price to deliver it at the strike price.

Put Options: Put options are financial contracts that give the holder the right, but not the obligation, to sell an asset at a specified price (strike price) before a specified expiration date. Investors use puts to hedge against declines or to speculate on downside moves.

Futures Contracts: Futures contracts are legally binding agreements to buy or sell a particular asset at a predetermined price at a specified time in the future. They are traded on exchanges and used by both hedgers and speculators. Futures cover assets like commodities, indexes, currencies, and interest rates.

Wash Sale: A wash sale occurs when an investor sells a security at a loss and then repurchases the same or a 'substantially identical' security within 30 days before or after the sale. Under IRS rules, the loss from the sale cannot be claimed as a tax deduction, and instead, the disallowed loss is added to the cost basis of the repurchased security.

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

Investing in a Direxion Shares ETF may be more volatile than investing in broadly diversified funds. The use of shorting by a Fund increases the risk to the Fund. The Direxion Shares ETFs are not suitable for all investors and should be utilized only by sophisticated investors who understand shorting and inverse risk, consequences of seeking daily inverse investment results and intend to actively monitor and manage their investment.

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, sector or company, 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 the inverse of their respective index or underlying security for periods other than a single day. For other risks including shorting, correlation, daily compounding, market volatility and risks specific to an industry, sector or company, please read the prospectus.

Investing in the funds involves a high degree of risk. Unlike traditional ETFs, or even other leveraged and/or inverse ETFs, these leveraged and/or inverse single-stock ETFs track the price of a single stock rather than an index, eliminating the benefits of diversification. 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 stock's performance over periods longer than one day. They are not suitable for all investors and should be utilized only by investors who understand leverage risk and who actively manage their investments. The Funds will lose money if the underlying stock's performance is flat, and it is possible that the Bull Fund will lose money even if the underlying stock's performance increases, and the Bear Fund will lose money even if the underlying stock's performance decreases, over a period longer than a single day. Investing in the Funds is not equivalent to investing directly in TSLA.

Tesla, Inc. Investing Risk — Tesla, Inc. faces risks associated with future growth and success of consumers' demand for electric vehicles; increasing competition; variability in the market for electric vehicles; potential delays in developing and launching new products; mismatches between supply and demand for the products; charging networks may be difficult to establish; product liability claims; cyberattacks; financial costs; system security and data breeches; as well as the risks related to the fact that communications from Mr. Musk to the public may significantly impact the trading price of TSLA.

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