direxion
Alternatives for Modern Portfolios.

Treasuries Hedge: Why Not 3x?

Volatility Matters

When it comes to leveraged fund products that track daily results, their returns over time are the product of a series of daily returns. They are not the fund's leverage point multiplied by the cumulative return of the index for periods greater than a day. During periods of high volatility where markets lack a directional trend, returns can be impacted in a negative way should the funds be held for long periods.

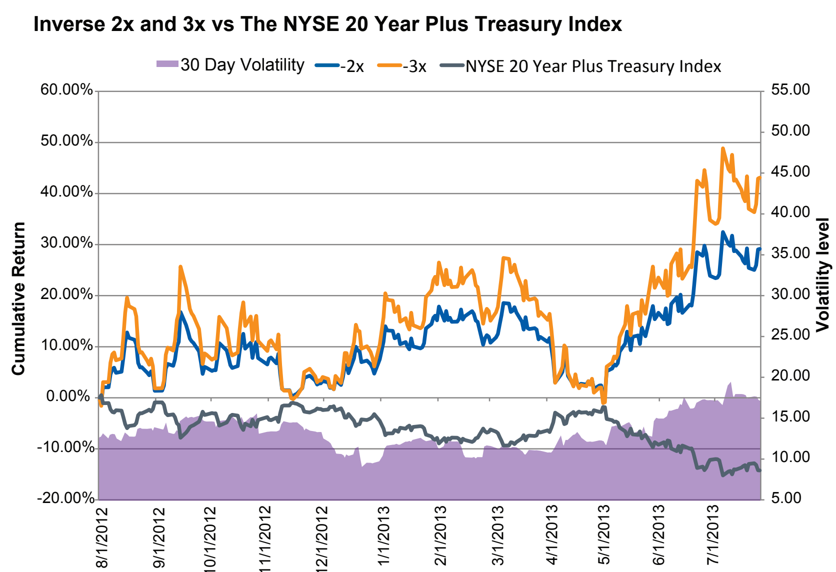
When Less Is More

But what happens to returns during periods of more sustained low volatility, like we've been experiencing over the last 12 – 18 months? In fact, many users of leveraged ETFs have been discovering that sustained market trends can result in positive effects on returns.

For the past 12 months, volatility for long-term treasuries as measured by the NYSE 20 Year Plus Treasury Bond Index (AXTWEN) index, has been relatively low, averaging 13.22. As general economic and market consensus may be moving against treasuries, and prices have been declining, investors that hold inverse positions on long-term treasuries through leveraged ETFs may have benefited from the positive effects of compounding.

Hypothetical Example:

See the graph to the right of a hypothetical model of 3x and 2x daily compounded leveraged inverse returns for the AXTWEN index over the past 12 months. The return for the index for that period is -14.2%. The hypothetical 2x inverse model return would be 29.2%, which is 0.8 percentage points higher than the two-times the-inverse-return of the index (28.4%). The hypothetical 3x inverse return would be 43.1% which is .5 percentage points higher than the three-times the-inverse-return of the index (42.6%).



This is a frictionless model, meaning that it does not take into account the fees and expenses that would be associated with a leveraged fund. Past performance is not indicative of future results. The example above was created by using a theoretical multiplier (-200% and -300%) on the actual underlying index while factoring the assumed compounding effect.

When More Is More

The question is this: When all else is equal, and index volatility for leveraged products is low for both 2x and 3x daily compounded investment products, why not get 50% more exposure?

Furthermore, if you use the 2x variety of leveraged inverse products to hedge existing portfolio positions, why not consider using less capital on a 3x product to produce the same hedge?

If you want to seek to make money from rising rates, or hedge an existing Treasuries position, take a look at these funds:

Related Funds

- TMV - Daily Daily 20+ Year Treasury Bear 3x Shares
- TYBS - Daily Daily 20+ Year Treasury Bear 1x Shares
- TYO - Daily Daily 7-10 Year Treasury Bear 3x Shares
- TYNS - Daily Daily 7-10 Year Treasury Bear 1x Shares

The purpose of the analysis illustrated in the graph on the previous page is to show the degree of impact a daily portfolio reset has on the longer term performance of an index and to compare that impact for a model seeking 2X daily returns to that of a model that seeks 3X daily returns. It is not meant to suggest that it would be appropriate to hold a leveraged inverse fund for similar extended periods of time. Users of leveraged and inverse products should understand that the funds seek daily objectives and should not be expected to achieve returns that are consistent with the cumulative return of the index multiplied by the funds daily multiple target.

Disclosures:

For more information on all Direxion Shares daily leveraged ETFs, click here, or call us at (866) 476-7523.

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. Click here to obtain a prospectus or contact Direxion at (877) 437-9363. The prospectus or summary prospectus should be read carefully before investing.

ETFs are not suitable for all investors and should be utilized only by sophisticated investors who understand leverage risk, consequences of seeking daily leveraged investment results and intend to actively monitor and manage their investments. Due to the daily nature of the leverage employed, there is no guarantee of amplified long-term returns. Past performance is not indicative of future results.

Risks - An investment in the Funds involve risk, including the possible loss of principal. The Funds are non-diversified and include risks associated with concentration risk that results from the Funds' investments in a particular industry or sector which can increase volatility. The use of derivatives such as futures contracts, forward contracts, options and swaps are subject to market risks that may cause their price to fluctuate over time. The Fund does not attempt to, and should not be expected to, provide returns which are a multiple of the return of the Index for periods other than a single day. For other risks including correlation, leverage, compounding, market volatility and specific risks regarding each sector, please read the prospectus.

The views in this material represent an assessment of the current market conditions and is not intended to be a forecast of future events. These views are intended to educated the reader and do not constitute investment advice regarding the funds or any security in particular. Past performance does not guarantee future results.
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