

Leveraged Exchange-Traded Funds



An example of daily investment results

The return of a benchmark index for a given period tells you little about what that Direxion Shares ETF will return for that same period. The path a benchmark takes to obtain that return can be of much greater consequence.

Consider the following example.

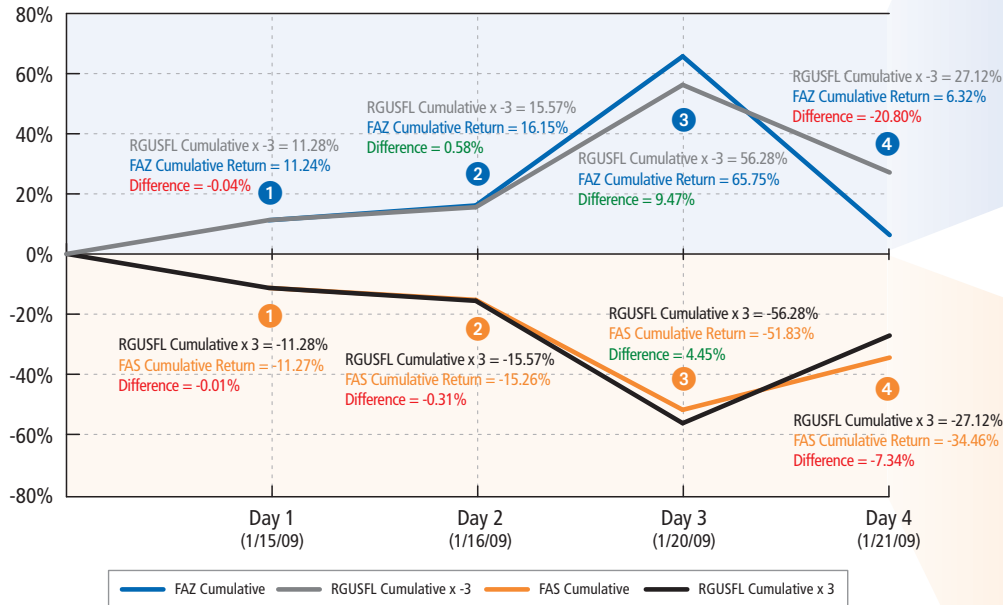


An example of how Direxion Shares ETFs seek daily investment results

Direxion Financial Bear 3x Shares & Direxion Financial Bull 3x Shares:

The Direxion Financial Bull 3x Shares (Symbol: FAS) and the Direxion Financial Bear 3x Shares (Symbol: FAZ) seek 300% and -300%, respectively, of the daily return of the Russell 1000® Financial Services Index (Symbol: RGUSFL). From January 15 – January 21, 2009, the Index declined 9.04%. If you were to assume that based on this cumulative return of the index, the bull fund would have experienced a 27% loss and the bear fund would have experienced 27% gain, you would, unfortunately, be incorrect. In fact, for that time frame, the bull and bear funds returned -34.46% and 6.32%, respectively. *Past performance is not indicative of future results.*

Fund Performance: 1/15/09-1/21/09



There is no guarantee that the funds will achieve their objective.

Let's examine what happened:

FAZ – Direxion Financial Bear 3x Shares

	Day 1	Day 2	Day 3	Day 4
What happened?	<ul style="list-style-type: none"> Daily Return RGUSFL: -3.76% FAZ: 11.24% 	<ul style="list-style-type: none"> Daily Return RGUSFL: -1.48% Cumulative return of RGUSFL = -5.19% Cumulative return of RGUSFL x -3 = 15.57% Cumulative return of FAZ = 16.15% 	<ul style="list-style-type: none"> Daily Return RGUSFL: -14.31% Cumulative return of RGUSFL = -18.76% Cumulative return of RGUSFL x -3 = 56.28% Cumulative return of FAZ = 65.75% 	<ul style="list-style-type: none"> Daily Return RGUSFL: 11.96% Cumulative return of RGUSFL = -9.04% Cumulative return of RGUSFL x -3 = 27.12% Cumulative return of FAZ = 6.32%
Why?	FAZ seeks -300% of the daily performance of the RGUSFL.	After day 1 gain, FAZ was rebalanced to 300% of net assets, increasing exposure to RGUSFL. The result is a two-day cumulative over-performance of 0.58%, compared to three times the return of the RGUSFL.	After day 2, FAZ was rebalanced again and exposure levels were increased further. The result is that FAZ is now outperforming three times RGUSFL cumulatively by 9.47%.	After two days of gains and a daily increase of exposure, more capital is exposed to this sharp decline. The result is that the cumulative return of FAZ decreases at a greater rate than the 3x multiple of the cumulative index return. It is now underperforming by 20.80%.

RGUSFL = Russell 1000® Financial Services Index

FAS – Direxion Financial Bull 3x Shares

	Day 1	Day 2	Day 3	Day 4
What happened?	<ul style="list-style-type: none"> Daily Return RGUSFL: -3.76% FAS: -11.27% 	<ul style="list-style-type: none"> Daily Return RGUSFL: -1.48% Cumulative return of RGUSFL = -5.19% Cumulative return of RGUSFL x 3 = -15.57% Cumulative return of FAS = -15.26% 	<ul style="list-style-type: none"> Daily Return RGUSFL: -14.31% Cumulative return of RGUSFL = -18.76% Cumulative return of RGUSFL x 3 = -56.28% Cumulative return of FAS = -51.83% 	<ul style="list-style-type: none"> Daily Return RGUSFL: 11.96% Cumulative return of RGUSFL = -9.04% Cumulative return of RGUSFL x 3 = -27.12% Cumulative return of FAS = -34.46%
Why?	FAS seeks 300% of the daily performance of RGUSFL.	After day 1 loss, FAS was rebalanced to 300% of net assets, decreasing exposure to RGUSFL. The result is a two-day cumulative over-performance of 0.31%, compared to three times the return of RGUSFL.	After day 2, FAS was rebalanced again and exposure levels were decreased further. The result is that FAS is now outperforming three times RGUSFL cumulatively by 4.45%.	After two days of losses and a daily reduction of exposure, less capital is available to benefit from this sharp rebound. The result is that FAS cannot keep pace with the 3x multiple of the index cumulative return. It is now underperforming by 7.34%.

As of 3/31/2010, FAS cumulative returns since inception (11/06/08) for NAV and Market Price (MP) were -55.22% and -55.24%, respectively. FAZ cumulative returns since inception (11/06/08) for NAV and MP were -93.34% and -93.40%, respectively. 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. Short-term performance, in particular, is not a good indication of the funds' future performance, and an investment should not be made based solely on returns. Rafferty has voluntarily agreed to waive all or a portion of its management fee and/or reimburse the funds for other expenses through to the extent that the Net Annual Operating Expenses exceed 0.95%. For additional information, see the funds' prospectus. As stated in the current prospectus, the funds' Annual Operating Expense Ratio (gross) is 0.94%. For the most recent month's performance, please visit the funds' website at www.direxionfunds.com.

A closer look at how these results were generated

In their pursuit of achieving daily investment results of 300% or -300% of their respective benchmark indexes, all Direxion Shares ETFs must rebalance daily so that their total exposure to that index is equal to three times the net assets of the fund. In trending markets, either positive or negative, this rebalancing process generally has positive effects on the cumulative return of the fund, as seen during days 1 through 3 in our example. The Direxion Financial Bull 3x Shares (FAS) achieved an “excess return” (as compared to three times the cumulative return of the index) of 4.45% at the end of day 3. The Direxion Financial Bear 3x Shares (FAZ) achieved an even greater “excess return” of 9.47% at the end of day 3.

In contrast, sharp market shifts or continually volatile markets can have a detrimental impact on the returns of leveraged funds. We can see in our example that in just one day (day 4), the “excess return” accumulated by both funds in the previous three days was completely erased. At the end of day 4, both funds’ cumulative returns lagged behind the cumulative return of the index times three (in the case of FAS), or times negative three (in the case of FAZ). In fact, in the case of the Direxion Financial Bear 3x Shares (FAZ), the day 3 single-digit excess return was turned into a double-digit lagging return of -20.80% in just one day.

Summary

The return of a leveraged ETF for a period longer than a day is the product of the series of leveraged daily returns for the fund within the period. It is **not** the return of the benchmark multiplied by the fund’s target leverage point (3 in the case of Direxion Shares). The funds’ returns can be positively impacted by a smoothly trending index, or negatively by a volatile index for a period longer than one day. Leveraged funds such as Direxion Shares, with relatively high leverage points, should be monitored regularly to ensure that desired exposure levels are maintained. If exposure levels grow beyond or drop below the levels sought by the investor, reallocation should be strongly considered.

An investor should consider the investment objectives, risks, charges, and expenses of Direxion Shares carefully before investing. The prospectus contains this and other information about Direxion Shares. To obtain a prospectus, please visit www.direxionshares.com. The prospectus should be read carefully before investing.

The Russell 1000 Financial Services Index is a capitalization-weighted index of companies that provide financial services. One cannot directly invest in an index.

Investing in index funds may be more volatile than investing in broadly diversified funds. The use of leverage by the funds means the funds are riskier than alternatives which do not use leverage. The ETFs are intended to be used as short-term trading vehicles. The funds are not suitable for all investors and should be utilized only by sophisticated investors who understand leverage risk, the consequences of seeking daily leveraged investment results, and intend to actively monitor and manage their investments.

The risks associated with each fund are detailed in the prospectus. These include adverse market condition risk, adviser's investment strategy risk, aggressive investment techniques risk, concentration risk, counterparty risk, credit and lower-quality debt securities risk, equity securities risk, currency exchange risk, daily correlation risk, daily rebalancing and market volatility risk, depository receipt risk, foreign and emerging markets securities risk, sector securities risk, interest rate risk, inverse correlation risk, leverage risk, market risk, non-diversification risk, shorting risk, small- and mid-cap company risk, tracking error risk, and special risks of exchange-traded funds.

Shares of Direxion Shares are bought and sold at market price (not NAV) and are not individually redeemed from the fund. 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 subsidies and waivers in effect during certain periods shown. Absent these waivers, results would have been less favorable.

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