Understanding Leveraged Exchange Traded Funds

An exploration of the risks & benefits

Direxion Shares Leveraged **Exchange-Traded Funds (ETFs)** are daily funds that provide 300% leverage and the ability for investors to navigate changing markets with bull and bear flexibility.

About Direxion

We are a provider of a diverse set of Liquid Alternative Investment Strategies. Our products provide investors with the opportunity for:

- Increased portfolio diversification
- The ability to position portfolios to take advantage of near term opportunities
- Access to lower correlation and risk management strategies
- The flexibility to use buy-and-hold or tradable products

We offer the retail investor access to innovative alternative investment solutions that seek to provide further diversification to their existing traditional portfolios.

About Direxion Shares Leveraged ETFs

Although Direxion Shares Leveraged 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:** Each dollar invested provides $3 of exposure to the performance of the benchmark, which means 300% of the risk and volatility.
- **Daily investment objectives:** The funds seek to magnify the returns of their benchmarks on a daily basis; returns for longer periods 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 ETF is designed to seek daily investment results, before fees and expenses, of 300% of the performance (or 300% of the inverse of the performance, in the case of a bear fund), of its benchmark. There is no guarantee that the funds will achieve their objective.

Investor Suitability

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

- understand and accept substantial losses in short periods of time;
- understand the unique nature and performance characteristics of funds which seek leveraged daily investment results; and
- have time to manage positions frequently to respond to changing market conditions and fund performance

We recommend that prospective investors seek the advice of an investment professional before making an investment in Direxion Shares.

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 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 Leveraged ETFs in Portfolios

Direxion Shares offer 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 Russell 1000® Index increases by 1% in a single day, Direxion Large Cap Bull 3x Shares 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 should decrease by approximately 3%.

Inside Direxion Shares

Composition and Exposure

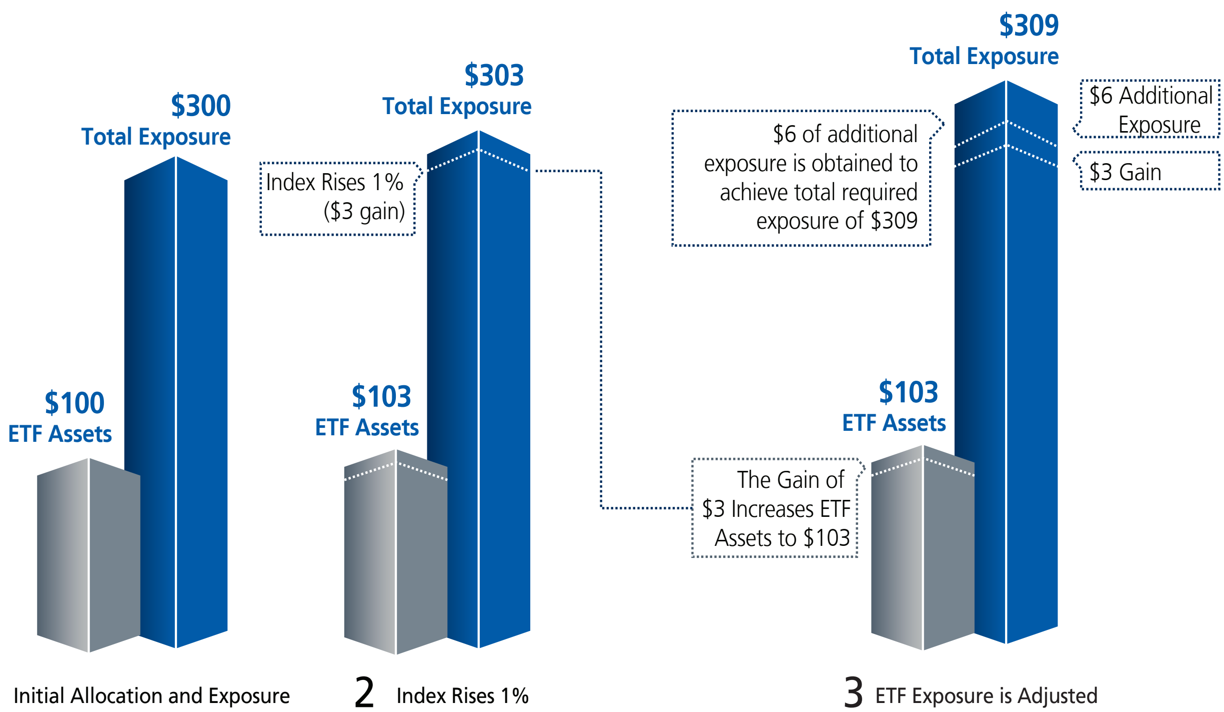
To obtain the necessary exposure, Direxion Shares will invest all or a portion of their net assets in derivatives—typically swaps or futures. These derivatives are agreements that provide the ability to gain exposure to respective indexes and sectors without the need for full dollar-for-dollar investment. The Bull ETFs will generate between 10% and 100% of their requisite exposure level from equities and the remainder from derivatives. The Bear ETFs generate their entire -300% exposure through derivatives.

Strategy	Equities	Derivatives
Daily 3x Bull Funds	10%-80%	220%-290%
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

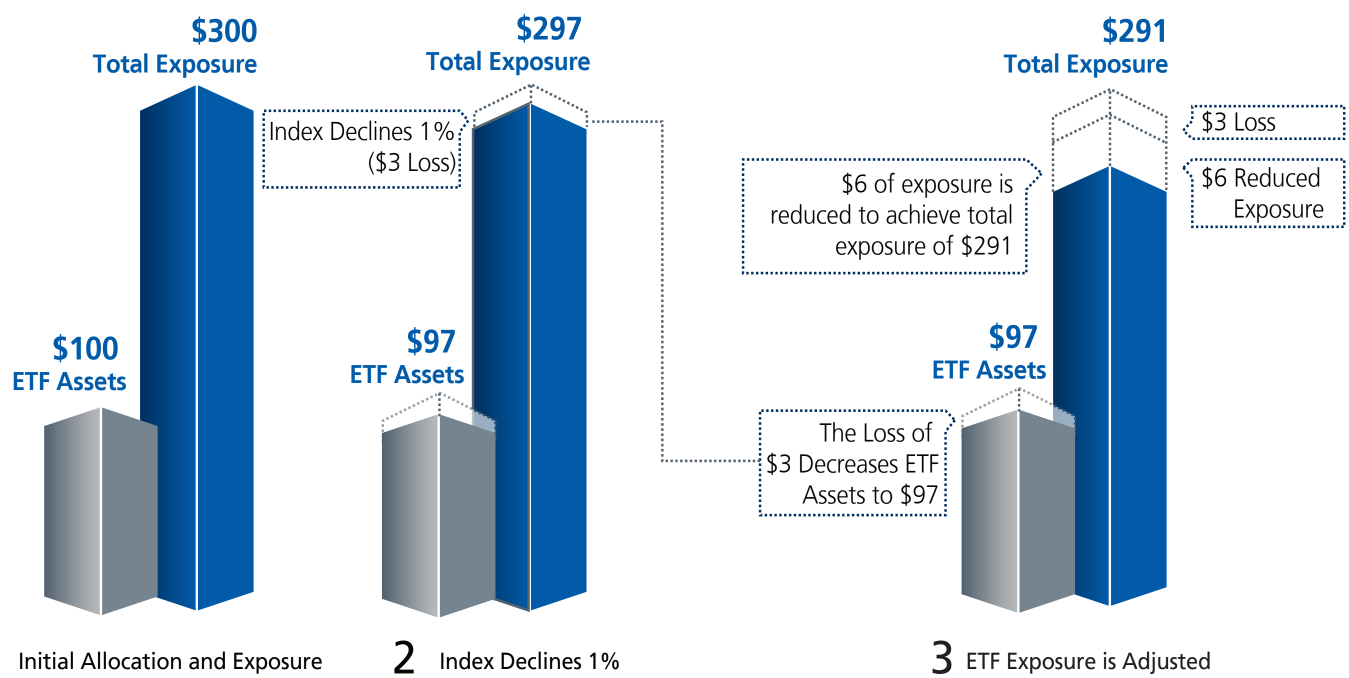
Direxion Shares are designed to seek daily investment results, before fees and expenses, of 300% of the performance (or 300% of the inverse of the performance, in the case of a bear fund), of the benchmark index that they track. Daily market fluctuations cause net asset levels to rise or fall, which results in portfolio adjustments to help ensure that exposure levels for the following day 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 300% of the inverse in the case of a bear fund) of the benchmark'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

The daily leveraged funds seek to provide returns which are a multiple of the returns of a particular benchmark. Daily rebalancing has important implications for the performance of the funds for periods longer than a day.

Why? Daily Leveraged Funds 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 its 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 which is a multiple of the decline in the net assets.

Ultimately, Daily Leveraged Funds respond to gains by becoming more aggressive, while they respond to losses by becoming more defensive. In markets which are directional, this can be an advantage, in markets which lack direction, this can be a disadvantage.

The following 3 scenarios illustrate how a Daily 3x Leveraged 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 index, multiplied by the stated exposure level of the portfolio, as demonstrated by the first two scenarios to the right.

1. Market Rises Steadily

If the benchmark 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 product of: (a) the index move; and (b) the fund's stated exposure rate. This is because the fund's assets rise in response to index moves favorable to the fund. As a consequence, market exposure rises, which amplifies gains on the 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	45.00	60.00	75.00
3x Fund Expected Daily Return (%)		15.00	14.28	13.65	13.05	12.51
Fund NAV ($)		23.00	26.28	29.86	33.75	37.97
Actual Cumulative Return (%)		15.00	31.40	49.30	68.75	89.85

2. Market Declines Steadily

Perhaps surprisingly, the fund's loss for a period may be less than the product of: (a) the index move; and (b) the fund's stated multiple or if the benchmark moves in a direction unfavorable to the fund (meaning down for a bull fund and up for a bear fund), but does so in a linear trend. This is because the fund's assets decline in response to index moves unfavorable to the fund and, as a consequence, market exposure declines, which 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	17.00	14.32	11.94	9.84	8.00
Actual Cumulative Return (%)		-15.00	-28.40	-40.30	-50.80	-60.00

3. Market is Flat, Yet Volatile

In markets in which there are no clear trends, the impact of daily rebalancing is harmful to performance over time. In essence, the fund follows a momentum strategy, which responds to gains by increasing exposure and responds to losses by decreasing exposure at the end of the day. This is not helpful in a market which lacks direction. A gain leads to increased exposure in advance of a loss, which then leads to decreased exposure in advance of a gain, and so on. Seeking leveraged daily returns in such a market without active monitoring and management may negatively impact performance. At the end of the period, the fund has a loss when it might be expected to have provided a return of 0.00%. The loss is a consequence of the application of the daily leveraged model to a period of significant volatility.

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	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

These numbers do not reflect the daily operating expenses and financing charges, are hypothetical in nature, and are not representative of actual Direxion shares returns.

Users of Leveraged 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 Shares are bought and sold in the secondary market on the NYSE ARCA exchange. The market prices of the shares will fluctuate in response to changes in 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 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 Shares or its affiliates, shows material signs of insolvency.

Direxion Shares are investment vehicles for active, sophisticated investors who are looking to gain magnified 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.***

Terms leveraged 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.

NYSE ARCA

Previously known as **ArcaEx**, an abbreviation of **Archipelago Exchange**, NYSE ARCA is a securities exchange on which both stocks and options are traded. It is owned by NYSE Euronext, which merged (as NYSE Group) with Archipelago Holdings in a reverse merger on 2/27/2007.

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 Share in which I invested advanced 5% last month. So why, then, didn't the fund return 15% for the month?

A: Direxion Shares' 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. An article entitled "Understanding the Impact of Changing Market Exposure on Leveraged Exchange-Traded Funds (ETFs)" that provides further detail can be found at:

http://direxionshares.com/document/literature.html

Q: The target benchmark index for the Direxion Share 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 NYSC ARCA in the case of Direxion Shares). 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: What happens if the value of the index that a Direxion Share is tracking moves more than 33% in one day?

A: Each Direxion Daily 3x ETF seeks daily exposure to its target 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 Shares 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 Shares cannot lose an amount greater than their initial investment.

Q: Are Direxion Shares ETFs appropriate for buy and hold investing?

A: ***No, this is not recommended.*** Direxion Shares 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.

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 or summary prospectus, please visit www.direxionshares.com. The prospectus or summary prospectus should be read carefully before investing.

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 for one year and under are cumulative, not annualized. 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. For additional information, see each fund's prospectus.

Investing in funds that invest in specific industries or geographic regions may be more volatile than investing in broadly diversified funds. The use of leverage by a fund means the Funds are riskier than alternative investments which do not use leverage. The more a fund invests in leveraged instruments, the more the leverage will magnify gains or losses on those 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.

Distributor: Foreside Fund Services, LLC.