Volatility Matters
Direxion’s leveraged ETFs seek daily goals, which means that the returns of the ETFs over time should not be expected to be a multiple of the cumulative return off the benchmark for the longer period. This piece illustrates how different volatility levels of a fund’s benchmark index can impact the returns of leveraged ETFs for periods greater than a day.

More Is Not Always Better

For the period of mid-December 2008 through mid-April 2009 — The Russell 1000 Technology Index, the benchmark for the Direxion Daily Technology 3X Bull (TECL) and Bear (TECS) funds, experienced higher volatility, which affected the funds’ returns. Volatility in these graphic examples is a statistical measure of the dispersion of returns for the above market index. Generally, the higher the volatility, the riskier the security and the higher risk to investment.

Although the benchmark index gained 11.30% over the holding period, the Bull Fund gained only 16.50%, much less than 3X the benchmark’s return. The Bear Fund lost 49.30%, much more than -3X the benchmark’s return.

The performance 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. For the most recent month end performance please visit www.direxioninvestments.com.

The recent growth rate in the stock market has helped to produce short term returns that are not typical and may not continue in the future. Because of ongoing market volatility, fund performance may be subject to substantial short term changes.

Performance (as of 9/30/2017)

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<tr>
<th></th>
<th>TECL</th>
<th>TECS</th>
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<tbody>
<tr>
<td></td>
<td>NAV</td>
<td>Market Close</td>
</tr>
<tr>
<td>YTD %</td>
<td>79.81</td>
<td>79.37</td>
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<tr>
<td>1 Year %</td>
<td>84.54</td>
<td>84.63</td>
</tr>
<tr>
<td>3 Year %</td>
<td>41.68</td>
<td>41.61</td>
</tr>
<tr>
<td>5 Year %</td>
<td>43.32</td>
<td>43.35</td>
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<tr>
<td>Since Inception %</td>
<td>47.24</td>
<td>47.28</td>
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<tr>
<td>Expense Ratio Gross/Net*</td>
<td>1.10/1.08</td>
<td>1.29/1.10</td>
</tr>
<tr>
<td>Inception Date</td>
<td>12/17/2008</td>
<td>12/17/2008</td>
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Less May Be More

During the period from mid-April, 2009 through December 31, 2009, the same index experienced much less volatility than in the previous example.

The benchmark index gained 42.00% over the holding period. The Bull Fund gained 165.00%. That’s 39 percentage points MORE than 3X of the benchmark’s return. The Bear Fund lost 71.00%, which is 55 percentage points better than -3X of the benchmark’s return.

Warning!

As nice as it is to see greater than expected returns, you must understand that these compounded returns will increase (for a bull fund) your exposure levels beyond your original 3X level, making your position more sensitive to future market movements. Consider selling your excess gains and managing to a specific exposure level.

Past performance is not indicative of future results.

Volatility – Why Does it Matter?

In pursuit of their daily investment objectives, leveraged ETFs must rebalance their assets to exposure ratio on a daily basis. This means that their returns over time are the product of a series of daily returns, and not the fund’s beta multiplied by the cumulative return of the index for periods greater than a day.

This deviation in performance is commonly referred to as compounding. The example above illustrates that high volatility causes decay of long-term returns for the funds, while sustained market trends can result in positive effects on returns.
The Bottom Line

Monitor and Act When Necessary

Daily rebalancing funds are not meant to be held, unmonitored for long periods. If you intend to hold leveraged ETFs for periods greater than a day, you must always watch them closely.

- During highly volatile periods for a fund’s benchmark index, you will need to adjust your positions frequently to maintain constant exposure levels.

- During periods of lower volatility for the benchmark index, you should continue to monitor, but position adjustments will likely be needed less frequently.

- If you don’t have the resources, time or inclination to constantly monitor and manage your positions, leveraged ETFs are not for you.

The Funds are not suitable for all investors and should be utilized only by sophisticated investors who understand leverage risk, the consequence of seeking daily leveraged investment results and intend to actively monitor and manage their investments.

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* 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 0.95%. The Funds’ Adviser, Rafferty Asset Management, LLC (“Rafferty”) has entered into an Operating Expense Limitation Agreement with each Fund, under which Rafferty has contractually agreed to cap all or a portion of its management fee and/or reimburse each Fund for Other Expenses through September 1, 2018, to the extent that the Fund’s Total Annual Fund Operating Expenses exceed 0.95% of the Fund’s daily net assets other than the following: 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.