TradeZero

Leveraged Or Inverse ETF's And ETN's

Traditional ETF/ETNs are designed to track an index, such as the S&P 500, or the price of an individual asset. Leveraged ETF/ETNs seek to deliver multiples of the performance of the index or benchmark (such as commodities or currencies) they track. Inverse ETF/ETNs (also called "short" funds) seek to deliver the opposite of the performance of the index or benchmark they track and are often marketed as a way for investors to profit from, or at least hedge their exposure to, downward moving markets. Both leveraged and inverse ETF/ETNs pursue a range of investment strategies through the use of swaps, futures contracts and other derivative instruments.

Most leveraged and inverse ETF/ETNs "reset" daily. This means that they are designed to achieve their stated objectives on a daily basis. Their performance over longer periods of time — over weeks, months or years — can differ significantly from the performance (or inverse of the performance) of their underlying index or benchmark during the same period of time. This effect can be magnified in volatile markets. For example, between December 1, 2008, and April 30, 2009, a leveraged ETF/ETN seeking to deliver three times the daily return of the Russell 1000 Financial Services Index fell 53 percent, while the underlying index actually gained approximately 8 percent. A leveraged inverse ETF seeking to deliver three times the inverse of the Russell 1000 Financial Services Index's daily return declined by 90 percent over the same period.

Unlike trading on margin, which involves paying off of interest on borrowed money, leveraged ETF/ETN's use derivatives like index options, index futures and equity swaps to increase or reduce market exposure. Since this is done on a daily basis, there is no guarantee of amplified annual returns. For example, for a product that doubles the return, if the index increases by 1% in one day, the product value increases 2%. If the index decreases by 1%, the product value will decrease by 2%. Since the leverage or inverse is adjusted on a daily basis to keep the ratio consistent, losses produce bigger effects than profits.

The daily rebalancing of leverage or inverse results in extra trading, interest and management costs, which can eat up the profit. This makes leveraged or inverse ETF/ETNs UNSUITABLE FOR LONG- TERM PROFITING. It is advised to analyze the leveraged or inverse ETF/ETN's past daily returns with respect to the underlying index before start trading the ETF/ETN.

Trading leveraged ETF/ETN's carries a high level of risk and may not be suitable for all traders. Many ETF/ETN's routinely employ leveraged investment techniques and or sampling techniques that magnify gains and losses and result in greater volatility in value. This high degree of leverage can work against you as well as for you. Before deciding to trade leveraged ETF/ETN's, you should carefully consider your investment objectives, level of experience and risk appetite. The possibility exists that you could sustain a loss of some or all of your initial investment and therefore you should not invest money that you cannot afford to lose.

LEVERAGED ETF/ETN'S (2 - 3X) ARE RISKIER THAN EQUITIES AND MAY NOT BE SUITABLE FOR INVESTORS WHO PLAN TO HOLD THEM FOR LONGER THAN ONE DAY.

Leveraged ETF/ETNs may not be marginable. Please check before placing a trade on margin at support@tradezero.ca. Improper use of margin may cause day trading or Regulation T calls.

For more information about Leveraged and inverse ETF/ETNs, you are encouraged to visit the U.S. Securities and Exchange Commission (SEC) webpage below, which further explains Exchange Traded Funds (ETFs), as well as Leveraged and Inverse ETF/ETNs