

Absolute Return: The return that an asset achieves over a period of time. This measure simply looks at the appreciation or depreciation (expressed as a percentage) that an asset - usually a stock or a mutual fund - faces over a period of time. Absolute return differs from relative return because it is concerned with the return of the asset being looked at and does not compare it to any other measure.

Active Investing: An investment strategy involving ongoing buying and selling actions by the investor. Active investors purchase investments and continuously monitor their activity in order to exploit profitable conditions.

Alpha: The difference in return above or below the return of a target index.

Bear Market: A market condition in which the prices of securities are falling or are expected to fall. Although figures can vary, a downturn of 15-20% or more in multiple indexes (Dow or S&P 500) is considered an entry into a bear market.

Benchmark: A standard against which the performance of a security, index or investor can be measured.

Beta: A measure of the volatility or risk of a security or a portfolio in comparison to a target index.

Bull Market: A financial market of a certain group of securities in which prices are rising or are expected to rise. The term "bull market" is most often used in respect to the stock market, but really can be applied to anything that is traded, such as bonds, currencies, commodities, etc.

Derivative: A security whose price is dependent upon or derived from one or more underlying assets. The derivative itself is merely a contract between two or more parties. Its value is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes. Most derivatives are characterized by high leverage. Futures contracts, forward contracts, options and swaps are the most common types of derivatives.

Buy and Hold: A passive investment strategy in which an investor buys stocks and holds them for a long period of time, regardless of fluctuations in the market. An investor who employs a buy-and-hold strategy actively selects stocks, but once in a position, is not concerned with short-term price movements and technical indicators.

Commodity: A basic good used in commerce that is interchangeable with other commodities of the same type. Commodities are most often used as inputs in the production of other goods or services. The quality of a given commodity may differ slightly, but it is essentially uniform across producers. When they are traded on an exchange, commodities must also meet specified minimum standards, also known as a basis grade.

Compounding: The ability of an asset to generate earnings, which are then reinvested in order to generate their own earnings. In other words, compounding refers to generating earnings from previous earnings. Compounding allows a principal amount to grow at a faster rate than simple interest, which is calculated as a percentage of the principal amount.

Compound Return: The rate of return, usually expressed as a percentage, that represents the cumulative effect that a series of gains or losses have on an original amount of capital over a period of time. Compound returns are usually expressed in annual terms, meaning that the percentage number that is reported represents the annualized rate at which capital has compounded over time.

Correlation: The measure of two investments that move in the same direction (up or down) for a given time period.

Credit Derivative: Privately held negotiable bilateral contracts that allow users to manage their exposure to credit risk. Credit derivatives are financial assets like forward contracts, swaps, and options for which the price is driven by the credit risk of economic agents (private investors or governments).

Diversification: A risk-management technique that mixes a wide variety of investments within a portfolio. The rationale behind this technique contends that a portfolio of different kinds of investments will, on average, yield higher returns and pose a lower risk than any individual investment found within the portfolio. Diversification strives to smooth out unsystematic risk events in a portfolio so that the positive performance of some investments will neutralize the negative performance of others. Therefore, the benefits of diversification will hold only if the securities in the portfolio are not perfectly correlated.

Dow Jones Industrial Average (DJIA): The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq. The DJIA was invented by Charles Dow back in 1896.

Emerging Market: A financial market of a developing country, usually a small market with a short operating history.

Emerging Market Fund: A mutual fund investing a majority of its assets in the financial markets of a developing country, typically a small market with a short operating history.

Exchange-Traded Fund (ETF): A security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange, thus experiencing price changes throughout the day as it is bought and sold.

Expense Ratio: The percentage of total fund assets that is used to cover expenses associated with the operation of a mutual fund. This amount is taken out of the fund's assets and lowers the return that fund holders achieve. These expenses include management fees and operating expenses. The management fee is the fee that is charged to the fund by the portfolio manager, and it is often a fixed percentage. The operating expenses are the expenses that the fund incurs through operation and this can include brokerage fees, taxes, investor services and interest expenses.

Large Cap: Companies with a market capitalization between \$10 billion and \$200 billion.

Leverage: The use of various financial instruments or borrowed capital, such as margin, to increase the potential return of an investment. Leverage can be created through options, futures, margin and other financial instruments.

Futures: A financial contract obligating the buyer to purchase an asset (or the seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price. Futures contracts detail the quality and quantity of the underlying asset; they are standardized to facilitate trading on a futures exchange. Some futures contracts may call for physical delivery of the asset, while others are settled in cash. The futures markets are characterized by the ability to use very high leverage relative to stock markets.

Growth Fund: A diversified portfolio of stocks that has capital appreciation as its primary goal, and thereby invests in companies that reinvest their earnings into expansion, acquisitions, and/or research and development.

Growth Stock: Shares in a company whose earnings are expected to grow at an above average rate relative to the market.

Hedging: A strategy designed to reduce investment risk and increase profits by lowering volatility and limiting potential losses. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.

Hedge Fund: An aggressively managed portfolio of investments that uses advanced investment strategies such as leverage, long, short and derivative positions in both domestic and international markets with the goal of generating high returns (either in an absolute sense or over a specified market benchmark).

High Yield: Description of investments with high rates of return. Generally, a high yield bond will be ranked very low by a rating agency, because these are bonds which have a relatively high chance of default, and therefore have to offer higher returns. Similarly, a stock will offer a high dividend yield in order to compensate for lower expected capital gains, for example a large company in a mature industry which is no longer growing.

Index: A statistical measure of change in an economy or a securities market. In the case of financial markets, an index is essentially an imaginary portfolio of securities representing a particular market or a portion of it. Each index has its own calculation methodology and is usually expressed in terms of a change from a base value. Thus, the percentage change is more important than the actual numeric value.

Index Fund: A portfolio of investments that is weighted the same as a stock-exchange index such as the S&P 500 in order to mirror its performance.

Liquidity: The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity.

Long (Long Position): The buying of a security such as a stock, commodity or currency, with the expectation that the asset will rise in value.

Market Capitalization: A measure of a company's total value. It is estimated by determining the cost of buying an entire business in its current state. Often referred to as "market cap", it is the total dollar value of all outstanding shares. It is calculated by multiplying the number of shares outstanding by the current market price of one share.

Mid Cap: Companies having a market capitalization between \$2 billion and \$10 billion. Shortened form of "middle cap".

MSCI Emerging Markets Index: An index created by Morgan Stanley Capital International (MSCI) that is designed to measure equity market performance in global emerging markets. The Emerging Markets Index is a float-adjusted market capitalization index. As of May 2005, it consisted of indices in 26 emerging economies: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, Turkey and Venezuela.

Nasdaq Composite Index: A market-value weighted index of all common stocks listed on Nasdaq. The Nasdaq Composite dates back to 1971, which is when the Nasdaq exchange was first formalized. The index is used mainly to track technology stocks, and thus it is not a good indicator of the market as a whole. Unlike the Dow Jones Industrial Average (DJIA), the Nasdaq is market value-weighted, so it takes into account the total market capitalization of the companies it tracks and not just their share prices.

Portable Alpha: The strategy of portfolio managers separating alpha from beta by investing in securities that differ from the market index from which their beta is derived. Alpha is the return achieved over and above the return that results from the correlation between the portfolio and the market (beta). In simple terms, this is a strategy that involves investing in areas that have little to no correlation with the market.

Redemption Fee: A sales charge or commission paid when an individual sells an investment, such as a mutual fund or an annuity. Intended to discourage withdrawals. also called redemption fee or deferred sales charge. also called back-end load.

R-Squared: Measures the percentage of an investment's movement that can be attributed to its benchmark index. 100% R-Squared means the investment's movement has perfect predictability to its target index.

Russell 2000: The best-known of a series of market-value weighted indices published by the Frank Russell Company. The index measures the performance of the smallest 2,000 companies in the Russell 3000 Index of the 3,000 largest U.S. companies in terms of market capitalization.

Short (Short Position): The sale of a borrowed security, commodity or currency with the expectation that the asset will fall in value.

Small Cap: Refers to stocks with a relatively small market capitalization. The definition of small cap can vary among brokerages, but generally it is a company with a market capitalization of between \$300 million and \$2 billion.

Standard Deviation: A measure of the dispersion of a set of data from its mean. The more spread apart the data is, the higher the deviation. Standard deviation is applied to the annual rate of return of an investment to measure the investment's volatility (risk). A volatile stock would have a high standard deviation. In mutual funds, the standard deviation tells us how much the return on the fund is deviating from the expected normal returns.

Standard & Poor's 500 Index (S&P 500): An index consisting of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large-cap universe.

Swap: Traditionally, the exchange of one security for another to change the maturity (bonds), quality of issues (stocks or bonds), or because investment objectives have changed. Recently, swaps have grown to include currency swaps and interest rate swaps.

Total Return: When measuring performance, the actual rate of return of an investment or a pool of investments over a given evaluation period. Total return includes interest, capital gains, dividends and distributions realized over a given period of time.

Total Return Index: An index that calculates the performance of a group of stocks assuming that all dividends and distributions are reinvested. Examples include the S&P 500, the Russell 2000, and the Wilshire 5000. This method is usually considered a more accurate measure of actual performance than if dividends and distributions were ignored.

Tracking Error: A divergence between the price behavior of a position or a portfolio and the price behavior of a benchmark. This is often in the context of a hedge that did not work as effectively as intended, creating an unexpected profit or loss instead.

12b-1 Fee: An extra fee charged by some mutual funds to cover promotion, distributions, marketing expenses, and sometimes commissions to brokers. A genuine no-load fund does not have 12b-1 fees, although some funds calling themselves "no-load" do have 12b-1 fees (as do some load funds). 12b-1 fee information is disclosed in a fund's prospectus, is included in the stated expense ratio, and is usually less than 1%.

Ulcer Index (UI): A volatility measurement of drawdown. It is unaffected by upside volatility. Money market funds will always have a UI = 0.0. Ultra-short bond funds (which have a little bit of downside) will have a UI that is about 0.1 (or even rounded down to 0.0). All investment strategies have as a goal the reduction of UI.

Value Fund: A mutual fund that primarily holds value stocks, stocks deemed to be undervalued in price.

Value Stock: A stock that tends to trade at a lower price relative to its fundamentals (i.e. dividends, earnings, sales, etc.) and thus considered undervalued by a value investor. Common characteristics of such stocks include a high dividend yield, low price-to-book ratio and/or low price-to-earnings ratio.

Variable Annuity: A life insurance annuity contract which provides future payments to the holder (the annuitant), usually at retirement, the size of which depends on the performance of the portfolio's securities.

Volatility: A statistical measure of the dispersion of returns for a given security or market index. Volatility can either be measured by using the standard deviation or variance between returns from that same security or market index. Commonly, the higher the volatility, the riskier the security.



An investor should consider the investment objectives, risks, charges, and expenses of the funds carefully before investing. The prospectus contains this and other information about the funds. To obtain a prospectus please call the Direxion Funds at 800-851-0511. The prospectus should be read carefully before investing.

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