



direxion[®]

A closer look at High Yield Bonds

How your clients may benefit from high
yield trading strategies.

The advantages of High Yield Bonds

The High Yield Bond market offers investors the potential to provide returns comparable to equities, with a reduced risk profile. As illustrated by the table below, for the time period ended December 31, 2010, the High Yield market outperformed the S&P 500® Index on a 5- and 10-year basis. (We are using the Merrill Lynch High Yield Master II Index as a performance barometer for the High Yield market.) In addition, daily return volatility of the High Yield market for the 5- and 10-year periods was notably lower for both time frames.

Ending 12/31/10	5 Year Performance	10 Year Performance
High Yield ¹	42.53%	128.02%
High Yield Volatility ²	6.75%	5.41%
S&P 500® Index ¹	-1.24%	33.35%
S&P 500® Index Volatility ²	26.68%	22.04%

Source: Bloomberg

It should be noted that High Yield Bonds can be riskier than investment grade bonds. Some of the key risks include: Credit Risk, Interest Rate Risk, Liquidity Risk, Economic Risk, and Company and Industry "Event" Risk. Investors should read the prospectus carefully before investing.

High yield investments can also help investors weather tough markets.

Consider the volatile performance in the stock market between 2005 to 2010. The High Yield market outperformed the S&P 500® Index during this period of time, while also displaying a markedly reduced volatility profile. The potential benefits of a High Yield Bond investment were distinct during the broad market rally following the sell off in 2008. Absolute returns surpassed those of the S&P 500®, while again, volatility remained substantially lower. (See table below.)

Ending 12/31/11	2007	2008	2009	2010	2011	Average
High Yield Market ¹	2.24%	-26.39%	57.51%	15.19%	4.38%	10.59%
High Yield Volatility ²	3.36%	10.86%	6.99%	3.74%	4.94%	5.98%
S&P 500® Index ¹	5.49%	-37.00%	26.46%	15.06%	2.11%	2.43%
S&P 500® Index Volatility ²	16.03%	41.01%	27.25%	18.07%	23.37%	25.15%

Source: Bloomberg

How often do high yield bonds default?

Investors often avoid the High Yield market due to a belief that such investments have a high probability of default. The 25-year default rate, however, as shown in the chart on the following page, has averaged only 4.6% in the domestic High Yield market. The reality is that, although the average rate of default does increase in periods of economic distress, high yield investments nevertheless tend to experience a relatively low default rate.

¹ Although past performance is not indicative of future results, the High Yield market has often produced positive performance in periods of rising interest rates.

² Volatility is measured daily for both periods.

Obtaining liquidity in the High Yield market with Direxion Funds

Historically, it has been somewhat difficult to obtain liquid exposure to the High Yield market. This is because transaction costs associated with high yield bond trading have tended to be relatively high. As a result, many fund companies assess fees at redemption to limit the effect of transaction costs on performance.

Direxion's high yield bond funds, however, feature:

- the ability to invest long or short;
- daily liquidity; and
- no transaction fees.

The Fund uses combination of financial products including Exchange Traded Funds that hold High Yield Bonds, Total Return Swap Agreements, and liquid treasury instruments, as well as maintaining the flexibility to use credit derivative indexes in its composition. The goal is for the fund to remain liquid in an efficient manner that is generally not efficiently replicated in traditional High Yield Bond Mutual funds, offering investors the unique opportunity to actively trade the market in a daily, liquid way.

Direxion offers two funds to help investment professionals and their clients obtain liquidity in the High Yield market:

- Dynamic HY Bond Fund
- HY Bear Fund

Share Class	Dynamic High Yield Bond Fund	High Yield Bear Fund
Fees Gross/Net	1.86/1.86	1.92/1.92
Symbol	PDHYX	PHBRX
CUSIP	254939762	25459754

Dynamic HY Bond Fund

Finding a fund with daily liquidity in the High Yield market has historically been challenging for most investors. The Direxion Dynamic HY Bond Fund, however, is a passively managed fund that offers investors long exposure to the High Yield market in a liquid way. This Fund has the potential to be a useful tool within a closely monitored portfolio, since liquid exposure has proven to be instrumental in investment strategies over the past several years.

HY Bear Fund

Introduced in 2005, the Direxion HY Bear Fund is a unique product that seeks to profit from falling prices by shorting high yield investments. HY Bear also uses a combination of products, including Exchange Traded Funds that hold High Yield Bonds, Swap agreements, liquid treasury securities and futures, as well maintaining the flexibility to use a credit derivative index for core exposure. The combination of these instruments facilitates daily liquidity in the Fund.

Direxion HY Bear is useful for:

- Hedging: Investors holding illiquid long High Yield positions may be unable to liquidate due to factors such as redemption fees, short-term trading fees, illiquid market conditions, and tax implications. Direxion HY Bear can be used to hedge under such circumstances.
- Shorting: Investors can participate in High Yield market downtrends by tactically investing in of Direxion HY Bear.
- Long/Short Strategy: Direxion HY Bear can be used in a long/short strategy to give investors the potential to take advantage of downward trends in the market or dispersion between the high yield market in general and a specific security or a basket of securities.

Incorporating the HY Funds into portfolios offers:

Low correlation to other markets

High Yield market performance is unique relative to other market segments. As you can see from the chart below, High Yield traditionally has had a low correlation to other asset classes. This makes high yield investing a valuable tool for adding diversification to asset allocation strategies.³

Index	Merrill Lynch High Yield Master II	S&P 500® Index	Goldman Sachs Commodity Index	10-Year Treasury	30-Year Treasury	Barclays Capital US Aggregate Bond Index
Correlation	1.00	0.61	0.26	-0.10	-0.11	0.23

Source: Bloomberg

Low sensitivity to interest rates

The performance of high yield bonds is typically driven by the credit health of the issuer. The High Yield market has a tendency to be less sensitive to changes in interest rates than other bonds of similar maturities. In fact, although past performance is not indicative of future results, the High Yield market has often produced positive performance in periods of rising interest rates.

High current income from higher coupon rates

On average, high yield bonds have traditionally provided yields 4% to 5% greater than Treasury bonds of similar maturity⁴. This higher-than-average yield can be desirable for those seeking income in addition to capital appreciation.

Average Annualized Total Returns (as of 03/31/2012)

Symbol	Fund	1 Month (%)	3 Month (%)	YTD (%)	1 Year (%)	3 Year (%)	5 Year (%)	Since Inception (%)	Inception Date	Expense Ratio (Gross/Net %)
PDHYX	Dynamic HY Bond Fund	-1.14	1.89	7.88	4.33	8.63	0.03	1.58	7/1/2004	1.86 / 1.86
PHBRX	HY Bear Fund	0.37	-3.69	-14.14	-11.56	-16.73	-7.84	-10.82	9/20/2005	1.92 / 1.92

³ Diversification does not protect against a loss or ensure a gain.

⁴ Source Bloomberg

An investor should consider the investment objectives, risks, charges, and expenses of the Direxion funds carefully before investing. The prospectus and summary prospectus contain this and other information about Direxion Funds. To obtain a prospectus or summary prospectus, please contact Direxion Funds at 800.851.0511. The prospectus and summary prospectus should be read carefully before investing.

Risks:

The risks associated with the Dynamic HY Bond Fund and HY Bear Fund are detailed in the prospectus which include Active and Frequent Trading Risk, Advers Market Conditions Risk, Advisor's Investment Strategy Risk, Counterparty Risk, Credit Risk, Derivatives Risk, Early Close/Trading Halt Risk, Interest Rate Risk, Liquidity Risk, Lower-Quality Debt Securities Risk, Market Risk, Market Timing Activity Risk, Non-Diversification Risk, Regulatory Risk, Risks of Investing in Other Investment Companies and ETFs, and Shorting Risk.