

Is it time to harvest losses?

Scenario

Sally conducts an annual review of her portfolio before the end of every year. Earlier this year, she realized a substantial gain outside of her investment portfolio. On the other hand, she notices that her current portfolio has underperformed, due to a loss in one position. She purchased this asset at the top of the market and since its acquisition, it has underperformed and lost considerable value. How can she convert this negative aspect of her portfolio to a positive one, given that she is still optimistic about this particular asset class?

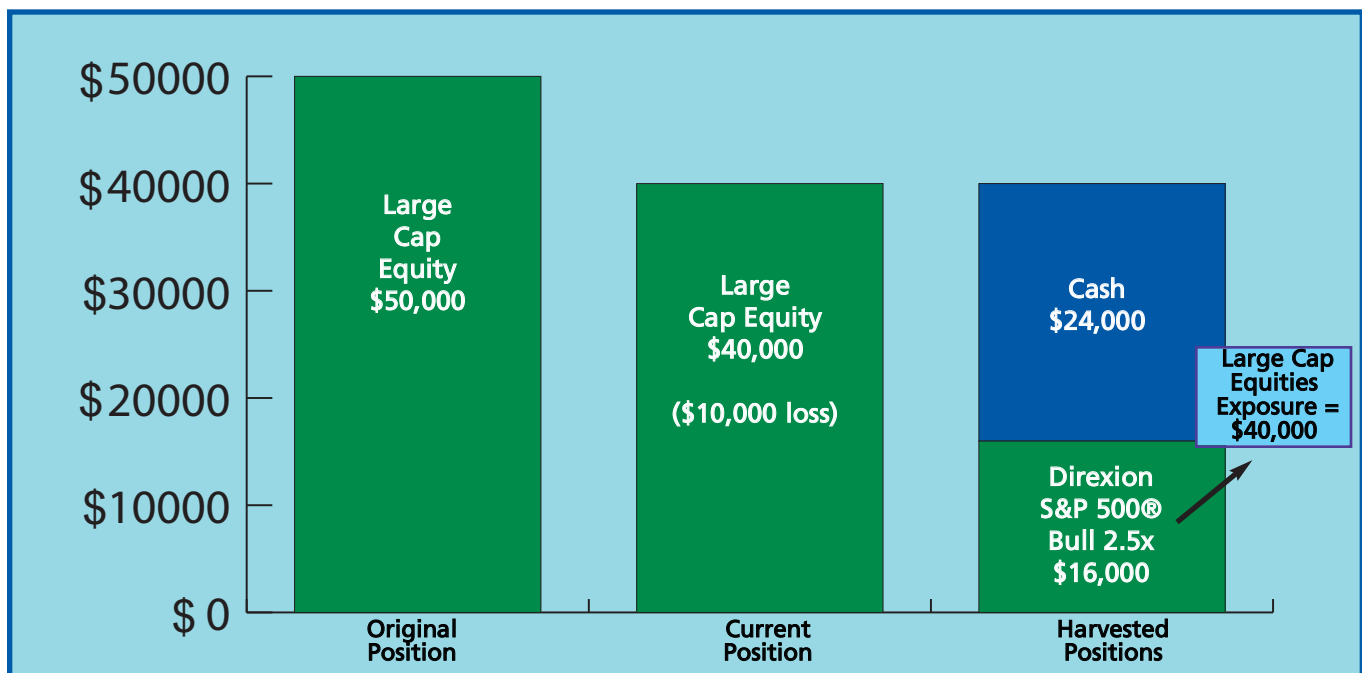
Solution

Tax Loss Harvesting is a process of selling securities, usually at year-end, to realize portfolio losses, which an investor can use to offset capital gains and therefore lower personal tax liability.

By applying this strategy, investors may effectively manage their portfolio by offsetting realized gains with unrealized losses for the current year and/or future years to come. By taking advantage of leveraged index funds, investors can redeploy only a portion of the sale proceeds while maintaining their current exposure to certain asset classes.

Strategy in Action

Large Cap Equity fund is carrying an annualized loss of \$10,000 from a \$50,000 original position.



Action Steps

Sell current position and realize \$10,000 loss; leaving \$40,000 as current value.

Redeploy only \$16,000 from sale proceeds and purchase the Direxion S&P 500® Bull 2.5x Fund (DXSLX), thereby replicating the current \$40,000 in large-cap equities. The remaining \$24,000 is left in cash for future investment opportunities.

Benefit

Harvesting the loss to receive tax benefits that can be used to offset other capital gains.

The original portfolio exposure to large cap equities now remains constant, and an additional \$24,000 is left in cash for future investment opportunities. Since the Direxion S&P 500® Bull 2.5x Fund seeks 250% exposure to the S&P 500® Index, a \$16,000 investment has the purchasing power of \$40,000 ($\$16,000 \times 2.5 = \$40,000$).

Flexibility:

The wash sale rule* allows an investor to repurchase their original holding after 30 days and still benefit from favorable tax treatment. In the scenario illustrated above, Sally has the flexibility to either maintain her position in the Direxion S&P 500® Bull 2.5x Fund or re-purchase her original investment. The level of liquidity that Direxion Funds offer, allows Sally to make the buy-back transaction without incurring a redemption fee.

If Sally decides to retain her position in the Direxion S&P 500® Bull 2.5x Fund, the inherent leverage within the fund affords her the flexibility to employ other sophisticated portfolio strategies such as partial leveraging, portable alpha and others.

Strategy Benefits:

- Harvested losses may be applied to either actual or expected capital gains, or carried forward to offset for future years**
- Maintain current portfolio exposure to targeted asset class
- Increase cash position for future investment opportunities
- Allows for more efficient allocations of investment capital: instead of spending 100% of sale proceeds to get 100% market exposure, as little as 40% can be used to get the same exposure with a 2.5x leveraged fund.

Take Aways

- Tax Loss Harvesting may trigger liability reductions in an investor's tax bill by offsetting realized gains.
- Investors can maintain current exposure to targeted categories while freeing up additional capital to invest in future opportunities.

Direxion provides funds and useful tools that may be extremely effective in carrying out a tax loss harvesting strategy. To learn more about this and other useful strategies that can be implemented using leveraged index funds, please contact your Direxion Funds representative or call 877-437-9363.

**An Internal Revenue Service (IRS) rule prohibiting a taxpayer from claiming a loss on the sale of an investment when the same investment was purchased within 30 days before or after the sale date. Also known as the "30-day wash-rule".*

***Tax losses may be applied to realized gains in the broader portfolio, deducted from ordinary income (standard deductibility rules) and/or carried forward into future years. Before incorporating this concept, an advisor or client should always consult a tax professional concerning wash sale rules and claiming realized losses.*

Investing in index funds may be more volatile than investing in broadly diversified funds. The use of leverage by a mutual fund increases the risk to the fund. The more a fund invests in leveraged instruments the more the leverage will magnify gains or losses on those investments.

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 Direxionfunds at 1 800-851-0511. The prospectus should be read carefully before investing.

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The total annual fund operating expense ratio of the Direxion S&P 500® Bull 2.5x Fund, gross and net of any fee, waivers or expense reimbursements as stated in the fee table of the funds prospectus is 3.15% & 1.75% respectively.

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