



DIREXION INSURANCE TRUST

SEMI-ANNUAL REPORT JUNE 30, 2008

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Dynamic VP HY Bond Fund

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## LETTER TO SHAREHOLDERS

Dear Shareholders,

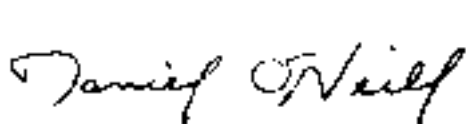
This Semi-Annual Report for the Direxion Funds covers the six month period of January 1, 2008 to June 30, 2008 (the "Semi-Annual Period").

The Dynamic VP HY Bond Fund (the "Fund") investment objective is to seek to maximize total return (income plus capital appreciation) by investing primarily in debt instruments, including convertible securities, and derivatives of such instruments, with an emphasis on lower-quality debt instruments. For the Semi-Annual Period, the Fund returned -5.22% on a total return basis compared with a return of -2.02% for the Lipper High Yield Bond Fund Index.

During the Semi-Annual Period, the Fund was generally exposed to the credit markets using a credit derivative index. Volatility in the financial markets and a developing credit crunch negatively affected the performance of the Fund both outright and on a relative basis versus its peers. Much of the relative underperformance was generally attributable to a lack of interest rate exposure and poor relative performance of the credit derivative index. Positive performance of the Fund was driven by rallies in the credit derivative index. Income in the Fund was generally achieved by investing cash in a combination of high quality overnight repurchase agreements and coupon payments from the credit derivative index.

As always, we thank you for using the Direxion Funds and we look forward to our mutual success.

Sincerely,



Daniel O'Neill  
Chief Investment Officer



Todd Kellerman  
Chief Financial Officer

**The performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate and an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance data quoted. To obtain performance data current to the most recent month-end, please call, toll-free, 1-800-851-0511 or visit [www.direxionfunds.com](http://www.direxionfunds.com).**

**The total annual fund operating expense ratio of the Dynamic VP HY Bond Fund is 1.66%, net of any fee, waivers or expense reimbursements.**

**An investment in any of the Direxion Funds is subject to a number of risks that could affect the value of its shares. It is important that investors closely review and understand these risks before making an investment. Investors considering an investment may obtain a prospectus by calling 1-800-851-0511. Investors should read the prospectus carefully for more complete information, including charges, expenses, objectives, and additional risks, before investing.**

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Date of First Use: August 28, 2008**

**Expense Example**  
**June 30, 2008 (Unaudited)**

As a shareholder of a mutual fund, you incur two types of costs: (1) transaction costs, including sales charges (loads) on purchase payments, reinvested dividends, or other distributions; redemption fees; and exchange fees; and (2) ongoing costs, including management fees; distribution and/or service fees; and other Fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare costs with the ongoing costs of investing in other mutual funds.

The Example is based on an investment of \$1,000 invested at the beginning of the period and held the entire period (January 1, 2008 — June 30, 2008).

**Actual Expenses**

The first line of the table below provides information about actual account values and actual expenses. Although the Fund charges no sales load or transactions fees, you will be assessed fees for outgoing wire transfers, returned checks or stop payment orders at prevailing rates charged by U.S. Bancorp Fund Services, LLC, the Funds' transfer agent. If you request a redemption be made by wire transfer, currently a \$15.00 fee is charged by the Funds' transfer agent. However, the example below does not include portfolio trading commissions and related expenses or other extraordinary expenses as determined under generally accepted accounting principles. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading

entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

**Hypothetical Example for Comparison Purposes**

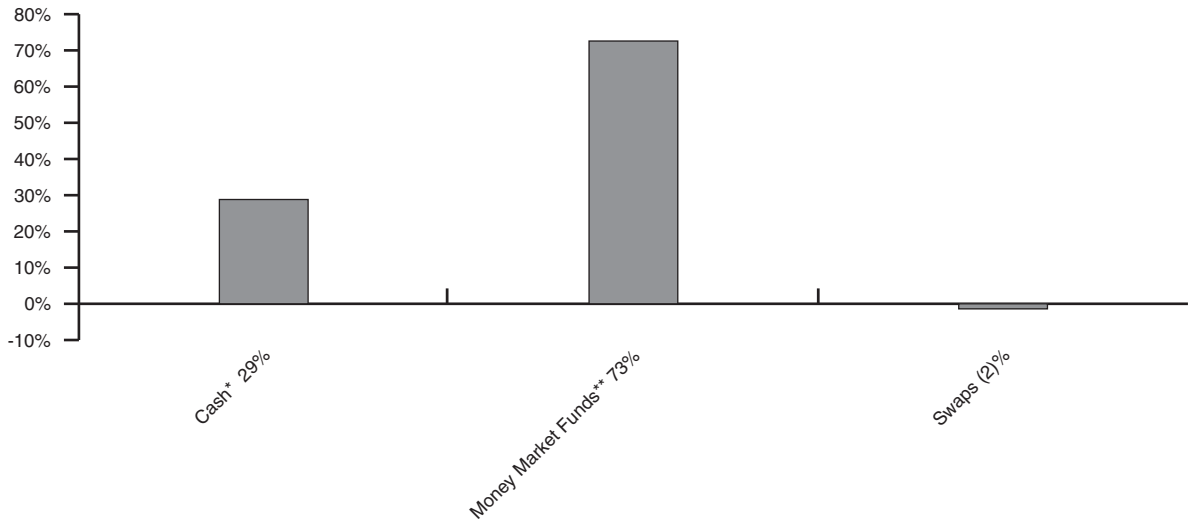
The second line of the table below provides information about hypothetical account values and hypothetical expenses based on the Funds' actual expense ratios and an assumed rate of return of 5% per year before expenses, which is not the Funds' actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Funds and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs, such as wire transfers, returned checks or stop payment orders. Therefore, the second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher. The tables below do not reflect any fees and expenses imposed under variable annuity contracts and variable life insurance policies ("Contracts") and certain qualified pension and retirement plans ("Plans"), which would increase overall fees and expenses. Please refer to your Contract or Plan Prospectus for a description of those fees and expenses.

	<b>Dynamic VP HY Bond Fund</b>		
	<b>Beginning Account Value January 1, 2008</b>	<b>Ending Account Value June 30, 2008</b>	<b>Expenses Paid During Period January 1, 2008 - June 30, 2008*</b>
Actual	\$1,000.00	\$ 947.80	\$8.04
Hypothetical (5% return before expenses)	1,000.00	1,016.61	8.32

\* Expenses are equal to the Fund's annualized expense ratio of 1.66%, multiplied by the average account value over the period, multiplied by 182/366 to reflect the one-half year period.

**Dynamic VP HY Bond Fund**  
**Allocation of Portfolio Holdings (Unaudited)**  
**June 30, 2008**



The percentages in these graphs are calculated based on net assets

\* Cash and other assets less liabilities.

\*\* These are investment companies that primarily invest in this category of securities.

**Dynamic VP HY Bond Fund**  
**Schedule of Investments**  
**June 30, 2008 (Unaudited)**

<u>Shares</u>		<u>Value</u>
<b>SHORT TERM INVESTMENTS - 72.6%</b>		
<b>MONEY MARKET FUNDS - 72.6%%</b>		
1,198,093	Dreyfus Government Cash Management	\$1,198,093
1,198,093	Evergreen Institutional U.S. Government Money Market Fund	1,198,093
1,198,093	Federated Prime Obligations Fund	1,198,093
552,008	Fidelity Institutional Money Market Portfolio	552,008
1,198,093	Goldman Sachs Financial Square Government Fund	1,198,093
1,198,093	SEI Daily Income Trust Government Fund	<u>1,198,093</u>
	<b>TOTAL SHORT TERM INVESTMENTS</b> (Cost \$6,542,473)	<u>\$6,542,473</u>
	<b>TOTAL INVESTMENTS</b> (Cost \$6,542,473) - 72.6%	\$6,542,473
	Other Assets in Excess of Liabilities - 27.4%	<u>2,469,848</u>
	<b>TOTAL NET ASSETS - 100.0%</b>	<u><u>\$9,012,321</u></u>

Percentages are stated as a percent of net assets.

**Dynamic VP HY Bond Fund**  
**Credit Default Swap Contracts**  
**June 30, 2008 (Unaudited)**

<u>Counterparty</u>	<u>Reference Entity</u>	<u>Buy/Sell Protection</u>	<u>Pay/Receive Fixed Rate</u>	<u>Notional Amount</u>	<u>Termination Date</u>	<u>Unrealized Appreciation/ (Depreciation)</u>
Bank of America	CDX North America High Yield Index	Sell	5.00%	\$ 140,813	6/20/2013	\$ 113
Goldman Sachs & Co.	CDX North America High Yield Index	Sell	5.00%	<u>3,185,312</u>	6/20/2013	<u>(126,633)</u>
				<u>\$3,326,125</u>		<u>\$(126,520)</u>

The accompanying notes are an integral part of these financial statements.

**Statement of Assets and Liabilities (Unaudited)****June 30, 2008**

	<b>Dynamic VP HY Bond Fund</b>
<b>Assets:</b>	
Investments, at market value (Note 2)	\$ 6,542,473
Receivable for investments sold	249,563
Deposit at broker for swaps	2,880,000
Swap payments paid	9,187
Dividends and interest receivable	89,345
Other assets	6,737
<b>Total Assets</b>	<u>9,777,305</u>
<b>Liabilities:</b>	
Payable for Fund shares redeemed	485,747
Swap payments received	73,875
Unrealized depreciation on swaps	126,520
Accrued distribution expense	9,193
Accrued advisory expense	19,440
Accrued expenses and other liabilities	50,209
<b>Total Liabilities</b>	<u>764,984</u>
<b>Net Assets</b>	<u>\$ 9,012,321</u>
<b>Net Assets Consist Of:</b>	
Capital stock	\$10,867,850
Accumulated undistributed net investment income	549,943
Accumulated undistributed net realized gain (loss)	(2,278,952)
Net unrealized appreciation/(depreciation) on:	
Swaps	(126,520)
<b>Total Net Assets</b>	<u>\$ 9,012,321</u>
<b>Calculation of Net Asset Value Per Share:</b>	
Net assets	\$ 9,012,321
Shares outstanding	
(unlimited shares of beneficial interest authorized, no par value)	502,197
Net asset value, redemption price and offering price per share	<u>\$ 17.95</u>
Cost of Investments	<u>\$ 6,542,473</u>

The accompanying notes are an integral part of these financial statements.

**Statement of Operations (Unaudited)**  
**For the Six Months Ended June 30, 2008**

	<u>Dynamic VP HY Bond Fund</u>
<b>Investment income:</b>	
Dividend income	\$ 110
Interest income	<u>304,051</u>
Total investment income	<u>304,161</u>
<b>Expenses:</b>	
Investment advisory fees	83,444
Distribution expenses	27,815
Shareholder servicing fees	22,252
Administration fees	6,604
Fund accounting fees	5,851
Custody fees	3,757
Transfer agent fees	7,935
Professional fees	17,994
Reports to shareholders	3,789
Trustees' fees and expenses	695
Other	<u>4,983</u>
Total expenses	<u>185,119</u>
<b>Net investment income</b>	<u>119,042</u>
<b>Realized and unrealized gain (loss) on investments:</b>	
Net realized gain (loss) on:	
Investments	(75,043)
Futures	(72,752)
Swaps	(782,410)
Contributions by affiliates (Note 5)	<u>31,151</u>
	<u>(899,054)</u>
Change in unrealized appreciation (depreciation) on:	
Investments	4,914
Swaps	<u>165,460</u>
	<u>170,374</u>
Net realized and unrealized gain on investments	<u>(728,680)</u>
<b>Net decrease in net assets resulting from operations</b>	<u><u>\$(609,638)</u></u>

The accompanying notes are an integral part of these financial statements.

## Statements of Changes in Net Assets (Unaudited)

	<b>Dynamic VP HY Bond Fund</b>	
	Six Months Ended June 30, 2008 (Unaudited)	Year Ended December 31, 2007
<b>Operations:</b>		
Net investment income	\$ 119,042	\$ 1,246,592
Net realized gain (loss) on investments	(899,054)	511,232
Change in unrealized appreciation (depreciation) on investments	170,374	(1,737,756)
Net increase (decrease) in net assets resulting from operations	(609,638)	20,068
<b>Distributions to shareholders:</b>		
Net investment income	(633,713)	(1,258,795)
Total distributions	(633,713)	(1,258,795)
<b>Capital share transactions:</b>		
Proceeds from shares sold	78,555,326	97,181,701
Proceeds from shares issued to holders in reinvestment of distributions	633,713	1,258,795
Cost of shares redeemed	(91,091,924)	(119,748,425)
Net increase (decrease) in net assets resulting from beneficial interest transactions	(11,902,885)	(21,307,929)
<b>Total increase (decrease) in net assets</b>	<b>(13,146,236)</b>	<b>(22,546,656)</b>
<b>Net assets:</b>		
Beginning of year/period	22,158,557	44,705,213
End of year/period	<b>\$ 9,012,321</b>	<b>\$ 22,158,557</b>
<b>Accumulated undistributed net investment income, end of year/period</b>	<b>\$ 549,943</b>	<b>\$ 1,064,614</b>

The accompanying notes are an integral part of these financial statements.

## Financial Highlights

	<b>Dynamic VP HY Bond Fund</b>			
	Six Months Ended June 30, 2008 (Unaudited)	Year Ended December 31, 2007	Year Ended December 31, 2006	February 1, 2005 <sup>1</sup> to December 31, 2005
<b>Per share data:</b>				
<b>Net asset value, beginning of year/period</b>	\$ 19.52	\$ 20.43	\$ 20.05	\$ 20.00
<b>Income (loss) from investment operations:</b>				
Net investment income (loss) <sup>4</sup>	0.10	0.81	0.96	0.90
Net realized and unrealized gain (loss) on investments	(1.15)	(1.16)	0.27	(0.60)
Total from investment operations	(1.05)	(0.35)	1.23	0.30
<b>Less distributions:</b>				
Dividends from net investment income	(0.54)	(0.56)	(0.85)	(0.25)
Total distributions	(0.54)	(0.56)	(0.85)	(0.25)
<b>Contributions by affiliates</b>	0.02	—	—	—
<b>Net asset value, end of year/period</b>	\$ 17.95	\$ 19.52	\$ 20.43	\$ 20.05
<b>Total return<sup>6</sup></b>	(5.22%) <sup>2,7</sup>	(1.77%)	6.21%	1.50% <sup>2</sup>
<b>Supplemental data and ratios:</b>				
Net assets, end of year/period	\$9,012,321	\$22,158,557	\$44,705,213	\$35,144,375
<b>Ratio of net expenses to average net assets:</b>				
Before expense reimbursement/recoupment <sup>3</sup>	1.66%	1.63%	1.68%	1.94%
After expense reimbursement/recoupment <sup>3</sup>	1.66%	1.63%	1.67%	1.74%
<b>Ratio of net investment income (loss) to average net assets:</b>				
Before expense reimbursement/recoupment <sup>3</sup>	1.07%	3.95%	4.74%	4.78%
After expense reimbursement/recoupment <sup>3</sup>	1.07%	3.95%	4.75%	4.98%
<b>Portfolio turnover rate<sup>5</sup></b>	27% <sup>2</sup>	145%	538%	654% <sup>2</sup>

<sup>1</sup> Commencement of operations.

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

<sup>4</sup> Net investment income (loss) per share represents net investment income (loss) divided by the daily average shares of beneficial interest outstanding throughout each period.

<sup>5</sup> Portfolio turnover ratio is calculated without regard to short-term securities having a maturity of less than one year. Investments in options, swaps, futures contracts and repurchase agreements are deemed short-term securities. The Fund's aggressive investment strategy may result in significant portfolio turnover to take advantage of anticipated changes in market conditions.

<sup>6</sup> All returns reflect reinvested dividends, if any, but do not reflect the impact of taxes or any fees and expenses imposed under the Contracts and Plans, which would increase overall fees and expenses. Please refer to your Contract or Plan prospectus for a description of those fees and expenses.

<sup>7</sup> The Adviser made a contribution due to trading error. If the contribution had not been made, the total return would have been lower by 0.37%.

The accompanying notes are an integral part of these financial statements.

**Dynamic VP HY Bond Fund**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2008**

**1. ORGANIZATION**

Direxion Insurance Trust (the “Trust”) was organized as a Massachusetts business trust on December 28, 1999 and is registered under the Investment Company Act of 1940, as amended (the “1940 Act”), as an open-end management investment company issuing its shares in series, each series representing a distinct portfolio with its own investment objective and policies. The Trust currently has three series in operation of which the Dynamic VP HY Bond Fund (the “Fund”) is included in this report. The Fund is a “non-diversified” series of the Trust pursuant to the 1940 Act. The Trust offers shares to unaffiliated life insurance separate accounts (registered as unit investment trusts under the 1940 Act) to fund the benefits under variable annuity and variable life contracts. The Dynamic VP HY Bond Fund commenced operations on February 1, 2005.

The objective of the Dynamic VP HY Bond Fund is to maximize total return (income plus capital appreciation) by investing primarily in debt instruments, including convertible securities, and derivatives of such instruments, with an emphasis on lower-quality debt instruments.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of their financial statements. These policies are in conformity with U.S. generally accepted accounting principles.

**a) Investment Valuation** – Equity securities, OTC securities, swap agreements, exchange-traded funds, options, futures, and options on futures are valued at their last sales price, or if not available, the mean of the last bid and asked prices. Securities primarily traded on the NASDAQ National Market are valued using the NASDAQ Official Closing Price (“NOCP”). Short-term debt securities with a maturity of 60 days or less and money market securities are valued at the amortized cost. Other debt securities are valued by using the mean prices provided by the Fund’s pricing service or, if such services are unavailable, by a pricing matrix method. Securities for which reliable market quotations are not readily available, the Funds’ pricing service does not provide a valuation for such securities, the Fund’s pricing service provides valuation that in the judgment of Rafferty Asset Managements, LLC (the “Adviser”) does not represent fair value, or the Fund or Adviser believes the market price is stale will be fair valued as determined by the Adviser under the supervision of the Board of Trustees.

**b) Repurchase Agreements** – The Fund may enter into repurchase agreements with institutions that are members of the Federal Reserve System or securities dealers who are members of a national securities exchange or are primary dealers in U.S. government securities. In connection with transactions in repurchase agreements, it is the Trust’s policy that the Fund receives, as collateral, cash and/or securities (primarily U.S. government securities) whose market value, including accrued interest, at all times will be at least equal to 100% of the amount invested by the Fund in each repurchase agreement. If the seller defaults, and the value of the collateral declines, realization of the collateral by the Fund may be delayed or limited.

**c) Swap Contracts** – The Fund may enter into equity swap contracts. Standard swap contracts are between two parties that agree to exchange the returns (or differentials in rates of return) earned or realized on particular predetermined investments or instruments. The gross amount to be exchanged is calculated with respect to a “notional amount” (i.e. the return on or increase in value of a particular dollar amount invested in a “basket” of securities representing a particular index or industry sector). The Fund’s obligations are accrued daily (offset by any amounts owed to the Fund).

In a “long” swap agreement, the counterparty will generally agree to pay the Fund the amount, if any, by which the notional amount of swap contract would have increased in value if the Fund had been invested in the particular securities, plus dividends that would have been received on those securities. The Fund will agree to pay the counterparty a floating rate of interest on the notional amount of the swap contract plus the amount, if any, by which the notional amount would have decreased in value had it been invested in such securities plus, in certain instances, commissions or trading spreads on the notional amounts. Thus, the return on the swap contract should be the gain or loss on the notional amount plus dividends on the securities less the interest paid

by the Fund on the notional amount. Payments may be made at the conclusion of the contract or periodically during its term. Swap contracts do not include the delivery of securities or other underlying securities. The net amount of the excess, if any, of the Fund's obligations over its entitlement with respect to each swap is accrued on a daily basis and an amount of cash or liquid assets, having an aggregate net asset value at least equal to such accrued excess is maintained in a segregated account by the Fund's custodian. Until a swap contract is settled in cash, the gain or loss on the notional amount plus dividends on the securities less the interest paid by the Fund on the notional amount are recorded as "unrealized gains or losses on swaps and futures" and when cash is exchanged, the gain or loss is recorded as "realized gains or losses on swaps and futures." Swap contracts are collateralized by the securities and cash of each particular Fund.

The Fund may enter into swap contracts that provide the opposite return of the particular benchmark or security ("short" the index or security). The operations are similar to that of the swaps disclosed above except that the counterparty pays interest to the Fund on the notional amount outstanding and the dividends on the underlying securities reduce the value of the swap, plus, in certain instances, the Fund will agree to pay to the counterparty commissions or trading spreads on the notional amount. These amounts are netted with any unrealized appreciation or depreciation to determine the value of the swap.

The Fund may enter into credit default swaps. In a credit default swap, one party makes a stream of payments to another party in exchange for the right to receive a specified return in the event of a default by a referenced entity, typically corporate issues on its obligation. The stream of payments is recorded as an unrealized gain or loss until payments are received and adjusted to include up-front payments recorded as a component of unrealized gain or loss on swaps. When payments are received or when the swap is sold or expires, the stream of payments is recognized as a component of realized gains or losses. The Fund may use the swaps to attempt to gain exposure to debt securities without actually purchasing those securities or to hedge a position. The Fund may purchase credit protection on the referenced entity of the credit default swap ("Buy Contract") or provide credit protection on the referenced entity of the credit default swap ("Sale Contract"). If a credit event occurs, the maximum payout amount for a sale contract is limited to the notional amount of the swap contract ("Maximum Payout Amount"). At June 30, 2008, the Dynamic VP HY Bond Fund has Sale Credit Default Swap Contracts outstanding with Maximum Payout Amounts aggregating \$3,326,125 with two counterparties, with net unrealized depreciation of \$126,520, and terms of 5 years, as reflected in the schedule of investments. Maximum Payout Amounts could be offset by the subsequent sale, if any, of assets obtained via the execution of a payout event.

Swap contracts involve, to varying degrees, elements of market risk and exposure to loss in excess of the amount reflected in the Statement of Assets and Liabilities. The notional amounts reflect the extent of the total investment exposure that each Fund has under the swap contract. The primary risks associated with the use of swap agreements are imperfect correlation between movements in the notional amount and the price of the underlying securities and the inability of counterparties to perform. A Fund bears the risk of loss of the amount expected to be received under a swap contract in the event of default or bankruptcy of a swap contract counterparty.

**d) Concentration of Risk** – The Fund invests in the Dow Jones CDX High Yield Note ("CDX"), which represents a trust of pooled investments. The CDX invests in a portfolio of credit default swap agreements and a repurchase agreement. Credit default swap agreements involve commitments to pay/receive a fixed interest rate in exchange for receipt/payment of the referenced obligation if a credit event affecting the referenced obligation occurs. The CDX is providing credit protection to the counterparties of the respective credit default swap agreements in exchange for a fixed interest rate payment, therefore there is credit risk with respect to the referenced entities of these credit default swap agreements. If a credit event occurs to a referenced entity, the Fund's principal amount in the CDX will be reduced by its pro-rata interest in the respective credit default swap agreement. A credit event may include a failure to pay interest or principal, bankruptcy, or restructuring. Any recoverable amounts of the liquidation of the referenced obligation will be allocated pro rata to the holders of the CDX.

**e) Short Positions** – The Fund may engage in short sale transactions. For financial statement purposes, an amount equal to the settlement amount is included in the Statement of Assets and Liabilities as an asset and an equivalent liability. The amount of the liability is subsequently marked-to-market to reflect the current value of the short position. Subsequent fluctuations in the market prices of short positions may require purchasing the securities at prices which may differ from the market value reflected on the Statement of Assets and Liabilities. The Fund is liable to the buyer for any dividends payable on securities while those securities are in a short position. As collateral for its short positions, the Fund is required under the 1940 Act to maintain assets consisting of

cash, cash equivalents or liquid securities equal to the market value of the securities sold short. This collateral is required to be adjusted daily.

**f) Risks of Options, Futures Contracts, Options on Futures Contracts and Short Positions** – The risks inherent in the use of options, futures contracts, options on futures contracts and short positions include 1) adverse changes in the value of such instruments; 2) imperfect correlation between the price of options and futures contracts and options thereon and movements in the price of the underlying securities, index or futures contracts; 3) the possible absence of a liquid secondary market for any particular instrument at any time; 4) the possible need to defer closing out certain positions to avoid adverse tax consequences; and 5) the possible nonperformance by the counterparty under the terms of the contract. The Funds designate all cash, cash equivalents and liquid securities as collateral for written options, futures contracts and short positions.

**g) Risks of Investing in Foreign Securities** – Investments in foreign securities involve greater risks than investing in domestic securities. As a result, the Fund’s returns and net asset values may be affected to a large degree by fluctuations in currency exchange rates, political, diplomatic or economic conditions and regulatory requirements in other countries. The laws and accounting, auditing, and financial reporting standards in foreign countries typically are not as strict as they are in the U.S., and there may be less public information available about foreign companies.

**h) Security Transactions** – Investment transactions are recorded on trade date. The Fund determines the gain or loss realized from investment transactions by comparing the identified cost, which is the same basis used for federal income tax purposes, with the net sales proceeds.

**i) Federal Income Taxes** – The Fund intends to comply with the requirements of Subchapter M of the Internal Revenue Code necessary to qualify as a regulated investment company and to make the requisite distributions of income and capital gains to its shareholders sufficient to relieve it from all or substantially all federal income and excise taxes.

**j) Income and Expenses** – Dividend income is recorded on the ex-dividend date. Interest income, including amortization of premium and discount, is recognized on an accrual basis. The Fund is charged for those expenses that are directly attributable to each series, such as Advisory fees and registration costs. Expenses that are not directly attributable to a series are generally allocated among the Trust’s series in proportion to their respective net assets.

**k) Distributions to Shareholders** – The Fund generally pays dividends from net investment income and distributes net realized capital gains, if any, at least annually. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from U.S. generally accepted accounting principles. Distributions to shareholders are recorded on the ex-dividend date.

The tax character of distributions for the Dynamic VP HY Bond Fund during the six months ended June 30, 2008 and year ended December 31, 2007, were as follows:

	<b>Dynamic VP HY Bond Fund</b>	
	<u>Six Months Ended June 30, 2008 (Unaudited)</u>	<u>Year Ended December 31, 2007</u>
Distributions paid from:		
Ordinary income	\$633,713	\$1,258,795
Long-term capital gain	—	—
Total distributions paid	<u>\$633,713</u>	<u>\$1,258,795</u>

As of December 31, 2007, the components of distributable earnings of the Fund was as follows:

	<b>Dynamic VP HY Bond Fund</b>
Net unrealized appreciation/(depreciation)	<u>\$ (7,100)</u>
Undistributed ordinary income/(loss)	772,632
Undistributed long-term gain/(loss)	<u>—</u>
Distributable earnings	<u>772,632</u>
Other Accumulated gain/(loss)	<u>(1,346,559)</u>
Total Accumulated gain/(loss)	<u>\$ (581,027)</u>

The difference between book cost of investments and tax cost of investments is attributable primarily to the tax deferral of losses on wash sales.

**I) Use of Estimates** – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting. Actual results could differ from those estimates.

### 3. CAPITAL SHARE TRANSACTIONS

Capital share transactions for the Dynamic VP HY Bond Fund during the six months ended June 30, 2008 and year ended December 31, 2007 were as follows:

	Six Months Ended June 30, 2008 (Unaudited)	Year Ended December 31, 2007
Shares sold	4,318,877	4,848,453
Shares issued to holders in reinvestment of distributions	35,373	61,965
Shares redeemed	<u>(4,987,042)</u>	<u>(5,963,395)</u>
Total increase (decrease) from capital share transactions	<u>(632,792)</u>	<u>(1,052,977)</u>

### 4. INVESTMENT TRANSACTIONS

During the six months ended June 30, 2008, the aggregate purchases and sales of investments (excluding short-term investments) for the Dynamic VP HY Bond Fund were as follows:

	<b>Dynamic VP HY Bond Fund</b>
Purchases	\$ 83,085
Sales	(665,975)

There were no purchases or sales of long-term U.S. Government securities during the six months ended June 30, 2008.

The cost basis of investments for federal tax purposes as of June 30, 2008 was as follows:

	<b>Dynamic VP HY Bond Fund</b>
Cost basis of investments for federal income tax purposes	\$6,544,659
Unrealized Appreciation	—
Unrealized Depreciation	<u>—</u>
Net unrealized appreciation/(depreciation)	<u>\$ —</u>

In order to meet certain excise tax distribution requirements, the Fund is required to measure and distribute annually, net capital gains realized during a twelve-month period ending October 31<sup>st</sup>. In connection with this, the Fund is permitted for tax purposes to defer into their next fiscal year any net capital losses incurred between November 1st and the end of their fiscal year.

At October 31, 2007 the Fund deferred, on a tax basis, post-October losses of \$(838,742).

As of December 31, 2007, the Dynamic VP HY Bond Fund had capital loss carryforwards on a tax basis of:

<u>Capital Loss Carryover</u>	<u>Expires</u>
\$(203,531)	2013
(304,289)	2014

The Fund utilized capital loss of \$552,716.

To the extent that the Fund realizes future net capital gains, those gains will be offset by any unused capital loss carryover.

Net investment income and realized gains and losses for federal income tax purposes may differ from that reported on the financial statements because of permanent book-to-tax differences. U.S. generally accepted accounting principles require that permanent differences between financial reporting and tax reporting be reclassified between various components of net assets.

## 5. INVESTMENT ADVISORY AND OTHER AGREEMENTS

The Fund has entered into an investment advisory agreement with the Adviser. The Adviser receives a fee, computed daily and payable monthly, at the annual rates presented below as applied to each Fund's average daily net assets. For the six months ended June 30, 2008, the Adviser has voluntarily agreed to pay all operating expenses (excluding dividends on short positions), in excess of the annual cap on expenses presented below as applied to the Fund's average daily net assets. Because this is a voluntary waiver, the Adviser may change or end the waiver at any time. The Adviser may recover from the Fund the expenses paid in excess of the annual cap on expenses for the three previous years, as long as the recovery does not cause the Fund to exceed such annual cap on expenses. For the six months ended June 30, 2008, the Adviser paid or recouped the following expenses:

	<u>Dynamic VP HY Bond Fund</u>
Annual Advisory rate	0.75%
Annual cap on expenses	1.75%
Expenses paid in excess of annual cap on expenses - 2008	\$ —
Adviser expense waiver recovery - 2008	\$ —

Remaining expenses subject to potential recovery expiring in:

	<u>Dynamic VP HY Bond Fund</u>
2008	\$—
2009	—
2010	—
2011	—
Total	<u>\$—</u>

The shares of the Dynamic VP HY Bond Fund are subject to an annual Rule 12b-1 fee of up to 0.25% of Fund's average daily net assets. The Rule 12b-1 fees are to pay the insurance company of the plan sponsor for its services for servicing shareholder accounts. Because the fees are paid out of the Fund's net assets on an ongoing basis, the cost of an investment in the Fund will increase over time.

Rafferty Capital Markets, LLC (the “Distributor”) serves as principal underwriter of the Fund and acts as the Fund’s distributor in a continuous public offering of the Fund’s shares. During the six months ended June 30, 2008, the Dynamic VP HY Bond Fund incurred expenses of \$27,815 under Rule 12b-1. The fee is paid to the Distributor for expenses incurred for distribution-related activities. The Distributor is an affiliate of the Adviser. A trading error of \$31,152 was created on a variance swap contract which was held in the Dynamic VP HY Bond Fund. The Adviser absorbed this loss. This amount is reflected on the Statement of Operations as Contribution by affiliates.

In the ordinary course of business, the Fund enters into contracts that contain a variety of indemnification provisions pursuant to which the Fund agrees to indemnify third parties upon occurrence of specified events. The Fund’s maximum exposure relating to these indemnification agreements is unknown. However, the Fund has not had prior claims or losses in connection with these provisions and believes the risk of loss is remote.

## **6. FINANCIAL ACCOUNTING STANDARDS BOARD INTERPRETATION NO. 48**

In July 2006, the Financial Accounting Standards Board (“FASB”) released FASB Interpretation No. 48 (“FIN 48”), “Accounting for Uncertainty in Income Taxes”. FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Fund’s tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. Adoption of FIN 48 is required as of the date of the last Net Asset Value (“NAV”) calculation in the first required financial statement reporting period for fiscal years beginning after December 15, 2006 and is to be applied to all open tax years as of the effective date.

FIN 48 requires the Fund to analyze all open tax years. Open tax years are those years that are open for examination by the relevant taxing authority. As of December 31, 2007, open Federal and state income taxes include the tax years ended December 31, 2004 through December 31, 2007. The Fund has no examination in progress.

The Fund has reviewed all open tax years and major jurisdictions and concluded that the adoption of FIN 48 resulted in no effect to the Fund’s financial position or results of operations. There is no tax liability resulting from unrecognized tax benefits relating to uncertain income tax positions taken or expected to be taken on the tax return for the fiscal year-end December 31, 2007. The Fund is also not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months.

## **7. FINANCIAL ACCOUNTING STANDARDS BOARD STANDARD NO. 157**

In September 2006, FASB issued its Statement on Financial Accounting Standards No. 157, *Fair Value Measurements* (“FAS 157”) effective for fiscal years beginning after November 15, 2007. FAS 157 clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable. The Funds have adopted FAS 157 effective January 1, 2008. A summary of the fair value hierarchy under FAS 157 is described below:

Various inputs are used in determining the value of the Fund’s investments. These inputs are summarized in three broad levels listed below:

Level 1 – Quoted prices in active markets for identical securities,

Level 2 – Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)

Level 3 – Significant unobservable inputs (including the Fund’s own assumptions in determining fair value of investments)

The inputs or methodology used for valuing securities are not an indication of the risk associated with investing in those securities.

The follow is a summary of the inputs used to value the Fund's net assets as of June 30, 2008:

<u>Description</u>	<u>Dynamic VP HY Bond Fund</u>	
	<u>Investments in Securities</u>	<u>Other Financial Instruments*</u>
Level 1 – Quoted prices	\$6,542,473	\$ —
Level 2 – Other significant observable inputs	—	(126,520)
Level 3 – Significant unobservable inputs	—	—
<b>Total</b>	<u>\$6,542,473</u>	<u>\$(126,520)</u>

\* Other financial instruments are derivative instruments not reflected in the Schedule of Investments, such as futures, written options and swap contracts, which are valued at the unrealized appreciation (depreciation) on the instrument.

## 8. NEW ACCOUNTING PRONOUNCEMENT

In March 2008, FASB issued its Statement on Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("FAS 161"). This standard is intended to enhance financial statement disclosure for derivative instruments and hedging activities and enable investors to understand: a) how and why a fund uses derivatives instruments, b) how derivatives instruments and related hedge items are accounted for, and c) how derivative instruments and related hedge items affect a fund's financial position, results of operations and cash flows. FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. As of June 30, 2008, management does not believe the adoption of FAS 161 will impact the financial statement amounts; however, additional footnote disclosures may be required about the use of derivative instruments and hedge items.



## DIREXION INSURANCE TRUST

SEMI-ANNUAL REPORT JUNE 30, 2008

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The Fund's Proxy Voting Policies are available without charge by calling 1-800-851-0511, or by accessing the SEC's website, at [www.sec.gov](http://www.sec.gov).

The actual voting records relating to portfolio securities during the most recent period ended June 30 (starting with the year ended June 30, 2005) is available without charge by calling 1-800-851-0511 or by accessing the SEC's website at [www.sec.gov](http://www.sec.gov).

The Fund files complete schedules of portfolio holdings with the SEC on Form N-Q. The Form N-Q is available without charge, upon request, by calling 1-800-851-0511, or by accessing the SEC's website, at [www.sec.gov](http://www.sec.gov).

This report has been prepared for shareholders and may be distributed to others only if preceded or accompanied by a current prospectus.