

### Have you been in this situation?

#### Scenario

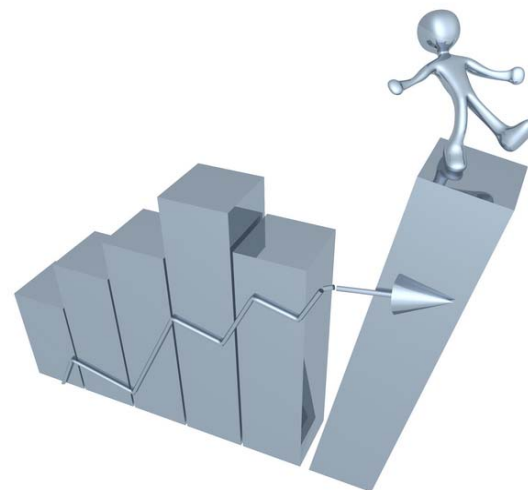
You receive a call from a client who has been happy with the recent performance of her portfolio. She is seeking your opinion regarding the prospect of a market correction and is concerned about losing recent gains. She is inclined to sell her portfolio and move to cash. You are compelled to warn her about the disadvantages of this approach including, incurring capital gains taxes and the prospect of missing out on future rallies.

#### Solution

Consider applying a hedge.

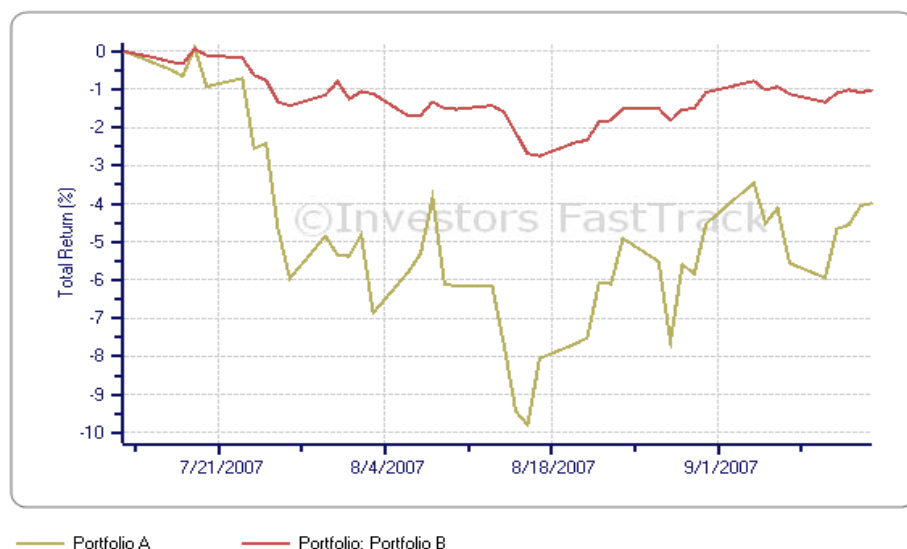
Hedging is the strategy of purchasing an inversely correlated investment to reduce the risk of adverse price movements.

A hedge can help protect gains and reduce volatility in a declining or volatile market. In the above instance, it can provide the ability to stay long and still profit if the market continues to rally without having to incur taxable gains.



#### Strategy in Action

The charts below illustrate performance of two portfolios, one long only and one hedged during the period of 7/13/07 - 9/14/2007 - A particularly volatile time in the equity markets.



#### Portfolio A Holdings: Long Only Portfolio

Fidelity Contrafund	25%
Allianz NFJ Small Cap Value	25%
Fidelity Diversified International	25%
Growth Fund of America	25%

#### Portfolio B Holdings: Hedged Portfolio

Fidelity Contrafund	20%
Allianz NFJ Small Cap Value	20%
Fidelity Diversified International	20%
Growth Fund of America	20%
Direxion S&P 500 Bear 2.5x	20%

	Ulcer Index*	Beta	Std DV	Total Return
Portfolio A	5.50	.87	5.37	-3.98%
Portfolio B	1.65	.08	1.21	-1.50%

#### Standard Performance as of 9/30/2008

Fund Name	1 Yr (%)	5 Yr (%)	10 Yr (%)	Since Inception	Inception Date
FCNTX Fidelity Contrafund	-19.04	9.46	7.47	12.57	5/17/67
PCVAX Allianz NFJ Small Cap Value	-10.41	12.69	12.22	12.59	10/1/91
AGTHX Growth Fund of America	-22.91	6.55	8.49	14.18	12/1/73
FDVIX Fidelity Diversified International	-28.79	10.43	9.73	9.86	12/27/91
DXSSX Direxion S&P 500 Bear 2.5x	54.05	-	-	3.55	5/1/06

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; an investor's shares, when redeemed, may be worth more or less than their original cost; current performance may be lower or higher than the performance quoted. Please call 800-851-0511 to obtain current month-end performance information. For additional information, see the fund's prospectus.

The total annual fund operating expense ratio of the NASDAQ 100 Bear 2.5x Fund, gross of any fee waivers or expense reimbursements, as stated in the fee table of the funds prospectus is 1.68%.

## Hedged Portfolio Outcome

The following are the results of applying a hedge (20% Direxion S&P 500 Bear 2.5x) to the original portfolio.

- Ulcer\* Index was reduced from 5.50 to 1.47
- Beta was reduced from .87 to .09
- Total Return increased from -3.98% to -1.02%
- Annualized Return increased from -20.77% to -5.67%

Though it may be extremely difficult to predict and identify a declining market, volatile markets can be easier to recognize allowing for an opportunity to attempt to proactively manage volatility.

## What are the benefits and considerations of hedging?

### Benefits of Hedging

- Provides a portfolio with lower levels of risk
- Reduces volatility
- Lowers downside loss potential
- May potentially improve performance in down markets

### Considerations

- Predicting the exact time to hedge can be difficult
- The correlation between your portfolio and the hedge must be accurately predicted to ensure efficiency
- A hedge may potentially decrease performance in up markets

To further discuss how Direxion's funds may be beneficial to your investment strategy, please call the Direxion Team at 877-437-9363.



### Direxion's Short Funds - "Tools for Hedging"

Direxion provides a suite of short leveraged index funds with a daily exposure range from 100% to 250% of the funds underlying index, minus interest and expenses.

Symbol	Fund	Daily Beta
<b>Domestic Bear</b>		
DXSSX	S&P 500® Bear 2.5x Fund	-250%
DXQSX	NASDAQ 100® Bear 2.5x Fund	-250%
DXRSX	Small Cap Bear 2.5x Fund	-250%
PSPSX	S&P 500® Bear 1x Fund	-100%
<b>International Bear</b>		
DXESX	Emerging Markets Bear 2x Fund	-200%
DXDSX	Developed Markets Bear 2x Fund	-200%
DXZSX	Latin America Bear 2x Fund	-200%
DXHSX	China Bear 2x Fund	-200%
<b>Currency Bear</b>		
DXDDX	Dollar Bear 2.5x Fund	-250%
<b>Fixed Income Bear</b>		
DXKSX	10 Year Note Bear 2.5x Fund	-250%
PHBRX	HY Bear Fund	-

\* Ulcer Index measures the depth and duration of drawdowns from recent peaks of an investment

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.

The risks associated with the Fund are detailed in the prospectus which include risks of high portfolio turnover and market timing activity, poor benchmark correlation, aggressive investing techniques, inverse correlation, leverage, shorting securities, swap agreements, interest rate changes, credit risk, and non-diversification. "

*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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