BENJAMIN F. EDWARDS®
INVESTMENTS for GENERATIONS®

One North Brentwood Boulevard
Suite 850
Saint Louis, Missouri 63105
Telephone 314-726-1600
Facsimile 314-726-1601
benjaminfedwards.com
Member of SIPC Member of FINRA

Understanding Leveraged and Inverse ETPs:

A Notice for Clients Who Trade or Who Anticipate Trading Leveraged and/or Inverse Exchange Traded Products

Exchange Traded Products (ETPs) are a regularly priced security that trades intra-day on a national stock exchange that are often benchmarked to indices, stocks, commodities or may be actively managed. There are several different types of ETPs that include Exchange Traded Funds (ETFs) and Exchange Traded Notes (ETNs). While conventional, non-leveraged ETPs are relatively uncomplicated, the leveraged and inverse versions add a level of complexity that might be easily overlooked. These leveraged and inverse ETPs are most appropriate for investors who are familiar with the specialized risks and benefits of the products, and who already have an understanding of investment concepts and practices.

A leveraged ETP is designed to return a multiple of the return of a specific benchmark or underlying index, usually for a single day. As an example, ETPs are available that return two-times and three-times the daily gain or loss on most major stock market indices. An inverse ETP is designed to return the opposite of the daily return of its benchmark or underlying index. Leveraged-inverse ETPs are also available on most major indices. Such ETPs attempt to return two and three times the opposite of the underlying index's daily return.

Leveraged and inverse ETPs do not seek, and should not be expected to, to achieve their stated objectives over a period of time greater than a single day. Any position that is held open for more than one day is subject to "tracking error", where compounding of the daily returns creates a discrepancy between a fund's return and the index's return. Over any extended holding period, the actual return on a leveraged or inverse ETP is likely to vary from what the underlying index's actual, point-to-point performance would imply. Longer holding periods and volatile markets increase the potential amount of the tracking error. There is also the potential for an ETP to lose money even, in the case of a positive-direction ETP, if the target index rises or, in the case of an inverse ETP, if the target index falls. Use of leverage by an ETP is likely to magnify these effects.

We encourage you to fully understand an ETP before you create a new position especially if you are considering the purchase or short sale of a leveraged or inverse ETP. You should understand the risk profile of the ETP, its performance, fees and expenses, and how gains or losses you might incur would be taxed. You should also understand the trading characteristics of the ETP, including its portfolio size, average daily trading volume, and bid/ask spread, all of which can be a reflection of both market interest in the product and, similarly, how active the market is for the security. Individual ETP sponsors all provide a wealth of information on their respective websites and in their prospectuses or product descriptions, which you will receive as you purchase these products.

In addition to information about portfolio composition, these resources contain detailed information about the risks to which that specific ETP is subject. Another source of information that you may find helpful is www.understandetfs.org. This site was created by ETF sponsors, and it has several examples illustrating how the compounding of daily returns leads to tracking error. We also suggest you review the FINRA investor alert that can be found at the following link or obtained from your Financial Advisor:
www.finra.org/Investors/ProtectYourself/InvestorAlerts/MutualFunds/P119778

Leveraged and inverse ETPs are relatively specialized tools for investors and come with unique risks. Because of the effects of compounding, leveraged and inverse funds may return significantly more or less than their benchmarks over a period longer than one day. These products are not appropriate for a long-term or buy and hold investment strategy, as these investments are designed for short-term or intraday trading for investors who intend to actively monitor and manage their investments as frequently as daily.

Leveraged and/or Inverse Exchange Traded Products (ETPs) are complex products and are not suitable for all investors. The risks identified above are not exhaustive. There are a wide variety of Leveraged and Inverse ETPs available, with attributes which affect their risks and potential rewards. Before making any investment decision, you should carefully consider the investment objectives, risks, charges, and expenses before investing in this product. This and other important information are included in the offering documents, which can be obtained from your Financial Advisor and should be read carefully. Benjamin F. Edwards & Co.® does not provide tax advice. You should obtain advice from your financial, legal and tax advisers for information about and analysis of the investment, its risks and its suitability in your particular circumstances.

2022-3325 Exp. 10/31/2025