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Investor Alert on the Dangers of Leveraged and Inverse ETFs

FAIR Canada Calls upon Regulators to Take Action to Protect Investors

In a report released today entitled: **"Heads You Lose, Tails You Lose: The Strange Case of Leveraged ETFs"** FAIR Canada described the hazards of investing in leveraged and inverse ETFs for periods longer than the daily performance that these funds promise. The 9 page report describes the growth of this very popular product in both the U.S. and Canada and how they pose threats to the health of investor portfolios.

LEVERAGED AND INVERSE ETFS ENDANGER INVESTOR FINANCIAL HEALTH

FAIR Canada Executive Director Ermanno Pascutto said: "The longer you hold a leveraged or inverse Exchange Traded Fund (ETF), the greater the likelihood that you will lose money, regardless of which direction you bet. For the 12 months ending March 31, 2009, the S&P/TSX index of gold-mining stocks was up 1%. The Horizons BetaPro Bear+ ETF lost 87%. The Bull+ fund lost 46%."

Mr. Pascutto added: "These were not anomalies. Four of the nine pairs of Horizons BetaPro's leveraged ETFs with at least a year-long track record lost money in both their bull and bear versions for the 12 months ended March. At least one member of virtually all of the other pairs suffered from significant tracking errors."

A VERY RAPIDLY GROWING AND POPULAR INVESTMENT PRODUCT

Leveraged and inverse ETFs are the most rapidly growing segment of the market. 32 Canadian funds, offered only by Horizons BetaPro, have pulled in $2.1 billion in investor dollars in the past 26 months and show up daily in the lists of top performing and most actively traded stocks. In addition, Canadian investors are purchasing U.S. leveraged ETF products. Offered by Rydex, ProShares and Direxions, these funds have attracted a total of US $33.2 billion in assets in the past three years. Definitions of leveraged ETFs and a table of their performance can be found in the appendices to this release.

ADVERTISING, PROSPECTUS DO NOT CONVEY THE TRUE RISKS OF LEVERAGED ETFS

"Come on" advertising campaigns on both sides of the border encourage investors to chase that popularity and top performance of a few funds. Leveraged ETF funds actually deliver their promised daily performance, but their marketing material omits performance data for longer periods. Boilerplate risk disclosure does not come anywhere close to conveying the true risks associated with speculating in these very powerful investment vehicles, and the high probability of losing money if they are held longer term.

FAIR CANADA CALLS UPON REGULATORS TO TAKE ACTION TO PROTECT INVESTORS

(1) Immediately require all leveraged and inverse ETF products offered in Canada to file a new prospectus. The prospectus should have bold front page disclosure, in plain English, of the risks of holding these products for longer than a few days, particularly in volatile markets.

(2) Insist on prominent disclaimers on all leveraged/inverse ETF advertising, both print and broadcast, with an explicit warning: This product is not suitable for holding periods longer than a few days, and is not appropriate for virtually all retail portfolios. Disclosure should be provided on the relevant company websites. Marketing materials should include references to the actual performance of the bull and bear versions of the ETFs over a period of one year and since inception. Simplify tables to make tracking error, leverage and volatility risks much more transparent.

(3) Warn registrants of the need to consider the suitability of these products for clients and to ensure that clients who trade the products understand the risks. Discount and execution-only brokers should communicate these risks to their clients.

(4) Study and publish conclusions on the actual uses of leveraged and inverse ETFs before clearing new offerings for sale to retail investors. We should know to what extent retail investors are trading and how long they are holding these products. With the drumbeat of the new triple-leverage ETFs now heard in the U.S., such a study assumes much greater urgency.

FAIR Canada Associate Director Steve Garmaise stated: "Despite recent warnings in the financial press on both sides of the border, many investors are unaware of the perils of holding leveraged or inverse ETFs for periods longer than a few days. The biggest problem of leveraged ETFs is simple: over time, they often don't do what investors expect them to do."

Mr. Garmaise continued: "One key lesson of the recent financial collapse is that markets do not self-regulate. Less sophisticated investors must be protected from financial 'innovations' that pose excessive risks to their savings while generating handsome returns for their sponsors. Just because something can be sold doesn't mean that it should be sold – at least not without appropriate safeguards and warnings."

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Appendix 1

WHAT ARE LEVERAGED AND INVERSE EXCHANGE TRADED FUNDS?

"Plain vanilla" Exchange Traded Funds are similar to index mutual funds in that they passively duplicate an index. Unlike mutual funds that are priced only at the close of market, ETFs trade like stocks. They have low fees and other advantages: diversification, tax efficiency, liquidity, transparency, and constant pricing information.

Leveraged ETFs offer twice (or even three times) the daily return of their underlying index. Inverse ETFs offer the opposite (often, a multiple of the opposite) of the daily return.

Advantages of Leveraged ETFs: Easy, risk-limited access to leverage. Exposure to different markets. Useful tools for professional investors, for hedging or gaining quick exposure to markets. Very popular.

Disadvantages of Leveraged ETFs: Huge tracking errors over time. Relatively high fees. Low transparency. Heavily influenced by both direction and volatility of the underlying index. Risks of counter-party defaults. Worsen end-of-day volatility of markets.

Appendix 2

Performance of Horizon BetaPro Leveraged Exchange Traded Funds
Horizons BetaPro Fund Performance

	Percentage Return				Inception	
Fund name	**1month**	**3month**	**6month**	**1year**	**Return**	**(mm/yy)**
S&P/TSX 60 Bear + ETF	(14.4)	(6.9)	10.7	22.7	0.3	Jan 07
S&P/TSX 60 Bull + ETF	14.3	(6.9)	(51.3)	(61.8)	(31.7)	Jan 07
Index: S&P/TSX 60	**6.9**	**(2.3)**	**(25.3)**	**(32.5)**	**(27.1)**	
COMEX Gold Bullion Bear + ETF	(7.8)	(15.5)	(23.2)	(23.5)	(24.7)	Jan 08
COMEX Gold Bullion Bull + ETF	6.1	4.2	(1.5)	(17.0)	(12.2)	Jan 08
Index: Comex Gold Bullion	**(3.6)**	**4.2**	**4.4**	**(1.8)**	**0.5**	
DJ-AIG Agriculture Bear + ETF	(8.2)	5.0	25.7	64.6	106.6	Mar 08
DJ-AIG Agriculture Bull + ETF	5.9	(17.1)	(44.2)	(67.3)	(73.6)	Mar 08
Index: Dow Jones Agriculture	**3.9**	**(6.4)**	**(19.3)**	**(35.2)**	**(43.6)**	
NYMEX Crude Oil Bear + ETF	(1.5)	16.3	285.1	201.8	95.2	Jan 08
NYMEX Crude Oil Bull + ETF	(8.8)	(52.1)	(94.0)	(94.8)	(89.8)	Jan 08
Index: NYMEX Crude Oil	**(2.7)**	**(23.8)**	**(68.6)**	**(69.0)**	**(65.3)**	
NYMEX Natural Gas Bear + ETF	29.8	84.9	198.1	389.6	146.6	Jan 08
NYMEX Natural Gas Bull + ETF	(27.2)	(60.9)	(83.8)	(93.4)	(85.6)	Jan 08
Index: NYMEX Natural Gas	**(13.9)**	**(34.3)**	**(54.3)**	**(69.0)**	**(61.9)**	
S&P/TSX Energy Bear + ETF	(18.3)	(22.3)	(23.7)	(25.4)	(16.2)	June 07
S&P/TSX Energy Bull + ETF	15.8	(6.4)	(65.5)	(75.4)	(57.3)	June 07
Index: TSX Energy stocks	**8.3**	**0.0**	**(31.3)**	**(39.4)**	**(41.5)**	
S&P/TSX Financials Bear + ETF	(29.2)	(11.8)	28.4	15.7	23.7	June 07
S&P/TSX Financials Bull + ETF	34.2	(18.8)	(64.5)	(67.5)	(55.3)	June 07
Index: TSX Financial stocks	**15.7**	**(7.5)**	**(35.7)**	**(37.2)**	**(46.0)**	
S&P/TSX Global Gold Bear + ETF	36.3	(36.1)	(87.6)	(86.7)	(78.3)	June 07
S&P/TSX Global Gold Bull + ETF	(34.7)	6.6	(0.1)	(46.4)	(17.1)	June 07
Index: S&P/TSX Gold stocks	**(17.9)**	**9.1**	**27.4**	**1.0**	**25.5**	
S&P/TSX Global Mining Bear +	(2.3)	(33.0)	(61.3)	(45.6)	(52.8)	Jan 08
S&P/TSX Global Mining Bull +	(2.3)	11.6	(41.8)	(74.4)	(62.3)	Jan 08
Index: S&P/TSX Mining Stocks	**(0.8)**	**10.3**	**(8.5)**	**(34.9)**	**(22.3)**	

All data as of **March 31, 2009** except for one month performance figures as of **April 30, 2009**.
Source: Horizons BetaPro website, Performance Data ; FAIR Canada calculations for indices since inception