



June 15, 2009

Dear Clients,

We are writing to express our position in response to recent comments by the media and IIROC (Investment Industry Regulatory Organization of Canada) with respect to Leveraged and Inverse ETFs – including those offered by Toronto-based Horizons Betapro.

While you likely have not seen the IIROC memo issued on June 11th 2009 you may wish to read it ([click here to read](#)) since it outlines the issues involved in as close to plain English as you can get when discussing financial instruments. It's much more likely you've read a newspaper article by either Jonathan Chevreau "[ETFs Come of Age – and Complexity](#)" or Ellen Roseman "[The Danger of Leveraged ETFs](#)".

We have been somewhat critical about the media making ETFs out to be “magic bullets” that you simply buy, hold, and prosper with. In reality, most ETFs are just an efficient and cost effective way to replicate the performance of a market index, sector, commodity, etc, and will rise OR FALL with the market if you do nothing other than buy and hold them. The media is once again doing the public a disservice by sensationalizing the story regarding leveraged and inverse ETFs. Let's be clear on this issue – for over a year ETFCM has been speaking publically about the “slippage” effect of the daily rebalancing feature of these ETFs, and how they cause an erosion of returns in unusually volatile markets like we've been experiencing. We do not use these products in the core portion of our portfolios, but we occasionally use them as satellite holdings to add Alpha in our more aggressive portfolios. When we put positions on that involve leveraged or inverse ETFs, we either do so for relatively short periods of time, or using ETFs that do not rebalance daily and thus aren't subject to as dramatic a “slippage effect”. Leveraged ETFs are wonderful tools for expressing SHORT TERM views on sectors, commodities, and currencies. **They are NOT for the casual investor however as one MUST fully understand how they work in order to avoid unexpected and potentially detrimental results.** Think of leveraged ETFs as power tools – fantastic for those who know how to use them, but for those who don't, they do have a greater potential to cause harm.

You may also enjoy watching the [April 27th 2009 edition of Berman's Call](#) where we invited Howard Atkinson, President of Horizons Betapro, to join us as a guest on the show to discuss the criticisms surrounding their ETFs and to set the record straight on how to use them properly.

Howard also composed a reply to the IIROC announcement which can be found by [clicking here](#).

In closing, please be assured that no one is more aware of how to use these ETFs effectively than we are. The vast majority of ETFs worldwide do not have the same issues as leveraged and inverse ETFs and remain the greatest force for positive change in the investment industry. As always we advise you to take anything you read in the media in proper context, and with a grain of salt. Investors should also read the prospectus or offering documents of any investment vehicle before making the decision to purchase. Clients of ETF Capital Management may also feel free to ask us directly if you should have any questions or concerns.

Sincerely,

A handwritten signature in black ink, appearing to read "Larry Berman", with a long horizontal flourish extending to the right.

Larry Berman
Chief Investment Officer
ETF Capital Management