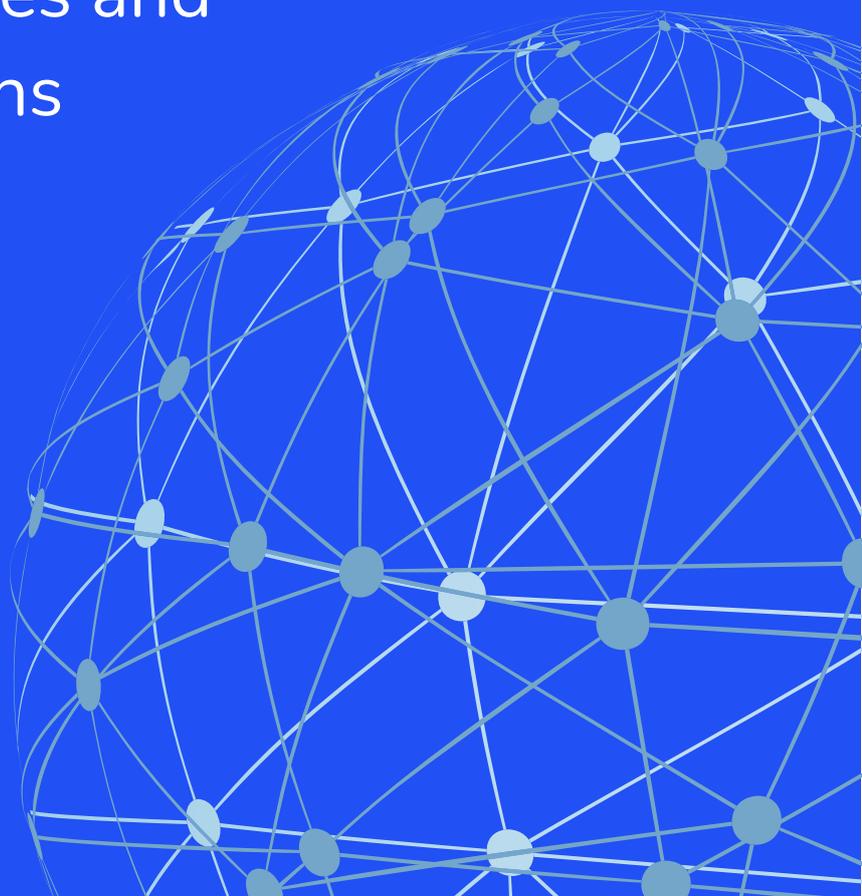


Short & Leveraged ETPs:

Definition, Features and
Key Considerations



Short & Leveraged Daily ETPs:



Short ETPs

ETPs designed for short selling & profit.



Leverage ETPs

ETPs offering amplified exposure to market movements.

Short and Leveraged Daily Exchange-Traded Products (ETPs) are sophisticated financial instruments that have gained significant traction in global markets. First introduced in 2005, these products provide leveraged or inverse exposure to a specific index, commodity or stock, such as the FTSE 100, gold or NVIDIA. They are commonly used by tactical investors looking to capitalise on market movements, enhance returns or hedge against risk.

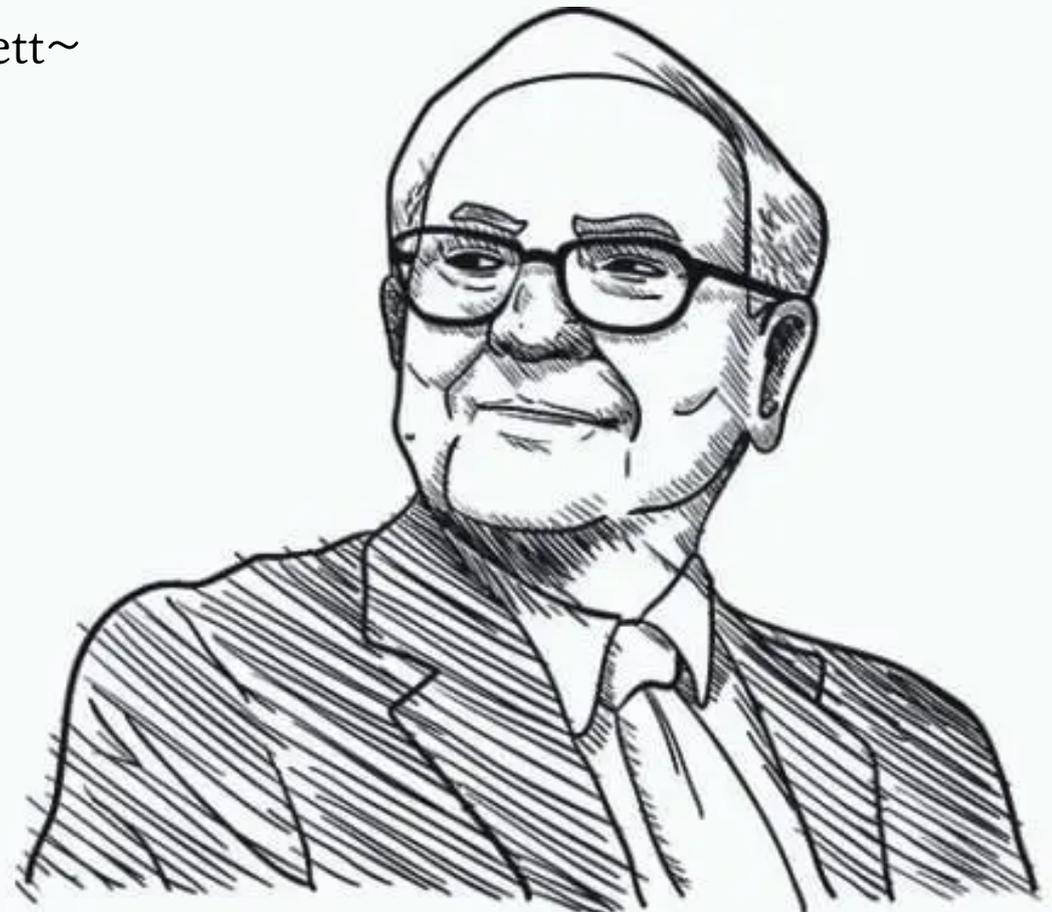
Given their ability to amplify both gains and losses, understanding these products is essential. This page explores their mechanics, applications and key considerations and risks for investors.

“ Risk

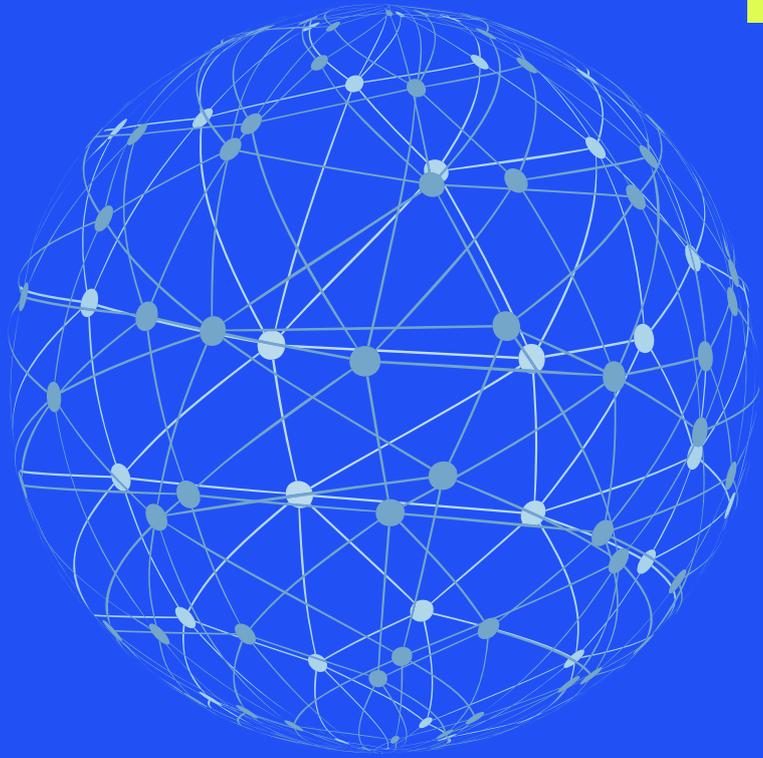
comes from
not knowing
what you're
doing.

—————”

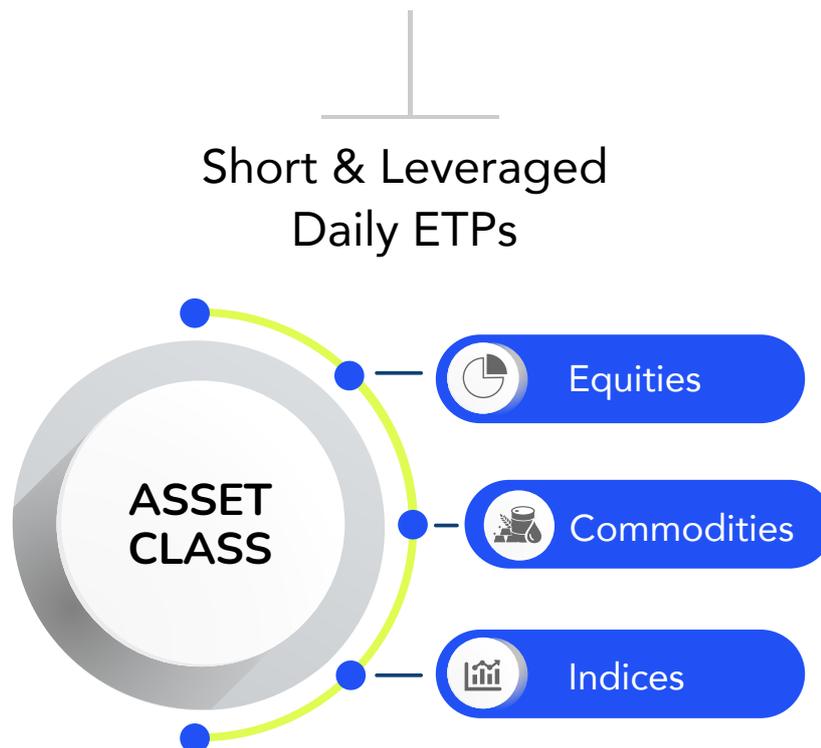
~Warren Buffett~



Big Ideas



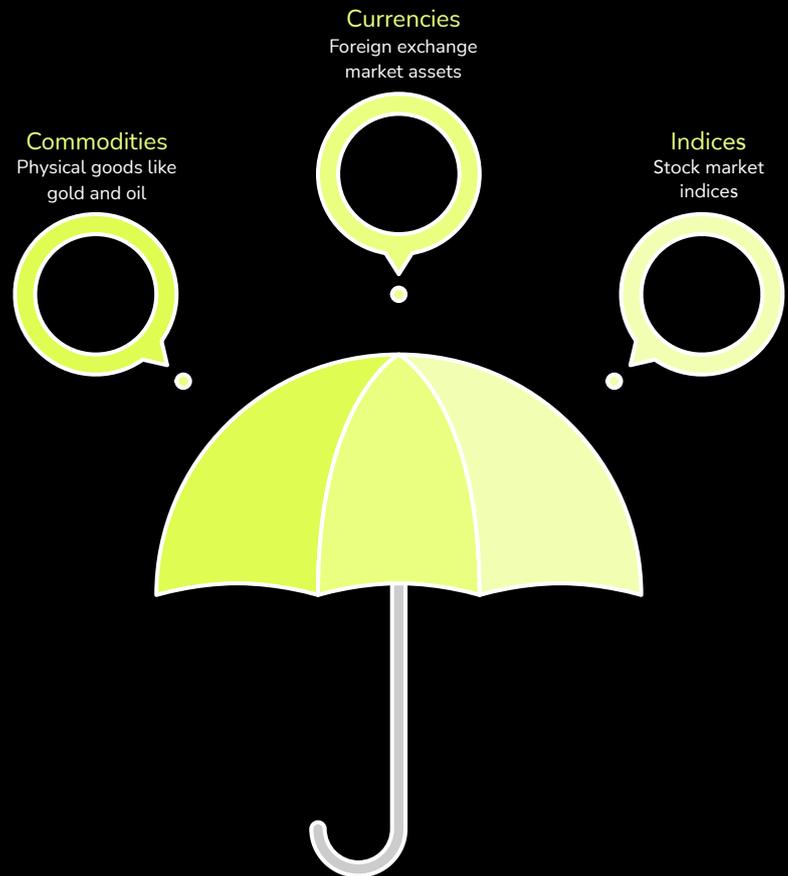
1. Short and Leveraged Daily ETPs provide magnified or inverse exposure to asset classes like equities, commodities, and indices.



2. They use daily rebalancing and leverage ratios to deliver specific returns, making them suited for tactical investors.

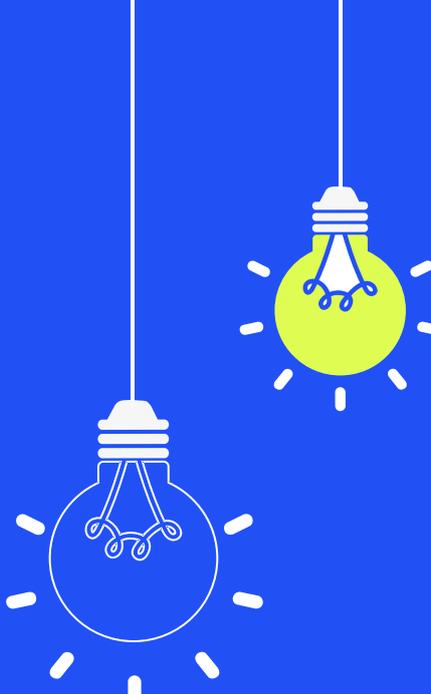
3. Understanding key risks like compounding effects and intraday volatility is essential for effective use.

What is an ETP?



An Exchange-Traded Product (ETP) is a type of security that is listed and traded on stock exchanges in the same way as a share, such as Tesla or Meta. These instruments derive their value from an underlying asset, which can be an index, a commodity or an individual stock.

For example, an index like the FTSE 100 measures the performance of the 100 largest companies in the UK, while individual stocks such as Tesla or commodities like gold represent specific assets. An ETP is structured to provide a transparent and efficient way to access specific exposures to various underlying assets



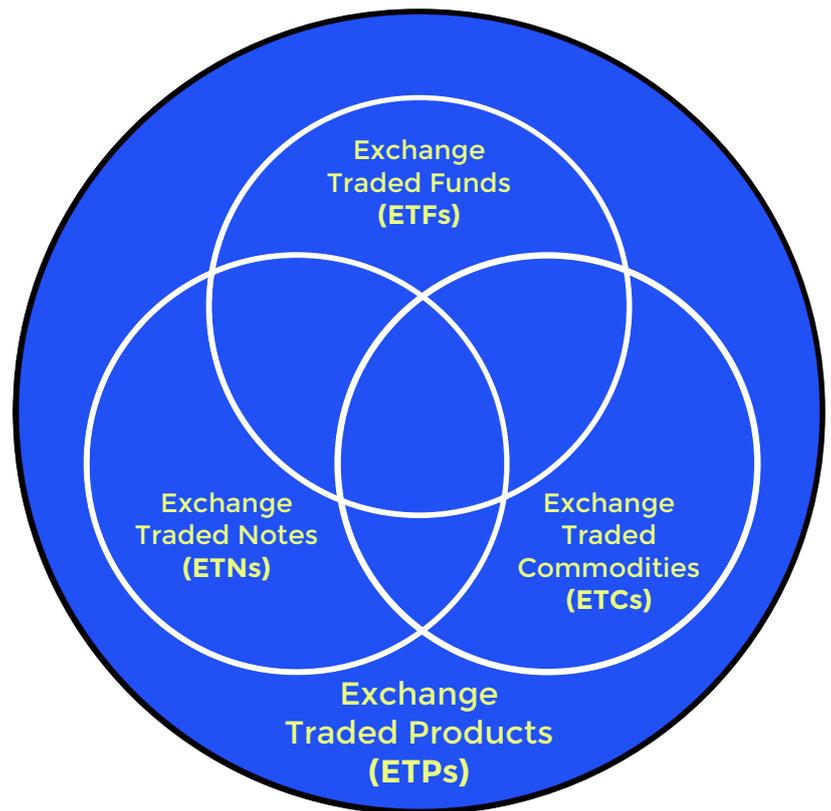
Did You Know?

Interesting Fact

Why Are These Products Called
ETPs And Not ETFs?



Why Are These Products Called **ETPs** and Not **ETFs**?



While all ETFs (Exchange-Traded Funds) are ETPs (Exchange-Traded Products), not all ETPs qualify as ETFs. This is because ETFs are legally classified as funds, whereas most ETPs are structured as securities rather than funds.

ETPs were introduced to overcome fund diversification rules, particularly within the UCITS framework, a set of European regulations governing investment funds, which requires funds to hold multiple assets. This means a traditional ETF cannot track just one asset, like gold or a single stock. To address this, ETPs were developed as a flexible alternative, allowing investors access to single stock leveraged products, commodities and other specialised exposures.

The term ETP also includes subcategories such as Exchange-Traded Commodities (ETCs) and Exchange-Traded Notes (ETNs), each with unique structural characteristics.

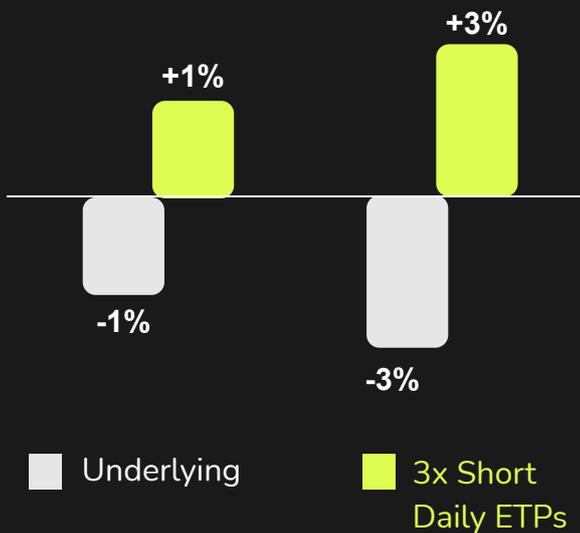
The Mechanics

Behind the Movement:

Short & Leveraged Daily ETPs Explained

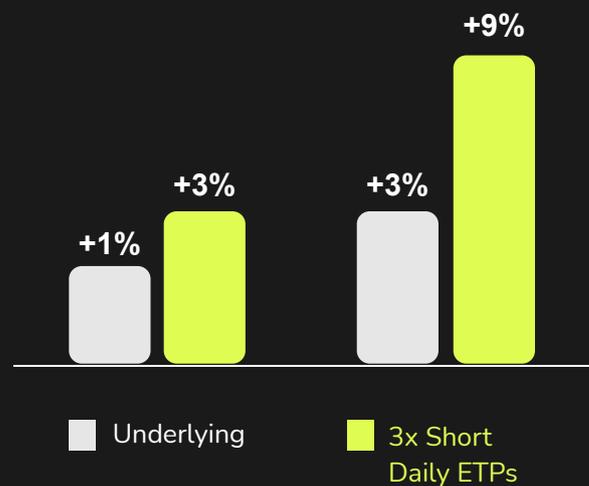
Short and Leveraged Daily ETPs are a category of exchange-traded products that aim to provide either inverse or magnified returns relative to the performance of an underlying asset. Short ETPs are also called Inverse ETPs.

Short ETPs Example



Short ETPs move in the opposite direction of the underlying asset. If the asset decreases by 1%, a short ETP may increase by 1%, minus fees.

Leveraged ETPs Example

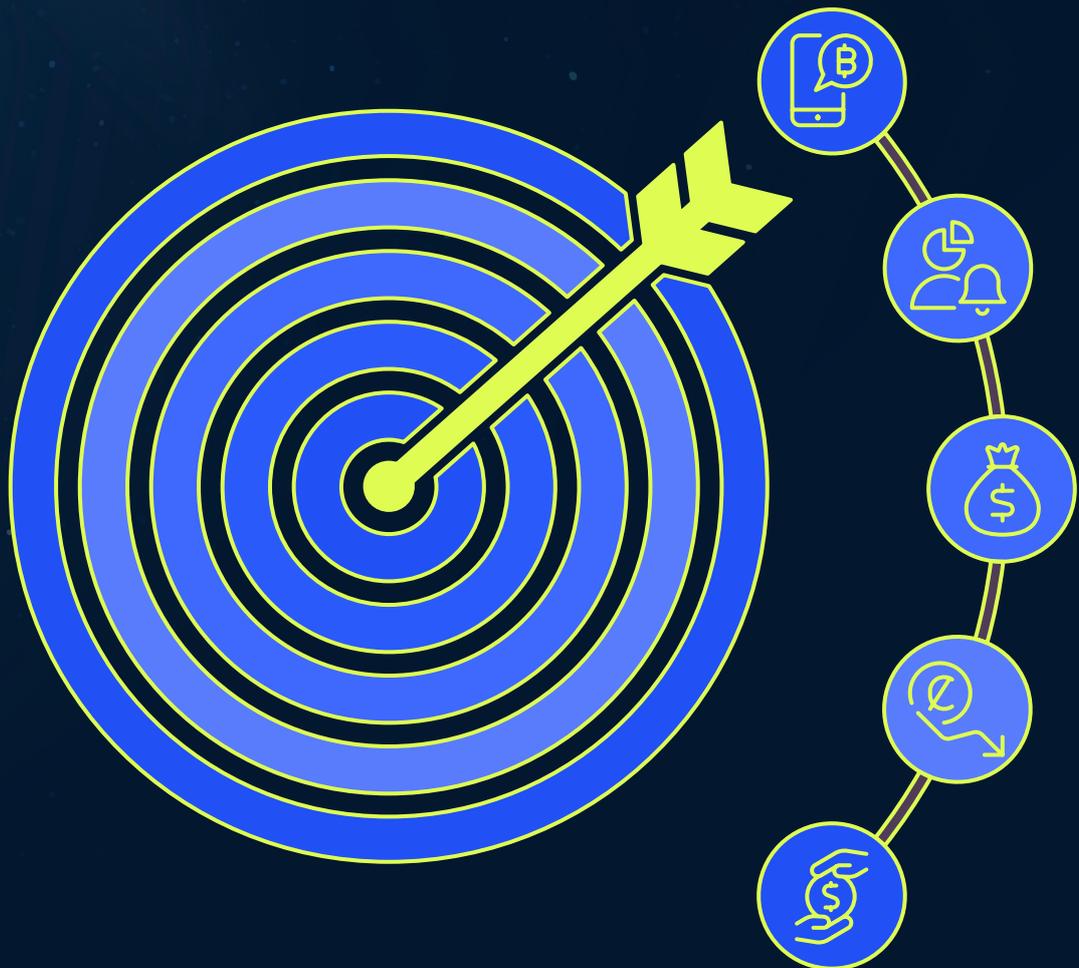


Leveraged ETPs seek to amplify daily returns by a set multiple (e.g., 2x or 3x). If the asset rises by 1%, a 3x leveraged Daily ETP may increase by 3%, minus fees.

Leveraged Short ETPs combine inverse performance with leverage. A -3x Short Daily ETP may increase by 3% if the asset declines by 1% but may decrease by 3% if the asset rises by 1%.

Understanding The Underlying

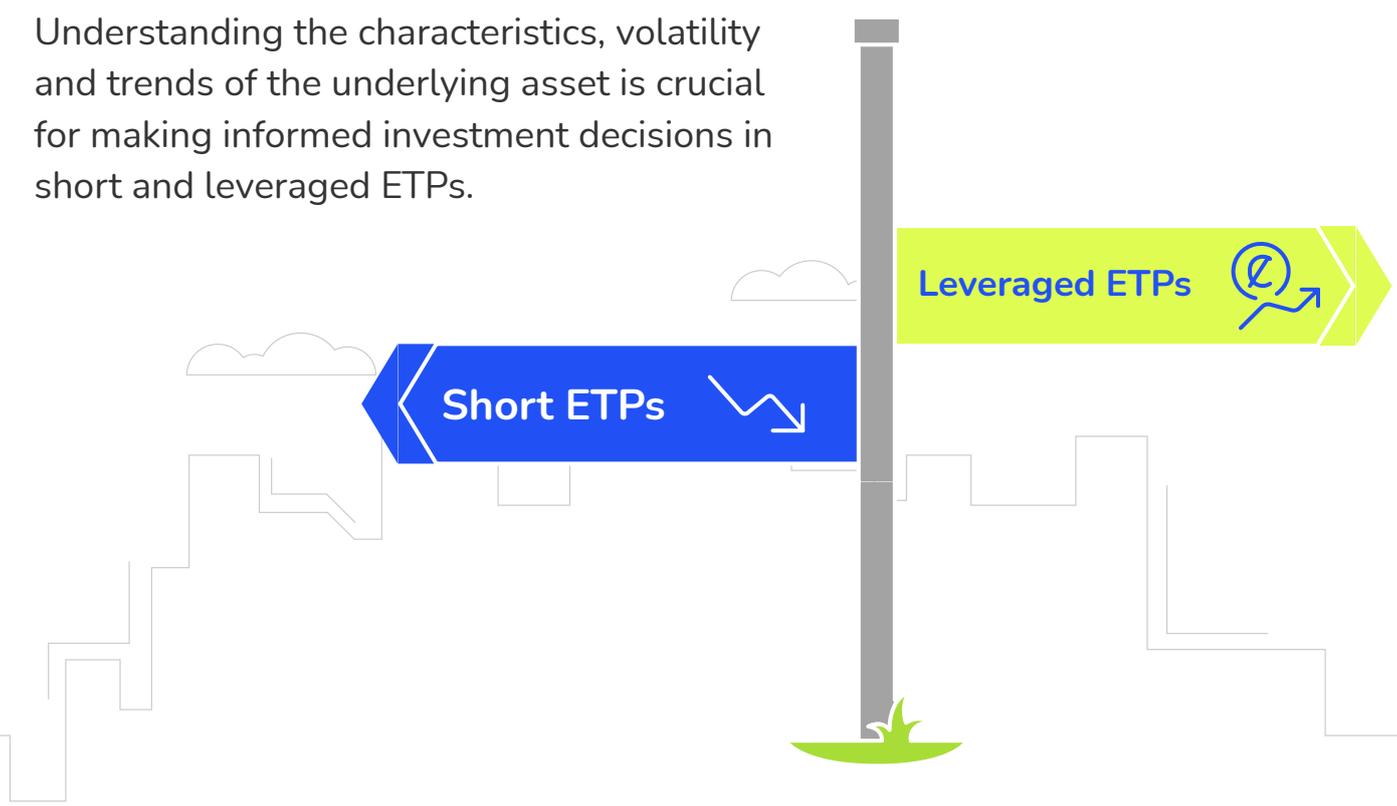
What Do Short &
Leveraged ETPs Track?



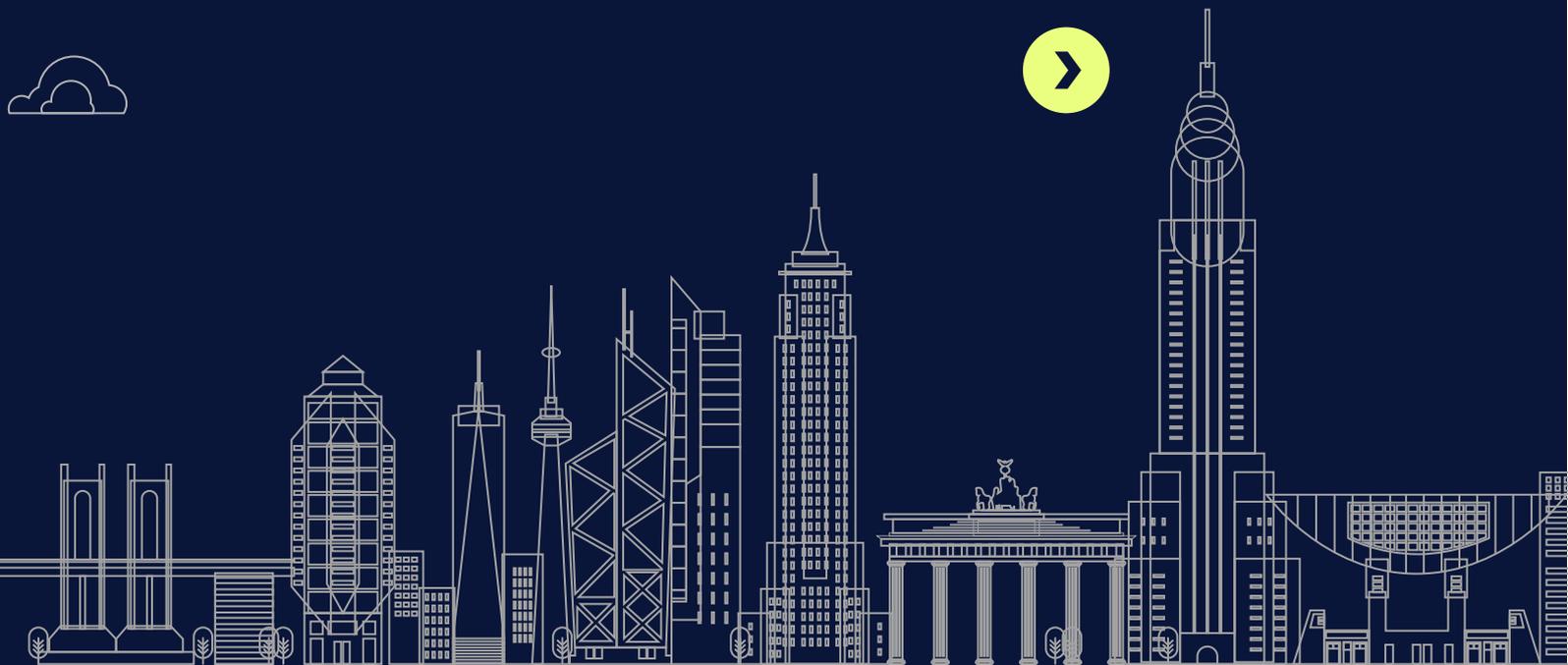
To illustrate the range of assets that **Short and Leveraged ETPs** can track, here are some examples across different asset classes:

Equities	Single Stocks	Commodities	Currencies	Fixed Income
GraniteShares 3x Leverage FAANG ETP (FANG)	GraniteShares 3x Long Tesla Daily ETP (3LTS)	iShares Gold Trust	WisdomTree Long GBP Short USD 3x Daily (LGB3)	WisdomTree Gilts 10Y 3x Daily Short (3GIS)
WisdomTree FTSE 100 3x Daily Leverage (3UKL)	GraniteShares 3x Long Rolls- Royce Daily ETP (3LRR)	iShares Silver Trust	WisdomTree EUR 3x Short USD Daily (EUS3)	iShares Core € Corp Bond UCITS ETF

Understanding the characteristics, volatility and trends of the underlying asset is crucial for making informed investment decisions in short and leveraged ETPs.



How Do Short & Leveraged ETPs Work?



A Deep Dive into Short & Leveraged ETPs

Leveraged and inverse ETPs are designed to provide amplified or inverse returns based on the daily performance of an underlying asset. They aim to achieve these returns through financial instruments like swaps and futures contracts.

Leveraged Daily ETPs

Example

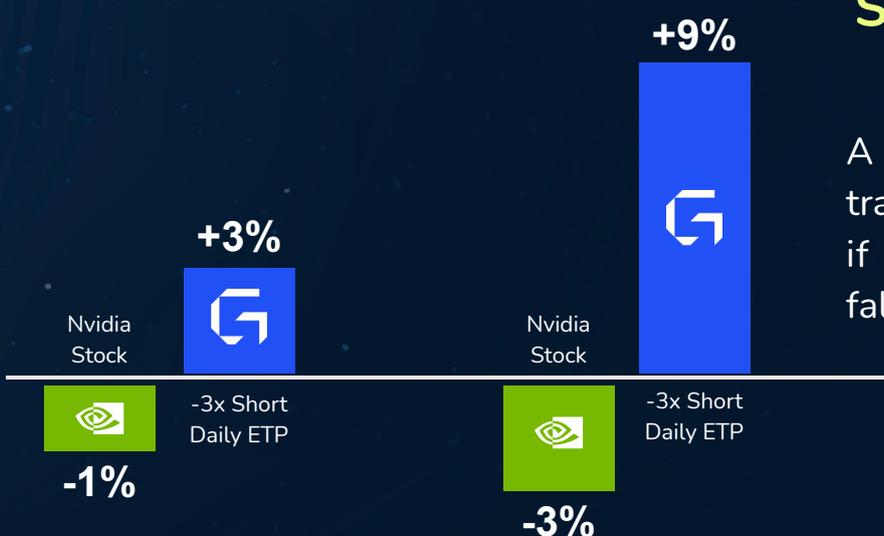
A 3x Leveraged Daily ETP tracking NVIDIA gains 3% if NVIDIA's stock price rises 1% in a day.



Short Daily ETPs

Example

A 3x Short Daily ETP tracking NVIDIA gains 3% if NVIDIA's stock price falls by 1%.

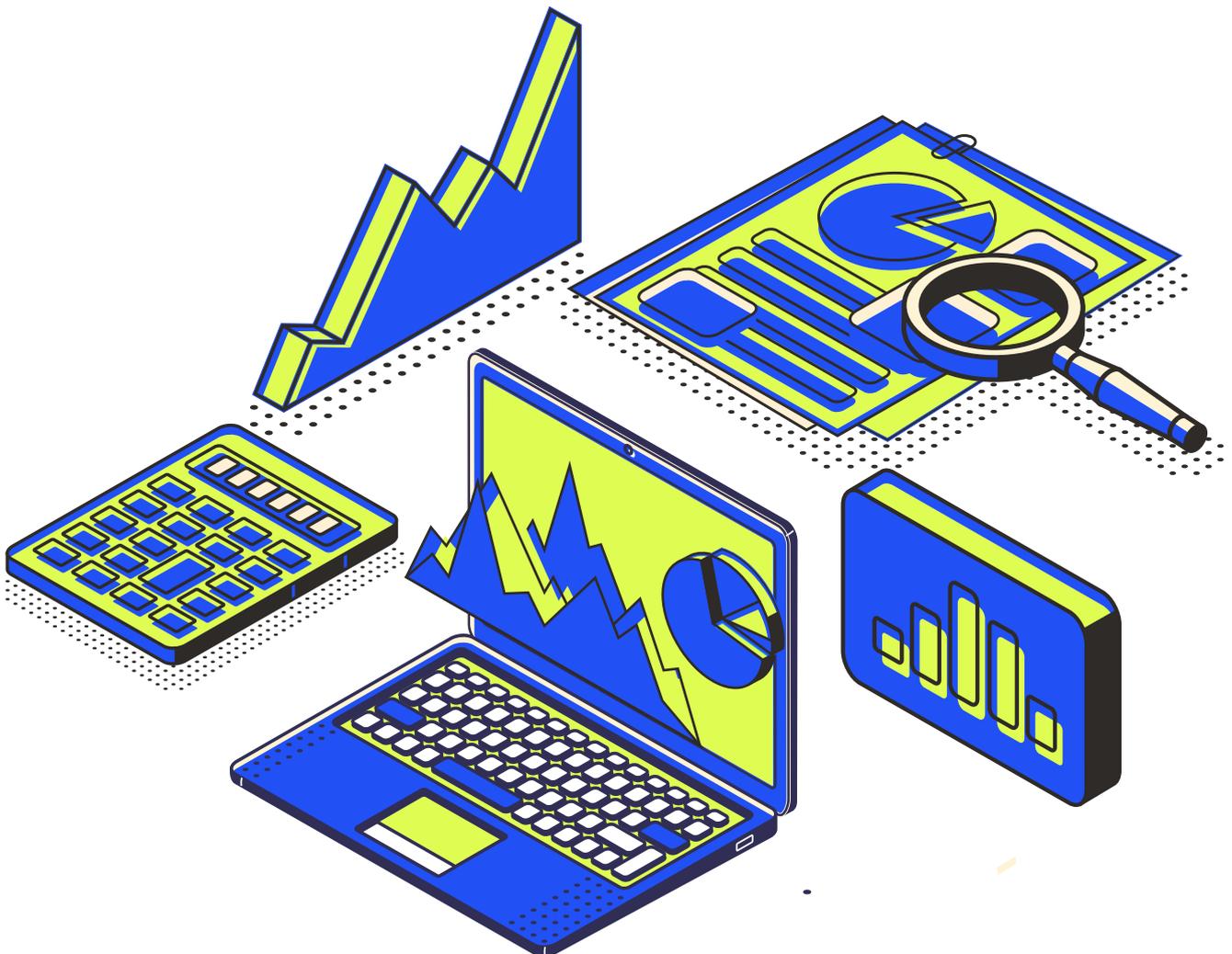


However, for investors interested in these products, it is crucial to understand key concepts like compounding effects, daily rebalancing and stop-loss mechanisms. Stay with us as we unpack these crucial elements in the next sections.

The Math

Behind Momentum

Understanding Daily Rebalancing
and Compounding Effects



Daily Rebalancing and Compounding Effects

Short and leveraged exchange-traded products (ETPs) reset their leverage daily to maintain their target exposure. This means that their performance is based on the daily percentage change of the underlying asset, rather than its long-term movement. While this mechanism helps maintain the intended leverage (e.g., 2x, -2x, 3x, or -3x), it also leads to unique effects, particularly in trending and volatile markets.

Example: Real Time Market Scenario

Consider a real-life scenario where the Nvidia stock we saw trending movement from 14th January 2025 till 22nd January 2025 we will see how the GraniteShares 3x Long Nvidia Daily ETP tracking this asset would perform as follows:

Day	NVIDIA's Price Movement (%)	Nvidia's Price	3x Leveraged Daily ETP % Change	ETP Value
14th Jan	-1.10%	\$131.76	-2.52%	\$31.15
15th Jan	+3.40%	\$136.24	+6.15%	\$33.06
16th Jan	-1.96%	\$133.57	+2%	\$33.72
17th Jan	+3.10%	\$137.71	+6.92%	\$36.06
21st Jan	+2.27%	\$140.83	-1.73%	\$36.64
22nd Jan	+4.43%	\$147.07	+15.19%	\$42.21
23rd Jan	+0.1%	\$147.22	-0.13%	\$42.15

Explanation:

From Jan 14–23 NVIDIA stock went up by 11.73% Vs GraniteShares 3x Long Nvidia Daily ETPs surged by 35.53%. NVIDIA stock went from \$131.76 to \$147.22 in 7 days on the other hand GraniteShares 3x Long NVIDIA ETP went from \$31.15 to \$42.15 in the same period.

Daily compounding causes slight deviations, especially during volatile movements. However, Short-term leverage can amplify both gains and losses.

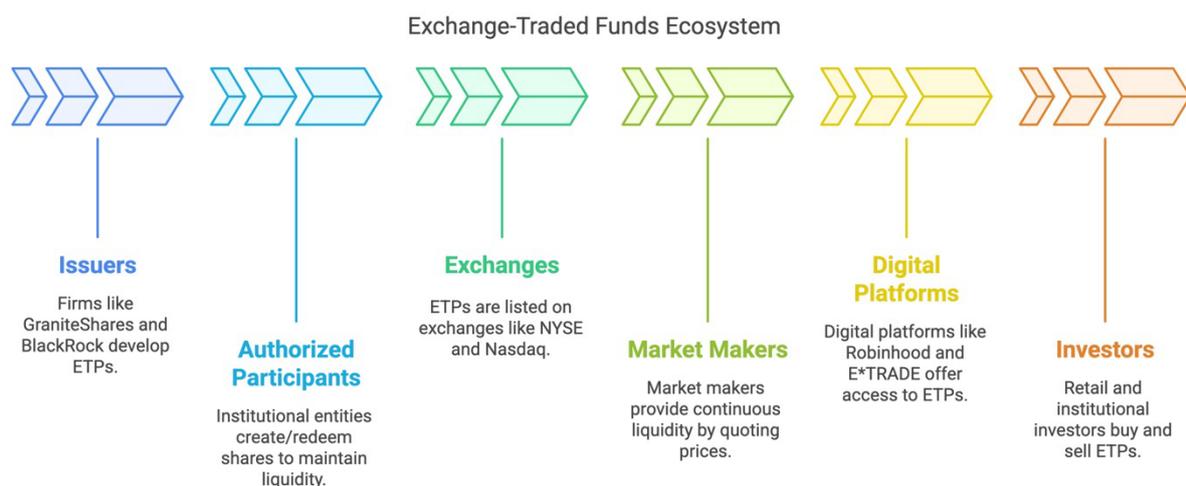
Exchange-Traded Funds Ecosystem

The distribution of Exchange-Traded Products (ETPs) within the ecosystem involves a dynamic interplay of market participants, institutions, and regulatory frameworks. Here's how the distribution works:

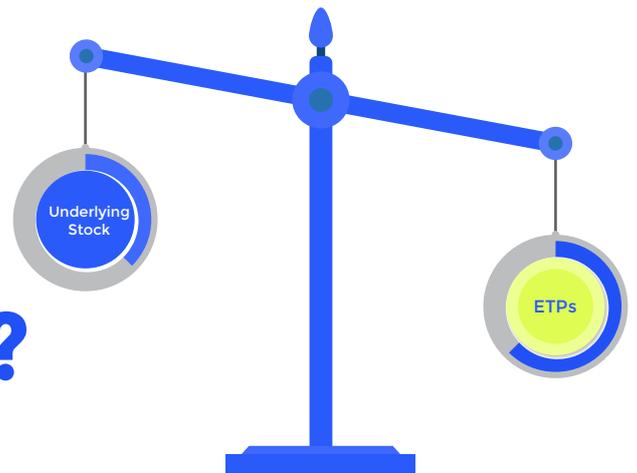
- **Issuers**
Firms that create and manage ETPs (e.g., GraniteShares, BlackRock, Vanguard). They define the investment strategy, structure, and underlying index or asset. Issuers typically charge a management fee or expense ratio, which is deducted from the fund's assets over time.
- **Authorized Participants (APs)**
Institutional entities (usually large banks or market makers) that create/redeem ETP shares to maintain liquidity and track net asset value (NAV). APs typically charge Creation/Redemption Fees and Spread Risk Compensation.
- **Exchanges**
ETPs are listed and traded on stock exchanges (e.g., NYSE, Nasdaq, LSE) providing easy access and intraday liquidity. Exchanges usually charge listing fees to the issuers and Transaction Fees are charged to brokers. No fees are charged by Exchanges to Investors.
- **Market Makers**
Ensure tight bid-ask spreads and continuous liquidity by quoting buy/sell prices throughout the trading day. Market maker charges bid-ask spread from Investors.
- **Digital Platforms**
Digital brokerages and wealth management apps (e.g., Robinhood, E*TRADE, Interactive Brokers) that give users access to ETPs. They charge commissions or trading fees to investors.

Exchange-Traded Funds Ecosystem

- **Investors**
Retail and institutional participants who buy and sell ETPs on secondary markets.
- **Fees:** Investors may incur Brokerage commissions (depending on the platform), Management Fees (charged by the ETF issuer), Bid-ask spread costs (indirect, due to trading and platforms), and Capital gains taxes on sales, depending on holding period and jurisdiction.

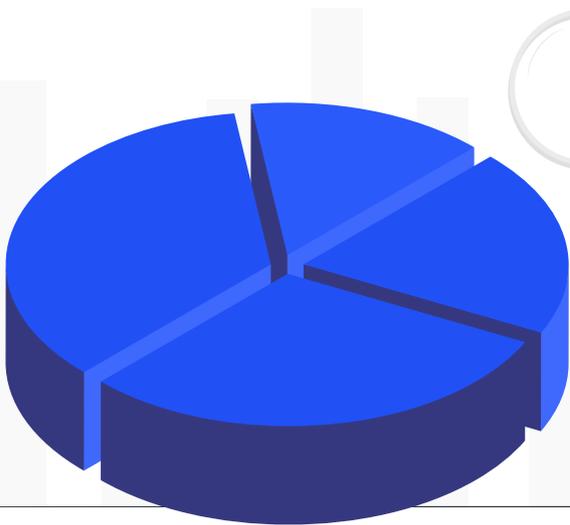


The Power of Daily Rebalancing Understand Why it Matters?



Daily rebalancing ensures that leveraged ETPs achieve their stated multiple (e.g., 2x, -2x, 3x, -3x) only on a single-day basis. However, over longer periods, the compounding effect means that actual returns can diverge significantly from simply multiplying the underlying asset's return by the leverage factor.

What Investors Need to know?



Understanding how daily resets interact with compounding is essential for setting realistic expectations. Investors holding these products beyond a single day may experience returns that deviate from the underlying asset's performance, especially in volatile markets where frequent price swings can erode gains.

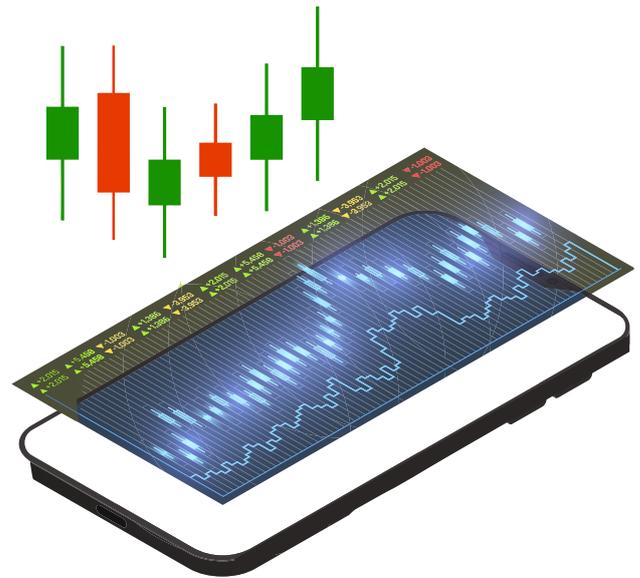
Compounding Effects: Amplifying or Eroding Returns



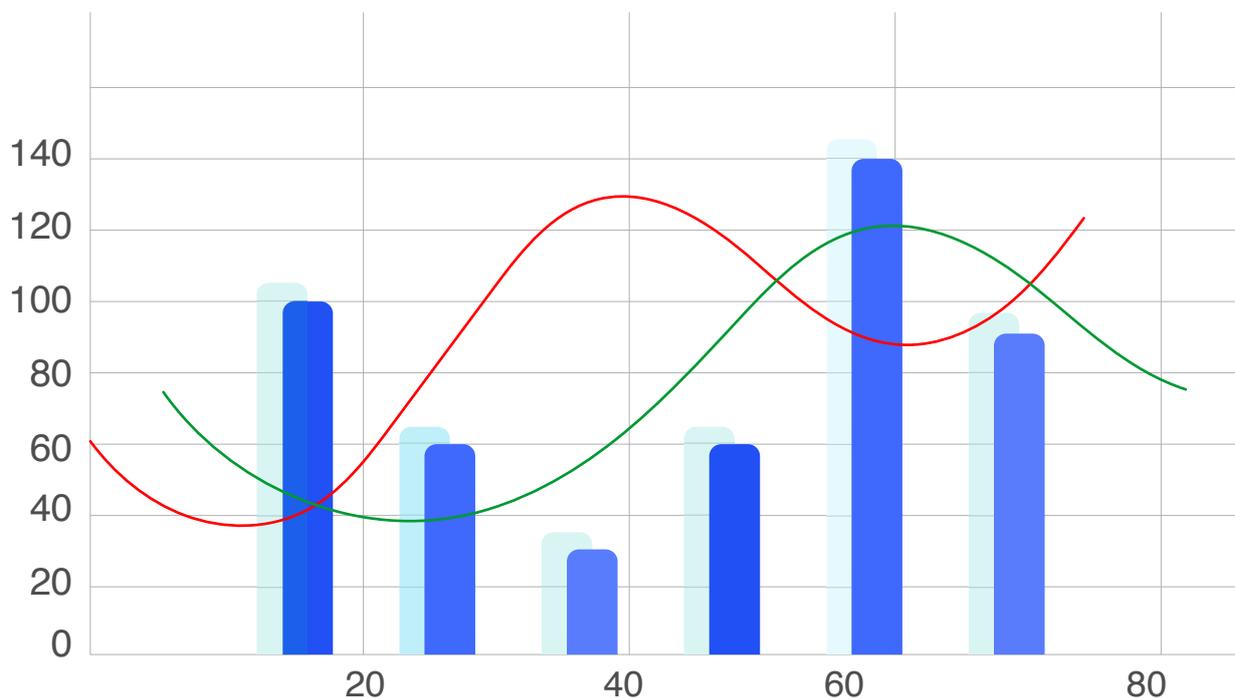
As explained in the previous section,

compounding occurs because daily returns are applied to a recalibrated base value after each reset. This mechanism can result in outcomes that differ significantly from the long-term performance of the underlying asset.

- **In Trending Markets:** Gains or losses build on each other, potentially amplifying returns. For example, a consistent upward trend in the underlying asset can lead to higher returns for a leveraged ETP than the leverage multiple would suggest.



- **In Volatile Markets:** Frequent fluctuations can erode returns over time. Gains on one day may not fully offset losses on another due to the reset mechanism.



How Intraday Stop-Loss Mechanism Works?



To protect investors from extreme market fluctuations, some short and leveraged ETPs incorporate an intraday stop-loss mechanism. This feature is designed to limit losses and prevent the product's value from dropping to zero in a single trading day.

A Smarter Approach to Market Protection



A GraniteShares Real-Life Example

GraniteShares, a provider of S&L ETPs, uses a stop-loss mechanism to safeguard investors. Here's how it works:

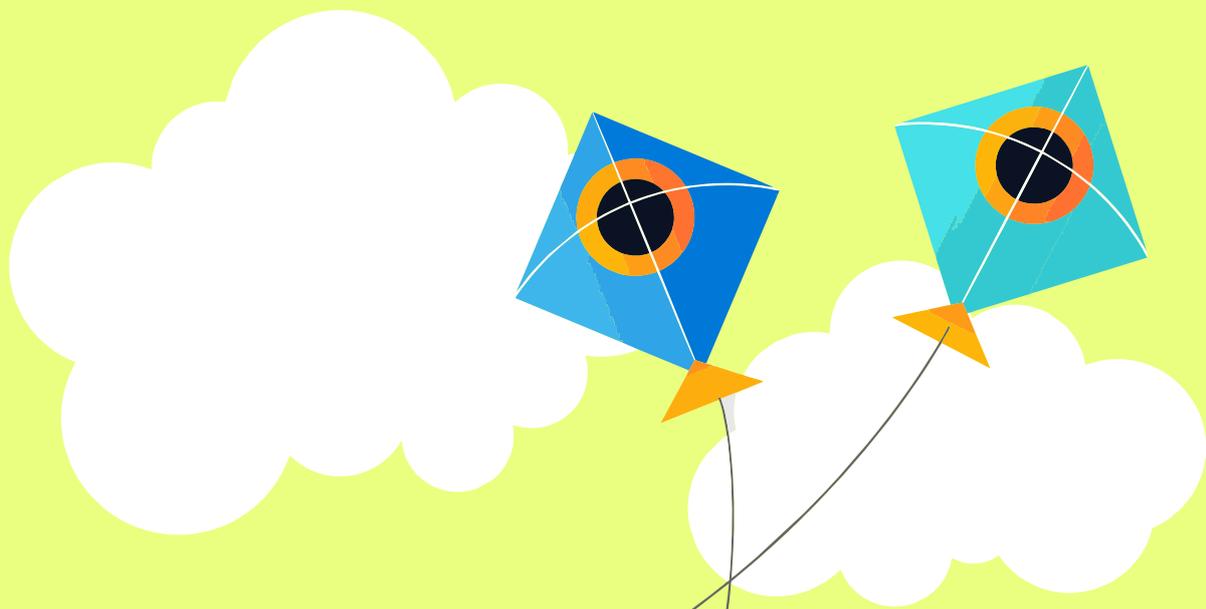
- **Trigger Threshold:** The stop-loss activates when the underlying asset's performance exceeds a specific threshold during the day. For example, a 3x Leveraged Daily ETP might trigger at a 16.67% move in the underlying index, corresponding to a 50% move in the ETP itself.
- The index is reset to a new base level, ensuring the product's value does not fall to zero.

■ Underlying

■ 3x Leveraged Daily ETP



Without this mechanism, a 3x Leveraged Daily ETP would become worthless (its value dropping to 0, or -100%) if the underlying index dropped by more than 33.3% in a single trading day. The stop-loss mechanism serves as an essential safety net, helping to preserve investor capital during extreme market movements.



Who Benefits from Short and Leveraged ETPs?

Short and Leveraged ETPs are commonly used by:

- **Active Traders:** To capitalise on short-term market movements.
- **Hedgers:** To protect portfolios during periods of market downturns.
- **Thematic or Sector Investors:** To enhance exposure to specific industries or individual stocks.

These products are best suited for sophisticated investors who understand leverage and the implications of daily rebalancing, such as how it leads to compounding returns over time.

How Do Short and Leveraged Daily ETPs Differ from Other Leveraged Instruments?

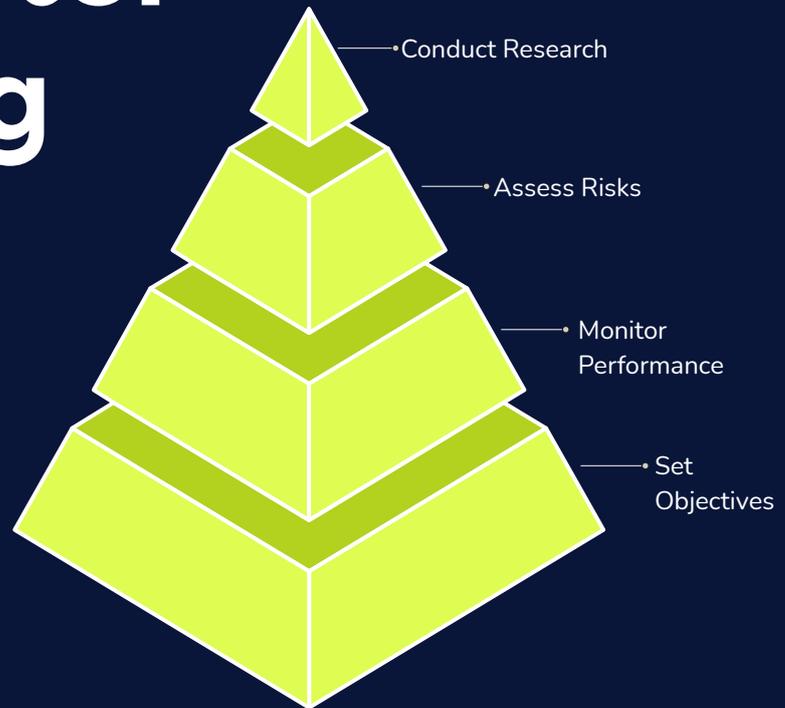
Short and Leveraged Daily ETPs are distinct from other leveraged instruments like options, futures or CFDs due to their predefined structure and trading characteristics.

Feature	Short & Leveraged ETPs	Options	Futures	CFDs	Structured Products (Certificates)
Ease of Trading	Traded like stocks on exchanges	Requires margin account	Requires margin account	Requires margin account	Bought through issuers or on exchanges
Leverage	Predefined (e.g., 2x, 3x)	Flexible (depends on contract)	Flexible (depends on contract)	Flexible (depends on contract)	Embedded Leverage
Risk of Margin Call	No	Yes	Yes	Yes	No
Transparency	Tracks clear indices	Complex pricing mechanisms	Complex pricing mechanisms	Broker-determined spreads	Defined by issuer
Capital at Risk	Limited to initial investment	Can exceed initial investment	Can exceed initial investment	Can exceed initial investment	Limited to initial investment (issuer risk applies)
Daily Rebalancing	Yes, resets exposure daily	No	No	No	No

Key Considerations:

- **Accessibility:** Short and Leveraged Daily ETPs trade on exchanges, removing the need for margin accounts or complex approval processes.
- **Defined Leverage:** The fixed leverage ratios provide transparency and reduce the need for constant recalculations, which are common with other leveraged instruments.
- **Limited Risk:** Unlike CFDs or futures, where losses can exceed the initial investment, ETPs limit the risk to the amount invested.
- **Simplicity:** The transparent structure of ETPs simplifies trading for investors compared to the complexities of options and futures contracts.

Smart Strategies for Smarter Investing



To use short and leveraged Daily ETPs effectively, consider the following:

- **Set Clear Objectives:** Define whether your goal is to hedge, speculate, or amplify exposure.
- **Monitor Regularly:** Track performance and market conditions closely.
- **Understand the Risks:** Familiarise yourself with the impact of compounding and daily resets.
- **Research Thoroughly:** Study the underlying asset and the ETP's structure.

Tip: How to Get Started

Start small by investing in ETPs with familiar underlying assets, such as indices or single stocks you already track. Use a demo account or simulation tools, if available, to practice before committing real capital. Additionally, review product documentation thoroughly to understand specific features like leverage ratios, stop-loss mechanisms, and fees.

The world of ETFs is
evolving faster than
any other segment in
Asset Management.

Todd Rosenbluth
Head of Research at VettaFi



Frequently Asked Questions

1. What are short and leveraged ETPs?

Short and Leveraged Exchange-Traded Products (ETPs) are financial instruments designed to provide magnified (leveraged) or inverse (short) exposure to an underlying asset, such as an index, such as the S&P 500, FTSE100 or IBEX 35, a stock or commodity. Leveraged ETPs aim to amplify daily returns (e.g., 3x), while short ETPs move in the opposite direction of the asset's performance.

2. Can I lose more than my initial investment with a short or leveraged ETP?

No, unlike margin trading or CFDs, short and leveraged ETPs are designed so that investors cannot lose more than their initial investment. However, the value of these products can decline significantly, especially in volatile markets.

3. How do short and leveraged ETPs differ from other leveraged products like CFDs or options?

Short and leveraged ETPs are exchange-traded, meaning they can be bought and sold like stocks without needing a margin account. Unlike CFDs or options, which may require complex pricing models and margin requirements, ETPs have predefined leverage levels and do not expose investors to margin calls.

4. Where can I buy short and leveraged ETPs?

For retail investors, short and leveraged ETPs are traded on major stock exchanges, such as the London Stock Exchange, Borsa Italiana, Euronext or GERman ... and can be purchased through online brokers, trading platforms, or financial institutions that offer access to these products. Investors should check with their broker for specific availability.

5. Are collateralised short and leveraged ETPs SIPP and ISA eligible (UK only)?

Yes, many collateralised short and leveraged ETPs are eligible for SIPPs (Self-Invested Personal Pensions) and ISAs (Individual Savings Accounts) in the UK. However, eligibility depends on the specific product and platform, so investors should check with their broker or financial provider.

Disclaimer

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Any summary list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in short and leveraged products. Prospective investors must consult with their own legal, tax and financial advisers before deciding to invest. This document contains the opinions of the author and such opinions are subject to change without notice. The source of data is GraniteShares unless otherwise stated. No guarantee is made to the accuracy of the information provided which has been obtained from sources believed to be reliable. This document and the information contained herein is intended only for the use of persons (or entities they represent) to whom it has been provided.

Risk Factors

An investment in a GraniteShares short and leveraged exchange traded product (“ETP”) may not be suitable for all investors. They are intended for investors who wish to take a very short term view on the underlying asset and are not intended as buy and hold investments. Performance and capital loss: Past performance is not a reliable indicator of future results. The value of an investment may go down as well as up and can result in losses, up and including a total loss of the amount initially invested. Generic risks: Investments in ETPs involve numerous risks including, among others, company risks, general market risks, credit risks, foreign exchange risks, interest rate risks, geopolitical risks and liquidity risks. Specific product risks: The Index is constructed to track the performance of an increased (leveraged) and/or short exposure to the underlying asset. A fall (or rise where short and leveraged exposure) in value of the underlying asset can result in a greater reduction in the level of the Index. The Index is designed to do this on a daily basis only which should not be equated with seeking a leveraged position for periods longer than a day.

The ETP’s performance over periods longer than one day will not be correlated or symmetrical with the returns of the underlying asset. Potential investors should refer to the section entitled “Risk Factors” and “Economic Overview of the ETP Securities” in the Prospectus relating to the GraniteShares ETPs for further details of these and other risks associated with an investment in short and leveraged ETPs and consult their financial advisers as needed.

Counterparty risk: An investment in a GraniteShares short and leveraged ETP involves counterparty risk. GraniteShares Financial plc has entered into a Swap Agreement with a counterparty, Natixis, that is backed with collateral. Failure of the counterparty to make payments may result in an investment in an ETP suffering a loss.

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