Leveraged Single Stocks INVESTMENT GUIDE

GraniteShares Short and Leveraged 3x Daily ETPs

WINNER 2020 Most Innovative Product

ADVFN International Financial Awards

A company's stock market value fluctuates over months, days and even minutes. Investors try to capitalise on these moves by either buying stock (a long position), or **shorting** stocks to profit from falling prices. Profits can be enhanced using **leverage**, which traditionally involved borrowing capital to increase the potential return on an investment.

GraniteShares Short and Leveraged ETPs change all of this, making leverage on single stocks accessible to sophisticated investors through a transparent, stock exchange-listed instrument. Investors can hold these ETPs alongside equities and funds in a standard investment account. They can access leverage while avoiding the hassle of setting up a margin account with a specialist broker. Plus, with an ETP, an investor commits a given amount of capital to obtain leverage, but unlike other forms of leverage, losses cannot exceed the amount invested and there will never be a **margin call**.

GraniteShares Daily ETPs give sophisticated investors the ability to profit from the rise and fall in an individual stock's price. They provide investors with additional control and flexibility in managing their portfolios. The ETPs provide transparent access to the type of tool and investment strategies that were once only available to hedge fund managers

What is an ETP?

Exchange Traded Products (ETPs) are securities that typically track indices, which might be equity-, bond- or commodity-based. The value of the index will move in line with the price movements of the underlying equities, bonds or commodities that make up the index. ETPs are listed on a stock exchange and are bought and sold just like shares. They have been increasingly popular in recent years for three main reasons:

1. Their ability to provide **access** both to broad market indices and exposures not available through funds, e.g. single stocks, gold.
2. Their **transparency** and **predictability**. As index-tracking products, they avoid the risk of the star fund manager leaving or 'style drift' as managers chase performance.
3. Their **accessibility** and **liquidity**. Investors can buy and sell ETPs throughout the trading day, plus their liquidity is a function of the assets being tracked, meaning that investors are typically able to deal in large quantities.

In short, ETPs offer sophisticated investors, whether small or large, cost-effective access to markets, and help provide increased flexibility in managing investment portfolios, both in terms of core holdings and short-term tactical opportunities.

Shorting – If you anticipate a fall in the value of a stock, traditionally you could "short it" by borrowing shares of that stock from a financial institution and selling them on the open market. The idea behind the trade is to make money from the fall in the value of the stock. Assuming the stock price falls, you can buy them back at the lower price and return them to the financial institution that you borrowed them from. Your profit would be the difference in the share price, less fees and trading costs. You would be sitting on a loss if the stock price rose and you were forced to buy the stock back at a higher price to close your short position. **Short ETPs** do not require you to borrow any stock. You simply buy a Short ETP, which can be bought and sold throughout the trading day.

Leverage – When you take a mortgage from a bank to help you purchase property of a higher value than your available funds, you are "leveraging" your money. Just as the use of a lever makes it easier to lift heavy weights, financial leverage magnifies profits and losses.

Margin Call –This occurs when the equity on an account – the total capital deposited plus or minus any profits or losses – drops below the broker's margin requirement. It implies that an open position is falling into loss relative to its opening level. In this case, the investor must either deposit funds or close the position.

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GraniteShares ETPs

Awarded "most innovative product" by ADVFN International Financial Awards 2020, GraniteShares 3x Short and Leveraged Daily ETPs provide exposure to many household names listed on London Stock Exchange and NASDAQ. They give sophisticated investors the potential for unique, targeted exposures and the ability to pursue different investment strategies.

Each ETP tracks a 3x index on the underlying stock, which magnifies the exposure to the daily price move of the stock by three times. This means that if a stock's value rises by 1% in any given day, the index and Long ETP will rise by 3% (excluding fees and other adjustments in the case of the ETP). If the stock's value falls by 2%, the index and Long ETP's value will fall by 6% (excluding fees and other adjustments in the case of the ETP).

As highlighted earlier, an investor is fully invested in an ETP, which means that there will never be a margin call. Once invested, an investor can focus on managing the position against their profit and loss targets.

Magnifying daily moves with 3x Daily ETPs

Long and Short ETPs give sophisticated investors the flexibility and tools to express their views on individual stocks, and, because of the 3x leverage factor, the potential to commit less capital to achieve a particular exposure.

For example:

3x Long Netflix Daily ETP (3LNF) – If you believe that the value of Netflix shares will rise, a 3LNF purchase could see you triple your return. Let's say Netflix shares rise by 2% in a trading day. If you had bought Netflix shares that day, your $100 investment would now be worth $102, whereas, had you taken exposure to 3LNF, your $100 would be worth $106, a 6% increase.[1] A 3x long exposure will magnify any price fall, so if the Netflix stock falls by 2% in a trading day while you are holding 3LNF, then the value of your holding will fall by 6%.[2] It is important to highlight that the ETPs provide a daily 3x return and therefore compound returns will occur if you hold a position for more than a day.

3x Short Netflix Daily ETP (3SNF) – If you believe the value of Netflix shares will fall, a 3SNF purchase could help you profit by going "short" on Netflix. The 3SNF ticker tracks an index that is inversely related to the value of Netflix by a factor of 3. If the stock value falls by 2% in a trading day, 3SNF would rise by 6%. Alternatively, if the value of Netflix stocks rises by 2%, 3SNF would fall by 6%.[3]

GraniteShares offers a range of short and leveraged single stock ETPs focused on UK blue chips and U.S. technology stocks. U.S. exposures include Amazon, Apple, Facebook, Microsoft, Tesla, while the UK names come from banking, consumer staples, industrials, mining, oil & gas, pharmaceuticals and telecoms, and include AstraZeneca, BP, Glencore, Lloyds Banking Group, and Rolls-Royce.

Our ETPs can help you be more active in your portfolio management, hedging risks as you see them emerge and taking advantage of opportunities to capture price momentum in individual stocks.

Volatility creates opportunity

Volatility is the term used to describe the variation of a stock price around its average price. It has traditionally had negative connotations, and investors have sought to dampen volatility in portfolios through diversification. Short and Leveraged ETPs enable investors to both capitalise on and manage or hedge volatility. Let's see how:

1. Positioning to capture price volatility: Many factors can have a positive or negative impact on a stock's price. Mergers and acquisitions, industry-specific news, natural events, or a CEO announcement may cause a stock price to move sharply up or down. GraniteShares Short and Leveraged Daily ETPs enable sophisticated investors to take positions with a view to profiting from such moves and generating returns in excess of broad market indices.

2. Managing or hedging price volatility: Individual stocks will have different sensitivities to the factors causing broad market weakness and can therefore be used as a way of hedging broader market risk. Stocks will be subject to company-specific risks, which can be hedged out through exposure to the short ETP on the particular stock. Investor exposure to the stock may be direct or through a third-party fund. Certain fund managers, for example, have significant exposure to Tesla, whose stock price can be quite volatile. A sophisticated investor might use a short Tesla ETP to place a short-term hedge against a fund's Tesla exposure, in anticipation of a period of potential price weakness.

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1 *For illustration purposes only, before fees and/or adjustments
2 *For illustration purposes only, before fees and/or adjustments
3 *For illustration purposes only, before fees and/or adjustments

GraniteShares ETPs – limiting risk and protecting your downside

There is scope for significant loss as well as profit in an investment product that triples the magnitude of each daily price move. Without a stop-loss feature, a 3x long exposure would become worthless after a 1/3 drop intraday in the value of the underlying stock. To prevent such a possibility, GraniteShares ETPs track indices that incorporate an intraday stop loss mechanism. In the case of a 3x long daily ETP, if the index being tracked fell by 50%, then the stop loss would be triggered and the index level would be reset during the trading day at a new base level. The stop loss reduces the risk of the ETP's value falling to zero within a market day, when there are significant adverse price moves.

You should note that the 3x leverage factor is a daily figure. When ETPs are held for longer than a day, returns will compound, and the overall return will deviate from the leverage factor. It is important to understand this feature of daily leverage. Investors should monitor the ETPs' performance closely, and at least daily when positions are held for longer than a day.

How to access GraniteShares Daily ETPs

GraniteShares ETPs can be purchased and traded through execution-only investment platforms, as well as through advisory stockbroking and wealth management services. No margin is required and the minimum trade size is one security. The ETPs can be held in standard investment accounts, self-select ISAs and SIPPs.

Benefits of 3x Daily ETP investing

The 3x Daily ETPs offer the sophisticated investor:

- The ability to profit from rising and falling prices.
- Unrivalled simplicity of access to leverage on individual stocks.
- The ability to respond quickly to market volatility and hedge stock and market risk.
- Downside protection with the intraday stop loss mechanism.
- Dividend capture - the ETPs track total return indices that incorporate and multiply any dividends by the leverage factor.

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 to 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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