Understanding Long-Term Performance of Leveraged and Short Funds

Like most leveraged and short funds, ProShares are designed to provide a positive or negative multiple (e.g., 200%, -200%) of an index's performance on a daily basis (before fees and expenses). Generally, these funds have achieved their daily objective with a high degree of accuracy and consistency.

However, ProShares and other leveraged or short funds with daily objectives are unlikely to provide a simple multiple (e.g., 2x, -2x) of an index's performance over periods longer than one day.

Why?

The hypothetical example below illustrates how leveraged and short fund returns can behave for periods longer than one day.

Take a hypothetical fund XYZ that seeks to double the daily performance of index XYZ. On each day, fund XYZ performs in line with its objective (200% of the index's daily performance before fees and expenses). Notice that over the entire five-day period, the fund's total return is less than double that of the index for that period. For the five-day period, index XYZ gained 5.1% while fund XYZ gained 9.8% (vs. 2 x 5.1% or 10.2%).

	Index XYZ		Fund XYZ	
	Level	Daily Performance	Daily Performance	Net Asset Value
Start	100.0			$100.00
Day 1	103.0	3.0%	6.0%	$106.00
Day 2	99.9	-3.0%	-6.0%	$99.64
Day 3	103.9	4.0%	8.0%	$107.61
Day 4	101.3	-2.5%	-5.0%	$102.23
Day 5	105.1	3.7%	7.4%	$109.80
Total Return	5.1%		9.8%	

Why does this happen?

This is due to several factors, but a significant one is index volatility and its effect on fund compounding. In general, periods of high index volatility will cause the effect of compounding to be more pronounced, while lower index volatility will produce a more muted effect.

To demonstrate this point, let's compare fund XYZ from the previous example to a hypothetical fund ABC designed to double (200%) the daily performance of index ABC. Let's say that index ABC is less volatile than index XYZ.

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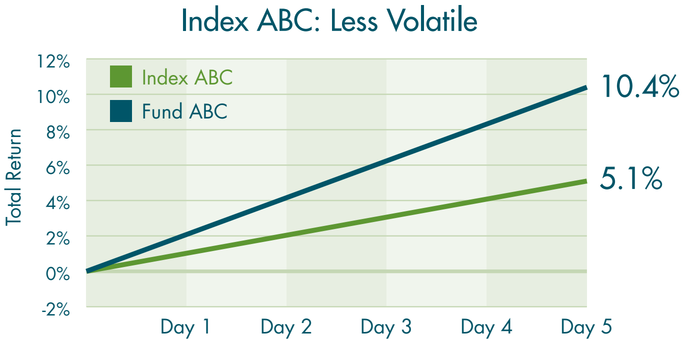

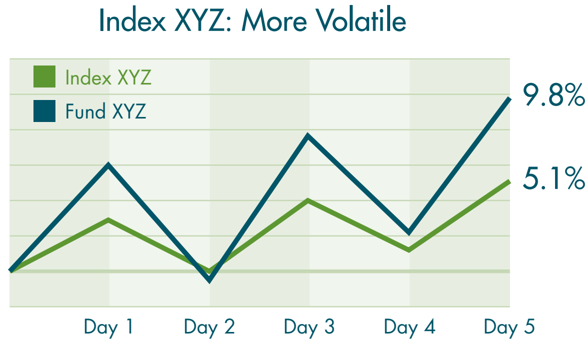

The graph on the left shows the steady uptrend of index ABC led to a compounding effect (magnified gains upon gains) in fund ABC that more than doubled the index's return (10.4% vs. 5.1%). The graph on the right shows the more volatile index XYZ led to magnified fund gains and losses, producing less than 200% (9.8% vs. 5.1%).

(Remember, you can't invest directly in an index, and hypothetical fund performance does not reflect fund fees and expenses.)

What it means to you

Leveraged and short funds can be valuable tools for investors who want to manage their exposure to various markets and market segments. But investors considering these funds should understand that they're typically designed to provide a positive or negative multiple of an index on a daily basis and not for greater periods of time. As a result, fund returns will not likely be a simple multiple (e.g., 2x, -2x) of an index's return for time periods longer than one day.

Additionally, investors should recognize that the degree of volatility of the underlying index can have a dramatic effect on the longer-term performance. The greater the volatility, the greater the deviation will be of a fund's longer-term performance from a simple multiple (e.g., 2x, -2x) of its index's longer-term return.

For more details about ProShares' long-term performance, including other factors that can impact both daily and longer-term performance, please see the description of risks in the ProShares prospectus. Also, you can download the ProShares statement of additional information for a deeper discussion of the factors that affect ProShares' long-term performance, including charts that help quantify the impact of volatility on longer-term performance.

A note about daily benchmarks: If a fund were designed with a benchmark that used a time period longer than one day (for instance, a week, a month or a year), index volatility and its effect on compounding would create a similar effect over multiple periods, regardless of their duration.

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Carefully consider the investment objectives, risks, and charges and expenses of ProShares before investing. This and other information can be found in the prospectus. Read the prospectus carefully before investing. For a ProShares prospectus, visit www.proshares.com and seek advice from your financial adviser or broker/dealer representative. Financial professionals can also call 866.PRO.5125 (866.776.5125).

Investing involves risk, including the possible loss of principal. Please note that in addition to the normal risks associated with investing, ProShares entail certain risks, including, in some or all cases, aggressive investment techniques, inverse or imperfect correlation and market price variance risks, all of which can increase volatility and decrease performance. ProShares are not diversified investments. ProShares are designed to meet daily objectives; results over longer periods may differ. There is no guarantee that any ProShares ETF will achieve its investment objective. Please see the prospectus for a more complete description of these risks.

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