

Statement

Statement on Single-Stock Levered and/or Inverse ETFs



Lori J. Schock

Director, Office of Investor Education and Advocacy

July 11, 2022

Today and in the coming weeks, a new type of complex exchange-traded product will become available to investors in the U.S.: single-stock levered and/or inverse exchange-traded funds. For years, the Office of Investor Education and Advocacy, staff in other Divisions and Offices, and a number of Commissioners have warned that complex products present several risks to investors. These new products are no exception, as they provide levered and/or inverse exposure to a single security, which can present risks for investors.

Holding a levered and/or inverse single-stock ETF is not the same as holding the underlying stock, a traditional ETF, or even a non-single stock levered and/or inverse ETF. It is riskier for several reasons. Importantly, like many other complex exchange-traded products, levered and/or inverse single-stock ETFs aim to provide returns over extremely short time periods (in some cases even a single day). New risks may emerge for investors who hold these products for longer than that. Investors should be aware that if they were to hold these funds for longer than a day, the performance of these funds may differ significantly from the levered and/or inverse performance of the underlying stock during the same period of time.

Additionally, unlike traditional ETFs, or even other levered and/or inverse ETFs, these levered and/or inverse single-stock ETFs track the price of a single stock rather than an index, eliminating the benefits of diversification. Because levered single-stock ETFs in particular amplify the effect of price movements of the underlying individual stocks, investors holding these funds will experience even greater volatility and risk than investors who hold the underlying stock itself.

Though these products will be listed and traded on an exchange, they are not right for every investor. Levered and/or inverse single-stock ETFs pose risks that are unique and complex. We encourage all investors to consider these risks carefully before deciding to invest in levered and/or inverse single-stock ETFs.