To: Securities and Exchange Commission Date: March 16, 2020

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Reason: File No. S7-24-15, Comment on Rule 18-f4, Regulation of Funds' use of Derivatives

The proposed rule 18-f4 offers an update to the regulatory framework regarding funds use of derivatives and a proposed Sales Practice Regulation directed at Leveraged Exchange Traded funds (LETFs). I would like to address two main point dealing with the following: 1) Exception to rule if derivatives exposure does not exceed 10% of assets, and 2) The Sales Practice Regulation dealing with LETFs. The first is too binding while the second is extraneous and not needed.

1) Exception to derivatives rule for 10% or less derivatives users

The 10% exception is ad hoc and needs to address the overall riskiness of the fund itself, and not solely focus on the percentage in derivatives. Many funds use derivatives to manage risk and are less risky relative to 100% long funds. A case in point is Innovator's Buffer ETFs which are almost 100% in options but deployed in such a way where return outcomes are certain for a given index return while mitigating downside risk, (Trainor, 2019). Amplify's ETF SWAN is another although right at the derivative rule exception point with 90% invested in in treasuries and 10% in long-term call options. The fund itself reduces downside risk by 70% relative to a 100% investment in the S&P 500 (Trainor, Chhachhi, Brown, 2019a) but one percent more in options would make it subject to the derivative rule with little change in attributes. The exception based only on percentage of assets using derivatives is too narrow and affects too many funds who use derivatives in a judicious manner

2) Sales Practice Regulation directed at leveraged exchange traded funds

LETFs are a derivative product by their nature as their returns are based on an underlying index return. However, LETFs themselves are not derivatives. Unlike options, they do not have an expiration date. Unlike futures, they do not have unlimited liability. For extremely bullish investors, they do not require the use of margin. For bearish investors, they do not require short selling. One could argue LETFs are also less risky than individual stocks. Investing in firms that use financial leverage is investing in a leveraged product. Firms with high debt/equity ratios use leverage by a magnitude greater than LETFs have ever considered and if the underlying product fails, so will the firm. For the reasons above, I do not see the need for LETFs to be singled out more than any individual stock or even other ETFs for investment purposes. The return characteristics of these funds has been well established, is well known in the industry, and for new investors, is reported clearly on provider's websites along with the literature associated with investing in these funds. Thus, I see no need for the Sales Practice Regulation.

There is no question LETFs are a unique product as they supply a daily multiple from +/- 3.0 on a variety of underlying indexes. They are not designed to deliver the fund multiple relative to the underlying index over time and realized multiples generally decline relative to the index due to volatility, (Trainor & Baryla, 2008; Change & Madhaven, 2009; Avadella & Zhang, 2010). Because of this, early research suggested LETFs should generally be used by short-term traders only. However, continued research on these products over the last 10 years have demonstrated LETFs can be held successfully for long periods depending on the relationship between return and volatility (Trainor, 2011). In fact, the best returning funds for the last decade were LETFs, clearly showing they can be held successfully for long periods of time, (Randall, 2019).

Further research has reinforced this point showing active management of these products can increase returns and reduce risk relative to 100% investment in the underlying indexes. For bullish LETFs, this result is based on the fact a 100% effective exposure can be attained with LETFs using only 50% or even 33% of an investor's wealth for 3.0x funds. Coupled with up to 67% in bond funds or treasuries, losses are minimized in times of stress since the flight to safely in treasuries helps mitigates losses. This results in superior risk/return characteristic relative to a 100% investment in the underlying index, (Trainor, Chhachhi, Brown, 2020). Using the same idea, George & Trainor (2018) demonstrate the use of LETFs within a portfolio insurance strategy and show superior risk/return characteristics relative to using the underlying index. Scott & Watsun (2013) even suggest using a small percentage in LETFs coupled with treasuries or similar can result in superior portfolios in retirement when dealing with withdrawals.

The point of these studies show LETFs can not only be a buy-and-hold type of investment for the less risk-averse but can also be used by the more risk-averse for hedging and reducing risk exposure while still participating in upward moving markets. Long-term holdings generally require more active management, but as the last decade has shown, a buy-and-hold strategy is not doomed to fail. Thus, I see no need for the Sales Practice Regulation or additional special regulations directed at these funds.

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