File No. S7-24-15 Comments - Leveraged and Inverse Funds

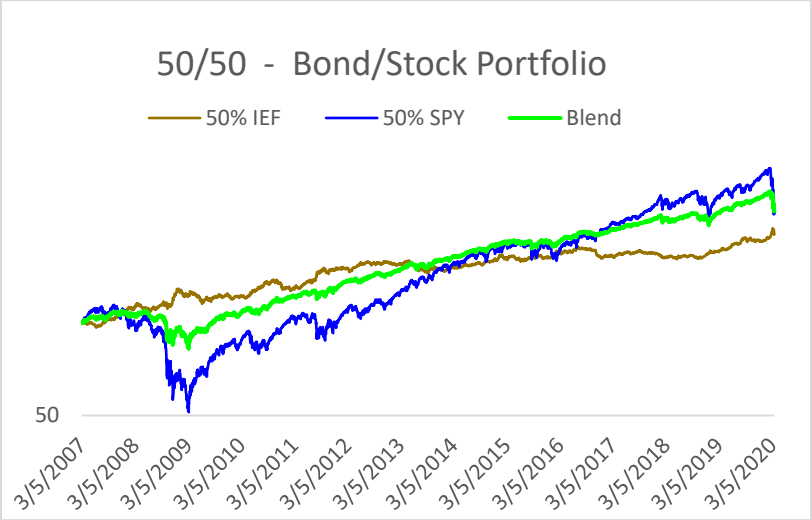
These comments are provided by Michael Mann on behalf of ProfitScore Capital Management, Inc. to express concern that the **proposed regulations may have a significant adverse impact on the small investor** (regarding the use and sale of leveraged and inverse funds under release N.34-87607).

Leveraged and inverse funds allow RIA's and individual investors themselves to design more **crash resistant**, **lower volatility**, and **more secure** portfolios. This is particularly true for small investors, who do not have access to complex investment vehicles. With the simple examples shown below, one can see that there has been an important place for these instruments to modify traditional portfolios to make them more conservative and secure, without sacrificing performance.

Making these funds less accessible would be anti-competitive, putting the smaller investor at a further disadvantage to sophisticated investors, when trying to balance return, risk, and security.

Example 1: 50/50 - Bond/Stock portfolio
The following chart shows the results of a 50/50 - Bond/Stock allocation. Note that the bond and stock ETFs are inversely correlated a large part of the time, reducing drawdowns and volatility of the blended portfolio.

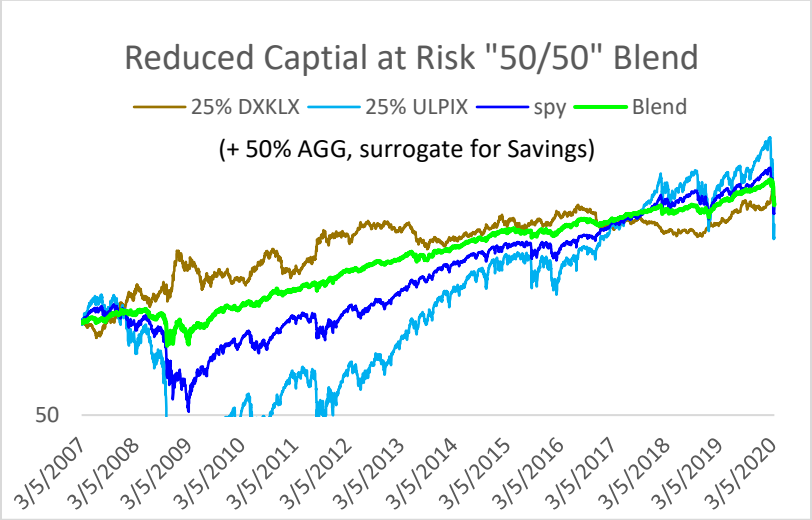
- 50% SPDR S&P 500 ETF Trust, SPY
- 50% iShares 7-10 Year Treasury Bond ETF, IEF



Example 2: Reduced Capital at Risk - Bond/Stock portfolio
With similar results to Example 1, leveraged funds allow setting aside 50% of the portfolio for more conservative investments for those seeking more security. Using 50% of the portfolio for leveraged funds and setting aside 50% of the portfolio in low risk savings investments exposes only 50% of the portfolio to bond and stock market volatility, making the portfolio more conservative and secure than the standard 50/50 blend, which exposes 100% of the portfolio to market losses.

- 25% DXKLF – Direxion Monthly 7-10 Year Treasury Bull Fund (2X Exposure)
- 25% ULPIX – ProFunds UltraBull Fund (2X Exposure)

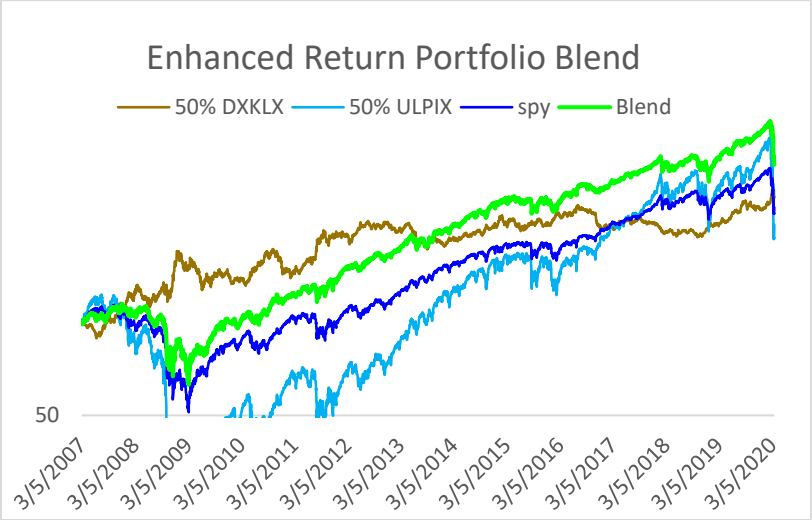
- 50% Conservative "Savings" Option. For this example, the AGG (iShares Barclays Aggregate Bond Fund ETF) has been used as a surrogate. This could be an FDIC insured savings account, or other low risk investment.



Example 3: Enhanced Reward/Risk – Bond/Stock Portfolio

A more aggressive investor or one with a longer investment time horizon may seek more exposure to stocks while accepting the downside risk. However, using a 50/50 allocation of the same two leveraged funds, this investor would have in this example been able to exceed the returns of the stock market with lower downside risk. This portfolio is effectively 200% invested without margin risk, but with reduced drawdown, lower volatility, and higher returns -- than if it were 100% invested in the stock market.

- 50% DXKLF – Direxion Monthly 7-10 Year Treasury Bull Fund (2X Exposure)
- 50% ULPIX – ProFunds UltraBull Fund (2X Exposure)



File No. S7-24-15 Comments - Leveraged and Inverse Funds

Summary

Leveraged and Inverse mutual funds **provide the small investor tools to make their investments more conservative, less volatile, and more secure** with the **potential to enhance return.** These funds allow small investors to be more competitive with those investors wealthy enough to participate in complex investment vehicles.

Making inverse and leveraged funds less accessible would be anti-competitive, putting the smaller investor at further disadvantage to sophisticated investors, when trying to balance return, risk, and security.

Notes:

- Charts above have a logarithmic vertical axis to show relative % changes over time.
- Returns calculated as if portfolios were rebalanced daily.

Important Disclosures:

Example portfolio returns shown in charts are hypothetical; for comparative illustration only; are not the returns of an actual account, and are impersonal -- not tailored to the specific financial circumstances of any person, entity, or group of persons.

These examples are not investment advice, but are illustrations of the general utility of leveraged funds.

PERFORMANCE SHOWN IN CHARTS IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS