Leverage Works - in *Both* Directions

Perspectives: March 17th, 2025

In every euphoric stock market environment, cometh the willing speculator, cometh the leveraged product.

The abnormally high levels of volatility in Tesla's share price was clearly not enough to satisfy the appetite of short-term speculators. Stock market speculators used to leverage up by borrowing money from stockbrokers and banks on what is known as 'lending margin'. Yawn. Too much paperwork. Not enough juice.

So along came a company with the shingle "*For traders averse to being risk-averse*" Let that sink in for a second. Amongst a host of others, they launched a single stock ETF called **TSLA Bull 2X Shares** .

Yes, you guessed it, it seeks '*daily investment results, before fees and expenses, of 200% of the performance of the common shares of Tesla Inc.*' It then adds this equally interesting sentence '*…should not be expected to track the underlying stock's performance over periods longer than one day*'

Also of interest is that this ETF's factsheet indicates that (1) on April 2nd, 2024, the daily leveraged investment objective, before fees and expenses, was increased from 150% to 200%, and (2) it has an annual expense ratio of 0,96%.

Tesla's stock price rallied sharply in the second half of 2024, peaking on December 17th. It has since declined by 50%.

As you can see from the chart below, over this same time frame the price of this leveraged ETF product has declined by 79% [from US$40 to US$8,34].

Speculation can be compared to severe forms of addiction. Speculators crave speculative market conditions *and* the speculative instruments to play them with. It would be unwise and naïve for me to try and find fault with the speculators, the opportunists who create these leveraged products, or the regulators who allow them. It is what it is. At least I can see it, study it, and make sure that we avoid it.

My positively framed mindset is to rather consider them instruments in *education*. It appears to me there are plenty of people busy receiving their Doctoral Degrees in Leverage; some with Distinction.

Source: Google Finance

Our work continues…

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