

Retail Investors to SEC: Hands Off Our Leveraged ETFs

By Beagan Wilcox Volz, *Ignites*, March 16, 2016 [subscription only]

http://www.ignites.com/c/1313863/149183/retail_investors_hands_leveraged_etfs?referrer_module=issueHeadline&module_order=2

Retail investors are emerging as a potential ally to industry firms opposing the parts of the SEC's December derivatives rule proposal that threaten to kill certain leveraged and inverse ETFs, or at least dramatically alter their investment strategies.

The deadline to submit comments on the rule is March 28, but about 50 individual investors had already filed letters as of Tuesday, with the vast majority urging the agency to drop changes that would prevent them from investing in these types of products. The letters appear to be from retail investors of all stripes: retirees, near-retirees, younger people, students, one former Marine and at least one financial advisor, among others.

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The comment letters from individuals on the rule seem “individually written and unique to each investor, so it didn't seem like a campaign by the industry to get individual investors to support their position,” says Niels Holch, executive director of the Coalition of Mutual Fund Investors.

But such efforts by companies to seed a grassroots effort are not unheard-of. During the heated and protracted fight between the industry and the SEC over money market fund reform, Federated Investors provided a form letter to investors critical of the agency's proposal of a floating net asset value for those products, as previously reported.

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A number of the individuals who filed comment letters urge the SEC to improve the disclosure related to leveraged and inverse ETFs rather than move forward with its proposed rule.

“There is nothing inherently dangerous with 2x and 3x leveraged ETFs as long as proper DISCLOSURE is given to retail investors about the risks involved before they invest in these products,” writes individual investor Al Smart in a Feb. 12 letter.

But improved disclosure will not help the average investor completely understand the risks of funds that invest substantially in derivatives, says Holch, of the Coalition of Mutual Fund Investors.

“Most investors are not day traders,” he says. “I just don't think the average investor is going to understand the risks [of] these leveraged products.”