

# Traders Ride the ETF Roller Coaster

Commodity-linked funds have experienced some of the roughest volatility over the past several weeks



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Exchange-traded funds and notes linked to commodities have given traders, both bulls and bears, a wild ride recently. *PHOTO: JUSTIN LANE/EUROPEAN PRESSPHOTO AGENCY*

By  
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### 3 COMMENTS

Some of the roughest volatility over the past several weeks has been reserved for individual investors who piled into risky bets on commodities prices.

Exchange-traded funds and notes that use leverage, or borrowed money, to amplify bets on oil, gold and natural-gas prices have surged in popularity, including among day traders and other mom-and-pop investors, even as many of the wagers lost money amid the rout in commodities.

The bets involve securities like the VelocityShares 3x Long Crude Oil ETN, which rises and falls at triple the daily change in oil-futures prices. In the past six months, traders have plowed more than \$1.2 billion into the ETN, according to fund tracker Lipper. It now trades more heavily than [Apple Inc.](#), [Bank of America Corp.](#) and other widely owned stocks. On Monday, it changed hands more than 300 million times.

The assets trade like stocks, and the use of leverage can amplify gains, as well as losses. Traders said their appeal is the low price—the VelocityShares note traded between \$1 and \$3 a share for much of the summer—and their penchant for big daily swings thanks to the built-in leverage. The drawback: Many of those swings have recently been downward.

Buyers include traders like Brent Gaynor, a software developer from Frisco, Texas, who began buying the VelocityShares oil notes in March. He said he netted thousands of dollars that ultimately disappeared as oil prices cratered over the summer. But the wide swings in oil in the past week—crude prices surged 8.8% on Monday and tumbled 7.7% on Tuesday—left him up about \$2,500 on his trades.

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The burst of trading highlights how ETFs have helped turn some corners of the markets into casinos. Several leveraged ETFs have exploded in popularity on day-trader discussion sites and on social media like Twitter. The roller-coaster ride in raw-materials prices has opened up even shallow-pocketed investors to both big gains and losses.

ETFs have come under focus recently after a 1,000-point plunge in the Dow Jones Industrial Average during intraday trading on Aug. 24, which triggered trading halts and erratic trades in many funds. The moves in leveraged ETFs can be especially wide. The [Direxion Daily Energy Bull 3x Shares](#) ETF, which triples the daily change in a basket of oil companies, rose

8.4% last week. A Direxion ETF that places leveraged bets on gold miners gained 9.3% on Friday alone, though gold futures rose only 1% that day.

To be sure, it isn't possible to track the number or types of traders who hold such funds at any given time. VelocityShares said the products are primarily used by institutional investors.

On July 30, financial adviser L. Michael Ladd said he bought shares of the leveraged gold fund, the [Direxion Daily Gold Miners Bull 3x Shares](#) ETF, at \$3.22. From there, the price fell, then rose. He kept buying in anticipation of a comeback.

The bet paid off last week. On Aug. 24, as gold fell anew and stocks plunged, Mr. Ladd said he pulled the trigger and sold his position at a price of \$4.04 a share, booking a profit of about \$190,000.

"Clients clamor for this," especially given that returns in the stock market are likely to be muted at best this year, he said. He added that only a small percentage of his clients' money, about 3% to 6% of their investible assets, is invested in these funds.

It didn't take long for Mr. Ladd to make another bet. On Aug. 27, he poured about \$900,000 into a similar product, the [Direxion Daily Energy Bull 3x Shares](#) ETF, buying it at \$29.71 apiece. He sold it Tuesday at \$29.91 in order to "not risk our profits," he said.

"That's not a success story," he said. "Success is when we get a 30% or 50% or 60% pop."

In addition to wide swings in prices, leveraged exchange-traded funds and notes carry another risk known as "decay," or slippage, as losses over time can spiral rapidly if the underlying asset is especially volatile.

For instance, a popular natural-gas investment, the VelocityShares 3x Long Natural Gas ETN, has lost 58% this year. Meanwhile, its unleveraged cousin, the [United States Natural Gas Fund](#), has lost 14%. Both are linked to natural-gas futures prices. Decay can be avoided by closing open positions each day. In its prospectus for the VelocityShares oil note, the company said the product isn't meant to be held for more than a day.

"Our tactical trading products are designed for sophisticated investors," said Nick Cherney, head of exchange-traded products at VelocityShares, which is owned by [Janus Capital Group](#) Inc. "We market them to institutional traders who are often trading multiple times a day and are using the products as part of more systematic strategies."

Individual investors "are not the primary users of the products," he said.

The largest holder of the VelocityShares oil ETN as of June 30 was hedge fund Tontine Associates LLC, with 1.6 million shares, according to FactSet. Also, high-speed trading firm [Virtu Financial](#) Inc. owned one million shares as of that date. Tontine declined to comment. Virtu didn't respond to a request for comment.

Still, many small traders have been left in the dust by the big moves. Ryan Quinn, a 26-year-old medical resident from Wheeling, W.Va., said he netted as much as \$15,000 after investing a few thousand dollars in the VelocityShares oil note earlier this year. Those profits evaporated as oil prices plunged. Now, he sticks to options trading.

"I consider myself very lucky to have gotten out even," he said.

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