What is the difference between buying an Inverse ETF / ETP or going Short?

What is an inverse or short ETF?

An inverse ETF or ETP is an exchange traded product which provides a positive return when the underlying market falls.

For example, if the underlying asset falls by 1%, a 3x Short Daily ETP would rise by 3% on that day. If the underlying asset rises by 1%, then a 3x Short Daily ETP would fall by 3% on that day.

What is shorting?

Shorting is where someone sells an index or asset which they do not own on the expectation that the index or asset price will fall.

Usually the 'short seller' will borrow the index or asset in order to sell the position. They will then buy that position back, (hopefully at the new, lower price) at a later date. They then return the asset back to the original lender to close out the short position.

Shorting is usually only available to very sophisticated investors who are required to have complex systems, documentation and usually trade in large size. The largest exponents are hedge funds.

What are the advantages of inverse ETPs over short selling?

Inverse and short ETPs have the following advantages over short selling:

- Inverse ETPs trade and settle on an Exchange whereas short selling incorporates off exchange arrangements
- Inverse ETPs do not require complex systems or documentation, and can monitor profit and loss very easily alongside their other documents
- Inverse ETPs are a long position but give a positive return in a falling market. Some investors have mandates where they cannot short sell, this can be avoided by going 'long' in an inverse ETP
- Inverse ETP losses are capped at the original investment. Short selling has unlimited losses
- Inverse ETPs have built-in leverage: no need to borrow funds or short stocks
- Inverse ETPs can be traded through any brokerage account and there is no need for complex prime brokerage accounts or margin accounts
- Inverse ETPs cannot be 'called away' unlike short sales that involve borrowed securities which can be called back by the owner
- Inverse ETPs can be bought in small sizes, i.e. 1 share. Whereas short selling generally involves very large institutional sized positions

The differences of inverse ETPs over short selling:

- Inverse ETPs rebalance daily which causes the daily return to compound for longer periods. The returns from Short selling generally do not rebalance daily and thus daily compounding is not relevant.
- Inverse ETP returns tend to outperform in directional trending markets and underperform short selling where markets are trending sideways and volatile.

Other documents that maybe of interest:

- Boost ETP Liquidity Explained
- How to invest in Boost ETPs
- Eight things to know about S&L ETFs
- Short & Leverage ETF trade simulator tool
- Boost short & leverage ETP Product List

N.B. Higher volatility of the underlying indices and holding periods longer than a day may have an adverse impact on the performance of Leveraged ETPs

About us

BOOST ETP**, a WisdomTree Company,** is an award winning Exchange Traded Products ETP provider and one of few providers of specialised ETPs in the European market, and is the first to focus on Short and Leveraged ETPs. BOOST's offering targets sophisticated investors including day traders, stock brokers, wealth managers, high frequency traders and institutional investment managers.

WisdomTree Investments, Inc. is a New York-based exchange-traded fund ("ETF") sponsor and asset manager. WisdomTree offers ETFs across Equities, Fixed Income, Currency Income and Alternatives asset classes, and is currently the world's eighth largest ETF issuer. To learn more about parent company WisdomTree Investments, Inc., visit the Investor Relations (http://ir.wisdomtree.com/) website.

BOOST ETP's key features include:

- **Independence** - **BOOST** is independent from any investment bank, swap provider, market maker, trustee or custodian
- **Best of breed – BOOST's** founders have over 25 years of experience in the ETP market. With this experience, plus the wealth of experience provided by **BOOST's** world class service providers, investors are able to enjoy efficient products with liquidity, strong counterparty risk management and relatively low costs
- **Transparency** – **BOOST** discloses all fees, collateral holdings and details on its website each day
- **Innovative and nimble** - **BOOST** aims to be a leader in innovation, as evidenced by the ETPs issued, and the product development and market research behind the products
- **Focused and specialised** - **BOOST's** strategy differs from the existing ETP issuers by not focusing on being everything to everyone
- **Educational** - **BOOST** focuses on providing all the educational and thought leadership tools needed by investors

BOOST ETP is well positioned to bring something new to the European market at both the ETP product range and investor service levels. The company brings a fresh, investor centric approach to all aspects to its operations including sales, marketing, research, and product development.

Contact us

If you would like further information about Boost ETP's product range or any of the content within this fact sheet, please email info@boostetp.com or call +44 (0) 203 824 6020.