

SECURITIES DIVISION

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SECURITIES DIVISION

Exhibit 1

IAG Insider

Summer 2007

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While traveling recently, I encountered a not-so-rare significant flight delay. Like all dark clouds, it held a silver lining. The delay allowed me time to catch up on some industry reading, specifically, the McKinsey & Companies analysis of the future of the Asset Management business. The 38-page "summary" was surprisingly interesting, and provides a perfect backdrop for this quarter's *Insider*.

McKinsey's view is that our business will continue to evolve at an ever-increasing rate, with an expansion in the number of products, platforms, and alternatives available. McKinsey also notes that progression of institutional-type services will gravitate more and more towards the retail client. At the same time, McKinsey highlights the need for greater simplification at the client level, and an emphasis on managing clients towards planning goals versus a specific performance index. All of this will need to be delivered to the client by a competent, objective, and well-trained investment professional with access to a broad array of products and services.

While reading this, I was struck by how well our FCs are positioned to compete and thrive in the environment that lies ahead. You are uniquely situated with a platform that allows you to design and implement a program that is as holistic or specific as the clients' needs dictate.

This quarter's *Insider* highlights several items that are changing or being enhanced to further these efforts. In particular, we discuss changes to the RBC Total Portfolio Desktop Tool as well as the continuing transition of the RBC Brokerage Choice account platform. In addition, we point out some exciting enhancements that will accompany the new technology platform, RBC Wealth Advisor, as well as the simplification of the client agreement.

The term "summer doldrums" does not seem to apply to the world we live in. Enjoy this quarter's update!

Ward Ring
Director, Wealth Management Consulting



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Expanded ETF List for Guided Focus FCs

The Focus team is pleased to announce the expansion of the list of eligible ETFs for the Guided Portfolio Management track of the Focus program on Monday, July 9.

The Guided PM track rolled out in August 2005, with a list of 92 ETFs available. Due to the growing and changing world of ETFs, as well as requests from our FCs, we developed a process to re-evaluate and update the list on a periodic basis. The expanded list will include REIT funds as well as specialty funds that have been requested.

The Guided ETF list updates will be based in general on following criteria:

- Broad-based asset class indices
- Sector funds (no over-concentrated sector funds or individual industry groups)
- Regional, but not country specific funds

The link to the updated list will be available as of July 9 on the InfoNet at: [Account Types/ Portfolio Focus/ Front Page/ Guided Track-Exchange Traded Funds-ETFs](#). The security diversification guideline of 50% maximum per individual ETF position remains the same. Inverse ETFs are not eligible in the Guided PM track.

For more information or questions, contact Karen Von Rueden or Chris Koppelman.

Leveraged Products Now Eligible in Portfolio Focus

Last quarter, the Portfolio Focus Portfolio Management Track was enhanced to include six inverse ETFs among its list of eligible securities. These, like the inverse Rydex funds instituted several months prior, have allowed Focus FCs to carry out specific hedging strategies for their clients. To further expand these types of opportunities for its FCs, IAG has now also introduced several new leveraged products, including double beta long and double beta short ETFs and Funds.

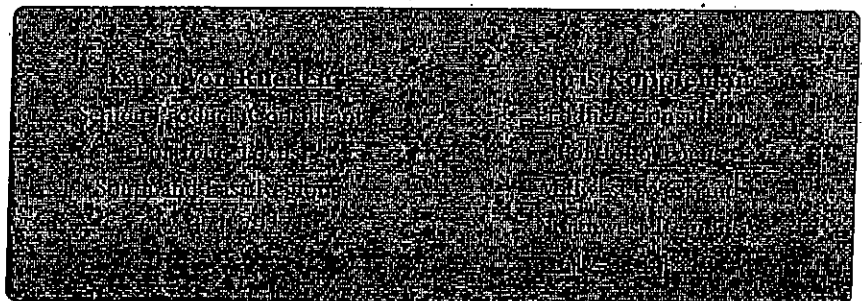
There are several unique advantages to utilizing leveraged products, a few of which include:

- *Liquidity Creation* – An investment of 5% in a double beta long fund or ETF will achieve 10% exposure, while leaving 5% in cash.
- *Portfolio Risk Reduction* – The 5% remaining (from previous example) may also be invested in a non-correlating asset class to reduce volatility.
- *Capital Efficient Hedge* – Only 50% of the capital is required in a double short fund to achieve the desired hedge.

Note: These products are not suitable for all investors. Due to compounding and expenses, leveraged funds and ETFs do not necessarily return twice the daily returns of the underlying index.

As with the inverse products, Portfolio Focus FCs must be approved into the Portfolio Management Track to qualify to utilize leveraged securities. Additionally, we will continue to require FCs to complete an application demonstrating their understanding of these investments. All Focus program guidelines, including sector and asset class maximums still apply (asset class greater than 105% or less than negative 5%, sector less than negative 5%). Over exposure—or “betting” strategies—will be flagged by the IAG Programs Surveillance Report.

Please see the updated list of available leveraged products on the InfoNET at [Account Types/Portfolio Focus/Front Page/Eligible Leveraged and Inverse Funds and ETFs](#). For an Inverse and Leveraged Product application, please contact your IAG Focus Product Consultant.



Latest Developments in Fee-Based Brokerage Accounts Case

On May 24, an InfoNET article outlined an anticipated RBC Brokerage Choice transition plan based on the outcome of the U.S. Court of Appeals case between the Financial Planning Association (FPA) and the SEC. In the article, it was stated that more information and a detailed timeline would be shared soon; however, due to recent developments, communicating a timeline and taking steps to execute a complete transition plan would be premature.

RBC Dain Rauscher, along with a number of other firms, submitted an affidavit to the SEC that was filed with a motion with the court for a stay of the mandate in FPA vs. SEC, on May 17. The affidavits provided specific information about fee-based brokerage programs and how transitioning these programs to other offerings would impact individual firms and its clients. On June 25, the court granted the SEC's motion to delay the effective date of the ruling until October 1, 2007.

As communicated in the InfoNET piece on May 24, RBC Dain Rauscher is not allowing any new RBC Brokerage Choice accounts to be opened and this will continue to be the case. However, we will not communicate any information on this regulatory change to clients at this time. RBC Dain Rauscher believes its best strategy is to wait for further action or guidance from the SEC before moving forward with client notification or any other aspects of a transition plan.

We will continue to keep you posted as new information is released. In the meantime, FCs should continue reviewing their RBC Brokerage Choice accounts to determine whether other account alternatives may be more appropriate for their clients, and, if necessary, FCs should register for the Series 65 or 66 license exam by contacting their licensing specialist via e-mail.

Questions should continue to be directed to Primary Advisor Support (formerly the PCS Sales Desk) at 612-371-6120.

RBC Total Portfolio Tax Update E-mails

One of the benefits of RBC Total Portfolio is the unique tax overlay management capabilities of Placemark Investments, the overlay portfolio manager for RBC Total Portfolio. The ability of Placemark to effectively manage a client's account with respect to taxes relies heavily on the specific tax information that your client provides to Placemark.

Placemark maintains specific tax information/mandates for all clients with tax-managed accounts in RBC Total Portfolio. Because clients' tax situations can change, it is important to revisit the tax information that Placemark has on file for your clients with tax-managed accounts. On Wednesday, June 20th, all Financial Consultants with clients in tax-managed RBC Total Portfolio accounts were sent a spreadsheet containing their clients' 2007 tax information as it stands in Placemark's files. Included in the e-mail was the Tax Management form that can be used to update a client's specific tax information. All FCs were asked to review the information with their client and update it as necessary to ensure that, for the remainder of this year, Placemark has the correct tax information on file.

New Risk Profile Questionnaire

On June 1st, in preparation for AccessRBC, we announced improvements to the account opening process (see InfoNET article for additional details (<http://infonet/contents/Tools/News/05-31-07-IAGChanges.asp>). One of the key changes was the rollout of a new Risk Profile Questionnaire. The new questionnaire, which replaces the existing IAG Investor Profile, was created in partnership with Ibbotson Associates.

The new questionnaire is now being used for all advisory accounts that are opened and/or updated; however, FCs do have time to transition outstanding paperwork – old Investor Profiles will continue to be accepted until Friday, July 13th.

The new questionnaire evaluates risk on two dimensions – time horizon and risk tolerance. Upon completion of the new profile, the client's score places them into one of five risk categories that also correspond to five asset allocation models. Until conversion, the new Risk Profile will display both current risk profile categories (Income, Balanced, Conservative Growth, and Growth) and the new risk profile categories that will be used post-conversion (Conservative, Moderate Conservative, Moderate, Moderate Aggressive and Aggressive).

FCs will not be required to complete a new Risk Profile Questionnaire for existing clients. Instead, 30 days prior to conversion, all clients who have completed the old Investor Profile will be sent a notification advising them that:

- The term used to describe their risk profile will be changing in 30 days.
- They do not need to take any action unless they believe their new risk profile does not accurately reflect their current risk tolerance.

- They should contact their FC for questions, or to complete a new Risk Profile, if desired.

Frequently Asked Questions

Since the rollout, as with any change, we have received questions from FCs regarding the new questionnaire. Below are five of the most frequently asked questions. We encourage you to continue to send feedback and questions and we will make every effort to improve the profile and/or the communications used to support it.

1. Why did we choose Ibbotson Associates?

Ibbotson Associates is a leading authority on asset allocation and risk profiling with expertise in capital market expectations and portfolio implementation. Through partnering with Ibbotson, RBC Dain is able gain the following benefits:

- Leverage Ibbotson's extensive experience in the field
- Utilize Ibbotson's resources and expertise to continuously develop and update models and capital market assumptions.
- Enhance client experience through the use of one questionnaire developed by a credible third-party.

2. Why are these models and assumptions better than the old models? Why are we moving from 8 models to 5?

The models and assumptions are backed by the expertise of Ibbotson Associates, an authority in asset allocation and risk profiling. Ibbotson is an independent, credible, and objective third party with the resources to monitor and update the capital market assumptions and models on an annual basis.

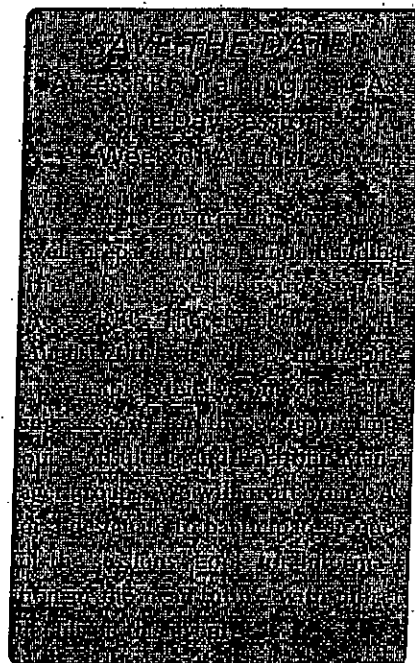
In addition, the move from eight models to five models is believed to be better for the client. Ibbotson spaces the models according to target risk characteristics. A set of five models provides sufficient differentiation in the client mapping/risk profile questionnaire process; whereas using eight models tends to make each less distinct from a client mapping standpoint.

3. Are these models, asset classes, and assumptions in PNA or CPP?

These models and assumptions have not been implemented in PNA or CPP. They will be implemented into the software sometime after the AccessRBC conversion. http://infonet/contents/WealthManagement/Communication_AA_Changes.asp

4. My client typically considers himself to be a more aggressive investor, but I am having trouble answering the ques-

Continued on page 5



Continued from page 4

tions in a way that I believe accurately reflects their investment objectives.

It is important to remember that the new Risk Profile can be used to assess the following:

- Entire portfolio
- Assets at Dain
- Investment Advisory Accounts
- Other (asset held away)

Keep in mind, if you are using the questionnaire to specifically assess the client's Risk Profile for one or more advisory accounts, the profile should be answered only for those specific account(s). For example, the client may answer a one questionnaire for a portion of their money they wish to have managed more aggressively, and a different questionnaire for a portion they wish to have managed more conservatively.

5. On questions one and two, does "withdrawing" mean any and all distributions?

The time horizon questions apply to regular, significant withdrawals, including spending down principal.

(Note: We are currently in the process of working with Ibbotson to help clarify these questions, based on feedback from FCs.)

6. The portfolio constraints are no longer available on the investor profile. Where can I find these?

The portfolio constraints have been moved to a separate document, which contains the constraints that will be used from now until conversion, and the new constraints that will be used to monitor the accounts post-conversion. The document is available on the InfoNET: <http://infonet/contents/Investments/InvestmentAdvisorGroup/PortfolioConstraints.PDF>

Changes to RBC Total Portfolio Desktop

As communicated in an InfoNET article dated 5/31/2007 regarding changes to the advisory account opening process and in conjunction with the newly released Advisory Risk Profile, there have been a few changes to the RBC Total Portfolio Desktop tool.

Beginning on June 1, FCs must follow the steps below to open an RBC Total Portfolio account.

A blank Advisory Risk Profile will print as part of the Client Agreement that is printed off of the Desktop. You will need to complete the new form manually by following the steps outlined below. If the client has already completed the new interim Advisory Risk Profile, please substitute the completed form.

Step #1:	Print out an Advisory Risk Profile and work with your Client to complete the Risk Profile.
Step #2:	<p>When completing the Investor Profile on the Desktop, we have some changes to the questions you are asked to answer. The questions you will answer are:</p> <p><i>(Note: The questions you will answer are not available on the Desktop.)</i></p>
Step #3:	<p>Once you have answered all the Investor Profile questions embedded in the Desktop, click "Calculate Score." At this time, you should use the Advisory Risk Profile completed in Step #1 to select the "Investment Objective" on the Desktop.</p> <p>For example: If in completing the new Advisory Risk Profile, the Client scores "Conservative (Income)" you would select "Income" under the "Investment Objective" column.</p> <p>In most cases, the Investment Objective selected will differ from the default option. A pop-up box will appear: "Reason for selecting another Investment Objective... Select the appropriate investment objective to match the score or provide a reason for selecting another investment objective."</p> <p>Please type: "Investment objective matches the Client's Risk Profile from the new Advisory Risk Profile."</p>
Step #4:	<p>Print out the Client Agreement and the Desktop printout of the new Advisory Risk Profile. Review the Client Agreement and the Desktop printout of the new Advisory Risk Profile. Complete the Client Agreement manually.</p>

The steps above relate only to the RBC Total Portfolio desktop procedures. Please continue to review the Account Opening Checklist before opening an account.

Please contact your regional Product Consultant with any questions.

Managed Account Research

Hansberger Global Investors

The IAG Investment Committee ADDED the International Value Equities portfolio to Consulting Solutions and RBC Total Portfolio. The manager utilizes a bottom-up approach to investing in companies considered to be selling at favorable relative valuations based on various price multiples (e.g. Price-to-Earnings, Price-to-Cash Flow and Price-to-Book ratios) that possess a catalyst that should lead to the eventual realization of the companies' intrinsic value in the not-to-distant future. Portfolios are comprised of 50-70 holdings with an average annual turnover of 20-40 percent. The International Value Equities portfolio is suggested for long-term-oriented investors seeking a core allocation to the stocks of foreign companies.

Riverbridge Partners

The IAG Investment Committee ADDED the Multi Cap Growth Equities portfolio to Consulting Solutions and RBC Total Portfolio. The manager seeks to identify well-managed companies with the ability to sustain their growth regardless of the current economic environment. While investment ideas arise from many different sources, a significant source of potential holdings is derived from one-on-one meetings with company managements. In addition to an assessment of the strength of the management, the manager will inquire about competitors, suppliers, and customers in an attempt to locate the most respected firms within an industry. Key attractions of the portfolio include; a small, employee-owned firm with entrepreneurial culture, an experienced in-

vestment team, a low turnover, buy-and-hold discipline, attractive absolute and risk-adjusted performance, and a portfolio only available through a select number of retail managed account platforms.

Victory Capital Management

The IAG Investment Committee ADDED the Large Cap Blend Equities portfolio to Consulting Solutions. Lead Portfolio Manager Lawrence Babin has managed this strategy since its inception in 1989 and has generated attractive long-term absolute and risk-adjusted performance. The portfolio has consistently registered strong investment results over full market cycles. The investment approach consists of both top-down and bottom-up inputs to identify large cap companies that appear undervalued but are believed to possess a catalyst for long-term growth. Portfolios are comprised of 50-70 holdings, with an average annual turnover of 70-90 percent. The portfolio offers an attractive option for investors seeking exposure to large cap companies possessing both growth and value characteristics.

Voyageur Asset Management

The IAG Investment Committee has ADDED the Small Cap Blend Equities portfolio to Consulting Solutions and RBC Total Portfolio. In May 2006, Voyageur announced the lift-out of Lance James from Babson Capital Management, a sister company of OFI Institutional Asset Management. James now leads a four-person team stationed in Boston that manages portfolios independently of other Voyageur teams. It should be noted that James has had a working relation-

ship with Voyageur since April 2004, as he served as portfolio manager for Voyageur's Tamarack Enterprise and Tamarack Small Cap Core mutual funds, which were sub-advised by Babson. The Small Cap Blend equities portfolio will generally consist of 50-80 companies with annual turnover of roughly 20-30 percent.

Voyageur Asset Management has REOPENED its Small Cap Growth Equities portfolio in Consulting Solutions and RBC Total Portfolio. The portfolio originally closed in early 2006 as the strategy neared its estimated capacity of \$1.2 billion. However, slower market appreciation and natural attrition has resulted in additional remaining capacity. Voyageur has committed an additional \$30 million available to clients through Consulting Solutions or RBC Total Portfolio. After reaching this figure, the portfolio is likely to once again close to new investors.

J. & W. Seligman and Co.

Advisory Research has RESOLVED the Watch and Restricted List status of the

Second Quarter 2007

S&P Sector Performance (%)

Energy	14.32
Information Technology	10.18
Industrials	9.24
Telecommunications	6.78
Materials	6.56
Health Care	4.57
Consumer Discretionary	3.43
Consumer Staples	2.11
Financials	1.49
Utilities	1.11

Small-Mid Cap Growth Equities portfolio. As a result, the portfolio has been reinstated to Consulting Solutions and RBC Total Portfolio without any restrictions. The portfolio was originally placed on the Watch List following the departure of Lead Portfolio Manager Rick Ruvkun in July 2006. Ruvkun led the Small-Mid Growth strategy since 1999 and represented the primary decision-maker on the portfolio. Mike Alpert, a Co-Portfolio Manager on the strategy since 2005, assumed the lead portfolio management role in Ruvkun's absence. After a continued period of ongoing due diligence, Advisory Research has gained sufficient conviction in Alpert's ability to successfully manage the portfolio. Several positive developments from the change in management include; a more concentrated portfolio, additional focus on fundamental research, improved absolute and relative performance, and stabilizing asset levels. Please note however, we have maintained our relatively conservative due diligence rating to reflect the recent portfolio manager change and slight modifications to the investment process.

Mutual Fund Recommended List

Lazard Emerging Markets Fund (LZOEX) has been ADDED to the Emerging Markets Equities asset class on the Mutual Fund Recommended List. The Fund employs a bottom-up approach to investing, seeking to purchase companies with strong and sustainable financial returns (e.g. above-average ROEs and ROICs) that are selling for reasonable prices based on relative valuations (e.g. below-average Price-to-Earning and Price-to-Cash Flow multiples). The portfolio managers do attempt to ensure adequate diversification (in terms of stocks,

industries, sectors and countries) during portfolio construction in order to control undue risks. For instance, formal ex-post guidelines related to the Fund's maximum allocation to specific countries and sectors do exist. The Fund should contain 70-90 stocks with most of the portfolio representing mid-to-large capitalization companies.

Polaris Global Value Fund (PGVFX) has been ADDED to the Global Equities asset class on the Mutual Fund Recommended List. Lead Portfolio Manager Bernard R. Horn Jr. has used a disciplined and time-tested approach to investing that has generated a superior long-term risk and return record for shareholders. Horn has long-adhered to a traditional Graham-and-Dodd-inspired approach to investing in companies with strong and sustainable free cash flows whose stock prices are selling at substantial discounts to estimated intrinsic values based on the firm's required rate of return. In the end, the Fund represents a well-diversified portfolio constructed of around 75 companies chosen through the bottom-up research process. Though there are no hard-and-fast regional and sectoral allocation rules versus the MSCI World Index, shareholders should normally see exposures to at least 15 countries and at least 15 industries. Also, shareholders should expect an allocation to emerging countries of up to 25 percent, if deemed prudent.

Van Kampen International Growth Fund (VIFAX) has been ADDED to the International Equities asset class on the Mutual Fund Recommended List. The Fund's portfolio managers contend that well-managed, market-leading companies

tend to continue to outperform their peers, as well as assert that minimizing losses is critical to maximizing the returns of shareholders. The Team attempts to generate most of the Fund's alpha through in-depth, bottom-up securities selection. Thus, the Fund's regional and sectoral allocations are not allowed to deviate more than 10 percent and 5 percent, respectively, compared to the MSCI EAFE Index. Since its inception more than one decade ago, the Fund has amassed a superior risk and return record compared to its benchmark and most all its growth-oriented, open-end mutual fund peers.

IAG Advisory Research

Scott M. Devant, CFA
 David Quattrone, CFA
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Save the Date: IAG Annual Symposium

The 2007 IAG Symposium will be held November 7-8, 2007 at the Hilton Hotel in Charlotte, North Carolina. This year's theme is "Rev It Up: Winning the Race for Primacy."

The 2007 IAG Symposium will be a full one and one-half day event instead of the two half-days it has been in the past. This will allow IAG, Advisory Research and the 14 money manager sponsor firms to compile an agenda of timely topics of interest for general and breakout sessions, alike, while allowing plenty of time for networking.

This year's manager sponsors include: AIM/INVESCO, Anchor Capital, Brandes Investment Partners, Geneva Advisors, Hansberger Global Investors, Metropolitan West Capital Management, Minneapolis Portfolio Management Group, Nuveen Asset Management, Rorer Asset Management, Sovereign Asset Management, Thornburg Investment Management, Voyageur Asset Management and Wentworth Hauser and Violich.

The IAG Symposium will follow IMCA's 2007 Advanced Wealth Management conference which will be held in Charlotte on November 5-6, 2007.

We look forward to seeing you in Charlotte!



From left: Sandy Duerre, Captain Finaplex (a.k.a. Rhett Merrill), Ann Senne, Christine Gehring, Sally Poole, Jim Brick, and Karen Von Rueden (who really does have hair!).

Captain Finaplex flies in San Francisco!

As many of you know, Rhett Merrill is the Senior Product Manager for the new IAG Account Desktop Tool, RBC Wealth Advisor. The tool is being developed by a company called Finaplex. In order to create a little fun around the conversion and building of this tool, Rhett was given the name "Captain Finaplex" and it stuck. Over the course of the past year, we purchased a costume and tried to bribe him to wear it. On May 20th, a group of individuals from IAG, a few brave employees from our San Francisco office, and a some of our partners from Finaplex and ADP/Broadridge ran the "Bay to Breakers" race in San Francisco. The run was a great time that we will never forget!

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Exhibit 2

Non-Traditional ETFs

FINRA Reminds Firms of Sales Practice Obligations Relating to Leveraged and Inverse Exchange-Traded Funds

Executive Summary

Exchange-traded funds (ETFs) that offer leverage or that are designed to perform inversely to the index or benchmark they track—or both—are growing in number and popularity. While such products may be useful in some sophisticated trading strategies, they are highly complex financial instruments that are typically designed to achieve their stated objectives on a daily basis. Due to the effects of compounding, their performance over longer periods of time can differ significantly from their stated daily objective. Therefore, inverse and leveraged ETFs that are reset daily typically are unsuitable for retail investors who plan to hold them for longer than one trading session, particularly in volatile markets.¹

This Notice reminds firms of their sales practice obligations in connection with leveraged and inverse ETFs. In particular, recommendations to customers must be suitable and based on a full understanding of the terms and features of the product recommended; sales materials related to leveraged and inverse ETFs must be fair and accurate; and firms must have adequate supervisory procedures in place to ensure that these obligations are met.²

Questions concerning this Notice should be directed to the Office of Emerging Regulatory Issues at (202) 728-8472.

June 2009

Notice type

- Guidance

Suggested Routing

- Compliance
- Legal
- Retail
- Senior Management

Key Topics

- Communications With the Public
- ETFs
- Leveraged and Inverse ETFs
- Suitability
- Supervision
- Training

Referenced Rules and Notices

- IM 2310-2(e)
- NASD Rule 2210
- NASD Rule 2310
- NASD Rule 3010
- NTM 05-26

Background and Discussion

ETFs are typically registered unit investment trusts (UITs) or open-end investment companies whose shares represent an interest in a portfolio of securities that track an underlying benchmark or index.³ However, some ETFs that invest in commodities, currencies, or commodity- or currency-based instruments are not registered as investment companies. Unlike traditional UITs or mutual funds, shares of ETFs typically trade throughout the day on an exchange at prices established by the market.

Leveraged ETFs seek to deliver multiples of the performance of the index or benchmark they track. Some leveraged ETFs are "inverse" or "short" funds, meaning that they seek to deliver the opposite of the performance of the index or benchmark they track. Like traditional ETFs, some inverse ETFs track broad indices, some are sector-specific, and still others are linked to commodities or currencies. Inverse ETFs are often marketed as a way for investors to profit from, or at least hedge their exposure to, downward-moving markets. Some funds are both short and leveraged, meaning that they seek to achieve a return that is a multiple of the inverse performance of the underlying index. An inverse ETF that tracks the S&P 500, for example, seeks to deliver the inverse of the performance of the S&P 500, while a 2x leveraged inverse S&P 500 ETF seeks to deliver twice the opposite of that index's performance. To accomplish their objectives, leveraged and inverse ETFs pursue a range of investment strategies through the use of swaps, futures contracts and other derivative instruments.

Most leveraged and inverse ETFs "reset" daily, meaning that they are designed to achieve their stated objectives on a daily basis.⁴ Due to the effect of compounding, their performance over longer periods of time can differ significantly from the performance (or inverse of the performance) of their underlying index or benchmark during the same period of time. For example, between December 1, 2008, and April 30, 2009:

- The Dow Jones U.S. Oil & Gas Index gained 2 percent, while an ETF seeking to deliver twice the index's daily return fell 6 percent and the related ETF seeking to deliver twice the inverse of the index's daily return fell 26 percent.
- An ETF seeking to deliver three times the daily return of the Russell 1000 Financial Services Index fell 53 percent while the index actually gained around 8 percent. The related ETF seeking to deliver three times the inverse of the index's daily return declined by 90 percent over the same period.

This effect can be magnified in volatile markets. Using a two-day example, if the index goes from 100 to close at 101 on the first day and back down to close at 100 on the next day, the two-day return of an inverse ETF will be different than if the index had moved up to close at 110 the first day but then back down to close at 100 on the next day. In the first case with low volatility, the inverse ETF loses 0.02 percent; but in the more volatile scenario the inverse ETF loses 1.82 percent. The effects of mathematical compounding can grow significantly over time, leading to scenarios such as those noted above.

Suitability

NASD Rule 2310 requires that, before recommending the purchase, sale or exchange of a security, a firm must have a reasonable basis for believing that the transaction is suitable for the customer to whom the recommendation is made. This analysis has two components. The first is determining whether the product is suitable for any customer, an analysis that requires firms and associated persons to fully understand the products and transactions they recommend. With respect to leveraged and inverse ETFs, this means that a firm must understand the terms and features of the funds, including how they are designed to perform, how they achieve that objective, and the impact that market volatility, the ETF's use of leverage, and the customer's intended holding period will have on their performance.

Once a determination is made that a product is generally suitable for at least some investors, a firm must also determine that the product is suitable for the specific customers to whom it is recommended. This analysis includes making reasonable efforts to obtain information concerning the customer's financial status, tax status, investment objectives and "such other information used or considered to be reasonable by such member or registered representative in making recommendations to the customer."⁵ While the customer-specific suitability analysis depends on the investor's particular circumstances, inverse and leveraged ETFs typically are not suitable for retail investors who plan to hold them for more than one trading session, particularly in volatile markets.

FINRA reminds firms that, as new complex and non-traditional ETFs are introduced to the market, firms should also keep in mind IM-2310-2(e) (Fair Dealing with Customers with Regard to Derivative Products or New Financial Products), which states that "[a]s new products are introduced from time to time, it is important that members make every effort to familiarize themselves with each customer's financial situation, trading experience, and ability to meet the risks involved with such products and to make every effort to make customers aware of the pertinent information regarding the products." Firms recommending or selling new ETFs may also find it helpful to refer to *Notice to Members 05-26*, which highlights best practices for vetting new products.

Communications With the Public

NASD Rule 2210 prohibits firms and registered representatives from making false, exaggerated, unwarranted or misleading statements or claims in communications with the public. Therefore, all sales materials and oral presentations used by firms regarding leveraged and inverse ETFs must present a fair and balanced picture of both the risks and benefits of the funds, and may not omit any material fact or qualification that would cause such a communication to be misleading. For example, an advertisement for a leveraged or inverse ETF that is designed to achieve its investment objective on a daily basis may not omit that fact and must specifically disclose that the fund is not designed to, and will not necessarily, track the underlying index or benchmark over a longer period of time. Firms are further reminded that providing risk disclosure in a prospectus or product description does not cure otherwise deficient disclosure in sales material, even if the sales material is accompanied or preceded by the prospectus or product description.

Supervision

In accordance with NASD Rule 3010, firms should establish an appropriate supervisory system to ensure that their associated persons comply with all applicable FINRA and SEC rules when recommending any product, including leveraged and inverse ETFs. Among other things, if a firm promotes or allows its registered representatives to recommend such funds, the firm must ensure that its written supervisory procedures require that:

- the appropriate reasonable-basis suitability analysis is completed;
- associated persons perform appropriate customer-specific suitability analysis;
- all promotional materials are accurate and balanced; and
- all FINRA and SEC rules are followed.

In addition to establishing written procedures, such firms must document the steps they have taken to ensure adherence to these procedures.

Training

Firms must train registered persons about the terms, features and risks of all ETFs that they sell, as well as the factors that would make such products either suitable or unsuitable for certain investors. In the case of leveraged and inverse ETFs, that training should emphasize the need to understand and consider the risks associated with such products, including the investor's time horizons, and the impact of time and volatility on the fund's performance. Training for all persons should emphasize that, due to the complexity and structure of these funds, they may not perform over time in direct or inverse correlation to their underlying index. This is particularly important as many investors may be turning to these funds as part of a long-term strategy to weather current market conditions.

Endnotes

- 1 There also are mutual funds that are designed to provide inverse and leveraged performance relative to their benchmarks. These mutual funds may reset on a daily basis as well, and thus raise many of the issues discussed in this Notice on ETFs.
- 2 This Notice is being issued concurrently with an Investment Industry Regulatory Organization of Canada Notice on the same topic.
- 3 In 2008, the Securities and Exchange Commission began issuing exemptive orders that allow certain ETFs to be actively managed and thus not track an underlying benchmark or index. See SEC Rel. No. 33-8901 (Mar. 11, 2008), 73 Fed. Reg. 14618, 14620 n. 20 (Mar. 18, 2008).
- 4 At least one ETF sponsor has filed registration statements for leveraged and inverse ETFs that would seek to track the underlying performance of the index or benchmark for a period longer than a trading day, such as a month.
- 5 See NASD Rule 2310.

© 2009 FINRA. All rights reserved. FINRA and other trademarks of the Financial Industry Regulatory Authority, Inc. may not be used without permission. *Regulatory Notices* attempt to present information to readers in a format that is easily understandable. However, please be aware that, in case of any misunderstanding, the rule language prevails.

Exhibit 3

Non-traditional Exchange Traded Funds (ETFs)

INTRODUCTION

In response to FINRA's Notice to Members 09-31, the firm is implementing the following policies with regard to Non-traditional ETFs (i.e. Leveraged ETFs). These products have received heightened regulatory scrutiny and media attention due to the common misunderstanding of how they operate. The performance of Non-traditional ETFs may be volatile and does not necessarily correspond with the long-term performance of the underlying index due to the daily/monthly rebalancing within the portfolio and the related compounding issues. These products are not designed to be buy and hold investments. It is imperative that FCs and clients actively monitor positions in Non-traditional ETFs to ensure that the performance is consistent with their expectations.

DEFINITION OF A NON-TRADITIONAL ETF

An open-end Exchange Traded Fund, Exchange Trade Note or other Exchange Traded Product that seeks to deliver the opposite, a multiple, or a multiple of the opposite performance of an underlying benchmark. Most important, such products possess a **DAILY** or **MONTHLY** performance objective.

Examples include, but are not limited to:

- INVERSE (-100% or -1X)
- LEVERED (+200% or +2X)
- INVERSE-LEVERED (-200% or -2X)

While the following also fall under the definition of Non-traditional ETFs; the firm is prohibiting trading of all Non-traditional ETFs (and their options) with 3X or -3X leverage in all circumstances effective 12/22/09.

- LEVERED (+300% or +3X)
- INVERSE-LEVERED (-300% or -3X)

POLICIES REGARDING NON-TRADITIONAL ETFS (EFFECTIVE 12/22/2009)

Short Sales

The firm prohibits the short selling of ALL Non-Traditional ETFs.

Margin

The firm prohibits the purchase on margin of ALL Non-Traditional ETFs (i.e. these securities have a 100% maintenance requirement).

Options

For all options with a Non-traditional ETF as the underlying security, the firm prohibits spreads and naked option writing. In addition, strategies will be limited to short-term options only (those that have an expiration date within 6 months).

Account Types

Non-Discretionary

Brokerage and RBC Advisor

The firm prohibits SOLICITED transactions in Non-traditional ETFs. The firm will allow UNSOLICITED transactions ONLY. The firm requires a Non-traditional ETF Client Letter to be sent to the client for the initial purchase of each affected security. Note: Transactions in the personal accounts of FCs should be marked solicited and are exempt from this restriction.

RBC Total Portfolio (non-SMA sleeves)

The firm prohibits ALL transactions in Non-traditional ETFs. Although Non-traditional

ETFs purchased outside of managed sleeves are client-directed, the account is managed by an overlay manager and therefore trades are automatically noted as solicited.

Consulting Solutions, RBC Total Portfolio (SMA sleeves), and MAP

The firm will continue to allow suitable transactions in Non-traditional ETFs with a leverage factor of 2X or less.

Discretionary

Portfolio Focus – Portfolio Management Track

The firm will continue to allow transactions in Non-traditional ETFs. FCs must continue to complete the requisite training and qualification requirements in order to be approved to transact in Non-traditional ETFs. The firm also requires the following to be completed prior to or concurrent with client transactions occurring 12/22/09 and thereafter:

- Application to use Leveraged and Inverse Products that specifically addresses ETFs.
- Non-traditional ETF Client Agreement, with required approvals.

Portfolio Focus – Guided Portfolio Management Track

The firm will continue to prohibit transactions in ALL Non-Traditional ETFs.

ACTION REQUIRED ON EXISTING NON-TRADITIONAL ETF POSITIONS

FCs are expected to work with their clients to appropriately address positions that would not be allowed under this new policy, keeping in mind that these products are generally designed as short-term trading vehicles.

REFERENCE

Non-Traditional ETF Client Agreement

Non-Traditional ETF Client Letter

- **Ineligible** - RBC offerings cannot be purchased due to conflicts of interest under the **Investment Advisers Act of 1940**. There are no exceptions and no client documentation workarounds available at this time. Structured products are prohibited from being purchased on a discretionary basis in Portfolio Focus accounts.

Marketing/Speaking Engagements

- Structured products may not be discussed in FA produced communications to be distributed to a mass audience. Instead, FA's are directed to use firm-produced term sheets, which are subject to the Firm's public communications approval process, which complies with applicable FINRA rules. In addition, the Firm prohibits structured products to be the subject of seminars or speaking engagements.

Resource Information
[Structured Notes Front Page](#)

Non-traditional Exchange Traded Funds (ETFs)

INTRODUCTION

In response to FINRA's Notice to Members 09-31, the firm is implementing the following policies with regard to Non-traditional ETFs (i.e. Leveraged ETFs). These products have received heightened regulatory scrutiny and media attention due to the common misunderstanding of how they operate. The performance of Non-traditional ETFs may be volatile and does not necessarily correspond with the long-term performance of the underlying index due to the daily/monthly rebalancing within the portfolio and the related compounding issues. These products are not designed to be buy and hold investments. It is imperative that FAs and clients actively monitor positions in Non-traditional ETFs to ensure that the performance is consistent with their expectations.

DEFINITION OF A NON-TRADITIONAL ETF

An open-end Exchange Traded Fund, Exchange Trade Note or other Exchange Traded Product that seeks to deliver the opposite, a multiple, or a multiple of the opposite performance of an underlying benchmark. Most important, such products possess a **DAILY** or **MONTHLY** performance objective.

Examples include, but are not limited to:

- **INVERSE** (-100% or -1X)
- **LEVERED** (+200% or +2X)
- **INVERSE-LEVERED** (-200% or -2X)

While the following also fall under the definition of Non-traditional ETFs, the firm is prohibiting trading of all Non-traditional ETFs (and their options) with 3X or -3X leverage in all circumstances effective 12/22/09.

- **LEVERED** (+300% or +3X)
- **INVERSE-LEVERED** (-300% or -3X)

POLICIES REGARDING NON-TRADITIONAL ETFS (EFFECTIVE 12/22/2009)

Short Sales

The firm prohibits the short selling of ALL Non-Traditional ETFS.

Margin

The firm prohibits the purchase on margin of ALL Non-Traditional ETFS (i.e. these securities have a 100% maintenance requirement).

Options

For all options with a Non-traditional ETF as the underlying security, the firm prohibits spreads and naked option writing. In addition, strategies will be limited to short-term options only (those that have an expiration date within 6 months).

Account Types

Non-Discretionary

Brokerage and RBC Advisor

The firm prohibits SOLICITED transactions in Non-traditional ETFs. The firm will allow UNSOLICITED transactions ONLY. The firm requires a Non-traditional ETF Client Letter to be sent to the client for the initial purchase of each affected security. Note: Transactions in the personal accounts of FAs should be marked solicited and are exempt from this restriction.

RBC Total Portfolio (non-SMA sleeves)

The firm prohibits ALL transactions in Non-traditional ETFs. Although Non-traditional ETFs purchased outside of managed sleeves are client-directed, the account is managed by an overlay manager and therefore trades are automatically noted as solicited.

Consulting Solutions, RBC Total Portfolio (SMA sleeves), and MAP

The firm will continue to allow suitable transactions in Non-traditional ETFs with a leverage factor of 2X or less.

Discretionary

Portfolio Focus – Portfolio Management Track

The firm will continue to allow transactions in Non-traditional ETFs. FAs must continue to complete the requisite training and qualification requirements in order to be approved to transact in Non-traditional ETFs. The firm also requires the following to be completed prior to or concurrent with client transactions occurring 12/22/09 and thereafter:

- Application to use Leveraged and Inverse Products that specifically addresses ETFs.
- Non-traditional ETF Client Agreement, with required approvals.

Portfolio Focus – Guided Portfolio Management Track

The firm will continue to prohibit transactions in ALL Non-Traditional ETFs.

ACTION REQUIRED ON EXISTING NON-TRADITIONAL ETF POSITIONS

FAs are expected to work with their clients to appropriately address positions that would not be allowed under this new policy, keeping in mind that these products are generally designed as short-term trading vehicles.

REFERENCE

Non-Traditional ETF Client Agreement

Non-Traditional ETF Client Letter

Current Listing of Affected Non Traditional ETFs

Exhibit 4

ABOUT YOUR ACCOUNT - Securities in your account are protected up to \$500,000 (cash up to \$100,000) by the Securities Investor Protection Corporation (SIPC). RBC Capital Markets Corporation (RBC) has purchased an additional policy covering up to \$99.5 million per SIPC qualified account, subject to a total maximum aggregate for RBC of \$400 million. This protection applies to the physical loss or destruction of your securities, it does not apply to any decline in the market value of your securities. Other investments shown on your statement but not held at RBC may not be protected by the SIPC or private insurance policies purchased by RBC. For more details, please talk to your Financial Consultant, contact SIPC for a brochure by calling (202) 371-8300 or visit www.sipc.org.

All securities that we hold for you that are not registered in your name ("street name" securities) are commingled with identical securities being held for other clients. In the event that any such securities are "called" by the issuer, we will determine which clients' securities are redeemed using an impartial selection system, as required by Financial Industry Regulatory Authority (FINRA) rules.

To report a lost or stolen VISA Gold® card, call 1-800-933-9946 or 1-877-486-3696. Questions regarding check activity, money funds balances and VISA Gold® card activity should be directed to Client Account Services at 1-800-933-9946.

A financial statement of this organization is available for your personal inspection at its offices, or a copy of it will be mailed upon your written request.

If you have an option account, each of the transaction confirmations that we sent you itemizes the commissions that you have paid. Upon request, we will also furnish to you a statement of the total option commissions paid by you for this calendar year.

ABOUT YOUR INVESTMENT OBJECTIVE AND ADVISORY RISK PROFILE - The Investment Objective noted on page 3 of this statement is specific to this account and should reflect your investment goals and the level of overall risk you are willing to assume in seeking returns for this account. The Advisory Risk Profile, also noted on page 3, if applicable, is applied broadly across specified advisory accounts held at RBC and should reflect the basis for the recommendation of an appropriate investment strategy designed to meet your objectives and financial needs as identified in your Risk Profile questionnaire. Please consult with your Financial Consultant promptly if the information shown below does not accurately reflect your objective or risk tolerance.

Investment Objective	Preservation of Principal/Income	Balanced/Conservative Growth	Growth	Aggressive Growth	Speculation
	Lower Potential Lower Risk Shorter Time Horizon	←-----→			Higher Potential Higher Risk Longer Time Horizon
Advisory Risk Profile	Profile 1	Profile 2	Profile 3	Profile 4	Profile 5

ABOUT YOUR STATEMENT - Statements are mailed monthly to clients who have transactions during the month that affect money balances and/or security positions. Statements are mailed quarterly to all other clients provided that their account contains a money or security balance. Please review these statements carefully, and keep them for your records. If you note any discrepancies in your money balance or security positions, or unauthorized activity in your account, please report this to the Complex Director immediately via telephone at the phone number, or in writing at the address that appear on the front of your statement. In addition, you should reconfirm any oral communications with us in writing to further protect your rights, including your rights under the Securities Investor Protection Act (SIPA).

Your statement is intended to provide only a summary of activity in your account(s) for the statement period. The information provided on the statement includes, among other things, a snapshot of the value of your account(s), a summary of the income you received for the statement and year-to-date periods, contributions to traditional, Roth or other Individual Retirement Account(s), and transactions in mutual funds shares. The presentation of the value of your account(s) value, as well as changes in value, includes all deposits, withdrawals, and other changes in market value. It may also reflect a reduction in value as the result of the return of principal on certain fixed income securities. However, changes in the value of unpriced securities, special products, or accrued interest are not reflected.

If you have questions about your individual tax situation, please consult your tax advisor

The prices for most securities and certain securities transactions reported on this statement are obtained from independent quotation services whose appraisal(s) are based on closing prices, bid-ask quotations or other factors; however, in some cases, RBC calculates prices for certain securities using information from independent and internal sources. If you hold municipal revenue bonds, please be aware that the price you may receive on their sale may vary significantly from the price shown on your statement. Moreover, certain securities may have unique valuation requirements. Certain securities prices may not be current as of the statement date, and certain adjustments to your holdings may not yet have been included. If you purchase and/or hold securities traded in a market outside of the United States, and/or denominated in a currency other than United States dollars, the price of those securities may be converted into United States dollars for inclusion on your statement. The risks of adverse changes in the value of non-United States currencies relative to the United States dollar are borne by you, RBC does not hedge or otherwise mitigate such risks. While we obtain pricing and currency conversion information from sources that we believe are reliable, RBC cannot guarantee the accuracy of the prices and currency conversion information that appear on your statement. You should always request a current valuation of your securities prior to making an investment decision or placing an order to buy or sell securities. Note that securities that are not actively traded have not been priced and, therefore, are excluded from the total shown in your summary.

Your statement also includes a summary of the short- or long-term gain or loss from the sale of selected securities in non-retirement accounts. "Short-term" refers to securities held for one year or less; "long-term" refers to securities held more than one year. RBC provides gain/loss information as a service to its clients; the information may not be accurate for tax reporting or other purposes and may rely on information, such as the original cost basis for a security, that you or another source at your direction provided to RBC. Gain/loss information may also reflect a change in the value of certain fixed income and other securities that return or amortize principal over time.

If you have elected to receive interest on free credit balances maintained in your account, please be advised that under federal securities laws and the rules of FINRA, we are permitted to pay such interest only on balances arising as an incidence of securities trading activities. We may use a free credit balance in our account in the course of our business, subject to limitations of 17CFR Section 240.15c3-3 under the Securities Exchange Act of 1934. You may demand and receive from us during normal business hours the delivery of any free credit balances to which you are entitled, and fully-paid securities to which you are entitled, and/or any securities purchased in your loan account upon full payment of any indebtedness to us.

If this is a margin account and we maintain a special memorandum account for you, this is a combined statement of both your general account and the special memorandum account maintained for you under Regulation T of the Federal Reserve system. The permanent record of the special memorandum account as required by Regulation T is available for your inspection at your request. RBC reserves the right to limit margin purchases and short sales and to alter its margin requirements and due dates for house or other margin calls in accordance with the firm's guidelines, market conditions and regulatory requirements.

The prices reported on your RBC statement for securities issued through or by a Direct Participation Program, Real Estate Investment Trust, or Private Securities, including Hedge Funds are estimates. RBC does not calculate the prices of these securities, and has not confirmed these prices or verified that they are determined correctly. Instead, RBC relies on independent quotation services or the management, trustee or general partner of the issuer of the securities to provide such prices. The prices may be based on independent appraisals, the book value of the entity's assets, the prices paid or offered for the securities, or another method or basis (or a combination of any of these). These securities are illiquid, and do not trade in a public market. Consequently, the estimated value of the securities (which is shown on your statement) may not equal the amount(s) that you receive if you attempt to sell your investment. In some cases, accurate valuation information relating to these securities may not be available. For current or estimated price information on the estimated value of the securities, the source of the actual or estimated value of the securities, or the method by which the value was determined or estimated, please contact your Financial Consultant.

FINRA Public Disclosure Program - FINRA has made available to investors a Public Disclosure pamphlet for your information. To obtain a copy of the brochure, please contact FINRA at 1-800-289-9999 or visit their website at www.finra.org.

Exhibit 5



RBC Wealth Management

RBC Plaza
60 South Sixth Street
Minneapolis, MN 55402-4422

[REDACTED]
Associate Vice President
Senior Case Manager
Legal Department

[REDACTED] Phone

[REDACTED] Fax

[REDACTED]@rbc.com

July 21, 2010

[REDACTED]
[REDACTED]
[REDACTED]
Dear [REDACTED]

On behalf of RBC Wealth Management and your long-time Financial Consultant, Michael Zukowski, we wish to express our sincere regret that you have come to be dissatisfied with the results of your investments in your RBC Wealth Management account.

As you are aware, the market of 2008/2009 was very volatile and suffered a very deep decline, second only to the market crash of 1929 as the worst market of all time. Obviously, your investments were affected as well. Discussing your relationship with Mr. Zukowski during this time, he recalls that you were very involved with your accounts and that you spoke and met very frequently, particularly through the difficult market of 2008/2009. Through your conversations as well as the statements and performance reports you received, you were kept very aware of the progress of your investments.

Discussing your investment strategy during this time, Mr. Zukowski has long known you to be an experienced investor with a strong understanding of the marketplace and the investments which you purchased for your accounts. As documented in the Risk Profile Questionnaire you signed in November 2008, you did not wish to follow a particularly conservative investment strategy and rather, you stated that you were willing to accept a high degree of volatility and large and sometimes dramatic short-term fluctuations in your portfolio value in order to achieve greater returns in the long term.

During the time you were actively investing, Mr. Zukowski worked very hard to maximize returns in your account and also to reduce your expenses. On this line, Mr. Zukowski first discounted your commission charges. As you became more active, Mr. Zukowski prompted you to switch to a quarterly fee-based billing structure, so that you would pay no commission charges on your transactions.

At times, your short term returns were disappointing, particularly in 2009, and Mr. Zukowski discussed changing your investment strategy with you on several occasions. Each time, fully understanding your investment strategy and aware of your portfolio performance, you chose to continue with your investment plan until deciding to discontinue your plan in 2010.

In closing, considering your lengthy investment experience and your close involvement in your investments and activity, we believe you fully understood your investment strategy and that you were well aware that you could potentially realize losses on your investments. Accordingly, while we again express our regret that you have come to be dissatisfied with the results of the investments purchased in your RBC Wealth Management account, we do not find your investment plan to be unsuitable for you and we can not support any request for reimbursement due to poor performance in your chosen investments.

Should you have any further questions regarding this matter, please feel free to contact me directly.

Sincerely,



Dispute Resolution Case Manager
Legal Department

Cc



Exhibit 6

COMPLEX DIRECTORS: SUPERVISORY OVERSIGHT

Complex Directors have a responsibility to assure that all supervisory tasks are being performed in compliance with Firm policies and procedures and to maintain documentary evidence that oversight reviews have been conducted. While other qualified personnel may perform certain supervisory duties, the Complex Director retains ultimate responsibility for the proper performance of those duties. For the proper execution of supervisory duties, qualified personnel must thoroughly comprehend the Complex Director's expectations for each review, actions to be taken, and means for escalation.

Oversight should include, but is not limited to, the following:

- The Complex Director is required to visit each branch office no less than twice per year to conduct in-person interviews with the Branch Director. The purpose of these meetings is to: a) ensure supervisory tasks are being performed in accordance with firm policy and management expectations, and: b) to review the business being conducted by the Branch Director personally and his or her team. See the **Compliance Quick Reference on Complex Branch Oversight Visits** for details on the guidelines for these reviews.
- Periodic and regular reviews of supervisory functions performed by ACM's, ADCM's, and Branch Directors which includes a substantive sampling of accounts, documents, files and other supervisory tools. Items selected should show evidence of the Complex Director's review by initial and date. In addition, details of the items sampled including dates, subject matter, and any issues identified should be noted in the Complex Director's Supervisory Log.
- Regular communication should occur with supervisory personnel to discuss any findings or issues identified during the reviews, including any courses of action to be taken, and any follow-up that will occur. Although frequency of these meetings may be dependent on the unique nature of the Complex, it is recommended that the Complex Director and the ACM meet at least weekly to discuss these items. Notes from these meetings should be included in each individual's Supervisory Log.
- More frequent oversight should be considered in the following circumstances:
 - New Branch Directors, ACM's, and ADCM's
 - New Complex Directors
 - Items that have been performed on a "back-up" only basis
 - Items that have been identified in previous inspections or subsequently by Compliance or industry regulators
 - Areas of concern that have been identified by the branch or the Regional Director
 - Activities of new Financial Consultants
 - Activities of particular Financial Consultants based on prior issues
 - Activities in new branch or satellite locations
- The Complex Director must personally review reports generally handled by supervisory personnel that reflect activities in their personal/family accounts or accounts managed by them.
- Any tasks performed by supervisory personnel in a "back-up" capacity should be reviewed and counter-signed by the person regularly responsible for that particular task.
- Any communication with supervisory personnel regarding their performance of supervisory tasks should be detailed in the log, along with the date the communication occurred.

COMPLEX DIRECTOR BRANCH OVERSIGHT

By design, most supervisory functions are performed at the complex main office by management teams consisting of the Complex Director, Associate/Assistant Complex Manager and the Administrative Complex Manager. The complex model places supervisory ownership with qualified people whose primary job responsibilities are to supervise the people and businesses conducted within and throughout the entire complex while still allowing Branch Directors to balance their personal business and client relationships with moderate, yet critical, supervisory responsibilities. Given that CD's do not personally perform all supervisory tasks yet retain ultimate responsibility for activities occurring in their complex, it is imperative that they develop strong working relationships with BDs as well as the FCs in the branch offices that encourages two-way communication and ensures everyone fully understands the expectations set forth by the Firm and the CD.

With that said, the Complex Director is expected to conduct in-person interviews with each of his/her Branch Directors at least twice annually (preferably 6 months apart). Under certain circumstances and as dictated by business needs/issues, CDs are encouraged to visit branch offices more frequently and should always properly document these visits. However, while these 'off-cycle' or 'for cause' visits can be done in conjunction with the semi-annual required visits, they do not replace the semi-annual BD interview requirement.

To assist the Complex Director during the BD interview, and to ensure relevant topics are discussed with respect to the BD's work as a supervisor as well as a producer, the "**Branch Director Supervisory and Business Interview Guidelines**" form was created and is required to be completed personally by the CD during the interview session. Once completed, the form should be faxed to the designated RAM and compliance officer with the original being retained in the Supervisory Log. In addition, a schedule of all required branch visits should be recorded on the **Branch Visit Tracking Log** which should also be maintained in the Supervisory Log.

ASSISTANT COMPLEX MANAGER / ASSOCIATE COMPLEX MANAGER BRANCH OVERSIGHT

There are specific items that are supervised and retained at the branch office; therefore, the ACM is required to visit each branch office at a minimum of twice per year to review the branch's books and records. As a compliment to the supervision already being conducted at the complex office location, visits to each branch office should include the following:

- Review of on-site customer account documentation and other books and records
- Review of correspondence and other sales literature
- Review of cashing functions to insure that they are properly safeguarded.

To facilitate this review, the ACM should utilize the **Supervisory Review of Branch Books and Records** worksheet. After completion, the worksheet should be reviewed and signed by the Complex Director and faxed to the designated RAM and compliance officer. In addition, the visit should be noted on the **Branch Visit Tracking Log** maintained by the Complex Director and forwarded to the designated RAM and compliance officer on a quarterly basis.

UNANNOUNCED VISITS may be appropriate where there are indicators of misconduct or undue risk such as, receipt of significant customer complaints, personnel with disciplinary records, excessive trade corrections, extensions, liquidations or variable contract replacements. Special attention should be given to all items that were found to be deficient in the most recent branch inspection. Complex Management must ensure that those deficiencies are corrected in the prescribed timeframe.

Exhibit 7



INVESTMENT ADVISOR GROUP (IAG)

PORTFOLIO FOCUS PORTFOLIO MANAGEMENT TRACK - APPLICATION TO USE INVERSE FUNDS

INSTRUCTIONS

Portfolio Focus is a customized, discretionary portfolio management program offering tracks for FCs based on their professional education, years of experience, and production.

Given the discretionary nature of Portfolio Focus, and the increased regulatory scrutiny that creates, Financial Consultants participating in the Portfolio Focus Portfolio Management Track who wish to use inverse funds as a part of their overall investment strategy must complete this application. Upon completion forward the proposal to your Complex Director (CD) and Assistant Complex Manager (ACM), who will then forward the FCs request to IAG Program Management for review.

PLEASE COMPLETE

Financial Consultant Name	Branch	FC Code

INVESTMENT PHILOSOPHY

Please describe in detail your investment philosophy and inverse fund strategy (may be provided in a separate document):

ACKNOWLEDGEMENTS

I have reviewed the Rydex Funds material including (*Please contact IAG Program Management to receive a copy of these documents*):

- "Inverse Funds: Employing The Rydex Inverse Funds In A Down Market"
- "How Leverage Works: An Innovative Strategy In Mutual Fund Management"
- "How Inverse Funds Work: An Innovative Strategy In Mutual Fund Management"

FC Initial: _____

SIGNATURES

Financial Consultant	Print Name	Date
Complex Director	Print Name	Date
Assistant Complex Manager	Print Name	Date

IAG PRODUCT ACCEPTANCE

IAG Product Management	Print Name	Date

Please fax to [redacted] at [redacted] or send to Mail stop [redacted]



RBC
Dain Rauscher

Member NYSE/SIPC

INVESTMENT ADVISOR GROUP (IAG)

PORTFOLIO FOCUS PORTFOLIO MANAGEMENT TRACK - APPLICATION TO USE LEVERAGED AND INVERSE PRODUCTS

INSTRUCTIONS

Portfolio Focus is a customized, discretionary portfolio management program offering tracks for FCs based on their professional education, years of experience, and production.

Given the discretionary nature of Portfolio Focus, and the increased regulatory scrutiny that creates, Financial Consultants participating in the Portfolio Focus Portfolio Management Track who wish to use leveraged and/or inverse funds as a part of their overall investment strategy must complete this application. Upon completion please forward the proposal to your Complex Director (CD) and Assistant Complex Manager (ACM), who will then forward the FCs request to IAG Program Management for review.

PLEASE COMPLETE

Financial Consultant Name	Branch	FC Code

INVESTMENT PHILOSOPHY

Please describe in detail your leveraged and/or inverse fund strategy and how it relates to your overall investment philosophy (should include, but may not be limited to, a demonstration of your knowledge of the purpose and nature of these funds, their correlation (positive and negative) to volatility, indicators you will use to know when to buy/sell, and client suitability):



INVESTMENT ADVISOR GROUP (IAG)

ACKNOWLEDGEMENTS

I have reviewed the Rydex Funds material, "Essentials of Inverse & Leverage Investing" (Please contact IAG Program Management to receive a copy of these documents) FC Initial _____

I have reviewed the list of Eligible Leveraged and Inverse Funds and ETFs posted via the InfoNET (Account Types/Portfolio Focus/Front Page/Eligible Leveraged and Inverse Funds and ETFs) FC Initial _____

I have read and understand the 'Maximum Exposure' policy for Inverse Funds in Focus accounts, posted via the InfoNET (Account Types/Portfolio Focus/Surveillance/Inverse Monitoring) FC Initial _____

SIGNATURES

Financial Consultant	Print Name	Date
Complex Director	Print Name	Date
Assistant Complex Manager	Print Name	Date

IAG PRODUCT ACCEPTANCE

IAG Product Management	Print Name	Date

Please fax to [REDACTED] at [REDACTED] or send to Mail stop [REDACTED]



PORTFOLIO FOCUS PORTFOLIO MANAGEMENT TRACK - APPLICATION TO USE LEVERAGED AND INVERSE PRODUCTS

INSTRUCTIONS

Portfolio Focus is a customized, discretionary portfolio management program offering tracks for FCs based on their professional education, years of experience, and production.

Given the discretionary nature of Portfolio Focus, and the increased regulatory scrutiny that creates, Financial Consultants participating in the Portfolio Focus Portfolio Management Track who wish to use leveraged and/or inverse funds as a part of their overall investment strategy must complete this application. Upon completion please forward the proposal to your Complex Director (CD) and Assistant Complex Manager (ACM), who will then forward the FCs request to IAG Program Management for review.

PLEASE COMPLETE

Financial Consultant Name	Branch	FC Code

INVESTMENT PHILOSOPHY

Please describe in detail your leveraged and/or inverse fund strategy and how it relates to your overall investment philosophy (should include, but may not be limited to, a demonstration of your knowledge of the purpose and nature of these funds, their correlation (positive and negative) to volatility, indicators you will use to know when to buy/sell, and client suitability):



ACKNOWLEDGEMENTS

I have reviewed the Rydex Funds material, "Essentials of Inverse & Leverage Investing" (Please contact IAG Program Management to receive a copy of these documents) FC Initial _____

I have reviewed the list of Eligible Leveraged and Inverse Funds and ETFs posted via the InfoNET (Account Types/Portfolio Focus/Front Page/Eligible Leveraged and Inverse Funds and ETFs) FC Initial _____

I have read and understand the 'Maximum Exposure' policy for Inverse Funds in Focus accounts, posted via the InfoNET (Account Types/Portfolio Focus/Surveillance/Inverse Monitoring) FC Initial _____

SIGNATURES

Financial Consultant	Print Name	Date
Complex Director	Print Name	Date
Assistant Complex Manager	Print Name	Date

IAG PRODUCT ACCEPTANCE

IAG Product Management	Print Name	Date

Please fax to IAG at [redacted] or send to Mail stop [redacted]



INVESTMENT ADVISOR GROUP (IAG)

PORTFOLIO FOCUS PORTFOLIO MANAGEMENT TRACK - APPLICATION TO USE LEVERAGED AND INVERSE PRODUCTS

INSTRUCTIONS

Portfolio Focus is a customized, discretionary portfolio management program offering tracks for FCs based on their professional education, years of experience, and production.

Given the discretionary nature of Portfolio Focus, and the increased regulatory scrutiny that creates, Financial Consultants participating in the Portfolio Focus Portfolio Management Track who wish to use leveraged and/or inverse funds as a part of their overall investment strategy must complete this application. Upon completion please forward the proposal to your Complex Director (CD) and Assistant Complex Manager (ACM), who will then forward the FCs request to IAG Program Management for review.

PLEASE COMPLETE

Financial Consultant Name	Branch	FC Code

LEVERAGED / INVERSE PRODUCT KNOWLEDGE AND STRATEGY (ALL QUESTIONS MUST BE COMPLETE)

- 1) Explain your understanding of how leveraged/inverse products work as well as the risks associated with these investments.
- 2) Explain why you are choosing to use leverage and / or inverse products (i.e.: macroeconomic factors you are considering, etc.).
- 3) Explain how you intend to use leveraged and / or inverse products as part of your overall strategy. Please include a buy/sell discipline as it relates to these products in your explanation.
- 4) Explain which of your clients are suitable for leveraged and / or inverse products.



INVESTMENT ADVISOR GROUP (IAG)

ACKNOWLEDGEMENTS

I have reviewed the Rydex Funds material, "Essentials of Inverse & Leverage Investing" and RBC Wealth Management article in the Examiner "Think Twice or Thrice Before Purchasing Leveraged ETFs" (Please contact IAG Program Management to receive a copy of these documents) FC Initial _____

I have reviewed the list of Eligible Leveraged and Inverse Funds and ETFs posted via the InfoNET (Account Types/Portfolio Focus/Front Page/Eligible Leveraged and Inverse Funds and ETFs) FC Initial _____

I have read and understand the 'Inverse/Leveraged Securities Guidelines and Monitoring' posted via the InfoNET (Account Types/Portfolio Focus/Surveillance) FC Initial _____

SIGNATURES

Financial Consultant	Print Name	Date
Assistant Complex Manager	Print Name	Date

IAG PRODUCT ACCEPTANCE

IAG Product Management	Print Name	Date

Please fax to IAG Programs Surveillance at [REDACTED]

Exhibit 8



January 31, 2009

Darren W. Young, CFA

Senior Product Manager -
Exchange Traded Funds and Notes

darren.young@rbc.com

the EXAMINER educates readers
on important topics related to
Exchange Traded Funds and Notes.

INAUGURAL EDITION

SEE DISCLAIMER ON PAGE 9.

Think Twice or Thrice Before Purchasing Leveraged ETFs

SCENARIO

- The Standard & Poor's 500 Index declined - 38.5% in 2008 based on price returns.
- There exists an exchange traded fund designed to deliver twice the opposite of the DAILY price performance of the Standard & Poor's 500 Index.

QUESTION

Before fees and expenses, what should be the price return of this INVERSE-LEVERED (-2x) product in 2008?

- A. + 38.5%
- B. - 77.0%
- C. + 77.0%
- D. It depends.

Drum roll, please. The correct answer is D! In hindsight, this INVERSE-LEVERED product should have gained just 58.8 percent in 2008. What? How can that be possible? Yes, we realize C might seem so appealing to readers as the obvious correct answer. But in fact, all of the other three answers were possible correct answers at the outset of 2008. Again, how can that be possible? It is possible because the longer-term performance of INVERSE, LEVERED and INVERSE-LEVERED products depends on the actual path of DAILY returns over the course of the specific time period being studied. In short, the larger the DAILY returns - either positive or negative - and the more the DAILY returns change direction from positive to negative and vice versa, the more the long-term performance of these products might differ from one's intuitive but naïve expectations. Why? The reasoning rests with the real - and all too often deleterious - consequences of compounding leveraged DAILY returns throughout more volatile financial markets, such as the recent and current tumultuous times.

The purpose of this publication's inaugural edition is to further explain how these products are designed to perform based on each product's performance objective as stated in the prospectus. In doing so, we will call attention to empirical as well as hypothetical - but quite plausible - mathematical examples. At the conclusion of our examination, readers should possess a far greater understanding of how these products can perform in the longer term due to the effects of compounding leveraged DAILY returns over the course of one week, one month, one quarter or one annum. We will provide evidence that these effects can be significant - and more often than not deleterious - when both the magnitude and directional swings of leveraged day-to-day price-percentage changes are heightened. Once armed with such an enhanced understanding, most readers should perhaps think twice (or thrice) before purchasing leveraged products for hedging, investing or speculating.

The safe way to double
your money is to fold it over once
and put it in your pocket.

Frank Hubbard

IF ONE IS GOOD, TWO OR THREE MUST BE BETTER

At present, there are more than 100 INVERSE, LEVERED and INVERSE-LEVERED exchange traded funds registered and listed in the United States. Around half these products were launched in 2008, including the more recent introduction of products that aim to deliver three times (+300% and -300%) the DAILY performance of selected benchmark indices. In addition to the tremendous increase in the number of these products in recent months, there has been a concurrent dramatic rise in their assets under management and average trading volumes. ProShares were launched as the original INVERSE (-100%), LEVERED (+200%) and INVERSE-LEVERED (-200%) exchange traded funds in 2006. At the end of 2008, ProShare Advisors had amassed more than \$20.5 billion across its line-up of such products compared to around \$9.6 billion a year earlier. Direxion Shares and RydexShares entered the fray in 2008.

Although it is the latest entrant to the asset-gathering competition, Rafferty Asset Management - Direxion Shares' sponsor - claimed almost \$950 million at the close of 2008, after less than two months on the scene. Its aforementioned introduction of triple-leveraged products could be considered an unmitigated and perhaps unexpected success based on both assets raised and average trading volumes realized. The third and final contender in this battle is Rydex Investments - RydexShares' sponsor - who has not experienced as much success as its two foes to date, despite the fact that it launched the first LEVERED and INVERSE open-end mutual funds in 1993 and 1994, respectively. But given its first-mover advantage in the arena of exchange traded funds, it should come as no surprise that ProShare Advisors remains the dominant sponsor of these products in the form of exchange traded funds. As a collection, these three sponsors are not resting on their laurels, as there are 200 more of these products that have been registered with the Securities and Exchange Commission, including additional triple-leveraged ProShares and Direxion Shares.

DAILY OBJECTIVES - A DISTINCTION WITH A DIFFERENCE

Before we proceed further, we must ensure that all readers understand these products' performance objectives and the oft-used and critical-to-comprehend nomenclature.

INVERSE

These products seek to provide the inverse (opposite) of the DAILY price performance, before fees and expenses, of the reference benchmark index. These Bearish products are also called Short products.

LEVERED

These products seek to provide twice (+200%) or three (+300%) the DAILY price performance, before fees and expenses, of the reference benchmark index. These Bullish products are also called Double or Triple Long products.

INVERSE-LEVERED

These products seek to provide twice (-200%) or three (-300%) the inverse (opposite) of the DAILY price performance, before fees and expenses, of the reference benchmark index. These Bearish products are also called Double or Triple Short products.

It should be clear (at the risk of being redundant) that these products are designed to deliver the INVERSE, LEVERED or INVERSE-LEVERED price-percentage changes of their reference benchmark indices on a DAILY basis. At first glance, that distinction might appear to be insignificant. However, that distinction is significant and is critical to understanding how these products can perform over time periods longer than one day.

Each Fund seeks to provide investment results that match, before fees and expenses, the performance of a specific benchmark on a daily basis... Because the Fund's investment strategy involves consistently applied leverage, the value of the Fund's shares will tend to increase or decrease more than the value of any increase or decrease in its Underlying Index.

RydexShares

A common - and in our opinion the most unfortunate - misconception is that leveraged products with DAILY performance objectives should deliver price-percentage changes that are proportionate (e.g. -100% or +200%) to these products' leveraged beta targets over longer time periods, such as one week, one month, one quarter or one annum. As aforementioned and as we will further mention in upcoming pages, leveraged products' ultimate performance over longer time periods is often greater than but more often less than the returns that would result from such an intuitive but naïve expectation. If you hold leveraged products for more than one day, there is no guarantee that the products will double or triple (or double or triple the opposite of) the cumulative price returns of their benchmark indices. Since making guarantees about securities is frowned upon, we will stop short of guaranteeing that these products will never do so by chance.

TARGETING CONSTANT LEVERAGE...ONE DAY AT A TIME

These products are leveraged in the sense that their performance objectives aim to match the opposite, a multiple, or a multiple of the opposite of the price performance of an underlying benchmark index on any given day. Without going into an extensive discussion of complicated portfolio construction techniques, leveraged products attempt to achieve their leveraged performance objectives using (for the most part) a combination of futures, options, forwards, swaps and other derivatives contracts. For better or worse (and we will argue for worse), these types of financial instruments often require DAILY rebalancing to maintain the desired leverage (e.g. -100% or +300%).

Since these products must reset to the leveraged beta target (i.e. re-lever or de-lever) each day, purchasers are not in fact leveraging the performance of a multi-day period. Such purchasers are therefore misguided if it is believed he or she can purchase a twice-leveraged or thrice-leveraged product, hold it for one week, one month, one quarter or one annum, and end up with double or triple the ultimate performance of the applicable benchmark indices. Such purchasers should just end up disappointed, dismayed and/or disgruntled. Together, leveraged products' DAILY performance objectives and the requisite DAILY-rebalancing to the leveraged beta target represent their Achilles' heel as ever being efficacious and viable long-term investment vehicles.

BEHOLD THE AMAZING POWER OF COMPOUNDED LEVERAGE

The arithmetic of compounding is rather simple and straightforward, since it is basic multiplication. But due to its longer-term effects (especially on leveraged products), the arithmetic bears repeating through the consideration of the following three examples.

EXAMPLE A

The S&P 500 Index dropped 5 percent on Day 1 and then gained 10 percent on Day 2. At the end of two days, the S&P 500 Index has risen 4.5 percent (\$100 to \$95 to \$104.50). The +1x UNLEVERED product tied to the S&P 500 Index has risen 4.5 percent too (\$100 to \$95 to \$104.50). The -1x INVERSE product tied to the S&P 500 Index has fallen 5.5 percent (\$100 to \$105 to \$94.50). In this scenario, the -100% product did not return the opposite of the +100% product.

EXAMPLE B

The MSCI EAFE Index gained 10 percent on Day 1 and then dropped 10 percent on Day 2. At the end of two days, the MSCI EAFE Index has lost 1.0 percent (\$100 to \$110 to \$99). The -2x INVERSE-LEVERED product tied to the MSCI EAFE Index has lost 4.0 percent (\$100 to \$80 to \$96). The +2x LEVERED product tied to the MSCI EAFE Index has lost 4.0 percent too (\$100 to \$120 to \$96). In this scenario, both the +200% and -200% products have lost identical amounts (i.e. 4x the loss of the same un-leveraged benchmark).

The Funds seek daily leveraged investment results which should not be equated with seeking a leveraged goal for longer than a day...The pursuit of daily leveraged investment goals means that the return of a Fund for a period longer than a single day will be the product of the series of daily leveraged returns for each day during the relevant period. As a consequence, especially in periods of market volatility, the path of the benchmark during the period may be at least as important to the Fund's return for the period as the cumulative return of the benchmark for the relevant period.

Direxion Shares

EXAMPLE C

The Russell 2000 Index gained 25 percent on Day 1 and then dropped 20 percent on Day 2. At the end of two days, the Russell 2000 Index has not changed (\$100 to \$125 to \$100). The -2x INVERSE-LEVERED product tied to the Russell 2000 Index has lost 30.0 percent (\$100 to \$50 to \$70). The +2x LEVERED product tied to the Russell 2000 Index has lost 10.0 percent (\$100 to \$150 to \$90). In this scenario, both the +200% and -200% products have lost monies despite the fact that the un-leveraged benchmark finished unchanged.

From these examples, we should be able to learn several lessons regarding leveraged products. We can see that the impact of compounding was more pronounced when combined with leverage, leading to unexpected and unwanted results in the eyes of the uninformed. We can also observe that leveraged products' longer-term performance is not an exact multiple (or inverse multiple) of non-leveraged products that are based on identical benchmark indices. We can also notice that leveraged products (e.g. +300% and -300%) should not be expected to perform as mirror images of one another for longer-term time periods, including "longer-term" time periods lasting a mere two days.

In a nutshell, the culprit is negative compounding or the compounding of day-to-day losses (especially leveraged losses). The distorting effects of negative compounding are amplified when there are both larger losses and bigger up and down swings on a day-to-day basis. Since negative compounding penalizes or acts as a drag on longer-term performance, the longer the proposed holding period, the more inappropriate these products are for prospective purchasers. In sum, the greater the magnitude of day-to-day returns and the more frequent the changes in direction of day-to-day returns (as well as the higher the leveraged beta target), the more substantial the detrimental effects of negative compounding. It is oft-alleged that Einstein was amazed at the constructive power of the force known as compounded interest. We wonder if he would also have been astonished at the destructive power known as compounded leverage.

These hypothetical two-day examples bring to light how compounded leverage in tandem with volatile retracement-patterned price changes can influence performance. It might be mind-boggling to some readers that a trio of two-day scenarios reveals the fact that leveraged products might not produce longer-term price-percentage changes that represent a proportionate leveraged change in their reference benchmark indices.

HOW TO LOSE 75 PERCENT IN 75 DAYS...WHEN YOU ARE RIGHT!

Predictions on the future direction of an asset class are impossible to get right on a consistent basis and with the addition of leverage each wrong prediction should be magnified. For instance, let us suppose it is mid-September 2008 and you are of the opinion that the prices of U.S. Treasuries are going to decrease in the not-too-distant future. So, you purchase a Double Short (-200%) product based on the Barclays Capital 20+ Year U.S. Treasury Index. In the final 75 trading days of 2008, however, this benchmark gained almost 25 percent and your shares fell more than 40 percent. Ugh! And let us assure you that the product worked as advertised in meeting its DAILY performance objective. There is no doubt in our minds that purchasers of these products can suffer outsized losses if their double-leveraged or triple-leveraged bet proves a blunder for the next week, next month, next quarter or next annum.

But what if you possessed perfect foresight and could predict the ultimate performance of all benchmark indices? You would be guaranteed to secure enormous profits using leveraged products to place your bets, correct? Let us suppose it is mid-September 2008 and you can foresee that U.S. REITs are going to be worth a lot less at yearend. So, you purchase a Double Short (-200%) product based on the Dow Jones U.S. Real

The Funds do not seek to achieve their stated investment objectives over a period of time greater than one day... Each Fund seeks to rebalance its portfolio daily to keep leverage consistent with its daily investment objective... Please note these Funds are designed to meet daily objectives; results over longer periods may differ.

ProShares

Estate Index. In the final 75 trading days of 2008, this benchmark declined more than 35 percent. Congratulations! But your shares also declined... and by more than 40 percent. Ouch! Double Ouch! Despite your prescience, you should be perplexed as well as peeved. How on Earth is it possible to be Double Short an asset class that dropped more than 35 percent and then end up poorer than if you had been Long that asset class! But just be grateful you did not purchase a Triple Short (-300%) product based on this benchmark, as your shares would have plummeted more than 80 percent! Could our readers be astounded, confounded and-or dumbfounded?

Again, the arithmetic of compounding is rather simple and spelled out in leveraged products' prospectuses and additional sponsor-created educational materials, but it bears repeating (and perhaps repeating again). With the recent introduction of Triple Long and Triple Short products, the potential risks and rewards of using leveraged products have been further magnified. What are the limits to leverage? Are Quadruple Long (+400%) and Quintuple Short (-500%) products possible? We hope that triple-leveraged products will forevermore represent the maximum multiple available to prospective purchasers. For instance, if you had purchased a Quintuple Short (-500%) product based on the Dow Jones U.S. Oil & Gas Index in mid-September 2008, your shares plunged more than 90 percent on one single trading in early October 2008.

See Appendix B to see these examples (and others) illustrated in greater detail.

POSSESSING PARTICULAR PERFORMANCE PECULIARITIES

The preceding examples prove that someone could predict the final performance of benchmark indices over the course of the next week, next month, next quarter or next annum, but end up very much surprised to not benefit as expected using leveraged products, despite the fact that the leveraged products purchased worked as advertised on a day-to-day basis. Why? Because unless that someone could also predict each and every day-to-day price change (i.e. their path) over the course of a specific time period, then he or she could not foresee how leveraged products would perform going forward. The rationale is that leveraged products' final performance can be considered "path dependent". In other words, the final performance of leveraged products depends upon the magnitude, direction and timing of day-to-day price-percentage changes.

First, higher standard deviation of returns causes the effects of compounding and compounding leverage to be more pronounced. In contrast, lower standard deviation of returns causes the effects of compounding and compounding leverage to be more muted. Second, more frequent changes in direction cause the effects of compounding and compounding leverage to be more pronounced. In contrast, less frequent changes in direction cause the effects of compounding and compounding leverage to be more muted. Third, the timing of day-to-day price-percentage changes can be just as influential in whether or not leveraged products perform up to purchasers' naive but intuitive expectations. For instance, Bullish products' longer-term performance will be disaffected if their underlying benchmark indices decline in the earliest days of owning them. Quite the reverse, Bearish products' longer-term performance will be disaffected if their underlying benchmark indices ascend in the earliest days of owning them.

Unless you could predict the entire path of performance from Point A to Point B, you should therefore not be surprised if you earn fewer monies or even lose monies despite being correct in your prediction for a longer-term time period (especially if the path of performance is characterized by volatile or bi-directional day-to-day price changes). Leveraged products might also lose sizeable sums when their reference benchmark

indices are "range bound" and end a holding period as short as two to three months with no gains or losses (i.e. final performance of 0.0 percent). In sum, it should now be clear (crystal clear) that leveraged products can prove to be quite ineffective and even counterproductive for us purchasers who cannot predict all aspects of the future.

Please allow us to conclude with a paraphrase of a fellow commentator:

When you are rebalancing on a day-to-day basis, volatility nibbles away at returns.
When volatility goes to extreme levels, it eats away at returns.
And with leverage, it devours returns.

CAUTION! WARNING! PLEASE READ INSTRUCTIONS BEFORE USING!

In our opinion, leveraged products are proof positive that prospective purchasers need to read the fine print. It is essential to understand what you own (or are considering owning) in order to sidestep unpleasant surprises in the future. Prospective purchasers need to comprehend how the direction, magnitude and timing of day-to-day price changes could affect these products' longer-term performance in order to avoid potential unpleasant surprises associated with purchases that failed to fulfill some purchasers' intuitive but naive expectations. But too few prospective purchasers do read the fine print. Given the potential to lose substantial sums, prospective purchasers of these products should at a minimum peruse the prospectus' *Performance Objectives* and *Principal Risks*.

As is true with the purchase of all other types of securities, the purchase of leveraged products entails a number of *Principal Risks*, including a considerable risk referred to as *Leverage Risk* (or *Leveraging Risk*). As aforementioned, these products' built-in leverage tends to cause their longer-term performance to be greater than or less than the benchmark indices' performance (or the opposite of the benchmark indices' performance) times the products' targeted beta multiple for time periods longer than one day. *Leverage Risk* is a specialized form of *Correlation Risk* and is described and illustrated in detail by means of multiple hypothetical examples in leveraged products' Prospectuses and Statements of Additional Information. See Appendix A.

For instance, a RydexShares prospectus provides more complete information about the effects of leverage in a sub-section entitled "*Understanding Compounding and the Effect of Leverage*". So, in all fairness to the sponsors, these products' prospectuses do include plain-language explanations and detailed illustrations of compounding and compounding leverage. And to their credit, the three sponsors have also created FAQs and additional educational resources that are posted to their websites and intended to put into layman's terms the peculiar performance characteristics of leveraged products.

WE ARE POSITIVE THAT NEGATIVE GAMMA IS THE PROBLEM

If you have not had the pleasure of perusing a leveraged products' prospectus to date (and we have thumbed through more than our fair share), please allow us to expand on the principal risk known as *Leverage Risk*, as well as the related *Daily Rebalancing* and *Market Volatility Risk*. Previously, we have stated that when it comes to leveraged products, losses have a much larger (and more damaging) impact on performance than gains when leverage is rebalanced to its beta target on a day-to-day basis. How so? Leveraged products respond to losses by becoming more defensive while they respond to gains by becoming more aggressive. When prices are trending in one direction, this performance characteristic can be an advantage. But when prices are

Gravity is working against me
And gravity wants to bring me down
Twice as much ain't twice as good
And can't sustain like one half could

Gravity
John Mayer

A nickel ain't worth
a dime anymore.

Yogi Berra

lacking distinct direction, this performance characteristic can be a disadvantage. In other words, leveraged products suffer from what is termed *negative gamma* which is the condition of being Shortest volatility at the bottom (lower prices) and Longest volatility at the top (higher prices). The implications of negative gamma are as follows. Due to negative gamma, the rate at which you profit will decelerate as prices continue to move in your favour, but the rate at which you lose will accelerate as prices continue to move against you. When it comes to negative gamma, stable or one-directional price changes are your friend, while volatile or two-directional price changes are your carnage-inflicting enemy. Negative gamma is also the reason a Long position in the Short product does not mirror a Short position in the Long product (all else equal).

BUT IT'S AS SIMPLE AS BUYING A STOCK

You don't need a margin account.
You won't get a margin call.
You can use them where you couldn't use margin before.
Your downside is limited (unlike margin accounts).

Leveraged products' sponsors mention these particular proposed benefits. In addition, it is often claimed that Bearish products "*offer a chance to get ahead in down markets*" and that purchasers can "*use them to hedge against, or seek profit from, market declines*". It is also often asserted that leveraged products allow purchasers to attain more beta exposure with the same capital or the same beta exposure with less capital. But just because leveraged products might be easier to purchase than the alternatives (i.e. establishing a margin account to borrow monies and perhaps also borrowing some shares to sell short) does not mean these products should be purchased. It is possible that the supposed hassles of a margin account and the disallowance of traditional short-selling in certain accounts are there for good reason, since the dangers of delving into leveraged and short-selling strategies are in part applicable to these products too.

As expected, their sponsors point out that these products might not be suitable for all investors, but we would argue that these products are not suitable for any investors, if we define "investors" as prospective purchasers with longer-term holding periods (e.g. one week or one month). The sponsors purport that these products should be used by "investors" who can describe themselves as: *seasoned, savvy, sophisticated, active, dynamic or aggressive*. If a prospective purchaser could not use one or more of those adjectives in a candid self-description, than we would suggest he or she "Just Say No".

CAVEAT EMPTOR - DODGE DOUBLE AND TREBLE TROUBLE

After seeing (and feeling) their portfolios crash 20 to 50 percent in 2008, a number of investors could be easily tempted to try and recoup those more recent losses all at once through the purchase of leveraged products. But such afflicted investors must fight the urge (no matter how strong) to "double down" or "triple down" as part of a rash attempt to get well soon. By definition, leveraged products are riskier than otherwise comparable non-leveraged products. And assuming excess risk in an attempt to erase past losses is never a prudent decision. Leveraged products operate as double-edged or triple-edged swords and thus can record both gigantic gains and losses in short-term time periods. If your losses range from 20 to 50 percent and you purchase leveraged products in an attempt to recoup losses, do not hold your breath. As we have detailed at length, potential 25 to 75 percent increases in those leveraged products' reference benchmark indices are not guaranteed to get you back to breakeven. And do not blink either, as you just might lose another 20 to 50 percent before you know what hit you.

In the closing months of 2008, naïve purchasers of leveraged products learned or should have learned (perhaps too late) that these products possess longer-term performance peculiarities that must be understood and respected. In the preceding pages, we have done our best to reduce the widespread misunderstanding of these products that we presume exists at present. We hope the content of this publication has served as an eye-opener for uninformed readers who held the misconception that leveraged products represented efficacious and viable long-term investment vehicles.

Leveraged products have begun to garner a great deal of criticism in part because their longer-term performance does not equate to a multiple (or multiple of the opposite) of the day-to-day price-percentage changes of their reference benchmark indices. Despite the loudening chorus of criticism, leveraged products have experienced tremendous growth in recent months. But in our opinion these products should not be "bought and held" or used by the faint of heart. Rather, leveraged products should remain the exclusive domain of day traders, sophisticated speculators and active hedgers (or of those who at least understand and are willing to assume their risks).

In fact, the longer you hold one of these funds, the probability that you will get nothing close to double the returns increases. Not only will the magnitude of your returns bounce around, you might not even get returns that are in the same direction as the changes in the index.

Paul Justice - Morningstar

COMING SOON

In future editions of this publication, we plan to discuss the following topics:

- The potential tax-inefficiencies of leveraged exchange traded funds.
- The differences and similarities between exchange traded funds and exchange traded notes.
- The various legal structures of exchange traded funds.

DISCLAIMER

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Investors should consider the investment objectives, risks, and charges and expenses of a fund carefully before investing. Prospectuses containing this and other information about the fund are available by contacting your RBC Wealth Management Financial Consultant. Please read the prospectus carefully before investing to make sure that the fund is appropriate for your goals and risk tolerance. Historical fund performance does not guarantee the same results in the future. Principal value, share prices and investment returns fluctuate with market conditions. Your investment may be worth more or less than your original cost when you redeem your shares.

APPENDIX A. SELECTED EDUCATIONAL RESOURCES

ProShares

Prospectus – Trust I

<http://media.proshares.com/documents/ProSharesProspectus.pdf>

Prospectus – Trust II

<http://media.proshares.com/documents/ProSharesCommodityCurrencyProspectus.pdf>

Statement of Additional Information

<http://media.proshares.com/documents/ProSharesSAI.pdf>

Understanding ProShares' Long-Term Performance

[Understanding ProShares' Long-Term Performance](#)

RydexShares

Prospectuses and Statements of Additional Information

http://www.rydexinvestments.com/service/prospectuses_reports.shtml

Essentials of Leveraged & Inverse Investing

http://www.rydexinvestments.com/InvestorResources/MEssentials_ShortingLeverage6.shtml

Direxion Shares

Prospectus

http://www.direxionshares.com/pdfs/DRX_prospectus.pdf

Statement of Additional Information

<http://www.direxionshares.com/pdfs/DirexionSharesSAI.pdf>

Understanding the Impact of Changing Market Exposure on Leveraged ETFs

http://www.direxionshares.com/pdfs/Compounding_Article ETFs.pdf

Understanding Leveraged Exchange Traded Funds

http://www.direxionshares.com/pdfs/Understanding_Exchange_Traded_Funds.pdf

APPENDIX B. EMPIRICAL AND HYPOTHETICAL EXAMPLES

ASSUMPTIONS

- No deduction of fees and expenses.
- No negative or positive tracking error.
- No discounts or premiums between market prices and gross or net asset values.
- No income distributions from the constituents of the benchmark indices.
- No income or capital gains distributions from the leveraged products.
- 75 consecutive trading days.

HYPOTHETICAL SCENARIOS

- Scenario One. Range Bound or No Directional Trend (0.0 Percent Final Benchmark Return)
- Scenario Two. Bullish or Positive Directional Trend (+0.5 Percent Daily Benchmark Return)
- Scenario Three. Bearish or Negative Directional Trend (-0.5 Percent Daily Benchmark Return)

EMPIRICAL EXAMPLES

- Example One. Russell 1000 Index
- Example Two. Russell 2000 Index
- Example Three. MSCI EAFE Index
- Example Four. MSCI Emerging Markets Index
- Example Five. Dow Jones U.S. Basic Materials Index
- Example Six. Dow Jones U.S. Oil & Gas Index
- Example Seven. Dow Jones U.S. Financials Index
- Example Eight. Dow Jones U.S. Real Estate Index
- Example Nine. Barclays Capital 20+ Year U.S. Treasury Index

SOURCES

Bloomberg Financial Markets and Morningstar Direct

SCENARIO ONE NO DIRECTIONAL TREND - 0.0 PERCENT BENCHMARK RETURN - HYPOTHETICAL 75 TRADING DAYS

Observations

- Despite a 0.0 percent performance relative to the 0.0 percent benchmark, all of the LEVERED and INVERSE-LEVERED products should record NEGATIVE price returns at the end of the holding period.
- The INVERSE-LEVERED (-2x) and (-3x) products should record comparable double-digit NEGATIVE price returns at the end of the holding period.
- None of the INVERSE-LEVERED (-2x) or (-3x) products should record price returns that represent a "mirror image" of the comparable LEVERED products at the end of the holding period.

INDEX	+1x	-1x	+2x	-2x	+3x	-3x
\$95.60	\$104.40	\$91.20	\$108.80	\$98.80	\$113.20	
\$96.47	\$101.27	\$95.87	\$102.27	\$94.81	\$103.01	
\$101.03	\$98.84	\$101.70	\$96.95	\$101.89	\$94.88	
\$103.85	\$95.07	\$105.99	\$91.91	\$109.95	\$87.57	
\$101.27	\$98.28	\$102.07	\$96.14	\$102.36	\$93.61	
\$106.03	\$93.86	\$111.88	\$87.10	\$118.78	\$80.41	
\$106.47	\$91.51	\$118.80	\$83.10	\$124.45	\$74.85	
\$104.02	\$95.28	\$107.22	\$89.91	\$108.50	\$84.07	
\$102.48	\$96.89	\$104.00	\$92.61	\$104.57	\$87.85	
\$105.84	\$93.89	\$110.45	\$86.87	\$114.29	\$79.68	
\$107.86	\$91.72	\$115.09	\$83.22	\$121.49	\$74.86	
\$110.44	\$88.52	\$120.61	\$78.22	\$130.24	\$68.29	
\$108.78	\$90.86	\$117.00	\$81.80	\$124.38	\$72.41	
\$111.73	\$88.41	\$123.31	\$77.19	\$134.46	\$66.64	
\$114.07	\$86.56	\$128.49	\$73.95	\$142.93	\$62.35	
\$115.55	\$85.43	\$131.83	\$72.03	\$148.30	\$59.82	
\$113.39	\$88.50	\$122.34	\$77.21	\$132.40	\$66.39	
\$110.28	\$90.38	\$119.89	\$78.76	\$128.49	\$68.38	
\$112.05	\$87.98	\$123.73	\$76.24	\$134.88	\$65.10	
\$114.85	\$85.76	\$129.82	\$72.43	\$144.75	\$60.22	
\$112.86	\$87.38	\$124.88	\$75.18	\$138.95	\$63.85	
\$118.18	\$84.64	\$132.73	\$70.82	\$149.20	\$57.73	
\$118.02	\$83.33	\$136.88	\$68.28	\$159.38	\$54.98	
\$114.29	\$86.08	\$121.38	\$76.04	\$128.82	\$64.36	
\$107.39	\$91.18	\$112.87	\$81.37	\$118.01	\$71.11	
\$109.32	\$92.07	\$110.81	\$82.89	\$112.53	\$73.25	
\$106.02	\$90.80	\$114.15	\$80.34	\$117.83	\$69.73	
\$105.21	\$92.95	\$108.21	\$84.62	\$108.73	\$75.17	
\$102.79	\$95.08	\$103.23	\$84.40	\$101.23	\$80.36	
\$98.78	\$98.80	\$95.16	\$95.30	\$89.38	\$88.78	
\$94.44	\$103.18	\$88.81	\$103.88	\$77.67	\$101.81	
\$97.46	\$99.84	\$92.36	\$97.06	\$85.04	\$91.85	
\$98.51	\$97.78	\$96.24	\$92.97	\$90.39	\$88.87	
\$102.09	\$94.21	\$101.25	\$88.74	\$97.44	\$78.25	
\$101.87	\$95.18	\$99.22	\$89.80	\$94.52	\$81.73	
\$105.82	\$91.84	\$108.65	\$81.45	\$107.85	\$70.21	
\$108.28	\$88.53	\$113.34	\$77.70	\$113.29	\$65.38	
\$103.82	\$93.20	\$104.23	\$84.08	\$101.11	\$73.40	
\$102.28	\$94.51	\$101.21	\$88.43	\$98.86	\$78.49	
\$105.84	\$91.44	\$107.98	\$81.01	\$105.87	\$68.37	
\$107.85	\$88.75	\$111.80	\$77.43	\$112.22	\$65.21	
\$110.20	\$87.54	\$112.27	\$74.08	\$120.38	\$60.82	
\$108.88	\$88.91	\$113.75	\$78.21	\$111.89	\$63.24	
\$110.37	\$88.95	\$116.78	\$72.98	\$122.47	\$59.87	
\$113.39	\$85.12	\$122.74	\$68.48	\$130.78	\$56.34	
\$114.32	\$84.36	\$125.87	\$66.83	\$133.70	\$53.85	
\$110.20	\$87.34	\$118.84	\$73.66	\$118.28	\$60.87	
\$107.73	\$89.42	\$111.78	\$78.31	\$111.39	\$63.88	
\$109.80	\$87.88	\$115.33	\$74.36	\$116.24	\$60.25	
\$112.25	\$85.88	\$121.10	\$70.84	\$125.48	\$56.81	
\$110.11	\$87.32	\$116.80	\$73.24	\$118.34	\$60.29	
\$113.52	\$84.81	\$123.72	\$68.78	\$129.35	\$53.70	
\$115.45	\$83.17	\$127.83	\$66.44	\$135.84	\$50.85	
\$108.87	\$87.81	\$113.34	\$74.81	\$112.70	\$68.87	
\$100.04	\$90.88	\$105.41	\$78.10	\$100.88	\$85.84	
\$104.01	\$91.80	\$100.20	\$80.78	\$97.84	\$87.37	
\$105.87	\$90.43	\$108.81	\$76.18	\$102.53	\$84.88	
\$102.92	\$92.78	\$101.09	\$82.28	\$94.54	\$89.70	
\$100.58	\$94.82	\$96.41	\$88.04	\$88.01	\$84.51	
\$96.64	\$98.82	\$88.88	\$92.75	\$77.72	\$83.22	
\$92.34	\$102.90	\$81.87	\$100.81	\$67.48	\$84.21	
\$88.25	\$99.77	\$86.10	\$94.88	\$73.73	\$85.45	
\$97.83	\$97.27	\$90.48	\$88.83	\$78.26	\$78.04	
\$100.17	\$94.74	\$95.10	\$85.25	\$85.44	\$72.88	
\$99.17	\$95.88	\$93.20	\$86.95	\$82.88	\$75.08	
\$103.83	\$91.19	\$101.89	\$78.78	\$94.57	\$64.44	
\$108.21	\$88.10	\$108.65	\$75.18	\$101.89	\$60.03	
\$101.86	\$92.75	\$97.81	\$81.32	\$88.88	\$67.41	
\$99.41	\$94.97	\$93.21	\$85.22	\$82.27	\$72.27	
\$98.93	\$97.35	\$88.55	\$88.48	\$78.10	\$77.89	
\$98.87	\$95.40	\$92.09	\$85.80	\$80.67	\$73.02	
\$102.33	\$92.06	\$98.54	\$79.88	\$88.14	\$65.36	
\$99.57	\$94.55	\$93.21	\$84.21	\$81.92	\$70.85	
\$102.25	\$92.00	\$98.25	\$79.88	\$88.66	\$64.81	
\$100.00	\$94.02	\$93.25	\$83.18	\$82.71	\$69.21	

PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS.

EXAMPLE THREE. MSCI EAFE INDEX - FINAL 75 TRADING DAYS OF 2008

Observations

- Despite a -22.31 percent performance versus the tracking benchmark, the INVERSE-LEVERED (-2x and -3x) products should record price returns that are far less than -44.62 and -66.93 percent, respectively.
- The INVERSE-LEVERED (+2x) and (+3x) products should record comparable double-digit NEGATIVE price returns at the end of the holding period
- None of the INVERSE-LEVERED products should record price returns that represent a "mirror image" of the comparable LEVERED products at the end of the holding period

INDEX	+1x	-1x	+2x	-2x	+3x	-3x
\$99.79	\$100.21	\$99.57	\$100.43	\$99.36	\$100.64	
\$105.95	\$93.02	\$113.87	\$86.01	\$120.76	\$78.95	
\$107.60	\$92.45	\$115.25	\$84.95	\$122.05	\$77.53	
\$105.85	\$93.27	\$113.21	\$86.47	\$119.69	\$79.59	
\$105.85	\$93.97	\$111.52	\$87.76	\$117.00	\$81.37	
\$105.82	\$93.11	\$113.56	\$86.15	\$120.22	\$78.14	
\$105.81	\$94.88	\$109.70	\$89.08	\$114.10	\$83.17	
\$99.76	\$89.42	\$96.75	\$97.04	\$97.01	\$95.83	
\$97.51	\$101.66	\$94.30	\$102.38	\$90.44	\$102.09	
\$98.46	\$100.64	\$96.12	\$100.41	\$93.07	\$99.13	
\$95.86	\$103.23	\$91.25	\$105.50	\$86.00	\$109.95	
\$97.02	\$102.09	\$93.27	\$103.17	\$98.85	\$103.13	
\$88.87	\$109.82	\$79.13	\$118.81	\$66.85	\$128.57	
\$88.64	\$108.89	\$78.69	\$118.18	\$68.34	\$127.14	
\$83.86	\$118.98	\$68.90	\$134.28	\$55.35	\$151.31	
\$82.95	\$116.23	\$67.38	\$137.19	\$53.54	\$156.25	
\$75.85	\$128.21	\$56.02	\$160.33	\$38.89	\$185.80	
\$81.84	\$118.23	\$64.71	\$135.38	\$49.32	\$150.11	
\$86.42	\$111.54	\$71.85	\$120.30	\$57.56	\$125.02	
\$82.30	\$116.87	\$65.09	\$131.77	\$49.33	\$142.80	
\$78.47	\$125.25	\$55.84	\$150.42	\$38.86	\$173.24	
\$79.11	\$120.84	\$59.77	\$138.85	\$42.82	\$155.14	
\$81.86	\$117.12	\$63.50	\$131.22	\$48.93	\$140.83	
\$81.79	\$116.98	\$63.85	\$130.91	\$47.10	\$140.13	
\$79.23	\$124.81	\$56.34	\$147.99	\$37.88	\$167.56	
\$75.58	\$125.84	\$54.21	\$151.01	\$36.72	\$172.68	
\$71.42	\$132.82	\$48.23	\$167.84	\$30.64	\$201.28	
\$67.85	\$138.48	\$43.41	\$184.44	\$23.05	\$231.45	
\$65.76	\$125.87	\$45.77	\$174.38	\$28.18	\$212.54	
\$75.81	\$124.06	\$53.02	\$144.52	\$35.42	\$197.93	
\$74.11	\$119.84	\$51.16	\$134.86	\$38.91	\$182.28	
\$77.71	\$120.55	\$56.58	\$136.32	\$38.34	\$184.41	
\$76.73	\$118.08	\$57.87	\$132.89	\$38.74	\$188.12	
\$82.87	\$112.86	\$64.22	\$118.65	\$46.17	\$118.82	
\$83.58	\$117.86	\$65.12	\$118.88	\$47.15	\$114.25	
\$77.83	\$119.53	\$58.18	\$123.02	\$37.45	\$137.83	
\$77.94	\$118.21	\$58.37	\$122.60	\$37.83	\$136.98	
\$78.34	\$117.49	\$58.44	\$122.74	\$38.70	\$129.45	
\$75.21	\$122.21	\$52.38	\$140.97	\$33.63	\$148.56	
\$73.46	\$121.11	\$49.86	\$142.86	\$31.14	\$160.21	
\$72.04	\$121.58	\$47.96	\$153.31	\$28.36	\$169.40	
\$73.11	\$126.84	\$46.68	\$148.83	\$30.64	\$161.87	
\$71.20	\$129.18	\$47.46	\$154.65	\$28.85	\$171.47	
\$71.37	\$129.76	\$47.83	\$156.06	\$28.45	\$173.22	
\$69.32	\$131.71	\$44.32	\$165.04	\$26.00	\$188.62	
\$68.04	\$130.71	\$46.13	\$160.84	\$22.31	\$215.60	
\$65.54	\$140.81	\$38.56	\$189.28	\$21.82	\$220.32	
\$72.24	\$120.76	\$45.18	\$157.13	\$28.18	\$175.15	
\$72.20	\$127.31	\$47.72	\$148.34	\$28.71	\$158.83	
\$71.61	\$128.04	\$48.84	\$150.83	\$28.05	\$162.32	
\$73.03	\$125.81	\$48.78	\$144.81	\$28.67	\$152.80	
\$71.26	\$125.07	\$48.22	\$143.55	\$30.09	\$150.91	
\$79.04	\$116.78	\$44.78	\$156.48	\$24.00	\$171.30	
\$70.11	\$130.54	\$44.81	\$158.16	\$26.07	\$170.82	
\$70.58	\$129.89	\$45.44	\$154.06	\$26.80	\$182.33	
\$70.57	\$130.04	\$45.21	\$154.88	\$26.27	\$186.83	
\$68.29	\$133.84	\$42.63	\$164.17	\$24.02	\$183.85	
\$73.16	\$124.38	\$48.50	\$140.78	\$29.16	\$144.51	
\$73.83	\$123.14	\$48.67	\$137.83	\$30.04	\$140.18	
\$74.78	\$121.85	\$50.78	\$134.61	\$31.12	\$135.10	
\$75.86	\$118.75	\$52.34	\$130.41	\$32.58	\$128.78	
\$74.02	\$122.79	\$49.88	\$137.02	\$30.10	\$138.57	
\$76.14	\$118.24	\$52.53	\$129.19	\$32.68	\$126.89	
\$76.47	\$118.76	\$52.88	\$128.05	\$33.11	\$125.02	
\$78.10	\$114.88	\$56.83	\$118.26	\$36.52	\$112.14	
\$79.42	\$114.21	\$57.00	\$118.28	\$36.87	\$110.78	
\$76.82	\$117.82	\$53.49	\$125.75	\$33.47	\$121.28	
\$76.07	\$119.12	\$52.31	\$128.53	\$32.36	\$125.28	
\$75.83	\$118.33	\$52.12	\$128.00	\$32.18	\$125.80	
\$73.46	\$120.08	\$51.47	\$130.80	\$31.58	\$128.31	
\$75.47	\$119.71	\$51.78	\$128.87	\$31.85	\$127.23	
\$76.02	\$119.19	\$52.24	\$128.67	\$32.29	\$125.47	
\$77.51	\$118.84	\$54.28	\$123.61	\$34.20	\$118.07	
\$78.17	\$115.84	\$55.21	\$121.52	\$35.06	\$115.08	
\$77.88	\$116.54	\$54.51	\$123.00	\$34.42	\$117.18	

PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS.

EXAMPLE SIX. DOW JONES OIL & GAS INDEX - FINAL 75 TRADING DAYS OF 2008

Observations

- Despite a 21.88 percent performance during benchmark, the INVERSE-LEVERED (-2x and -3x) products should record NEGATIVE price returns at the end of the holding period
- The INVERSE-LEVERED (+2x and +3x) products should record comparable double-digit NEGATIVE price returns at the end of the holding period
- None of the INVERSE-LEVERED (+1x and -1x) products should post POSITIVE price returns at the end of the holding period

INDEX	+1x	-1x	+2x	-2x	+3x	-3x
\$103.75	\$96.25	\$107.51	\$92.48	\$111.28	\$68.74	
\$101.22	\$94.60	\$102.25	\$97.01	\$103.10	\$95.25	
\$104.11	\$95.71	\$108.10	\$91.45	\$111.85	\$87.07	
\$111.21	\$88.25	\$122.84	\$78.98	\$134.85	\$69.26	
\$110.05	\$90.18	\$120.27	\$80.64	\$130.62	\$71.44	
\$107.02	\$82.86	\$113.88	\$85.08	\$119.85	\$77.33	
\$107.01	\$92.67	\$113.64	\$85.08	\$119.81	\$77.35	
\$109.46	\$90.53	\$118.88	\$81.18	\$128.11	\$71.99	
\$107.41	\$92.25	\$114.38	\$84.24	\$120.82	\$76.08	
\$95.57	\$102.42	\$88.16	\$102.82	\$80.86	\$101.25	
\$101.19	\$95.29	\$99.85	\$90.72	\$95.13	\$83.88	
\$99.46	\$98.04	\$96.25	\$93.81	\$90.27	\$87.85	
\$93.18	\$104.23	\$84.08	\$105.67	\$73.15	\$104.27	
\$92.87	\$104.57	\$83.53	\$105.36	\$72.43	\$105.29	
\$88.19	\$108.72	\$78.91	\$114.80	\$63.82	\$117.81	
\$84.08	\$114.95	\$68.08	\$127.85	\$52.35	\$138.07	
\$84.68	\$114.11	\$69.09	\$125.09	\$54.00	\$135.05	
\$75.10	\$127.04	\$53.44	\$154.88	\$36.85	\$180.84	
\$68.98	\$137.28	\$44.73	\$178.88	\$28.83	\$225.18	
\$81.85	\$111.56	\$81.84	\$112.24	\$42.13	\$88.18	
\$81.88	\$111.82	\$81.88	\$112.15	\$42.17	\$88.07	
\$88.07	\$129.68	\$42.20	\$147.47	\$22.25	\$144.38	
\$74.50	\$118.84	\$48.45	\$124.30	\$27.50	\$110.36	
\$74.08	\$118.58	\$48.29	\$125.65	\$27.65	\$112.17	
\$82.37	\$108.25	\$58.08	\$97.64	\$38.11	\$74.57	
\$78.86	\$110.82	\$54.19	\$105.88	\$31.83	\$83.83	
\$70.74	\$122.13	\$42.82	\$127.84	\$21.78	\$108.88	
\$75.20	\$114.23	\$48.33	\$111.54	\$25.87	\$88.18	
\$72.20	\$118.88	\$44.98	\$129.16	\$22.87	\$98.53	
\$68.14	\$125.88	\$38.48	\$133.00	\$18.83	\$118.21	
\$78.13	\$110.84	\$48.72	\$102.54	\$25.69	\$78.62	
\$78.11	\$108.67	\$51.25	\$97.23	\$27.58	\$68.75	
\$81.48	\$103.38	\$55.88	\$88.21	\$31.18	\$88.88	
\$81.88	\$102.78	\$54.28	\$87.24	\$31.72	\$88.58	
\$80.14	\$105.87	\$53.81	\$81.87	\$29.58	\$85.58	
\$85.44	\$96.12	\$60.88	\$78.84	\$35.48	\$88.87	
\$81.83	\$102.81	\$58.27	\$88.83	\$30.68	\$87.88	
\$76.82	\$108.78	\$48.77	\$87.28	\$25.07	\$88.45	
\$80.12	\$103.83	\$52.13	\$88.41	\$28.45	\$88.09	
\$80.71	\$103.37	\$53.81	\$87.84	\$28.87	\$88.31	
\$77.38	\$108.81	\$50.11	\$83.27	\$28.08	\$83.83	
\$72.31	\$114.82	\$43.81	\$108.85	\$20.58	\$77.88	
\$80.14	\$101.31	\$52.28	\$83.33	\$27.08	\$82.15	
\$78.83	\$108.00	\$48.03	\$90.08	\$23.88	\$84.49	
\$75.88	\$107.84	\$48.82	\$92.81	\$22.81	\$81.25	
\$78.15	\$104.31	\$49.38	\$88.83	\$24.88	\$85.24	
\$74.04	\$109.84	\$43.33	\$85.88	\$20.88	\$83.88	
\$65.28	\$122.38	\$34.09	\$118.17	\$11.70	\$88.15	
\$72.12	\$108.84	\$42.04	\$90.82	\$18.28	\$88.02	
\$77.11	\$101.28	\$47.32	\$79.24	\$21.87	\$84.47	
\$78.22	\$100.88	\$47.84	\$78.58	\$22.48	\$84.57	
\$82.85	\$94.84	\$53.82	\$68.34	\$28.38	\$88.88	
\$81.88	\$98.08	\$51.88	\$71.84	\$25.17	\$88.33	
\$73.11	\$108.08	\$41.18	\$85.88	\$17.33	\$88.28	
\$75.88	\$102.16	\$44.21	\$78.48	\$18.24	\$84.74	
\$76.08	\$101.78	\$44.53	\$78.81	\$18.45	\$84.24	
\$71.21	\$108.38	\$38.83	\$88.01	\$15.72	\$83.74	
\$72.04	\$107.84	\$39.74	\$88.33	\$16.27	\$88.88	
\$76.20	\$100.87	\$44.32	\$78.88	\$19.08	\$82.08	
\$75.88	\$101.27	\$43.88	\$77.53	\$18.85	\$82.88	
\$79.48	\$98.48	\$48.13	\$70.18	\$21.52	\$86.55	
\$79.08	\$98.88	\$47.85	\$70.88	\$21.20	\$87.08	
\$78.45	\$97.74	\$48.88	\$72.03	\$20.81	\$87.88	
\$78.18	\$98.07	\$48.58	\$72.52	\$20.44	\$88.38	
\$80.88	\$94.38	\$49.88	\$67.23	\$22.08	\$84.28	
\$79.28	\$95.88	\$48.38	\$68.38	\$21.85	\$83.81	
\$75.15	\$101.53	\$42.88	\$77.37	\$17.88	\$82.01	
\$74.88	\$101.88	\$42.31	\$77.88	\$17.72	\$82.44	
\$72.88	\$104.31	\$40.22	\$81.81	\$18.25	\$82.72	
\$72.73	\$104.85	\$40.05	\$82.25	\$18.18	\$82.17	
\$72.88	\$104.63	\$40.20	\$82.14	\$18.28	\$82.72	
\$74.20	\$102.73	\$41.88	\$78.13	\$17.17	\$83.38	
\$75.88	\$100.71	\$43.32	\$78.01	\$18.18	\$80.82	
\$77.08	\$98.84	\$44.82	\$75.18	\$18.20	\$82.55	
\$78.12	\$97.48	\$46.18	\$71.18	\$18.88	\$83.88	

PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS.

Exhibit 9

[REDACTED] (RBC Wealth Mgmt)

From: [REDACTED] (RBC Wealth Mgmt)
Sent: Tuesday, December 22, 2009 2:17 PM
To: +RBCWM-Norwell FCs; [REDACTED] (RBC Wealth Mgmt); [REDACTED] (RBC Wealth Mgmt); [REDACTED] (RBC Wealth Mgmt); [REDACTED] (RBC Wealth Mgmt); [REDACTED] (RBC Wealth Mgmt); [REDACTED] (RBC Wealth Mgmt); [REDACTED] (RBC Wealth Mgmt)
Subject: Non-traditional ETF's

Please see below policy in effect today. Any questions, please feel free to call me.

BD's - please pass on to your FC's.

New Policies For Non-Traditional Exchange Traded Funds Effective Today

(12/22/09) In response to FINRA's Notice to Members 09-31, RBC Wealth Management is implementing the following policies with regard to non-traditional or leveraged exchange traded funds (ETFs) effective today.

These products have received heightened regulatory scrutiny and media attention due to a common misunderstanding of how they operate. The performance of non-traditional ETFs can be volatile and does not necessarily correspond with the long-term performance of the underlying index. This is due to the daily/monthly rebalancing within the portfolio and the related compounding issues. In brief, these products are not designed to be "buy and hold" investments. Therefore, it is imperative that FCs and clients actively monitor positions in non-traditional ETFs to ensure that the cumulative returns are consistent with their performance expectations.

Definition of Non-Traditional or Leveraged ETFs

An exchange traded fund, exchange trade note or other open-end exchange traded product is one that seeks to deliver the opposite, a multiple, or a multiple of the opposite performance of an underlying benchmark. Most important, such products possess a **DAILY** or **MONTHLY** performance objective.

While the following also fall under the definition of Non-traditional ETFs, the firm is prohibiting trading of all Non-traditional ETFs (and their options) with 3X or -3X leverage in all circumstances effective today.

Examples of performance objectives include, but are not limited to:

- INVERSE (-100% or -1X)
- LEVERED (+200% or +2X)
- INVERSE-LEVERED (-200% or -2X)

Resources

- More information on leveraged ETFs; including a collection of educational resources
- Current listing of all affected leveraged ETFs
- Client Letter
- Client Agreement

Disclosure Statement

Please work with your clients to appropriately address existing positions in non-traditional ETFs that would not

be allowed under this new policy, and remember that these products are generally designed as short-term trading vehicles.

For questions about this new policy please contact [REDACTED] at [REDACTED]

[REDACTED] | RBC Wealth Management
Vice President | Associate Complex Manager
Private Client Group
80 Washington St., Bld J | Norwell, MA. 02061
T [REDACTED] | F [REDACTED]
[REDACTED]@rbc.com

Tracking:

Recipient	Read
+RBCWM-Norwell FCs	
[REDACTED] (RBC Wealth Mgmt)	Read: 12/22/2009 2:22 PM
[REDACTED] (RBC Wealth Mgmt)	
[REDACTED] (RBC Wealth Mgmt)	Deleted: 12/28/2009 1:01 PM
[REDACTED] (RBC Wealth Mgmt)	Read: 12/22/2009 2:17 PM
[REDACTED] (RBC Wealth Mgmt)	
[REDACTED]	Read: 12/22/2009 2:18 PM
[REDACTED]	Read: 12/22/2009 2:18 PM
[REDACTED] (RBC Wealth Mgmt)	Read: 12/22/2009 2:17 PM
[REDACTED] (RBC Wealth Mgmt)	Read: 12/22/2009 2:26 PM
[REDACTED] (RBC Wealth Mgmt)	Read: 12/22/2009 2:29 PM
[REDACTED] (RBC Wealth Mgmt)	Read: 12/22/2009 2:30 PM
[REDACTED]	Read: 12/22/2009 2:46 PM
[REDACTED]	Read: 12/22/2009 3:24 PM
[REDACTED] (RBC Wealth Mgmt)	Read: 12/22/2009 3:38 PM
[REDACTED] (RBC Wealth Mgmt)	Read: 12/22/2009 3:59 PM

Exhibit 10



RBC Wealth Management

Confidential Communication sent at the request of Counsel

Date: July 26, 2010
To: Michael Zukowski
From: [REDACTED] Complex Director
[REDACTED] Director, PCG Compliance
CC: [REDACTED] Regional Director
RE: Heightened Supervisory Memorandum

This Heightened Supervisory Memorandum ("Memorandum") shall serve as formal notification that effective immediately, certain special oversight measures will be imposed with respect to your sales activities as a result of the customer complaints that have been reported since your association with RBC Wealth Management ("the Firm").

The objective of this heightened supervision is to make certain that going forward you will take the steps necessary to ensure your sales practices, communications and solicitations are clear and accurate at the time they are made. We ask that you review and sign this memorandum to evidence your understanding of, and agreement with, the following points:

Program for Special Supervision

While under heightened supervision:

1. You will be subject to the terms of this heightened supervision for a period of 12 months from the date of this memo. If, during that time period, no new issues come to light and all conditions set forth in this memo are complied with, the heightened supervision may be discontinued.
2. The Complex Director will review 100% of your trades via ProSurv.
3. While under special supervision, orders using time and/or price discretion will require the Complex Director's, or in his absence or unavailability the Assistant Complex Manager, approval on the physical ticket prior to entry.
4. Any transactions involving structured products, or any other product deemed appropriate by management, must be approved in advance of being entered by your Complex Director, or in his absence or unavailability an Assistant Complex Manager.
5. All New Accounts handled by you must be approved by your Complex Director or in his absence or unavailability the Assistant Complex Manager, prior to your acceptance of the account.
6. You will adhere to all RBC Wealth Management policies and procedures as well as industry rules, regulations and standards relating to communications with customers, including review and approval of outgoing correspondence by your Complex Director, or in his absence or unavailability an Assistant Complex Manager, in advance of mailing.
7. Your electronic communications will be set to 100% review utilizing the Compliance Accelerator system.



RBC Wealth Management

8. You will not be eligible to participate in either of the Firm's annual recognition programs, President's Council or Chairman's Council.
9. You will immediately report to the Complex Director any complaint or discrepancy (whether sales practice related or operational in nature) involving a client account, whether oral, written or electronic.
10. If applicable, you will adhere to any SRO and/or State conditional licensing restrictions as accepted in writing by yourself and the Firm under separate cover. However, at the Firm's discretion, you may also be directed to voluntarily withdraw a state licensing request should the state place conditions on its approval that are unacceptable to the Firm. You will be advised of these circumstances by your Compliance Officer.
11. You are prohibited from working remotely via remote access and such log-in privilege has been terminated.
12. You agree to cooperate to the fullest extent when client accounts are selected by your Complex Director for review.
13. You agree to work one day/week at the Boston Branch Office.
14. You agree to meet at least weekly with the Complex Director. In addition, you agree to maintain a daily summary of all conversations or meetings with clients and prospects when those discussions involve a) investment recommendations in structured products; b) questions surrounding previous transactions; or c) account performance. A copy of the log must be presented to [redacted] for review during your weekly meetings. These meetings will be documented in writing, signed and dated by the parties in attendance. At the end of the twelve-month period, the Firm shall review your compliance with this program and make a determination of its efficacy. These requirements shall remain in effect until and unless you are notified, in writing, that they have been rescinded.
15. You will meet with your Complex Director on a monthly basis to review your compliance with the terms of this Memorandum. These meetings will be documented in writing, signed and dated by the parties in attendance. These requirements shall remain in effect until and unless you are notified, in writing, that they have been rescinded.
16. Should you be the focus of any customer complaints, violations of Firm policies, regulatory sanctions or any other compliance issues (occurring in the past, present or future), you could be subject to additional disciplinary actions up to and including termination. You may also be responsible for monetary costs or settlements as determined by the Firm should there be any evidence or findings of wrongdoing.
17. You must review the attached RBC WM Privacy Policy and NASD Notice to Members 05-49 - *Safeguarding Confidential Customer Information* and return a signed copy of each with this Memorandum.

Please sign the Memorandum acknowledging your familiarity with the terms and conditions of the Memorandum. Retain a copy of this Memorandum for your records and return the original to PCC Compliance within five (5) business days.


Michael Zukowski

[redacted]
Complex Director


Date

Date

Exhibit 11

Evidence of Review

Run Date: 11/1/2010 (Compliance Accelerator Server Time Zone: Eastern Daylight Tim
 Review Period: 9/30/2010 to 10/31/2010



01/24/2011 14:10 FAX

Exchange External Message Totals

Monitored Employee	Total Messages	Captured	Unreviewed	Pending	Questioned	Reviewed	% Reviewed
[REDACTED] (RBC Wealth Mgmt)	1398	1,398 (100.14%)	0	0	0	1,398	100.00%
[REDACTED] (RBC Wealth Mgmt) (PAL	6	6 (100.00%)	0	0	0	6	100.00%
Zakow, Michael (RBC Wealth Mgmt)	922	110 (11.93%)	0	0	0	110	100.00%
Zakow, Michael (RBC Wealth Mgmt) (P	13	13 (100.00%)	0	0	0	13	100.00%

Exchange External Message Totals

Monitored Employee	Total Messages	Captured	Unreviewed	Pending	Questioned	Reviewed	% Reviewed
[REDACTED] (RBC Wealth Mgmt)	520	36 (6.73%)	0	0	0	36	100.00%
[REDACTED] (RBC Wealth Mgmt)	290	25 (8.62%)	0	0	0	25	100.00%
[REDACTED] (RBC Wealth Mgmt)	47	0 (0.00%)	0	0	0	0	100.00%

Exchange External Message Totals

Monitored Employee	Total Messages	Captured	Unreviewed	Pending	Questioned	Reviewed	% Reviewed
[REDACTED] (RBC Wealth Mgmt)	499	23 (4.61%)	0	0	0	23	100.00%
[REDACTED] (RBC Wealth Mgmt)	325	19 (5.85%)	0	0	0	19	100.00%
[REDACTED] (RBC Wealth Mgmt)	26	0 (0.00%)	0	0	0	0	100.00%
[REDACTED] (RBC Wealth Mgmt)	228	13 (5.70%)	0	0	0	13	100.00%

RBC WM Compliance

0028/0029