



Guide to Trading Daily Leveraged Crypto ETFs

January 2026

Introduction to Leveraged Crypto ETFs

Leveraged crypto exchange-traded funds (ETFs) can offer traders a dynamic way to capitalize on the often-volatile price movements of digital assets like Bitcoin (BTC), Ethereum (ETH), Ripple (XRP) and a variety of altcoins. These ETFs are designed to amplify exposure, typically two or three times the daily price performance, before fees and expenses, of a Cryptocurrency.

While leverage can amplify gains, it also amplifies losses, making leveraged ETFs powerful but risky tools for investors.

In this guide, we'll explore the mechanics of leveraged crypto ETFs, their potential benefits and risks, as well as the strategies traders might employ while seeking to maximize their potential and manage the inherent volatility.

Who Should Read This Guide?

Whether you're a savvy day trader seeking to profit from rapid market shifts or a financial advisor looking to strategically incorporate crypto exposure into client portfolios, this comprehensive guide will demystify leveraged crypto ETFs.

You'll gain insights into their mechanics and discover practical strategies for potentially harnessing their power in your investment approach.

What You'll Learn - By reading this guide, you'll gain a deeper understanding of:

How leveraged crypto ETFs work

Learn the mechanics behind how these ETFs amplify daily price movements and the financial instruments they use, such as futures contracts and derivatives.

The risks and rewards of leverage

Discover why leveraged ETFs can offer large potential returns but also carry significant risks, including volatility drag and the potential for magnified losses.

Trading strategies

Review general approaches to both day trading and swing trading leveraged crypto ETFs and learn how some traders use technical analysis tools like candlestick charts and moving averages to identify trading opportunities.

Managing risk effectively

Learn about key risk management techniques, including position sizing, stop-loss orders, and diversification, that some traders use when seeking to protect capital while trading these high-risk instruments.

At the end of this guide, you should have a general overview of how leveraged crypto-related exchange-traded products work and the key risks and considerations investors should evaluate before trading or investing in them.

The Role of Crypto Assets

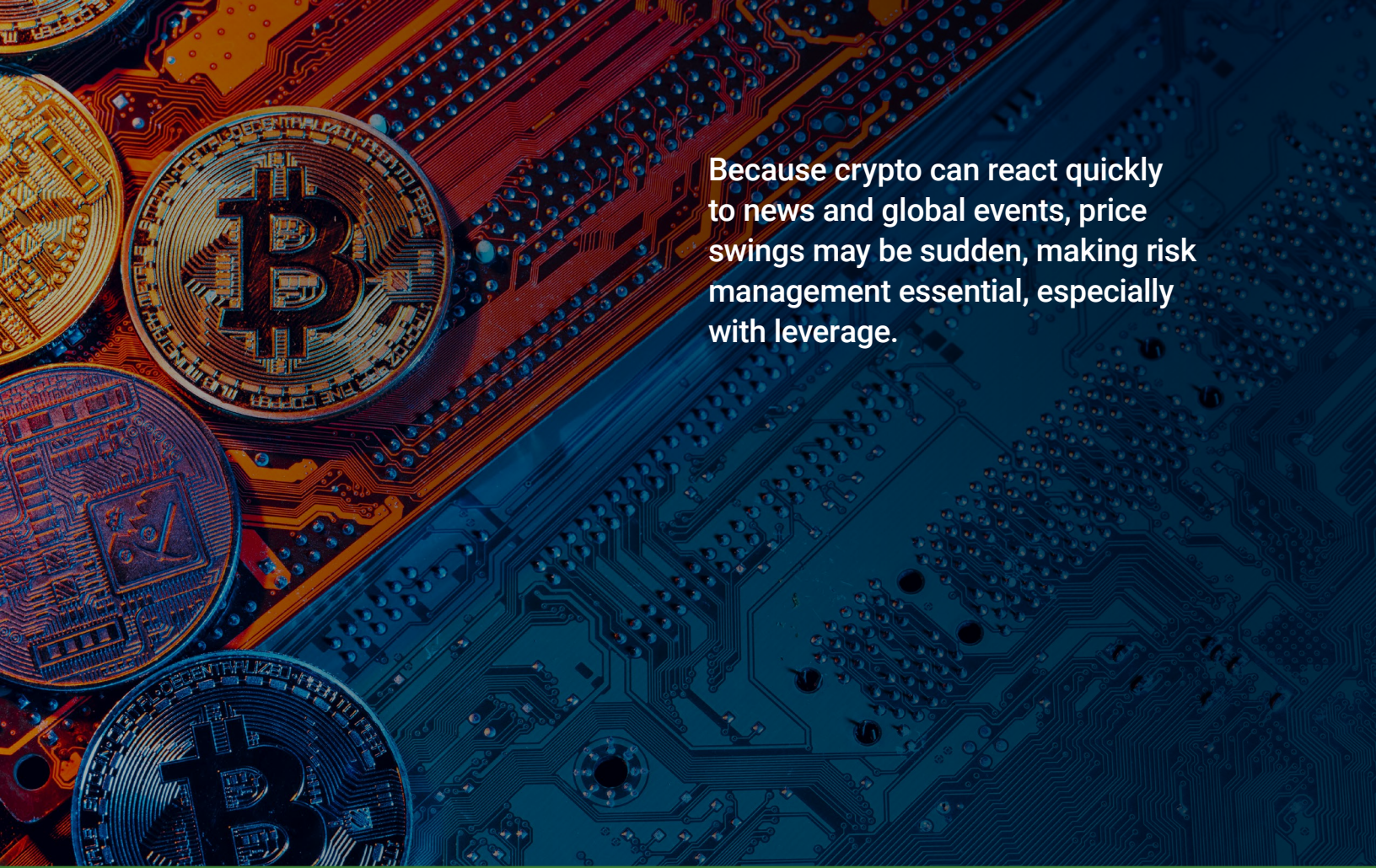
Before discussing the mechanics of leveraged crypto ETFs, let's first explore why investors might consider crypto assets in the first place.

Typically, investors gravitate toward crypto assets for the potential diversification benefits as these assets often move independently of traditional stocks and bonds. Diversification helps spread investment risk and potentially enhance overall portfolio performance but does not guarantee profit or protection from losses.

Additionally, traders are often attracted to the potential volatility which may present opportunities for short-term gains. Crypto prices are often sensitive to global economic factors, major regulatory news, and chatter about a spot ETF approval, which makes digital assets like Bitcoin, Ethereum or Ripple particularly attractive markets for leveraged exchange-traded funds (ETFs).

Some market participants attempt to trade short-term price movements, which can involve substantial risk and may result in rapid losses. However, volatility works both ways, meaning that sudden price swings can result in substantial losses just as quickly as they can generate profits.

Introducing leverage magnifies both gains and losses and may significantly increase portfolio risk, including the risk of substantial loss over short time horizons. However, given the considerable volatility, investors must thoroughly grasp leveraged ETF mechanics and potential risks before incorporating them into their strategies.

A close-up photograph of several Bitcoin coins resting on a blue and orange circuit board. The coins are metallic and feature the Bitcoin logo. The circuit board has intricate patterns of gold and blue lines.

Because crypto can react quickly to news and global events, price swings may be sudden, making risk management essential, especially with leverage.

How Leveraged Crypto ETFs Work

Leveraged ETFs may use complex financial instruments such as futures contracts, swaps, options, and other derivatives to amplify daily investment returns.

For every dollar invested a leveraged ETF may obtain \$2 or \$3 of exposure to the underlying asset, depending on the amount of leverage applied. This amplification means that a modest 1% increase in a cryptocurrency over a single trading day could potentially translate into a 3% return for investors in a 3x leveraged ETF, before accounting for fees and expenses associated with the fund.

However, as mentioned, leverage works both ways: if the underlying crypto were to experience a 1% decline, the leveraged ETF would suffer a magnified loss of 3%. This symmetrical amplification of both gains and losses underscores the high-risk, high-reward nature of leveraged ETFs.

Leveraging Futures

Futures contracts are one of the most common ways leveraged ETFs generate leverage for investors.

Futures contracts are standardized agreements to buy or sell a specific asset at a predetermined price on a future date. These financial instruments allow traders and investors to speculate on price movements or hedge against potential risks in various markets, including digital assets.

Futures trading offers significant leverage opportunities due to the relatively low margin requirements. Unlike stock trading where investors typically need to put up 50% of the purchase price, futures traders can control large

3–12%	50%	\$10,000 > \$100,000
Typical futures margin requirement	Typical stock margin requirement	Example of amplified exposure at 10% margin

Margin requirements for futures contracts are often as low as 3-12% of the total contract value. This allows traders to amplify their exposure by controlling a much larger position than their account balance would otherwise permit. For example, with \$10,000 in capital and a 10% margin requirement, a trader could potentially control \$100,000 worth of futures contracts.

By investing in an ETF, investors delegate the task of executing strategic transactions in the futures market to the fund's portfolio managers. This approach allows investors to obtain leveraged exposure to crypto price movements without directly trading futures contracts themselves.

Note that a fund may obtain leverage by other means such as entering reverse repurchase agreements, swap agreements, or trading crypto-related securities. A discussion as to the specifics of these trading strategies is beyond the scope of this introductory guide. However, it's important to understand that there are multiple ways for a fund to obtain leverage in addition to utilizing a futures trading account.

Risks

Volatility and Beyond

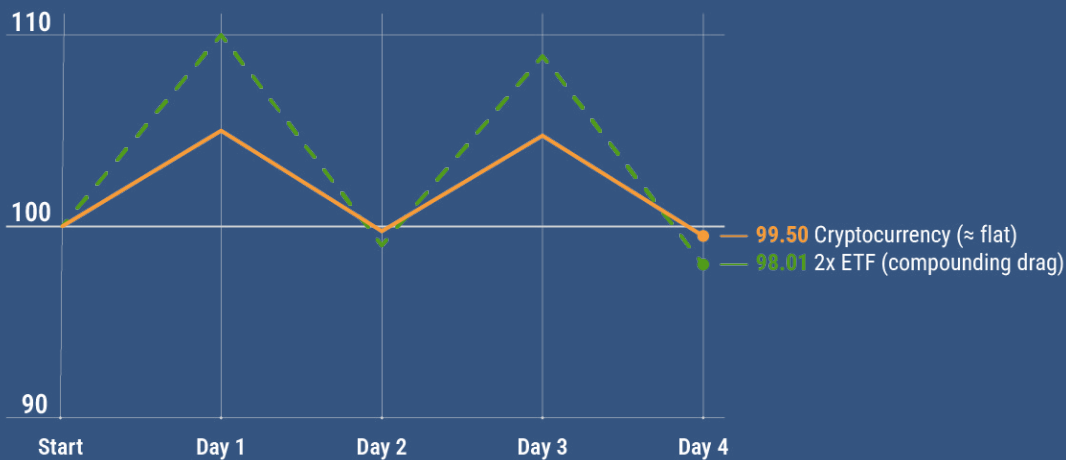
Leveraged ETFs carry substantial risks that investors must carefully consider. As mentioned, leverage magnifies both gains and losses.

What's more, the daily reset mechanism, a key feature of many leveraged ETFs, can cause significant performance divergence from the underlying market over extended periods. This divergence often results in returns that differ markedly from what an investor might expect based on the cryptocurrency's performance alone.

The daily reset can result in a negative compounding effect, or decay over time. The decay effect can significantly reduce returns, especially in volatile markets. This decay can occur even when the underlying market is up, or flat after a period of up and down days. For example, if a market experiences alternating daily gains and losses of 5%, a 2x leveraged ETF tracking that Cryptocurrency would lose value over time due to the compounding of daily returns, despite the Cryptocurrency itself remaining unchanged.

Example: The Impact of Daily Gains and Losses on a 2x Leveraged ETF that utilizes the daily reset mechanism

A Cryptocurrency experiences alternating daily gains and losses of 5%. A 2x leveraged ETF that tracks this Cryptocurrency would amplify those daily movements, but over time, the Fund can lose value due to the way returns compound.



Hypothetical example for illustrative purposes only. This example does not reflect any specific product's performance and does not include the impact of fees, expenses, trading costs, bid/ask spreads, taxes, or tracking differences, all of which may reduce returns.

Day 1	Day 2	Day 3	Day 4	After 4 days
• Cryptocurrency starts at 100. • Cryptocurrency gains 5%: $100 \times 1.05 = 105$. • 2x ETF gains 10% (2x the Cryptocurrency move): $100 \times 1.10 = 110$.	• Cryptocurrency loses 5%: $105 \times 0.95 = 99.75$. • 2x ETF loses 10%: $110 \times 0.90 = 99$.	• Cryptocurrency gains 5%: $99.75 \times 1.05 = 104.74$. • 2x ETF gains 10%: $99 \times 1.10 = 108.90$.	• Cryptocurrency loses 5%: $104.74 \times 0.95 = 99.50$. • 2x ETF loses 10%: $108.90 \times 0.90 = 98.01$.	• The Cryptocurrency is almost back to its original level at 99.50. • But the 2x ETF dropped to 98.01 (a 2% loss).

This phenomenon can lead to substantial underperformance of leveraged ETFs compared to their benchmarks over extended periods.

Given these complexities and risks, leveraged ETFs require a thorough understanding and active management, making them more appropriate for experienced short-term traders rather than long-term allocators.

We discuss some of the typical ways investors utilize these funds in the next section.

Trading Strategies

Day Trading vs. Swing Trading

Leveraged crypto ETFs can be important tools for both day traders and swing traders.

Day trading involves making rapid trades within a single trading session, aiming to capitalize on short-term price fluctuations.

Swing trading, on the other hand, takes a slightly longer-term approach, with positions held for several days or even weeks. Leveraged crypto ETFs can be utilized in either approach.

Some traders use these products for short-term trading due to their daily objective and amplified exposure. However, the same features may increase the likelihood of rapid losses, particularly during volatile or illiquid market conditions. Day trading leveraged crypto ETFs has gained traction among investors due to the inherent volatility of these instruments and their daily reset feature. The high liquidity and ability to profit from both upward and downward price swings make these ETFs particularly attractive for day traders seeking to exploit intraday market inefficiencies.

Swing trading leveraged crypto ETFs, while less common, can still be an effective strategy for those looking to capture larger market moves over a period of days or sometimes weeks. Swing traders must be mindful of the compounding effects of daily resets over longer holding periods, which can lead to tracking error relative to the underlying digital asset's performance (see above). However, for those with high conviction around short to medium-term trends, swing trading these ETFs may offer profit potential.

Regardless of whether one chooses day trading or swing trading, we believe that success with leveraged crypto ETFs requires a solid foundation in technical analysis. Traders should be adept at reading price charts, identifying key support and resistance levels, and interpreting various technical indicators.

Identifying Market Trends

Getting Technical

Technical analysis is not a guarantee of future results. Chart patterns and indicators are subject to interpretation and may produce false signals, particularly in volatile markets. Investors should understand that indicators may fail to predict market direction and may not limit losses.

For those trading daily leveraged crypto ETFs, spotting short-term opportunities is critical. Traders use several technical analysis tools to evaluate historical price behavior and identify potential opportunistic price points; however, there is no guarantee that such tools will be accurate.

This section discusses a few of the more common strategies and indicators. We encourage all traders to delve deeper into these tools and techniques, conduct independent research, and determine which methods align best with their individual trading strategies and goals.

Candlestick Charts

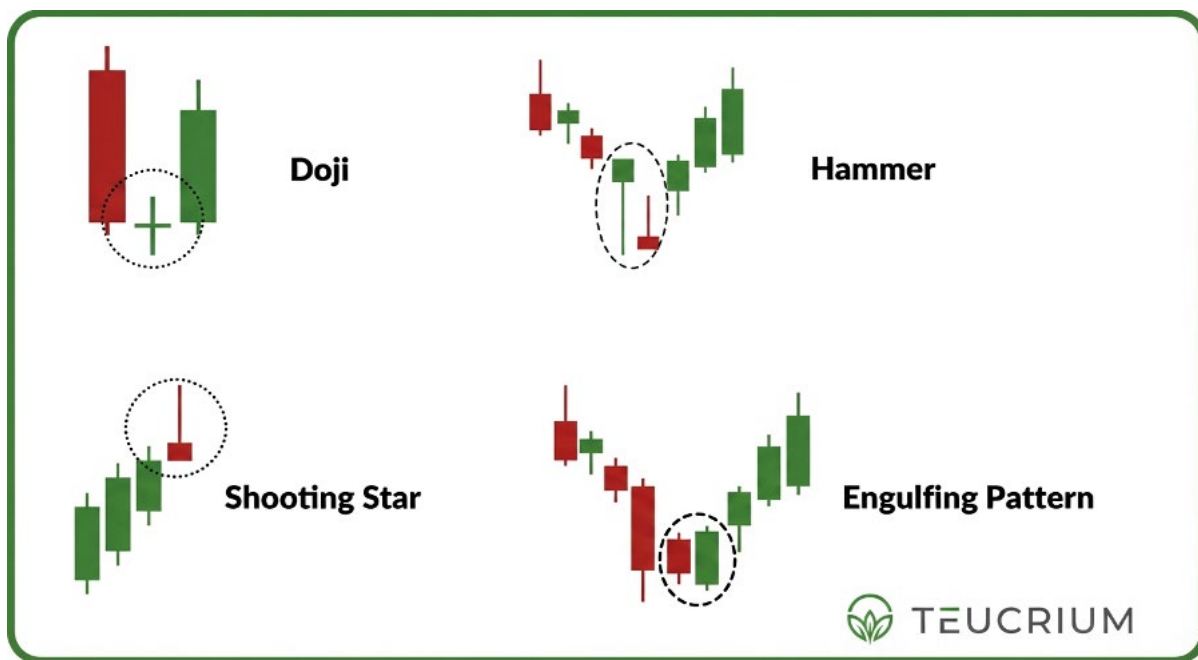
Candlestick charts provide a simple visual representation of daily price movements. Candle price patterns on these charts can offer valuable insights for day traders, indicating potential trend reversals or continuations.

Candlestick charting tools are usually made available from your broker. You may also consider other resources such as tradingview.com, or stockcharts.com.

Each candlestick on the chart represents a specific time period, typically a day, and displays four key pieces of information: the opening price, closing price, highest price, and lowest price reached during that period. The body of the candle shows the range between the opening and closing prices, while the thin lines (called wicks or shadows) above and below the body indicate the highest and lowest prices.

Some common candlestick patterns that traders look for include:

- **Doji:** A candle with a very small body, indicating indecision in the market.
- **Hammer:** A bullish reversal pattern with a small body at the top and a long lower wick.
- **Shooting Star:** A bearish reversal pattern with a small body at the bottom and a long upper wick.
- **Engulfing Patterns:** When one candle's body completely engulfs the previous candle's body, signaling a potential trend reversal.



By recognizing these patterns, day traders can make more informed decisions about when to enter or exit trades. Note that there are dozens of candle stick patterns, and traders are encouraged to conduct further independent study.

Additionally, it's important to note that candlestick patterns should not be used in isolation but rather in conjunction with other technical analysis tools in an effort to develop more reliable trading signals.

Short-Term Moving Averages

Most investors are familiar with longer-term moving averages such as 50, and 100-day moving averages. However, longer-term averages are of limited value to short-term traders.

Short-term traders often rely on shorter-term moving averages, such as 5, 13, and 20-day moving averages, to capture more immediate price trends and make quicker trading decisions.

The 5-day moving average is highly responsive to recent price changes and can help identify very short-term trends. The 13-day moving average is slightly less sensitive and can help smooth out some of the noise in price action. The 20-day moving average is often used as a medium-term indicator that can help identify trends lasting several weeks.

Simple vs Exponential Moving Averages

Many traders are familiar with the concept of simple moving averages ("SMAs"), which calculate the average price over a specific number of periods giving equal weight to each price point. But there is a lesser-known type of moving average, known as the exponential moving average ("EMAs").

An exponential moving average gives more weight to recent prices, making it more responsive to current price changes.

EMAs react more quickly to price changes than SMAs, which can be beneficial for short-term traders looking to capture rapid market movements. However, this increased sensitivity also means that EMAs may generate more false signals in choppy markets. SMAs, while slower to react, can provide a more stable trend indication and may be less prone to whipsaws.

As shown in the XRP candle stick chart below, the white dotted line, representing the 13-day exponential moving average (EMA), appears to be more responsive than the blue line, which represents the 13-day simple moving average (SMA). This difference highlights the EMA's greater sensitivity to short-term price movements.

Traders often use a combination of these short-term moving averages, along with other technical indicators, to develop their trading strategies and make informed decisions in fast-moving markets.



Source: Bloomberg Finance L.P | Teucrium

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Past performance is no guarantee of future results.

Moving Average Convergence Divergence (MACD)

The MACD, which calculates the difference between two moving averages, can signal potential trend changes and momentum shifts. This versatile indicator not only helps in identifying trend direction but also provides insights into the strength of price movements.

The MACD Indicator consists of three main components:

- **The MACD Line:** This is the core of the indicator and is calculated by subtracting the 26-period Exponential Moving Average (EMA) from the 12-period EMA.
- **The Signal Line:** This is a 9-period EMA of the MACD line itself. Because the signal line is an average of the MACD line, it reacts more slowly to price changes.
- **The Histogram:** This visually represents the difference between the MACD line and the signal line.

When the MACD line is above the signal line, the histogram is positive. When the MACD line is below the signal line, the histogram is negative. The height of the histogram bars can indicate the strength of the momentum.

When the MACD line crosses above its signal line, it may suggest a bullish trend is forming, while a crossover below the signal line could indicate a bearish trend. Additionally, divergences between the MACD and price action can alert traders to potential trend reversals, making it a useful tool for timing entries and exits in the volatile world of leveraged crypto ETFs.

The gold arrows on the chart below point out some examples of MACD signal line crosses.



Source: Bloomberg Finance L.P | Teucrium

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To enhance understanding, investors may wish to explore resources like Investopedia's technical analysis section (<https://www.investopedia.com/terms/t/technicalanalysis.asp>) and TradingView's educational content (<https://www.tradingview.com/education/>).

Additionally, investors are encouraged to visit www.cmtassociation.org to learn more about the discipline of technical analysis.

Utilizing these resources may help investors make informed decisions and navigate financial markets confidently. References are for informational purposes only and are not endorsements.

Managing Risk

*“The essence of investment management is the management of risks,
not the management of returns”*

- Benjamin Graham

Effective risk management is a cornerstone of successful investing. This section explores key strategies that investors may employ to mitigate potential losses and protect their portfolios; however, no strategy can eliminate risk or guarantee profits. By understanding and implementing these techniques, traders may navigate the markets with greater confidence.

Position Sizing

Position sizing is fundamental to investment risk management. Proper position sizing is essential, as it helps avoid over-leveraging and ensures that no single investment can disproportionately impact the overall portfolio. There are several methods investors can use to determine appropriate position sizes:

1. **Percentage of portfolio:** Allocating a fixed percentage of the total portfolio value to each position.
For example, limiting each position to 5% of the total portfolio.
2. **Equal dollar amounts:** Investing the same dollar amount in each position, regardless of the portfolio's total value.
3. **Risk-based sizing:** Determining position size based on the potential risk or volatility of the investment.
Higher-risk investments may warrant smaller position sizes.

By implementing effective position sizing techniques, investors may better manage risk, preserve capital, and potentially improve long-term returns. It's important to remember that no single approach works for everyone, and investors should tailor their position sizing strategy to their specific goals and circumstances.

Stop-loss orders

Stop-loss orders automatically trigger a sale when a stock reaches a predetermined price, which may protect against significant losses. Here's how they work:

- An investor sets a specific price point below the current market price.
- If the stock price falls to or below this set price, the stop-loss order converts to a market order – i.e., an order to buy or sell a security immediately at the best available price.
- The stock is then sold at the next available market price.

For example, if you buy a stock at \$50 and set a stop-loss order at \$45, your shares will automatically be sold if the price drops to \$45 or lower. This helps investors manage risk and emotion-driven decisions during market volatility.

However, it's important to note that in fast-moving markets, during periods of illiquidity, or with significant trading gaps, execution may occur at a worse price than expected.

Good Old Diversification

Diversification across asset classes and sectors may help mitigate risk. By spreading investments across various sectors (e.g., technology, healthcare, finance, consumer goods) and asset classes (e.g., stocks, bonds, digital assets) an investor may potentially smooth out returns, as different assets often react differently to market conditions. Remember, diversification doesn't guarantee profits or protect against losses, but it can help manage overall portfolio risk.

Go Flat and Sleep at Night

Some traders prefer to go *flat* at the end of the day. *Flat* meaning they close all open positions and keep money in cash.

This approach allows traders to sleep peacefully at night, knowing their capital is not exposed to potential market volatility when they are unable to actively monitor and manage their positions. By closing all trades before the market closes, traders can start each day with a clean slate and make decisions based on current market conditions rather than being influenced by existing positions.

Additionally, going flat at the end of the day can help traders maintain better emotional control. It reduces the anxiety and stress associated with holding positions overnight, which can lead to more rational and objective decision-making during active trading hours. This strategy is particularly beneficial for day traders and those who prefer short-term trading styles.

By employing these techniques, investors may create a more resilient investment strategy that balances potential returns with acceptable levels of risk.



Selecting a Leveraged Crypto ETF

Investors considering leveraged crypto ETFs should carefully evaluate several key factors. It is important for investors to review the product's prospectus and understand the product's daily objective, risks, and costs. An assessment of the specific short-term outlook for the cryptocurrency is also important. For short-term traders, timing is key. Developing a disciplined process for identifying entry and exit points may materially affect outcomes and risk exposure.

Keep in mind that leveraged ETFs might not always be the most appropriate choice, especially for longer-term investment horizons.

For instance, if an investor's bullish view extends beyond a few days, a 1x long ETF might be more suitable. These non-leveraged ETFs can provide exposure to the digital asset without the compounding effects associated with leveraged products.

Investors should be aware of the potential impact of market volatility and the effects of daily rebalancing on long-term performance, which may lead to significant tracking errors in leveraged products over time.

Be sure to consider the fund's structure, fees, and tracking methodology. Leveraged ETFs often have higher expense ratios and may use complex financial instruments to achieve their stated objectives.

Furthermore, when multiple companies offer similar ETFs, investors should carefully evaluate the experience and commitment of the issuing company. Key factors to consider include:

Market Expertise	Experience	Investor Support
Does the issuer have a strong understanding of the markets the ETF targets? Their experience in these markets can influence the ETF's overall reliability.	How long has the company been involved in issuing ETFs? A longer history often signals familiarity with the complexities of managing funds.	Does the issuer provide tools, educational resources, or market insights to assist you? Companies that offer comprehensive investor support can improve your overall investment experience.

Investors may consider factors such as product structure, liquidity, tracking methodology, and issuer experience, and should evaluate available public disclosures and risk factors.

Conclusion

In summary, this guide has provided an overview of leveraged crypto ETFs, emphasizing their potential and the risks they entail. Key takeaways include an understanding of how these ETFs work, the importance of managing risks effectively, and some trading strategies that may help you manage exposure and risk. It is important to remember that while these funds offer magnified returns, often through financial tools like futures contracts, they also carry heightened risks due to leverage and volatility drag, especially over longer periods.

The guide also described technical analysis tools, such as candlestick patterns and moving averages, which can be used to identify short-term trading opportunities. Equally important are risk management techniques, like position sizing, stop-loss orders, and diversification, which are essential for protecting your capital in the fast-moving world of leveraged ETFs.

Finally, when selecting an ETF product to gain exposure to leveraged cryptocurrencies, it is important to select the right ETF issuer. Investors are encouraged to consider market expertise, experience with futures and cryptocurrencies, and investor support. Investors should carefully consider whether these products are consistent with their objectives, experience, time horizon, and risk tolerance, and should review all product disclosures before trading.

Please feel free to contact us at www.teucrium.com. We will be happy to speak with you and address your questions or concerns.

This guide is for educational purposes only and does not constitute investment advice or a recommendation to buy or sell any security.



Look for market expertise,
futures/crypto experience,
and strong investor
support—and review
disclosures before trading.



Key Risks of Leveraged Crypto-Related Exchange-Traded Products

Daily reset and compounding risk: Returns for periods longer than one day may differ significantly from the stated daily multiple

Volatility drag / decay risk: In volatile markets, compounding can reduce returns over time.

Leverage risk: Losses may be magnified and occur rapidly.

Derivative risk: Futures/swaps may introduce liquidity, counterparty, and roll-cost risks.

Crypto market risk: Crypto markets may be highly volatile and subject to operational, regulatory, and market structure risks.

Liquidity and trading cost risk: Bid/ask spreads and market impact may increase costs and affect execution.

Appendix:

Definitions

1. **Cryptocurrency:** Cryptocurrency is a digital asset that can be bought, sold, and transferred electronically and is typically supported by blockchain technology rather than a centralized financial institution. Cryptocurrencies can experience significant price volatility, and their value may be influenced by market sentiment, regulatory developments, and technology-related risks.
2. **Leveraged Cryptocurrency ETF:** A **leveraged cryptocurrency ETF** is an exchange-traded fund that seeks to deliver a **multiple (e.g., 2x or -2x)** of the **daily** performance of a cryptocurrency or cryptocurrency-related benchmark. The ETF can either hold spot exposure to the cryptocurrency directly or use **derivatives**—such as futures contracts, swaps, or options—to obtain crypto exposure and manage leverage.
3. **Margin Requirements:** The margin requirement is the minimum amount of equity an investor must maintain in their account to hold a position in futures or other leveraged assets. Low margin requirements can amplify both potential gains and risks.
4. **Position Sizing:** Position sizing determines the number of units or amount of capital allocated to each trade or investment, balancing risk, and potential return. Effective position sizing helps manage risk and minimize losses.
5. **Stop-Loss Order:** A stop-loss order is a type of order placed with a broker to sell a security when it reaches a specified price, used to limit potential losses. It provides an automatic way to exit a position if it moves against the investor.
6. **Go Flat:** "Going flat" means closing all open positions and holding no market exposure, typically done to avoid overnight risk. For day traders, going flat means starting each new day without active trades from the prior day.
7. **Tracking Error:** Tracking error measures how well the ETF's performance matches its underlying Cryptocurrency. High tracking error indicates the ETF's performance diverges significantly from the Cryptocurrency, which is common with leveraged ETFs due to daily rebalancing.
8. **Exponential Moving Average (EMA):** An exponential moving average gives greater weight to more recent prices, making it more sensitive to current price changes compared to a simple moving average.
9. **Simple Moving Average (SMA):** A simple moving average calculates the average of prices over a specified number of periods, providing a smoothed trend line. It weighs each price point equally across the period.