ProShares

ProShares is the world's largest provider of leveraged and inverse funds[1] —also called "geared" funds. The following summarizes an academic article examining one commonly overlooked application.

Using ETF Index Shares to Hedge Stock Market Risk Exposures (Mark Flannery, 2025)

INDEPENDENT ANALYSIS SUMMARY[2]

Headline Insight

Inverse and inverse levered ETFs (ILETFs) can deliver reliable hedging with high benchmark correlation, offering a practical alternative to the use of derivatives or short selling to reduce equity market risk.

Summary of Findings

Dr. Mark Flannery, Emeritus Professor at the University of Florida, examines the effectiveness of ILETFs as hedging tools for equity market exposure. He illustrates how investors can take advantage of ILETFs to offset systematic portfolio risk in a practical and cost-efficient way. Using clear examples and formulas, Dr. Flannery demonstrates how institutional and retail investors alike can construct effective hedges without the costs and operational burdens of derivatives (e.g., futures, options) or short selling. To read the full article, visit here.

Key Findings

- ILETFs can provide a cost-effective way to hedge portfolio risk.
- Most ILETFs reset their leverage daily. Empirical evidence shows returns of these daily-reset ILETFs generally track the equivalent non-resetting leveraged position over standard hedging time horizons.
- The low cost, accessibility, and defined risk of ILETFs make them particularly useful to retail investors.

"Inverse and inverse levered ETFs can deliver reliable hedging beyond their single-day targets, and are an easier and more affordable way to hedge equity market risk compared to derivatives or short selling."

— Dr. Mark Flannery

Bank of America Eminent Scholar in Finance at the University of Florida's Graduate School of Business Administration

Investor Takeaways

- Investors looking to hedge equity market risk can use ILETFs as a less complex alternative to futures, options, or short selling.
- ILETFs can offer a successful hedge when the estimated portfolio beta (i.e., its sensitivity to movements in a benchmark) is combined with the appropriate index-based ETF.
- By choosing the appropriate index and hedge ratios, investors can substantially reduce portfolio volatility without liquidating equity positions.

About Dr. Mark Flannery

Mark J. Flannery is the Bank of America Eminent Scholar in Finance at the University of Florida. His "hands on" regulatory experience includes previously serving as the Chief Economist and Director of the Division of Economics and Risk Analysis at the U.S. Securities and Exchange Commission.

→ For investors interested in learning more about geared ETFs, explore here.

[1]Source: Morningstar, as of July 31, 2025.

[2]The views expressed are those of the author and reflect the author's own assessments and opinions. Preparation of this paper was supported by ProShares.