

A Modest Proposal: The Arguments Against Real Estate Mardjokic.com

As I am sure you are aware, the "recession" as per Bernanke & Company is over. We won't get official word from the [NBER](#) for many more months but initial jobless claims gapped lower some time in the second quarter of 2009.

Looking at the Case-Shiller Index, from peak to trough (April 2006 to May 2009, if the trend continues) there was a [-32% decline in home prices across America](#). <See Appendix 1>

In combination with the \$8000 tax credit and historically low interest rates, real estate is looking very attractive. But before you go sinking 20% down payments on a first, second or investment property perhaps a little due diligence is in order.

Most of you reading this are not likely in the real estate business, but you are no idiot. You are looking at this real estate market and thinking one thing: *opportunity*. Real estate is a hard asset. Like gold and diamonds, it's highly tangible. My father always believed in brick and mortar investing. "People always need a place to live", he would say. He'd smile as he told me "every day people wake up and go to work for me [rental income]". And it's true, your tenants pay for the mortgage, maintenance, utilities, and if you run a profitable building your car, your home, and a vacation or two.

But let me make this analogy, prices across America have declined by -33%. That's the equivalent of walking by a Banana Republic or Saks and seeing a 30% off sticker in the window. It's enough to give pause but is it really a steal?

Depends on what your objectives are. If you need a home and were going to buy one anyway it's certainly your time. If you think you are going to be the next real estate guru, let me give you something to pause about.

Real estate is stuffed [like a turkey] with overhead. Owning a home means heating bills, repairs and maintenance, taxes, and most likely monthly mortgage payments. We call that an alligator investment. You have to keep feeding it upfront and harvest all the benefit on the back end. (This ignores income generation and looks exclusively at home price appreciation).

So here you sit, having bought a home for '70 cents on the dollar' or for everyone else's benefit 30% off. You think you had a good deal, but that's assuming prices accrete back to 100. I will tell you anecdotally the commercial real estate property market was getting ridiculous in '05/06. People were paying 15-20x income in Manhattan. Put another way, you would pay upfront for the next 20 years of income (assuming zero income growth).

Now in the investing world, thinking about assets as multiples of cash flow and income is common. When you buy a company, look to pay a multiple of that business' earnings or cash flow. Thanks to Professor Aswath Damodaran from NYU Stern School of Business for compiling a ream of financial information and then sharing it!. Take that Capital IQ!

[Industry Multiples spreadsheet here](#) or you may go directly to [Professor Damodaran's site](#) and retrieve the latest updated spreadsheet. <See Appendix 2>

The Cross Industry Averages

Last Updated in January 2009

of Firms: **6870**

Value/EBITDA: **5.1**

Value/EBIT: **6.1**

Value/EBIT(1-t): **8.7**

**EBIT or EBITDA (Earnings Before Interest and Tax..Depreciation and Amortization)*

Which multiple gets used in a 'valuation model' is generally determined by industry convention: in real estate its usually off of potential income. Either way dollar for dollar people were paying a lot more for income producing real estate over a coffee house, auto body shop or financial services firm. Now it can be argued that real estate income is less risky as it has 'stable cash flows'. If you think about it: you are under no obligation to buy that cup of coffee from your local coffee house. But renting a home entails signing a lease so the homeowner or landlord has booked a revenue stream for the next 12 months that is semi-secured. So in this regard I won't disagree although there are different striations of risk within real estate (ie commercial vs. residential, et cetera).

But tangents aside, you bought it for 70, what is the true value? At 100? If you can make the leap with me and say real estate was overvalued in 05/06 then the distance from 70 to 100 will be measured in years or decades. You'll have to recalibrate your home value to 80-85 for the medium term.

Next, no doubt you went to your neighborhood bank and secured a mortgage. Now as dumb as banks looked in this last recession having lost billions, let me tell you banks aren't stupid. They pretty much exclusively underwrite what is known as "recourse loans" for individual home buyers. This means they can go after your personal assets over and above the house to recoup any losses on the loan.

So let's say you fall behind on your mortgage payments, lose your job or endured some other kind of hardship. The bank is still going to be looking for its money. *Phew!* That was close! I thought you were flat broke. No, you own a home. You have assets! But even in the best of times liquidity is lacking in real estate. Count on several months worth of marketing and closing time before you can extinguish your obligations. By then at a minimum the bank has reported your plight to the credit bureaus and damaged your credit.

Now assuming a mortgage you are also looking at underwriting fees, attorney fees, title insurance, mortgage tax, and general administrative costs in the order of 1-3% of closing. By my calculation, it takes over 1.5 years to recoup closing fees. (See [Breakeven Closing Fee.xls](#) <See Appendix 3> for a refinancing scenario). On the back end, you are going to end up paying a broker a minimum of 3% unless you plan on marketing it yourself. Tack on attorney's fees and you are giving back 3-5% of your return in transaction costs alone. And let's not forget Uncle

Sam wants a piece of whatever windfall you make (somewhere in the order of 15%).

The arguments above really hinge on home price appreciation, you must be thinking what about some rental income. That's great, but unfortunately unemployment above 10% and [unemployment + underemployed](#) at [17.5%](#) <Appendix 4> makes finding renters at previous market rates difficult. We shaved some -10% off our top line income in one of our buildings on the Upper East Side. If you haven't already, run your valuation models with a haircut on top line revenue and run it again with an even steeper haircut just to be safe!

So when I look about this market and the frenzy for real estate (again) I can't help but draw parallels to the holiday shopping season:

1. 33% off is the equivalent of a pre-holiday sale. I'd much rather shop on Dec 26th.
2. Offering a steeper % reduction on an higher "Suggested Manufacturer's Price" doesn't mean you are getting a steal.
3. Giving a loved one a new puppy: An awesome gift that comes with years of responsibility attached to it.
4. What's in the window isn't what you take home in the box. (A bait and switch). Transaction costs eat away at your bottom line. Do an IRR after all is said and done and see what you walk away with. I think you might be surprised.

But let's say you are still not convinced. You are still thinking of this as the opportunity of a lifetime. Why not own a derivative of real estate then? (Blasphemous, I know). How about an ETF under the tickers [UUM](#) or [DMM](#)?

The [Case-Shiller Index](#) is meant to track home prices across the US. What the good folks at [MacroShares](#) did was create an ETF similar to Case-Shiller; moreover they levered it 3x. So a long position when the index inches up +1% returns +3%.

Things to consider re these indices:

1. Volume and Liquidity?
2. Limited investment horizon: I believe this index liquidates some time in 2014, so it will crystallize your gain or loss for you.
3. These are zero sum (mirror) ETFs, which means when one fund wins the other loses. I would monitor the collateral of the losing fund. Wouldn't want t to break the buck sort of speak!

Fund prospectuses available here:

1. [UMM](#) <See Appendix 5>
2. [DMM](#) <See Appendix 5>

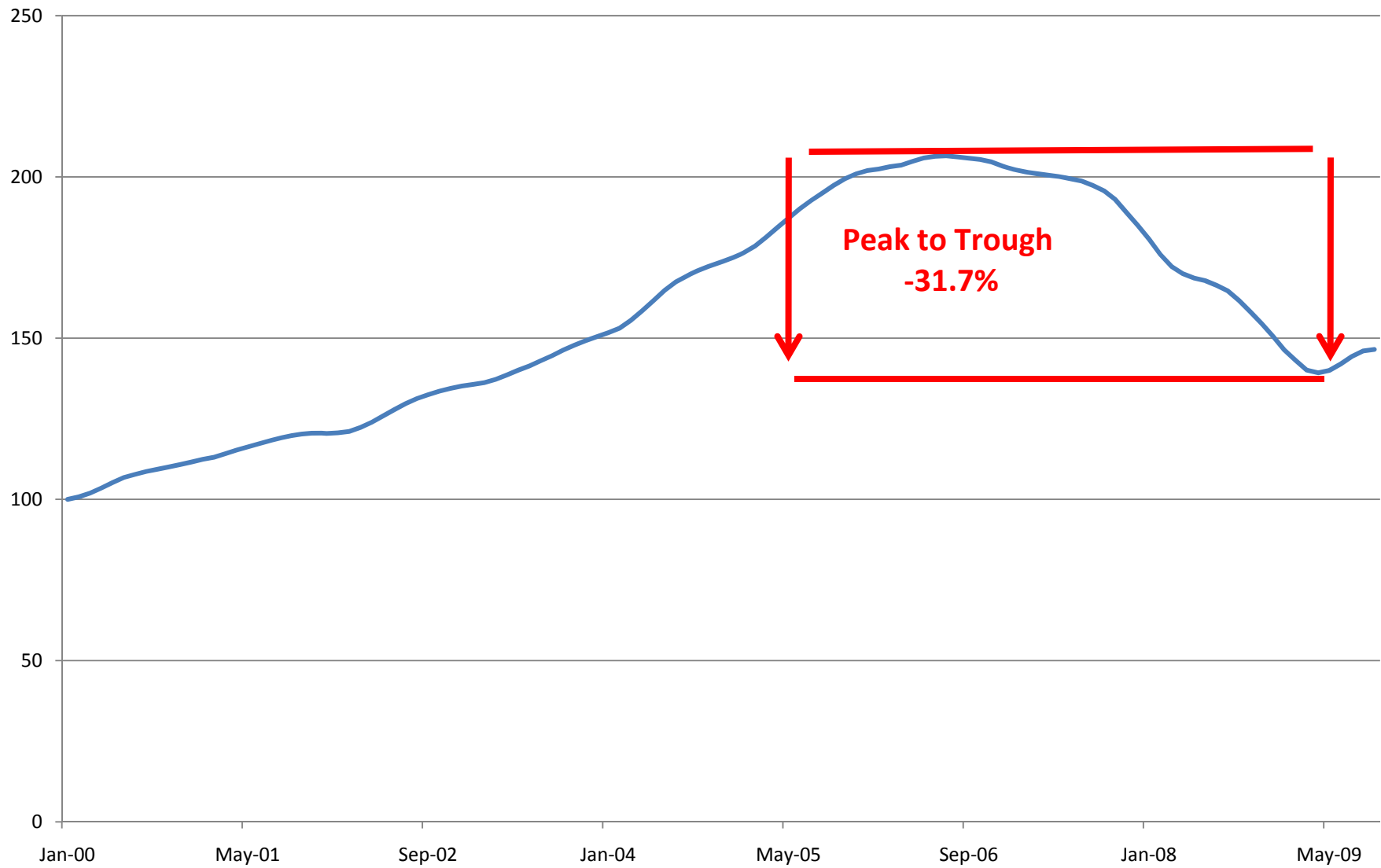
So with all the strings that come tied to owning real estate why not own something that will bring you 3x the capital appreciation but without all the headache? Like an old colleague once said: why pay for the whole cow when you can get the milk for free?

Disclaimer: I should caveat this whole dissertation by saying that I am a firm believer in the

value of real estate. I am only playing devil's advocate here; traders won't fight the tape but when the bottom falls out it really falls out. Make sure you have done your homework and are buying real estate for the right reasons.

Case Shiller Index

Appendix 1



Appendix 2

Industry Multiples				
Industry Name	Number of Firms	Value/EBITDA	Value/EBIT	Value/EBIT(1-t)
Total Market	6870	5.1	6.1	8.7
Advertising	30	4.2	5.3	7.9
Aerospace/Defense	66	5.0	5.9	8.7
Air Transport	44	3.6	4.8	5.9
Apparel	53	4.1	4.9	6.3
Auto & Truck	20	2.8	3.9	6.4
Auto Parts	54	2.7	3.8	5.2
Bank	477	5.4	5.4	7.8
Bank (Canadian)	8	4.4	4.4	5.2
Bank (Midwest)	39	6.7	6.7	9.1
Beverage	41	8.3	10.0	13.5
Biotechnology	108	17.0	21.2	33.8
Building Materials	52	4.5	6.0	8.0
Cable TV	25	4.2	6.4	11.3
Canadian Energy	12	3.0	4.0	5.6
Chemical (Basic)	19	4.6	5.8	7.3
Chemical (Diversified)	33	4.7	5.8	8.2
Chemical (Specialty)	88	4.9	6.4	9.3
Coal	18	4.8	7.0	8.0
Computer Software/Svcs	322	6.8	7.9	11.2
Computers/Peripherals	125	4.8	6.0	8.0
Diversified Co.	113	7.4	8.7	10.9
Drug	342	7.0	8.7	11.6
E-Commerce	54	10.5	14.6	21.2
Educational Services	34	12.9	15.8	23.5
Electric Util. (Central)	24	5.5	7.5	11.2
Electric Utility (East)	26	5.6	7.5	11.2
Electric Utility (West)	16	4.6	6.4	9.5
Electrical Equipment	83	5.3	6.3	8.7
Electronics	173	3.2	4.2	5.7
Entertainment	84	4.3	5.4	8.5
Entertainment Tech	33	9.6	21.6	47.8
Environmental	79	5.9	7.9	12.9
Financial Svcs. (Div.)	296	8.0	8.1	9.1
Food Processing	109	7.0	8.4	11.7
Food Wholesalers	18	4.9	6.4	9.7
Foreign Electronics	10	1.6	2.4	4.3
Furn/Home Furnishings	34	3.3	4.2	6.3
Grocery	14	9.9	13.5	20.7
Healthcare Information	29	7.2	10.1	14.7
Heavy Construction	14	6.9	8.2	12.7
Homebuilding	32	NA	NA	NA

Appendix 2

Industry Multiples				
Industry Name	Number of Firms	Value/EBITDA	Value/EBIT	Value/EBIT(1-t)
Hotel/Gaming	68	5.1	6.6	9.9
Household Products	26	8.2	9.7	13.4
Human Resources	31	3.3	4.0	6.9
Industrial Services	167	4.5	6.0	8.6
Information Services	34	6.4	7.9	11.4
Insurance (Life)	35	1.9	1.9	2.5
Insurance (Prop/Cas.)	78	465.6	466.1	590.7
Internet	208	9.0	11.6	15.9
Investment Co.	17	30.2	NA	NA
Investment Co.(Foreign)	16	11.8	12.4	13.8
Machinery	124	4.2	5.1	7.4
Manuf. Housing/RV	18	3.5	4.5	7.2
Maritime	56	5.4	7.3	7.7
Medical Services	160	4.1	4.6	7.2
Medical Supplies	252	7.8	9.4	12.6
Metal Fabricating	35	3.5	4.1	5.8
Metals & Mining (Div.)	78	3.6	4.1	5.9
Natural Gas (Div.)	34	4.3	5.9	8.4
Natural Gas Utility	25	5.6	7.4	10.5
Newspaper	16	3.8	5.1	7.0
Office Equip/Supplies	26	4.1	5.2	7.5
Oil/Gas Distribution	19	7.0	8.9	11.1
Oilfield Svcs/Equip.	112	3.9	4.7	6.3
Packaging & Container	33	4.1	5.4	7.2
Paper/Forest Products	38	3.9	6.1	7.2
Petroleum (Integrated)	25	3.0	3.6	6.2
Petroleum (Producing)	188	2.6	3.3	4.9
Pharmacy Services	19	7.3	8.8	13.6
Power	66	6.4	8.5	12.1
Precious Metals	75	9.9	14.4	19.9
Precision Instrument	90	4.2	5.7	7.3
Property Management	17	6.5	8.2	10.4
Publishing	27	4.2	5.2	8.7
R.E.I.T.	144	16.6	22.4	25.2
Railroad	15	5.1	6.4	9.9
Recreation	64	4.6	6.0	7.5
Reinsurance	11	89.8	89.8	97.0
Restaurant	68	7.5	9.6	12.0
Retail (Special Lines)	155	3.3	4.3	6.6
Retail Automotive	16	5.9	6.9	10.8
Retail Building Supply	8	5.2	6.2	9.9
Retail Store	38	6.1	7.8	12.1

Appendix 2

Industry Multiples				
Industry Name	Number of Firms	Value/EBITDA	Value/EBIT	Value/EBIT(1-t)
Securities Brokerage	32	5.3	5.4	7.1
Semiconductor	122	3.3	4.7	6.0
Semiconductor Equip	16	2.9	3.4	4.6
Shoe	19	5.9	6.7	10.0
Steel (General)	20	3.8	4.4	6.6
Steel (Integrated)	14	2.6	3.2	4.1
Telecom. Equipment	110	5.1	6.5	8.5
Telecom. Services	140	3.5	4.2	6.0
Thrift	234	8.1	8.1	10.6
Tobacco	12	14.2	15.2	22.1
Toiletries/Cosmetics	23	6.7	8.1	12.3
Trucking	33	4.1	5.6	8.8
Utility (Foreign)	5	3.8	5.9	9.6
Water Utility	16	7.4	9.4	14.6
Wireless Networking	57	9.1	12.9	20.3
Public/Private Equity	10	6.5	7.5	8.4
Funeral Services	6	6.0	6.7	10.6

APPENDIX 3

Refinancing Breakeven Point:			
Loan Amount:	\$150,000		
Current Interest Rate	5.5%		
New Interest Rate	4.5%		
Loan Term:	360		
Closing Costs (as a % of Loan Balance)	2%	3%	4%
Closing Costs (\$)	\$3,000	\$4,500	\$6,000
Breakeven Point (in months)	25	37	49
	2.1	3.1	4.1
	Cumulative Interest Paid	\$156,606	
	Cumulative Interest Paid	\$123,610	
	Cumulative Interest Saved:	\$32,996	

Special Topic: Unemployment

Non Farm Payrolls

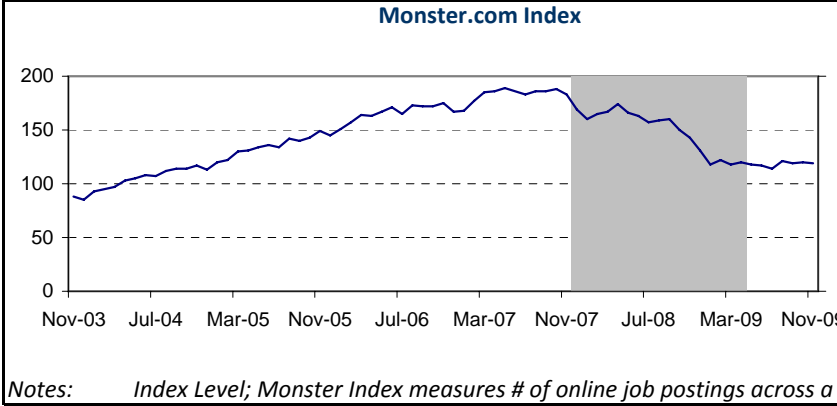
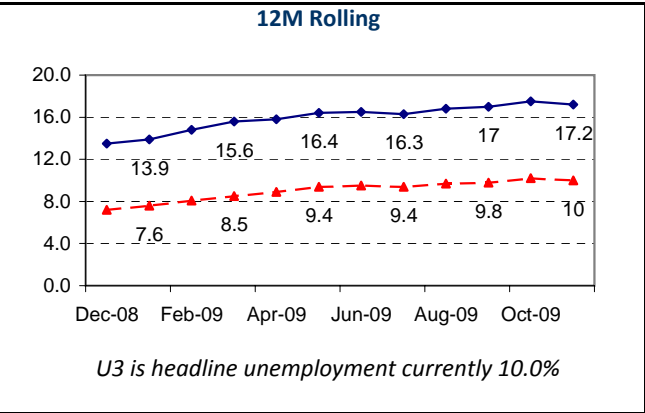
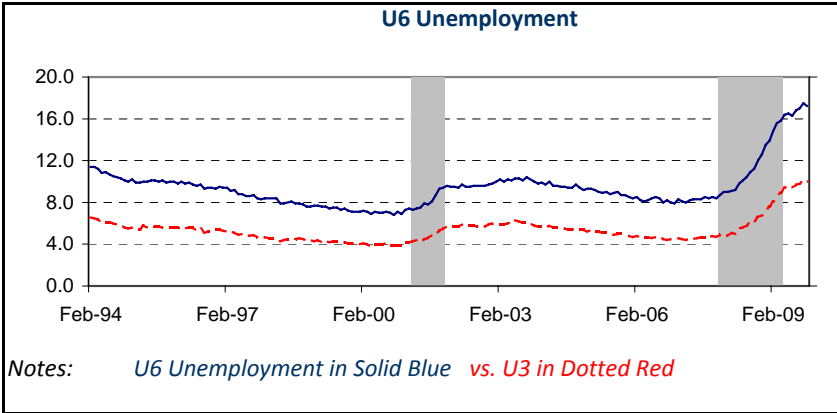
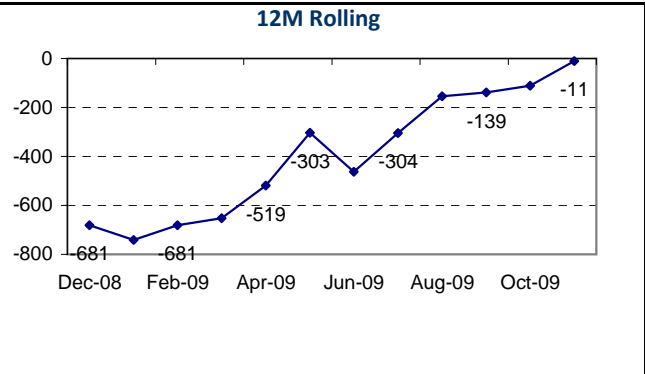
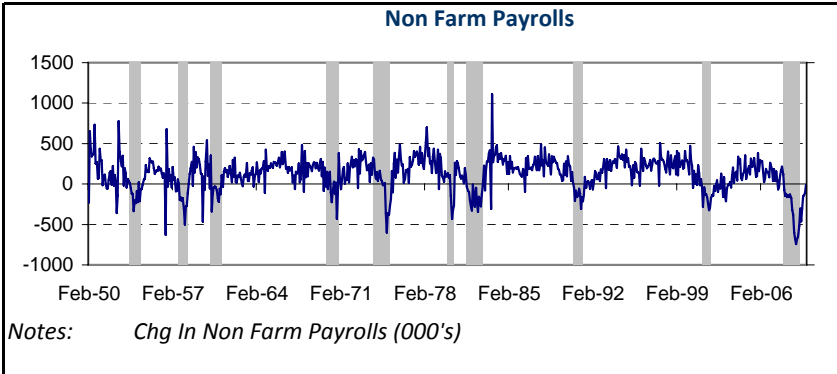
Current:	Recent Data Points:	
Nov-2009	Oct-2009	Sep-2009
-11	-111	-139

U6 Unemployment

Current:	Recent Data Points:	
Nov-2009	Oct-2009	Sep-2009
17.2	17.5	17.0

Monster.com Index

Current:	Recent Data Points:	
Nov-2009	Oct-2009	Sep-2009
119	120	119.0



*Gray Area reflects peak to trough of prior recessions (Source: NBER)

Prospectus

17,250,000
MacroShares Major Metro Housing Up Shares
Issued by
MacroShares Major Metro Housing Up Trust
MacroShares Housing Depositor, LLC,
as Depositor

The MacroShares Major Metro Housing Up Trust, referred to as the "Up Trust," intends to issue MacroShares Major Metro Housing Up Shares, referred to as the "Up MacroShares" on June 29, 2009, which is referred to as the "closing date."

The assets of the Up Trust will consist of an income distribution agreement and settlement contracts entered into with the MacroShares Major Metro Housing Down Trust, referred to as the "Down Trust." The Up Trust will also hold U.S. Treasuries and repurchase agreements on U.S. Treasuries to secure its obligations under the income distribution agreement and the settlement contracts. The Up Trust will make quarterly distributions of net income, if any, on the treasuries and a final distribution of all or a portion of the assets it holds on deposit on the final scheduled termination date, an early termination date or a redemption date. Quarterly distributions of net income, if any, will be declared on distribution dates that are scheduled to occur in March, June, September and December of each year, beginning in September of 2009. These quarterly distributions will be paid to shareholders on each distribution payment date, which is the third business day of the month following the month in which the related distribution date occurred. Each quarterly and final distribution on the Up MacroShares will be based on the value of the S&P/Case-Shiller Composite-10 Home Price Index, as well as on prevailing interest rates on U.S. Treasury obligations. The last published value of the S&P/Case-Shiller Composite-10 Home Price Index is referred to in this prospectus as the "Reference Value of the Index." The starting level for the Reference Value of the Index for purposes of the transactions described in this prospectus is 162.17, which is the value published on February 24, 2009. The most recent Reference Value of the Index, published on May 26, 2009, is 151.41. The value published on April 28, 2009 was 154.70. If the Reference Value of the Index rises above its starting level, the Up Trust's underlying value will increase to include all of its assets plus a portion of the assets of the paired Down Trust. This portion of assets due from the Down Trust will be tripled by a "leverage factor" of 3. Conversely, if the level of the Reference Value of the Index falls below its starting level, the Up Trust's underlying value will decrease, because a portion of its assets will be included in the underlying value of its paired Down Trust, such portion being tripled by the leverage factor of 3. The range of values for the Reference Value of the Index that can be reflected by the underlying value of the Up MacroShares is between 108.11 and 216.23. An early termination trigger may occur for a number of reasons, including due to the rise of the Reference Value of the Index to or above 216.23 or to or below 108.11. Following a termination trigger, the Up MacroShares will be redeemed on the next scheduled distribution date at their per share underlying value.

The Up MacroShares may be redeemed on any business day only together with Down MacroShares (as defined in this prospectus) in MacroShares Units and only by holders who are authorized participants. "MacroShares Units" consist of 10,000 Up MacroShares and 10,000 Down MacroShares. Up MacroShares will always be redeemed at their per share underlying value, as measured on the last calendar day preceding the relevant redemption date. Unless earlier redeemed on a redemption date or an early termination date, a final distribution will be declared on the Up MacroShares on November 25, 2014.

The Up MacroShares will trade on NYSE Arca under the symbol "UMM." The Up MacroShares are not deposits of any bank, are not insured or guaranteed by the United States government or any government agency or instrumentality, and are not an investment in a money-market type fund.

AN INVESTMENT IN THE UP MACROSHARES INVOLVES SIGNIFICANT RISKS, INCLUDING THE RISK OF LOSS OF ALL OF YOUR INVESTMENT. YOU SHOULD REVIEW THE RISK FACTORS BEGINNING ON PAGE 25 OF THIS PROSPECTUS PRIOR TO INVESTING IN THE UP MACROSHARES. NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE UP TRUST DOES NOT HOLD OR TRADE IN COMMODITY FUTURES CONTRACTS OR OTHER INSTRUMENTS REGULATED BY THE COMMODITY FUTURES TRADING COMMISSION. NEITHER THE ADMINISTRATIVE AGENT NOR THE TRUSTEE, AS THE OPERATOR OF THE UP TRUST IS REGISTERED AS A COMMODITY POOL OPERATOR AND NONE OF THE TRUSTEE, THE ADMINISTRATIVE AGENT OR WE, AS DEPOSITOR, ARE SUBJECT TO REGULATION BY THE COMMODITY FUTURES TRADING COMMISSION AS A COMMODITY POOL OPERATOR OR A COMMODITY TRADING ADVISOR.

PUBLIC OFFERING PRICE

Title of Class of Securities to be Purchased	Amount to be Registered	Proposed Maximum Offering Price Per Share	Date Due
Up MacroShares	\$345,000,000	\$20.00 (1)	November 25, 2014

(1) Estimated based upon the Reference Value of the Index on the date of this prospectus. The public offering price at which Up MacroShares will be issued will always be equal to their underlying value on the date on which a creation order is received by the Up Trust. Up MacroShares are only issued together with Down MacroShares in MacroShares Units to authorized participants who place creation orders for such shares, as described under "Description of the Up MacroShares — Paired Issuances."

The Up MacroShares, together with the Down MacroShares, were initially offered by means of a public auction which commenced on April 28, 2009 and closed on May 15, 2009. Macro Financial, LLC did not accept any of the bids submitted in the auction due to the fact that there was insufficient demand for an equal number of Up and Down MacroShares at the prices at which such shares were offered in the auction. Starting with the effective date of this prospectus, the Up Trust and Down Trust will issue their shares in the minimum amounts that constitute a MacroShares Unit on a continuous basis only to persons who qualify as authorized participants at the per share underlying value of those shares on the last calendar day that precedes the date on which those shares are issued and delivered to the authorized participant. The Up MacroShares may be sold by authorized participants to the public at the market price prevailing at the time of any such sale.

The date of this prospectus is June 26, 2009.

Prospectus

26,150,000
MacroShares Major Metro Housing Down Shares
Issued by
MacroShares Major Metro Housing Down Trust
MacroShares Housing Depositor, LLC,
as Depositor

The MacroShares Major Metro Housing Down Trust, referred to as the “Down Trust,” intends to issue MacroShares Major Metro Housing Down Shares, referred to as the “Down MacroShares” on June 29, 2009, which is referred to as the “closing date.”

The assets of the Down Trust will consist of an income distribution agreement and settlement contracts entered into with the MacroShares Major Metro Housing Up Trust, referred to as the “Up Trust.” The Down Trust will also hold U.S. Treasuries and repurchase agreements on U.S. Treasuries to secure its obligations under the income distribution agreement and the settlement contracts. The Down Trust will make quarterly distributions of net income, if any, on the treasuries and a final distribution of all or a portion of the assets it holds on deposit on the final scheduled termination date, an early termination date or a redemption date. Quarterly distributions of net income, if any, will be declared on distribution dates that are scheduled to occur in March, June, September and December of each year, beginning in September of 2009. These quarterly distributions will be paid to shareholders on each distribution payment date, which is the third business day of the month following the month in which the related distribution date occurred. Each quarterly and final distribution on the Down MacroShares will be based on the value of the S&P/Case-Shiller Composite-10 Home Price Index, as well as on prevailing interest rates on U.S. Treasury obligations. The last published value of the S&P/Case-Shiller Composite-10 Home Price Index is referred to in this prospectus as the “Reference Value of the Index.” The starting level for the Reference Value of the Index for purposes of the transactions described in this prospectus is 162.17, which is the value published on February 24, 2009. The most recent Reference Value of the Index, published on May 26, 2009, is 151.41. The value published on April 28, 2009 was 154.70. If the Reference Value of the Index falls below its starting level, the Down Trust’s underlying value will increase to include all of its assets plus a portion of the assets of the paired Up Trust. This portion of assets due from the Up Trust will be tripled by a “leverage factor” of 3. Conversely, if the level of the Reference Value of the Index rises above its starting level, the Down Trust’s underlying value will decrease, because a portion of its assets will be included in the underlying value of its paired Up Trust, such portion being tripled by the leverage factor. The range of values for the Reference Value of the Index that can be reflected by the underlying value of the Down MacroShares is between 108.11 and 216.23. An early termination trigger may occur for a number of reasons, including due to the rise of the Reference Value of the Index to or above 216.23 or to or below 108.11. Following a termination trigger, the Down MacroShares will be redeemed on the next scheduled distribution date at their per share underlying value.

The Down MacroShares may be redeemed on any business day only together with Up MacroShares (as defined in this prospectus) in MacroShares Units and only by holders who are authorized participants. “MacroShares Units” consist of 10,000 Down MacroShares and 10,000 Up MacroShares. Down MacroShares will always be redeemed at their per share underlying value, as measured on the last calendar day preceding the relevant redemption date. Unless earlier redeemed on a redemption date or an early termination date, a final distribution will be declared on the Down MacroShares on November 25, 2014.

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PUBLIC OFFERING PRICE

Title of Class of Securities to be Purchased	Amount to be Registered	Proposed Maximum Offering Price Per Share	Date Due
Down MacroShares	\$785,000,000	\$30.00 (1)	November 25, 2014

- (1) Estimated based upon the Reference Value of the Index on the date of this prospectus. The public offering price at which Down MacroShares will be issued will always be equal to their underlying value on the date on which a creation order is received by the Down Trust. Down MacroShares are only issued together with Up MacroShares in MacroShares Units to authorized participants who place creation orders for such shares, as described under “Description of the Down MacroShares — Paired Issuances.”

The Down MacroShares, together with the Up MacroShares, were initially offered by means of a public auction which commenced on April 28, 2009 and closed on May 15, 2009. Macro Financials, LLC did not accept any of the bids submitted in the auction due to the fact that there was insufficient demand for an equal number of Down and Up MacroShares at the prices at which such shares were offered in the auction. Starting with the effective date of this prospectus, the Down and Up Trust will issue their shares in the minimum amounts that constitute a MacroShares Unit on a continuous basis only to persons who qualify as authorized participants at the per share underlying value of those shares on the last calendar day that precedes the date on which those shares are issued and delivered to the authorized participant. The Down MacroShares may be sold by authorized participants to the public at the market price prevailing at the time of any such sale.

The date of this prospectus is June 26, 2009.