

The 1-year Treasury is Back !

Since the birth of the 1-year Treasury auction series, it was considered a key issue by investors and traders. Most trade periodicals, radio and TV reporters would cite the 1-year Treasury Bill as part of the Treasury yield curve story. When the Treasury canceled the 1-year Bill auctions series on February 27, 2001 it came as a shock to most market participants. In order to restore this key risk/reward benchmark Ron Ryan and his team designed a synthetic 1-year Treasury constant maturity index series calculated by weighting the Ryan Treasury indexes as follows:

2/3 weight = 6-month Ryan Treasury Index
1/3 weight = 2-year Ryan Treasury Index

The Ryan 1-year Treasury Index now fills in the yield curve gap created by the Treasury back in early 2001. **Such an index not only restores the popular 1-year Treasury index but enhances it.** Usually there is a positive slope between the 6-month Bill and the 2-year Note (average spread = 49 bps.). By giving the 2-year a 1/3 weight, the Ryan 1-year index should produce a higher yield profile than most Treasury cash equivalent indexes. Historically here is the yield spread history between the current Bill yield curve and the 1-year Ryan index and the 2-year Note :

Sell – Buy	06/30/07 Yield Spread	High Yield Spread	Low Yield Spread	Average Spread	Today – Average	Data Starts
1 mo - 1 year	66	110 (12/30/04)	- 58 (09/14/01)	36	27	07/30/01
3 mo - 1 year	11	155 (12/28/94)	- 69 (01/02/01)	30	- 19	12/29/89
6 mo - 1 year	- 2	73 (06/28/94)	- 40 (01/02/01)	15	- 17	12/29/89
1 yr - 2 year	- 4	113 (04/22/92)	- 38 (03/13/07)	34	- 38	12/30/88
6 mo - 2 year	- 6	161 (03/28/02)	- 69 (01/02/01)	49	- 54	12/30/88

Source : Ryan Indexes (www.RyanIndex.com)

Ryan 1-year vs. Lehman Short Treasury Index

The Lehman Short U.S. Treasury index is defined as fixed rate, non-convertible US Treasury securities that has a remaining maturity of between one and 12 months. The index currently has a weighted average maturity of 0.3 years. Such an index definition allows for old Treasury notes and bonds issued up to 29 years ago to enter this index portfolio. Since it is market weighted, it is heavily skewed to very short Bills which tend to be the largest auction issues and certainly the most frequent.

The correlation of returns between the Lehman Short Treasury and the Ryan 1-year Treasury is quite extreme. Usually, bond indexes with similar average maturities have correlations in the high 90% area. These two indexes are less than 70% normally with the shorter the time horizon the less they correlate. For an all-Treasury index composition, the tracking deviation between these two indexes tends to be high ranging from 8 to 11 basis points. Given the flat yield curve of recent years has made the returns quite similar but as you go further back in time a positive sloping yield curve certainly promotes the 1-year as a best spot on the Bill curve for returns.



Total Return Comparisons
(as of 6/30/07)

Treasury Indexes	Last 1 year	Last 3 years	Last 5 years	Last 7 years	Last 10 years
Ryan 1-year Treasury	5.29	3.48	2.81	3.65	4.13
Lehman Short Treasury	5.19	3.66	2.71	3.27	3.91
Difference	0.10	- 0.20	0.10	0.38	0.22

Shape of Treasury Yield Curve

The slope or term structure shape of the Treasury yield curve tends to dictate the risk/reward behavior of each maturity area. As historical data proves, this slope is normally positive sloping such that to lengthen maturity you increase yield. As a result, there is a typical linear risk/reward pattern along the yield curve that promotes the longer maturity area as a better total return over time. In the cash equivalent market, usually defined as investments in a maturity area of 1-year maturities and shorter, the 1-year spot on the Bill curve will be the better return area consistently in a positive sloping yield curve since price return is generally not a major component of the total return of cash equivalents. The Bill yield curve is a yield driven investment risk/reward behavior ... and yield usually WINS!

Total Return Comparisons
(as of 06/30/07)

Ryan Treasury Indexes	Last 1 year	Last 3 years	Last 5 years	Last 7 years	Last 10 years
Ryan 1-month Treasury	5.19	3.75	2.70		
Ryan 3-month Treasury	5.28	3.81	2.74	3.16	3.79
Ryan 6-month Treasury	5.45	3.86	2.78	3.31	3.83
Ryan 1-year Treasury	5.29	3.48	2.81	3.65	4.13

Source: www.RyanIndex.com

Note: The 1-month Ryan Treasury starts with the birth of the 1-month auction in July 2001

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Ryan Indexes- The Ryan Treasury Indexes™ were created by Ronald J. Ryan who has calculated and issued U.S. Treasury indexes since 1983. These indexes measure the performance of each Treasury maturity and are considered benchmarks in the industry.

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