

The 20-year Treasury is Back!

The 20-year Treasury auction series had a short life (from 1/81 thru 1/86) but became a key issue in Treasury publications (i.e. H-15) and key historical fixed income research analysis (i.e. Ibbotson). That left a wide gap between the longest Treasury note auction series (i.e. 10-year) and the only Treasury bond auction series (i.e. 30-year). Since interest rate risk (market or systematic risk) is quite linear, such a gap can create significant risk/reward disruptions and opportunities. To correct this obvious disparity and restore this key risk/reward benchmark Ron Ryan and his team designed a synthetic 20-year Treasury constant maturity index series calculated by weighting the Ryan Treasury indexes as follows:

50% weight = 10-year Ryan Treasury Index

50% weight = 30-year Ryan Treasury Index

Such an index not only restores the popular 20-year Treasury index but enhances it. Usually there is a positive slope between the 10-year note and the 30-year bond (average spread = 21 bps. since 11/01/77). Due to the linear risk/reward behavior of Treasury maturities it is critical to have a detailed yield curve series of Treasury constant maturity indexes. This should significantly help investors, traders and academics to measure, manage, hedge and understand this dominate interest rate risk profile :

Annual Total Returns (as of 6/30/07)

Ryan Index	Last 3 years	Last 5 years	Last 10 years
10-year Treasury Index	2.98 %	4.15 %	5.52 %
20-year Treasury Index	3.80 %	4.81 %	6.11 %
30-year Treasury Index	4.57 %	5.42 %	6.62 %

Source : Ryan Indexes (www.RyanIndex.com)

The Ryan 20-year Treasury Index now fills in the yield curve gap created by the Treasury back in early 1986. This allows investors to better pinpoint the risk/reward profile they want to target. Combined with the other Ryan Treasury indexes, an investor now has every auction maturity as an index, plus the 1-year and 20-year, to design the target interest rate risk profile they need to fit their investment horizon. The Ryan Treasury indexes are the best measurement of the interest rate risk/reward in bonds which is quite **linear**. As you extend maturity you change the risk/reward characteristics in a similar way. This is not only demonstrated in absolute return behavior but the volatility of returns. Based on the standard deviation (STD) of *daily* returns, here is what the Ryan Treasury yield curve indexes look like in STD :

Standard Deviation of Daily Total Returns (as of 06/30/07)

Ryan Index	Last 3 years	Last 5 years	Last 10 years	Last 15 years
1-year Treasury	0.512	0.725	0.704	0.732
2-year Treasury	1.258	1.631	1.717	1.732
5-year Treasury	3.213	4.282	4.203	4.261
10-year Treasury	5.298	6.880	6.881	6.863
20-year Treasury	7.240	8.712	8.754	8.604
30-year Treasury	9.312	10.730	10.897	10.595

Source: Ryanindex.com

The nimble investor or trader could certainly enhance their risk/reward by picking the most profitable maturity. The study of the Ryan 20-year Treasury index vs. the Ryan 1-year Treasury index is such an illustration of the leverage and influence that maturity has in the risk/reward attribution. Over long time horizons, the longer maturities tend to outperform the shorter maturities due to the fact that there is usually a positive sloping yield curve which produces



higher yields on longer maturities. This creates a linear risk/reward behavior by maturity. Based on the Ryan Treasury index data base back to December 31, 1988 the 20-year Treasury significantly outperforms the 1-year Treasury:

Annualized Total Returns
(12/31/88 to 06/30/07)
Ryan 20-year Treasury Index = 7.49%
Ryan 1-year Treasury Index = 5.26%
Annual Return Difference = 2.22%

Over short time horizons, yields fluctuate greatly such that cash equivalents (1-year Treasury) are the better performance areas over 56% of the time (see table below). However, when the 20-year wins vs. the 1-year its margin of victory (excess return = 1.86%) is larger than its margin of loss (shortfall = 1.77%). Since these are monthly observations, such return differentials are quite large and often. This extreme variance is what provides enhanced opportunity (return optimization) for the investor and/or trader who knows how to speculate on interest rate trends:

Return Frequency of Ryan 20-year - Ryan 1-year Treasury Indexes
(from 12/31/88 thru 06/30/07)

Ryan Index	Shortfall Frequency	Average Shortfall	Excess Return Frequency	Average Excess Return
20-year – 1-year Treasury Index	56.8 %	1.77 %	43.2 %	1.86%

Source: ryanindex.com Past performance is no guarantee of future results. Performance does not reflect any expenses or taxes which may have reduced returns.

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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Index performance does not represent Ameristock/Ryan Treasury ETF performance. It is not possible to invest directly in an index.

The slope of a line (indicated in article above) formed using regression analysis, can help an investor evaluate a security's risk-return tradeoff. Using these measures, the more risk you take on, the higher returns you can expect to earn. The gap is formed when comparing two securities on the same graph, and can potentially identify a risk/return opportunity.

10 Year Treasury Note: A debt obligation issued by the U.S. Treasury that has a term of more than one year, but not more than 10 years.

20 Year Treasury Bond: A U.S. Treasury debt obligation that has a maturity of 20 years. Not currently offered, the 20 year bonds were discontinued at the end of 1986, and were reinstated in 1993.

30 Year Treasury Bond: A U.S. Treasury debt obligation that has a maturity of 30 years.

Standard Deviation: A measure of how data is dispersed from its average. The more spread apart the data, the higher the standard deviation. In finance, standard deviation is applied to the annual rate of return of an investment to measure the investment's volatility or risk.