Ryan ALM, inc.

Asset/Liability Management

The Solutions Company

Ronald Ryan, CEO, CFA

The Ryan Letter

March 2008

Index	Returns YTD 2008	Estimated Weights
Liabilities :		
Market (Tsy STRIPS)	3.99 %	100 %
IRS (Corporates)	0.46	
ROA (8% constant rate)	2.00	
Assets :		
Ryan Cash	1.08 %	5 %
Lehman Aggregate	2.17	30
S&P 500	-9.44	60
MSCI EAFE Int'l	-8.83	5
Asset Allocation Model	-5.47 %	100 %
Assets – Liabilities		
Market	-9.46%	
IRS	-5.93	
ROA	-7.47	

Based on the Asset Allocation above, year to date 2008 pension assets **underperformed** liabilities by **-9.46%** using market valuations (i.e. STRIPS); lost by **-5.93%** under the IRS Contribution rules (PPA Corporate rates); and lost by **-7.47%** using the ASOP 27 methodology of a constant ROA (i.e. 8.00%). Such valuations show the significant difference in not using proper *market* valuations. Most pension funds enjoyed a funded ratio surplus in 1999. However, assets have underperformed liabilities **by about -93% since 1999** on a compounded index basis starting at 100 on 12/31/99!

(see Graphs and Index disclosures on pages 7 and 8)

Total Returns

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Assets	-2.50	-5.40	-11.41	20.04	8.92	4.43	12.25	6.82	- 5.47
Liabilities	25.96	3.08	19.47	1.96	9.35	8.87	0.81	11.76	3.99
Difference:									
Annual	-28.46	-8.48	-30.89	18.08	-0.43	-4.44	11.44	-4.94	-9.46
Cumulative		-37.60	-73.40	-60.08	-66.13	-76.75	-64.60	-78.38	-93.19

God Bless Pension America !

Fed Orchestrated JP Morgan Chase Buyout of Bear Stearns

I applaud the Fed. On March 16, the Fed engineered a rescue of Bear Stearns. The goal was to manage the collapse of a financial institution (Bear Stearns) such that it did not default on its clients. The threat was one of bank failures. If Bear Stearns had been unable to carry out financial transactions on Monday morning because of a lack of cash, its clients effectively would have their assets frozen. And that would have touched off a ripple effect throughout the financial system that might have caused a series of failures. To prevent this, the Fed did two things. First, it engineered a buyout of Bear Stearns by JPMorgan Chase at $2 a share. This was not a bailout. The Fed was not interested in protecting investors or employees in Bear Stearns. The Fed's interest was to have JPMorgan Chase guarantee the liquidity of Bear Stearns' clients to avoid the domino effect among banks.

The Fed's second move was to redefine the rules to low-cost, short-term financing from the Federal reserve. Historically, only banks had access now it was extended to brokerage houses for 90 days. This sets the stage where other institutions in the same condition as Bear Stearns can be merged into healthier entities. The Fed is working to create a system for dealing with weak institutions that neither allows defaults to clients nor sucks liquidity out of the system. What the Fed has done is in fact not unprecedented (remember Bache). What is new is that the Fed now regards brokerage houses on par with banks. Good job Mr. Bernanke!

Treasury Yield Curve as Key Economic Indicator

The Treasury yield curve is certainly a key economic indicator and represents so much of how our financial markets work. The *intrinsic value* of any investment is best measured versus the risk-free rate(s) or the Treasury yield curve. If the investment underperforms the Treasury with the same volatility or time horizon (maturity) then the investment would be considered a *negative value added*. Most bonds are priced as a yield spread off of a similar duration Treasury as a measurement of relative value. Any liability driven objective (i.e. pensions, healthcare, lotteries, etc.) are best monitored as a portfolio of Treasury STRIPS that match or defease each liability payment. Our monetary policy usually functions by buying and selling Treasuries to adjust the economy in times of liquidity needs and inflationary trends. The Treasury yield curve in both auction issue form and STRIPS are two Ryan Index series designed in 1983 (auction yield curve) and 1985 (STRIPS yield curve) consisting of about 40 distinct maturity indexes. Such indexes can be viewed from our two web sites **www.RyanIndex.com** and **www.RyanALM.com**.

Lowest Yields in Modern History on Ryan Treasury Yield Curve Indexes

The lowest yield recorded on the 1-month Bill, 3-month Bill and 30-year bond in the history of the Ryan Treasury Indexes happened on March 20, 2008: **1-month = 0.33%, 3-month = 0.51%, 30-year = 4.165%.**

	03/31/08	Lowest	Difference	Data Starts
1 year	**1.167%**	**0.331%**	**0.836%**	**01/03/89**
2 year	**1.353**	**1.073**	**0.280**	**08/24/73**
5 year	**1.626**	**2.022**	**0.396**	**08/28/79**
10 year	**3.432**	**3.105**	**0.327**	**11/01/79**
30 year	**4.306**	**4.165**	**0.141**	**12/31/79**

Yield Spreads on Ryan Treasury Yield Curve Indexes vs. 30-year Treasury

As the Fed has been accommodating the economy to resolve any liquidity crisis from the mortgage credit crunch plus help out a slowing economy they have lowered interest rates again. This has created a much more positive slope in the Treasury yield curve.

Yield Spread History vs. Ryan 30-year Treasury Index

vs 30-year	12/31/07	02/29/08	Change	High	Date	Average
3 month	108 bp	295 bp	187 bp	470 bp	05/13/04	229 bp
1 year	111 bp	277 bp	166 bp	439 bp	10/08/92	156 bp
2 year	139 bp	268 bp	129 bp	365 bp	10/05/92	91 bp
5 year	100 bp	184 bp	84 bp	226 bp	10/31/02	54 bp
10 year	42 bp	87 bp	45 bp	226 bp	10/06/92	22 bp

2007 OASDI Trustees Report

U.S. Treasury Secretary Henry Paulson declared on March 25 that the Social security program is "financially unsustainable and needs to be reformed. In fewer than 10 years, cash flows are projected to turn negative." The Social security and Medicare Boards of Trustees, of which Paulson is a member, offered its annual financial reviews of the programs in late March. The Medicare report indicated that the Medicare program poses a greater financial threat than Social Security. The report shows cash flow will turn negative in 2017 without interest income. With interest income, it turns negative in 2026.

If Elected President …

Given that we are now in the stretch run of an election, I thought I would offer some ideas for the candidates. Hopefully, you find them entertaining and even useful. I would appreciate any critiques sent to **rryan@ryanalm.com** :

1. Make Healthcare Assets Tax-Exempt - We are currently facing the largest financial disaster in America's history … how to pay for Healthcare benefits (OPEB). Pensions were given an incentive to prefund pension liabilities by making them tax-exempt. However, healthcare assets do not have the same tax treatment. As a result, there has been a reluctance to prefund. Instead of funding these future liabilities at 50 to 60% cost thereby saving 40 to 50% most institutions (corporate and Public) have chosen a pay-as-you-go strategy which funds such liabilities at 100% cost.

2. Reduce Taxes – If our Declaration of Independence is correct that all men are created equal then perhaps we should treat our citizens the same way. Robbing the rich to give to the poor may be a Robin Hood value but does not work in a capitalist system. We need to motivate the rich to live and work in America. A FLAT INCOME TAX would be a fair system which would eliminate much cost of preparing those arduous tax forms and generate as much revenue as the government gets today. We also need to reduce the Corporate income tax which is the second highest in the world to attract and keep corporations in America. We need to create an environment that motivates the most productive people and companies to live, build and work here. In this way, they will in turn hire more people, spend more in our economy. We should also make permanent the lower capital gains tax rates and eliminate double taxation of dividends to motivate economy activity.

3. Find and Buy Low Cost Manufacturing - America has steadily lost its manufacturing to the rest of the world due to our higher labor costs and taxes. We need to find a way to produce our goods cheaper where the production facilities are on our soil. It's time we become more self dependent, especially on any critical goods and services. As we see with oil, any dependence on foreign goods here can be harmful to our economy. Why not buy a less developed country to be a low cost provider where we send our intellectual property to teach a low cost labor force. We do not want them to come to America where they would have to be paid at least our minimum wage, move away from family and live a life style they are not used to or perhaps want. Remember, most of America's land mass was purchased! Our key cities and environmental resources were founded mainly by purchasing the land (i.e. Manhattan, Louisiana Purchase, Alaska, etc.). I would think that Haiti is an ideal candidate. It is close to our shores with the third largest land mass in the Caribbean. I would think that we could buy this undeveloped country for a lot less than the Iraq war costs. I am sure that the Haitians would welcome to become a U.S. possession that would upgrade their way of life. I am sure that the politicians would also welcome it for a price that would be less costly than any war.

4. Bring back Investment Tax Credit - We are losing our manufacturing steadily to the rest of the world for many years now. We need incentives for corporations to do the right thing for America. Build plant and equipment here in America, hire more Americans! It worked before in the 1960s and 1970s … we need a strong corporate America.

5. Legalize National Lottery - There are about 38 states that have a state lottery. For many states, this is the second or third largest revenue for that state. We need to find ways to finance and support Social Security and Medicare without taxing our citizens. A National Lottery with revenue dedicated to SS and Medicare would be a big help.

6. Sell our Gold – Since we left the Gold standard many decades ago, there is no economic reason to hold this commodity. Given the fact that Gold is now at an all time high price ($821.50 per troy ounce as of 11/30/07) and our economy needs a stimulus (other than raising taxes) this might be a proper strategy and certainly good timing. As of September 2007, the U.S. owned 8,133.5 tonnes of Gold (Germany has 3,417.5, China = 600 and the UK = 310.3) . There are 32,551 troy ounces in each tonne. This would value our Gold reserves at $214,822,380,207. Such a new found wealth could shore up the Social Security and Medicare trust fund which is the next big financial crisis that all Americans will pay for in higher FICA taxes. Put the sale proceeds in a lock box and only use the interest income when you start to run SS deficits in future years. This way we would have an interest earning asset rather than the reverse situation which we have today (a cost center not a profit center).

7. Get rid of Electoral College - This antiquated system is in defiance of our Declaration of Independence which states that all men are created equal. Each American should get an equal vote in our elections. Anything less or more contradicts our heritage.

Public Pension and OPEB Watch

There seems to be an avalanche of recent Public Pension announcements concerning the growth of pension + OPEB deficits and the mismanagement of such funds. As I have preached since 1991, the accounting and actuarial rules (GASB and ASOP 27) governing Public Pension plans are the start of the pension crisis since they do not *mark to market* the liabilities (market rates @ 5.00%). Instead, they value the liabilities at the ROA rate (discount rate @ 8.00%). Such a discount rate methodology has *undervalued* public pension liabilities by 30 to 45% in the last 7 years. As a result, reported funded ratios are not accurate and need to be reduced accordingly. These inappropriate rules have led to inappropriate … benefit decisions, contribution decisions and asset allocation decisions. It all links! Here is an update on some municipalities:

Ten Worst State Pensions – According to a recent S&P study here are the 10 worst state pension plans based on their reported Funded Ratio:

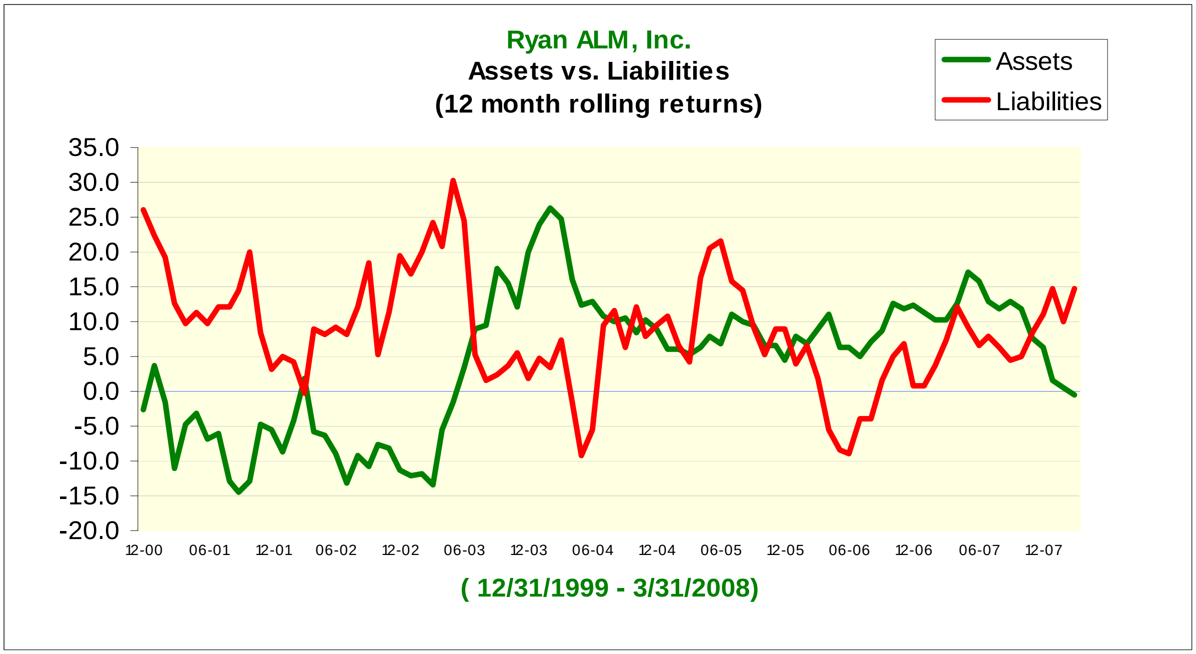
($ billions)

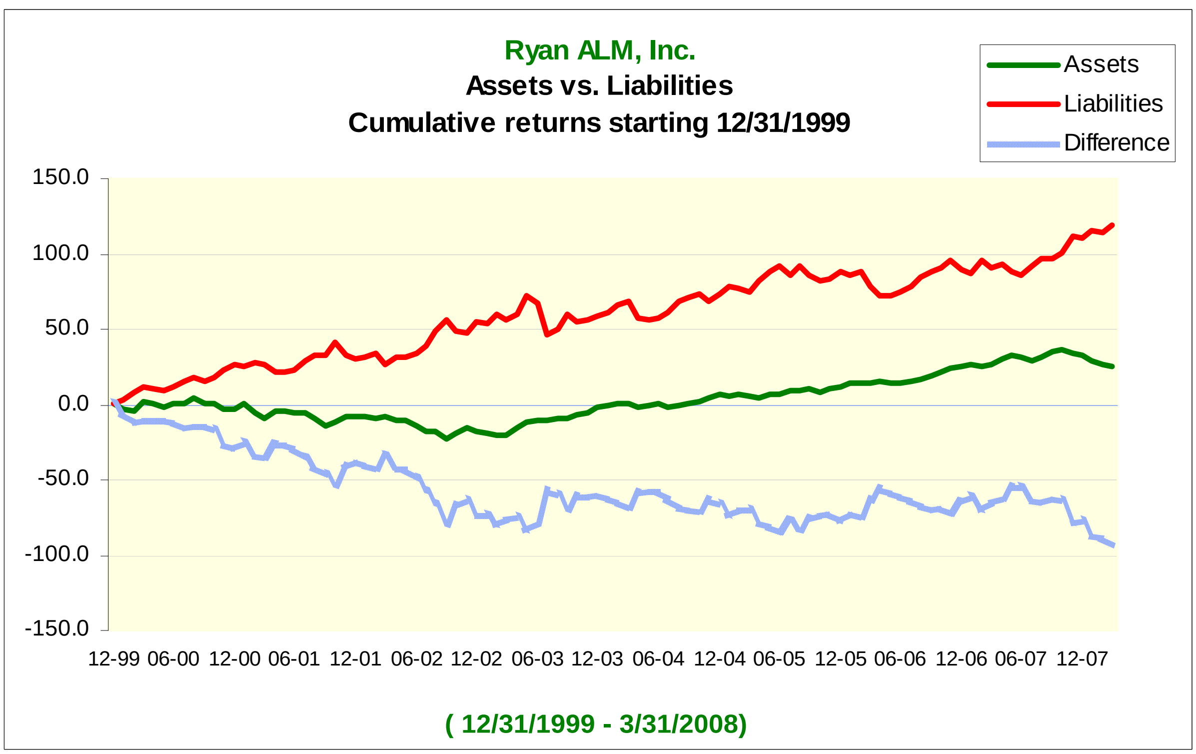
State Pension	Pension Size ($)	Deficit (%)	Deficit ($)
West Virginia	11.1	47.3 %	5.3
Rhode Island	10.6	46.6	4.9
Connecticut	33.9	43.6	14.8
Illinois	79.9	40.5	32.4
Oklahoma	24.4	40.5	9.9
Alaska	21.6	39.0	8.4
New Hampshire	6.4	38.6	2.5
Indiana	28.2	35.7	10.1
Hawaii	14.7	35.0	5.1
Louisiana	30.9	33.7	10.4

Alabama - The city of Allentown just revealed their actuarial report on pensions (performed every two years). Actuarial figures show the police pension account was 56% funded as of Jan. 1, 2007 (same level as of Jan. 1, 2005, 83% in 2003). John Brinson, chairman of Lehigh Valley Tax Limitation Committee, has accused city officials of hiding information and changing actuarial assumptions and formulas. Brinson predicted the city was nearing a financial crisis and said the city should declare bankruptcy.

Pension Scoreboard

Based on the Ryan generic Liability Index and a static Asset Allocation shown on page 1, the following graphs show asset growth versus liability growth for rolling 12 month periods and cumulative growth since 1999. The cumulative growth difference is **-93.19% suggesting any pension with a Funded Ratios below 170.15 in 1999 has a deficit today !**. As a Pension Crisis watchdog, we have also designed the **Pension Monitor** as the most comprehensive site for pension articles in the world today: **http://www.pensionmonitor.com**





Indexes

Custom Liability Indexes

The best way to price (discount rate) and understand the interest rate sensitivity of liabilities is the **Ryan Treasury STRIPS yield curve indexes** known as the **LIABILITY BENCHMARK or LIABILITY INDEX**. In March 1985, when STRIPS were born, my team and I at the Ryan Financial Strategy Group (RFSG) created the **1st STRIPS Index.** Based upon these Ryan STRIPS indexes we created the **1st Liability Index in 1991** as the proper liability Benchmark for liability driven objectives (Pensions, Lotteries, NDT, Insurance Cos., etc.).

Since 1991, the Ryan team has developed hundreds of Custom Liability Indexes (CLI). Similar to snowflakes, no two pension funds are alike in that they have unique benefit payment schedules due to different labor forces, different mortality, different plan amendments. **The true objective of a pension is to fund liabilities at the lowest cost to the plan with prudent risk**. Without a Custom Liability Index it would be difficult, if not impossible, for assets to be managed vs. this liability objective. Until a CLI is installed as a set of economic books, the asset side is in jeopardy of managing vs. the wrong objective (i.e. generic market indexes) **If you outperform generic market indexes, but lose to the CLI … the plan loses !**

Ryan Indexes …Enhanced !

In March 1983, my index team and I at the Ryan Financial Strategy Group (RFSG) created the **1st Daily bond Index … the Ryan Index** as a *Treasury Yield Curve* index series for each auction maturity series (from Bills to Bonds). The best way to understand the interest rate behavior of bonds is to use the Ryan Treasury constant maturity series for each Treasury *auction* series with two composite indexes … **Ryan Cash and Ryan Index.**

The daily reports on these indices have been greatly expanded and enhanced to over 100 daily pages + many pages of research and methodology including :

Returns
Yield History
Yield Spreads
Percentage Spreads

To view all Ryan Indexes data go to : www.RyanIndex.com

Note: In October 2005, Ron Ryan terminated his license agreement with Ryan Labs to distribute and calculate the Ryan Indexes and Ryan STRIPS Indexes. Ron Ryan and Ryan ALM have no affiliation with Ryan Labs. Any use of the formulas, methodologies and data of any of the Ryan Indexes without Ron Ryan's written permission is prohibited

Given the Wrong Index … you will get the Wrong Risk/Reward
Confucius

Index Funds

Liability Index Funds

The best way to match assets to liabilities and reduce the volatility of the Funded Ratio is through a Liability Index Fund. Immunization was a common strategy to match liabilities but had a mathematical problem in that it matched the average duration of liabilities instead of the entire term structure of liabilities. Only a Liability Index Fund correctly matches and fully funds each liability payment. This requires a Custom Liability Index. Ron Ryan was the inventor of both the Custom Liability Index and Liability Index Fund (Liability Beta) concept.

Ameristock / Ryan Launch Five (5) New Bond ETFs

On Monday, July 2nd Ameristock and Ryan ALM launched five new bond ETFs based upon the Ryan Indexes. Here is the list of these innovative ETFs and ticker names:

Ameristock / Ryan 1 year Treasury (GKA)
Ameristock / Ryan 2 year Treasury (GKB)
Ameristock / Ryan 5 year Treasury (GKC)
Ameristock / Ryan 10 year Treasury (GKD)
Ameristock / Ryan 20 year Treasury (GKE)

These new ETFs are **constant maturity** index funds. They are the first such bond funds in the ETF market place today. The other bond ETFs are based on maturity range indexes (i.e. 7-10 years) rather than a precise spot on the Treasury yield curve. These maturity range indexes tend to have significant drifts in average coupon and duration as old issues pass thru this index composition. Such drifts can distort the implied or expected risk/reward behavior. Moreover, these indexes allow for callable bonds which trade to a call date and not a maturity date which create more skewness. Such drifts and skewness are corrected with a constant maturity index methodology.

For more info on these ETFs and the Ryan Indexes, please go to :

Ryan Indexes = www.RyanIndex.com
and
www.RyanALM.com
Ameristock / Ryan ETFs = www.Ameristock.com

Powershares Launches ETF based on Ryan/Mergent 1-30 year Maturity Ladder Indexes

On October 11, 2007 Powershares launched a fixed income ETF based upon the Ryan/Mergent 1-30 year Treasury Maturity Ladder index. This index is an equal-weighted diversified portfolio of 30 distinct maturities. For more info on this ETF and index, please go to :

www. Powershares.com (click on fixed income portfolios)