



Diversifying Your CHINA INVESTMENT STRATEGY

EXCHANGE-TRADED FUNDS

As the “C” in BRIC countries (Brazil, Russia, India and China), China has been among the fastest growing emerging markets. This growth, coupled with nearly \$84 billion of foreign direct investment in 2007,¹ provides risk-tolerant investors with a compelling reason to add China exposure to their portfolios. The following three points provide insight on the country and factors to consider when exploring ways to gain exposure to Chinese companies.

CHINA'S ECONOMIC FUNDAMENTALS

Recently celebrating the 30th anniversary of its historic economic reforms, the Chinese government remains committed to reforming the economy and providing support for increased domestic consumption¹. The following fundamentals support our belief that the country may be better positioned financially than most major economies:

- **Strong Balance Sheet:** As of December 31, 2008, the country had an estimated \$2.0 trillion dollars of foreign exchange reserves and gold.¹
- **Effective Monetary Policy:** According to the Monetary Policy Committee of the Peoples Bank of China, the country's banks remain in good condition and policy measures have supported growth in both the monetary and credit supply.²
- **Proactive Fiscal Policy:** In 2008, the Chinese government unveiled a \$586 billion stimulus package to help the country through the global financial crisis and has since indicated more stimulus would be available if needed.³
- **Continued Growth:** While foreign demand for its exports decreased in 2008, China's GDP real growth rate was an estimated 9.8% for the year, which compared favorably to the U.S.'s estimated 1.3%.¹

THE RATIONALE FOR A SMALL- AND MID-CAP APPROACH TO CHINA

Previously, investors typically sought large-cap securities when allocating abroad, specifically in Chinese companies. This may be due to misperceptions on the performance of larger versus smaller companies. However, just as small- and mid-cap issues may be part of a portfolio's domestic allocation to potentially add diversification, risk tolerant investors may want to include an allocation to small- and mid-cap China stocks to potentially diversify their international exposure. While history doesn't guarantee future performance, since May 31, 1994, small- and mid-cap stocks not only outperformed large-cap issues, but did so with lower volatility.⁴

Allocating to small- and mid-cap China stocks may also offer the benefits commonly associated with entrepreneurialism. According to the most recent data available, in 2007, nine of the top ten companies listed on Shanghai exchanges were state owned enterprises (SOEs).⁵ Controlled and funded by the Chinese government, SOEs may be more prone to placing political goals ahead of individual shareholder interests. In contrast, smaller, privately owned companies are generally guided by market influences that may encourage productivity and innovation.

¹ The Central Intelligence Agency's The World FactBook as of April 23, 2009. ² The People's Bank of China, *Monetary Policy Committee Held Its First Quarterly Meeting in 2009*, April 12, 2009. ³ World Bank, *Crisis Talk-China's Stimulus*, March 13, 2009. ⁴ Source: Zephyr StyleADVISOR. ⁵ Organisation for Economic Co-Operation and Development, *State Owned Enterprises in China: Reviewing the Evidence*, January 26, 2009.

AN APPRAISAL OF CHINA'S REAL ESTATE MARKET

The table below shows the correlation of different real estate markets. To provide a longer-term perspective, the China real estate market is represented by Hong Kong in lieu of using the AlphaShares China Real Estate Index, which was incepted on October 30, 2007. A correlation of 1.00 means two real estate markets have historically moved perfectly in sync with each other, while a correlation of 0.00 means there hasn't been a connection at all between their performance. In general, the lower the correlation, the greater the diversification between asset classes. Though past performance is no guarantee of future results, China had the lowest or among the lowest correlation of the global markets listed in the table. China's growth potential combined with the potential diversification of its real estate markets could mean long-term opportunity for risk-tolerant investors.

HISTORICAL CORRELATION OF DIFFERENT REAL ESTATE MARKETS 1/31/92 – 9/30/09									
	1	2	3	4	5	6	7	8	9
1) S&P Global BMI United States Property	1.00								
2) S&P Global BMI Canada Property	0.57	1.00							
3) S&P Global BMI United Kingdom Property	0.63	0.50	1.00						
4) S&P Global BMI Netherlands Property	0.61	0.56	0.61	1.00					
5) S&P Global BMI France Property	0.59	0.50	0.60	0.79	1.00				
6) S&P Global BMI Australia Property	0.56	0.60	0.55	0.63	0.59	1.00			
7) S&P Global BMI Japan Property	0.27	0.34	0.30	0.32	0.33	0.35	1.00		
8) S&P Global BMI Hong Kong Property	0.29	0.36	0.27	0.31	0.25	0.43	0.22	1.00	
9) S&P 500	0.52	0.49	0.45	0.46	0.38	0.62	0.27	0.52	1.00

Source: Zephyr StyleADVISOR, the S&P Global Property Index. Index definitions can be found on page 2. These indices are unmanaged and it is not possible to invest directly in these indices.

SEE PAGE TWO FOR CLAYMORE INVESTMENT SOLUTIONS OFFERING EXPOSURE TO CHINA.

HAO, TAO AND YAO: STRATEGIC EXPOSURE TO THE GROWTH POTENTIAL OF CHINA

Whether you're seeking broad exposure or are looking for more targeted exposure to China, ask your financial professional whether your portfolio may benefit from the growth and diversification potential of the following Claymore ETFs:



The Claymore/AlphaShares China Small Cap Index ETF

Comprised primarily of common stocks, American Depositary Receipts (ADRs), American Depositary Shares (ADSs), Global Depositary Receipts (GDRs) and International Depositary Receipts (IDRs), HAO invests in publicly-traded mainland China-based small capitalization companies.



The Claymore/AlphaShares China Real Estate ETF

Investing in publicly-traded companies and real estate investment trusts (REITs), TAO focuses on companies that derive a majority of their revenues from real estate development, management and/or ownership of property in China or special administrative regions of China such as Hong Kong and Macau.



The Claymore/AlphaShares China All-Cap ETF

Providing broad float-adjusted market capitalization exposure, YAO invests in publicly-traded companies based in mainland China.

INDEX DEFINITIONS

The **S&P Global Property Index**, a sub-index of the S&P Global BMI Index, defines and measures the investable universe of publicly-traded property companies. Tracking developed and emerging markets, the S&P Global Property Index includes more than 450 constituents from more than 30 countries. The S&P Global Property indices are available on world, regional and country levels. The data shown represent components of the S&P Global Property Index. The **S&P 500 Index** is a capitalization-weighted index of 500 stocks designed to measure the performance of the broad economy, representing all major industries. It is not possible to invest directly in an index.

RISK CONSIDERATIONS

Investors should consider the following risk factors and special considerations associated with investing in the Funds, which may cause you to lose money, including the entire principal that you invest. **Equity Risk:** The value of the securities held by the Funds will fall due to general market and economic conditions, perceptions regarding the industries in which the issuers of securities held by the Funds participate, or factors relating to specific companies in which the Funds invest. **Foreign Investment Risk:** Investing in non-U.S. issuers may involve unique risks such as currency, political, and economic risk, as well as less market liquidity, generally greater market volatility and less complete financial information than for U.S. issuers. Investment in securities of issuers based in developing or "emerging market" countries entails all of the risks of investing in securities of non-U.S. issuers, as previously described, but to a heightened degree. **China Investment Risk:** Investing in securities of Chinese companies involves additional risks, including, but not limited to: the economy of China differs, often unfavorably, from the U.S. economy in such respects as structure, general development, government involvement, wealth distribution, rate of inflation, growth rate, allocation of resources and capital reinvestment, among others; the central government has historically exercised substantial control over virtually every sector of the Chinese economy through administrative regulation and/or state ownership; and actions of the Chinese central and local government authorities continue to have a substantial effect on economic conditions in China. In addition, previously the Chinese government has from time to time taken actions that influence the prices at which certain goods may be sold, encourage companies to invest or concentrate in particular industries, induce mergers between companies in certain industries and induce private companies to publicly offer their securities to increase or continue the rate of economic growth, control the rate of inflation or otherwise regulate economic expansion. From time to time, certain of the companies comprising the Index that are located in China may operate in, or have dealings with, countries subject to sanctions or embargoes imposed by the U.S. government and the United Nations and/or in countries identified by the U.S. government as state sponsors of terrorism. **REIT Risk:** Investments in securities of real estate companies involve risks. These risks include, among others, adverse changes in national, state or local real estate conditions; obsolescence of properties; changes in the availability, cost and terms of mortgage funds; and the impact of changes in environmental laws. **Micro-, Small- and Medium-Sized Company Risk:** Investing in securities of these companies involves greater risk as their securities may be more volatile and less liquid than investing in more established companies. These securities may have returns that vary, sometimes significantly, from the overall stock market. Micro-cap companies may be newly formed, less developed and there may be less available information about the company. **In addition, the Funds are subject to: Non-Correlation Risk, Replication Management Risk, Issuer-Specific Changes and Non-Diversified Fund Risk. Please read the Fund's prospectus for more detailed information on these risks and considerations.**

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