

Commentary

NYSE Tickers: SPADE Defense Index / DXS Powershares Aerospace & Defense ETF / PPA

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**A&D Stocks Take a Breather but Remain Up 4% for 2014**

After a year which saw the sector gain nearly 50% and outperform the market by 19% (1900 bps!) and a 1Q14 which saw gains of more than 4.3% beating the market by another 3% (300 bps), it is only natural that some investors booked profits. For 2Q14, the SPADE Defense Index declined just 0.32%; market technicians would call this a healthy pullback, a period of consolidation before resuming the trend. With a growing number of financial analysts calling for a market pullback, the summer period which extends into late October is historically one that sees periods of low volume, volatility, and declines, so it won't be a surprise if the next leg higher waits until the end of the year. The good news for investors in aerospace and defense stocks is that over the past 30 years, any pullback in the sector, no matter the size or the reasons why, has been recouped (after reinvesting dividends) within a short time. Considering the sector's fundamentals and the trends driving it, I don't foresee any major decline in the coming months that we won't rebound from.

\* \* \*

Global threats remain at a high level, especially in two regions. The unrest in the Ukraine and Russia's involvement highlights how quickly Europe and the United States can find themselves in an unforeseen situation. Perhaps more dangerous from a global perspective is the rise of ISIS/ISIL. The self-declared caliphate with plans to reshape the Middle East is backed by billions in assets from oil sales and stolen from overrun banks, resources that could be used to fund terror cells around the globe. Considering these two situations threaten long-term global stability (and not ignoring Iran, North Korea, China, etc.), the possibility of the U.S. Congress enacting drastic new reductions in defense spending any time soon is remote.

On a positive note, and confirming what we've said previously, on 23 April 2014, Jim Cramer (CNBC, host of "Mad Money") said, "Reiterating what we've said previously, aerospace is the strongest part of the global economy". This is an undeniable fact that we've talked about for more than a year; the sector is perhaps in just the 3rd or 4th inning of a decade-long manufacturing upgrade cycle for air passenger and cargo operators. Likewise international defense sales continue to remain strong and represent an increasing source of revenues generated by many of the large defense firms. Ongoing cyber threats from overseas players continue to fuel the need for increased government (and private) spending to shore up digital networks and physical infrastructure. Combined, these positive trends remain in place and can offset the current dip in the U.S. defense funding cycle that is expected to last to 2016.

**SPADE Defense Index Statistics**

12/31/13 Close: 3567.72  
6/30/14 Close: 3710.00

All-time Intraday High: 3876.52  
Date of All-Time High: 9 June 2014

	SPADE Defense	S&P500
2013	48.27%	29.60%
1Q14	4.33%	1.30%
2Q14	[0.32%]	4.69%

**Inside the Numbers (2Q14)**

1. In a quarter which saw slight declines, a number of midcaps shined generating gains of better than 8% during the quarter: SAIC, Comtech, Ball, OSI Systems, Moog, Leidos, Triumph Group, and Esterline.

2. The companies that performed the worst during the 2Q14 were among the biggest gainers in 1Q14. A number of companies swung from 10-20% gains in Q1 to 14-32% declines in Q2: Key W Holdings, Taser, Aerovironment, Engility, Viasat, and Mercury Computer.

**2Q14 Leaders were:**

- 1. SAIC 18.11%
- 2. Comtech 17.17%
- 3. Ball Corp 14.36%
- 4. OSI Systems 11.51%
- 5. Moog 11.27%
- 6. Leidos 8.40%
- 7. Triumph Group 8.11%
- 8. Esterline Tech 8.05%
- 9. General Dynamics 7.01%
- 10. AAR Corp 6.20%

Results from all 52 companies found in the SPADE Defense Index appears on page 2.

## 2Q14 Results

1	SAIC	18.11%	27	Lockheed Martin	-1.54%
2	Comtech	17.17%	28	Rockwell Collins	-1.92%
3	Ball Corp	14.36%	29	Textron	-2.55%
4	OSI Systems	11.51%	30	URS Corporation	-2.57%
5	Moog	11.27%	31	Northrop Grumman	-3.04%
6	Leidos	8.40%	32	Booz Allen	-3.45%
7	Triumph Group	8.11%	33	FLIR Systems	-3.53%
8	Esterline Tech	8.05%	34	Digital Globe	-4.17%
9	General Dynamics	7.01%	35	CACI Intl	-4.86%
10	AAR Corp	6.20%	36	Sparton	-5.26%
11	Orbital Sciences	5.91%	37	Oshkosh Truck	-5.67%
12	Kaman	5.03%	38	Alliant Techsystems	-5.79%
13	Gencorp	4.54%	39	Hexcel	-6.06%
14	Ducommun	4.27%	40	Raytheon	-6.62%
15	Computer Sciences	3.91%	41	LMIA Aerospace	-7.23%
16	American Science	3.60%	42	Huntington Ingalls	-7.50%
17	Harris Corp	3.54%	43	Transdigm	-9.69%
18	Kratos Defense	3.45%	44	Exelis	-10.68%
19	L-3	2.20%	45	Cubic Corp	-12.85%
20	Boeing	1.39%	46	Heico	-13.66%
21	Intelsat	0.64%	47	mercury Computer	-14.16%
22	Mantech Intl	0.37%	48	Engility	-15.07%
23	Honeywell	0.20%	49	Viasat	-16.05%
24	Precision Castparts	-0.14%	50	Aerovironment	-20.99%
25	Teledyne Tech	-0.16%	51	TASER	-27.28%
26	United Technologies	-1.19%	52	Key W Holdings	-32.82%

ETF Statistics (NYSE: PPA)  
Powershares Aerospace & Defense

Exchange / Ticker Symbol: NYSE / PPA  
 Assets (6/30/14) \$151 M  
 Closing Price (6/30/14) \$32.26  
 Yield (12-Month Yield) 1.0%  
 2Q2014 Volume 3,068,500  
 Turnover 9%

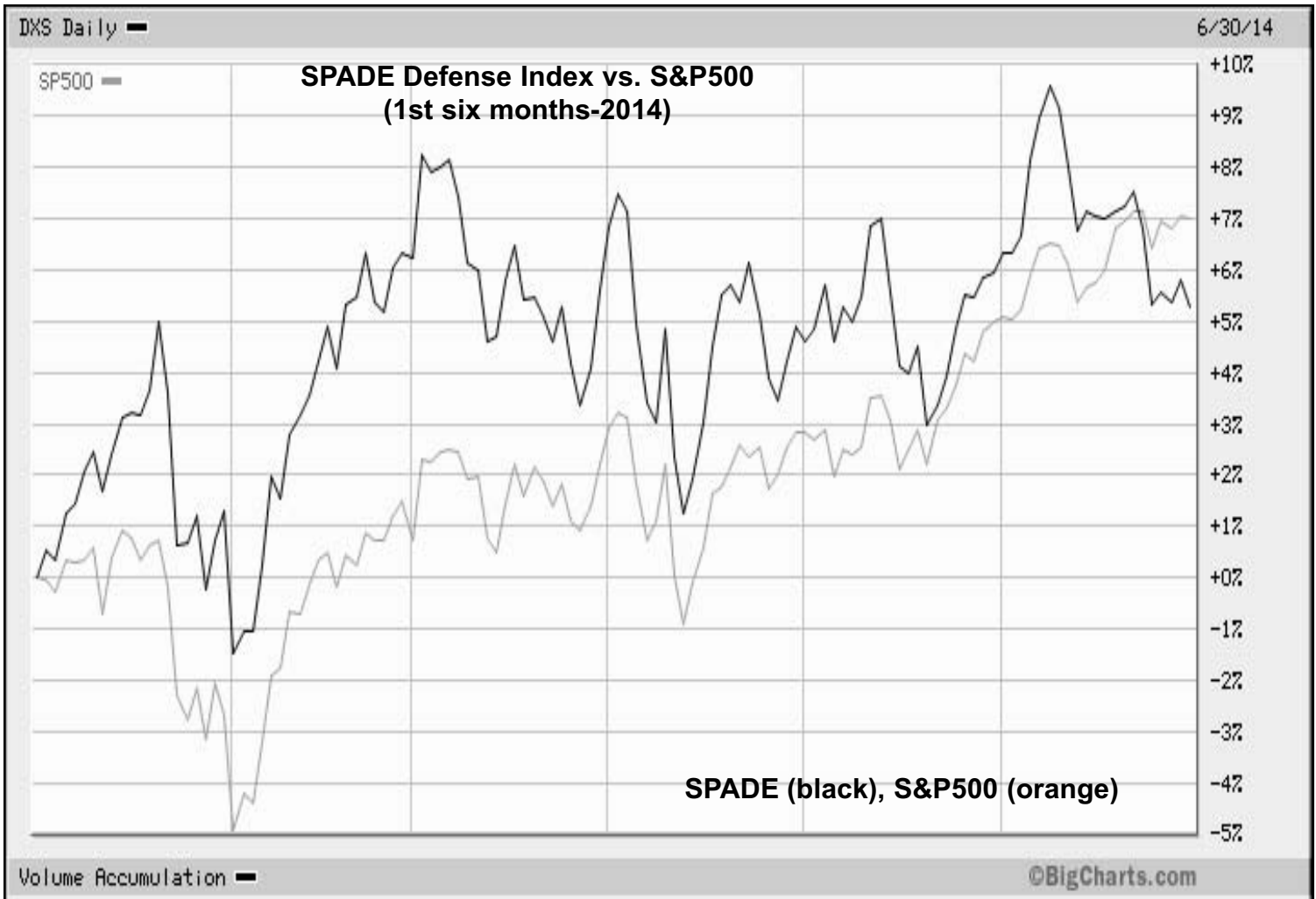
source: Marketwatch

Portfolio Price / Earnings*	16.72
Portfolio Price / Book*	1.68
Portfolio Price / Sales*	1.14
Portfolio Price / Cash Flow*	11.17
Earnings Growth Rate*	10.08%
Beta (3 year)*	0.83
Alpha (3 year)*	8.97
R-squared (3 year)*	69.61

Yahoo Finance - 6/30/14

## Annual Performance (ex div)

	SPADE Defense Index	S&P500
2013	<b>48.27%</b>	29.60%
2012	<b>16.30%</b>	13.41%
2011	<b>[2.75%]</b>	[0.00%]
2010	9.62%	12.78%
2009	21.71%	23.45%
2008	<b>[38.03%]</b>	<b>[38.49%]</b>
2007	<b>22.17%</b>	3.53%
2006	<b>19.33%</b>	13.62%
2005	<b>5.30%</b>	3.00%
2004	<b>20.47%</b>	8.99%
2003	<b>37.27%</b>	26.38%
2002	<b>[2.87%]</b>	[23.37%]
2001	<b>0.94%</b>	[13.04%]
2000	<b>4.98%</b>	[10.14%]
1999	15.31%	19.53%
1998	6.63%	26.67%



### About the SPADE Defense Index

The SPADE Defense Index (NYSE: DXS) provides an investment benchmark for the value that the market ascribes to companies involved with defense, homeland security, and space.

The Index is designed to reflect the broad diversity of activities that is representative of companies involved with the sector – including industrial firms that manufacture aircraft, tanks, ships, and missiles; and those involved with current and next generation systems related to network centric warfare and information technology; intelligence, surveillance, and reconnaissance; satellites; border security; and defense systems that protect the lives of our servicemen and servicewomen.

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 SPADE Indexes has developed a number of equity indexes including sector indexes focused on aerospace & defense, and cybersecurity; and regional indexes such as those for Oklahoma and Texas.

### Licensed Products

#### Exchange Traded Fund - ETF

Licensed to Invesco Powershares, the Powershares Aerospace & Defense Portfolio ETF (NYSE: PPA) is designed to track the performance of the SPADE Defense Index.

#### Rules

The Index was designed to be RIC (registered investment company) compliant for the purpose of enabling financial products. Companies are required to meet a variety of eligibility criteria including market valuation, liquidity, and listing on a major U.S. exchange. Full details are available on our website.

- \* Market Cap: Minimum \$100M
- \* Share Price: Minimum \$5.00
- \* Sufficient Liquidity

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Jul-14		SPADEF Defense Index					Market		Forward	Price/	Price/	PEG	
Company	Ticker	Float %	Price	Price	% Ch	% Ch	Cap	P/E	Sales	Book	5 yr	Div Yld	
		30-Jun-14	31-Mar-14	30-Jun-14	YTD	QTD	intraday	(ttm)	ttm	mrq	expected	forward %	
SAIC	SAIC	0.83%	37.39	44.16	33.53%	18.11%	2.12	13.71	0.54	5.76	3.16	2.60%	
Comtech	CMTL	0.23%	31.86	37.33	18.47%	17.17%	0.60	20.85	1.73	1.53	1.92	3.10%	
Ball Corp	BLL	3.37%	54.81	62.68	21.33%	14.36%	8.74	15.29	1.04	8.13	1.79	0.80%	
OSI Systems	OSIS	0.51%	59.86	66.75	25.68%	11.51%	1.33	18.80	1.51	2.63	1.42		
Moog Inc.	MOGA	1.28%	65.51	72.89	7.29%	11.27%	3.24	15.98	1.23	2.07	1.99		
Leidos	LDOS	1.09%	35.37	38.34	-17.53%	8.40%	2.87	14.31	0.52	2.03	2.91	3.30%	
Triumph Group	TGI	1.39%	64.58	69.82	-8.22%	8.11%	3.64	10.69	0.96	1.58	3.39	0.20%	
Esterline Technologies	ESL	1.41%	106.54	115.12	12.91%	8.05%	3.68	17.55	1.79	1.85	1.88		
General Dynamics	GD	5.54%	108.92	116.55	21.98%	7.01%	39.89	14.87	1.29	2.94	2.05	2.10%	
AAR Corp	AIR	0.42%	25.95	27.56	-1.61%	6.20%	1.06	13.44	0.51	1.08	1.25	1.10%	
Orbital Sciences Corp	ORB	0.70%	27.90	29.55	26.82%	5.91%	1.79	21.73	1.34	2.23	1.74		
Gencorp	GY	0.44%	18.27	19.10	5.99%	4.54%	1.14	32.37	0.78	23.92	2.57		
Ducommun	DCO	0.11%	25.06	26.13	-12.34%	4.27%	0.28	14.05	0.39	1.16	2.23		
Computer Sciences	CSC	3.50%	60.82	63.20	13.10%	3.91%	9.16	12.44	0.70	2.34	0.99	1.40%	
American Science & Engineering	ASEI	0.21%	67.17	69.59	-3.23%	3.60%	0.55	36.43	2.87	2.77	14.23	3.00%	
Harris Corp	HRS	3.11%	73.16	75.75	8.51%	3.54%	8.07	15.21	1.60	4.51	5.03	2.20%	
Kratos Defense & Security	KTOS	0.17%	7.54	7.80	1.56%	3.45%	0.45	14.18	0.50	1.58	2.47		
L-3 Communications Hldgs	LLL	3.98%	118.15	120.75	13.00%	2.20%	10.41	13.55	0.84	1.71	3.43	1.90%	
Boeing Co	BA	6.28%	125.49	127.23	-6.78%	1.39%	92.78	15.22	1.06	6.47	1.62	2.20%	
Mantech International'a'	MANT	0.42%	29.41	29.52	-1.37%	0.37%	1.10	18.00	0.52	0.96	2.70	2.90%	
Honeywell Intl	HON	6.33%	92.76	92.95	1.73%	0.20%	72.79	15.06	1.85	4.07	1.62	1.90%	
Precision Castparts	PCP	5.07%	252.76	252.40	-6.28%	-0.14%	36.54	15.73	3.83	3.24	1.32	0.10%	
Teledyne Technologies	TDY	1.40%	97.33	97.17	5.78%	-0.16%	3.65	17.57	1.55	2.43	1.85		
United Technologies	UTX	6.36%	116.84	115.45	1.45%	-1.19%	105.84	15.15	1.70	3.31	1.47	2.00%	
Lockheed Martin	LMT	6.32%	163.24	160.73	8.12%	-1.54%	50.63	13.90	1.14	10.68	1.67	3.20%	
Rockwell Collins	COL	3.99%	79.67	78.14	5.71%	-1.92%	10.59	15.50	2.23	5.74	2.01	1.50%	
Textron	TXT	4.08%	39.29	38.29	4.16%	-2.55%	10.69	14.50	0.90	2.48	0.94	0.20%	
URS Corporation	URS	1.20%	47.06	45.85	-13.47%	-2.57%	3.16	13.06	0.29	0.82	9.82	1.90%	
Northrop Grumman	NOC	4.48%	123.38	119.63	4.38%	-3.04%	25.62	12.12	1.06	2.45	1.79	2.30%	
Booz Allen & Hamilton	BAH	1.21%	22.00	21.24	10.91%	-3.45%	3.08	13.36	0.55	17.66	2.20	2.00%	
Flir Systems	FLIR	1.87%	36.00	34.73	15.38%	-3.53%	4.92	20.31	3.25	2.96	1.63	1.10%	
Digital Globe	DGI	0.81%	29.01	27.80	-32.44%	-4.17%	2.10	69.5	3.28	1.52			
Caci Intl	CACI	0.63%	73.80	70.21	-4.11%	-4.86%	1.65	13.05	0.46	1.25	1.32		
Sparton	SPA	0.11%	29.28	27.74	-0.75%	-5.26%	0.27	16.81	0.85	2.59	1.29		
Oshkosh Truck	OSK	1.82%	58.87	55.53	10.22%	-5.67%	4.72	12.56	0.66	2.23	1.06	1.10%	
Alliant Techsystems	ATK	1.68%	142.15	133.92	10.06%	-5.79%	4.27	10.77	0.91	2.28	0.90	1.00%	
Hexcel	HXL	1.55%	43.54	40.90	-8.48%	-6.06%	4.00	16.69	2.33	3.46	1.29		
Raytheon Co	RTN	4.49%	98.79	92.25	1.71%	-6.62%	28.86	11.87	1.26	2.57	1.16	2.50%	
Huntington Ingalls	HII	1.78%	102.26	94.59	5.09%	-7.50%	4.65	11.15	0.68	2.97	0.70	0.80%	
Transdigm	TDG	3.40%	185.20	167.26	3.88%	-9.69%	8.85	19.59	4.12		1.63		
ITT Exelis	XLS	1.23%	19.01	16.98	-10.91%	-10.68%	3.22	10.82	0.69	1.90	-1.9	2.40%	
Cubic Corp	CUB	0.46%	51.07	44.51	-15.48%	-12.85%	1.19	14.36	0.89	1.59	1.93	0.50%	
Heico	HEI	1.33%	60.16	51.94	-10.37%	-13.66%	3.45	25.97	3.13	5.38	2.14	0.20%	
Mercury Computer Sys	MRCY	0.15%	13.21	11.34	3.56%	-14.16%	0.38	45.36	1.74	1.07	-6.81		
Engility	EGL	0.26%	45.05	38.26	14.55%	-15.07%	0.67	12.59	0.49	1.54			
Viasat Inc	VSAT	1.03%	69.04	57.96	-7.49%	-16.05%	2.69	26.35	1.98	2.84	0.82		
AeroVironment	AVAV	0.27%	40.25	31.80	9.13%	-20.99%	0.71	55.79	3.02	2.16	-3.41		
TASER International Inc.	TASR	0.28%	18.29	13.30	-16.25%	-27.28%	0.72	27.71	5.02	5.84	1.34		
KEY W Holding	KEYW	0.18%	18.71	12.57	-6.47%	-32.82%	0.46	24.65	1.61	1.53	-23.86		
Intelsat	I	0.76%	18.72	18.84	-16.42%	0.64%	1.92	7.35	0.76				
Kaman	KAMN	0.45%	40.68	42.73	7.55%	5.04%	1.14	14.38	0.66	2.12	1.11	1.60%	
LMI Aerospace	LMIA	0.11%	14.10	13.08	-11.26%	-7.23%	0.17	15.35	0.42	1.11	2.29		