

Commentary

There is little that is new to comment on. The trends that were in place and commented on in earlier newsletter remain intact. With the release of the defense budget we can expect a lot of chatter but not much actual activity until after the November elections. There has been some talk about sequestration and replacing it, however, this too will wait until after the elections. Commercial aerospace continues to expand but with the sector focused on manufacturing and filling orders (rather than new sales) it has not been getting a lot of attention.

Since the beginning of the year, the aerospace and defense sector has performed in line with the market and provided investors even a bit of alpha. The sector is in a “quiet period” while we await the November elections and in the mean-time I’d expect the sector to track the market, performing better at times with positive quarterly earnings announcements and getting a boost when sequestration comes off the table. Something that has not gained attention is that an improving economy will increase government revenues and reduce the amount needed to meet the sequestration targets.

In the meantime, research has shown that over the past forty years, defense sector declines were shortlived and quickly made up when factoring in reinvested dividends.

The Global Defense Market

As the U.S. flattens/reduces its spending on defense, there are many parts of the world that continue to increase its budgets in this area. This represents not only an opportunity for U.S. companies to export but also shows the continuing threats that exist.

According to SIPRI, worldwide arms sales were up 24% from 2007-2011 compared to the 2002-2006 timeframe. Leading this were Asia and Oceania which accounted for 44% of all imports. (EU: 19%, Middle East: 17%, U.S./Canada/South America: 11%, Africa: 9%). Of this total, India accounted for 10%, South Korea: 6%, Pakistan: 5%, China: 5%, and Singapore: 4%.

China

- According to “People’s Daily”, China will launch its first aircraft carrier, a Soviet-built aircraft carrier Varyag, later this year after retrofitting it with new engines and equipment.

- China announced in early March that it will hike defense spending by 11.2% to \$106.4 billion.

Pakistan

- Increasing defense spending to \$5.75 billion, up 12%

SPADE Defense Index Statistics

3/30/12 Close: 2283.87
 All-time Close: 2747.67
 Date of all-time close: 9 October 2007

	SPADE Defense	S&P500
March	0.66%	3.13%
1Q12	10.39%	12.00%
2012	10.39%	12.00%

India

- Boosted military spending by 17% on 16March2012 as it seeks to counter China and Pakistani activities according to the Agence France-Presse. Spending will be 1.93 trillion rupees (~\$38.68 billion) for the fiscal year that ends 31March13.

- Plans to increase its Naval spending by 74% to buy ships and subs. The budget will go to \$4.77 billion vs. \$2.74B.

- India is the largest importer of weaponry in the world and expects to spend 70% of its budget on imports for at least the next five years.

Norway

- Announced that it will increase defense spending by 7% from 2013 - 2016 (DN, p3, 2April12)

South Korea

- Plans to spend \$16 billion on 36 AH-X attack helicopters for when it takes over wartime operations control of its forces from the United States in 2015. Boeing is among the competitors.

Canada

- Plans to spend about \$1 billion to modernize 550 vehicles for better IED production and extend their fleet life to 2035.

Peru

- Bought an air defense system for \$140 million from a global team of suppliers including Northrop Grumman.

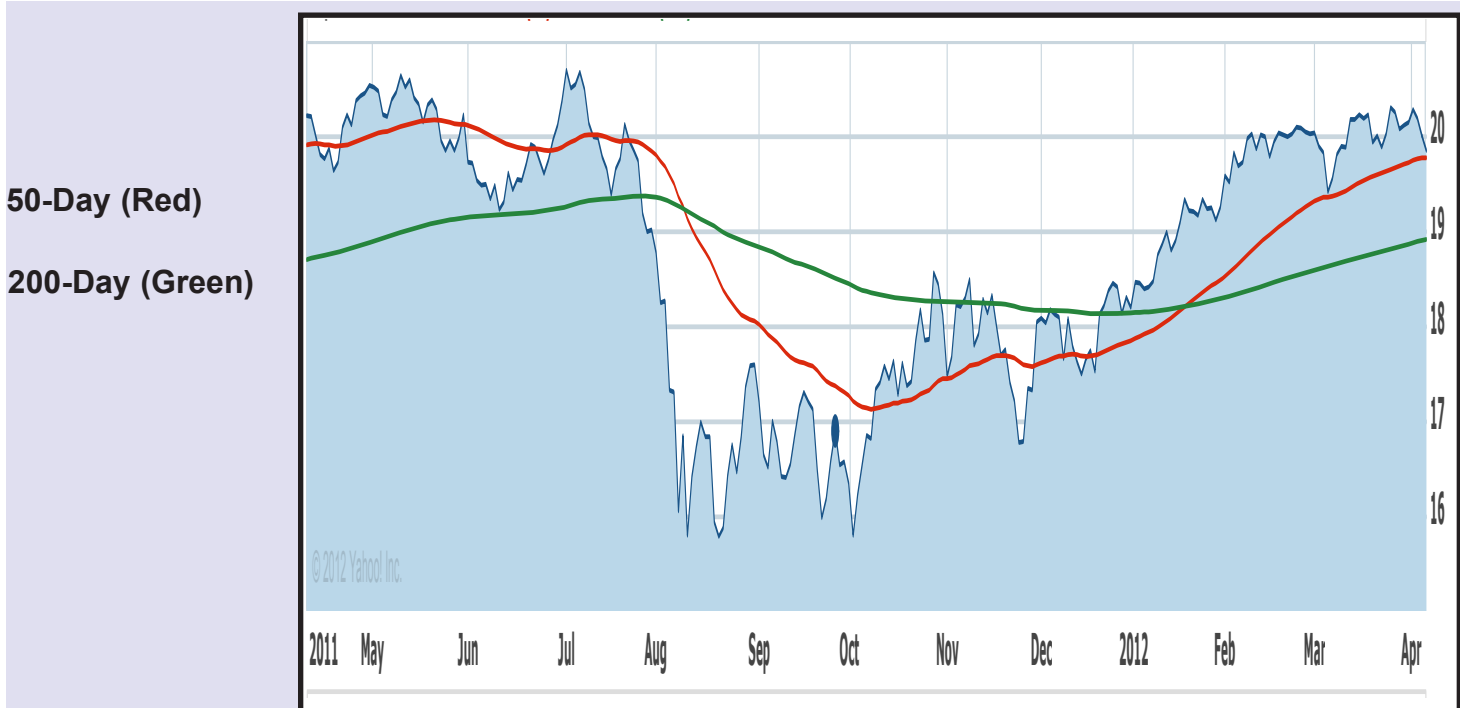
Information from recent issues of *Defense News*

YTD Top Gainers			YTD Laggards			March 2012 Top Gainers			March 2012 Laggards		
1	Textron	50.51%	1	NCI Information	[45.15%]	1	Exelis	19.12%	1	Ducommun	[22.07%]
2	Exelis	38.34%	2	Digital Globe	[22.03%]	2	GeoEye	18.75%	2	AAR Corp	[17.23%]
3	Gencorp	33.46%	3	Taser	[15.23%]	3	Gencorp	18.33%	3	Alliant Techsystems	[16.47%]
4	Huntington Ingalls	28.64%	4	Aerovironment	[14.81%]	4	Huntington Ingalls	12.15%	4	Kratos	[16.17%]
5	Esterline Tech	27.68%	5	Alliant Techsystems	[12.32%]	5	Esterline Tech	10.02%	5	Digital Globe	[13.26%]
6	CSC	26.33%	6	Heico	[11.78%]	6	Key W Holding	9.15%	6	NCI Information	[11.25%]
7	OSI Systems	25.67%	7	Kratos	[10.55%]	7	SAIC	8.02%	7	LMI Aerospace	[10.57%]
8	Harris	25.08%	8	Orbital Sciences	[9.50%]	8	Taser	7.69%	8	Mercury Computer	[7.79%]
9	Ceradyne	21.58%	9	Ducommun	[6.67%]	9	Ball Corp	6.99%	9	Amer Science	[7.77%]
10	URS Corporation	21.07%	10	AAR Corp	[4.80%]	10	Teledyne Tech.	5.79%	10	Booz Allen	[7.50%]

Largest Defense Prime Contractors		
	March	2012
Lockheed Martin	1.64%	11.08%
Boeing	[0.77%]	1.39%
General Dynamics	0.20%	10.50%
Northrop Grumman	2.12%	4.45%
Raytheon	4.47%	9.09%
L-3	[0.20%]	5.14%

ETF Statistics (NYSEArca: PPA) Powershares Aerospace & Defense	
Exchange / Ticker Symbol:	NYSE / PPA
Assets (3/30/12)	\$55 M
Closing Price (3/30/12)	\$20.15
Yield (12-Month Yield)	1.00%
February 2012 Volume	357,800
Turnover	12%
source: Marketwatch	

Portfolio Price / Earnings	12.86
Portfolio Price / Book	2.29
Portfolio Price / Sales	0.77
Portfolio Price / Cash Flow	8.39
Earnings Growth Rate	5.31%
Beta (3 year)	1.06
Alpha (3 year)	[4.18]
R-squared (3 year)	86.01
Yahoo Finance - 3/31/12	



The price level for PPA is currently above the 50-day and 200-day moving averages and currently sits at the 50-day.

Major Program Cuts (FY2013) - Budget Preview Release

Program	Prime Contractor	Notes
RQ-4 Global Hawk	Northrop Grumman	Cancel remaining Block-30. AF still buying Block-40. Lockheed could see upgrade to U-2
C-5A	Lockheed Martin	Retire 27. Upgraded cockpits cancelled.
C-27J	L-3/Alenia	Cancelled.
C-130	Lockheed Martin	Retire 65 legacy C-130s. Boeing cockpit upgrade cancelled
Defense Weather Satellite	Northrop Grumman	Cancelled
F-35 JSF	Lockheed Martin	Purchases slowed. Overall buy not cut.
A-10	Lockheed/Boeing/Northrop	Retire 5 squadrons (3 guard, 1 active, 1 reserve). Boeing re-winging contract likely canceled or reduced.
F-15	Boeing	Retire one training squadron.
F-16	Lockheed Martin	Retire one Guard squadron.
Humvee Recap	Not awarded	Cancel. Focus on Joint Light Tactical Vehicle
Joint Air to Ground Missile	Not Awarded	Reduce buy. Purchase more Lockheed Hellfire. Lockheed competing against Raytheon for JAGM.
JLENS	Raytheon	Curtail. Current systems future unclear.
Ground Combat Vehicle	BAE / General Dynamics	Delay due to contract award protest. Future unclear.
Helicopter Modern.	TBD	Delayed 3-5 years
Navy Cruisers	U.S. Navy Operated	Retire seen. Reduce cruiser force.
Large-Deck Amphibious	Huntington Ingalls	Delayed one year.
Virginia submarine	Electric Boat/Newport News	Shift one sub from 2014 to 2018.
Littoral Combat Ship	Austal USA / Marinette Marine	Buy two fewer over next five years
Joint High Speed Vessel	Austal USA	Eliminate 8+, cap program at 10.
Amphibious Ships	U.S. Navy Operated	Retire two early / Defer replacement
SSBN(X) Ohio-class Submarine	Not Awarded	Delay development by two years

Credit: *Defense News* 30 Jan 12

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About the SPADE Defense Index

The SPADE Defense Index (NYSE-amex: 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 publishes a variety of private and public sector and regional indexes. Public indexes listed on the NYSEamex include: the SPADE Defense Index (ticker: DXS), the SPADE Oklahoma Index (ticker: OKLAH); and the SPADE Texas Index (ticker: 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

Apr-12		52 SPADE Defense Index					Market	Forward	Price/	Price/	PEG	
Company	Ticker	Float %	Price	Price	% Ch	% Ch	Cap	P/E	Sales	Book	5 yr	Div Yld
		31-Mar-12	29-Feb-12	30-Mar-12	2012	MTD	intraday	(ttm)	ttm	mrq	expected	forward %
AAR Corp	AIR	0.43%	22.05	18.25	-4.80%	-17.23%	0.71	8.33	0.36	0.80	0.72	1.60%
American Science & Engineering	ASEI	0.35%	72.70	67.05	-1.56%	-7.77%	0.60	20.76	2.59	2.30	1.51	3.00%
Alliant Techsystems	ATK	0.97%	60.00	50.12	-12.32%	-16.47%	1.65	7.68	0.36	1.27	4.33	1.60%
AeroVironment	AVAV	0.35%	28.48	26.81	-14.81%	-5.86%	0.58	18.36	1.84	2.10	0.92	
Boeing Co	BA	5.73%	74.95	74.37	1.39%	-0.77%	55.46	13.14	0.80	15.69	1.26	2.40%
Booz Allen & Hamilton	BAH	1.45%	18.41	17.03	-1.28%	-7.50%	2.25	9.73	0.39	1.99	0.67	2.10%
Ball Corp	BLL	3.92%	40.08	42.88	20.08%	6.99%	6.69	12.57	0.77	5.62	1.79	0.90%
Caci Intl	CACI	0.97%	59.14	62.29	11.39%	5.33%	1.65	10.11	0.44	1.39	0.86	
Comtech	CMTL	0.36%	32.27	32.58	13.84%	0.96%	0.62	22.78	1.30	1.32	0.69	3.40%
Rockwell Collins	COL	3.96%	59.29	57.56	3.96%	-2.92%	8.42	11.44	1.76	6.72	1.36	1.70%
Ceradyne Inc	CRDN	0.46%	30.91	32.56	21.58%	5.34%	0.79	11.63	1.37	1.11	1.58	1.80%
Computer Sciences	CSC	2.72%	31.76	29.94	26.33%	-5.73%	4.64	8.91	0.29	1.47	10.51	2.70%
Cubic Corp	CUB	0.74%	47.80	47.28	8.47%	-1.09%	1.26	14.20	0.96	2.21	0.85	0.50%
Ducommun	DCO	0.07%	15.27	11.90	-6.67%	-22.07%	0.13	5.61	0.23	0.65	1.05	
Digital Globe	DGI	0.36%	15.38	13.34	-22.03%	-13.26%	0.62	15.88	1.82	1.27	1.49	
Esterline Technologies	ESL	1.28%	64.95	71.46	27.68%	10.02%	2.19	11.70	1.21	1.44	0.90	
Flir Systems	FLIR	2.28%	26.17	25.31	0.96%	-3.29%	3.90	13.46	2.53	2.49	1.03	1.10%
General Dynamics	GD	4.67%	73.23	73.38	10.50%	0.20%	26.18	9.53	0.79	1.96	1.27	2.80%
GeoEye	GEOY	0.31%	20.27	24.07	8.33%	18.75%	0.54	10.20	1.52	1.06	0.79	
Goodrich Corp	GR	4.54%	125.97	125.44	1.41%	-0.42%	15.78	15.74	1.95	4.24	1.17	0.90%
Gencorp	GY	0.25%	6.00	7.10	33.46%	18.33%	0.42	23.67	0.45			
Heico	HEI	1.26%	54.68	51.59	-11.78%	-5.65%	2.17	22.43	2.73	3.96	1.64	0.20%
Huntington Ingalls	HII	1.15%	35.88	40.24	28.64%	12.15%	1.99	10.32	0.30	2.24	1.06	
Honeywell Intl	HON	5.74%	59.57	61.05	12.33%	2.48%	47.34	12.26	1.29	4.35	0.96	2.40%
Harris Corp	HRS	3.01%	43.63	45.08	25.08%	3.32%	5.13	8.54	0.85	2.24	4.00	2.90%
Hexcel	HXL	1.40%	25.27	24.01	-0.83%	-4.99%	2.39	15.01	1.72	2.96	1.54	
KEY W Holding	KEYW	0.12%	7.10	7.75	4.73%	9.15%	0.20	25.00	1.05	1.10	3.73	
Kratos Defense & Security	KTOS	0.10%	6.37	5.34	-10.55%	-16.17%	0.17	8.34	0.25	0.57	2.55	
L-3 Communications Hldgs	LLL	4.00%	70.25	70.11	5.14%	-0.20%	7.00	8.12	0.46	1.06	2.98	2.80%
LMI Aerospace	LMIA	0.13%	20.35	18.20	3.70%	-10.57%	0.21	8.67	0.83	1.25	0.71	
Lockheed Martin	LMT	5.17%	88.41	89.86	11.08%	1.64%	28.85	10.60	0.62	28.75	1.56	4.50%
Mantech International'a'	MANT	0.74%	33.54	34.46	10.31%	2.74%	1.27	9.96	0.44	1.16	1.28	2.40%
Moog Inc.	MOGA	1.14%	43.91	42.89	-2.37%	-2.32%	1.94	11.53	0.83	1.60	1.55	
Mercury Computer Sys	MRCY	0.24%	14.37	13.25	-0.30%	-7.79%	0.41	16.36	1.72	1.23	1.17	
NCI Information Technology	NCIT	0.05%	7.20	6.39	-45.15%	-11.25%	0.09	21.30	0.15	0.52	21.30	
Northrop Grumman	NOC	4.53%	59.81	61.08	4.45%	2.12%	15.43	9.04	0.58	1.50		3.30%
Orbital Sciences Corp	ORB	0.45%	14.05	13.15	-9.50%	-6.41%	0.78	11.24	0.58	1.20	0.86	
Osi Systems	OSIS	0.71%	59.00	61.30	25.67%	3.90%	1.21	21.89	1.73	3.05	0.88	
Oshkosh Truck	OSK	1.24%	23.31	23.17	8.37%	-0.60%	2.12	10.34	0.28	1.31	3.63	
Precision Castparts	PCP	4.48%	167.43	172.90	4.92%	3.27%	25.10	17.24	3.59	3.07	1.38	0.10%
Raytheon Co	RTN	4.52%	50.52	52.78	9.09%	4.47%	17.94	9.53	0.72	2.19	1.28	3.80%
SAIC	SAI	2.64%	12.22	13.20	7.40%	8.02%	4.50	9.71	0.43	2.07	2.28	3.60%
TASER International Inc.	TASR	0.17%	4.03	4.34	-15.23%	7.69%	0.24	27.12	2.68	2.93	2.10	
Transdigm	TDG	3.43%	118.79	115.76	20.99%	-2.55%	5.86	16.3	4.40	6.56	0.97	
Teledyne Technologies	TDY	1.36%	59.60	63.05	14.95%	5.79%	2.31	14.98	1.19	2.34	2.72	
Triumph Group	TGI	1.80%	63.80	62.66	7.20%	-1.79%	3.06	11.76	0.92	1.72	0.96	0.30%
Textron	TXT	4.04%	27.51	27.83	50.51%	1.16%	7.78	12.15	0.69	2.84	0.41	0.30%
URS Corporation	URS	1.90%	43.65	42.52	21.07%	-2.59%	3.25	9.69	0.34	0.97	0.97	1.90%
United Technologies	UTX	5.75%	83.87	82.94	13.48%	-1.11%	75.38	12.36	1.29	3.41	1.25	2.30%
Viasat Inc	VSAT	1.21%	46.13	48.21	4.53%	4.51%	2.07	50.75	2.43	2.31	2.14	
ITT Exelis	XLS	1.35%	10.51	12.52	38.34%	19.12%	2.31	7.41	0.41	2.65		3.30%
Data Provided by Yahoo Finance & Capital IQ, and Forward P/E by Thompson												