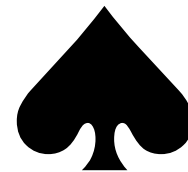


SPADE INVESTOR



February 2008

Defense * Homeland Security * Space

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Inside this issue...

The issue is a shorter one than normal as next week, we should be seeing a key driver to the sector next week with the release of the FY-09 budget proposal by the White House. A supplemental note will be sent out once details have been evaluated.

re: FY09 Budget

Northrop Grumman CEO, Ron Sugar, stated in a 27 January 2008 interview with the Associated Press..."every indication we have is that there will be continued growth of reasonable proportions in the basic budget."

Inside January's Market Volatility

Although analysts in December and throughout January said that aerospace and defense were a favored sector in 2008, investors took the opportunity to sell into the eight-year rally.

Before the month was over, the Fed discounted interest rates twice to stabilize a market that drifted (or should I say shot) past a 10% correction passing the 20% level indicating a bear market.

The defense sector was no exception as the SPADE Defense Index, dropped 21.23% from its peak on November 6th to its January 23rd low. But with a rally in the final 7 days of January, the index rebounded more than 10.6% taking us to levels originally passed in May 2007.

What was surprising is that a sector favored by analysts and that, honestly, did not have any great news attached to it that would change the forecast, wouldn't just see a sell-off in some individual stocks but in the ETF tracking the sector as well. The carnage saw a drop of 4 million shares or 22% of the investments in the fund from its peak. The fund began to rise again with creation units added on the 31 January. Overall, the ETF saw record-high monthly volume of nearly 7 million shares.

Meanwhile, the underlying core positive trends influencing the sector continued to hold steady as the aerospace and defense companies posted across-the-board positive quarterly earnings. (see related story).

KEY DATA FORTHCOMING

The first Monday after the Super Bowl (this year February 4th) is typically the time that the White House submits its budget proposal to Congress for the forthcoming fiscal year (FY-2009). At this time a top-level number for defense spending will become available.

As the month of February progresses, additional details on specific programs will become available. Defense stocks will move on positive or negative details.

The next key date will be the submittal of the FY-2009 budget to Congress by the White House which is anticipated on February 4th. Depending on what is presented, investors will either have a reason to invest (or divest) from their portfolios. Considering that the parties in the White House and Congress have not changed and that this is an election year, we do not expect major changes to the top-line figure. That said, individual programs, especially those that are known to have budget overruns and program delays are likely to see their funding reduced or shifted to out-years.

Keep in mind that any changes that appear in the budget proposal still must be approved by Congress and likely won't take effect until at least 4Q08 or perhaps, 1H09 at the earliest.

Other Factors

During January, Boeing announced delays in the delivery of the first 787 Dreamliner. Along with the firm, several suppliers saw their share prices drop as investors determine what this means in the long term (ie. additional costs by Boeing, delays in component orders, etc.) Although this has not affected the total number of plane orders or backlog, some analysts are wondering whether the delay implies that a peak could be reached sometime in 2009. The length of the delay will determine whether or not it will affect future orders. Demand from rapidly growing airlines in the middle east and asia continues to remain high as does the likelihood that U.S. air carriers within the next several years will begin to place orders for new, more fuel efficient aircraft.

SPADE Defense Index Statistics

1/31/08 Close: 2381.00
All-time Close: 2747.67
Date of all-time close: 9 October 2007

	SPADE Defense	S&P500
January	[7.46%]	[6.12%]
Year to Date	[7.46%]	[6.12%]

10-Year performance data of the Index is now available

Quarterly Reporting

Paul Nisbet, JSA Research, "...defense firms are meeting or exceeding Wall Street earnings projections...it's a pillar of stability compared to the turbulent markets in other industries."

Lockheed Martin - 4Q profit up 10% to \$1.89/share beating Wall Street's estimate of \$1.70/share. The firm boosted its 2008 outlook by 10 cents.

Boeing - 4Q profits of 4.5% to \$1.03B. Raised 2008 forecast from \$5.75/share to \$5.85/share citing productivity increases.

General Dynamics - 4Q earnings rose 42%.

Northrop Grumman - Saw its quarterly profit grow to \$454M and revenue rise 10% to \$8.86 billion.

Raytheon - Saw a 64% increase in 4Q profit with net income rising to \$598 M from \$365 Million. Backlog was up 13% and the firm raised its outlook to \$3.65 to \$3.80/share.

Honeywell - Reported a quarterly profit of \$689 million, up from \$585 million

L-3 Communications - Reported that its sales rose 12.4%, earnings were up 19%, and raised its outlook for 2008 by 7 cents to \$6.48 to \$6.62/share

Merger & Acquisition

MTC Technologies is being bought by BAE Systems for \$450 million. The deal is expected to close during the first half of 2008.

January 2008 Top Gainers

1	Raytheon	7.31%
2	Elbit Systems	5.88%
3	L-3 Communications	4.10%
4	GeoEye	3.89%
5	Ceradyne	2.60%
6	Ball Corporation	1.82%
7	Gencorp	0.69%
8	SI International	0.58%
9	Moog	0.50%
10	MTC Technologies	0.38%

January 2008 Laggards

1	Mercury Computer	[48.48%]
2	Viasat	[39.67%]
3	Cubic	[29.69%]
4	Triumph Group	[29.69%]
5	Garmin	[25.62%]
6	L-1 Identity Systems	[24.46%]
7	DynCorp	[23.74%]
8	AAR Corporation	[22.27%]
9	Textron	[21.30%]
10	Taser	[20.15%]

Index and Industry Statistics

ETF Statistics (AMEX: PPA)

Powershares Aerospace & Defense

Exchange / Ticker Symbol:	AMEX / PPA
Fee	60 basis
Assets (1/31/08)	\$ 284 M
Closing Price (1/31/08)	\$20.93
January 08 Volume	6,964,3000

Powershares Aerospace & Defense ETF(PPA)

Average Portfolio Market Cap*	\$11.74 Billion
Portfolio P/E*	18.96
Portfolio P/S*	1.11
Portfolio P/B*	2.92
Portfolio P/Cash Flow*	10.46
Earnings Growth Rate (ttm)*	12.90%
3 month Avg Daily Trading Volume**	214,884
Turnover	16%

source: Yahoo! Finance

Quarter SPADE S&P500

Quarter	SPADE	S&P500
4Q07	[4.22%]	[3.82]
3Q07	[2.39%]	[2.99%]
2Q07	10.76%	5.81%
1Q07	4.37%	0.18%
4Q06	8.79%	6.17%
3Q06	3.21%	5.17%
2Q06	[4.03%]	[1.91%]
1Q06	10.65%	3.73%
4Q05	[0.47%]	1.59%
3Q05	4.44%	3.15%
2Q05	3.91%	0.91%
1Q05	[2.52%]	[2.59%]
4Q04	9.80%	8.73%
3Q04	2.81%	[2.30%]
2Q04	6.34%	1.30%
1Q04	0.36%	1.29%
4Q03	18.97%	11.64%
3Q03	5.27%	2.20%
2Q03	19.03%	14.89%
1Q03	[7.92%]	[3.60%]
4Q02	3.39%	7.92%
3Q02	[17.04%]	[17.63%]
2Q02	[2.86%]	[13.73%]
1Q02	16.57%	[0.06%]
4Q01	14.59%	10.29%
3Q01	[10.40%]	[14.29%]
2Q01	5.91%	5.52%
1Q01	[7.18%]	[12.11%]
4Q00	[0.05%]	[8.09%]
3Q00	12.14%	[1.24%]
2Q00	[7.11%]	[2.93%]
1Q00	0.83%	2.00%
4Q99	7.57%	14.54%
3Q99	[10.18%]	[6.56%]
2Q99	21.39%	6.71%
1Q99	[1.68%]	4.65%
4Q98	13.70%	20.87%
3Q98	[16.88%]	[10.30%]
2Q98	[1.88%]	2.91%
1Q98	14.99%	13.53%

Year SPADE S&P500

Year	SPADE	S&P500
2007	22.17%	3.53%
2006	19.33%	13.62%
2005	5.30%	3.00%
2004	20.47%	8.99%
2003	37.27%	26.38%
2002	[2.87%]	[23.37%]
2001	0.94%	[13.04%]
2000	4.98%	[10.14%]
1999	15.31%	19.53%
1998	6.63%	26.67%

Share Buybacks

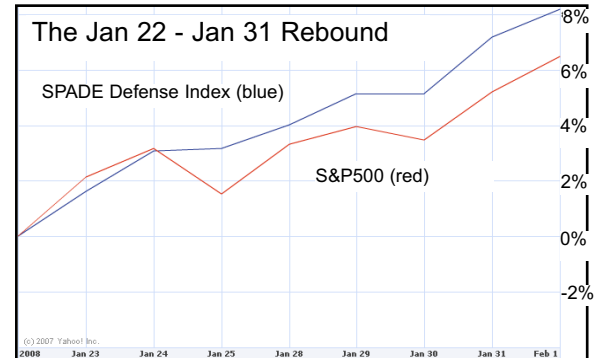
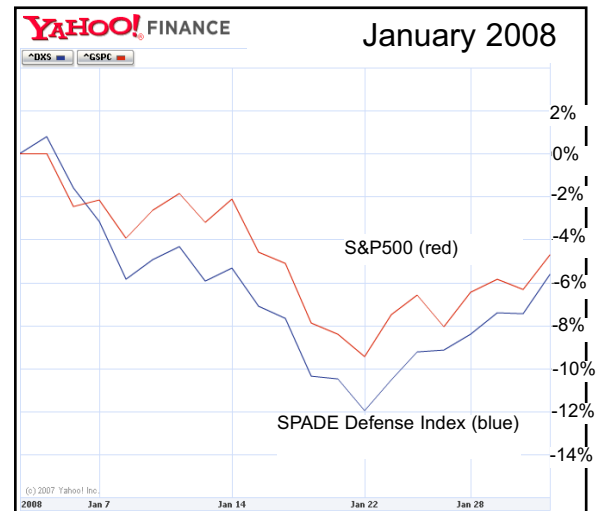
L-3's board in mid-December approved the repurchase of \$750M of common stock over the next two years, up from the \$500M approved last December.

Northrop Grumman announced on December 20th its plans to buy back up to \$2.5 billion, the largest share repurchase in the company's history. This represents about 9% of outstanding shares.

Boeing announced in October a \$7 billion buyback worth about 9% of outstanding shares.

Raytheon in October announced a \$2 billion share buyback.

Lockheed Martin will increase its share buyback by an additional 20 million shares. on top of the 20 million shares remaining from its prior board authorization. The firm has been buying back shares since October 2002 and repurchased 88.1 million shares through June 2007. As of 30 June 2007, approximately 412 million shares of common stock remain on the balance sheet.



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About

The SPADE Defense Index (AMEX: DXS) provides an investment benchmark for 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 defense, homeland security, and space – 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.

Licensed Products

Exchange Traded Fund (ETF)

The Powershares Aerospace & Defense Portfolio ETF (AMEX: PPA) is designed to track the performance of the SPADE Defense Index

Options

ETF options are traded by the American Stock Exchange using the underlying symbol.

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
- * Liquidity: 50,000 shares/day avg

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What the Analysts are Saying (Dec07/Jan08)

Jeffrey Saut, Raymond James strategist

23 January 2008...[It] is worth considering that if congress approves the recently proposed defense spending plan, which calls for tens of billions of increased spending, it should spread massive amounts of dollars to small/medium businesses whose multiplier effect could go a long way in avoiding a recession. This is another reason we have been unwaveringly bullish on government IT, defense, and homeland security complex for the past number of years.

...To be sure, we continue to like the Government IT and Homeland Security themes. Still, the government services stocks have tumbled -- 8% in January due to the broad market decline and in-line with the seasonal trading patterns seen in the group. Due to the sell-off, our sense is **the group looks more attractive than it has in quite some time.**

Moreover, we think investors are beginning to look for investments that are acyclical to the broader market concerns surrounding the consumer, energy prices, subprime exposure, and housing problems. ***Given the current valuations, fundamentals, and lack of a fundamental correlation to the overall market, we believe the government services group can outperform the broader markets in 2008.***

Fitch Ratings

The 2008 election should not affect core [defense] spending until fiscal 2011.

TheStreet.com - 2 Jan 08

“Destroying the ‘Republicans Are Better for Defense Stocks’ Myth” -- ...With this in mind, I believe that ETFs focused on the aerospace & defense sector should fare well in 2008.

Goldman Sachs

Raised its defense sector outlook, “We believe defense stocks are an attractive place for investors to go when economic growth is slowing or turning negative.”

The report projected a slowdown in real GDP growth in 2008 and said defense stocks have outperformed the S&P 500 by an annual average of 30% when GDP growth is below 1%.

Morningstar - John Kearney - 20 Dec 07

“...aerospace and defense [are] a pocket of strength that appear[s] to have staying power. Strong commercial aerospace demand and increased defense spending show no signs of waning.”

DowJones - 4 Jan 08

Following a banner year in 2007, aerospace stocks

should keep flying higher this year, fueled by a health increase in U.S. defense spending and the robust worldwide market for commercial aircraft.

Forbes.com - 20 Dec 07

Analyst: J.B. Groh, D.A. Davidson & Co.

“There will be no recession in aerospace. The last three years have illustrated the strength of the global aerospace market, as most orders have been from areas outside North America. This is unique in that North American typically leads the cycle. Massive backlogs at Boeing and Airbus (about 6,400 aircraft, or more than six years of production at current levels) have caused valuations to rise for suppliers. “As long as backlogs are still increasing, we expect aerospace names to outperform the overall market.”

“One misplaced assumption is that the ‘party is over.’ While aerospace stocks have done very well over the past few years...there are still plenty of additional opportunities. High fuel prices shrink the economic life of a passenger aircraft and that should continue to drive fleet renewal.”

CIBC World Markets

Citing Larry Lanzillotta, Northrop Grumman’s VP of customer relations, the letter stated that ***he suggested that FY09 would include another increase in defense spending and hinted at his belief that the 2010 plan is for an additional pop in growth, which is something we haven’t been expecting.***

Washington Post (31 Dec 07)

CACI CEO, Paul Cofoni, stated that, “the changing strategy in the war on terror and Iraq should drive dollars back to technology service contractors. “It will turn to be less about bombs, tanks, airplanes, and more about collaboration among intelligence agencies, law enforcement, and the military.”

Jim Cramer, CNBC, TheStreet.com

...Around the globe in every newly industrialized nation, there is a booming airline company, often state-run, that is growing the way our airlines grew in the 1940s and 1950s, when this sector was hot, hot, hot. This growth can go on for years...China could use 10 times the number of planes it has and still not offer airline service to millions of people That means there will be demand for planes just for China that could fill order books for generations. The countries in the Middle East, flush with oil money, want to expand their airlines. So do the newly wealthy nations in South American. Same with Central and Eastern Europe. That’s where the growth is coming from.

... in our own country, post-9/11, both political parties have remained committed to military spending, something that will continue even if we eventually wind up our efforts in Iraq.

Split	Company	Ticker	SPADEF Defense Index			% Ch	% Ch	Market	Forward	Price/	Price/	Div Yld
			Float %	Price	Price							
			1-Feb-08	31-Dec-07	31-Jan-07	YTD	MTD	intraday	(ttm)	ttm	mrq	forward %
	Honeywell Intl	HON	6.94%	61.57	59.07	-4.06%	-4.06%	45.00	14.21	1.28	4.70	1.70%
	United Technologies	UTX	6.94%	76.54	73.27	-4.27%	-4.27%	70.70		1.28	3.29	1.80%
	Boeing Co	BA	6.80%	87.46	83.18	-4.89%	-4.89%	64.37	11.66	0.97	10.09	1.90%
	Lockheed Martin	LMT	7.02%	105.26	107.92	2.53%	2.53%	44.12	13.22	1.06	4.51	1.60%
	Genl Dynamics	GD	5.35%	88.29	84.53	-5.01%	-4.26%	34.35	13.29	1.25	2.90	1.40%
	Northrop Grumman	NOC	4.89%	78.64	78.36	-0.36%	-0.36%	26.85	12.84	0.84	1.52	1.80%
	Raytheon Co	RTN	5.18%	60.70	65.14	7.31%	7.31%	28.11		1.31	2.34	1.60%
	Garmin Ltd	GRMN	3.47%	97.00	72.15	-25.62%	-25.62%	15.18	15.95	6.08	7.88	1.10%
	Itt Indus	ITT	4.00%	66.04	59.40	-10.05%	-10.05%	10.84		1.26	3.12	1.00%
	Precision Castparts	PCP	3.58%	138.70	113.80	-17.95%	-17.95%	15.90		2.37	4.66	0.10%
	Rockwell Collins	COL	3.83%	71.97	63.13	-12.28%	-12.28%	10.36	14.18	2.26	6.85	1.00%
	L-3 Communications Hldgs	LLL	4.55%	105.94	110.28	4.10%	4.10%	13.72	15.05	1.02	2.35	0.90%
	Textron	TXT	3.41%	71.30	56.11	-21.30%	-21.30%	14.48	12.27	1.08	4.08	1.70
	Goodrich Corp	GR	3.19%	70.61	62.45	-11.56%	-11.56%	7.81		1.22	3.09	1.40%
	Computer Sciences	CSC	3.01%	49.47	42.32	-14.45%	-14.45%	6.83	9.60	0.45	1.27	
	Harris Corp	HRS	3.06%	62.68	54.60	-12.89%	-12.89%	7.41	13.73	1.65	3.46	1.20%
	SAIC	SAI	3.19%	20.12	18.90	-6.06%	-6.06%	7.89	18.72	0.88	4.36	
	Ball Corp	BLL	1.89%	45.00	45.82	1.82%	1.82%	4.60	11.39	0.61	3.33	0.90%
	URS Corporation	URS	1.49%	54.33	43.90	-19.20%	-19.20%	2.42		0.50	1.41	
	Flir Systems	FLIR	1.68%	31.30	30.28	-3.26%	-3.26%	4.41		5.69	7.38	
	Alliant Techsystems	ATK	1.42%	113.76	105.85	-6.95%	-6.95%	3.49	14.42	0.89	5.54	
	Trimble Navigation Ltd	TRMB	1.31%	30.24	26.45	-12.53%	-12.53%	3.35	16.08	2.81	2.99	
	Oshkosh Truck	OSK	1.30%	47.26	45.76	-3.17%	-3.17%	3.19	8.08	0.54	2.44	0.90%
	Elbit Systems	ESLT	1.08%	59.56	63.06	5.88%	5.88%	2.66		1.43	5.16	1.10
	Drs Technologies	DRS	0.90%	54.27	53.62	-1.20%	-1.20%	2.25		0.74	1.41	0.20%
	Moog Inc.	MOGA	0.81%	45.81	46.04	0.50%	0.50%	2.01	15.07	1.19	2.15	
	Teledyne Technologies	TDY	0.74%	53.33	51.63	-3.19%	-3.19%	1.89	15.51	1.16	3.54	
	Sra International'a'	SRX	0.65%	29.45	27.43	-6.86%	-6.86%	1.57	19.54	1.19	2.41	
	DynCorp	DCP	0.48%	26.88	20.50	-23.74%	-23.74%	1.11	13.96	0.55	2.88	
	Esterline Technologies	ESL	0.56%	51.75	46.50	-10.14%	-10.14%	1.38		1.08	1.22	
	Mantech International'a'	MANT	0.57%	43.82	40.90	-6.66%	-6.66%	1.47	18.45	1.07	2.69	
	Orbital Sciences Corp	ORB	0.56%	24.52	23.30	-4.98%	-4.98%	1.41		1.37	3.20	
	AAR Corp	AIR	0.46%	38.03	29.56	-22.27%	-22.27%	1.15		0.94	2.10	
	Triumph Group	TGI	0.37%	82.35	54.00	-34.43%	-34.43%	0.90	10.82	0.84	1.36	0.30
	L-1 Identity Solutions	ID	0.42%	17.95	13.56	-24.46%	-24.46%	1.06		2.89	0.97	
	Caci Intl	CAI	0.54%	44.77	43.59	-2.64%	-2.64%	1.30	14.01	0.65	1.56	
	Ceradyne Inc	CRDN	0.54%	46.93	48.15	2.60%	2.60%	1.36		1.77	2.45	
	Cubic Corp	CUB	0.29%	39.20	27.56	-29.69%	-29.69%	0.75		0.83	1.92	0.70%
	Cogent Inc.	COGT	0.38%	11.15	9.86	-11.57%	-11.57%	0.96		7.41	1.82	
	Viasat Inc	VSAT	0.26%	34.43	20.77	-39.67%	-39.67%	0.65		1.18	1.66	
	TASER International Inc.	TASR	0.30%	14.39	11.49	-20.15%	-20.15%	0.73		8.16	6.30	
	Stanley Inc.	SXE	0.25%	32.02	27.88	-12.93%	-12.93%	0.59		1.24	4.16	
	Gencorp	GY	0.27%	11.66	11.74	0.69%	0.69%	0.68		0.89		
	Ladish Co	LDSH	0.21%	43.19	35.49	-17.83%	-17.83%	0.54		1.26	2.71	
	GeoEye	GEOY	0.25%	33.65	34.96	3.89%	3.89%	0.60		3.40	2.84	
	American Science & Engineering	ASEI	0.20%	56.75	53.16	-6.33%	-6.33%	0.50		2.80	2.73	
	AeroVironment	AVAV	0.19%	24.20	23.01	-4.92%	-4.92%	0.47		2.32	2.96	
	Osi Systems	OSIS	0.16%	26.47	23.33	-11.86%	-11.86%	0.40		0.73	1.63	
	Argon St	STST	0.16%	18.56	17.62	-5.06%	-5.06%	0.39		1.37	1.40	
	Ducommun	DCO	0.14%	38.00	31.69	-16.61%	-16.61%	0.33		0.92	1.60	
	Si International	SINT	0.15%	27.47	27.63	0.58%	0.58%	0.35		0.74	1.40	
	Mercury Computer Sys	MRCY	0.08%	16.11	8.30	-48.48%	-48.48%	0.18	18.50	0.82	1.06	
	MTC Technologies Inc.	MTCT	0.15%	23.50	23.59	0.38%	0.38%	0.36	19.88	0.83	1.91	
	Force Protection	FRPT	0.11%	4.68	4.10	-12.39%	-12.39%	0.32		0.55	1.14	
	Herley Industries	HRLY	0.07%	13.75	12.38	-9.96%	-9.96%	0.17		1.07	0.83	
	Applied Signal Technology	APSG	0.07%	13.58	13.36	-1.62%	-1.62%	0.16	17.92	0.97	1.44	3.70%
	Kvh Industries	KVHI	0.05%	8.06	7.63	-5.33%	-5.33%	0.12		1.46	1.42	