



Forthcoming in February

- Cowen & Co. Aerospace & Defense Investor Conference
- Release of the FY-2012 White House Budget

SPADE Defense Index Statistics

1/31/11 Close: 2258.69
 All-time Close: 2747.67
 Date of all-time close: 9 October 2007

Commentary

2011's Hottest Sector - Defense?

Although headwinds still exist (which should be resolved somewhat with the approval of the FY-2011 budget and release of the FY-2012 budget next week), the aerospace and defense sector has been showing significant strength over recent months.

Year-to-date, the SPADE Defense Index (which serves as the underlying index for the Powershares Aerospace & Defense ETF (NYSE: PPA), gained 6.17% through the end of January and has continued to rise in the first days of February. This is nearly 400 bases points better than the S&P500. The Index and the ETF remain significantly above their 20-, 50-, and 200-day moving averages and near its 52-week high.

January saw quarterly reports from Lockheed Martin (LMT), Raytheon (RTN), and United Technologies (UTX) that revealed sales and profits above forecasts. General Dynamics (GD) reported an increase in earnings and flat revenues. Boeing (BA), due to delays in several new aircraft programs, reported lower revenues and earnings, an action that was a negative to the stock price but an issue that will likely be rectified later this year. Meanwhile, many firms with exposure to the commercial aircraft sector, like Moog (MOGA) are increasing their outlook for 2011.

Though the sector has gained nicely over the past several months, coverage of the sector has been relatively quiet until recently. The turmoil in Tunisia and Egypt has put the focus back on the concept of a destabilized world. Fears that what is happening in Egypt could spread to nations such as Jordan, which would put Israel and the entire Middle East into play, are starting to gain attention. A suicide bomb in a Moscow airport killed 31 and there are reports that Wall Street was briefed last week concerning increasing chatter about an Al Qaeda attack on the financial district (nothing specific, just increasing chatter). Still, this put defense and security more front and center in the minds of investment professionals.

While defense budget specifics are still a wildcard, recent leaks indicate that the White House will propose a budget with a 1% gain in defense spending in FY-2012, 0.5% in FY-2013, and flat in FY-2014 and FY-2015 (pending the return of troops from Afghanistan and Iraq). Should this turn out to be true, then the defense sector as a whole will emerge large unscathed from the doom and gloom forecasts of some analysts.

Even so, individual program changes are likely to impact spe-

	SPADE Defense	S&P500
January	6.17%	2.26%
YTD	6.17%	2.26%

cific companies more than the sector as a whole. As the Pentagon shifts funding from existing troubled programs to new acquisitions, the sector will see winners and losers, making funds potentially more attractive to a number of investors.

Recent days have seen an noticeable uptick in the buy-side volume for the Powershares ETF (PPA). From an average of roughly 30k shares daily, the past several days have seen volumes of 70,000 - 100,000 shares.

As we have indicated in past letters, there are a number of positives for the sector -- whether you look at valuations, technicals, or fundamentals. As budget unknowns are resolved, the sector has started to soar.



PPA (blue) remains well above the 50-day moving average (red) as well as the 200-day level (green)

This 2 Year Chart shows the rebound from the market's 2009 low

Jan 2011 Top Gainers			Jan 2011 Laggards			YTD Top Gainers			YTD Laggards		
1	SRA International	30.46%	1	Elbit Systems	[4.35%]	1	SRA International	30.46%	1	Elbit Systems	[4.35%]
2	Integral Systems	23.01%	2	Booz Allen	[3.96%]	2	Integral Systems	23.01%	2	Booz Allen	[3.96%]
3	Esterline Tech	21.49%	3	Digital Globe	[3.15%]	3	Esterline Tech	21.49%	3	Digital Globe	[3.15%]
4	LMI Aerospace	17.14%	4	Mantech Int'l	[2.71%]	4	LMI Aerospace	17.14%	4	Mantech Int'l	[2.71%]
5	Lockheed Martin	13.86%	5	AAR Corp	[2.48%]	5	Lockheed Martin	13.86%	5	AAR Corp	[2.48%]
6	ITT Industries	13.07%	6	ViaSat	[2.27%]	6	ITT Industries	13.07%	6	ViaSat	[2.27%]
7	Ceradyne	12.37%	7	Gencorp	[0.77%]	7	Ceradyne	12.37%	7	Gencorp	[0.77%]
8	Textron	11.21%	8	Key W Holding	[0.68%]	8	Textron	11.21%	8	Key W Holding	[0.68%]
9	L-3 Communications	11.01%	9	Orbital Sciences	[0.41%]	9	L-3 Communications	11.01%	9	Orbital Sciences	[0.41%]
10	Rockwell Collins	10.15%	10	L-1 Identity	0.17%	10	Rockwell Collins	10.15%	10	L-1 Identity	0.17%

Largest Defense Prime Contractors

	January	2011
Lockheed Martin	13.86%	13.86%
Boeing	6.47%	6.47%
General Dynamics	6.26%	6.26%
Northrop Grumman	6.98%	6.98%
Raytheon	7.88%	7.88%

Selected Quarterly Reports

Boeing

Earned \$1.16B in the fourth quarter exceeding analysts expectations. Revenues fell to \$16.55B from \$17.94B. For 2011, the firm said higher pension costs and 787 delays will be a drag on profits.

General Dynamics

Higher profits in its aerospace unit boosted profit by 19%. Demand is on the rise for Gulfstream jets and the company should see double-digit growth.

Goodrich

Raised its outlook for 2011 and reported a 41% rise in earnings and 52% surge in sales.

Harris

Beat forecasts as revenues rose 7.8% and profits rose 18% led by its Government Communications Systems which reported a 20% gain in quarterly sales.

Honeywell

Improved demand helped boost its profit to \$369M up from \$150M.

ITT

Income gained 35% to \$269 M. The firm plans to split into three companies including a yet-to-be-named defense company.

Lockheed Martin

Profits dipped 1% amid lower margins on combat jets and its space business. Profit from continuing operations declined to \$829M from \$836M. The Pentagon's switch to fixed price contracts for the F-35 JSF fighter cut into profit margins. Sales increased 4.8% to \$12.8B.

Raytheon

Sales rose 3% with net income coming in at \$459M. Improved operating margins were due to a focus on productivity and cost efficiency.

Textron

Saw growing demand for helicopters and private airplanes as the company swung to a profit. For 2011, the firm forecast sharply higher earnings of \$1 - \$1.15 per share.

United Technologies

Profit increased by 11.7% as orders for commercial plane spare parts rose. Adjusted earnings beat Wall Street expectations.

**ETF Statistics (NYSEArca: PPA)
Powershares Aerospace & Defense**

Exchange / Ticker Symbol:	NYSE / PPA
Fee	60 basis
Assets (1/31/11)	\$117.2 M
Closing Price (1/31/11)	\$19.86
Yield (Distribution Yield)	1.14%
January 11 Volume	773,600
Turnover	17%

source: Yahoo Finance

Portfolio Price / Earnings	13.46
Portfolio Price / Book	2.35
Portfolio Price / Sales	0.78
Portfolio Price / Cash Flow	7.63
Earnings Growth Rate	10.26%
Return on Equity	23.51%

Yahoo Finance

Powershares Aerospace & Defense ETF (NYSE: PPA)

Modern Portfolio Theory (vs the S&P500)

Beta (3 month)	1.11
Alpha (3 month)	0.16
R-squared (3 month)	87.21

Year	SPADE	S&P500
2010	9.62%	12.78%
2009	21.71%	23.45%
2008	[38.03%]	[38.49%]
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%

News, Notes, Contracts

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.

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

Raytheon completed its acquisition of index constituent **Applied Signal Technology** (APSG) for \$490 Million

\$150 B in Savings: The Pentagon announced that its costs saving efforts identified savings of \$29B (Army), \$34B (Air Force), \$35B (Navy), \$2B (SOCOM)

\$19.0 B - China confirmed plans to purchase 185 Boeing 737s and 15 777s. Honeywell and Pratt & Whitney will also provide Air China with technical support to begin biofuel flights.

\$16 B - The Air Force opened bidding for the follow-on Raptor enhancement, development, and integration contract for upgrades to the Lockheed Martin F-22.

\$1.6 B - A follow-on contract to Boeing from the Navy for initial production versions of its P-08 Poseidon anti-submarine airplane, a militarized version of the 737.

\$475 M - Raytheon from Saudi Arabia for Paveway kits that create precision-guided bombs from dumb bombs.

Details: \$178 Billion in Pentagon spending shifts/cuts**Winners:**

The Navy: Will buy 41 more F/A-18 fighters from Boeing at a cost of over \$3B over the next three years. Each plane costs \$83 million. Northrop has a significant role in the fighter's airframe

Pentagon: Will buy more long-range interceptors for missile defense and advanced radar systems: Moves could benefit Raytheon and Lockheed.

Army: MC-12 unmanned planes built by L-3 Communications

The Air Force long-range, nuclear bomber: previously put on hold. Northrop, Boeing, and Lockheed likely to compete for design work.

Losers:

Marine Corps Expeditionary Fighting Vehicle: a landing craft designed to storm beaches designed by General Dynamics was cancelled.

Surface Launched Advanced Medium Range Air-to-Air Missile, supplied by Raytheon, was cancelled.

Lockheed F-35 JSF was delayed and production calling for 325 planes over the next five years, 124 less than previous plans as development is stretched out until early 2016.

Marine Corp version of the Lockheed F-35 JSF was placed on a two-year "probation" with Secretary Gates stating it could be canceled if no progress is made.

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Feb-11		57 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-Jan-11	31-Dec-10	31-Jan-11	YTD	MTD	intraday	(ttm)	ttm	mrq	expected	forward %
AAR Corp	AIR	0.47%	27.47	26.79	-2.48%	-2.48%	1.03	12.52	0.67	1.32	1.38	
Applied Signal Technology	APSG	0.43%	37.89	38.07	0.48%	0.48%	0.53	29.70	2.33	3.51	2.09	1.30%
American Science & Engineering	ASEI	0.35%	85.23	87.00	2.08%	2.08%	0.78	17.06	3.04	3.29	1.50	1.40%
Alliant Techsystems	ATK	1.12%	74.43	75.76	1.79%	1.79%	2.52	8.83	0.52	2.52	2.07	1.10%
AeroVironment	AVAV	0.27%	26.83	28.20	5.11%	5.11%	0.61	23.70	2.28	2.58	1.23	
Boeing Co	BA	6.94%	65.26	69.48	6.47%	6.47%	51.09	12.91	0.79	18.40	1.84	2.40%
Booz Allen & Hamilton	BAH	1.14%	19.43	18.66	-3.96%	-3.96%	2.35	16.81	0.45	3.52		
Ball Corp	BLL	2.78%	68.05	71.13	4.53%	4.53%	6.28	12.10	0.78	3.92	1.40	0.40%
Caci Intl	CACI	0.74%	53.80	55.49	3.14%	3.14%	1.68	12.93	0.52	1.40	1.10	
Comtech	CMTL	0.34%	27.76	28.06	1.08%	1.08%	0.77	19.35	0.94	1.11	0.43	3.60%
Rockwell Collins	COL	4.15%	58.23	64.14	10.15%	10.15%	10.10	13.97	2.12	6.80	1.68	1.50%
CPI International	CPII	0.14%	19.35	19.40	0.26%	0.26%	0.33		0.91	1.77	1.25	
Ceradyne Inc	CRDN	0.39%	31.53	35.43	12.37%	12.37%	0.88	20.96	2.19	1.35	4.45	
Computer Sciences	CSC	3.64%	49.60	53.29	7.44%	7.44%	8.23	9.32	0.50	1.16	1.23	1.50%
Cubic Corp	CUB	0.58%	47.15	48.75	3.39%	3.39%	1.30	17.47	1.09	2.66	2.10	0.40%
Ducommun	DCO	0.10%	21.78	21.96	0.83%	0.83%	0.23	10.07	0.56	0.92	0.92	1.40%
Digital Globe	DGI	0.63%	31.71	30.71	-3.15%	-3.15%	1.41	87.74	4.52	2.82	34.02	
EMS Tech	ELMG	0.12%	19.78	18.33	-7.33%	-7.33%	0.28	15.27	0.83	1.15	1.12	
Esterline Technologies	ESL	0.96%	58.59	71.18	21.49%	21.49%	2.16	14.07	1.40	1.51	1.36	
Elbit Systems	ESLT	0.96%	53.13	50.82	-4.35%	-4.35%	2.17	10.37	0.80	2.22	1.12	2.40%
Flir Systems	FLIR	2.18%	29.75	31.04	4.34%	4.34%	4.92	17.84	3.85	3.37	1.32	
Force Protection	FRPT	0.17%	5.51	5.54	0.54%	0.54%	0.39	14.58	0.53	1.23	2.74	
General Dynamics	GD	5.65%	70.96	75.40	6.26%	6.26%	28.05	9.92	0.85	2.07	1.43	2.30%
GeoEye	GEOY	0.39%	42.39	39.92	-5.83%	-5.83%	0.88	21.23	2.80	2.16	1.46	
Goodrich Corp	GR	3.90%	88.07	90.62	2.90%	2.90%	11.36	17.16	1.66	3.41	2.19	1.30%
Gencorp	GY	0.13%	5.17	5.13	-0.77%	-0.77%	0.30	17.10	0.34	----	----	
Honeywell Intl	HON	6.78%	53.16	56.01	5.36%	5.36%	43.70	14.86	1.33	4.18	1.24	2.20%
Harris Corp	HRS	2.64%	45.30	46.54	2.74%	2.74%	5.86	9.50	1.04	2.44	1.65	2.20%
L-1 Identity Solutions	ID	0.49%	11.91	11.93	0.17%	0.17%	1.12	298.25	1.73	1.52		
Integral Systems	ISYS	0.10%	9.91	12.19	23.01%	23.01%	0.21		1.18	1.81	2.64	
Itt Indus	ITT	4.27%	52.11	58.92	13.07%	13.07%	10.82	12.38	0.98	2.49	1.28	1.70%
KEY W Holding	KEYW	0.16%	14.67	14.57	-0.68%	-0.68%	0.37	37.36	3.99	2.77	1.26	
Kratos Defense & Security	KTOS	0.12%	13.17	14.02	6.45%	6.45%	0.26	24.6	0.71	1.56	0.41	
Ladish Co	LDSH	0.37%	48.62	53.54	10.12%	10.12%	0.84	28.18	2.17	3.43	3.66	
L-3 Communications Hldgs	LLL	3.92%	70.49	78.25	11.01%	11.01%	8.86	8.79	0.55	1.25	1.13	2.10%
LMI Aerospace	LMIA	0.10%	15.99	18.73	17.14%	17.14%	0.21	12.65	0.93	1.43	1.61	
Lockheed Martin	LMT	5.68%	69.91	79.60	13.86%	13.86%	28.67	9.79	0.61	7.19	1.47	3.80%
Mantech International'a'	MANT	0.65%	41.33	40.21	-2.71%	-2.71%	1.46	10.96	0.60	1.57	1.18	
Moog Inc.	MOGA	0.86%	39.80	42.64	7.14%	7.14%	1.94	13.62	0.90	1.71	1.42	
Mercury Computer Sys	MRCY	0.20%	18.38	18.88	2.72%	2.72%	0.44	22.21	2.03	2.26	2.30	
NCI Information Technology	NCIT	0.13%	22.99	21.00	-8.66%	-8.66%	0.29	11.41	0.53	1.98	0.89	
Northrop Grumman	NOC	4.54%	64.78	69.30	6.98%	6.98%	20.23	9.96	0.56	1.50	0.96	2.80%
Orbital Sciences Corp	ORB	0.44%	17.13	17.06	-0.41%	-0.41%	0.99	20.31	0.79	1.79	2.29	
Osi Systems	OSIS	0.31%	36.36	37.99	4.48%	4.48%	0.72	17.19	1.16	2.05	1.02	
Oshkosh Truck	OSK	1.52%	35.24	37.97	7.75%	7.75%	3.44	9.80	0.34	2.56	0.82	
Precision Castparts	PCP	4.33%	139.21	142.99	2.72%	2.72%	20.39	16.78	3.48	3.10	1.94	0.10%
Raytheon Co	RTN	4.65%	46.34	49.99	7.88%	7.88%	18.22	9.14	0.72	1.79	1.30	3.00%
SAIC	SAI	2.73%	15.86	16.57	4.48%	4.48%	6.16	11.67	0.55	2.46	1.35	
Sra International'a'	SRX	0.67%	20.45	26.68	30.46%	30.46%	1.52	17.10	0.91	1.93	1.33	
TASER International Inc.	TASR	0.12%	4.70	4.19	-10.85%	-10.85%	0.26	52.38	2.67	2.24		
Transdigm	TDG	1.70%	72.01	77.48	7.60%	7.60%	3.83	16.84	4.58	6.39	1.96	
Teledyne Technologies	TDY	0.76%	43.97	47.31	7.60%	7.60%	1.72	13.40	0.97	2.27	2.33	
Triumph Group	TGI	1.03%	89.41	96.03	7.40%	7.40%	2.32	12.62	1.24	1.61	3.12	0.20%