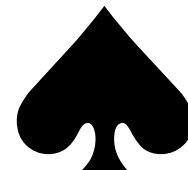


SPADE INVESTOR



July 2008

Defense * Homeland Security * Space

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Inside the July issue...

Due to overseas travel commitments that stretches from the end of June through the July 4th holiday until the middle of July, this issue will only include an interview given to homelanddefensestocks.com on June 27th along with historical data for June.

In August we will resume the newsletter with a full issue with what we learned by talking to companies at the Farnborough Air Show Trade Exhibition outside London, new commentary and insights on investing in the defense and homeland security sector in these market conditions, the financial market's perception of the sector, and any new statistics and information we've identified.

Scott Sacknoff

2Q08 Rebalance

The SPADE Defense Index rebalanced at the end of June. The only change to the index was the removal of MTC Technologies on 9 June 2008, after the company's acquisition by BAE Systems (London: BA) closed.

The DRS Technologies acquisition by Finmeccanica of Italy remains pending.

SPADE Defense Index Statistics

6/30/08 Close: 2120.42
All-time Close: 2747.67
Date of all-time close: 9 October 2007

	SPADE Defense	S&P500
June	[13.51%]	[8.60%]
2nd Quarter	[4.69%]	[3.23%]
Year to Date	[17.59%]	[12.83%]

The decline of 13.51% in June was the worst performing month in the history of the SPADE Defense Index.

June 27, 2008 Speech Prepared for HomelandDefenseStocks.com

The first half of the year has been filled with economic news that has led to broad market declines and the U.S. market remains in negative bear-market territory with declines of 20+%. What I'd like to address today is the overall state of the market, how the aerospace and defense has performed for the first half of the year, and the trends and factors that will influence how the sector performs in the second half.

As we chat today, there is significant downward pressure on the market with oil prices rising to all-time highs, reinvigorated concerns about the banking and housing markets, a recession in the U.S. and perhaps globally, and a declining dollar, although it has held steady in recent months vs. the euro and the pound. The past week has been one of the market's worst and some analysts are now saying the decline might continue through 2009 before the market rebounds. With all of this hanging over the head of investors, I thought it would be useful to address the current circumstance with regards to the defense sector.

Although defense and security is relatively independent of the economic issues currently affecting the broader market, it has for the most part moved in sympathy with the

markets downward this year.

Aerospace and defense stocks began the year in negative territory as investors sold the sector to raise cash and capture gains generated from the past several years. In April and May, the sector rebounded to gain more than 10% to pull it even with the broad market S&P500 index, although investors seemed less interested in the sector with their primary focus being on broader economic issues.

In June, and the past week, the market has taken a dramatic turn and aerospace companies have been significantly hard hit which I will address in a moment. From a defense perspective, the interesting thing is that there has been no real news. Although the \$40 billion Air Force tanker contract has been put back into play and several Air Force leaders have been replaced, the immediate impact of these events on stock prices is limited. The key drivers of the sector remain the defense budget and supplemental spending packages. In these two areas, there has been no real news as the budget for the next two quarters is a known and Congress is actively working on the next budget and supplemental spending packages to fund defense activities around the globe and to reset military capabilities.

As the defense sector enters a period of questions related to a slower rate of government budget growth and a new presidential

administration, reduced interest in the sector was inevitable although many opportunities remain. We have chatted with some savvy investors who saw the declines earlier this year and recognized that the positive trends that have driven the sector higher these past several years haven't changed, so they deduced that the market oversold the sector and, in April and May, they were rewarded with better than 10% gains.

Now in June, we see the Index and the sector dropping to similar recent lows amid concerns about the effect that oil prices and a recession will have on companies with exposure to commercial aerospace. Boeing (NYSE: BA) is at a 30-month low after Goldman Sachs downgraded the company to a sell and yesterday companies like United Technologies (NYSE: UTX) and Honeywell (NYSE: HON) dropped roughly 5%, volatility uncommon in large-cap diversified industrial firms. [Note: June's decline of 13.51% in the SPADE Defense Index was the worst performing month in the past ten years.]

In downgrading Boeing, the Goldman Sachs' note essentially said that higher oil prices would lead to poor finances for aircraft operators who will then delay ordering new planes or deferring existing orders. Likely all true, but the question we need to ask is, how much does this really matter? The counter-argument being the following. First, that new orders at this time are not critical as

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June 2008 Top Gainers

1	Stanley	6.21%
2	SAIC	4.42%
3	GeoEye	3.87%
4	FLIR Systems	2.92%
5	Argon ST	2.73%
6	AeroVironment	2.26%
7	American Sci & Eng	0.61%
8	DRS Technologies	[0.08%]
9	ITT	[4.05%]
10	Mantech	[4.58%]

June 2008 Laggards

1	Oshkosh Trucks	[48.80%]
2	Ladish	[36.67%]
3	AAR	[29.82%]
4	Taser	[29.02%]
5	Ducommun	[27.50%]
6	Goodrich	[26.77%]
7	Triumph Group	[24.26%]
8	Textron	[23.37%]
9	Harris Corp.	[23.24%]
10	Rockwell Collins	[21.85%]

YTD Top Gainers

1	DRS Technologies	45.05%
2	Argon ST	33.62%
3	FLIR	29.62%
4	Trimble Navigation	18.06%
5	AeroVironment	12.31%
6	Mantech	9.81%
7	Ball Corp.	6.09%
8	Stanley	4.68%
9	SAIC	3.43%
10	CACI	2.23%

YTD Laggards

1	Taser	[65.32%]
2	AAR	[64.42%]
3	Oshkosh Truck	[56.22%]
4	Garmin	[55.84%]
5	Mercurv	[53.26%]
6	Ladish	[52.33%]
7	GeoEye	[47.37%]
8	DynCorp	[43.64%]
9	Cubic Corp.	[43.16%]
10	Triumph Group	[42.82%]

Index and Industry Statistics

ETF Statistics (AMEX: PPA)
Powershares Aerospace & Defense
 Exchange / Ticker Symbol: AMEX / PPA
 Fee 60 basis
 Assets (6/30/08) \$ 218 M
 Closing Price (6/30/08) \$18.66
 June 08 Volume 2,155,700

Powershares Aerospace & Defense ETF(PPA)
 Average Portfolio Market Cap* \$14.04 Billion
 Portfolio P/E* 14.51
 Portfolio P/S* 1.04
 Portfolio P/B* 2.53
 Portfolio P/Cash Flow* 10.58
 Earnings Growth Rate (ttm)* 13.11%
 3 month Avg Daily Trading Volume** 87,881
 Turnover 13%
source: Yahoo! Finance, [30 June 08 data] - [** 24 June 08]*

SPADE Defense Index				
	2007	2006	2005	2004
June	0.63%	[1.04%]	1.34%	3.41%
July	0.60%	[0.12%]	3.62%	[2.35%]
August	3.14%	0.27%	0.46%	0.60%
Sept	6.35%	3.65%	0.33%	4.65%

S&P 500				
	2007	2006	2005	2004
June	[1.78%]	0.01%	[0.01%]	[1.68%]
July	[3.20%]	0.51%	3.60%	1.21%
August	1.29%	2.13%	[1.12%]	[1.41%]

Alpha Return of SPADE (vs S&P500)				
	2007	2006	2005	2004
June	241 bps	[105] bps	135 bps	509 bps
July	380 bps	[63] bps	2 bps	[356] bps
August	185 bps	[190] bps	158 bps	201 bps
Sept	278 bps	119 bps	[36] bps	553 bps

Largest Defense Prime Contractors

	June	YTD
Lockheed Martin	[7.63%]	[3.96%]
Boeing	[20.60%]	[24.86%]
General Dynamics	[8.63%]	[5.38%]
Northrop Grumman	[11.34%]	[14.93%]
Raytheon	[11.87%]	[7.28%]

Boeing and its suppliers have a full backlog for the next several years. While Wall Street typically looks toward the next quarter's performance or the one beyond that, Boeing is taking orders for deliveries in the middle of the next decade. While delivery schedules to specific companies will undoubtedly change and some orders will be cancelled, with a multi-year backlog it is likely that the true impact won't be known for several years and a recovery could happen in advance of when the impact would be felt. Right now, we are just dealing with speculation.

Secondly, healthy airlines will want to upgrade to the newer, more fuel efficient planes which are designed to save them substantial money in operations. Many airlines are already upgrading from the MD-80 for just this reason.

And third, once the new 787 completes testing and enters the delivery phase, R&D costs will drop substantially improving the firm's cash flow and earnings.

Since I can't envision the air travel industry disappearing even as oil prices

rise, a rebound in commercial aerospace is likely even if the timing is not known. And this presents an opportunity for those that time it right.

Getting back to the performance of the overall sector, the volatility in the broader market definitely has parallels in the defense sector. Through May, there were a number of companies that had gained better than 30% whereas the worst performers in the industry were down more than 50%. The large defense companies had essentially been neutral with Lockheed Martin, Raytheon, General Dynamics, and Northrop Grumman all relatively flat for the year through May. This is something we all should have expected given the likelihood that the sector will be shifting from a wartime spending pattern to one focused on recapitalization and investment.

Shifting from the trends to a technical analysis of the sector, looking at the past four years, we noticed something interesting. In particular three trends. June is a good harbinger of what to expect in the market. Gains and losses in June were followed by the same in July and August. Although I must

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Year	SPADE	S&P500
YTD	[17.59%]	[12.83%]
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%

Quarter	SPADE	S&P500
1Q08	[13.53%]	[9.92%]
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%

point out that the markets had been relatively flat in each year. Secondly, the defense sector had a negative correlation with the market in each of the four years. If the S&P went down, the SPADE Defense Index was up. And third, in three of the four years, the sector was positive in advance of the end-of-budget-year contracts awarded in September. In all four years, even summertime declines in the defense sector became positive returns by the end of September.

Of course, as they say, past performance is not indicative of future gains but I did find it interesting that the pattern was consistent over the prior four years time-period. Although if time permits, I'm sure it'd be interesting to do further research into prior years and see how far back this trend goes. That said, although the summer months in the past years were relatively quiet and the start of summer 2008 has been anything but, this recent history bears consideration.

Which brings us lastly to the second half of the year. The market looks like it will remain volatile so buying on the dips and selling when the market seems comfortable, is being touted by analysts.

For the defense sector, the biggest drivers and obstacles to the sector's growth have not really changed. Any world situation requiring a new military engagement or a risk to security would provide a positive bump. Comments from the Obama campaign signaling funding stability or growth for defense activities after an Iraq pullback or a vice-presidential choice with a strong defense background would also likely provide a bump. And based on comments from defense executives, I'd expect many of them to continue to report strong quarterly results.

Key obstacles remain the political rhetoric between the White House and Congress as well as that said on the campaign trail regarding the budget and future spending. *Although this affects the mentality of investors, it does not always affect the revenues and earnings of companies.* Analyst comments like the recent downgrade of Boeing and the commercial aerospace sector can have a great impact but I believe that these currently reflect concerns that likely will not impact the short-term bottom lines.

Overall, I believe that the sector encompassing defense, homeland security, and commercial aerospace still has a number of positive drivers that have yet to play out. Considering the current economic climate and market volatility, the sector should definitely be part of one's portfolio diversification options. And it wouldn't surprise me at all if the SPADE Defense Index, as well as the Powershares Aerospace & Defense ETF (AMEX: PPA) that tracks the Index, rebounds to outperform the S&P500 for a ninth consecutive year.

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 ticker.

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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Jul-08		SPADEF Defense Index							Market	Forward	Price/	Price/	PEG	
Company	Ticker	Float %	Price	Price	% Ch	% Ch	Cap	P/E	Sales	Book		5 yr	Div Yld	
			31-May-08	30-Jun-08	YTD	MTD	intraday	(ttm)	ttm	mrq	expected		forward %	
Lockheed Martin	LMT	7.26%	109.44	101.09	-3.96%	-7.63%	40.44	12.51	0.95	4.34	1.16	1.70%		
Boeing Co	BA	7.21%	82.77	65.72	-24.86%	-20.60%	49.39	9.86	0.77	5.67	0.85	2.30%		
Honeywell Intl	HON	7.37%	59.62	50.28	-18.34%	-15.67%	37.28	12.10	1.04	3.84	1.19	2.20%		
United Technologies	UTX	7.14%	71.04	61.70	-19.39%	-13.15%	60.05	11.83	1.11	2.89	1.12	2.00%		
Genl Dynamics	GD	6.64%	92.15	84.20	-5.38%	-8.63%	33.55	12.70	1.17	2.78	1.46	1.70%		
Raytheon Co	RTN	4.71%	63.86	56.28	-7.28%	-11.87%	23.80	12.79	1.11	1.91	1.12	2.00%		
Northrop Grumman	NOC	4.53%	75.46	66.90	-14.93%	-11.34%	22.88	10.66	0.69	1.26	0.98	2.40%		
Itt Indus	ITT	4.18%	66.00	63.33	-4.10%	-4.05%	11.50	13.70	1.17	2.71	1.13	1.10%		
Textron	TXT	4.10%	62.55	47.93	-32.78%	-23.37%	11.95	9.27	0.73	2.79	0.77	2.20%		
L-3 Communications Hldgs	LLL	4.03%	107.39	90.87	-14.23%	-15.38%	11.14	12.41	0.80	1.91	1.26	1.30%		
Precision Castparts	PCP	3.87%	120.80	96.37	-30.52%	-20.22%	13.39	10.74	2.10	3.56	0.74	0.10%		
Garmin Ltd	GRMN	3.76%	48.65	42.84	-55.84%	-11.94%	9.24	11.02	3.00	4.04	0.77	1.70%		
SAIC	SAI	3.45%	19.93	20.81	3.43%	4.42%	8.58	16.13	0.82	4.23	1.30			
Rockwell Collins	COL	3.14%	61.37	47.96	-33.36%	-21.85%	7.71	10.84	1.60	4.79	0.76	2.10%		
Computer Sciences	CSC	2.88%	49.15	46.84	-5.32%	-4.70%	7.43	10.14	0.42	1.27	0.94			
Harris Corp	HRS	2.77%	65.78	50.49	-19.45%	-23.24%	6.80	12.29	1.33	3.07	0.79	1.20%		
Goodrich Corp	GR	2.42%	64.81	47.46	-32.79%	-26.77%	5.94	8.79	0.81	1.94	0.61	2.10%		
Flir Systems	FLIR	2.27%	39.42	40.57	29.62%	2.92%	5.57	28.21	6.97	8.75	1.75			
Ball Corp	BLL	1.90%	54.30	47.74	6.09%	-12.08%	4.67	11.72	0.65	3.38	1.19	0.80%		
Trimble Navigation Ltd	TRMB	1.76%	39.84	35.70	18.06%	-10.39%	4.33	18.62	3.06	3.41	1.17			
URS Corporation	URS	1.44%	47.81	41.97	-22.75%	-12.22%	3.55	14.48	0.54	1.00	1.20			
Alliant Techsystems	ATK	1.36%	108.56	101.68	-10.62%	-6.34%	3.33	11.96	0.76	4.27	1.45			
Drs Technologies	DRS	1.33%	78.78	78.72	45.05%	-0.08%	3.26	17.23	0.98	1.91	1.47	0.20%		
Elbit Systems	ESLT	1.01%	62.66	59.00	-0.94%	-5.84%	2.49	15.87	1.07	4.20	1.95	1.40%		
Teledyne Technologies	TDY	0.70%	55.68	48.79	-8.51%	-12.37%	1.73	16.16	1.11	3.31	1.21			
Mantech International'a'	MANT	0.68%	50.43	48.12	9.81%	-4.58%	1.67	19.42	1.12	3.05	1.45			
Moog Inc.	MOGA	0.65%	45.34	37.24	-18.71%	-17.87%	1.59	13.46	1.00	1.87	1.06			
Oshkosh Truck	OSK	0.63%	40.41	20.69	-56.22%	-48.80%	1.54	5.66	0.20	0.87	0.25	2.20%		
Esterline Technologies	ESL	0.59%	61.93	49.26	-4.81%	-20.46%	1.45	12.55	1.00	1.25	0.54			
Caci Intl	CAI	0.56%	50.97	45.77	2.23%	-10.20%	1.37	14.47	0.57	1.47	1.04			
Orbital Sciences Corp	ORB	0.56%	25.96	23.56	-3.92%	-9.24%	1.38	23.87	1.27	3.36	1.61			
Sra International'a'	SRX	0.53%	23.58	22.46	-23.74%	-4.75%	1.29	16.26	0.86	1.81	1.13			
L-1 Identity Solutions	ID	0.42%	15.84	13.32	-25.79%	-15.91%	1.03	39.80	2.38	0.93	5.09			
Cogent Inc.	COGT	0.41%	11.97	11.37	1.97%	-5.01%	1.08	18.33	8.93	1.84	1.27			
Ceradyne Inc	CRDN	0.37%	43.13	34.30	-26.91%	-20.47%	0.91	8.33	1.41	1.79	1.67			
DynCorp	DCP	0.35%	17.09	15.15	-43.64%	-11.35%	0.86	10.66	0.40	2.02	1.05			
Triumph Group	TGI	0.32%	62.19	47.10	-42.81%	-24.26%	0.76	7.98	0.62	1.02	7.98	0.40%		
Stanley Inc.	SXE	0.31%	31.56	33.52	4.68%	6.21%	0.75	20.56	1.21	4.37	1.40			
Viasat Inc	VSAT	0.25%	21.54	20.21	-41.30%	-6.17%	0.64	12.59	1.20	1.71	0.89			
Cubic Corp	CUB	0.24%	25.28	22.28	-43.16%	-11.87%	0.59	14.78	0.81	1.78	1.79	0.70%		
AeroVironment	AVAV	0.22%	26.58	27.18	12.31%	2.26%	0.55	23.33	2.96	3.76	1.22			
AAR Corp	AIR	0.21%	19.28	13.53	-64.42%	-29.82%	0.53	7.25	0.44	1.04	0.39			
Argon St	STST	0.21%	24.14	24.80	33.62%	2.73%	0.53	22.19	1.66	1.91	1.34			
Gencorp	GY	0.18%	8.32	7.16	-38.59%	-13.94%	0.40	11.65	0.58					
American Science & Engineering	ASEI	0.18%	51.22	51.53	-9.20%	0.61%	0.45	17.48	2.81	2.88	1.03	1.50%		
Osi Systems	OSIS	0.15%	25.21	21.42	-19.08%	-15.03%	0.38	18.35	0.62	1.39	1.32			
TASER International Inc.	TASR	0.13%	7.03	4.99	-65.32%	-29.02%	0.31	17.69	3.24	2.89	1.33			
GeoEye	GEOY	0.13%	17.05	17.71	-47.37%	3.87%	0.32	45.42	1.88	1.56	2.28			
Ladish Co	LDSH	0.12%	32.51	20.59	-52.33%	-36.67%	0.30	7.90	0.69	1.46	1.06			
Si International	SINT	0.11%	24.50	20.94	-23.77%	-14.53%	0.28	13.73	0.55	1.10	1.07			
Ducommun	DCO	0.10%	31.67	22.96	-39.58%	-27.50%	0.24	12.20	0.75	1.30	0.85			
Applied Signal Technology	APSG	0.07%	15.47	13.66	0.59%	-11.70%	0.17	20.27	1.08	1.57	1.20	3.40%		
Mercury Computer Sys	MRCY	0.07%	8.87	7.53	-53.26%	-15.11%	0.17		0.83	1.04				

Data Provided by Yahoo Finance & Capital IQ, and Forward P/E by Thompson

Mkt Cap is an estimate based on prices for Jun 30