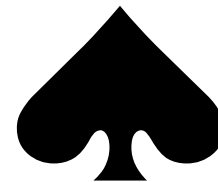


SPADE INVESTOR



October 2009

Defense * Homeland Security * Space

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Commentary

Defense stocks continue to exhibit signs of strength highlighted by the recent 10% increase in its dividend by Lockheed Martin (NYSE: LMT) and an upgrade of General Dynamics (NYSE: GD) by Morgan Stanley. Since the March lows in the market, the SPADE Defense Index has exhibited remarkable consistency, gaining between 4% and 12% in six of the last seven months (the only exception being a 0.85% decline in June). Overall, the sector rose more than 16% in the third-quarter and with recent gains is putting itself in position to challenge the S&P 500 and outperform it for the 10th consecutive year.

Actions anticipated for the final quarter of the year have started to come to fruition and should drive the sector over the coming months. Recent news has indicated that future budgets should be in line with analyst expectations and leaks about the QDR (quadrennial defense review) regarding the future direction of the Defense Department have not revealed any surprises. Additionally, DoD released a new request for proposal for the \$35 billion aerial tanker program and President Obama has reiterated, vigorously, his support for ongoing and expanded activity in Afghanistan. The final quarter should also see a number of new defense contracts let and the first test flight of Boeing's 787, which will likely provide a substantial boost to the share prices of a number of suppliers to the program.

Most importantly is the growing realization among sector analysts that the near-term budget for defense will remain relatively steady and not see the dramatic declines exhibited after prior defense spending peaks. With defense compa-

nies much better prepared to handle this type of budget environment, many companies in the sector continue to see top line and bottom line growth while maintaining healthy margins; having expanded and diversified their operations over the past several years and built up their cash reserves.

Investors for the most part have been divided equally into two camps -- those that exited the sector waiting to see how the companies would fare under a new budget environment and who are looking for a new entry point and those that have stayed the course and maintained shares as part of a diversified portfolio; happy with returns that have consistently tracked or bested the broader market and anticipating the next uptick.

One thing investors in this second group have on their side is that the sector has tracked the market this year even while the five major defense companies have all underperformed the sector benchmark. Both Raytheon (NYSE: RTN) and Lockheed Martin remain negative for the year with Northrop Grumman (NYSE:NOC) and General Dynamics positive but underperforming. Only Boeing (NYSE: BA), whose share price has swung wildly in 2009 on various news items after a significant downturn in 2008, is ahead of the market. With mid-cap defense companies leading the gains so far, a rebound in the U.S. economy will have an impact on several of the largest aerospace suppliers and news, such as the 787 test flight, will provide additional attention on the sector.

The Powershares Aerospace & Defense ETF (NYSE: PPA) continues to be the option of choice of many investors looking for a diversi-

SPADE Defense Index Statistics

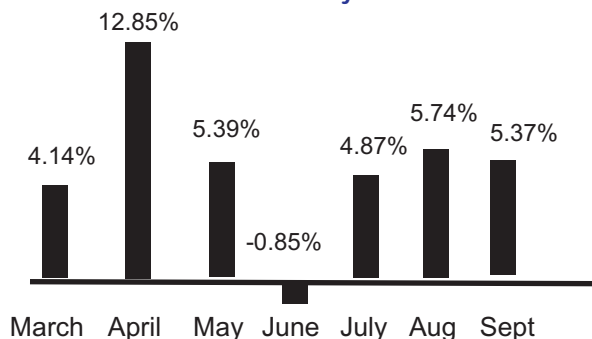
9/30/09 Close: 1842.31
 All-time Close: 2747.67
 Date of all-time close: 9 October 2007

	SPADE Defense	S&P500
September	5.44%	3.57%
3Q09	16.36%	14.98%
YTD	15.54%	17.03%

fied way to play the sector or who are unsure how upcoming news will impact individual companies and want to hedge their investments in an individual company. In addition, recent conversations with several money managers have indicated that they have been using the ETF recently for end-of-the-year tax purposes while staying exposed to the sector (ex. selling Lockheed Martin, for example, and capturing the decline over the past year but buying the ETF to stay exposed).

Even in market conditions such as today, and looking back at its history of performance over the past twelve years, the defense sector at roughly 5% of U.S. GDP should be considered as a core element to any diversified U.S. equity portfolio. With fundamentals (P/E, P/S, PEG) remaining strong and the technicals showing the sector steadily above its 200-day moving average, the underlying data relied on by many professional investors continues to indicate that a movement upward is not out of the question. The run for 10 (consecutive years outperforming the market) is entering into the final quarter.

SPADE Defense Index: Monthly Performance



Analyst Comments

"Mr. Gates' reordering of the Pentagon budget has improved the fortunes of many smaller defense companies, which account for many of the department's nuts-and-bolts technologies, as well as weapon systems used on the ground in Afghanistan and Iraq. Smaller companies focused on a narrower range of products can often react more quickly than the industry's giants, in part because they tend to be less bureaucratic...nimble small contractors are beating out their larger counterparts as the military spending strategy shifts to getting basic arms deployed quickly."
Wall Street Journal 9/22/09

"[...the company must deliver on big, existing contracts, while being responsive to the Pentagon's urgent needs.] Business agility is one of our keys for the future - Dennis Muilenberg, head, Boeing defense unit. *Wall Street Journal 9/22/09*

September 2009 Top Gainers

1	AAR Corporation	28.98%
2	Esterline Tech.	26.81%
3	Textron	23.57%
4	FLIR Systems	21.50%
5	Garmin	14.82%
6	VSE Corporation	13.70%
7	Precision Castparts	11.60%
8	Digital Globe	11.52%
9	Cubic Corp.	11.12%
10	EMS Technologies	11.10%

September 2009 Laggards

1	Mantech Int'l	[10.86%]
2	Applied Signal Tech.	[9.03%]
3	Oshkosh Truck	[7.95%]
4	Trimble Navigation	[6.09%]
5	SAIC	[5.14%]
6	Argon ST	[4.65%]
7	Cogent	[3.81%]
8	Comtech	[2.61%]
9	L-1 Identity	[2.51%]
10	NCI Information	[2.35%]

YTD 2009 Top Gainers

1	Oshkosh Truck	247.92%
2	Garmin Ltd	96.87%
3	Precision Castparts	71.27%
4	Mercury Computer	56.26%
5	Computer Sciences	50.00%
6	Goodrich Corp.	46.79%
7	Elbit Systems	46.62%
8	Cubic Corp	45.11%
9	GeoEye	39.37%
10	Textron	36.84%

YTD 2009 Laggards

1	Integral Systems	[42.74%]
2	Comtech	[27.50%]
3	Cogent	[25.57%]
4	Stanley	[24.82%]
5	AeroVironment	[23.69%]
6	Orbital Sciences	[23.35%]
7	EMS Technologies	[19.52%]
8	Moog	[19.33%]
9	Teledyne Tech.	[19.21%]
10	Mantech Int'l	[13.08%]

Largest Defense Prime Contractors

	September	2009
Lockheed Martin	4.13%	[7.14%]
Boeing	9.02%	26.90%
General Dynamics	9.14%	12.17%
Northrop Grumman	6.02%	14.90%
Raytheon	1.67%	[6.01%]

Year	SPADE	S&P500
09YTD	15.54%	17.03%
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%

ETF Statistics (NYSEarca: PPA)
Powershares Aerospace & Defense

Exchange / Ticker Symbol: NYSE / PPA
 Fee: 60 basis
 Assets (9/30/09): \$ 128.8 M
 Closing Price (9/30/09): \$16.30
 Yield (SEC 30-day yield)*: 1.12%
 September 09 Volume: 1,227,500
 3 month Avg Daily Trading Volume: 56,944
 Turnover: 9%

source: Yahoo Finance

Avg. Market Cap.	8.77 B
Portfolio P/E	11.74
Portfolio P/S	0.62
Portfolio P/B	2.17
Portfolio P/Cash Flow	6.09
Earnings Growth Rate (ttm)	11.69%

source: Yahoo! Finance (8/31/09)

Powershares Aerospace & Defense ETF (NYSE: PPA)

Modern Portfolio Theory (vs the S&P500)

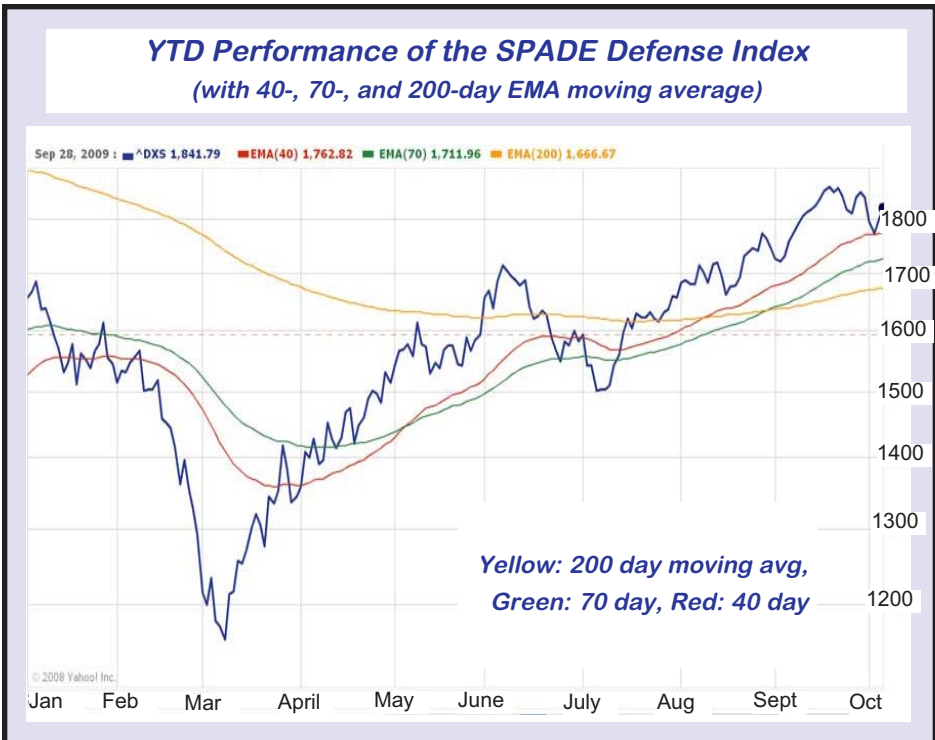
Beta (3 month): 1.12
 Alpha (3 month): 5.60
 R-squared (3 month): 84.88

source: Yahoo! Finance (6/30/09)

Lockheed Martin boosted its dividend by 10.5% to 63 cents.

The firm also increased its repurchase of common stock by an additional 20 million shares.

Morgan Stanley upgraded General Dynamics.



About

The SPADE Defense Index (NYSEarca: 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

Licensed to Powershares, their 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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Contracts

\$662 Million - Boeing from the United Kingdom's MOD to upgrade its Chinook helicopter fleet with new avionics and Honeywell engines.

\$24.5 Million - CACI to provide airborne intelligence, surveillance and reconnaissance ground station support to the U.S. Army under a base year plus two option years contract. The deal will increase the scope of its business in this area.

FY-2010 Budget

The Senate Appropriates Committee on September 10th approved a \$636.3 billion defense budget for fiscal 2010 including \$128.2 billion for Iraq and Afghanistan.

As part of the budget the Senate SAC voted to kill five of the six big weapons programs that the White House wanted cancelled. If approved, the budget will eliminate funding for additional F-22 jet aircraft, the combat search and rescue helicopter, the presidential helicopter, the Kinetic Energy Interceptor, and a second engine for the Joint Strike Fighter. All these cuts had been forecast by analysts.

The Senate did however propose to add \$2.5 billion to buy 10 additional C-17 cargo aircraft. (The House proposed adding three earlier in the month).

Additions/Spending Increases:

\$1.7 billion - Navy to buy a second DDG-51 destroyer.

\$1.5 billion - Additional equipment for the National Guard and service reserves

\$512 million - Nine F/A-18 Super Hornet jets in addition to the nine the administration proposed to buy for \$1 billion.

\$1.2 billion - For 5,244 Mine Resistant Ambush Protected Vehicles (MRAP) vehicles that war commanders indicated they needed.

Defense News, 14 September 2009, page 22

News & Notes

Trouble in the Arctic

The Danish Defense Intelligence Agency, in a new 52-page report, stated that oil and gas reserves in the Arctic region along with increased shipping traffic (as global warming eases routes) could lead to military and diplomatic conflicts in the region.

The Tanker Competition

The Air Force stated that the KC-X tanker will be a best value competition to be awarded in the summer of 2010, with a fixed price contract for 179 "flying gas stations" worth an estimated \$35 billion. Proposals will need to meet a key group of requirements for the smallest price tag. The RFP contained 373 mandatory system requirements and 93 other items. For those interested in this continuing saga, the 28 September 2009 issue of *Defense News* has two good articles on the subject matter.

Rising IED Threat: U.S. troops in Afghanistan are seeing a rising use of improvised explosive devices - almost 4 1/2 times that of two years ago. Preliminary data shows there were 969 IED incident in August 2009 vs. 386 in August 2008 and 217 in August 2007.

Employment Strength -- Aerospace employment will shrink by an estimated 4.5%, according to the AIA, predicting that some 30,000 jobs will be lost in 2009 with further losses in 2010. This compares with payrolls that were cut by more than 40% after the end of the Cold War and an overall jobs market where unemployment is approaching 10%.

13% Jump in Arms Sales - France issued a report to its parliament that its international sales rose with a boost in orders for helicopters and aerial tankers. It ranks 4th, behind Russia and ahead of Israel. The U.S. has a 52.3% market share.

Defense News 9/28

Quadrennial Defense Review

The Marines are stating that amphibious assault capabilities are critical to its mission especially the development of the \$14 billion Expeditionary Fighting Vehicle.

The Air Force is seeking to cut about \$24.2 billion (~3.8%) from its current \$632 billion 5-year plan. Top protected programs are the Lockheed Martin F-35, Textron and Boeing's V-22 Osprey tilt-rotor aircraft, and the new aerial refueling tanker. Proposed savings include \$1.8B from the Joint Tactical Radio program, \$641M by cancelling a new Northrop Grumman engine for the E-8 Jstars aircraft, \$407M by curtailing the Boeing Small Diameter Bomb, \$292M by cutting the Block 40 Global Hawk drones that Northrop Grumman is building from 22 to 8, and \$1.6 billion by ending the WGS communications satellite system after a constellation of six already on contract with Boeing is built.

Defense News

Oct-09		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-Aug-09	30-Sep-09	YTD	MTD	intraday	(ttm)	ttm	mrq	expected	forward %
Boeing Co	BA	6.88%	49.67	54.15	26.90%	9.02%	36.34	11.79	0.59	201.98	2.60	3.30%
Lockheed Martin	LMT	6.49%	74.98	78.08	-7.14%	4.13%	29.27	9.40	0.68	10.38	0.97	3.20%
United Technologies	UTX	6.48%	59.36	60.93	13.68%	2.64%	56.47	13.42	1.04	3.25	1.88	2.50%
Honeywell Intl	HON	6.04%	36.76	37.15	13.16%	1.06%	27.37	13.00	0.83	3.23	1.57	3.30%
General Dynamics	GD	5.38%	59.19	64.60	12.17%	9.14%	24.32	9.76	0.78	2.21	1.28	2.40%
Precision Castparts	PCP	4.49%	91.28	101.87	71.27%	11.60%	13.95	13.04	2.18	2.67	1.21	0.10%
Northrop Grumman	NOC	4.49%	48.81	51.75	14.90%	6.02%	15.93	9.07	0.46	1.31	0.86	3.30%
Raytheon Co	RTN	4.46%	47.18	47.97	-6.01%	1.67%	18.17	9.22	0.75	1.91	0.91	2.60%
Rockwell Collins	COL	4.02%	46.04	50.80	29.96%	10.34%	7.72	14.04	1.70	4.46	0.97	1.90%
Computer Sciences	CSC	4.01%	48.85	52.71	50.00%	7.90%	7.80	10.06	0.48	1.30	1.22	
L-3 Communications Hldgs	LLL	4.00%	74.40	80.32	8.86%	7.96%	9.07	9.73	0.60	1.48	0.94	1.70%
Itt Indus	ITT	3.98%	50.08	52.15	13.39%	4.13%	9.09	13.18	0.81	2.63	2.14	1.60%
Garmin Ltd	GRMN	3.79%	32.87	37.74	96.87%	14.82%	7.32	15.27	2.39	2.93	1.35	2.00%
SAIC	SAI	3.50%	18.49	17.54	-9.96%	-5.14%	6.94	12.47	0.66	3.22	1.10	
Goodrich Corp	GR	3.38%	55.16	54.34	46.79%	-1.49%	6.60	11.55	0.96	2.49	1.27	1.80%
Textron	TXT	2.57%	15.36	18.98	36.84%	23.57%	4.90	21.87	0.40	1.68		0.40%
Harris Corp	HRS	2.47%	34.73	37.60	-1.18%	8.26%	4.74	9.82	0.95	2.54	1.31	2.30%
Ball Corp	BLL	2.32%	48.46	49.20	18.30%	1.53%	4.62	11.51	0.64	3.53	1.64	0.80%
Flir Systems	FLIR	2.12%	23.02	27.97	-8.83%	21.50%	4.05	17.70	3.59	3.89	1.03	
URS Corporation	URS	1.85%	43.23	43.65	7.06%	0.97%	3.62	13.13	0.36	0.92	1.34	
Trimble Navigation Ltd	TRMB	1.44%	25.46	23.91	10.64%	-6.09%	2.74	17.48	2.33	2.28	1.21	
Ebit Systems	ESLT	1.44%	65.67	68.15	46.62%	3.78%	2.86	11.90		3.89		2.13%
Oshkosh Truck	OSK	1.39%	33.60	30.93	247.92%	-7.95%	2.24	10.24	0.38	23.04		
Alliant Techsystems	ATK	1.29%	77.28	77.85	-9.22%	0.74%	2.52	8.48	0.54	3.35	0.87	
Mantech International'a'	MANT	0.84%	52.84	47.10	-13.08%	-10.86%	1.68	14.14	0.86	2.27	14.14	
Caci Intl	CACI	0.71%	45.96	47.27	4.83%	2.85%	1.39	12.62	0.51	1.40	1.06	
Moog Inc.	MOGA	0.67%	28.98	29.50	-19.33%	1.79%	1.24	12.31	0.67	1.17	1.64	
Teledyne Technologies	TDY	0.65%	33.76	35.99	-19.21%	6.61%	1.26	11.23	0.68	2.24	1.03	
Sra International'a'	SRX	0.61%	19.87	21.59	25.16%	8.66%	1.20	15.71	0.78	1.60	1.35	
Esterline Technologies	ESL	0.59%	30.92	39.21	3.48%	26.81%	1.13	11.04	0.79	0.91	0.64	
Cubic Corp	CUB	0.53%	35.52	39.47	45.11%	11.12%	1.04	16.64	1.07	2.44	1.17	0.50%
DynCorp	DCP	0.51%	17.18	18.00	18.66%	4.77%	0.99	9.82	0.31	1.91	0.91	
Digital Globe	DGI	0.50%	20.06	22.37	-2.74%	11.52%	0.96	24.8	3.47	2.14	1.60	
Comtech	CMTL	0.47%	34.11	33.22	-27.50%	-2.61%	0.93	14.30	1.59	1.42	0.63	
Cogent Inc.	COGT	0.45%	10.50	10.10	-25.57%	-3.81%	0.89	18.68	6.44	1.64	1.67	
AAR Corp	AIR	0.43%	17.01	21.94	19.17%	28.98%	0.82	11.52	0.58	1.15	1.18	
Viasat Inc	VSAT	0.42%	24.23	26.58	10.38%	9.70%	0.85	14.21	1.35	1.78	1.11	
Orbital Sciences Corp	ORB	0.42%	14.79	14.97	-23.35%	1.22%	0.82	15.15	0.71	1.71	1.59	
Triumph Group	TGI	0.40%	43.50	47.99	13.02%	10.32%	0.78	10.04	0.63	0.96	1.02	0.30%
L-1 Identity Solutions	ID	0.32%	7.17	6.99	3.71%	-2.51%	0.61	30.45	0.98	0.84	7.27	
Stanley Inc.	SXE	0.31%	25.65	25.72	-24.82%	0.27%	0.62	13.44	0.76	2.68	0.95	
AeroVironment	AVAV	0.30%	28.13	28.09	-23.69%	-0.14%	0.59	19.55	2.56	2.90	1.14	
American Science & Engineering	ASEI	0.30%	61.59	68.04	-8.00%	10.47%	0.60	19.32	2.56	3.14	1.18	1.20%
GeoEye	GEOY	0.25%	25.32	26.80	39.37%	5.85%	0.49	15.85	2.52	2.03	1.02	
Ceradyne Inc	CRDN	0.24%	18.72	18.33	-9.75%	-2.08%	0.46	16.55	0.92	0.72	2.73	
Argon St	STST	0.21%	19.98	19.05	1.01%	-4.65%	0.41	15.12	1.11	1.30	1.27	
NCI Information Technology	NCIT	0.19%	29.35	28.66	-4.88%	-2.35%	0.39	16.48	0.93	3.51	1.17	
Force Protection	FRPT	0.19%	5.30	5.46	-8.70%	3.02%	0.38	11.93	0.58	0.40	1.33	
Osi Systems	OSIS	0.16%	16.87	18.29	32.06%	8.42%	0.31	13.12	0.53	1.13	0.79	
EMS Tech	ELMG	0.16%	18.74	20.82	-19.52%	11.10%	0.31	12.11	0.84	1.26	0.75	
Applied Signal Technology	APSG	0.15%	25.58	23.27	29.71%	-9.03%	0.30	18.95	1.51	2.19	1.07	2.10%
TASER International Inc.	TASR	0.15%	4.55	4.72	-10.61%	3.74%	0.28	45.10	2.92	2.45		
Ladish Co	LDSH	0.12%	14.64	15.13	9.22%	3.35%	0.23	17.08	0.54	1.04	3.85	
Mercury Computer Sys	MRCY	0.12%	9.52	9.86	56.26%	3.57%	0.21	14.77	1.14	1.37	2.09	
VSE Corporation	VSEC	0.10%	34.31	39.01	-0.56%	13.70%	0.20	8.90	0.18	2.25		0.50%
Ducommun	DCO	0.10%	18.06	18.91	13.23%	4.71%	0.20	8.58	0.47	0.85	0.75	1.60%
Herley Industries	HRLY	0.09%	12.21	13.05	6.27%	6.88%	0.18	21.20	1.03	0.90	7.18	
Integral Systems	ISYS	0.06%	6.27	6.90	-42.74%	10.05%	0.12	23.22	0.72	1.05	2.22	

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