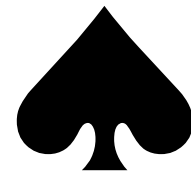


SPADE INVESTOR



July 2006

Defense * Homeland Security * Space

www.spadeindex.com

ISSN: 1930-4781

About

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

The Index value is available through financial websites using the ticker symbol 'DXS' with historical data and charting back to December 30, 1997. Some sites may require a character (eg. ^ on Yahoo) to identify it as an Index.

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

Index and ETF options are traded by the American Stock Exchange using the underlying symbols.

Rules

The Index was designed to be RIC (Registered Investment Company) compliant for the purpose of enabling financial products. Full details can be found at www.spadeindex.com

- * Market Cap: Minimum \$100M
- * Share Price: Minimum \$5.00
- * Liquidity: 50,000 avg daily trading

Contact Information

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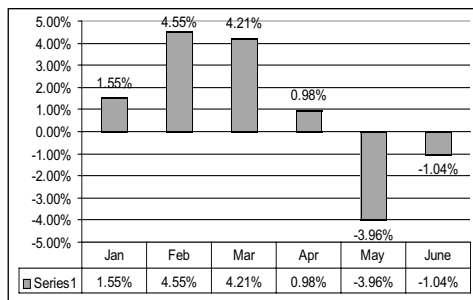
Scott Sacknoff: Index Manager

SPADE Defense Index Statistics

YTD Return:	6.19%
June Return:	<4.03%>
6/30/06 Close:	1874.14
All-time High*:	2026.75
Date:	21 April 2006

Index Performance Summary

	SPADE (DXS)	S&P500
YTD	6.19%	1.76%
June 06	<1.04%>	0.01%
Q1-2006	10.65%	<4.03%>
Q2-2006	<4.03%>	<1.91%>



ETF Statistics (AMEX: PPA)

Powershares Aerospace & Defense Portfolio

Exchange / Ticker Symbol:	AMEX / PPA
Fee	60 basis
Assets (6/30/06)	\$77.6 M
Closing Price 6/30/06	\$16.51
Trading Volume (June 06)*	789,800

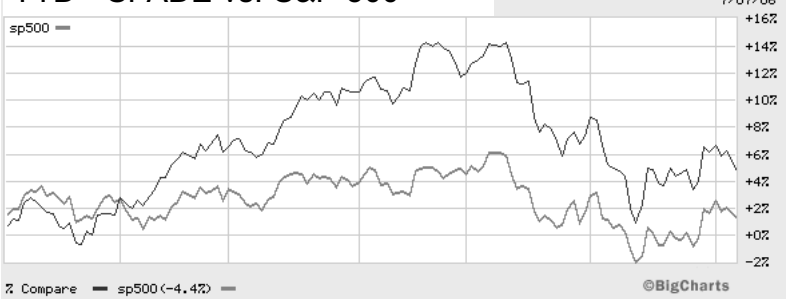
Average Portfolio Market Cap	\$12.26 Billion
Portfolio P/E	19.22
Portfolio P/S	1.20
Portfolio P/B	2.81
Portfolio P/Cash Flow	8.42
Earnings Growth Rate (ttm)	14.52%
3 month Avg Daily Trading Volume	79,249

source: Yahoo! Finance

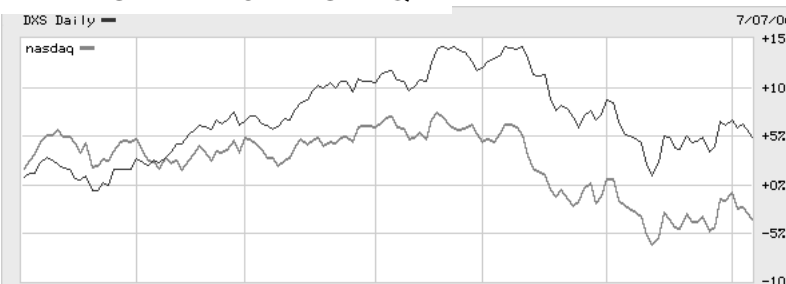
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YTD - SPADE vs. S&P 500



YTD - SPADE vs. NASDAQ



Is Now the Time to Be Invested in the Defense Sector?

On Page 4 -- Several reasons why the run may not be over

Producing Alpha Over Other Sector Indexes

The SPADE Defense Index benchmarks the entire defense sector--not just the industrials. Including high-growth sectors such as defense IT & homeland security.

Index and Industry Statistics

Year	SPADE	S&P500
2006 YTD	6.19%	1.76%
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%

YTD Top Gainers		June's Top Gainers		June's Top Decliners	
1. Ladish Co	67.65%	1. Ceradyne	13.33%	1. Herley Industries	-40.75%
2. Garmin	58.91%	2. Viisage Techn.	13.13%	2. SRA International	-15.35%
3. Armor Holdings	28.56%	3. Garmin	13.02%	3. Taser	-15.13%
4. Trimble Navig.	25.78%	4. Sirius Satellite	11.50%	4. MTC Techn	-14.75%
5. Orbital Sciences	25.70%	5. Orbital Sciences	7.67%	5. Computer Sci.	-13.67%
6. Moog	20.58%	6. SafeNet	6.62%	6. Andrew Corp.	-12.45%

Quarter	SPADE	S&P500
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%

**Department of Homeland Security
Top 2005 Vendors
(non-FEMA)**

1. Integrated Coast Guard Systems
2. Unisys
3. General Dynamics
4. L-3 Communications
5. Lockheed Martin
6. Northrop Grumman
7. Invision Technologies (GE)
8. Boeing
9. Apogen Technologies (Qintiq)
10. URS Corporation

source: Eagle Eye Publishers

Border Security Spending

\$5.9 Billion in 2004
\$8.1 Billion in 2011
source: Frost & Sullivan

\$1.4 Billion in 1995 w/ 5000 border security agents
\$4.7 Billion in 2006 w/12381 border security agents

During this period, the estimated number of illegal immigrants in the U.S. rose from 5 million to 11+ million.
source: Rep. Harold Rogers (R-KY)

Fundamental Growth Engine

M&A is the lifeblood of the government services market. For [the eight pure-play] federal IT companies in the public markets [we reviewed], 40-45% of revenue is traceable to acquisitions done over the past five years...such 'portfolio shaping' aligns a company's expertise and staff with customer demands.

Jerry Grossman, Managing Director,
Houlihan Lokey Howard & Zukin
(as quoted in Washington Technology)

**Commercial Aerospace Sector
Cycle of Growth**

"Cycles of growth in our industry generally last 4-to-6 years, followed by 2-to-3 years of contraction, and followed again by 4-to-6 years of expansion.

We've now had three years in a row of significant expansion. If 2007, 2008, and 2009 fill out this growth cycle, the industry is likely to be strong through the presidential election of 2008.

Some analysts are predicting solid growth through 2015, which would be a long and welcome sustained period.
source: Aerospace Industries Association - 2Q05 Executive Report

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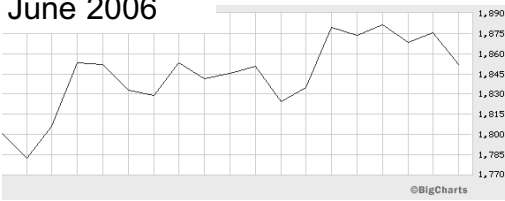
Largest U.S. Defense Contractors

	05 Defense Revenues	04 Defense Revenues	% Defense
1. Lockheed Martin	\$36.5 billion	\$34.1 billion	98.0%
2. Boeing	\$30.8 billion	\$30.5 billion	56.1%
3. Northrop Grumman	\$23.3 billion	\$22.1 billion	76.0%
4. Raytheon	\$18.2 billion	\$18.8 billion	83.1%
5. General Dynamics	\$16.6 billion	\$15.0 billion	90.5%

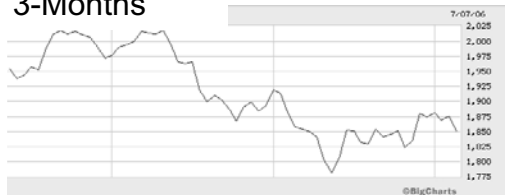
source: Defense News - June 26, 2006 - Top 100 Issue

Charts Provided by: TheStreet.com, BigCharts.com

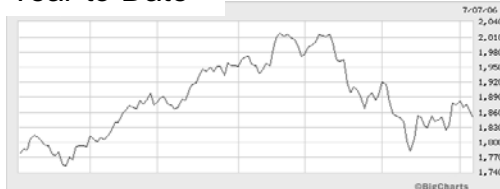
June 2006



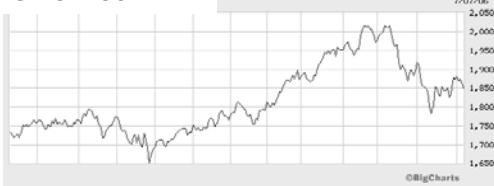
3-Months



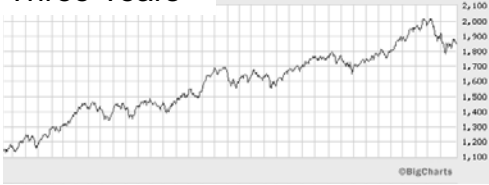
Year to Date



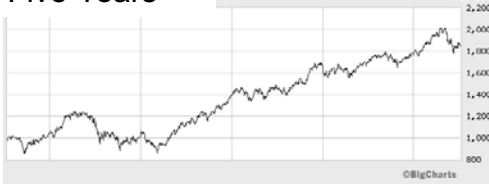
One Year



Three Years



Five Years



Index Factoid
The SPADE Defense Index has outperformed the S&P 500 in each of the last six years!

Excerpt: July 1 Interview with HomelandDefenseStocks.com

HDS: So who did the most business with DHS last year?

SMS: As you can probably guess, since FEMA, (the Federal Emergency Management Agency) is part of DHS, hurricane relief efforts dominated the list with 5 of the top 10 companies being FEMA contractors, getting \$3.6 billion or 26% of DHS' total contract awards. Using statistics provided by Eagle Eye Publishers, contracts from the Coast Guard were second at \$2.1B or 21%, TSA third with \$1.6B or 16%, and Customs 4th at \$1 billion or 10%.

What investors looking for a play in homeland security should note is the prevalence of defense companies in the top 20 – General Dynamics was the 6th largest supplier, L-3 9th, Lockheed Martin 11th, Northrop Grumman 12th, Boeing 15th, and URS 17th. Top contractors also include Computer Sciences, Honeywell, and Mantech. All constituents of the SPADE Defense Index.

HDS: And it's these defense firms are bidding for a lead role in the Secure Border Initiative Network. Can you tell us about this program?

SMS: On May 30, 2006, five teams issued proposals to develop the \$2 billion SBIN, a project designed to use the latest surveillance and networking technologies to continuously monitor and safeguard the U.S. borders with Mexico and Canada. It is a high-profile program expected to be awarded in September. Based on the heated debates in Congress regarding border security and immigration, this program is on the fast track and will get a lot of visibility as well as put pressure on the winning team to deliver on time and on budget. Teams are being led by Boeing, Lockheed Martin, Northrop Grumman, Raytheon, and Ericsson. L-3 is a partner on at least three of the bids (Boeing, Ericsson, Northrop Grumman). Northrop Grumman partners including Anteon, SRA and General Dynamics. Ericsson's partners include Computer Sciences and MTC Technologies.

HDS: What about internationally? Any similar projects?

SMS: There are lots of similar projects

around the world. One of the biggest comes from Saudi Arabia, which has requested bids for an \$8 billion border surveillance system referred to as MIKSA (the name of the agency that is seeking the bids). After a deal with France fell through, the project was opened to other countries-teams. To show its size, according to industry sources, one proposal on the table called for a 12-year project involving 225 radars, a secure command control communications and information system, 20 helicopters and surveillance aircraft. Eight nations were invited to bid: the UK, France, Germany, Italy, Spain, Russia, China, and the U.S. (which is led by Raytheon).

HDS: The news often refers to supplemental funding by Congress. For those unfamiliar, can you tell us what this is and what type of items can be found in it?

SMS: Supplemental funding is simply a bill by Congress that authorized spending outside of the normal budget review process. The \$65.8 billion emergency funding bill includes \$38 billion to support military operations and maintenance in Iraq & Afghanistan and \$15 billion for procurement. O&M covers costs from ammunition and fuel to fixing damaged equipment. It includes \$2 billion to develop countermeasures for roadside bombs and \$538.5 million to buy body armor and protective gear. There's \$890 million for armored Humvees, \$227 million for C17 aircraft parts, and \$499 million for Army trucks.

HDS: That's obviously a lot of money going to a lot of different things. So how has all this recently played on Wall Street?

SMS: As I'm sure your readers who invest have noticed, the mid-May and mid-June saw a market decline of nearly 10% with some investment sectors dropping as much as 20% or more. The defense and homeland security sector was not immune and the SPADE Defense Index dropped 11% in this period, although even at its low, it remained up for the year. Year-to-date, the SPADE is still up relative to the S&P 500.

HDS: Which types of firms were the leaders and which the laggards?

SMS: The large defense companies that are involved with industrial manufacturing have done the best year-to-date and

held onto much of their gains during the recent downturn. Information technology firms had mixed results, neither gaining nor declining much during the year or the previous month. The performance by the small and mid-cap homeland security firms represented in the SPADE were relatively weak as investor appeared to take profits in some companies that had risen over the past several months. One would expect increased volatility in smaller companies as compared to the larger capitalized firms and this might be an example.

HDS: Any suggestions for those investors worried about this volatility?

SMS: If the risk associated with an individual company is a worry but they want exposure to the market, then the investor should consider products that offer diversified exposure to a number of companies in the sector. One such example is the Powershares Aerospace & Defense Portfolio ETF of which the SPADE is the underlying Index. The ticker for this fund is PPA and it gives investors in it, shares in more than 50 companies operating in defense and homeland security. Before investing in any product, investors should review the prospectus as not every investment is appropriate for every investor.

Notes from the May 2006 Aerospace Industry Association's annual board of governors meeting

- * Sector has seen a decade of rising procurement budgets
- * Defense contractors around the world are bigger and more profitable than ever
- * Profits have steadily improved to an average of 9% -- still far below other sectors
- * Two key downward trends impacting the sector include a squeeze on large system acquisitions programs and a changing political climate
- * Leading defense contractors have responded to a changing environment by investing via strategic acquisition in growth sectors of the defense market, in particular IT and services. (The SPADE Defense Index is the only benchmark on the sector that currently recognizes the importance of defense IT, services, and operations).
- * Nobody expects the Pentagon to stop buying weapons.
- * Near-term, the industry will likely see fewer acquisitions, slimmer profits generated by large infrastructure manufacturing programs, an increasing focus on delivering programs on-time and on-budget, and increasing attention on programs that relate to the soldier and on network-centric activities.

Six Reasons Why the Run on Defense Stocks is Likely Not Over

Reprinted (with minor updates) from previous issue based on a suggestion from our readers

1. The reasons behind the current market decline -- inflation fears and a slowing economy -- are independent of the driving factors behind the performance of companies involved with defense and homeland security. Terrorism around the world is like to remain a concern for the foreseeable future. NY and Canada have both identified and stopped terrorist plans to bomb local infrastructure. The global nature of this problem increases the potential of rising international sales by companies operating in this area.
2. U.S. troops in the Middle East, even with a pullback, are likely to remain in the region in some capacity for another 18 months or longer (or so both the Iraq and U.S. leadership are forecasting). Even after the soldiers return, money (perhaps in greater sums once DoD can reallocate resources devoted to combat pay) will be devoted to replacing and upgrading materials consumed in the war effort -- trucks, artillery, body armor, etc. and invested in R&D to act on the lessons learned.
3. The U.S. is the world's largest exporter of aerospace and defense equipment. It contributes more to a positive trade balance (sales vs. buys) than any other U.S. economic sector. With global defense and military spending exceeding \$1 Trillion (yes that is a 'T') and the U.S. highly competitive in commercial sales of equipment related to

airplanes, satellites, and software and hardware for homeland security applications, non-government sales are on the rise. Politically, the Bush Administration promotes the sector, both for economic reasons and political ones (eg. sales of commercial aircraft equipment to Iran as part of a potential economic deal to Iran if the country ceases production of nuclear materials).

4. While development and production spending for large systems -- planes, ships, tanks, missiles -- may see some decline in the next few years, spending on "non-defense" budget items, such as homeland security, are expected to continue rising regardless of what happens to the defense budget.
5. A large percentage of Department of Defense contracts are issued as multi-year purchases, many with inflation escalators. This provides a measure of stability to companies operating in the sector and reduces the impact that an environment of rising interest rates and inflation has on firms operating in other sectors.
6. When we looked at the performance of the SPADE Defense Index on a quarterly basis, it turned out that the 3rd Quarter is the only quarter that has outperformed the S&P500 in each of the last six years. The quarter (July - September) is generally a quiet time for the government and Wall Street, it typically sees agreement on the defense budget for the coming fiscal year (eg. Oct 06 - Sept 07) and the announcement and release of contracts to companies.

Defense and homeland security may be the 'defensive' play investors are looking for.

Jul-06		SPADE						Market	Forward	Price/	Price/		
Company	Ticker	Float %	Price	Price	% Ch	% Ch		Cap	P/E	Sales	Book		Div Yld
		7-Jul	May 31 CL	Jun 30 CL	YTD	MTD		intraday	(ttm, intraday)	ttm	mrq		forward %
United Technologies	UTX	7.03%	62.52	63.42	13.43%	1.44%		63590	15.42	1.47	3.72		1.70%
Boeing Co	BA	6.66%	83.25	81.91	16.61%	-1.61%		63970	17.82	1.15	5.62		1.40%
Honeywell Intl	HON	6.38%	41.18	40.30	8.19%	-2.14%		32410	13.45	1.16	3.02		2.20%
Lockheed Martin	LMT	6.14%	72.49	71.74	12.75%	-1.03%		31690	14.00	0.84	4.00		1.60%
Genl Dynamics	GD	5.23%	63.64	65.46	14.79%	2.86%		26910	14.37	1.23	3.19		2.90%
Directv Group	DTV	4.60%	17.56	16.50	16.86%	-6.04%		21260	15.60	1.59	3.34		
Northrop Grumman	NOC	4.49%	64.68	64.06	6.57%	-0.96%		21770	13.17	0.72	1.32		1.80%
Raytheon Co	RTN	4.38%	45.85	44.57	11.01%	-2.79%		19740	14.56	0.89	1.81		2.10%
Garmin Ltd	GRMN	4.27%	93.29	105.44	58.91%	13.02%		10870	24.18	9.98	9.13		0.50%
Itt Indus	ITT*	4.07%	52.15	49.50	-3.72%	-5.08%		9210	14.64	1.23	3.24		0.80%
Rockwell Collins	COL	4.07%	54.60	55.87	20.23%	2.33%		9480	17.94	2.59	8.63		1.20%
L-3 Communications Hldgs	LLL	3.93%	72.96	75.42	1.44%	3.37%		8950	13.02	0.87	1.92		1.00%
Echostar Communications'a'	DISH	3.89%	29.93	30.81	13.36%	2.94%		13360	14.89	1.54			
Computer Sciences	CSC	3.74%	56.25	48.56	-4.11%	-13.67%		9930	12.62	0.67	1.45		
Precision Castparts	PCP	3.50%	57.63	59.76	15.34%	3.70%		8100	14.92	2.25	3.72		0.20%
Sirius Satellite Radio	SIRI	2.79%	4.26	4.75	-29.10%	11.50%		6220		19.53	47.19		
Harris Corp	HRS	2.47%	40.72	41.51	-3.49%	1.94%		5590	16.20	1.70	3.51		0.80%
Goodrich Corp	GR	2.18%	42.63	40.29	-1.97%	-5.49%		4960	13.84	0.90	2.91		1.90%
Ball Corp	BLL	1.69%	37.42	37.04	-6.75%	-1.02%		3810	11.14	0.67	4.32		1.10%
Xm Satellite Radio Holdings'a'	XMSR	1.60%	14.42	14.65	-46.30%	1.60%		3650		5.64	320.68		
Oshkosh Truck	OSK	1.48%	52.85	47.52	6.57%	-10.09%		3370	13.86	1.03	3.64		0.70%
Alliant Techsystems	ATK	1.20%	78.06	76.35	0.24%	-2.19%		2740	13.84	0.85	4.35		
Trimble Navigation Ltd	TRMB	1.09%	45.94	44.64	25.78%	-2.83%		2490	21.48	3.07	4.03		
URS Corporation	URS	0.94%	42.39	42.00	11.67%	-0.92%		2090	16.33	0.53	1.54		
Armor Holdings	AH	0.85%	57.12	54.83	28.56%	-4.01%		1920	10.72	1.13	2.51		
Drs Technologies	DRS	0.83%	53.26	48.75	-5.19%	-8.47%		1860	13.06	1.09	1.40		0.20%
Caci Intl	CAI	0.78%	60.92	58.33	1.66%	-4.25%		1750	18.19	1.04	2.51		
Flir Systems	FLIR	0.68%	25.61	22.90	2.55%	-10.58%		1520	15.05	2.98	4.03		
Sra International'a'	SRX	0.65%	31.46	26.63	-12.80%	-15.35%		1450	20.31	1.32	2.89		
Andrew Corp	ANDW	0.63%	10.12	8.86	-17.43%	-12.45%		1400	15.39	0.72	0.92		
Moog Inc.	MOGA	0.63%	34.77	34.22	20.58%	-1.58%		1430	14.89	1.21	2.23		
Ceradyne Inc	CRDN	0.63%	43.67	49.49	12.99%	13.33%		1430	13.11	3.37	5.24		
Cogent Inc.	COGT	0.62%	15.52	15.07	-33.55%	-2.90%		1410	19.96	9.63	3.02		
Teledyne Technologies	TDY	0.49%	34.25	32.76	12.58%	-4.35%		1100	14.77	0.90	3.14		
Esterline Technologies	ESL	0.46%	41.01	41.59	11.83%	1.41%		1040	14.20	1.17	1.57		
Mantech International'a'	MANT	0.45%	33.85	30.86	10.77%	-8.83%		1000	16.02	0.98	2.56		
Intergraph Corp	INGR	0.39%	35.55	31.49	-36.78%	-11.42%		890	18.96	1.55	2.47		
Gencorp	GY	0.39%	18.14	16.03	-9.69%	-11.63%		878		1.39			
Orbital Sciences Corp	ORB	0.39%	14.99	16.14	25.70%	7.67%		886	24.41	1.21	2.18		
Viasat Inc	VSAT	0.31%	25.50	25.68	-3.93%	0.71%		706	17.31	1.64	2.69		
Argon St	STST	0.25%	28.51	26.63	-14.04%	-6.59%		556	19.09	1.98	2.20		
TASER International Inc.	TASR	0.23%	9.32	7.91	13.65%	-15.13%		514	30.70	10.00	4.89		
United Industrial	UIC	0.23%	49.16	45.25	9.38%	-7.95%		515	13.06	0.94	13.74		0.80%
Cubic Corp	CUB	0.23%	18.75	19.61	-1.75%	4.59%		531	19.50	0.64	1.75		1.00%
American Science & Engineering	ASEI	0.23%	57.47	57.92	-7.13%	0.78%		505	14.24	3.16	3.95		
Edo Corp	EDO	0.22%	26.17	24.34	-10.05%	-6.99%		495	14.33	0.76	2.04		0.50%
Ladish Co	LDSH	0.22%	39.39	37.47	67.65%	-4.87%		485	15.11	1.67	3.98		
SafeNet Inc.	SFNT	0.21%	16.62	17.72	-45.00%	6.62%		470	11.31	1.78	0.71		
Viisage Technology Inc.	VISG	0.21%	13.40	15.16	-13.91%	13.13%		476	65.60	6.44	1.71		
Essex Corp.	KEYW	0.17%	18.19	18.42	8.04%	1.26%		390	20.03	2.08	2.65		
Si International	SINT	0.17%	31.69	30.66	0.29%	-3.25%		380	15.85	0.91	1.96		
MTC Technologies Inc.	MTCT	0.16%	27.72	23.63	-13.70%	-14.75%		353	13.11	0.94	2.00		
Mercury Computer Sys	MRCY	0.14%	16.42	15.39	-25.40%	-6.27%		308	21.32	1.28	1.62		
Osi Systems	OSIS	0.13%	19.91	17.77	-3.37%	-10.75%		301	29.84	0.70	1.23		
Applied Signal Technology Inc.	APSG	0.09%	17.55	17.04	-24.93%	-2.91%		198	19.62	1.15	1.91		2.70%
Herley Industries	HRLY	0.08%	18.92	11.21	-32.10%	-40.75%		175	14.96	1.00	0.84		
Kvh Industries	KVHI	0.07%	11.37	11.66	19.10%	2.55%		165	31.14	2.25	2.25		