

SPADE INVESTOR



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Defense * Homeland Security * Space

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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 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

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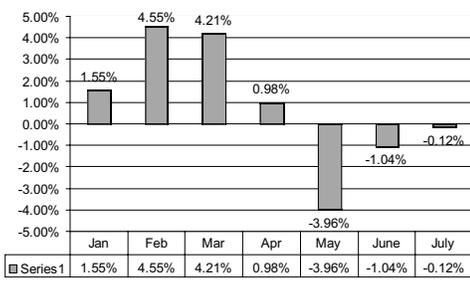
SPADE Defense Index Statistics

YTD Return: 6.05%
July Return: <0.12%>
7/31/06 Close: 1871.83

All-time High*: 2026.75
Date: 21 April 2006

Index Performance Summary

	SPADE (DXS)	S&P500
YTD	6.05%	2.27%
July 06	<0.12%>	0.51%
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 (7/31/06): \$85.6 M (up \$8M)
Closing Price 7/31/06: \$16.49 (down \$0.02)
Trading Volume (July 06)*: 979,200

Average Portfolio Market Cap: \$12.22 Billion
Portfolio P/E: 17.88
Portfolio P/S: 1.15
Portfolio P/B: 2.73
Portfolio P/Cash Flow: 8.13
Earnings Growth Rate (ttm): 14.06%
3 month Avg Daily Trading Volume: 66,341

source: Yahoo! Finance

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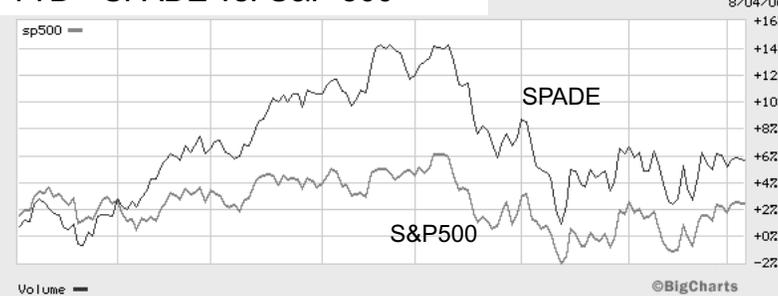
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Stock and Financial Statistics Table..... 5

YTD - SPADE vs. S&P 500



YTD - SPADE vs. NASDAQ



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

See Page 4 for trends and commentary on why the run may not be over.

Producing Alpha

The SPADE Defense Index benchmarks the entire defense sector--not just the industrials, and includes higher-growth subsectors such as defense IT & homeland security.

Index and Industry Statistics

Year	SPADE	S&P500
2006 YTD	6.05%	2.27%
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		July's Top Gainers		July's Top Decliners	
1. Ladish Co.	52.13%	1. Teledyne	16.48%	1. XM Satellite	<20.82%>
2. Garmin	43.17%	2. Viisage Tech	14.25%	2. Essex	<16.61%>
3. Orbital Sciences	39.49%	3. Echostar	13.76%	3. MTC Tech.	<14.39%>
4. Trimble Navigation	35.33%	4. Integraph	12.83%	4. Mercury Comp	<12.67%>
5. Teledyne	31.13%	5. Lockheed Martin	11.07%	5. American Science	<12.45%>
6. Echostar	28.96%	6. Orbital Sciences	10.97%	6. Sirius Satellite	<11.58%>

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%

Returns During Periods of Conflict

Jeff Saut, Raymond James' Chief Investment Strategist released the following chart using the Dow 30 as part of his commentary on the market and world events

War	Date	Day of	Day 1	1 Week	1 Mo	3 Mo.	6 Mo.	1Yr
Hitler Invades Poland	9/1/39	0.6%	2.7%	11.6%	12.8%	9.0%	8.8%	-3.5%
Pearl Harbor	12/7/41	-3.5%	-6.3%	-4.7%	-4.3%	-12.3%	-9.5%	-1.4%
Suez Crisis	10/29/56	0.2%	0.1%	1.9%	-4.0%	-1.8%	1.6%	-10.3%
Cuban Missile Crisis	10/22/62	-0.8%	-2.7%	1.1%	11.2%	17.8%	24.0%	30.3%
Six Day War	6/5/67	-1.8%	0.1%	1.8%	0.2%	4.7%	2.9%	5.1%
Yom Kippur War	10/8/73	0.7%	0.3%	-0.4%	-8.0%	-11.3%	-12.7%	-38.0%
Iran/Iraq War	9/12/80	-0.5%	-0.4%	2.4%	2.2%	-3.5%	2.8%	-7.3%
Iraq Invades Kuwait	8/1/90	-0.2%	-1.4%	-5.9%	-9.9%	-15.3%	-5.8%	4.1%
Enduring Freedom	10/7/01	-0.6%	-0.7%	2.5%	5.7%	11.9%	13.0%	-18.1%
Iraqi Freedom	3/19/03	0.9%	1.1%	0.4%	0.8%	11.1%	16.7%	23.2%
Israel - Lebanon	7/12/06	-1.1%	-2.6%	-1.1%				

In looking at the data, there did not seem to be a correlation between world events and the return of the companies that comprise the Dow 30 either in the short-term or over a period of a year. Instead, market forces, such as the recessions in 1973, 2002, etc. seemed to have more relevance. One would expect that aerospace and defense companies would see a more visible relationship, so we generated a similar table using the SPADE Defense Index for the last several wars and incidents to compare with the broader S&P500 to see what trends we could identify. As you will see on the table presented on Page 4, in all five instances, returns one month following an incident were positive but significant outperformance of the sector over the broader stock market came over a 6-month, and 1-year period with 13%+ outperformance in 4 of the 5 examples. With data for the SPADE Defense Index available back to December 1997, we are unfortunately prevented from seeing whether these gains are indicative of the current market or a long-term cause and effect noted over the past sixty years.

Continued on Page 4

Legal & Disclaimers

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The Cost of War			Upcoming Dep't of Defense Contracts	
War	Actual \$	In 2007 \$		
American Revolution	\$0.1B	\$3.6B	1. OPTARSS II - Services for Operations Planning, Training, and Resource Support Services for Warfighter Operations -- \$30 Billion	
War of 1812	\$0.9B	\$1.1B	2. FIRST - Field and Installation readiness Support Team -- \$18 Billion	
Mexican War	\$0.8B	\$2.0B	3. Gateway Communications Systems - \$8 Billion	
Civil War	\$3.3B	\$80.8B	4. ITES 2H - IT Enterprise Solutions Hardware, software and related support - \$5 Billion	
Spanish-American War	\$0.3B	\$7.3B	5. Interpreter and Translator Management Services - Iraq - \$2.6 Billion	
World War I	\$33.0	\$642.0 B	6. Broad Area Maritime Surveillance - \$2.0 Billion	
World War II	\$296.0 B	\$3,211.0B		
Korean Conflict	\$67.0B	\$691.0B		
Vietnam War	\$111.0B	\$650.0B		
Desert Storm	\$61.0B	\$92.0B		
War on Terror	\$439.0	& Counting		

source: Congressional Research Service source: Washington Technology - July 24, 2006

Returns During Periods of Conflict (continued)

War	Date	Day of	Day 1	1 Week	1 Mo	3 Mo.	6 Mo.	1Yr
September 11, 2001								
SPADE	9/11/01		-0.8%	-3.2%	3.1%	9.2%	29.0%	11.4%
S&P500			-5.9%	-9.8%	-1.7%	4.7%	7.5%	-15.1%
Sector Outperform			5.1%	6.5%	4.9%	4.6%	21.5%	26.5%
Operation Enduring Freedom								
SPADE	10/7/01		0.3%	1.1%	2.8%	10.9%	24.8%	-1.7%
S&P500			-0.9%	1.9%	4.6%	9.5%	5.1%	-23.5%
Sector Outperform			1.2%	-0.8%	-1.8%	1.4%	19.7%	21.8%
Operation Iraqi Freedom								
SPADE	3/19/03	0.5%	-0.3%	-1.1%	1.7%	19.4%	25.0%	33.4%
S&P500		0.8%	1.0%	0.4%	2.7%	13.3%	15.0%	19.7%
Sector Outperform		-0.3%	-1.3%	-1.5%	-1.0%	6.1%	10.1%	13.7%
Madrid Train Bombing								
SPADE	3/11/04	-1.0%	0.6%	0.2%	6.7%	7.1%	8.7%	19.2%
S&P500		-1.3%	-0.2%	-0.1%	1.6%	0.9%	0.0%	5.1%
Sector Outperform		0.2%	0.9%	0.3%	5.1%	6.3%	8.7%	14.1%
London Bombings								
SPADE	7/7/05	0.5%	1.6%	1.5%	2.6%	2.4%	6.3%	8.5%
S&P500		0.2%	1.0%	1.8%	1.6%	0.1%	5.2%	2.9%
Sector Outperform		0.3%	0.6%	-0.4%	0.9%	2.4%	1.1%	4.6%
Israel - Lebanon Conflict								
SPADE	7/12/06	-0.8%	-2.3%	-2.7%	0.2%			
S&P500		-0.7%	-1.6%	-1.3%	1.1%			
Sector Outperform		-0.1%	-0.7%	-1.4%	-1.0%			

ISBC Research

Will We See a 3rd Quarter Run?

In the previous issue, we highlighted that in the third calendar quarter, the Index has outperformed the S&P500 in each year since 2000. Though there is no clear-cut reason why, it was our supposition that the market moves since this is the time of the year when the budget typically is approved by Congress and signed into law by the President and a spate of agreed-upon contracts are announced before the government moves to the next fiscal year in October.

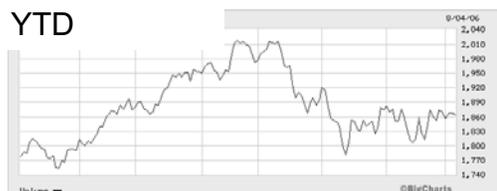
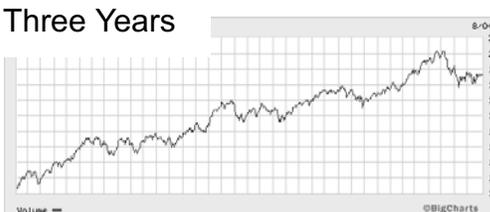
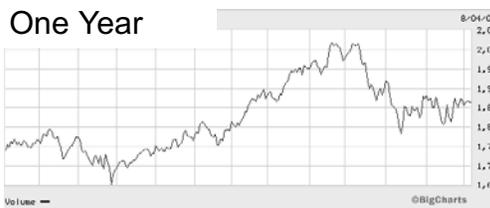
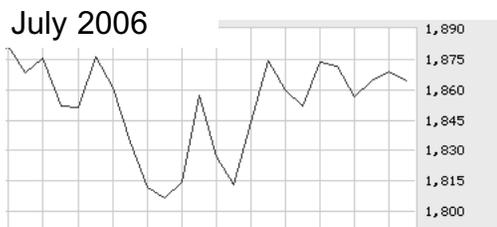
One month into the quarter and the SPADE Defense Index, like the overall market is still in its summer doldrums. If there is a move, expect it in September when investors and government return from their holidays and the aforementioned announcements occur.

Sector's Seven-Year Run Continues

For the year (31 July), the SPADE Defense Index is up 6.05% vs. the S&P500 which is currently up 2.27%.

Since 2000, the SPADE is up 90.06% whereas the value of the S&P500 has declined 13.11% -- improving the long-term outperformance of the SPADE Index by 103%!

Charts Courtesy of: TheStreet.com, BigCharts.com



COOL TECHNOLOGY

Miguel Caballero (stores in Columbia and Mexico) offers a line of armored clothing that fits like Armani but deflects point-blank gunfire using a patented weave of nylon and polyester that can stand up to gunfire without sacrificing convenience or comfort. The first leather jacket produced weighed 11 lbs, today is it just 2.6 lbs.

‘There are hundreds of companies that make bullet-proof vests. We make bulletproof fashion.’

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Send an email to: newsletter-subscribe@spadeindex.com

The following industry background appeared as part of the 2006 annual report issued by DRS Technologies. We have included it in this newsletter since it is my belief that it provides the reader with a good business analysis of the trends influencing the industry from a 'Defense Industry 101' perspective.

Industry Background

The U.S. military has worked to meet the changing threats that have evolved since the mid-1980s with a focus on lighter, faster, and more intelligent weapons and an emphasis on intelligence, surveillance, and reconnaissance. This change in focus, the end of the Cold War and the subsequent reduction in defense spending led to consolidation in the defense industry. Today, we believe the industry is dominated by five domestic prime contractors and a few large European defense companies with an increasing presence in the U.S. markets. These large prime contractors have shifted their business strategies to focus on platforms and systems integration and consequently subcontract the development of many systems and subsystems...

...Events of the last five years, including the global war on terrorism, Operation Enduring Freedom and Operation Iraqi Freedom, have altered the defense and homeland security environment in the United States. We believe these events will likely continue to have a significant impact on the markets for defense and advanced technology products for the next several years. The DoD continues to focus on both supporting ongoing operations and transforming our military to confront future threats...

Defense Industry Considerations

... We believe markets for defense and related advanced technology systems for fiscal 2007 and beyond will continue to be affected by the global war on terrorism, through the continued need for military missions and efforts in Iraq and Afghanistan. The war on terrorism has focused greater attention on homeland security and better communication and interplay among local, state and federal government agencies and U.S. military service. We believe the U.S. overall defense posture continues

to move toward a more joint-capabilities-based structure, which crates the ability for a *more flexible response with greater force mobility, stronger space capabilities, enhanced missile defense, and improved information systems capability and security.*

We believe DoD budgets have experienced increase focus on command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR), precision-guided weapons, unmanned aerial vehicles (UAVs), network-centric communications, special operations forces and missile defense. In addition, we believe the DoD philosophy has focused on a transformation strategy that balances modernization and recapitalization (or upgrading existing platforms), while enhancing readiness and joint operations. As a result, we believe defense budget program allocations continue to favor advanced information technologies related to command, control, communications, and computers (C4) and Intelligence, surveillance, and reconnaissance (ISR). Furthermore, the DoD's emphasis on system operability, force multipliers, and providing battlefield commanders with real-time data is increasing the electronic content of nearly all major military procurement and research programs.

Funding

The current administration's desire to modernize U.S. military forces, couple with its engagement in the global war on terrorism, has driven DoD funding increases compared with 2001. For government fiscal year 2006, Congress appropriated \$419.3 Billion, a 41% increase in funding, compared with 2001. This amount includes \$147 Billion for procurement and R&D activities, an increase of 43% since 2001. For FY-07, the President has requested that Congress appropriate \$439 Billion for the DoD, a 7% increase over 2006. This includes \$157 Billion for procurement and R&D, an increase of 7% over 2006 investment funds. There are no assurances that these proposed budget amounts will be approved...[Including] \$118 billion in supplemental funding in FY06, which if approved, will bring total defense funding for FY06 to over \$537 Billion, an approximately 85% increase compared with 2001.

Five Reasons Why the SPADE Has (and should continue) to Perform Above Average

1. The President's fiscal year 2007 budget calls for a rise in Department of Defense spending of more than \$62 billion between FY2007 and FY2011.

2. Terrorism and political instability around the world is likely to remain a concern for the foreseeable future. The global nature of this problem increases the potential that companies operating in this area will see rising international sales in addition to rising domestic sales.

3. The SPADE Defense Index consists of a diversified group of companies whose activities represent not only the manufacturers of large systems such as planes, tanks, ships, and missiles, but includes a mix of large and small companies positioned in high-growth business areas such as unmanned aerial vehicles (UAVs), information technology, surveillance & reconnaissance, missile defense, satellites, and commercial aerospace. While Department of Defense development and production spending for large systems -- planes, ships, tanks, missiles -- may see some decline in the next few years, other areas should see gains.

2. U.S. troops in the Middle East, even with a pullback, are likely to remain in the region in some capacity for another year or longer (or so both the Iraq and U.S. leadership are forecasting). Even after the sol-

diers return, resources will be devoted to replacing and upgrading materials consumed in the war effort -- trucks, artillery, body armor, etc. -- as well as be invested in research and development efforts that act on the lessons learned in the conflict.

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). According to the Aerospace Industries Association, some analysts are predicting solid growth through 2015 for commercial aerospace.

5. A large percentage of Department of Defense contracts are issued as multi-year purchases, many with inflation escalators. In fact, many companies report backlog equal to several years of current revenues. This provides a measure of stability to companies operating in the sector. The inflation escalators reduce the impact of rising interest rates and inflation as compared to firms operating in other sectors.