

SPADE INVESTOR



September 2006

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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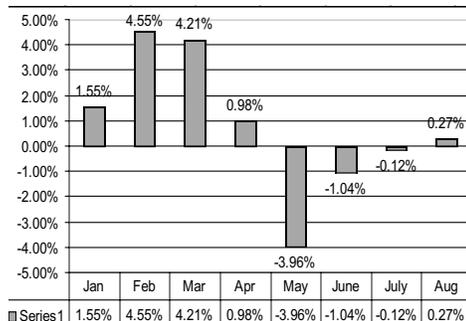
SPADE Defense Index Statistics

YTD Return: 6.33%
August Return: 0.27%
8/31/06 Close: 1876.80

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

Index Performance Summary

	SPADE (DXS)	S&P500
YTD	6.33%	4.45%
Aug 06	0.27%	2.13%



ETF Statistics (AMEX: PPA)

Powershares Aerospace & Defense Portfolio

Exchange / Ticker Symbol: AMEX / PPA
Fee: 60 basis
Assets (8/31/06): \$92.6 M (up \$7M)
Closing Price 8/31/06: \$16.55 (up \$0.06)
Trading Volume (Aug 06): 1,990,300 (up 203%)

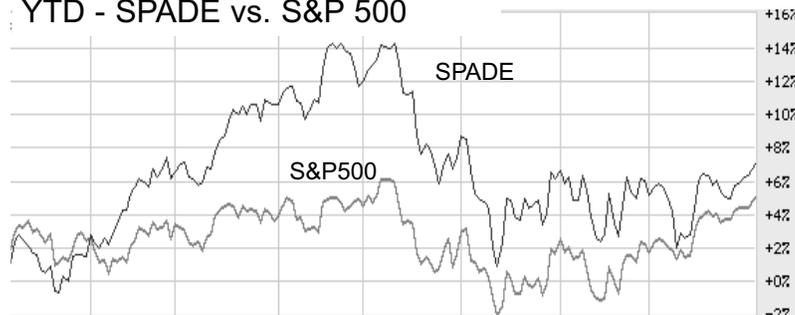
Average Portfolio Market Cap: \$11.48 Billion
Portfolio P/E: 17.44
Portfolio P/S: 1.12
Portfolio P/B: 2.60
Portfolio P/Cash Flow: 8.40
Earnings Growth Rate (ttm): 13.97%
3 month Avg Daily Trading Volume: 58,369

source: Yahoo! Finance

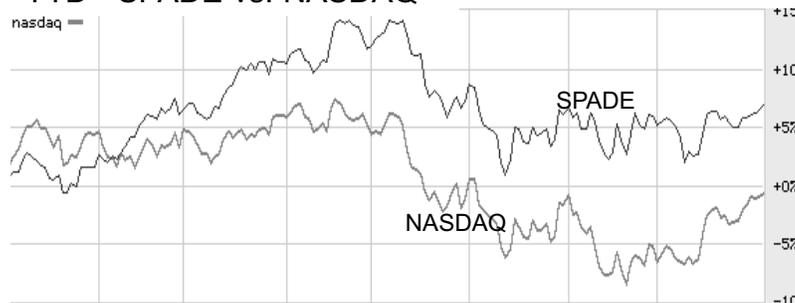
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YTD - SPADE vs. S&P 500



YTD - SPADE vs. NASDAQ



Inside Last Month's July 2006 Issue?

- Returns during periods of conflict from WWII to today
- The Cost of War from the American Revolution to the War on Terror
- Will we see a 3rd Quarter Run?
- Cool Technology: Armored Clothing

Download today at spadeindex.com

Index and Industry Statistics

Year	SPADE	S&P500
2006 YTD	6.33%	4.45%
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		August's Top Gainers		August's Top Decliners	
1. Ladish	56.47%	1. Herley Industries	24.14%	1. Esterline Tech.	-17.25%
2. Garmin	40.95%	2. Oskosh Truck	20.57%	2. L-1 Identity Soln	-12.88%
3. Orbital Sciences	40.89%	3. United Industrial	19.74%	3. DRS Tech	-10.63%
4. Trimble Navigation	37.98%	4. SRA International	15.79%	4. Ceradyne	-9.86%
5. DirecTV	33.07%	5. FLIR Systems	15.46%	5. Computer Sciences	-9.56%
6. Teledyne Tech.	31.75%	6. XM Satellite	11.46%	6. Echostar	-9.42%

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%

Market Commentary

With the summer over and the calendar shifting to September, investors are taking stock of their accounts and their belief in the anticipated direction of the market. Whether valid or not, the September/October timeframe is known for its 'volatility' and November/December known for its 'end of year rally'. For those investing in defense and homeland security (shouldn't we all be) the below are some thoughts on what we should expect in the coming months as well as some news that was 'below the radar' (pardon the pun) while we were all on vacation in August.

1. The FY-2008 Defense Spending Bill

In the next few weeks, there will be as few as 15 legislative days left before Congress adjourns for the fall campaigning season. The agenda set by the Congressional leadership includes completing the defense spending bill and a defense policy bill for the coming year.

At this time last year, analysts were forecasting that we would see a reduction in defense spending as the Administration sought to better balance the budget and/or allocate resources toward other programs. The analysts were wrong.

When the FY-07 budget was released, spending on defense showed continued strong growth and later supplemental spending bills added even more resources to cover expenditures associated with the war in Iraq and Afghanistan.

When the FY-08 spending bill is released, it would be surprising if it does not show some out-year reductions from the FY-07 plan. While overall spending on defense is still likely to rise by more than \$40 billion from current levels through FY-12, slower spending growth is likely so that politicians, in advance of the November elections, can claim that they are reigning in spending by the government in this area.

2. Positive Areas of Spending

Many of the budget reductions that are anticipated take place in programs that have yet to issue contracts. The brunt of the decline should be related to reductions in the procurement of large, complex systems, such as the number of aircraft or ships or missiles to be ordered over the next 10 years or delays in their delivery schedule

so that spending is shifted further to the out-years. Spending on technology items that protect and defend soldiers and equipment--such as body armor or protection against landmines or those that take soldiers out of harm's way by utilizing unmanned platforms and providing them with improved intelligence and surveillance information--are expected to continue to receive support.

Example 2A: Reports indicate that the U.S. Army and Marines could see an additional \$20 billion in the FY-08 budget, bringing it up to \$130-\$140 billion from \$111.8 billion, as it repairs and replaces equipment damaged in Iraq. Increasing a \$50 billion Defense Authorization Act "bridge fund" to \$70 billion is expected.

Example 2B: The DoD Office of Research and Engineering has been scouting the commercial market for technology that can be used by troops in combat. In FY07, the office spent nearly \$80M on equipment ranging from aerostats to gun sights. The budget contains \$28.8 million for quick reaction projects and \$50.3 million for counter-terrorism task force activities.

3. The November Elections

Political analysts are currently forecasting that the Democratic Party will recapture control of the House of Representatives after the November election. The Washington Post has said that GOP strategists are citing that the terrorism issue has lost some of its potency in part because of miscalculations and setbacks suffered by the Administration in the Iraq War. Regardless of the results, the FY-08 budget will likely be completed before any new elected Congresspeople take office in January.

4. Spending at DHS

A bill currently before Congress calls for cuts in the DHS Science & Technology Directorate from \$1.3 billion to \$668-\$712 million. (The department currently has an estimated \$250 million in unspent agency funds). Congress and the administration have been disappointed with the results and constant changes by the department which has focused on weapons of mass destruction diluting work related to aircraft security. Congress is also interested in spinning off radiation detection work to another

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Market Commentary (continued)

agency.

Regardless of what happens to their S&T department, the overall budget for Department of Homeland Security has risen by more than \$2 billion annually for the last few years and it is unlikely (and politically risky) that the current Congressional leadership (or those that are elected in November) will vote to just hold steady or reduce funding in this area. Homeland security is an area that politicians do not want to be perceived as being weak.

5. NASA Decides \$40 Billion + Opportunity

Lockheed Martin and its partners won a design competition from NASA for its next generation space vehicle. Currently NASA spends in excess of \$4 billion/year for the Shuttle and nearly \$2 billion more on the Space Station. Near-term the contract to develop a next-generation space system that can take NASA to low-Earth-orbit as well

as to the Moon and Mars, is worth more than \$10 billion in the near-term and a likely \$30-\$40 billion over the next decade. What does this mean for the competition's losing team led by Northrop Grumman? Not much in terms of current revenues. Members of the losing team, such as Boeing, which is also part of the Lockheed bid, will likely have a minor role in the new endeavor. Without any real development efforts by NASA in the past few years in this area, there is no existing business that will suffer. The award's impact on the SPADE Index is similarly minimal as both the winning and losing teams are constituents of the SPADE. The positive that comes out of this award is that public support for this program and the necessary higher funding levels for NASA remains high--and that leads to a growing industry and industrial base.

6. The Fifth Anniversary of 9/11

Over the next two weeks the media's attention will be focused on homeland security as we mark the 5th anniversary of 9/11. Below is a recent interview given by Scott Sacknoff, manager of the SPADE Defense Index to HomelandDefenseStocks.com

Interview with HomelandDefenseStocks.com Regarding the Fifth Anniversary of 9/11 and Investing in the Sector

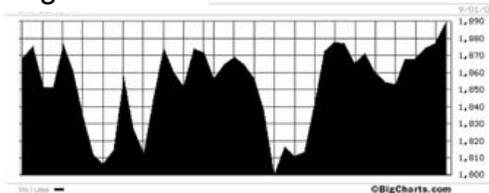
HDS: As we approach the 5th anniversary of 9/11, the media will be devoting significant amount of time to discussing and analyzing it. What do you see as the main outcome?

SMS: 9/11 marked a shift in the perception of terrorism. There has always been terrorism, from the gas attack in 1995 on the Tokyo trains, to blowing up pizza parlors in the Middle East, to bombings in Europe. What 9/11 did was create a perception, particularly in the United States, that it is no longer 'their problem' but 'our problem'. It also 'put on a face' on a problem that affects Western nations around the globe.

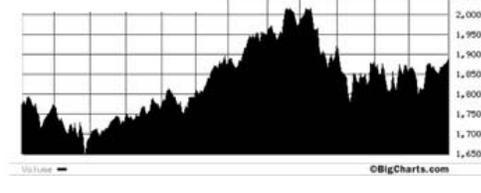
HDS: With all that has been done since then, what are the top areas of concern?

SMS: Efforts by the U.S. government have focused on two main areas of improving homeland security – those that cause widespread disaster and those of a more local nature. Much of the resources allocated by the U.S. government have been spent to prevent weapons of mass destruction, which is why so much attention has been focused on port security and border security. The impact of a biological or radioactive device detonated on U.S. soil is beyond comprehension. The second area is identifying acts employing explosives and attacks of a more local level. These can usually only be stopped via intelligence and surveillance efforts as the recent success by United Kingdom authorities shows.

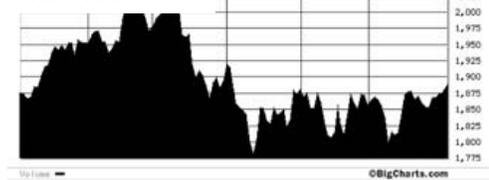
August 2006



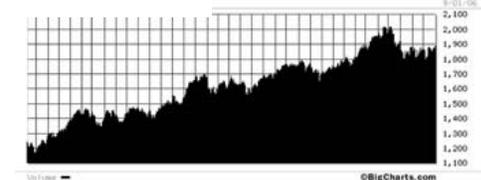
One Year



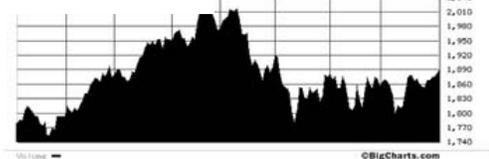
3-Months



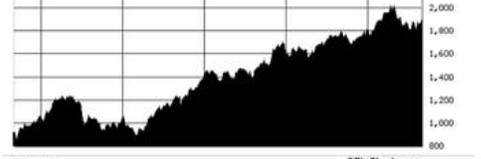
Three Years



YTD



Five Years



The Cost of War

War	Actual \$	2007 \$
American Revolution		
	\$0.1B	\$3.6B
War of 1812	\$0.9B	\$1.1B
Mexican War	\$0.8B	\$2.0B
Civil War	\$3.3B	\$80.8B
Spanish-American War		
	\$0.3B	\$7.3B
World War I	\$33.0	\$642.0 B
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	\$439B & Counting	

source: Congressional Research Service

Charts Courtesy of: BigCharts.com

HDS: Doesn't the ability of the Department of Homeland Security to react to incidents such as bringing volatile liquids on aircraft, benefit us and make us safer?

SMS: Not necessarily. Security for the sake of security is not security. Without airports having the proper technology to scan for liquids or explosives and without them searching every carry-on bag, the restrictions placed don't really add to security.

HDS: So how effective has DHS been since its creation following 9/11?

SMS: Much of it has been a cosmetic, political exercise to force collaboration among agencies. This has led to some improvements but there is still significant work to be done. New technology, intelligence gathering and interpretation, and profiling are the keys to success. Unfortunately, Congress is already planning to reduce funding for DHS' Office of Science & Technology because of issues related to its management and operation.

HDS: From an investor standpoint, how has the sector performed?

SMS: The largest contractors to DHS, as we highlighted in our newsletter, have been companies that are heavily involved with the Department of Defense. With the rise in defense spending since 2002, their health and their market capitalization has benefited substantially. The small- and mid-cap security companies that are involved in areas such as biometrics, airport and border security have trended upward as the additional spending in this area has benefited them. Short-term investors will notice that these companies have also been subject to substantial swings in pricing as companies trade on news and valuations fluctuate.

HDS: As Congress works on its FY-08 and beyond budget, what do you expect to see?

SMS: The overall budget for Homeland Security has risen by about \$2 billion annually for the last few years. It is unlikely that either the current leadership in Congress or those that are elected in November will

vote to hold steady or reduce funding for homeland security. Politicians do not want to be viewed as being weak in this area. Keep in mind that overall spending on defense and homeland security is approaching the \$500 billion level and this provides opportunities for a number of firms in a number of different areas.

HDS: From a perspective of where technology is contributing towards a military advantage i.e. innovations in surveillance, search and rescue, combat, etc., can you give us a sense as to where you see the government spending going in this environment?

SMS: Research spending by the military is predominantly in two areas -- those that protect and defend soldiers and equipment that are put in harm's way and similarly those that enable the military to operate at a distance, once again the concept is to take soldiers out of harm's way. In the first case, there are considerable resources going into areas such as body armor, armor plating for more durable ground equipment, electronic and physical countermeasures, and equipment that enable soldiers to share information to improve field operations and reduce friendly fire. The second areas shows an increase in funding for remote systems such as Unmanned Aerial Vehicles or drones that enable the military to perform surveillance and engage the enemy at a distance, land robotic and unmanned ground and sea vehicles with surveillance and search and rescue capabilities, and electronics that more accurately hit their target to reduce damage to nearby systems and reduce civilian casualties.

HDS: For investors interested in the sector, what do you suggest?

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, a stake 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.

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.

4. 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 soldiers 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.

5. 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 if the country ceases production of nuclear materials). According to the Aerospace Industries Association, some analysts predict solid growth through 2015 for commercial aerospace.

Aug-06		SPADE						Market	Forward
Company	Ticker	Float %	Price	Price	% Ch	% Ch		Cap	P/E
		1-Sep	Jul 31 CL	Aug 31 CL	YTD	MTD		intraday	(ttm, intraday)
Lockheed Martin	LMT	6.92%	79.68	82.60	29.81%	3.66%		35469	14.97
United Technologies	UTX	6.89%	62.19	62.71	12.16%	-0.83%		63983	15.35
Boeing Co	BA	6.16%	77.42	74.90	6.63%	-3.25%		60250	16.34
Honeywell Intl	HON	6.15%	38.70	38.72	3.95%	0.05%		31750	13.23
Genl Dynamics	GD*	5.27%	67.02	67.55	18.46%	0.79%		27500	14.50
Directv Group	DTV	5.23%	17.05	18.79	33.07%	10.21%		23570	15.82
Northrop Grumman	NOC	4.68%	66.19	66.81	11.15%	0.94%		23160	13.83
Raytheon Co	RTN	4.62%	45.07	47.21	17.58%	4.75%		21110	15.23
Echostar Communications'a'	DISH	4.14%	35.05	31.75	16.81%	-9.42%		14480	16.82
L-3 Communications Hldgs	LLL	4.00%	73.65	75.39	1.40%	2.36%		9330	13.35
Itt Indus	ITT*	3.98%	50.55	48.95	-4.79%	-3.17%		9140	14.39
Rockwell Collins	COL	3.82%	53.37	52.43	12.83%	-1.76%		9140	17.14
Garmin Ltd	GRMN*	3.73%	94.99	46.76	40.95%	-1.55%		10160	20.66
Precision Castparts	PCP	3.47%	59.65	58.44	12.80%	-2.03%		7980	13.61
Computer Sciences	CSC	3.32%	52.39	47.38	-6.44%	-9.56%		8080	11.15
Harris Corp	HRS	2.53%	45.55	43.92	2.12%	-3.58%		5830	14.66
Sirius Satellite Radio	SIRI	2.50%	4.20	4.08	-39.10%	-2.86%		5760	
Goodrich Corp	GR	2.11%	40.37	38.95	-5.23%	-3.52%		4880	13.08
Ball Corp	BLL	1.84%	38.30	40.34	1.56%	5.33%		4190	12.42
Oshkosh Truck	OSK	1.67%	42.88	51.70	15.95%	20.57%		3840	15.42
Xm Satellite Radio Holdings'a'	XMSR	1.43%	11.60	12.95	-52.53%	11.64%		3410	
Alliant Techsystems	ATK	1.18%	80.14	76.49	0.42%	-4.55%		2700	13.81
Trimble Navigation Ltd	TRMB	1.16%	48.03	48.97	37.98%	1.96%		2690	22.73
URS Corporation	URS	0.90%	39.60	40.55	7.82%	2.40%		2100	15.92
Flir Systems	FLIR	0.83%	23.99	27.70	24.05%	15.46%		1880	18.95
Armor Holdings	AH	0.82%	51.66	52.87	23.96%	2.34%		1890	10.48
Drs Technologies	DRS	0.72%	46.29	41.37	-19.54%	-10.63%		1660	12.72
Caci Intl	CAI	0.70%	56.35	53.06	-7.53%	-5.84%		1610	16.03
Sra International'a'	SRX	0.68%	24.19	28.01	-8.28%	15.79%		1570	20.12
Andrew Corp	ANDW	0.63%	8.45	9.25	-13.79%	9.47%		1450	15.69
Moog Inc.	MOGA	0.59%	34.69	32.65	15.05%	-5.88%		1370	14.41
Teledyne Technologies	TDY	0.58%	38.16	38.34	31.75%	0.47%		1330	17.23
Cogent Inc.	COGT	0.56%	14.15	14.28	-37.04%	0.92%		1240	14.79
Intergraph Corp	INGR	0.56%	35.53	37.36	-24.99%	5.15%		1280	24.39
Ceradyne Inc	CRDN	0.51%	48.89	44.07	0.62%	-9.86%		1200	10.61
Orbital Sciences Corp	ORB	0.45%	17.91	18.09	40.89%	1.01%		1120	26.73
Mantech International'a'	MANT	0.45%	28.19	30.44	9.26%	7.98%		1050	14.99
L-1 Identify Solutions	ID	0.45%	17.32	15.09	-14.31%	-12.88%		414	66.23
Esterline Technologies	ESL	0.40%	42.33	35.03	-5.81%	-17.25%		917	14.20
Gencorp	GY	0.33%	14.71	13.77	-22.42%	-6.39%		771	
Viasat Inc	VSAT	0.33%	24.70	27.05	1.20%	9.51%		775	18.33
United Industrial	UIC	0.27%	44.99	53.87	30.22%	19.74%		620	15.51
Argon St	STST	0.24%	24.79	25.72	-16.98%	3.75%		565	20.07
Cubic Corp	CUB	0.24%	20.06	20.13	0.85%	0.35%		547	19.86
SafeNet Inc.	SFNT	0.22%	17.03	18.80	-41.65%	10.39%		516	12.59
Ladish Co	LDSH	0.21%	34.00	34.97	56.47%	2.85%		493	14.15
TASER International Inc.	TASR	0.21%	7.22	7.77	11.64%	7.62%		489	29.11
Edo Corp	EDO	0.21%	22.44	23.33	-13.78%	3.97%		475	13.49
American Science & Engineering	ASEI	0.19%	50.71	45.96	-26.31%	-9.37%		433	16.27
Si International	SINT	0.16%	27.28	28.89	-5.50%	5.90%		379	16.01
Essex Corp.	KEYW	0.14%	15.36	14.88	-12.73%	-3.12%		325	17.07
MTC Technologies Inc.	MTCT	0.14%	20.23	21.00	-23.30%	3.81%		331	12.26
Osi Systems	OSIS	0.14%	17.99	19.69	7.07%	9.45%		326	36.44
Mercury Computer Sys	MRCY	0.11%	13.44	12.42	-39.80%	-7.59%		261	47.46
Kvh Industries	KVHI	0.08%	11.96	12.00	22.57%	0.33%		184	25.51
Herley Industries	HRLY	0.08%	10.73	13.32	-19.32%	24.14%		194	16.75
Applied Signal Technology	APSG	0.07%	15.32	14.70	-35.24%	-4.05%		170	20.64