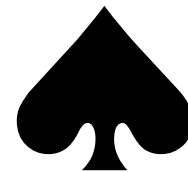


SPADE INVESTOR



October 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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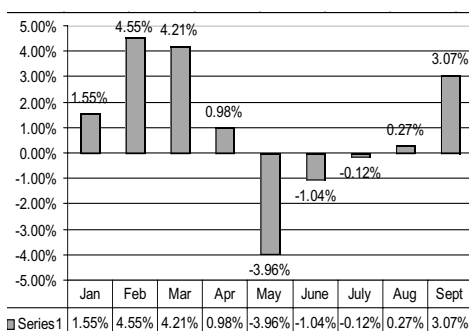
SPADE Defense Index Statistics

YTD Return: 9.60%
August Return: 3.07%
9/29/06 Close: 1934.33

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

Index Performance Summary

	SPADE (DXS)	S&P500
YTD	9.60%	7.01%
Sept 06	3.07%	2.46%
3Q06	3.21%	5.17%



Market Commentary

The end of September marked the close of the 3Q06 and the beginning of a new fiscal year for the U.S. government.

Results

The Quarter opened with the Index (AMEX: DXS) at 1874.14 and ended at 1934.33, a gain of 60.19 or 3.21%. For the month, the Index began at 1876.80 and ended at 1934.33, a gain of 57.53 or 3.07%.

The quarter opened with the global markets in decline and ended with the Dow hitting all-time highs. During the market sell-off, the Index hit a low of 1775.70 on June 13, a decline of 12.25% from its high on May 10 of 2023.66. Since that time, the SPADE Defense Index rebounded from this low posting a gain of 13.39%. As we write this, the Index is once again approaching the 2000 level and its all-time intraday high of 2026.75 which it reached on 21 April 2006.

The primary factor behind this upward move, besides a positive market outlook on Wall Street,

ETF Statistics (AMEX: PPA)

Powershares Aerospace & Defense Portfolio

Exchange / Ticker Symbol: AMEX / PPA
Fee: 60 basis
Assets (9/29/06): \$103.9 M (up \$11.3M)
Closing Price 9/29/06: \$17.05 (up \$0.50)
Trading Volume (Sept 06): 1,453,500

Average Portfolio Market Cap: \$11.62 Billion
Portfolio P/E: 17.48
Portfolio P/S: 1.12
Portfolio P/B: 2.65
Portfolio P/Cash Flow: 8.45
Earnings Growth Rate (ttm): 14.14%
3 month Avg Daily Trading Volume: 71,337

source: Yahoo! Finance - ETF Center

Inside this Issue

- Inside the FY07 Budgets for the Department of Defense and Department of Homeland Security -- Is \$60 Billion More on the Horizon?

- A New World Threat Emerges

has been the approval by Congress of the FY-2007 budgets for the Department of Defense and Homeland Security at levels consistent, if not slightly higher, than what was forecast earlier in the year.

Our Quarterly Rebalance - Changes to the Index

The end of September marked the quarterly rebalance of the Index. Being capitalization-weighted, the rebalancing enables the Index has the effect of capturing a percentage of the gains from firms with positive moves and rebalance those that declined.

The quarter saw the addition of one firm -- DynCorp International (NYSE:DCP). For those not familiar with it, the firm works behind the scenes to support U.S. military and diplomatic efforts on the front lines, providing base operations, drug eradication, law enforcement training, logistics support, and security.

During the quarter, PanAmSat was removed when its acquisition by Intelsat finalized. In addition, the ticker for Viisage was changed when its merger with Identix finalized and the firm was renamed

Year	SPADE	S&P500
2006 YTD	9.60%	7.01%
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%

Index and Industry Statistics

YTD Top Gainers	September's Top Gainers	September's Top Decliners
1. Garmin 47.04%	1. Essex 19.02%	1. Ladish <17.41%>
2. Orbital Sciences 46.18%	2. DynCorp Int'l 15.72%	2. L-1 Identity <13.52%>
3. DirecTV 39.38%	3. Integraph 14.78%	3. ViaSat <7.28%>
4. Teledyne 36.08%	4. MTC Tech. 14.48%	4. Argon ST <6.80%>
5. Lockheed Martin 35.35%	5. SI International 10.70%	5. Ceradyne <6.76%>
6. Armor Holdings 34.42%	6. Mantech 8.44%	6. Gencorp <6.75%>
	6. Armor Holdings 8.44%	

Quarter	SPADE	S&P500
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%

YTD - SPADE vs. S&P 500 vs. NASDAQ



Market Commentary (continued)

L-1 Identity Solutions.

As of this letter, the Index consists of 58 constituents whose daily floating percentage in the Index can be found on the www.amex.com website by typing in the ticker DXS, clicking on the name of the Index, and then 'Show Index Components'.

Inside the FY07 Defense Department Budget

Congress approved a \$447.6 billion budget for FY07. This is up from the \$439.3 billion originally requested in February. (+ \$8.3B).

Key features include:

- * \$70 billion for 6-months in Iraq/Afghanistan
- * \$80.9 billion to procurement systems
- * \$75.7 billion for R&D
- * \$17 billion to the Army and \$5.8 billion for the Marines to replace or repair equipment
- * 9.4 billion for Ballistic Missile Defense
- * 11.0 billion for seven new Navy ships

The basic defense budget of \$462.8 billion is \$21.2 billion more than was approved for FY06.

Adjusted for inflation, defense spending is 45% higher than in 2001 when President Bush took office

Procurement spending for weapons and systems of \$84.2 billion is up from \$76.9 billion in FY06

Additional Reasons for the Rise in Defense Spending

While many people tend to focus on the rising cost for weapons and systems and the cost for the ongoing wars in Iraq and Afghanistan, the Pentagon has cited several other factors:

- Pay raises
- Wartime recruiting and retention bonuses
- Escalating medical costs

Reports cite that President Bush plans to ask Congress in the Spring of 2007 for an additional \$60 billion in emergency funding for the Department of Defense.

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The International Defense Market

During the most recent quarter, the Government of Canada announced plans to spend more than \$15 billion (C\$17.1 billion) to purchase ships, helicopters, aircraft, and trucks with the aim of improving the mobility of Canadian forces.

Market for UAVs Forecasted to Grow to \$8.3 Billion Annually

A report from the Teal Group states that worldwide spending on unmanned aerial vehicles is forecasted to triple from \$2.7 billion today to \$8.3 billion annually within a decade. The total 10-year market is forecasted to be \$55 billion.

Inside the FY07 Homeland Security Budget

Congress passed a budget of \$34.8 Billion and it remains a favorite for legislators. In 2006, Congress approved \$2.3 billion more than was requested by President Bush and in FY07, an additional \$2.7 billion was approved. In September 2006, Congress passed a \$3.5 billion port security spending bill by a vote of 98-0.

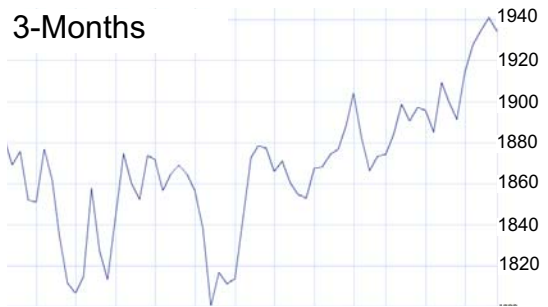
Where it Goes...

- \$21.3 B - border protection
- \$ 5.2 B - secure border initiative
- \$ 2.8 B - border patrol - add 1500 agents (total up to 14,800)
- \$ 1.2 B - border fencing & vehicle barriers

What They Do...

- install cameras and high-tech sensors to monitor U.S. borders
- search more electronic databases to identify individuals
- install radiation monitors at all major U.S. ports
- inspect more baggage and cargo at airports
- increasingly scan fingerprints at the nation's point of entry

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The Cost of War (Updated)

With the \$70 billion added by Congress in the FY-07 Defense Appropriations bill, spending on the ongoing wars in Iraq and Afghanistan has reached \$507 billion.

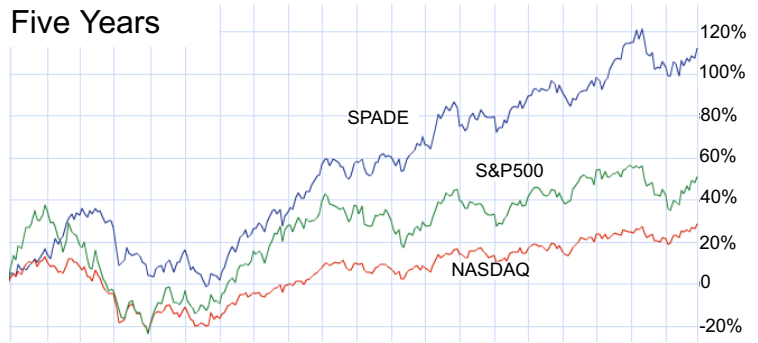
Jim Cramer's (CNBC) Thoughts on the Defense Sector (Sept 29)

From SeekingAlpha.com -- 'The Pentagon's budget passed the Senate on Friday and Cramer identified defense companies which will benefit and 'can't be stopped'. Concerning Lockheed Martin, he said, 'Congress just can't say no to' this F-35 producer which recently raised its dividend. General Dynamics makes a variety of defense goods, says Cramer and Raytheon is 'the king of radar' and makes powerful guided missiles. Finally Cramer discussed L-3 and CACI which he said would have a 'hard time failing to deliver'.

New World Threat Emerges

Besides the Middle East and the War on Terrorism, and the media spotlight on North Korean nuclear tests, perhaps the biggest issue affecting future defense spending was a September 26 test by a ground-based laser operating in China that illuminated a U.S. spacecraft. Preventing the damage to or blinding of a satellite, which is used by DoD for communications, intelligence gathering, and coordinating military actions is a top concern of the military leadership. The test is likely to continue support for the growth in initiatives associated with spacecraft survivability and space control.

Charts Courtesy of: Yahoo! Finance



Sep-06		SPADE						Market	Forward
Company	Ticker	Float %	Price	Price	% Ch	% Ch		Cap	P/E
		10-Oct	Aug 31 CL	Sept 29 CL	YTD	MTD		intraday	(ttm, intraday)
Boeing Co	BA	6.92%	74.90	78.85	12.26%	5.27%		65.29	17.51
United Technologies	UTX	6.83%	62.71	63.35	13.31%	-1.01%		66.05	15.85
Lockheed Martin	LMT	6.64%	82.60	86.06	35.25%	4.19%		37.6	15.70
Honeywell Intl	HON	6.10%	38.72	40.89	9.77%	5.60%		34.58	14.46
Genl Dynamics	GD*	5.40%	67.55	71.67	25.68%	6.10%		30.58	15.99
Raytheon Co	RTN	4.57%	47.21	48.01	19.58%	1.69%		22.36	16.13
Directv Group	DTV	4.49%	18.79	19.68	39.38%	4.74%		24.65	16.02
Northrop Grumman	NOC	4.43%	66.81	68.07	13.24%	1.89%		23.64	14.36
Garmin Ltd	GRMN*	4.35%	46.76	48.78	47.04%	4.32%		10.99	22.22
Rockwell Collins	COL	4.09%	52.43	54.84	18.01%	4.60%		9.84	18.22
Itt Indus	ITT*	4.03%	48.95	51.27	-0.27%	4.74%		9.68	15.24
Echostar Communications'a'	DISH	4.01%	31.75	32.74	20.46%	3.12%		14.71	17.31
L-3 Communications Hldgs	LLL	3.91%	75.39	78.33	5.35%	3.90%		9.63	13.83
Precision Castparts	PCP	3.63%	58.44	63.16	21.91%	8.08%		8.72	14.67
Computer Sciences	CSC	3.41%	47.38	49.12	-3.00%	3.67%		8.19	11.19
Harris Corp	HRS	2.42%	43.92	44.49	3.44%	1.30%		5.83	14.36
Sirius Satellite Radio	SIRI	2.26%	4.08	3.92	-41.49%	-3.92%		5.42	
Goodrich Corp	GR	2.15%	38.95	40.52	-1.41%	4.03%		5.18	13.79
Ball Corp	BLL	1.80%	40.34	40.45	1.84%	0.27%		4.33	12.77
Oshkosh Truck	OSK	1.66%	51.70	50.47	13.19%	-2.38%		3.99	16.02
Xm Satellite Radio Holdings'a'	XMSR	1.31%	12.95	12.90	-52.71%	-0.39%		3.15	
Alliant Techsystems	ATK	1.18%	76.49	81.06	6.42%	5.97%		2.84	14.12
Trimble Navigation Ltd	TRMB	1.11%	48.97	47.08	32.66%	-3.86%		2.67	22.57
URS Corporation	URS	0.87%	40.55	38.89	3.40%	-4.09%		2.08	15.77
Armor Holdings	AH	0.82%	52.87	57.33	34.42%	8.44%		1.96	10.90
Flir Systems	FLIR	0.77%	27.70	27.16	21.63%	-1.95%		1.84	18.37
Drs Technologies	DRS	0.76%	41.37	43.67	-15.07%	5.56%		1.84	14.02
Caci Intl	CAI	0.72%	53.06	55.01	-4.13%	3.68%		1.73	17.09
Sra International'a'	SRX	0.68%	28.01	30.06	-1.57%	7.32%		1.63	20.74
Andrew Corp	ANDW	0.63%	9.25	9.25	-13.79%	0.00%		1.51	16.26
Moog Inc.	MOGA	0.61%	32.65	34.66	22.13%	6.16%		1.49	15.75
Teledyne Technologies	TDY	0.61%	38.34	39.60	36.08%	3.29%		1.46	18.52
Cogent Inc.	COGT	0.53%	14.28	13.73	-39.46%	-3.85%		1.28	23.82
Intergraph Corp	INGR	0.53%	37.36	42.88	-13.91%	14.78%		1.27	23.93
Orbital Sciences Corp	ORB	0.49%	18.09	18.77	46.18%	3.76%		1.17	26.77
Mantech International'a'	MANT	0.48%	30.44	33.01	18.49%	8.44%		1.15	18.58
Ceradyne Inc	CRDN	0.46%	44.07	41.09	-6.19%	-6.76%		1.12	9.81
L-1 Identify Solutions	ID	0.43%	15.09	13.05	-25.89%	-13.52%		0.421	80.50
Esterline Technologies	ESL	0.37%	35.03	33.76	-9.22%	-3.63%		0.904	14.20
Gencorp	GY	0.31%	13.77	12.84	-27.66%	-6.75%		0.741	
Viasat Inc	VSAT	0.31%	27.05	25.08	-6.17%	-7.28%		0.74	17.49
DynCorp* (YTD from IPO 10July06)	DCP	0.26%	10.88	12.59	27.82%	15.72%		0.63	10.73
United Industrial	UIC	0.25%	53.87	53.50	29.32%	-0.69%		0.608	15.17
TASER International Inc.	TASR	0.24%	7.77	7.66	10.06%	-1.42%		0.575	34.26
SafeNet Inc.	SFNT	0.23%	18.80	18.19	-43.54%	-3.24%		0.563	13.54
Cubic Corp	CUB	0.22%	20.13	19.58	-1.90%	-2.73%		0.518	18.83
Argon St	STST	0.21%	25.72	23.97	-22.63%	-6.80%		0.515	18.60
Edo Corp	EDO	0.20%	23.33	22.88	-15.45%	-1.93%		0.476	13.37
Ladish Co	LDSH	0.18%	34.97	28.88	29.22%	-17.41%		0.44	12.66
American Science & Engineering	ASEI	0.18%	45.96	46.40	-25.61%	0.96%		0.424	16.06
Si International	SINT	0.17%	28.89	31.98	4.61%	10.70%		0.415	17.52
Essex Corp.	KEYW	0.16%	14.88	17.71	3.87%	19.02%		0.385	25.30
MTC Technologies Inc.	MTCT	0.16%	21.00	24.04	-12.20%	14.48%		0.378	14.52
Osi Systems	OSIS	0.15%	19.69	19.60	6.58%	-0.46%		0.354	29.87
Mercury Computer Sys	MRCY	0.10%	12.42	11.85	-42.56%	-4.59%		0.25	13.08
Kvh Industries	KVHI	0.08%	12.00	12.75	30.23%	6.25%		0.203	28.04
Applied Signal Technology	APSG	0.07%	14.70	14.84	-34.63%	0.95%		0.172	20.70