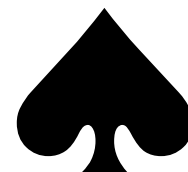


SPADE INVESTOR



November 2006

Defense * Homeland Security * Space

www.spadeindex.com

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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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Scott Sacknoff: Index Manager

SPADE Defense Index Statistics

YTD Return: 13.07%
October Return: 3.17%
10/31/06 Close: 1995.72

All-time High(intraday) 2028.96
Date 16Oct2006

Index Performance Summary

	SPADE (DXS)	S&P500
YTD	13.07%	10.39%
QTD	6.34%	5.69%
Oct 06	3.17%	3.15%

ETF Statistics (AMEX: PPA)

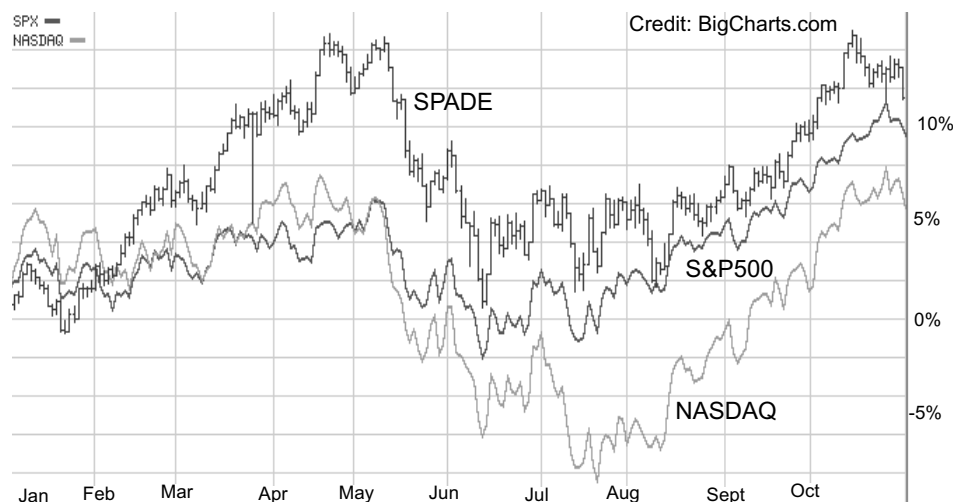
Powershares Aerospace & Defense Portfolio

Exchange / Ticker Symbol: AMEX / PPA
Fee 60 basis
Assets (10/31/06) \$112.5 M (up \$8.6M)
Closing Price 10/31/06 \$17.54 (up \$0.49)
Trading Volume (Oct 06) 2,451,000

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 91,179

source: Yahoo! Finance - ETF Center * 30Sept06

Year-to-Date SPADE vs. S&P 500 vs. NASDAQ



Market Commentary

As a cool wind begins to blow and the calendar shifts from fall to winter, what is moving defense and homeland defense stocks is 'hot air'! Yes, it is election time.

Congressional Elections on the Horizon

With the mid-term elections less than a week away, the prognosticators are forecasting that the Democrats will win enough seats to capture the House of Representatives and possibly even the Senate. The question at hand is, will a Democratic victory mean a rapid pull-out of Iraq and a decline in defense spending?

Going into the month, the large defense contractors all reported healthy quarterly revenues, sales and improved margins (see box). Based on these results, the SPADE Defense Index continued to rise, gaining 3.2% in October and 6.3% in the quarter. With the election approaching, the last week of the month and the first days of November have seen some increased volatility and some retraction in the value of the Index. According to comments made by a number of analysts, this has as much to do with investors capturing gains as it does with any changes that come from the election.

Year	SPADE	S&P500
2006 YTD	13.07%	10.39%
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%

Quarter	SPADE	S&P500
QTD	6.34%	5.69%
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%

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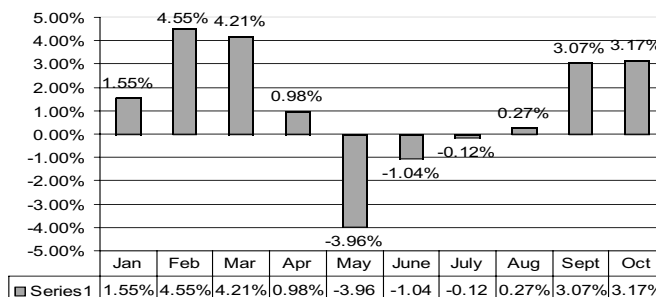
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Index and Industry Statistics

YTD Top Gainers	October's Top Gainers	October's Top Decliners
1. Garmin 60.99%	1. Taser 21.54%	1. DynCorp <16.60%>
2. DirecTV 57.79%	2. Herley Industries 19.22%	2. Cogent <16.24%>
3. Teledyne Tech 43.37%	3. SafeNet 17.65%	3. United Industrial <15.87%>
4. FLIR Systems 43.04%	4. FLIR Systems 17.40%	4. KVH Industries <14.35%>
5. Orbital Sciences 41.43%	5. American Sci & Eng 13.43%	5. Oshkosh Truck <10.42%>
6. Ladish Co. 39.69%	6. DirecTV 13.21%	6. Armor Holdings <10.24%>
7. Lockheed Martin 36.62%	7. Esterline 11.67%	



Last week, Jim Cramer on Mad Money commented that one might want to sell defense stocks ahead of the election and buy them back a week later under the guise that the forecast of a Democratic victory would lead to a short-term decline in defense related stocks.

While the SPADE is down about 2% from its highs, the Powershares Aerospace & Defense Portfolio (AMEX: PPA), which tracks the SPADE Defense Index, has seen several million dollars of inflows in the last week as trading volume spiked to more than 4x its typical 70k/day average.

So What Does a Democratic Victory Mean?

There have been conflicting opinions on this. There are those that pitch the 'traditional' belief that Democratic control of Congress (either the House, Senate, or both) would lead to a quick pull-out of the troops from Iraq and reductions in defense spending. The reality is that this is not necessarily true.

Here are some thoughts to ponder...

1. In advance of the Presidential elections in 2008, it is likely that the Democratic party will deliberately move to the middle in an attempt to take issues away from the Republican party.

2. Regardless of how the election turns out, President Bush as Commander-in-Chief, makes the final determination of when the pull-out will begin. Congress' power to force a pull-out would be to stop paying for the war, but this in turn would lead to claims of a Democratic-led Congress not supporting the troops – an issue that the Democratic Party would not want to be

pulled out in the 2008 Presidential election.

3. A pull-out of Iraq will take a number of months and a request for supplemental funding is already planned for the March-May time-frame.

4. The budget for the next ten months (October 2007) is already approved. The following budget (Oct 08 – Oct 09) will likely have additional procurement items devoted to replenishing and restocking hardware used in Iraq. That budget will also likely have a stable R&D (RDT&E) spending environment for the agencies to develop technologies to improve the safety of soldiers and equipment. This takes us all the way to January 2009, when the budget by whomever is our next president is submitted to Congress.

5. Getting back to the theme of gridlock is good, based on the above, defense spending should be relatively stable. The wild card is the decline in supplemental spending. For the long-term, we've seen comments about declines in defense spending from the 2012 to 2017. Considering the unknowns in the world, we feel that it is much too early to correctly predict defense spending ten years out.

6. Last spring, the report, "Real Security: The Democratic Plan to Protect America and Restore Our Leadership in the World", the party spelled out a five-point plan which endorsed every acquisition program in the Rumsfeld defense budget and a promise to, "rebuild a state-of-the-art military by adding equipment and manpower".

7. The biggest effort by a Democratic-controlled Congress would likely be hearings and investigations – into the intelligence that led to the war in Iraq, cost overruns regarding the reconstruction, and certain weapons programs that have experienced substantial cost overruns. It is also likely that they will look into the contracts and performance of specific companies, such as Haliburton, which has been cited for delays and over billing.

8. Lastly, while recent history has seen declines in defense spending when Democrats have controlled the White House and Congress, ie. Carter in 1976-1980 and Clinton in 1992-2000, these are periods that could be considered relative stability. (While the Cold War with the Soviet Union during the Carter Administration was still ongoing, it had reached an element of status quo and hence stability. In the Clinton years there are those that argue whether reductions in military spending was capturing the ‘peace dividend’ or an error in strategy). However, if we expand our time horizons, there were Democrats in power during World War II and the Vietnam War in the 1960s. Whereas spending on defense and homeland security is less than 5% of GDP today, during World War

II, it was nearly half.

A Time That ‘Gridlock is Good’

Looking at the increasing partisanship of the last few years on Capitol Hill and the aforementioned eight thoughts to ponder, gridlock on defense and homeland security issues is a very real possibility.

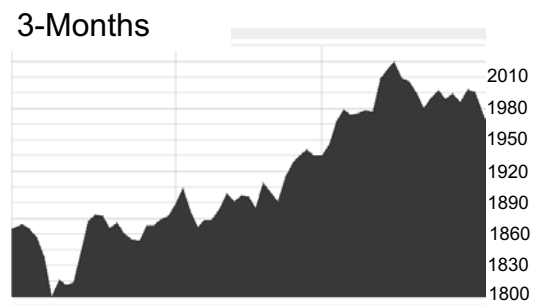
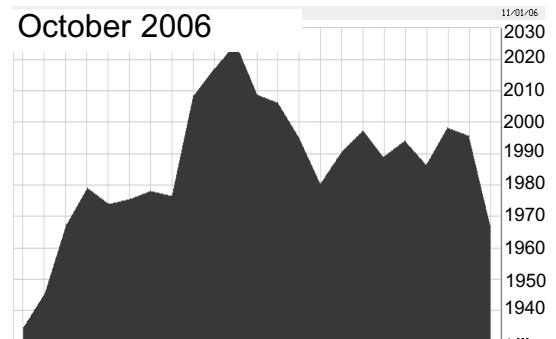
Regardless of the political party (or mix of parties) in control, there is a likelihood that neither party in Congress will have an absolute majority, or at least enough that the minority party can stall legislation. This will lead to the stability and a clear direction of where things are headed that the financial markets prefer.

Taking this into account, the adage of buy on the rumor, sell on the news seems to jive with Jim Cramer’s comment to sell defense before the election and buy it back after.

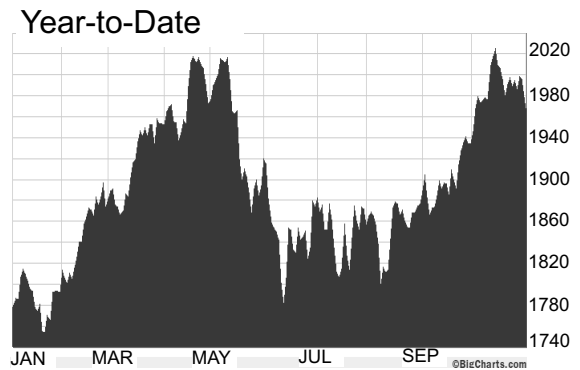
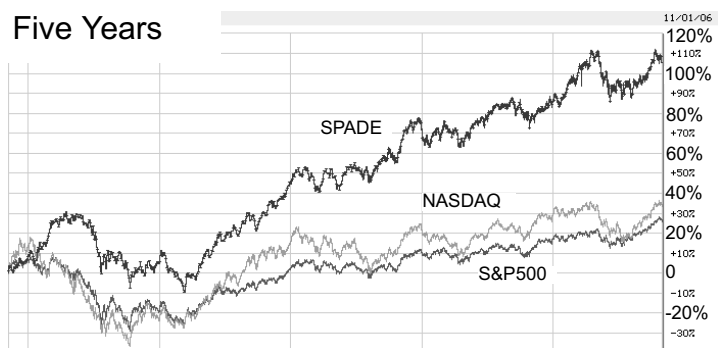
Selected Company Results from 3rd Quarter Reporting

Boeing	Sales rose to \$12.4B from \$10.1 B Operating margin 6.50%, up 0.3%
United Technologies	Revenues up 12%, profits up 21%
General Dynamics	Sales rose 14.5% to \$6.1 billion Operating margin 11.2%, up 0.4%
Lockheed Martin	Net income up 47%, sales up 4% Earned \$1.46 / share vs. \$1.24 estimate Operating margin 9.4%, up 1.70%
Northrop Grumman	Sales up 2% to \$7.4 billion Earnings per shares up 9% Operating margin 7.34%, up 1.33%
L-3 Communications	Sales rose 24% to \$3.1 billion Operating margin 10.7%, up 0.1%
Raytheon	Operating margin 11.3%, up 0.5%

Charts Courtesy of: BigCharts.com



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October 2006 Close	SPADEFENSE Index						Market	Forward	Price/	Price/	
Company	Ticker	Float %	Price	Price	% Ch	% Ch	Cap	P/E	Sales	Book	Div Yld
		31-Oct	Sept 29 CL	Oct 31 CL	YTD	MTD	intraday	(ttm, intraday)	ttm	mrq	forward %
United Technologies	UTX	6.82%	63.35	65.72	17.55%	3.74%	65.96	15.87	1.42	3.39	1.70%
Boeing Co	BA	6.67%	78.85	79.86	13.70%	1.28%	63.2	16.96	1.07	5.76	1.50%
Lockheed Martin	LMT	6.45%	86.06	86.93	36.62%	1.01%	36.65	14.86	0.94	4.54	1.50%
Honeywell Intl	HON	6.03%	40.89	42.12	13.07%	3.01%	34.39	14.47	1.14	3.06	2.40%
Genl Dynamics	GD*	5.02%	71.67	71.1	24.68%	-0.80%	28.75	14.97	1.23	3.17	1.40%
Directv Group	DTV	4.92%	19.68	22.28	57.79%	13.21%	27.21	17.68	1.96	4.50	
Garmin Ltd	GRMN*	4.55%	48.78	53.41	60.99%	9.49%	11.59	23.22	8.60	8.93	0.50%
Raytheon Co	RTN	4.54%	48.01	49.95	24.41%	4.04%	22.41	16.01	0.98	1.97	2.10%
Echostar Communications'a'	DISH	4.27%	32.74	35.52	30.68%	8.49%	15.8	18.22	1.73		
Northrop Grumman	NOC	4.24%	68.07	66.39	10.45%	-2.47%	22.93	13.72	0.75	1.32	1.80%
Itt Indus	ITT*	4.14%	51.27	54.39	5.80%	6.09%	10.04	16.04	1.30	3.33	0.90%
Rockwell Collins	COL	4.10%	54.84	58.08	24.98%	5.91%	9.96	18.44	2.65	8.87	1.20%
L-3 Communications Hldgs	LLL	3.99%	78.33	80.52	8.30%	2.80%	9.91	14.13	0.83	2.06	1.00%
Precision Castparts	PCP	3.80%	63.16	68.06	31.36%	7.76%	9.22	14.64	2.15	4.03	0.20%
Computer Sciences	CSC	3.74%	49.12	52.85	4.36%	7.59%	9.08	12.41	0.63	1.50	
Harris Corp	HRS	2.35%	44.49	42.6	-0.95%	-4.25%	5.7	13.88	1.53	3.20	0.70%
Goodrich Corp	GR	2.27%	40.52	44.09	7.27%	8.81%	5.5	14.41	0.97	2.66	2.00%
Sirius Satellite Radio	SIRI	2.22%	3.92	3.83	-42.84%	-2.30%	5.38		12.57		
Ball Corp	BLL	1.79%	40.45	41.59	4.71%	2.82%	4.33	12.76	0.68	3.87	0.90%
Oshkosh Truck	OSK	1.37%	50.47	45.21	1.39%	-10.42%	3.33	16.87	1.10	3.74	0.90%
Xm Satellite Radio Holdings'a'	XMSR	1.29%	12.90	11.66	-57.26%	-9.61%	3.13		3.99		
Alliant Techsystems	ATK	1.10%	81.06	77.21	1.37%	-4.75%	2.68	13.31	0.82	4.01	
Trimble Navigation Ltd	TRMB	1.05%	47.08	46.22	30.23%	-1.83%	2.73	20.82	3.11	3.92	
Flir Systems	FLIR	0.90%	27.16	31.94	43.04%	17.60%	2.19	21.15	3.98	6.27	
URS Corporation	URS	0.86%	38.89	40.41	7.44%	3.91%	2.1	15.91	0.51	1.46	
Armor Holdings	AH	0.75%	57.33	51.46	20.66%	-10.24%	1.83	10.15	0.91	2.31	
Sra International'a'	SRX	0.74%	30.06	32.05	4.94%	6.62%	1.79	22.89	1.52	3.36	
Drs Technologies	DRS	0.73%	43.67	44.22	-14.00%	1.26%	1.78	13.56	0.88	1.30	0.30%
Caci Intl	CAI	0.73%	55.01	57.54	0.28%	4.60%	1.76	17.38	1.02	2.41	
Moog Inc.	MOGA	0.64%	34.66	37.3	31.43%	7.62%	1.56	16.43	1.27	2.35	
Andrew Corp	ANDW	0.61%	9.25	9.26	-13.70%	0.11%	1.46	13.04	0.67	0.96	
Teledyne Technologies	TDY	0.59%	39.60	41.72	43.37%	5.35%	1.43	17.68	1.06	3.46	
Intergraph Corp	INGR	0.53%	42.88	43.69	-12.29%	1.89%	1.29	23.49	2.17	3.08	
Mantech International'a'	MANT	0.47%	33.01	34.06	22.25%	3.18%	1.14	18.31	1.06	2.76	
Cogent Inc.	COGT	0.45%	13.73	11.5	-49.29%	-16.24%	1.08	20.54	8.88	2.27	
Orbital Sciences Corp	ORB	0.45%	18.77	18.16	41.43%	-3.25%	1.08	25.58	1.42	2.57	
Ceradyne Inc	CRDN	0.45%	41.09	41.25	-5.82%	0.39%	1.11	9.38	2.22	3.50	
L-1 Identify Solutions	ID	0.42%	13.05	14.31	-18.74%	9.66%	0.416	79.50	5.39	1.52	
Esterline Technologies	ESL	0.40%	33.76	37.7	1.37%	11.67%	0.96	15.08	1.04	1.42	
Viasat Inc	VSAT	0.32%	25.08	27.14	1.53%	8.21%	0.776	18.34	1.70	2.70	
Gencorp	GY	0.30%	12.84	13.1	-26.20%	2.02%	0.73		1.11		
DynCorp* (YTD from IPO 10July06)	DCP	0.25%	12.59	10.5	-30.00%	-16.60%	0.599	10.19	0.29	1.74	
TASER International Inc.	TASR	0.24%	7.66	9.31	33.76%	21.54%	0.579	33.25	9.85	6.20	
SafeNet Inc.	SFNT	0.24%	18.19	21.4	-33.58%	17.65%	0.453	15.97	1.57	0.83	
Cubic Corp	CUB	0.23%	19.58	20.91	4.76%	6.79%	0.559	20.30	0.68	1.81	0.90%
Argon St	STST	0.22%	23.97	23.62	-23.76%	-1.46%	0.523	18.90	1.93	2.05	
United Industrial	UIC	0.21%	53.50	45.01	8.80%	-15.87%	0.514	13.01	0.89	11.93	0.90%
Edo Corp	EDO	0.20%	22.88	23.91	-11.64%	4.50%	0.487	13.82	0.76	1.97	0.50%
American Science & Engineering	ASEI	0.20%	46.40	52.63	-15.62%	13.43%	0.481	18.21	3.06	3.45	
Ladish Co	LDSH	0.18%	28.88	31.22	39.69%	8.10%	0.443	12.80	1.27	3.03	
Si International	SINT	0.18%	31.98	33.16	8.47%	3.69%	0.427	18.02	0.95	1.89	
Essex Corp.	KEYW	0.18%	17.71	19.68	15.43%	11.12%	0.427	27.72	2.04	2.85	
MTC Technologies Inc.	MTCT	0.15%	24.04	22.64	-17.31%	-5.82%	0.357	16.29	0.90	2.02	
Osi Systems	OSIS	0.14%	19.60	20.7	12.56%	5.61%	0.346	29.15	0.79	1.42	
Mercury Computer Sys	MRCY	0.11%	11.85	12.32	-40.28%	3.97%	0.268	15.21	1.14	1.36	
Herley Industries	HRLY	0.09%	12.38	14.76	-10.60%	19.22%	0.216	20.22	1.25	1.04	
Kvh Industries	KVHI	0.07%	12.75	10.92	11.54%	-14.35%	0.162	22.75	2.04	2.09	
Applied Signal Technology	APSG	0.07%	14.84	14.84	-34.63%	0.00%	0.177	21.20	1.00	1.66	3.50%