

SPADE INVESTOR



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Defense * Homeland Security * Space

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Defense Sector Continues to Surge

On pace to beat S&P500 for Seventh Consecutive Year!

Defense and homeland security figured prominently on the minds of the news media and investors as the November 7th Congressional elections reshaped the political landscape in the United States.

In advance of the election, Wall Street prognosticators were commenting:

“Dead Market Walking” - The Street.com

“As the Democrats want us out of Iraq, sell ‘PPA’ [defense ETF]” - Jim Cramer, CNBC

and for the short-term, day-trading crowd, they were correct. In the two days after the November 7th election, the major defense contractors were all down -- Lockheed Martin (2.4%), General Dynamics (2.3%), L-3 (3.3%), Northrop Grumman (2.7%), and Raytheon (1.9%).

In comparison, the SPADE Defense Index declined marginally but taking into the account the two days leading into the election, the Index was up, reflecting not only the diversification of the companies operating in the defense and homeland security but the overall health of the sector.

SPADE Defense Index Statistics

YTD Return: 16.85%
 November Return: 3.34%
 11/30/06 Close: 2062.38

All-time High*: 2074.03
 Date: 22 Nov 2006
 * passed on 4Dec, 5Dec, 6Dec, 7Dec (2101.49)

Index Performance Summary

	SPADE (DXS)	S&P500
YTD	16.85%	12.20%
QTD	6.63%	4.85%
Nov 06	3.34%	1.65%

SPADE Defense Index hits all-time highs in November

What the Democratic Victory Really Means

As predicted, the Democrats captured enough seats in the mid-term elections to get control of both the U.S. House of Representatives and the Senate.

The question on the minds of many was, will a Democratic victory mean a rapid pull-out of Iraq and a decline in defense spending? As you will see from our commentary, we expect that this is an unfounded fear and the markets since the election are beginning to bear this out. With reports of record-high supplemental budgets for defense in the works and positive comments from the new leadership on their support for defense and homeland security initiatives, we expect that the change in parties will have a minimal effect on the defense and homeland security sector.

Some thoughts to ponder...

1. In advance of the Presidential elections in 2008, it is likely that the Democratic party will deliberately move toward the

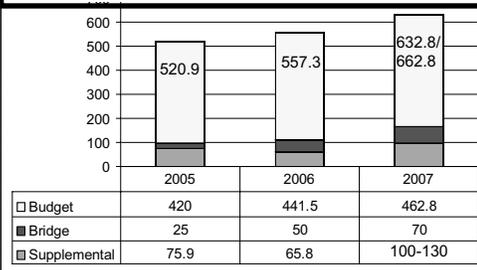
continued on page 4

Merrill Lynch: Puts Defense on Top 10 plays for 2007

See Page 3, Analyst Commentaries

Those who rebought or were patient and remained invested though the election volatility, saw the SPADE Defense Index rise to *all-time highs*, the third time this year that the Index has surged passed to achieve these historic levels.

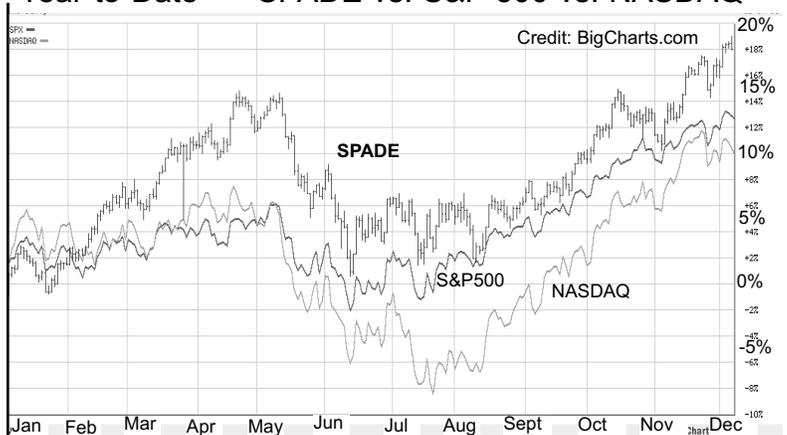
War Spending (\$B) credit: Defense News



If you thought the run on defense stocks was over or are wondering why it continues, we'll give you three reasons that hopefully will answer the question. But this is not only our opinion. On page 3 we've cited some recent comments from financial institutions that are highlighting the defense sector -- see 'Analyst Commentaries'.

continued on page 3

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



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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Index and Industry Statistics

YTD Top Gainers		November's Top Gainers		November's Top Decliners	
1. DirecTV	61.12%	1. Ceradyne	27.93%	1. SRA Int'l	<8.95%>
2. Garmin	53.40%	2. DynCorp	20.54%	2. TASER	<8.92%>
3. Ladish	50.96%	3. XM Satellite	23.84%	3. EDO	<8.28%>
4. Precision Castparts	45.65%	4. Essex Corp.	20.99%	4. OSI Systems	<8.26%>
5. FLIR Systems	44.25%	5. American Science	20.54%	5. Garmin	<4.72%>
6. Lockheed Martin	42.15%	6. L-1 Identity	17.12%	6. Argon ST	<4.02%>
7. Essex Corp.	39.65%	7. MTC Technologies	15.19%	7. Teledyne Tech.	<3.64%>

1st Responder Spending	2006 - \$7.1 Billion 2008 - \$8.2 Billion 2010 - \$9.4 Billion Source: Gartner Inc. November 2006
Defense Exports	U.S. companies signed \$12.75 Billion in new agreements
Department of Homeland Security Spending	The DHS Inspector General says that upgrading security along the Mexican border could cost \$30 Billion -- 15 times higher than the original \$2 billion estimate - <i>Washington Post 11/16/06</i>
Cost of War	Military leaders state that \$2 billion worth of equipment is wearing out or being destroyed each month in Iraq and Afghanistan. - <i>USA Today</i>

ETF Statistics (AMEX: PPA)	
Powershares Aerospace & Defense Portfolio	
Exchange / Ticker Symbol:	AMEX / PPA
Fee	60 basis
Assets (11/30/06)	\$107.3 M
Closing Price 11/30/06	\$18.16 (up \$0.62)
Trading Volume (Nov 06)	2,538,900
Average Portfolio Market Cap*	\$11.73 Billion
Portfolio P/E*	18.14
Portfolio P/S*	1.15
Portfolio P/B*	2.70
Portfolio P/Cash Flow*	8.78
Earnings Growth Rate (ttm)*	14.22%
3 month Avg Daily Trading Volume	100,821
source: Yahoo! Finance - ETF Center * 7Dec06	

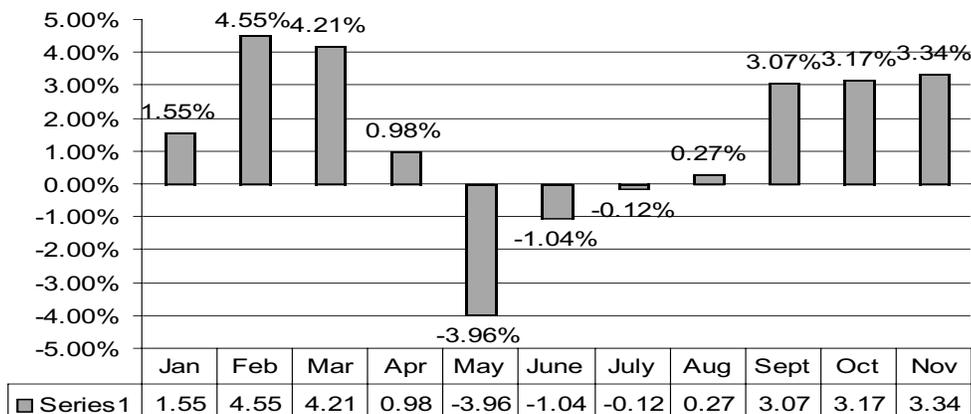
This year, the Department of Defense is spending \$9.3 billion on Missile Defense
Wall Street Journal

Supplemental Funding is Not Something New

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Budget	273.2	295.5	315.7	344.8	382.7	400.5	420.0	441.5	442.8	464.0
Supplemental	19.1	8.6	19.8	17.3	72.6	65.3	75.9	65.8	60+	110+
Total	292.3	304.1	335.1	362.1	455.3	465.8	520.9	557.3	572.8+	

Source: OMB / Defense News

2006 Monthly Performance of the SPADE Defense Index



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Year	SPADE	S&P500
2006 YTD	16.85%	12.20%
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	6.63%	4.85%
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%

Defense Sector Continues to Surge
(continued)

With the SPADE Defense Index on pace to outperform the broader market for the seventh consecutive year, here are some reasons why the run may still has some strength in it.

1. Analysts are predicting a record supplemental budget request for defense spending for 2007 of **\$100 - \$130 billion**. This is on top of a \$21 billion increase scheduled for the Department of Defense as part of the already approved FY-2007 budget.

1A. Military leaders state that an estimated \$2 billion worth of equipment is wearing out, being used, or destroyed each month in Iraq and Afghanistan. Overall the war effort (depending on the estimate) is costing \$7-\$8 billion per month.

2. The politics of the 2008 Presidential election dictate that the Democratic leadership in Congress will show a level of support to defense and homeland security initiatives and budgets that might surprise (see accompanying analysis on pages 1,4 - what the democratic victory really means)

3. "Fueled by several years of robust growth and profitability, defense and government service companies are flush with cash and buying power. The big defense primes, which are aggressively driving to a 50:50 mix of platforms, products, and services have \$7 billion in cash and \$40 billion in borrowing capacity with the primary use of proceeds being acquisitions to position themselves for the future and to meet Wall Street expectations." The aforementioned quote was issued by Richard Knop, the Senior

Managing Director of BB&T Capital Markets in his 13November06 article in Washington Technology. (reprinted with his office's permission).

When the Internet during the Wall Street bubble was hot, everyone talked about how the world was different so the old method of valuing companies no longer applied. While this proved wrong to many investors, the concept was correct.

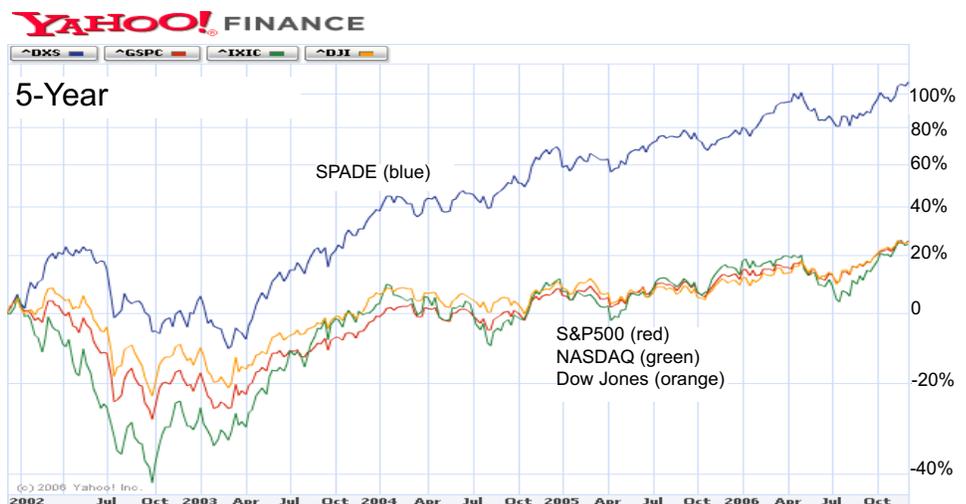
With regards to national security, the world has become different and in the years following 9-11, those in western nations and the United States would be hard to argue against the increased visibility that defense and homeland security receive.

In the past there was a cycle of defense build-ups that lasted 10-15 years as new technologies and systems were developed to meet emerging or evolving threats. In an era of 'irregular warfare' defined by enemies without borders and leadership and combatants hidden from plain sight, companies involved with the defense and homeland security are being called upon to protect its citizens and the world for an increasingly diversified set of missions.

The conclusion of efforts in Iraq will not usher in an era of peace with the accompanying dividend experienced after prior conflicts. The likelihood of continued spending by Congress on defense and to secure our borders can be expected to remain high through the beginning of the next decade. Short-term dips will appear from time-to-time as investors adjust to economic and financial issues but long-term, the sector appears to be stable and sound.

About the Chart to the Right

Growth in the Dow 30, S&P500 and NASDAQ have all returned slightly more than 20% over the last five years...the SPADE Defense Index is up more than 100%



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What the Democratic Victory Really Means (continued)

the middle in an attempt to take away this issue from the Republican party.

2. 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. Requests for supplemental funding that could reach \$100-\$130 billion is already in the works.

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 the \$2 billion a month in hardware being used in Iraq and Afghanistan. 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 out next president is submitted to Congress.

5. With a narrow Democratic majority, increasing partisanship on Capitol Hill over the last few years, and a Republican president in the White House, gridlock on any controversial issue is a very real possibility.

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. In the long-term, we've seen comments about declines in defense spending in the 2012 to 2017 period. Considering the unknowns in the world, we feel that it is much too early to correctly predict defense spending this far in the future.

9. Recent history has seen declines in defense spending when Democrats have controlled the White House and Congress but this might be more a measure of circumstance (and marketing) than political fact. The last two democratic administrations, -- Carter in 1976-1980 and Clinton in 1992-2000 -- were periods that could be considered relative stable. 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 whether it was 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 has risen to approximately 5% of GDP today, during World War II, it was nearly half.

Analyst Corner

Investor's Business Daily (7Dec06)

... Gold has been the safe haven for investors for many centuries. When global tensions are high and getting higher, and wars are raging, where else would you want to be? Well, how about aerospace and defense stocks?

The Economic Times (6Dec06) -

... Wall Street may be fretting that the U.S. economy is slowing down, but the aerospace and defense industries are hard pressed to figure out when their party will end.

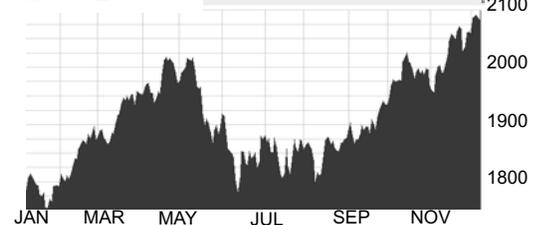
Fitch Ratings (5Dec06) expects credit quality in the North American aerospace and defense industry to be stable or improving in 2007, supported by solid end-market demand, rising backlogs, and substantial liquidity...

... Fitch calculates that the top 15 North American A&D companies had approximately \$21 billion of cash on hand at the end of the third quarter. This should be augmented by typically strong fourth quarter cash generation, possible divestitures and solid free cash flow in 2007, which Fitch conservatively estimates will be approximately \$13 billion (after dividends).

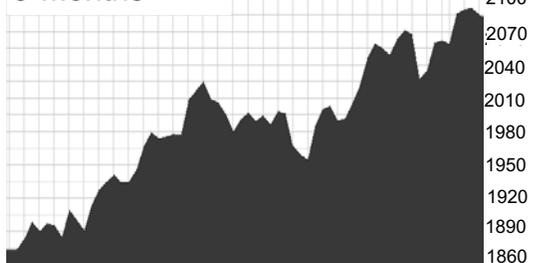
...The recently enacted FY2007 Defense budget was better than Fitch expected, and it supports Fitch's assumption of modernization spending (procurement plus RDT&E) growth in the low to mid single digits, excluding supplemental funding for the War on Terror.

...Backlogs at U.S. defense contractors continued to rise in the first three quarters of 2006, supporting the case for continued revenue growth in 2007.

Year-to-Date



3-Months



November 2006

