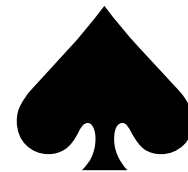


SPADE INVESTOR



December 2007

Defense * Homeland Security * Space

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Commentary

Earlier this week while attending the Super Bowl of Indexing meeting in Phoenix (a major financial/investment sector meeting), I chatted with several pension fund and money managers who not only were familiar with the Index but who've put money into the Powershares ETF tracking it. Obviously they were quite pleased with the performance and, to a person, all seemed to believe that the sector will continue to outperform through at least the November 08 elections.

What I found interesting were the comments that they made related to the resilience of the defense sector following recent market corrections and the fact that the market issues related to the subprime loan crisis, the decline in the dollar versus international currencies, even the possibility of recession in 2008, has less of an impact on defense and homeland security companies than many of their other investments. In addition to providing superior returns over the past few years, these investors were looking at defense as a hedge to the current uncertainty in the market and they expected to maintain their investments in it for some time--my thoughts exactly.

As we've begun to think about 2008, we notice that more and more analysts are stating that they see an element of stability in the political arena as politicians (those in office and those seeking office) continue to support the sector. Since

By the Numbers

- 24.5%:** YTD performance by the SPADE Defense Index
- 8:** Years that the Index has outperformed the S&P 500
- 6:** Years with double-digit outperformance
- 19%+:** Index gains in 4 of the last 5 years
- 6x:** Alpha return (more than 20%) over the S&P500 so far in 2007

political change is the biggest risk to the defense sector, stability is welcome. The shift of control in Congress from the Republican party to the Democratic party had some worried, but the last year has seen little impact on overall defense spending as well as to how current and future programs are evaluated.

While we will do a more extensive recap in January, we'd like to point out that three of the sector's top gainers have more than doubled in price YTD with the top 20% of the Index all above 50% gains (see page 2 and/or 4).

Top gainers this year include EDO (who received a buyout offer from ITT), FLIR Systems (whose stock is up more than 100% and which is due to split in December), and Stanley, whose stock has doubled due to recent contract wins.

On the downside, defense IT firms--CACI, SI International, and MTC Technologies--have suffered as DoD continues to direct funds toward Iraq. Meanwhile Force Protection saw its stock decline nearly 40% in November as the Marines reconsider the number of MRAP vehicles it is purchasing. Armor producer Ceradyne and heavy truck manufacturer Oshkosh Truck also saw double digit declines in November.

SPADE Defense Index Statistics

11/30/07 Close: 2622.22
 All-time Close: 2747.67
 Date of all-time close: 9 October 2007

	SPADE Defense	S&P500
November	[3.46%]	[4.40%]
3rd Quarter	[2.39%]	[2.99%]
2nd Quarter	10.76%	5.81%
Year to Date	24.50%	4.43%

News & Commentary

FLIR Systems

Announced a stock split in December.

Government Spending

Eleven of the 12 bills governing federal spending for the FY08 fiscal year that began in October are pending -- only the core defense bill has been approved by Congress and signed by the President. The bill approved a \$471 billion defense budget, up more than 10% from 2007.

Battle for the War Budget

A \$50 billion spending package proposed by Congress that acts as a 'bridge fund' to fund near-term war operations is being rejected by the White House because it contains language mandating the withdrawal of U.S. troops from Iraq, by next December. Although the press has covered this 'battle' with comments stating that the Army and Marine Corps will have to shut down bases and the Defense Department operations will be crippled, the reality is that the services have a bit of wiggle room and that an agreement will likely be reached at some point. With the approval of the core defense budget, the services have access to their FY-08 O&M (operations and maintenance) account which can be diverted to meet immediate war demands. Although the Army needs an additional \$55 billion, it has \$27 billion from which to draw on until an agreement is reached.

Political Stability Forecast for 2008

As stated in *Defense News*, 'when Congress returns to work in January, it will be an election year, and that's good news for the U.S. military'.

SPADE Defense Index Performance (historical by month)

	2007-08	2006-07	2005-06	2004-05	2003-04
November	[3.46%]	3.34%	2.63%	8.40%	1.78%
December	TBD	2.12%	1.91%	0.95%	6.35%
January	TBD	3.02%	1.55%	[3.98%]	2.28%

The above chart displays the historical monthly performance of the Index over the past few years. It was created in order to determine if one could correspond performance with the release of the forthcoming government budget. What you'll notice is that the period tends to be relatively strong as it corresponds with the period when people get a clearer sense of the direction that the defense budget for the forthcoming year will take. January results can vary as this is when the specific details of the White House budget request become known. The negative results of November 2007 were more likely due to the broad market correction caused by outside factors (subprime loan mortgage market).

November 2007 Leading Gainers

1	Stanley Inc	29.53%
2	Viasat	9.34%
3	Alliant Techsystems	5.83%
4	Teledyne Technologies	3.65%
5	Harris Corp.	3.65%
6	DRS Technologies	3.08%
7	Gencorp	2.72%
8	Goodrich Corp.	2.34%
9	GeoEye	1.31%
10	SAIC	1.17%

November 2007 Laggards

1	Force Protection	[39.61%]
2	Ceradyne	[27.73%]
3	Cogent	[24.85%]
4	Taser Int'l	[15.86%]
5	CACI	[15.71%]
6	Cubic	[12.27%]
7	Oshkosh Truck	[11.27%]
8	Applied Signal	[11.13%]
9	Trimble Navigation	[11.10%]
10	MTC Technologies	[10.61%]

YTD 2007 Gainers

1	EDO Corp.	135.13%
2	FLIR Systems	115.93%
3	Stanley Inc.	102.84%
4	Garmin	92.87%
5	Precision Castparts	88.22%
6	TASER Int'l	84.10%
7	Cubic Corp	81.94%
8	GeoEye	63.93%
9	Ducommun	60.66%
10	Goodrich Corp	56.51%

YTD 2007 Laggards

1	Force Protection	[37.91%]
2	MTC Technologies	[30.57%]
3	SI International	[19.93%]
4	CACI	[19.66%]
5	KVH Industries	[18.10%]
6	Argon ST	[15.41%]
7	Gencorp	[15.41%]
8	Herley Industries	[12.72%]
9	Ceradyne	[12.50%]
10	Applied Signal	[9.17%]

According to Norman Ornstein, a political scholar at the American Enterprise Institute, cuts to big Pentagon programs, never very likely anyway -- are virtually out of the question in 2008.

Reasons for stability:

- The overwhelming majority of lawmakers will want to be seen as strong supporters of the military as November balloting approaches
- Programs that produce a lot of jobs will be extra safe
- Funding for troop benefits should be safe as well.

“Some Republican candidates have talked about increasing the military budget. That puts pressure on the Democrats, so there’s no real incentive in Congress to curb military spending.” -- John Isaacs, Director, Center for Arms Control and Non-Proliferation

What has the Democratic Control of Congress Meant for the Defense Sector?

According to Winslow Wheeler, of the Center for Defense Information, “it’s really remarkable how absolutely nothing has changed. The process has a new style to it, but the substance of the output is genetically identical to what the Republicans were doing.”

How Much Does the Defense Sector Need?

According to Adm. Michael Mullen, chairman of the U.S. Joint Chiefs of Staff, the annual budget for the Pentagon represents approximately 3.3% of GDP but that modernization and personnel costs will require the budget to grow to more than 4%.

ETF Statistics (AMEX: PPA)

Powershares Aerospace & Defense

Exchange / Ticker Symbol:	AMEX / PPA
Fee	60 basis
Assets (11/30/07)	\$385.9 M
Closing Price (11/30/07)	\$23.11 (off \$0.80)
November 07 Volume	3,412,200

Although this represents a growth of more than 25% from the current budget, when one combines emergency war supplementals that fund operations in Iraq and Afghanistan, U.S. spending represents roughly this amount today.

Keep in mind that during World War II, defense spending represented 34.5% of U.S. GDP. From FY96 to FY02, defense spending (including supplemental war spending) was in the range of 3.0% to 3.5%, reaching 4.1% in FY05.

It should also be noted that the current out-year budget published by the Defense Department as part of the President’s budget shows continued growth in the core Pentagon budget through FY-2013.

Marines Reduce MRAP Plans

The Marine Corps’ top general plans to slash by more than 1/3 the number of Mine Resistant Ambush Protected (MRAP) vehicles it planned to buy. From as many as 3700 vehicles, the Marines now expect to purchase 2300. The savings will enable the service to invest an estimated \$1.7 billion toward other gear as well as Humvee vehicles.

The hardest hit company has been Force Protection, since MRAP is their primary product. FBR stated that a 1/3 cut to the USMC MRAP buy would impact Force Protection by approximately 14% and brings into questions the Army’s plans.

Powershares Aerospace & Defense ETF(PPA)

Average Portfolio Market Cap*	\$12.14 Billion
Portfolio P/E*	19.08
Portfolio P/S*	1.20
Portfolio P/B*	3.23
Portfolio P/Cash Flow*	12.34
Earnings Growth Rate (ttm)*	12.80%
3 month Avg Daily Trading Volume**	177,415

source: Yahoo! Finance

FY-08 Federal Opportunities: \$123 B

According to Input, the firm identified that the top 20 opportunities yielded a combined value of \$119 billion in full and open competitions plus another \$4.4 billion in the top 10 small business set-asides.

Federal IT Spending Forecast to Rise 1.4% per year

The Gov’t Electronics and IT Association (GEIA) predicted that federal IT budgets (defense and non-defense) will increase an average of 1.4% per year from FY08 to FY13. This compares to a growth rate of 5.7% in the past five years. While spending will rise, growth will slow due to changes in spending priorities and the Iraq policy after the 2008 presidential election.

The Army’s \$50 Billion Reset & Upgrade

Defense News reported that the Army has decided to restock its war-depleted arsenal and begin major upgrades in a single \$50 billion effort through 2009. Included in the plan are to:

- Condense five variants of the Abrams tank and five variants of its Bradley fighting vehicle into two each by 2011;
- Upgrade the Patriot-2 missile to the PAC-3 configuration
- Replace the 2.5-ton, Vietnam era trucks with six-wheel drive vehicles.

Additional F-22 Stealth Fighters?

Although the U.S. Deputy Defense Secretary has stated that he wants to cap the program at

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 (^ 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

ETF options are traded by the American Stock Exchange using the underlying symbol.

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 shares/day avg

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183 planes, the likelihood that the number will rise above 200 aircraft is increasing. Congress has stated that the "Air Force should consider extending the current F-22 multi-year procurement contract" and recent F-15 accidents have grounded the fleet. The Air Force currently acquires 20 F-22's per year spending \$3.1 billion. Lockheed Martin is the prime contractor.

New Office at the Department of Homeland Security

The new office [no name yet] is designed to strategize how to fight future threats and ensure that the department's current projects and programs are linked to real-world threats. It will be modeled after the Pentagon's Office of Net Assessment.

Border Security Fund Axed

On October 3rd, the Senate passed an amendment to the Defense Appropriations to spend \$3 billion for 700 miles of border security fencing, UAV and ground sensors but it was cut out during the final negotiations.

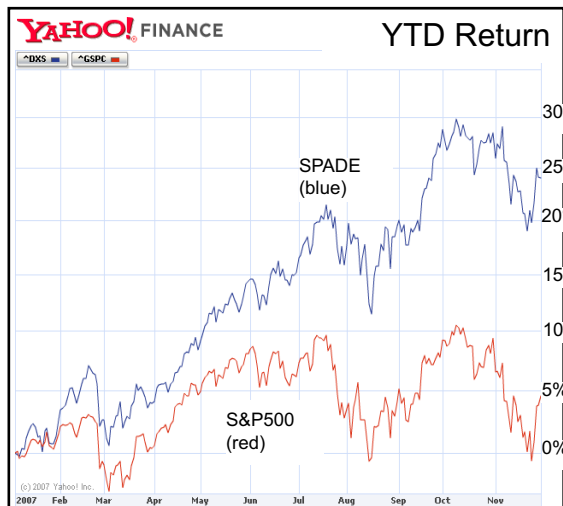
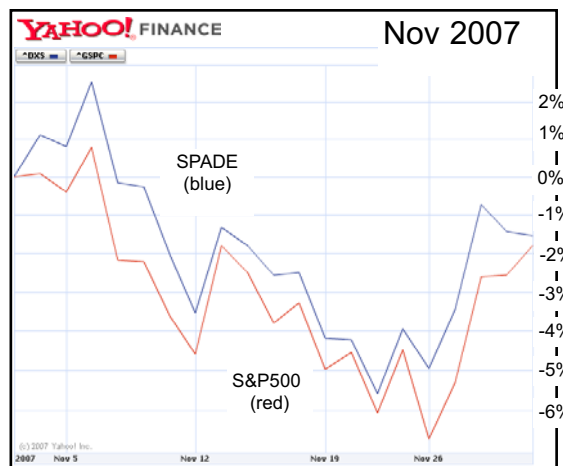
"The amendment that I offered...passed 95-1. Only in Washington would that be a mixed signal,"

Sen. Lindsey Graham (R-SC)

I'd expect this to pass at some point.

Year	SPADE	S&P500
2007 YTD	24.50%	4.43%
2006	19.33%	13.62%
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
3Q07	[2.39%]	[2.99%]
2Q07	10.76%	5.81%
1Q07	4.37%	0.18%
4Q06	8.79%	6.17%
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%



If you didn't receive an email alert that the latest newsletter is available and want to *get on our list*. Email us at: info@spadeindex.com

Dec-07	SPADEF Defense Index						Market	Forward	Price/	Price/	
Company	Ticker	Float %	Price	Price	% Ch	% Ch	Cap	P/E	Sales	Book	Div Yld
		30-Nov	39386.00	30-Nov-07	YTD	MTD	intraday	(ttm)	ttm	mrq	forward %
Lockheed Martin	LMT	5.94%	110.04	110.67	20.20%	0.57%	45.49	15.22	1.10	6.20	1.50%
Honeywell Intl	HON	5.45%	60.41	56.62	25.15%	-6.27%	42.28	15.39	1.22	4.96	1.80%
United Technologies	UTX	5.32%	76.59	74.77	19.59%	-2.38%	73.91	15.45	1.41	3.68	1.70%
Boeing Co	BA	5.02%	98.59	92.54	4.16%	-6.14%	71.72	15.45	1.09	11.31	1.50%
Genl Dynamics	GD	4.78%	90.96	88.78	19.41%	-2.40%	35.72	15.49	1.36	3.27	1.30%
Precision Castparts	PCP	4.49%	149.81	147.34	88.22%	-1.65%	20.35	17.99	3.20	5.99	0.10%
Northrop Grumman	NOC	4.49%	83.62	78.79	16.38%	-5.78%	26.66	14.04	0.83	1.56	1.90%
L-3 Communications Hldgs	LLL	4.42%	109.64	110.65	35.30%	0.92%	13.92	17.02	1.04	2.38	0.90%
Raytheon Co	RTN	4.41%	63.61	61.85	17.14%	-2.77%	26.55	16.28	1.23	2.22	1.60%
Goodrich Corp	GR	4.26%	69.66	71.29	56.51%	2.34%	8.91	16.43	1.41	3.55	1.20%
Harris Corp	HRS	4.22%	60.56	62.77	36.87%	3.65%	8.60	16.01	1.91	4.00	1.00%
SAIC	SAI	4.20%	19.71	19.94	12.09%	1.17%	8.23		0.94	4.74	
Garmin Ltd	GRMN	4.09%	107.40	107.35	92.87%	-0.05%	23.28	24.62	8.94	11.59	0.70%
Rockwell Collins	COL	4.02%	74.81	72.12	13.95%	-3.60%	11.75	16.24	2.72	7.77	0.90%
Itt Indus	ITT	3.89%	66.92	64.44	13.41%	-3.71%	11.68	15.99	1.37	3.39	0.90%
Computer Sciences	CSC	3.79%	58.38	52.82	-1.03%	-9.52%	9.19	11.74	0.62	1.55	
URS Corporation	URS	2.33%	61.81	57.49	34.17%	-6.99%	3.07	19.96	0.63	1.81	
Ball Corp	BLL	2.32%	49.58	46.25	6.08%	-6.72%	4.65	12.27	0.64	3.47	0.90%
Flir Systems	FLIR	2.26%	69.39	68.73	115.93%	-0.95%	4.67	31.24	6.53	8.48	
Trimble Navigation Ltd * (2:1 split)	TRMB	2.18%	41.70	37.07	46.15%	-11.10%	4.50	25.57	3.91	4.16	
Alliant Techsystems	ATK	1.92%	110.39	116.83	49.42%	5.83%	3.82	15.81	0.97	6.07	
Oshkosh Truck	OSK	1.75%	54.20	48.09	-0.68%	-11.27%	3.57	8.82	0.57	2.57	0.80%
Drs Technologies	DRS	1.19%	57.44	59.21	12.40%	3.08%	2.44	15.14	0.83	1.58	0.20%
Moog Inc.	MOGA	0.94%	46.15	45.08	18.04%	-2.32%	1.92	14.27	1.21	2.16	
Teledyne Technologies	TDY	0.93%	52.31	54.22	35.11%	3.65%	1.90	18.44	1.21	3.70	
Sra International'a'	SRX	0.77%	27.46	27.37	2.36%	-0.33%	1.57	19.39	1.20	2.44	
Esterline Technologies	ESL	0.75%	54.78	52.22	29.80%	-4.67%	1.35	16.63	1.15	1.57	
Orbital Sciences Corp	ORB	0.70%	25.53	24.06	30.48%	-5.76%	1.42	24.06	1.42	3.34	
L-1 Identity Solutions	ID	0.68%	18.57	18.58	22.80%	0.05%	1.40	77.42	3.97	1.33	
Caci Intl	CAI	0.67%	53.85	45.39	-19.66%	-15.71%	1.36	14.83	0.67	1.63	
Cardyne Inc	CRDN	0.66%	68.41	49.44	-12.50%	-27.73%	1.35	8.70	1.88	2.60	
Mantech International'a'	MANT	0.65%	39.76	38.69	5.05%	-2.69%	1.33	17.27	1.02	2.58	
Edo Corp	EDO	0.58%	58.00	55.82	135.13%	-3.76%	1.19	14.28	1.18	3.87	0.20%
DynCorp	DCP	0.58%	22.64	20.9	31.70%	-7.69%	1.19	15.48	0.56	2.89	
Cubic Corp	CUB	0.52%	45.00	39.48	81.94%	-12.27%	1.05	25.31	1.28	3.12	0.40%
Cogent Inc.	COGT	0.51%	14.77	11.1	0.82%	-24.85%	1.05	24.13	8.72	2.14	
Viasat Inc	VSAT	0.49%	30.50	33.35	11.88%	9.34%	1.01	18.95	1.86	2.62	
TASER International Inc.	TASR	0.43%	16.65	14.01	84.10%	-15.86%	0.88	40.03	9.87	7.63	
Stanley Inc.	SXE	0.37%	26.48	34.3	102.84%	29.53%	0.76	25.98	1.56	5.25	
Force Protection	FRPT	0.36%	17.90	10.81	-37.91%	-39.61%	0.74	7.16	2.02	4.18	
Gencorp	GY	0.33%	11.78	12.1	-13.69%	2.72%	0.68	24.69	0.96		
Ladish Co	LDSH	0.31%	45.89	44.16	19.09%	-3.77%	0.64	16.48	1.58	3.40	
GeoEye	GEOY	0.27%	31.31	31.72	63.93%	1.31%	0.56	15.47	3.04	2.54	
American Science & Engineering	ASEI	0.26%	60.44	57.85	-2.79%	-4.29%	0.54	19.41	3.01	2.93	
AeroVironment (IPO 23Jan07)	AVAV	0.23%	25.73	24.09	-3.64%	-6.37%	0.47	21.13	2.37	3.14	
Osi Systems	OSIS	0.21%	25.03	24.79	18.44%	-0.96%	0.42	19.67	0.79	1.77	
Argon St	STST	0.20%	20.21	18.22	-15.41%	-9.85%	0.41	17.86	1.59	1.49	
Ducommun	DCO	0.19%	39.73	36.76	60.66%	-7.48%	0.39	17.67	1.09	1.91	
Si International	SINT	0.17%	28.21	25.96	-19.93%	-7.98%	0.34	15.45	0.72	1.36	
Mercury Computer Sys	MRCY	0.16%	15.64	14.66	9.73%	-6.27%	0.33	19.55	1.52	1.90	
MTC Technologies Inc.	MTCT	0.12%	18.29	16.35	-30.57%	-10.61%	0.25	13.74	0.59	1.35	
Herley Industries	HRLY	0.10%	15.29	14.13	-12.72%	-7.59%	0.20	16.62	1.22	0.95	
Applied Signal Technology	APSG	0.08%	14.37	12.77	-9.17%	-11.13%	0.16	21.28	0.92	1.38	3.90%
Kvh Industries	KVHI	0.06%	9.44	8.69	-18.10%	-7.94%	0.13	18.10	1.67	1.62	