



Budget Update

According to the White House, the Defense Department budget line items will be released until 'early May'.

The White House submitted an \$83.4 billion supplemental spending request

No big downside surprises in the budget proposal offered by Defense Secretary Gates.

2010 QDR Begins

Selected 1Q09 Earnings

	Revenue	Earnings
Lockheed Martin	\$10.4B up 4%	\$666M down 8.7%
Boeing	\$16.5B up 3%	\$610M down 49.2%
Northrop Grumman	\$8.3B up 8%	\$389M up 48%
General Dynamics	\$8.3B up 18%	\$593M up 3.5%
Raytheon	\$5.9B up 10%	\$457M up 14%

SPADE Defense Index Statistics

4/30/09 Close: 1516.26
All-time Close: 2747.67
Date of all-time close: 9 October 2007

	SPADE Defense	S&P500
April	12.81%	9.39%
1st Qtr	(15.71%)	(3.37)
YTD	(4.91%)	(11.67%)

Commentary

Although the industry got a teaser of what's to come when Defense Secretary Gates announced the top line budget figure as well as some decisions regarding the fate of the largest programs and initiatives, the key event that will guide the sector's performance over the next several months is the release of the line item details and program specifics found in the FY10 budget -- anticipated to provide specifics not just for the forthcoming year but the next several. These details are now expected, according to White House sources, sometime in May.

Overall, analysts have stated that there were no big downside surprises in the proposal and the shift in priorities had little impact on most firms. As we said last month, we needed to see whether additions in some programs would offset declines in others. Lockheed Martin for example was seen as one of the big winners and big losers with the F-22 production begin shut down while the F-35 was expanded.

Overall, defense firms gained on Wall Street, besting the market in April by more than 3.5% as investors expressed relief that the proposed cuts did not go further. With valuations still at multi-year lows, there is potential for the gains in the current month to continue. However, until the full budget is finally released, and there is time to analyze the details and its direction, expectations will have to be tempered and my comments will be limited.

As far as news that you can use:

- The Department of Homeland Security announced grants of more than \$770 million to protect U.S. ports and transit systems and \$48.6 million to buffer security zones around chemical and nuclear facilities.

- A request for \$83.4 billion in wartime supplementals was submitted by the White House to cover the cost of the two wars through the second half of 2009. Future wartime spending is expected to be included in the core DoD budget request.

- Secretary Gates, although cancelling an \$87 billion proposed Army ground vehicle program that was part of FCS, stated that there will be "substantial money" for developing updated vehicles "hope that we can move forward in FY-11".

- On April 23rd, the DoD kicked off its 2010 Quadrennial Defense Review to determine what type of capabilities will need to maintain national security in current years.

- CSAR program would recapitalize the helicopter fleet at \$2.8 billion (or half previous allotted for 2010) under a Resource Management Directive (this after the \$15 billion CSAR-X program was scrapped).

- Changes/cancellations in various helicopter programs have analysts thinking that Sikorsky (United Technologies) CH-53K will benefit with a planned 30% boost in orders.

- The Air Force has decided to stop trying to save the F-22 in favor of promoting the F-35. Lockheed Martin manufactures both and has called it a net gain.

Morningstar Gives the Powershares Aerospace & Defense ETF (NYSE: PPA) a

******* 5 Star Rating *******

for Large Growth Funds

Inside the 2009 Supplemental Spending Request

On 9 April 2009, the White House submitted to Congress a \$83.4 billion spending bill to fund ongoing military, diplomatic, and intelligence operations.

Included in this total is:

- \$38 Billion - Military Operations
- \$6.1 Billion - Other Operations
- \$11.6 Billion - Replace Equipment
- \$9.8 Billion - Armor & Equipment, Security, Persistent Surveillance
- \$1.5 Billion - Counter-IED
- \$5.4 Billion - Support to Afghan, Iraq, and Pakistani forces
- \$3.1 Billion - Classified Intelligence Activities
- \$7.1 Billion - Foreign Assistance

Index Changes

On May 1, the shares outstanding for Textron were updated to reflect a public offering of 20.7 million shares.

On May 4, CACI changed its ticker from NYSE CAI to NYSE: CACI.

Nine Consecutive Years Outperforming the S&P500 (2000 - 2008)

April 2009 Top Gainers

1	Textron	86.93%
2	Force Protection	58.75%
3	Mercury Computer	46.84%
4	L-1 Identity	43.25%
5	Oshkosh Truck	42.43%
6	Trimble Navigation	40.31%
7	Esterline Tech.	30.51%
8	Orbital Sciences	30.03%
9	GeoEye	26.03%
10	Precision Castparts	24.97%

April 2009 Laggards

1	Integral Systems	[22.91%]
2	ManTech	[13.63%]
3	Herley Industries	[13.55%]
4	Ball Corporation	[13.09%]
5	NCI Information	[6.31%]
6	Ceradyne	[4.91%]
7	Cogent	[4.71%]
8	Applied Signal	[3.72%]
9	SAIC	[3.05%]
10	AXSYS Tech	[0.31%]

YTD 2009 Top Gainers

1	OSI Systems	35.38%
2	Garmin	31.40%
3	GeoEye	29.43%
4	Mercury Computing	28.68%
5	Force Protection	27.42%
6	Precision Castparts	25.86%
7	Goodrich	19.61%
8	Applied Signal	10.14%
9	L-1 Identity	8.61%
10	Argon ST	7.49%

YTD 2009 Laggards

1	Ladish Co	[45.35%]
2	Integral Systems	[44.98%]
3	AeroVironment	[35.72%]
4	ManTech	[33.22%]
5	Esterline Tech.	[30.46%]
6	Teledyne Tech.	[28.33%]
7	FLIR Systems	[27.71%]
8	Moog	[26.77%]
9	Stanley	[24.64%]
10	VSE Corporation	[23.81%]

Largest Defense Prime Contractors

	April	2009
Lockheed Martin	13.76%	[6.60%]
Boeing	12.56%	[6.14%]
General Dynamics	24.24%	[10.28%]
Northrop Grumman	10.79%	7.35%
Raytheon	16.15%	[11.38%]

Year	SPADE	S&P500
2008	[38.03%]	[38.49%]
2007	22.17%	3.53%
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%

ETF Statistics (NYSEarca: PPA)
Powershares Aerospace & Defense

Exchange / Ticker Symbol: NYSE / PPA
 Fee 60 basis
 Assets (4/30/09) \$116 M
 Closing Price (4/30/09) \$13.35
 Yield (SEC 30-day yield) 1.61%
 April 09 Volume 1,569,000
 3 month Avg Daily Trading Volume** 80,903
 Turnover 13%
 source: Yahoo Finance ** April 30 2009

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	31 Mar 2009
Avg. Market Cap.	6.87 B
Portfolio P/E	8.65
Portfolio P/S	0.49
Portfolio P/B	1.58
Portfolio P/Cash Flow	4.75
Earnings Growth Rate (ttm)	12.05%

(Most recent estimate) source: Yahoo Finance

Powershares Aerospace & Defense ETF (NYSE: PPA)

Modern Portfolio Theory (vs the S&P500)

Beta (3 month)	1.11
Alpha (3 month)	4.56
R-squared (3 month)	82.64
Sharpe Ratio	[0.60]
Standard Deviation	21.48
Mean Annual	[0.79]

source: Yahoo! Finance (4/30/09)

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About

The SPADE Defense Index (ticker: DXS) provides an investment benchmark for companies involved with defense, homeland security, and space.

The Index is designed to reflect the broad diversity of activities that is representative of companies involved with defense, homeland security, and space – including industrial firms that manufacture aircraft, tanks, ships, and missiles and those involved with current and next generation systems related to network centric warfare and information technology; intelligence, surveillance, and reconnaissance; satellites; border security; and defense systems that protect the lives of our servicemen and service-women.

Licensed Products

Exchange Traded Fund - ETF

Licensed to Powershares, their Aerospace & Defense Portfolio ETF (NYSEarca: PPA) is designed to track the performance of the SPADE Defense Index.

Rules

The Index was designed to be RIC (Registered Investment Company) compliant for the purpose of enabling financial products. Companies are required to meet a variety of eligibility criteria including market valuation, liquidity, and listing on a major U.S. exchange. Full details are available on our website.

* Market Cap: Minimum \$100M
 * Share Price: Minimum \$5.00
 * Liquidity: 50,000 shares/day avg

<u>Quarter</u>	<u>SPADE</u>	<u>S&P500</u>
1Q09	[15.71%]	[11.67%]h
4Q08	[18.14%]	[22.45%]
3Q08	[8.13%]	[9.00%]
2Q08	[4.69%]	[3.23%]
1Q08	[13.53%]	[9.92%]
4Q07	[4.22%]	[3.82%]
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%]

<u>Quarter</u>	<u>SPADE</u>	<u>S&P500</u>
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%]

<u>Quarter</u>	<u>SPADE</u>	<u>S&P500</u>
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%

