

Commentary

A bomb went off last Tuesday at the Swiss embassy in Athens but there were no immediate reports of injuries, Greek police officials said.

In a separate incident, Greek police detonated a parcel bomb intercepted at the Bulgarian embassy in Athens. French President Sarkozy was also the target of a bomb.

The prior week, two packages with explosive material destined for Chicago were stopped by security officials after an ex-Al Qaeda operative provided information.

A spike in terror attacks has increased the focus on the sector and the likelihood that these incidents will be fresh in the minds of politicians when discussions of defense cuts inevitably take place. Spending on security is a form of insurance that cannot, nor should it ever, precipitously drop. In fact, the sector has been showing renewed strength over the past few months -- outperforming the broader markets *to pull near even for the year*.

For those that wrote off investing in the defense sector as dead, they have been missing a run over the past month plus in which the sector has outperformed even the heady returns produced by the S&P500. YTD, defense has lagged but recent gains have narrowed the gap so there is less than a 60 basis point gap. Year-to-date (Oct-31), the SPADE Defense Index has gained 5.56% rewarding investors who stuck with the sector despite the doom and gloom predictions of many analysts.

The uptick in the commercial aerospace sector is taking place with the improving economy and a dramatic expansion by firms servicing clients in Asia, the Middle East, and Africa. And this up-tick is seen as just the beginning. A major decade-long expansion is anticipated as airlines around the globe received deliveries of planes ordered in the past years and *YETTO-BE-PLACED* orders by healthier U.S. carriers needing to replace older planes with more fuel efficient ones. Recent mergers among the larger U.S. carriers will lead to smaller carriers such as Southwest to expand as airport gates are freed up and additional planes are needed to service their expansion.

A flattening defense sector will continue to be a drag on the sector but the specifics of this remain an unknown. Companies involved with UAVs, C4ISR/IT, sensors, etc. should see strong growth prospects. RDTE and procurement levels are anticipated to remain stable. Large programs may see shifts and redistribution of their funding to other activities but this will affect individual programs, across-the-board cuts to procurement are not expected. Much of the cost reductions are expected to come from a restructuring of the military health care and retirement benefit

SPADE Defense Index Statistics

10/29/10 Close: 2048.62
 All-time Close: 2747.67
 Date of all-time close: 9 October 2007

	SPADE Defense	S&P500
October	4.72%	3.69%
QTD	4.72%	3.69%
YTD	5.56%	6.11%

FLIR's acquisition of **ICX Technologies** (ICXT) closed on October 4 at \$7.55 per share, valuing the deal at \$268M. ICXT was removed upon closing.

Comtech began offering a dividend of \$0.25 beginning in October 2010.

The **Powershares Aerospace & Defense** ETF (NYSE: PPA) issued a \$0.04 dividend on 9/17/10.

programs and other operational personnel areas, which analysts estimate could save the agency more than 10 percent of its total budget and up to 100 billion annually. Large budget reductions will also appear to be taking place as costs for Iraq and Afghanistan diminish, although the real impact of the pullout on most public companies will remain limited. If one excludes inflation, the impact of the defense budget decline will likely be less than people anticipate.

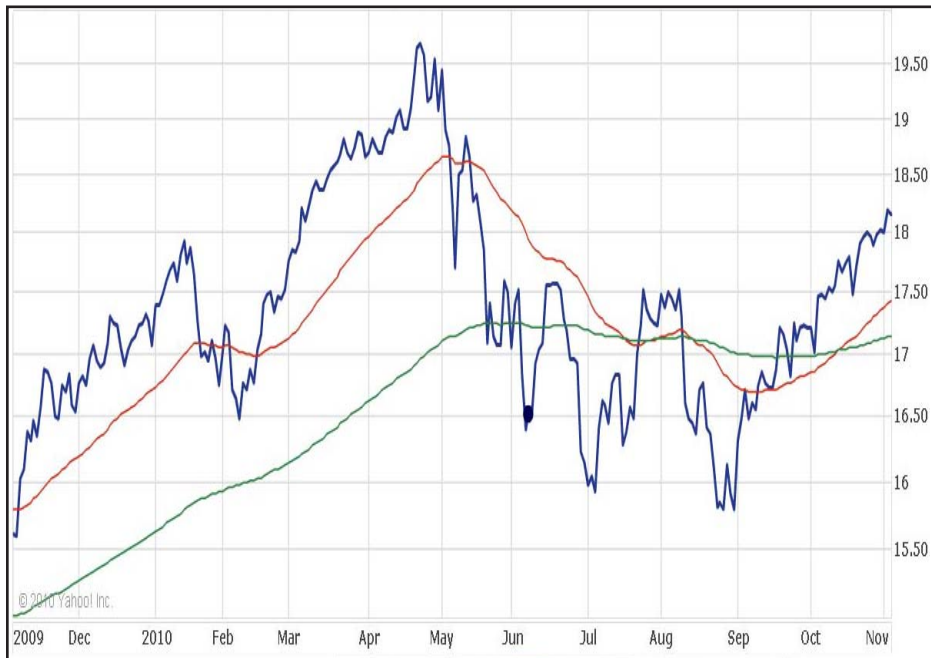
Well managed companies have seen the flattening of this budget coming and have positioned their balance sheets and activities to be able to maintain current revenue and grow into the future. Quarterly revenues and earnings across the sector remain stable with prior forecasts. Even after Lockheed Martin warned about 2011 in its 3Q10 earnings statement, the company raised dividends, announced a share buyback, and had financial reporters stating that it may take a year, but growth is coming.

However, the unknown of the specific programs that defense officials will cancel or modify, a diversified portfolio represented by etfs, such as PPA which tracks our index, will make sense for many investors. Of the big 5 prime contractors, only Boeing and Northrop Grumman have outperformed the SPADE Defense Index & Lockheed Martin, General Dynamics, and Raytheon are all in negative territory for the year.

Oct 2010 Top Gainers			Oct 2010 Laggards			YTD Top Gainers			YTD Laggards		
1	Applied Signal	34.89%	1	Ducommun	[1.42%]	1	Ladish	112.62%	1	Oshkosh Truck	[20.31%]
2	Mercury Computer	31.67%	2	Cogent	[1.13%]	2	Applied Signal	74.07%	2	AeroVironment	[19.33%]
3	AAR Corp.	18.11%	3	Gencorp	[1.02%]	3	Triumph Group	73.24%	3	Mantech	[18.80%]
4	Integral Systems	15.18%	4	Mantech Int'l	[0.88%]	4	GeoEye	58.79%	4	SAIC	[17.95%]
5	Comtech	12.69%	5	OSI Systems	[0.88%]	5	Argon ST	58.77%	5	L-3 Communications	[16.99%]
6	Triumph Group	12.07%	6	L-3 Communications	[0.12%]	6	L-1 Identity	57.41%	6	Elbit Systems	[16.79%]
7	American Science	11.81%	7	VSE Corp	[0.06%]	7	Esterline tech	48.25%	7	FLIR Systems	[14.94%]
8	Goodrich Corp	11.31%	8	Lockheed Martin	0.01%	8	Mercury Comp.	43.87%	8	CSC	[14.74%]
9	Force Protection	11.31%	9	Viasat Inc	0.15%	9	Transdigm	39.55%	9	Alliant Techsystems	[13.63%]
10	CACI International	10.74%	10	L-1 Identity	0.51%	10	Stanley Inc	36.26%	10	URS Corporation	[12.56%]

PPA (blue) has surged above the 50-day moving average (red) and has crossed the 200-day level (green).

The 50-day also crossed the 200-day.



ETF Statistics (NYSEArca: PPA)
Powershares Aerospace & Defense

Exchange / Ticker Symbol: NYSE / PPA
 Fee: 60 basis
 Assets (10/29/10): \$109.9 M
 Closing Price (10/29/10): \$18.02
 Yield (12-month yield): 1.18%
 October 10 Volume: 568,500
 Turnover: 9%

source: Yahoo Finance

Portfolio Price / Earnings	12.51
Portfolio Price / Book	2.25
Portfolio Price / Sales	0.70
Portfolio Price / Cash Flow	6.92
Earnings Growth Rate	10.61%
RoE (9/30/10 - Invesco)	23.95%

Yahoo Finance

Powershares Aerospace & Defense ETF (NYSE: PPA)

Modern Portfolio Theory (vs the S&P500)

Beta (3 month): 1.11
 Alpha (3 month): 2.03
 R-squared (3 month): 87.39

Yahoo! Finance

Year	SPADE	S&P500
2009	21.71%	23.45%
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%

Largest Defense Prime Contractors

	October	YTD
Lockheed Martin	0.01%	[5.39%]
Boeing	6.16%	30.50%
General Dynamics	8.45%	[0.07%]
Northrop Grumman	4.27%	13.20%
Raytheon	0.81%	[10.56%]

PPA by Sector

Industrial	78.55%
Info Tech.	17.74%
Materials	2.88%
Other	0.83%

source: Powershares

Industry News and Information

Air Cargo Traffic to Grow 5.9% per year through 2029

According to the latest Boeing forecasts, as many as 743 new freighters and 1751 freighters converted from passenger planes will enter the world's air cargo fleet. SeattlePI.com

House Republicans to Advocate More Muscular Approach Toward China

According to Rep. Randy Forbes (R-VA) who may become head of the House Armed Services readiness subcommittee. This could provide a boost to defense contractors.

Raytheon to Sell \$4B in arms to Saudi Arabia

As part of the \$60 Billion deal with Saudi Arabia, Raytheon stated that they will receive \$4 billion and is pursuing additional projects in the kingdom as well as Qatar, Kuwait, and the UAE.

United Kingdom and France Defense Treaty

The United Kingdom and France have signed a 50-year defense treaty to bring greater cooperation that begins in 2015. Together they account for half of EU defense spending and 2/3 of its R&D. The focus will be on shared resources for testing of nuclear warheads, a combined expeditionary force, and shared access to aircraft carriers. The goal is to reduce costs.

\$457 Million Radar Warning Receivers

The Army awarded this to Northrop Grumman with an initial \$118 million order, part of a 5-year exclusive contract that will include APR-39 upgrade kits and systems.

\$247 Million Helicopter Contract

Boeing was awarded a low rate initial production contract for the AH-64D Apache Block III helicopter.

\$2 Billion Assistance Package

Reported by *Defense News* - Pakistani Army officials have stated that the U.S. is considering providing a 5-year package including helicopters, weapons systems, and equipment to intercept communications.

New Helicopter in Development

Sikorsky (United Technologies) announced plans to spend more than \$50 million to build a high-speed, next-generation helicopter called the Raider. The craft could fly 250 knots and carry one pilot.

Seven Year Contract Worth Up to \$1 Billion

Lockheed Missiles & Fire Control Orlando won the majority share to build next-generation fighter jet weapons-targeting systems for the Air Force. Northrop Grumman received a 40% share of the deal. - Orlando Sentinel

Commercial Aircraft Orders

Boeing announced orders for 30 737 jets, valued at \$2.1 billion at average list prices from an undisclosed buyer. This raises Boeing's orders for the year to 422, nearly three times the orders received for all of 2009. Bloomberg Businessweek.

\$3 Billion for the F-35 Joint Strike Fighter

Israel confirmed an order to buy 20 of the jets along with training and maintenance gear using a grant from the U.S.

Pentagon to Buy More if Contractors Lower Unit Costs

Dty U.S. Defense Secretary William Lynn stated in a speech that the Pentagon will commit to buying greater quantities if contractors can figure out a way to cut unit costs.

NATO Proposed Projects Estimated at \$1.3 Billion

NATO unveiled a list of proposed projects valued at 930 million euros (\$1.3 billion) including missile defense and cybersecurity including 200M euros over 10 years to link NATO sensors and shooters to provide territorial missile defense. Initial call for tenders in 1Q11. - DN 10/11/10

\$2.63 Billion IT task order

Northrop Grumman won a \$2.63 Billion IT task order to install a campus-wide IT infrastructure for secure communications at the DHS new campus HQ. Work will be conducted over a 5-year base with a 2-year option and an additional 3-yr option.

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Selected 3Q10 Earnings

L-3

Income fell to \$238M or \$2.07/sh from \$250M. Analysts had expected \$2.02/sh. Revenue of \$3.84B was flat. Net sales are expected to rise to \$15.7 - \$15.9B in 2011 vs. \$15.6-\$15.7B in 2010.

United Technologies

EPS \$1.30 up 14%. Revenues \$13.5B up 1%
Raised 2010 EPS guidance to \$4.70, the high end of its prior guidance range. EPS for 2010 is expected to grow 14%, with revenues of \$54B, up 2% in 2010

Boeing

Net profit \$837M, \$1.12 per share compared to a loss of \$1.56B or -\$2.23 per share last year. Revenue was \$16.97B, up 2%

Lockheed

Profit dropped 28% to \$571M \$1.57/sh vs. \$797M \$2.07/sh in previous period. Earnings beat estimates of \$1.53/sh. Sales \$11.38B up 6%. The decline in profit was due to buyout charges. Lockheed also announced a \$3 billion buyback including repurchasing about 42M of the 260M outstanding shares. Quarterly dividend increase to 75c vs. 63c bringing its yield to 4.2%.

General Dynamics

Net Earnings rose to \$650M \$1.70/sh from same quarter last year. Revenues rose to \$8.011B from \$7.719B in prior year quarter. Aerospace revenues up 15.3% from previous year to \$1.29B and Marine systems were 12% higher to 1.7B

Analysts

"We believe Lockheed Martin has prepared well for this environment, having laid off workers last year, pursuing an executive separation program, and divesting itself of noncore/conflicting businesses" -- Citi analyst, Jason Gursky 25Oct10

"Lockheed Martin's once torrid growth rate has slowed consider-

World Defense Business

Some notes from recent *Defense News* articles:

- * Pakistan: Defense spending for 2010-11, up 30%
- * Canada: Budget has risen from C\$11.4B in 2000/01 to C\$21B in 2010/11. Canada's First Defence Strategy anticipates the budget will rise to C\$30 billion in 2027/28
- * Poland: 2011 spending is up 7.1% to 27.25B Zlotys (\$8.79B)
- * India: Annual budget is \$32 billion. Will spend \$35 billion over the 10 ten years on naval purchases alone.
- * Norway: Sees a 3.5% rise in defense spending over the next 5 years.
- * Sweden: Sees a rise of \$200M in 2011 to \$5.1 billion
- * Russia: Defense spending to rise from 2.6% to 3.2% of GDP after 2013.
- * Turkey - Spends slightly more than \$4B a year for defense procurement but which should rise by at least \$1B annually after 2015 because of expected deliveries including 100 F-35 JSF jets valued at up to \$13B; \$3B for 50 AgustaWestland A129 attack helicopters; and the indigenous Altay battle tanks.
- * UK - expects to see cuts of between 10% - 20% over the next 4 years bringing spending to 2% of GDP from 2.4% of GDP, half that of the late 1980s. Legacy equipment is particularly vulnerable including the Harrier and Tornado aircraft, MRA4 recon aircraft and a reduction in Eurofighter Typhoon combat jets, helicopters, tanks, warships, and amphibious support vessels. By mid-2011, MOD wants a new defense industrial strategy.

ably in recent years. However, that appears to be fully reflected in the stock price...investors will probably have to wait at least a year for Lockheed's earnings to grow, but their patience should eventually pay off". -- Barron's 25Oct10

"[The] arms sale package with Saudi Arabia valued at up to \$60 billion...could help offset the bad news..." Richard Aboulafia, Teal Group (reuters 19Oct10)

About the SPADE Defense Index

The SPADE Defense Index (NYSE-amex: DXS) provides an investment benchmark for the value that the market ascribes to 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 the sector – 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 servicewomen.

SPADE Indexes publishes a variety of private and public sector and regional indexes. Public indexes listed on the NYSEamex include: the SPADE Defense Index (ticker: DXS), the SPADE Oklahoma Index (ticker: OKLAH); and the SPADE Texas Index (ticker: TEXAS).

Licensed Products

Exchange Traded Fund - ETF

Licensed to Invesco Powershares, the Powershares Aerospace & Defense Portfolio ETF (NYSE: 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
- * Sufficient Liquidity

Nov-10		55 SPADE Defense Index					Market	Forward	Price/	Price/	PEG	
Company	Ticker	Float %	Price	Price	% Ch	% Ch	Cap	P/E	Sales	Book	5 yr	Div Yld
		29-Oct-10	30-Sep-10	29-Oct-10	YTD	MTD	intraday	(ttm)	ttm	mrq	expected	forward %
Boeing Co	BA	7.09%	66.54	70.64	30.50%	6.16%	51.82	15.13	0.80	11.74	1.84	2.40%
Honeywell Intl	HON	6.89%	43.94	47.11	20.18%	7.21%	36.75	15.86	1.13	3.56	1.46	2.60%
United Technologies	UTX	6.76%	71.23	74.77	7.72%	4.97%	69.04	14.05	1.29	3.25	1.58	2.30%
General Dynamics	GD	5.50%	62.81	68.12	-0.07%	8.45%	25.73	9.64	0.81	1.89	1.35	2.50%
Lockheed Martin	LMT	5.49%	71.28	71.29	-5.39%	0.01%	25.67	10.51	0.55	6.53	1.26	4.20%
Precision Castparts	PCP	4.51%	127.35	136.58	23.77%	7.25%	19.43	15.94	3.38	3.18	2.01	0.10%
Northrop Grumman	NOC	4.48%	60.63	63.22	13.20%	4.27%	18.46	9.45	0.52	1.38	0.81	3.00%
Raytheon Co	RTN	4.34%	45.71	46.08	-10.56%	0.81%	17.24	9.07	0.69	1.73	1.48	3.30%
Goodrich Corp	GR	4.31%	73.73	82.07	27.74%	11.31%	10.29	15.69	1.51	3.12	1.55	1.40%
Rockwell Collins	COL	4.00%	58.25	60.51	9.30%	3.88%	9.51	15.28	2.10	6.08	1.97	1.60%
L-3 Communications Hldgs	LLL	3.85%	72.27	72.18	-16.99%	-0.12%	8.26	8.17	0.52	1.20	1.06	2.20%
Computer Sciences	CSC	3.84%	46.00	49.05	-14.74%	6.63%	7.57	8.71	0.47	1.17	1.22	1.20%
Itt Indus	ITT	3.83%	46.83	47.19	-5.13%	0.77%	8.65	10.37	0.80	2.19	0.99	2.10%
Ball Corp	BLL	2.99%	58.85	64.36	24.49%	9.36%	5.89	12.35	0.73	3.92	1.44	0.60%
Harris Corp	HRS	2.95%	44.29	45.19	-4.96%	2.03%	5.73	9.22	1.07	2.52	1.88	2.20%
SAIC	SAI	2.93%	15.98	15.54	-17.95%	-2.75%	5.78	10.43	0.53	2.54	1.09	
Textron	TXT	2.89%	20.56	20.82	10.69%	1.26%	5.72	16.27	0.56	1.90	0.52	0.40%
Flir Systems	FLIR	2.23%	25.70	27.84	-14.94%	8.33%	4.40	16.09	3.47	3.04	1.24	
Transdigm	TDG	1.66%	62.05	66.27	39.55%	6.80%	3.27	18.16	4.05	6.06	4.08	
URS Corporation	URS	1.65%	37.98	38.93	-12.56%	2.50%	3.16	10.64	0.36	0.78	1.02	
Oshkosh Truck	OSK	1.35%	27.50	29.51	-20.31%	7.31%	2.67	8.22	0.29	2.31	0.64	
Alliant Techsystems	ATK	1.28%	75.40	76.24	-13.63%	1.11%	2.53	8.72	0.53	2.95	1.78	
Elbit Systems	ESLT	1.17%	53.03	54.13	-16.79%	2.07%	2.31	11.05	0.86	2.55	1.16	2.20%
Triumph Group	TGI	1.02%	74.59	83.59	73.24%	12.07%	2.02	11.59	1.45	1.46	2.92	0.20%
Esterline Technologies	ESL	0.92%	57.23	60.44	48.25%	5.61%	1.82	14.22	1.20	1.36	1.45	
Moog Inc.	MOGA	0.86%	35.51	37.60	28.63%	5.89%	1.71	13.67	0.82	1.50	1.32	
Viasat Inc	VSAT	0.85%	41.11	41.17	29.55%	0.15%	1.67	26.39	2.28	2.12	4.14	
Caci Intl	CACI	0.77%	45.26	50.12	2.60%	10.74%	1.52	12.19	0.47	1.28	1.13	
Teledyne Technologies	TDY	0.76%	39.82	41.57	8.37%	4.39%	1.51	12.91	0.86	2.11	2.80	
Digital Globe	DGI	0.76%	30.40	32.65	34.92%	7.40%	1.49	24.92	4.89	3.01	6.48	
Mantech International'a'	MANT	0.72%	39.60	39.25	-18.80%	-0.88%	1.43	10.61	0.58	1.55	1.16	
Sra International'a'	SRX	0.59%	19.72	20.01	4.76%	1.47%	1.14	13.08	0.69	1.48	0.99	
Cubic Corp	CUB	0.59%	40.80	43.57	16.81%	6.79%	1.16	16.44	1.02	2.45	1.85	0.40%
L-1 Identity Solutions	ID	0.56%	11.73	11.79	57.41%	0.51%	1.10	73.69	1.71	1.49	29.53	
GeoEye	GEOY	0.50%	40.48	44.27	58.79%	9.36%	0.98	21.18	3.09	3.09	1.19	
Orbital Sciences Corp	ORB	0.48%	15.30	16.24	6.42%	6.14%	0.94	19.11	0.77	1.74	2.18	
Cogent Inc.	COGT	0.47%	10.64	10.52	1.25%	-1.13%	0.93	21.04	7.99	1.68	2.30	
Comtech	CMTL	0.44%	27.35	30.82	-12.04%	12.69%	0.87	19.14	1.11	1.24	0.44	3.20%
AAR Corp	AIR	0.44%	18.66	22.04	-4.09%	18.11%	0.84	11.54	0.59	1.11	1.17	
American Science & Engineering	ASEI	0.38%	73.65	82.35	8.58%	11.81%	0.74	18.80	3.00	3.18	1.17	1.50%
Osi Systems	OSIS	0.34%	36.32	36.00	31.96%	-0.88%	0.67	16.36	1.13	2.03	0.98	
Ceradyne Inc	CRDN	0.31%	23.35	23.81	23.88%	1.97%	0.59	17.01	1.48	0.91	4.50	
AeroVironment	AVAV	0.26%	22.25	23.46	-19.33%	5.44%	0.51	20.22	2.03	2.20	0.90	
Ladish Co	LDSH	0.25%	31.13	32.00	112.62%	2.79%	0.51	16.84	1.26	1.99	2.11	
Applied Signal Technology	APSG	0.23%	24.88	33.56	74.07%	34.89%	0.45	29.44	2.03	3.00	2.17	1.50%
Force Protection	FRPT	0.20%	5.04	5.61	7.68%	11.31%	0.39	12.47	0.44	1.21	0.22	
Mercury Computer Sys	MRCY	0.19%	12.03	15.84	43.87%	31.67%	0.38	20.05	1.90	2.04	2.54	
Gencorp	GY	0.14%	4.92	4.87	-30.43%	-1.02%	0.29	16.23	0.33			
EMS Tech	ELMG	0.14%	18.63	17.84	23.03%	-4.24%	0.27	14.74	0.79	1.13	1.03	
NCI Information Technology	NCIT	0.13%	18.92	18.64	-32.59%	-1.48%	0.25	10.24	0.52	1.85	0.77	
TASER International Inc.	TASR	0.13%	3.88	3.97	-9.36%	2.32%	0.25	56.71	2.45	2.08		
CPI International	CPII	0.12%	14.03	14.12	6.65%	0.64%	0.24	10.86	0.67	1.23	1.00	
Ducommun	DCO	0.11%	21.78	21.47	14.75%	-1.42%	0.23	9.38	0.54	0.93	0.82	1.40%
LMI Aerospace	LMIA	0.10%	15.92	16.33	22.78%	2.58%	0.19	10.96	0.80	1.25	1.16	