



Commentary

I could spend this month's commentary talking about technical trends, resistance levels, fundamentals, etc. but the reality is, that would be a waste of time -- yours and mine.

It doesn't matter that the benchmark SPADE Defense Index (NYSE: DXS) has rebounded from the summer lows and the Powershares Aerospace & Defense ETF (NYSE: PPA) is at a 50% Fibonacci retracement level, or how the price-to-sales ratio for the sector remains below 1.0 and price-to-earnings near 10. It doesn't matter. Neither does Boeing forecasts for increasing demand of commercial aircraft; rising acquisition activity (United Technology buys Goodrich; General Dynamics buys Force Protection); or CACI raising growth forecasts. It doesn't matter.

There is no relevant commentary at this time. The only thing that does matter is the Congressional Deficit Reduction Supercommittee and waiting to hear what they come up with. Until they do, everything is just a guess. As one industry executive simply stated, "We cannot predict the output of the Budget Act deliberation or actions of the Super Committee at this time."

The question is, "will the sector see manageable reductions on the order of \$350 billion through 2023-ish or will an additional \$500 billion to a \$1 trillion be added to that reduction. Will the budget be essentially flat in real-dollar terms (a budget reduction when factoring in inflation and growth against the current plan) or will the sector see real declines that cause the Secretary of Defense to make significant cuts to programs above and beyond those the sector already anticipates and lead to an estimated loss of one million jobs, a 0.6% increase in the unemployment rate, and put the nation's security at risk?*" -- [* according to various organizations].

The answer is, "I don't know". After reading some articles in *The Hill*, a Congressionally-focused newspaper/blog, even the members of the media don't know what's going on inside the supercommittee room. Imagine....the government has actually been able to keep a secret!

As Morgan Keegan defense analyst Brian Rutenbur said, "The problem I see is uncertainty, uncertainty, uncertainty. Nobody knows what is going to happen."

Whatever happens, here's where the first cuts are likely to come from (so you don't have to take the gloom and doom reporting at face value):

1. The Army plans to drop to a force of 520,000 troops from the current 570,000; the Marines to 186,600 from 202,000 beginning in 2005.

SPADE Defense Index Statistics

10/31/11 Close: 2068.15
 All-time Close: 2747.67
 Date of all-time close: 9 October 2007

	SPADE Defense	S&P500
October	10.92%	10.77%
3Q11	[19.48%]	[14.34%]
YTD	[2.79%]	[0.35%]

2. Health cares costs the Pentagon \$50 billion a year; a decade ago it cost \$19 billion (\$25 billion in 2011 dollars). Expect changes.

3. Retirement. It's a given that the formula used for calculating when and how much retirees receive will change to something akin to the calculation that existed a decade ago.

4. Some programs will see changes -- procurements that slip or are extended a year or two out; decisions to replace needed platforms with existing designs, delaying next generation replacements; and keeping programs that have not yet entered production in development.

5. A heavier emphasis on out-year reductions with the hope that future budgets could be revised upwards.

6. Continued emphasis on operational efficiency measures to save \$ wherever possible without impacting acquisition plans. Eg. Military personnel rotate assignments every 2-3 years, shifting to 3-4 years would save hundreds of millions annually.

7. Increasing pilot programs designed to reduce the costs associated with supplying energy to military bases and with the transport of materials and supplies around the globe.

So what's the A&D investor to do? Wait and watch the news. Sigh. Wait and watch the news.

Index Update

The long-awaited split up of ITT into three companies, finally took place at the end of October. ITT Exelis (the

Oct 2011 Top Gainers			Oct 2011 Laggards			YTD Top Gainers			YTD Laggards		
1	Oshkosh Truck	32.53%	1	Kratos	[5.80%]	1	EMS Technologies*	66.23%	1	Kratos Defense	[51.94%]
2	OSI Systems	32.16%	2	Ducommun	[4.74%]	2	SRA International*	51.20%	2	Key W Holdings	[42.74%]
3	Viasat	27.86%	3	Force Protection	[4.42%]	3	Goodrich*	39.24%	3	Oshkosh Truck	[40.81%]
4	Mercury Computer	26.96%	4	Goodrich	1.62%	4	Triumph Group	31.31%	4	NCI Information	[40.63%]
5	Ceradyne	24.43%	5	Lockheed Martin	4.49%	5	Transdigm	30.43%	5	Computer Sciences	[36.57%]
6	Huntington Ingalls	21.25%	6	Precision Castparts	4.95%	6	LMI Aerospace	25.77%	6	Digital Globe	[35.67%]
7	Orbital Sciences	20.78%	7	FLIR Systems	4.99%	7	Teledyne Tech.	23.88%	7	Ducommun	[34.48%]
8	Cubic Corp	20.60%	8	Digital Globe	4.99%	8	Aerovironment	23.11%	8	Force Protection	[33.21%]
9	Triumph Group	20.43%	9	SAIC	5.25%	9	Integral Systems*	22.81%	9	AAR Corp	[27.45%]
10	URS Corporation	20.36%	10	Rockwell Collins	5.82%	10	OSI Systems	21.84%	10	Alliant Techsystems	[21.97%]

* Acquired

Largest Defense Prime Contractors		
	October	2011
Lockheed Martin	4.49%	8.57%
Boeing	8.73%	0.81%
General Dynamics	12.83%	[9.54%]
Northrop Grumman	10.70%	[10.85%]
Raytheon	8.12%	[4.64%]
L-3	9.38%	[3.84%]

**ETF Statistics (NYSEarca: PPA)
Powershares Aerospace & Defense**

Exchange / Ticker Symbol: NYSE / PPA
 Fee 60 basis
 Assets (10/31/11) \$65 M
 Closing Price (10/31/11) \$18.13
 Yield (12-Month Yield) 1.52%
 October 2011 Volume 3,730,400
 Turnover 12%

source: Marketwatch

Portfolio Price / Earnings	10.66
Portfolio Price / Book	1.73
Portfolio Price / Sales	0.66
Portfolio Price / Cash Flow	7.45
Earnings Growth Rate	4.09%
Beta (3 year)	1.05
Alpha (3 year)	[1.00]
R-squared (3 year)	84.94

Yahoo Finance - 8/31/11

defense group) replaced ITT (now the industrial group) in the SPADE Defense Index.

Mergers and Acquisitions Update

General Dynamics (NYSE: GD) announced its intention to acquire Force Protection (NASDAQ: FRPT) for \$5.52 per share or \$260 million as a means to expand its armored vehicle business, in particular into the aftermarket support of Force Protection's installed fleet and gain vehicles that might be pitched in new competitions.

United Technologies (NYSE: UTX) \$16.4 billion acquisition of Goodrich (NYSE: GR) remains pending approval.

Some Positive News

In its quarterly report, CACI raised its guidance for FY-2012 based on continued strength in operating performance; the addition of acquisitions in the cyber and business systems area, and a large commercial product sale. "Our record performance provides a solid foundation and strong momentum for the rest of the fiscal year and beyond."

Raytheon announced that bookings in the quarter were up 14% to \$6.9 billion from \$6.04 billion a year earlier; shifting backlog upward to almost \$35 billion. Its margin of 13% is also the highest in a decade. The firm plans to boost revenue via acquisitions and targeted international sales.

Boeing reported a 31% increase in 3Q profit as it delivered more commercial planes and boosted operated margins.

Textron's Bell Helicopters announced plans to build a \$240 million expansion of its facility in Fort Worth, Texas.

Northrop Grumman announced 150 job openings for engineers and other workers in San Diego.

More News that Caught Our Eyes

Jacob Lew, the Office of Management and Budget director wrote a letter backing a Senate proposal to freeze defense spending.

Aviation Week: Boeing and Raytheon are two commercial companies that will be least affected by defense cuts. One quarter of Raytheon's sales come from outside the U.S., which should help the company weather Pentagon cuts. Meanwhile, Boeing also has many contracts with "very steep" termination costs - 20Oct11

Boeing increased production of its next-generation 737 from 31.5 per month to 35 due to customer demand.

In a classified briefing with lawmakers, Rep. Buck McKeon (R-CA) said that Secretary of Defense Leon Panetta indicated that "He does not want to be the secretary who hollows out our military forces."

PPA (blue)
50-day (red)
200-day (green)



Looking at a two-year chart and there is:

1. Significant resistance around the \$16 level with PPA bouncing off several times (July/Sept 2010, Aug-Oct 2011)
2. The price level continues to bounce off the 50-day which is converging toward the 200-day moving average.
3. In early November, PPA moved above its 200-day moving avg.
4. Current levels are around a 50% Fibonacci retracement (from peak to trough)
5. PPA has tracked the ups and downs of the S&P 500 (as correlations in most sectors are near 1)

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

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Nov-11		52 SPADE Defense Index					Market	Forward	Price/	Price/	PEG	
Company	Ticker	Float %	Price	Price	% Ch	% Ch	Cap	P/E	Sales	Book	5 yr	Div Yld
		31-Oct-11	30-Sep-11	31-Oct-11	YTD	MTD	intraday	(ttm)	ttm	mrq	expected	forward %
AAR Corp	AIR	0.50%	16.67	19.93	-27.45%	19.56%	0.77	8.55	0.43	0.93	0.46	1.50%
American Science & Engineering	ASEI	0.39%	61.05	68.02	-20.19%	11.42%	0.62	22.23	2.32	2.34	1.64	1.70%
Alliant Techsystems	ATK	1.19%	54.51	58.08	-21.97%	6.55%	1.91	6.61	0.42	1.68	3.04	1.30%
AeroVironment	AVAV	0.43%	28.15	33.03	23.11%	17.34%	0.72	22.47	2.34	2.79	1.14	
Boeing Co	BA	5.82%	60.51	65.79	0.81%	8.73%	48.90	12.75	0.77	8.49	1.13	2.50%
Booz Allen & Hamilton	BAH	1.38%	14.87	15.81	-18.63%	6.32%	2.06	9.25	0.37	2.13	0.52	
Ball Corp	BLL	3.52%	31.02	34.57	1.60%	11.44%	5.67	11.22	0.68	3.73	1.29	0.80%
Caci Intl	CACI	0.90%	49.94	54.89	2.03%	9.91%	1.67	10.13	0.47	1.29	0.79	
Comtech	CMTL	0.54%	28.09	33.11	19.27%	17.87%	0.78	24.35	1.28	1.29	0.73	3.30%
Rockwell Collins	COL	4.04%	52.76	55.83	-4.12%	5.82%	8.58	12.38	1.78	5.15	1.10	1.70%
Ceradyne Inc	CRDN	0.52%	26.89	33.46	6.12%	24.43%	0.81	10.97	1.58	1.23	0.62	
Computer Sciences	CSC	3.03%	26.85	31.46	-36.57%	17.17%	4.88	6.79	0.31	0.65	0.73	2.50%
Cubic Corp	CUB	0.78%	39.07	47.12	-0.06%	20.60%	1.26	14.77	1.00	2.39	0.80	0.40%
Ducommun	DCO	0.09%	14.98	14.27	-34.48%	-4.74%	0.15	5.82	0.38	0.62	0.42	2.00%
Digital Globe	DGI	0.59%	19.43	20.40	-35.67%	4.99%	0.94	25.19	3.07	1.94	6.41	
Esterline Technologies	ESL	1.06%	51.84	55.90	-4.59%	7.83%	1.71	9.77	1.06	1.09	0.76	
Ebit Systems	ESLT	1.22%	39.80	45.63	-14.12%	14.65%	1.95	9.20	0.70	2.04	0.99	0.70%
Flir Systems	FLIR	2.61%	25.05	26.30	-11.60%	4.99%	4.17	15.56	2.75	2.79	1.42	0.90%
Force Protection	FRPT	0.16%	3.85	3.68	-33.21%	-4.42%	0.26	8.76	0.44	0.86	2.53	
General Dynamics	GD	4.77%	56.89	64.19	-9.54%	12.83%	22.86	8.48	0.73	1.71	1.23	2.90%
GeoEye	GEOY	0.46%	28.35	33.57	-20.81%	18.41%	0.75	13.32	2.37	1.72	0.89	
Goodrich Corp	GR	4.39%	120.68	122.63	39.24%	1.62%	15.33	17.82	2.06	4.02	1.31	0.90%
Gencorp	GY	0.18%	4.49	4.86	-6.00%	8.24%	0.29	18.00	0.33			
Heico	HEI	1.48%	49.24	57.02	11.74%	15.80%	2.38	30.01	3.35	4.6	1.88	0.20%
Huntington Ingalls	HII	0.90%	24.33	29.50	-17.41%	21.25%	1.44	8.6	0.22	1.02	0.37	
Honeywell Intl	HON	6.45%	43.91	52.40	-1.43%	19.34%	40.53	11.88	1.13	3.57	0.84	2.50%
Harris Corp	HRS	2.82%	34.17	37.75	-16.67%	10.48%	4.48	6.96	0.77	2.13	0.79	2.90%
Itt Indus	ITT		42.00	45.60	-12.49%	8.57%	8.45	9.14	0.73	1.67	1.07	0.80%
KEY W Holding	KEYW	0.14%	7.11	8.40	-42.74%	18.14%	0.22	23.33	1.59	1.27	2.35	
Kratos Defense & Security	KTOS	0.14%	6.72	6.33	-51.94%	-5.80%	0.22	10.55	0.43	0.7		
L-3 Communications Hldgs	LLL	4.10%	61.97	67.78	-3.84%	9.38%	7.02	7.57	0.47	1.08	1.12	2.60%
LMI Aerospace	LMIA	0.15%	17.06	20.11	25.77%	17.88%	0.23	10.47	1.03	1.5	0.82	
Lockheed Martin	LMT	4.86%	72.64	75.90	8.57%	4.49%	24.39	8.90	0.51	8.23	1.05	5.30%
Mantech International'a'	MANT	0.80%	31.38	35.13	-15.00%	11.95%	1.29	9.15	0.47	1.29	1.14	2.30%
Moog Inc.	MOGA	1.09%	32.62	38.73	-2.69%	18.73%	1.78	11.92	0.80	1.44	1.16	
Mercury Computer Sys	MRCY	0.28%	11.50	14.60	-20.57%	26.96%	0.42	13.27	1.98	1.46	1.68	
NCI Information Technology	NCIT	0.12%	11.93	13.65	-40.63%	14.42%	0.18	11.01	0.30	1.20	1.42	
Northrop Grumman	NOC	4.68%	52.17	57.75	-10.85%	10.70%	15.09	8.29	0.45	1.29	1.06	3.50%
Orbital Sciences Corp	ORB	0.56%	12.80	15.46	-9.75%	20.78%	0.91	14.87	0.68	1.48	1.21	
Osi Systems	OSIS	0.54%	33.52	44.30	21.84%	32.16%	0.89	16.53	1.30	2.31	0.99	
Oshkosh Truck	OSK	1.18%	15.74	20.86	-40.81%	32.53%	1.90	11.10	0.26	1.22	0.82	
Precision Castparts	PCP	4.48%	155.46	163.15	17.20%	4.95%	23.50	15.69	3.47	3.11	1.73	0.10%
Raytheon Co	RTN	4.72%	40.87	44.19	-4.64%	8.12%	15.49	8.14	0.60	1.49	0.97	4.00%
SAIC	SAI	2.64%	11.81	12.43	-21.63%	5.25%	4.25	8.94	0.40	1.81	1.30	
TASER International Inc.	TASR	0.18%	4.31	4.97	5.74%	15.31%	0.29	55.22	3.26	2.76		
Transdigm	TDG	2.93%	81.67	93.92	30.43%	15.00%	4.71	17.26	4.31	6.37	0.95	
Teledyne Technologies	TDY	1.25%	48.86	54.47	23.88%	11.48%	2.04	13.93	1.11	2.03	1.07	
Triumph Group	TGI	1.77%	48.74	58.70	31.31%	20.43%	2.85	11.64	0.85	1.68	0.83	0.30%
Textron	TXT	3.35%	17.64	19.42	-17.85%	10.09%	5.84	11.63	0.55	1.84	0.28	0.40%
URS Corporation	URS	1.77%	29.66	35.70	-14.20%	20.36%	2.84	9.18	0.31	0.71	0.80	
United Technologies	UTX	5.92%	70.36	77.98	-0.94%	10.83%	70.66	13.22	1.24	3.19	1.15	2.40%
Viasat Inc	VSAT	1.12%	33.31	42.59	-4.10%	27.86%	1.79	26.79	2.28	2.15	3.24	
ITT Exelis	XLS	1.00%			NEW	NEW						

Data Provided by Yahoo Finance & Capital IQ, and Forward P/E by Thompson