



INVESTMENT U RESEARCH REPORT

Defense Stocks

Three Defense Industry Investments Set To Skyrocket Over The Next 18 Months

by An *Investment U* White Paper
From the *Investment U* Research Team

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The returns from bellwether defense stocks have trounced the S&P 500 for 27 years. And the months and years ahead may be more lucrative yet...

Fact is, the U.S. military is one of the most profitable clients a business can serve.

Not only is it a loyal, repeat customer, the Department of Defense spends big...

In fact, it spends more money on national defense than China, Russia, The U.K., Japan, France, Germany, India, Saudi Arabia, South Korea, Canada, and Australia combined.

Next year, the DOD's expected outlay is \$481 billion, up 58% since 2001. By 2010, the budget could be north of \$500 billion.

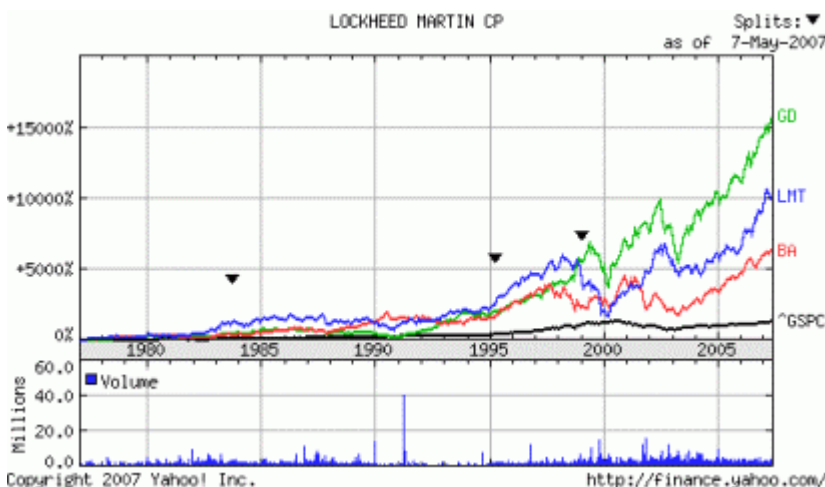
And while its spending habits may often be questioned, big budgets mean big bucks to companies delivering products and services to the armed forces. Indeed, profits at three defense contractors in particular have been on a tear for decades.

Here's why business should only get better, and how to capture another decade of double-digit growth, starting now...

Tap Into the "Industrial Military Complex" for Mega Defense Stock Returns

Business at Lockheed Martin (NYSE: LMT), General Dynamics (NYSE: GD) and Boeing (NYSE: BA) is thriving.

So are their stocks. Take a look...



Here's a rundown on each, as they help construct the largest military history's ever seen...

Lockheed Martin's Stock Up 10,000%... And Counting

Lockheed Martin is the world's #1 defense contractor, and the U.S. Government accounts for 80% of its business.

The company is currently charged with the production of the F-16 and F-22 fighters, as well as the upcoming F-35. Its F-117 Stealth Fighters were used in the Shock & Awe campaign directed at Iraq, as were their PAC-3 Patriot missiles.

Many of Lockheed's contracts are for cutting edge electronic systems, too...

Its technological expertise provides homeland security with airborne defense systems and guidance systems for missiles and satellites. In 2001, the company received the largest defense contract ever, a \$200 billion deal to build the Joint Striker Combat Jet, set to see action in the Navy, Air Force, and Marine Corps.

Lockheed also recently received a \$23 million contract to modernize the C-5 Galaxy aircraft for the United States Air Force. The project is considered the cornerstone of the U.S. Air Force's Reliability Enhancement and Re-Engineering Program. The company has also just announced a new \$40 million contract to provide the U.S. Army with its TRACER Radar system.

Receiving new contracts, of course, is really nothing "new" for the company. Had you invested in shares back in 1980, you'd have more than a 10,000% gain.

But business today is as good as it's ever been...

First-quarter earnings rose to \$690 million, well over the \$591 million taken in a year ago. Return on Equity over the last 12 months is 35%. And shares have followed suit, up 32%.

Boeing Shares Take Flight, Fueled by Earnings of \$877 Million

Boeing is the world's largest aerospace company, and second only to Lockheed in defense contracting. Its combination of a substantial commercial base and lucrative defense contracts has made the company extremely profitable. Boeing's stock has climbed 56% in the last two years.

And the contracts keep rolling in...

In May, Boeing received a \$69 million contract from the U.S. Air Force for Joint Helmet Mounted Cueing Systems. The company has also been awarded a \$7.1 million contract from the U.S. Navy to provide several destroyers with network communications.

The company's Integrated Defense Systems business has deals with the federal government to execute the Secure Borders Initiative and Search and Rescue Helicopter Program. IDS is also NASA's primary contractor for the International Space Station, Space Shuttle Program, and its information and satellite systems.

Commercial and defense orders have left the company with a record-breaking backlog, too, worth \$262 billion. And its commercial-plane order sheet hit 300, as it took on 51 new orders for the popular 737. This leaves the company with a total of 325 orders, on pace to break 1,000 for a third consecutive year.

So far this year, Boeing's revenue is up 8% to 15.4 billion, beating Wall Street's expectations. First-

quarter earnings climbed 27%, to \$877 million.

To be sure, earnings at Boeing should continue to mount. And money managers agree: institutions own 67% of Boeing's outstanding shares.

Another 425% Pop at General Dynamics

The U.S. Military is steadily becoming a high-tech, computer-based fighting machine. And General Dynamics has done its best to accommodate this new direction.

GD was originally a ship builder, but that began to change in the 1990s. That's when it began acquiring companies with expertise in information technology. The strategy paid off...

Between 1992 and 2002, GD's stock value increased 425%.

Currently, the company provides the military with command and control systems, warships, nuclear submarines, tanks, amphibious assault vehicles, and munitions. And the U.S. Government accounts for more than two thirds of GD's sales. Perhaps that's why it's now the sixth-largest defense contractor in the world, earning \$24.1 billion in 2006.

Business in 2007 looks just as promising...

GD recently received a \$244.5 million contract to help produce 1,000 mine-resistant vehicles that are expected to increase survivability amongst marines operating in hazardous areas.

Additionally, the U.S. Army just issued two separate contracts totaling \$101 million for GD's Stryker vehicles.

And the revenue is starting to hit the books...

First-quarter earnings rose 16%, year-over-year, to \$434 million. That's up from \$374 million last year. Overall, revenues rose to \$6.3 billion, after significant gains were made in the company's combat systems, aerospace, and information technology sectors. GD's funded backlog has swelled to \$34.5 billion.

So as long as the government's confidence in GD's ability to provide reliable high-tech machinery to the military rises, so, too, should its stock.

In short, business at Boeing, Lockheed, and General Dynamics is strong. Each of these companies has made a fortune catering to government spending. And that trend should continue.

Right now, all three are trading relatively in line with their historical multiples. So while shares have obliterated the benchmark S&P 500 for more than 25 years now, in the months and years ahead, expect more of the same.

Good Investing,

Investment U Research

P.S. By the way, Lockheed, Boeing and General Dynamics have a new competitor. And it's dominating an entirely different segment of the defense industry. In fact, the company's never produced a single missile, gun or bullet, and it will never have to. Earnings are accelerating by the week. [Here's why.](#)

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