



INVESTMENT U RESEARCH REPORT

Three Defense Industry Investments Set To Skyrocket Over The Next 12 Months

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Bellwether defense stocks have trounced the S&P 500 for 27 years. And the months and years ahead it won't be any different.

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 is a big spender... really 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.

The proposed defense budget for the Department of Defense for 2010 is \$533.8 billion, up 48% since 2001. And it represents an increase of \$20.5 billion over the \$513.3 billion enacted for fiscal 2009.

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.

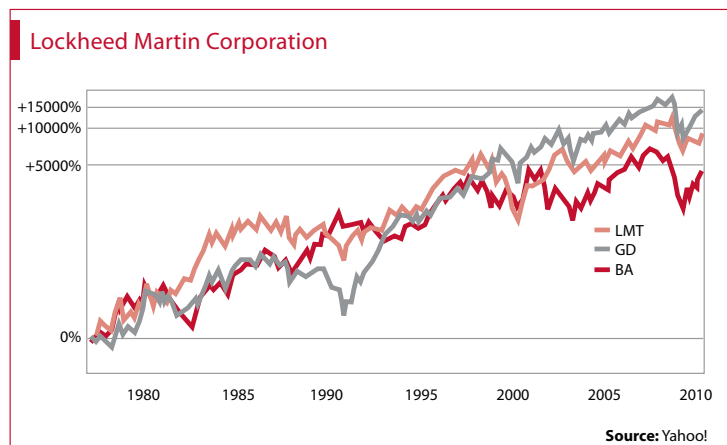
So are their stocks. Take a look:

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

Lockheed Martin's Stock Up Near 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 received in March of this year a \$940 million contract to produce Improvised Explosive Device Jammers for the Navy under an indefinite-delivery, indefinite-quantity contract.

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

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

Since November 2009, Lockheed stock has gained almost 20%, and with a larger defense budget projected for 2010, contracts will continue to roll in.

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. In 2009, 43% of Boeing's revenues were derived from U.S. government contracts. Its combination of a substantial commercial base and lucrative defense contracts has made the company extremely profitable.

And the contracts keep rolling in...

In February of this year, Boeing received a \$138 million fixed price contract from the U.S. Army for low-rate initial production of the initial brigade set of Brigade Combat Team Modernization (BCTM) Increment 1 capabilities. Under the \$138 million, fixed-price contract, a team led by Boeing will equip the first Infantry Brigade Combat Team with these networked capabilities, along with associated system engineering and program management support.

In March, the company was also awarded an \$11.4 million contract by the U.S. Navy. Boeing will supply Laser Joint Direct Attack Munitions (Laser JDAM) to meet the U.S. Navy's Direct Attack Moving Target Capability (DAMTC) requirements. The total contract value could exceed \$91 million.

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, not to mention the 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.

With all that, it's no wonder that Boeing's stock has climbed 144% since March of 2009.

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**. As evidenced by its stock value increasing 425% between 1992 and 2002, the strategy paid off.

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 and has seen it's stock rise 111 % since March of 2009.

Business in 2010 looks just as promising...

GD recently received a \$387 million contract to provide a variety of technical support and training advisory services to the Army.

Additionally, General Dynamics was awarded a \$228 million contract to modernize the FAA's communications system. The contract will require them to provide managed services support that includes:

- ✓ Maintenance and operations
- ✓ Upgrades and technology to existing administrative telephone systems
- ✓ Providing new administrative telephony systems and services

And the revenue is starting to hit the books

Full-year 2009 earnings were \$2.41 billion or \$6.20 per share on a fully diluted basis. Revenue was \$32 billion for the full-year, an increase of 9.2 percent over full-year 2008.

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, expect more of the same in the months and years ahead.

Good Investing,

Ryan Fitzwater

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