

Should You Be Investing in Defense Contractors?

Every day seems to bring more bad news about possible conflict on the Korean Peninsula. As the dictator of North Korea and the American President trade insults and threats should you be investing in defense contractors? *CNBC* writes that the **specter of war** has driven defense stocks up.

On Oct. 1, President Donald Trump once again took to Twitter to attack Kim Jong-un, saying that negotiating with the North Korean chairman is a waste of time. While social media mudslinging may not be the best way to deal with a hostile leader, there's at least one group who may not mind Trump's Twitter threats: defense industry investors.

Year-to-date, the S&P 500 Aerospace and Defense Industry subsector index is up 30 percent, compared to 12.9 percent for the S&P 500. Since July 3, when North Korea fired its first intercontinental ballistic missile and Trump said in a tweet, "Does this guy have anything better to do with his life?" the index has climbed by 14.3 percent.

While most people likely don't want to go to war with North Korea, the increasingly heated rhetoric is helping many defense-industry stocks reach record highs.

In order for defense stocks to go up and stay up there needs to be an increase in defense spending, not just rocket launches, nuclear bomb testing and twitter threats. Should you be investing in defense contractors or has all of the upside been used up? And how about the long term? Are these stocks good buy and hold bets? In that regard we look at the biggest investments in Warren Buffett's portfolio and don't see any defense contractors in the stocks of which he holds a **billion worth of shares** according to *The Motley Fool*.

Specific Defense Stocks versus an ETF

Investing in defense stocks can be profitable over time if you pick and choose correctly.

There are over 250 options for investing in defense stocks in the United States. The ten largest US defense contractors account for 1 percent of the US domestic economy. Investing in defense stocks means buying stock in giants such as Lockheed Martin, Boeing with its Boeing Defense, Space and Security division, Northrop Grumman Corporation and, General Dynamics. It also can mean buying stock in Raytheon Company, the world's largest producer of guided missiles or L-3 Communications Holdings, Inc. which provides the likes of NASA, intelligence agencies and the military with command, control, communications, intelligence, surveillance and reconnaissance (C3ISR). Well-known companies such as Honeywell and Hewlett Packard also do defense contract work although, obviously not exclusively.

As a group defense stocks have been going up for the last several years with the market rally. They have outperformed other sectors of late due to Trump's wish to increase defense spending. An alternative approach is to buy shares of a defense exchange traded fund. A quick look at *Google Finance* shows us that the **Power Shares Aerospace & Defense ETF** has tripled in value over the last six years.

PowerShares Aerospace & Defense Portfolio (Fund) seeks investment results that correspond generally to the price and yield of the SPADE Defense Index (the Index). The Index is designed to identify a group of companies involved in the development, manufacturing, operations and support of the United States defense, homeland security and aerospace operations. The modified market-cap portfolio is rebalanced quarterly and reconstituted annually. The Fund will normally invest at least 90% of its total assets in common stocks that comprise the Index. The Fund's investment advisor is Invesco PowerShares Capital Management LLC.

The rationale here is to let the market decide the winners and not spend time deciding which defense stocks are the best.

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