

The background of the slide is a collage of financial market data. It includes several line charts showing stock price trends over time, with labels like 'Aug 13' and '2013/2013'. There are also tables of stock prices and changes, with some text like 'Highest Movers', 'Change on day', and 'ImgnTech'. The overall theme is financial and market-related.

# Aerospace and Defense Sector Strategy

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Foster, and Hance Dorsch*

1/13/25

# SUMMARY

*Idea – Strength in Aerospace & Defense sector moving into the coming administration and geopolitical climate + impact of revenue stability fueled by government contracting*

Strategy – Aerospace and defense sector with high revenue and  $\text{EPS} \geq 10$

Historical Performance – Cumulative return of 316% vs SPX 242%; beta of 0.77

Recommendation – Buy \$48.4k in School Fund allocating approx. 8k/stock

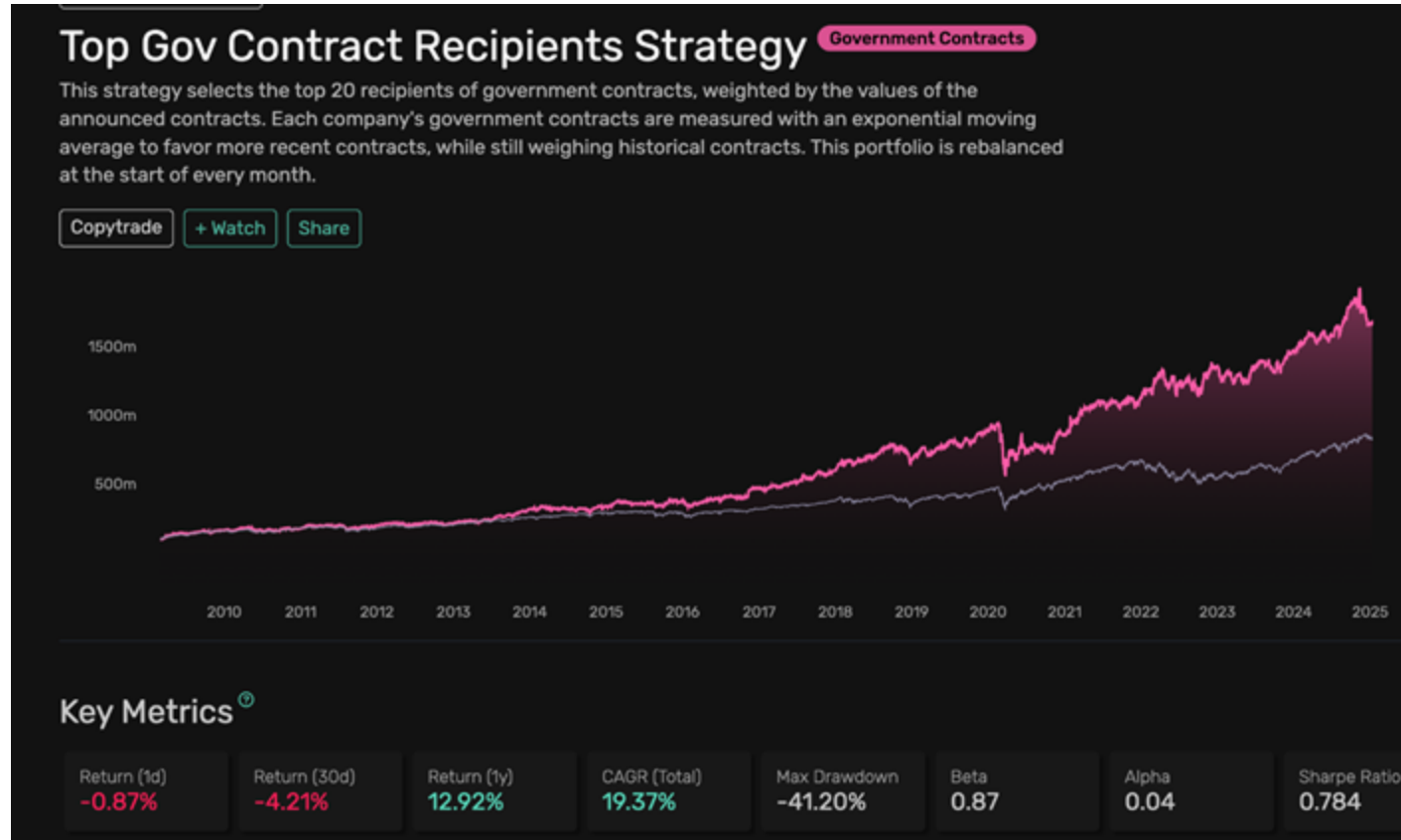
What to Sell – Utilize cash

Re-evaluation – After the fiscal year 2026 budget is released

Effect on Portfolio – Increases beta from 0.75 to 0.78 and expected return from 8.50% to 8.65%



# SOURCE IDEA



Trump's  
Defense  
Budget

Defense +  
Contracting

Current  
Geopolitical  
Environment



# BACKTESTING CRITERIA

NYSE:14,158



Aerospace and Defense Sector: 94



Top 30% YOY Revenue Growth: 23



EPS  $\geq$  10: 6



# STRATEGY DETAILS

Industry:  
**Defense &  
Aerospace**

Min Market Cap:  
**\$5.7B**

Rebalance Frequency:  
**Quarterly**

Number of Positions:  
**6**

Weighting:  
**Equal**

Method:  
**Bloomberg**



# BACKTESTING IMPLEMENTATION

<b># OF STOCKS</b>	6
<b>MIN MARKET CAP</b>	\$5.7B
<b>MIN MONTHLY TRADING VOLUME</b>	2.9M
<b>WEIGHTING SCHEME</b>	EQUAL
<b>REBALANCING FREQUENCY</b>	QUARTERLY
<b>TIME FRAME</b>	10 YEARS
<b>CURRENCY</b>	USD



# BACKTESTING RESULTS - CHARACTERISTICS

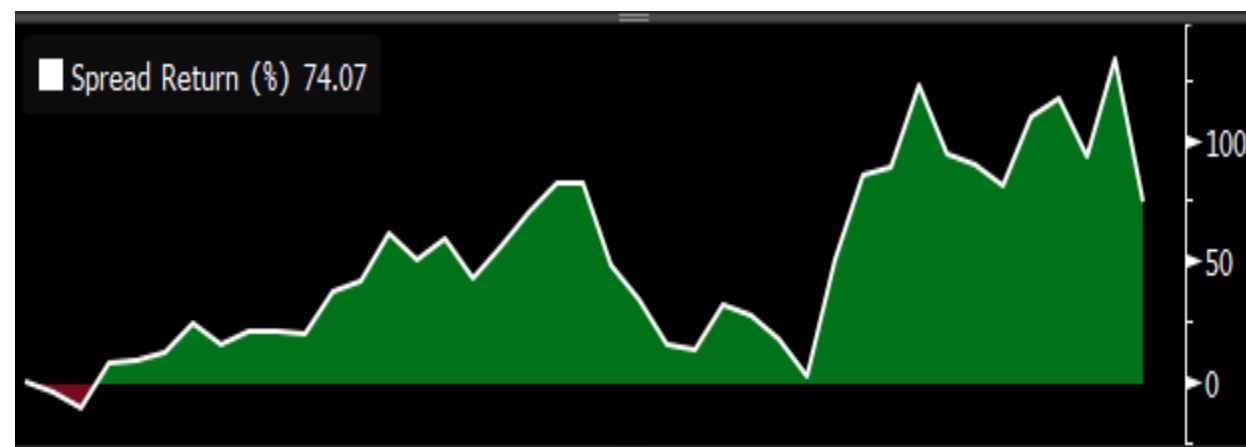
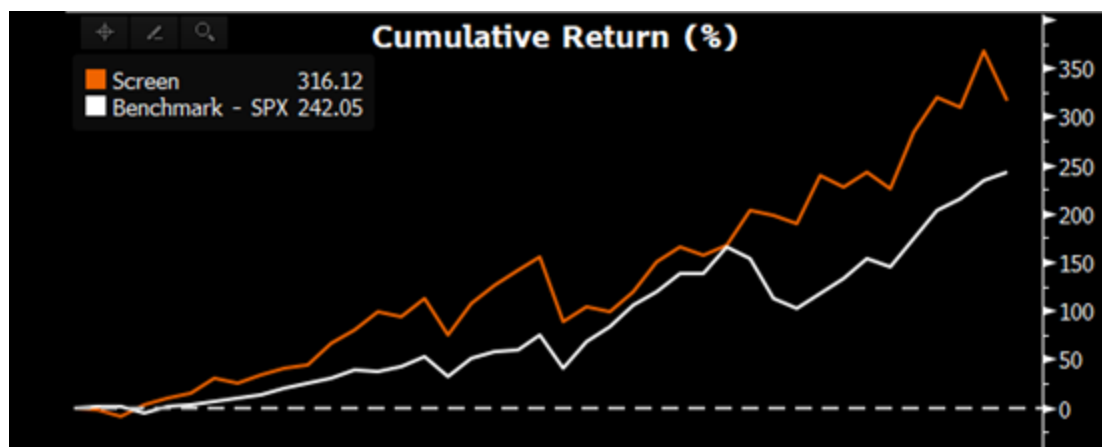
<b><u>10-Year Analysis</u></b>	<b>Mean</b>	<b>Min</b>	<b>25%</b>	<b>Median</b>	<b>75%</b>	<b>Max</b>
<b>Market Cap (\$Millions)</b>	57,790	5,700	24,870	53,430	73,810	215,300
<b>P/E Ratio</b>	21.11	8.25	15.11	18.38	23.20	50.71
<b>Monthly Trading Volume* (\$Millions)</b>	25.81	1.66	7.24	21.94	28.46	280.15
<b>Share Price*</b>	\$338.70	\$131.15	\$212.40	\$287.72	\$386.68	\$1427.13





# BACKTESTING RESULTS - PERFORMANCE

## 10 Year Backtest vs SPX



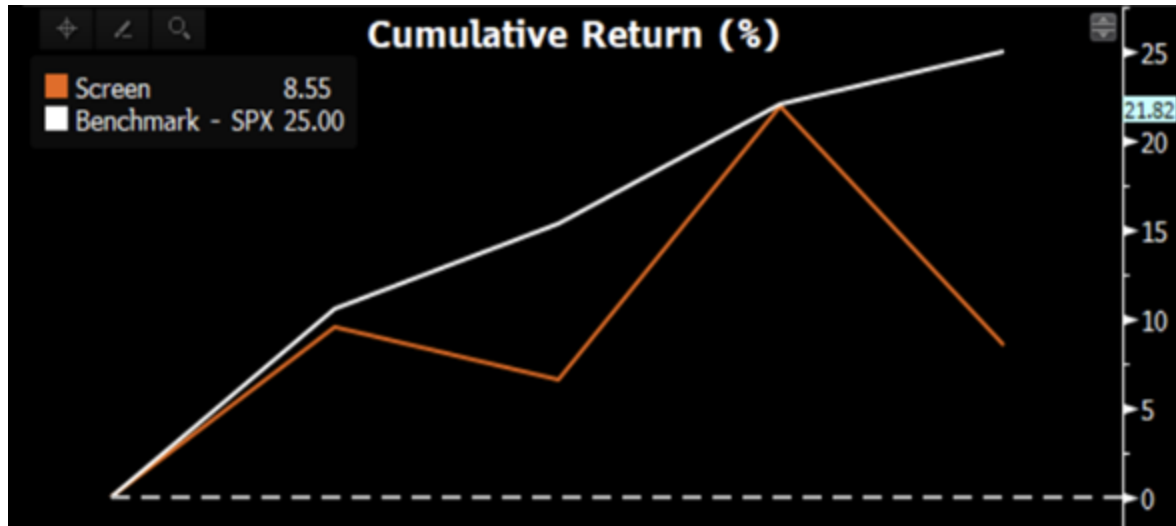
<u>Annualized</u>	Return	$\alpha$	$\beta$	$\sigma$	Sharpe	Treynor	Max DD	Info Ratio	Idio. Risk
10 Year	316.12%	6.20	0.77	20.58	0.78	0.17	7.06	0.15	2.45
1 Year	8.55%	-6.01	0.51	15.08	0.31	0.12	5.14	-0.86	1.45
10 Year SPX	242.05%	0.0	1.0	18.49	0.56	.07	9.08	0.0	0.0
1 Year SPX	25.00%	0.0	1.0	11.48	0.76	.09	7.44	0.0	0.0



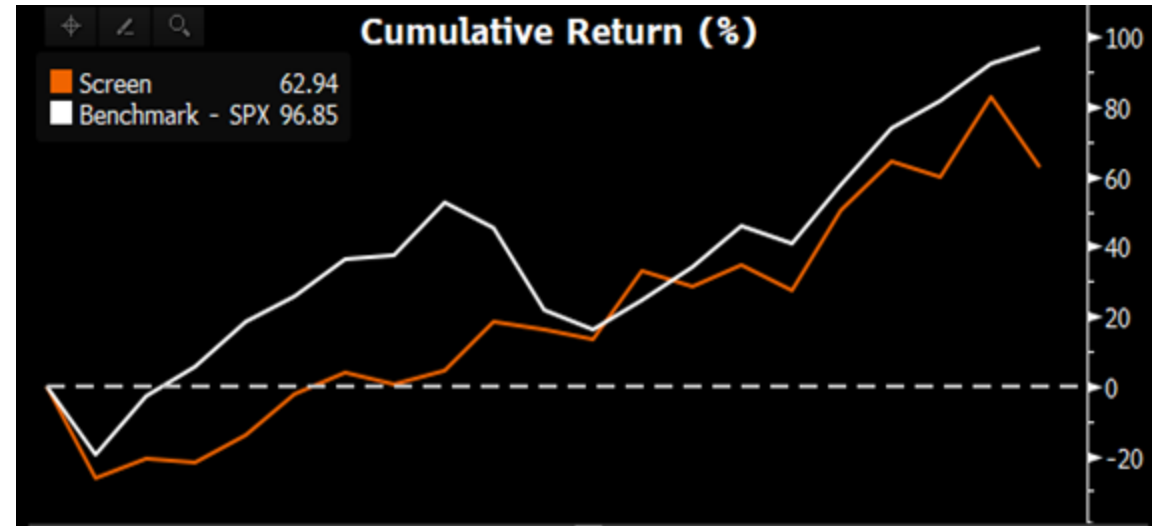


# BACKTESTING RESULTS - PERFORMANCE

## 1 Year Backtest vs SPX



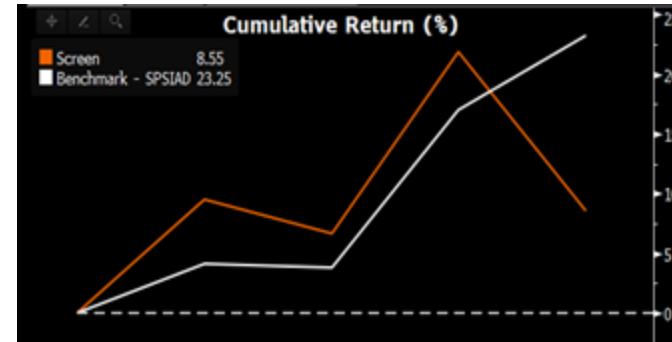
## 5 Year Backtest vs SPX



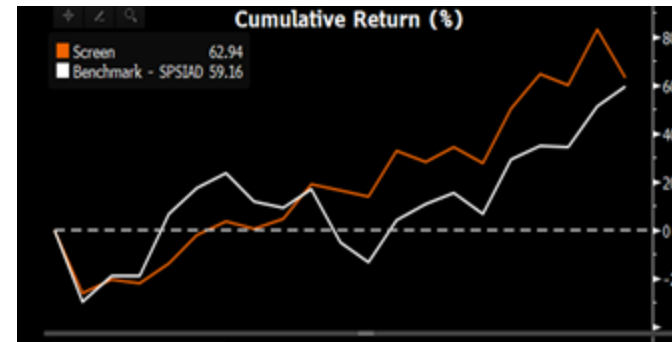
# SCREEN VS SPSIAD INDEX

S&P Aerospace & Defense  
Select Industry Index

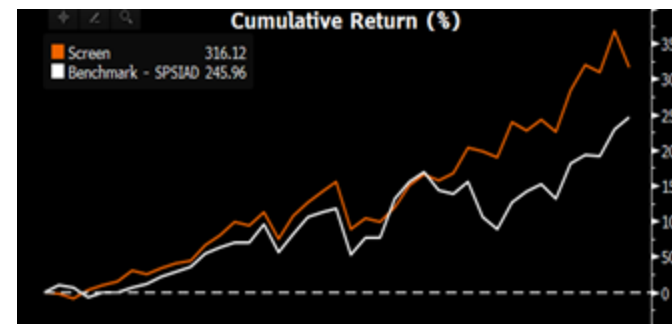
VS



1 Year



5 Year



10 Year



# COMPANY BACKGROUNDS

Curtiss  
Wright  
(CW)

General  
Dynamics  
(GD)

Huntington  
Ingall (HII)

Lockheed  
Martin  
(LMT)

Northrop  
Grumman  
(NOC)

Transdigm  
Group  
(TDG)



# RECOMMENDED PURCHASES

Name	Ticker	$\alpha$	$\beta$	$\sigma$	Sharpe	Treynor	P/E Ratio	3-Month Avg Trading Volume (millions)	Market Cap (\$M)	Share Price	# of Shares	Total Value
Curtiss Wright	CW	3.20	1.18	11.57	1.52	0.15	33.01	14.5	13.25B	\$350	23	\$8,050
General Dynamics	GD	0.60	0.61	10.03	1.76	0.13	19.79	83.1	71.31B	\$260	32	\$8,320
Huntington Ingal	HII	(0.96)	0.55	14.96	1.18	0.10	10.71	21.6	7.43B	\$190	43	\$8,170
Lockheed Martin	LMT	5.52	0.48	11.15	1.58	0.24	16.95	85.5	110.93B	\$470	17	\$7,990
Northrop Grumman	NOC	7.75	0.35	9.85	1.79	0.34	28.28	59.9	66.84B	\$460	18	\$8,280
Transdigm Group	TDG	6.93	1.42	14.84	1.19	0.17	49.22	27.5	71.02B	\$1,265	6	\$7,590



# ANALYST REPORTS

CW: Majority and “buy” and “hold”, beat earnings all 2024

GD: Majority “buy” and “hold”, missed earnings all 2024

HII: Majority “hold”, beat earnings Q1-Q3 2024, missed Q4 2024

LMT: Majority “buy” and “hold”, beat earnings all 2024

NOC: Majority “buy” and “hold”, beat earnings all 2024

TDG: Majority “buy” and “strong buy”, beat earnings all 2024



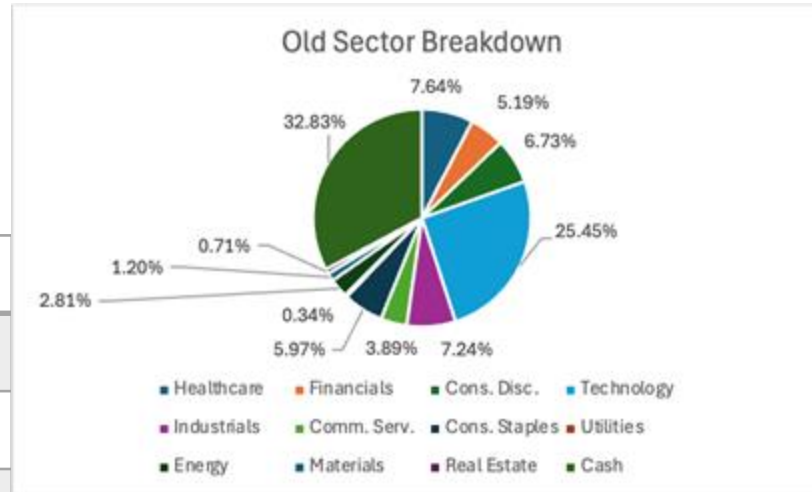
# PROPOSAL

Allocate \$50k to the Aerospace and Defense Sector Strategy with cash from the School Fund. Currently, the strategy is made up of 6 companies which are weighted equally. This gives us a **\$48,400** investment.



# EFFECT ON PORTFOLIO

	Existing Portfolio	New Portfolio
<b>Beta</b>	0.75	0.78
<b>Sharpe</b>	1.76	1.73
<b>Alpha</b>	0.01%	0.13%
<b>Standard Deviation</b>	16.95%	16.75%
<b>Expected Return</b>	8.50%	8.65%





# RECAP & VOTING

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