



Get Rich With Defense Stocks? Yes, Really!

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If Congress's Simpson-Bowles Commission gets its way, U.S. defense spending could face cuts of up to \$1 trillion over the next 10 years. But if Congress takes an axe to the Pentagon's budget, defense contractors might actually have cause for celebration.

Here come the cuts

Demands for spending cuts have already claimed **General Electric's** (NYSE: [GE](#)) F136 [fighter jet engine](#). The Bipartisan Policy Center and Barney Frank's [Sustainable Defense Task Force](#) have proposed similar [trillion-dollar cuts](#) that could:

- **Eliminate Textron's** (NYSE: [TXT](#)) V-22 Osprey [tilt-rotor aircraft](#).
- Delay production under the [KC-X Tanker Program](#) that **Boeing** (NYSE: [BA](#)) just won.
- Slash purchases of [aircraft carriers](#) and submarines built by **Huntington-Ingalls** (NYSE: [HI](#)) and **General Dynamics** (NYSE: [GD](#)) .
- And perhaps even cut short **Lockheed Martin's** (NYSE: [LMT](#)) multi-decade [F-35 fighter jet program](#).

This may not even be the end of it. Right-leaning conservative think tank the Cato Institute thinks we should cut as much as \$1.2 trillion. All of which is great news for defense investors.

Huh?

I know all this sounds like *terrible* news for the defense industry. But consider how the defense companies are reacting to the threatened cuts. So far, the nation's six biggest defense contractors, Lockheed, **BAE Systems**, Boeing, General Dynamics, **Northrop Grumman** and **Raytheon** (NYSE: [RTN](#)) , have all announced reductions to their workforces as they batten down hatches and [prepare for the budgetary storm](#). Combined with corporate restructurings, salary freezes, and other cost-cutting, Lockheed alone has reduced its annual operating expenses by \$500 million.

On the one hand, such cuts are essential if these companies are to survive leaner times. But on the other hand, times may not get quite as lean as the "defense bears" believe. Last week, DefenseNews.com reported that President Obama is rejecting his advisors' suggestions, and calling for a much less aggressive \$400 billion reduction in spending -- spread over 12 years, not 10.

What it means to you

Do the math, Fool. That's just \$33 billion a year. Less than a 5% annual reduction in the Pentagon's 2012 budget request. And while that may not be great news for America's [burgeoning federal deficit](#), it could spell [bigger profits](#) for defense contractors -- and for investors who [ignore the noise, and see the reality](#).

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