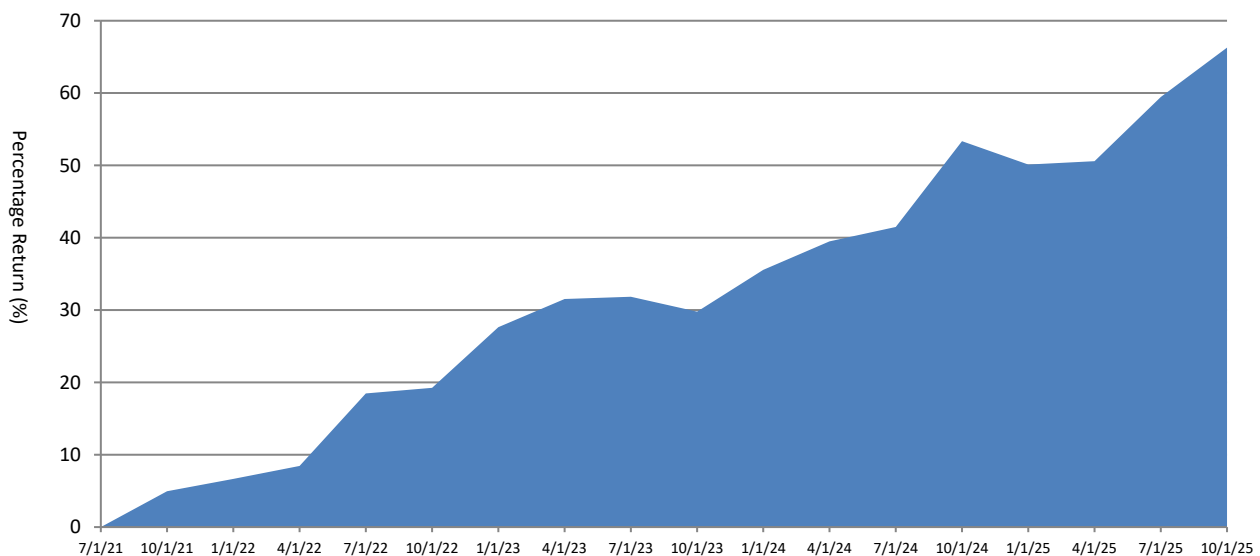




Smart Money has produced a gain in the third quarter of the year, up 4.28%. The military defence stocks added several weeks ago have performed in line with my expectations. At the start of the quarter, Smart Money held only 45% of its total asset allocation in equities. As we moved through what was a positive and successful trading period I closed several stock positions in profit, including Joby Aviation Inc, NIO Inc, Riot Platforms Inc and Kratos Defense and Security. By the end of the quarter the equity weighting had been reduced to 40.78%. One week in to October and the good news is that the equities currently held have all rallied higher and as such Smart Money is very much in positive territory as I write.



Stock focus - Kratos Defence and Security Solutions Inc

I first traded this stock for the account on the 10th April 31.71 and have traded it several times since. I had also said, that this stock was a strong buy for those who can tolerate the risk. The stock has done very well since rallying to 100.25 a share. Today a close look at revenue outlook shows that Kratos has omitted any revenue from delivering its tactical drones in its recent guidance, this because the contract terms aren't yet spelled out. My point is that when it happens, the effect could be huge, since Kratos has 15 to 20 of the drones that are complete or nearly so.

Hypothetically, immediate delivery of 15 drones at \$10 million each would bring in another \$150 million, though the price point is still to be revealed. For perspective, Kratos' unmanned systems division generated \$73.2 million in sales in the second quarter, while the company generated \$351.5 million as a whole.

Kratos offered a sequentially lower third-quarter outlook of \$315 million to \$325 million in revenue. The company said the second-quarter total benefited from a "hypersonic mission" — and it couldn't elaborate — in its defence rocket support segment. Meanwhile, orders fell well below revenue in the second quarter, but the lull is over.

The third-quarter bookings look to be strong. The upturn is due to two additional programme wins that the company hasn't yet revealed. One that is internally called Poseidon, is a "military-grade

hardware and system programme" with a potential value of \$750 million, with revenue ramping up in mid-2027 after completion of a new facility.

Another programme, for which Kratos is part of a team, saw the key partner named as one of few companies selected.

Market - Against the current backdrop, we are witnessing a massive surge in global military budgets, and as such, this investment has targeted several stocks which could be set to soar higher. Members may not be aware, but world defence spending hit a record \$2.7 trillion in 2024. This was a 9.4% year-over-year increase and the sharpest rise since at least 1988. But this sector has seen the spending rise for years, with gains across all five global regions. Many members have commented on Smart Money and the fact that it has filed consistent gains quarter on quarter. More importantly, since its inception, the account has registered a return of over 60%.

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