

Inflation: Lurking in the Shadows

During the last three years, one of the main themes in our Unique Opportunities Model has been protecting against the threat of inflation. It may have seemed like a strange thing to worry about, because the rate of inflation actually declined, and the Fed spent most of its time and energy worrying about *deflation*. Nevertheless, our approach turned out to be a profitable strategy, giving the Unique Opportunities a nice boost in performance.

Positioning for a future inflationary uptick remains somewhat controversial. Advancing technology continues to facilitate a robust level of productivity growth, allowing the economy to absorb almost all of the cost pressures that get thrown at it. Still, the lesson of history is that inflation is not a random event. The conditions for rising prices build up for many years, and suddenly it becomes acceptable for a large segment of the economy to start passing along costs.

Central bankers around the globe have been engaging in a grand experiment. Before the free trade era, it was preferable to have a strong currency. Nowadays, many countries compete to keep their currency weak. Interest rates are held low and the supply of money is increased in order to maximize job creation. The ill effects from this game can take a long time to show up, and in recent years they've been masked by high productivity and weak economic growth. No longer. Spurred partly by China's demand and partly by a world that's awash in paper money, commodity prices have been rising briskly. Many raw materials for food, energy or construction are now in short supply. The entire global economy is at risk for a 5-10 year cycle of rising prices.

Following is an update of a story we originally ran three years ago. With the exception of the labor market, the concerns we brought up then remain key issues today. If anything, the long-term problem with fossil fuels makes for a more compelling argument.

INFLATION PRESSURES MOUNT

It's not the kind of situation where gasoline quadruples in price and supermarkets mark up their inventory on a weekly basis. There's virtually no chance that the President will invoke price controls limiting what businesses can charge and how much

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Review & Recommendations

Terrorism concerns and high energy costs led to the most significant stock market correction in over a year. The earnings outlook, in contrast, continued to improve throughout the month. After a late-month rebound, the S&P 500 closed out March down 1.5%.

GROWTH FUNDS

Growth Model holdings are listed on page 7. **Export & Multinational** makes a good all-around choice. Our other favorites, in increasing order of risk, include **Low-Priced Stock**, **Value**, **Leveraged Company Stock**, and **Capital Appreciation**.

The group leaders included **Contrafund** and **Structured Large-Cap Value**, both of which gained 0.6%, **Value Strategies** which edged up 0.5%, and **Capital Appreciation** with a 0.4% increase. Funds with heavy tech exposure trailed behind. **OTC Portfolio** slid 2.1%, and **New Millennium** lost 2.9%.

INTERNATIONAL FUNDS

Diversified International offers broad-based foreign stock exposure. **Int'l Small Cap** should benefit from a global economic rebound. Consider **Canada** for a play on the dollar's weakness.

Japanese stocks surged on optimism that Japan's economy may be shaking off deflation, and the gains for **Japan Smaller Companies** and **Japan** were magnified by a strengthening yen. The two funds surged 20.2% and 15.4%, respectively. On the flip side, European markets were weak due to terrorism concerns. Laggards included **Nordic**, down 3.7%, **Europe Capital Appreciation** with a decline of 4.1%, and **China Region** which lost 5.1%.

GROWTH & INCOME FUNDS

Growth and Income Model holdings are listed on page 7. **Real Estate Income** offers an income stream of 5% with relatively low risk. **Balanced** and **Puritan** offer an all-weather approach that should stand the test of time. For stocks, go with **Equity-Income I** or **II**, or **Strategic Dividend & Income**. All three should be helped by rising dividend payouts.

Signs that the Fed will delay any tightening moves until 2005 gave a boost to **Real Estate**, up 5.6%, and **Real Estate Income**, which gained 2.0%. Trailing behind were **Growth & Income II**, which

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employees can be paid. Gold is nowhere near \$800 an ounce. And the Fed isn't even thinking about raising short-term interest rates to double-digit levels.

By almost any measure, today's inflation threat is modest compared with the crisis of the 1970s. Competition exists. Markets are global. Innovation is alive and well. Productivity is growing at a healthy clip. The Consumer Price Index edges up at a small fraction of the annual increases it logged 30 years ago.

Nevertheless, it can no longer be argued that inflation is not a threat. The current round of pricing pressures began in late 1998, right after the Asian currency crisis.

FOSSIL FUELS

The U.S. economy is far less susceptible to energy shocks than it was in the 1970s. The amount of oil, natural gas, and electricity used today to produce a dollar of GDP is a small fraction of what it took thirty years ago. With the exception of electricity, energy markets have been deregulated. We no longer have to worry about the availability of fossil fuels; we only have to worry about the price. But there's still a problem:

- Natural gas production in the lower 48 states has begun a long-term decline that mirrors the falloff in U.S. oil production that began in 1970. New wells are no longer able to offset what's being lost as mature wells gradually run dry. The only long-term solution is to import natural gas the same way we import oil. It's not easily accomplished, because natural gas must be cooled to about 300 degrees below zero to be liquefied. It'll eventually take a small army of super-insulated tanker ships and dozens of coastal receiving ports to meet demand. This could easily be a 20-year project. In the meantime, high prices will boost heating bills and push up the cost of food and electricity.

- Slack has run out in the global oil markets. China's appetite for oil is surging due to industrial growth and rising living standards. A net exporter as recently as 1993, the country is now on track to be the world's largest importer in perhaps 15 years. At the same time, global oil production is topping out as energy producers struggle to offset reduced output from mature wells. The problem with oil is not as serious as the U.S. natural gas problem, but there's no easy solution. Virtually all low-cost oil deposits were found long ago. Higher prices will cut demand and help bring new supplies on line, but the days of cheap oil are probably gone for good.

- In the quest for clean air and water, the U.S. gasoline market has become fragmented. There are now dozens of clean gas formulations to meet the specific regional needs and politics in each local market. The refineries have been forced to spend billions to upgrade their facilities while having all their export markets cut off. Foreign producers are dumbfounded. They would like to sell gasoline to the U.S., but without a standard recipe there's no way they can justify the investment. So, each local market must now sustain itself with its own captive refineries and its own special blend. Amazing when you think about it – foreign trade barriers have been swept away while our own gasoline markets have gone the way of isolationism. It didn't have to be that way. What happens next is a lesson straight out of Economics 101. Everyone pays more, and large seasonal price variations become a way of life.

In the broad economy, the overall impact of energy-driven inflation ranks a distant second to that of wage-driven inflation. That's why the Fed seems unconcerned. In theory, as long as there's slack in the labor market, the cost of energy can go through the roof without much impact to the core rate of inflation. That may be true, but things are different this time. Our trade deficit is huge. Rising oil prices will make it worse, putting additional downward pressure on the dollar. Ultimately the price of imported goods could be headed higher.

CURRENCY MANIPULATION

However, the timing of rising import prices will depend a lot on what happens in Japan and China:

- Japan's central bank is flooding the globe with zero-interest money. The official name for this tactic is quantitative easing. Although it's aimed at the Japanese economy, much of the printed money ends up here. This year, most of the \$360 billion that's "budgeted" for keeping the yen weak will be used to purchase U.S. treasuries, with a goal of keeping prices artificially low for Japanese goods. As a result, our interest rates remain low and our trade deficit becomes worse. Japanese authorities plan to suspend their intervention efforts as soon as their consumer price index moves out of the deflationary zone. That may end up happening sooner as opposed to later. Japanese bond yields have been rising sharply in recent months as investors factor in the possibility of rising prices.

- China is actually "locking" its currency to the dollar to maintain a huge and growing surplus with the U.S. The idea is to maximize exports until the

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country's transition to a market-based economy is on solid ground. However, China's economy is small relative to the U.S., so it must inflate its own money supply at a healthy clip just to mop up its trade-surplus dollars and recycle them into U.S. treasuries. After years of resistance, the Chinese central bank has suddenly laid plans to allow its currency to gradually rise against the dollar. Food and energy prices in China are rising at double digit rates, so the Chinese government actually has an incentive to make this happen.

So far in the U.S., higher prices on imports have been limited mainly to products from Europe, most of which are luxury goods. That will change when Japan and China start allowing the dollar to move lower. The rate at which China loosens its dollar peg is of particular concern, because it may have a significant impact on U.S. retailers.

INVESTMENT IMPLICATIONS

It's reasonable to expect the rate of inflation to climb into a range of 3-7% over the next few years. That would be relatively tame compared with the double-digit rates of the mid-1970s, but the impact on the financial markets could still be profound. Growth stocks could lose their luster, although some would benefit from dollar weakness. Some consumer and health care groups could emerge as long-term performance leaders, provided they're not affected by rising energy costs or higher import prices. Energy stocks and commodity producers could see revenue growth. Interest rates, both short-term and long-term, could easily rise 2-3 percentage points.

Investing in funds that could benefit from all of this is not easy, because most investment vehicles that gain from rising prices make lousy investments when economic conditions are favorable. That's the main reason we haven't bet heavily on inflation outside of our Unique Opportunities Model.

There aren't many investments that profit directly from inflation. Gold is the classic hedge because it represents a store of value that, unlike currencies, isn't being diluted. Over very long periods it tends to match the rate of inflation. A century ago, a good suit cost the equivalent of one ounce of gold, and that's more or less true today. Unfortunately, there aren't any mutual funds that match the *price* of gold (at least not yet). **Select Gold** invests mainly in mining stocks – which are twice as volatile as the underlying metal, and rather expensive at current valuation levels. There's a chance it could disappoint, even with rising inflation. **Industrial Materials**

and **Paper & Forest Products** offer a more solid approach as commodity plays go. Still, betting on the energy group may be the most effective inflation hedge, because expectations aren't as favorable, and the potential shortfall is long-term in nature. The least risky energy play is **Natural Resources**, which holds about 70% energy stocks, with the remainder in metals and paper producers. **Energy** is another option. Most of its holdings are invested in the major worldwide oil producers. The recent flap over reserve accounting has held this fund back, but once the revisions are finished, investors will probably begin to price in the new reality for oil prices. **Natural Gas** is also an option, but it carries a third more risk and it may still have some exposure to accounting misdeeds. **Energy Services** is the riskiest bet of all, and in theory could derive the most long-term benefit. However, it doesn't have as much certainty. Analysts are forecasting a big increase in drilling activity, but technology has already helped pinpoint the most cost-effective reserves. Unless the price of oil moves up substantially, there may not be much new activity.

Other inflation plays are of limited usefulness in the current situation. **Real Estate** would normally be a solid inflation hedge, but property prices are already artificially high because interest rates are being held low. Any benefit from rising inflation could be wiped out by the higher interest rates that come with it. Better to go with a mild inflation play like **Real Estate Income**, which won't be hurt as the Fed gets ready to take action. In similar fashion, the stocks and bonds of companies with a lot of debt usually tend to benefit when inflation picks up. Revenue growth increases, making it easier to manage borrowing costs. But here again, **Capital & Income** and **High Income** have already moved up close to full valuation, and the stocks in **Leveraged Company** are no longer sharply undervalued. Any additional benefit from rising inflation could be offset by cost pressures on energy and imported goods.

Some funds gain a *relative* advantage as inflation picks up. **Low-Priced Stock** and **Extended Market Index** are in this category because they hold mostly small caps, which tend to outperform the S&P 500 when inflation rises. Smaller companies operate primarily on the domestic front, and tend to gain more pricing power than large multinational firms. Many of them produce goods domestically, so they can benefit more from export growth. **Value**, a mid-cap fund, also tends to outperform the market when inflation moves to higher levels. That's because

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GUIDE TO FIGURES LISTED ON PAGES 4 AND 5

Gain/loss percentages are for prior month's close (annualized for periods over a year). Reinvested distributions are assumed, with no adjustment for loads. Size figures are for the beginning of the prior month, in millions. Dividend Yield is based on actual dollars posted to accounts, not the SEC yield that Fidelity must quote. Risk is based on standard deviation of daily gains and losses over a one-year period, relative to the S&P 500. Fee: **0.75(90)** indicates a 0.75% redemption fee on shares held less than 90 days. As of September, 2003, all retail Fidelity funds are no-load. If a fund is closed to new investors, we will list it as such in the Fee column. Ratings: **B ******* is **favorite buy**, **B ****** means **buy**, **H ***** means **hold** for the long run, **S **** means cut to 5% of holdings, **S *** means **sell** and move to a buy-rated fund in the same group. Upgrades and downgrades are indicated by ↑ and ↓.

MARCH PERFORMANCE						2004	One	Three	One	3-Yr	5-Yr	10-Yr
Fund Name (Code/Symbol)	Rating	Risk	Fee	NAV	Size	YTD	Mth	Mth	Year	Rate	Rate	Rate
Aggressive Gth (324/FDEGX)	H***	1.11	1.5(90)	15.66	5331.0	4.9	0.0	4.9	40.1	-12.4	-11.7	6.0
Blue Chip Gth (312/FBGRX)	H***	1.01	none	40.02	23219.0	1.0	-1.9	1.0	28.4	-2.0	-3.8	9.2
Blue Chip Value (1271/FBCVX)	H***	1.0 Est	none	11.37	62.8	2.2	-1.6	2.2				
Capital Apprec (307/FDCAX)	B****	1.22	none	25.54	5278.0	4.2	0.4	4.2	55.2	8.8	5.3	11.2
Contrafund (22/FCNTX)	H***	0.86	none	51.19	37350.3	3.7	0.6	3.7	35.7	6.5	2.9	12.7
Discovery (339/FDSVX)	H***	0.77	none	10.29	617.8	-0.5	-2.0	-0.5	23.7	0.7	1.9	
Disc Equity (315/FDEQX)	H***	0.99	none	23.32	4222.6	2.6	-0.6	2.6	32.5	1.6	0.5	10.5
Dividend Gth (330/FDGFY)	H***	0.98	none	27.68	19040.0	1.4	-1.6	1.4	31.4	1.5	2.1	14.7
Export Fund (332/FEXPX)	B*****	1.06	0.75(30)	18.49	1178.1	1.8	-1.7	1.8	38.9	6.2	8.0	
Fidelity Fifty (500/FFTYX)	H***	1.22	0.75(30)	19.56	945.7	1.5	-0.2	1.5	28.9	5.4	3.4	13.3
Growth Company (25/FDGRX)	B****	1.37	none	51.60	23728.1	3.1	0.0	3.1	46.1	-0.5	2.2	11.7
Large-Cap Stock (338/FLCSX)	H***	1.02	none	14.04	743.7	1.2	-1.6	1.2	30.0	-2.3	-3.8	
Lev Co Stock (122/FLVCX)	B****	1.23	1.5(90)	20.39	1712.8	5.5	-2.0	5.5	98.4	28.7		
Low-Priced Stock (316/FLPSX)	B****	0.87	Closed	37.03	29577.4	5.9	0.1	5.9	58.7	19.5	18.9	16.6
Magellan (21/FMAGX)	H***	0.98	Closed	99.13	68289.2	1.4	-1.3	1.4	30.3	-0.8	-2.2	9.5
Mid Cap Stock (337/FMCSX)	B****	1.13	0.75(30)	22.25	8523.8	3.2	-0.4	3.2	41.3	-1.2	9.8	
New Millennium (300/FMILX)	B****	1.38	Closed	30.65	3806.4	0.9	-2.9	0.9	43.6	7.1	7.4	18.8
OTC Portfolio (93/FOCPX)	B****	1.42	none	33.01	8267.4	1.7	-2.1	1.7	44.0	3.8	-1.5	10.3
Independence (73/FDFFX)	H***	1.19	none	16.37	4752.1	1.9	-0.5	1.9	33.4	0.9	1.5	9.9
Small Cap Indep (336/FDSCX)	H***	0.98	1.5(90)	18.75	985.1	4.5	0.3	4.5	44.9	11.0	9.3	9.3
Small Cap Stock (340/FSLCX)	H***	1.05	2(90)	17.94	3135.7	4.9	-0.1	4.9	59.9	14.3	17.2	
Stock Selector (320/FDSSX)	H***	1.01	none	21.32	825.9	1.6	-1.4	1.6	32.7	0.7	-0.4	9.3
Strc Lg Cap Gth (763/FSLGX)	H***	1.08	0.75(30)	9.16	23.3	1.6	-1.4	1.6	31.2			
Strc Lg Cap Val (708/FSLVX)	H***	0.95	0.75(30)	10.95	26.2	4.1	0.6	4.1	38.8			
Strc Mid Cap Gth (793/FSMGX)	H***	1.20	0.75(30)	10.70	59.6	3.7	-0.4	3.7	47.0			
Strc Mid Cap Val (762/FSMVX)	H***	0.93	0.75(30)	12.73	100.9	5.4	0.4	5.4	45.6			
Focused Stock (333/FTQGX)	H***↑	1.01	0.75(30)	8.95	35.5	2.1	-0.4	2.1	29.8	-9.3	-5.1	
Trend (5/FRNXX)	H***	1.00	none	49.78	881.9	1.7	-1.5	1.7	33.6	1.4	1.5	6.4
Value (39/FDVLX)	B****	0.94	none	65.15	7698.9	5.0	-0.6	5.0	47.5	11.8	11.5	12.6
Value Discovery (832/FVDFX)	H***	1.11	none	12.96	55.0	3.8	-1.6	3.8	41.5			
Value Strategies (14/FSLSX)	H***	1.2 Est	none	35.24	78.3	7.4	0.5	7.4	83.7	12.0	15.5	
GROWTH & INCOME FUNDS:												
Balanced (304/FBALX)	B*****	0.75	none	17.25	10743.5	3.3	-0.6	3.3	35.1	8.2	6.2	10.0
Convertible Sec (308/FCVXS)	H***	0.57	none	20.54	1874.3	2.7	-0.1	2.7	28.2	7.0	11.0	12.6
Equity-Income (23/FEQIX)	B****	0.96	none	49.93	24271.6	1.8	-1.3	1.8	41.1	3.4	3.4	11.3
Equity-Income II (319/FEQTX)	B****	1.07	none	22.66	12638.7	0.5	-1.6	0.5	40.1	4.2	2.7	11.2
Fidelity Fund (3/FFIDX)	H***	1.00	none	28.32	10586.2	1.0	-1.6	1.0	31.3	1.1	-1.5	11.0
Growth & Income (27/FGRIX)	H***	0.87	none	36.01	31185.8	1.3	-1.3	1.3	23.4	0.2	-1.0	10.7
Growth & Inc II (361/FGRTX)	H***	0.93	none	9.30	233.1	0.4	-1.9	0.4	25.2	1.3	-1.1	
Puritan (4/FPURX)	B*****	0.65	none	18.75	22538.9	2.1	-0.6	2.1	28.8	5.6	4.4	9.9
Real Estate Inc (833/FRIFX)	B*****	0.2 Est	0.75(90)	11.74	449.6	4.8	2.0	4.8	21.0			
Real Estate (303/FRESX)	H***	0.77	0.75(90)	26.14	3105.8	12.1	5.6	12.1	47.8	21.1	18.5	12.9
Strategic Div & Inc (1329/FSDIX)	B****	0.7 Est	none	10.50	266.8	4.1	-0.1	4.1				
Utilities (311/FUIUX)	S**	0.98	none	11.58	864.2	1.2	-2.2	1.2	27.2	-7.1	-5.8	6.4
SELECT FUNDS:												
Air Transportation (34/FSAIX)	H***	1.58	0.75(30)	29.63	36.2	-1.2	-1.4	-1.2	47.6	-2.2	6.6	11.5
Automotive (502/FAVXX)	S**	1.25	0.75(30)	32.80	21.5	0.9	1.4	0.9	56.5	18.0	7.6	7.0
Banking (507/FSRBX)	B****	1.07	0.75(30)	40.42	489.8	3.3	-0.9	3.3	43.8	9.3	6.8	15.8
Biotechnology (42/FBIOX)	B****	1.64	0.75(30)	56.60	1947.5	9.9	2.2	9.9	40.0	0.0	7.1	13.1
Brokerage (68/FSLBX)	H***	1.47	0.75(30)	53.03	460.0	6.7	-2.0	6.7	58.6	9.1	9.7	18.0
Business Ser (353/FBSOX)	H***	1.18	0.75(30)	14.36	35.1	0.2	1.6	0.2	39.7	3.1	4.5	
Chemicals (69/FSCHX)	H***	1.23	0.75(30)	52.13	50.4	0.6	0.8	0.6	36.7	11.6	11.4	10.4
Computers (7/FDCPX)	B****	1.90	0.75(30)	36.16	1000.7	0.8	-3.6	0.8	63.8	-0.4	-5.2	14.1
Const & Housing (511/FSHOX)	S**	1.25	0.75(30)	37.33	97.0	7.5	3.6	7.5	67.9	19.6	12.8	12.8
Consumer Indust (517/FSCPX)	H***	0.90	0.75(30)	24.14	35.5	2.7	-0.3	2.7	31.2	2.9	-0.1	10.1
Cyclical Indust (515/FCYIX)	H***	1.08	0.75(30)	16.10	36.8	0.2	-0.7	0.2	48.6	6.4	7.7	
Defense & Aero (67/FSDAX)	H***	1.13	0.75(30)	53.96	322.7	-1.5	-2.0	-1.5	47.7	11.4	11.3	15.2
Develop Commun (518/FSDCX)	B****	1.87	0.75(30)	18.74	937.1	13.0	-7.5	13.0	83.2	-4.2	-4.4	11.3
Electronics (8/FSELX)	H***	2.06	0.75(30)	42.63	4111.2	1.8	-2.4	1.8	73.0	-1.6	3.5	18.5
Energy (60/FSENX)	B****	1.09	0.75(30)	26.67	285.9	6.4	0.6	6.4	31.0	2.7	10.2	10.9
Energy Services (43/FSESX)	B****	1.85	0.75(30)	34.72	461.1	9.8	-2.6	9.8	21.9	-1.3	13.6	15.3
Environmental (516/FSLEX)	H***	1.10	0.75(30)	13.14	12.3	-1.3	-1.1	-1.3	31.3	0.5	1.1	2.5
Financial Services (66/FIDSX)	H***	1.05	0.75(30)	120.21	555.4	4.6	-0.7	4.6	44.3	6.8	6.3	16.1
Food & Agriculture (9/FDFAX)	H***	0.71	0.75(30)	46.51	104.0	5.6	0.0	5.6	32.0	5.9	4.7	11.4
Gold (41/FSAGX)	H***	1.91	0.75(30)	28.95	735.8	-3.0	6.4	-3.0	49.9	41.1	20.0	4.0
Health Care (63/FSPHX)	H***	1.03	0.75(30)	120.57	2036.0	2.2	-2.3	2.2	18.5	0.3	1.4	16.1
Home Finance (98/FSVLX)	H***	1.04	0.75(30)	68.53	448.7	6.3	-0.3	6.3	49.3	13.9	13.1	17.2
Indust Equip (510/FSCGX)	H***	1.21	0.75(30)	24.78	66.8	0.7	0.7	0.7	59.8	6.5	4.4	10.4
Indust Materials (509/FSDPX)	H***	1.19	0.75(30)	35.36	135.0	-1.8	-1.8	-1.8	57.7	17.8	12.1	8.3
Insurance (45/FSPCX)	H***	1.01	0.75(30)	58.74	151.4	6.0	-1.6	6.0	43.6	10.0	11.6	18.3
Leisure (62/FDLSX)	H***	1.11	0.75(30)	74.83	204.2	5.4	0.6	5.4	49.7	6.9	1.0	13.0
Medical Delivery (505/FSHCX)	H***	1.44	0.75(30)	32.51	208.9	5.5	-0.8	5.5	37.4	10.6	12.1	10.6
Medical Equip/Sys (354/FSMEX)	B****	0.91	0.75(30)	21.01	569.8	4.9	0.1	4.9	35.1	14.6	15.9	
Multimedia (503/FBMPX)	H***	1.37	0.75(30)	43.84	164.4	-2.9	-2.2	-2.9	48.2	7.0	3.7	13.5
Natural Gas (513/FSNGX)	H***	1.44	0.75(30)	23.16	223.9	7.3	0.7	7.3	35.5	0.7	14.2	10.9
Nat Resources (514/FNARX)	B*****	1.02	0.75(30)	14.91	76.4	4.1	0.1	4.1	36.8	4.0	11.6	
Networking/Infra (912/FNINX)	H***	2.09	0.75(30)	2.46	212.5	5.1	-7.5	5.1	65.1	-9.5		
Paper & Forest (506/FSFPX)	H***	1.26	0.75(30)	31.17	27.5	0.8	-1.5	0.8	32.5	8.9	10.2	9.8
Pharmaceuticals (580/FPHAX)	H***	1.07	0.75(30)	8.83	87.1	0.8	-1.3	0.8	22.5			
Retailing (46/FSRPX)	H***	1.05	0.75(30)	46.98	84.9	4.9	-0.9	4.9	48.3	3.4	-0.8	10.8
Software (28/FSCSX)	B****	1.45	0.75(30)	51.08	847.0	3.8	-0.5	3.8	43.6	11.0	7.1	17.3
Technology (64/FSPTX)	B****	1.78	0.75(30)	60.26	2599.8	0.3	-2.7	0.3	58.3	1.0	-2.1	13.8
Telecom (96/FSTCX)	H***	1.60	0.75(30)	34.35	439.4	7.2	-4.0	7.2	44.8	-5.5	-8.3	6.6
Transportation (512/FSRFX)	H***	1.36	0.75(30)	32.76	37.6	-3.2	-0.2	-3.2	39.4	4.9	9.1	11.3
Utilities Growth (65/FSUTX)	H***	1.05	0.75(30)	33.57	207.1	1.9	-1.1	1.9	35.2	-8.8	-6.0	7.7
Wireless (963/FWRLX)	H***	1.73	0.75(30)	4.81	283.0	17.6	-0.8	17.6	97.1	-8.0		

MARCH PERFORMANCE							Div.	2004	One	Three	One	3-Yr	5-Yr
Fund Name (Code/Symbol)	Rating	Risk	Fee	NAV	Size	Yield	YTD	Mth	Mth	Year	Rate	Rate	
Aggressive Int'l (335/FIVFX)	H***	1.03	1 (30)	15.96	660.3		4.9	2.3	4.9	62.0	11.0	5.0	
Canada (309/FICDX)	B****	0.92	1.5(90)	28.65	321.4		4.6	-0.5	4.6	54.7	17.1	16.2	
Diversified Int'l (325/FDIVX)	B****	0.84	1 (30)	25.74	15794.0		6.7	1.4	6.7	61.2	10.7	9.9	
Emerging Mkts (322/FEMKX)	H***	1.03	1.5(90)	11.67	626.6		10.0	2.2	10.0	76.9	16.5	9.2	
Europe (301/FIEUX)	H***	1.14	1 (30)	28.10	1619.8		5.6	-0.9	5.6	74.5	4.1	1.4	
Europe Cap Appr (341/FECAX)	H***	1.00	1 (30)	19.53	487.2		4.4	-4.1	4.4	59.3	6.7	4.7	
China Region (352/FHKCX)	H***	1.13	1.5(90)	16.04	374.0		3.3	-5.1	3.3	59.4	7.7	10.6	
Global Balanced (334/FGBLX)	H***	0.65	1 (30)	19.55	132.6		3.6	1.2	3.6	39.2	8.3	5.6	
Int'l Growth & Inc (305/FIGRX)	B****	0.96	1 (30)	25.14	1759.4		5.1	0.0	5.1	63.5	8.8	7.5	
Int'l Small Cap (818/FISMV)	B****	0.91	2 (90)	20.84	1012.1		11.6	3.3	11.6	101.6			
Japan (350/FJPNX)	H***	1.67	1.5(90)	13.08	549.8		13.3	15.4	13.3	67.0	2.9	5.6	
Japan Smaller Co (360/FJSCX)	H***	1.46	1.5(90)	12.16	894.3		17.6	20.2	17.6	97.2	17.8	12.6	
Latin America (349/FLATX)	H***	1.37	1.5(90)	16.52	320.8		8.5	2.5	8.5	82.7	12.9	8.9	
Nordic (342/FNORX)	H***	1.20	1.5(90)	22.87	113.9		9.0	-3.7	9.0	70.0	5.0	4.9	
Overseas (94/FOSEFX)	H***	1.10	1 (30)	33.26	4196.9		5.8	1.7	5.8	69.7	3.4	2.2	
Pacific Basin (302/FPBFX)	H***	1.23	1.5(90)	19.37	453.5		10.5	8.2	10.5	65.6	8.2	7.4	
Southeast Asia (351/FSEAX)	H***	1.24	1.5(90)	15.68	549.4		7.5	-1.6	7.5	78.4	13.8	12.5	
Worldwide (318/FWWFX)	H***	0.97	1 (30)	16.92	1040.6		3.4	-0.4	3.4	52.6	6.3	5.3	

INDEX AND ASSET ALLOCATION:

Four-In-One Index (355/FFNOX)	H***	0.80	0.5(90)	23.46	550.8		2.9	-0.6	2.9	36.4	3.8	
NASDAQ Comp (1282/FNCMX)	H***	1.46	0.75(90)	27.30	77.5		-0.6	-1.7	-0.6			
Spart Ext Mkt Idx (398/FSEMXX)	B****	1.08	0.75(90)	28.88	984.2		5.7	0.4	5.7	56.4	10.3	4.9
Spart Int'l Index (399/FSIIX)	H***	0.96	1(90)	28.47	555.7		4.4	0.2	4.4	56.6	3.4	0.5
Spart 500 Index (317/FSMKX)	H***	1.00	0.5(90)	77.87	10501.3		1.7	-1.5	1.7	34.9	0.5	-1.3
Spart Total Mkt Idx (397/FSTMXX)	H***	0.99	0.5(90)	30.67	2238.8		2.5	-1.1	2.5	39.0	2.6	0.0
Asset Manager (314/FASMX)	H***	0.54	none	15.93	11521.4		1.6	-0.7	1.6	20.2	3.8	3.7
Asset Mgr Agg (347/FAMRX)	H***	1.11	none	10.63	353.6		3.8	0.4	3.8	50.4	-0.7	
Asset Mgr Gth (321/FASGX)	H***	0.73	none	14.50	3834.0		1.5	-1.0	1.5	26.6	2.8	0.9
Asset Mgr Inc (328/FASIX)	B****	0.35	none	12.38	1186.5		2.1	0.2	2.1	15.0	5.9	4.9
Freedom 2000 (370/FFFBX)	B****	0.28	none	11.97	1565.7		1.6	0.1	1.6	11.0	4.0	4.4
Freedom 2005 (1312/FFVFX)	B****	0.3 Est	none	10.48	26.2		2.1	-0.1	2.1			
Freedom 2010 (371/FFFCX)	B****	0.46	none	13.31	7238.8		2.2	-0.1	2.2	20.2	4.5	4.3
Freedom 2015 (1313/FFVFX)	B****	0.5 Est	none	10.57	79.2		2.3	-0.3	2.3			
Freedom 2020 (372/FFFDX)	B****	0.68	none	13.34	7358.7		2.5	-0.4	2.5	29.7	3.7	3.2
Freedom 2025 (1314/FFTWX)	B****	0.7 Est	none	10.64	45.9		2.4	-0.5	2.4			
Freedom 2030 (373/FFFEH)	B****	0.80	none	13.27	4249.2		2.5	-0.5	2.5	34.2	2.9	2.3
Freedom 2035 (1315/FFTHX)	B****	0.8 Est	none	10.69	17.6		2.5	-0.6	2.5			
Freedom 2040 (718/FFFFX)	B****	0.87	none	7.75	1226.6		2.5	-0.6	2.5	37.7	2.4	
Taxable Income (369/FFFA)	B****	0.24	none	11.24	1696.7		1.5	0.1	1.5	8.9	4.0	4.6

TAXABLE BOND FUNDS:

Capital & Income (38/FAGIX)	H***	0.29	1(90)	8.04	4495.0	6.38	1.4	0.0	1.4	27.0	9.5	5.0
Floating Rate (814/FRHX)	B****	0.05	1(60)	9.90	1090.9	3.12	1.1	0.4	1.1	5.9		
GNMA Portfolio (15/FGMNX)	H***	0.21	none	11.16	4339.9	4.17	1.8	0.3	1.8	3.2	5.8	6.2
Gov't Income (54/FGOVX)	H***	0.38	none	10.43	4059.0	2.83	2.8	0.8	2.8	4.2	6.8	6.8
Intermed Bond (32/FTHRX)	H***	0.28	none	10.82	6846.1	3.55	2.4	0.8	2.4	5.6	7.3	7.1
Intermed Gov't Inc (452/FSTGX)	H***	0.28	none	10.45	1077.5	2.80	2.3	0.7	2.3	3.2	6.4	6.7
Invest Grade Bond (26/FBNDX)	H***	0.32	none	7.68	5706.0	3.60	2.6	0.8	2.6	5.5	7.4	7.0
Mortgage Securities (40/FMSFX)	H***	0.21	none	11.33	1358.4	3.87	1.9	0.4	1.9	4.4	6.5	6.8
New Markets Inc (331/FNMIX)	S**	0.54	1(90)	13.99	931.8	5.79	3.2	2.5	3.2	25.2	16.9	18.7
Short-Term Bond (450/FSHBX)	B****	0.14	none	9.11	5433.3	2.28	1.4	0.4	1.4	3.7	5.4	5.9
Spart Gov't Inc (453/SPGVX)	H***	0.39	none	11.25	871.0	3.47	3.0	0.9	3.0	4.6	7.1	7.1
High Income (455/SPHIX)	H***	0.21	1(90)	8.91	2972.1	6.78	1.3	0.0	1.3	21.1	6.5	1.7
Spart Invest Grade (448/FSIBX)	H***	0.32	none	10.89	2442.9	3.96	2.7	0.8	2.7	5.9	7.6	7.2
Strategic Income (368/FSICX)	H***	0.26	none	10.55	2592.4	5.07	1.8	0.7	1.8	15.6	11.2	8.8
Inflation-Protected (794/FINPX)	B****	0.51	none	11.51	1014.3	1.33	4.9	1.4	4.9	10.3		
Total Bond (820/FTBFX)	H***	0.32	none	10.70	325.0	3.59	2.5	0.9	2.5	6.3		
Ultra-Short Bond (812/FUSEFX)	B****	0.05	0.25(60)	10.08	390.0	1.34	0.5	0.1	0.5	1.9		
US Bond Index (651/FBIDX)	H***	0.2 Est	none	11.38	4850.0	4.06	2.7	0.8	2.7	6.0	7.7	

MUNICIPAL BOND FUNDS:

Spart AZ Muni Inc (434/FSAZX)	H***	0.28	0.5(30)	11.70	79.9	3.65	1.8	-0.5	1.8	5.8	6.4	6.0
Spart CA Muni Inc (91/FCIFX)	H***	0.26	0.5(30)	12.73	1546.6	4.25	2.0	-0.4	2.0	5.9	6.1	5.7
Spart CT Muni Inc (407/FCNXX)	H***	0.27	0.5(30)	11.97	448.6	4.04	1.9	-0.2	1.9	5.9	6.5	5.9
Spart FL Muni Inc (427/FLIIX)	H***	0.26	0.5(30)	11.85	560.9	3.98	2.1	-0.4	2.1	5.6	6.5	5.7
Spart Intermediate (36/FLTMX)	H***	0.22	0.5(30)	10.27	1857.1	3.99	1.6	-0.4	1.6	5.7	6.3	5.7
Spart MA Muni Inc (70/FDMMX)	H***	0.25	0.5(30)	12.35	1866.3	4.30	2.0	-0.2	2.0	6.0	6.5	6.0
Spart MD Muni Inc (429/SMDMX)	H***	0.25	0.5(30)	11.17	99.9	3.80	1.9	-0.3	1.9	5.7	6.0	5.6
Spart MI Muni Inc (81/FMHTX)	H***	0.26	0.5(30)	12.31	577.1	3.98	1.7	-0.4	1.7	5.8	6.6	5.9
Spart MN Muni Inc (82/FMIX)	H***	0.22	0.5(30)	11.74	351.8	3.98	1.7	-0.3	1.7	5.6	6.0	5.5
Spart Municipal Inc (37/FHIGX)	H***	0.26	0.5(30)	13.30	4946.9	4.34	2.1	-0.3	2.1	6.6	7.0	6.4
Spart NJ Muni Inc (416/FNJHX)	H***	0.27	0.5(30)	11.92	563.7	3.93	1.7	-0.3	1.7	6.1	6.3	6.0
Spart NY Muni Inc (71/FTFMX)	H***	0.27	0.5(30)	13.29	1451.9	4.03	1.6	-0.7	1.6	5.7	6.8	6.2
Spart OH Muni Inc (88/FOHFX)	H***	0.27	0.5(30)	12.16	442.7	4.14	1.7	-0.6	1.7	6.1	6.5	5.9
Spart PA Muni Inc (402/FPXTX)	H***	0.24	0.5(30)	11.13	298.6	4.09	1.7	-0.4	1.7	5.8	6.2	5.7
Spart Short-Int Muni (404/FSTFX)	B****	0.13	0.5(30)	10.51	1890.8	2.51	0.9	-0.4	0.9	3.1	4.6	4.6
Spart Tax-Free Bond (90/FTABX)	H***	0.29	0.5(30)	10.87	235.4	4.03	2.1	-0.3	2.1	7.0		

MARCH PERFORMANCE				2004	One	Three	One	3-Yr	5-Yr	10-Yr
Indexes & Model Portfolios	Risk	Value	NAV	YTD	Month	Month	Year	Rate	Rate	Rate
Dow Jones Industrial	0.96	10357.70		-0.4	-2.0	-0.4	32.4	3.7	3.0	13.3
S&P 500	1.00	1126.21		1.7	-1.5	1.7	35.1	0.6	-1.2	11.7
NASDAQ	1.46	1994.22		-0.3	-1.7	-0.3	49.4	3.1	-3.8	11.0
Russell 2000	1.38	590.31		6.2	0.9	6.2	63.7	10.9	9.6	10.4
Fidelity Monitor Income Model	0.08	76095.24		1.8	0.6	1.8	8.2	6.1	4.6	6.1
Fidelity Monitor G&I Model	0.59	134486.53		3.6	-0.2	3.6	34.7	10.3	7.9	10.7
Fidelity Monitor Growth Model	1.12	142649.35		3.7	-1.0	3.7	54.2	10.6	6.4	11.5
Fidelity Monitor Select System	1.33	264517.93		3.3	-1.1	3.3	46.2	8.9	6.3	12.9
Fidelity Monitor Unique Opportunities	0.75	80341.93		6.0	0.6	6.0	57.2	16.6	10.0	

UNIQUE OPPORTUNITIES MODEL

This model invests in special situations and where Fidelity's research skills give it an edge over its peers.

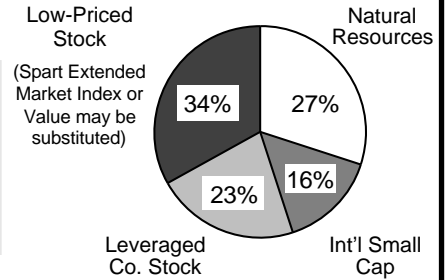
FUND	NAV	SHARES	BALANCE
Natural Resources	\$14.91	1432.657	\$21360.92
Int'l Small Cap	\$20.84	629.116	\$13110.78
Leveraged Co.	\$20.39	924.149	\$18843.40
Low-Priced Stock	\$37.03	729.863	\$27026.83

31% Foreign Holdings

Balance as of 3/31/04: **\$80341.93**
Balance at start of 2004: **\$75768.12**

PERFORMANCE

Partial Yr 99:	+ 33.8%
2000:	- 20.5%
2001:	+ 1.6%
2002:	- 2.1%
2003:	+ 43.2%
*2004:	+ 6.0%



Our Unique Opportunities portfolio edged up 0.6% for the month of March. On 3/15 we sold **Capital & Income** (\$8.05) and bought **Natural Resources** (\$14.58).

401(k) CORNER

Portfolio A is for plans similar to the one offered by General Motors. Portfolio B is for plans that include Magellan, Growth & Income, and Contrafund. Portfolio C is for plans including Magellan, Equity-Income, and Growth & Income. Portfolio D is for plans with Magellan and Equity-Income.

Portfolio A (+2.6% YTD)	Portfolio B (+2.3% YTD)	Portfolio C (+1.6% YTD)	Portfolio D (+1.7% YTD)
57% Dividend Growth, 43% Capital Appreciation	63% Magellan, 37% Contrafund	31% Magellan 69% Equity-Income	31% Magellan 69% Equity-Income

For the month of March, Portfolio A slid 0.8%, Portfolio B was off 0.6%, and Portfolios C and D both declined 1.3%.

VIP CORNER

Fidelity's Variable Insurance Products allow tax-deferred growth, but the benefit is offset by a 0.8% annual annuity charge and potentially higher tax rates at withdrawal. Unless you are in a low tax bracket during the withdrawal period, annuities may not provide a higher after-tax return.

VIP SECTOR MODEL:	VIP GROWTH:	VIP G&I MODEL:	VIP INCOME:
49% Technology, 17% Fin Services, 17% Health Care, 17% Natural Res.	35% Equity-Income, 65% Growth	55% Asset Mgr, 31% Equity-Inc, 14% Investment Grade Bond.	71% Inv. Grade, 29% High Income.

MARCH VIP PERFORMANCE		Unit Value	2004 YTD	One Month	Three Month	One Year	3-Yr Rate	5-Yr Rate
Portfolio	Rating							
VIP Asset Manager	B ****	30.37	1.3	-0.8	1.3	20.0	3.1	1.3
VIP Asset Manager: Growth	H ***	19.84	1.4	-1.0	1.4	26.7	2.2	-1.3
VIP Balanced	H ***	14.34	0.9	-1.0	0.9	17.9	3.2	0.2
VIP Contrafund	H ***	31.16	3.6	0.5	3.6	35.1	6.0	2.3
VIP Dynamic Capital Appreciation	H ***	10.95	-0.8	-3.8	-0.8			
VIP Equity-Income	B ****	50.50	1.6	-1.3	1.6	40.4	2.9	2.6
VIP Growth	B ****	53.77	1.1	-2.6	1.1	37.4	-3.2	-3.4
VIP Growth & Income	B ****	15.53	0.1	-2.0	0.1	24.6	0.8	-1.6
VIP Growth Opportunities	B ****	11.27	0.0	-1.8	0.0	31.6	0.1	-6.0
VIP High Income	H ***	26.08	1.2	0.4	1.2	20.4	4.9	-2.0
VIP Index 500	H ***	29.54	1.4	-1.6	1.4	33.7	-0.4	-2.2
VIP Investment Grade Bond	H ***	27.60	2.4	0.7	2.4	5.3	7.0	6.5
VIP Mid Cap	B ****	14.01	5.8	1.2	5.8	54.3	11.6	
VIP Overseas	H ***	27.74	5.6	1.7	5.6	67.8	1.5	0.6
VIP Real Estate	H ***	12.34	12.2	5.7	12.2			
VIP Value Strategies	H ***	12.18	7.0	0.4	7.0			
VIP Consumer Industries	H ***	10.34	2.6	-0.3	2.6	31.5		
VIP Cyclical Industries	H ***	11.10	0.3	-0.6	0.3	48.2		
VIP Financial Services	B ****	11.59	4.5	-0.8	4.5	43.2		
VIP Health Care	B ****	9.82	1.9	-2.4	1.9	17.7		
VIP Natural Resources	B ****	11.09	4.1	0.0	4.1	36.6		
VIP Technology	B ****	9.22	-0.1	-2.9	-0.1	56.6		
VIP Telecom & Utilities	H ***	7.70	1.8	-1.0	1.8	34.5		
Morgan Stanley Emg Mkts Debt	H ***	16.18	2.1	2.1	2.1	22.0	15.0	
Morgan Stanley Emg Mkts Equity	H ***	12.16	10.3	2.5	10.3	77.7	14.5	
Morgan Stanley Global Equity	H ***	13.15	2.6	-1.4	2.6	48.4	2.3	
Morgan Stanley Int'l Magnum	H ***	9.99	4.1	-0.2	4.1	46.3	-0.1	
PBHG Growth II	S **	9.23	2.6	-1.1	2.6	30.7	-4.9	
PBHG Select Value	H ***	15.11	-3.3	-3.5	-3.3	24.8	-17.7	
PBHG Select 20	S **	14.56	1.5	-0.3	1.5	31.5	6.7	
PBHG Small Cap Value	H ***	18.43	4.2	-0.1	4.2	52.1	3.1	
PBHG Tech & Communications	S **	7.69	0.3	-2.8	0.3	48.7	-17.7	
Strong Mid Cap Growth Fund II	S **	12.41	5.3	1.2	5.3	36.5	-7.6	
Strong Opportunity Fund II	H ***	16.04	5.2	-0.6	5.2	49.7	1.5	
CS Int'l Focus	H ***	9.63	3.0	0.8	3.0	48.6	-1.0	
CS Global Post-VC	S **	10.16	6.2	-0.2	6.2	69.5	-1.5	
CS Small Cap Growth	S **	11.71	8.3	2.4	8.3	63.1	5.1	
Fidelity Monitor VIP Sector Model		13337.30	1.7	-2.0	1.7	58.9		
Fidelity Monitor VIP Growth Model		28478.28	1.3	-2.2	1.3	36.9	1.5	-1.0
Fidelity Monitor VIP G&I Model		20494.16	0.8	-1.2	0.8	22.4	4.2	1.2
Fidelity Monitor VIP Income Model		17827.73	2.1	0.6	2.1	9.2	6.8	3.9

INCOME MODEL

Our Income Model aims for positive annual returns with a 4% yield. Long-term goal is 6% per year.

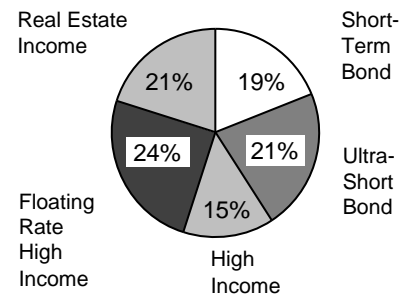
FUND	NAV	SHARES	BALANCE
Short-Term Bond	\$9.11	1585.327	\$14442.33
Ultra-Short Bond	\$10.08	1558.384	\$15708.51
High Income	\$8.91	1300.892	\$11590.95
Floating Rate	\$9.90	1884.174	\$18653.32
Real Estate Inc.	\$11.74	1337.319	\$15700.13

3% Foreign Holdings

Balance as of 3/31/04: \$76095.24
Balance at start of 2004: \$74748.25

PERFORMANCE

1992: + 10.1%
1993: + 11.3%
1994: - 2.1%
1995: + 14.8%
1996: + 9.0%
1997: + 10.5%
1998: + 3.5%
1999: + 3.0%
2000: + 0.3%
2001: + 5.6%
2002: + 5.4%
2003: + 8.4%
*2004: + 1.8%



For the month of March our Income Model gained 0.6%.

GROWTH AND INCOME MODEL

Our Growth and Income Model is for conservative growth, with a long-term goal of 10% per year. The model holds funds that focus on stocks and bonds.

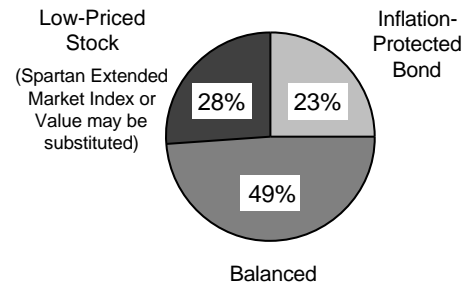
FUND	NAV	SHARES	BALANCE
Inflation-Protect.	\$11.51	2689.327	\$30954.15
Balanced	\$17.25	3810.762	\$65735.64
Low-Priced Stock	\$37.03	1020.706	\$37796.74

10% Foreign Holdings

Balance as of 3/31/04: \$134486.53
Balance at start of 2004: \$129816.46

PERFORMANCE

1994: - 3.7%
1995: + 21.6%
1996: + 15.8%
1997: + 18.7%
1998: + 11.1%
1999: + 12.2%
2000: + 2.7%
2001: + 1.3%
2002: - 6.4%
2003: + 33.0%
*2004: + 3.6%



Our Growth and Income Model declined 0.2% for March. On 3/15 we sold **Capital & Income** (\$8.05) and bought **Inflation-Protected Bond** (\$11.49).

GROWTH MODEL

Our Growth Model aims for long-term growth of 13% per year. The model typically invests in a mix of domestic stock funds and will strive to hold profitable positions for at least one year.

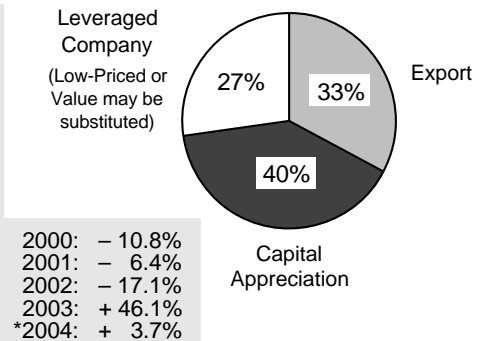
FUND	NAV	SHARES	BALANCE
Export	\$18.49	2543.811	\$47035.07
Capital Apprec.	\$25.54	2216.781	\$56616.59
Leveraged Co.	\$20.39	1912.589	\$38997.69

12% Foreign Holdings

Balance as of 3/31/04: \$142649.35
Balance at start of 2004: \$137499.26

PERFORMANCE

1987: + 2.8%
1988: + 26.0%
1989: + 30.4%
1990: - 4.4%
1991: + 40.6%
1992: + 15.7%
1993: + 31.9%
1994: - 2.1%
1995: + 27.2%
1996: + 19.2%
1997: + 25.5%
1998: + 9.9%
1999: + 29.0%



In March our Growth Model declined 1.0%, versus a 1.5% loss for the S&P 500.

SELECT SYSTEM

Our Select System aims for growth in sector funds, and has a long-term goal of 16% per year. We use a valuation model to identify attractive growth sectors.

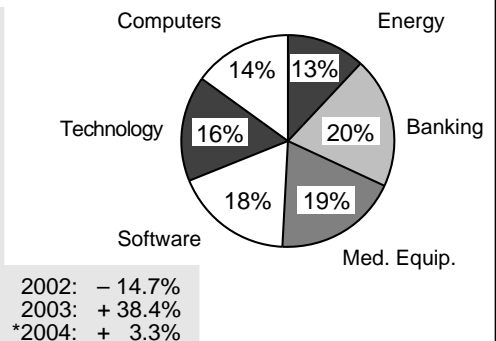
FUND	NAV	SHARES	BALANCE
Energy	\$26.67	1315.890	\$35094.79
Banking	\$40.42	1297.113	\$52429.31
Medical Equip.	\$21.01	2394.990	\$50318.74
Software	\$51.08	938.003	\$47913.19
Technology	\$60.26	676.687	\$40777.16
Computers	\$36.16	1050.463	\$37984.74

13% Foreign Holdings

Balance as of 3/31/04: \$264517.93
Balance at start of 2004: \$256163.60

PERFORMANCE

1989: + 23.4%
1990: + 31.3%
1991: + 35.3%
1992: + 20.4%
1993: + 25.9%
1994: - 0.9%
1995: + 39.0%
1996: + 5.2%
1997: + 29.3%
1998: + 21.7%
1999: + 44.9%
2000: - 14.9%
2001: - 7.3%



Our Select System was off 1.1% in March, compared to the S&P 500's 1.5% decline.

it often focuses on deep cyclical, which can benefit from rising commodity prices. **Food & Agriculture** may also be poised to do well against the S&P 500. Food producers are often one of the first groups to gain pricing power when commodity prices move up.

Inflation-Protected Bond is in a category of its own. The yield on this fund is low because it only pays *real* interest – the difference between actual interest rates and the expected future rate of inflation. Shareholders are compensated for inflation in the share price, which tends to creep up with the CPI-U index over the long run. With stable inflation the total return would end up similar to **Gov't Securities**. However, if the CPI-U moves up faster than the market expects – which seems more likely than the reverse situation – **Inflation-Protected Bond** could do quite a bit better. However, interest-rate sensitivity is still a risk. If long-term interest rates move up before inflation starts rising, the fund could be hurt. The only way around this is to hold the fund long enough that any divergence between inflation and long-term bond yields has a chance to settle out.

RECOMMENDATIONS

The risk of higher inflation is not so great that it justifies a big investment strategy change. However, today's inflationary warning signs cannot be totally ignored either. We've already taken steps to give our regular models a small degree of inflation protection. For those who wish to insulate themselves even more, the Unique Opportunities Model is one way to do it. Generally, this portfolio maintains a risk level that ranges about halfway between the Growth Model and the Growth and Income Model. The Unique Opportunities Model has a long-term return goal of 12%, and is recommended for an investment horizon of five years or more. Keep in mind that most of the funds in this portfolio carry redemption fees. It's unlikely that we will move out of **Low-Priced Stock** or **Natural Resources** in the short run, but depending on the upcoming earnings cycle we may opt to make adjustments to the other two holdings. ■

Happenings

Fidelity made several manager appointments on 3/1. George Fischer has taken over the fixed-income side of **Balanced**, Heather Lawrence is the new stockpicker for **Banking**, Christopher Bartel has taken over at **Defense & Aerospace**, and Anmol Mehra has been named manager of **Automotive**. ■

declined 1.9%, and **Utilities** with a pullback of 2.2%.

BOND FUNDS

Income Model holdings are listed on page 7. Our current buys, in increasing order of risk, include **Ultra-Short Bond**, **Short-Term Bond**, **Floating Rate High Income**, and **Inflation-Protected Bond**.

New Markets Income, up 2.5%, was helped by news that low short-term interest rates may be around longer than expected. **Inflation-Protected Bond** rose 1.4% because rising energy costs could boost the inflation benchmark. **High Income** and **Capital & Income** remained weak, but still managed to finish at breakeven for the month. Muni bond funds posted declines ranging from 0.2% to 0.7%.

SELECT PORTFOLIOS

Select System holdings are listed on page 7. Our current buys, in increasing order of risk, include **Natural Resources**, **Medical Equipment**, **Energy**, **Banking**, **Software**, **Biotechnology**, **Technology**, **Dev. Com.**, **Computers**, and **Energy Services**.

Inflation concerns made **Gold** the top performer; it posted a gain of 6.4%. **Construction & Housing** climbed 3.6% in response to the new lease on life for short-term interest rates. **Biotechnology**, up 2.2%, was helped by the potential for new stem cell lines. Profit-taking in telecom stocks pulled a number of Selects down. **Telecommunications** declined 4.0%, and both **Networking & Infrastructure** as well as **Developing Communications** lost 7.5%. ■

MARCH DISTRIBUTIONS

Asset Manager	\$ 0.08 / \$16.20 (3/5)
Asset Manager: Income	\$ 0.01 / \$12.44 (3/5)
Balanced	\$ 0.06 / \$17.60 (3/5)
Convertible Securities	\$ 0.18 / \$20.77 (3/5)
Equity-Income	\$ 0.71 / \$51.29 (3/5)
Equity-Income II	\$ 0.06 / \$23.33 (3/5)
Fidelity Fund	\$ 0.05 / \$29.10 (3/5)
Freedom Income	\$ 0.01 / \$11.29 (3/5)
Growth & Income	\$ 0.10 / \$36.95 (3/5)
Growth & Income II	\$ 0.01 / \$ 9.58 (3/5)
Puritan	\$ 0.11 / \$19.09 (3/5)
Real Estate	\$ 0.44 / \$25.55 (3/5)
Spartan MA Muni	\$ 0.009 / \$12.48 (3/5)
Spartan Tax-Free Bond	\$ 0.01 / \$11.01 (3/5)
Strategic Dividend & Income	\$ 0.015 / \$10.68 (3/5)
Utilities Fund	\$ 0.04 / \$11.92 (3/5)

Funds that are scheduled in April include **Asset Manager: Income** (4/2), **Four-In-One Index** (4/2), **Freedom Income** (4/2), all of the **Select Portfolios** (4/2, 4/8), **Spartan CA** (4/2), **Spartan Extended Market Index** (4/2), **Spartan Int'l Index** (4/2), and **Spartan Total Market Index** (4/2).

Money Market Funds	Size	Yield	Money Market Funds	Size	Yield	Money Market Funds	Size	Yield
Cash Reser (55/FDRXX)	52669.2	0.78	CT MM (418/FCMXX)	1051.7	0.50			
Select MM (85/FSLXX)	607.9	0.81	MA MM (74/FDMXX)	3353.4	0.47	FL MM (428/FSFXX)	1305.6	0.55
Spart MM (454/SPRXX)	5766.2	0.78	MI MM (420/FMIXX)	589.9	0.47	Spart MA MM (426/FMSXX)	1005.3	0.58
Spart US Gov't (458/SPAXX)	599.3	0.71	NJ MM (417/FNJXX)	1332.5	0.47	Spart Municipal (460/FIMXX)	3102.8	0.70
Spart US Treas (415/FDLXX)	2249.3	0.62	NY MM (92/FNYXX)	2855.5	0.47	Spart NJ MM (423/FSJXX)	552.8	0.66
Tax-Free MM (275/FMOXX)	610.7	0.57	OH MM (419/FOMXX)	674.1	0.51	Spart NY MM (422/FSNXX)	1076.3	0.59
US Gov't Reser (50/FGRXX)	2072.6	0.78	AZ MM (433/FSAXX)	143.5	0.55	PA MM (401/FPTXX)	297.8	0.59
CA MM (97/FCFXX)	2898.8	0.47	Spart CA MM (457/FSPXX)	1236.6	0.64	Municipal MM (10/FTEXX)	14588.1	0.60