

## Question & Answer Forum

July was a heavy month for subscriber questions. This issue is dedicated to the major areas of interest:

### **My portfolio is heavily invested in bonds, and it's taking a big hit. What should I do?**

This may seem like unusual advice, but you may want to diversify into conservative stocks. One of the big advantages of a growth and income portfolio is that it not only cuts the volatility of an all-stock portfolio, but it also makes it easier to weather a bear market in bonds. That's because the stock market and the bond market rarely sell off at the same time. If the economy is slipping, bonds usually gain from lower interest rates while stocks take a hit from weak earnings. When the economy gains strength, stocks often rally in anticipation of better earnings while bonds take a hit as long-term interest rates move up. Clearly, a portfolio with exposure to both stocks and bonds offers a balanced approach.

QUESTION & ANSWER FORUM - *Continued on page 2*

## Unique Opportunities and Income Model Plan Trades

On Monday, 8/11, our Income Model will sell **Ginnie Mae (FGMNX)** and buy **Real Estate Income (FRIFX)**. The resulting mix will be approximately 20% **Short-Term Bond**, 22% **Ultra-Short Bond**, 14% **High Income**, 25% **Floating Rate High Income**, and 19% **Real Estate Income**. There are no changes to the VIP Income Model. This move will give a small boost to the model's income stream and will further reduce its sensitivity to interest rate changes.

Also on 8/11, our Unique Opportunities Model will sell one-third of **Capital & Income (FAGIX)** and buy **Japan Fund (FJPNX)**. The resulting mix will be roughly 29% **Capital & Income**, 15% **Japan Fund**, 22% **Leveraged Company Stock**, and 34% **Low-Priced Stock**. Although **Capital & Income** is still a solid bet, the jump in long-term interest rates and the loss of David Glancy slightly reduces its attractiveness. **Japan Fund** carries more risk, but it could pay off if the Japanese economy stays on track with its recovery.

## Review & Recommendations

Second quarter earnings gave a boost to stocks, with the growth sectors logging the most significant gains. There is now clear evidence of an economic rebound in manufacturing, although consumers are growing somewhat skittish as job losses continue to mount from corporate cost-cutting.

Long-term interest rates moved up. That's not an unusual thing to see with evidence of an economic rebound, but the magnitude of the increase suggests that other factors are at work. Large mortgage lenders could be selling treasuries to rebalance their portfolios now that refinancing activity has ground to a halt. The dividend tax cut still seems to be coaxing money out of bonds and into dividend stocks. And foreign investors, especially the Japanese, may be selling U.S. bonds to take advantage of their own stock market rebound. As such, the selloff in bonds could be somewhat self-reinforcing until yields move high enough to draw in money that's currently sitting idle in cash accounts.

The S&P 500 gained 1.8% for the month of July.

### GROWTH FUNDS

Growth Model holdings are listed on page 7. Our favorites include **Capital Appreciation**, **Low-Priced Stock**, **Leveraged Company Stock**, **Export & Multinational**, **Mid-Cap**, and **Contrafund II**.

Funds that emphasize small-caps and growth stocks tended to outperform. **Small-Cap Stock** led the group, up 6.1%. **OTC Portfolio** gained 5.5%, and **Low-Priced Stock** rose 4.8%. However, those overweighted in energy and utilities lagged the group. **Contrafund II** was off 0.2%, while both **Dividend Growth** and **Leveraged Company Stock** slid 0.7%.

### INTERNATIONAL FUNDS

**Diversified International** is our favorite choice for broad-based foreign stock exposure. **Japan** is our pick for a country-specific bet.

Positive economic signs in Asia gave a boost to regional stock markets. **Japan Smaller Companies** and **Southeast Asia** both gained 7.8%. However, a strong euro continued to hold back **Europe Capital Appreciation**, which rose just 0.7%. And lower energy prices hurt **Canada**, which declined 0.6%.

RECOMMENDATIONS - *Continued on page 8*

One easy way to accomplish this is to sell a portion of your bond holdings and move into our Growth and Income Model. If you don't want to take on any stock market exposure, or if your bond holdings will be needed for living expenses within the next three years, consider following our Income Model. It's better protected against rising interest rates than most bond funds, and it offers a higher income stream than a money market fund.

**Are you satisfied with your Income Model strategy after the recent jump in long-term interest rates? Will you be making any changes?**

Our Income Model performed in line with our expectations during the recent interest-rate runup, with the interest-sensitive side pulling back, and the stable-value positions holding up well. Our goal with this portfolio is to outperform money market returns even under adverse bond market conditions. While there is no guarantee we will be able to do that, the model is structured in a way that minimizes the potential loss to principal.

So far we've performed well on the capital appreciation front, but lately the income stream has dipped below our target of 4%. Defensive moves by the managers of **Ultra-Short Bond** and **Ginnie Mae** reduced the income stream for these funds to around 1% for a period of time. The yield on both is now rising, although neither is up to prior levels.

In a bid to further reduce the model's interest-rate sensitivity, we've decided to exchange **Ginnie Mae** for **Real Estate Income** (see page 1 for details). **Real Estate Income** invests in real estate investment trusts, with a focus on income producing properties. The fund is generally helped by a stronger economy, so it should hold up well if interest rates continue to rise. Its income stream is paid quarterly and is comparable to that of **Short-Term Bond**.

**With the manager at Leveraged Company Stock and Capital & Income gone, does it still make sense to own these funds?**

Although David Glancy's departure is somewhat disappointing, it doesn't necessarily mean that it's time to move on. Most likely, these funds will cool off somewhat, but should still provide good returns for the amount of risk they take on.

Thomas Soviero, the new manager at **Leveraged Company Stock**, is no stranger to investing in debt-heavy companies. He ran **High Income** between January 1996 and June 2000, and during that time

he kept 15-30% of the fund in the stocks of companies that issue junk bonds. Most of that time, the stock side of **High Income** gave the fund a nice edge in performance. It appeared to be especially helpful in the third quarter of 1998, when the near-failure of hedge fund Long-Term Capital essentially shut down the high-yield bond market. In his new role, Soviero will rely on the research provided by Fidelity's high-yield bond group, the same people who set Glancy up for success. But don't expect Soviero to deliver the unusually strong performance that Glancy turned in the last few months. Those big gains were made possible by the Fed's heightened concerns with deflation after Iraq was brought under U.S. control. A cooling off period has been overdue for leveraged stocks, with or without Glancy's departure.

Mark Notkin, Glancy's replacement at **Capital & Income**, has been managing **VIP High Income** since October 2001. Notkin maintained a relatively conservative portfolio compared with Glancy, keeping his stock exposure about half as great as **Capital & Income**. However, **Capital & Income** has a more aggressive charter, so Notkin may in fact stay with Glancy's precedent. If not, **Capital & Income** will at least have had the benefit of a higher stock weighting at a time when leveraged stocks did well.

**VIP High Income** is also affected, with Matthew Conti replacing Mark Notkin. Conti manages one of Fidelity's broker-sold high income funds, and has maintained a portfolio similar to **Capital & Income**. So, there's a good chance he may boost **VIP High Income**'s stock exposure to a higher level.

All things considered, we're going to moderate our **Capital & Income** exposure within the Unique Opportunities Model, while taking a wait-and-see approach for the remaining models that are affected by the changes.

**You continue to list Capital Appreciation as your favorite growth fund. What is it that you like about this fund?**

**Capital Appreciation** fits in well with our belief that growth stocks are the best bet for the current market environment. Manager Harry Lange is a seasoned stockpicker who knows the technology sector particularly well. About 45% of his fund is invested in tech and media, and within those groups he has focused on stocks that have lower multiples.

Despite having a heavy growth bias and a near-zero cash position, the overall volatility of **Capital Appreciation** is only 10% greater than the S&P 500.

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Part of the reason is that Lange favors beaten down stocks with recovery potential. Interestingly enough, 8% of his fund is invested in Japan.

Because Lange is investing mainly in the large-cap growth arena with a moderate-sized asset base, **Capital Appreciation** has the ability to move with ease when seeking new opportunities or in getting out of problem situations. Its current size is \$2.6 billion, considerably smaller than some of Fidelity's more popular diversified growth funds.

**I noticed that you list Biotechnology as a favorite sector opportunity. What is it that makes this industry group attractive?**

Unlike the technology sector, the biotech group doesn't depend much on the economy. Sales are driven mainly by medical demand and the success rate of research and development efforts. And lately, both factors have been headed in the right direction. Most of the major biotech players have at least a few blockbuster drugs in their product line, so they are now at a point where they can pay for their own research, eliminating their prior dependence on outside capital. And despite the many promising drugs that fail to win FDA approval, those that do make it out the door are exceeding expectations more often than not.

Most of today's biotech players have staked out their own area of expertise, and with so many research opportunities it hasn't been necessary for them to go after each other's market share. Many of the drugs currently in the pipeline involve completely new techniques for fighting disease, and some provide treatment for conditions that previously could not be remedied.

In some cases, investors have been disappointed by complex manufacturing processes that take longer than expected to become operational. But in the long run, this actually may be a good thing. Medicines that are difficult to produce are not likely to see much competition from the generic drug industry after the patents run out.

Most of the major biotech firms have exceeded expectations over the last 12-18 months, and it's reasonable to expect this trend to continue in the months ahead. The weak dollar is boosting foreign revenue, and existing products are selling better than expected. Seasonality effects may also be a plus in the months ahead. The biotech sector tends to outperform the market by a wider margin in the months of August, September, and October.

But don't bet the farm. The bear market has

trimmed valuations, but these stocks are anything but cheap. Negative surprises are common in the biotech industry, and events that affect one stock often have a pronounced impact across the entire sector.

Better to bet on biotech as a long-term play. After all, the baby-boomers are not getting any younger, and rising affluence in Asia and Latin America means that other countries will be buying more of the world's most advanced medications. But more important is the fact that biotech research is finally coming of age. There are major opportunities in cancer, antibiotics, weight loss, heart disease, and genetic disorders. Biotech firms are the front-runners in this race, and even with moderate success they have the potential to surpass traditional pharmaceutical sales in less than two decades.

Roughly six years ago, **Health Care** logged the best 15-year record in the mutual fund industry. It didn't happen by accident. The fund had a long-term plan to capitalize on the growing influence of pharmaceutical products on the health care industry.

A similar transition may now be in the making with **Biotechnology**. While there is no way to say for sure how well this fund will perform over the next 15 years, it clearly stands out as one of the more promising sector opportunities.

**The long-term return goals you list for your model portfolios (pages 6-7) seem rather optimistic relative to historical norms. Any chance you'll be making some revisions?**

Effective with this issue, we have reduced our long-term goals for the Growth & Income Model by one percentage point, and we have cut the Growth Model and Select System goals by two percentage points. Although we remain optimistic on current market conditions, the long-term outlook for stocks appears a bit less bullish. Our primary concern is that rising costs for energy, wages, insurance, and benefits will slow the rate of earnings growth over the next 10-20 years. A secondary issue is that the ranks of stock ownership may decline as the baby-boom generation enters its retirement years.

Our previous model portfolio goals assumed a long-term S&P 500 return of 12% per year. Our new goals are based on an annualized S&P 500 growth rate of 10%. The new goals will not change the way the models operate. We'll still be aiming to outperform the S&P by three percentage points in the Growth Model and five percentage points in the Select System. The Growth and Income Model will

QUESTION & ANSWER FORUM - *Continued on page 8*

#### 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. Loads: **3-0.75(90)** means 3% load, 0.75% redemption fee if held less than 90 days. 3% loads are waived for IRA/Keogh accounts - except on Magellan, New Millennium, and Selects. If a fund is closed to new investors, we will list it as such in the Load 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 ↓.

JULY PERFORMANCE						2003	One	Three	One	3-Yr	5-Yr	10-Yr
Fund Name (Code/Symbol)	Rating	Risk	Load	NAV	Size	YTD	Mth	Mth	Year	Rate	Rate	Rate
Aggressive Gth (324/FDEGX)	H***	1.20	0-1.5(90)	13.17	4628.9	17.7	2.9	12.0	18.4	-34.6	-9.2	4.6
Blue Chip Gth (312/FBGRX)	H***	0.97	0-0	36.13	19321.5	13.1	1.8	7.7	9.1	-14.3	-2.4	9.2
Blue Chip Value (1271/FBCVX)	H***	1.0 Est	0-0	9.73			0.4					
Capital Apprec (307/FDCAX)	B****	1.10	0-0	20.49	2638.4	26.6	3.0	15.0	24.9	-6.4	3.1	9.6
Contrafund (22/FCNTX)	H***	0.63	0-0	43.35	30284.0	12.3	2.7	9.6	9.9	-5.0	2.9	11.2
Contrafund II (339/FCONX)	B****	0.90	0-0	9.38	691.1	8.2	-0.2	6.2	10.6	-9.7	3.5	
Disc Equity (315/FDEQX)	H***	0.91	0-0	20.28	3319.5	12.9	1.1	7.9	8.4	-9.4	0.1	9.6
Dividend Gth (330/FDGFX)	B****	1.03	0-0	24.76	15524.2	10.9	-0.7	7.3	12.6	-3.6	3.1	14.3
Export Fund (332/FEXPX)	B****	1.06	0-0.75(30)	15.89	830.6	15.6	1.9	9.3	20.5	-1.6	7.8	
Fidelity Fifty (500/FFTYX)	H***	1.00	0-0.75(30)	17.96	892.4	12.0	0.3	7.3	15.0	1.5	7.1	
Growth Company (25/FDGRX)	B****	1.15	0-0	44.02	18301.6	24.3	4.5	15.4	21.4	-17.7	2.9	10.6
Large-Cap Stock (338/FLCSX)	H***	0.92	0-0	12.48	634.0	12.1	2.5	7.7	6.6	-14.6	-2.1	
Lev Co Stock (122/FLVCX)	B****	1.08	0-1.5(90)	14.93	720.1	49.3	-0.7	21.6	102.6			
Low-Priced Stock (316/FLPSX)	B****↑	0.76	0-1.5(90)	30.08	18034.0	19.5	4.8	16.5	15.1	16.9	11.6	15.4
Magellan (21/FMAGX)	B****	1.01	Closed	88.58	61942.4	12.4	1.3	7.0	8.9	-11.6	-0.6	8.7
Mid Cap Stock (337/FMCSX)	B****	0.95	0-0.75(30)	18.89	6157.2	16.4	3.4	12.7	15.8	-6.5	7.4	
New Millennium (300/FMILX)	B****	1.03	Closed	25.48	2974.7	15.1	0.7	10.2	12.7	-10.8	11.3	17.0
OTC Portfolio (93/FOCPX)	B****	1.05	0-0	28.33	6621.6	18.5	5.5	15.5	20.8	-21.1	0.4	9.2
Independence (73/FDFFX)	H***	1.01	0-0	14.63	4466.4	11.9	1.3	9.8	9.3	-13.9	2.5	9.6
Small Cap Indep (336/FDSCX)	H***	0.64	0-1.5(90)	15.39	815.3	15.7	3.2	14.6	10.2	-0.2	1.9	7.6
Small Cap Stock (340/FSLCX)	H***	0.78	0-2(90)	14.09	1607.4	19.0	6.1	18.7	19.2	1.8	10.7	
Stock Selector (320/FDSSX)	H***	1.00	0-0	18.92	754.8	14.1	1.8	8.5	12.5	-10.6	-1.3	8.6
Strc Lg Cap Gth (763/FSLGX)	H***	0.99	0-0.75(30)	8.16	18.6	14.6	2.1	9.1	10.3			
Strc Lg Cap Val (708/FSLVX)	H***	0.98	0-0.75(30)	9.34	19.1	10.9	1.9	8.4	7.9			
Strc Mid Cap Gth (793/FSMGX)	H***	1.02	0-0.75(30)	8.94	24.8	21.8	3.7	15.2	19.0			
Strc Mid Cap Val (762/FSMVX)	H***	0.89	0-0.75(30)	10.37	40.9	14.2	2.2	11.0	7.9			
Focused Stock (333/FTQGX)	S**	1.05	0-0.75(30)	7.77	32.8	8.8	1.0	8.2	-1.4	-19.1	-4.4	
Trend (5/FTRNX)	B****	0.99	0-0	44.08	790.1	14.1	1.4	8.4	12.8	-9.7	-0.8	5.3
Value (39/FDVLX)	H***	0.93	0-0	53.21	5585.5	14.7	2.3	11.5	12.9	9.7	5.9	11.2
Value Discovery (832/FVDFX)	H***	1.0 Est	0-0	11.09	33.3	12.2	1.6	9.2				
<b>GROWTH &amp; INCOME FUNDS:</b>												
Balanced (304/FBALX)	B****	0.64	0-0	14.92	7734.6	13.2	0.4	8.1	14.8	3.3	5.7	8.3
Convertible Sec (308/FCVXS)	H***	0.44	0-0	18.38	1665.7	14.8	-0.4	6.1	20.5	-1.1	9.1	11.3
Equity-Income (23/FEQIX)	B****	1.00	0-0	44.26	19918.0	12.5	1.8	9.9	8.9	-0.9	1.3	9.9
Equity-Income II (319/FEQTX)	B****	1.06	0-0	20.17	10373.0	16.7	2.6	10.5	17.4	0.8	1.8	10.1
Fidelity Fund (3/FFIDX)	H***	0.94	0-0	25.08	9328.4	13.1	2.5	7.4	10.2	-10.3	-1.1	10.2
Growth & Income (27/FGRIX)	H***	0.81	0-0	32.84	28009.4	9.0	1.0	5.0	5.2	-7.3	-0.5	10.0
Growth & Inc II (361/FGRTX)	H***	0.85	0-0	8.66	195.8	14.5	2.1	7.2	14.5	-5.0		
Puritan (4/FPURX)	B****	0.60	0-0	16.96	19600.1	8.8	0.1	5.5	9.4	1.9	3.0	8.9
Real Estate Inc (833/FRIFX)	B****↑	0.2 Est	0-0.75(90)	10.91	189.6		0.4	5.1				
Real Estate (303/FRESX)	H***↑	0.56	0-0.75(90)	21.26	2124.0	17.3	5.1	11.8	14.8	12.5	10.5	10.4
Utilities (311/FUIUX)	H***↓	0.96	0-0	10.48	898.5	9.1	-5.0	4.9	20.5	-18.3	-4.7	4.8
<b>SELECT FUNDS:</b>												
Air Transportation (34/FSAIX)	S**	1.17	3-0.75(30)	27.05	50.4	22.7	-0.3	18.5	11.0	-4.2	5.6	11.1
Automotive (502/FAVX)	S**	1.05	3-0.75(30)	27.26	18.7	20.4	7.6	18.4	17.3	9.0	1.5	5.7
Banking (507/FSRBX)	H***	1.10	3-0.75(30)	35.55	387.8	17.5	4.4	13.1	10.9	10.3	2.8	14.2
Biotechnology (42/FBIOX)	B****	1.11	3-0.75(30)	51.42	1865.8	32.8	9.7	20.0	35.2	-14.2	11.7	12.2
Brokerage (68/FSLBX)	H***	1.40	3-0.75(30)	44.82	377.3	22.9	4.8	20.1	27.9	-1.5	5.8	16.0
Business Ser (353/FBSOX)	S**	1.24	3-0.75(30)	12.67	33.0	11.5	3.0	11.6	11.6	-0.1	5.4	
Chemicals (69/FSCHX)	H***	1.13	3-0.75(30)	44.03	33.5	14.0	9.4	6.6	7.8	10.3	6.2	10.0
Computers (7/FDCPX)	B****	1.50	3-0.75(30)	30.28	745.3	37.4	7.6	24.1	30.7	-28.4	1.0	15.1
Const & Housing (511/FSHOX)	H***	1.14	3-0.75(30)	28.17	61.8	16.8	2.6	14.3	11.8	15.4	5.8	11.0
Consumer Indust (517/FSCPX)	H***	0.85	3-0.75(30)	21.48	29.7	11.4	1.3	8.3	7.0	-3.0	-0.4	9.2
Cyclical Indust (515/FCYIX)	S**	0.97	3-0.75(30)	13.59	21.1	14.1	5.4	11.6	10.3	1.6	2.9	
Defense & Aero (67/FSADX)	S**	0.93	3-0.75(30)	45.00	253.6	13.5	4.9	16.3	4.7	5.4	6.5	13.9
Develop Commn (518/FSDCX)	B****	1.33	3-0.75(30)	13.35	469.4	35.3	6.2	18.1	40.4	-33.5	-0.6	8.2
Electronics (8/FSLEX)	H***	1.96	3-0.75(30)	33.43	2830.5	37.2	8.4	21.2	14.5	-27.9	7.0	18.2
Energy (60/FSENX)	H***	1.00	3-0.75(30)	21.13	194.5	3.1	-5.1	4.3	4.0	-2.5	5.4	7.7
Energy Services (43/FSSESX)	B****	1.51	3-0.75(30)	28.59	448.6	-2.7	-8.3	-0.8	5.1	-5.1	7.9	10.9
Environmental (516/FSLEX)	H***	0.82	3-0.75(30)	11.58	11.2	12.2	4.2	10.4	18.4	1.7	-4.9	1.6
Financial Services (66/FIDSX)	H***	1.06	3-0.75(30)	102.46	464.2	15.5	4.2	9.6	12.9	3.7	3.1	14.0
Food & Agriculture (9/FDFAX)	H***	0.62	3-0.75(30)	39.74	91.8	2.4	-0.5	8.0	-2.1	5.1	1.8	10.3
Gold (41/FSAGX)	H***	1.20	3-0.75(30)	23.48	570.7	0.9	4.7	18.2	35.6	28.0	16.0	1.8
Health Care (63/FSPHX)	H***	0.84	3-0.75(30)	113.11	1975.3	11.0	-0.3	7.1	11.1	-4.2	3.1	16.4
Home Finance (98/FSVLX)	H***	0.99	3-0.75(30)	56.21	360.6	15.6	3.9	8.1	7.6	17.9	4.1	15.9
Indust Equip (510/FSFGX)	S**	1.06	3-0.75(30)	19.66	26.3	13.1	6.9	14.2	10.1	-5.6	-0.2	9.4
Indust Materials (509/FSDPX)	H***	0.89	3-0.75(30)	27.02	27.4	12.7	6.4	17.3	17.5	11.6	4.8	6.8
Insurance (45/FSPCX)	H***	1.02	3-0.75(30)	50.71	102.5	13.7	3.1	7.9	9.2	9.6	9.1	15.1
Leisure (62/FDLSX)	H***	1.09	3-0.75(30)	62.21	153.2	24.3	2.3	14.0	28.3	-4.3	2.9	12.1
Medical Delivery (505/FSHCX)	H***	1.24	3-0.75(30)	25.57	97.0	8.0	6.2	16.3	-14.1	9.6	-0.1	10.3
Medical Equip/Sys (354/FSMEX)	H***	0.71	3-0.75(30)	18.95	246.4	22.9	3.0	12.8	30.6	9.8	16.7	
Multimedia (503/FBMPX)	H***	1.43	3-0.75(30)	42.20	160.8	24.3	1.3	19.2	51.3	-3.0	5.6	13.2
Natural Gas (513/FSNGX)	H***	0.97	3-0.75(30)	17.76	186.9	5.9	-7.4	4.0	6.8	-1.5	8.7	6.9
Nat Resources (514/FNARX)	H***	0.92	3-0.75(30)	11.75	30.1	6.2	-2.4	7.6	6.7	-0.9	6.7	
Networking/Infra (912/FNINX)	H***	1.72	3-0.75(30)	2.04	117.6	36.9	6.8	23.6	28.3			
Paper & Forest (506/FSFPX)	H***	1.00	3-0.75(30)	25.84	15.7	-0.5	3.7	6.4	1.8	5.8	6.2	8.6
Pharmaceuticals (580/FPHAX)	H***	0.89	3-0.75(30)	8.20	68.3	12.6	-2.4	5.8	14.4			
Retailing (46/FSRPX)	H***	1.01	3-0.75(30)	40.61	61.9	18.9	3.8	16.0	11.2	-2.4	0.7	10.0
Software (28/FSCSX)	B****	1.29	3-0.75(30)	43.45	716.4	19.2	3.5	13.5	41.3	-10.2	9.8	15.9
Technology (64/FSPTX)	B****	1.53	3-0.75(30)	50.73	1933.2	34.6	5.9	20.3	35.0	-28.7	4.9	13.4
Telecom (96/FSCTX)	H***	1.51	3-0.75(30)	27.88	366.9	9.0	-4.3	8.1	51.0	-27.7	-9.1	4.5
Transportation (512/FSRFX)	S**	1.10	3-0.75(30)	29.89	34.9	22.0	2.7	12.2	15.0	6.6	9.9	11.5
Utilities Growth (65/FSUTX)	H***	0.92	3-0.75(30)	29.43	220.7	11.8	-5.0	5.7	17.4	-19.7	-3.9	5.3
Wireless (963/FWRLX)	H***	1.34	3-0.75(30)	3.31	84.8	36.2	6.1	23.0	29.8			

JULY PERFORMANCE						Div.	2003	One	Three	One	3-Yr	5-Yr
Fund Name (Code/Symbol)	Rating	Risk	Load	NAV	Size	Yield	YTD	Mth	Mth	Year	Rate	Rate
Aggressive Int'l (335/FIVFX)	H***	0.76	0-1 (30)	13.04	415.9		21.5	5.2	16.8	15.2	-7.3	0.5
Canada (309/FICDX)	H***	0.62	0-1.5(90)	21.94	117.8		21.1	-0.6	11.0	23.5	-0.7	8.5
Diversified Int'l (325/FDIVX)	B****	0.59	0-1 (30)	19.80	9046.1		15.4	2.3	13.0	12.7	-4.4	4.0
Emerging Mkts (322/FEMKX)	H***	0.66	0-1.5(90)	8.52	293.3		18.2	5.7	18.2	14.8	-5.8	0.8
Europe (301/FIEUX)	H***	1.00	0-1 (30)	21.40	1099.4		16.8	1.6	12.5	11.2	-13.1	-5.7
Europe Cap Appr (341/FECAX)	H***	0.76	0-1 (30)	15.42	387.8		11.5	0.7	9.8	1.7	-7.1	-2.2
China Region (352/FHKCX)	H***	0.62	0-1.5(90)	12.57	126.6		15.7	6.8	20.3	6.0	-9.0	9.9
Global Balanced (334/FGBLX)	H***	0.44	0-1 (30)	16.35	97.0		10.6	1.8	8.8	8.4	-2.6	2.7
Int'l Growth & Inc (305/FIGRX)	H***	0.68	0-1 (30)	19.19	986.8		14.1	3.1	14.0	8.2	-7.7	1.2
Int'l Small Cap (818/FISMX)	H***	0.7 Est	0-2 (90)	14.08	78.0		33.5	6.1	22.9			
Japan (350/FJPNX)	B****	0.87	0-1.5(90)	9.26	339.2		9.8	4.5	16.9	2.2	-18.1	3.1
Japan Smaller Co (360/FJSCX)	H***	0.70	0-1.5(90)	7.50	384.6		16.5	7.8	14.9	-2.5	-9.9	13.5
Latin America (349/FLATX)	H***	1.02	0-1.5(90)	11.75	185.4		25.9	4.1	10.1	36.5	-6.4	-2.8
Nordic (342/FNORX)	H***	0.83	0-1.5(90)	16.95	73.4		11.3	2.3	8.0	4.0	-16.6	-2.0
Overseas (94/FOSEFX)	H***	0.92	0-1 (30)	25.54	2920.4		16.1	4.8	18.6	6.5	-12.4	-3.4
Pacific Basin (302/FPBFX)	B****	0.67	0-1.5(90)	14.33	290.6		12.3	4.4	18.4	3.8	-12.1	5.5
Southeast Asia (351/FSEAX)	H***	0.88	0-1.5(90)	11.64	273.1		20.5	7.8	25.7	3.9	-6.9	10.9
Worldwide (318/FWWFX)	H***	0.85	0-1 (30)	13.85	725.1		16.6	2.8	13.7	11.3	-5.8	0.0

**INDEX AND ASSET ALLOCATION:**

Four-In-One Index (355/FFNOX)	H***	0.75	0-0.5(90)	20.33	332.9		12.8	1.5	8.5	11.1	-7.1	
Spart Ext Mkt Idx (398/FSEMXX)	B****	0.84	0-0.75(90)	23.51	566.0		22.3	4.6	16.8	21.1	-7.3	1.6
Spart Int'l Index (399/FSIIX)	H***	0.83	0-1(90)	22.52	303.5		12.3	2.1	11.0	6.2	-11.8	-3.6
Spart 500 Index (317/FSMKX)	H***	1.00	0-0.5(90)	68.42	7981.6		13.6	1.7	8.4	10.5	-10.3	-1.2
Spart Total Mkt Idx (397/FSTMX)	H***	0.96	0-0.5(90)	26.55	1430.9		15.4	2.4	10.2	12.5	-9.3	-0.4
Asset Manager (314/FASMX)	H***	0.54	0-0	14.76	10804.8		8.4	-1.3	3.8	12.2	-1.7	3.6
Asset Mgr Agg (347/FAMRX)	H***	1.00	0-0	8.67	204.8		25.1	2.7	13.5	14.0	-14.4	
Asset Mgr Gth (321/FASGX)	H***	0.76	0-0	13.27	3504.7		10.9	-0.9	5.7	14.0	-5.1	1.0
Asset Mgr Inc (328/FASIX)	B****	0.23	0-0	11.56	868.9		7.6	-0.7	2.9	11.0	3.1	4.5
Freedom 2000 (370/FFFBX)	B****	0.20	0-0	11.38	1381.8		3.9	-0.9	1.6	5.9	0.8	4.7
Freedom 2010 (371/FFFCX)	B****	0.38	0-0	12.28	5482.8		7.9	-0.3	4.0	9.7	-2.0	4.2
Freedom 2020 (372/FFFDX)	B****	0.60	0-0	11.85	4997.1		11.8	0.8	6.8	12.0	-5.8	2.7
Freedom 2030 (373/FFFX)	B****	0.72	0-0	11.58	2898.9		13.5	1.5	8.3	12.6	-8.1	1.6
Freedom 2040 (718/FFFFX)	B****	0.80	0-0	6.71	643.9		14.9	2.0	9.5	13.5		
Freedom Income (369/FFFAA)	B****	0.16	0-0	10.84	1390.0		3.0	-0.9	1.1	4.9	2.4	4.7

**TAXABLE BOND FUNDS:**

Capital & Income (38/FAGIX)	B****↓	0.32	0-1(90)	7.58	4107.5	6.48	25.5	-1.5	4.5	49.1	2.4	3.3
Floating Rate (814/FFRHX)	B****	0.1 Est	0-1(60)	9.79	402.9	3.00	4.2	0.1	1.5			
GNMA Portfolio (15/FGMNX)	H***↓	0.07	0-0	11.05	6306.7	1.66	-0.1	-1.4	-0.9	3.0	7.3	6.0
Gov't Income (54/FGOVX)	H***	0.21	0-0	10.16	3794.7	2.76	-1.2	-4.2	-2.5	3.5	7.8	6.1
Intermed Bond (32/FTHRX)	H***	0.15	0-0	10.55	7163.8	3.76	1.7	-2.8	-0.9	7.0	8.5	6.7
Intermed Gov't Inc (452/FSTGX)	H***	0.16	0-0	10.17	1395.3	2.63	-0.4	-2.9	-1.6	3.8	7.9	6.4
Invest Grade Bond (26/FBNDX)	H***	0.15	0-0	7.40	5438.5	2.96	0.8	-3.4	-1.9	6.8	8.2	6.4
Mortgage Securities (40/FMSFX)	H***↓	0.07	0-0	11.11	1471.2	1.68	0.2	-1.8	-1.3	3.4	7.7	6.3
New Markets Inc (331/FNMIX)	H***	0.36	0-1(90)	12.65	883.9	6.15	16.1	-3.8	0.6	35.1	12.6	11.1
Short-Term Bond (450/FSHBX)	B****	0.08	0-0	8.97	5888.1	2.75	1.7	-1.1	-0.1	5.8	6.8	5.9
Spart Gov't Inc (453/SPGVX)	H***	0.22	0-0	10.77	1167.9	3.43	-1.4	-4.4	-2.6	3.5	7.9	6.4
High Income (455/SPHIX)	B****↓	0.17	0-1(90)	8.46	2513.2	6.85	15.8	-1.0	2.9	27.4	0.1	0.0
Spart Invest Grade (448/FSIBX)	H***	0.15	0-0	10.61	2867.4	3.32	1.0	-3.5	-1.8	7.0	8.5	6.7
Strategic Income (368/FSICX)	B****	0.13	0-0	9.92	1849.5	5.51	8.9	-2.6	0.7	19.2	8.8	7.0
Inflation-Protected (794/FINPX)	H***	0.2 Est	0-0	10.51	591.5	1.63	1.0	-4.8	-1.1			
Total Bond (820/FTBFX)	H***	0.2 Est	0-0	10.28	90.9	2.81	1.5	-3.8	-2.2			
Ultra-Short Bond (812/FUSFX)	B****	0.1 Est	0-0.25(60)	10.02	236.0	0.96	1.0	0.0	0.2			
US Bond Index (651/FBIDX)	H***	0.2 Est	0-0	11.06	5076.0	3.55	0.8	-3.5	-1.8	6.3	8.5	

**MUNICIPAL BOND FUNDS:**

Spart AZ Muni Inc (434/FAZAX)	H***	0.15	0-0.5(30)	11.26	80.2	3.93	0.0	-4.0	-1.9	3.3	6.5	5.3
Spart CA Muni Inc (91/FCTFX)	H***	0.14	0-0.5(30)	12.32	1672.8	4.48	-0.1	-3.7	-2.0	3.0	6.1	5.2
Spart CT Muni Inc (407/FICNX)	H***	0.14	0-0.5(30)	11.59	489.5	4.28	-0.1	-4.0	-1.9	3.2	6.6	5.3
Spart FL Muni Inc (427/FFLIX)	H***	0.14	0-0.5(30)	11.49	607.5	4.26	-0.4	-4.1	-2.4	2.7	6.4	5.0
Spart Intermediate (36/FLTMX)	H***↓	0.12	0-0.5(30)	10.04	1836.6	4.18	0.6	-3.0	-1.3	3.6	6.5	5.2
Spart MA Muni Inc (70/FDMXX)	H***	0.14	0-0.5(30)	12.00	1996.8	4.47	0.3	-3.7	-1.8	3.6	6.7	5.3
Spart MD Muni Inc (429/SMDMX)	H***	0.13	0-0.5(30)	10.73	101.4	4.05	0.1	-3.7	-1.7	3.2	6.3	5.1
Spart MI Muni Inc (81/FMHTX)	H***	0.14	0-0.5(30)	11.85	600.2	4.39	0.9	-3.8	-1.8	4.1	6.9	5.3
Spart MN Muni Inc (82/FMIX)	H***	0.11	0-0.5(30)	11.44	354.2	4.10	0.7	-3.1	-1.3	3.7	6.3	5.0
Spart Municipal Inc (37/FHIGX)	H***	0.15	0-0.5(30)	12.89	4921.8	4.63	0.2	-4.1	-1.9	4.0	7.1	5.6
Spart NJ Muni Inc (416/FNJHX)	H***	0.15	0-0.5(30)	11.53	595.6	4.37	-0.2	-4.0	-1.9	3.1	6.3	5.3
Spart NY Muni Inc (71/FTFMX)	H***	0.15	0-0.5(30)	13.00	1541.5	4.37	0.2	-4.1	-2.0	4.2	7.2	5.6
Spart OH Muni Inc (88/FOHFX)	H***	0.14	0-0.5(30)	11.77	452.4	4.40	0.3	-4.1	-1.9	3.7	6.7	5.3
Spart PA Muni Inc (402/FPXTX)	H***	0.13	0-0.5(30)	10.82	306.7	4.38	0.2	-3.6	-1.6	3.3	6.5	5.2
Spart Short-Int Muni (404/FSTFX)	B****↓	0.07	0-0.5(30)	10.42	1829.5	2.69	0.7	-1.3	-0.5	3.0	5.3	4.6
Spart Tax-Free Bond (90/FTABX)	H***	0.16	0-0.5(30)	10.40	263.5	4.37	-0.1	-4.4	-2.1	3.6		

JULY PERFORMANCE			2003	One	Three	One	3-Yr	5-Yr	10-Yr
Indexes & Model Portfolios	Risk	Value	YTD	Month	Month	Year	Rate	Rate	Rate
Dow Jones Industrial	0.99	9233.80	12.1	2.9	9.4	8.1	-2.4	2.6	12.3
S&P 500	1.00	990.31	13.7	1.8	8.5	10.6	-10.2	-1.1	10.3
NASDAQ	1.22	1735.02	30.3	7.0	18.6	31.2	-22.5	-1.2	10.0
Russell 2000	0.96	476.02	25.3	6.3	19.8	23.1	-0.2	3.9	8.8
Fidelity Monitor Income Model	0.08	71792.38	4.1	-0.6	0.7	8.1	4.8	3.4	5.6
Fidelity Monitor G&I Model	0.50	113967.89	16.7	0.0	7.0	19.7	3.1	5.5	
Fidelity Monitor Growth Model	1.01	113735.15	20.9	1.7	13.3	20.1	-5.6	2.0	10.1
Fidelity Monitor Select System	1.07	226456.07	22.4	4.4	15.0	23.8	-6.2	4.5	11.7
Fidelity Monitor Unique Opportunities	0.65	63150.32	19.3	0.7	12.5	26.1	2.6		

## UNIQUE OPPORTUNITIES MODEL

This model invests in special situations and where Fidelity's research skills give it an edge over its peers. Our long-term goal is 12% annual growth.

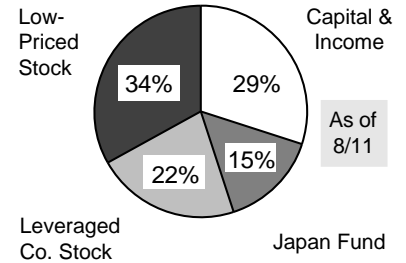
FUND	NAV	SHARES	BALANCE
Capital & Income	\$7.58	3681.039	\$27902.28
Leveraged Co.	\$14.93	909.967	\$13585.81
Low-Priced Stock	\$30.08	720.154	\$21662.23

22% Foreign Holdings

Balance as of 7/31/03: **\$63150.32**  
Balance at start of 2003: **\$52924.96**

### PERFORMANCE

Partial Yr 99: + 33.8%  
2000: - 20.5%  
2001: + 1.6%  
2002: - 2.1%  
\*2003: + 19.3%



We managed a gain of 0.7% in July. On 8/11 we will sell one-third of **Capital & Income** and buy **Japan Fund**. The resulting asset mix: 67% stock, 23% bond, and 10% cash.

## 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 (+16.8% YTD)	Portfolio B (+11.0% YTD)	Portfolio C (+12.5% YTD)	Portfolio D (+12.5% YTD)
60% Dividend Growth, 40% Capital Appreciation	65% Magellan, 35% Contrafund	32% Magellan 68% Equity-Income	31% Magellan 69% Equity-Income

For the month of July Portfolio A gained 0.8%, Portfolio B rose 1.8%, and Portfolios C and D moved up 1.7%.

## 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 MODEL:
100% VIP Technology	35% VIP Equity-Income, 65% VIP Growth	42% VIP Asset Mgr, 29% VIP Equity-Inc., 29% VIP High Inc.	72% VIP Inv. Grade, 28% VIP High Income.

### JULY VIP PERFORMANCE

Portfolio	Rating	Unit Value	2003 YTD	One Month	Three Month	One Year	3-Yr Rate	5-Yr Rate
VIP Asset Manager	B ****	27.74	8.3	-1.2	3.9	12.3	-3.4	0.7
VIP Asset Manager: Growth	H ***	17.81	11.3	-0.8	5.9	14.7	-8.4	-2.0
VIP Balanced	B ****	13.37	9.8	0.2	3.9	11.4	-2.3	0.0
VIP Contrafund	H ***	26.43	12.0	2.6	9.5	9.5	-5.5	2.1
VIP Equity-Income	B ****	43.13	12.2	1.8	9.7	8.3	-1.4	0.4
VIP Growth	B *****	47.06	16.6	3.2	11.0	11.0	-16.8	-1.9
VIP Growth & Income	B ****	14.45	14.4	2.1	7.1	14.0	-5.3	-0.3
VIP Growth Opportunities	B ****	10.02	14.6	1.8	8.2	11.2	-12.7	-6.5
VIP High Income	B ****	23.51	15.2	-1.3	3.1	27.0	-5.4	-5.0
VIP Index 500	H ***	25.85	13.1	1.7	8.2	9.6	-11.1	-2.1
VIP Investment Grade Bond	B ****	25.97	0.6	-3.5	-2.0	6.5	7.9	6.0
VIP Overseas	H ***	21.24	15.0	4.6	18.3	4.6	-14.1	-4.9
VIP Mid Cap	H ***	10.92	13.5	4.6	16.5	13.9	2.8	
VIP Consumer Industries	H ***	9.08	11.9	1.3	8.6	7.9		
VIP Cyclical Industries	H ***	9.20	14.2	5.5	11.6	10.5		
VIP Financial Services	H ***	9.87	15.3	4.2	9.6	12.2		
VIP Health Care	B ****	9.24	10.5	-0.4	6.8	10.4		
VIP Natural Resources	H ***	8.76	6.6	-2.3	7.7	7.2		
VIP Technology	B ****	7.84	34.2	5.8	20.0	34.9		
VIP Telecom & Utilities	H ***	6.68	10.6	-5.2	5.0	15.2		
Morgan Stanley Emg Mkts Debt	H ***	14.26	14.2	-2.5	2.5	30.1	11.0	
Morgan Stanley Emg Mkts Equity	H ***	8.68	17.0	5.1	17.9	11.6	-12.1	
Morgan Stanley Global Equity	H ***	10.86	8.4	1.7	10.5	-0.4	-3.6	
Morgan Stanley Int'l Magnum	H ***	7.97	4.9	1.3	8.5	-2.3	-13.3	
PBHG Growth II	S **	8.32	15.2	3.7	12.3	6.3	-29.8	
PBHG Select Value	H ***	13.70	2.9	1.1	5.8	-3.3	-15.1	
PBHG Select 20	S **	13.10	20.3	4.6	12.0	12.9	-19.2	
PBHG Small Cap Value	H ***	15.11	17.9	4.1	14.2	14.3	-3.2	
PBHG Tech & Communications	S **	6.53	22.7	4.5	16.1	8.1	-47.7	
Strong Mid Cap Growth Fund II	S **	10.83	22.3	1.8	11.7	15.3	-24.8	
Strong Opportunity Fund II	H ***	13.38	19.3	3.2	14.6	15.7	-5.1	
CS Int'l Focus	H ***	7.86	10.9	2.3	10.1	1.0	-17.3	
CS Global Post-VC	S **	8.03	22.9	4.0	20.7	7.5	-22.6	
CS Small Cap Growth	S **	9.34	27.3	7.6	21.2	28.1	-14.6	
Fidelity Monitor VIP Sector Model		11172.02	34.2	5.8	20.1	26.2		
Fidelity Monitor VIP Growth Model		24712.19	14.3	2.8	9.6	10.7	-11.1	-1.7
Fidelity Monitor VIP G&I Model		18386.86	9.3	-0.3	4.0	11.8	-2.8	0.3
Fidelity Monitor VIP Income Model		16570.49	4.3	-2.9	-0.6	9.1	4.0	2.0

## INCOME MODEL

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

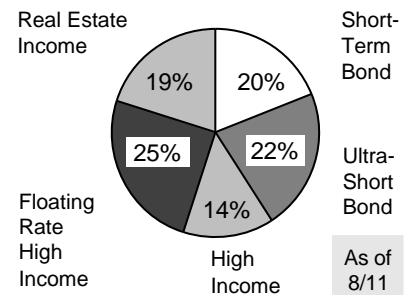
FUND	NAV	SHARES	BALANCE
Short-Term Bond	\$8.97	1559.540	\$13989.07
Ultra-Short Bond	\$10.02	1545.762	\$15488.54
High Income	\$8.46	1228.537	\$10393.42
Floating Rate	\$9.79	1844.604	\$18058.67
Ginnie Mae	\$11.05	1254.541	\$13862.68

4% Foreign Holdings

Balance as of 7/31/03: \$71792.38  
Balance at start of 2003: \$68975.37

## 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: + 4.1%



Our Income Model slid 0.6% in July. On 8/11 we will sell all shares of **Ginnie Mae** and buy **Real Estate Income**. The resulting asset mix: 10% stock, 79% bond, and 11% cash.

## 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.

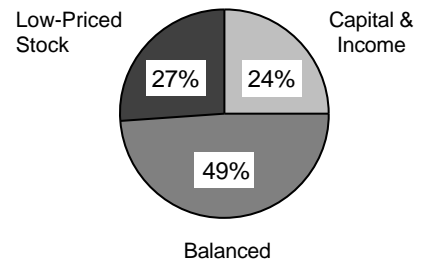
FUND	NAV	SHARES	BALANCE
Capital & Inc.	\$7.58	3628.289	\$27502.43
Balanced	\$14.92	3764.818	\$56171.08
Low-Priced Stock	\$30.08	1007.127	\$30294.38

9% Foreign Holdings

Balance as of 7/31/03: \$113967.89  
Balance at start of 2003: \$97626.98

## 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: + 16.7%



In July we essentially broke even. On 7/14 we sold **Convertible Securities** (\$18.60) and bought **Low-Priced Stock** (\$30.12). The current asset mix is 60% stock, 35% bond, and 5% cash.

## GROWTH MODEL

Our Growth Model aims for long-term growth of 13% per year. The model will typically invest in a mix of domestic stock funds and will focus only on those that do not charge a load.

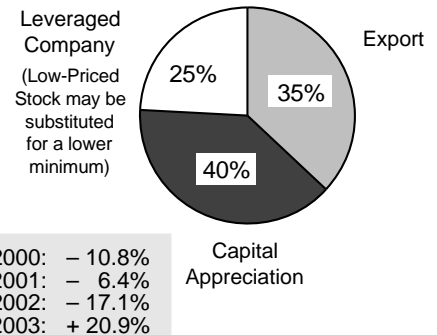
FUND	NAV	SHARES	BALANCE
Export	\$15.89	2533.346	\$40254.87
Capital Apprec.	\$20.49	2213.934	\$45363.51
Leveraged Co.	\$14.93	1883.240	\$28116.77

9% Foreign Holdings

Balance as of 7/31/03: \$113735.15  
Balance at start of 2003: \$94089.60

## 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%



For the month of July our Growth Model gained 1.7%, versus 1.8% for the S&P 500. The current asset mix is 95% stock, 1% bond, and 4% cash.

## 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.

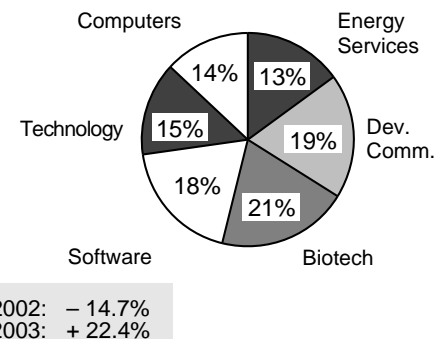
FUND	NAV	SHARES	BALANCE
Energy Services	\$28.59	1023.041	\$29248.74
Developing Com.	\$13.35	3151.676	\$42074.87
Biotechnology	\$51.42	938.154	\$48239.88
Software	\$43.45	938.003	\$40756.23
Technology	\$50.73	676.687	\$34328.33
Computers	\$30.28	1050.463	\$31808.02

7% Foreign Holdings

Balance as of 7/31/03: \$226456.07  
Balance at start of 2003: \$185070.14

## 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%



In July our Select System was up 4.4%, versus 1.8% for the S&P 500. The current mix of assets is 92% stock, 8% cash.

be looking to match the S&P while carrying about 40% less risk.

The new goals track more closely with our actual long-term performance. Since inception, the Growth and Income Model has climbed 8.7% annually over the last 9.5 years. The Growth Model has gained 12.5% per year over a period of 16.5 years. And the Select System has grown at a 15.8% rate over the last 14.5 years.

**Given Japan's economic problems, does it really make sense to rate Fidelity's Japan Fund a buy?**

Stocks tend to perform best during the transition from bad economy to good economy. Japan's bear market has been going for more than 13 years, so stock valuations are relatively cheap. Tough market reforms have been put in place, and for the first time in years the country's yield curve has steepened. An upward sloping yield curve nearly always bodes well for an economy, because it encourages banks to lend. In Japan this is particularly significant because a lack of bank lending is the main thing holding back the Japanese economy.

It remains to be seen whether this recovery is real, but there are some encouraging signs that suggest the rally may have staying power. Consumer spending is picking up across Asia, which should boost Japan's exports without pushing up the yen. Banks and other big institutional holders of Japanese stocks have already unloaded the bulk of what they needed to sell, so there may finally be more buyers than sellers for the first time in years. Finally, the Japanese have been big buyers of U.S. bonds. The recent uptick in U.S. interest rates appears to be encouraging some Japanese investors to sell U.S. bonds and buy Japanese stocks. New disappointments in the Japanese economy cannot be ruled out. Still, with Japanese stocks at relatively cheap levels, the downside risk seems limited.

All in all, we think a small stake in **Japan Fund** is appropriate for the Unique Opportunities Model. If the Japanese economy stays on track, we may add to the position at some point in the future. ■

**JULY DISTRIBUTIONS**

**Asset Manager: Income** \$ 0.02 / \$11.67 (7/3)  
**Freedom Income** \$ 0.01 / \$10.96 (7/3)

August payouts include: **Asset Manager: Income** (8/1), **Contrafund II** (8/8), **Fidelity Fifty** (8/8), **Fidelity** (8/8), **Freedom Inc** (8/1), **G&I II** (8/8), **Real Estate Inc** (8/8).

**GROWTH & INCOME FUNDS**

Growth and Income Model holdings are listed on page 7. Our favorites include **Balanced**, **Puritan**, **Equity-Income I**, and **Equity-Income II**.

**Real Estate** gained 5.1% on signs of economic strength. **Fidelity Fund** and **Equity-Income II** also did well, posting respective increases of 2.5% and 2.6%. On the bottom, **Convertible Securities** was off 0.4%, and **Utilities** posted a loss of 5.0%.

**BOND FUNDS**

Income Model holdings are listed on page 7. Our favorites, in increasing order of risk, include **Ultra-Short**, **Short-Term**, **Floating Rate High Income**, **Strategic Income**, **High Income**, and **Capital & Income**.

Fidelity's stable-value bond funds lived up to their promise. **Floating Rate High Income** edged up 0.1%, while **Ultra-Short Bond** broke even. In contrast, interest rate sensitive funds were hit hard. **Spartan Gov't Income** declined 4.4%, and **Inflation-Protected Bond** lost 4.8% (it was also negatively affected by the decline in energy prices, which implies a lower rate of inflation). Muni bond funds, which are particularly sensitive to interest rates, were hit hard. **Spartan Short-Intermediate** held its loss to 1.3%, but most longer-term funds were down about 4%.

**SELECT PORTFOLIOS**

Select System holdings are listed on page 7. Current buys include **Biotechnology**, **Software**, **Dev. Communications**, **Computers**, **Technology**, and **Energy Services**.

Favorable earnings helped **Biotechnology** and **Electronics** to post respective increases of 9.7% and 8.4%. **Chemicals** also did well, climbing 9.4%. The bottom end, however, was dominated by the energy groups. The death of Saddam Hussein's sons implied that Iraq's oil exports may come up to speed sooner than expected, which depressed oil prices in the futures markets. **Energy** lost 5.1%, **Natural Gas** tumbled 7.4%, and **Energy Services** fell 8.3%. ■

**Happenings**

Three funds have new managers as a result of David Glancy's departure. Thomas Soviero now runs **Leveraged Company Stock**. Mark Notkin has taken over **Capital & Income**. And Matthew Conti replaces Notkin at **VIP High Income**. Please see our question and answer column for a review of the new managers. ■

Money Market Funds	Size	Yield	Money Market Funds	Size	Yield	Money Market Funds	Size	Yield
Cash Reser (55/FDRXX)	55953.4	0.83	CT MM (418/FCMXX)	1029.3	0.42	FL MM (428/FSFXX)	936.2	0.47
Select MM (85/FSLXX)	839.3	0.82	MA MM (74/FDMXX)	3144.0	0.41	Spart MA MM (426/FMSXX)	1010.1	0.50
Spart MM (454/SPRXX)	6645.0	0.81	MI MM (420/FMIXX)	582.9	0.41	Spart Municipal (460/FIMXX)	2964.9	0.63
Spart US Gov't (458/SPAXX)	715.2	0.76	NJ MM (417/FNJXX)	1283.9	0.38	Spart NJ MM (423/FSJXX)	573.6	0.53
Spart US Treas (415/FDLXX)	2510.1	0.69	NY MM (92/FNYXX)	2786.4	0.46	Spart NY MM (422/FSNXX)	1114.7	0.56
Tax-Free MM (275/FMOXX)	480.4	0.50	OH MM (419/FOMXX)	648.5	0.46	PA MM (401/FPTXX)	282.1	0.44
US Gov't Reser (50/FGRXX)	2386.3	0.83	AZ MM (433/FSAXX)	133.2	0.43	Municipal MM (10/FTEXX)	13220.4	0.54
CA MM (97/FCFXX)	2677.0	0.39	Spart CA MM (457/FSPXX)	1300.5	0.55			