

Fidelity Expands Annuity Lineup

Fidelity has added a dozen new choices to its VIP lineup, giving annuity investors more choices than ever. This month we take a brief look at the tradeoffs of investing in variable annuities, along with a review of Fidelity's diversified VIP choices.

VIP is short for Variable Insurance Products.

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Changes For Select System, Unique Opportunities, VIP G & I

On Monday, 8/15, our Select System will sell **Banking** (507/FSRBX) and buy **Brokerage** (68/FSLBX). The approximate resulting mix will be 20% **Energy**, 19% **Brokerage**, 19% **Utilities Growth**, 16% **Chemicals**, 14% **Medical Delivery**, and 12% **Telecommunications**. Place your trades over the weekend in order to obtain the Monday 10 am price. We are making this trade because **Banking**'s rank has declined while **Brokerage** has gained ground. There's a risk that short-term interest rates may move higher than bond yields, and business borrowing activity remains weak. Both factors suggest that brokerage stocks may be the better bet in the financial services arena. There is no change in our VIP Sector Model.

On the same day, our Unique Opportunities Model will sell **Banking** (507/FSRBX) and buy **Europe** (301/FIEUX), for an approximate mix of 16% **Natural Resources**, 13% **Utilities Growth**, 13% **Europe**, 25% **Leveraged Company Stock**, and 33% **Value**. A big upside move in the dollar is no longer a major concern, so we're looking to add some foreign exposure to the portfolio. **Europe** is defensively positioned – it may benefit from both declining interest rates and improving earnings in the media/telecom group.

Also on 8/15, our VIP Growth and Income Model will sell **VIP Asset Manager** and buy **VIP Balanced**, for a mix of 32% **VIP Equity-Income**, 54% **VIP Balanced**, and 14% **VIP Investment Grade Bond**. Lawrence Rakers, manager of **Balanced** on the mutual fund side, recently took over **VIP Balanced**. This portfolio carries a bit more risk, but should also provide a greater reward.

Review & Recommendations

Surprisingly strong second quarter earnings and a robust economic outlook made for a bullish July. The market barely reacted to the London bombings, the Gulf storms, and China's move to a managed float for the yuan. Investors didn't even flinch when Greenspan all but promised several more rate hikes. The S&P 500 gained 3.7% for the month.

GROWTH FUNDS

Growth Model holdings are listed on page 7. Our favorites include **Value**, **Contrafund**, and **Small Cap Value**.

Funds holding economically sensitive stocks performed well in July, especially those holding smaller stocks. **Small Cap Value** was up 8.0%, **Mid Cap Stock** gained 7.3%, and **Small Cap Growth** climbed 6.7%. Funds that emphasized defensive stocks tended to trail the group, but even those landing on the bottom did reasonably well. **Structured Large Cap Value** and **Low-Priced Stock** both rose 3.8%, and **Dividend Growth** returned 3.4%.

INTERNATIONAL FUNDS

Spartan Int'l Index offers broad exposure to foreign markets. **Europe** offers a focused bet on a group of defensive stocks.

China's new currency system defused the tension over trade in the U.S. without any adverse impact to its own economy, giving a boost to Asian emerging markets. **Emerging Markets** climbed 7.6%, and **Southeast Asia** gained 7.4%. Japan's market, on the other hand, appears to be bearing the brunt of rising energy costs. **Japan Smaller Companies** rose 1.5%, and **Japan** edged up 1.1%.

GROWTH & INCOME FUNDS

Growth and Income Model holdings are listed on page 7. Our favorites include **Strategic Dividend & Income**, **Equity-Income**, and **Equity-Income II** for dividend stocks, **Balanced** and **Puritan** for a hybrid approach, and **Asset Manager: Income** for an ultra-conservative mix.

Growth & Income II jumped 5.3% shortly after Victor Thay repositioned its portfolio. Other funds benefited as dividend stocks picked up in the latest earnings cycle. **Equity-Income II** gained 4.3%,

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These annuities are structured as life insurance, giving them unique tax status, but they behave mostly like mutual funds in other respects.

Variable annuities allow tax-free compounding of investment gains, and for all practical purposes the contributions are unlimited. Although profits are ultimately taxed at full income rates, in many cases the day of reckoning can be delayed until age 85 or 90. The death benefit is guaranteed to be equal to your starting balance, so your heirs are protected against the impact of a long-lasting bear market.

The tax-free compounding feature is loudly touted by annuity proponents, creating a perception that variable annuities carry a big tax advantage over mutual funds. Under today's tax code, however, any advantage garnered during the compounding years is almost certainly offset when the gains are ultimately taxed at full income rates during distribution (in contrast, the maximum long-term capital gain rate on mutual fund sales is 15% at the federal level). Moreover, the annual 0.8% fee that covers the annuity life insurance features exacts a drag on long-term performance. Forbes Magazine put it bluntly in a cover story that ran several years ago: "Don't be a sucker! Variable annuities are a lousy investment."

Nevertheless, variable annuities do make good sense for some situations. Perhaps your goal is to grow your portfolio tax-free during your working years, then retire and convert to a "personal pension" that provides lifetime income. Mutual funds really aren't an option for that strategy. Or maybe you've been keeping your non-retirement accounts in muni bonds to minimize the tax bite, but won't need the money for many years to come. In that case, a variable annuity invested in a conservative growth and income strategy could boost your long-term growth rate by several percentage points, without impacting your taxes until age 85.

Fortunately, Fidelity's variable annuity program runs circles around plans offered by most insurance companies. The fees are substantially lower, the choices are many, and long-term performance is likely to be significantly better.

DOMESTIC STOCK PORTFOLIOS

With Fidelity's latest additions, there are now 14 different ways to invest in domestic equities.

VIP Aggressive Growth is a new offering that's managed by Steven Calhoun, who recently took over the mutual fund version of **Aggressive Growth** and is now running both funds in nearly identical

fashion. The portfolio is heavily invested in growth stocks, with a 33% weighting in health care, and 25% in technology. This mid-cap growth fund is a little too volatile for our taste; we currently rate it a hold.

VIP Contrafund is a twin of **Contrafund** on the mutual fund side. Long-time manager Will Danoff manages both. This portfolio has done well this year, thanks to its defensive stance. Around 25% of assets are invested in foreign stocks, so if you buy this large-cap growth fund you don't need any additional foreign diversification. Rated buy.

VIP Dynamic Capital Appreciation is not for the faint of heart. Its top three stock holdings are Google, Ebay, and Yahoo, making the portfolio's standard deviation even higher than **VIP Aggressive Growth**. What's unusual here is the fund's sharp underweight of the health care group (6%), and its overweighted energy stake (18%). But with so much in tech (36%), long-term stability will be a tough thing to achieve. Rated hold.

VIP Equity-Income is similar to **Equity-Income**; Stephen Petersen runs both portfolios. We've been a fan of dividend stocks because corporations have more cash than they know what to do with. But so far, the benefit has been elusive – Petersen's funds have struggled to outpace an S&P 500 index approach over the last year. Part of the reason is today's merger and acquisition fever. Many corporations that pay dividends are also involved in takeovers. That may be good for earnings in the long run, but so far the market has been more impressed with the companies putting themselves up for sale than with the ones doing the buying. But that may change as short-term interest rates rise. As such, we're sticking with our buy rating.

VIP Growth is managed somewhat like **Blue Chip Growth**, although it has a different manager (Jennifer Uhrig). This portfolio is not as risky as other large-cap growth funds, but it still lagged the market over the last five years – a period in which investors favored value over growth. Some say that's about to change, but we don't see it happening any time soon. Rated hold.

VIP Growth & Income is closely linked with **Growth & Income II**. Victor Thay has just taken over both portfolios, setting the stage for improved performance (prior manager Louis Salemy was too defensive, resulting in weak performance since late 2002). Thay has already made significant changes, so we've got our eye on a possible upgrade – although we're sticking with a hold rating for now.

VIP Growth Opportunities is a large-cap blend

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portfolio managed by Bettina Doulton. The fund is positioned somewhat like **Magellan**, and has provided similar returns for the last five years. Like other defensive funds, it's been hampered by a heavy bet on consumer stocks. Rated hold.

VIP Growth Stock, a new portfolio, is managed by Brian Hanson. The fund's industry weightings are similar to **Growth Company**, but the stock holdings are unique because different managers are involved. In the long run this portfolio may do well, but with 40% in technology it's a bit risky for today's market. Rated hold.

VIP Index 500 is an S&P 500 fund that carries the drag of the 0.1% expense ratio plus the 0.8% annuity fee. These days, given the rate at which high-margin businesses are being created outside of the S&P 500, we'd rather be in a total market index (Wilshire 5000) fund. But this is better than nothing for those who like the passive approach. Rated hold.

VIP Mid-Cap is unique because it has managed to outperform its mutual-fund counterpart. Manager Tom Allan has racked up a strong record through savvy stock picks. His holdings fall in the mid-cap growth category, and include significant emphasis on energy stocks and commodities. Rated buy.

VIP Real Estate doesn't have as much to lose as tech stocks did at the end of 1999, but it's been on a hot streak for too long. Real estate investment trusts have been driven by the same factors that have fueled residential real estate – easy money and low rates. Time may be running out for both. Rated sell.

VIP Value, another new introduction, is managed by Stephen DuFour, who also runs **Equity-Income II**. Currently, DuFour is managing both portfolios in similar fashion, although there is some difference in stock weightings. Unlike **Value**, a mid-cap fund, DuFour's holdings are solidly in the large-cap value category. Compared with **VIP Equity-Income**, this fund takes on a bit more risk – but may also see a bit more reward over time. Rated buy.

VIP Value Leaders, another new portfolio, appears to be a twin of **Blue Chip Value**. Both funds are run by Brian Hogan. The heavy emphasis on industrial stocks (19%) makes this choice more economically sensitive than other value funds, but we still think it's a solid bet. Rated buy.

VIP Value Strategies has been a growth fund in disguise. Its heavy bet on technology (37%) results in volatility that's 50% greater than the S&P 500. Rich Fentin (who runs **Value** on the mutual fund side) recently took over this portfolio, along with its mutual fund twin. As such, we'll see how

much he tames this "wild beast" in the months ahead. Until then, we're sticking with a hold rating.

INTERNATIONAL CHOICES

If you insist on investing beyond the border with annuity money, limit your exposure to around 15% of total holdings. Choices are limited here, and fund expenses and trading costs are higher. Note that a redemption fee of 1% applies for 60 days.

VIP Int'l Capital Appreciation, a new offering managed by Kevin McCarey, is similar to **Aggressive International**. Current positioning is actually quite conservative, both from an industry group standpoint (finance is the top sector with a 21% weighting) and from a regional perspective (no one country accounts for more than 15% of assets). Overall volatility is slightly below the level of the S&P 500. Rated hold.

VIP Overseas. Fidelity is running two identical portfolios, one that includes the 1% redemption fee (class R), and one that doesn't (which is closed). Both are like the mutual fund version of **Overseas**. Rick Mace is the manager, and he's currently emphasizing technology (27%) and finance (25%). Top countries include Japan (21%), France (12%), and the United Kingdom (10%). Mace's heavy bet on tech is an interesting contrarian play, as this group is traditionally dominated by U.S. companies. But it could work if the dollar continues to gain strength. Rated hold.

HYBRID / ASSET ALLOCATION

These funds represent the conservative side of the growth and income spectrum, where a combination of stocks, bonds, and cash helps moderate risk.

VIP Asset Manager is currently holding about 55% stocks, 33% bonds, and 12% cash. Its stock holdings, which are managed by Charles Mangum, are similar to **Asset Manager** and **Dividend Growth**. Mangum's stock picks have struggled over the last year, mostly because of some big surprises in his top holdings. We suspect he'll eventually get back on track, but at this point we prefer **VIP Balanced** over this portfolio. Rated hold.

VIP Asset Manager Growth has more emphasis on stocks (74%), and a lower weighting on bonds (17%) and cash (9%). But the stock picks are the same as **VIP Asset Manager**. Rated hold.

VIP Balanced has been revamped over the last six weeks under Lawrence Rakers, a long-time manager for **Balanced**. Rakers has an outstanding record, so we expect this portfolio to become a solid performer. Rated buy.

VIP Freedom 2005, 2010, 2015, 2020, 2025,

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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 ↓.

JULY PERFORMANCE						2005	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***	1.37	1.5(90)	17.19	4414.4	3.6	5.5	14.8	17.1	15.6	-18.3	3.0
Blue Chip Gth (312/FBGRX)	H***	1.00	none	42.60	22029.5	2.1	4.3	8.5	11.1	9.3	-5.5	6.6
Blue Chip Value (1271/FBCVX)	B****↑	1.04	none	13.21	172.5	5.3	4.6	9.0	19.2			
Capital Apprec (307/FDCAX)	H***	1.24	none	26.70	6526.3	2.6	5.8	12.8	17.4	19.5	2.3	10.1
Contrafund (22/FCNTX)	B****	0.93	none	61.20	49403.9	7.9	4.4	11.1	22.4	15.9	3.9	11.7
Discovery (339/FDSVX)	S**	0.94	none	11.12	459.1	-1.6	3.9	8.6	10.7	10.1	-2.4	
Disc Equity (315/FDEQX)	H***	1.07	none	27.04	5492.2	6.9	4.3	9.7	20.5	13.5	0.1	9.4
Dividend Gth (330/FDGFY)	H***	1.01	none	28.85	17109.6	1.3	3.4	7.7	10.1	10.3	1.3	11.5
Export Fund (332/FEPPX)	H***	1.12	0.75(30)	21.15	2776.0	7.7	5.9	12.7	22.0	19.1	6.0	14.6
Fidelity Fifty (500/FFTYX)	H***	1.17	0.75(30)	21.21	795.4	2.8	5.7	13.3	15.8	11.0	4.4	10.8
Growth Company (25/FDGRX)	H***	1.34	none	58.55	24262.4	4.4	4.9	12.9	21.4	17.4	-5.8	9.8
Large-Cap Stock (338/FLCSX)	H***	1.03	none	14.85	629.4	1.9	4.3	8.5	11.8	8.8	-5.5	7.9
Lev Co Stock (122/FLVCX)	B****	1.44	1.5(90)	25.48	3033.0	12.3	5.5	13.0	33.9	55.0		
Low-Priced Stock (316/FLPSX)	B****	0.95	Closed	42.68	36205.5	6.0	3.8	12.4	25.3	20.7	19.5	16.4
Magellan (21/FMAGX)	S**	1.01	Closed	106.35	54894.4	2.8	4.0	7.8	12.5	10.1	-3.2	7.2
Mid Cap Stock (337/FMCSX)	H***	1.25	0.75(30)	25.42	8701.4	8.6	7.3	18.1	24.7	16.2	2.1	12.9
New Millennium (300/FMILX)	H***	1.30	Closed	32.21	3167.3	1.6	6.6	14.9	15.1	12.5	-2.1	15.3
OTC Portfolio (93/FOCPX)	S**	1.38	none	35.99	7685.0	3.7	5.4	14.8	19.7	15.8	-8.8	8.3
Independence (73/FDFFX)	H***	1.14	none	18.60	4394.9	4.4	5.8	13.4	19.2	12.0	-3.8	9.4
Small Cap Gth (1388/FCPGX)	H***	1.3 Est	1.5(90)	12.98	125.1	13.8	6.7	20.0				
Small Cap Indep (336/FDSCX)	H***	1.13	1.5(90)	21.36	1192.3	8.3	5.6	17.4	25.1	17.0	7.6	8.3
Small Cap Stock (340/FLCX)	H***	1.20	2(90)	18.46	4136.4	5.4	6.0	14.3	18.7	20.6	9.2	
Small Cap Value (1389/FCPVX)	B****	0.9 Est	1.5(90)	12.83	451.6	15.0	8.0	18.0				
Stock Selector (320/FDSSX)	H***	1.01	none	23.75	765.2	4.1	4.3	8.8	15.3	12.8	-1.8	7.7
Strc Lg Cap Gth (763/FLGX)	H***	1.28	0.75(30)	11.13	79.9	8.5	4.5	12.8	25.3	14.6		
Strc Lg Cap Val (708/FLVLX)	B****	1.03	0.75(30)	12.98	240.3	6.9	3.8	10.1	20.7	15.5		
Strc Mid Cap Gth (793/FSMGX)	H***	1.36	0.75(30)	12.74	106.8	9.1	5.4	15.0	29.5	20.3		
Strc Mid Cap Val (762/FSMVX)	B****	1.13	0.75(30)	15.52	190.5	10.1	5.3	14.9	29.8	19.2		
Focused Stock (333/FTQGX)	H***	1.27	0.75(30)	11.43	80.7	13.2	5.9	14.5	29.5	13.4	-4.8	
Trend (5/FTRNX)	H***	1.00	none	55.39	841.1	3.3	3.9	8.0	14.4	13.0	-1.2	6.1
Value (39/FDVLX)	B****	1.04	none	78.40	11908.5	10.0	5.2	12.9	27.1	20.8	15.6	12.9
Value Discovery (832/FVDFX)	B****↑	1.11	none	15.24	144.2	11.4	5.9	14.1	26.1			
Value Strategies (14/FLSLX)	H***	1.50	none	37.60	190.6	0.5	4.6	15.7	18.7	22.7	11.1	
GROWTH & INCOME FUNDS:												
Balanced (304/FBALX)	B****	0.78	none	18.73	13834.3	6.0	3.7	9.2	18.0	15.2	8.0	10.6
Convertible Sec (308/FCVXS)	B****	0.74	none	21.82	1722.1	1.7	3.7	9.5	13.2	14.7	3.9	11.9
Equity-Income (23/FEIQ)	B****	0.96	none	53.07	25958.0	2.4	3.8	6.9	13.2	12.8	5.1	10.2
Equity-Income II (319/FEQTX)	B****	1.02	none	24.27	12151.0	2.6	4.3	7.5	13.8	14.6	5.6	10.1
Fidelity Fund (3/FFIDX)	H***	0.97	none	30.69	10234.2	3.3	3.5	6.8	12.1	11.4	-2.0	9.5
Growth & Income (27/FGRIX)	B****	0.90	none	38.42	31029.3	1.2	2.8	5.0	11.1	8.5	-0.7	9.2
Growth & Inc II (361/FGRTX)	H***	0.92	none	9.74	179.4	1.2	5.3	5.8	9.7	9.6	-0.3	
Puritan (4/FPURX)	B****	0.63	none	19.13	23875.9	2.1	2.3	4.9	10.5	11.1	5.8	9.2
Strategic Div & Inc (1329/FSDIX)	B****	0.80	none	11.97	708.0	5.9	4.1	8.8	19.4			
Utilities (311/FUIX)	B****	0.95	none	14.64	1018.2	8.6	2.8	7.4	27.1	20.6	-4.5	7.9
SELECT FUNDS:												
Air Transportation (34/FSAX)	H***	1.46	0.75(30)	36.51	34.7	8.4	7.1	12.9	22.1	15.0	3.8	11.3
Automotive (502/FAVX)	H***↑	1.21	0.75(30)	35.48	16.5	1.9	8.6	14.8	13.9	15.2	11.0	7.4
Banking (507/FSRBX)	H***	1.04	0.75(30)	38.21	448.8	-1.7	2.5	5.4	10.2	11.1	10.7	13.8
Biotechnology (42/FBIOX)	H***↑	2.19	0.75(30)	59.57	1565.1	3.3	9.3	16.2	14.4	16.1	-6.0	11.9
Brokerage (68/FLBXX)	B****	1.31	0.75(30)	62.52	435.0	11.9	5.3	21.1	39.2	21.6	6.1	17.8
Business Ser (353/FBSOX)	H***	1.11	0.75(30)	15.78	34.3	-0.2	5.2	13.1	16.4	13.0	5.2	
Chemicals (69/FSCHX)	H***	1.54	0.75(30)	69.22	211.3	2.4	6.4	8.4	29.5	20.2	16.7	11.0
Computers (7/FDCPX)	H***	1.86	0.75(30)	36.06	593.4	2.6	7.0	16.0	17.3	15.9	-15.3	7.9
Const & Housing (511/FSHOX)	H***	1.67	0.75(30)	50.29	268.6	16.5	7.3	23.5	45.9	27.3	23.2	16.0
Consumer Indust (517/FSCPX)	H***	1.02	0.75(30)	25.51	41.0	3.4	4.0	10.5	18.9	10.4	2.8	9.8
Cyclical Indust (515/FCYIX)	H***	1.30	0.75(30)	19.76	62.1	7.8	7.5	13.4	25.9	21.0	11.0	
Defense & Aero (67/FSDAX)	H***↓	1.19	0.75(30)	74.18	765.6	14.3	4.6	10.8	27.8	20.3	14.3	15.2
Develop Commn (518/FSDCX)	H***	1.80	0.75(30)	18.87	481.0	-2.4	5.9	17.2	19.1	25.7	-16.1	6.2
Electronics (8/FSELX)	H***	2.14	0.75(30)	42.65	2708.7	12.9	8.9	19.6	23.9	13.5	-13.7	10.8
Energy (60/FSENX)	B****	1.92	0.75(30)	43.53	1506.3	36.3	8.2	22.3	54.0	30.6	14.7	15.1
Energy Services (43/FSESX)	H***	2.37	0.75(30)	57.31	970.7	34.4	10.1	26.6	52.2	28.2	11.3	17.6
Environmental (516/FSLEX)	S**	1.23	0.75(30)	15.62	23.9	9.2	7.1	19.5	23.0	16.9	7.3	2.7
Financial Services (66/FIDSX)	H***	1.04	0.75(30)	111.13	454.2	0.3	2.9	8.8	12.6	12.5	7.0	14.1
Food & Agriculture (9/FDFAX)	S***↓	0.87	0.75(30)	52.46	130.8	4.0	4.2	6.3	16.4	9.5	9.3	10.0
Gold (41/FSAGX)	H***	2.18	0.75(30)	24.18	657.6	-4.8	-0.2	10.3	12.2	15.1	18.7	3.0
Health Care (63/FSPHX)	H***	1.15	0.75(30)	142.82	2139.5	11.5	4.6	8.6	21.9	12.0	2.2	12.4
Home Finance (98/FSVLX)	S***↓	1.12	0.75(30)	58.34	358.3	-7.1	1.9	8.0	2.1	10.3	15.3	13.8
Indust Equip (510/FSFGX)	H***	1.35	0.75(30)	27.06	41.4	3.7	7.8	10.6	15.9	17.2	4.3	8.6
Indust Materials (509/FSFPX)	H***	1.50	0.75(30)	39.74	113.3	1.4	8.5	9.1	20.1	21.6	16.3	7.3
Insurance (45/FSPCX)	H***	1.22	0.75(30)	65.96	178.9	7.3	3.9	12.2	17.4	14.0	12.3	17.0
Leisure (62/FDLSX)	H***	1.09	0.75(30)	75.94	207.8	-1.3	2.6	10.3	16.4	19.3	3.0	11.7
Medical Delivery (505/FSHCX)	B****	1.44	0.75(30)	51.02	1203.6	18.5	1.8	10.7	60.8	21.3	22.3	12.3
Medical Equip/Sys (354/FSMEX)	H***	1.07	0.75(30)	25.15	1125.8	7.5	4.1	6.1	20.2	21.4	12.6	
Multimedia (503/FBMPX)	B****↑	1.10	0.75(30)	45.36	85.9	0.4	2.0	7.7	15.1	21.9	1.8	10.4
Natural Gas (513/FSNGX)	B****	2.22	0.75(30)	36.05	1067.8	29.3	7.1	22.8	50.7	33.0	16.1	16.0
Nat Resources (514/FNARX)	B****	1.84	0.75(30)	21.82	383.4	27.8	8.4	20.5	43.0	27.1	13.4	
Networking/Infra (912/FNINX)	H***	1.98	0.75(30)	2.22	106.3	-5.5	5.2	16.2	12.7	11.8		
Paper & Forest (506/FSFPX)	S**	1.46	0.75(30)	28.90	21.1	-13.1	6.3	2.0	-6.8	4.6	5.9	4.8
Pharmaceuticals (580/FPHAX)	S**	1.21	0.75(30)	9.22	106.2	1.9	4.1	5.1	12.0	8.8		
Retailing (46/FSRPX)	H***	1.30	0.75(30)	56.16	101.6	13.3	6.4	20.4	27.4	17.2		
Software (28/FSCSX)	B****↑	1.49	0.75(30)	50.65	633.5	-3.5	2.8	13.3	16.2	18.5	-3.1	12.8
Technology (64/FSPTX)	H***	1.72	0.75(30)	62.02	1862.4	3.0	6.4	16.3	17.1	18.3	-15.0	9.3
Telecom (96/FSTCX)	B****	1.24	0.75(30)	37.98	354.2	2.4	5.2	12.6	16.7	27.9	-12.1	4.7
Transportation (512/FSRFY)	H***	1.57	0.75(30)	42.44	62.1	0.1	8.5	11.5	24.1	18.3	11.8	12.6
Utilities Growth (65/FSUTX)	B****	0.93	0.75(30)	43.91	348.4	9.4	3.5	9.0	28.3	21.8	-4.5	9.4
Wireless (963/FWRXL)	H***	1.29	0.75(30)	6.61	381.9	13.4	7.0	18.9	36.6	37.4		

JULY PERFORMANCE						Div.	2005	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***	0.98	1 (30)	16.96	697.5		1.4	3.0	6.3	20.9	14.8	0.9
Canada (309/FICDX)	B****	1.07	1.5(90)	37.81	1103.8		11.7	5.1	13.0	35.8	28.9	11.2
Diversified Int'l (325/FDIVX)	H***	0.87	Closed	29.84	26251.2		4.2	3.6	6.2	23.9	20.1	6.1
Emerging Mkts (322/FEMKX)	S**	1.13	1.5(90)	14.90	1007.4		15.2	7.6	15.5	51.7	27.0	8.3
Europe (301/FIEUX)	B****	1.04	1 (30)	37.05	2448.1		8.5	5.2	8.8	39.1	25.1	3.0
Europe Cap Appr (341/FECAX)	H***	0.99	1 (30)	23.04	473.3		7.0	5.1	9.0	28.0	15.9	4.2
China Region (352/FHKCX)	H***	0.91	1.5(90)	18.64	366.9		9.3	4.8	8.6	28.9	17.6	2.9
Global Balanced (334/FGBLX)	H***	0.67	1 (30)	21.59	186.6		2.9	2.2	4.6	17.5	14.2	4.9
Int'l Discovery (305/FIGRX)	H***	0.92	1 (30)	29.40	3239.8		4.3	3.4	6.2	25.1	19.0	4.1
Int'l Small Cap (818/FISMX)	B****	1.00	2 (90)	25.94	1981.0		11.4	4.5	6.3	36.9		
Japan (350/FJPNX)	H***	1.49	1.5(90)	12.40	704.5		-3.1	1.1	-0.3	6.2	11.1	-5.9
Japan Smaller Co (360/FJSCX)	H***	1.51	1.5(90)	13.02	1205.9		3.5	1.5	0.5	11.6	19.5	5.0
Latin America (349/FLATX)	H***	1.85	1.5(90)	25.03	765.6		18.3	5.4	18.8	62.5	44.2	12.5
Nordic (342/FNORX)	H***	1.16	1.5(90)	30.93	163.8		11.9	4.9	12.2	43.5	24.5	1.4
Overseas (94/FOSFX)	H***	1.07	1 (30)	36.17	4557.7		2.2	4.0	7.6	20.7	15.4	-0.6
Pacific Basin (302/FPBFX)	H***	1.01	1.5(90)	20.75	525.6		5.0	3.0	6.4	21.3	15.3	0.1
Southeast Asia (351/FSEAX)	S**	1.12	1.5(90)	19.05	653.1		16.0	7.4	12.7	44.4	20.1	6.1
Worldwide (318/FWWFX)	H***	0.95	1 (30)	18.79	1155.5		3.0	4.4	8.4	18.2	15.2	2.8
INDEX AND ASSET ALLOCATION:												
Four-In-One Index (355/FFNOX)	H***	0.81	0.5(90)	25.95	931.7		3.1	3.2	6.9	15.6	13.6	1.1
NASDAQ Comp (1282/FNCMX)	S**	1.33	0.75(90)	29.58	105.4		0.7	6.3	13.8	16.0		
Spart Ext Mkt Idx (398/FSEMX)	H***	1.15	0.75(90)	34.34	1572.7		7.6	5.6	15.7	27.0	21.5	3.4
Spart Int'l Index (399/FSIIX)	B****	0.94	1(90)	32.38	1266.1		1.6	3.0	4.0	20.6	16.8	0.6
Spart 500 Index (317/FSTMXX)	H***	1.00	0.5(90)	85.28	12473.1		2.9	3.7	7.2	14.0	12.5	-1.5
Spart Total Mkt Idx (397/FSTMX)	B****	1.02	0.5(90)	34.34	3043.0		4.2	4.1	9.0	17.0	14.3	-0.2
Asset Manager (314/FASMX)	H***	0.55	none	16.28	10413.4		1.5	1.8	4.7	8.1	9.1	1.9
Asset Mgr Agg (347/FAMRX)	H***	1.12	none	11.56	381.0		2.2	5.5	11.9	16.1	15.4	-3.3
Asset Mgr Gth (321/FASGX)	H***	0.75	none	14.99	3443.0		1.1	2.6	6.0	9.5	10.4	0.1
Asset Mgr Inc (328/FASIX)	B****	0.36	none	12.83	1642.8		2.4	0.9	4.0	8.7	8.8	4.9
Freedom 2000 (370/FFFBX)	B****	0.28	none	12.25	1593.2		2.0	0.7	2.7	6.5	5.9	2.8
Freedom 2005 (1312/FFVFX)	B****	0.45	none	11.03	286.4		2.7	1.8	4.7	10.0		
Freedom 2010 (371/FFFCX)	B****	0.48	none	13.90	9056.3		2.7	1.8	4.9	10.5	9.5	2.4
Freedom 2015 (1313/FFVFX)	B****	0.59	none	11.33	1163.0		3.1	2.4	6.0	12.6		
Freedom 2020 (372/FFDX)	B****	0.70	none	14.35	10548.6		3.4	3.0	6.9	14.2	12.3	1.1
Freedom 2025 (1314/FFTXX)	B****	0.76	none	11.64	869.6		3.6	3.3	7.4	15.0		
Freedom 2030 (373/FFFEX)	B****	0.81	none	14.54	6246.7		3.8	3.6	7.9	15.9	13.5	0.2
Freedom 2035 (1315/FFTHX)	B****	0.82	none	11.84	460.9		3.9	3.8	8.2	16.5		
Freedom 2040 (718/FFFFX)	B****	0.87	none	8.54	2381.3		3.7	3.8	8.3	16.8	14.4	
Freedom Income (369/FFFA)	B****	0.24	none	11.38	2009.4		2.0	0.7	2.4	5.8	5.0	3.5
Real Estate Income (833/FRIFX)	H***	0.24	0.75(90)	12.17	648.9		4.8	1.5	4.5	13.0		
Real Estate (303/FRESX)	S**	1.36	0.75(90)	33.68	5275.5		15.0	8.1	16.2	44.5	26.4	20.2
Int'l Real Estate (1368/FRIFX)	H***	1.3 Est	1.5(90)	12.09	159.8		2.5	2.2	4.2			
TAXABLE BOND FUNDS:												
Capital & Income (38/FAGIX)	H***	0.29	1(90)	8.51	5179.8	5.71	3.8	2.0	5.9	15.7	24.6	6.8
Floating Rate (814/FFRHX)	H***	0.07	1(60)	9.97	2356.0	4.57	2.3	0.7	1.5	4.5		
Focused High Inc (1366/FHIFX)	H***	0.2 Est	1(90)	10.13	38.5	5.30	1.8	0.9	4.1			
GNMA Portfolio (15/FGMNX)	H***	0.22	none	11.00	4056.6	4.12	1.6	-0.6	0.5	4.1	3.7	6.0
Gov't Income (54/FGOVX)	H***	0.30	none	10.20	5055.4	3.39	1.4	-1.1	0.4	4.2	4.0	6.4
Intermed Bond (32/FTHRX)	H***	0.24	none	10.37	7420.8	3.93	0.8	-0.7	0.5	3.2	4.7	6.5
Intermed Gov't Inc (452/FSTGX)	H***	0.24	none	10.11	896.3	3.36	0.6	-0.9	0.2	2.4	3.0	5.8
Invest Grade Bond (26/FBNDX)	H***	0.29	none	7.45	6980.2	3.93	1.8	-0.6	1.0	5.1	5.6	7.0
Mortgage Securities (40/FMSFX)	H***	0.22	none	11.17	1856.4	4.53	1.6	-0.4	0.8	4.4	4.3	6.5
New Markets Inc (331/FNMIX)	H***	0.50	1(90)	14.27	1464.8	5.65	5.1	0.1	5.3	18.5	21.7	13.8
Short-Term Bond (450/FSHBX)	B****	0.13	none	8.90	4951.0	3.67	1.0	-0.3	0.6	2.2	3.5	5.0
Spart Gov't Inc (453/SPGVX)	H***	0.30	none	10.99	869.9	3.64	1.4	-1.0	0.4	4.5	4.3	6.6
High Income (455/SPHIX)	H***	0.24	1(90)	8.93	3128.8	6.66	2.0	1.5	4.9	10.1	16.2	4.3
Spart Invest Grade (448/FSIBX)	H***	0.28	none	10.61	2713.7	4.22	1.7	-0.7	0.9	5.3	5.9	7.2
Strategic Income (368/FSICX)	H***	0.25	none	10.58	3822.1	4.91	1.7	0.3	2.5	11.1	13.0	9.3
Inflation-Protected (794/FINPX)	B****	0.50	none	11.25	1653.4	1.31	0.3	-2.0	-1.0	5.7	7.6	
Total Bond (820/FIBFX)	H***	0.27	none	10.57	414.5	4.22	1.6	-0.5	1.3	5.7		
Ultra-Short Bond (812/FUSFX)	B****	0.05	0.25(60)	10.03	916.0	3.35	1.5	0.3	0.7	2.2		
US Bond Index (651/FBIDX)	H***	0.29	none	11.02	5747.9	4.14	1.5	-0.8	0.8	4.8	5.4	7.1
MUNICIPAL BOND FUNDS:												
Spart AZ Muni Inc (434/FAZXX)	H***	0.25	0.5(30)	11.51	95.7	3.70	1.9	-0.6	0.5	5.6	4.7	6.1
Spart CA Muni Inc (91/FCTFX)	H***	0.25	0.5(30)	12.55	1543.9	4.11	2.5	-0.5	0.9	6.8	5.2	6.2
Spart CT Muni Inc (407/FICNX)	H***	0.25	0.5(30)	11.59	445.0	4.03	1.3	-0.8	0.3	4.6	4.4	6.0
Spart FL Muni Inc (427/FLLIX)	H***	0.25	0.5(30)	11.67	519.9	3.87	1.7	-0.6	0.5	5.8	4.8	6.1
Spart Intermediate (36/FLTMX)	H***	0.22	0.5(30)	10.06	1881.5	3.88	1.4	-0.5	0.6	4.6	4.5	5.9
Spart MA Muni Inc (70/FDMMX)	H***	0.24	0.5(30)	12.12	1827.1	4.20	2.5	-0.6	0.7	6.6	5.3	6.5
Spart MD Muni Inc (429/SMDMX)	H***	0.23	0.5(30)	10.98	109.9	3.82	1.5	-0.7	0.4	5.3	4.6	5.9
Spart MI Muni Inc (81/FMHTX)	H***	0.24	0.5(30)	12.00	579.0	4.00	1.7	-0.7	0.6	5.2	4.9	6.3
Spart MN Muni Inc (82/FMIX)	H***	0.22	0.5(30)	11.54	353.5	4.05	1.7	-0.5	0.6	5.2	4.6	5.8
Spart Municipal Inc (37/FHIGX)	H***	0.24	0.5(30)	13.05	4721.2	4.26	2.5	-0.5	0.8	6.9	5.6	6.9
Spart NJ Muni Inc (416/FNJHX)	H***	0.27	0.5(30)	11.73	563.1	3.99	2.6	-0.7	0.8	6.6	5.1	6.3
Spart NY Muni Inc (71/FTFMX)	H***	0.25	0.5(30)	13.01	1444.4	3.96	2.1	-0.6	0.7	6.2	5.4	6.7
Spart OH Muni Inc (88/FOHFX)	H***	0.26	0.5(30)	11.91	434.0	4.06	1.9	-0.7	0.6	6.2	5.2	6.4
Spart PA Muni Inc (402/FPXTX)	H***	0.24	0.5(30)	10.94	312.7	4.06	1.6	-0.6	0.5	5.5	4.7	6.1
Spart Short-Int Muni (404/FSTFX)	B****	0.13	0.5(30)	10.24	1837.1	2.77	0.3	-0.4	0.3	1.8	2.5	4.1
Spart Tax-Free Bond (90/FTABX)	H***	0.28	0.5(30)	10.81	317.6	3.96	2.5	-0.7	0.7	7.0	5.8	
JULY PERFORMANCE												
Indexes		Risk	Value	2005 YTD	One Month	Three Month	One Year	3-Yr Rate	5-Yr Rate	10-Yr Rate		
Dow Jones Industrial		1.01	10640.91	0.0	3.7	5.0	7.3	9.2	2.3	10.6		
S&P 500		1.00	1234.18	2.9	3.7	7.2	14.0	12.6	-1.3	10.0		
NASDAQ		1.32	2184.83	0.8	6.3	13.9	16.5	18.7	-9.9	8.6		
Russell 2000		1.52	679.75	5.0	6.3	17.6	24.7	21.6	7.7	10.0		

JULY PERFORMANCE			2005	One	Three	One	3-Yr	5-Yr	10-Yr
Model Portfolios	Risk	Value	YTD	Month	Month	Year	Rate	Rate	Rate
S&P 500	1.00	1234.18	2.9	3.7	7.2	14.0	12.6	-1.3	10.0
Fidelity Monitor Income Model	0.05	79158.81	1.6	0.3	0.8	4.4	6.0	4.9	5.6
Fidelity Monitor G&I Model	0.66	151145.26	4.4	2.9	6.9	16.2	16.7	7.8	10.6
Fidelity Monitor Growth Model	1.02	167143.84	8.1	5.4	11.8	22.0	20.8	4.4	10.5
Fidelity Monitor Select System	1.07	296749.25	7.9	4.7	11.7	20.1	17.5	1.6	11.2
Fidelity Monitor Unique Opportunities	1.06	101277.31	10.8	5.2	12.5	27.1	26.4	11.6	

UNIQUE OPPORTUNITIES MODEL

This model aims for a long-term growth rate of 12% per year by emphasizing value and foreign opportunities.

FUND	NAV	SHARES	BALANCE
Natural Resources	\$21.82	742.049	\$16191.51
Utilities Growth	\$43.91	290.076	\$12737.24
Banking	\$38.21	350.928	\$13408.96
Leveraged Co.	\$25.48	980.276	\$24977.43
Value	\$78.40	433.191	\$33962.17

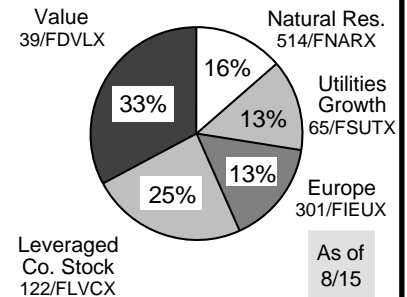
25% Foreign Holdings

Balance as of 7/29/05: \$101277.31

Balance at start of 2005: \$91397.34

PERFORMANCE

Partial Yr 99: +33.8%
 2000: -20.5%
 2001: +1.6%
 2002: -2.1%
 2003: +43.2%
 2004: +20.6%
 *2005: +10.8%



Our Unique Opportunities Model gained 5.2% for the month of July. The approximate asset mix is 97% stock, 3% cash. On 8/15 we will sell **Banking** and buy **Europe**.

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 MODEL:	VIP G&I MODEL: (as of 8/15)	VIP INCOME MODEL:
14% Cyclical Ind, 16% Financial Ser, 32% Telecom & Util., 23% Natural Res., 15% Health Care	56% Equity-Income, 44% Contrafund	32% Equity-Income, 54% Balanced, 14% Investment Grade Bond.	70% Inv. Grade, 30% Money Market.

JULY VIP PERFORMANCE

Portfolio	Rating	Unit Value	2005 YTD	One Month	Three Month	One Year	3-Yr Rate	5-Yr Rate
VIP Aggressive Growth	H ***	10.51		5.1#				
VIP Asset Manager	H ***↓	31.69	1.1	1.8	4.6	7.4	8.7	0.6
VIP Asset Manager: Growth	H ***	20.74	0.8	2.6	5.9	8.7	10.1	-2.2
VIP Balanced	B *****	14.98	0.7	3.1	3.8	7.0	7.7	0.9
VIP Consumer Industries	H ***	11.27	3.1	3.8	10.2	18.2	10.2	
VIP Contrafund	B ****↓	37.15	7.8	4.5	11.3	22.2	15.5	3.5
VIP Cyclical Industries	H ***↓	14.65	7.6	7.4	13.4	25.2	20.7	
VIP Dynamic Capital Appreciation	H ***	12.17	9.7	5.4	17.6	22.8		
VIP Equity-Income	B ****	56.10	2.0	3.8	6.8	12.5	12.1	4.5
VIP Financial Services	B ****↑	12.30	0.0	2.9	8.7	12.2	11.8	
VIP Freedom 2005	B ****	10.19		1.9#				
VIP Freedom 2010	B ****	10.20		2.0#				
VIP Freedom 2015	B ****	10.25		2.5#				
VIP Freedom 2020	B ****	10.29		2.9#				
VIP Freedom 2025	B ****	10.32		3.2#				
VIP Freedom 2030	B ****	10.36		3.6#				
VIP Freedom Income	B ****	10.08		0.8#				
VIP Growth	H ***↑	55.93	2.6	5.1	10.0	11.2	9.7	-7.3
VIP Growth & Income	H ***	16.41	0.8	5.2	5.4	8.9	9.0	-0.7
VIP Growth Opportunities	H ***↓	12.21	1.9	3.2	7.7	12.3	10.6	-4.1
VIP Growth Stock	H ***	10.40		4.0#				
VIP Health Care	B ****	11.57	11.1	4.4	8.3	21.1	11.4	
VIP High Income	H ***	28.23	0.8	1.5	4.4	8.4	15.1	0.3
VIP Index 500	H ***	32.70	2.4	3.6	6.9	13.0	11.5	-2.3
VIP Int'l Capital Appreciation	H ***	10.21		2.1#				
VIP Investment Grade Bond	H ***	28.20	1.0	-0.8	0.7	4.0	5.0	6.4
VIP Mid Cap	B ****	17.86	8.9	6.1	13.1	30.5	23.0	12.2
VIP Money Market		19.48	1.0	0.2	0.5	1.3	0.6	1.6
VIP Natural Resources	B ****	16.69	27.4	8.3	20.3	42.3	26.9	
VIP Overseas	H ***	30.14	1.8	3.9	7.4	19.8	14.1	-2.1
VIP Real Estate	S **	16.77	14.6	8.0	16.1	43.5		
VIP Strategic Income	H ***	11.02	1.2	0.2	2.3	9.8		
VIP Technology	H ***	9.48	3.1	6.1	16.6	16.9	17.7	
VIP Telecom & Utilities	B ****	10.18	9.0	3.5	8.8	27.1	20.7	
VIP Value	B ****	10.39		3.9#				
VIP Value Leaders	B ****	10.43		4.3#				
VIP Value Strategies	H ***	12.89	0.0	4.6	15.6	17.2		
Fidelity Monitor VIP Income Model		18564.36	1.1	-0.5	0.6	5.5	6.9	4.7
Fidelity Monitor VIP G&I Model		21917.99	1.4	2.0	4.7	8.5	10.1	1.8
Fidelity Monitor VIP Growth Model		31450.98	4.5	4.1	8.8	15.9	12.1	-2.2
Fidelity Monitor VIP Sector Model		15073.33	8.1	5.2	12.6	20.1	19.4	

INCOME MODEL

Our Income Model aims for long-term growth of 6% per year from bonds and other income securities.

FUND	NAV	SHARES	BALANCE
Short-Term Bond	\$8.90	1646.508	\$14653.92
Ultra-Short Bond	\$10.03	4597.943	\$46117.37
Floating Rate	\$9.97	1844.285	\$18387.52

6% Foreign Holdings

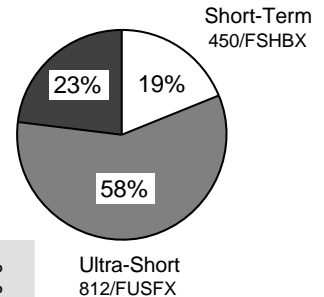
Balance as of 7/29/05: \$79158.81

Balance at start of 2005: \$77905.57

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:	+ 4.2%
*2005:	+ 1.6%

Floating Rate High Income
814/FFRHX



Our Income Model gained 0.3% during July. The model's income stream averaged 3.7%. The approximate asset mix is 78% bond, 22% cash.

GROWTH AND INCOME MODEL

Our Growth and Income Model aims for long-term growth of 10% per year from stocks and bonds.

FUND	NAV	SHARES	BALANCE
Asset Mgr. Inc.	\$12.83	2576.956	\$33062.35
Puritan	\$19.13	1792.258	\$34285.90
Balanced	\$18.73	1996.831	\$37400.64
Strat. Div. & Inc.	\$11.97	3876.054	\$46396.37

8% Foreign Holdings

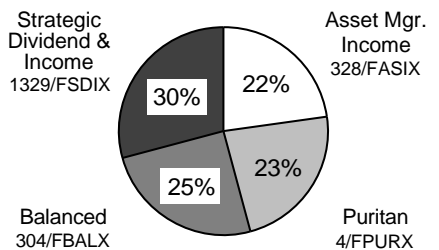
Balance as of 7/29/05: \$151145.26

Balance at start of 2005: \$144788.14

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:	+ 11.5%
*2005:	+ 4.4%

Strategic Dividend & Income
1329/FSDIX



Our Growth and Income Model gained 2.9% in July. The approximate asset mix is 67% stock, 24% bond, 9% cash.

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
Small Cap Value	\$12.83	3197.846	\$41028.36
Value	\$78.40	812.842	\$63726.81
Equity-Income	\$53.07	1175.592	\$62388.67

10% Foreign Holdings

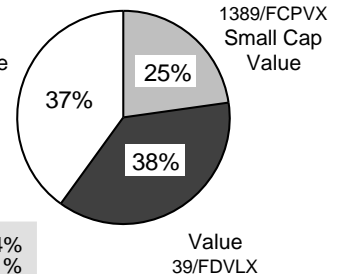
Balance as of 7/29/05: \$167143.84

Balance at start of 2005: \$154558.63

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%
2000:	- 10.8%
2001:	- 6.4%
2002:	- 17.1%
2003:	+ 46.1%
2004:	+ 12.4%
*2005:	+ 8.1%

Equity-Income
23/FEQIX



For July our Growth Model gained 5.4%, versus 3.7% for the S&P 500. The approximate asset mix is 96% stock, 4% cash.

SELECT SYSTEM

Our Select System aims for growth in sector funds, and has a long-term goal of 14% per year. We use a volatility model to identify attractive growth sectors.

FUND	NAV	SHARES	BALANCE
Energy	\$43.53	1360.001	\$59200.84
Banking	\$38.21	1457.511	\$55691.50
Utilities Growth	\$43.91	1313.858	\$57691.50
Chemicals	\$69.22	671.672	\$46493.14
Medical Delivery	\$51.02	795.875	\$40605.54
Telecom	\$37.98	975.954	\$37066.73

10% Foreign Holdings

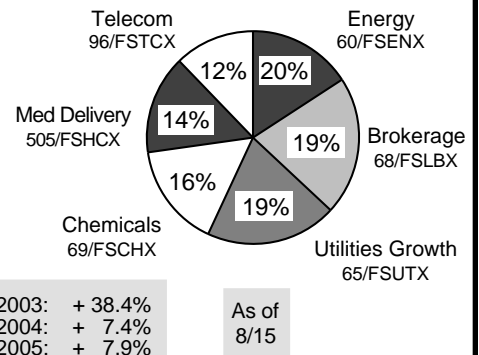
Balance as of 7/29/05: \$296749.25

Balance at start of 2005: \$275072.39

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%
2002:	- 14.7%
2003:	+ 38.4%
2004:	+ 7.4%
*2005:	+ 7.9%

Telecom
96/FSTCX



We were up 4.7% in July, versus 3.7% for the S&P 500. The approximate asset mix is 97% stock, 3% cash. On 8/15 we will sell **Banking** and buy **Brokerage**.

2030, and **Freedom Income**. Seven newly introduced Freedom portfolios offer the same rolldown approach as the mutual fund versions. The main difference is the underlying holdings – instead of a blend of mutual funds, the VIP portfolios are used. Still, results should be similar, except that returns will be reduced by the 0.8% annuity fee. Rated buy.

BOND PORTFOLIOS

There are three choices here – two that focus on lower-quality, and one investment-grade fund.

VIP High Income is managed a lot like **High Income**, although it has a different manager (Matt Conti, who runs **Focused High Income**). Fidelity tends to do well with junk bonds, but current yield premiums on BBB and BB rated bonds are below historical, and we question whether they are worth the added risk in this market. Rated hold.

VIP Investment Grade Bond is managed by Ford O’Neil. Like its mutual fund counterpart, this portfolio offers a high-quality bond portfolio with moderate interest rate sensitivity. A short-maturity fund might be a better bet in this market, but higher money market yields make it easy enough to blend in cash to achieve a similar result. Rated hold.

VIP Strategic Income is run by William Eigen, who also manages **Strategic Income**. Both portfolios are closely aligned. About 40% of assets are invested in junk bonds, and another 15% in emerging market debt, so this portfolio carries considerable credit risk. Eigen has managed that risk quite well, keeping volatility low. But there’s still some chance of a global economic slowdown, which might affect this fund more than others. Rated hold. ■

JULY DISTRIBUTIONS

Asset Manager	\$ 0.09 / \$15.99 (7/1)
Asset Manager: Income	\$ 0.03 / \$12.72 (7/1)
Balanced	\$ 0.08 / \$18.10 (7/1)
Convertible Securities	\$ 0.08 / \$21.09 (7/1)
Equity-Income	\$ 0.21 / \$51.25 (7/1)
Equity-Income II	\$ 0.08 / \$23.36 (7/1)
Freedom Income	\$ 0.03 / \$11.30 (7/1)
Fidelity Fund	\$ 0.08 / \$29.66 (7/1)
Growth & Income	\$ 0.12 / \$37.43 (7/1)
Growth & Income II	\$ 0.03 / \$9.27 (7/1)
Puritan	\$ 0.12 / \$18.71 (7/1)
Strategic Dividend & Income	\$ 0.04 / \$11.54 (7/1)
Utilities	\$ 0.06 / \$14.32 (7/1)

Payouts for August include: **Asset Manager: Income**, **Discovery**, **Fidelity Fifty**, **Fidelity Fund**, **Freedom Inc.**, **Growth & Income II**, and **Real Estate Income**.

Strategic Dividend & Income rose 4.1%, and **Equity-Income** moved up 3.8%. On the flip side, **Growth & Income** and **Utilities** both climbed 2.8%, and **Puritan** rose 2.3%.

BOND FUNDS

Income Model holdings are listed on page 7. Our favorite in this group is **Ultra-Short Bond**.

Solid economic reports gave a boost to high-yield bonds, although rising long-term interest rates caused most investment-grade funds to slip. **Capital & Income** gained 2.0%, **High Income** rose 1.5%, and **Focused High Income** edged up 0.9%. Lagging behind, **Inflation-Protected Bond** declined 2.0% on lower-than-expected consumer inflation. Muni funds posted declines ranging from 0.4% to 0.8%.

SELECT PORTFOLIOS

Select System holdings are listed on page 7. Funds rated buy, as ranked by our volatility model, are **Brokerage**, **Multimedia**, **Telecommunications**, **Software**, **Utilities Growth**, **Energy**, **Medical Delivery**, **Natural Resources**, and **Natural Gas**. **Chemicals** still carries a hold rating and might be sold from the Select System in the next few months.

The cyclical and energy groups were winners. **Energy Services** was up 10.1%, **Biotechnology** jumped 9.3%, **Electronics** increased 8.9%, and **Automotive** gained 8.6%. Those trailing the group included **Medical Delivery**, posting a 1.8% return, and **Gold**, which slipped 0.2%. ■

Happenings

Fidelity has filed for **Strategic Real Return**, an inflation-hedged bond fund that will likely have a higher yield and less interest-rate sensitivity than **Inflation-Protected Bond**. The fund will be run by William Eigen, and should be available before the end of the year. We’ll be rating it a buy.

Fidelity has capped expenses at 0.45% for all of its high-grade taxable bond funds, and has reduced caps to 1.15% for **Small Cap Growth** and **Small Cap Value**, and to 1.25% for **Int’l Real Estate**.

Int’l Small Cap has added a third co-manager, Wilson Wong. The fund remains closed, but a similar fund by the name of **Int’l Small Cap Opportunities** will be available on 8/9. We’ll be rating it a buy.

Steven Calhoun has been named manager of **Aggressive Growth**, and Matthew Friedman is taking over **Natural Gas**. There are no rating changes. ■

Money Market Funds	Size	Yield	Money Market Funds	Size	Yield	Money Market Funds	Size	Yield
Cash Reser (55/FDRXX)	59387.9	2.99	CT MM (418/FCMXX)	1233.9	1.95	FL MM (428/FSFXX)	1553.2	2.00
Select MM (85/FSLXX)	614.9	3.01	MA MM (74/FDMXX)	3785.7	1.93	Spart MA MM (426/FMSXX)	1220.0	2.00
Spart MM (454/SPRXX)	5512.8	3.01	MI MM (420/FMIXX)	641.4	1.92	Spart Municipal (460/FIMXX)	3970.5	2.13
Spart US Gov’t (458/SPAXX)	491.6	2.90	NJ MM (417/FNJXX)	1478.0	1.92	Spart NJ MM (423/FSJXX)	731.7	2.08
Spart US Treas (415/FDLXX)	1955.8	2.71	NY MM (92/FNYXX)	3195.4	1.96	Spart NY MM (422/FSNXX)	1412.6	2.02
Tax-Free MM (275/FMOXX)	1658.7	2.01	OH MM (419/FOMXX)	740.1	1.96	PA MM (401/FPTXX)	369.5	2.03
US Gov’t Reser (50/FGRXX)	2242.6	2.98	AZ MM (433/FSAXX)	206.7	1.98	Municipal MM (10/FTEXX)	16249.3	2.04
CA MM (97/FCFXX)	3553.1	1.92	Spart CA MM (457/FSPXX)	1725.4	2.05			