

Contrarian Thoughts

Conventional wisdom sometimes ends up being flat out wrong. Issues that are thought to be major risk factors can turn out to be non-events, while events that receive little or no attention often prove to be the market's undoing. This month we challenge the consensus viewpoint on a variety of topics.

INFLATION

Conventional Wisdom: "The Fed is able to control inflation through interest rate policy."

Contrarian View: Inflation has a life of its own, which is largely determined by global factors beyond the Fed's control.

The Fed may be able to affect the *economy* with interest rate policy, but its main lever on inflation – U.S. factory capacity utilization – has gradually been

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Changes for Income, Select System, and VIP Sector Models

On Monday, 8/14, we will make changes in three portfolios:

Our Income Model will exchange **Balanced** (304/FBALX) for **Puritan** (4/FPURX), for a mix of 18% **Puritan**, 39% **Asset Manager Income**, 20% **Ultra-Short Bond**, and 23% **Floating Rate High Income**. Although we still think **Balanced** is a great fund, the dividend stocks in **Puritan** are less risky and are performing especially well on a risk-adjusted basis.

Our Select System will make an exchange from **Biotechnology** (42/FBIOX) into **Multimedia** (503/FBMPX), for an approximate mix of 19% **Energy**, 21% **Brokerage**, 17% **Electronics**, 13% **Technology**, 13% **Multimedia**, and 17% **Telecom**. Make the trade over the weekend to get the Monday 10 a.m. price. The biotech sector depends largely on the perceived value of earnings that are far out in the future, and rising inflationary pressures have added to its risk level. **Multimedia**, on the other hand, is becoming less volatile – and it may be an easier sector for Fidelity analysts to gauge, given that the major trends are being driven by technology.

Our VIP Sector Model will sell **VIP Health Care**, and buy **VIP Consumer Industries**.

Review & Recommendations

The "flight-to-safety" continued in July, partly due to the conflict between Israel and Hezbollah, but also because of the ongoing uncertainty regarding future Fed action. The market favored large-caps, especially those with defensive characteristics. Many small-stock indexes finished negative. The S&P 500 finished the month with a gain of 0.6%.

GROWTH FUNDS

Growth Model holdings are listed on page 7. Our favorite funds include **Value Discovery**, **Mid Cap Stock**, and **Value Strategies**.

Funds that held cheap Blue Chip stocks fared well. **Large Cap Value** rose 1.6%, **Dividend Growth** gained 1.2%, and **Trend** posted a 0.7% increase. On the flip side, tech-heavy funds lagged, especially those overweighted in small stocks. **Small Cap Stock** slid 5.6%, **Mid Cap Growth** lost 6.0%, and **New Millennium** was down 6.2%.

INTERNATIONAL FUNDS

Int'l Value offers broad exposure to foreign stocks, with an emphasis on European markets. **Pacific Basin** is likely to benefit from continued economic growth in Japan and Southeast Asia.

Buoyed by a continuing rebound in the commodity markets, **Latin America** gained 2.9%. **International Value** and **Emerging Markets** also did well, posting respective increases of 1.7% and 1.8%. But it was a weak month for small caps. **Int'l Small Cap** lost 4.8%, and **Japan Smaller Companies** fell 5.1%.

GROWTH & INCOME FUNDS

Growth and Income Model holdings are listed on page 7. Our favorites include **Equity-Income**, **Puritan**, **Balanced**, and **Convertible Securities**. For less risk, consider **Asset Manager Income**.

Utility stocks led the group on expectations that depression-era ownership limitations will soon be stripped away. **Utilities** pulled ahead with a 4.4% gain. Dividend stocks also fared well – **Equity Income** rose 1.6%, and **Puritan** edged up 1.5%. Trailing behind, **Convertible Securities** was off 0.5%, and **Growth & Income** declined 1.2%.

BOND FUNDS

Income Model holdings are listed on page 7.

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disabled over the last two decades. Increasingly, inflation is a function of the global labor supply, global trade factors, growth of the global money supply, and the price of global commodities.

After a decade of declining labor costs, reduced trade barriers, increasing competition, and low-cost energy, the future outlook for inflation may be a bit unsettling. Energy costs have already impacted food prices and will be pushing up the core rate as time goes on. Apartment rents are rising at a healthy clip, in part because the Fed's recent tightening moves have put ownership out of reach for many potential home buyers. Rent is 30-40% of the CPI, so the Fed's own efforts to slow inflation have actually increased it. Furthermore, the surplus labor era is coming to a close. On the domestic front, demographic factors are shrinking the labor pool. The ranks of retirees are growing, and even with just a small percentage exiting the workforce the upward pressure on wages could be significant. Overseas, wages are already rising fast in most cheap-labor regions. In effect, the world is approaching full employment.

The big concern, of course, is that the Fed may slow the economy with its tightening moves, but inflation may just keep running on its own – much as it did in the 1970s. Fortunately, today's inflationary pressures are mild compared to 30 years ago. But that doesn't preclude the possibility of an adverse stock market reaction if Ben Bernanke goes down the trail that former chairman Paul Volker blazed.

FEDERAL DEBT

Conventional Wisdom: "At \$8.5 trillion, it's a ticking time bomb." **Contrarian View:** U.S. federal debt is 65-70% of annual GDP; less than Japan and on par with many European countries.

Lacking a point of reference, some investors tend to flip out when they see a 13-digit number and the word "debt." Let's put it in terms that a typical property owner can relate to.

In fiscal year 2005, federal tax revenue was \$1.9 trillion. That's roughly akin to owning \$25 trillion in rental property, if we assume an 8% return on investment. Let's divide the federal figures by 38 million. Imagine a property owner who owns several houses with a combined market value of \$650,000. This property owner has rental income of \$50,000 per year and pays no taxes.

The federal budget was \$2.4 trillion in 2005, about half a trillion higher than tax receipts. So, our property owner had expenses of \$62,500 for the

year, which forced him to take out a "home equity" loan of \$12,500.

The federal debt itself translates to mortgage debt of about \$225,000 on the properties. While it may seem reckless to pile on additional mortgage debt every year, the "houses" are appreciating 2-3 times faster than the added burden. Furthermore, the rental income is rising faster than inflation. All things considered, it's very unlikely this property owner will ever be forced into foreclosure. Unlike real life, these "houses" only decline in value when there's a recession, and even then by only a few percent of their value. Plus, the "tenants" are the best you can imagine – they never move out, and they do everything they can to improve the properties.

Thanks to rising productivity and solid GDP growth, the federal debt is unlikely to become a major burden, now or in the future. There may come a time when taxes will have to be raised to cover rising Medicare care costs, but even that obligation could be relatively easy to cover.

DEMOGRAPHICS

Conventional Wisdom: "Stock market returns will slump over the next two decades as the baby-boomers retire." **Contrarian View:** The wealthiest 10% of Americans own roughly 85% of the stock market. They won't need to sell stocks for bond income – not now, or anytime in the future.

If you're worried about the remaining 15% of the stock market, relax. Stock buyback activity has surged in recent years, and S&P 500 shares are now being taken out of circulation at a rate of nearly 4% per year. Some shares are being reissued through options, but on a net basis it's reasonable to expect that 15% of the S&P 500's capitalization will be repurchased over the next decade – perhaps even more.

Plus, most boomers won't be looking to generate income from their investments for some time to come. While a large percentage of public service employees with good pension benefits may retire over the next 5-10 years, they'll have their living expenses largely covered. Among those who are funding their own retirement, a large portion may work well into their 70s. The idea of living on less has never had much appeal to the boomers, and rising wages could make it very rewarding to stay in the workforce.

THE GLOBAL OIL SUPPLY

Conventional Wisdom: "The big risk is a short-term disruption, such as a terrorist strike in Saudi Arabia or the loss of Iran's output." **Contrarian**

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View: We're in a long-term supply crunch, and the global oil supply may be slowly drying up.

In 15 years, many oil exporting countries may need all of the oil they produce for domestic use. Iran's gasoline demand is climbing 10% per year, which means it may eventually have no oil left for export. One of Mexico's largest oil fields is in steep decline, threatening to make the country a net oil importer. Saudi Arabia might be able to sustain its current output, but only if it drills around the clock with most of the available drilling rigs on the planet.

The world's transportation system runs on the output from giant oil fields that were discovered decades ago. In effect, this "low-hanging fruit" is almost picked clean, and there aren't enough "ladders" to get at the stuff that isn't so easy. Eventually, it may be every country for itself. That poses a big problem for the U.S., which imports twice as much as it produces. And the transition won't be easy, because oil is not easily replaced:

- In the U.S., biofuels can offset 10-15% of current fuel demand, but not much more. The amount of farmland available is relatively fixed, and even with non-food crops there are environmental issues and water supply limitations.

- Nuclear, Wind, and Solar energy generate electrons, not oil. Such sources will help when plug-in hybrids and electric vehicles become more common, but it may take a decade or more before such vehicles make a significant dent in oil demand.

- Canadian oil sand projects may eventually become unprofitable as the price of natural gas climbs faster than the price of heavy oil. These projects consume massive amounts of natural gas, and the resulting heavy oil requires extensive processing before it can be turned into a usable fuel.

- Only a small fraction of the transportation system can be supported by domestic natural gas supplies. To do any more would put homeowners at risk for winter heating and the electrical grid at risk during summer air conditioning season. The U.S. may build terminals to import liquefied natural gas, but most of the delivery ships could still end up in Europe, where the supply situation is more critical and the prices are likely to be higher.

- Hydrogen is a poor energy carrier. In compressed form, more than 20 tanker trucks are needed to replace the energy content of a single gasoline truck. The ratio "improves" to 4 trucks when transporting liquid hydrogen, but to convert hydrogen to liquid form means chilling it to a few degrees above absolute zero, a process that takes 50% more energy

to fill the trucks in the first place. It might make economic sense some day, but probably not until the price of gasoline at least triples from present levels.

Lacking any easy alternatives to oil, most of the burden will fall on consumers and businesses to match future fuel demand with available supplies. There's plenty of "opportunity" on the demand side: driving fuel-efficient vehicles, telecommuting, 4-day work weeks, living closer to work, vacationing closer to home, and shopping on the Web more often. But for those most directly affected, it won't be very pleasant getting slapped by the "invisible hand" at the pump. What we've seen so far may only be the beginning.

HOUSING

Conventional Wisdom: "A bust is taking hold. Rising rates on adjustable rate mortgages will cause widespread foreclosures, especially in high-priced markets such as California." **Contrarian View:** Unemployment is far too low for anything other than a slowdown, and the weak dollar is making U.S. real estate attractive to foreigners.

There's no question the demand for real estate is softening, but with unemployment at 5% and wages rising it's hard to see how a national housing bust could take hold. Normally it takes at least 10% unemployment and falling wages to set the stage for a significant regional consolidation. In most areas there's just too much underlying demand for anything other than a modest decline in prices.

Many high-priced housing markets got that way for a reason. California, for example, has a growing internet economy that's taking market share away from traditional businesses. Plus, the state's exports of technology, media, and high-end agricultural products have climbed some 30% over the last three years – pushing the number of high-wage jobs above the one million mark. It isn't possible to put that kind of money into a regional economy and not have a significant impact on the housing markets. Other high-priced housing markets have their own story, but it basically comes down to having too much money flowing into a regional real estate market.

Despite prices that look high to Americans, U.S. real estate still looks cheap to many foreigners. The internet makes it easy for affluent buyers to shop around, and each time the dollar takes a tumble it generates a new round of deal-making. Given the current rate of wealth creation in emerging countries, it seems quite likely that foreign purchases of U.S. real estate will continue to climb.

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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. Fund ratings: **B ******* is for a **favorite buy**, **B ****** means **buy**, **H ***** means **hold** for the long run, **S **** means reduce to below 5% of holdings, **S *** means **sell** and move to a buy-rated fund within the same asset class. Upgrades and downgrades are indicated by ↑ and ↓.

JULY PERFORMANCE						2006	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***	1.58	1.5(90)	16.70	3798.3	-6.2	-3.6	-11.7	-2.9	8.2	-5.0	2.8
Blue Chip Gth (312/FBGRX)	H***	1.04	none	41.54	20139.1	-3.8	-1.0	-5.8	-2.0	5.5	-1.1	6.2
Blue Chip Value (1271/FBCVX)	B****	1.12	none	13.95	273.2	3.3	0.2	-4.0	8.1	14.4		
Capital Apprec (307/FDCAX)	B****	1.34	none	25.65	8017.5	2.2	-3.3	-7.8	5.4	12.9	6.4	10.5
Contrafund (22/FCNTX)	B****	1.16	Closed	65.11	64903.6	2.5	-1.4	-4.5	10.4	16.0	9.2	11.8
Discovery (339/FDSVX)	S**	0.93	none	11.65	412.4	2.1	0.4	-3.1	6.0	8.5	1.8	
Disc Equity (315/FDEQX)	H***	1.17	none	28.82	6925.2	4.0	0.5	-2.0	7.3	13.1	5.1	9.6
Dividend Gth (330/DFGFX)	B****	0.93	none	29.50	15539.5	2.5	1.2	-1.3	4.7	7.7	1.3	10.4
Export Fund (332/FEXPX)	H***	1.25	0.75(30)	21.24	4661.4	0.0	-1.5	-5.4	7.1	14.5	7.1	15.0
Fidelity Fifty (500/FFTYX)	H***	1.28	0.75(30)	22.65	1193.6	-0.4	-4.1	-7.7	7.6	8.5	7.0	11.2
Focused Stock (333/FTQGX)	H***	1.43	0.75(30)	12.20	99.9	2.5	-2.3	-2.1	7.1	16.6	0.3	
Growth Company (25/DFGRX)	B****	1.40	Closed	62.12	28296.6	-2.4	-3.1	-8.1	6.1	12.2	1.9	9.6
Independence (73/FDFFX)	H***	1.27	none	20.02	4468.1	1.9	-2.5	-6.7	7.9	11.6	4.6	9.7
Large Cap Growth (763/FSLGX)	H***	1.54	0.75(30)	10.37	166.8	-7.2	-5.2	-10.5	-3.3	9.7		
Large-Cap Stock (338/FLCSX)	H***	1.06	none	15.74	721.0	1.0	-0.5	-4.7	6.6	8.8	0.6	7.4
Large Cap Value (708/FSLVX)	H***	1.18	0.75(30)	13.83	752.5	7.0	1.6	-0.1	11.3	16.7		
Lev Co Stock (122/FLVCX)	B****	1.53	1.5(90)	28.07	4177.3	7.9	-1.3	-4.0	12.8	27.5	24.3	
Low-Priced Stock (316/FLPSX)	H***	1.03	Closed	42.40	36659.4	3.8	-1.2	-6.3	6.4	17.6	14.4	15.8
Magellan (21/FMAGX)	H***	1.23	Closed	84.87	46615.3	-1.4	-3.1	-8.7	2.1	7.8	0.5	7.5
Mid Cap Growth (793/FSMGX)	H***	1.73	0.75(30)	12.57	467.1	-2.9	-6.0	-12.6	1.1	14.0		
Mid Cap Stock (337/FMCSX)	B****	1.49	Closed	27.18	12027.1	4.5	-4.3	-8.7	11.7	14.8	4.0	13.0
Mid Cap Value (762/FSMVX)	H***	1.25	0.75(30)	15.57	435.1	5.1	-1.1	-1.9	8.4	19.4		
New Millennium (300/FMILX)	H***↓	1.71	Closed	35.24	2763.0	1.0	-6.2	-11.7	9.4	11.4	5.2	14.5
OTC Portfolio (93/FOCPX)	H***	1.39	none	34.70	7795.2	-8.2	-4.6	-12.2	-3.6	7.4	1.3	7.2
Small Cap Gth (1388/FCPGX)	H***	1.53	1.5(90)	12.93	424.3	0.5	-5.1	-11.1	1.0			
Small Cap Indep (336/FDSCX)	H***	1.50	1.5(90)	20.43	2509.1	-0.2	-4.9	-11.7	2.2	14.1	9.0	8.7
Small Cap Stock (340/FLSCX)	H***	1.40	Closed	17.15	4789.2	0.0	-5.6	-12.9	2.6	14.7	9.7	
Small Cap Value (1389/FCPVX)	H***	1.39	1.5(90)	13.22	992.6	3.7	-3.6	-8.3	6.1			
Stock Selector (320/FDSSX)	H***	1.06	none	25.21	802.5	1.9	-0.2	-4.0	6.7	10.8	3.5	7.6
Tax Mgd Stock (343/FTXMX)	B****	1.35	1(730)	13.05	66.0	3.0	-1.7	-3.3	6.0	14.3	3.6	
Trend (5/FTRNX)	H***	1.05	none	58.62	866.2	2.5	0.7	-3.5	6.6	10.9	3.3	6.1
Value (39/FDVLX)	B****	1.08	none	77.88	15804.8	2.6	-0.9	-4.7	6.6	18.5	11.6	12.1
Value Discovery (832/FVDFX)	B****	1.21	none	16.53	614.3	5.6	-0.3	-3.6	12.5	18.4		
Value Strategies (14/FLSLX)	B****	1.12	none	31.61	165.5	2.0	-1.6	-5.9	4.3	14.2	7.1	
GROWTH & INCOME FUNDS:												
Balanced (304/FBALX)	B****↓	0.85	none	19.16	19707.2	3.0	-0.2	-2.9	7.5	12.7	8.0	11.2
Convertible Sec (308/FCVXS)	B****	1.04	none	23.71	2035.7	6.5	-0.5	-2.3	10.9	11.6	6.6	12.2
Equity-Income (23/FEQIX)	B****	1.01	none	55.01	26228.5	6.7	1.6	-1.2	10.2	13.2	5.4	9.6
Equity-Income II (319/FEQTX)	B****	1.03	none	23.05	11411.8	2.3	0.0	-3.4	4.3	10.1	4.9	9.3
Fidelity Fund (3/FFIDX)	H***	1.12	none	32.46	8296.5	2.5	0.0	-3.8	6.7	10.2	2.5	8.6
Growth & Income (27/FGRIX)	H***	1.03	none	34.16	29365.5	-0.3	-1.2	-5.3	1.2	7.1	1.3	7.5
Growth & Inc II (361/FGRTX)	H***	1.09	none	10.28	182.7	1.6	0.0	-3.7	7.9	7.5	3.1	
Puritan (4/FPURX)	B****	0.67	none	19.34	23403.6	4.8	1.5	-0.4	7.4	10.4	5.8	8.9
Strategic Div & Inc (1329/FSDIX)	B****	0.93	none	12.67	1025.4	5.1	0.7	-1.6	9.0			
Utilities (311/FIUX)	H***	1.10	none	16.77	1038.1	15.0	4.4	7.0	16.4	19.3	3.9	8.3
SELECT FUNDS:												
Air Transportation (34/FSAX)	H***	1.57	0.75(30)	43.12	98.9	8.3	-5.9	-6.2	21.9	18.6	5.5	14.0
Automotive (502/FSVX)	H***↑	1.38	0.75(30)	33.26	13.9	-2.6	-3.0	-7.5	-6.1	6.9	6.6	6.2
Banking (507/FSRBX)	H***	1.04	0.75(30)	37.18	361.7	6.4	3.0	-1.2	8.1	10.1	7.0	12.1
Biotechnology (42/FBIOX)	H***	1.71	0.75(30)	59.93	1553.7	-4.4	-1.7	-3.9	0.6	5.2	-0.7	10.7
Brokerage (68/FSLBX)	B****	1.53	0.75(30)	69.50	908.7	4.6	2.5	-7.4	21.3	19.4	12.0	19.2
Business Ser (353/FBSOX)	B****	1.13	0.75(30)	15.87	41.8	0.3	-5.9	-7.8	6.5	11.3	3.3	
Chemicals (69/FSCHX)	H***	1.44	0.75(30)	64.67	98.2	1.3	-3.3	-7.6	0.0	17.2	12.2	9.7
Computers (7/FDCPX)	H***	1.51	0.75(30)	32.32	436.0	-10.4	-5.3	-15.0	-10.4	2.2	-4.8	7.7
Const & Housing (511/FSHOX)	S**	1.99	0.75(30)	41.75	184.1	-8.9	-6.0	-14.5	-14.5	16.4	12.2	13.0
Consumer Indust (517/FSCPX)	H***↑	1.10	0.75(30)	24.67	53.2	0.5	-1.7	-5.1	-0.1	7.9	2.6	8.1
Cyclical Indust (515/FCYIX)	H***	1.35	0.75(30)	19.85	104.7	4.0	-5.0	-9.0	8.3	20.3	9.6	
Defense & Aero (67/FSDAX)	H***	1.28	0.75(30)	77.01	917.9	7.6	0.7	-5.8	10.9	22.6	15.3	14.6
Develop Commun (518/FSDCX)	H***	1.69	0.75(30)	18.10	409.3	-9.5	-8.8	-19.9	-4.1	10.7	-3.5	6.8
Electronics (8/FSLEX)	B****	1.81	0.75(30)	39.55	2286.0	-9.6	-5.9	-17.2	-7.3	5.8	-5.6	10.7
Energy (60/FSENX)	B****	2.54	0.75(30)	51.84	2782.4	16.0	0.0	-2.1	29.3	40.4	19.2	16.0
Energy Services (43/FSSEX)	H***	3.04	0.75(30)	72.67	1927.9	12.9	-1.8	-5.7	29.5	37.4	20.9	17.7
Environmental (516/FSLEX)	H***	1.30	0.75(30)	16.38	87.6	4.7	-4.3	-12.4	4.9	12.3	4.2	2.8
Financial Services (66/FIDSX)	H***	1.11	0.75(30)	115.17	465.4	3.4	1.5	-4.1	10.8	11.8	6.6	13.0
Food & Agriculture (9/DFDAX)	H***	0.82	0.75(30)	55.03	151.5	9.8	2.4	3.3	11.7	14.5	8.3	9.0
Gold (41/FSAGX)	H***	2.62	0.75(30)	34.46	1456.6	15.1	0.0	-10.7	70.0	24.1	29.3	6.9
Health Care (63/FSPHX)	H***	1.04	0.75(30)	122.96	2073.6	-0.7	3.4	0.8	4.1	9.6	3.5	11.1
Home Finance (98/FSVLX)	H***	1.09	0.75(30)	51.26	284.4	2.1	-0.7	-3.6	2.1	8.4	6.5	11.1
Indust Equip (510/FSFGX)	H***	1.39	0.75(30)	28.05	85.0	5.2	-5.0	-9.2	9.1	16.9	6.7	9.4
Indust Materials (509/FSDPX)	H***	1.71	0.75(30)	46.36	224.9	8.3	-4.6	-6.6	22.1	23.1	16.9	9.8
Insurance (45/FSPCX)	H***	1.06	0.75(30)	66.44	188.3	-2.1	0.2	-4.4	3.8	12.1	8.7	15.7
Leisure (62/FDLSX)	H***	1.24	0.75(30)	74.05	217.0	-2.5	-7.6	-12.3	2.8	10.8	4.7	11.0
Medical Delivery (505/FSHCX)	H***	1.29	0.75(30)	48.36	796.0	-8.9	-0.4	-1.7	-0.8	27.3	13.5	11.5
Medical Equip/Sys (354/FSMEX)	S**	1.08	0.75(30)	22.60	828.8	-3.1	3.1	-2.4	-3.1	9.9	10.6	
Multimedia (503/FBMPX)	B****	1.14	0.75(30)	43.43	85.1	-3.1	-3.3	-6.1	3.7	7.4	4.2	10.7
Natural Gas (513/FSNGX)	H***	2.95	0.75(30)	41.23	1403.6	9.3	0.6	-0.9	23.1	39.5	18.5	15.5
Nat Resources (514/FNARX)	B****	2.51	0.75(30)	27.65	1179.8	16.8	-1.4	-3.9	33.5	36.9	17.8	
Networking/Infra (912/FNINX)	H***↓	1.85	0.75(30)	2.04	110.6	-13.2	-11.7	-25.0	-8.1	0.0	-8.8	
Paper & Forest (506/FSFPX)	S**	1.41	0.75(30)	28.98	21.4	-3.0	-1.7	-7.4	2.3	4.8	1.2	5.8
Pharmaceuticals (580/FPHAX)	H***	1.06	0.75(30)	10.40	161.1	8.1	3.2	-0.2	16.4	9.4	1.4	
Retailing (46/FSRPX)	S**	1.50	0.75(30)	47.17	64.7	-0.1	-4.7	-8.1	-5.5	11.0	4.0	10.5
Software (28/FSCSX)	H***	1.28	0.75(30)	54.99	526.4	4.8	1.3	-2.9	8.6	8.5	3.1	13.1
Technology (64/FSPTX)	B****	1.37	0.75(30)	57.95	1674.7	-8.2	-5.0	-13.5	-6.6	4.6	-2.6	9.7
Telecom (96/FSTCX)	B****	1.31	0.75(30)	41.66	399.1	7.7	-1.0	-4.6	10.6	15.3	0.9	5.3
Transportation (512/FSRFX)	H***	1.62	0.75(30)	46.85	138.1	2.4	-10.4	-8.8	14.4	18.1	9.8	13.7
Utilities Growth (65/FSUTX)	H***	1.08	0.75(30)	49.66	353.3	15.4	4.0	6.8	15.3	21.0	3.1	9.4
Wireless (963/FWRLX)	H***	1.36	0.75(30)	6.28	397.1	-2.5	-0.5	-10.3	0.9	26.3	1.6	

JULY PERFORMANCE						Div.	2006	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***	1.45	1 (30)	17.48	472.7		2.9	0.2	-6.0	15.5	14.9	11.1
Canada (309/FICDX)	B****	1.40	1.5(90)	45.66	2825.6		5.9	0.1	-4.7	21.2	28.2	18.8
China Region (352/FHKCX)	H***	1.16	1.5(90)	21.18	581.9		9.7	0.7	-4.0	15.0	20.8	11.4
Diversified Int'l (325/FDIVX)	B****	1.32	Closed	35.42	39867.9		8.9	0.5	-4.9	22.5	23.5	14.1
Emerging Mkts (322/FEMKX)	H***	1.84	1.5(90)	20.32	2699.6		10.2	1.8	-10.4	38.0	35.0	23.3
Europe (301/FIEUX)	H***	1.39	1 (30)	39.94	3373.0		11.0	1.6	-4.0	20.9	28.6	13.0
Europe Cap Appr (341/FECAX)	H***	1.41	1 (30)	25.42	751.2		15.4	1.2	-6.6	25.3	24.2	12.6
Global Balanced (334/FGBLX)	B****	0.81	1 (30)	22.04	235.5		4.7	0.1	-3.4	10.9	15.0	9.5
Int'l Discovery (305/FIGRX)	B****	1.36	1 (30)	34.46	6834.5		8.8	0.8	-5.1	23.8	24.5	14.0
Int'l Small Cap (818/FISMX)	H***	1.41	Closed	28.56	2249.5		5.9	-1.3	-12.2	23.0	33.8	
Int'l Small Cap Opp (1504/FSCOX)	B****	1.3 Est	2 (90)	13.24	1095.8		5.4	-4.8	-13.7			
Int'l Value (1597/FIVLX)	B****	1.2 Est	1 (30)	9.99	80.0			1.7				
Japan (350/FJPNX)	H***	2.27	1.5(90)	16.97	1805.9		-6.9	-1.5	-10.4	37.1	22.5	8.7
Japan Smaller Co (360/FJSCX)	H***	2.33	Closed	13.75	1557.0		-18.3	-5.1	-14.3	11.7	25.0	14.5
Latin America (349/FLATX)	H***	2.71	1.5(90)	37.31	2545.0		16.7	2.9	-7.8	53.0	49.8	27.2
Nordic (342/FNORX)	H***	1.73	1.5(90)	33.90	315.0		13.5	-1.0	-7.8	20.1	30.6	13.6
Overseas (94/FOSEFX)	H***	1.36	1 (30)	44.50	6491.8		6.9	0.5	-5.4	24.8	21.7	9.5
Pacific Basin (302/FPBFX)	B****	1.51	1.5(90)	26.13	1087.3		1.8	-1.5	-9.6	28.5	23.9	12.8
Southeast Asia (351/FSEAX)	H***	1.53	1.5(90)	23.36	1295.5		10.1	1.4	-7.3	26.8	28.3	19.3
Worldwide (318/FWWFX)	H***	1.18	1 (30)	20.41	1282.1		4.3	0.0	-4.4	15.0	16.4	8.0
INDEX AND ASSET ALLOCATION:												
Four-In-One Index (355/FFNOX)	H***	0.89	0.5(90)	27.12	1187.8		4.0	0.3	-2.5	7.3	12.3	5.3
NASDAQ Comp (1282/FNCMX)	H***	1.30	0.75(90)	28.26	117.7		-5.0	-3.7	-9.8	-3.8		
Spart Ext Mkt Idx (398/FSEMXX)	H***	1.32	0.75(90)	35.28	1587.9		2.6	-2.8	-6.7	5.0	15.9	9.1
Spart Int'l Index (399/FSIIX)	B****	1.31	1(90)	39.54	1701.7		11.0	1.0	-3.1	24.2	23.1	10.4
Spart 500 Index (317/FSMKX)	H***	1.00	0.5(90)	88.43	6928.3		3.3	0.6	-2.2	5.3	10.7	2.7
Spart Total Mkt Idx (397/FSTMX)	B****	1.05	0.5(90)	35.69	2122.6		3.3	-0.1	-3.1	5.5	11.9	4.2
Asset Manager (314/FASMX)	H***	0.52	none	16.07	9283.1		1.6	0.1	-1.3	4.1	6.4	3.3
Asset Mgr Agg (347/FAMRX)	H***	1.02	none	12.31	426.2		1.9	-0.2	-3.8	7.0	13.0	1.6
Asset Mgr Gth (321/FASGX)	H***	0.71	none	15.25	3107.4		1.1	-0.3	-2.4	3.7	7.0	2.5
Asset Mgr Inc (328/FASIX)	B****	0.35	none	12.92	2039.5		2.3	0.7	-0.5	6.1	7.1	5.7
Freedom 2000 (370/FFFBX)	B****	0.31	none	12.25	1567.7		1.4	0.3	-0.6	3.4	5.0	3.4
Freedom 2005 (1312/FFVFX)	B****	0.54	none	11.16	587.2		1.7	0.1	-1.9	4.6		
Freedom 2010 (371/FFFCX)	B****	0.57	none	14.09	10824.6		1.7	0.1	-2.0	4.9	7.9	4.5
Freedom 2015 (1313/FFVFX)	B****	0.68	none	11.61	3065.8		1.9	-0.1	-2.7	5.7		
Freedom 2020 (372/FFFDX)	B****	0.80	none	14.73	14282.4		2.0	-0.3	-3.5	6.3	10.4	4.8
Freedom 2025 (1314/FFTWX)	B****	0.84	none	12.02	2437.0		2.0	-0.3	-3.7	6.6		
Freedom 2030 (373/FFFEEX)	B****	0.94	none	15.06	8776.6		2.1	-0.5	-4.4	7.0	11.6	4.7
Freedom 2035 (1315/FFTHX)	B****	0.94	none	12.30	1348.7		2.1	-0.6	-4.3	7.2		
Freedom 2040 (718/FFFFX)	B****	0.96	none	8.86	4111.9		2.3	-0.6	-4.5	7.6	12.3	4.7
Freedom 2045 (1617/FFFGX)	B****	1.0 Est	none	9.80	3.2			-0.6				
Freedom 2050 (1618/FFFHX)	B****	1.0 Est	none	9.79	3.8			-0.7				
Freedom Income (369/FFFAFX)	B****	0.27	none	11.34	2167.3		1.7	0.5	-0.1	3.5	4.5	3.4
Real Estate Income (833/FRIFX)	H***	0.26	0.75(90)	11.78	517.7		4.6	0.9	1.8	4.8	9.6	
Real Estate (303/FRESX)	H***	1.49	0.75(90)	35.46	6659.0		14.2	1.8	4.2	14.1	26.1	20.7
Int'l Real Estate (1368/FIREX)	H***	1.26	1.5(90)	14.68	434.2		13.9	2.1	-1.8	27.8		
TAXABLE BOND FUNDS:												
Capital & Income (38/FAGIX)	H***	0.25	1(90)	8.43	6186.3	6.28	4.3	0.8	-0.1	5.5	11.0	10.5
Floating Rate (814/FFRHX)	H***	0.04	1(60)	9.91	2787.2	6.52	3.0	0.6	0.9	5.0	4.7	
Focused High Inc (1366/FHIFX)	H***	0.15	1(90)	9.83	41.6	6.18	1.8	0.9	0.2	2.8		
GNMA Portfolio (15/FGMNX)	H***	0.25	none	10.62	3353.5	4.84	0.6	1.4	1.3	1.7	3.2	4.0
Gov't Income (54/FGOVX)	H***	0.26	none	9.95	5443.5	4.15	0.6	1.3	1.4	1.6	3.4	4.3
High Income (455/SPHIX)	H***	0.15	1(90)	8.75	3807.3	7.08	3.6	0.8	0.3	5.0	9.0	8.2
Inflation-Protected (794/FINPX)	H***	0.43	none	10.84	1390.7	2.44	-0.2	1.6	2.2	1.7	5.6	
Intermed Bond (32/FTHRX)	H***	0.21	none	10.15	7505.0	4.49	1.1	1.1	1.2	2.1	3.1	4.5
Intermed Gov't Inc (452/FSTGX)	H***	0.20	none	9.92	757.8	3.98	1.1	1.0	1.3	2.0	2.4	3.9
Invest Grade Bond (26/FBNDX)	H***	0.26	none	7.27	7979.4	4.48	1.0	1.5	1.5	2.0	4.0	5.0
Mortgage Securities (40/FMSFX)	H***	0.25	none	10.90	1589.9	4.86	1.3	1.4	1.4	2.2	3.9	4.6
New Markets Inc (331/FNMIX)	H***	0.42	1(90)	14.56	1881.8	6.04	4.8	3.2	0.7	10.7	13.9	15.3
Short-Term Bond (450/FSHBX)	H***	0.11	none	8.82	6136.8	4.48	2.0	0.7	1.1	3.2	2.6	3.6
Spart Gov't Inc (453/SPGVX)	H***	0.26	none	10.71	720.2	4.12	0.6	1.2	1.5	1.6	3.6	4.6
Spart Intermed Tr Idx (1561/FIBIX)	H***	0.5 Est	none	9.73	8.2	4.42	-0.2	1.5	1.7			
Spart L-Term Tr Idx (1562/FLBIX)	H***	0.3 Est	none	9.54	3.7	4.96	-2.6	1.9	2.6			
Spart S-Term Tr Idx (1563/FSBIX)	H***	0.1 Est	none	9.94	14.9	3.51	1.5	0.9	1.1			
Strategic Income (368/FSICX)	H***	0.23	none	10.42	3567.4	5.41	3.0	1.3	1.0	4.5	8.2	9.1
Strategic Real Rtn (1505/FSRRX)	H***	0.5 Est	0.75(60)	10.21	1936.0		3.6	1.6	1.9			
Total Bond (820/FTBEX)	H***	0.24	none	10.28	2223.8	4.45	1.3	1.5	1.4	2.1	4.5	
Ultra-Short Bond (812/FUSFX)	B****	0.05	0.25(60)	10.02	945.4	5.29	2.7	0.5	1.3	4.2	2.6	
US Bond Index (651/FBIDX)	H***	0.27	none	10.70	5785.7	4.76	0.8	1.4	1.5	1.6	3.8	4.9
MUNICIPAL BOND FUNDS:												
AZ Municipal Inc (434/FAZAX)	H***	0.19	0.5(30)	11.25	103.7	3.79	1.0	1.2	1.2	1.8	4.2	4.6
CA Municipal Inc (91/FCTFX)	H***	0.18	0.5(30)	12.24	1498.9	4.21	1.4	1.3	1.4	2.5	5.0	4.9
CA Short-Int TF (1534/FCSTX)	B****	0.1 Est	0.5(30)	10.00	75.0	3.33	1.5	0.9	1.0			
CT Municipal Inc (407/FICNX)	H***	0.17	0.5(30)	11.26	416.0	4.01	1.1	1.2	1.2	2.0	4.0	4.4
FL Municipal Inc (427/FFLIX)	H***	0.18	0.5(30)	11.32	470.3	4.11	1.2	1.1	1.1	2.2	4.6	4.7
Intermediate Muni (36/FLTMX)	H***	0.15	0.5(30)	9.86	1968.0	3.99	1.2	1.1	1.1	2.3	4.1	4.5
MA Municipal Inc (70/FDMMX)	H***	0.19	0.5(30)	11.73	1779.6	4.14	1.1	1.1	1.1	2.2	4.8	4.9
MD Municipal Inc (429/SMDMX)	H***	0.18	0.5(30)	10.71	109.8	3.87	0.9	1.2	1.2	1.9	4.1	4.3
MI Municipal Inc (81/FMHTX)	H***	0.17	0.5(30)	11.71	542.9	4.12	1.3	1.3	1.2	2.3	4.3	4.7
MN Municipal Inc (82/FIMIX)	H***	0.16	0.5(30)	11.28	331.5	4.15	1.1	1.0	1.0	2.1	4.1	4.4
Municipal Income (37/FHIGX)	H***	0.19	0.5(30)	12.66	4425.6	4.26	1.3	1.2	1.1	2.5	5.1	5.3
NJ Municipal Inc (416/FNJHX)	H***	0.21	0.5(30)	11.36	543.1	3.91	1.2	1.2	1.3	2.0	4.7	4.7
NY Municipal Inc (71/FTFMX)	H***	0.20	0.5(30)	12.63	1340.1	3.93	1.2	1.2	1.1	2.1	4.7	5.0
OH Municipal Inc (88/FOHFX)	H***	0.19	0.5(30)	11.50	405.9	4.12	1.0	1.2	1.1	2.0	4.6	4.8
PA Municipal Inc (402/FPXTX)	H***	0.17	0.5(30)	10.67	300.3	4.22	1.1	1.0	1.0	2.2	4.4	4.6
Short-Int Municipal (404/FSTFX)	B****	0.09	0.5(30)	10.13	1530.0	3.05	1.1	0.7	0.8	1.9	2.1	3.0
Tax-Free Bond (90/FTABX)	H***	0.19	0.5(30)	10.60	407.3	4.13	1.2	1.1	1.2	2.5	5.4	5.4

JULY PERFORMANCE			2006	One	Three	One	3-Yr	5-Yr	10-Yr
Indexes and Model Portfolios	Risk	Value	YTD	Month	Month	Year	Rate	Rate	Rate
Dow Jones Industrial	0.98	11185.68	5.7	0.5	-1.1	7.6	9.0	3.5	9.4
S&P 500	1.00	1276.66	3.4	0.6	-2.1	5.4	10.8	2.8	8.9
NASDAQ	1.28	2091.47	-4.7	-3.6	-9.8	-3.4	7.1	1.2	7.3
Russell 2000	1.66	700.56	4.7	-3.2	-8.1	4.3	15.1	9.0	9.7
Fidelity Monitor Income Model	0.22	82404.46	2.1	0.5	-0.3	4.1	4.7	5.2	5.2
Fidelity Monitor G&I Model	0.71	163205.08	4.2	1.0	-1.1	8.0	12.7	9.4	10.3
Fidelity Monitor Growth Model	1.14	177159.41	3.0	-0.3	-3.8	6.0	15.9	9.4	10.3
Fidelity Monitor Select System	1.37	319817.72	1.1	-1.3	-7.6	7.8	12.2	7.7	11.1
Fidelity Monitor Unique Opportunities	1.32	116717.75	7.5	-0.3	-4.1	15.2	22.7	17.2	

UNIQUE OPPORTUNITIES MODEL

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

FUND	NAV	SHARES	BALANCE
Natural Resources	\$27.65	1068.344	\$29539.71
Pacific Basin	\$26.13	843.140	\$22031.25
Conv. Securities	\$23.71	1179.745	\$27971.75
Equity-Income	\$55.01	675.787	\$37175.04

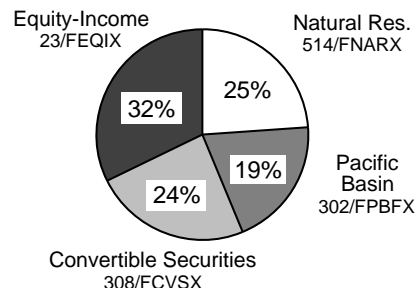
33% Foreign Holdings

Balance as of 7/31/06: \$116717.75

Balance at start of 2006: \$108605.62

PERFORMANCE

Partial Yr 99:	+ 33.8%
2000:	- 20.5%
2001:	+ 1.6%
2002:	- 2.1%
2003:	+ 43.2%
2004:	+ 20.6%
2005:	+ 18.8%
*2006:	+ 7.5%



For July our Unique Opportunities Model was off 0.3%. The portfolio's current asset mix is 98% stock, 2% cash.

VIP CORNER

VIP SECTOR: (as of 8/14)

28% Technology, 15% Financial Ser., 16% Telecom & Util., 27% Natural Res., 14% Consumer Ind.

VIP GROWTH MODEL:

25% Mid-Cap Stock, 42% Equity-Income, 33% Contrafund

VIP G & I MODEL:

32% Equity-Income, 55% Balanced, 13% Freedom Income.

VIP INCOME MODEL:

70% Freedom Income, 30% Balanced.

JULY VIP PERFORMANCE

Portfolio	Rating	Unit Value	2006 YTD	One Month	Three Month	One Year	3-Yr Rate	5-Yr Rate
VIP Aggressive Growth	H ***	10.13	-6.8	-3.7	-11.9			
VIP Asset Manager	H ***	32.48	0.4	0.5	-3.4	2.5	5.4	2.7
VIP Asset Manager: Growth	H ***	21.02	-0.9	0.2	-5.6	1.4	5.7	1.7
VIP Balanced	B ****↓	15.99	2.5	-0.2	-3.1	6.8	6.2	3.4
VIP Consumer Industries	H ***↑	11.13	-0.3	-1.9	-5.6	-1.2	7.0	
VIP Contrafund	B ****	40.79	2.1	-1.5	-4.7	9.8	15.6	8.7
VIP Cyclical Industries	H ***	15.84	3.8	-5.0	-9.0	8.1	19.9	
VIP Dynamic Capital Appreciation	B ****	13.54	1.5	-3.4	-8.1	11.2		
VIP Equity-Income	B *****	61.36	6.3	1.5	-1.4	9.4	12.5	4.7
VIP Financial Services	B ****	13.52	2.9	1.4	-4.3	9.9	11.1	
VIP Freedom 2005	B ****	10.66	1.7	0.4	-1.5			
VIP Freedom 2010	B ****	10.69	1.7	0.4	-1.5			
VIP Freedom 2015	B ****	10.87	2.2	0.2	-2.1			
VIP Freedom 2020	B ****	10.97	2.2	0.0	-2.8			
VIP Freedom 2025	B ****	11.07	2.5	0.0	-3.0			
VIP Freedom 2030	B ****	11.15	2.4	-0.2	-3.5			
VIP Freedom Income	B ****	10.42	1.8	0.6	0.1			
VIP Growth	H ***	55.71	-2.7	-2.3	-6.8	-0.4	5.8	-2.1
VIP Growth & Income	B ****	17.60	1.3	0.0	-3.9	7.2	6.8	2.6
VIP Growth Opportunities	H ***	11.60	-10.4	-6.0	-11.9	-5.0	5.0	-0.4
VIP Growth Stock	H ***	9.70	-8.4	-2.8	-10.3			
VIP Health Care	H ***	11.96	-1.2	3.3	0.5	3.4	9.0	
VIP High Income	H ***	29.48	3.3	0.7	0.4	4.4	7.8	7.0
VIP Index 500	H ***	34.17	2.8	0.5	-2.4	4.5	9.7	1.8
VIP Int'l Capital Appreciation	H ***	11.54	1.4	0.0	-7.1			
VIP Investment Grade Bond	H ***	28.38	0.3	1.3	1.1	0.7	3.0	4.2
VIP Mid Cap	B ****	20.16	4.7	-1.6	-6.8	12.9	22.7	14.0
VIP Money Market		20.15	2.2	0.4	1.1	3.4	1.6	1.4
VIP Natural Resources	B ****	22.11	16.3	-1.4	-4.1	32.5	36.2	
VIP Overseas	H ***	36.56	4.5	-0.4	-5.7	21.3	19.9	7.7
VIP Real Estate	H ***	19.65	17.6	3.2	6.4	17.2		
VIP Strategic Income	H ***	11.40	2.4	1.4	0.8	3.4		
VIP Technology	B ****	9.11	-9.9	-6.6	-18.3	-3.9	5.1	
VIP Telecom & Utilities	B ****	11.73	15.6	4.2	7.2	15.2	20.7	
VIP Value	B ****	10.94	2.6	0.1	-3.4			
VIP Value Leaders	B ****	11.12	2.6	0.2	-4.3			
VIP Value Strategies	B ****	13.35	1.7	-1.6	-6.0	3.6		
Fidelity Monitor VIP Income Model		18802.49	0.7	0.4	-0.9	1.3	4.3	5.3
Fidelity Monitor VIP G&I Model		23158.84	2.5	0.5	-2.4	5.7	8.0	4.4
Fidelity Monitor VIP Growth Model		34594.32	4.5	-0.3	-3.9	10.0	11.9	3.8
Fidelity Monitor VIP Sector Model		17053.24	7.3	0.5	-2.4	13.1	15.1	

INCOME MODEL

Our Income Model aims for long-term growth of 7% per year from a mix of funds that emphasizes income.

FUND	NAV	SHARES	BALANCE
Balanced	\$19.16	777.416	\$14895.29
Asset Mgr. Inc.	\$12.92	2491.163	\$32185.83
Ultra-Short Bond	\$10.02	1599.110	\$16023.08
Floating Rate	\$9.91	1947.554	\$19300.26

8% Foreign Holdings

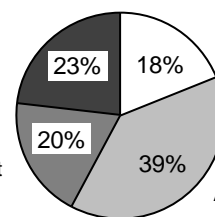
Balance as of 7/31/06: **\$82404.46**
Balance at start of 2006: **\$80716.02**

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:	+ 3.6%
*2006:	+ 2.1%

Floating Rate High Income
814/FFRHX

Ultra-Short
812/FUSFX



Puritan
23/FPURX

As of
8/14

Asset Mgr.
Income
328/FSASIX

Our Income Model gained 0.5% for the month of July. On 8/14 we will sell **Balanced** and buy **Puritan**, for an asset mix of 20% stock, 67% bond, and 13% 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.	\$12.92	2716.044	\$35091.29
Puritan	\$19.34	1903.282	\$36809.47
Balanced	\$19.16	2099.165	\$40220.00
Equity-Income	\$55.01	928.637	\$51084.32

10% Foreign Holdings

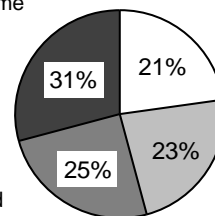
Balance as of 7/31/06: **\$163205.08**
Balance at start of 2006: **\$156588.48**

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:	+ 8.2%
*2006:	+ 4.2%

Equity-Income
23/FEQIX

Balanced
304/FBALX



Asset Mgr.
Income
328/FSASIX

Puritan
4/FPURX

For July our portfolio gained 1.0%. On 7/17 we sold **Strategic Dividend & Income** (\$12.25) and bought **Equity-Income** (\$52.63), for an asset mix of 66% stock, 28% bond, 6% 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
Mid Cap Stock	\$27.18	1478.383	\$40182.45
Value Discovery	\$16.53	2706.936	\$44745.65
Equity-Income	\$55.01	1676.628	\$92231.31

13% Foreign Holdings

Balance as of 7/31/06: **\$177159.41**
Balance at start of 2006: **\$171931.86**

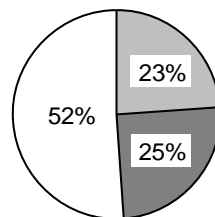
PERFORMANCE

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:	+ 11.2%
*2006:	+ 3.0%

Equity-Income
23/FEQIX

Mid Cap
337/FMCSX

Value
Discovery
832/FVDFX



Our portfolio was off 0.3% in July, versus the S&P's 0.6% gain. On 7/17 we sold **Contrafund** (\$63.36), buying **Value Discovery** (\$15.93). The model's current asset mix is 99% stock, 1% 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	\$51.84	1181.190	\$61232.89
Brokerage	\$69.50	950.274	\$66044.04
Electronics	\$39.55	1401.899	\$55445.11
Technology	\$57.95	712.107	\$41266.60
Biotechnology	\$59.93	672.176	\$40283.51
Telecom	\$41.66	1333.307	\$55545.57

21% Foreign Holdings

Balance as of 7/31/06: **\$319817.72**
Balance at start of 2006: **\$316217.19**

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:	+ 15.0%
*2006:	+ 1.1%

Telecom
96/FSTCX

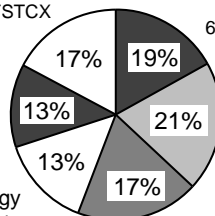
Multimedia
503/FBMPX

Technology
64/FSPTX

Electronics
8/FSELX

Energy
60/FSFENX

Brokerage
68/FSLBX



As of
8/14

We slid 1.3% in July, lagging the S&P's 0.6% gain. On 7/17 we sold **Wireless** (\$5.91), buying **Electronics** (\$38.69). On 8/14 we'll sell **Biotech**, buying **Multimedia**, for a mix of 98% stock, 2% cash.

TAXES

Conventional Wisdom: “Defer capital gains for as long as possible” **Contrarian View:** Take your long-term gains and pay as you go under today’s historically low tax rates.

Some investors go to great lengths to minimize the dollars they pay to Uncle Sam each year. They’ll remain stuck in a less-than-optimal stock funds for years, not wanting to sell because of the resulting taxes they’ll be required to pay. They’ll even put off risk-reduction measures as retirement draws near.

That kind of logic could make sense when tax rates are high, or when future investment gains are expected to be above average. Neither situation seems true today.

With a long-term capital gain rate of 15% at the federal level, the majority of investors should not hesitate to book their gains and move on whenever they’ve held a given taxable position for more than a year (there may be exceptions; check with your tax advisor to be sure).

Some investors are adverse to booking capital gains because they insist on paying their taxes with money normally reserved for living expenses. That doesn’t work very well once their portfolio reaches a substantial size. It makes more sense to liquidate a small portion of the portfolio itself to settle the tab.

By keeping your portfolio in funds that offer the best returns for the amount of risk incurred, and by paying taxes as you go, you’ll have the best chance of maximizing your after-tax returns. Plus, you’ll have the flexibility to access your money when you need it, without worrying about a major tax liability. ■

JULY DISTRIBUTIONS

Asset Manager	\$ 0.13 / \$16.03 (7/7)
Asset Manager: Income	\$ 0.04 / \$12.83 (7/7)
Balanced	\$ 0.08 / \$19.07 (7/7)
Convertible Securities	\$ 0.10 / \$23.61 (7/7)
Equity-Income	\$ 0.23 / \$54.11 (7/7)
Equity-Income II	\$ 0.07 / \$23.03 (7/7)
Fidelity Fund	\$ 0.10 / \$32.22 (7/7)
Freedom Income	\$ 0.04 / \$11.28 (7/7)
Growth & Income	\$ 0.08 / \$34.26 (7/7)
Growth & Income II	\$ 0.03 / \$10.23 (7/7)
Puritan	\$ 0.15 / \$19.06 (7/7)
Strategic Dividend & Income	\$ 0.06 / \$12.53 (7/7)
Strategic Real Return	\$ 0.107/\$10.09 (7/7)
Utilities	\$ 0.07 / \$16.04 (7/7)

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

Ultra-Short Bond offers a good yield with minimal interest-rate risk.

Bonds rose as long-term interest rates declined on the possibility of a pause in the Fed’s tightening cycle. **New Markets Income** led the group with a 3.2% return, thanks to strength in the Latin American markets. **Spartan Long-Term Treasury Index** was up 1.9%. Funds without much interest-rate sensitivity trailed behind. **Floating Rate High Income** edged up 0.6%, and **Ultra-Short Bond** rose 0.5%.

Municipal bond funds posted gains ranging from 0.7% to 1.3%.

SELECT PORTFOLIOS

Select System holdings are listed on page 7. Funds rated buy include **Multimedia, Technology, Telecom, Electronics, Business Services, Brokerage, Natural Resources, and Energy.**

Defensive sectors performed well. **Utilities Growth** gained 4.0%, **Health Care** climbed 3.4%, **Pharmaceuticals** rose 3.2%, and **Medical Equip.** was up 3.1%. On the flip side, tech and transportation suffered most. **Developing Communications** was down 8.8%, **Transportation** tumbled 10.4%, and **Networking** fell 11.7%. ■

Happenings

Fidelity has eliminated short-term redemption fees on several funds: **Fidelity Fifty, Focused Stock, Four-In-One Index, Large Cap Growth, Large Cap Value, and Spartan 500 Index.** The funds are still subject to Fidelity’s excessive trading policy, limiting roundtrip transactions to no more than two in the last 90 days, and no more than four in the last 12 months.

Several new choices are being added to Fidelity’s variable annuity lineup. **VIP Disciplined Small Cap** will use quantitative techniques to try and outperform the Russell 2000, and four new **VIP FundsManager** portfolios (20%, 50%, 70%, and 85%) will offer a range of asset allocation similar to the Asset Manager lineup, except the allocation percentages are relatively fixed and the structure is a fund-of-funds approach just like the VIP Freedom lineup.

Several stock funds have new managers. Scott Offen has been named co-manager of **Strategic Dividend & Income**, and Matthew Friedman has taken over at both **Value Strategies** and **VIP Value Strategies.** Among Selects, John Dowd is the new stockpicker at **Energy**, and Andy Oh is now heading **Pharmaceuticals.** ■

Money Market Funds	Size	Yield	Money Market Funds	Size	Yield	Money Market Funds	Size	Yield
Cash Reserves (55/FDRXX)	80333.9	4.89	CT MM (418/FCMXX)	1468.6	3.20	FL MM (428/FSFXX)	1765.6	3.26
Select MM (85/FSLXX)	1301.2	5.02	MA MM (74/FDMXX)	4309.1	3.06	MA AMT TF (426/FMSXX)	1557.0	3.27
Money Market (454/SPRXX)	6295.6	5.00	MI MM (420/FMIXX)	751.0	3.15	AMT Tax-Free (460/FIMXX)	3321.5	3.40
Gov’t MM (458/SPAXX)	476.3	4.89	NJ MM (417/FNJXX)	1710.6	3.13	NJ AMT TF (423/FSJXX)	959.0	3.29
US Treas. MM (415/FDLXX)	1738.5	4.53	NY MM (92/FNYXX)	3765.0	3.13	NY AMT TF (422/FSNXX)	1845.3	3.28
Tax-Free MM (275/FMOXX)	2502.2	3.21	OH MM (419/FOMXX)	824.6	3.15	PA MM (401/FPTXX)	456.8	3.24
US Gov’t Reser (50/FGRXX)	3132.0	4.94	AZ MM (433/FSAXX)	262.2	3.19	Municipal MM (10/FTEXX)	16857.3	3.24
CA MM (97/FCFXX)	4112.4	3.14	CA AMT TF (457/FSPXX)	2609.1	3.27			