

Question & Answer Forum

Do you think the price of oil will move above \$100/barrel this year?

It could happen quickly if Iran's output is cut off from the Western world, but that scenario seems unlikely because both sides have too much to lose. Assuming there are no major supply disruptions, it's more likely we'll see triple-digit oil prices in 2007 as opposed to 2006 (it could take even longer if the global economy were to hit a soft patch). One thing's for sure, cheap oil is gone for good. Rising living standards in emerging countries are creating huge numbers of middle-class consumers that can afford motorized transportation. Consider China and India, with per capita oil consumption of 1-2 barrels per year. If, over the next decade, demand were to climb to 6 barrels per year (Mexico's current usage level), it would be equivalent to doubling U.S. oil demand. If that kind of output is even possible, it's bound to

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Switches for Income Model, VIP Income, Select System

On Monday, 2/13, our Income Model will sell one-half of **Ultra-Short** (812/FUSFX) and buy **Asset Manager Income** (328/FASIX), for an approximate mix of 19% **Balanced**, 39% **Asset Manager Income**, 19% **Ultra-Short**, and 23% **Floating Rate High Income**. We are still in the process of increasing equity exposure to help meet our new long-term performance goal of 7% per year (please see the related discussion in our Q&A column). Our VIP Income Model will sell **VIP Invest. Grade**, buying **VIP Freedom Income**.

Also on 2/13, our Select System will sell **Software** (28/FSCSX), and buy **Technology** (64/FSPTX). The resulting mix will be roughly 23% **Energy**, 20% **Brokerage**, 18% **Wireless**, 14% **Technology**, 13% **Medical Delivery**, and 12% **Telecommunications**. Place your trades over the weekend to get the Monday 10 a.m. price. There are no changes to our VIP Sector Model. In recent months, **Technology's** volatility has come down below the level as **Software** – without losing its edge in year-over-year performance.

Review & Recommendations

Stocks moved higher on favorable fourth-quarter earnings, along with a growing belief that the Fed's end-of-January rate hike might be either the last or next-to-last tightening move. The standoff over Iran's nuclear processing plans drove energy stocks higher, and the correction in Japan's market prompted international investors to reassess their exposure. But the impact of those events did not seem to have a lasting effect on overall stock values. The S&P 500 finished with a gain of 2.7% for the month.

GROWTH FUNDS

Growth Model holdings are listed on page 7. Our favorites include **Contrafund**, **Value**, **Export & Multinational**, and **Value Discovery**.

Fears of an inverted yield curve turned out to be overblown, allowing smaller stocks to book gains that might have otherwise occurred in December. **Mid-Cap Growth** jumped 9.7%, **New Millennium** climbed 8.6%, and **Small Cap Independence** climbed 8.3%. In contrast, some large-cap funds were held back by disappointing earnings from GE and Citigroup. **Blue Chip Growth** gained 2.2%, and **Dividend Growth** was up 1.9%.

INTERNATIONAL FUNDS

Int'l Discovery offers broad exposure to foreign stocks, with an emphasis on European markets. **Pacific Basin** is likely to benefit from continued economic recovery in Japan and ongoing growth in Asian emerging markets.

Emerging market funds were up sharply on the prospect of higher oil prices and relief that U.S. interest rates may be leveling off. **Latin America** jumped 17.6%, while **Emerging Markets** climbed 13.2%. However, a mid-month correction caused **Japan** and **Japan Smaller Companies** to finish on the bottom end. The funds posted respective gains of 3.9% and 1.6%.

GROWTH & INCOME FUNDS

Growth and Income Model holdings are listed on page 7. Our favorites include **Balanced**, **Strategic Dividend & Income**, **Convertible Securities**, **Equity-Income**, and **Puritan**. For a low-risk option, consider **Asset Manager Income**.

RECOMMENDATIONS - *Continued on page 8*

be a struggle. All the easy oil was found decades ago, and new projects are not coming on line fast enough to offset declining output in mature wells. Oil production in most industrialized countries is well past its peak, and there are growing signs that OPEC producers are bumping up against geological limits.

There are alternatives to oil. Natural gas can be converted into a clean-burning diesel fuel, and ethanol can be derived from agricultural products (thanks to sugar cane, Brazil imports very little oil). But those supplies are small potatoes compared with global oil demand, and it's hard to envision any transition that would not involve sharply higher energy prices over the next two decades.

I'm worried that a housing bust will lead to a bear market.

I just don't see this issue being in the same league as the energy crunch. Even if home prices fall 20-30%, most consumers will still have reasonable home equity and would probably keep spending as long as they feel good about their job security. A decline in home prices may not hurt the builders either – many would shift their focus to lower-priced homes and keep on building, just as they did in the early 1990s.

As for the stock market, business spending is picking up, so the economy is gradually becoming less dependent on consumer spending. The huge amount of cash in corporate coffers (equal to around 7-8% of the stock market's value) suggests that corporate spending could power the economy for many years to come.

Finally, keep in mind that capital will migrate to where it can earn the best returns. During the tech bust, billions of dollars flowed out of the stock market and into real estate. So, it's reasonable to expect that at least some of that money might return to growth stocks if real estate opportunities vanish.

The Unique Opportunities portfolio has outperformed the Select System over the last five years, yet you still have a higher long-term goal for the Select System (14% versus 12%). Also, I don't understand why the Select System will be selling Software twice in a one-year period.

The Select System is our most growth-oriented portfolio, and in theory it should provide a higher long-term return. However, its approach is largely mechanical, meaning that human judgment does not

play a major role. That's actually a good thing for sector funds, because the human tendency is to buy high and sell low. But it also means the model can do things that don't seem very savvy, such as selling at a loss or buying back a fund that was just sold. In my mind, that's okay. Taking emotional hangups out of the process can only help long-term returns.

Over the last five years, the Select System has carried a bias toward growth sectors when many of those groups were struggling. As a result, in recent years it has fallen short of meeting its goal.

The Unique Opportunities Model, on the other hand, carries a strong bias toward value stocks and inflation protection. It also looks for Fidelity funds that enjoy the greatest advantage from research. It's had an easy ride, because value stocks and cheap foreign stocks have been on a roll in recent years.

While I think both models have a good shot at meeting their goals going forward, it's worth noting there are now fewer opportunities on the value side, whereas domestic growth stocks may be in a position to benefit from the growth of business spending and export activity. That suggests the Select System may have a better chance of living up to its goal in the coming years.

You show the return of the Dow to be 1.8% for 2005, but according to the newspaper it was negative.

The total return calculation for the Dow Jones Industrial Average, like the S&P 500, involves both capital appreciation and income (the latter in the form of stock dividends). The calculation you saw in the paper ignored the income stream and looked only at the change in the index value. Why do they do this? Perhaps because it's easier to just divide and subtract than to set up a spreadsheet or pay a data service for the correct figure. Or maybe it's just tradition – some papers have been ignoring the income stream for a century or more. Whatever the reason, it doesn't reflect reality. If you had owned the Dow stocks in 2005, the only way you could have posted a loss would be to throw the dividend checks in the trash.

I'm interested in following your Growth Model and Select System in different accounts. One is an IRA, and the other is a taxable account. Is there an advantage to which way I do this?

The Growth Model is slightly more tax-efficient than the Select System, owing to our policy of trying

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to hold profitable positions for a full year. As such, it's a better fit for the taxable account. The Select System, if it meets its long-term goal, could enjoy a higher growth rate – which makes it a slightly better fit in a tax-deferred account. That's because the benefit of compounding isn't diluted by the tax bite on distributions and capital gains each year.

Please comment on the article that appeared in our local paper concerning Fidelity and its future strategies. I would appreciate your thoughts.

That article ran in papers across the country, and in my opinion it was out-of-date. The so-called reinventing of Fidelity started last summer, shortly after the company transferred Abby Johnson to the benefits side of the business. In the months that followed, several managers with lagging funds were replaced, and fees were cut on funds that compete with Vanguard's lineup. The editor of the story portrayed Fidelity as a struggling giant. While I can understand that point of view from someone who might have kept all their 401(k) money in **Magellan** or **Growth & Income** over the last five years, even a total skeptic would have to admit that 2005 was a great year for Fidelity – assuming they bothered to look at the year-end numbers.

Why has the risk figure for the Income Model remained at 0.06 when the model is adding stock exposure? I'm concerned that this conservative portfolio is no longer as risk-averse, and that one's principal is no longer as safe. Please comment.

The full impact of the new Income Model holdings will not show up until there's a full year's worth of standard deviation data reflecting the new positions. We expect the risk number could climb as high as 0.33, about half the volatility of the Growth & Income Model. Our target stock exposure is 25%.

With money market funds providing a decent return with near-zero risk, it no longer makes sense for the Income Model to stay with an income-only strategy. In order for it to remain viable, the model needs to target a long-term growth rate high enough to stay a few points ahead of inflation.

If your goal is maximum safety of principal, you should switch all your Income Model holdings to **Cash Reserves**, where you can earn 4% with hardly any risk to principal.

What are the advantages of becoming a client at Weber Asset Management?

The main benefit of this service is the relief that

comes from putting your portfolio on "auto-pilot." As a Weber client, we take over everything that needs to be done with your Fidelity account – the research, the trading, the record-keeping, and the performance reporting. We devise a customized investment plan for you, incorporating the same risk-management techniques used in Fidelity Monitor, but tailored for your specific objectives. And we provide peace of mind from knowing that important trades will not be missed.

If you are interested, please call 800-438-3863, or visit www.weberasset.com to request our latest information package. Management services are also available for variable annuity accounts, 403(b) programs, and corporate 401(k) plans.

The Japanese correction has me worried. Do you still like Pacific Basin?

Anytime stocks move up a lot, as they did in Japan last year, it sets the stage for a consolidation. We still think the Asian markets will finish the year with a good showing, although it's unlikely that last year's big gains will be repeated. Fortunately, **Pacific Basin** is only about 50% in Japanese stocks, so it doesn't bear the full risk of a Japanese market selloff. Is there any long-term significance to the events that led to the correction? Probably not. Livedoor, the firm that set it off, is hardly a bellwether for Japan's corporate earnings. And as we've seen from similar situations in the U.S., fraud-related selloffs don't usually have much impact on companies that are well-managed.

In the December issue you said that bond yields might keep rising on the long end of the curve if the Fed stops tightening too soon. Can you elaborate on this?

The Fed can only control short-term interest rates. Long-term rates are set by market forces, with inflation and the demand for expansion capital being key considerations. If the market decides the Fed is not being vigilant on the inflation front, long-term interest rates will rise as higher rates of inflation are anticipated. Conversely, if the Fed raises short-term interest rates too high, economic growth could tank, killing off demand for expansion capital and causing long-term interest rates to decline.

At this stage, it appears that the Fed may be trying to err on the low side for short-term interest rates, because it can always come back with a few more rate hikes down the road. While that may be

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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 ↓.

JANUARY 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***	1.37	1.5(90)	19.10	4329.1	7.3	7.3	13.4	19.8	19.7	-12.3	4.4
Blue Chip Gth (312/FBGRX)	H***	1.00	none	44.09	22311.7	2.2	2.2	6.4	9.1	13.1	-3.1	6.6
Blue Chip Value (1271/FBCVX)	B****	1.08	none	14.13	213.4	4.7	4.7	10.8	16.4			
Capital Apprec (307/FDCAX)	H***	1.23	none	26.80	7315.6	6.8	6.8	12.0	17.3	24.1	5.8	10.4
Contrafund (22/FCNTX)	B****	1.03	none	68.38	60093.8	5.6	5.6	11.4	24.4	23.1	8.3	12.4
Discovery (339/FDSVX)	S**	0.95	none	11.81	431.7	3.5	3.5	7.1	12.0	12.6	0.5	
Disc Equity (315/FDEQX)	H***	1.13	none	28.65	6103.6	3.4	3.4	7.9	15.2	18.4	2.5	9.4
Dividend Gth (330/FDGFY)	H***	0.97	none	29.35	16508.8	1.9	1.9	6.1	8.4	12.4	0.5	11.0
Export Fund (332/FEXPX)	B****	1.13	0.75(30)	22.53	4172.7	6.1	6.1	11.6	23.6	23.5	8.3	16.7
Fidelity Fifty (500/FFTYX)	H***	1.21	0.75(30)	23.92	898.4	5.2	5.2	12.6	20.6	15.0	7.2	11.5
Focused Stock (333/FTQGX)	H***	1.37	0.75(30)	12.34	135.0	3.7	3.7	8.9	22.3	21.5	-1.6	
Growth Company (25/FDGRX)	B****↑	1.28	none	67.14	27415.0	5.5	5.5	13.4	25.5	25.0	-0.7	10.6
Independence (73/FDFFX)	H***	1.21	none	20.89	4741.6	6.3	6.3	13.9	20.4	18.0	0.0	9.8
Large Cap Growth (763/FSLGX)	H***	1.32	0.75(30)	11.82	137.8	4.0	4.0	10.1	18.7	20.3		
Large-Cap Stock (338/FLCSX)	B****	1.02	none	16.14	669.1	3.4	3.4	9.0	14.0	15.1	-1.7	7.7
Large Cap Value (708/FLVLX)	B****	1.15	0.75(30)	13.62	515.9	3.7	3.7	8.3	17.1	20.8		
Lev Co Stock (122/FLVCX)	B****	1.49	1.5(90)	27.81	3521.4	6.9	6.9	14.2	26.1	44.4	22.4	
Low-Priced Stock (316/FLPSX)	H***	0.99	Closed	43.53	36720.6	6.6	6.6	13.3	18.2	26.9	17.3	16.8
Magellan (21/FMAGX)	H***	1.05	Closed	111.52	51181.0	4.8	4.8	10.4	13.6	15.4	-0.5	7.8
Mid Cap Growth (793/FSMGX)	H***	1.48	0.75(30)	14.38	226.5	9.7	9.7	16.4	27.1	26.9		
Mid Cap Stock (337/FMCSX)	H***	1.31	0.75(30)	28.66	9948.9	7.9	7.9	17.7	29.4	22.8	4.2	13.5
Mid Cap Value (762/FSMVX)	H***	1.23	0.75(30)	15.65	315.4	4.0	4.0	9.2	20.0	25.4		
New Millennium (300/FMILX)	H***	1.42	Closed	37.88	3478.0	8.6	8.6	16.8	24.3	21.3	1.7	15.9
OTC Portfolio (93/FOCPX)	H***	1.27	none	39.52	8167.6	4.6	4.6	11.2	19.8	20.2	-0.8	8.9
Small Cap Gth (1388/FCPGX)	H***	1.30	1.5(90)	13.93	289.5	8.3	8.3	11.6	22.6			
Small Cap Indep (336/FDSCX)	H***	1.29	1.5(90)	22.18	1854.8	8.3	8.3	13.8	21.8	23.8	10.6	9.9
Small Cap Stock (340/FLSCX)	H***	1.20	2(90)	19.58	4253.3	7.0	7.0	12.9	18.7	25.2	10.7	
Small Cap Value (1389/FCLPX)	H***	1.23	1.5(90)	13.64	687.5	7.0	7.0	12.7	26.5			
Stock Selector (320/FDSSX)	H***	1.03	none	25.65	791.5	3.7	3.7	8.6	15.1	17.6	1.9	7.9
Tax Mgd Stock (343/FTMX)	B****	1.24	1(730)	13.29	61.0	4.9	4.9	9.9	20.7	20.2	2.1	
Trend (5/FTRNX)	H***	1.02	none	59.15	873.7	3.4	3.4	8.2	13.7	17.1	1.4	6.2
Value (39/FDVLX)	B****	1.05	none	79.65	14327.8	5.0	5.0	13.1	21.7	26.4	14.3	12.4
Value Discovery (832/FVDFX)	B****	1.18	none	16.72	292.6	6.8	6.8	15.5	27.7	24.9		
Value Strategies (14/FLSXX)	H***	1.28	none	32.63	171.2	5.3	5.3	14.2	14.0	27.3	8.9	
GROWTH & INCOME FUNDS:												
Balanced (304/FBALX)	B****	0.82	none	19.55	16603.5	4.2	4.2	9.7	16.6	18.5	8.3	11.0
Convertible Sec (308/FCVXS)	B****	0.83	none	24.06	1801.6	7.1	7.1	11.9	16.0	16.6	5.9	12.4
Equity-Income (23/FEQIX)	B****	0.98	none	54.51	26057.7	3.3	3.3	8.2	11.9	17.8	4.3	9.5
Equity-Income II (319/FEQTX)	B****	1.04	none	23.54	12121.7	3.8	3.8	8.2	12.2	18.1	4.2	9.7
Fidelity Fund (3/FFIDX)	H***	1.01	none	33.01	9601.6	3.7	3.7	9.0	13.2	16.5	0.5	9.0
Growth & Income (27/FGRIX)	B****	0.95	none	35.39	31082.5	2.9	2.9	6.0	8.1	12.3	0.8	8.0
Growth & Inc II (361/FGRTX)	B****	1.04	none	10.51	188.0	3.4	3.4	7.5	13.9	14.0	1.9	
Puritan (4/FPURX)	B****	0.63	none	19.14	24078.9	2.2	2.2	5.8	8.6	13.4	5.2	8.9
Strategic Div & Inc (1329/FSDIX)	B****	0.86	none	12.71	815.8	4.5	4.5	9.8	16.6			
Utilities (311/FUIX)	B****	1.13	none	15.44	1014.1	5.2	5.2	7.0	18.4	20.3	-0.3	7.0
SELECT FUNDS:												
Air Transportation (34/FSAIX)	H***	1.36	0.75(30)	42.02	71.7	4.1	4.1	15.0	30.8	28.1	4.5	12.9
Automotive (502/FAVX)	S**	1.31	0.75(30)	34.35	14.8	0.6	0.6	6.2	2.0	16.7	10.6	7.3
Banking (507/FSRBX)	H***	1.07	0.75(30)	35.92	372.8	0.8	0.8	3.9	3.3	14.1	5.8	12.1
Biotechnology (42/FBIOX)	H***	2.01	0.75(30)	65.30	1679.0	4.1	4.1	12.2	21.1	18.8	-3.4	10.2
Brokerage (68/FLSXB)	B****	1.26	0.75(30)	74.42	1020.3	7.9	7.9	17.5	43.7	31.2	8.7	19.9
Business Ser (353/FBSOX)	H***	1.01	0.75(30)	17.11	42.5	3.8	3.8	9.8	14.5	19.2	4.5	
Chemicals (69/FSCHX)	S**	1.56	0.75(30)	69.51	122.3	4.2	4.2	10.9	7.1	24.0	13.5	10.4
Computers (7/FDCPX)	H***	1.51	0.75(30)	37.78	544.3	4.7	4.7	11.2	13.3	20.6	-8.6	9.0
Const & Housing (511/FSHOX)	S**	2.05	0.75(30)	49.85	269.9	5.7	5.7	12.4	14.9	31.6	18.3	15.0
Consumer Indust (517/FSCPX)	S**	1.10	0.75(30)	25.52	46.5	1.7	1.7	6.0	6.3	13.4	2.3	8.5
Cyclical Indust (515/FCYIX)	H***	1.34	0.75(30)	20.67	65.5	5.6	5.6	13.9	20.3	28.2	10.4	
Defense & Aero (67/FSADX)	H***	1.13	0.75(30)	75.40	803.6	3.0	3.0	10.3	22.1	26.8	12.9	14.8
Develop Commun (518/FSDCX)	H***	1.56	0.75(30)	21.82	438.2	9.0	9.0	15.4	21.5	29.4	-7.6	9.4
Electronics (8/FSLEX)	B****	1.71	0.75(30)	47.88	2686.7	9.5	9.5	22.4	32.8	27.1	-6.9	12.8
Energy (60/FSENX)	B****	2.39	0.75(30)	54.67	2281.0	16.9	16.9	22.5	70.8	43.7	18.1	17.1
Energy Services (43/FSSEX)	H***	2.74	0.75(30)	78.58	1466.8	19.5	19.5	30.0	76.2	41.2	15.6	19.7
Environmental (516/FSLEX)	H***	1.21	0.75(30)	16.77	20.0	7.2	7.2	11.7	21.8	18.8	5.5	3.0
Financial Services (66/FIDSX)	H***	1.06	0.75(30)	118.43	488.0	2.9	2.9	8.7	12.6	17.9	5.6	13.2
Food & Agriculture (9/FDFAX)	S**	0.85	0.75(30)	51.43	125.8	1.5	1.5	3.8	6.7	14.0	6.8	8.4
Gold (41/FSAGX)	H***	2.41	0.75(30)	38.55	1043.6	16.0	16.0	44.4	71.5	24.7	32.1	7.2
Health Care (63/FSPHX)	H***	1.01	0.75(30)	138.96	2332.9	2.1	2.1	6.8	23.0	14.6	2.9	11.1
Home Finance (98/FSVLX)	S**	1.19	0.75(30)	51.93	305.7	2.1	2.1	7.0	-1.3	13.9	8.8	11.9
Indust Equip (510/FSCGX)	H***	1.32	0.75(30)	28.29	53.6	5.5	5.5	14.1	16.0	24.7	5.8	9.7
Indust Materials (509/FSDPX)	H***	1.49	0.75(30)	47.26	149.4	7.1	7.1	17.3	28.0	27.7	17.6	9.8
Insurance (45/FSPCX)	H***	1.14	0.75(30)	67.99	208.0	-0.6	-0.6	3.9	15.0	18.6	10.0	15.8
Leisure (62/FDLSX)	H***	1.20	0.75(30)	79.78	206.0	1.8	1.8	9.6	8.2	20.5	4.9	12.1
Medical Delivery (505/FSHCX)	H***↓	1.21	0.75(30)	54.54	1705.8	0.0	0.0	5.3	26.5	33.6	18.7	11.4
Medical Equip/Sys (354/FSMEX)	H***	0.94	0.75(30)	25.07	1184.9	3.0	3.0	6.1	11.4	20.3	11.7	
Multimedia (503/FBMPX)	B****	1.12	0.75(30)	48.62	96.4	1.8	1.8	7.5	12.4	16.3	4.3	10.7
Natural Gas (513/FSNGX)	B****	2.82	0.75(30)	45.05	1808.8	16.0	16.0	21.8	63.0	45.5	17.9	17.4
Nat Resources (514/FNARX)	B****	2.32	0.75(30)	28.39	683.5	17.1	17.1	25.9	68.0	41.2	16.9	
Networking/Infra (912/FNINX)	B****	1.67	0.75(30)	2.61	92.7	11.1	11.1	15.5	20.3	20.3	-16.5	
Paper & Forest (506/FSFPX)	S**	1.54	0.75(30)	30.62	55.9	0.8	0.8	16.8	2.4	7.9	4.2	5.6
Pharmaceuticals (580/FPHAX)	H***	1.04	0.75(30)	10.44	114.2	5.2	5.2	9.2	22.0	13.3		
Retailing (46/FSRPX)	S**	1.51	0.75(30)	50.31	69.7	3.1	3.1	8.8	12.8	21.9	4.3	12.3
Software (28/FSCSX)	H***	1.38	0.75(30)	55.88	629.3	6.5	6.5	6.7	13.2	16.0	-0.6	13.7
Technology (64/FSPTX)	B****	1.34	0.75(30)	66.61	1867.9	5.5	5.5	10.8	17.8	21.4	-7.1	10.0
Telecom (96/FSTCX)	B****	1.16	0.75(30)	40.54	348.0	4.6	4.6	9.2	16.2	17.7	-5.3	4.8
Transportation (512/FSRFX)	H***	1.48	0.75(30)	49.48	91.4	6.0	6.0	14.1	25.3	29.8	11.5	14.2
Utilities Growth (65/FSUTX)	H***	1.09	0.75(30)	44.86	275.7	4.1	4.1	6.0	16.6	22.6	-2.5	8.1
Wireless (963/FWRX)	B****	1.20	0.75(30)	7.24	474.7	5.8	5.8	11.0	28.6	44.3	-4.6	

JANUARY 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***	1.09	1 (30)	17.98	593.4		5.8	5.8	17.2	23.3	25.4	8.0
Canada (309/FICDX)	B****	1.21	1.5(90)	46.42	2106.3		7.6	7.6	19.1	40.3	36.4	17.1
China Region (352/FHKCX)	H***	0.97	1.5(90)	20.37	442.7		5.5	5.5	16.2	24.1	25.1	7.0
Diversified Int'l (325/FDIVX)	H***	1.01	Closed	34.83	33094.2		7.0	7.0	16.7	27.7	29.9	11.0
Emerging Mkts (322/FEMKX)	H***	1.32	1.5(90)	20.87	1990.0		13.2	13.2	34.4	61.1	44.4	19.3
Europe (301/FIEUX)	H***	1.09	1 (30)	39.05	2766.0		8.6	8.6	17.6	28.5	36.5	8.1
Europe Cap Appr (341/FECAX)	H***	1.11	1 (30)	23.88	504.2		8.4	8.4	17.2	26.6	27.1	8.5
Global Balanced (334/FGBLX)	B****	0.69	1 (30)	21.88	205.3		3.9	3.9	8.2	15.0	19.3	7.5
Int'l Discovery (305/FIGRX)	B****	1.05	1 (30)	33.99	4656.8		7.4	7.4	17.1	28.9	30.9	9.9
Int'l Small Cap (818/FISMX)	B****	1.14	Closed	29.41	2285.6		9.0	9.0	22.3	36.9	48.1	
Int'l Small Cap Opp (1504/FSCOX)	B****	1.3 Est	2 (90)	13.93	476.8		10.9	10.9	34.0			
Japan (350/FJPNX)	H***	1.89	1.5(90)	18.95	1708.7		3.9	3.9	26.6	50.2	33.0	6.8
Japan Smaller Co (360/FJSCX)	H***	1.95	1.5(90)	17.09	1970.7		1.6	1.6	26.8	41.0	41.8	17.9
Latin America (349/FLATX)	H***	2.15	1.5(90)	37.60	1851.0		17.6	17.6	31.2	83.5	64.3	23.1
Nordic (342/FNORX)	H***	1.24	1.5(90)	31.50	187.4		5.5	5.5	11.7	29.7	34.8	6.0
Overseas (94/FOSFX)	H***	1.12	1 (30)	44.08	5371.1		5.9	5.9	18.7	30.0	29.0	5.5
Pacific Basin (302/FPBFX)	B****	1.25	1.5(90)	27.15	852.5		5.8	5.8	23.6	39.1	31.6	10.1
Southeast Asia (351/FSEAX)	H***	1.22	1.5(90)	23.12	974.6		9.0	9.0	27.8	43.3	35.8	13.9
Worldwide (318/FWWFX)	H***	1.00	1 (30)	20.50	1278.5		4.8	4.8	14.0	21.7	23.9	6.7
INDEX AND ASSET ALLOCATION:												
Four-In-One Index (355/FFNOX)	H***	0.83	0.5(90)	27.23	1071.4		3.4	3.4	7.7	12.4	17.5	3.1
NASDAQ Comp (1282/FNCMX)	H***	1.21	0.75(90)	31.10	115.9		4.6	4.6	8.9	12.4		
Spart Ext Mkt Idx (398/FSEMXX)	H***	1.19	0.75(90)	37.03	1371.8		6.6	6.6	12.1	21.4	26.4	7.0
Spart Int'l Index (399/FSIIX)	B****	1.08	1(90)	37.84	1251.0		5.9	5.9	13.5	22.7	27.4	5.5
Spart 500 Index (317/FSMKX)	H***	1.00	0.5(90)	88.30	7147.5		2.7	2.7	6.6	10.3	16.3	0.2
Spart Total Mkt Idx (397/FSTMXX)	B****	1.03	0.5(90)	35.90	1955.4		3.6	3.6	7.9	13.2	18.5	1.9
Asset Manager (314/FASMX)	H***	0.53	none	16.31	10099.4		1.6	1.6	4.9	7.0	9.6	2.7
Asset Mgr Agg (347/FAMRX)	H***	1.10	none	12.47	418.4		3.2	3.2	10.2	14.7	22.2	-0.9
Asset Mgr Gth (321/FASGX)	H***	0.72	none	15.36	3291.4		1.9	1.9	5.6	7.9	11.6	1.6
Asset Mgr Inc (328/FASIX)	B****	0.37	none	13.13	1840.8		2.3	2.3	5.3	9.5	9.6	5.6
Freedom 2000 (370/FFFBX)	B****	0.28	none	12.35	1574.6		1.1	1.1	3.2	5.6	6.5	3.1
Freedom 2005 (1312/FFVFX)	B****	0.48	none	11.36	395.3		2.2	2.2	5.6	9.0		
Freedom 2010 (371/FFFCX)	B****	0.51	none	14.37	9937.1		2.3	2.3	5.9	9.4	11.2	3.7
Freedom 2015 (1313/FFVFX)	B****	0.61	none	11.86	1856.9		2.7	2.7	7.0	11.4		
Freedom 2020 (372/FFFDX)	B****	0.73	none	15.19	12264.9		3.3	3.3	8.2	13.1	15.7	3.3
Freedom 2025 (1314/FFTXX)	B****	0.77	none	12.37	1466.5		3.4	3.4	8.6	13.9		
Freedom 2030 (373/FFFEEX)	B****	0.84	none	15.60	7399.6		3.9	3.9	9.5	15.2	17.8	2.9
Freedom 2035 (1315/FFTHX)	B****	0.85	none	12.70	799.9		3.8	3.8	9.7	15.5		
Freedom 2040 (718/FFFX)	B****	0.88	none	9.19	3118.5		4.1	4.1	9.9	16.0	19.2	2.6
Freedom Income (369/FFFA)	B****	0.25	none	11.49	2076.2		1.1	1.1	2.9	5.2	5.5	3.4
Real Estate Income (833/FRIFX)	H***	0.27	0.75(90)	11.67	612.7		1.4	1.4	3.0	7.1		
Real Estate (303/FRESX)	S**	1.46	0.75(90)	33.13	5834.8		6.3	6.3	12.6	32.3	31.1	20.4
Int'l Real Estate (1368/FIREX)	H***	0.99	1.5(90)	13.68	194.2		6.1	6.1	16.9	23.9		
TAXABLE BOND FUNDS:												
Capital & Income (38/FAGIX)	H***	0.31	1(90)	8.47	5411.4	6.08	1.7	1.7	4.1	6.9	17.1	7.8
Floating Rate (814/FFRHX)	B****	0.06	1(60)	9.97	2516.7	5.53	0.7	0.7	1.5	4.6	5.1	
Focused High Inc (1366/FHIFX)	H***	0.2 Est	1(90)	10.06	38.8	5.80	1.2	1.2	2.8	4.3		
GNMA Portfolio (15/FGMNX)	H***	0.24	none	10.83	3788.7	4.55	0.2	0.2	1.6	2.3	3.0	4.7
Gov't Income (54/FGOVX)	H***	0.29	none	10.09	5590.0	3.85	0.0	0.0	1.3	2.0	2.8	4.9
High Income (455/SPHIX)	H***	0.25	1(90)	8.84	3354.7	6.72	1.2	1.2	3.1	5.3	12.5	5.4
Inflation-Protected (794/FINPX)	H***	0.48	none	10.99	1618.7	1.67	0.1	0.1	1.3	2.3	5.8	
Intermed Bond (32/FTHRX)	H***	0.22	none	10.26	7527.7	4.09	0.0	0.0	1.1	1.6	3.3	5.2
Intermed Gov't Inc (452/FSTGX)	H***	0.22	none	10.01	830.6	3.68	0.1	0.1	1.1	1.5	2.1	4.5
Invest Grade Bond (26/FBNDX)	H***	0.28	none	7.35	7539.0	3.96	0.1	0.1	1.5	2.1	3.9	5.6
Mortgage Securities (40/FMSFX)	H***	0.24	none	11.04	1763.9	4.58	0.2	0.2	1.4	2.2	3.5	5.2
New Markets Inc (331/FNMIX)	H***	0.48	1(90)	14.69	1719.9	6.09	2.3	2.3	6.0	13.3	18.0	13.9
Short-Term Bond (450/FSHBX)	H***	0.13	none	8.85	5244.5	3.94	0.2	0.2	1.0	2.3	2.5	4.1
Spart Gov't Inc (453/SPGVX)	H***	0.28	none	10.86	830.8	3.93	0.0	0.0	1.2	2.0	3.1	5.2
Spart Invest Grade (448/FSIBX)	H***	0.27	none	10.38	3174.5	3.93	0.1	0.1	1.5	2.2	4.2	5.8
Strategic Income (368/FSICX)	H***	0.25	none	10.48	3444.3	5.28	0.9	0.9	2.6	4.2	10.0	8.7
Strategic Real Rtn (1505/FSRRX)	H***	0.5 Est	0.75(60)	10.09	562.2		0.9	0.9	2.8			
Total Bond (820/FTBFX)	H***	0.25	none	10.40	496.7	4.33	0.2	0.2	1.6	2.2	4.6	
Ultra-Short Bond (812/FUSEFX)	B****↓	0.05	0.25(60)	10.02	874.7	4.29	0.4	0.4	1.0	3.1	2.1	
US Bond Index (651/FBIDX)	H***	0.28	none	10.87	5842.0	4.53	0.1	0.1	1.4	1.8	3.8	5.6
MUNICIPAL BOND FUNDS:												
AZ Municipal Inc (434/FAZAX)	H***	0.23	0.5(30)	11.37	98.8	3.75	0.2	0.2	1.6	2.0	4.1	5.0
CA Municipal Inc (91/FCTFX)	H***	0.22	0.5(30)	12.40	1565.5	4.22	0.4	0.4	1.6	2.8	4.8	5.2
CA Short-Int TF (1534/FCSTX)	B****	0.1 Est	0.5(30)	10.06	31.5	3.07	0.5	0.5	1.7			
CT Municipal Inc (407/FICNX)	H***	0.22	0.5(30)	11.38	434.4	4.04	0.2	0.2	1.3	1.8	3.8	4.9
FL Municipal Inc (427/FFLIX)	H***	0.22	0.5(30)	11.44	519.1	4.01	0.2	0.2	1.6	2.2	4.2	5.2
Intermediate Muni (36/FLTMX)	H***	0.19	0.5(30)	9.96	1936.3	3.93	0.2	0.2	1.4	2.2	4.0	5.0
MA Municipal Inc (70/FDMMX)	H***	0.23	0.5(30)	11.87	1843.1	4.15	0.2	0.2	1.6	2.8	4.7	5.4
MD Municipal Inc (429/SMDMX)	H***	0.22	0.5(30)	10.83	109.1	3.87	0.1	0.1	1.4	1.9	4.0	4.8
MI Municipal Inc (81/FMHTX)	H***	0.22	0.5(30)	11.83	562.6	4.06	0.3	0.3	1.6	2.2	4.3	5.2
MN Municipal Inc (82/FMIX)	H***	0.20	0.5(30)	11.40	342.6	4.11	0.2	0.2	1.3	2.0	4.1	4.8
Municipal Income (37/FHIGX)	H***	0.23	0.5(30)	12.81	4669.8	4.23	0.3	0.3	1.7	2.8	4.9	5.8
NJ Municipal Inc (416/FNJHX)	H***	0.26	0.5(30)	11.47	554.9	4.02	0.2	0.2	1.7	2.3	4.4	5.2
NY Municipal Inc (71/FTFMX)	H***	0.23	0.5(30)	12.82	1402.4	3.95	0.3	0.3	1.6	2.3	4.5	5.5
OH Municipal Inc (88/FOHFX)	H***	0.23	0.5(30)	11.65	424.4	4.08	0.3	0.3	1.7	2.2	4.5	5.3
PA Municipal Inc (402/FPXTX)	H***	0.21	0.5(30)	10.79	306.1	4.10	0.2	0.2	1.5	2.1	4.2	5.1
Short-Int Municipal (404/FSTFX)	B****	0.11	0.5(30)	10.20	1666.0	2.96	0.2	0.2	0.8	1.3	2.0	3.4
Tax-Free Bond (90/FTABX)	H***	0.24	0.5(30)	10.73	364.7	3.99	0.2	0.2	1.7	2.8	5.1	

JANUARY PERFORMANCE Indexes and Model Portfolios			2006	One	Three	One	3-Yr	5-Yr	10-Yr
	Risk	Value	YTD	Month	Month	Year	Rate	Rate	Rate
Dow Jones Industrial	1.00	10864.86	1.5	1.5	4.6	6.0	13.0	2.1	9.3
S&P 500	1.00	1280.08	2.7	2.7	6.6	10.4	16.4	0.4	9.0
NASDAQ	1.20	2305.82	4.6	4.6	9.0	12.7	21.1	-3.1	8.6
Russell 2000	1.53	733.20	9.0	9.0	13.7	18.9	26.9	9.0	10.2
Fidelity Monitor Income Model	0.07	81574.95	1.1	1.1	2.2	4.6	5.5	5.1	5.2
Fidelity Monitor G&I Model	0.68	161980.05	3.4	3.4	7.9	13.4	18.1	8.4	10.4
Fidelity Monitor Growth Model	1.04	180478.89	5.0	5.0	10.9	18.7	25.0	8.2	10.7
Fidelity Monitor Select System	1.15	340540.35	7.7	7.7	13.0	26.4	23.4	6.2	11.1
Fidelity Monitor Unique Opportunities	1.22	117664.10	8.3	8.3	17.9	30.3	30.9	16.6	

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	\$28.39	1042.907	\$29608.13
Pacific Basin	\$27.15	843.140	\$22891.25
Conv. Securities	\$24.06	1168.880	\$28123.25
Value	\$79.65	465.053	\$37041.47

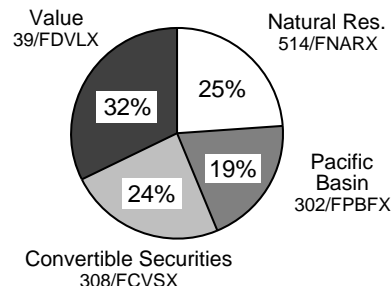
32% Foreign Holdings

Balance as of 1/31/06: \$117664.10

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:	+ 8.3%



Our January gain was 8.3%. On 1/17 we sold **Europe** (\$37.97), putting half the proceeds in **Natural Resources** (\$26.65) and half in **Pacific Basin** (\$26.54) Current asset mix: 97% stock, 3% cash.

VIP CORNER

VIP SECTOR MODEL:	VIP GROWTH MODEL:	VIP G & I MODEL:	VIP INCOME MODEL:
14% Technology, 15% Financial Ser, 29% Telecom & Util., 27% Natural Res., 15% Health Care	25% Mid-Cap Stock, 41% Equity-Income, 34% Contrafund	32% Growth & Income, 55% Balanced, 13% Freedom Income.	(as of 2/13) 69% Freedom Income, 31% Balanced.

JANUARY VIP PERFORMANCE Portfolio	Rating	Unit Value	2006 YTD	One Month	Three Month	One Year	3-Yr Rate	5-Yr Rate
VIP Aggressive Growth	H ***	11.64	7.1	7.1	13.1			
VIP Asset Manager	H ***	33.26	2.8	2.8	6.1	7.5	9.5	2.0
VIP Asset Manager: Growth	H ***	21.96	3.6	3.6	7.3	8.9	11.7	0.6
VIP Balanced	B *****	16.24	4.1	4.1	9.5	10.8	10.6	2.9
VIP Consumer Industries	S **	11.35	1.7	1.7	6.1	5.5	13.0	
VIP Contrafund	B *****	42.21	5.6	5.6	11.4	24.2	22.7	7.8
VIP Cyclical Industries	H ***	16.11	5.6	5.6	14.0	19.9	27.8	
VIP Dynamic Capital Appreciation	H ***	14.27	6.9	6.9	13.3	31.5		
VIP Equity-Income	B *****	59.58	3.2	3.2	7.9	11.1	17.1	3.6
VIP Financial Services	B ****	13.51	2.9	2.9	8.6	12.0	17.3	
VIP Freedom 2005	B ****	10.71	2.2	2.2	5.4			
VIP Freedom 2010	B ****	10.73	2.2	2.2	5.7			
VIP Freedom 2015	B ****	10.93	2.8	2.8	6.9			
VIP Freedom 2020	B ****	11.08	3.2	3.2	7.8			
VIP Freedom 2025	B ****	11.17	3.4	3.4	8.5			
VIP Freedom 2030	B ****	11.28	3.7	3.7	9.0			
VIP Freedom Income	B ****	10.34	1.1	1.1	2.8			
VIP Growth	H ***	58.99	3.1	3.1	7.9	11.8	14.8	-4.1
VIP Growth & Income	B *****	17.97	3.4	3.4	7.3	13.0	13.3	1.4
VIP Growth Opportunities	H ***	13.40	3.6	3.6	9.6	14.6	16.5	0.2
VIP Growth Stock	H ***	10.90	3.0	3.0	8.4			
VIP Health Care	B ****	12.34	2.0	2.0	6.5	22.1	13.9	
VIP High Income	H ***	28.88	1.2	1.2	2.8	3.8	11.4	3.2
VIP Index 500	H ***	34.09	2.6	2.6	6.3	9.4	15.3	-0.6
VIP Int'l Capital Appreciation	H ***	12.03	5.7	5.7	16.9			
VIP Investment Grade Bond	H ***	28.31	0.0	0.0	1.2	0.9	3.1	5.0
VIP Mid Cap	B ****	20.95	8.8	8.8	16.8	29.6	30.2	14.9
VIP Money Market		19.77	0.3	0.3	0.8	2.4	1.0	1.4
VIP Natural Resources	B ****	22.27	17.1	17.1	25.8	67.1	40.6	
VIP Overseas	B ****	36.64	4.8	4.8	17.1	27.4	27.2	3.8
VIP Real Estate	S **	17.78	6.4	6.4	13.0	32.0		
VIP Strategic Income	H ***	11.24	0.9	0.9	2.3	3.4		
VIP Technology	B ****	11.08	9.6	9.6	16.6	27.9	24.2	
VIP Telecom & Utilities	B ****	10.56	4.0	4.0	5.8	15.9	21.7	
VIP Value	B ****	11.11	4.2	4.2	8.6			
VIP Value Leaders	B ****	11.32	4.5	4.5	10.3			
VIP Value Strategies	H ***	13.82	5.3	5.3	14.1	13.1		
Fidelity Monitor VIP Income Model		18758.87	0.4	0.4	1.4	2.1	5.4	4.7
Fidelity Monitor VIP G&I Model		23368.29	3.4	3.4	7.9	9.7	12.0	3.6
Fidelity Monitor VIP Growth Model		34917.65	5.4	5.4	11.3	18.4	19.0	1.8
Fidelity Monitor VIP Sector Model		17088.97	7.6	7.6	12.7	24.9	27.5	

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	\$19.55	771.011	\$15073.27
Asset Mgr. Inc.	\$13.13	1244.511	\$16340.43
Ultra-Short Bond	\$10.02	3124.297	\$31305.46
Floating Rate	\$9.97	1891.253	\$18855.79

8% Foreign Holdings

Balance as of 1/31/06: **\$81574.95**

Balance at start of 2006: **\$80716.02**

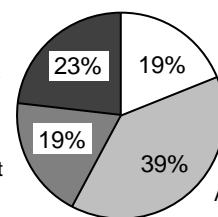
PERFORMANCE

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%

Floating Rate High Income
814/FFRHX

Ultra-Short
812/FUSFX

2005: + 3.6%
*2006: + 1.1%



Balanced
304/FBALX

As of
2/13

Asset Mgr.
Income
328/FASIX

Our portfolio gained 1.1%. On 1/17 we sold **Short-Term** (\$8.87), buying **Balanced** (\$19.28). On 2/13 we'll trade half of **Ultra-Short** for **Asset Mgr. Inc.** Current mix: 21% stock, 58% bond, 21% 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.	\$13.13	2672.604	\$35091.29
Puritan	\$19.14	1875.726	\$35901.40
Balanced	\$19.55	2081.872	\$40700.60
Strat. Div. & Inc.	\$12.71	3956.472	\$50286.76

9% Foreign Holdings

Balance as of 1/31/06: **\$161980.05**

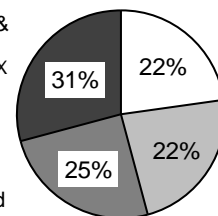
Balance at start of 2006: **\$156588.48**

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:	+ 3.4%

Strategic Dividend & Income
1329/FSDIX

Balanced
304/FBALX



Asset Mgr.
Income
328/FASIX

Puritan
4/PURX

For January our Growth and Income Model gained 3.4%. Current asset mix is 66% stock, 24% bond, and 10% 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
Export	\$22.53	1963.038	\$44227.25
Value	\$79.65	581.752	\$46336.55
Contrafund	\$68.38	667.567	\$45648.23
Equity-Income	\$54.51	812.087	\$44266.86

17% Foreign Holdings

Balance as of 1/31/06: **\$180478.89**

Balance at start of 2006: **\$171931.86**

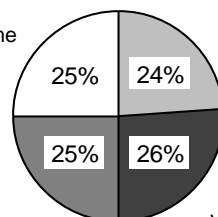
PERFORMANCE

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%

Equity-Income
23/FEQIX

Contrafund
22/FCNTX

2002: - 17.1%
2003: + 46.1%
2004: + 12.4%
2005: + 11.2%
*2006: + 5.0%



Export
332/FEXPX

Value
39/FDVLX

Our Growth Model gained 5.0% in January, versus 2.7% for the S&P 500. Current asset mix is 95% stock, 5% 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	\$54.67	1411.434	\$77163.10
Brokerege	\$74.42	916.091	\$68175.49
Wireless	\$7.24	8642.722	\$62573.31
Software	\$55.88	869.714	\$48599.62
Medical Delivery	\$54.54	810.466	\$44202.82
Telecom	\$40.54	982.388	\$39826.01

20% Foreign Holdings

Balance as of 1/31/06: **\$340540.35**

Balance at start of 2006: **\$316217.19**

PERFORMANCE

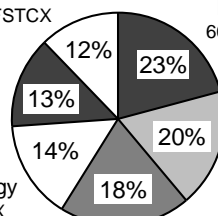
1989:	+ 23.4%
1990:	+ 31.3%
1991:	+ 35.3%
1992:	+ 20.4%
1993:	+ 25.9%
1994:	- 0.9%
1995:	+ 39.0%
1996:	+ 5.2%
1997:	+ 29.3%
1998:	+ 21.7%
1999:	+ 44.9%
2000:	- 14.9%
2001:	- 7.3%
2002:	- 14.7%
2003:	+ 38.4%

Telecom
96/FSTCX

Med Delivery
505/FSHCX

Technology
64/FSPTX

2004: + 7.4%
2005: + 15.0%
*2006: + 7.7%



Energy
60/FSENX

Brokerege
68/FSLBX

As of
2/13

Our Select System was up 7.7% in January, versus 2.7% for the S&P 500. On 2/13 we will sell **Software** and buy **Technology**. Current asset mix is 97% stock, 3% cash.

good news for the stock market, it could end up being a problem for bonds.

I just signed up for your newsletter and I have some cash to invest. I'll be retiring in about 7-8 years, so I don't want to do anything too risky. Which model portfolio do you recommend, and does it make sense to dollar cost average?

The Growth and Income Model is ideal for a situation like yours. It has significantly less downside risk than our more aggressive models, but could double in value over the next eight years if it meets its growth goal. Past performance is no guarantee of future results, but as a point of reference the Growth & Income Model has nearly matched the return of the Growth Model and the Select System over the last 10 years (although it was helped from strong gains in high-yield bonds and small-cap value stocks in 2003).

Dollar cost averaging is a good idea for reducing the risk of a market decline while moving from cash to an all-stock portfolio (we recommend making eight quarterly purchases over a two-year period). However, it's optional when joining the Growth & Income Model, because there isn't that much equity risk to begin with. But if you join the model all at once, you should be willing to ride through a bear market, which could mean losses of 10-15%. ■

Happenings

Fidelity's new bond index funds were launched on 1/5. The Investor Class versions will have their expenses limited to 20 basis points, while Advantage Class funds, which require a minimum of \$100,000, will be capped at 10 basis points. The new funds include **Spartan Intermediate Treasury Bond Index**, **Spartan Long-Term Treasury Bond Index**, and **Spartan Short-Term Treasury Bond Index**. We'll be rating them a hold – we like the concept, but with rising oil prices and growing inflationary pressures it may not be the best time for bonds.

There were two manager changes on the foreign front. Trygve Toraasen has taken over responsibilities at **Europe**, and will continue to manage **Nordic**. We'll be sticking with our hold rating for now, with an eye toward a possible upgrade a few months down the road. Separately, Matthew Lentz has been named manager of **Int'l Real Estate**. We'll be maintaining a hold rating on the fund. ■

Strong gains for energy stocks gave a boost to **Convertible Securities**, which gained 7.1%. **Utilities**, up 5.2%, was helped by improved earnings in the telecom group. Trailing behind were **Growth & Income**, rising 2.9%, and **Puritan** with a 2.2% increase. Both funds were held back by their focus on Blue Chip stocks.

BOND FUNDS

Income Model holdings are listed on page 7. Our favorite in this group is **Floating Rate High Income**. We still favor **Ultra-Short Bond**, but its advantage over money market funds is limited.

The winding down of the Fed's tightening cycle helped economically-sensitive issues such as junk-bonds and low-grade foreign debt. **New Markets Income** rose 2.3%, **Capital & Income** moved ahead 1.7%, and both **High Income** and **Focused High Income** edged up 1.2%. Lagging behind, **Inflation-Protected Bond** rose just 0.1% as investors factored in the possibility that long-term interest rates may climb faster than inflation in the months ahead. Municipal bond funds posted gains ranging from 0.1% to 0.5%.

SELECT PORTFOLIOS

Select System holdings are listed on page 7. Funds rated buy, as ranked by our volatility model, are **Energy**, **Brokerage**, **Technology**, **Multimedia**, **Nat. Resources**, **Electronics**, **Wireless**, **Networking**, **Telecommunications**, and **Natural Gas**.

Fears of Iranian oil being cut off seemed a bit overblown, but still pushed up gains in energy and gold sectors. **Energy Services** leaped 19.5%, **Natural Resources** surged 17.1%, **Energy** jumped 16.9%, and **Natural Gas** and **Gold** were both up 16.0%. On the flip side, defensive sectors struggled to post gains. **Banking** edged up 0.8%, **Medical Delivery** broke even, and **Insurance** slid 0.6%. ■

JANUARY DISTRIBUTIONS

Equity-Income II	\$ 0.19 / \$23.34 (1/6)
NASDAQ Composite Index	\$ 0.04 / \$31.10 (1/6)
NJ Municipal	\$ 0.025/\$11.51 (1/6)
Value Strategies	\$ 0.30 / \$32.01 (1/6)

Funds scheduled for February include: **Asset Manager Income**, **Contrafund**, **Freedom Income**, **New Markets Income**, **Real Estate Income**, **Intermediate Muni**, **MI Muni**, **MN Muni**, **OH Muni**, **PA Muni**, **Strategic Income**, and **Trend**.

Money Market Funds	Size	Yield	Money Market Funds	Size	Yield	Money Market Funds	Size	Yield
Cash Reserves (55/FDRXX)	64863.4	4.07	CT MM (418/FCMXX)	1273.3	2.56			
Select MM (85/FSLXX)	779.2	4.18	MA MM (74/FDMXX)	4141.4	2.54	FL MM (428/FSFXX)	2865.8	2.80
Money Market (454/SPRXX)	5903.2	4.12	MI MM (420/FMIXX)	697.6	2.55	MA AMT TF (426/FMSXX)	1357.5	2.70
Gov't MM (458/SPAXX)	503.9	4.05	NJ MM (417/FNJXX)	1541.8	2.54	AMT Tax-Free (460/FIMXX)	3054.2	2.68
US Treas. MM (415/FDLXX)	1990.7	3.71	NY MM (92/FNYXX)	3408.0	2.58	NJ AMT TF (423/FSJXX)	804.3	2.70
Tax-Free MM (275/FMOXX)	1927.0	2.64	OH MM (419/FOMXX)	800.5	2.54	NY AMT TF (422/FSNXX)	1469.5	2.64
US Gov't Reser (50/FGRXX)	2511.4	4.11	AZ MM (433/FSAXX)	224.7	2.62	PA MM (401/FPTXX)	422.5	2.62
CA MM (97/FCFXX)	4022.7	2.51	CA AMT TF (457/FSPXX)	2096.7	2.74	Municipal MM (10/FTEXX)	16806.4	2.63