

Dividend Tax Cut Is Bullish

Much has been written about the latest tax cuts and how they will impact the economy. Some pundits say the relief doesn't go far enough, while others worry that government debt will increase too much. Almost everyone views the package as a compromise, and it's hard to find anyone who thinks it will have a significant long-term impact on the stock market.

Those assessments may be correct for most elements of the tax cut. The reduction in the top

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Growth and Income Model, VIP Models Plan Trades

On Monday, 7/14, we will be making trades in our Growth and Income Model and in two of our VIP portfolios.

In our Growth and Income Model we will be selling **Convertible Securities** (308/FCVSX) and buying **Low-Priced Stock** (316/FLPSX). The resulting mix will be approximately 25% **Capital & Income**, 49% **Balanced**, and 26% **Low-Priced Stock**. We are making this change because the dividend tax cut may work against the convertible market, and because the removal of **Low-Priced Stock's** 3% load makes it practical to add the fund to the portfolio. With a risk score of about 0.7, **Low-Priced** fits well in a conservative portfolio.

In our VIP Growth Model we will sell **VIP Growth & Income** and buy **VIP Equity-Income**, resulting in a mix of roughly 65% **VIP Growth** and 35% **VIP Equity-Income**. As investors go in search of dividend stocks, it's a reasonable bet that **VIP Equity-Income** will outperform.

In our VIP Growth & Income Model, we will sell **VIP Balanced**, and split the proceeds evenly between **VIP Equity-Income** and **VIP High Income**. The resulting mix will be roughly 42% **VIP Asset Manager**, 29% **VIP Equity-Income**, and 29% **VIP High Income**. Unlike its mutual fund counterpart, **VIP Balanced** does not have much exposure to dividend stocks, so this move will put us in a fund that does. To keep overall risk at target levels, we are taking on a high-yield bond position along with the added stock exposure.

Review & Recommendations

Stocks continued to rise in June, in part due to evidence of economic growth, but also because of the Fed's quarter-point easing move. The dividend tax cut boosted some higher-yielding stocks too. However, growth sectors came under profit-taking as investors took advantage of recent gains. The S&P 500 finished the month with an increase of 1.3%.

GROWTH FUNDS

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

Leveraged Company Stock climbed 6.7%. Heavily indebted firms have the most to gain from the combined benefit of lower interest rates and a stronger economy. Small-cap funds also did well. **Small Cap Independence** gained 3.5%, **Small Cap Stock** rose 2.9%, and **Low-Priced Stock** was up 2.8%. Growth funds, especially those focusing on mid-caps, were weak. Both **Mid-Cap Stock** and **Fidelity Fifty** returned 0.2%.

INTERNATIONAL FUNDS

Diversified International is our favorite choice for broad-based foreign stock exposure. We have upgraded **Japan** and **Pacific Basin** because the worst may be over for Japanese large-caps.

Japan and **Pacific Basin** moved up on evidence that Japan's central bank may finally be winning the deflation battle. The two funds posted gains of 7.8% and 7.1%, respectively. European funds continued to be hampered by the strong Euro and its negative impact on the region's exports. **Europe Capital Appreciation** edged up 0.7%, while **Nordic** logged a decline of 1.3%.

GROWTH & INCOME FUNDS

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

Real Estate gained 1.9% in anticipation of a stronger economy. **Utilities** rose 1.8% as investors continued to seek dividend stocks. **Balanced** and **Puritan** trailed behind due to their bond holdings;

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brackets, the relief for two-earner couples, and the tax breaks for small-business will provide a short-term boost for the economy, and should help bring down the jobless rate. But it's hard to say if these tax breaks will have any impact on S&P 500 valuations.

The dividend tax cut, on the other hand, has been underestimated. Initially, the new 15% tax limit on stock dividends has been acting as a catalyst, driving bond money back into the stock market and playing a key role in supporting this year's recovery. In its second stage, which has yet to play out, it should prompt companies to raise their dividends in a bid to boost their stock prices. The result could be a favorable stock-market cycle lasting 12-18 months, resulting in enough new tax revenue that Congress may seriously consider a permanent limit on the tax rate for stock dividends.

This month we examine the dividend tax cut and what it could mean for investors. We'll also take a look at some of the funds that could benefit as stock dividends get a new lease on life.

THE HISTORICAL ROLE OF DIVIDENDS

There once was a time when investors demanded that company leaders pay out most of their corporate profits in the form of dividends. From the investor point of view, company managers could not be trusted to allocate capital properly, so it was only prudent that shareholder money be returned to the shareholders.

This way of thinking was not always ideal, but it did have its advantages. For example, investors would decide which stocks to buy based on dividend yield. If a company wanted its stock to go up, it would simply raise its quarterly dividend. Investors didn't care much about earnings growth, P/E ratios, or accounting standards. Profits only mattered to the extent that higher dividends could be paid out.

The dividend focus was inherently fraud-limiting. Companies sought earnings stability, because dividend payouts had to be made every quarter. There was no point in realizing large one-time gains or in making earnings appear bigger than they were. The profits had to be real because they were paid out regularly as dividends. Capital was rarely wasted on corporate takeovers, stock repurchases, or anything else that didn't offer the promise of higher future dividends. Shareholders would not allow company managers to retain massive amounts of cash as a "war chest." If a firm was accumulating too much money, the prevailing logic was that it ought to raise the dividend and return the capital to its rightful owners.

Over time, the personal income tax changed this way of thinking. As it affected increasing numbers of the investing population in the 1950s and 1960s, investor attitudes began to shift. The old-fashioned approach was not tax-friendly. Corporations would pay tax on their earnings before they paid dividends. Then, the stockholders would have to pay income tax on the dividends they received. Investors began to realize that dividends were really taxed twice.

As inflation pushed investors into higher tax brackets, it began to make sense for management to take more control of corporate profits. After all, if a company could reinvest its own earnings, it might be able to grow faster, making the stock worth more over the long run. The dividend model began to erode. Most companies still made payouts to maintain credibility in the market, but those with significant business opportunities kept their payout rates low in order to retain most of their earnings for internal growth. But quarterly dividends were still the main draw for larger companies in mature industries.

As time went on, the tax code was changed to close loopholes and favor long-term capital gains over dividends. Predictably, investors lost interest in dividends. Stocks came to be regarded solely as a vehicle for capital gains, with valuations determined by the rate of earnings growth. Many companies stopped raising their dividends, and embraced stock options as a tool to encourage company managers to focus on earnings growth.

Without dividends as proof of profits, investors have effectively placed most of their trust in a system based on accounting standards and quarterly earnings. The obsessive focus on earnings has prompted companies that would otherwise pay dividends to resort to extreme measures in an effort to maintain earnings growth. Cooking the books has been one result. But even honest companies have stretched the limits of sound business practices in a desperate attempt to avoid direct shareholder compensation.

In place of dividends we have stock buybacks, which are often a huge waste of shareholder money. Buybacks reduce the number of shares outstanding, which improves earnings per share and reduces a firm's P/E ratio. Unfortunately, the vast majority of stock repurchasing occurs when a company is flush with cash and its stock price is already high. Not only do buybacks magnify stock price volatility, but they promote less-than-ethical behavior. Stock repurchases are conducted in secrecy, so shareholders must trust company management to follow through

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on a promise. And there is no foolproof way for a shareholder to verify that the buyback occurred. Nor is there a way to make sure that a repurchase announcement isn't just a shell game for insiders to unload stock at a premium price.

Other companies avoid dividends by engaging in a continuous buying spree. They acquire company after company in order to add new earnings to their balance sheet. When properly executed, as in the case of Berkshire Hathaway, this can be an effective investment strategy. But it still transforms individual stocks into something resembling a mutual fund, all for the sake of avoiding taxation. It's really the job of the investor – not the CEO – to build a diversified portfolio. In real life, most CEOs do not have Warren Buffet's unique ability. As Peter Lynch pointed out in his books, too many corporate acquisitions are nothing more than an exercise in "di-worsification."

CORRECTING THE IMBALANCE

The dividend tax cut is a key step in getting back to basics. It accomplishes several goals:

- Eliminates the preference for capital gains over dividends. Mature companies no longer need to take big business risks to keep earnings on a growth track. They can simply pay a decent dividend, and investors will respond. It won't matter if their P/E ratio is high or if their revenue is flat. Shareholders will be happy if the dividend yield is attractive.

- Reduces the incentive for fraud and excessive compensation. As investors reward companies that earn real money and pay real dividends, the focus on earnings per share and accounting standards will diminish. Instead of paying top dollar to hire Wall Street CEOs who can work miracles, companies will migrate back toward lower-paid, experienced managers who can make prudent business decisions.

- Drives bond money into stocks. As domestic investors replace fully taxable bond income with dividend stocks, the stock market could see a steady stream of new capital for the full duration of the tax cut (through 2008). And it really won't come at much cost, because the foreign markets will keep domestic bond yields from climbing too much. In effect, foreign bond capital will be indirectly converted into stock market equity over the next five years.

- Increases tax revenue. Unlike the other tax cuts, the dividend tax reduction has the potential to boost tax receipts for stock dividends and capital gains. Currently there is a huge amount of cash residing in corporate coffers. If even a small part of it is paid out as stock dividends over the next five years, it

will create a big increase in tax receipts – even at the reduced 15% rate. It may even lead to a pick up in capital gain tax revenue. As such, the dividend tax cut stands to pay its own way. Other tax cuts may be allowed to expire according to their sunset provisions. But the dividend tax cut has a good shot at becoming a permanent feature of the tax code.

INVESTMENT STRATEGY

Here's what we anticipate for the months ahead. First, stocks with attractive dividend yields will be driven higher by investor demand. As these stocks are pushed up their yields will be reduced. But some companies will boost their dividends, triggering a second round of price appreciation. Then there's the non-dividend stocks that could become large dividend payers overnight. One example: Mandalay Resort Group, a large hotel-casino operator. The firm recently announced it will start paying a 23 cent quarterly dividend, amounting to a dividend yield of about 3%. There may be dozens of companies like Mandalay waiting in the wings, and it's a good bet that most of them will initiate dividends between now and the end of the year.

Interestingly, the main opportunity created by the dividend tax cut is one of capital gains. As an investor, you can try to cut the tax liability on your income sources by selling bonds and buying dividend stocks. However, this isn't easy to do with mutual funds. And even with individual securities, the tax benefit amounts to less than one percentage point on an annualized basis. For now, it may be better to let others chase the tax breaks, and focus instead on the capital gain opportunities that are likely to result from the scramble. Here are some funds to consider:

- **Equity-Income.** With an annual dividend yield of around 1.7% (paid quarterly), the after-tax income from this fund exceeds money market funds but falls short of most bond funds. Still, its yield could climb as stock dividends rise over time. The fund also has a good shot at outperforming the S&P 500, because its portfolio is filled with the kind of quality dividend stocks that the market seeks. In taking a position in **Equity-Income**, consider selling any bond holdings that aren't needed for living expenses over the next three-to-five years. But don't sell your high-yield bond holdings, at least not yet.

- **Equity-Income II and Dividend Growth.** These funds align closer to the market's weighting for growth sectors like technology and health care. As such, their dividend income is lower (around 1%).

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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. Loads: **3-0.75(90)** means 3% load, 0.75% redemption fee if held less than 90 days. 3% loads are waived for IRA/Keogh accounts – except on Magellan, New Millennium, and Selects. If a fund is closed to new investors, we will list it as such in the Load column. Ratings: **B ****** is **favorite buy**, **B ****** means **buy**, **H ***** means **hold** for the long run, **S **** means cut to 5% of holdings, **S *** means **sell** and move to a buy-rated fund in the same group. Upgrades and downgrades are indicated by ↑ and ↓.

JUNE PERFORMANCE						2003	One	Three	One	3-Yr	5-Yr	10-Yr
Fund Name (Code/Symbol)	Rating	Risk	Load	NAV	Size	YTD	Mth	Mth	Year	Rate	Rate	Rate
Aggressive Gth (324/FDEGX)	H***	1.24	0-1.5(90)	12.80	4569.0	14.4	1.3	14.5	6.7	-36.8	-9.5	4.3
Blue Chip Gth (312/FBGRX)	H***	0.98	0-0	35.50	18920.8	11.1	1.1	13.2	-0.3	-15.8	-2.7	9.0
Capital Apprec (307/FDCAX)	B*****	1.09	0-0	19.89	2421.0	22.9	2.3	20.7	8.9	-8.8	2.4	9.5
Contrafund (22/FCNTX)	H***	0.65	0-0	42.23	29611.6	9.4	1.8	11.8	-0.2	-6.5	2.5	11.1
Contrafund II (339/FCONX)	B****	0.93	0-0	9.40	692.3	8.4	1.1	12.4	1.1	-10.8	3.0	
Disc Equity (315/FDEQX)	H***	0.91	0-0	20.05	3219.0	11.6	1.9	13.3	-0.7	-10.4	-0.6	9.4
Dividend Gth (330/FDGFEX)	B****	1.03	0-0	24.94	15009.2	11.7	2.3	17.4	4.3	-3.8	3.2	14.4
Export Fund (332/FEXPX)	B****↓	1.07	0-0.75(30)	15.60	800.2	13.5	0.8	16.7	7.3	-3.5	7.2	
Fidelity Fifty (500/FFTYX)	H***	0.96	0-0.75(30)	17.90	872.6	11.6	0.2	17.8	5.0	-0.5	6.8	
Growth Company (25/FDGRX)	B****	1.13	0-0	42.13	17897.9	18.9	0.6	19.3	5.7	-20.2	2.0	9.9
Large-Cap Stock (338/FLCSX)	H***	0.91	0-0	12.18	629.9	9.4	0.3	12.3	-3.8	-16.2	-2.5	
Lev Co Stock (122/FLVCX)	B****	1.08	0-1.5(90)	15.04	523.7	50.4	6.7	44.1	85.0			
Low-Priced Stock (316/FLPSX)	B****	0.73	0-1.5(90)	28.69	17148.7	14.0	2.8	21.3	0.2	15.2	9.5	15.0
Magellan (21/FMAGX)	B****	1.02	Closed	87.43	61169.6	11.0	1.1	14.2	-0.2	-12.3	-1.0	8.7
Mid Cap Stock (337/FMCSX)	B****	0.97	0-0.75(30)	18.27	6047.0	12.6	0.2	15.7	-0.6	-8.6	6.1	
New Millennium (300/FMLIX)	B****	1.02	Closed	25.31	2967.3	14.3	0.3	18.5	3.9	-12.4	10.7	17.2
OTC Portfolio (93/FOCPX)	B****	1.03	0-0	26.86	6441.9	12.3	2.1	17.1	2.1	-23.4	-0.5	8.7
Independence (73/FDFFX)	H***	0.96	0-0	14.44	4440.3	10.5	0.8	16.9	2.9	-15.6	2.2	9.5
Small Cap Indep (336/FDSCX)	H***	0.67	0-1.5(90)	14.92	777.3	12.2	3.5	15.3	-7.0	-3.3	-0.4	7.3
Small Cap Stock (340/FSLCX)	H***	0.76	0-2(90)	13.28	1537.9	12.2	2.9	17.8	-2.9	-1.1	7.5	
Stock Selector (320/FDSX)	H***	0.99	0-0	18.58	744.6	12.1	1.6	15.0	2.7	-11.5	-2.3	8.3
Strc Lg Cap Gth (763/FSLGX)	H***	1.00	0-0.75(30)	7.99	19.1	12.2	1.1	14.5	0.8			
Strc Lg Cap Val (708/FSLVX)	H***	0.97	0-0.75(30)	9.17	18.3	8.9	1.0	15.3	-4.5			
Strc Mid Cap Gth (793/FSMGX)	H***	1.02	0-0.75(30)	8.62	21.5	17.4	1.3	18.4	4.0			
Strc Mid Cap Val (762/FSMVX)	H***	0.89	0-0.75(30)	10.15	40.6	11.8	0.3	15.7	-5.2			
Focused Stock (333/FTQGX)	S**	1.08	0-0.75(30)	7.69	33.5	7.7	0.5	11.3	-13.3	-19.6	-4.8	
Trend (5/FTRNX)	B****	0.99	0-0	43.45	781.5	12.4	1.5	15.8	2.6	-10.8	-2.0	5.1
Value (39/FDVLX)	H***	0.92	0-0	52.01	5528.9	12.1	0.5	17.2	-0.9	9.3	4.2	11.1
Value Discovery (832/FVDFX)	H***	1.0 Est	0-0	10.92	29.1	10.5	0.2	16.3				
GROWTH & INCOME FUNDS:												
Balanced (304/FBALX)	B*****	0.61	0-0	14.86	7554.5	12.8	0.7	14.9	7.7	3.2	5.5	8.4
Convertible Sec (308/FCVXS)	H***↓	0.46	0-0	18.46	1627.5	15.3	1.3	12.2	11.0	-1.9	9.0	11.5
Equity-Income (23/FEQIX)	B*****↑	0.99	0-0	43.46	19524.8	10.5	1.5	17.9	-2.2	-1.1	0.4	9.9
Equity-Income II (319/FEQTX)	B****	1.03	0-0	19.65	10228.4	13.7	1.1	19.6	4.9	0.2	1.2	10.0
Fidelity Fund (3/FFIDX)	H***	0.94	0-0	24.46	9221.3	10.3	1.0	12.6	-1.4	-11.7	-1.5	9.9
Growth & Income (27/FGRIX)	H***	0.82	0-0	32.53	27705.8	7.9	0.8	10.4	-2.0	-8.0	-0.8	9.9
Growth & Inc II (361/FGRTX)	H***	0.83	0-0	8.48	192.9	12.2	1.3	13.5	8.6	-5.9		
Puritan (4/FPURX)	B*****	0.59	0-0	16.95	19211.2	8.8	0.8	12.3	3.8	2.0	2.9	9.1
Real Estate Inc (833/FRIFX)	H***	0.2 Est	0-0.75(90)	10.87	148.3		1.8	7.2				
Real Estate (303/FRESX)	S**	0.58	0-0.75(90)	20.23	2066.8	11.6	1.9	9.9	3.4	13.5	7.8	10.0
Utilities (311/FUIX)	B****	1.01	0-0	11.03	890.1	14.9	1.8	19.4	10.9	-17.6	-3.7	5.5
SELECT FUNDS:												
Air Transportation (34/FSAIX)	S**	1.12	3-0.75(30)	27.14	39.8	23.1	11.7	35.2	-5.2	-1.3	4.6	11.5
Automotive (502/FAVX)	S**	1.04	3-0.75(30)	25.33	16.7	11.8	4.2	20.8	-5.2	8.1	-0.8	5.0
Banking (507/FSRBX)	H***	1.08	3-0.75(30)	34.05	421.0	12.6	1.5	18.4	-0.6	10.5	2.0	13.7
Biotechnology (42/FBIOX)	B****	1.15	3-0.75(30)	46.88	1871.5	21.0	-1.5	15.9	22.9	-19.3	10.0	10.8
Brokerage (68/FSLBX)	H***	1.36	3-0.75(30)	42.75	347.1	17.2	3.1	27.6	7.2	-0.2	5.0	15.8
Business Ser (353/FBSOX)	S**	1.22	3-0.75(30)	12.30	34.0	8.3	0.7	19.6	-3.5	-0.6	4.4	
Chemicals (69/FSCHX)	H***	1.10	3-0.75(30)	40.25	36.3	4.2	-2.4	4.8	-9.9	5.7	2.5	9.1
Computers (7/FDCPX)	B****	1.46	3-0.75(30)	28.13	736.0	27.6	0.5	27.4	6.3	-31.2	0.6	14.7
Const & Housing (511/FSHOX)	H***	1.13	3-0.75(30)	27.46	51.5	13.9	2.7	23.5	-5.0	16.1	4.5	11.1
Consumer Indust (517/FSCPX)	H***	0.85	3-0.75(30)	21.21	27.5	10.0	1.3	13.4	-5.6	-4.1	-1.0	9.1
Cyclical Indust (515/FCYIX)	S**	0.96	3-0.75(30)	12.89	22.9	8.2	1.7	16.7	-6.0	1.3	0.7	
Defense & Aero (67/FSDAX)	S**	0.92	3-0.75(30)	42.90	253.7	8.2	4.5	17.4	-10.5	4.8	4.6	13.8
Develop Commun (518/FSDCX)	B****	1.31	3-0.75(30)	12.57	435.3	27.4	-0.2	22.9	18.8	-35.9	-1.3	7.8
Electronics (8/FSLEX)	H***	1.89	3-0.75(30)	30.84	2902.6	26.5	-3.1	25.2	-9.6	-31.5	6.1	17.5
Energy (60/FSENX)	H***	1.01	3-0.75(30)	22.26	196.9	8.6	-1.4	8.9	-3.5	-2.5	4.7	8.2
Energy Services (43/FSSESX)	B****	1.45	3-0.75(30)	31.17	471.7	6.1	-7.3	9.4	-0.2	-4.2	4.5	12.0
Environmental (516/FSLEX)	H***	0.84	3-0.75(30)	11.11	11.7	7.7	-0.6	11.0	3.0	1.0	-7.3	0.7
Financial Services (66/FIDSX)	H***	1.06	3-0.75(30)	98.31	464.8	10.8	0.0	17.1	0.9	5.0	2.4	13.9
Food & Agriculture (9/FDFAX)	H***	0.64	3-0.75(30)	39.93	91.4	2.9	1.8	12.7	-9.0	5.0	1.2	10.2
Gold (41/FSAGX)	H***	1.25	3-0.75(30)	22.42	594.6	-3.7	1.4	12.6	7.5	23.4	13.2	2.2
Health Care (63/FSPHX)	H***	0.92	3-0.75(30)	113.48	1907.6	11.3	3.4	11.4	9.0	-5.3	3.2	16.1
Home Finance (98/FSVLX)	H***	0.98	3-0.75(30)	54.12	377.0	11.3	-1.6	14.2	-1.3	19.2	2.5	16.1
Indust Equip (510/FSFGX)	S**	1.05	3-0.75(30)	18.39	23.7	5.8	2.5	18.6	-6.9	-8.7	-2.2	8.8
Indust Materials (509/FSDPX)	H***	0.89	3-0.75(30)	25.39	28.2	5.9	2.9	13.1	-6.5	10.4	2.0	6.3
Insurance (45/FSPCX)	H***	1.02	3-0.75(30)	49.18	105.4	10.3	-0.4	17.3	0.4	12.5	8.0	15.1
Leisure (62/FDLSX)	H***	1.08	3-0.75(30)	60.82	144.8	21.5	3.6	21.7	13.9	-5.6	2.2	12.1
Medical Delivery (505/FSHCX)	H***	1.21	3-0.75(30)	24.07	102.9	1.6	0.5	1.7	-22.8	9.4	-2.9	9.9
Medical Equip/Sys (354/FSMEX)	H***	0.83	3-0.75(30)	18.40	214.9	19.3	2.7	15.2	23.3	8.8	16.5	
Multimedia (503/FBMPX)	H***	1.45	3-0.75(30)	41.64	144.8	22.7	3.3	30.2	37.4	-4.4	5.6	13.5
Natural Gas (513/FSNGX)	H***	0.95	3-0.75(30)	19.17	170.8	14.3	-2.2	12.2	4.8	-0.2	8.4	7.7
Nat Resources (514/FNARX)	H***	0.95	3-0.75(30)	12.04	30.5	8.9	-0.2	10.5	-3.8	-1.5	5.5	
Networking/Infra (912/FNINX)	H***	1.66	3-0.75(30)	1.91	108.6	28.2	0.5	28.2	7.9			
Paper & Forest (506/FSFPX)	H***	0.99	3-0.75(30)	24.91	17.3	-4.0	0.6	5.9	-16.5	6.5	3.4	8.1
Pharmaceuticals (580/FPHAX)	H***	0.92	3-0.75(30)	8.40	59.9	15.4	2.9	16.5	4.6			
Retailing (46/FSRPX)	H***	1.01	3-0.75(30)	39.14	81.4	14.6	5.2	23.5	-7.5	-4.4	-0.6	9.6
Software (28/FSCSX)	B****	1.27	3-0.75(30)	42.00	698.9	15.2	3.2	18.1	17.0	-13.0	7.8	15.2
Technology (64/FSPTX)	B****	1.49	3-0.75(30)	47.92	1894.6	27.1	0.8	25.9	14.4	-31.4	3.7	12.5
Telecom (96/FSTCX)	H***	1.46	3-0.75(30)	29.12	363.3	13.9	2.4	22.5	35.5	-28.0	-7.7	5.2
Transportation (512/FSRFEX)	S**	1.04	3-0.75(30)	29.11	37.1	18.9	4.0	23.8	0.6	8.6	7.4	11.2
Utilities Growth (65/FSUTX)	H***	0.95	3-0.75(30)	30.99	216.9	17.7	1.6	23.5	13.0	-19.0	-2.5	6.0
Wireless (963/FWRXLX)	H***	1.28	3-0.75(30)	3.12	73.9	28.4	1.6	27.9	12.2			

JUNE PERFORMANCE						Div.	2003	One	Three	One	3-Yr	5-Yr
Fund Name (Code/Symbol)	Rating	Risk	Load	NAV	Size	Yield	YTD	Mth	Mth	Year	Rate	Rate
Aggressive Int'l (335/FIVFX)	H***	0.72	0-1 (30)	12.40	344.5		15.6	3.9	25.0	-2.6	-10.5	-0.2
Canada (309/FICDX)	H***	0.66	0-1.5(90)	22.07	105.4		21.8	3.1	18.6	10.5	0.1	6.4
Diversified Int'l (325/FDIVX)	B****	0.59	0-1 (30)	19.36	8608.9		12.8	2.9	19.7	-0.9	-5.6	3.8
Emerging Mkts (322/FEMKX)	H***	0.63	0-1.5(90)	8.06	272.5		11.8	4.8	20.8	0.9	-9.3	0.3
Europe (301/FIEUX)	H***	0.98	0-1 (30)	21.06	1068.1		15.0	1.0	29.4	-5.7	-13.4	-5.5
Europe Cap Appr (341/FECAX)	H***	0.76	0-1 (30)	15.32	391.4		10.8	0.7	23.4	-9.8	-7.3	-2.0
China Region (352/FHKCX)	H***	0.58	0-1.5(90)	11.77	117.7		8.4	3.0	14.9	-4.4	-10.6	7.3
Global Balanced (334/FGBLX)	H***	0.42	0-1 (30)	16.06	95.0		8.7	1.7	12.4	0.9	-3.8	2.6
Int'l Growth & Inc (305/FIGRX)	H***	0.66	0-1 (30)	18.61	948.3		10.6	3.0	20.1	-4.6	-9.5	0.9
Int'l Small Cap (818/FISMX)	H***	0.7 Est	0-2 (90)	13.27	58.2		25.8	6.0	26.0			
Japan (350/FJPNX)	B****↑	0.80	0-1.5(90)	8.86	306.2		5.1	7.8	13.0	-9.9	-22.1	2.7
Japan Smaller Co (360/FJSCX)	H***	0.63	0-1.5(90)	6.96	359.8		8.1	5.3	12.6	-11.2	-17.2	12.6
Latin America (349/FLATX)	H***	0.97	0-1.5(90)	11.29	180.7		21.0	2.5	22.9	9.0	-8.4	-2.7
Nordic (342/FNORX)	H***	0.85	0-1.5(90)	16.57	75.8		8.8	-1.3	22.3	-11.2	-17.7	-1.8
Overseas (94/FOSEFX)	H***	0.88	0-1 (30)	24.38	3026.2		10.8	4.7	23.1	-8.9	-15.2	-4.1
Pacific Basin (302/FPBFX)	B****↑	0.62	0-1.5(90)	13.72	269.7		7.5	7.1	16.2	-7.4	-15.8	4.9
Southeast Asia (351/FSEAX)	H***	0.85	0-1.5(90)	10.80	254.3		11.8	5.9	21.8	-6.4	-11.1	8.9
Worldwide (318/FWWFX)	H***	0.83	0-1 (30)	13.47	696.0		13.4	3.0	20.9	-1.4	-7.8	-0.9

INDEX AND ASSET ALLOCATION:

Four-In-One Index (355/FFNOX)	H***	0.74	0-0.5(90)	20.03	319.3		11.1	1.4	14.8	1.8	-8.1	
Spart Ext Mkt Idx (398/FSEMX)	B****↑	0.83	0-0.75(90)	22.47	534.1		16.8	2.2	21.1	4.3	-9.6	-0.5
Spart Int'l Index (399/FSIIX)	H***	0.82	0-1 (30)	22.06	292.6		10.0	2.4	19.2	-6.6	-13.6	-3.8
Spart 500 Index (317/FSMKX)	H***	1.00	0-0.5(90)	67.25	7731.5		11.7	1.3	15.4	0.2	-11.3	-1.7
Spart Total Mkt Idx (397/FSTMX)	H***	0.96	0-0.5(90)	25.93	1367.2		12.7	1.4	16.5	1.0	-10.6	-1.3
Asset Manager (314/FASMX)	H***	0.53	0-0	14.95	10643.4		9.8	1.5	10.8	8.9	-1.5	3.9
Asset Mgr Agg (347/FAMRX)	H***	0.99	0-0	8.44	192.6		21.8	2.1	18.7	-0.1	-15.5	
Asset Mgr Gth (321/FASGX)	H***	0.76	0-0	13.39	3427.5		11.9	2.1	14.3	8.1	-5.2	0.9
Asset Mgr Inc (328/FASIX)	B****	0.22	0-0	11.66	846.5		8.3	0.8	6.7	10.1	3.5	4.6
Freedom 2000 (370/FFFBX)	B****	0.19	0-0	11.48	1358.9		4.8	0.2	4.8	5.2	1.0	4.9
Freedom 2010 (371/FFFCX)	B****	0.37	0-0	12.32	5307.1		8.2	0.7	8.6	6.1	-2.1	4.3
Freedom 2020 (372/FFFDX)	B****	0.60	0-0	11.76	4790.8		10.9	1.3	12.4	4.5	-6.5	2.5
Freedom 2030 (373/FFFEF)	B****	0.71	0-0	11.41	2780.0		11.8	1.4	14.1	2.9	-9.0	1.3
Freedom 2040 (718/FFFFX)	B****	0.79	0-0	6.58	602.8		12.6	1.7	15.4	2.1		
Freedom Income (369/FFFAF)	B****	0.16	0-0	10.95	1338.5		4.0	0.1	3.9	4.9	2.7	4.9

TAXABLE BOND FUNDS:

Capital & Income (38/FAGIX)	B****	0.32	0-1(90)	7.74	3927.8	6.46	27.4	3.5	14.7	42.8	3.2	3.8
Floating Rate (814/FFRHX)	B****	0.1 Est	0-1(60)	9.80	323.4	3.20	4.0	0.8	2.4			
GNMA Portfolio (15/FGMNX)	B****	0.07	0-0	11.22	6560.9	1.48	1.3	0.2	0.5	5.6	7.9	6.5
Gov't Income (54/FGOVX)	H***	0.19	0-0	10.63	3801.7	2.85	3.1	-0.8	2.3	10.1	9.6	7.0
Intermed Bond (32/FTHRFX)	H***	0.13	0-0	10.89	7177.5	3.83	4.7	0.0	2.9	10.8	9.8	7.4
Intermed Gov't Inc (452/FSTGX)	H***	0.14	0-0	10.50	1422.6	2.61	2.6	-0.3	1.7	8.9	9.3	7.1
Invest Grade Bond (26/FBNDX)	H***	0.13	0-0	7.68	5430.9	3.01	4.4	-0.1	2.6	11.2	9.8	7.1
Mortgage Securities (40/FMSFX)	B****	0.07	0-0	11.33	1508.9	1.82	2.0	0.2	1.0	6.4	8.7	6.8
New Markets Inc (331/FNMIX)	H***	0.34	0-1(90)	13.21	851.9	5.97	20.6	0.3	11.7	33.4	15.2	12.3
Short-Term Bond (450/FSHBX)	B****	0.08	0-0	9.09	5835.9	2.63	2.8	0.1	1.6	7.4	7.3	6.3
Spart Gov't Inc (453/SPGVX)	H***	0.19	0-0	11.30	1199.7	3.25	3.2	-0.7	2.4	10.5	9.9	7.3
High Income (455/SPHIX)	B****	0.17	0-1(90)	8.59	2402.4	6.63	16.9	2.7	9.7	25.7	0.6	0.4
Spart Invest Grade (448/FSIBX)	H***	0.13	0-0	11.02	2875.1	3.47	4.6	-0.1	2.7	11.5	10.1	7.5
Strategic Income (368/FSICX)	B****	0.12	0-0	10.23	1641.1	5.12	11.8	0.9	6.9	20.8	10.0	7.8
Inflation-Protected (794/FINPX)	H***	0.2 Est	0-0	11.05	582.8	1.53	6.1	-1.0	3.5			
Total Bond (820/FTBFX)	H***	0.2 Est	0-0	10.71	64.6	2.72	5.5	0.1	3.4			
Ultra-Short Bond (812/FUSFX)	B****	0.1 Est	0-0.25(60)	10.03	222.5	1.02	1.0	0.1	0.5			

MUNICIPAL BOND FUNDS:

Spart AZ Muni Inc (434/FAZXX)	H***	0.13	0-0.5(30)	11.77	79.1	3.74	4.2	-0.6	2.9	9.1	8.5	6.2
Spart CA Muni Inc (91/FCTFX)	H***	0.11	0-0.5(30)	12.84	1699.9	4.27	3.7	-0.7	2.5	8.2	8.0	6.0
Spart CT Muni Inc (407/FICNX)	H***	0.12	0-0.5(30)	12.11	492.7	4.06	4.0	-0.4	2.9	9.0	8.5	6.2
Spart FL Muni Inc (427/FFLIX)	H***	0.11	0-0.5(30)	12.02	621.6	4.08	3.9	-0.7	2.4	8.4	8.3	6.0
Spart Intermediate (36/FLTMX)	B****	0.10	0-0.5(30)	10.39	1845.4	4.00	3.7	-0.3	2.5	8.2	8.0	5.9
Spart MA Muni Inc (70/FDMMX)	H***	0.11	0-0.5(30)	12.51	2021.7	4.30	4.1	-0.4	2.8	9.1	8.6	6.1
Spart MD Muni Inc (429/SMDMX)	H***	0.11	0-0.5(30)	11.18	102.3	3.88	4.0	-0.3	2.8	8.4	8.1	5.9
Spart MI Muni Inc (81/FMHTX)	H***	0.12	0-0.5(30)	12.36	606.7	4.24	4.8	-0.5	3.0	9.7	8.8	6.1
Spart MN Muni Inc (82/FIMIX)	H***	0.09	0-0.5(30)	11.85	355.8	3.97	4.0	-0.4	2.6	8.2	8.0	5.7
Spart Municipal Inc (37/FHIGX)	H***	0.12	0-0.5(30)	13.49	4944.6	4.41	4.4	-0.4	3.1	10.0	9.2	6.6
Spart NJ Muni Inc (416/FNJHX)	H***	0.12	0-0.5(30)	12.05	599.0	4.12	3.9	-0.6	2.8	8.6	8.3	6.2
Spart NY Muni Inc (71/FTFMX)	H***	0.12	0-0.5(30)	13.60	1559.1	4.09	4.4	-0.6	3.0	10.1	9.1	6.5
Spart OH Muni Inc (88/FOHFX)	H***	0.12	0-0.5(30)	12.32	455.6	4.11	4.6	-0.4	3.2	9.6	8.7	6.2
Spart PA Muni Inc (402/FPXTX)	H***	0.11	0-0.5(30)	11.26	309.6	4.17	3.9	-0.4	2.8	8.6	8.3	5.9
Spart Short-Int Muni (404/FSTFX)	B****	0.06	0-0.5(30)	10.58	1833.8	2.69	2.0	-0.2	1.2	5.2	6.0	4.9
Spart Tax-Free Bond (90/FTABX)	H***	0.13	0-0.5(30)	10.92	263.2	4.08	4.5	-0.5	3.2	10.1		

JUNE PERFORMANCE			2003	One	Three	One	3-Yr	5-Yr	10-Yr
Indexes & Model Portfolios	Risk	Value	YTD	Month	Month	Year	Rate	Rate	Rate
Dow Jones Industrial	0.99	8985.44	9.0	1.7	13.2	-0.5	-3.0	1.9	12.1
S&P 500	1.00	974.50	11.7	1.3	15.4	0.2	-11.2	-1.6	10.0
NASDAQ	1.19	1622.80	21.8	1.7	21.1	11.4	-25.5	-2.7	9.3
Russell 2000	0.94	448.37	17.8	1.8	23.4	-1.7	-3.3	1.0	8.2
Fidelity Monitor Income Model	0.08	72216.97	4.7	0.7	2.7	8.4	5.3	3.6	5.7
Fidelity Monitor G&I Model	0.51	113985.23	16.8	1.5	14.1	12.1	2.9	5.6	
Fidelity Monitor Growth Model	0.98	111879.28	18.9	2.8	20.9	6.2	-7.2	1.2	10.0
Fidelity Monitor Select System	1.04	216857.91	17.2	0.6	19.8	10.1	-8.3	3.0	11.3
Fidelity Monitor Unique Opportunities	0.65	62686.92	18.4	3.9	22.7	10.9	1.5		

UNIQUE OPPORTUNITIES MODEL

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

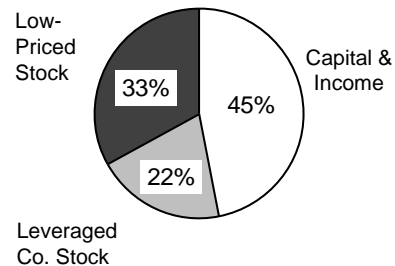
FUND	NAV	SHARES	BALANCE
Capital & Income	\$7.74	3661.473	\$28339.80
Leveraged Co.	\$15.04	909.967	\$13685.90
Low-Priced Stock	\$28.69	720.154	\$20661.22

9% Foreign Holdings

Balance as of 6/30/03: **\$62686.92**
Balance at start of 2003: **\$52924.96**

PERFORMANCE

Partial Yr 99: +33.8%
2000: -20.5%
2001: +1.6%
2002: -2.1%
*2003: +18.4%



Our Unique Opportunities portfolio gained 3.9% in June.

401(k) CORNER

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

Portfolio A (+15.9% YTD)	Portfolio B (+9.0% YTD)	Portfolio C (+10.6% YTD)	Portfolio D (+10.6% YTD)
61% Dividend Growth, 39% Capital Appreciation	65% Magellan, 35% Contrafund	32% Magellan 68% Equity-Income	32% Magellan 68% Equity-Income

For the month of June Portfolio A gained 2.3%, and Portfolios B, C and D moved up 1.4%.

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 (as of 7/14):	VIP G&I MODEL (as of 7/14):	VIP INCOME MODEL:
100% VIP Technology	35% VIP Equity-Income, 65% VIP Growth	42% VIP Asset Mgr, 29% VIP Equity-Inc., 29% VIP High Inc.	72% VIP Inv. Grade, 28% VIP High Income.

JUNE VIP PERFORMANCE		Unit Value	2003 YTD	One Month	Three Month	One Year	3-Yr Rate	5-Yr Rate
Portfolio	Rating							
VIP Asset Manager	B ****	28.09	9.7	1.6	11.0	8.9	-3.1	0.8
VIP Asset Manager: Growth	H ***	17.95	12.2	2.1	14.5	8.3	-8.6	-2.0
VIP Balanced	B ****	13.34	9.6	1.0	9.6	8.3	-2.6	-0.1
VIP Contrafund	H ***	25.75	9.1	1.8	11.7	-0.7	-7.0	1.6
VIP Equity-Income	B ****	42.38	10.2	1.5	17.9	-2.8	-1.7	-0.5
VIP Growth	B *****	45.60	13.0	0.4	16.5	-2.6	-18.6	-2.1
VIP Growth & Income	B ****	14.15	12.0	1.2	13.5	7.9	-6.3	-0.8
VIP Growth Opportunities	B ****	9.84	12.5	0.4	14.9	0.9	-14.1	-6.8
VIP High Income	B ****	23.82	16.7	2.8	9.9	25.8	-5.2	-4.7
VIP Index 500	H ***	25.43	11.2	1.2	15.2	-0.7	-12.1	-2.6
VIP Investment Grade Bond	B ****	26.92	4.3	-0.1	2.7	11.1	9.4	6.8
VIP Overseas	H ***	20.30	9.9	4.6	22.8	-10.5	-16.8	-5.7
VIP Mid Cap	H ***	10.44	8.4	1.5	14.9	-1.4	0.0	
VIP Consumer Industries	H ***	8.96	10.3	1.4	13.9	-5.5		
VIP Cyclical Industries	H ***	8.72	8.2	1.5	16.5	-6.4		
VIP Financial Services	H ****	9.47	10.5	0.0	17.0	-0.1		
VIP Health Care	B ****	9.28	10.9	3.3	11.2	8.2		
VIP Natural Resources	H ***	8.97	9.1	-0.3	10.5	-3.9		
VIP Technology	B ****	7.41	26.9	0.7	25.9	13.7		
VIP Telecom & Utilities	H ***	7.05	16.8	1.4	23.2	10.6		
Morgan Stanley Emg Mkts Debt	H ***	14.62	17.0	0.6	10.3	27.2	13.0	
Morgan Stanley Emg Mkts Equity	H ***	8.26	11.3	5.2	20.7	-1.6	-15.8	
Morgan Stanley Global Equity	H ***	10.68	6.6	2.9	20.5	-12.2	-4.6	
Morgan Stanley Int'l Magnum	H ***	7.87	3.6	1.9	15.3	-12.2	-14.9	
PBHG Growth II	S **	8.02	11.1	0.8	13.6	-7.7	-32.1	
PBHG Select Value	H ***	13.55	1.8	-0.4	11.9	-12.7	-16.8	
PBHG Select 20	S **	12.52	15.0	1.9	13.0	-3.9	-20.7	
PBHG Small Cap Value	H ***	14.52	13.3	1.2	19.8	-10.1	-5.4	
PBHG Tech & Communications	S **	6.25	17.4	-0.6	21.0	-5.6	-50.0	
Strong Mid Cap Growth Fund II	S **	10.64	20.1	0.8	17.1	-1.2	-25.5	
Strong Opportunity Fund II	H ***	12.97	15.6	1.0	21.1	-0.7	-6.5	
CS Int'l Focus	H ***	7.68	8.4	2.7	18.6	-12.1	-19.4	
CS Global Post-VC	S **	7.72	18.2	3.9	28.7	-9.8	-24.4	
CS Small Cap Growth	S **	8.68	18.3	0.8	20.9	-0.2	-19.8	
Fidelity Monitor VIP Sector Model		10559.27	26.9	0.7	25.8	10.7		
Fidelity Monitor VIP Growth Model		24030.08	11.1	0.7	15.5	-1.2	-12.8	-2.2
Fidelity Monitor VIP G&I Model		18450.55	9.6	1.2	10.2	8.5	-2.8	0.3
Fidelity Monitor VIP Income Model		17067.49	7.4	0.7	4.6	12.9	5.0	2.7

INCOME MODEL

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

FUND	NAV	SHARES	BALANCE
Short-Term Bond	\$9.09	1555.953	\$14143.61
Ultra-Short Bond	\$10.03	1544.513	\$15491.47
High Income	\$8.59	1221.642	\$10493.90
Floating Rate	\$9.80	1839.974	\$18031.75
Ginnie Mae	\$11.22	1252.784	\$14056.24

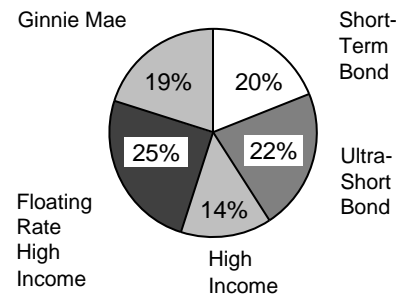
3% Foreign Holdings

Balance as of 6/30/03: \$72216.97

Balance at start of 2003: \$68975.37

PERFORMANCE

1992:	+ 10.1%
1993:	+ 11.3%
1994:	- 2.1%
1995:	+ 14.8%
1996:	+ 9.0%
1997:	+ 10.5%
1998:	+ 3.5%
1999:	+ 3.0%
2000:	+ 0.3%
2001:	+ 5.6%
2002:	+ 5.4%
*2003:	+ 4.7%



Our Income Model rose 0.7% in June.

GROWTH AND INCOME MODEL

Our Growth and Income Model is for conservative growth, with a long-term goal of 11% per year. The model holds funds that focus on stocks and bonds.

FUND	NAV	SHARES	BALANCE
Capital & Inc.	\$7.74	3609.004	\$27933.69
Balanced	\$14.86	3764.818	\$55945.20
Conv. Securities	\$18.46	1630.896	\$30106.34

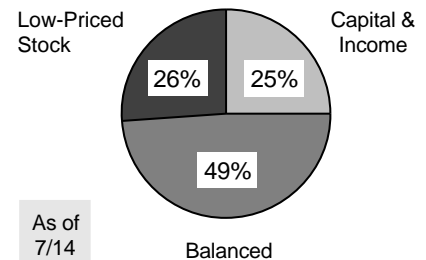
7% Foreign Holdings

Balance as of 6/30/03: \$113985.23

Balance at start of 2003: \$97626.98

PERFORMANCE

1994:	- 3.7%
1995:	+ 21.6%
1996:	+ 15.8%
1997:	+ 18.7%
1998:	+ 11.1%
1999:	+ 12.2%
2000:	+ 2.7%
2001:	+ 1.3%
2002:	- 6.4%
*2003:	+ 16.8%



Our Growth and Income Model gained 1.5% in June. On 7/14 we will sell **Convertible Securities** and buy **Low-Priced Stock**.

GROWTH MODEL

Our Growth Model aims for long-term growth of 15% per year. The model will typically invest in a mix of domestic stock funds and will focus only on those that do not charge a load.

FUND	NAV	SHARES	BALANCE
Export	\$15.60	2533.346	\$39520.20
Capital Apprec.	\$19.89	2213.934	\$44035.15
Leveraged Co.	\$15.04	1883.240	\$28323.93

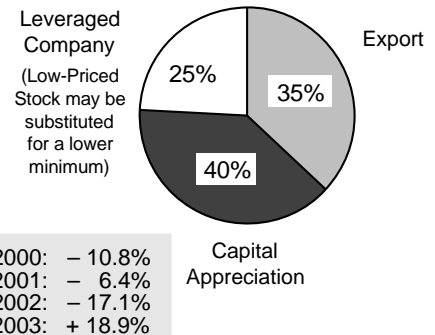
7% Foreign Holdings

Balance as of 6/30/03: \$111879.28

Balance at start of 2003: \$94089.60

PERFORMANCE

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



For the month of June our Growth Model was up 2.8%, versus 1.3% for the S&P 500.

SELECT SYSTEM

Our Select System aims for growth in sector funds, and has a long-term goal of 18% per year. We use a valuation model to identify attractive growth sectors.

FUND	NAV	SHARES	BALANCE
Energy Services	\$31.17	1023.041	\$31888.19
Developing Com.	\$12.57	3151.676	\$39616.57
Biotechnology	\$46.88	938.154	\$43980.66
Software	\$42.00	938.003	\$39396.13
Technology	\$47.92	676.687	\$32426.84
Computers	\$28.13	1050.463	\$29549.52

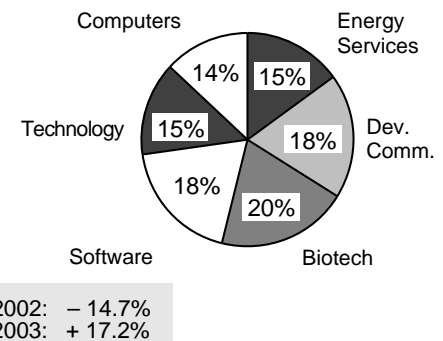
6% Foreign Holdings

Balance as of 6/30/03: \$216857.91

Balance at start of 2003: \$185070.14

PERFORMANCE

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



In June we were up 0.6%, versus 1.3% for the S&P 500. On 6/9 we sold **Retailing** (\$38.42), buying **Energy Services** (\$32.45). We also sold **Banking** (\$34.41), buying **Dev. Com.** (\$12.66).

However, both funds may benefit from companies that initiate dividends in the coming months, which may help them to outperform the S&P 500. Consider selling other diversified stock funds if you decide to take a position in either fund.

• **Utilities Fund.** This fund has a yield of 1.9%, but the percentage of troubled companies is much higher. Many electric utilities are still reeling from the after-effects of deregulation. Telecom firms have been struggling with heavy-handed competition and weak demand. Overall, we don't see much potential for these stocks to raise their dividends, but the fund still makes a decent turnaround play. Invest only if you don't mind taking on the risk of a sector fund.

• **Balanced and Puritan.** These funds have respective yields of 1.6% and 2.4%, although most of their income comes from the bond side of their portfolios, where there is no tax break. Nevertheless, these funds offer a less-risky way to participate in the capital appreciation of dividend stocks (both carry about 60% of the S&P 500's volatility). The stocks held by **Balanced** are similar to those in **Dividend Growth** and **Equity-Income II**, whereas the stock side of **Puritan** closely resembles that of **Equity-Income**. If you have any shares in long-term bond funds (investment-grade or government), consider an exchange to **Balanced** or **Puritan**. You'll take on some additional risk, but you'll also buy yourself some protection against rising interest rates. ■

JUNE DISTRIBUTIONS

Asset Manager	\$ 0.09 / \$15.04 (6/6)
Asset Manager: Income	\$ 0.02 / \$11.71 (6/6)
Balanced	\$ 0.06 / \$15.03 (6/6)
Convertible Securities	\$ 0.18 / \$18.46 (6/6)
Equity-Income	\$ 0.18 / \$44.13 (6/6)
Equity-Income II	\$ 0.05 / \$20.12 (6/6)
Fidelity Fund	\$ 0.03 / \$24.83 (6/6)
Freedom Income	\$ 0.01 / \$11.00 (6/6)
Growth & Income	\$ 0.07 / \$32.96 (6/6)
Growth & Income II	\$ 0.01 / \$8.57 (6/6)
Inflation-Protected Bond	\$ 0.13 / \$11.17 (6/6)
Intermediate Bond	\$ 0.13 / \$10.94 (6/6)
Investment Grade Bond	\$ 0.10 / \$7.72 (6/6)
Large Cap Stock	\$ 0.02 / \$12.36 (6/6)
Mid-Cap Stock	\$ 0.04 / \$18.55 (6/6)
Puritan	\$ 0.10 / \$17.17 (6/6)
Real Estate	\$ 0.12 / \$20.38 (6/6)
Spartan 500 Index	\$ 0.30 / \$68.10 (6/6)
Spartan Gov't Income	\$ 0.12 / \$11.41 (6/6)
Utilities	\$ 0.05 / \$11.01 (6/6)

Funds scheduled for July (7/3) include **Asset Manager Income** and **Freedom Income**.

the two funds posted respective increases of 0.7% and 0.8%.

BOND FUNDS

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

Capital & Income and **High Income** did well with respective gains of 3.5% and 2.7%. But most other investment-grade and government funds were hurt by rising long-term interest rates. **Inflation-Protected Bond**, down 1.0%, saw the worst of it. The fund was also hurt by lower energy prices, which can reduce the future rate of inflation. Muni bond funds saw declines ranging from 0.2% to 0.7%.

SELECT PORTFOLIOS

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

Good news from shipping carriers helped the transportation groups. **Air Transportation** led the group with an 11.7% jump, and **Transportation** also did well with a 4.0% increase. Prospects for a stronger economy pushed **Retailing** up 5.2%. **Defense**, rising 4.5%, responded to signs of unrest in Iraq. On the bottom end, **Natural Gas** slipped 2.2%, **Chemicals** declined 2.4%, **Electronics** slid 3.1% amid weak chip demand, and **Energy Services** fell 7.3% as fossil fuel inventories were revised upward. ■

Happenings

Fidelity eliminated its sales charge on the few remaining diversified funds that carried a 3% front-end load in taxable accounts. **Contrafund, Contrafund II**, and **Low-Priced Stock** are now available no-load in all accounts. **Magellan** and **New Millennium**, while remaining closed to new retail accounts, have become no-load for existing shareholders who add to their positions.

Blue Chip Value made its debut in late June. The new fund is essentially a large-cap version of **Value**, which focuses on the mid-cap arena. Manager Brian Hogan will compete with the Russell 1000 Value Index, just as **Structured Large Cap Value** does. However, Hogan will be allowed greater flexibility in picking stocks and overweighting sectors. We'll be rating the fund a hold. ■

Money Market Funds	Size	Yield	Money Market Funds	Size	Yield	Money Market Funds	Size	Yield
Cash Reser (55/FDRXX)	56910.5	0.93	CT MM (418/FCMXX)	1017.3	0.63	FL MM (428/FSFXX)	952.5	0.69
Select MM (85/FSLXX)	899.7	0.93	MA MM (74/FDMXX)	3179.7	0.61	Spart MA MM (426/FMSXX)	1013.7	0.71
Spart MM (454/SPRXX)	6907.2	0.89	MI MM (420/FMIXX)	577.4	0.63	Spart Municipal (460/FIMXX)	2989.4	0.84
Spart US Gov't (458/SPAXX)	724.6	0.84	NJ MM (417/FNJXX)	1278.4	0.61	Spart NJ MM (423/FSJXX)	580.9	0.77
Spart US Treas (415/FDLXX)	2563.8	0.74	NY MM (92/FNYXX)	2823.1	0.66	Spart NY MM (422/FSNXX)	1124.9	0.78
Tax-Free MM (275/FMOXX)	569.7	0.75	OH MM (419/FOMXX)	638.8	0.69	PA MM (401/FPTXX)	279.1	0.66
US Gov't Reser (50/FGRXX)	2449.5	0.94	AZ MM (433/FSAXX)	133.3	0.73	Municipal MM (10/FTEXX)	13096.1	0.74
CA MM (97/FCFXX)	2648.0	0.64	Spart CA MM (457/FSPXX)	1297.8	0.81			