

Freedom Family Makes It Easy

Putting your retirement portfolio on autopilot just got a little more attractive. Fidelity recently eliminated fees on all of its Freedom fund-of-funds. These investment vehicles offer a managed mix of stock funds, bond funds, and cash – one that grows increasingly conservative with time.

The elimination of the 0.08% fee means that investors are now paying expenses solely on the underlying Fidelity funds, just as they would if they were buying those funds directly. In effect, the asset allocation and rebalancing have become free services.

The Freedom portfolios are considered “lifecycle” funds. Their asset allocation is continuously adjusted in a structured fashion, using a rolldown process to align shareholders with an allocation that’s appropriate for the time horizon at hand.

Lifecycle investing is winning converts among individual and professional investors. It eliminates the tendency to chase performance in bullish times and retreat to cash after sustaining losses. Such attempts to time the market are intended to improve performance, but almost always have the opposite effect. The lifecycle approach solves this problem not only by imposing a strict investment discipline, but also by guarding against excessive caution by young investors, and excessive risk-taking by those who are nearing retirement.

HOW IT WORKS

Here’s an example using **Freedom 2040**. This fund currently holds 72% in domestic stock funds, 17% in foreign stock funds, 10% in high-yield bond funds, and 1% in investment-grade bond funds. With 30 years until retirement, it makes sense to have around 90% in stocks. The extra risk will allow your portfolio to grow much faster than inflation, increasing your purchasing power. There’s always the chance that a bear market may inflict considerable damage along the way, but at this stage there’s plenty of time to recover.

Ten years from now, **Freedom 2040**’s mix will become a bit more conservative as assets are shifted from foreign stock funds and high-yield bond funds into investment grade bond funds. The portfolio will

FREEDOM FAMILY - *Continued on page 2*

Review & Recommendations

Consumer confidence continued to climb in June, and a rebound in the dollar helped reduce concerns about inflation. Some investors were rattled as oil took a run at \$60, but with relatively few warnings for second quarter earnings, the U.S. economy appears to be taking high energy prices in stride. The S&P 500 gained 0.2% for the month.

GROWTH FUNDS

Growth Model holdings are listed on page 7. Our favorites include **Value**, **Contrafund**, and **Structured Large Cap Value**. **Small Cap Value** and **Leveraged Company**, both of which were downgraded to a hold two months ago, have been upgraded to a buy rating. We’re still a little worried about the flattening yield curve and the unfavorable implications for smaller stocks. Still, with credit widely available across all quality levels, a reduced interest rate spread seems unlikely to slow the U.S. economy as much as it has in the past.

Small stocks saw renewed interest as fears of a weak economy continued to dissipate. **Small Cap Growth** was up 6.5%, **Small Cap Independence** gained 5.1%, **Small Cap Value** and **Structured Mid Cap Value** both rose 4.2%, and **Leveraged Company** increased 3.4%. Large-cap growth stocks were hurt by global economic weakness. **Growth Company** was off 0.1%, **Blue Chip Growth** declined 0.3%, and **OTC Portfolio** slid 0.6%.

INTERNATIONAL FUNDS

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

Foreign funds that were overweighted in cyclical stocks seemed to benefit from the dollar’s strength. **Latin America** climbed 5.1%, **Int’l Small Cap** rose 4.9%, and **Canada** posted a 4.7% increase. On the flip side, funds that held more than just foreign stocks tended to trail behind. **Global Balanced** rose 1.0%, and **Worldwide** edged up 0.8%.

GROWTH & INCOME FUNDS

Growth and Income Model holdings are listed on page 7. Our favorites include **Strategic Dividend & Income** and **Equity-Income I & II** for dividend stocks. Go with **Puritan** or **Balanced** for a blend of

RECOMMENDATIONS - *Continued on page 8*

probably look a lot like **Freedom 2030**'s present mix – 69% domestic stock funds, 14% foreign stock funds, 8% high-yield bond funds, and 9% investment grade funds. Stocks are still the dominant focus because they are likely to provide the best returns over 20 years or more, but an 18% bond position helps to reduce the downside exposure a bit.

Twenty years from today, **Freedom 2040** will become noticeably more conservative. Being about 15 years away from its target date, the portfolio will start to look more like a balanced fund in order to better cushion against a major stock-market decline. Expect an asset mix of roughly 60% domestic stock funds, 12% foreign stock funds, 8% high yield bond funds, and 20% investment-grade bond funds (similar to **Freedom 2020** today).

Thirty years from now, **Freedom 2040**'s cash and bond holdings will outflank its stock exposure. With only 5 years until its target date, bonds and cash provide the stability that's necessary to preserve prior gains. A downturn for stocks or bonds could still lead to a decline in value, but the losses would be limited, with a good chance for recovery ahead of the target date. Asset mix should be similar to the present-day holdings of **Freedom 2010**: 43% domestic stock funds, 5% foreign stock funds, 6% high-yield funds, 37% investment-grade bond funds, and 9% money market.

As **Freedom 2040** closes in on its target date, stock funds and high-yield bond funds will continue to be liquidated for cash. As the calendar turns to 2040, the fund's mix of assets will be something like 39% domestic stock funds, 6% foreign stock funds, 5% high-yield bond funds, 40% investment grade bond funds, and 10% money market. This is hardly a risk-free blend of securities, but overall it will be sufficiently conservative for an investor who is depending on his or her portfolio for living expenses.

Freedom 2040 will continue to reduce equity exposure and raise cash for about 7 years past its target date, with the ultimate goal of holding 20% stock funds, 40% investment-grade bond funds, and 40% money market. Once that goal has been attained, the fund will look a lot like **Freedom Income**, and may even be merged with it.

CONSIDERATIONS

The Freedom family currently uses eight funds for its domestic stock allocation: **Equity-Income, Disciplined Equity, Growth & Income, Fidelity Fund, Blue Chip Growth, Growth Company,**

Mid-Cap Stock, and OTC Portfolio. The lack of any outstanding performers in this group has prompted criticism that Fidelity is really just a "closet indexer" on the domestic stock side. There may be some truth to that, but odds are Fidelity will be trying to diversify and improve its mix as time goes on. There needs to be more emphasis on mid-caps and small-caps (where Fidelity has a greater research advantage), and less overlap between large-cap funds.

Five funds are used for foreign stock exposure: **Europe, Diversified Int'l, Overseas, Japan, and Southeast Asia.** **Diversified Int'l** has helped overall returns here. **Europe** has also been a key contributor since David Baverez took over the fund in early 2003.

Capital & Income and **High Income** provide high yield bond exposure. Both funds have performed strongly for the amount of risk incurred in recent years, although **High Income** continues to trail its benchmark because of heavy exposure to the telecom sector in 2000.

Government Income, Investment Grade Bond, and Intermediate Bond provide high-quality bond exposure. All three have performed strongly relative to their peers in the industry.

The Freedom funds have been fairly tax-efficient. So far, payouts have been higher than index funds, but lower than many actively managed stock funds. Fidelity is keeping the **Freedom** group's turnover very low, so most of the payout dollars represent pass-through activity from the underlying funds.

That may change as some funds approach their target retirement dates. As inflows dwindle and redemptions pick up, distributions could increase. By then, however, most **Freedom** shareholders will presumably be in retirement, and may be in a lower tax bracket. Furthermore, the overall tax bite should be no worse than liquidating any other long-term position that has substantial unrealized gains.

RECOMMENDATIONS

The main benefit of a Freedom fund is relief from the burden of fund selection and periodic rebalancing of your portfolio. The main drawback is you may not earn as much compared with keeping all your assets in stock funds.

Still, for some investors, being reasonably sure about a long-term return in the range of 7-10% per year is a big improvement over the endless game of chasing the market, which too often results in buying near the top and selling near the bottom.

Like most growth and income funds, the Freedom funds occupy a sweet-spot on the efficient frontier

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throughout most of their rolldown period. During that time the funds take on enough risk to grow faster than inflation, but not enough to cause major damage if things go the wrong way.

For some investors, a single Freedom portfolio may be all that's needed. In the event that your anticipated retirement date is – for example – 2017, you can just round up to the nearest 5-year target. In this case, **Freedom 2020** entails only a small amount of additional risk. Granted, there's nothing to be lost by holding a mix of **Freedom 2015** and **Freedom 2020**, but the overall impact on asset mix with the blended approach would be minimal.

One final point to keep in mind. Even if you decide not to invest in a Freedom fund for yourself, these funds make nice gifts for family members who are too young or too busy to tend their own portfolio. Because rebalancing and asset allocation functions are built-in, they are truly “buy-and-forget” investment vehicles. ■

Question & Answer Forum

There's been a lot of discussion about the decline of long-term interest rates while the Fed continues to tighten. What's your take on the bond market conundrum?

Over the last decade, it's become much cheaper and easier to hedge out currency risk for the world's major currencies. Contributing factors include the expanding role of derivatives, the creation of the euro, and the globalization of financial services.

What this means is that major borrowers are increasingly able to borrow wherever long-term interest rates are low, and investors can more easily put their money where it can earn higher returns while maintaining low credit risk.

As such, market forces are causing long-term interest rates to converge on a global basis. The yield on longer-term treasury bonds now reflects the global marketplace more than the domestic economy. Even with the U.S. economic expansion still on a strong footing, weakness in other areas (especially Europe) has reduced the demand for capital, causing long-term interest rates to edge lower.

With less control over long-term interest rates, the Fed's influence on the domestic economy carries less impact, meaning that short-term interest rates must move up more to have a slowing effect on the economy, and must decline more to rev it up. That suggests the current string of rate hikes might go on for longer than the market currently expects. And the

next time there's a significant slowdown, the Fed may face the same dilemma as the Japanese government – once you take short-term interest rates down to zero, it's tough to find other ways to boost the economy.

Given your favorable long-term outlook for the energy sector, do you plan to increase the Select System's weighting in this group?

In April, along with other changes, we increased the Select System's energy choices to include **Energy**, **Energy Services**, **Natural Gas**, and **Nat. Resources**. However, out of the six funds held, we kept the model limited to a single energy position. Now we are evaluating a change that would allow the portfolio to hold up to two energy Selects, or roughly one-third of the portfolio. This would represent a significant change, because energy funds are less predictable than other major industries – although they tend to carry less risk than other sectors over the long run. We expect to make a decision in the next few months. Allowing the model to hold two energy funds would probably result in the addition of **Natural Gas** to the portfolio, although it's not yet clear which fund would be given up.

Your article on energy appears to dismiss any chance of the U.S. becoming energy independent. Is there no hope?

Eliminating the need for imported oil would require a reduction in gasoline use of roughly 50%. That's not impossible, but even with sharply higher fuel prices it may be a tough thing to achieve inside of 20 years. History tells a sobering tale. Between 1969 and 1978, the price of oil increased by a *factor of 14*, yet global consumption still rose by over 40% – from 45 to 65 million barrels per day.

On the plus side, high-efficiency vehicles are already in production. The current model Toyota Prius gets 2-3 times better mileage than the average vehicle on the road, and it does so with little or no tradeoffs. High-mileage diesel vehicles, which are popular in Europe, may gain traction in the U.S. when GTL diesel fuel becomes available (derived from natural gas, it burns cleaner than gasoline). Honda has begun to market a Compressed Natural Gas (CNG) Civic on a nationwide basis, although its shorter range and the limited availability of filling stations make it less suitable for out-of-town trips.

Fuel-cell vehicles, widely hyped as the best way to cut oil use, will offer little help in the next 20 years. Currently they cost 10-20 times more than a hybrid, and their efficiency is not much better than a Prius. ■

GUIDE TO FIGURES LISTED ON PAGES 4 AND 5

Gain/loss percentages are for prior month's close (annualized for periods over a year). Reinvested distributions are assumed, with no adjustment for loads. Size figures are for the beginning of the prior month, in millions. Dividend Yield is based on actual dollars posted to accounts, not the SEC yield that Fidelity must quote. Risk is based on standard deviation of daily gains and losses over a one-year period, relative to the S&P 500. Fee: **0.75(90)** indicates a 0.75% redemption fee on shares held less than 90 days. As of September, 2003, all retail Fidelity funds are no-load. If a fund is closed to new investors, we will list it as such in the Fee column. Ratings: **B ******* is **favorite buy**, **B ****** means **buy**, **H ***** means **hold** for the long run, **S **** means cut to 5% of holdings, **S *** means **sell** and move to a buy-rated fund in the same group. Upgrades and downgrades are indicated by ↑ and ↓.

JUNE PERFORMANCE						2005	One	Three	One	3-Yr	5-Yr	10-Yr
Fund Name (Code/Symbol)	Rating	Risk	Fee	NAV	Size	YTD	Mth	Mth	Year	Rate	Rate	Rate
Aggressive Gth (324/FDEGX)	H***	1.43	1.5(90)	16.29	4408.0	-1.9	1.6	6.6	1.4	10.7	-20.3	3.6
Blue Chip Gth (312/FBGRX)	H***	1.02	none	40.84	22233.8	-2.1	-0.3	2.0	1.3	5.2	-6.9	6.9
Blue Chip Value (1271/FBCVX)	H***	1.04	none	12.63	164.6	0.6	1.2	1.0	10.5			
Capital Apprec (307/FDCAX)	H***	1.27	none	25.24	6454.4	-3.0	0.1	1.7	4.1	13.2	0.2	10.0
Contrafund (22/FCNTX)	B****	0.95	none	58.61	48045.5	3.3	1.7	3.0	11.9	11.5	2.6	12.0
Discovery (339/FDSVX)	S**	0.92	none	10.70	464.3	-5.3	0.8	3.1	4.6	5.4	-3.8	
Disc Equity (315/FDEQX)	H***	1.07	none	25.93	5423.4	2.5	1.2	2.1	11.1	9.1	-1.2	9.5
Dividend Gth (330/FDGFY)	H***	1.03	none	27.89	17227.9	-2.1	0.6	2.2	1.6	6.1	0.4	11.6
Export Fund (332/FEXPX)	H***	1.12	0.75(30)	19.98	2662.2	1.7	1.2	3.3	10.2	13.2	4.0	14.8
Fidelity Fifty (500/FFTYX)	H***	1.20	0.75(30)	20.07	804.4	-2.7	0.1	1.5	2.9	5.8	2.1	10.8
Growth Company (25/FDGRX)	H***	1.41	none	55.84	24383.1	-0.4	-0.1	5.6	5.9	11.9	-7.6	10.1
Large-Cap Stock (338/FLCSX)	H***	1.05	none	14.24	630.2	-2.3	0.5	1.3	1.5	4.5	-6.9	7.8
Lev Co Stock (122/FLVCX)	B****↑	1.47	1.5(90)	24.15	2868.1	6.5	3.4	1.7	22.6	47.4		
Low-Priced Stock (316/FLPSX)	B****	0.96	Closed	41.10	35218.4	2.1	3.2	3.1	16.5	15.6	18.7	16.6
Magellan (21/FMAGX)	S**	1.01	Closed	102.24	55737.8	-1.2	0.0	1.5	3.9	6.0	-4.2	7.6
Mid Cap Stock (337/FMCSX)	H***	1.28	0.75(30)	23.70	8437.3	1.2	3.1	5.0	8.1	9.1	0.0	12.7
New Millennium (300/FMILX)	H***	1.33	Closed	30.21	3134.0	-4.7	1.9	0.2	0.6	7.4	-4.3	15.5
OTC Portfolio (93/FOCPX)	S**	1.47	none	34.14	7751.3	-1.6	-0.6	4.9	2.7	9.5	-10.4	8.4
Independence (73/FDFFX)	H***	1.17	none	17.58	4416.3	-1.3	0.5	1.9	5.9	8.2	-5.8	9.3
Small Cap Gth (1388/FCPGX)	H***	1.3 Est	1.5(90)	12.17	110.3	6.7	6.5	4.4				
Small Cap Indep (336/FDSCX)	H***	1.14	1.5(90)	20.23	1126.5	2.6	5.1	3.8	13.0	9.7	5.1	8.8
Small Cap Stock (340/FSLPX)	H***	1.20	2(90)	17.41	4055.9	-0.6	3.3	2.3	6.6	12.7	7.3	
Small Cap Value (1389/FCVPX)	B****↑	0.9 Est	1.5(90)	11.88	410.0	6.5	4.2	3.9				
Stock Selector (320/FDSSX)	H***	1.01	none	22.77	770.7	-0.2	0.1	2.0	6.3	8.6	-2.9	8.0
Strc Lg Cap Gth (763/FSLGX)	H***	1.32	0.75(30)	10.65	70.0	3.8	0.6	3.1	12.6	10.3		
Strc Lg Cap Val (708/FSLVX)	B****	1.02	0.75(30)	12.50	235.1	3.0	2.8	2.9	14.3	10.2		
Strc Mid Cap Gth (793/FSMGX)	H***	1.42	0.75(30)	12.09	98.9	3.6	2.3	3.9	14.2	14.4		
Strc Mid Cap Val (762/FSMVX)	B****	1.12	0.75(30)	14.74	197.3	4.6	4.2	5.0	20.2	13.0		
Focused Stock (333/FTQGX)	H***	1.29	0.75(30)	10.79	76.3	6.8	2.2	3.7	17.1	6.9	-6.0	
Trend (5/FTRNX)	H***	1.00	none	53.31	850.9	-0.6	0.3	1.9	6.3	8.6	-2.4	6.2
Value (39/FDVLX)	B****	1.05	none	74.49	11381.0	4.5	2.4	3.7	16.4	14.6	14.7	12.7
Value Discovery (832/FVDFX)	H***	1.12	none	14.39	130.9	5.2	2.9	3.5	15.2			
Value Strategies (14/FSLSX)	H***	1.55	none	35.95	186.0	-3.9	0.6	2.2	4.3	15.3	10.3	
GROWTH & INCOME FUNDS:												
Balanced (304/FBALX)	B****	0.79	none	18.15	13362.3	2.3	2.0	3.3	10.4	11.6	7.2	10.4
Convertible Sec (308/FCVXS)	B****↑	0.77	none	21.12	1696.1	-1.9	2.8	1.9	5.2	10.1	2.6	11.8
Equity-Income (23/FEQIX)	B****↓	0.96	none	51.34	25886.1	-1.3	0.8	0.5	6.2	8.1	4.5	10.2
Equity-Income II (319/FEQTX)	B****↑	1.01	none	23.36	12210.2	-1.6	0.3	0.6	7.6	9.8	4.9	10.1
Fidelity Fund (3/FFIDX)	H***	0.96	none	29.74	10350.3	-0.2	0.0	1.4	4.6	7.0	-3.1	9.6
Growth & Income (27/FGRIX)	B****	0.89	none	37.48	31186.4	-1.6	0.0	0.9	5.5	5.3	-1.4	9.3
Growth & Inc II (361/FGRTX)	H***	0.91	none	9.28	183.5	-3.9	-0.2	-2.0	1.7	6.6	-1.5	
Puritan (4/FPURX)	B****	0.62	none	18.82	23739.6	-0.1	0.8	1.2	6.5	8.4	5.4	9.3
Strategic Div & Inc (1329/FSDIX)	B****	0.81	none	11.54	685.7	1.7	1.9	2.9	12.6			
Utilities (311/FUIX)	B****↑	0.97	none	14.30	983.3	5.6	3.8	5.2	25.5	14.3	-5.5	7.9
SELECT FUNDS:												
Air Transportation (34/FSAIX)	H***	1.46	0.75(30)	34.10	35.2	1.2	-0.5	0.4	6.9	6.5	4.2	10.9
Automotive (502/FSAVX)	S**	1.21	0.75(30)	32.68	16.3	-6.1	1.2	0.2	1.8	6.9	10.2	7.3
Banking (507/FSRBX)	H***	1.02	0.75(30)	37.26	457.1	-4.1	1.1	2.5	7.0	7.8	11.2	13.9
Biotechnology (42/FBIOX)	S**	2.26	0.75(30)	54.52	1606.0	-5.4	0.7	12.6	-7.2	12.6	-9.4	11.4
Brokerage (68/FSLBX)	B****↑	1.38	0.75(30)	59.38	391.9	6.3	7.0	12.7	23.9	14.5	6.8	17.8
Business Ser (353/FBSOX)	H***	1.13	0.75(30)	15.00	34.1	-5.1	1.6	0.0	4.8	6.9	4.5	
Chemicals (69/FSCHX)	H****↓	1.52	0.75(30)	65.06	226.2	-3.7	1.0	-6.4	19.0	14.3	14.3	10.8
Computers (7/FDCPX)	H***	2.01	0.75(30)	33.71	610.2	-4.1	-1.7	0.9	-3.4	8.4	-17.2	8.5
Const & Housing (511/FSHOX)	H***	1.64	0.75(30)	46.88	220.0	8.6	5.3	10.4	31.8	18.8	22.5	15.7
Consumer Indust (517/FSCPX)	H***	1.05	0.75(30)	24.53	41.2	-0.5	0.3	1.8	8.9	4.9	1.6	9.8
Cyclical Indust (515/FCYIX)	H***	1.28	0.75(30)	18.38	61.8	0.3	1.0	-0.2	14.3	14.0	10.4	
Defense & Aero (67/FSDAX)	B****	1.19	0.75(30)	70.95	716.1	9.4	1.5	4.1	20.6	14.3	14.0	15.3
Develop Commn (518/FSDCX)	H***	1.93	0.75(30)	17.82	473.8	-7.8	-0.6	4.1	-2.6	19.0	-17.9	6.6
Electronics (8/FSLEX)	H***	2.32	0.75(30)	39.17	2673.4	3.7	-0.7	4.5	-2.7	4.7	-16.4	11.4
Energy (60/FSENX)	B****	1.85	0.75(30)	40.22	1241.6	26.0	8.8	7.2	46.8	21.9	11.7	14.5
Energy Services (43/FSSES)	H***	2.29	0.75(30)	52.07	820.2	22.1	9.6	6.1	43.6	18.6	8.0	17.1
Environmental (516/FSLEX)	S**	1.22	0.75(30)	14.58	27.9	2.0	3.3	9.6	4.8	10.6	6.2	2.4
Financial Services (66/FIDSX)	H***	1.04	0.75(30)	107.99	452.8	-2.5	2.2	4.4	7.1	8.8	8.1	14.2
Food & Agriculture (9/FDFAX)	H***	0.87	0.75(30)	50.33	137.3	-0.2	-1.2	-0.9	8.8	5.3	8.2	9.6
Gold (41/FSAGX)	H***	2.20	0.75(30)	24.23	594.6	-4.6	8.4	-2.4	10.7	8.3	17.3	3.3
Health Care (63/FSPHX)	H***	1.15	0.75(30)	136.60	2236.9	6.7	1.4	7.9	10.0	9.5	0.5	12.6
Home Finance (98/FSVLX)	H***	1.11	0.75(30)	57.24	354.8	-8.9	2.1	3.4	0.1	7.8	16.6	14.0
Indust Equip (510/FSCGX)	H***	1.33	0.75(30)	25.11	42.5	-3.8	-0.7	-2.9	3.5	10.5	2.0	8.8
Indust Materials (509/FSDPX)	H***	1.49	0.75(30)	36.63	121.0	-6.5	-0.2	-7.6	9.1	11.9	15.1	7.3
Insurance (45/FSPCX)	H***	1.22	0.75(30)	63.46	184.3	3.2	2.5	6.5	9.0	10.5	13.9	16.9
Leisure (62/FDLX)	H***	1.12	0.75(30)	74.04	202.2	-3.8	1.3	2.1	7.3	14.5	2.1	12.2
Medical Delivery (505/FSHCX)	B****	1.51	0.75(30)	50.12	1013.9	16.4	4.8	9.2	49.3	18.7	23.2	13.2
Medical Equip/Sys (354/FSMEX)	H***	1.09	0.75(30)	24.17	1093.0	3.3	0.2	5.3	7.2	18.7	11.8	
Multimedia (503/FBMPX)	H***	1.14	0.75(30)	44.47	87.8	-1.6	0.5	2.5	5.3	17.8	0.7	10.8
Natural Gas (513/FSNGX)	B****	2.15	0.75(30)	33.67	917.1	20.8	9.3	5.6	44.9	26.0	13.6	15.2
Nat Resources (514/FNARX)	B****	1.77	0.75(30)	20.12	329.8	17.8	7.8	4.0	34.4	18.5	10.6	
Networking/Infra (912/FNINX)	H***	2.16	0.75(30)	2.11	103.1	-10.2	-1.4	3.4	-10.6	6.0		
Paper & Forest (506/FSFPX)	S**	1.42	0.75(30)	27.20	24.4	-18.2	-2.1	-11.8	-15.7	-2.9	5.8	4.5
Pharmaceuticals (580/FPHAX)	S**	1.25	0.75(30)	8.86	119.4	-2.0	0.2	5.5	-1.0	3.4		
Retailing (46/FSRPX)	H***	1.29	0.75(30)	52.80	78.5	6.5	4.0	5.7	16.3	9.4	4.3	12.2
Software (28/FSCSX)	H***	1.58	0.75(30)	49.26	647.2	-6.1	-0.8	5.5	1.1	11.5	-4.9	13.2
Technology (64/FSPTX)	H***	1.85	0.75(30)	58.31	1899.3	-3.1	-1.2	4.6	-2.4	11.8	-17.0	9.7
Telecom (96/FSTCX)	B****	1.26	0.75(30)	36.09	353.6	-2.7	1.1	5.8	9.5	19.5	-14.0	4.9
Transportation (512/FSRFY)	H****↑	1.57	0.75(30)	39.12	72.7	-7.7	-1.9	-5.4	10.4	11.1	11.8	12.6
Utilities Growth (65/FSUTX)	B****	0.93	0.75(30)	42.42	334.4	5.7	3.9	6.3	25.4	16.8	-5.6	9.3
Wireless (963/FWRX)	H***	1.36	0.75(30)	6.18	345.2	6.0	3.7	8.8	20.7	30.5		

JUNE PERFORMANCE							Div.	2005	One	Three	One	3-Yr	5-Yr
Fund Name (Code/Symbol)	Rating	Risk	Fee	NAV	Size	Yield	YTD	Mth	Mth	Year	Rate	Rate	Rate
Aggressive Int'l (335/FIVFX)	H***	0.98	1 (30)	16.47	683.6		-1.5	1.6	-0.4	11.6	9.3	-0.7	
Canada (309/FICDX)	B****	1.07	1.5(90)	35.97	1006.3		6.2	4.7	1.5	29.1	22.0	10.5	
Diversified Int'l (325/FDIVX)	H***	0.87	Closed	28.80	25715.4		0.6	1.8	0.4	14.9	14.6	5.0	
Emerging Mkts (322/FEMKX)	S**	1.14	1.5(90)	13.85	965.0		7.1	3.2	4.1	36.6	20.9	5.5	
Europe (301/FIEUX)	B****	1.04	1 (30)	35.22	2415.7		3.1	2.4	1.1	27.0	17.0	2.0	
Europe Cap Appr (341/FECAX)	H***	0.99	1 (30)	21.92	471.9		1.8	2.4	0.2	15.6	9.7	3.1	
China Region (352/FHKCX)	H***	0.91	1.5(90)	17.79	352.3		4.3	2.0	5.0	21.7	14.3	2.2	
Global Balanced (334/FGBLX)	H***	0.69	1 (30)	21.12	182.7		0.6	1.0	1.4	10.6	11.3	4.0	
Int'l Discovery (305/FIGRX)	H***	0.94	1 (30)	28.43	3085.0		0.8	2.2	1.1	14.6	14.0	2.9	
Int'l Small Cap (818/FISMX)	B****	1.01	2 (90)	24.82	1988.3		6.6	4.9	0.9	23.5			
Japan (350/FJPNX)	H***	1.61	1.5(90)	12.27	698.3		-4.1	1.2	-2.9	-4.8	7.7	-8.1	
Japan Smaller Co (360/FJSCX)	H***	1.65	1.5(90)	12.83	1191.6		2.0	3.6	1.6	-2.0	18.1	1.0	
Latin America (349/FLATX)	H***	1.81	1.5(90)	23.75	696.4		12.3	5.1	9.5	58.7	33.3	10.8	
Nordic (342/FNORX)	H***	1.14	1.5(90)	29.49	158.1		6.7	4.6	5.5	28.6	17.1	0.2	
Overseas (94/FOSFX)	H***	1.02	1 (30)	34.78	4522.2		-1.7	1.2	-0.2	10.5	9.8	-2.4	
Pacific Basin (302/FPBFX)	H***	1.13	1.5(90)	20.14	513.2		1.9	2.9	2.0	11.6	11.6	-2.2	
Southeast Asia (351/FSEAX)	S**	1.16	1.5(90)	17.74	600.2		8.0	2.0	4.2	30.2	16.1	3.3	
Worldwide (318/FWWFX)	H***	0.96	1 (30)	17.99	1155.6		-1.4	0.8	0.3	8.2	10.0	1.2	

INDEX AND ASSET ALLOCATION:

Four-In-One Index (355/FFNOX)	H***	0.82	0.5(90)	25.14	912.9		-0.1	0.9	1.8	8.4	9.7	0.1
NASDAQ Comp (1282/FNCMX)	S**	1.39	0.75(90)	27.84	107.4		-5.3	-0.5	3.0	0.7		
Spart Ext Mkt Idx (398/FSEMXX)	H***	1.18	0.75(90)	32.51	1492.9		1.8	3.3	5.4	13.5	15.2	1.6
Spart Int'l Index (399/FSIIX)	B****	0.95	1(90)	31.45	1223.0		-1.3	1.5	-0.9	12.5	11.6	-0.8
Spart 500 Index (317/FSMXX)	H***	1.00	0.5(90)	82.23	12437.8		-0.8	0.1	1.4	6.3	8.2	-2.5
Spart Total Mkt Idx (397/FSTMXX)	B****	1.02	0.5(90)	32.98	2969.4		0.1	0.8	2.3	8.1	9.7	-1.4
Asset Manager (314/FASMX)	H***	0.55	none	16.08	10438.2		-0.3	0.6	2.0	3.7	6.9	1.4
Asset Mgr Agg (347/FAMRX)	H***	1.14	none	10.96	382.5		-3.1	0.1	1.6	4.2	9.5	-4.6
Asset Mgr Gth (321/FASGX)	H***	0.76	none	14.61	3446.9		-1.4	0.6	1.8	3.0	7.2	-0.6
Asset Mgr Inc (328/FASIX)	B****	0.36	none	12.74	1615.3		1.4	1.0	2.2	6.4	7.9	4.8
Freedom 2000 (370/FFFVX)	B****	0.28	none	12.16	1596.7		1.3	0.5	1.9	4.8	5.0	2.6
Freedom 2005 (1312/FFFVX)	B****	0.45	none	10.84	276.1		0.9	0.6	2.2	6.4		
Freedom 2010 (371/FFFCX)	B****	0.48	none	13.65	8955.4		0.9	0.7	2.2	6.5	7.5	1.9
Freedom 2015 (1313/FFVFX)	B****	0.60	none	11.06	1092.6		0.6	0.7	2.3	7.1		
Freedom 2020 (372/FFFDX)	B****	0.70	none	13.93	10384.7		0.3	0.7	2.2	7.4	9.0	0.2
Freedom 2025 (1314/FFTXX)	B****	0.77	none	11.27	810.1		0.3	0.7	2.2	7.4		
Freedom 2030 (373/FFFEX)	B****	0.82	none	14.03	6135.8		0.1	0.8	2.1	7.7	9.3	-0.9
Freedom 2035 (1315/FFTHX)	B****	0.84	none	11.41	421.0		0.1	0.8	2.1	8.0		
Freedom 2040 (718/FFFFX)	B****	0.89	none	8.23	2301.4		0.0	0.9	2.1	8.0	9.8	
Freedom Income (369/FFFA)	B****	0.24	none	11.33	2005.7		1.3	0.4	1.8	4.4	4.4	3.3
Real Estate Income (833/FRIFX)	H***	0.24	0.75(90)	11.99	628.1		3.2	1.5	4.4	12.7		
Real Estate (303/FRESX)	S**	1.36	0.75(90)	31.17	4987.1		6.4	4.5	12.6	34.5	21.0	20.2
Int'l Real Estate (1368/FRIFX)	H***	1.3 Est	1.5(90)	11.83	157.6		0.3	2.4	4.4			

TAXABLE BOND FUNDS:

Capital & Income (38/FAGIX)	H***	0.29	1(90)	8.38	5062.6	5.74	1.8	1.8	2.5	14.1	21.3	6.6
Floating Rate (814/FRHXX)	H***	0.06	1(60)	9.94	2355.8	4.31	1.6	0.4	0.7	4.2		
Focused High Inc (1366/FHIFX)	H***	0.2 Est	1(90)	10.08	37.5	5.11	0.9	1.4	2.9			
GNMA Portfolio (15/FGMNX)	H***	0.23	none	11.10	4051.3	4.19	2.1	0.2	2.2	5.5	4.2	6.2
Gov't Income (54/FGOVX)	H***	0.31	none	10.34	4964.2	3.27	2.5	0.6	2.9	6.3	5.0	6.7
Intermed Bond (32/FTHRX)	H***	0.24	none	10.48	7349.2	3.88	1.5	0.4	2.3	4.8	5.2	6.8
Intermed Gov't Inc (452/FSTGX)	H***	0.24	none	10.23	901.4	3.33	1.5	0.4	2.3	4.1	4.0	6.1
Invest Grade Bond (26/FBNDX)	H***	0.30	none	7.52	6854.2	3.87	2.4	0.5	2.7	6.9	6.1	7.3
Mortgage Securities (40/FMSFX)	H***	0.23	none	11.26	1828.2	4.18	2.0	0.3	2.3	5.7	4.8	6.8
New Markets Inc (331/FNMIX)	H***	0.53	1(90)	14.32	1380.9	5.58	5.0	1.5	6.3	21.7	19.7	14.4
Short-Term Bond (450/FSHBX)	B****	0.13	none	8.95	4879.2	3.45	1.3	0.4	1.4	3.0	3.7	5.1
Spart Gov't Inc (453/SPGVX)	H***	0.31	none	11.14	855.9	3.61	2.5	0.5	2.8	6.3	5.3	7.0
High Income (455/SPHIX)	H***	0.24	1(90)	8.85	3068.6	6.69	0.5	1.7	2.3	9.2	14.8	4.1
Spart Invest Grade (448/FSIBX)	H***	0.29	none	10.72	2642.2	3.97	2.3	0.5	2.9	7.1	6.3	7.6
Strategic Income (368/FSICX)	H***	0.27	none	10.59	3726.3	4.87	1.3	1.1	2.5	11.8	12.4	9.4
Inflation-Protected (794/FINPX)	B****	0.50	none	11.49	1631.9	1.33	2.3	0.3	2.8	9.1	8.9	
Total Bond (820/FTBFX)	H***	0.28	none	10.66	403.9	4.18	2.1	0.6	2.9	7.4		
Ultra-Short Bond (812/FUSFX)	B****	0.06	0.25(60)	10.03	876.3	3.25	1.2	0.2	0.7	2.1		
US Bond Index (651/FBIDX)	H***	0.29	none	11.15	5644.2	4.03	2.3	0.6	2.9	6.7	6.1	7.4

MUNICIPAL BOND FUNDS:

Spart AZ Muni Inc (434/FAZXX)	H***	0.26	0.5(30)	11.62	95.4	3.64	2.5	0.5	2.9	7.6	5.4	6.6
Spart CA Muni Inc (91/FCTFX)	H***	0.25	0.5(30)	12.65	1524.8	4.12	2.9	0.7	3.1	8.6	5.7	6.6
Spart CT Muni Inc (407/FICNX)	H***	0.26	0.5(30)	11.72	441.8	3.98	2.1	0.6	2.8	6.7	5.1	6.4
Spart FL Muni Inc (427/FLLIX)	H***	0.26	0.5(30)	11.78	514.4	3.79	2.4	0.5	2.8	7.9	5.4	6.6
Spart Intermediate (36/FLTXX)	H***	0.22	0.5(30)	10.14	1854.0	3.87	1.9	0.5	2.5	6.3	5.1	6.2
Spart MA Muni Inc (70/FDMXX)	H***	0.25	0.5(30)	12.23	1807.4	4.21	3.1	0.5	3.1	8.7	6.0	6.9
Spart MD Muni Inc (429/SMDMX)	H***	0.25	0.5(30)	11.09	108.3	3.78	2.2	0.5	2.7	7.2	5.2	6.3
Spart MI Muni Inc (81/FMHTX)	H***	0.25	0.5(30)	12.12	574.9	3.93	2.3	0.6	2.8	7.3	5.6	6.7
Spart MN Muni Inc (82/FMIX)	H***	0.22	0.5(30)	11.64	353.4	4.02	2.2	0.5	2.6	7.0	5.2	6.2
Spart Municipal Inc (37/FHIGX)	H***	0.25	0.5(30)	13.16	4694.1	4.26	3.0	0.6	3.0	8.8	6.3	7.3
Spart NJ Muni Inc (416/FNJHX)	H***	0.27	0.5(30)	11.85	556.0	3.95	3.3	0.7	3.4	8.8	5.7	6.7
Spart NY Muni Inc (71/FTFMX)	H***	0.26	0.5(30)	13.13	1426.6	4.00	2.7	0.6	2.9	8.3	6.1	7.1
Spart OH Muni Inc (88/FOHFX)	H***	0.27	0.5(30)	12.04	429.4	4.02	2.7	0.7	3.1	8.5	5.9	6.9
Spart PA Muni Inc (402/FPXTX)	H***	0.24	0.5(30)	11.04	308.0	4.03	2.2	0.5	2.5	7.8	5.4	6.5
Spart Short-Int Muni (404/FSTFX)	B****	0.13	0.5(30)	10.30	1833.8	2.78	0.6	0.4	1.4	2.9	2.8	4.3
Spart Tax-Free Bond (90/FTABX)	H***	0.28	0.5(30)	10.92	298.7	3.94	3.2	0.7	3.4	9.3	6.5	

JUNE PERFORMANCE

Indexes	Risk	Value	2005 YTD	One Month	Three Month	One Year	3-Yr Rate	5-Yr Rate	10-Yr Rate
Dow Jones Industrial	1.00	10274.97	-3.6	-1.7	-1.6	0.7	5.9	1.7	10.6
S&P 500	1.00	1191.33	-0.8	0.2	1.4	6.3	8.3	-2.4	9.9
NASDAQ	1.38	2056.96	-5.1	-0.5	3.0	1.1	12.6	-11.9	8.7
Russell 2000	1.54	639.66	-1.3	3.8	4.2	9.4	12.8	5.7	9.9

JUNE PERFORMANCE			2005	One	Three	One	3-Yr	5-Yr	10-Yr
Model Portfolios	Risk	Value	YTD	Month	Month	Year	Rate	Rate	Rate
S&P 500	1.00	1191.33	-0.8	0.2	1.4	6.3	8.3	-2.4	9.9
Fidelity Monitor Income Model	0.06	78942.47	1.3	0.3	0.8	4.6	5.8	5.0	5.6
Fidelity Monitor G&I Model	0.66	146926.66	1.5	1.5	2.5	10.4	13.0	7.0	10.7
Fidelity Monitor Growth Model	1.03	158647.63	2.6	2.2	2.5	10.4	14.6	2.5	10.5
Fidelity Monitor Select System	1.12	283550.38	3.1	3.6	4.3	6.1	12.9	0.2	11.6
Fidelity Monitor Unique Opportunities	1.06	96252.70	5.3	3.5	3.4	17.3	19.4	10.0	

UNIQUE OPPORTUNITIES MODEL

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

FUND	NAV	SHARES	BALANCE
Natural Resources	\$20.12	742.049	\$14930.03
Utilities Growth	\$42.42	290.076	\$12305.02
Banking	\$37.26	350.928	\$13075.58
Leveraged Co.	\$24.15	980.276	\$23673.67
Value	\$74.49	433.191	\$32268.40

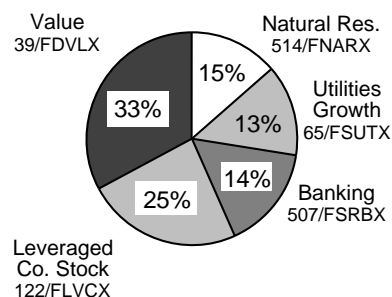
13% Foreign Holdings

Balance as of 6/30/05: **\$96252.70**

Balance at start of 2005: **\$91397.34**

PERFORMANCE

Partial Yr 99: + 33.8%
 2000: - 20.5%
 2001: + 1.6%
 2002: - 2.1%
 2003: + 43.2%
 2004: + 20.6%
 *2005: + 5.3%



Our Unique Opportunities Model gained 3.5% for the month of 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 (+1.7% YTD)

36% Contrafund, 24% Value, 40% Equity-Income

Portfolio B (+0.2% YTD)

61% Growth & Income, 39% Contrafund

Portfolio C (-1.3% YTD)

100% Equity-Income

Portfolio D (-1.3% YTD)

100% Equity-Income

In June, Portfolio A gained 1.5%, Portfolio B was up 0.6%, and Portfolios C and D both rose 0.8%.

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:

14% Cyc Ind, 16% Fin Ser, 33% Telecom & Utilities, 21% Natural Res, 16% Health Care

VIP GROWTH:

56% Equity-Income, 44% Contrafund

VIP G&I MODEL:

54% Asset Mgr, 32% Equity-Inc, 14% Investment Grade Bond.

VIP INCOME:

70% Inv. Grade, 30% Money Market.

JUNE VIP PERFORMANCE

Portfolio	Rating	Unit Value	2005 YTD	One Month	Three Month	One Year	3-Yr Rate	5-Yr Rate
VIP Asset Manager	B ****	31.13	-0.7	0.5	1.8	3.0	6.4	0.2
VIP Asset Manager: Growth	H ***	20.21	-1.8	0.5	1.6	2.2	6.8	-3.0
VIP Balanced	B *****↑	14.52	-2.3	-0.1	-0.5	2.6	5.6	0.1
VIP Consumer Industries	H ***	10.86	-0.6	0.3	1.7	8.2	4.6	
VIP Contrafund	B *****↑	35.54	3.2	1.8	3.0	11.6	11.1	2.1
VIP Cyclical Industries	B ****	13.65	0.2	1.0	-0.3	13.7	13.6	
VIP Dynamic Capital Appreciation	H ***	11.55	4.0	1.2	6.3	5.0		
VIP Equity-Income	B ****↓	54.06	-1.7	0.8	0.4	5.5	7.4	3.9
VIP Financial Services	H ***	11.95	-2.8	2.2	4.3	6.7	8.1	
VIP Growth	S **	53.20	-2.4	-0.2	1.8	-1.0	4.4	-8.8
VIP Growth & Income	H ****↓	15.61	-4.1	-0.3	-2.2	1.1	6.0	-1.9
VIP Growth Opportunities	B ****	11.83	-1.3	0.2	1.9	3.9	6.7	-5.3
VIP Health Care	B ****	11.07	6.3	1.2	7.7	9.4	8.9	
VIP High Income	H ***	27.82	-0.7	1.5	1.7	7.7	13.7	-0.1
VIP Index 500	H ***	31.55	-1.2	0.1	1.2	5.3	7.2	-3.3
VIP Investment Grade Bond	H ***	28.44	1.9	0.6	2.7	5.9	5.5	6.7
VIP Mid Cap	B ****	16.84	2.6	2.8	1.6	20.2	16.7	10.1
VIP Money Market		19.45	0.8	0.1	0.5	1.1	0.6	1.7
VIP Natural Resources	B ****	15.40	17.6	7.7	3.9	33.8	18.2	
VIP Overseas	H ***	29.00	-2.1	1.1	-0.3	9.7	8.5	-3.8
VIP Real Estate	S **	15.52	6.1	4.5	12.6	33.6		
VIP Strategic Income	H ***	11.00	1.1	1.1	2.2	10.7		
VIP Technology	H ***	8.93	-2.8	-1.5	4.0	-2.4	11.1	
VIP Telecom & Utilities	B ****	9.84	5.4	4.0	6.2	24.1	15.6	
VIP Value Strategies	H ***	12.32	-4.4	0.7	1.9	2.9		
Fidelity Monitor VIP Income Model		18664.49	1.7	0.4	2.0	7.1	7.3	4.9
Fidelity Monitor VIP G&I Model		21478.29	-0.7	0.6	1.5	4.2	8.1	1.3
Fidelity Monitor VIP Growth Model		30213.54	0.4	1.2	1.5	5.6	7.5	-3.6
Fidelity Monitor VIP Sector Model		14334.18	2.8	3.6	3.3	7.2	14.5	

INCOME MODEL

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

FUND	NAV	SHARES	BALANCE
Short-Term Bond	\$8.95	1641.473	\$14691.18
Ultra-Short Bond	\$10.03	4585.097	\$45988.52
Floating Rate	\$9.94	1837.301	\$18262.77

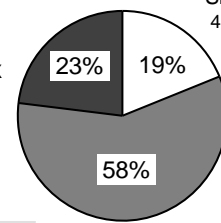
6% Foreign Holdings

Balance as of 6/30/05: \$78942.47
Balance at start of 2005: \$77905.57

PERFORMANCE

1992:	+ 10.1%
1993:	+ 11.3%
1994:	- 2.1%
1995:	+ 14.8%
1996:	+ 9.0%
1997:	+ 10.5%
1998:	+ 3.5%
1999:	+ 3.0%
2000:	+ 0.3%
2001:	+ 5.6%
2002:	+ 5.4%
2003:	+ 8.4%
2004:	+ 4.2%
*2005:	+ 1.3%

Floating Rate High Income
814/FFRHX



Ultra-Short
812/FUSFX

Short-Term
450/FSHBX

Our Income Model gained 0.3% during June. The model's income stream averaged 3.5%.

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.	\$12.74	2570.893	\$32753.18
Puritan	\$18.82	1780.836	\$33515.33
Balanced	\$18.15	1988.044	\$36083.00
Strat. Div. & Inc.	\$11.54	3862.665	\$44575.15

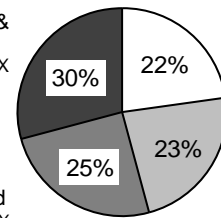
8% Foreign Holdings

Balance as of 6/30/05: \$146926.66
Balance at start of 2005: \$144788.14

PERFORMANCE

1994:	- 3.7%
1995:	+ 21.6%
1996:	+ 15.8%
1997:	+ 18.7%
1998:	+ 11.1%
1999:	+ 12.2%
2000:	+ 2.7%
2001:	+ 1.3%
2002:	- 6.4%
2003:	+ 33.0%
2004:	+ 11.5%
*2005:	1.5%

Strategic Dividend & Income
1329/FSDIX



Balanced
304/FBALX

Asset Mgr.
Income
328/FASIX

Our Growth and Income Model gained 1.5% for the month of June.

GROWTH MODEL

Our Growth Model aims for long-term growth of 13% per year. The model typically invests in a mix of domestic stock funds and will strive to hold profitable positions for at least one year.

FUND	NAV	SHARES	BALANCE
Small Cap Value	\$11.88	3197.846	\$37990.41
Value	\$74.49	812.842	\$60548.60
Equity-Income	\$51.34	1170.795	\$60108.62

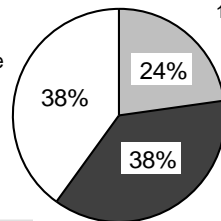
10% Foreign Holdings

Balance as of 6/30/05: \$158647.63
Balance at start of 2005: \$154558.63

PERFORMANCE

1987:	+ 2.8%
1988:	+ 26.0%
1989:	+ 30.4%
1990:	- 4.4%
1991:	+ 40.6%
1992:	+ 15.7%
1993:	+ 31.9%
1994:	- 2.1%
1995:	+ 27.2%
1996:	+ 19.2%
1997:	+ 25.5%
1998:	+ 9.9%
1999:	+ 29.0%
2000:	- 10.8%
2001:	- 6.4%
2002:	- 17.1%
2003:	+ 46.1%
2004:	+ 12.4%
*2005:	+ 2.6%

Equity-Income
23/FEQIX



Value
39/FDVLX

1389/FCPVX
Small Cap
Value

For June our Growth Model gained 2.2%, versus 0.2% for the S&P 500.

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	\$40.22	1360.001	\$54699.24
Banking	\$37.26	1457.511	\$54306.86
Utilities Growth	\$42.42	1313.858	\$55733.86
Chemicals	\$65.06	671.672	\$43698.98
Medical Delivery	\$50.12	795.875	\$39889.26
Telecom	\$36.09	975.954	\$35222.18

9% Foreign Holdings

Balance as of 6/30/05: \$283550.38
Balance at start of 2005: \$275072.39

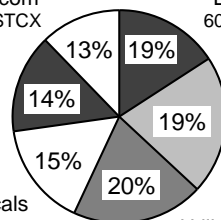
PERFORMANCE

1989:	+ 23.4%
1990:	+ 31.3%
1991:	+ 35.3%
1992:	+ 20.4%
1993:	+ 25.9%
1994:	- 0.9%
1995:	+ 39.0%
1996:	+ 5.2%
1997:	+ 29.3%
1998:	+ 21.7%
1999:	+ 44.9%
2000:	- 14.9%
2001:	- 7.3%
2002:	- 14.7%
2003:	+ 38.4%
2004:	+ 7.4%
*2005:	+ 3.1%

Telecom
96/FSTCX

Med Delivery
505/FSHCX

Chemicals
69/FSCHX



Utilities Growth
65/FSUTX

Energy
60/FSENX

Banking
507/FSRBX

Our Select System gained 3.6% in June, versus 0.2% for the S&P 500.

Happenings

Fidelity plans to increase its staffing levels to gain more of an edge in U.S. stock research. By hiring at least two dozen more analysts and making its research positions more permanent in nature, Fidelity aims to win back some of its advantage. The SEC's fair disclosure rule, which prohibits companies from selectively disclosing non-public information to large shareholders, went into effect over four years ago. It may partially explain why some of Fidelity's large-cap stock funds have lost their edge in recent years.

Fidelity also appears to be getting more serious about performance in its manager assignments, if the latest round of changes is any guide. Lawrence Rakers, current manager of **Balanced**, has added **VIP Balanced** to his responsibilities. Rakers has an outstanding record with **Balanced**, and we have upgraded **VIP Balanced** to a buy. Victor Thay has left **Convertible Securities** to manage **Growth & Income II**. We think he'll eliminate the fund's lopsided bias toward consumer stocks, and we'll be looking to upgrade **Growth & Income II** a few months down the road. Thomas Soviero has taken over **Convertible Securities** while continuing to run **Leveraged Company**. Soviero has done an outstanding job in high-yield bonds and leveraged stocks, so we're upgrading **Convertible Securities** to a buy. Rich Fentin has picked up **Value Strategies** and **VIP Value Strategies** (he continues to manage **Value**). The change is likely to make the two funds less reliant on the tech sector. We may upgrade both funds once their risk level drops down. Finally, K.C. Lee has been named interim portfolio manager of **China Region** for the duration of Ignatius Lee's three-month leave of absence. No rating change here.

Fidelity is one of many Wall Street firms that are ensnared in a wide-ranging SEC investigation of gifts and business entertainment, according to some recent Wall Street Journal stories. Evidently some Fidelity traders and even the Johnson family are involved as the agency looks into gifts that exceed \$100 and events that are considered "excessive entertainment." The SEC's intentions are to break up Wall Street's wine-and-dine culture so that mutual fund brokerage expenses aren't any higher than they need to be. But one has to question why Fidelity has been targeted. The firm has a reputation as a tough negotiator, and its mutual trading costs are known to be about half the industry average. ■

RECOMMENDATIONS - Continued from page 1

stocks and bonds. **Asset Manager: Income** offers an ultra-conservative approach.

Utilities led the group with a 3.8% increase as rising fossil fuel costs set the stage for improving margins on electricity. **Convertible Securities** rose 2.8%, **Balanced** rose 2.0%, and **Strategic Dividend & Income** gained 1.9%. Laggards included **Fidelity Fund** and **Growth & Income** with flat returns, and **Growth & Income II** which declined 0.2%.

BOND FUNDS

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

Lower-grade funds were cheered by favorable economic news. **Capital & Income** gained 1.8%, **High Income** rose 1.7%, **New Markets Income** returned 1.5%, and **Focused High Income** logged a 1.4% increase. Trailing behind, **Ginnie Mae** and **Ultra-Short** both rose 0.2%. Municipal bond funds finished with gains ranging from 0.4% to 0.7%.

SELECT PORTFOLIOS

Select System holdings are listed on page 7. Funds rated buy, as ranked by our volatility model, are **Energy, Utilities Growth, Medical Delivery, Telecommunications, Natural Gas, Natural Resources, Brokerage, and Defense & Aerospace**. **Banking** is still rated a hold, and we've downgraded **Chemicals** due to the increased chance that the fund will be sold in the coming months.

Energy stocks got a boost as global forecasts for fourth-quarter oil demand were bumped up. **Energy Services** jumped 9.6%, **Natural Gas** climbed 9.3%, and **Energy** gained 8.8%. Landing on the bottom, **Transport** slid 1.9%, and **Paper/Forest** lost 2.1%. ■

JUNE DISTRIBUTIONS

Asset Manager: Income	\$ 0.02 / \$12.68 (6/3)
Freedom Income	\$ 0.01 / \$11.31 (6/3)
Inflation-Protected Bond	\$ 0.11 / \$11.51 (6/3)
Intermediate Bond	\$ 0.01 / \$10.49 (6/3)
Investment Grade Bond	\$ 0.055 / \$7.52 (6/3)
Large Cap Stock	\$ 0.04 / \$14.22 (6/3)
Mid-Cap Stock	\$ 0.04 / \$23.20 (6/3)
Real Estate Income	\$ 0.13 / \$11.85 (6/3)
Real Estate	\$ 0.14 / \$30.15 (6/3)
Small Cap Stock	\$ 0.62 / \$16.88 (6/3)
Spartan 500 Index	\$ 0.45 / \$82.46 (6/3)

Funds scheduled for July include **Asset Manager, Asset Manager Income, Balanced, Convertible Securities, Equity-Income, Equity-Income II, Fidelity Fund, Freedom Income, Growth & Income, Growth & Income II, Puritan, Strategic Dividend & Income, and Utilities**.

Money Market Funds	Size	Yield	Money Market Funds	Size	Yield	Money Market Funds	Size	Yield
Cash Reser (55/FDRXX)	59509.4	2.84	CT MM (418/FCMXX)	1233.3	2.03			
Select MM (85/FSLXX)	619.2	2.95	MA MM (74/FDMXX)	3739.2	1.99	FL MM (428/FSFXX)	1540.9	2.09
Spart MM (454/SPRXX)	5526.0	2.85	MI MM (420/FMIXX)	633.9	2.00	Spart MA MM (426/FMSXX)	1184.9	2.07
Spart US Gov't (458/SPAXX)	500.1	2.82	NJ MM (417/FNJXX)	1466.3	1.97	Spart Municipal (460/FIMXX)	3902.5	2.25
Spart US Treas (415/FDLXX)	2007.1	2.47	NY MM (92/FNYXX)	3208.8	2.03	Spart NJ MM (423/FSJXX)	710.8	2.13
Tax-Free MM (275/FMOXX)	1567.8	2.11	OH MM (419/FOMXX)	749.0	2.03	Spart NY MM (422/FSNXX)	1344.8	2.13
US Gov't Reser (50/FGRXX)	2250.0	2.90	AZ MM (433/FSAXX)	196.3	2.04	PA MM (401/FPTXX)	370.3	2.05
CA MM (97/FCFXX)	3482.9	2.00	Spart CA MM (457/FSPXX)	1620.0	2.13	Municipal MM (10/FTEXX)	16210.2	2.09