

## Sector Update

Believe it or not, tech is the place to be. That's the unmistakable message from our latest volatility model update, which derives its conclusions from the daily zigs and zags of Fidelity's Select Portfolios. This month we examine the attitudes of investors who buy technology stocks, and we'll take a look at some of the factors that drive technology earnings. We'll also review the more attractive growth-oriented choices within the Select lineup. But first, a brief review of our volatility model.

### A GAME OF PROBABILITIES

Trying to predict the future with a mathematical system is no easy challenge. The best investment models offer only a small edge over a dart board approach. The worst can inflict enough damage to your portfolio that recovery may not be possible.

Over the last decade it's become increasingly difficult to outguess the market. Information now flows at lightning speed, meaning that events affecting a particular sector usually play out in single trading session, instead of taking as much as two or three weeks. Short-term price inefficiencies have all but disappeared, rendering most trend-following systems much less effective. Many of these systems remain

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## Select System To Make Trades

On Monday, 6/9, we will be making two trades in our Select System. First, we will be selling **Banking** (507/FSRBX) and buying **Developing Communications** (518/FSDCX). Secondly, we will exchange **Retailing** (46/FSRPX) for **Energy Services** (43/FSESX). The resulting mix will be approximately 15% **Energy Services**, 18% **Developing Communications**, 21% **Biotech**, 18% **Software**, 15% **Technology**, 13% **Computers**. The decline in long-term interest rates is reducing the profitable spread that banks have enjoyed in recent years, but it stands to help the communications industry reduce its borrowing costs. The dollar's weakness increases the risk for retailers who rely heavily on imported goods, but energy service companies could benefit from continued supply constraints in the oil and natural gas markets.

## Review & Recommendations

Stocks rallied on favorable earnings, and were also helped by a belief that interest rates will remain low for the foreseeable future. The tax cut was an added plus because it may help the economy, and because it gave a boost to dividend stocks. Some groups missed out, however. Fear of global deflation held back cyclical stocks. And even though SARS seems to be under control in China, the flare-up in Toronto suggests the bug still presents an economic risk. The S&P 500 ended May with a gain of 5.3%.

### GROWTH FUNDS

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

**Leveraged Company Stock** gained 14.7%. Many firms in its portfolio stand to benefit from lower interest rates. **Growth Company** was up 9.7%, thanks to a strong tech sector. On the bottom end, **Disciplined Equity** and **Magellan** finished slightly behind the S&P, gaining 4.7% and 4.4%, respectively.

### INTERNATIONAL FUNDS

**Diversified International** is our favorite choice for broad-based foreign stock exposure.

**Southeast Asia** led the international group with a 10.2% jump, thanks mainly to gains in its tech holdings and less worry about SARS. **Europe** also did well, climbing 9.7%. Trailing behind, **Japan Smaller Companies** gained only 1.2% because of continuing signs of deflation in the Japanese economy.

### GROWTH & INCOME FUNDS

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

**Utilities** benefited from the dividend tax cut, climbing 8.4%. **Balanced** and **Equity-Income I & II** also got a boost from dividend-seekers, posting gains of 6.9%, 6.3%, and 6.4%, respectively. **Growth & Income** trailed the group with a 3.2% increase. Being shy on utility and energy stocks was a hindrance.

### BOND FUNDS

Income Model holdings are listed on page 7. Our favorites, in increasing order of risk, include

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popular, but nowadays it's difficult to run with the herd without an occasional trampling.

We first noticed the declining effectiveness of our own trend-following models in 1996. With short-term price inefficiencies diminishing, it made more sense to focus on long-term opportunities. We set out to develop a valuation-based model that could identify cheap sectors with better than 50/50 odds. It took two years to create a database and test several alternatives, but we eventually pulled together a price-to-book model that backtested better than the trend-following models we had been using. We adopted the price-to-book model for the Select System in mid-1998.

The valuation-based approach served us well. It was effective at identifying out-of-favor sectors, and the long holding periods helped reduce the tax bite at a time when capital gain distributions were large and frequent. Still, we found the model wasn't always selective enough. Even as it outperformed the S&P, a weak showing in one or two of the six positions would tend to hold the portfolio back.

We went "back to the drawing board" in 2001. Our goal was to reduce the chances of buying an underperforming sector. We stepped up our analysis of risk, and along the way we discovered a new approach that was more effective at identifying undervalued sectors. Like the price-to-book model, it compares each sector's current reading to its historical norm. But instead of looking at price-to-book, it looks at standard deviation. In essence, sectors that are less volatile than usual receive a higher ranking, whereas those with above-average price fluctuations are pushed down toward the bottom.

This method, which we call "Relative Sector Volatility," turns up many of the same industry picks as our price-to-book model, but in our backtesting the percentage of lagging choices is significantly reduced. In September of 2001 we adopted a dual-ranking approach based on both the volatility and price-to-book methods. By April 2002 we were confident enough to drop the price-to-book component and rely solely on volatility calculations.

#### LATEST RESULTS

The chart on page 3 shows the latest ranking results. The shuffle in sector positions is relatively mild compared with our December update, when the technology group jumped from mid-band to the upper portion of the list. Still, the current update is significant because it makes clear that December's jump in technology rankings was not a fluke, and it

hints that the group may continue to dominate the top spots for some time to come.

A key advantage of using a numbers-driven model is the removal of bias and emotion from the investment process. Our model doesn't care what it held in the past, and it has no memory for favorable or unfavorable experiences. All it does is calculate the latest numbers, and assess the odds on a forward-looking basis. When we follow the Select System, we know the odds are on our side when sectors zig and zag less than usual, even if we don't always know exactly why.

For the technology group, though, we do have several good explanations for why these sectors may continue to outperform the market:

- **Investor behavior.** The majority of technology issues declined 65% or more during the bear market. Throughout the liquidation process, technology shares passed from weak hands to strong hands. Most of the current shareholders are diehards who aim to profit over the long run, and they don't react much to short-term fluctuations. This situation is not unique. In many market downturns, the sectors that are hardest hit are often the better performers after recovery sets in.

- **Moderate valuations.** Technology stocks are hardly cheap on an absolute basis, but many are selling at forward multiples that are below average. The comparison with the overall market is even more pronounced. Over the long run, earnings growth for the technology sector could turn out to be two or three times higher than the broad market, yet many large technology stocks carry P/E ratios that are only moderately higher than the S&P 500.

- **The ability to grow earnings under adverse conditions.** Deflationary effects represent a new threat to some parts of the economy, but most firms in the high-tech arena have been living and breathing deflation from day one. With chipmakers shrinking circuit geometries to ever smaller levels, the cost of integrated circuit components has been falling 20-30% per year for more than three decades. As a result, many players in this industry are accustomed to the effects of pricing pressures. Those that couldn't figure out how to make money in a deflationary environment are long gone. Rising energy prices are another potential adverse condition, but here again technology firms are less affected than other industries. That's because the amount of energy required to generate a dollar of revenue at most tech firms is a small fraction of what it takes in the average S&P 500 company.

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• A weak dollar. Many high tech businesses do a sizable amount of export business, and the ability to undercut foreign competitors helps these companies to increase their global market share. There's good reason to believe that the greenback's recent decline is not just a temporary situation. Treasury secretary John Snow recently stated that the dollar's strength will no longer be measured by its market value. Translation: a weak dollar is good for the domestic economy. This policy change is significant, because it clears the way for the financial markets to push the greenback lower. And we may be in for a long-term slide. Unless our trading partners somehow "recycle" 100% of their trade-surplus dollars back into U.S. assets, the dollar will see downward pressure until the trade gap is closed – which may take a decade or more. That's bad news for industries that buy global and sell domestic. But it's good news for domestic producers that sell to the world. And tech firms tend to be the latter type.

### SELECT SYSTEM CHANGES

Our Select System draws from a pool of eligible candidates that includes most of the larger and more consistent long-term performers. Not surprisingly, these are usually industry groups where the U.S. economy has a clear leadership position, such as technology, health care, and financial services.

This month we are bringing back **Developing Communications**, which was taken out of our pool last April. At the time we were concerned that too many technology options might reduce bull-market performance, but after completing some backtesting we've decided this really isn't much of an issue. We're also adding **Energy Services** in a bid to hedge against tight fossil-fuel supplies. It hasn't been included in the past because of its high volatility, but the companies in its portfolio clearly meet the test for global leadership.

Because these new additions will replace both **Retailing** and **Banking**, the Select System could see an increase in volatility, moving up as high as 1.25 relative to the S&P 500.

Still, from a business fundamentals standpoint, we don't see the technology group being a lot more risky than the S&P 500 at the present time. Today's economic risks – global deflation, rising energy and medical costs, heavy consumer debt, terrorism, and SARS – are more of a worry for the broad economy than for the technology industry.

This doesn't mean that investors will avoid the occasional short-term plunge in technology values.

The Select System should be recognized for what it is – an aggressive sector-based investment strategy that aims to outperform the S&P 500 over the long run. Money invested in the Select System should not be needed for living expenses for at least eight years.

The Select System's heavy emphasis on growth stocks comes with some overlap. Microsoft, for example, is the top holding for three of the six funds and accounts for about 5% of the model as a whole. But diversification has not been cast to the wind. The Select System's holdings still break down into five unique groups:

• **Biotechnology** is finally emerging from a period of investor disillusionment. If you strip away the hype, most firms in this sector are nothing more than emerging pharmaceutical companies. They have to deal with all the headaches of running trials, gaining FDA approval, and financing expensive factories that can produce complicated medicines. Fortunately, the hard work is finally paying off. A number of new drugs are anticipated in the coming 12 months. In some cases, existing products are selling at better-than-expected levels.

• **Computers and Technology**. Both of these funds are currently run by the same manager, and they have significant overlap in their top 10 holdings. We've kept their weightings below that of other sectors to compensate. The main focus here is on market leaders such as Microsoft, Dell, IBM, Intel, and Cisco. Many of these companies are piling up cash despite difficult business conditions, and others are taking advantage of cost-reduction opportunities. If the dollar continues to slide, and technology

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### VOLATILITY AS % OF HISTORICAL

<b>Software</b>	78%	<b>Brokerage</b>	115%
<b>Biotechnology</b>	78%	<b>Industrial Mat</b>	115%
<b>Dev. Commun.</b>	82%	<b>Utilities</b>	116%
<b>Computers</b>	86%	<b>Food &amp; Ag</b>	118%
<b>Technology</b>	87%	<b>Gold</b>	119%
<b>Energy Services</b>	96%	<b>Defense</b>	122%
<b>Electronics</b>	103%	<b>Transportation</b>	123%
<b>Retailing</b>	105%	<b>Telecom</b>	125%
<b>Banking</b>	107%	<b>Industrial Equip</b>	125%
<b>Nat Resources</b>	108%	<b>Leisure</b>	126%
<b>Energy</b>	108%	<b>Insurance</b>	126%
<b>Paper &amp; Forest</b>	109%	<b>Cyclical Ind</b>	130%
<b>Environmental</b>	109%	<b>Consumer Ind</b>	131%
<b>Home Finance</b>	112%	<b>Chemicals</b>	136%
<b>Natural Gas</b>	112%	<b>Con &amp; Housing</b>	145%
<b>Health Care</b>	112%	<b>Medical Delivery</b>	145%
<b>Air Trans</b>	115%	<b>Automotive</b>	146%
<b>Financial Ser</b>	115%	<b>Multimedia</b>	164%

### 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 ↓.

MAY 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***	1.28	0-0.75(90)	12.63	4263.7	12.9	7.4	15.1	-10.6	-33.4	-8.0	4.2
Blue Chip Gth (312/FBGRX)	H***	0.99	0-0	35.13	17937.1	10.0	4.7	13.6	-9.1	-14.2	-1.8	9.0
Capital Apprec (307/FDCAX)	B*****	1.09	0-0	19.45	2089.8	20.2	9.1	19.9	-2.5	-7.6	2.4	9.3
Contrafund (22/FCNTX)	H***	0.65	0-0	41.48	28159.4	7.5	4.9	12.3	-6.1	-5.9	3.2	10.9
Contrafund II (339/FCONX)	B***	0.93	3-0	9.30	669.7	7.3	5.3	10.2	-5.4	-8.4	4.0	
Disc Equity (315/FDEQX)	H***	0.91	0-0	19.68	3024.9	9.5	4.7	13.1	-8.3	-9.9	-0.5	9.4
Dividend Gth (330/FDGFY)	B***	1.03	0-0	24.37	14208.5	9.2	5.6	14.4	-7.5	-3.6	3.4	14.4
Export Fund (332/FEXPX)	B*****	1.07	0-0.75(30)	15.48	735.3	12.6	6.5	17.2	-2.6	-2.5	8.5	
Fidelity Fifty (500/FFTYX)	H***	0.94	0-0.75(30)	17.87	799.7	11.4	6.8	14.3	-2.8	-1.2	7.3	
Growth Company (25/FDGRX)	B*****	1.13	0-0	41.87	16128.3	18.2	9.7	21.2	-5.1	-17.5	3.1	9.9
Large-Cap Stock (338/FLCSX)	H***	0.91	0-0	12.16	599.3	9.1	4.7	12.7	-10.5	-14.6	-1.3	
Lev Co Stock (122/FLVCX)	B***	1.07	0-1.5(90)	14.09	241.2	40.9	14.7	40.8	50.2			
Low-Priced Stock (316/FLPSX)	B***	0.71	3-1.5(90)	27.91	15666.8	10.9	8.1	17.6	-5.2	15.3	8.8	14.7
Magellan (21/FMAGX)	B*****	1.02	Closed	86.47	58661.8	9.7	4.4	14.2	-8.9	-11.5	-0.4	8.7
Mid Cap Stock (337/FMCSX)	B***	0.97	0-0.75(30)	18.28	5504.1	12.4	8.8	16.1	-11.5	-5.1	6.7	
New Millennium (300/FMILX)	B***	1.01	Closed	25.24	2718.4	14.0	9.2	19.7	-5.4	-7.7	11.6	17.2
OTC Portfolio (93/FOCPX)	B***	1.02	0-0	26.32	6047.2	10.1	7.3	16.3	-6.5	-19.0	0.4	8.5
Independence (73/FDFFX)	H***	0.95	0-0	14.32	4152.1	9.6	7.4	13.4	-12.0	-10.1	3.2	9.6
Small Cap Indep (336/FDSCX)	H***	0.68	0-1.5(90)	14.41	771.2	8.3	7.3	14.4	-16.6	-2.0	-1.0	
Small Cap Stock (340/FSLCX)	H***	0.76	0-2(90)	12.90	1412.6	9.0	8.7	16.5	-11.0	1.5	6.8	
Stock Selector (320/FDSSX)	H***	0.99	0-0	18.28	714.4	10.3	4.9	14.6	-6.0	-10.6	-2.1	8.4
Strc Lg Cap Gth (763/FSLGX)	H***	1.01	0-0.75(30)	7.90	17.9	11.0	5.6	15.5	-9.5			
Strc Lg Cap Val (708/FSLVX)	H***	0.97	0-0.75(30)	9.08	16.3	7.8	5.3	14.6	-10.4			
Strc Mid Cap Gth (793/FSMGX)	H***	1.03	0-0.75(30)	8.51	17.9	15.9	9.7	18.9	-8.9			
Strc Mid Cap Val (762/FSMVX)	H***	0.88	0-0.75(30)	10.12	37.4	11.5	8.4	15.9	-9.3			
Focused Stock (333/FTQGX)	S**	1.10	0-0.75(30)	7.65	31.6	7.1	6.5	11.4	-26.7	-18.2	-4.6	
Trend (5/FTRNX)	B***	0.99	0-0	42.79	746.2	10.7	5.2	15.0	-5.5	-9.8	-1.9	5.1
Value (39/FDVLX)	H***	0.91	0-0	51.75	5080.5	11.6	8.4	17.0	-6.9	6.8	3.9	11.1
Value Discovery (832/FVDFX)	H***	1.0 Est	0-0	10.90	25.1	10.3	7.3	15.5				
<b>GROWTH &amp; INCOME FUNDS:</b>												
Balanced (304/FBALX)	B*****	0.61	0-0	14.81	7014.2	12.0	6.9	14.2	1.8	3.1	5.7	8.3
Convertible Sec (308/FCV SX)	B***	0.47	0-0	18.40	1511.2	13.8	5.2	11.9	1.9	1.7	9.1	11.3
Equity-Income (23/FEQIX)	B*****↑	0.99	0-0	42.98	18296.3	8.8	6.3	15.4	-9.9	-2.8	0.4	9.8
Equity-Income II (319/FEQTX)	B***	1.03	0-0	19.48	9607.0	12.4	6.4	17.5	-3.2	-1.2	1.6	9.9
Fidelity Fund (3/FFIDX)	H***	0.94	0-0	24.24	8903.6	9.2	3.6	13.5	-8.4	-10.3	-0.7	9.8
Growth & Income (27/FGRIX)	H***	0.82	0-0	32.34	26804.0	7.1	3.2	11.4	-8.2	-7.1	-0.2	10.0
Growth & Inc II (361/FGRTX)	H***	0.83	0-0	8.38	171.8	10.7	3.6	15.0	-1.2	-5.3		
Puritan (4/FPURX)	B*****	0.58	0-0	16.92	18346.7	7.9	4.6	11.2	-1.2	1.8	3.2	9.1
Real Estate Inc (833/FRIFX)	H***	0.2 Est	0-0.75(90)	10.68	95.7		2.2					
Real Estate (303/FRESX)	S**↓	0.56	0-0.75(90)	19.97	1937.6	9.5	4.4	10.3	4.4	14.5	7.3	10.0
Utilities (311/FUIUX)	B*****↑	1.01	0-0	10.88	805.7	12.8	8.4	19.8	0.0	-16.8	-3.7	5.8
<b>SELECT FUNDS:</b>												
Air Transportation (34/FSAIX)	S**	1.09	3-0.75(30)	24.30	31.3	10.2	6.4	24.1	-21.5	-4.2	3.5	9.4
Automotive (502/FSAVX)	S**	1.04	3-0.75(30)	24.31	16.4	7.3	5.6	14.3	-14.5	5.1	-1.9	4.8
Banking (507/FSRBX)	H***↓	1.07	3-0.75(30)	33.55	400.2	10.9	6.8	12.6	-5.6	5.8	2.2	14.2
Biotechnology (42/FBIOX)	B***	1.19	3-0.75(30)	47.61	1679.8	22.9	11.1	23.9	9.5	-10.9	10.4	11.0
Brokerage (68/FSLBX)	H***	1.35	3-0.75(30)	41.46	320.7	13.7	11.1	25.0	-1.8	1.8	5.4	16.0
Business Ser (353/FBSOX)	S**	1.22	3-0.75(30)	12.21	30.7	7.5	7.6	19.7	-17.1	-1.5	5.9	
Chemicals (69/FSCHX)	H***	1.09	3-0.75(30)	41.23	41.9	6.8	-0.2	12.2	-8.3	5.5	1.3	9.1
Computers (7/FDCPX)	B***	1.48	3-0.75(30)	28.00	628.9	27.0	14.8	25.2	-9.0	-28.6	2.2	14.2
Const & Housing (511/FSHOX)	H***	1.12	3-0.75(30)	26.75	50.7	10.9	8.6	18.6	-9.5	13.0	4.2	11.0
Consumer Indust (517/FSCPX)	H***	0.85	3-0.75(30)	20.94	25.9	8.6	5.5	13.9	-13.2	-4.0	-0.3	9.0
Cyclical Indust (515/FCYIX)	S**	0.96	3-0.75(30)	12.68	21.9	6.5	4.1	14.9	-12.7	-0.4	0.4	
Defense & Aero (67/FSDAX)	S**	0.91	3-0.75(30)	41.05	255.3	3.5	6.0	13.1	-16.9	3.0	3.7	13.8
Develop Commn (518/FSDCX)	B*****↑	1.32	3-0.75(30)	12.60	376.3	27.7	11.5	25.6	-3.7	-31.6	0.1	8.2
Electronics (8/FSLEX)	H***	1.91	3-0.75(30)	31.83	2506.5	30.6	15.4	27.8	-24.3	-28.2	7.2	18.1
Energy (60/FSENX)	H***	1.00	3-0.75(30)	22.58	178.1	10.2	11.5	9.6	-6.7	-3.2	4.4	8.5
Energy Services (43/FSSEX)	B*****↑	1.45	3-0.75(30)	33.63	402.9	14.5	16.6	13.1	-5.8	-2.5	3.1	12.8
Environmental (516/FSLEX)	H***	0.83	3-0.75(30)	11.18	11.5	8.3	6.6	15.1	-4.0	1.8	-7.5	0.7
Financial Services (66/FIDSX)	H***	1.06	3-0.75(30)	98.32	446.8	10.9	5.1	17.0	-3.9	3.6	3.3	14.3
Food & Agriculture (9/FDFAX)	H***↑	0.63	3-0.75(30)	39.21	87.7	1.1	6.5	9.8	-15.0	5.0	1.2	9.9
Gold (41/FSAGX)	H***	1.28	3-0.75(30)	22.10	542.8	-5.1	11.2	-0.1	-5.5	25.8	10.0	2.6
Health Care (63/FSPHX)	H***	0.92	3-0.75(30)	109.72	1848.4	7.7	3.9	10.3	-3.6	-2.8	3.7	15.6
Home Finance (98/FSVLX)	H***	0.97	3-0.75(30)	55.01	358.1	13.1	5.7	15.8	-3.9	17.4	2.5	16.6
Indust Equip (510/FSCGX)	S**	1.06	3-0.75(30)	17.95	22.7	3.2	4.3	12.2	-18.1	-10.2	-2.8	8.7
Indust Materials (509/FSDPX)	H***	0.87	3-0.75(30)	24.67	26.9	2.9	7.1	3.9	-12.4	7.4	0.4	6.0
Insurance (45/FSPCX)	H***	1.01	3-0.75(30)	49.40	114.3	10.8	5.1	20.3	-2.2	11.6	9.0	15.3
Leisure (62/FDLSX)	H***	1.08	3-0.75(30)	58.72	135.7	17.3	7.6	20.8	-2.9	-6.0	2.9	12.0
Medical Delivery (505/FSHCX)	H***	1.20	3-0.75(30)	23.96	99.3	1.2	9.0	4.9	-25.6	12.1	-2.7	10.0
Medical Equip/Sys (354/FSMEX)	H***	0.83	3-0.75(30)	17.92	183.7	16.2	6.7	14.7	11.0	10.7	17.1	
Multimedia (503/FBMPX)	H***	1.46	3-0.75(30)	40.31	116.6	18.8	13.9	25.6	15.1	-4.1	6.3	13.4
Natural Gas (513/FSNGX)	H***	0.93	3-0.75(30)	19.60	142.8	16.9	14.8	12.5	1.5	-0.3	8.8	8.2
Nat Resources (514/FNARX)	H***	0.95	3-0.75(30)	12.07	27.4	9.1	10.5	9.3	-8.2	-2.4	4.6	
Networking/Infra (912/FNINX)	H***	1.68	3-0.75(30)	1.90	84.0	27.5	15.2	25.0	-9.9			
Paper & Forest (506/FSFPX)	H***	0.96	3-0.75(30)	24.75	18.8	-4.7	1.9	2.8	-18.4	3.1	2.3	7.8
Pharmaceuticals (580/FPHAX)	H***	0.91	3-0.75(30)	8.16	59.4	12.1	5.3	16.6	-3.8			
Retailing (46/FSRPX)	H***↓	1.00	3-0.75(30)	37.20	81.4	8.9	6.2	21.1	-14.9	-5.7	-0.5	8.8
Software (28/FSCSX)	B*****	1.27	3-0.75(30)	40.70	661.7	11.6	6.3	14.7	6.8	-10.5	9.6	15.4
Technology (64/FSPTX)	B*****	1.50	3-0.75(30)	47.56	1662.1	26.2	12.8	23.7	0.8	-27.2	5.3	12.9
Telecom (96/FSTCX)	H***	1.48	3-0.75(30)	28.43	332.6	11.2	10.3	20.4	9.6	-26.5	-7.5	5.4
Transportation (512/FSRFEX)	S**	1.02	3-0.75(30)	27.98	29.7	14.3	5.0	22.7	-5.7	7.8	7.1	10.8
Utilities Growth (65/FSUTX)	H***	0.95	3-0.75(30)	30.50	184.6	15.8	9.6	25.1	-1.0	-18.2	-2.8	6.2
Wireless (963/FWRXLX)	H***	1.29	3-0.75(30)	3.07	59.3	26.3	14.1	26.9	-13.5			

MAY PERFORMANCE							2003	One	Three	One	3-Yr	5-Yr
Fund Name (Code/Symbol)	Rating	Risk	Load	NAV	Size	Div. Yield	YTD	Mth	Mth	Year	Rate	Rate
Aggressive Int'l (335/FIVFX)	H***	0.72	0-1 (30)	11.94	313.8		11.3	7.0	18.9	-10.1	-10.2	-1.1
Canada (309/FICDX)	H***	0.65	0-1.5(90)	21.40	90.7		18.1	8.3	12.8	3.0	2.5	5.2
Diversified Int'l (325/FDIVX)	B****	0.59	0-1 (30)	18.82	7839.5		9.7	7.4	14.8	-6.5	-5.1	3.0
Emerging Mkts (322/FEMKX)	H***	0.63	0-1.5(90)	7.69	258.3		6.7	6.7	11.6	-10.5	-9.3	-2.7
Europe (301/FIEUX)	H***	0.99	0-1 (30)	20.86	962.0		13.9	9.7	25.5	-11.2	-12.8	-5.5
Europe Cap Appr (341/FECAX)	H***	0.76	0-1 (30)	15.22	363.1		10.1	8.4	20.8	-12.2	-7.0	-2.3
China Region (352/FHKCX)	H***↑	0.58	0-1.5(90)	11.43	106.1		5.2	9.4	7.3	-12.8	-8.8	5.6
Global Balanced (334/FGBLX)	H***	0.42	0-1 (30)	15.79	89.4		6.8	5.1	10.2	-2.9	-3.2	2.5
Int'l Growth & Inc (305/FIGRX)	H***	0.66	0-1 (30)	18.06	894.6		7.4	7.3	14.7	-10.8	-9.1	0.2
Int'l Small Cap (818/FISMX)	H***	0.7 Est	0-2 (90)	12.52	44.1		18.7	9.2	19.9			
Japan (350/FJPNX)	H***	0.82	0-1.5(90)	8.22	287.1		-2.5	3.8	1.0	-19.9	-22.4	1.2
Japan Smaller Co (360/FJSCX)	H***	0.62	0-1.5(90)	6.61	356.5		2.6	1.2	4.1	-15.9	-17.0	11.3
Latin America (349/FLATX)	H***	1.01	0-1.5(90)	11.01	173.3		18.0	3.2	26.7	-7.4	-5.0	-4.2
Nordic (342/FNORX)	H***	0.86	0-1.5(90)	16.79	71.2		10.2	7.0	23.8	-10.4	-17.2	-1.2
Overseas (94/FOSFX)	H***	0.88	0-1 (30)	23.28	2795.8		5.8	8.1	13.0	-17.9	-15.2	-5.2
Pacific Basin (302/FPBFX)	H***	0.62	0-1.5(90)	12.81	259.5		0.4	5.9	5.3	-17.4	-15.5	3.1
Southeast Asia (351/FSEAX)	H***	0.86	0-1.5(90)	10.20	229.4		5.6	10.2	10.0	-16.4	-10.6	5.9
Worldwide (318/FWWFX)	H***	0.82	0-1 (30)	13.08	646.4		10.1	7.4	16.4	-10.3	-7.5	-2.0

#### INDEX AND ASSET ALLOCATION:

Four-In-One Index (355/FFNOX)	H***	0.74	0-0.5(90)	19.76	296.3		9.6	5.5	13.9	-5.0	-7.4	
Spart Ext Mkt Idx (398/FSEMX)	H***	0.83	0-0.75(90)	21.99	481.6		14.4	9.3	20.2	-4.9	-6.9	-0.6
Spart Int'l Index (399/FSIIX)	H***	0.83	0-1(90)	21.55	276.0		7.4	6.3	14.4	-11.9	-13.4	-4.1
Spart 500 Index (317/FSMKX)	H***	1.00	0-0.5(90)	66.70	7266.9		10.3	5.3	15.0	-8.1	-10.9	-1.2
Spart Total Mkt Idx (397/FSTMX)	H***	0.96	0-0.5(90)	25.56	1254.7		11.1	6.1	16.1	-7.5	-9.8	-0.9
Asset Manager (314/FASMX)	H***	0.53	0-0	14.81	10267.1		8.1	3.6	9.4	1.6	-0.8	4.1
Asset Mgr Agg (347/FAMRX)	H***	1.01	0-0	8.27	173.6		19.3	8.2	18.1	-15.6	-13.9	
Asset Mgr Gth (321/FASGX)	H***	0.76	0-0	13.11	3274.4		9.5	4.5	12.1	-1.9	-4.5	1.0
Asset Mgr Inc (328/FASIX)	B****	0.21	0-0	11.59	809.4		7.5	2.8	6.6	6.8	4.0	4.7
Freedom 2000 (370/FFBFX)	B****	0.19	0-0	11.46	1307.2		4.6	2.3	4.9	3.3	2.0	5.3
Freedom 2010 (371/FFFCX)	B****	0.37	0-0	12.23	5006.4		7.4	3.6	8.5	1.9	-1.1	4.7
Freedom 2020 (372/FFFDX)	B****	0.59	0-0	11.61	4455.9		9.5	4.7	11.8	-2.2	-5.4	2.9
Freedom 2030 (373/FFFEF)	B****	0.71	0-0	11.25	2568.2		10.3	5.2	13.5	-4.8	-7.9	1.6
Freedom 2040 (718/FFFFX)	B****	0.79	0-0	6.47	543.4		10.8	5.5	14.5	-6.6		
Freedom Income (369/FFFAF)	B****	0.15	0-0	10.95	1290.6		3.9	2.0	4.0	3.7	3.5	5.1

#### TAXABLE BOND FUNDS:

Capital & Income (38/FAGIX)	B****	0.35	0-1(90)	7.52	3797.5	6.17	23.2	2.6	15.6	25.1	2.4	3.0
Floating Rate (814/FFRHX)	B****	0.1 Est	0-1(60)	9.75	246.7	3.34	3.2	0.6	2.2			
GNMA Portfolio (15/FGMNX)	B****	0.07	0-0	11.21	6732.8	3.15	1.1	0.3	0.3	6.1	8.5	6.5
Gov't Income (54/FGOVX)	H***	0.18	0-0	10.74	3674.5	3.07	3.9	2.5	2.5	12.5	10.6	7.4
Intermed Bond (32/FTHRX)	H***	0.13	0-0	11.05	6957.3	3.67	4.6	2.0	3.0	11.4	10.4	7.5
Intermed Gov't Inc (452/FSTGX)	H***	0.14	0-0	10.55	1405.1	2.81	2.9	1.7	1.9	10.5	9.9	7.3
Invest Grade Bond (26/FBNDX)	H***	0.13	0-0	7.81	5268.4	2.98	4.5	1.7	2.9	11.8	10.6	7.3
Mortgage Securities (40/FMSFX)	B****	0.07	0-0	11.32	1510.9	2.72	1.8	0.2	0.9	7.1	9.3	6.9
New Markets Inc (331/FNMIX)	H***	0.36	0-1(90)	13.24	725.8	6.05	20.3	4.3	13.7	26.0	16.9	11.6
Short-Term Bond (450/FSHBX)	B****	0.07	0-0	9.10	5675.7	3.06	2.7	0.9	1.6	7.6	7.7	6.3
Spart Gov't Inc (453/SPGVX)	H***	0.19	0-0	11.53	1177.1	3.42	3.9	2.6	2.6	12.7	10.9	7.7
High Income (455/SPHIX)	B****	0.20	0-1(90)	8.41	2329.7	7.11	13.9	1.2	9.7	14.7	0.2	-0.1
Spart Invest Grade (448/FSIBX)	H***	0.13	0-0	11.06	2805.2	3.38	4.6	1.8	2.9	12.0	11.0	7.7
Strategic Income (368/FSICX)	B****	0.12	0-0	10.18	1329.3	5.26	10.8	2.4	7.4	18.0	10.7	7.6
Inflation-Protected (794/FINPX)	H***	0.2 Est	0-0	11.30	539.8	1.68	7.1	4.9	2.7			
Total Bond (820/FTBFX)	H***	0.2 Est	0-0	10.72	55.0	2.59	5.4	1.5	3.7			
Ultra-Short Bond (812/FUSFX)	B****	0.1 Est	0-0.25(60)	10.03	182.7	1.89	0.9	0.2	0.6			

#### MUNICIPAL BOND FUNDS:

Spart AZ Muni Inc (434/FSAZX)	H***	0.12	0-0.5(30)	11.88	76.0	3.71	4.8	2.8	3.6	11.1	9.7	6.4
Spart CA Muni Inc (91/FCTFX)	H***	0.11	0-0.5(30)	12.98	1662.1	4.27	4.5	2.5	3.4	10.0	9.2	6.2
Spart CT Muni Inc (407/FICNX)	H***	0.11	0-0.5(30)	12.20	477.2	4.07	4.4	2.5	3.3	10.7	9.6	6.3
Spart FL Muni Inc (427/FFLIX)	H***	0.11	0-0.5(30)	12.15	599.7	4.13	4.6	2.5	3.4	10.4	9.6	6.2
Spart Intermediate (36/FLTMX)	B****	0.10	0-0.5(30)	10.45	1784.0	3.98	4.0	2.1	2.7	9.6	8.9	6.1
Spart MA Muni Inc (70/FDMMX)	H***	0.11	0-0.5(30)	12.60	1971.2	4.29	4.5	2.4	3.4	10.7	9.7	6.3
Spart MD Muni Inc (429/SMDMX)	H***	0.10	0-0.5(30)	11.25	98.2	3.88	4.3	2.4	3.2	9.8	9.1	6.0
Spart MI Muni Inc (81/FMHTX)	H***	0.11	0-0.5(30)	12.46	587.8	4.26	5.3	2.6	3.9	11.5	9.9	6.3
Spart MN Muni Inc (82/FIMIX)	H***	0.09	0-0.5(30)	11.93	348.7	3.98	4.3	2.2	3.2	9.7	9.0	5.8
Spart Municipal Inc (37/FHIGX)	H***	0.11	0-0.5(30)	13.59	4819.2	4.46	4.8	2.7	3.6	11.7	10.3	6.7
Spart NJ Muni Inc (416/FNJHX)	H***	0.12	0-0.5(30)	12.16	579.7	4.13	4.5	2.7	3.3	10.5	9.4	6.4
Spart NY Muni Inc (71/FTFMX)	H***	0.12	0-0.5(30)	13.73	1518.7	4.09	5.1	2.7	3.7	12.1	10.4	6.7
Spart OH Muni Inc (88/FOHFX)	H***	0.11	0-0.5(30)	12.41	442.2	4.16	5.0	2.7	3.7	11.3	9.8	6.4
Spart PA Muni Inc (402/FPXTX)	H***	0.10	0-0.5(30)	11.34	302.5	4.18	4.2	2.4	3.0	10.1	9.2	6.1
Spart Short-Int Muni (404/FSTFX)	B****	0.06	0-0.5(30)	10.62	1783.5	2.76	2.2	1.0	1.2	6.2	6.5	5.0
Spart Tax-Free Bond (90/FTABX)	H***	0.13	0-0.5(30)	11.01	254.7	4.06	5.1	3.0	3.8	12.1		

MAY 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	8850.26	7.3	4.7	13.0	-8.6	-3.7	1.7	11.9
S&P 500	1.00	963.59	10.4	5.3	15.1	-8.0	-10.8	-1.1	9.9
NASDAQ	1.20	1595.91	19.8	9.1	19.5	-0.7	-22.0	-1.8	9.2
Russell 2000	0.93	441.00	15.8	10.8	22.8	-8.2	-1.2	0.7	8.1
Fidelity Monitor Income Model	0.08	71747.67	4.0	0.6	2.8	7.3	5.5	3.6	5.8
Fidelity Monitor G&I Model	0.50	112254.41	15.0	5.4	13.9	6.2	3.7	5.5	
Fidelity Monitor Growth Model	0.97	108812.07	15.6	8.4	18.7	-4.3	-5.7	0.9	9.8
Fidelity Monitor Select System	1.04	215484.94	16.4	9.4	19.8	2.6	-5.7	3.9	11.6
Fidelity Monitor Unique Opportunities	0.64	60313.92	14.0	7.4	18.4	0.6	1.3		

## UNIQUE OPPORTUNITIES MODEL

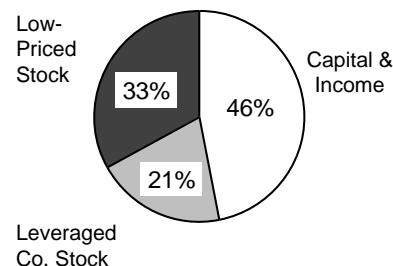
This model invests in special situations and where Fidelity's research skills give it an edge over its peers. Our long-term goal is 12% annual growth.

FUND	NAV	SHARES	BALANCE
Capital & Income	\$7.52	3642.684	\$27392.98
Leveraged Co.	\$14.09	909.967	\$12821.44
Low-Priced Stock	\$27.91	720.154	\$20099.50

9% Foreign Holdings  
**Balance as of 5/30/03: \$60313.92**  
**Balance at start of 2003: \$52924.96**

### PERFORMANCE

Partial Yr 99: + 33.8%  
 2000: - 20.5%  
 2001: + 1.6%  
 2002: - 2.1%  
 \*2003: + 14.0%



Our portfolio gained 7.4% in May. On 5/12 we sold **Export** (\$15.10) and bought **Capital & Income** (\$7.47).

## 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 (+13.3% YTD)	Portfolio B (+ 7.6% YTD)	Portfolio C (+ 9.1% YTD)	Portfolio D (+ 9.1% YTD)
61% Dividend Growth, 39% Capital Appreciation	65% Magellan, 35% Contrafund	32% Magellan 68% Equity-Income	32% Magellan 68% Equity-Income

In May Portfolio A gained 7.0%, Portfolio B was up 4.6%, and Portfolios C and D both climbed 5.7%.

## VIP CORNER

Fidelity's Variable Insurance Products allow tax-deferred growth, but the benefit is offset by a 0.8% annual annuity charge and potentially higher tax rates at withdrawal. Unless you are in a low tax bracket during the withdrawal period, annuities may not provide a higher after-tax return.

VIP SECTOR MODEL:	VIP GROWTH MODEL:	VIP G&I MODEL:	VIP INCOME MODEL:
100% VIP Technology	35% VIP Growth & Income, 65% VIP Growth	42% VIP Asset Mgr, 58% VIP Balanced.	73% VIP Inv. Grade, 27% VIP High Income.

### MAY VIP PERFORMANCE

Portfolio	Rating	Unit Value	2003 YTD	One Month	Three Month	One Year	3-Yr Rate	5-Yr Rate
VIP Asset Manager	B ****	27.65	8.0	3.6	9.5	1.4	-3.0	0.9
VIP Asset Manager: Growth	H ***	17.58	9.9	4.5	12.6	-2.0	-7.9	-2.0
VIP Balanced	B ****↓	13.21	8.5	2.6	10.4	2.4	-1.8	0.2
VIP Contrafund	H ***	25.30	7.2	4.8	12.1	-6.5	-6.4	2.3
VIP Equity-Income	B ****	41.77	8.7	6.2	15.4	-10.4	-3.4	-0.5
VIP Growth	B *****	45.41	12.5	7.1	17.0	-12.3	-16.5	-1.0
VIP Growth & Income	B ****	13.98	10.7	3.6	14.9	-1.3	-5.7	-0.1
VIP Growth Opportunities	B ****	9.80	12.1	5.8	15.9	-6.2	-12.5	-6.5
VIP High Income	B ****	23.17	13.5	1.6	9.3	16.3	-5.5	-5.2
VIP Index 500	H ***	25.13	10.0	5.2	14.8	-8.9	-11.7	-2.1
VIP Investment Grade Bond	B ****	26.95	4.4	1.7	2.8	11.6	10.3	7.0
VIP Overseas	H ***	19.40	5.0	8.0	12.4	-19.3	-16.9	-6.7
VIP Mid Cap	H ***	10.29	6.9	9.7	10.7	-8.5		
VIP Consumer Industries	H ***	8.84	8.8	5.6	14.1	-12.6		
VIP Cyclical Industries	H ***	8.59	6.5	4.1	14.9	-13.3		
VIP Financial Services	H ***	9.47	10.5	5.1	16.8	-4.8		
VIP Health Care	B ****	8.98	7.4	3.8	10.1	-4.2		
VIP Natural Resources	H ***	9.00	9.5	10.7	9.5	-8.0		
VIP Technology	B ****	7.36	26.0	12.7	23.7	0.1		
VIP Telecom & Utilities	H ***	6.95	15.1	9.3	24.9	-2.9		
Morgan Stanley Emg Mkts Debt	H ***↑	14.54	16.4	4.5	11.7	19.2	14.5	
Morgan Stanley Emg Mkts Equity	H ***	7.85	5.8	6.7	10.0	-13.4	-15.4	
Morgan Stanley Global Equity	H ***	10.38	3.6	5.6	13.8	-19.1	-5.0	
Morgan Stanley Int'l Magnum	H ***	7.72	1.6	5.0	10.2	-17.2	-14.2	
PBHG Growth II	S **	7.96	10.2	7.4	13.9	-15.1	-26.2	
PBHG Select Value	H ***	13.60	2.2	5.0	12.4	-19.2	-17.5	
PBHG Select 20	S **	12.29	12.9	5.1	15.3	-11.1	-16.2	
PBHG Small Cap Value	H ***↑	14.35	12.0	8.5	20.3	-17.7	-2.8	
PBHG Tech & Communications	S **	6.29	18.2	11.7	19.1	-23.0	-44.6	
Strong Mid Cap Growth Fund II	S **	10.56	19.2	8.9	17.7	-12.4	-22.6	
Strong Opportunity Fund II	H ***	12.84	14.5	9.9	18.8	-12.8	-7.8	
CS Int'l Focus	H ***	7.48	5.6	4.8	12.6	-18.1	-19.1	
CS Global Post-VC	S **	7.43	13.7	11.7	21.5	-19.0	-23.9	
CS Small Cap Growth	S **	8.61	17.4	11.7	21.7	-10.3	-16.2	
Fidelity Monitor VIP Sector Model		10488.02	26.0	12.7	23.7	4.8		
Fidelity Monitor VIP Growth Model		23864.12	10.4	5.9	16.2	-8.9	-11.0	-1.7
Fidelity Monitor VIP G&I Model		18224.94	8.3	3.0	10.0	2.0	-2.3	0.4
Fidelity Monitor VIP Income Model		16952.24	6.7	1.7	4.5	12.5	5.5	2.6

## INCOME MODEL

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

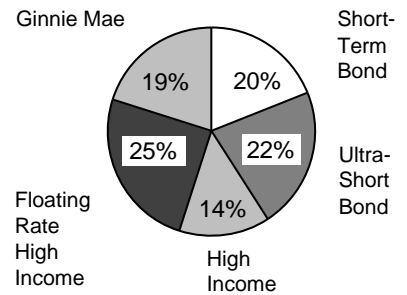
FUND	NAV	SHARES	BALANCE
Short-Term Bond	\$9.10	1552.639	\$14129.01
Ultra-Short Bond	\$10.03	1543.227	\$15478.57
High Income	\$8.41	1215.217	\$10219.97
Floating Rate	\$9.75	1835.212	\$17893.32
Ginnie Mae	\$11.21	1251.276	\$14026.80

3% Foreign Holdings

Balance as of 5/30/03: \$71747.67  
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:	+ 4.0%



Our Income Model rose 0.6% in May. The income stream for the month was 3.5%. On 5/12 we sold one-quarter of **High Income** (\$8.39) and bought **Ultra-Short Bond** (\$10.03).

## 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.

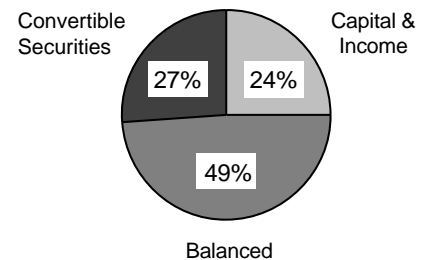
FUND	NAV	SHARES	BALANCE
Capital & Inc.	\$7.52	3590.485	\$27000.45
Balanced	\$14.81	3749.849	\$55535.26
Conv. Securities	\$18.40	1615.147	\$29718.70

7% Foreign Holdings

Balance as of 5/30/03: \$112254.41  
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:	+ 15.0%



Our Growth and Income Model gained 5.4% in May.

## 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.

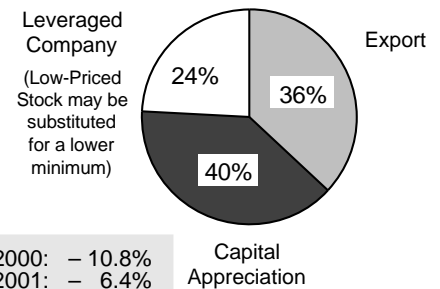
FUND	NAV	SHARES	BALANCE
Export	\$15.48	2533.346	\$39216.20
Capital Apprec.	\$19.45	2213.934	\$43061.02
Leveraged Co.	\$14.09	1883.240	\$26534.85

7% Foreign Holdings

Balance as of 5/30/03: \$108812.07  
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%
2000:	- 10.8%
2001:	- 6.4%
2002:	- 17.1%
*2003:	+ 15.6%



In May we were up 8.4%, versus 5.3% for the S&P 500. On 5/12 we sold **Dividend Growth** (\$23.83) and bought **Leveraged Company Stock** (\$13.20).

## 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.

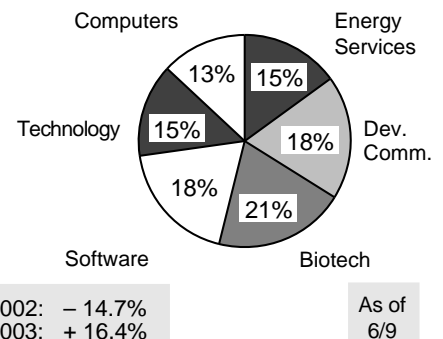
FUND	NAV	SHARES	BALANCE
Retailing	\$37.20	864.073	\$32143.52
Banking	\$33.55	1159.553	\$38903.00
Biotechnology	\$47.61	938.154	\$44665.51
Software	\$40.70	938.003	\$38176.72
Technology	\$47.56	676.687	\$32183.23
Computers	\$28.00	1050.463	\$29412.96

6% Foreign Holdings

Balance as of 5/30/03: \$215484.94  
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%
2002:	- 14.7%
*2003:	+ 16.4%



In May our Select System gained 9.4%, versus 5.3% for the S&P. On 6/9 we will sell **Retailing** and buy **Energy Services**. Also, we will sell **Banking** and buy **Developing Communications**.

spending begins to pick up, these two funds are likely to be the strongest performers in the model.

- **Developing Communications.** This fund holds an interesting collection of media companies, wireless providers, and handset manufacturers. Too much capacity remains a problem in this industry, but low interest rates are making it easier for these firms to manage their heavy debt load. Furthermore, expanding cell-phone functionality holds the promise of new revenue growth. Color screens, integrated digital cameras, Web surfing, and organizer features just might be enough to coax consumers into opening up their wallets.

- **Energy Services.** Oil prices have come down since the war ended, but not as much as many analysts expected. That may change once Iraqi oil is flowing, but any relief could be short-lived. Global oil production is nearing an all-time peak, with new supplies barely pulling ahead of lost production from wells that are slowly running dry after decades of service. Here at home, natural gas wells are being depleted even faster. Alan Greenspan recently noted that natural gas is abundant in many other parts of the world, but the options for transporting it to the U.S. are sharply limited in the short run. All told, it seems a reasonable bet that drilling activity will increase over the next 12 months, which means companies in this fund can probably look forward to higher earnings over time.

- **Software.** This sector is one of the more stable of the technology offerings. Even as many technology customers delay hardware purchases, they often continue to upgrade their software. Furthermore, software companies generally have greater pricing power than other technology players. This fund maintains diversification by investing some of its assets outside the traditional software realm. Its holdings include companies that provide business services (such as payroll processing firms), software retailers, consulting firms, and a few corporations that focus on Web services. ■

**Ultra-Short, Short-Term, Floating Rate, Ginnie Mae, High Income, and Capital & Income.**

Long-term interest rates came tumbling down, benefiting bond funds across the board. Leading the pack was **Inflation-Protected Bond**, up 4.9%. It got a boost from being more interest-rate sensitive than the others, and it was also helped by higher energy prices, which factor into the CPI-U index. Trailing behind was **Ultra-Short Bond**, up 0.2%. By design, it isn't affected much by declining (or rising) interest rates.

**SELECT PORTFOLIOS**

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

Tight fossil fuel supplies gave a boost to the energy group, and solid earnings helped most tech stocks. **Energy Services** jumped 16.6%, **Electronics** climbed 15.4%, and **Networking** gained 15.2%. Deflationary concerns held back the cyclical groups. **Paper & Forest** rose 1.9%, and **Chemicals** was off 0.2%. ■

**Happenings**

President Bush signed a compromise tax cut into law, reducing the maximum take on stock dividends and long-term capital gains to 15% through 2009. We don't see any need to change strategies, but the new rules may help stocks in **Equity-Income I & II** and **Utilities** while taking a toll on **Real Estate**. We'll discuss the tax cut in more detail next month.

Fidelity plans to introduce **Blue Chip Value** under the leadership of Brian Hogan around 6/23. The new fund will complement **Value**, which focuses on mid-cap stocks. We plan to rate it a hold.

As of 5/1, Brian Younger has replaced Shep Perkins at **Utilities Growth, Wireless, and VIP Telecom and Utilities** (Perkins is now managing **OTC Portfolio**). Charlie Chai has taken over for Perkins at **Developing Communications**. We have no concerns with any of these changes. ■

**MAY DISTRIBUTIONS**

<b>Asset Manager: Income</b>	\$0.02 / \$11.34 (5/2)
<b>Freedom Income</b>	\$0.02 / \$10.76 (5/2)
<b>Freedom 2000</b>	\$0.06 / \$11.23 (5/2)
<b>Freedom 2010</b>	\$0.06 / \$11.89 (5/2)
<b>Freedom 2020</b>	\$0.04 / \$11.21 (5/2)
<b>Freedom 2030</b>	\$0.04 / \$10.82 (5/2)
<b>Freedom 2040</b>	\$0.02 / \$ 6.22 (5/2)
<b>Magellan</b>	\$0.18 / \$83.93 (5/2)

Funds scheduled for June (6/6) include **Asset Manager, Asset Manager Income, Balanced, Capital & Income, Convertible Securities, Equity-Income, Equity-Income II, Fidelity, Freedom Income, Growth & Income, Growth & Income II, High Income, Int. Bond, Inv. Grade Bond, Large Cap Stock, Mid-Cap Stock, Puritan, Real Estate, Short-Term Bond, Small Cap Indep., Small Cap Stock, Spartan Gov't Inc., Spartan 500 Index, and Utilities.**

Money Market Funds	Size	Yield	Money Market Funds	Size	Yield	Money Market Funds	Size	Yield
Cash Reser (55/FDRXX)	57851.9	0.97	CT MM (418/FCMXX)	1010.1	0.78			
Select MM (85/FSLXX)	958.9	1.00	MA MM (74/FDMXX)	3210.2	0.78	FL MM (428/FSFXX)	990.2	0.85
Spart MM (454/SPRXX)	7071.7	0.95	MI MM (420/FMIXX)	572.2	0.83	Spart MA MM (426/FMSXX)	1040.0	0.87
Spart US Gov't (458/SPAXX)	738.7	0.92	NJ MM (417/FNJXX)	1269.3	0.81	Spart Municipal (460/FIMXX)	2994.8	1.00
Spart US Treas (415/FDLXX)	2615.4	0.80	NY MM (92/FNYXX)	2846.6	0.81	Spart NJ MM (423/FSJXX)	592.9	0.96
Tax-Free MM (275/FMOXX)	454.8	0.87	OH MM (419/FOMXX)	636.9	0.84	Spart NY MM (422/FSNXX)	1130.3	0.91
US Gov't Reser (50/FGRXX)	2479.4	0.99	AZ MM (433/FSAXX)	131.4	0.89	PA MM (401/FPTXX)	278.9	0.83
CA MM (97/FCFXX)	2604.9	0.82	Spart CA MM (457/FSPXX)	1296.1	0.96	Municipal MM (10/FTEXX)	13054.3	0.91