

Sooner Or Later: Oil Goes To \$100 Per Barrel

In the words of Matthew Simmons, one of today's most prominent peak-oil theorists, the world faces a clash of the ages. Oil demand has become a runaway freight train, with 5 billion people just starting to use oil – while the remaining 1.2 billion use more and more every day. Meanwhile, global oil supply is anchored by very old fields – some 70% of crude production comes from deposits that were found prior to 1970. Many of these giant fields are showing signs of depletion, and the young fields that are coming on line are very small. This month we discuss the supporting arguments for peak oil, the timetable for \$100/barrel, and the investment implications.

The table below shows annual oil consumption on a per capita basis for 10 different countries. China and India are of particular interest, because their economies are growing fast and both countries are spending heavily on transportation infrastructure projects. With roughly two million new vehicles being sold in China each year, the country's road-building effort is both necessary and ambitious.

Suppose that living standards in India and China improve enough that annual oil usage increases to 4 barrels per person over the next decade. That level of usage would be about one-sixth as great as the U.S. – higher than Brazil, but lower than Mexico. Because the combined population of China and India

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	Population (Millions)	Per Capita Oil Consumption (Barrels / Year)
U.S.	285	23.4
Canada	31	22.7
Japan	130	14.0
Australia	20	13.9
Spain	40	13.8
Mexico	100	6.0
Brazil	175	3.5
China	1300	1.5
India	1050	0.8
Bangladesh	140	0.2

Source: Simmons & Company International

Review & Recommendations

In May, economic reports dispelled the notion that the economy is slowing significantly. GDP, housing, consumer confidence, and employment all suggested ongoing improvement, while manufacturing activity remained weak. Technology stocks benefited most, thanks to lower-than-expected inflation and rising oil inventories ahead of the summer driving season. The S&P 500 gained 3.2% for the month.

A robust economy is good news for smaller stocks, but the flat yield curve remains a warning flag. Typically, a narrow spread between short-term and long-term interest rates tends to restrict lending activity, which slows the economy's future growth. This time around, however, hedge funds are stepping up to the plate to fill the lending void. It remains to be seen whether this is a unique event or a new long-term funding mechanism.

GROWTH FUNDS

Growth Model holdings are listed on page 7. Our favorites include **Value**, **Contrafund**, and **Structured Large Cap Value**. For the time being we'll keep our hold rating on **Small Cap Value** and **Leveraged Company Stock**. We're tempted to return both funds to a buy, but we want to watch the economy and the yield curve another month before taking any action.

Funds with a heavy weighting in technology were strong performers in May. **Value Strategies** jumped 9.9%, **OTC Portfolio** gained 9.6%, and **Growth Company** was up 7.8%. Value stocks were weak in comparison. Funds that trailed the group included **Dividend Growth** with a 3.5% increase, **Structured Large Cap Value** which rose 3.1%, and **Blue Chip Value**, climbing 3.0%.

INTERNATIONAL FUNDS

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

The Latin American markets were cheered by the prospect of lower interest rates and news that the U.S. economy remains on track. **Latin America** climbed 7.2%, and **Emerging Markets** rose 4.0%. **Southeast Asia**, up 2.9%, benefited from the tech stock rally. On the flip side, funds with significant Japanese exposure were hurt by weak earnings. **Japan**

RECOMMENDATIONS - *Continued on page 8*

is 2.3 billion, the resulting *increase* in world oil usage would be equivalent to total U.S. consumption today.

If that kind of growth in global oil production is even possible, it won't come easy. Most of today's producers are running hard just to offset the declines that occur as mature fields gradually run dry. Oil production in the U.S., which peaked in 1970 and is down 30-40% since then, is a telling example of what happens after eight decades of drilling and pumping. Most other early-producing countries are in a similar situation. Geological limits await the few remaining countries still able to increase their annual output. Even Saudi Arabia, widely viewed as the world's supplier of last resort, may be on the verge of a serious water contamination problem in its oil fields. Simmons has strong views on this topic. He is so convinced the Saudis are overstating their production ability that he has just released a book (*Twilight in the Desert*, Wiley).

Although the world will never "run out" of oil, the invisible hand of the marketplace has already triggered some conservation through higher prices. As oil supplies fall increasingly short of demand, the price of crude is almost certain to climb even further over the next decade, encouraging consumers to change their habits and prompting businesses to become more efficient.

These days there's a lot of talk about the future of energy, with little consideration for the glacial pace at which any transition will take place. Today's world economy is heavily dependent on oil, natural gas, and coal. Alternatives are becoming more viable, but none are likely to displace fossil fuels in the next 20 years. The coming oil shortfall will most likely be resolved through forced conservation and increased use of coal and natural gas, or synthetic fuels derived from coal and natural gas.

That hasn't stopped the alternatives from getting a lot of press from excited people who overlook the fundamentals of chemistry, physics, or geology. The following solutions are unlikely to save the day:

- **Hydrogen Fueled Vehicles.** Even if fuel cells could cope with cold temperatures, they're still very expensive to produce and they wear out much faster than electric vehicle battery packs. It's possible to burn hydrogen directly in a modified engine, but the fuel is more than double the cost of Compressed Natural Gas (CNG), and for the same size fuel tank it won't even take a vehicle half as far between fill ups. That's unlikely to change in the next two decades.

- **Renewables.** Ethanol, which can be distilled from corn and other agricultural products, is on track to become a standard additive for gasoline, but cannot easily supply more than 10% of the nation's fueling demand. Solar and wind may help offset the increased demand on the electrical grid, but won't do much to reduce oil demand. Hybrid cars may someday gain the ability to plug into the grid, reducing oil demand, but the high cost of batteries and the inconvenience factor remain key hurdles.

- **More Drilling.** Some 5 million wells have been drilled worldwide, and virtually all the easy oil has been found. The economics of oil exploration have become downright unattractive, because oil strikes are so few and far between. These days most oil companies are using their profits primarily for acquisitions and shareholder compensation.

- **Canadian Tar Sands.** Strip mining sand for bitumen (a heavy tar-like substance) is profitable, but has some serious environmental issues and is unlikely to account for more than 3-4% of global oil production. The alternative "In-situ" approach of using conventional drilling and steam injection is really just an inefficient method of converting natural gas into a liquid fuel. High natural gas prices in North America will probably make it uneconomical.

THE PATH TO \$100/BARREL

In the next few years, most of the upward pressure on oil prices could stem from a global imbalance of refining capacity. Many more countries are fighting air pollution by requiring cleaner gasoline, but there aren't enough refineries that can meet the tighter standards using heavy sour crude as a feed stock. As such, an increasing number of refineries have been shunning Saudi oil and opting for light, sweet crude – which drives up the price of West Texas Intermediate and other high-quality oils. Ironic as it seems, the world is becoming more dependent on a type of oil that is already in worldwide production decline.

Eventually, capital intensive refinery upgrades should take care of this bottleneck, but probably not before 2008. By then, there's a good chance that global production of all types of crude oil will have topped out. Meeting the world's growing energy demand may then require large-scale synthetic fuel plants, and a big infrastructure expansion for Liquefied Natural Gas (LNG). Efforts are underway on both of these fronts, but the capacity is almost sure to lag the timeframe in which it is needed.

As such, the question is not so much *if* oil will go to \$100/barrel, but rather how *soon* it will happen:

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- Sooner. If the global economy remains strong, \$100/barrel oil could be attained as early as 2006 or 2007. This assumes that consumers won't change their driving habits much in the short run, limiting the ability of refineries to keep up with demand for clean gasoline.

- Later. If the Fed continues to hike interest rates for an extended period, economic growth could slow in both China and the U.S., alleviating the refinery bottleneck. This may give consumers more time to embrace efficient vehicles, pushing out \$100/barrel oil until 2010-2012.

ECONOMIC IMPACT

The U.S. economy has changed substantially since the 1970s. High-margin industry groups now account for most of the country's GDP, and energy costs don't really have much impact on corporate earnings (except in the transportation group, which accounts for only a tiny slice of S&P 500 profits). Furthermore, most of the money spent on energy today doesn't leave the U.S. economy. Even the dollars spent on imported oil are largely recycled into U.S. treasuries, and rising short-term interest rates assure that this trend will continue. Finally, U.S. consumers tend to adapt fast. Many will not hesitate to buy a new vehicle, change jobs to a location that's closer to home, or modernize their houses for greater energy efficiency.

Foreign economies may not be as resilient. In Europe, taxes at the pump act as a pain multiplier, and E.U. monetary policy is unlikely to provide much relief. Heavy-handed business regulations and energy mandates are likely to stretch out the adjustment period, aggravating unemployment. Japan's industrial economy is heavily dependent on vehicles and heavy capital equipment, and could suffer more as a result. Additionally, most of the money spent on energy exits Japan's economy, putting upward pressure on its interest rates. Emerging Markets are a mixed bag. Countries that export oil will enjoy a windfall, but some may turn to socialism to avoid unrest – creating an environment where investors are less likely to benefit. Those that import oil, such as China, may see double-digit rates of inflation as manufacturing costs climb and are passed along in the economy. Here again, the investment backdrop is not pretty.

INVESTMENT IMPLICATIONS

The main impact of rising oil prices is a higher rate of inflation. If oil goes to \$100/barrel in the next few years, we can expect U.S. inflation to climb into the 4-6% range and stay there for a decade or

more. That's mild compared with what happened in the late 1970s and early 1980s, but it could still have a major impact on the investment landscape:

- The valuation gap between growth stocks and value stocks could narrow. We've seen some of that in recent years, but \$100/barrel oil would trigger another round. Higher inflation makes conservative strategies more dependable, because slow-growth companies gain pricing power and their revenue growth picks up. Aggressive strategies become more risky, because it gets more difficult to put a value on the future earnings of growth companies.

- The energy sector becomes more prominent. Energy stocks account for 8% of S&P 500 market capitalization, but provide some 20% of S&P 500 earnings. The group is still cheap despite its recent gains. If you can stand the roller coaster ride, the energy sector is a solid five-year play.

- Foreign diversification loses some of its luster. The U.S. economy is able to cope with high-priced oil better than Europe or Japan, and U.S. energy firms are better managed than their overseas competitors.

RECOMMENDATIONS

The difficulty in predicting the exact path to \$100/barrel oil suggests a multi-pronged approach:

- Adopt a conservative core strategy for the majority of your investment holdings. Funds that lean toward value, such as **Equity-Income, Value, Strategic Dividend & Income, Balanced,** and **Puritan** are well-diversified and should hold up better than most in a rising oil price environment.

- Limit exposure to long-maturity bonds. With short-term interest rates closing in on long-term bond yields, there's not much to be gained going long-term.

- Make a targeted bet on energy with up to 20% of your portfolio. That's large enough to provide a significant increase in long-term returns, but small enough that you won't feel too much pain during the ongoing correction periods. Of the four sector funds that focus on the energy group (**Energy, Energy Services, Natural Gas, and Natural Resources**), we recommend **Natural Resources** and **Energy**. These two tend to be less volatile and are not likely to disappoint if held a full five years.

These strategies are evident to some degree in all of our model portfolios. However, the Unique Opportunities Model has been more active than others in trying to profit from energy scarcity and rising inflation. Compared to our other portfolios, it tends to benefit most when the price of oil rises, but can also suffer more when the energy group takes a tumble. ■

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 ↓.

MAY 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***	1.45	1.5(90)	16.04	4171.2	-3.4	7.1	2.4	2.4	4.3	-17.8	4.5
Blue Chip Gth (312/FBGRX)	H***	1.02	none	40.97	21380.6	-1.8	4.4	0.4	3.2	2.5	-5.6	7.5
Blue Chip Value (1271/FBCVX)	H***	1.05	none	12.48	155.7	-0.6	3.0	-2.8	12.5			
Capital Apprec (307/FDCAX)	H***	1.28	none	25.21	6046.2	-3.2	6.5	-0.1	5.8	9.8	1.4	10.3
Contrafund (22/FCNTX)	B****	0.97	none	57.61	45594.7	1.6	4.6	-0.1	12.5	9.3	3.0	12.5
Discovery (339/FDSVX)	S**	0.91	none	10.61	455.2	-6.1	3.6	-0.6	5.4	3.1	-2.2	
Disc Equity (315/FDEQX)	H***	1.07	none	25.63	5155.6	1.3	4.0	-1.0	12.0	6.5	-0.7	9.9
Dividend Gth (330/FDGFY)	H***	1.02	none	27.73	16876.8	-2.7	3.5	-0.9	2.5	2.5	0.8	12.1
Export Fund (332/FEXPX)	H***	1.13	0.75(30)	19.74	2455.6	0.5	5.2	-1.2	11.6	9.4	4.5	15.8
Fidelity Fifty (500/FFTYX)	H***	1.22	0.75(30)	20.04	761.7	-2.9	7.1	0.0	5.1	3.1	1.7	11.3
Growth Company (25/FDGRX)	H***	1.43	none	55.90	22691.1	-0.3	7.8	3.9	7.9	8.3	-5.5	10.9
Large-Cap Stock (338/FLCSX)	H***	1.06	none	14.21	611.8	-2.8	3.6	-0.9	3.2	2.0	-5.9	
Lev Co Stock (122/FLVCX)	H***	1.49	1.5(90)	23.35	2756.5	3.0	3.6	-3.7	24.5	38.9		
Low-Priced Stock (316/FLPSX)	B****	0.97	Closed	39.84	33715.9	-1.0	4.9	-2.1	16.8	13.4	18.7	16.7
Magellan (21/FMAGX)	S**	1.01	Closed	102.20	54856.6	-1.3	3.6	-0.5	5.4	3.2	-3.5	8.3
Mid Cap Stock (337/FMCSX)	H***	1.30	0.75(30)	23.03	7941.8	-1.8	6.8	-0.6	7.0	4.0	1.6	12.9
New Millennium (300/FMILX)	H***	1.36	Closed	29.64	2985.4	-6.5	5.7	-4.8	2.2	3.6	-1.6	16.3
OTC Portfolio (93/FOCPX)	S**	1.50	none	34.36	7030.3	-1.0	9.6	3.6	6.6	7.3	-6.8	9.3
Independence (73/FDFFX)	H***	1.19	none	17.50	4172.3	-1.8	6.7	-0.4	8.4	2.9	-2.1	9.5
Small Cap Gth (1388/FCPGX)	H***	1.3 Est	1.5(90)	11.43	107.4	0.2	5.6	-3.0				
Small Cap Indep (336/FDSCX)	H***	1.14	1.5(90)	19.25	1067.4	-2.4	5.8	-2.7	10.3	5.2	5.6	9.4
Small Cap Stock (340/FSLCX)	H***	1.20	2(90)	17.47	3987.2	-3.8	4.4	-3.5	8.4	9.3	8.9	
Small Cap Value (1389/FCPVX)	H***	0.9 Est	1.5(90)	11.40	311.2	2.2	4.9	-2.1				
Stock Selector (320/FDSSX)	H***	1.02	none	22.74	749.8	-0.3	4.2	-0.4	8.3	5.9	-2.0	8.8
Strc Lg Cap Gth (763/FSLGX)	H***	1.32	0.75(30)	10.59	60.5	3.2	7.3	0.7	14.7	6.7		
Strc Lg Cap Val (708/FLSVX)	B****	1.02	0.75(30)	12.16	214.8	0.2	3.1	-1.5	14.0	7.3		
Strc Mid Cap Gth (793/FSMGX)	H***	1.42	0.75(30)	11.82	90.1	1.2	6.7	-0.4	15.1	9.1		
Strc Mid Cap Val (762/FSMVX)	B****	1.11	0.75(30)	14.14	182.6	0.3	4.7	-1.6	18.4	9.9		
Focused Stock (333/FTQGX)	H***	1.30	0.75(30)	10.56	65.9	4.6	5.8	-1.1	19.8	0.6	-5.4	
Trend (5/FTRNX)	H***	1.00	none	53.14	827.9	-0.9	3.6	-0.4	8.2	6.1	-1.5	6.5
Value (39/FDVLX)	B****	1.07	none	72.72	10761.9	2.0	4.7	-0.1	19.0	11.5	12.7	12.6
Value Discovery (832/FVDFX)	H***	1.15	none	13.98	121.5	2.2	4.6	-0.9	15.6			
Value Strategies (14/FSLSX)	H***	1.57	none	35.72	168.9	-4.5	9.9	-1.8	7.5	11.2	11.3	
GROWTH & INCOME FUNDS:												
Balanced (304/FBALX)	B****	0.81	none	17.79	12844.0	0.2	3.3	-1.0	10.8	9.0	6.9	10.3
Convertible Sec (308/FCVXS)	H***	0.79	none	20.54	1674.5	-4.6	2.6	-2.3	3.6	6.5	4.5	11.7
Equity-Income (23/FEQIX)	B****	0.97	none	50.91	25356.8	-2.2	2.2	-2.6	8.0	5.4	3.6	10.2
Equity-Income II (319/FEQTX)	H***	1.01	none	23.29	11942.7	-1.9	2.8	-1.8	10.0	7.2	4.2	10.2
Fidelity Fund (3/FFIDX)	H***	0.96	none	29.74	10094.7	-0.2	3.3	0.2	6.7	4.8	-1.9	10.0
Growth & Income (27/FGRIX)	B****	0.89	none	37.49	30598.5	-1.6	2.1	-0.4	7.3	3.3	-0.7	9.5
Growth & Inc II (361/FGRTX)	H***	0.91	none	9.30	183.2	-3.7	0.6	-2.7	2.1	3.8	-0.8	
Puritan (4/FPURX)	B****	0.63	none	18.67	23381.4	-0.9	1.7	-1.3	7.7	6.6	5.2	9.3
Strategic Div & Inc (1329/FSDIX)	B****	0.82	none	11.33	661.9	-0.1	2.6	-1.0	13.1			
Utilities (311/FUIUX)	H***	0.99	none	13.77	980.2	1.7	0.6	1.2	23.5	9.7	-5.3	7.6
SELECT FUNDS:												
Air Transportation (34/FSAIX)	H***	1.44	0.75(30)	34.28	33.1	1.8	6.0	2.6	15.8	4.0	4.7	12.3
Automotive (502/FAVX)	S**	1.24	0.75(30)	32.30	14.0	-7.2	4.5	-5.3	4.7	4.3	9.0	7.4
Banking (507/FSRBX)	H***↓	1.02	0.75(30)	36.87	447.1	-5.2	1.7	-1.1	6.1	6.1	8.4	13.9
Biotechnology (42/FBIOX)	S**	2.27	0.75(30)	54.14	1514.6	-6.1	5.6	10.4	-7.5	7.6	-4.3	11.7
Brokerage (68/FSLBX)	H***	1.39	0.75(30)	55.49	363.2	-0.6	7.5	1.0	15.1	9.8	7.3	17.6
Business Ser (353/FBSOX)	H***	1.13	0.75(30)	14.77	32.7	-6.6	5.9	-2.5	4.6	1.4	3.7	
Chemicals (69/FSCHX)	B****	1.50	0.75(30)	64.44	234.5	-4.7	0.9	-9.0	24.7	13.7	13.5	10.9
Computers (7/FDCPX)	H***	2.07	0.75(30)	34.31	559.6	-2.4	10.4	-1.0	-1.0	3.7	-14.9	9.8
Const & Housing (511/FSHOX)	H***	1.63	0.75(30)	44.50	193.0	3.1	9.3	-2.0	30.0	15.9	19.9	15.2
Consumer Indust (517/FSCPX)	H***	1.04	0.75(30)	24.45	38.0	-0.9	5.9	0.9	8.1	2.4	1.8	9.7
Cyclical Indust (515/FCYIX)	H***	1.27	0.75(30)	18.20	60.8	-0.7	4.5	-3.3	20.2	11.4	9.4	
Defense & Aero (67/FSDAX)	B****	1.19	0.75(30)	69.88	655.0	7.7	4.4	4.3	28.0	12.6	13.4	15.5
Develop Commn (518/FSDCX)	H***↑	2.03	0.75(30)	17.92	422.9	-7.3	11.3	1.4	3.4	11.0	-14.6	7.7
Electronics (8/FSELX)	H***	2.41	0.75(30)	39.45	2407.1	4.4	10.7	1.3	-5.2	-2.1	-14.5	13.0
Energy (60/FSENX)	B****	1.84	0.75(30)	36.95	1230.0	15.7	3.8	-2.7	43.6	16.6	9.0	13.2
Energy Services (43/FSESX)	H***	2.29	0.75(30)	47.50	825.8	11.4	4.9	-3.9	43.1	10.0	5.5	15.6
Environmental (516/FSLEX)	S**	1.23	0.75(30)	14.12	11.7	-1.3	8.0	2.3	6.4	6.6	5.9	2.5
Financial Services (66/FIDSX)	H***	1.05	0.75(30)	105.65	436.4	-4.7	3.4	-2.6	6.0	6.3	6.8	14.0
Food & Agriculture (9/FDFAX)	H***	0.85	0.75(30)	50.96	130.8	1.1	3.3	-0.4	11.0	4.0	8.9	10.0
Gold (41/FSAGX)	H***	2.24	0.75(30)	22.36	576.0	-12.0	2.0	-13.7	-1.9	1.4	17.1	2.7
Health Care (63/FSPHX)	H***	1.15	0.75(30)	134.72	2006.9	5.2	2.5	6.1	8.1	5.9	2.5	13.0
Home Finance (98/FSVLX)	H***	1.12	0.75(30)	56.05	344.2	-10.7	3.7	-4.8	-1.1	5.6	14.7	13.9
Indust Equip (510/FSCGX)	H***	1.34	0.75(30)	25.28	41.8	-3.2	3.4	-3.6	9.5	7.0	1.7	9.2
Indust Materials (509/FSDPX)	H***	1.50	0.75(30)	36.70	129.7	-6.4	0.7	-8.8	14.9	10.6	13.9	7.8
Insurance (45/FSPCX)	H***	1.21	0.75(30)	61.94	158.8	0.8	5.4	0.2	9.0	8.6	12.7	17.0
Leisure (62/FDLSX)	H***	1.12	0.75(30)	73.06	188.3	-5.1	6.1	-0.9	7.6	9.4	2.3	12.4
Medical Delivery (505/FSHCX)	B****	1.53	0.75(30)	47.81	857.4	11.0	3.7	6.4	52.5	15.6	24.0	12.8
Medical Equip/Sys (354/FSMEX)	H***	1.09	0.75(30)	24.13	1005.8	3.1	1.8	1.8	9.7	15.5	13.5	
Multimedia (503/FBMPX)	H***	1.13	0.75(30)	44.24	85.5	-2.1	5.0	1.6	4.5	12.0	1.5	11.2
Natural Gas (513/FSNGX)	B****	2.14	0.75(30)	30.81	930.5	10.5	4.9	-4.3	43.6	20.1	11.1	13.9
Nat Resources (514/FNARX)	B****	1.76	0.75(30)	18.67	335.5	9.3	3.1	-5.6	32.0	13.7	8.3	
Networking/Infra (912/FNINX)	H***↑	2.24	0.75(30)	2.14	90.3	-8.9	12.0	0.0	-6.1	0.5		
Paper & Forest (506/FSPFX)	S**	1.41	0.75(30)	27.77	24.9	-16.5	-2.0	-12.2	-10.3	-2.8	4.3	5.6
Pharmaceuticals (580/FPHAX)	S**	1.28	0.75(30)	8.84	116.2	-2.3	0.8	2.4	-0.3	1.4		
Retailing (46/FSRPX)	H***	1.22	0.75(30)	50.79	93.8	2.4	8.9	3.6	13.8	6.8	3.7	12.5
Software (28/FSCSX)	H***	1.59	0.75(30)	49.67	568.0	-5.3	11.1	4.4	5.0	9.6	-2.4	14.2
Technology (64/FSPTX)	H***	1.90	0.75(30)	59.01	1700.2	-2.0	10.7	2.4	0.5	7.8	-13.6	10.8
Telecom (96/FSTCX)	B****	1.29	0.75(30)	35.69	309.5	-3.8	5.8	2.7	11.0	11.8	-12.7	5.2
Transportation (512/FSRFX)	S**↓	1.55	0.75(30)	39.87	73.4	-6.0	4.8	-4.5	21.2	10.8	12.6	12.7
Utilities Growth (65/FSUTX)	B****	0.95	0.75(30)	40.81	338.4	1.7	1.3	2.2	24.3	10.9	-5.4	9.0
Wireless (963/FWRXL)	H***	1.41	0.75(30)	5.96	317.5	2.2	7.2	4.7	21.6	18.8		

MAY 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
Aggressive Int'l (335/FIVFX)	H***	1.06	1 (30)	16.21	672.0		-3.1	1.6	-4.8	8.2	7.2	-0.1
Canada (309/FICDX)	B****	1.09	1.5(90)	34.35	955.2		1.4	2.6	-1.6	28.9	18.5	11.7
Diversified Int'l (325/FDIVX)	H***	0.93	Closed	28.28	25299.8		-1.3	0.6	-3.7	14.1	12.8	5.6
Emerging Mkts (322/FEMKX)	S**	1.28	1.5(90)	13.42	920.7		3.8	4.0	-6.2	30.6	16.8	5.9
Europe (301/FIEUX)	B****	1.08	1 (30)	34.41	2389.4		0.8	1.1	-4.4	27.2	14.2	2.2
Europe Cap Appr (341/FECAX)	H***	1.00	1 (30)	21.40	467.4		-0.6	1.3	-6.2	15.2	8.1	3.0
China Region (352/FHKCX)	H***	1.05	1.5(90)	17.44	341.0		2.2	1.6	-0.5	17.7	11.2	3.6
Global Balanced (334/FGBLX)	H***	0.73	1 (30)	20.91	176.6		-0.4	1.3	-0.8	12.2	10.1	4.6
Int'l Discovery (305/FIGRX)	H***	1.00	1 (30)	27.81	3018.1		-1.4	0.4	-4.2	14.8	11.8	3.3
Int'l Small Cap (818/FISMX)	B****	1.04	2 (90)	23.65	2067.8		1.6	-3.1	-6.5	23.1		
Japan (350/FJPNX)	H***	1.72	1.5(90)	12.12	714.9		-5.3	-2.6	-5.9	-0.4	5.7	-7.2
Japan Smaller Co (360/FJSCX)	H***	1.72	1.5(90)	12.39	1255.8		-1.5	-4.3	-3.6	4.4	16.7	1.6
Latin America (349/FLATX)	H***	1.85	1.5(90)	22.59	642.5		6.8	7.2	-4.6	56.5	25.1	12.7
Nordic (342/FNORX)	H***	1.17	1.5(90)	28.19	156.5		2.0	2.2	-1.9	28.1	15.2	-0.7
Overseas (94/FOSEFX)	H***	1.10	1 (30)	34.37	4435.3		-2.9	2.2	-4.6	9.4	7.3	-1.7
Pacific Basin (302/FPBFX)	H***	1.25	1.5(90)	19.58	513.9		-1.0	0.4	-4.4	11.2	8.8	-1.2
Southeast Asia (351/FSEAX)	S**	1.38	1.5(90)	17.40	575.8		6.0	2.9	-2.2	22.7	13.2	4.4
Worldwide (318/FWWFX)	H***	1.00	1 (30)	17.84	1130.4		-2.2	2.9	-3.5	8.8	7.4	1.8
INDEX AND ASSET ALLOCATION:												
Four-In-One Index (355/FFNOX)	H***	0.83	0.5(90)	24.92	872.4		-1.0	2.7	-0.8	9.6	7.3	0.7
NASDAQ Comp (1282/FNCMX)	S**	1.41	0.75(90)	27.99	97.9		-4.8	7.7	0.9	4.4		
Spart Ext Mkt Idx (398/FSEMX)	H***	1.19	0.75(90)	31.48	1396.2		-1.4	6.0	0.2	12.8	11.3	3.2
Spart Int'l Index (399/FSIIX)	B****	1.01	1(90)	30.97	1195.3		-2.8	-0.6	-4.8	13.9	9.7	-0.5
Spart 500 Index (317/FSMKX)	H***	1.00	0.5(90)	82.56	12025.6		-1.0	3.2	-0.6	8.1	5.5	-2.0
Spart Total Mkt Idx (397/FSTMX)	B****	1.03	0.5(90)	32.71	2822.7		-0.8	3.8	-0.3	9.4	6.7	-0.7
Asset Manager (314/FASMX)	H***	0.56	none	15.98	10278.8		-0.9	2.2	-0.3	4.4	4.8	2.0
Asset Mgr Agg (347/FAMRX)	H***	1.15	none	10.95	362.4		-3.2	6.0	-0.5	5.9	4.2	-3.1
Asset Mgr Gth (321/FASGX)	H***	0.76	none	14.52	3380.9		-2.0	2.7	-1.0	3.8	4.3	0.2
Asset Mgr Inc (328/FASIX)	B****	0.36	none	12.64	1564.5		0.5	2.1	0.0	6.5	6.7	5.1
Freedom 2000 (370/FFFBX)	B****	0.29	none	12.10	1571.2		0.8	1.4	0.8	5.1	4.3	3.1
Freedom 2005 (1312/FFVFX)	B****	0.46	none	10.77	248.9		0.3	2.3	0.4	6.8		
Freedom 2010 (371/FFFCX)	B****	0.49	none	13.56	8668.7		0.2	2.3	0.3	7.1	6.1	2.6
Freedom 2015 (1313/FFVFX)	B****	0.61	none	10.98	973.6		-0.1	2.7	0.1	7.8		
Freedom 2020 (372/FFFDX)	B****	0.72	none	13.83	9908.0		-0.4	3.0	-0.3	8.3	6.8	1.0
Freedom 2025 (1314/FFTWX)	B****	0.78	none	11.19	722.3		-0.4	3.2	-0.3	8.5		
Freedom 2030 (373/FFFEX)	B****	0.83	none	13.92	5847.1		-0.7	3.3	-0.7	8.7	6.8	0.0
Freedom 2035 (1315/FFTHX)	B****	0.85	none	11.32	374.7		-0.7	3.5	-0.7	9.0		
Freedom 2040 (718/FFFFX)	B****	0.90	none	8.16	2158.0		-0.9	3.5	-0.9	9.1	6.9	
Freedom Income (369/FFFAX)	B****	0.25	none	11.30	1950.4		0.9	1.3	1.0	4.7	3.9	3.7
Real Estate Income (833/FRIFX)	H***	0.24	0.75(90)	11.94	604.6		1.7	1.4	1.8	12.4		
Real Estate (303/FRESX)	S**	1.38	0.75(90)	29.96	4742.9		1.8	2.9	6.8	33.1	20.3	20.2
Int'l Real Estate (1368/FRIFX)	H***	1.3 Est	1.5(90)	11.55	157.0		-2.1	-0.4	-2.0			
TAXABLE BOND FUNDS:												
Capital & Income (38/FAGIX)	H***	0.29	1(90)	8.27	4967.7	5.83	0.0	2.0	-2.0	14.2	16.7	6.4
Floating Rate (814/FRHX)	H***	0.06	1(60)	9.93	2520.8	4.30	1.2	0.4	0.3	4.3		
Focused High Inc (1366/FHIFX)	H***	0.2 Est	1(90)	9.98	37.6	5.29	-0.5	1.7	-1.4			
GNMA Portfolio (15/FGMNX)	H***	0.24	none	11.11	4012.9	3.88	1.9	0.8	1.6	6.0	4.4	6.5
Gov't Income (54/FGOVX)	H***	0.31	none	10.31	4850.5	3.07	2.0	0.9	2.2	6.1	5.3	7.0
Intermed Bond (32/FTHRX)	H***	0.25	none	10.48	7242.2	3.62	1.1	0.8	1.4	4.8	5.2	7.1
Intermed Gov't Inc (452/FSTGX)	H***	0.25	none	10.22	900.0	3.10	1.1	0.8	1.6	4.0	4.3	6.4
Invest Grade Bond (26/FBNDX)	H***	0.32	none	7.56	6696.1	3.64	1.9	1.1	1.7	6.9	6.0	7.6
Mortgage Securities (40/FMSFX)	H***	0.24	none	11.26	1784.4	3.68	1.7	0.8	1.6	6.2	5.0	7.2
New Markets Inc (331/FNMIX)	H***	0.55	1(90)	14.17	1299.4	6.02	3.5	3.6	1.8	21.8	16.9	15.2
Short-Term Bond (450/FSHFX)	B****	0.14	none	8.94	4866.9	3.27	0.9	0.5	0.9	2.6	3.7	5.3
Spart Gov't Inc (453/SPGVX)	H***	0.32	none	11.12	842.5	3.57	2.0	1.0	2.2	6.3	5.6	7.3
High Income (455/SPHIX)	H***	0.23	1(90)	8.75	3015.1	6.74	-1.1	1.7	-2.0	8.6	11.7	4.1
Spart Invest Grade (448/FSIBX)	H***	0.30	none	10.70	2600.3	3.89	1.8	1.1	1.7	7.1	6.3	8.0
Strategic Income (368/FSICX)	H***	0.27	none	10.52	3648.5	4.93	0.3	1.1	-0.5	11.7	11.5	9.8
Inflation-Protected (794/FINPX)	B****	0.51	none	11.58	1575.5	1.19	2.0	0.7	2.6	8.9		
Total Bond (820/FTBFX)	H***	0.29	none	10.63	393.8	3.75	1.5	1.2	1.4	7.5		
Ultra-Short Bond (812/FUSFX)	B*****	0.06	0.25(60)	10.04	861.8	2.74	1.0	0.2	0.8	1.9		
US Bond Index (651/FBIDX)	H***	0.30	none	11.12	5516.7	3.92	1.7	1.1	1.7	6.7	6.1	
MUNICIPAL BOND FUNDS:												
Spart AZ Muni Inc (434/FSAZX)	H***	0.25	0.5(30)	11.60	92.7	3.65	2.0	0.7	1.6	7.5	5.7	7.0
Spart CA Muni Inc (91/FCTFX)	H***	0.25	0.5(30)	12.60	1511.6	4.16	2.2	0.6	1.4	8.4	5.8	7.0
Spart CT Muni Inc (407/FICNX)	H***	0.26	0.5(30)	11.69	439.1	4.02	1.5	0.5	1.4	6.4	5.3	6.8
Spart FL Muni Inc (427/FFLIX)	H***	0.26	0.5(30)	11.76	509.8	3.95	1.9	0.7	1.6	7.7	5.6	7.0
Spart Intermediate (36/FLTIX)	H***	0.22	0.5(30)	10.12	1830.2	3.90	1.4	0.5	1.3	6.1	5.3	6.6
Spart MA Muni Inc (70/FDMMX)	H***	0.25	0.5(30)	12.21	1786.7	4.26	2.6	0.8	1.8	8.5	6.2	7.3
Spart MD Muni Inc (429/SMDMX)	H***	0.25	0.5(30)	11.07	107.7	3.74	1.7	0.6	1.5	7.1	5.4	6.7
Spart MI Muni Inc (81/FMHTX)	H***	0.24	0.5(30)	12.09	568.7	3.96	1.8	0.7	1.6	7.0	5.8	7.1
Spart MN Muni Inc (82/FMIX)	H***	0.22	0.5(30)	11.62	353.7	4.10	1.7	0.6	1.4	6.7	5.4	6.6
Spart Municipal Inc (37/FHIGX)	H***	0.25	0.5(30)	13.13	4657.8	4.30	2.4	0.7	1.8	8.6	6.5	7.7
Spart NJ Muni Inc (416/FNJHX)	H***	0.27	0.5(30)	11.80	558.2	3.96	2.5	0.8	1.8	8.3	5.9	7.1
Spart NY Muni Inc (71/FTFMX)	H***	0.26	0.5(30)	13.10	1417.0	4.00	2.2	0.7	1.6	8.1	6.3	7.6
Spart OH Muni Inc (88/FOHFX)	H***	0.26	0.5(30)	12.00	427.1	4.08	2.0	0.7	1.6	8.1	6.1	7.3
Spart PA Muni Inc (402/FPXTX)	H***	0.24	0.5(30)	11.02	305.7	4.07	1.7	0.5	1.3	7.6	5.6	6.9
Spart Short-Int Muni (404/FSTFX)	B****	0.13	0.5(30)	10.28	1846.0	2.80	0.2	0.2	0.6	2.7	3.0	4.5
Spart Tax-Free Bond (90/FTABX)	H***	0.28	0.5(30)	10.88	283.1	4.02	2.5	0.7	1.9	9.0	6.8	
MAY PERFORMANCE												
Indexes		Risk	Value	2005 YTD	One Month	Three Month	One Year	3-Yr Rate	5-Yr Rate	10-Yr Rate		
Dow Jones Industrial		0.98	10467.48	-2.0	2.9	-2.3	5.1	4.1	1.9	11.0		
S&P 500		1.00	1191.50	-0.9	3.2	-0.6	8.2	5.6	-1.9	10.2		
NASDAQ		1.40	2068.22	-4.7	7.7	0.9	4.7	9.1	-9.1	9.6		
Russell 2000		1.56	616.71	-4.9	6.5	-2.4	9.8	9.5	6.7	10.0		

MAY 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	1191.50	-0.9	3.2	-0.6	8.2	5.6	-1.9	10.2
Fidelity Monitor Income Model	0.06	78728.70	1.1	0.3	0.6	4.8	5.6	5.2	5.6
Fidelity Monitor G&I Model	0.67	144824.41	0.0	2.5	-0.8	11.1	11.1	7.6	10.7
Fidelity Monitor Growth Model	1.05	155170.48	0.4	3.8	-1.5	10.3	10.9	3.6	10.7
Fidelity Monitor Select System	1.16	273774.13	-0.5	3.0	-0.2	5.4	9.2	1.3	11.4
Fidelity Monitor Unique Opportunities	1.08	93021.86	1.8	3.3	-1.7	18.7	15.8	9.9	

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	\$18.67	742.049	\$13854.05
Utilities Growth	\$40.81	290.076	\$11838.00
Banking	\$36.87	350.928	\$12938.72
Leveraged Co.	\$23.35	980.276	\$22889.44
Value	\$72.72	433.191	\$31501.65

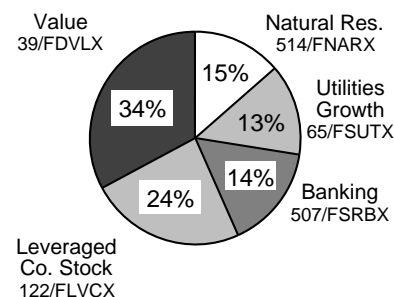
13% Foreign Holdings

Balance as of 5/31/05: **\$93021.86**

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: +1.8%



Our Unique Opportunities Model gained 3.3% for the month of May.

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 (+0.1% YTD)	Portfolio B (-0.4% YTD)	Portfolio C (-2.2% YTD)	Portfolio D (-2.2% YTD)
35% Contrafund, 24% Value, 41% Equity-Income	62% Growth & Income, 38% Contrafund	100% Equity-Income	100% Equity-Income

In May, Portfolio A gained 3.6%, Portfolio B was up 3.0%, and Portfolios C and D both rose 2.2%.

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:	VIP G&I MODEL:	VIP INCOME:
14% Cyc Ind, 16% Fin Ser, 33% Telecom & Utilities, 21% Natural Res, 16% Health Care	56% Equity-Income, 44% Contrafund	54% Asset Mgr, 32% Equity-Inc, 14% Investment Grade Bond.	70% Inv. Grade, 30% Money Market.

MAY VIP PERFORMANCE

Portfolio	Rating	Unit Value	2005 YTD	One Month	Three Month	One Year	3-Yr Rate	5-Yr Rate
VIP Asset Manager	B ****	30.96	-1.2	2.2	-0.5	3.6	4.3	0.4
VIP Asset Manager: Growth	H ***	20.11	-2.3	2.7	-1.2	2.9	3.9	-2.2
VIP Balanced	H ***	14.54	-2.2	0.7	-1.4	3.1	4.1	0.8
VIP Contrafund	B ****	34.93	1.4	4.7	-0.2	12.1	8.9	2.5
VIP Dynamic Capital Appreciation	H ***	11.41	2.8	10.2	1.9	5.5		
VIP Equity-Income	B ****	53.64	-2.4	2.1	-2.7	7.3	4.8	3.0
VIP Growth	S **	53.30	-2.3	4.8	-0.1	0.7	1.0	-7.3
VIP Growth & Income	B ****	15.65	-3.9	0.5	-2.9	1.4	3.4	-1.3
VIP Growth Opportunities	B ****	11.80	-1.5	4.1	-0.2	5.4	4.1	-4.2
VIP High Income	H ***	27.41	-2.1	1.4	-2.8	7.9	11.2	0.0
VIP Index 500	H ***	31.53	-1.3	3.1	-0.8	7.2	4.5	-2.9
VIP Investment Grade Bond	H ***	28.28	1.3	1.0	1.4	5.8	5.4	7.1
VIP Mid Cap	B ****	16.38	-0.2	3.8	-4.1	21.6	13.3	13.4
VIP Overseas	H ***	28.68	-3.2	2.2	-4.7	8.5	6.0	-3.2
VIP Real Estate	S **	14.86	1.6	2.9	6.8	32.2		
VIP Strategic Income	H ***	10.88	-0.1	0.9	-0.8			
VIP Value Strategies	H ***	12.24	-5.0	9.8	-2.1	5.9		
VIP Consumer Industries	H ***	10.82	-1.0	5.8	0.8	7.4	2.3	
VIP Cyclical Industries	B ****	13.51	-0.8	4.5	-3.4	19.5	10.9	
VIP Financial Services	H ***↓	11.69	-4.9	3.3	-2.7	5.4	5.5	
VIP Health Care	B ****	10.94	5.0	2.5	5.9	7.7	5.3	
VIP Natural Resources	B ****	14.30	9.1	3.0	-5.6	31.4	13.5	
VIP Technology	H ***	9.07	-1.3	11.6	2.0	0.9	7.3	
VIP Telecom & Utilities	B ****	9.47	1.4	1.2	2.1	23.0	9.8	
Fidelity Monitor VIP Sector Model		13830.98	-0.8	3.3	-2.2	5.5	11.4	
Fidelity Monitor VIP Growth Model		29852.26	-0.8	3.2	-1.6	6.3	4.5	-2.5
Fidelity Monitor VIP G&I Model		21344.71	-1.3	2.0	-0.9	5.1	6.1	1.8
Fidelity Monitor VIP Income Model		18582.62	1.2	0.7	1.1	7.5	7.2	5.2

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	\$8.94	1636.901	\$14633.89
Ultra-Short Bond	\$10.04	4573.060	\$45913.52
Floating Rate	\$9.93	1830.946	\$18181.29

6% Foreign Holdings

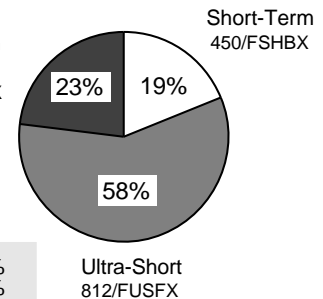
Balance as of 5/31/05: \$78728.70

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:	+ 1.1%

Floating Rate High Income
814/FFRHX



Our Income Model gained 0.3% during May. On 5/16 we sold one-third of **Floating Rate** (\$9.90) and bought **Ultra-Short Bond** (\$10.04). The model's current income rate is 3.2%.

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.	\$12.64	2566.844	\$32444.91
Puritan	\$18.67	1780.836	\$33248.21
Balanced	\$17.79	1988.044	\$35367.30
Strat. Div. & Inc.	\$11.33	3862.665	\$43763.99

8% Foreign Holdings

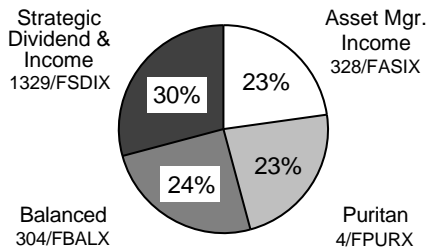
Balance as of 5/31/05: \$144824.41

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:	0.0%

Strategic Dividend & Income
1329/FSDIX



Our Growth and Income Model gained 2.5% for the month of May.

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	\$11.40	3197.846	\$36455.44
Value	\$72.72	812.842	\$59109.87
Equity-Income	\$50.91	1170.795	\$59605.17

10% Foreign Holdings

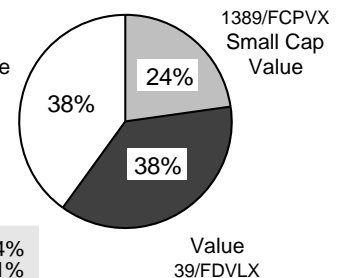
Balance as of 5/31/05: \$155170.48

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:	+ 0.4%

Equity-Income
23/FEQIX



For May our Growth Model gained 3.8%, versus 3.2% 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	\$36.95	1360.001	\$50252.04
Banking	\$36.87	1457.511	\$53738.43
Utilities Growth	\$40.81	1313.858	\$53618.54
Chemicals	\$64.44	671.672	\$43282.54
Medical Delivery	\$47.81	795.875	\$38050.78
Telecom	\$35.69	975.954	\$34831.80

9% Foreign Holdings

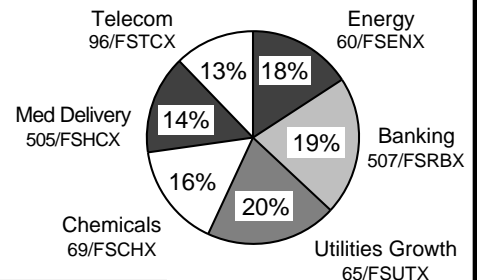
Balance as of 5/31/05: \$273774.13

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:	- 0.5%

Telecom
96/FSTCX



Our Select System gained 3.0% in May, versus 3.2% for the S&P 500. On 5/16 we sold **Retailing** (\$48.37) and bought **Telecommunications** (\$33.99).

Happenings

Fidelity has eliminated expenses on its Freedom fund of funds family, meaning that investors in these lifestyle portfolios are now paying management fees on the underlying funds only. The move brings the Freedom family's cost structure in line with similar offerings by T. Rowe Price and Vanguard Group. We continue to rate all of the Freedom funds a buy, and next month we'll spotlight them in more detail.

Relief is on the way for investors who were shut out of **International Small Cap** last month. Fidelity has filed for a new fund called **Int'l Small Cap Opportunities**, and plans to make it available in early August. Andy Sassine will manage the new fund, which will compete with the EAFE Small Cap Index and target foreign firms with a market cap of less than \$5 billion – just like **International Small Cap** does. We plan to rate the new fund a buy.

Brent Bottamini and Adam Kutas have been named co-managers of **Latin America**.

Fidelity has tapped Peter Smail, who is currently president of Fidelity Employer Services Company (FESCo), to head up its new Institutional Asset Management Group – a branch of the company that will have its own research group separate from Fidelity Management and Research (FMR). Abigail Johnson will replace Smail as head of FESCo, giving her some exposure to a side of the business that's more service-oriented and faster-growing than Fidelity's traditional mutual fund and brokerage operations. ■

MAY DISTRIBUTIONS

Asset Manager: Income	\$0.03 / \$12.48	(5/6)
Freedom 2000	\$0.07 / \$11.97	(5/6)
Freedom 2005	\$0.06 / \$10.60	(5/6)
Freedom 2010	\$0.09 / \$13.35	(5/6)
Freedom 2015	\$0.06 / \$10.79	(5/6)
Freedom 2020	\$0.075 / \$13.46	(5/13)
Freedom 2025	\$0.04 / \$10.87	(5/13)
Freedom 2030	\$0.065 / \$13.51	(5/13)
Freedom 2035	\$0.04 / \$10.97	(5/13)
Freedom 2040	\$0.035 / \$7.90	(5/13)
Freedom Income	\$0.03 / \$11.18	(5/6)
Magellan	\$0.28 / \$99.98	(5/6)

Funds scheduled for June include **Asset Manager Income, Capital & Income, Focused High Income, Freedom Income, High Income, Inflation-Protected Bond, Int. Bond, Invest. Grade Bond, Large Cap Stock, Mid-Cap Stock, Real Estate, Short-Term Bond, Small Cap Independence, Small Cap Stock, Spartan Gov't Income, Spartan 500 Index, and Strategic Dividend & Income.**

RECOMMENDATIONS - Continued from page 1

declined 2.6%, **Int'l Small Cap** slipped 3.1%, and **Japan Smaller Companies** lost 4.3%.

GROWTH & INCOME FUNDS

Growth and Income Model holdings are listed on page 7. Our favorites include **Equity-Income** and **Strategic Dividend & Income** for dividend stocks. Go with **Puritan** or **Balanced** for a blend of stocks and bonds. **Asset Manager: Income** offers an ultra-conservative approach.

Balanced and **Fidelity Fund** were both up 3.3%, **Equity-Income II** rose 2.8%, and **Convertible Securities** was up 2.6%. On the flip side, **Growth & Income II** trailed due to its light technology position, and **Utilities** was held back by the non-telecom side of its portfolio. Both funds edged up 0.6%.

BOND FUNDS

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

Favorable inflation news kept long-term interest rates in check, despite solid economic reports. **New Markets Income** gained 3.6% on expectations of lower interest rates in Latin America. High-yield bonds bounced back as fears of a U.S. economic slowdown were put to rest. **Capital & Income** rose 2.0%, whereas **High Income** and **Focused High Income** both gained 1.7%. The bottom end included **Floating Rate High Income** with a 0.4% increase, and **Ultra-Short Bond**, returning 0.2%.

Municipal bond funds finished the month with gains ranging from 0.2% to 0.8%.

SELECT PORTFOLIOS

Select System holdings are listed on page 7. Funds rated buy, as ranked by our volatility model, are **Medical Delivery, Chemicals, Telecommunications, Utilities Growth, Energy, Defense, Natural Gas, and Natural Resources**. We downgraded **Banking** because we may be selling it in the coming months.

Technology stocks logged double digit gains across the board for the first time since May 2003. Some of the rally was driven by oil price relief and may prove to be temporary. **Networking** jumped 12.0%, **Developing Communications** gained 11.3%, and **Software** was up 11.1%. Those that landed on the bottom included commodity groups, which tend to lose pricing power when the rate of inflation slows. **Chemicals** edged up 0.9%, **Pharmaceuticals** returned 0.8%, **Industrial Materials** rose 0.7%, and **Paper & Forest Products** declined 2.0%. ■

Money Market Funds	Size	Yield	Money Market Funds	Size	Yield	Money Market Funds	Size	Yield
Cash Reser (55/FDRXX)	59702.8	2.71	CT MM (418/FCMXX)	1196.7	2.41	FL MM (428/FSFXX)	1543.5	2.44
Select MM (85/FSLXX)	738.1	2.73	MA MM (74/FDMXX)	3686.6	2.37	Spart MA MM (426/FMSXX)	1041.0	2.49
Spart MM (454/SPRXX)	5547.5	2.74	MI MM (420/FMIXX)	605.6	2.43	Spart Municipal (460/FIMXX)	3566.8	2.61
Spart US Gov't (458/SPAXX)	501.5	2.67	NJ MM (417/FNJXX)	1465.1	2.40	Spart NJ MM (423/FSJXX)	699.7	2.53
Spart US Treas (415/FDLXX)	2033.5	2.44	NY MM (92/FNYXX)	3248.6	2.41	Spart NY MM (422/FSNXX)	1236.0	2.51
Tax-Free MM (275/FMOXX)	1426.5	2.47	OH MM (419/FOMXX)	742.7	2.35	PA MM (401/FPTXX)	348.5	2.44
US Gov't Reser (50/FGRXX)	2308.9	2.73	AZ MM (433/FSAXX)	183.3	2.44	Municipal MM (10/FTEXX)	16173.3	2.45
CA MM (97/FCFX)	3427.7	2.44	Spart CA MM (457/FSPXX)	1472.5	2.55			