

Oil: Still Headed For \$100

This month we update a story that originally ran a year ago. Energy stock values and the price of oil have both moved up significantly since then, but little has changed when it comes to the fundamentals.

On the demand side, high fuel prices have done little to slow the strong pace of vehicle sales in China and the Middle East. In April, China's passenger car sales rose 57% year-over-year, to an annualized rate of 4 million. Iran's domestic gasoline demand is now growing at a 10% annual rate. Part of the problem is that fuel is still subsidized in many places, and it's only a fraction of vehicle ownership costs. Affording the car is the high bar – fueling costs are a secondary consideration, even at today's prices.

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Switches for Growth Model, VIP Growth and Income, and Unique Opportunities

On Monday, 6/12, we will make changes in three model portfolios:

Our Growth Model will sell **Value** (39/FDVLX) and purchase **Equity-Income** (23/FEQIX), for a mix of 24% **Mid-Cap Stock**, 25% **Contrafund**, and 51% **Equity-Income**.

The VIP Growth Model will sell **VIP Growth & Income** and buy **VIP Equity-Income**.

Our Unique Opportunities Model will sell **Value** (39/FDVLX) and buy **Equity-Income** (23/FEQIX), for a mix of 25% **Natural Resources**, 19% **Pacific Basin**, 24% **Conv. Sec.**, and 32% **Equity-Income**.

We still like **Value** and plan to continue rating the fund a buy. However, when it comes to low valuation levels, the large-cap dividend stocks in **Equity-Income** may have the edge. Many of these multinationals are poised to benefit from stronger foreign economies, and shouldn't be hurt too badly if inflation and short-term interest rates continue to climb here at home. Another factor in **Equity-Income**'s favor is the negative surprises that occurred as stock option expensing rules kicked in for the first quarter. Once again, investors are being reminded about the games that are played by companies that don't reward shareholders directly.

Review & Recommendations

Nervous about the ability of a new Fed chairman to deal with a growing inflation problem, and worried that the easy money era might be coming to a close, investors took profits in May. Technology stocks suffered as new accounting rules exposed the games being played with stock options. In other sectors, the month's losses were more or less in proportion to gains realized over the last year. The S&P 500 declined 2.9%.

The pattern of the correction suggests that most of the selling activity is motivated by a desire to cut risk, as opposed to being driven by a gloomy earnings outlook. It's possible we're starting into a bearish period, but it seems more likely that market leadership is shifting in favor of domestic large-caps.

GROWTH FUNDS

Growth Model holdings are listed on page 7. Our favorites include **Mid Cap Stock**, **Value Discovery**, and **Value Strategies**.

Dividend-paying large-caps tended to benefit from the flight-to-safety, while funds that emphasized smaller growth stocks suffered most. **Dividend Growth** was off 2.0%, **Mid Cap Value** declined 2.6%, and **Large Cap Value** pulled back 2.9%. On the bottom end, **Small Cap Independence** lost 7.3%, **OTC Portfolio** was down 7.7%, and **Mid Cap Growth** tumbled 7.9%.

INTERNATIONAL FUNDS

Int'l Discovery offers broad exposure to foreign stocks, with an emphasis on European markets. **Int'l Value**, a new introduction, could benefit as European firms get serious about restructuring. **Pacific Basin** is a broad-based bet on continued economic growth in the Asian region.

Funds that overweighted value stocks tended to hold up well. **Global Balanced** was off 2.5%, and **Canada** declined 2.6%. But those investing in markets with poor liquidity didn't do well as the selling volume picked up. **Emerging Markets** fell 11.2%, and **Latin America** tumbled 13.1%.

GROWTH & INCOME FUNDS

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

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On the demand side, new extraction techniques have allowed global oil production to climb 1-2% to 85 million barrels a day. All the easy oil was discovered decades ago, so today's oil producers must run hard just to offset declines in mature fields. Oil production in the U.S., which peaked in 1970 at around 10 million barrels a day, has fallen by about half. Much of the oil production in the U.S. comes from some 1 million stripper wells that pump out a few barrels a day on average. That's in sharp contrast with Saudi Arabia's giant oil fields, which still have enough internal pressure that oil gushes out of the ground like it did many decades ago in the U.S. The Saudis have maintained pressure in their biggest oil fields by injecting massive amounts of seawater around the perimeter, but time may be running out. There's so much water mixing in with the oil that horizontal drilling is needed to get at the remaining oil-rich areas.

The world will never "run out" of oil, but in the next two decades the shortfall could become painful. The price of crude could easily climb above \$100 per barrel before the decade is out – perhaps by late 2007 or early 2008 if the global economy remains strong.

THE ALTERNATIVES

Oil demand may level off or begin to decline as consumers shift to more efficient vehicles, but that alone may not be enough. Here are some options that may come into play as crude continues to move up:

- **Ethanol.** The idea of farming our fuel is getting a lot of attention these days, and for good reason – the U.S. produces a lot of corn, and ethanol already accounts for about 3-4% of U.S. gasoline supplies through its use as a blending agent. An acre of corn yields around 300-400 gallons of ethanol, which means by 2012 about 25% of the nation's corn output will be dedicated to producing 6% of the gasoline supply. Scaling up from there becomes a bigger challenge. E85 fuel would have to become widely available, and flex-fuel vehicles would be needed for more makes and models. Better enzymes with the ability to improve yields and convert other feed stocks would become necessary. If everything goes right, ethanol might eventually supply 25-30% of gasoline fueling needs.

- **Cooking oils and recycled food waste.** New and used cooking oil, along with the leftovers from various meat packing operations, can be converted into biodiesel and blended with regular diesel fuel. It should be relatively easy for these sources to

reach 2% of diesel fuel supplies, but going beyond 4-5% will be tough. The volume of cooking oils and waste products is small compared with the volume of diesel fuel currently consumed.

- **Natural Gas.** Many city buses now run on compressed natural gas, and Honda offers a version of its Civic that can work off the household supply, taking about 10 hours to refill the tank. Natural Gas can also be converted into a clean-burning diesel fuel, although two-thirds of the energy content is lost in the process. The problem here is that global natural gas production is eroding faster than oil, and our domestic supplies are already straining to keep up with winter heating demands and peak summer electrical loads. Trying to fuel more than a small percentage of the nation's vehicles from this source could lead to shortages when it's needed most.

- **Harnessing the Grid.** With bigger battery packs, hybrid vehicles could plug in overnight and draw on stored electricity for the first 20-25 miles of the day's travel needs, which for the average driver could cut overall gasoline consumption by as much as half. So far, the weight and cost of a large battery pack has prevented such a vehicle from being built, but that may change in the next five years. By charging at night, plug-in hybrids could utilize existing capacity and avoid adding much strain to the electrical grid. If 10% of vehicles were E85 plug-in hybrids, it might cut oil use by around 5%.

- **Hydrogen.** Fuel cell vehicles are unlikely to begin production in the next two decades because of high costs. Currently it's much cheaper to build a plug-in hybrid or a battery-electric vehicle, and that will probably still be true 10 or 20 years from now. However, producing a regular internal combustion vehicle that can *burn* compressed hydrogen remains a possibility. The fuel tank would have to be huge in order to travel 250 miles on a fill-up, but there are no major technical or cost limitations. In theory, large quantities of pollution-free hydrogen could be produced anywhere that wind power and water is available, although the process would not be cheap. Still, if all other solutions fall short, this one might offer hope if the price of oil moves substantially above the \$100/barrel threshold.

THE PATH TO \$100/BARREL

In the end, it may be a combination of solutions that solve the energy puzzle. But one thing is almost certain, given the world's growing thirst for oil – the price of motor fuel must climb much higher in order for the long-term solutions to emerge. Oil may seem

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expensive now, but it's still the cheapest and most convenient liquid energy source around.

Many investors and analysts remain in denial, treating today's "high" oil price as an aberration that will pass as global supplies catch up with demand. The prevailing assumption is that high prices will bring new sources of supply on line and encourage consumers to cut back. Some even point to rising inventory levels as evidence that a shift is underway.

But that view is probably wrong. High oil prices might bring out additional supply if a lot of undeveloped oil fields were laying around, but that's not the case. What's left to be developed is anything but easy. Given the severe shortage of equipment and skilled labor in the energy services sector, there's a possibility that any new oil output may not do much more than replace output lost from aging wells, let alone keep up with rising demand. As for consumers cutting back, it won't come easy or fast, and may not come at all. As CEO/author Matthew Simmons points out in *Twilight In The Desert*, global oil demand actually *increased* by 44% when oil prices rose by a factor of 14 during the decade 1969-1978.

As such, the question is not *if* oil will go to \$100, but when. With strong levels of global economic growth, \$100/barrel oil could be reality by late 2007 or early 2008. If global growth slows down, the threshold may not be reached until 2009-10. It might even be pushed out as far as 2012 if any of the major oil-consuming economies were to slip into recession.

The path to higher-priced oil will be anything but a straight line. Supplies are so tight, so every little hiccup in the supply chain can add volatility. On top of that, seasonal variation in driving patterns and gasoline blending tend to pull the price up in the spring and push it down in the fall. Then there's the weather, which can disrupt supplies or increase demand in the winter or summer. Lately, the market is on guard over inventory levels, incorrectly assuming that a rising level of stocks signifies an impending price decline (it can, but this time around it reflects the desire of big users to hedge against rising prices). Iran has also been a key source of anxiety. It's somewhat ironic that the oil markets are so fixated on the possibility of a short-term disruption, when the gradual loss of Iranian oil is a virtual certainty over the next ten years. With domestic consumption growing 10% a year, the country will need almost all of its 4 million barrels a day for internal use by 2016.

Fortunately, it's possible to ignore most of the short-term noise, because ultimately the price of oil is affected by only two factors: supply and demand.

Concern about Iran may prompt some big industrial users to top off their storage tanks, pushing up the price for a few weeks. But there's only so much fuel that can be stored – worrying alone cannot lead to a permanent increase in price. Likewise, trading and hedging activity may trigger a premium or discount in oil futures, but that doesn't affect the price at the pump.

ECONOMIC IMPACT

So far, the rising price of oil has had surprisingly little impact on inflation and economic growth. Even in Europe, where taxes have pushed the retail price of gasoline above \$7 dollars a gallon in many places, there are no real signs of stress.

Still, inflation could become a bigger problem when the price of oil nears triple digits. The economics of ethanol and biodiesel suggest food commodities, such as oil, sugar, and corn, will become increasingly higher priced as the cost of crude pulls them up. The U.S. trade deficit could also increase, adding to the downward pressure on the dollar. Depending on how determined the Fed is to keep core inflation at or below 2%, short-term interest rates may end up a lot higher than they are now.

Even then, it may not help. Inflation that stems from rising energy costs isn't easily tamed. Along with some pressure from imported goods and rising rents, Bernanke could face a stark choice: put the economy in a recession, or live with core inflation in the 3-5% range.

RECOMMENDATIONS

The stock and bond markets would not look favorably on either option. Growth stocks, in particular, could see lower P/E ratios if investors became convinced that both inflation and interest rates were headed higher for several years to come.

From an investment strategy standpoint, it would make sense to stick with less risky funds, except in the case of overweighting the energy sector:

- For the core of your portfolio, consider including conservative funds that focus on dividend stocks, convertibles, or a hybrid approach. These include **Equity-Income, Convertible Securities, Strategic Dividend & Income, Balanced, Puritan, and Asset Manager Income.**

- Limit exposure to long-maturity bonds, which could be hurt by rising inflation. With short-term interest rates rivaling long-term bond yields, it just doesn't pay to take on a lot of interest-rate risk.

- Consider a targeted bet on energy over the next

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GUIDE TO FIGURES LISTED ON PAGES 4 AND 5

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

MAY PERFORMANCE						2006	One	Three	One	3-Yr	5-Yr	10-Yr
Fund Name (Code/Symbol)	Rating	Risk	Fee	NAV	Size	YTD	Mth	Mth	Year	Rate	Rate	Rate
Aggressive Gth (324/FDEGX)	H***	1.43	1.5(90)	17.55	4272.9	-1.4	-7.2	-5.2	9.4	11.6	-8.5	1.8
Blue Chip Gth (312/FBGRX)	H***	1.03	none	42.27	21355.2	-2.1	-4.1	-3.3	3.7	7.1	-1.6	5.9
Blue Chip Value (1271/FBCVX)	B****	1.10	none	13.98	275.8	3.6	-3.8	-0.6	14.6			
Capital Apprec (307/FDCAX)	B****	1.31	none	26.76	8160.1	6.6	-3.8	1.0	16.5	16.6	6.4	10.0
Contrafund (22/FCNTX)	B****	1.12	Closed	65.52	67479.3	3.1	-3.9	0.5	18.1	18.0	8.6	11.3
Discovery (339/FDSVX)	S**	0.95	none	11.65	438.1	2.1	-3.1	-2.0	11.1	8.8	1.0	
Disc Equity (315/FDEQX)	H***	1.15	none	28.50	6913.8	2.9	-3.1	0.1	11.9	13.8	3.8	8.7
Dividend Gth (330/FDGFY)	B****↑	0.95	none	29.30	16315.4	1.8	-2.0	-1.1	8.2	8.0	0.9	9.5
Export Fund (332/FEPPX)	H***	1.21	0.75(30)	21.38	4884.6	0.7	-4.8	-1.0	15.5	15.8	7.2	13.6
Fidelity Fifty (500/FFTYX)	H***	1.23	0.75(30)	23.20	1213.3	2.1	-5.5	-1.4	16.6	9.6	4.8	10.4
Focused Stock (333/FTQGX)	H***	1.41	0.75(30)	12.09	107.4	1.6	-3.0	0.4	14.9	16.8	-0.9	
Growth Company (25/FDGRX)	B****	1.36	Closed	63.75	30043.1	0.2	-5.7	-4.3	14.0	15.1	1.7	9.1
Independence (73/FDFFX)	H***	1.23	none	20.38	4713.5	3.7	-5.0	-0.8	16.8	13.1	2.8	9.0
Large Cap Growth (763/FSLGX)	H***	1.43	0.75(30)	10.92	171.0	-2.3	-5.8	-4.1	7.0	12.8		
Large-Cap Stock (338/FLCSX)	H***	1.03	none	15.85	747.5	1.5	-4.2	-1.1	12.3	10.0	-0.2	6.9
Large Cap Value (708/FLVLX)	H***	1.17	0.75(30)	13.45	702.6	4.1	-2.9	-0.1	15.6	16.8		
Lev Co Stock (122/FLVCX)	B****	1.48	1.5(90)	27.94	4316.7	7.4	-4.4	1.8	22.5	29.8	23.4	
Low-Priced Stock (316/FLPSX)	H***	0.99	Closed	43.43	39407.5	6.3	-4.0	0.4	16.7	21.5	15.6	15.4
Magellan (21/FMAGX)	H***	1.14	Closed	88.26	50963.5	2.5	-5.1	-0.7	10.5	10.1	0.5	7.4
Mid Cap Growth (793/FSMGX)	H***	1.59	0.75(30)	13.25	479.4	2.4	-7.9	-3.7	14.8	17.9		
Mid Cap Stock (337/FMCSX)	B****	1.36	Closed	29.10	12618.7	9.5	-4.4	0.9	29.4	18.0	4.3	12.5
Mid Cap Value (762/FSMVX)	H***	1.23	0.75(30)	15.45	415.1	4.2	-2.6	0.4	18.1	20.0		
New Millennium (300/FMILX)	B****	1.60	Closed	37.56	3749.1	7.7	-5.9	0.8	26.7	14.2	5.4	13.9
OTC Portfolio (93/FOCPX)	H***	1.35	none	36.47	8424.4	-3.5	-7.7	-5.9	6.1	11.9	1.8	6.6
Small Cap Gth (1388/FCPGX)	H***	1.40	1.5(90)	13.64	449.9	6.1	-6.3	-1.5	21.0			
Small Cap Indep (336/FDSCX)	H***	1.41	1.5(90)	21.45	2559.0	4.7	-7.3	-1.6	19.1	18.5	10.4	7.8
Small Cap Stock (340/FLCX)	H***	1.27	(290)	19.70	5153.4	7.7	-6.3	-0.6	20.9	21.1	11.3	
Small Cap Value (1389/FCPVX)	H***	1.30	1.5(90)	13.72	1048.2	7.6	-4.9	-0.7	23.9			
Stock Selector (320/FDSSX)	H***	1.05	none	25.28	836.5	2.2	-3.7	-1.4	11.7	12.2	2.8	7.0
Tax Mgd Stock (343/FTXMX)	B****	1.28	1(730)	13.00	67.3	2.6	-3.6	-0.8	13.6	14.8	2.7	
Trend (5/FTRNX)	H***	1.05	none	58.31	913.0	1.9	-4.0	-1.1	10.5	11.8	2.4	5.1
Value (39/FDVLX)	B****	1.05	none	79.12	16467.9	4.3	-3.1	-0.5	16.8	20.3	11.9	11.6
Value Discovery (832/FVDFX)	B****	1.20	none	16.49	567.9	5.4	-3.8	-0.2	22.4	18.9		
Value Strategies (14/FLSX)	B****	1.12	none	32.46	173.2	4.7	-3.4	-0.3	12.7	18.6	6.9	
GROWTH & INCOME FUNDS:												
Balanced (304/FBALX)	B****	0.83	none	19.31	19843.1	3.4	-2.6	0.2	14.1	13.3	8.0	11.1
Convertible Sec (308/FCVXS)	B****	0.97	none	23.91	2026.0	7.0	-1.8	1.7	18.8	12.1	6.2	11.5
Equity-Income (23/FEQIX)	B****	0.99	none	54.57	26986.0	5.4	-2.4	2.0	13.9	14.0	4.4	9.1
Equity-Income II (319/FEQTX)	B****	1.05	none	23.23	12088.7	2.7	-2.9	-1.0	9.5	11.7	4.3	8.9
Fidelity Fund (3/FFIDX)	H***	1.07	none	32.37	9156.1	1.9	-4.4	-0.3	9.8	11.3	1.2	8.1
Growth & Income (27/FGRIX)	H***	1.01	none	34.79	31219.8	1.3	-3.8	-0.1	5.7	8.3	1.1	7.3
Growth & Inc II (361/FGRTX)	H***	1.10	none	10.33	192.3	1.8	-3.5	-1.3	13.6	8.8	2.4	
Puritan (4/FPURX)	B****	0.66	none	19.25	24056.8	3.5	-1.6	1.0	9.3	10.2	5.2	8.6
Strategic Div & Inc (1329/FSDIX)	B****	0.90	none	12.59	1046.7	3.9	-2.7	-0.4	14.2			
Utilities (311/FUIX)	H***	1.17	none	15.67	1012.3	7.0	-0.4	-0.4	15.7	15.2	1.4	7.3
SELECT FUNDS:												
Air Transportation (34/FAIAX)	H***	1.46	0.75(30)	43.92	156.0	10.3	-4.4	3.2	32.2	23.7	5.1	12.1
Automotive (502/FAVAX)	S**	1.38	0.75(30)	35.09	20.7	2.8	-2.4	2.2	8.9	13.1	9.1	6.0
Banking (507/FSRBX)	H***	1.06	0.75(30)	36.28	366.6	3.8	-3.6	0.8	9.3	11.4	6.7	11.7
Biotechnology (42/FBIOX)	B****	1.83	0.75(30)	60.41	1649.4	-3.7	-3.2	-11.2	11.6	8.3	-2.5	9.3
Brokerage (68/FLBXX)	B****	1.41	0.75(30)	69.67	1229.7	4.8	-7.1	-5.1	37.0	22.7	10.8	18.4
Business Ser (353/FBSOX)	B****↑	1.01	0.75(30)	16.71	45.1	5.6	-3.0	-0.3	19.9	14.6	4.3	
Chemicals (69/FSCHX)	H***	1.45	0.75(30)	68.68	98.7	7.5	-1.9	3.2	14.0	22.3	12.5	9.7
Computers (7/FDCPX)	H***	1.47	0.75(30)	35.39	508.8	-1.9	-7.0	-5.8	3.1	8.1	-3.4	7.1
Const & Housing (511/FSHOX)	H***	2.07	0.75(30)	45.27	230.5	-1.2	-7.3	-5.7	4.8	21.7	14.9	13.5
Consumer Indust (517/FSCPX)	S**	1.12	0.75(30)	24.99	52.9	1.8	-3.9	-0.7	5.6	9.3	2.4	6.9
Cyclical Indust (515/FCYIX)	H***	1.33	0.75(30)	21.09	104.6	10.4	-3.3	3.1	24.9	25.6	10.2	
Defense & Aero (67/FSDEX)	H***	1.21	0.75(30)	77.29	1055.6	8.0	-5.4	0.1	18.2	26.6	13.7	13.5
Develop Commun (518/FSDCX)	H***	1.59	0.75(30)	20.54	517.8	2.6	-9.2	-5.2	14.6	17.7	-2.5	6.7
Electronics (8/FSLEX)	B****	1.76	0.75(30)	43.25	2725.0	-1.1	-9.5	-7.2	9.6	10.8	-3.7	10.2
Energy (60/FSENX)	B****	2.60	0.75(30)	50.80	2948.5	13.6	-4.1	8.0	49.3	36.4	16.4	15.4
Energy Services (43/FSSEX)	H***	3.09	0.75(30)	74.45	2076.6	15.7	-3.4	11.8	60.1	31.3	14.4	17.3
Environmental (516/FSLEX)	H***	1.30	0.75(30)	17.54	168.0	12.1	-6.2	1.2	24.2	16.2	4.1	2.0
Financial Services (66/FIDSX)	H***	1.07	0.75(30)	114.59	496.7	2.8	-4.6	-1.4	15.9	13.1	6.0	12.8
Food & Agriculture (9/FDFAX)	S**	0.85	0.75(30)	52.87	127.9	5.5	-0.8	2.4	10.5	13.5	7.6	8.5
Gold (41/FSAGX)	H***	2.67	0.75(30)	35.17	1740.9	17.4	-8.9	8.7	87.6	27.5	29.0	5.3
Health Care (63/FSPHX)	H***	1.08	0.75(30)	119.38	2189.0	-3.6	-2.1	-5.7	7.1	9.7	2.7	10.4
Home Finance (98/FSVLX)	S**	1.12	0.75(30)	51.99	289.1	3.6	-2.2	1.7	7.8	9.7	7.9	11.5
Indust Equip (510/FSGDX)	H***	1.33	0.75(30)	29.88	103.3	12.1	-3.3	3.1	24.4	23.0	6.6	9.4
Indust Materials (509/FSDPX)	H***	1.63	0.75(30)	49.11	217.1	14.7	-1.1	9.1	40.0	29.4	17.0	9.6
Insurance (45/FSPCX)	H***	1.09	0.75(30)	66.57	202.9	-1.9	-4.2	-2.4	10.7	13.1	8.3	15.7
Leisure (62/FDLSX)	H***	1.23	0.75(30)	79.60	255.6	4.8	-5.8	2.0	14.8	15.7	5.4	10.9
Medical Delivery (505/FSHCX)	H***	1.31	0.75(30)	48.00	984.3	-9.6	-2.4	-10.3	5.1	29.7	16.1	9.8
Medical Equip/Sys (354/FSMEX)	S**	1.06	0.75(30)	22.19	945.2	-4.9	-4.2	-6.0	-0.9	11.3	9.6	
Multimedia (503/FBMPX)	B****	1.16	0.75(30)	44.72	80.5	-0.3	-3.3	0.7	9.5	10.2	4.1	9.4
Natural Gas (513/FSNGX)	H***	3.03	0.75(30)	39.29	1520.8	4.1	-5.5	4.0	37.2	32.8	14.2	14.7
Nat Resources (514/FNARX)	B****	2.55	0.75(30)	27.48	1205.6	16.1	-4.5	8.8	55.0	35.4	15.7	
Networking/Infra (912/FNINX)	B****	1.74	0.75(30)	2.42	172.2	3.0	-11.0	-6.2	13.1	8.4	-8.4	
Paper & Forest (506/FSFPX)	H***	1.48	0.75(30)	29.64	26.4	-0.8	-5.3	-1.6	8.9	7.1	2.4	5.1
Pharmaceuticals (580/FPHAX)	H***	1.07	0.75(30)	10.13	155.5	5.3	-2.8	0.3	18.3	8.6		
Retailing (46/FSRPX)	H***	1.55	0.75(30)	49.31	64.3	4.4	-3.9	0.3	9.2	16.0	5.1	9.7
Software (28/FSCSX)	H***	1.38	0.75(30)	53.55	575.0	2.0	-5.4	-0.7	7.8	9.9	2.0	11.4
Technology (64/FSPTX)	B****	1.32	0.75(30)	61.83	1912.3	-2.1	-7.7	-5.2	4.8	9.2	-2.3	8.3
Telecom (96/FSTCX)	B****	1.28	0.75(30)	41.34	609.6	6.9	-5.4	-1.3	16.8	14.2	-0.4	4.5
Transportation (512/FSRFY)	H***	1.51	0.75(30)	50.25	115.2	9.8	-2.1	2.1	30.7	23.6	11.1	13.7
Utilities Growth (65/FSUTX)	H***	1.15	0.75(30)	46.07	281.0	7.0	-0.9	-0.7	15.1	16.6	0.7	8.3
Wireless (963/FWRX)	B****	1.27	0.75(30)	6.46	511.0	0.3	-7.7	-4.7	15.1	30.7	0.6	

MAY PERFORMANCE						Div.	2006	One	Three	One	3-Yr	5-Yr
Fund Name (Code/Symbol)	Rating	Risk	Fee	NAV	Size	Yield	YTD	Mth	Mth	Year	Rate	Rate
Aggressive Int'l (335/FIVFX)	H***	1.33	1 (30)	17.57	646.2		3.4	-5.5	1.9	21.5	18.5	10.0
Canada (309/FICDX)	B****	1.39	1.5(90)	46.65	3058.6		8.2	-2.6	1.9	36.4	30.2	18.9
China Region (352/FHKCX)	H***	1.09	1.5(90)	21.23	594.1		10.0	-3.8	4.7	23.2	24.8	10.0
Diversified Int'l (325/FDIVX)	H***	1.21	Closed	35.49	41838.0		9.1	-4.7	3.5	29.5	25.7	13.3
Emerging Mkts (322/FEMKX)	H***	1.69	1.5(90)	20.15	3598.2		9.3	-11.2	-2.1	51.9	39.3	21.1
Europe (301/FIEUX)	H***	1.34	1 (30)	39.53	3465.1		9.9	-5.0	2.1	28.9	29.3	11.7
Europe Cap Appr (341/FECAX)	H***	1.33	1 (30)	26.06	755.8		18.3	-4.3	8.1	38.4	25.8	12.6
Global Balanced (334/FGBLX)	B****	0.78	1 (30)	22.24	236.5		5.6	-2.5	2.8	15.5	16.7	9.0
Int'l Discovery (305/FIGRX)	B****	1.26	1 (30)	34.46	6962.6		8.8	-5.1	3.4	30.8	27.1	12.4
Int'l Small Cap (818/FISMX)	B****	1.33	Closed	30.00	2799.6		11.2	-7.8	3.6	41.7	41.5	
Int'l Small Cap Opp (1504/FSCOX)	B****	1.3 Est	2 (90)	14.22	1280.9		13.2	-7.3	5.1			
Japan (350/FJPNX)	H***	2.27	1.5(90)	17.54	2027.6		-3.8	-7.4	-2.5	45.0	28.9	5.8
Japan Smaller Co (360/FJSCX)	H***	2.34	Closed	15.03	1986.7		-10.6	-6.4	-2.8	28.3	34.3	13.3
Latin America (349/FLATX)	H***	2.62	1.5(90)	35.16	3411.5		9.9	-13.1	-6.7	59.7	50.1	23.8
Nordic (342/FNORX)	H***	1.62	1.5(90)	34.64	310.1		16.0	-5.8	8.8	34.7	31.9	12.9
Overseas (94/FOSFX)	H***	1.28	1 (30)	44.47	6732.1		6.9	-5.4	3.5	31.2	25.4	7.6
Pacific Basin (302/FPBFX)	B****	1.45	1.5(90)	26.98	1235.8		5.1	-6.6	2.3	40.6	30.0	11.2
Southeast Asia (351/FSEAX)	H***	1.46	1.5(90)	23.56	1470.8		11.1	-6.5	3.8	40.0	34.5	17.6
Worldwide (318/FWWFX)	H***	1.10	1 (30)	20.41	1382.1		4.3	-4.4	1.7	21.2	18.7	7.5
INDEX AND ASSET ALLOCATION:												
Four-In-One Index (355/FFNOX)	H***	0.86	0.5(90)	27.02	1204.0		3.6	-2.8	0.3	11.4	13.2	4.6
NASDAQ Comp (1282/FNCMX)	H***	1.25	0.75(90)	29.41	122.4		-1.1	-6.1	-4.4	5.8		
Spart Ext Mkt Idx (398/FSEMXX)	H***	1.24	0.75(90)	36.17	1630.4		5.2	-4.3	-0.3	17.4	19.4	8.8
Spart Int'l Index (399/FSIIX)	B****	1.22	1(90)	39.23	1695.3		10.1	-3.8	4.6	28.9	24.6	8.9
Spart 500 Index (317/FSMKX)	H***	1.00	0.5(90)	88.21	7247.1		2.5	-2.9	-0.4	8.6	11.5	1.8
Spart Total Mkt Idx (397/FSTMXX)	B****	1.03	0.5(90)	35.65	2138.7		3.2	-3.2	-0.4	10.6	13.3	3.5
Asset Manager (314/FASMX)	H***	0.53	none	16.20	9658.2		1.5	-1.3	-0.3	6.6	6.5	3.1
Asset Mgr Agg (347/FAMRX)	H***	1.05	none	12.35	442.4		2.2	-3.5	-0.2	13.3	14.9	1.0
Asset Mgr Gth (321/FASGX)	H***	0.72	none	15.35	3223.8		1.8	-1.7	-0.6	7.8	7.6	2.3
Asset Mgr Inc (328/FASIX)	B****	0.38	none	12.91	2044.9		1.7	-1.2	-0.3	7.5	6.9	5.7
Freedom 2000 (370/FFFBX)	B****	0.30	none	12.20	1599.5		1.0	-1.0	-0.2	4.2	4.6	3.3
Freedom 2005 (1312/FFVFX)	B****	0.51	none	11.15	566.7		1.6	-2.0	-0.3	7.0		
Freedom 2010 (371/FFFCX)	B****	0.54	none	14.07	10867.3		1.6	-2.2	-0.4	7.4	7.9	4.2
Freedom 2015 (1313/FFVFX)	B****	0.65	none	11.63	2858.3		2.0	-2.5	-0.3	9.3		
Freedom 2020 (372/FFFDX)	B****	0.77	none	14.79	14263.6		2.4	-3.1	-0.3	10.8	11.3	4.3
Freedom 2025 (1314/FFTXX)	B****	0.81	none	12.08	2263.7		2.5	-3.2	-0.3	11.4		
Freedom 2030 (373/FFFEEX)	B****	0.89	none	15.17	8847.8		2.8	-3.7	-0.3	12.6	12.9	4.1
Freedom 2035 (1315/FFTHX)	B****	0.90	none	12.39	1251.7		2.9	-3.6	-0.3	13.0		
Freedom 2040 (718/FFFFX)	B****	0.92	none	8.93	4060.6		3.1	-3.8	-0.3	13.5	14.0	3.9
Freedom Income (369/FFFAX)	B****	0.27	none	11.34	2152.2		1.0	-0.7	0.0	3.9	4.0	3.4
Real Estate Income (833/FRIFX)	H***	0.27	0.75(90)	11.78	534.2		2.8	0.1	0.9	6.2		
Real Estate (303/FRESX)	H***	1.58	0.75(90)	33.26	6594.2		6.9	-2.4	-1.6	20.6	26.3	19.9
Int'l Real Estate (1368/FIREX)	H***	1.22	1.5(90)	14.10	431.1		9.4	-5.7	1.4	28.4		
TAXABLE BOND FUNDS:												
Capital & Income (38/FAGIX)	H***	0.26	1(90)	8.49	6088.4	6.17	3.9	-0.4	1.4	9.2	11.6	9.7
Floating Rate (814/FFRHX)	B****	0.05	1(60)	9.93	2729.0	6.17	2.2	0.1	1.0	5.3	4.7	
Focused High Inc (1366/FHIFX)	H***	0.17	1(90)	9.87	43.5	6.03	1.2	-0.4	-0.4	4.6		
GNMA Portfolio (15/FGMNX)	H***	0.26	none	10.55	3492.2		-0.9	-0.1	-1.3	-0.1	2.3	4.1
Gov't Income (54/FGOVX)	H***	0.29	none	9.87	5722.9	4.08	-0.9	-0.1	-1.1	-0.5	1.1	4.6
High Income (455/SPHIX)	H***	0.18	1(90)	8.81	3696.4	6.85	3.1	-0.1	0.9	7.9	9.4	7.3
Inflation-Protected (794/FINPX)	H***	0.49	none	10.69	1402.1	2.34	-2.0	0.4	-2.0	-1.8	2.9	
Intermed Bond (32/FTHRX)	H***	0.23	none	10.10	7630.1	4.38	-0.1	0.0	-0.3	0.5	1.7	4.8
Intermed Gov't Inc (452/FSTGX)	H***	0.22	none	9.87	772.6	3.84	-0.1	0.1	-0.2	0.3	0.9	4.1
Invest Grade Bond (26/FBNDX)	H***	0.29	none	7.21	7989.0	4.19	-0.5	-0.1	-0.9	0.3	2.3	5.2
Mortgage Securities (40/FMSFX)	H***	0.26	none	10.81	1643.1	4.73	-0.3	-0.3	-1.1	0.4	2.8	4.7
New Markets Inc (331/FNMIX)	H***	0.47	1(90)	14.30	1968.3	6.07	1.9	-2.0	-2.9	9.4	11.5	13.8
Short-Term Bond (450/FSHBX)	H***	0.13	none	8.80	5838.6	4.21	1.0	0.1	0.6	2.3	2.0	3.8
Spart Gov't Inc (453/SPGVX)	H***	0.30	none	10.63	761.4	4.14	-0.9	0.1	-1.0	-0.4	1.4	4.8
Spart Invest Grade (448/FSIBX)	H***	0.28	none	10.18	3308.3	4.04	-0.5	-0.1	-0.9	0.3	2.5	5.4
Strategic Income (368/FSICX)	H***	0.24	none	10.40	3542.2	5.36	1.9	0.0	0.3	4.8	7.2	9.0
Strategic Real Rtn (1505/FSRRX)	H***	0.5 Est	0.75(60)	10.18	1351.7		2.2	0.5	2.7			
Total Bond (820/FTBFX)	H***	0.26	none	10.19	621.3	4.85	-0.4	-0.2	-0.9	0.6	2.7	
Ultra-Short Bond (812/FUSEFX)	B****	0.06	0.25(60)	10.01	911.5	4.84	1.8	0.3	1.1	3.7	2.3	
US Bond Index (651/FBIDX)	H***	0.29	none	10.61	5723.1	4.70	-0.8	-0.2	-1.2	-0.3	2.0	5.1
MUNICIPAL BOND FUNDS:												
AZ Municipal Inc (434/FSAZX)	H***	0.22	0.5(30)	11.24	103.6	3.82	0.3	0.5	-0.5	0.9	2.4	4.8
CA Municipal Inc (91/FCTFX)	H***	0.20	0.5(30)	12.22	1546.6	4.26	0.5	0.5	-0.5	1.9	3.1	5.1
CA Short-Int TF (1534/FCSTX)	B****	0.1 Est	0.5(30)	9.99	68.3	3.30	0.8	0.4	0.1			
CT Municipal Inc (407/FICNX)	H***	0.20	0.5(30)	11.25	424.4	4.06	0.3	0.4	-0.3	1.0	2.2	4.7
FL Municipal Inc (427/FFLIX)	H***	0.21	0.5(30)	11.32	486.8	4.12	0.5	0.4	-0.2	1.4	2.7	5.0
Intermediate Muni (36/FLTMX)	H***	0.18	0.5(30)	9.86	1985.6	4.01	0.5	0.4	-0.1	1.7	2.7	4.8
MA Municipal Inc (70/FDMMX)	H***	0.22	0.5(30)	11.73	1822.6	4.19	0.4	0.4	-0.4	1.4	3.1	5.3
MD Municipal Inc (429/SMDMX)	H***	0.21	0.5(30)	10.70	109.8	3.92	0.2	0.4	-0.5	1.0	2.5	4.6
MI Municipal Inc (81/FMHTX)	H***	0.21	0.5(30)	11.70	550.4	4.16	0.5	0.4	-0.3	1.4	2.5	5.0
MN Municipal Inc (82/FMIX)	H***	0.19	0.5(30)	11.28	336.1	4.17	0.4	0.3	-0.3	1.3	2.6	4.7
Municipal Income (37/FHIGX)	H***	0.22	0.5(30)	12.65	4583.4	4.33	0.5	0.4	-0.4	1.8	3.3	5.6
NJ Municipal Inc (416/FNJHX)	H***	0.24	0.5(30)	11.34	551.0	4.02	0.4	0.5	-0.5	1.2	2.8	5.0
NY Municipal Inc (71/FTFMX)	H***	0.23	0.5(30)	12.61	1385.3	3.97	0.4	0.3	-0.6	1.2	2.8	5.3
OH Municipal Inc (88/FOHFX)	H***	0.22	0.5(30)	11.50	416.4	4.08	0.4	0.4	-0.5	1.2	2.8	5.1
PA Municipal Inc (402/FPXTX)	H***	0.19	0.5(30)	10.68	304.2	4.18	0.5	0.4	-0.2	1.5	2.8	4.8
Short-Int Municipal (404/FSTFX)	B****	0.10	0.5(30)	10.14	1614.9	3.08	0.6	0.4	0.3	1.5	1.4	3.1
Tax-Free Bond (90/FTABX)	H***	0.23	0.5(30)	10.60	395.9	4.12	0.5	0.5	-0.4	1.8	3.4	5.8

MAY PERFORMANCE			2006	One	Three	One	3-Yr	5-Yr	10-Yr
Indexes and Model Portfolios	Risk	Value	YTD	Month	Month	Year	Rate	Rate	Rate
Dow Jones Industrial	0.99	11168.31	5.3	-1.5	2.2	9.3	10.5	2.7	9.2
S&P 500	1.00	1270.09	2.5	-2.9	-0.4	8.6	11.6	2.0	8.3
NASDAQ	1.24	2178.88	-0.8	-6.1	-4.3	6.2	11.7	1.2	6.2
Russell 2000	1.58	721.01	7.6	-5.6	-1.0	18.3	19.2	9.1	8.5
Fidelity Monitor Income Model	0.18	81947.86	1.5	-0.8	0.3	4.1	4.5	5.3	5.1
Fidelity Monitor G&I Model	0.70	161477.45	3.1	-2.2	0.0	11.5	12.9	8.7	9.9
Fidelity Monitor Growth Model	1.09	177897.40	3.5	-3.4	0.3	14.6	17.8	9.1	9.7
Fidelity Monitor Select System	1.25	325251.81	2.9	-6.0	-2.5	18.8	14.7	7.1	10.4
Fidelity Monitor Unique Opportunities	1.28	116989.73	7.7	-3.9	2.8	25.8	24.7	16.7	

UNIQUE OPPORTUNITIES MODEL

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

FUND	NAV	SHARES	BALANCE
Natural Resources	\$27.48	1068.344	\$29358.09
Pacific Basin	\$26.98	843.140	\$22747.92
Conv. Securities	\$23.91	1174.769	\$28088.73
Value	\$79.12	465.053	\$36794.99

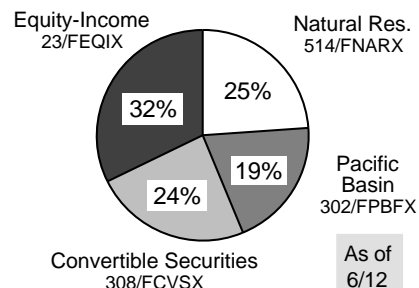
35% Foreign Holdings

Balance as of 5/31/06: \$116989.73

Balance at start of 2006: \$108605.62

PERFORMANCE

Partial Yr 99:	+ 33.8%
2000:	- 20.5%
2001:	+ 1.6%
2002:	- 2.1%
2003:	+ 43.2%
2004:	+ 20.6%
2005:	+ 18.8%
*2006:	+ 7.7%



In May our Unique Opportunities Model declined 3.9%. On 6/12 we will sell Value and buy Equity-Income.

VIP CORNER

VIP SECTOR:

14% Technology, 15% Financial Ser., 30% Telecom & Util., 27% Natural Res., 14% Health Care

VIP GROWTH MODEL:

26% Mid-Cap Stock, 40% Equity-Income, 34% Contrafund

VIP G & I MODEL:

As of 6/12: 32% Equity-Income, 55% Balanced, 13% Freedom Income.

VIP INCOME MODEL:

69% Freedom Income, 31% Balanced.

MAY VIP PERFORMANCE

Portfolio	Rating	Unit Value	2006 YTD	One Month	Three Month	One Year	3-Yr Rate	5-Yr Rate
VIP Aggressive Growth	H ***	10.66	-1.9	-7.2	-5.4			
VIP Asset Manager	H ***	32.54	0.6	-3.2	-1.1	5.1	5.6	2.4
VIP Asset Manager: Growth	H ***	21.25	0.2	-4.6	-1.7	5.7	6.5	1.3
VIP Balanced	B ****	16.08	3.1	-2.6	0.1	10.6	6.8	3.1
VIP Consumer Industries	S **	11.30	1.2	-4.2	-1.0	4.4	8.5	
VIP Contrafund	B ****	41.12	2.9	-4.0	0.4	17.7	17.6	8.2
VIP Cyclical Industries	H ***	16.84	10.4	-3.3	3.1	24.6	25.1	
VIP Dynamic Capital Appreciation	B ****	14.17	6.2	-3.8	1.1	24.2		
VIP Equity-Income	B ****	60.67	5.1	-2.5	1.8	13.1	13.2	3.7
VIP Financial Services	B ****	13.47	2.6	-4.6	-1.6	15.2	12.5	
VIP Freedom 2005	B ****	10.63	1.4	-1.8	-0.3			
VIP Freedom 2010	B ****	10.67	1.5	-1.8	-0.2			
VIP Freedom 2015	B ****	10.87	2.2	-2.1	0.1			
VIP Freedom 2020	B ****	11.01	2.5	-2.5	0.1			
VIP Freedom 2025	B ****	11.11	2.9	-2.6	0.3			
VIP Freedom 2030	B ****	11.23	3.1	-2.9	0.3			
VIP Freedom Income	B ****	10.35	1.2	-0.5	0.0			
VIP Growth	H ***	57.59	0.6	-3.7	-1.1	8.0	8.2	-2.6
VIP Growth & Income	B ****↓	17.65	1.5	-3.6	-1.6	12.8	8.1	1.9
VIP Growth Opportunities	H ***	12.27	-5.2	-6.8	-4.9	3.9	7.8	-0.1
VIP Growth Stock	H ***	10.07	-4.8	-6.9	-7.1			
VIP Health Care	H ***	11.64	-3.8	-2.1	-5.7	6.4	9.0	
VIP High Income	H ***	29.39	3.0	0.1	1.1	7.2	8.2	6.0
VIP Index 500	H ***	33.96	2.2	-3.0	-0.6	7.7	10.6	1.0
VIP Int'l Capital Appreciation	H ***	11.68	2.7	-5.9	1.4			
VIP Investment Grade Bond	H ***	28.01	-1.1	-0.2	-1.3	-1.0	1.3	4.4
VIP Mid Cap	B ****	20.78	7.9	-4.0	2.2	26.9	26.4	14.5
VIP Money Market		20.01	1.5	0.4	1.0	3.1	1.4	1.3
VIP Natural Resources	B ****	21.99	15.6	-4.6	8.5	53.8	34.7	
VIP Overseas	B ****	36.97	5.7	-4.6	2.9	28.9	24.0	6.0
VIP Real Estate	H ***	17.97	7.5	-2.7	-1.5	20.9		
VIP Strategic Income	H ***	11.29	1.4	-0.2	0.0	3.7		
VIP Technology	B ****	10.12	0.1	-9.2	-7.1	11.6	11.2	
VIP Telecom & Utilities	B ****	10.85	6.8	-0.9	-0.7	14.5	16.0	
VIP Value	B ****	10.98	3.0	-3.0	-1.2			
VIP Value Leaders	B ****	11.16	3.1	-3.9	-0.8			
VIP Value Strategies	B ****	13.73	4.6	-3.3	-0.4	12.1		
Fidelity Monitor VIP Income Model		18752.28	0.4	-1.2	0.0	0.9	3.4	5.3
Fidelity Monitor VIP G&I Model		23115.62	2.3	-2.6	-0.5	8.3	8.2	4.0
Fidelity Monitor VIP Growth Model		34790.06	5.0	-3.4	1.4	16.5	13.4	3.3
Fidelity Monitor VIP Sector Model		16809.41	5.8	-3.8	-0.2	21.5	17.0	

INCOME MODEL

Our Income Model aims for long-term growth of 7% per year from a mix of funds that emphasizes income.

FUND	NAV	SHARES	BALANCE
Balanced	\$19.31	774.168	\$14949.18
Asset Mgr. Inc.	\$12.91	2470.160	\$31986.85
Ultra-Short Bond	\$10.01	1585.688	\$15872.74
Floating Rate	\$9.93	1927.401	\$19139.09

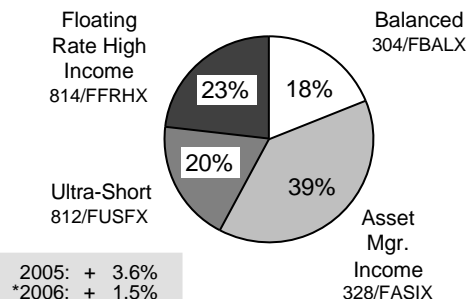
8% Foreign Holdings

Balance as of 5/31/06: \$81947.86

Balance at start of 2006: \$80716.02

PERFORMANCE

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



2005: + 3.6%
*2006: + 1.5%

Our Income Model was off 0.8% for the month of May.

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.	\$12.91	2693.147	\$34768.53
Puritan	\$19.25	1888.420	\$36352.09
Balanced	\$19.31	2090.396	\$40365.55
Strat. Div. & Inc.	\$12.59	3970.713	\$49991.28

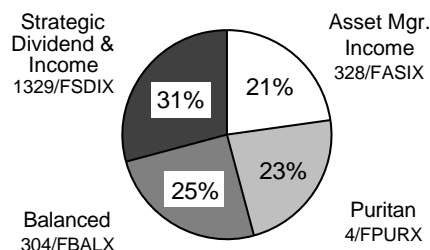
9% Foreign Holdings

Balance as of 5/31/06: \$161477.45

Balance at start of 2006: \$156588.48

PERFORMANCE

1994:	- 3.7%
1995:	+ 21.6%
1996:	+ 15.8%
1997:	+ 18.7%
1998:	+ 11.1%
1999:	+ 12.2%
2000:	+ 2.7%
2001:	+ 1.3%
2002:	- 6.4%
2003:	+ 33.0%
2004:	+ 11.5%
2005:	+ 8.2%
*2006:	+ 3.1%



For May our Growth and Income Model declined 2.2%.

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
Mid Cap Stock	\$29.10	1447.002	\$42107.76
Value	\$79.12	581.752	\$46028.22
Contrafund	\$65.52	680.579	\$44591.54
Equity-Income	\$54.57	827.742	\$45169.88

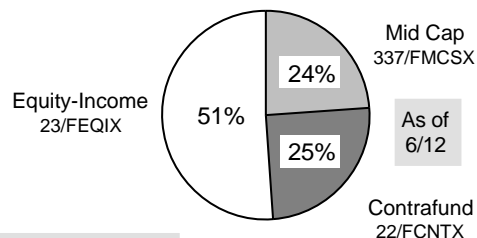
17% Foreign Holdings

Balance as of 5/31/06: \$177897.40

Balance at start of 2006: \$171931.86

PERFORMANCE

1987:	+ 2.8%
1988:	+ 26.0%
1989:	+ 30.4%
1990:	- 4.4%
1991:	+ 40.6%
1992:	+ 15.7%
1993:	+ 31.9%
1994:	- 2.1%
1995:	+ 27.2%
1996:	+ 19.2%
1997:	+ 25.5%
1998:	+ 9.9%
1999:	+ 29.0%
2000:	- 10.8%
2001:	- 6.4%
2002:	- 17.1%
2003:	+ 46.1%
2004:	+ 12.4%
2005:	+ 11.2%
*2006:	+ 3.5%



Our Growth Model was down 3.4% in May, slightly more than the S&P 500's 2.9% decline. On 6/12 we will sell **Value** and buy **Equity-Income**.

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	\$50.80	1181.190	\$60004.45
Brokerage	\$69.67	950.274	\$66205.59
Wireless	\$6.46	9177.574	\$59287.13
Technology	\$61.83	712.107	\$44029.58
Biotechnology	\$60.41	672.176	\$40606.15
Telecom	\$41.34	1333.307	\$55118.91

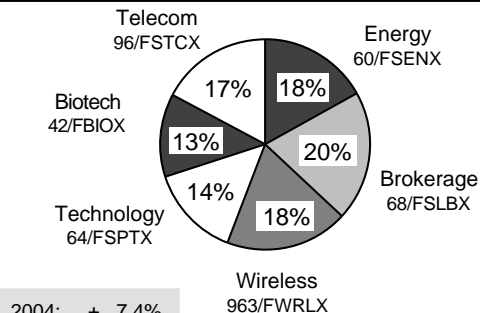
18% Foreign Holdings

Balance as of 5/31/06: \$325251.81

Balance at start of 2006: \$316217.19

PERFORMANCE

1989:	+ 23.4%
1990:	+ 31.3%
1991:	+ 35.3%
1992:	+ 20.4%
1993:	+ 25.9%
1994:	- 0.9%
1995:	+ 39.0%
1996:	+ 5.2%
1997:	+ 29.3%
1998:	+ 21.7%
1999:	+ 44.9%
2000:	- 14.9%
2001:	- 7.3%
2002:	- 14.7%
2003:	+ 38.4%
2004:	+ 7.4%
2005:	+ 15.0%
*2006:	+ 2.9%



The Select System lost 6.0% in May, lagging the S&P 500's 2.9% decline.

3-5 years. An exposure of 20% is large enough to provide a significant increase in long-term returns, but small enough that you won't feel too much pain during typical corrections of 10-15%. **Natural Resources** is one option. It holds about two-thirds of its assets in energy stocks, with the rest in various commodity stocks (including a small gold position). **Energy**, on the other hand, offers a pure play on the price of oil but comes with slightly more risk.

To some degree, these strategies are employed in all five of our model portfolios, with the Unique Opportunities Model going furthest out on a limb to profit from energy scarcity and rising commodity prices. A more conservative method for hedging your portfolio is to put 80% in the Growth and Income Model and 20% in **Natural Resources**.

Over the last year, gold has attracted a growing number of investors who believe its fundamentals are stronger than oil. While that might be true in the short run, keep in mind that almost all the gold extracted since the dawn of civilization is still around in one form or another. Whenever the price of gold makes a big move up, jewelry owners tend to cash it in for something that boosts their standard of living. Oil, on the other hand, is consumed. Given today's geologic realities, a rising price is not likely to produce much additional supply. Despite the recent runup in gold, it still takes more gold to buy a barrel of oil today than it did 10 years ago. And there's a good chance that trend will continue. ■

MAY DISTRIBUTIONS

Asset Manager: Income	\$0.04 / \$13.14 (5/5)
Freedom 2000	\$0.13 / \$12.37 (5/5)
Freedom 2005	\$0.15 / \$11.48 (5/5)
Freedom 2010	\$0.21 / \$14.51 (5/5)
Freedom 2015	\$0.16 / \$12.06 (5/5)
Freedom 2020	\$0.28 / \$15.13 (5/12)
Freedom 2025	\$0.185/\$12.38 (5/12)
Freedom 2030	\$0.28 / \$15.61 (5/12)
Freedom 2035	\$0.20 / \$12.75 (5/12)
Freedom 2040	\$0.18 / \$9.20 (5/12)
Freedom Income	\$0.08 / \$11.46 (5/5)
Magellan	\$22.36/\$94.69 (5/5)

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, Real Estate Income, Short-Term Bond, Small Cap Ind., Small Cap Stock, Spartan Gov't Income, Spartan 500 Idx, and Strategic Dividend & Inc.**

Balanced, Puritan, and Convertible Securities. For less risk, consider **Asset Manager Income**.

Funds that invest in dividend stocks held up well. **Utilities** was off 0.4%, **Puritan** declined 1.6%, **Convertible Securities** pulled back 1.8%, and **Equity-Income** slipped 2.4%. Trailing behind, **Growth & Income** declined 3.8%, while **Fidelity Fund** lost 4.4%.

BOND FUNDS

Income Model holdings are listed on page 7. **Floating Rate High Income** offers a competitive yield with minimal interest-rate risk.

High-quality bond funds held up reasonably well, despite concerns that interest rates are headed higher, but low-grade bonds were a bit weak as investors worried that a more aggressive Fed may hurt the economy. **Strategic Real Return** gained 0.5%, followed by **Inflation-Protected Bond** with a 0.4% return, and **Ultra-Short Bond**, up 0.3%. On the flip side, **Capital & Income** slid 0.4%, and **New Markets Income** was off 2.0%.

Municipal bond funds posted increases ranging from 0.3% to 0.5%.

SELECT PORTFOLIOS

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

Defensive inflation hedges held up best. **Food & Agriculture** was off 0.8%, **Utilities Growth** pulled back 0.9%, **Industrial Materials** declined 1.1%, and **Chemicals** slipped 1.9%. The technology groups and gold dominated the bottom end. **Gold** declined 8.9%, **Developing Communications** lost 9.2%, **Electronics** fell 9.5%, and **Networking** tumbled 11.0%. ■

Happenings

Freedom 2045 and Freedom 2050 will be available around 6/6. Fidelity is making these portfolios available to young investors who prefer to get an early start in saving for retirement.

Fidelity has appointed John Dowd as co-manager of **Natural Resources** and **VIP Natural Resources**. He'll be working along side current manager Matt Friedman. We continue to rate both funds a buy. ■

Money Market Funds	Size	Yield	Money Market Funds	Size	Yield	Money Market Funds	Size	Yield
Cash Reserves (55/FDRXX)	71664.4	4.65	CT MM (418/FCMXX)	1388.3	2.95	FL MM (428/FSFXX)	1723.0	3.10
Select MM (85/FSLXX)	999.5	4.70	MA MM (74/FDMXX)	4193.1	2.94	MA AMT TF (426/FMSXX)	1410.0	3.12
Money Market (454/SPRXX)	5443.7	4.69	MI MM (420/FMIXX)	688.5	3.00	AMT Tax-Free (460/FIMXX)	3217.6	3.24
Gov't MM (458/SPAXX)	467.0	4.62	NJ MM (417/FNJXX)	1596.7	2.91	NJ AMT TF (423/FSJXX)	933.8	3.16
US Treas. MM (415/FDLXX)	1758.0	4.32	NY MM (92/FNYXX)	3664.4	2.95	NY AMT TF (422/FSNXX)	1747.3	3.14
Tax-Free MM (275/FMOXX)	2310.5	3.06	OH MM (419/FOMXX)	803.9	3.01	PA MM (401/FPTXX)	429.7	3.01
US Gov't Reser (50/FGRXX)	3009.8	4.66	AZ MM (433/FSAXX)	246.5	3.07	Municipal MM (10/FTEXX)	16623.4	3.11
CA MM (97/FCFXX)	3971.9	2.94	CA AMT TF (457/FSPXX)	2349.5	3.18			