

Index Fund Fee Cut Reignites Active Versus Passive Debate

The two largest companies in the mutual fund industry have achieved success using strategies that are as different as night and day.

The actively managed approach, which holds the promise of beating the market through superior security selection, is the game Fidelity has mastered. It's no easy task. Industry-wide, about four out of five domestic stock funds fail to keep pace with the S&P 500 over a typical 10-year period. To beat those odds, Fidelity has staffed a research department that is second-to-none, fostering a performance culture driven by hard work and a desire to know the real story. It's paid off. About half of Fidelity's stock funds have outperformed the S&P 500 over the last ten years, and close to two-thirds have beaten the index over the last fifteen.

The passive approach, in contrast, aims to match the results of an index, minus expenses. Running an index fund is not particularly profitable, and for many years the concept languished because the fund industry was not interested. But that didn't stop Jack Bogle. Driven by principles, rather than profits, he built Vanguard into the second-largest mutual fund complex by cutting costs to the bone and educating the public on a whole new way to invest. To this day, no other major fund company is able to match Vanguard's low expense ratios without subsidizing its index funds with profits from actively managed funds.

FEE CUT REIGNITES DEBATE - *Continued on page 2*

Unique Opportunities Switch

On Monday, 10/11, our Unique Opportunities Model will sell **Food & Agriculture** (9/FDFAX) and buy **Utilities Growth** (65/FSUTX), resulting in a mix of 15% **Natural Resources**, 13% **Utilities Growth**, 15% **Banking**, 23% **Leveraged Co. Stock**, and 34% **Low-Priced Stock**. We're moving out of **Food & Agriculture** because the sector does not appear able to pass along rising costs as much as we expected. **Utilities Growth**, on the other hand, is benefiting from a rebound in the wireless arena, and some of its more traditional holdings may be able to raise dividends next year.

Review & Recommendations

Evidence of a rebound in economic growth, along with moderate inflation figures, gave stocks a boost despite rising energy prices. Investors also shook off the Fed's latest quarter-point tightening move, which was largely expected, and heavy hurricane damage in Florida and other states. The S&P 500 finished September with a 1.1% increase.

GROWTH FUNDS

Growth Model holdings are listed on page 7. Our favorites, in increasing order of risk, include **Structured Large-Cap Value**, **Low-Priced Stock**, **Value**, and **Export & Multinational**.

Leveraged Company Stock, up 6.8%, was helped by its 30% exposure to the energy group. Strength in the mid-cap arena gave a lift to **Structured Mid Cap Growth** and **Focused Stock**, which posted gains of 5.2% and 5.3%, respectively. On the bottom end, **Dividend Growth** was off 0.8%, the result of a tough month for Fannie Mae and an underweighted energy position.

INTERNATIONAL FUNDS

Diversified Int'l and **Int'l Growth & Income** offer broad-based foreign stock exposure and have a history of solid performance.

Latin America, up 7.9%, and **Canada**, up 7.8%, were helped by higher fossil fuel prices. **Nordic** and **Europe** benefited from an increasingly favorable earnings outlook in Europe, posting respective gains of 7.8% and 6.7%. On the flip side, signs that high oil prices are weighing on Japan's economy prompted a pullback in that region. **Japan** was down 3.1%, and **Japan Smaller Companies** slid 4.3%.

GROWTH & INCOME FUNDS

Growth and Income Model holdings are listed on page 7. Our current favorites include **Puritan** and **Balanced** for an all-weather approach, and **Equity-Income** for dividend stocks.

Convertible Securities led the group with a 3.0% gain, thanks to a heavy bet on the health care sector. **Utilities** rose by 2.7%, the result of an improved outlook for earnings. The group laggard was **Real Estate**, which finished flat as investors reduced their expectations after last month's runup.

RECOMMENDATIONS - *Continued on page 8*

The active versus passive battle is far from over. Outside of Fidelity's universe, actively managed funds are slowly losing ground to index funds and Exchange-Traded Funds (otherwise known as ETFs, these investment vehicles are index funds that trade during market hours like stocks). This is an issue for Fidelity, at least from the standpoint of bringing in new customers. While the firm has yet to make any big splashes on the ETF front, last month's fee reduction on index funds leaves no doubt that Fidelity intends to establish itself as the low-price leader in this arena. By capping expenses at 0.1% for its broadly-diversified stock index funds, Fidelity is sending a message that it intends to play hardball in this particular battle for market share.

This month we review Fidelity's index lineup. But first, a brief review of the tradeoffs involved when buying the market, and a few thoughts about where index funds make the most sense.

INDEXING CONSIDERATIONS

An index strategy carries three main benefits:

- The results you obtain in an index fund will often put you ahead of similar actively-managed funds. In other words, if you buy an S&P 500 index fund, over ten years you'll probably outperform most other funds investing in U.S. stocks. Even among Fidelity stock funds, you stand a reasonable chance of beating about half of those that invest domestically.

- High Tax-Efficiency. Index funds usually don't trade much over a one-year period. Low portfolio turnover means that capital gain payouts are small, so fund distributions consist mostly of dividend income, which typically runs below 2% in today's market. The only time you might see a big tax bill is when you sell your shares many years in the future.

- Minimal expenses. Competition keeps index fees much lower than actively managed funds, and low turnover keeps trading costs low. There won't be anyone getting rich off your portfolio.

Indexing proponents don't generally talk much about the drawbacks. But there are some issues to be aware of:

- You could buy the wrong index. Even if you play it safe, staying with the S&P 500, you could miss out if large-cap stocks hit a dry spell. One reason Fidelity's actively managed funds do so well over time is that many of them have exposure to mid-caps and small-caps.

- Index funds hold little cash in their portfolios, so they can perform worse than actively managed

funds in a down market.

- Lack of flexibility in a taxable account. You may not be able to reduce your risk level as you approach retirement – at least not without taking a significant tax hit on the capital gain side.

- "Tracking error" can be a problem. Some index funds lag their benchmarks by more than just their expense ratio plus trading costs. Fidelity's index funds are well-managed, so this concern is a minor one, but there's no guarantee that a given index fund will achieve its objective.

WHEN IT MAKES SENSE TO INDEX

Fidelity funds are backed by solid research, so the main argument in favor of indexing – long-term performance – is not as compelling as it might be at another fund company. As such, the concept of indexing is not so much an investment philosophy, but more an alternative for situations where actively managed funds come up short. This includes:

- Wanting to minimize taxable distributions. Some investors don't like big surprises at tax time. Indexing won't eliminate payouts, but it will keep them reasonably low, postponing the big capital gain hit until the position is sold.

- Buy and forget. If the mutual fund is a gift for a relative, or for a small account you don't wish to review very often, an index fund is the one choice that doesn't need any supervision over time.

- When good research isn't likely to help all that much. **Magellan** is so big that even in a good year it might only beat the S&P 500 by a few percentage points. **Fidelity Fund** is so highly correlated with the S&P 500 that its volatility score is frequently 1.00. In situations like these, there's not that much to be lost by owning the index instead of the fund.

- Anchoring your portfolio. In the coming decade, it may not be that easy to beat the market with a growth-oriented strategy. It could be prudent to revamp an aggressive portfolio, allocating at least 50% to an index fund, and leaving the rest available for the usual strategies.

The majority of investors buy the S&P 500 when they index. But the S&P 500 is certainly not the only choice – and it may not always be the best. Following is a review of Fidelity's broad-based stock-oriented index funds:

SPARTAN TOTAL MARKET INDEX

This fund is based on the Wilshire 5000, an index that includes virtually every public company that's U.S.-listed. Unlike the S&P 500, it's truly unmanaged,

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because there's no committee that decides which companies are in or out. That means it has exposure to pretty much everything on U.S. exchanges, and will capture any increase in value that occurs when a company is added to the S&P 500.

The S&P 500 stocks account for about 80% of the Wilshire 5000's market capitalization. As such, **Spartan Total Market Index** behaves a lot like the S&P 500. The fund's stylebox rating falls in the large-cap blend category. It has very little foreign exposure, although a significant portion of earnings come from foreign operations. Top industry groups are financial (21%), tech (17%), health care (13%), consumer discretionary (13%), and industrial (11%).

Spartan Total Market Index doesn't actually hold every U.S. stock. Instead, it focuses on the largest half of that population, which represents over 99% of market capitalization (the smallest half represents just a tiny sliver of asset value, and owning them would increase trading costs without much impact on performance). **Spartan Total Market Index** has done an excellent job of tracking the Wilshire 5000 since its introduction in late 1997, trailing the index by only 0.04% per year.

SPARTAN 500 INDEX (U.S. EQUITY INDEX)

By far the most popular way to index, the S&P 500 is the benchmark that most actively managed stock funds compete with. But it's not as passive as many investors believe. Changes are ongoing, in part because a new stock must be added every time a buyout takes place within its ranks. Standard & Poor's maintains a selection committee for this, and its members have their own set of standards. Stocks are frequently added to the index after years of strong performance, or deleted after suffering a huge setback.

Unlike a mutual fund manager, this committee has relatively little interest in the performance of its index. Its main goals are to assure that the S&P 500 is a broad representation of the U.S. stock market, and to maintain good liquidity for those who trade the index. Meeting those goals can involve actions that may hurt investment returns. Granted, adding and deleting stocks should create only a small drag on performance, owing to the relatively large population that remains in the index. Still, considering the fuss that most indexing proponents make about expense ratios, it's a bit surprising there isn't more debate about the small but significant performance advantage of buying an unmanaged index like the Wilshire 5000, or one that buys low and sells high like the Russell 2000 (which deletes

larger stocks and adds smaller ones each year).

At any rate, **Spartan 500 Index** is perhaps the safest choice for indexing, as it's the benchmark that most domestic stock funds are trying to beat. And it certainly represents a broad swath of America's best-managed companies, even if it excludes a few well-known names. Top industry groups include financial (20%), technology (17%), health care (13%), industrial (11%), consumer staples (11%), and consumer discretionary (11%).

There's an easy way for investors with a large taxable position in **Spartan 500 Index** to adopt a Wilshire 5000 stance without big tax consequences. By exchanging 20% of the position into **Spartan Extended Market Index**, the resulting mix will be very similar to **Spartan Total Market Index**.

SPARTAN EXTENDED MARKET INDEX

This fund is based on the Wilshire 4500, which represents the Wilshire 5000 total market index minus the S&P 500. The stocks in this fund are mostly mid-caps and small-caps, but there are some notable exceptions. Berkshire Hathaway, Genentech, and Amazon are among those the S&P 500 committee has declined to adopt for various reasons.

At any rate, **Spartan Extended Market Index** is quite a bit different from other broad-based indexes. For one thing, most future large-caps should come from within this population. Second, successful firms will leave the Wilshire 4500 as they're adopted into the S&P 500, but just before they go all that S&P 500 index money will drive up their worth (more than a trillion dollars blindly follows the S&P 500). Finally, the Wilshire 4500 has less foreign earnings exposure and is less affected by global events.

Spartan Extended Market Index currently falls in the mid-cap blend stylebox, and has about 3700 stocks in its portfolio. Top industry groups are financial (26%), consumer discretionary (19%), tech (14%), health care (13%), and industrial (10%). Volatility is a third higher than the S&P 500, in part because small-stock liquidity isn't as good, but also because of greater dependence on the U.S. economy.

SPARTAN INTERNATIONAL INDEX

Indexing can carry a greater advantage when investing overseas. That's because actively managed foreign funds run with a significant drag. Trading costs are higher, liquidity is not as good, and the disruption caused by shareholder inflows and outflows tends to exact more of a toll on long-term performance.

If you don't mind a heavy bet on the U.K. (25%
FEE CUT REIGNITES DEBATE - *Continued on page 8*

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 ↓.

SEPTEMBER PERFORMANCE						2004	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***	1.46	1.5(90)	15.09	4751.4	1.1	3.8	-6.0	11.9	1.0	-14.7	5.6
Blue Chip Gth (312/FBGRX)	H***	1.06	none	38.79	21976.6	-1.9	0.7	-4.5	7.5	1.2	-3.9	8.0
Blue Chip Value (1271/FBCVX)	H***	1.07	none	11.44	72.2	3.7	2.1	-0.4	17.8			
Capital Apprec (307/FDCAX)	H***	1.35	none	24.61	5142.3	0.4	4.3	-3.1	12.5	11.9	3.3	10.3
Contrafund (22/FCNTX)	B****	1.06	none	52.07	37645.3	5.5	4.2	-0.6	17.5	9.2	3.2	12.7
Discovery (339/FDSVX)	S**	0.80	none	10.39	525.7	0.9	2.1	0.8	10.8	3.4	2.4	
Disc Equity (315/FDEQX)	H***	1.08	none	23.09	4252.2	1.5	2.3	-1.8	13.2	4.8	0.0	10.0
Dividend Gth (330/FDGFY)	H***	0.98	none	26.46	18620.4	-2.6	-0.8	-4.6	7.3	2.2	2.1	13.5
Export Fund (332/FEFXX)	B****	1.14	0.75(30)	18.78	1259.7	3.4	2.8	-1.4	17.1	9.0	7.9	
Fidelity Fifty (500/FFTYX)	H***	1.34	0.75(30)	18.64	829.9	-3.3	3.0	-4.8	4.5	6.2	3.2	11.9
Growth Company (25/FDGRX)	H***	1.55	none	49.44	21710.7	-1.3	3.5	-6.4	8.2	4.4	-1.2	11.1
Large-Cap Stock (338/FLCSX)	H***	1.10	none	13.44	684.9	-2.9	0.8	-5.1	7.5	1.3	-4.5	
Lev Co Stock (122/FLVCX)	H***	1.48	1.5(90)	19.73	1408.7	7.5	6.8	-0.6	31.6	36.2		
Low-Priced Stock (316/FLPSX)	B****	0.99	Closed	35.81	30184.0	7.4	4.1	0.2	22.3	18.2	17.7	16.2
Magellan (21/FMAGX)	H***	1.02	Closed	96.91	61924.9	-0.6	0.9	-2.8	10.2	1.7	-2.5	9.2
Mid Cap Stock (337/FMCSX)	H***	1.36	0.75(30)	21.13	7826.6	-1.9	4.9	-4.0	10.1	4.9	7.0	13.3
New Millennium (300/FMILX)	H***	1.61	Closed	28.65	3207.1	-5.7	4.5	-4.6	6.9	10.9	4.2	17.3
OTC Portfolio (93/FOCPX)	S**↓	1.69	none	30.58	7052.7	-5.8	3.9	-9.1	3.8	8.4	-4.4	9.5
Independence (73/FDFFX)	H***	1.32	none	16.12	4223.7	0.4	3.7	-3.5	10.3	6.2	1.0	9.2
Small Cap Indep (336/FDSCX)	H***	1.22	1.5(90)	18.21	919.2	1.5	3.4	-2.8	16.7	8.2	6.6	8.9
Small Cap Stock (340/FSLCX)	H***	1.32	2(90)	16.75	3427.7	2.3	3.7	-4.3	20.0	14.9	12.3	
Stock Selector (320/FDSSX)	H***	1.04	none	21.05	780.2	0.3	1.1	-2.8	11.3	3.7	-1.4	9.0
Strc Lg Cap Gth (763/FSLGX)	H***	1.27	0.75(30)	9.03	34.8	0.1	3.1	-4.5	10.1			
Strc Lg Cap Val (708/FSLVX)	B****	0.95	0.75(30)	11.32	58.0	7.6	2.4	1.4	22.4			
Strc Mid Cap Gth (793/FSMGX)	H***	1.45	0.75(30)	10.46	53.7	1.4	5.2	-3.9	14.3			
Strc Mid Cap Val (762/FSMVX)	H***	1.04	0.75(30)	13.06	78.2	8.1	3.2	2.0	23.3			
Focused Stock (333/FTQGX)	H***	1.26	0.75(30)	9.15	35.8	4.3	5.3	-1.0	15.4	-4.2	-4.5	
Trend (5/FTRNX)	H***	1.02	none	49.68	817.5	1.4	1.4	-2.0	12.9	4.9	0.8	6.0
Value (39/FDVLX)	B****	1.11	none	67.54	8166.1	8.8	4.2	0.0	24.3	14.8	9.9	12.0
Value Discovery (832/FVDFX)	H***	1.26	none	12.39	58.3	3.4	3.5	-1.2	18.4			
Value Strategies (14/FSLSX)	H***	1.2 Est	none	32.34	172.0	-1.4	4.8	-6.8	12.7	15.4	9.2	
GROWTH & INCOME FUNDS:												
Balanced (304/FBALX)	B****	0.85	none	16.56	10852.3	2.3	2.3	-0.5	12.4	8.7	5.9	9.8
Convertible Sec (308/FCVXX)	H***	0.85	none	20.16	1719.5	1.7	3.0	-1.0	11.1	9.6	9.5	12.0
Equity-Income (23/FEQIX)	B****	0.99	none	49.82	23933.6	1.9	0.6	-1.4	16.6	6.3	3.3	10.7
Equity-Income II (319/FEQTX)	H***	1.04	none	22.63	11950.5	0.7	1.3	0.2	13.4	7.7	3.3	10.4
Fidelity Fund (3/FFIDX)	H***	1.00	none	28.09	10126.2	0.4	0.6	-2.5	13.0	3.5	-1.1	10.4
Growth & Income (27/FGRIX)	B****	0.87	none	35.89	29905.4	1.7	0.8	-0.8	11.2	1.8	-0.5	10.1
Growth & Inc II (361/FGRTX)	H***	0.91	none	9.13	199.3	-1.3	0.4	-1.2	6.4	3.5	-1.0	
Puritan (4/FPURX)	B****	0.67	none	18.15	22361.3	2.6	0.5	0.1	13.0	7.0	5.0	9.5
Real Estate Inc (833/FRIFX)	H***	0.26	0.75(90)	11.61	447.9	7.6	1.4	5.2	12.0			
Real Estate (303/FRESX)	H***	1.36	0.75(90)	25.99	3490.1	15.1	0.0	8.5	25.6	19.0	19.0	13.4
Strategic Div & Inc (1329/FSDIX)	B****	0.7 Est	none	10.58	354.7	5.4	2.1	1.6				
Utilities (311/FUIX)	B****↑	1.03	none	12.31	822.4	7.8	2.7	5.8	17.9	-1.7	-5.7	7.0
SELECT FUNDS:												
Air Transportation (34/FAIAX)	H***	1.55	0.75(30)	30.56	33.7	3.2	2.9	-4.5	10.3	7.9	7.5	13.2
Automotive (502/FAVXX)	S**	1.46	0.75(30)	30.90	16.4	-5.0	1.0	-3.7	11.1	17.4	6.5	7.3
Banking (507/FSRBX)	B****	1.03	0.75(30)	40.19	475.7	3.1	-0.1	3.1	16.4	10.3	8.5	15.0
Biotechnology (42/FBIOX)	H***	2.02	0.75(30)	54.83	1847.3	6.5	4.2	-6.7	11.4	-0.1	3.4	12.6
Brokerage (68/FSLBX)	H***	1.57	0.75(30)	47.92	356.3	-3.4	1.5	-0.4	5.9	10.0	9.6	16.8
Business Ser (353/FBSOX)	H***	1.17	0.75(30)	14.65	37.1	2.2	3.1	-1.5	15.4	5.7	4.2	
Chemicals (69/FSCHX)	H***	1.47	0.75(30)	60.19	76.1	16.2	6.2	8.2	45.5	19.9	12.8	10.3
Computers (7/FDCPX)	H***	2.28	0.75(30)	29.74	643.5	-17.1	4.1	-14.8	-6.8	3.0	-10.9	11.4
Const & Housing (511/FSHOX)	H***	1.53	0.75(30)	38.97	99.6	12.2	5.1	5.9	32.6	22.9	15.5	14.1
Consumer Indust (517/FSCPX)	H***	1.09	0.75(30)	21.70	33.1	-3.9	2.3	-3.6	5.6	2.8	-0.2	9.3
Cyclical Indust (515/FCYIX)	H***	1.24	0.75(30)	17.58	40.9	11.1	4.1	2.6	34.4	14.1	8.2	
Defense & Aero (67/FSDAX)	H***	1.26	0.75(30)	60.74	370.5	10.9	3.9	2.3	35.0	16.9	13.2	16.6
Develop Commn (518/FSDCX)	H***	2.55	0.75(30)	16.03	557.7	-3.4	3.9	-12.4	10.9	-3.3	-8.8	8.4
Electronics (8/FSLEX)	H***	2.55	0.75(30)	32.88	2619.6	-21.5	5.4	-18.3	-8.9	-0.6	-7.6	15.2
Energy (60/FSENX)	B****	1.43	0.75(30)	30.95	516.8	23.6	9.0	9.4	41.6	13.1	9.1	11.8
Energy Services (43/FSSEX)	H***	2.13	0.75(30)	40.82	479.4	29.1	10.6	12.5	40.2	24.3	13.4	15.6
Environmental (516/FSLEX)	H***	1.29	0.75(30)	12.88	11.0	-3.2	0.5	-7.4	6.7	6.5	4.2	2.3
Financial Services (66/FIDSX)	B****	1.04	0.75(30)	115.41	509.2	1.8	0.0	0.7	14.5	8.3	7.8	15.2
Food & Agriculture (9/FDFAX)	H***↓	0.79	0.75(30)	44.65	119.0	1.4	-0.5	-4.6	10.0	3.6	5.7	10.0
Gold (41/FSAGX)	H***	2.62	0.75(30)	26.69	649.6	-10.5	9.1	15.1	4.3	27.2	12.6	3.0
Health Care (63/FSPHX)	B****	1.11	0.75(30)	120.64	1943.4	2.2	1.2	-3.0	9.2	-0.3	4.1	13.5
Home Finance (98/FSVLX)	H***	1.14	0.75(30)	67.41	410.8	6.9	1.0	3.8	23.7	13.6	15.1	15.8
Indust Equip (510/FSFGX)	H***	1.38	0.75(30)	24.41	43.8	1.0	2.7	-3.7	25.5	11.0	1.6	10.0
Indust Materials (509/FSDPX)	H***	1.66	0.75(30)	36.90	108.0	4.8	8.1	8.2	31.2	22.8	11.9	7.8
Insurance (45/FSPCX)	B****	0.96	0.75(30)	57.46	195.3	4.7	2.2	-2.0	17.9	9.7	15.1	17.2
Leisure (62/FDSLX)	H***	1.23	0.75(30)	70.20	179.0	3.5	4.6	-1.7	16.1	11.1	1.4	12.5
Medical Delivery (505/FSHCX)	H***	1.48	0.75(30)	34.54	150.1	12.1	3.5	-1.1	32.6	8.3	17.9	9.3
Medical Equip/Sys (354/FSMEX)	H***	1.12	0.75(30)	21.75	725.6	9.2	4.6	-3.5	18.0	14.2	18.0	
Multimedia (503/FBMPX)	H***	1.39	0.75(30)	40.22	99.9	-8.8	3.6	-5.3	4.5	9.7	1.3	11.8
Natural Gas (513/FSNGX)	H***	1.79	0.75(30)	28.30	349.3	31.1	11.4	12.1	50.9	16.9	14.0	12.8
Nat Resources (514/FNARX)	B****	1.37	0.75(30)	16.89	129.9	18.1	8.5	9.0	38.2	13.7	10.1	
Networking/Infra (912/FNINX)	H***	2.58	0.75(30)	1.93	117.3	-17.5	3.2	-18.2	-11.5	-1.3		
Paper & Forest (506/FSFPX)	H***	1.48	0.75(30)	31.95	24.1	3.4	3.9	-1.4	19.0	10.0	7.6	7.5
Pharmaceuticals (580/FPHAX)	H***	1.28	0.75(30)	8.33	75.5	-4.9	0.5	-6.9	-0.4	-5.2		
Retailing (46/FSRPX)	B****	1.15	0.75(30)	47.02	106.9	5.0	3.0	-1.2	14.2	9.4	1.7	10.5
Software (28/FSCSX)	H***	1.71	0.75(30)	44.38	654.9	-9.9	5.0	-9.8	-0.2	12.8	1.7	15.6
Technology (64/FSPTX)	H***	2.15	0.75(30)	51.30	1877.7	-14.6	3.9	-14.4	-4.6	5.5	-8.7	11.7
Telecom (96/FSTCX)	H***	1.62	0.75(30)	33.54	343.0	4.8	3.8	0.4	22.1	-1.8	-10.6	5.4
Transportation (512/FSRFY)	H***	1.46	0.75(30)	36.54	47.7	8.0	6.6	1.8	18.5	15.1	10.5	12.1
Utilities Growth (65/FSUTX)	B****↑	1.03	0.75(30)	36.56	234.1	11.4	3.3	6.4	24.7	-1.7	-5.8	8.6
Wireless (963/FWRLX)	H***	1.96	0.75(30)	5.12	313.4	25.2	5.8	0.0	48.4	0.4		

SEPTEMBER PERFORMANCE						Div.	2004	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***	1.38	1 (30)	14.73	646.2		-3.2	4.0	-0.5	9.6	14.8	0.9
Canada (309/FICDX)	B****	1.30	1.5(90)	30.13	298.7		10.0	7.8	7.9	29.2	20.6	16.4
Diversified Int'l (325/FDIVX)	B****	1.16	1 (30)	25.33	17761.1		5.0	3.6	0.2	21.0	14.0	7.0
Emerging Mkts (322/FEMKX)	H***	1.60	1.5(90)	11.01	540.3		3.8	6.5	7.6	22.1	22.0	4.6
Europe (301/FIEUX)	B****	1.37	1 (30)	28.82	1579.1		8.3	6.7	3.4	28.1	12.8	1.9
Europe Cap Appr (341/FECAX)	H***	1.23	1 (30)	18.92	383.2		1.2	4.8	-1.3	19.4	9.6	3.5
China Region (352/FHKCX)	H***	1.60	1.5(90)	15.77	289.8		1.5	2.2	6.3	14.0	15.2	5.0
Global Balanced (334/FGBLX)	H***	0.88	1 (30)	19.17	133.1		1.6	1.6	-1.8	12.9	10.4	4.1
Int'l Growth & Inc (305/FIGRX)	B****	1.27	1 (30)	24.37	2054.7		1.9	2.3	-2.7	19.1	13.6	3.9
Int'l Small Cap (818/FISMX)	H***	1.36	2 (90)	20.58	1030.2		10.2	4.4	-1.3	28.4		
Japan (350/FJPNX)	H***	2.35	1.5(90)	11.47	661.7		-0.6	-3.1	-11.0	9.8	7.6	-6.1
Japan Smaller Co (360/FJSCX)	H***	2.32	1.5(90)	11.40	1392.3		10.3	-4.3	-13.4	26.0	20.1	-2.6
Latin America (349/FLATX)	H***	2.00	1.5(90)	17.56	290.9		15.4	7.9	15.5	40.8	22.4	9.8
Nordic (342/FNORX)	H***	1.45	1.5(90)	23.85	99.1		13.6	7.8	3.1	33.9	13.5	3.4
Overseas (94/FOSFX)	H***	1.34	1 (30)	31.24	3934.5		-0.6	2.7	-1.6	15.7	8.4	-1.2
Pacific Basin (302/FPBFX)	H***	1.74	1.5(90)	17.52	441.9		-0.1	0.3	-4.1	10.3	12.0	-1.9
Southeast Asia (351/FSEAX)	H***	1.92	1.5(90)	14.74	431.4		1.1	5.4	7.3	17.9	21.1	5.6
Worldwide (318/FWWFX)	H***	1.09	1 (30)	16.38	1020.7		0.1	1.9	-2.2	13.8	8.7	3.2

INDEX AND ASSET ALLOCATION:

Four-In-One Index (355/FFNOX)	H***	0.87	0.5(90)	23.34	646.9		2.5	1.6	-0.9	14.1	6.6	1.0
NASDAQ Comp (1282/FNCMX)	S**↓	1.61	0.75(90)	26.05	84.3		-5.2	3.3	-7.2	6.7		
Spart Ext Mkt Idx (398/FEMX)	H***	1.29	0.75(90)	28.34	957.0		3.8	4.0	-1.9	18.0	13.3	3.5
Spart Int'l Index (399/FSIIX)	H***	1.24	1(90)	28.32	590.3		4.3	2.5	-0.8	21.5	8.9	-1.1
Spart 500 Index (317/FSMKX)	H***	1.00	0.5(90)	77.32	10369.3		1.4	1.1	-1.9	13.7	3.9	-1.4
Spart Total Mkt Idx (397/FSTMX)	B****↑	1.04	0.5(90)	30.39	2302.4		1.8	1.6	-1.9	14.4	5.9	-0.2
Asset Manager (314/FASMIX)	H***	0.56	none	15.58	11042.7		-0.1	-0.1	-1.5	6.0	4.8	3.4
Asset Mgr Agg (347/FAMRX)	H***	1.19	none	10.29	341.0		0.5	3.6	-2.7	11.8	3.7	2.1
Asset Mgr Gth (321/FASGX)	H***	0.76	none	14.10	3617.6		-1.3	0.0	-2.7	7.0	4.3	0.7
Asset Mgr Inc (328/FASIX)	B****	0.39	none	12.25	1362.6		1.9	1.3	0.4	5.8	6.2	4.8
Freedom 2000 (370/FFFBX)	B****	0.31	none	11.92	1559.2		1.4	0.6	0.5	4.6	4.2	4.1
Freedom 2005 (1312/FFVFX)	B****	0.3 Est	none	10.39	78.3		1.6	1.0	0.1			
Freedom 2010 (371/FFFCX)	B****	0.53	none	13.14	7553.8		1.6	1.1	0.0	7.7	5.7	3.7
Freedom 2015 (1313/FFVFX)	B****	0.5 Est	none	10.45	269.1		1.4	1.4	-0.6			
Freedom 2020 (372/FFFDX)	B****	0.77	none	13.11	7892.6		1.3	1.6	-1.1	10.4	6.2	2.3
Freedom 2025 (1314/FFTWX)	B****	0.7 Est	none	10.48	164.3		1.0	1.6	-1.5			
Freedom 2030 (373/FFFCX)	B****	0.90	none	13.05	4583.8		1.0	1.9	-1.7	11.6	6.1	1.3
Freedom 2035 (1315/FFTHX)	B****	0.8 Est	none	10.53	78.3		1.1	2.0	-1.7			
Freedom 2040 (718/FFFFX)	B****	0.97	none	7.59	1454.4		0.9	2.0	-2.1	12.6	6.2	
Freedom Income (369/FFFA)	B****	0.27	none	11.11	1793.4		1.3	0.5	0.5	3.8	3.7	4.2

TAXABLE BOND FUNDS:

Capital & Income (38/FAGIX)	H***	0.32	1(90)	8.08	4305.8	6.13	5.2	2.1	4.8	12.1	15.3	5.2
Floating Rate (814/FFRHX)	B****	0.06	1(60)	9.93	1790.0	3.24	2.9	0.4	1.0	4.2		
GNMA Portfolio (15/FGMNX)	H***	0.27	none	11.09	4018.7	4.41	3.2	0.2	2.3	3.4	4.6	6.4
Gov't Income (54/FGOVX)	H***	0.41	none	10.28	4269.8	2.79	2.8	0.1	2.9	2.7	5.0	6.9
Intermed Bond (32/FTHRX)	H***	0.32	none	10.57	6990.2	3.54	2.6	0.2	2.7	3.0	5.6	7.1
Intermed Gov't Inc (452/FSTGX)	H***	0.31	none	10.29	972.6	2.94	2.1	0.0	2.3	1.8	4.6	6.5
Invest Grade Bond (26/FBNDX)	H***	0.38	none	7.57	5968.7	3.31	3.4	0.3	3.3	3.7	5.9	7.3
Mortgage Securities (40/FMSFX)	H***	0.27	none	11.29	1414.9	3.75	3.4	0.0	2.5	4.0	5.3	7.0
New Markets Inc (331/FNMIX)	H***	0.69	1(90)	13.93	883.5	6.12	5.9	1.9	9.1	12.8	17.8	17.2
Short-Term Bond (450/FSHBX)	B****	0.17	none	9.02	5052.7	2.68	1.6	0.1	1.4	2.0	4.0	5.6
Spart Gov't Inc (453/SPGVX)	H***	0.41	none	11.08	842.2	3.33	3.1	0.2	2.9	3.1	5.4	7.2
High Income (455/SPHIX)	B****	0.23	1(90)	8.88	2870.6	6.37	4.3	1.1	3.2	10.7	12.4	2.5
Spart Invest Grade (448/FSIBX)	H***	0.38	none	10.81	2388.0	3.65	3.7	0.2	3.4	4.1	6.1	7.6
Strategic Income (368/FSICX)	H***	0.33	none	10.50	2519.2	5.08	4.0	1.4	4.8	8.6	11.5	9.1
Inflation-Protected (794/FINPX)	H***	0.57	none	11.39	1158.4	1.36	5.6	0.2	4.1	7.0		
Total Bond (820/FTBFX)	H***	0.35	none	10.63	365.6	3.88	3.8	0.3	3.5	4.2		
Ultra-Short Bond (812/FUSFX)	B****	0.07	0.25(60)	10.05	607.7	1.72	0.9	0.0	0.5	1.4		
US Bond Index (651/FBIDX)	H***	0.37	none	11.17	5025.9	3.85	3.3	0.3	3.3	3.9	6.0	

MUNICIPAL BOND FUNDS:

Spart AZ Muni Inc (434/FAZXX)	H***	0.32	0.5(30)	11.59	78.1	3.73	2.7	0.6	4.0	3.9	5.5	6.6
Spart CA Muni Inc (91/FCTFX)	H***	0.31	0.5(30)	12.54	1427.1	4.28	3.4	0.5	4.0	4.9	5.3	6.5
Spart CT Muni Inc (407/FICNX)	H***	0.32	0.5(30)	11.80	424.0	4.08	2.6	0.4	3.7	3.8	5.5	6.5
Spart FL Muni Inc (427/FFLIX)	H***	0.31	0.5(30)	11.73	494.9	4.05	3.1	0.4	4.0	4.3	5.5	6.4
Spart Intermediate (36/FLTMMX)	H***	0.26	0.5(30)	10.19	1761.8	3.89	2.8	0.3	3.4	3.8	5.5	6.3
Spart MA Muni Inc (70/FDMMX)	H***	0.29	0.5(30)	12.24	1733.6	4.33	3.3	0.7	4.2	4.7	5.7	6.7
Spart MD Muni Inc (429/SMDMX)	H***	0.30	0.5(30)	11.06	98.6	3.91	2.9	0.5	3.7	4.0	5.2	6.3
Spart MI Muni Inc (81/FMHTX)	H***	0.30	0.5(30)	12.19	556.0	4.03	2.8	0.4	3.7	3.9	5.8	6.7
Spart MN Muni Inc (82/FIMIX)	H***	0.26	0.5(30)	11.63	347.0	4.00	2.7	0.5	3.5	3.9	5.4	6.2
Spart Municipal Inc (37/FFHGX)	H***	0.30	0.5(30)	13.16	4642.6	4.42	3.3	0.6	4.2	4.7	6.1	7.1
Spart NJ Muni Inc (416/FNJHX)	H***	0.31	0.5(30)	11.78	526.4	4.12	2.6	0.6	4.0	4.2	5.6	6.6
Spart NY Muni Inc (71/FTFMX)	H***	0.31	0.5(30)	13.19	1349.2	4.11	3.2	0.6	4.1	4.5	6.2	7.1
Spart OH Muni Inc (88/FOHFX)	H***	0.31	0.5(30)	12.07	418.0	4.18	3.1	0.6	4.2	4.4	5.8	6.7
Spart PA Muni Inc (402/FPXTX)	H***	0.29	0.5(30)	11.03	285.2	4.22	2.9	0.5	4.2	4.2	5.4	6.5
Spart Short-Int Muni (404/FSTFX)	B****	0.16	0.5(30)	10.43	1743.8	2.60	1.5	0.1	1.9	1.6	3.6	4.6
Spart Tax-Free Bond (90/FTABX)	H***	0.33	0.5(30)	10.78	229.0	4.04	3.4	0.6	4.5	5.0	6.3	

SEPTEMBER PERFORMANCE				2004	One	Three	One	3-Yr	5-Yr	10-Yr
Indexes & Model Portfolios	Risk	Value		YTD	Month	Month	Year	Rate	Rate	Rate
Dow Jones Industrial	0.97	10080.27		-2.1	-0.7	-2.9	10.9	6.7	1.4	12.3
S&P 500	1.00	1114.58		1.6	1.1	-1.8	13.9	4.1	-1.3	11.1
NASDAQ	1.61	1896.84		-5.0	3.2	-7.2	6.7	8.6	-6.8	10.1
Russell 2000	1.69	572.94		3.7	4.7	-2.9	18.7	13.7	7.4	9.9
Fidelity Monitor Income Model	0.10	76553.62		2.4	0.4	1.4	4.7	5.4	4.6	6.2
Fidelity Monitor G&I Model	0.71	133303.57		2.7	2.2	0.2	13.1	11.7	7.4	10.4
Fidelity Monitor Growth Model	1.23	139815.36		1.7	2.3	-2.7	17.0	11.8	5.7	10.6
Fidelity Monitor Select System	1.38	253547.16		-1.0	3.4	-5.2	8.8	10.8	3.9	11.8
Fidelity Monitor Unique Opportunities	1.03	82065.55		8.3	4.3	0.1	23.1	21.1	5.9	

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	\$16.89	717.284	\$12114.93
Food & Ag	\$44.65	240.275	\$10728.28
Banking	\$40.19	313.473	\$12598.48
Leveraged Co.	\$19.73	973.411	\$19205.40
Low-Priced Stock	\$35.81	765.665	\$27418.46

17% Foreign Holdings

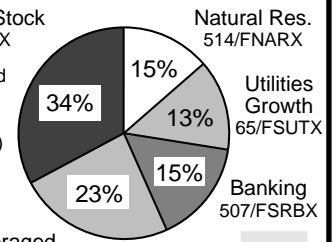
Balance as of 9/30/04: **\$82065.55**
Balance at start of 2004: **\$75768.12**

PERFORMANCE

Partial Yr 99: +33.8%
2000: -20.5%
2001: +1.6%
2002: -2.1%
2003: +43.2%
*2004: +8.3%

Low-Priced Stock
316/FLPSX
(Value Fund
39/FDVLX
may be
substituted)

Leveraged
Co. Stock
122/FLVCX



As of
10/11

Our model rose 4.3% for the month of September. On 9/13 we sold **Int'l Small Cap** (\$20.23) and bought **Banking** (\$40.60). On 10/11 we will sell **Food & Ag** and buy **Utilities Growth**.

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 (+0.2% YTD)	Portfolio B (+1.8% YTD)	Portfolio C (+1.2% YTD)	Portfolio D (+1.2% YTD)
35% Contrafund, 23% Value, 42% Equity-Income	63% Growth & Income, 37% Contrafund	100% Equity-Income	100% Equity-Income

For September, Portfolio A was up 3.0%, Portfolio B gained 2.4%, and Portfolios C and D both rose 0.7%.

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:	VIP G&I MODEL:	VIP INCOME:
15% Tech, 33% Fin Ser, 17% Health Care, 20% Natural Res, 15% Cons. Ind.	57% Equity-Income, 43% Contrafund	54% Asset Mgr, 31% Equity-Inc, 15% Investment Grade Bond.	70% Inv. Grade, 30% High Income.

SEPTEMBER VIP PERFORMANCE Portfolio	Rating	Unit Value	2004 YTD	One Month	Three Month	One Year	3-Yr Rate	5-Yr Rate
VIP Asset Manager	B ****	29.74	-0.8	-0.2	-1.6	5.3	4.4	0.7
VIP Asset Manager: Growth	H ***	19.20	-1.9	-0.1	-2.9	6.4	3.8	-2.2
VIP Balanced	H ***	14.20	-0.1	0.4	0.4	5.1	4.6	0.5
VIP Contrafund	B ****	31.61	5.1	4.2	-0.7	17.0	8.7	2.6
VIP Dynamic Capital Appreciation	H ***	9.97	-9.6	6.3	-9.3			
VIP Equity-Income	B *****	50.42	1.5	0.6	-1.6	15.9	5.7	2.5
VIP Growth	H ***	50.37	-5.3	1.8	-6.3	5.1	0.3	-5.1
VIP Growth & Income	B ****	15.25	-1.7	0.4	-1.3	5.7	3.0	-1.4
VIP Growth Opportunities	B ****	11.00	-2.4	1.2	-3.4	8.3	2.9	-6.3
VIP High Income	H ***	26.82	4.1	1.4	3.8	9.6	11.5	-1.2
VIP Index 500	H ***	29.33	0.7	1.0	-2.1	12.7	3.0	-2.3
VIP Investment Grade Bond	H ***	27.66	2.7	0.2	3.0	3.2	5.4	6.8
VIP Mid Cap	B ****	14.51	9.6	6.6	3.6	27.2	13.9	
VIP Overseas	H ***	25.96	-1.2	2.6	-1.7	14.8	6.8	-2.8
VIP Real Estate	H ***	12.57	14.3	-0.1	8.2			
VIP Value Strategies	H ***	11.09	-2.6	4.4	-7.4			
VIP Consumer Industries	B ****	9.63	-4.4	2.2	-4.0	4.9	2.6	
VIP Cyclical Industries	H ***	12.28	11.0	4.1	2.4	33.9	13.6	
VIP Financial Services	B ****	11.27	1.6	0.0	0.5	13.8	8.0	
VIP Health Care	B ****	9.82	1.9	1.1	-3.0	8.7	-0.1	
VIP Natural Resources	B ****	12.54	17.7	8.3	8.9	37.5	13.4	
VIP Technology	H ***	7.83	-15.1	4.0	-14.4	-5.5	4.4	
VIP Telecom & Utilities	H ***	8.41	11.3	3.3	6.0	25.0	-1.2	
Morgan Stanley Emg Mkts Debt	H ***	16.38	3.4	1.4	7.3	9.5	15.5	
Morgan Stanley Emg Mkts Equity	H ***	11.49	4.3	5.7	7.8	22.5	20.7	
Morgan Stanley Global Equity	H ***	12.99	1.3	1.0	-2.6	15.7	4.2	
Morgan Stanley Int'l Magnum	H ***	9.76	1.7	2.1	-2.0	16.0	3.4	
PBHG Growth II	S **	8.32	-7.6	3.7	-9.4	-2.4	-2.5	
PBHG Select Value	H ***	15.01	-3.9	-0.3	-2.0	9.1	-13.9	
PBHG Select 20	S **	13.81	-3.8	3.5	-9.8	6.9	12.5	
PBHG Small Cap Value	H ***	17.46	-1.2	4.8	-4.1	14.3	4.8	
PBHG Tech & Communications	S **	7.07	-7.8	5.7	-9.7	2.2	-6.1	
CS Int'l Focus	H ***	9.35	0.0	1.7	-0.6	15.0	3.6	
CS Global Post-VC	H ***	9.55	-0.2	2.4	-7.1	11.4	5.2	
CS Small Cap Growth	S **	10.51	-2.7	4.2	-9.2	11.7	7.6	
Fidelity Monitor VIP Sector Model		12788.14	-2.5	2.7	-4.4	8.3		
Fidelity Monitor VIP Growth Model		27600.85	-1.8	2.1	-3.5	10.0	4.7	-1.8
Fidelity Monitor VIP G&I Model		20418.10	0.4	0.1	-0.9	8.6	5.9	1.4
Fidelity Monitor VIP Income Model		18002.09	3.1	0.5	3.3	5.0	6.7	4.4

INCOME MODEL

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

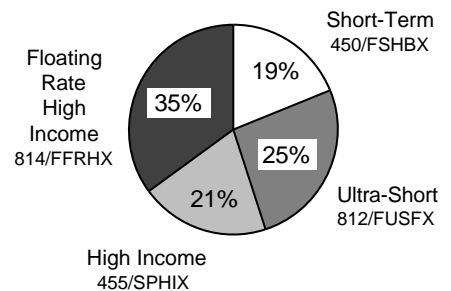
FUND	NAV	SHARES	BALANCE
Short-Term Bond	\$9.02	1603.900	\$14467.18
Ultra-Short Bond	\$10.05	1954.406	\$19641.78
High Income	\$8.88	1789.388	\$15889.77
Floating Rate	\$9.93	2674.208	\$26554.89

6% Foreign Holdings

Balance as of 9/30/04: \$76553.62
Balance at start of 2004: \$74748.25

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: + 2.4%



Our Income Model edged up 0.4% for the month. The monthly dividend rate was 3.4%.

GROWTH AND INCOME MODEL

Our Growth and Income Model aims for long-term growth of 10% per year from stocks and bonds.

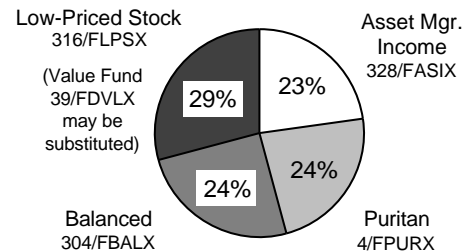
FUND	NAV	SHARES	BALANCE
Asset Mgr. Inc.	\$12.25	2524.187	\$30921.29
Puritan	\$18.15	1736.372	\$31515.15
Balanced	\$16.56	1963.930	\$32522.68
Low-Priced Stock	\$35.81	1070.775	\$38344.45

13% Foreign Holdings

Balance as of 9/30/04: \$133303.57
Balance at start of 2004: \$129816.46

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: + 2.7%



Our Growth and Income Model gained 2.2% for September.

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.

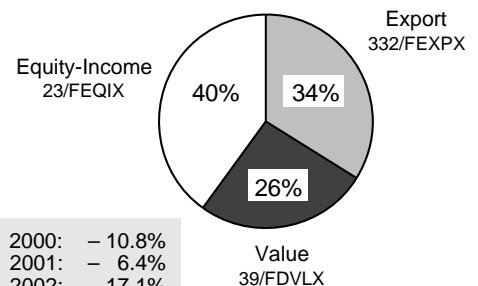
FUND	NAV	SHARES	BALANCE
Export	\$18.78	2543.811	\$47772.77
Value	\$67.54	536.585	\$36240.95
Equity-Income	\$49.82	1120.065	\$55801.64

10% Foreign Holdings

Balance as of 9/30/04: \$139815.36
Balance at start of 2004: \$137499.26

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%



Our Growth Model was up 2.3% in September, just ahead of the S&P 500's 1.1% return.

SELECT SYSTEM

Our Select System aims for growth in sector funds, and has a long-term goal of 16% per year. We use a volatility model to identify attractive growth sectors.

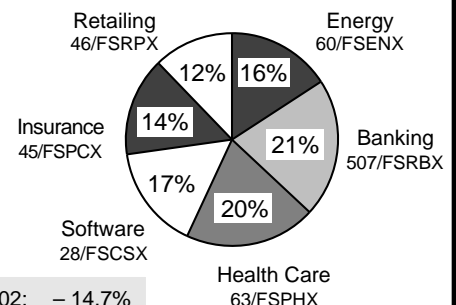
FUND	NAV	SHARES	BALANCE
Energy	\$30.95	1317.381	\$40772.94
Banking	\$40.19	1301.952	\$52325.45
Health Care	\$120.64	427.037	\$51517.74
Software	\$44.38	938.003	\$41628.57
Insurance	\$57.46	635.888	\$36538.12
Retailing	\$47.02	654.282	\$30764.34

14% Foreign Holdings

Balance as of 9/30/04: \$253547.16
Balance at start of 2004: \$256163.60

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%



Our Select System gained 3.4% in September, finishing ahead of the S&P 500's 1.1% increase. On 9/13 we sold **Biotech** (at \$54.13) and bought **Health Care** (at \$121.03).

of assets) and Japan (another 24% of holdings), this fund is certainly a reasonable way to add foreign diversification to your portfolio. **Spartan Int'l Index** aligns with the EAFE (Europe, Australasia, and Far East Index), a broad-based foreign stock benchmark.

Whether foreign indexing is necessary or not, however, is another question. Some investment strategists believe that a mix of 70% S&P 500 and 30% EAFE offers reduced risk and higher potential returns than a domestic-only approach. But that's anything but a sure bet. These days, Japan is the only major foreign market that doesn't move in tandem with the U.S., so diversification benefits are limited. And even though European markets may not be as expensive as our own, the difference is partly due to the region's limited number of technology stocks and its harsher tax and regulatory environment. Bottom line: a 100% position in the Wilshire 5000 may perform better in the long run.

Spartan Int'l Index has about 1100 stocks in its portfolio. European stocks, which make up more than half of the fund's asset base, tend to define its behavior more than any other group. Top industry groups are financial (25%), consumer discretionary (13%), and industrial (9%). The fund's overall volatility exceeds the S&P 500 by about 20%, but that's mostly because of currency fluctuations. ■

Happenings

Fidelity has introduced **Focused High Income**. The new fund focuses on bonds rated BB, the top rung of the high yield ladder. So far, the fund's price behavior has been similar to **High Income**, which focuses on both BB and B-rated debt. We'll be rating the new fund a buy, but it's too early to tell if it offers any risk/reward advantage over **High Income**. We'll be adding it to our data pages next month.

Int'l Real Estate also made its debut. Fidelity highlights the fund as a unique asset class, but we anticipate its price behavior to have at least some overlap with **Real Estate**. We're also a bit skeptical about real estate in general, which seems to be running ahead of fundamentals everywhere except Japan. As such, we'll be rating **Int'l Real Estate** a hold for now. It will be added to page 4 in the next issue.

Last month, when we mentioned the reduced expense caps for Fidelity's index funds, we incorrectly listed the prior caps as ranging from 0.19-0.25%. The correct range was 0.19-0.47%. Our apologies. ■

BOND FUNDS

Income Model holdings are listed on page 7. Our bond favorites include **Ultra-Short Bond** and **Floating Rate High Income**.

Signs of continuing economic growth boosted the most credit-sensitive funds. **Capital & Income** was up 2.1%, **New Markets Income** gained 1.9%, **Strategic Income** returned 1.4%, and **High Income** rose 1.1%. Results on the investment-grade side were lackluster in comparison, with most funds finishing at or near breakeven. The municipal bond group posted gains ranging from 0.1% to 0.7%.

SELECT PORTFOLIOS

Select System holdings are listed on page 7. Our current buys, in increasing order of risk, include **Insurance, Utilities Growth, Financial Services, Banking, Health, Retailing, Natural Resources, and Energy**.

Natural resource groups landed in the top spots as evidence mounted that the imbalance in global oil supplies is more than just a short-term problem. **Natural Gas** jumped 11.4%, **Energy Services** climbed 10.6%, **Gold** gained 9.1%, and **Energy** was up 9.0%. Trailing behind were **Financial Services** at breakeven, **Banking** which slipped 0.1% (primarily because of the Fannie Mae situation), and **Food & Agriculture**, off 0.5%. ■

SEPTEMBER DISTRIBUTIONS

Asset Manager: Income	\$ 0.02 / \$12.09 (9/3)
Balanced	\$ 0.44 / \$16.26 (9/3)
Blue Chip Growth	\$ 0.09 / \$38.82 (9/3)
Blue Chip Value	\$ 0.105 / \$11.34 (9/3)
Dividend Growth	\$ 0.12 / \$26.96 (9/3)
Freedom Income	\$ 0.01 / \$11.05 (9/3)
Gov't Income	\$ 0.005 / \$10.22 (9/3)
Growth & Income	\$ 0.16 / \$35.95 (9/3)
Leveraged Co. Stock	\$ 1.00 / \$18.76 (9/3)
Low-Priced Stock	\$ 1.71 / \$34.86 (9/3)
Puritan	\$ 0.58 / \$18.13 (9/3)
Real Estate Income	\$ 0.31 / \$11.46 (9/3)
Real Estate	\$ 0.69 / \$26.28 (9/3)
Total Bond	\$ 0.02 / \$10.56 (9/3)
Value Discovery	\$ 0.51 / \$12.11 (9/3)

Funds scheduled for October include **Asset Manager, Asset Mgr. Income, Balanced, Convertible Securities, Equity-Income, Equity-Inc. II, Export & Multinational, Fidelity Fund, Freedom Income, Growth & Income, Growth & Income II, Puritan, Strategic Dividend & Income, Spartan AZ, Spartan MD, Spartan Short-Int. Muni, and Utilities**.

Money Market Funds	Size	Yield	Money Market Funds	Size	Yield	Money Market Funds	Size	Yield
Cash Reser (55/FDRXX)	56981.1	1.24	CT MM (418/FCMXX)	1025.4	0.92			
Select MM (85/FSLXX)	697.4	1.28	MA MM (74/FDMXX)	3496.3	0.87	FL MM (428/FSFXX)	1280.7	0.95
Spart MM (454/SPRXX)	5719.7	1.25	MI MM (420/FMIXX)	580.7	0.87	Spart MA MM (426/FMSXX)	960.6	1.00
Spart US Gov't (458/SPAXX)	564.0	1.21	NJ MM (417/FNJXX)	1389.6	0.84	Spart Municipal (460/FIMXX)	3308.2	1.11
Spart US Treas (415/FDLXX)	2217.1	1.11	NY MM (92/FNYXX)	3002.8	0.88	Spart NJ MM (423/FSJXX)	643.4	1.05
Tax-Free MM (275/FMOXX)	978.8	0.98	OH MM (419/FOMXX)	677.3	0.90	Spart NY MM (422/FSNXX)	1118.1	0.99
US Gov't Reser (50/FGRXX)	2243.3	1.28	AZ MM (433/FSAXX)	156.9	0.93	PA MM (401/FPTXX)	312.0	0.93
CA MM (97/FCFXX)	3053.9	0.86	Spart CA MM (457/FSPXX)	1338.9	1.04	Municipal MM (10/FTEXX)	15631.6	0.98