

The New Utility Stocks

A generation ago, utility stocks were the darlings of the investment universe. As regulated monopolies, their profits were all but guaranteed, allowing them to pay out a substantial share of their earnings to investors each quarter. With dividends that often exceeded the yield on corporate bonds, utilities were considered the ideal conservative investment. If you could build up a sizable nest egg in utility stocks, you could retire and live off the dividends.

At least, it seemed like you could. Starting with

NEW UTILITY STOCKS - *Continued on page 2*

Trades For Select System, Unique Opportunities, 401(k) Portfolios

On Monday, 9/13, we will making changes in a number of portfolios.

Our Select System will sell **Biotechnology** (42/FBIOX) and buy **Health Care** (63/FSPHX) as a risk-cutting move, for a resulting mix of 15% **Energy**, 21% **Banking**, 21% **Health Care**, 16% **Software**, 15% **Insurance**, and 12% **Retailing**. There's no change to our VIP Sector Model. **Biotechnology** has seen increased volatility in recent months, and now has nearly twice the risk of the S&P 500. **Health Care**, on the other hand, is only slightly more volatile than the index.

Our Unique Opportunities Model will sell **Int'l Small Cap** (818/FISMIX) and buy **Banking** (507/FSRBX), for an approximate mix of 14% **Natural Resources**, 14% **Food & Agriculture**, 16% **Banking**, 23% **Leveraged Company**, and 33% **Low-Priced Stock**. High-priced oil could hurt overseas markets more than our own (see page 3), so we are lightening up on foreign stocks.

Finally, we are making a number of moves in our 401(k) models to align them with our recent Growth Model changes. The A Portfolio will sell **Capital Appreciation** and buy **Equity-Income**. It'll also sell **Dividend Growth**, with two-fifths going into **Value**, and the rest into **Contrafund**. The B Portfolio will be selling **Magellan** and buying **Growth & Income**. Portfolios C & D will sell **Magellan** and buy **Equity-Income**. See page 6 for the anticipated mix for each portfolio.

Review & Recommendations

August brought indications that the high price of oil is beginning to slow economic growth around the globe, and confirmation that U.S. profit growth slowed to a crawl in the second quarter. The news gave a boost to defensive industry groups, while continuing to penalize the technology sector. The Fed hiked short-term interest rates another quarter point, and the release of notes from its previous meeting suggested that some committee members are worried enough about inflation to support additional tightening moves even if the economy slows. The S&P 500 finished the month with a 0.4% gain.

GROWTH FUNDS

Growth Model holdings are listed on page 7. **Export & Multinational** is the best bet for a single fund approach. Our other favorites, in increasing order of risk, include **Structured Large-Cap Value**, **Low-Priced Stock**, and **Value**.

Worries of higher inflation and slower economic growth favored funds with defensive value-oriented portfolios. **Structured Mid Cap Value** moved up 1.4%, and both **Dividend Growth** and **Structured Large Cap Value** returned 0.8%. Falling behind were those that focus on growth and economically sensitive issues. **OTC Portfolio** and **Value Strategies** both pulled back 3.3%, and **Leveraged Company Stock** was down 3.6%.

INTERNATIONAL FUNDS

Diversified Int'l and **Int'l Growth & Income** offer broad-based foreign stock exposure. Keep in mind that foreign markets may be more vulnerable to high energy prices than U.S. stocks.

Emerging market funds rebounded on evidence that China may avoid a hard landing in its battle to contain inflation. **Southeast Asia** gained 5.1%, **China Region** was up 5.0%, and **Emerging Markets** rose 4.3%. On the bottom end, **Canada** edged up 0.1%, and **Europe Capital Appreciation** slid 0.8%.

GROWTH & INCOME FUNDS

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

RECOMMENDATIONS - *Continued on page 8*

the breakup of AT&T in the early 1980s, the utility sector came under a 20-year assault as advancing technology ushered in new ways of doing things. Regulators changed the laws to encourage the new competition, and consumers – reluctant at first – eventually embraced many of the alternatives.

It hasn't been an easy adjustment for the utilities. Sector wide, profits have vanished – the result of heavy competition, environmental considerations, and poorly conceived “deregulation” efforts that led to unethical behavior. The group is just now starting to get back on its feet. Some gas and electric utilities are going back to their roots as they emerge from bankruptcy; others are developing pricing models that remove the risk of fluctuating energy prices. Phone companies and wireless carriers appear to have moved beyond the battle for market share, and are emphasizing new services aimed at increasing their revenue per customer.

But don't expect a return to the good old days. Competition is here to stay. Laws are still being rewritten. Obtaining project approvals remains costly and time-consuming. Environmental issues are raising the cost of doing business. Chances are the steady earnings and high dividend yields are gone for good.

Fortunately, a new group of stocks has evolved to fill the void. For this industry group, advancing technology and deregulation have been a blessing, rather than curse.

NEW ROLE FOR FINANCIAL SERVICES

Twenty years ago, financial service firms earned about 6-7% of S&P 500 profits, and accounted for roughly the same percentage of market capitalization in the index. Today these corporations generate an impressive 30% of S&P 500 earnings, and account for about 20% of total market cap.

Banks and banking conglomerates, which make up most of the financial sector, are the new cash cows. Deregulation has allowed them to broaden their base and generate a stable stream of earnings that isn't affected much by changes in interest rates or economic activity. Advancing technology has made it possible to shrink labor costs dramatically and manage fraud better, while at the same time facilitating a massive wave of consolidation. In effect, the major players have bought their way into protected franchises, with many of the same benefits the utilities used to enjoy. Competition still exists, of course, but most CEOs have vivid memories of the early 1990s

banking crisis, and they rarely play hardball. A few local banks are taking the gloves off and grabbing market share from the big guys. But odds are they'll be bought out by one of the major players if they become too successful. It's definitely a cozy setup for those at the top, and unlike other money machines it doesn't seem to be generating much ill will among lawmakers or fostering many class action lawsuits.

Given a steady source of revenue and continuing opportunities to consolidate and cut labor costs, most major banks are well positioned to grow their dividend payouts over time. Unlike the remaining profitable utilities, which tend to distribute 60-65% of their profits to shareholders, today's major banks are generally paying out 40-50% of their earnings in the form of dividends. With yields in the range of 3-4%, banks are only slightly behind gas/electric utilities, and their quality of earnings is much better.

Much has been said about the risk of higher interest rates on the financial sector, but keep in mind that fee-based services now account for a major share of bank earnings. Furthermore, much of the interest rate risk that banks used to bear in their loan portfolios has been off-loaded to consumers, investors, and other financial institutions such as Fannie Mae and Freddie Mac. As such, higher interest rates will barely dent the group's earnings this time around. Indeed, profits in the banking sector are expected to grow over the next 12 months – despite the steady upward march of short-term interest rates.

That's good news, especially when you consider that financial stocks already have the lowest P/E ratio (15) of all the major industry groups. If bank stocks don't move up over the next 18-24 months, some could end up with single-digit multiples and yields exceeding 5%. But the more probable scenario is for these stocks to move up in tandem with dividend increases, which could advance by as much as 10% annually over the next few years.

What if the dividend tax cut is rolled back after the election? If Congress goes along with it – and that's a big if – such a move might lead to a modest decline in dividend stock valuations in the short run. But the stock market has already partially discounted that possibility, and bank stocks would still remain attractive for their earnings. If dividends do end up being taxed at full income rates, odds are the banks will simply step up their stock repurchases. That form of shareholder compensation generates long-term capital gains – which presumably would be taxed at a top rate of 20%.

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RECOMMENDATIONS

There are two ways to gain exposure to dividend paying financial stocks. One option is to invest in a Select fund that targets the group directly. The other is to buy a broad-based value-oriented fund that's heavily overweighted in financial services.

For the direct approach, we like **Banking and Financial Services**. Both funds have a solid long-term performance history, low turnover, and expense ratios that are modest compared with other sector funds. **Banking** is dedicated mainly to money center banks and diversified financial services – the firms that earn most of their profits from banking activities. The fund's top 10 holdings, which account for 53% of its portfolio, have an average dividend yield of 2.9%. **Financial Services** is a bit more diversified; it includes some exposure to the consumer finance, insurance, and brokerage groups. The additional diversification makes it slightly less risky, although both funds have overall volatility similar to the S&P 500. **Financial Services'** top 10 holdings make up 40% of its assets, with an average yield of 2.6%.

Among Diversified funds, we like **Structured Large Cap Value**, which is 35% invested in the financial sector, and tends to stay closely aligned with the Russell 1000 Value Index (the index itself has about 33% financial exposure). **Equity-Income**, another one of our favorites in the large-cap value category, is 30% invested in financials. This fund is also indirectly tethered to the financial sector. An internal requirement stipulates that the fund must generate dividends exceeding the S&P 500's yield. That necessitates heavy exposure to quality dividend stocks with above-average yields. ■

High-Priced Oil Increases Risks of Foreign Investing

The year 1970 stands out when analyzing the current world energy situation. It was a key turning point for U.S. oil production – one that proves you cannot always drill your way out of a shortfall. Back then, U.S. production peaked at 9.6 million barrels per day. Today it's below 6 million. The U.S. is still the second-largest oil-producing nation, but every year the output from mature wells slides another few percentage points. New wells are not able to make up the difference. This is not due to environmental restrictions on drilling. Without limitations there would certainly be more oil coming on line. But it still wouldn't be enough, because we're up against the limits of geography. The U.S. is pretty much

tapped out. What's left at this point is mostly the hard-to-find oil, and exploration is not a pretty picture. The fuel required for the drilling activity is often a significant percentage of the fuel that's discovered.

The U.S. situation is a preview of what will eventually happen at the global level. Oil discovery in other countries lagged the U.S. by several decades, so only recently has there been any evidence that global production rates might be reaching a plateau. Estimates for the impending "Hubbert's Peak" – the year in which global oil production follows the U.S. pattern that began 35 years ago – are still subject to debate. But they may be irrelevant. Demand from China and other populous countries is climbing so fast that production capacity may never catch up.

It appears we've entered a long-term energy crunch. We may see occasional periods of relief, but they probably won't be long-lasting. Natural gas, which is plentiful in many remote areas of the globe, holds the promise of picking up where oil leaves off. Unfortunately, it may take 25 years before there's a large-scale infrastructure for transporting it.

It's well-accepted that rising fossil fuel prices tend to slow economic growth. Consumers, faced with increased costs for gasoline, natural gas, and home heating oil, tend to cut back on other purchases. That's expected. What might be a surprise to some is that high oil prices could hurt foreign stock markets more than our own.

In Japan's case, virtually all fossil fuels are imported, so most of the money spent on oil goes out of the country. In addition, the Japanese economy is oriented toward automobiles and heavy equipment, industries that could be hit hard in an oil-induced economic slowdown. The prevailing wisdom on Wall Street is that Japan is finally bouncing back. But this is the third month in a row where household spending has declined.

For Europe, heavy-handed taxes on gasoline and diesel tend to multiply the pain at the consumer level. In some countries, if the wholesale price of fuel were to rise by one euro, consumers could expect a 3-4 euro boost at the pump. European countries are already struggling with overbearing regulations and high tax rates. A prolonged increase in the price of oil could turn into an economic knockout punch.

Emerging markets, with the exception of a few countries that export oil, could be hit hard by inflation. Because they are the world's low-cost manufacturing centers, the quantity of oil they consume to generate a dollar's worth of GDP is several times higher than

OIL INCREASES RISKS - *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 ↓.

AUGUST 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***	1.42	1.5(90)	14.54	4838.0	-2.6	-1.0	-7.2	6.3	-7.8	-15.7	5.2
Blue Chip Gth (312/FBGRX)	H***	1.05	none	38.62	22101.6	-2.5	-0.3	-3.7	5.6	-2.4	-4.5	7.9
Blue Chip Value (1271/FBCVX)	H***	1.05	none	11.31	68.5	1.6	0.6	0.5	14.5			
Capital Apprec (307/FDCAX)	H***	1.34	none	23.59	5406.7	-3.8	-1.0	-5.5	9.2	4.9	2.0	9.8
Contrafund (22/FCNTX)	B****	1.03	none	49.96	37528.9	1.3	-0.2	-2.6	11.8	5.7	2.3	12.1
Discovery (339/FDSVX)	S**	0.79	none	10.18	522.2	-1.1	0.5	0.3	7.5	-0.5	1.6	
Disc Equity (315/FDEQX)	H***	1.07	none	22.58	4239.1	-0.7	-0.1	-2.0	10.4	1.6	-0.9	9.4
Dividend Gth (330/FDGFY)	H***	0.96	none	26.78	18394.5	-1.9	0.8	-2.4	7.3	-0.6	1.2	13.5
Export Fund (332/FEXPX)	B****	1.13	0.75(30)	18.27	1231.9	0.6	0.3	-1.7	13.0	4.0	7.3	
Fidelity Fifty (500/FFTYX)	H***	1.34	0.75(30)	18.10	858.3	-6.1	-1.6	-5.5	-1.4	4.2	2.3	11.5
Growth Company (25/FDGRX)	H***	1.53	none	47.75	22148.4	-4.6	-1.1	-7.9	3.6	-3.0	-2.3	10.5
Large-Cap Stock (338/FLCSX)	H***	1.10	none	13.33	692.9	-3.7	-0.6	-3.9	5.5	-2.6	-5.1	
Lev Co Stock (122/FLVCX)	H***	1.44	1.5(90)	19.46	1502.3	0.7	-3.6	-2.2	23.5	25.7		
Low-Priced Stock (316/FLPSX)	B****	0.97	Closed	36.07	30380.3	3.1	-0.3	-0.4	16.7	13.8	16.1	15.8
Magellan (21/FMAGX)	H***	1.01	Closed	96.01	62421.7	-1.6	0.2	-2.3	7.5	-1.4	-3.0	8.8
Mid Cap Stock (337/FMCSX)	H***	1.34	0.75(30)	20.14	7963.7	-6.5	-1.6	-6.6	2.0	-3.0	5.3	13.0
New Millennium (300/FMILX)	H***	1.59	Closed	27.41	3319.5	-9.8	-2.1	-5.5	1.0	3.1	3.2	17.0
OTC Portfolio (93/FOCPX)	H***	1.67	none	29.44	7319.0	-9.3	-3.3	-9.8	-1.0	-0.5	-5.2	9.1
Independence (73/FDFFX)	H***	1.32	none	15.55	4299.3	-3.2	-1.0	-4.3	4.5	0.5	-0.4	8.7
Small Cap Indep (336/FDSCX)	H***	1.21	1.5(90)	17.61	935.2	-1.8	-1.4	-3.6	10.9	6.7	6.4	8.4
Small Cap Stock (340/FSLCX)	H***	1.29	2(90)	16.16	3536.2	-1.3	-3.0	-3.0	15.0	8.7	11.7	
Stock Selector (320/FDSSX)	H***	1.04	none	20.82	779.1	-0.8	0.0	-1.9	9.1	0.7	-2.2	8.5
Strc Lg Cap Gth (763/FSLGX)	H***	1.24	0.75(30)	8.76	35.0	-2.9	-1.4	-5.1	5.4			
Strc Lg Cap Val (708/FSLVX)	B****	0.94	0.75(30)	11.06	47.5	5.1	0.8	1.7	18.0			
Strc Mid Cap Gth (793/FSMGX)	H***	1.42	0.75(30)	9.94	55.8	-3.7	-1.7	-5.8	5.4			
Strc Mid Cap Val (762/FSMVX)	H***	1.02	0.75(30)	12.66	75.4	4.8	1.4	1.4	18.1			
Focused Stock (333/FTQGX)	H***	1.22	0.75(30)	8.69	36.5	-0.9	-1.8	-1.7	9.0	-8.4	-5.8	
Trend (5/FTRNX)	H***	1.02	none	48.97	830.7	0.0	0.1	-1.3	9.9	0.9	0.0	5.6
Value (39/FDVLX)	B****	1.09	none	64.84	8104.2	4.5	-0.4	0.5	16.9	9.0	8.3	11.4
Value Discovery (832/FVDFX)	H***	1.24	none	12.47	59.0	-0.2	-1.3	-1.4	11.7			
Value Strategies (14/FSLSX)	H***	1.2 Est	none	30.85	181.1	-5.9	-3.3	-7.8	5.9	5.0	8.3	
GROWTH & INCOME FUNDS:												
Balanced (304/FBALX)	B****	0.83	none	16.63	10771.5	0.0	0.4	-0.4	9.6	5.9	5.1	9.5
Convertible Sec (308/FCVX)	H***	0.81	none	19.58	1740.1	-1.2	-0.3	-2.6	8.8	4.3	8.8	11.6
Equity-Income (23/FEQIX)	B****	0.98	none	49.52	23749.0	1.3	0.7	0.5	14.4	3.1	2.4	10.4
Equity-Income II (319/FEQTX)	H***	1.03	none	22.34	11985.1	-0.6	0.3	1.4	10.1	4.0	2.5	10.0
Fidelity Fund (3/FFIDX)	H***	1.00	none	27.92	10122.9	-0.2	0.4	-1.1	10.4	-0.2	-1.7	10.1
Growth & Income (27/FGRIX)	B****↑	0.87	none	35.78	29777.1	0.9	0.9	0.1	9.7	0.0	-1.1	9.9
Growth & Inc II (361/FGRTX)	H***	0.91	none	9.09	200.6	-1.7	0.8	-1.4	4.3	1.3	-1.4	
Puritan (4/FPURX)	B****	0.66	none	18.63	22013.5	2.0	1.0	1.5	12.4	5.0	4.5	9.2
Real Estate Inc (833/FRIFX)	H***	0.25	0.75(90)	11.76	420.7	6.1	2.4	5.0	13.4			
Real Estate (303/FRESX)	H***	1.29	0.75(90)	26.67	3176.0	15.1	7.8	12.2	30.0	17.5	18.0	13.3
Strategic Div & Inc (1329/FSDIX)	B****	0.7 Est	none	10.36	346.7	3.2	1.4	1.8				
Utilities (311/FUIX)	H***	1.01	none	11.99	815.2	5.0	1.4	5.3	15.6	-4.1	-6.0	6.4
SELECT FUNDS:												
Air Transportation (34/FSAIX)	H***	1.51	0.75(30)	29.69	37.3	0.2	-1.0	0.0	6.1	-2.6	5.0	11.5
Automotive (502/FSAVX)	S**	1.43	0.75(30)	30.60	16.8	-5.9	-1.8	-0.8	4.8	10.9	4.9	6.7
Banking (507/FSRBX)	B****	1.03	0.75(30)	40.25	453.1	3.3	3.7	3.4	16.7	8.5	7.9	14.3
Biotechnology (42/FBIOX)	H***↓	1.98	0.75(30)	52.62	1870.0	2.2	1.1	-10.1	4.1	-5.8	0.8	12.1
Brokerage (68/FSLBX)	H***	1.55	0.75(30)	47.21	337.9	-4.9	4.7	-2.5	4.1	4.9	8.3	16.2
Business Ser (353/FBSOX)	H***	1.19	0.75(30)	14.21	38.3	-0.8	0.9	-3.1	9.2	0.2	3.2	
Chemicals (69/FSCHX)	H***	1.42	0.75(30)	56.67	68.2	9.4	4.2	7.7	29.9	13.6	10.5	9.6
Computers (7/FDCPX)	H***	2.22	0.75(30)	28.58	702.6	-20.3	-7.1	-17.5	-13.0	-8.2	-12.1	10.9
Const & Housing (511/FSHOX)	H***	1.49	0.75(30)	37.07	83.8	6.7	4.0	4.7	25.4	15.3	13.7	12.9
Consumer Indust (517/FCYPX)	H***	1.05	0.75(30)	21.22	33.6	-6.0	-1.1	-6.1	1.0	-1.0	-1.1	8.9
Cyclical Indust (515/FCYIX)	H***	1.23	0.75(30)	16.88	41.8	6.7	0.9	4.6	23.4	6.7	6.7	
Defense & Aero (67/FSDAX)	H***	1.24	0.75(30)	58.45	359.5	6.7	-0.2	6.1	23.7	14.0	10.4	15.6
Develop Commn (518/FSDCX)	H***	2.47	0.75(30)	15.43	602.3	-7.0	-2.6	-11.0	5.6	-7.3	-9.1	8.2
Electronics (8/FSLEX)	H***	2.40	0.75(30)	31.21	2970.4	-25.5	-9.4	-25.0	-17.0	-13.6	-9.0	14.3
Energy (60/FSENX)	B****	1.35	0.75(30)	28.39	502.2	13.4	-2.7	6.9	27.2	6.9	6.3	10.8
Energy Services (43/FSSEX)	H***	2.05	0.75(30)	36.92	485.6	16.8	-1.9	11.2	19.9	13.4	8.9	14.9
Environmental (516/FSLEX)	H***	1.27	0.75(30)	12.81	10.8	-3.8	0.9	-3.5	4.7	0.9	2.4	2.2
Financial Services (66/FIDSX)	B****↑	1.03	0.75(30)	115.40	485.7	1.8	2.8	1.8	15.2	6.0	7.1	14.3
Food & Agriculture (9/FDFAX)	B****	0.75	0.75(30)	44.89	123.3	2.0	-1.5	-3.3	12.5	2.7	4.7	10.0
Gold (41/FSAGX)	H***	2.51	0.75(30)	24.46	602.9	-18.0	7.1	1.3	-3.2	24.3	15.9	11.0
Health Care (63/FSPHX)	B****↑	1.08	0.75(30)	119.24	1904.3	1.1	1.7	-4.4	8.5	-1.1	1.9	13.5
Home Finance (98/FSVLX)	H***	1.13	0.75(30)	66.72	398.9	5.9	2.7	3.5	23.8	12.6	14.7	15.2
Indust Equip (510/FSGIX)	H***	1.36	0.75(30)	23.76	51.9	-1.7	-2.6	-1.5	14.8	3.2	0.8	9.8
Indust Materials (509/FSDPX)	H***	1.60	0.75(30)	34.14	104.3	-3.1	1.6	5.3	23.1	15.1	9.6	6.8
Insurance (45/FSPCX)	B****	0.94	0.75(30)	56.23	195.2	2.5	-0.6	-1.7	15.9	8.5	12.0	16.8
Leisure (62/FDLSX)	H***	1.23	0.75(30)	67.11	182.1	-1.0	-0.7	-4.5	8.5	3.9	0.6	12.0
Medical Delivery (505/FSHCX)	H***	1.45	0.75(30)	33.37	167.1	8.3	1.0	2.3	29.7	6.5	14.2	9.3
Medical Equip/Sys (354/FSMEX)	H***	1.08	0.75(30)	20.80	737.3	4.4	-0.6	-5.4	13.6	12.4	15.1	
Multimedia (503/FBMPX)	H***	1.39	0.75(30)	38.83	104.0	-11.9	-1.9	-8.8	-5.9	3.4	1.3	11.3
Natural Gas (513/FSNGX)	H***	1.70	0.75(30)	25.41	367.0	17.7	-2.2	9.1	32.6	9.1	10.7	11.5
Nat Resources (514/FNARX)	B****	1.30	0.75(30)	15.57	124.8	8.9	-1.4	6.4	25.0	6.6	7.5	
Networking/Infra (912/FNINX)	H***	2.55	0.75(30)	1.87	125.8	-20.1	-5.1	-18.0	-16.9	-11.3		
Paper & Forest (506/FSFPX)	H***	1.44	0.75(30)	30.76	25.6	-0.5	-1.2	-1.1	13.6	2.6	6.3	7.3
Pharmaceuticals (580/FPHAX)	H***	1.23	0.75(30)	8.29	76.1	-5.4	0.6	-6.5	3.8	-5.0		
Retailing (46/FSRPX)	B****	1.11	0.75(30)	45.63	92.2	1.9	-1.3	-2.4	5.6	2.5	1.2	9.9
Software (28/FSCSX)	H***↓	1.72	0.75(30)	42.27	691.0	-14.1	-4.0	-11.5	-7.6	0.8	1.9	15.6
Technology (64/FSPTX)	H***	2.10	0.75(30)	49.39	2040.4	-17.8	-7.0	-16.1	-9.6	-4.9	-9.4	11.2
Telecom (96/FSTCX)	H***	1.59	0.75(30)	32.32	351.9	1.0	-2.1	-0.9	12.6	-4.3	-10.8	4.9
Transportation (512/FSRFX)	H***	1.43	0.75(30)	34.27	56.8	1.3	-1.1	2.8	9.9	5.2	7.8	11.1
Utilities Growth (65/FSUTX)	H***	1.02	0.75(30)	35.38	207.0	7.8	1.8	6.1	20.9	-4.2	-6.5	8.0
Wireless (963/FWRLX)	H***	1.92	0.75(30)	4.84	327.7	18.3	0.0	-1.2	35.6	-4.5		

AUGUST 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	Rate
Aggressive Int'l (335/FIVFX)	H***	1.30	1 (30)	14.16	647.5		-6.9	0.6	-6.0	7.1	7.9	0.4	
Canada (309/FICDX)	B****	1.23	1.5(90)	27.94	290.9		2.0	0.1	4.6	21.7	13.9	14.9	
Diversified Int'l (325/FDIVX)	B****	1.10	1 (30)	24.45	17369.4		1.4	0.7	-2.1	20.3	8.9	6.5	
Emerging Mkts (322/FEMKX)	H***	1.52	1.5(90)	10.34	529.6		-2.5	4.3	-0.3	14.9	13.3	2.6	
Europe (301/FIEUX)	B****	1.30	1 (30)	27.00	1560.2		1.4	0.8	-0.7	25.3	5.0	0.6	
Europe Cap Appr (341/FECAX)	H***	1.18	1 (30)	18.05	391.2		-3.5	-0.8	-3.9	18.1	4.1	2.3	
China Region (352/FHKCX)	H***	1.55	1.5(90)	15.43	277.8		-0.6	5.0	2.5	14.6	8.6	4.0	
Global Balanced (334/FGBLX)	H***	0.84	1 (30)	18.86	133.4		-0.1	0.5	-0.9	14.0	7.2	3.8	
Int'l Growth & Inc (305/FIGRX)	B****	1.21	1 (30)	23.82	2016.0		-0.4	0.4	-2.6	20.0	8.2	4.0	
Int'l Small Cap (818/FISMX)	H***↓	1.29	2 (90)	19.71	1067.5		5.6	0.2	-1.2	31.3			
Japan (350/FJPNX)	H***	2.27	1.5(90)	11.84	662.7		2.6	1.4	-2.7	17.3	4.3	-4.1	
Japan Smaller Co (360/FJSCX)	H***	2.21	1.5(90)	11.91	1441.3		15.2	1.5	-0.2	43.6	17.9	0.1	
Latin America (349/FLATX)	H***	1.93	1.5(90)	16.28	274.5		7.0	4.1	11.1	34.1	13.0	8.3	
Nordic (342/FNORX)	H***	1.40	1.5(90)	22.12	98.8		5.4	1.8	-0.3	26.6	6.7	2.0	
Overseas (94/FOSEFX)	H***	1.29	1 (30)	30.43	3918.9		-3.2	0.7	-4.0	15.9	3.2	-1.5	
Pacific Basin (302/FPBFX)	H***	1.69	1.5(90)	17.47	442.4		-0.3	1.0	-1.9	13.5	7.0	-0.8	
Southeast Asia (351/FSEAX)	H***	1.84	1.5(90)	13.99	416.6		-4.0	5.1	-2.2	11.9	13.2	2.8	
Worldwide (318/FWWFX)	H***	1.06	1 (30)	16.07	1014.5		-1.8	0.4	-2.7	12.6	4.1	2.6	
INDEX AND ASSET ALLOCATION:													
Four-In-One Index (355/FFNOX)	H***	0.86	0.5(90)	22.97	631.3		0.9	0.7	-0.6	12.4	3.3	0.4	
NASDAQ Comp (1282/FNCMX)	H***	1.62	0.75(90)	25.23	84.1		-8.2	-2.5	-7.3				
Spart Ext Mkt Idx (398/FSEMXX)	H***	1.27	0.75(90)	27.25	962.0		-0.2	0.0	-3.1	12.0	6.8	2.4	
Spart Int'l Index (399/FSIIX)	H***	1.18	1(90)	27.64	579.9		1.8	0.8	-0.5	22.4	4.1	-1.3	
Spart 500 Index (317/FSMKX)	H***	1.00	0.5(90)	76.50	10336.6		0.3	0.4	-1.1	11.3	0.7	-2.2	
Spart Total Mkt Idx (397/FSTMX)	H***	1.04	0.5(90)	29.90	2287.9		0.2	0.3	-1.5	11.2	2.1	-1.1	
Asset Manager (314/FASMX)	H***	0.55	none	15.59	10972.4		-0.1	1.0	-0.1	6.6	2.9	3.2	
Asset Mgr Agg (347/FAMRX)	H***	1.20	none	9.93	347.0		-3.0	-0.8	-4.5	9.3	-2.4		
Asset Mgr Gth (321/FASGX)	H***	0.74	none	14.10	3599.1		-1.3	0.8	-1.4	6.9	1.6	0.3	
Asset Mgr Inc (328/FASIX)	B****	0.38	none	12.11	1336.0		0.6	0.3	0.2	5.0	5.1	4.5	
Freedom 2000 (370/FFFVX)	B****	0.30	none	11.85	1554.4		0.9	0.8	0.7	5.0	3.1	3.9	
Freedom 2005 (1312/FFFVX)	B****	0.3 Est	none	10.29	69.5		0.6	0.8	0.2				
Freedom 2010 (371/FFFCX)	B****	0.52	none	13.00	7450.3		0.5	0.8	0.2	7.5	3.6	3.3	
Freedom 2015 (1313/FFVFX)	B****	0.5 Est	none	10.31	234.0		0.1	0.7	-0.5				
Freedom 2020 (372/FFDX)	B****	0.76	none	12.90	7761.0		-0.3	0.5	-1.1	9.1	2.9	1.7	
Freedom 2025 (1314/FFTWX)	B****	0.7 Est	none	10.31	143.3		-0.6	0.4	-1.4				
Freedom 2030 (373/FFFEX)	B****	0.88	none	12.81	45101.5		-0.8	0.2	-1.8	9.6	2.2	0.6	
Freedom 2035 (1315/FFTHX)	B****	0.8 Est	none	10.32	67.1		-0.9	0.2	-1.9				
Freedom 2040 (718/FFFFX)	B****	0.96	none	7.44	7935.0		-1.1	0.1	-2.1	10.2	1.8		
Freedom Income (369/FFFA)	B****	0.26	none	11.07	1766.0		0.9	0.7	0.7	4.2	3.1	4.2	
TAXABLE BOND FUNDS:													
Capital & Income (38/FAGIX)	H***	0.31	1(90)	7.95	4207.3	6.47	3.0	1.9	4.5	12.3	11.5	4.6	
Floating Rate (814/FRHX)	B****	0.06	1(60)	9.92	1678.5	3.19	2.5	0.3	1.2	4.4			
GNMA Portfolio (15/FGMNX)	H***	0.27	none	11.11	3963.3	4.14	3.0	1.3	2.9	4.8	5.0	6.7	
Gov't Income (54/FGOVX)	H***	0.41	none	10.30	4155.4	2.83	2.7	1.9	3.2	5.5	5.6	7.1	
Intermed Bond (32/FTHRX)	H***	0.31	none	10.58	6829.0	3.42	2.4	1.6	2.9	5.4	6.0	7.3	
Intermed Gov't Inc (452/FSTGX)	H***	0.31	none	10.31	961.5	2.97	2.1	1.5	2.5	4.2	5.3	6.6	
Invest Grade Bond (26/FBNDX)	H***	0.37	none	7.57	5805.8	3.17	3.1	1.9	3.5	6.2	6.2	7.5	
Mortgage Securities (40/FMSFX)	H***	0.27	none	11.32	1360.9	3.34	3.3	1.6	3.3	5.8	5.8	7.3	
New Markets Inc (331/FNMIX)	H***	0.67	1(90)	13.74	831.0	6.11	3.9	4.1	8.7	13.9	15.7	17.3	
Short-Term Bond (450/FSHBX)	B****	0.17	none	9.03	4950.4	2.45	1.5	0.8	1.4	3.1	4.4	5.7	
Spart Gov't Inc (453/SPGVX)	H***	0.41	none	11.09	829.1	3.25	2.9	1.9	3.2	6.0	5.9	7.4	
High Income (455/SPHIX)	B****	0.22	1(90)	8.83	2819.3	6.34	3.2	1.6	3.3	12.3	9.0	2.0	
Spart Invest Grade (448/FSIBX)	H***	0.37	none	10.82	2367.2	3.42	3.5	2.1	3.7	6.8	6.5	7.8	
Strategic Income (368/FSICX)	H***	0.33	none	10.40	2387.4	5.24	2.6	2.4	4.4	10.6	10.1	8.9	
Inflation-Protected (794/FINPX)	H***	0.57	none	11.38	1137.5	1.34	5.4	2.7	4.0	10.5			
Total Bond (820/FTBFX)	H***	0.35	none	10.65	372.5	3.54	3.5	2.1	4.0	7.0			
Ultra-Short Bond (812/FUSFX)	B****	0.06	0.25(60)	10.06	579.5	1.29	0.9	0.2	0.4	1.5			
US Bond Index (651/FBIDX)	H***	0.37	none	11.17	4888.0	3.76	3.0	2.0	3.5	6.5	6.4		
MUNICIPAL BOND FUNDS:													
Spart AZ Muni Inc (434/FAZAX)	H***	0.32	0.5(30)	11.56	75.6	3.81	2.2	2.1	3.7	6.6	5.3	6.5	
Spart CA Muni Inc (91/CACTFX)	H***	0.31	0.5(30)	12.52	1402.3	4.30	2.8	2.2	4.0	7.4	5.0	6.4	
Spart CT Muni Inc (407/FICNX)	H***	0.32	0.5(30)	11.79	414.9	4.06	2.1	2.0	3.5	6.5	5.3	6.4	
Spart FL Muni Inc (427/FLLIX)	H***	0.31	0.5(30)	11.72	483.8	4.09	2.7	2.3	4.0	7.4	5.3	6.4	
Spart Intermediate (36/FLTMX)	H***	0.26	0.5(30)	10.19	1728.7	3.88	2.5	1.9	3.4	6.4	5.4	6.2	
Spart MA Muni Inc (70/FDMMX)	H***	0.29	0.5(30)	12.20	1688.1	4.39	2.6	2.0	3.7	7.0	5.3	6.6	
Spart MD Muni Inc (429/SMDMX)	H***	0.30	0.5(30)	11.04	94.2	3.89	2.3	2.0	3.5	6.5	4.9	6.2	
Spart MI Muni Inc (81/FMHTX)	H***	0.30	0.5(30)	12.18	546.3	4.07	2.4	2.0	3.6	6.7	5.6	6.6	
Spart MN Muni Inc (82/FIMIX)	H***	0.26	0.5(30)	11.61	341.8	4.04	2.2	1.7	3.2	6.1	5.1	6.1	
Spart Municipal Inc (37/FHIGX)	H***	0.30	0.5(30)	13.13	4550.2	4.46	2.7	2.2	4.0	7.6	5.8	7.0	
Spart NJ Muni Inc (416/FNJHIX)	H***	0.31	0.5(30)	11.75	516.2	4.18	2.0	2.1	3.8	7.1	5.2	6.5	
Spart NY Muni Inc (71/FTFMX)	H***	0.31	0.5(30)	13.16	1321.5	4.14	2.6	2.1	3.9	7.2	5.8	6.9	
Spart OH Muni Inc (88/FOHFX)	H***	0.31	0.5(30)	12.04	410.2	4.23	2.5	2.2	4.0	7.2	5.6	6.6	
Spart PA Muni Inc (402/FPXTX)	H***	0.29	0.5(30)	11.01	280.0	4.13	2.4	1.9	3.9	6.7	5.2	6.4	
Spart Short-Int Muni (404/FSTFX)	B****	0.16	0.5(30)	10.44	1722.0	2.60	1.3	1.1	2.0	3.1	3.7	4.7	
Spart Tax-Free Bond (90/FTABX)	H***	0.33	0.5(30)	10.75	216.4	4.06	2.8	2.3	4.2	8.2	6.0		

AUGUST PERFORMANCE										
Indexes & Model Portfolios	Risk	Value	2004 YTD	One Month	Three Month	One Year	3-Yr Rate	5-Yr Rate	10-Yr Rate	
Dow Jones Industrial	0.95	10173.92	-1.3	0.5	0.4	10.3	2.9	0.7	12.2	
S&P 500	1.00	1104.24	0.5	0.4	-1.0	11.5	0.8	-2.1	10.7	
NASDAQ	1.62	1838.10	-8.0	-2.6	-7.4	2.0	1.0	-7.3	9.7	
Russell 2000	1.67	547.93	-0.9	-0.5	-3.3	11.4	6.7	6.4	9.3	
Fidelity Monitor Income Model	0.10	76264.52	2.0	0.6	1.5	5.6	5.8	4.6	6.1	
Fidelity Monitor G&I Model	0.69	130479.75	0.5	0.3	0.1	11.0	8.3	6.7	10.0	
Fidelity Monitor Growth Model	1.22	136733.22	-0.6	-0.2	-2.8	14.8	8.1	4.8	10.3	
Fidelity Monitor Select System	1.42	245306.80	-4.2	-0.8	-5.5	2.5	6.3	3.0	11.5	
Fidelity Monitor Unique Opportunities	1.00	78664.03	3.8	-1.3	0.4	19.2	15.3	5.8		

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	\$15.57	717.284	\$11168.11
Food & Ag	\$44.89	240.275	\$10785.94
Int'l Small Cap	\$19.71	629.116	\$12399.88
Leveraged Co.	\$19.46	924.149	\$17983.94
Low-Priced Stock	\$36.07	729.863	\$26326.16

17% Foreign Holdings

Balance as of 8/31/04: **\$78664.03**
Balance at start of 2004: **\$75768.12**

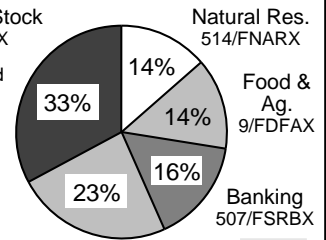
PERFORMANCE

Partial Yr 99: + 33.8%
2000: - 20.5%
2001: + 1.6%
2002: - 2.1%
2003: + 43.2%
*2004: + 3.8%

Low-Priced Stock
316/FLPSX

(Value Fund
39/FDVLX
may be
substituted)

Leveraged
Co. Stock
122/FLVCX



As of
9/13

We were off 1.3% for the month of August. On 9/13 we will sell **Int'l Small Cap** and buy **Banking**.

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 (-2.7% YTD)	Portfolio B (-0.5% YTD)	Portfolio C (+0.4% YTD)	Portfolio D (+0.4% YTD)
35% Contrafund, 23% Value, 42% Equity-Income	63% Growth & Income, 37% Contrafund	100% Equity-Income	100% Equity-Income

Holdings are as of 9/13 (please see page 1). In August, Portfolio A was flat, B was up 0.1%, and C and D both gained 0.5%.

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% Tech, 34% Fin Ser, 18% Health Care, 19% Natural Res, 15% Cons. Ind.	58% Equity-Income, 42% Contrafund	55% Asset Mgr, 31% Equity-Inc, 14% Investment Grade Bond.	71% Inv. Grade, 29% High Income.

AUGUST VIP PERFORMANCE		Unit Value	2004 YTD	One Month	Three Month	One Year	3-Yr Rate	5-Yr Rate
Portfolio	Rating							
VIP Asset Manager	B ****	29.79	-0.6	0.9	-0.3	6.1	2.6	0.5
VIP Asset Manager: Growth	H ***	19.21	-1.8	0.7	-1.7	6.3	1.4	-2.6
VIP Balanced	H ***	14.14	-0.5	1.0	0.2	4.7	2.5	0.1
VIP Contrafund	B ****	30.33	0.9	-0.3	-2.7	11.3	5.2	1.7
VIP Dynamic Capital Appreciation	H ***	9.38	-15.0	-5.4	-13.3			
VIP Equity-Income	B *****	50.13	0.9	0.6	0.3	13.7	2.5	1.7
VIP Growth	H ***	49.50	-6.9	-1.5	-6.5	0.9	-4.6	-5.8
VIP Growth & Income	B ****	15.19	-2.1	0.7	-1.6	3.8	0.9	-1.8
VIP Growth Opportunities	B ****	10.87	-3.5	0.0	-2.9	5.5	-0.6	-7.2
VIP High Income	H ***	26.44	2.6	1.5	4.1	10.9	7.7	-1.8
VIP Index 500	H ***	29.04	-0.3	0.3	-1.3	10.3	-0.2	-3.1
VIP Investment Grade Bond	H ***	27.61	2.4	1.8	3.3	5.7	5.8	7.0
VIP Mid Cap	B ****	13.61	2.8	-0.6	1.0	17.7	9.7	
VIP Overseas	H ***↓	25.30	-3.7	0.6	-4.2	14.9	1.6	-3.0
VIP Real Estate	H ***	12.58	14.4	7.6	11.9			
VIP Value Strategies	H ***	10.62	-6.7	-3.5	-8.1			
VIP Consumer Industries	B ****	9.42	-6.6	-1.3	-6.5	0.2	-1.2	
VIP Cyclical Industries	H ***	11.80	6.7	0.9	4.4	23.1	6.8	
VIP Financial Services	B ****	11.27	1.6	2.8	1.7	14.4	5.8	
VIP Health Care	B ****	9.71	0.8	1.7	-4.4	8.1	-0.7	
VIP Natural Resources	B ****	11.58	8.7	-1.3	6.4	24.6	6.1	
VIP Technology	H ***↓	7.53	-18.4	-7.2	-16.2	-10.8	-5.4	
VIP Telecom & Utilities	H ***	8.14	7.7	1.6	5.8	21.1	-4.2	
Morgan Stanley Emg Mkts Debt	H ***	16.15	1.9	3.7	7.3	10.4	13.7	
Morgan Stanley Emg Mkts Equity	H ***	10.87	-1.3	4.4	2.2	17.0	12.2	
Morgan Stanley Global Equity	H ***	12.86	0.3	0.4	-1.5	15.7	1.4	
Morgan Stanley Int'l Magnum	H ***	9.56	-0.3	0.2	-1.6	16.6	-0.4	
PBHG Growth II	S **	8.02	-10.9	-2.7	-11.8	-9.4	-8.8	
PBHG Select Value	H ****	15.05	-3.7	0.9	0.4	8.2	-17.0	
PBHG Select 20	S **	13.34	-7.1	-3.9	-10.3	-1.2	7.6	
PBHG Small Cap Value	H ****	16.66	-5.8	-2.1	-6.5	5.8	-2.4	
PBHG Tech & Communications	S **	6.69	-12.8	-4.0	-12.2	-6.6	-17.1	
CS Int'l Focus	H ****	9.19	-1.7	0.8	-1.2	12.8	-1.0	
CS Global Post-VC	H ****	9.33	-2.5	-1.1	-6.1	9.5	-0.9	
CS Small Cap Growth	S **	10.09	-6.6	-2.1	-10.6	2.3	-0.3	
Fidelity Monitor VIP Sector Model		12451.91	-5.0	-0.8	-5.0	3.5		
Fidelity Monitor VIP Growth Model		27029.65	-3.9	-0.4	-3.8	5.6	-0.3	-2.7
Fidelity Monitor VIP G&I Model		20395.11	0.3	1.0	0.4	9.2	4.0	1.1
Fidelity Monitor VIP Income Model		17903.76	2.5	1.7	3.5	7.2	6.9	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	\$9.03	1600.414	\$14451.74
Ultra-Short Bond	\$10.06	1951.675	\$19633.85
High Income	\$8.83	1780.324	\$15720.26
Floating Rate	\$9.92	2667.205	\$26458.67

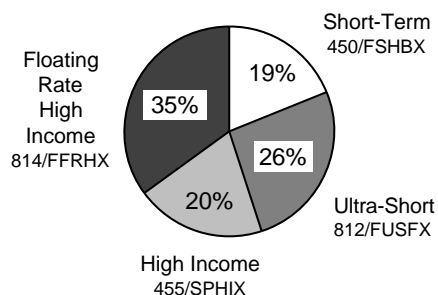
6% Foreign Holdings

Balance as of 8/31/04: \$76264.52

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:	+ 2.0%



Our Income Model gained 0.6% for the month of August.

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.	\$12.11	2520.018	\$30517.42
Puritan	\$18.63	1682.545	\$31345.81
Balanced	\$16.63	1912.186	\$31799.65
Low-Priced Stock	\$36.07	1020.706	\$36816.87

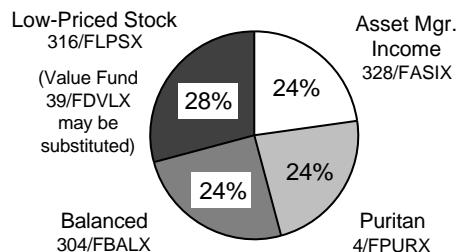
13% Foreign Holdings

Balance as of 8/31/04: \$130479.75

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:	+ 0.5%



Our Growth and Income Model gained 0.3% for the month.

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	\$18.27	2543.811	\$46475.43
Value	\$64.84	536.585	\$34792.17
Equity-Income	\$49.52	1120.065	\$55465.62

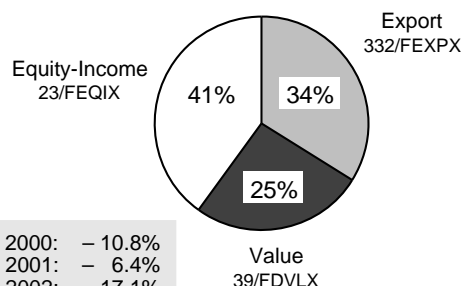
10% Foreign Holdings

Balance as of 8/31/04: \$136733.22

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%
2000:	- 10.8%
2001:	- 6.4%
2002:	- 17.1%
2003:	+ 46.1%
*2004:	- 0.6%



We were off 0.2% for August, versus a 0.4% increase for the S&P. On 8/9 we sold **Capital Appreciation** (\$22.70), putting two-thirds in **Value** (\$62.52) and the rest in **Equity-Income** (\$47.75).

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	\$28.39	1317.381	\$37400.45
Banking	\$40.25	1301.952	\$52403.57
Biotechnology	\$52.62	954.818	\$50242.52
Software	\$42.27	938.003	\$39649.39
Insurance	\$56.23	635.888	\$35755.98
Retailing	\$45.63	654.282	\$29854.89

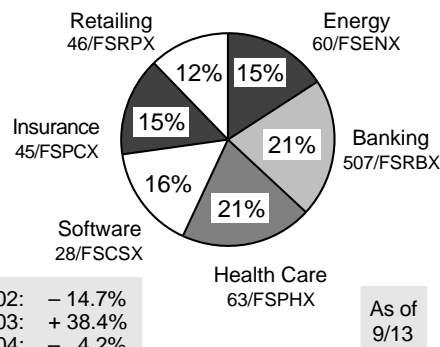
14% Foreign Holdings

Balance as of 8/31/04: \$245306.80

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%
2002:	- 14.7%
2003:	+ 38.4%
*2004:	- 4.2%



We slipped 0.8% in August, compared to a 0.4% increase for the S&P. On 8/9 we sold **Electronics** (\$31.96) and bought **Retailing** (\$44.32). On 9/13 we will sell **Biotech** and buy **Health Care**.

mature economies. Higher inflation puts downward pressure on P/E ratios, hurting growth stocks most.

That brings us to the U.S. stock market. With an economic engine that includes technology, health care, financial services, and media, it won't get hurt much by the cost impact of an energy crunch – the amount of fossil fuel needed for a dollar of revenue is tiny in high-margin industries. It also helps that a big portion of fossil fuels profits are recycled back into the economy. Some industries, such as auto and transportation, may get hit relatively hard, but their market cap is just a tiny slice of the S&P 500.

The bigger risk factor is that U.S. export markets could dry up, which could boost the trade deficit and weaken the dollar. If the dollar slipped fast enough, foreign markets might temporarily outperform. But not for long. A cheap dollar would restore exports at the expense of foreign competition, and would give a boost to multinationals with foreign earnings. It would even push up the rate of economic growth. ■

Happenings

Fidelity plans to introduce **Focused High Income** around September 15th. The new fund will target bonds rated BB, the highest-quality notch in the junk-bond universe. Opportunities can often be found in bonds that are considered junk by one rating agency, but are designated investment-grade by another. Because of Fidelity's research strength, **Focused High Income** has a good chance of beating its benchmark over time. As such, we plan to rate it a buy. The fund's long-term return may not exceed that of **High Income** or **Capital & Income**, but it shouldn't be as volatile either.

Back when Fidelity introduced its Structured funds (which target specific styleboxes), the small-cap versions were missing from the lineup. That should change in a couple months. **Small Cap Value** and **Small Cap Growth** are planned for introduction in the second week of November. The two funds will carry 90-day redemption fees of 1.5%, and will compete with the Russell 2000 Value index and the Russell 2000 Growth Index, respectively. **Small Cap Value** is of interest to us; we plan to rate it buy.

Fidelity has reduced some of the expense ratio caps on its stock index funds to 0.1%, down from 0.19-0.25%. Those that benefit from the move are **Spartan 500 (U.S. Equity)**, **Spartan Extended Market**, **Spartan Total Market**, and **Spartan Int'l**. ■

Consumers are not the only ones chasing real estate. Private investment groups are overpaying for shopping malls and commercial properties. The frenzy drove **Real Estate** up 7.8%, and boosted **Real Estate Income** by 2.4%. Trailing behind were **Equity-Income II**, up 0.3%, and **Convertible Securities** with a 0.3% decline.

BOND FUNDS

Income Model holdings are listed on page 7. Our bond favorites include **Ultra-Short Bond** and **Floating Rate High Income**. We may add **Focused High Income** to this list once it's available.

It was a good month for bonds, thanks to lower long-term interest rates and reduced default risk. **New Markets Income** gained 4.1% on improving credit for countries backed by oil export revenue. **Inflation-Protected Bond** rose 2.7% thanks to its high interest-rate sensitivity. **Strategic Income** gained 2.4%. On the bottom end, conservative **Ultra-Short Bond** rose 0.2%.

Long-term munis posted gains ranging from 1.7% to 2.3%. **Spartan Short-Int. Muni** was up 1.1%.

SELECT PORTFOLIOS

Select System holdings are listed on page 7. Our current buys, in increasing order of risk, include **Food & Agriculture**, **Insurance**, **Financial Services**, **Banking**, **Health Care**, **Retailing**, **Nat. Resources**, and **Energy**.

Gold climbed 7.1% as investors hedged against inflation. **Brokerage** gained 4.7%, **Chemicals** rose 4.2%, and **Construction & Housing** climbed 4.0%. Technology sectors landed on the bottom. **Software** declined 4.0%, **Networking** slid 5.1%, **Technology** was down 7.0%, **Computers** pulled back 7.1%, and **Electronics** tumbled 9.4%. ■

AUGUST DISTRIBUTIONS

Asset Manager: Income	\$ 0.02 / \$11.97 (8/6)
Discovery	\$ 0.04 / \$9.86 (8/6)
Freedom Income	\$ 0.02 / \$10.95 (8/6)

Funds scheduled for September: **Asset Manager: Income**, **Asset Manager, Balanced**, **Blue Chip Growth**, **Blue Chip Value**, **Convertible Securities**, **Dividend Growth**, **Equity-Income**, **Equity-Income II**, **Fidelity Fund**, **Freedom Income**, **Ginnie Mae**, **Gov't Income**, **Growth & Income**, **Growth & Inc. II**, **Int. Gov't Inc.**, **Leveraged Co. Stock**, **Low-Priced Stock**, **OTC Portfolio**, **Puritan**, **Real Estate**, **Real Estate Income**, **Strategic Dividend & Income**, **Total Bond**, **Ultra-Short Bond**, **Utilities**, and **Value Discovery**.

Money Market Funds	Size	Yield	Money Market Funds	Size	Yield	Money Market Funds	Size	Yield
Cash Reser (55/FDRXX)	56223.8	1.10	CT MM (418/FCMXX)	1044.1	0.71	FL MM (428/FSFXX)	1268.3	0.75
Select MM (85/FSLXX)	675.9	1.13	MA MM (74/FDMXX)	3525.0	0.68	Spart MA MM (426/FMSXX)	960.0	0.78
Spart MM (454/SPRXX)	5668.3	1.11	MI MM (420/FMIXX)	587.1	0.67	Spart Municipal (460/FIMXX)	3298.1	0.88
Spart US Gov't (458/SPAXX)	554.7	1.07	NJ MM (417/FNJXX)	1375.1	0.72	Spart NJ MM (423/FSJXX)	634.9	0.88
Spart US Treas (415/FDLXX)	2205.1	0.93	NY MM (92/FNYXX)	2977.9	0.70	Spart NY MM (422/FSNXX)	1106.9	0.80
Tax-Free MM (275/FMOXX)	912.2	0.76	OH MM (419/FOMXX)	682.4	0.73	PA MM (401/FPTXX)	311.5	0.75
US Gov't Reser (50/FGRXX)	2179.7	1.14	AZ MM (433/FSAXX)	155.2	0.73	Municipal MM (10/FTEXX)	15576.4	0.81
CA MM (97/FCFXX)	3036.1	0.69	Spart CA MM (457/FSPXX)	1331.0	0.84			