

Investing For Income

A little over a decade ago, Fidelity revamped its bond strategy in the wake of a disastrous 1994. Interest-rate bets were banned. Many volatile bond funds were either toned down or merged into less risky funds. Exchange-rate risk was eliminated. Managers were told to focus on the basics and add value through security selection.

Fast-forward to mid-2005. Fidelity's bond funds have trounced the competition. Almost all of them are top-quartile performers over the last decade, and more than half are in the top 10% of their categories.

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Changes For Select System, VIP Sector, VIP Growth Models

On Monday, 9/12, our Select System will sell **Chemicals** (69/FSCHX) and buy **Software** (28/FSCSX). The approximate resulting mix will be 21% **Energy**, 18% **Brokerage**, 20% **Utilities Growth**, 15% **Software**, 14% **Medical Delivery**, and 12% **Telecommunications**. Place your trades over the weekend in order to obtain the Monday 10 am price. We are making this trade because **Chemical's** volatility has risen, reducing its rank in our volatility model. **Software**, in contrast, has climbed to the top 10%. Rising energy costs are starting to weigh on the global economy, reducing demand for cyclical commodities unrelated to fuel production. On the flip side, business spending is steadily expanding here at home, and information systems are a growing priority.

Following in the Select System's footsteps, our VIP Sector Model will exchange **VIP Cyclical Industries** for **VIP Technology** on the same day.

Also on 9/12, our VIP Growth Model will sell one-fourth of **VIP Equity-Income** and one-fourth of **VIP Contrafund**, placing the proceeds in **VIP Mid-Cap**. The approximate mix will be 25% **VIP Mid-Cap**, 41% **VIP Equity-Income**, and 34% **VIP Contrafund**. Mid-caps are benefiting from takeover activity, a trend which may continue for several more quarters. **VIP Mid-Cap** has done well thanks to manager Tom Allan, and we like the fund's limited exposure to high-priced stocks.

Review & Recommendations

August brought evidence that high energy prices are boosting inflation and slowing consumer spending. The damage done by hurricane Katrina seems likely to aggravate that trend, at least in the short run. Still, there were signs that business spending is picking up, and economic growth seems to be gaining ground in Japan. The S&P 500 declined 0.9% for the month.

GROWTH FUNDS

Growth Model holdings are listed on page 7. Our favorites include **Value** and **Contrafund**. **Small Cap Value** is still rated buy, but we have removed it from our favorites list – there's a chance it could be hurt if the economy hits a soft patch.

Funds with an overweighted energy position held up best, whereas those that were heavy on consumer stocks and light on energy tended to lag. Leading the group, **New Millennium** was up 2.0%, **Leveraged Company Stock** gained 1.8%, and **Contrafund** rose 0.8%. On the bottom end, **Blue Chip Growth** declined 1.3%, **Dividend Growth** lost 1.7%, and **Value Strategies** was down 2.2%.

INTERNATIONAL FUNDS

Spartan Int'l Index offers broad exposure to foreign markets. **Europe** offers a focused bet on a group of defensive stocks. An improving outlook for Japan's economy has prompted us to upgrade **Pacific Basin**, a relatively low-risk fund with over 40% invested in Japanese stocks.

Japan jumped 10.2% on signs of an improving economy. **Latin America** and **Canada** benefited from rising energy prices, posting respective gains of 6.2% and 5.6%. Asian emerging markets slid. **China Region** lost 2.3%, and **Southeast Asia** declined 3.2%.

GROWTH & INCOME FUNDS

Growth and Income Model holdings are listed on page 7. Our favorites include **Strategic Dividend & Income**, **Equity-Income**, and **Equity-Income II** for dividend stocks, **Balanced** and **Puritan** for a hybrid approach, and **Asset Manager: Income** for an ultra-conservative mix.

Convertible Securities posted a 1.8% gain, and **Utilities** moved up 1.4%. Some stock funds lagged, including those with heavy emphasis on dividend

RECOMMENDATIONS - *Continued on page 8*

Fidelity has been moving to secure its lead in bonds over the last few months. Expenses on a dozen high-quality taxable funds were cut to 0.45% three months ago, reducing expenses by up to 30%. And the new expense caps cannot be changed without a vote of the funds' Board of Trustees.

Now Fidelity is gearing up on the cash side as money market funds get a new lease on life. This month we review Fidelity's latest moves and provide our recommendations for income investing. We also take a look at some changes we are considering for the Income Model.

FIDELITY'S LATEST MOVES

Fidelity has slashed the initial investment for **U.S. Bond Index** to \$10,000, down from \$100,000, and is locking its 0.32% expense cap contractually. The fund, which has been used mainly in corporate 401(k) plans until now, has outperformed 88% of its peers over the last decade.

All five Spartan money market funds have been renamed, picking up the phrase *AMT Tax Free* and losing their Spartan designation to better describe how they invest. Their minimum investments have been reduced to \$25,000, down from \$100,000. It was only last year that these funds were refocused on securities whose income is exempted from the federal Alternative Minimum Tax.

All three taxable Spartan money markets will lose their Spartan name and their minimums will be raised to \$25,000. At this stage, it's not clear what advantage these funds will have relative to Fidelity's low minimum money market funds. We suspect a reduced expense cap may be in the works – money market yields are rising fast and at some point Fidelity may want to compete for deposits based on yield.

All 12 municipal funds will lose their Spartan designation. Minimum investments will remain at \$10,000, except for the former **Spartan Tax-Free Bond** (the only choice for bond income free of AMT), which will remain at \$25,000. At this stage there's no formal relief from AMT when it comes to state-specific muni funds.

BOND OUTLOOK

Unfortunately, any enthusiasm for Fidelity's bond lineup has to be tempered by the bond market itself. Interest rates are still coming off historical lows, and it may be several years before bond yields move high enough to compensate investors adequately for the risk of inflation.

Not everyone sees it that way. Some bond proponents argue that a strong dollar in combination with a weaker global economy should create a bullish environment. Others see the baby-boomer retirement wave pushing up bond demand for years to come.

But there are problems with those arguments:

- Even with a global slowdown, a lot of capital will be required to finance the growth of emerging country infrastructure efforts. Planes must be bought. Electric power stations must be built. Roads must be paved. Government banks must be bailed out. At some point, developing countries will invest less of their money in U.S. treasuries because they need more of it for modernization projects of their own.

- The dollar's recent strength seems unlikely to last. As the Chinese yuan grows stronger, the yen is likely to move up in tandem. Furthermore, the currencies of large oil importers are more likely to be marked down as the price of oil moves up from present levels.

- There may be a lot of aging baby-boomers, but at this stage only a small fraction of them are planning a conventional retirement. A majority will probably work at least part-time well into their 70s, whether they need to or not. In many cases, boomers will switch to doing the kind of work they like best, or will start their own businesses. And odds are that work will be integrated with a leisurely lifestyle. Under that scenario, any mass conversion from stocks to bonds is perhaps decades away, if it happens at all.

Near term, investors who do seek income may end up favoring cash over bonds. By the time the Fed is done pushing up short-term interest rates, the yield on money market funds could easily be in the 4-5% range, close enough to bond yields that many income investors will opt for safety of principal.

All things considered, we see more downside risk than upside opportunity for bonds. In recent years, we've been emphasizing bond funds with little or no interest-rate sensitivity. Perhaps we've been a bit too cautious, but this is hardly the time to step out on a limb. The Fed could be tightening for many months to come, and high energy costs could ultimately push up the rate of inflation for a decade or more. The way we see it, investors should stay on the short end of the curve, even if it means giving up some yield in the process.

BOND FUND RECOMMENDATIONS

As such, our current buy ratings are limited to the four least-risky funds in Fidelity's lineup.

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Ultra-Short Bond is not quite as safe as a money market fund, but it has less than one-fifth the volatility of **U.S. Bond Index**. With a 30-day yield of 3.5%, its advantage over a money market fund has narrowed to about 30 basis points. Fortunately, the extra income comes with very little risk to principal, thanks to the fund's high-quality portfolio and its average maturity of 1.6 years.

Floating Rate High Income invests in floating rate loans – think junk bonds that are asset-backed, with the issuer paying an adjustable rate of interest. Both of these factors help to minimize volatility. The floating-rate feature cuts interest rate risk to a very low level, and the collateral requirement cuts credit risk to a fraction of what a typical junk bond fund carries. The end result is that **Floating Rate High Income** offers a yield of 4.3%, exceeding that of most other bond funds with significantly less overall risk. The fund's greatest vulnerability is a sudden economic slowdown, as with regular junk bond funds. However, we think the fund's emphasis on media and telecommunications should allow it to weather any economic storm that comes along.

A 35% weighting on BBB- and A-rated debt is helping to raise the yield of **Short-Term Bond** to 3.9% – a level that's competitive with longer-maturity investment-grade funds. In effect, the fund allows investors to cut interest-rate risk while sticking with a mainstream approach to bonds. **Short Term Bond's** overall volatility is about half as great as a typical investment-grade fund.

Short-Intermediate Municipal is the only muni bond fund we rate a buy. Its portfolio quality is top-notch, and its average maturity is only 3-4 years, compared to 10-15 years for state-specific and other long-term muni choices. If interest rates were to rise by a full percentage point over a 12-month period, **Short-Intermediate Municipal** would likely break even on a total return basis, but longer-term funds would probably finish with losses of around 5%. The fund's yield is 3.0%, which is about 75 basis points better than municipal money market funds.

MONEY MARKET OUTLOOK

It's not clear how much higher money market yields will go, but once the Fed is finished with the current tightening cycle, investors may have a "risk-free" opportunity to stay ahead of inflation without bearing the risk of stocks and bonds.

It's strange to think of money market funds as the next big thing on the investment horizon, but it has happened in the past. At the end of 1989, **Cash**

Reserves had posted a ten-year annualized return of 9.9%. It's highly unlikely that we're heading back to anything like that, but it's within the realm of possibilities that money market returns could be similar to stock and bond returns in the next decade.

As such, it may be time to think twice about "putting idle cash to work." As long as the idle cash is earning a competitive return, and not accounting for more than 15-20% of your holdings, it might be just fine right where it is.

MONEY MARKET RECOMMENDATIONS

Compared with bond funds, the variation between money market funds is not very significant. Safety of principal is already a key objective for the entire lineup, so the main considerations are taxes and yield.

For a competitive yield, go with **Cash Reserves** or **Money Market**. Both funds currently offer an income stream of 3.2%. **Cash Reserves** has the lowest minimum investment, \$2500.

If you're in one of the top tax brackets but not subject to AMT, consider one of the regular municipal money market funds. Pick a state-specific fund if it's available, or go with **Municipal Money Market**. Yields range from 2.0% to 2.1%.

If you're in a high tax bracket and do expect to pay AMT, go with one of the AMT tax-free choices. Choose a state-specific fund if possible, or consider **Tax-Free Money Market**. Yields vary between 2.1% and 2.2%.

If thoughts of real estate crashes and bank failures keep you awake at night, consider **U.S. Treasury Money Market**, which has near-zero credit risk. As with any money market fund, there's still the chance that it could break its \$1.00 share price if short-term interest rates were to move up significantly in a short time. But you can take bankruptcy risk out of the equation if you don't mind sacrificing a quarter point of income. The fund currently yields 2.9%.

INCOME MODEL CHANGES

Since early 2003, we've been running our Income Model with an ultra-conservative approach. With unusually low money market yields, it made sense to offer subscribers a safe way to earn a decent yield.

However, now that money market yields have climbed into the 3-4% range, and inflation is set to move higher, it makes sense for the Income Model to take on a little more risk and aim for a higher long-term return.

That's easier said than done on the bond side. The yield curve is so flat that there is little to be

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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. 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						2005	One	Three	One	3-Yr	5-Yr	10-Yr
Fund Name (Code/Symbol)	Rating	Risk	Fee	NAV	Size	YTD	Mth	Mth	Year	Rate	Rate	Rate
Aggressive Gth (324/FDEGX)	H ***	1.34	1.5(90)	17.23	4576.5	3.8	0.2	7.4	18.5	17.1	-20.7	2.8
Blue Chip Gth (312/FBGRX)	H ***	1.00	none	42.04	22902.3	0.8	-1.3	2.6	9.9	8.7	-7.2	6.3
Blue Chip Value (1271/FBCVX)	B ****	1.04	none	13.17	181.7	4.9	-0.3	5.5	18.1			
Capital Apprec (307/FDCAX)	H ***	1.24	none	26.64	6919.2	2.3	-0.2	5.7	18.3	20.1	0.3	9.8
Contrafund (22/FCNTX)	B ****	0.93	none	61.72	52331.1	8.8	0.8	7.1	23.6	15.8	3.0	11.7
Discovery (339/FDSVX)	S **	0.96	none	10.99	466.3	-2.1	-0.5	4.2	9.5	9.1	-4.0	
Disc Equity (315/FDEQX)	H ***	1.07	none	26.87	5752.0	6.2	-0.6	4.8	19.9	13.0	-1.5	9.2
Dividend Gth (330/FDGFY)	H ***	1.02	none	28.36	17410.0	-0.5	-1.7	2.3	7.4	8.3	-0.1	11.2
Export Fund (332/FEXPX)	H ***	1.11	0.75(30)	20.95	3023.5	6.7	-0.9	6.1	20.4	17.7	4.6	14.2
Fidelity Fifty (500/FFTYX)	H ***	1.16	0.75(30)	21.16	830.9	2.6	-0.2	5.6	17.4	9.7	3.8	10.8
Growth Company (25/FDGRX)	H ***	1.30	none	58.24	25371.7	3.9	-0.5	4.2	22.1	18.0	-7.9	9.7
Large-Cap Stock (338/FLCSX)	H ***	1.02	none	14.79	651.2	1.4	-0.4	4.4	12.0	8.8	-6.9	7.8
Lev Co Stock (122/FLVCX)	B ****	1.43	1.5(90)	25.95	3325.8	14.4	1.8	11.1	41.5	48.8		
Low-Priced Stock (316/FLPSX)	B ****	0.97	Closed	42.64	37555.0	5.9	-0.1	7.0	25.6	21.0	18.1	16.2
Magellan (21/FMAGX)	S **	1.00	Closed	105.13	55955.7	1.6	-1.1	2.9	10.9	9.4	-4.7	7.0
Mid Cap Stock (337/FMCSX)	H ***	1.23	0.75(30)	25.57	9385.9	9.2	0.6	11.2	27.5	16.8	0.2	12.7
New Millennium (300/FMILX)	H ***	1.30	Closed	32.86	3343.8	3.7	2.0	10.9	19.9	14.1	-4.8	15.4
OTC Portfolio (93/FOCPX)	H ***↑	1.34	none	35.66	8066.2	2.8	-0.9	3.8	22.6	15.4	-11.2	8.0
Independence (73/FDFFX)	H ***	1.13	none	18.52	4609.7	3.9	-0.4	5.8	19.8	10.8	-6.0	9.3
Small Cap Gth (1388/FCPGX)	H ***	1.3 Est	1.5(90)	12.89	199.9	13.0	-0.7	12.8				
Small Cap Indep (336/FDSCX)	H ***	1.13	1.5(90)	21.50	1357.0	9.0	0.7	11.7	27.8	16.6	5.9	8.2
Small Cap Stock (340/FSLCX)	H ***	1.15	2(90)	18.38	4332.6	4.9	-0.4	9.1	21.8	20.2	7.8	
Small Cap Value (1389/FCPVX)	B ****	0.9 Est	1.5(90)	12.74	574.8	14.2	-0.7	11.8				
Stock Selector (320/FDSSX)	H ***	1.01	none	23.59	792.5	3.4	-0.7	3.7	14.6	12.3	-3.5	7.5
Large Cap Growth (763/FSLGX)	H ***	1.26	0.75(30)	11.06	95.7	7.8	-0.6	4.4	26.3	14.4		
Large Cap Value (708/FSLVX)	B ****	1.05	0.75(30)	12.93	365.0	6.5	-0.4	6.3	19.3	14.8		
Mid Cap Growth (793/FSMGX)	H ***	1.36	0.75(30)	12.80	128.6	9.6	0.5	8.3	32.3	20.9		
Mid Cap Value (762/FSMVX)	B ****	1.15	0.75(30)	15.34	214.1	8.9	-1.2	8.5	26.6	18.3		
Focused Stock (333/FTQGX)	H ***	1.29	0.75(30)	11.42	94.7	13.1	-0.1	8.1	31.8	14.1	-6.4	
Trend (5/FTRNX)	H ***	1.00	none	55.04	869.0	2.6	-0.6	3.6	13.5	12.4	-2.7	5.7
Value (39/FDVLX)	B *****	1.02	none	77.69	12913.0	9.0	-0.9	6.8	26.5	20.4	14.4	12.6
Value Discovery (832/FVDFX)	B *****	1.10	none	15.32	164.1	12.0	0.5	9.6	28.5			
Value Strategies (14/FSLSX)	H ***	1.46	none	36.76	193.1	-1.8	-2.2	2.9	20.0	20.1	8.5	
GROWTH & INCOME FUNDS:												
Balanced (304/FBALX)	B *****	0.78	none	18.81	14591.5	6.4	0.4	6.2	18.1	14.8	7.1	10.7
Convertible Sec (308/FCVXS)	B ****	0.73	none	22.21	1767.5	3.6	1.8	8.5	15.5	14.6	2.3	12.0
Equity-Income (23/FEQIX)	B ****	0.96	none	52.70	26550.4	1.7	-0.7	3.9	11.7	12.4	3.9	10.0
Equity-Income II (319/FEQTX)	B ****	1.03	none	24.02	12560.3	1.6	-1.0	3.5	12.3	13.5	4.2	9.9
Fidelity Fund (3/FFIDX)	H ***	0.97	none	30.37	10413.3	2.2	-1.0	2.4	10.5	11.0	-3.5	9.2
Growth & Income (27/FGRIX)	B *****	0.91	none	37.86	31742.6	-0.3	-1.5	1.3	8.5	7.6	-1.9	8.9
Growth & Inc II (361/FGRTX)	B *****	0.94	none	9.82	185.8	2.0	0.8	5.9	9.8	9.2	-1.1	
Puritan (4/FPURX)	B *****	0.63	none	19.11	24283.3	2.0	-0.1	3.0	9.3	10.7	5.1	9.1
Strategic Div & Inc (1329/FSDIX)	B *****	0.81	none	11.96	756.2	5.8	-0.1	5.9	17.6			
Utilities (311/FIUIX)	B *****	0.97	none	14.84	1052.8	10.1	1.4	8.2	27.0	19.0	-4.6	7.8
SELECT FUNDS:												
Air Transportation (34/FSAIX)	H ***	1.42	0.75(30)	36.43	36.8	8.1	-0.2	6.3	23.1	16.2	3.1	11.7
Automotive (502/FSAVX)	H ***	1.18	0.75(30)	35.95	21.1	3.2	1.3	11.3	17.5	14.7	10.3	7.7
Banking (507/FSRBX)	H ***	1.07	0.75(30)	37.49	436.6	-3.6	-1.9	1.7	4.3	9.0	7.8	13.1
Biotechnology (42/FBIOX)	H ***	2.15	0.75(30)	59.97	1743.1	4.0	0.7	10.8	14.0	17.6	-9.3	11.6
Brokerage (68/FSLBX)	B ****	1.28	0.75(30)	62.30	535.7	11.6	-0.4	12.3	32.4	19.3	3.5	17.9
Business Ser (353/FBSOX)	H ***	1.09	0.75(30)	15.66	32.8	-0.9	-0.8	6.0	14.5	11.2	4.3	
Chemicals (69/FSCHX)	H ***	1.55	0.75(30)	66.14	210.7	-2.1	-4.4	2.6	18.8	17.3	14.8	10.4
Computers (7/FDCPX)	H ***	1.79	0.75(30)	35.60	618.5	1.3	-1.3	3.8	24.6	16.9	-18.0	7.5
Const & Housing (511/FSHOX)	H ***	1.78	0.75(30)	47.82	352.9	10.8	-4.9	7.5	33.5	24.7	21.2	15.4
Consumer Indust (517/FSCPX)	H ***	1.03	0.75(30)	24.53	42.7	-0.5	-3.8	0.3	15.6	8.7	2.1	9.4
Cyclical Indust (515/FCYIX)	H ***	1.30	0.75(30)	19.46	64.8	6.2	-1.5	6.9	22.9	20.2	9.4	
Defense & Aero (67/FSDAX)	H ***	1.18	0.75(30)	74.61	822.7	15.0	0.6	6.8	28.8	21.0	12.4	15.2
Develop Comm (518/FSDCX)	H ***	1.72	0.75(30)	18.88	476.3	-2.3	0.1	5.4	22.4	24.9	-18.1	6.2
Electronics (8/FSLEX)	H ***	2.09	0.75(30)	42.02	2832.0	11.2	-1.5	6.5	34.6	16.2	-16.6	10.5
Energy (60/FSENX)	B ****	2.00	0.75(30)	47.07	1907.2	47.4	8.1	27.4	71.2	33.1	14.0	16.1
Energy Services (43/FSSEX)	H ***	2.43	0.75(30)	61.25	1125.0	43.6	6.9	28.9	65.9	30.3	10.0	18.0
Environmental (516/FSLEX)	S **	1.23	0.75(30)	15.62	24.3	9.2	0.0	10.6	21.9	14.9	5.8	2.6
Financial Services (66/FIDSX)	H ***	1.05	0.75(30)	109.43	463.2	-1.2	-1.5	3.6	7.9	11.1	5.0	13.5
Food & Agriculture (9/FDFAX)	S **	0.90	0.75(30)	52.03	128.7	3.2	-0.8	2.1	17.2	8.9	8.9	9.9
Gold (41/FSAGX)	H ***	2.24	0.75(30)	25.48	643.3	0.3	5.4	14.0	10.3	10.8	18.9	3.6
Health Care (63/FSPHX)	H ***	1.13	0.75(30)	144.68	2221.7	13.0	1.3	7.4	21.5	12.3	1.8	12.5
Home Finance (98/FSVLX)	S **	1.14	0.75(30)	56.24	352.4	-10.4	-3.6	0.3	-4.2	8.4	13.0	12.3
Indust Equip (510/FSFGX)	H ***	1.34	0.75(30)	26.82	43.4	2.7	-0.9	6.1	17.9	16.7	2.2	8.7
Indust Materials (509/FSDPX)	H ***	1.51	0.75(30)	39.48	115.9	0.7	-0.7	7.6	17.5	20.3	15.7	7.3
Insurance (45/FSPCX)	H ***	1.25	0.75(30)	64.29	190.9	4.6	-2.5	3.8	15.1	13.6	10.6	16.3
Leisure (62/FDSLX)	H ***	1.09	0.75(30)	74.61	209.1	-3.1	-1.8	2.1	15.1	17.7	2.1	11.1
Medical Delivery (505/FSHCX)	B ****	1.45	0.75(30)	51.90	1292.5	20.5	1.7	8.6	61.9	23.0	21.3	12.4
Medical Equip/Sys (354/FSMEX)	H ***	1.01	0.75(30)	25.12	1175.6	7.4	-0.1	4.1	20.8	20.6	10.9	
Multimedia (503/FBMPX)	B ****	1.05	0.75(30)	45.37	85.3	0.4	0.0	2.6	17.5	20.7	1.2	10.1
Natural Gas (513/FSNGX)	B ****	2.31	0.75(30)	39.21	1207.1	40.7	8.8	27.3	67.6	35.3	14.5	16.6
Nat Resources (514/FNARX)	B ****	1.93	0.75(30)	23.50	446.3	37.6	7.7	25.9	56.1	29.6	12.7	
Networking/Infra (912/FNINX)	H ***	1.89	0.75(30)	2.21	102.7	-6.0	-0.5	3.3	18.2	12.8		
Paper & Forest (506/FSFPX)	S **	1.47	0.75(30)	27.68	20.6	-16.7	-4.2	-0.3	-9.6	2.8	4.4	4.3
Pharmaceuticals (580/FPHAX)	H ***↑	1.19	0.75(30)	9.48	102.0	4.8	2.8	7.2	14.4	9.9		
Retailing (46/FSRPX)	H ***	1.36	0.75(30)	52.09	115.2	5.0	-7.2	2.6	19.6	14.7	4.7	11.6
Software (28/FSCSX)	B ****	1.44	0.75(30)	50.33	626.7	-4.1	-0.6	1.3	20.2	17.8	-6.8	12.7
Technology (64/FSPTX)	H ***	1.63	0.75(30)	60.98	1969.2	1.3	-1.7	3.3	23.8	18.5	-17.6	8.8
Telecom (96/FSTCX)	B ****	1.20	0.75(30)	37.45	363.6	1.0	-1.4	4.9	17.5	21.0	-13.2	4.3
Transportation (512/FSRFY)	H ***	1.53	0.75(30)	42.50	65.0	0.2	0.1	6.6	25.7	19.8	11.7	12.6
Utilities Growth (65/FSUTX)	B ****	0.96	0.75(30)	44.11	372.6	9.9	0.5	8.1	26.6	20.8	-5.6	9.2
Wireless (963/FWRLX)	H ***	1.25	0.75(30)	6.66	414.8	14.2	0.8	11.7	37.6	37.0		

AUGUST PERFORMANCE							Div.	2005	One	Three	One	3-Yr	5-Yr
Fund Name (Code/Symbol)	Rating	Risk	Fee	NAV	Size	Yield	YTD	Mth	Mth	Year	Rate	Rate	
Aggressive Int'l (335/FIVFX)	H***	1.03	1 (30)	17.37	723.2		3.9	2.4	7.2	23.1	15.5	0.2	
Canada (309/FICDX)	B****	1.11	1.5(90)	39.93	1245.5		17.9	5.6	16.2	43.3	29.9	10.5	
Diversified Int'l (325/FDIVX)	H***	0.93	Closed	30.85	27464.7		7.7	3.4	9.1	27.2	21.2	6.3	
Emerging Mkts (322/FEMKX)	S**	1.22	1.5(90)	10.18	1117.7		17.4	1.9	13.1	48.1	27.5	8.5	
Europe (301/FIEUX)	B****	1.09	1 (30)	38.19	2560.6		11.8	3.1	11.0	42.2	26.7	3.0	
Europe Cap Appr (341/FECAX)	H***	1.05	1 (30)	23.77	489.3		10.4	3.2	11.1	33.2	17.9	5.1	
China Region (352/FHKCX)	H***	0.93	1.5(90)	18.22	400.4		6.8	-2.3	4.5	19.9	18.0	2.4	
Global Balanced (334/FGBLX)	H***	0.69	1 (30)	21.98	191.2		4.7	1.8	5.1	19.1	14.7	4.7	
Int'l Discovery (305/FIGRX)	H***	0.99	1 (30)	30.38	3449.7		7.7	3.3	9.2	28.8	20.5	4.0	
Int'l Small Cap (318/FISMX)	B****	1.06	Closed	27.22	2020.7		16.9	4.9	15.1	43.3			
Japan (350/FJPNX)	H***	1.60	1.5(90)	13.67	729.6		6.8	10.2	12.8	15.5	14.9	-6.1	
Japan Smaller Co (360/FJSCX)	H***	1.60	1.5(90)	13.53	1204.1		7.6	3.9	9.2	14.2	21.7	3.6	
Latin America (349/FLATX)	H***	2.00	1.5(90)	26.59	877.0		25.7	6.2	17.7	65.9	43.0	13.3	
Nordic (342/FNORX)	H***	1.22	1.5(90)	32.16	175.2		16.4	4.0	14.1	46.6	26.4	1.8	
Overseas (94/FOSEFX)	H***	1.09	1 (30)	37.21	4718.4		5.2	2.9	8.3	23.3	16.8	-0.8	
Pacific Basin (302/FPBFX)	B****↑	1.13	1.5(90)	21.47	536.7		8.6	3.5	9.7	24.3	16.8	-0.2	
Southeast Asia (351/FSEAX)	S**	1.19	1.5(90)	18.44	725.9		12.3	-3.2	6.0	32.9	19.8	5.3	
Worldwide (318/FWWFX)	H***	0.99	1 (30)	19.02	1187.5		4.2	1.2	6.6	19.2	15.6	2.2	

INDEX AND ASSET ALLOCATION:

Four-In-One Index (355/FFNOX)	H***	0.82	0.5(90)	25.94	972.9		3.1	0.0	4.1	14.8	13.3	0.0
NASDAQ Comp (1282/FNCMX)	S**	1.30	0.75(90)	29.15	112.0		-0.8	-1.5	4.1	17.3		
Spart Ext Mkt Idx (398/FSEMXX)	H***	1.15	0.75(90)	33.94	1699.8		6.3	-1.2	7.8	25.5	20.8	1.0
Spart Int'l Index (399/FSIIX)	B****	1.01	1(90)	33.48	1298.2		5.0	3.4	8.1	23.7	18.0	1.0
Spart 500 Index (317/F500MX)	H***	1.00	0.5(90)	84.50	12945.5		1.9	-0.9	2.9	12.5	11.9	-2.8
Spart Total Mkt Idx (397/FSTMX)	B****	1.02	0.5(90)	34.04	3202.6		3.3	-0.9	4.1	15.6	13.8	-1.7
Asset Manager (314/FASMX)	H***	0.55	none	16.23	10440.7		1.2	-0.3	2.1	6.8	8.0	0.7
Asset Mgr Agg (347/FAMRX)	H***	1.13	none	11.53	398.3		1.9	-0.3	5.3	16.7	15.9	-4.8
Asset Mgr Gth (321/FASGX)	H***	0.76	none	14.87	3429.6		0.3	-0.8	2.4	7.8	9.0	-1.5
Asset Mgr Inc (328/FASIX)	B****	0.37	none	12.90	1652.4		3.2	0.8	2.7	9.2	8.4	4.6
Freedom 2000 (370/FFBFX)	B****	0.29	none	12.30	1599.1		2.4	0.4	1.7	6.1	5.7	2.2
Freedom 2005 (1312/FFVFX)	B****	0.46	none	11.07	318.3		3.1	0.4	2.8	9.6		
Freedom 2010 (371/FFFCX)	B****	0.49	none	13.95	9366.9		3.1	0.4	2.9	10.0	9.2	1.6
Freedom 2015 (1313/FFVFX)	B****	0.60	none	11.37	1328.5		3.5	0.4	3.6	12.2		
Freedom 2020 (372/FFDXX)	B****	0.70	none	14.38	11071.4		3.6	0.2	4.0	13.9	12.0	0.0
Freedom 2025 (1314/FFTXX)	B****	0.76	none	11.66	1021.5		3.7	0.2	4.2	14.7		
Freedom 2030 (373/FFFCX)	B****	0.81	none	14.55	6594.7		3.8	0.1	4.5	15.7	13.2	-1.0
Freedom 2035 (1315/FFTHX)	B****	0.83	none	11.84	536.9		3.9	0.0	4.6	16.3		
Freedom 2040 (718/FFFCX)	B****	0.87	none	8.55	2558.1		3.8	0.1	4.8	16.8	14.1	
Freedom Income (369/FFIAX)	B****	0.25	none	11.40	2033.2		2.4	0.4	1.5	5.5	4.8	3.1
Real Estate Income (833/FRIFX)	H***	0.26	0.75(90)	12.13	667.0		4.5	-0.3	2.7	9.9		
Real Estate (303/FRESX)	S**	1.45	0.75(90)	32.29	5906.9		10.2	-4.1	8.3	28.5	24.6	19.9
Int'l Real Estate (1368/FIREX)	H***	1.3 Est	1.5(90)	12.42	161.0		5.3	2.7	7.5			

TAXABLE BOND FUNDS:

Capital & Income (38/FAGIX)	H***	0.30	1(90)	8.51	5314.2	5.71	4.3	0.5	4.4	14.0	21.7	6.9
Floating Rate (814/FFRHX)	B****↑	0.07	1(60)	9.97	2365.4	4.49	2.7	0.4	1.5	4.6		
Focused High Inc (1366/FHIFX)	H***	0.2 Est	1(90)	10.11	37.5	5.53	2.1	0.3	2.6			
GNMA Portfolio (15/FGMNX)	H***	0.22	none	11.06	4022.6	4.26	2.5	0.9	0.6	3.7	3.7	5.8
Gov't Income (54/FGOVX)	H***	0.31	none	10.31	5104.1	3.55	2.8	1.4	0.8	3.7	3.8	6.3
Intermed Bond (32/FTHR)	H***	0.24	none	10.45	7415.1	3.96	1.9	1.1	0.8	2.6	4.5	6.5
Intermed Gov't Inc (452/FSTGX)	H***	0.24	none	10.19	882.1	3.34	1.6	1.1	0.5	2.0	2.9	5.8
Invest Grade Bond (26/FBNDX)	H***	0.29	none	7.51	7034.6	3.93	2.9	1.1	1.0	4.3	5.3	6.9
Mortgage Securities (40/FMSFX)	H***	0.22	none	11.23	1845.0	4.45	2.5	0.9	0.8	3.7	4.3	6.4
New Markets Inc (331/FNMIX)	H***	0.51	1(90)	14.43	1507.9	5.67	6.8	1.6	3.3	15.6	19.8	13.5
Short-Term Bond (450/FSHDX)	B****	0.13	none	8.93	4943.5	3.88	1.7	0.7	0.8	2.1	3.3	5.0
Spart Gov't Inc (453/SPGVX)	H***	0.30	none	11.10	871.6	3.73	2.8	1.3	0.7	3.8	4.0	6.6
High Income (455/SPHIX)	H***	0.25	1(90)	8.91	3224.5	6.61	2.3	0.3	3.5	8.8	15.0	4.3
Spart Invest Grade (448/FSIBX)	H***	0.28	none	10.70	2727.7	4.00	2.9	1.2	1.0	4.3	5.5	7.2
Strategic Income (368/FSICX)	H***	0.25	none	10.66	3897.7	4.91	2.9	1.2	2.6	9.7	12.4	9.3
Inflation-Protected (794/FINPX)	H****↓	0.50	none	11.48	1608.4	1.22	2.4	2.1	0.4	5.1	7.1	
Total Bond (820/FIBFX)	H***	0.27	none	10.65	417.5	4.31	2.7	1.1	1.2	4.7		
Ultra-Short Bond (812/FUSFX)	B****	0.05	0.25(60)	10.03	903.4	3.48	1.8	0.3	0.7	2.2	2.0	
US Bond Index (651/FBIDX)	H***	0.29	none	11.11	5786.1	4.17	2.7	1.2	0.9	4.0	5.1	7.0

MUNICIPAL BOND FUNDS:

AZ Municipal Inc (434/FAZAX)	H***	0.25	0.5(30)	11.59	98.0	3.67	2.9	1.0	0.8	4.4	4.7	6.0
CA Municipal Inc (91/FCIFX)	H***	0.24	0.5(30)	12.65	1546.8	4.10	3.7	1.1	1.4	5.7	5.1	6.0
CT Municipal Inc (407/FICNX)	H***	0.24	0.5(30)	11.67	441.1	4.01	2.3	1.0	0.8	3.7	4.4	5.9
FL Municipal Inc (427/FFLIX)	H***	0.25	0.5(30)	11.75	518.2	3.95	2.8	1.0	0.9	4.5	4.8	6.1
Intermediate Muni (36/FLTMX)	H***	0.21	0.5(30)	10.12	1874.4	3.87	2.4	0.9	1.0	3.6	4.4	5.8
MA Municipal Inc (70/FDMMX)	H***	0.25	0.5(30)	12.23	1836.8	4.12	3.8	1.3	1.2	5.8	5.3	6.4
MD Municipal Inc (429/SMDMX)	H***	0.23	0.5(30)	11.06	110.2	3.72	2.6	1.0	0.8	4.3	4.5	5.8
MI Municipal Inc (81/FMHTX)	H***	0.24	0.5(30)	12.08	578.9	3.96	2.7	1.0	0.9	4.2	4.9	6.2
MN Municipal Inc (82/FMIX)	H***	0.22	0.5(30)	11.61	354.0	4.04	2.6	0.9	0.9	4.3	4.6	5.8
Municipal Income (37/FHIGX)	H***	0.25	0.5(30)	13.15	4697.5	4.20	3.7	1.1	1.2	5.7	5.6	6.8
NJ Municipal Inc (416/FNJHX)	H***	0.27	0.5(30)	11.82	563.6	3.91	3.7	1.1	1.2	5.6	5.1	6.2
NY Municipal Inc (71/FIFMX)	H***	0.25	0.5(30)	13.11	1439.2	3.91	3.3	1.1	1.1	5.1	5.2	6.6
OH Municipal Inc (88/FOHFX)	H***	0.26	0.5(30)	11.99	430.0	4.00	3.0	1.0	0.9	4.9	5.1	6.3
PA Municipal Inc (402/FPXTX)	H***	0.23	0.5(30)	11.02	311.4	4.01	2.7	1.1	1.0	4.6	4.7	6.0
Short-Int Municipal (404/FSTFX)	B****	0.12	0.5(30)	10.27	1838.2	2.89	0.8	0.5	0.6	1.3	2.4	4.0
Tax-Free Bond (90/FTABX)	H***	0.27	0.5(30)	10.91	329.5	3.94	3.8	1.3	1.3	5.8	5.7	

AUGUST PERFORMANCE						2005	One	Three	One	3-Yr	5-Yr	10-Yr
Indexes	Risk	Value	YTD	Month	Month	YTD	Month	Month	Year	Rate	Rate	Rate

Dow Jones Industrial	1.01	10481.60	-1.2	-1.3	0.7	5.5	9.0	0.7	10.7			
S&P 500	1.00	1220.33	1.9	-0.9	2.9	12.5	12.0	-2.7	9.9			
NASDAQ	1.28	2152.09	-0.6	-1.4	4.2	17.8	18.5	-12.2	8.2			
Russell 2000	1.51	666.51	3.0	-1.9	8.4	23.1	20.9	5.7	9.5			

AUGUST PERFORMANCE			2005	One	Three	One	3-Yr	5-Yr	10-Yr
Model Portfolios	Risk	Value	YTD	Month	Month	Year	Rate	Rate	Rate
S&P 500	1.00	1220.33	1.9	-0.9	2.9	12.5	12.0	-2.7	9.9
Fidelity Monitor Income Model	0.05	79458.84	2.0	0.4	0.9	4.2	5.7	4.8	5.5
Fidelity Monitor G&I Model	0.66	151488.81	4.6	0.2	4.6	16.1	16.2	6.7	10.6
Fidelity Monitor Growth Model	1.01	165843.95	7.3	-0.8	6.9	21.3	19.8	2.5	10.3
Fidelity Monitor Select System	1.05	298506.63	8.5	0.6	9.0	21.7	16.3	-0.4	11.4
Fidelity Monitor Unique Opportunities	1.09	102699.96	12.4	1.4	10.4	30.6	25.7	11.3	

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	\$23.50	742.049	\$17438.15
Utilities Growth	\$44.11	290.076	\$12795.25
Europe	\$38.19	350.191	\$13373.79
Leveraged Co. Value	\$25.95	980.276	\$25438.16
	\$77.69	433.191	\$33654.61

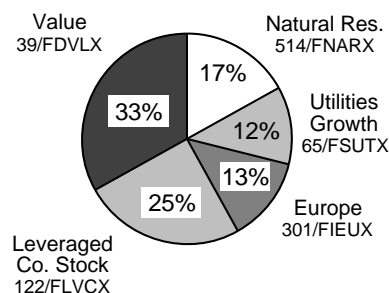
25% Foreign Holdings

Balance as of 8/31/05: \$102699.96

Balance at start of 2005: \$91397.34

PERFORMANCE

Partial Yr 99: +33.8%
 2000: -20.5%
 2001: +1.6%
 2002: -2.1%
 2003: +43.2%
 2004: +20.6%
 *2005: +12.4%



Our Unique Opportunities Model gained 1.4% for the month of August. On 8/15 we sold **Banking** at the close of the day (\$38.02), buying **Europe** (\$38.10).

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: (as of 9/12)	VIP GROWTH: (as of 9/12)	VIP G&I MODEL:	VIP INCOME MODEL:
14% Technology, 15% Financial Ser, 32% Telecom & Util., 24% Natural Res., 15% Health Care	25% Mid-Cap Stock, 41% Equity-Income, 34% Contrafund	32% Equity-Income, 54% Balanced, 14% Investment Grade Bond.	70% Inv. Grade, 30% Money Market.

AUGUST VIP PERFORMANCE

Portfolio	Rating	Unit Value	2005 YTD	One Month	Three Month	One Year	3-Yr Rate	5-Yr Rate
VIP Aggressive Growth	H ***	10.54		0.3				
VIP Asset Manager	H ***	31.58	0.7	-0.3	2.0	6.0	7.5	-0.3
VIP Asset Manager: Growth	H ***	20.54	-0.2	-0.9	2.2	6.9	8.6	-3.4
VIP Balanced	B ****	15.02	1.0	0.3	3.3	6.2	7.2	0.1
VIP Consumer Industries	H ***	10.82	-1.0	-4.0	0.0	14.9	8.3	
VIP Contrafund	B ****	37.44	8.7	0.8	7.2	23.4	15.4	2.6
VIP Cyclical Industries	H ***	14.44	6.0	-1.5	6.9	22.3	19.9	
VIP Dynamic Capital Appreciation	H ***	12.30	10.8	1.1	7.9	31.1		
VIP Equity-Income	B ****	55.67	1.3	-0.8	3.8	11.0	11.7	3.3
VIP Financial Services	B ****	12.11	-1.5	-1.6	3.5	7.5	10.5	
VIP Freedom 2005	B ****	10.25		0.6				
VIP Freedom 2010	B ****	10.25		0.5				
VIP Freedom 2015	B ****	10.30		0.5				
VIP Freedom 2020	B ****	10.34		0.5				
VIP Freedom 2025	B ****	10.36		0.4				
VIP Freedom 2030	B ****	10.39		0.3				
VIP Freedom Income	B ****	10.12		0.4				
VIP Growth	H ***	55.33	1.5	-1.1	3.8	11.8	9.3	-9.0
VIP Growth & Income	B ****↑	16.55	1.7	0.9	5.8	9.0	8.6	-1.5
VIP Growth Opportunities	H ***	12.06	0.6	-1.2	2.2	10.9	10.0	-5.6
VIP Growth Stock	H ***	10.22		-1.8				
VIP Health Care	B ****	11.72	12.5	1.3	7.1	20.7	11.7	
VIP High Income	H ***	28.39	1.3	0.5	3.6	7.4	14.3	0.8
VIP Index 500	H ***	32.38	1.3	-1.0	2.7	11.5	10.9	-3.7
VIP Int'l Capital Appreciation	H ***	10.45		2.4				
VIP Investment Grade Bond	H ***	28.51	2.1	1.1	0.8	3.2	4.6	6.3
VIP Mid Cap	B ****	18.14	10.6	1.6	10.8	33.3	22.2	10.2
VIP Money Market		19.53	1.2	0.2	0.6	1.5	0.7	1.6
VIP Natural Resources	B ****	17.96	37.1	7.6	25.6	55.1	29.2	
VIP Overseas	H ***	30.98	4.6	2.8	8.0	22.4	15.5	-2.3
VIP Real Estate	S **	16.07	9.8	-4.2	8.1	27.7		
VIP Strategic Income	H ***	11.15	2.4	1.1	2.4	8.8		
VIP Technology	B ****↑	9.40	2.3	-0.8	3.7	24.8	18.2	
VIP Telecom & Utilities	B ****	10.23	9.5	0.4	7.9	25.6	19.8	
VIP Value	B ****	10.32		-0.6				
VIP Value Leaders	B ****	10.38		-0.5				
VIP Value Strategies	H ***	12.59	-2.3	-2.3	2.8	18.5		
Fidelity Monitor VIP Income Model		18720.41	2.0	0.8	0.7	4.6	6.6	4.8
Fidelity Monitor VIP G&I Model		21933.11	1.4	0.1	2.8	7.5	9.3	1.1
Fidelity Monitor VIP Growth Model		31428.93	4.5	-0.1	5.3	16.3	11.7	-3.6
Fidelity Monitor VIP Sector Model		15319.40	9.9	1.6	10.8	23.0	19.2	

INCOME MODEL

Our Income Model aims for long-term growth of 6% per year from bonds and other income securities.

FUND	NAV	SHARES	BALANCE
Short-Term Bond	\$8.93	1651.837	\$14750.90
Ultra-Short Bond	\$10.03	4611.329	\$46251.63
Floating Rate	\$9.97	1851.185	\$18456.31

6% Foreign Holdings

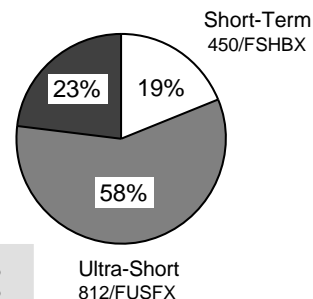
Balance as of 8/31/05: \$79458.84

Balance at start of 2005: \$77905.57

PERFORMANCE

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

Floating Rate High Income
814/FFRHX



2004: + 4.2%
*2005: + 2.0%

Our Income Model gained 0.4% in August. The model's income stream averaged 3.8%.

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.	\$12.90	2583.005	\$33320.76
Puritan	\$19.11	1792.258	\$34250.05
Balanced	\$18.81	1996.831	\$37560.39
Strat. Div. & Inc.	\$11.96	3876.054	\$46357.61

8% Foreign Holdings

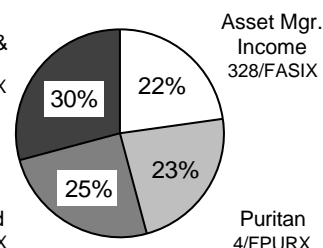
Balance as of 8/31/05: \$151488.81

Balance at start of 2005: \$144788.14

PERFORMANCE

1994: - 3.7%
1995: + 21.6%
1996: + 15.8%
1997: + 18.7%
1998: + 11.1%
1999: + 12.2%
2000: + 2.7%
2001: + 1.3%
2002: - 6.4%
2003: + 33.0%
2004: + 11.5%
*2005: + 4.6%

Strategic Dividend & Income
1329/FSDIX



Our Growth and Income Model gained 0.2% for August.

GROWTH MODEL

Our Growth Model aims for long-term growth of 13% per year. The model typically invests in a mix of domestic stock funds and will strive to hold profitable positions for at least one year.

FUND	NAV	SHARES	BALANCE
Small Cap Value	\$12.74	3197.846	\$40740.56
Value	\$77.69	812.842	\$63149.69
Equity-Income	\$52.70	1175.592	\$61953.70

10% Foreign Holdings

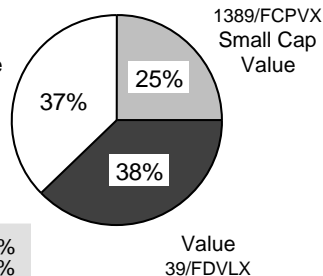
Balance as of 8/31/05: \$165843.95

Balance at start of 2005: \$154558.63

PERFORMANCE

1987: + 2.8%
1988: + 26.0%
1989: + 30.4%
1990: - 4.4%
1991: + 40.6%
1992: + 15.7%
1993: + 31.9%
1994: - 2.1%
1995: + 27.2%
1996: + 19.2%
1997: + 25.5%
1998: + 9.9%
1999: + 29.0%
2000: - 10.8%

Equity-Income
23/FEQIX



2001: - 6.4%
2002: - 17.1%
2003: + 46.1%
2004: + 12.4%
*2005: + 7.3%

During August our Growth Model pulled back 0.8%, versus a 0.9% decline for the S&P 500.

SELECT SYSTEM

Our Select System aims for growth in sector funds, and has a long-term goal of 14% per year. We use a volatility model to identify attractive growth sectors.

FUND	NAV	SHARES	BALANCE
Energy	\$47.07	1360.001	\$64015.25
Brokerage	\$62.30	870.904	\$54257.32
Utilities Growth	\$44.11	1313.858	\$57954.28
Chemicals	\$66.14	671.672	\$44424.39
Medical Delivery	\$51.90	795.875	\$41305.91
Telecom	\$37.45	975.954	\$36549.48

10% Foreign Holdings

Balance as of 8/31/05: \$298506.63

Balance at start of 2005: \$275072.39

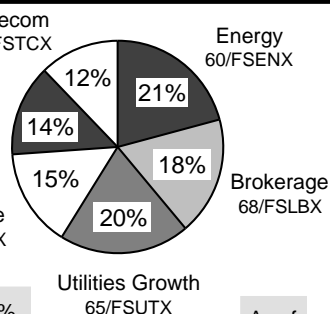
PERFORMANCE

1989: + 23.4%
1990: + 31.3%
1991: + 35.3%
1992: + 20.4%
1993: + 25.9%
1994: - 0.9%
1995: + 39.0%
1996: + 5.2%
1997: + 29.3%
1998: + 21.7%
1999: + 44.9%
2000: - 14.9%
2001: - 7.3%
2002: - 14.7%

Telecom
96/FSTCX

Med Delivery
505/FSHCX

Software
28/FSCSX



2003: + 38.4%
2004: + 7.4%
*2005: + 8.5%

We were up 0.6% in August, versus a 0.9% loss for the S&P. On 8/15 we sold **Banking** (\$37.71) and bought **Brokerage** (\$63.11). On 9/12 we will sell **Chemicals** and buy **Software**.

gained by moving out to longer maturities. Likewise, taking on more credit risk is dicey when energy costs are climbing so fast – at some point the default rate on high yield bonds is going to pick up, and that could cast a pall over the junk-bond market.

As such, the best option for boosting the Income Model’s long-term return is a small amount of stock exposure – something in the neighborhood of 15% of holdings. As for the type of stocks, the energy sector may be the best long-term opportunity. Despite having accounted for almost all of the S&P 500’s gains over the last two years, energy stocks are still the best value play around. Collectively they represent nearly 30% of S&P 500 earnings, yet they account for only 9% of the index’s market cap. The earnings yield of the major oil companies is about 8%, with less than a third of it paid out in the form of dividends. Almost any way you cut it, the energy group still seems well positioned – the only thing that might derail it is a global recession. Whether the Income Model invests directly in an energy Select or in a diversified fund that carries an overweighted energy position is still under consideration.

Another possibility for the Income Model is a cash position. In the event that money market yields climb higher than bond yields, it would make sense to take advantage of the situation in order to reduce overall risk. Here again, the cash position could be accomplished with a direct investment in a money market fund, or by holding a diversified fund that includes a large cash position.

Any changes we make will be phased in gradually between now and the end of the year. Once the transition is complete, we’ll be raising the Income Model’s long-term goal to 7% per year. ■

AUGUST DISTRIBUTIONS

Asset Manager: Income	\$ 0.03 / \$12.78 (8/5)
Discovery	\$ 0.07 / \$11.05 (8/5)
Freedom Income	\$ 0.03 / \$11.32 (8/5)

Funds scheduled for September include **Asset Manager Income, Balanced, Blue Chip Growth, Blue Chip Value, Dividend Growth, Freedom Income, Ginnie Mae, Gov’t Income, Growth & Income, Intermediate Gov’t Income, Int’l Real Estate, Leveraged Company Stock, Low-Priced Stock, OTC Portfolio, Puritan, Real Estate, Real Estate Income, Small Cap Growth, Small Cap Value, Total Bond, Ultra-Short Bond, and Value Discovery.**

stocks. **Fidelity** and **Equity-Income II** were both off 1.0%, and **Growth & Income** declined 1.5%.

BOND FUNDS

Income Model holdings are listed on page 7. Our favorites in this group include **Ultra-Short Bond** and **Floating Rate High Income** (the latter is a recent upgrade that’s discussed in our lead story). We’ve downgraded **Inflation-Protected Bond** as we’re no longer convinced that inflation will climb faster than long-term interest rates.

The long-term implications of a global energy crunch gave a boost to **Inflation-Protected Bond**, which rose 2.1% for the month. **New Markets Income** gained 1.6%, as high-priced oil helped Latin America. **Gov’t Income** was up 1.4% as long-term interest rates eased. In contrast, junk bonds trailed the group on concerns that a slowdown in consumer spending could lead to a higher default rate. **Focused High Income** and **High Income** both finished with an increase of 0.3%. Municipal bond funds posted gains that ranged from 0.5% to 1.3%.

SELECT PORTFOLIOS

Select System holdings are listed on page 7. Funds rated buy, as ranked by our volatility model, include **Telecom, Multimedia, Brokerage, Software, Energy, Medical Delivery, Natural Resources, Utilities Growth, and Natural Gas.**

The energy funds took the top spots. **Natural Gas** was up 8.8%, **Energy** gained 8.1%, and **Natural Resources** climbed 7.7%. The bottom end included both cyclicals and groups that depend on consumer spending. **Chemicals** declined 4.4%, **Construction & Housing** lost 4.9%, and **Retailing** fell 7.2%. ■

Happenings

Fidelity has renamed its four Structured funds, calling them simply **Large Cap Growth, Large Cap Value, Mid Cap Growth, and Mid Cap Value.**

Int’l Small Cap Opportunities made its debut on 8/9. We’ll add it to our data pages next month.

Co-managers Derek Young and Christopher Sharpe have taken over at **Strategic Dividend & Income, Strategic Income, VIP Strategic Income, and Four-In-One-Index.** Frederic Gautier has been named manager of **Europe**, and James Morrow has assumed the lead role for **Computers.** We have no rating changes at this point, but we’ll be keeping an eye on **Strategic Dividend & Income** and **Europe.** ■

Money Market Funds	Size	Yield	Money Market Funds	Size	Yield	Money Market Funds	Size	Yield
Cash Reserves (55/FDRXX)	59456.7	3.20	CT MM (418/FCMXX)	1228.8	2.03	FL MM (428/FSFXX)	1568.8	2.11
Select MM (85/FSLXX)	617.4	3.28	MA MM (74/FDMXX)	3929.8	2.02	MA AMT TF (426/FMSXX)	1223.7	2.13
Money Market (454/SPRXX)	5539.0	3.24	MI MM (420/FMIXX)	652.0	2.03	AMT Tax-Free (460/FIMXX)	3863.5	2.20
Gov’t MM (458/SPAXX)	489.3	3.17	NJ MM (417/FNJXX)	1475.7	2.02	NJ AMT TF (423/FSJXX)	730.6	2.12
US Treas. MM (415/FDLXX)	1951.5	2.91	NY MM (92/FNYXX)	3262.9	2.03	NY AMT TF (422/FSNXX)	1419.5	2.11
Tax-Free MM (275/FMOXX)	1739.4	2.10	OH MM (419/FOMXX)	758.0	2.05	PA MM (401/FPTXX)	378.3	2.10
US Gov’t Reser (50/FGRXX)	2321.5	3.24	AZ MM (433/FSAXX)	209.3	2.05	Municipal MM (10/FTEXX)	16435.5	2.13
CA MM (97/FCFXX)	3600.5	2.04	CA AMT TF (457/FSPXX)	1820.2	2.16			