

Jack  
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# Fidelity

Best Performing  
Fidelity Newsletter

20  
Years

AUGUST  
2010

# Monitor™

## High-Yield Bonds: Good Match For Near-Zero Inflation

Stocks are usually the best asset class for maximizing long-term performance, but if inflation goes low enough (or disappears entirely), high-yield bonds can take the lead. Slip further into deflation territory, and the real return on investment-grade bonds takes the lead. If things get bad enough, government bonds can become the only game in town.

Rising inflation can also shake up reality if it gets too far out-of-control. At rates above 5%, corporate cost pressures become increasingly difficult to manage, and earnings can take a hit. Basic materials and commodities often become the best performers.

We've illustrated the effects of inflation on asset classes in the chart at the bottom of page 2. There are many factors that influence investment returns, but inflation is by far the most significant.

When inflation moves outside of its desired range, it's usually a temporary situation. The Fed has a lot of tools at its disposal, and interest-rate manipulation (which also drives exchange rates) is usually quite effective at pushing inflation back to normal levels. Still, occasionally an underlying imbalance becomes so strong and pervasive that it takes years to get things back on track. The 1971 collapse of the world's gold-backed fixed-exchange rate system (commonly known as Bretton-Woods) led to market pricing for most imported commodities, which

HIGH YIELD BONDS - *Continued on page 2*

## Changes For Growth & Income, VIP Growth & Income

On Monday, 8/9, we'll make the following trades:

Our Growth and Income Model will sell **Puritan** (4/FPURX), and buy **High Income** (455/SPHIX). We are re-establishing a high-yield bond position in this portfolio because low-grade debt has become more attractive in the wake of the European debt crisis. With inflation remaining subdued this move could lead to slightly better performance without increasing risk.

Our VIP Growth and Income Model will sell a third of **VIP Balanced** and buy **VIP High Income**. We are holding a more conservative mix of bonds on the VIP side because **VIP Balanced** is more volatile than the mutual fund version of **Balanced**.

## Review & Recommendations

Stocks finished higher on some long-awaited good news. Second-quarter earnings were strong, with about three-quarters of firms reporting profits that exceeded expectations. A growing number of companies seem poised to use their cash holdings to boost shareholder compensation. And despite a watered-down stress test for European banks, the region finally seems to be getting its debt problems under control.

But gains were held back a little by fresh signs that the U.S. recovery remains fragile. Consumers have once again turned skittish when it comes to major purchases. Job growth remains in a stall. And there appears to be little support in Congress for extending the Bush tax cuts. For the month of July, the S&P 500 gained 7.0%.

### GROWTH FUNDS

For a stock-oriented portfolio, we suggest following our Growth Model (holdings are listed on page 7). If you prefer to pick your own funds, our favorites include **Equity-Income**, **Dividend Growth**, **Contrafund**, and **OTC Portfolio**. We downgraded **Small Cap Value** because the slowdown in consumer spending could favor large value stocks over small.

For July, funds that emphasized dividend stocks tended to lead. **Value** gained 8.6%, and **Dividend Growth** was close behind with an 8.2% increase. Funds that focused on growth trailed behind. **Magellan** rose 5.1%, **Contrafund** moved up 4.9%, and **Focused Stock** returned 4.7%.

### INTERNATIONAL FUNDS

**Pacific Basin** remains our favorite foreign stock fund. We upgraded **New Markets Income** to a buy – it's the closest thing available that resembles a foreign high-yield bond fund.

European funds were helped by a strong rally in stock values and rising currencies. **Nordic** jumped 13.2%, **Europe** was up 12.6% and **Europe Capital Appreciation** gained 12.4%. On the bottom, **Japan Smaller Companies** rose 6.3%, **Canada** climbed 5.8%, and **Japan** rose 5.5%.

### GROWTH & INCOME FUNDS

Our Growth and Income Model holdings are detailed on page 7. For a well-diversified hybrid fund that includes stocks and bonds, consider **Balanced** (**Puritan** is also a buy, but is no longer on our favorites list). For dividend stocks, consider a position in **Equity-Income**.

RECOMMENDATIONS - *Continued on page 8*

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caused a surge in food and energy costs. The wage inflation that followed became so entrenched that relief didn't come until the late 1980s. On the other end of the spectrum, Japan's epic real estate crash that started in 1990 set off a deflationary debt-reduction cycle that is still showing its effects some 20 years later.

The situation today in the U.S. bears some similarity to what Japan has been through. Although U.S. real estate values didn't shrink as much relative to Japan's debacle, the U.S. banking system quickly reached crisis stage. With a lower personal savings rate and a higher percentage of consumers walking away from mortgages, banking reserves were exhausted in short order.

In some ways this was a blessing, because the crisis forced relatively quick action. Within months the Fed was swapping out marginal securities in a process that largely recapitalized the banking system. Later, a series of mortgage programs helped contain future defaults. Because of these actions, the process of shedding debt (relative to Japan) is not likely to be as onerous. The U.S. probably won't even slip into deflationary territory on a year-over-year basis, thanks to export growth. And many who need to shed debt already have a nice head start.

**1% INFLATION AND FALLING**

But the state of the U.S. economy is still far from normal. Rents and leases may be on a declining trend for many years to come. Consumers could remain frugal

until they get their debts down to a comfortable level. The economy's main source of growth is likely to be exports and onshoring (the return of manufacturing and service activities to the U.S.) – but those activities don't currently make up a big enough share of GDP to keep the deflationary winds from blowing.

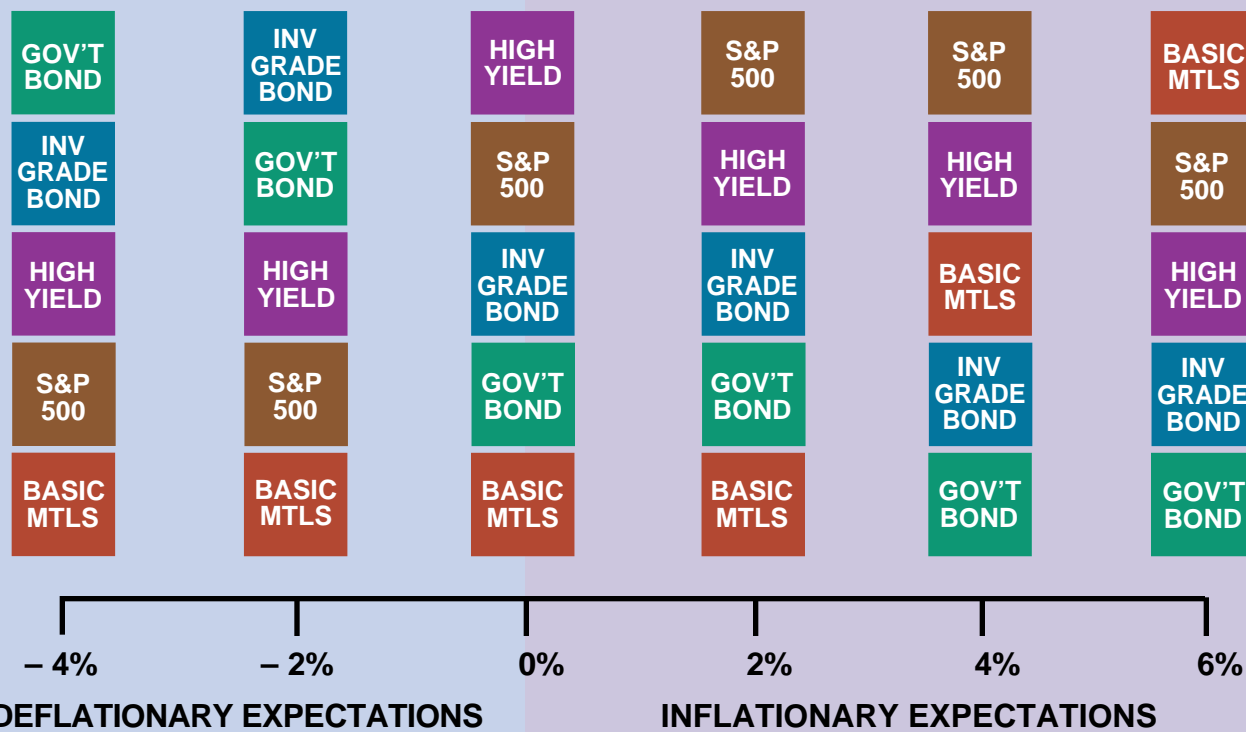
There's also the problem that deflationary trends are somewhat self-reinforcing. Companies find it tough to grow revenue in an environment like this, so they focus on cost-cutting. But expense reductions just pass deflation along the supply chain, reducing revenue to suppliers and landlords, and keeping unemployment high, which limits wage growth.

When does it end? Probably not until consumer debt is reduced to a sustainable level and the U.S. trade gap has largely closed. By then, the persistent weakness in consumer spending should ease, while growth in manufacturing and exports will have made the economy less dependent on consumer spending. Most likely, we are looking at a period of at least five years but perhaps as long as ten. The 5-year scenario requires that exports keep growing at a healthy clip. The 10-year period is more likely if housing and commercial property prices continue to struggle.

**UPSIDE FOR HIGH-YIELD**

High-yield bonds represent the growth side of the bond universe. In a near-zero inflation environment, the real return on bonds tends to go up, and the real return

**RELATIVE ASSET CLASS PERFORMANCE VS INFLATION: THE POSSIBILITIES**



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on stocks tends to go down. As such, high-yield bond performance can become competitive with S&P 500 returns.

Over five different periods since 1986, during which inflation averaged just over 1%, Fidelity's diversified high-yield bond funds nearly matched the S&P 500, and actually outperformed some stock funds such as **Equity-Income** and **Growth Company**. The total measurement period was 76 months (6.33 years), with both stocks and bonds enjoying double-digit returns.

We had hoped to glimpse what happens under zero inflation, but the few periods we found were too short to draw any useful insights. But it's not hard to guess what would happen. Given how the performance gap between stocks and bonds closes significantly under 1% inflation, there's a good chance that high-yield bonds would beat the S&P 500 under zero inflation. Lenders would charge premium interest rates for corporations that are not rated investment-grade. These leveraged companies, lacking options, would become very focused on paying down debt, and would have little to lose by ignoring potential growth opportunities. The resulting combination of high real interest rates and relatively low default rates would generate superior returns for high-yield investors.

We don't think inflation will dip much below zero, at least not for any length of time. The U.S. economy has a large, well-developed base of growth companies that sell outside the U.S., and many of them are accustomed to operating in a deflationary environment. Furthermore, the arrival of robust wage inflation in China has set the stage for a modest manufacturing revival in the U.S. Even if consumer spending remains anemic, growth in exports and onshoring should keep GDP growing at a 2-3% pace – enough to prevent outright deflation.

All things considered, a good argument can be made for putting a portion of a stock-oriented portfolio into high yield bonds. Such a move is likely to reduce portfolio risk, with little or no impact on overall performance.

#### RECOMMENDATIONS

For income-oriented investors, high-yield bonds offer a chance to boost returns by taking on more credit risk. For growth and income investors, high-yield has the potential to outperform traditional asset allocation funds (such as **Puritan** and **Balanced**) while maintaining similar risk. For growth investors, high-yield provides the opportunity to cut risk while maintaining stock-like returns.

Last month we boosted our high-yield bond weighting in the Income Model and added a position to the Unique Opportunities Model. This month we are re-establishing a high-yield holding for the Growth and Income Model. The Growth Model and the Select System have large

dividend stock positions, so we're less inclined to include high-yield in these portfolios – but we'll be keeping that option on the table.

Following is a review of Fidelity's high-yield lineup, in order of increasing risk:

**Floating Rate High Income** was designed to generate income similar to that of other bond funds with very little share price impact from interest rate fluctuations. Problem is, the fund takes on a lot of credit risk while significantly limiting its capital gain potential to achieve that goal. For roughly the same volatility, **Strategic Income** provides a higher income stream and more capital gain potential. If your goal is to keep risk low, go with **Short-Term Bond**.

**Strategic Income** holds a mix of high yield (currently 40%), U.S. government (25%), foreign developed market debt (18%), emerging market debt (12%), and a small amount of cash (5%). The combined weight of the high yield and emerging market components make up more than half of the portfolio. As such, **Strategic Income** behaves mainly like a high yield fund, except that it has a lower yield and runs with less volatility. Fidelity has an excellent history with this fund, thanks to a strong team of analysts. Although we're not fond of the foreign developed market component, at this point in time it's less likely to negatively impact the portfolio. With less than half the S&P 500's volatility, the fund doesn't take on enough risk to be considered a stock fund alternative, but it's a great way to obtain an above-average income stream without much interest rate risk.

**Focused High Income** concentrates on bonds that are rated BB – the highest rung on the high-yield ladder. While this helps reduce default risk, in our opinion it doesn't help enough. At 60% of the S&P 500's volatility, **Focused High Income** carries more risk than **Strategic Income**, yet has trailed it over most time periods. Better to either go with **Strategic Income**'s more diversified approach, or step up to **High Income**, which has the potential of a significantly higher return (**High Income**'s volatility is 20% greater than **Focused High Income**).

**High Income** is Fidelity's mainstream high-yield offering. With a 30-day yield that's above 8%, you get paid handsomely while waiting for high-yield bond values to recover. When they do, you'll earn capital gains on top of the income stream. Volatility is mainly the result of credit risk, and runs about 75% of the S&P 500's level. Rising interest rates don't hurt much in a fund like this, because they usually signal that the economy is getting stronger, a plus for a fund with a lot of credit risk. With near-zero inflation, **High Income** makes a good alternative to a stock fund – it offers almost the same total return potential as the S&P, but its volatility is much lower.

HIGH-YIELD BONDS - *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. Size figures are for the close of the prior month, in millions. Risk is based on standard deviation of monthly gains and losses over a three-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. All retail Fidelity funds are no-load. If a fund is closed to new investors, it is listed as such in the Fee column. Fidelity limits roundtrip trades to two in the last 90 days and four in the last 12 months (a roundtrip trade is defined as the purchase and sale of a fund within 30 days). Fund ratings: **B\*\*\*\*** is for a **favorite buy**, **B\*\*\*\*** means **buy**, **H\*\*\*** means **hold** for the long run, **S\*\*** means reduce to below 5% of holdings, **S\*** means **sell** and move to a buy-rated fund within the same asset class. Upgrades and downgrades from the prior month are indicated by ↑ and ↓.

JULY PERFORMANCE						2010	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
<b>GROWTH FUNDS:</b>												
130/30 Large Cap (2063/FOTTX)	S**	1.09	none	6.46	17.5	-2.1	7.7	-7.2	11.1			
Growth Strategies (324/FDEGX)	H***	1.24	1.5(90)	16.92	1720.4	4.0	7.6	-6.9	20.9	-8.9	-0.3	-9.7
Blue Chip Gth (312/FBGRX)	B****	1.10	none	37.63	9790.8	-0.8	7.0	-8.1	18.3	-2.3	1.2	-2.2
Blue Chip Value (1271/FBCVX)	S***↓	1.18	none	9.82	307.5	-1.4	7.2	-9.5	11.2	-11.4	-2.6	
Capital Apprec (307/FDCAX)	H***	1.15	none	22.49	4261.9	4.9	8.2	-4.8	24.7	-5.3	1.3	1.8
Contrafund (22/FCNTX)	B****	0.92	none	58.10	51938.1	-0.1	4.9	-5.2	15.2	-3.5	3.1	3.5
Growth Discovery (339/FDSVX)	S**	1.12	none	11.27	603.7	1.5	6.9	-6.6	14.9	-7.9	1.0	-0.7
Disc Equity (315/FDEQX)	S**	1.01	none	20.53	8704.3	-2.3	6.1	-7.5	10.2	-9.0	-1.3	-0.6
Dividend Gth (330/FDGFV)	B****	1.28	none	23.84	7198.4	0.7	8.2	-8.4	18.6	-5.3	0.6	0.9
Export Fund (332/FEXPX)	H***	1.12	0.75(30)	18.96	2323.3	-3.4	6.0	-8.8	10.1	-6.9	0.1	3.0
Fidelity Fifty (500/FFTYX)	H***	1.23	none	14.84	646.2	-1.3	6.4	-7.9	12.0	-11.4	-1.4	1.4
Focused Stock (333/FTQGX)	H***	1.01	none	10.92	113.0	-0.7	4.7	-8.6	12.8	-3.5	1.4	-1.8
Growth Company (25/FDGRX)	B****	1.12	Closed	69.03	24664.5	0.1	6.6	-7.7	16.5	-2.8	3.6	-1.2
Independence (73/FDFFX)	H***	1.40	none	19.98	3373.5	0.3	8.2	-7.9	19.3	-5.5	2.3	-0.8
Lg Cap Core En Idx (1827/FLCEX)	S**	0.96	none	7.58	893.4	-1.9	6.6	-7.7	10.6	-7.2		
Lg Cap Gth En Idx (1829/FLGEX)	S**	0.98	none	8.31	43.5	-2.4	6.4	-7.3	11.8	-5.2		
Large Cap Growth (763/FSLGX)	H***	1.03	none	8.08	91.2	-0.6	7.4	-6.7	10.2	-7.6	-3.0	
Large-Cap Stock (338/FLCSX)	B****	1.29	none	15.07	916.0	0.6	7.7	-8.9	16.1	-6.1	1.4	-2.1
Lg Cap Val En Idx (1828/FLVEX)	S**	1.00	none	6.63	62.3	-0.7	6.3	-8.4	11.5	-10.2		
Large Cap Value (708/FLSVX)	H***	1.08	none	9.56	810.4	-1.8	6.0	-8.9	11.1	-11.5	-2.9	
Lev Co Stock (122/FLVCX)	B****	1.68	1.5(90)	23.50	3795.8	2.5	8.0	-10.3	20.8	-9.1	1.5	
Low-Priced Stock (316/FLPSX)	H***	1.13	1.5(90)	33.07	23516.9	3.5	6.1	-6.7	18.1	-3.1	2.7	10.8
Magellan (21/FMAGX)	H***	1.29	none	61.82	18864.6	-3.8	5.1	-9.7	7.7	-9.1	-1.9	-2.6
Mid Cap Growth (793/FSMGX)	H***	1.29	0.75(30)	10.32	210.0	3.9	7.6	-6.5	23.5	-8.1	-2.4	
Mid Cap Stock (337/FMCSX)	B****	1.38	0.75(30)	24.22	5944.4	3.7	8.2	-10.9	22.8	-6.3	2.3	2.2
Mid Cap Value (762/FSMVX)	H***	1.27	0.75(30)	13.65	497.2	6.9	7.6	-6.1	29.2	-5.3	0.9	
New Millennium (300/FMILX)	B****	1.18	none	25.13	1589.6	2.1	7.0	-7.9	18.1	-2.7	4.1	1.0
OTC Portfolio (93/FOCPX)	B****	1.31	none	44.96	4862.4	-1.7	6.3	-9.6	16.1	-1.5	4.6	-2.3
Small Cap Discovery (384/FSCRX)	H***↓	1.34	1.5(90)	16.77	602.2	7.9	5.9	-9.0	22.6	4.1	4.8	
Small Cap Growth (1388/FCPGX)	H***	1.24	1.5(90)	12.81	1151.6	3.1	5.3	-9.2	17.6	-5.3	1.5	
Small Cap Indep (336/FDSCX)	H***	1.36	1.5(90)	14.91	1369.1	7.1	7.9	-7.6	18.8	-9.7	-1.1	3.2
Small Cap Stock (340/FSLCX)	B****	1.42	2 (90)	16.23	3468.3	1.8	7.4	-8.5	22.1	-2.2	3.3	6.2
Small Cap Value (1389/FCPVX)	H***↓	1.32	1.5(90)	13.56	1655.5	6.9	7.0	-9.0	21.3	0.0	4.0	
Stock Selector (320/FDSSX)	S***↓	1.04	none	21.79	650.6	0.3	7.3	-7.4	13.3	-7.4	0.0	-0.9
Tax Managed Stock (343/FTXMX)	S**	1.07	none	10.76	66.1	-1.3	5.6	-8.0	12.1	-10.7	-2.1	
Trend (5/FTRNX)	B****	1.15	none	55.90	813.3	-0.6	7.4	-7.0	17.1	-4.2	2.2	0.5
Value (39/FDVLX)	B****	1.47	none	59.14	6930.6	3.9	8.6	-9.4	22.1	-8.5	-0.4	7.3
Value Discovery (832/FVDFX)	H***	1.17	none	12.91	566.7	0.3	7.8	-9.6	12.6	-9.2	0.0	
Value Strategies (14/FLSLX)	B****	1.57	none	23.42	337.4	5.9	8.0	-9.3	25.8	-7.5	0.6	5.7
<b>GROWTH &amp; INCOME FUNDS:</b>												
Balanced (304/FBALX)	B****	0.78	none	16.68	16783.5	2.9	4.8	-3.0	13.9	-2.5	2.8	5.4
Convertible Sec (308/FCVX)	H***	1.31	none	22.48	2171.4	4.7	6.1	-4.4	20.3	-3.0	4.6	4.2
Equity-Income (23/FEQIX)	B****	1.15	none	39.03	11288.2	0.5	8.0	-7.8	14.4	-9.6	-0.9	2.0
Equity-Income II (319/FEQTX)	B****	1.12	none	16.13	4544.3	-0.5	7.8	-8.3	12.7	-9.4	-2.1	1.7
Fidelity Fund (3/FFIDX)	S**	1.05	none	27.56	4414.3	-2.4	5.9	-8.8	7.9	-6.9	0.4	-0.8
Growth & Income (27/FGRIX)	S**	1.18	none	15.75	5190.5	-1.7	6.8	-8.7	10.2	-16.5	-7.6	-4.2
Mega Cap Stock (361/FGRTX)	B****	1.04	none	8.73	502.2	-0.8	7.6	-7.1	12.5	-6.8	0.6	0.2
Puritan (4/FPURX)	B****	0.72	none	16.28	15482.1	2.5	4.8	-4.0	13.8	-1.9	2.8	4.3
Real Estate Income (833/FRIFX)	B****	0.76	0.75(90)	9.95	929.2	10.2	2.9	0.8	28.3	3.0	3.2	
Real Estate (303/FRESX)	H***	2.00	0.75(90)	23.32	2810.6	16.6	9.7	-1.4	63.1	-4.1	0.0	9.6
Strategic Div & Inc (1329/FSDIX)	B****	1.15	none	9.83	455.7	4.1	6.8	-6.1	21.4	-5.9	0.5	
Telecom & Utilities (311/FUIX)	H***	0.89	none	14.47	708.0	4.6	8.2	0.8	15.2	-8.1	2.2	-1.2
<b>SELECT FUNDS:</b>												
Air Transportation (34/FSAIX)	H***	1.63	0.75(30)	38.04	122.4	19.4	11.5	-2.1	58.5	-3.6	5.9	4.8
Automotive (502/FSAVX)	H***	2.50	0.75(30)	33.98	117.3	9.9	16.2	-3.1	22.6	-5.4	0.7	5.7
Banking (507/FSRBX)	B****	1.58	0.75(30)	16.93	430.4	11.1	5.9	-13.7	25.8	-13.9	-7.9	0.9
Biotechnology (42/FBIOX)	S**	1.03	0.75(30)	64.12	921.4	-2.1	5.9	-11.7	-1.8	0.1	1.5	-2.4
Brokerage (68/FSLBX)	H***	1.49	0.75(30)	46.65	462.0	-1.6	9.3	-12.9	7.0	-8.1	1.1	3.5
IT Ser / Bus Ser (353/FBSOX)	B****	1.18	0.75(30)	17.51	83.1	-1.8	6.9	-7.1	21.9	1.0	7.3	6.3
Chemicals (69/FSCHX)	H***	1.42	0.75(30)	75.16	338.3	2.3	15.7	-5.2	17.8	1.9	7.3	11.9
Computers (7/FDCPX)	H***	1.40	0.75(30)	45.93	446.3	0.7	5.7	-4.7	24.5	1.2	5.0	-5.7
Const & Housing (511/FSHOX)	H***	1.51	0.75(30)	29.17	101.6	0.4	5.5	-17.9	9.9	-7.1	-4.8	8.3
Consumer Disc (517/FSCPX)	H***	1.20	0.75(30)	20.14	109.6	7.2	8.0	-8.9	24.7	-3.8	-0.1	1.4
Industrial / Cyc Ind (515/FCYIX)	H***	1.41	0.75(30)	19.82	282.7	9.4	10.3	-6.3	28.4	-1.9	5.1	8.0
Defense & Aero (67/FSDAX)	H***	1.32	0.75(30)	65.69	590.5	8.9	8.4	-5.8	31.8	-5.3	3.6	8.8
Com Equip / DevC (518/FSDCX)	H***	1.61	0.75(30)	21.91	318.0	5.5	10.2	-5.8	19.5	-1.4	3.2	-7.0
Electronics (8/FSELX)	H***	1.50	0.75(30)	38.38	978.9	-7.4	3.1	-12.0	9.4	-7.1	-1.6	-7.8
Energy (60/FSENX)	H***	1.65	0.75(30)	40.43	1746.5	-8.4	8.2	-10.9	7.5	-9.7	2.8	8.6
Energy Service (43/FSESX)	H***	1.96	0.75(30)	54.91	1004.1	-5.6	11.8	-12.8	12.7	-13.9	1.7	6.4
Environ & Alt Energy (516/FSLEX)	H***	1.08	0.75(30)	15.70	45.8	1.0	7.9	-3.8	12.1	-3.2	0.5	3.8
Financial Services (66/FIDSX)	B****	1.46	0.75(30)	58.01	445.2	0.0	7.2	-12.5	10.0	-16.4	-7.5	-0.5
Con Stap / Food Ag (9/FDFAX)	B****	0.80	0.75(30)	61.98	876.3	2.1	7.8	-1.8	12.2	2.7	7.3	8.3
Gold (41/FSAGX) <i>Limit to 5% position</i>	H***	2.18	0.75(30)	44.63	3559.1	5.1	-5.4	-3.9	21.7	11.8	21.7	20.2
Health Care (63/FSPHX)	H***	0.90	0.75(30)	103.73	1561.3	-2.8	0.8	-8.8	11.0	-2.3	1.4	1.8
Home Finance (98/FSVLX)	B****	1.34	0.75(30)	11.48	118.5	4.9	6.9	-9.6	14.0	-31.2	-21.0	-4.5
Indust Equip (510/FSCGX)	H***	1.50	0.75(30)	27.71	151.2	9.0	10.4	-7.5	28.5	-4.7	3.8	4.0
Materials / Ind Mat (509/FSDPX)	H***	1.56	0.75(30)	53.78	536.3	-0.3	12.7	-6.5	18.5	0.8	10.2	13.2
Insurance (45/FSPCX)	B****	1.34	0.75(30)	42.62	153.7	7.7	5.3	-4.7	22.7	-11.6	-4.7	3.4
Leisure (62/FDLSX)	H***	1.12	0.75(30)	76.20	281.5	14.8	8.4	-7.3	29.4	1.4	5.3	4.1
Medical Delivery (505/FSHCX)	H***	1.28	0.75(30)	40.52	405.6	-5.9	-2.3	-9.4	12.9	-4.8	-0.5	10.3
Medical Equip/Sys (354/FSMEX)	H***	0.93	0.75(30)	23.24	1316.6	-5.0	-1.5	-11.3	7.9	1.6	3.4	7.9
Multimedia (503/FBMPX)	H***	1.31	0.75(30)	36.98	113.3	8.4	9.5	-5.3	37.2	-2.8	2.4	2.1
Natural Gas (513/FSNGX)	H***	1.75	0.75(30)	27.85	854.9	-11.5	8.6	-12.2	0.5	-11.0	0.0	7.8
Nat Resources (514/FNARX)	H***	1.67	0.75(30)	26.66	1224.1	-6.3	7.0	-9.4	10.1	-6.7	6.7	10.0
Pharmaceuticals (580/FPHAX)	B****	0.83	0.75(30)	10.70	241.0	-1.1	2.0	-4.8	15.1	1.1	5.7	
Retailing (46/FSRPX)	H***	1.24	0.75(30)	42.46	166.7	1.6	4.1	-14.4	18.1	1.2	2.5	4.3
Software (28/FSCSX)	B****	1.21	0.75(30)	72.77	911.5	-4.1	7.4	-6.6	19.4	0.7	7.5	2.0
Technology (64/FSPTX)	B****	1.55	0.75(30)	75.76	1853.8	0.4	7.5	-5.6	23.6	-0.7	4.1	-5.9
Telecom (96/FSTCX)	B****	1.26	0.75(30)	40.62	289.3	2.1	8.4	1.5	14.2	-8.8	2.7	-5.0
Transportation (512/FSREX)	H***	1.29	0.75(30)	48.67	285.7	23.7	9.9	-2.8	50.0	0.2	6.3	9.0
Utilities (65/FSUTX)	H***	0.95	0.75(30)	45.31	362.							

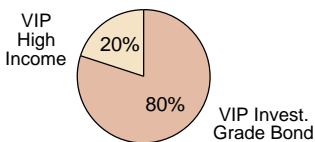
JULY PERFORMANCE						30-day	2010	One	Three	One	3-Yr	5-Yr
Fund Name (Code/Symbol)	Rating	Risk	Fee	NAV	Size	Yield	YTD	Mth	Mth	Year	Rate	Rate
<b>INTERNATIONAL FUNDS:</b>												
Canada (309/FICDX)	H***	1.45	1.5(90)	49.56	3466.2		2.2	5.8	-5.0	10.0	-2.8	7.8
China Region (352/FHKCX)	H***	1.52	1.5(90)	27.87	1791.5		-0.1	7.8	1.2	8.4	2.5	12.6
Diversified Int'l (325/FDIVX)	S**	1.26	1(30)	26.59	24666.2		-5.0	9.4	-4.2	6.1	-10.3	1.9
Emerging EMEA (2053/FEMEX)	H***	1.8 Est	1.5(90)	8.09	96.2		6.2	11.6	0.4	19.9		
Emerging Mkts (322/FEMKX)	H***	1.73	1.5(90)	22.65	3442.2		0.2	9.2	-2.6	19.8	-7.2	10.8
Europe (301/FIEUX)	S**	1.28	1(30)	27.40	1624.5		-7.0	12.6	-4.4	3.8	-9.2	1.7
Europe Cap Appr (341/FECAX)	S**	1.32	1(30)	16.47	382.9		-7.2	12.4	-4.7	3.9	-11.1	2.1
Global Balanced (334/FGBLX)	H***	0.76	1(30)	20.13	459.7		0.1	6.5	-3.0	9.2	0.1	5.2
Glob Commodity Stk (2120/FFGCX)	H***	1.6 Est	1(30)	13.60	236.8		-7.5	10.7	-7.4	7.2		
Int'l Capital Apprec. (335/FIVFX)	H***	1.53	1(30)	11.08	501.1		-2.3	10.5	-5.4	11.3	-10.6	0.4
Int'l Discovery (305/FIGRX)	S**	1.23	1(30)	28.97	7036.7		-4.5	10.3	-3.8	7.0	-9.6	3.1
Int'l Growth (1979/FIGFX)	H***	1.5 Est	1(30)	7.35	21.2		-1.7	9.1	-2.3	13.6		
Int'l Real Estate (1368/FIREX)	S**	1.40	1.5(90)	8.53	289.0		-3.1	11.1	-1.0	5.3	-14.3	-0.9
Int'l Small Cap (818/FISMJ)	B****	1.33	2(90)	17.74	630.1		1.1	7.5	-4.2	12.9	-9.4	3.4
Int'l Small Cap Opp (1504/FSCOX)	H***	1.49	2(90)	8.86	325.1		3.3	9.4	-2.0	22.7	-17.2	
Int'l Value (1597/FIVLX)	S**	1.43	1(30)	7.51	137.1		-5.9	12.1	-3.6	5.3	-11.7	
Japan (350/FJPNX)	H***	1.12	1.5(90)	10.18	909.0		0.6	5.5	-8.5	-1.7	-12.6	0.0
Japan Smaller Co (360/FJSCX)	H***	1.24	1.5(90)	8.28	292.7		-0.5	6.3	-7.8	-0.6	-12.4	-6.3
Latin America (349/FLATX)	H***	1.75	1.5(90)	51.01	3513.1		-1.6	11.8	-0.2	24.4	-0.8	18.4
Nordic (342/FNORX)	H***	1.59	1.5(90)	28.81	310.4		5.2	13.2	-2.9	21.8	-10.6	4.0
Overseas (94/FOSEFX)	S**	1.28	1(30)	28.49	5199.2		-7.9	9.6	-6.3	-0.4	-13.1	0.8
Pacific Basin (302/FPBFX)	B****	1.60	1.5(90)	21.75	673.2		7.1	6.5	-4.4	19.8	-8.0	6.8
Southeast Asia (351/FSEAX)	H***	1.39	1.5(90)	26.26	1446.6		3.3	8.1	0.1	13.7	-8.2	11.2
Total Int'l Equity (1978/FTEIX)	S**	1.3 Est	1(30)	6.56	47.9		-3.0	10.3	-3.0	11.1		
Worldwide (318/FWWFX)	H***	1.12	1(30)	15.70	922.9		-2.3	8.1	-6.6	10.3	-7.0	2.9
<b>INDEX AND ASSET ALLOCATION:</b>												
Four-In-One Index (355/FNOX)	H***	0.91	none	24.35	1898.9		0.5	7.0	-4.4	12.0	-4.8	1.4
NASDAQ Comp (1282/FNCMX)	B****	1.16	0.75(90)	30.00	241.5		-0.2	7.0	-8.1	14.8	-3.2	1.3
Spart Ext Mkt Idx (398/FSEMXX)	H***↓	1.19	0.75(90)	31.85	2790.9		5.8	7.0	-8.0	21.8	-3.6	2.0
Spart Int'l Index (399/FSIIX)	S**	1.26	1(90)	31.82	5250.3		-4.8	10.8	-3.3	5.7	-10.0	2.3
Spart 500 Index (650/FUSEX)	H***	1.00	none	39.03	22079.0		-0.6	6.5	-7.1	13.2	-7.0	-0.3
Spart Total Mkt Idx (397/FSTMX)	H***	1.03	0.5(90)	31.73	5064.9		0.9	6.9	-7.0	15.1	-6.1	0.3
Asset Mgr 20% (328/FASIX)	H***	0.36	none	12.33	2794.8		3.9	2.4	0.4	10.4	2.9	4.4
Asset Mgr 30% (1957/FTANX)	H***	0.5 Est	none	9.43	93.7		4.0	3.2	-0.1	11.8		
Asset Mgr 40% (1958/FFANX)	H***	0.6 Est	none	9.15	68.3		3.6	4.0	-0.9	12.6		
Asset Mgr 50% (314/FASMX)	H***	0.70	none	14.14	5901.3		3.0	4.9	-1.7	13.4	-0.1	3.0
Asset Mgr 60% (1959/FSANX)	H***	0.8 Est	none	8.85	82.7		2.4	5.6	-2.6	13.6		
Asset Mgr 70% (321/FASGX)	H***	0.90	none	14.59	2154.2		1.8	6.3	-3.5	14.1	-2.8	1.7
Asset Mgr 85% (347/FAMRX)	H***	1.03	none	11.69	531.6		0.3	7.3	-5.1	13.8	-4.6	1.7
Dynamic Strategies (1960/FDYXS)	H***	0.8 Est	none	8.61	146.8		2.0	4.7	-2.9	12.9		
Freedom 2000 (370/FFFBX)	H***	0.37	none	11.62	1553.6		3.0	2.2	-0.4	9.8	1.8	3.4
Freedom 2005 (1312/FFVFX)	H***	0.62	none	10.19	933.3		2.3	3.9	-1.9	11.6	-0.7	2.8
Freedom 2010 (371/FFFCX)	H***	0.66	none	12.69	9907.9		2.1	4.4	-2.3	12.0	-0.7	2.9
Freedom 2015 (1313/FFVFX)	H***	0.70	none	10.56	8231.5		2.0	4.5	-2.4	12.2	-1.4	2.9
Freedom 2020 (372/FFDXX)	H***	0.82	none	12.65	18472.8		1.5	5.2	-3.4	13.1	-2.9	2.3
Freedom 2025 (1314/FFTXX)	H***	0.87	none	10.44	8577.4		1.1	5.9	-3.9	13.1	-3.5	2.1
Freedom 2030 (373/FFEX)	H***	0.95	none	12.40	13109.2		0.7	6.3	-4.4	13.4	-5.1	1.4
Freedom 2035 (1315/FFTHX)	H***	0.98	none	10.22	5559.9		0.2	6.7	-5.0	13.2	-5.6	1.2
Freedom 2040 (718/FFFFX)	H***	1.01	none	7.13	7724.0		0.2	6.9	-5.1	13.4	-6.0	1.0
Freedom 2045 (1617/FFFGX)	H***	1.02	none	8.42	1944.1		0.0	7.0	-5.2	13.3	-6.1	
Freedom 2050 (1618/FFFHX)	H***	1.06	none	8.26	1546.9		-0.5	7.1	-5.7	13.0	-6.9	
Freedom Income (369/FFFA)	H***	0.33	none	10.97	2686.9		3.1	2.0	-0.4	9.6	2.4	3.6
<b>TAXABLE BOND FUNDS:</b>												
Capital & Income (38/FAGIX)	B****	0.87	1(90)	8.82	10986.7	6.64	5.9	3.9	-1.8	26.9	8.2	8.1
Corporate Bond (2208/FGBFX)	B****	0.3 Est	none	10.25	71.1	3.67		1.9				
Floating Rate (814/FFRHX)	H***	0.46	1(60)	9.53	3041.3	4.44	3.1	1.8	-0.7	7.7	4.6	4.3
Focused High Inc (1366/FHIFX)	H***	0.61	1(90)	9.18	498.5	6.40	7.1	3.3	1.9	17.3	6.4	5.4
GNMA Portfolio (15/FGMNX)	B****	0.15	none	11.91	7924.5	2.57	6.7	1.1	3.8	9.0	8.6	6.5
Gov't Income (54/FGOVX)	H***	0.21	none	10.82	4699.4	1.77	5.5	0.6	3.3	6.7	7.8	6.0
High Income (455/SPHIX)	B****	0.73	1(90)	8.68	6536.0	7.78	6.7	3.6	0.1	20.7	8.4	7.2
Inflation-Protected (794/FINPX)	H***	0.42	none	11.60	2231.8	0.46	4.3	0.1	1.4	9.3	5.7	4.5
Intermed Bond (32/FTHRX)	B****	0.25	none	10.62	4671.6	2.63	6.8	1.2	3.2	11.8	6.4	5.2
Intermed Gov't Inc (452/FSTGX)	H***	0.17	none	11.10	1396.4	1.17	5.0	0.6	3.2	6.0	7.1	5.7
Invest Grade Bond (26/FBNDX)	B****	0.25	none	7.39	6969.0	2.82	7.0	1.1	3.1	12.7	5.5	4.6
Mortgage Securities (40/FMSFX)	B****	0.13	none	10.92	822.9	3.38	6.5	1.0	3.5	10.5	5.7	4.5
New Markets Inc (331/FNMIX)	B****↑	0.75	1(90)	15.76	3385.3	5.05	8.3	3.8	2.7	20.4	10.6	9.8
Short-Term Bond (450/FSHXX)	B****	0.12	none	8.46	7698.7	1.29	3.0	0.5	1.2	6.1	2.2	2.8
Spart Intermed Tr Idx (1561/FIBIX)	H***	0.35	none	10.98	1361.0	2.30	9.4	1.1	6.3	9.6	9.1	
Spart L-Term Tr Idx (1562/FLBIX)	H***	0.63	none	11.11	215.2	3.60	13.1	-0.1	9.1	11.2	9.4	
Spart S-Term Tr Idx (1560/FSBIX)	H***	0.14	none	10.60	247.6	0.73	3.5	0.6	2.1	4.4	5.6	
Strategic Income (368/FSICX)	B****	0.45	none	11.15	7440.5	4.73	5.9	3.0	1.8	15.3	8.9	7.4
Strategic Real Rtn (1505/FSRRX)	H***	0.67	0.75(60)	8.88	4281.7	2.39	4.3	3.7	0.1	16.2	1.9	
Total Bond (820/FTBFX)	B****	0.27	none	10.95	11022.1	3.31	6.9	1.4	2.8	12.5	7.6	5.9
Ultra-Short Bond (812/FUSEFX)	H***	0.17	0.25(60)	8.15	240.8	0.34	0.7	0.0	0.0	1.3	-4.2	-1.1
US Bond Index (651/FBIDX)	H***	0.18	none	11.55	10696.7	2.59	6.3	1.0	3.6	8.6	6.8	5.4
<b>MUNICIPAL BOND FUNDS:</b>												
AZ Municipal Inc (434/FAZXX)	H***	0.30	0.5(30)	11.51	176.8	3.18	4.2	1.1	2.1	8.6	5.0	4.1
CA Municipal Inc (91/FCTFX)	S**	0.31	0.5(30)	12.12	1610.8	3.67	5.7	1.4	2.0	10.2	4.4	3.9
CA Short-Int TF (1534/FCSTX)	H***	0.15	0.5(30)	10.72	669.3	1.36	2.9	1.0	1.6	5.1	5.3	
CT Municipal Inc (407/FICNX)	H***	0.25	0.5(30)	11.61	611.9	2.56	4.0	1.2	2.1	7.1	5.5	4.4
Intermediate Muni (36/FLTMX)	B****	0.18	0.5(30)	10.34	4060.2	2.37	3.9	1.1	1.9	6.9	5.4	4.5
MA Municipal Inc (70/FDMMX)	H***	0.27	0.5(30)	12.07	2449.2	2.98	4.6	1.3	2.2	8.9	5.2	4.4
MD Municipal Inc (429/SMDMX)	H***	0.27	0.5(30)	11.12	185.4	2.66	4.0	1.1	2.0	7.9	5.2	4.3
MI Municipal Inc (81/FMHTX)	H***	0.24	0.5(30)	12.03	663.6	2.98	3.8	1.1	2.0	7.5	5.3	4.4
MN Municipal Inc (82/FMIX)	H***	0.23	0.5(30)	11.60	509.2	2.41	4.0	1.1	2.1	6.9	5.3	4.3
Municipal Income (37/FHIGX)	H***	0.28	0.5(30)	12.73	6009.0	3.46	4.6	1.1	1.8	9.4	4.9	4.3
NJ Municipal Inc (416/FNJHX)	H***	0.27	0.5(30)	11.73	672.9	2.83	4.3	1.5	2.0	8.2	5.2	4.3
NY Municipal Inc (71/FTFMX)	H***	0.28	0.5(30)	13.12	1820.9	3.03	4.5	1.1	2.0	9.0	5.5	4.5
OH Municipal Inc (88/FOHFX)	H***	0.26	0.5(30)	11.77	552.2	3.07	3.7	1.1	1.9	7.7	5.3	4.4
PA Municipal Inc (402/FPXTX)	H***	0.22	0.5(30)	10.92	455.6	3.06	3.6	1.0	1.9	7.1	5.1	4.3
Short-Int Municipal (404/FSTFX)	B****	0.13	0.5(30)	10.74	3581.2	1.32	2.4	0.7	1.4	4.2	4.8	3.9
Tax-Free Bond (90/FTABX)	H***	0.28	0.5(30)	10.97	1987.3	3.46	4.5	1.1	1.9	9.3	5.4	4.6

JULY PERFORMANCE Indexes and Model Portfolios	Risk	Value	2010 YTD	One Month	Three Month	One Year	3-Yr Rate	5-Yr Rate	10-Yr Rate
Dow Jones Industrial	0.92	10465.94	1.9	7.2	-4.3	17.3	-4.8	2.3	2.3
S&P 500	1.00	1101.60	-0.1	7.0	-6.7	13.9	-6.8	-0.2	-0.8
NASDAQ	1.16	2254.70	-0.1	7.0	-8.2	15.1	-3.1	1.5	-4.4
Russell 2000	1.26	650.89	4.8	6.9	-8.9	18.4	-4.3	0.5	4.0
Fidelity Monitor Income Model	0.32	93862.10	6.5	1.8	2.5	14.1	2.4	3.5	4.2
Fidelity Monitor G&I Model	0.73	166002.94	3.1	4.8	-3.0	14.7	-3.7	1.9	4.8
Fidelity Monitor Growth Model	1.14	161787.26	0.4	6.8	-7.9	16.8	-8.1	-0.6	1.8
Fidelity Monitor Select System	1.11	340683.35	-0.2	7.5	-4.6	16.5	-4.0	2.8	2.2
Fidelity Monitor Unique Opportunities	1.16	109391.36	1.3	6.4	-9.0	17.4	-6.6	1.6	6.5

## VIP CORNER

Fidelity's Variable Insurance Products allow tax-deferred growth, but the benefit may be offset by higher tax rates at withdrawal. Performance figures reflect the Retirement Reserves fee structure. Returns for the Personal Retirement Annuity are roughly 0.5 percentage points higher per year.

### VIP INCOME MODEL

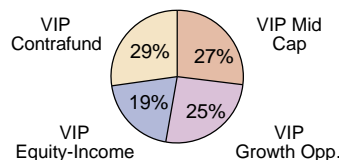


### PAST PERFORMANCE

Starting Balance: \$10,000

1993: +12.3%	2002: +7.3%
1994: -3.8%	2003: +9.9%
1995: +16.9%	2004: +5.1%
1996: +6.9%	2005: +1.8%
1997: +10.9%	2006: +6.1%
1998: +0.4%	2007: +6.2%
1999: +0.8%	2008: -18.3%
2000: -2.4%	2009: +22.9%
2001: -3.4%	<b>*2010: +5.5%</b>

### VIP GROWTH MODEL

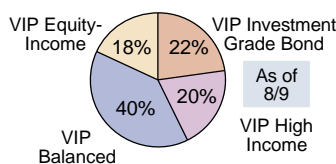


### PAST PERFORMANCE

Starting Balance: \$10,000

1993: +20.6%	2002: -21.7%
1994: +4.6%	2003: +30.0%
1995: +36.1%	2004: +7.0%
1996: +16.1%	2005: +10.1%
1997: +23.5%	2006: +14.5%
1998: +22.6%	2007: +9.3%
1999: +22.1%	2008: -45.5%
2000: -10.3%	2009: +25.1%
2001: -14.0%	<b>*2010: +1.4%</b>

### VIP G & I MODEL

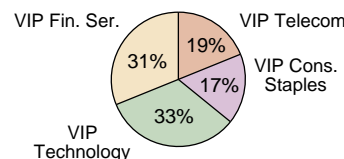


### PAST PERFORMANCE

Starting Balance: \$10,000

1995: +26.4%	2003: +20.8%
1996: +12.8%	2004: +6.3%
1997: +21.4%	2005: +4.5%
1998: +15.1%	2006: +11.6%
1999: +6.1%	2007: +7.7%
2000: -4.9%	2008: -31.0%
2001: +3.1%	2009: +27.1%
2002: -9.4%	<b>*2010: +2.0%</b>

### VIP SECTOR MODEL



### PAST PERFORMANCE

Starting Balance: \$10,000

2003: +57.5%	2007: +11.2%
2004: +6.3%	2008: -41.4%
2005: +14.0%	2009: +50.2%
2006: +17.7%	<b>*2010: +0.4%</b>

Model portfolio performance is listed at the bottom of the page.

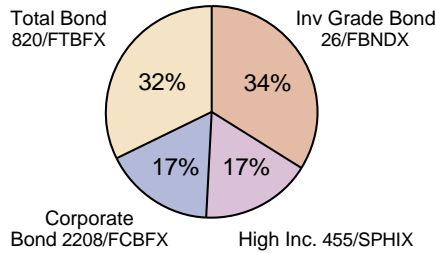
JULY VIP PERFORMANCE Portfolio	Rating	Risk	RR Value	2010 YTD	One Month	Three Month	One Year	3-Yr Rate	5-Yr Rate
VIP Growth Strategies	H ***	1.23	9.91	3.1	7.6	-6.9	19.3	-9.6	
VIP Asset Manager	H ***	0.78	36.62	2.5	5.0	-2.2	13.6	0.0	2.9
VIP Asset Manager: Growth	H ***	1.00	22.48	0.8	6.7	-4.2	14.3	-2.6	1.6
VIP Balanced	B ****	0.93	17.26	2.5	5.8	-5.1	15.8	-1.9	2.9
VIP Consumer Discretionary	H ***	1.20	10.88	6.7	7.9	-9.0	23.6	-4.3	-0.7
VIP Consumer Staples	B ****	0.78	10.53	1.7	7.8	-2.0	11.2	2.2	
VIP Contrafund	B ****	1.12	39.61	-0.1	7.4	-6.9	13.9	-6.0	1.3
VIP Disciplined Small Cap	H ***	1.17	8.12	4.0	7.3	-7.8	16.6	-7.1	
VIP Dynamic Capital Appreciation	H ***	1.17	13.19	4.5	8.3	-5.1	23.7	-6.5	1.6
VIP Energy	H ***	1.65	19.43	-8.6	8.1	-11.0	7.1	-10.4	3.1
VIP Equity-Income	B ****	1.16	50.89	-0.1	8.0	-8.1	13.4	-10.8	-1.9
VIP Financial Services	B ****	1.50	8.13	-0.1	7.3	-12.3	9.5	-16.8	-7.9
VIP Freedom 2005	H ***	0.61	11.62	2.6	4.0	-2.0	11.1	-0.9	
VIP Freedom 2010	H ***	0.65	11.62	2.7	4.4	-2.3	11.7	-1.0	
VIP Freedom 2015	H ***	0.69	11.74	2.7	4.6	-2.4	12.1	-1.6	
VIP Freedom 2020	H ***	0.83	11.40	2.3	5.5	-3.5	13.2	-3.3	
VIP Freedom 2025	H ***	0.88	11.36	2.1	6.1	-4.0	13.5	-3.9	
VIP Freedom 2030	H ***	0.98	11.00	1.5	6.4	-4.8	13.7	-5.6	
VIP Freedom Income	H ***	0.31	11.91	2.8	2.1	-0.4	7.7	2.2	
VIP FundsManager 20	H ***	0.28	11.18	2.5	2.0	-0.1	6.5	1.6	
VIP FundsManager 50	H ***	0.59	10.33	1.7	4.1	-2.3	9.5	-1.9	
VIP FundsManager 70	H ***	0.81	9.54	0.7	5.5	-4.0	10.9	-5.1	
VIP FundsManager 85	H ***	0.97	9.00	0.2	6.5	-5.4	12.4	-7.2	
VIP Growth	H ***	1.11	51.49	1.1	6.8	-6.7	13.9	-9.1	-1.6
VIP Growth & Income	H ***	1.04	15.52	-2.0	6.8	-8.5	9.0	-9.0	-1.1
VIP Growth Opportunities	B ****	1.36	10.72	0.4	6.7	-8.3	16.7	-10.3	-2.6
VIP Growth Stock	H ***↓	1.16	10.12	-0.6	7.3	-6.8	16.6	-5.0	
VIP Health Care	H ***	0.90	11.97	-3.0	0.8	-8.9	10.4	-2.5	0.7
VIP High Income	B ****	0.69	36.27	6.3	3.2	0.7	17.6	5.1	5.1
VIP Index 500	H ***	1.00	31.13	-0.6	6.9	-6.9	12.9	-7.5	-1.0
VIP Industrials	H ***	1.42	18.60	9.1	10.2	-6.4	27.9	-2.1	4.9
VIP Int'l Capital Appreciation	H ***	1.53	9.91	-3.0	10.4	-5.7	10.3	-11.4	
VIP Investment Grade Bond	B ****	0.24	35.52	6.3	1.1	2.8	10.4	6.4	4.7
VIP Materials	H ***	1.56	10.51	-0.6	12.7	-6.8	17.7	0.3	
VIP Mid Cap	B ****	1.09	21.71	5.3	4.3	-5.2	19.1	-3.1	4.0
VIP Money Market			21.78	-0.4	0.0	-0.2	-0.6	1.2	2.2
VIP Overseas	S **	1.24	31.74	-4.8	10.5	-3.9	5.9	-11.3	1.0
VIP Real Estate	H ***	2.08	17.55	16.5	10.4	-2.0	60.6	-3.4	0.9
VIP Strategic Income	B ****	0.43	15.10	5.3	2.9	1.5	13.7	8.0	6.5
VIP Technology	B ****	1.55	11.81	0.2	7.8	-5.4	23.1	-0.9	4.5
VIP Telecommunications	B ****	1.25	7.63	0.8	8.4	0.9	12.1	-10.4	
VIP Utilities	H ***	0.95	11.79	1.5	7.8	0.3	11.0	-5.6	3.0
VIP Value	B ****	1.44	9.46	2.6	7.7	-10.0	20.1	-9.7	
VIP Value Leaders	S **↓	1.17	8.78	-1.9	7.1	-9.6	10.4	-12.0	
VIP Value Strategies	B ****	1.56	12.69	5.5	8.0	-9.5	24.8	-8.5	-0.3
Fidelity Monitor VIP Income Model		0.30	22315.84	5.5	1.6	1.9	12.0	2.8	3.8
Fidelity Monitor VIP G&I Model		0.72	24280.06	2.0	5.1	-4.0	12.8	-2.8	2.1
Fidelity Monitor VIP Growth Model		1.14	28637.17	1.4	6.5	-7.1	15.0	-10.4	-1.9
Fidelity Monitor VIP Sector Model		1.22	18393.51	0.4	7.8	-4.4	20.3	-2.1	4.1

## INCOME MODEL

Focuses on income funds that hold bonds or cash.  
Target Growth Rate: 7% Target Risk Level: 0.33

FUND	NAV	SHARES	BALANCE
Invest. Grade Bond	\$7.39	4388.292	\$32429.48
High Income	\$8.68	1841.411	\$15983.45
Corporate Bond	\$10.25	1526.040	\$15641.91
<b>Total Bond</b>	<b>\$10.95</b>	<b>2722.124</b>	<b>\$29807.26</b>

8% Foreign Holdings  
Balance as of 7/30/10: \$93862.10  
Balance at start of 2010: \$88095.63



**PAST PERFORMANCE**  
Starting Balance: \$35,000  
1992: +10.1% 2001: + 5.6%  
1993: +11.3% 2002: + 5.4%  
1994: - 2.1% 2003: + 8.4%  
1995: +14.8% 2004: + 4.2%  
1996: + 9.0% 2005: + 3.6%  
1997: +10.5% 2006: + 6.9%  
1998: + 3.5% 2007: + 4.0%  
1999: + 3.0% 2008: -18.2%  
2000: + 0.3% 2009: +20.0%  
**2010 YTD: + 6.5%**

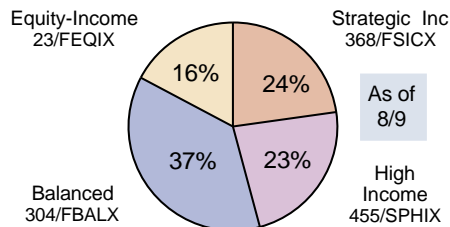
Our July gain was 1.8%. On 7/6 we sold **Strategic Inc.** (\$10.90) to buy **High Income** (\$8.42). Asset mix: 1% stock, 95% bond, 4% cash.

## GROWTH AND INCOME MODEL

Focuses on asset allocation funds to help limit risk.  
Target Growth Rate: 10% Target Risk Level: 0.75

FUND	NAV	SHARES	BALANCE
Strategic Income	\$11.15	3577.732	\$38891.71
Puritan	\$16.28	2310.656	\$37617.48
Balanced	\$16.68	3697.518	\$61674.60
Equity-Income	\$39.03	687.142	\$26819.15

16% Foreign Holdings  
Balance as of 7/30/10: \$166002.94  
Balance at start of 2010: \$161025.23



**PAST PERFORMANCE**  
Starting Balance: \$50,000  
1994: - 3.7% 2002: - 6.4%  
1995: +21.6% 2003: +33.0%  
1996: +15.8% 2004: +11.5%  
1997: +18.7% 2005: + 8.2%  
1998: +11.1% 2006: +13.7%  
1999: +12.2% 2007: + 6.1%  
2000: + 2.7% 2008: -33.5%  
2001: + 1.3% 2009: +28.1%  
**2010 YTD: + 3.1%**

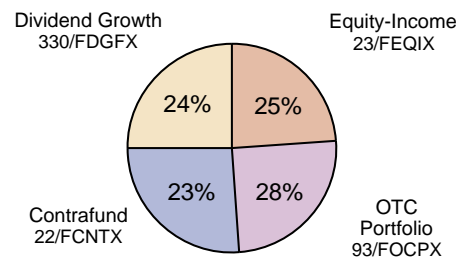
Our Growth and Income Model gained 4.8% in July. On 8/9 we will sell **Puritan** and buy **High Income**, for a resulting asset mix of 38% stock, 59% bond, and 3% cash.

## GROWTH MODEL

Focuses on domestic funds and aims to hold profitable positions long enough to qualify for long-term gains.  
Target Growth Rate: 13% Target Risk Level: 1.0

FUND	NAV	SHARES	BALANCE
Equity-Income	\$39.03	1037.836	\$40506.74
OTC Portfolio	\$44.96	984.424	\$44259.70
Contrafund	\$58.10	649.764	\$37751.29
Dividend Growth	\$23.84	1647.212	\$39269.53

13% Foreign Holdings  
Balance as of 7/30/10: \$161787.26  
Balance at start of 2010: \$161124.81



**PAST PERFORMANCE**  
Starting Balance: \$15,000  
1987: + 2.8% 1999: +29.0%  
1988: +26.0% 2000: -10.8%  
1989: +30.4% 2001: - 6.4%  
1990: - 4.4% 2002: -17.1%  
1991: +40.6% 2003: +46.1%  
1992: +15.7% 2004: +12.4%  
1993: +31.9% 2005: +11.2%  
1994: - 2.1% 2006: +15.7%  
1995: +27.2% 2007: + 7.3%  
1996: +19.2% 2008: -42.7%  
1997: +25.5% 2009: +31.8%  
1998: + 9.9%  
**2010 YTD: + 0.4%**

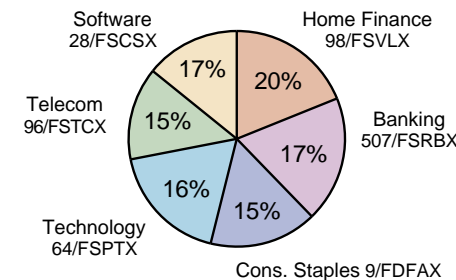
Our Growth Model was up 6.8% in July, compared to a gain of 7.0% for the S&P 500. Current asset mix: 98% stock, 2% cash.

## SELECT SYSTEM

Uses a volatility model to identify attractive sectors.  
Target Growth Rate: 14% Target Risk Level: 1.2

FUND	NAV	SHARES	BALANCE
Home Finance	\$11.48	5924.536	\$68013.67
Banking	\$16.93	3365.821	\$56983.35
Consumer Staples	\$61.98	816.730	\$50620.93
Technology	\$75.76	734.691	\$55660.19
Telecom	\$40.62	1289.049	\$52361.17
Software	\$72.77	783.895	\$57044.04

9% Foreign Holdings  
Balance as of 7/30/10: \$340683.35  
Balance at start of 2010: \$341250.55



**PAST PERFORMANCE**  
Starting Balance: ~\$25,000  
1989: +23.4% 2000: -14.9%  
1990: +31.3% 2001: - 7.3%  
1991: +35.3% 2002: -14.7%  
1992: +20.4% 2003: +38.4%  
1993: +25.9% 2004: + 7.4%  
1994: - 0.9% 2005: +15.0%  
1995: +39.0% 2006: +13.6%  
1996: + 5.2% 2007: +15.6%  
1997: +29.3% 2008: -39.3%  
1998: +21.7% 2009: +35.4%  
1999: +44.9%  
**2010 YTD: - 0.2%**

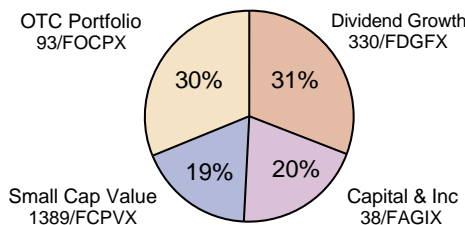
Our Select System gained 7.5% in July, versus a 7.0% rise for the S&P 500. On 7/6 we sold **Health Care** (\$101.78) and bought **Banking** (\$15.61). Current asset mix is 98% stock and 2% cash.

## UNIQUE OPPORTUNITIES MODEL

An aggressive portfolio looking for contrarian values.  
Target Growth Rate: 14% Target Risk Level: 1.2

FUND	NAV	SHARES	BALANCE
Dividend Growth	\$23.84	1397.231	\$33309.99
Capital & Income	\$8.82	2540.291	\$22405.37
Small Cap Value	\$13.56	1528.959	\$20732.68
OTC Portfolio	\$44.96	732.725	\$32943.32

12% Foreign Holdings  
Balance as of 7/30/10: \$109391.36  
Balance at start of 2010: \$107961.13



**PAST PERFORMANCE**  
Starting Balance: \$50,000  
(Partial Yr 99) 2004: +20.6%  
1999: +33.8% 2005: +18.8%  
2000: -20.5% 2006: +16.6%  
2001: + 1.6% 2007: +11.6%  
2002: - 2.1% 2008: -47.6%  
2003: +43.2% 2009: +45.8%  
**2010 YTD: + 1.3%**

Our Unique Opportunities Model gained 6.4% in July, versus 7.0% for the S&P. On 7/6 we sold **Low-Priced** (\$30.94), buying **Capital & Income** (\$8.49). Asset mix: 83% stock, 16% bond, and 1% cash.

**Capital & Income** goes further out on the high yield limb, with volatility that's 90% as great as the S&P 500. Because the fund invests a significant portion of its assets in leveraged stocks (currently 16% of holdings), we think it has the potential to outperform the S&P 500 in this environment. The fund's overall 30-day yield is a little lower than **High Income** due to its stock weighting, but we estimate the yield on its bond holdings to be close to 9%. **Capital & Income** is Fidelity's longest running high-yield fund. It's lifetime annual return of 10.4% has been earned over a period of almost 33 years. ■

## Question & Answer Forum

**My newsletter did not arrive in the mail soon enough to follow the July trades. How can I find out about upcoming model switches before they happen?**

If you don't use email or the Internet, the easiest way is to call our hotline each weekend and listen to the recorded message (the number is **800-686-7301**).

The more popular option is to sign up for our email and web site login service, available at no additional cost. It includes a weekly hotline email with performance and switching instructions, as well as electronic copies of the monthly issues (both are available when logging into the web site as well). If you want to sign up, please call us at **800-397-3094** or visit our web site at **fidelitymonitor.com**. Your email address remains private and is not sold or rented. You might hear about our money management services a few times a year, but we won't bombard you with promotions.

As for the July switch date being sooner than usual, we're experimenting with earlier trades in an effort to get more in sync with our sister publication *Fidelity Insight*. We're also trying to address the concern expressed by some readers that we're waiting too long to take action. Some 75% of our readers now receive the electronic copy of the newsletter on or before the 1st. Many don't like having to wait until the middle of the month to make an exchange that might help improve overall performance.

But I should also point out that it's generally not a problem to execute a model portfolio trade a few days early or a few days late. Most of our changes affect only a portion of the portfolio, and the new positions often have an objective similar to the funds being replaced. If we were using some sort of market timing scheme, a few days could make for a big difference, but that's not the case. Unless the market makes a dramatic move, any deviation in performance (relative to the model) is not likely to be more than a fraction of a percentage point. ■

**Real Estate** gained 9.7%. A rally in dividend stocks gave a boost to **Telecom & Utilities** (up 8.2%), **Equity-Income** (8.0% gain) and **Equity-Income II** (7.8% return). Income-oriented funds trailed. **Puritan** and **Balanced** both rose 4.8%, and **Real Estate Income** was up 2.9%.

### INCOME FUNDS

For a bond portfolio we suggest following our Income Model (see page 7 for holdings). If you would rather pick your own funds, our favorites include **Investment Grade, Total Bond, Corporate Bond, Strategic Income, High Income** and **Capital & Income**. **High Income** and **Capital & Income** make good stock fund alternatives.

The prospect of a stronger global economy pushed up long-term interest rates a tad, but also benefited the high-yield group. **Capital & Income** was up 3.9%, **New Markets Income** rose 3.8%, and **High Income** gained 3.6%. On the bottom end, **Ultra-Short Bond** was flat, and **Spartan Long-Term Treasury Index** declined 0.1%.

Municipal bond funds posted gains ranging from 0.7% to 1.5%.

### SELECT PORTFOLIOS

Our Select System holdings are listed on page 7. Sectors rated buy include **Home Finance, Insurance, Banking, Telecommunications, Financial Services, Consumer Staples, Pharmaceuticals, IT Services, Software, and Technology**.

**Automotive** surged 16.2%, **Chemicals** jumped 15.7%, **Materials** was up 12.7%, and **Energy Service** rose 11.8%. Losers were **Medical Equipment**, off 1.5%, **Medical Delivery** with a 2.3% decline, and **Gold**, down 5.4%. ■

### JULY DISTRIBUTIONS

<b>Asset Manager 20%</b>	\$ 0.022/\$12.16 (7/9)
<b>Asset Manager 30%</b>	\$ 0.017/ \$9.27 (7/9)
<b>Asset Manager 40%</b>	\$ 0.047/ \$8.98 (7/9)
<b>Asset Manager 50%</b>	\$ 0.078/\$13.84 (7/9)
<b>Balanced</b>	\$ 0.079/\$16.37 (7/9)
<b>Convertible Securities</b>	\$ 0.174/\$21.74 (7/9)
<b>Equity-Income</b>	\$ 0.182/\$37.92 (7/9)
<b>Equity-Income II</b>	\$ 0.065/\$15.71 (7/9)
<b>Fidelity Fund</b>	\$ 0.06 / \$27.14 (7/9)
<b>Freedom Income</b>	\$ 0.02 / \$10.84 (7/9)
<b>Growth &amp; Income</b>	\$ 0.02 / \$15.43 (7/9)
<b>Puritan</b>	\$ 0.094/\$15.96 (7/9)
<b>Spartan 500 Index (Inv. Class)</b>	\$ 0.18 / \$38.17 (7/9)
<b>Strategic Dividend &amp; Income</b>	\$ 0.041 / \$9.50 (7/9)
<b>Telecom &amp; Utilities</b>	\$ 0.08 / \$14.06 (7/9)

Payouts for August include: **Asset Mgr. 20%, Asset Mgr. 30%, Growth Discovery, Fidelity Fifty, Fidelity Fund, Freedom Inc., Mega Cap Stock, and Real Estate Inc.**

Money Market Funds	Size	Yield	Money Market Funds	Size	Yield	Money Market Funds	Size	Yield
Cash Reser. (55/FDRXX)	123869.2	0.10	CT MM (418/FCMXX)	1698.0	0.01			
Select MM (85/FSLXX)	7260.3	0.17	MA MM (74/FDMXX)	4880.1	0.01			
Money Market (454/SPRXX)	6202.7	0.07	MI MM (420/FMIXX)	857.7	0.01	MA AMT TF (426/FMSXX)	395.8	0.01
Gov't MM (458/SPAXX)	711.1	0.01	NJ MM (417/FNJXX)	2108.1	0.01	AMT Tax-Free (460/FIMXX)	1995.4	0.01
US Treas. MM (415/FDLXX)	5159.8	0.01	NY MM (92/FNYXX)	4799.1	0.01	NJ AMT TF (423/FSJXX)	344.3	0.01
Tax-Free MM (275/FMOXX)	6118.3	0.01	OH MM (419/FOMXX)	964.8	0.01	NY AMT TF (422/FSNXX)	631.6	0.01
US Gov't Reser (50/FGRXX)	3287.9	0.01	AZ MM (433/FSAXX)	357.2	0.01	PA MM (401/FPTXX)	665.5	0.01
CA MM (97/FCFXX)	4952.1	0.01	CA AMT TF (457/FSPXX)	714.0	0.02	Municipal MM (10/FTEXX)	22445.1	0.01