

Jack
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Fidelity

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20
Years

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Monitor™

Contrafund vs. Capital & Income

Last month we made a case for high-yield bonds performing on par with stocks in an economy with little or no inflation. This month we present the argument for replacing a conservative stock fund with an aggressive high-yield bond fund in our Growth Model. But before we get to that, let's take a look at the two funds in question.

CONTRAFUND

Thanks to 20-year veteran Will Danoff, **Contrafund** is one of the best-managed stock funds in the industry.

CONTRA VS CAPITAL & INCOME - *Continued on page 2*

Model Changes: Growth, VIP Growth, Select System, VIP Sector, Unique Opportunities

On Tuesday, 9/7, we'll make the following trades:

Our Growth Model will be selling **Contrafund** (22/FCNTX), and using the proceeds to buy **Capital & Income** (38/FAGIX). As described in our main story above, we think there's a good chance that high yield bonds will perform on par with stocks over the next 12-18 months, giving an aggressive high-income fund like **Capital & Income** a potential edge over a conservative stock fund like **Contrafund**.

Our VIP Growth Model will sell one-fourth each of **VIP Contrafund**, **VIP Mid-Cap** and **VIP Growth Opportunities**. The proceeds will be invested in **VIP High Income**. We are taking a different approach in this portfolio because **VIP Contrafund** carries significantly more risk than its mutual fund cousin.

Our Select System will be selling **Technology** (64/FSPTX) and buying **Wireless** (963/FWRLX). With global growth slowing, this move will reduce risk and shift the portfolio into growth companies that *benefit* from advancing technology (as opposed to those who *produce* it). **Wireless** currently holds a mix of U.S. technology firms and (mostly) foreign carriers.

Our VIP Sector Model will sell one-half of **VIP Technology** and buy **VIP Telecommunications**.

Our Unique Opportunities Model will sell **Small Cap Value** (1389/FCPVX) and buy **Equity-Income** (23/FEQIX). With the yield curve becoming flatter and dividend stocks looking more attractive than those in the small-cap arena, we've decided to shift this part of the portfolio into large-cap value stocks.

Review & Recommendations

Stocks pulled back on fresh signs of weakness in the domestic economy. Manufacturing continues to be the bright spot, but increasingly there are signs that inventory restocking may be running its course. At the same time, weakness in housing and jobs brought back fears of a double dip recession. Meanwhile, the Fed acknowledged that economic uncertainty is on the rise, and announced plans to begin a mild form of quantitative easing. By reinvesting (into treasuries) the proceeds from maturing mortgage securities, the Fed will not be "printing" any *new* money, but it won't be reducing its balance sheet as originally planned. The market reacted by pushing down long-term interest rates and by boosting gold – which presumably will not have to compete with any significant income stream on cash investments for perhaps several years to come. The S&P 500 declined 4.5% for the month of August.

GROWTH FUNDS

For a stock-oriented approach, we suggest following our Growth Model (holdings are listed in the pie chart on page 7). If you prefer to pick your own funds, our favorites include **Equity-Income**, **Dividend Growth**, **Contrafund**, and **OTC Portfolio**.

Conservative funds with a technology bias led the group. **Fidelity Fifty** was off 1.5%, **Contrafund** declined 2.8%, and **Growth Company** slipped 3.3%. On the bottom end, **103/30 Large Cap** lost 8.0%, and **Leveraged Company Stock** was down 8.2%.

INTERNATIONAL FUNDS

Pacific Basin remains our favorite foreign stock fund. **New Markets Income** offers a conservative approach to investing in emerging countries.

Canada edged up 0.3% on the strength of agricultural commodities. **Pacific Basin** limited its loss to 0.5%, in part because of good stock picks. Laggards included **Overseas**, down 5.1%, and **Nordic** with a 6.2% loss.

GROWTH & INCOME FUNDS

Our Growth and Income Model holdings are detailed on page 7. For a well-diversified hybrid fund that holds a combination of stocks and bonds, consider **Balanced**. Go with **Equity-Income** for dividend stocks.

Telecom & Utilities rose 1.0%, and **Real Estate Income** edged up 0.5%. A tough month for financial

RECOMMENDATIONS - *Continued on page 8*

Over the last five years it has outperformed 95% of its peers in the Lipper Growth Funds Peer Group. Danoff tends to focus on global companies that have robust business models and strong management. He looks to buy in at a reasonable price, often with hopes of holding a given position for several years. He tends to overweight the technology sector because it's fertile ground for the most compelling long-term growth stories.

In recent years, **Contrafund** has been one of Fidelity's least risky stock funds - the result of conservative stock picks, a heavy foreign position, and above-average cash holdings. Its current 3-year volatility score is 0.92. The fund has held up much better than other stock funds during periods of decline, but has often lagged during strong uptrends.

From a big picture standpoint, **Contrafund** is basically a growth-oriented bet on the global economy. Most of its holdings are U.S. companies doing a substantial amount of business outside the U.S., but it also has about 20% of its portfolio invested in large foreign firms, many of which are also multinationals.

In a normal global economy, a research-advantaged fund like **Contrafund** would have good odds for delivering superior returns. But with Japan struggling to emerge from two decades of deflation and the U.S. and Europe slipping into their own debt reduction periods, earnings growth for the world's leading multinationals is likely to slow to a crawl as we go forward. And it may be stuck in that mode for several more years.

CAPITAL & INCOME

Fidelity was a pioneer in high-yield research, jumping into the field in the late 1970s. Over the years it has assembled an impressive team that operates very differently than its stock research group. Instead of focusing on earnings, this group is mainly concerned about default risk (or lack thereof). The goal is to find opportunities where the market has been too concerned about bankruptcy risk, pushing down the price of a bond issue in the process. By knowing who the likely survivors are in each industry, Fidelity managers can often scoop up low-grade bonds at really good prices.

In the early 1990s, Fidelity realized that its high yield analysis worked well as an alternative form of stock research for turnaround plays. Quite often the stocks of companies struggling to manage their debt are more depressed than the bonds, and can multiply on the simple realization that the company is likely to survive. With a unique ability for identifying industry survivors, Fidelity opted to broaden the scope of its high income funds and include a small equity weighting in stocks of firms that issue high yield bonds. Continuing success with the approach led to the introduction of **Leveraged Company Stock** at the end of 2000. David Glancy, who also ran

Capital & Income at the time, was designated as its first manager.

Today, **Capital & Income** is managed by Mark Notkin, who has a 7 year tenure. Like **Contrafund**, **Capital & Income** has outperformed 95% of its peers over the last 5 years. Notkin, like Danoff, benefits from a constant stream of research conducted by savvy analysts, but his research comes from survival assessment rather than earnings projections.

Capital & Income currently has a three-year volatility score of 0.87, making it 5% less risky than **Contrafund**. It currently holds a mix of 16% leveraged stocks, 64% high-yield bonds and 8% cash/other. The fund's overall 30-day yield is 6.6%, but the yield on its bond portion is somewhere around 9%. From an industry mix standpoint, **Capital & Income** has an overweighted telecom position (16% of bond holdings), but overall it has much more diversification than **Contrafund**.

Roughly one-fourth of **Capital and Income's** bond holdings are rated CCC & below. While that might seem rather dicey, Fidelity manages it well, often buying distressed bonds after an analysis of a firm's break up value. The market is not very efficient in this area, so opportunities are relatively easy to find. But you have to be patient, and Fidelity managers are prepared to stick it out through the entire bankruptcy process (to be sure, some of that patience is imposed on shareholders, who must hold the fund for 90 days to avoid the 1% redemption fee).

WEIGHING THE ODDS

So why does it make sense to replace **Contrafund** with **Capital & Income**? There are several reasons:

- In a near-zero inflation environment, there is less difference in performance between stocks and high-yield bonds. Earnings growth slows, so real stock returns are lower. At the same time, lenders keep interest rates relatively high to compensate for added default risk, so high-yield returns increase on an after-inflation basis.

- High-yield spreads are healthy, and bankruptcy risk may be declining. The income stream from high-yield bonds is currently 6-7 percentage points greater than treasuries, indicating that valuations are reasonably attractive. It's been almost two years since the financial crisis hit, so most of the weak players have already been taken out (which leaves more business for the survivors). And the willingness of the market to lend to those who are paying off bank loans or rolling over previously issued debt is also helping to reduce the risk of default.

- **Capital & Income's** yield provides an upside bias. Consider the theoretical case where there is no change in security pricing for stocks or high-yield bonds over the next 12 months. Under that scenario, **Contrafund** would have a total return of less than 1% (equal to its dividend yield), while **Capital & Income** would have a total return of 6-7% (roughly equal to its 30-day yield). In reality,

neither fund will finish with a capital gain of exactly zero. But the income stream helps in a wide range of situations – cushioning the impact of a decline, or adding to returns if valuations move up modestly.

• **Capital & Income** has produced stock-like returns over a period of more than three decades. Since its inception in late 1977, it has returned slightly more than 10% annually. **Contrafund** was up about 13% per year over the same period. Even if we're wrong and **Capital & Income** falls short of **Contrafund** in the coming year, it probably won't lag by much.

All things considered, we think there's a 60% chance that **Capital & Income** will outperform **Contrafund** over the next 12-18 months, compelling us to make the switch in our Growth Model this month. The potential of a modest improvement in performance also comes with a slight reduction in overall risk (to a volatility level of 1.13). The portfolio's new asset mix will be roughly 78% stock, 20% bond, and 2% cash.

CONTRAFUND STILL A BUY

Our decision to sell **Contrafund** and buy **Capital & Income** in the Growth Model is driven mostly by the impact that near-zero inflation is likely to have on stocks and high-yield bonds. We're not disappointed with **Contrafund**. Danoff is a great stockpicker, and in the current environment it makes a lot of sense to maintain a conservatively-positioned stock portfolio. With a focus on large companies that are poised to win over the long run, **Contrafund** could easily finish ahead of other stock funds in a continuing slow-growth earnings environment. As such, we're still holding **Contrafund** in combination with high-yield bond funds in many of our conservative money management accounts. And we'll continue to rate the fund a buy for those who prefer a less-risky stock bet. ■

Question & Answer Forum

You say that High Income is more risky than Strategic Income. Why then would Morningstar list a beta of 0.95 for High Income, versus 1.26 for Strategic Income?

Morningstar classifies **High Income** as a high-yield bond fund. **Strategic Income**, on the other hand, is considered a multi-sector bond fund. Because Morningstar calculates the two betas using two different indexes, the scores are essentially an apples-to-oranges comparison. Fortunately, with Morningstar's standard deviation figures you can get a much more reasonable comparison across different groups. **High Income**, with a standard deviation of 12.21 (72% of the S&P 500's volatility), comes out much higher than **Strategic Income**, which has a standard deviation of 7.56 (44% of the S&P 500).

Our own risk calculations on pages 4-6 are based on 36-month standard deviation (as are Morningstar's figures), but we normalize to the S&P 500 for comparison.

Now that Morningstar has admitted that its star rating system doesn't predict future performance as well as expense ratios, what does that imply for Fidelity funds?

When it comes to actively managed mutual funds, Fidelity's expenses are among the lowest in the industry, so Morningstar's latest conclusion should cast favorable light on Fidelity's lineup.

While some may argue that the study suggests an advantage for index funds over actively managed funds, that's not necessarily true (and almost certainly not true for Fidelity funds). Morningstar didn't look at things from an active versus passive perspective – it only considered star ratings and expenses. That was probably best, as not all index funds are cheap, and not all active managed funds are expensive. For example, some of Fidelity's enhanced index funds (which are actively managed) have lower expense ratios than index funds and ETFs from other companies.

My wife and I are in our early 60s and have a large position in your Income Model. I read Jeremy Seigel's Great American Bond Bubble editorial in the Wall Street Journal, and was surprised to learn that short-term treasuries and TIPS bonds are trading at 100 times payout.

Seigel's editorial was rightfully placed in the opinion section of the Journal. By dreaming up a new "indicator" for bonds, Seigel was trying to create the impression that bonds are overvalued like tech stocks were in 1999.

We're not buying it, and you shouldn't either. His so-called "payout ratio" is nothing more than the reciprocal of a bond's yield, figured by entering the yield in decimal form on a calculator and pressing the 1/x button.

So let's play that game. A short-term treasury bill (like those held in money markets) has a yield of 0.25% or less, so it would be trading at a "payout ratio" of at least 400. Meanwhile, a typical CCC-rated bond has a yield of 12-14%, so that's a "payout ratio" of around 8. Are money market securities really at the height of a bubble, while junk bonds stand out as the only true store of value? Of course not. Seigel's "payout ratio" has no real meaning – it's just a big number. Yes, yields are low, but that doesn't necessarily make bonds expensive.

In reality, it isn't even possible for a bond bubble to exist. Granted, bond valuations do go down when

QUESTION & ANSWER FORUM - *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 ↓.

AUGUST 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
GROWTH FUNDS:												
130/30 Large Cap (2063/FOTTX)	S **	1.08	none	5.94	18.6	-10.0	-8.0	-7.3	-2.5			
Growth Strategies (324/FDEGX)	H ***	1.24	1.5(90)	16.09	1813.7	-1.1	-4.9	-3.6	10.7	-10.2	-1.3	-11.5
Blue Chip Gth (312/FBGRX)	B ****	1.11	none	35.60	10300.1	-6.2	-5.4	-5.9	7.3	-4.6	0.3	-3.5
Blue Chip Value (1271/FBCVX)	S **	1.18	none	9.21	325.1	-7.5	-6.2	-6.7	-1.2	-13.5	-3.8	
Capital Apprec (307/FDCAX)	H ***	1.17	none	20.78	4534.9	-3.0	-7.6	-6.4	11.1	-8.0	-0.2	0.1
Contrafund (22/FCNTX)	B ****	0.92	none	56.46	53952.8	-3.0	-2.8	-1.4	10.0	-5.0	2.4	2.7
Growth Discovery (339/FDSVX)	H ***↑	1.12	none	10.72	634.8	-3.2	-4.6	-4.2	7.7	-9.8	0.1	-2.0
Disc Equity (315/FDEQX)	S **	1.01	none	19.10	9042.1	-9.1	-7.0	-7.6	-1.1	-11.4	-2.6	-2.1
Dividend Gth (330/FDGFY)	B ****	1.28	none	22.38	7694.2	-5.4	-6.1	-5.8	5.9	-7.9	-0.4	-0.3
Export Fund (332/FEXPX)	H ***	1.12	0.75(30)	18.07	2419.0	-7.9	-4.7	-4.4	3.2	-8.7	-0.7	1.9
Fidelity Fifty (500/FFTYX)	H ***	1.23	none	14.57	678.4	-2.8	-1.5	-0.4	6.6	-12.2	-1.7	1.0
Focused Stock (333/FTQGX)	H ***	1.01	none	10.50	117.7	-4.5	-3.8	-4.4	4.9	-5.0	0.6	-3.0
Growth Company (25/FDGRX)	B ****	1.12	Closed	66.74	25891.6	-3.2	-3.3	-3.4	10.3	-4.5	3.0	-2.6
Independence (73/FDFFX)	H ***	1.40	none	18.69	3064.2	-6.2	-6.5	-6.3	7.1	-8.1	1.1	-2.5
Lg Cap Core En Idx (1827/FLCEX)	S **	0.96	none	7.20	954.3	-6.8	-5.0	-4.3	1.5	-9.1		
Lg Cap Gth En Idx (1829/FLGEX)	S **	0.98	none	7.86	44.1	-7.7	-5.4	-4.8	3.5	-7.2		
Large Cap Growth (763/FSLGX)	H ***	1.03	none	7.77	97.5	-4.4	-3.8	-3.7	4.8	-9.2	-3.7	
Large-Cap Stock (338/FLCSX)	B ****	1.29	none	14.16	931.6	-5.4	-6.0	-5.7	3.3	-8.2	0.2	-3.4
Lg Cap Val En Idx (1828/FLVEX)	S **	1.00	none	6.32	64.8	-5.3	-4.7	-4.7	1.4	-11.8		
Large Cap Value (708/FSLVX)	H ***	1.08	none	9.08	849.0	-6.8	-5.0	-6.4	0.1	-13.4	-3.8	
Lev Co Stock (122/FLVCX)	B ****	1.68	1.5(90)	21.58	3984.8	-5.8	-8.2	-10.1	5.8	-11.1	-0.6	
Low-Priced Stock (316/FLPSX)	H ***	1.13	1.5(90)	31.72	24535.2	-0.7	-4.1	-3.1	8.5	-4.2	1.9	9.7
Magellan (21/FMAGX)	H ***	1.29	none	58.16	19075.5	-9.5	-5.9	-7.6	-0.8	-11.3	-2.9	-3.8
Mid Cap Growth (793/FMSGX)	H ***	1.29	0.75(30)	9.82	224.4	-1.2	-4.8	-3.4	11.8	-9.5	-3.4	
Mid Cap Stock (337/FMCSX)	B ****	1.39	0.75(30)	22.43	6325.3	-4.0	-7.4	-9.6	6.4	-8.6	0.6	0.4
Mid Cap Value (762/FSMVX)	H ***	1.27	0.75(30)	12.90	531.8	1.0	-5.5	-4.9	12.8	-7.0	0.0	
New Millennium (300/FMILX)	B ****	1.19	none	23.79	1684.8	-3.4	-5.3	-5.1	7.0	-4.9	2.6	-1.2
OTC Portfolio (93/FOCPX)	B ****	1.32	none	42.32	5080.4	-7.4	-5.9	-7.8	7.3	-4.1	3.5	-4.1
Small Cap Discovery (384/FSCRX)	H ***	1.35	1.5(90)	15.66	664.1	0.8	-6.6	-8.8	9.1	1.0	3.3	
Small Cap Growth (1388/FCPGX)	H ***	1.25	1.5(90)	12.08	1203.5	-2.7	-5.7	-7.7	8.0	-7.5	0.5	
Small Cap Indep (336/FDSCX)	H ***	1.37	1.5(90)	13.91	1464.6	-0.1	-6.7	-7.0	6.6	-11.5	-2.6	1.6
Small Cap Stock (340/FSLCX)	B ****	1.43	2(90)	14.97	3663.8	-6.1	-7.8	-8.7	6.4	-4.9	1.7	4.7
Small Cap Value (1389/FCPVX)	H ***	1.33	1.5(90)	12.71	1769.2	0.2	-6.3	-7.6	9.1	-2.3	2.8	
Stock Selector (320/FDSSX)	S **	1.04	none	20.68	692.0	-4.8	-5.1	-4.1	4.3	-9.5	-0.9	-2.2
Tax Managed Stock (343/FTXMX)	S **	1.08	none	9.98	69.2	-8.4	-7.2	-8.9	-0.5	-13.1	-3.4	
Trend (5/FTRNX)	B ****	1.15	none	53.68	868.8	-4.6	-4.0	-4.1	9.8	-5.7	1.5	-0.6
Value (39/FDVLX)	B ****	1.47	none	55.81	7365.7	-2.0	-5.6	-5.6	7.3	-10.4	-1.4	6.2
Value Discovery (832/FVDFX)	H ***	1.17	none	12.09	598.7	-6.1	-6.4	-6.9	0.2	-11.3	-1.4	
Value Strategies (14/FSLSX)	B ****	1.57	none	22.07	347.1	-0.2	-5.7	-7.0	9.8	-9.1	-0.1	4.1
GROWTH & INCOME FUNDS:												
Balanced (304/FBALX)	B ****	0.78	none	16.27	17402.9	0.4	-2.5	-0.6	8.1	-3.6	2.2	4.7
Convertible Sec (308/FCVXS)	H ***	1.30	none	21.79	2244.8	1.5	-3.1	-1.5	11.7	-3.4	3.6	2.9
Equity-Income (23/FEQIX)	B ****	1.15	none	36.70	11542.8	-5.5	-6.0	-5.2	1.6	-11.7	-2.0	0.9
Equity-Income II (319/FEQTX)	B ****	1.12	none	15.16	4846.2	-6.5	-6.0	-5.5	0.2	-11.6	-3.1	0.5
Fidelity Fund (3/FFIDX)	S **	1.05	none	26.17	4616.4	-7.3	-5.0	-5.5	-0.5	-8.6	-0.4	-2.0
Growth & Income (27/FGRIX)	S **	1.18	none	14.88	5419.1	-7.1	-5.5	-5.2	0.5	-18.1	-8.4	-5.2
Mega Cap Stock (361/FGRTX)	B ****	1.05	none	8.16	497.8	-6.9	-6.2	-4.6	1.5	-9.2	-0.9	-1.0
Puritan (4/FPURX)	B ****	0.72	none	15.80	15999.7	-0.5	-2.9	-1.3	7.5	-3.1	2.2	3.6
Real Estate Income (833/FRIFX)	B ****	0.75	0.75(90)	10.00	1028.8	10.7	0.5	2.9	22.1	3.6	3.3	
Real Estate (303/FRESX)	H ***	1.99	0.75(90)	22.96	3065.0	14.8	-1.5	2.2	36.2	-6.1	0.5	9.8
Strategic Div & Inc (1329/FSDIX)	B ****	1.14	none	9.51	476.7	0.7	-3.3	-2.0	10.1	-7.1	-0.1	
Telecom & Utilities (311/FUIX)	B ****↑	0.89	none	14.62	801.7	5.7	1.0	7.3	16.4	-7.8	2.1	-1.3
SELECT FUNDS:												
Air Transportation (34/FSAIX)	H ***	1.64	0.75(30)	35.47	138.1	11.4	-6.8	-3.6	32.6	-5.9	4.5	3.8
Automotive (502/FSAVX)	H ***	2.49	0.75(30)	31.62	112.6	2.3	-6.9	-0.8	16.5	-6.5	-1.0	4.5
Banking (507/FSRBX)	B ****	1.60	0.75(30)	14.80	482.5	-2.9	-12.6	-16.2	-2.6	-18.8	-10.0	-1.5
Biotechnology (42/FBIOX)	S **	1.03	0.75(30)	61.98	959.6	-5.4	-3.3	-2.8	-4.1	-2.1	0.7	-4.4
Brokerage (68/FSLBX)	H ***	1.50	0.75(30)	43.09	498.4	-9.1	-7.6	-9.6	-8.8	-9.3	-0.5	1.5
IT Ser / Bus Ser (353/FBSOX)	H ***↓	1.16	0.75(30)	16.75	85.7	-6.1	-4.3	-2.4	12.5	1.7	6.5	5.4
Chemicals (69/FSCHX)	H ***	1.42	0.75(30)	73.64	286.5	0.2	-2.0	4.0	12.8	0.4	7.8	11.2
Computers (7/FDCPX)	S **↓	1.40	0.75(30)	43.18	470.6	-5.3	-6.0	-6.0	11.0	-2.1	3.9	-7.7
Const & Housing (511/FSHOX)	H ***	1.50	0.75(30)	28.08	90.5	-3.3	-3.7	-13.5	-0.5	-8.3	-4.6	7.5
Consumer Disc (517/FSCPX)	H ***	1.20	0.75(30)	19.24	116.0	2.4	-4.5	-7.1	15.2	-5.7	-0.2	1.0
Industrial / Cyc Ind (515/FCYIX)	H ***	1.42	0.75(30)	18.39	308.5	1.5	-7.2	-4.7	14.1	-4.4	3.8	6.6
Defense & Aero (67/FSDAX)	H ***	1.33	0.75(30)	60.83	640.5	0.8	-7.4	-5.7	14.8	-8.3	1.9	7.0
Com Equip / DevC (518/FSDCX)	H ***	1.61	0.75(30)	20.70	380.0	-0.3	-5.5	-3.0	13.7	-3.4	2.0	-8.6
Electronics (8/FSLEX)	S **↓	1.52	0.75(30)	34.61	971.5	-16.5	-9.8	-14.9	-5.5	-10.5	-3.3	-10.2
Energy (60/FSLEX)	S **↓	1.65	0.75(30)	38.30	1872.9	-13.3	-5.3	-3.0	1.7	-11.4	0.1	6.8
Energy Service (43/FSSESX)	S **↓	1.95	0.75(30)	50.97	1110.6	-12.3	-7.2	-0.1	1.0	-16.6	-1.1	4.3
Environ & Alt Energy (516/FSLEX)	H ***	1.08	0.75(30)	15.05	53.7	-3.2	-4.1	0.5	5.3	-4.9	-0.4	2.7
Financial Services (66/FIDSX)	B ****	1.48	0.75(30)	51.60	472.8	-11.1	-11.0	-12.9	-10.3	-20.0	-9.3	-2.4
Con Stap / Food Ag (9/FDFAX)	B ****	0.79	0.75(30)	60.66	832.6	-0.1	-2.1	3.0	7.8	0.9	7.1	8.0
Gold (41/FSAGX) Limit to 5% position	H ***	2.18	0.75(30)	49.35	3362.2	16.2	10.6	8.9	35.8	17.7	22.9	20.9
Health Care (63/FSHPX)	H ***	0.90	0.75(30)	100.51	1536.0	-5.8	-3.1	-5.8	3.9	-3.9	0.5	1.2
Home Finance (98/FSVLX)	B ****	1.36	0.75(30)	10.16	125.5	-7.2	-11.5	-13.8	-3.9	-33.6	-22.3	-6.3
Indust Equip (510/FSCGX)	H ***	1.50	0.75(30)	25.60	171.0	0.7	-7.6	-5.7	13.4	-7.4	2.3	2.3
Materials / Ind Mat (509/FSDPX)	H ***	1.55	0.75(30)	52.31	598.1	-3.0	-2.7	0.7	12.2	-0.2	9.7	12.7
Insurance (45/FSPCX)	B ****	1.34	0.75(30)	40.78	165.0	3.1	-4.3	-1.2	3.9	-13.3	-5.1	2.5
Leisure (62/FDLSX)	H ***	1.12	0.75(30)	73.11	285.1	10.1	-4.1	-5.4	18.6	-0.7	4.8	3.4
Medical Delivery (505/FSHCX)	H ***	1.28	0.75(30)	39.12	386.6	-9.1	-3.5	-10.6	4.1	-6.4	-1.6	9.3
Medical Equip/Sys (354/FSMEX)	H ***	0.93	0.75(30)	21.95	1268.8	-10.3	-5.6	-9.2	-2.7	-1.2	2.3	6.5
Multimedia (503/FBMPX)	B ****↑	1.31	0.75(30)	35.08	121.2	2.8	-5.1	-3.3	23.1	-3.8	1.3	1.2
Natural Gas (513/FSNGX)	S **↓	1.75	0.75(30)	26.66	909.1	-15.3	-4.3	-3.7	-4.5	-11.5	-2.5	5.6
Nat Resources (514/FNARX)	S **↓	1.66	0.75(30)	25.49	1307.6	-10.4	-4.4	-2.4	5.6	-8.0	4.2	8.3
Pharmaceuticals (580/FPHAX)	B ****	0.83	0.75(30)	10.76	257.7	-0.5	0.6	3.0	12.1	0.5	5.2	
Retailing (46/FSRPX)	H ***	1.24	0.75(30)	41.34	152.2	-1.0	-2.6	-11.2	11.1	-0.4	3.5	4.1
Software (28/FSCSX)	B ****	1.20	0.75(30)	70.80	972.3	-6.7	-2.7	-1.0	12.7	0.5	7.1	-0.1
Technology (64/FSPTX)	H ***↓	1.54	0.75(30)	73.20	1956.2	-3.0	-3.4	-1.6	16.8	-2.1	3.8	-7.5
Telecom (96/FSTCX)	B ****	1.25	0.75(30)	39.96	318.0	0.4	-1.6	3.2	15.0	-9.5	2.6	-5.6
Transportation (512/FSRFY)	H ***	1.30	0.75(30)	45.10	319.5	14.7	-7.3	-4.6	29.6	-1.5	4.6	8.1
Utilities (65/FSUTX)	B ****↑	0.94	0.75(30)	46.06	398.5	3.4	1.7	8.0	10			

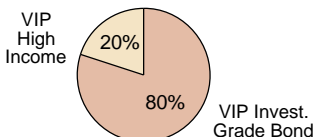
AUGUST PERFORMANCE						30-day	2010	One	Three	One	3-Yr	5-Yr
Fund Name (Code/Symbol)	Rating	Risk	Fee	NAV	Size	Yield	YTD	Mth	Mth	Year	Rate	Rate
INTERNATIONAL FUNDS:												
Canada (309/FICDX)	H ***	1.45	1.5(90)	49.69	3670.2		2.5	0.3	1.8	12.5	-3.1	6.7
China Region (352/FHKCX)	H ***	1.51	1.5(90)	27.60	1871.0		-1.0	-1.0	7.1	15.2	1.1	12.9
Diversified Int'l (325/FDIVX)	S **	1.26	1 (30)	25.61	26227.6		-8.5	-3.7	3.1	-1.0	-11.1	0.4
Emerging EMEA (2053/FEMEX)	H ***	1.8 Est	1.5(90)	7.79	105.0		2.2	-3.7	4.8	13.6		
Emerging Mkts (322/FEMKX)	H ***	1.72	1.5(90)	22.21	3741.1		-1.8	-1.9	5.5	17.6	-7.0	10.0
Europe (301/FIEUX)	S **	1.28	1 (30)	26.14	1342.9		-11.3	-4.6	4.7	-5.4	-10.5	0.1
Europe Cap Appr (341/FECAX)	S **	1.31	1 (30)	15.71	426.4		-11.4	-4.6	4.5	-5.4	-12.2	0.6
Global Balanced (334/FGBLX)	H ***	0.76	1 (30)	19.81	492.5		-1.5	-1.6	2.4	4.7	-0.5	4.5
Glob Commodity Stk (2120/FFGCX)	H ***	1.6 Est	1 (30)	13.53	256.3		-8.0	-0.5	3.8	5.8		
Int'l Capital Apprec. (335/FIVFX)	H ***	1.52	1 (30)	10.71	553.6		-5.6	-3.3	2.4	2.3	-10.5	-0.8
Int'l Discovery (305/FIGRX)	S **	1.23	1 (30)	27.79	7686.5		-8.4	-4.1	3.3	-0.9	-10.5	1.5
Int'l Growth (1979/FIGFX)	H ***	1.5 Est	1 (30)	7.18	22.6		-4.0	-2.3	5.9	7.7		
Int'l Real Estate (1368/FIREX)	S **	1.39	1.5(90)	8.43	318.1		-4.2	-1.2	9.1	2.8	-14.9	-1.6
Int'l Small Cap (818/FISMX)	B ****	1.32	2 (90)	17.42	673.1		-0.7	-1.8	5.4	6.1	-7.7	2.0
Int'l Small Cap Opp (1504/FSCOX)	B ****↑	1.48	2 (90)	8.56	357.3		-0.2	-3.4	5.2	12.2	-16.5	
Int'l Value (1597/FIVLX)	S **	1.43	1 (30)	7.15	152.9		-10.4	-4.8	3.3	-4.2	-12.7	
Japan (350/FJPNX)	H ***	1.11	1.5(90)	9.79	921.5		-3.3	-3.8	-3.2	-7.5	-12.4	-2.7
Japan Smaller Co (360/FJSCX)	H ***	1.23	1.5(90)	7.88	312.1		-5.3	-4.8	-2.2	-9.9	-12.1	-7.9
Latin America (349/FLATX)	H ***	1.74	1.5(90)	50.62	3869.7		-2.4	-0.8	9.9	23.4	0.2	16.8
Nordic (342/FNORX)	H ***	1.59	1.5(90)	27.02	364.4		-1.3	-6.2	5.9	7.1	-12.0	1.9
Overseas (94/FOSFX)	S **	1.28	1 (30)	27.04	5547.0		-12.6	-5.1	0.9	-9.8	-14.4	-0.8
Pacific Basin (302/FPBFX)	B ****	1.59	1.5(90)	21.64	718.2		6.6	-0.5	5.9	15.5	-6.7	5.9
Southeast Asia (351/FSEAX)	H ***	1.39	1.5(90)	26.05	1549.4		2.4	-0.8	9.3	16.1	-8.9	11.7
Total Int'l Equity (1978/FIEX)	S **	1.3 Est	1 (30)	6.35	52.5		-6.1	-3.2	4.8	4.1		
Worldwide (318/FWWFX)	H ***	1.12	1 (30)	15.05	992.0		-6.3	-4.1	-0.9	2.3	-8.3	1.8
INDEX AND ASSET ALLOCATION:												
Four-In-One Index (355/FNOX)	H ***	0.91	none	23.49	2024.0		-3.0	-3.5	-0.3	4.5	-6.2	0.7
NASDAQ Comp (1282/FNCMX)	B ****	1.17	0.75(90)	28.14	256.3		-6.4	-6.2	-6.2	6.0	-6.0	0.3
Spart Ext Mkt Idx (398/FSEMX)	H ***	1.20	0.75(90)	30.06	3003.7		-0.1	-5.6	-6.1	10.9	-5.7	1.1
Spart Int'l Index (399/FIIX)	S **	1.26	1(90)	30.70	5882.7		-8.1	-3.5	5.1	-2.4	-10.7	0.9
Spart 500 Index (650/FUSEX)	H ***	1.00	none	37.27	23540.6		-4.6	-4.5	-3.2	4.8	-8.7	-0.9
Spart Total Mkt Idx (397/FSTMX)	H ***	1.03	0.5(90)	30.24	5461.4		-3.9	-4.7	-3.7	5.9	-8.1	-0.5
Asset Mgr 20% (328/FASIX)	H ***	0.36	none	12.28	2892.8		3.6	-0.3	2.0	8.3	2.6	4.2
Asset Mgr 30% (1957/FTANX)	H ***	0.5 Est	none	9.34	99.2		3.2	-0.8	1.7	8.8		
Asset Mgr 40% (1958/FFANX)	H ***	0.6 Est	none	9.03	72.9		2.2	-1.3	1.4	8.7		
Asset Mgr 50% (314/FASMX)	H ***	0.70	none	13.89	6144.6		1.2	-1.8	1.1	8.8	-0.9	2.7
Asset Mgr 60% (1959/FSANX)	H ***	0.8 Est	none	8.64	86.8		0.0	-2.4	0.7	8.0		
Asset Mgr 70% (321/FASGX)	H ***	0.90	none	14.17	2272.8		-1.1	-2.9	0.1	7.8	-4.0	1.3
Asset Mgr 85% (347/FAMRX)	H ***	1.03	none	11.25	567.9		-3.4	-3.8	-0.8	6.3	-5.9	1.0
Dynamic Strategies (1960/FDYSX)	H ***	0.8 Est	none	8.52	155.5		1.0	-1.0	1.6	10.0		
Freedom 2000 (370/FFFBX)	H ***	0.36	none	11.55	1558.4		2.4	-0.6	1.0	7.3	1.5	3.2
Freedom 2005 (1312/FFVFX)	H ***	0.62	none	10.01	933.5		0.4	-1.8	0.3	6.9	-1.4	2.4
Freedom 2010 (371/FFFCX)	H ***	0.66	none	12.43	10047.3		0.0	-2.0	0.2	6.8	-1.5	2.4
Freedom 2015 (1313/FFVFX)	H ***	0.69	none	10.34	8469.9		-0.1	-2.1	0.2	6.9	-2.2	2.4
Freedom 2020 (372/FFFDX)	H ***	0.82	none	12.32	19031.1		-1.2	-2.6	-0.2	6.8	-3.9	1.7
Freedom 2025 (1314/FFFTX)	H ***	0.87	none	10.12	8955.2		-2.0	-3.1	-0.6	6.2	-4.7	1.4
Freedom 2030 (373/FFFEEX)	H ***	0.95	none	11.98	13713.8		-2.7	-3.4	-0.9	5.9	-6.4	0.7
Freedom 2035 (1315/FFTHX)	H ***	0.98	none	9.83	5892.4		-3.6	-3.8	-1.3	5.1	-7.0	0.4
Freedom 2040 (718/FFFFX)	H ***	1.01	none	6.85	8138.1		-3.7	-3.9	-1.4	5.1	-7.4	0.2
Freedom 2045 (1617/FFFGX)	H ***	1.02	none	8.09	2092.9		-3.9	-3.9	-1.5	5.2	-7.6	
Freedom 2050 (1618/FFHHX)	H ***	1.06	none	7.92	1667.5		-4.6	-4.1	-1.6	4.5	-8.4	
Freedom Income (369/FFFAFX)	H ***	0.33	none	10.90	2727.8		2.5	-0.5	1.0	7.2	2.1	3.4
TAXABLE BOND FUNDS:												
Capital & Income (38/FAGIX)	B ****	0.87	1(90)	8.72	11338.5	6.60	5.2	-0.7	3.0	22.5	7.8	7.8
Corporate Bond (2208/FCBFX)	B ****	0.3 Est	none	10.44	92.7	3.45		2.2	6.2			
Floating Rate (814/FFRHX)	H ***	0.45	1(60)	9.54	3199.4	4.25	3.4	0.4	2.0	7.5	4.3	4.3
Focused High Inc (1366/FHIFX)	H ***	0.61	1(90)	9.19	536.7	6.02	7.8	0.6	5.6	17.3	5.9	5.4
GNMA Portfolio (15/FGMNX)	B ****	0.15	none	11.94	8219.5	2.44	7.2	0.5	3.0	8.6	8.4	6.5
Gov't Income (54/FGOVX)	H ***	0.20	none	10.97	4771.9	1.63	7.2	1.6	3.7	7.5	7.9	6.0
High Income (455/SPHIX)	B ****	0.73	1(90)	8.63	6749.9	7.48	6.7	0.0	4.3	19.5	7.9	7.2
Inflation-Protected (794/FINPX)	H ***	0.42	none	11.79	2217.2	0.30	6.1	1.7	3.2	10.2	6.2	4.4
Intermed Bond (32/FTHRX)	B ****	0.25	none	10.74	4698.2	2.26	8.3	1.4	4.0	11.6	6.8	5.3
Intermed Gov't Inc (452/FSTGX)	H ***	0.17	none	11.21	1415.5	0.98	6.2	1.1	3.2	6.5	7.0	5.7
Invest Grade Bond (26/FBNDX)	B ****	0.25	none	7.47	7128.3	2.61	8.5	1.3	4.0	12.3	6.0	4.6
Mortgage Securities (40/FMSFX)	B ****	0.13	none	10.94	834.6	3.44	7.0	0.5	2.8	9.8	6.1	4.4
New Markets Inc (331/FNMIX)	B ****	0.75	1(90)	16.03	3649.2	5.23	10.6	2.2	7.7	19.0	11.2	10.0
Short-Term Bond (450/FSHBX)	B ****	0.11	none	8.48	7717.6	1.10	3.4	0.4	1.5	5.5	2.6	2.7
Spart Intermed Tr Idx (1561/FIBIX)	H ***	0.36	none	11.26	1388.8	1.93	12.5	2.8	6.7	11.6	9.4	
Spart L-Term Tr Idx (1562/FLBIX)	H ***	0.65	none	11.85	225.1	3.20	21.0	7.0	11.9	16.7	11.2	
Spart S-Term Tr Idx (1560/FSBIX)	H ***	0.13	none	10.64	252.6	0.56	4.1	0.5	1.9	4.3	5.4	
Strategic Income (368/FSICX)	B ****	0.45	none	11.21	7705.7	4.36	6.9	0.9	5.1	14.1	8.9	7.4
Strategic Real Rtn (1505/FSRRX)	H ***	0.66	0.75(60)	8.85	4229.8	2.24	4.0	-0.3	2.9	12.7	2.1	
Total Bond (820/FTBFX)	B ****	0.27	none	11.05	11148.3	3.21	8.2	1.2	4.1	12.4	7.9	6.0
Ultra-Short Bond (812/FUSFX)	H ***	0.16	0.25(60)	8.16	239.3	0.37	0.8	0.2	0.3	1.3	-3.2	-1.1
US Bond Index (651/FBIDX)	H ***	0.18	none	11.67	10915.1	2.38	7.7	1.3	4.1	9.1	7.0	5.4
MUNICIPAL BOND FUNDS:												
AZ Municipal Inc (434/FAZAX)	H ***	0.30	0.5(30)	11.76	178.3	3.04	6.8	2.5	3.8	9.7	6.0	4.5
CA Municipal Inc (91/FCTFX)	S **	0.31	0.5(30)	12.37	1646.4	3.36	8.2	2.4	3.8	10.5	5.3	4.2
CA Short-Int TF (1534/FCSTX)	H ***	0.15	0.5(30)	10.81	694.8	1.13	4.0	1.0	2.3	5.7	5.5	
CT Municipal Inc (407/FICNX)	H ***	0.26	0.5(30)	11.84	619.9	2.30	6.3	2.2	3.6	8.4	6.2	4.7
Intermediate Muni (36/FLTMX)	B ****	0.19	0.5(30)	10.48	4142.9	2.16	5.6	1.6	2.9	7.6	5.9	4.6
MA Municipal Inc (70/FDMMX)	H ***	0.28	0.5(30)	12.32	2483.5	2.77	7.1	2.4	3.7	9.7	6.2	4.7
MD Municipal Inc (429/SMDMX)	H ***	0.27	0.5(30)	11.30	190.9	2.38	6.0	1.9	3.2	8.5	5.9	4.4
MI Municipal Inc (81/FMHTX)	H ***	0.24	0.5(30)	12.24	669.4	2.80	6.0	2.1	3.2	8.4	6.0	4.6
MN Municipal Inc (82/FIMIX)	H ***	0.23	0.5(30)	11.79	526.5	2.17	6.0	1.9	3.2	8.0	6.0	4.5
Municipal Income (37/FHIGX)	H ***	0.28	0.5(30)	12.97	6070.1	3.20	7.0	2.2	3.4	9.7	5.9	4.5
NJ Municipal Inc (416/FNJHX)	H ***	0.28	0.5(30)	11.93	682.5	2.59	6.4	2.0	3.4	8.7	5.9	4.5
NY Municipal Inc (71/FTFMX)	H ***	0.28	0.5(30)	13.36	1844.8	2.78	6.8	2.1	3.3	9.4	6.3	4.7
OH Municipal Inc (88/FOHFX)	H ***	0.27	0.5(30)	11.97	562.3	2.81	5.8	2.0	3.1	8.2	6.1	4.6
PA Municipal Inc (402/FPXTX)	H ***	0.22	0.5(30)	11.12	458.4	2.90	5.8	2.2	3.3	8.3	5.8	4.5
Short-Int Municipal (404/FSTFX)	B ****	0.13	0.5(30)	10.82	3642.9	1.19	3.3	0.9	1.9	4.7	4.9	4.0
Tax-Free Bond (90/FTABX)	H ***	0.28	0.5(30)	11.19	2051.0	3.18	7.0	2.3	3.5	9.8	6.4	4.8

AUGUST 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	10014.72	-2.3	-4.1	-0.6	8.2	-6.5	1.8	1.2
S&P 500	1.00	1049.33	-4.6	-4.5	-3.2	4.9	-8.7	-0.9	-1.8
NASDAQ	1.16	2114.03	-6.3	-6.1	-6.1	6.2	-5.7	0.5	-6.0
Russell 2000	1.27	602.06	-2.9	-7.3	-8.6	6.7	-7.4	-0.7	2.5
Fidelity Monitor Income Model	0.33	95000.09	7.8	1.2	4.4	13.8	2.5	3.6	4.2
Fidelity Monitor G&I Model	0.73	163482.89	1.5	-1.5	0.7	10.2	-4.4	1.5	4.1
Fidelity Monitor Growth Model	1.13	153299.68	-4.9	-5.2	-5.2	7.2	-9.9	-1.6	0.4
Fidelity Monitor Select System	1.08	320339.83	-6.1	-6.0	-4.0	5.6	-6.6	1.4	0.5
Fidelity Monitor Unique Opportunities	1.15	103970.05	-3.7	-5.0	-6.0	7.6	-7.9	0.2	5.6

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

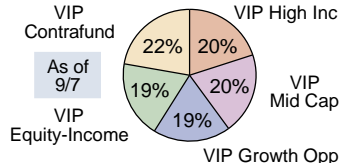


PAST PERFORMANCE

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%	*2010: +6.7%

VIP GROWTH MODEL

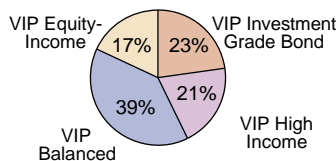


PAST PERFORMANCE

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%	*2010: -2.5%

VIP G & I MODEL

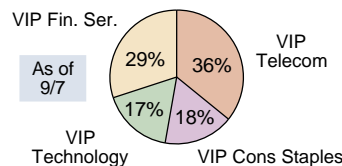


PAST PERFORMANCE

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%	*2010: -0.1%

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%	*2010: -4.8%

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

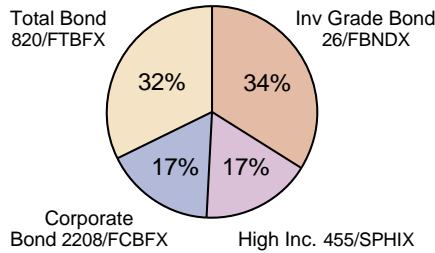
AUGUST VIP PERFORMANCE Portfolio	Rating	Risk	RR Value	2010 YTD	One Month	Three Month	One Year	3-Yr Rate	5-Yr Rate
VIP Growth Strategies	H ***	1.23	9.41	-2.1	-5.0	-3.7	9.4	-10.9	-2.2
VIP Asset Manager	H ***	0.78	35.78	0.1	-2.3	0.2	8.0	-1.0	2.5
VIP Asset Manager: Growth	H ***	1.00	21.69	-2.7	-3.5	-1.0	6.9	-4.0	1.1
VIP Balanced	B ****	0.93	16.61	-1.4	-3.8	-2.7	7.3	-3.4	2.0
VIP Consumer Discretionary	H ***	1.20	10.38	1.9	-4.5	-7.1	14.1	-6.1	-0.8
VIP Consumer Staples	B ****	0.78	10.30	-0.6	-2.3	2.7	6.7	0.4	0.1
VIP Contrafund	B ****	1.12	37.55	-5.3	-5.2	-3.9	4.3	-8.2	0.1
VIP Disciplined Small Cap	H ***	1.18	7.53	-3.5	-7.3	-7.9	5.4	-9.7	
VIP Dynamic Capital Appreciation	H ***	1.18	12.18	-3.5	-7.7	-6.5	10.3	-9.1	-0.2
VIP Energy	S **↓	1.65	18.39	-13.5	-5.4	-3.2	1.3	-12.1	0.5
VIP Equity-Income	B ****	1.17	47.81	-6.2	-6.1	-5.3	0.8	-12.8	-3.0
VIP Financial Services	B ****	1.52	7.25	-10.9	-10.9	-12.7	-10.8	-20.3	-9.8
VIP Freedom 2005	H ***	0.61	11.41	0.8	-1.7	0.2	6.4	-1.7	2.2
VIP Freedom 2010	H ***	0.65	11.39	0.7	-2.0	0.2	6.6	-1.8	2.1
VIP Freedom 2015	H ***	0.69	11.49	0.5	-2.1	0.2	6.8	-2.5	2.2
VIP Freedom 2020	H ***	0.83	11.10	-0.4	-2.6	-0.3	6.8	-4.4	1.4
VIP Freedom 2025	H ***	0.88	11.01	-1.1	-3.1	-0.7	6.5	-5.1	1.2
VIP Freedom 2030	H ***	0.98	10.62	-2.0	-3.4	-1.2	6.0	-6.9	0.4
VIP Freedom Income	H ***	0.31	11.84	2.2	-0.6	0.9	5.6	1.8	3.2
VIP FundsManager 20	H ***	0.27	11.15	2.2	-0.3	1.6	5.0	1.3	
VIP FundsManager 50	H ***	0.59	10.16	0.0	-1.7	0.6	5.4	-2.6	
VIP FundsManager 70	H ***	0.80	9.28	-2.0	-2.7	-0.3	5.1	-6.1	
VIP FundsManager 85	H ***	0.97	8.68	-3.3	-3.5	-1.2	5.2	-8.5	
VIP Growth	H ***	1.11	49.06	-3.7	-4.7	-4.5	6.7	-11.2	-2.4
VIP Growth & Income	H ***	1.04	14.64	-7.6	-5.7	-5.3	-0.2	-11.3	-2.4
VIP Growth Opportunities	B ****	1.36	10.25	-4.0	-4.4	-4.6	9.1	-12.0	-3.2
VIP Growth Stock	H ***	1.15	9.73	-4.5	-3.9	-3.9	9.5	-6.5	-1.0
VIP Health Care	H ***	0.89	11.58	-6.2	-3.3	-6.2	3.2	-4.3	-0.2
VIP High Income	B ****	0.69	36.44	6.8	0.5	5.0	17.3	4.8	5.1
VIP Index 500	H ***	1.00	29.70	-5.2	-4.6	-3.4	4.0	-9.4	-1.7
VIP Industrials	H ***	1.43	17.19	0.8	-7.6	-5.1	13.2	-4.7	3.5
VIP Int'l Capital Appreciation	H ***	1.52	9.57	-6.3	-3.4	2.2	1.4	-11.2	-1.8
VIP Investment Grade Bond	B ****	0.24	35.98	7.7	1.3	3.9	10.5	6.7	4.8
VIP Materials	H ***	1.55	10.22	-3.4	-2.8	0.5	11.4	-0.6	
VIP Mid Cap	B ****	1.08	21.64	5.0	-0.3	0.1	16.9	-3.3	3.6
VIP Money Market			21.77	-0.4	-0.1	-0.2	-0.6	1.0	2.2
VIP Overseas	S **	1.23	30.42	-8.8	-4.2	3.5	-2.2	-12.1	-0.4
VIP Real Estate	H ***	2.06	17.21	14.2	-1.9	1.6	34.0	-5.6	1.4
VIP Strategic Income	B ****	0.43	15.24	6.2	0.9	5.0	12.7	8.0	6.4
VIP Technology	H ***↓	1.54	11.42	-3.1	-3.3	-1.4	16.5	-2.0	4.0
VIP Telecommunications	B ****	1.22	7.50	-1.0	-1.8	2.6	13.2	-11.2	
VIP Utilities	B ****↑	0.95	11.98	3.1	1.5	7.9	9.6	-5.7	3.2
VIP Value	B ****	1.44	8.86	-3.9	-6.3	-6.9	5.0	-11.8	-3.0
VIP Value Leaders	S **	1.18	8.23	-8.1	-6.3	-6.9	-2.0	-14.0	-4.5
VIP Value Strategies	B ****	1.56	11.93	-0.8	-5.9	-7.3	9.0	-10.1	-1.1
Fidelity Monitor VIP Income Model		0.30	22565.24	6.7	1.1	3.9	11.7	2.9	3.8
Fidelity Monitor VIP G&I Model		0.73	23782.15	-0.1	-2.1	-0.7	7.7	-3.7	1.6
Fidelity Monitor VIP Growth Model		1.03	27532.14	-2.5	-3.9	-3.3	7.9	-11.8	-2.6
Fidelity Monitor VIP Sector Model		1.19	17439.51	-4.8	-5.2	-2.8	10.7	-4.2	2.6

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	\$7.47	4399.454	\$32863.92
High Income	\$8.63	1851.866	\$15981.60
Corporate Bond	\$10.44	1531.156	\$15985.27
Total Bond	\$10.05	2730.253	\$30169.30

8% Foreign Holdings
Balance as of 8/31/10: \$95000.09
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: + 7.8%

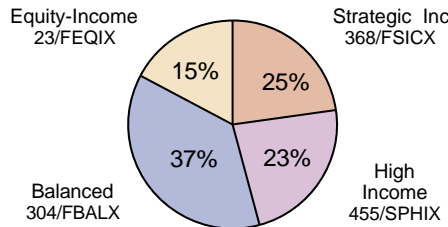
For August our Income Model gained 1.2%.

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	\$11.21	3590.179	\$40245.91
High Income	\$8.63	4387.051	\$37860.25
Balanced	\$16.27	3697.518	\$60158.62
Equity-Income	\$36.70	687.142	\$25218.11

16% Foreign Holdings
Balance as of 8/31/10: \$163482.89
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: + 1.5%

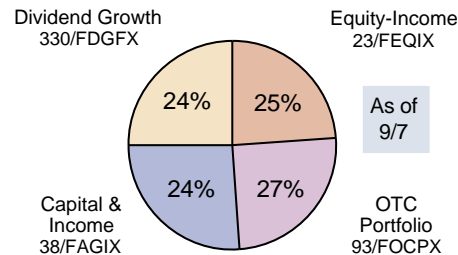
Our Growth and Income Model declined 1.5% in August. On 8/9 we sold **Puritan** (\$16.49) and bought **High Income** (\$8.72).

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	\$36.70	1037.836	\$38088.58
OTC Portfolio	\$42.32	984.424	\$41660.82
Contrafund	\$56.46	649.764	\$36685.68
Dividend Growth	\$22.38	1647.212	\$36864.60

12% Foreign Holdings
Balance as of 8/31/10: \$153299.68
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: - 4.9%

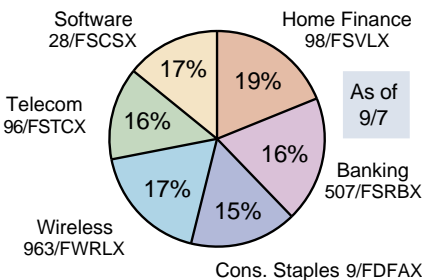
Our Growth Model was down 5.2% in August, versus a loss of 4.5% for the S&P. On 9/7 we'll trade **Contrafund** for **Capital & Income**.

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	\$10.16	5924.536	\$60193.29
Banking	\$14.80	3365.821	\$49814.15
Consumer Staples	\$60.66	816.730	\$49542.84
Technology	\$73.20	734.691	\$53779.38
Telecom	\$39.96	1289.049	\$51510.40
Software	\$70.80	783.895	\$55499.77

13% Foreign Holdings
Balance as of 8/31/10: \$320339.83
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: - 6.1%

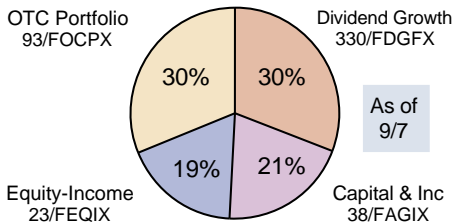
Our Select System lost 6.0% in August, compared to a 4.5% decline for the S&P 500. On 9/7 we will sell **Technology** and buy **Wireless**.

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	\$22.38	1397.231	\$31270.03
Capital & Income	\$8.72	2552.526	\$22258.03
Small Cap Value	\$12.71	1528.959	\$19433.07
OTC Portfolio	\$42.32	732.725	\$31008.92

12% Foreign Holdings
Balance as of 8/31/10: \$103970.05
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: - 3.7%

Our Unique Opportunities Model was down 5.0% in August, versus a 4.5% loss for the S&P 500. On 9/7 we will sell **Small-Cap Value** and buy **Equity-Income**.

interest rates rise, and climb when interest rate decline. But they are never stretched like tech stocks. Traditional bonds are valued for their income stream and nothing else. They are an instrument of debt, not equity, so they can never behave like stocks.

As for our Income Model, it continues to be our least risky portfolio, while remaining a solid choice for generating retirement income.

Regarding your Income Model, can you tell me the overall yield, and do you have anything with a higher income stream in your portfolio management service?

The Income Model's overall 30-day yield is roughly 3.8%. We offer an Aggressive Income portfolio through our advisory affiliates. It generates a 30-day yield that's currently about 4.7% (before fees). However, it also runs with about a third more risk due to its heavy high-yield bond emphasis (relative to the S&P, it has a volatility level of 0.54, versus 0.33 for the Income Model).

I keep reading about how Fannie Mae and Freddie Mac are just about bankrupt. So why is Fidelity Ginnie Mae performing so much better than other short-term bond funds this year?

Ginnie Mae is doing better than other short-term bond funds because the prices on agency mortgage debt started the year at a significant discount. Fannie and Freddie have effectively been nationalized, so debt issued by either agency is close to the safety of treasuries, but yields are still higher because we don't know what Congress will eventually do with the agencies. Most likely, values will rise and yields will fall relative to treasuries. Some of that has already happened, which explains why **Ginnie Mae** has outperformed other short-term funds this year.

I've been using the Unique Opportunities Model for a number of years in a taxable account, but would like to switch to the Growth and Income Model as soon as possible. Will I have to take a big tax hit?

Most of the model's long-term gains are in **Small Cap Value**, but since we're selling it this month you would end up booking a capital gain with or without a move to the Growth and Income Model. As for the other holdings, they're pretty much a wash from a tax standpoint, but you'll want to wait out the 90-day redemption period on **Capital & Income**. You can always substitute it for the Growth and Income Model's **High Income** position until the redemption fee period is satisfied. ■

stocks weighed on **Equity-Income** and **Equity-Income II**, both of which posted a loss of 6.0%, and on **Mega Cap Stock**, which was down 6.2%.

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.

Declining long-term interest rates gave a lift to interest-rate sensitive funds, but high-yield bond funds were held back as mild credit concerns resurfaced. **Spartan Long-Term Treasury Index** was up 7.0%, and **Spartan Intermediate Treasury Index** rose 2.8%. The laggards were **Strategic Real Return**, which slid 0.3%, and **Capital & Income** with a 0.7% decline. Municipal bond funds posted gains ranging from 0.9% to 2.5%.

SELECT PORTFOLIOS

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

Gold jumped 10.6% as the price of the metal rose on the prospect of near-zero yields on cash for much longer than previously expected. **Utilities** rose 1.7% as the dividend-paying sector became more valuable with lower long-term interest rates. **Pharmaceuticals** was up 0.6%. On the bottom end, banks were hit hard by the prospect of a double dip in housing prices. **Financial Services** lost 11.0%, **Home Finance** was down 11.5%, and **Banking** tumbled 12.6%. ■

AUGUST DISTRIBUTIONS

Asset Manager 20%	\$ 0.019/\$12.39 (8/6)
Asset Manager 30%	\$ 0.015 / \$9.49 (8/6)
Growth Discovery	\$ 0.029/\$11.46 (8/6)
Fidelity Fifty	\$ 0.05 / \$15.07 (8/6)
Freedom Income	\$ 0.01 / \$11.03 (8/6)
Mega Cap Stock	\$ 0.035 / \$8.85 (8/6)
Value Strategies	\$ 0.006/\$22.67 (8/12)

Funds scheduled for September include **Asset Mgr 20% & 30%, 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, Real Estate, Real Estate Income, Small Cap Growth, Small Cap Value, Spartan 500 Index, Ultra-Short Bond**, and **Value Discovery**.

Money Market Funds	Size	Yield	Money Market Funds	Size	Yield	Money Market Funds	Size	Yield
Cash Reser. (55/FDRXX)	122682.9	0.09	CT MM (418/FCMXX)	1683.6	0.01			
Select MM (85/FSLXX)	7342.2	0.16	MA MM (74/FDMXX)	4934.9	0.01			
Money Market (454/SPRXX)	6122.0	0.07	MI MM (420/FMIXX)	892.2	0.01	MA AMT TF (426/FMSXX)	389.0	0.01
Gov't MM (458/SPAXX)	680.8	0.01	NJ MM (417/FNJXX)	2090.6	0.01	AMT Tax-Free (460/FIMXX)	1967.5	0.01
US Treas. MM (415/FDLXX)	5171.0	0.01	NY MM (92/FNYXX)	4788.9	0.01	NJ AMT TF (423/FSJXX)	339.8	0.01
Tax-Free MM (275/FMOXX)	6127.3	0.01	OH MM (419/FOMXX)	956.8	0.01	NY AMT TF (422/FSNXX)	614.9	0.01
US Gov't Reser (50/FGRXX)	3182.1	0.01	AZ MM (433/FSAXX)	357.8	0.01	PA MM (401/FPTXX)	643.6	0.01
CA MM (97/FCFXX)	4927.9	0.01	CA AMT TF (457/FSPXX)	707.8	0.01	Municipal MM (10/FTEXX)	22357.4	0.01