

Jack  
Bowers



# Fidelity

Best Performing  
Fidelity Newsletter

20  
Years

SEPTEMBER  
2011

# Monitor™

## Question & Answer Forum

**The U.S. economy increasingly resembles that of Japan after its real estate bust in the early 1990s. What does that imply for our markets?**

No question, there are many similarities in how events unfold before, during, and after the two real estate bubbles.

Both countries experience a big runup in real estate values as their populations approach their peak earnings

QUESTION & ANSWER - *Continued on page 2*

## Changes In Several Portfolios

On Tuesday, 9/6, we'll make the following trades:

Our Income Model will sell three-fifths of **Total Bond** (820/FTBFX) and buy **Strategic Income** (368/FSICX). With investment-grade bonds gaining on falling interest rates, and other types of debt pulling back on credit concerns, a move into **Strategic Income** allows us to sell high and buy low. It also reestablishes some of the high-yield exposure we gave up last month.

Our VIP Income Model will exchange two-fifths of **VIP Investment Grade** for **VIP Strategic Income**.

Our Growth and Income Model will be selling three-fifths of **Balanced** (304/FBALX) and buying **Blue Chip Growth** (312/FBGRX). Large-cap growth stocks are selling at relatively cheap prices, especially when you consider their prospects for continued sales growth. This move also raises our equity exposure at a time when stocks are cheap relative to bonds.

Our VIP Growth and Income Model will sell **VIP Growth Stock** and buy **VIP Growth Opportunities**.

Our Growth Model will sell **Equity-Income** (23/FEQIX) and buy **Strategic Dividend & Income** (1329/FSDIX). The latter is also a large-cap value fund that holds dividend stocks, but it invests in REITs instead of bank stocks. It also carries a tad less risk.

Our VIP Growth Model will exchange one-fifth of **VIP Equity-Income** for **VIP Growth Opportunities**. **VIP Equity-Income** has performed better than its mutual fund cousin, so we're keeping it in the model.

Our Unique Opportunities Model will sell one-third of **OTC Portfolio** (93/FOCPX) and buy **Emerging Asia** (351/FSEAX). Emerging market stocks have become relatively cheap at a time when inflationary pressures are easing. This fund also lets us add some financial exposure that's less likely to hurt performance.

## Review & Recommendations

The uncertainty of the debt ceiling compromise caused liquidity to dry up in August, meaning that small changes in perceptions resulted in big swings in stock values. Many investors believed that Standard & Poor's treasury debt downgrade was bad because they had been told it was bad. When that compounded with a new wave of banking liquidity concerns in Europe, it caused a deep correction in the global stock markets.

Much of the selling was driven by fear and uncertainty, as opposed to logic (for the most part, earnings forecasts remained upbeat throughout the turmoil). Some hedge funds which had bet heavily on bank stocks appeared to be liquidating. Bargain hunters didn't get the upper hand until after the panic sellers had largely done their thing. The S&P 500 finished with a loss of 5.4% for August.

### DOMESTIC EQUITY FUNDS

Please see page 7 for current Growth Model holdings. Our individual favorites include **OTC Portfolio**, **Stock Selector Small Cap**, **Focused Stock**, **Growth Discovery**, **Trend**, **Leveraged Company Stock**, **Contrafund** and **Low-Priced Stock**.

**Large Cap Core Enhanced Index** led the group with a 4.8% decline, reflecting large-cap liquidity. In contrast, small-caps and debt-heavy firms were hit hard. **Value Strategies** was down 10.3%, **Leveraged Company Stock** fell 10.9% and **Small Cap Stock** tumbled 11.0%.

### INTERNATIONAL FUNDS

Our favorites in this group include **Int'l Small Cap**, **Emerging Asia**, **Pacific Basin** and **Japan Smaller Companies**.

**Latin America** limited its loss to 3.6%, and **Japan Smaller Companies** declined a moderate 4.0%. But European stocks fell hard on recession and banking system fears. **Europe** and **Europe Capital Appreciation** were both down 11.4%, and **Nordic** fell 11.6%.

### GROWTH & INCOME FUNDS

Please see page 7 for current Growth and Income Model holdings. Our favorite hybrid and asset allocation funds include **Balanced**, **Puritan** and **Strategic Dividend & Income**.

**Telecom & Utilities** limited losses to 2.0%, but **Real Estate** and **Convertible Securities** suffered relatively heavy losses of 6.2% and 8.1%, respectively.

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QUESTION & ANSWER - *Continued from page 1*

years, followed by a bust that leaves a large segment of the populations feeling overwhelmed by mortgage debt. In response, consumers make debt reduction a top priority, causing a long-term deflationary bias in the economy. Government debt mushrooms with fruitless attempts to stimulate the economy, and central bankers ultimately find there is little they can do other than keep short-term interest rates at zero until borrowing demand returns.

Fortunately, when it comes to trade, Japan and the U.S. are like night and day. In the years that followed its real estate bust, Japan's huge trade surplus drove the yen to lofty levels, forcing the country's automotive and consumer electronics industries into a massive off-shoring push that caused wages to decline. Here at home, we're still running a trade deficit, despite a reduced level of imports. That may sound bad, but it's actually a blessing – it allows the dollar to remain weak even as exports continue to grow at a healthy clip.

In effect, the export side of the U.S. economy gives us the ability to grow our way out of the malaise over the next decade – an option that Japan never had. More importantly, corporate earnings growth has the potential to run at a higher rate than Japan as domestic firms gain global market share. U.S. firms are becoming more competitive not only as a result of the weak dollar, but also because rising wages in most emerging countries are leveling the playing field (in dollar terms, Chinese wages are up about 50% over the last two years). At the same time, U.S. manufacturers are beginning to enjoy an edge in energy costs – one that's poised to grow over time.

**Do you think the U.S. is headed into a double-dip recession?**

Given that the current slowdown is mostly the result of fear and uncertainty, it doesn't seem all that likely. Recessions usually result from a surge in fuel costs, rising interest rates, a strong dollar or an inventory reduction cycle. Except for a jump in energy prices that has begun to reverse, none of those conditions are present.

With housing and construction in a deep slump, the U.S. economy remains heavily dependent on exports for maintaining positive GDP growth. While the situation in Europe may continue to disrupt the global export markets in the short run, the longer-term picture for U.S. exports remains favorable. Most of our trade is with Canada, Mexico and Asia. Europe accounts for about 15%, but any lost sales could be offset by reconstruction efforts in Japan and favorable exchange rate effects from the dollar's slide against the currencies of our main trading partners.

Even if the U.S. does slip back into a recession, odds are it won't have a big impact on company earnings. Corporate America has become somewhat battle-hardened since the financial crisis. Business models have been made more robust thanks to cost cutting, increased market

share, reduced debt levels and increased liquidity and cash holdings. The economy might suffer just as much as the last time around, but any hit to earnings should be far more subdued.

With that in mind, it's possible the stock market has discounted the full impact of a double dip recession in the latest selloff. And if that's true, it makes little sense to sell stocks at this point in time.

**The Shiller P/E ratio suggests that stocks are still relatively expensive. Do you agree with that?**

No. While the Shiller approach of looking back over 10 years of inflation-adjusted S&P 500 earnings makes sense logically, the past decade included two recessionary periods where earnings temporarily dropped to a fraction of prior levels. As a result, the Shiller ratio at month-end comes out much higher (a P/E of 21) compared to measuring over a trailing four-quarter period (which nets a P/E of 15).

More importantly, consider the S&P 500 valuation against projected 2012 earnings. At month-end, that P/E stood at 11. It could climb in the coming months if earnings projections are revised downward (or if stocks rise, of course), but we don't expect any big changes on the earnings front. Given today's backdrop of low interest rates and low inflation levels, it becomes a real stretch for anyone to claim that U.S. stocks are expensive.

**You are making more portfolio changes than usual. If corporate earnings are still on track, then why all the turnover?**

Most of the activity stems from changes we are making to the underlying portfolios, as described in the July issue. The market has prompted us to do a few things sooner to take advantage of the conditions at hand, but most of the switches would still need to happen between now and the end of the year.

To recap briefly, we are adopting new risk targets for some of the model portfolios, and we have plans for moving to a common set of model portfolios for Fidelity Monitor and Fidelity Insight. And from an investment standpoint, we want to reduce interest rate risk and boost stock exposure in our less aggressive portfolios.

**With such unpredictable markets, wouldn't it make more sense to trade as conditions change, instead of waiting until the first weekend of the month?**

You bring up a good point. The current system of preannouncing model portfolio switches was put in place in late 1999. Back then our Select System had a large following, and the inflows and outflows from our trades were causing headaches for Fidelity Select managers.

Today the amount of money following the Select System is a fraction of what it was, and our change to a fundamental approach means fewer Select trades in

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general. In effect, the monthly switch cycle is no longer necessary.

With this in mind, we are looking at returning to our original approach, with switches announced on any given weekend for execution on the first trading day that follows (usually Monday). Such a move would offer greater flexibility in responding to the markets, and it would make it easier to keep our portfolios synchronized with our sister publication Fidelity Insight (which is key to adding new features to our Web site next year).

We don't plan to formally return to a weekly switch cycle until later this year, nor do we expect any increase in portfolio turnover as a result. Most of the time switches would take place once a month, but under the weekly approach they could occur on any given weekend.

For those who already check the hotline on a weekly basis, this is no big deal. But for those who wait until the newsletter arrives in the mail, it could make sense to start checking the weekend updates if you are following any of the model portfolios. There are three ways to do this:

- By email. You can sign up for the weekly updates by calling our office at **800-397-3094**, or by sending us an email at **fidmonservic@aol.com**.

- By telephone. Call the hotline each weekend (**800-686-7301** or **916-557-9087**).

- On the Web (this may be the best way if you are traveling and don't have access to emails or free phone service). Go to **fidelitymonitor.com**. Assuming you've already signed up for emails, just click on the log-in bar and sign in using your 5-digit zip code as your password.

### **Do you still have a preference for domestic funds over foreign funds?**

For the most part, yes. Approximately 50% of S&P 500 earnings are derived from exports and foreign sales, and U.S. firms are enjoying a competitive tailwind thanks to the weak dollar and stable domestic wages.

However, we are now seeing two situations where foreign exposure can add diversification and reduce risk. The first is in the financial sector, which remains troubled in most developed regions, but is relatively healthy in many emerging countries. The second is in emerging debt, where high yields can be earned without taking on as much credit risk relative to domestic high yield.

These opportunities didn't look as attractive in past months when inflationary pressures were a much bigger problem. But now that global economic growth is slowing, the risk of rising interest rates in emerging countries is less of a concern. At the same time, there is more pressure on the banking systems in mature countries (where inflation and interest rates were low before the latest slowdown came along).

### **Why did you take Government Bond and Total Bond off your favorites list, and what do you think is the best fixed income strategy at this stage?**

Investment-grade bond funds have enjoyed a nice run as interest rates have declined, but going forward the opportunity is limited. Yields are low, and the potential for capital losses is not as low as it was.

We think the better bet is a combination of short-term and high-yield funds. Short-term funds offer a stable share price but lack yield. High yield bonds offer plenty of yield but volatility is relatively high. With the right mix, overall yield and volatility can be made similar to an investment grade fund, while sharply limiting exposure to rising interest rates.

### **I understand your reasons for adding Low-Priced Stock to the Income Model, but I prefer to stick with a bond-only strategy. How should I do that?**

Your best bet is to put everything into **Strategic Income**. While it carries more risk than the Income Model used to carry (0.46 versus 0.33), it has performed better over most time periods. The fund also compares well to its industry peers, having beaten 91% of multi-sector bond funds over the last decade (Lipper data as of 6/30/11).

We haven't always been a big fan of the fund. At the beginning of the year we took it out of our Growth and Income Model due to concerns with its foreign bond components. But Fidelity has a strong management team, and they've managed to sidestep each new debt crisis that comes along. In addition, we now see foreign debt as less of a liability. Over the last 9 months, many issues have declined in value because of credit risk concerns, creating new opportunities in the process.

### **I'm thinking of liquidating most of my Fidelity stock funds and waiting for a rebound later this year. Do you think this is a good time for that?**

No, because you could end up selling low and buying high. There are millions of investors playing the timing game, so it becomes nearly impossible to make any money that way (think what it's like when you try to find the fast lane on a congested freeway). Those who try often manage to avoid some losses during the down cycle, but almost always miss the strong rebound that marks the beginning of a bullish period. For the entire cycle they often lag the results of the S&P 500. Even those who manage to come out ahead for a full cycle face long odds pulling it off a second or third time. Some feel that algorithmic timing systems can give them the edge. But they're still competing with millions of other investors

QUESTION & ANSWER - *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						2011	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>EQUITY FUNDS:</b>												
130/30 Large Cap (2063/FOTTX)	H ***	1.05	none	6.98	22.7	-3.6	-7.5	-12.1	17.5	-10.0		
Growth Strategies (324/FDEGX)	B ****	1.16	1.5(90)	19.48	1922.3	-4.7	-8.8	-11.6	21.1	3.0	2.4	0.5
Blue Chip Gth (312/FBGRX)	B ****	1.11	none	44.97	12204.0	-0.8	-6.6	-8.5	26.4	5.5	4.7	2.8
Blue Chip Value (1271/FBCVX)	S **	1.19	none	10.00	432.8	-7.5	-7.9	-14.2	10.1	-4.8	-3.9	
Capital Apprec (307/FDCAX)	B ****	1.15	none	24.30	4525.8	-4.1	-5.8	-9.8	17.0	2.6	1.5	4.7
Contrafund (22/FCNTX)	B ****	0.88	none	67.40	61125.4	-0.4	-4.9	-6.0	20.1	2.7	4.0	7.0
Disc Equity (315/FDEQX)	H ***	1.02	none	21.53	8156.5	-4.4	-7.5	-11.9	13.8	-4.1	-1.8	2.3
Dividend Gth (330/FDGRX)	B ****	1.32	none	26.44	9316.8	-7.0	-8.7	-13.0	19.2	3.0	1.4	2.1
Equity-Income (23/FEQIX)	H ***↓	1.16	none	40.82	9023.0	-7.0	-8.0	-13.3	13.2	-1.6	-2.0	2.3
Equity-Income II (319/FEQTX)	H ***↓	1.14	none	16.85	4694.8	-7.0	-8.0	-13.4	12.9	-2.7	-2.1	2.0
Export Fund (332/FEPPX)	S **	1.06	0.75(30)	20.98	2221.6	-3.8	-5.9	-9.4	16.9	-0.6	0.6	4.3
Fidelity Fifty (500/FFTYX)	B ****	1.15	none	17.30	795.3	-1.7	-6.2	-9.3	19.1	-1.3	0.0	3.8
Fidelity Fund (3/FFIDX)	H ***	1.05	none	31.63	4946.2	-1.4	-6.5	-9.3	21.9	-0.5	1.6	2.8
Focused Stock (333/FTQGX)	B ****	1.00	none	13.60	598.4	-0.4	-6.5	-10.1	29.5	2.9	4.6	3.0
Growth & Income (27/FGRIX)	H ***	1.18	none	17.63	5055.9	-3.0	-5.1	-9.4	19.7	-6.3	-5.9	-1.7
Growth Company (25/FDGRX)	B ****	1.08	Closed	84.35	28589.4	1.4	-6.7	-9.1	26.4	4.6	6.2	5.0
Growth Discovery (339/FDSVX)	B ****	1.11	none	13.64	948.9	0.3	-7.4	-8.5	28.5	0.8	3.0	3.4
Independence (73/FDFFX)	B ****	1.34	none	23.20	3969.6	-4.7	-8.6	-11.6	24.1	-2.5	3.4	4.8
Lg Cap Core En Idx (1827/FLCEX)	S **	0.96	none	8.54	87.7	0.2	-4.8	-8.0	20.6	0.2		
Large Cap Growth (763/FSLGX)	B ****	1.03	none	9.75	135.7	0.1	-7.4	-9.6	25.5	1.9	0.8	
Large Cap Stock (338/FLCSX)	B ****	1.26	none	16.78	932.8	-4.5	-5.9	-10.9	19.4	2.9	2.0	2.3
SS Large Cap Value (708/FSLVX)	S **	1.08	none	10.01	576.8	-4.8	-7.1	-12.3	11.6	-5.2	-4.0	
Lev Co Stock (122/FLVCX)	B ****	1.66	1.5(90)	25.70	3938.8	-9.6	-10.9	-17.7	19.6	-4.6	0.6	12.6
Low-Priced Stock (316/FLPSX)	B ****	1.12	1.5(90)	38.12	26788.3	-0.7	-6.3	-9.4	20.7	5.2	4.1	9.4
Magellan (21/FMAGX)	S **	1.27	none	66.31	16269.0	-7.3	-7.7	-12.3	15.0	-4.2	-1.3	0.5
Mega Cap Stock (361/FGRTX)	B ****	1.05	none	9.71	820.9	-2.3	-4.9	-8.3	20.1	0.8	0.9	2.8
Mid Cap Growth (793/FSMGX)	B ****	1.29	0.75(30)	11.91	292.4	-4.3	-8.5	-11.3	21.3	0.8	0.2	
Mid Cap Stock (337/FMCSX)	H ***	1.36	0.75(30)	27.01	6249.5	-1.6	-5.0	-9.8	26.7	3.5	2.8	4.3
Mid Cap Value (762/FSMVX)	H ***	1.29	0.75(30)	14.86	633.7	-6.8	-8.2	-14.9	15.6	1.7	0.8	
New Millennium (300/FMILX)	B ****	1.14	none	29.34	1846.4	0.7	-4.9	-8.0	24.0	5.2	5.2	6.4
OTC Portfolio (93/FOCPX)	B ****	1.25	none	54.44	6373.8	-0.9	-8.1	-11.1	28.5	6.9	8.3	6.3
Small Cap Discovery (384/FSCRX)	B ****	1.36	1.5(90)	19.24	2091.8	-4.8	-8.1	-13.5	25.1	11.0	7.4	
Small Cap Growth (1388/FCPGX)	B ****	1.26	1.5(90)	15.20	1390.8	-3.1	-8.7	-12.9	26.0	3.7	4.2	
Stock Sel Small Cap (336/FDSCX)	B ****	1.37	1.5(90)	17.55	1928.8	-5.2	-8.7	-14.3	26.9	2.0	1.3	5.6
Small Cap Stock (340/FLSXX)	H ***↓	1.49	2 (90)	16.79	3813.4	-14.3	-11.0	-21.6	12.2	2.5	2.6	6.7
Small Cap Value (1389/FCPVX)	H ***	1.29	1.5(90)	14.30	1902.7	-8.4	-8.5	-13.0	14.3	5.7	4.1	
Stock Sel All Cap (320/FDSSX)	H ***	1.07	none	24.44	1468.7	-5.1	-7.4	-11.6	18.8	-0.8	0.5	2.9
Tax Managed Stock (343/FTMXM)	H ***	1.11	none	11.81	70.3	-5.2	-8.9	-14.6	18.7	-4.9	-1.5	1.8
Trend (5/FTRNX)	B ****	1.10	none	67.43	1122.5	0.1	-7.4	-9.7	25.7	4.5	4.3	4.7
Value (39/FDVLX)	H ***	1.47	none	63.55	6864.8	-7.5	-8.7	-14.8	15.4	-1.1	-0.5	5.8
Value Discovery (832/FVDFX)	H ***	1.17	none	13.82	541.2	-5.6	-7.7	-12.6	15.9	-2.1	-1.1	
Value Strategies (14/FSLSX)	B ****	1.56	none	25.74	331.4	-7.6	-10.3	-15.5	17.1	1.9	1.2	4.9
<b>SPECIALTY / HYBRID FUNDS:</b>												
Balanced (304/FBALX)	B ****	0.75	none	18.17	16476.2	0.5	-3.6	-5.1	13.9	3.3	3.1	6.0
Convertible Sec (308/FCVXX)	B ****	1.27	none	23.66	2375.7	-5.8	-8.1	-13.3	12.1	1.7	4.1	5.8
Global Strategies (1960/FDYSX)	B ****	0.79	none	9.15	252.1	-1.2	-4.2	-5.8	12.5	3.1		
Puritan (4/FPURX)	B ****	0.72	none	17.72	16343.9	-0.2	-4.5	-6.1	14.4	3.9	3.1	4.9
Real Estate Income (833/FRIFX)	B ****	0.73	0.75(90)	10.39	1662.6	1.6	-3.3	-4.2	9.1	9.1	3.8	
Real Estate (303/FRESX)	H ***	1.93	0.75(90)	26.99	3545.4	5.1	-6.2	-7.7	18.8	3.1	-0.2	9.8
Strategic Div & Inc (1329/FSDIX)	B ****	1.11	none	10.81	678.0	3.7	-3.7	-6.5	17.1	2.4	1.0	
Strategic Real Rtn (1505/FSRRX)	H ***	0.66	0.75(60)	9.77	4083.9	3.4	-1.7	-1.5	13.3	4.3	4.0	
Select & Utilities (311/FUIUX)	B ****	0.83	none	16.59	956.4	5.3	-2.0	-4.7	17.0	2.2	2.0	3.8
<b>SELECT FUNDS:</b>												
Air Transportation (34/FSAIX)	H ***	1.53	0.75(30)	34.77	68.1	-11.0	-5.0	-13.6	6.6	8.6	2.2	4.2
Automotive (502/FAVXX)	B ****	2.42	0.75(30)	35.13	162.4	-21.0	-15.4	-20.9	12.9	9.5	2.6	5.6
Banking (507/FSRXX)	H ***	1.53	0.75(30)	15.07	455.9	-18.6	-11.8	-16.4	1.8	-6.4	-11.5	-2.2
Biotechnology (42/FBIOX)	S **	1.03	0.75(30)	78.30	1296.2	7.3	-8.4	-11.6	26.3	3.0	5.3	2.2
Brokerage (68/FSLBX)	H ***	1.47	0.75(30)	42.20	411.9	-19.5	-11.1	-17.4	-1.6	-5.1	-4.8	3.9
Chemicals (69/FSCHX)	B ****	1.43	0.75(30)	97.36	817.9	2.0	-7.5	-10.4	33.0	7.1	12.6	12.9
Com Equipment (518/FSDCX)	B ****	1.58	0.75(30)	22.62	388.7	-14.7	-8.0	-22.3	9.3	2.7	3.1	1.6
Computers (7/FDCPX)	B ****	1.28	0.75(30)	51.85	574.6	-8.1	-10.2	-14.5	20.1	8.0	8.0	3.5
Const & Housing (511/FSHOX)	S **	1.46	0.75(30)	32.62	86.4	-7.0	-6.2	-12.4	17.0	1.1	0.1	6.6
Cons Discretionary (517/FSCPX)	H ***	1.18	0.75(30)	22.59	228.5	-4.2	-7.1	-8.5	22.8	7.2	2.6	3.2
Consumer Finance (98/FSVLX)	H ***	1.20	0.75(30)	11.23	131.0	-1.1	-4.2	-8.1	12.9	-11.7	-21.5	-7.9
Consumer Staples (9/FDFAX)	H ***	0.78	0.75(30)	71.43	972.5	5.5	0.0	-3.4	21.6	7.2	8.1	8.1
Defense & Aero (67/FSDAX)	S **	1.24	0.75(30)	73.71	697.8	0.8	-6.7	-9.4	21.9	2.8	4.1	9.8
Electronics (8/FSLEX)	B ****	1.53	0.75(30)	43.58	1087.5	-9.9	-10.0	-19.4	26.1	5.8	1.1	-0.8
Energy (60/FSNXX)	H ***	1.54	0.75(30)	51.57	2754.2	-1.2	-11.9	-13.1	35.5	-5.1	3.6	11.0
Energy Service (43/FSSEXX)	H ***	1.90	0.75(30)	73.33	1874.6	-1.4	-16.2	-11.7	43.9	-8.7	3.8	12.7
Environ & Alt Energy (516/FSLEX)	H ***	1.09	0.75(30)	16.12	90.8	-9.4	-7.8	-18.8	7.6	-3.1	0.1	2.8
Financial Services (66/FIDSX)	H ***	1.47	0.75(30)	50.80	363.4	-17.5	-9.6	-16.3	-1.3	-9.1	-12.0	-2.5
Gold (41/FSAGX) Limit to 5% position	S **	1.97	0.75(30)	52.74	4129.4	3.2	7.7	6.8	20.1	21.5	13.2	20.8
Health Care (63/FSPHX)	H ***	0.93	0.75(30)	130.05	2185.4	4.4	-6.9	-10.5	29.6	6.7	4.7	4.6
IT Services (353/FBSOX)	B ****	1.13	0.75(30)	20.44	222.3	-1.7	-7.6	-10.4	23.9	7.4	8.9	7.0
Indust Equipment (510/FSQGX)	B ****	1.53	0.75(30)	30.45	302.9	-9.8	-7.9	-16.3	19.9	0.3	3.7	5.7
Industrials (515/FCYIX)	B ****	1.44	0.75(30)	21.34	544.9	-8.3	-8.5	-15.3	18.4	2.3	5.1	7.9
Insurance (45/FSPCX)	H ***	1.30	0.75(30)	42.15	226.2	-10.6	-7.9	-13.9	4.2	-1.1	-6.1	1.7
Leisure (62/FDLSX)	H ***	1.05	0.75(30)	91.94	408.8	1.0	-5.6	-4.4	26.4	12.3	8.0	7.5
Materials (509/FSDPX)	H ***	1.55	0.75(30)	64.51	1156.9	-5.0	-8.4	-10.9	25.5	6.2	10.1	13.6
Medical Delivery (505/FSHCX)	B ****	1.22	0.75(30)	53.57	862.8	7.8	-7.8	-11.2	36.9	9.3	4.3	9.5
Medical Equip & Sys (354/FSMEX)	S **	1.01	0.75(30)	28.30	1594.7	3.2	-4.8	-10.6	29.6	2.9	7.4	9.6
Multimedia (503/FBMPX)	H ***	1.33	0.75(30)	41.86	204.8	-1.7	-8.1	-14.3	20.3	8.6	3.9	5.2
Natural Gas (513/FSNGX)	B ****	1.56	0.75(30)	31.77	1006.6	-4.3	-10.6	-11.1	20.3	-9.5	-0.6	8.7
Nat Resources (514/FNARX)	H ***	1.54	0.75(30)	34.02	1810.7	-2.1	-10.2	-11.7	34.4	-2.3	6.7	12.1
Pharmaceuticals (580/FPHAX)	B ****	0.84	0.75(30)	12.98	635.4	7.3	-5.5	-7.7	25.5	10.4	6.9	4.7
Retailing (46/FSRPX)	B ****↑	1.22	0.75(30)	52.21	216.8	2.9	-4.7	-3.5	33.2	15.6	8.7	7.4
Software (28/FSQGX)	B ****	1.03	0.75(30)	80.20	1210.7	-2.0	-6.5	-9.2	24.9	8.9	8.8	8.0
Technology (64/FSPTX)	B ****	1.40	0.75(30)	88.82	2472.8	-7.1	-7.8	-12.7	21.3	8.8	7.5	4.5
Telecom (96/FSTCX)	B ****	1.15	0.75(30)	45.93	376.5	-1.0	-3.4	-11.3	16.6	5.3	2.4	3.2
Transportation (512/FSREX)	H ***	1.27	0.75(30)	49.53	255.0	-9.4	-6.7	-14.3	11.6	4.3	4.6	

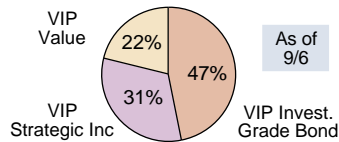
AUGUST PERFORMANCE						30-day	2011	One	Three	One	3-Yr	5-Yr
Fund Name (Code/Symbol)	Rating	Risk	Fee	NAV	Size	Yield	YTD	Mth	Mth	Year	Rate	Rate
<b>INTERNATIONAL FUNDS:</b>												
Canada (309/FICDX)	B ****	1.33	1.5(90)	56.44	4503.5		-2.9	-4.4	-7.7	15.4	-0.3	5.7
China Region (352/FHKCX)	H ***	1.28	1.5(90)	29.57	1917.0		-9.0	-8.1	-11.9	8.5	8.1	10.4
Diversified Int'l (325/FDIVX)	S **	1.26	1(30)	28.28	21933.1		-6.2	-8.7	-10.8	12.5	-3.6	-1.1
Emerging EMEA (2053/FEMEX)	B ****	1.45	1.5(90)	8.96	144.1		-5.2	-7.3	-7.3	16.4	5.2	
Emerging Mkts (322/FEMKX)	B ****	1.57	1.5(90)	24.16	3651.1		-8.3	-9.2	-10.2	10.3	0.4	5.0
Europe (301/FIEUX)	S **	1.32	1(30)	28.42	753.8		-9.3	-11.4	-15.2	11.1	-3.4	-1.4
Europe Cap Appr (341/FECAX)	S **	1.36	1(30)	17.24	404.4		-9.5	-11.4	-15.4	10.8	-4.8	-2.0
Global Balanced (334/FGBLX)	H ***	0.77	1(30)	22.43	557.6		0.6	-4.3	-5.2	14.9	4.7	5.2
Glob Commodity Stk (2120/FFGCX)	B ****	1.6 Est	1(30)	16.03	647.8		-6.5	-7.2	-9.5	20.0		
Int'l Capital Apprec. (335/FIVFX)	B ****	1.49	1(30)	12.13	632.5		-5.9	-8.7	-10.5	15.4	1.6	-0.8
Int'l Discovery (305/FIGRX)	S **	1.23	1(30)	30.84	7853.7		-6.7	-8.4	-10.5	13.2	-2.1	-0.1
Int'l Growth (1979/FIGFX)	B ****	1.18	1(30)	8.29	58.6		-4.4	-6.9	-9.8	16.5	2.3	
Int'l Real Estate (1368/FIREX)	S **	1.36	1.5(90)	8.52	322.3		-9.2	-8.4	-10.7	8.6	-2.2	-5.0
Int'l Small Cap (818/FISMX)	B ****	1.30	2(90)	20.37	1100.7		-4.2	-9.5	-9.6	21.0	4.2	2.4
Int'l Small Cap Opp (1504/FSCOX)	B ****	1.42	2(90)	10.00	376.1		-3.8	-6.5	-9.6	18.9	-2.6	-2.9
Int'l Value (1597/FIVLX)	S **	1.45	1(30)	7.39	189.1		-9.2	-11.4	-14.8	6.6	-5.1	-3.6
Japan (350/FJPNX)	B ****	1.12	1.5(90)	9.90	526.0		-11.4	-7.9	-4.4	5.0	-3.6	-6.3
Japan Smaller Co (360/FJSCX)	B ****	1.24	1.5(90)	9.21	349.5		0.2	-4.0	1.9	18.8	2.9	-6.0
Latin America (349/FLATX)	H ***	1.59	1.5(90)	54.94	3401.9		-6.9	-3.6	-7.1	11.0	1.9	10.3
Nordic (342/FNORX)	B ****	1.63	1.5(90)	30.02	456.6		-12.6	-11.6	-19.4	12.1	-3.3	0.9
Overseas (94/FOSEFX)	S **	1.28	1(30)	30.02	3378.8		-7.6	-11.2	-12.4	12.7	-5.8	-2.8
Pacific Basin (302/FPBFX)	B ****	1.48	1.5(90)	24.66	905.2		-5.4	-9.3	-6.8	17.9	8.6	4.6
Emerging Asia (351/FSEAX)	B ****	1.18	1.5(90)	28.85	1855.4		-5.8	-9.8	-10.6	12.9	4.3	7.9
Total Int'l Equity (1978/FTIEX)	B ****	1.33	1(30)	6.96	142.4		-7.0	-8.9	-11.8	11.5	-1.2	
Worldwide (318/FWWFX)	H ***	1.11	1(30)	18.16	1236.0		-2.7	-6.9	-9.6	21.6	0.5	2.7
<b>INDEX AND ASSET ALLOCATION:</b>												
Four-In-One Index (355/FNOX)	H ***	0.92	none	26.43	2391.7		-2.1	-5.6	-8.5	14.8	1.3	1.6
NASDAQ Comp (1282/FNCMX)	B ****	1.12	0.75(90)	34.38	312.6		-2.3	-6.3	-8.8	23.0	3.7	4.1
Spart Ext Mkt Idx (398/FSEMXX)	H ***	1.22	0.75(90)	35.87	4583.9		-4.8	-8.2	-13.2	22.5	3.3	3.6
Spart Int'l Index (399/FSIIX)	H ***	1.27	1(90)	33.01	6531.2		-5.8	-9.1	-11.7	10.4	-2.6	-1.3
Spart 500 Index (650/FUSEX)	H ***	1.00	none	43.29	20123.5		-1.8	-5.4	-8.9	18.4	0.5	0.7
Spart Total Mkt Idx (397/FSTMX)	H ***	1.03	0.5(90)	35.48	5533.1		-2.3	-6.0	-9.7	19.3	1.0	1.3
Asset Mgr 20% (328/FASIX)	H ***	0.36	none	12.91	3657.4		2.0	-1.2	-1.3	7.2	5.4	4.3
Asset Mgr 30% (1957/FTANX)	H ***	0.47	none	9.67	206.5		1.3	-2.1	-2.6	8.8	5.2	
Asset Mgr 40% (1958/FFANX)	H ***	0.56	none	9.50	141.6		0.4	-2.9	-3.9	10.2	5.0	
Asset Mgr 50% (314/FASMX)	H ***	0.69	none	15.22	6503.8		-0.5	-3.8	-5.2	11.6	4.9	3.7
Asset Mgr 60% (1959/FSANX)	H ***	0.76	none	9.36	246.4		-1.5	-4.6	-6.6	12.6	4.8	
Asset Mgr 70% (321/FASGX)	H ***	0.89	none	15.90	2433.7		-2.6	-5.5	-7.9	14.0	3.5	2.6
Asset Mgr 85% (347/FAMRX)	H ***	1.03	none	12.82	657.0		-4.3	-6.8	-10.0	15.5	2.6	2.0
Freedom 2000 (370/FFBXX)	H ***	0.36	none	12.12	1419.2		1.8	-1.5	-1.5	7.3	4.1	3.8
Freedom 2005 (1312/FFFVX)	H ***	0.61	none	10.85	896.3		0.7	-2.7	-3.6	10.9	3.5	3.3
Freedom 2010 (371/FFFCX)	H ***	0.66	none	13.59	8967.8		0.4	-3.3	-4.5	12.1	3.8	3.5
Freedom 2015 (1313/FFVFX)	H ***	0.69	none	11.34	8524.5		0.4	-3.4	-4.6	12.3	3.5	3.3
Freedom 2020 (372/FFFDX)	H ***	0.81	none	13.69	18883.5		-0.3	-4.1	-5.7	13.9	2.7	2.8
Freedom 2025 (1314/FFTWX)	H ***	0.87	none	11.33	9862.0		-1.3	-4.8	-6.9	14.6	2.5	2.5
Freedom 2030 (373/FFFX)	H ***	0.94	none	13.49	13902.7		-1.6	-5.1	-7.4	15.3	1.4	1.8
Freedom 2035 (1315/FFTHX)	H ***	0.98	none	11.13	6638.3		-2.6	-5.8	-8.5	15.7	1.0	1.5
Freedom 2040 (718/FFFX)	H ***	1.01	none	7.77	8483.8		-2.6	-5.8	-8.6	15.9	0.7	1.3
Freedom 2045 (1617/FFFGX)	H ***	1.02	none	9.18	2604.8		-2.9	-6.0	-8.9	15.9	0.7	1.3
Freedom 2050 (1618/FFFHX)	H ***	1.06	none	9.04	2148.5		-3.3	-6.3	-9.3	16.4	0.2	0.9
Freedom Income (369/FFFA)	H ***	0.33	none	11.40	2785.8		1.9	-1.4	-1.5	6.9	4.5	3.9
<b>TAXABLE BOND FUNDS:</b>												
Capital & Income (38/FAGIX)	B ****	0.87	1(90)	9.01	10760.0	5.70	-0.8	-5.4	-7.0	10.4	12.1	8.5
Conservative Income (2267/FCONX)	B ****	0.1 Est	none	9.99	304.3	0.51		-0.1	-0.1			
Corporate Bond (2208/FCBFX)	B ****	0.4 Est	none	10.70	72.6	2.67	7.8	0.8	2.3	7.6		
Floating Rate (814/FFRHX)	B ****	0.44	1(60)	9.45	6420.7	4.41	-1.7	-3.3	-3.6	2.4	4.1	3.7
Focused High Inc (1366/FHIFX)	B ****	0.61	1(90)	8.94	786.3	6.06	2.1	-3.1	-2.5	6.1	7.7	5.8
GNMA Portfolio (15/FGMNX)	H ***	0.15	none	11.94	8014.4	3.25	6.4	1.6	2.9	6.2	8.2	7.3
Global High Income (2297/FGHXX)	B ****	0.7 Est	1(90)	9.48	30.7	6.32		-3.7				
Gov't Income (54/FGOVX)	B ****	0.20	none	10.88	4167.6	1.48	5.8	2.0	3.2	3.7	6.5	6.5
High Income (455/SPHIX)	B ****	0.73	1(90)	8.63	4765.6	7.56	0.5	-4.6	-4.5	7.1	9.7	7.3
Inflation-Protected (794/FINPX)	H ***	0.41	none	12.71	2331.8		10.3	0.8	5.4	10.1	6.3	6.2
Intermed Bond (32/FTHRX)	B ****	0.25	none	10.89	4292.0	1.92	5.3	0.9	1.9	4.6	7.7	5.7
Intermed Gov't Inc (452/FSTGX)	H ***	0.16	none	11.12	1192.2	0.70	4.9	1.5	2.6	3.4	5.6	6.0
Invest Grade Bond (26/FBNDX)	B ****	0.24	none	7.67	4648.0	2.86	6.0	1.1	2.3	6.0	7.8	5.4
Mortgage Securities (40/FMSFX)	H ***	0.12	none	11.17	760.6	3.32	5.4	1.3	2.2	5.6	7.8	5.0
New Markets Inc (331/FNMIX)	B ****	0.74	1(90)	16.11	4112.9	5.39	6.7	0.2	3.0	7.0	11.5	9.1
Short-Term Bond (450/FSHXX)	B ****	0.10	none	8.53	7993.0	0.82	1.8	0.0	0.3	2.1	3.2	2.5
Spart Intermed Tr Idx (1561/FIBIX)	B ****	0.36	none	11.52	1712.5	1.42	10.1	3.6	6.2	6.2	8.0	8.1
Spart L-Term Tr Idx (1562/FLBIX)	H ***	0.70	none	11.78	141.3	3.09	15.7	8.6	10.9	4.4	9.3	8.7
Spart S-Term Tr Idx (1560/FSBIX)	H ***	0.11	none	10.69	247.1	0.22	2.9	0.7	1.5	2.4	3.8	4.8
Strategic Income (368/FSICX)	B ****	0.45	none	11.21	8735.0	4.13	4.4	-1.2	-0.4	7.4	10.1	7.9
Total Bond (820/FTBFX)	B ****	0.27	none	11.04	12018.7	2.95	5.4	0.5	1.7	5.7	8.7	6.6
Ultra-Short Bond (812/FUSFX)	H ***	0.04	0.25(60)	8.18	240.0	0.53	0.3	-0.2	-0.3	0.6	0.4	-1.9
Spart US Bond Index (651/FBIDX)	H ***	0.18	none	11.74	7456.8	2.35	5.7	1.4	2.7	4.3	6.9	5.9
<b>MUNICIPAL BOND FUNDS:</b>												
AZ Municipal Inc (434/FAZXX)	H ***	0.27	0.5(30)	11.55	158.5	3.11	6.4	1.8	2.8	1.9	5.5	4.3
CA Municipal Inc (91/FACTFX)	H ***	0.29	0.5(30)	12.14	1549.4	3.54	7.4	1.7	3.4	2.4	5.0	4.1
CA Short-Int TF (1534/FCSTX)	H ***	0.12	0.5(30)	10.76	691.1	1.06	3.7	0.7	1.5	2.0	4.2	4.3
CT Municipal Inc (407/FICNX)	H ***	0.23	0.5(30)	11.72	529.3	2.34	6.9	1.7	2.7	2.7	5.6	4.7
Intermediate Muni (36/FLTMX)	H ***	0.17	0.5(30)	10.33	3775.2	2.27	5.6	1.5	2.4	2.6	5.1	4.6
MA Municipal Inc (70/FDMMX)	H ***	0.25	0.5(30)	12.12	2149.4	2.90	6.9	1.9	3.1	2.2	5.5	4.6
MD Municipal Inc (429/SMDMX)	H ***	0.24	0.5(30)	11.17	184.2	2.37	6.0	1.7	2.9	2.2	5.3	4.4
MI Municipal Inc (81/FMHTX)	H ***	0.21	0.5(30)	12.06	595.3	2.86	6.2	1.7	2.8	2.6	5.3	4.6
MN Municipal Inc (82/FIMIX)	H ***	0.21	0.5(30)	11.67	496.8	2.25	6.2	1.6	2.6	2.7	5.4	4.6
Municipal Income (37/FHIGX)	H ***	0.26	0.5(30)	12.78	5573.3	3.35	7.1	1.7	3.1	2.7	5.5	4.5
NJ Municipal Inc (416/FNJHX)	H ***	0.25	0.5(30)	11.70	597.4	2.82	6.3	1.6	3.3	1.9	5.1	4.4
NY Municipal Inc (71/FTFMX)	H ***	0.26	0.5(30)	13.09	1684.1	2.86	6.5	1.9	2.9	2.1	5.5	4.6
OH Municipal Inc (88/FOHFX)	H ***	0.24	0.5(30)	11.81	524.3	2.92	6.5	1.6	2.7	2.5	5.4	4.6
PA Municipal Inc (402/FPXTX)	H ***	0.20	0.5(30)	10.91	403.7	3.06	6.5	1.7	2.9	2.7	5.2	4.5
Short-Int Municipal (404/FSTFX)	B ****	0.10	0.5(30)	10.81	3411.7	1.08	3.5	0.7	1.6	2.2	3.8	4.0
Tax-Free Bond (90/FTABX)	H ***	0.26	0.5(30)	10.99	1902.5	3.30	7.2	1.9	3.2	2.4	5.7	4.7

AUGUST PERFORMANCE Indexes and Model Portfolios	Risk	Value	2011 YTD	One Month	Three Month	One Year	3-Yr Rate	5-Yr Rate	10-Yr Rate
Dow Jones Industrial	0.90	11613.53	2.0	-4.1	-7.1	18.8	3.1	3.1	4.1
S&P 500	1.00	1218.89	-1.8	-5.4	-8.9	18.5	0.5	0.8	2.7
NASDAQ	1.12	2579.46	-2.2	-6.3	-8.8	23.3	3.9	4.3	4.4
Russell 2000	1.30	726.81	-6.5	-8.7	-14.0	22.2	0.8	1.5	5.9
Fidelity Monitor Income Model	0.43	101254.55	5.3	0.7	1.3	6.6	5.6	4.0	4.6
Fidelity Monitor G&I Model	0.74	179325.16	-0.7	-4.2	-6.2	9.7	1.4	1.5	5.7
Fidelity Monitor Growth Model	1.04	184056.37	-2.9	-6.9	-10.3	20.1	0.0	0.4	5.5
Fidelity Monitor Select System	1.18	381207.58	0.1	-7.0	-11.0	19.0	-0.6	3.1	6.4
Fidelity Monitor Unique Opportunities	1.25	121992.02	-5.3	-8.3	-13.0	17.3	-0.5	0.9	9.1

## 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.

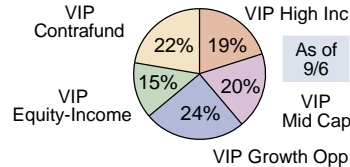
### VIP INCOME MODEL



### PAST PERFORMANCE

1993: +12.3%	2003: +9.9%
1994: -3.8%	2004: +5.1%
1995: +16.9%	2005: +1.8%
1996: +6.9%	2006: +6.1%
1997: +10.9%	2007: +6.2%
1998: +0.4%	2008: -18.3%
1999: +0.8%	2009: +22.9%
2000: -2.4%	2010: +7.3%
2001: -3.4%	2011: +6.2%
2002: +7.3%	

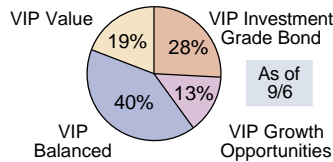
### VIP GROWTH MODEL



### PAST PERFORMANCE

1993: +20.6%	2003: +30.0%
1994: +4.6%	2004: +7.0%
1995: +36.1%	2005: +10.1%
1996: +16.1%	2006: +14.5%
1997: +23.5%	2007: +9.3%
1998: +22.6%	2008: -45.5%
1999: +22.1%	2009: +25.1%
2000: -10.3%	2010: +17.7%
2001: -14.0%	2011: -2.2%
2002: -21.7%	

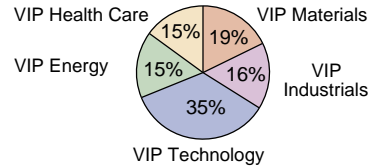
### VIP G & I MODEL



### PAST PERFORMANCE

1995: +26.4%	2004: +6.3%
1996: +12.8%	2005: +4.5%
1997: +21.4%	2006: +11.6%
1998: +15.1%	2007: +7.7%
1999: +6.1%	2008: -31.0%
2000: -4.9%	2009: +27.1%
2001: +3.1%	2010: +12.0%
2002: -9.4%	2011: -0.4%
2003: +20.8%	

### VIP SECTOR MODEL



### PAST PERFORMANCE

2003: +57.5%	2008: -41.4%
2004: +6.3%	2009: +50.2%
2005: +14.0%	2010: +15.0%
2006: +17.7%	2011: -4.1%
2007: +11.2%	

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

AUGUST VIP PERFORMANCE Portfolio	Rating	Risk	RR Value	2011 YTD	One Month	Three Month	One Year	3-Yr Rate	5-Yr Rate
VIP Growth Strategies	B ****	1.15	11.31	-5.1	-8.7	-11.6	20.2	2.4	1.5
VIP Asset Manager	H ***	0.74	40.23	-0.7	-4.4	-5.5	12.5	2.6	4.1
VIP Asset Manager: Growth	H ***	0.96	25.04	-2.7	-6.2	-8.1	15.4	0.7	3.3
VIP Balanced	B ****	0.93	19.01	-3.6	-5.8	-8.7	14.4	3.9	3.1
VIP Consumer Discretionary	H ***	1.18	12.65	-4.7	-7.2	-8.7	21.8	6.7	2.0
VIP Consumer Staples	H ***	0.76	12.39	4.6	-0.1	-3.6	20.3	6.6	
VIP Contrafund	B ****	1.10	44.42	-3.7	-6.8	-10.0	18.3	0.7	1.5
VIP Disciplined Small Cap	H ***	1.20	9.34	-3.9	-7.3	-11.8	24.0	0.3	0.0
VIP Dynamic Capital Appreciation	B ****	1.15	14.13	-4.6	-5.9	-10.1	16.1	1.5	0.5
VIP Energy	B ****	1.55	24.70	-1.9	-12.0	-13.4	34.3	-5.9	3.1
VIP Equity-Income	B ****	1.17	56.70	-2.6	-5.6	-10.1	18.6	-1.0	-2.0
VIP Financial Services	H ***	1.51	7.10	-18.1	-9.9	-16.7	-2.1	-9.7	-12.5
VIP Freedom 2005	H ***	0.60	12.47	-0.3	-3.1	-4.3	9.2	3.0	-2.8
VIP Freedom 2010	H ***	0.65	12.60	-0.6	-3.8	-5.1	10.6	3.3	3.0
VIP Freedom 2015	H ***	0.69	12.74	-0.6	-3.9	-5.3	10.9	3.1	2.8
VIP Freedom 2020	H ***	0.82	12.53	-1.1	-4.6	-6.3	12.8	2.3	2.3
VIP Freedom 2025	H ***	0.88	12.52	-2.1	-5.6	-7.6	13.8	2.1	2.1
VIP Freedom 2030	H ***	0.97	12.19	-2.4	-5.8	-8.1	14.7	1.0	1.4
VIP Freedom Income	H ***	0.31	12.44	0.7	-1.5	-1.9	5.1	3.6	3.4
VIP FundsManager 20	H ***	0.27	11.77	1.2	-1.2	-1.6	5.5	3.3	3.1
VIP FundsManager 50	H ***	0.59	11.19	-0.7	-3.6	-5.1	10.2	2.7	2.3
VIP FundsManager 70	H ***	0.81	10.49	-2.3	-5.4	-7.7	13.0	1.4	1.2
VIP FundsManager 85	H ***	0.97	9.89	-4.4	-6.8	-9.7	14.0	0.2	0.2
VIP Growth	B ****	1.11	62.44	-0.5	-7.7	-9.0	27.3	-0.4	1.7
VIP Growth & Income	H ***	1.04	17.44	-3.4	-5.2	-9.5	19.2	-2.4	-0.8
VIP Growth Opportunities	B ****	1.23	13.24	1.0	-6.7	-9.7	29.2	0.6	2.0
VIP Growth Stock	B ****	1.09	12.20	0.6	-6.9	-9.3	25.4	3.8	3.9
VIP Health Care	B ****	0.93	14.92	3.9	-7.1	-10.8	28.9	6.3	3.9
VIP High Income	B ****	0.68	38.83	0.8	-4.3	-3.9	6.6	6.9	5.3
VIP Index 500	H ***	1.00	34.90	-2.3	-5.5	-9.1	17.5	-0.2	0.0
VIP Industrials	B ****	1.45	20.25	-8.6	-8.5	-15.3	17.8	2.1	4.7
VIP Int'l Capital Appreciation	B ****	1.49	10.99	-6.3	-8.7	-10.6	14.9	0.9	-1.5
VIP Investment Grade Bond	B ****	0.23	37.51	5.0	0.8	1.8	4.3	7.4	5.4
VIP Materials	B ****	1.55	12.76	-5.4	-8.4	-10.9	24.9	5.4	
VIP Mid Cap	B ****	1.07	24.77	-6.0	-4.8	-9.0	14.4	3.2	3.9
VIP Money Market			21.64	-0.5	-0.1	-0.2	-0.6	-0.2	1.4
VIP Overseas	S **	1.27	34.60	-7.6	-10.7	-12.9	13.7	-3.7	-1.6
VIP Real Estate	H ***	2.00	20.17	3.4	-6.9	-9.7	17.2	2.5	-0.1
VIP Strategic Income	B ****	0.44	16.18	3.8	-1.2	-0.6	6.2	9.0	6.9
VIP Technology	B ****	1.40	13.72	-8.1	-8.3	-13.5	20.2	9.5	6.7
VIP Telecommunications	B ****	1.12	8.73	-1.1	-2.8	-10.5	16.4	3.9	
VIP Utilities	B ****	0.85	13.58	5.9	-1.8	-3.0	13.4	0.3	2.5
VIP Value	B ****	1.43	10.12	-6.1	-7.6	-12.6	14.1	-2.8	-1.8
VIP Value Leaders	S **	1.19	8.99	-7.9	-7.9	-14.5	9.4	-5.4	-4.5
VIP Value Strategies	B ****	1.55	13.94	-7.8	-10.1	-15.4	16.8	0.9	0.3
Fidelity Monitor VIP Income Model		0.48	24097.67	6.2	1.7	2.6	6.8	6.2	4.8
Fidelity Monitor VIP G&I Model		0.85	26549.78	-0.4	-4.0	-6.2	11.6	2.1	2.4
Fidelity Monitor VIP Growth Model		1.00	32519.15	-2.2	-5.7	-8.7	18.1	-1.9	-1.5
Fidelity Monitor VIP Sector Model		1.30	20209.33	-4.1	-7.6	-12.6	15.9	2.8	3.0

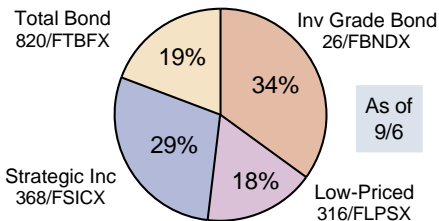
## INCOME AND PRESERVATION MODEL

For low-risk investors wanting to stay ahead of inflation.  
Target Growth Rate: 8% Target Risk Level: 0.50

FUND	NAV	SHARES	BALANCE
Invest. Grade Bond	\$7.67	4538.105	\$34807.27
Low-Priced Stock	\$38.12	464.882	\$17721.30
<b>Total Bond</b>	<b>\$11.04</b>	<b>4413.585</b>	<b>\$48725.98</b>

10% Foreign Holdings

Balance as of 8/31/11: \$101254.55  
Balance at start of 2011: \$96121.82



**PAST PERFORMANCE**  
Starting Balance: \$35,000

1992: +10.1%	2002: + 5.4%
1993: +11.3%	2003: + 8.4%
1994: - 2.1%	2004: + 4.2%
1995: +14.8%	2005: + 3.6%
1996: + 9.0%	2006: + 6.9%
1997: +10.5%	2007: + 4.0%
1998: + 3.5%	2008: -18.2%
1999: + 3.0%	2009: +20.0%
2000: + 0.3%	2010: + 9.1%
2001: + 5.6%	<b>*2011: + 5.3%</b>

We edged up 0.7% in August. On 8/8 we sold **Capital & Income** (\$8.86) and bought **Low-Priced Stock** (\$35.26). On 9/6 we will sell three-fifths of **Total Bond** and buy **Strategic Income**.

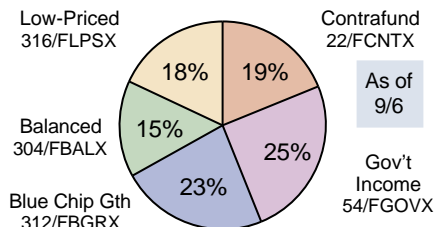
## GROWTH AND INCOME MODEL

For investors seeking a conservative path to growth.  
Target Growth Rate: 10% Target Risk Level: 0.75

FUND	NAV	SHARES	BALANCE
Contrafund	\$67.40	505.431	\$34066.05
Gov't Income	\$10.88	4058.144	\$44152.61
Balanced	\$18.17	3770.493	\$68509.86
Low-Priced Stock	\$38.12	855.106	\$32596.64

14% Foreign Holdings

Balance as of 8/31/11: \$179325.16  
Balance at start of 2011: \$180595.78



**PAST PERFORMANCE**  
Starting Balance: \$50,000

1994: - 3.7%	2003: +33.0%
1995: +21.6%	2004: +11.5%
1996: +15.8%	2005: + 8.2%
1997: +18.7%	2006: +13.7%
1998: +11.1%	2007: + 6.1%
1999: +12.2%	2008: -33.5%
2000: + 2.7%	2009: +28.1%
2001: + 1.3%	2010: +12.2%
2002: - 6.4%	<b>*2011: - 0.7%</b>

We were down 4.2% in August. On 8/8 we sold **Equity-Inc.** (\$37.53), buying **Low-Priced** (\$35.26) and **Gov't Income** (\$10.82). On 9/6 we'll sell three-fifths of **Balanced** and buy **Blue Chip Growth**.

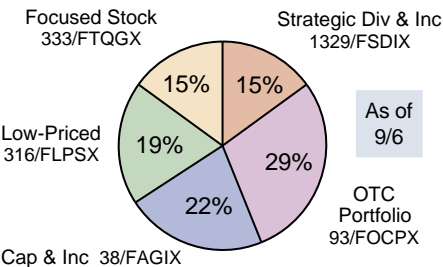
## GROWTH MODEL

For moderately aggressive stock-oriented investors.  
Target Growth Rate: 12% Target Risk Level: 1.00

FUND	NAV	SHARES	BALANCE
Equity-Income	\$40.82	660.213	\$26949.89
OTC Portfolio	\$54.44	984.424	\$53592.04
Capital & Income	\$9.01	4612.124	\$41555.24
Low-Priced Stock	\$38.12	911.107	\$34731.40
Focused Stock	\$13.60	2002.044	\$27227.80

17% Foreign Holdings

Balance as of 8/31/11: \$184056.37  
Balance at start of 2011: \$189620.99



**PAST PERFORMANCE**  
Starting Balance: \$15,000

1987: + 2.8%	2000: -10.8%
1988: +26.0%	2001: - 6.4%
1989: +30.4%	2002: -17.1%
1990: - 4.4%	2003: +46.1%
1991: +40.6%	2004: +12.4%
1992: +15.7%	2005: +11.2%
1993: +31.9%	2006: +15.7%
1994: - 2.1%	2007: + 7.3%
1995: +27.2%	2008: -42.7%
1996: +19.2%	2009: +31.8%
1997: +25.5%	2010: +17.7%
1998: + 9.9%	<b>*2011: - 2.9%</b>
1999: +29.0%	

Our Growth Model lost 6.9% in August, versus a 5.4% decline for the S&P 500. On 9/6 we will exchange **Equity-Income** for **Strategic Dividend & Income**.

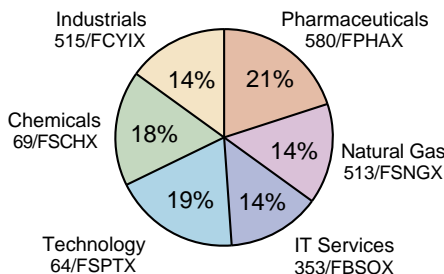
## SELECT SYSTEM (SECTOR PORTFOLIO)

For aggressive stock-oriented investors.  
Target Growth Rate: 14% Target Risk Level: 1.25

FUND	NAV	SHARES	BALANCE
Pharmaceuticals	\$12.98	6078.349	\$78896.97
Natural Gas	\$31.77	1690.385	\$53703.53
IT Services	\$20.44	2682.357	\$54827.38
Technology	\$88.82	797.531	\$70836.70
Chemicals	\$97.36	705.927	\$68729.05
Industrials	\$21.34	2540.485	\$54213.95

20% Foreign Holdings

Balance as of 8/31/11: \$381207.58  
Balance at start of 2011: \$380799.72



**PAST PERFORMANCE**  
Starting Balance: -\$25,000

1989: +23.4%	2001: - 7.3%
1990: +31.3%	2002: -14.7%
1991: +35.3%	2003: +38.4%
1992: +20.4%	2004: + 7.4%
1993: +25.9%	2005: +15.0%
1994: - 0.9%	2006: +13.6%
1995: +39.0%	2007: +15.6%
1996: + 5.2%	2008: -39.3%
1997: +29.3%	2009: +35.4%
1998: +21.7%	2010: +11.6%
1999: +44.9%	<b>*2011: + 0.1%</b>
2000: -14.9%	

Our Select System lost 7.0% in August, versus a 5.4% decline for the S&P. On 8/8 we sold an eighth of **Natural Gas** (\$28.67) along with all of **Telecom** (\$41.42), buying **Chemicals** (\$86.55).

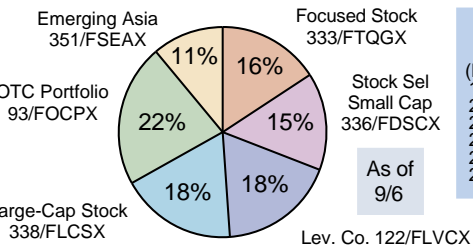
## UNIQUE OPPORTUNITIES MODEL

For aggressive stock-oriented investors.  
Target Growth Rate: 14% Target Risk Level: 1.25

FUND	NAV	SHARES	BALANCE
Focused Stock	\$13.60	1415.179	\$19246.43
Stock Sel Small Cap	\$17.55	1052.156	\$18465.34
Leveraged Company	\$25.70	860.402	\$22112.33
Large Cap Stock	\$16.78	1327.674	\$22278.37
OTC Portfolio	\$54.44	732.725	\$39889.55

10% Foreign Holdings

Balance as of 8/31/11: \$121992.02  
Balance at start of 2011: \$128788.38



**PAST PERFORMANCE**  
Starting Balance: \$50,000

(Partial Yr 99)	2005: +18.8%
1999: +33.8%	2006: +16.6%
2000: -20.5%	2007: +11.6%
2001: + 1.6%	2008: -47.6%
2002: - 2.1%	2009: +45.8%
2003: +43.2%	2010: +19.3%
2004: +20.6%	<b>*2011: - 5.3%</b>

We were down 8.3% in August, versus a 5.4% decline for the S&P. On 8/8 we sold **Equity-Inc.** (\$37.53) and bought **Large-Cap Stock** (\$15.25). On 9/6 we'll sell one-third of **OTC** and buy **Emerging Asia**.

who are making similar moves, with stocks sagging at the exit points and surging at entry points.

As for whether this is a good time to liquidate, in hindsight it would have been better to sell in early May and buy back in now. The short-term future is a tough nut to crack. It's much easier to guess where the market will be in five years than to try and figure out what will happen in the next few months.

### Do you think last month's selloff resembles the 1987 Crash, and how long do you think it will take for stocks to recover?

Last year's Flash Crash had more in common with the 1987 Crash than anything else. Last month's selloff was more of a global event. To me, it looks a lot like August 1998, when Russia defaulted on its debt. Back then, the impact on the S&P 500 was similar, but the rout turned out to be short-lived. Within months it was clear that U.S. earnings were holding up well, and the stock market made a full recovery by year-end. That may not happen this time around, but in my mind there is at least a 50% chance that it could.

### Why are you upgrading Retailing at a time when the economy is being weighed down by a lack of jobs?

Conditions don't have to be favorable for a sector to outperform, they only have to improve. In Retailing's case, fuel prices have begun to decline, and there's a good chance there will be more to come. Fully employed consumers could become more willing to open their wallets as the holiday season approaches, which would give the fund a lift. Fidelity analysts seem to have a good handle on this segment of the consumer group. According to Lipper's 6/30 rankings, Retailing is at or near the top of its peer group for the last 3, 5, and 10-year periods. ■

#### AUGUST DISTRIBUTIONS

<b>Asset Manager 20%</b>	\$ 0.02 / \$12.86 (8/5)
<b>Asset Manager 30%</b>	\$ 0.016 / \$9.63 (8/5)
<b>Growth Discovery</b>	\$ 0.079/\$13.37 (8/5)
<b>Fidelity Fifty</b>	\$ 0.024/\$16.90 (8/5)
<b>Fidelity Fund</b>	\$ 0.066/\$30.91 (8/5)
<b>Freedom Income</b>	\$ 0.016/\$11.36 (8/5)
<b>Mega Cap Stock</b>	\$ 0.054 / \$9.51 (8/5)

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, Ultra-Short Bond, and Value Discovery.**

#### INCOME FUNDS

Please see page 7 for current Income Model holdings. Our bond favorites include **Short-Term Bond, Strategic Income, and Capital & Income.**

Long-term interest rates tumbled and treasuries rallied as bond investors saw the S&P downgrade for what it was – an opinion by a rating agency that miscalculated the debt-to-GDP ratio (and previously gave AAA ratings to sub-prime debt). **Spartan Long-Term Treasury** jumped 8.6%, **Spartan Intermediate Treasury** gained 3.6% and **Gov't Income** rose 2.0%. High yield bonds, on the other hand, were hurt by rising credit risk. **High Income** lost 4.6% and **Capital & Income** was down 5.4%.

Municipal bonds got a small lift from declining rates, posting gains ranging from 0.7% to 1.9%.

#### SELECT PORTFOLIOS

Our Select System holdings are listed on page 7. Our favorite fundamental picks are **Technology, Chemicals, Pharmaceuticals, IT Services, Natural Gas, Telecom, Automotive, Industrials, Ind. Equipment and Retailing.**

**Gold** rose 7.7% as the gloom and doomers continued to inflate a bubble of their own making. On the flip side, economically sensitive sectors were hit hard. **Automotive** tumbled 15.4% and **Energy Service** fell 16.2%. ■

## Happenings

Fidelity plans to launch five new Spartan index funds around the middle of this month:

- **Spartan Emerging Markets Index**, which will be benchmarked to the FTSE Emerging Index.
- **Spartan Global ex U.S. Index**, which will focus on foreign developed and emerging stock markets. It will be benchmarked to the MSCI ACWI ex USA index.
- **Spartan Mid-Cap Index**, which will mimic the Russell Midcap Index.
- **Spartan Real Estate Index**, which will track the Dow Jones U.S. Select Real Estate Securities Index.
- **Spartan Small Cap Index**, which will mimic the Russell 2000 Index.

No word yet on expense ratios for the new offerings, but we wouldn't be surprised if fees are capped just below that of similar offerings by Vanguard. We'll add the funds to our data pages later this year, perhaps by using the space currently allotted to the Freedom group. At this point we don't anticipate using any of them in our model portfolios, because Fidelity's actively managed alternatives may have better long-term prospects.

To reflect its team-managed style, **Large Cap Value** has been renamed **Stock Selector Large Cap Value.** ■

Money Market Funds	Size	Yield	Money Market Funds	Size	Yield	Money Market Funds	Size	Yield
Cash Reser. (55/FDRXX)	118147.3	0.01	CT MM (418/FCMXX)	1721.1	0.01			
Select MM (85/FSLXX)	6728.7	0.04	MA MM (74/FDMXX)	5032.4	0.01			
Money Market (454/SPRXX)	4022.0	0.01	MI MM (420/FMIXX)	860.1	0.01	MA AMT TF (426/FMSXX)	308.5	0.01
Gov't MM (458/SPAXX)	605.3	0.01	NJ MM (417/FNJXX)	2094.3	0.01	AMT Tax-Free (460/FIMXX)	1351.6	0.01
US Treas. MM (415/FDLXX)	5660.1	0.01	NY MM (92/FNYXX)	4829.9	0.01	NJ AMT TF (423/FSJXX)	256.2	0.01
Tax-Free MM (275/FMOXX)	6684.4	0.01	OH MM (419/FOMXX)	993.4	0.01	NY AMT TF (422/FSNXX)	474.2	0.01
US Gov't Reser (50/FGRXX)	2701.7	0.01	AZ MM (433/FSAXX)	379.5	0.01	PA MM (401/FPTXX)	659.8	0.01
CA MM (97/FCFXX)	5230.5	0.01	CA AMT TF (457/FSPXX)	524.9	0.01	Municipal MM (10/FTEXX)	23024.9	0.01