

Jack
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Monitor™

No Looming Selloff For Bonds

A parade of media types have been predicting a bad outcome for the income markets in recent months, with some suggesting that bonds may be more risky than stocks. This month we attempt to move beyond the hand-waving and bring the discussion back to a rational level. We'll then do a review of the Fidelity bond funds we like best.

GDP, INFLATION AND INTEREST RATES

As the chart on page 2 illustrates, all three of these factors tend to move together, with bond yields often providing a premium to inflation. If GDP is growing fast, businesses spend heavily on expansion and pass along the costs, while consumers enjoy robust wage growth and confidently take on more debt to buy the things they really want. China is a prime example of this, which is why the country's leaders are attempting to reduce inflation by reining in lending to slow GDP growth. On the flip side, if GDP is growing slowly or shrinking, businesses tend to borrow lightly or pay off their debts, while limiting hiring and/or shrinking their payroll. That puts downward pressure on inflation and interest rates.

In the aftermath of the financial crisis, economic experts were split. Some felt that GDP would stay negative for years to come, dragging down prices and interest rates for decades much like Japan's real estate bust. Others were alarmed by the Fed's money "printing" effort, and warned of an inflationary surge on the scale of the late 1970s.

As it turned out, neither group got it right. The Fed's balance-sheet expansion has roughly mirrored the debt-reduction effort in the private sector, making for a situation where inflation remains relatively stable, reflecting the usual trends in wages, rent, food and energy costs. The latest 12-month CPI numbers show prices rising 2.6% – a little more than the Fed would like, but decelerating as the downward trend of global commodities takes hold. As such, the Fed has resigned itself to holding short-term rates near zero while winding down existing balance-sheet

BOND FUND REVIEW - *Continued on page 2*

Check Hotline For Switches

On Monday, 6/4, we will be making a change in our Unique Opportunities Model.

And as we announced on our 5/26 hotline, there were two changes that occurred in our VIP portfolios on 5/29.

Please see page 3 for details on all three trades.

Review & Recommendations

With Greece and Spain fast approaching a day of reckoning, global investors sought refuge in safe havens, causing the S&P 500 to pull back 6.0% in May.

With the possible exception of the energy sector, we don't see much long-term impact on earnings for U.S. firms, even if Greece and Spain are forced onto their own currencies. Like many of the fear-driven declines that occurred over the last three years, the latest tumble could easily reverse once the selling pressure eases up.

DOMESTIC EQUITY FUNDS

Please see page 7 for current holdings in our Unique Opportunities Model and our Growth Model.

Capital Appreciation, helped by its limited foreign exposure, held losses to 3.8%. **Equity Dividend Income** and **Small Cap Discovery** also did better than others, with respective declines of 5.0% and 5.3%. But funds with high foreign weightings or heavy technology exposure were hit harder. **Dividend Growth** and **OTC Portfolio** both posted a losses of 8.5%.

INTERNATIONAL FUNDS

Foreign stock funds lost more than their domestic counterparts due to the economic disruption in Europe and the dollar's relative strength. **Emerging Markets Discovery** held losses to 7.1%, whereas **Int'l Real Estate** was down 7.9% and **Japan** pulled back 8.0%. On the bottom end, **Global Commodity Stock** tumbled 12.9% and **Nordic** fell 13.6%.

GROWTH & INCOME FUNDS

Please see page 7 for current G&I model holdings. Income-generating funds held up well. **Real Estate Income** was off 0.6% and **Telecom & Utilities** declined 0.9%. But foreign holdings and tech exposure hurt others. **Conv. Securities** slid 5.0%; **Global Balanced** lost 5.3%.

INCOME FUNDS

Please see page 7 for current Income Model holdings. **Spartan Long-Term Treasury Index** jumped 7.9% on lower rates, but it was alone in posting big gains. Lower grade funds were hurt by the global flight to safety. **Capital & Income** slipped 2.4%, **Global High Income** declined 2.6% and **New Markets Income** was down 2.8%.

Municipals got a bit of a lift from declining interest rates, posting gains ranging from 0.2% to 1.0%.

RECOMMENDATIONS - *Continued on page 8*

expansion efforts. It may launch a QE3 effort if Congress is not able to agree on a tax cut extension after the election, but for now the Fed is content to wait and watch.

But that hasn't stopped the hand-wavers on CNBC. Bonds are the next asset class that will go over the cliff, we are told. Sell now or be sorry later!

What the doom-sayers fail to grasp is that inflation and interest rates cannot surge unless GDP growth surges with them. Unless consumers borrow heavily to buy houses, cars, furniture and televisions (as they did in the late 1970s and early 1980s), we'll never get to the point where too much money is chasing too few goods.

More importantly, the major drivers of the CPI – wages and rent – would have to lead inflation higher in tandem with all this new borrowing demand, and the underlying forces would have to be strong enough to overpower any challenge from the Fed in the form of higher short-term interest rates. That implies not only a loan-driven buying spree, but an unemployment rate that drops below 4%.

Some pundits see inflation and interest rates rising sharply in a government debt-driven dollar plunge, but here again they underestimate the powerful self-correcting forces that come with floating currencies. Put simply, the dollar cannot fall too much or the rest of the world will line up to buy our food, fuel, capital goods, and properties.

But for the sake of argument, let's suppose that treasuries are downgraded to junk status and the dollar plunges 20%. If it holds for any length of time, an export surge and a reduction in domestic spending would soon make the U.S. energy independent, eliminate the trade deficit, and fully revive the manufacturing sector. Inflation and GDP growth might climb to around 5-6% in that kind of situation, but it would also put lots of folks back to work.

BOND FUND RISK

Even in the extreme scenario described above, the hit to a typical investment-grade bond fund would hardly be described as a disaster. The Fed would likely respond by selling off its balance sheet holdings and hiking short-

term interest rates to around 3%. Medium-term bond yields might climb to something like 6%. Broad-based investment-grade bond funds, with a duration of around 5, might see a share price decline on the order of 10%, with their higher income streams cutting the loss in half over the following year. High-yield bonds would suffer even less, with most still managing to post a positive 12-month return (with greater pricing power, heavily-indebted corporations would enjoy stronger revenue growth and loan portfolios that shrink in real terms).

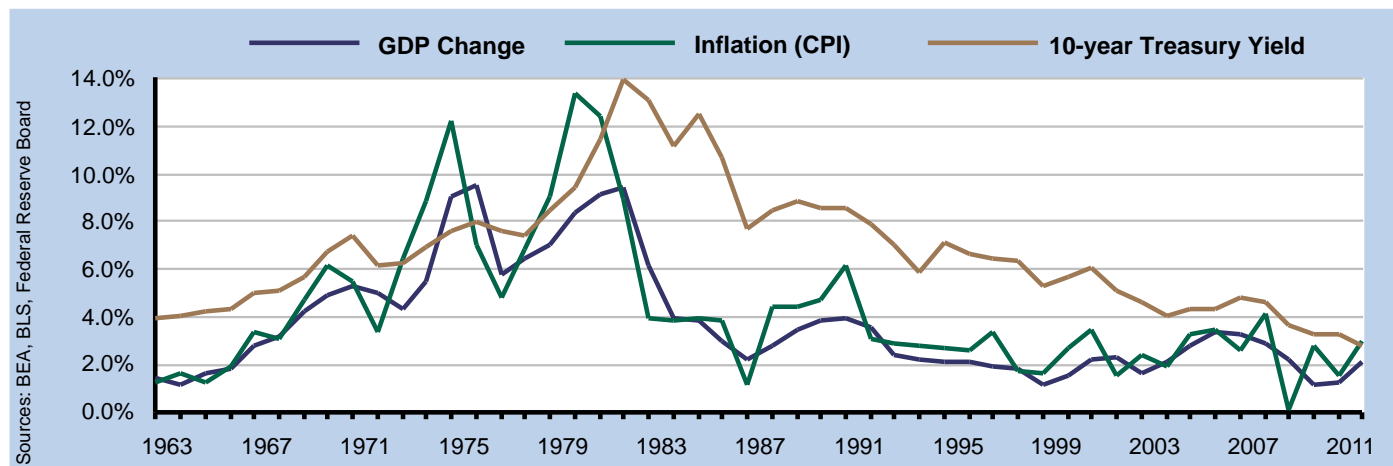
Are there *any* bond funds that would suffer like stock funds in a bear market? We can only think of one. **Spartan Long-Term Treasury Index**, which has a duration of 16 and would bear the brunt of perhaps a 2.5 point interest rate increase at the long end of the maturity curve, might lose 40% of its value. But with a risk score of 0.8, no one should expect a fund like this to be a stable income source.

So much for the extreme scenario. The more important question is how bonds will behave under the most *likely* scenario. We see bond yields remaining low and stable for several more years, with interest rates and yields eventually edging up as loan demand moves back toward normal levels. Compared with the past, bond returns are going to be lower in the future. But over any three-year period, they'll likely keep you ahead of inflation, and will almost certainly do better than sitting in cash.

BOND FUND REVIEW

The following review includes bond funds we rate as *Buy* or *OK to Buy*, and they're listed in increasing order of risk. We don't recommend the purchase of municipal bond funds at this time – their interest-rate sensitivity is usually somewhat higher than taxables, and they could take a modest hit in the event of a surprise extension of the Bush tax cuts following the November election. As a muni alternative, consider holding **Corporate Bond**. We think this fund's capital gain potential will more than make up for the added taxes that come with its income stream.

Conservative Income may not be as safe as a money market fund, but it's pretty close. While regulations



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have put a straight-jacket on traditional money market funds, this fund can buy any of the notes that money markets used to invest in (and then some). Fidelity makes an effort to keep the fund's share price stable at \$10, although not with the same resolve that money markets put into maintaining their \$1 share price. With a yield of 0.7% and a minimal duration of 0.2, you're not getting a lot of income, but you don't have to worry about losing it.

Short-Term Bond has about a third of the interest-rate risk of a traditional investment-grade bond fund, giving it a duration of 1.8 (for a one percentage point change in yield, it would typically gain or lose 1.8%). At 0.8%, its yield is not much better than **Conservative Income**, but it does have a modest amount of capital gain potential. With volatility of 0.1, it's a good way to keep risk low in a blended stock/bond portfolio.

GNMA and Mortgage Securities offer outsized yields for their level of volatility (both have income streams ranging 2-3%), although they come with some pre-payment risk (meaning that performance can suffer if too many homeowners pay off their current mortgages after refinancing). Fortunately, that hasn't been a big problem, because manager Bill Irving has done a great job of avoiding the problem areas.

Intermediate Bond holds a blend of treasuries, mortgage debt, and corporates for an overall yield of 1.7% and a duration of 3.9. Like other mainstream choices, this fund has been taking advantage of opportunities created by the financial crisis. Overall volatility is around 0.2.

Fidelity considers **Total Bond** to be its flagship fund. It allocates up to 20% to high-yield and emerging market debt, which boosts the fund's yield (2.5%) while reducing its interest-rate sensitivity. All without much impact on risk (overall volatility runs about 0.2). In a stable yield environment, the added capital gain potential on the high-yield side could allow the fund to generate a total return that significantly exceeds its income stream.

Investment Grade Bond tilts a bit more toward treasuries and mortgage debt, holding only 20-25% in corporate bonds. It has a yield of 2.3% and a duration of 4.7. It's a solid well-diversified pick, but may not deliver as much on the capital gain side compared with other funds that have a similar objective.

Corporate Bond is Fidelity's riskiest offering in the investment-grade space (we estimate its volatility in the range of 0.25-0.3). The fund's 6.6 duration makes it more interest-rate sensitive than other funds in this category, and its limited exposure to mortgage debt and treasuries means additional credit risk as well. Still, we see this as a good thing, because it allows the fund to take full advantage of Fidelity's bond selection skills. So while its 2.9% yield is nice, the icing on the cake may be its ability

to generate several more percentage points through capital gains each year. Ideally, this fund should be held in a blended stock/bond portfolio, where its relatively high interest-rate sensitivity can help offset the volatility of stock-oriented holdings (bonds often move up when stocks move down), reducing overall portfolio risk.

Floating Rate High Income is the least-risky high-yield fund in Fidelity's lineup, sporting an overall risk level of about 0.3. There's very little interest-rate risk here, but plenty of credit risk. Still, for income-hungry investors, it offers a yield of 3.5%.

Strategic Income allocates its assets to four segments of the bond arena, with a neutral mix of 40% high-yield, 30% U.S. Government / investment-grade, 15% emerging market, and 15% foreign developed market. Overall, the combination offers a good yield (4.0%) and solid capital gain opportunities, although it's about twice as risky as an investment-grade fund (0.35 volatility).

Focused High Income invests mainly in BB-rated corporates, which are considered the top rung of the high-yield universe. The fund earns a robust 4.8% yield while running with a 0.4 volatility score. Over the last 12 months, prices for high-yield bonds have come under pressure due to spillover effects from the mess in Europe. But most of the holdings in this fund's portfolio are domestic issuers, some of which could be upgraded to investment-grade status in the coming year. As such, we see solid capital gain potential.

Once considered more risky than even the high-yield bond universe, **New Markets Income** has become more tame as the sovereign debt ratings of emerging market countries have climbed up the credit ladder to investment-

BOND FUND REVIEW - *Continued on page 8*

Model Portfolio Changes

On Monday, 6/4, our Unique Opportunities Model will sell **OTC (FOCPX)** and buy **Capital Appreciation (FDCA)**. This move will reduce our exposure to foreign markets both directly (by moving to a fund with only 3% foreign stocks) and indirectly (by reducing our tech weighting and boosting consumer stock exposure).

As announced previously on our 5/26 hotline, we also made two minor adjustment trades on 5/29:

- In our VIP Income Model, we sold one-twenty-fifth of **VIP Value** and bought **VIP Money Market**, bringing the portfolio in line with the equivalent model in our affiliate publication Fidelity Insight.
- In our VIP Growth Model, we sold one-twenty-fifth of **VIP Equity-Income** and bought **VIP Value Strategies**. Here again we are making a final adjustment to bring our weightings in line with our affiliate.

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 30-day roundtrip trades to two in the last 90 days and four in the last 12 months. Fund ratings: **Buy** means the fund is one of our top choices in its category, **OK to Buy** means accumulate at the expense of lower-rated funds, **Hold** means we have a neutral view, **OK to Sell** means reduce to below 5% of holdings, **Sell** means move on to a higher-rated fund within the same asset class. Upgrades and downgrades from the prior month are indicated by ↑ and ↓.

MAY PERFORMANCE						2012	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
EQUITY FUNDS:												
130/30 Large Cap (2063/FOTTX)	Sell	1.16	none	6.87	16.9	-1.3	-7.8	-7.8	-13.4	6.7		
Growth Strategies (324/FDEGX)	Hold	1.33	1.5(90)	19.07	1555.1	2.5	-7.9	-9.2	-13.5	13.1	-2.5	3.1
Blue Chip Gth (312/FBGRX)	Buy	1.21	none	45.72	11380.9	7.8	-8.3	-6.0	-3.3	17.6	3.0	4.1
Blue Chip Value (1271/FBCVX)	Sell	1.20	none	9.86	315.4	0.8	-8.1	-7.9	-14.0	7.8	-7.6	
Capital Apprec (307/FBCAX)	Buy ↑	1.18	none	27.88	4439.4	13.2	-3.8	0.0	3.6	17.2	0.4	6.4
Contrafund (22/FCNTX)	Buy	0.93	none	73.10	60559.9	8.4	-5.6	-2.2	2.1	15.7	2.4	7.5
Disc Equity (315/FDEQX)	Sell	1.11	none	22.11	5710.5	2.8	-7.9	-6.2	-8.2	9.2	-4.9	2.8
Dividend Gth (330/FDGRX)	Hold	1.34	none	27.15	7093.3	4.9	-8.5	-7.9	-10.2	14.2	-1.3	2.9
Equity-Income (23/FEQIX)	Buy	1.14	none	42.46	6728.4	3.4	-5.9	-3.9	-8.1	11.8	-4.6	2.8
Equity Dividend Inc (319/FEQTX)	Buy	1.13	none	18.03	4316.3	4.1	-5.0	-2.3	-5.7	11.9	-4.0	3.0
Export Fund (332/FEPPX)	OK to Sell	1.06	0.75(30)	21.88	1857.0	5.8	-6.2	-3.7	-4.0	11.9	-1.6	5.2
Fidelity Fifty (500/FFTYX)	Buy	1.03	none	18.40	714.7	5.5	-7.8	-3.5	-3.4	13.7	-2.8	3.0
Fidelity Fund (3/FFIDX)	Hold	1.05	none	33.17	4542.1	6.5	-6.2	-3.4	-4.3	12.3	-0.9	4.0
Focused Stock (333/FTQGX)	Buy	1.10	none	14.50	518.8	5.7	-7.8	-3.5	-4.1	16.4	2.8	4.6
Growth & Income (27/FGRIX)	OK to Buy	1.06	none	19.08	4943.1	5.0	-6.7	-4.2	-0.5	13.9	-7.1	-0.5
Growth Company (25/FDGRX)	Buy	1.18	Closed	89.16	26230.3	10.2	-8.2	-4.9	-0.5	19.0	4.1	7.8
Growth Discovery (339/FDSVX)	Buy	1.18	none	14.77	917.6	8.1	-7.1	-3.6	-0.9	17.7	1.3	4.8
Independence (73/FDFFX)	Hold	1.46	none	23.53	3323.3	8.7	-7.4	-6.7	-10.0	14.2	-0.3	4.4
Large Cap Growth (763/FSLGX)	OK to Buy	1.12	none	10.45	142.4	8.1	-6.9	-4.7	-3.2	15.5	-1.1	3.5
Large Cap Stock (338/FLCSX)	Buy	1.21	none	18.00	951.2	5.0	-7.9	-6.0	-3.6	15.9	-0.4	3.8
SS Large Cap Val (708/FSLVX)	OK to Sell	1.08	none	10.57	474.1	2.7	-6.2	-5.0	-5.6	10.7	-5.9	2.7
Lev Co Stock (122/FLVCX)	Buy	1.51	1.5(90)	27.19	3247.2	8.3	-6.4	-6.4	-12.0	15.9	-3.1	14.0
Low-Priced Stock (316/FLPSX)	Buy	1.07	1.5(90)	37.03	25525.1	3.6	-8.1	-7.0	-5.5	15.7	0.8	8.0
Magellan (21/FMAGX)	OK to Buy	1.20	none	67.08	13321.7	6.7	-7.2	-5.0	-10.7	8.4	-4.1	1.4
Mega Cap Stock (361/FGRTX)	Buy	1.09	none	10.65	1333.7	5.4	-7.2	-4.7	1.2	15.2	-0.5	4.2
Mid Cap Growth (793/FSMGX)	Hold	1.33	0.75(30)	11.80	255.2	3.5	-6.9	-8.1	-12.1	15.4	-3.7	3.6
Mid Cap Stock (337/FMSCX)	Hold	1.31	0.75(30)	27.96	5238.4	4.9	-7.3	-6.5	-6.2	18.2	-0.8	5.4
Mid Cap Value (762/FSMVX)	OK to Buy ↑	1.20	0.75(30)	15.90	573.4	4.9	-6.5	-5.0	-8.2	18.2	-1.8	6.0
New Millennium (300/FMLX)	OK to Buy	1.10	none	30.14	2066.5	4.4	-7.1	-5.5	-2.2	16.8	2.4	6.3
OTC Portfolio (93/FOCPX)	OK to Buy ↓	1.30	none	56.25	6369.0	2.8	-8.5	-10.4	-8.2	16.9	4.4	7.3
Small Cap Discov (384/FSCRX)	Buy	1.34	1.5(90)	21.18	2777.4	5.7	-5.3	-4.2	-3.6	21.9	5.6	
Small Cap Growth (1388/FCPGX)	OK to Buy	1.32	1.5(90)	15.64	1233.5	4.9	-6.1	-5.2	-8.4	17.4	0.3	
Stock Sel Small Cap (336/FDSCX)	Buy	1.40	1.5(90)	18.51	1523.0	2.7	-7.0	-6.4	-9.6	17.9	-2.7	4.3
Small Cap Stock (340/FSLCX)	Buy	1.58	2 (90)	17.08	3222.6	3.3	-7.6	-7.6	-20.3	13.3	-0.9	5.9
Small Cap Value (1389/FCPVX)	OK to Buy	1.27	1.5(90)	14.68	1780.0	5.0	-5.7	-3.9	-3.9	17.2	1.7	
Stock Sel All Cap (320/FDSSX)	Hold	1.14	none	25.65	2412.0	5.7	-6.9	-5.7	-6.7	13.3	-1.7	4.0
Tax Managed Stock (343/FTXMX)	Sell	1.23	none	11.61	57.0	0.6	-8.0	-8.4	-15.7	9.2	-5.9	2.3
Trend (5/FTRNX)	OK to Buy	1.13	none	72.13	1181.9	7.9	-6.9	-4.7	-3.4	18.0	2.6	6.0
Value (39/FDVLX)	Hold	1.34	none	66.43	5874.6	4.7	-7.5	-6.3	-10.1	15.6	-3.7	5.3
Value Discovery (832/FVDFX)	Hold	1.20	none	14.77	437.5	4.4	-6.5	-4.4	-5.6	13.1	-3.3	
Value Strategies (14/FSLSX)	Buy	1.38	none	27.09	313.9	8.1	-5.9	-5.2	-10.4	18.0	-2.8	5.7
SPECIALTY / HYBRID FUNDS:												
Balanced (304/FBALX)	Buy	0.67	none	18.90	15213.1	4.3	-4.2	-2.7	0.1	12.5	1.1	6.3
Convertible Sec (308/FCVXS)	Buy	0.98	none	23.63	1979.8	4.2	-5.0	-6.5	-11.1	14.5	0.3	6.0
Global Balanced (334/FGBLX)	Hold	0.79	1 (30)	21.94	479.9	2.4	-5.3	-3.6	-5.8	9.4	2.4	7.2
Global Strategies (1960/FDYSX)	Hold	0.76	none	9.08	218.8	5.5	-2.3	-2.0	-4.8	9.9		
Puritan (4/FPURX)	Buy	0.71	none	18.57	15824.9	5.4	-4.3	-2.6	-0.2	12.7	1.5	5.4
Real Estate Income (833/FRIFX)	OK to Buy	0.43	0.75(90)	10.92	2063.6	7.1	-0.6	1.9	5.7	18.6	4.2	
Real Estate (303/FRESX)	OK to Buy	1.42	0.75(90)	30.13	3833.0	9.3	-4.8	3.3	4.0	31.8	-0.7	10.0
Strategic Div & Inc (1329/FSDIX)	Buy	0.89	none	11.48	1819.4	4.7	-3.5	-1.3	1.3	17.9	-0.5	
Strategic Real Rtn (1505/FSRRX)	Hold	0.48	0.75(60)	9.28	616.8	1.8	-2.4	-1.7	-1.3	11.1	3.1	
Stock & Utilities (311/FUIX)	OK to Buy	0.74	none	17.70	895.0	2.6	-0.9	3.3	3.9	16.7	-1.5	7.3
SELECT FUNDS:												
Air Transportation (34/FSAIX)	OK to Buy	1.47	0.75(30)	37.89	71.7	9.7	-1.8	-0.6	0.1	25.8	0.5	6.3
Automotive (502/FAVX)	OK to Buy	2.03	0.75(30)	33.31	141.3	7.0	-7.4	-12.4	-20.9	21.8	-2.5	3.1
Banking (507/FSRBX)	Hold	1.51	0.75(30)	18.03	494.4	13.0	-4.7	1.2	0.6	12.1	-9.4	-1.3
Biotechnology (42/FBIOX)	Hold	1.25	0.75(30)	96.98	1787.3	19.2	-0.3	4.9	16.0	21.9	8.9	9.0
Brokerage (68/FSLBX)	Hold	1.57	0.75(30)	41.94	381.1	5.0	-8.4	-11.3	-16.9	2.7	-8.8	3.7
Chemicals (69/FSCHX)	Buy	1.63	0.75(30)	104.44	907.9	10.6	-6.9	-4.8	-2.5	22.7	8.9	12.3
Com Equipment (518/FSDCX)	Hold	1.58	0.75(30)	20.38	280.7	-7.6	-14.0	-16.8	-29.9	8.1	-1.9	4.6
Computers (7/FDCPX)	OK to Buy	1.43	0.75(30)	59.51	846.9	10.4	-10.1	-8.3	-1.8	24.0	6.6	6.8
Const & Housing (511/FSHOX)	Hold	1.51	0.75(30)	39.68	219.5	10.8	-7.8	-0.8	7.3	19.3	-0.2	6.6
Cons Discretionary (517/FSCPX)	OK to Buy	1.20	0.75(30)	25.89	317.6	12.4	-5.6	-0.2	5.5	22.2	2.1	4.2
Consumer Finance (98/FSVLX)	Buy	1.21	0.75(30)	12.55	198.4	13.7	-5.5	-0.5	4.6	12.8	-21.0	-8.1
Consumer Staples (9/FDFAX)	Hold	0.77	0.75(30)	73.75	1271.1	3.7	-4.3	-1.5	3.4	15.8	6.2	7.7
Defense & Aero (67/FSDAX)	Hold	1.14	0.75(30)	79.32	666.9	2.1	-7.5	-7.4	-1.5	17.5	0.9	8.3
Electronics (8/FSLEX)	Buy	1.75	0.75(30)	45.33	1140.8	2.5	-11.7	-14.9	-16.1	15.8	-0.6	1.1
Energy (60/FSENX)	Hold	1.71	0.75(30)	44.84	2253.2	-9.0	-13.3	-18.6	-23.8	5.5	-3.6	9.2
Energy Service (43/FSSESX)	Hold	2.06	0.75(30)	59.66	1242.5	-8.3	-12.9	-18.3	-28.2	5.4	-5.3	6.6
Environ & Alt Energy (516/FSLEX)	Hold	1.17	0.75(30)	14.95	69.4	-0.8	-7.0	-8.3	-23.8	5.6	-3.2	2.9
Financial Services (66/FIDSX)	Hold	1.55	0.75(30)	54.08	452.0	10.6	-6.8	-6.1	-10.7	2.8	-13.4	-2.2
Gold (41/FSAGX) <i>Limit to 5% weight</i>	Sell	1.80	0.75(30)	35.51	3193.6	-15.9	-7.0	-22.7	-27.2	0.7	13.2	14.4
Health Care (63/FSHPX)	Hold	0.89	0.75(30)	128.70	2234.4	8.1	-3.9	-0.6	-0.1	19.4	4.4	6.6
IT Services (353/FBSOX)	Buy	1.25	0.75(30)	22.50	356.2	7.1	-9.6	-4.2	-0.1	21.8	6.0	7.7
Indust Equipment (510/FSCGX)	OK to Buy	1.54	0.75(30)	33.26	340.0	7.6	-8.2	-8.4	-7.8	20.1	1.3	6.8
Industrials (515/FCYIX)	Buy	1.40	0.75(30)	22.98	557.7	6.2	-6.9	-6.2	-6.7	20.4	2.8	8.8
Insurance (45/FSPCX)	OK to Sell	1.17	0.75(30)	46.29	284.9	4.4	-6.2	-2.6	-4.6	14.4	-7.0	1.7
Leisure (62/FDLSX)	Hold	1.20	0.75(30)	104.43	513.0	8.5	-6.5	-1.9	8.7	22.5	6.3	9.3
Materials (509/FSDPX)	Hold	1.66	0.75(30)	62.84	1043.8	3.0	-7.7	-8.9	-11.3	16.8	4.2	11.2
Medical Delivery (505/FSHCX)	Hold	1.08	0.75(30)	59.08	955.9	7.9	-4.3	-3.6	-2.1	22.0	3.0	8.9
Medical Equip & Sys (354/FSMEX)	Hold	0.99	0.75(30)	26.56	1359.5	7.5	-5.7	-3.3	-10.0	12.7	5.3	8.9
Multimedia (503/FBMPX)	Hold	1.28	0.75(30)	47.34	198.8	10.0	-4.4	-2.4	-2.4	24.9	2.6	7.7
Natural Gas (513/FSNGX)	Hold	1.54	0.75(30)	28.46	680.6	-6.1	-9.1	-13.2	-19.5	0.9	-6.9	7.8
Nat Resources (514/FNARX)	Hold	1.71	0.75(30)	28.30	1253.1	-9.6	-13.1	-20.0	-26.0	5.1	-2.5	9.9
Pharmaceuticals (580/FPHAX)	Buy	0.82	0.75(30)	13.90	739.8	2.9	-4.6	-0.9	0.6	19.6	5.7	7.0
Retailing (46/FSRPX)	OK to Buy	1.21	0.75(30)	58.62	524.7	14.5	-8.1	2.0	11.0	25.1	7.0	8.6
Software (28/FSCTX)	OK to Buy	1.21	0.75(30)	79.64	1815.3	8.2	-8.8	-6.7	2.5	21.9	7.0	10.2
Technology (64/FSPTX)	Buy	1.37	0.75(30)	94.46	2406.3	9.2	-8.7	-7.0	-7.2	20.8	5.0	7.2
Telecom (96/FSTCX)	Hold	0.98	0.75(30)	45.11	340.7	3.2	-2.5	-2.3	-11.4	11.3	-3.2	6.9
Transportation (512/FSRFX)	Hold	1.42	0.75(30)	51.40	201.3	6.3	-2.0	-1.				

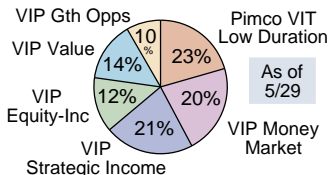
MAY PERFORMANCE						30-day	2012	One	Three	One	3-Yr	5-Yr
Fund Name (Code/Symbol)	Rating	Risk	Fee	NAV	Size	Yield	YTD	Mth	Mth	Year	Rate	Rate
INTERNATIONAL FUNDS:												
Canada (309/FICDX)	OK to Sell	1.23	1.5(90)	49.22	3437.9		-1.8	-8.2	-8.7	-18.3	5.5	-1.3
China Region (352/FHKCX)	OK to Sell ↓	1.40	1.5(90)	25.78	1430.0		1.9	-8.9	-13.0	-21.3	5.0	4.2
Diversified Int'l (325/FDIVX)	OK to Sell	1.27	1 (30)	25.64	14451.1		0.4	-9.8	-10.3	-17.6	4.3	-6.5
Emerging Asia (351/FSEAX)	OK to Sell ↓	1.37	1.5(90)	25.34	1466.6		0.6	-10.8	-13.2	-19.9	7.5	-2.3
Emerging EMEA (2053/FEMEX)	OK to Sell ↓	1.39	1.5(90)	7.88	120.7		0.6	-11.2	-14.1	-16.7	7.2	
Emerging Markets (322/FEMKX)	OK to Sell ↓	1.46	1.5(90)	20.25	2596.8		-1.3	-11.8	-13.9	-23.6	6.7	-4.4
Emg Mkts Discov (2374/FEDDX)	OK to Buy	1.5 E	2 (90)	10.31	18.4		8.9	-7.1	-8.8			
Europe (301/FIEUX)	OK to Sell	1.49	1 (30)	25.37	598.6		-0.4	-11.0	-12.0	-22.6	2.6	-7.0
Europe Cap Appr (341/FECAX)	OK to Sell	1.51	1 (30)	15.29	317.4		-1.1	-12.0	-12.7	-23.2	2.3	-8.0
Glob Commod Stk (2120/FFGCX)	OK to Sell ↓	1.6 E	1 (30)	12.88	463.3		-7.6	-12.9	-18.4	-26.8	2.0	
Int'l Capital Apprec. (335/FIVFX)	Buy	1.42	1 (30)	11.71	724.3		5.3	-10.1	-8.9	-12.6	9.1	-5.1
Int'l Discovery (305/FIGRX)	OK to Sell	1.31	1 (30)	27.68	6176.1		0.3	-10.2	-9.6	-18.5	4.5	-6.1
Int'l Growth (1979/FIGFX)	OK to Buy	1.22	1 (30)	8.04	102.6		2.9	-8.9	-8.2	-11.6	11.4	
Int'l Real Estate (1368/FIREX)	Sell	1.37	1.5(90)	7.54	251.1		8.5	-7.9	-8.4	-17.1	5.2	-10.7
Int'l Small Cap (818/FISMIX)	OK to Buy ↓	1.23	2 (90)	17.85	801.8		1.9	-11.6	-11.1	-18.8	9.8	-3.7
Int'l Small Cap Opp (1504/FSCOX)	Buy	1.20	2 (90)	9.68	333.8		4.6	-8.6	-7.0	-11.1	15.1	-8.4
Int'l Value (1597/FIVLX)	OK to Sell	1.34	1 (30)	6.29	137.4		-3.8	-9.9	-10.9	-24.7	0.6	-9.5
Japan (350/FJPNX)	Hold	0.98	1.5(90)	9.14	433.7		-0.7	-8.0	-9.0	-9.8	0.7	-8.2
Japan Smaller Co (360/FJSCX)	Hold	1.05	1.5(90)	8.16	279.1		-4.6	-8.9	-7.9	-8.6	4.7	-6.3
Latin America (349/FLATX)	Hold ↓	1.54	1.5(90)	46.87	2828.2		-4.1	-11.5	-16.1	-19.4	8.0	-0.6
Nordic (342/FNORX)	Hold	1.66	1.5(90)	27.01	331.6		0.9	-13.6	-14.5	-25.9	8.3	-6.9
Overseas (94/FOSFX)	OK to Sell	1.42	1 (30)	27.20	1660.4		2.7	-10.3	-10.6	-18.2	2.2	-8.1
Pacific Basin (302/FPBFX)	OK to Buy	1.21	1.5(90)	21.98	636.0		2.5	-9.3	-9.2	-16.1	12.5	-2.7
Total Emerg Mkts (2369/FTEMX)	Hold ↓	1.2 E	1.5(90)	9.78	68.0		2.0	-8.9	-10.4			
Total Int'l Equity (1978/FTIEX)	OK to Buy	1.27	1 (30)	6.36	284.1		0.5	-9.0	-9.5	-18.2	6.6	
Worldwide (318/FWWFX)	Hold	1.17	1 (30)	17.86	1091.3		3.0	-8.8	-6.3	-10.7	10.8	-1.8
INDEX AND ASSET ALLOCATION:												
Four-In-One Index (355/FNNOX)	Hold	0.92	none	26.65	2367.5		2.7	-6.4	-5.4	-5.4	11.2	-1.0
Int'l Enhanced Idx (2010/FIENX)	OK to Sell	1.25	1 (30)	6.04	26.1		-3.1	-11.2	-12.8	-20.2	3.5	
Lg Cap Core Eh Idx (1827/FLCEX)	Hold	0.99	none	9.29	262.9		4.0	-6.3	-4.0	0.1	14.2	-1.1
Lg Cap Gth Eh Idx (1829/FLGEX)	OK to Buy	1.02	none	10.53	159.2		6.2	-6.2	-3.5	1.7	16.3	1.2
Lg Cap Val Eh Idx (1828/FLVEK)	OK to Sell	1.02	none	7.33	74.9		3.0	-6.1	-4.5	-3.3	12.6	-4.2
Mid Cap Enh Idx (2012/FMEIX)	Hold	1.18	0.75(30)	9.14	78.7		4.5	-6.6	-5.2	-7.0	17.3	
NASDAQ Comp (1282/FNCMX)	OK to Buy	1.17	0.75(90)	37.70	412.2		9.0	-7.1	-4.5	0.8	17.8	2.5
Small Cap Enh Idx (2011/FCPEX)	Hold	1.35	1.5(90)	9.09	125.3		3.6	-7.2	-6.2	-6.4	17.2	
Spart 500 Index (650/FUSEX)	Hold	1.00	none	46.61	11210.3		5.1	-6.0	-3.5	-0.5	14.8	-0.9
Spart Em Mkts Idx (2341/FPPEX)	Hold	1.5 E	1.5(90)	8.79	53.6		-1.2	-10.9	-15.9			
Spart Extend Mkt Idx (398/FSEMEX)	Hold	1.26	0.75(90)	37.04	2229.8		5.6	-7.0	-5.5	-7.3	18.2	0.8
Spart Glob Ex-US Idx (2345/FSGUX)	Hold	1.3 E	1(90)	9.27	12.9		-2.6	-11.0	-13.4			
Spart Int'l Index (399/FSIIX)	Hold	1.28	1(90)	28.76	3089.8		-3.3	-11.2	-13.0	-20.4	3.3	-7.2
Spart Mid Cap Idx (2349/FSCLX)	Hold	1.3 E	0.75(30)	10.90	7.6		4.9	-6.7	-5.0			
Spart Real Estate Idx (2353/FRXIX)	Hold	1.6 E	0.75(90)	11.15	12.2		8.8	-4.6	3.3			
Spart Small Cap Idx (2356/FSPPX)	Hold	1.4 E	1.5(90)	11.00	12.0		3.2	-6.6	-5.8			
Spart Total Mkt Idx (397/FTMTX)	Hold	1.04	0.5(90)	37.89	3223.8		5.2	-6.2	-3.9	-1.8	15.5	-0.6
Asset Mgr 20% (328/FASIX)	Hold	0.27	none	13.03	4253.3		2.9	-0.9	-0.4	2.2	8.5	3.6
Asset Mgr 30% (1957/FTANX)	Hold	0.39	none	9.78	318.7		3.3	-1.8	-1.2	1.1	9.7	
Asset Mgr 40% (1958/FFANX)	Hold	0.50	none	9.63	281.8		3.6	-2.6	-2.0	-0.4	10.4	
Asset Mgr 50% (314/FASMIX)	Hold	0.62	none	15.52	6775.2		3.6	-3.4	-2.8	-1.9	11.1	2.0
Asset Mgr 60% (1959/FSANX)	Hold	0.73	none	9.51	535.7		3.8	-4.2	-3.7	-3.7	11.3	
Asset Mgr 70% (321/FASGX)	Hold	0.85	none	16.04	2746.4		3.9	-5.1	-4.6	-5.4	11.7	0.3
Asset Mgr 85% (347/FAMRX)	Hold	1.03	none	12.88	699.9		4.0	-6.4	-6.0	-8.1	11.7	-0.9
TAXABLE BOND FUNDS:												
Capital & Income (38/FAGIX)	Buy	0.74	1(90)	8.96	9589.5	6.09	5.9	-2.4	-1.4	-2.6	18.4	6.8
Conservative Inc (2267/FCONX)	Buy	0.1 E	none	10.01	545.3	6.09	0.7	0.1	0.3	0.6		
Corporate Bond (2208/FCBFX)	Buy ↑	0.4 E	none	11.14	265.2	2.86	4.6	1.0	1.9	10.3		
Floating Rate (814/FFRHX)	Buy	0.28	1(60)	9.73	5571.7	3.54	2.3	-0.8	0.1	2.1	7.4	3.8
Focused High Inc (1366/FHIFX)	Buy	0.40	1(90)	9.10	937.5	4.84	4.0	-1.0	-0.5	5.1	12.8	5.7
GNMA Portfolio (15/FGMNX)	Buy ↑	0.15	none	11.92	10155.9	2.52	1.8	0.5	1.4	6.2	6.7	7.2
Global High Inc (2297/FGHNX)	Buy	0.7 E	1(90)	9.44	196.2	5.92	4.3	-2.6	-1.7			
Gov't Income (54/FGOVX)	Hold	0.19	none	10.91	4182.2	1.27	2.0	1.3	1.9	7.3	5.6	6.8
High Income (455/SPHIX)	Buy	0.55	1(90)	8.84	5687.6	6.10	4.8	-1.8	-0.8	3.0	15.2	6.9
Inflation-Protected (794/FINPX)	Hold	0.30	none	13.32	2968.5		4.5	1.8	2.7	12.9	9.6	7.5
Intermed Bond (32/FTHRX)	OK to Buy	0.18	none	11.02	4161.5	1.73	2.4	0.6	1.3	5.2	8.4	5.7
Intermed Gov't Inc (452/FSTGX)	Hold	0.17	none	11.06	1140.5	0.60	1.3	0.7	1.2	4.7	4.3	5.8
Invest Grade Bond (26/FBNDX)	OK to Buy	0.17	none	7.88	4703.4	2.28	3.3	1.1	2.0	7.6	9.8	5.7
Mortgage Securities (40/FMSFX)	Buy ↑	0.13	none	11.29	759.1	2.86	2.3	0.4	1.3	5.7	7.4	5.1
New Markets Inc (331/FNMIX)	OK to Buy	0.47	1(90)	16.19	5311.3	4.85	4.6	-2.8	-1.3	8.9	14.3	8.7
Short-Term Bond (450/FSHBBX)	Buy	0.08	none	8.53	7742.0	0.80	1.0	0.0	0.3	1.3	3.7	2.0
Spart Inter Tr Idx (1561/FIBIX)	OK to Sell	0.35	none	11.64	541.8	1.04	3.0	2.1	2.9	12.2	8.2	8.8
Spart L-Term Tr Idx (1562/FLBIX)	Sell	0.80	none	13.58	109.9	2.39	6.0	7.9	8.4	31.7	14.3	12.1
Spart S-Term Tr Idx (1560/FSBIX)	Hold	0.11	none	10.63	177.4	0.23	0.4	0.2	0.4	2.1	2.6	4.4
Strategic Income (368/FSICX)	Buy	0.35	none	10.97	9604.3	3.96	3.3	-1.3	-0.3	3.1	11.5	7.4
Total Bond (820/FTBFX)	Buy ↑	0.18	none	11.12	13233.5	2.54	3.2	0.7	1.5	6.9	9.9	7.0
Ultra-Short Bond (812/FUSFX)	Hold	0.03	0.25(60)	8.20	293.0	0.61	0.8	0.0	0.2	0.3	1.0	-2.4
Spart US Bond Index (651/FBIDX)	Hold	0.17	none	11.92	5891.0	1.90	2.3	0.9	1.4	7.0	6.9	6.1
MUNICIPAL BOND FUNDS:												
AZ Municipal Inc (434/FAZAX)	Hold	0.27	0.5(30)	12.10	171.7	2.15	4.1	0.9	1.6	10.6	7.0	5.4
CA Municipal Inc (91/FCTFX)	Hold	0.32	0.5(30)	12.78	1724.1	2.51	4.7	1.0	1.8	12.0	7.9	5.3
CA Short-Int TF (1534/FCSTX)	Hold	0.13	0.5(30)	10.83	784.9	0.80	1.4	0.3	0.3	4.0	3.9	4.4
CT Municipal Inc (407/FICNX)	Hold	0.25	0.5(30)	12.05	576.2	1.57	2.9	0.7	1.0	8.8	6.3	5.6
Intermediate Muni (36/FLTMX)	Hold	0.19	0.5(30)	10.61	4216.7	1.51	2.8	0.5	1.2	7.7	5.8	5.2
MA Municipal Inc (70/FDMMX)	Hold	0.27	0.5(30)	12.64	2427.8	2.05	4.1	0.9	1.3	10.8	7.3	5.6
MD Municipal Inc (429/SMDMX)	Hold	0.23	0.5(30)	11.60	218.5	1.57	3.3	0.8	1.3	9.2	6.4	5.2
MI Municipal Inc (81/FMHTX)	Hold	0.23	0.5(30)	12.48	645.7	2.19	3.5	0.8	1.4	9.4	6.4	5.5
MN Municipal Inc (82/FIMIX)	Hold	0.21	0.5(30)	12.01	537.6	1.50	3.1	0.7	1.1	8.6	6.0	5.3
Municipal Income (37/FHIGX)	Hold	0.27	0.5(30)	13.40	6366.1	2.20	4.4	0.9	1.8	11.2	7.7	5.6
NJ Municipal Inc (416/FNJHX)	Hold	0.27	0.5(30)	12.23	662.1	1.93	4.0	0.8	1.3	10.9	6.8	5.5
NY Municipal Inc (71/FTFMX)	Hold	0.26	0.5(30)	13.58	1857.8	1.91	3.5	0.9	1.3	9.6	6.8	5.5
OH Municipal Inc (88/FOHFX)	Hold	0.24	0.5(30)	12.26	590.7	2.03	3.6	0.8	1.5	9.5	6.5	5.5
PA Municipal Inc (402/FPXTX)	Hold	0.23	0.5(30)	11.37	443.5	2.15	3.9	0.7	1.4	10.2	6.6	5.5
Short-Int Municipal (404/FSTFX)	Hold	0.11	0.5(30)	10.87	3610.9	0.68	1.3	0.2	0.4	3.7	3.5	4.1
Tax-Free Bond (90/FTABX)	Hold	0.28	0.5(30)	11.56	2279.7	2.28	4.6	1.0	2.0	11.6	7.6	5.9

MAY PERFORMANCE Indexes and Model Portfolios	Risk	Value	2012 YTD	One Month	Three Month	One Year	3-Yr Rate	5-Yr Rate	10-Yr Rate
Dow Jones Industrial	0.91	12393.45	2.5	-5.9	-3.8	1.2	16.5	0.9	4.8
S&P 500	1.00	1310.33	5.2	-6.0	-3.5	-0.4	14.9	-0.9	4.1
NASDAQ	1.17	2827.34	9.0	-7.1	-4.5	0.8	18.0	2.7	6.6
Russell 2000	1.36	761.82	3.4	-6.6	-5.7	-8.8	16.5	-0.7	5.9
Fidelity Monitor Income Model	0.44	299506.25	2.6	-2.5	-1.6	4.9	10.3	3.2	4.6
Fidelity Monitor G&I Model	0.72	377707.11	4.9	-4.9	-3.3	-1.2	11.8	-0.3	6.0
Fidelity Monitor Growth Model	0.99	1320659.27	5.3	-6.5	-5.0	-4.4	15.1	-2.2	5.6
Fidelity Monitor Select System	1.19	1623807.94	5.6	-7.0	-5.4	-5.0	16.2	0.2	6.8
Fidelity Monitor Unique Opportunities	1.22	252361.14	4.1	-7.5	-7.3	-10.0	14.0	-2.2	7.7

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 Personal Retirement Annuity fee structure. Our model portfolios switched to the Personal Retirement Annuity group on 12/31/11.

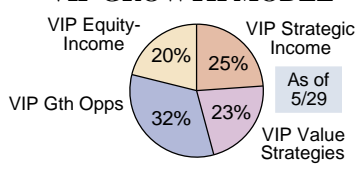
VIP INCOME MODEL



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: + 7.4%
2002: + 7.3%	*2012: + 2.9%

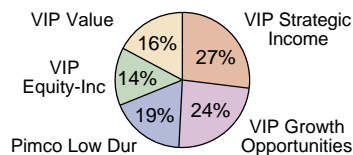
VIP GROWTH MODEL



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%	*2012: + 6.1%

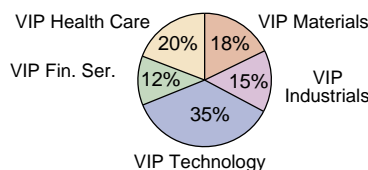
VIP G & I MODEL



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: - 1.0%
2003: +20.8%	*2012: + 4.6%

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: - 5.0%
2007: +11.2%	*2012: + 5.6%

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

MAY VIP PERFORMANCE

Portfolio	Rating	Risk	PRA Value	2012 YTD	One Month	Three Month	One Year	3-Yr Rate	5-Yr Rate
VIP Asset Manager	Hold	0.72	13.29	4.7	-3.6	-3.2	-3.6	10.6	2.5
VIP Asset Manager: Growth	Hold	1.00	12.48	5.2	-5.5	-5.2	-7.3	11.1	0.9
VIP Balanced	OK to Buy	0.93	13.55	4.6	-5.8	-5.2	-5.0	12.7	1.4
VIP Consumer Discretionary	OK to Buy	1.20	13.49	12.3	-5.5	-0.2	5.2	21.9	2.0
VIP Consumer Staples	Hold	0.76	13.43	3.4	-4.2	-1.6	2.5	15.1	5.9
VIP Contrafund	Hold	1.10	12.85	5.0	-6.9	-5.1	-4.9	13.9	-0.2
VIP Disciplined Small Cap	Hold	1.35	10.09	3.3	-7.2	-6.4	-6.9	16.3	-1.9
VIP Dynamic Capital Appreciation	Buy ↑	1.19	13.63	13.1	-3.7	0.0	3.4	17.0	-0.2
VIP Emerging Markets	OK to Sell ↓	1.47	7.10	-1.5	-11.8	-14.1	-23.8	6.1	
VIP Energy	Hold	1.72	12.75	-8.9	-13.2	-18.6	-24.0	5.4	-3.8
VIP Equity-Income	Buy	1.09	10.98	3.3	-5.8	-3.9	-4.3	13.7	-4.1
VIP Financial Services	Buy ↑	1.54	6.33	10.6	-6.6	-6.0	-10.8	2.8	-13.4
VIP FundsManager 20	Hold	0.25	12.42	2.0	-1.2	-1.0	1.0	6.1	2.7
VIP FundsManager 50	Hold	0.57	11.82	2.8	-3.6	-3.2	-2.6	8.9	0.9
VIP FundsManager 60	Hold	0.69	10.49	3.1	-4.4	-3.9	-4.2	9.6	
VIP FundsManager 70	Hold	0.81	11.00	3.1	-5.3	-4.8	-5.9	10.1	-1.0
VIP FundsManager 85	Hold	0.98	10.32	2.9	-6.5	-5.9	-8.4	10.7	-2.6
VIP Growth	Buy	1.19	12.42	8.0	-7.2	-3.7	-1.4	17.2	0.5
VIP Growth & Income	OK to Buy	1.05	11.85	5.0	-6.7	-4.2	-0.6	13.5	-1.8
VIP Growth Opportunities	Buy	1.22	12.35	10.1	-7.6	-5.4	0.2	20.2	-0.4
VIP Growth Stock	OK to Buy	1.11	13.06	7.6	-6.8	-4.6	-2.7	18.2	2.6
VIP Growth Strategies	Hold	1.33	10.73	2.4	-7.9	-9.2	-13.6	12.5	-2.9
VIP Health Care	Buy	0.90	14.63	7.6	-3.9	-0.9	-0.4	19.2	4.3
VIP High Income	Buy	0.49	15.25	5.0	-1.4	-0.5	3.5	14.1	5.4
VIP Index 500	Hold	1.00	12.03	5.0	-6.0	-3.6	-0.7	14.6	-1.2
VIP Industrials	Buy	1.41	15.73	6.2	-6.9	-6.3	-6.7	20.4	2.9
VIP Int'l Capital Appreciation	Buy	1.43	10.41	5.3	-10.2	-9.1	-12.7	9.0	-5.3
VIP Investment Grade Bond	OK to Buy	0.18	14.37	3.0	1.0	1.7	6.7	8.7	6.3
VIP Materials	Buy	1.67	12.89	2.8	-7.8	-9.1	-11.7	16.5	4.2
VIP Mid Cap	OK to Buy	1.06	13.83	3.9	-7.4	-7.4	-10.6	13.0	0.6
VIP Money Market			11.43	0.0	0.0	-0.1	-0.2	0.0	1.1
VIP Overseas	OK to Sell	1.42	10.15	1.4	-11.1	-11.4	-21.3	4.1	-7.2
VIP Real Estate	OK to Buy	1.42	14.57	8.4	-4.9	2.7	1.9	31.0	-0.1
VIP Strategic Income	Buy	0.34	15.60	3.1	-1.2	-0.4	2.7	10.7	7.0
VIP Technology	Buy	1.37	15.95	8.9	-8.6	-7.2	-8.0	20.6	4.9
VIP Telecommunications	Hold	0.96	9.07	3.3	-2.5	-2.4	-8.7	11.7	-3.7
VIP Utilities	OK to Buy	0.70	15.09	3.4	-1.0	5.1	6.6	16.3	-0.4
VIP Value	Buy	1.26	10.72	3.8	-7.8	-5.4	-6.3	15.1	-4.2
VIP Value Leaders	Sell	1.20	8.89	0.8	-8.2	-8.1	-14.3	7.6	-7.7
VIP Value Strategies	Buy	1.39	11.85	7.9	-6.0	-5.3	-10.2	17.8	-3.2
Lazard Retirement Emerging Mkts	OK to Sell ↓	1.42	13.09	1.5	-11.1	-14.8	-17.1	9.4	0.5
Morgan Stanley Emerg Mkt Debt	OK to Buy	0.49	15.32	3.2	-3.5	-2.3	6.2	11.5	6.3
Morgan Stanley Emerg Mkt Equity	OK to Sell ↓	1.35	11.24	1.0	-10.4	-11.6	-17.9	8.4	-1.5
Morgan Stanley Global Tactical Alloc	Hold	1.06	9.40	1.4	-5.5	-6.0	-7.7	7.5	-5.0
Pimco VIT Low Duration	Buy	0.1 E	11.04	2.6	0.3	1.0	1.6		
Fidelity Monitor VIP Income Model		0.49	250818.24	2.9	-2.8	-1.6	6.8	10.1	3.8
Fidelity Monitor VIP G&I Model		0.71	275982.29	4.6	-4.3	-2.7	-2.5	11.0	0.2
Fidelity Monitor VIP Growth Model		1.10	344989.63	6.1	-5.3	-4.3	-3.1	14.3	-3.7
Fidelity Monitor VIP Sector Model		1.29	211447.38	5.6	-7.1	-6.9	-8.6	15.4	0.5

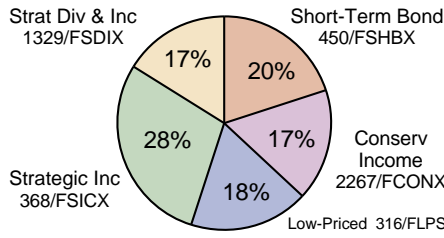
INCOME AND PRESERVATION MODEL

For low-risk investors wanting to stay ahead of inflation.

FUND	NAV	SHARES**	BALANCE**
Short-Term Bond	\$8.53	7007.760	\$59776.19
Conservative Income	\$10.01	4990.649	\$49956.40
Low-Priced Stock	\$37.03	1480.266	\$54814.25
Strategic Income	\$10.97	7546.734	\$82787.67
Strategic Div. & Inc.	\$11.48	4544.577	\$52171.74

26% Foreign Holdings

Balance as of 5/31/12: \$299506.25
Balance at start of 2012: \$291865.71



PAST PERFORMANCE
Starting Balance: \$100,000

1992: +10.1%	2003: + 8.4%
1993: +11.3%	2004: + 4.2%
1994: - 2.1%	2005: + 3.6%
1995: +14.8%	2006: + 6.9%
1996: + 9.0%	2007: + 4.0%
1997: +10.5%	2008: -18.2%
1998: + 3.5%	2009: +20.0%
1999: + 3.0%	2010: + 9.1%
2000: + 0.3%	2011: + 6.3%
2001: + 5.6%	*2012: + 2.6%
2002: + 5.4%	

We were off 2.5% in May. Please continue to check our weekend hotline or email message for any changes in June.

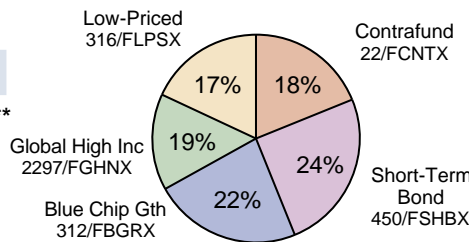
GROWTH AND INCOME MODEL

For investors seeking a conservative path to growth.

FUND	NAV	SHARES**	BALANCE**
Contrafund	\$73.10	924.496	\$67580.66
Short-Term Bond	\$8.53	10540.906	\$89913.93
Blue Chip Growth	\$45.72	1832.140	\$83765.44
Global High Inc.	\$9.44	7540.270	\$71180.15
Low-Priced Stock	\$37.03	1762.542	\$65266.93

21% Foreign Holdings

Balance as of 5/31/12: \$377707.11
Balance at start of 2012: \$360092.10



PAST PERFORMANCE
Starting Balance: \$100,000

1994: - 3.7%	2004: +11.5%
1995: +21.6%	2005: + 8.2%
1996: +15.8%	2006: +13.7%
1997: +18.7%	2007: + 6.1%
1998: +11.1%	2008: -33.5%
1999: +12.2%	2009: +28.1%
2000: + 2.7%	2010: +12.2%
2001: + 1.3%	2011: - 0.3%
2002: - 6.4%	*2012: + 4.9%
2003: +33.0%	

We were down 4.9% in May. Please check our weekend hotline or email for any changes in June.

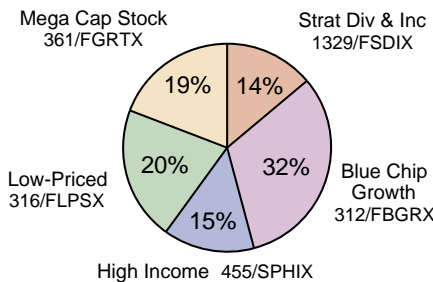
GROWTH MODEL

For moderately aggressive stock-oriented investors.

FUND	NAV	SHARES**	BALANCE**
Strategic Div & Inc	\$11.48	16564.250	\$190157.59
Blue Chip Growth	\$45.72	9147.627	\$418229.51
High Income	\$8.84	22223.452	\$196455.32
Low-Priced Stock	\$37.03	7239.382	\$268074.32
Mega Cap Stock	\$10.65	23262.209	\$247742.53

14% Foreign Holdings

Balance as of 5/31/12: \$1320659.27
Balance at start of 2012: \$1253929.63



PAST PERFORMANCE
Starting Balance: \$100,000

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%	2011: - 1.7%
1999: +29.0%	*2012: + 5.3%

We lost 6.5% in May, versus a 6.0% decline for the S&P 500. Please check our weekend hotline or email for any changes in June.

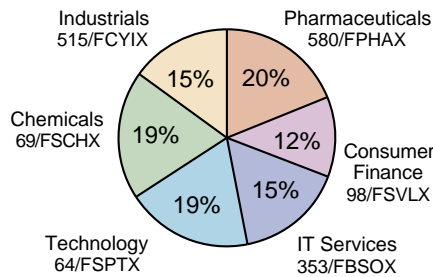
SELECT SYSTEM (SECTOR PORTFOLIO)

For aggressive stock-oriented investors.

FUND	NAV	SHARES**	BALANCE**
Pharmaceuticals	\$13.90	23465.977	\$326177.08
Consumer Finance	\$12.55	15949.040	\$200160.45
IT Services	\$22.50	10835.167	\$243791.26
Technology	\$94.46	3182.955	\$300661.93
Chemicals	\$104.44	3013.524	\$314732.45
Industrials	\$22.98	10369.224	\$238284.77

15% Foreign Holdings

Balance as of 5/31/12: \$1623807.94
Balance at start of 2012: \$1537362.65



PAST PERFORMANCE
Starting Balance: \$100,000

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%	2011: + 1.2%
2000: -14.9%	*2012: + 5.6%

We lost 7.0% in May, versus a 6.0% decline for the S&P 500. Please check our weekend hotline or email for any changes in June.

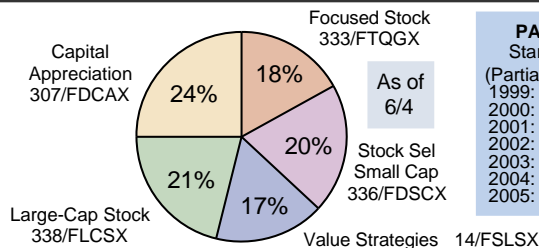
UNIQUE OPPS MODEL (AGGR. GROWTH)

For aggressive stock-oriented investors.

FUND	NAV	SHARES**	BALANCE**
Focused Stock	\$14.50	3111.720	\$45119.94
Stock Sel Small Cap	\$18.51	2762.934	\$51141.91
Value Strategies	\$27.09	1601.496	\$43384.53
Large Cap Stock	\$18.00	2881.906	\$51874.31
OTC Portfolio	\$56.25	1081.608	\$60840.45

7% Foreign Holdings

Balance as of 5/31/12: \$252361.14
Balance at start of 2012: \$242518.36



PAST PERFORMANCE
Starting Balance: \$100,000

(Partial Yr 99)	2006: +16.6%
1999: +33.8%	2007: +11.6%
2000: -20.5%	2008: -47.6%
2001: + 1.6%	2009: +45.8%
2002: - 2.1%	2010: +19.3%
2003: +43.2%	2011: - 5.8%
2004: +20.6%	*2012: + 4.1%
2005: +18.8%	

We lost 7.5% in May, versus a 6.0% decline for the S&P 500. Please see page 3 for our 6/4 trade, and keep checking our updates weekly.

grade status. Overall volatility is still about 2.5 times greater than a traditional investment-grade bond fund (0.5), but its robust yield (4.8%) makes it worth the risk. Emerging countries have been battling inflation, but are now seeing relief, so the risk of rising interest rates has largely abated. In addition, long-time manager John Carlson has done especially well over the last three years thanks to a wide range of crisis-related opportunities.

High Income is Fidelity's mainstream high-yield bond fund. It invests across the low-grade spectrum, but concentrates mainly on B-rated issues. It boasts a yield of 6.1%, but it also carries a 0.6 risk score, meaning that it has almost as much risk as **Balanced** or **Puritan**. Normally Fidelity finds a lot of capital gain opportunities in a fund like this, but over the last year it's been a tough environment because of concerns about the strength of the global economy. But yield spreads in the high-yield arena remain healthy, and default rates remain low, so there's still a lot of good opportunity waiting in the wings.

Global High Income can be likened to a more aggressive version of **Strategic Income**. Its neutral weights are 60% U.S. high yield, 15% European high yield, 5% Asian high yield, and 20% emerging market debt, but it has wide latitude to deviate from its targets. Despite somewhat adverse conditions, the fund is off to a good start this year, and we think it could become one of Fidelity's top-performing bond funds over the long run. Its risk level is on par with **High Income**, perhaps a little higher, and its yield is nearly the same (5.9%). With experienced leader John Carlson at the helm, the fund should be able to take full advantage of the ongoing turmoil in the global debt markets.

Capital & Income is Fidelity's most aggressive high-yield bond fund, which runs with a risk score of about 0.75 (it tends to behave more like a conservative stock fund than a bond fund, thanks to its emphasis on the lowest rungs of the credit spectrum and a small weighting in leveraged stocks). Fidelity has some of the best high-yield analysts in the industry, which is why this fund has generated stock-like annual returns (10.3%) over its 35-year history. The fund was hurt by losses in its stock holdings last year, and in recent weeks it has been affected by concerns about Greece's possible exit from the euro, as well as some apparent liquidity problems in the high yield market stemming from JP Morgan's unwinding of its credit market bets. But high-yield spreads are at healthy levels, and bond values have been dragged down for reasons that have little to do with fundamentals, so it should be no surprise to see a high-yield rebound if credit fears begin to dissipate later in the year. ■

SELECT PORTFOLIOS

Please see page 7 for our current Select System model portfolio holdings.

Biotechnology held up well, posting a decline of only 0.3%. **Utilities** was off a modest 1.0%, **Air Transportation** declined 1.8% and **Transportation** slid 2.0%. Hardest hit were **Energy**, down 13.3%, and **Communications Equipment** with a loss of 14.0%. ■

Happenings

Fidelity has launched two new foreign bond funds that use GDP-weighted benchmarks to avoid carrying too much exposure to heavily indebted countries. **Global Bond** will normally include a weighting in domestic bonds, whereas **Int'l Bond** will not. Like **Total Bond**, both funds will focus mainly on investment-grade debt, while putting up to 20% into lower grade securities. We're not sure these funds will have any significant advantage over **Total Bond**, but we'll be watching.

Fidelity also introduced **Global Equity-Income**, a new stock dividend fund that aims to take advantage of higher dividend yields that are often available across all sectors in foreign markets, but we're not so sure it will produce higher total returns. Higher dividend yields exist in foreign markets because buyback activity there is limited or non-existent. Furthermore, we don't see the outsized market cap for the U.S. stocks as an inefficiency like Fidelity's press release claims. The U.S. share of global equity market capitalization is more than double its GDP share because U.S. firms generate more GDP abroad than here at home. Time will tell, but for now we think domestic stock dividend funds are a better bet.

Gordon Scott is the new manager for **Consumer Discretionary** and **VIP Consumer Discretionary** (and is also picking up co-manager responsibilities at **Stock Selector All Cap**). Gregory Lee has been named co-manager of **Total Emerging Markets** with responsibility for its industrial sleeve. We have no rating changes.

Fidelity plans to launch **Stock Selector Mid Cap** on or about 6/12. We will likely rate the fund a hold. ■

MAY DISTRIBUTIONS

Asset Manager 20%	\$0.017/\$13.12 (5/4)
Asset Manager 30%	\$0.015 / \$9.91 (5/4)
Inflation-Protected Bond	\$0.018/\$13.12 (5/11)
Magellan	\$0.143/\$70.28 (5/4)

Funds scheduled for June include **Asset Manager 20%/30%**, **Capital & Income**, **Focused High Income**, **High Income**, **Large Cap Stock**, **Mid-Cap Stock**, **Real Estate**, **Real Estate Income**, **Stock Sel. Small Cap** and **Small Cap Stock**.

Money Market Funds	Size	Yield	Money Market Funds	Size	Yield	Money Market Funds	Size	Yield
Cash Reser. (55/FDRXX)	115159.6	0.01	CT MM (418/FCMXX)	1738.9	0.01			
Select MM (85/FSLXX)	5878.5	0.10	MA MM (74/FDMXX)	5338.2	0.01			
Money Market (454/SPRXX)	3391.5	0.01	MI MM (420/FMIXX)	858.2	0.01	MA AMT TF (426/FMSXX)	283.4	0.01
Gov't MM (458/SPAXX)	2771.7	0.01	NJ MM (417/FNJXX)	2145.5	0.01	AMT Tax-Free (460/FIMXX)	1204.2	0.01
US Treas. MM (415/FDLXX)	6048.0	0.01	NY MM (92/FNYXX)	5031.7	0.01	NJ AMT TF (423/FSJXX)	218.8	0.01
Tax-Free MM (275/FMOXX)	7218.8	0.01	OH MM (419/FOMXX)	1058.1	0.01	NY AMT TF (422/FSNXX)	440.7	0.01
US Gov't Reser (50/FGRXX)	2531.8	0.01	AZ MM (433/FSAXX)	370.7	0.01	PA MM (401/FPTXX)	667.3	0.01
CA MM (97/FCFXX)	5335.3	0.01	CA AMT TF (457/FSPXX)	460.8	0.01	Municipal MM (10/FTEXX)	24005.6	0.01