

Eric Kobren's [www.fidelityinsight.com](http://www.fidelityinsight.com)  
**FIDELITY INSIGHT**  
 THE INDEPENDENT REPORT ON FIDELITY FUNDS

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**ERIC'S OUTLOOK**

***Be It Ever So Humble,  
There's No Place Like Home***

The lavish and highly successful Beijing Olympic games are now over. While the games may have formally marked China's ascendancy on the world stage, as the athletes exit Beijing, members may actually want to consider exiting their international funds.



Eric M. Kobren

After rising a remarkable 130% in 2006 and 98% in 2007, Chinese stocks are down over 50% this year and Hong Kong stocks have fallen 22%. **Southeast Asia**, which has 35% of its assets in these two areas, is Fidelity's worst performing international fund, down 31.6%. But problems overseas

are not restricted to Asian emerging markets.

With oil prices recently falling, Russian stocks are also ailing. This has not been good news for Fidelity's new **Emerging Europe, MidEast Africa** fund, which is down 21.9% since its May launch. For the record, it's 33% invested in energy and, almost all of that is in Russian petroleum companies. At the same time, falling commodity prices are now weighing on **Latin America** (down 11.0%).

In fact, **Spartan Int'l Index** (a proxy for developed foreign stock markets) is down 17.3% this year, while U.S. stocks are down a comparatively modest 11.4%. And, if not for the dollar's recent reversal downward (which has been instigated by — and is declining in tandem with — falling oil prices), the damage would be even worse.

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**PLAYING FINANCIALS**

**Fidelity Funds With Over 20% Financial Exposure  
(as a % of total assets — 6/30/08)**

Small Cap Value	29.5
Mid Cap Value	28.0
Growth & Income	26.4
Equity-Income II	24.8
Blue Chip Value	24.6
Large Cap Value	24.0
Value Discovery	23.4
Equity-Income	21.5

*With financials accounting for 14% of the S&P 500, it appears that these funds (which mostly have value biases) are making outsized bets in a troubled sector. But they really aren't, as value stock indexes are as much as 30% weighted in financials. As for our model portfolios, we currently have no significant sector biases, maintaining a rough market-weight in financials.*

**The Case For America**

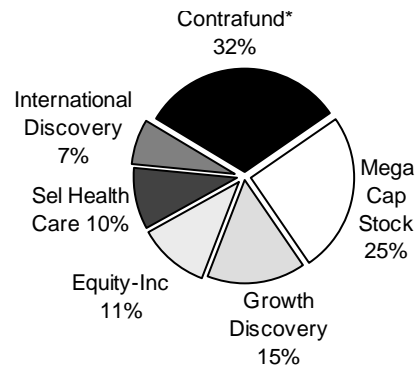
This election year, everything that's wrong with America will be showcased by politicians. From a market perspective, there are great challenges. Still, we'll fly our colors here and explain why we've further reduced — not eliminated — our foreign exposures, and fortified our U.S. stock fund holdings. But because everything is relative in the investment world, we need to explain our waning enthusiasm for foreign funds.

**1. The dollar.** Having lost about a quarter of its value in the past four years, the greenback has been a strong tailwind for Fidelity's unhedged foreign funds. (A falling dollar means profits earned in foreign currencies are worth more when translated back into dollars at home.)

But this year, the dollar gained back about 7% of its value from January through June. While now flat on the year, as mentioned, its recent fall has a lot to do with its relationship to oil (which is priced in dollars). With speculative fever over oil easing and prices stabilizing, we

# FIDELITY INSIGHT MODEL PORTFOLIOS - AUGUST 31, 2008

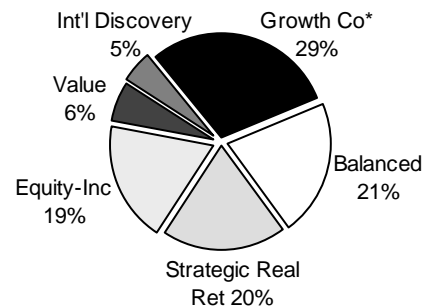
Aggressive Growth Model		Rel Vol: 0.92	Est. Yield: 0.9%	YTD Return: -16.3%		
Current Asset Allocation		Stocks 95.9%	Bonds 0.0%	Cash 3.8%	Alternative <sup>1</sup> 0.4%	Foreign 23.8%
Holdings	Ticker	Alloc	NAV	Shares	Value	Aug. Ret
Contrafund*	FCNTX	32%	\$63.23	837.40	\$52,949	-0.8%
Mega Cap Stock	FGRTX	25	9.86	4,046.29	39,896	0.5
Growth Discovery	FDSVX	15	13.55	1,783.63	24,168	-2.8
Equity-Income	FEQIX	11	45.49	388.39	17,668	0.7
Select Health Care	FSPHX	10	108.00	152.04	16,421	2.1
International Discovery	FIGRX	7	34.43	327.20	11,265	-5.3
Current Value (4/7/99 = \$100,000)					\$162,367	-1.1%



\*Closed; new members use **Blue Chip Growth** (FBGRX).

For aggressive members who have no need for income or principal for more than 10 years. Target volatility range: 0.50-1.50.

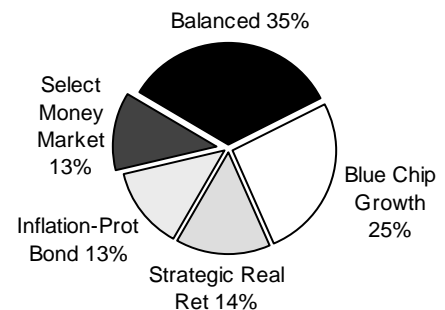
Growth Model		Rel Vol: 0.76	Est. Yield: 1.8%	YTD Return: -9.5%		
Current Asset Allocation		Stocks 71.4%	Bonds 11.9%	Cash 1.9%	Alternative <sup>1</sup> 14.8%	Foreign 14.9%
Holdings	Ticker	Alloc	NAV	Shares	Value	Aug. Ret
Growth Company*	FDGRX	29%	\$73.87	4,419.37	\$326,459	-1.2%
Balanced	FBALX	21	17.71	12,885.05	228,194	0.6
Strategic Real Return	FSRRX	20	10.00	21,317.36	213,174	-1.1
Equity-Income	FEQIX	19	45.49	4,461.00	202,931	0.7
Value	FDVLX	6	67.66	1,004.04	67,933	3.1
International Discovery	FIGRX	5	34.43	1,515.21	52,169	-5.3
Current Value (1/1/87 = \$100,000)					\$1,090,860	-0.7%



\*Closed; new members use **Blue Chip Growth** (FBGRX).

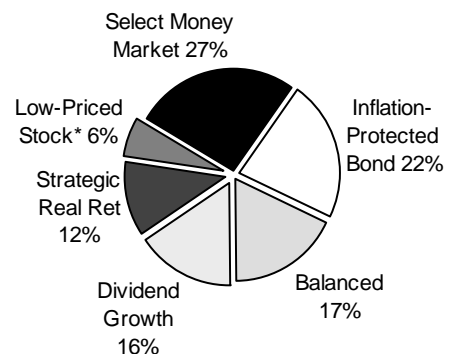
For moderately aggressive members who want equity-dominated portfolios and have no income needs for at least 10 years. Target volatility range: 0.50-1.00.

Growth & Income Model		Rel Vol: 0.43	Est. Yield: 2.0%	YTD Return: -4.6%		
Current Asset Allocation		Stocks 47.4%	Bonds 28.1%	Cash 14.0%	Alternative <sup>1</sup> 10.5%	Foreign 7.7%
Holdings	Ticker	Alloc	NAV	Shares	Value	Aug. Ret
Balanced	FBALX	35%	\$17.71	16,683.17	\$295,459	0.6%
Blue Chip Growth	FBGRX	25	39.62	5,490.44	217,531	1.4
Strategic Real Return	FSRRX	14	10.00	12,196.95	121,969	-1.1
Inflation-Protected Bond	FINPX	13	11.31	9,929.45	112,302	0.8
Select Money Market	FSLXX	13	1.00	107,187.98	107,188	0.2
Current Value (1/1/87 = \$100,000)					\$854,449	0.3%



A good choice for members retiring in five-10 years looking for less volatility than the market. Seeks a yield in excess of the S&P 500. Target volatility range: 0.25-0.75.

Income & Preservation Model		Rel Vol: 0.27	Est. Yield: 2.1%	YTD Return: -1.6%		
Current Asset Allocation		Stocks 31.5%	Bonds 30.8%	Cash 29.0%	Alternative <sup>1</sup> 8.6%	Foreign 5.0%
Holdings	Ticker	Alloc	NAV	Shares	Value	Aug. Ret
Select Money Market	FSLXX	27%	\$1.00	138,998.30	\$138,998	0.2%
Inflation-Protected Bond	FINPX	22	11.31	10,294.33	116,429	0.8
Balanced	FBALX	17	17.71	5,134.72	90,936	0.6
Dividend Growth	FDGFX	16	26.14	3,140.59	82,095	2.9
Strategic Real Return	FSRRX	12	10.00	6,091.96	60,920	-1.1
Low-Priced Stock*	FLPSX	6	37.57	856.20	32,167	1.0
Current Value (1/1/87 = \$100,000)					\$521,545	0.7%



\*Closed; new members use **Small Cap Growth** (FCPGX).

For members needing income and protection of their purchasing power against inflation. Seeks a yield at least twice the S&P 500. Target volatility range: 0.10-0.50.

<sup>1</sup>Alternative investments include such areas as high-yield bonds, commodities, real estate. Portfolio trades and total returns do not take taxes into account, however redemption and exchange fees are included. Figures may be rounded. Dividends are reinvested. Consider the tax implications of trades before you decide to buy or sell any fund. Any trades are detailed on p. 3 and are announced on Friday evening Hotline updates via telephone, e-mail, and web (see p. 12). Use non-Spartan fund alternatives if Spartan minimums can't be met. **Annuity Model Portfolios** are on p. 9.

**Eric's Outlook** *cont'd from page 1*

expect the dollar to resume its rise against most foreign currencies. As a falling dollar boosted international funds, a rising dollar hurts them.

**2. Slowing growth.** Its pace is waning throughout developed Europe, and it's certainly starting to slow throughout the emerging markets, too. Without strong GDP growth, it's harder to grow corporate earnings.

**3. Valuations.** Without sustained earnings growth overseas, it's tough to argue for today's richer (relative to the U.S.) valuations abroad. Some "right-sizing" is likely.

**4. Commodity-driven inflation.** It's a problem everywhere, but countries without natural resources, are especially disadvantaged. Relative to the U.S., Canada and Australia, both Europe and Japan have few resources. Higher operating costs put pressure on corporate margins.

**5. Interest rates.** The Federal Reserve is unlikely to raise U.S. rates in the near future. That's because of the troubled credit markets, and because of anemic economic growth at home. Still, with rates low, their next move is likely to be up. Not so in Europe. With slowing growth and higher interest rates, despite inflation concerns, their next move is likely to lower rates. While that may be supportive of (European) stock prices, it could benefit the U.S. dollar even more.

**The Case For Overseas**

In light of the above, one might think that we're totally bearish on foreign stocks funds, but we're not.

The concerns above are all relative to issues we have right here in

## WHICH FUNDS SHOULD YOU BUY NOW!

**Equity Funds:** **Mega Cap Stock** provides exposure to very large growth and value stocks. **Growth Discovery** looks for companies of all market capitalizations that exhibit high growth potential.

**Specialty Funds:** **Strategic Real Return**, with its mix of sectors, affords inflation protection and rich portfolio diversification.

**Fixed-Income Funds:** **Inflation-Protected Bond** (p.11), as its name implies, has inflation-protection features. **Select Money Market** and **Cash Reserves** are our preferred funds in this low interest-rate environment.

**International Funds:** Emerging markets remain volatile. We favor developed-market funds with limited emerging-market exposure such as **International Discovery** (see *Outlook* and *Model Trades*). ■

## MODEL PORTFOLIO TRADES

As announced on our August 22 Hotline, effective Monday, August 25, we made the following trades in our Model Portfolios. Please note that International Discovery and International Value both have 1.0%/30-day short-term trading fees.

Action	Fund	Shares	Price	Value	Old%	New%
<b>Aggressive Growth:</b>						
Sold 1/2 of :	International Discovery	327.20	\$33.79	\$11,055.92	14%	7%
Added 1/2 to:	Select Health Care	51.44	\$107.46	\$5,527.96	7%	10%
Added 1/2 to:	Growth Discovery	411.00	\$13.45	\$5,527.96	11%	15%
<b>Growth:</b>						
Sold 1/2 of :	International Discovery	1,515.21	\$33.79	\$51,198.97	10%	5%
Added to:	Balanced	2,939.09	\$17.42	\$51,198.97	16%	21%
<b>Growth &amp; Income:</b>						
Sold:	International Value	4,160.96	\$9.09	\$37,823.10	4%	0%
Added to:	Balanced	2,171.25	\$17.42	\$37,823.10	30%	34%
<b>Annuity Growth:</b>						
Sold 1/2 of:	Morgan Stan Int'l Mgm	663.12	\$10.04	\$6,657.67	12%	6%
Bought:	VIP Balanced	589.17	\$11.30	\$6,657.67	0%	6%
<b>Annuity Growth &amp; Income:</b>						
Sold:	Morgan Stan Int'l Mgm	513.53	\$10.04	\$5,155.84	5%	0%
Bought:	VIP Balanced	456.27	\$11.30	\$5,155.84	0%	5%

The overriding theme of each of these trades is to reduce — not eliminate — our international stock exposures. Indeed, many of our models continue to have foreign exposure through domestic stock funds (see models on p. 2).

the United States. Also, it cannot be overlooked that we are *reducing* our foreign fund exposures, not *eliminating* them. One reason not to abandon them entirely is insurance: we may be wrong about both the timing of the dollar's strengthening and/or interest rate policy.

Also, there are many great foreign

companies that are worth owning, so why not avail ourselves of them? We should also note that we continue to have foreign exposure indirectly through our "domestic" stock funds. So while we may make further changes, for now, we see an opportunity to add some U.S. exposure at the expense of foreign funds. ■

### ANNUAL MODEL PORTFOLIO RETURNS (%)

Model	'88	'89	'90	'91	'92	'93	'94	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07
Aggr Growth												31.4	-8.4	-20.9	-15.8	36.6	14.8	17.9	14.2	14.5
Growth	18.9	34.3	1.0	24.7	13.0	18.0	-0.1	23.9	13.8	17.2	3.3	30.7	-2.1	-2.7	-14.0	33.0	14.4	11.1	11.8	7.8
Growth & Inc	14.8	29.1	-1.3	24.6	14.2	18.2	-0.1	23.1	18.7	20.9	6.3	22.6	-2.1	-4.0	-9.7	27.1	11.5	5.2	10.2	7.3
Inc & Pres	10.2	17.7	0.8	20.9	11.4	16.7	-2.8	21.1	19.0	18.0	5.2	13.4	-1.4	-5.6	-6.8	18.9	7.0	3.5	7.2	5.2

FUND COMMENTARY

## A Nice Rebound For Most Fidelity Funds

Most of Fidelity's diversified stock funds enjoyed solid returns in August, although value funds generally fared much better than growth funds.

For many of these funds, the best news was the relative stability of oil prices. After falling from \$147 a barrel to \$124 in July, the price of crude slipped a little more, then spent the rest of August hovering around \$115. Along with declining gasoline prices, this boosted consumer confidence, which rose for the second straight month in August, according to the Conference Board survey.

And investors seemed to gain confidence in the consumer as reflected in returns of a few Fidelity funds with relatively large stakes in consumer discretionary stocks. **Small Cap Value**, for example, which has over 13% in that sector, jumped 5.6% in August, while **Value** (18% consumer discretionary) and **Value Strategies** (17% in that sector) both gained 3.1%.

These same funds also have big stakes in financial stocks. And, despite the ongoing uncertainty about housing, as well as the fates of Freddie Mac and Fannie Mae (will any government bailout exclude stockholders?), financials seemed to stabilize just enough to help them as well.

Oil's modest decline was enough to keep funds with big energy stakes in the red for the month, but not as

deep as in July. **Independence**, for example, which has a third of its assets in energy, was off 3.8% in August, while **Leveraged Company Stock** (46% energy) slipped 2.0%.

Among some of Fidelity's other popular funds, **Magellan** was flat, **Contrafund** slipped 0.8%, **Growth Company** was down 1.2%, **Low-Priced Stock** was ahead 1.0% and **Equity-Income** was up 0.7%.

### Gains For Major Indexes

All major stock indexes posted gains in August. The Dow Jones Industrials gained 1.8%, the S&P 500 rose 1.5%, the tech-rich Nasdaq was ahead 1.9% and the small-cap Russell 2000 rose 3.6%. For the year so far, however, these indexes are all negative, with the Dow and the S&P 500 down 11.4% and the Nasdaq off 10.2%. However, while the Russell 2000 is negative, it's only down 2.6% for the year.

### Select Funds

Every time a driver passed a gas station last month, the posted prices seemed to be a few cents lower than the last trip. That helped boost consumer confidence enough to benefit several consumer-related Select funds. **Construction & Housing**, for example, leaped 8.2% in August, **Retailing** rose 7.1%, **Consumer Discretionary** advanced 6.9% and **Leisure** rose 4.2%. Stabilizing energy prices also appeared to brighten the outlook for **Air Transportation**, which gained 6.4%.

Meanwhile, health-related funds performed their usual function, that is, a defensive play in the face of a potentially slowing economy. **Medical Equipment** rose 3.8%, while **Health Care** gained 2.1%.

On the other hand, energy-focused funds ended the month in the red, with **Energy Service** down 3.7% and **Energy** off 1.3%.

### Foreign Stock Funds

For the third month in a row, all of Fidelity's international funds were negative in August, with funds focused on Asia and developing markets typically taking the biggest hit. **Emerging Markets** was down 9.2% for the month, **Pacific Basin** fell 8.1%, **Japan** was off 5.9% and **Latin America** declined 8.7%. Funds that are more globally diversified often had smaller losses, such as **Global Balanced** (down 2.2%) and **Worldwide** (down 2.3%). However, **Diversified Int'l** was down 4.2% and **Int'l Discovery** fell 5.3%.

### Bond Funds

Fixed-income investors continued to favor the relative safety of Treasury funds, as seen in the 2.3% gain for **Spartan Long-Term Treasury Index** and the 0.8% gain for **Inflation-Protected Bond** (although even most high-yield funds had positive returns). Muni funds also fared well, with **Muni Income** ahead 1.0%.

The yield on **Cash Reserves** ended the month at 2.47%, virtually unchanged from 2.45% in July. ■

### Scorecard Changes

Fund	Style	Prior	New	Comments
130/30 Large Cap	Specialty	Hold	OK to Buy	Risk is well managed on this new long/short fund.
Canada	International	OK to Buy	Hold	Time to take gains in this commodity-rich fund.
Capital Appreciation	Large Growth	Buy	OK to Buy	Large foreign component dragging on returns.
Emerging Markets	International	Buy	OK to Buy	Slowing growth and a stronger dollar dim outlook.
Equity-Income II	Large Value	OK to Sell	Hold	Manager's performance warrants a modest upgrade.
Focused High Income	High-Yield	Hold	OK to Buy	Higher-quality "junk" is looking better.
Latin America	International	OK to Buy	Hold	Slowing growth and a stronger dollar dim outlook.
Morg Stan Emg Mkt Equity	International	Buy	OK to Buy	Slowing growth and a stronger dollar dim outlook.
Overseas	International	OK to Buy	Hold	We prefer other diversified foreign stock funds.
Select Transportation	Sector	OK to Sell	Hold	Lower energy prices will help earnings outlook.
Total International Equity	International	OK to Buy	Hold	We prefer other diversified foreign stock funds.
VIP Dynamic Cap Apprec	Large Growth	Buy	OK to Buy	Large foreign component dragging on returns.

## FIDELITY SCORECARD - AUGUST 31, 2008

Fund No.	Fund Ticker	Fund Name	Short-Term Trading Fee	\$Price (NAV)	Advice	Total Return (%)			Avg Annual (%)			Rel Vol (Risk) <sup>1</sup>			
						Aug	YTD	2007	1 Year	3 Year	5 Year				
		S&P 500 (Large Cap)		1282.8		1.5	-11.4	5.5	-11.1	3.7	6.9	1.00			
		Dow Industrials (Blue Chip)		11543.6		1.8	-11.4	8.9	-11.4	7.6	7.7	0.95			
		Nasdaq Composite (OTC)		2367.5		1.9	-10.2	10.7	-8.1	3.7	6.0	1.13			
		Russell 2000 (Small Cap)		739.5		3.6	-2.6	-1.6	-5.5	4.0	12.1	1.25			
<b>LARGE CAP GROWTH FUNDS</b>						<b>Category Averages</b>			<b>-0.4</b>	<b>-13.4</b>	<b>16.3</b>	<b>-8.5</b>	<b>5.4</b>	<b>7.9</b>	<b>1.1</b>
312	FBGRX	Blue Chip Growth		39.62	Buy	1.4	-10.1	11.8	-6.6	3.1	4.9	0.99			
307	FDCAX	Capital Appreciation		22.85	OK to Buy↓	-1.8	-14.6	6.9	-15.5	2.4	6.8	1.13			
22	FCNTX	Contrafund (closed)		63.23	Buy	-0.8	-12.6	19.8	-4.9	7.6	11.5	0.89			
332	FEXPX	Export and Multinational	0.75%/30 days	21.91	OK to Buy	0.3	-14.8	15.3	-9.3	4.8	9.4	1.10			
500	FFTYX	Fifty		18.28	Hold	-1.6	-16.0	12.6	-16.2	4.4	5.7	1.11			
25	FDGRX	Growth Company (closed)		73.87	Buy	-1.2	-11.0	19.9	-4.0	8.5	10.1	1.06			
339	FDSVX	Growth Discovery		13.55	Buy	-2.8	-16.3	26.8	-7.9	8.1	8.2	0.98			
73	FDFFX	Independence		25.27	OK to Buy	-3.8	-8.6	29.5	4.1	12.3	12.1	1.37			
763	FSLGX	Large Cap Growth		9.32	OK to Sell	-0.1	-13.0	2.1	-11.2	-0.5	5.5	0.94			
1829	FLGEX	Large Cap Growth Enhcd Index		9.26	Hold	1.2	-9.9	2.1p	-8.4	--	--	0.92			
338	FLCSX	Large Cap Stock		15.81	Hold	0.6	-18.0	13.1	-15.1	3.5	5.6	1.16			
21	FMAGX	Magellan		76.86	OK to Buy	-0.1	-15.4	18.8	-8.6	4.1	6.1	1.10			
1282	FNCMX	Nasdaq Composite Index	0.75%/90 days	31.50	Hold	1.9	-10.3	10.5	-8.3	3.9	--	1.13			
93	FOCPX	OTC		44.59	Buy	-0.2	-14.5	26.1	-7.2	7.7	8.7	1.22			
320	FDSSX	Stock Selector		25.67	Hold	0.9	-13.0	11.8	-9.8	5.1	7.7	0.99			
5	FTRNX	Trend		59.68	OK to Buy	-0.6	-15.6	18.9	-7.6	5.9	8.2	1.10			
<b>LARGE CAP BLEND FUNDS</b>						<b>Category Averages</b>			<b>0.8</b>	<b>-12.8</b>	<b>8.8</b>	<b>-11.1</b>	<b>3.7</b>	<b>7.5</b>	<b>1.0</b>
1271	FBCVX	Blue Chip Value		12.15	OK to Buy	0.0	-16.8	4.4	-17.4	1.7	7.3	1.15			
315	FDEQX	Disciplined Equity		25.31	Buy	-0.5	-14.3	10.8	-10.3	4.2	8.4	0.95			
330	FDGFX	Dividend Growth		26.14	Buy	2.9	-11.1	1.1	-14.7	2.3	4.3	0.99			
3	FFIDX	Fidelity Fund		33.34	OK to Buy	0.3	-13.3	16.8	-5.5	6.6	8.1	0.98			
333	FTQGX	Focused Stock		12.63	Hold	0.6	-5.0	17.0	1.8	6.9	11.9	1.13			
27	FGRIX	Growth & Income		22.14	OK to Sell	1.2	-18.2	0.7	-20.1	-2.1	2.3	1.28			
1827	FLCEX	Large Cap Core Enhcd Index		8.97	Hold	1.0	-11.5	1.0p	-10.0	--	--	0.96			
361	FGRTX	Mega Cap Stock		9.86	Buy	0.5	-14.9	11.1	-12.3	4.0	5.2	1.01			
317	FSMKX	Spartan 500 Index <sup>4</sup>		89.22	Hold	1.4	-11.4	5.4	-11.2	3.6	6.8	1.00			
397	FSTMX	Spartan Total Mkt. Index <sup>4</sup>	0.50%/90 days	36.60	Hold	1.6	-10.3	5.6	-10.1	4.1	7.7	0.99			
343	FTXMX	Tax Managed Stock	1.00%/2 years	14.03	OK to Buy	-1.2	-12.6	14.2	-9.5	5.0	9.5	0.95			
832	FVDFX	Value Discovery		15.34	Buy	1.5	-14.5	9.7	-13.7	4.8	10.5	1.15			
<b>LARGE CAP VALUE FUNDS</b>						<b>Category Averages</b>			<b>0.8</b>	<b>-14.5</b>	<b>3.2</b>	<b>-15.9</b>	<b>2.1</b>	<b>6.8</b>	<b>1.1</b>
23	FEQIX	Equity-Income		45.49	Buy	0.7	-15.2	1.4	-18.3	2.3	6.5	1.11			
319	FEQTX	Equity-Income II		19.30	Hold↑	1.2	-14.5	4.5	-15.3	1.5	5.3	1.11			
708	FSLVX	Large Cap Value		12.34	OK to Buy	0.2	-14.9	3.7	-15.0	2.6	8.7	1.05			
1828	FLVEX	Large Cap Value Enhcd Index		8.16	Hold	1.0	-13.3	-5.1p	-15.1	--	--	1.06			

**Notes:** <sup>1</sup> Relative Volatility of the fund versus the S&P 500 over the last 12 months; 1.50 means the fund has been 50% more volatile. <sup>2</sup> Durations (a measure of interest rate sensitivity) reflect prior quarter figures. <sup>3</sup> Stated yield is before any inflation adjustment, your effective yield may be different. <sup>4</sup> Also available in an "Advantage" share class with a minimum of \$100,000, but a lower expense ratio of 0.07% (versus 0.10% for the existing class). <sup>5</sup> Also available in "Advantage" shares with a minimum of \$100,000, but a lower expense ratio of 0.10% (versus 0.20% for the investor class). (p) Partial year; (↑) Rating upgraded; (↓) Rating downgraded.

### FUND PROFILE

## Balanced Fund Tempers Risk

Inside Fidelity, Larry Rakers is among the company's most highly respected managers. As the overseer of the \$25 billion **Balanced** fund (and its close cousin **VIP Balanced**), this experienced stockpicker (he's run **Balanced** since 2002 but was assigned his first portfolio — **Select Gold** — in 1995) is typically quick to credit the legions of analysts who help him construct his portfolio of about 650 stocks (along with 2600 fixed-income holdings).

Larry is valuation sensitive, but

even so, he holds both value and growth stocks. Typically, energy (20.7%) and financials (17.1%) dominate his stock holdings, which have moved in opposite directions to each other this year. Despite its size, the fund has nearly half of its equity exposure in mid- to small-cap stocks.

Outside Fidelity, Larry's reputation is also strong, as **Balanced** is consistently among the top-performing funds of its type. This year, performance has been somewhat hamstrung by a 5% overweight to its neutral allocation of 60% stocks and 40% bonds. In particular, Larry added to the fund's financial holdings as he found valua-

tions attractive, but their woes continued. However, thanks to solid stock selection overall, the equity portion of the fund is still ahead of its benchmark.

But it is the fund's bond holdings that make its portfolio a third less volatile than the S&P 500. While the bond portion of the fund (run by George Fischer) was underweighted at 35% of assets, it still helped to dampen losses as **Balanced** has dropped "just" 8.7% this year versus the market's retreat of 11.4%.

We like **Balanced** (and hold it in several models) for its conservative mix of stocks and bonds, especially in a market that's riddled with risk. ■

## FIDELITY SCORECARD - AUGUST 31, 2008

Fund No.	Fund Ticker	Fund Name	Short-Term Trading Fee	\$Price (NAV)	Advice	Total Return (%)			Avg Annual (%)			Rel Vol (Risk) <sup>1</sup>			
						Aug	YTD	2007	1 Year	3 Year	5 Year				
<b>MID-CAP GROWTH FUNDS</b>						<i>Category Averages</i>			<b>-0.5</b>	<b>-13.4</b>	<b>11.5</b>	<b>-13.4</b>	<b>3.3</b>	<b>7.3</b>	<b>1.1</b>
324	FDEGX	Aggressive Growth	1.50%/90 days	17.85	Hold	-4.3	-22.5	18.8	-20.0	1.2	5.5	1.13			
2012	FMEIX	Mid Cap Enhanced Index	0.75%/30 days	9.18	Hold	1.2	-6.8p	--	--	--	--	--			
793	FSMGX	Mid Cap Growth	0.75%/30 days	11.76	Sell	0.9	-13.0	2.4	-12.2	-0.1	6.8	1.16			
337	FMCSX	Mid-Cap Stock (closed)	0.75%/30 days	25.81	Hold	-1.5	-10.9	8.2	-12.9	5.5	8.8	1.10			
300	FMLIX	New Millennium		25.60	OK to Buy	0.9	-13.8	16.5	-8.5	6.6	7.9	1.03			
<b>MID-CAP BLEND FUNDS</b>						<i>Category Averages</i>			<b>1.0</b>	<b>-8.7</b>	<b>8.0</b>	<b>-8.9</b>	<b>5.9</b>	<b>11.7</b>	<b>1.1</b>
122	FLVCX	Leveraged Company Stock	1.50%/90 days	30.46	OK to Buy	-2.0	-5.8	17.9	-3.0	10.3	18.6	1.20			
316	FLPSX	Low-Priced Stock (closed)	1.50%/90 days	37.57	Buy	1.0	-8.7	3.2	-8.9	4.4	10.8	0.92			
398	FSEMXX	Spartan Extended Mkt Index <sup>4</sup>	0.75%/90 days	35.28	Hold	2.0	-6.5	5.4	-6.9	5.5	10.6	1.02			
14	FSLSX	Value Strategies		24.75	Hold	3.1	-14.0	5.6	-16.7	3.3	7.0	1.17			
<b>MID-CAP VALUE FUNDS</b>						<i>Category Averages</i>			<b>2.1</b>	<b>-10.2</b>	<b>2.4</b>	<b>-12.7</b>	<b>3.4</b>	<b>10.4</b>	<b>1.1</b>
762	FSMVX	Mid Cap Value	0.75%/30 days	14.57	OK to Sell	1.2	-10.5	2.7	-11.5	3.2	10.4	1.05			
39	FDVLX	Value		67.66	Buy	3.1	-9.8	2.2	-13.9	3.6	10.5	1.13			
<b>SMALL CAP GROWTH</b>						<i>Category Averages</i>			<b>1.6</b>	<b>-14.9</b>	<b>12.1</b>	<b>-13.9</b>	<b>3.3</b>	<b>8.2</b>	<b>1.1</b>
2011	FCPEX	Small Cap Enhanced Index	1.50%/90 days	9.47	Hold	2.8	-2.0p	--	--	--	--	--			
1388	FPCGX	Small Cap Growth	1.50%/90 days	13.66	Buy	2.8	-13.4	16.8	-10.6	5.0	--	1.03			
336	FDSCX	Small Cap Independence	1.50%/90 days	16.66	Hold	0.4	-16.3	7.3	-17.3	1.5	8.2	1.07			
<b>SMALL CAP BLEND</b>						<i>Category Averages</i>			<b>3.1</b>	<b>-8.4</b>	<b>4.4</b>	<b>-10.1</b>	<b>3.9</b>	<b>9.6</b>	<b>1.1</b>
340	FSLCX	Small Cap Stock (closed)	2.00%/90 days	15.59	Hold	0.6	-9.3	7.7	-10.6	4.2	9.6	0.98			
1389	FCPVX	Small Cap Value	1.50%/90 days	12.58	OK to Sell	5.6	-7.5	1.1	-9.5	3.7	--	1.22			
<b>SPECIALTY FUNDS</b>						<i>Category Averages</i>			<b>1.6</b>	<b>-14.9</b>	<b>12.1</b>	<b>-13.9</b>	<b>3.3</b>	<b>8.2</b>	<b>1.1</b>
2063	FOTTX	130/30 Large Cap		9.72	OK to Buy ↑	-1.4	-5.8p	--	--	--	--	--			
304	FBALX	Balanced		17.71	Buy	0.6	-8.7	9.0	-7.3	4.9	8.4	0.71			
308	FCVSX	Convertible Securities		25.72	OK to Buy	-2.0	-7.2	16.2	-3.8	8.3	9.8	0.84			
1960	FDYSX	Dynamic Strategies		9.11	Hold	-0.7	-4.6	-2.2p	--	--	--	--			
1368	FIREX	International Real Estate	1.50%/90 days	10.00	Hold	-6.3	-25.4	-8.3	-28.5	2.2	--	1.19			
4	FPURX	Puritan		17.07	OK to Buy	0.4	-9.0	6.2	-7.4	4.4	6.9	0.61			
833	FRIFX	Real Estate Income	0.75%/90 days	9.50	OK to Sell	0.7	-5.9	-6.5	-6.7	-0.3	4.3	0.34			
303	FRESX	Real Estate Investment	0.75%/90 days	26.49	Sell	1.4	2.2	-21.3	-10.2	3.6	13.2	1.78			
1329	FSDIX	Strategic Dividend & Income		10.99	OK to Buy	0.5	-11.1	3.1	-12.6	2.7	--	0.95			
1505	FSRRX	Strategic Real Return	0.75%/60 days	10.00	Buy	-1.1	2.2	3.8	6.1	4.1	--	0.29			
311	FIUIX	Utilities		17.14	Hold	-0.7	-15.8	10.8	-14.1	6.7	12.3	0.91			
<b>ASSET ALLOCATION FUNDS</b>						<i>Category Averages</i>			<b>3.1</b>	<b>-8.4</b>	<b>4.4</b>	<b>-10.1</b>	<b>3.9</b>	<b>9.6</b>	<b>1.1</b>
328	FASIX	Asset Manager 20%		11.91	Hold	0.6	-2.7	4.8	-1.1	4.0	5.2	0.19			
1957	FTANX	Asset Manager 30%		9.25	Hold	0.8	-4.3	-1.9p	--	--	--	--			
1958	FFANX	Asset Manager 40%		9.04	Hold	0.6	-6.0	-2.6p	--	--	--	--			
314	FASMX	Asset Manager 50%		14.16	Hold	0.8	-7.5	6.3	-6.0	3.3	4.7	0.48			
1959	FSANX	Asset Manager 60%		8.72	Hold	0.6	-9.2	-3.5p	--	--	--	--			
321	FASGX	Asset Manager 70%		15.23	Hold	0.7	-10.4	7.2	-9.0	3.1	4.8	0.70			
347	FAMRX	Asset Manager 85%		12.44	Hold	0.6	-12.1	7.9	-10.8	3.9	7.5	0.83			
355	FFNOX	Four-in-One Index		27.42	Hold	0.6	-9.7	6.2	-8.8	4.6	8.1	0.80			
370	FFFBX	Freedom 2000		11.80	Hold	0.3	-2.6	5.3	-0.8	3.6	4.4	0.23			
1312	FFVX	Freedom 2005		10.77	Hold	0.0	-6.4	7.3	-4.2	4.0	--	0.45			
371	FFFCX	Freedom 2010		13.44	Hold	-0.1	-6.6	7.4	-4.3	4.1	5.9	0.47			
1313	FFVFX	Freedom 2015		11.24	Hold	-0.1	-7.6	7.8	-5.4	4.4	--	0.52			
372	FFFDX	Freedom 2020		13.88	Hold	-0.2	-9.2	8.5	-7.0	4.6	7.3	0.64			
1314	FFTWX	Freedom 2025		11.53	Hold	-0.3	-9.9	8.6	-7.8	4.5	--	0.68			
373	FFFEY	Freedom 2030		14.08	Hold	-0.3	-11.4	9.3	-9.3	4.6	7.8	0.79			
1315	FFTHX	Freedom 2035		11.67	Hold	-0.3	-11.7	9.3	-9.7	4.6	--	0.81			
718	FFFFX	Freedom 2040		8.23	Hold	-0.2	-12.0	9.3	-10.1	4.7	8.1	0.84			
1617	FFFGX	Freedom 2045		9.69	Hold	-0.3	-12.3	9.5	-10.3	--	--	0.85			
1618	FFFHX	Freedom 2050		9.66	Hold	-0.5	-13.0	9.8	-11.0	--	--	0.89			
369	FFFAX	Freedom Income		10.92	Hold	0.3	-1.9	4.8	-0.1	3.5	4.0	0.19			
1884	FIRJX	Income Replacement 2016		47.81	Hold	0.3	-4.1	0.4p	--	--	--	--			
1885	FIRKX	Income Replacement 2018		47.50	Hold	0.3	-4.9	0.4p	--	--	--	--			
1886	FIRLX	Income Replacement 2020		47.15	Hold	0.2	-5.6	0.2p	--	--	--	--			
1887	FIRMX	Income Replacement 2022		47.08	Hold	0.2	-6.0	0.2p	--	--	--	--			
1888	FIRNX	Income Replacement 2024		46.99	Hold	0.2	-6.4	0.4p	--	--	--	--			
1889	FIROX	Income Replacement 2026		46.76	Hold	0.1	-6.7	0.2p	--	--	--	--			
1890	FIRPX	Income Replacement 2028		46.79	Hold	0.1	-7.0	0.2p	--	--	--	--			
1891	FIRQX	Income Replacement 2030		46.57	Hold	0.1	-7.2	0.2p	--	--	--	--			
1892	FIRRX	Income Replacement 2032		46.46	Hold	0.0	-7.6	0.2p	--	--	--	--			
1893	FIRSX	Income Replacement 2034		46.34	Hold	0.0	-8.0	0.3p	--	--	--	--			
1894	FIRUX	Income Replacement 2036		46.30	Hold	-0.1	-8.3	0.3p	--	--	--	--			
1995	FIRVX	Income Replacement 2038		45.17	Hold	-0.1	-6.7p	--	--	--	--	--			
2009	FIRWX	Income Replacement 2040		45.13	Hold	-0.1	-6.7p	--	--	--	--	--			
1996	FIXRX	Income Replacement 2042		45.09	Hold	-0.1	-6.8p	--	--	--	--	--			

## FIDELITY SCORECARD - AUGUST 31, 2008

Fund No.	Fund Ticker	Fund Name	Short-Term Trading Fee	\$Price (NAV)	Advice	Total Return (%)			Avg Annual (%)			Rel Vol (Risk) <sup>1</sup>			
						Aug	YTD	2007	1 Year	3 Year	5 Year				
<b>INTERNATIONAL FUNDS</b>						<b>Category Averages</b>			<b>-5.5</b>	<b>-19.0</b>	<b>20.0</b>	<b>-13.9</b>	<b>9.9</b>	<b>15.9</b>	<b>1.1</b>
335	FIVFX	Aggressive Int'l	1.00%/30 days	12.05	OK to Sell	-5.0	-20.4	5.2	-20.9	2.0	6.9	0.95			
309	FICDX	Canada	1.50%/90 days	58.64	Hold↓	-2.1	-4.5	35.0	6.0	17.2	22.9	1.09			
352	FHKCX	China Region	1.50%/90 days	24.19	OK to Sell	-4.8	-22.4	46.3	-11.1	16.4	16.7	1.45			
325	FDIVX	Diversified International (closed)	1.00%/30 days	33.07	OK to Buy	-4.2	-17.1	16.0	-11.9	8.6	14.4	0.96			
2053	FEMEX	Emerging Europe, MidEast, Africa	1.50%/90 days	7.92	Hold	-8.3	-21.9p	--	--	--	--	--			
322	FEMKX	Emerging Markets	1.50%/90 days	24.95	OK to Buy↓	-9.2	-26.3	45.1	-12.4	20.6	24.4	1.21			
301	FIEUX	Europe	1.00%/30 days	33.92	OK to Buy	-5.8	-19.5	16.4	-11.7	7.4	17.2	0.95			
341	FECAX	Europe Capital App	1.00%/30 days	21.47	OK to Buy	-4.2	-19.3	14.8	-13.1	9.7	15.7	0.96			
334	FGBLX	Global Balanced	1.00%/30 days	20.82	Hold	-2.2	-7.3	13.8	-1.3	7.7	11.1	0.55			
2010	FIENX	International Enchanted Index	1.00%/30 days	8.32	Hold	-5.0	-18.7	--	--	--	--	--			
305	FIGRX	International Discovery	1.00%/30 days	34.43	Buy	-5.3	-20.1	19.0	-13.7	9.1	15.0	0.93			
1979	FIGFX	International Growth	1.00%/30 days	7.99	Hold	-4.8	-16.4	-2.8p	--	--	--	--			
818	FISMX	Int'l Small Cap (closed)	2.00%/90 days	19.08	Hold	-5.6	-17.4	13.2	-15.8	5.7	17.3	0.89			
1504	FSCOX	Int'l Small Cap Opportunities	2.00%/90 days	11.25	Hold	-7.2	-22.0	3.0	-25.0	7.2	--	1.25			
1597	FIVLX	International Value	1.00%/30 days	9.27	Buy	-5.1	-18.9	9.5	-16.9	--	--	1.07			
350	FJPNX	Japan	1.50%/90 days	11.86	Hold	-5.9	-17.3	-2.7	-21.1	0.7	6.7	1.12			
360	FJSCX	Japan Smaller Cos (closed)	1.50%/90 days	8.82	Sell	-6.5	-20.0	-12.4	-25.7	-10.3	3.5	0.96			
349	FLATX	Latin America	1.50%/90 days	55.20	Hold↓	-8.7	-11.0	43.7	5.7	31.6	38.3	1.68			
342	FNORX	Nordic	1.50%/90 days	36.07	OK to Buy	-6.0	-20.5	23.2	-15.4	10.9	20.4	1.20			
94	FOSFX	Overseas	1.00%/30 days	37.65	Hold↓	-4.3	-22.2	21.8	-15.4	9.0	13.1	1.08			
302	FPBFX	Pacific Basin	1.50%/90 days	20.90	Hold	-8.1	-30.8	25.2	-25.1	7.1	11.6	1.08			
351	FSEAX	Southeast Asia	1.50%/90 days	27.12	OK to Sell	-6.2	-31.6	55.4	-24.6	20.2	20.9	1.31			
399	FSIIX	Spartan Int'l Index <sup>4</sup>	1.00%/90 days	39.05	Hold	-4.2	-17.3	10.7	-14.8	7.7	13.6	0.96			
1978	FTIEX	Total International Equity	1.00%/30 days	7.65	Hold↓	-5.6	-19.0	-2.9p	--	--	--	--			
318	FWWFX	Worldwide	1.00%/30 days	18.43	Hold	-2.3	-13.8	18.5	-7.5	9.4	11.9	1.00			
<b>SELECT PORTFOLIOS</b>						<b>Category Averages</b>			<b>1.4</b>	<b>-11.6</b>	<b>11.3</b>	<b>-9.5</b>	<b>5.2</b>	<b>9.7</b>	<b>1.3</b>
34	FSAIX	Air Transportation	0.75%/30 days	29.54	OK to Sell	6.4	-23.5	-1.9	-30.6	1.2	6.2	1.67			
502	FSAVX	Automotive	0.75%/30 days	28.37	OK to Sell	-0.7	-24.1	0.0	-29.7	-6.5	0.1	1.61			
507	FSRBX	Banking	0.75%/30 days	19.24	Sell	1.8	-20.9	-21.2	-33.7	-9.9	-2.3	2.11			
42	FBIOX	Biotechnology	0.75%/30 days	71.65	Buy	-3.4	7.5	2.7	8.3	6.1	7.2	0.99			
68	FSLBX	Brokerage & Investment	0.75%/30 days	51.27	Sell	1.1	-20.1	-0.2	-14.0	4.1	9.2	1.46			
69	FSCHX	Chemicals	0.75%/30 days	83.93	Buy	-2.1	1.6	28.4	9.6	16.3	19.4	1.38			
518	FSDCX	Communications Equipment	0.75%/30 days	21.02	Buy	5.3	-6.4	9.8	-9.1	3.6	7.5	1.31			
7	FDCPX	Computers	0.75%/30 days	41.12	OK to Buy	1.9	-15.0	22.4	-10.7	4.9	4.6	1.27			
511	FSHOX	Construction & Housing	0.75%/30 days	32.49	Hold	8.2	-1.4	-13.9	-12.7	-3.5	8.5	1.72			
517	FSCPX	Consumer Discretionary	0.75%/30 days	19.35	OK to Sell	6.9	-7.9	-8.3	-16.4	-0.4	2.9	1.25			
9	FDFAX	Consumer Staples	0.75%/30 days	61.61	Hold	1.4	-7.4	21.5	1.3	11.5	12.8	0.66			
67	FSDAX	Defense & Aerospace	0.75%/30 days	70.07	OK to Sell	5.3	-15.6	17.8	-13.7	7.1	14.4	1.08			
8	FSELX	Electronics	0.75%/30 days	37.62	Hold	3.6	-17.5	4.7	-23.7	-3.4	0.1	1.32			
60	FSENX	Energy	0.75%/30 days	60.91	OK to Buy	-1.3	-6.9	45.5	10.2	16.9	28.3	1.65			
43	FSESX	Energy Service	0.75%/30 days	96.58	OK to Buy	-3.7	-1.0	55.2	9.6	21.5	29.0	1.69			
516	FSLEX	Environmental	0.75%/30 days	18.06	Buy	0.8	-6.7	12.4	1.6	5.1	8.2	0.99			
66	FIDSX	Financial Services	0.75%/30 days	70.47	OK to Sell	-0.9	-26.2	-13.6	-32.7	-7.0	0.0	1.77			
41	FSAGX	Gold	0.75%/30 days	33.90	Hold	-12.4	-14.7	24.9	9.0	23.3	14.9	1.79			
63	FSPHX	Health Care	0.75%/30 days	108.00	Buy	2.1	-10.2	12.5	-5.1	3.1	7.6	0.73			
98	FSVLX	Home Finance	0.75%/30 days	18.27	Sell	-1.8	-35.7	-38.0	-51.9	-22.6	-11.2	2.40			
510	FSCGX	Industrial Equipment	0.75%/30 days	31.30	Hold	1.1	-11.4	23.2	-5.6	10.1	12.6	1.10			
515	FCYIX	Industrials	0.75%/30 days	20.72	Hold	1.5	-6.6	17.7	-3.4	10.1	15.1	1.10			
45	FSPCX	Insurance	0.75%/30 days	45.13	OK to Sell	2.6	-28.3	-4.4	-29.9	-6.0	2.1	1.40			
353	FBSOX	IT Services	0.75%/30 days	16.77	Hold	3.9	0.4	11.5	5.2	11.2	11.4	1.12			
62	FDLSX	Leisure	0.75%/30 days	66.43	Hold	4.2	-13.3	4.2	-12.5	4.1	7.1	1.22			
509	FSDPX	Materials	0.75%/30 days	55.73	Hold	-3.7	-4.7	29.2	4.3	18.6	19.3	1.42			
505	FSHCX	Medical Delivery	0.75%/30 days	41.07	Hold	3.3	-21.2	16.9	-14.0	-1.0	15.3	0.89			
354	FSMEX	Medical Equipment	0.75%/30 days	26.12	Buy	3.8	8.4	17.9	14.6	10.0	12.8	0.75			
503	FBMPX	Multimedia	0.75%/30 days	33.21	OK to Sell	4.8	-9.4	-9.3	-16.4	0.1	2.1	1.03			
513	FSNGX	Natural Gas	0.75%/30 days	43.29	Buy	-1.6	-7.0	40.9	12.5	12.6	26.0	1.65			
514	FNARX	Natural Resources	0.75%/30 days	36.97	OK to Buy	-2.0	-6.5	50.1	12.3	21.0	28.2	1.64			
912	FNINX	Networking & Infrastructure	0.75%/30 days	2.10	OK to Buy	2.9	-15.3	0.4	-20.2	-1.7	-1.4	1.26			
506	FSPFX	Paper & Forest	0.75%/30 days	27.86	Hold	3.0	-11.1	0.8	-13.1	3.3	2.5	1.35			
580	FPHAX	Pharmaceuticals	0.75%/30 days	10.39	OK to Buy	2.1	-10.0	13.4	-5.3	6.3	7.4	0.81			
46	FSRPX	Retailing	0.75%/30 days	38.78	Hold	7.1	-5.2	-8.0	-14.9	0.8	5.3	1.46			
28	FSCSX	Software & Computer Svcs	0.75%/30 days	68.44	Hold	1.9	-15.7	23.9	-1.9	10.8	8.6	1.22			
64	FSPTX	Technology	0.75%/30 days	69.06	Hold	5.1	-15.1	19.8	-11.6	4.2	4.9	1.30			
96	FSTCX	Telecommunications	0.75%/30 days	41.32	OK to Sell	1.8	-20.4	8.2	-26.0	4.4	8.5	1.23			
512	FSRFX	Transportation	0.75%/30 days	45.08	Hold↑	2.0	1.5	-0.6	-6.0	7.2	11.2	1.45			
65	FSUTX	Utilities Growth	0.75%/30 days	54.40	Hold	-3.9	-15.4	18.1	-6.2	9.0	14.6	0.93			
963	FWRLX	Wireless	0.75%/30 days	7.00	Hold	-0.3	-19.0	27.5	-18.6	4.8	16.5	1.33			

## FIDELITY SCORECARD - AUGUST 31, 2008

Fund No.	Fund Ticker	Fund Name	Short-Term Trading Fee	\$Price (NAV)	Advice	Total Return (%)			Duration (Years) <sup>2</sup>	30-Day Yld. (%)	Tax-Equivalent Yield Federal Tax Bracket						
						Aug	YTD	2007									
<b>TAXABLE BOND FUNDS</b>						<b>Category Averages</b>			<b>0.8</b>	<b>1.4</b>	<b>5.1</b>	<b>4.5</b>	<b>3.86</b>				
15	FGMNX	Ginnie Mae		10.91	OK to Buy	0.8	3.0	6.8	4.3	4.88							
54	FGOVX	Government Income		10.46	OK to Buy	1.1	3.7	7.9	5.1	3.73							
794	FINPX	Inflation-Protected Bond <sup>9</sup>		11.31	Buy	0.8	4.3	9.1	6.2	1.24							
32	FTHRXX	Intermediate Bond		9.85	OK to Buy	0.4	-0.1	4.0	4.0	4.84							
452	FSTGX	Intermediate Gov't Income		10.41	Buy	0.7	3.6	7.9	3.4	3.23							
26	FBNDX	Investment Grade Bond		6.89	Hold	0.4	-1.2	2.6	4.8	5.06							
40	FMSFX	Mortgage Securities		10.11	Hold	0.9	0.0	-0.4	4.1	4.93							
450	FSHBX	Short-Term Bond		8.31	OK to Sell	0.2	-0.7	1.7	1.5	4.05							
1561	FIBIX	Sptn Interm Treas Index <sup>5</sup>		10.54	OK to Buy	1.5	4.9	10.1	6.1	3.39							
1562	FLBIX	Sptn Lng-Term Treas Index <sup>5</sup>		10.34	Hold	2.3	3.9	9.5	11.1	4.21							
1560	FSBIX	Sptn Sht-Term Treas Index <sup>5</sup>		10.38	Buy	0.7	3.3	7.9	2.4	2.42							
820	FTBFX	Total Bond		10.07	Buy	0.5	0.7	4.2	4.5	5.26							
651	FBIDX	U.S. Bond Index		10.73	Hold	0.7	1.6	5.4	4.7	4.70							
812	FUSFX	Ultra-Short Bond	0.25%/60 days	8.25	Hold	0.0	-6.8	-5.1	0.2	2.13							
<b>HIGH-YIELD BOND FUNDS</b>						<b>Category Averages</b>			<b>0.3</b>	<b>-0.4</b>	<b>3.8</b>	<b>7.05</b>					
38	FAGIX	Capital & Income	1.00%/90 days	8.05	Hold	0.1	-3.2	3.8	--	8.27							
814	FFRHX	Floating Rate High Income	1.00%/60 days	9.36	OK to Buy	0.2	1.0	2.7	--	5.32							
1366	FHIFX	Focused High Income	1.00%/90 days	9.33	OK to Buy↑	0.9	-1.5	3.1	--	7.80							
455	SPHIX	High Income	1.00%/90 days	8.21	Hold	0.5	0.0	2.4	--	9.04							
331	FNMIXX	New Markets Income	1.00%/90 days	14.23	Hold	0.2	0.9	5.7	--	5.99							
368	FSICX	Strategic Income		10.11	Buy	-0.2	0.4	5.4	--	5.90							
<b>MUNICIPAL BOND</b>						<b>Category Averages</b>			<b>1.0</b>	<b>2.0</b>	<b>3.7</b>	<b>5.7</b>	<b>3.57</b>	<b>25%</b>	<b>28%</b>	<b>33%</b>	<b>35%</b>
36	FLTMX	Interm Municipal Income	0.50%/30 days	9.95	Buy	1.0	2.4	4.0	4.9	3.44	4.6	4.8	5.1	5.3			
37	FHIGX	Municipal Income	0.50%/30 days	12.34	OK to Buy	1.0	0.9	3.1	7.5	4.06	5.4	5.6	6.1	6.2			
404	FSTFX	Short-Int Municipal Income	0.50%/30 days	10.43	Buy	0.7	3.3	4.4	2.8	2.62	3.5	3.6	3.9	4.0			
90	FTABX	Tax-Free Bond	0.50%/30 days	10.55	OK to Buy	1.1	1.4	3.2	7.6	4.15	5.5	5.8	6.2	6.4			
<b>STATE-SPECIFIC MUNICIPAL BOND</b>						<b>Category Averages</b>			<b>1.1</b>	<b>1.6</b>	<b>3.4</b>	<b>6.6</b>	<b>3.67</b>				
434	FSAZX	Arizona Muni Income	0.50%/30 days	11.04	OK to Buy	1.1	0.8	2.6	7.8	3.95	5.3	5.5	5.9	6.1			
91	FCTFX	California Muni Income	0.50%/30 days	11.92	OK to Buy	1.2	0.9	2.9	7.2	4.01	5.3	5.6	6.0	6.2			
1534	FCSTX	Calif Short-Interm Tax Free	0.50%/30 days	10.27	OK to Buy	1.1	3.4	4.3	2.8	2.73	3.6	3.8	4.1	4.2			
407	FICNX	Connecticut Muni Income	0.50%/30 days	11.19	OK to Buy	1.2	1.7	3.8	6.7	3.65	4.9	5.1	5.4	5.6			
429	SMDMX	Maryland Muni Income	0.50%/30 days	10.64	OK to Buy	1.1	1.4	3.0	7.2	3.82	5.1	5.3	5.7	5.9			
70	FDMMX	Mass Muni Income	0.50%/30 days	11.59	OK to Buy	1.1	1.2	3.3	7.0	3.79	5.1	5.3	5.7	5.8			
81	FMHTX	Michigan Muni Income	0.50%/30 days	11.65	Hold	1.2	1.7	3.7	6.3	3.51	4.7	4.9	5.2	5.4			
82	FIMIX	Minnesota Muni Income	0.50%/30 days	11.13	OK to Buy	1.1	2.0	3.2	6.1	3.50	4.7	4.9	5.2	5.4			
416	FNJHX	New Jersey Muni Income	0.50%/30 days	11.35	OK to Buy	1.1	1.4	3.7	6.8	3.74	5.0	5.2	5.6	5.8			
71	FTFMX	New York Muni Income	0.50%/30 days	12.56	OK to Buy	1.0	1.5	3.3	7.6	3.85	5.1	5.3	5.7	5.9			
88	FOHFX	Ohio Muni Income	0.50%/30 days	11.37	OK to Buy	1.1	1.5	3.6	7.3	3.75	5.0	5.2	5.6	5.8			
402	FPXTX	Pennsylvania Muni Income	0.50%/30 days	10.61	OK to Buy	1.0	1.5	3.9	6.1	3.69	4.9	5.1	5.5	5.7			
<b>TAXABLE MONEY MARKET</b>						<b>Category Averages</b>			<b>0.2</b>	<b>1.8</b>	<b>4.9</b>	<b>2.23</b>					
55	FDRXX	Cash Reserves		1.00	--	0.21	2.05	5.06	na	2.47							
631	FGMXX	Retirement Government MM		1.00	--	0.17	1.76	4.93	na	2.09							
630	FRTXX	Retirement MM		1.00	--	0.21	2.00	5.12	na	2.50							
458	SPAXX	Government MM		1.00	--	0.17	1.75	4.90	na	2.08							
454	SPRXX	Money Market		1.00	--	0.21	2.02	5.09	na	2.50							
85	FSLXX	Select MM		1.00	--	0.22	2.10	5.14	na	2.57							
50	FGRXX	U.S. Gov't Reserves		1.00	--	0.18	1.84	4.97	na	2.19							
415	FDLXX	US Treasury MM		1.00	--	0.12	1.26	4.38	na	1.46							
<b>MUNICIPAL MONEY MARKET</b>						<b>Category Averages</b>			<b>0.1</b>	<b>1.3</b>	<b>3.4</b>	<b>1.45</b>					
460	FIMXX	AMT Tax-Free Money Fnd		1.00	--	0.14	1.30	3.43	na	1.50	2.0	2.1	2.2	2.3			
10	FTEXX	Municipal Money Market		1.00	--	0.14	1.30	3.34	na	1.52	2.0	2.1	2.3	2.3			
275	FMOXX	Tax-Free Money Market		1.00	--	0.12	1.22	3.30	na	1.33	1.8	1.8	2.0	2.0			
<b>STATE MUNICIPAL MONEY MARKET</b>						<b>Category Averages</b>			<b>0.1</b>	<b>1.2</b>	<b>3.3</b>	<b>1.30</b>					
433	FSAXX	Arizona		1.00	--	0.12	1.19	3.26	na	1.30	1.7	1.8	1.9	2.0			
457	FSPXX	California AMT Tax-Free		1.00	--	0.12	1.31	3.39	na	1.33	1.8	1.8	2.0	2.0			
97	FCFX	California		1.00	--	0.11	1.17	3.20	na	1.16	1.5	1.6	1.7	1.8			
418	FCMXX	Connecticut		1.00	--	0.11	1.23	3.25	na	1.19	1.6	1.7	1.8	1.8			
426	FMSXX	Mass AMT Tax-Free		1.00	--	0.13	1.26	3.39	na	1.40	1.9	1.9	2.1	2.2			
74	FDMXX	Massachusetts		1.00	--	0.11	1.17	3.20	na	1.23	1.6	1.7	1.8	1.9			
420	FMIXX	Michigan		1.00	--	0.12	1.16	3.21	na	1.27	1.7	1.8	1.9	2.0			
423	FSJXX	New Jersey AMT Tax-Free		1.00	--	0.14	1.31	3.41	na	1.45	1.9	2.0	2.2	2.2			
417	FNJXX	New Jersey		1.00	--	0.12	1.19	3.23	na	1.27	1.7	1.8	1.9	2.0			
422	FSNXX	New York AMT Tax-Free		1.00	--	0.13	1.27	3.39	na	1.42	1.9	2.0	2.1	2.2			
92	FNYXX	New York		1.00	--	0.12	1.12	3.22	na	1.25	1.7	1.7	1.9	1.9			
419	FOMXX	Ohio		1.00	--	0.12	1.19	3.22	na	1.36	1.8	1.9	2.0	2.1			
401	FPTXX	Pennsylvania		1.00	--	0.12	1.25	3.25	na	1.29	1.7	1.8	1.9	2.0			

Tax-equivalent yields for state funds assume top state (and city) tax level for that federal bracket, and itemized deductions.

## FIDELITY SCORECARD - AUGUST 31, 2008

Fund No.	Fund Ticker	Fund Name	Short-Term Trading Fee	\$Price (NAV)	Advice	Total Return (%)			Avg Annual (%)			Rel Vol (Risk) <sup>1</sup>
						Aug	YTD	2007	1 Year	3 Year	5 Year	
<b>FIDELITY PERSONAL RETIREMENT ANNUITY PORTFOLIOS</b>												
9077	FQBRC	Fid VIP Aggressive Growth		10.11	OK to Buy	-4.6	-22.5	17.1	-19.7	0.2	--	1.17
9067	FLRQC	Fid VIP Asset Manager		11.92	Hold	-1.8	-5.2	15.1	2.1	5.9	6.0	0.68
9066	FAEFC	Fid VIP Asset Manager: Growth		11.98	Hold	-2.3	-7.3	18.5	1.4	6.3	6.4	0.91
9069	FJBAC	Fid VIP Balanced		11.48	Buy	0.5	-8.9	8.6	-6.9	4.2	4.7	0.73
9081	FVHAC	Fid VIP Consumer Discretionary	1.00%/60 days	9.52	OK to Sell	6.8	-8.0	-8.5	-16.0	-2.2	1.5	1.34
9171	FCSAC	Fid VIP Consumer Staples	1.00%/60 days	10.29	Buy	1.4	-7.5	11.6p	1.9	--	--	0.66
9065	FPDFC	Fid VIP Contrafund		11.77	Hold	0.6	-15.5	17.2	-8.7	5.3	9.9	0.99
9148	FPRGC	Fid VIP Disciplined Small Cap		9.35	Buy	2.8	-5.3	-2.7	-8.0	--	--	1.34
9074	FZAMC	Fid VIP Dynamic Capital App		11.20	OK to Buy↓	-1.9	-15.3	6.6	-15.4	3.6	--	1.20
9198	FEMAC	Fid VIP Emerging Markets	1.00%/60 days	7.89	Buy	-8.7	-21.1	--	--	--	--	--
9085	FJLLC	Fid VIP Energy	1.00%/60 days	17.20	OK to Buy	-1.2	-7.0	45.5	11.0	18.3	26.2	1.65
9061	FLOLC	Fid VIP Equity-Income		10.50	Buy	0.7	-15.5	1.1	-17.8	1.6	5.8	1.16
9083	FONNC	Fid VIP Financial Services	1.00%/60 days	7.94	OK to Sell	-0.8	-25.8	-13.8	-32.1	-7.1	-0.3	1.79
9157	FMPAC	Fid VIP FundsManager 20		10.81	Hold	0.2	-2.2	5.8	0.4	--	--	0.18
9158	FMPBC	Fid VIP FundsManager 50		10.46	Hold	0.1	-7.5	6.8	-5.1	--	--	0.49
9197	FMPPC	Fid VIP FundsManager 60		9.38	Hold	-0.1	-6.2	--	--	--	--	--
9159	FMPCC	Fid VIP FundsManager 70		10.19	Hold	-0.1	-11.3	7.5	-9.2	--	--	0.73
9160	FMPDC	Fid VIP FundsManager 85		9.96	Hold	-0.4	-14.1	8.4	-12.0	--	--	0.90
9062	FMNDC	Fid VIP Growth		11.48	Buy	-3.0	-17.0	26.5	-8.3	4.8	5.4	1.05
9070	FLFNC	Fid VIP Growth & Income		11.48	Hold	1.0	-13.2	11.8	-8.9	4.6	5.3	1.04
9068	FIDPC	Fid VIP Growth Opportunities		10.81	OK to Sell	-1.9	-21.0	22.7	-12.4	1.6	4.2	1.43
9078	FPVDC	Fid VIP Growth Stock		10.76	OK to Buy	-0.4	-15.2	22.1	-6.5	2.7	--	1.14
9084	FPDRC	Fid VIP Health Care	1.00%/60 days	10.77	Buy	1.8	-10.7	9.7	-4.8	1.5	6.4	0.75
9060	FBBLC	Fid VIP High Income		11.41	OK to Sell	0.5	-0.7	2.3	0.8	4.0	6.0	0.16
9064	FXVLT	Fid VIP Index 500		10.93	Hold	1.4	-11.6	5.2	-10.2	3.0	6.1	1.03
9082	FBALC	Fid VIP Industrials	1.00%/60 days	13.24	Hold	1.4	-7.0	17.8	-2.7	9.7	14.8	1.21
9076	FVJIC	Fid VIP Int'l Capital App	1.00%/60 days	10.22	Hold	-5.2	-20.5	4.8	-21.5	1.1	--	0.97
9090	FBKQT	Fid VIP Investor Freedom 2005		11.31	Hold	0.0	-6.8	8.3	-4.0	3.8	--	0.44
9091	FCRJT	Fid VIP Investor Freedom 2010		11.28	Hold	0.0	-7.1	8.4	-4.3	3.8	--	0.45
9092	FTCMT	Fid VIP Investor Freedom 2015		11.43	Hold	-0.1	-8.1	9.0	-5.2	4.3	--	0.52
9093	FTEMT	Fid VIP Investor Freedom 2020		11.44	Hold	-0.2	-10.1	9.9	-7.0	4.2	--	0.65
9094	FVIIT	Fid VIP Investor Freedom 2025		11.47	Hold	-0.3	-10.6	10.1	-7.5	4.4	--	0.69
9095	FXJLT	Fid VIP Investor Freedom 2030		11.47	Hold	-0.3	-12.2	11.0	-9.1	4.4	--	0.82
9089	FBXOT	Fid VIP Investor Freedom Income		11.21	Hold	0.4	-1.9	5.8	0.3	3.6	--	0.17
9063	FTLKC	Fid VIP Investment Grade Bond		10.91	Buy	0.5	0.2	4.0	3.0	2.4	3.2	0.29
9172	FVMAC	Fid VIP Materials	1.00%/60 days	10.97	Hold	-3.4	-3.7	14.7p	6.2	--	--	1.42
9071	FNBSC	Fid VIP Mid Cap		12.63	Buy	-0.4	-8.5	15.2	-4.7	7.6	14.3	0.97
9059	FTNJC	Fid VIP Money Market		11.32	--	0.2	1.9	4.9	3.5	3.9	2.7	0.02
9088	FEMMC	Fid VIP Overseas	1.00%/60 days	12.41	Hold	-4.5	-18.6	16.9	-13.2	7.5	--	1.02
9072	FFWKC	Fid VIP Real Estate		11.85	Sell	2.5	1.6	-18.0	-7.2	3.3	--	1.85
9075	FGDQC	Fid VIP Strategic Income		11.47	Buy	-0.2	0.4	5.3	3.7	4.1	--	0.14
9086	FYENC	Fid VIP Technology	1.00%/60 days	11.29	Hold	4.7	-15.5	14.9	-12.6	4.6	5.0	1.48
9173	FVTAC	Fid VIP Telecommunications	1.00%/60 days	7.83	OK to Sell	1.6	-21.0	-1.1p	-26.3	--	--	1.34
9087	FXRRC	Fid VIP Utilities	1.00%/60 days	13.43	Hold	-3.7	-15.1	20.2	-3.7	9.4	14.8	0.94
9079	FKMSC	Fid VIP Value		10.73	Buy	3.0	-10.2	1.7	-13.7	1.7	--	1.22
9080	FUEBC	Fid VIP Value Leaders		10.36	Buy	0.0	-16.8	4.2	-16.6	0.7	--	1.19
9073	FRBSC	Fid VIP Value Strategies		10.74	Hold	3.0	-14.3	5.3	-16.3	2.2	--	1.27
9199	FCIFC	Credit Suisse Int'l Focus		8.79	OK to Sell	-3.4	-12.1	--	--	--	--	--
9147	FPRLC	Lazard Retirement Emerging Mkts		13.08	Hold	-4.6	-11.2	33.3	1.5	--	--	1.06
9143	FPRMC	Morgan Stanley Emerg Mkt Debt		11.52	Hold	0.1	0.0	6.3	4.3	6.0	8.7	0.17
9144	FPRNC	Morgan Stanley Emerg Mkt Equity		11.54	OK to Buy↓	-7.9	-26.4	40.1	-13.0	17.6	21.8	1.31
9145	FPROC	Morgan Stanley Gbl Value Equity		9.61	OK to Buy	-0.7	-18.7	6.4	-17.7	1.9	6.9	0.97
9146	FPRPC	Morgan Stanley Int'l Magnum		10.22	Buy	-4.8	-18.4	14.3	-14.1	6.6	11.2	1.01
9174	FMCCC	Strategic Advisors Mid Cap Value		8.60	Hold	3.1	-8.4	-6.3p	-10.1	--	--	1.05
9175	FSCCC	Strategic Advisors Small Cap		8.61	Hold	2.5	-6.2	-8.5p	-9.5	--	--	1.29

Annuity Growth Model	
Fund	Allocation
Fidelity VIP Strategic Income	28%
Fidelity VIP Growth	27
Fidelity VIP Value Leaders	27
Morgan Stanley Int'l Magnum	6
Fidelity VIP Balanced	6
Fidelity VIP Health Care	6
<b>Total Returns: Aug: -1.4% YTD: -12.1%</b>	

Annuity Growth & Income Model	
Fund	Allocation
Fidelity VIP Growth	28%
Fidelity VIP Investment Grade	27
Fidelity VIP Strategic Income	23
Fidelity VIP Value Leaders	18
Fidelity VIP Balanced	5
<b>Total Returns: Aug: -1.0% YTD: -9.5%</b>	

Annuity Growth & Income Model	
Fund	Allocation
Fidelity VIP Investment Grade	31%
Fidelity VIP Money Market	22
Fidelity VIP Strategic Income	17
Fidelity VIP Value Leaders	15
Fidelity VIP Growth	14
<b>Total Returns: Aug: -0.3% YTD: -5.2%</b>	

## SECTOR FOCUS

### Improving Health Of Health-Care Funds

Last month, we upgraded our ratings for **Select Biotechnology** and **Health Care** to *Buy*. We also traded into Health Care in our Aggressive Growth Model. That move has so far been fruitful as Health Care rose 2.1% in August versus a decline of 2.1% for **Select Chemicals**, which we sold.

Fidelity has five Select funds that focus on health care. The long-term case for this area is unchanged: The developed world's population is aging. Also, as developing nations become more prosperous, their large populations are demanding more and better health care. On the downside, political shifts in Washington may lead to stepped-up regulation and price controls, so don't be surprised to see greater volatility leading up to the November elections.

Why we really bought Health Care, however, is for its defensive characteristics. After a year of hemorrhaging red ink, valuations are more attractive. And while no industry is recession proof, this sector's fundamentals (earnings) are pretty solid. Still, when people have less disposable income, unfortunately, some medical expenses can become discretionary.

**Health Care** — *Buy* — This is, not surprisingly, the most diverse of the

health-care group. Its holdings include pharmaceutical companies (about 40% of assets), hospitals and HMOs (23%), biotechnology (15%) and medical equipment and supply stocks (14%). The fund's style is best described as large-cap growth, given the above-average price-to-earnings ra-

nies that create stents to keep arteries from clogging, magnetic resonance imaging technology that enables radiologists to "see" inside the human body, surgical instruments and vision devices. However, the fund can also own stocks of companies that make motorized wheelchairs and low-tech

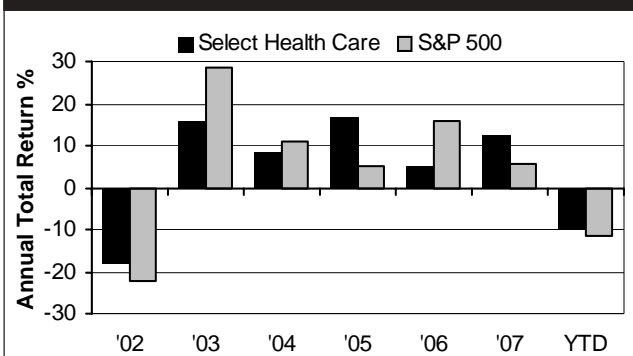
gear, like bandages. While there's some concern that smaller federal reimbursements could negatively impact these companies, we still see growing demand for their products.

**Pharmaceuticals** — *OK to Buy* — There are plenty of reasons to be cautious about pharmaceuticals: product recalls/litigation, not enough blockbuster drugs in the pipeline to

impact a company's bottom line, and the loss, or potential loss, of patent protection for many big money-making drugs. On the plus side, these negatives have led to more-attractive valuations for some of these stocks and, once again, the aging population that will need more of what this industry produces.

**Medical Delivery** — *Hold* — This fund buys companies that own or manage hospitals, nursing homes, health maintenance organizations (HMOs), and other health care services. While HMOs have seen their profits hit by higher medical costs and competitive pressures, we expect that, in time, they will also reap the benefits of an aging population. ■

#### SEL HEALTH CARE VS. S&P 500



tios of its holdings, while its drug stocks are in the mega-cap arena. In the face of an aging population, we like this fund for its growth potential.

**Biotechnology** — *Buy* — This is one of the more aggressive health-care funds. Its holdings may include companies with no revenue-producing products — just great ideas that are unproven. However, most of its holdings are in steadier mid-cap stocks. Also, these companies may offer greater upside potential because a single successful new product will have a greater impact on their bottom line.

**Medical Equipment & Systems** — *Buy* — This fund invests in compa-

## FIXED INCOME

### Cash Keeps Pouring Into Money Funds

As they wait for the stock market to show some signs of a sustained recovery, many investors continue to rush into safe havens like money market funds. Industry-wide, assets in these funds jumped nearly 40%, from \$2.1 trillion in June of 2007 to \$2.9 trillion a year later.

At Fidelity, assets in **Cash Reserves**, its biggest money fund —

indeed, the firm's biggest retail fund — also have swelled, from about \$88 billion at the end of 2006 to over \$126 billion by July 31 of this year.

The fund's allure is only enhanced by the fact that, even with a total return of just 1.8%, it is at least positive for the year, while almost all of Fidelity's diversified domestic and international funds are negative.

As we have said numerous times before, we have absolutely no concerns about the safety of any of Fidelity's money funds. Fidelity is not

likely to let any of these funds "break the buck" by letting their NAVs fall below \$1.00 a share.

That said, at just 2.47%, Cash Reserve's "real" yield is well below the inflation rate. Last month, in fact, the government reported that consumer prices were 5.6% higher in July than they were a year ago.

So, while we like money funds — **Select Money Market** is in our two least-aggressive models — for long-term investors, they're still no substitute for a well-diversified portfolio. ■

## INCOME INVESTING

### ***Coping With Today's Rising Inflation***

For quite some time, we've been significant investors in **Inflation-Protected Bond** fund. With virtually all of its assets in Treasury Inflation Protected Securities (TIPS), it continues to perform very well. In fact, it's one of the top-performing funds at Fidelity, period. Up 4.3% this year, it's easily outpacing the **US Bond Index** fund (a proxy for the Lehman Aggregate bond index) which is up only 1.6%.

Investors have flocked to TIPS because they are indexed to inflation. This is a big advantage over conventional bonds.

Like other bonds, TIPS pay a fixed interest rate. But what makes them unique is that their principal value (upon which the fixed interest rate is paid) is adjusted twice a year by the amount of inflation. (If you believe that the CPI-U understates inflation, then TIPS are less attractive.) Of course, in the unlikely event of deflation, they are adjusted downward. So even though the bond's interest rate remains unchanged, the return of your investment rises with inflation.

On the surface, the best feature of this TIPS fund is its inflation hedge. But it's also a portfolio of high-quality Treasury bonds (backed by "the full faith and credit" of the U.S. government). And in the current environment, we prefer higher-quality bonds over less-creditworthy securities, such as high-yield bonds.

This fund has been in our model portfolios since it was introduced in 2002, and has made us a lot of money. Over the past three years, it's actually produced returns that are right in line with stocks (5.5% a year), with significantly less risk.

In early 2007, the inflation picture once again changed, thereby giving rise to the view that the Federal Reserve may be forced to raise rates. However, as the meltdown in the mortgage market led to a broad-based credit crunch, the Fed decided that

keeping the economy afloat was more important than controlling inflation. So, starting in September 2007, it cut its benchmark rate seven times, from 5.25% to 2%. But, even as it was cutting interest rates, it insisted it was keeping its eye on inflation pressures, particularly energy and food prices.

So how much inflation is there in the economy?

The latest inflation data (up 5.6% from a year ago) is not encouraging. Much of that has been commodity induced with energy (most specifically, oil) being a principal culprit. But inflation is not created by energy alone. Though it cuts two ways, a weak dollar can be inflationary because it takes more greenbacks to buy the many things that Americans import. Massive federal budget deficits are also inflationary while hurting the dollar's value, as well. Meanwhile, second-quarter GDP growth was revised up to a robust 3.3%, thanks largely to a boom in exports driven by the weaker dollar. However, growth is expected to slow going forward, as the dollar has strengthened while domestic demand remains weak.

With the federal funds rate at 2%, there's certainly room for rate hikes to help contain inflation, except that the mortgage and credit markets have, so far, stayed the Fed's hand. Ironically, if the economy does slow from here, that could be the tonic for inflation. Indeed, the Fed has stated that it expects inflation to moderate in the months ahead as growth slows.

While inflation could moderate, in the near term, TIPS remain a great insurance policy.

Keep in mind that TIPS can be hurt by rising long-term interest rates. Beneath it all, they often behave just like what they are: long-term Treasury bonds. Also Inflation-Protected Bond has been roughly 70% more volatile than the Lehman Aggregate, so expect some bumps.

In short, Inflation-Protected Bond fund is still a prudent approach to hedging a portion of your portfolio against inflation. ■

## FUND FOCUS

### ***Time To Open (And Buy) Low-Priced***

Here's the good news. If it's easier to manage a mid-cap fund with fewer assets, **Low-Priced Stock** is getting easier to run by the day.

Closed to most new investors since the end of 2003, its assets have been shrinking fast. This raises at least two important questions: Is it time to re-open the fund and, should investors own Low-Priced Stock?

Yes and yes.

With less than \$30 billion in assets, the fund is almost \$10 billion smaller than it was just two years ago. Redemptions have accelerated for a variety of reasons: shareholders nearing retirement (shifting assets away from stocks); a declining stock market and, truthfully, a performance that has been lackluster compared to years past.

But if past is prologue, Manager Joel Tillinghast has racked up some pretty hefty returns when assets have been higher than they are today. In fact, Joel's record has been truly remarkable, having smashed both the long-term performances of the large-cap S&P 500 and the Russell 2000 (a small-cap index).

As to why we'd like to see the fund re-opened: it's actually easier for a manager to run a fund with steadily rising (not shrinking) assets.

Once a small-cap offering, one concession to its large asset size is that Low-Priced Stock moved up to mid-cap land in 2006. (The fund does not actually have a market-cap mandate – it is just supposed to invest in stocks selling for \$35 or less at the time of purchase.)

2007 was a disappointing year for the fund — it lagged the Russell Midcap Index; but still beat the Russell 2000 small-cap index. However you classify it, Low-Priced is still a solid choice. And as a mid-cap fund, its asset size is less of a concern. We rate it a *Buy*. ■

## Inside Fidelity

**Manager Changes** — Doug Lober has been named interim manager of **Canada** fund, taking over for Maxime Lemieux, who is taking a six-month leave of absence. Doug has managed several of Fidelity's Select portfolios, including **Paper & Forest Products**. He has also worked closely with Max in Fidelity's group that's dedicated to Canadian investments. Given that experience, we don't expect any major changes to the fund, while Max is away. However, we are lowering its rating to *Hold* as we feel it is time to take some gains in this commodity-focused fund.

**Auction Rate Securities Probe** — New York Attorney General Andrew Cuomo is investigating Fidelity's brokerage unit over sales of auction-rate securities to its clients.

Auction-rate securities became news when the market for them essentially froze, and many investors were unable to take their money out.

### DIVIDEND UPDATE

*In addition to monthly dividends paid by bond and money market funds, Asset Mgr 20% and 30%, Freedom Inc and Inc Replacement, these funds are expected to pay dividends and/or capital gains in September:*

Blue Chip Growth, Blue Chip Value, Dividend Growth, Growth & Income, Int'l R.E., Leveraged Company Stock, Low-Priced Stock, OTC, R.E. Income, R.E. Investment, Small Cap Growth, Small Cap Value, Value Discovery.

*The final distributions for August were as follows:*

Fund	ex-date	Amt (\$)	NAV
Fidelity Fifty	8/8	0.035	18.24
Fidelity Fund	8/8	0.99	33.26
Growth Discovery	8/8	0.055	13.73
Mega Cap Stock	8/8	0.076	9.99

A number of firms who underwrote these securities (such as Merrill Lynch, Goldman Sachs, and Deutsche Bank) have paid fines and agreed to buy back some of these securities from customers.

Now the probe by regulators is expanding into "downstream" brokers, such as Fidelity, who did not underwrite these securities, but sold them to customers. (Cuomo's office has also sent subpoenas to Charles Schwab, TD Ameritrade, E\*Trade Financial and Oppenheimer.)

The investigation into Fidelity focuses on two issues. First, did Fidelity sell these securities as a safe, money market alternative, without properly disclosing the risk that investors might not be able to get their money back when they wanted it?

Second, did Fidelity have an incentive to "push" these securities because of other services it received from their underwriter, Goldman Sachs?

Fidelity has denied any wrongdoing, noting that they do not actively market auction-rate securities and that their representatives have no incentive to sell them, or any other product.

As any member who has called a Fidelity representative can attest, such calls are often recorded, so the first question may be easy to answer.

The second issue is obviously a bit trickier to assess. However, Fidelity characterized the amount of auction-rate securities they've sold as "extremely small," involving only 600-700 customer accounts out of over 11 million.

**Correction** — In the August report, the 1-, 3- and 5-year returns as printed in the *Scorecard* only contained data through 7/30. However, our web-based version of the publication included data through 7/31. We apologize for any confusion. ■

## Message To Members

I pride myself in being a fundamental, value-biased investor, who sticks with a long-term investment strategy. Being overly sensitive to short-term market movements is not my style.

That said, I've recently seen some telltale signs that the market environment may be improving in the not-too-distant future.

First sign: Last weekend I'm on the 5<sup>th</sup> tee, waiting to launch my inevitable duck hook. Another golfer runs off the 9<sup>th</sup> green towards me and in a single breath, he says "What's going on with this g-- d--- market? Are Fannie and Freddie going belly-up? This country is going down the tubes!"

Second sign: For the past several years my real estate friends have been decidedly more upbeat on the housing market than I've been. Recently, however, they've become more negative on housing than even my continued somber assessment.

Third sign: I've talked about the "mother indicator" before, and sure enough, Mom calls from Florida the other day; "I saw on CNBC that the market was down again. Are you alright?"

Yeah, it's not exactly deep economic analysis, but these little vignettes are very similar to experiences I've had during past market bottoms. I certainly hope so.

Sincerely,



Eric M. Kobren

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P.S. — Have a safe and happy Labor Day weekend!



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