

# FIDELITY INSIGHT

THE INDEPENDENT REPORT ON FIDELITY FUNDS

AUGUST 2009

VOLUME 25, NUMBER 8

ERIC'S OUTLOOK

## Gradual Economic 'Improvement' Continues to Support Market

Two months ago, I wrote that "the low-hanging fruit has been picked and further gains may be harder to come by." I added that, "In order for stocks to make significant headway from here, we are going to need to see some fundamentals start to get *better* — rather than just *less bad!*"



Eric M. Kobren

So what do I know? While the S&P 500 was flat in June, it had no trouble rising a very nice 7.6% in July, even though fundamentals are still only getting *less bad*. What was particularly notable about July was a lack of any big down days.

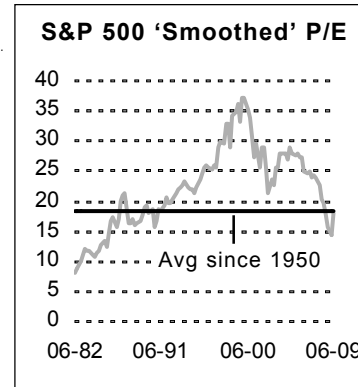
Other than a roughly 3% drop in the major market averages very early in the month, stocks made pretty steady progress throughout the month.

That said, we need to temper our expectations going forward, especially after such a meteoric rise. Let's take a look at some of the major factors that drive stock prices to get a sense of where we are and what we might expect.

### Valuations

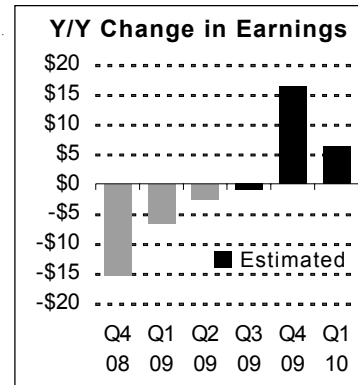
I'll start with what I consider the real key to stock returns: valuations. If you examine the returns on stocks over 10-year periods, the biggest gains come from the lowest starting valuations, and the worst periods come when starting valuations are high. P/E's can get pretty distorted when earnings are at recession lows (as we have seen recently). So we like to look at a 5-year average 'smoothing' of earn-

ings in calculating the market's P/E. As shown in the graph, since 1950, the average P/E using 5-year smoothed earnings is 18.3. At the end of March, the P/E on the S&P 500 was 14.1. This suggests that stocks were undervalued. But the current P/E (July 31) is 17.9, which is close to the long-term average. While stocks are not yet ultra-expensive, they are no longer at bargain prices.



### Earnings

The other part of the P/E equation is earnings. Here we have perhaps the best example of *less bad* being good enough (at least for now).



Year-over-year earnings comparisons continue to be negative. But as can be seen in the graph, from the 4<sup>th</sup> quarter of 2008 through the 2<sup>nd</sup> quarter of this year, (with about half the S&P 500 reporting so far), the amount of the shortfall has been lessening each quarter.

The same is true in percentage terms. For example, earnings in the first quarter of this year were 39% below the first quarter of 2008, but second quarter earnings are expected to be 'just' 16.5% below 2008, and the third quarter is forecasted to be only 6% behind last year. As long as this trend continues, the recovery story appears intact. GDP fits this bill, too. While still retreating, GDP growth has gone from -6.4% in Q1 to a preliminary estimate of -1.0% in Q2.

Two things are worth noting, however. First, much of the earnings 'improvement' we have seen so far is due to cost cutting. At some point revenues will have to start increasing, and that means an increase in spending from a

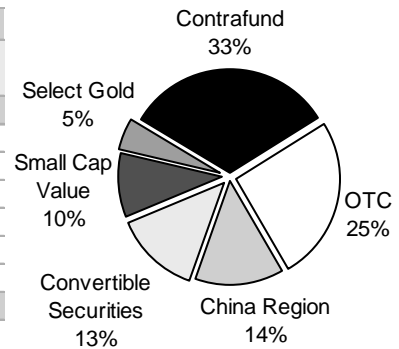
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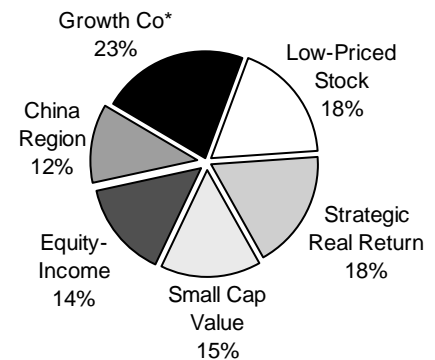
## FIDELITY INSIGHT MODEL PORTFOLIOS - JULY 31, 2009

Aggressive Growth Model		Rel Vol: 0.97	Est. Yield: 1.4%	YTD Return: 13.3%		
Current Asset Allocation		Stocks 83.9%	Bonds 0.6%	Cash 4.4%	Alternative <sup>1</sup> 11.4%	Foreign 26.2%
Holdings	Ticker	Alloc	NAV	Shares	Value	Jul Ret
Contrafund	FCNTX	33%	\$50.69	841.70	\$42,666	6.0%
OTC	FOCPX	25	38.73	814.41	31,542	6.8
China Region	FHKCX	14	25.96	667.54	17,329	12.6
Convertible Securities	FCV SX	13	19.37	883.31	17,110	9.6
Small Cap Value	FCPVX	10	11.22	1,116.93	12,532	9.5
Select Gold	FSAGX	5	37.64	171.59	6,459	4.9
Current Value (4/7/99 = \$100,000)					\$127,637	7.2%



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

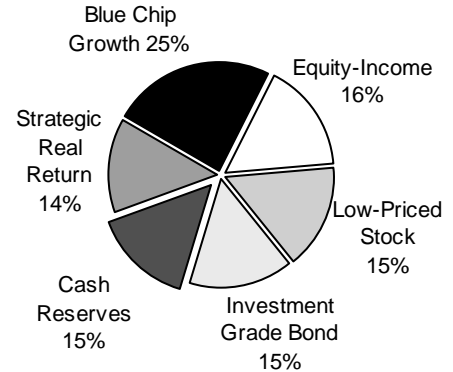
Growth Model		Rel Vol: 1.01	Est. Yield: 1.6%	YTD Return: 17.9%		
Current Asset Allocation		Stocks 78.6%	Bonds 4.6%	Cash 3.9%	Alternative <sup>1</sup> 12.9%	Foreign 20.8%
Holdings	Ticker	Alloc	NAV	Shares	Value	Jul Ret
Growth Company*	FDGRX	23%	\$59.34	3,319.97	\$197,007	7.3%
Low-Priced Stock	FLPSX	18	28.20	5,753.78	162,257	8.9
Strategic Real Return	FSRRX	18	7.86	19,757.79	155,296	3.5
Small Cap Value	FCPVX	15	11.22	11,805.63	132,459	9.5
Equity-Income	FEQIX	14	34.66	3,619.51	125,452	9.0
China Region	FHKCX	12	25.96	4,044.57	104,997	12.6
Current Value (1/1/87 = \$100,000)					\$877,469	7.1%



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

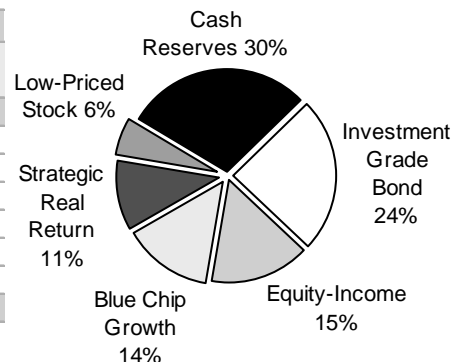
For moderately aggressive members who want equity-dominated portfolios and have no income needs for at least 10 years. Target volatility range: 0.50-1.00.

Growth & Income Model		Rel Vol: 0.70	Est. Yield: 2.0%	YTD Return: 12.4%		
Current Asset Allocation		Stocks 53.6%	Bonds 17.6%	Cash 18.3%	Alternative <sup>1</sup> 10.5%	Foreign 6.8%
Holdings	Ticker	Alloc	NAV	Shares	Value	Jul Ret
Blue Chip Growth	FBGRX	25%	\$31.97	5,645.06	\$180,473	9.6%
Equity-Income	FEQIX	16	34.66	3,431.93	118,951	9.0
Low-Priced Stock	FLPSX	15	28.20	4,055.95	114,378	8.9
Investment Grade Bond	FBNDX	15	6.81	16,410.16	111,753	2.6
Cash Reserves	FDRXX	15	1.00	108,672.88	108,673	0.0
Strategic Real Return	FSRRX	14	7.86	13,424.37	105,516	3.5
Current Value (1/1/87 = \$100,000)					\$739,743	5.9%



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: 0.50	Est. Yield: 2.2%	YTD Return: 10.2%		
Current Asset Allocation		Stocks 33.9%	Bonds 25.2%	Cash 32.7%	Alternative <sup>1</sup> 8.1%	Foreign 3.6%
Holdings	Ticker	Alloc	NAV	Shares	Value	Jul Ret
Cash Reserves	FDRXX	30%	\$1.00	140,874.79	\$140,875	0.0%
Investment Grade Bond	FBNDX	24	6.81	16,978.27	115,622	2.6
Equity-Income	FEQIX	15	34.66	2,112.55	73,221	9.0
Blue Chip Growth	FBGRX	14	31.97	2,076.49	66,385	9.6
Strategic Real Return	FSRRX	11	7.86	6,705.02	52,701	3.5
Low-Priced Stock	FLPSX	6	28.20	999.19	28,177	8.9
Current Value (1/1/87 = \$100,000)					\$476,982	4.1%



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). **Annuity Model Portfolios** are on p. 10.

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

still-strapped consumer.

Second, while earnings are expected to finally show positive year-over-year growth by the 4<sup>th</sup> quarter of 2009, earnings are not forecasted to top their respective highs — registered way back in 2006 — until 2011.

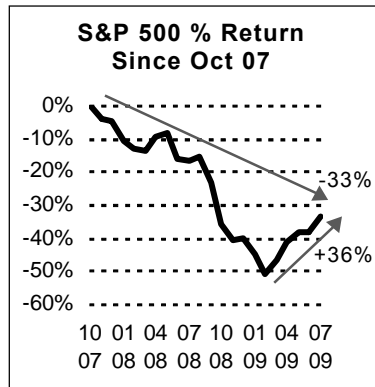
**The Consumer**

The consumer remains under pressure. As we noted last month, while we are losing jobs at a slower pace now (there's that getting *less bad* again), we are still losing jobs at a steep clip. The unemployment rate is not likely to peak until late 2010 or even 2011.

Further, while sales of both new and existing homes have been trending higher, sales are still extremely depressed and prices continue to slide on a year-over-year basis. It's hard to imagine a robust consumer under those conditions. Indeed, consumer sentiment has now fallen for two months in a row.

**Where Do We Go From Here?**

With all the uncertainty surrounding the economy, it's easy to forget that this has been an excellent year for stocks. **Spartan 500 Index** fund



is up 11.0% and **Nasdaq Composite Index** fund is up a sharp 25.9%.

Where do we go from here? Well

**WHICH FUNDS SHOULD YOU BUY NOW!**

**Equity Funds:** **Blue Chip Growth** provides exposure to high-quality, large-cap growth stocks; **OTC** (see p. 4) is a play on faster-growing companies.

**Equity-Income** is for large value, while **Low-Priced Stock** and **Small Cap Value** offer mid- and small-cap value stocks, respectively.

**Specialty Funds:** **Strategic Real Return** employs four sub-portfolios to provide portfolio diversification and inflation insurance (see p. 11).

**Fixed-Income Funds:** **Investment Grade Bond** is a blend of government and attractively valued corporate bonds. **Cash Reserves** provides safety in principal. (Highly taxed investors should consider municipal bond and money market funds — see *Scorecard* on p. 9.)

**International Funds:** For growth-oriented investors, **China Region** plays the world's fastest-growing markets. **Emerging Markets** is a more diversified alternative (see p. 5); conservative members should consider **Int'l Discovery** for broad, developed market exposure. ■

the bears might point to the chart of the S&P 500 and say, “we’re up 36% from the bottom already and overdue for a correction.” The bulls might say that “we’re still down 33% from the October 2007 highs and have plenty of room to run” (with reasonable, if not cheap valuations).

As long as the data continue to support the view that we are *headed* towards economic recovery, and investors scramble to invest their cash

hordes, the market may move higher. But, I remain skeptical that the recovery will be very robust.

On the other hand, stocks have historically made their biggest gains when earnings growth is moving from negative to modestly positive (as expected this year), rather than from modest to strong. We’ve gotten a bit more aggressive in our models over the past couple of months in response, but we are keeping a wary eye out. ■

**MODEL PORTFOLIO TRADES**

As announced on our July 24 Hotline, effective Monday, July 27, we made trades in our Aggressive Growth, Growth, and Annuity Growth Model Portfolios.

Action	Fund (ticker)	Shares	Price	Value	Old %	New %
<b>Aggressive Growth Model</b>						
Sold:	Growth Strategies (FDEGX)	1,235.62	\$13.96	\$17,249.24	14%	0%
Bought:	China Region (FHKCX)	667.54	\$25.84	\$17,249.24	0%	14%
<b>Growth Model</b>						
Sold:	High Income (SPHIX)	13,787.83	\$7.58	\$104,511.78	12%	0%
Bought:	China Region (FHKCX)	4,044.57	\$25.84	\$104,511.78	0%	12%
<b>Annuity Growth Model</b>						
Sold:	MS Int'l Magnum (FPRPC)	663.12	\$8.01	\$5,311.55	5%	0%
Sold 1/4:	VIP Value (FKMSC)	777.55	\$7.57	\$5,886.05	24%	18%
Bought:	VIP Emerging Mkt (FEMAC)	1,746.90	\$6.41	\$11,197.60	0%	11%

The prevailing investment theme throughout our trades is our improved outlook for the world's emerging markets, particularly those in Asia (see p. 5). Note that **Growth Strategies** and **High Income** have redemption fees on shares held fewer than 90 days; they are 1.50% and 1.00%, respectively.

**ANNUAL MODEL PORTFOLIO RETURNS (%)**

Model	'87	'88	'89	'90	'91	'92	'93	'94	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08
Ag Gr													31.4	-8.4	-20.9	-15.8	36.6	14.8	17.9	14.2	14.5	-42.0
Growth	20.8	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	-38.2
Gr & In	5.8	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	-26.5
In & Pr	1.3	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	-18.4

## Tech And Biotech Will Still Drive OTC

Technology has been one of the key market drivers this year. Earnings in this volatile sector have been a bright



Gavin Baker  
OTC

spot in a tough economic climate. We expect that earnings strength to continue. To beef up the tech exposure in our Aggressive Growth Model, in late June we sold **Focused**

**Stock** in favor of **OTC**. Almost immediately after we decided on OTC, Fidelity moved Manager Sonu Kalra over to **Blue Chip Growth**, replacing him with Gavin Baker.

While this could have been a cause for concern, knowing Gavin's background and track record, we are very comfortable that he's got the right stuff to manage this fund. At 52% of assets, technology dominates OTC and Gavin's experience dovetails

OTC		
Fund Data		
Trading Symbol:	FOCPX	
Date Started:	Dec. 31, 1984	
Fund Size:	\$4.3 billion	
Correlation to S&P 500:	0.89	
Correlation to Nasdaq:	0.96	
Expense Ratio:	1.04%	
Turnover Rate:	135%	
Relative Volatility:	1.31	
Top Sectors		
	Fund	Index <sup>1</sup>
Technology	52.4%	51.1%
Health Care	16.0	14.9
Consumer Discret.	11.7	12.5
Financials	7.3	8.2
Industrials	4.8	5.5
<sup>1</sup> Fidelity Nasdaq Composite Index Fund		
Top Ten Holdings		
Microsoft		
Apple		
Google		
Qualcomm		
Intel		
Dell		
Teva Pharmaceutical		
Research in Motion		
Palm		
Gilead Sciences		

nicely. He has successfully managed both **Select Telecom** and **Wireless** (which he will continue to co-manage). During his 27-month tenure on those funds, he very modestly outperformed his benchmark, on Telecom, but he was nearly 20 percentage points better on Wireless.

Health Care is OTC's second biggest sector at 16% of assets and Gavin has plenty of experience there, having managed **Select Pharmaceuticals** from March '03 to Jan. '05. So, OTC's drug holdings (including biotech) are also very familiar territory.

[Gavin's regular lunch companions include Sonu and **Growth Company's** Steve Wymer — two managers whose funds we own.]

### An Aggressive Stock Picker

On OTC, Gavin's desire is to "crush the index" (his benchmark is the Nasdaq Composite), having confidence that superior stockpicking — especially within tech and health care — will yield above-average returns. (It will likely also yield plenty of volatility!) And while differences in sector allocations between the fund and its benchmark may seem modest (see box), make no mistake about it, says Gavin, there's a "high percentage of active money — bets against the index" in the fund.

### Two Tech Themes

While Gavin could not comment directly on what he will do with OTC, a look at his record on Wireless suggests that he will have "two exciting themes within tech."

The first is mobile data and the second is cloud computing.

In the first case, Gavin will bet big in the emerging markets (see p. 5). In India and Brazil, for example, "wireline infrastructure will never be built" he says. So unlike developed economies, there's little or no competition for the companies that are building the latest 3G wireless networks. Meanwhile, penetration rates for users of wireless services are very low. Gavin sees a doubling or even

tripling of usage over the coming five years, while average revenue per user (ARPU) will explode.

Several ways to play the deployment of 3G are through the network providers (Starent and Qualcomm), device makers (think Apple's iPhone) and application providers (Gameloft).

The second tech theme is so-called cloud computing. That's centralized computing via the Internet, versus the decentralized PC-based model that's dominated by Microsoft. Picking the winners and losers will be tough, and it involves many of the biggest names that form the bulwark of Fidelity's **Nasdaq Composite Index** fund.

While Gavin will deviate from the Nasdaq, he can't entirely ignore such major components as Intel and Dell (which were top-10 holdings when he took over OTC), nor Cisco and Oracle (which were not) as such a bet (by omission) would simply be too big.

Another important piece of the fund is biotech. Gavin notes that one reason this sector has stumbled in 2009 is the concern that health care reform may mean that low-cost "biosimilars" — copycat versions of complex molecules that make up expensive bio-engineered drugs — will be given fast-track approval around patented drugs. The hope, of course, is to save billions of dollars in costs, though the risk is that new therapies will not be developed if investors can't get a competitive return on investment. Gilead Sciences is currently OTC's biggest biotech holding.

### Action Recommendation

We rate OTC a *Buy*, but recommend it only for more aggressive members due to its substantial volatility (almost a third higher than the S&P 500). That said, Gavin Baker is not agnostic with respect to risk. He works regularly with Fidelity's quantitative team to better understand where the fund is vulnerable, and how it correlates to things like GDP, oil prices, interest rates and the dollar. "I may blow up," he says, "but hopefully not by a risk I didn't see." ■

## Heading Overseas For Growth

When Americans travel abroad, many choose the summer. With our recent purchases of **China Region** and **VIP Emerging Markets** (in our growth-oriented models — see p. 3), we're heading into territory that's already pretty darn hot. For example, China Region — which consists of stocks in developing China (38%) as well as developed Hong Kong (35%) and Taiwan (23%) — is up 52.6% this year. (VIP Emerging Markets has 27% in those same three areas, and is up 47% this year.)

No one should expect this torrid pace of gains to continue. In fact, some retrenchment is entirely possible in the near term. But the longer-term outlook for many foreign markets remains bright. Valuations abroad (in the emerging markets, as well as the developed markets of Europe and Japan) are more attractive than those in the U.S. market.

In particular, we're expecting GDP and earnings growth rates to eclipse our own in the emerging markets of Asia, with more economic growth being internally generated. That means greater consumer-driven growth rather than export-dependent growth.

While we have maintained some foreign exposure in our models through underlying exposures in Fidelity's domestic funds, we have added more dedicated foreign exposure with these trades.

This additional foreign exposure also serves as a hedge against a further decline in the dollar. While inflation is currently subdued, money supply is exploding along with budget deficits. That's a recipe for a weak U.S. dollar and inflationary pressures down the road (see **Strategic Real Return** on p. 11).

Keep in mind that our portfolio exposures are somewhat modest, while we've recommended these funds for longer-term investors. ■

## So Far, So Fast, For So Few

Does any of this sound familiar? The Dow Jones Industrials are above 9000, the Nasdaq Composite is trading near 2000, and the S&P 500 is flirting with 1000.

Happy days aren't exactly here again, as these levels are a long way from their all-time highs (especially the Nasdaq Composite which peaked at 5049 early in 2000). But they do reflect a comeback that rivals 1969's Miracle Mets.

Just several months ago, few expected the stock market to be a rewarding place for their money this year. Yet, unprecedented fiscal and monetary stimuli (\$2 trillion in additional deficit spending and continued low interest rates), have worked to keep us from sliding into the depression many feared. Signs of a strengthening economy, better-than-expected second-quarter earnings, and good-'ol'-fashion cheap share prices, have all conspired to send most sectors of the market soaring. (See *Eric's Outlook*.)

While we've been fortunate to participate in this rally (see our model portfolios on p. 2), last year's brutal selloff sent many investors running

for the comparative safety of bonds and money market funds. While there was nothing wrong with that, unfortunately, this rally has run so far, so fast, but for so few. Many market-timers have not participated in these recent gains. We know that from the trillions of dollars that are still sidelined in fixed-income securities. The good news here, however, is that this 'cash' is unspent fuel for further potential gains.

### Stock Funds

Through the prism of Fidelity's stock index funds (see *Scorecard Changes* on p. 12), July was a star-spangled-month. Powered by tech stocks (see facing article on **OTC** fund), the **Nasdaq Composite Index** rocketed 7.9%. Not far behind was the more diversified and larger-cap **Spartan 500 Index** (up 7.6%), which mimics the S&P 500. [In fact, the S&P 500's return last month was its best July since 1997.] **Small Cap Enhanced Index** did even better (up 8.9%). The Nasdaq fund is now up a whopping 25.9% for the year! For its part, Spartan 500 Index is up 11.0%. While less impressive, remember that the average annual return for stocks is about 10%.

Fund Commentary *cont'd* on page 6

### August Scorecard Rating Changes

Fund	Rating		Comments
	Old	New	
Capital Appreciation	B	B ↓	Stock and sector selection has weakened.
Disciplined Equity	H	S ↓	Sub-par stock selection.
Emerging Markets	H	B ↑	Attractive valuations and a weak dollar are a plus.
Fifty	H	S ↓	We prefer other large-cap growth funds.
Focused Stock	B	H ↓	We prefer large-value or large-cap growth funds.
Growth Strategies	B	B ↓	Stock selection has taken a turn for the worse.
Large Cap Value	H	S ↓	We prefer Equity-Income or E-I 2 in this "space."
Latin America	H	B ↑	Attractive valuations and a weak dollar are a plus.
Mid Cap Growth	B	B ↓	Stock selection has taken a turn for the worse.
Pacific Basin	H	B ↑	Attractive valuations and a weak dollar are a plus.
Sel Electronics	B	B ↑	With some exceptions, tech is recovering nicely.
Sel Technology	B	B ↑	With some exceptions, tech is recovering nicely.
Sel. Software	H	B ↑	With some exceptions, tech is recovering nicely.
Southeast Asia	H	B ↑	Attractive valuations and a weak dollar are a plus.
Tax Managed Stock	H	S ↓	Stock selection has been weak.
Total Int'l Equity	H	B ↑	Attractive valuations and a weak dollar are a plus.

B = Buy; B = OK to Buy; H = Hold; S = OK to Sell; S = Sell, NC = No change  
 Rating changes for similarly managed annuity funds are shown on p. 10.

## FIDELITY SCORECARD - JULY 31, 2009

Fund No.	Fund Ticker	Fund Name	Short-Term Trading Fee	\$Price (NAV)	Advice	Total Return (%)			Avg Annual (%)			Rel Vol (Risk) <sup>1</sup>			
						Jul	YTD	2008	1 Year	3 Year	5 Year				
Comparative Indexes		S&P 500 (Large Cap)*				7.6	11.0	-37.1	-19.9	-6.2	-0.2	1.00			
		Nasdaq Composite (OTC)*				7.9	25.9	-40.0	-14.3	-1.2	1.5	1.16			
		MSCI EAFE (International)*				9.7	15.7	-41.4	-21.4	-5.2	5.0	1.27			
		Barclays Aggregate Bond*				1.7	4.2	3.8	6.9	5.6	4.6	0.19			
<b>LARGE CAP GROWTH FUNDS</b>						<b>Category Averages</b>			<b>8.0</b>	<b>20.5</b>	<b>-43.0</b>	<b>-21.2</b>	<b>-4.1</b>	<b>1.4</b>	<b>1.16</b>
312	FBRGX	Blue Chip Growth		31.97	Buy	9.6	21.5	-38.6	-15.9	-2.9	-0.1	1.07			
307	FDCAX	Capital Appreciation		18.05	OK to Buy↓	7.4	14.7	-40.5	-21.5	-6.7	0.1	1.10			
22	FCNTX	Contrafund		50.69	Buy	6.0	12.0	-37.2	-20.1	-2.8	4.4	0.93			
332	FEXPX	Export and Multinational	0.75%/30 days	17.33	OK to Sell	9.5	20.3	-43.4	-19.8	-5.2	2.1	1.14			
500	FFTYX	Fifty		13.31	OK to Sell↓	5.7	20.8	-49.1	-28.0	-8.3	-0.8	1.24			
25	FDGRX	Growth Company (closed)		59.34	Buy	7.3	21.2	-40.9	-20.5	-1.2	4.4	1.10			
339	FDSVX	Growth Discovery		9.84	Hold	8.8	14.3	-46.7	-29.2	-4.8	0.2	1.11			
73	FDFFX	Independence		16.78	Hold	8.6	17.6	-48.1	-35.8	-4.5	2.3	1.40			
763	FSLGX	Large Cap Growth		7.36	Hold	8.1	11.9	-38.1	-20.5	-7.0	-0.5	1.03			
1829	FLGEX	Large Cap Growth Enhcd Index		7.52	OK to Buy	7.6	18.0	-37.0	-16.6	--	--	--			
338	FLCSX	Large Cap Stock		13.02	Hold	10.4	30.4	-47.5	-15.9	-4.7	0.6	1.29			
21	FMAGX	Magellan		57.71	Hold	8.8	26.1	-49.4	-24.7	-6.2	-1.1	1.32			
1282	FNCMX	Nasdaq Composite Index	0.75%/90 days	26.26	Hold	7.9	25.9	-40.0	-14.3	-1.2	1.5	1.16			
93	FOCPX	OTC		38.73	Buy	6.8	37.4	-46.0	-13.3	3.7	5.2	1.31			
320	FDSSX	Stock Selector		19.37	OK to Buy	7.6	14.1	-41.7	-22.9	-6.2	0.3	1.03			
5	FTRNX	Trend		47.89	OK to Buy	7.5	22.6	-44.5	-19.8	-3.7	1.7	1.14			
<b>LARGE CAP BLEND FUNDS</b>						<b>Category Averages</b>			<b>8.1</b>	<b>12.1</b>	<b>-40.2</b>	<b>-22.6</b>	<b>-7.3</b>	<b>-0.1</b>	<b>1.09</b>
315	FDEQX	Disciplined Equity		18.82	OK to Sell↓	7.1	8.1	-40.1	-24.8	-7.5	0.4	1.02			
330	FDGFX	Dividend Growth		20.25	Hold	9.5	28.2	-43.0	-15.3	-6.1	-0.9	1.27			
3	FFIDX	Fidelity Fund		25.83	OK to Buy	8.4	14.6	-40.3	-20.8	-4.0	1.2	1.06			
333	FTQGX	Focused Stock		9.73	Hold↓	5.5	10.2	-33.0	-21.8	-3.9	4.2	0.98			
27	FGRIX	Growth & Income		14.38	OK to Sell	7.8	9.7	-50.9	-33.3	-15.5	-7.5	1.20			
1827	FLCEX	Large Cap Core Enhcd Index		6.97	Hold	7.4	9.4	-35.8	-19.8	--	--	--			
361	FGRTX	Mega Cap Stock		7.88	OK to Buy	9.0	13.4	-39.4	-18.9	-5.4	0.1	1.04			
317	FSMKX	Spartan 500 Index <sup>4</sup>		68.42	Hold	7.6	11.0	-37.1	-19.9	-6.2	-0.2	1.00			
397	FSTMX	Spartan Total Mkt. Index <sup>4</sup>	0.50%/90 days	28.10	Hold	7.9	12.5	-37.2	-20.0	-5.8	0.6	1.03			
343	FTXMX	Tax Managed Stock		9.69	OK to Sell↓	7.5	6.3	-42.7	-31.2	-8.9	0.0	1.08			
832	FVDFX	Value Discovery		11.58	Hold	10.9	13.8	-42.3	-22.1	-7.6	2.3	1.15			
<b>LARGE CAP VALUE FUNDS</b>						<b>Category Averages</b>			<b>8.7</b>	<b>8.6</b>	<b>-40.5</b>	<b>-23.7</b>	<b>-9.7</b>	<b>-1.4</b>	<b>1.13</b>
1271	FBCVX	Blue Chip Value		8.95	Hold	9.8	13.3	-44.8	-24.9	-10.0	-1.3	1.18			
23	FEQIX	Equity-Income		34.66	Buy	9.0	13.9	-41.6	-21.0	-8.9	-1.1	1.15			
319	FEQTX	Equity-Income II		14.53	Buy	8.7	10.5	-40.4	-22.0	-8.5	-1.9	1.11			
708	FSLVX	Large Cap Value		8.72	OK to Sell↓	8.2	2.1	-39.7	-27.5	-11.3	-1.2	1.08			
1828	FLVEX	Large Cap Value Enhcd Index		6.06	OK to Buy	7.6	2.9	-35.9	-23.1	--	--	--			

**Notes:** \*Fidelity's index funds (Spartan 500 Index, Nasdaq Composite Index, Spartan Int'l Index and U.S. Bond Index) used as proxies for their respective indexes. <sup>1</sup>Relative Volatility of the fund versus the S&P 500 over the last 36 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 Investor 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). <sup>6</sup>Formerly VIP Aggressive Growth (p) Partial year; (↑) Rating upgraded; (↓) Rating downgraded.

### Fund Commentary *cont'd from page 5*

As for Fidelity's actively managed equity funds, we hesitate to put it this way, but the top-performers were a real "mishmash."

For example, with computer and chip makers enjoying strong gains, diversified stock funds with bigger bets in tech fared well in July. The growth-oriented **Small Cap Stock** (up 10.8%) and **Blue Chip Growth** (up 9.6%) funds were strong performers. Then again, value-oriented managers who scooped up beaten-down home finance stocks and other

financials were also handsomely rewarded. This partly explains how two mid-cap value funds, **Value** and **Value Strategies** gained 12.9% and 11.8%, respectively.

Turning to sector funds, a brightened view of the economy led such cyclicals as **Select Chemicals** and **Materials** to gains of 16.2% and 16.1%, respectively. But far more powerful was the roar of **Automotive**. It surged 27.3% last month as cheap share prices, improved lending, a better economy and, of course, the Fed's cash-for-clunkers program helped considerably.

Elsewhere, with gold prices jumping on the last day of July, **Gold** managed to finish the month in positive territory, rising 4.9%.

Bringing up the rear last month was **Defense & Aerospace**. On July 21, the F-22 fighter jet program was killed. And, as the month came to a close, the president moved closer on his threat to veto the Defense Department's entire \$636 billion budget! The line in the sand: a \$2 billion expenditure for five presidential helicopters that Mr. Obama doesn't want completed. The fund rose a modest 2.7% for the month.

## FIDELITY SCORECARD - JULY 31, 2009

Fund No.	Fund Ticker	Fund Name	Short-Term Trading Fee	\$Price (NAV)	Advice	Total Return (%)			Avg Annual (%)			Rel Vol (Risk) <sup>1</sup>
						Jul	YTD	2008	1 Year	3 Year	5 Year	
<b>MID-CAP GROWTH FUNDS</b>						<b>Category Averages</b>						
						<b>9.1</b>	<b>21.9</b>	<b>-44.7</b>	<b>-22.4</b>	<b>-6.2</b>	<b>1.0</b>	<b>1.25</b>
324	FDEGX	Growth Strategies	1.50%/90 days	14.00	OK to Buy↓	7.4	20.2	-49.3	-24.8	-5.6	-0.9	1.23
2012	FMEIX	Mid Cap Enhanced Index	0.75%/30 days	7.15	Hold	9.3	17.8	-38.7	-20.2	--	--	--
793	FSMGX	Mid Cap Growth	0.75%/30 days	8.36	OK to Buy↓	9.1	23.1	-49.3	-27.6	-10.8	-1.4	1.27
337	FMCSX	Mid-Cap Stock	0.75%/30 days	19.82	Hold	11.0	27.0	-46.0	-24.1	-6.6	2.6	1.34
300	FMLX	New Millennium		21.38	OK to Buy	8.5	21.2	-40.2	-15.2	-1.8	3.6	1.16
<b>MID-CAP BLEND FUNDS</b>						<b>Category Averages</b>						
						<b>10.3</b>	<b>27.5</b>	<b>-45.1</b>	<b>-22.9</b>	<b>-5.7</b>	<b>2.5</b>	<b>1.42</b>
122	FLVCX	Leveraged Company Stock	1.50%/90 days	19.55	Buy	11.5	35.4	-54.5	-36.0	-7.5	3.6	1.72
316	FLPSX	Low-Priced Stock	1.50%/90 days	28.20	Buy	8.9	22.0	-36.2	-13.9	-3.1	4.0	1.16
398	FSEMIX	Spartan Extended Mkt Index <sup>4</sup>	0.75%/90 days	26.75	Hold	9.0	18.7	-38.5	-20.3	-4.7	2.9	1.18
14	FSLSX	Value Strategies		18.62	Hold	11.8	34.1	-51.2	-21.5	-7.7	-0.5	1.60
<b>MID-CAP VALUE FUNDS</b>						<b>Category Averages</b>						
						<b>11.1</b>	<b>17.3</b>	<b>-43.5</b>	<b>-24.8</b>	<b>-9.2</b>	<b>0.7</b>	<b>1.36</b>
762	FSMVX	Mid Cap Value	0.75%/30 days	10.66	Hold	9.3	12.1	-40.5	-24.6	-9.3	1.0	1.26
39	FDVLX	Value		48.87	Buy	12.9	22.6	-46.5	-25.0	-9.1	0.4	1.46
<b>SMALL CAP GROWTH</b>						<b>Category Averages</b>						
						<b>9.9</b>	<b>22.3</b>	<b>-46.0</b>	<b>-21.1</b>	<b>-5.6</b>	<b>-0.1</b>	<b>1.31</b>
2011	FCPEX	Small Cap Enhanced Index	1.50%/90 days	7.20	OK to Buy	8.9	9.8	-33.7	-21.3	--	--	--
1388	FCPGX	Small Cap Growth	1.50%/90 days	10.89	Hold	8.5	25.3	-44.9	-18.1	-3.2	--	1.25
336	FDSCX	Small Cap Independence	1.50%/90 days	12.56	Hold	11.2	19.3	-47.0	-24.2	-8.0	-0.1	1.36
<b>SMALL CAP BLEND</b>						<b>Category Averages</b>						
						<b>10.2</b>	<b>28.0</b>	<b>-36.6</b>	<b>-9.2</b>	<b>-2.0</b>	<b>2.6</b>	<b>1.35</b>
340	FSLCX	Small Cap Stock	2.00%/90 days	13.29	Hold	10.8	35.6	-42.9	-14.2	-2.2	2.6	1.39
1389	FCPVX	Small Cap Value	1.50%/90 days	11.22	Buy	9.5	20.4	-30.3	-4.1	-1.8	--	1.32
<b>SPECIALTY FUNDS</b>												
2063	FOTTX	130/30 Large Cap (2008 ret from 1st full month)		5.87	OK to Sell	4.8	-8.7	-35.3p	-40.2	--	--	--
304	FBALX	Balanced		14.98	Hold	6.6	15.7	-31.3	-12.4	-2.0	3.6	0.80
308	FCVSX	Convertible Securities		19.37	Buy	9.6	42.8	-47.8	-21.3	-2.2	3.3	1.37
1960	FDYSX	Dynamic Strategies		7.77	Hold	5.1	16.3	-28.4	-13.2	--	--	--
355	FFNOX	Four-in-One Index		22.22	Hold	7.2	12.2	-32.6	-15.9	-3.8	2.0	0.91
334	FGBLX	Global Balanced	1.00%/30 days	18.72	OK to Buy	6.8	12.4	-23.3	-9.0	2.1	6.8	0.74
2120	FFGCX	Global Commodity Stock	1.00%/30 days	12.76	Buy	9.6	27.6	--	--	--	--	--
1368	FIREX	International Real Estate	1.50%/90 days	8.29	Hold	9.5	25.0	-50.5	-22.4	-10.7	--	1.47
4	FPURX	Puritan		14.67	OK to Buy	6.0	14.1	-29.2	-10.7	-2.0	2.2	0.72
833	FRIFX	Real Estate Income	0.75%/90 days	8.21	OK to Buy	4.7	26.1	-31.0	-6.9	-4.6	0.6	0.79
303	FRESX	Real Estate Investment	0.75%/90 days	14.61	Sell	10.1	-5.0	-38.2	-41.8	-18.7	-2.4	2.03
1329	FSDIX	Strategic Dividend & Income		8.27	OK to Buy	9.6	18.1	-41.2	-21.5	-8.1	0.2	1.14
1505	FSRRX	Strategic Real Return	0.75%/60 days	7.86	Buy	3.5	15.4	-23.4	-14.4	-2.4	--	0.69
311	FIUIX	Telecom & Utilities		12.95	Sell	3.6	0.9	-34.6	-22.1	-6.0	4.2	0.90
<b>ASSET ALLOCATION FUNDS</b>												
328	FASIX	Asset Manager 20%		11.41	Hold	3.5	12.5	-14.2	-0.1	2.0	4.1	0.37
1957	FTANX	Asset Manager 30%		8.66	Hold	4.4	15.0	-19.7	-2.9	--	--	--
1958	FFANX	Asset Manager 40%		8.32	Hold	5.0	15.9	-23.2	-4.8	--	--	--
314	FASMIX	Asset Manager 50%		12.71	Hold	5.7	18.9	-27.8	-6.4	-0.6	2.0	0.71
1959	FSANX	Asset Manager 60%		7.90	Hold	6.5	19.7	-30.0	-7.2	--	--	--
321	FASGX	Asset Manager 70%		13.00	Hold	7.1	21.0	-34.9	-11.5	-2.7	0.9	0.91
347	FAMRX	Asset Manager 85%		10.39	Hold	8.0	22.2	-38.6	-14.2	-3.7	2.1	1.03

### High Yield

With the economy seeming to continue its slow road to recovery, Fidelity's high-yield bond funds again posted strong results. **Capital & Income** (which is nearly as risky as a stock fund) fared best, gaining 9.1%. Likewise, **High Income** posted a strong performance (up 6.4%) as concerns about default rates eased. [Note: We sold this fund in our Growth Model late last month and purchased **China Region** — see p. 3.] A weaker performer in this group was **New Markets Income**: its holdings of emerging market bonds rose 3.8%.

### International

**Spartan International Index**, which is a proxy for the world's developed non-U.S. markets, enjoyed a solid gain of 9.7% last month. As detailed on page 5, Asia's economies (less Japan) posted especially powerful returns. China Region led its Pacific Rim counterparts with a return of 12.6%. **Pacific Basin** and **Southeast Asia** were up 10.4% and 9.9%, respectively. But not all was great in the developing markets. **Emerging Europe, MidEast, Africa** was the group's laggard, gaining 4.0%. The fund was held back by energy stocks.

### Fixed Income

The well-diversified **US Bond Index** fund gained 1.7% in July. Riskier credits, (corporate bonds), fared much better than 'safe' Treasuries. To this end, **Investment Grade Bond** rose 2.6% last month, while Fidelity's six government bond funds were fractionally higher. The weakest of them was **Spartan Short-Term Treasury** (up 0.1%).

**Cash Reserves'** yield stood at 0.38% at the end of July, down from 0.52% a month earlier. For the moment, **Select Money Market** offers the highest yield of 0.46%. ■

## FIDELITY SCORECARD - JULY 31, 2009

Fund No.	Fund Ticker	Fund Name	Short-Term Trading Fee	\$Price (NAV)	Advice	Total Return (%)			Avg Annual (%)			Rel Vol (Risk) <sup>1</sup>			
						Jul	YTD	2008	1 Year	3 Year	5 Year				
<b>INTERNATIONAL FUNDS</b>						<b>Category Averages</b>			<b>9.4</b>	<b>26.9</b>	<b>-47.0</b>	<b>-21.9</b>	<b>-3.5</b>	<b>8.3</b>	<b>1.44</b>
309	FICDX	Canada	1.50%/90 days	45.51	Hold	11.5	29.8	-42.6	-23.7	3.0	12.5	1.51			
352	FHKCX	China Region	1.50%/90 days	25.96	Buy	12.6	52.6	-44.9	3.3	13.3	16.6	1.60			
325	FDIVX	Diversified International	1.00%/30 days	25.36	OK to Buy	8.8	17.9	-45.2	-25.3	-5.5	5.1	1.29			
2053	FEMEX	Emerg Europe, MidEast, Africa	1.50%/90 days	6.82	Hold	4.0	43.0	-52.4p	-20.4			--			
322	FEMKX	Emerging Markets	1.50%/90 days	19.11	Buy↑	11.4	47.1	-60.8	-29.0	0.4	16.2	1.81			
301	FIEUX	Europe	1.00%/30 days	26.86	Hold	10.3	17.9	-44.0	-22.7	-4.7	7.8	1.26			
341	FECAJ	Europe Capital App	1.00%/30 days	16.14	Hold	10.2	18.1	-46.3	-24.7	-5.1	6.5	1.30			
335	FIVFX	Int'l Cap App	1.00%/30 days	10.12	Hold	9.8	36.2	-50.7	-19.9	-7.4	2.1	1.55			
305	FIGRX	International Discovery	1.00%/30 days	27.43	OK to Buy	9.8	16.1	-44.3	-23.4	-4.2	6.3	1.24			
2010	FIENX	International Enchanced Index	1.00%/30 days	6.35	Hold	9.1	12.2	-43.3	-25.8	--	--	--			
1979	FIGFX	International Growth	1.00%/30 days	6.54	Hold	9.9	18.1	-41.3	-21.1	--	--	--			
818	FISMX	Int'l Small Cap (closed)	2.00%/90 days	16.09	Hold	7.3	30.3	-46.5	-20.4	-5.3	7.4	1.39			
1504	FSCOX	Int'l Small Cap Opportunities	2.00%/90 days	7.37	OK to Sell	9.2	23.0	-58.4	-39.2	-14.4	--	1.56			
1597	FIVLX	International Value	1.00%/30 days	7.25	OK to Buy	9.7	21.6	-46.7	-24.2	-7.3	--	1.44			
350	FJPNX	Japan	1.50%/90 days	10.53	OK to Buy	5.3	18.0	-36.8	-15.1	-9.5	1.5	1.15			
360	FJSCX	Japan Smaller Companies	1.50%/90 days	8.48	OK to Buy	4.8	18.3	-34.5	-9.4	-13.3	-4.1	1.27			
349	FLATX	Latin America	1.50%/90 days	41.84	OK to Buy↑	8.3	51.5	-54.6	-29.5	6.9	24.9	1.82			
342	FNORX	Nordic	1.50%/90 days	23.95	Hold	11.3	27.5	-56.0	-33.3	-5.7	7.6	1.64			
94	FOSFX	Overseas	1.00%/30 days	29.05	OK to Sell	9.5	15.8	-47.3	-25.0	-5.7	4.8	1.31			
302	FPBFX	Pacific Basin	1.50%/90 days	18.92	OK to Buy↑	10.4	42.5	-55.8	-16.3	-3.4	7.0	1.70			
351	FSEAX	Southeast Asia	1.50%/90 days	23.86	OK to Buy↑	9.9	26.4	-51.9	-16.5	5.6	16.6	1.51			
399	FSIIX	Spartan Int'l Index <sup>4</sup>	1.00%/90 days	30.85	Hold	9.7	15.7	-41.4	-21.4	-5.2	5.0	1.27			
1978	FTIEX	Total International Equity	1.00%/30 days	5.98	OK to Buy↑	9.9	23.3	-47.2	-24.1	--	--	--			
318	FWWFX	Worldwide	1.00%/30 days	14.33	Hold	12.9	22.6	-40.2	-19.8	-1.9	5.1	1.15			
<b>SELECT PORTFOLIOS</b>						<b>Category Averages</b>			<b>9.1</b>	<b>24.9</b>	<b>-40.5</b>	<b>-16.4</b>	<b>-4.0</b>	<b>3.4</b>	<b>1.40</b>
34	FSAIX	Air Transportation	0.75%/30 days	24.00	Hold	11.3	-7.9	-32.6	-13.5	-11.7	0.5	1.50			
502	FSAVX	Automotive	0.75%/30 days	28.22	OK to Buy	27.3	99.3	-61.2	1.2	-3.5	-0.8	2.61			
507	FSRBX	Banking	0.75%/30 days	13.51	Hold	7.2	-7.2	-37.5	-25.4	-21.4	-10.3	1.54			
42	FBIOX	Biotechnology	0.75%/30 days	65.27	Hold	8.0	10.4	-11.4	-12.0	2.9	4.6	1.00			
68	FSLBX	Brokerage & Investment	0.75%/30 days	43.77	Buy	8.9	38.3	-49.3	-11.3	-6.7	6.5	1.52			
69	FSCHX	Chemicals	0.75%/30 days	66.20	Hold	16.2	43.6	-43.3	-21.6	6.4	9.3	1.35			
518	FSDCX	Communications Equipment	0.75%/30 days	18.38	OK to Buy	8.4	59.5	-48.5	-7.5	0.7	3.1	1.62			
7	FDCPX	Computers	0.75%/30 days	36.90	Hold	11.6	48.3	-48.5	-8.5	4.5	3.7	1.44			
511	FSHOX	Construction & Housing	0.75%/30 days	26.78	OK to Buy	12.6	12.3	-26.8	-9.8	-5.9	0.8	1.48			
517	FSCPX	Consumer Discretionary	0.75%/30 days	16.20	OK to Buy	8.7	18.8	-34.6	-9.9	-7.2	-1.0	1.18			
9	FDFAX	Consumer Staples	0.75%/30 days	56.07	Hold	7.2	10.0	-22.3	-6.4	4.4	8.1	0.81			
67	FSDAX	Defense & Aerospace	0.75%/30 days	50.47	Hold	2.7	3.1	-40.2	-23.0	-6.6	3.0	1.31			
8	FSELX	Electronics	0.75%/30 days	35.37	Buy↑	16.7	56.6	-49.9	-1.5	-3.1	0.9	1.47			
60	FSENX	Energy	0.75%/30 days	37.70	Buy	8.4	25.3	-54.0	-38.9	-6.2	10.5	1.75			
43	FSESX	Energy Service	0.75%/30 days	48.75	Buy	4.7	35.7	-63.2	-51.4	-9.3	8.0	2.05			
516	FSLEX	Environmental	0.75%/30 days	14.13	Hold	4.7	5.5	-30.5	-20.7	-4.5	2.4	1.08			
66	FIDSX	Financial Services	0.75%/30 days	53.15	OK to Buy	7.2	14.5	-49.9	-23.5	-17.9	-7.2	1.49			
41	FSAGX	Gold	0.75%/30 days	37.64	Buy	4.9	19.2	-20.5	-2.7	8.9	19.7	2.24			
63	FSPHX	Health Care	0.75%/30 days	93.55	Hold	5.3	15.8	-32.4	-11.0	-2.4	3.4	0.92			
98	FSVLX	Home Finance	0.75%/30 days	10.26	Sell	12.3	-6.3	-58.6	-40.7	-35.8	-22.7	1.38			
510	FSCGX	Industrial Equipment	0.75%/30 days	21.71	Hold	12.7	17.9	-46.8	-28.4	-4.9	1.7	1.49			
515	FCYIX	Industrials	0.75%/30 days	15.52	Hold	12.5	18.4	-40.1	-23.0	-2.7	4.7	1.39			
45	FSPCX	Insurance	0.75%/30 days	35.04	Hold	10.9	7.0	-47.0	-19.0	-14.9	-5.6	1.36			
353	FBSOX	IT Services	0.75%/30 days	14.37	Hold	10.6	28.2	-32.9	-11.0	3.1	6.3	1.19			
62	FDSLX	Leisure	0.75%/30 days	59.25	Hold	4.2	10.2	-29.1	-6.1	-1.0	3.0	1.07			
509	FSDPX	Materials	0.75%/30 days	45.69	Hold	16.1	50.3	-47.6	-20.4	4.0	10.5	1.53			
505	FSHCX	Medical Delivery	0.75%/30 days	35.90	Hold	8.8	24.3	-44.6	-9.7	-4.6	6.8	1.35			
354	FSMEX	Medical Equipment	0.75%/30 days	21.54	Hold	2.7	16.7	-23.4	-14.4	4.2	5.7	0.93			
503	FBMPX	Multimedia	0.75%/30 days	27.05	OK to Buy	7.6	22.0	-39.3	-14.3	-7.5	-1.2	1.28			
513	FSNGX	Natural Gas	0.75%/30 days	27.77	Hold	8.9	37.7	-56.7	-36.9	-6.8	8.5	1.87			
514	FNARX	Natural Resources	0.75%/30 days	24.32	Hold	8.8	29.2	-52.4	-35.6	-2.0	12.4	1.76			
912	FNINX	Networking & Infrastruc (closed)	Merged into Communications Equipment on June 19, 2009												
506	FSPFX	Paper & Forest (closed)	Merged into Materials on June 19, 2009												
580	FPHAX	Pharmaceuticals	0.75%/30 days	9.45	Hold	5.2	7.8	-22.7	-5.5	-0.6	5.1	0.87			
46	FSRPX	Retailing	0.75%/30 days	38.87	Buy	11.5	35.9	-29.6	8.1	0.5	4.1	1.26			
28	FSCSX	Software & Computer Svcs	0.75%/30 days	60.94	OK to Buy↑	5.5	29.7	-42.1	-9.3	3.5	6.9	1.23			
64	FSPTX	Technology	0.75%/30 days	61.31	Buy↑	9.9	54.6	-51.1	-6.4	2.0	3.0	1.58			
96	FSTCX	Telecommunications	0.75%/30 days	36.05	OK to Buy	4.5	35.4	-47.6	-9.3	-3.3	3.1	1.31			
512	FSRFX	Transportation	0.75%/30 days	32.74	Hold	11.4	1.7	-27.0	-25.4	-7.6	2.3	1.16			
65	FSUTX	Utilities	0.75%/30 days	41.82	OK to Sell	5.6	4.4	-36.0	-24.1	-3.8	5.7	0.99			
963	FWRLX	Wireless	0.75%/30 days	6.28	OK to Buy	3.5	46.4	-49.6	-9.2	1.6	7.6	1.36			

## FIDELITY SCORECARD - JULY 31, 2009

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						
						Jul	YTD	2008									
<b>TAXABLE BOND FUNDS</b>						<i>Category Averages</i>			<b>1.1</b>	<b>3.0</b>	<b>3.6</b>	<b>4.0</b>					
15	FGMN	Ginnie Mae		11.37	OK to Buy	1.1	4.7	7.1	2.8	4.09							
54	FGOV	Government Income		10.76	Hold	0.7	0.2	11.0	3.1	4.40							
794	FINPX	Inflation-Protected Bond <sup>3</sup>		10.96	Buy	0.0	4.7	-2.3	6.3	1.25							
32	FTHR	Intermediate Bond		9.90	Buy	2.6	11.8	-5.8	3.6	4.78							
452	FSTGX	Intermediate Gov't Income		10.80	Hold	0.6	0.0	10.1	3.6	2.07							
26	FBND	Investment Grade Bond		6.81	Buy	2.6	10.2	-7.1	3.9	5.13							
40	FMSFX	Mortgage Securities		10.33	OK to Buy	1.3	5.6	1.3	2.4	4.81							
450	FSHB	Short-Term Bond		8.16	OK to Sell	1.0	4.2	-3.7	1.6	2.95							
1561	FIBIX	Sptn Interm Treas Index <sup>5</sup>		10.56	OK to Sell	0.6	-5.2	16.4	6.5	3.05							
1562	FLBIX	Sptn Lng-Term Treas Index <sup>5</sup>		10.44	OK to Sell	0.5	-11.9	24.1	11.9	4.12							
1560	FSBIX	Sptn Sht-Term Treas Index <sup>5</sup>		10.43	OK to Sell	0.1	-0.9	8.7	2.6	1.20							
820	FTBFX	Total Bond		10.18	Buy	3.2	13.8	-5.6	3.6	5.46							
651	FBIDX	U.S. Bond Index		10.99	Hold	1.7	4.2	3.8	4.1	3.29							
812	FUSFX	Ultra-Short Bond	0.25%/60 days	8.11	OK to Sell	0.1	0.4	-7.8	0.5	1.04							
<b>HIGH-YIELD BOND FUNDS</b>						<i>Category Averages</i>			<b>5.3</b>	<b>29.2</b>	<b>-20.4</b>	<b>7.48</b>					
38	FAGIX	Capital & Income	1.00%/90 days	7.47	OK to Buy	9.1	43.7	-31.9	--	9.17							
814	FFRHX	Floating Rate High Income	1.00%/60 days	9.19	OK to Buy	3.4	23.3	-16.5	--	4.63							
1366	FHIFX	Focused High Income	1.00%/90 days	8.71	Buy	4.6	23.4	-20.5	--	7.65							
455	SPHIX	High Income	1.00%/90 days	7.73	Buy	6.4	33.9	-23.7	--	8.98							
331	FNMIX	New Markets Income	1.00%/90 days	14.03	Buy	3.8	30.0	-18.2	--	8.08							
368	FSICX	Strategic Income		10.22	Buy	4.4	21.0	-11.4	--	6.35							
<b>MUNICIPAL BOND</b>						<i>Category Averages</i>			<b>1.4</b>	<b>6.5</b>	<b>-0.9</b>	<b>6.2</b>	<b>3.32</b>	<b>25%</b>	<b>28%</b>	<b>33%</b>	<b>35%</b>
36	FLTMX	Interm Municipal Income	0.50%/30 days	10.01	Buy	1.4	5.6	1.0	5.3	3.10	4.1	4.3	4.6	4.8			
37	FHIGX	Municipal Income	0.50%/30 days	12.13	Buy	1.6	8.2	-4.6	8.3	4.09	5.5	5.7	6.1	6.3			
404	FSTFX	Short-Int Municipal Income	0.50%/30 days	10.56	Buy	1.1	3.8	3.5	2.7	1.90	2.5	2.6	2.8	2.9			
90	FTABX	Tax-Free Bond	0.50%/30 days	10.46	Buy	1.5	8.3	-3.4	8.3	4.17	5.6	5.8	6.2	6.4			
<b>STATE-SPECIFIC MUNICIPAL BOND</b>						<i>Category Averages</i>			<b>1.4</b>	<b>7.3</b>	<b>-1.9</b>	<b>7.2</b>	<b>3.49</b>				
434	FSAZX	Arizona Muni Income	0.50%/30 days	10.99	OK to Buy	1.2	9.0	-4.2	8.3	3.90	5.5	5.7	6.1	6.3			
91	FCTFX	California Muni Income	0.50%/30 days	11.47	OK to Buy	1.9	7.1	-5.6	8.0	4.38	6.4	6.7	7.2	7.4			
1534	FCSTX	Calif Short-Interm Tax Free	0.50%/30 days	10.47	OK to Buy	1.7	4.0	4.0	3.2	2.27	3.3	3.5	3.7	3.9			
407	FICNX	Connecticut Muni Income	0.50%/30 days	11.25	OK to Buy	1.6	7.7	-1.1	7.2	3.40	4.7	4.9	5.3	5.5			
429	SMDMX	Maryland Muni Income	0.50%/30 days	10.67	OK to Buy	1.4	9.8	-4.0	7.7	3.39	4.7	4.9	5.3	5.5			
70	FDMMX	Mass Muni Income	0.50%/30 days	11.52	OK to Buy	1.5	8.3	-3.6	7.9	3.66	5.2	5.4	5.8	6.0			
81	FMHTX	Michigan Muni Income	0.50%/30 days	11.65	Hold	1.3	5.6	-0.1	6.8	3.47	4.8	5.0	5.4	5.6			
82	FIMIX	Minnesota Muni Income	0.50%/30 days	11.24	OK to Buy	1.0	6.9	-0.3	6.7	3.00	4.3	4.5	4.9	5.0			
416	FNJHX	New Jersey Muni Income	0.50%/30 days	11.26	OK to Buy	1.7	7.8	-3.0	7.4	3.52	5.0	5.2	5.6	5.8			
71	FTFMX	New York Muni Income	0.50%/30 days	12.51	OK to Buy	1.1	7.6	-2.5	8.4	3.91	5.8	6.1	6.5	6.7			
88	FOHFX	Ohio Muni Income	0.50%/30 days	11.37	OK to Buy	1.3	7.1	-1.6	7.7	3.62	5.2	5.4	5.8	6.0			
402	FPXTX	Pennsylvania Muni Income	0.50%/30 days	10.60	OK to Buy	1.2	6.1	-0.8	6.8	3.41	4.7	4.9	5.2	5.4			
<b>TAXABLE MONEY MARKET</b>						<i>Category Averages</i>			<b>0.0</b>	<b>0.4</b>	<b>2.5</b>	<b>0.25</b>					
55	FDRXX	Cash Reserves		1.00	--	0.04	0.51	2.89	na	0.38							
631	FGMXX	Retirement Government MM		1.00	--	0.01	0.27	2.37	na	0.07							
630	FRTXX	Retirement MM		1.00	--	0.04	0.54	2.93	na	0.39							
458	SPAXX	Government MM		1.00	--	0.02	0.30	2.31	na	0.10							
454	SPRXX	Money Market		1.00	--	0.04	0.54	2.90	na	0.39							
85	FSLXX	Select MM		1.00	--	0.04	0.56	2.97	na	0.46							
50	FGRXX	U.S. Gov't Reserves		1.00	--	0.02	0.33	2.45	na	0.19							
415	FDLXX	US Treasury MM (closed)		1.00	--	0.00	0.04	1.49	na	0.01							
<b>MUNICIPAL MONEY MARKET</b>						<i>Category Averages</i>			<b>0.0</b>	<b>0.1</b>	<b>1.8</b>	<b>0.10</b>					
460	FIMXX	AMT Tax-Free Money Fnd		1.00	--	0.01	0.18	1.87	na	0.14	0.2	0.2	0.2	0.2			
10	FTEXX	Municipal Money Market		1.00	--	0.01	0.16	1.91	na	0.11	0.1	0.2	0.2	0.2			
275	FMOXX	Tax-Free Money Market		1.00	--	0.00	0.09	1.70	na	0.04	0.1	0.1	0.1	0.1			
<b>STATE MUNICIPAL MONEY MARKET</b>						<i>Category Averages</i>			<b>0.0</b>	<b>0.1</b>	<b>1.8</b>	<b>0.05</b>					
433	FSAXX	Arizona		1.00	--	0.00	0.08	1.75	na	0.01	0.0	0.0	0.0	0.0			
457	FSPXX	California AMT Tax-Free		1.00	--	0.00	0.14	1.86	na	0.09	0.1	0.1	0.1	0.2			
97	FCFXX	California		1.00	--	0.00	0.05	1.67	na	0.01	0.0	0.0	0.0	0.0			
418	FCMXX	Connecticut		1.00	--	0.00	0.08	1.72	na	0.06	0.1	0.1	0.1	0.1			
426	FMSXX	Mass AMT Tax-Free		1.00	--	0.01	0.17	1.85	na	0.16	0.2	0.2	0.3	0.3			
74	FDMXX	Massachusetts		1.00	--	0.00	0.06	1.67	na	0.01	0.0	0.0	0.0	0.0			
420	FMIXX	Michigan		1.00	--	0.00	0.02	1.68	na	0.01	0.0	0.0	0.0	0.0			
423	FSJXX	New Jersey AMT Tax-Free		1.00	--	0.00	0.18	1.91	na	0.10	0.1	0.1	0.2	0.2			
417	FNJXX	New Jersey		1.00	--	0.00	0.06	1.67	na	0.01	0.0	0.0	0.0	0.0			
422	FSNXX	New York AMT Tax-Free		1.00	--	0.01	0.17	1.86	na	0.13	0.2	0.2	0.2	0.2			
92	FNYXX	New York		1.00	--	0.00	0.11	1.69	na	0.01	0.0	0.0	0.0	0.0			
419	FOMXX	Ohio		1.00	--	0.01	0.14	1.77	na	0.09	0.1	0.1	0.1	0.1			
401	FPTXX	Pennsylvania		1.00	--	0.00	0.08	1.85	na	0.01	0.0	0.0	0.0	0.0			

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

## FIDELITY SCORECARD - JULY 31, 2009

Fund No.	Fund Ticker	Fund Name	Short-Term Trading Fee	\$Price (NAV)	Advice	Total Return (%)			Avg Annual (%)			Rel Vol (Risk) <sup>1</sup>
						Jul	YTD	2008	1 Year	3 Year	5 Year	
<b>FIDELITY PERSONAL RETIREMENT ANNUITY PORTFOLIOS</b>												
9067	FLRQC	Fid VIP Asset Manager		10.34	Hold	5.8	15.8	-29.0	-14.7	0.2	2.1	0.80
9066	FAEEC	Fid VIP Asset Manager: Growth		9.63	Hold	7.1	16.5	-36.0	-21.4	-1.8	0.9	1.01
9069	FJBAC	Fid VIP Balanced		10.12	Hold	7.2	22.0	-34.2	-11.4	-1.9	1.6	0.95
9081	FVHAC	Fid VIP Consumer Discretionary	1.00%/60 days	8.07	OK to Buy	8.8	18.7	-34.3	-9.4	-7.1	-1.3	1.20
9171	FCSAC	Fid VIP Consumer Staples	1.00%/60 days	9.58	Hold	7.2	9.8	-21.6	-5.7	--	--	--
9065	FPDFC	Fid VIP Contrafund		9.44	Hold	9.1	18.4	-42.7	-19.4	-4.8	3.0	1.13
9148	FPRGC	Fid VIP Disciplined Small Cap		7.07	Buy	9.0	8.6	-34.0	-22.2	-8.1	--	1.18
9074	FZAMC	Fid VIP Dynamic Capital App		8.85	OK to Buy	7.3	14.2	-41.4	-22.5	-7.3	1.7	1.13
9198	FEMAC	Fid VIP Emerging Markets	1.00%/60 days	6.54	Buy↑	11.5	47.0	--	-24.3	--	--	--
9085	FJLLC	Fid VIP Energy	1.00%/60 days	10.58	Buy	8.3	25.5	-54.4	-39.2	-6.0	9.4	1.77
9061	FLOLC	Fid VIP Equity-Income		8.09	Buy	9.0	14.1	-42.9	-22.4	-9.5	-1.8	1.19
9083	FONNC	Fid VIP Financial Services	1.00%/60 days	6.14	OK to Buy	7.3	15.6	-50.3	-23.2	-17.8	-7.2	1.55
9157	FMPAC	Fid VIP FundsManager 20		10.69	Hold	2.6	5.7	-8.5	-0.9	2.4	--	0.29
9158	FMPBC	Fid VIP FundsManager 50		9.61	Hold	4.9	10.0	-22.8	-8.1	-0.7	--	0.61
9197	FMPPC	Fid VIP FundsManager 60		8.41	Hold	5.6	11.9	--	-10.4	--	--	--
9159	FMPPC	Fid VIP FundsManager 70		8.76	Hold	6.3	12.5	-32.2	-14.1	-3.3	--	0.83
9160	FMPDC	Fid VIP FundsManager 85		8.15	Hold	7.6	14.1	-38.3	-18.4	-5.3	--	0.99
9062	FMNDC	Fid VIP Growth		8.24	Buy	8.6	13.2	-47.3	-30.4	-6.3	-1.8	1.13
9070	FLFNC	Fid VIP Growth & Income		8.73	Hold	7.6	13.8	-41.9	-23.2	-6.4	-0.9	1.06
9068	FIDPC	Fid VIP Growth Opportunities		7.66	Buy	8.1	24.7	-55.2	-30.5	-7.1	-3.1	1.42
9078	FPVDC	Fid VIP Growth Stock		8.60	OK to Buy	7.6	22.8	-44.8	-20.3	-3.2	--	1.18
9077	FQBRC	Fid VIP Growth Strategies <sup>6</sup>		7.99	OK to Buy	7.3	20.1	-49.0	-24.6	-6.0	--	1.24
9084	FPDRC	Fid VIP Health Care	1.00%/60 days	9.44	Hold	5.2	15.9	-32.5	-10.8	-2.8	2.9	0.92
9060	FBBLC	Fid VIP High Income		11.14	Buy	5.5	29.6	-25.1	-1.9	2.0	3.8	0.74
9064	FXVLT	Fid VIP Index 500		8.61	Hold	7.5	10.9	-37.2	-20.0	-6.4	-0.6	1.02
9082	FBALC	Fid VIP Industrials	1.00%/60 days	10.16	Hold	12.8	18.9	-40.0	-22.2	-2.4	4.7	1.42
9076	FVJIC	Fid VIP Int'l Capital App	1.00%/60 days	8.63	Hold	9.9	36.2	-50.8	-19.9	-7.6	--	1.57
9090	FBKQT	Fid VIP Investor Freedom 2005		10.40	Hold	5.7	12.9	-24.1	-8.1	-0.2	--	0.63
9091	FCRJT	Fid VIP Investor Freedom 2010		10.33	Hold	6.1	13.6	-25.2	-8.5	-0.4	--	0.67
9092	FTCMT	Fid VIP Investor Freedom 2015		10.34	Hold	6.3	14.3	-27.3	-9.7	-0.8	--	0.71
9093	FTEMT	Fid VIP Investor Freedom 2020		9.90	Hold	7.5	15.9	-32.8	-13.6	-2.4	--	0.86
9094	FVIIT	Fid VIP Investor Freedom 2025		9.80	Hold	7.7	16.4	-34.4	-14.8	-2.8	--	0.90
9095	FXJLT	Fid VIP Investor Freedom 2030		9.42	Hold	8.3	16.8	-38.3	-18.1	-4.2	--	1.01
9089	FBXOT	Fid VIP Investor Freedom Income		11.13	Hold	3.3	9.1	-10.8	-0.4	2.5	--	0.32
9063	FTLKC	Fid VIP Investment Grade Bond		11.65	Buy	2.7	10.9	-3.5	7.3	4.8	3.8	0.26
9172	FVMAC	Fid VIP Materials	1.00%/60 days	9.02	Hold	16.0	49.6	-47.1	-20.6	--	--	--
9071	FNBSC	Fid VIP Mid Cap		10.27	Buy	7.8	23.2	-39.7	-19.0	-2.9	6.2	1.14
9059	FTNJC	Fid VIP Money Market		11.46	--	0.0	0.4	2.7	1.4	3.3	3.0	0.03
9088	FEMMC	Fid VIP Overseas	1.00%/60 days	9.65	Hold	9.8	13.1	-44.0	-25.8	-6.0	3.9	1.25
9072	FFWKC	Fid VIP Real Estate		6.94	Sell	9.4	-0.8	-40.1	-39.9	-17.4	-1.1	2.15
9075	FGDQC	Fid VIP Strategic Income		12.26	Buy	4.2	19.9	-10.6	6.6	5.7	6.1	0.46
9086	FYENC	Fid VIP Technology	1.00%/60 days	10.40	Buy↑	9.8	58.8	-51.0	-3.5	2.2	3.7	1.61
9173	FVTAC	Fid VIP Telecommunications	1.00%/60 days	6.87	OK to Buy	4.6	32.3	-47.6	-10.8	--	--	--
9087	FXRRC	Fid VIP Utilities	1.00%/60 days	10.65	OK to Sell	5.8	4.9	-35.8	-23.6	-2.8	6.1	1.02
9079	FKMSC	Fid VIP Value		7.72	Buy	12.5	21.1	-46.7	-26.0	-10.0	--	1.46
9080	FUEBC	Fid VIP Value Leaders		7.78	Hold	9.8	13.1	-44.8	-25.0	-10.1	--	1.20
9073	FRBSC	Fid VIP Value Strategies		8.08	Hold	11.8	32.5	-51.3	-22.5	-8.3	-1.3	1.62
9199	FCIFC	Credit Suisse Int'l Focus		6.79	OK to Sell	8.5	10.9	--	-25.4	--	--	--
9147	FPRLC	Lazard Retirement Emerging Mkts		11.00	Buy↑	11.0	45.7	-48.7	-19.8	6.6	--	1.62
9143	FPRMC	Morgan Stanley Emerg Mkt Debt		11.51	Buy	3.0	17.8	-15.2	0.0	4.7	7.7	0.65
9144	FPRNC	Morgan Stanley Emerg Mkt Equity		9.93	Buy↑	12.4	46.4	-56.7	-20.8	3.2	15.8	1.75
9145	FPROC	Morgan Stanley Gbl Value Equity		7.46	OK to Buy	7.1	5.7	-40.3	-22.8	-8.4	-0.9	0.98
9146	FPRPC	Morgan Stanley Int'l Magnum		8.17	Buy	9.4	18.1	-44.8	-23.9	-5.1	3.7	1.33
9174	FMCCC	Strategic Adv Mid Cap Val (closed)		6.71	Hold	8.4	10.7	-35.4	-19.5	--	--	--
9175	FSCCC	Strategic Adv Small Cap (closed)		6.87	Hold	8.1	22.0	-38.7	-18.2	--	--	--

Annuity Growth Model	
Fund	Allocation
Fidelity VIP Strategic Income	36%
Fidelity VIP Growth Opportunities	23
Fidelity VIP Value	18
Fidelity VIP Equity-Income	11
Fidelity VIP Emerging Markets	12
<b>Total Return: Jul: 7.8% YTD: 16.8%</b>	

Annuity Growth & Income Model	
Fund	Allocation
Fidelity VIP Investment Grade	32%
Fidelity VIP Strategic Income	27
Fidelity VIP Growth Opportunities	22
Fidelity VIP Value	15
Fidelity VIP Equity-Income	4
<b>Total Return: Jul: 5.9% YTD: 15.0%</b>	

Annuity Income & Preservation Model	
Fund	Allocation
Fidelity VIP Investment Grade	35%
Fidelity VIP Money Market	23
Fidelity VIP Strategic Income	19
Fidelity VIP Value	12
Fidelity VIP Growth Opportunities	11
<b>Total Return: Jul: 3.9% YTD: 10.6%</b>	

## Strategic Real Return: Unique Diversifier

On the face of it, there aren't many reasons an investor should be worried about inflation. The consumer price index for June was down 1.4% from a year earlier, and core CPI (ex food and energy) was up a modest 1.7%. While the economy is 'improving,' GDP growth is still negative. Moreover, capacity utilization (extremely low) and unemployment (high, and rising) are both strong deflationary forces.

With the above in mind, it's fair to question the presence of **Strategic Real Return (SRR)** in several of our model portfolios. Since its *raison d'être* is to generate 'real' (after inflation) returns, one of its principal roles in a portfolio is to offer some protection against rising inflation.

Part of the answer lies in the fact that, as we have often noted, the market is concerned about what *is going to happen, not what has already happened*. On that score, we're not alone in anticipating a pickup in inflationary headwinds.

Last month, we spoke with Fidelity's Joanna Bewick who co-manages Fidelity's Strategic series of funds (SRR, **Strategic Dividend & Income** and **Strategic Income**) along with Chris Sharpe. She shares some of our inflation concerns. "Deflation is the fact, inflation is the expectation," says Joanna. "If we don't rein in our deficit, we risk the dollar falling and inflation rising." So it's not really a question of "if" inflation will rise, so much as "when?" and "by how much?"

### Four Parts, Different Directions

The other part of the answer is that SRR offers exposure to a unique mix of four 'alternative' investment sectors: real estate, floating rate debt, commodities and TIPS (see box).



Sharpe Bewick  
*Strategic Real Return*

While we may not like all the sectors in this fund at any one time (for example, we have not been fans of real estate for some time), the fund can still have a valuable role in a portfolio. The four sectors don't typically move in the same direction, at the same time, resulting in low correlations. The two highest correlations — between TIPS and commodities and between floating-rate loans and real estate — are only a little above 0.5 (a perfect correlation would be 1.00). This provides excellent portfolio diversification.

So far this year, the fund's eclectic mix has resulted in a robust 15.4% return. Strong gains in floating-rate loans (**Floating Rate High Income**, for example is up 23.3%) offset a troubled real estate sector. In fact, real estate wasn't even all bad. Almost half of the fund's 20% allocation was in real estate debt rather than REITs, and that 'slice' of the market has done extremely well (**Real Estate Income** is up 26.1%, for example).

### Moving Back To Neutral

We asked Joanna for her take on each of the fund's sectors and where she saw her allocations among them changing.

• Earlier in the year, with deflation concerns ruling the market, Joanna underweighted TIPS (whose principal value is adjusted twice a year based on changes in inflation). Currently at 26% of assets (versus its 30% benchmark), expect this allocation

to rise in tandem with inflation expectations.

• Joanna has a neutral weight in floating-rate high-yield bank loans which were, not surprisingly, crushed last year. But these lower-quality corporate debt instruments got oversold. Recovery rates will be better than expected, Joanna says, and so the plan is to just sit back and "clip the coupon."

• While REITs were clobbered as well last year, Joanna is excited that the fund's 20% REIT sleeve has been filling with "high-quality assets bought on the cheap." These companies have little leverage, or debt. And where she is buying bonds, she especially likes shorter maturities, which are less interest-rate sensitive. Some areas of interest sector-wise include health care, data centers and, thanks to Uncle Sam's profligate spending, office space in suburban Virginia!

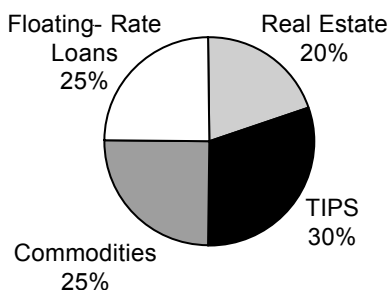
• The fund's commodity-linked notes tend to be distributed in equal thirds: energy, metals and agriculture. Joanna observes that while oil prices have picked up, demand hasn't. But even when it does, about 1,000 of the world's 2,100 oil rigs are presently idled. Eventually, they will go back on line to meet higher demand. When they do, this could even create a glut of supply, sending prices lower in the nearer term. So right now, commodities are a very modest underweight at 24% of assets.

Overall, Joanna suggests that the fund's sector weights will soon be (essentially) close to neutral. And, she expects them to stay that way "for a long time to come."

In summary, SRR provides our model portfolios some measure of protection from the risk of rising inflation in the future, while currently offering a diversified mix of alternative investments that is looking increasingly attractive (we are even warming up to real estate!).

Though we don't see inflation being an immediate threat, as we've seen in recent times, the unexpected should always be expected. ■

### FOUR FUNDS IN ONE



**Strategic Real Return** is built around four separate sub-portfolios. Soon each sleeve should have an allocation very close to its "neutral" weight above.

## Inside Fidelity

**Proxy Vote** — Thirteen shareholder-initiated proxy votes seeking to end Fidelity's indirect investments in the strife-ridden region of Darfur, have fallen far short. Only four funds (including the \$140 billion **Cash Reserves**) had enough ballots cast to achieve a quorum by the July 15 deadline. (The remaining funds will try again.) **Asset Manager 70%** garnered the most "Yes" votes, but at 25%, this lack of support strongly suggests that Fidelity will continue to invest in PetroChina and Sinopec. Proponents of the measure have argued that both company's Sudan operations effectively aide a regime that is committing genocide.

Fidelity has now successfully

### DIVIDEND UPDATE

*In addition to monthly dividends paid by bond and money market funds and Asset Mgr: 20%/30%, the following funds are also expected to pay dividends and/or capital gains in August:*

Fidelity Fund, Fidelity Fifty, Growth Discovery, Mega Cap Stock, Real Estate Income.

*The final distributions for July were as follows:*

Fund	Ex-Date	\$ Amt	NAV
Asset Manager 40	7/10	0.06	7.82
Asset Manager 50	7/10	0.10	11.81
Balanced	7/10	0.10	13.76
Convertible Secs	7/10	0.22	17.16
Equity-Income	7/10	0.17	30.18
Equity-Income II	7/10	0.07	12.68
Fidelity	7/10	0.11	22.84
Growth & Income	7/10	0.03	12.68
Puritan	7/10	0.11	13.51
Strategic Div & Inc	7/10	0.06	7.20
Strategic Real Ret	7/10	0.05	7.39
Telecom & Utilities	7/10	0.13	11.93

argued that as well-intentioned as the measure may be, a lack of investment may actually contribute to genocide while, more broadly opening the door to "socially conscious investing." Whatever the truth may be, the remaining measures, which are non-binding anyway, appear doomed.

**Brokerage Service Expanded** — Fidelity and Deutsche Bank have inked a deal that will enable Fidelity's retail brokerage customers to participate in initial public offerings (IPOs) and follow-on offerings where Deutsche is an underwriter. This is the second such deal for Fidelity in as many months — the first being with Kohlberg Kravis Roberts & Company (KKR).

Working with Fidelity provides both Deutsche and KKR with a huge distribution channel. (Sometime soon, the private-equity giant KKR will use its alliance with Fidelity and its almost 16 million brokerage accounts to sell off IPO shares of Dollar General.) As for Fidelity, it further differentiates itself from fund competitors while allowing it to compete with other brokerage firms.

**Scorecard Changes** — Beginning this month, we are using the returns of Fidelity index funds as benchmarks, rather than actual indexes. For example, the S&P 500 is approximated by **Spartan 500 Index**, and the Nasdaq by **Nasdaq Composite Index**. As there is no Fidelity index fund that tracks either the Dow or the Russell 2000, they have been replaced by **Spartan Int'l Index** which tracks the MSCI EAFE index (international) and **U.S. Bond Index** which tracks the Barclays (formerly Lehman) Aggregate Bond Index. This change enhances our productivity, and gets the report to you in a timely fashion. ■

## Message To Members

With our nation's military forwardly deployed in Afghanistan and Iraq, unemployment near 10%, and home foreclosures, taxes, and the federal deficit all rising, it's sometimes hard to remember more challenging times.

But there have been plenty.

Last month, was the 40<sup>th</sup> anniversary of the Moon landing. At that time, U.S. cities were burning, the Cold War was raging, and America was bogged down in Vietnam. As for your's truly, I was a teenager in 1969 who found his way to a farm in Bethel, NY, for something called Woodstock; Titanic social and cultural changes added to the nation's unease.

Today, the Iron Curtain is gone, the world's two most populous countries (India and China) are developing and, for the first time in human history, more people than not are embracing freedom and the economic benefits that flow from it.

That's not to say there aren't real dangers — recall Sept. 11<sup>th</sup>. And while the financial markets are on an improved footing, vigilance (the kind that strikes an appropriate balance between risk and reward) remains a priority in how we construct our model portfolios. To that end, we'd all like to see our investments (and our home values!) quickly return to their previous lofty levels. But (re-) building something worthwhile always takes time, care and discipline. This is not the time to throw caution to the wind.

Sincerely,

Eric M. Kobren

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