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AlphaProfit™

Sector Investors' Newsletter

Service for \$ophisticated \$ector Investors

Monthly Report

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Fund Exchanges
Core Portfolio: None
Focus Portfolio: None

AlphaProfit SP Indicator™
Reading: Buy
Favored Buy: None

Scorecard

The AlphaProfit Core and Focus model portfolios declined 0.1% and 2.3%, respectively in July. The Dow Jones Wilshire 5000 Total Market Index declined 0.4%.

Economic jitters. Concerns over inflation and sustainability of economic growth weighed on investors in July. Inflation fears were rekindled by a Labor Department report showing a 3.9% increase in U. S. hourly earnings in June from year-ago levels, the largest increase

were at war following the kidnapping of two Israeli soldiers. Meanwhile, North Korea test-fired missiles over the Sea of Japan and Iran remained at loggerheads with Western Nations. India's commercial capital, Mumbai, became the subject of terrorist attacks as well.

Misses punished. July ushered in the second quarter earnings reporting season. With economic and geopolitical uncertainty already impacting sentiment, investors were in no mood to show any leniency towards companies falling short of

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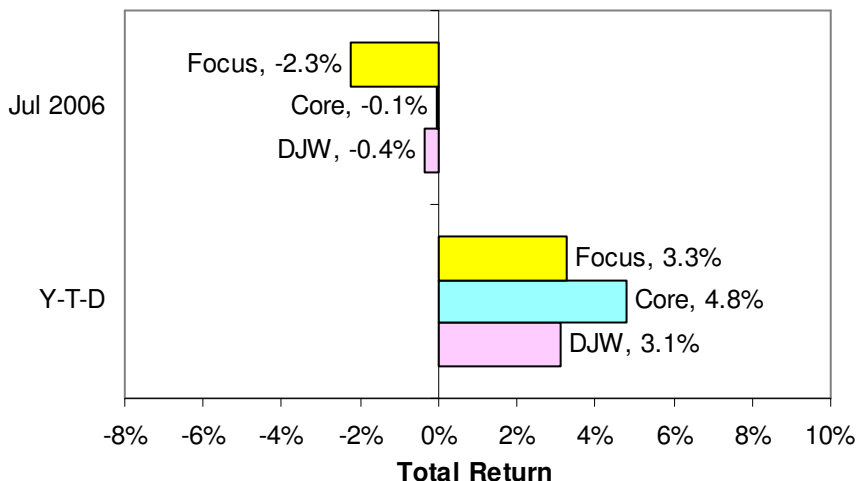
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since June 2001. Concurrently, investor confidence on continued economic expansion was undermined by weaker-than-expected June retail sales data.

Geopolitical unease. Tensions ran high in July. Israel and Lebanon

expectations. As such, the share prices of companies like Amazon, Dow Chemical, and United Parcel Service took a beating.

Stabilizing factors. Through the month, investor sentiment received periodic boost from strong corpo-

Portfolio Composition

AlphaProfit Focus™ Model Portfolio

The Focus Portfolio was last repositioned at the close of business on June 30, 2006. We are leaving the Focus portfolio unchanged at this time.

Fidelity Fund Holding (Ticker Symbol)	June 30, 2006		July 31, 2006	
	Amount Invested	Percent Portfolio	Value	Percent Portfolio
Gold (FSAGX)	\$729,221	50.00%	\$729,440	51.17%
Ind. Materials (FSDPX)	\$729,221	50.00%	\$696,042	48.83%
Total (rounded to)	\$1,458,442	100.00%	\$1,425,481	100.00%

AlphaProfit Core™ Model Portfolio

The Core Portfolio was last repositioned at the close of business on June 30, 2006. We are leaving the Core portfolio unchanged at this time.

Fidelity Fund Holding (Ticker Symbol)	June 30, 2006		July 31, 2006	
	Amount Invested	Percent Portfolio	Value	Percent Portfolio
Bus. Svce. (FBSOX)	\$64,599	10.15%	\$60,808	9.56%
Food & Ag. (FDFAX)	\$65,048	10.22%	\$66,609	10.48%
Gold (FSAGX)	\$96,120	15.11%	\$96,149	15.12%
Health Care (FSPHX)	\$58,261	9.16%	\$60,248	9.48%
Ind. Materials (FSDPX)	\$96,120	15.11%	\$91,746	14.43%
Insurance (FSPCX)	\$59,280	9.32%	\$59,369	9.34%
Pharma. (FPHAX)	\$63,538	9.99%	\$65,552	10.31%
Telecomm (FSTCX)	\$65,934	10.36%	\$65,307	10.27%
Util. Growth (FSUTX)	\$67,311	10.58%	\$69,976	11.01%
Total (rounded to)	\$636,212	100.00%	\$635,765	100.00%

rate earnings as well as buyouts. Robust report cards from the likes of AT&T, JP Morgan, and Merck aided the bullish cause. Hospital operator, HCA grabbed the headlines by agreeing to a massive \$21 billion buyout while Hewlett Packard and chip-maker Advanced Micro Devices ventured abroad to acquire companies.

The preliminary estimate for second quarter gross domestic product growth also provided some comfort. The Commerce Department estimated that GDP increased at a 2.5% annual rate during the second quarter, down from 5.6% during the first. Investors interpreted the data to give less reason for the Federal Reserve to continue its interest rate increases.

While bearish sentiment dominated for most of the month, the positives helped limit the damage to a 0.4% loss for the Dow Jones Wilshire 5000 Total Market Index. While

economically less sensitive sectors like utilities and health care performed quite well, economically sensitive ones like technology and transportation suffered relatively large losses. Against this backdrop, the AlphaProfit Core and Focus model portfolios ended July with declines of 0.1% and 2.3%, respectively.

Major Movers

(Company and fund ticker symbols in parentheses.)

Roughly two-thirds of the top 10 holdings we track advanced in July. The list of top winners was dominated by major drug companies. Telecom equipment companies, outsourcing service providers, and coal producers dominated the list of major losers.

Motorola motors ahead. Bucking the weakness in telecom equipment stocks, Motorola (MOT-FSTCX) advanced 13% to become the best

performer in the Core model portfolio. Motorola's second quarter earnings exceeded analysts' estimates thanks to strong demand for its *Razr* handsets and *Q* smartphone. Demand for the company's shares was robust as the company upped its third quarter revenue forecast.

Cambior glitters. The 3% rise in the price of gold bullion in July provided a positive backdrop for low-priced shares of Canadian gold producer Cambior (CBJ-FSAGX) to rise about 9% and become the top performer in the Focus model portfolio. While there was no major news from Cambior, the company is trying to enter into a venture with Washington-based LKA International to jointly explore and develop LKA's mine in Lake City, CO.

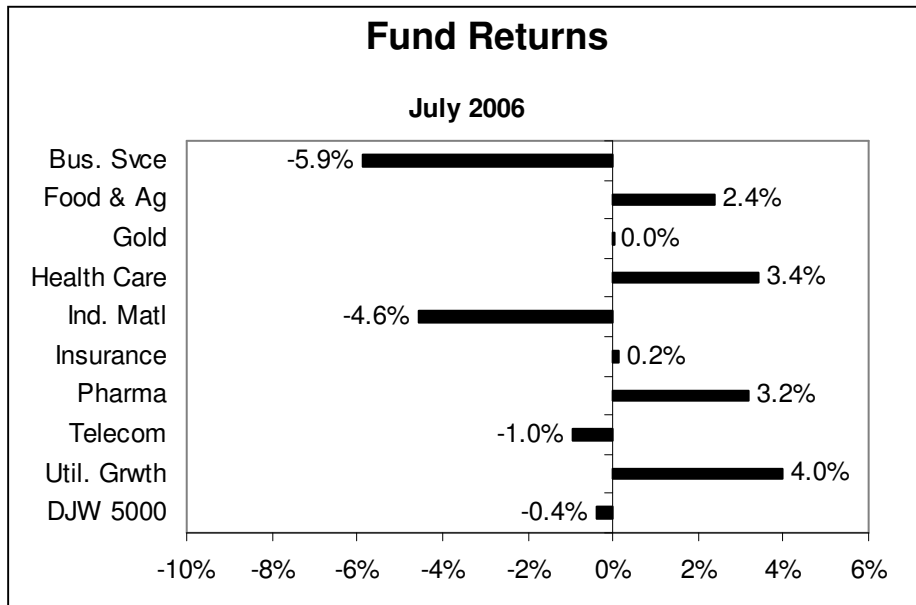
Meridian loses luster. Shares of Nevada-based Meridian Gold (MDG-FSAGX) gave ground to the tune of 14% despite posting record earnings and operating cash flow. Argentina's Chubut province officially ratified legislation suspending all metal mining activity for the next three years. This legislation will prolong the pause at Meridian's Esquel project in Chubut. Meridian's shares sold off to become the worst performer in the Focus model portfolio.

Corning cracks. Even though glass maker Corning (GLW-FSTCX) reported earnings generally inline with analyst's forecast, its shares came under pressure following a less-than-robust revenue and earnings forecast. Additionally, 3M's less-than-upbeat comments on demand from flat-panel TV makers and general weakness in telecom equipment shares pressured Corning. Corning shares lost about 21% to become the worst performer in the Core model portfolio.

Outlook

(Company and fund ticker symbols in parentheses.)

High oil prices and continued interest rate hikes are eventually beginning to impact economic growth in the U. S. By most measures, economic growth appears to be moder-



ating while inflationary pressures continue to assert.

The Institute for Supply Management's factory index declined for the second consecutive month in June. The index's 53.8 reading was lower than the 55.0 figure economists forecasted. Indexes tracked by the Federal Reserve Banks of New York and Philadelphia to gauge manufacturing activity have declined in July from their June levels suggesting continued moderation in economic activity.

On inflation, the increase in U. S. consumer prices exceeded forecasts in June. Core prices excluding food and energy rose 0.3% for the fourth consecutive month, the longest such stretch since January to April 1995.

Fidelity Select Business Services & Outsourcing

Concerns with employment and immigration trends pressured share prices in the business service group even though corporate performance was strong. The current decline makes investments in the business service group more appealing.

Ceridian (CEN-FBSOX) and Alliance Data Systems (ADS-FBSOX) reported strong revenue and earnings numbers and increased their

forecasts for future earnings. Yet, their share prices declined. Ceridian's shares fell victim to the general unpopularity of payroll processor shares as investors worried about softness in employment trends. Profit-taking following the stellar run-up in ADS shares earlier in the year caused them to decline.

MoneyGram International (MGI-FBSOX) and First Data (FDC-FBSOX) too traded lower after posting relatively robust earnings reports. Sentiment towards their shares was impacted by comments made by both companies that their money transfer business to Mexico was being impacted by immigration issues and protests.

Meanwhile, companies continue to ink contracts. Accenture (ACN-FBSOX) is among the companies garnering an IT outsourcing contract from Dutch financial services giant ING Groep worth \$1 billion. Alliance Data has signed a five-year contract to provide private-label credit card services to the nation's third-largest jeweler, Friedman's Jewelers.

To keep a tight rein on costs, service providers are increasingly looking to offshore delivery models. Accenture has opened a business process outsourcing delivery center in Bucharest, Romania to provide services in accounting, human re-

sources, and procurement.

Consolidation continues in the business service space. In July, marketing service provider Advo announced its intent to acquire Valassis Communications for about \$1.1 billion.

The recent decline in business service shares against the backdrop of generally strong earnings is a buying opportunity. We remain optimistic on the prospects for Fidelity Select Business Services & Outsourcing and include this fund in the Core model portfolio.

Fidelity Select Food & Agriculture

Earnings reports from major beverage and food companies were appetizing. The outlook for future earnings looks reasonably secure as well.

Soft-drink heavyweights PepsiCo (PEP-FDFAX) and Coca-Cola (KO-FDFAX) reported robust earnings thanks to increasing consumption of healthier beverages. Strong sales of sports drinks and bottled water enabled both PepsiCo and Coke to exceed analysts' forecast.

To thrust forward with additional non-carbonated, non-cola offerings, PepsiCo is partnering with juice maker Ocean Spray Cranberries. PepsiCo has upped its 2006 earnings forecast and expects to buy back \$3 billion in shares. Signaling confidence in its cash-flow generation prowess, Coca-Cola has announced plans to buy back 300 million or 13% of its outstanding shares.

Market share gains in the domestic tobacco business and strength in its food business helped Altria (MO-FDFAX) handily beat analyst's earnings forecast. The bigger prize for Altria however came in the form of a legal victory. The Florida Supreme Court upheld a lower court's ruling and reversed a punitive dam-

cont'd on page 5

Top 10 Fund Holdings

Fidelity Investments has reported the top 10 holdings of their mutual funds as of June 30, 2006.

This time Fidelity has provided information on **geographic diversification** of the Select funds. The Focus model portfolio has meaningful exposure to Canada with roughly half of Fidelity Select Gold and a third of Fidelity Select Industrial materials comprising of Canadian companies.

In the Core model portfolio, Canadian exposure from the above funds is supplemented with foreign holdings most notably in Fidelity Select Pharmaceuticals, Fidelity Select Insurance, and Fidelity Select Food & Agriculture. These funds each have about a quarter or more of their assets invested in foreign companies. Swiss and U. K. based companies are prominent in Select Food & Agriculture and Select Pharmaceuticals. 'Foreign' exposure in Select Insurance stems from companies tax-sheltered in the Caribbean.

Looking at the top 10 mix, **Fidelity Select Industrial Materials** has made five changes. The fund has taken out industrial gas producers and lightened on railroads. Air Products & Chemicals, CSX, Norfolk Southern, Praxair, and Union Pacific exit. Emphasis on basic materials and coal has been upped instead. Top U. S. chemical manufacturer Dow Chemical, Canadian aluminum producer Alcan, and steel producer U. S. Steel are new entrants. Coal producers Peabody Energy and CONSOL Energy also make their way into the top 10.

The exposure to information technology has increased in **Fidelity Select Business Services & Outsourcing**. Four information technology-related companies Cognizant Technology Solutions, Hypercom, Open Solutions, and Sapient enter. Exposure to employment trends has been lessened by re-

B. Svc. & Out. (FBFOX)

First Data
Open Solutions
Moneygram Intl.
Accenture Cl. A
Paychex
Alliance Data Systems
Cognizant Tech Cl. A
Sapient
Hypercom
Ceridian

62.2% of portfolio
7.6% foreign

Health Care (FSPHX)

Johnson & Johnson
Pfizer
Merck
Wyeth
Genentech
Amgen
UnitedHealth
Allergan
WellPoint
Abbott Labs.

45.1% of portfolio
5.3% foreign

Pharma (FPHAX)

Merck
Pfizer
Novartis ADR
AstraZeneca
Wyeth
Johnson & Johnson
NutriSystem
Roche Holdings
Takeda Pharma
Teva Pharma. ADR

49.1% of portfolio
39.3% foreign

moving Automatic Data Processing and Robert Half International. Omnicom and State Street exit the top 10 list as well. Concentration of the top 10 holdings now increases to 62% of the fund's assets, up from 48%.

Fidelity Select Utilities Growth makes three changes. Electric utilities Entergy, First Energy, and FPL

Food & Ag. (FDFAX)

Nestle ADR
Altria Group
Unilever NV (NY)
Pepsico
Coca Cola
McDonald's
Kellogg
Kroger
General Mills
Archer Daniels Midland

51.2% of portfolio
24.2% foreign

Ind. Matls. (FSDPX)

Dow Chemical
Falconbridge
Alcoa
DuPont
CONSOL Energy
Alcan
Burl. North. Santa Fe
Peabody Energy
Can. Natl. Railway
U. S. Steel

45.9% of portfolio
32.7% foreign

Telecomm. (FSTCX)

Qwest Comm.
AT&T
Verizon Comm.
BellSouth
Sprint Nextel
Motorola
Corning
Nortel Networks
Qualcomm
Nokia ADR

71.3% of portfolio
16.9% foreign

Group get connected while Alltel, Public Services Enterprise Group, and Southern Company are switched off. Meanwhile, **Fidelity Select Telecommunications** makes two changes swapping telecom equipment manufacturers Nokia and Nortel Networks for Cisco and Lucent.

Gold (FSAGX)

Meridian Gold
Newcrest Mining
Newmont Mining
Aber Diamond
Barrick Gold
Buenaventura (Cia Min)
Cambior
Lonmin
Impala Platinum
Crystallex Intl.

60.1% of portfolio
80.8% foreign

Insurance (FSPCX)

Amer. Intl. Group
Ace
Hartford Fin. Svcs.
St. Paul Travelers
Metlife
Prudential Financial
Aflac
Allstate
Endurance Spl. Hldg.
UnitedHealth

51.4% of portfolio
26.9% foreign

Util. Growth (FSUTX)

Verizon Comm.
AT&T
BellSouth
Sprint Nextel
Qwest Comm.
Exelon
FPL Group
Firstenergy
Entergy
AES

68.4% of portfolio
NA

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Fidelity Select Food & Agriculture and **Fidelity Select Pharmaceuticals** make two changes as well. Ethanol producer Archer Daniels Midland and supermarket chain Kroger replace Starbucks and Sysco in Select Food & Agriculture. Health-care heavyweight Johnson & Johnson, and NutriSystem, a provider of weight loss programs take the berths vacated by Astellas Pharmaceuticals and Cardinal Health in Select Pharmaceuticals.

Fidelity Select Gold, Fidelity Select Health Care and **Fidelity Select Insurance** make one change each. Lonmin, the third largest platinum producer replaces Teck Cominco in Select Gold. In Select Health Care drug manufacturer Abbott comes in place of Aetna while Select Insurance replaces managed care provider WellPoint with competitor UnitedHealth.

AT&T, BellSouth, Johnson & Johnson, Merck, Pfizer, Qwest Communications, Sprint Nextel, UnitedHealth, Verizon Communications and Wyeth are each represented in two of the nine Select funds in the Core model portfolio. There is no overlap in the top 10 holdings of the Focus model portfolio.

cont'd from page 3

age award, lifting a \$73 billion burden off Altria. This ruling could potentially clear the way for Kraft, an entity 88% owned by Altria, to be spun off.

Meanwhile, Kraft continues to restructure its business portfolio. Kraft is selling *Minute Rice* and acquiring the Spanish and Portuguese operations of British cookie maker, United Biscuits. These transactions in combination with lower restructuring charges at Kraft are expected to boost Altria's full-year earnings by about 9 cents a share.

Food producers are endeavoring to offset rising costs of grains, pack-

aging material, and fuel with price hikes and productivity improvements. We continue to like the prospects for Fidelity Select Food & Agriculture and maintain this fund in the Core model portfolio.

Fidelity Select Gold

A tense geopolitical environment combined with supportive monetary policy drives gold demand. Blemished earnings reports prevented mining shares from fully benefiting from this positive backdrop.

Safe-haven appeal. The value of gold as a safe-haven strengthened in July and the yellow metal added about 3% to end at \$634.20 an ounce. Insecurity on the geopolitical front was notable with the Middle East and North Korea being hot-spots.

Support from monetary policy. Central Bank monetary policy trends seem to support a bullish environment for gold bullion. The U. S. Federal Reserve appears to be reaching the end of its interest rate tightening cycle just as the Bank of Japan ends years of its near 0% interest rate stretch. Meanwhile, the European Central Bank appears to remain hawkish on inflation.

Taken collectively, it stands to reason that the U. S. dollar will likely lose ground against major world currencies, a scenario that has more often than not supported an upward move in the price of gold.

Demand trends relatively strong. The retail demand for gold continues to remain strong. Sales of the 22 karat American Eagle coins hit 113,000 ounces in June, up from 20,000 in the year-ago period. Sales of the newly introduced 24 karat American Buffalo coin have also been brisk. Meanwhile, the recent volatility in the price of gold appears to have quelled demand from jewelry manufacturers.

Bullion-equity disconnect. While the price of gold bullion has been

relatively firm, shares of gold mining companies have nearly not followed suit. For their part, mining company earnings have not been uniformly strong.

Compania de Minas Buenaventura (BVN-FSAGX), Peru's top precious metals miner, reported a 79% percent rise in second-quarter net income as higher realized prices and higher production lifted sales by 97% from the year-ago period.

Newmont mining (NEM-FSAGX) reported per-share earnings of 36 cents, up 80% from a year ago. EPS however fell short of analysts' forecast as production was a tad lower than expected and operating costs were a tad higher.

Meridian Gold's (MDG-FSAGX) earnings report was less robust than the doubling in per-share earnings implied. The earnings rise was primarily driven by commodity price gains. Ounces of gold sold declined by 24%

Miners remain acquisitive. Barrick Gold (ABX-FSAGX) is trying to consolidate mineral plays in northwest British Columbia and Alaska. Barrick is buying Pioneer Metals for \$57 million and has made an unsolicited offer to buy NovaGold Resources for \$1.5 billion. Meridian Gold is adding the Pedro Valencia mine in Chile to its portfolio through the acquisition of Minera Florida S.A. The Pedro Valencia mine produced 70,000 ounces of gold in 2005.

Off-late, gold mining shares have been moving in tandem with oil prices as oil is perceived to be a key inflation driver. The price of gold may receive some support from jewelry demand driven by the fall wedding season in India. We continue to include Fidelity Select Gold in both model portfolios.

Fidelity Select Healthcare, Pharmaceuticals

(As of July 1, Andrew Oh manages Fidelity Select Pharmaceuticals.)

News from major pharmaceutical companies was positive while leading biotech companies came through with their earnings. Aetna's results cast a shadow on the managed care group.

Pharma news flow positive. Major U. S. pharmaceutical companies had good things to report with both Merck (MRK-FSPHX, FPHAX) and Pfizer (PFE-FSPHX, FPHAX) exceeding earnings forecasts. Merck's results benefited substantially from partnerships. Rising sales of asthma drug *Singulair* and newly launched vaccines helped offset declining sales of cholesterol-lowering drug *Zocor*. Merck's revenue increased 5.6% to \$5.8 billion. Meanwhile, sales of Pfizer's cholesterol-lowering drug *Lipitor* increased 9% to lift the company's revenue by 3% to \$11.7 billion.

Pfizer has set up shop in China and plans to grow its China business fourfold in the next six to seven years. The nation of 350 million smokers is a particularly attractive market for Pfizer's smoking cessation drug *Chantix*. Merck has received approval for its cervical cancer vaccine *Gardasil* in Europe. Merck won a legal victory in New Jersey in one of many *Vioxx*-related trials confronting the company. While both Merck and Pfizer face considerable legal and patent expiry-related challenges, both companies have raised 2006 earnings

forecasts.

Biotechs post strong earnings. Earnings from biotech heavy weights Genentech (DNA-FSPHX) and Amgen (AMGN-FSPHX) handily exceeded analysts' earnings forecasts. Genentech's EPS of 56 cents was 9 cents higher than estimate while Amgen's tally of \$1.50 per-share exceeded the estimate by 11 cents.

Revenue from Genentech's cancer drugs *Avastin* and *Herceptin* increased 72% and 111% from the year-ago period. Genentech's plan to begin selling colon-cancer drug *Avastin* for use against breast cancer has been pushed back as the U. S. Food and Drug Administration has requested more information.

Amgen plans to launch a large, late-stage study for use of its *Sensipar/Mimpara* drugs in chronic kidney disease patients. Late stage trials of *AMG 706* in breast and lung cancer have however now been delayed due to a gall bladder condition caused in some patients.

Competition increases in anemia. Roche (ROG.VX-FPHAX) is making inroads into the anemia drug market with *CERA*. *CERA* promises to offer benefits over existing drugs like Amgen's *Epogen* and Johnson & Johnson's (JNJ-FSPHX, FPHAX) *Procrit*. The U.S. International Trade Commission has allowed

Roche to import *CERA* for clinical trials, clearing the way for Roche to seek FDA approval later this year.

Alliances formed. Seeking to leverage its R&D spending, Roche has entered into drug deals with Swiss biotech company Actelion and French pharmaceutical company Ipsen. AstraZeneca (AZN-FPHAX) and Abbott Laboratories (ABT-FSPHX) have formed a partnership to develop a new product that combines their cholesterol medicines *Crestor* and *TriCor*, respectively.

Aetna shakes managed care. As an encore of the first quarter earnings reporting season, shares of managed care companies were impacted by the increase in Aetna's medical cost ratio. Investors saw the continued up-tick as an ominous harbinger of medical claims beginning to rise faster than premiums industry-wide. The uplift that shares of UnitedHealth Group (UNH-FSPHX, FSPCX) and WellPoint (WLP-FSPHX) received from relatively strong earnings reports proved unsustainable.

UnitedHealth and WellPoint both reported per share earnings higher than analyst's forecast. While UnitedHealth enrolled 5.7 million people in its Medicare Part D prescription drug program during the first half of the year, WellPoint enrolled 1.5 million people. Both managed care providers have upped their 2006

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earnings forecasts as well.

In the context of moderating economic growth, we like the prospects for the health care sector. Shares of pharmaceutical and managed care companies are attractive on a valuation basis. Demographic changes are also a factor in their favor. We continue to include Fidelity Select Health Care and Fidelity Select Pharmaceuticals in the Core model portfolio.

Fidelity Select Industrial Materials

Companies in the industrial materials group delivered mixed earnings reports. Share prices here will likely perform well as long as the global economy continues to expand.

Earnings mixed. Metal producers Alcoa (AA-FSDPX) and U.S. Steel (X-FSDPX) reported strong earnings. Higher aluminum prices and strong demand from the aerospace and construction industries enabled Alcoa's per-share earnings to gain 71% from the year-ago level. Strong demand from the oil industry and firm pricing propelled U. S. Steel's per-share earnings higher by 62%. While U. S. Steel's earnings were well-ahead of analyst's forecast, Alcoa's results fell short.

Earnings reports from DuPont (DD-FSDPX) and Dow Chemical (DOW-FSDPX) differed in flavor. DuPont passed on cost increases and its earnings were on target whereas Dow Chemical's results were hurt by higher feedstock and energy costs. DuPont's Chairman Charles Holliday, Jr. stated, 'Our results this quarter reflect progress in executing our growth strategies and performance improvement initiatives. We are well-positioned for strong earnings growth in the second-half.' DuPont expects to earn 22% more this year than in 2005. In contrast, Dow Chemical expects weakness in its herbicides and polyethylene businesses to continue making 2006 a relatively challenging year.

Increasing volumes of consumer goods moved and strong demand for inter-modal transport enabled railroads Burlington Northern Santa Fe (BNI-FSDPX) and Canadian National (CNI-FSDPX) to report healthy increases in earnings from the year-ago period. Yet, railroads shares were hurt by weakness in United Parcel Service's earnings and the backdrop of rising oil prices.

Meanwhile, demand for coal did not turn out to be as strong as expected and coal inventories increased during the second quarter. Results

'Our results this quarter reflect progress in executing our growth strategies and performance improvement initiatives. We are well-positioned for strong earnings growth in the second half.'

*Charles Holliday Jr.,
Chairman, DuPont*

from coal producers Peabody Energy (BTU-FSDPX) and CONSOL Energy (CNX-FSDPX) were weaker than expected.

Consolidation trend. Switzerland-based Xstrata, which already owns 20% of Canadian nickel producer Falconbridge (FAL-FSDPX), appears to be set to take control of the remaining 80%. Xstrata has upped its offer price to C\$62.50 per share in cash and Falconbridge's shareholders have rejected Inco's competing offer.

Phelps Dodge and Canadian mining company Teck Cominco are now vying to buy Inco. Alcoa is reported to attract the takeover appetite of cash-laden miners like Australia's BHP Billiton or U. K.'s Rio Tinto. The opportunity for steel producers like U. S. Steel and Nucor to reduce raw material costs through mergers remains compelling.

Pricing generally strong. Prices for metals like nickel remain strong. Companies like DuPont have been adept at pushing price increases for

chemical commodities like titanium dioxide through. The shortage in trucking capacity augurs well for railroad transport pricing. While long-term fundamentals for the coal industry look attractive, coal demand should also receive a near-term boost from the summer heat wave. Increasing supply of aluminum and steel from China and Russia may however pose risks for metal prices.

We are cautiously optimistic on the prospects for Fidelity Select Industrial Materials and include this fund in both model portfolios. This fund will likely fare well as long as global economic expansion continues uninterrupted. Chemical and transportation-related holdings will likely fare better if oil prices decline.

Fidelity Select Insurance

Helped by strong premium increases, the nation's leading insurers came through with their earnings for the most part.

Strong premium growth helped the likes of property and casualty insurers Allstate (ALL-FSPCX) and St. Paul Travelers (STA-FSPCX) and reinsurer Ace (ACE-FSPCX) to beat analysts' earnings forecasts. Allstate's underwriting income gained a strong 20%. St. Paul's premium increases for coverage on the Gulf Coast substantially exceeded its 8% corporate average. Allstate and St. Paul have raised 2006 operating income forecasts.

Diversified insurer Hartford Financial (HIG-FSPCX) reported strong results from an operating perspective but net investment income declined substantially from paper losses in the company's securities portfolio. Rising competition hurt Aflac's (AFL-FSPCX) sales in Japan and was a drag on company-wide results. Endurance Specialty's (ENH-FSPCX) results were dented by hurricane-related costs.

As part of ongoing portfolio restructuring, Ace has sold its three run-off reinsurance subsidiaries while Hart-

ford is selling its automobile insurance subsidiary offering coverage to high-risk drivers. Meanwhile, MetLife (MET-FSPCX) is considering selling its \$3.5 billion Manhattan apartment complex to lock-in high real estate prices.

An effort is underway in Washington to facilitate the expansion efforts of insurers. Currently insurers are regulated exclusively by the 50 states, a system that has been viewed as being 'parochial' by foreign countries. The proposed bill will allow life and P&C insurers to choose federal or state charters under an 'optional federal charter' system. While the passage of such a bill is not certain, such a regulatory structure could help the overseas expansion efforts of insurers.

Valuation levels in the insurance group continue to remain attractive. As an example, Allstate trades at a forward P/E of just 8. We continue to like the prospects for Fidelity Select Insurance and include the fund in the Core model portfolio.

Fidelity Select Telecommunications, Utilities Growth

Operating performance of electricity and telecom service providers continues to remain strong while wireless handset manufacturers crank out units in record numbers. Large deals come under increasing regulatory scrutiny.

Strong operations. Margin improvement in the wholesale energy business enabled Exelon (EXC-FSUTX) to increase per share earnings to 85 cents, up from 76 cents earned a year-ago. The tally also exceeded analyst's 80 cents per share forecast. Exelon's Commonwealth Edison subsidiary in Illinois has received a disappointing \$8.3 million rate increase in response to its requested \$317 million or 6% increase. Exelon continues to maintain its 2006 earnings forecast while ComEd asks the Illinois Commerce Commission to reconsider its decision.

Meanwhile, FPL Group's (FPL-FSUTX) revenue increased 39% to \$3.8 billion and exceeded analysts' estimate. Earnings were impacted by the write-off of certain storm-related costs. The company expects to post full-year adjusted earnings at the upper end of its \$2.80 to \$2.90 per-share forecast.

Growth in wireless and benefits from the AT&T (old) acquisition helped the new AT&T (T-FSTCX, FSUTX) increase net income by 43% on a sum-of-companies basis. Per-share earnings of 58 cents were well ahead of the 53 cents forecasted by analysts. Revenue

'Motorola continues to deliver excellent quarterly sales and earnings growth. Mobile devices led the way, setting records for unit shipments, sales and profits.'

*Ed Zander,
Chairman, Motorola*

increased 53% to \$15.8 billion largely from the acquisition. Likewise, BellSouth's (BLS-FSTCX, FSUTX) per-share earnings of 60 cents exceeded the 57 cents a share analysts' estimate.

Cingular Wireless, the AT&T-BellSouth joint venture reported its most profitable quarter with second quarter net income tripling to \$540 million. Cingular added 1.5 million net customers while reducing churn to 1.7%. Meanwhile, Verizon Wireless added 1.8 million net customers during the second quarter.

Strength in handsets continues. Both Motorola (MOT-FSTCX) and Nokia (NOK-FSTCX) are seeing strong momentum in their operations. Motorola shipped a record 51.9 million wireless-phone handsets during the second quarter while Nokia shipped 78.4 million phones. Nokia has already sold more than 1 million of its mid-priced 3250 music phones that started shipping in March. Nokia forecasts the global handset market will grow 15% in 2006.

Commenting on Motorola's performance, Chairman Ed Zander said, 'Motorola continues to deliver excellent quarterly sales and earnings growth. Mobile devices led the way, setting records for unit shipments, sales and profits.'

Motorola is coming out with a slew of new products. The company plans to add two phones, *Krzzr* and *Rizr*, to its *Razr* family for the holiday shopping season. The *Krzzr* will feature a music player and camera while the *Rizr* will have a keyboard. Motorola's thinnest phone, the 9 millimeter thick *Motofone*, is expected to be launched in emerging markets during the fourth quarter.

Motorola has also partnered with sunglass-maker Oakley to create eyewear with stereo and phone capabilities. Motorola is following on Nokia's footsteps and partnering with Yahoo to make Yahoo Go for Mobile available on its new mid- and high-end phones.

Meanwhile, Qualcomm (QCOM-FSTCX) aspires to capture 50% of the mobile phone industry's chip market even as royalty negotiations with Nokia pose uncertainties.

Regulators assert scrutiny. Public Service Enterprise Group's merger with Exelon and Constellation Energy's merger with FPL Group continue to be stonewalled by regulators in New Jersey and Maryland, respectively.

The AT&T-BellSouth merger, which has won shareholder approval, still requires approval from the Justice Department and the Federal Communications Commission. Meanwhile, a Federal judge is examining if the Justice Department protected market competition by approving the SBC-AT&T and Verizon-MCI mergers. As such, the AT&T-BellSouth deal may well face more scrutiny.

Despite the hurdles, deal proposals continue. Electric and gas utility WPS Resources has agreed to buy Peoples Energy for about \$1.5 bil-

lion. AES Corp. (AES-FSUTX) is acquiring majority control of British energy company Wind Energy to expand its wind energy business.

Verizon is moving forward with its plans to divest its directory business in a transaction that could fetch up to \$16 billion.

With telecom and electric power companies generally executing well, we continue to include Fidelity Select Telecommunications and Fidelity Select Utilities Growth in the Core model portfolio.

AlphaProfit Sector Portfolio Indicator Reading: Buy

We remain cautiously optimistic on the equity market given the likelihood of economic growth moderating to a long-term trend-line rate. Earnings growth forecasts for the third and fourth quarters bear watching.

The rate of economic expansion has measurably slowed since the end of the first quarter. The consumer side of the economy appears to be getting pinched from high gasoline prices and rising borrowing costs. Real estate prices are no longer trending up at breakneck rates. Meanwhile, the pace of job creation has slowed. These factors colluded to pressure retail sales to decline 0.1% in June.

The business side of the economy is holding up relatively well. A measure of manufacturing in the Chicago area from the National Association of Purchasing Management-Chicago increased modestly to 57.9 in July from 56.5 in June. The 0.8% increase in industrial production in June also exceeded forecasts.

On the earnings front, 70% of the S&P 500 companies reporting earnings exceeded forecasts during the second quarter. While earnings growth during the second quarter is averaging over 14%, analysts expect S&P 500 companies to report profit growth of about 15% and 14% in the third and fourth quarters.

Core inflation excluding food and energy prices is now running at a 2.6% annual rate, a bit higher than what the Federal Reserve is generally comfortable with. China too appears to be concerned with inflation. To cool its economy and ease inflationary pressures, the People's Bank of China is lifting the reserve requirement ratio by 0.5% for the second time in two months. Meanwhile, Japan's improving economy should help perk up global growth.

Short-term interest rates increased a tad in July while long-term interest rates declined. The yield curve as measured by the difference in yield between 90-day Treasury Bills and 30-year Treasury bonds flattened some more. At month-end, the T-

Featured Quote

'There is nothing so terrible as activity without insight.'

**Johann Wolfgang
Von Goethe**

bond's yield of 5.07% was just 14 basis points above that of the T-bill. A flattening yield curve has often presaged a slowing economy.

All said, we believe growth going forward will likely moderate to a more sustainable long-term trend-line rate in the vicinity of 3%. The likelihood of this scenario can however be put at risk by the tide of rising oil prices. Earnings growth forecasts for the third and fourth quarters need to be watched as they may turn out to be too high.

We cautiously maintain the 'Buy' rating for the AlphaProfit Sector Portfolio Indicator. None of the funds carries a Favored Buy rating. We continue to urge Subscribers starting out and those seeking to add capital to spread their investments over longer time-frames.

AlphaProfit Investments, LLC
Date: July 31, 2006 ■



The AlphaProfit Sector Investors' Newsletter™ is edited and published by Dr. Sam Subramanian, Managing Principal and Chief Investment Officer of AlphaProfit Investments, LLC. Sam is an avid stock market investor and has tracked Fidelity Select Funds for several years. With a strong quantitative and analytical bent, Sam has honed his skills in security research and analysis. Sam developed the ValuM Investment Process™ for managing investments. The ValuM Investment Process has helped Sam build a successful track record in managing his investments since 1985. Prior to founding AlphaProfit Investments, LLC, Sam worked in positions of increasing responsibility in Finance and Corporate Strategy advising in Acquisitions and Divestitures, Asset Valuation, Trading, Bankruptcies, and Risk Management. Sam graduated with honors from the MBA program at the University of Michigan and has a Doctorate Degree in Chemical Engineering from Syracuse University. Sam also holds 16 U. S. patents.

Fund Facts and News

Fidelity Fund	Ticker	Fund Style	Risk Rating	Manager
Select Bus. Svcs. & Outsourcing	FBSOX	Mid Cap Growth	Below Average	B. Hesse, J. Morrow
Select Food & Agriculture	FDFAX	Large Cap Blend	Below Average	R. Lee
Select Gold	FSAGX	Mid Cap Growth	Above Average	D. Dupont
Select Health Care	FSPHX	Large Cap Growth	Below Average	H. Carere
Select Industrial Materials	FSDPX	Large Cap Growth	Average	J. Simes
Select Insurance	FSPCX	Large Cap Value	Average	S. Hermsdorf
Select Pharmaceuticals	FPHAX	Large Cap Growth	Below Average	A. Oh
Select Telecommunications	FSTCX	Large Cap Blend	Above Average	B. Younger
Select Utilities Growth	FSUTX	Large Cap Value	Average	B. Younger

Manager Changes: Andrew Oh has taken over as Manager of Fidelity Select Pharmaceuticals from Harlan Carere.

Fidelity Select Portfolio® Fund's Initial Purchase Requirements:

The minimum initial investment for regular as well as Traditional, Roth, and Rollover IRA accounts in any Fidelity Select Portfolio Mutual Fund is \$2,500. The minimum initial investment is \$500 for SEP-IRA and Keogh accounts. Check fund prospectus for details.

Fidelity Spartan 500 Index® Fund's Initial Purchase Requirements:

The minimum initial investment for regular accounts in the Fidelity Spartan 500 Index Fund is \$10,000. The minimum initial investment for Traditional, Roth, and Rollover IRA accounts is \$2,500 and the minimum initial investment for SEP-IRA and Keogh accounts is \$500. Check fund prospectus for details.

Disclosure continued from page 6

We calculate total returns based on price changes, assuming reinvestment of all distributions in the funds in which they were paid. The 3% Fidelity Select Portfolio® front-end load, taxes, and costs such as brokerage transaction fees are not factored in the results. On Sept. 23, 2003 Fidelity Investments eliminated the 3% front-end sales load on Fidelity Select Portfolio fund deposits.

Fidelity Investments typically provides updates on top 10 holdings excluding money market instruments and/or futures contracts held by Fidelity mutual funds at the end of each quarter around the middle of the month following the end of the quarter. All of the fund's holdings are not reported and the holdings may change at any time. Several of the companies discussed herein were held by the mutual funds in our model portfolios, per reporting date mentioned in this report. The mutual funds may or may not currently be invested in the companies mentioned in this report.

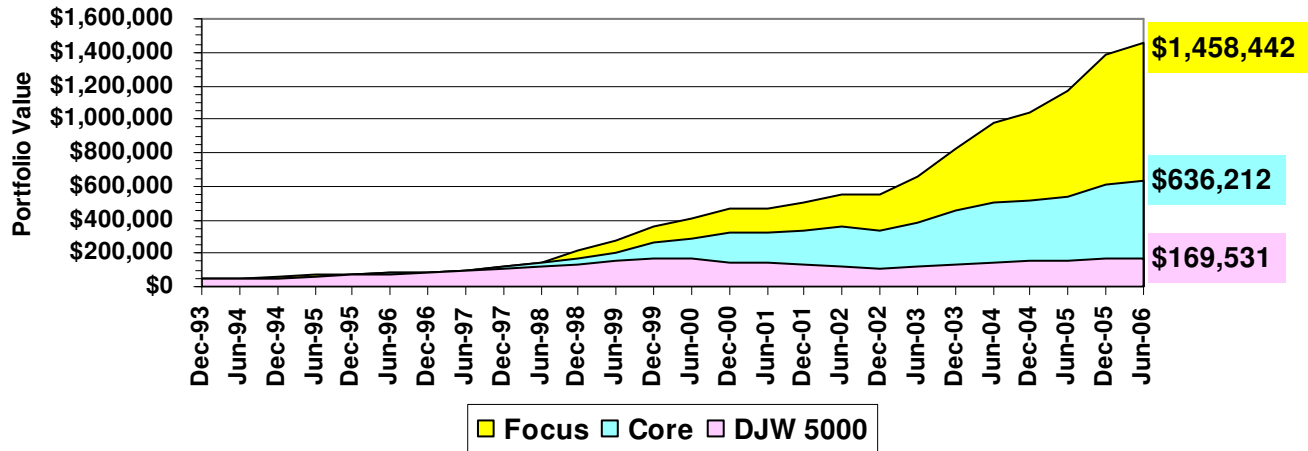
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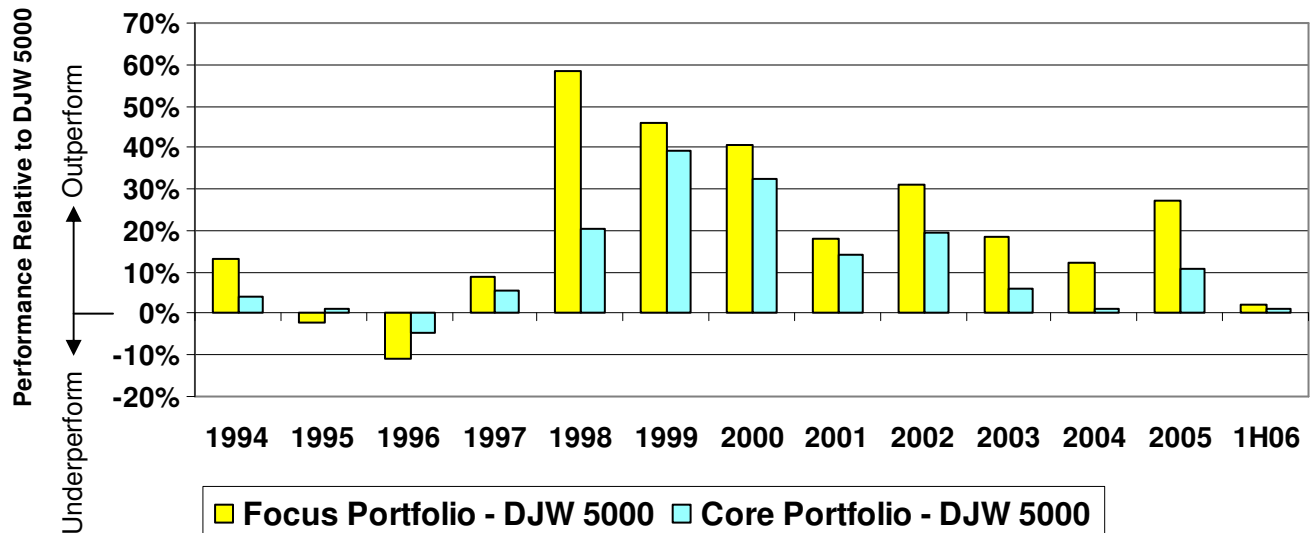
AlphaProfit Model Portfolio Long-Term Performance

The Core and Focus Portfolios were initiated on December 31, 1993 each with a \$50,000 value. No new capital is added. All distributions are reinvested in the fund in which they are paid. The performance shown below is as of June 30, 2006; the returns do not include the one-time 3% front-end sales load charged by Fidelity Investments® for deposits made in the Fidelity Select Portfolio® funds. On Sept. 23, 2003, Fidelity Investments eliminated the one-time 3% front-end sales load for deposits in Fidelity Select Portfolio funds.



	Cumulative Return			Compound Annual Return			Sharpe Ratio	
	3 year	5 year	Inception	3 year	5 year	Inception	5 year	Inception
Focus	122.9%	213.8%	2816.9%	30.6%	25.7%	31.0%	1.38	1.13
Core	66.0%	94.8%	1172.4%	18.4%	14.3%	22.6%	0.78	1.04
DJW 5000	44.5%	22.0%	239.1%	13.1%	4.1%	10.3%	0.14	0.37

	Total Return												
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	1H06
Focus	13.0%	34.2%	10.4%	40.1%	82.1%	69.3%	29.9%	7.1%	10.0%	50.0%	24.8%	33.4%	5.7%
Core	3.9%	37.6%	16.7%	36.7%	44.0%	62.8%	21.4%	3.3%	-1.4%	37.6%	13.9%	17.0%	4.9%
DJW 5000	-0.1%	36.4%	21.2%	31.3%	23.4%	23.6%	-10.9%	-11.0%	-20.9%	31.6%	12.6%	6.3%	3.5%



Glossary of Terms Used

Alpha: Difference between the sector fund's expected return and its "fair return" based on its historical responsiveness to market movements.

AlphaProfit Core™ Model Portfolio: Generally comprises of 7 to 8 Fidelity Select Funds. When fewer number of Select Funds appear attractive, the portfolio includes Index funds. Model portfolio is usually fully invested in equity funds. Turnover of funds in the Core Portfolio is lower than in the Focus Portfolio. Subscribers seeking long-term capital appreciation in retirement or regular accounts may find this portfolio suitable.

AlphaProfit Focus™ Model Portfolio: Typically includes 2 Fidelity Select Funds deemed most attractive. Model portfolio is usually fully invested in equity funds. Typical holding period for Select Funds included in this portfolio is 6 months. Turnover of funds in the Focus Portfolio is higher than in the Core Portfolio. Subscribers seeking aggressive growth of capital in retirement or regular accounts may find this portfolio suitable.

AlphaProfit Sector Portfolio Indicator™: AlphaProfit's proprietary short-term indicator used to assess attractiveness and risks in investing additional capital. Indicator is assigned one of the three readings: (a) Buy - Current prices are good to trade at. (b) Buy on Dips - Weakness may likely develop and may be used as buying opportunity. (c) Wait - Defer investing cash.

Basis Point: Equal to 1/100th of a percent.

Beta: A measure of the responsiveness of a security such as sector fund to market movements.

Compound Annual Return: A calculated number that describes the rate at which an investment has grown, if it grew at a steady rate.

Cumulative or Holding Period Return: Total return earned by the fund or portfolio over the referenced holding period. All distributions are reinvested in the fund paying the distribution.

Dow Jones Wilshire 5000® (Full Cap): Measures the performance of all U.S. headquartered equity securities with readily available price data. Over 5,000 capitalization weighted (stock price times number of shares outstanding) security returns are used to adjust the index. The index is an excellent approximation of dollar

changes in the U.S. equity market.

Favored Buy: Fund rating assigned when a particular fund's risk-reward ratio is deemed superior to those of other funds in the model portfolios. Rating is removed when the fund becomes as attractive as the other funds in the model portfolios. Rating is provided for Subscribers investing in model portfolio funds on *ad hoc* basis.

Fidelity Select Portfolio® Funds: A group of 41 equity mutual funds that focus their investments on a particular sector or industry group.

Fidelity Spartan 500 Index® Fund: Seeks to provide investment results corresponding to the total return of common stocks publicly traded in the U.S., as represented by the Standard & Poor's 500 Index (S&P 500®).

Fidelity Spartan® Total Market Index Fund: Seeks to provide investment results corresponding to the total return of a broad range of U.S. stocks. The fund normally invests at least 80% of the fund's assets in common stocks included in the Dow Jones Wilshire 5000.

Fund Style: Fund style information obtained from Morningstar, Inc. at <http://www.morningstar.com>.

Risk Rating: AlphaProfit's classification of Fidelity Select Funds into 3 categories, 'Above Average', 'Average', and 'Below Average' based on the fund's standard deviation of returns over the last 8 years. Shorter history is used for newer funds.

Sharpe Ratio: A commonly used measure of risk adjusted return. This ratio is calculated using the formula, (portfolio return minus risk free return)/standard deviation of portfolio return. The return on the Vanguard® Prime Money Market Fund is used as a measure of risk free return.

S&P 500®: A market-capitalization weighted index of 500 stocks chosen by Standard and Poor's, Inc. It is used as a benchmark of U.S. equity performance.

ValuM™ Investment Process: The proprietary process used by AlphaProfit Investments, LLC to select investments. The investment process selects sector funds for including in the model portfolios based on the sector's momentum, valuation, and news quality.