



Ideas. Insights. Results.

# AlphaProfit™

## Sector Investors' Newsletter

Service for \$ophisticated \$ector Investors



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### Fund Exchanges

**Core Portfolio: None**  
**Focus Portfolio: None**

### AlphaProfit SP Indicator™

**Reading: Wait**  
**Favored Buy: None**

### Scorecard

**The AlphaProfit Focus and Core model portfolios gained 7.9% and 3.3%, respectively in November outperforming the Dow Jones Wilshire 5000 Total Market Index's 2.3% gain.**

**An I-banker's delight.** While equity investors were generally pleased with November returns, coming ahead of the bonus season, the month was a delight for investment bankers. Orchestrated by merger

Rx while radio giant Clear Channel Communications agreed to be bought by private equity firms for nearly \$19 billion. Copper producer Phelps Dodge received a \$26 billion buyout offer from Freeport-McMoRan Copper & Gold.

**Bond yields and currency trend lower.** Weakness in housing and manufacturing data raised hopes that the Federal Reserve may embark on reducing interest rates relatively soon. These factors caused the yield on the 10-year Treasury

AlphaProfit Sector Investors' Newsletter (ISSN: 1547-9668) is published monthly by AlphaProfit Investments, LLC.

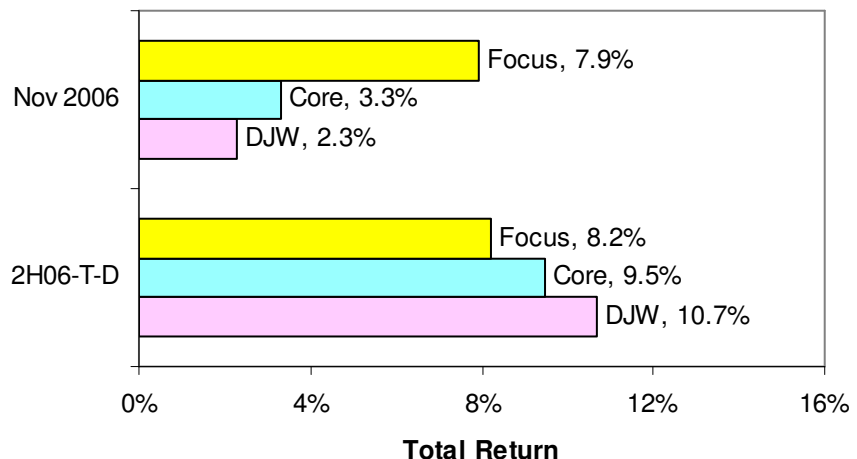
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Mondays, takeover activity was robust as the value of U. S. acquisitions in 2006 crossed \$1.5 trillion.

M & A activity was spread across several sectors as corporations and private equity firms vied for assets. Among larger deals, drug store CVS offered \$21 billion for pharmacy benefits provider Caremark

bond to decline to 4.46% while the U. S. dollar gave ground against the euro and the yen during the second-half of the month.

The backdrop of a declining dollar spurred investors to increase their investments in gold. The yellow metal rallied over 6%. The widely followed Standard & Poor's 500

## 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	June 30, 2006		November 30, 2006	
(Ticker Symbol)	Amount Invested	Percent Portfolio	Value	Percent Portfolio
Gold (FSAGX)	\$729,221	50.00%	\$818,544	51.88%
Materials (FSDPX)	\$729,221	50.00%	\$759,366	48.12%
Total (rounded to)	\$1,458,442	100.00%	\$1,577,910	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	June 30, 2006		November 30, 2006	
(Ticker Symbol)	Amount Invested	Percent Portfolio	Value	Percent Portfolio
IT Services (FBSOX)	\$64,599	10.15%	\$68,355	9.82%
Cons. Staples (FDFA)	\$65,048	10.22%	\$70,847	10.17%
Gold (FSAGX)	\$96,120	15.11%	\$107,894	15.49%
Health Care (FSPHX)	\$58,261	9.16%	\$63,087	9.06%
Materials (FSDPX)	\$96,120	15.11%	\$100,093	14.37%
Insurance (FSPCX)	\$59,280	9.32%	\$65,892	9.46%
Pharma. (FPHAX)	\$63,538	9.99%	\$68,260	9.80%
Telecomm. (FSTCX)	\$65,934	10.36%	\$73,678	10.58%
Util. Growth (FSUTX)	\$67,311	10.58%	\$78,245	11.24%
Total (rounded to)	\$636,212	100.00%	\$696,350	100.00%

Index made a six-year high even though the benchmark trailed its March 2000 high. The broader Dow Jones Wilshire 5000 Index extended its advance for the fourth straight month with a 2.3% gain.

From a sector perspective, energy and materials were strong with gold mining shares raking in double-digit gains. Sentiment towards health care shares was impacted after Democrats gained control of the House and the Senate.

While strength in gold mining and materials shares helped the Focus model portfolio to a 7.9% gain, exposure to these groups enabled the Core model portfolio to offset weakness elsewhere and work up a 3.3% gain.

### Major Movers

*(Company and fund ticker symbols in parentheses.)*

Although aggregate returns for the

model portfolios were relatively strong, the breadth of advance was relatively narrow in the top 10 holdings with only half of them advancing. The winners list was skewed towards gold miners and materials-related companies with selected companies from the IT services group offering competition. Health care and telecom service companies frequented the losers list.

**Crystallex, a clear winner.** Shares of Crystallex International (KRY-FSAGX) put on a shine with a 34% rally to gain honors as the best performer in both model portfolios. Low-priced shares of the junior gold miner benefited from optimistic comments made by CEO Todd Bruce on progress being made in obtaining key environmental permits in Venezuela. Improvement in third quarter earnings on a year-over-year basis added to investor optimism.

**Phelps Dodge becomes a target.**

The buyout offer from Freeport-McMoRan Copper & Gold (FCX-FSAGX) vaulted shares of Phelps Dodge (PD-FSDPX) to a 22% gain in November making them the second best performer in both model portfolios. Phelps Dodge had attempted to buy nickel producer Inco only a few months ago.

**Qwest runs out of steam.** Shares of telecom service provider Qwest Comm. (Q-FSTCX, FSUTX), which were up over 50% for the year going into November, lost over 10% to become the worst performer in the Core model portfolio. With low-hanging fruits from the operational turnaround having already been realized, concerns over Qwest's ability to sustain and increase profitability in the face of rising access line losses weighed on its shares.

**Norfolk Southern goes off-track.** Norfolk Southern (NSC-FSDPX), a top mover in October, gave some of the gains back in November. The shares lost nearly 6% and became the Focus model portfolio's worst performer. The backdrop of stellar earnings reported in October was

### Year-End Model Portfolio Repositioning

The model portfolios will be repositioned after the markets close on December 29. To help you closely track the model portfolios, we will publish the **Repositioning Alert Preview** by **12:00 p.m. Central Time on Friday, December 29** in the Subscriber Login area. We will follow this with the **Repositioning Alert Confirmation** by **11:00 a.m. Central Time on Sunday, December 31**.

The **January Indicator Update** including an overview of the considerations resulting in the repositioning changes will be published by **Noon Central Time on Monday, January 1**. The Repositioning Alert Preview and Confirmation documents as well as the January Indicator Update will be e-mailed to Subscribers when they are published on the web site.

## Fidelity Select Consumer Staples

Fast food restaurants as well as soft drink manufacturers are increasingly focusing on healthy offerings. Unilever's restructuring efforts are yielding results.

McDonald's (MCD-FDFAX) got the fourth quarter off to a strong start. Worldwide same-store-sales increased 5.5% in October. McDonald's is playing catch-up to competitors Yum! Brands and Wendy's and is testing the use of zero trans-fat oil in a limited number of its U. S. outlets.

Looking ahead, McDonald's is looking to breakfast items to power U. S. results. The company is developing specialty coffees as well as breakfast burrito and cinnamon bun offerings. From a geographical perspective, the company sees substantial long-term growth potential in China. To benefit from this opportunity, McDonald's plans to open 100 restaurants in China annually.

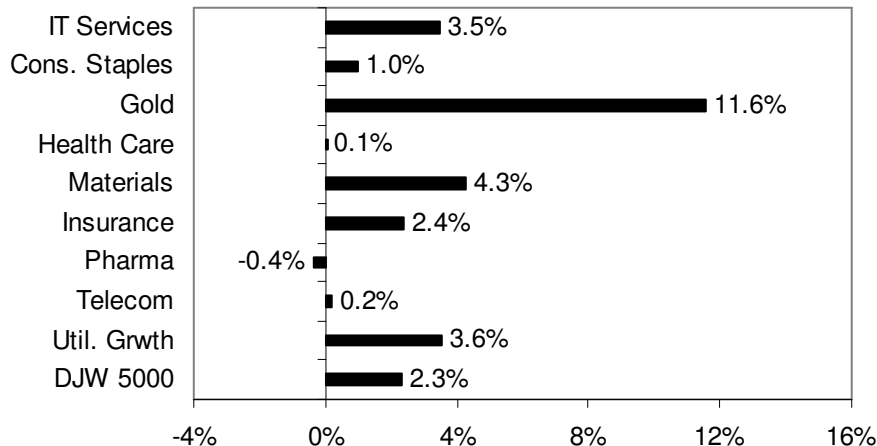
PepsiCo (PEP-FDFAX) is testing a new smoothie *Fuelosophy*. The drink is being offered through Whole Foods Market stores in the Midwest and Northeast. PepsiCo is also buying Naked Juice Company, a premium juice maker with \$150 million in sales.

Altria (MO-FDFAX) has raised its 2006 per-share operating earnings forecast by 15 cents to the \$5.63 to \$5.68 range. The company expects to finalize its decision to spin off its 85% stake in Kraft Foods at its January 31, 2007 board meeting. The company received a reprieve in California where an initiative to quadruple the state's cigarette taxes was voted down.

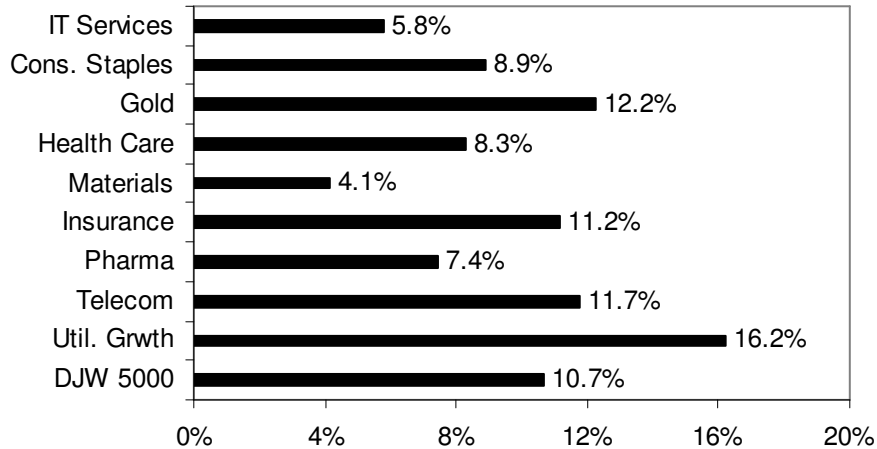
Unilever (UN-FDFAX) is seeing some success in achieving organic growth. Excluding asset sales, Unilever's third quarter revenue increased 3% in the U. S. and 3.5% in Europe. Margins were however impacted by higher advertising and promotion costs and operating profit

## Fund Returns

November 2006



2H2006



partly offset by concerns that a weakening U. S. economy will impact future freight volumes. Rising oil prices were another factor going against railroad shares in general.

### Outlook

(Company and fund ticker symbols in parentheses.)

**U. S. economic indicators portray a state of unevenness with some data suggesting a slowdown in manufacturing.** The Institute of Supply Management's factory index declined marginally in October while remaining above 50.0 to suggest continued expansion. The New York and Philadelphia Federal Reserve's gauges of manufacturing activity actually improved in November. Also, the third quarter gross domes-

tic product growth estimate was revised upward from 1.6% to 2.2%.

Not all indicators pointed to growth. The National Association of Purchasing Management-Chicago's index dipped a tad below 50.0 suggesting contraction in manufacturing. The Commerce Department reported that durable goods orders declined 8.3% in October.

While the U. S. trade deficit declined 6.8% in September, the nation remains on track to post a record annual trade deficit in 2006 nearing \$800 billion. This in combination with checkered economic data caused the U. S. dollar to lose ground.

declined a tad to \$1.9 billion. Going forward, Unilever is looking to control costs and improve product mix to boost margins.

Companies in the consumer staples group continue to execute well. Valuation metrics in this group have increased since Fidelity Select Consumer Staples was included in the model portfolios at the start of the year. Going forward, our decision to include funds in the consumer sector will be influenced by valuation levels and macroeconomic outlook.

### Fidelity Select Gold

**Consolidation among gold miners shows no signs of abating while majors struggle to live up to earnings expectations. A declining U. S. dollar drives the yellow metal higher.**

**Consolidation continues.** Canada's third-largest gold producer Kinross Gold has agreed to acquire compatriot Bema Gold for about \$3 billion. In November, Goldcorp (GG-FSAGX) completed its \$8.6 billion acquisition of Glamis Gold while lamgold completed its \$1.1 billion purchase of Cambior (CBJ-FSAGX).

Meanwhile, Barrick Gold (ABX-FSAGX) is continuing its pursuit of NovaGold having put its 'best and final' offer forward. Barrick has also increased its stake in Highland Gold, an entity with Russian gold reserves, from 20% to about 34%.

The rising price of gold is whetting the takeover appetite of other metal miners. Chip Goodyear, CEO of Australia-based BHP Billiton, has stated that his company will look to buy a gold mine. Whether Newcrest Mining (AU: NCM-FSAGX) or Freeport McMoRan Copper & Gold (FCX-FSAGX) attracts the interest of BHP remains to be seen.

**Earnings fall short.** Recent acquisitions helped both Barrick Gold and Goldcorp to increase gold production from year-ago levels. New-

## Top 10 Fund Holdings

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

Alltel, AT&T, BellSouth, Johnson & Johnson, Level 3 Comm., Merck, Pfizer, Qwest Comm., Sprint Nextel, Verizon Comm., and Wyeth are each represented in two out of the nine Core model portfolio funds.

There is no overlap in the top 10 holdings of the two funds in the Focus model portfolio.

<b>Cons. Staples (FDFAX)</b>	<b>Gold (FSAGX)</b>	<b>Health Care (FSPHX)</b>
Nestle ADR	Newcrest Mining	Pfizer
Unilever NV (NY)	Barrick Gold	Johnson & Johnson
Altria Group	Meridian Gold	Merck
Coca Cola	Aber Diamond	UnitedHealth
PepsiCo	Newmont Mining	Amgen
McDonald's	Cambior	Wyeth
Kroger	Goldcorp	WellPoint
Sysco	Freeport-McMoRan C&G	Allergan
Kellogg	Buenaventura (Cia Min)	Baxter Intl.
General Mills	Crystallex Intl.	Cardinal Health
<i>49.9% of portfolio</i>	<i>61.8% of portfolio</i>	<i>46.7% of portfolio</i>
<i>23.2% foreign</i>	<i>84.5% foreign</i>	<i>7.6% foreign</i>
<b>IT Services (FBFOX)</b>	<b>Insurance (FSPCX)</b>	<b>Materials (FSDPX)</b>
First Data	Amer. Intl. Group	Alcoa
Paychex	St. Paul Travelers	Burl. North. Santa Fe
Open Solutions	Ace	Phelps Dodge
Hypercom	MetLife	Can. Natl. Railway
Fair Issac	Hartford Fin. Svcs.	Praxair
Automatic Data Proc.	Prudential Financial	U. S. Steel
Moneygram Intl.	Aflac	Alcan
Cognizant Tech Cl. A	Allstate	Ipsco
CyberSource	Chubb	Norfolk Southern
Moody's	Endurance Spl. Hldg.	Cameco
<i>57.6% of portfolio</i>	<i>49.6% of portfolio</i>	<i>35.8% of portfolio</i>
<i>4.2% foreign</i>	<i>29.3% foreign</i>	<i>30.2% foreign</i>
<b>Pharma. (FPHAX)</b>	<b>Telecomm. (FSTCX)</b>	<b>Util. Growth (FSUTX)</b>
Merck	AT&T	Verizon Comm.
Pfizer	Qwest Comm.	Bellsouth
Novartis ADR	Verizon Comm.	AT&T
Wyeth	BellSouth	Sprint Nextel
Roche Holdings	Alltel	Alltel
Johnson & Johnson	Motorola	Level 3 Comm.
AstraZeneca ADR	Level 3 Comm.	Exelon
Schering-Plough	Time Warner Telecom.	Qwest Comm.
Lilly (Eli)	Sprint Nextel	FPL Group
Bristol-Myers Squibb	Corning	Entergy
<i>59.7% of portfolio</i>	<i>63.3% of portfolio</i>	<i>64.9% of portfolio</i>
<i>32.1% foreign</i>	<i>7.0% foreign</i>	<i>NA</i>

mont Mining (NEM-FSAGX), which has not engaged in major acquisitions in recent years, reported a decline in production. Benefiting from a strong gold price environment, Barrick Gold, Goldcorp, and Newmont reported year-over-year increase in per-share earnings of 120%, 50%, and 36%, respectively. Yet, results for all three companies fell short of analysts' estimates.

Gold miners are focusing on costs to improve margins. Newmont is outsourcing the management of IT operations to Computer Sciences. Goldcorp is looking to synergies from the integration of recently acquired mines to achieve \$20 million in annual savings.

**Currency drives gold.** Gold for December delivery rallied nearly \$40 per ounce to close at \$646.90 per ounce. The rally was largely driven by weakness in the U. S. dollar which slid to a 14-year low against the British pound and a 20-month low against the euro.

Several of the factors that caused the greenback to weaken continue to remain in place. For one, the U. S. economy's growth rate has slowed and this increases the likelihood that the Federal Reserve will start to lower interest rates. With both the European Central Bank and the Bank of Japan hinting at interest rates hikes, interest rate spread vis-à-vis dollar denominated securities stands to widen and render the greenback less attractive.

Additionally, the U. S. trade deficit continues to balloon with central banks in Japan, China, and Russia building impressive reserves. In late October, China's foreign exchange reserves for example topped the \$1 trillion mark, a five-fold increase from the 2001 level. As part of their strategy to diversify foreign exchange reserves, the Chinese and Russian central banks are beginning to buy alternative investments including other currencies and gold in lieu of the U. S. dollar.

Given the above macroeconomic milieu, we continue to remain optimistic on the prospects for Fidelity Select Gold and include this fund in both model portfolios. The strong rally in gold mining shares in November makes Fidelity Select Gold as attractive as the other Select funds included in the model portfolios. As such, the fund's 'Favored Buy' rating was removed on December 1.

## Fidelity Select Health Care, Pharmaceuticals

**Competition is intensifying in the cholesterol-lowering drug space as companies vie for dominance. While Merck scores with its new diabetes treatment, Pfizer struggles. Shanghai is emerging as a new epicenter of health science.**

**Cardiovascular.** With Merck's (MRK-FSPHX, FPHAX) *Zocor* patent having expired earlier this year, the race to develop next generation drugs in the lucrative cholesterol-lowering drug business is on, ahead of Pfizer's *Lipitor* patent expiring in 2011.

Seeking to become a major player in the cardiovascular market, Abbott Laboratories is acquiring Kos Pharmaceuticals for \$3.7 billion for the latter's niacin-based products that boost HDL or 'good' cholesterol. Meanwhile, ISIS Pharmaceuticals' developmental drug ISIS 301012 has shown prowess in significantly reducing LDL or 'bad' cholesterol.

Meanwhile, Pfizer (PFE-FSPHX, FPHAX) is pinning its hopes on pairing *Lipitor*, a drug that reduces bad cholesterol with *torcetrapib*, a compound that has shown efficacy in raising good cholesterol. *Torcetrapib* has however shown a tendency to increase blood pressure in some cases.

In other developments, AstraZeneca (AZN-FPHAX) has signed a deal with Par Pharmaceuticals to distribute a generic version of *Toprol-XL* used to treat angina and

## Stock Searchlight

*Stocks with appealing earnings trends and relatively attractive valuation characteristics are highlighted. Subscribers seeking stocks for the intermediate term may find the list worthy of further study.*

**Am. Intl. Group (AIG)** p. 6  
**Fair Isaac (FIC)** p. 7  
**Prudential Fncl. (PRU)** p. 6

heart attack. AstraZeneca now forecasts 2006 per-share earnings at the lower end of the prior \$3.85 to \$3.95 forecast.

An FDA advisory panel will hold a hearing on December 7 and 8 to review safety concerns on drug-coated stents, an event that may well cause volatility in stent manufacturer shares to tick up. Meanwhile, to better position versus competition, stent manufacturer Johnson & Johnson (JNJ-FSPHX, FPHAX) has agreed to acquire competitor Conor Medsystems for \$1.4 billion.

**Diabetes.** Merck is putting its marketing muscle behind *Januvia*, its new type 2 diabetes drug, to make the most of its first-mover advantage. *Januvia* belongs to a new class of treatment that works by enhancing the body's ability to lower blood sugar. After receiving U. S. approval in mid-October, *Januvia* is now reported to account for more than 14% of new prescriptions. Meanwhile, Novartis' (NVS-FPHAX) competing developmental drug *Galvus* is being pushed back as the FDA has increased its review period by three months.

Things do not appear to be going as well as expected for Pfizer's inhaled insulin *Exubera*. The drug appears to be receiving a lukewarm reception from endocrinologists to whom it was released first. Pfizer has now pushed the date for releasing the drug to general practitioners from November to January.

**Cost reduction.** Major drug companies are reining in costs through off-shoring and work force reduction. China's efforts to make Shang-

hai a magnet for life sciences research are yielding results. Novartis plans to build a \$100 million R&D center in Shanghai. This comes on the heels of Pfizer setting up its regional headquarters and Astra-Zeneca setting up major facilities in China. Meanwhile, Merck has hired India's Advinus Therapeutics to conduct research and preclinical trials on some drugs used to treat metabolic disorders.

In an effort to save more than \$400 million, Pfizer has announced a 20% or 2,200 people reduction in its U.S. sales force. This could well provide a 'license' to competitors to take a look at their sales and marketing budgets and change the way drugs get marketed.

**Other developments.** The U. S. FDA has cleared the use of breast implants. Silicone-gel breast implants had been banned in the U. S. since 1992. As such, the sizeable pent-up demand augurs well for Allergan's (AGN-FSPHX) future earnings.

UnitedHealth's (UNH-FSPHX) troubles from backdating of options are taking a larger and longer toll. The company now expects earnings restatements to exceed \$286 million and has delayed filing its third quarter financial report. Meanwhile, Merck has disclosed that it may potentially owe \$5.6 billion in taxes from four separate disputes in Can-

ada and the U. S.

The earnings predictability of health care companies is a virtue against the backdrop of a slowing U. S. economy. That said, prospects for certain segments like managed care look less appealing than others. The Democrats' victory in the November Congressional elections increases the possibility that the health care industry will be subject to negative headlines as different proposals get debated. We retain Fidelity Select Health Care and Fidelity Select Pharmaceuticals in the Core model portfolios for now.

### Fidelity Select Insurance

**The nation's leading insurers post robust earnings reports even as competition intensifies to restrain premium growth.**

Strength in the performance of its insurance and international divisions helped Prudential (PRU-FSPCX) offset weakness in the investment division and report \$1.72 in per-share operating income. The tally exceeded the \$1.48 analysts' forecast. Prudential is trying to create opportunity to invest in China under the Qualified Foreign Institutional Investor scheme. Expressing optimism on future prospects, Prudential has increased its annual dividend by 22% and authorized a \$3 billion share repurchase program. Prudential trades at a forward

P/E of about 13.

American International Group (AIG-FSPCX) reported \$1.53 in per-share adjusted third quarter income exceeding analysts' \$1.42 forecast. In the absence of large hurricane-related losses, AIG's general insurance division swung to a \$2.6 billion operating profit from a \$208 million loss reported a year-ago. To enable health care companies to protect themselves from liabilities related to negligent handling and security breach of confidential data, AIG Healthcare has introduced Security & Liability Insurance. AIG trades at a forward P/E of about 11.

While the industry has put legal woes relating to broker compensation behind, individual companies continue to deal with regulatory issues. Two of AIG's divisions have been subpoenaed by the Justice Department and the SEC to investigate alleged bid-rigging in guaranteed investment contracts sold to municipalities. Meanwhile, Hartford (HIG-FSPCX) has agreed to pay \$55 million to settle federal charges on improprieties in marketing investment products.

Property and casualty insurers have benefited from a benign 2006 hurricane season. Insurers like Aflac (AFL-FSPCX) with meaningful exposure to overseas markets like Japan stand to benefit from a declining U. S. dollar. Competition

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The model portfolios presented in this newsletter are the products of AlphaProfit Investments, LLC. The proprietary ValuM™ Investment Process is used to select sectors for investment in the AlphaProfit Sector Investors' Newsletter model portfolios. This process evaluates sectors based on their valuation, momentum, and news flow quality.

*continued on page 10*

both in the U. S. as well as overseas markets is however pressuring premium growth. We continue to include Fidelity Select Insurance in the Core model portfolio.

## Fidelity Select IT Services

**Companies in the business service space are executing well for the most part and dividend increases are forthcoming.**

Strong demand for delivery of software services from low-cost regions powered Cognizant Technology's (CTSH-FBSOX) third-quarter revenue 60% higher from the year-ago level. On a per-share basis, Cognizant earned 45 cents, ahead of the analysts' 38 cent forecast. In November, the New Jersey-based IT services provider also earned a spot in the coveted S&P 500 index.

Cognizant plans to spend over \$200 million to expand infrastructure in India. The company plans to add 3 million square feet for the 30,000 new employees it plans to hire. Expressing confidence in its future, Cognizant has raised its fourth quarter and full-year earnings outlook.

Excluding stock option and one-time charges, Fair Isaac (FIC-FBSOX) earned 60 cents a share during its fiscal fourth quarter and bettered analysts' 57 cents a share forecast. The company's CEO has departed and its CFO is now the interim CEO. This has spurred optimism that the analytics and decision technology provider's revenue growth will accelerate. The company has upped its earnings forecast for the next fiscal year and authorized a \$500 million stock buy-back program. Fair Isaac trades at a forward P/E of about 15.

The transition from a direct sales model to an indirect one took a toll on credit card payment terminal maker Hypercom (HYC-FBSOX). Third-quarter revenue declined 14.8% pushing per-share earnings lower to 1 cent from 7 cents reported a year ago. To deliver on its

forecasted 9% to 12% increase in 2007 revenue, Hypercom is targeting potential high volume customers like Total Merchant Services and Symbol Technologies.

Automatic Data Processing (ADP-FBSOX) and MoneyGram International (MGI-FBSOX) were among the companies announcing dividend payment increases. Both companies have increased their quarterly payment by about 25%.

Fidelity Select IT Services represents a relatively low-risk technology sector play in the Core model portfolio. Our decision to continue with this holding will be influenced by the prospects for this fund as well as other technology-oriented Select funds.

## Fidelity Select Materials

**Aluminum producers are restructuring their businesses and enhancing product breadth. The steel industry is in the midst of cross-border deal frenzy while deal making is alive and well in copper.**

**Aluminum.** Alcoa (AA-FSDPX) has outlined a restructuring program to improve the profitability of its aluminum products business. The company will cut 6,700 jobs or 5% of its workforce with about 70% of the cuts being made in units that make parts for the auto industry. Alcoa is also working to jettison its soft-alloy business by forming a joint venture with the Sapa unit of Norway's Orkla.

Alcan (AL-FSDPX) is becoming acquisitive. To broaden the range of core material products offered, Alcan is acquiring Penske Composites, a leading manufacturer of reinforced structural urethane.

Alcan is also considering acquiring a titanium producer because of rising demand from the aerospace industry. Investors were quick to react to these tidings and bid up share prices of titanium producers like Allegheny Technologies and

## Recent Developments in Pharmaceuticals and Telecommunications

On December 2, Pfizer announced that it has halted the development of its cholesterol-lowering compound *torcetrapib* after an independent panel of experts provided data on increased deaths and heart problems among patients participating in a large, late-stage trial.

While safety concerns on *torcetrapib* represent a setback for Pfizer, the development is less significant from an industry perspective. Other players in cholesterol-lowering drug market, Schering-Plough, AstraZeneca, and Abbott Laboratories will likely benefit from Pfizer's woes. Meanwhile, Pfizer is likely to acquire companies in an attempt to bolster its pipeline.

FCC Chairman Kevin Martin's effort in breaking the deadlock in the AT&T-BellSouth review is yielding some results. On December 8, the FCC's General Counsel authorized Commissioner Robert McDowell to vote on the merger. McDowell had previously declined to vote because of his prior association with a trade group that opposes the merger. A date for the FCC vote has not been set yet.

**Date: December 11, 2006**

Titanium Metals. Alcan has also finally secured power for its long-delayed \$2.5 billion aluminum smelter in South Africa.

**Steel.** The Russians and Brazilians are taking the steel industry by storm causing share prices of potential take-over targets to spike. Russia's Evraz Group is buying Oregon Steel in a \$2.3 billion deal to create the world's largest rail producer. Russian steel maker OAO Severstal is reported to be in negotiations to buy West Virginia-based Weirton Steel. Reports of OAO Severstal's interest in acquiring

other North American Steel makers either by itself or in partnership with compatriot Metallinvest have caused shares of U. S. Steel (X-FSDPX) and IPSCO (IPS-FSDPX) to spike.

Elsewhere, Brazil's Companhia Siderurgica Nacional (CSN) has thrown itself into the ring to battle India's Tata Steel in acquiring Britain's Corus Group. CSN has also made a pass at Wheeling-Pittsburgh but the latter's shareholders have favored the hostile offer from Chicago-based Esmark instead.

**Copper.** Freeport McMoRan Copper & Gold (FCX-FSAGX) is vying to become the world's biggest publicly traded copper producer leapfrogging BHP Billiton. Freeport is acquiring Phelps Dodge (PD-FSDPX) for the latter's copper reserves. Meanwhile, speculation continues that the copper industry will consolidate further with BHP Billiton buying Freeport to compete with Chile's Codelco as the 'numero uno' copper producer.

With commodity prices rising and remaining at elevated levels in recent times, supply of commodities is on the rise. Demand growth meanwhile appears to show some signs of slowing. A slowing U. S. housing market in combination with lower exports to China have for example pressured copper prices. Prices for hot-rolled steel products in the U.S. too have declined nearly 8% since in September.

Share prices in many sub-groups here have run up anticipating takeover transactions. The recent rally makes Fidelity Select Materials as attractive as the other Select funds included in the model portfolios. This causes us to remove the 'Favored Buy' rating on this fund. Share price valuation as well as outlook for commodity prices will be factors that impact our decision vis-à-vis Fidelity Select Materials when the model portfolios are repositioned.

## Fidelity Select Telecommunications, Utilities Growth

**Telecom companies are focusing on tuck-in acquisitions while the AT&T-BellSouth merger hangs in balance. Growth in the wireless industry is poised to continue with handset demand forecasted to grow 10% in 2007. Phone companies continue to upgrade their networks and electric utility companies expect their earnings to grow in 2007.**

**Telecom mergers.** The Federal Communications Commission's decision on the AT&T (T-FSTCX, FSUTX)-BellSouth (BLS-FSTCX, FSUTX) merger continues to get delayed. In early November the FCC delayed voting on this merger for a third time. Following the vic-

*Motorola expects to sell 12 million units or \$1.6 billion worth of handsets to China Telling Communications in 2006, up from six million units in 2006. The company also has high hopes for its latest slim phone, Krzr launched in the third quarter. Motorola expects more than 1.25 million units of Krzr to be sold during the first 120 days, outpacing the rate for the company's highly successful Razr.*

tory in the Congressional elections, Democrats are urging for a thorough FCC review and would ideally see the merger review pushed into 2007 so that the Democrat-controlled Congress can examine the transaction. Meanwhile, the Senate has approved the nomination of FCC Chairman Kevin Martin to serve a second five-year term. Martin is working to have the 2-2 deadlock in the FCC resolved to arrive at a decision on the proposed merger.

Both telecom service providers and telecom equipment companies are engaging in tuck-in acquisitions. AT&T's e-commerce subsidiary, Sterling Commerce is acquiring

Comergent Technologies for \$155 million with a view to helping customers lower their supply-chain costs. Motorola (MOT-FSTCX) is acquiring Netopia, a DSL gear and routing equipment provider, and Good Technology, a wireless messaging and data access services software provider.

**Wireless growth.** Global sales of mobile phones appear set for another year of double-digit growth. Market research firm Gartner estimates that increasing penetration of wireless use in China, India, and Latin America will propel world-wide handset sales in 2007 to 1.1 billion units, about 10% higher than the 986 million forecasted in 2006. The 10% growth however represents a slowdown from the 21% increase expected in 2006.

Such growth is leading to business opportunities for handset makers. Motorola expects to sell 12 million units or \$1.6 billion worth of handsets to China Telling Communications in 2006, up from six million units in 2006. The company also has high hopes for its latest slim phone, Krzr launched in the third quarter. Motorola expects more than 1.25 million units of Krzr to be sold during the first 120 days, outpacing the rate for the company's highly successful Razr.

**Network upgrades.** Phone companies are spending mega-bucks to upgrade the speed of their networks. Sprint Nextel (S-FSTCX, FSUTX) is rolling out its wireless broadband network with faster EV-DO technology in several markets covering 170 million people. The high-speed network will allow customers access to services such as high-speed video telephony and music-on-demand.

Sprint's competitor Alltel (AT-FSTCX, FSUTX) is now offering its high-speed wireless service *Axcess Broadband* in a number of markets. *Axcess Broadband*, also based on EV-DO technology, provides customers with wireless access to the Internet at speeds comparable to

wired broadband connections such as cable modem or DSL.

Meanwhile, Verizon (VZ-FSTCX, FSUTX) is deploying its fiber-to-the-premise network with the intent of offering FiOS TV and FiOS Internet Service. Verizon intends to use FiOS TV to compete with cable and satellite companies offering digital TV services. FiOS Internet service allows high-speed access to the Internet.

**Electric utility earnings.** Led by strong gains in its wholesale nuclear-generation business, Entergy's (ETR-FSUTX) per-share operating earnings of \$1.86 were inline with the company's upwardly revised forecast. Going forward, Entergy has reiterated its 2006 financial outlook and expects per-share earnings excluding Entergy New Orleans to increase close to 20% in 2007.

Exelon (EXC-FSUTX), the number one U. S. nuclear power plant operator, too has reiterated its 2006 earnings forecast of \$3.15 to \$3.30 per share. The decline in earnings at Exelon's Commonwealth Edison unit is expected to be offset by an increase in earnings at the company's power generation unit, helping Exelon grow earnings by over 36% in 2007.

While the growth story in wireless remains intact, opportunities for further consolidation in the telecom services space appear to be slim. Synergies from previously completed mergers have also been realized to a large degree. In the utilities space, approval for mergers from state regulators has not been readily forthcoming. We retain Fi-

delity Select Telecommunications and Fidelity Select Utilities Growth in the Core model portfolio for now.

### Market Outlook & Sector Portfolio Indicator Reading: Wait

**Against the backdrop of a slackening economy, equity investors have taken comfort from the expectation that the Federal Reserve will soon reduce interest rates and bid up equity prices.**

The U. S. equity market has been notably strong during the second half of 2006 with the S&P 500 index putting in a 5-month winning streak from July through November.

For one, earnings have been strong with S&P 500 companies posting an impressive 18.9% year-over-year increase in third quarter earnings. Additionally, M & A activity has picked up momentum as cash-rich entities have been keen on buying U. S. business assets.

Data indicative of the health of U. S. economic activity have slackened in recent months. For now, equity investors have taken comfort from the expectation that the Federal Reserve will reduce short-term interest rates soon in an attempt to prevent the slowdown from turning into a recession.

Inflation as measured by producer and consumer price indexes has been relatively tame. Yet, year-over-year increase of 2.4% in the core personal consumption expenditure index exceeds the Federal Reserve's implied 2.0% cap. As such, the Federal Reserve appears

### Featured Quote

**'The old order changeth, yielding place to new.'**

**Alfred Tennyson**

to be more concerned about inflation than softness in manufacturing and housing sectors.

While robust M & A activity and year-end seasonality factors may help the equity market avoid a substantial sell-off, concerns on vitality of the economy and robustness of earnings growth in 2007 may weigh on the performance of the stock market in December. Equity investors may become jittery if oil prices firm up ahead of the OPEC meeting on December 14.

Considering these factors in conjunction with the 0.75% short-term redemption fee charged by Fidelity Investments on Select fund investments held less than 30 days, we are assigning a 'Wait' reading to the AlphaProfit Sector Portfolio Indicator ahead of the year-end repositioning. None of the Select funds included in the model portfolios is rated 'Favored Buy' at the present time. As such, Subscribers starting out or seeking to add to existing positions may choose to defer until the model portfolios are repositioned at the end of the year.

**AlphaProfit Investments, LLC**  
**Date: November 30, 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 Consumer Staples	FDFA	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	M. Sabel
Select Insurance	FSPCX	Large Cap Value	Average	S. Hermsdorf
Select IT Services	FBSOX	Mid Cap Growth	Below Average	B. Hesse, J. Morrow
Select Materials	FSDPX	Large Cap Blend	Average	J. Simes
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	D. Simmons

**Manager Changes:** None.

**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.

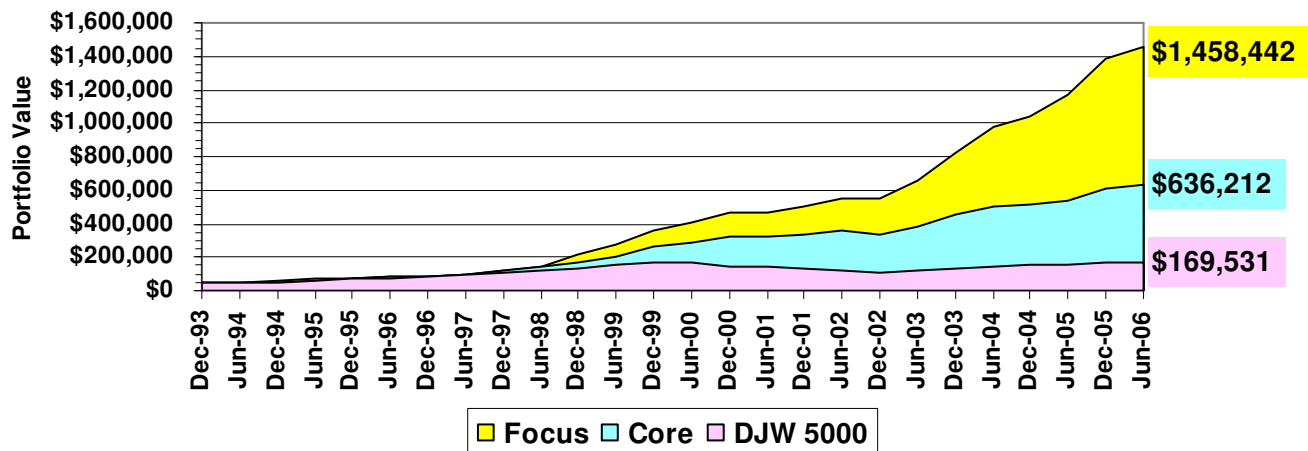
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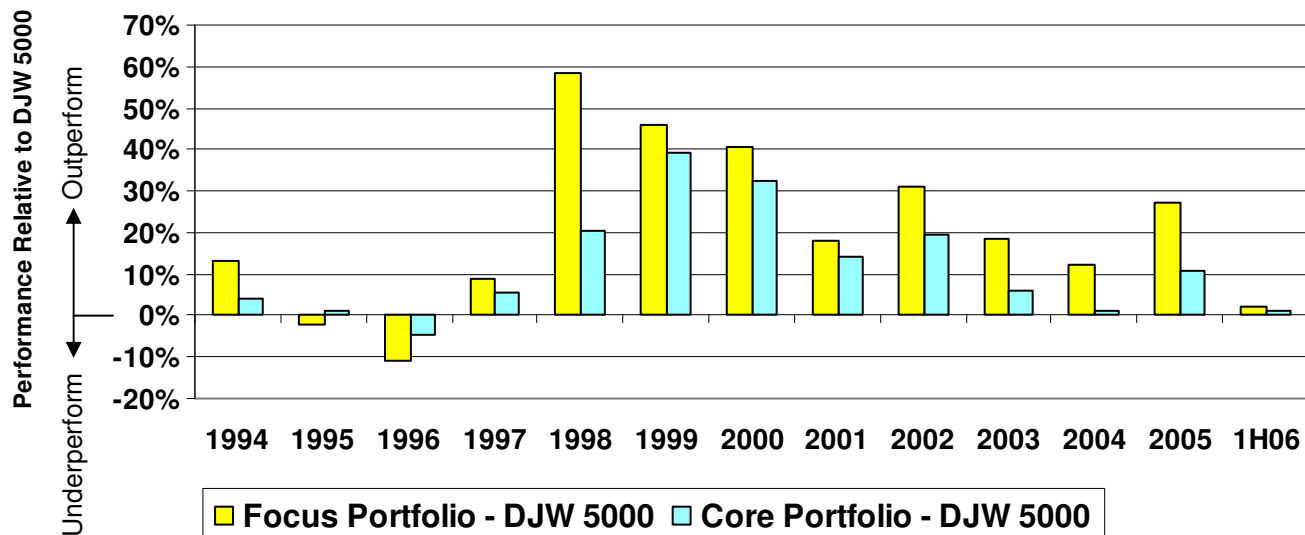
### AlphaProfit Model Portfolio Long-Term Performance

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
<b>Focus</b>	122.9%	213.8%	2816.9%	30.6%	25.7%	31.0%	1.38	1.13
<b>Core</b>	66.0%	94.8%	1172.4%	18.4%	14.3%	22.6%	0.78	1.04
<b>DJW 5000</b>	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
<b>Focus</b>	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%
<b>Core</b>	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%
<b>DJW 5000</b>	-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.