



Ideas. Insights. Results.

# AlphaProfit™

## Sector Investors' Newsletter



Service for \$ophisticated \$ector Investors

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**Fund Exchanges**  
**Core Portfolio: None**  
**Focus Portfolio: None**

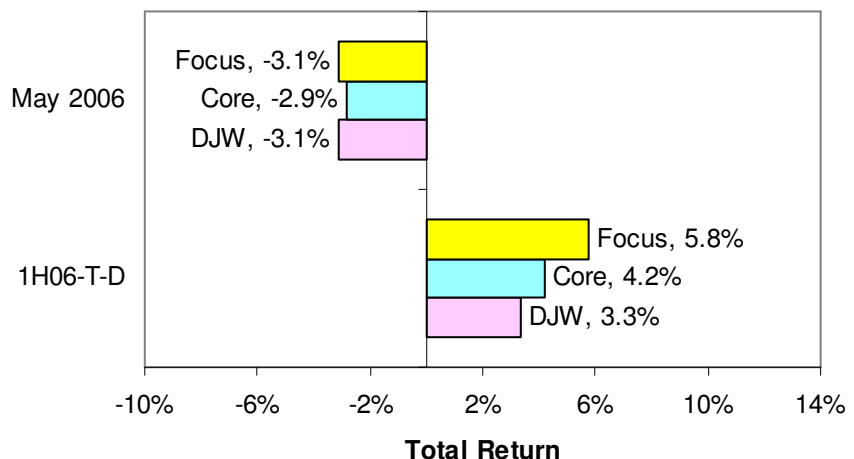
**AlphaProfit SP Indicator™**  
**Reading: Wait**  
**Favored Buy: None**

### Scorecard

**In May, the AlphaProfit Core and Focus Model portfolios declined 2.9% and 3.1%, respectively. The Dow Jones Wilshire 5000 Total Market Index declined 3.1%.**

**Mayhem in May.** The month got off to a rocky start following media reports that investors mis-interpreted Federal Reserve Chairman Ben

Economic data added to the uncertainty. While increases in import prices and the core consumer price index suggested inflation to be rising, the decline in housing starts suggested that a slowdown in economic growth may already be in the works. Investors sensed the risk of surging interest rates derailing continued global economic expansion and a barrage of selling ensued.



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Bernanke's comments to mean that a pause in short-term interest rates was in the offing.

Investors waited for better clarity on monetary policy from the Federal Reserve's Open Market Committee meeting on May 10. The FOMC statement issued following the 16<sup>th</sup> consecutive 0.25% increase in short-term interest rate was relatively vague.

**Leaders lose ground.** Sectors, industry groups, and geographic regions that led the equity rally during the early part of the year were hit hard. Share prices in natural resource-related groups such as energy and gold abruptly reversed course following the May 10 meeting. The sell-off was sharp and swift. Share prices in emerging markets swooned losing about 15% in just about a week.

## Portfolio Composition

### AlphaProfit Focus™ Model Portfolio

Our Focus Portfolio was last repositioned at the close of business on December 31, 2005. We are leaving our Focus portfolio unchanged at this time.

Fidelity Fund Holding (Ticker Symbol)	December 31, 2005		May 31, 2006	
	Amount Invested	Percent Portfolio	Value	Percent Portfolio
Biotech. (FBIOX)	\$460,134	33.33%	\$443,251	30.36%
Energy Svce. (FSESX)	\$460,134	33.33%	\$532,206	36.46%
Pharma. (FPHAX)	\$460,134	33.33%	\$484,411	33.18%
Total (rounded to)	\$1,380,403	100.00%	\$1,459,869	100.00%

### AlphaProfit Core™ Model Portfolio

Our Core Portfolio was last repositioned at the close of business on December 31, 2005. We are leaving our Core portfolio unchanged at this time.

Fidelity Fund Holding (Ticker Symbol)	December 31, 2005		May 31, 2006	
	Amount Invested	Percent Portfolio	Value	Percent Portfolio
Biotech. (FBIOX)	\$60,651	10.00%	\$58,426	9.24%
Bus. Svce. (FBSOX)	\$60,651	10.00%	\$64,020	10.13%
Energy Svce. (FSESX)	\$60,651	10.00%	\$70,151	11.10%
Food & Ag. (FDFAX)	\$60,651	10.00%	\$63,984	10.12%
Health Care (FSPHX)	\$60,651	10.00%	\$58,513	9.26%
Insurance (FSPCX)	\$60,651	10.00%	\$59,491	9.41%
Pharma. (FPHAX)	\$121,302	20.00%	\$127,702	20.21%
Telecomm (FSTCX)	\$60,651	10.00%	\$64,786	10.25%
Util. Growth (FSUTX)	\$60,651	10.00%	\$64,913	10.27%
Total (rounded to)	\$606,511	100.00%	\$631,985	100.00%

**Buckling under additional supply.** There was no let-up in the stream of IPOs coming to market even though the broad market was under pressure. Three notable IPOs Burger King, Master Card, and VoIP-based phone service provider Vonage Holdings collectively offered about \$3.5 billion worth of stocks. These mega-IPOs added to the supply of stocks and pressured equity prices.

**Reprieve.** Equity prices got a reprieve from an upwardly revised first quarter gross domestic product growth estimate. The Commerce Department revised the estimate from 4.8% to 5.3%. The revision fell short of the 5.8% figure economists expected. Investors reacted positively to the revision on the belief that economy was neither too strong nor too weak.

The rally limited the losses as measured by the Dow Jones Wilshire 5000 Total Market Index to 3.1%. Technology and precious metal-related shares were among the weaker performers with performance in the technology sector being impacted by revelations of option grants being 'backdated' to boost executive compensation. Exposure to defensive groups such as food & agriculture and utilities enabled the AlphaProfit Core model portfolio to limit the decline to 2.9%. The AlphaProfit Focus model portfolio matched the 3.1% decline of the DJW 5000 index.

### Major Movers

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

In May three out of ten stocks on the list of top 10 holdings we track lost ground. Telecom equipment

companies were notable losers. Selected stocks from biotech, food & agriculture, and electric power groups made their way to the list of top 10 winners.

**Sepracor surges.** Shares of Sepracor (SEPR-FBIOX) with a 16% advance were the best performer in both the Core and Focus model portfolios. Sepracor shares were uplifted from the positive implications for the company's insomnia drug *Lunesta* following an adverse ruling from the U. S. Food and Drug Administration on Neurocrine Biosciences' competing development-stage drug *Indiplon*.

**AES' turnaround on track.** Shares of independent power producer AES Corp. (AES-FSUTX) gained over 8% to become the second best performer in the Core model portfolio. The company more than doubled its per-share adjusted earnings from the year-ago level of 18 cents to 42 cents. AES also upped its 2006 per-share earnings guidance to 96 cents from 90 cents.

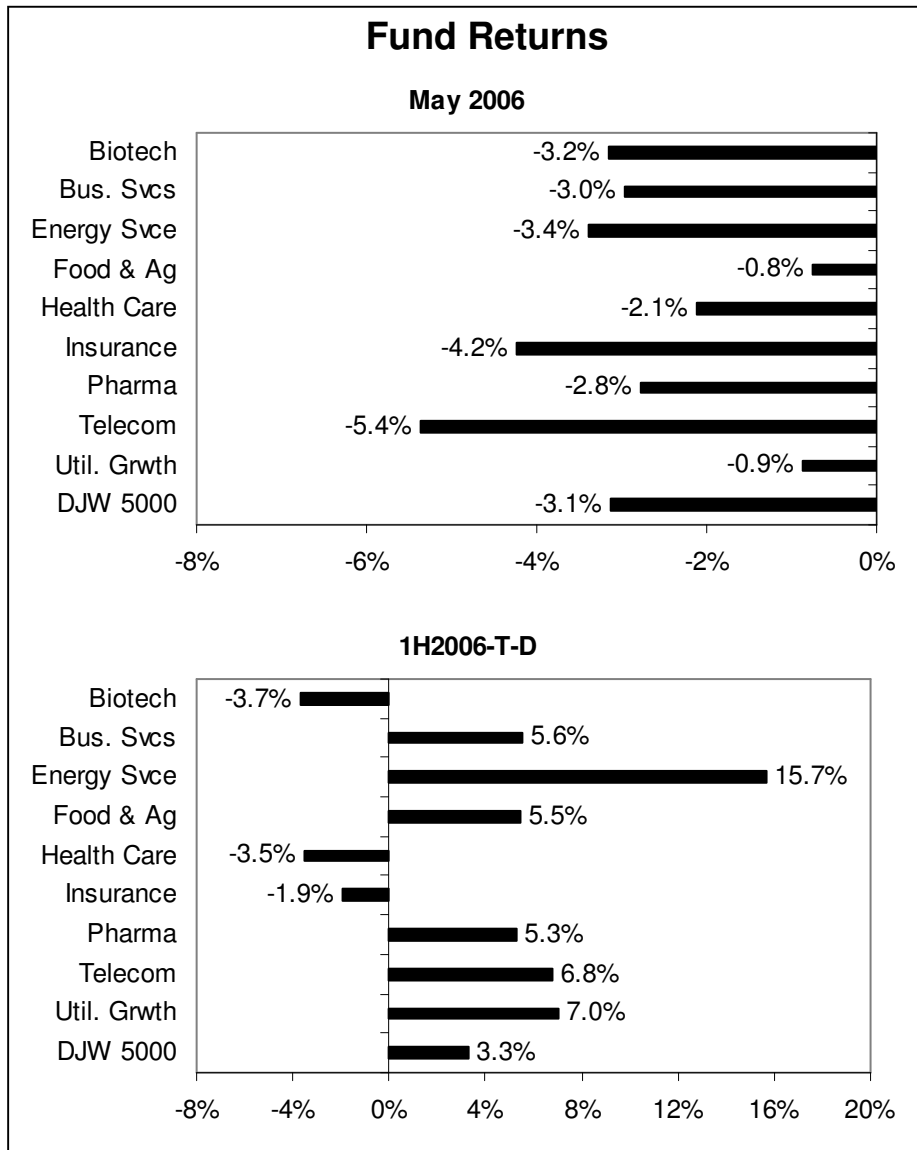
**Corning cracks.** Investors bid down shares of Corning (GLW-FSTCX) by over 15% to make them the Core model portfolio's worst performer. The company lowered the second-quarter sales forecast for its liquid crystal display glass used in computers and TVs. Investors were also unnerved by findings of an internal review that found 'material weakness' in the company's internal controls. Corning has restated 2005 financial reports.

### Outlook

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

**The U. S. economy continues to power ahead with resilience against rising interest rates and commodity prices.** The 5.3% revised gross domestic product estimate for the first quarter is suggestive of a 'turbocharged' economy. The strength appears to be poised to continue at least in the very near-term.

Contrary to economic forecasts calling for a decline, the Institute for



Supply Management's factory index increased from 55.2 in March to 57.3 in April. Likewise, the Federal Reserve Bank of New York's Empire State Manufacturing index declined to 12.4 in May from 15.8 in April but remained comfortably above the threshold suggestive of further expansion. Meanwhile, the inflation rate appears to be ticking up following sustained levels of elevated commodity prices.

### Fidelity Select Biotechnology, Health Care, Pharmaceuticals

Select pharmaceutical companies are targeting the vaccine business to rev up their growth. The approval of the first generic bio-

tech drug adds to the attractiveness of the generic drug business. Drug makers continue to target the biotechnology space for acquisitions. Valuation becomes attractive as rising medical costs and the scrutiny of option grant practices take their toll on managed care company share prices.

**Vaccines to the forefront.** As relative growth prospects of pharmaceutical and vaccine businesses change some drug companies are targeting vaccine development and manufacture for their growth. The vaccine business has traditionally been viewed as a low growth area. This is now changing as growth in pharmaceutical sales is becoming harder to achieve. As Daniel

Vasella, Chairman of Novartis (NVS-FPHAX) stated 'We're in a period where pharmaceutical sales are growing at 5% to 6% a year. In contrast, the vaccine industry is looking at nearly 20% annual growth over the next five years.' Additionally, changes to tort reform and legislation have reduced liability risks for vaccine makers.

Recent shortages of the flu vaccine and the possibility of an avian-flu pandemic have heightened the importance of vaccines at a regulatory level. The U. S. Health and Human Services Department has awarded contracts worth more than \$1 billion to develop better flu vaccines. Solvay Pharmaceuticals, GlaxoSmith-Kline, Novartis, and MedImmune (MEDI-FBIOX) have received major portions of this award. The program seeks to develop cell-based flu vaccines that will work against seasonal flu or a pandemic strain.

Novartis plans to build a new plant in the U. S. to manufacture the avian-flu vaccine. The facility is expected to cost around \$400 million. MedImmune already sells a nasal-spray flu vaccine, *FluMist* and is developing a next-generation flu vaccine called *CAIV-T*.

The mapping of the human genome has increased the number of potential vaccine targets. MedImmune for example is developing vaccines for cancer. The company has licensing agreements with Merck and GlaxoSmithKline for developing experimental human papilloma virus (HPV)-related vaccines.

Meanwhile, an FDA advisory committee has recommended approval of Merck's (MRK-FSPHX, FPHAX) experimental cervical cancer vaccine *Gardasil*. The FDA's final decision on *Gardasil* is expected by June 8. *Gardasil* is effective, when used in female children, years before they become sexually active. Merck had made a case for using the vaccine in male children as well since the HPV is less likely to spread if both girls and boys were vaccinated. *Gardasil* has the poten-

tial of generating over \$1.5 billion in annual sales. Although Merck has the first-mover advantage with *Gar-dasil*, GlaxoSmithKline is working towards introducing a competing

vaccine, *Cervarix*.

**Generics.** Generic drug sales are expected to grow up to 16% annually in major markets in the next few

years according to IMS Health. Generic drug manufacturers Teva Pharmaceuticals (TEVA-FPHAX) and the Sandoz unit of Novartis are positioning themselves to capitalize on this opportunity.

## Top 10 Fund Holdings

The list of mutual fund top 10 holdings is as of March 31, 2006. Health care related-companies Amgen, Genentech, Merck, Pfizer, Wellpoint, and Wyeth and telecom service providers AT&T, Bellsouth, Qwest Communications, Sprint Nextel, and Verizon Communications each find a place in two of the Core model portfolio funds. There is no overlap among the top 10 holdings of the three Focus model portfolio funds.

### Biotechnology (FBIOX) B. Svc. & Out. (FBSOX) Energy Svce. (FSESX)

Celgene	First Data	Diamond Offshore
Biogen Idec	Accenture Cl. A	GlobalSantaFe
Genentech	Omnicom Group	Noble Corp.
Gilead Sciences	Alliance Data Systems	National Oilwell Varco
Amgen	State Street	Halliburton
MedImmune	Paychex	BJ Services
Genzyme	Auto. Data Process.	Ensco Intl.
Cephalon	Ceridian	Weatherford Intl.
Amylin Pharma.	Moneygram Intl.	Schlumberger
Sepracor	Robert Half Intl.	Baker Hughes
51.4% of portfolio	48.4% of portfolio	59.6% of portfolio
91 holdings	77 holdings	59 holdings

### Food & Ag. (FDFA) Health Care (FSPHX) Insurance (FSPCX)

Nestle ADR	Pfizer	Amer. Intl. Group
Unilever	Wyeth	St. Paul Travelers
Pepsico	UnitedHealth	Ace
Altria	Merck	Hartford Fin. Svcs.
Coca Cola	Johnson & Johnson	Metlife
McDonald's	Amgen	Aflac
Kellogg	Genentech	Prudential Financial
Sysco	WellPoint	WellPoint
Starbucks	Allergan	Allstate
General Mills	Aetna	Endurance Spl. Hldg.
52.9% of portfolio	41.7 of portfolio	49.2% of portfolio
73 holdings	274 holdings	73 holdings

### Pharma (FPHAX) Telecomm. (FSTCX) Util. Growth (FSUTX)

Merck	AT&T	Verizon Comm.
Novartis ADR	Verizon Comm.	AT&T
Pfizer	Qwest Comm.	BellSouth
Wyeth	Qualcomm	Sprint Nextel
Teva Pharma. ADR	Motorola	Qwest Comm.
AstraZeneca	Sprint Nextel	Publ. Svc. Ent. Grp.
Takeda Pharma	Cisco	Exelon
Roche Holdings	Corning	Alltel
Cardinal Health	BellSouth	AES
Astellas Pharma	Lucent	Southern Co.
47.4% of portfolio	63.5% of portfolio	70.4% of portfolio
154 holdings	49 holdings	38 holdings

The U. S. FDA granted Teva Pharmaceutical tentative approval for its generic forms of Merck's \$4.6 billion cholesterol-lowering drug *Zocor* after a federal court ruled that the FDA unfairly denied Teva's petition to exclusively market generic forms of this drug. Teva intends to launch the generic version when final approval is granted after *Zocor's* patent expires. Meanwhile, Teva has received final approval to market its generic version of Forest Laboratories' depression-treatment drug *Lexapro*.

The FDA has approved a generic biotech drug for the first time. Sandoz's *Omnitrope*, a generic version of Pfizer's (PFE-FSPHX, FPHAX) human growth hormone *Genotropin* was approved since the human growth hormone is one of the better understood protein compounds. While approval for less well understood proteins may be harder to come, Sandoz believes biotechnology medicines will play an important role in its growth strategy.

Meanwhile, generic drug maker Barr Pharmaceuticals has been reported to be in talks to purchase Croatia's Pliva with a view to acquire capability to manufacture generic biotechnology drugs.

**Biotech deals.** Major pharmaceutical companies are targeting biologic drugs. Following Pfizer's acquisition of Rinat Neuroscience in April, Merck is acquiring two biotechnology companies, GlycoFi and Abmaxis. The GlycoFi acquisition is the bigger of the two carrying a \$400 million price tag. GlycoFi has come up with a process that can make better drugs more efficiently by controlling the sugar structure around proteins in drugs.

AstraZeneca (AZN-FPHAX) is acquiring complete control of Cambridge Antibody Technology Group

in a \$1 billion deal aimed to shore up the drugmaker's product pipeline. Besides gaining access to development-stage drugs for cancer and asthma, AstraZeneca will receive royalties on sales of Cambridge's blockbuster rheumatoid arthritis drug *Humira*.

Biogen's (BIIB-FBIOX) successes to-date have largely been driven by its multiple sclerosis drug *Avonex*. The company is taking steps to strengthen its multiple sclerosis franchise while broadening its product portfolio. Biogen is acquiring Swiss biotech firm Fumapharm. The combined company will continue to develop *BG-12*, an orally administered multiple sclerosis drug being developed by Fumapharm. Biogen is also acquiring cancer drug firm Conforma Therapeutics for \$150 million. Better clarity on the future of Biogen's withdrawn multiple sclerosis drug *Tysabri* is expected before the end of June.

As major drug and biotech companies eye acquisitions, other biotechs may well become targets. Neurocrine Biosciences' setback in developing *Indiplon* to compete with Sepracor's (SEPR-FBIOX) *Lunesta* may well make Sepracor an attractive target.

**Managed care doldrums.** Stocks of managed care companies have come under pressure. Aetna (AET-FSPHX) and Cigna have reported increases in their medical cost ratios suggesting that cost increases are exceeding premium increases. Some insurers appear to be moderating premium increases to boost enrollment.

Reports on industry leader, UnitedHealth (UNH-FSPHX) 'backdating' stock options to enable senior executives to increase their compensation have taken a toll on share prices across the managed care group. UnitedHealth is the subject of several investigations and lawsuits which may cause its reported 2003 to 2005 earnings to be reduced by 3% to 4.5%.

Meanwhile, managed care companies like UnitedHealth and Aetna have continued to reaffirm their 2006 earnings growth forecasts. With managed care company shares becoming relatively attractive on a P/E basis, stock buyback commitments get larger. UnitedHealth's board has renewed its program to buyback 140 million or 10% of its common shares.

**Select Biotechnology's Favored Buy rating removed.** With key industry meetings in Oncology and Diabetes scheduled from June 2 to 6 and June 9 to 13, respectively, we believe catalysts that have the probability of lifting stock prices in

*'We're in a period where pharmaceutical sales are growing at 5% to 6% a year. In contrast, the vaccine industry is looking at nearly 20% annual growth over the next five years.'*

*Daniel Vasella, Chairman  
Novartis*

the biotechnology group higher in the near-term will run their course relatively soon.

As such, Fidelity Select Biotechnology will shortly become as attractive as the other funds held in the model portfolios. Staying with our approach of making individual fund rating changes on the first trading day of the month, we removed the Favored Buy rating on Fidelity Select Biotechnology, as communicated in the June Indicator Update.

We continue to remain optimistic on the prospects for the health care sector. While we are making no changes to the model portfolios at the present time, our commitment to the health care sector going forward both in terms of holdings and allocation will be determined by our outlook for health care as well as other sectors.

### **Fidelity Select Business Services & Outsourcing**

**Companies in the business service group are solidifying their**

**business books as clients seek ways to reduce costs and increase sales. Payroll processors and financial service providers continue to prosper while security valuation remains attractive.**

Accenture (ACN-FBSOX) has inked a five-year co-sourcing agreement with Canadian oil company EnCana and a seven-year information systems contract with European consumer products giant Unilever (UN-FDFAX). Ceridian's (CEN-FBSOX) Comdata business unit has signed four- and five-year contracts with Texas and Florida. Under this agreement, the state's fleet vehicles will receive rebates on fuel purchases while Comdata will be compensated by merchants for purchases made with Comdata's cards.

Omnicom's (OMC-FBSOX) TBWA Worldwide agency has bagged Luxottica's contract to define a new strategic platform for the Ray-Ban brand world-wide. Alliance Data Systems (ADS-FBSOX) has renewed its contract with Chicago-area furniture retailer, Harlem Furniture, to provide private label card services including account acquisition and card issuance.

Payroll processors Automatic Data Processing (ADP-FBSOX) and Paychex (PAYX-FBSOX) are prospering from rising demand for their services, thanks to an increase in corporate hiring. Additionally, the average interest rate earned by them on funds held for clients to pay payroll taxes has increased about 50% from year-ago levels.

Among financial services providers, State Street (STT-FBSOX) is well-positioned to prosper from the growing popularity of exchange-traded funds. First Data's (FDC-FBSOX) Western Union money transfer business continues to perform well. To unlock value, First Data is working to make Western Union an independently-traded company through a spin-off later this year. MoneyGram's (MGI-FBSOX) money transfer services

are being made available through more than 120 additional Duane Reade drug store locations in New York City.

With valuation relatively attractive, the business service space continues to be a prowling ground for private equity firms. In May, it was call center operator West Corp's turn. West agreed to be acquired by an investor group led by private equity firms Thomas H. Lee Partners and Quadrangle Group for about \$3 billion.

We continue to like the prospects for Fidelity Select Business Services & Outsourcing and include it in the Core model portfolio.

### **Fidelity Select Energy Service**

**Energy service companies continue to execute well. Geopolitical news helped stem the decline of oil prices even as additional supplies come to market.**

Energy service firms are scoring well on the earnings front. Drilling contractor GlobalSantaFe's (GSF-FSEEX) first quarter per-share earnings tripled to 65 cents from 21 cents in the year-ago period on a 40% increase in revenue.

Auguring well for future earnings, GlobalSantaFe has entered into a

four-year contract with Saudi Aramco to provide four jack-up rigs. This agreement is believed to be the largest jack-up agreement in the history of offshore drilling. Meanwhile, BJ Services (BJS-FSEEX) has increased its 2006 fiscal year earnings guidance from a range of \$2.00 to \$2.25 a share to \$2.30 to \$2.35 a share.

Tightness in rig supply has caused day-rates to harden. EnSCO International's (ESV-FSEEX) day-rates for jack-up rigs averaged \$103,400 in the first quarter, well above \$60,000 in the year-ago period.

With demand for services strong and pricing tight, capacity expansion is beginning to take hold. National Oilwell Varco (NOV-FSEEX) has bagged a contract to provide over \$200 million in drilling equipment. Diamond Offshore (DO-FSEEX) is in the process of upgrading or constructing four rigs.

In May, oil prices weathered the backdrop of slumping commodity prices quite well. In contrast to relatively large declines in the prices of gold and industrial metals, oil declined a modest \$2.21 per barrel from its April close to end May at \$71.29 per barrel.

We believe oil prices were supported largely by geopolitical considerations. The possibility of oil exports being curtailed from nations

like Iran and Nigeria continues to be a factor. Disconcertingly, the Venezuelan government has made overtures on imposing additional taxes on oil extracted from the nation's reserves while Bolivia has recently nationalized its oil and gas industry.

Meanwhile, additional supplies of oil are coming to market. Saudi Arabia increased its oil production capacity by 3% in March by bringing the *Haradh* field online. Inventories of petroleum products in the U. S. appear to be on the rise.

Share prices in the energy service group have increased substantially over the past year. The sharp increase in energy service company earnings has prevented the P/E ratio from getting extended. The trend in oil prices will be a key factor in determining the course of share prices in the energy service group. We continue to include Fidelity Select Energy Service in both model portfolios for now.

### **Fidelity Select Food & Agriculture**

**Earnings reports from companies in the food & agriculture group were mixed. Meanwhile, companies are looking to new products, restructuring, and acquisitions to perk up growth.**

Coffee-chain Starbucks (SBUX-FDFAX) posted an impressive earn-

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*continued on page 10*

ings report while food distributor Sysco (SYY-FDFAX) posted a less robust one. Driven by a 24% increase in revenue to \$1.9 billion, Starbucks' per-share earnings increased 33% to 16 cents from 12 cents in the year-ago period. Same-store sales increased 10%. The company is scoring a hit with its new products *cinnamon dolce latte* and *vanilla sunshine* cupcake. Sysco on the other hand cited soaring fuel prices and expensing of stock options for a 12% decline in its fiscal third quarter per-share profit. Sysco has increased its sales force in a drive to shore up revenue growth.

Soft-drink manufacturers are increasingly targeting non-carbonated beverages for growth. This fall, Pepsico (PEP-FDFAX) is planning to launch a new line of sparkling juice drinks labeled *Dole Sparklers*. Coca-Cola (KO-FDFAX) is seeking to drive non-carbonated beverage volume to more than 20% of its total mix. Meanwhile, in a move to help younger people combat obesity, major beverage companies have agreed to halt nearly all sales of soft-drinks at public schools.

On the financial front, Coca-Cola has reaffirmed its earnings and volume growth targets for 2006 while Pepsico raised its full-year dividend by 15% and announced an \$8.5 billion share buyback program.

Portfolio restructuring continues at Unilever (UN-FDFAX). After disposing the Mora frozen-snacks company in April, Unilever divested its hair-care brands *Finesse* and *Aqua Net* in May. The company is confident of selling its European frozen foods unit by year-end. The sale is expected to net Unilever over \$1 billion. Meanwhile Cereal Partners Worldwide, a General Mills (GIS-FDFAX)-Nestle (NESN.VX-FDFAX) joint venture, is buying Australia-based cereal manufacturer Uncle Tobys for \$375 million. Uncle Tobys has a 19% market share in Australian cereal retail sales and generates annual revenue of more than \$600 million.

While rising fuel and raw material prices as well as possible declines in consumer spending do pose risks, the food & agriculture group that caters to necessities is for the most part defensive. We value the relative economic insensitivity of this group and continue to include Fidelity Select Food & Agriculture in the Core model portfolio.

## Fidelity Select Insurance

**Insurance companies came through with their earnings for the most part and are aggressively seeking business opportunities in China.**

Helped by strong operating performance and higher net investment income, St. Paul Travelers (STAFSPCX) reported \$1.41 in per-share operating earnings and trounced analysts' \$1.29 a share forecast. The company raised its 2006 operating earnings forecast by about 30 cents a share to a range of \$4.70 and \$5.00 a share. Expressing confidence in the future, company Chief Executive Jay Fishman said 'We are pleased with the quality of our business and are well-positioned to grow profitably.' St. Paul Travelers also announced a \$2 billion share-buyback program

which, at current prices, represents 7% of the company's stock.

Among other insurers reporting earnings, Prudential Financial (PRU-FSPCX) reported \$1.36 per-share in adjusted operating profit exceeding the \$1.33 value expected by analysts. Prudential expects to further enhance its variable annuity business by bringing Allstate's (ALL-FSPCX) variable annuity business into its fold during the second quarter. Reinsurer Endurance Specialty Holdings (ENH-FSPCX) reported \$1.46 per-share in operating earnings and handily beat analysts' forecast of \$1.34 per-share.

Industry giant American International Group (AIG-FSPCX) however disappointed reporting \$1.29 in earnings per share, short of the \$1.36 analysts forecasted. AIG's results were dented by credit card losses and deferred advertising costs.

New opportunities are opening up for U. S. insurers as China seeks to modernize its financial structure and dismantle its 'cradle-to-grave' welfare system. AIG's American International Assurance unit has received approval to sell group in-

## Q & A

**I would like to add cash to my investment account tracking the AlphaProfit model portfolios. How should I go about building my investment account?**

You may consider one of three approaches to add cash to your investment account depending on your personal situation and preference.

**All-at-once:** You may add the entire cash to your investment account in one go, if the AlphaProfit Sector Indicator reading is either 'Buy' or 'Buy on Dips'.

**Periodic additions:** You may add cash to your investment account every 6 months before the reposi-

tioning of the AlphaProfit Model Portfolios.

**Dollar-cost-average:** You may spread your additional cash investment over a period of time by investing when the AlphaProfit Sector Portfolio Indicator reads 'Buy' or 'Buy on Dips'.

Among the methods, the latter two enable you to spread investments over longer periods and may better help weather periods of temporary weakness.

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insurance throughout China. AIG has also received approval to offer life insurance in two of China's economically more active provinces.

While AIG continues to operate without a Chinese partner, MetLife (MET-FSPCX) has entered into a 50-50 joint venture with Shanghai Alliance Investment to form United MetLife Insurance and offer life insurance products. Meanwhile, Prudential Financial is working with Chinese companies and regulators to lay the ground work for providing retirement products such as annuities that can supplement the Government's pension program for China's 1.3 billion people.

June 1 marks the start of the hurricane season. Forecast from the National Oceanic and Atmospheric Administration suggests that damages in 2006 are likely to be lower than the \$58 billion incurred by property and casualty insurers in 2005. Indications are for damages to be similar to the \$28 billion incurred in 2004. Meanwhile, insurers themselves are taking steps to mitigate risks by reinsuring and by reducing exposure to high-risk areas.

With share price valuation remaining relatively attractive, we continue to include Fidelity Select Insurance in the Core model portfolio.

## Fidelity Select Telecommunications, Utilities Growth

**Wireless equipment makers are upbeat while networking equipment makers consolidate. Telecom service providers continue to make progress with their plans. While regulated electric utilities are having trouble getting their proposed mergers approved, independent power producers are making progress in their expansion plans.**

**Wireless equipment.** Motorola (MOT-FSTCX) has launched its highly anticipated Q smartphone. Motorola Q combines the functionalities of a regular handset, e-mail pager, and digital music player; it is

positioned to compete against *Blackberry* and *Treo* smartphones. The company expects customer adoption rate for Q to be similar to that of the highly successful RAZR cell phone.

Motorola is looking to new products to increase market share and operating margin. Commenting at a conference, Ron Garriques, President of Motorola's Mobile Devices Business said, 'In 2007 what I'll tell you is we'll gain share in every single quarter and year over year our (operating earnings) percentage will go up.'

Citing strong demand for high-speed wireless phones in developed markets and basic cell phones in China and India, Qualcomm (QCOM-FSTCX) has upped its fiscal third-quarter per-share profit forecast by 2 cents to the 38 to 40 cents range.

**Networking equipment.** Cisco (CSCO-FSUTX) reported an 18% increase in its fiscal third-quarter revenue to \$7.3 billion. Excluding the impact of the Scientific-Atlanta acquisition, revenue increased 12%. Options-related expenses however limited the increase in earnings per share to just a penny from the year-ago level.

Merger activity appears to be picking up in the networking equipment space. Following the announcement from Alcatel and Lucent (LU-FSTCX) to form a combined company, ADC Telecom, a maker of network equipment for phone companies, has agreed to buy competitor Andrew Corp. for \$2 billion.

**Telecom services.** Sprint Nextel (S-FSTCX, FSUTX) has spun-off its local telephone business operations as an independent, publicly-traded company, Embarq Corp. Going forward, Sprint Nextel will focus on mobility and Internet protocol-based products and services.

Cost of upgrading the network to offer pay-television services and faster Internet-connectivity dragged

## Featured Quote

***I've found that when the market's going down and you buy funds wisely, at some point in the future you will be happy. You won't get there by reading 'Now is the time to buy.'***  
**Peter Lynch**

Verizon's (VZ-FSTCX, FSUTX) earnings lower to 60 cents a share from 63 cents a share in the year-ago period. Per share earnings were however one cent higher than analysts' forecast. Verizon added 1.7 million wireless subscribers and half-a-million DSL customers during the quarter. Customer churn at Verizon Wireless was an industry-leading 1.18%.

Following a failed attempt to sell 48 million phone access lines last June, Verizon is making another attempt at selling access lines in some of smaller Northeast and Midwest markets. The sale could fetch Verizon up to \$8 billion. With AT&T (T-FSTCX, FSUTX) seeking to take full control of Cingular Wireless through the BellSouth (BLS-FSTCX, FSUTX) acquisition, Verizon too is looking to increase scale in its wireless business. Verizon is reportedly in talks with Vodafone to buy the 45% of Verizon Wireless, Verizon does not already own. The two co-owners of Verizon Wireless have however not been able to agree on price.

**Electric power.** With states asserting their rights, uncertainty persists over regulated utility mergers. Exelon's (EXC-FSUTX) proposed merger with Public Service Enterprise Group (PEG-FSUTX) and FPL Group's plan to buy Constellation Energy Group are facing roadblocks in New Jersey and Maryland, respectively. One of Exelon's larger shareholders Duquesne Capital is also opposing the merger. Exelon has engaged Lazard LLC as advisor as the June 20 deadline to break the deal without penalty

nears. Meanwhile, the Nuclear Regulatory Commission has approved the Exelon-PSEG merger.

Among independent power producers, NRG Energy has received an unsolicited \$7.8 billion offer from rival Mirant. To increase the scale of its wholesale generation business, Southern Energy (SOFSUTX) is acquiring 1,245 megawatts of electricity generating capacity from Progress Energy for \$405 million. AES Corp. (AESFSUTX) plans to construct a 670 megawatt, \$1.4 billion lignite-powered electricity generation plant in Bulgaria, the single largest foreign investment in Bulgaria to-date.

**Other developments.** Ending the defense of a 1898 law that imposed a 3% federal excise tax on long-distance telephone service, the U.S. Treasury Department will refund \$13 billion to tax-payers.

USA Today has reported that AT&T, BellSouth, and Verizon allegedly shared customer call information with the National Security Agency since 2001. While phone carriers have denied the allegation, the Bush administration has neither confirmed nor denied the report. Several phone companies have now been named in law suits alleging violation of customer privacy.

We continue to like the prospects for the telecom and electric utility industries. While the defensive characteristics are appealing in themselves, consolidation opportunities add an element of investment appeal. Fidelity Select Telecommunications and Fidelity Select Utilities Growth continue to be part of the Core model portfolio.

## AlphaProfit Sector Portfolio Indicator

**Reading: Wait**

Equity prices have weakened in the second quarter following a relatively strong first quarter. Although corporate earnings have been strong, investors are increasingly concerned about inflation, economic growth, and interest rates.

The Commerce Department has reported that consumer prices excluding food and energy increased 0.4% in March bringing the increase in CPI over the past 12 months to 2%, the upper end of the Federal Reserve's comfort zone. Average hourly earnings have also perked up rising 3.8% in the past year, the biggest year-over-year gain since August 2001.

Meanwhile, there is some evidence that growth may be moderating. The housing market appears to be slowing with housing starts now dropping to their lowest level since November 2004. The Conference Board's index of leading economic indicators declined 0.1% in April suggesting that growth may slow in the periods ahead. Additionally, job creation appears to be showing signs of deceleration with only 138,000 jobs added in April.

Concerns over rising inflation have however dominated Federal Reserve comments off-late. At times, the Federal Reserve has hinted that it is in a 'data-driven' mode in which subsequent course of interest rates will be determined by economic data. At other times, the comments have suggested that the present rate of inflation is simply too high

*The AlphaProfit model portfolios will be repositioned based on Friday, June 30 closing prices. The model portfolio repositioning changes will be e-mailed to Subscribers on July 1, 2006. They will also be posted in the login area of <http://www.alphaprofit.com> by 5:00 p.m. Central Time on July 1, 2006.*

and interest rates must go up even if growth slows.

As such, equity investors have become concerned over whether rising inflation and interest rates will result in a slowdown, recession, or stagflation in the periods ahead. Given this backdrop, our expectation for broad equity market returns in June is tempered. Accordingly, we are downgrading the AlphaProfit Sector Portfolio Indicator to 'Wait'.

We will consider the probability of different economic scenarios materializing in the period ahead in conjunction with sector- and industry-group specific dynamics when repositioning the AlphaProfit model portfolios.

The AlphaProfit model portfolios will be repositioned based on Friday, June 30 closing prices. The model portfolio repositioning changes will be e-mailed to Subscribers on July 1, 2006. They will also be available in the Subscriber Login area of <http://www.alphaprofit.com> by 5:00 p.m. Central Time on July 1, 2006.

**AlphaProfit Investments, LLC**  
**Date: May 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 Biotechnology	FBIOX	Mid Cap Growth	Above Average	R. Kaul
Select Bus. Svcs. & Outsourcing	FBSOX	Mid Cap Growth	Below Average	B. Hesse, J. Morrow
Select Energy Service	FSESX	Mid Cap Growth	Above Average	J. Dowd
Select Food & Agriculture	FDFAQ	Large Cap Blend	Below Average	R. Lee
Select Health Care	FSPHX	Large Cap Growth	Below Average	H. Carere
Select Insurance	FSPCX	Large Cap Value	Average	S. Hermsdorf
Select Pharmaceuticals	FPHAX	Mid Cap Growth	Below Average	H. Carere
Select Telecommunications	FSTCX	Large Cap Blend	Above Average	B. Younger
Select Utilities Growth	FSUTX	Large Cap Value	Average	B. Younger

**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® and Total Market Index Funds Initial Purchase Requirements:**

The minimum initial investment for regular and retirement accounts in the Fidelity Spartan 500 Index Fund or the Fidelity Spartan Total Market Index Fund is \$10,000. 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.

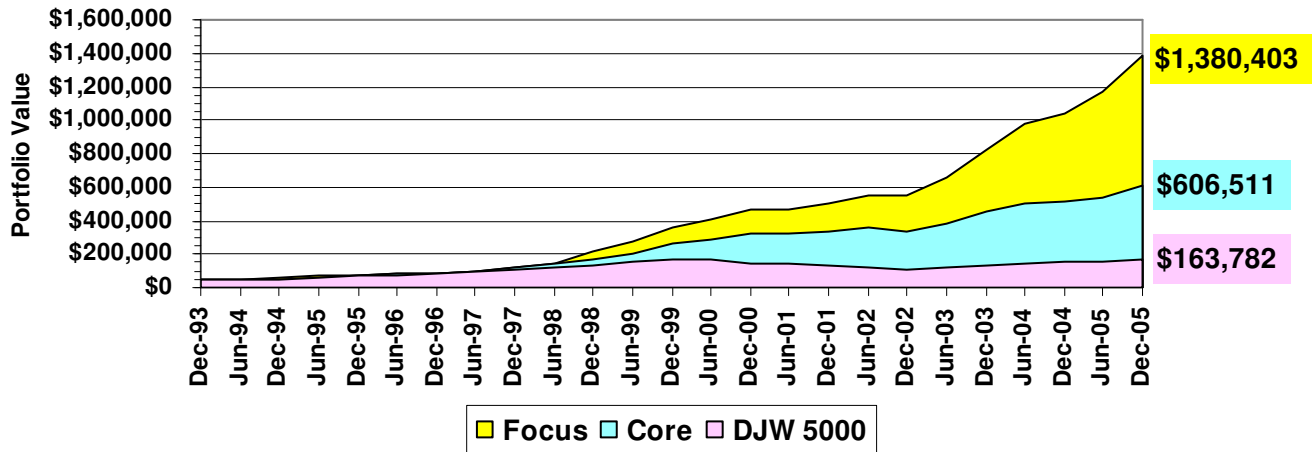
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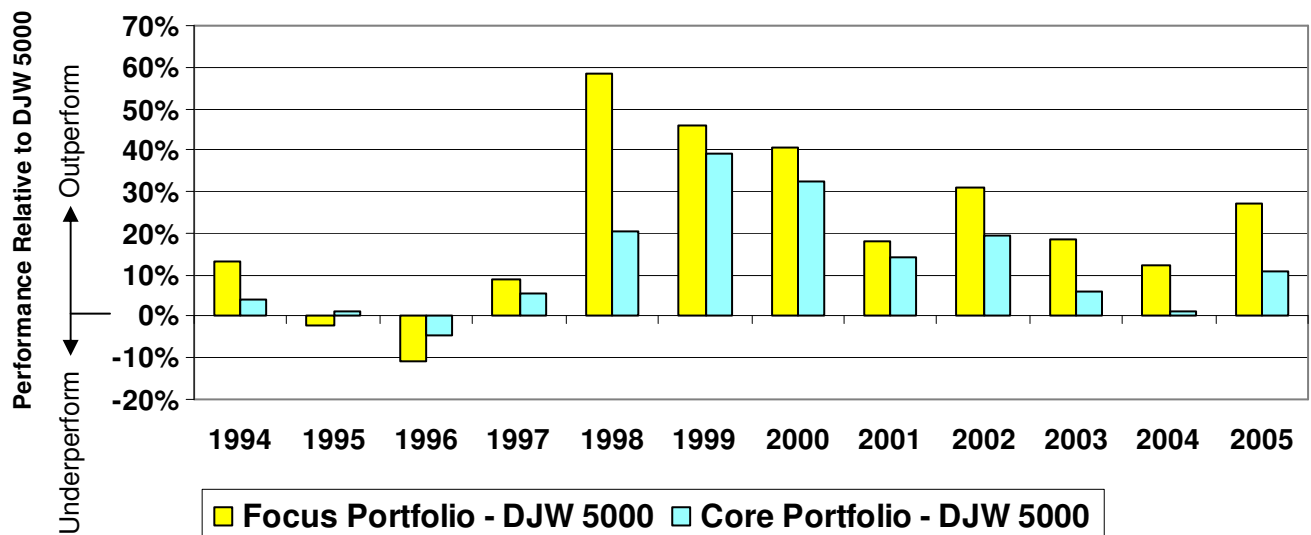
### AlphaProfit Model Portfolio Long-Term Performance

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 December 31, 2005; 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>	149.5%	193.9%	2660.8%	35.6%	24.1%	31.9%	1.15	1.16
<b>Core</b>	83.4%	86.8%	1113.0%	22.4%	13.3%	23.1%	0.69	1.06
<b>DJW 5000</b>	57.6%	11.1%	227.6%	16.4%	2.1%	10.4%	0.04	0.38

	Total Return											
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<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%
<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%
<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%



## 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 to track the model portfolios. 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 in 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 risk 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.