



Ideas. Insights. Results.

# AlphaProfit™

## Sector Investors' Newsletter

Service for \$ophisticated \$ector Investors

Monthly Report

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

**AlphaProfit SP Indicator™**  
**Reading: Buy**  
**Favored Buy: FSDPX**

### Scorecard

**In September, the AlphaProfit Core and Focus model portfolios lost 0.1% and 4.2% respectively. The Dow Jones Wilshire 5000 Index benchmark gained 2.3%.**

**Oil prices play a pivotal role.** The price of crude oil declined by over \$8 per barrel in September on over-supply concerns. The 2006 hurricane season passed by without any

S. embassy in Damascus, Syria failed to arouse concerns of threats to oil supply.

**Weakness in housing continues.** Housing-related data continued to provide evidence of a decline. Confidence among U. S. homebuilders fell to a 15-year low in September. KB Homes and Beazer Homes joined the list of home builders lowering earnings forecasts. The National Association of Realtors forecasted that home prices are likely to

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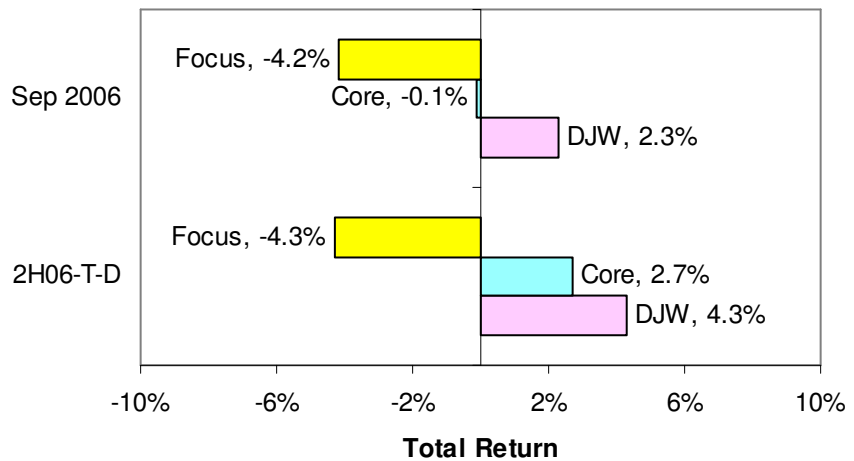
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oil supply disruption worthy of note. The Organization of Petroleum Exporting Countries kept production quota steady. Additionally, BP announced that it will likely resume full production from Alaska's Prudhoe Bay oil field by the end of October. And, with President Bush willing to give diplomacy a chance to work in Iran, even a foiled attack on the U.

drop further in key markets as the housing market corrects.

**Interest rates tick lower.** Gasoline as well as natural gas prices followed oil's lead to quell fears of surging inflation. With the inflation bogey seemingly well-contained, investors interpreted weakness in the housing market to mean that

## 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		September 30, 2006	
(Ticker Symbol)	Amount Invested	Percent Portfolio	Value	Percent Portfolio
Gold (FSAGX)	\$729,221	50.00%	\$707,204	50.66%
Materials (FSDPX)	\$729,221	50.00%	\$688,654	49.34%
Total (rounded to)	\$1,458,442	100.00%	\$1,395,857	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		September 30, 2006	
(Ticker Symbol)	Amount Invested	Percent Portfolio	Value	Percent Portfolio
IT Services (FBSOX)	\$64,599	10.15%	\$62,684	9.59%
Cons. Staples (FDFA)	\$65,048	10.22%	\$69,431	10.62%
Gold (FSAGX)	\$96,120	15.11%	\$93,218	14.26%
Health Care (FSPHX)	\$58,261	9.16%	\$62,480	9.56%
Materials (FSDPX)	\$96,120	15.11%	\$90,773	13.89%
Insurance (FSPCX)	\$59,280	9.32%	\$63,390	9.70%
Pharma. (FPHAX)	\$63,538	9.99%	\$67,378	10.31%
Telecomm. (FSTCX)	\$65,934	10.36%	\$71,766	10.98%
Util. Growth (FSUTX)	\$67,311	10.58%	\$72,369	11.07%
Total (rounded to)	\$636,212	100.00%	\$653,487	100.00%

the Federal Reserve may start cutting interest rates in the not-too-distant future. Interest rates at the longer end of the maturity spectrum trended modestly lower.

Investors also took comfort from the expectation that falling oil prices will offset the impact of softness in the housing market and prevent consumer spending from faltering. In a milieu generally favorable to equities, share prices as seen from broad market perspective strengthened in September. The Dow Jones Wilshire 5000 Index benchmark gained 2.3%.

Large-cap, dividend yielding securities fared well causing the Dow Jones Industrial Average to flirt with its all-time high set in year 2000. Groups such as retailing, that had hitherto been out-of-favor, rebounded as concerns on consumer spending faded.

While energy-related stocks were

the worst performer, shares of gold mining companies fared poorly as well. Exposure to gold mining companies hurt the performance of both AlphaProfit model portfolios. The Core model portfolio declined 0.1% while the Focus model portfolio declined 4.2%.

### Major Movers

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

About half of the list of top 10 holdings we track advanced in September. The winners list was well-represented across sectors with telecom equipment stocks frequenting the list. Coal stocks continued their third straight monthly decline. As a group, base and precious metal producers frequented the list of losers.

**NutriSystem nourishes.** An upbeat analyst presentation from NutriSystem (NTRI-FPHAX) put the company's shares on the right

course. The company outlined a 17% to 19% long-term growth target for annual net income. The company is seeking to expand its diet food offerings to men and grow its customer base. NutriSystem shares were popular with momentum investors who bid up the shares by over 25% in September to make them the Core model portfolio's top performer.

**Newcrest rides the consolidation wave.** Shares of Newcrest Mining (AU:NCM-FSAGX) bucked the general weakness in gold mining shares and advanced over 15% to become the Focus model portfolio's best performer. Newcrest, Australia's largest gold mining company, has long been viewed as takeover target. Such rumors gained credence again in light of the recent acquisition activity in the gold mining group.

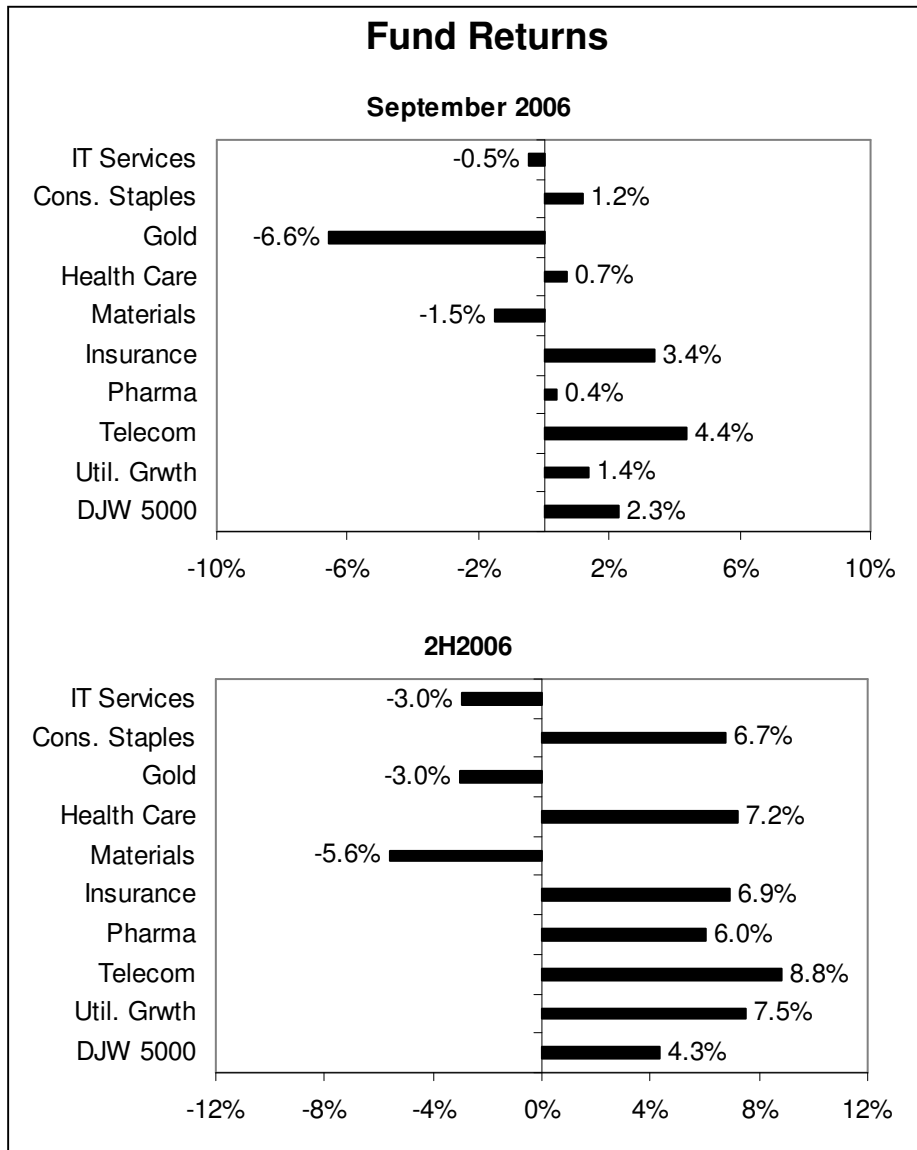
**Hypercom disconnected.** Shares of electronic transaction terminal maker Hypercom (HYC-FBSOX) declined over 27% to become the Core model portfolio's worst performer. Although the company's T4100 device continues to gain wider acceptance from the likes of MasterCard, concerns on the sustainability of the company's recent earnings growth trajectory prompted some analysts to cut Hypercom's earnings growth forecasts.

**Newmont caves in.** Shares of Newmont Mining (NEM-FSAGX) were the Focus model portfolio's worst performer declining over 16%. Newmont's poor showing resulted more from items specific to Newmont than just the backdrop of weakness in gold-related shares. Blaming lower production in Ghana and Peru because of power shortages and local protests, respectively, Newmont lowered its 2006 gold sales forecast.

### Outlook

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

**Economic growth in the U. S. should likely continue at a mod-**



forecast of \$3.03 to \$3.08 a share. General Mills is widening the breadth of its popular *Cheerios* cereal product line by introducing the eleventh variety, *Fruity Cheerios*.

Meanwhile, General Mills' competitor, Kellogg (K-FDFAX) too has affirmed its full-year earnings forecast. To help meet long-term growth targets, Kellogg plans to reduce staffing at its Manchester, England plant. This is expected to result in a \$60 million charge against earnings.

Signaling confidence in its future, McDonald's (MCD-FDFAX) has announced a massive 49% increase in its annual dividend to \$1 per share. On the operating front, McDonald's reported a 6% increase in August same-store sales with European same-store sales rising close to 9%. To capitalize on the popularity of breakfast items such as *McGriddles* sandwiches, McDonald's is implementing a flexible restaurant operating system that will allow stores to sell breakfast items throughout the day.

A U. S. District Judge has allowed a class-action suit filed by 'light' cigarette smokers to go forward. The lawsuit alleges that Altria (MO-FDFAX) and other cigarette makers branded some products 'light' to minimize the dangers of smoking. Although investors pushed Altria's shares lower on this news, we believe Altria will likely put this trouble behind.

The consumer staples business will marginally benefit from falling gasoline prices. While restaurants are likely to benefit from the increasing inclination to eat out, processed food producers are likely to benefit from falling fuel costs. We continue to include Fidelity Select Consumer Staples in the Core model portfolio.

### Fidelity Select Gold

**Gold declined by about \$28 per ounce in September. Even though jewelry demand remains strong, conditions that foster in-**

### erate pace.

Estimate for gross domestic product growth during the second quarter has been lowered to 2.6% from the previous estimate of 2.9%. The Institute for Supply Management's factory activity index inched down a bit in August to 54.5 from 54.7 in July. The ISM index continues to remain above 50 suggesting continued economic expansion.

Indicators more representative of current conditions portray a mixed picture. The New York Federal Reserve Bank's Empire State Manufacturing index increased in September to 13.8 but the Philadelphia Federal Reserve's economic index declined disconcertingly to minus 0.4.

### Fidelity Select Consumer Staples

**The nation's leading food producers and restaurants continue to operate well with McDonald's hiking its dividend by 49%.**

Backed by strong sales of *Yoplait* yogurt, *Progresso* soups and *Hamburger Helper* dinner mixes General Mills' (GIS-FDFAX) fiscal first quarter revenue increased 6.7% to \$2.9 billion. Per-share profits of 74 cents exceeded the 67 cent tally forecasted by analysts. Commenting on the results, Chairman Steve Sanger said 'This is a solid start to the year, driven by good unit volume and sales gains in each of our three operating segments.' The company affirmed its fiscal 2007 earnings

vestment demand will have to come to light for the price of gold to move up. Gold miners pursue acquisitions as reserve replacement is challenging.

**Gold under pressure.** The price of gold as measured by the December 2006 contract declined from \$634.20 per ounce to close September at \$604.20 per ounce after trading as low as \$576.60 per ounce.

The need for investing in gold to hedge inflation became less compelling. The geopolitical risk-premium that had been embedded in the price of oil came off. Chevron's 15 billion barrel oil discovery in the Gulf of Mexico relieved supply concerns. Inflation data reported in September were generally benign and the U. S. currency for its part marginally gained against the euro and the yen to diminish inflation fears further.

Adding additional pressure, European Central Banks engaged in sales of gold ahead of their September 26 quota deadline. Recent data from European Central Banks however suggests that gold sales were within quota limits.

**Investment demand is key.** Jewelry-oriented demand from Asian nations, particularly India, China, and Japan is strong. Such demand is price sensitive and declines when the price of gold increases. In contrast, investment demand from institutions and retail investors tends to increase when the price of gold increases. As such, investment demand will be required for the price of gold to rally while jewelry demand can provide a floor.

Investment demand typically starts to perk up when fear of inflation increases. While declining energy prices have recently dampened such fears, the threat of inflation from a declining U. S. dollar is real. A declining dollar is inflationary as it raises the cost of imports.

The downward revision of second

## Top 10 Fund Holdings

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

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

### IT Services (FBSOX)

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

*62.2% of portfolio*  
*7.6% foreign*

### Cons. Staples (FDFAX)

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

*51.2% of portfolio*  
*24.2% foreign*

### Gold (FSAGX)

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

*60.1% of portfolio*  
*80.8% foreign*

### Health Care (FSPHX)

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

*45.1% of portfolio*  
*5.3% foreign*

### Materials (FSDPX)

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

*45.9% of portfolio*  
*32.7% foreign*

### Insurance (FSPCX)

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

*51.4% of portfolio*  
*26.9% foreign*

### Pharma. (FPHAX)

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

*49.1% of portfolio*  
*39.3% foreign*

### Telecomm. (FSTCX)

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

*71.3% of portfolio*  
*16.9% foreign*

### Util. Growth (FSUTX)

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

*68.4% of portfolio*  
*NA*

quarter GDP estimate provides less reason for the Federal Reserve to continue its rate increases. Meanwhile, interest rates stand to rise in Japan and Europe. China is being pressured by the U. S. and the International Monetary Fund to revalue the yuan. We believe these diverging interest rate trends will likely cause the dollar to decline vis-à-vis most foreign currencies over time.

**Miners remain acquisitive.** Companies in the gold mining space are consolidating as reserve replacement is challenging. Following on the heels of the Goldcorp-Glamis Gold merger in August, lamgold has agreed to buy Cambior (CBJ-FSAGX) in a \$1.2 billion stock transaction. More deals are likely to follow as lamgold itself harbors ambitions of becoming a bigger player.

In other transactions, Barrick Gold (ABX-FSAGX) has extended the deadline for its \$1.5 billion hostile bid for NovaGold Resources until October 12. Barrick is also selling half of its stake in South Africa's South Deep mine to Gold Fields for \$1.5 billion. Engaging in two other transactions totaling \$1 billion, Gold Fields is working towards becoming South Deep's majority owner.

With monetary conditions capable of favoring investment demand and take-over activity offering investors value-creating opportunities, we believe the current decline in gold mining shares is likely to be a correction within a longer-term uptrend. We continue to include Fidelity Select Gold in both model portfolios.

### Fidelity Select Health Care, Pharmaceuticals

**Drug companies continue to make progress on new products. Consolidation continues in the drug industry with deals large and small. Safety concerns are an issue coronary stent manufacturers have to battle with**

**even as competition intensifies.**

**Product launches and approvals.** Botox-maker Allergan (AGN-FSPHX) is getting ready to launch its new injectable wrinkle filler *Juvederm* to selected doctors in early October. The company will take pre-orders for its higher strength versions *Juvederm Ultra* and *Juvederm Ultra Plus* starting in November.

Amgen (AMGN-FSPHX) has received U. S. FDA approval for *Vectibix*, a.k.a panitumumab, in treating advanced colon cancer. *Vectibix's* annual revenue may well exceed \$500 million with the current approval. The prize however stands to increase substantially if the drug gets approved for use in earlier-stage cancer.

Merck (MRK-FSPHX, FPHAX) has received approval for its cervical cancer vaccine *Gardasil* in Europe and expects to launch the vaccine in most of Western Europe by the end of 2006.

**Drug pipelines.** Genentech's (DNA-FSPHX) efforts at increasing indications for its approved drugs are yielding mixed results. U.K.'s National Institute for Health and Clinical Excellence has recommended *Rituxan*, Genentech's drug co-marketed by Roche (ROG.VX-FPHAX), for treating newly-diagnosed advanced follicular lymphoma. The timetable for possible use of *Avastin* in breast cancer is however being pushed further as the FDA is seeking additional safety and efficacy information.

Pfizer (PFE-FSPHX, FPHAX) is investing \$800 million to develop a *Lipitor-Torcetrapib* combination to protect its cholesterol lowering-drug franchise. The combo-drug offers the promise of lowering 'bad' cholesterol while elevating 'good' cholesterol. Novartis (NVS-FPHAX) is seeking European approval for *Rasilez*, the first new type of blood pressure drug in 10 years.

Looking ahead, the FDA is ex-

## 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.*

<b>Accenture (ACN)</b>	<b>p. 7</b>
<b>General Mills (GIS)</b>	<b>p. 3</b>

pected to rule on Merck's *Zolinza* cancer treatment and *Januvia* diabetes drug relatively soon. Pfizer's anti-blood-clotting drug *Fragmin* may win approval for wider use based on the advice of a FDA advisory panel. Pfizer also plans to seek FDA approval for its HIV treatment *Maraviroc* by year-end.

**Deals and partnerships.** After being on the auction block for nearly a year, Swiss-biotech company Serono has found a suitor. German drugmaker Merck KGaA is taking a majority stake in Serono for \$13.5 billion.

Following the ouster of its CEO, Bristol-Myers Squibb is now widely believed to be takeover target. While the strategic fit with Sanofi-Aventis, Glaxo, and Schering-Plough is compelling, uncertainty over the valuation of Bristol's top selling blood thinner, *Plavix* will likely preclude a quick sale or merger. Bristol is battling Canada's Apotex in a patent infringement suit to retain exclusive U.S. rights to *Plavix* until 2012 and fend off generic competition.

Among smaller deals, Amgen is buying Avidia for \$260 million in cash. Avidia's lead drug is in Phase I trials for treating inflammation and autoimmune diseases. Merck has agreed to pay over \$195 million to take an 11% stake in FoxHollow Technologies and expand its existing atherosclerosis research collaboration agreement.

Pfizer continues to engage in acquisitions to make progress towards its stated goal of becoming the number one biotech company. Pfizer has acquired a genetic eye treatment

from Israeli bio-tech company Quark Biotech. AstraZeneca (AZN-FPHAX) and Germany's Schering AG have agreed to co-develop and market the latter's experimental treatment for breast cancer.

**Stents safety and competition.** Safety and competition-related concerns are likely to put pressure on the stent businesses of health care companies.

Following reports to-date discussed within the medical community, Boston Scientific has confirmed that its *Taxus* drug-coated stent increases the risk of blood clots. The FDA has met with Boston Scientific and competitor Johnson & Johnson (JNJ-FSPHX, FPHAX) to discuss the matter. The FDA will also hold a meeting of outside experts to consider health risks posed by drug-coated stents.

Meanwhile, competition in the stent market is set to intensify. Medtronic is likely to launch its *Endeavor* drug-coated stent in the U. S. by the first-half of next year. Abbott (ABT-FSPHX) has stated that its *Xience V* drug-coated stent is more effective than Boston Scientific's *Taxus*. Abbott acquired *Xience* by purchasing Guidant's cardiology assets from Boston Scientific.

Johnson & Johnson has filed a \$5.5 billion dollar lawsuit against Boston Scientific and Abbott, alleging that

Boston Scientific leaked 'confidential' information to Abbott and induced Guidant to breach its merger agreement with J & J.

With U. S. economic growth showing signs of slowing, we value the relative earnings predictability of health care and pharmaceutical companies. We continue to include Fidelity Select Health Care and Fidelity Select Pharmaceuticals in the Core model portfolio.

## Fidelity Select Insurance

**Favorable demographics and financial deregulation are providing growth opportunities in domestic and international markets. Insurers stand to benefit from an eventless 2006 hurricane season.**

An aging domestic population is providing ample growth opportunities for insurers as the elderly seek long-term care insurance and retirement-oriented financial products. While Allstate (ALL-FSPCX) and American International Group (AIG-FSPCX) are targeting the former, Prudential (PRU-FSPCX) is targeting the latter.

Meanwhile, international markets offer attractive opportunities with the Chinese market being a notable one. Insurance premiums in China have increased 13% during the first half of 2006. China's Insurance Regulatory Commission may soon

allow insurance firms to invest yuan assets overseas, a move that will not only benefit Chinese insurers but foreign insurers like AIG that operate in China.

Insurers are seeking new contracts and rate increases to shore up growth. MetLife (MET-FSPCX) has received a contract to provide dental benefits to federal employees and annuity beneficiaries. ACE (ACE-FSPCX) has expanded its Premises Pollution Liability policies in the U. S. to include environmental insurance and help clients reduce environmental liabilities. Citing high-risk of natural disasters Allstate is seeking approval of a 12.2% increase in California home insurance rates from the state regulator. If granted, this will be the first increase in more than three years.

In other developments, MetLife is seeing strong interest from buyers for its Manhattan real estate. The apartment properties comprise 40% of MetLife's real estate holdings and the sale may well fetch \$5 billion. MetLife has indicated that the proceeds may be used for stock buybacks and acquisitions.

With no major hurricanes hitting the mainland, the reserves insurers have set aside for hurricane-related damages appear too high. As such, book values stand to increase from lower write-downs.

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*continued on page 10*

Valuation of several insurance companies remains attractive. Industry-heavyweight AIG trades at a forward P/E multiple of 11. Insurers like Allstate and ACE trade at single digit P/E multiples. We believe the favorable backdrop of an uneventful hurricane season can cause P/E multiples to expand here. We continue to include Fidelity Select Insurance in the Core model portfolio.

## Fidelity Select IT Services

**Outsourcing service providers are executing well on the earnings front and acquiring companies to broaden service offerings and customer base.**

Strong performance in the outsourcing segment enabled Accenture (ACN-FBSOX) to post robust results. Excluding one-time items, the company earned 39 cents a share, a penny above analysts' forecast. Backed by solid bookings in both consulting and outsourcing, Accenture expects net revenue to grow 9% to 12%. Accenture is better positioning itself to take advantage of growth in health care IT spending. The company is partnering with software maker SAP to develop solutions for the health care industry.

Accenture is putting behind its troubles in a contract with Britain's National Health Services. The contract had proven to be an albatross plaguing results from cost overruns. Accenture has agreed to transfer its contractual responsibility to Computer Sciences.

Payroll service provider Paychex's (PAYX-FBSOX) revenue gained 14% to drive first quarter profit higher by 17%. The per-share earnings tally of 35 cents exceeded analysts' forecast by a penny. Paychex benefited from rising interest income on payroll tax dollars held. The company also kept a tight rein on costs to boost operating margins. Paychex expects profits to grow around 14% in 2007.

IT services company Cognizant

Technology (CTSH-FBSOX) is acquiring AimNet Solutions for the latter's software platform and customer base. Cognizant is scouting additional tuck-in acquisitions in the \$50 million to 60 million price range to boost services and add new clients.

Marketing services provider Alliance Data Systems (ADS-FBSOX) has agreed to acquire CPC Associates for \$70 million and accounting and consulting firm FTI Consulting is buying FD International for \$260 million.

Meanwhile, First Data (FDC-FBSOX) completed the spin-off of its money transfer business Western Union after lowering the latter's growth projections. First Data shareholders received one share of Western Union for each share of First Data.

Fidelity Select IT Services has lagged the DJW 5000 since mid-year repositioning. Given generally favorable news flow and relatively attractive valuation, we believe this fund will likely reverse this trend. We continue to include this fund in the Core model portfolio.

## Fidelity Select Materials

**Materials-related companies are expanding their production capacity while setting up new businesses. Coal miners have short-term issues to contend with. Chemical producers should benefit from declining petroleum feedstock costs.**

**Capacity expansion in aluminum.** Aluminum producers have ambitious expansion plans. Alcan (AL-FSDPX) is working to increase the capacity of its Gove alumina refinery in Australia by 90% to 3.8 million tons a year at a cost of about \$1.9 billion. Alcoa (AA-FSDPX) is moving forward with its \$1.5 billion alumina plant expansion in Western Australia. The expansion is expected to increase alumina output capacity by 80% to 4.7 million tons a year.

## Recent Developments Relating to Fidelity Select Gold

The downward pressure on gold has persisted in October and the price has dropped below \$600 per ounce. The decline in the price of oil has been the primary driver. In the past few months, the link between oil and gold is much stronger than what typically is the case.

If gold's strong linkage to oil persists, oil will have to fare better to let the positives in currency and interest rate trends come to light and support a gold rally. Efforts on the part of OPEC nations to cut oil production and the onset of winter may bring some stability to the oil markets.

**Date: October 11, 2006**

Guinea, Vietnam, and Russia are harboring ambitions of increasing bauxite mining and alumina refining capacity. While Alcoa and Alcan may have access to such opportunities, these capacity additions along with those reported in China run the risk of causing excesses.

**Chemical companies target new businesses.** Dow Chemical (DOW-FSDPX) is including the water business in its growth plans. The company has created a separate business unit Dow Water Solutions by combining its existing water-related businesses. Growth opportunities in China, India, and Europe are expected to propel this business unit's revenue three-fold in the next few years to over \$1 billion. Dow Chemical has also entered into a long-term joint venture with Germany's BASF to produce propylene oxide, a raw material for plastics.

DuPont (DD-FSDPX) has developed a new process of making high-purity titanium metal powder that is likely to reduce the cost of manufactured parts for the aerospace and automobile industries.

**Travails in coal.** Coal miners have not been faring well off-late. In addition to battling high inventories, individual coal miners have had their share of troubles. Blaming problems with mining equipment and rail transportation, Peabody Energy (BTU-FSDPX) is now forecasting 2006 output at 230 million tons, the lower end of its previous forecast. Meanwhile, International Coal Group is having problems from mine explosions earlier in the year. The long-term outlook for coal however remains favorable as abundant supplies in the U. S. provide a reliable energy source compared to limited reserves of oil and natural gas.

Share prices in the materials sector have performed poorly in the third quarter as commodity prices have trended lower. Investors have been concerned that demand for materials will wane from a slowdown of the U. S. and Chinese economies. Weakness in the auto and housing markets has also been a cause for concern.

While economic growth is slowing, a recession does not appear to be in sight. Demand from industries such as aerospace and commercial construction continues to remain strong. Commodity prices, while lower than six months ago, are still high from a historical perspective. Additionally, declining petroleum feedstock costs should provide a tailwind for chemical companies.

We believe most materials-related companies will likely post healthy year-over-year earnings comparisons. Additionally, mining and metal companies continue to consolidate and more deals are likely. This should likely help provide a positive backdrop for shares here. We rate Fidelity Select Materials Favored Buy and include the fund in both model portfolios.

## Fidelity Select Telecommunications, Utilities Growth

**Wireless service and equipment providers are setting themselves**

**to extend their growth. Transaction activity continues in the telecom services and telecom equipment space. With the Exelon-PSEG merger forced to terminate, uncertainty in electric utility mergers has increased.**

**Wireless growth set to continue.** Wireless service providers are continuing to invest in spectrum to expand voice, high-speed Internet, and video services. The Federal Communications Commission completed its most lucrative \$14 billion auction of public airwaves. T-Mobile, a unit of Deutsche Telekom, bid aggressively forking \$4.2 billion. Cellular tower companies stand to benefit as wireless carriers put their newly won spectrum to work.

*The regulatory climate for electric utility mergers is proving to be relatively unfriendly at the state level. As such, transactions involving unregulated businesses and electricity generation assets are more likely than those involving integrated utilities.*

Nokia (NOK-FSTCX) has signed deals worth over \$2.5 billion with Chinese customers. Nokia will provide digital network equipment for China Mobile and mobile phones for China's national mobile phone distributor PTAC. Nokia now has more than \$4.2 billion invested in China.

Mobile TV is gaining traction. Sprint Nextel (S-FSTCX, FSUTX) has launched *Sprint Movies*, the first 'pay-per-view' service for mobile phones in the U. S. Meanwhile, Nokia and Motorola have agreed to work together to ensure that their digital video-broadcast enabled handsets are interoperable. Hong Kong-based telecom provider PCCW is conducting a six-month technical trial of Motorola's Mobile TV system.

**Transactions in telephony.** Telecom equipment and telecom ser-

vice companies are in the midst of a transaction wave. In the equipment space, transaction activity is being driven by the impetus to acquire and restructure technology assets.

Motorola (MOT-FSTCX) is buying Symbol Technologies in a \$3.9 billion deal. Symbol produces bar-code scanners and mobile devices used for inventory tracking. This acquisition will further Motorola's enterprise business particularly in retailing and manufacturing industries.

Alcatel has agreed to buy Nortel's (NT-FSTCX) money-losing 3G high-speed mobile telephony access business for \$320 million. Nortel is retaining its CDMA and GSM wireless communications businesses and is seeking acquisitions in its core areas to increase scale.

Private equity firms are getting into the act as well. Freescale Semiconductor, which makes semiconductors for the wireless market, is being acquired by a consortium led by The Blackstone Group for about \$18 billion.

In the world of telecom service providers, the \$67 billion AT&T (T-FSTCX, FSUTX)-BellSouth (BLS-FSTCX, FSUTX) merger will soon be under scrutiny. The FCC is expected to rule on this merger soon. Adding uncertainty to this deal, House Democrats are asking the U. S. Department of Justice to delay its decision on this merger until a Federal judge completes the review of SBC-old AT&T and Verizon (VZ-FSTCX, FSUTX)-MCI mergers.

Meanwhile, AT&T is acquiring privately held USinternetworking, an applications service provider, for \$300 million. Rural telephone provider Citizens Communications has agreed to buy Commonwealth Telephone for \$1.2 billion.

**States impede electric utility mergers.** Exelon (EXC-FSUTX) has scrapped its plans of bringing Public Service Enterprise Group into its fold through a \$18 billion

transaction. Although the merger was approved by the Department of Justice and the Federal Energy Regulatory Commission, Exelon and PSEG could not agree to the terms set forth by New Jersey regulators.

Meanwhile, Constellation Energy's merger with FPL Group (FPL-FSUTX) continues to face opposition from the Maryland Public Service Commission. Upcoming elections and a recent court ruling have added uncertainty to this deal. The two companies have halted their merger integration plans while continuing to seek approval.

Following these developments, electric utilities are taking steps to advance their businesses as independent entities. Exelon has notified the Nuclear Regulatory Commission that it will seek a license to build and operate a new nuclear plant in Texas. On the earnings front, Exelon has increased the lower end of its 2006 forecast by 15 cents to \$3.15 per share. Meanwhile, PSEG is considering the sale of its regulated utility subsidiary.

FPL Group has outlined plans to build a coal power plant in Florida at a cost of about \$2 to \$3 billion. FPL has added 662MW of power generation capacity to its Horse Hollow Wind Energy Center in Texas and made it the world's largest wind farm.

Dividend-yield rich shares of telecom service and electric utility companies will likely fare well as long as interest rates remain well-behaved. Further consolidation in the telecom equipment space offers opportunities to create value from an investing stand-point. The regulatory climate for electric utility mergers is proving to be relatively unfriendly at

the state level. As such, transactions involving unregulated businesses and electricity generation assets are more likely than those involving integrated utilities. We continue to include Fidelity Select Telecommunications and Fidelity Select Utilities Growth in the Core model portfolio.

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

**The equity market is walking a fine line in expecting economic growth to be just enough for earnings to come through.**

A slowdown in the housing market has caused the U. S. economy to lose some steam. Offsetting this negative, gasoline prices have declined by over 25% in recent months. Lower gasoline prices should allow consumers to spend on other items and keep the U. S. economy moving at a steady clip.

Inflation data have generally been tame off-late. The Federal Reserve has acknowledged that the housing market is in a 'serious correction'. The Central Bank has however kept the door open for interest rate increases down the road by stating that inflation risks remain.

In recent months, the equity market has rallied on the belief that corporations will come through with their earnings and that the Federal Reserve will start to reduce interest rates in 2007.

The third quarter earnings reporting season will be in full force soon after this report is published. Analysts expect third quarter earnings for S&P 500 companies to rise over 14% from a year-ago with growth

### Featured Quote

***'You don't want too much fear in a market, because people will be blinded to some very good buying opportunities. You don't want too much complacency because people will be blinded to some risk.'***

**Ron Chernow**

slowing to about 13% in the fourth quarter. Deviation on either side can lead to concerns of the economy being too weak or too strong and cause equity prices to lose ground.

We continue to rate the AlphaProfit Sector Portfolio Indicator 'Buy'. We believe the model portfolios should fare relatively well vis-à-vis the broad market. Except for materials and to a lesser extent IT services, the groups represented in the model portfolios are relatively less sensitive to the economy.

Share prices in the materials sector appear to have already declined to levels that reflect relatively pessimistic earnings expectations. As such, share prices here stand to benefit if guidance for future earnings is more optimistic than what is implied by current equity prices. We rate Select Materials 'Favored Buy'.

**AlphaProfit Investments, LLC**  
**Date: September 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	FDFAX	Large Cap Blend	Below Average	R. Lee
Select Gold	FSAGX	Mid Cap Growth	Above Average	D. Dupont
Select Health Care	FSPHX	Large Cap Growth	Below Average	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 Growth	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	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 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.

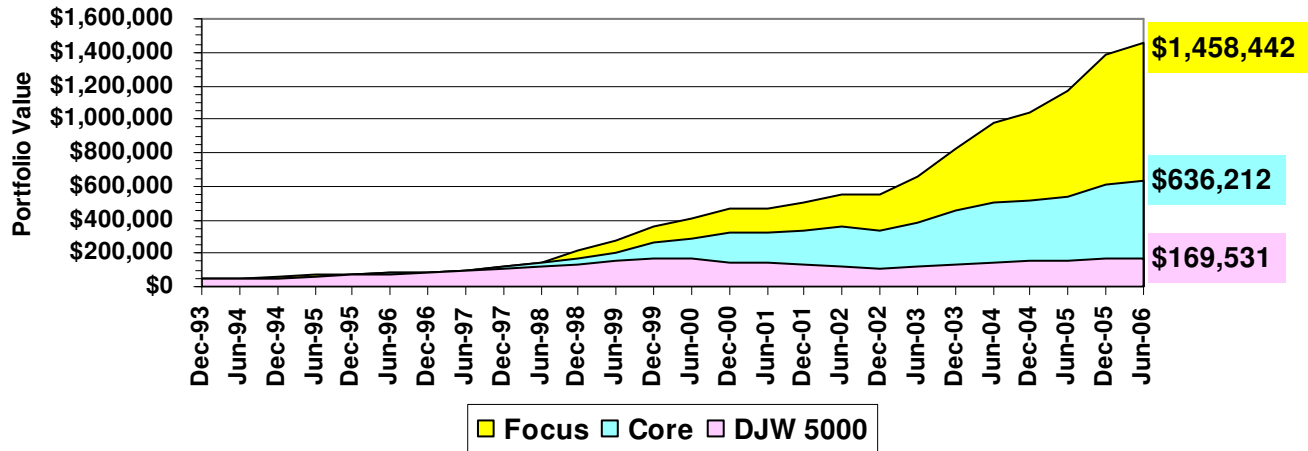
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### AlphaProfit Model Portfolio Long-Term Performance

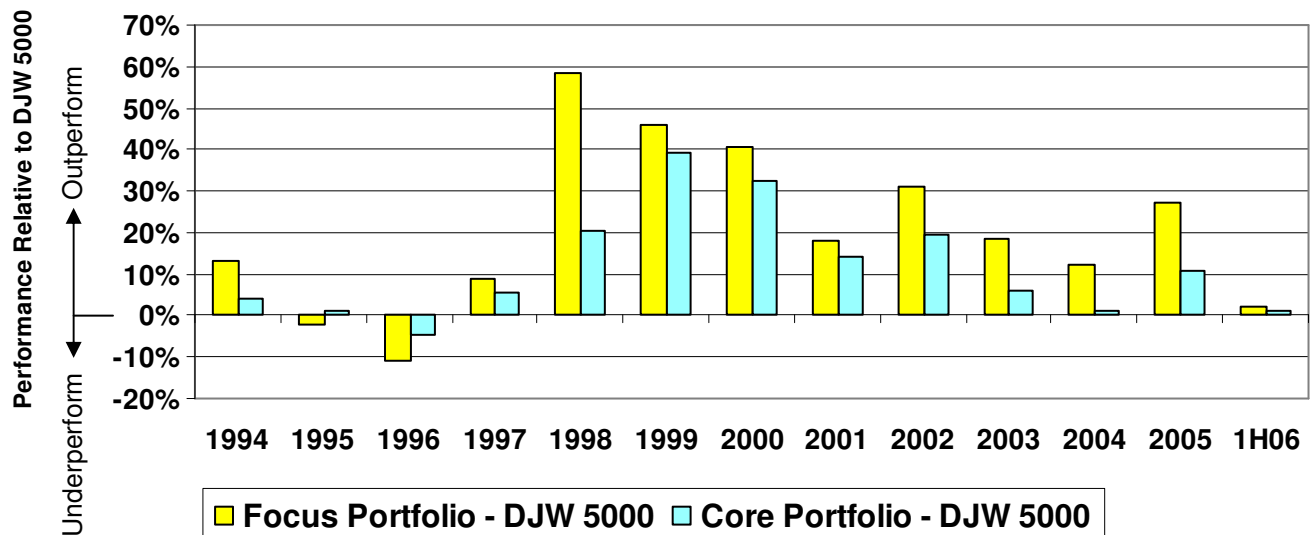
The Core and Focus Portfolios were initiated on December 31, 1993 each with a \$50,000 value. No new capital is added. All distributions are reinvested in the fund in which they are paid. The performance shown below is as of June 30, 2006; the returns do not include the one-time 3% front-end sales load 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.