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# 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: Buy**  
**Favored Buy: FSDPX**

### Scorecard

**The AlphaProfit Core and Focus model portfolios gained 2.9% and 2.2%, respectively in August. The Dow Jones Wilshire 5000 Total Market Index gained 2.4%.**

**Inflation concerns recede.** Although the markets started August in reverse on concerns of rising inflation, the preponderance of inflation-related data kept these fears at bay. While the core personal consumption expenditure price index raised inflation fears, such concerns

A 7% decline in the price of oil despite loss of production from Alaska's Prudhoe Bay oil field helped inflation concerns recede in their own right. Oil prices moved more in response to rising petroleum inventories, the absence of hurricane-related supply shocks, and the imminent end of the summer driving season.

**Interest rate concerns ebb.** In August, the Federal Reserve took a recess from its string of quarter-point interest-rate increases. Fading inflation concerns coupled with sof-

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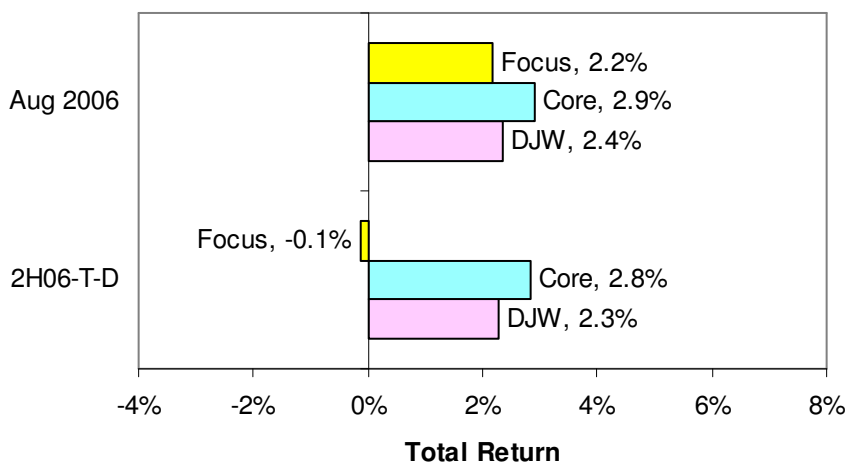
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were alleviated by tame increases in producer and consumer price indexes. The core producer price index declined in July, the first decline since October. July core consumer prices rose 0.2%, breaking a string of four straight 0.3% monthly gains.

tening trends in the employment and housing markets supported the belief that the Federal Reserve will extend this pause in raising interest rates. In July, the unemployment rate ticked up from 4.6% to 4.8%. Sales of existing homes fell to the lowest level in more than two years.

## Portfolio Composition

### AlphaProfit Focus™ Model Portfolio

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

Fidelity Fund Holding (Ticker Symbol)	June 30, 2006		August 31, 2006	
	Amount Invested	Percent Portfolio	Value	Percent Portfolio
Gold (FSAGX)	\$729,221	50.00%	\$757,159	51.99%
Ind. Materials (FSDPX)	\$729,221	50.00%	\$699,313	48.01%
Total (rounded to)	\$1,458,442	100.00%	\$1,456,472	100.00%

### AlphaProfit Core™ Model Portfolio

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

Fidelity Fund Holding (Ticker Symbol)	June 30, 2006		August 31, 2006	
	Amount Invested	Percent Portfolio	Value	Percent Portfolio
Bus. Svce. (FBSOX)	\$64,599	10.15%	\$62,990	9.63%
Food & Ag. (FDFAX)	\$65,048	10.22%	\$68,608	10.49%
Gold (FSAGX)	\$96,120	15.11%	\$99,802	15.26%
Health Care (FSPHX)	\$58,261	9.16%	\$62,044	9.48%
Ind. Materials (FSDPX)	\$96,120	15.11%	\$92,178	14.09%
Insurance (FSPCX)	\$59,280	9.32%	\$61,299	9.37%
Pharma. (FPHAX)	\$63,538	9.99%	\$67,126	10.26%
Telecomm. (FSTCX)	\$65,934	10.36%	\$68,756	10.51%
Util. Growth (FSUTX)	\$67,311	10.58%	\$71,383	10.91%
Total (rounded to)	\$636,212	100.00%	\$654,184	100.00%

**Growth just right.** Employment and housing data did raise concerns of the economy tipping into recession. A relatively strong July retail sales report along with the upward revision of the second quarter gross domestic product growth estimate from 2.5% to 2.9% assuaged such concerns. Meanwhile, corporate news flow was generally good with titans like Hewlett-Packard, Procter & Gamble, and Time Warner posting strong earning reports.

Equities fared well in general against this backdrop of waning inflation and interest rate fears. The markets remained unnerved by the report of U.K. police's timely effort in thwarting a large-scale plot to blow up several U.S.-bound aircrafts. The Dow Jones Wilshire 5000 Total Market Index gained 2.4% for the month. Technology-related shares rallied particularly strong reversing their large losses in July. The backdrop of a decline in

the price of oil made energy the worst performing sector. Weak gains from materials-related shares limited the gains for the AlphaProfit Core and Focus model portfolios to 2.9% and 2.2%, respectively.

### Major Movers

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

More than three quarters of the list of top 10 holdings we track managed to advance in August. Gold mining companies made their presence felt among the month's winners. Metal as well as coal producers were among the weaker performers.

**Cambior shines again.** Low-priced shares of Cambior (CBJ-FSAGX) continued their winning ways from July. With a 19% gain, the shares bagged honors for being the top performer in both model portfolios in August. A 46% increase in the realized price for gold sold contrib-

uted towards Cambior increasing its net income by \$6 million from the year-ago period to \$7.1 million. The company also reported favorable results from its exploration of the Omai ore body in Guyana.

**Corning rebounds.** Shares of glass maker Corning (GLW-FSTCX), the Core model portfolio's worst performer in July, reversed course to take honors as the Core model portfolio's second-best performer with a 17% gain. Comments from the company on weakening demand for flat-panel glass pressured shares in July. Vibes from analysts about an end to the inventory glut in flat-panel glass enabled Corning shares to surge ahead in August.

### Sprint Nextel gets disconnected.

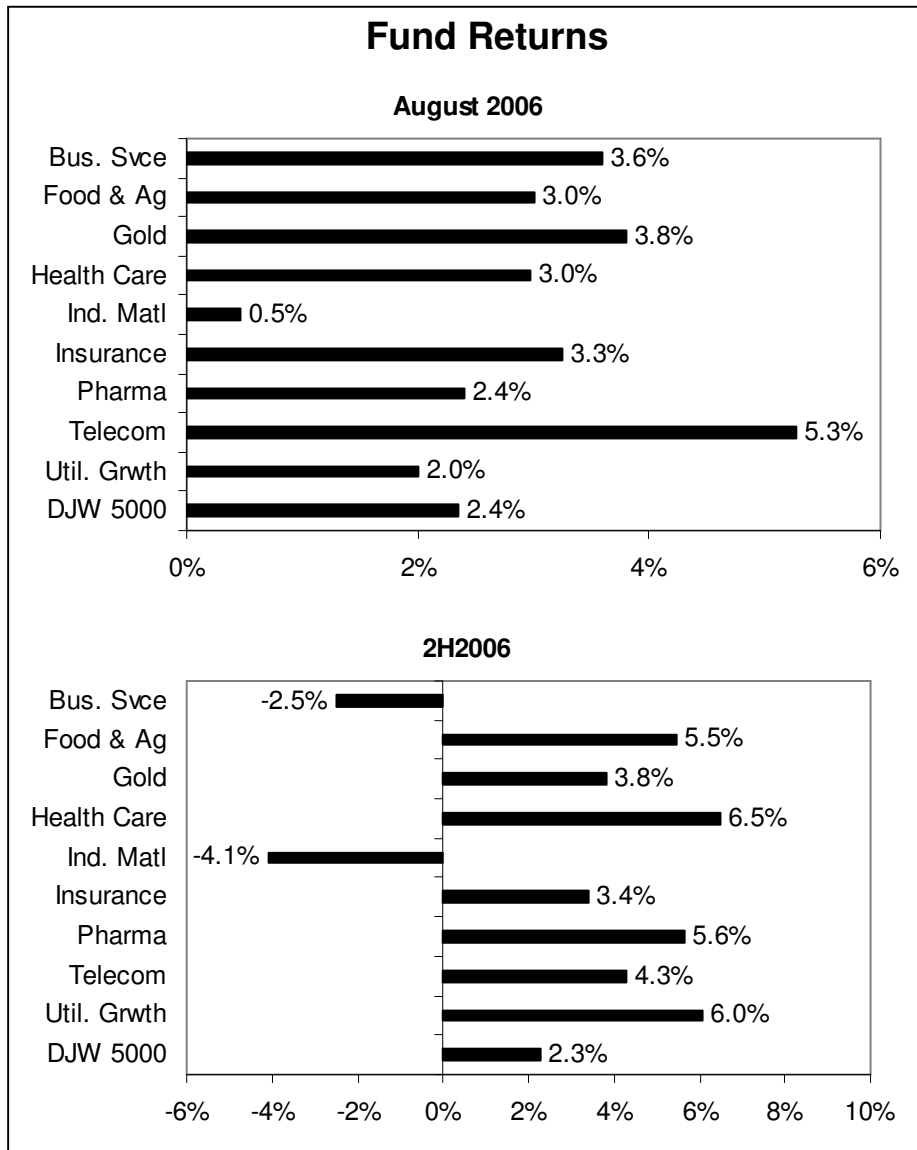
Shares of Sprint Nextel (S-FSTCX, FSUTX) with a 14% decline were the Core model portfolio's worst performer. Rising monthly churn among Sprint's 'postpaid' customers and declining average revenue per user from Sprint's 'prepaid' service impacted financial performance. Sprint's revenue and earnings fell short of analysts' forecast and the company lowered its 2006 operating income forecast. Sprint's Chief Operating Officer, Len Lauer left by month-end.

**Peabody cools.** With the price of natural gas retreating nearly 30% in August, the price of coal, a substitute for natural gas used in power generation, came under pressure. This along with rising inventories of coal at the nation's electric utilities made shares of coal producers unpopular among investors. Shares of Peabody Energy (BTU-FSDPX) declined nearly 12% to become the Focus model portfolio's worst performer.

### Outlook

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

**While global economic growth appears to be on a reasonably sound footing for now, Central Banks are concerned with inflation.**



Revenue growth at Cognizant Technology Solutions (CTSH-FBSOX) continues to accelerate. Following a 50% year-over-year increase in revenue in 2005 and a 57% increase in 2006's first quarter, Cognizant's revenue growth increased to 59% in the second quarter. Commenting on the results company President Lakshmi Narayanan said, 'We are very pleased with our strong second quarter results, driven by significant revenue growth across an expanding range of industries, service offerings, and geographies.'

Cognizant's partnership with software firm SAP has helped in winning several offshore IT service contracts from European companies. Cognizant expects revenue to grow 54% during the third quarter.

Open Solutions (OPEN-FBSOX), a technology service provider for financial institutions, reported 24 cents in per-share profit, ahead of the 21 cent tally forecasted by analysts. With contract signings increasing 55% from the year-ago level, Open Solutions has raised its third quarter earnings forecast. Open Solutions is partnering with consulting firm Ceto and Associates to expand the customer base.

Accenture (ACN-FBSOX) is looking to acquisitions to shore up its service offerings. Accenture has completed the acquisition of Advantium and Meridian Informed Purchasing to enhance its business process outsourcing capabilities. Accenture has also agreed to buy insurance software firm NaviSys to develop new outsourcing services for the life insurance industry.

After completing the acquisition of Peace Software, a developer of utility billing software, First Data (FDC-FBSOX) is buying Argencard, the leading payment processor in Argentina and Uruguay. Approval for the Argencard acquisition is expected by the fourth quarter.

The growing complexity of information technology systems makes the

Economic growth in the U. S. has slowed from the breakneck 5.6% annualized rate seen in the first quarter. As evident from the upward revision to the gross domestic product estimate, growth during the second quarter was not as slow as originally thought. Meanwhile, China's boom in 2005 also appears to have been underestimated with the economy growing 10.2%, higher than the previously estimated 9.9%.

Growth in U. S. consumer spending may however weaken. In August, the Conference Board's consumer confidence index showed its biggest drop since September.

Meanwhile, Central Banks around the world appear to be concerned with inflation. The European Central

Bank and the Bank of England both increased key interest rates by 25 basis points in August. China's Central Bank too raised the one-year lending rate by 27 basis points. Additionally the People's Bank of China raised the amount of foreign currency Chinese banks must hold as reserve, effectively reducing the amount available for lending.

**Fidelity Select Business Services & Outsourcing**

**Companies in the business service universe are executing well on the earnings front. Acquisitions and partnerships are playing a key role in enhancing service capabilities.**

value proposition of outsourcing service providers more compelling. Among newer technologies, Service Oriented Architecture (SOA) is one that offers the promise of freeing customers from having to frequently upgrade and replace their software. Companies like Accenture will likely benefit as the move towards SOA gains traction.

We find the prospects for the information technology service providers appealing and include Fidelity Select Business Services & Outsourcing in the Core model portfolio.

### Fidelity Select Food & Agriculture

**News quality from food companies generally remains good although the soft-drink saga in India highlights the risk of operating in emerging markets. With consumer spending likely to slow, food companies are stepping up efforts to attract and retain customers.**

In earnings-related news, Nestle's (NESN.VX-FDFAX) sales and earnings exceeded the company's internal targets with sales in Western Europe being strong. Unilever's (UN-FDFAX) results on the other hand were hurt by increased marketing expenses. As part of its restructuring effort, Unilever is selling most of its European frozen food businesses including its *Birds Eye* and *Iglo* brands for \$2.2 billion.

Archer Daniels Midland (ADM-FDFAX) is benefiting from the increasing use of ethanol as gasoline additive. Surging corn processing profits helped the agricultural processor more than double its fiscal fourth quarter net income.

Coca-Cola (KO-FDFAX) is increasing its presence in China. The company has now increased its stake in Kerry Beverages to 89.5%. Kerry distributes Coca-Cola products in nine Chinese provinces. The Indian businesses of both Coca-Cola and PepsiCo (PEP-FDFAX) have how-

## 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.

<b>B. Svc. &amp; Out. (FBSOX)</b>	<b>Food &amp; Ag. (FDFAX)</b>	<b>Gold (FSAGX)</b>
First Data	Nestle ADR	Meridian Gold
Open Solutions	Altria Group	Newcrest Mining
Moneygram Intl.	Unilever NV (NY)	Newmont Mining
Accenture Cl. A	Pepsico	Aber Diamond
Paychex	Coca Cola	Barrick Gold
Alliance Data Systems	McDonald's	Buenventura (Cia Min)
Cognizant Tech Cl. A	Kellogg	Cambior
Sapient	Kroger	Lonmin
Hypercom	General Mills	Impala Platinum
Ceridian	Archer Daniels Midland	Crystallex Intl.
<i>62.2% of portfolio</i>	<i>51.2% of portfolio</i>	<i>60.1% of portfolio</i>
<i>7.6% foreign</i>	<i>24.2% foreign</i>	<i>80.8% foreign</i>
<b>Health Care (FSPHX)</b>	<b>Ind. Matls. (FSDPX)</b>	<b>Insurance (FSPCX)</b>
Johnson & Johnson	Dow Chemical	Amer. Intl. Group
Pfizer	Falconbridge	Ace
Merck	Alcoa	Hartford Fin. Svcs.
Wyeth	DuPont	St. Paul Travelers
Genentech	CONSOL Energy	Metlife
Amgen	Alcan	Prudential Financial
UnitedHealth	Burl. North. Santa Fe	Aflac
Allergan	Peabody Energy	Allstate
WellPoint	Can. Natl. Railway	Endurance Spl. Hldg.
Abbott Labs.	U. S. Steel	UnitedHealth
<i>45.1% of portfolio</i>	<i>45.9% of portfolio</i>	<i>51.4% of portfolio</i>
<i>5.3% foreign</i>	<i>32.7% foreign</i>	<i>26.9% foreign</i>
<b>Pharma (FPHAX)</b>	<b>Telecomm. (FSTCX)</b>	<b>Util. Growth (FSUTX)</b>
Merck	Qwest Comm.	Verizon Comm.
Pfizer	AT&T	AT&T
Novartis ADR	Verizon Comm.	BellSouth
AstraZeneca	BellSouth	Sprint Nextel
Wyeth	Sprint Nextel	Qwest Comm.
Johnson & Johnson	Motorola	Exelon
NutriSystem	Corning	FPL Group
Roche Holdings	Nortel Networks	Firstenergy
Takeda Pharma	Qualcomm	Entergy
Teva Pharma. ADR	Nokia ADR	AES
<i>49.1% of portfolio</i>	<i>71.3% of portfolio</i>	<i>68.4% of portfolio</i>
<i>39.3% foreign</i>	<i>16.9% foreign</i>	NA

ever been temporarily hurt. Several Indian states have imposed a ban on Coca-Cola and PepsiCo beverages alleging that such drinks include high levels of pesticide residue.

Coca-Cola and PepsiCo are also in the midst of some key management changes. While PepsiCo has promoted its CFO to CEO, the President of Coca-Cola's North America division has departed to become CEO of Clorox.

General Mills (GIS-FDFAX) has launched two marketing initiatives *Serving Up Soul* and *Que Rica Vida* targeting African American and Latin American consumers. Meanwhile, Unilever is running a series of episodes on the web, i.e., Webisodes, to promote its butter-substitute sprays.

Altria's (MO-FDFAX) legal victories continue with a federal judge most recently not ordering the company to pay damages sought by the government on a racketeering case. While these legal wins may eventually clear the way for Altria to spin off Kraft, Altria, for now, has outlined no such plans. Altria has instead chosen to hike its quarterly dividend by 7.5%.

Even though consumer spending appears poised to slow, we believe spending on consumer staples will remain relatively immune to such macro-economic trends. We continue to include Fidelity Select Food & Agriculture in the Core model portfolio.

## Fidelity Select Gold

**Consolidation continues in the gold patch while mining companies report strong earnings. Pressure on the price of gold from the loss of its status as an inflation hedge and safe-haven will likely be temporary. Rising interest rates abroad should put pressure on the U. S. dollar.**

**Mining mergers.** Vancouver-based Goldcorp and Nevada-based

Glamis Gold have announced an \$8.6 billion merger. The new entity will be the third-largest gold mining company by market capitalization after Barrick Gold (ABX-FSAGX) and Newmont Mining (NEM-FSAGX). Goldcorp shareholders will own 60% of the new entity.

The proposed Goldcorp-Glamis Gold merger comes after Goldcorp turned down a hostile offer from Glamis Gold last year. With the price of gold remaining high and reserve replacement challenging, this transaction will likely put pressure on other miners like Newmont to seek out acquisitions.

Barrick's Gold's plan to purchase its Donlin Creek, Alaska project partner NovaGold, has run into trouble.

*Gold miners are quite bullish on the prospects for gold. Believing that the price outlook for gold is positive, Barrick Gold has aggressively reduced the size of its hedge program. Goldcorp CEO Ian Telfer has gone on record predicting the price of gold to increase over \$200 per ounce in the next two years.*

NovaGold has rejected Barrick's \$1.5 billion unsolicited offer on grounds that it 'significantly undervalues' NovaGold. Additionally, NovaGold has filed two lawsuits against Barrick.

**Earnings strong.** A 40% increase in the realized price for gold and a 70% increase in production helped Barrick Gold report 53 cents in per-share earnings, sharply higher than the 9 cent tally reported a year-ago. Barrick appears to be on track to meet its full-year gold production guidance of 8.6 to 8.9 million ounces.

Platinum giant Impala Platinum (ZA:IMP-FSAGX) reported a 39% increase in per-share earnings from the year-ago level. Record high prices for platinum group metals were the primary earnings driver as platinum production held steady at

1.8 million ounces. Auguring well for the future, Impala expects platinum production to exceed 2.0 million ounces in 2007. To improve tradability, Impala is splitting its shares eight-to-one.

**Bullion trends.** Macroeconomic as well as geopolitical factors were relatively unfavorable for gold to rally in August. The yellow metal declined 2% in price. With the threat of inflation from rising oil prices receding and a tenuous truce ensuing between Israel and Lebanon, gold's safe-haven appeal diminished.

Off-late, the price of gold has essentially moved in tandem with the price of oil. History however suggests a stronger correlation between the dollar and the price of gold with inflationary implications of a declining U. S. dollar often causing gold to rally.

Rising interest rates abroad should likely set the stage for the U.S. dollar to decline vis-à-vis foreign currencies. The onset of the fall wedding season in India should perk up jewelry demand in the near-term.

Gold miners are quite bullish on the prospects for gold. Believing that the price outlook for gold is positive, Barrick Gold has aggressively reduced the size of its hedge program. Goldcorp CEO Ian Telfer has gone on record predicting the price of gold to increase over \$200 per ounce in the next two years.

In all, we believe the current economic and political environment should likely be supportive of higher gold prices in the period ahead. We continue to include Fidelity Select Gold in both model portfolios.

## Fidelity Select Health Care, Pharmaceuticals

*(As of August 1, Mathew Sabel manages Fidelity Select Health Care.)*

**Companies involved in manufacture of generic drugs and aesthetic products are faring well**

**while major U. S. drug companies grapple with legal issues. Progress on new products continues.**

**Earnings strong.** Helped by seven new product launches in the quarter, generic drug manufacturer, Teva Pharmaceutical's (TEVA-FPHAX) second quarter sales rocketed 77% to \$2.2 billion. Gross-profit margin widened to 53.9% from 47.4% in the year-ago period. Teva earned \$488 million, up from 241 million a year-ago.

Teva has launched a generic version of Pfizer's (PFE-FSPHX, FPHAX) popular antidepressant *Zoloft*. The FDA has granted final approval for Teva's generic version of Wyeth's (WYE-FSPHX, FPHAX) *Effexor* antidepressant. Teva has handily boosted its 2006 per-share earnings forecast to the \$2.15 to \$2.25 range. Looking ahead to 2007, Teva's global rationalization strategy is expected to result in cost savings of \$45 million.

Meanwhile, quarterly sales at Allergan (AGN-FSPHX) increased 33% thanks to strong demand for *Botox* anti-wrinkle treatment and products obtained through the Inamed acquisition. Going forward, Allergan expects its dermal filler treatment to handily add to results. The company also expects the FDA to approve its new silicone breast implants, a product banned in the U.

S. since 1992. Allergan has raised its full-year's per-share earnings forecast to the \$3.59 to \$3.65 range.

**Court room battles continue.** Verdicts from Merck's (MRK-FSPHX, FPHAX) *Vioxx*-related trials were mixed with the Federal judicial circuit ensuring damages are not excessive. A New Orleans jury awarded \$51 million in damages after ruling that Merck failed to notify doctors of *Vioxx*'s risks; but a federal judge overturned the damage award calling it excessive. Merck however received a setback in New Jersey where a state judge threw out a prior victory on grounds that Merck withheld critical information. Meanwhile, Merck won one case in California.

Ahead of Pfizer launching its inhaled insulin *Exubera* in September, Novo Nordisk, the world's largest seller of insulin products, has filed a patent infringement suit against Pfizer. Meanwhile, recognizing the importance of legal issues facing the company, Pfizer's board has recently appointed the company's top lawyer Jeff Kindler as its new CEO.

**Drug products and pipelines.** Canada's federal health department, Health Canada, has approved Merck's cancer vaccine *Gardasil* as well as infantile gastroenteritis vaccine *RotaTeq*. Pfizer

has started shipping its new smoking-cessation aid *Chantix* to U. S. pharmacies.

Genentech's (DNA-FSPHX) efforts to increase indications for its drugs continue to yield mixed results. A mid-stage study conducted by Biogen Idec and Genentech has shown *Rituxan*, a previously approved cancer drug, to be effective in treating multiple sclerosis. Following additional data provided by Genentech, the FDA has however decided to extend its review for use of *Herceptin* in breast cancer to November. Meanwhile, Genentech's majority owner Roche (ROG.VX-FPHAX) has filed a European application for using *Avastin* in treating lung cancer.

Novartis (NVS-FPHAX) has submitted its oral drug *Galvus* for European approval in treating Type 2 diabetes. Abbott (ABT-FSPHX) has started its clinical trial to evaluate its new *XIENCE V* coronary-stent in a broader patient group.

**Other developments.** The alleged backdating of stock-option grants at UnitedHealth Group (UNH-FSPHX, FSPCX) is having wider ramifications. Due to ongoing reviews, UnitedHealth has delayed filing its second quarter report on Form 10-Q with the Securities and Exchange Commission. The company has also received a debt default notice. UnitedHealth's operating fundamen-

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*continued on page 10*

tals however remain strong and the company should likely have little trouble in refinancing the debt.

Share prices in the health care sector have generally fared well since the mid-year repositioning. Yet, valuation metrics continue to remain relatively attractive. We remain optimistic on the prospects for health care and pharmaceutical shares. Accordingly, we continue to include Fidelity Select Health Care and Fidelity Select Pharmaceuticals in the Core model portfolio.

## Fidelity Select Industrial Materials

**Chemical companies are taking steps to drive margin higher while looking to emerging markets for growth. Aluminum producer Alcan reported strong earnings whereas rising inventories pressured coal and steel company shares. Metal producers continue to consolidate.**

**Margins and emerging markets in focus.** In an effort to reduce \$160 million in annual costs, Dow Chemical (DOW-FSDPX) is closing two plants in Canada and one plant in Italy. The company expects to take a \$600 million charge in the third quarter. In addition to reducing costs, the closures will likely lift prices for polyethylene and caustic soda as supply gets curtailed.

To offset rising material and fuel costs, DuPont (DD-FSDPX) is increasing prices in its ethylene copolymer product line by eight cents per pound. The company is also raising the price of titanium dioxide products in Central and South America by \$150 a ton. Additionally, DuPont is reducing payout from its pension plan while expanding its employee retirement savings plan. DuPont expects these changes to employee benefit plans to marginally increase per-share earnings in 2007 and 2008.

Dow Chemical plans to invest \$200 million to expand its epoxy business in China. The company has formed

a joint venture with Russia-based Izolan to manufacture polyurethane products. With Brazil's auto market growing at a 13% annual rate, DuPont expects to triple its automotive coatings revenue in Brazil by the end of the year from the 2002 level.

**Aluminum dynamics.** Backed by a 17% increase in revenue to \$6.1 billion, Canada-based Alcan (AL-FSDPX) nearly doubled its second-quarter operating profit to \$556 million from a year ago. Alcan has also

*Russia's OAO Rusal, the world's third largest aluminum producer after Alcoa and Alcan appears to be harboring ambitions of becoming the number one player. The company is reported to consider bringing compatriot Sual Group and Swiss commodity trading house Glencore into its fold.*

increased its quarterly dividend by 33%. The company expects results to be 'very strong' during the seasonally weak third-quarter.

To shore up aluminum production capacity, Alcan is investing \$1.8 billion to modernize its smelter in British Columbia. Meanwhile, Alcoa's (AA-FSDPX) 60%-owned Alumar venture in Brazil has increased aluminum production by about 17%.

**Consolidation frenzy.** Swiss company Xstrata has completed the purchase of nickel producer Falconbridge (FAL-FSDPX). Meanwhile, Arizona-based Phelps Dodge, Canada-based Teck Cominco, and Brazil-based Companhia Vale do Rio Doce have been in the running to buy Canada-based nickel producer Inco. With Teck Cominco failing to up its offer, Rio's cash offer will likely trump Phelps Dodge's stock offer.

Meanwhile, Russia's OAO Rusal, the world's third largest aluminum producer after Alcoa and Alcan appears to be harboring ambitions of becoming the number one player.

The company is reported to consider bringing compatriot Sual Group and Swiss commodity trading house Glencore into its fold.

Shares in the diverse materials sector have been among the weaker performers since the mid-year repositioning. While some of the weakness has been caused by fear that the U. S. economy may slip into recession, steel and coal company shares have also been pressured by rising inventories of such commodities. While trouble in auto companies is likely to keep a lid on steel demand in the near-term, we see supply-demand balance for coal to gradually resolve in favor of coal producers.

Taken in aggregate, we believe share prices in the materials sector reflect an economic scenario that is perhaps too pessimistic. The shares failed to materially participate in the August rally increasing the relative valuation disparity vis-à-vis other groups. We believe this gap in relative valuation is likely to narrow in the months ahead if the growth trajectory for the U. S. economy remains uninterrupted. We rate Fidelity Select Industrial Materials Favored Buy and continue to include the fund in both model portfolios.

## Fidelity Select Insurance

**Earnings reports from insurers were mixed in quality. Attractive valuation, a benign hurricane season, and resolution of legal issues are factors that could propel insurer shares higher.**

Second quarter per-share earnings at industry behemoth American International Group (AIG-FSPCX) declined 29% to \$1.21 a share from the year-ago period as revenue declined a tad to \$26.7 billion. Performance in AIG's insurance businesses was strong with premium revenue rising 4.5% and net investment income rising 13%. Results in the financial services group were poor; revenue declined nearly 70% and the group swung to an operat-

ing loss of \$548 million.

Among other insurers reporting earnings, MetLife (MET-FSPCX) posted strong numbers whereas results at Prudential (PRU-FSPCX) were less robust. Helped by a 11% increase in total earned premiums, MetLife's second quarter operating earnings per share tallied \$1.28, higher than the \$1.14 analysts forecasted and \$1.17 reported a year-ago.

Prudential's operating earnings trailed forecasts as unfavorable mortality trends and intense competition from Japanese insurers dented Prudential's life insurance and international businesses, respectively.

Insurers continue to introduce new products and acquire businesses to drive growth. In addition to offering the conventional six month auto insurance policy, Hartford Financial (HIG-FSPCX) is now offering 12 month policies under its 'Dimensions' product line. Ace (ACE-FSPCX) and Hartford are both introducing new policies designed to protect corporate directors and officers. AIG has completed the purchase of Central Insurance, a large general insurer in Taiwan.

Prudential and St. Paul Travelers (STA-FSPCX) have reached settlement on key legal issues. Prudential's brokerage subsidiary, Prudential Equity Group has agreed to a settlement with the justice department. The subsidiary has admitted to wrongdoing and will pay \$600 million in fines and restitution for allowing wealthy clients to engage in deceptive trading of mutual fund shares. St. Paul Travelers (STA-FSPCX) has agreed to pay \$77 million to settle with state regulators. The settlement resolves issues relating to insurance broker compensation.

Insurer shares are quite attractive from a valuation perspective. Additionally, the 2006 hurricane season to-date has been relatively mild.

Insurers appear to be putting their legal issues behind as well. We remain optimistic on price performance of insurer shares and include Fidelity Select Insurance in the Core model portfolio.

## Fidelity Select Telecommunications, Utilities Growth

**Earnings outlook for power companies remains robust. Transaction activity continues in the telecom equipment space while telecom service providers execute well.**

**Power generation.** AES (AES-FSUTX), Entergy (ETR-FSUTX), and FirstEnergy (FE-FSUTX) are executing well. AES' adjusted second quarter per-share earnings of 29 cents exceeded the 17 cent tally forecasted by analysts as contract generation revenue increased 21%. Higher rate adjustments in Ohio helped FirstEnergy offset weaker

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spring electricity demand and beat analysts' earnings estimates. AES and FirstEnergy have upped their 2006 earnings forecast. While impact from Hurricane Katrina pressured Entergy's second quarter results, the company is confident of exceeding its 2006 earnings forecast.

With fossil fuel-based electricity generation costs on the rise, U. S. power companies are looking to increase nuclear power and alternate energy-based generation capacity. Entergy appears to be on track to receive a preliminary site permit in early 2007 for a new nuclear reactor. Louisiana Energy Services, a consortium of power generators including Exelon (EXC-

FSUTX) and Entergy, is setting up a \$1.5 billion nuclear fuel enrichment facility. For its part, the U. S. Department of Energy is developing a program to sell \$2 billion in insurance to reactor builders to spur construction.

Power companies are also increasing their emphasis on alternate energy. FPL Group (FPL-FSUTX), already the largest owner and operator of wind power in the world, expects to add about 1,500 megawatts of wind power by 2007. AES too is building its wind generation business and has recently created AES AgriVerde to capitalize on the growing market for greenhouse gas emissions reductions.

In deal activity, Exelon's discussions continue with New Jersey regulators to have the proposed merger with Public Service Enterprise Group approved. NJ regulators have proposed that the two companies divest two plants additional to those requested by the U. S. Justice Department and offer about \$800 million in rate relief to NJ customers. The tougher stand taken by NJ regulators may well stifle this merger.

**Telecom equipment.** Companies in telecom equipment, led by bellwether Cisco, are seeing business perk up. Evidence of a turnaround at Nortel Networks (NT-FSTCX) is beginning to surface. Second quarter revenue of \$2.7 billion was essentially comparable with revenue from a year-ago period. Gross margin fell short of the company's 40% goal. Auguring a better future, the company's orders increased 22%. Nortel expects year-over-year revenue growth of 10% in the third quarter.

Nortel is also working to take advantage of a robust deal environment in the telecom equipment group. The company is looking to divest its high-speed mobile arm. Meanwhile, Nokia (NOK-FSTCX) is buying Loudeye for \$60 million. Nokia is looking to this acquisition to offer new music-related services

in its handsets. Andrew Corp. has attracted the attention of another acquirer. CommScope's has offered \$1.7 billion in cash for Andrew and is set to trounce ADC Telecom's stock offer.

**Telecom services.** Major mover Sprint-Nextel's (S-FSTCX, FSUTX) sub-par operational and financial performance was limited to Sprint-Nextel alone. Earnings reports from Verizon (VZ-FSTCX, FSUTX) and Qwest (Q-FSTCX, FSUTX) were superior.

Strong growth in the wireless business at Verizon Wireless enabled Verizon to report 64 cents in per-share earnings exceeding the 62 cents per share analysts' estimate. Verizon Wireless added 1.8 million customers during the quarter while customer churn declined to a monthly rate of 1.1%.

Meanwhile, Vodafone Group, Verizon's partner in Verizon Wireless has opted not to sell its 45% stake for at least the next few years. Even though Verizon will not need the cash to buy Vodafone's stake, Verizon intends to proceed with a spin-off of its phone book business.

Higher sales of bundled products and tight control on costs helped Qwest offset the impact of a continuing decline in telephone access lines and report 6 cents per share in second quarter net profit and exceed analysts' forecast.

Against the prospect of moderating economic growth, the relative economic insensitivity of telecom service providers and power generators is appealing. We continue to

include Fidelity Select Telecommunications and Fidelity Select Utilities Growth in the Core model portfolio.

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

**Decline in the price of oil should bring much needed relief to consumers, offer one reason less for the Federal Reserve to push interest rates higher, and thereby potentially pave the way for the U. S. economy to continue expanding.**

The U. S. economy is growing at a slower rate than the pace seen in the first quarter of 2006. The business side of the economy appears to be on firmer footing than the consumer side. Growth in U.S. manufacturing as measured by the Institute of Supply Management's factory index increased a tad in July to 54.7 and remained above 50.0 suggesting continued expansion. The Philadelphia Federal Reserve's manufacturing index too increased in August to 18.5, also suggesting expansion.

Meanwhile, the housing market is showing increasing signs of softness. Sales of existing homes declined 4.1% in July from the June level to a seasonally adjusted annualized rate of 6.3 million, the lowest since January 2004. Also, the confidence of U.S. home builders fell in August, reaching the lowest level since February 1991. Home values are declining in key markets and sagging home values appear to be taking a toll on consumer confidence. As such growth in consumer

### Featured Quote

***'It is easier to make money than to save it; one is exertion, the other, self-denial.'***

**Thomas Haliburton**

spending is likely to slow.

With the price of oil showing signs of being range-bound, the threat of inflation appears to be receding. Falling oil prices should give consumers a much needed relief. Additionally, the backdrop of a slowing economy and falling inflation should give reason for the Federal Reserve to refrain from pushing additional interest rate increases through.

Considering these factors, we believe the more likely scenario for the U. S. economy is to continue expanding while the rate of expansion itself slows.

We believe equity markets will likely tread water in the near-term until things get sorted out. With valuation metrics for large-cap U. S. equities being relatively modest, we believe equity prices will likely trend higher, particularly if the U. S. economy is able to prolong its expansion. Given this expectation, we maintain the 'Buy' rating on the AlphaProfit Sector Portfolio Indicator. Fidelity Select Industrial Materials is rated Favored Buy.

**AlphaProfit Investments, LLC**  
**Date: August 31, 2006**



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

## Fund Facts and News

Fidelity Fund	Ticker	Fund Style	Risk Rating	Manager
Select Bus. Svcs. & Outsourcing	FBSOX	Mid Cap Growth	Below Average	B. Hesse, J. Morrow
Select Food & Agriculture	FDFAV	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 Industrial Materials	FSDPX	Large Cap Growth	Average	J. Simes
Select Insurance	FSPCX	Large Cap Value	Average	S. Hermsdorf
Select Pharmaceuticals	FPHAX	Large Cap Growth	Below Average	A. Oh
Select Telecommunications	FSTCX	Large Cap Blend	Above Average	B. Younger
Select Utilities Growth	FSUTX	Large Cap Value	Average	B. Younger

**Manager Changes:** Mathew Sabel has taken over as Manager of Fidelity Select Health Care from Harlan Carere.

**Fidelity Select Portfolio® Fund's Initial Purchase Requirements:**

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

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

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

**Disclosure continued from page 6**

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

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

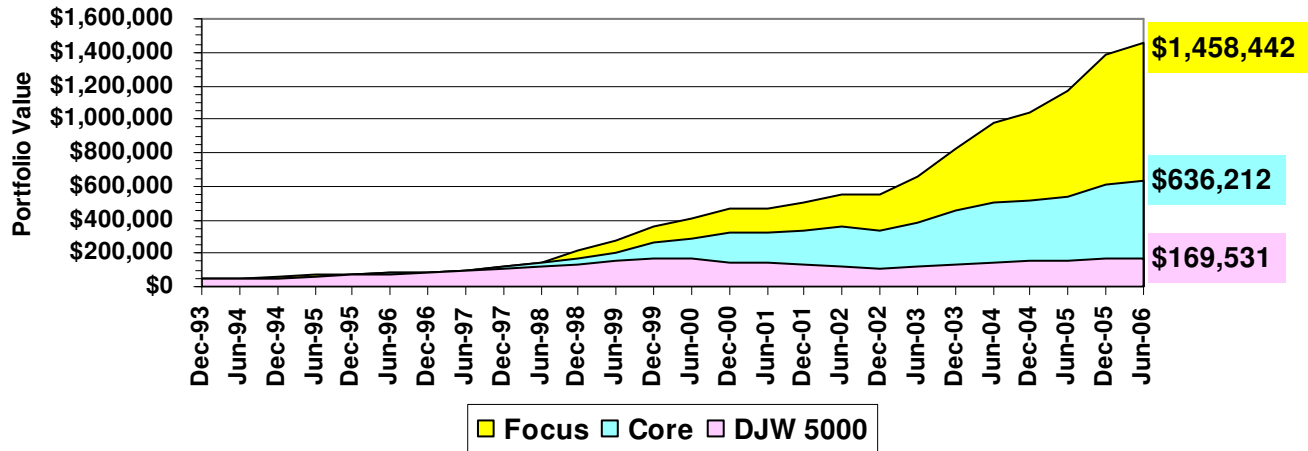
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### AlphaProfit Model Portfolio Long-Term Performance

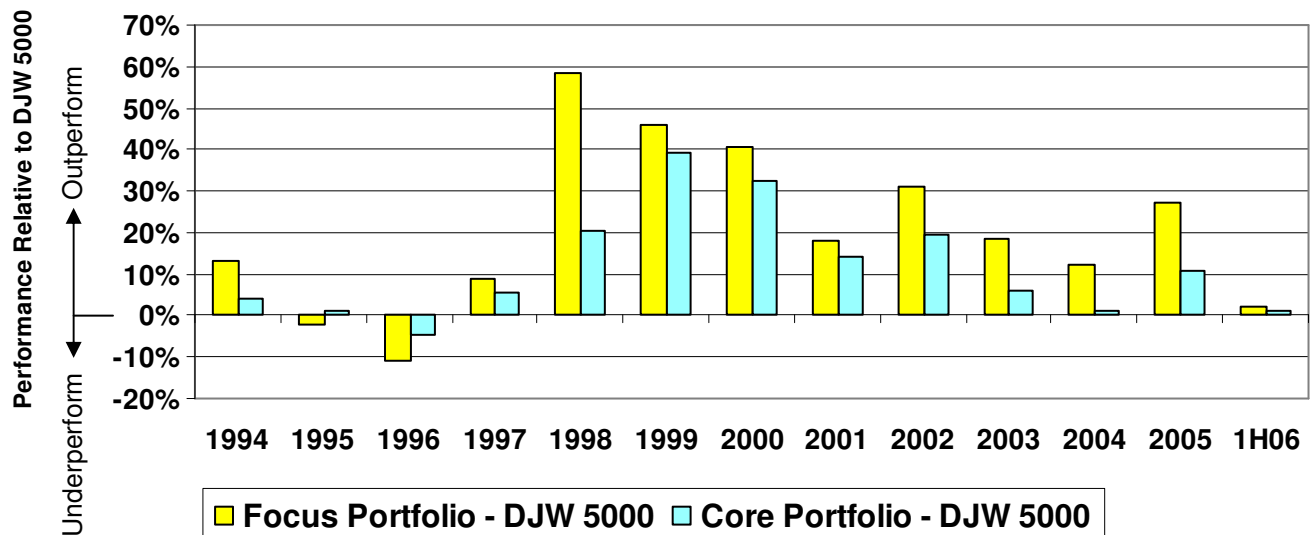
The Core and Focus Portfolios were initiated on December 31, 1993 each with a \$50,000 value. No new capital is added. All distributions are reinvested in the fund in which they are paid. The performance shown below is as of June 30, 2006; the returns do not include the one-time 3% front-end sales load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



	Cumulative Return			Compound Annual Return			Sharpe Ratio	
	3 year	5 year	Inception	3 year	5 year	Inception	5 year	Inception
<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.