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AlphaProfit™

Sector Investors' Newsletter

Service for \$ophisticated \$ector Investors

Monthly Report

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Fund Exchanges
Core Portfolio: None
Focus Portfolio: None

AlphaProfit SP Indicator™
Reading: Buy on Dips
Favored Buy: None

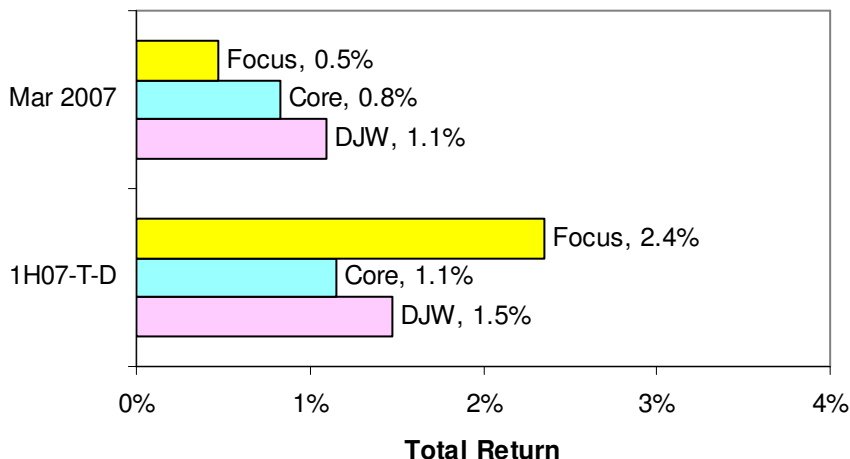
Scorecard

The AlphaProfit Focus and Core model portfolios gained 0.5% and 0.8%, respectively in March while the Dow Jones Wilshire 5000 benchmark gained 1.1%.

Mortgage market jitters give way to a spirited rally. The U. S. equity market got off to a jittery start as the global sell-off in stocks continued from February. Mortgage lenders

mortgage market-related concerns as well. The unemployment rate declined from 4.6% to 4.5% in February suggesting that economy continues to grow.

Healthy M&A activity aided a spirited rally. Private equity firms continued to be on the prowl with discount retailer Dollar General and residential services provider ServiceMaster becoming targets. Taking advantage of keen investor



came under pressure as concerns of rising defaults in the sub-prime mortgage market rippled through.

Stability returned after Treasury Secretary Paulson's comments eased concerns that mortgage defaults will not undermine the economy. Relatively robust earnings reports from leading mortgage bond underwriters, Bear Stearns and Lehman Brothers helped ease

interest in private equity firms, Blackstone Group announced that it will sell a portion of the company in a \$4 billion initial public offering.

The Fed giveth and taketh. The Federal Reserve's Open Market Committee kept its benchmark U. S. interest rate unchanged at 5.25%. Investors interpreted the FOMC's removal of the 'additional firming' phrase in its accompanying

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

The Subscription Price Schedule for the AlphaProfit Sector Investors' Newsletter is posted at <http://www.alphaprofit.com>. To subscribe or to learn more about AlphaProfit Investments, visit www.alphaprofit.com.

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Portfolio Composition

AlphaProfit Focus™ Model Portfolio

The Focus Portfolio was last repositioned at the close of business on December 29, 2006. We are leaving the Focus portfolio unchanged at this time.

Fidelity Fund Holding (Ticker Symbol)	December 29, 2006		March 31, 2007	
	Amount Invested	Percent Portfolio	Value	Percent Portfolio
Computers (FDCPX)	\$520,970	33.33%	\$522,817	32.68%
Paper & Forest (FSPFX)	\$520,970	33.33%	\$547,435	34.22%
Soft. & Comp. (FSCSX)	\$520,970	33.33%	\$529,471	33.10%
Total (rounded to)	\$1,562,910	100.00%	\$1,599,723	100.00%

AlphaProfit Core™ Model Portfolio

The Core Portfolio was last repositioned at the close of business on December 29, 2006. We are leaving the Core portfolio unchanged at this time.

Fidelity Fund Holding (Ticker Symbol)	December 29, 2006		March 31, 2007	
	Amount Invested	Percent Portfolio	Value	Percent Portfolio
Computers (FDCPX)	\$70,363	10.00%	\$70,613	9.92%
Gold (FSAGX)	\$70,363	10.00%	\$70,132	9.85%
Paper & Forest (FSPFX)	\$70,363	10.00%	\$73,938	10.39%
Soft. & Comp. (FSCSX)	\$140,726	20.00%	\$143,023	20.10%
Spartan 500 (FSMKX)	\$351,816	50.00%	\$354,007	49.74%
Total (rounded to)	\$703,632	100.00%	\$711,712	100.00%

statement to mean that the central bank is no longer biased toward higher interest rates and pushed equity prices to their biggest gain in eight months. However, within a week, Federal Reserve Chairman Bernanke stated that inflation remained his main concern and stock prices lost ground.

Rally loses vigor. A variety of factors conjured during the closing days of March causing the rally to lose steam. Iran seized 15 British naval personnel raising concern of conflict in the Persian Gulf. Oil surged from nearly \$59 per barrel to \$65 per barrel. An uncertain outlook from homebuilder Lennar and a report showing widespread declines in home prices renewed mortgage-market related concerns. Also, trade tensions between the U. S. and China were on the rise.

Major averages closed the month as well as 2007's opening quarter above the flat line. For the month,

energy stocks were leaders while those exposed to the mortgage market lagged. The spread in returns across different capitalizations was not particularly noteworthy. The AlphaProfit Focus and Core model portfolios gained 0.5% and 0.8% respectively compared to the 1.1% gain for the Dow Jones Wilshire 5000.

Major Movers

(Company and fund ticker symbols in parentheses.)

The number of winners and losers was essentially even in the list of top 10 holdings we track. While fair number of technology companies made their presence felt among the winners' list, gold mining companies were at either end of the performance spectrum.

Crystallex shines on expectations. Low-priced shares of Crystallex International (KRY-FSAGX) with a gain of nearly 23% were the

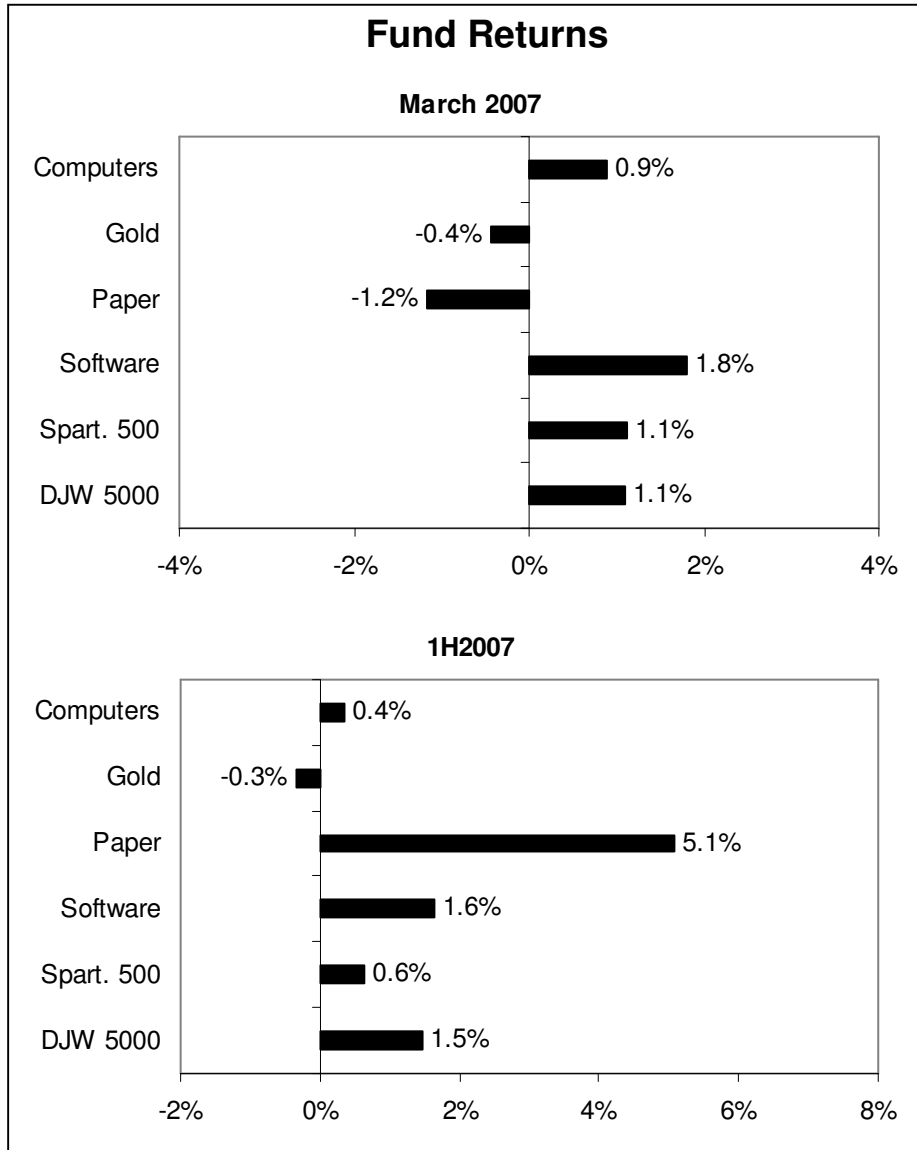
best performer in the Core model portfolio. Speculation that Crystallex's Las Cristinas gold project in Venezuela will receive environmental approval increased after Canada-based Gold Reserve announced that its Brisas project in Venezuela had received similar approval. Crystallex confirmed that its permit application is advancing through Venezuela's government departments. Rumors that Crystallex is the target of a takeover bid enabled its stock to run as well.

Oracle rises on results. Shares of enterprise software company Oracle (ORCL-FSCSX) with a 10% gain were the Focus model portfolio's best performer. Oracle reported 25 cents a share in earnings beating analysts' 22 cents a share estimate. Revenue rose over 27% to \$4.4 billion with sales from new licenses also increasing 27% to \$1.4 billion.

Oracle has filed suit against its arch-rival Germany-based SAP claiming that the latter's employees posed as Oracle's customers and engaged in theft of proprietary information. Looking ahead to the next quarter, Oracle expects new software license revenue to rise between 5% and 15% and per-share earnings to increase to 34 cents. Oracle shares trade at a forward P/E of about 16.

Weyerhaeuser chipped by analysts. Shares of forest products giant Weyerhaeuser (WY-FSPFX) with a 13% loss were the worst performer in both model portfolios. Going into March, Weyerhaeuser shares were up over 21% since the start of the year on speculation that the company will unlock value by converting into a Real Estate Investment Trust. Analysts expressed concerns on the timing of this conversion. The backdrop of weakening lumber prices also weighed on Weyerhaeuser's shares.

Goldcorp doesn't glitter. Higher mining costs and a \$175 million write-down of Brazilian mining assets weighed on Goldcorp's (GG-



FSAGX) earnings. Gold production nearly doubled from the year-ago period while the realized price increased over 25% helping revenue to advance 91%. Total cash costs however more than doubled to \$160 an ounce from \$73 an ounce. Excluding the write-down, Goldcorp earned 19 cents a share, 2 cents a share lower than analysts' forecast.

Outlook

(Company and fund ticker symbols in parentheses.)

The U. S. economy is growing with manufacturing showing signs of strength and services showing signs of moderating.

The Commerce Department has stated that the U. S. economy grew

at a 2.5% annual clip during 2006's final quarter. This final estimate represents an increase from the prior estimate of 2.2%.

The Institute for Supply Management's manufacturing index increased to 52.3 in February from 49.3 in January. The National Association of Purchasing Management-Chicago said its business barometer increased to 61.7 in March from 47.9 in February. These data suggest that manufacturing may be seeing some strength.

Meanwhile, the Institute for Supply Management's index of non-manufacturing businesses, declined to 54.3 in February. While readings above 50 suggest continued expansion, growth in services appears to

be moderating. Evidently, weakness in housing is impacting the service side of the economy.

Fidelity Select Computers, Software & Computer Services

Major search engines continue their battles for advertising revenue from online search while staking their claim for leadership in the emerging mobile search market. Sales of Microsoft's Windows Vista operating system are off to a decent start. Apple continues to broaden its product portfolio. Deal activity is gaining traction.

Internet. Based on early results, Yahoo! (YHOO-FSCSX) is optimistic that its new advertising platform *Panama*, will help to bridge the gap versus Google (GOOG-FSCSX) in online ad revenues. Within two weeks of launch, *Panama* has helped Yahoo! to increase click-through rates by 10%.

The upcoming expiration of Google's search engine service contract with Comcast.net is also providing an opportunity for Yahoo! and Microsoft (MSFT-FSCSX, FSMKX) to narrow their gap versus Google. Yahoo! and Microsoft are bidding on the contract to service Comcast.net. Meanwhile, Yahoo! runs the risk of its co-branded Internet access partnership with AT&T becoming less favorable after the current deal expires in April 2008.

At eBay (EBAY-FSCSX), the online payment unit PayPal continues to grow. Europe-based PayPal accounts now tally over 35 million. eBay's China venture is however running into a rough patch. Three months ago, eBay closed its primary auction site in China to enter into a joint venture with China's Tom Online. The joint venture's future looks uncertain as Tom Group has offered to take Tom Online private.

Mobile search and video advertising. Mobile search is among the

Top 10 Fund Holdings

Fidelity Investments has reported the top 10 holdings of their mutual funds as of December 31, 2006. Microsoft is represented in two of the five funds held in the Core model portfolio. There is no overlap in the top 10 holdings of the three funds in the Focus model portfolio.

Computers (FDCPX)	Gold (FSAGX)	Paper & For. (FSPFX)	Software (FSCSX)	Spartan 500 (FSMKX)
Hewlett-Packard	Newcrest Mining	Weyerhaeuser	Google Cl. A	ExxonMobil
Sun Microsystems	Meridian Gold	MeadWestvaco	Microsoft	General Electric
Dell	Barrick Gold	Plum Crk. Tim. REIT	Oracle	Citigroup
Apple Computer	Newmont Mining	Temple-Inland	Symantec	Microsoft
EMC Corp.	IAMGOLD	Int'l. Paper	Yahoo!	Bank of America
Int'l. Bus. Mach.	Goldcorp	Sealed Air	Nintendo	Procter & Gamble
Network Appliance	Bema Gold	Smurfit-Stone Cont.	First Data	Johnson & Johnson
NCR Corp.	Lihir Gold	Rayonier REIT	Comverse Tech.	Pfizer
Sony Corp	Crystallex Int'l.	West Fraser Timb.	Quest Software	Amer. Int'l. Group
Cogn. Tech. Soln.	Ariz. Star Res.	Longview Fibre	eBay	Altria
65.8% of portfolio 15.5% foreign	60.9% of portfolio 77.7% foreign	52.0% of portfolio 7.4% foreign	63.6% of portfolio 10.6% foreign	19.6% of portfolio NA

key areas major search players are targeting for their growth. Google CEO Eric Schmidt believes mobile devices with their 'knowledge' of consumers' location and preferences can help take targeted advertising to the next level.

Microsoft believes voice will be an important input interface for mobile phones. To get a leg up on mobile search, Microsoft has agreed to buy Tellme Networks for the latter's voice-recognition technology. Also, Yahoo! continues to be aggressive in mobile advertising. Yahoo!'s *oneSearch* service for cell phone users is now accessible via browsers on more than 85% of cell phones.

As for video advertising, Google's YouTube plans to launch a web site for mobile devices in the U. S. in June. YouTube however faces challenges from media companies. While CBS has allowed some content to appear on YouTube, Viacom has filed a \$1 billion copyright lawsuit. News Corp. and NBC Universal are looking into the possibility of setting up their own online video sharing site.

Personal computers. Microsoft sold 20 million *Windows Vista* operating system licenses in the first month after releasing it to consum-

ers on January 30. This compares favorably with 17 million licenses sold by *Vista's* predecessor *XP* in two months after its release in 2001. The financial impact of *Vista* as well as other products such as *Office 2007* and *SharePoint Server 2007* will be known when Microsoft reports earnings on April 26.

PC maker Dell (DELL-FDCPX) earned 30 cents a share in its fourth quarter, a penny higher than analysts' forecast. Per-share earnings were however lower than the 43 cents tally reported in the year-ago period as revenue declined 4% to \$14.4 billion. CEO Dell is looking to turn his company around as evident from his comment 'the team is getting down to business by systematically moving to increase efficiencies, improve execution and transform the company'. Adding to Dell's challenges, a board-appointed audit committee has identified a number of deficiencies in financial controls.

Dell is targeting emerging markets to drive sales. The company is introducing a low-cost, desktop computer targeting first-time computer users in China. The company has urged India to cut tariffs on computers to attract more foreign investment.

Enterprise products and services. Enterprise service providers are bag-

ging contracts from government entities as well as corporations. Dell is one of six companies to receive a \$5 billion contract from the U. S. Army to provide servers and networking equipment under a three-year contract. International Business Machines (IBM-FDCPX) bagged a 10-year, \$800 million contract from India's fifth largest wireless operator Idea Cellular to provide hardware, software applications, and customer support.

Hardware manufacturers are focusing on energy efficiency. Over the next three years, Hewlett-Packard (HPQ-FDCPX) plans to reduce its global energy consumption by 20% from 2005 levels. H-P plans to cut energy use by 30% to 50% for some printers and computer servers. H-P has also started selling desktop business computers that meet the new federal energy-efficiency standards, Energy Star 4.0. Meanwhile, IBM in partnership with the U. S. Environmental Protection Agency seeks to reduce its greenhouse gas emissions.

Consumer electronics. As part of its efforts to expand from PCs to consumer electronics, Apple (AAPL-FDCPX) launched its TV gadget in March. *Apple TV* has the potential of becoming a key product for the company in the next three to

AlphaProfit ETF and Mutual Fund Selections

Mutual fund and exchange-traded fund recommendations for playing the investment thesis discussed in the Newsletter

Sector, Industry Group, or Index	Mutual Funds					ETFs	
	Name (Ticker)	Availability, Trans. Fees, and Min. Holding Period				Name (Ticker)	Liquidity
		E*Trade	Fidelity	Schwab	Ameritrade		
Computers	Fidelity Sel Computers (FDCPX)	A, F	A, NTF, 30	R, F	A, F	Internet Architect HOLDRs (IAH) PowerShares Dyn Hard (PHW)	Limited Limited
Gold	Fidelity Sel Gold (FSAGX) Midas (MIDSX) Prec Met Ultra ProFund (PMPIX) Rydex Precious Metals (RYPMX) US Glob World Prec Met (UNWPX)	A, F A, NTF, 90 A, NTF, 90 A, NTF, 90 A, F	A, NTF, 30 A, NTF, 180 A, NTF, 180 A, NTF, 180 A, NTF, 180	R, F A, NTF, 90 A, NTF, No A, NTF, No A, NTF, 90	A, F A, NTF, 90 A, NTF, 90 A, F A, NTF, 90	iShares COMEX Gold Trust (IAU) Market Vectors Gold Min (GDV) PowerShares DB Gold (DGL) streetTRACKS Gold (GLD)	Limited Good Limited Good
Paper & For Pdt	Fidelity Sel Paper & For (FSPFX)	A, F	A, NTF, 30	R, F	A, F	No ETF currently available	
Software	Fidelity Sel Soft & Com (FSCSX)	A, F	A, NTF, 30	R, F	A, F	iShares GS Software (IGV) PowerShares Dyn Software (PSJ) Software HOLDRs (SWH)	Good Limited Good
S&P 500	Dreyfus S&P 500 Index (PEOPX) E*TRADE S&P 500 Index (ETSPX) Fidelity Spartan 500 Idx (FSMKX) Schwab S&P 500 Index (SWPIX)	A, NTF, 90 A, NTF, 4m N N	A, NTF, 180 N A, NTF, 90 C, F	A, NTF, 90 N N A, NTF, 30	A, NTF, 180 I, F A, F A, F	iShares S&P 500 Index (IVV) SPDR Trust (SPY)	Good Good

Funds included in AlphaProfit model portfolios in **bold**. **Availability:** A-Available, C-Limited to current shareholders, I-Limited to Institutional investors, N-Not available, R-Limited to retail investors. **Trans. Fees:** F-Transaction fee applies, NTF-No transaction fee subject to holding period. **Min. Holding Period:** For no transaction fee (NTF) funds, minimum number of days or months a fund needs to be held to avoid both fund's short-term redemption fee and broker's transaction fee. Minimum holding period not provided for transaction fee (F) funds. **Liquidity:** Investors should consider limit orders when trading ETFs with limited liquidity. **Note:** The above table is for information purposes only. Before buying any mutual fund or exchange-traded fund, read its prospectus carefully. For securities held in brokerage accounts, read the broker's specific terms and conditions which apply to trading of the securities.

four years bringing in revenue of \$5 billion to \$7 billion. Meanwhile *iPhone*, the wireless phone product Apple is expected to launch in June continues to stir excitement.

In video gaming, Sony (SNE-FDCPX) launched its PlayStation 3 game console in Europe. Nearly 600,000 units were sold in the first two days. The company is working towards lowering PS3 production costs by switching to a cheaper chip.

Takeovers. Deal activity spans several parts of the technology sector. In enterprise software, Oracle (ORCL-FSCSX) is buying business performance measurement (BPM) software maker Hyperion Solutions for \$3.3 billion. Credit card processor First Data (FDC-FSCSX) is acquiring Polish credit-card company Polcard for \$325 million.

H-P is acquiring an online company Tabblo to gain leadership in the

market for printing materials off the Internet. In consumer electronics, private equity firms Texas Pacific Group and Cerberus have submitted bids for the struggling Japanese firm JVC. Symantec's (SYMC-FSCSX) acquisition of Altiris has received antitrust approval.

Possibility for additional deals looks promising. IBM plans to keep up its 'accelerated' pace of acquisitions set in 2006. Symantec has stated that it seeks to make acquisitions approaching \$1 billion every 18 to 20 months, and is particularly interested in mobile security-related companies. With Oracle having got hold of Hyperion, other BPM vendors such as Business Objects and Cognos may well garner take-over interest from the likes of SAP, H-P, or IBM.

We remain optimistic on the prospects for computer hardware and software companies. Earnings growth in these industry groups is ex-

pected to be materially higher than that of the average S&P 500 company. The manufacturing segment appears to be showing signs of renewed vigor. It remains to be seen if such strength can endure and help earnings of technology companies. Deal possibilities add to investment appeal as well. We continue to include Fidelity Select Computers and Fidelity Select Software & Computer Services in both model portfolios.

Fidelity Select Gold

Gold was notably volatile in March. Gold mining companies face challenges in containing operating costs and shoring up reserves. The gap between supply and potential demand has bullish implications.

Volatility. Gold lost nearly \$10 per ounce in March and most gold mining shares finished the month lower. Fidelity Select Gold declined

0.4% during the month. The magnitude of these price changes hardly reveals the intra-month dynamics.

Gold lost over \$33 per ounce during the opening days of March. With emerging markets in disarray, investors sold gold to book gains recorded over the past six months. A 6% decline in oil spurred the slide in gold as well.

Oil however reversed course in the latter half of the month. Reports of constrained global and U. S. oil supplies and heightened geopolitical concerns following Iran's seizure of 15 British naval personnel caused oil to trade up. Gold followed suit, moving higher by \$23 per ounce.

Operations and reserve replacement. Gold mining companies face challenges from rising operating and reserve replacement costs. Increase in prices of fuel and labor are raising operating costs. IAM-GOLD (IAG-FSAGX) for example saw its cash costs increase about 17% from 2005 to 2006. Adding to operational challenges, many countries like Uzbekistan and Peru seek to gain more from their mineral wealth and resource nationalism is on the rise.

Metals Economics Group estimates that gold mining companies collec-

tively spent over \$7.1 billion in 2006 exploring for gold. With new discoveries of gold hard to come by, reserve replacement remains challenging. As such, gold miners are looking to acquisitions to increase reserves.

In March, BusinessWeek reported Barrick Gold (ABX-FSAGX) may buy Newmont Mining (NEM-FSAGX). Barrick Gold has however denied interest. Meanwhile, Newmont's challenges in increasing production and reserves continue. Production from Newmont's Yanacocha mine in Peru, which declined over 20% in 2006 to 2.6 million, is expected to decline further in 2007 to 1.6 million ounces.

Supply-demand balance. Gold supplies remain limited. Output from major producers South Africa, U. S., and Australia declined from 2005 to 2006. Central bank selling is relatively contained. With foreign exchange reserves exceeding \$1 trillion, China's central bank has stated that it will stop stockpiling reserves. China plans to form a new agency to invest part of these reserves. Gold demand stands to materially increase if a part of China's foreign exchange reserves is used to buy gold.

Macroeconomic trends. Economies of China, Japan, and Ger-

many continue to grow and interest rates are on the rise. In a bid to cool growth, China increased its benchmark lending rate for the third time in 12 months to 6.39%. The Bank of Japan and the European Central Bank continue to maintain that interest rates need to be raised. Rising interest rates abroad can make foreign currencies more attractive than the U. S. dollar. A declining dollar has often caused gold to rally.

While there is some risk in the short-term that the Federal Reserve may raise U. S. interest rates in response to inflation pressures, global macroeconomic trends remain favorable for gold. Then too, geopolitical tensions vis-à-vis Iran and North Korea are not abating. We continue to include Fidelity Select Gold in the more diversified Core model portfolio.

Fidelity Select Paper & Forest Products

Paper and forest product companies seek to enhance shareholder value by restructuring their entities and by realizing better value for their timberlands. Companies here are also trying to cope with the fallout from the housing market.

Restructuring. Paper and forest

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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.

Amer. Intl. Group (AIG) p. 8
Oracle (ORCL) p. 2, 5

product conglomerates are scaling back operations to focus on fewer businesses. Major mover Weyerhaeuser (WY-FSPFX) has combined its fine paper business with Domtar. As part of this transaction, Weyerhaeuser received \$1.35 billion in cash and intends to use this to reduce debt.

Weyerhaeuser is under pressure from activist investors to convert into a Real Estate Investment Trust. To qualify as a REIT, the company has to earn at least three-quarters of its annual gross income from real estate sources like rent or timber. While Weyerhaeuser has substantial businesses that qualify for a REIT, several of its businesses will not. It is also not clear if conversion into a REIT will trigger a tax bill in excess of \$3 billion.

While some analysts estimate Weyerhaeuser's shares to be worth 30% higher as a REIT, uncertainty surrounds on how far the company is willing to restructure to convert into a REIT. As part of its efforts to look at alternatives to lower taxes and enhance shareholder value, Weyerhaeuser is backing legislation recently introduced in Congress that calls for lowering taxes on timber sales by 60%.

International Paper (IP-FSPFX) is nearly complete with its transformation. Most recently, IP sold its North American beverage packaging operations and Arizona Chemical business. IP has also completed the sale of 13 of its sawmills to West Fraser Timber (CA:WFT-FSPFX). IP can now focus on its containerboard, uncoated free sheet, and bleached packaging businesses. The outlook for these businesses is favorable with demand and pricing relatively strong. IP and its Russian joint venture partner Ilim Pulp have applied for approval from the Russian Federal Antimonopoly Service. IP and Ilim are planning to invest \$1.2 billion.

Timberland. Paper and forest products companies are trying to capitalize on the increased interest in timberland assets. Recently, Brook-

field Asset Management for example agreed to buy Longview Fibre (LFB-FSPFX) valuing the firm's timberlands at over \$3,000 an acre.

MeadWestvaco (MWV-FSPFX) is looking to unlock the value of its 1.1 million acre timberland portfolio. The company is selling 290,000 acres of forestland realizing \$350 million. The company plans to return a substantial portion of the proceeds to shareholders through share buybacks and dividend increases.

Housing. A slumping housing market is pressuring wood demand and causing timber prices to decline. Lumber prices declined by \$20 to about \$240 per thousand broad feet in March. Forest product companies are taking steps to mitigate the impact while looking to other business segments to drive results.

Plum Creek Timber (PCL-FSPFX) has opted to reduce timber harvests during the first quarter. Rather than sell lumber at depressed prices, the REIT is letting its trees grow. Plum Creek expects to increase lumber harvests when market conditions improve. Additionally, Plum Creek is partnering with real estate developers to realize higher value for its land portfolio. Plum Creek contributes land to these ventures and shares future profits.

While Rayonier's (RYN-FSPFX) timber and real estate businesses are being hurt by a weak housing market, the company is looking to the performance fibers unit to drive results. Performance fibers find use in a variety of products including liquid crystal displays and pharmaceuticals. Rayonier has secured outlet for over 80% of its acetate-based products through long-term contracts providing more than \$2 billion in revenue.

Coated free sheet paper. Imports of coated free sheet paper products from China have been rising in recent years due to subsidies enjoyed by Chinese manufacturers. To counter the advantage enjoyed by Chinese companies, the U. S. Com-

merce Department has imposed duties ranging from 10.9% to 20.3% on coated free sheet paper imported from China. These duties may offer some short-term relief to U. S.-based coated free sheet paper producers.

While a faltering housing market poses risks for stock prices here, value creation prospects from restructuring and asset sales are appealing. We continue to include Fidelity Select Paper & Forest Products in both model portfolios.

Fidelity Spartan 500 Index Fund

Seven of the top 10 holdings in the Spartan 500 Index fund gained in March. Stocks in the energy, utilities, and materials sectors were stronger performers within the Standard & Poor's 500 Index. Share prices in the financial, consumer discretionary, and health care sectors lagged. In this Report, we look at developments in the financial and health care sectors which collectively represent about 33% of the S&P 500's market capitalization.

Financial. Consolidation and subprime mortgage defaults were among the key factors impacting share prices in the financial services group. Leading firms came through with their earnings.

European heavyweights Barclays and ABN Amro are engaged in exclusive merger talks directed at creating the world's fifth largest bank with \$160 billion in market capitalization. The mega-deal will give Barclays meaningful U. S. presence

through ABN Amro's LaSalle Bank. Names of other possible ABN Amro suitors are being tossed around with Royal Bank of Scotland, Britain's second largest bank, arguably the favorite. And with Barclays' shares themselves trading at a modest valuation, there is talk of Citigroup (C-FSMKX) or Bank of America (BAC-FSMKX) going after Barclays.

Citigroup is pursuing ambitious plans to expand its presence in the Far East. Citigroup is seeking to take control of its Japanese investment banking partner Nikko Cordial. Citigroup, which already owns 4.9% of Nikko, has offered \$14 billion to acquire the entity. This is Citigroup's largest takeover bid in Asia.

Citigroup also plans to roughly double its China branch network this year. The financial services titan currently holds a minority stake in two Chinese banks and would ideally like to increase its ownership in one of the entities. Citigroup also has in the works, a \$424 million offer, to buy Taiwan-based Bank of Overseas Chinese.

Shares of mortgage lenders like Countrywide Financial and Washington Mutual were among the weaker performers. A Mortgage Bankers Association report stated 2.6% of prime borrowers were at least 30 days late in their mortgage payments, the highest level in almost four years.

In earnings-related news, American International Group (AIG-FSMKX) reported markedly improved fourth-quarter results from the year-ago period when results were impacted by hurricane-related losses. AIG earned \$3.4 billion in its fourth quarter, up from \$444 million reported in the year-ago period.

Expressing confidence in AIG's future, the company's board has approved an \$8 billion share buyback program of which \$5 billion will be used to buyback shares in 2007. AIG also expects to raise its dividend 20% annually during the com-

ing years. The first such increase is expected to be announced in May. AIG shares trade at a forward P/E less than 10.

Firms exposed to the capital markets, Goldman Sachs and Morgan Stanley, reported robust earnings. Their results were helped by trading gains and investment-banking fees. Morgan Stanley has also announced that it will spin off its Discover Card business by distributing shares of the fourth-largest debit and credit card network to Morgan Stanley shareholders.

Health care. Patent expiration on competing drugs and safety concerns are adding to the challenges

Challenges for major drug companies continue to mount. While the industry is expected to lose about \$16 billion in annual sales in 2007 due to patent expirations, sales of key drugs are declining well ahead of their patent expirations.

of major drug companies. Consolidation continues in the drug industry where scale provides substantial advantages.

Challenges for major drug companies continue to mount. While the industry is expected to lose about \$16 billion in annual sales in 2007 due to patent expirations, sales of key drugs are declining well ahead of their patent expirations.

Pfizer's (PFE-FSMKX) cholesterol-lowering drug *Lipitor* is rapidly losing market share. *Lipitor's* share of total prescriptions is down to 29.7% from 37.6% in January 2006. While Pfizer's patent on *Lipitor* expires only in 2010, the expiration of Merck's patent on *Zocor*, a competing cholesterol-lowering drug, is impacting *Lipitor* sales as lower-priced *Zocor* generics are now available. Health insurers are offering promotions to encourage members to switch to generics. The nation's largest health insurer Well-Point, has offered four months of

the generic drug free to its members.

The U. S. Food and Drug Administration approved the use of *Lipitor* in five new categories of ailments and treatment regimens. The benefit from these approvals however will likely be inadequate to offset the generic onslaught. In a bid to shore up market share, Pfizer is expected to launch a new *Lipitor* advertising campaign in April.

Adding to Pfizer's troubles, a U. S. appeals court has reversed a lower court decision and ruled Pfizer's patent on its blockbuster blood-pressure drug *Norvasc* invalid. This has allowed Mylan Laboratories to launch a generic version of the drug. *Norvasc* had U. S. sales of about \$2.7 billion in 2006.

The FDA has added stern warnings to anemia drugs due to increased risk of fatalities in patients with cancer and kidney disease. The labeling has negative implications for Johnson & Johnson's (JNJ-FSMKX) *Procrit* and Amgen's *Epogen* and *Aranesp*. *Aranesp* prescriptions have declined 20% since February due to oncologists cutting back prescriptions of this drug to chemotherapy patients.

In other developments, Schering-Plough is buying Netherlands-based Akzo Nobel's drug business Organon Biosciences for \$14.4 billion. The acquisition will provide Schering with an array of women's health and animal health products.

Amgen has discontinued a key clinical trial of its colon cancer drug *Vectibix* after the study showed colon cancer patients treated only with chemotherapy and Genentech's *Avastin* were more likely to survive than patients who also received *Vectibix*. Drug safety issues have also caused Genentech to terminate a study to investigate the use of *Avastin* in small-cell lung cancer.

We continue to include the Fidelity Spartan 500 Index Fund in the Core model portfolio for purposes of di-

verification. This fund seeks to track the S&P 500 Index.

Market Outlook & Sector Portfolio Indicator

Reading: Buy on Dips

Takeover activity remains brisk and equity valuation metrics are generally attractive. Concerns on inflation, housing, and geopolitical factors cause us to take a cautious position.

With interest rates relatively low and financing easy to come by, private-equity firms are spearheading takeover activity. The total value of U. S. deals announced up to March in 2007 exceeded \$500 billion. Takeover activity helps to lower the supply of available stock and thereby provides support for equity prices.

S&P 500 companies trade at an average of about 17-times current earnings, lower than their five-year average P/E of 21.9. As such, valuation metrics appear relatively attractive. Our enthusiasm is however tempered by the fact that earnings growth is poised to slow. S&P 500 companies have grown earnings at over 10% for 14 quarters in a row, an all-time record. This string of double-digit growth in earnings may end during 2007's first-quarter.

Countering these positives is a myriad of negatives. Inflation continues to remain an issue. Core consumer prices rose 0.3% in January, pushing the core personal consumption expenditure price index to a 2.3% increase over the past 12 months. This exceeds the 1% to 2% range

avored by Federal Reserve officials.

Certain inflation indicators suggest that a respite may be in the offing. The yield curve has flattened modestly. Economic Cycle Research Institute's measure of future inflation in the U. S. declined in February. While the Federal Reserve is determined to combat inflation, the central bank appears to be less worried about inflation than before. Reference to 'additional firming' being required was notably absent in the Federal Reserve's recent statement. As such, odds are that the central bank will persist with its 'neutral' stance for some time.

Speculation that the housing recession will deepen has increased in the past month. Delinquencies on sub-prime loans now exceed 13%, the highest since 2003's second quarter. The Federal Reserve has warned lenders to be sure borrowers can repay debts and mortgage lenders like Countrywide have tightened lending standards.

Mitigating concerns over the slump in real-estate markets, housing starts rebounded in February from a nine-year low. Purchases of existing homes increased as well to an annual rate of 6.69 million, the fastest pace in three years. While the housing market is showing signs of stabilization, we believe it will continue to remain a drag on the economy.

Geopolitical tensions continue to increase with Iran and North Korea being hotspots. Trade tensions between the U. S. and China are on the rise. The anti-China protection-

Featured Quote

'Average investors who try to do a lot of trading will just make their brokers rich.'

Michael Jensen

ist legislation raises the risk that the Chinese may reduce their purchases or holdings of U. S. assets such as Treasury bonds and cause interest rates to spike.

While money-flow into retirement accounts ahead of the April 17 deadline can help equity prices in the near-term, there are ample negatives including possibilities for negative earnings pre-announcements that cause us to take a conservative stance.

We maintain the AlphaProfit Sector Portfolio Indicator at 'Buy on Dips', the mid-point of the three-point scale. Subscribers getting started in tracking the AlphaProfit model portfolios or adding capital to their investment accounts may want to invest cash during periods of weakness rather than during periods of strength. None of the funds carries a 'Favored Buy' rating.

AlphaProfit Investments, LLC
Date: March 31, 2007 ■



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 Computers	FDCPX	Large Cap Growth	Above Average	H. Lawrence
Select Gold	FSAGX	Mid Cap Growth	Above Average	D. Dupont
Select Paper & Forest Products	FSPFX	Mid Cap Value	Average	J. Bennett
Select Software & Comp. Services	FSCSX	Large Cap Growth	Above Average	M. Tandon
Spartan 500 Index Fund - Investor Cl.	FSMKX	Large Cap Blend	Below Average	Geode Capital

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 as well as all retirement accounts in the Fidelity Spartan 500 Index Fund is \$10,000. Check fund prospectus for details.

Disclosure continued from page 6

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

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

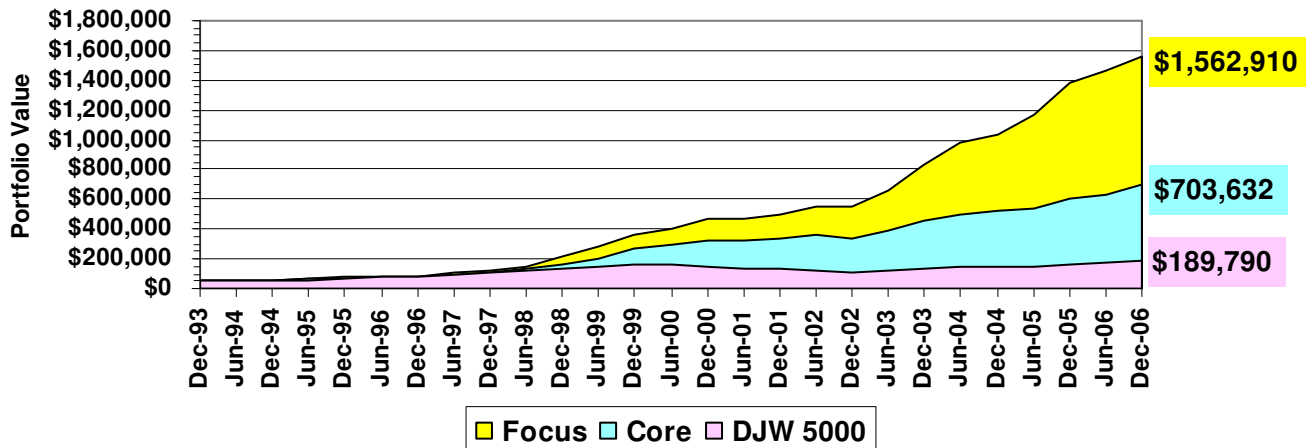
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AlphaProfit Model Portfolio Long-Term Performance

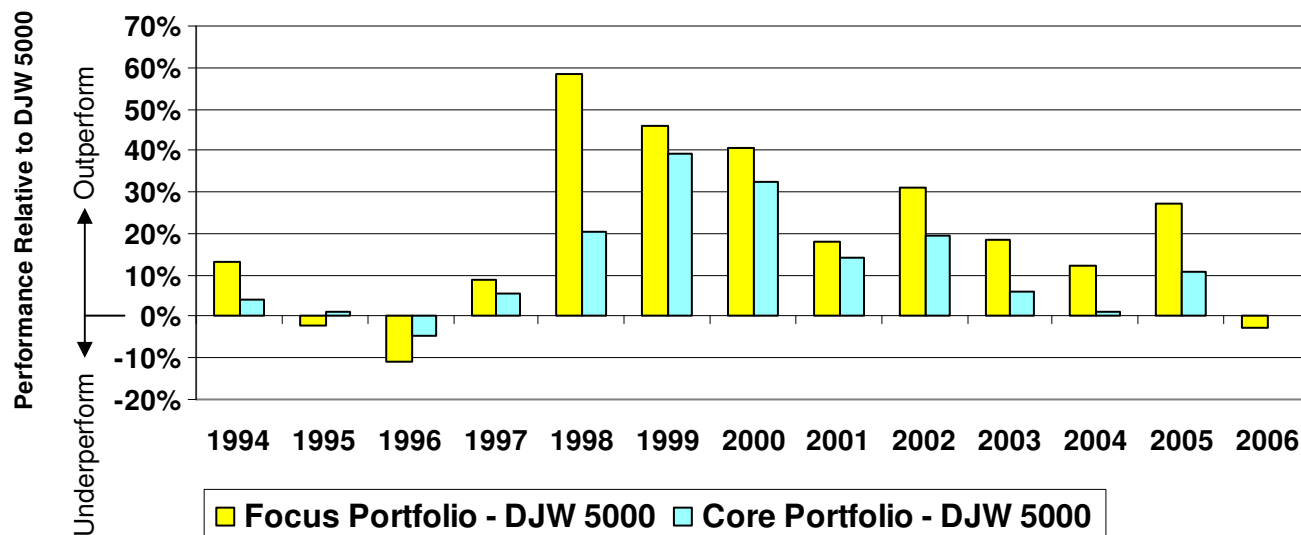
The Core and Focus Portfolios were initiated on December 31, 1993 each with a \$50,000 value. No new capital is added. All distributions are reinvested in the fund in which they are paid. The performance shown below is as of December 31, 2006; the returns do not include the one-time 3% front-end sales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



	Cumulative Return			Compound Annual Return			Sharpe Ratio	
	3 year	5 year	Inception	3 year	5 year	Inception	5 year	Inception
Focus	88.4%	210.6%	3025.8%	23.5%	25.4%	30.3%	1.33	1.11
Core	54.6%	109.8%	1307.3%	15.6%	16.0%	22.6%	0.89	1.05
DJW 5000	38.8%	44.6%	279.6%	11.5%	7.7%	10.8%	0.32	0.40

	Total Return												
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006

Focus	13.0%	34.2%	10.4%	40.1%	82.1%	69.3%	29.9%	7.1%	10.0%	50.0%	24.8%	33.4%	13.2%
Core	3.9%	37.6%	16.7%	36.7%	44.0%	62.8%	21.4%	3.3%	-1.4%	37.6%	13.9%	17.0%	16.0%
DJW 5000	-0.1%	36.4%	21.2%	31.3%	23.4%	23.6%	-10.9%	-11.0%	-20.9%	31.6%	12.6%	6.3%	15.9%



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 or ETF 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.

Exchange-trade funds (ETFs): Baskets of securities that trade like individual stocks on an exchange. ETFs are traded throughout the trading day and can be bought on margin.

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>.

Liquidity: Degree to which an ETF can be traded without affecting the ETF's price. ETFs with limited liquidity tend to have higher bid-ask spreads.

Minimum holding period: For no transaction fee (NTF) funds, minimum number of days or months a fund needs to be held to avoid both fund's short-term redemption fee and broker's transaction fee.

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.