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AlphaProfit™

Sector Investors' Newsletter

Service for \$ophisticated \$ector Investors

Monthly Report

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Economy & Markets

The U.S. economy is growing, but more slowly than a year ago. Commodity prices backed off and the dollar lost ground. The Federal Reserve is concerned with inflation. With sentiment perked up by M&A activity and earnings growth staying strong, equity prices rallied during the second half of 2006.

Economy slows, yet remains resilient. U. S. economic growth has slowed measurably from the peppy pace seen during the first half of 2006. In December, the Commerce Department reported that gross domestic product increased 2% during the third quarter, down from the 2.2% prior estimate.

Sluggishness in manufacturing and housing is being offset by strength in services and non-residential construction. Recent data indicative of manufacturing activity suggest contraction in factory activity. Sales of new homes increased 3.4% in November although sales were down 15% from a year ago.

The services part of the economy is holding up quite well with the Institute for Supply Management's index of non-manufacturing businesses remaining above 50.0. Meanwhile, business-related construction activity continues at a robust clip.

Commodity prices wane. Weakness in U. S. economic activity put pressure on commodity prices during the second half of 2006. Oil ended pretty much where it started the year at around \$61 per barrel.

Featured Quote

'Yesterday is not ours to recover, but tomorrow is ours to win or lose.'

Lyndon B. Johnson

Base metals like copper while up for the year, gave ground during the second-half. Range-bound commodity prices and relatively strong productivity growth eased inflationary pressures.

Fed focused on inflation. After increasing interest rates at a 0.25% clip at each of the 17 meetings from June 2004 to June 2006, the Federal Reserve has stood pat, pegging the federal funds rate at 5.25%. The central bank is focused on fighting inflation despite weakness in manufacturing and housing.

The bond market expects growth to slow. The yield on the 10-year Treasury bond has declined nearly 50 basis points since July to end the year at about 4.7%. The yield on 90-day Treasury bills has held relatively steady around 4.9% to invert the yield curve.

U. S. dollar loses ground. A combination of rising Euroland interest rates and a widening U. S. trade deficit put pressure on the U. S. currency in 2006. The U. S. dollar declined over 10% against the euro. The decline against the quasi-controlled Chinese yuan was a more modest 3%. The U. S. and other G7 nations however continue

AlphaProfit Core™ Model Portfolio

As e-mailed on December 31, the Core Model Portfolio was repositioned with the following changes at the close of business on December 29, 2006.

Before Repositioning			Action
Fidelity Fund Holding (Ticker Symbol)	Value	Percent Portfolio	
IT Services (FBSOX)	\$69,540	9.88%	Sell
Cons. Staples (FDFAX)	\$72,892	10.36%	Sell
Gold (FSAGX)	\$104,772	14.89%	Reduce
Health Care (FSPHX)	\$63,671	9.05%	Sell
Materials (FSDPX)	\$101,238	14.39%	Sell
Insurance (FSPCX)	\$67,530	9.60%	Sell
Pharmaceuticals (FPHAX)	\$68,201	9.69%	Sell
Telecomm. (FSTCX)	\$76,893	10.93%	Sell
Util. Growth (FSUTX)	\$78,896	11.21%	Sell
Total rounded to	\$703,632	100.00%	
Action	After Repositioning		
	Fidelity Fund (Ticker Symbol)	Value	Percent Portfolio
Buy	Computers (FDCPX)	\$70,363	10.00%
None	Gold (FSAGX)	\$70,363	10.00%
Buy	Paper & Forest (FSPFX)	\$70,363	10.00%
Buy	Software (FSCSX)	\$140,726	20.00%
Buy	Spartan 500 Idx. (FSMKX)	\$351,816	50.00%
	Total rounded to	\$703,632	100.00%

This advance, coming more than four years after the bull market began in 2002, has narrowed the spread between the return potential of different sectors and industry groups on a risk-adjusted basis. As such, many sectors and industry groups appear just as attractive as the overall market.

Profit growth losing steam. The S&P 500 companies have increased year-over-year profits at a double-digit clip for 13 straight quarters. With economic growth slackening, earnings growth tempo is expected to follow suit. According to Thomson Financial, analysts have lowered their 2006 fourth-quarter earnings growth forecast for the S&P 500 companies from 12.8% at the beginning of October to 9.4%. Analysts now expect S&P 500 company earnings to increase 9.3% in 2007, compared to 14.3% forecasted for 2006.

Investment Implications

Our lead scenario calls for the U. S. economy to grow at a slow rate in 2007. We gravitate towards selected industry groups in the technology and materials sectors worthy of overweighting.

Measures of future economic activity such as the Conference Board's Index of leading economic indicators and the Economic Cycle Research Institute's Weekly Leading Index have both risen off-late suggesting that the recent deceleration is indicative of a broad-based loss of business momentum rather than a harbinger of a recession. Industrial giant General Electric, widely seen as a proxy for the global economy, is quite upbeat on its prospects and forecasts earnings per share to rise 10% to 13% in 2007.

We believe strength in the services sector and exports to growing overseas economies will help offset sluggishness in manufacturing and housing and enable the U. S. economy to grow at a 2% average rate in 2007.

to urge China to make its exchange rate system more flexible.

Consumer relatively nonchalant.

Consumers have remained generally composed as a relatively robust employment market and a decline in gasoline prices during the second half helped offset the adverse impact of declining real estate values. Employers have added adequate number of jobs to keep the unemployment rate at 4.5%.

Equity markets buoyant. Robust merger and acquisition activity and strong earnings momentum helped push equity prices appreciably higher during the second half of

2006. According to Dealogic, the total value of announced acquisitions worldwide exceeded \$3.5 trillion in 2006, more than the \$3.3 trillion record set in 2000. The value of deals in the U. S. exceeded \$1.6 trillion. Profits at the S&P 500 companies surged 19% during the third quarter of 2006.

Investors were unfazed by weakness in manufacturing and housing. Despite the Federal Reserve's focus on inflation, expectation that it will soon cut short-term interest rates remained high. The Dow Jones Industrial Average went on a record-setting binge eclipsing the 12,500 level for the first time.

AlphaProfit Focus™ Model Portfolio

As e-mailed on December 31, the Focus Model Portfolio was repositioned with the following changes at the close of business on December 29, 2006.

Before Repositioning			Action
Fidelity Fund Holding (Ticker Symbol)	Value	Percent Portfolio	
Gold (FSAGX)	\$794,863	50.86%	Sell
Materials (FSDPX)	\$768,046	49.14%	Sell
Total rounded to	\$1,562,910	100.00%	
After Repositioning			Action
Fidelity Fund (Ticker Symbol)	Value	Percent Portfolio	
Buy Computers (FDCPX)	\$520,970	33.33%	
Buy Paper & Forest (FSPFX)	\$520,970	33.33%	
Buy Software (FSCSX)	\$520,970	33.33%	
Total rounded to	\$1,562,910	100.00%	

The current economic environment poses some risks. Corporate earnings forecasts appear high vis-à-vis GDP growth forecasts leaving room for negative surprises. Housing remains an area for concern. The Federal Reserve's focus on inflation adds uncertainty as to when the central bank will actually start cutting rates. If it delays lowering interest rates too long, the risk of recession will increase.

If the U. S. economy weakens, the risk of commodity price driven inflation will likely remain at bay. There is however a case to be made for inflation to increase from a decline in the value of the U. S. dollar. As such, we are favorably inclined towards assets which offer the potential of preserving purchasing power as well as groups that can benefit from a declining dollar.

Against the above backdrop, the broad equity market trading at a forward P/E multiple of about 15, appears moderately attractive. M&A activity is likely to be key driver of

stock prices as corporations are flush with cash. The S&P 500 companies are estimated to carry over \$600 billion in cash, more than double the level seen in 1999. Additionally, financing for private equity firms is easy to come by. As such, it makes sense to target sectors and industry groups where M&A activity can push stock prices higher.

With the reward potential of most sectors and industry groups appearing just as good as the overall market on a risk-adjusted basis, we gravitate towards selected industry groups in the technology and materials sectors worthy of overweighting. These include software, computer hardware, paper & forest products, and gold.

Investment Thesis

(Fidelity funds' top 10 holdings as of September 30, 2006)

In the sections below, we outline the key factors including risks that could drive the performance of the funds in the model portfolios.

Fidelity Select Computers, Software & Computer Services

In PCs and video gaming, key new products are likely to synergistically drive sales of hardware and software. Organizations around the world appear poised to upgrade technology infrastructure while Internet advertising continues to grow. Acquisition activity in the software space adds to investment appeal.

PC software. Following the release of its new *Windows Vista* operating system to large volume business customers on November 30, 2006, Microsoft (MSFT-FSCSX, FSMKX) is targeting to release the consumer edition in early 2007.

As the first major *Windows* upgrade since 2001, *Vista* offers the promise of enhanced capabilities and superior security. End users will however require computers with adequate speed, memory, and video capabilities to fully benefit from *Vista*. Only 200 million PCs worldwide are estimated to be capable of running *Vista*. As such, hardware manufacturers stand to benefit from the drive to upgrade PCs.

Microsoft is looking to 2007 to upgrade some of its other key products as well. This includes productivity software suite *Office* and communications server *Exchange*.

Consumer electronics. Nintendo (NTDOY-FSCSX) and Sony launched the latest versions of video gaming consoles *Wii* and *PlayStation 3*, respectively in November 2006. While demand for both consoles has been brisk, availability has been constrained. Video game developer Electronic Arts (ERTS-FSCSX) has invested substantially on *PlayStation 3* games. EA has also recently acquired Headgate Studios with the intent of developing titles for *Wii* and reducing its reliance on *PlayStation 3*. As such, EA stands to benefit from increasing availability of *PlayStation 3* and *Wii*.

Top 10 Fund Holdings

The top 10 holdings of the Fidelity Funds are as of Sep. 30, 2006. Percent foreign holdings are as of Nov. 30, 2006.

Computers (FDCPX)	Gold (FSAGX)	Paper & For. (FSPFX)	Software (FSCSX)	Spartan 500 (FSMKX)
Apple Computer	Newcrest Mining	Weyerhaeuser	Google Cl. A	ExxonMobil
Hewlett-Packard	Barrick Gold	Plum Crk. Tim. REIT	Symantec	General Electric
Intel	Meridian Gold	Smurfit-Stone Cont.	Yahoo!	Citigroup
Intl. Bus. Mach.	Aber Diamond	Temple-Inland	Quest Software	Bank of America
Texas Instruments	Newmont Mining	Sealed Air	Microsoft	Microsoft
EMC	Cambior	Longview Fibre	Oracle	Pfizer
Corning	Goldcorp	Bemis	Nintendo	Procter & Gamble
Best Buy	Freeport-McMoRan	Kimberly-Clark	Electronic Arts	Johnson & Johnson
Cisco	Buenvavent. (Cia Min)	Rayonier REIT	FileNet	Amer. Int'l. Group
Network Appliance	Crystallex Intl.	MeadWestvaco	Comverse Tech.	JP Morgan Chase
49.3% of portfolio	61.8% of portfolio	57.1% of portfolio	53.9% of portfolio	19.6% of portfolio
15.4% foreign	78.5% foreign	15.6% foreign	9.2% foreign	NA

Meanwhile, Apple (AAPL-FDCPX) has set up an enviable entertainment franchise with its *iPod* digital media players and *iTunes* music store. The company's introduction of *iPod*, *iPod nanos* and *iPod shuffle* digital players are a hit with consumers. Apple's mobile phone and *iTV*, a device which will allow Internet content to be seen on TV, are eagerly awaited by consumers.

With decline in prices, flat-panel TVs are becoming a 'must-have' gadget. Liquid crystal glass maker Corning (GLW-FDCPX) is well-positioned to benefit as the penetration of flat-panel TVs increases from about 19% to over 50%.

Growing popularity of new gadgets provide a fertile playing ground for retailers like Best Buy (BBY-FDCPX). The company is also eyeing international expansion, having recently opened its first store outside of North America in Shanghai, China.

Enterprise products. After under-investing in technology since Y2K, companies and governments worldwide appear poised to improve their infrastructure. Technology titans for their part are pushing new technologies and products to help improve productivity.

A consortium operated by International Business Machines (IBM-FDCPX) and Siemens has won a

10-year, \$9.3 billion contract from Germany's Armed Forces to modernize non-military information and communications technology. Hewlett-Packard (HPQ-FDCPX) has received a five-year contract extension to upgrade the U.S. Postal Service's computing environment.

HP has used its network of 140,000 retailers in combination with an aggressive cost reduction program to go one up against Dell and its direct sales model. HP has cut \$1.9 billion in costs since July 2005 largely through elimination of 15,300 jobs. HP CEO Mark Hurd states that the cost reduction program has more to go and has raised HP's fiscal first quarter revenue and earnings forecast. HP trades at a forward P/E of 14.5.

Internet telephony is gaining traction. Cisco (CSCO-FDCPX) is well-positioned to benefit from this opportunity. The company has increased its revenue growth forecast from 15% to the 15% to 20% range.

Oracle (ORCL-FSCSX) is targeting to upgrade its key database products in the second half of 2007. The enterprise software giant is also looking to *Project Fusion* to integrate a variety of software applications under a single suite.

Internet. Online advertising continues to grow at a rapid clip. eMar-

keter forecasts total online advertising-spend in the U.S. alone to reach \$20 billion by the end of 2007, a 19% increase over 2006.

Internet titan Google (GOOG-FSCSX) is gearing up to get an increasing part of the online advertising pie while seeking ways to diversify its revenue base through new services like *Google Audio*. Google has partnered with eBay whereby Google is eBay's exclusive provider of text-based advertising outside the U. S. With a slew of new products and investments driving growth, Google is expected to increase earnings by about 40% in 2007.

Meanwhile, Yahoo (YHOO-FSCSX) is trying to put its advertising sales back on track. The company is testing a new advertising platform *Panama* that improves ad-targeting and makes management of ads easier. Having partnered with Baidu, the leading search engine in China, Microsoft is targeting online services in China to increase revenue.

Software deals. Hardware companies continue to seek acquisitions in the software space to shore up their growth and broaden their product portfolios. As technology company customers seek products with greater security, security software is an area where acquisition interest is keen.

IBM has been particularly acquisitive in 2006 rounding up 11 software companies including FileNet (FILE-FSCSX), MRO Software, and Internet Security Systems. EMC Corp. (EMC-FDCPX) too was active buying 11 companies for a total price tag of \$2.6 billion. EMC has nearly \$5.5 billion in cash making additional acquisitions likely. Meanwhile, Hewlett-Packard acquired Mercury Interactive, an enterprise network management software provider, in a \$4.5 billion transaction.

Given these dynamics, it will not be surprising if Symantec (SYMC-FSCSX) or Quest Software (QSFT-FSCSX) get taken over.

Valuation and risks. Technology stocks on average trade at modest premium to the overall market from a P/E ratio perspective. Prospects for growth however appear higher here, thanks to product cycle dynamics and a weaker dollar.

As for risks, there are many. Software companies are subject to the risk of software development and application integration delays. The hardware business is quite volatile as product obsolescence risk is high and demand patterns are hard to predict. Several technology companies are alleged to have used improper stock option grant practices. While most of the bad news on option grants is out and reflected in current stock prices, there is risk of specific stocks getting pressured by negative headlines.

On balance, we like the prospects for Fidelity Select Software & Computer Services and Fidelity Select Computers and include these funds in both model portfolios.

Fidelity Select Gold

The macroeconomic environment remains favorable for gold and consolidation activity among gold miners will likely continue. Earnings performance of gold miners and receding commodity prices raise risks. Gold exposure in the model port-

folios is cut.

The U. S. dollar. The Commerce Department recently reported that the U.S. current account deficit, a measure of the nation's debt with the rest of the world, widened to a record \$225.6 billion, or 6.8% of gross domestic product. Much of the consumption in the U.S. has been financed by foreign central banks which have found it advantageous to prop up the dollar to push exports. This is however beginning to change.

China, Russia, and several OPEC member nations appear keen on reducing their U. S. dollar reserves while increasing their euro holdings. Adding incentive to this process, the European Central Bank raised its key interest rate to 3.5% in December and implied a tightening bias in 2007. Meanwhile, a slowing economy is likely to prompt the Federal Reserve to lower interest rates in 2007. These diverging interest rate trends make euro-denominated securities more attractive than dollar denominated ones and are likely to cause the dollar to lose ground against major world currencies.

Gold miners. Consolidation activity has been rampant among miners. Iamgold-Cambior (CBJ-FSAGX), Kinross Gold-Bema Gold, and Goldcorp (GG-FSAGX)-Glamis Gold were among the slew of combinations announced in the second half of 2006. Meanwhile, Barrick Gold's (ABX-FSAGX) attempt to take over NovaGold failed. With new discoveries hard to come by and cost pressures continuing to escalate, gold miners are likely to remain acquisitive.

On the earnings front, miners are having trouble living up to expectations. Recent earnings from major miners like Barrick Gold, Goldcorp, and Newmont Mining (NEM-FSAGX) were below forecasts.

Commodity prices. In 2006, the rally in gold was driven to a degree by fears of commodity price infla-

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.

Hewlett-Packard (HPQ) p. 4
MeadWestvaco (MWV) p. 6

tion. Prices of base metals like copper and nickel increased over 60%. The oil rally in the first half of 2006 also helped fuel such fears. Currently, there appears to be ample oil and production cuts announced by OPEC have done little to perk up prices. There is some risk that the slowing U. S. economy will cause growth in emerging markets to slow and lower demand for base metals. Miners like Freeport-McMoRan Copper and Gold (FCX-FSAGX) with exposure to copper production run the risk of being adversely impacted by falling copper prices.

While the U. S. dollar is likely to be an important driver of gold, there may well be periods when the backdrop of declining commodity prices puts pressure on gold. As such, we favor including gold in modest doses only as part of a diversified portfolio and retain some exposure to Fidelity Select Gold in the Core model portfolio.

Fidelity Select Paper & Forest Products

The forest products industry is restructuring. In packaging, the prospect of falling input costs could lead to upside earnings surprises. Possibility of takeovers adds spice.

Forest products. Companies in the forest products space are restructuring. To focus on its core businesses, Weyerhaeuser (WY-FSPFX) has agreed to combine its money-losing white paper business with Domtar for \$1.35 billion in cash and 55% of the merged company. Weyerhaeuser is continuing with its strategic review of underperforming businesses and two wood product

manufacturing plants in Oregon are slated to be closed.

Forest products companies are finding it beneficial to convert themselves to REITs. Longview Fibre (LFB-FSPFX) completed this step in 2006 while Plum Creek (PCL-FSPFX) and Rayonier (RYN-FSPFX) converted in 1999 and 2004, respectively. A REIT structure is more tax-efficient for major timberland owners in that income and gains from real estate investments do not get hit with corporate taxes. Weyerhaeuser is coming under pressure to make its timberland business more tax efficient by converting to a REIT. Weyerhaeuser's decision is however complicated in that the REIT conversion will trigger a \$4 billion tax.

Rayonier and Longview Fibre are both focusing on higher margin products. Rayonier has added a five-year, \$550 million contract with China National Tobacco to the list of long-term contracts for its specialty cellulose.

Packaging. In the packaging space, companies like MeadWestvaco (MWV-FSPFX), Temple-Inland (TIN-FSPFX), and Sealed Air (SEE-FSPFX) have made impressive strides in their effort to expand margins. MeadWestvaco, for example, is de-emphasizing commodity products and is focusing on proprietary products instead. The com-

pany's recent acquisition of Calmar has added higher-margined products. MeadWestvaco continues to execute on its cost reduction program through headcount reduction, operations consolidation, and supply chain improvements. MeadWestvaco trades at a forward P/E of 20.5 yielding 3.1%.

The impact of margin improvement programs on the bottom line has however been muted due to a rise in raw material and freight costs. However, if energy prices continue to decline, the benefits should flow to the bottom line likely paving the way for upside earnings surprises.

Deal activity. Smaller sized transactions are a regular feature of this industry as companies seek to divest non-core assets and high-grade their business portfolios. That said, Georgia Pacific and Longview Fibre attracted the attention of private equity firms early 2006. While Georgia Pacific has gone private, Longview Fibre rebuffed the offer.

In terms of potential transactions, takeover talk surrounds household products maker Kimberly-Clark (KMB-FSPFX) and Smurfit-Stone Container (SSCC-FSPFX) adding appeal to shares here.

Investments in the paper and forest products industry are subject to certain risks. Paper and packaging demand tends to correlate with eco-

nomics activity and this industry is not immune to the vagaries of the economy. A protracted slump in the residential housing can impact the fortunes of forest product companies. Newsprint manufacturers may be vulnerable to cheaper imports from China.

In all, we believe it is worthwhile to overweight the paper and forest products group and include Fidelity Select Paper & Forest Products in both model portfolios.

Fidelity Spartan 500 Index Fund

Given the paucity of sectors and industry groups worth overweighting, we include an index fund to diversify the Core model portfolio. Our preference for the S&P 500 Index is based on valuation, international exposure, and risk considerations.

The S&P 500 Index is a commonly used proxy for large-cap U. S. stocks. The Fidelity Spartan 500 Index Fund seeks to track the S&P 500 Index. Among several index funds available, we have chosen an index fund with large-cap leaning. We have intentionally avoided index funds that include small-cap stocks.

Valuation. Since the bull-run began in 2002, investors have generally favored small- and mid-cap stocks

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

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December and Year 2006 Review

In **December**, the Core model portfolio gained 1.0%, compared to a gain of 1.1% for the Dow Jones Wilshire 5000, while the Focus portfolio lost 1.0%.

Strong M&A activity enabled November's momentum to continue into December. Stocks in the telecom service space rose, helped by deal-related news and the Federal Communications Commission's approval for the \$86 billion AT&T-BellSouth merger. Energy stocks were weak on weather-related factors. Exposure to telecom service space helped the model portfolios' performance while exposure to gold detracted it.

UnitedHealth and Cameco with gains of 9.5% and 6.4%, respectively were the Core and Focus model portfolio's top performers. Corning and Freeport-McMoRan Copper & Gold with losses of 13.2% and 11.4%, respectively were the Core and Focus model portfolio's worst performers.

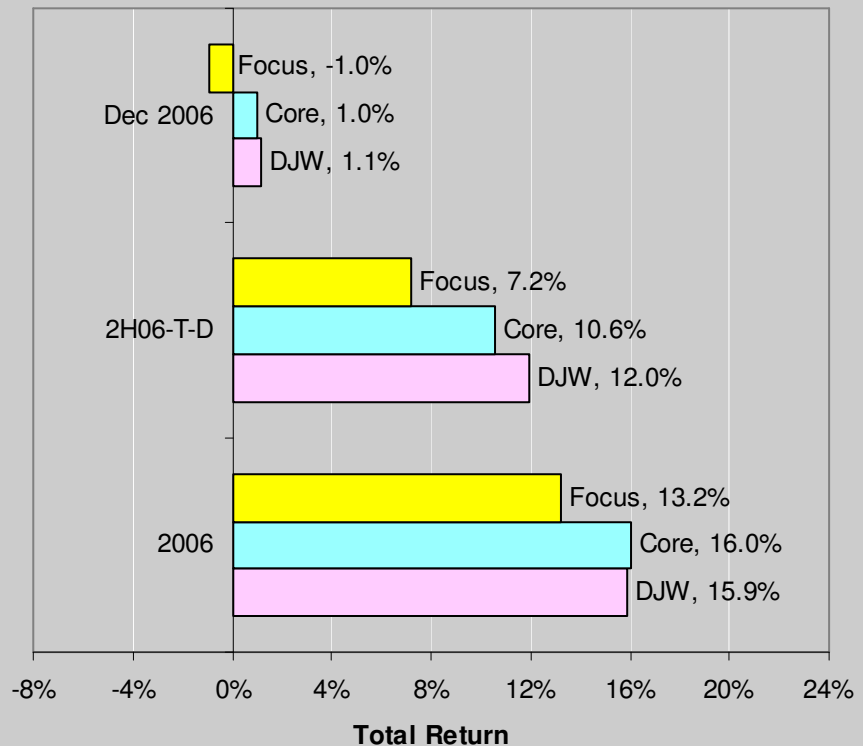
In the **second half of 2006**, both model portfolios irreparably suffered from their third quarter performance. Although our call on avoiding energy, the worst performing sector in this quarter, proved right, we under-estimated the impact of declining oil prices on gold and materials-related stocks. Gold showed an unusually high correlation with energy prices during the third quarter. Among materials-related stocks, coal miners and railroads moving coal were hit hard.

Gold and materials-related stocks rallied in the fourth quarter. Fidelity Select Gold gained 12.5% and Fi-

delity Select Materials gained 11.5% versus 7.3% for the DJW 5000. These gains were however not adequate to fully reverse the damages from the third quarter. The Core and the Focus model portfolios gained 10.6% and 7.2%, respectively during the second half

increased 8.7%, that is 4.8% higher than the DJW 5000's return of 3.9% on a comparable basis.

In **2006**, the Core model portfolio gained 16.0% and the Focus model portfolio 13.2% versus 15.9% gain of DJW 5000 Index. With gains of



of 2006 compared to the DJW 5000's 12.0% advance.

During the second half of 2006, four **'Favored Buy'** calls were made, all proving timely. In each instance, the 'Favored Buy' funds outperformed the DJW 5000 from the time the rating was assigned to the time the rating was removed. (The 'Favored Buy' rating was maintained between one and three months.) The 'Favored Buy' funds on average

30.1% and 26.8%, respectively Fidelity Select Utilities Growth and Fidelity Select Telecommunications helped the Core model portfolio's performance. In the first half, Fidelity Select Energy Service with a gain of 15.0% helped both model portfolios' performance. Fidelity Select Biotechnology's loss of 2.8% in the first half and Fidelity Select Materials' paltry 5.3% gain in the second half impaired both model portfolios' performance.

over large-cap stocks. Over the past five years, the former group has returned nearly 12% per year or 6% points higher than the latter. The forward P/E ratio for the S&P 500 companies is currently 15 compared to 17 for companies in the small-cap Russell 2000 index. As

such, large cap stocks, appear attractive on a valuation basis.

International exposure. While economic growth is likely to slow in the U. S. in 2007, growth overseas is likely to be higher. Large-cap companies on average derive about

36% of their sales from abroad compared to 16% for small-caps. Large-cap companies are thus better positioned to benefit from growth overseas than the small-cap ones.

Risk. There is some risk that the Federal Reserve may tighten inter-

The Fund Deletions

(Dow Jones Wilshire 5000 index returns for corresponding periods in parentheses.)

Many of the sectors and industry groups represented hitherto in the model portfolios are no longer worthy of overweighting. With the exception of health care, IT services, insurance, and pharmaceuticals, valuation metrics are generally extended. We have accordingly removed such sector and industry group funds and preferred to use the index fund for diversifying the Core model portfolio. Looking at each deletion ...

Materials-related stocks have recently rallied on takeover possibilities even as commodity prices have declined. The possibility of commodity prices declining further from a softening U. S. economy causes us to remove Fidelity Select Materials (FSDPX) from both model portfolios. During its six month stay, Fidelity Select Materials gained 5.3% (12.0%).

News quality is particularly not attractive in the health care space. The outcome of the Congressional elections does not give us much optimism that news quality will change for the better. Additionally, leading drug companies face challenges to stem revenue decline from upcoming patent expirations. Fidelity Select Health Care (FSPHX) and Fidelity Select Pharmaceuticals (FPHAX) gained 5.0%

(15.9%) and 12.5% (15.9%), respectively during their 12 month stay.

With Fidelity Select Consumer Staples (FDFAX) advancing 20.2% (15.9%) during its 12 month stay, valuation considerations prompt us to remove this fund. Insurance companies have benefited from a benign hurricane season. With competition putting pressure on premium growth, near-term catalysts appear to be limited. Fidelity Select Insurance (FSPCX) gained 11.4% (15.9%) during its 12 month stay.

Takeover appeal has faded in both telecom and utilities. With major combinations having been completed in the telecom service space in 2006, opportunities for further consolidation appear slim. Meanwhile, approval for electric utility mergers has been hard to come by at the state level. We remove both Fidelity Select Telecommunications (FSTCX) and Fidelity Select Utilities Growth (FSUTX) after a 24 month inclusion period during which the funds gained 33.3% (23.2%) and 42.3% (23.2%), respectively.

At this stage of the technology cycle, we prefer to play this theme through Fidelity Select Computers (FDGPX) and Fidelity Select Software & Computer Services (FSCSX) and drop Fidelity Select IT Services (FBSOX). During its 24 month stay, Fidelity Select IT Services returned 21.6% (23.2%).

Select Computers and Fidelity Select Software & Computer Services. We now focus on two sectors, financials and health care, that are among the more important drivers for the Fidelity Spartan 500 Index Fund.

Financials. Although banks have worked to generate an increasing portion of their income from fees, the inverted yield curve presents headwinds for banks and the financial services industry in general. Banks extend long-term loans while borrowing for the short-term. As such, an inverted yield curve crimps interest rate-spread based income.

However, things will likely change for the better. When the Federal Reserve starts to lower short-term interest rates in response to a softening U. S. economy, the yield curve is likely to regain its typical upward sloping characteristic and provide some relief to financial services firms. Meanwhile, opportunities to manage retirement savings provide growth avenues for firms in this sector. Increasing use of debit and credit cards and electronic banking provide opportunities for growth in fee income as well.

The financial services sector continues to consolidate in a bid to reach more customers and to lower unit costs. Merger activity is characterized by banks combining with other financial service providers and larger banks swallowing their smaller competitors. Bank of America (BAC-FSMKX) purchased credit card leader MBNA and Charles Schwab's wealth management subsidiary, U. S. Trust while Wachovia picked up mortgage lender Golden West Financial.

Looking at specific companies, powerhouse Citigroup (C-FSMKX) with \$1.7 trillion in assets and operations in over 100 countries is seeking to increase its presence in emerging markets like China and Turkey. Citigroup is also trying to roundup Grupo Financiero Uno, Central America's biggest credit card issuer and Grupo Cuscatlan, a

est rates or delay cutting rates long enough to increase the risk of recession. We believe large-cap stocks will hold up better than small-cap stocks if either of these low-probability events happens. In the past three years, the S&P 500 has been less than half as volatile as the Russell 2000 as measured by the standard deviation.

Sector diversification. The Spartan 500 Index Fund diversifies the Core model portfolio by providing exposure to several sectors of the

U. S. stock market. Looking at sector weightings, financials, information technology, and health care comprise about 22%, 17%, and 12%, respectively. Consumer discretionary, consumer staples, energy, and industrials comprise about 10% each. The remaining 10% is roughly split evenly among materials, telecommunication services, and utilities sectors.

We discussed the investment thesis for information technology companies at some length under Fidelity

Central American bank. Looking to 2007, Citigroup CEO Charles Prince has set expectations for a 'leaner, thinner' Citigroup. The company intends to focus on improving profitability. In the U. S., emphasis will likely be on organic growth. Spending on investments in 2007 is expected to be pruned to 50% of the 2006 level.

Bank of America is changing its balance sheet strategy. The bank plans to reduce investment in securities by \$100 billion to redirect funds to higher-yielding loans. This should help improve the asset mix and bolster net interest income.

Insurance giant American International Group (AIG-FSMKX) has put its major legal woes behind and is trying to regain investor confidence. The company recently came out with a strong third quarter earnings report and its foreign life insurance business is doing well.

Health Care. The health care industry has a few things going for it. The Medicare Part D prescription drug benefits program has helped sales of key drugs like Pfizer's (PFE-FSMKX) cholesterol-lowering drug *Lipitor*. The legal issues that looked overwhelming when safety concerns with Merck's *Vioxx* surfaced now appear manageable.

With Democrats taking control of the Senate and the House in the 2006 Congressional elections, proposals to allow Medicare to directly negotiate drug prices will likely be put forth. As these proposals get debated, the health care industry may well become the target of negative headlines.

Expiration of patents on blockbuster drugs is a challenge facing major drug companies. Merck's troubles in this regard are more imminent than Pfizer's. In an effort to drive revenue growth, major drug companies will likely pursue acquisitions in the biotechnology space while moving ahead with their drug development programs.

Merck has demonstrated some success in launching new drugs and vaccines to shore up its revenue. Pfizer however received a sizeable setback when a clinical trial for *torcetrapib*, its next generation cholesterol-lowering drug, was terminated due to safety concerns. Other S&P 500 companies like Merck, Abbott, and Schering-Plough are likely to benefit from Pfizer's troubles.

In transaction activity, Johnson & Johnson (JNJ-FSMKX) has completed the purchase of Pfizer's Consumer Healthcare unit for \$16.6 billion.

In sum, we believe the Spartan 500 Index Fund by virtue of its emphasis on large-cap stocks will likely outperform other index funds like the Spartan Total Market Index Fund that include a modicum of mid-cap and small-cap stocks. Given the inclusion of 'Above Average' risk-rated Select Computers, Select Software & Computer Services, and Select Gold in the Core model portfolio, we value the contribution of Spartan 500 Index Fund in lowering portfolio volatility.

Portfolio Impact

From an investment style perspective, the repositioned Focus model

portfolio has a mid cap-growth flavor. The repositioned Core model portfolio has a large cap-blend slant. There is no overlap among the top 10 holdings of the three funds included in the Focus model portfolio. In the Core model portfolio, Microsoft is the only holding that finds a place in two of the funds.

Market Outlook and Sector Portfolio Indicator Reading: Buy

With the model portfolios repositioned, the AlphaProfit Sector Portfolio Indicator is reading 'Buy'. This implies current prices are generally good to trade at.

In the near-term, pent-up selling from investors seeking to defer taxable gains to 2008 may impact share prices. Offsetting this negative, M&A activity is likely to help perk things up. Looking farther out, the possibility of a weakening economy adversely impacting earnings growth poses risks.

Subscribers starting to track the model portfolios as well as risk-averse Subscribers may consider spreading their investments over longer time-frames.

AlphaProfit Investments, LLC
Date: December 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 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	C. Bartel, J. Bennett
Select Software & Comp. Services	FSCSX	Mid Cap Growth	Above Average	K. Cardwell
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.

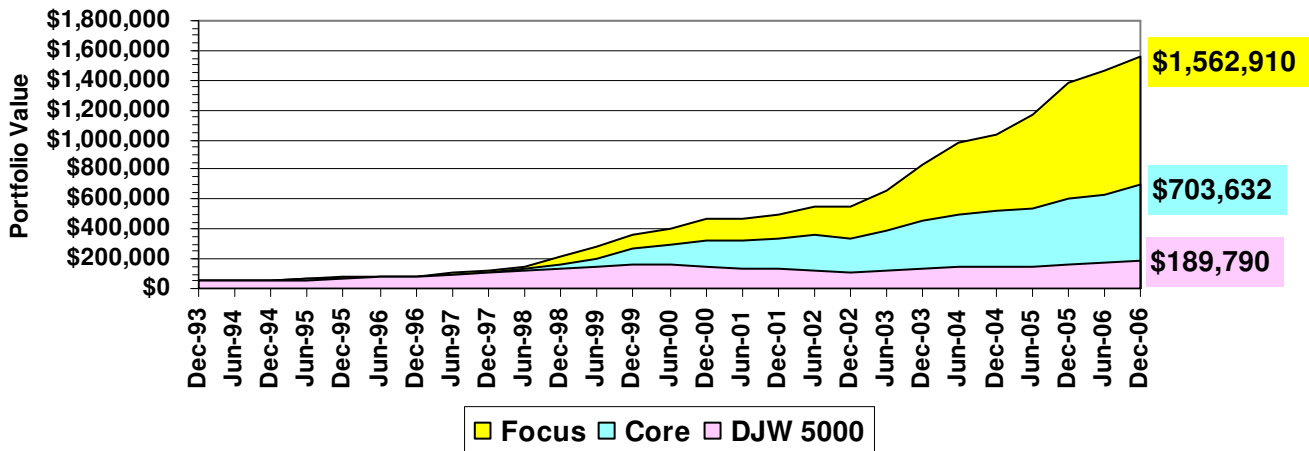
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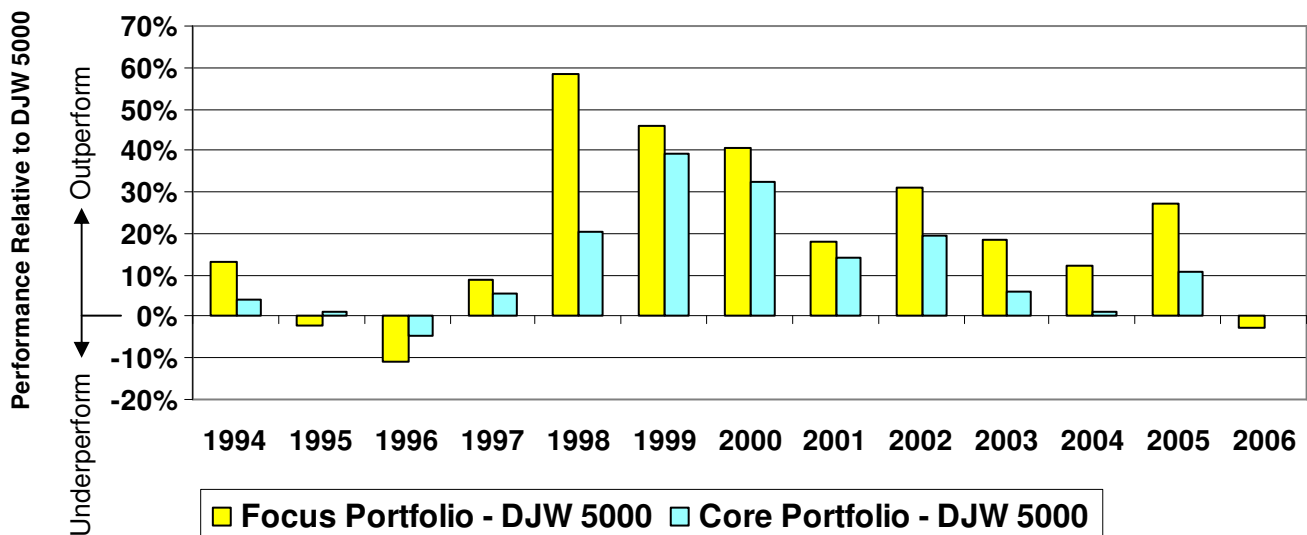
AlphaProfit Model Portfolio Long-Term Performance

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 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.