



# AlphaProfit™

## Sector Investors' Newsletter



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Service for \$ophisticated \$ector Investors

### WHAT'S INSIDE

Scorecard ..... 1

Portfolio Composition .....2

Major Movers.....2

Outlook .....2

Fund Returns.....3

Top 10 Fund Holdings .....4

ETF & Mut. Fund Selections ...5

Stock Searchlight .....7

Market Outlook & Sector Portfolio Indicator .....9

Fund Facts and News ..... 10

Long-Term Performance ..... 11

Glossary of Terms Used..... 12

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

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

### Scorecard

**The AlphaProfit Core and Focus model portfolios gained 3.4% and 2.9%, respectively in April. The Dow Jones Wilshire 5000 benchmark gained 3.9%.**

**Earnings trump low expectations.** First quarter corporate earnings reports were among the more important drivers of stock prices in April. Going into the earnings reporting season, expectations had

Washington Mutual to industrials like Caterpillar and Honeywell.

**Deals get bigger.** Takeover activity continued to remain strong in April. Announced deals totaled more than \$130 billion on April 23 alone. Bank of America agreed to buy Netherlands-based ABN AMRO's LaSalle unit for \$21 billion while Britain's Barclays offered to buy the remainder of ABN AMRO for \$91 billion. London-based drug company Astra-Zeneca agreed to buy vaccine

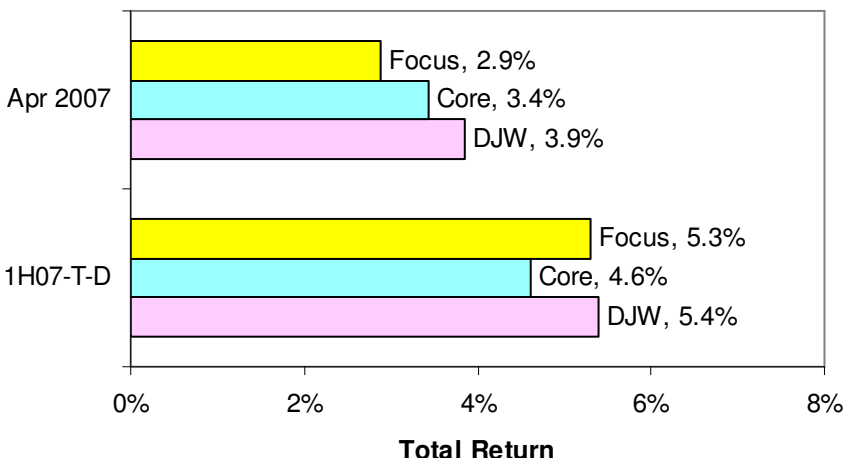
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been lowered. Analysts on average expected earnings to increase only 3% to 4% from year-ago levels.

In retrospect, the forecasts turned out to be overly pessimistic. The average S&P 500 member increased earnings by nearly 9% in the first quarter. The outperformance was broad ranging from financials like American Express and

maker MedImmune for over \$15 billion.

As for other major deals announced during the month, credit card processor First Data and student loan processor SLM Corp. agreed to leveraged buyout offers with price tags of over \$25 billion.

## 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		April 30, 2007	
	Amount Invested	Percent Portfolio	Value	Percent Portfolio
Computers (FDCPX)	\$520,970	33.33%	\$534,954	32.50%
Paper & Forest (FSPFX)	\$520,970	33.33%	\$562,032	34.15%
Soft. & Comp. (FSCSX)	\$520,970	33.33%	\$548,937	33.35%
Total (rounded to)	\$1,562,910	100.00%	\$1,645,923	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		April 30, 2007	
	Amount Invested	Percent Portfolio	Value	Percent Portfolio
Computers (FDCPX)	\$70,363	10.00%	\$72,252	9.81%
Gold (FSAGX)	\$70,363	10.00%	\$70,038	9.51%
Paper & Forest (FSPFX)	\$70,363	10.00%	\$75,909	10.31%
Soft. & Comp. (FSCSX)	\$140,726	20.00%	\$148,281	20.14%
Spartan 500 (FSMKX)	\$351,816	50.00%	\$369,664	50.22%
Total (rounded to)	\$703,632	100.00%	\$736,144	100.00%

**A victory on all counts.** The backdrop of better-than-expected earnings and strong takeover activity enabled the bulls to vanquish the bears. The twin positives more than adequately combated the negative influence of non-cooperative inflation and housing data. Even an abrupt 4.5% decline in the Shanghai stock exchange on April 19 failed to derail the bullish sentiment.

All of the major U. S. market proxies, the Dow Jones Industrial Average, the S&P 500, and the NASDAQ indexes advanced with the DJIA gaining the most. The DJIA gained 5.7% for the month and closed above 13,000 for the first time.

Sectors like health care, energy, and technology, which demonstrated substantial upside earnings surprises, prospered the most. In the AlphaProfit model portfolios, all of the industry groups except gold gained. With large-cap stocks performing better than small-cap ones,

the Core model portfolio benefited from the S&P 500 index inclusion and gained 3.4%. The Focus model portfolio gained 2.9%. The DJW 5000 benchmark gained 3.9%.

### Major Movers

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

Nearly two out of three stocks in the list of top 10 holdings of the Fidelity funds included in the model portfolios advanced in April. With certain exceptions, stocks in the computer hardware and software groups performed well. The losers list was dominated by gold miners.

**Nintendo rocking with Wii.** Booming sales of Nintendo's (JP:7974-FSCSX) video gaming console *Wii* and handheld gadget *DS* pushed the company's annual net profit higher by 77% to \$1.5 billion. During the final quarter, Nintendo's sales and profits are estimated to have increased three-fold and seven-fold, respectively from year-

ago levels. Nintendo expects *Wii* sales to continue at a brisk pace. The company expects 14 million *Wii* units to be sold during the next fiscal year ending in March 2008. Investors reacted positively to Nintendo's operating performance and bid its shares up by nearly 11% to make them the Focus model portfolios best performer.

**Lihir dilutes.** Shares of Papua New Guinea-based Lihir Gold (LIHR-FSAGX) declined nearly 6% and were among the weaker performers in the Core model portfolio. Lihir is raising capital of \$1 billion to fund mine development, repay debt, and close hedging contracts giving investors more exposure to future movements in gold prices. Lihir's decision to issue additional shares was unpopular as investors worried about earnings getting diluted over a larger share base.

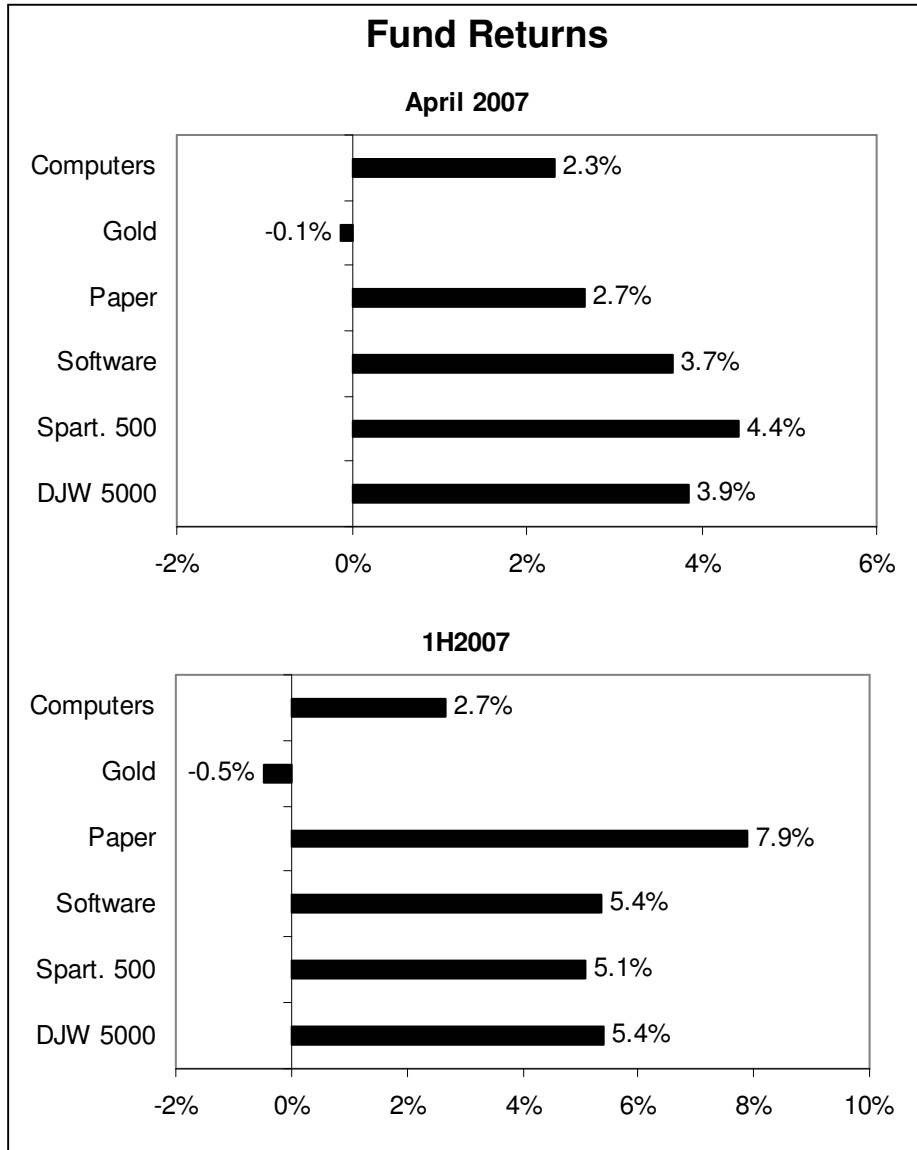
**Sun's server sales slow.** Growth in Sun Microsystems' (SUNW-FDCPX) server sales was anemic during the company's fiscal third quarter as slackening orders and intense competition for low-cost servers took a bite. Sun's product revenues, which account for two-thirds of the company's overall sales, were \$2.1 billion, just a tad up from the year-ago period. Although Sun reported its second consecutive profitable quarter and per-share earnings matched analysts' forecast, the tepid revenue picture led analysts to question the sustainability of the company's turnaround. Sun's shares fell 13% to become the worst performer in both model portfolios.

### Outlook

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

**Sluggishness in housing and manufacturing caused growth to moderate in the U. S. However, a pickup in economic activity may be in the works.**

The Commerce Department estimates gross domestic product during the first quarter of 2007 rose at a 1.3% annualized rate, the slowest



pace in four years. The slide in housing extended to the sixth straight quarter. Factory activity continued to increase albeit at a slower rate.

While the housing market remains weak and sub-prime loan defaults are on the rise, manufacturing and service activities continue to expand. The Institute of Supply Management's factory and service activity indexes remained above 50.0 in March suggesting continued expansion. The Conference Board's index of leading economic indicators gained 0.1% in March.

Increasing business investment, coupled with modest increase in inventories during the first quarter suggests that growth may acceler-

ate during the second quarter. Readings of the Economic Cycle Research Institute's Weekly Leading Index suggest that a pickup in economic activity is in the offing.

### **Fidelity Select Computers, Software & Computer Services**

**Google continues to extend its leadership over its rivals. Microsoft's bottom line is benefiting from the Windows Vista launch. Vista however appears to be less instrumental in spurring PC sales. In the enterprise space, operating performance is turning out to be company-specific. Apple has delayed its new Mac operating system to keep iPhone on**

schedule.

**Internet.** Google (GOOG-FSCSX) continues to thrive in Internet advertising taking share from competitors Yahoo! (YHOO-FSCSX) and Microsoft's (MSFT-FSCSX, FSMKX) MSN unit. Google's share of the U. S. search market increased to 48% during the first quarter and paid clicks on ads within its network increased 52% from year-ago levels. Google reported a 69% increase in first quarter profit as quarterly revenue reached \$3.7 billion, a new high. Google's per-share earnings of \$3.68 were well in excess of the \$3.30 tally expected by analysts.

Yahoo! in contrast posted disappointing results. Benefits from the upgraded advertising platform *Panama* failed to impact the bottom line. The gain in revenue fell short of analysts' forecast and operating expenses increased faster than sales. Yahoo! reported 10 cents a share in earnings, 1 penny short of analysts' forecast.

Meanwhile, Google continues to press ahead in developing additional revenue channels. The company has entered into a long-term agreement with radio titan Clear Channel Communications. The deal will allow Google to place advertising for its online customers on more than 675 Clear Channel radio stations.

To make inroads into the \$3.3 billion display advertising segment, Google is acquiring advertisement management technology company DoubleClick for \$3.1 billion. Having lost DoubleClick to Google, it remains to be seen if Yahoo! or Microsoft will look to acquire DoubleClick's rivals like ValueClick, 24/7 Real Media, or aQuantive. As the market share gap between Google and its competitors continues to widen, comments from industry experts that Microsoft should acquire Yahoo! is getting attention.

Meanwhile, online marketplace eBay reported 33 cents a share in earnings, 3 cents a share higher

## Top 10 Fund Holdings

Computers (FDCPX)	Gold (FSAGX)	Paper & For. (FSPFX)	Software (FSCSX)	Spartan 500 (FSMKX)
Hewlett-Packard	Newcrest Mining	Weyerhaeuser	Microsoft	ExxonMobil
Sun Microsystems	Meridian Gold	Temple-Inland	Google Cl A	General Electric
Apple	Barrick Gold	MeadWestvaco	Cogn. Tech. Soln.	Citigroup
Int'l. Bus. Mach.	Newmont Mining	Plum Crk. Timber	Oracle	AT&T
EMC Corp.	IAMGOLD	Buckeye Cell. 9.25%	Yahoo!	Microsoft
Dell	Kinross Gold Corp.	Bemis	Nintendo	Bank of America
Seagate Tech.	Lihir Gold	Smurfit-Stone Cont.	Quest Software	Procter & Gamble
Network Appliance	Gold Fields	Potlatch	eBay	Altria
NCR Corp.	Goldcorp	Longview Fibre	Utimaco Safeware	Pfizer
Cogn. Tech. Soln.	Ariz. Star Res.	Pack. Corp. of Amer.	Western Union	Amer. Int'l. Group
73.4% of portfolio	64.9% of portfolio	60.9% of portfolio	65.6% of portfolio	19.3% of portfolio
8.8% foreign	82.5% foreign	6.9% foreign	16.8% foreign	NA

Fidelity Investments has reported the top 10 holdings for all of their funds, as of March 31, 2007.

Four changes are packed in **Fidelity Select Paper & Forest Products**. Paper industry heavyweight International Paper, forest products companies Rayonier and West Fraser Timber and packaging products manufacturer Sealed Air are left out. Their places are taken by packaging products manufacturers Bemis and Packaging Corporation of America, cellulose products maker, Buckeye Technologies, and timberland REIT Potlatch. The fund is more diversified, with top 10 holdings now accounting for 52% of assets, down from 61%.

**Fidelity Select Software & Computer Services** shows three changes. First Data gets detached and Western Union, a money transfer services provider spun off from First Data, comes in. As for the other two changes, troubled software companies Converse Technology and Symantec depart from the top 10 list and their spots are filled by IT services provider Cognizant Technology and Germany-based data security company Utimaco Safeware.

In **Fidelity Select Computers**, consumer electronics giant Sony is turned off and computer disc drive manufacturer Seagate Technology is logged in. The fund is more concentrated, with top 10 holdings now accounting for 73% of assets, up from 66%.

Two changes gild **Fidelity Select Gold**. Canada-based Kinross Gold, which acquired Bema Gold during the first quarter, takes the latter's spot in the top 10 list. South Africa-based major gold miner Gold Fields replaces junior gold company Crystallex International. Foreign holdings represent nearly 83% of Fidelity Select Gold's assets with Canadian companies accounting for 53% of the fund.

Telecom services company AT&T enters the top 10 list of the **Fidelity Spartan 500 Index Fund** while health care company Johnson & Johnson departs. AT&T brought BellSouth into its fold at the turn of the year and the combined company's market capitalization now approaches \$250 billion.

With all of these changes included, Cognizant Technology and Microsoft are represented in two out of the five Core model portfolio funds. Cognizant Technology finds a top 10 berth in two of the three funds included in the Focus model portfolio.

than analysts' forecast. eBay's revenue vaulted 27% to \$1.8 billion as its marketplace revenue gained 23% to exceed \$1 billion. The company's payment service unit PayPal and Internet telephony offering Skype are growing revenue at a rapid clip and offer promise for continued growth in the future.

Among Internet names, Google

and eBay are executing well and trade at relatively modest forward P/E multiples of 25 and 22, respectively. Yahoo! offers speculative appeal as a restructuring or takeover play.

**PCs.** Sales of its new *Windows Vista* and *Office* programs enabled Microsoft to post robust third-quarter results with revenue increasing 32% to \$14.4 billion. Per-share earnings tal-

lied 50 cents, 4 cents above analysts' forecast and 72% higher than 29 cents reported in the year-ago period.

At \$5.4 billion, sales of *Vista* to consumers surprised most analysts to the upside. *Office 2007* sales exceeded internal forecasts by over \$200 million.

## 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	<b>Fidelity Sel Computers (FDCPX)</b>	A, F	A, NTF, 30	R, F	A, F	Internet Architect HOLDRs (IAH) PowerShares Dyn Hard (PHW)	Limited Limited
Gold	<b>Fidelity Sel Gold (FSAGX)</b> 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 (GDx) PowerShares DB Gold (DGL) streetTRACKS Gold (GLD)	Limited Good Limited Good
Paper & For Pdt	<b>Fidelity Sel Paper &amp; For (FSPFX)</b>	A, F	A, NTF, 30	R, F	A, F	No ETF currently available	
Software	<b>Fidelity Sel Soft &amp; Com (FSCSX)</b>	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) <b>Fidelity Spartan 500 Idx (FSMKX)</b> 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.

Microsoft expects to earn close to \$1.50 per share during its fiscal year that ends on June 30. Looking ahead to fiscal 2008, Microsoft expects revenue and earnings per share to grow over 10% and 12%, respectively. Microsoft shares trade at a forward P/E of about 17.

While PC makers had hoped *Vista* would spur consumers to buy new PCs, the initial impact appears to be less than expected. Dell (DELL-FDCPX) for example is hedging its bets by continuing to sell PCs with *Windows XP*. Hewlett-Packard's (HPQ-FDCPX) earnings due for release in mid-May will likely provide clarity.

In PC components, intense price competition from the likes of Hitachi is hurting Seagate Technology's (STX-FDCPX) hard drive business. Seagate earned 47 cents a share during the third quarter, 4 cents short of analysts' estimates. The company expects conditions to re-

main tough in the fourth quarter and has lowered its earnings forecast.

**Enterprise products and services.** Operating performance varied substantially by company in the enterprise segment. Data storage company EMC (EMC-FDCPX) and automated teller machine maker NCR (NCR-FDCPX) reported stronger numbers and technology heavyweight International Business Machines (IBM-FDCPX) and major mover Sun Microsystems (SUNW-FDCPX) posted weaker numbers.

EMC reported a 15% increase in first quarter profit with per-share earnings of 15 cents exceeding analysts' 13 cents a share estimate. Performance was powered by a 28% increase in Asia-Pacific revenue. EMC is pursuing plans to sell a 10% stake in its virtualization software unit VMware through an IPO. EMC remains optimistic of increasing revenue by 14% and earning at least 64 cents a share in 2007.

Excluding one-time manufacturing realignment costs, NCR earned 41 cents a share, exceeding analysts' 29 cents a share estimate. NCR is working to spin off its Teradata data warehousing business. The company is also looking to make ATMs from being just cash dispensers to self-service terminals that can be used to pay bills or buy tickets. NCR has raised its 2007 earnings forecast to between \$2.50 and \$2.60 a share. The company expects 2007 revenue growth to exceed 3%.

IBM earned \$1.21 per share in its first quarter matching analysts' estimates. New contracts, software acquisitions, and a weaker U. S. dollar enabled revenue to increase nearly 7% to \$22 billion. IBM's U. S. business was relatively weak. The company signed \$11.1 billion in contracts in its services division a tad lower than the \$11.4 billion inked in the year-ago period. IBM has boosted its share-buyback pro-

gram by \$15 billion and raised its quarterly dividend by 33% to 40 cents a share.

In the enterprise products and service space, EMC and NCR are executing well. With EMC and NCR shares trading at forward P/E multiples of 19 and 16, respectively they are worthy of a Stock Searchlight feature.

**Consumer products.** Strong sales of Apple's (AAPL-FDCPX) *iPod* players and *Macintosh* computers enabled the company's second quarter profits to increase 88% from the year-ago period. Per-share earnings tallied 87 cents, well ahead of analysts' 64 cents a share estimate.

Apple's *iTunes* online music store has become a major force in retailing, selling more than 2.5 billion songs, 50 million television shows and 1.3 million movies. Apple has recently entered into deals with recording giant EMI and film studio MGM to make their music and movies available at *iTunes*.

Apple's *iPhone* scheduled for launch in June is among the more eagerly awaited products. To address *iPhone*-related product development issues and keep its schedule on track, the company has pushed the launch of the new *Mac*

operating system *Leopard* past the important back-to-school season.

Computer hardware and software stocks have not been stand-out performers in 2007. While most companies have grown earnings at a reasonable clip, selected earnings misses have taken juice out. With earnings streams being aided by a weaker U. S. dollar and the global business climate relatively upbeat, share prices here have the potential for faring better in the period ahead. We continue to include Fidelity Select Computers and Fidelity Select Software & Computer Services in both model portfolios.

### Fidelity Select Gold

**While gold bullion rose 2% in April, returns for investors in gold mining shares were held back by corporate news quality. Against the backdrop of a declining U. S. dollar, stubbornly high oil prices, and strong physical demand, the investment thesis for gold remains intact.**

**Gold miners.** News flow from gold mining companies was checkered by Newmont Mining's (NEM-FSAGX) earnings and major mover Lihir Gold's (LIHR-FSAGX) efforts to raise capital.

Newmont's first quarter profit de-

clined by 67% from year-ago levels as the impact of materially higher realized gold prices and modest growth in gold sales were more than offset by rising costs. Newmont incurred nearly \$360 million in capital expenses to address power-related issues at its mines in Nevada and Ghana.

Not all developments were however unfavorable. With Bema Gold now under its fold, Kinross Gold (KGC-FSAGX) has increased its 2007 gold production forecast from 1.5 million ounces to 1.7 million ounces. Kinross expects production to ramp up further in 2008 and 2009. Operations at Meridian Gold's (MDG-FSAGX) El Penon mine in Chile are on a roll. The company produced 70,900 ounces of gold during the first quarter, 10% higher than forecast.

Goldcorp progressed on its portfolio restructuring efforts completing the sale of its Peak mine in Australia to Peak Gold for \$200 million and entering into an agreement with Silver Wheaton to sell 25% of silver produced at Goldcorp's Penasquito project in Mexico for \$485 million.

**Gold bullion.** A weak dollar, rising trade tensions between the U. S. and China, and relatively high oil prices provided a positive backdrop for bullion to rally in April. The price

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*continued on page 10*

of gold however found the \$700 per ounce mark hard to conquer and finished the month with a 2.2% gain at \$681.90 an ounce.

The U. S. dollar has been notably weak against the euro and the British pound. With interest rates likely to increase in Germany and the U. K., the dollar stands to come under more pressure. Both the European Central Bank and the Bank of England have stated that additional interest rate increases are likely to be needed to keep inflation in check.

Demand for gold from China and India is strong. The recent launch of two gold exchange-traded funds in India should spur demand as well. Oil prices continue to remain stubbornly high at over \$65 per barrel and keep the inflation threat alive. Gold is also receiving support from a surge in the prices of metals like platinum and copper.

All said, the case for including gold as part of the diversified Core model portfolio remains compelling and we continue to hold Fidelity Select Gold here.

## Fidelity Select Paper & Forest Products

**Earnings from paper and forest products companies were mixed with packaging companies faring better than their forest product brethren. Weyerhaeuser is beginning to explore opportunities in biofuels.**

**Packaging.** Earnings of packaging companies were generally on track. Higher product prices and benefits from cost reduction initiatives enabled Smurfit-Stone Container (SSCC-FSPFX) to narrow its operating loss to 21 cents a share from 25 cents a share in the year-ago period. Smurfit expects to return to profitability in the second quarter as seasonal pickup in containerboard demand and lower energy requirements for mill maintenance improve economics.

Packaging Corporation of America

(PKG-FSPFX) reported 30 cents a share in first quarter profits, inline with analysts' forecast. Better pricing, strong containerboard sales, and lower energy costs helped earnings to materially exceed the 10 cents a share tally earned in the year-ago period. Citing the potential of higher transportation costs to clip earnings in the second quarter, PCA has lowered its second quarter earnings forecast to 36 cents a share.

Bemis (BMS-FSPFX) too reported an inline quarter, earning 45 cents a share. Bemis has lowered its second quarter earnings forecast. The company however expects to benefit from new products during the second half of the year and has reaffirmed its 2007 earnings forecast.

**Forest Products.** A struggling housing market is squeezing wood prices and pressuring earnings of forest products businesses. Average saw log prices are down over 7% in most markets. While earnings at timberland real estate investment trusts (REITs) Potlatch (PCH-FSPFX) and Plum Creek Timber (PCL-FSPFX) exceeded analysts' forecasts, they were lower than those reported in the year-ago period. Both companies are looking to their real estate and manufacturing segments to shore up their bottom line. Declining lumber prices pressured results in Temple-Inland's (TIN-FSPFX) forest products segment as well.

Meanwhile, Weyerhaeuser (WY-FSPFX) is looking to expand its forest products business in international markets. The company plans to invest in international timberlands by expanding its ventures in Uruguay and Brazil.

**Restructuring.** Weyerhaeuser continues to pursue multiple avenues to enhance shareholder value. These include restructuring its manufacturing operations and converting to a REIT. In April the U. S. House of Representatives introduced a measure that seeks to provide companies like Weyerhaeuser

## Stock Searchlight

*Stocks with appealing earnings trends and relatively attractive valuation characteristics are highlighted. Subscribers seeking stocks for the intermediate term may find the list worthy of further study.*

<b>Citigroup (C)</b>	<b>p. 8</b>
<b>eBay (EBAY)</b>	<b>p. 4</b>
<b>EMC (EMC)</b>	<b>p. 5</b>
<b>Exxon Mobil (XOM)</b>	<b>p. 8</b>
<b>Google (GOOG)</b>	<b>p. 3, 4</b>
<b>Microsoft (MSFT)</b>	<b>p. 4, 5</b>
<b>NCR (NCR)</b>	<b>p. 5</b>

tax treatment comparable to that of REITs. Weyerhaeuser stands to benefit from a lower income tax burden if such measure becomes law.

Temple-Inland is making progress with its transformation plan of spinning off two of its businesses and selling its timberland operations. The company plans to complete the process by year-end.

In deal-related activity, Brookfield Asset Management completed the purchase of Longview Fibre Company for about \$2.2 billion including debt. Potlatch is looking to match the sale of its 17,000 acre tree farm in Oregon for \$65 million with purchase of timberlands in Wisconsin to lower tax impact.

**Biofuels.** Weyerhaeuser and Chevron have signed a letter of intent to assess the feasibility of commercializing the manufacture of biofuels from cellulose. The process to produce ethanol and other biofuels from cellulose represents a potential alternative to making biofuels from food sources such as corn.

Companies in the paper & forest products group are making progress in their restructuring efforts. This positive is to a degree offset by the risk of earnings shortfalls at forest product companies where sluggishness in housing presents a threat. We continue to include Fidelity Select Paper & Forest Products in both model portfolios.

## Fidelity Spartan 500 Index Fund

**Eight of the top 10 holdings in the Spartan 500 Index fund gained in April. Stocks in the health care, energy, and technology sectors were stronger performers within the Standard & Poor's 500 Index. Share prices in the consumer discretionary, materials, and telecommunications sectors lagged. In this Report, we look at developments in the financial and energy sectors which collectively represent about 30% of the S&P 500's market capitalization. We also look at developments at General Electric in the context of factors favoring large-cap company earnings.**

**Financial.** Earnings reports from financial service companies reflected strength in capital market-related segments and weakness in retail banking. Banks continued to place emphasis on cost reduction, consolidation, and overseas expansion to push earnings.

Excluding restructuring charges, Citigroup (C-FSMKX) earned \$1.18 a share beating analysts' estimates by 9 cents a share. First quarter revenue increased 15% to a record \$25.5 billion. The biggest U. S. bank increased its loan loss reserves in its consumer division to reflect an increase in second mortgage delinquencies.

Citigroup's much-awaited cost reduction plan resulted in an \$871 million charge against its first-quarter earnings. The bank intends to reduce annual spending by \$4.6 billion during the next three years of which nearly \$2 billion in savings will be realized by the end of this year. Citigroup will eliminate 17,000 jobs or 5% of its workforce. Citigroup shares trade at a forward P/E of about 11 offering close to 4% in dividend yield.

Bank of America (BAC-FSMKX) reported a 5% increase in first-quarter profit as investment banking revenue increased 35% to over-

come the challenges of a weak credit environment. B of A's earnings increased to \$1.17 per share, exceeding analysts' forecasts by 2 cents a share. Revenue increased 3% to \$18.4 billion.

As reported in Scorecard, consolidation continued in the financial service sector with B of A agreeing to buy ABN AMRO's LaSalle unit and Barclays agreeing to buy all other assets of ABN AMRO. The deals face uncertainties from regulatory as well as competitive forces.

B of A and JP Morgan have both agreed to invest \$2.2 billion to take a 24.9% stake in SallieMae after J. C. Flowers completes a leveraged

*The large-cap Standard & Poor's 500 index gained 4.4% in comparison to the 1.8% gain for the Russell 2000, a small-cap proxy. Stronger growth in international markets coupled with a weaker dollar boosted earnings of large-cap companies.*

buyout of the student loan originator. After nearly a year of negotiations, Citigroup is buying Taiwan's Bank of Overseas Chinese for \$426 million to expand its overseas business. B of A has received approval to conduct Chinese currency business in Beijing, a step that should help expand its operations in China.

**Energy.** Crude oil and natural gas prices declined from the year-ago period and lowered earnings from oil and gas production activity. Surging gasoline and distillate prices widened margins for refining and chemical operations. Oil service companies benefited from higher capital spending incurred by state-owned as well as private oil companies,

Exxon Mobil (XOM-FSMKX) earned \$9.3 billion, a 10% increase from the year-ago level. Earnings in Exxon Mobil's refining and marketing segment rose by \$600 million to \$1.9 billion and offset the \$400 million decline in the company's explo-

ration and production segment. Exxon Mobil's per-share earnings of \$1.62 exceeded analysts' forecast by 10 cents. Exxon Mobil shares trade at a forward P/E less than 14.

At Chevron, the benefit from higher refining margins was somewhat muted as utilization at the company's Richmond, California refinery was impacted due to a fire. Earnings gains in Chevron's refining segment were however adequate to offset weakness in the exploration and production segment. Chevron's first quarter net profit of \$4 billion matched last year's tally.

Cashing in on the global rush to find and develop new petroleum reserves, oilfield services heavy-weight Schlumberger reported a 63% jump in first-quarter profit. The company reported 96 cents a share in earnings, over 60% higher than in the year-ago period and 5 cents a share higher than analysts' forecasts. Most of Schlumberger's growth was overseas with revenue in oilfield service operations increasing 28%.

**Large-cap stocks lead.** Reversing the trend seen over the past several months, large-cap stocks fared better than small-cap and mid-cap stocks. The large-cap Standard & Poor's 500 index for example gained 4.4% in comparison to the 1.8% gain for the Russell 2000, a small-cap proxy.

Stronger growth in international markets coupled with a weaker dollar boosted earnings of large-cap companies. Earnings from multinational companies like General Electric and McDonald's reflected the strength of operations in Europe, Latin America, and Asia.

Looking at earnings and developments at General Electric (GE-FSMKX), the conglomerate reported a 6% increase in revenue during the first quarter to \$40.2 billion. The company's strategy of selling power and aviation equipment outside the U. S. is paying off. Revenue from overseas markets

increased 9% to \$19.6 billion as sales in emerging markets surged 14% to \$7 billion.

GE's infrastructure business demonstrated strength. Performance at its plastics, NBC broadcast network, and GE Money mortgage lending unit were weak. General Electric is pursuing its efforts to sell its plastics division. The company is reported to have narrowed the field of bidders. The plastics division is expected to fetch around \$10 billion. Meanwhile, calls from the analyst community for GE to divest NBC and GE Money to unlock value are getting louder.

With overseas economies continuing to grow at a brisk pace and the U. S. currency coming under pressure, we believe large-cap stocks have the possibility of sustaining their leadership vis-à-vis small-cap and mid-cap stocks. We continue to include the Fidelity Spartan 500 Index in the Core model portfolio for diversification purposes.

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

**Equity prices were in a strong uptrend during April. In the absence of earnings reports to continue the tempo, takeover activity remains a catalyst. The possibility of a cut in short-term interest rates looks remote. On balance, we remain cautious in our near-term outlook.**

While the U. S. economy slowed during the first quarter, strong earnings from overseas operations and a weaker U. S. dollar helped S&P

500 member companies trounce earnings expectations. Nearly 70% of the S&P 500 companies reporting earnings beat forecasts.

The stock market was notably strong in April with the DJIA eclipsing the 13,000 level for the first time. Valuation metrics however remain reasonably attractive, thanks to strong earnings. Members of the DJIA on average trade at a P/E ratio of 17.7 compared to 22.5 in October, when the index first climbed above 12,000.

Corporate balance sheets are in good shape. Years of rising earnings and cash flow have enabled corporations to shore up their cash reserves. With liquidity remaining high, corporations and private equity firms have been eager to take over businesses.

Working against these positives, the first-quarter earnings reporting season will begin to wind down in the coming weeks. As excitement from earnings reports ebbs, concerns over housing and inflation may return to the forefront and set the stage for profit-taking.

The housing market continues to remain sluggish. The default rate on loans to less creditworthy borrowers is rising. Moody's has recently revised its loss estimate on sub-prime mortgages made in 2007 to 6% to 8% of loan principal.

Inflationary forces do not appear to be subsiding readily. The ISM's index of prices paid jumped to 65.5 in March, the highest since last August. The rise in the price of oil pushed up prices of imports by 1.7% in March, the most in almost a

### Featured Quote

**'Everyone has the brain power to make money in stocks. Not everyone has the stomach.'**

**Peter Lynch**

year. Meanwhile, increases in the core personal consumption expenditure price index, the Federal Reserve's preferred inflation gauge continue to stubbornly exceed the central bank's comfort range.

With leading U. S. economic indicators suggesting the possibility of a pickup in economic activity during the second quarter, the best-case scenario appears to be one where the Federal Reserve leaves short-term interest rates unchanged for a while.

We remain cautious in our outlook for equity prices in the near-term. 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 periods of strength. None of the sectors or industry groups represented in the model portfolios carries a 'Favored Buy' rating at the present time.

**AlphaProfit Investments, LLC**  
Date: April 30, 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.

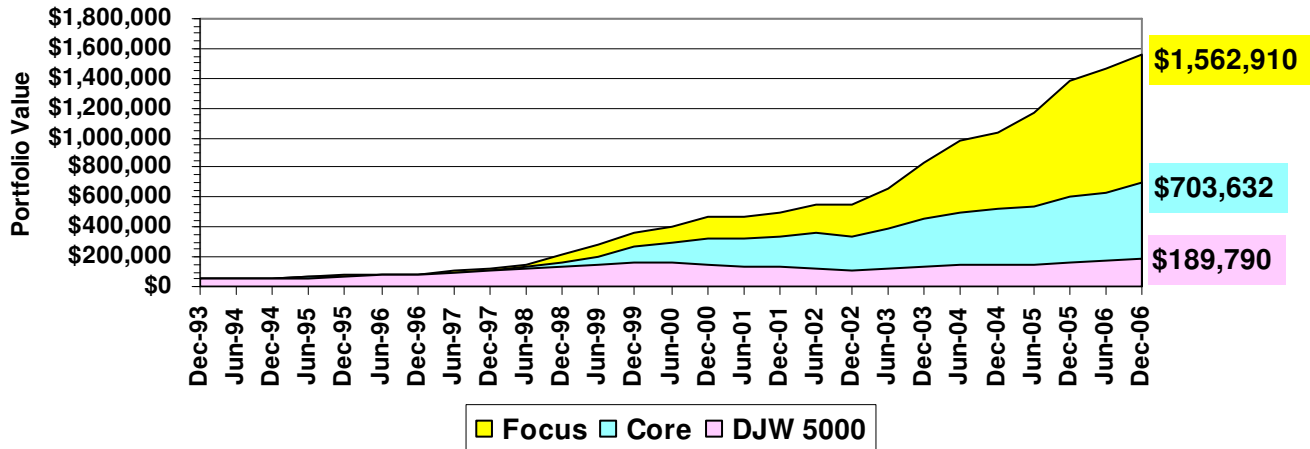
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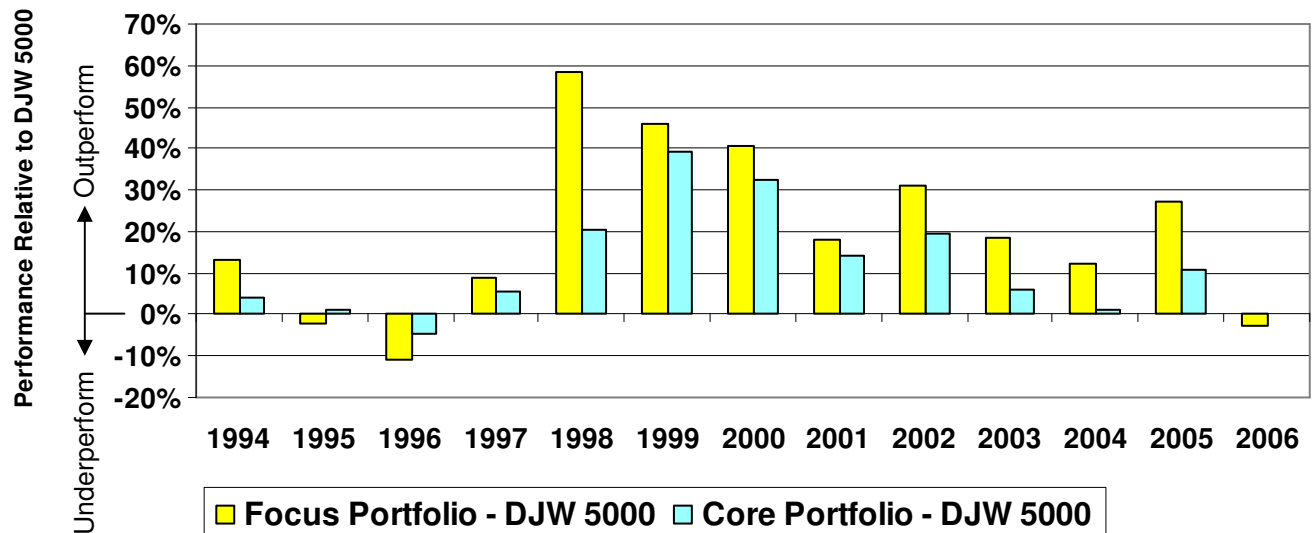
### AlphaProfit Model Portfolio Long-Term Performance

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
<b>Focus</b>	88.4%	210.6%	3025.8%	23.5%	25.4%	30.3%	1.33	1.11
<b>Core</b>	54.6%	109.8%	1307.3%	15.6%	16.0%	22.6%	0.89	1.05
<b>DJW 5000</b>	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
<b>Focus</b>	13.0%	34.2%	10.4%	40.1%	82.1%	69.3%	29.9%	7.1%	10.0%	50.0%	24.8%	33.4%	13.2%
<b>Core</b>	3.9%	37.6%	16.7%	36.7%	44.0%	62.8%	21.4%	3.3%	-1.4%	37.6%	13.9%	17.0%	16.0%
<b>DJW 5000</b>	-0.1%	36.4%	21.2%	31.3%	23.4%	23.6%	-10.9%	-11.0%	-20.9%	31.6%	12.6%	6.3%	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.