



# AlphaProfit™

## Sector Investors' Newsletter



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

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

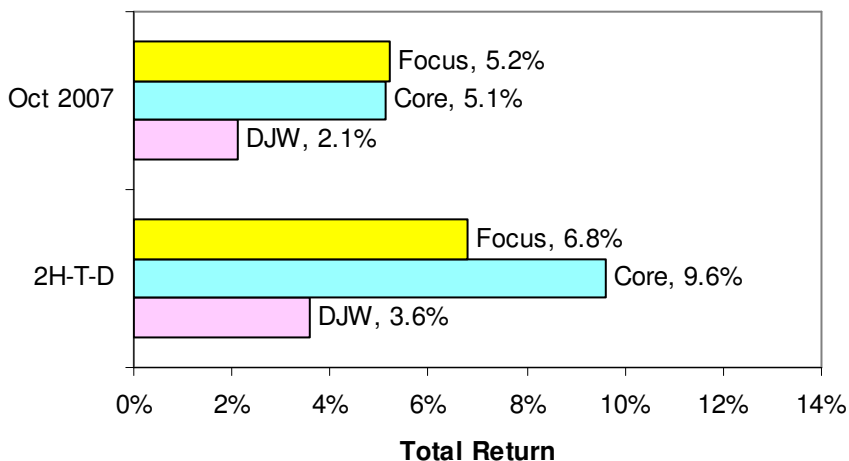
### Scorecard

**The AlphaProfit Core and Focus model portfolios gained 5.1% and 5.2%, respectively in October. The Dow Jones Wilshire 5000 benchmark gained 2.1% in comparison.**

**New high.** An extension of the September rally enabled October to start on a high note. Fears of a

employers added 110,000 workers in September. August jobs data, which had caused much angst, was also revised upward from a loss of 4,000 jobs to a gain of 89,000.

**Jitters.** Third quarter earnings made investors jittery as earnings from the financial sector reflected the strain of a weak housing market. Credit and trading losses on mortgage-backed securities materi-



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credit-market led 'correction' that gripped investors in August faded as the Dow Jones Industrial Average regained the 14,000 level for the first time since late July and set a new record.

Minutes from the Federal Reserve Open Market Committee's meeting and September employment data assuaged concern that the economy was skidding into a recession. The Labor Department stated that

ally pressured results at Citigroup and Merrill Lynch.

Forecast for a recession from Caterpillar's management on October 19, the 20<sup>th</sup> anniversary of the 1987 crash, did not help matters. Concern on disruption of oil supplies from the Middle East pushed the price of oil into record territory as Turkish forces entered Iraq in search of Kurdish rebels.

## Portfolio Composition

### AlphaProfit Focus™ Model Portfolio

The Focus Portfolio was last repositioned at the close of business on June 29, 2007. We are leaving the Focus portfolio unchanged at this time.

Fidelity Fund Holding (Ticker Symbol)	June 29, 2007		October 31, 2007	
	Amount Invested	Percent Portfolio	Value	Percent Portfolio
Automotive (FSAVX)	\$861,343	50.00%	\$882,867	47.98%
Materials (FSDPX)	\$861,343	50.00%	\$957,082	52.02%
Total (rounded to)	\$1,722,686	100.00%	\$1,839,949	100.00%

### AlphaProfit Core™ Model Portfolio

The Core Portfolio was last repositioned at the close of business on June 29, 2007. We are leaving the Core portfolio unchanged at this time.

Fidelity Fund Holding (Ticker Symbol)	June 29, 2007		October 31, 2007	
	Amount Invested	Percent Portfolio	Value	Percent Portfolio
Automotive (FSAVX)	\$116,335	15.45%	\$119,242	14.44%
Gold (FSAGX)	\$68,623	9.11%	\$96,146	11.65%
Materials (FSDPX)	\$116,335	15.45%	\$129,265	15.66%
Soft. & Comp. (FSCSX)	\$75,750	10.06%	\$91,042	11.03%
Spartan 500 (FSMKX)	\$376,159	49.94%	\$389,840	47.22%
Total (rounded to)	\$753,202	100.00%	\$825,535	100.00%

Offsetting these negatives, strong earnings particularly from the technology sector uplifted investor sentiment and enabled the market to hold its own. Technology-titans like Apple, Google, Intel, and Microsoft posted robust earnings reports trouncing analysts' forecasts.

**Halloween treat.** As the month ended, expectation of a Halloween treat from the Federal Reserve increased. The central bank did not disappoint. On October 31, the Federal Reserve reduced its benchmark federal funds rate by 25 basis points to 4.50%. This set off a blistering rally enabling broad market indexes to end the month with healthy gains.

The Dow Jones Wilshire 5000 ended October with a 2.1% gain. From a sector perspective, stock price performance correlated reasonably well with strength of earnings reports. Technology stocks generally performed well while financial stocks lagged. The Al-

phaProfit model portfolios benefited from exposure to software, gold, and automotive stocks. The AlphaProfit Core and Focus model portfolios gained 5.1% and 5.2%, respectively outperforming the DJW 5000 benchmark.

### Major Movers

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

Seven out of ten stocks on the list of top 10 holdings gained in October. Among the top 10 winners, seven were software companies. With small- and mid-cap stocks faring better than large-caps, seven of the 10 bottom performers were S&P 500 titans.

**Kinross shines.** Shares of Kinross Gold (KGC-FSAGX) stood tall with a 31% gain to become the Core model portfolio's top performer. A 6% rise in the price of gold provided a positive backdrop for shares of this gold miner. Optimism that Kinross will soon receive final permits

for developing the Kupol mine in Russia drove the advance for good measure. Meanwhile, Russian miner Polymetal has agreed to buy a 98% stake in the Kubaka gold project from Kinross.

### MasterCard charges ahead.

Shares of MasterCard (MA-FSCSX) that had been shunned after posting a solid second quarter earnings report sprinted energetically after the company posted a stellar third quarter report. MasterCard's third-quarter earnings per share tally of \$1.80 exceeded analysts' forecast by 38 cents a share. Revenue increased 20% to a record \$1.08 billion. With a 28% gain, MasterCard shares were the second best winner among the Core model portfolio's top 10 holdings.

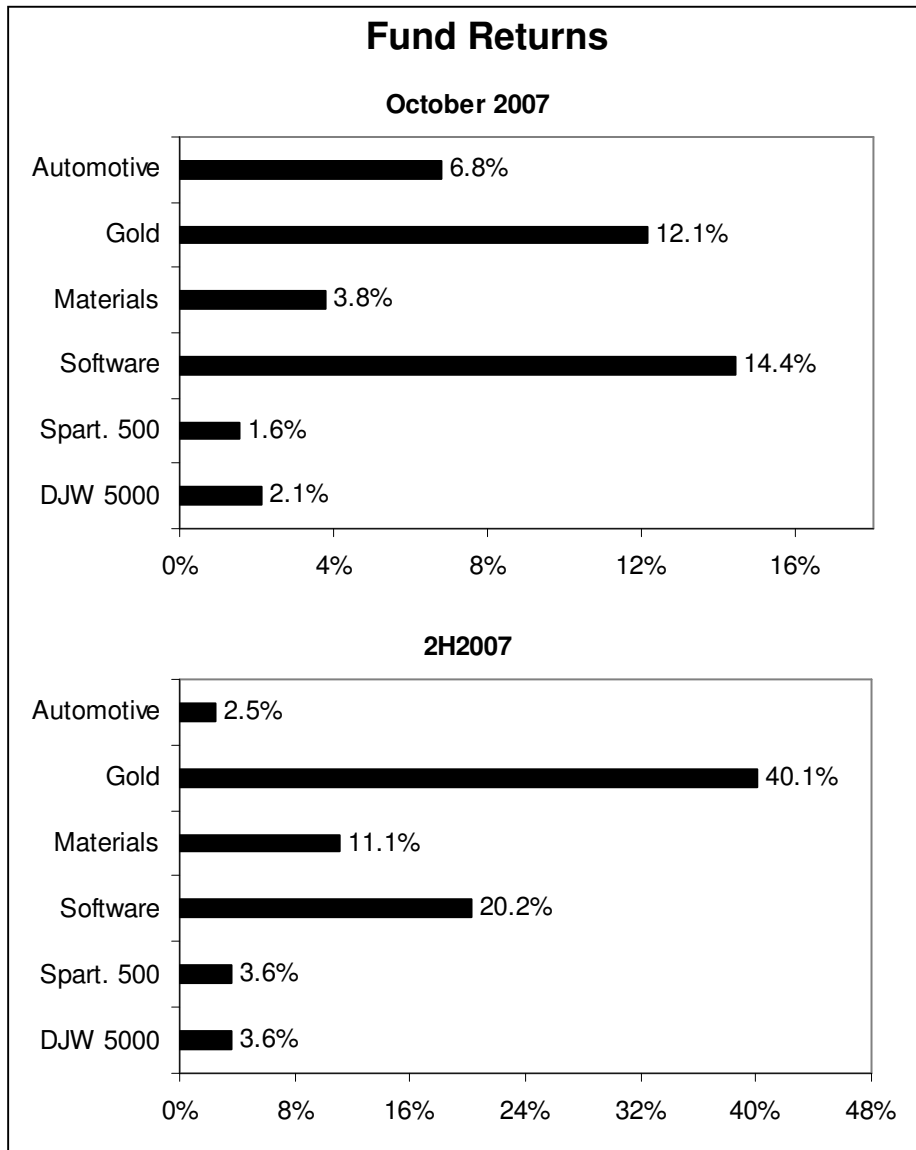
**Citigroup written-off.** Citigroup (C-FSMKX) shares declined over 10% to become the worst performer in the Core model portfolio. Citi reported 47 cents a share in earnings, down nearly 57% from the year-ago period. Results in the financial titan's global consumer and markets & banking segments were materially impacted by higher credit costs and write-downs related to mortgage-backed securities, respectively. Citi's Chairman Charles Prince found himself in an embattled situation with critics calling for his resignation.

**3M ripped.** Shares of 3M (MMM-FSDPX) received a drubbing even after the company's third-quarter per-share earnings exceeded analysts' forecast by two cents a share and the company increased its full-year profit outlook. Investors reacted negatively to 3M's decision to lower the price for its LCD films in the fourth quarter. 3M's full-year revenue forecast fell short of analysts' forecast. 3M shares declined nearly 8% to become the worst performer in the Focus model portfolio.

### Outlook

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

**The economy weathered the late summer credit crunch during the**



### third quarter. Factory activity appears to be slowing since then.

The Commerce Department has reported that gross domestic product increased 3.9% during the third quarter. The Institute of Supply Management's factory activity index declined to 52.0% in September from 52.9% in August. The National Association of Purchasing Management-Chicago's business barometer decreased to 49.7% in October from 54.2% in the prior month. This is the lowest reading for this gauge since February and readings below 50.0% signal contraction.

### Fidelity Select Automotive

**General Motors and Chrysler LLC have renegotiated their labor**

**contracts. Auto part companies are executing well and are targeting overseas markets for their growth. We remove the 'Favored Buy' rating on the automotive group.**

**UAW contracts.** U. S. automakers have made progress in renegotiating their four-year labor contracts with the United Auto Workers. UAW Locals ratified General Motors' (GM-FSAVX) new contract without much opposition. In contrast, Chrysler LLC's new contract was ratified by just over 50% of workers.

GM and Chrysler LLC have agreed to set up union-administered healthcare trusts to cap retiree healthcare obligations. It appears the auto-

makers will fund the trusts at about 70% of the estimated obligation. A two-tier wage system will be instituted where new hires will be paid around \$14 per hour or half the current starting wage of an assembly line worker. The new contracts will enable GM and Chrysler to close the gap in hourly labor costs versus Japanese automakers.

Meanwhile, Ford (F-FSAVX) is in negotiations with the UAW. Ford has already stated that it will push for deeper concessions. Like GM and Chrysler, Ford is looking to set up a healthcare trust.

**Earnings.** Earnings reports from auto part companies were on target for the most part with BorgWarner (BWA-FSAVX) and Goodyear Tire (GT-FSAVX) posting notably strong numbers. Strong global demand for fuel-efficient engines and drive train technology powered BorgWarner's earnings per share to a 66% increase from the year-ago level. The EPS tally of \$1.13 exceeded analysts' forecast by 8 cents a share. BorgWarner expects demand for its dual-clutch transmission modules to remain strong and has refined its full-year earnings forecast to the high end of its prior range.

Excluding one-time items, Goodyear Tire earned 70 cents a share, exceeding analysts' 53 cents a share forecast. The company benefited from its strategy of emphasizing higher-margined premium tires in North America. Strong demand for tires in international markets pushed revenue to record levels in all four international divisions.

Among other auto part companies reporting earnings, Johnson Controls (JCI-FSAVX) and Gentex (GNTX-FSAVX) acquitted themselves well. Johnson Controls reported 78 cents a share in earnings, 26% higher than in the year-ago period. The company expects 2008 revenue and earnings to rise at a double-digit clip. Backed by a 15% increase in revenue, Gentex reported a 24% increase in its earnings per share.

## Top 10 Fund Holdings

Fidelity Investments has reported the top 10 holdings of their funds as of September 30, 2007.

Automotive (FSAVX)	Gold (FSAGX)	Materials (FSDPX)	Software (FSCSX)	Spartan 500 (FSMKX)
Johnson Controls	Lihir Gold	Monsanto	Microsoft	ExxonMobil
General Motors	Goldcorp	DuPont	Google	General Electric
Ford Motor	Newcrest Mining	FreePort McMoRan	Cogn. Tech. Soln.	AT&T
Harley-Davidson	Barrick Gold	Dow Chemical	Oracle	Citigroup
BorgWarner	Gold Fields	Alcoa	Nintendo	Microsoft
Goodyear Tire	Kinross Gold	Praxair	Yahoo!	Bank of America
Autoliv	IAMGOLD	Air Prod. & Chem.	Apple	Procter & Gamble
Gentex	Newmont Mining	Nucor	Satyam Comp.Svcs.	Cisco
Renault SA	Randgold Resources	3M	eBay	Chevron
WABCO Holdings	Agnico-Eagle Mines	Celanese	MasterCard	Johnson & Johnson
<i>73.5% of portfolio</i>	<i>59.1% of portfolio</i>	<i>43.9% of portfolio</i>	<i>67.6% of portfolio</i>	<i>19.7% of portfolio</i>
<i>10.6% foreign</i>	<i>86.0% foreign</i>	<i>5.0% foreign</i>	<i>20.1% foreign</i>	<i>NA</i>

**Fidelity Select Automotive** makes two changes, taking on board mirror manufacturer Gentex and truck part manufacturer WABCO Holdings. American Standard spun off WABCO and the latter became an independent public company on August 1, 2007. To make room for these changes, DaimlerChrysler and Toyota Motor drop from the top 10 list. Foreign companies now account for 10.6% of this fund, down from 14.9%.

There are two changes to the top 10 list of **Fidelity Select Gold**. Channel Islands-based Randgold Resources and Toronto-based Agnico-Eagle Mines take the places vacated by Meridian Gold and Arizona Star Resources. Meridian Gold is in the process of being acquired by Yamana Gold. Foreign companies continue to remain dominant at 86% of the fund's assets. Canadian, South African, and Australian companies account for 46%, 14%, and 8%, respectively.

In the **Fidelity Spartan 500 Index fund**, networking and healthcare titans Cisco Systems and Johnson & Johnson enter the top 10 list while American International Group and Pfizer depart. These changes result from gains and losses in equity market capitalization of the individual companies. Cisco and J&J gained 19% and 7%, respectively in market capitalization during the third quarter while AIG and Pfizer lost nearly 4% each.

**Fidelity Select Software & Computer Services** and **Fidelity Select Materials** show one change each. India-based IT services provider Satyam Computer Services replaces Quest Software in Fidelity Select Software & Computer Services' top 10 list. In Fidelity Select Materials' top 10 list, Dallas-based chemical manufacturer Celanese Corporation replaces Weyerhaeuser.

With all of these changes included, Microsoft is represented in two out of the five funds in the Core model portfolio. There is no overlap of equities among the top 10 lists of the two funds in the Focus model portfolio.

**Industry dynamics.** Continuing the recovery from an abysmal June and July, U. S. auto sales steadied in September. Industry-wide sales gained 1% on a year-over-year basis with GM sales increasing 4%. Ford and Toyota sales declined 18% and 1%, respectively.

GM's third-quarter sales outside of the U. S. accounted for about 56% of total sales, up 14% from a year earlier. GM expects more of its future growth to come from nations like China and Brazil. The company plans to build a \$250 million research centre in Shanghai.

Following the automakers' lead, auto part companies are increasing their presence in emerging economies. Air bag and seat belt manufacturer Autoliv (ALV-FSAVX) has agreed to buy out its joint venture partners in both China and India to convert these entities into wholly owned subsidiaries. Truck part manufacturer WABCO Holdings (WBC-FSAVX) recently opened its first fully owned manufacturing facility in China.

Investors have reacted positively to the progress made by auto companies in negotiating new labor contracts to help improve long-term manufacturing competitiveness. This

coupled with strong earnings reports from selected auto part companies has enabled shares in the auto group to rally. From the time the 'Favored Buy' rating was initiated on August 31 through October 31, Fidelity Select Automotive gained 13.1% compared to a 5.8% gain for the DJW 5000 benchmark.

We now view the automotive group to be as attractive as other groups represented in the model portfolios. We removed the automotive group's 'Favored Buy' rating on October 31. Fidelity Select Automotive continues to be included in both model portfolios.

## 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		
Auto	<b>Fidelity Sel Automotive (FSAVX)</b>	A, F	A, NTF, 30	R, F	A, F	No ETF currently available	
Gold	<b>Fidelity Sel Gold (FSAGX)</b>	A, F	A, NTF, 30	R, F	A, F	iShares COMEX Gold Trust (IAU)	Limited
	Midas (MIDSX)	A, NTF, 90	A, NTF, 180	A, NTF, 90	A, NTF, 90	Market Vectors Gold Min (GDX)	Good
	Prec Met Ultra ProFund (PMPX)	A, NTF, 90	A, NTF, 180	A, NTF, No	A, F	PowerShares DB Gold (DGL)	Limited
	Rydex Precious Metals (RYPMX)	A, NTF, 90	A, NTF, 180	A, NTF, 90	A, F	streetTRACKS Gold (GLD)	Good
	US Glob World Prec Min (UNWPX)	A, F	A, NTF, 180	A, NTF, 90	A, NTF, 90		
Materials	Basic Mat UltraProFund (BMPX)	A, NTF, 90	A, NTF, 180	A, NTF, No	A, F	iShares DJ Basic Materials (IYM)	Limited
	<b>Fidelity Sel Materials (FSDPX)</b>	A, F	A, NTF, 30	R, F	A, F	Materials Select SPDR (XLB)	Good
	ICON Materials (ICBMX)	A, NTF, 90	A, NTF, 180	A, NTF, 90	A, NTF, 90	PowerShares Dyn Bas Mat (PYZ)	Limited
	Rydex Basic Materials (RYBIX)	A, NTF, 90	A, NTF, 180	A, NTF, 90	A, F	Vanguard Materials (VAW)	Limited
Software	<b>Fidelity Sel Soft &amp; Com (FSCSX)</b>	A, F	A, NTF, 30	R, F	A, F	iShares GS Software (IGV)	Limited
						PowerShares Dyn Software (PSJ)	Limited
						Software HOLDRs (SWH)	Limited
S&P 500	Dreyfus S&P 500 Index (PEOPX)	A, NTF, 90	A, NTF, 180	A, NTF, 90	A, NTF, 180	iShares S&P 500 Index (IVV)	Good
	<b>Fidelity Spartan 500 Idx (FSMKX)</b>	N	A, NTF, 90	A, F	A, F	SPDR Trust (SPY)	Good
	Schwab S&P 500 Index (SWPIX)	N	C, F	A, NTF, 30	A, F		
	E*TRADE S&P 500 Index (ETSPX)	A, NTF, 4m	N	N	I, F		

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.

### Fidelity Select Gold

**The rise in the price of gold is enabling gold mining companies to execute on the earnings front. Miners remain acquisitive in pursuit of reserves. Global interest rate trends continue to support a lower dollar.**

**Gold miners.** Even though gold mining companies have to battle escalating costs, the rise in the price of gold is helping them stay on track on the earnings front. Newmont Mining (NEM-FSAGX) reported strong results trouncing analysts' estimate. Excluding one-time items, the gold miner earned 57 cents a share, beating analysts' 32 cents a share forecast. Comparing year-over-year performance, the company realized \$70 more per ounce of gold sold while costs soared \$70 an ounce. For the full

year, Newmont forecasts equity gold sales of between 5.2 million and 5.4 million ounces at cash costs of \$400 to \$430 an ounce.

Excluding currency translation losses, Canadian gold miner Agnico-Eagle Mines (AEM-FSAGX) reported 27 cents a share in earnings, in line with analysts' forecast. The benefit of higher gold price was partly offset by a sharp rise in the Canadian dollar.

Gold miners continue to look to acquisitions to add reserves. Barrick Gold (ABX-FSAGX) is acquiring Arizona Star Resources for \$805 million. The acquisition will provide Barrick majority rights in the Cerro Casale project in Chile. Major mover Kinross Gold (KGC-FSAGX) with a stake in Cerro Casale stands to benefit from the deep pockets of Barrick in funding the project's de-

velopment.

Newmont has agreed to acquire Miramar Mining for \$1.5 billion. Miramar owns the Hope Bay project on Canada's arctic coast, one of North America's largest undeveloped gold properties. Having unwound fixed price gold sale contracts, Newcrest Mining (AU: NCM-FSAGX) and Lihir Gold (LIHR-FSAGX) could well become takeover targets.

**Bullion.** A rise in the price of oil and a slackening U. S. dollar conjoined together to perk up inflation fears and supported a rally in the price of gold. The Turkish incursion into Iraq and massive write-downs taken by financial firms in the U. S. triggered safe-haven buying as well. Gold rocketed \$45 an ounce to close October just shy of the \$800 an ounce level.

Unlike the Federal Reserve that has cut interest rates twice since September, the European Central Bank has chosen to focus more on price stability and left interest rates unchanged. The G-7 finance officials want the Chinese yuan to appreciate further and they do not appear to be concerned about the impact of the depreciating dollar on their nations' economies. Meanwhile, demand for gold from emerging economies remains strong with India alone having consumed 317 tons or one-half of the global mine output during the second quarter.

With the global financial community supporting a lower dollar, the outlook for gold from a multi-week perspective looks favorable. It is conceivable that during its current bull phase, gold may eclipse its all time high of \$875 an ounce set on Jan. 21, 1980.

That said, gold bullion and mining shares have been notably strong in recent months. Fidelity Select Gold, for example, is up nearly 40% since August 31. The onset of mining company earnings reporting season or a pause in Indian gold purchases following the end of the festival season may make gold vulnerable to profit-taking. We continue to include Fidelity Select Gold in the Core model portfolio.

## Fidelity Select Materials

**While chemical companies are benefiting from strong overseas demand particularly in their agricultural segments, gas companies are benefiting from the increase in global manufacturing. Strength in the price of copper is enabling Freeport-McMoRan Copper & Gold to execute well while most other metal companies are feeling the impact of rising production costs and slowing U. S. demand.**

**Chemicals.** International growth offset weak domestic demand and enabled DuPont (DD-FSDPX) to marginally increase its revenue to \$6.7 billion. The chemical giant earned 56 cents a share, 4 cents a share higher than analysts' estimate. Brisk seed sales increased revenue in the company's agriculture and nutrition unit by 21%. DuPont has boosted its 2007 earnings -per-share forecast to the \$3.15 to \$3.20 range and is optimistic on its 2008 outlook. The company has increased its quarterly cash dividend by 11%.

Competitor, Dow Chemical (DOW-FSDPX) reported a 10% increase in revenue to \$13.6 billion. Sales in Dow's agricultural sciences segment increased 19%. Higher taxes in the U. S. and Germany as well as

charges for research and development weighed on the company's bottom line. To downplay market rumors that Dow is in sale or merger discussions, the company clarified that it is open to joint ventures.

Excluding one-time items, Monsanto (MON-FSDPX) reported a 17 cents a share loss during its seasonally weak fourth quarter. Although the company expects first quarter revenue to be higher than in the year-ago period, Monsanto's 2008 earnings forecast fell short of analysts' forecast.

Strong pricing power and favorable impact from currency translation enabled Celanese (CE-FSDPX) to increase its third-quarter earnings by 17%. The chemical manufacturer earned 73 cents a share compared to analysts' 57 cents a share estimate. Backed by strong pricing for its intermediates and solvents products, Celanese raised its full-year earnings outlook to between \$3.10 and \$3.20 a share.

**Gases.** Strong demand for gases in both the merchant and tonnage segments pushed Air Products' (APD-FSDPX) sales 12% higher and enabled the company to earn \$1.17 a share, 3 cents a share higher than analysts' forecast. Supported by continued growth in

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global manufacturing and plans to improve margin by 100 basis points, Air Products is targeting to increase earnings by double-digits in 2008.

Helped by project start-ups in Asia and South America, competitor Praxair (PX-FSDPX) earned 94 cents a share, beating analysts' forecast by 3 cents a share. Revenue rose 12% to \$2.6 billion. Praxair has raised its full-year earnings forecast to around \$3.60 a share.

**Metals.** Per-share earnings at Freeport-McMoRan Copper & Gold (FCX-FSDPX) tallied \$2.52 in the third quarter, well ahead of the \$2.26 a share estimated by analysts. Revenue more than tripled to \$5.1 billion. With copper prices hovering around \$3.50 a pound, Freeport is generating strong cash flow and aggressively paying down debt. The company is also looking to open a new copper mine in Arizona ahead of schedule. Freeport has however hit low-grade ores at its Grasberg mine in Indonesia and expects gold production from this mine to be one-third lower next year.

A weakening trend in aluminum prices pushed Alcoa's (AA-FSDPX) quarterly revenue lower by 3% to \$7.4 billion. Alcoa reported 63 cents a share in earnings, 2 cents a share short of analysts' forecast as rising energy and other production costs reined the bottom-line. To improve operating margin, Alcoa is divesting its underperforming assets and taking an \$845 million charge. Alcoa is increasing its stock-buyback commitment from 10% to 25% of its outstanding shares.

Meanwhile, Nucor (NUE-FSDPX) earned \$1.29 a share, 24% lower than the tally reported in the year-ago period. Nucor's fourth quarter earnings forecast trailed analysts' estimate. Nucor stands to benefit from the U. S. International Trade Commission's extension of tariffs on certain grades of imported steel.

Shares in the materials group generally received a luke-warm re-

## 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.**

Company	Ticker	Price	Est. P/E	Div. Yield	Page
BorgWarner	BWA	\$105.71	21.5	0.6%	3
Celanese	CE	41.96	13.1	0.4	6
eBay	EBAY	36.10	24.2	-	7
Freeport-McMoran C&G	FCX	117.68	12.2	1.1	7
Goodyear Tire	GT	30.15	20.2	-	3
Newmont Mining	NEM	50.90	45.4	0.8	5
Satyam Computer	SAY	30.35	24.9	0.6	8

Source: Reuters

sponse even after posting robust earnings reports. Chemical company shares were unpopular against the backdrop of rising petroleum feedstock costs. Sentiment towards metal company shares dampened on fears that weakness in the housing market will lower demand for such commodities. We believe strength in overseas demand for materials will help metal producers weather softening demand from the U. S. We continue to include Fidelity Select Materials in both model portfolios.

### Fidelity Select Software & Computer Services

**While Google and Microsoft stole the thunder, October was a good month for most software stocks. Strong earnings reports and consolidation activity augur well for the future.**

Starting the month at about \$567 a share, Google's (GOOG-FSCSX) share price cut through two-century marks to end the month at over \$700 a share. Excluding certain items, Google earned \$3.91 a share on \$3.0 billion in revenue with both measures exceeding analysts' estimate. Without outlining specifics, Google has stated that it will focus more on mobile communications in the future. Speculation runs high that Google may introduce a mobile phone early next year.

In other Internet company earnings, Yahoo! (YHOO-FSCSX) announced

better-than-expected results earning 11 cents a share. This in combination with a 'reacceleration' in Yahoo's display ad business provides optimism that the company's turnaround strategy may be working. Excluding one-time items, eBay (EBAY-FSCSX) earned 41 cents a share, up 58% from the year-ago tally as revenue increased 30% to \$1.9 billion. eBay however wrote down the value of its Skype division by \$900 million acknowledging that it overpaid for the acquisition. Meanwhile, eBay's PayPal division continues to grow and the company has increased fourth-quarter and full-year earnings-per-share forecasts.

Microsoft's (MSFT-FSCSX) shares recorded a six-year high as the company dazzled investors with its earnings report. Backed by brisk sales of the new *Halo 3* video game and *Windows Vista* software, Microsoft reported 45 cents a share in earnings, exceeding analysts' 39 cents a share forecast. Revenue rose 27% to \$13.8 billion. After a nearly decade-long battle, Microsoft has settled with European regulators, Microsoft agreeing to the September 17 ruling and dropping challenges.

Backed by strong sales of *iPod*, *iPhone*, and *Macintosh* computers, Apple (AAPL-FSCSX) reported \$1.01 in per-share profits, blowing past analysts' 85 cents a share estimate. To ensure the momentum in product sales continues, Apple has

released the next generation *Leopard* operating system for *Macintosh* computers. The company has also entered into agreements with a host of European wireless service providers to market the *iPhone* in leading markets in the continent.

Nintendo (JP: 7974-FSCSX) continues to shine in electronic entertainment. For the six-month period ending September 30, Nintendo doubled its net profit from the year-ago level as sales more than doubled. While Microsoft and Sony have reduced prices for their *Xbox 360* and *PlayStation 3* consoles, respectively, Nintendo is staying pat with its *Wii* pricing. Nintendo has also upped its profit forecast for the full year.

In enterprise software and services, Indian IT service provider Satyam (SAY-FSCSX) reported a 28% increase in quarterly profit exceeding analysts' per-share earnings forecast. A rising Indian currency however eroded the company's operating margin. Satyam has raised its full-year sales estimate based on strong outsourcing demand.

Germany-based SAP announced that it is buying France-based business intelligence software provider Business Objects for \$6.8 billion. After offering \$6.7 billion for BEA Systems, Oracle (ORCL-FSCSX) let its offer expire when BEA called offers lower than \$8.2 billion inadequate. Rising deal activity has stirred speculation that Cognos and MicroStrategy could become takeover targets.

Viewing software companies as being largely insulated from the housing mess, investors amply rewarded software shares for their stellar performance. With news quality remaining positive, we continue to include Fidelity Select Software & Computer Services in the Core model portfolio.

## Fidelity Spartan 500 Index Fund

**Nine of the top 10 holdings in the Spartan 500 Index fund lost**

**ground in October. Information technology, utilities, and materials stocks within the Standard & Poor's 500 Index were stronger performers. Share prices in financial, industrial, and telecommunication sectors lagged. In this Report, we look at developments in the financial and health-care sectors that account for about 30% of the S&P 500's market capitalization.**

**Financials.** Earnings from banks, mortgage providers, and securities firms reflected the strain of credit trouble. Third quarter earnings for financial firms in the S&P 500 index declined 25% on average.

Bank of America's (BAC-FSMKX) earnings per share dropped 29% from the year-ago period. Excluding one-time items, BofA earned 84 cents a share, 22 cents a share short of analysts' forecast. Losses from bad loans, trading, and write-downs exceeded \$3.7 billion. Profits in BofA's largest business consumer banking declined 16%. Corporate and investment banking profit declined a whopping 93%.

Among other banking institutions, Wachovia reported its first earnings decline in six years taking a record \$1.3 billion in write-downs for bad loans and mortgage-backed securities. Washington Mutual, the largest savings and loan institution, set aside \$967 million to cover bad loans. JP Morgan and Wells Fargo fared better as gains in profits from asset management and hedging helped offset increases in loan-loss provisions.

The world's biggest bond insurer MBIA posted a loss after writing down over \$340 million of securities it guarantees. The company's need to conserve capital has forced it to suspend stock buybacks. Among securities firms, Merrill Lynch reported its biggest quarterly loss in its 93-year history taking a \$5 billion write-down. Merrill's Chairman Stan O'Neal resigned after the earnings debacle.

To help revive the asset-backed

commercial paper market, major mover Citigroup (C-FSMKX), BofA and JPMorgan agreed to form a new fund. The fund will purchase bank bonds and sub prime mortgage debt and improve liquidity in commercial paper markets.

In transaction-related activity, BofA completed the \$21 billion purchase of LaSalle Bank. The purchase helps BofA become a dominant player in the Chicago market. Citigroup is buying 32% of Japanese brokerage Nikko Cordial it does not already own for about \$4.6 billion. Citi plans to merge its retail securities business in Japan with Nikko Cordial.

**Healthcare.** Healthcare companies generally came through with their earnings. Leading medical supplies companies trounced analysts' forecast. While new products boosted Merck's results, Pfizer battled generic competition.

Excluding charges, Johnson & Johnson (JNJ-FSMKX) reported \$1.06 a share in earnings, beating analysts' forecast by 7 cents a share. The results excluded a \$528 million restructuring charge. Higher sales of pharmaceuticals & medical devices and sales generated by businesses acquired from Pfizer contributed to J&J's 13% revenue gain. J&J has raised its 2007 earnings-per-share forecast to the \$4.10 to \$4.13 range.

Other medical supplies companies Baxter International and McKesson reported strong earnings. Baxter, the world's largest maker of treatments for blood disorders, earned 70 cents a share beating analysts' forecast by 4 cents a share. McKesson, the largest U. S. drug distributor posted 82 cents a share in earnings, exceeding analysts' forecast by 10 cents a share. Both Baxter and McKesson have upped their 2007 earnings forecast.

Strong sales of its cervical cancer vaccine *Gardasil* and diabetes drug *Januvia* enabled Merck to report a 63% increase in earnings. The drug maker earned 75 cents a share

and raised its 2007 profit forecast. Pfizer in contrast saw its revenue decline 2% as sales of *Lipitor*, *Zoloft*, and *Norvasc* were hurt by generic competition. The company also took \$2.8 billion in pre-tax charges to terminate its disappointing diabetes drug *Exubera*.

The nation's leading healthcare providers WellPoint and UnitedHealth reported relatively robust results. WellPoint earned \$1.44 a share in line with analysts' forecast and raised its full-year profit outlook to \$5.56 per share. Enrollment increased by 615,000 to 34.8 million members. In contrast, UnitedHealth offset lower enrollment with premium growth to report 95 cents a share in earnings. UnitedHealth raised its 2007 earnings-per-share forecast and increased its stock buyback commitment to 210 million shares or about 15% of outstanding shares.

Losses on shares in the financial sector are offsetting gains from other sectors like technology and keeping a lid on the performance of the S&P 500 index. We believe exposure to defensive groups like healthcare will likely come in handy if economic growth slows. We continue to round off the Core model portfolio with the Fidelity Spartan 500 fund that seeks to track the S&P 500 index.

## Market Outlook & Sector Portfolio Indicator Reading: Buy

**Notwithstanding favorable seasonal factors, we are cautious in our outlook for equity prices as a**

**deteriorating housing market increases the risk of an economic slowdown.**

Equity prices have been relatively strong since September. The Dow Jones Wilshire 5000 index tacked on 2.1% in October to its 3.6% gain in September. The economy has held up quite well against disruptive forces generated from housing market excesses. Continued weakness in housing is however pressuring the broad economy.

The 13-month long decline in home prices accelerated in August as prices in 20 major U. S. cities dropped a record 0.7% during the month. Home prices are down 4.4% in the past year, the highest decline in the seven-year history of the 20-city index. Falling home prices make it difficult for homeowners to take out home-equity loans or refinance mortgages. Additionally, homeowners have found higher mortgage payments on adjustable-rate mortgages onerous and foreclosures have soared.

Consumers are also being pressured by rising gasoline prices. Higher gasoline prices act like a 'tax' sapping disposable income. Consumer confidence indexes tracked by Reuters/University of Michigan and the Conference Board declined in September.

Recent economic indicators suggest that the economy is slowing. The Federal Reserve has been quick to cut short-term interest rates in a bid to stem the housing malaise from undermining the economy.

Meanwhile, third-quarter earnings in

## Featured Quote

**'The mint makes it first, it is up to you to make it last.'**

**Humorist, Evan Esar**

the aggregate are running ahead of analysts' forecast. While a weaker U. S. dollar stokes inflation concerns, a lower greenback should selectively benefit multinational companies and exporters. We believe a recession can be avoided if the Federal Reserve stays ahead of the curve in cutting interest rates.

Given the above backdrop, our enthusiasm for a strong finish to the year is somewhat tempered despite November and December being a seasonally favorable period. While the market can work itself grudgingly higher, volatility is likely to be high. We maintain the AlphaProfit Sector Portfolio Indicator reading at 'Buy'. None of the sectors or industry groups carries a 'Favored Buy' rating.

**AlphaProfit Investments, LLC**  
**Date: October 31, 2007** ■



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

## Fund Facts and News

Fidelity Fund	Ticker	Fund Style	Risk Rating	Manager
Select Automotive	FSAVX	Mid Cap Value	Average	L. Miles
Select Gold	FSAGX	Large Cap Growth	Above Average	J. Wickwire
Select Materials	FSDPX	Large Cap Blend	Average	D. Fischer
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.

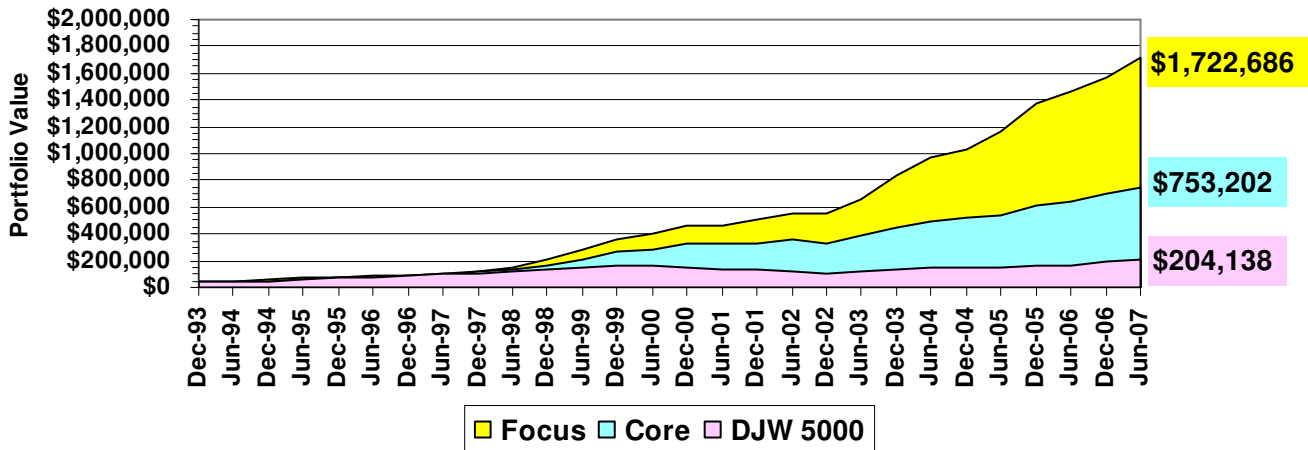
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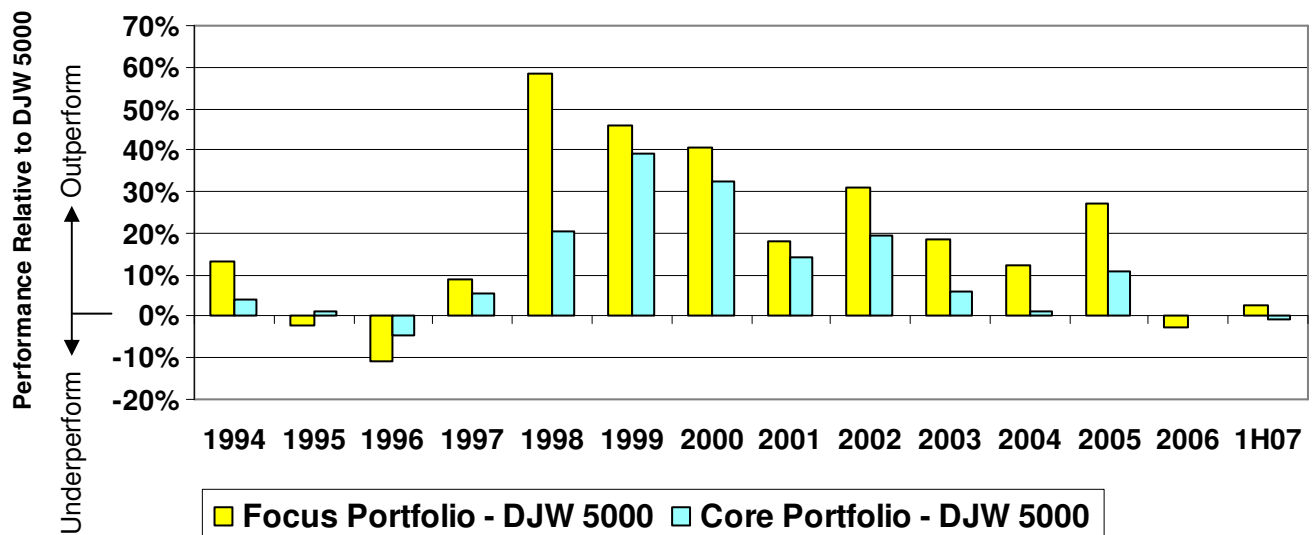
### AlphaProfit Model Portfolio Long-Term Performance

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 June 30, 2007; 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>	76.4%	211.4%	3345.4%	20.8%	25.5%	30.0%	1.30	1.11
<b>Core</b>	50.7%	110.8%	1406.4%	14.6%	16.1%	22.3%	0.87	1.05
<b>DJW 5000</b>	43.6%	76.2%	308.3%	12.8%	12.0%	11.0%	0.63	0.42

	Total Return													
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	1H07
<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%	10.2%
<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%	7.0%
<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%	7.6%



## 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.