



AlphaProfit™

Sector Investors' Newsletter



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Fund Exchanges
Core Portfolio: None
Focus Portfolio: None

AlphaProfit SP Indicator™
Reading: Buy
Favored Buy: FSAVX

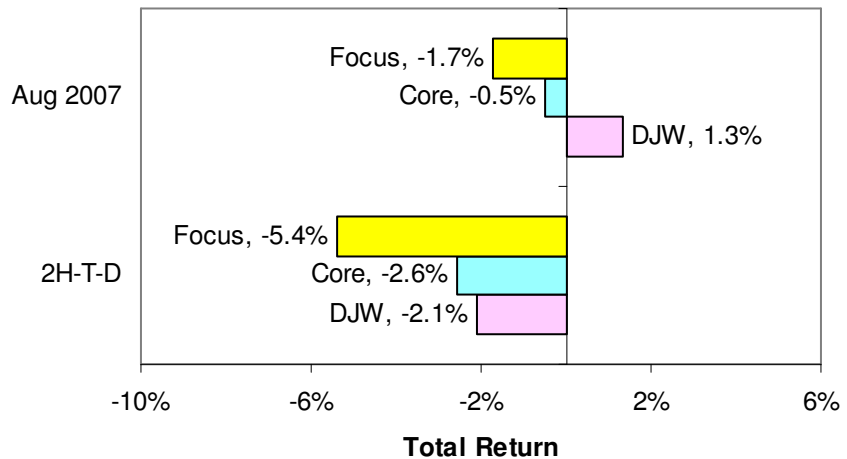
Scorecard

The AlphaProfit Core and Focus model portfolios declined 0.5% and 1.7%, respectively in August. The Dow Jones Wilshire 5000 benchmark gained 1.3%.

Market slides on mortgage mess. The equity market started August on a slippery slope as negative news from the home and home fi-

national dimension with Paris-based BNP Paribas halting withdrawals from investment funds with exposure to U. S. sub-prime loans. The Dow Jones Industrial Average slumped to 12,455 on August 16, over 1,500 points lower than the all-time high set on July 19.

The B's to the rescue. Central banks around the world worked to alleviate the credit squeeze. The European Central Bank started the



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ancing markets continued. Concerns over the solvency of the nation's largest mortgage lender Countrywide Financial increased. Bear Stearns described conditions in the fixed-income markets as their worst in 22 years.

The interest rate spread between high-grade and speculative bonds widened as the availability of credit tightened. The crisis took an inter-

process by lending \$95 billion to European banks. The Federal Reserve as well as central banks of Japan and Canada followed suit in adding liquidity to money markets. On August 17, the Federal Reserve lowered its benchmark discount rate by 0.5%.

On the last trading day of the month, President Bush outlined his plan of letting the Federal Housing

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		August 31, 2007	
	Amount Invested	Percent Portfolio	Value	Percent Portfolio
Automotive (FSAVX)	\$861,343	50.00%	\$780,487	47.88%
Materials (FSDPX)	\$861,343	50.00%	\$849,645	52.12%
Total (rounded to)	\$1,722,686	100.00%	\$1,630,131	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		August 31, 2007	
	Amount Invested	Percent Portfolio	Value	Percent Portfolio
Automotive (FSAVX)	\$116,335	15.45%	\$105,414	14.36%
Gold (FSAGX)	\$68,623	9.11%	\$68,825	9.38%
Materials (FSDPX)	\$116,335	15.45%	\$114,755	15.64%
Soft. & Comp. (FSCSX)	\$75,750	10.06%	\$74,902	10.21%
Spartan 500 (FSMKX)	\$376,159	49.94%	\$369,986	50.41%
Total (rounded to)	\$753,202	100.00%	\$733,882	100.00%

Administration guarantee loans for delinquent borrowers. This plan will allow low- and middle-income borrowers refinance mortgages at favorable rates and avoid foreclosure.

Market swings remain pronounced. The equity market remained volatile and jittery, torn between generally positive earnings reports and negative credit market developments. Reports of merger talks between Ameritrade and E*Trade bolstered investor confidence only to be undermined by comments from Angelo Mozilo, Chief Executive of Countrywide Financial that the housing slump may slow consumer spending and lead to a recession.

Conflicting data on the state of the housing market added to volatility as well. Sales of new homes increased by a higher-than-expected 2.8% in July. Sales of previously owned houses however declined in July to an annual rate of 5.75 million homes, a five-year low. The

Standard and Poor's 500 Index moved in excess of 2% on six of the 23 trading days in August. Daily swings in the S&P 500 exceeded 2% only two times in all of 2006.

Stocks in banking as well as selected technology-related groups fared well in August while gold-related shares were among the weaker performers. From a capitalization perspective, mega-caps performed well as investors sought safety. Capitalization as well as sector weighting factors enabled the Dow Jones Wilshire 5000 index to gain 1.3%. Exposure to gold and automotive groups dragged the performance of AlphaProfit model portfolios lower. The AlphaProfit Core and Focus model portfolios declined 0.5% and 1.7%, respectively.

Major Movers

(Company and fund ticker symbols in parentheses.)

Two out of five stocks in the list of top 10 fund holdings we track

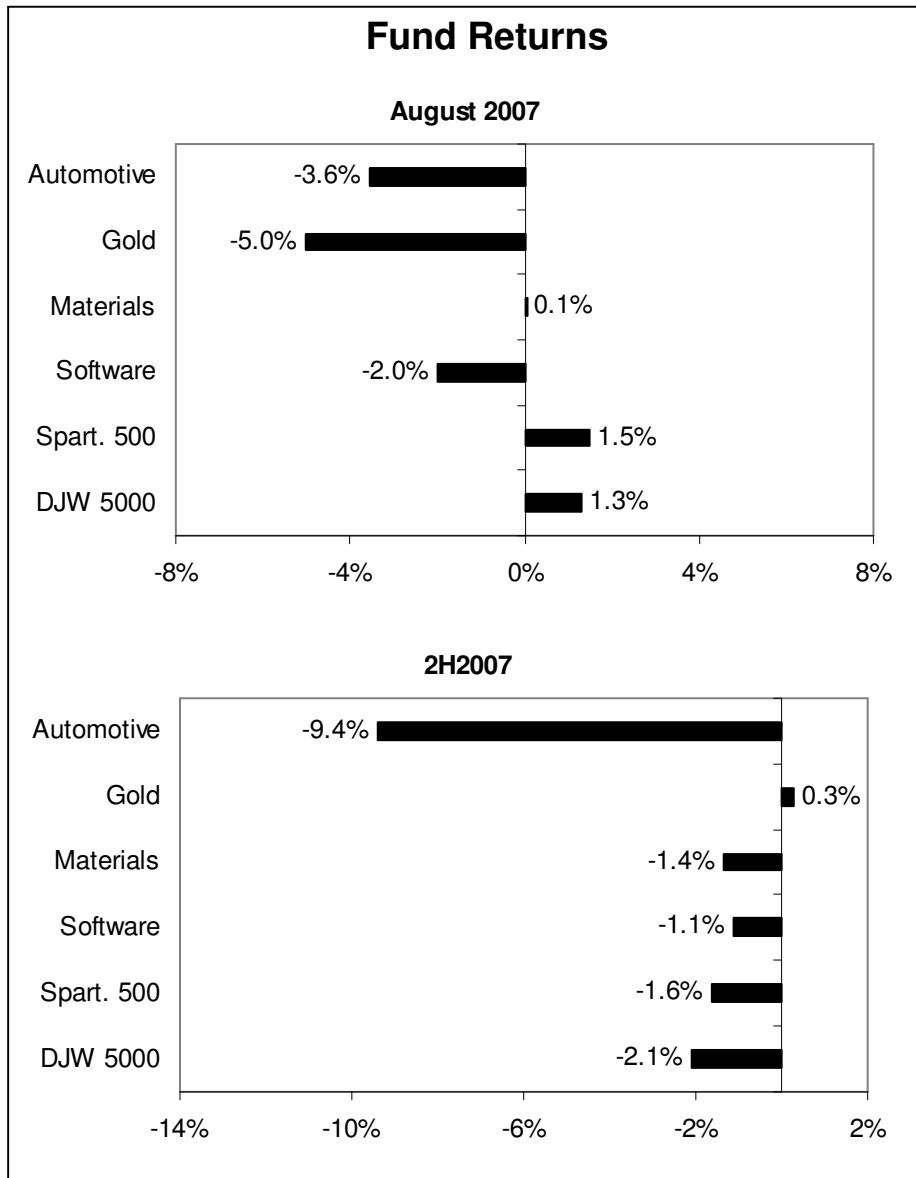
gained in August. Companies in the materials sector as well as heavyweights in the S&P 500 roster acquitted themselves quite well. Gold miners dominated the losers list.

Monsanto motors higher. With an 8% gain, shares of Monsanto (MON-FSDPX) were the top performer in both model portfolios. Investors warmed up to Monsanto's decision to hike its quarterly dividend by 40%. This represented the largest dividend increase in the company's history and signaled confidence in the company's future cash flows. Monsanto also got first-level approval to sell genetically engineered corn seeds in Brazil, the third largest corn-seed market.

S&P 500 titans shine. Mega-cap members of the S&P 500 index scored strong gains with Bank of America (BAC-FSMKX), Pfizer (PFE-FSMKX), and Procter & Gamble (PG-FSMKX) gaining between 5% and 7% each. Investors were quick to react to the benefit banks like BofA enjoy from a decline in short-term interest rates. Relatively plump dividend yields offered by BofA and Pfizer shares and the relative stability of Procter's business attracted investors.

IAMGOLD loses luster. Shares of Toronto-based IAMGOLD (IAG-FSAGX) declined over 20% to become the worst performer in the Core model portfolio. While a 59% increase in gold production enabled revenue to more than double to \$167 million, rising costs reined IAMGOLD's profits. Excluding a relatively large \$94 million impairment charge taken at the Mupine mine in Botswana, the company earned 4 cents a share, 2 cents a share short of analysts' forecast.

MasterCard mauled. Shares of MasterCard (MA-FSCSX) declined nearly 15% to become the second worst performer in the Core model portfolio. Excluding one-time items, the company earned \$1.43 a share, 10 cents a share higher than analysts' estimates. Revenue increased 18% to a record \$997 million as



number of transactions processed increased 15% and gross dollar volume increased 16%. Gross dollar volume in the U. S. increased 9.8%, a rate much lower than that of international volume. Disappointment with growth in the U. S. and concerns over the impact of a weak U. S. housing market on consumer spending prompted momentum investors to dump this high-expectation stock.

Outlook

(Company and fund ticker symbols in parentheses.)

The U. S. economy was in good shape as late as July before revelations of the mortgage-related fallout hit the headlines in full

force. Growth should likely continue at a slower pace in the second half.

The Commerce Department revised its gross domestic product growth estimate for the second quarter to an annualized rate of 4.0% from its prior estimate of 3.4%. The Institute of Supply Management's manufacturing and non-manufacturing indexes for July remained comfortably above the 50.0 threshold suggesting continued expansion. The Conference Board's index of leading economic indicators too advanced 0.4% in July.

As for conditions in August, the New York and Philadelphia Federal Reserve's indexes of manufacturing

declined from their July readings while the National Association of Purchasing Management-Chicago's business barometer rose a tad. Given the vigor in the economy prior to the onset of the credit market-related woes, we suspect this recent turmoil will likely cause growth to moderate rather than derail the economy into a recession.

Fidelity Select Automotive

Automakers face headwinds from weak consumer demand in the U. S. while demand overseas remains strong. Domestic automakers continue to make progress in their turnaround efforts and seek to lower health care liabilities. Toyota reported strong earnings. We upgrade the auto group to 'Favored Buy' based on valuation considerations.

Industry demand. High fuel prices and a slowdown in housing are taking a toll on demand for cars in the U. S. Industry-wide sales in 2007 will likely tally around 16 million units, a 4% decline from the 16.6 million units sold in 2006. Competition in the U. S. truck market is intensifying with Toyota increasing consumer incentives on its revamped *Tundra* in a bid to increase sales.

Demand for cars overseas continues to grow. New passenger car sales in 28 European countries were up 6.7% in July to over 1.3 million units. Car sales in China, the world's second-largest vehicle market, rose over 36% in July to over 450,000 units.

Domestic automakers. Ford (F-FSAVX) expects to return to profitability in 2009 while General Motors (GM-FSAVX) remains on track to cut costs by \$9 billion by year-end. GM has completed the sale of Allison Transmission for \$5.6 billion while Ford continues to pursue the sale of its *Jaguar*, *Land Rover*, and *Volvo* brands.

The current labor contract between Detroit automakers and the United

Top 10 Fund Holdings

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

Automotive (FSAVX)	Gold (FSAGX)	Materials (FSDPX)	Software (FSCSX)	Spartan 500 (FSMKX)
Johnson Controls	Barrick Gold	Monsanto	Microsoft	ExxonMobil
General Motors	Newcrest Mining	DuPont	Google	General Electric
Ford Motor	Meridian Gold	Alcoa	Cogn. Tech. Soln.	AT&T
Harley-Davidson	IAMGOLD	FreePort McMoran	Oracle	Citigroup
BorgWarner	Newmont Mining	Dow Chemical	Nintendo	Microsoft
Goodyear Tire	Lihir Gold	Praxair	Yahoo!	Bank of America
Autoliv	Goldcorp	Air Prod. & Chem.	Apple	Procter & Gamble
Toyota Motor	Gold Fields	3 M	MasterCard	Amer. Intl. Group
Renault SA	Kinross Gold	Nucor	Quest Software	Chevron
DaimlerChrysler	Ariz. Star Res.	Weyerhaeuser	eBay	Pfizer
<i>71.3% of portfolio</i>	<i>66.5% of portfolio</i>	<i>42.0% of portfolio</i>	<i>66.5% of portfolio</i>	<i>19.0% of portfolio</i>
<i>14.9% foreign</i>	<i>83.0% foreign</i>	<i>6.5% foreign</i>	<i>19.1% foreign</i>	<i>NA</i>

Auto Workers is set to expire on September 14. Health care costs are a priority area for the auto-makers to effect savings. The auto-makers collectively have over \$90 billion in unfunded health care obligations. In 2006 GM alone spent \$4.8 billion on health care, an amount assessed to be equivalent to building four new plants or launching six new vehicles.

Given the untenable situation, GM and Ford have proposed establishing a health care trust fund that would be administered by the UAW. The automakers have the potential to increase future earnings if they are successful in funding the trust fund with an upfront payment that is a fraction of the estimated liability.

Foreign car makers. Benefiting from a weaker yen and tight cost control, Toyota Motor (TM-FSAVX) earned \$4.1 billion during its first fiscal quarter. This represents a 32% gain from the year-ago period. Quarterly sales increased nearly 16% to \$55 billion. Toyota sold 2.16 million vehicles worldwide, up 3.4% from a year ago. Sales in North America, Europe, and Asia excluding Japan were strong. Toyota's earnings per share and revenue exceeded analysts' forecasts. Looking ahead, Toyota is forecasting 8.89 million in vehicles sales during its fiscal ending in March

2008. The company expects to earn \$13.9 billion on \$210 billion in revenue.

DaimlerChrysler (DAI-FSAVX) completed the sale of an 80.1% stake in Chrysler to Cerberus Capital Management and retained a 19.9% interest in the new company, Chrysler LLC. Excluding operations sold, DaimlerChrysler earned \$1.9 billion, nearly 20% less than in the year-ago period. Going forward, DaimlerChrysler will be looking to its Mercedes brand to drive earnings. The company expects 2007 vehicle sales to be in line with the 2.1 million units sold in 2006. DaimlerChrysler plans to buy back \$10 billion or nearly 10% of its outstanding shares.

In recent weeks, investors have focused on the outlook for U. S. car demand and bid down auto company shares to levels where valuation metrics are quite attractive. Meanwhile, both company and union managements appear to be working together recognizing what is at stake for the U. S. auto industry. Ford management is optimistic of a deal with the UAW being ratified before the expiry of the current contract. That said, the risk of a strike should not be underestimated. Workers at a GM plant in Lansing, MI have voted to strike if the automaker cannot reach a new contract.

We are now rating Fidelity Select

Automotive 'Favored Buy'. With no pure-play ETFs focusing on the automotive group, ETF investors may buy shares of GM yielding 3.3% to play this 'Favored Buy' recommendation. Possibility of auto sales falling short of expectations and of new labor contracts not being ratified by September 14 represent risks to this recommendation. GM's limited exposure to the mortgage market can also add to near-term volatility.

Fidelity Select Gold

(S. Joseph Wickwire, II took over as portfolio manager of this fund on Aug. 1.)

Earnings reports from gold mining companies were generally on target. Conditions remain favorable for investment and jewelry demand for gold to ramp up.

Mining earnings. Earnings from North American heavyweights Barrick Gold (ABX-FSAGX) and Newmont Mining (NEM-FSAGX) exceeded forecasts. Barrick Gold earned 54 cents a share during the second quarter, beating analysts' forecast by 12 cents a share. Barrick produced 1.96 million ounces of gold at a total cash cost of \$345 per ounce. The company has maintained its 2007 forecast of producing 8.1 million to 8.4 million ounces of gold at total cash cost of \$335 to \$350 an ounce.

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	Fidelity Sel Automotive (FSAVX)	A, F	A, NTF, 30	R, F	A, F	No ETF currently available	
Gold	Fidelity Sel Gold (FSAGX)	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 (GDV)	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 (RYPX)	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
	Fidelity Sel Materials (FSDPX)	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	Fidelity Sel Soft & Com (FSCSX)	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
	Fidelity Spartan 500 Idx (FSMKX)	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.

Excluding one-time items, Newmont earned 24 cents a share, 2 cents a share higher than forecast. Newmont took a massive \$2.1 billion charge to write-down the value of its merchant banking division and to unwind fixed-price gold sale contracts. Newmont is forecasting 2007 gold sales of 5.2 million to 5.6 million ounces at total cash cost of \$375 to \$400 an ounce.

In other earnings reports, Kinross Gold (KGC-FSAGX) and Newcrest Mining (AU:NCM-FSAGX), bettered analysts' forecasts. Cost increases stemming from the takeover of Bema Gold caused Kinross' second quarter profit to decline 19% from the year-ago level. Newcrest expects gold output this year to increase 19% to around 1.8 million ounces.

Major mover IAMGOLD (IAG-FSAGX) and Gold Fields (GFI-FSAGX) disappointed with their

earnings. Gold Fields' per share earnings fell short of forecasts as the company posted a 9.6% decline in fourth quarter profit due to higher taxes and depreciation. A series of accidents impeded Gold Fields from improving production at its South Deep mine in South Africa, the world's biggest gold deposit.

Bullion. Gold gained a modest \$2.80 to close the month at \$675.80 per ounce after trading as low as \$652.20 an ounce. The yellow metal's response to recent credit market-related turmoil has been disappointing. Losses from mortgage market-related investments have led some institutional investors to take money out of gold to meet redemptions and to invest in relatively safer assets, such as U. S. government bonds.

The case for including gold as part of diversified portfolios remains intact. Troubles in the housing and

credit markets will likely cause growth to slow in the U. S. The Federal Reserve has lowered short-term interest rates and additional easing is likely to follow. Falling interest rates may make dollar denominated short-term debt securities less attractive to foreign investors and thereby put pressure on the U. S. currency. A weakening U. S. dollar has often prompted investment demand for gold to increase.

The near-term outlook for jewelry demand appears favorable. India's gross domestic product increased at a higher-than-expected 9.3% during its fiscal first quarter ending in June. As such, the upcoming wedding season could foster robust jewelry demand from India. We remain favorably inclined in our outlook for gold and include Fidelity Select Gold in the Core model portfolio.

Fidelity Select Materials

Chemical and gas companies are executing well. Aluminum and steel companies are moving forward with acquisitions. While the credit crunch has caused investors to turn cautious on the materials sector, demand for materials from BRIC nations should continue to remain strong.

Chemicals and gases. DuPont (DD-FSDPX) has reaffirmed its 2007 earnings forecast of \$3.15 per share. The company expects its agriculture and nutrition businesses to help increase revenue and pretax operating income by 10% and 20%, respectively. The company plans to make additional investments in its seed business while restructuring its crop protection and nutrition businesses.

Air Products & Chemicals (APD-FSDPX) continues to benefit from growth in China's materials industry. The gas manufacturer has signed new long-term contracts with Chinese syngas and steel manufacturers to supply gaseous oxygen and nitrogen.

Aluminum. Rio Tinto's \$38 billion purchase of Canadian aluminum producer Alcan is moving forward. The Canadian Competition Bureau has approved the transaction. The

deal has also received clearance from the U. S. Federal Trade Commission and the province of Quebec.

Alcoa (AA-FSDPX) is working to exit the soft-alloy business that makes engineered aluminum products. The company is selling its two remaining U. S. soft-alloy extrusion plants and closing its Georgia plant.

Steel. Steel prices appear to be climbing back after declining for nearly nine months. As inventories get leaner, steel makers like Nucor (NUE-FSDPX) and AK Steel are trying to push price increases through on selected grades of steel.

Nucor has completed the acquisition of Magnatrx for \$280 million. Magnatrx provides custom-engineered metal building systems for the North American non-residential construction market. U. S. Steel is buying Canada's Stelco for \$1 billion. This purchase is expected to strengthen U. S. Steel's position as a supplier of flat-rolled steel products.

Paper. Excluding one-time items, Weyerhaeuser (WY-FSDPX) earned 48 cents a share, exceeding analysts' 39 cents a share forecast. Earnings in the company's wood-product and timberland businesses declined from the year-ago period

as weakness in the housing market pressured product demand and prices. Companywide sales declined 11% from the year-ago level to \$4.3 billion.

Weyerhaeuser is considering alternatives including sale of its containerboard, packaging and recycling business. The company expects weakness in the housing market to pressure its wood-products business during the third quarter while earnings improve in its fibers and packing operations.

Commodity prices. Industrial metals such as copper and aluminum as well as shares of companies that produce them have trended lower in recent weeks. Investors fear that a downturn in the U. S. credit market may derail global growth and stall acquisition activity. The credit crunch can potentially reduce the amount of financing available for construction projects and corporate acquisitions. The M&A premium embedded in the shares of potential takeover targets like Alcoa has come off. Additionally, institutional investors hurt by losses in the sub-prime lending market have liquidated metals and metals-related holdings to raise cash.

We see this decline as more of a correction in an ongoing bull market. Sustained development of

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

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BRIC nations including China and India will require massive investments in infrastructure. In late August, Australia-based mining titan BHP Billiton stated that volatility in the U. S. credit market will not have a marked impact on raw material demand and provided an upbeat outlook for the rest of 2007.

Deals in the materials sector that were announced prior to revelations of U. S. credit market-related losses are on track to be completed. While tight credit markets conditions can lead to a moderation in M&A activity in the near-term, interest in such activity should likely be rekindled when the smoke clears and risk appetite increases. We like the prospects for the materials sector and include Fidelity Select Materials in both model portfolios.

Fidelity Select Software & Computer Services

Share prices in the service provider space were weak in August. Internet companies are enhancing their services and introducing new offerings to fiercely battle with each other. Software companies continue to tuck in acquisitions.

Share price performance of service providers MasterCard (MA-FSCSX) and Cognizant Technology (CTSH-FSCSX) was a sore spot in the software space. Shares of Cognizant were down nearly 9% in August, a showing hardly justified by the company's second quarter report card. The IT services provider earned 54 cents a share, topping analysts' forecast by 2 cents a share. Revenue increased 53% to \$517 million, exceeding forecasts. A rising Indian rupee crimped operating margin to 19.4% from 20% in the year-ago period. Auguring well for the future, Cognizant has upped its third quarter as well as full year earnings per share forecast. The company also plans to invest an additional \$100 million in expanding its infrastructure in India.

Internet companies are looking at

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
Amer. Intl. Group	AIG	\$66.00	9.9	1.2%	8
Barrick Gold	ABX	32.52	21.8	0.9	4
Cognizant Tech.	CTSH	73.51	33.0	-	7
MasterCard	MA	136.99	27.7	0.4	2
Newmont Mining	NEM	42.26	48.6	0.9	4
Toyota Motor	TM	115.68	11.6	1.7	4

Source: Reuters

new ways of generating revenue. To battle Google (GOOG-FSCSX) and Microsoft's (MSFT-FSCSX, FSMKX) MSN service more effectively in local online advertising, Yahoo! (YHOO-FSCSX) has given its Yahoo! Local service a refresh. The new design seeks to invite more user-generated content. Amazon has confirmed that it will introduce a Flexible Payment Service similar to eBay's (EBAY-FSCSX) PayPal service. Google is selling expanded online storage, aimed at users with large picture, music or video file collections.

Microsoft has completed its \$6 billion acquisition of Web advertising firm aQuantive. Google is waiting for regulatory approval of its proposed \$3.1 billion purchase of DoubleClick. To increase its share in the Chinese search market dominated by Baidu.com, Google has acquired a stake in a Chinese community Web site Tianya.cn.

In enterprise software, titans Oracle (ORCL-FSCSX) and SAP are at loggerheads. Oracle is alleging that SAP illegally downloaded copyrighted materials. While SAP is looking to put this issue behind quickly through mediation, Oracle appears intent on maximizing negative publicity on SAP. Meanwhile, database and applications provider Quest Software (QSFT-FSCSX) is acquiring ScriptLogic for \$90 million. ScriptLogic provides systems lifecycle management solutions.

In the consumer space, sales of Apple's (AAPL-FSCSX) iPhones

are off to a reasonable start. The company expects to sell more than 730,000 units during the third quarter. Apple appears to be in discussions with leading European phone service providers to develop revenue sharing deals similar to one agreed to with AT&T.

The software space is relatively immune to travails originating from the mortgage market. The upward revision in second quarter GDP augurs well for business spending on software and services. IT service providers that derive substantial portions of their revenue from the financial services industry may however be a tad vulnerable to IT budget cuts. Countering this negative, ongoing consolidation in the software group offers value creation opportunities for investors. 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 gained in August. Technology, financials, and consumer staples stocks within the Standard & Poor's 500 Index were stronger performers. Share prices in materials, telecommunications, and industrials sectors lagged. In this Report, we look at developments in the financial and consumer staples sectors which account for about 30% of the S&P 500's market capitalization.

Financials. Companies in the financial service group occupied the headlines on mortgage-related woes. Some of the proposed transactions appeared to be in jeopardy. American International Group (AIG-FSMKX) came through with its earnings.

Several leading banks including Wells Fargo and Wachovia limited mortgages to some of their more creditworthy borrowers as worries about U. S. homeowner defaults increased. The regulator for Fannie Mae and Freddie Mac rejected requests to allow the government-chartered firms to buy home loans in excess of the \$1.4 trillion cap to try to ease the credit crunch.

Mortgage lenders like Countrywide Financial announced massive layoffs. To help Countrywide weather problems and prevent further losses from hurting the economy, Bank of America (BAC-FSMKX) invested \$2 billion in Countrywide Financial's preferred stock.

The purchase of Accredited Home Lenders by private-equity firm Lone Star ran into trouble after AHL's fortunes were materially impacted. AHL sued Lone Star alleging breach of merger obligations after the latter walked away from the transaction. Lone Star lowered its offer for AHL from \$15.10 a share to \$8.50 a share in an attempt to keep the transaction alive and settle the lawsuit.

The \$25 billion buyout of student loan manager SLM Corp. faces uncertainty. SLM shareholders have agreed to sell the company to a group that includes J.C. Flowers & Co., Bank of America and J.P. Morgan Chase. Congress has approved bills aimed at cutting subsidies to student loan providers. Following this adverse development, the buyer group has threatened to scuttle the deal.

Meanwhile, Citigroup (C-FSMKX) announced that it completed its previously announced acquisition of BISYS for nearly \$1.4 billion. Citigroup has also agreed to sell its

retail banking and brokerage business in Puerto Rico to Popular.

In earnings news, American International Group posted a strong report card. The insurance titan reported a 34% increase in second quarter net income. The company reported earnings of \$1.77 per share exceeding analysts' \$1.61 a share forecast. AIG's property & casualty and life insurance businesses did well reporting operating incomes of \$3.0 billion and \$2.9 billion, respectively. The company's mortgage guaranty and consumer finance units were hurt by weakness in the housing market.

AIG remains comfortable with the size and quality of its mortgage investment portfolios. Chief Executive Martin Sullivan stated 'We continue to be very comfortable with our exposure to the U. S. residential mortgage market, both in our operations and our investment activities.' AIG believes that home values will have to decline over 30% to dent the market for higher-rated mortgages the insurer holds.

Consumer staples. Earnings reports from consumer products companies were mixed. Rising raw ma-

terial costs and competition added to the challenges faced by consumer product companies. Consumers battled macroeconomic headwinds in the form of higher gasoline costs and interest rates.

Brisk sales of new products such as *Gillette Fusion* razors, *Crest Pro-Health* toothpaste, and *Tide Simple Pleasures* laundry detergent enabled Procter & Gamble (PG-FSMKX) to report a 19% increase in its fiscal fourth-quarter profit. The company earned 67 cents a share, up from 55 cents a share earned in the year-ago period as sales rose 8% to \$19.3 billion.

Procter will likely sell some underperforming product lines amid growing competition. The company's batteries, coffee, and snack businesses that include *Duracell*, *Folgers*, and *Pringles* brands may be divestiture targets. The company expects to earn between 88 cents and 90 cents a share in the next quarter as sales increase 8%. Procter plans to spend between \$24 billion and \$30 billion buying back 12% to 15% of its outstanding shares over the next three years. This represents a substantial in-

Q & A

How do you select sectors and industries for the model portfolios? How long do you hold them?

AlphaProfit applies the ValuM investment process to select sectors and industry groups for the model portfolios. We evaluate sectors and industry groups on three metrics, valuation, momentum, and news quality.

Since momentum is used to identify sectors and industries gathering strength, one may get the impression that our investment process relies solely on following trends. The two other evaluation metrics, valuation and news quality help us better manage risk while ensuring that the strength of the sector or industry group is likely to endure.

We construct the model portfolios using favorably ranked sectors and industry groups while considering investment objective, risk, and diversification.

We continue to include the selected sectors or industry groups in the model portfolios as long as the investment thesis remains valid. We may include some sectors and industry groups for periods of one year or longer. In some cases, our selections turn out to be the best performers for the holding period.

Past performance is neither an indication of nor a guarantee for future performance. This content is for information purposes only. It is not investment advice and is not directed at any particular Subscriber. AlphaProfit does not seek to know your specific investment objectives, financial situation, or particular needs and is not soliciting you to execute any trade.

crease from the \$5.6 billion Procter used towards buybacks in fiscal 2007.

Wal-Mart continued to struggle as higher fuel costs and interest rates hurt sales in the U. S., Canada, and Mexico. The retailing giant reported 72 cents a share in earnings, 4 cents a share short of analysts' forecasts. U. S. same-store sales increased just 1.2% in the company's namesake division. Sales of low-margin items like groceries were strong while sales of higher-margin goods like clothes were weak. The retailer is forecasting third-quarter earnings of 62 cents to 65 cents a share, lower than 68 cents a share expected by analysts.

Altria Group, the world's largest tobacco company, plans to separate its domestic and international businesses. The breakup of the parent company into the faster growing Philip Morris International and slower growing Philip Morris USA will allow the separate companies to pursue independent growth paths. Investors also see Philip Morris International as an entity with lower litigation risks. The company will decide on the timing of this breakup during its January 30, 2008 board meeting.

The large-cap universe remains attractive vis-à-vis mid- and small-cap stocks from a risk-reward perspective. This characteristic can come in handy during troubled times. With limited number of industry groups worthy of over-weighting, we include the Fidelity Spartan 500 Index Fund in the Core model portfolio to provide reasonable diversification across sectors.

Market Outlook & Sector Portfolio Indicator

Reading: Buy

While investors have reacted positively to the 0.5% cut in the Federal Reserve's discount rate, negative headlines from the housing market and likelihood of the credit crunch slowing economic growth pose risks in the near-term.

Following the tumultuous two weeks in August, equity markets stabilized when central banks from several industrialized nations increased liquidity and the Federal Reserve cut its discount rate by 0.5% to 5.75%.

In bidding up equity prices, investors increasingly began to discount further cuts in short-term interest rates. Investors are expecting the Federal Reserve to cut its federal funds overnight bank lending rate by 0.25% or 0.5% when the central bank's Open Market Committee meets next on September 18.

We believe several risks persist in the near-term. First, the housing market remains in the doldrums. The National Association of Home Builders' sentiment gauge dropped to its lowest level since early 1991. In July, the number of U. S. homes in the foreclosure process increased 93% on a year-over-year basis. As such, the housing market presents headline risks.

Second, the recent turmoil in the credit and home finance markets will hurt U. S. economic growth in the second half of 2007. As the impact gets unraveled over time, economic data are likely to be choppy with some data portraying a more pessimistic picture than others.

Featured Quote

'Experienced investors will tell you there's no ideal time to buy investment and, if there was, most people only recognize it with hindsight.'

Annette Sampson

Third, investors may also have to deal with some disappointments in terms of the magnitude and timing of interest rate cuts put in place by the Federal Reserve.

Looking beyond the near-term, we take some comfort in the fact that central banks around the world appear to be reasonably coordinated and determined in maintaining the global economy on its growth path. The Federal Reserve has stated that it stands ready to cut interest rates should they become necessary. The recent moderation in inflation is a welcome development in this regard since it allows the Federal Reserve to focus on letting the economy grow rather than fighting inflation.

All said, we believe investors putting capital to work during this choppy phase will likely be rewarded in the period ahead. We maintain the AlphaProfit Sector Portfolio Indicator reading at 'Buy'. Valuation considerations prompt us to upgrade the automotive group to 'Favored Buy'.

AlphaProfit Investments, LLC
Date: August 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	Large Cap Value	Average	L. Miles
Select Gold	FSAGX	Mid Cap Growth	Above Average	J. Wickwire II
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:

Joseph Wickwire, II has taken portfolio management responsibilities for Fidelity Select Gold from Daniel DuPont.

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.

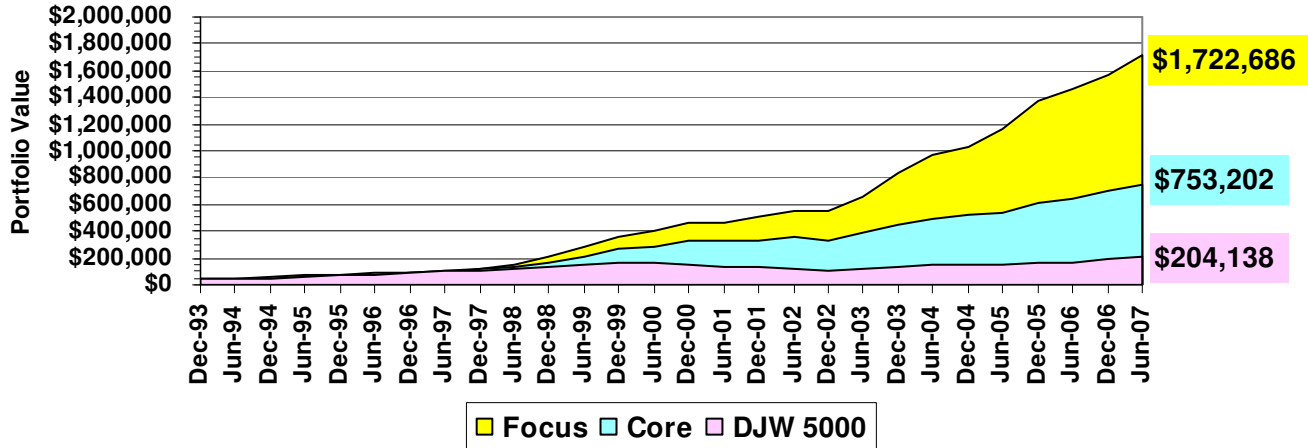
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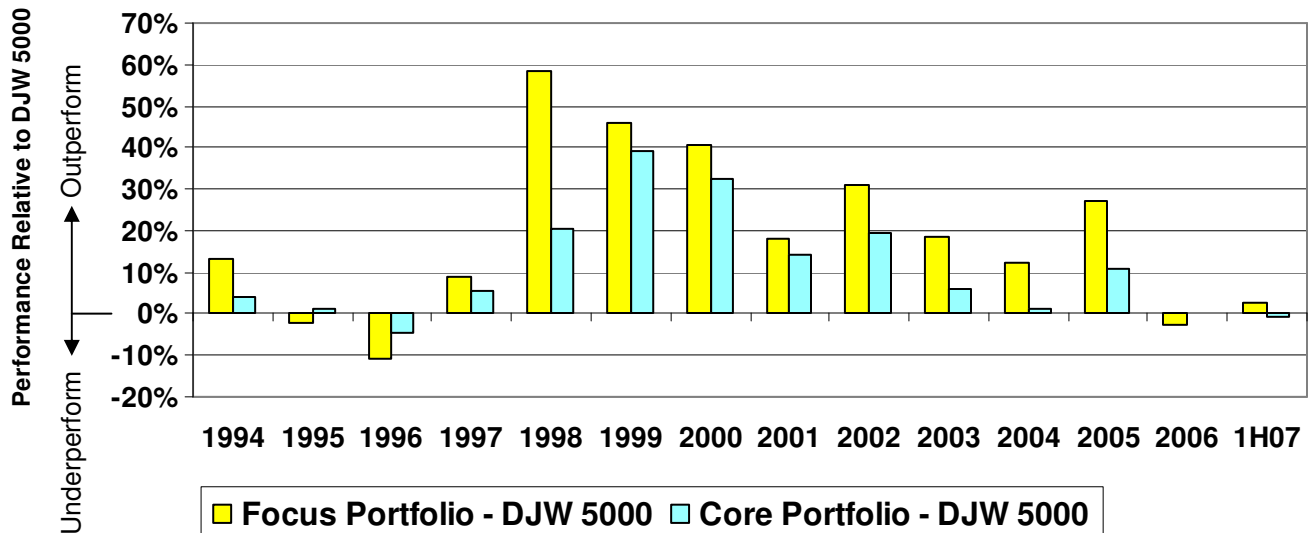
AlphaProfit Model Portfolio Long-Term Performance

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
Focus	76.4%	211.4%	3345.4%	20.8%	25.5%	30.0%	1.30	1.11
Core	50.7%	110.8%	1406.4%	14.6%	16.1%	22.3%	0.87	1.05
DJW 5000	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
Focus	13.0%	34.2%	10.4%	40.1%	82.1%	69.3%	29.9%	7.1%	10.0%	50.0%	24.8%	33.4%	13.2%	10.2%
Core	3.9%	37.6%	16.7%	36.7%	44.0%	62.8%	21.4%	3.3%	-1.4%	37.6%	13.9%	17.0%	16.0%	7.0%
DJW 5000	-0.1%	36.4%	21.2%	31.3%	23.4%	23.6%	-10.9%	-11.0%	-20.9%	31.6%	12.6%	6.3%	15.9%	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.