

The Return of Small Cap Growth?

One of the dominating features of the U.S. stock market since the bubble burst in 2000 has been the outperformance of value stocks as compared to growth stocks. This is especially true for the recovery off the December 2002 low for the market when the Russell 3000 Value Index outperformed the Russell 3000 Growth Index by 21%.

The dominance of value has been particularly true for the large cap universe, but has held as well for the small- and mid-cap universe. But that has been changing over recent months. Take a look at any of our recent fund recommendation lists and you will see the list dominated by small- and mid-cap growth funds. Some funds that we haven't seen for months near the top, such as T.C.W. Galileo Small Cap Growth and T. Rowe Price New Horizons, are showing up in a leading position on the list. In terms of our fund selection list, small-cap growth has made a comeback.

The Methuselah rally

In some ways this performance has come as a surprise. The surprise is not so much that growth is outshining value but that small caps, growth or value, are continuing to perform.

John Laporte is the long-time manager of the T. Rowe Price New Horizons Fund which is a small-cap stock fund investing in both growth and value stocks. Laporte is both a portfolio manager and an astute student of the small-cap universe. He warns, and has warned previously, that the small-cap outperformance over large caps is getting long in the tooth.

As he writes in the 2005 annual report for his fund, "for small-cap investors, the pressing question is: how much longer will smaller companies continue to match or outperform their larger-cap brethren?...we believe that we are in the late stages of this cycle, which began in April 1999. The

length of the current cycle, now approaching seven years, is longer than the historical average of five to six years...."

As a further observation, Laporte notes that small-caps "relative valuations are not very compelling." "When compared with the S&P 500s P/E ratio, the New Horizons Fund's P/E is at its highest relative level in two decades."

Recognize that Laporte is talking about the entire small-cap universe, value as well as growth. When it comes to value vs. growth, Laporte said elsewhere that small-cap growth "looks very attractive relative to small-cap value."

Mid-caps?

Laporte's caution should be taken seriously. On the other hand, as our fund list shows, growth is making a comeback. It may be that while small-cap growth is getting all the ink, the actual comeback is occurring in mid-cap growth, which is often lumped together with small-cap growth.

As with small caps, mid-cap value outperformed mid-cap growth for the five years ending last September 30th. Investors have run away from mid-cap growth while running to mid-cap value. The result is that in the mid-cap universe the premium for growth relative to value is as low as it has been for many years.

It is clear from our fund list that mid-cap growth stocks have not slipped under the radar, as you would expect. There are more mid-cap growth funds leading the way than we can remember in a long time.

Unlike the case with small caps it appears that valuations in the mid-cap area are more reasonable. Commenting on his universe, Brian Berghuis, manager of the T. Rowe Price Mid-Cap Growth Fund, pointed out that mid-caps have been outperforming large-caps for six years and consequently valuations have caught up. Even so he says, "Mid-caps have been growing faster and their balance sheets are better." He is reasonably constructive on the outlook for his sector.

What's driving growth stocks?

The driver behind the revival of growth (small- or mid-cap) is technology followed by health care. Business capital spending, which has been relatively sluggish in this recovery, has finally picked up and is expected to show a good increase this year. In turn, about 45% of business investment is spent on technology. What we have been seeing is the stepup in investment working its way through to technology firms.

Earnings, for growth companies, appear to be growing rapidly in the small and mid-cap sectors. We should correct ourselves and say *earnings estimates* call for rapid growth. The growth portfolio managers we have listened to

(continued on page 2)

Market Trends

	Trailing 12-Mo Trend	Forward 6-Mo Estimate
Economy	Higher	Higher
Interest Rates	Higher	Higher
Dollar	Higher	Flat/Lower
Inflation	Higher	Flat/Higher
Dow	Flat	Higher
NASDAQ	Higher	Higher
Europe	Higher	Higher
Japan (Nikkei)	Higher	Higher
Hong Kong (Hang Seng)	Higher	Higher

(continued from page 1)

in recent conference calls are throwing out big numbers for estimated earnings of their portfolios.

We have been cautious about the outlook for earnings in the U.S. this year. It may well be that the overall profit numbers, dominated by large caps, are masking the more rapid growth of the smaller company universe.

Market Corrections

The market opened up this year with a bang. Then came February. Just as rapidly as our funds had gone up, so they came down. The darlings of January turned into the Furies of February.

It was not the case that one or two of the favored groups of January sold off earlier this month. Everything went, right across the board. Emerging markets, natural resources, Japan, domestic growth funds, they all slid together.

Did anything trigger this universal flight from last month's winners? Not so far as we could see. There have been no particular concerns this month that we did not have last month. Yes, energy prices tumbled, notably natural gas. While that was a negative (short-term) for natural resources, it was a plus for emerging markets or Asia.

During the selloff such distinctions made no difference to the sellers. Sell they did, and let the distinctions be damned. Welcome to a market correction.

Beyond reason

One of the many old saws on Wall Street is that the market will always frustrate the greatest number of investors. We think it was corrections that gave rise to those words. Keep in mind that corrections do not come in a flat market. In a flat market there are no gains to reverse.

It is after a bullish run, such as January, that corrections occur, and do their frustrating best. In January virtually everything in our portfolios rose, and by considerably more than could be reasonably expected over a month's short span. Gains of 9-10% in portfolio funds were not uncommon.

We hope that nobody expected such gains to continue. What we do know, from some e-mails, is that expectations were high that the January gains were at least a base from which future gains would build.

Unfortunately, that was not to be. As we saw much of the January gains were erased in the correction, and frustration ensued, at least for a fair number of you, if we can extrapolate from the vocal to the silent. Spirits appear to have dropped as much they had risen.

She loves me (or not)

When corrections begin, the first reaction to the selling is to chalk it up to some temporary profit-taking, part of the market's normal volatility. As the selling continues and the prior gains are whittled down, anxiety builds and further selling occurs.

It does not take long before investors worry that something fundamental is at work, something that they have missed. Here we have another frustrating aspect of correc-

tions. More often than not corrections occur without any obvious trigger. Such was the case this time, as already noted.

Investors then are left in a quandary. To sell or not to sell. In the middle of a correction, the answer is not obvious. The initial instinct to protect remaining profits runs up against the investor's confidence that there are more gains ahead.

Here we come up against the very nature of risk and investing in stocks. The basic fact to remember is that the market is not an ATM machine. You are not guaranteed a return every time you put your card in the machine (invest in the stock market). You are able to make gains in the market because you are willing to take risk. In the current case, gains come because you are willing to take the chance that you will run into a correction and see the value of your holdings drop from their peak.

What corrections do is force us to ask whether an asset class has hit its peak and has begun a long-term downtrend. The answer is never obvious. But that is the way to approach a correction, rather than some knee-jerk response to unexpected selling. Patience is a virtue in the market. It does not always reward, but more often than not, it does.

Riding out a correction is difficult. But if investing were easy we would all be earning money fund returns. \$

PROFESSIONAL MONEY MANAGEMENT

PRI Financial Advisors Inc. is the exclusive provider of the "MONEYLETTER Managed Account Program."¹

Take advantage of MONEYLETTER's continued strong performance in 2006. Contact PRI and ask about a free, no-obligation Portfolio Review.

Minimum Investment is \$100,000.

WRITE: PRI Financial Advisors Inc.
479 Washington St.
Holliston, MA 01746

TOLL-FREE: (800) 707-2060

FAX: (508) 429-0940

E-MAIL: info@priadvisors.com

¹As an independent Registered Investment Advisor, PRI Financial Advisors will exercise discretion with regard to asset allocation and fund selection and may make investment decisions for client accounts that differ from recommendations found in MONEYLETTER.

ATTENTION SUBSCRIBERS

Next Issue: Volume 27, No. 5

Mails: March 10, 2006

Internet: March 8, 2006, 12:00pm (ET)

A Positive Fed

Fed Chairman Bernanke presented the Fed's semiannual monetary report to Congress accompanied by his testimony. Both he and the rest of the Fed were fairly sanguine about the outlook for this year and (tentatively) the next.

The numbers are soothing. 3% or so growth this year and next, with low inflation about 2%. Here's hoping they are right.

Of course, there is one big number that went unmentioned, interest rates. Implicit in the Fed's outlook is that *appropriate monetary policy* will be followed by the Fed. At the moment, considering the economic numbers, that means somewhat higher interest rates. We have looked for 5% as the rate where the Fed stops, and we still do.

With the Fed making it somewhat obvious that they are not finished, the market is fretting that the economy may be too strong and will prompt even higher rates than generally expected. This, of course, is always possible, but we see this as a case where the market worried about a very low probability event.

We do not see anything in the economic numbers to suggest that the economy is running hotter than expected. Yes, very strong housing starts last month were a surprise, but the warm weather surely played a major role.

Last month's price numbers, at the producer level, did show some unwelcome increase in the broad price level. If this is not just a blip, it means that the energy price rise has begun to seep into overall prices. This should come as no surprise to the Fed, and the possibility of energy seeping is one reason they have been raising prices.

While the market worries about rates, we have been surprised by the confidence growth portfolio managers are showing about the economic recovery, especially in manufacturing. If the Fed outlook is correct, the U.S. market may perform better than we expect.

Fund changes

The Hotline of Tuesday, February 7 recommended the sale of Brandywine Advisors in the *MONEYLETTER* Moderate Portfolio to be switched into Janus Orion, already in the portfolio. Here are the details. Sold 1,297 shares of Advisors @ \$10.90 per share. Purchased 1,623 shares of Orion @ \$8.71 per share.

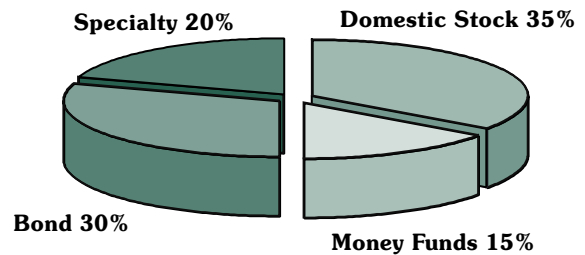
The same Hotline recommended the sale of Fidelity Focused Stock in the Fidelity Venturesome Portfolio to be switched into Fidelity Contrafund. Here are the details. Sold 2,338 shares of Focused Stock @ \$11.95 per share. Purchased 431 shares of Contrafund @ \$64.89 per share. The switches were effective as of Wednesday, February 8.

The Hotline of Tuesday, February 21, 2006 recommended the sale of Fidelity Export & Multinational in the Fidelity Conservative Portfolio. The fund is to be switched into Fidelity Small Cap Stock. The same Hotline recommended the sale of Vanguard U.S. Growth in the Vanguard Venturesome and Moderate portfolios. The fund is to be switched into Vanguard Small Cap Growth Index in both portfolios.

The Hotline also recommended a change in the Select Portfolio. Fidelity Energy is to be sold and the proceeds switched into Fidelity Air Transportation. \$

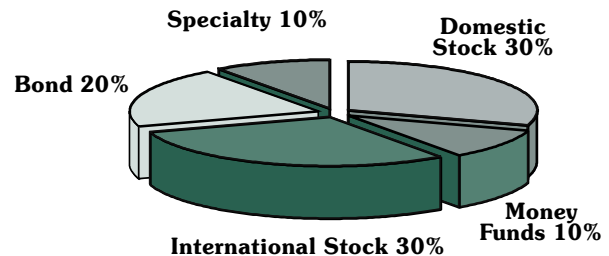
CONSERVATIVE

Seeks steady long-term growth of capital with limited short-term volatility



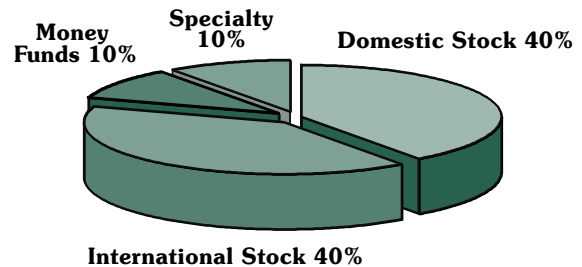
MODERATE

Seeks greater long-term growth than the Conservative Portfolio by taking prudent risks



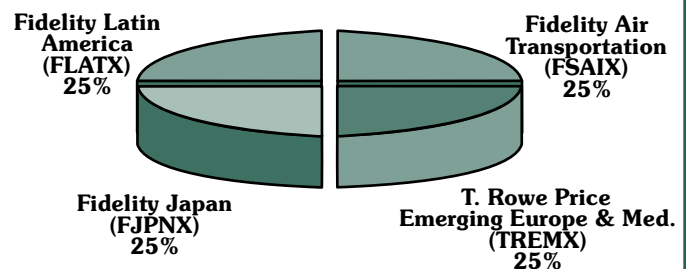
VENTURESOME

Seeks maximum long-term growth by accepting greater short-term volatility



SELECT

Seeks maximum long-term growth by assertively upgrading fund positions



Domestic Stock Funds

RANK	2/17 2006	1 Mo Ago	6 Mo Ago	Ticker Symbol	FUND NAME	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE	RISK		NTF/ w/f
										1 mo.	6 mo.	12 mo.	PER SHARE	Std. Dev.	Beta	
1	—	—	—	HDPMX	Hodges Fund	MC	*	(B)	(B)	3.1%	24.5%	37.5%	\$24.70	19.4	1.87	FSW
2	3	10	10	TWHIX	American Century Heritage	MCGro	B	B	B	2.9	18.5	28.2	15.44	15.4	0.76	FSW
3	9	29	29	NEEGX	Needham Growth Fund (.75%r<30d)	SCGro	B	B	B	3.9	17.4	28.4	39.09	25.7	1.19	FSW
4	17	28	28	BOGLX	Bogle Small Cap Growth (closed)	SCGro	B	B	B	5.1	17.9	25.2	29.22	22.3	0.88	w
5	14	31	31	CLSPX	Columbia Mid Cap Growth CIZ	MCGro	B	B	B	3.6	18.2	26.0	25.68	17.7	0.86	Sw
6	11	—	—	RIMSX	Rainier Small/Mid Cap Port	MCGro	*	B	B	3.6	18.2	25.2	35.97	15.7	1.34	FSW
7	48	127	127	IZZYX	ICM/Isabelle Small Cap Value	SCVal	H	H	H	6.4	18.5	19.4	15.86	29.5	1.04	FSW
8	28	42	42	TGSCX	TCW Galileo Small Cap Growth	MCGro	*	(B)	(B)	5.5	16.5	25.2	19.39	37.3	1.83	FSW
9	13	22	22	FMCSX	Fidelity Mid-Cap Stock (.75%r<30d)	MCGro	B	B	B	3.7	16.5	27.2	28.70	20.9	1.05	Fsw
10	45	185	185	MXXIX	Marsico 21st Century (2%r<30d)	LC	H	H	H	2.9	20.1	17.5	13.76	21.1	0.95	fsw
11	2	4	4	BRAIX	Bridgeway Aggressive Investors 2	MCGro	*	B	B	0.2	18.3	25.1	17.93	18.8	1.21	fsw
12	4	18	18	BRSGX	Bridgeway Small Cap Growth	ScGro	B	B	B	0.6	16.4	29.3	14.52	—	—	fsw
13	58	210	210	HENLX	Hennessy Cornerstone Growth II (1%r<30d)	SCGro	H	H	H	4.6	18.5	17.9	32.06	30.9	1.19	FSW
14	7	17	17	JORNX	Janus Orion	MC	B	B	B	2.0	16.2	26.5	8.79	14.3	1.16	FSW
15	10	140	140	RYPX	Royce Low Priced Stock (closed, 1%r<180d)	SCVal	B	B	B	2.9	17.7	20.8	16.73	27.1	1.10	Fsw
16	98	44	44	MNSCX	WellsFargo Montgomery Small Cap (closed)	SCGro	H	H	H	5.0	15.8	22.2	13.11	23.3	1.05	fs
17	63	124	124	RYPNX	Royce Opportunity (1%r<180d)	SCVal	H	H	H	6.1	15.2	20.6	13.65	30.8	1.18	fsw
18	24	37	37	PRNHX	T. Rowe Price New Horizons	SCGro	H	H	H	3.5	15.4	23.9	34.10	28.3	1.30	fsw
19	12	36	36	RYPX	Royce Premier (closed, 1%r<180d)	SC	B	B	B	2.1	16.3	23.3	17.64	19.4	0.84	Fsw
20	21	110	110	TMGFX	Turner Mid Cap Growth	MCGro	*	B	B	2.7	16.6	21.2	29.63	29.3	1.45	FSW
21	55	43	43	FFSCX	Forward Hoover Small Cap	SCGro	H	H	H	4.5	14.8	22.6	21.20	20.1	0.85	FSW
22	18	5	5	BRSVX	Bridgeway Small Cap Value	ScVal	B	B	B	3.4	15.1	23.3	15.41	—	—	fsw
23	6	3	3	SSMGX	Sit Small Cap Growth (2%r<30d)	MCGro	B	B	B	1.7	14.6	26.9	33.55	21.6	1.10	FSW
24	34	47	47	NMANX	Neuberger Berman Manhattan	MCGro	*	(B)	(B)	3.3	15.3	22.1	8.44	23.4	1.15	f
25	146	—	—	OBEHX	Old Mutual Emerging Growth	SCGro	H	H	H	6.0	14.9	18.9	15.27	35.8	1.80	FSW
26	8	20	20	MPEGX	MSI Mid Cap Growth Inst Cl	MCGro	*	B	B	1.8	14.9	24.7	26.10	22.2	1.17	w
27	19	89	89	FMILX	Fidelity New Millennium (closed)	MCGro	B	B	B	1.9	16.8	19.5	37.06	27.3	1.27	Fsw
28	16	11	11	JSVAX	Janus Contrarian	MC	B	B	B	2.7	14.3	23.5	15.90	22.3	1.10	SW
29	100	177	177	GSETX	Columbia Small Company Equity CIZ	SCGro	H	H	H	5.0	14.5	17.3	20.08	24.9	1.14	fw
30	75	79	79	PRSVX	T. Rowe Price S-C Value (closed, 1%r<1yr)	SCVal	H	H	H	4.4	13.8	19.6	40.07	18.0	0.69	fsw
31	51	155	155	TGONX	TCW Galileo Opportunity N	SC	H	H	H	4.3	13.8	19.3	15.19	22.5	0.90	FSW
32	—	—	—	FVDFX	Fidelity Value Discovery	MC	H	H	H	1.5	14.0	23.0	16.56	11.7	1.18	F
33	15	25	25	RPMGX	T. Rowe Price Mid Cap Growth	MCGro	H	H	H	1.1	13.9	23.6	56.34	22.1	1.11	fsw
34	67	202	202	USRLX	Undiscovered Small Cap Growth (\$10,000)	SCGro	*	H	H	3.2	15.0	17.8	11.17	44.2	1.85	fw
35	74	116	116	BRSIX	Bridgeway Ultra Small Co Mkt	Sc	*	H	H	4.3	14.0	18.4	19.52	18.5	1.03	fsw
36	31	106	106	RSMOX	RS MidCap Opportunities	MCGro	(B)	(B)	(B)	2.4	14.6	19.0	14.35	22.6	1.11	FSW
37	65	108	108	FSLCX	Fidelity Small Cap Stock (2%r<90d)	SCGro	H	H	H	4.2	13.8	18.4	19.83	21.5	0.94	FSW
38	57	166	166	SGROX	Wells Fargo Advantage Growth	LCGro	H	H	H	1.4	15.0	19.1	22.31	17.7	0.97	Fw
39	33	59	59	PENNX	Royce Penn Mutual (1%r<180d)	SCVal	H	H	H	3.0	13.9	19.6	11.48	20.4	0.80	Fsw
40	30	71	71	FDGRX	Fidelity Growth Company	LCGro	*	H	H	-0.8	15.0	21.7	66.23	25.6	1.36	Fsw
41	64	73	73	VISGX	Vanguard Small Cap Growth Index	SCGro	H	H	H	3.6	13.0	20.0	17.76	21.6	0.91	fsw
42	27	2	2	WWNPX	Kinetics Paradigm (2%r<30d)	MC	H	H	H	3.5	11.8	23.0	21.88	11.7	0.63	FSW
43	1	1	1	CGMFX	CGM Focus	SCVal	*	(H)	(H)	0.1	13.4	23.6	36.01	37.9	1.03	sw
44	29	6	6	FLVCX	Fidelity Leveraged Co (\$10k, 1.5%r<90d)	MC	*	H	H	2.1	13.8	19.6	27.63	36.3	1.39	Fw
45	60	19	19	BRWIX	Brandywine Fund	MC	H	H	H	2.6	12.3	21.6	33.09	13.7	0.69	fsw
46	127	32	32	BPTRX	Baron Partners	MCGro	*	H	H	4.8	12.4	18.0	19.55	28.6	1.26	FSW
47	62	134	134	OTCFX	T. Rowe Price Small Cap Stock Fund	SC	H	H	H	3.3	13.0	18.6	34.98	19.2	0.84	fsw
48	56	93	93	KAUFX	Federated Kaufmann Fund (0.2%)	MCGro	H	H	H	3.5	12.7	18.9	5.95	19.5	0.86	FSW
49	135	46	46	FIGX	INVESCO Small Company Growth	SCGro	*	H	H	5.2	11.6	18.9	14.46	24.2	1.15	FSW
50	90	—	—	OBHGX	Old Mutual Growth	MCGro	*	H	H	2.3	12.8	19.8	22.31	21.9	1.02	FSW
51	71	101	101	VEXPX	Vanguard Explorer	SCGro	H	H	H	2.9	12.8	18.7	80.43	24.2	1.12	fsw
52	23	50	50	OBEGX	Oberweis Emerging Growth (1%r<180d)	SCGro	*	H	H	1.3	13.4	19.7	29.18	33.2	1.36	FSW
53	35	—	—	BWAFX	Brandywine Advisors	MCGro	H	H	H	2.3	11.4	22.9	11.08	13.2	0.67	FSW
54	68	57	57	FIDYX	AIM Dynamics Inv (closed)	MCGro	H	H	H	3.9	11.9	19.1	19.55	28.2	1.48	FSW
55	82	133	133	VLIFX	Value Line Fund	LCGro	H	H	H	2.0	13.3	17.9	14.07	13.1	0.73	FSW
56	73	150	150	VALLX	Value Line Leveraged Growth	LCGro	*	H	H	2.1	13.3	18.0	23.80	14.9	0.83	FSW
57	120	148	148	LSCRX	Loomis Sayles Small Cap Value Ret	SC	H	H	H	4.6	12.1	17.0	27.13	17.2	0.80	FSW
58	77	63	63	ARTSX	Artisan Small Cap (closed)	SCGro	H	H	H	4.4	10.8	19.8	18.81	26.7	1.19	FSW
59	22	13	13	NBNGX	Sit Mid Cap Growth (2%r<30d)	MCGro	*	H	H	-0.4	13.2	20.8	13.29	23.5	1.23	FSW
60	5	12	12	SSMVX	Wells Fargo Adv SC Value CIZ (closed)	SC	(H)	(H)	(H)	0.5	12.8	19.3	31.57	18.3	0.88	FSW
61	108	82	82	NAESX	Vanguard SmallCap Index	SC	S	S	S	3.6	11.5	17.9	30.72	23.2	1.01	fsw
62	79	83	83	VALSX	Value Line Special Situations	MCGro	S	S	S	2.5	12.1	17.9	27.07	15.4	0.71	FSW
63	39	54	54	VHCOX	Vanguard Cap Opp (closed, \$25k, 1%r<1yr)	MCGro	*	S	S	1.3	12.4	18.6	35.17	25.3	1.28	fsw
64	87	34	34	STIDX	Wells Fargo Advantage Discovery	MCGro	S	S	S	3.0	11.4	18.4	21.87	19.1	0.86	FSW
65	72	84	84	RSSGX	RS Smaller Company Growth	SCGro	*	S	S	2.5	12.1	17.5	22.60	28.5	1.23	FSW
66	94	128	128	CRMSX	CRM Small Cap Value Inv (closed)	SCVal	S	S	S	3.0	11.6	17.1	26.85	23.8	0.93	Fsw
67	66	60	60	JAENX	Janus Enterprise	MCGro	S	S	S	1.6	11.9	18.0	44.02	21.4	1.09	FSW
68	59	56	56	FDVLX	Fidelity Value	MCVal	H	H	H	2.1	11.3	18.8	79.95	19.0	0.89	Fsw

Bold funds are currently held in **MONEYLETTER** model portfolios.
Advice: B=Buy, H=Hold, S=Sell, (B), (H), (S) = advice new this issue,
 * = not for this portfolio.

Std. Dev.: Standard Deviation based on trailing 3-yr. returns.

Beta: fund's correlation to the market (S&P 500 = 1.0). A fund with a beta greater than 1.0 is more volatile than the S&P 500.
NTF/wtf: NO TRANSACTION FEE/with transaction fee (F/f) for Fidelity, (S/s) for Schwab and (W/w) for TD Waterhouse.

Domestic Stock Funds (continued)

RANK	2/17 2006	1 Mo Ago	6 Mo Ago	Ticker Symbol	FUND NAME (Max. Load)	Fund Type	Conservative Moderate Venturesome			TOTAL RETURN			PRICE PER SHARE	RISK		NTF/ w/ff
							S	M	V	1 mo.	6 mo.	12 mo.		Std. Dev.	Beta	
69	36	39	JAGIX	Janus Growth & Income	LCGro	S	S	S	1.0	11.8	18.7	37.84	15.1	0.87	FSW	
70	49	33	ACBGX	USGlobal Holmes Growth (.25%r<30d)	MCGro	S	S	S	1.6	11.8	17.6	18.54	15.3	0.57	FSW	
71	106	198	USCGX	USAA Capital Growth	MCGro	S	S	S	1.6	12.8	15.0	8.38	23.9	1.13	fsW	
72	46	74	DNLDX	Dreyfus New Leaders	MCGro	S	S	S	0.8	11.8	18.5	48.85	18.6	0.90	FSW	
73	92	217	VCVSX	Vanguard Convertible Securities (closed)	Convrt	H	H	H	2.3	12.2	15.1	14.14	11.6	0.51	fsW	
74	83	49	VEXMX	Vanguard Extended Market Index	MC	H	S	S	1.7	11.1	18.6	36.23	21.5	1.02	fsW	
75	105	85	JAVTX	Janus Venture (closed)	SCGro	*	S	S	4.6	11.0	14.3	62.25	29.0	1.25	FSW	
76	38	129	FDFFX	Fidelity Independence	LCGro	S	S	S	0.5	12.2	17.1	20.60	21.4	1.11	Fsw	
77	61	98	STCSX	Wells Fargo Adv Common Stock Z (closed)	MC	H	H	H	1.9	10.7	18.5	22.86	22.6	1.15	FSW	
78	40	151	FTYX	Fidelity Fifty (.75%r<30d)	LC	H	H	H	0.0	12.5	16.8	23.55	19.8	0.85	FSW	
79	84	104	LSGIX	Loomis Sayles Value	LCVal	S	S	S	2.3	10.8	17.5	19.27	16.4	0.89	fsW	
80	194	181	FDISX	Dreyfus-Founders Discovery	SCGro	S	S	S	5.7	9.9	14.3	31.43	23.8	1.13	FSW	
81	172	216	NESGX	Needham Small Cap Growth (.75%r<30d)	SCGro	S	S	S	4.1	10.7	14.4	18.34	—	—	FSW	
82	101	40	BUFPMX	Buffalo Mid Cap	MCGro	S	S	S	1.8	10.3	18.9	14.93	17.6	1.34	FSW	
83	44	27	VIMSX	Vanguard Mid-Cap Index	MC	H	H	H	0.8	10.7	19.2	18.44	20.1	0.97	fsW	
84	110	141	RYTRX	Royce Total Return (1%r<180d)	SCVal	S	S	S	3.0	11.0	14.9	13.36	15.7	0.66	FsW	
89	91	162	VGEQX	Vanguard Growth Equity	LCGro	H	H	H	0.1	11.9	16.4	10.93	22.2	1.22	fsW	
91	26	41	FCNTX	Fidelity Contrafund	LC	H	H	H	-1.1	11.6	18.5	65.42	11.4	0.54	Fsw	
94	165	96	VISVX	Vanguard Small-Cap Value Index	SCVal	H	S	S	3.6	9.8	15.7	15.62	22.4	0.90	fsW	
104	32	8	NPRTX	Neuberger Berman Partners	LCVal	Ⓢ	Ⓢ	Ⓢ	-1.2	10.3	19.1	29.11	20.7	1.10	fsW	
126	25	121	FEXPX	Fidelity Export & Multinat'l (.75%r<30d)	LC	Ⓢ	Ⓢ	Ⓢ	-2.7	11.2	16.2	21.72	20.3	1.07	Fsw	
143	99	118	VWUSX	Vanguard U.S. Growth	LCGro	*	Ⓢ	Ⓢ	-1.7	9.4	16.2	18.31	21.6	1.23	fsW	

Dow Jones
NASDAQ
S&P 500

2.0%
-0.9
0.3

5.4%
6.4
5.5

3.4%
10.7
7.2

indexes do not
include dividends

International Stock Funds

1	1	1	PRLAX	T. Rowe Price Latin America (2%r<90d)	LatinA	*	H	H	9.3%	46.9%	77.0%	\$30.18	29.7	—	fsW
2	4	5	FLATX	Fidelity Latin Amer. (1.5%r<90d)	LatinA	*	H	H	9.9	47.1	69.8	37.73	29.8	—	Fs
3	3	4	SLAFX	Scudder Latin America (closed,2%r<30d)	LatinA	*	H	H	8.7	45.9	68.9	54.21	27.3	—	Sw
4	2	3	EUROX	US Global Eastern Europe (2%r<180d)	Europe	*	B	B	5.2	44.3	56.3	46.79	26.6	—	FSW
5	5	2	TREMX	T. Rowe Price Emg Europe & Med (2%r<90d)	Europe	*	B	B	4.3	39.8	61.9	28.99	29.2	—	fw
6	7	18	DREGX	Driehaus Emerging Mkts Gr (2%r<60d)	Int'l	*	B	B	4.4	39.2	48.8	31.57	24.9	—	FSW
7	6	10	FEMKX	Fidelity Emerging Mkts (1.5%r<90d)	Int'l	*	B	B	3.8	36.9	53.5	20.56	—	—	Fsw
8	11	26	JAOXS	Janus Overseas (closed,2%r<90d)	Int'l	*	B	B	3.9	31.3	44.1	35.09	16.5	—	FSW
9	12	7	HLEMX	Harding Lovenerg Emerg Mkt (2%r<90d)	Int'l	*	B	B	3.7	29.2	47.1	38.10	15.5	—	FSW
10	10	9	PRMSX	T. Rowe Price Emerging Mkts Stk	Int'l	*	B	B	3.4	28.7	46.8	28.42	18.8	—	fsW
11	15	16	VEIEX	Vanguard Emerging Mkts Stk Index (.5%r)	Int'l	*	B	B	3.8	26.2	39.4	21.00	22.6	—	fsW
12	9	8	DRIDX	Driehaus Intl Discovery (2%r<60d)	Int'l	*	B	B	-2.4	27.2	44.4	42.53	21.1	—	FSW
13	—	—	SSEMX	SSgA Emerging Markets	Int'l	*	B	B	4.4	24.5	36.9	21.12	16.6	—	FW
14	21	27	DRFMX	Dreyfus Premier Emerging Market (1%r)	Int'l	*	H	H	3.5	23.5	33.5	23.69	21.6	—	fsw
15	8	38	FJPNX	Fidelity Japan (1.5%r<90d)	Japan	*	B	B	-7.4	26.3	35.2	16.94	17.3	—	Fsw
16	25	40	FSEAX	Fidelity SE Asia (1.5%r<90d)	Pacific	*	H	H	0.8	21.1	35.4	22.49	21.1	—	Fsw
17	30	23	SCOBX	Scudder Global (closed,2%r<30d)	Global	*	H	H	3.9	20.5	31.7	32.90	12.7	—	FSW
18	18	6	AIOIX	Amer.Cent.Intl Opp. (closed,2%r<180d)	Int'l	*	H	H	1.0	19.6	36.8	11.01	20.4	—	—
19	31	36	HAINX	Harbor International (2%r<60d)	Int'l	*	H	H	2.9	19.7	27.7	52.95	17.9	—	Fsw
20	22	12	ARTJX	Artisan Intl Small Cap (closed,2%r<90d)	Int'l	*	H	H	1.2	19.1	29.0	21.16	—	—	SW
21	23	13	PISRX	Forward Intl Small Companies (2%r<180d)	Int'l	*	H	H	1.7	18.9	28.4	16.05	—	—	FSW
22	28	—	ACINX	Columbia Acorn Intl Z (2%r<60d)	Int'l	*	H	H	3.1	18.3	26.8	36.18	13.3	—	Sw
23	35	56	SCOPX	Scudder Pacific Opp (closed,2%r<30d)	Pacific	*	H	H	1.7	17.7	30.3	17.24	19.0	—	FSW
24	33	—	PRGSX	T. Rowe Price Global Stock (2%r<90d)	Global	*	H	H	0.5	18.7	29.3	20.26	11.6	—	fsW
25	39	37	WAIGX	Wasatch Intl Growth (closed,2%r<60d)	Int'l	*	H	H	2.9	19.0	24.9	21.20	—	—	FSW
26	32	22	BJBIX	Julius Baer Intl Equity A (2%r<90d)	Int'l	*	H	H	3.2	18.4	25.0	38.52	12.5	—	FS
27	19	17	PRIDX	T. Rowe Price Intl Disc. (2%r<90d)	Int'l	*	H	H	-1.1	19.0	28.7	42.97	16.0	—	fsW
28	17	41	FPBFX	Fidelity Pacific Basin (1.5%r<90d)	Pacific	*	H	H	-4.3	20.5	29.5	25.41	14.7	—	Fsw
29	34	24	WBIGX	Wm. Blair Intl Growth N (closed,1%r<60d)	Int'l	*	H	H	1.3	17.8	27.4	26.43	14.6	—	FSW
30	13	39	PRJPX	T. Rowe Price Japan (2%r<90d)	Japan	*	H	H	-6.7	20.8	31.6	10.95	14.4	—	s
31	37	25	FECAx	Fidelity Europe Capital App. (1%r<30d)	Europe	*	H	H	4.1	17.5	22.4	24.09	18.8	—	Fw
32	58	62	QFVOX	Quant Foreign Value (1%r<30d)	Int'l	*	H	H	4.8	17.1	19.3	18.97	19.9	—	FSW
33	16	68	WPJGX	CS Warburg Pincus Japan Grth (2%r<30d)	Japan	*	H	H	-6.3	20.9	25.7	6.84	22.7	—	FSW
34	26	15	NBISX	Neuberger Berman Intl (2%r<60d)	Int'l	*	H	H	0.3	16.9	25.2	23.00	16.3	—	fsw
35	49	48	VTRIX	Vanguard International Value (2%r<60d)	Int'l	*	S	S	2.0	16.4	22.7	36.96	16.8	—	fsw
36	20	11	FISMX	Fidelity Intl Small Cap (closed,2%r<90d)	Int'l	*	H	H	-2.0	16.9	27.2	27.98	—	—	Fw
37	42	14	FIEUX	Fidelity Europe (1%r<30d)	Europe	*	S	S	2.2	15.4	24.3	38.81	22.5	—	Fsw
38	44	21	PRASX	T. Rowe Price New Asia (2%r<90d)	Pacific	*	S	S	1.1	13.7	30.3	12.47	19.7	—	fs
39	43	19	VINEX	Vanguard Intl Expl (closed,\$25k,2%r<60d)	Int'l	*	S	S	1.6	15.1	23.3	19.04	16.3	—	fsW
40	29	55	VPACX	Vanguard Pacific Stock Index (2%r<60d)	Pacific	*	H	H	-2.2	17.1	23.3	11.26	13.7	—	fsW
41	38	28	OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Int'l	*	S	S	1.3	15.6	21.5	21.10	20.4	—	FSW
42	47	35	MATPX	Mathews Pacific Tiger (2%r<90d)	Pacific	*	S	S	-0.4	14.4	26.2	20.08	23.6	—	FSW
43	61	33	TWGGX	American Century Global Growth (2%r<60d)	Global	*	S	S	1.1	14.3	24.0	9.57	14.1	—	FSW
44	55	29	SGSCX	Scudder Gbl Discovery (closed,2%r<30d)	Int'l	*	S	S	1.3	14.6	22.5	41.41	20.1	—	FSW
73	14	66	FJSCX	Fidelity Japan Smaller Cos (1.5%r<90d)	Japan	*	Ⓢ	Ⓢ	-14.7	16.0	25.4	14.76	28.4	—	FSW

Bond Funds (next issue on page 6: Specialty Funds)
 2/17/2006

Ticker Symbol	FUND NAME	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE PER SHARE	Std. Dev.	Yield	NTF/wft
						1 mo.	6 mo.	12 mo.				
FFRHX	Fidelity Floating Rate High Inc (1%r<60d)	BnkLoan	B	*	*	0.2%	1.3%	3.1%	\$9.98	0.77	4.57%	Fw
BUFHX	Buffalo High-Yield (2%r<180d)	HighYld	*	*	*	1.1	1.7	1.5	11.13	4.19	5.09	FSW
CMHYX	Columbia High Yield CIZ (closed)	HighYld	*	*	*	0.4	1.0	1.8	8.51	3.96	6.42	FSW
FAGIX	Fidelity Capital & Income (1%r<90d)	HighYld	*	*	*	0.5	2.0	4.0	8.47	6.87	6.07	Fsw
SPHIX	Fidelity High Income (1%r<90d)	HighYld	*	*	*	0.6	1.8	2.7	8.86	5.04	6.89	Fsw
JAHYX	Janus High Yield (2%r<90d)	HighYld	*	*	*	1.2	0.9	2.0	9.60	4.13	6.85	FSW
NTHEX	Northeast Investors Trust	HighYld	*	*	*	1.8	3.1	3.9	7.48	3.88	8.28	fw
PHYDX	PIMCO High Yield (2%r<30d)	HighYld	*	*	*	1.1	1.9	3.8	9.83	5.07	6.67	FSW
STHYX	Strong High Yield Bond (1%r<180d)	HighYld	*	*	*	1.5	2.3	3.0	7.74	4.58	7.03	FSW
STHBX	Strong S-T High Yield	HighYld	*	*	*	0.6	1.7	2.7	8.54	1.68	4.85	FSW
PRHYX	T. Rowe Price High Yld (closed,1%r<1yr)	HighYld	*	*	*	0.8	0.7	2.5	6.94	4.43	7.56	fsw
TGHNX	TCW Galileo High Yield Bond	HighYld	*	*	*	1.0	1.6	1.1	6.96	5.66	7.38	FSW
VWEHX	Vanguard High Yield Corporate (1%r<1yr)	HighYld	*	B	*	0.6	2.4	3.1	6.19	4.18	7.06	fsw
FNMX	Fidelity New Markets Income (1%r<90d)	Int'l	*	*	*	2.3	7.8	11.8	14.83	8.11	5.67	Fsw
PYGF	Payden Global Fixed Income	Int'l	*	*	*	-0.3	1.4	4.7	9.26	3.31	10.96	fsw
BGNMX	American Century Ginnie Mae	IntTerm	*	*	*	-0.6	0.7	1.6	10.23	2.46	4.70	FSW
CPTNX	American Century Government Bond	IntTerm	*	*	*	-0.4	0.0	1.3	10.45	3.16	3.85	FSW
ACITX	American Century Inflation Adj	IntTerm	B	*	*	-0.5	1.9	1.9	10.97	6.68	5.18	FSW
SRINX	Columbia Income CIZ	IntTerm	*	*	*	-0.1	-0.2	0.8	9.75	4.30	5.49	FSW
SRBF	Columbia Intermediate Bond CIZ	IntTerm	*	*	*	-0.4	0.1	1.1	8.85	3.78	4.89	FSW
DODIX	Dodge & Cox Income	IntTerm	*	*	*	-0.1	1.0	1.8	12.59	3.06	4.37	fsw
DRBDX	Dreyfus A Bonds Plus	IntTerm	*	*	*	-0.5	0.8	1.9	13.50	4.49	4.68	FSW
DRGMX	Dreyfus GNMA	IntTerm	*	*	*	-0.5	1.3	2.2	14.43	2.93	4.06	FSW
DSINX	Dreyfus Premier Core Bond (closed)	IntTerm	*	*	*	-0.3	0.5	1.3	14.28	4.22	4.31	fSw
FTRGX	Federated Total Return Govt	IntTerm	*	*	*	-0.7	-0.1	1.1	10.66	4.83	4.54	fsw
FGMNX	Fidelity GNMA	IntTerm	*	*	*	-0.8	0.2	1.1	10.82	2.33	4.67	Fsw
FINPX	Fidelity Inflation-Protected Bond	IntTerm	B	*	*	-0.8	1.6	0.7	10.96	6.75	1.33	Fw
FBNDX	Fidelity Investment Grade	IntTerm	*	*	*	-0.7	0.5	0.7	7.35	4.00	3.98	Fsw
MBDFX	Managers Fremont Bond	IntTerm	*	*	*	-0.6	0.1	2.0	10.34	4.29	3.69	fsw
PTDX	PIMCO Total Return (2%r<7d)	IntTerm	*	*	*	-0.6	0.0	1.6	10.47	4.16	3.50	FSW
PTMDX	PIMCO Total Return Mortgage (2%r<7d)	IntTerm	*	*	*	-0.4	0.1	1.2	10.57	2.91	3.48	FSW
SCSBX	Scudder Income (closed,2%r<15d)	IntTerm	*	*	*	-0.2	0.8	2.0	12.71	4.06	4.83	Sw
PRGMX	T. Rowe Price GNMA	IntTerm	*	*	*	-0.5	0.6	1.6	9.45	2.51	4.66	fsw
PRCIX	T. Rowe Price New Income	IntTerm	*	*	*	-0.5	0.1	1.3	8.93	3.98	4.19	fsw
TGMNX	TCW Galileo Total Return Bond	IntTerm	*	*	*	-0.3	1.2	2.5	9.75	2.89	4.64	FSW
USAIX	USAA Income	IntTerm	*	*	*	-0.4	0.9	2.2	12.17	4.26	5.16	W
VALBX	Value Line U.S. Govt Sec	IntTerm	*	*	*	-0.4	0.6	1.4	11.40	3.81	4.61	FSW
VFIIX	Vanguard GNMA	IntTerm	B	*	*	-0.5	1.8	2.9	10.28	3.14	4.69	fsw
VIPSX	Vanguard Inflation Protected Sec	IntTerm	B	*	*	-0.7	1.8	2.0	12.14	6.56	5.57	fsw
VBMFX	Vanguard Total Bond Market Index	IntTerm	*	*	*	-0.5	0.4	1.4	10.01	4.16	4.51	fsw
MNTRX	Wells Fargo Adv Total Return Bond	IntTerm	*	*	*	-0.6	0.0	0.9	12.10	3.98	4.00	fSw
WTIBX	Westcore Plus Bond (2%r<90d)	IntTerm	*	*	*	0.0	1.1	2.2	10.52	3.80	5.48	FSW
KIFIX	FifthThird Bond	LngTerm	*	*	*	-0.6	0.1	0.8	9.83	4.13	3.85	fw
MGFIX	Managers Bond	LngTerm	*	*	*	0.2	1.6	2.3	24.22	5.38	3.64	FSW
PRPIX	T. Rowe Price Corporate Inc	LngTerm	*	*	*	-0.2	0.2	0.9	9.66	5.44	4.82	fsw
VUSTX	Vanguard L-T U.S. Treasury	LngTerm	*	*	*	-1.0	-0.3	2.1	11.44	9.71	4.88	fsw
FSICX	Fidelity Strategic Income	Multi	B	B	*	-0.2	2.0	3.0	10.47	4.70	5.16	Fw
JAFIX	Janus Flexible Bond	Multi	*	*	*	-0.5	0.0	0.5	9.43	4.17	4.27	FSW
LSBDX	Loomis Sayles Bond Instl (2%r<60d)	Multi	B	B	*	1.5	4.6	6.6	13.93	6.62	6.02	fsw
LSBRX	Loomis Sayles Bond Retail (2%r<60d)	Multi	B	B	*	1.5	4.5	6.4	13.90	6.59	5.85	FSW
RPSIX	T. Rowe Price Spectrum Income	Multi	*	*	*	0.6	1.4	2.6	11.93	3.99	4.17	fsw
DSTIX	Dreyfus Premier Short-Term Income	ShfTerm	B	*	*	-0.2	0.4	0.9	10.89	1.77	4.04	FSW
FSGVX	Federated U.S. Govt Sec. 1-3	ShfTerm	B	*	*	-0.1	0.2	0.8	10.40	1.09	3.41	fSw
FSHBX	Fidelity Short-Term Bond	ShfTerm	B	*	*	-0.3	0.4	1.3	8.84	1.71	3.60	Fsw
JASBX	Janus S-T Bond	ShfTerm	B	*	*	0.2	0.7	1.3	2.87	1.39	2.91	FSW
MGIDX	Managers Int. Duration Govt	ShfTerm	*	*	*	-0.2	0.9	1.7	10.51	2.46	3.17	FSW
MGSDX	Managers Short Duration Govt	ShfTerm	B	*	*	0.4	1.7	3.0	9.63	0.51	3.33	FSW
MWLDX	MetroWest Low Duration	ShfTerm	B	*	*	0.2	0.1	1.5	9.32	1.75	3.92	FSW
PTLCX	PIMCO Low Duration (2%r<7d)	ShfTerm	B	*	*	-0.4	0.0	0.7	9.96	1.76	2.46	fw
SWBDX	Schwab S-T Bond Mkt Index	ShfTerm	B	*	*	-0.3	0.4	1.1	9.91	2.23	3.57	fS
SCSTX	Scudder Short-Term Bond (closed,2%r<15d)	ShfTerm	B	*	*	0.2	1.4	2.1	9.95	1.50	4.29	Sw
SSTBX	Strong S-T Bond	ShfTerm	B	*	*	-0.1	0.6	1.5	8.51	1.70	4.15	FSW
PRWBX	T. Rowe Price S-T Bond	ShfTerm	B	*	*	-0.2	0.5	1.3	4.67	1.65	3.49	fsw
VFSTX	Vanguard Short-Term Investment Grade	ShfTerm	B	*	*	-0.1	0.8	1.8	10.49	1.70	3.66	fsw
VSGBX	Vanguard S-T Federal	ShfTerm	*	*	*	-0.2	0.6	1.3	10.23	1.83	3.32	fsw
VFISX	Vanguard S-T Treasury	ShfTerm	B	*	*	-0.2	0.5	1.3	10.29	1.74	3.22	fsw
MNSGX	WellsFargo Montgomery S Dur Govt (closed)	ShfTerm	B	*	*	-0.2	0.3	1.2	9.86	1.60	3.60	fSw
BTFIX	American Century Target 2015	ZeroCpn	*	*	*	-1.5	0.1	1.9	75.95	11.86	4.29	FSW
BITTX	American Century Target 2020	ZeroCpn	*	*	*	-1.6	0.2	4.1	58.62	15.30	4.25	FSW
BITRX	American Century Target 2025	ZeroCpn	*	*	*	-1.5	0.5	5.9	51.91	18.06	2.60	FSW

Choices Limited for Fidelity Portfolios

Q In the new fund ratings you provide in the February 7th Hotline, you say “Hold” on Fidelity Contrafund, and then in the next paragraph you say “Buy” it through an exchange action. That’s confusing to me.

— J.G., Torrance, CA

A You’ve uncovered a situation that’s a nuisance for the single-family portfolios on occasion. Let’s take a closer look.

First, suppose your portfolio has all the fund families as its universe. An example might be the *MONEYLETTER* Moderate portfolio. Within that framework Fidelity Contrafund was ranked #57 and rated “Hold” on February 7th. No confusion or ambiguity there, right?

However, when you are using the *MONEYLETTER* list of domestic stock funds to construct a portfolio of only Fidelity funds, there are obviously less funds in the “Buy” range from which to choose. Therefore, whenever a fund in any of the Fidelity-only portfolios is sold (for instance, Focused Stock in the Fidelity Venturesome portfolio in the February 7th Hotline), we often have to dig deeper into the list to find a suitable alternative.

What were the alternatives to replace Focused Stock? We went through the domestic stock fund list, starting at the top. The top ranked Fidelity fund was Mid-Cap Stock at #13, but that’s already in the portfolio. Next was New Millennium at #20—that fund is closed. Moving down the list, we found Leveraged Company at #47 and Contrafund at #57. As you rightly point out, Contrafund was rated “Hold” for those investors who use **all the fund families**. But for Fidelity-only investors, it was one of the two best options.

We chose Contrafund over Leveraged Company (also rated Hold) simply for diversification reasons.

For more information on Fidelity funds, call (800) 343-3548 or visit www.fidelity.com.

Early Access is Easy

Here’s a reminder to subscribers seeking to take advantage of early access to their *MONEYLETTER* issues via our website. **All paid subscribers have access to current and past issues of Moneyletter through our website.** The access procedure is easy, and you can review each new issue of *MONEYLETTER* starting at noon every Wednesday of print week. That means you can review your issue electronically three to six days before you receive it by First Class U.S. Mail, depending on your location.

Just follow these steps:

- Go to www.moneyletter.com
- Click “Member Login”

100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Gabelli US Treasury MMF	4.17%	4.08%	2.89%
Vanguard Treasury MMF	4.02	3.92	2.94
Amer Century Capital Presv Fund/Inv	3.81	3.75	2.74
JPMorgan 100% US Treas MMF/Morgan	3.71	3.66	2.57
T. Rowe Price US Treasury MF	3.64	3.59	2.62
RMK Select Treas MMF/CI A	3.59	3.54	2.58
Schwab US Treasury Money Fund	3.59	3.54	2.53
US Treasury MF of America/CI A	3.56	3.49	2.55

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
PayPal Money Market Fund	4.55%	4.49%	3.44%
DWS MM Series Premium/AARP	4.40	4.32	3.32
TIAA-CREF Money Market Fund	4.33	4.26	3.19
Vanguard Prime MMF/Retail	4.33	4.24	3.19
DWS MM Series Prime Reserve/AARP	4.30	4.20	3.23
Harbor Money Market Fund	4.29	4.19	3.09
SSgA MMF/CI A	4.27	4.18	3.11
TCW Galileo Money Market Fund	4.26	4.20	3.08
GE Money Market Fund	4.24	4.14	3.07

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Alpine Municipal MMF/Investor	3.08%	3.01%	2.56%
Vanguard Tax-Exempt MMF	2.99	2.94	2.46
Fidelity AMT Tax-Free Money Fund	2.86	2.75	2.29
Morgan Stanley Active Assets T-F Tr	2.75	2.61	2.06
DWS Tax-Exempt Money Fund	2.74	2.68	2.20
Dreyfus BASIC Muni MMF	2.73	2.66	2.16
Fidelity Tax Free Money Market	2.73	2.67	2.17
Fidelity Municipal MMF	2.72	2.66	2.18
Amer Century T-F MMF/Inv Class	2.71	2.66	2.16

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard PA Tax-Exempt MMF	2.99%	2.93%	2.43%
Vanguard OH Tax-Exempt MMF	2.98	2.92	2.43
Vanguard NY Tax-Exempt MMF	2.96	2.90	2.40
Vanguard CA Tax-Exempt MMF	2.95	2.88	2.39
Vanguard NJ Tax-Exempt MMF	2.94	2.88	2.40
Fidelity FL Municipal MMF	2.76	2.76	2.14
USAA Tax Exempt VA MMF	2.68	2.59	2.09
Fidelity AZ Municipal MMF	2.65	2.61	2.13

Taxable equivalent yield = yield / (1—total effective tax bracket). Funds are ranked by 7-day yields; 7-day and 30-day yields are compound yields as of 2/14/06. Third column refers to 1-year total return. Criteria for inclusion include: top-yielding unrestricted retail funds only, with minimum initial investment <\$25,000 and assets >\$100 million.

Source: iMONEYnet’s Money Fund Report (800) 343-5413

- Choose **MONEYLETTER**
- In the “Username” field type your **MONEYLETTER Account Number**. Your Account Number is located on your mailing label, above your name, and begins with an upper case “A” followed by seven digits (ex. A0123456). If you don’t have your Account Number, call us toll-free 800-890-9670 or email service@moneyletter.com.
- In the “Password” field, type your five-digit **Zip Code**.

The same procedure works for *MONEYLETTER Plus*, which needs a separate subscription. Also, you’ll need the Adobe Acrobat Reader to download the file. If you don’t already have it, you can download Adobe from our site. Depending on modem speed and Internet traffic, it may take a little while to load. \$

Fidelity Value Discovery

Fidelity Value Discovery made the news recently as Fidelity Investment's best-performing diversified stock fund in 2005, chalking up an 18.7% advance. That return was better than Fidelity's behemoth funds such as Magellan (up 6.42%) and even the relatively good performing Contrafund (up 16.2%). Compare these results to a return of 4.9% for the S&P 500.

To be sure, with assets of \$383 million vs. more than \$50 billion for the two other Fidelity funds mentioned above, Value Discovery has a tad more flexibility when it comes to investing. And it's not only asset size that gives it some added flexibility. Right from the get-go, fund manager Scott Offen has a broader investment mandate. Launched in December 2002, Fidelity Value Discovery was designed to enhance Fidelity's value fund line-up with a broad-based fund free to seek investments without regard to their market capitalization. The fund's benchmark is the broad Russell 3000 Value Index.

Offen says that his goal is to find strong companies that are selling at low valuations, with respect to assets, sales, earnings, growth potential, or cash flow. Such firms may also be undervalued relative to their competitors. Via fundamental analysis, Offen calculates a firm's potential returns, assesses risks, and weighs those against potential stock performance. He often looks for that catalyst for stock appreciation—be it a correction of prior problems, or the prospect that the firm's industry will come into favor. That way, he says, he benefits both from the initial gain in earnings growth, and then later from the reward of a higher price/earnings ratio. One aspect of the fund that sets it apart from many of its competitors, says Offen, is that it does not have a dividend yield policy (some value funds seek out higher dividend-yield stocks in an effort to dampen volatility).

Portfolio characteristics

Historically, Morningstar has classified the fund as a mid-cap value fund, and generally, mid-caps have been its focus. But more recently, it could more accurately be described as a large-cap fund. Mid-caps constitute about one-third of the portfolio, but 18% and 37%, respectively, of the fund's holdings can be classified as giant-cap and large-cap. And, it is broadly diversified, with more than 230 names in the portfolio. Additionally, you can see by the portfolio information below, that no one sector is extraordinarily overweighted relative to the remainder of the portfolio.

You'll also note that no "% of assets" numbers are provided for the top five stock holdings. It is Fidelity's policy not to release the percentage numbers of the most recent

quarterly list. What we do know is this: At 2005 year-end, the top ten holdings constituted 18% of the portfolio. And looking back at the portfolio in October 2005, the top holding then (as now), National Oilwell Varco, accounted for 2.7% of assets, while Smith International (then number two) was 2.1%. So again, we see the emphasis on diversification.

Portfolio shifts

Offen attributes the fund's good 2005 performance to a number of factors. The fund's energy exposure was clearly a positive. Oilfield services firm Halliburton was a big winner, as were Valero Energy and Schlumberger. Offen focused the fund's energy holdings on energy services firms and refiners, rather than integrated oil firms such as Exxon Mobil and ConocoPhillips (which, incidentally, performed well last year). Additionally, the fund's overweighting in brokerage firm Lehman Brothers was a benefit as the firm produced better-than-expected earnings.

Top Five Holdings & Sectors (% of Assets)

National-Oilwell Varco	Financials	21.1
Altria Group	Information Technology	18.6
American Intl. Group	Health Care	12.3
Smith International	Energy	10.7
JPMorgan Chase	Consumer Discretionary	9.0

As of December 31, 2005

Over the six months of June 2005–December 2005, Offen produced some definite shifts in sector weightings. The energy sector, which had been a favorite of the manager, has been reduced from 17% of the portfolio to 11%, which is now underweight vs. the benchmark. In addition, Offen has chosen to underweight the financial group, but that underweight has diminished over the six-month period. In June 2005, financials accounted for 15% of assets, while at year-end, that percentage had risen to more than 21%. Still, that is 15% less than the benchmark. Finally, Offen continues to overweight the technology sector, at about 12% above the benchmark, perhaps not typical for a value fund. His rationale: Corporate America will use its record free cash flow toward technology capital investment.

In addition to being Fidelity's top performer in 2005, the fund ranked in the top 2% of its Morningstar group. It is off to a good start in 2006 as well. A year-to-date gain (through February 17) of 5.8% puts it in the top 18% of its category. \$

Fidelity Value Discovery (FVDFX)

Fidelity Investments

*82 Devonshire Street, Mailzone Z1c, Boston, MA 02109
(800) 343-3548 • Minimum Investment: \$2,500, \$2,500 IRA*

MONEYLETTER® (ISSN:1526-5110) is published twice each month for \$150 per year (24 issues) by PRI Financial Publishing Inc., 479 Washington St., P.O. Box 6020, Holliston, MA 01746-6020. First Class Postage paid at Holliston, MA and at additional mailing offices. POSTMASTER: send address changes to MONEYLETTER, 479 Washington St., P.O. Box 6020, Holliston, MA 01746-6020. President: Bruce W. Hardy. Chief Investment Officer/Chief Economist: Walter Frank. Contributing Editor: Cynthia Andrade. Publisher: Brian W. Kelly. Address all subscription and editorial inquiries to PRI Financial Publishing Inc., 479 Washington St., P.O. Box 6020, Holliston, MA 01746-6020, (800) 890-9670. Paid advertising which appears in or accompanies this publication does not constitute an endorsement of products or services offered. Employees and staff of MONEYLETTER may from time to time maintain positions in recommended securities. PRI Financial Publishing Inc. is affiliated with PRI Financial Advisors Inc. (formerly Principal Resource Inc.), a registered investment advisor. Walter Frank also serves as an independent economic consultant to PRI Financial Advisors. MONEYLETTER is not produced as a solicitation for PRI Financial Advisors. Views presented are the opinion of the Chief Investment Officer/Chief Economist and contributing editors, and should not be treated as fact. MONEYLETTER does not purport to provide legal, tax or individual investment advice. While carefully screened, the accuracy of the statistical data in MONEYLETTER cannot be guaranteed. Readers should carefully review investment prospectuses before investing. MONEYLETTER provides a twice-weekly Hotline: call (410) 528-1804. Back copies \$5 each. Reproduction in whole or in part by any means is strictly forbidden without written permission. © Copyright 2006 PRI Financial Publishing Inc.