

## THE BASICS OF DIVERSIFICATION



Spreading money among different types of investments is a sound strategy for various market cycles.

Diversification does not ensure a profit or guarantee against a loss.

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## SO WHY DON'T INVESTORS DIVERSIFY MORE?

Diversification makes sense. Markets go up and markets go down – that's their nature. Spreading money over several kinds of investments may help you achieve growth throughout market cycles and mitigate the effects of market swings.

When the market is especially strong or weak, diversification somehow doesn't seem quite as important – until it changes, and then hindsight reminds us that it might have been smart to diversify. Failing to diversify properly could mean not only losing money when a segment deteriorates but also losing out when it improves.

During the last bull market many investors assumed that diversification would sacrifice performance. Now amid concerns over the state of the economy and continued market volatility, some investors may be afraid to take cash off the sidelines. Simply put, investors often act on emotion. This can cause them to abandon their long-term financial plans – possibly short selling, chasing returns, and making lump-sum transactions.

## WHY DIVERSIFICATION?

The simplest reason for diversifying your portfolio is that no one can successfully predict market cycles. Over the past 20 years, the top-performing asset class has moved between U.S. bonds, U.S. stocks, and international stocks.

It is possible to make a case for nearly any asset class coming out on top in a year. Since it's impossible to know the next top performer, a sound approach is to spread investments among different asset classes.

### MARKET CYCLES:

Calendar year returns, 1996–2005

■ Fixed-Income (LB Aggregate Bond Index)

■ Domestic Equity (S&P 500® Index)

■ International Equity (MSCI EAFE Index)

	BEST	◀ ASSET CLASS ▶	WORST
1996	22.96%	6.05%	3.63%
1997	33.36%	9.65%	2.01%
1998	28.58%	20.27%	8.69%
1999	27.22%	21.04%	-0.82%
2000	11.63%	-9.10%	-14.01%
2001	8.44%	-11.89%	-21.27%
2002	10.26%	-15.74%	-22.10%
2003	38.97%	28.69%	4.10%
2004	20.42%	10.88%	4.34%
2005	13.72%	4.91%	2.43%

Source: FMR Corp.

**Past performance is no guarantee of future results.** You cannot invest directly in any market index. See last page for index definitions.

Generally, a properly diversified portfolio should always contain investments from each core asset class – fixed income, domestic equity, and international equity.

## UNDERSTAND YOUR OPTIONS

Generally, a properly diversified portfolio should always contain investments from each core asset class:

- Fixed Income
- Domestic Equity
- International Equity



## FIXED INCOME

For many their perception of the bond market is limited to Treasuries and high-grade corporate bonds. But the bond market consists of many different types of securities – including high yield, short-term, and floating rate bonds. And while investors have learned a hard lesson in the importance of stock diversification, many have not transferred this learning to the bond portion of their portfolio.

### FIXED INCOME CYCLES:

Calendar year returns, 1996–2005

- Short-Term Bonds (LB 1-3 Year Government/Credit Index)
- High Yield Bonds (ML U.S. High Yield Master II Index)
- Intermediate-Term Bonds (LB Aggregate Bond Index)
- Floating Rate Bonds (CSFB Leveraged Loan Index)

	BEST			WORST
1996	11.27%	7.48%	5.14%	3.63%
1997	13.27%	9.65%	8.30%	6.66%
1998	8.69%	6.98%	5.31%	2.95%
1999	4.69%	3.15%	2.51%	-0.82%
2000	11.63%	8.08%	4.94%	-5.12%
2001	8.78%	8.44%	4.48%	2.65%
2002	10.26%	6.28%	1.12%	-1.89%
2003	22.21%	10.54%	5.41%	3.12%
2004	10.87%	5.60%	4.34%	1.18%
2005	5.69%	2.74%	2.43%	1.77%

Source: FMR Corp.

**Past performance is no guarantee of future results.** You cannot invest directly in any market index. See last page for index definitions.

Historically, segments of the fixed-income market perform in cycles over time. High yield bonds have typically followed the fortunes of the U.S. economy, while government bonds have had the tendency to thrive during periods of economic weakness, and international and floating rate bonds are influenced by still other factors.

## DOMESTIC EQUITY

Diversification means distributing your money among several different types of investments in order to spread out your risk. When it comes to investing in the U.S. stock market, that means being sure to cover various market capitalizations and investment styles – different industry sectors, large to small caps, and elements of growth and value.

### COVERING THE BASES

Diversifying helps mitigate the effects of market fluctuations. Failing to diversify can mean not only losing money when a segment deteriorates but also losing out when the market turns.

#### 10-Year Average Annual Performance

Returns are comparable for all segments over the past 10 years.

All returns based on Russell indices

	VALUE	BLEND	GROWTH
LARGE	Russell Top 200 Value 9.87%	Russell Top 200 8.35%	Russell Top 200 Growth 6.32%
MID	Russell Midcap Value 13.65%	Russell Midcap 9.29%	Russell Midcap Growth 9.27%
SMALL	Russell 2000 Value 13.08%	Russell 2000 9.26%	Russell 2000 Growth 4.69%

as of 12/31/05

#### Typical Asset Allocation

But many investors are overweighted in large-cap equities.

Source: Simfund

	VALUE	BLEND	GROWTH
LARGE	35%	15%	28%
MID	4%	2%	8%
SMALL	2%	3%	4%

as of 12/31/05

As a result, many nondiversified investors have suffered greater losses and failed to profit from the outperformance of small- and mid-cap stocks.

**Past performance is no guarantee of future results.** The securities of smaller, less well-known companies may be more volatile than those of larger companies.

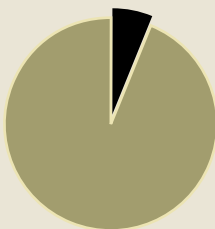
## INTERNATIONAL EQUITY

Many institutional and individual investors have similar long-term performance objectives. Yet the top 200 corporate pension plans have up to three times the percentage allocated to international stocks that the portfolios of individual investors have.

These professionals believe that diversifying with international can help provide them with both performance and opportunity.

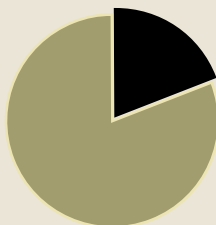
### ALLOCATION TO INTERNATIONAL EQUITIES INDIVIDUAL INVESTORS VS. PROFESSIONAL INSTITUTIONAL INVESTORS

**Individual Investors**  
6% International Equity



Defined contribution plan allocations

**Institutional Investors**  
19% International Equity



Professionally managed pension plans  
(defined benefit plans)

Source: FIRSCO, Pensions and Investments, 12/05

Foreign investments involve additional risk compared to U.S. investments, including political and economic risks and the risk of currency fluctuation, all of which are magnified in emerging markets.



## FOCUS ON THE FUNDAMENTALS

History shows that if you adhere to time-tested basics like diversification, you may be poised to enjoy returns throughout market cycles. Here are some other basics you should keep in mind.

- Don't get caught chasing returns.
- Take a long-term approach.
- Benefit from dollar cost averaging.

## DON'T GET CAUGHT CHASING RETURNS

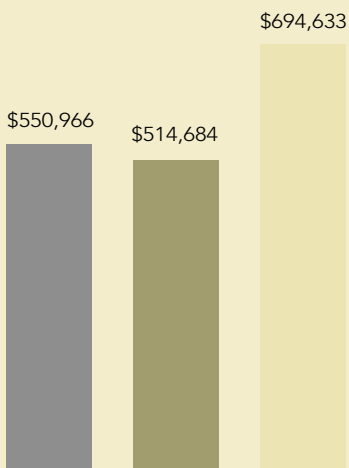
Emotions can get in the way of making the right investment decisions. By jumping from investment to investment trying to time the market, many investors may actually lose out on the solid performance they're seeking.

The chart below shows how chasing returns can take a serious bite out of your investing potential, whether you choose to chase returns by following the highest-returning index each year or take a contrarian approach and invest in the lowest returning index.

20-YEAR PERIOD FROM 12/31/85 THROUGH 12/31/05

All three bars illustrate a hypothetical investment of \$10,000 at the beginning of each year into:

- the best-performing index of the previous year.
- the worst-performing index of the previous year.
- split evenly among nine indices.



Data as of 12/31/05. Assumes there is no reinvestment of dividends or capital gains. **Past performance is no guarantee of future results.** It is not possible to invest directly in an index.

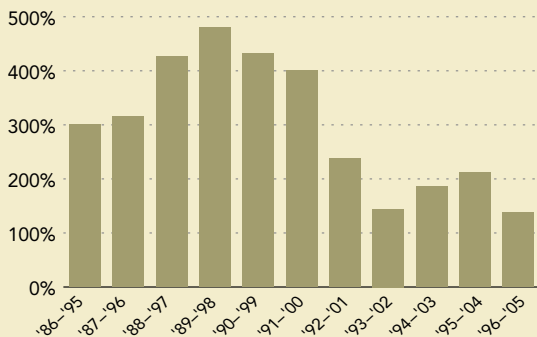
Indices are: S&P 500®, S&P MidCap 400, S&P/BARRA 500 Growth, S&P/BARRA 500 Value, Russell 2000, Russell 2000 Value, Russell 2000 Growth, MSCI EAFE Index, Lehman Brothers Aggregate Bond Index.

## STAYING PUT MAY BE YOUR BEST MOVE

Given the probability of rising returns over time, staying invested for the long term can work in your favor. Take a look at the graph below, for example. If at the beginning of any 10-year period between 1986 and 2005 you had invested money in stocks representing the S&P 500® and left your investment alone for 10 years, you would have realized a positive return – regardless of there having been several market ups and downs during the 10-year period.

### U.S. EQUITY MARKET PERFORMANCE

S&P 500® 10-year period cumulative returns, 1986–2005



Source: FMR Co., as of 12/31/05.

### HERE'S MORE GOOD NEWS:

A 15% drop in the market from July through October 1998 was followed by a 50% gain during the next eight months.<sup>1</sup>

<sup>1</sup> Bloomberg, Fidelity Investments, 3/05.

## BENEFIT FROM DOLLAR COST AVERAGING

Dollar cost averaging is a simple, systematic approach of investing a fixed dollar amount at regular intervals, regardless of the share price. With this strategy, your money will buy fewer shares when the price goes up and more shares when the price goes down. The end result may be that your average cost per share will be lower than the average price for the same time period.

### HOW DOLLAR COST AVERAGING WORKS

Dollar cost averaging uses the market's inevitable ups and downs to your advantage. This hypothetical chart shows the potential difference between a lump sum investment and dollar cost averaging over the year. It illustrates how dollar cost averaging in a declining market could result in more units at a lower average price paid.

Period		Amount Invested	Unit Price	Number of units
<b>Dollar Cost Averaging</b>	January	\$1,000	\$10.00	100
	April	\$1,000	\$8.50	118
	July	\$1,000	\$8.30	120
	October	\$1,000	\$8.05	124
	Total/Average	\$4,000	\$8.66	462
<b>Lump Sum</b>	January	\$4,000	\$10.00	400
	Total/Average	\$4,000	\$10.00	400

Dollar cost averaging does not ensure a profit or protect against a loss in a declining market. Such a plan involves continuous investments in securities, and you should consider your financial ability to continue purchases through periods of low price levels.



## YOU AND YOUR INVESTMENT REPRESENTATIVE

An investment representative can help you establish investment objectives and plan a strategy to reach them. Talk to your investment representative about how to develop an effective, personalized investment plan and start diversifying today.





The Morgan Stanley Capital International EAFE Index is an unmanaged market capitalization-weighted index that is designed to represent the performance of developed stock markets outside the United States and Canada.

The S&P 500® (a registered service mark of the McGraw-Hill Companies, Inc., licensed for use by Fidelity Distributors Corporation and its affiliates) is an unmanaged market capitalization-weighted index of common stocks.

The Lehman Brothers Aggregate Bond Index is a market value-weighted index of investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage securities, with maturities of one year or more.

Lehman Brothers 1–3 year Government/Credit Bond Index is a benchmark index composed of all publicly issued, nonconvertible, domestic debt of the U.S. government or agencies, quasi-federal corporations, or corporate debt guaranteed by the U.S. government with maturities between 1 and 3 years.

Credit Suisse First Boston (CSFB) Leveraged Loan Index is a market value-weighted index designed to represent the investable universe of the U.S. dollar-denominated leveraged loan market. This index includes reinvested dividends and capital gains, if any, and excludes the effects of a sales charge.

Merrill Lynch High Yield Master II index is a market value-weighted index of all domestic and Yankee high yield bonds, including deferred interest bonds and payment-in-kind securities. Issues included in the index have maturities of one year or more and have a credit rating lower than BBB-/Baa3 but are not in default.

Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represent approximately 92% of the total market capitalization of the Russell 3000 Index. Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. Russell 2000 Value and Russell 2000 Growth indices measure the performance of growth and value styles of investing in small-cap U.S. stocks. The Value index is an unmanaged index containing those Russell 2000 securities with a less-than-average growth orientation, while the Growth index is an unmanaged index that contains those securities with a greater-than-average growth orientation. Securities in the Value index generally have lower price-to-book and price earnings ratios than those in the Growth index. The constituent securities are NOT mutually exclusive.

Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell Midcap Growth Index measures the performance of those Russell Midcap companies with higher price to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000 Growth index.

Russell Midcap Value Index measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values. The stocks are also members of the Russell 1000 Value index.

Russell Midcap, Russell 1000, and Russell 2000 are registered service marks of Frank Russell Company. Fidelity Investments & Pyramid Design is a registered service mark of FMR Corp.

**Please carefully consider the fund's investment objectives, risks, charges and expenses before investing. For this and other information, call or write to your broker/dealer for a free prospectus. Read it carefully before you invest or send money.**

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