



Basics of mutual fund investing

Set your
financial future
in motion.



What is a mutual fund?



STRENGTH IN NUMBERS

Mutual funds are often described as pooled investments. That's because when you buy shares in a mutual fund, your money is pooled with that of other investors.

A professional fund manager uses this money to buy stocks, bonds, or money market instruments that may make up the fund's portfolio of investments.

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Note: Mutual funds are not insured by the Federal Deposit Insurance Corporation (FDIC), even if you buy them through a bank. Investing in mutual funds involves risk. You could lose some of your original investment (your principal) if you sell your shares at a lower price than what you paid for them.

Benefits of mutual funds.

Mutual fund investing offers important advantages, especially for individuals who prefer not to be involved directly in the research, buying, and selling of individual securities such as stocks and bonds.

PROFESSIONAL MANAGEMENT

The money you invest in a mutual fund is managed by a professional, known as a portfolio manager, who has the expertise and resources necessary to follow the markets, select investments, and track their performance.

DIVERSIFICATION

Diversification is one of the most important potential benefits of mutual fund investing. The money contributed by investors enables a portfolio manager to buy a wide range of securities assuming this is in line with the fund's objective. Because of this diverse range, the ups and downs of any one security may have less effect on the fund's overall performance. Keep in mind, however, that although diversification may help reduce your risk and enhance the stability of your investment, it does not guarantee against a loss or ensure a profit.

LIQUIDITY

Liquidity simply means being able to access your money when you need it. With mutual funds you can buy and sell shares easily, move money among different funds, and redeem shares. *Please be aware that certain fees may only apply when shares are redeemed from the fund.* Some mutual funds even offer checkwriting privileges.



Types of mutual funds.

There are hundreds of mutual funds available to investors, and no two are exactly alike. Each one has a specific investment objective and a different balance of risk and potential reward. Mutual funds can be grouped roughly into five categories: money market, fixed-income, growth and income, growth, and international. Brief descriptions of each category can be found on the following pages.

MONEY MARKET FUNDS

Objective: Stability and income. These funds aim to preserve your original investment and maintain a stable share price of \$1 at all times by investing in high-quality, short-term securities. *An investment in a money market fund is not guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund.*

Risk: Considered very conservative. Money market funds may be appropriate for investors who want to potentially minimize investment risk or who are investing for a short period of time and want ready access to their money.

Types of investments: T-bills, certificates of deposit, commercial paper, repurchase agreements, U.S. government and agency securities, other highly liquid and lower-risk securities. *A certificate of deposit is insured and offers a fixed rate of return, whereas an investment in a mutual fund is not insured.*

FIXED-INCOME FUNDS

Objective: Regular stream of income by investing primarily in interest-paying bonds and other debt securities. Bond funds have the potential to provide a higher level of regular income than money market funds and may also generate some capital growth if your shares rise in value.

Risk: Generally more conservative than stock funds; less conservative than money market funds, since their share prices rise and fall as interest rates and market conditions change. *Please keep in mind that any fixed-income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.*

Types of investments: Fixed-income securities encompass a wide range of risk and potential income. Generally, the higher the potential income, the greater the risk. Income funds commonly invest in:

High-quality securities — U.S. Treasury, government, and agency bonds, including mortgage-backed certificates.

Corporate bonds — issued by private companies; vary in quality from high to junk status, depending on the issuing company. *Lower quality of debt securities involves greater risk of default or price changes due to potential changes in the credit quality of the issuer.*

Municipal bonds — debt securities issued by state and local governments; the interest they pay may be exempt from federal income tax and/or municipal tax. *The municipal market is volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issuers of municipal securities. Interest rate increases can cause the price of a debt security to decrease. Certain high-income investors may be subject to the federal alternative minimum tax on a portion of investment income. Income may be subject to state and local taxes. Capital gains, if any, are taxable.*

Examples of fixed-income securities: High income, government investment, floating rate, inflation-protected, intermediate maturity, mortgage securities, municipal income. *Please keep in mind that investing in high-yield bonds involves greater risk due to payment of principal and interest because of lower credit quality of issuers.*

GROWTH AND INCOME FUNDS

Objective: Income and capital growth in varying proportions by investing in both equity and fixed-income investments.

Risk: In general, less conservative than fixed-income and money market funds. Risk varies with the investments included in the fund. As a rule, the more conservative growth and income funds tend to emphasize quality income-producing investments, while the more aggressive funds emphasize long-term growth through equity investments. *Investors should know that stock values fluctuate in response to the activities of individual companies and general market and economic conditions.*

Types of investments: Bonds, stocks — both dividend-paying and non-dividend-paying.

Examples of growth and income funds: Equally balanced income and growth, equity income, real estate.

GROWTH FUNDS

Objective: Long-term growth of capital by investing in stocks of companies with above-average earnings potential.

Risk: Because stocks are generally more volatile than other types of investments, growth funds exhibit short-term fluctuation and therefore a higher level of risk. Investors need to be prepared to tolerate the higher risk for the potentially higher long-term gain.

Types of investments: Growth funds invest in stocks from various recognized categories:

Small-cap, Mid-cap, Large-cap — Stocks categorized according to the size of a company as measured by the total price of all the company's outstanding stock. Small-company stocks are considered more volatile than stocks of larger, more well-established corporations. In general, the larger a company's market capitalization, the more stable its growth and the price of its stock.

Growth — Stocks whose earnings per share have the potential to grow quickly.

Value — Stocks that appear to be selling at a price below what they are worth. *Value stocks can perform differently from the market as a whole. They can remain undervalued by the market for long periods of time.*

Industry sector — Stocks within a narrowly defined industry, e.g., banking, telecommunications, health care, consumer goods, technology. *Because of their narrow focus, sector funds may be more volatile than funds that diversify across many sectors.*

Examples of growth funds: Dividend growth, capital appreciation, equity growth, equity value, large cap, sector.

INTERNATIONAL FUNDS

Objective: Long-term growth of capital by investing in foreign securities. The expansion of markets around the world is creating dynamic investment opportunities with high growth potential.

Risk: High growth potential carries with it increased volatility and risk. Foreign investments involve greater risk than U.S. investments, including political and economic risks and the risk of currency fluctuation, all of which are magnified in emerging markets.

How mutual funds earn money.

When investment representatives talk about growth funds or income funds, they are talking about the two ways mutual funds can earn money for you.

GROWTH

Growth, also known as capital appreciation, is measured by a fund's share price. When the value of the securities in a mutual fund rises, the fund's share price goes up (grows) and the value of your investment in the fund goes up along with it.

If you sell shares at a price higher than you paid for them, you make a profit called a capital gain (on which you may have to pay capital gains tax).

If you sell shares at a price lower than you paid for them, you incur a capital loss.

INCOME

Income consists of interest and dividends (earnings) paid out by stocks, bonds, and other securities owned by a mutual fund. You receive a portion of the fund's earnings, called a distribution, based on the number of shares you own.

You can choose to have this money paid to you by check, or you can reinvest it to buy more shares in the fund (see following page). Regardless of whether it is sent to you or reinvested, you may have to pay taxes on the distribution.

Shares and share price

Most mutual fund share prices change every day in response to movements in the stock, bond, and money markets. The number of shares you own and the fund's current share price determine the overall value of your investment. Your investment will gain or lose value as the fund's share price rises and falls over time.

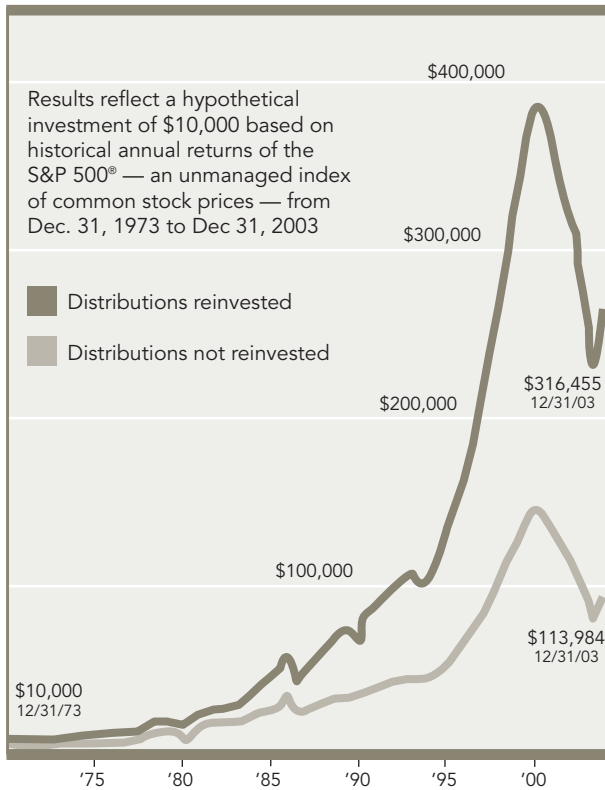


THE JOYS OF COMPOUNDING

One way to potentially make the most of any income and capital gains received from your mutual fund investment is to reinvest your distributions. By reinvesting your earnings back into your account, your money has the opportunity to compound and grow — potentially earning still more money for you.

Over time, the effects of compounding may help your assets increase faster. And the longer you keep your money invested, the bigger the potential benefit. Your account may earn more or less than this example.

THE POWER OF COMPOUNDING



For illustrative purposes only. This chart does not represent actual or future performance of any investment option. An investment cannot be made directly in an index. Past performance is no guarantee of future results.

Share prices, yield, and return will vary and you may have a gain or loss when you sell your shares.

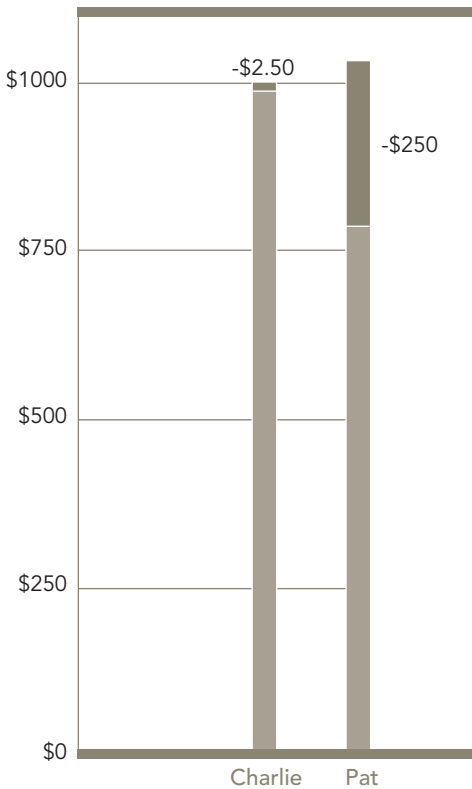
HOW DIVERSIFICATION CAN WORK TO YOUR ADVANTAGE.

Here is a hypothetical example:

Charlie puts \$1,000 in a mutual fund that has 1% of its money invested in stock of XYZ Corporation.

Pat buys \$1,000 worth of XYZ Corporation stock directly. Suddenly XYZ's stock price loses 25% of its value. Charlie lost only \$2.50 because XYZ stock represents only 1% of the mutual fund's total assets.

Pat lost \$250.



The moral: Even a drastic 25% drop in a stock price may have a minimal effect on a diversified fund's share price or the value of your investment. Of course, diversification does not ensure a profit or guarantee against loss.

Allocating your assets.

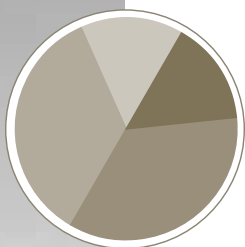
ALIGN YOUR INVESTMENTS TO MEET YOUR GOALS.

By itself, a single mutual fund may not provide adequate diversification to meet your financial goals. Spreading your investments among different types of funds allows you to:

- Match your financial objectives
- Potentially reduce risk by diversifying your assets
- Align your investments with changing financial needs



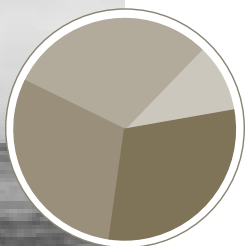
The following asset allocation models illustrate three hypothetical investment strategies. *Before reviewing these strategies you should remember the following points: Foreign investments, especially those in emerging markets, involve greater risk and may offer greater potential returns than U.S. investments, and stock values fluctuate in response to the activities of individual companies and general market and economic conditions.*



Aggressive Growth Strategy

Emphasizes growth by investing mostly in stocks. Risk is moderated by a commitment to income investments.

- 15% Income
(15% Bonds/0% Money Markets)
- 35% Growth and Income
- 35% Growth
- 15% International



Moderate Strategy

Seeks to protect potential gains while seeking high current income by investing in both equities and bonds.

- 30% Income
(25% Bonds/5% Money Markets)
- 30% Growth and Income
- 30% Growth
- 10% International



Balanced Strategy

Emphasizes current income, capital preservation, and liquidity, while remaining invested for some growth potential.

- 50% Income
(40% Bonds/10% Money Markets)
- 25% Growth and Income
- 20% Growth
- 5% International



Which fund is right for you?

YOUR INVESTMENT REPRESENTATIVE CAN HELP.

The optimal portfolio will depend on your investment goals, your time frame, and your risk tolerance.

Your Investment Representative can guide you through the asset allocation process and help you determine which combination of funds may be right for you.

YOUR INVESTMENT GOALS

Why are you investing? People invest for a lot of good reasons:

- Retirement
- Children's education
- Purchase a home
- Help protect retirement savings against inflation
- Earn additional current income

Before you invest, you need to ask yourself what you want to accomplish.

YOUR TIME FRAME

When will you need the money? By dividing your goals into long- and short-term, you'll make selecting the right investments a lot easier:

- Long-term investing gives you the opportunity to go for potentially higher returns by taking on more risk.
- Short-term investing generally means you need to focus on preserving the value of your principal with more conservative investments.

YOUR RISK TOLERANCE

How much risk are you willing to take? Every investment involves some degree of risk. You have to decide how you feel about risk:

- Want bigger returns? You may have to accept more risk.
- Want to minimize risk? You'll have to seek out mutual funds that typically offer lower potential returns.

The important thing is that you find a comfortable balance between potential risk and potential earnings.

Establish a plan and stick to it.

LET YOUR INVESTMENT REPRESENTATIVE BE YOUR GUIDE.

Your investment representative can help guide you through the asset allocation process and help you determine which combination of funds is right for you. As your needs change over time, your investment professional may recommend that you move your assets from one combination of funds to another, to align your investments more closely with your changing goals.

A STRATEGY FOR STAYING ON TRACK

Once you have set your investment goals, you will need a realistic, practical plan to keep you on track. One popular method many investors use is called dollar cost averaging. Here's how it works:

Invest a fixed dollar amount at regular intervals — usually every month or every quarter. This allows you to avoid having to guess the right time to buy shares.

- When the fund's price is down, you'll get more shares.
- When the fund's price is up, you'll get fewer shares.
- If followed systematically, dollar cost averaging may help you acquire more shares over time at a lower average price per share.

Of course, dollar cost averaging cannot guarantee a profit or protect you against loss. Such a plan involves continuous investment in securities, and you should consider your financial ability to continue purchases through periods of low price levels. It works best if you remain committed to investing on a regular basis and follow your systematic investment plan over an extended period of time.

You're on your way.

Now that you have a basic understanding of mutual funds and mutual fund investing, you are ready to discuss your investment needs and goals in more depth with an investment representative. And remember — the sooner you get started, the sooner you can leverage the rewards of mutual fund investing.





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