

Sector Rotation System



This Week's Changes

Buy

Cons. Staples – FDFAX

Telecommunications --
FSTCX

Sell

Defense & Aerospace –
FSDAX

Gold -- FSAGX

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We will be making two changes to the model portfolio this week. On Monday we will sell Defense & Aerospace (FSDAX) & Gold (FSAGX) and with the proceeds invest evenly in Consumer Staples (FDFAX) & Telecommunications (FSTCX).

After a strong beginning to the week, the model portfolio and the market indices ended the week in negative territory. For the week the Sector Rotation System (SRS) portfolio lost 0.67% vs. a loss of 1.03% for Fidelity's S&P 500 Index fund (FSMKX). On a positive note the SRS portfolio finally made up for the 3% decline during the first week of the year and is now ahead of FSMKX on a year to date basis. Since inception on 12/31/2001 the model portfolio has outperformed FSMKX 59.65% to 33.94%.

Fidelity Gold (FSAGX) was the best performing Fidelity sector fund this week gaining a measly 0.41%. Although, when we compare Gold's result to Fidelity's other sector funds it looks much better. We purchased Gold on 2/26 after FSAGX cracked the top ten rankings due to strong recent performance. Unfortunately, the timing of our purchase did not work out in our favor as Gold fell 11% over the next five days and was Fidelity's worst performing Fidelity sector fund. Fortunately Gold has since recovered a little over half of our losses. When it comes to investing in a Gold fund you just have to expect higher volatility.

Construction & Housing was Fidelity's worst performing sector fund this week losing 3.33%. Combine the highly publicized problems in the sub-prime mortgage sector with a subpoena from the US Attorney General's office on Beazer Homes (BZH) and you can understand why this sector underperformed this week. This is one sector that definitely has a chance to be over sold as many speculators run for the hills.

In previous newsletters I've discussed the slow down in productivity and the potential it has to increase inflation. Recently, we learned that Business Investment in Equipment & Software figures have come in below economists previous forecasts. If companies are not spending the money to upgrade their equipment or software it is less likely that productivity will improve in the short run. Combine lower productivity with lower unemployment and the potential for inflation rises which will continue to pressure the Fed to potentially raise interest rates in the future.

As, I have mentioned on numerous occasions I recommend that you take a slightly more defensive position. My suggestion is to allocate 10% more of your portfolio to fixed income investments than you normally would.

Remember the first rule of investing is to protect what you have.

PORTFOLIO PERFORMANCE

Sector Rotation System		Fidelity S&P 500 Index Fund	
1 Week	-0.67%	1 Week	-1.03%
4 Week	4.45%	4 Week	2.55%
12 Week	3.87%	12 Week	1.22%
26 Week	4.39%	26 Week	7.33%
YTD	0.67%	YTD	0.62%
52 Week	1.00%	52 Week	11.74%
Since 12/31/01	59.65%	Since 12/31/01	33.94%
2006	9.41%	2006	15.71%
2005	16.74%	2005	4.31%
2004	9.29%	2004	10.73%
2003	36.27%	2003	28.49%
2002	-16.63%	2002	-22.48%

CURRENT PORTFOLIO

Rank	Purchase		NAV	Shares	NAV	Value	Cost	Gain	Percent Gain	Days Held
	Date	Name								
1	3/26/07	Energy Service	FSESX	214.954	72.46	15,576	15,672	(97)	-0.62%	4
2	3/5/07	Natural Gas	FSNGX	413.421	41.87	17,310	15,677	1,633	10.42%	25
3	3/5/07	Nat. Resources	FNARX	566.363	30.37	17,200	15,677	1,524	9.72%	25
4	3/5/07	Utilities Growth	FSUTX	276.100	60.89	16,812	15,677	1,135	7.24%	25
5	3/26/07	Energy	FSENX	299.661	51.92	15,558	15,672	(114)	-0.73%	4
6	2/5/07	Materials	FSDPX	321.028	51.74	16,610	16,000	610	3.81%	53
7	2/20/07	Medical Delivery	FSHCX	291.076	51.98	15,130	15,264	(134)	-0.88%	38
9	2/12/07	Chemicals	FSCHX	214.670	71.45	15,338	15,089	249	1.65%	46
15	2/12/07	Defense & Aero	FSDAX	176.069	85.31	15,020	15,089	(69)	-0.46%	46
21	2/26/07	Gold	FSAGX	414.943	36.38	15,096	15,867	(772)	-4.86%	32
Total						159,650				

MODEL CHANGES

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Mutual Fund Performance

Name	Symbol	Close	1 Dy Rtn	2 Dy Rtn	3 Dy Rtn	4 Dy Rtn	5 Dy Rtn	10 Dy Rtn	15 Dy Rtn	20 Dy Rtn	60 Dy Rtn	YTD Fnd
Air Transportation	FSAIX	50.18	0.02	-0.10	-1.30	-1.74	-2.58	0.32	-0.77	-1.10	2.70	3.44
Automotive	FSAVX	40.12	-0.15	0.00	-0.82	-1.59	-1.57	1.78	-0.69	0.07	3.24	3.86
Banking	FSRBX	33.05	-0.33	0.33	-0.90	-1.84	-2.22	1.16	-0.63	-1.08	-3.84	-2.88
Biotechnology	FBIOX	62.03	0.21	0.31	-0.11	-0.62	-0.86	2.31	1.01	-1.08	-4.99	-4.51
Brokerage & Investment	FSLBX	73.93	-0.09	0.75	-0.54	-1.60	-2.07	3.21	0.90	0.87	-0.67	-0.20
Chemicals	FSCHX	71.45	-0.04	-0.13	-0.60	-1.84	-1.20	1.88	1.13	1.91	6.12	6.98
Communications Equipment	FSDCX	21.00	0.19	-0.10	-0.66	-0.90	-0.47	1.35	2.89	2.24	2.24	2.64
Computers	FDCPX	39.63	0.03	-0.05	-1.22	-1.95	-1.39	0.41	0.43	1.05	-0.43	0.35
Construction & Housing	FSHOX	44.64	0.09	0.29	-1.37	-2.62	-3.33	0.52	-2.36	-2.79	0.27	0.11
Consumer Disc	FSCPX	27.22	0.15	0.44	-0.48	-1.13	-1.31	2.87	1.34	1.91	3.03	3.89
Consumer Staples	FDFAV	59.97	0.15	0.77	0.60	0.05	-0.02	2.85	3.01	3.34	4.30	4.73
Cyclical Industries	FCYIX	20.75	0.05	0.24	-0.72	-1.57	-1.84	1.67	0.88	0.53	0.44	1.37
Defense & Aerospace	FSDAX	85.31	-0.28	0.11	-0.84	-1.10	-1.24	0.38	0.64	1.21	3.92	4.60
Electronics	FSELX	44.79	0.34	-0.24	-1.88	-2.69	-2.78	-0.97	-2.06	-2.16	1.75	2.19
Energy	FSENX	51.92	-1.14	-0.17	-0.57	-0.73	-0.02	6.77	5.55	6.35	5.29	6.42
Energy Service	FSESX	72.46	-1.41	0.06	-0.44	-0.62	0.07	5.98	5.52	7.81	6.17	7.35
Environmental	FSLEX	17.27	0.06	0.17	-0.29	-1.09	-1.03	2.55	1.05	0.99	-0.06	-0.06
Fidelity Spart 500 Index	FSMKX	98.58	-0.11	0.26	-0.51	-1.12	-1.03	2.46	1.36	1.38	0.02	0.62
Financial Services	FIDSX	116.95	-0.06	0.46	-0.56	-1.20	-1.52	2.42	0.02	-0.15	-2.16	-1.42
Gold	FSAGX	36.38	0.36	-0.14	0.22	-0.44	0.41	4.06	4.39	0.78	0.33	-0.33
Healthcare	FSPHX	126.81	0.13	0.36	-0.24	-1.01	-1.17	2.04	0.82	0.76	0.96	1.40
Home Finance	FSVLX	46.67	-0.36	0.26	-1.25	-2.55	-3.21	0.82	-1.50	-2.97	-7.31	-6.19
Industrial Equipment	FSCGX	31.76	0.03	0.32	-0.56	-1.34	-1.61	1.50	1.02	1.05	1.63	2.62
Insurance	FSPCX	69.67	-0.01	0.22	-0.37	-0.68	-0.63	2.10	-0.06	0.35	-2.45	-1.82
IT Services	FBSOX	17.47	-0.29	-0.63	-0.85	-0.96	-0.51	3.80	2.76	0.87	1.33	1.98
Leisure	FDLSX	80.33	0.10	0.24	-0.50	-1.34	-1.17	2.97	1.43	1.13	0.68	1.44
Materials	FSDPX	51.74	0.15	0.56	-0.27	-1.09	-0.67	2.70	1.55	2.27	8.29	9.29
Medical Delivery	FSHCX	51.98	0.41	-0.46	-1.08	-1.98	-1.79	2.26	2.12	1.86	6.41	6.69
Medical Equip & Systems	FSMEX	24.14	0.33	0.67	0.46	0.04	0.29	2.94	3.07	3.16	3.83	4.82
Multimedia	FBMPX	47.64	0.15	0.40	-0.44	-0.94	-1.00	2.01	0.61	1.28	-1.22	-0.44
Nat Resources	FNARX	30.37	-0.85	0.00	-0.33	-0.69	0.03	6.19	4.83	5.75	8.19	9.01
Natural Gas	FSNGX	41.87	-0.59	0.02	-0.40	-0.50	0.14	6.95	6.19	5.76	9.64	11.03
Ntwrkng/Infstrctur	FNINX	2.45	0.41	0.00	-0.81	-1.61	-1.21	1.66	0.41	-0.81	-1.61	-0.81
Paper & Forest	FSPFX	34.13	0.21	0.29	-0.38	-1.22	-1.33	1.10	-0.03	-0.90	4.34	5.08
Pharmaceuticals	FPHAX	10.95	0.00	0.83	0.00	-0.54	-0.27	2.34	1.01	1.30	1.11	1.48
Retailing	FSRPX	55.74	0.05	0.20	-0.64	-1.33	-1.36	2.94	1.35	1.81	5.61	6.15
Software	FSCSX	66.64	-0.19	-0.28	-1.08	-1.77	-1.17	2.79	2.26	1.55	1.05	1.63
Technology	FSPTX	70.03	0.11	-0.13	-1.42	-2.08	-1.71	0.92	0.72	0.46	2.64	3.15
Telecommunications	FSTCX	51.60	0.37	0.96	-0.04	-0.33	-0.54	3.14	2.58	2.36	6.88	6.24
Transportation	FSRFX	52.62	0.32	0.40	-0.64	-1.76	-3.09	0.71	-0.11	-0.32	4.28	5.01
Utilities Growth	FSUTX	60.89	-0.52	-0.23	-0.28	-0.28	0.12	4.05	4.98	4.10	9.24	9.89
Wireless	FWRLX	7.19	0.00	0.56	-0.42	-0.96	-1.10	1.41	1.84	1.41	3.30	2.71

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