

Fidelity Low-Priced Stk

Manager Strategy

By prospectus, the fund focuses on companies with share prices of \$35 or less, but that is a marketing gimmick. The real story is that manager Joel Tillinghast buys mostly smaller-cap fare that offers a combination of reasonable valuations and solid growth prospects. He spreads the portfolio across hundreds of holdings. If he's finding the best opportunities overseas, Tillinghast is willing to devote a substantial chunk of the portfolio to foreign issues. The fund has also owned a smattering of large-cap stocks at times, and Tillinghast will let cash build if he can't find enough good investment opportunities.

Portfolio Manager(s)

Joel C. Tillinghast, CFA. Since 12-89. BA'80 Wesleyan U.; MBA'83 Northwestern U.

Performance 03-31-03

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
1999	-7.05	15.54	-7.50	5.78	5.08
2000	4.46	0.89	6.64	5.73	18.83
2001	3.94	12.90	-7.30	16.48	26.71
2002	6.97	-0.27	-16.98	5.93	-6.18
2003	-6.04	—	—	—	—

Trailing	Total Return %	+/- S&P 500	+/- Russ All Cat	%Rank	Growth of \$10,000
3 Mo	-6.04	-2.89	-1.55	84	9,396
6 Mo	-0.46	-5.47	-1.85	79	9,954
1 Yr	-17.59	7.17	9.37	44	8,241
3 Yr Avg	8.31	24.40	19.31	10	12,705
5 Yr Avg	5.08	8.84	9.20	22	18,812
10 Yr Avg	12.97	4.45	6.75	2	33,866
15 Yr Avg	—	—	—	—	—

Tax Analysis	Tax-Adj Rtn %	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr Avg	5.31	6	1.76	68
5 Yr Avg	2.52	11	1.84	72
10 Yr Avg	9.88	3	2.44	79

Potential Capital Gain Exposure: 5% of assets

Morningstar's Take

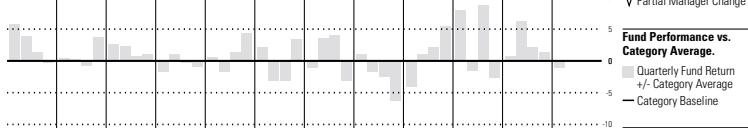
Fidelity Low-Priced Stock Fund is an impressive offering.

Manager Joel Tillinghast received Morningstar's Fund Manager of the Year honors for 2002, and it's easy to see why. This offering boasts the best 10-year return of any fund in the small-blend category. Tillinghast has also muted risk with his attention to valuation and by spreading the fund's assets across hundreds of issues. Further, although the fund is the largest in the small-blend category with nearly \$15 billion in assets, its performance hasn't suffered as it has grown.

As this fund's name suggests, Tillinghast is required to buy stocks that are trading for less than \$35 per share. The 14-year veteran is a bottom-up investor, choosing firms that look inexpensive based on their future earnings potential. The majority of the fund's assets are in small- and micro-cap stocks, but Tillinghast buys firms throughout the market-cap spectrum. For example, the fund's top holding at year-end 2002 was grocer

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NTF Plans: CommonWealth NTF, Fidelity Instl-NTF

Ticker	Load	NAV	Yield	Total Assets	Mstar Category
FLPSX	3.00%	\$23.65	0.1%	\$14,282 mil	Small Blend



Year	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	03-03	History
NAV	15.96	17.30	16.00	18.50	21.35	25.13	22.85	23.12	27.42	25.17	23.65	23.65	NAV
Total Return %	28.95	20.21	4.81	24.89	26.89	26.73	0.53	5.08	18.83	26.71	-6.18	-6.04	Total Return %
+/-S&P 500	21.33	10.15	3.50	-12.65	3.95	-6.62	-28.05	-15.96	27.93	38.59	15.91	-2.89	+/-S&P 500
+/-Russ 2000	10.54	1.31	6.63	-3.55	10.35	4.36	3.08	-16.18	21.86	24.22	14.30	-1.55	+/-Russ 2000
Income Return %	0.78	1.02	0.55	1.46	1.33	1.34	0.81	0.75	0.70	0.11	0.00	0.00	Income Return %
Capital Return %	28.17	19.19	4.26	23.43	25.56	25.39	-0.28	18.08	26.01	-6.29	-6.04	-6.04	Capital Return %
Total Rtn % Rank Cat	9	35	8	52	25	41	19	73	28	5	9	74	Total Rtn % Rank Cat
Income \$	0.10	0.16	0.09	0.23	0.24	0.28	0.20	0.15	0.16	0.03	0.00	0.00	Income \$
Capital Gains \$	0.69	1.62	2.05	1.24	1.66	1.58	1.94	1.19	3.43	1.54	0.54	0.00	Capital Gains \$
Expense Ratio %	1.20	1.12	1.13	1.11	1.04	1.01	0.95	1.08	0.80	1.00	0.97	—	Expense Ratio %
Income Ratio %	1.27	1.00	0.51	1.31	1.46	1.36	1.10	0.52	0.58	0.92	0.34	—	Income Ratio %
Turnover Rate %	82	47	54	65	79	45	47	24	15	44	26	—	Turnover Rate %
Net Assets \$mil	2,240	2,060	2,355	3,350	5,664	10,691	9,195	6,646	6,363	12,429	15,104	14,282	Net Assets \$mil

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	-20.06	High	Low	★★★★★
3 Yr	7.21	High	Low	★★★★★
5 Yr	4.44	+Avg	Low	★★★★★
10 Yr	12.63	High	Low	★★★★★
Incept	15.05	—	—	—

Other Measures

	Standard S&P 500	Best Fit Index Russ 2000 VI
Alpha	19.8	3.9
Beta	0.65	0.76
R-Squared	64	85
Standard Deviation	15.57	—
Mean	8.31	—
Sharpe Ratio	0.32	—

Portfolio Analysis 01-31-03

Share change since 07-02: Total Stocks:831

Symbol	Company	PE YTD	Ret%	% Assets
⊕ Safeway	Consumer	7.3	-28.51	2.54
⊕ CVS	Consumer	25.4	-6.68	2.07
⊕ PMI Grp	Financial	6.9	-5.07	1.45
⊕ Lafarge	Ind Mtrls	9.1	-6.89	1.34
⊕ DR Horton	Consumer	6.4	30.68	1.29
⊕ Sabre Hldgs CI A	Consumer	16.2	-0.06	1.05
⊕ Outback Steakhouse	Consumer	18.4	7.57	1.04
⊕ Applebee's Intl	Consumer	20.8	23.50	0.97
⊕ Computer Sciences	Business	13.4	-8.04	0.96
⊕ Ross Stores	Consumer	15.1	-12.71	0.96
⊕ Constellation Brands A	Goods	11.7	6.28	0.95
⊕ Tech Data	Ind Mtrls	9.9	-7.86	0.94
⊕ Renal Care Grp	Health	18.1	-4.87	0.94
⊕ Healthsouth	Health	0.1	-96.43	0.92
⊕ Doral Finl	Financial	13.7	32.53	0.87
⊕ Renaissance Re Hldgs	Financial	9.1	6.75	0.79
⊕ Tellabs	Hardware	—	-21.60	0.78
⊕ BJ's Whse Club	Consumer	5.9	-22.62	0.72
⊕ Jones Apparel Grp	Goods	11.9	-23.53	0.72
⊕ Affiliated Comp Svcs A	Business	22.4	-14.91	0.72

Current Investment Style

Value Blind Growth	Market Cap %	Rel S&P 500	3 Year High Low
⊕ Info	10.9	0.5	—
⊕ Software	2.9	0.6	3 0
⊕ Hardware	6.3	0.7	9 6
⊕ Media	1.1	0.3	5 1
⊕ Telecom	0.5	0.1	1 0
⊕ Service	61.4	1.3	—
⊕ Health	10.4	0.7	12 10
⊕ Consumer	24.9	2.8	25 17
⊕ Business	10.4	2.7	11 9
⊕ Financial	15.6	0.8	17 15
⊕ Mfg	26.9	0.9	—
⊕ Goods	9.7	1.0	10 9
⊕ Ind Mtrls	14.6	1.4	16 14
⊕ Energy	2.4	0.4	6 2
⊕ Utilities	0.2	0.1	1 0

Value Measures	Rel S&P 500
Price/Earnings	11.3 0.7
Price/Book	1.2 0.6
Price/Sales	0.4 0.4
Price/Cash Flow	1.9 2.4
Dividend Yield %	0.7 0.4
Growth Measures	% Rel S&P 500
Long-Term Erngs	21.5 1.4
Book Value	12.6 1.6
Sales	7.3 0.9
Cash Flow	9.0 0.8
Historical Erngs	9.1 1.3

Profitability	% Rel S&P 500
Return on Equity	12.9 0.8
Return on Assets	6.8 0.9
Net Margin	5.1 0.6

Sector Weightings

Sector	% of Stocks	Rel S&P 500	3 Year High Low
⊕ Info	10.9	0.5	—
⊕ Software	2.9	0.6	3 0
⊕ Hardware	6.3	0.7	9 6
⊕ Media	1.1	0.3	5 1
⊕ Telecom	0.5	0.1	1 0
⊕ Service	61.4	1.3	—
⊕ Health	10.4	0.7	12 10
⊕ Consumer	24.9	2.8	25 17
⊕ Business	10.4	2.7	11 9
⊕ Financial	15.6	0.8	17 15
⊕ Mfg	26.9	0.9	—
⊕ Goods	9.7	1.0	10 9
⊕ Ind Mtrls	14.6	1.4	16 14
⊕ Energy	2.4	0.4	6 2
⊕ Utilities	0.2	0.1	1 0

Composition

● Cash	4.4
● Stocks	94.2
● Bonds	0.0
● Other	1.3
○ Foreign	16.9

1 Morningstar's Take

Because of our independence and our analysts' reputation as straight-shooters, fund managers who won't talk to other analysts will talk with ours. Top managers reveal what they're thinking about their funds, specific stocks, and market trends. That gives Morningstar Mutual Funds subscribers an edge.

2 Morningstar's Investment Style Box - ENHANCED

Now we calculate our Style Box using 10 key factors, providing a more precise portrayal of a fund's investment style.

3 Portfolio Analysis

Find out what stocks a fund owns, whether it holds bonds or cash, and what sectors it favors and shuns.

4 Historical Results for 12 Years

Examine fund performance, relative rankings, expenses, turnover rates, and more. Comparing funds has never been easier.

5 The Morningstar Rating for Funds - ENHANCED

Our star ratings are now calculated using more-refined peer groups. It's easier to spot managers who've added value.

Overview: Large Value

Leaders	Best 5 Year Return%
Clipper	6.99
Dodge & Cox Stock	4.46
Ameristock	3.12
PBHG Large Cap PBHG	2.83
Sequoia	2.54

	Lowest Std Deviation
Oppenheimer Quest Opp A	9.53
USAA Cornerstone Strat	9.84
Hancock Sov Investors A	11.59
Sequoia	11.84
SM&R Equity Income T	12.00

Category Analysis | By Scott Cooley 01-14-03

Smart stock selection and an appreciation for yield limited the damage to our large-value Fund Analyst Picks in 2002.

It was a tough year for nearly all equity investors in 2002, but our large-value picks held up relatively well. Five of our six selections finished within the top quintile of the category, though the sixth, ICAP Select Equity, stumbled badly, landing near the bottom of the group. A number of troubled stocks, including Tyco International and Sears, took a toll on that fund's returns.

Long before President Bush proposed shielding most dividend payments from taxation, several of our management teams focused on firms' yields. In the wake of the dot-com bust, investors have shown renewed enthusiasm for companies with real products, profits, and payouts. That was a huge plus in 2002 for a number of our picks, including American Funds Washington Mutual Investors and T. Rowe Price Equity-Income. Moreover, a genuine yield focus helped keep those funds' managers away from dividend-poor tech issues, which again stumbled.

Some smart stock selections helped our Picks, as well. Whereas ICAP Select Equity got burned by buying Tyco's shares too early, the Clipper team bought much of its stake near their nadir, and then reaped the benefits when the stock bounced sharply off its low. At Oakmark Fund, manager Bill Nygren scored with longtime holdings such as Washington Mutual (the savings and loan) and Fortune Brands. And the superb team running Dodge & Cox Stock earned solid gains on a number of issues, including Occidental Petroleum and Union Pacific, among many others.

Of course, it's worth pointing out that the funds that posted relatively good returns last year have experienced problems in the past. In particular, many of them looked sluggish during the late 1990s, when growth ruled the roost. Although we think all these funds have terrific long-term prospects, in the short run they might perform similarly poorly again. With that in mind, we still think all these funds are worthy of investors' strong consideration.

Fund Analyst Picks

Clipper

pg 21 Will its bets on Tyco and AOL pay off?

American Funds Washington Mutual A

pg 13 This fund offers about everything one would want in a sturdy, value-oriented offering.

Dodge & Cox Stock

pg 24 Patience has proved a virtue for this Fund Analyst Pick.

ICAP Select Equity

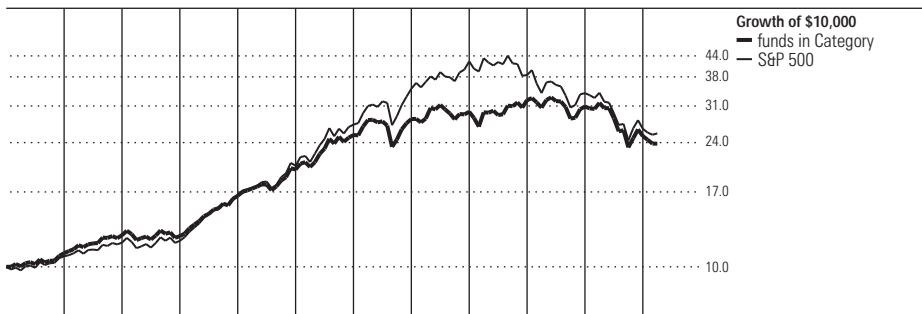
pg 42 This focused mutual fund is a real hidden gem.

T. Rowe Price Equity-Income

pg 96 Its many charms make this mutual fund one of our favorites.

Oakmark I

pg 64 This is one of the more compelling funds around.



1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	03-03	History
21.79	22.99	5.18	40.94	28.79	34.88	23.68	19.72	26.01	7.36	-10.25	-2.19	Top Decile Average
10.07	13.69	-0.64	32.55	20.17	27.27	11.73	5.38	8.56	-4.53	-18.86	-5.15	Total Return %
1.40	5.18	-6.69	22.89	10.54	18.01	-2.50	-7.05	-5.97	-14.74	-27.26	-8.22	Bottom Decile Average
2.45	3.63	-1.95	-4.99	-2.77	-6.08	-16.85	-15.66	17.66	7.35	3.23	-2.00	+/-S&P 500
1.00	-6.07	1.67	-7.48	-2.14	-8.22	-9.51	-5.57	6.25	4.26	-0.83	0.04	+/-Russ 200 VI
1.08	1.12	1.18	1.26	1.29	1.32	1.36	1.34	1.37	1.38	1.44	—	Expense Ratio %
2.67	2.24	2.20	2.18	1.70	1.33	0.95	0.81	0.81	0.66	0.55	—	Income Ratio %
57	61	57	58	59	58	66	67	100	82	69	—	Turnover Rate %
99.85	136.33	150.65	222.35	297.02	421.47	494.84	485.36	454.68	466.50	405.42	382.98	Net Assets \$bil
119	144	159	177	191	209	236	259	280	302	333	347	#Funds ex multi-share classes
—	—	—	—	—	—	—	—	—	—	—	—	% Cash Inflow
—	—	—	—	—	—	—	—	—	—	—	—	% of Equity Inflows
—	—	—	—	—	—	—	—	—	—	—	—	% of All Fund Inflows

Performance, Risk, and Expenses

Total Ret%	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total	Tax Analysis	Tax-Adj Ret%	Tax-Cost Ratio	Expense Ratio
2000	-0.39	-1.93	6.42	4.45	8.56				Front-End Load 1.38
2001	-5.14	4.62	-11.47	8.83	-4.53	3 Yr	-8.90	0.99	Deferred Load 1.97
2002	2.60	-10.26	-18.39	8.20	-18.86	5 Yr	-5.27	1.47	Level Load 1.91
2003	-5.15	—	—	—	—	10 Yr Avg	4.81	2.18	No-Load 0.95

Trailing	Total Return %	+/- S&P 500	+/- Russ 200 VI	%Rank All Funds
3 Mo	-5.15	-2.00	0.04	76
6 Mo	2.60	-2.41	-1.79	44
1 Yr	-24.92	-0.17	-0.73	67
3 Yr	-7.43	8.66	2.80	52
5 Yr	-3.56	0.20	-0.75	68
10 Yr Avg	7.39	-1.13	-1.74	31
15 Yr Avg	9.48	-1.35	-1.39	28

Category Correlation	Modern Portfolio Theory Stats
Value	Standard Dev 15.07
Blend	Mean -7.43
Growth	Sharpe Ratio -0.77
Large	Alpha 5.0
Mid	Beta 0.76
Small	R-Squared 70

Portfolio Analysis

Avg number of equity holdings	% Net Assets
99	1.77
Citigroup	1.73
ExxonMobil	1.61
Bank of America	1.47
Verizon Comms	1.29
ChevronTexaco	1.28
J.P. Morgan Chase & Co.	1.21
Fannie Mae	1.18
American Intl Grp	1.13
SBC Comms	1.05
Wells Fargo	1.05

Most Common Purchases	Value \$mil	Most Common Sales	Value \$mil
General Elec	13409.0	Bank of America	-4163.7
Consolid Edison	10720.9	ConAgra	-3738.5
General Motors	6895.9	Constellation Energy	-3219.2
Bristol-Myers Squibb	5483.6	Lockheed Martin	-3008.8
FleetBoston Finl	5385.0	Newell Rubbermaid	-2814.3

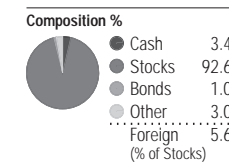
Investment Style	Market Capitalization%
Giant	31.2
Large	43.0
Mid	22.8
Small	2.1
Micro	0.3
Median \$mil	21,858

Sector Weightings	% of Stocks	Rel S&P 500
Info	16.1	0.74
Software	1.2	0.25
Hardware	5.5	0.59
Media	4.4	1.09
Telecom	5.0	1.36

Value Measures	Rel S&P 500
Price/Earnings	14.2 0.85
Price/Book	1.7 0.78
Price/Sales	0.8 0.79
Price/Cash Fl	4.2 5.38
Div Yield %	2.4 1.27

Growth Measures	Rel S&P 500
Lg-Term Erngs	15.9 1.03
Book Value	7.7 0.96
Sales	8.4 1.08
Cash Flow	10.3 0.94
Hist Erngs	5.7 0.84

Profitability	% Rel S&P 500
ROE	13.1 0.77
ROA	6.0 0.79
Net Margin	6.8 0.76



Fund Analyst Picks: Equity Funds

Page	Fund	Category	Morningstar Rating	TR% YTD 02-28-03	TR% 02-28-03 3 Yr
Domestic					
21	Clipper	LV	★★★★★	-8.75	13.25
24	Dodge & Cox Stock	LV	★★★★★	-5.24	6.11
64	Oakmark I	LV	★★★★	-4.45	10.20
96	T. Rowe Price Equity-Income	LV	★★★★★	-6.22	2.41
13	American Funds Washington Mutual	LV	★★★★	-5.61	0.22
42	ICAP Select Equity	LV	★★★★	0.47	-6.96
228	Legg Mason Value Prim	LB	★★★★	-3.30	-10.17
201	Fidelity Dividend Growth	LB	★★★★★	-4.53	-3.38
269	Selected American	LB	★★★★	-4.31	-7.98
291	Vanguard Growth & Income	LB	★★★★	-3.63	-12.84
290	Vanguard 500 Index	LB	★★★★	-4.10	-13.77
293	Vanguard Primecap	LB	★★★★	-2.85	-16.56
409	Janus Mercury	LG	★★★★	-3.18	-30.70
363	American Funds Grth Fund of Amer	LG	★★★★★	-2.76	-14.26
399	Harbor Capital Appreciation	LG	★★★★	-3.81	-24.43
349	ABN AMRO/Montag & Caldwell Growt	LG	★★★★	-3.55	-12.83
481	Vanguard Growth Equity	LG	★★	-1.96	-30.53
418	Marsico Focus	LG	★★★★★	-3.00	-20.15
571	Tweedy, Browne American Value	MV	★★★★	-4.63	1.10
549	Longleaf Partners	MV	★★★★	-2.34	10.79
576	Weitz Value	MV	★★★★★	-4.94	2.02
568	T. Rowe Price Mid-Cap Value	MV	★★★★	-5.80	9.77
535	Berger Mid Cap Value	MV	★★★★	-3.20	9.39
613	Vanguard Capital Opportunity	MB	★★★★	-3.06	-16.05
602	Oak Value	MB	★★★★	-5.43	-0.31
608	Selected Special	MB	★★	-5.58	-12.53
615	Vanguard Mid Capitalization Inde	MB	★★★★	-5.26	-2.95
789	RS MidCap Opportunities	MG	★★★★	-1.64	-20.43
755	INVESCO Dynamics Inv	MG	★★★★	-1.97	-30.42
732	Calamos Growth A	MG	★★★★★	-2.29	-11.58
800	T. Rowe Price Mid-Cap Growth	MG	★★★★★	-3.38	-7.68
804	Turner Midcap Growth	MG	★★★★	-1.09	-30.09
942	Ariel	SV	★★★★	-7.83	15.16
924	Royce Total Return	SV	★★★★★	-4.90	9.69
906	FPA Capital	SV	★★★★	-8.19	6.68
951	Gabelli Small Cap Growth	SV	★★★★	-5.41	1.08
932	Third Avenue Small-Cap Value	SV	★★★★	-4.79	2.33
905	Fidelity Low-Priced Stock	SB	★★★★★	-5.68	9.55
949	FPA Paramount	SB	★★	-7.53	-1.14
965	Royce Premier	SB	★★★★	-5.01	4.66
968	T. Rowe Price Small-Cap Stock	SB	★★★★	-5.35	-2.47
1115	Managers Special Equity	SG	★★★★	-6.61	-18.71
1077	Baron Growth	SG	★★★★★	-4.54	-2.17
1160	William Blair Small Cap Growth N	SG	★★★★	-6.63	-4.76
1136	RS Diversified Growth	SG	★★★★	-12.64	-33.08
1085	Buffalo Small Cap	SG	★★★★★	-8.11	-2.27
Specialty					
1245	Scudder Flag Communications A	SC	★★★★	-7.36	-36.09
1241	Gabelli Global Telecommunication	SC	★★★★	-1.42	-26.18
1246	T. Rowe Price Media & Telecom	SC	★★★★	-3.53	-23.34
1260	INVESCO Financial Services Inv	SF	★★★★	-4.87	1.62
1250	Davis Financial A	SF	★★★★	-5.16	2.03
1264	T. Rowe Price Financial Services	SF	★★★★	-6.33	7.69
1275	Fidelity Select Health Care	SH	★★★★	-2.37	-3.92
1272	Eaton Vance Worldwide Health Sci	SH	★★★★	-4.58	-5.19
1290	Vanguard Health Care	SH	★★★★★	-4.62	6.04
1297	INVESCO Energy Inv	SN	★★★★	1.80	8.08
1302	T. Rowe Price New Era	SN	★★★★	-2.08	5.16
1304	Vanguard Energy	SN	★★★★★	0.95	11.49
1306	American Century Global Gold Inv	SP	★★★★	-7.01	22.25
1310	Oppenheimer Gold & Special Miner	SP	★★★★	-6.33	14.83
1404	Morgan Stanley Inst US Real Esta	SR	★★★★	-1.25	12.38
1405	Security Capital U.S. Real Estat	SR	★★★★	-0.89	12.95

Page	Fund	Category	Morningstar Rating	TR% YTD 02-28-03	TR% 02-28-03 3 Yr
Specialty Continued...					
1406	Third Avenue Real Estate Value	SR	★★★★★	-2.01	16.06
1437	Northern Technology	ST	★★★★	0.95	-44.32
1422	Fidelity Select Technology	ST	★★★★	1.96	-38.95
1440	PIMCO RCM Global Technology Inst	ST	★★★★	-0.66	-39.74
1460	AXP Utilities A	SU	★★★★	-6.08	-11.49
1469	MFS Utilities A	SU	★★★★	-1.71	-17.93
International					
132	Vanguard European Stock Index	ES	★★★★	-7.83	-17.29
125	Mutual European A	ES	★★★★★	-5.85	-6.65
137	T. Rowe Price Latin America	LS	★★★★	-8.26	-14.76
136	Scudder Latin America S	LS	★★★★★	-6.06	-13.25
317	T. Rowe Price Emerging Markets S	EM	★★★★	-4.70	-16.49
314	Pioneer Emerging Markets A	EM	★★	-3.09	-20.95
313	Oppenheimer Developing Markets A	EM	★★★★★	-3.81	-10.52
301	American Funds New World A	EM	★★★★	-3.25	-11.76
305	Dreyfus Premier Emerging Markets	EM	★★★★★	-3.79	-6.43
494	Fidelity Pacific Basin	DP	★★★★	-4.62	-21.56
506	Liberty Newport Tiger A	PJ	★★★★	-3.93	-15.68
512	T. Rowe Price New Asia	PJ	★★★★	-2.86	-19.24
509	Matthews Pacific Tiger	PJ	★★★★	-3.03	-9.94
1002	Liberty Acorn International Z	FS	★★★★	-5.07	-24.26
821	Artisan International	FS	★★★★	-11.83	-23.20
820	American Funds EuroPacific Gr A	FS	★★★★	-7.18	-17.30
997	Julius Baer International Equity	FS	★★★★★	-5.12	-16.51
990	Harbor International	FS	★★★★★	-6.40	-8.83
1045	Tweedy, Browne Global Value	FS	★★★★★	-7.59	-5.20
1317	American Funds New Perspective A	WS	★★★★★	-5.93	-12.96
1346	Oppenheimer Global A	WS	★★★★	-6.62	-16.56
1363	Van Kampen Global Value Equity A	WS	★★★★	-9.06	-6.69
1351	Scudder Global Discovery A	WS	★★	-3.15	-22.92
1345	Oakmark Global I	WS	★★★★★	-9.63	11.54

What are Fund Analyst Picks?

Our Analyst Picks are excellent starting points for investors. We highlight our favorite funds based on superior track records, compelling strategies, and impressive managers. We avoid closed funds, institutional offerings, and others that aren't readily available to individual investors.

Editor's Note

We've dropped T. Rowe Price Japan as an Analyst Pick. This fund's performance had certainly waned in recent years, as it handled the recent bear market poorly. In addition, longtime manager Ian McDonald recently departed this fund. While comanagers John Ford and David Warren remain, Campbell Gunn has taken over the reins as lead manager. Gunn has a history of running institutional money, but no public record running a U.S. retail offering. Given the management change, this fund's future remains uncertain.

What Do Yields Say about Short-term Bond Funds?

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because interest rates plummeted last year. But it does make sense if those funds with higher yields held lower-quality bonds, which got pounded last year in the wake of corporate scandals and lackluster economic data.

Out of the six years we studied the two categories of funds, yields were only a statistically significant predictor of income returns 50% of the time, explaining in those instances as little as 12% of the variance in income returns and at most 32%. And for total returns, yields were a statistically significant variable less than half the time, explaining anywhere from 10% to 22% of the variance of total returns in those instances.

As for expenses, we were somewhat surprised to find that they hardly ever proved to be a statistically significant predictor of either total returns or income returns; and in the rare year where they were statistically significant, they explained very little of the variance in either income returns or total returns. Although expenses eat into both a fund's yield and its total return, that fact was reflected by the SEC yield figures we used, because those calculations are based on after-expense income over a trailing 30-day period. Still, we expected expenses to give us some insight into the credit and interest-rate risks funds were taking (see the work of Scott Cooley in *Morningstar Mutual Funds Vol. 41, Issue 3*), and thus, lend insight to a fund's returns in a given year. But in our relatively small samples, expenses didn't serve as good predictors of either income returns or total returns.

Explanation of Results

While yield is not entirely irrelevant, our study showed that it seldom explains much of the variance in short-term bond or short-term government funds' income or total returns. Numerous explanations account for why this is the case. Yields provide a decent forecast of an individual bond's prospective income generation. If a given conventional bond, for example, is yielding 5% at the beginning of a year, is priced at par, and doesn't default, one can expect an income return and a total return of 5% that year, if one can reinvest the bond's coupon payments in another instrument that yields 5%.

Unfortunately, that logic doesn't translate very well to the world of bond funds. As is the case with those who hold individual bonds, bond-fund managers are seldom, if ever, able to reinvest the coupon payments their portfolios produce in securities that yield the same as their portfolios did at the year's start (this is referred to as

reinvestment risk). Declining yields mean that all other things equal, a portfolio will produce a lower income return than its yield would suggest, because coupon payments have to be invested in lower-yielding securities. This reinvestment risk is exaggerated when funds experience substantial inflows or outflows of cash. Again, if rates decline and a bond-fund manager receives a flood of fresh cash, he or she must reinvest that cash in issues that yield less, reducing the income prospects of the fund.

Finally, bond funds, like individual bonds, can be subject to serious price fluctuations. Higher yields often indicate greater-than-average credit or interest-rate risk. The market sometimes rewards, and sometimes penalizes, such risk taking, which means that a fund's yield can often be a poor predictor of its total-return prospects.

Conclusions

We found that while a fund's yield can be a decent predictor of its total-return and income-return prospects in years that are marked by little volatility in the bond market, such scenarios were few and far between over the six years we studied. More often than not, we found that yields were a relatively poor predictor of a fund's results over the next year, although they told us a bit more about a fund's likely income production than its total return. And while we expected expenses to shine some light on things, they didn't.

Instead of looking at yields as a potential indicator of a fund's future performance, we think that they are best examined relative to a fund's peer group. Managers often boost a portfolio's yield by buying longer-dated bonds (assuming greater interest-rate risk) or buying lower-rated bonds (assuming more credit risk). In that sense, a fund's yield can often be used, in addition to portfolio analytics, to get one's arms around the amount of risk a manager is currently courting.

Our study suggests that investors should avoid thinking of a portfolio of bonds in the same manner that they think of individual fixed-income securities. And obviously, investors shouldn't shop for funds in a category based on their yields, as yields are seldom a good predictor of either the amount of income or total return a fund will produce over the next 12 months.

Prakhar Bansal, a quantitative analyst with Morningstar Associates, contributed to this piece.