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May 20, 2013 Fidelity Viewpoints Webcast

OPERATOR: Good day, everyone, and welcome to the Fidelity Viewpoints Webcast. It's important to note that the statements and opinions on this call are those of James Morrow and John D. Roth and are subject to change at any time based upon market and other conditions. Fidelity Investments cannot guarantee the accuracy or completeness of any statement or data. Information provided in references to any specific security are for informational purposes only and should not be construed as a recommendation or as investment advice. Investment decisions should be based on an individual's own goals, time horizon, and tolerance for risk. Fidelity does not provide legal or tax advice. Consult your attorney or tax professional. For opening remarks, I would now like to turn the presentation over to the moderator, Al Buatti, vice president of Private Client Solutions for Fidelity Investments.

BUATTI: Thank you, Robert. Good afternoon, everyone, and thank you for joining us. At Fidelity Investments we take great pride in the fact that our clients are highly engaged and great consumers of financial market information. To meet those needs, we strive to provide the best possible, up to date, real time information and that's why we hope -- host these webcasts for you.. For today's event we're fortunate to welcome two portfolio managers from the Fidelity Asset Management Division, Jim Morrow and John Roth.

Beginning with Mr. Morrow. Jim is a 15 year Fidelity veteran and currently is the portfolio manager of the Fidelity Equity Income Fund, which he took over in 2011. Jim has seven years of experience as a diversified portfolio manager and also serves as the manager of the Fidelity Advisor Diversified Stock Fund, which he's managed since 2006. Our second guest is John Roth. Similar to John -- to Jim, excuse me, John is a 15 year Fidelity veteran and currently serves as the portfolio manager of the Fidelity New Millennium Fund, which he's managed since 2006. John is also at the helm of the Fidelity Midcap Stock Fund, which he took over in early 2011. By way of background, prior to these their current assignments, Jim and John each served as portfolio managers for a variety of sector based Fidelity select funds, including technology, consumer, materials, and utilities, industries, among others.

For the purpose of today's event, Jim and John are going to share perspectives on a couple of different areas. First, global financial markets. Second, where they see investment opportunities. We want them to provide some themes about which they're particularly excited, and then also some insights into how they seek to achieve consistent investment success on behalf of you, our Fidelity shareholders. In terms of the agenda, Jim and John will update us on the equity markets for the first 40 minutes or so, and then we'll move on to a Q&A session where I'll ask your questions directly to the panel. So, with that, let's turn to Jim Morrow and John Roth. Good afternoon, gentlemen.

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BUATTI: Let's go ahead and dive in here. And what we thought we would do is start with your current perspectives on the market and the strong rally in the US equities. Many believe a correction is imminent. So, Jim, why don't we start with you. Let's get your perspectives on the market rally.

MORROW: Sure. And thanks for your time today in listening. You know, I think a lot of participants in the market are sort of waiting for a correction or waiting for something to happen in the marketplace. And I think some perspective and context is really important. The market, we use the S&P 500 as a proxy, is basically at the same level it peaked out at in both 2000 and again in 2007, just above 1500 or 1600 on the S&P. But what's important to remember is that the whole time the market's gone on this volatile ride of up and down, up and down, is that, you know, corporate

America has continued to deliver in terms of earnings growth. And so the earnings of the S&P 500 is up almost 100% since 2000. And so while stock prices themselves have been volatile, earnings growth has been spectacular and so the market today, even with the rally we've seen off the bottom in 2008, 2009, is dramatically cheaper than it was ten years ago and is really at one of the cheapest levels it's been at over the last 15 or 20 years right now.

ROTH: And one thing I would add -- I get this question a lot from investors and, you know, I think the key thing is you don't want to look at the price level of the S&P 500because that doesn't tell you anything about, you know, the value of what you're buying. And, as Jim just said, it's really about the multiple, the PE, and, you know, 12 years ago the PE was pretty high and expectations were high. But, you know, the good news is you know, corporate America has grown through that with a certain amount of adversity, I'd say, as well. But now you're at a level where it's a pretty attractive -- attractive place to invest. So focus on the PE. I think we have a good starting point from that perspective.

BUATTI: Thanks, John, very much. So it sounds like you both have similar perspectives on the market at this point. We've certainly seen good movement but there's value, if you will, to be found.

MORROW: Sure. I think, too, you have to consider stocks within the realm of investment opportunities. If you were to look at valuations for stocks relative to other instruments that folks invest in, like fixed income or like Treasury bonds, you know, the yield -- the dividend yield on the S&P 500 today is higher than the ten year Treasury. That's the first time you can say that really in the last 50 years. And so if you look at stocks as a yield instrument, I think they're more interesting than some of the fixed income classes because you get both current yield and growth. And so, you know, valuation is one of those tricky arts in investing and I think you have to look at it from a lot of angles to get comfortable. And, from our perspective, stocks look very interesting and constructive today relative to other asset classes.

ROTH: And if you look at the chart that we just put up, what this is showing you is a ten year government bond, which is the gray line. And as that line goes down, bonds are rallying, yield's going down. Right? So the bond is appreciating. The green line is the earnings yield on the S&P 500. So it's the inverse of the PE, because we're trying to make an apples to apples comparison. So as that green line goes up, equities become cheaper. So the point is that the gap looks fairly substantial at this point so it's something to consider when you're thinking about allocating between equities and fixed income.

BUATTI: Let's go ahead and turn to monetary policy and some of the conversation around that. So I guess we could frame the question as... Well, based on the years that we've seen of accommodative monetary policy around the globe, expectations for future inflation have become a concern. From your perspective, John, maybe we can start with you, what are the potential investment implications if a rising rate and rising price environment materializes?

ROTH: OK. So let me start with the history and I'll let Jim talk to some current perspective on this. But if we go to the next chart, we have a picture of what's happened over time. So we took the 1950s to start out with. And if you look at the two lines there. So Treasuries during the 19-- call it '52 to '64. You know, about 3.5% average yield. Inflation was very benign, 1.4% on average during that time period. And if you look below to the data, on a real basis, stocks returned 13% annualized and bonds 1.6%. So, you know, pretty good environment for equities. And then as we moved into the late '60s you started to see evidence of inflation in the economy and Treasuries sold off. So you see the lines moving up. Inflation accelerated to about 3, 3.4 percent on average. Now, during that time period there was a positive real return on stocks. You saw 1.1% annualized. And on bonds it was a negative real return. So as, you know, bonds sold off, yields rose, etc. And then as you move into the '70s where you had really, you know, high level inflation, on average inflation was closer to 8%, 7.8% and Treasury yields then moved up again to 8%. Again, in that period of worst inflation in the US that we've seen, you actually still got a positive real rate of return on equities. That was about a .2 over that decade and bonds were negative. So if you do think that inflation is coming, and I'm going to let Jim speak to whether or not -- how you should maybe think about that. And if you think about it from a logical perspective, these are businesses that in many cases have the ability to raise price. And so as costs move up in the economy, hopefully the business has enough pricing power, it can offset many of those cost increases and that's why in general over that time period equities did reasonably well on a relative basis.

MORROW: Yes. I'd agree. I'd echo some of what John just said. I like to take -- I get this question a lot from investors and I really like to take a pragmatic approach to worrying about inflation an where are we in the inflation cycle and I think some of the rhetoric around concern about inflation and maybe desire to hold assets like gold, or something like that, to hedge yourself against this coming inflation... You know, it's a little bit akin to worrying about water damage while you're putting out the fire, right? If you think about it from the Fed's perspective, they experienced a situation in 2008 and 2009 where massive deflationary pressures were released across the global economy and so I think the Fed has responded with a lot of innovative tools, and we can argue whether they've done too much or too little. But I think worrying about the effects of it before you've sort of got your arms around the problem is sort of the wrong way to approach it. And so when we look at the system today, we still see a lot of deflationary pressures throughout the global economy. There's excess capacity across a number of industries and, sure, prices are a complex thing to look at and the economy is complicated and dynamic and you can always point to something. Right? We can always point to the price of X as going up from a couple years ago. But if we look at the data in the aggregate, the fact of the matter is right now we don't see a lot of signs of inflation across the global economy. In fact, we see as many signs of deflationary pressures as we do inflationary pressures. In a traditional inflation cycle, it has been one of wages and prices sort of spiraling up together and that's really hard to do when there's excess capacity in the labor markets. If you look at the developed world in particular, the US, Europe, parts of Asia, we see a lot of excess labor. We see unemployment levels that are quite high by historical standards. Excess labor is typically not seen at the same time you see inflationary pressures in the system. Now, we did briefly see that in the '70s and that was due to a commodity price shock. So if we look at commodities, is that a source of inflationary pressure in the future? It could be, but, again, right now we see as many signs of deflationary pressure in the commodity stack as we do inflationary. Some of the new technology that companies in the US have introduced to exploit resources in the shales for both oil and gas are exuding, you know, fairly significant deflationary pressures on raw materials in the US in particular, and so, you know, at worst I think the balanced picture is neutral for inflation versus deflation.

The other thing I think is interesting today, and I think the Fed has taken a fair amount of heat for some of the extraordinary measures, quantitative easing, you know, they bought a lot of Treasuries, they bought a lot of mortgage backed securities, and they've done all these things to try to stave off the deflationary pressures in the system. Is that now that they've done all that, the Fed, quite honestly, has unprecedented tools at their disposal to head off inflation if they see it. Now, we can have a real intellectual debate on whether they're going to successfully do that or not. But what you can't... I don't think the bait is -- the Fed has a lot more tools to control inflation today than it's ever had historically because of the extraordinary measures it did on the front part of the cycle. It has the ability to unwind those should it choose on the back side of the cycle. And so, you know, my personal view on inflation is that it's one of these great worries out there but from a pragmatic standpoint we don't see a lot of evidence for it in the short-term. You know, inflation tends to build somewhat slowly in the economy without a shock to the system and given the excess capacity we see globally, it's not at the top of my list of concerns right now and I think the hunt for yield across asset classes is telling you that most investors sort of agree with that view and that they're... You know, if you look at the yields people are accepting in long duration fixed income right now, I think it's consistent with a lack of fear of inflation.

BUATTI: So it sounds like a -- perhaps a case for confidence as it relates for -- relates to inflation and also in terms of controls that are in place or that are available that the Fed has at their disposal. Interesting background. Let's go ahead and shift to the next question. It's around the topic of market outlook and John, let's go ahead and start with you. The question is although equity markets have rallied significantly, what catalysts do you see that could continue to drive corporate earnings growth and stock prices higher?

ROTH: Great. So, you know, I think you kind of have to look at it over a different timeframe. So I would argue that there's some cyclical arguments that should make you optimistic about the US equity market and then I think you want to think about the secular drivers in place. So if we go to the next slide, these are two that, you know, very much in the news. Well known. But I think powerful nonetheless. So we are seeing a recovery in US residential housing. You know, things got pretty excessive at the end of last cycle. I think, you know, if you looked at homes constructed, I think they peaked around two and a quarter million but that dropped off dramatically and I think we were in the four to five hundred thousand range for, you know, four or five years. So we have dramatically cleared the excess inventory. So I think at the peak of the cycle in housing it was close to a year of inventory.

That's cut in half. Affordability is now twice what it was at the worst point in the cycle and that's measured in terms of credit availability and interest rates. And you're seeing prices start to move up again. So, you know, as we look at the simple fundamental supply and demand of US housing, it is improving. And there'll always be fits and start to that but in general it's moving in the right direction.

Second piece is, you know, what I would call revival of US manufacturing. This is a little bit anecdotal but if you were in a Fidelity meeting ten years ago the discussion would be, you know, with a multinational company. We would talk about how they're going to get capacity to China and they wanted to be in a low cost area and they wanted to serve southeast Asia and Asia. But that -- we've done that. We've added a ton of capacity over there and I think the discussion today is much more around balance globally. And in many cases that means adding manufacturing capacity to North America, of which Mexico is a big beneficiary, but the US is, as well. And that is improving. So cyclically I think things are looking good.

When I think about ultimately, what drives the economy, it's about population growth and it's about productivity. And productivity is driven by innovation and I would argue that innovation is alive and well in the US. And you can see it across the entire economy. Biotechnology is a great example. You know, we mapped the human genome in 2003. It took us ten years. Now we can do it in a few hours. So the ramifications of that in terms of thinking about personalized medicine and, being able to create drugs that are more efficient, reducing cost, just incredible and there's a lot of investment opportunities around that and that's true in agriculture, as well, in technology. The internet has created a ton of opportunity and it's allowed cloud computing to come into play, which is a more efficient way to distribute software to companies and that can basically just lower cost and increase efficiency. So these themes keep coming up and you're seeing more and more of it. And then finally, energy is a big piece, too. We would not have thought ten years ago that horizontal drilling would progress to the point where we could tap the shale assets in the US and we're finding more and more resources here in the US, both natural gas and oil, and it's changing the competitive structure of a lot of our industry. If you look chemical industry in 2002, we were probably the second worst position on the cost curve globally. We were a little bit better than Europe. That was about it. And today with the abundance of cheap natural gas we can create basic commodity chemicals very cheaply and we're towards the bottom of the cost curve and now it makes sense to invest in more capacity in the Gulf Coast, which is what we're doing. So all these long-term drivers are very much intact and I don't see any reason why that productivity growth would not continue going forward.

MORROW: I'd echo some of John's comments. The revival of US manufacturing is going to take a long time. It took a long time for companies to move production offshore and it will take a long time for them to rebalance. What's interesting, though, is just in the last few months we're starting to hear anecdotes of Chinese companies complaining about US competitors. So domestic competition in the US is causing Chinese companies competitive concern. And I can tell you in 15 years I've never heard that. That's a new phenomenon and I think it's an interesting point. That this is real, it takes a long time to play out, but the competitive position of US manufacturing is entirely different today than it was 15 years ago. Same thing with housing. Housing cycles are really long. They play out over 15, 20 years. And what's clear right now is that we're bouncing along the bottom in US housing. But we're at the bottom. We're nowhere near normal and we're nowhere near a peak and housing's a huge part of the US economy. So the recovery we have, while it's been disappointing and muted for a lot of folks, has occurred in its entirely without any contribution from housing, essentially, which is a big part of the US economy. And so as US housing recovers, it will provide a nice tailwind. And just one more point on technology is that through the cycle, through the financial crisis, through all the macro concerns that all the pundits on CNBC and everywhere else have about the economy, what's great is that there's brilliant scientists working everywhere on all these different technologies. We all remember the first computer we used as kids or as teenagers. Well, you know, a ten year old today, that iPhone5 in his pocket, that's the worst computer that individual's ever going to see in their life, and it's amazing, right? And that's the beauty of technology is it doesn't quit. It just keeps innovating and it just keeps driving forward and you lose sight of that when you're worrying about day to day concerns in the market. But it all matters. It all matters to productivity over long periods of time. And the good news from a US perspective is none of that stopped. During this entire flat period in the market, the last 15 years, companies continued to invest in R&D and innovate and we are starting to see the benefits of that going forward.

ROTH: The one final comment I'd add on this sort of topic is, Jim mentioned CNBC. I would also argue that the behavioral sort of backdrop of the market is pretty good. In other words, there's still a fair amount of skepticism out there and all you have to do is turn on the TV and you hear commentary about, well, we've come too far, too fast, aren't we going to cliff, etc., etc. And that, frankly is the backdrop that you want. You don't want it to be, very, very clear that everything is smooth sailing and the old adage was that the bull market climbed, so we're all worried. And you do need a healthy amount of skepticism out there to continue to, you know, drive the market up. So I think that final piece is also in place.

MORROW: When people are still afraid to invest, it's usually a pretty good time to still invest. When everyone's convinced it's the greatest idea ever, that's really a better time to be nervous.

ROTH: Yeah. No, and I was going to say one other thing, like if you think about the experience that most investors have had, so since 2000 to today, you know, I think on average the US equity market has returned something like 2, 2.5 percent. So it's been a dismal decade. You can see that in the first chart in terms of returns. And the volatility was around 16%. So you got low returns and you got a wild ride. But the good news is if you look back to the '30s, that is off the chart in terms of bad experience. The average is, you know, almost twice as good as on average. So, the ride that we've taken has been particularly bad, which I think implies that the next slug of ten years is probably going to be a lot better. And if you compare that to the experience that fixed incomes had, it's almost the opposite. So fixed income you got about a 6% return over that 12 years and you got, I think, a 3.5% standard deviation. So it was quite a nice ride in fixed income and so the only thing I think people should think about is where it feels relatively safe it might not be. This would be the takeaway.

BUATTI: I can hear the energy in both of you. It sounds like as the market has moved forward, certainly sparring -- or presenting a number of opportunities. Let's go ahead and turn to the corporate landscape. Corporate cash levels are at an all time balance sheet high. What are the best ways companies can use this cash to create value for shareholders in their capital allocation decisions? And, Jim, let's start with you.

ROTH: Sure. You know, another beneficiary of what we've been talking about, and that is the combination of productivity and great management from US corporates combined with cautiousness and lower levels of economic growth is that companies have accumulated an incredible amount of cash on their balance sheets over the last ten years. If you look at cash as a percentage of corporate balance sheets, it's at an all-time high. On an absolute basis, companies have generated and retained a trillion dollars of cash over the last 12 years. And, again, if you think of this chart in light of the price chart of the S&P, you know, wouldn't you like to buy $1.8 trillion of cash for the exact same price you could have bought, $.8 trillion of cash 12 years ago? I think it's just another testament to is this market expensive? Well, if you look at it from a balance sheet perspective, corporate America's never had better balance sheets. In a world of overleveraged sovereigns and overleveraged consumers and overleveraged everything else, US corporates in particular have phenomenal balance sheets right now. It's one of the real standouts if you look globally in terms of corporate strength and corporate cash. And it's really a function of -- they've been able to take the productivity gains that they've continued to try to get over the last ten years and recycle them into profits and free cash flow generation. And so how do they use that cash? What do they do with that cash? Well, when they're really kind of feeling great about the world you see a lot of reinvestment or capital expenditures. You see a lot of strategic mergers and acquisitions. When they're more cautious they tend to buy back their own stock or pay dividends. And what's interesting about this last point on dividends is that, as I mentioned earlier, you know, the stock market has a higher yield today than the Treasury market and parts of the market have higher yields than big parts of the corporate bond market and that's despite the fact that companies aren't really even trying yet in terms of dividends. The payout ratio, which is just the amount of a company's earnings that it pays out in terms of dividends, is almost at an all time low. So companies, without really even trying to raise their dividends, because of the earnings growth and because prices haven't gone anywhere, have incredibly high yields relative to other asset classes. What's interesting is that they're now turning that -- pulling that lever on dividends finally. We're seeing payout ratios go up. The market is rewarding companies that return cash via dividend with higher multiples and stock price appreciation and corporate America's responding. I mean, they respond to what moves stocks over time and so we're seeing a real resurgence in terms of interest in dividends from the company level. And, again, if you think back to the earnings yield on the S&P is 7 or 8 percent, you know, if they paid out half of that in dividends, which would have been a normal payout ratio back in the '60s or

'70s, that would be a 3.5, 4 percent yield on the market. That sounds fantastic in a low yield environment and that still would leave plenty of cash for them to do all these other things. And so I think it is another sort of bullish underpinning to the US stock market right now, is that balance sheets are in great shape, the ability to distribute cash flows is in great shape and cash generation is in great shape right now. MORROW: As you read the headlines, I think the other thing that's happening in the market is there is definitely a resurgence in activism. Right? So, investors are becoming, I think, much more, vocal on this topic and companies are listening. It's a little bit of a self-reinforcing cycle. So you're definitely seeing more people focused on it and, these big headlines. You saw -- and Apple is a good example of investors really kind of turning up the heat and the company doing something to try to get cash, all that cash back to shareholders. So there's definitely the catalyst there to keep this thing going. Fidelity Equity Income Fund: Apple holdings represent less than .1% of the fund as of 3/31/13, Fidelity Asset Management.

BUATTI: OK. Let's go ahead and move on to the next topic. Although related, it's around the topic of dividend paying companies. Recently yields have fallen on the highest dividend paying companies as investors desperate for income have bid up shares. Jim, maybe we can start with you again. Are you concerned about valuation for dividend paying stocks in general and where are you seeing the best opportunities for dividends in the market?

MORROW: I think it's a good question and I think it's a question people are increasingly asking. The market's up a lot. When is it going to roll over? When shouldn't I wait for another 5% or 10% correction to get into the market? And I think some context is in order. Certainly yield oriented stocks have become more interesting and more popular over the last couple of years as yields have gone down. But, again, if we take a step back the aggregate market is still at a pretty attractive yield versus other asset classes and so I think it continues to be an opportunity and I think the traditional areas of yield in the stock market... So if you think about sectors like utilities or like telecom or parts of consumer staples, these are very comfortable places for people to go for yield and that's where they've gone first. Real estate trust is another area. And so those areas of the market, they have achieved premium valuations. They are a little bit more expensive than they have been over the last five or ten years but I wouldn't say there's anything close to a bubble or a concern from a broad sense in valuation and I think if you're an active manager like us and you're looking for opportunities across the market, you can build a portfolio that has both yield and attractive valuation standpoint. I look at the Fidelity Equity Income fund. The yield on the fund on a gross basis is 3.2, 3.3 percent. (Source, Fidelity Asset Management as of 3/31/13.) But the PE is only 12 or 13 times in the aggregate and so you can still build a portfolio that is value conscious with current income if you're looking for opportunities actively across the market.

BUATTI: John, your thoughts on the topic?

ROTH: Well, I think it's a great thing. I manage more of a capital appreciation fund so I'm looking in general for companies that can grow a little bit faster, where we think that the market has underestimated the growth potential. But I'm actively looking across my whole universe and I'm seeing fairly attractive yields in pretty good businesses. So, I agree with Jim. I don't think the valuations are stretched. I think there's some segments that look a little bit higher than others but, in general it's still attractive. And, relative. I mean, the key point is relative to other alternatives it looks pretty good in my opinion.

BUATTI: Thanks very much. OK. We're going to go to a question around the equity income fund. So, Jim, this one's for you. I think it's helpful in terms of understanding your process and philosophy on the market. And that is how does the equity income fund balance income generation with conservative capital appreciation as its two major investment goals?

MORROW: I think it's a great question. It's one that we spend obviously a lot of time thinking about. And, from my perspective, I really try to look at the entire market, and then with the equity fund, we do have the sort of dual mandate in mind. We want to generate current income for investors, which I mentioned is in the low to mid 3% gross yield right now. And then we also want to be conservative in our approach to capital appreciation. What I really do is I look at the market and I try to maximize a few things and minimize a few things in the portfolio. The first thing I do is really kind of eliminate almost all companies that don't pay dividends from the process and this really keeps you true to the income mandate pretty naturally. Within that remaining universe I do look for the highest quality companies I can, and you could think of something like return on equity or return on invested capital as a way to measure quality. And I try to find as much earnings growth as I can within that dividend paying universe. Now, that's not going to be a level of growth that a capital appreciation manager like John might find exciting but for me, for the equity income fund, you know, 8% growth, 10% growth might be really exciting combined with the current yield. And I also try to pay a lot of attention to what I'm paying for something. So from a valuation perspective, I really do try to build a portfolio that has a low evaluation or lowest PE as I can, as I mentioned earlier. Right now you can sort of build a fund with income that still has, in my view, an attractive PE. And in combination, if you do those first three things, you sort of end up with a portfolio that's lower or has lower volatility than the aggregate market. And I think that's a nice combination for folks that, might still be nervous about investing in the stock market and may want to invest in what I would view as the safest blue chip type companies in the stock market that have good business models, that generate high returns, they are growing, and they pay a current dividend. I think it's a real sweet spot in the market and one that we focus on and then do a lot of individual stock picking and a lot of company research within that universe.

BUATTI: Thank you very much, Jim. John, let's turn to you and talk a little bit about your investment style. You have a more opportunistic investment style with new Millennium and Fidelity Midcap. Where do you look for opportunities in the market and how do you exploit them in your portfolio?

ROTH: OK. So both of my products are a little bit more aggressively positioned than Jim's. New Millennium is a good example and, I would consider that to be completely opportunistic. At the core of the fund tend to be, faster growing companies where we think that the market is still underestimating the ultimate potential for these businesses. So that kind of gets me into the large cap growth area. But then I really leverage our global research team and look across the whole market for, other areas where we think we have a different perspective on something. And most of the time it's about our view on growth and, a particular market, for example, could be bigger than what the market is thinking. And that gets me into small cap companies and a lot of midcap companies. I also manage the midcap fund. I think that is a very underappreciated area by investors for nice growth opportunities. I think people like to look at small caps for this type of growth. But midcaps are actually pretty interesting and I sort of define the space as one to ten billion in market cap and I think on a risk adjusted basis it's very attractive. And the reason is, you know, to get to become a midcap you have to have done something right. So your business is a little bit more mature and the probability that, an adverse event takes you down is very low. Right? So the bankruptcy risk sort of goes away relative to small caps as you move up the cap spectrum to midcap. But there's still a lot of growth opportunity there and there's a more attractive growth opportunity in general relative to large caps. So, it's a little bit de-risked relative to small and I got more growth relative to large. So it's a big universe. There's a lot of midcap stocks and so there's a lot of interesting sort of unique companies, as well. The chart that we have up -- on the left is New Millennium. That gray area shows you, individual stocks that I'm buying in a portfolio. So, anything from, small core to, large value would be in there if there's an opportunity. And then midcap is really just focused on the midcap space. But both of these products again are a little bit more aggressive than what Jim would do. But, you know, my view is that as the market continues to recover, some of the capital appreciation, some of the returns you can get from capital appreciation, will be attractive.

BUATTI: Excellent, John. Thanks very much. Certainly see New Millennium in the tradition of go anywhere opportunistic investing and midcap, true to its name, looking for opportunities in that space. And what we'll do now is we're going to go ahead and turn to some of the questions that are coming in from clients and see what's on everyone's minds and just pick your brains a little bit about what you're seeing on the landscape. So let's start with a question for you, Jim, and then, John, maybe you can weigh in, as well. The participant is asking what key indicators are you both seeing in looking at the landscape and, in particular, what you think is meaningful in terms of determining that the current market run is ending?

MORROW: What's fascinating about stocks is that the shorter your horizon the more volatile the return profile gets, obviously. And so I think a lot of energy is spent trying to figure out the exact day or week to interact with the market. But if you look at returns over long periods of time, the day you pick really doesn't matter. So if you look over 30 years, the standard deviation of volatility of returns in the stock market is incredibly small. Right? It's within a couple percentage points over any 30 year period. So, I really try to look at longer term indicators and I really try to focus more on company fundamentals. So the things I would look for is during every earnings season, right? You can look at things like what percentage of companies are meeting or exceeding earnings expectations. You can look at the margin profile of different sectors and how it's changing over time. And I think, quite honestly, revenue growth is one of the great indicators of the health of the economy and the health of a company and really trying to find companies that are able to generate revenue growth in what's a tough environment to do so and so those would be a couple indicators that I look at. But, there's a lot of economics, sort of what I would call noise out there. And I don't spend a lot of time focusing on the Fed minutes or housing starts or weekly unemployment claims. There's a lot of noise in that data. If you back test it quantitatively, which we have done, it's a really hard way to try to invest over any kind of duration.

ROTH: The one thing I would add, Jim, is, there's different ways to do a job. And, you can try to do it top down using economic data. But to Jim's point, it's an incredibly -- the higher up you go the more complex it becomes, the more variables you have to deal with. We're traditionally a bottoms up shop and part of the reason why we can do that is because, we manage $600 billion in equity and we get a lot of companies that come through Fidelity every day, about 14 or so a day. So we talk to companies every day, all day, and we take all the information and form a mosaic about it. And you can take that perspective from the bottom up. And if you see, the trends improving and, you can do analysis around supply and demand and make an educated forecast as to how long it can continue and build a portfolio from that perspective. So, I would say, again, different ways to do the job but in general we're more of a bottoms up shop and so we can... You know, as the opportunity moves, we try to adjust to where we see the opportunity.

BUATTI: So let's stay on the topic. Want to take a slightly different angle on it, which is, I guess, perhaps to focus in directly on stock market behavior and activity. The participant is asking how dependent is the stock market on the Feds policies or are business fundamentals a bigger factor in its recent success? Jim, let's start with you.

MORROW: Sure. I think it's a really hard question to parse, right? It's hard to know what impact the Federal Reserve's policies have had. Certainly, my best guess is that that is positive. But I think the charts that we showed in terms of earnings growth and in terms of where stock -- you know, PE multiples are right now would indicate that most of the increase that we've seen in the stock market has a lot more to do with company fundamentals and earnings growth than it does with Fed policy, right? If we saw Fed policy dictating what was happening I think you would see a real big increase in the market multiple, right? We would have seen a surge of money come into the US equity markets and we haven't seen really any of that. This far into a rally, this is the most muted response from retail investors that we've ever seen, right? So, to me, I think the Fed policy has moved investors maybe from absolutely petrified to just cautious. And we're far from what I would call euphoria or a real bullishness on the stock market. I think that's a really bullish sign. As a contrarian investor, I like that environment and I like to keep invested in that environment. And so the Fed has helped but I think it's far from the sole reason that markets have healed. I think time is the biggest reason and just fundamental improvement in the economy.

ROTH: And if you look at sort of the public reported mutual fund flow data, I think it's -- and cumulatively I think from 2008 to the end of 2012, I think something like ten times the amount of flow went into fixed income versus equity. So it's not like you got a -- you know, a powerful shift. We have not seen evidence of any kind of great rotation out of fixed income into equity at this point.

BUATTI: Let's follow on there, as well. We have a question around interest rates. And the point is that they've been very low for a number of years with no real sign of rising, as writes the participant. Savers are taking more risk in order to achieve yield. John, why don't we go ahead and start with you. What's your view on interest rates? When do you think they'll rise and what will be the catalyst for the increase?

ROTH: Right. So, you know, rates have been, to your point, incredibly low for a long period of time. It's benefiting the economy, probably, to a lesser degree than some people would wish. But again, as I look at it, the bond market is sort of implying that things are going to stay at this level for a while. You know, maybe 18 months to two years if you look at the forward curves. And, the Fed is basically giving you pretty plain targets as to when they would start to move things the other way. So, for it to go up I think you'd have to see the economy continuing to improve and that's actually a good thing. Also keep in mind the rates are so low that you can actually move them up a little bit without having too much pain in terms of impacting the real economy. The one thing that corporate America has done very well is -- in general balance sheets, to Jim's point earlier, are in pretty good shape and, you know, we're seeing companies term out their debt, right, and it's exactly what you'd want them to do. So they're going from five year debt to ten year debt, etc., and they're locking in these low interest rates on their portfolios or in their borrowing. So I think all that's positive. So, it depends on what moves rates up. But it -- you know, if it's because the economy is improving, rates from this level to a little bit higher I think would be positive.

MORROW: I would just add that there's really two parts or two ways that interest rates could go up from here. One, the Federal Reserve has certainly kind of repressed rates in the short-term. Our best guess is that's a hundred, 150 basis points of interest rate compression from the actions that the Fed's taken. The second way is if you got real inflation in the economy and if you look at the last 70 years, outside of the oil shocks, the inflation cycles in the economy have been anywhere from three to four percent. And so that gives you some frame of reference for what could happen. As we mentioned earlier, we don't see a lot of the second part. We don't see a lot of inflation in the economy. If real interest rates were to normalize, that would be a 1, 1.5 percent increase in rates. Material? I don't think it's anything that's going to sidetrack the economy or take the economy down with it. And that's timing unknown. That -- the Fed has a lot of control over the short-- short-term interest rates.

BUATTI: Let's go ahead and shift gears here to a topic I know is on the mind of many investors. We hear it regularly, every day in our branches and over the phone and that's on the topic of gold. Prices obviously have suffered a historic selloff over the last week or few weeks. Jim, if we can start with you, what's your outlook for the near term and longer term?

MORROW: Gold is one of these really interesting asset classes. And every 30 years it becomes really popular with investors and it plays on investor fears more than anything else. So to the extent fear is receding in the global economy, you could expect gold prices to recede, as well. If you look at gold over long periods of time, it does a really good job of holding its real value. So an ounce of gold 500 years ago bought a man's suit. An ounce of gold today buys, you know, maybe a nice man's suit. And so it does a really good job of holding its relative value over time but it also goes to cash cost, like any other commodity would periodically. Every cycle it goes to cash cost. So if you thought about cash cost today, and there's arguments around what this number is exactly, cash cost in gold is probably somewhere around 600 to 800 dollars an ounce and that's the cost to actually pull gold out of the ground and that's where capacity would actually shut down in most cases, in my view. Again, there's people that have much higher estimates for what that number is but it gives you some frame of reference. You know, gold's a tough asset to value and the good news is that no one knows what it's worth and the bad news is that no one knows what it's worth.

BUATTI: John, your thoughts?

ROTH: I kind of view, gold as a currency and, trying to predict relative moves of currency and the right value of a currency is difficult and it goes back to that earlier comment about how you approach this job. You can do it from the macro, the bottoms up and, I think it's shop. We're looking at stocks and we're trying to estimate the value of companies and trying to figure out where the price of gold should be is not really something that we're trying to do. Now, at points in time, you know, to Jim's point about the cash cost of gold, if it got to that point, then you can make a fundamental argument that, OK, wait a minute, it's probably not a bad time to buy but we're nowhere near there.

BUATTI: Thank you, John. Let's go ahead and hit the next question. It's along the lines of risk on versus risk off. The participant's asking what your feelings about market timing investing essentially versus buy and hold investing? Jim, why don't we go to you first.

MORROW: I mean, I think market timing investing is incredibly hard. I've never seen or met anyone who has done it real successfully. Most of the wealth created by equities is by buying and holding equities over long periods of time. There's studies out there. If you miss the ten best days in the stock market over the last ten years, here's what your return would be. I just think it's incredibly hard to think that you're going to have, you know, the foresight or the accuracy to know which days or weeks to own stocks and which days and weeks not to own stocks. The power of equities is the compounding of earnings over time. That happens each and every day and compounds on itself over time. And so I think the safest strategy is to determine from an asset allocation standpoint where am I comfortable with stocks and then buy and hold over the long period of time.

ROTH: And, frankly, that's one of the things that we try to do and use to our competitive advantage managing these large pools of assets. Because we're there day in and day out and because we take a, three, five year horizon on a lot of the investments that we make, we can use volatility to our advantage. So, if things sell off for reasons other than fundamental on a risk off day, if we like the long-term story of that individual company we'll be buyers in the market and we'll take advantage of that liquidity. So, you know, that's kind of what we're trying to do. We sort of hope for volatility although it's not present during, it does create opportunities.

MORROW: And in terms of just turnover. I look at stocks all day, every day. The turnover in my fund is about 35 or 40 percent a year, which indicates a two and a half or three year holding period for each individual investment. I think that's a good horizon. I think that takes you out of the noise, which is the day to day on TV about stocks and puts you into the sweet spot of investing but also keeps you open-minded and willing to change your mind over longer periods of time.

BUATTI: OK. We've got our next question here. It's on the topic of banks and lending rates. I'll let either of you jump in on this one. And the question is since the financial crisis banks have rebuilt their balance sheets, recapitalized and shed poor performing assets, yet lending has not picked up as much as had been hoped. What will it take to restore lending rates at which the economy can grow faster?

MORROW: I think that's a succinct and great summation of what's happening in the financial sector. I'd like to talk to this investor and find out what they think, as well. Because I think that's spot on. You know, four or five years ago banks weren't healthy and they did need to fix their balance sheets and they did need to shed assets and I think there was a perception that banks were unwilling to lend. That's not true today. Banks are an incredibly well capitalized position across the US and US banks really stand out globally as well capitalized. So they are open for business. What's not happening is demand for loans. It's not happening. It's not happening in consumer demand for loans, it's not happening in corporate demand for loans and I think it's this idea of cautiousness combined with a lower level of real economic growth. Companies are just much more comfortable reinvesting cash as opposed to taking on debt for new projects. And so people are going slow. They're being cautious. But, again, it's another thing that could turn on in the US economy, right? Animal spirits could turn on and people could get more comfortable about taking on debt again. And that would be a very sort of bullish indicator. But I think in general there's parts of the economy that were overlevered in 2008, 2009 and they're continuing to work down leverage and there's just cautiousness out there. But I think at this point it's a demand for loans issue as opposed to the financial health of the banks.

ROTH: I would completely agree with that. I mean, I think it's this is something that time will fix, and when you take on debt you're pulling forward consumption. And, think of it from the consumer's perspective. A lot of consumption was pulled forward and the consumer is kind of, working through that. I would expect that the demand growth would be somewhat tepid and I think people are a little bit disappointed but you got to consider the starting point. But, if you step back, it's healthy. And, we're working through the problem. And, we talked about the corporate side of things. In general we're in great shape there. Right. So the balance sheets are, in good shape and the debt's termed out. So I think that bodes well for the economy and, the consumer will, fix itself over time.

BUATTI: Excellent. So as the demand rises, so shall we see the answer, in part, at least, to our participant's question. John, we're going to stay with you for the last question here. This is a fastball coming in from our of our clients out west and the question is with all the competition for investors dollars today, why do you have more confidence in your approach than others in the industry?

ROTH: Well, I think it goes back to, kind of what we do, right? So if you ask me what are the competitive advantages of Fidelity, I would say it's our network of investment professionals. We have a hundred people in Boston. We have global offices and all they're doing is researching stocks for the Fidelity funds. And I spend a big part of my day interacting and trying to get the best ideas. So that is something that is very difficult to compete with and I think it also spans asset classes. So, during the financial crisis I spent a lot of time talking to our fixed income portfolio managers and they manage huge amounts of assets, too, so they have a great perspective. And, you know, leveraging that. So I think that's one of the things that kind of sets Fidelity apart, and that's that DNA, really our DNA, this network. The other thing is we use our scale to our advantage. Because we manage so much money we get a lot of interested companies coming by and, they come in and we get to learn the stories, we can visit these companies, and we have a lot of people that are working very hard to try to uncover, those situations where, the market's missing something. And, it could be big, it could be small, but in general we want to get those investments into the funds and, I think our network and our access is what really separates us.

BUATTI: Jim, same question to you.

MORROW: Sure. And I think it's a good question. I think the reality of the environment out there is it's a competitive landscape for investment managers. And it's not just mutual fund firms, right? There's ETFs and there's [passive?] strategies out there and I think as an active manager you have to earn your right to be a part of the discussion in the investors portfolios and I think, both John and I, over long periods of time... We actually started the same day here at Fidelity 15 years ago. We have developed a process that was built very organically from a bottoms up. How do you analyze a company, right? How do you understand what drives a company's fundamentals, and then how do you translate into -- how does that drive share price over long periods of time? And then we manage sector funds and we're able to have success in that. Now we manage diversified funds. And, it takes a long time, quite honestly, to build up that level of experience and expertise and I think at the end of the day the proof is in the numbers and in the performance and so it's a good question to ask and you should really be diligent in looking at what is the performance track record? Are investment managers doing what they say they are going to do and do their funds perform as they should during different market environments? And so I think it's a robust process for each of us that's been built organically over a long period of time. And, again, the results would argue that, you know, in this environment with Fidelity and all the resources we have, that we can add value and it's really beneficial to shareholders over time.

BUATTI: Well, thank you, Jim, thank you, John, very much. We certainly appreciate your thoughts on all the topics, your commentary, and the insights today. So thank you very much for being with us. I also want to take a moment here and thank all of the clients for taking time out of your day to attend this call, this webinar to hear some of the thoughts from some of Fidelity's best and brightest. They're certainly doing the hard work to help you achieve your investing goals. As a reminder, if you have questions that come up after today's event, please contact your dedicated Fidelity representative or reach out through Fidelity through the 1-800 number to ask your questions. We want to make sure we're getting information to you. On a quick programming note, we're excited to extend an invitation to everyone on this call, to our next Fidelity Viewpoints Inside Out webcast, which will take place on Tuesday, June 18th. We're going to have five Fidelity portfolio managers who will share their insights on the new normal. Should be an interesting topic. So the new normal in terms of new opportunities, risks and rules for investing five years after the financial crisis. Invitations for the webcast will be mailed on June 4th and you may register for the event at www.fidelity.com/insideout. Thank you again, everyone, for your participation this afternoon. Please remain on the line for some important disclosures to follow from the operator.

OPERATOR: Thank you. Before we go, I have some important information pertaining to what you've just heard. The information presented reflects the opinions of James Morrow and John D. Roth as of May 20, 2013 and do not necessarily represent the views of Fidelity Investments. These opinions are subject to change at any time based on market or other conditions. These materials are provided for informational purposes only and should not be used or construed as a recommendation of any security, sector, or investment strategy. These views should not be relied on as investment advice. Neither Fidelity nor the speakers can be held responsible for any direct or incidental loss incurred by applying any of the information offered. Please consult your tax or financial advisor for information concerning your specific situation. Past performance is no guarantee of future results. All indices are unmanaged. You cannot invest in an index. Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. The value of the funds domestic and foreign investments will vary from day to day in response to many factors. Stock values fluctuate in response to issuer, political, regulatory, market, or economic developments. You may have a gain or loss when you sell your shares. Investments in foreign securities, especially those in emerging markets, involves risks in addition to those of US investments, including increased political and economic risk, as well as exposure to currency fluctuations. The gold industry can be significantly affected by international monetary and political developments, such as currency devaluations or revaluations, central bank movements, economic and social conditions within a country, trade imbalances, or trade or currency restrictions between countries. The securities of smaller, less well-known companies can be more volatile than those of larger companies.

. Definitions, PE ratio, the ratio of a company's current share price to Wall Street analyst expense of earnings, PB ratio, the ratio of a company's current share price to reported accumulated profits and capital, EPS, the reported earnings per share of a company's stock, sharp ratio. The sharp ratio is a measure of historical adjusted performance calculated by divided the fund's excess returns, fund's average monthly returns minus the average monthly return of the Solomon Smith Barney three month T-bill index by a standard deviation of those returns. The higher the ratio the better the fund's return per unit of risk. The S&P 500, a market capitalization weighted index of common stocks, is a registered service mark of the McGraw Hill Companies, Incorporated and has been licensed for use by Fidelity Distributors Corporation. The Russell 3000 Index measures the performance of the largest 3000 US companies representing approximately 98% of the investable US equity market. Global industry classification standard, GICS, was developed by, and is the exclusive property service mark of MSCI and Standard and Poor's. Neither MSCI, Standard and Poor's, nor any other party involved in making or compiling any GICS classification makes any express or implied warranties or representations with respect to such standard or classification or the results to be obtained by the use thereof and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability, or fitness for a particular process with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, Standard & Poor's, any of their affiliates or any third party involved in making or compiling any GICS classifications have any liability for any direct, indirect, special, punitive, consequential, or any other damages, including lost profits, even if notified of the possibilities of such damages. Before investing, consider the fund's investment objectives, risks, charges, and expenses. Contact Fidelity for a prospectus or summary prospectus if available containing this information. Please read it carefully. Fidelity Brokerage Services, LLC is a member of the New York Stock Exchange, the SIPC, and is headquartered at 900 Salem Street in Smithfield, Rhode Island, zip code 02917.