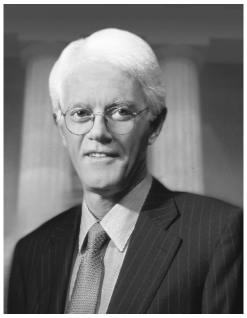

Peter Lynch
Vice Chairman, Fidelity Investments
Former Portfolio Manager,
Fidelity Magellan Fund

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PETER LYNCH MARKET COMMENTARY

On September 11, 2001 our lives changed. It's difficult to express the shock, grief and compassion we feel for our country. We as a nation have suffered an incredible loss. But people are back to work, the markets have re-opened and baseball games are being played. We're trying to get back to normal.

It seems in a way trivial to talk about our finances, but the markets are an important part of what makes this country strong and great. Many people have asked, "what's next for the stock market, the economy and what should I do?" Fidelity customers have called, friends have called. I'll try to offer a perspective on these questions and also try to explain, despite all that has happened, why I still believe in the U.S. stock market.

The markets have been volatile since they re-opened on September 17. There have been more negative days than positive. It has been painful. But the market has historically been volatile with declines of over 10 percent 21 times and over 20 percent eight times since 1970. In the short term, we are likely to be in for a choppy and difficult period, but that should be expected.

So what's next for the stock market?
Although I have been in this field for more than 30 years and have seen many difficult times -- the market crash of 1987 (a 23% decline for the Dow in one day) and 5 recessions -- I still don't know the answer. I never have. No one can predict with any certainty which way the next 1,000 points will be. Market fluctuations, while no means comfortable, are normal. But it's important for us not to lose focus on why we invest in the stock market.

When we invest in the market we are buying companies. We have had hundreds of great companies in our history. Now I'm not making a recommendation on any individual company here. Some may continue to be stalwarts and some may fade, but consider the following examples. In past decades, companies like Johnson & Johnson, General Electric, Coca-Cola, Wal-Mart, Disney and McDonald's have had a history of earnings growth. And consider that there are dozens of companies that started out only 20 years ago that developed into successes with impressive historical earnings growth. Companies like Microsoft, Dell, EMC, Home Depot, Amgen and Staples to name a few. There will be dozens of new companies created with superior earnings results that will help lead the market in the coming decades.

Since World War II, despite nine recessions and many other economic setbacks, corporate earnings are up 63 fold and the stock market is up 71 fold. Corporate profits per share have grown over 9% annually despite the down years. Nine percent may not sound like a lot but consider that it means that profits mathematically double every eight years, quadruple every 16, are up 16 fold every 32 years and are up 64 fold every 48 years. Even if earnings rates slow to 6-7%, the compounded gains will still be impressive over 10-20 years.

What I do know about the stock market is that it looks forward. That's right, forward. Right now we are looking at some difficult situations. But every economic recovery since World War II has been preceded by a stock market rally. And these rallies often start when conditions are grim.

Certainly, recent events will affect the earnings of certain companies and sectors of the economy more adversely than others. But over the long term, I believe corporate earnings will be higher in 10 years than they are today, and dramatically higher in 20 years. And the markets will follow accordingly.

What's next for the economy?
A lot of economists have said we are on the verge of a recession. I'm not an economist but I do study history. I can't tell you if we will go into a recession or not. But I can tell you that we have been tested by many recessions before and they have always been followed by recoveries.

In the last 50 years we have had many periods of economic prosperity and many periods of uncertainty. Despite 9 recessions, 3 wars, 2 Presidents shot (one died and one survived), 1 President resigned, 1 impeached, and the Cuban Missile crisis, stocks have been a great place to be. The last 12 months have already shown a slowing of the economy. Many hard-working people have lost their jobs and it has

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been painful. There probably will be more. The background noise and news coverage will scare people and consumer confidence will be challenged. But there are some critical factors we have to keep in mind:

Since WWII, recessions have become less severe (the severity of jobs lost has trended down during recessions from 1948-1991), are shorter (average duration is one year and average recovery is 4-8 years) and none have gotten out of control.

The United States historically has had a perfect record when it comes to rebounding from the most difficult times. With those nine recessions, we've had nine recoveries. There are many reasons why our downturns don't get out of control. Here are a few that help explain why our economic system remains strong and how these factors help keep our economy moving:

Government spending: it goes up every year. It always does. When consumer and corporate spending declines in difficult times, government spending acts as a buffer for the economy. And currently, the federal government has a major budget surplus, helping to ensure government spending can continue, even when tax receipts decline.

The housing market: the price of the average house has not fallen over the last 30 years. In fact, the value of the average house has increased 5-6% over the last three years. That has created $2 trillion in additional equity for homeowners, which offsets a large portion of what individual investors have lost in the stock market in the last two years.

The banking system: this is an incredibly important pillar of our economy and it is in good shape. It is regulated, has ample liquidity and is backed by a solvent FDIC insurance program for deposits.

Unemployment buffers: the majority of families have dual incomes, providing income if one spouse gets laid off. Cyclical and manufacturing jobs, which are more prone to layoffs, are a substantially smaller percentage of the work force than they were 30 years ago. And unemployment insurance supports people as they look for new jobs.

Economic downturns lower interest rates: this reduces interest expenses for consumers and businesses and improves the affordability of purchases and capital investments (physical plants, equipment, research and development).

Retiree benefits: pension payouts and Social Security checks provide a consistent stream of income for more than 30 million Americans.

The college factor: we now have more than 14 million students in our universities. Their spending, tuition and college-aid programs are relatively unaffected by either a good or bad economy.

Healthcare spending: over 10% of our GNP is related to the healthcare industry, another area that is much less affected by economic changes. People still need to see their doctors and buy prescription drugs. And we didn't have Medicaid or Medicare 50 years ago.

What should we do over the next few days and weeks?

My views haven't changed from two weeks ago, two years ago or 20 yeas ago. They won't two or 20 years from now. The money you need for the short term to pay for a wedding or put a down payment on a house or send a child to college next year shouldn't be in the stock market. But if you've set aside adequate funds for your short-term needs, time is on your side and the stock market has historically been the place to be. And when I say long term, I don't mean three weeks from Wednesday. I mean a minimum of 5, 10 or 20 years. The market goes through difficult times; this is one of them. But if you'd been in the market for the past 15, 30 or 50 years, you'd be quite happy despite the many painful periods.

It's no secret that traders and market timers who come in and out of the market will miss some of the bad months, but they will also miss some of the good ones as well. When the market goes up, it often goes up rapidly. If you jumped in and out of the market and missed the best 40 months during the last 40 years, you would have reduced your average annual return from more than 11% to around 3% (less than you would have gotten from a money market fund). Market timing is speculating and it rarely, if ever, pays off.

As I said earlier, which way the next 1,000 to 2,000 points in the market will go is anybody's guess, but I believe strongly that the next 10,000, 20,000 and 40,000 points will be up. We have had incredible innovations in health care, manufacturing and technology. We have seen the demise of communism, the rise of free-market economies. We now have anti-lock brakes, supermarket scanners, profound improvements in heart surgery, artificial hips and knees, and prescription drugs that treat high blood pressure, cholesterol and other serious health problems. These cures, inventions and innovations create jobs, make business more efficient and add to worldwide prosperity.

If you believe in the strength of the American resolve, hard work and innovation, then take a long-term view and believe in our economic system.

I certainly believe.

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Fidelity Investments

Fidelity Investments Institutional Services Company, Inc.
82 Devonshire Street, Boston, MA 02109

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