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Winter 2006

The Refined Investor[®]

Table of Contents



Does Gold Make Sense in a Diversified Portfolio?



Precious Metals Factoid



Notes From the Trade Desk

FidelityTrade Incorporated[®] is a full-service precious metals company specializing in the sales, trading, custody, and delivery of precious metals bullion products for individual, commercial, and institutional clients worldwide.

Does Gold Make Sense in a Diversified Portfolio?

By Tony J. Anzalone, CFA



Gold pierces the \$500 Barrier for the first time since late '80s¹

From time to time, prices of precious metals reach such a significant level they catch the attention of the mainstream business media. However, business journals often overlook the significance of precious metal's performance in relation to other asset classes. Ironically, metals are often perceived as a more costly alternative than the "more standard" investment classes.

The true measure of any investment is how well it adds to the overall portfolio return while at the same time subtracts from the overall risk. Equally important for any portfolio is diversification through investments that have little correlation with each other. Remember, the lower the correlation between the assets, the better the diversification. A look at recent performance numbers amongst the different classes reveals that gold can produce competitive returns with very little relative risk. This article examines gold's impressive performance as compared with other asset classes and analyzes the cost of including and maintaining a precious metals position.

Performance vs. Costs

Precious metals are poised to begin another year as a key asset class that delivers respectable returns while assuming a minimal amount of risk. Renewed interest by the central banks, war, uncertainty in the US economy, falling US dollar, and rising energy costs have all contributed to gold's successful march to the top performing asset class over the past 5 years. On November 29, gold ascended to its highest level in almost two decades by surpassing \$500/oz. Climbing over the \$500 mark is even more significant because this advance was largely achieved during the last five years. During this time, gold has outpaced all other asset classes and reminds us once again of the significant benefits gold adds to an investment portfolio.

Performance

Specifically, gold delivered an astounding 12.19% annualized return for the five year period ending Oct 31, 2005. Surpassing

(cont'd on next page)

(Continued from Front Page — Does Gold Make Sense — 2006.)

the next highest performing asset class by 5.44%, gold's performance was achieved with less risk than any other equity class. This performance combined with gold's historically low correlation translates into significant contribution to overall portfolio performance. In short, gold clearly added significant return while reducing portfolio volatility.



As of October 31, 2005

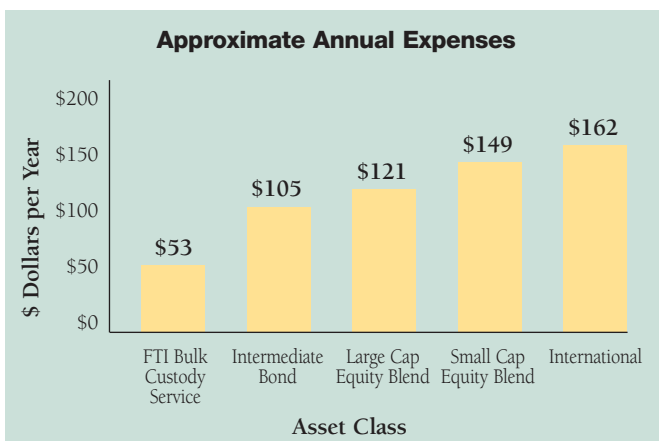
Asset Class	Return				Risk	Correlation
	3 Month	1 Year	3 Year*	5 Year*	5 Year (Std Dev)	
Gold	7.07	9.89	13.98	12.19	3.89	
Large Cap Equity ²	-1.70	10.47	13.89	-1.38	4.47	-0.07
Small Cap Equity ³	-4.60	12.08	21.54	6.75	5.77	0.01
International ⁴	4.02	18.59	21.74	3.42	4.44	0.11
T-Note Futures ⁵	-2.28	-4.50	-1.85	1.49	2.03	0.16

* Annualized Performance

Cost

The cost associated with the purchase and custody of precious metals is similar to that of any other investment. In most cases, there is an "up front" cost or commission, and a custodial/management fee to administer the account. Although commissions vary greatly, a fully diversified investment portfolio will typically include an array of equity and fixed income asset classes of which mutual funds are the most popular vehicle. An investor, on average, incurs a 60–200 basis point management fee for owning a mutual fund. In comparison, Fidelity's Bulk Custody Service charges just 50 basis points to administer your precious metals investment. To highlight this comparison, the chart below reflects the approximate annual fee an investor can expect to pay for each type of investment over a one year period.

Based on a \$10,000 investment with a 5% return, Fidelity's precious metals Bulk Custody Service is the least costly investment when compared to the average fee associated with these common Morningstar mutual fund categories.



History tells us that long term investment appreciation can not be relied on by one or two types of investments, but rather through proper diversification along a variety of investment classes. The best approach is to invest in a broad array of investments that offer good risk/return relationships and little correlation to the other investments in the portfolio. It is also advantageous to do so in the most cost effective way. Gold delivers on those demands.

¹Source: Dow Jones & Company. Wall Street Journal - Money & Investing, November 30th, 2005 p. c3

²Source: Russell 1000 Index data supplied by Russell Investment Group.

³Source: Russell 2000 Index data supplied by Russell Investment Group.

⁴Source: MSCI EAFE Index data provided by Morgan Stanley Capital International.

⁵Source: 10 Year Treasury Note data supplied by eSignal.

⁶Source: Average annual expenses provided by Morningstar Incorporated.

Precious Metals Factoid

Silver is the best heat conductor of all elements. Its uses in solar panels and automobile rear window defoggers take advantage of this quality.

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GOLD 514.40 ▲ 6.70 SIL 8.81 ▲ .07 PLAT 967.00 ▲ 4.60 PALLADIUM 263.10 ▲ 6.90

Notes from the Trade Desk... GOLD 514.40 ▲ 6.70 PLAT 967.00

- FidelityTrade is currently updating our website. Please keep an eye out for some exciting new changes. The website address is www.fidelitytrade.com.
- 1099B's will be mailed out to the required customers by January 31st.
- Did you know, American Eagle bullion coins can be added to your IRA? FidelityTrade recommends Sterling Trust, as a trustee and custodian for customers who want to add precious metals to their IRA.