

MAINTAINING ETHOS DURING MARKET VOLATILITY:  
A RHETORICAL ANALYSIS OF MUTUAL FUND REPORT NARRATIVES  
BEFORE AND AFTER THE 2000 DOT-COM CRASH

THESIS

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by

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## Dedication

This thesis is dedicated to the two most important men in my life:  
my husband, Jason, and my son, Colin.

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## CHAPTER I

### INTRODUCTION

The primary narrative portion of a mutual fund shareholder report, referred to by the Securities and Exchange Commission (SEC) as the portfolio manager's discussion of the fund, allows an investment company to craft a detailed story of its fund's performance and the underlying political, economic, and business factors that affected the performance. This narrative is a regulatory requirement of the SEC, which outlines general guidelines for its content, but it is not subject to as strict a set of rules as the financial portions of the report, which are audited by a third-party accounting firm and signed off on by the company's chief executive officer. So, while its primary function is to inform readers about the specific performance of the fund, it also is a highly rhetorical communication; the leeway writers have with its message presents an opportunity for the mutual fund company to convey a positive corporate image to current and prospective investors. Moreover, it requires the fund's portfolio manager to develop his or her credibility, or *ethos*—and the company's *ethos*—as he or she reports what affected the fund's performance during the reporting period. But, when the fund is not performing well, or the investment markets at-large are causing stocks held in mutual funds to decrease in value, maintaining investor confidence in the company becomes a significant challenge.

For this study, I used a model from rhetorical theory to explore ways in which portfolio managers develop ethos within the confines of the report narrative genre. I examined certain rhetorical aspects of the narratives in vastly different market environments—from historic high periods, which result in good news for shareholders, to dismal lows, which result in sometimes devastating news for shareholders—to see how the portfolio manager addresses the rhetorical goal of establishing credibility in both sets of circumstances.

The subject of this case study is the *Select Technology Portfolio Fund*, a mutual fund offered by Fidelity Investments that invests entirely in stocks of technology companies. I analyzed the eight narratives from annual and semiannual reports produced from 1999 to 2002, a time period in which the returns of technology stocks took a significant dive from the highest levels in history to catastrophic lows. These two extremes can be illustrated by the fund's highest and lowest returns during the period under study; at its peak in February of 2000, the fund posted a return of 148.11%, then dropped to -64.36% by the end of August, 2001. The crash of the technology markets industry-wide was marked by a 40% drop of the NASDAQ Composite Index, a standard benchmark for technology stocks, in the first quarter of 2000 (Reid 2000). The NASDAQ Composite Index is a benchmark that measures domestic and international stocks traded on the NASDAQ stock exchange, which was founded by the National Association of Securities Dealers. (NASDAQ originally stood for National Association of Securities Dealers Automated Quotations; but, in current lexicon of the investment world, it is treated not as an acronym but a proper name.)

My primary model for evaluating these narratives is a 1998 study by Ken Hyland, “Exploring Corporate Rhetoric: Metadiscourse in the CEO’s Letter.” In his study, Hyland analyzed 137 annual reports from international and Hong Kong companies to determine how writers of two narrative sections—the CEO’s letter and the director’s report—created a positive perception of themselves and their companies within the communication. Hyland’s study drew upon the concept of metadiscourse, “a term from discourse analysis which refers to the aspects of a text that explicitly relate to the organization of the discourse or to the writer’s stance towards either its content or the reader” (Hyland 225) to analyze the CEO letters. Metadiscourse, a concept developed by functional linguist Michael Halliday, refers to elements above and beyond the content of the letter—“linguistic devices” that help the writer communicate his or her personality, attitudes, and stance toward the subject matter to readers. The text-level rhetorics Hyland evaluated in his study served as my criteria for my study of portfolio manager narratives.

I chose this study as a model for mine because, while Hyland’s work focused on CEO letters within corporate annual reports—the financial reports of individual, primarily publicly traded companies—my study contends that the textual devices he applies to the CEOs’ messages are also relevant and valuable criteria in analyzing the rhetorical nature of the portfolio manager narratives within mutual fund shareholder reports. I base this contention on the potential weight each narrator carries to its primary audience, the shareholder. A mutual fund’s portfolio manager is the person responsible for the day-to-day management of the fund; ultimately, he or she makes decisions that directly affect the success or failure of the fund to yield returns for its shareholders, much like the CEO is the purported decision-maker for a company. Hence, my contention is

that the primary audience—in both cases, the shareholder—would have a similar level of interest in what his or her respective narrator has to say.

In fact, given that portfolio managers do not typically have such high-profile images, it becomes even more important for them to present a “competent, trustworthy, authoritative, and honest *persona*” (Hyland 235) to their investors. And, when a portfolio manager has to describe how he or she managed the fund during one of the most volatile periods in the history of the technology sector, assuring his or her own credibility becomes crucial to investor retention.

Finally, I found Hyland’s study of metadiscourse an especially fitting model to adopt because of personal experience I have had in this area of regulatory communications. From January 2001 through July 2002, during a particularly low period in the investment markets, I served as editor for mutual fund reports for the investments arm of a large financial services company. My job involved overseeing the creation of these narratives, first working directly with the portfolio managers themselves, then, later, working through a financial writer who interviewed the portfolio managers and provided the narratives in a question-and-answer format. Regardless of how they were produced, I was intuitively aware that these documents, while they were considered factual, objective accounts of the funds’ performance, the buying and selling decisions that affected them, and market or economic factors that influenced them, were highly rhetorical in nature, with clearly defined narrative personas and significant persuasive implications for investor retention.

In this study I sought to uncover trends in the use of metadiscourse markers within the narratives that contributed to the narrator’s—and company’s—ethos, with the

goal of finding changes in those trends that correlated with either positive or negative fund performance. In short, I set out to discover whether the narrator(s) applied different methods to convey ethos depending on the information they had to report. (My complete hypothesis will be discussed in chapter two.)

What I found was that, although there was some correlation between certain types of metadiscourse markers and the fund's returns, the use of these devices was largely dependent on each narrator's personal approach to communicating information to shareholders and establishing his or her own credibility within that goal. This overall finding is consistent with Hyland's contention that writing is a "social and communicative engagement between a writer and readers," and that metadiscourse "focuses on the way writers project themselves into their works to signal their communicative intentions" (Hyland 226).

## CHAPTER II

### LITERATURE REVIEW, HYPOTHESIS, AND METHOD

#### **Literature Review: The Study of Financial Communication**

Much research has been performed in the area of analyzing financial reporting communication genres through a number of different lenses—linguistics, narrative theory, rhetorical theory, content analysis, and readability, to name a few—in a wide range of scholarly publications devoted to the study of business communication, rhetoric, and technical communication. Largely, these studies have concentrated on the narrative portions of the corporate annual reports of individual companies—slick, lavishly produced documents that not only contain the company’s financial information for that year but also a letter from the company’s president, emotion-stirring photography and artwork, and feature editorial about various aspects of the company. Using both qualitative and quantitative measures, past studies have attempted to interpret this discourse in terms of how accurately and directly they convey the company’s performance to readers, how readable the narratives are to various stakeholders, and how closely the more subjective, narrative text lines up with the accompanying, more objective financial statements.

Each of these studies explore the concept that an entity’s communication to stakeholders about its performance in its respective marketplace will alter depending on

whether the performance is good or bad. I have included synopses of three studies relevant to my own that were conducted over approximately the past 25 years.

### Ingram and Frazier

In 1983, in “Narrative Disclosures in Annual Reports,” Robert Ingram and Katherine Frazier performed a content analysis of the corporate annual reports of 79 companies in three different industries to determine what factors (i.e., economic, social, political, or otherwise) management cited in discussing the company’s favorable or poor performance. In general, their hypothesis was that the narrative content would reveal tendencies to attribute good performance to the company’s management activities and poor performance to external factors. The study evaluated content separately by industry as well as by the two sections of the reports under investigation—the president’s letters and the management analyses—based on the premise that “the president’s letter is a highly discretionary form of communication relative to the management analysis which, *a priori*, should be more constrained by the financial performance of the company” (Ingram 52). A quantitative content analysis was completed using computer applications to objectively select recurring words, or content units. These data were measured against a variety of financial factors, also derived quantitatively, which included return on investment, capital intensiveness, and financial leverage. The study also took into consideration political factors and concentration of ownership, that is, the percentage of voting stock held by management (Ingram 53).

Overall, the results of their study found that “the predominant motivation underlying the associations (between narrative disclosures and explanatory factors)

appears to be consistent with *attribution theory*: management attributes good performance to itself and poor performance to external factors” (Ingram 59). It is important to note, however, that the study also found little evidence to suggest that these attribution practices were misleading, or that the narratives obscured poor performance.

### Kohut and Segars

Nearly ten years later, in 1992, Gary Kohut and Albert Segars studied the same genre—CEO letters in corporate annual reports—to uncover potential trends in corporate communication strategy for high- and low-performing companies. Based on the notion developed by C.M. Fiol (cited in the study) that “while letters to shareholders directly communicate facts about a firm, they also communicate implicit beliefs about the organization and its relationships with the surrounding world” (Kohut 9), their study sought to determine whether CEO letters of high-performing firms tended to utilize different themes than the CEO letters of low-performing firms to communicate corporate strategy. They also reviewed non-thematic characteristics such as word count, number of sentences, and syllables per word to see if differences existed between the two types of firms. Using content analysis, the study reviewed the presidents’ letters of annual reports of the top 25 and bottom 25 firms listed in the 1989 Fortune 500 list as reported by *Fortune* magazine, and uncovered six general themes: environmental factors, growth, operating philosophy, product/market mix, unfavorable financial references, and favorable financial references (Kohut 13). The researchers also paid attention to the difference between past themes and future themes.

Kohut and Segars discovered several notable differences between top- and bottom-performing companies. First, in terms of non-thematic characteristics, word count showed the only significant difference; the messages of high-performing firms were generally longer. The researchers suggested that ““good news’ messages are cause for more elaboration . . . [and] unfavorable results may be communicated in a more concise manner with little elaboration” (Kohut 13).

In terms of thematic tendencies, the study found that:

- 1) Both types of firms employed past themes heavily, suggesting that “presidents tend to look towards this theme over others in explaining dramatic corporate information, be it good or bad” (Kohut 14).
- 2) Within the scope of references to the past, three themes—product/market mix, favorable financial references, and unfavorable financial references—were significantly different for both types of firms, with the first two being used more by high performers and the third being employed more by low performers (Kohut 15).
- 3) Overall, high performers made more references to the past and fewer references to the future than low performers (Kohut 16).

The most salient finding overall was that firms’ performance could correctly be classified according to the themes emphasized in the presidents’ letters of annual reports.

### Jameson

In 2000, Daphne Jameson’s study titled “Telling the Investment Story: A Narrative Analysis of Shareholder Reports” marked one of the few existing studies of the

same genre I evaluate in my study—narratives of mutual fund reports issued by investment companies, as opposed to the corporate reports of individual companies. Jameson performed quantitative and qualitative analysis of all narrative components of 300 mutual funds, the reports of which were issued between July 1996 and June 1997, a period in which the nation's economy was in expansion and the stock market was delivering sizable positive gains. All funds in her study were similar in that they all contained stocks of a broad range of large U.S. companies and are generally considered less aggressive than funds that only hold stocks from a particular industry or market sector, such as technology or international stocks. Jameson's study separated the funds into two categories:

- 1) *Top-return funds*, which were characterized by strong performance in relative terms, that is, those which beat the returns of the Standard & Poor's 500 Index and other stated benchmarks for that time period; and absolute terms, that is, returns were 10% or higher, based on historical performance of the S&P 500 Index (Jameson 14).
- 2) *Mixed-return funds*, which offered strong absolute performance, or high returns, but poor relative performance, that is, they did not beat the returns of their benchmarks for the period (Jameson 15).

Jameson evaluated all narrative portions of the reports quantitatively to determine differences in levels of directness, which she defines as the distance (measured in number of words) between the beginning of the narrative and the statement of the first of two "main points" (Jameson 18), which could either be the funds' absolute returns or the

funds' relative performance. She also measured the distance between the first main point and the second. She also evaluated the texts qualitatively using criteria derived from narrative theorist Mieke Bal: structure, theme, and fabula, or "underlying materials of the story, including events, actors, time, and place" (Jameson 9). Finally, she evaluated how these criteria interacted with the levels of directness to create the story.

Jameson revealed a statistically significant difference in levels of directness between the reports of mixed-return funds and top-return funds, the former of which were less direct. However, the mixed-return reports "differ[ed] not only from the top-return report, but from one another, because of different conceptions of the fabula, the underlying story materials" (Jameson 16). Jameson also determined common types of directness based on fabula (positive, negative, equivocal, or balanced) and identified common themes found in the explanations of underperformances in the mixed-return reports (self-justification, blame, and adjusted perspectives).

In addition to these findings, Jameson reveals qualities of these reports that helped to influence the topic selection for my study, specifically in terms of the reports' narrators. Jameson investigates the notion of "contrasting narrators" contained within all verbal portions of a shareholder report. For example, she contrasts two different voices and viewpoints through which the story of a fund's performance could be told, such as "the fund chairperson, whose long years of experience and renown in the field create a powerful ethos . . . [or] the young portfolio manager, whose sharp analysis of individual companies stresses the thorough research on which decisions were based" (Jameson 23). She found that, in mixed-return reports, there were more "named, dramatized narrators" than in top-return reports (Jameson 25). These different points of view helped to

moderate bad news in the mixed-return reports because they invited readers to participate in constructing the story by requiring them to choose among several perspectives, or narrative “voices,” and negotiate their own intellectual and emotional responses. According to Jameson, through these emotional responses, the readers will decide whether the narrative—and the narrators—are credible.

For me, Jameson’s work, along with other works cited here, strongly informs the basic assumption underlying my study that the narrators’ approach to communicating their fund’s performance will be different depending on whether the story is a positive or negative, and that those decisions are crucial to establishing or maintaining credibility with readers. However, I wanted to explore the issue of credibility, or ethos, through the lens of rhetorical theory rather than narrative theory. And, I wanted to narrow my focus to evaluate these issues for one portion of mutual fund shareholder reports—the portfolio manager’s discussion of the fund, or report narrative. I employed two studies to accomplish this task: “Mr. Darwin and His Readers: Exploring Interpersonal Metadiscourse as a Dimension of Ethos” by Avon Crismore and Rodney Farnsworth; and “Exploring Corporate Rhetoric: Metadiscourse in the CEO’s Letter” by Ken Hyland, which serves as the primary model for my study.

### **Metadiscourse as a Tool for Rhetorical Analysis**

Metadiscourse “refers to aspects of text that explicitly relate to the organization of the discourse or to the writer’s stance towards either its content or the reader” (Hyland 225). Metadiscourse is composed of a range of linguistic devices that signal the narrator’s presence in the text and convey his or her personality, credibility, and stance toward the

message. In other words, “metadiscourse is discourse about discourse” (Crismore 92). Its origins lie in linguistics; Michael Halliday, a functional linguist, distinguished between three macrofunctions of language—ideational, or expressing referential information about the world; interpersonal, or showing how narrators interact with audience; and textual, or shaping language into a connected text. Metadiscourse is a linguistic element that fulfills the interpersonal and textual functions (Crismore 93).

In terms of rhetoric, Crismore and Farnsworth argue that metadiscourse is used by writers to “act on readers, guiding and directing them rather than informing them about content and carrying on implicit Socratic dialogues with them about intentions, purposes, meanings, and attitudes” (Crismore 92). Therefore, metadiscourse used for the interpersonal function of language, or the marking of a social interaction between the writer and reader, has great bearing on the writer’s development of ethos. This idea serves as the basis for Crismore and Farnsworth’s study, as well as a large part of Hyland’s study. I will discuss the two studies in more detail to provide greater context for my own.

### Crismore and Farnsworth

In 1989, Crismore and Farnsworth took metadiscourse theory “beyond the applied linguistics and functional grammar level to a rhetorical level” (Crismore 92), applying it to Charles Darwin’s infamous work, *Origin of Species*, to identify how Darwin used metadiscourse to build credibility with his readers. They focused their study on interpersonal discourse, using Halliday’s definition as a guide and adopting three of William Van de Kopple’s categories of metadiscourse:

- 1) **Modality markers**, used to “assess certainty and uncertainty of propositional content and the degree of commitment to that assessment” (Crismore 94). Modality markers include hedges, such as “perhaps”, “may”, and “seem”; and emphatics, such as “of course” and “undoubtedly” (Crismore 98).
- 2) **Attitude/Evaluative markers**, used to “indicate the author’s affective response to the ideational content.” Examples include “I find it surprising that”, “unfortunately”, and “it is important to note that” (Crismore 98).
- 3) **Commentary**, which “indicates the author’s attempt to engage readers in a dialogue . . . or to make predictions about the reader’s response to content.” Examples include “dear reader” or “you may wonder why” (Crismore 98).

Crismore and Farnsworth used both qualitative and quantitative measures to evaluate chapters one and four of *Origin of Species* for the use of the metadiscourse markers outlined above. They selected chapter one because they believed that it was a logical place for the writer to “provide a framework . . . [and] establish rapport with readers; to engage readers, ensuring that they will continue to read the complete book; and to establish credibility” (Crismore 101). Chapter four was selected because it was there that Darwin presented his theory of natural selection, the central (and most controversial, at that time) focus of the book.

What Crismore and Farnsworth found was that hedges were the most often used metadiscourse marker in both chapters by a wide margin, with emphatics and attributors coming in next (the frequency of which varied slightly between chapters), then attitude/evaluative markers, then commentary. More important, they found that Darwin delicately weaves multiple hedges, and combinations of hedges and other metadiscourse markers to construct an ethos through personas such as “the tentative, cautious naturalist; the modest, gentleman naturalist; the the nonassertive, tactful presenter of ideas; the trustworthy expert, the childlike human being given to wonder—in short, the non-threatening, endearing Mr. Darwin” (Crismore 101). Through qualitative and quantitative evaluation, Crismore and Farnsworth found that Darwin relied heavily on metadiscourse markers—and most heavily on modality markers—to build his credibility.

Crismore and Farnsworth’s work allowed me to understand the impact of metadiscourse thoroughly by offering Darwin as an example. However, because the narratives of mutual fund reports are a very different discourse genre, and generally thought of as more strictly informational, I looked to Hyland’s study—one that uses the same concept but employs it in the study of a similar type of discourse—to serve as the chief model for mine.

### Hyland

Ken Hyland’s 1998 study analyzed rhetorical elements of the CEO’s letters of company annual reports from Asian companies that were published between 1992 and 1994 to determine the ways the CEOs sought to create a positive perception of their respective companies. As in Crismore’s and Farnsworth’s research, metadiscourse

provided the tool with which he evaluated the reports for logical, affective, and credible appeals; however, Hyland focused on both interpersonal and textual metadiscourse functions. In addition, Hyland analyzed the narratives of 110 randomly selected directors' reports within the same overall sample. The director's report "reviews the year and describes important events affecting the company, changes in fixed assets, details of directors, and so on" (Hyland 227). Hyland found that this more objective type of narrative served as a useful contrast to the CEO's letter. I found that the directors' narratives had similar goals to the mutual fund report narratives compiled by portfolio managers in my study, which are generally considered to have a primary goal of informing, not persuading.

Hyland employed the same taxonomy that was based on Halliday's macrofunctions of language and, subsequently, Crismore's and Farnsworth's taxonomy, although he modified it slightly to "minimize overlapping functions" (Hyland 228) between logical, affective, and credible appeals. His taxonomy includes hedges, emphatics, and attitude markers, but also includes attributors (third-party citations about the subject matter) and relational markers, which correspond somewhat to Crismore's and Farnsworth's category of commentary and include elements that "explicitly refer to or build relationship with the reader" (Hyland 228). Further detail and additional examples of these metadiscourse markers, taken directly from Hyland's study, will be discussed on page 19 in the "Method" section of this chapter.

In analyzing both sets of narratives and comparing the results, Hyland found that the CEOs' narratives contained about two and a half more times more metadiscourse markers per 100 words than the directors' reports, demonstrating the distinct difference in

goals for the two types of documents. He found “the directors’ perceiving less need to exercise control over the discourse by marking the organization of their prose or its affective implications” (Hyland 231).

However, that does not mean that the directors’ reports did not utilize metadiscourse markers. In fact, not only did they use these devices, but the types they employed most often closely mirrored that of the CEOs’ reports; hedges were, by far, the most frequently used metadiscourse marker, followed by attitude markers, emphatics, and relational markers. The only difference was that the CEOs’ reports used emphatics more frequently than attitude markers. Hyland acknowledged that, “although these two genres differ considerably in terms of form and content, the directors’ report is not merely a list of hard financial data . . . the differences in metadiscourse between this report and the CEO’s letter therefore related to different purposes rather than different formats” (Hyland 232). But, the frequent use of metadiscourse markers in the directors’ reports indicates that there is still a need to guide the reader through factual information in a way that establishes affective and rational appeals in addition to logical ones.

In terms of ethical appeals, Hyland argues that, “while some CEOs may have a high-profile image prior to their pronouncements in the annual report, *all writers have to re-establish their ethos in their texts*” (Hyland 235, emphasis mine). This statement is the cornerstone of my study of portfolio manager narratives in mutual fund reports. In fact, I would argue here that, considering the role of the portfolio manager in having a direct impact on shareholder dollars, it is even more critical that portfolio managers establish their ethos in every narrative. And, when a volatile investment market that peaks at historic highs and then plummets drastically provides a context that could likely alter

investors' confidence in the credibility of the company—and the individuals—who manage their investments, successfully establishing and maintaining credibility is a rhetorical imperative, crucial to the company's retaining investors' business and portfolio managers' keeping their jobs.

### **Hypothesis**

For my study, I analyzed the use of metadiscourse markers in each of the eight reports produced from 1999-2002 to see if the frequency of one or more types of devices increased or decreased from narratives in “pre-crash” annual reports (those produced for periods ending during 1999 through the first quarter of 2000) to those of “post-crash” reports (those produced for periods ending during the second quarter of 2000 through 2002). I also analyzed the narratives qualitatively to consider other variables that may have affected quantitative results, such as changes in portfolio managers during the period or significant shifts in the fund's objective. (Please refer to the appendix at the end of this study for full narrative texts from each report.)

My hypothesis was that the narrator's choice of metadiscourse markers in narratives would vary depending on the news that the narrator has to deliver, and that certain trends in metadiscourse would change from the first part of the period, when the fund's performance was good, to the second part of the period, when the fund's performance declined. Because it is a common practice to have narratives written by a financial writer rather than by the managers themselves, my hypothesis also suggested that the company's chosen narrative voice for the fund's reports would be consistent and would not vary much, if at all, among portfolio managers.

I attempted to answer the following questions in my analysis:

- 1) What metadiscourse markers are typically employed in narratives for reports produced during this time period that specifically help to develop ethical appeals within the document?
- 2) What of these approaches, if any, changed from the narratives in “pre-crash” annual reports (those produced for annual periods ending in 1999 and 2000) to those of “post-crash” reports (those produced for periods ending in 2001 and 2002). In what ways did they change? Were there specific devices used more frequently? Were some used less frequently?

## **Method**

For my study of the report narratives for the Fidelity Select Technology Portfolio during the time period 1999-2002, I evaluated the use of the four interpersonal metadiscourse categories Hyland’s study identified as contributors to ethos in the CEO’s reports: hedges, emphatics, attributors and relational markers. These markers are defined below.

- **Hedges** – “Items such as *possible*, *might*, and *perhaps* which mark the writer’s decision to present propositional information tentatively” (Hyland 229). Although I also used Crismore and Farnsworth’s study on the writings of Charles Darwin to further enhance my understanding of hedges, and although they counted phrases like “I think,” “I feel” and “I believe” as hedges in Darwin’s narrative, I did not include these phrases in my hedge counts because I do not think a question-and-answer narrative would be possible without them.

- **Emphatics** – “Indicate the writer’s assurance: *it is obvious, definitely, and clearly*” (Hyland 229).
- **Attributors** – “Indicate the source of information” (Hyland 229). More specifically, attributors are citations of third-party sources that provide external validation of claims made in the discourse about the subject matter. In this case, I was looking for the narrators’ citations of third-party entities’ favorable reviews or rankings of the fund and its performance. The most typical types found in mutual fund reports are high rankings of the fund within a peer group of similar funds by external mutual fund ranking agencies such as Morningstar Inc. and Lipper (a Reuters company).
- **Relational markers** – “Explicitly seek to involve the reader by selectively focusing their attention, emphasizing a relationship, or by including them as participants in the text situation. Devices include second-person pronouns, first-person pronouns, imperatives, questions, and asides that interrupt the ongoing discourse” (Hyland 230).

I looked at almost every type of metadiscourse marker quantitatively. For relational markers, I evaluated the use of first-person pronouns quantitatively, but others I only evaluated qualitatively. This was because with certain relational markers, their overlapping contribution to other types of rhetorical appeals—*logos* and *pathos*—made it difficult to attribute them to ethos alone. For the metadiscourse markers that I chose to quantify, I used an index of occurrence per every 100 words to determine frequency independent of the actual length of the report narrative. I set out specifically to compare the results of the first three reports (annual and semiannual reports for 1999 and the

annual report for 2000, before the “dot-com crash”) to those of the next five reports from the period (semiannual 2000 through semiannual 2002) to determine if the frequency of one or more types of devices increased or decreased in a correlative way with the fund’s absolute performance, that is, the fund’s return. I also looked for this type of correlation with the fund’s relative performance (i.e., whether the fund’s return was higher than the fund’s stated benchmark, the Goldman Sachs Technology Index). In addition, I looked for trends for each portfolio manager to determine if the use of certain metadiscourse markers were specific to the narrator’s “voice,” regardless of fund performance. Finally, I also made observations on a qualitative basis, looking at the use of metadiscourse markers as a whole to identify general trends and specific “voices” of each narrator and how they each conveyed ethos.

## CHAPTER III

### THE INVESTMENT MARKETS, REGULATORY GUIDELINES

#### **The Investment Markets from 1999-2002**

As in any rhetorical or narrative study, it is important to understand the context in which a piece of discourse is created. Understanding what was occurring in the investment markets during this time period is especially important for this study because it aims to measure and analyze the frequency of use of ethos-related metadiscourse devices during a period in which the context surrounding the narratives changes dramatically from the beginning to the end. The context of narratives from February 1999 through February 2000, which is represented by a prosperous time in the investment markets, has significantly different implications on the discourse than that of the narratives from August 2000 through August 2002, after the market took its severe downturn. I will discuss this drastic change in terms of the investment markets in general and for the technology sector and discuss the climate that existed for the narrators of these narratives—the mutual fund portfolio managers—during which they had to perform their duties of buying and selling for the fund.

### **The Late 1990s: “Internet Mania” in the Stock Market**

There are a number of books written on the investment markets during the period from 1995-1999, a period of phenomenal growth for the stock market in general. Tim Lee, author of *Why the Markets Went Crazy and What it Means for Investors*, is one of many experts who have explored the economic, political and other factors that affected this historically unprecedented period of growth in the stock market—a period that saw the investment markets peak, then fall in what is typically referred to as the “dot-com crash.” One of the most widely used benchmarks for stock market growth in general is the Standard & Poor’s Composite Index, better known to investors as the S&P 500—an index of 500 stocks of large companies, defined by market value, that is commonly cited as a leading indicator of U.S. equities. By its standards, this period in the markets was one of the highest in history. “In each of the five years from 1995 to 1999 the Standard and Poor’s Composite Index of the U.S. stock market gave investors an annual total return (including dividends) in excess of 20 per cent. Previously in history this had never happened for even three consecutive years” (Lee 10). According to Lee, by 1999, “the market’s performance was increasingly concentrated in stocks of large companies and of growth companies (that is, companies that had been delivering strong growth in earnings per share and were expected to continue to do so), particularly in the ‘hot’ areas of technology, media and telecommunications (TMT)” (Lee 10).

This particular sector of the market is where the real story of the period’s historic growth—and the dot-com crash—truly begins. While 1995 marks the beginning of a prosperous period for the stock market in general, Lee cites 1998 as the beginning of what is now known as “Internet mania,” or “Internet euphoria” (Lee 11)—a kind of

frenzy in the markets that characterized the primary reason for the dot-com crash. The accelerated growth that technology stocks experienced in particular is quantified by the performance of what is still considered by the investment industry as the primary benchmark for technology stocks, the NASDAQ Composite Index—a listing of all companies traded on the NASDAQ Stock Market. One must only look at the index from its inception to get an idea of its extreme growth from 1998-2000. According to NASDAQ's Web site, the NASDAQ market of over-the-counter stocks opened for trading in 1971 with a base value of 100. It had only reached 2,000 for the first time during 1998. However, in just two years, the NASDAQ had surpassed 5000 before it peaked at 5,048 on March 10, 2000 (Lee 10), and began its steady decline.

Roger Lowenstein, author of *Origins of the Crash*, marks this turning point from prosperity to mania with the Initial Public Offering (IPO) of well-known Internet auction Web site eBay in September 1998. On that day, “The stock was offered at \$18. After a full day of trading, it closed at \$47 3/8. By year-end the stock was at \$241” (Lowenstein 101), Companies like Amazon and Yahoo, who had been publicly traded since 1996 and 1997, respectively, were by then valued in the tens of billions of dollars. While large market capitalizations (that is, the total dollar value of all outstanding shares) for these “household name” Internet companies may have been justified by their earnings, revenues and other financial measures, this same explosive growth was also occurring for small, obscure dot-com companies—many of them who never turned a profit.

Why? Mainly because the market was valuing them at staggeringly high levels based on their *potential* for growth, not on actual earnings. One example is Internet grocery company Webvan, whose market capitalization peaked at more than \$8 billion

shortly after its stock market debut in November 1999. “The Wall Street Journal noted that this was close to half the market value of Safeway, even though the *annual* sales revenues of Webvan would have been for Safeway only a good afternoon’s. Webvan eventually closed its doors in July 2001, having consumed about US\$1 billion of investors’ money without ever making a profit” (Lee 11). Another example is TheGlobe, an online advertising company whose stock closed at a 606 percent premium to its offer price when it opened on November 12, 1998. By April 1999, they had reached a capitalization of \$769 million, yet by the end of 2000 had fallen to less \$5 million (Lee 13). “Professional investor John Dorfman, in an article carried by *Bloomberg News* on 17 February 2000, worked out that 28 of the 408 US companies with a stock market value of over US\$6 billion not only had little earnings, they had little in the way of revenue” (Lee 14).

One of the best descriptions of the “Internet mania” in the investment markets and its far-reaching implications can be attributed to Paul Volcker, former Federal Reserve Chairman, who stated in May 1999 that “the fate of the world economy is now totally dependent on the growth of the U.S. economy, which is dependent on the stock market, whose growth is dependent on about 50 stocks, half of which have never reported any earnings” (Lee 10).

### **The Investment Industry: “New Economy,” New Rules**

It is extremely common in the investment industry to refer to “the market” as if it is a living, breathing agent—and in the case of the dot-com mania and subsequent crash, this common use can certainly obscure the true agency behind market ups and downs

(much like the favored euphemism “market correction,” often used to refer to the dot-com crash and other significant dips in the stock market, can obscure their severity). The market, though, cannot exist without its participants—brokers, investment companies, venture capitalists, market analysts, economists, individual investors, and the like. Every one of these participants influenced the market’s unprecedented growth and subsequent fall.

A frenzy of this magnitude could not be possible if institutional investors (that is, pension funds, insurance companies and mutual fund complexes such as the one in this study) had not valued—and bought—technology stocks so liberally. Unfortunately, while one would assume these professional investors would have dispassionately ferreted out the weaker companies using sophisticated methods of analyzing and valuing stocks in the sector against established principles, that was not always the case. Financial and economic experts came to believe in the potential of technology to revolutionize the world with the same or greater impact that industrialization had once done, and technology companies increasingly came to be viewed as the fruits of a “new economy” in which traditional methods for valuing stocks, such as a company’s profits, were obsolete. Lee states:

In the eyes of some, profits—and perhaps even revenues—were a liability because they provided an old-fashioned basis for valuing a company. For believers, the Internet was all about potential, not profits in the here and now.

With no price-to-earnings ratios there was no limit to the values the market could ascribe to these companies. Analysts invented new methods of valuing them,

which towards the end of the bubble employed some fairly heavyweight mathematical concepts (Lee 14).

Increasingly, with the “new economy” becoming the mantra, professional investors became swept up in the mania.

This is not to say that every portfolio manager blindly ignored the fundamentals. However, with this tremendous prosperity in the investment markets came immense pressure. Based on the unprecedented speed at which the value of technology companies grew from two-digit IPO prices to multi-billion-dollar market capitalizations, the entire market sought to benefit from this short-term, exponential growth. According to Lee, portfolio managers were literally forced to buy into the same names that the rest of the market was chasing in order to maintain shareholder dollars and grow their business. Lee states:

Fund managers were increasingly measured on a quarterly basis against their peers managing similar funds and against the relevant stock market indices. In October 1999 the pension fund of Unilever PLC sued Merrill Lynch Mercury Asset Management (MAM), seeking damages of £100 million for under-performance of the pensions assets it had been managing. Shortly after, the manager of the pension fund of UK supermarket chain J. Sainsbury was quoted in the British press when he called for heavy financial penalties for under-

performing fund managers, crystallizing the pressures of fund managers for performance at least in line with indices (Lee 118).

To underscore the pressure portfolio managers experienced from their companies, Lee cites a statement by Barton Biggs, then a chief strategist at Morgan Stanley: ““On an investment committee, it is almost better to be wrong with the group than to express a contrary view, even if it is right, because if by any chance you are both wrong and a dissident, you are finished as a functioning member of the committee or firm”” (Lee 18). Between this “peer pressure,” the competition, and the money that was being made as these stocks grew, fund managers could not afford not to invest in the technology sector, even if they believed the stocks to be overvalued.

Many fund managers who bucked the trends did lose their jobs. Portfolio managers who were brave enough to be skeptics had either been skeptical for too long and lost money betting against the market, or they held their ground and were asked to leave. For example:

- 1) “Hedge fund manager Julian Robertson closed down his Tiger Management funds in March 2000, after assets had shrunk from \$US22 billion to \$US6 billion in less than two years.” Investors left the funds because management ignored internet and other technology stocks, believing them to be “grossly overvalued” (Lee 19).

- 2) George Soros' Quantum and Quota funds got into the sector too late, then took heavy losses in March and April 2000, forcing them to scale down the company (Lee 19).
- 3) In the United Kingdom, Tony Dye, then famous for avoiding technology stocks, was forced to resign from head of investment at value fund management firm Phillips & Drew after they decided to change their strategy to include technology stocks to placate pension fund clients and improve performance (Lee 19).

As further testimony to the frenzy and the growing belief that the market had changed so much that the highs it experienced were indicative of the new “normal,” the *Wall Street Journal* published a story titled “The New Chips: Conservative Investors Finally Are Saying: Maybe Tech Isn’t a Fad—Nasdaq Powers Past 5000 As Cisco, Oracle and Such Become ‘Core’ Stocks—Is the Shift Itself Bearish?” The story detailed the accounts of numerous older investors—some retired, some in their 40s, but all longtime investors in more traditional, “old economy” stocks such as Procter & Gamble and Du Pont—who were selling out of these core investments into technology companies—some devoting 100% of their portfolios to the sector to cash in on 40% or higher gains. The story also cited high-profile portfolio managers whose clients pressured them to get into the technology market in order to keep their business. For example, conservative financial planner Lane Jones, after succumbing to the pressure from clients, noted that “‘The market in tech is way overvalued,’ Mr. Jones says. But ‘if your clients feel like they are missing the boat, you’ll have no clients’” (Browning).

Looking back, it seems ironic that this story—and, very likely, numerous others in various financial newspapers—was published on Friday, March 10, 2000—the day the NASDAQ Index peaked. Although it was not evident at the time, it was only three days later, when the markets reopened on March 13, that the decline began.

### **March 2000: The Beginnings of the Downward Slide**

In the investment markets, the only things that can be truly counted on are history and hindsight. Regardless of numerous leading indicators used by financial gurus and investment complexes, the decline that began in mid-March of 2000 took awhile to set in to investors' minds. Despite a total decline of 40% for the NASDAQ Index in 2000, fueled by corporations' filing unfavorable earnings reports and a tightening of monetary policy by the Federal Reserve Board, new mutual fund investment by shareholders in 2000 totaled \$388 billion (Collins 1), up from \$364 billion in 1999 (Reid 1, 2001). The continued growth was largely attributed to equity mutual funds. "As the year proceeded and the NASDAQ declined, inflows to equity mutual funds slowed somewhat but still remained substantial. Overall, investors in equity mutual funds reacted calmly to the significant stock market correction in 2000" (Collins 1). Moreover, investors not only stayed in equity funds but continued to favor technology funds (Collins 2). However, as the NASDAQ declined, so did equity mutual fund assets, despite the increase in purchases into these funds; total assets decreased by \$80 billion that year (Collins 2).

**2001: Further Market Declines Break New Records**

The sting of the fall in the markets was felt much more greatly in 2001, and it spread beyond the technology sector to affect the equity investment markets as a whole. Despite some signs of recovery in March, and aggressive lowering of interest rates by the Federal Reserve Board beginning on January 3, the economy had entered recession. Markets further declined as a rebound in the economy did not materialize. Even though net inflows to mutual funds increased to \$504 billion, investor focus was shifting from equity funds to more conservative options such as bond, hybrid, and money market funds. And, whereas equity mutual fund assets declined by only \$80 billion in 2000, they declined by \$500 billion in 2001 (Reid 1, 2002).

After nearly 18 months of decline in the equity markets, the downturn was further intensified by the September 11, 2001, attacks on the World Trade Center and the Pentagon. Stock exchanges closed for six days, and, after reopening on September 17, speculation about how the attacks would affect corporate earnings drove down major stock price indexes during the week. Overall, 2001 saw the sharpest drop in corporate profits in more than 15 years. And, “Moreover, the market decline from its peak in March 2000 to September 2001 was one of the most severe since the end of World War II” (Reid 4, 2002).

**2002: Enron and Other Corporate Scandals Erode Investor Trust**

The downturn in the U.S. stock market that began in 2000 continued through 2002, posting its steepest three-year decline since the Great Depression (Reid 1, 2003).

Equity mutual fund assets declined by \$751 billion. “By the end of 2002, equity fund assets were down 42% from their peak in 2000” (Reid 1, 2003), having decreased by \$751 billion from the end of 2001. In addition to sizable continued decreases in assets, 2000 saw the first negative net new cash flow—an outflow of \$27 billion—since 1988 (Reid 2, 2003)—a result of investors’ taking their losses and seeking safety on other types of investments. The impact of the market crash that began in March 2000 translated to \$8.3 trillion in lost household wealth by the end of the third quarter of 2002 (Reid 3, 2003).

In addition to record-breaking stock market losses, 2002 was also fraught with near-daily breaking news of corporate scandals that significantly altered the American public’s perception of large corporations and their accounting practices. The first, energy company Enron, filed for bankruptcy in late 2001 and later admitted that its reported financials were the product of carefully planned accounting fraud—accomplished with the help of accounting giant Arthur Andersen, long considered the “gold seal of trust” (Lowenstein 190). The story unfolded to reveal that Enron executives had bailed out of their company stocks to avoid personal losses while forcing lower-level employees to hold Enron stock in their 401(k) plans, which were virtually worthless after the scandal broke. This revelation “turned the public’s stomach” (Lowenstein 189).

The Enron debacle ended up being just one of a slew of corporate accounting scandals of companies such as Global Crossing, Lucent, WorldCom, Qwest, Adelphia Communications, Tyco, Imclone, Rite Aid, and numerous others. And, when major news broke, the market usually reacted accordingly. For example, on June 21, the day that Rite

Aid CEO Martin Grass was indicted for accounting fraud and a host of associated charges, the Dow Jones fell 180 points (Lowenstein 200).

So, after three years of dismal market performance and widespread scandal, investors by 2002 were not only skeptical, they were completely untrusting. “The bull market had already cracked, and after Enron/Andresen it seemed not just over but invalidated—as though it had been based on shoddy premises all along. The bubble now seemed to have been not merely doomed but foredoomed” (Lowenstein 190). The bubble had burst, and what was left for investors was a depressed market in which they had to make the unenviable choice between staying in and trying to recover their money or getting out completely. It is these same investors that are the readers of mutual fund reports such as the one in my study—and a challenging audience for portfolio managers who represent the same financial industry that was wracked with so much dishonesty.

### **Regulatory Constraints: SEC and NASD Rules for Mutual Fund Reports**

The SEC originally outlined standards for investment company sales literature in SEC Rule 156 developed in the Securities Act of 1933. The rule states that “it is unlawful for any person, directly or indirectly, by the use of any means or instrumentality of interstate commerce or of the mails, to use sales literature which is materially misleading in connection with the offer or sale of securities issued by an investment company. Under these provisions, sales literature is materially misleading if it 1) contains an untrue statement of a material fact, or 2) omits to state a material fact necessary in order to make a statement made, in the light of the circumstances of its use, not misleading” (*NASD*

*Manual* Online). This rule and other SEC rules within the Act provide guidelines regarding advertising and other communication.

However, while the Securities and Exchange Commission has oversight responsibility for the behavior of mutual fund companies, including reporting of the financial portion of performance reports, the narrative content of shareholder reports is also regulated by the National Association of Securities Dealers, a non-governmental entity that works in concert with the SEC to govern all communication related to the sale of securities, which includes everything from advertisements and marketing materials to correspondence to individual investors.

Rules for all communications with the public are outlined in Section 2201 of the *NASD Manual*, which can be accessed online. If you were to view the breadth of communication with the public on a spectrum with advertisements and direct-mail brochures promoting a mutual fund on one end and a piece of operational correspondence to an individual mutual fund shareholder on the other end, mutual fund reports fall somewhere in the middle, under the “sales literature” category. So, while the narratives contain factual information and are part of the fulfillment of SEC requirements, the NASD also recognizes them as a persuasive tool, especially because investment companies routinely send (or make available online) mutual fund reports to prospective investors who seek information about a particular fund they are interested in buying into. The NASD expects fund companies to self-govern to some extent, allowing the narrative content to be approved by a designated NASD principal, typically an attorney or other member of a company’s legal or compliance department who has completed certain

licensing requirements. This self-governing ability is balanced by a requirement to file the narrative portions of reports with the NASD within ten days of their first use.

In regard to content, Section 2210 of the *NASD Manual* outlines standards for all communication with the public. The most applicable to mutual fund reports include the following:

- 1) They are based on “principles of fair dealing and good faith and should provide a sound basis for evaluating the facts in regard to any particular security or securities or type of security, industry discussed, or service.”
- 2) They avoid “false, exaggerated, unwarranted or misleading statement or claim.”
- 3) They do not “predict or project performance, imply that past performance will recur or make any exaggerated or unwarranted claim, opinion or forecast.”
- 4) They allow “hypothetical illustration of mathematical principles” as long as it does not “predict or project the performance of an investment or investment strategy.”

In addition to these standards, the *NASD Manual* further defines “misleading statements” in subsection IM 2210-1 similarly to the original SEC rule. Factors in determining whether a statement is misleading include the overall context in which the statements are made, the levels of knowledge of any audience or potential audience for the communication (and the ability or lack thereof to restrict that audience), and its overall clarity. Examples of misleading communication include content featuring the

benefits of investing in a particular security without adequately explaining inherent risks, or content that uses excessive jargon that is not clear to novice investors who might read the communication.

The *NASD Manual* contains more specific information on different types of content—testimonials in advertisements, rankings, required disclosures, and the like, but the rules discussed here have formed the overall regulatory guidelines for reports and have remained relatively unchanged since their inception.

## CHAPTER IV

### RESULTS AND OBSERVATIONS

I evaluated the portfolio managers' narratives in the shareholder reports for the four metadiscourse markers that Hyland's study identified as contributing most to the development of the writer's ethos: hedges, emphatics, attributors, and relational markers. These metadiscourse markers specifically aid in demonstrating "writers assessments of truth and their convictions in their views" (Hyland 235). However, it is important to remember that these devices can also contribute to affective appeals (*pathos*), and, in some cases, even logical appeals (*logos*). Hyland points out a particular overlap in the use of interpersonal markers "to convey both affect and credibility" (Hyland 240). For example, while relational markers such as first-person pronouns are a top contributor to ethos in the CEO letters, Hyland also discusses their use in affective appeals, alone and combined with other markers.

#### **A Look at Report Narratives**

A thorough discussion of mutual fund report narratives would not be as effective without a basic understanding of what the investor sees as he or she first opens the report to read them. Typically, the reports include visual aids that precede the narrative, such as

tables, pie charts, and graphs that feature information such as the fund's absolute returns, hypothetical investments and their performance against the fund's benchmark, and other information such as the fund's top stock holdings at the end of the reporting period.

Figure 4-a below illustrates the first portion of the August 31, 2000, semiannual report narrative, which features a table with the fund's cumulative returns, the cumulative returns of the fund's benchmark, and an explanation of these returns. (Please note that Figures 4-a and 4-b are excerpted from the report narrative documents that were filed with the SEC, whose Web site provides all reports and other regulatory documents filed with the agency, 2000, and not from the report publication itself.)

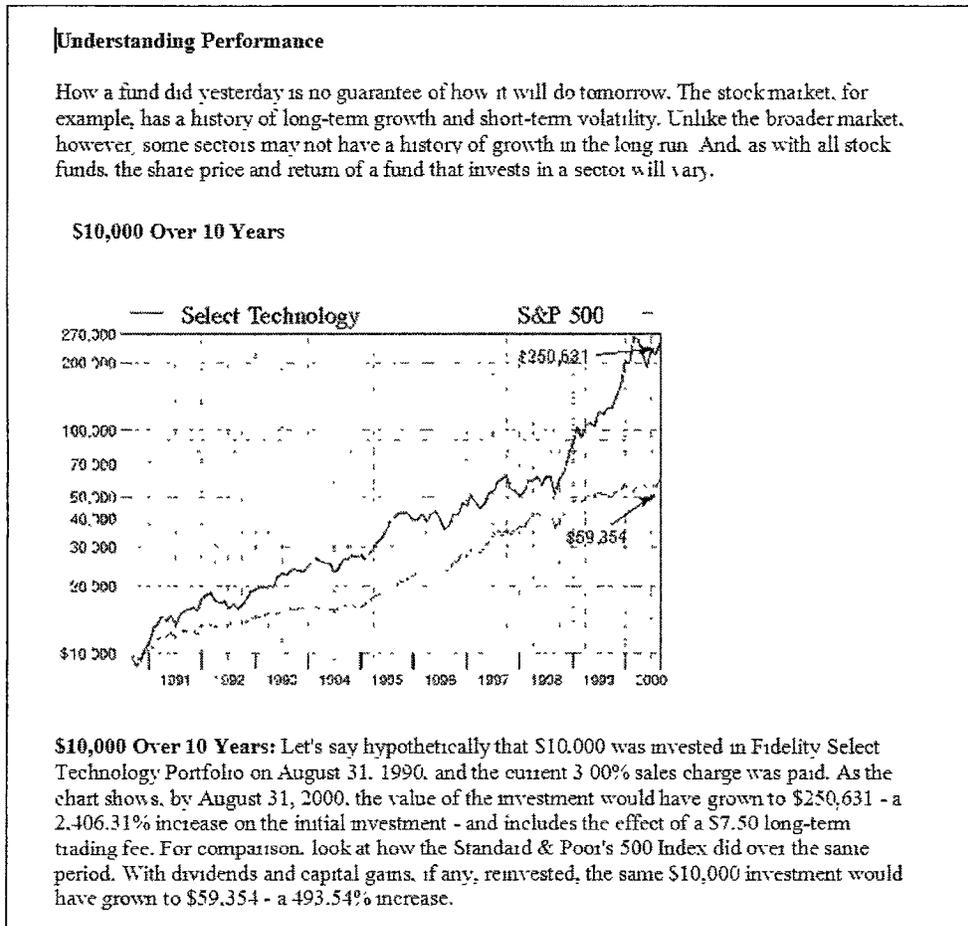
**Figure 4-a – Table, Cumulative Total Returns as of August 31, 2000**

<b>Technology Portfolio</b>				
<b>Performance and Investment Summary</b>				
<b>Performance</b>				
<p>There are several ways to evaluate a fund's historical performance. You can look at the total percentage change in value, the average annual percentage change or the growth of a hypothetical \$10,000 investment. Total return reflects the change in the value of an investment, assuming reinvestment of the fund's dividend income and capital gains (the profits earned upon the sale of securities that have grown in value). Load adjusted returns include a 3.00% sales charge and the effect of a \$7.50 long-term trading fee for shares held 30 days or more. Effective September 28, 2000, the \$7.50 long-term trading fee was eliminated.</p>				
<b>Cumulative Total Returns</b>				
<b>Periods ended</b>	<b>Past 6</b>	<b>Past 1</b>	<b>Past 5</b>	<b>Past 10</b>
<b>August 31, 2000</b>	<b>months</b>	<b>year</b>	<b>years</b>	<b>years</b>
Select Technology	-4.44%	98.99%	509.64%	2,483.90%
Select Technology (load adj.)	-7.38%	92.95%	491.27%	2,406.31%
S&P 500	11.73%	16.32%	193.58%	493.54%
GS Technology	2.69%	63.21%	n.a.**	n.a.**
<p><b>Cumulative total returns</b> show the fund's performance in percentage terms over a set period - in this case, six months, one year, five years or 10 years. You can compare the fund's returns to the performance of both the Standard &amp; Poor's 500 Index - a market capitalization-weighted index of common stocks - and the Goldman Sachs Technology Index - a market capitalization-weighted index of 221 stocks designed to measure the performance of companies in the technology sector. These benchmarks include reinvestment of dividends and capital gains, if any, and exclude the effect of sales charges.</p>				

*Select Technology Portfolio, August 31, 2000, Semiannual Report*

Figure 4-b shows another visual used in mutual fund reports, one that is required by the SEC—a graph illustrating the ten-year growth of a \$10,000 hypothetical investment in the fund versus the same investment in a broad market benchmark, the S&P 500 Index:

**Figure 4-b: Graph, \$10,000 Hypothetical Investment as of August 31, 2000**



*Select Technology Portfolio, August 31, 2000, Semiannual Report*

These two illustrations, which are placed before the narrative in all eight reports, provide the shareholder with a visual indication of both absolute and relative fund performance. So, the investor most likely has an idea of the fund's performance—and the theme of the story to be told—before they even begin reading the narrative.

### **Introduction to the Narrators: The Portfolio Managers**

The fund was managed by four different portfolio managers throughout the period under study, each who had a different rhetorical “story” to tell in terms of fund performance:

- 1) **Andrew Kaplan** managed the fund for the first two report periods under study (periods ending February 28 and August 31, 1999). Kaplan reported on the fund during the “Internet frenzy” that marked 1999. The 12-month returns for the two reports were 55.66% and 145.29%, which are stellar by historical investing standards. Hence, Kaplan had very good news to report.
- 2) **Larry Rakers** managed the fund during a pivotal point in the markets, beginning with the height of the dot-com craze; his first report was for the period ending February 29, 2000—a date that falls less than two weeks before the market peaked and began to slide. He continued to manage the fund for two more reports, ending with the February 28, 2001, report. Hence, he narrated on fund performance at the height of the market’s prosperity through its steep decline. During his tenure, the fund’s return fell from 184.11%, the highest during the entire period under study, to 98.99% in the next report (August 1, 2000), to -59.05%— in the third report, indicating just how unsavory the investment story had become for shareholders of the fund.
- 3) **Chris Zepf** managed the fund during only one reporting period—that which ended August 31, 2001. With the fund’s returning -64.36% (the

lowest return in the period under study), Zepf had to deliver extremely bad news to shareholders.

- 4) **Sonu Kalra** managed for the fund for the last two periods under study—the periods ending February 28, 2002, and August 31, 2002. Although the fund's return had stopped plummeting to the lows reported on by Zepf, he still had to deliver the story surrounding returns of -24.54% and -35.94%, respectively.

It is important to emphasize here that the fund had four managers in a four-year period, which would suggest that these managers were not immune to the tenuous state of job security for investment professionals discussed in chapter three.

### **Fund Performance at a Glance**

As another reference point for the results of this study, I have included a table that highlights two indicators of performance for each report period: The fund's return, an indicator of absolute performance, and a "yes or "no" to whether the fund beat its chief benchmark, the Goldman Sachs Technology Index, which measures the performance of technology stocks. Comparison of a fund to a relevant, or similar, benchmark is known as its relative performance, because it measures its performance relative to a similar makeup of stocks. Please note that, while the fund is also compared to the S&P 500 Index in the reports, I chose to focus only on the Goldman Sachs benchmark because its makeup is more closely aligned with the fund's portfolio itself. The S&P 500 Index does not

measure a specific sector of the market; it measures the broader U.S. market and provides a more general reference point for investors.

The semiannual reports feature a six-month return in addition to the twelve-month return. For the purposes of my study, I will focus on the twelve-month return unless I specifically state otherwise.

In Table 4-a below, the highest absolute return during the period under study is in bold type; the lowest return is underlined.

**Table 4-a: Absolute and Relative Fund Performance by Period and Manager**

<b>Reporting period end</b>	<b>Portfolio manager</b>	<b>Six-month return*</b>	<b>Twelve-month return</b>	<b>Outperformed GS Index?</b>
2/28/1999	Kaplan		55.66%	Yes
8/31/1999	Kaplan	36.44%	145.29%	Yes (six-and twelve month)
2/29/2000	Rakers		<b>184.11%</b>	Yes
8/31/2000	Rakers	-4.44%	98.99%	No (six-month), Yes (twelve-month)
2/28/2001	Rakers		-59.05%	No
8/31/2001	Zepf	-16.84%	<u>-64.36%</u>	Yes (6), No (12)
2/28/2002	Kalra		-24.54%	Yes
8/31/2002	Kalra	-29.40%	-35.94%	Yes (both)

\* Reported in semiannual reports only, along with the twelve-month return.

As the table indicates, the period featuring the worst absolute performance is the end of the 2001 semiannual period (August 31, 2001). However, the worst period in terms of performance relative to the Goldman Sachs Technology Index begins before the fund's return bottoms out. The fund begins to lag its benchmark a year earlier, at the end of the 2000 semiannual period, even when absolute returns are still strong. The fund continues to trail it through 2001 for two more reporting periods before it beats it again at

the end of the 2002 annual period. Keep in mind that relative performance is used by investment companies to measure the performance of the portfolio manager, as well as evaluating their funds' performance among its peers. This means that relative performance could have influenced the managers' approach to the narrative as much as—or possibly more than—absolute performance. I will take relative performance into consideration as well as absolute performance in evaluating the narratives for metadiscourse markers.

### **Hedges: Creating Ethos through Caution and Restraint**

The premise of my study was that, in terms of metadiscourse marker use, the behaviors of the narrators, the portfolio managers, would line up most closely with that of the directors in Hyland's study because they had similar communication goals. So, I expected that the mutual fund report narratives would feature hedges frequently, because hedges constituted the largest percentage of interpersonal metadiscourse markers used by directors in Hyland's study. Given the regulatory constraints that inform the discourse, this fact is not surprising, as hedges help offset any claims the narrator might make about the fund or markets that could be considered promissory. What is notable, however, is how overwhelmingly high their occurrence is compared with other markers in Hyland's results. Hedges comprised 12.6% of all interpersonal metadiscourse devices in Hyland's study, compared with 0.9% or less for any other interpersonal metadiscourse marker. In terms of frequency, hedges were used approximately ten times more than any other metadiscourse marker.

In my study, hedges were also one of the most prominent metadiscourse markers. Table 4-b illustrates the total number of hedges per report narrative, total word count of each narrative, and the average occurrence of hedges per 100 words. Also, because the fund had four different portfolio managers for the period under study, I calculated the average number of hedges per 100 words for each narrator to help determine whether differences could be attributed to a specific narrator rather than the story narrated.

The highest occurrence of hedge use during the period under study is illustrated in bold type; the lowest occurrence is underlined.

**Table 4-b: Hedges: Totals and Number per 100 Words**

<b>Portfolio Manager</b>	<i>Andrew Kaplan</i>		<i>Larry Rakers</i>			<i>Chris Zepf</i>	<i>Sonu Kalra</i>	
	<b>1999 A</b>	<b>1999 SA</b>	<b>2000 A</b>	<b>2000 SA</b>	<b>2001 A</b>	<b>2001 SA</b>	<b>2002 A</b>	<b>2002 SA</b>
Total Hedges	4	5	2	7	5	3	5	5
Word count	720	713	675	746	739	813	725	794
Hedges per 100 words	0.56	0.70	<u>0.30</u>	<b>0.94</b>	0.68	0.37	0.69	0.63
Narrator average	0.63		0.64			0.37	0.66	
Average without SA 2000	n/a		0.49			n/a	n/a	
Average/100 words pre- and post March 2000	0.52			0.66				

To help ascertain the overall difference in hedge use (if any) before and after the NASDAQ began its decline in March 2000, I also figured the averages for the two

periods. This measure also helped to reveal increases or decreases in hedge use that were not specific to the narrators.

This exercise revealed the following results:

- 1) The occurrence of hedges was lowest in the February 29, 2000, annual report, which directly preceded the report with the highest occurrence of hedges. The timing is important to this finding; the 2000 annual report, which was created at the time the NASDAQ was approaching its peak, not only featured the fewest hedges but also featured the highest return for the period under study (184.11%). The fund performed well in relative terms also, beating its benchmark for the period. However, by the time the next report was produced, the market had peaked and begun a serious downturn. Although a case study of one fund by no means constitutes a direct correlation, this finding does show a trend that hedge use is low when the investment story is favorable and increases when the story is less favorable.
- 2) The highest use of hedges occurs in the August 31, 2000, semiannual report, which reported a negative return for the first time in the period under study (albeit it was a six-month figure, and the 12-month return of 98.99% was still a stellar return). While this finding does not correlate directly with my previous one, which would suggest that hedges are low when returns are high and vice-versa, it does reveal (for this case study) that negative news, regardless of return, yielded higher hedge use. The six-month return for the fund was -4.44%, which indicates a downturn since the last report. While this return is hardly indicative of disaster, it is still a shocking dive from the annual return of 184.11% in the

previous report the shareholder would have received and would definitely be negative news to shareholders. In absolute terms, this report marked the first one in which a return trailed its chief benchmark, the Goldman Sachs Technology Index. The August 31, 2000, semiannual report was the first one to be created after the NASDAQ peaked and began to decline. So, while the highest hedge use did not coincide with the worst return out of all the reports studied, it did coincide with the beginning of the technology market's downfall and a possible indicator of the fund's suffering in both relative and absolute terms. While no one at the time could predict with total certainty how far the market could fall, the narrator's marked increase in hedges (from two total occurrences in the previous report to seven in this one) could be a good indicator of his growing concern about recession, further market downturn, and poor fund performance under his watch.

I also considered whether this high occurrence (seven hedges compared to two in the previous report) could have been attributed to the individual narrative style of portfolio manager Larry Rakers, who may have had a tendency to choose more hedges than other narrators regardless of the story he told. However, Rakers did not have the highest average of all four portfolio managers during the period; he had the second-highest. At 0.64, his average was only a percentage point higher than Andrew Kaplan, who reported on the fund during 1999—a period of prosperity—and had an average of 0.63 hedges per 100 words. Also, Raker's high overall average was largely due to the 2000 semiannual report; when I figured his average for the other two reports only, it dropped to the 0.49—the second lowest of all four portfolio managers.

3) The poorest return (-64.36%) was reported in the August 31, 2001, semiannual report, but the narrative for that report had an occurrence of only 0.37 hedges per 100 words, the second lowest of all. In real terms, the narrator, Chris Zepf, only used hedges three times in an 813-word narrative. This finding is not consistent with my suggested hypothesis that hedge use would increase as fund returns declined. This is even more interesting when you consider that, within two weeks after the August 31, 2001, period end, the tragic events of September 11, 2001, occurred. It is not uncommon for portfolio managers to address factors that occurred after the period in their narratives if they happened during the writing of the narrative and pose significant impact to the overall markets. Zepf did address the September 11, 2001, terrorist attacks in the outlook section of this report, yet his hedge use was still the second lowest. This could be attributed in part to Zepf's own narrative style; however, Zepf was the portfolio manager for this fund a short period of time and narrated only one report in the study, so I did not have enough information to draw that conclusion. Another possibility is that, because the fund's relative performance was beginning to improve (the fund beat the Goldman Sachs index for the six-month period, after trailing it for the previous two reporting periods), Zepf may not have considered the story to be as dismal as Rakers did his own.

4) Sonu Kalra, who managed the fund in 2002 and was featured in both reports for that year, had the highest average hedge use, at 0.66 for every 100 words. Although the returns posted in those two reports were not as low as the August 31, 2001, report, they are low and do reflect a continuation of the bear

market that began in March 2000 and was exacerbated by the September 11, 2001, terrorist attacks, as well as a series of widely reported corporate scandals that marked 2002. However, the investment story in relative terms is promising; the fund beat the Goldman Sachs index for both periods reported by Kalra. So, in this case, hedge use did not would correlate with negative news significantly.

### **Typical Placement of Hedges within the Narrative**

Within my analysis of hedge use in this case study, I also explored the particular sections within the narratives in which they most often occurred to better understand how they were used to contribute to the narrator's ethos. To help categorize the types of instances in which narrators used hedges, I evaluated each section within the question-and-answer format used for the narrative to better understand particular purposes of each.

Each narrative consisted of five to seven questions that broke down into the following general categories:

- 1) **Fund performance.** This section was the most formulaic in the entire narrative. For example, the opening question was phrased the same way in every report ("How did the fund perform, [name of portfolio manager]?"), and the manager's answer was stated in relatively the same way each time.
- 2) **Factors that contributed to (good or bad) performance.** This category, usually comprising one or two questions, usually addressed the market-related events or activities that helped or hurt the fund's return. Portfolio managers sometimes used this section to discuss overall strategies and

specific buy or sell decisions they made that contributed to performance—especially when they had a success story to tell.

- 3) **Detail about individual companies/stocks.** This section was used to address individual stocks in the portfolio that either increased or decreased the fund's return and any events or other factors that affected those individual companies' financial strength during the period.
- 4) **Investing strategy.** This question, albeit not found in every report, allows the portfolio manager to discuss his approach to managing the fund and general investing strategies.
- 5) **Portfolio manager's outlook.** This section, at the end of each narrative, allowed the portfolio manager to speculate on what he thought would happen in the economy and markets in the future. This section was also used by some of the narrators to reiterate their commitment to managing the fund to the best of their abilities with the goal of providing "shareholder value," which technically translates to the fund's return.

Out of these general sections or categories, hedges most often occurred in the last section, the narrator's outlook. This is not surprising, primarily because the outlook section requires the portfolio managers to be somewhat predictive about the future, and regulatory constraints strictly prohibit promissory statements in the narratives. In fact, it is notable that even the language of Section 2210 of the *NASD Manual's* general standards calls for ethical principles of "fair dealing and good faith." Using Hyland's work, we can see how these hedges are effective in creating an ethos regardless of whether this regulation exists. In his study of CEO reports, Hyland described a persona of

a “modest, trustworthy, and cautious steward of the company . . . who takes few risks with investors capital” (Hyland 237). Required or not, hedges are very powerful in this section of the narratives in helping create this persona for readers.

Below are some examples of outlook statements from narratives in the study, with the hedges indicated in italics.

“In addition, I’m *somewhat* more cautious about the semiconductor sector because of the recent slowdown in PC demand growth, as well as the huge run-ups we’ve seen in those stocks over the past few months.” (Andrew Kaplan, 1999 annual report)

“*To the extent that they’re successful at doing this, they may* become important parts of the portfolio.” (Andrew Kaplan, 1999 semiannual report)

“That is, I’ll *likely* maintain the fund’s overweighting in communications equipment and Internet infrastructure at the expense of computer systems and hardware.” (Larry Rakers, 2000 annual report)

“*I expect that* companies will expand their IT spending, which *would* bode well for the fund.” (Larry Rakers, 2001 annual report)

“*Overall*, Finisar contributed positively to the fund’s return.” (Chris Zepf, 2001 semiannual report)

“*I don't foresee* a quick return to the glory days of the late 1990s since IT spending is tied to product cycles, and right now there *doesn't appear to be* a blockbuster application on the horizon that would generate the excitement . . .” (Sonu Kalra, 2002 annual report)

Another common use of hedges occurred in statements that were intended to educate or inform readers about investing or market generalities, or statements about the fund's typical holdings or investment objective. These statements, examples of which follow, most often appeared in the narrative sections that addressed factors that contributed to or detracted from the fund's return. But, they were not limited to those sections—they could occur anywhere in the narrative.

“Since the fund *tends to* emphasize the fastest-growing names in the sector, it *is apt to* outperform the index during a strong tech market, and underperform in a down market.” (Larry Rakers, 2000 semiannual report)

“Microsoft accounted for much of the fund's overweighting, as this stock also *tends to* benefit from strong personal computer sales.” (Sonu Kalra, 2002 semiannual report)

“I'm optimistic because stocks *tend to* perform well in this type of environment.” (Larry Rakers, 2000 semiannual report)

### **Emphatics: Creating Ethos through Confidence and Certainty**

In his study, Hyland described the role of emphatics as “‘accentuating the positive’ and stamping an authority on the text” (Hyland 236). He said that CEOs of companies used emphatics to “underline their certainty and boost their presence in the discourse . . . to demonstrate a confident, decisive, and commanding image” (Hyland 236). However, Hyland’s study revealed that while CEOs used emphatics widely, directors did not—in fact, in Hyland’s quantitative analysis, use by directors was so low that it didn’t even exceed 0.00 per 100 words. My goal in quantifying the use of emphatics here was to see if the portfolio managers in this study used them more often overall, if the use correlated in any way to good and bad returns or investment periods, and if the use of emphatics correlated with the use of hedges in any meaningful way. Table 4-c illustrates the total number of emphatics per report narrative against the total word count of each narrative, the average occurrence of emphatics per 100 words, and an average for each narrator.

**Table 4-c: Emphatics: Totals and Number per 100 Words**

<b>Portfolio Manager</b>	<i>Andrew Kaplan</i>		<i>Larry Rakers</i>			<i>Chris Zepf</i>	<i>Somu Kalra</i>	
<b>Report</b>	<b>1999 A</b>	<b>1999 SA</b>	<b>2000 A</b>	<b>2000 SA</b>	<b>2001 A</b>	<b>2001 SA</b>	<b>2002 A</b>	<b>2002 SA</b>
Total emphatics	1	1	0	0	0	0	1	1
Word count	720	713	675	746	739	813	725	794
Emphatics per 100 words	0.14	0.14	0.00	0.00	0.00	0.00	0.14	0.13
Narrator average	0.14		0.00			0.00	0.135	

This quantitative exercise revealed that, overall, use of emphatics was virtually nonexistent. In fact, only two of the four portfolio managers used any emphatics in their report narratives—Andrew Kaplan and Sonu Kalra—which might suggest that use was more specific to the narrators' own preference than related to returns or investment markets. There is also no evidence to suggest an inverse relationship between emphatics and hedges. The overall lack of use suggests that the portfolio managers approached their narrative roles very similarly to the directors did in the companies in Hyland study and, generally, avoided statements of certainty.

With regard to the few uses contained in the reports in this study, there were two distinct ways in which emphatics were used—and each portfolio manager had one instance of each. The first was to underscore comments portfolio managers made about their approach to managing the fund, as in the two examples below.

“I’m *always* concerned that there may be a correction after that kind of run-up.” (Andrew Kaplan, 1999 annual report)

“I run the fund with a *decidedly* bottom-up orientation, getting to know each holding extremely well.” (Sonu Kalra, 2002 annual report)

In the next two examples, emphatics were used to emphasize external factors that affected the fund, such as a salient event for the technology industry or certain companies, rather than reflect the portfolio manager's certainties.

“Of course, firms like Microsoft and Intel *undoubtedly* benefited from this phenomenon, as a lack of pricing pressure enabled these firms to simply tag along for the ride.”

(Andrew Kaplan, 1999 semiannual report)

“Technology was *by far* one of the weakest areas of the market.” (Sonu Kalra, 2002 semiannual report)

### **Attributors**

None of the reports included more than two attributors to third-party sources, and the sources were always the same. Every report included comparisons of the fund’s return to those of two market benchmarks: the Goldman Sachs Technology Index (the composition of which would closely mirror that of the fund, since it is a technology sector fund) and the S&P 500 Index, a more diversified index that traditionally serves as a broad indicator of the investment market as a whole. This is a regulatory requirement; the SEC dictates that in the prospectus and all reports, mutual funds should be compared to one or more relevant benchmarks that reflect or otherwise relate to the objective of the fund.

While it is a common practice for a company to state additional attributors, such as high rankings by third-party entities such as Lipper and Morningstar (if the Fund has achieved them), none of these additional third-party attributors were included in any of the reports examined in this study. So, for reasons that cannot be discerned from report

content alone, none of the fund's portfolio managers chose to use this metadiscourse marker to contribute to ethos.

### **Relational Markers**

Relational markers served as a significant contributor to ethos in the mutual fund narratives in my study, potentially carrying equal if not greater weight than hedges. Relational markers, as you may recall, “explicitly seek to involve the reader by selectively focusing their attention, emphasizing a relationship, or by including them as participants in the text situation” (Hyland 230). These include first- and second-person pronouns, imperatives, questions and asides.

In my study, the relational markers that were most commonly used to contribute to ethos in the reports published during the period include:

- The personal pronouns “I,” “my” and “me,” and the plural first-person pronoun “we.”
- Questions, specifically delivered in a question-and-answer format in all narratives.

I should note here that another relational marker Hyland cited in his study, the use of “you” in reports, was not used by the portfolio managers in their answers, but it was used in concert with the question-and-answer format. I will discuss the use of “you” as a metadiscourse marker in the section that deals with the question-and-answer format.

### Relational Marker #1: First-Person Pronouns

First-person pronouns were considered in Hyland's study to be effective metadiscourse devices that contributed to the creation of the narrator's ethos. This is also true for the narrators in my study, especially the use of singular first-person pronouns "I," "we," "my," and "me." Most often, I will refer to the use of any of these collectively as the use of "I."

"I" is a relational marker that places the portfolio manager directly into the text as a participant, or agent, in the story. While the report narratives also used the pronoun "we," which generally represented the company or the portfolio's team of managers and analysts, I do not think that pronoun by itself contributed to the ethos of the narrator as powerfully as "I", since "we" tends to represent an institution as a whole—a disembodied entity—and does not project the narrator himself into the narrative as strongly. That is not to say that its use was not important to this study; I will note specific instances in which "we" was selected over "I." However, I believe that the singular first-person pronoun is the stronger metadiscourse marker in terms of establishing ethos, and so my chief focus remained on how its use changed during the period and whether ties could be made to changes in fund performance.

In order to uncover any patterns of use—narrator-specific, period-specific or otherwise—I counted the number of "I," "me," and "my" uses for each narrator and report. This exercise was not completed solely to suggest that the use of first-person pronouns would correspond with good or bad fund performance news, but I did keep that possibility in mind. Table 4-d illustrates the total number of first-person pronouns per

report narrative against the total word count of each narrative, the average occurrence of first-person pronouns per 100 words, and the average for each narrator.

**Table 4-d: First-Person Pronouns (“I/my/me”) – Totals and Index per 100 Words**

Portfolio Manager	<i>Andrew Kaplan</i>		<i>Larry Rakers</i>			<i>Chris Zepf</i>	<i>Somu Kalra</i>	
	1999 A	1999 SA	2000 A	2000 SA	2001 A	2001 SA	2002 A	2002 SA
Total “I” references	19	4	11	8	3	14	7	9
Word count	720	713	675	746	739	813	725	794
F.P.P. per 100 words	<b>2.64</b>	0.56	1.63	1.07	<u>0.41</u>	1.72	0.96	1.13
Narrator average	1.6		1.04			1.72	1.04	

As indicated in Table 4-d above, the 1999 annual report featured the highest occurrence of the pronouns “I,” “my,” and “me” by far, with 19 total uses and an index of 2.64 for every 100 words. This does not directly correlate to the highest or the lowest return during the period, nor does it correlate to any severe jump or dip in fund returns. However, the high use of “I” in this case does occur during the same time that market activity was reaching frenzied levels of expansion, gaining momentum for the historic swell it soon experienced at the end of 1999 and beginning of 2000. In addition, the fund’s 55.66% return was, by all traditional standards at that time, stellar. So, the high occurrence of the use of “I” does generally correlate with a notably prosperous period in the markets, or during a time of good news for shareholders.

The report with the lowest occurrence of first-person pronouns was the 2001 annual report, which posted the second-lowest return for the entire time period in this study. (The lowest return was posted in the next report, the 2001 semiannual report.)

Even though the return in this report, at -59.05, was not the lowest, it was, by both relative and absolute standards, dismal; the dot-com crash has taken its toll on the fund by the time this period ended. It was especially dismal when you consider that the preceding report featured a 98.99% return. The fund also lagged behind its benchmark. So, in general, the low use of “I” tends to correlate with poor performance.

The inconsistency overall of a direct correlation between the use of “I,” “me,” or “my” and fund performance across the entire period under study prompted me to evaluate the use of first-person pronouns by portfolio manager, rather than by pure performance, to determine if this metadiscourse marker was used more or less for a given narrator, rather than by the company, or the “voice” of the fund, as a whole. Reviewing the reports this way uncovered some interesting results specific to Larry Rakers, the narrator who had to report the fund’s performance during a crucial period within the time frame—the 18 months during which the fund—and markets as a whole—peaked and declined after the technology bubble burst.

#### Larry Rakers’ Use of First-Person Pronouns - Markets and “I”s Plummet

In addition to seeing general relationships between the use of first-person pronouns and fund performance overall, the strongest correlation is revealed for the most volatile period under study—the time period during which the market peaked and began its sharp decline. Larry Rakers was portfolio manager of the fund for the February 28, 2000, annual report, which preceded the market’s peak by only 11 days and reported a 184.11% return; the August 31, 2000, semiannual report, which posted a 98.99% 12-month return and a -4.44% six-month return; and the February 28, 2001, annual report,

which reported a -59.05% return—a total drop of more than 150% over the time period during which he managed the fund. Table 4-e shows the fund’s returns for each report alongside each reports index per 100 words of first-person pronouns. The table also indicates whether the fund beat its benchmark.

**Table 4-e: Larry Rakers’ Use of First-Person Pronouns and Report Returns**

<b>Report</b>	<b>Absolute returns</b>	<b>Relative performance (beat its benchmark)</b>	<b>First-person pronouns index per 100 words</b>
2/28/2000	184.11%	Yes	1.63
8/31/2000	98.99%	No (six-month), Yes (twelve-month)	1.07
2/28/2001	-59.05%	No	0.41

As the table indicates, Larry Rakers’ use of “I,” “me,” or “my” dropped significantly from the first report, which featured incredible absolute performance at the peak of the internet frenzy, to the next report, which was created after the market peaked and began a sharp decline. Use dropped by more than half again in the third report, as the dismal market persisted and even worsened. I will discuss Rakers’ use of first-person pronouns in more detail later in this study.

#### Placement of “I” throughout the narratives

To further reveal how “I” was used rhetorically, I evaluated the narratives to determine the most common placement within the narrative. Following the general formula for questions outlined on page 46 for hedges, I determined that the most common questions that were answered with “I” include:

- **Detail about individual companies/stocks.** This section is specifically designed for the portfolio manager to talk about his/her buying and selling

actions and their effects on the fund's return, lending itself to "I" statements.

- **Portfolio manager's outlook.** Traditionally devoted to forward-looking statements about the narrator's personal view of what is to come, investment-wise, "I" statements are common (although not a given) in this last section of the narrative.
- **Factors that contributed to (good or bad) performance.** This question, which appears before the other two question categories in all the narratives, allows the narrator to cite overall economic or market events that affected the climate and the fund. The usual response to this question would normally elicit more third-person references to outside influences and would not have required any, or many, first-person references; however, one narrator (Andrew Kaplan) used this section to talk about specific company stock buying and selling decisions they made so frequently that it became a more common section for "I" references than I originally anticipated in this study.

#### Narrator-Specific Use of First-Person Pronouns

In addition to reviewing the entire period under study and comparing the use of the first-person pronoun to the fund's return, I also evaluated the use of this relational marker by each narrator to further tease out the different ways it was used--or not used, in certain cases. First-person pronouns, in conjunction with hedges, were effective in helping to establish each narrator's persona. After reviewing the reports by each narrator,

the most typical personas projected into the narrative to establish ethos were cautious steward, confident expert and expert decision-maker. Sometimes a combination of these personas was present, and sometimes the narrator's persona changed from one report to the next.

Observations about each narrator, with examples from the narratives, follow.

*Andrew Kaplan – From Confidence to Caution*

Andrew Kaplan managed the fund and reported on its performance for the first two reporting periods under study: the February 28, 1999, annual report and the August 31, 1999, semiannual report. Recall that these reports occurred during a time period when the markets—specifically the technology sector—were ramping upward toward historic highs. However, Kaplan's first-person pronoun use in the first report, which was the highest in the entire study, decreased dramatically in the second report—from an index of 2.64 to 0.56, the second-lowest index in the study. This drop in "I" use correlates inversely with fund performance—the higher the performance, the less "I" was used. Although the six-month, or shorter-term, return reported in the semiannual report (36.44%), was lower than the return reported in the annual report that preceded it (55.66%), the 12-month number is stellar (145.29%). Moreover, the fund beat its benchmark for both the six-month and 12-month time periods. So, there is no apparent performance-related reason in the report narratives as to why Kaplan reduced his use of this metadiscourse marker by more than half. This leads me to believe that his use of "I" is not tied to fund performance, but to other factors. Given that he was no longer portfolio manager of the fund after his second report, and given that it was an intensely uneasy

time for portfolio managers in the frenzy of the tech bubble, I have to wonder whether Kaplan's decreased use of "I" reflected more uncertainty about his own position than the fund's future performance. But, that is not discernible from the narratives alone and, therefore, mostly conjecture.

What makes this change more unusual is that Kaplan's "I" references are probably the most emphatic of all the portfolio managers in this study. He even chose to use "I" as early as the second question, "Which factors helped the fund outpace the returns of both benchmarks over the past 12 months?" This type of question is usually a cue for information about the markets and economy in general and would not normally lend itself to "I" statements. However, while Kaplan does address the economy and markets in the first part of his answer, he uses the second half of the answer to discuss his strategy in some detail, which is usually addressed in subsequent questions, and manages to make three first-person references (in italics):

"Specifically, the fund outperformed the Goldman Sachs Technology Index because of *my* focus on large-capitalization stocks. *I* continued to believe that investors would pay a premium for stocks that weren't at risk of reporting disappointing earnings numbers—and these were mostly larger-cap stocks. On top of that, *I* focused on Internet stocks--the sector that has enjoyed the most dramatic growth." (1999 annual report)

Kaplan continues throughout the narrative to use "I" to answer questions about individual stocks and the decisions he made, in more detail than the other portfolio managers did. Most of his references to "I" are followed by an active verb, such as "I

bought,” “I reduced,” and “I anticipated,” as opposed to statements of opinion such as “I believe” or “I think,” except for the reference found in the outlook section, which typically are more opinion-based. Also, while the “I” references were mostly used in statements about positive performance, Kaplan also used “I” in a statement about a mistake he made during the period—not buying into a stock that ended up being very successful:

“This stock generated huge returns during the period. *I* did not realize the company’s Internet tie-in quickly enough.” (1999 annual report)

This was the only “I” reference to a mistake in all of the narratives in this study and, I believe, a very powerful contributor to his ethos. Kaplan’s ethos not only comes through in his narrative as an active decision-maker and executor for the fund’s portfolio, he also is portrayed as a “straight shooter” who, while willing to take credit for good decisions, is also willing to take responsibility for poor decisions as well as good ones.

Conversely, in the second report, Kaplan is much less apt to use “I” to address the same question posed in the second question, “What factors contributed to the fund’s sound performance versus the Goldman Sachs Index?” He attributes the performance to “strong stock selection” (without saying *whose* selection) and other agents as opposed to taking making “I” statements, one of which is a common agent throughout all the reports: the fund itself.

“. . . specifically *the fund's* underweighting in computer hardware firms and its overweighting in semiconductor stocks gave it an advantage over (the index). *The fund's* healthy exposure to networking firms that provide infrastructure to the Internet . . . also helped returns.” (1999 semiannual report)

The few uses of “I” in the second report are limited to statements about either what Kaplan did (“I broadened the fund’s investment portfolio” and “I did cut back”) or what he would look to do in the future. These uses, in the outlook section of the narrative, were combined with hedges (“I may shift the fund’s investments . . .”) Kaplan did not, however, shift the pronoun to “we” to refer to the investment company as a whole, as some narrators did and will be discussed later on.

#### *Larry Rakers – Cautious Steward*

While Raker’s use of “I” throughout his tenure as portfolio manager was notable in terms of how it declined during a three-report period when the markets peaked and then plummeted, his use was much less frequent than Kaplan’s overall, projecting a more cautious persona. Unlike Kaplan, who used “I” even when the question may have asked about external factors, Raker’s rule when discussing positive or negative fund performance was to use—or imply—plural first-person pronouns “we” and “our.” This is consistent throughout all three reports. The following three examples, one from each report, feature explicit plural first-person references as well as some implied by sentence structure.

“*Our* strategy to remain underweighted in many lagging computer hardware manufacturers relative to the index worked out nicely for the fund. (*Our*) not holding IBM and having considerably less Dell and Compaq than the index really helped.” (2000 annual report)

“Over the past six months, *we* lost ground by focusing on higher-priced semiconductor stocks, which lost ground during the period.” (2000 semiannual report)

“(*Our*) Owning more aggressive names, particularly Sun Microsystems, at the expense of slower-growing, more stable companies such as IBM, was a losing strategy in a period of deteriorating fundamentals for the group. *Our* positioning among software tocks also backfired.” (2001 annual report)

When Rakers did employ “I” or “my” it was only to answer questions that either directly addressed his strategies or decisions as portfolio manager, or to address his outlook for the fund. References were usually tied to an active verb, (“I sold off” or “I did step up our exposure to . . .”) Consistent with Kaplan, outlook statements with “I” are mostly tied to opinion (“I feel) or combined with a hedge (“I expect that”). The February 28, 2000, annual report features the only atypical question, “Have you made any changes since taking over the fund,” which begs the use of “I” in the answer. However, also note that Rakers returns to using “our” when talking about overall fund positioning:

“No. *I* haven’t really made any significant changes since to the prevailing themes *I* just outlined. The basic premise behind *our* current positioning is the same.” (2000 annual report)

In terms of his use of “we” and “our” versus “I” as it applies to ethos, Rakers is consistent across narratives—he never uses “I” to address good performance and “we” to discuss bad performance or vice-versa. However, he does make “I” statements at the end of each of his first two narratives that no other portfolio manager made—statements of commitment to doing his best to contribute to performance. Examples from the first two reports follow:

“With regard to security selection, *I* will rely heavily on *my* team of 20 analysts to support *me* in uncovering the best stocks in a rapidly changing sector.” (2000 annual report)

“With that said, *I* plan to remain fully invested and to continue to look for the highest-growth companies at the best prices *I* can get for shareholders.” (2000 semiannual report)

The only departures from a somewhat formulaic consistency of use of first-person pronouns, these statements were only included in the first two reports—the third did not include one.

Overall, the persona Rakers employs to create his ethos in the telling of the fund’s performance story is not of a one-man show, such as Kaplan, but as a more cautious

representative of the larger entity, the company, that collectively stewards the fund's performance. I would argue that while this is not as bold or aggressive as Kaplan's approach, it does have merit in terms of creating credibility, especially when combined with a carefully placed "I" statement of commitment. However, it is notable that, in addition to the decline of "I" and "we" references by the third report, he did not make this statement of commitment in the third report—which featured the worst performance during his tenure as manager in terms of both absolute and relative performance and was his last before the company changed the fund's management.

*Chris Zepf – Confident Expert*

Chris Zepf managed the fund and reported its performance for only one period—the six-month period ending August 31, 2001. So, although this study will speak to his tendency of first-person pronoun use overall, there is not enough information to determine trends such as increases or decreases in his use of the "I" relational marker.

The fund performance Zepf reported was technically the poorest in the period under study by absolute standards, at -64.36%; by relative standards, it was also poor because the fund did not beat its benchmark. However, it is important to note that the six-month return was -16.84%, which beat its benchmark for the first time since a year earlier. So, while he was reporting on the fund in what was the worst performance during the entire time under study, these shorter-term numbers suggest that the fund was improving. While this report may not seem like good news to an investor who lost a great deal of money over the past 18 months, to an investment professional it would be encouraging news after a stock market crash.

Zepf's average use of "I" was the second highest of all managers (based on an average index per 100 words for each manager), and his report featured the second highest index of each individual report. While this does not correlate directly with good performance, it may suggest that his willingness to express personal responsibility for the fund was a behavior bolstered by *improving* performance—the "I" reference could mark a persona of confidence based on the encouraging direction in which the returns were heading. But, because I did not have more than one report to base this on, it is not conclusive.

In terms of individual patterns, one of the most salient features of Zepf's first-person pronoun use was that it fluctuated between the singular "I" and plural "we" throughout his narrative in a less consistent manner than the others. For example, where Kaplan used "I" almost exclusively, and Rakers had a pattern of use that relied on "we" heavily and only used "I" to describe tangible actions and outlook, Zepf interchanges them. For example, in the second section, which answers the question "Were there any groups within the sector that offered good buying opportunities," Zepf starts with "I" and switches to "we" with no clear reasoning behind each:

"I increased the fund's exposure to semiconductor stocks - which are basically the beginning of the technology food chain - because I felt the group would be among the first to rebound as fundamentals improved... There were many instances, for instance, in which we sold out of a stock when it met our price target so we could lock in gains for shareholders . . . We increased the fund's exposure . . ." (2001 semiannual report)

Zepf continues to use “I” to answer two more questions—the third one, specifically directed to him, about his investing strategy. This question could have been answered with “we” to project the company’s strategy but was answered in terms of Zepf’s personal strategy. The fourth question specifically addressed his taking over the fund, so “I” responses were logical, although he did mix in an “our” reference as well. The response with the most “we” references and fewest “I” references, contrary to the other narrators’ patterns, was the outlook section, from which the following excerpt was taken:

“Important factors as *we* move ahead and try to regroup will be the continued unwinding of the inventory buildup *we’ve* seen within the group, as well as consumer spending patterns. *I’ll* be keeping a close eye on both.” (2001 semiannual report)

More about Zepf’s ethos in the narrative can be revealed when other metadiscourse markers are considered, specifically, his use of hedges. Zepf used the fewest number of hedges of all the portfolio managers in this study. This, combined with the heavy use of the metadiscourse markers “I” and “we,” create an ethos of confidence and certainty. In fact, out of all the portfolio managers, I believe his persona was the most confident of all, which is interesting when you consider that he only managed the fund during one reporting period. I would not, however, consider the persona to be one of a highly committed portfolio manager, based on what appears to be a mixing of “I” and “we” that is more sloppy than intentional.

*Sonu Kalra – Cautious and Consistent*

Sonu Kalra reported on the fund in the last year of the time period under study, for the February 28, 2002, and August 31, 2002, reports. The fund's performance continued to flag, as did the sector and the investment markets as a whole. But, the returns were not nearly as low as they had been over the previous two years. The two reports showed 12-month returns of -24.54 and -35.94, respectively. But, in relative terms, the fund beat its benchmark for both periods.

In the use of first-person pronouns "I" and "we," Kalra generally followed a consistent pattern that employed "we" in most references to the chief agent of the fund's performance. "I" was used almost exclusively to address direct questions, i.e., questions that included "you." For example, in the 2002 annual report, Kalra's response to the typical second question, "What factors influenced fund performance relative to its benchmarks?" used "we" to every reference to actions or decisions made during the period. Immediately after, Kalra, who had just taken over management of the fund two weeks before the reporting period end, was asked, "Can you discuss your management philosophy?" To this, he responded solely with the pronouns "I" and "me":

*"I run the fund with a decidedly bottom-up orientation, getting to know each holding extremely well. For me, that means talking with suppliers and customers in addition to company management. I like to see strong market position, accelerating growth rates and improving profit margins, among other factors. I also have a fairly strict sell criteria . . ."*  
(2002 annual report)

In the same report, Kalra answers the outlook question with a combination of “I” and “we” references; however, it seems to be deliberate, suggesting that he is acting on behalf of and in concert with the company’s general philosophy and expertise:

“*We’re* starting to see some signs of improvement in the economy, which tells *me* it’s time to get a bit more aggressive. *I* want to be sure the fund participates in a recovery and is not left behind.” (2002 annual report)

Kalra follows this same pattern of use in the second report he narrates, even though the fund took a turn for the worse. He does log more uses of “I” overall in this report than the previous one, but this increase should probably be attributed to an additional question that specifically addressed Kalra, a question that was unique to this report: “Why did you overweight semiconductors and software?” In this question, Kalra does switch from “I” to “we” references, but the switch is logical because he was addressing his use of the company’s research analysts:

“*I* also have made extensive use of Fidelity’s network of more than 40 technology analysts worldwide. Since the technology “food chain” starts in Asia—that is, Asia is a significant source for many technology hardware components—*I* value the ability to confirm the information *we* gather here in the U.S. through our research sources in Asia.” (2001 semiannual report)

Interestingly, Kalra is the only portfolio manager to refer to the company by name in his narrative.

Overall, Kalra's carefully delineated uses of "I" and "we" tend to create a persona of a manager who takes personal responsibility for the fund's performance but who also consciously represents a company that has a specific investment philosophy, dedicated resources and a body of expertise. His persona is not one of a maverick who acts outside the company for whom he works, but he also does not attribute specific actions with the fund to this entity but to his own active participation as an agent of the fund's performance. Of all the narrators, Kalra is the most effective at projecting into the text both himself *and* the company with which shareholders chose to invest their money.

#### Relational Marker #2: Questions

In Hyland's study, he cited instances in which narrators asked rhetorical questions of their readers as a way to project themselves, or their persona, into the text. Although the portfolio managers in the reports I evaluated did not use this exact technique, the narratives did employ questions in a way that directly projected the narrator into the story—by way of a question-and-answer format that, I argue here, is a powerful metadiscourse device.

The question-and answer format, used in all reports in this study, requires the portfolio manager to respond to a second narrative persona, that of an interviewer, about the fund's performance and how their buying and selling decisions affected it. This format helped contribute to the ethos of managers, and the investment company, in three ways:

- 1) It positioned the interviewer as a steward, or representative, of the shareholder, allowing this persona to ask questions that drew out details about the fund's performance—and that required answers from the person chiefly accountable for the fund's return.
- 2) It drew the portfolio manager into a dialogue, rather than just a monologue with subheads for the different sections instead of questions. The dialogue setting required the manager's persona to talk *to* shareholders, rather than just making statements to a less clearly undefined audience to fulfill regulatory requirements.
- 3) The question-and-answer format also allows for an additional relational marker to be employed—the use of “you” in the questions, directly addressing the manager and even more clearly defining the roles of narrator and interviewer in the telling of the story.

Most important, the content of the questions themselves and the order in which they were asked allowed the main persona—the portfolio manager—to guide the reader through the information relevant to the fund's performance. The questions were worded and ordered in a deliberate way that changed somewhat depending on the story to be told. While the questions followed a general formula, and answers were not evasive, there were differences in the questions that were asked earlier in the text versus later throughout the period under study. And, unlike other relational markers, these changes were primarily story-specific, that is, related to the events before, during, and after the stock market crash.

I would first like to recap the standard categories and order of questions originally discussed on page 46, in the section of this study that deals with hedges. Questions found in all narratives include the following:

- **Fund performance.** One question, contained in the beginning of every narrative, cited the fund's returns and whether that number beat the fund's benchmark. It was worded the same in every narrative and included the name of the portfolio manager, i.e., "How did the fund perform, [first name of portfolio manager]?"
- **Factors that contributed to (good or bad) performance.** One or more questions that typically addressed market-related events during the period and their effects on the markets and the fund.
- **Detail about individual companies/stocks.** One or more questions that discussed the performance of sectors and individual stocks in the portfolio and their effects on the fund's return.
- **Investing strategy.** One question about the portfolio manager's investing strategy. This gave each manager an opportunity to talk about how they approached the fund's management.
- **Portfolio manager's outlook.** One question at the end of each narrative that allowed the portfolio manager to speculate on what he thought would happen in the economy and markets in the future.

Of these categories of questions, the second and third were the most subject to re-ordering and rewording—and were altered—when the markets began to plummet. These

alterations were not specific to the portfolio manager, but to the decline of the fund's performance. In the first three reports, which were written during the fund's peak, the first question after the standard performance question focused on the fund itself in relation to its primary benchmark. (In the following examples, the focus of each question is in italics.)

“What factors helped *the fund* outpace the returns of both benchmarks over the past 12 months?” (Andrew Kaplan, 1999 annual report)

“What factors contributed to *the fund's* sound performance versus the Goldman Sachs index?” (Andrew Kaplan, 1999 semiannual report)

“What allowed *the fund* to beat the Goldman Sachs Index by such a wide margin during the past 12 months?” (Larry Rakers, 2000 annual report)

The fourth report, however (August 31, 2000), which was written well after the March 10, 2000 peak of the markets and reported its first negative return as a result, featured a different second question, one that focused on the technology sector rather than the fund itself:

“It was a bumpy ride for tech stocks during the six-month period. What factors contributed to *the sector’s* extreme volatility?” (Larry Rakers, 2000 semiannual report)

This shift in focus allowed the portfolio manager to selectively lay out the story, this time starting with the events that affected the entire technology sector, so that he could guide the reader through the context of the market’s decline and use it as a backdrop for the story of the fund’s decline. I argue here that this use of the question-and-answer format is a metadiscourse marker used to build the manager’s credibility in a report that, likely, could have readers questioning that very credibility in the wake of losing their money. I have included an excerpt of Rakers’ answer to this question, which offers an “expert” persona, in which he discusses the period’s volatility and injects educational statements about historic economic generalities. Rakers states:

Valuations were the main culprit early on, as unbridled speculation gave way to serious concerns about rising interest rates and a potential economic slowdown. Historically, economic growth is tied to technology spending, so the prospect of a deceleration sent investors fleeing for the exits . . . Y2K-related shortfalls and summer seasonal weakness further plagued the market, with hardware stocks feeling most of the pain. Earnings jitters made for a volatile summer, as investors grappled with the prospects of a hard landing—that is, an economic slowdown that results in recession. (Larry Rakers, 2000 semiannual report)

The answer to this question is especially interesting when you take into consideration another metadiscourse device discussed in this study—first-person pronouns. The narrator did not use any first-person references in the answer. The question, while projecting the portfolio manager into the text by the act of asking him a question, allows the narrator to craft a more passive, removed persona—even if that persona only appears in one question.

The subsequent question returned to the standard fund-versus-benchmark question, which address the negative news about fund performance:

“Why did *the fund* trail the Goldman Sachs benchmark during the past six months?”

This pattern of discussing the sector’s or the market’s difficulties before discussing the fund’s negative performance continued for the next two reports, which mirrors the fund’s worst periods in terms of both absolute and relative performance. The questions varied in wording somewhat, but the subject matter stayed the same:

“What market factors weighed on *technology stocks* during the past 12 months?” (2001 annual report, Larry Rakers, portfolio manager)

“Why did *technology stocks* continue to underperform the broader market?” (2001 semiannual report, Chris Zepf, portfolio manager)

In these two cases, the answer also did not include any first-person references to the manager or company (“I” or “we”), continuing the attempt to create ethos by offering expert background on the market’s volatility while maintaining some distance from the subject matter.

The fund’s performance had improved by the time the 2002 annual period ended (February 28, 2002), and, although the returns were still negative, the fund had beat its benchmark after flagging behind it for three reporting periods. Subsequently, the focus of the second question in the last two reports returned to the fund itself, rather than the sector or markets overall:

“What factors influenced *fund* performance relative to its benchmark?” (2002 annual report, Sonu Kalra, portfolio manager)

“What affected *the fund’s* results relative to its benchmark during the past six months?” (2002 semiannual report, Sonu Kalra, portfolio manager)

Congruent with the pattern of questions and answers, Kalra’s responses did include first-person references.

### Narrator-Specific Questions

In addition to story-specific alterations in the order of questions that attempted to establish ethos, the format also allowed for narrator-specific questions, outside of our general formula, that also drew the manager's persona directly into the text and helped establish (or re-establish) his credibility. One common question, considering that the fund had four managers throughout this time period, was about the manager's individual investing strategy, either in general or specific to the reporting period. Some examples follow, the first of which was in Chris Zepf's first (and only) report:

“Have you made any notable changes since taking over the fund?” (2000 annual report)

The next two examples are from the last two reports in the study—the 2002 annual and semiannual reports, respectively. Sonu Kalra was the manager, and although he is no longer new to the fund in the second report, the question was still asked:

“Can you discuss your management philosophy?” (2002 annual report)

“You began managing the fund in February. Can you review your investment approach?”  
(2002 semiannual report)

In each case, the question provides a springboard from which the manager can craft his persona—and an ethos—by describing how he approaches the fund's management in terms of thoroughness, the resources he uses, basic investing principles,

and the like. These answers, naturally, are also laden with first-person pronouns, for logical reasons. A good example of the manager's using this question to establish his credibility is in Kalra's first report. Kalra states:

I run the fund with a decidedly bottom-up orientation, getting to know each holding extremely well. For me, that means talking with suppliers and customers in addition to company management. I like to see strong market position, accelerating growth rates and improving profit margins, among other factors. I also have fairly strict sell criteria because no matter how good a company is, there is a valuation point at which its stock is no longer a good investment. (2002 annual report)

While I categorize these types of questions as narrator-specific within the scope of this study, it is interesting to note that in the first three reports—which reported positive returns—neither Andrew Kaplan nor Larry Rakers had to answer this question, yet it was asked in some fashion in all subsequent reports. So, for the purposes of this case study, a correlation seems to exist between the presence of a “strategy” question and the fund's performance.

### Report-Specific Questions

In a few cases, a truly non-formulaic question was included. These questions helped to bolster the dual persona within the narrative, that of interviewer and manager, and the interview setting the question-and-answer format creates. A few examples follow.

“Are you concerned about the incredible run-up in internet stocks?” (1999 annual report, Andrew Kaplan, portfolio manager)

“What’s behind the falloff in the computer hardware sector?” (1999 semiannual report, Andrew Kaplan, portfolio manager)

“What was the attraction of mid-cap semiconductor stocks?” (2002 annual report, Sonu Kalra, portfolio manager)

Overall, the question-and-answer format used on these reports was very effective in creating an ethos for the persona represented by the portfolio managers, primarily by offering a second persona that served as a steward to shareholders and asking questions on their behalf. But, the questions were also a tool for the managers to craft their stories, and, where they deemed necessary, allowed them to focus the reader’s attention on context around the fund’s performance before actually going into detail about the fund itself. The format also worked in concert with first- and second-person pronouns to firmly establish the manager’s role in the narrative as an expert.

## CHAPTER V

### CONCLUSION AND AREAS FOR FUTURE RESEARCH

#### **Conclusion**

In this study, I set out to determine whether the use of metadiscourse markers in the narratives of mutual fund shareholder reports would be employed in recognizable patterns, and that those trends would shift in correlation to the fund's change in performance, measured primarily by the fund's returns by also by its performance relative to a benchmark. My hypothesis included the underlying assumption that the reports would employ a consistent narrative voice throughout, regardless of who was managing the fund.

While some trends were discovered that tended to align with performance, my hypothesis was incorrect. Instead, I found that, at least for this case study, metadiscourse marker use was most dependent on the narrator, and that the narrative voice changed vastly depending on who was managing the fund. A "company" voice was not present throughout that used one varying pattern of markers to establish ethos, but individual managers projected themselves into the text in different ways. A good or bad fund performance story, while it was definitely a factor, was second to the narrator's persona. The most typical personas projected into the narrative to establish ethos and help secure reader's confidence were cautious steward, confident expert and expert decision-maker.

Take, for example, the three narratives of Larry Raker, who was portfolio manager during the crucial period when the fund peaked and then declined as the crash hit and set in through the rest of his management period. There were definite trends in Rakers' narratives that would suggest 1) an inverse correlation between fund performance and hedges (i.e., as performance sank, hedge use increased); and 2) a direct correlation between fund performance and first-person pronouns (i.e., as performance sank, first-person pronoun use also decreased). However, I would argue that, based on a lack of linear correlations throughout the entire period, as well as what we know about the intense pressure placed on portfolio managers at that time, the trend seen in Rakers' reports was specific to Rakers, and influenced by factors that may have had to do with his own uncertainty in managing the fund. Just imagine if Chris Zepf had taken over one period earlier, when the fund saw its first negative return. Based on Zepf's only report, which was characterized by a low use of hedges and a high use of first-person pronouns despite featuring the worst return in the entire period under study, the trend Raker's narratives showed would likely have been reversed.

Take also, for example, Andrew Kaplan's two narratives. Performance changed from being strong in the first report (55.66% return) to stellar in the second (145.29% return). Yet, his use of hedges increased (albeit slightly) in the second report, and his use of first-person pronouns plummeted. After that, he was replaced as portfolio manager. Not enough information is available to make assumptions, but we can still surmise that metadiscourse marker use is highly influenced by the narrators that ultimately have to communicate the message, and that fund performance comes in second as an influence.

### **Areas for Future Research**

This thesis attempted to open a door to exploration into a specific genre—the portfolio manager narratives of mutual fund reports—that has had little focus in rhetorical study to date. One of the most important implications of this effort is that the genre offers a myriad of opportunities for additional study—especially in concert with the dot-com crash. In fact, one would not even have to look beyond some of the resources cited for this study to develop ideas for further research.

First, one could expand this study to include a more in-depth qualitative analysis, which could have great implications on the outcomes cited here, including interviews with the portfolio managers to discover their personal investment—and communication—philosophies; an analysis of the company’s culture; a review of all the company’s communications; and interviews with senior management.

Also, many offshoots of Jameson’s narrative analysis could be applied to mutual fund narratives over the same time period. One example would be to explore the narratives within the “fabula” of the dot-com crash. Using Mieke Bal’s idea that “narrative is a construction, rather than a reconstruction” (Jameson 10), the development of the narrative during this volatile period could reveal significant differences in the constructions from report to report. Another area to explore through Jameson’s lens is the concept of “contrasting narrators,” perhaps in the form of a comparison between narratives that do and do not employ the question-and-answer format.

There is also room for further study using Hyland’s work as a model, especially since my study focused on metadiscourse markers’ ability to establish ethos; one could

also explore their use in creating logical and affective appeals in mutual fund narratives. Or, one could focus on the use of textual metadiscourse markers such as code glosses, logical connectives, and frame markers (Hyland 228).

Regardless of the lens one chooses to view this communication genre, the common thread is the idea that this discourse is an example of the “social and communicative engagement” discussed in chapter one between the creator of a communication and his or her audience that offers significant rhetorical implications, regardless of whether its primary communicative goal is informational, persuasive, or both.

## **APPENDIX**

### MUTUAL FUND REPORT NARRATIVES

The mutual fund report narratives contained in this appendix were obtained from the database of filings featured on the SEC's Web site. Please note that reports filed before the 2000 semiannual report were purely text files, which did not contain charts, graphs and tables in visual format but featured text describing the content of those visuals. From the 2000 semiannual report through the last report in the study, the filings were HTML and included a closer representation of the report's format, including color, graphs, charts and tables in their published form. I have manipulated these documents minimally to remove financial data (which is irrelevant to this study) and unnecessary spacing, indicate the report date and portfolio manager at the beginning of each document, and employ the Times New Roman typestyle in the earlier filings for readability.

February 28, 1999, Annual Report, Andrew Kaplan, Portfolio Manager

TECHNOLOGY PORTFOLIO  
PERFORMANCE AND INVESTMENT SUMMARY

PERFORMANCE

There are several ways to evaluate a fund's historical performance. You can look at the total percentage change in value, the average annual percentage change or the growth of a hypothetical \$10,000 investment. Total return reflects the change in the value of an investment, assuming reinvestment of the fund's dividend income and capital gains (the profits earned upon the sale of securities that have grown in value). Load adjusted returns include a 3.00% sales charge and the effect of a \$7.50 trading fee.

CUMULATIVE TOTAL RETURNS

PERIODS ENDED FEBRUARY 28, PAST 1 YEAR PAST 5 YEARS PAST 10  
YEARS

1999

SELECT TECHNOLOGY	55.66%	245.32%	919.90%
SELECT TECHNOLOGY (LOAD ADJ.)	50.91%	234.89%	889.23%
S&P 500	19.74%	194.91%	459.21%
GS Technology	48.15%	n/a	n/a

CUMULATIVE TOTAL RETURNS show the fund's performance in percentage terms over a set period - in this case, one year, five years or 10 years. You can compare the fund's returns to the performance of both the Standard & Poor's 500 Index - a market capitalization-weighted index of common stocks - and the Goldman Sachs Technology Index - a market capitalization-weighted index of 190 stocks designed to measure the performance of companies in the technology sector. These benchmarks include reinvestment of dividends and capital gains, if any, and exclude the effect of sales charges.

AVERAGE ANNUAL TOTAL RETURNS

PERIODS ENDED FEBRUARY 28, PAST 1 YEAR PAST 5 YEARS PAST 10  
YEARS

1999

SELECT TECHNOLOGY	55.66%	28.13%	26.14%
SELECT TECHNOLOGY (LOAD ADJ.)	50.91%	27.34%	25.76%
S&P 500	19.74%	24.15%	18.78%
GS Technology	48.15%	n/a	n/a

AVERAGE ANNUAL RETURNS take the fund's cumulative return and show you what would have happened if the fund had performed at a constant rate each year.

(checkmark) UNDERSTANDING PERFORMANCE

How a fund did yesterday is no guarantee of how it will do tomorrow. The stock market, for

example, has a history of long-term growth and short-term volatility. Unlike the broader market, however, some sectors may not have a history of growth in the long run. And, as with all stock funds, the share price and return of a fund that invests in a sector will vary.

\$10,000 OVER 10 YEARS

	Technology 00064	S&P 500 SP001
1989/02/28	9700.00	10000.00
1989/03/31	9522.12	10233.00
1989/04/30	10211.40	10764.09
1989/05/31	11045.21	11200.04
1989/06/30	10066.88	11136.20
1989/07/31	10244.76	12141.80
1989/08/31	10467.11	12379.78
1989/09/30	10717.25	12329.02
1989/10/31	10639.43	12042.99
1989/11/30	10667.22	12288.66
1989/12/31	10795.07	12583.59
1990/01/31	10572.72	11739.23
1990/02/28	11167.51	11890.67
1990/03/31	11690.03	12205.77
1990/04/30	11161.95	11900.63
1990/05/31	12601.66	13060.94
1990/06/30	12712.84	12972.12
1990/07/31	12034.67	12930.61
1990/08/31	10394.84	11761.68
1990/09/30	9511.00	11188.89
1990/10/31	9783.38	11140.78
1990/11/30	11250.89	11860.47
1990/12/31	11929.05	12191.38
1991/01/31	13941.32	12722.92
1991/02/28	14647.28	13632.61
1991/03/31	15820.17	13962.52
1991/04/30	15041.95	13996.03
1991/05/31	15875.76	14600.66
1991/06/30	14335.63	13931.95
1991/07/31	15922.89	14581.18

1991/08/31	16705.34	14926.75
1991/09/30	16789.17	14677.48
1991/10/31	17241.88	14874.16
1991/11/30	16677.39	14274.73
1991/12/31	18963.78	15907.76
1992/01/31	19684.99	15611.87
1992/02/29	19992.48	15814.83
1992/03/31	18404.71	15506.44
1992/04/30	18136.35	15962.33
1992/05/31	18315.26	16040.54
1992/06/30	17005.88	15801.54
1992/07/31	17872.34	16447.82
1992/08/31	16957.07	16110.64
1992/09/30	17786.92	16300.75
1992/10/31	18836.44	16357.80
1992/11/30	20361.90	16915.60
1992/12/31	20618.18	17123.66
1993/01/31	21246.67	17267.50
1993/02/28	21124.64	17502.34
1993/03/31	21399.22	17871.64
1993/04/30	21337.86	17439.14
1993/05/31	23490.54	17906.51
1993/06/30	24637.74	17958.44
1993/07/31	23983.16	17886.61
1993/08/31	25265.33	18564.51
1993/09/30	25656.72	18421.56
1993/10/31	25150.61	18802.89
1993/11/30	24907.67	18624.26
1993/12/31	26525.31	18849.62
1994/01/31	27860.82	19490.50
1994/02/28	28648.43	18962.31
1994/03/31	27682.75	18135.55
1994/04/30	27125.19	18367.69
1994/05/31	27167.95	18668.92
1994/06/30	24865.95	18211.53
1994/07/31	25828.09	18808.87
1994/08/31	28550.58	19580.03
1994/09/30	28408.04	19100.32
1994/10/31	29469.96	19530.08
1994/11/30	29063.72	18818.79
1994/12/31	29477.09	19097.87
1995/01/31	28329.65	19593.08
1995/02/28	29968.85	20356.63
1995/03/31	31793.35	20957.35
1995/04/30	34189.65	21574.54
1995/05/31	35512.26	22436.88

1995/06/30	38811.46	22958.09
1995/07/31	42735.22	23719.38
1995/08/31	44057.84	23778.91
1995/09/30	46085.85	24782.38
1995/10/31	45395.15	24693.91
1995/11/30	45160.02	25777.97
1995/12/31	42390.07	26274.46
1996/01/31	42819.67	27168.84
1996/02/29	45165.96	27420.69
1996/03/31	41671.32	27684.75
1996/04/30	45259.93	28092.83
1996/05/31	46487.45	28817.34
1996/06/30	43180.64	28927.14
1996/07/31	38571.14	27649.13
1996/08/31	40065.89	28232.26
1996/09/30	45201.47	29821.17
1996/10/31	44875.80	30643.63
1996/11/30	50412.21	32959.99
1996/12/31	49095.41	32307.05
1997/01/31	54906.09	34325.59
1997/02/28	50876.53	34594.71
1997/03/31	47508.27	33173.21
1997/04/30	50277.51	35153.65
1997/05/31	55621.65	37293.80
1997/06/30	56645.86	38964.57
1997/07/31	63135.89	42064.98
1997/08/31	64900.37	39708.50
1997/09/30	67516.67	41883.33
1997/10/31	57933.72	40484.43
1997/11/30	56919.66	42358.45
1997/12/31	54166.22	43085.75
1998/01/31	57108.99	43562.28
1998/02/28	63556.78	46703.99
1998/03/31	63784.07	49095.70
1998/04/30	66391.89	49589.60
1998/05/31	61403.53	48737.16
1998/06/30	66511.52	50716.86
1998/07/31	66690.96	50176.72
1998/08/31	55027.52	42922.17
1998/09/30	64633.41	45671.77
1998/10/31	69801.21	49386.71
1998/11/30	80806.71	52380.04
1998/12/31	94336.30	55398.18
1999/01/31	110677.08	57714.93
1999/02/26	98923.00	55921.15

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**\$10,000 OVER 10 YEARS:** Let's say hypothetically that \$10,000 was invested in Fidelity Select Technology Portfolio on February 28, 1989, and the current 3.00% sales charge was paid. As the chart shows, by February 28, 1999, the value of the investment would have grown to \$98,923 - an 889.23% increase on the initial investment - and includes the effect of a \$7.50 trading fee. For comparison, look at how the Standard & Poor's 500 Index did over the same period. With dividends and capital gains, if any, reinvested, the same \$10,000 investment would have grown to \$55,921 - a 459.21% increase.

## INVESTMENT SUMMARY

### TOP TEN STOCKS AS OF FEBRUARY 28, 1999

#### % OF FUND'S INVESTMENTS

OY Nokia AB sponsored ADR	8.5
Motorola, Inc.	6.3
Cisco Systems, Inc.	5.0
Microsoft Corp.	4.1
Texas Instruments, Inc.	3.9
ADC Telecommunications, Inc.	3.9
eBay, Inc.	3.7
Flextronics International	2.9
Xilinx, Inc.	2.8
America Online, Inc.	2.6

### TOP INDUSTRIES AS OF FEBRUARY 28, 1999

#### % OF FUND'S INVESTMENTS

Electronics	22.7%
Communications Equipment	22.7%
Computer Services & Software	18.5%
Computers & Office Equipment	9.4%
Electronic Instruments	4.7%
All Others	22.0% *

Row: 1, Col: 1, Value: 22.0

Row: 1, Col: 2, Value: 4.7

Row: 1, Col: 3, Value: 9.4

Row: 1, Col: 4, Value: 18.5

Row: 1, Col: 5, Value: 22.7

Row: 1, Col: 6, Value: 22.7

\* INCLUDES SHORT-TERM INVESTMENTS

## TECHNOLOGY PORTFOLIO

## FUND TALK: THE MANAGER'S OVERVIEW

(photograph of Andrew Kaplan)

Andrew Kaplan, Portfolio Manager of Fidelity Select Technology Portfolio

Q. HOW DID THE FUND PERFORM, ANDY?

A. Very well. For the 12 months that ended February 28, 1999, the fund returned 55.66%, while the Standard & Poor's 500 Index returned 19.74%. During the same period, the Goldman Sachs Technology Index - an index of 190 stocks designed to measure the performance of companies in the technology sector - returned 48.15%.

Q. WHAT FACTORS HELPED THE FUND OUTPACE THE RETURNS OF BOTH BENCHMARKS OVER THE PAST 12 MONTHS?

A. The incredible rebound of technology stocks over the last four months of the period helped the fund generate robust returns. Technology stocks hit a low point in early October when fears about an economic slowdown peaked following financial turmoil in both Russia and Asia. However, when it became evident that the situation in Asia was not getting worse and, more importantly, that U.S. economic growth was accelerating, investors returned to technology stocks with a vengeance. Specifically, the fund outperformed the Goldman Sachs Technology Index because of my focus on large-capitalization stocks. I continued to believe that investors would pay a premium for stocks that weren't at risk of reporting disappointing earnings numbers – and these were mostly larger-cap stocks. On top of that, I focused on Internet stocks - the sector that has enjoyed the most dramatic growth.

Q. WHICH INDIVIDUAL HOLDINGS PERFORMED PARTICULARLY WELL?

A. eBay, an online interactive auction site that debuted on Wall Street with its successful initial public offering in September, generated one of the biggest returns during the period. Another strong performer was Cisco Systems, a maker of networking equipment for the Internet. Looking to other areas, I anticipated a recovery of the semiconductor market after a long period of excess supply. As a result, I bought several semiconductor capital equipment stocks, such as Applied Materials, ASM Lithography and Texas Instruments - all of which did very well. I also tried to capitalize on the rapid growth of the wireless communications sector by investing in Motorola. Wireless phones, which are quickly becoming mass-market items as service prices fall, have huge growth potential in developing economies that have no access to wire-line phones. In addition, Motorola's management team has implemented a restructuring plan that is focused on cutting costs and improving returns.

**Q. WHAT OTHER FACTORS HELPED PERFORMANCE?**

A. I reduced the fund's weighting in personal computer (PC) manufacturers in late 1998. This helped the fund because several PC makers reported disappointing earnings in the latest quarter as a result of slowing demand growth, and their stocks were punished.

**Q. ARE YOU CONCERNED ABOUT THE INCREDIBLE RUN-UP IN INTERNET STOCKS?**

A. Sure. After all, we've seen several years of appreciation all in a few months. For instance, from early October through early January, many Internet stocks appreciated as much as 400% to 500%. I'm always concerned that there may be a correction after that kind of run-up. As a result, I reduced the weighting of some of the Internet stocks that enjoyed the most dramatic gains during the period, such as Yahoo! And America Online. However, I continued to make investments directly in Internet companies or indirectly through the service providers because I believe in the long-term growth prospects of the sector.

**Q. WERE THERE ANY DISAPPOINTMENTS?**

A. One big void was that the fund did not own any Sun Microsystems. This stock generated huge returns during the period. I did not realize the company's Internet tie-in quickly enough. Sun Microsystems makes high-end servers that are now being used by Internet sites to store data.

**Q. WHAT'S YOUR OUTLOOK?**

A. I continue to be bullish about technology, especially because - with the Internet - we're only in the second inning. We have barely captured 10% of the potential subscriber base and we've only scratched the surface as far as ways to make money through this medium. I will continue to look for the most aggressive ways to capitalize on the future growth of the Internet. However, I am more concerned about valuations than I was six months ago, so I plan to concentrate on stocks that I believe can deliver strong earnings. In addition, I'm somewhat more cautious about the semiconductor sector because of the recent slowdown in PC demand growth, as well as the huge run-ups we've seen in those stocks over the past few months.

**THE VIEWS EXPRESSED IN THIS REPORT REFLECT THOSE OF THE PORTFOLIO MANAGER ONLY THROUGH THE END OF THE PERIOD OF THE REPORT AS STATED ON THE COVER. THE MANAGER'S VIEWS ARE SUBJECT TO CHANGE AT ANY TIME BASED ON MARKET OR OTHER CONDITIONS. FOR MORE INFORMATION, SEE PAGE A-3.**

(checkmark) FUND FACTS

START DATE: July 14, 1981

FUND NUMBER: 064

TRADING SYMBOL: FSPTX

SIZE: as of February 28, 1999, more than  
\$1.3 billion

MANAGER: Andrew Kaplan, since 1998; manager, Fidelity Select Developing  
Communications Portfolio, since 1998; Fidelity Select Electronics  
Portfolio, 1996-1998; joined Fidelity in 1995

August 31, 1999, Semiannual Report, Andrew Kaplan, Portfolio Manager

TECHNOLOGY PORTFOLIO  
PERFORMANCE AND INVESTMENT SUMMARY

PERFORMANCE

There are several ways to evaluate a fund's historical performance. You can look at the total percentage change in value, the average annual percentage change or the growth of a hypothetical \$10,000 investment. Total return reflects the change in the value of an investment, assuming reinvestment of the fund's dividend income and capital gains (the profits earned upon the sale of securities that have grown in value). Load adjusted returns include a 3.00% sales charge and the effect of a \$7.50 trading fee.

&lt;TABLE&gt;  
&lt;CAPTION&gt;  
&lt;S&gt;                      &lt;C&gt;                      &lt;C&gt;                      &lt;C&gt;                      &lt;C&gt;  
CUMULATIVE TOTAL RETURNS

PERIODS ENDED AUGUST 31, 1999   PAST 6 MONTHS   PAST 1 YEAR   PAST 5 YEARS   PAST 10 YEARS

SELECT TECHNOLOGY	36.44%	145.29%	372.76%	1,189.53%
SELECT TECHNOLOGY (LOAD ADJ.)	32.27%	137.86%	358.51%	1,150.77%
S&P 500	7.32%	39.82%	206.52%	384.79%
GS Technology	28.97%	109.92%	n/a	n/a

&lt;/TABLE&gt;

CUMULATIVE TOTAL RETURNS show the fund's performance in percentage terms over a set period - in this case, six months, one year, five years or 10 years. You can compare the fund's returns to the performance of both the Standard & Poor's 500 Index - a market capitalization-weighted index of common stocks - and the Goldman Sachs Technology Index - a market capitalization-weighted index of 190 stocks designed to measure the performance of companies in the technology sector. These benchmarks include reinvestment of dividends and capital gains, if any, and exclude the effect of sales charges.

AVERAGE ANNUAL TOTAL RETURNS

PERIODS ENDED AUGUST 31, 1999   PAST 1 YEAR   PAST 5 YEARS   PAST 10 YEARS

SELECT TECHNOLOGY	145.29%	36.44%	29.13%
SELECT TECHNOLOGY (LOAD ADJ.)	137.86%	35.60%	28.74%

S&P 500	39.82%	25.11%	17.10%
GS Technology	109.92%	n/a	n/a

AVERAGE ANNUAL RETURNS take the fund's cumulative return and show you what would have happened if the fund had performed at a constant rate each year.

(checkmark)UNDERSTANDING PERFORMANCE

How a fund did yesterday is no guarantee of how it will do tomorrow. The stock market, for example, has a history of long-term growth and short-term volatility. Unlike the broader market, however, some sectors may not have a history of growth in the long run. And, as with all stock funds, the share price and return of a fund that invests in a sector will vary.

\$10,000 OVER 10 YEARS

	TECHNOLOGY 00064	S&P 500 SP001
1989/08/31	9700.00	10000.00
1989/09/30	9931.81	9959.00
1989/10/31	9859.69	9727.95
1989/11/30	9885.45	9926.40
1989/12/31	10003.93	10164.64
1990/01/31	9797.88	9482.59
1990/02/28	10349.07	9604.91
1990/03/31	10833.30	9859.44
1990/04/30	10343.92	9612.96
1990/05/31	11678.12	10550.22
1990/06/30	11781.15	10478.48
1990/07/31	11152.68	10444.95
1990/08/31	9633.03	9500.72
1990/09/30	8813.97	9038.04
1990/10/31	9066.38	8999.18
1990/11/30	10426.34	9580.52
1990/12/31	11054.81	9847.82
1991/01/31	12919.60	10277.18
1991/02/28	13573.82	11012.00
1991/03/31	14660.75	11278.49
1991/04/30	13939.56	11305.56
1991/05/31	14712.27	11793.96
1991/06/30	13285.01	11253.80
1991/07/31	14755.94	11778.23
1991/08/31	15481.05	12057.37
1991/09/30	15558.74	11856.01
1991/10/31	15978.27	12014.88
1991/11/30	15455.15	11530.68

1991/12/31	17573.98	12849.79
1992/01/31	18242.33	12610.79
1992/02/29	18527.28	12774.73
1992/03/31	17055.88	12525.62
1992/04/30	16807.19	12893.87
1992/05/31	16972.98	12957.05
1992/06/30	15759.57	12763.99
1992/07/31	16562.53	13286.04
1992/08/31	15714.33	13013.68
1992/09/30	16483.36	13167.24
1992/10/31	17455.97	13213.32
1992/11/30	18869.63	13663.90
1992/12/31	19107.13	13831.96
1993/01/31	19689.56	13948.15
1993/02/28	19576.47	14137.85
1993/03/31	19830.93	14436.15
1993/04/30	19774.07	14086.80
1993/05/31	21768.99	14464.33
1993/06/30	22832.11	14506.27
1993/07/31	22225.50	14448.25
1993/08/31	23413.70	14995.84
1993/09/30	23776.41	14880.37
1993/10/31	23307.39	15188.39
1993/11/30	23082.25	15044.10
1993/12/31	24581.34	15226.14
1994/01/31	25818.98	15743.82
1994/02/28	26548.86	15317.17
1994/03/31	25653.96	14649.34
1994/04/30	25137.26	14836.85
1994/05/31	25176.89	15080.17
1994/06/30	23043.59	14710.71
1994/07/31	23935.22	15193.22
1994/08/31	26458.19	15816.14
1994/09/30	26326.10	15428.65
1994/10/31	27310.19	15775.79
1994/11/30	26933.72	15201.24
1994/12/31	27316.79	15426.67
1995/01/31	26253.44	15826.69
1995/02/28	27772.51	16443.45
1995/03/31	29463.30	16928.70
1995/04/30	31683.98	17427.25
1995/05/31	32909.67	18123.82
1995/06/30	35967.07	18544.83
1995/07/31	39603.27	19159.78
1995/08/31	40828.96	19207.87
1995/09/30	42708.34	20018.44

1995/10/31	42068.26	19946.98
1995/11/30	41850.36	20822.65
1995/12/31	39283.42	21223.69
1996/01/31	39681.53	21946.15
1996/02/29	41855.86	22149.59
1996/03/31	38617.34	22362.89
1996/04/30	41942.95	22692.52
1996/05/31	43080.51	23277.76
1996/06/30	40016.05	23366.44
1996/07/31	35744.37	22334.12
1996/08/31	37129.57	22805.14
1996/09/30	41888.78	24088.62
1996/10/31	41586.97	24752.98
1996/11/30	46717.63	26624.06
1996/12/31	45497.34	26096.63
1997/01/31	50882.17	27727.15
1997/02/28	47147.93	27944.53
1997/03/31	44026.52	26796.29
1997/04/30	46592.80	28396.03
1997/05/31	51545.29	30124.78
1997/06/30	52494.43	31474.37
1997/07/31	58508.83	33978.79
1997/08/31	60144.00	32075.30
1997/09/30	62568.55	33832.06
1997/10/31	53687.92	32702.07
1997/11/30	52748.17	34215.85
1997/12/31	50196.52	34803.33
1998/01/31	52923.63	35188.26
1998/02/28	58898.88	37726.04
1998/03/31	59109.51	39657.99
1998/04/30	61526.21	40056.94
1998/05/31	56903.43	39368.37
1998/06/30	61637.07	40967.51
1998/07/31	61803.36	40531.21
1998/08/31	50994.70	34671.20
1998/09/30	59896.60	36892.24
1998/10/31	64685.67	39893.06
1998/11/30	74884.61	42310.97
1998/12/31	87422.65	44748.93
1999/01/31	102565.86	46620.33
1999/02/28	91679.60	45171.37
1999/03/31	103707.70	46978.68
1999/04/30	106357.77	48798.16
1999/05/31	103847.03	47646.04
1999/06/30	119119.73	50290.39
1999/07/31	116976.41	48720.33

1999/08/31 125077.00 48479.16  
 IMATRL PRASUN SHR\_\_CHT 19990831 19990924 115652 R00000000000123

\$10,000 OVER 10 YEARS: Let's say hypothetically that \$10,000 was invested in Fidelity Select Technology Portfolio on August 31, 1989, and the current 3.00% sales charge was paid. As the chart shows, by August 31, 1999, the value of the investment would have grown to \$125,077 - a 1,150.77% increase on the initial investment - and includes the effect of a \$7.50 trading fee. For comparison, look at how the Standard & Poor's 500 Index did over the same period. With dividends and capital gains, if any, reinvested, the same \$10,000 investment would have grown to \$48,479 - a 384.79% increase.

#### INVESTMENT SUMMARY

##### TOP TEN STOCKS AS OF AUGUST 31, 1999

###### % OF FUND'S NET ASSETS

Microsoft Corp.	10.2
Cisco Systems, Inc.	7.7
Intel Corp.	5.4
Motorola, Inc.	4.8
Lucent Technologies, Inc.	4.3
Micron Technology, Inc.	4.0
Analog Devices, Inc.	3.0
Altera Corp.	2.8
Dell Computer Corp.	2.3
QLogic Corp.	2.3

##### TOP INDUSTRIES AS OF AUGUST 31, 1999

###### % OF FUND'S NET ASSETS

Electronics 37.0%  
 Computer Services  
 & Software 20.9%  
 Communications Equipment 15.2%  
 Computers &  
 Office Equipment 12.0%  
 Electrical Equipment 2.4%  
 All Others 12.5%\*

\* INCLUDES SHORT-TERM INVESTMENTS AND NET OTHER ASSETS.

Row: 1, Col: 1, Value: 22.0

Row: 1, Col: 2, Value: 4.7

Row: 1, Col: 3, Value: 9.4

Row: 1, Col: 4, Value: 18.5

Row: 1, Col: 5, Value: 22.7

Row: 1, Col: 6, Value: 22.7

PRIOR TO THIS REPORT, CERTAIN INFORMATION RELATED TO PORTFOLIO HOLDINGS WAS STATED AS A PERCENTAGE OF THE FUND'S INVESTMENTS.

## TECHNOLOGY PORTFOLIO FUND TALK: THE MANAGER'S OVERVIEW

(photograph of Andrew Kaplan)

Andrew Kaplan, Portfolio Manager of Fidelity Select Technology Portfolio

### Q. HOW DID THE FUND PERFORM, ANDY?

A. Quite well. For the six- and 12-month periods that ended August 31, 1999, the fund had total returns of 36.44% and 145.29%, respectively. During those same periods, the Standard & Poor's 500 Index posted returns of 7.32% and 39.82%, respectively. The fund also outpaced the Goldman Sachs Technology Index - an index of 190 stocks designed to measure the performance of companies in the technology sector - which returned 28.97% and 109.92% for those same periods.

### Q. WHAT FACTORS CONTRIBUTED TO THE FUND'S SOUND PERFORMANCE VERSUS THE GOLDMAN SACHS INDEX?

A. Strong stock selection and favorable industry weightings - specifically, the fund's underweighting in computer hardware firms and overweighting in semiconductor stocks - gave it an advantage over the Goldman Sachs index. The fund's healthy exposure to networking firms that provide infrastructure to the Internet, such as Cisco Systems, also helped returns. A modest overweighting in Internet stocks such as America Online and eBay during the first half of the period proved beneficial, although I did cut back on these positions as they hit their valuation targets in the early spring. The fund no longer held eBay at the end of the period.

### Q. WHAT'S BEHIND THE FALL OFF IN THE COMPUTER HARDWARE SECTOR?

A. Computer hardware stocks have been hurt by the emergence of the low-price, or free, personal computer phenomenon. Demand for personal computers rebounded strongly, fueled by falling prices, which set the stage for fierce competitive battles among suppliers. It became increasingly difficult for even the best companies to show growth and margin improvement. Of course, firms like Microsoft and Intel undoubtedly benefited from this phenomenon, as a lack of pricing pressure enabled these firms to simply tag along for the ride. Basic arithmetic reveals that as the number of PC shipments

rise, the number of operating systems and chips found in every box rise in unison. Every additional box that goes out the door directly helps the bottom lines of these industry leaders.

**Q. WHAT WERE SOME OF YOUR STRATEGIES DURING THE SIX-MONTH PERIOD?**

A. I broadened the fund's investment portfolio to include a number of emerging companies, the likes of Brocade Communications and Juniper Networks, each of which added meaningfully to relative performance. As we move toward an Internet-based economy, new emerging technology providers create niches that could enable them to become, perhaps, the new giants.

**Q. WHICH HOLDINGS CONTRIBUTED TO PERFORMANCE?**

A. Intel, a dominant supplier of chips for personal computers, rallied late in the period as the low-priced PC took center stage in the marketplace, effectively ending a long period of excess supply. Motorola benefited doubly from the semiconductor rally and from a sharp recovery in its mobile handset business. Cisco Systems remained one of the brightest stars in the technology sector and helped sustain the fund's upward climb during the period. Bullish investors continued to bid up the stock, as it became increasingly clear to them the inherent value of infrastructure to the development of the Internet.

**Q. WHICH HOLDINGS DETRACTED?**

A. At Home, a provider of Internet services over cable lines, and Critical Path, which specializes in business-to-business Internet messaging solutions, fell sharply amid the Internet stock correction of the late spring and early summer. Cadence Design Systems, a leading electronic design firm, and Newbridge Networks, a provider of networking solutions, also faltered during the period, negatively influencing fund performance. The fund no longer held At Home and Critical Path at the end of the period.

**Q. WHAT'S YOUR OUTLOOK?**

A. In terms of the economy, the domestic outlook looks favorable and the conditions in Asia have improved significantly over past six months. While still a small percentage of overall technology spending, Asia remains a meaningful part of the growth equation. A sustained recovery there spells good things for the sector over the next several years. As time goes on, I will consider further concentrating the fund's Internet positions in advertising, and away from connectivity and electronic commerce. In telecommunications, I may shift the fund's investments to data networking firms. Many of the best companies from the traditional telecom world are moving into data networking, especially into the Internet. To the extent that they're successful at doing this, they may become important parts of the portfolio.

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(checkmark)FUND FACTS

START DATE: July 14, 1981

FUND NUMBER: 064

TRADING SYMBOL: FSPTX

SIZE: as of August 31, 1999, more than \$2.3 billion

MANAGER: Andrew Kaplan, since 1998; manager, Fidelity Select Developing Communications Portfolio, since 1998; Fidelity Select Electronics Portfolio, 1996-1998; joined Fidelity in 1995

February 29, 2000, Annual Report, Larry Rakers, Portfolio Manager

TECHNOLOGY PORTFOLIO  
PERFORMANCE AND INVESTMENT SUMMARY

PERFORMANCE

There are several ways to evaluate a fund's historical performance. You can look at the total percentage change in value, the average annual percentage change or the growth of a hypothetical \$10,000 investment. Total return reflects the change in the value of an investment, assuming reinvestment of the fund's dividend income and capital gains (the profits earned upon the sale of securities that have grown in value). Load adjusted returns include a 3.00% sales charge and the effect of a \$7.50 trading fee.

CUMULATIVE TOTAL RETURNS

PERIODS ENDED FEBRUARY 29,      PAST 1 YEAR   PAST 5 YEARS   PAST 10  
YEARS  
2000

SELECT TECHNOLOGY	184.11%	837.89%	2,416.89%
SELECT TECHNOLOGY (LOAD ADJ.)	175.52%	809.68%	2,341.31%
S&P 500	11.73%	206.94%	425.47%
GS Technology	104.99%	n/a	n/a

CUMULATIVE TOTAL RETURNS show the fund's performance in percentage terms over a set period - in this case, one year, five years or 10 years. You can compare the fund's returns to the performance of both the Standard & Poor's 500 Index - a market capitalization-weighted index of common stocks - and the Goldman Sachs Technology Index - a market capitalization-weighted index of 185 stocks designed to measure the performance of companies in the technology sector. These benchmarks include reinvestment of dividends and capital gains, if any, and exclude the effect of sales charges.

AVERAGE ANNUAL TOTAL RETURNS

PERIODS ENDED FEBRUARY 29,      PAST 1 YEAR   PAST 5 YEARS   PAST 10  
YEARS  
2000

SELECT TECHNOLOGY	184.11%	56.47%	38.07%
SELECT TECHNOLOGY (LOAD ADJ.)	175.52%	55.52%	37.65%
S&P 500	11.73%	25.14%	18.05%
GS Technology	104.99%	n/a	n/a

AVERAGE ANNUAL RETURNS take the fund's cumulative return and show you what would have happened if the fund had performed at a constant rate each year.

## (checkmark)UNDERSTANDING PERFORMANCE

How a fund did yesterday is no guarantee of how it will do tomorrow. The stock market, for example, has a history of long-term growth and short-term volatility. Unlike the broader market, however, some sectors may not have a history of growth in the long run. And, as with all stock funds, the share price and return of a fund that invests in a sector will vary.

## \$10,000 OVER 10 YEARS

	TECHNOLOGY 00064	S&P 500 SP001
1990/02/28	9700.00	10000.00
1990/03/31	10153.86	10265.00
1990/04/30	9695.17	10008.38
1990/05/31	10945.69	10984.19
1990/06/30	11042.26	10909.50
1990/07/31	10453.21	10874.59
1990/08/31	9028.87	9891.53
1990/09/30	8261.17	9409.81
1990/10/31	8497.76	9369.35
1990/11/30	9772.42	9974.61
1990/12/31	10361.47	10252.90
1991/01/31	12109.31	10699.92
1991/02/28	12722.50	11464.97
1991/03/31	13741.26	11742.42
1991/04/30	13065.31	11770.60
1991/05/31	13789.55	12279.09
1991/06/30	12451.80	11716.71
1991/07/31	13830.48	12262.71
1991/08/31	14510.11	12553.34
1991/09/30	14582.93	12343.69
1991/10/31	14976.14	12509.10
1991/11/30	14485.84	12004.98
1991/12/31	16471.78	13378.35
1992/01/31	17098.21	13129.52
1992/02/29	17365.29	13300.20
1992/03/31	15986.17	13040.85
1992/04/30	15753.08	13424.25
1992/05/31	15908.47	13490.03
1992/06/30	14771.16	13289.02
1992/07/31	15523.76	13832.55
1992/08/31	14728.76	13548.98
1992/09/30	15449.56	13708.86
1992/10/31	16361.17	13756.84
1992/11/30	17686.17	14225.94
1992/12/31	17908.77	14400.92
1993/01/31	18454.68	14521.89

1993/02/28	18348.68	14719.39
1993/03/31	18587.18	15029.97
1993/04/30	18533.88	14666.24
1993/05/31	20403.68	15059.30
1993/06/30	21400.13	15102.97
1993/07/31	20831.57	15042.56
1993/08/31	21945.24	15612.67
1993/09/30	22285.21	15492.45
1993/10/31	21845.60	15813.15
1993/11/30	21634.59	15662.92
1993/12/31	23039.65	15852.44
1994/01/31	24199.67	16391.43
1994/02/28	24883.78	15947.22
1994/03/31	24045.00	15251.92
1994/04/30	23560.71	15447.15
1994/05/31	23597.85	15700.48
1994/06/30	21598.35	15315.82
1994/07/31	22434.05	15818.18
1994/08/31	24798.79	16466.72
1994/09/30	24674.98	16063.29
1994/10/31	25597.35	16424.71
1994/11/30	25244.50	15826.52
1994/12/31	25603.54	16061.23
1995/01/31	24606.89	16477.70
1995/02/28	26030.68	17119.83
1995/03/31	27615.43	17625.04
1995/04/30	29696.83	18144.10
1995/05/31	30845.65	18869.32
1995/06/30	33711.30	19307.65
1995/07/31	37119.44	19947.89
1995/08/31	38268.26	19997.96
1995/09/30	40029.77	20841.88
1995/10/31	39429.84	20767.47
1995/11/30	39225.60	21679.16
1995/12/31	36819.65	22096.70
1996/01/31	37192.80	22848.87
1996/02/29	39230.76	23060.68
1996/03/31	36195.34	23282.76
1996/04/30	39312.38	23625.95
1996/05/31	40378.60	24235.26
1996/06/30	37506.33	24327.60
1996/07/31	33502.56	23252.80
1996/08/31	34800.88	23743.20
1996/09/30	39261.61	25079.47
1996/10/31	38978.73	25771.16
1996/11/30	43787.61	27719.21

1996/12/31	42643.85	27170.09
1997/01/31	47690.96	28867.68
1997/02/28	44190.91	29094.00
1997/03/31	41265.28	27898.53
1997/04/30	43670.61	29564.07
1997/05/31	48312.48	31363.93
1997/06/30	49202.10	32769.03
1997/07/31	54839.29	35376.46
1997/08/31	56371.90	33394.67
1997/09/30	58644.39	35223.70
1997/10/31	50320.73	34047.23
1997/11/30	49439.92	35623.28
1997/12/31	47048.31	36234.93
1998/01/31	49604.38	36635.68
1998/02/28	55204.87	39277.85
1998/03/31	55402.29	41289.27
1998/04/30	57667.42	41704.64
1998/05/31	53334.58	40987.74
1998/06/30	57771.33	42652.66
1998/07/31	57927.19	42198.41
1998/08/31	47796.42	36097.36
1998/09/30	56140.02	38409.76
1998/10/31	60628.72	41534.01
1998/11/30	70188.01	44051.38
1998/12/31	81939.70	46589.63
1999/01/31	96133.16	48538.00
1999/02/28	85929.66	47029.44
1999/03/31	97203.38	48911.09
1999/04/30	99687.25	50805.42
1999/05/31	97333.97	49605.90
1999/06/30	111648.80	52359.03
1999/07/31	109639.91	50724.38
1999/08/31	117239.28	50473.29
1999/09/30	117147.44	49089.82
1999/10/31	131244.17	52196.23
1999/11/30	147051.32	53257.37
1999/12/31	189895.27	56394.23
2000/01/31	185733.25	53560.99
2000/02/29	244131.00	52547.08

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**\$10,000 OVER 10 YEARS:** Let's say hypothetically that \$10,000 was invested in Fidelity Select Technology Portfolio on February 28, 1990, and the current 3.00% sales charge was paid. As the chart shows, by February 29, 2000, the value of the investment would have grown to \$244,131 - a 2,341.31% increase on the initial investment – and includes the effect

of a \$7.50 trading fee. For comparison, look at how the Standard & Poor's 500 Index did over the same period. With dividends and capital gains, if any, reinvested, the same \$10,000 investment would have grown to \$52,547 - a 425.47% increase.

## INVESTMENT SUMMARY

### TOP TEN STOCKS AS OF FEBRUARY 29, 2000

#### % OF FUND'S NET ASSETS

Juniper Networks, Inc.	9.9
Cisco Systems, Inc.	5.2
Vignette Corp.	4.4
Motorola, Inc.	3.7
Broadcom Corp. Class A	3.1
Redback Networks, Inc.	3.1
Microsoft Corp.	2.9
DoubleClick, Inc.	2.8
Cree Research, Inc.	2.7
Emulex Corp.	2.0

39.8

### TOP INDUSTRIES AS OF FEBRUARY 29, 2000 % OF FUND'S NET ASSETS

&lt;TABLE&gt;

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Computer Services & Software 27.9% Row: 1, Col: 6, Value: 27.9

Electronics 23.9% Row: 1, Col: 5, Value: 23.9

Computers &

Office Equipment 18.0% Row: 1, Col: 4, Value: 18.0

Communications Equipment 16.0% Row: 1, Col: 3, Value: 16.0

Advertising 3.1% Row: 1, Col: 2, Value: 3.1

\* All Others 11.1% Row: 1, Col: 1, Value: 11.1

\* INCLUDES SHORT-TERM INVESTMENTS AND NET OTHER ASSETS.

## TECHNOLOGY PORTFOLIO

### FUND TALK: THE MANAGER'S OVERVIEW

(photograph of Larry Rakers)

NOTE TO SHAREHOLDERS: Larry Rakers became Portfolio Manager of Fidelity Select Technology Portfolio on February 7, 2000.

Q. HOW DID THE FUND PERFORM, LARRY?

A. It fared quite well. For the 12-month period that ended February 29, 2000, the fund posted a total return of 184.11%. That topped the Goldman Sachs Technology Index - an index of 185 stocks designed to measure the performance of companies in the technology sector - and the Standard & Poor's 500 Index, which returned 104.99% and 11.73%, respectively.

Q. WHAT ALLOWED THE FUND TO BEAT THE GOLDMAN SACHS INDEX BY SUCH A WIDE MARGIN DURING THE PAST 12 MONTHS?

A. Our strategy to remain underweighted in many lagging computer hardware manufacturers relative to the index worked out nicely for the fund. Not holding IBM and having considerably less Dell and Compaq than the index really helped. Many of the major players in this space were hurt by declining sales attributed to component shortages and Y2K-related shortfalls. Another key was the fund's out-of-benchmark positioning in leading communications equipment and Internet infrastructure names such as Nokia, Juniper and Redback Networks, as was its overweighting in Broadcom. Some good picks within Internet services, most notably DoubleClick, along with our exposure to communications semiconductor providers QLogic and Emulex further bolstered relative performance.

Q. HAVE YOU MADE ANY NOTABLE CHANGES SINCE TAKING OVER THE FUND?

A. No, I really haven't made many significant changes to the prevailing themes I just outlined. The basic premise behind our current positioning is the same. It remains simply a function of where we perceive the highest growth rates to be in the technology group, which hasn't changed much in recent months. On the margin, though, I did step up our exposure to optical networking - sending data or voice traffic as light signals over fiber-optic cables - an area I feel has some of the best long-term growth prospects in the sector.

Q. TECHNOLOGY TROUNCED THE BROADER MARKET OVER THE PAST 12 MONTHS. WHAT HELPED FUEL THIS DISPARITY?

A. In short, it was relative growth rates. Investors rallied around the group's superior earnings growth potential relative to all other areas of the market, respectful of the power of the Internet to re-shape the face of the domestic economy and permanently alter the way business is transacted. The market's confidence in the sector was so strong that even markedly higher interest rates - typically a nemesis of growth stocks - couldn't tame the bullishness.

Q. WHAT OTHER HOLDINGS PROVED PARTICULARLY BENEFICIAL TO PERFORMANCE?

A. The market rewarded JDS Uniphase, a top manufacturer of optical network components, for its leadership position in the race for higher bandwidth - a measure of transmission speed and capacity to deliver data, voice and video. Exodus rose sharply on strong demand for its Web hosting services from companies looking to bring their businesses to the Internet. Having out-of-benchmark exposure to software companies that provide Internet infrastructure, such as Vignette and BroadVision, as well as Cree - a manufacturer of silicon carbide-based semiconductor devices used to make LEDs - also gave us a nice lift.

Q. WHAT WERE SOME OF THE STOCKS THAT HURT PERFORMANCE?

A. We didn't have much luck with software utility provider BMC, which was felled by slowing sales related to Y2K and a salesforce restructuring. Our stake in Electronics for Imaging - a provider of printer-related products - was equally inauspicious as its stock recoiled in response to soft earnings posted by Xerox, its largest customer. The fund's underexposure to a handful of the period's biggest winners, namely Cisco, Qualcomm, Sun Microsystems, Oracle and Texas Instruments, also dampened relative performance.

Q. WHAT'S YOUR OUTLOOK?

A. I expect much of the same in terms of strategy in the coming months. That is, I'll likely maintain the fund's overweighting in communications equipment and Internet infrastructure at the expense of computer systems and hardware. I'll continue to be mindful of valuations and relative growth rates to help me further hone my industry positioning. With regard to security selection, I will rely heavily on my team of 20 analysts to support me in uncovering the best stocks in a rapidly changing sector.

THE VIEWS EXPRESSED IN THIS REPORT REFLECT THOSE OF THE PORTFOLIO MANAGER ONLY THROUGH THE END OF THE PERIOD OF THE REPORT AS STATED ON THE COVER. THE MANAGER'S VIEWS ARE SUBJECT TO CHANGE AT ANY TIME BASED ON MARKET OR OTHER CONDITIONS. FOR MORE INFORMATION, SEE PAGE A-3.

(checkmark)FUND FACTS

START DATE: July 14, 1981

FUND NUMBER: 064

TRADING SYMBOL: FSPTX

SIZE: as of February 29, 2000, more than \$7.9 billion

MANAGER: Larry Rakers, since February 2000; manager, Fidelity Select Computers Portfolio and Fidelity Advisor Technology Fund, since January 2000; Fidelity Advisor Natural Resources Fund, 1997-1999; several Fidelity Select Portfolios, 1995-1997; joined Fidelity in 1993

August 31, 2000, Semiannual Report, Larry Rakers, Portfolio Manager

**Technology Portfolio  
Performance and Investment Summary**

**Performance**

There are several ways to evaluate a fund's historical performance. You can look at the total percentage change in value, the average annual percentage change or the growth of a hypothetical \$10,000 investment. Total return reflects the change in the value of an investment, assuming reinvestment of the fund's dividend income and capital gains (the profits earned upon the sale of securities that have grown in value). Load adjusted returns include a 3.00% sales charge and the effect of a \$7.50 long-term trading fee for shares held 30 days or more. Effective September 28, 2000, the \$7.50 long-term trading fee was eliminated.

**Cumulative Total Returns**

Periods ended August 31, 2000	Past 6 months	Past 1 year	Past 5 years	Past 10 years
Select Technology	-4.44%	98.99%	509.64%	2,483.90%
Select Technology (load adj.)	-7.38%	92.95%	491.27%	2,406.31%
S&P 500	11.73%	16.32%	193.58%	493.54%
GS Technology	2.68%	63.21%	n/a**	n/a**

**Cumulative total returns** show the fund's performance in percentage terms over a set period - in this case, six months, one year, five years or 10 years. You can compare the fund's returns to the performance of both the Standard & Poor's 500 Index - a market capitalization-weighted index of common stocks - and the Goldman Sachs Technology Index - a market capitalization-weighted index of 221 stocks designed to measure the performance of companies in the technology sector. These benchmarks include reinvestment of dividends and capital gains, if any, and exclude the effect of sales charges.

**Average Annual Total Returns**

Periods ended August 31, 2000	Past 1 year	Past 5 years	Past 10 years
Select Technology	98.99%	43.55%	38.43%
Select Technology (load adj.)	92.95%	42.68%	38.01%
S&P 500	16.32%	24.04%	19.49%
GS Technology	63.21%	n/a**	n/a**

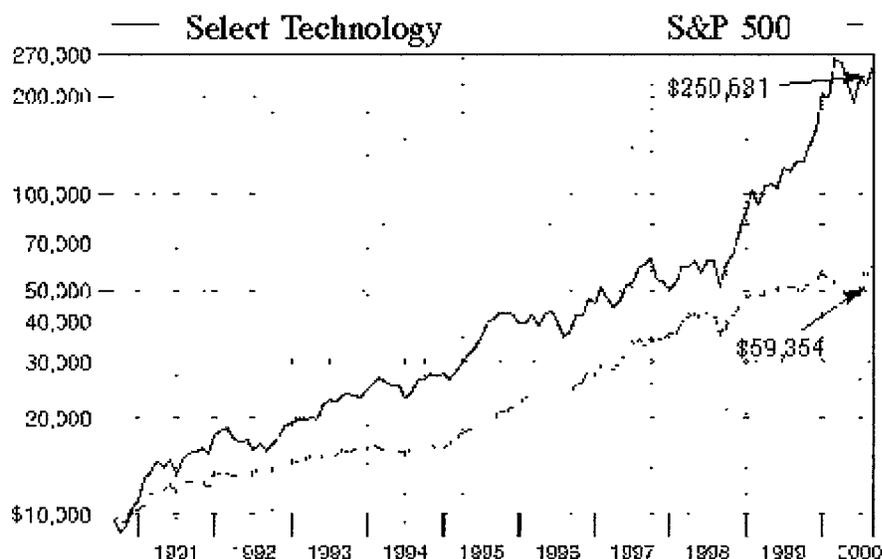
**Average annual returns** take the fund's cumulative return and show you what would have happened if the fund had performed at a constant rate each year.

\*\* Not available

## Understanding Performance

How a fund did yesterday is no guarantee of how it will do tomorrow. The stock market, for example, has a history of long-term growth and short-term volatility. Unlike the broader market, however, some sectors may not have a history of growth in the long run. And, as with all stock funds, the share price and return of a fund that invests in a sector will vary.

\$10,000 Over 10 Years



**\$10,000 Over 10 Years:** Let's say hypothetically that \$10,000 was invested in Fidelity Select Technology Portfolio on August 31, 1990, and the current 3.00% sales charge was paid. As the chart shows, by August 31, 2000, the value of the investment would have grown to \$250,681 - a 2,406.31% increase on the initial investment - and includes the effect of a \$7.50 long-term trading fee. For comparison, look at how the Standard & Poor's 500 Index did over the same period. With dividends and capital gains, if any, reinvested, the same \$10,000 investment would have grown to \$59,354 - a 493.54% increase.

## Investment Summary

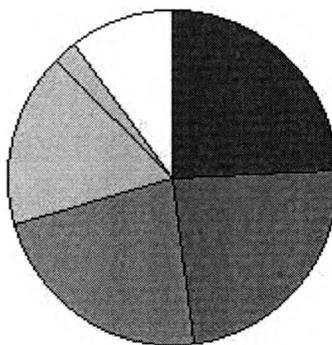
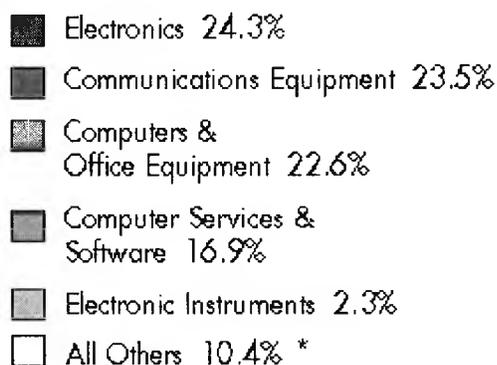
### Top Ten Stocks as of August 31, 2000

	% of fund's net assets
Cisco Systems, Inc.	8.4
Juniper Networks, Inc.	6.7
Nortel Networks Corp.	5.9
Intel Corp.	3.8
EMC Corp.	3.8

JDS Uniphase Corp.	3.2
Corning, Inc.	2.6
SDL, Inc.	2.3
Texas Instruments, Inc.	2.0
Vignette Corp.	<u>2.0</u>
	<u>40.7</u>

### Top Industries as of August 31, 2000

% of fund's net assets



\* Includes shortterm investments and net other assets.

*Semiannual Report*

## Technology Portfolio

### Fund Talk: The Manager's Overview

(Portfolio Manager photograph)

Larry Rakers, Portfolio Manager of Fidelity Select Technology Portfolio

#### Q. How did the fund perform, Larry?

A. For the six months that ended August 31, 2000, the fund returned -4.44%, trailing the Goldman Sachs Technology Index - an index of 221 stocks designed to measure the performance of companies in the technology sector - and the Standard & Poor's 500 Index, which returned 2.68% and 11.73%, respectively. For the 12-month period that ended August 31, 2000, the fund returned 98.99%, while the Goldman Sachs and S&P 500 indexes returned 63.21% and 16.32%, respectively.

Q. It was a bumpy ride for tech stocks during the six-month period. What factors contributed to the sector's extreme volatility?

A. Valuations were the main culprit early on, as unbridled speculation gave way to serious concerns about rising interest rates and a potential economic slowdown. Historically, economic growth is tied to technology spending, so the prospect of a deceleration sent investors fleeing for the exits, erasing most of the gains that had taken months to accumulate. Y2K-related shortfalls and summer seasonal weakness further plagued the market, with hardware stocks feeling most of the pain. Earnings jitters made for a volatile summer, as investors grappled with the prospects of a hard landing - that is, an economic slowdown that results in recession. These concerns dissipated in August, sparking a strong "relief rally." Throughout the volatility, fundamentals remained reasonably strong for tech stocks overall, thanks to a boom in tech-related spending triggered by companies looking to stay ahead by improving productivity.

**Q. Why did the fund trail the Goldman Sachs benchmark during the past six months?**

A. Since the fund tends to emphasize the fastest-growing names in the sector, it is apt to outperform the index during a strong tech market, and underperform in a down market. Over the past six months, we lost ground by focusing on higher-priced semiconductor stocks, which suffered the most during the correction. Disappointing stock selection in names such as Emulex and QLogic, which suffered earnings setbacks, further compounded our problem. I sold off both of these stocks during the period in an effort to minimize the damage. Our overexposure to e-commerce software providers Vignette and BroadVision also hurt. Finally, the decision to underweight market heavyweights Intel, Oracle, Hewlett-Packard and IBM - which held up better during the downturn - effectively sealed our fate relative to the index.

**Q. Were there any bright spots?**

A. The fund benefited from maintaining a positive bet on those high-growth areas involved in the build-out of Internet infrastructure and the resulting formation of a single network - which is central to enabling broadband services. Most of our wins were concentrated in the telecommunications/optical equipment and networking spaces. Juniper and Cisco - leading makers of networking gear - were significant contributors, thanks to surging demand for routers, the devices that direct traffic over the Internet. Corning, Nortel and Ciena contributed from the optics area, while Brocade and EMC offered strong gains on the data storage front. Underweighting Microsoft further aided relative returns, with the software giant slipping on slow adoption of its Windows 2000 operating system and its antitrust dispute with the U.S. government. Having raised the earnings growth rate of the fund after taking over in February, I also was able to improve its risk/return profile, which prevented us from falling further during the market's downturn.

**Q. What other factors influenced performance?**

A. Our focus on communications chips was another infrastructure strategy that worked, with Altera, GlobeSpan and PMC-Sierra leading the way. We also were rewarded for making timely cyclical calls on various electronic components, such as flash memory - specialty chips used mainly in PDAs and laptops. Unfortunately, for every gainer, there was an even bigger loser. The fund was overexposed to a handful of problem stocks - namely

DoubleClick, Motorola, Citrix and Silknet - which detracted further from relative returns. The fund no longer held Silknet at the close of the period.

**Q. What's your outlook?**

A. I feel that demand will accelerate behind a continued rise in productivity, with spending in the sector representing an increasing share of GDP. I'm optimistic because tech stocks tend to perform well in this type of environment. It's up for debate as to where we are exactly in the productivity cycle, but if I were to guess I'd say we're still in the early innings. With that said, I plan to remain fully invested and to continue to look for the highest-growth companies at the best prices I can get for shareholders.

*The views expressed in this report reflect those of the portfolio manager only through the end of the period of the report as stated on the cover. The manager's views are subject to change at any time based on market or other conditions. For more information, see page 3.*

**Fund Facts**

**Start date:** July 14, 1981

**Fund number:** 064

**Trading symbol:** FSPTX

**Size:** as of August 31, 2000, more than \$8.0 billion

**Manager:** Larry Rakers, since February 2000; manager, Fidelity Select Computers Portfolio and Fidelity Advisor Technology Fund, since January 2000; Fidelity Advisor Natural Resources Fund, 1997-1999; several Fidelity Select Portfolios, 1995-1999; joined Fidelity in 1993

February 28, 2001, Annual Report, Larry Rakers, Portfolio Manager

**Technology Portfolio  
Performance and Investment Summary**

**Performance**

There are several ways to evaluate a fund's historical performance. You can look at the total percentage change in value, the average annual percentage change or the growth of a hypothetical \$10,000 investment. Total return reflects the change in the value of an investment, assuming reinvestment of the fund's dividend income and capital gains (the profits earned upon the sale of securities that have grown in value). Load adjusted returns include a 3.00% sales charge. Effective September 28, 2000, the \$7.50 long-term trading fee was eliminated.

**Cumulative Total Returns**

Periods ended February 28, 2001	Past 1 year	Past 5 years	Past 10 years
Select Technology	-59 05%	154 86%	685 89%
Select Technology (load adj )	-60 27%	147 22%	662 32%
S&P 500	-8 20%	109 18%	320 75%
GS Technology	-52 82%	n/a**	n/a**

**Cumulative total returns** show the fund's performance in percentage terms over a set period - in this case, one year, five years or 10 years. You can compare the fund's returns to the performance of both the Standard & Poor's 500 Index - a market capitalization-weighted index of common stocks - and the Goldman Sachs Technology Index - a market capitalization-weighted index of 220 stocks designed to measure the performance of companies in the technology sector. These benchmarks include reinvestment of dividends and capital gains, if any, and exclude the effect of sales charges.

**Average Annual Total Returns**

Periods ended February 28, 2001	Past 1 year	Past 5 years	Past 10 years
Select Technology	-59 05%	20 58%	22 90%
Select Technology (load adj )	-60 27%	19 84%	22 52%
S&P 500	-8 20%	15 91%	15 45%
GS Technology	-52 82%	n/a**	n/a**

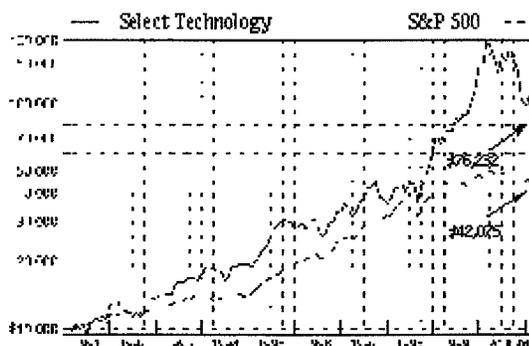
**Average annual returns** take the fund's cumulative return and show you what would have happened if the fund had performed at a constant rate each year.

\*\* *Not available*

## Understanding Performance

How a fund did yesterday is no guarantee of how it will do tomorrow. The stock market, for example, has a history of long-term growth and short-term volatility. Unlike the broader market, however, some sectors may not have a history of growth in the long run. And, as with all stock funds, the share price and return of a fund that invests in a sector will vary.

\$10,000 Over 10 Years



**\$10,000 Over 10 Years:** Let's say hypothetically that \$10,000 was invested in Fidelity Select Technology Portfolio on February 28, 1991, and the current 3.00% sales charge was paid. As the chart shows, by February 28, 2001, the value of the investment would have grown to \$76,232 - a 662.32% increase on the initial investment. For comparison, look at how the Standard & Poor's 500 Index did over the same period. With dividends and capital gains, if any, reinvested, the same \$10,000 investment would have grown to \$42,075 - a 320.75% increase.

## Investment Summary

### Top Ten Stocks as of February 28, 2001

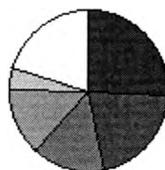
	% of fund's net assets
Microsoft Corp	7.7
Cisco Systems, Inc.	6.6
CIENA Corp.	4.9
Sun Microsystems, Inc.	3.9
EMC Corp.	3.6
Juniper Networks, Inc	3.1
Dell Computer Corp.	2.9
Comverse Technology, Inc.	2.9
Flextronics International Ltd.	2.1
Computer Associates International, Inc.	1.9

39.6

### Top Industries as of February 28, 2001

% of fund's net assets

■ Communications Equipment	26.0%
■ Software	20.9%
■ Computers & Peripherals	15.0%
■ Semiconductor Equipment & Products	13.2%
■ Internet Software & Services	4.4%
□ All Others*	



20.5%

\* Includes short-term investments and net other assets.

Effective with this report, industry classifications follow the MSCI/S&P Global Industry Classification Standard. This replaces the U.S. Standard Industrial Classification system that is being phased out.

*Annual Report*

## Technology Portfolio Fund Talk: The Manager's Overview

(Portfolio Manager photograph)

Larry Rakers, Portfolio Manager of Fidelity Select Technology Portfolio

### Q. How did the fund perform, Larry?

A. For the 12 months that ended February 28, 2001, the fund returned -59.05%. This performance trailed the -52.82% return of the Goldman Sachs Technology Index - an index of 220 stocks designed to measure the performance of companies in the technology sector. During the same period, the Standard & Poor's 500 Index returned -8.20%.

### Q. What market factors weighed on technology stocks during the past 12 months?

A. Spending on information technology (IT) is highly correlated with economic growth - or gross domestic product (GDP). During the second half of the period, the effects of higher interest rates, rising energy costs and stricter bank lending standards weighed heavily on consumer and business confidence, causing a dramatic decline in GDP and broad curtailment of IT spending. It's important to recognize that for every percent that GDP falls, IT spending falls almost twice as much. This is a rather unfriendly environment for tech stocks, as slower

spending tends to depress both sales and earnings, causing a drop in share prices. Because the stock market is predictive, the decline tends to occur earlier than the actual slowdown, as evidenced by the NASDAQ's nearly 11% decline in September. Reality struck the market hard during the fourth quarter, as weakness in the telecommunications equipment space induced a tremendous backup that proved most damaging to component makers from the optical, semiconductor and networking spaces. Eventually, the contagion spread to nearly all areas of the sector in short time. In most cases, the magnitude of the drop was commensurate with higher valuations and growth expectations of tech stocks relative to the rest of the market.

**Q. Why did the fund underperform the Goldman Sachs index?**

A. Not being defensive really hurt during the period. My strategy was to give shareholders an aggressive technology fund with the highest potential for growth. Not surprisingly, since the fund tended to emphasize the fastest-growing names in the sector with high price-to-earnings multiples, it gave up more than the index in a down market. Underweighting computer services stocks hurt, as they tend to be more defensive in nature than most other tech stocks. Poor positioning among computer stocks also dragged on performance. Owning more aggressive names, particularly Sun Microsystems, at the expense of slower-growing, more stable companies such as IBM was a losing strategy in a period of deteriorating fundamentals for the group. Our positioning among software stocks also backfired. We were hurt for focusing on such stocks as Vignette that are more Internet infrastructure-oriented, while underweighting traditional providers, namely Microsoft. Stock picking among semiconductor manufacturers, including Intel and Cree, further detracted from returns. Other notable laggards included networking giant Cisco and online media firm DoubleClick.

**Q. Where were you able to find the best opportunities during the period?**

A. Despite the dramatic deceleration in economic growth, companies did not cut their budgets across the board. There was still IT spending going on, but it was now much more focused than in previous periods. Firms were prioritizing their projects, choosing only those that were visible to the customer and would generate high returns. Getting businesses up and running on the Internet was atop the priority lists, as was tackling data storage needs and cost cutting through improvements in both supply-chain and customer-relationship management. Acting in response, the fund profited from timely trading in companies such as Brocade, which benefited from the projects that are high on the IT spending list. Given the growing concerns about overcapacity of newly constructed communications networks, we steered clear of the component manufacturers, which helped. Instead, we focused on the companies with new technologies, such as Ciena, that are bent on solving the pressing problem of bottlenecks in the network. Some good picks among other leading makers of telecom gear, particularly Juniper, Nortel, Comverse and JDS Uniphase, narrowed the performance gap relative to the index. Nortel and JDS Uniphase were no longer held at the close of the period.

**Q. What's your outlook?**

A. I'm currently positioning the fund for a rebound in the economy. Further interest-rate action by the Federal Reserve Board in March, coupled with federal tax cuts, could prove

that the U.S. government is committed to bailing out the flailing economy. If the economy does recover sooner and stronger than anticipated and confidence is restored in the market, I expect that companies will expand their IT spending, which would bode well for the fund.

*The views expressed in this report reflect those of the portfolio manager only through the end of the period of the report as stated on the cover. The manager's views are subject to change at any time based upon market or other conditions For more information, see page A-3*

**Fund Facts****Start date:** July 14, 1981**Fund number:** 064**Trading symbol:** FSPTX**Size:** as of February 28, 2001, more than \$3.2 billion

**Manager:** Larry Rakers, since 2000; manager, Fidelity Select Computers Portfolio and Fidelity Advisor Technology Fund, since 2000; Fidelity Advisor Natural Resources Fund, 1997-1999; several Fidelity Select Portfolios, 1995-1999; joined Fidelity in 1993

August 31, 2001, Semiannual Report, Chris Zepf, Portfolio Manager

**Technology Portfolio  
Performance and Investment Summary**

**Performance**

There are several ways to evaluate a fund's historical performance. You can look at the total percentage change in value, the average annual percentage change or the growth of a hypothetical \$10,000 investment. Total return reflects the change in the value of an investment, assuming reinvestment of the fund's dividend income and capital gains (the profits earned upon the sale of securities that have grown in value). Load adjusted returns include a 3.00% sales charge.

**Cumulative Total Returns**

Periods ended	Past 6	Past 1	Past 5	Past 10
August 31, 2001	months	year	years	years
Select Technology	-16.84%	-64.36%	138.92%	473.03%
Select Technology (load adj.)	-19.34%	-65.43%	131.76%	455.84%
S&P 500	-7.97%	-24.39%	86.97%	253.62%
GS Technology	-20.25%	-63.36%	100.08%	n/a**

**Cumulative total returns** show the fund's performance in percentage terms over a set period - in this case, six months, one year, five years or 10 years. You can compare the fund's returns to the performance of both the Standard & Poor's 500 Index - a market capitalization-weighted index of common stocks - and the Goldman Sachs Technology Index - a market capitalization-weighted index of 227 stocks designed to measure the performance of companies in the technology sector. Issues in the index include producers of sophisticated devices, services and software related to the fields of computers, electronics, networking and Internet services. These benchmarks include reinvestment of dividends and capital gains, if any, and exclude the effect of sales charges.

**Average Annual Total Returns**

Periods ended	Past 1	Past 5	Past 10
August 31, 2001	year	years	years
Select Technology	-64.36%	19.03%	19.07%
Select Technology (load adj.)	-65.43%	18.31%	18.71%
S&P 500	-24.39%	13.33%	13.46%
GS Technology	-63.36%	14.88%	n/a**

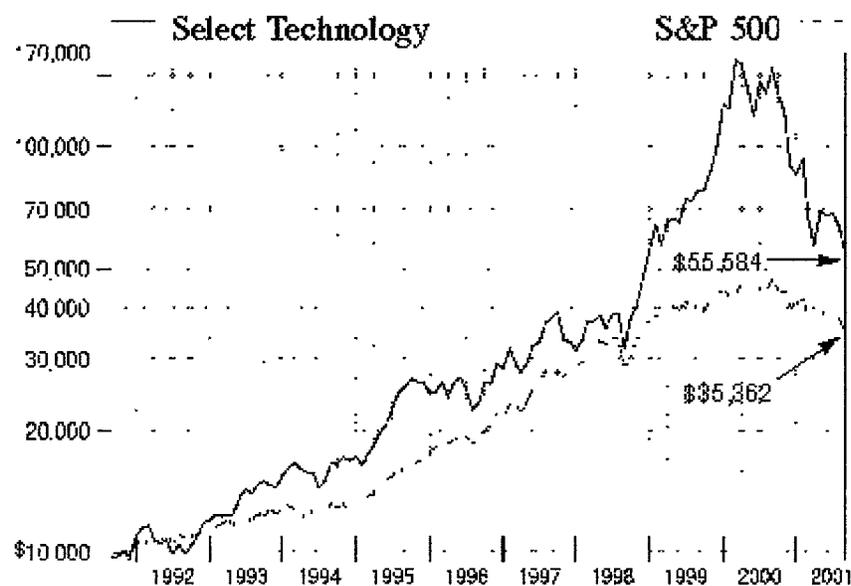
**Average annual returns** take the fund's cumulative return and show you what would have happened if the fund had performed at a constant rate each year.

\*\* Not available

## Understanding Performance

How a fund did yesterday is no guarantee of how it will do tomorrow. The stock market, for example, has a history of long-term growth and short-term volatility. Unlike the broader market, however, some sectors may not have a history of growth in the long run. And, as with all stock funds, the share price and return of a fund that invests in a sector will vary.

### \$10,000 Over 10 Years



**\$10,000 Over 10 Years:** Let's say hypothetically that \$10,000 was invested in Fidelity Select Technology Portfolio on August 31, 1991, and the current 3.00% sales charge was paid. As the chart shows, by August 31, 2001, the value of the investment would have grown to \$55,584 - a 455.84% increase on the initial investment. For comparison, look at how the Standard & Poor's 500 Index did over the same period. With dividends and capital gains, if any, reinvested, the same \$10,000 investment would have grown to \$35,362 - a 253.62% increase.

## Investment Summary

### Top Ten Stocks as of August 31, 2001

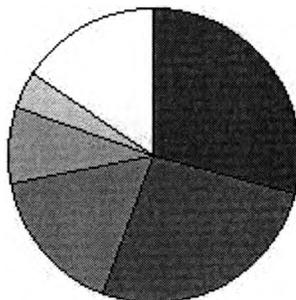
	% of fund's net assets
Microsoft Corp.	11.7
Intel Corp.	7.6
Cisco Systems, Inc	6.3
Oracle Corp.	2.8
Computer Associates International, Inc	2.5
Dell Computer Corp.	2.4
Brocade Communications System, Inc.	2.3

International Business Machines Corp.	2.0
Adobe Systems, Inc.	2.0
Flextronics International Ltd.	<u>1.8</u>
	<u>41.4</u>

### Top Industries as of August 31, 2001

% of fund's net assets

■ Semiconductor Equipment & Products	29.1%
■ Software	26.5%
□ Communications Equipment	16.2%
■ Computers & Peripherals	8.6%
□ Electronic Equipment & Instruments	4.0%
□ All Others *	15.6%



\* Includes short-term investments and net other assets.

*Semiannual Report*

### Technology Portfolio

#### Fund Talk: The Manager's Overview

(Portfolio Manager photograph)

**Note to shareholders:** Chris Zepf became Portfolio Manager of Fidelity Select Technology Portfolio on June 13, 2001.

#### Q. How did the fund perform, Chris?

A. It continued to be a difficult period for technology stocks. For the six months that ended August 31, 2001, the fund returned -16.84%. By comparison, the Goldman Sachs Technology Index - an index of 227 stocks designed to measure the performance of companies in the technology sector - fell 20.25% during the same period. The Standard & Poor's 500 Index returned -7.97%. For the 12 months that ended August 31, 2001, the fund

returned -64.36%, while the Goldman Sachs index and the S&P 500 declined 63.36% and 24.39%, respectively.

**Q. Why did technology stocks continue to underperform the broader market?**

A. One of the primary catalysts behind technology stock performance is capital spending and, as the economy continued to weaken during the period, companies lowered their budgets significantly. This lack of demand - combined with the excess inventory that had been built up within the sector over the past two years - made for a very challenging environment. Revenues fell faster than expenses for most technology companies, and even the few companies that were meeting earnings growth projections were penalized along with the rest of the group.

**Q. Were there any groups within the sector that offered good buying opportunities?**

A. I increased the fund's exposure to semiconductor stocks - which are basically the beginning of the technology food chain - because I felt the group would be among the first to rebound as fundamentals improved. This strategy boosted performance, as the fund's top four performers for the period, in order, were semiconductor stocks NVIDIA - which specializes in 3-D and high definition technologies - Intersil, Numerical Tech and Texas Instruments. Any other opportunities within the sector were driven more by timely trading than by emphasizing any one segment. There were many instances, for instance, in which we sold out of a stock when it met our price target so we could lock in gains for shareholders. A good example is Finisar, a company that sells optical components to the data networking industry. We increased the fund's exposure to the stock during the April price drop, and reduced its stake as the period progressed. Overall, Finisar contributed positively to the fund's return.

**Q. How would you describe your investing strategy?**

A. I place a premium on companies that are capturing share in their respective industries; companies that are well positioned in terms of product cycles; and companies that I feel are attractively valued. There was no definable leadership group within the tech sector during the period - that is, a group you could overweight and ride for steady returns - so I emphasized individual stock research and stayed true to my valuation discipline. Fidelity has approximately 46 technology analysts around the world, and I work with them very closely to stay on top of trends and end-user demand.

**Q. What types of changes have you made to the portfolio since taking over?**

A. One small change is that I've pared back on some of the fund's personal computer stocks, including Hewlett-Packard and Gateway. Overall, I felt that the PC industry had become relatively mature and that sales growth would slow. I did maintain significant weightings in both Intel and Dell Computer, both of which contributed positively during the period. I also added to the fund's stake in Microsoft, which was by far our largest position at the end of the period. I felt that Microsoft's product sales would hold up relatively well during the downturn, and I liked some of the products they have in the pipeline. The stock depreciated

slightly during the period. The fund did not own Hewlett-Packard or Gateway at the end of the period.

**Q. Which stocks were disappointments?**

A. The fund's stake in telecom equipment maker Ciena was a source of frustration. Ciena was one of the few companies to actually exceed earnings growth projections during the period, yet the stock still stumbled along with the rest of the telecommunications group. Other disappointments included Cisco Systems, EMC, Comverse Technology and Oracle.

**Q. What's your outlook for the next few months, Chris?**

A. As the period began, many sector followers were forecasting an economic upturn sometime later this year or in early 2002. However, in light of the tragic events that occurred in the U.S. last September 11, after the period ended, that forecast in all likelihood will be pushed out further. Important factors as we move ahead and try to regroup will be the continued unwinding of the inventory buildup we've seen within the group, as well as consumer spending patterns. I'll be keeping a close eye on both. I would remind shareholders that over extended periods of time, the technology industry has grown faster than Gross Domestic Product. We're still operating in a high-growth industry, even though it's been awfully tough to see that over the past 12-18 months.

*The views expressed in this report reflect those of the portfolio manager only through the end of the period of the report as stated on the cover. The manager's views are subject to change at any time based on market or other conditions. For more information, see page 3.*

**Fund Facts**

**Start date:** July 14, 1981

**Fund number:** 064

**Trading symbol:** FSPTX

**Size:** as of August 31, 2001, more than \$2.5 billion

**Manager:** Chris Zepf, since June 2001; manager, Fidelity Select Transportation and Fidelity Select Air Transportation Portfolios, 1998-2000; joined Fidelity in 1997

February 28, 2002, Annual Report, Sonu Kalra, Portfolio Manager

**Technology Portfolio  
Performance and Investment Summary**

**Performance**

There are several ways to evaluate a fund's historical performance. You can look at the total percentage change in value, the average annual percentage change or the growth of a hypothetical \$10,000 investment. Total return reflects the change in the value of an investment, assuming reinvestment of the fund's dividend income and capital gains (the profits earned upon the sale of securities that have grown in value). Load adjusted returns include a 3.00% sales charge.

**Cumulative Total Returns**

Periods ended	Past 1	Past 5	Past 10
February 28, 2002	year	years	years
Select Technology	-24 54%	70 74%	334 50%
Select Technology (load adj )	-26 80%	65 62%	321 47%
S&P 500	-9 51%	50 03%	228 19%
GS Technology	-26 53%	48 42%	n/a**

**Cumulative total returns** show the fund's performance in percentage terms over a set period - in this case, one year, five years or 10 years. You can compare the fund's returns to the performance of both the Standard & Poor's 500 Index - a market capitalization-weighted index of common stocks - and the Goldman Sachs Technology Index - a market capitalization-weighted index of 230 stocks designed to measure the performance of companies in the technology sector. Issues in the index include producers of sophisticated devices, services and software related to the fields of computers, electronics, networking and Internet services. These benchmarks include reinvestment of dividends and capital gains, if any, and exclude the effect of sales charges.

**Average Annual Total Returns**

Periods ended	Past 1	Past 5	Past 10
February 28, 2002	year	years	years
Select Technology	-24 54%	11 29%	15 82%
Select Technology (load adj )	-26 80%	10 62%	15 47%
S&P 500	-9 51%	8 54%	12 66%
GS Technology	-26 53%	8 22%	n/a**

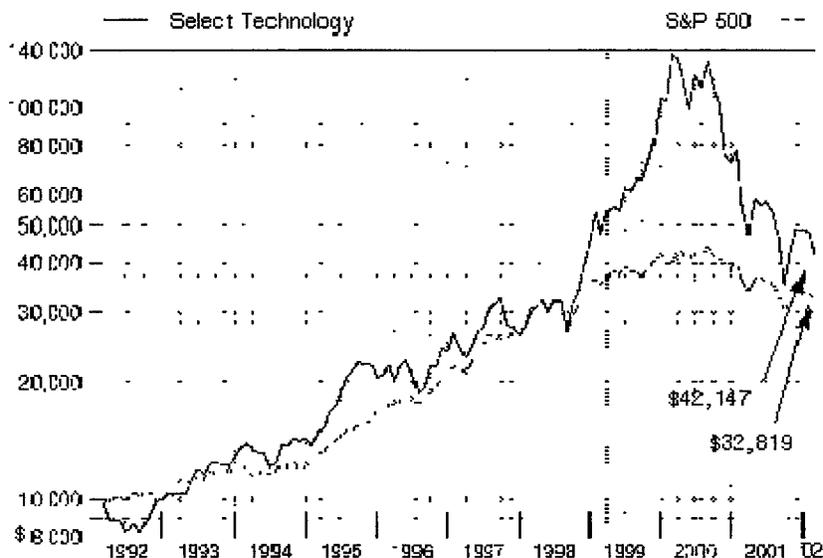
**Average annual returns** take the fund's cumulative return and show you what would have happened if the fund had performed at a constant rate each year.

\*\* *Not available*

## Understanding Performance

How a fund did yesterday is no guarantee of how it will do tomorrow. The stock market, for example, has a history of long-term growth and short-term volatility. Unlike the broader market, however, some sectors may not have a history of growth in the long run. And, as with all stock funds, the share price and return of a fund that invests in a sector will vary.

### \$10,000 Over 10 Years



**\$10,000 Over 10 Years:** Let's say hypothetically that \$10,000 was invested in Fidelity Select Technology Portfolio on February 28, 1992, and the current 3.00% sales charge was paid. As the chart shows, by February 28, 2002, the value of the investment would have grown to \$42,147 - a 321.47% increase on the initial investment. For comparison, look at how the Standard & Poor's 500 Index did over the same period. With dividends and capital gains, if any, reinvested, the same \$10,000 investment would have grown to \$32,819 - a 228.19% increase. The \$10,000 table and the fund's returns do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

## Investment Summary

### Top Ten Stocks as of February 28, 2002

	% of fund's net assets
Microsoft Corp	12.2
Intel Corp	6.5
AOL Time Warner, Inc	4.5
International Business Machines Corp	4.0
Dell Computer Corp	3.6
First Data Corp	2.6
VERITAS Software Corp	2.5
Brocade Communications System, Inc	2.3

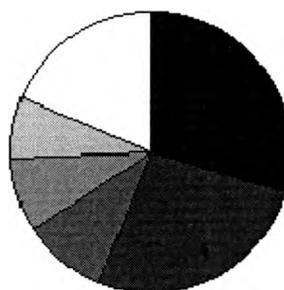
Micron Technology, Inc.	2.3
Motorola, Inc.	<u>2.3</u>
	<u>42.8</u>

### Top Industries as of February 28, 2002

% of fund's net assets

■ Semiconductor Equipment & Products	29.6%
■ Software	26.6%
■ Computers & Peripherals	9.7%
■ Commercial Services & Supplies	8.4%
■ Communications Equipment	6.9%
□ All Others*	18.8%

\* Includes short-term investments and net other assets.



*Annual Report*

### Technology Portfolio

#### Fund Talk: The Manager's Overview

(Portfolio Manager photograph)

**Note to shareholders:** Sonu Kalra became Portfolio Manager of Fidelity Select Technology Portfolio on February 15, 2002.

#### Q. How did the fund perform, Sonu?

A. For the one-year period that ended February 28, 2002, the fund returned -24.54%. In comparison, the Goldman Sachs Technology Index - an index of 230 stocks designed to measure the performance of companies in the technology sector - fell 26.53% during the same period, while the Standard & Poor's 500 Index declined 9.51%.

#### Q. What factors influenced fund performance relative to its benchmarks?

A. The past year encompassed two very different environments. Despite a rally heading into the summer, technology stocks generally trended lower, largely due to sharp declines in capital spending. The negative momentum came to a head from the first week in August

through September 21, as the economy continued to weaken and the markets absorbed the shock of the September 11 terrorist attacks. The fund lost considerable ground on the S&P 500 during this time because the index was cushioned to some extent by its broad diversification. In late September, partly in response to the Federal Reserve Board's aggressive easing of monetary policy, the broader market began a rally that carried through the end of the year. Technology stocks spearheaded this rally, and the fund was able to close much of the performance gap separating it from the S&P 500. An overweighting in Microsoft substantially helped our performance in the fourth quarter of 2001, but had essentially a neutral impact for the entire period under review. In terms of the Goldman Sachs index, while we were hurt by our exposure to the underperforming telecommunications equipment group, we benefited even more from our increased emphasis on several strong-performing mid-cap semiconductor stocks during the period.

**Q. What was the attraction of mid-cap semiconductor stocks?**

A. Semiconductor manufacturing is a very cyclical industry, and it was due for a recovery. The former portfolio managers were beginning to see signs that the inventory correction that caused revenues in the industry to tail off would soon work itself out. When they looked at the universe of semiconductor stocks, the mid-cap space - including names such as Fairchild Semiconductor and Marvell Technology - had the most attractive valuations compared with expected growth rates.

**Q. Can you discuss your management philosophy?**

A. I run the fund with a decidedly bottom-up orientation, getting to know each holding extremely well. For me, that means talking with suppliers and customers in addition to company management. I like to see strong market position, accelerating growth rates and improving profit margins, among other factors. I also have fairly strict sell criteria because no matter how good a company is, there is a valuation point at which its stock is no longer a good investment.

**Q. Which stocks helped performance? Which hurt?**

A. NVIDIA made the most positive contribution. The graphics microprocessor manufacturer performed well on the strength of several promising new products, including the chip that runs Microsoft's new video game console, the Xbox. Adobe Systems - a maker of desktop publishing software - benefited from an upgrade cycle for its popular Photoshop 7 application, as well as strong sales of its flagship Acrobat Reader product. Storage software stock VERITAS also did well, as storage of electronic information became a much higher priority after 9/11. On the down side, Motorola was the biggest detractor. We bought the stock because we had confidence that the company's restructuring program would rejuvenate earnings growth. However, Motorola's wireless handset sales were lower than expected due to slowing growth in the wireless market. Sun Microsystems suffered from a depressed market for its Unix servers. Data storage giant EMC encountered severe pricing pressure on its products due to increased competition, while optical networking equipment provider CIENA felt the brunt of the telecom slump. Some stocks I've mentioned were no longer held by the fund at the end of the period.

**Q. What's your outlook, Sonu?**

A. We're starting to see some signs of improvement in the economy, which tells me it's time to get a bit more aggressive. I want to be sure the fund participates in a recovery and is not left behind. Until then, generally rich valuations could limit upside progress in the sector, meaning that stock selection will assume an even greater importance than usual. Given the cyclical nature of many tech firms, those that can benefit from the "sweet spot" of product development cycles should be especially attractive.

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**Fund Facts**

**Start date:** July 14, 1981

**Fund number:** 064

**Trading symbol:** FSPTX

**Size:** as of February 28, 2002, more than \$2.2 billion

**Manager:** Sonu Kalra, since February 2002; manager, Fidelity Advisor Technology Fund, since February 2002; analyst, various industries, since 1998; joined Fidelity in 1998

*Annual Report*

August 31, 2002, Semiannual Report, Sonu Kalra, Portfolio Manager

**Technology Portfolio  
Performance and Investment Summary**

**Performance**

There are several ways to evaluate a fund's historical performance. You can look at the total percentage change in value, the average annual percentage change or the growth of a hypothetical \$10,000 investment. Total return reflects the change in the value of an investment, assuming reinvestment of the fund's dividend income and capital gains (the profits earned upon the sale of securities that have grown in value). Load adjusted returns include a 3.00% sales charge.

**Cumulative Total Returns**

Periods ended	Past 6	Past 1	Past 5	Past 10
August 31, 2002	months	year	years	years
Select Technology	-29.40%	-35.94%	-5.51%	261.66%
Select Technology (load adj )	-31.52%	-37.86%	-8.34%	250.81%
S&P 500	-16.60%	-18.00%	9.01%	168.68%
GS Technology	-31.32%	-36.73%	-23.18%	n/a**

**Cumulative total returns** show the fund's performance in percentage terms over a set period - in this case six months, one year, five years or 10 years. You can compare the fund's returns to the performance of both the Standard & Poor's 500 Index - a market capitalization-weighted index of common stocks - and the Goldman Sachs Technology Index - a market capitalization-weighted index of 216 stocks designed to measure the performance of companies in the technology sector. Issues in the index include producers of sophisticated devices, services and software related to the fields of computers, electronics, networking and Internet services. These benchmarks include reinvestment of dividends and capital gains, if any, and exclude the effect of sales charges.

**Average Annual Total Returns**

Periods ended	Past 1	Past 5	Past 10
August 31, 2002	year	years	years
Select Technology	-35.94%	-1.13%	13.72%
Select Technology (load adj )	-37.86%	-1.73%	13.37%
S&P 500	-18.00%	1.74%	10.39%
GS Technology	-36.73%	-5.14%	n/a**

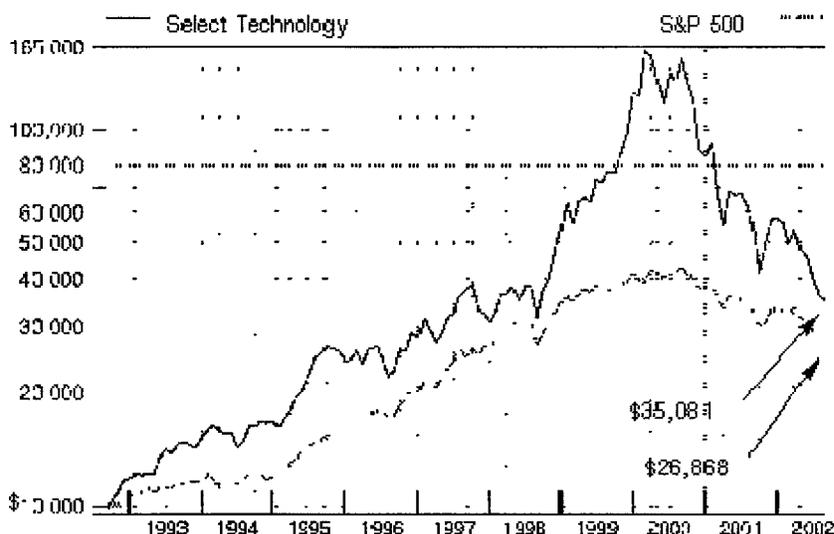
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### \$10,000 Over 10 Years



**\$10,000 Over 10 Years:** Let's say hypothetically that \$10,000 was invested in Fidelity Select Technology Portfolio on August 31, 1992, and the current 3.00% sales charge was paid. As the chart shows, by August 31, 2002, the value of the investment would have grown to \$35,081 - a 250.81% increase on the initial investment. For comparison, look at how the Standard & Poor's 500 Index did over the same period. With dividends and capital gains, if any, reinvested, the same \$10,000 investment would have grown to \$26,868 - a 168.68% increase. The \$10,000 table and the fund's returns do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

### Investment Summary

#### Top Ten Stocks as of August 31, 2002

	% of fund's net assets
Microsoft Corp.	14.1
Cisco Systems, Inc.	7.1
Intel Corp.	6.9
Dell Computer Corp.	6.7
International Business Machines Corp.	4.3
Motorola, Inc	3.4
First Data Corp.	3.1
Texas Instruments, Inc.	2.8

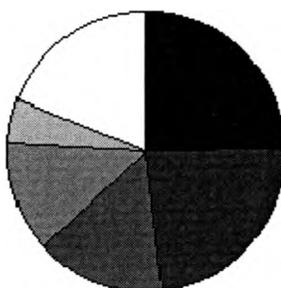
Micron Technology, Inc.	2.6
Quest Software, Inc.	<u>2.3</u>
	<u>53.3</u>

### Top Industries as of August 31, 2002

% of fund's net assets

■ Semiconductor Equipment & Products	24.9%
■ Software	23.2%
■ Computers & Peripherals	15.0%
■ Communications Equipment	12.7%
■ Commercial Services & Supplies	5.0%
□ All Others*	19.2%

\* Includes short-term investments and net other assets.



*Semiannual Report*

## Technology Portfolio

### Fund Talk: The Manager's Overview

(Portfolio Manager photograph)

Sonu Kalra, Portfolio Manager of Fidelity Select Technology Portfolio

#### Q. How did the fund perform, Sonu?

A. For the six months ending August 31, 2002, the fund returned -29.40%. That performance trailed the 16.60% decline of the broadly based Standard & Poor's 500 Index, but outperformed the -31.32% mark of the Goldman Sachs Technology Index - an index of 216 stocks designed to measure the performance of companies in the technology sector. For the one-year period ending August 31, 2002, the fund fell 35.94%, while the S&P 500 and Goldman Sachs indexes lost 18.00% and 36.73%, respectively.

#### Q. What affected the fund's results relative to its benchmarks during the past six months?

A. Technology was by far one of the weakest areas of the market. Coming into 2002, technology valuations were high after the previous year-end rally. Once it became clear that the information technology (IT) spending recovery would be delayed significantly, tech stocks sold off sharply, resulting in our underperformance compared with the S&P 500. While the fund suffered from its exposure to the weak communications equipment group versus the Goldman Sachs index, it benefited from emphasizing stronger-performing semiconductor and software stocks, as well as avoiding many of the period's worst blowups.

**Q. Why did you overweight semiconductors and software?**

A. Semiconductor stocks had been hit hard following the September 11 terrorist attacks. Since the personal computer market accounts for approximately 40% of the demand for semiconductors and I was looking for an eventual improvement in PC sales, it made sense to favor semiconductor stocks. While this positioning helped the fund during the first quarter of 2002 when chip companies began restocking their inventories, it hurt later in the period, when investors feared a lack of growing end-demand. In software, Microsoft accounted for much of the fund's overweighting, as this stock also tends to benefit from strong personal computer sales. Although a top detractor in absolute terms, Microsoft gave us a sizable boost relative to the Goldman Sachs index as the stock declined less than the index due to more stable earnings.

**Q. You began managing the fund in February. Can you review your investment approach?**

A. Given my emphasis on careful stock selection through in-depth, bottom-up research, I think it's fair to say that my approach is typical of Fidelity portfolio managers. I'm particularly fanatical about verifying information first-hand by talking to customers, suppliers and salespeople. I also have made extensive use of Fidelity's network of more than 40 technology analysts worldwide. Since the technology "food chain" starts in Asia - that is, Asia is a significant source for many technology hardware components - I value the ability to confirm the information we gather here in the U.S. through our research sources in Asia.

**Q. What other stocks influenced performance?**

A. Chip stocks were among the fund's top contributors, including mid-caps Fairchild Semiconductor, Marvell Technology, Integrated Circuit Systems and Silicon Laboratories, helped by a cyclical upturn in demand early in the period. However, the fund no longer held Fairchild Semiconductor and Integrated Circuit Systems at period end. ChoicePoint - a provider of risk management and fraud prevention services primarily for insurance companies - gained as investors identified it as a likely beneficiary of the increased emphasis on information security. Dell was another good stock for us, as it continued to navigate the PC-industry downturn, riding market-share gains and expansion into new markets. Underweighting Oracle also helped, as the slumping enterprise software giant faced a delayed revival in IT spending. On the down side, AOL Time Warner was a major detractor, due in part to a weak online advertising environment and the market's negative sentiment toward cable companies in the wake of the Adelphia Communications bankruptcy. A tough IT environment and delays in the company's restructuring program plagued Motorola, while Micron Technology eventually succumbed to softening demand for its memory chips. IBM

retreated on sharply reduced earnings and questions about its accounting procedures. Finally, optical networking play Finisar struggled amid a prolonged slump in telecom equipment spending.

**Q. What's your outlook?**

A. Looking at the longer-term picture, tech stocks have been declining for more than two years and several have fallen back to 1997 levels. I don't foresee a quick return to the glory days of the late 1990s since IT spending is tied to product cycles, and right now there doesn't appear to be a blockbuster application on the horizon that would generate the excitement - and the massive IT spending - that we saw in response to the Y2K changeover and the buildout of the Internet. Nevertheless, I believe technology will remain a driving force behind the economy and IT spending should recover as corporate profits improve.

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**Fund Facts**

**Start date:** July 14, 1981

**Fund number:** 064

**Trading symbol:** FSPTX

**Size:** as of August 31, 2002, more than \$1.4 billion

**Manager:** Sonu Kalra, since February 2002; manager, Fidelity Advisor Technology Fund, since February 2002; analyst, various industries, since 1998; joined Fidelity in 1998

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## VITA

Teri Kenny Speece was born in Decorah, Iowa on June 23, 1971, the daughter of Janet Elaine Slade and Patrick Henry Kenny. After graduating from Holbrook High School, Holbrook, Arizona, in 1989, Ms. Speece entered Northern Arizona University in Flagstaff, where she earned the degree of Bachelor of Science, Journalism, in May 1993. She moved to San Antonio, Texas in 1995 following a brief stint in marketing for the casino gaming industry. During the following years she was employed in a variety of marketing and technical communication positions, the primary duties of which included developing business proposals for the architecture and engineering disciplines and grant proposals for the University of Texas Health Science Center at San Antonio. She currently is employed as a business architect for e-commerce marketing at USAA, a Fortune 200 financial services company in San Antonio. In January 2001, she entered the Graduate College of Texas State University-San Marcos.

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