

Fidelity Select Food & Agriculture FDFAX

Analyst Report

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This fund makes a strong case for itself as a small part of an investor's portfolio.

Fidelity Select Food & Agriculture Portfolio has been crushing the competition lately. Thanks to double-digit gains from top-10 holdings such as Coca-Cola KO, Anheuser-Busch BUD, and Kraft Foods KFT, the fund has posted only a nominal loss for the year to date through Aug. 26, while the S&P 500 index has dropped nearly 17%.

The fund's success owes in large part to its focus on consumables. As its name suggests, the fund invests in food- and beverage-distribution stocks, as well as restaurants, grocers, and companies that make agricultural products. These stocks have outperformed the market recently, as demand for their products is less dependent on the economy than it is for companies from other areas such as tech and telecom. Indeed, the consumer-staples and retail sectors, home to more than 90% of the fund's stock holdings, have been the best-performing sectors over the past 12 months.

It would be unwise to attribute all of the fund's success to being in the right place at the right time: Manager Gail Lese has smartly overweighted Coke, citing management's decision to expense options as a reason. She has also avoided struggling General Mills GIS, in part because it has had trouble integrating its acquisition of Pillsbury.

Still, investors shouldn't expect the fund to shine in all economic environments. When the economy was rolling along in the late 1990s, investors shunned food stocks for the higher growth rates that tech and health-care stocks offered. Witness the fund's 20% loss in 1999 as an example of how it can falter when the economy is booming. It also struggled in the economic resurgence in 1992 and 1993.

The fund's narrow mandate and uneven returns limit its appeal, but given its ability to thrive when the broader equity market struggles, investors should consider making it a minor holding in a portfolio.

Kudos

Holds up well in weak economic environments.

Fidelity's deep research bench means stock picks are usually on the money.

Risks

Returns will tend to look lackluster in periods of robust economic growth

Strategy

This offering focuses on consumables—food, beverage, and tobacco stocks—and the retailers and restaurants that sell them. When it comes to picking stocks, manager Gail Lese seeks companies that show improvement in volume or pricing and that have top-quality management.

Management

Like most Fidelity Select funds, this one has shuffled through its share of managers over the years. Lese, the current boss, took charge in early 2001. Prior to assuming responsibility here, she was a Fidelity analyst. She is also an M.D.

Role in Portfolio

Supporting Player: This fund's unusual mandate might limit its appeal to many investors, but it could be a decent complement to a tech-heavy portfolio.