INVESTING IN EQUITIES WITH SECTORS
1. WHAT ARE SECTORS?

2. SOME KEY BENEFITS OF USING SECTORS

3. USING SECTORS TO HELP ACHIEVE YOUR INVESTMENT GOALS
The most common classification—the Global Industry Classification Standard (GICS)—breaks the equity universe into 11 major sectors:

- Communication Services
- Consumer Discretionary
- Consumer Staples
- Energy
- Financials
- Health Care
- Industrials
- Information Technology
- Materials
- Real Estate
- Utilities
WHAT ARE SECTORS?

The equity market is composed of the stocks of thousands of companies. To analyze and better understand market dynamics, professional investors often group companies based on their type of business. These groupings are typically called sectors.
Because of their targeted focus, sectors have distinct characteristics. If added to your portfolio, these characteristics may help you know what you own, add some diversification, and better understand your risk exposure.
Know what you own.
Consistent classification and performance drivers

While style groupings can change (e.g., a company can go from growth to value), a company’s sector classification usually stays the same, making it easier to understand and analyze your portfolio.

And because companies within a sector are alike, they tend to perform similarly, enabling investors to identify areas of opportunity given economic conditions.

Time period from January 2010 through December 2019 only. Includes firms in the S&P 500 for the full calendar year. Source: Fidelity Investments, Morningstar Direct, as of 12/31/2019.

Potentially help diversify.
Independent Sector Performance

Sectors don’t always respond to the economy in the same way. Additionally, sector-specific factors can influence their performance differently, causing them to move out of sync with each other. That low correlation can potentially add diversification to a portfolio.

Sector Correlations, 2000–2019

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<tr>
<td>Comm. Services</td>
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<td>0.83</td>
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<td>Info. Tech</td>
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<td>Materials</td>
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<td>0.35</td>
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<td>1.00</td>
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</table>

Source: Fidelity Investments, as of 12/31/2019. U.S. equity market is represented by the top 3,000 U.S. stocks as measured by market capitalization and sectors are defined by the GICS. Correlation coefficient is the interdependence of two random variables that range in value from −1 to +1, indicating perfect negative correlation at −1, absence of correlation at 0, and perfect positive correlation at +1.
Easily identify risk exposure.

Clear volatility patterns

Because sector performance is typically tied to the economic environment, sectors often have clear patterns of volatility. You can use these patterns to choose sectors based on your risk tolerance and investment goals.

The chart below represents the volatility of sectors as compared with the market as a whole. If market volatility averaged 15% during that period (white bar on the chart), sectors with higher percentages were more volatile, and sectors with lower percentages were less volatile.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Average sector standard deviation from 2000–2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Technology</td>
<td>24.8%</td>
</tr>
<tr>
<td>Energy</td>
<td>21.2%</td>
</tr>
<tr>
<td>Materials</td>
<td>20.6%</td>
</tr>
<tr>
<td>Financials</td>
<td>20.2%</td>
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<tr>
<td>Real Estate</td>
<td>19.2%</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>18.8%</td>
</tr>
<tr>
<td>Communication Services</td>
<td>18.3%</td>
</tr>
<tr>
<td>Industrials</td>
<td>18.0%</td>
</tr>
<tr>
<td>U.S. Equity Market</td>
<td>15.0%</td>
</tr>
<tr>
<td>Utilities</td>
<td>14.6%</td>
</tr>
<tr>
<td>Health Care</td>
<td>13.6%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>11.3%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>19.2%</td>
</tr>
</tbody>
</table>

Based on your outlook, you can invest in sectors that have higher volatility or lower volatility than the market.

Source: Fidelity Investments, as of 12/31/2019. U.S. equity market sector volatility is represented by the standard deviation of the top 3,000 U.S. stocks as measured by market capitalization, and as defined by the GICS, from 1/1/2000 to 12/31/2019. Standard deviation measures the historical volatility of a fund. The greater the standard deviation, the greater the fund’s volatility.


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**STAY CONNECTED**

**WHAT TO WEAR**

**DAILY ROUTINE**

**GETTING AROUND**

**THE AMERICAN DREAM**

**What is this sector?**

**Communication Services**

Companies that facilitate communication or provide access to entertainment content and other information through various types of media.

**Consumer Discretionary**

Consumer companies that are sensitive to economic cycles, such as auto makers, retailers, apparel makers, and restaurants.

**Consumer Staples**

Consumer industries that are less sensitive to the economy, such as food and beverage, supermarkets, and household products.

**Energy**

Companies that produce, refine, or market energy.

**Financials**

Financial services, such as banking, lending, brokers, and insurance.

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**What it means to me.**

**We can’t live without our cell phones or internet connection, but when the economy is slumping, we may reconsider our premium channel and gaming subscriptions.**

**In good times, we go shopping for new clothes. When times are lean, we reach into our closets.**

**We brush our teeth, wash our clothes, and eat our groceries even during tough times.**

**When times are tight, we take fewer road trips to conserve gas.**

**Feeling secure, we buy a vacation home. Worried about the economy, we pay down our credit cards.**

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**Sector performance is often influenced by the economy:**

**Economically sensitive**

- Tends to outperform the broad market when the economy is growing
- Tends to underperform the broad market when the economy is slowing or shrinking

**Economically insensitive**

- Tends to outperform the broad market when the economy is slowing or shrinking
- Tends to underperform the broad market when the economy is growing

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**AS CONSUMERS, we drive the demand for goods and services that sectors produce.**

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**Companies that facilitate communication or provide access to entertainment content and other information through various types of media.**

**Consumer companies that are sensitive to economic cycles, such as auto makers, retailers, apparel makers, and restaurants.**

**Consumer industries that are less sensitive to the economy, such as food and beverage, supermarkets, and household products.**

**Companies that produce, refine, or market energy.**

**Financial services, such as banking, lending, brokers, and insurance.**
<table>
<thead>
<tr>
<th>Health Care</th>
<th>Industrials</th>
<th>Information Technology</th>
<th>Materials</th>
<th>Real Estate</th>
<th>Utilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and services provided by pharmaceutical firms, hospital management firms, HMOs, and medical products.</td>
<td>Businesses that distribute durable goods or provide transportation or commercial services.</td>
<td>Companies that offer goods and services, including hardware, software, semiconductors, and consulting services.</td>
<td>Corporations that supply synthetic materials, such as chemicals and plastics, or raw materials, such as metals or timber.</td>
<td>Companies that own, operate, or develop commercial real estate properties, such as offices, malls, or warehouses.</td>
<td>Companies that produce and deliver electric power, natural gas, or water.</td>
</tr>
</tbody>
</table>

We visit the doctor, take our medicine, or have surgery regardless of the state of the economy. When times are good, we may take more long-distance vacations, increasing demand for air travel. When times are lean, staycations are the norm. When wallets are fat, we buy the newest tablet or laptop with a touch screen, yet when pocketbooks are tight, we make do with the old. When our net worth looks good, we build homes or buy cars. Conversely, when we are less secure, we try to save. Demand for office and retail space rises in good times when companies hire and consumers are spending. We rarely cut back on electricity or water even during lean times.

**AS INVESTORS,** we can use sectors to help drive our portfolio performance.

Past performance is no guarantee of future results. Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. A sector fund may have additional volatility because it can invest a significant portion of assets in securities of a small number of individual issuers. Each sector fund is also subject to the additional risks associated with its particular industry.
Investing by business cycle

One of the most common ways investors analyze and assess sector opportunities is by aligning sector performance with the business or economic cycle. Economies predictably cycle through four stages as they expand, slow, and finally contract. Individual sectors may respond differently in each of those stages. Knowing what cycle the economy is in allows you to invest in the sectors that have historically outperformed.

For Fidelity’s perspective on where we are in the business cycle, go to Fidelity.com/QSU.

Every business cycle is different, and so are the relative performance patterns among equity sectors. While past performance is no guarantee of future results, using a disciplined business cycle approach makes it possible to identify key phases in the economy and use those signals in an effort to achieve above-market returns.

Note: The typical business cycle shown above is a hypothetical illustration. There is not always a chronological progression in this order, and there have been cycles when the economy has skipped a phase or retraced an earlier one.

Source for sector performance during business cycle: Fidelity Investments (AART), as of 3/31/2019. Sectors shown in the shaded areas of the business cycle have underperformed versus the U.S. equities market during a particular phase of the business cycle, from 1962–2016. Annualized returns are represented by the performance of the top 3,000 U.S. stocks measured by market capitalization, and sectors are defined by the Global Industry Classification Standard (GICS). Past performance is no guarantee of future results.
SOME KEY BENEFITS OF USING SECTORS
USING SECTORS TO HELP ACHIEVE YOUR INVESTMENT GOALS

Sector funds can be useful tools in helping you and your financial consultant target your specific investment goals. By adding specific sectors to your existing portfolio, your financial consultant can offer an opportunity to enhance returns, manage risk, and protect against inflation. It’s important to keep in mind that, because of their narrow focus, some sector funds can be more volatile than diversified equity funds.
Opportunistic strategy

OUTLOOK: You anticipate a growing economy.
GOAL: Potentially enhance returns.
TO DO: Invest in a sector that:
  • Tends to outperform the market when the economy is growing
  • Has higher volatility

Preemptive strategy

OUTLOOK: You expect rising inflation.
GOAL: Help protect your buying power.
TO DO: Invest in a sector that:
  • Usually outperforms the market when the growing economy leads to inflation
  • Has ties to the prices of raw materials or real assets
Defensive strategy

OUTLOOK: You see a slowing economy.
GOAL: Reduce volatility and risk.
TO DO: Invest in a sector that:
  • Typically outperforms the market when the economy is slowing
  • Has low volatility

Utilities
Health Care
Consumer Staples
The Fidelity advantage:

A PIONEER IN SECTOR INVESTING

In 1981, Fidelity launched its first sector fund, showcasing the breadth and depth of our research and investment capabilities. Today, sector-based research remains the foundation of our asset management approach. We invest heavily in our capabilities, and our sector funds are evidence of that investment.

TODAY FIDELITY HAS:

- The largest lineup of actively managed sector and industry mutual funds
- Some of the lowest-priced sector ETFs available, covering all 11 sectors
- Expert insight and ideas, and more than 35 years of sector fund investing experience
- Powerful sector research, education, and tools

NEXT STEPS:

1. Identify your investing goals.
3. Call a Fidelity Investments financial consultant at 800.FIDELITY.
4. Visit a Fidelity Investor Center.
5. Choose the appropriate sector strategy to help meet your goals.

COMMUNICATION SERVICES

DIVERSIFIED
Fidelity® Select Communication Services (FBMPX)
Fidelity® MSCI Communication Services Index ETF (FCOM)

TARGETED
Fidelity® Select Telecommunications (FSTCX)
Fidelity® Select Wireless (FWRLX)
ETFs are listed in italics.

### CONSUMER DISCRETIONARY

**DIVERSIFIED**
- Fidelity® Select Consumer Discretionary (FSCPX)
- Fidelity® MSCI Consumer Discretionary Index ETF (FDIS)

**TARGETED**
- Fidelity® Select Automotive (FSAVX)
- Fidelity® Select Construction and Housing (FSHOX)
- Fidelity® Select Leisure (FDLSX)
- Fidelity® Select Retailing (FSRPX)

### CONSUMER STAPLES

**DIVERSIFIED**
- Fidelity® Select Consumer Staples (FDFAX)
- Fidelity® MSCI Consumer Staples Index ETF (FSTA)

### ENERGY

**DIVERSIFIED**
- Fidelity® Select Energy (FSENX)
- Fidelity® MSCI Energy Index ETF (FENY)

**TARGETED**
- Fidelity® Select Energy Service (FSESX)
- Fidelity® Select Natural Gas (FSNGX)
- Fidelity® Select Natural Resources (FNARX)

### FINANCIALS

**DIVERSIFIED**
- Fidelity® Select Financial Services (FIDSX)
- Fidelity® MSCI Financials Index ETF (FNCL)

**TARGETED**
- Fidelity® Select Banking (FSRBX)
- Fidelity® Select Brokerage & Inv Management (FSLBX)
- Fidelity® Select Consumer Finance (FSVLX)
- Fidelity® Select Insurance (FSPCX)

### HEALTH CARE

**DIVERSIFIED**
- Fidelity® Select Health Care (FSPHX)
- Fidelity® MSCI Health Care Index ETF (FHLC)

**TARGETED**
- Fidelity® Select Biotechnology (FBIOX)
- Fidelity® Select Health Care Services (FSHCX)
- Fidelity® Select Medical Technology and Devices (FSMEX)
- Fidelity® Select Pharmaceuticals (FPHAX)

### INDUSTRIALS

**DIVERSIFIED**
- Fidelity® Select Industrials (FCYIX)
- Fidelity® MSCI Industrials Index ETF (FIDU)

**TARGETED**
- Fidelity® Select Air Transportation (FSAIX)
- Fidelity® Select Defense and Aerospace (FSDAX)
- Fidelity® Select Environment and Alternative Energy (FSLEX)
- Fidelity® Select Transportation (FSRFX)

### INFORMATION TECHNOLOGY

**DIVERSIFIED**
- Fidelity® Select Technology (FSPTX)
- Fidelity® MSCI Information Technology Index ETF (FTEC)

**TARGETED**
- Fidelity® Select Communications Equipment (FSDCX)
- Fidelity® Select Computers (FDCPX)
- Fidelity® Select IT Services (FBSOX)
- Fidelity® Select Semiconductors (FBSOX)
- Fidelity® Select Software and IT Services (FSCSX)

### MATERIALS

**DIVERSIFIED**
- Fidelity® Select Materials (FSDPX)
- Fidelity® MSCI Materials Index ETF (FMAT)

**TARGETED**
- Fidelity® Global Commodity Stock (FFGCX)
- Fidelity® Select Chemicals (FSCHX)
- Fidelity® Select Gold (FSAGX)

### REAL ESTATE

**DIVERSIFIED**
- Fidelity® Real Estate Index (FRXIX)
- Fidelity® Real Estate Investment (FRESX)
- Fidelity® MSCI Real Estate Index ETF (FREL)

**TARGETED**
- Fidelity® International Real Estate (FIREX)
- Fidelity® Real Estate Income (FRIFX)

### UTILITIES

**DIVERSIFIED**
- Fidelity® Select Utilities (FSUTX)
- Fidelity® MSCI Utilities Index ETF (FUTY)

**TARGETED**
- Fidelity® Telecom and Utilities (FIUIX)
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Investment decisions should be based on an individual's own goals, time horizon, and tolerance for risk.

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