THE POWER OF DIVIDEND GROWERS vs. DIVIDEND CUTTERS IN YOUR INVESTMENT PORTFOLIO

by Mark Bentley, Executive Vice President, BTS Asset Management

Dividend growers, companies that consistently increase their dividend payouts, have a history of outperforming their counterparts while offering a lower level of volatility.* These companies weather market turbulence well and can serve as a hedge against rising costs while generating attractive income opportunities with the potential for growth.

BTS® FUNDS

**Source Bloomberg. 12/31/1999 to 12/31/2023.*

Find Opportunity

THE POWER OF DIVIDEND GROWERS vs. DIVIDEND CUTTERS IN YOUR INVESTMENT PORTFOLIO

by Mark Bentley, Executive Vice President, BTS Asset Management

In a financial landscape marked by persistent inflation, it's important to consider the advantages of dividend growth investing within a diversified portfolio. This article delves into the compelling case for incorporating dividend growers into your investment strategy, contrasting them with dividend cutters. Dividend growers, companies that consistently increase their dividend payouts, have a history of outperforming their counterparts while offering a lower level of volatility. These companies weather market turbulence well and can serve as a hedge against rising costs while generating attractive income opportunities with the potential for growth.

Distinguishing Features of Dividend Growers

1

Strong Performance and Lower Risk:

- Historical data reveals that dividend growers have consistently outperformed non-dividend paying companies while exhibiting less volatility.
- Companies with a track record of persistent dividend growth have provided competitive returns, especially during periods of market uncertainty.

Source Bloomberg. 12/31/1999 to 12/31/2023.

2

Resilience to Economic Challenges:

- Dividend growth companies have proven to be less sensitive to rising interest rates and inflation, often outshining other dividend categories.

Source Bloomberg. 12/31/1999 to 12/31/2023.

3

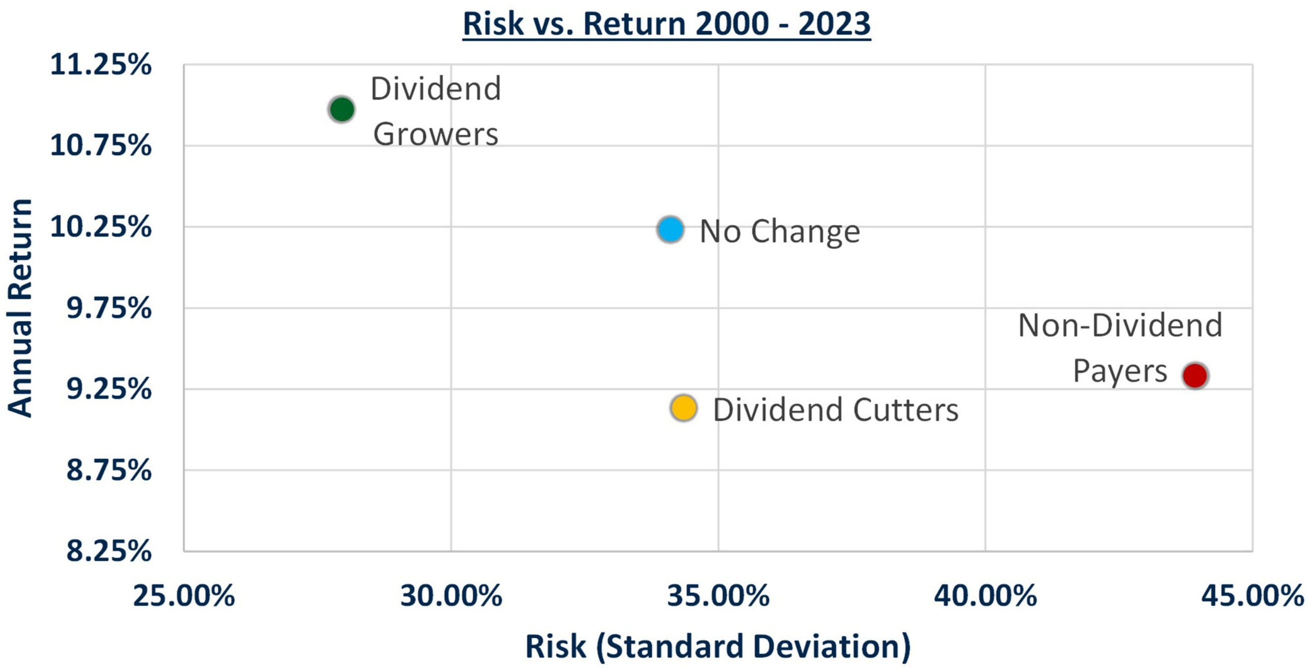
Outperformance in Various Market Environments:

- Over the long term, dividend growers have delivered desirable returns with lower risk compared to companies that maintain their dividends, pay no dividends, or reduce/eliminate them.

Source Bloomberg. 12/31/1999 to 12/31/2023.

The Role of Dividends in Equity Total Return

While dividends are not guaranteed and can fluctuate, they have historically contributed significantly to equity total return over the decades. We believe the income generated by dividends complements capital appreciation strategies by reducing volatility and contributing to overall returns. This is particularly valuable in times of market turbulence, as companies with robust balance sheets and the financial strength to support dividend growth can help mitigate volatility.



Source Bloomberg. 12/31/1999 to 12/31/2023. Results are obtained by considering the constituents of the S&P 500 at the last trading day of each year between 12/31/1999 and 12/31/2022. At the last trading day of each year, each stock is categorized by their 1-year gross dividend growth rate and dividend yield for the entire current year. Stocks with a positive 1-year dividend growth rate and positive dividend yield are considered Dividend Growers. Stocks with a negative 1-year dividend growth rate and positive dividend yield are considered Dividend Cutters. Stocks with a 1-year dividend growth rate of 0 and a positive dividend yield are considered No Change. Stocks without a 1-year dividend growth rate or dividend yield are considered Non-Dividend Payers. The next year returns for each of these stocks in their respective categories are compiled for each year based on the categorization at the last trading day of each year between 1999 and 2022 (the first-year returns are from 12/31/1999 to 12/31/2000 and the final year returns are from 12/31/2022 to 12/31/2023). The average return of each category is plotted on the y-axis and the standard deviation of each category's returns are plotted on the x-axis, both measured in percentages. Past performance is no guarantee of future performance. For illustration purposes only.

The Balance of Dividend Yield and Growth

Dividend-paying stocks with both yield and consistent dividend growth are generally considered high-quality investments. They effectively balance regular dividend payments with reinvestment in capital for future growth initiatives. Surprisingly, stocks with the highest payout ratios have not been the best long-term performers. Over the past 20 years, companies with medium and medium-high payout ratios have demonstrated favorable performance.

The Attractiveness of Valuations

Not all dividend-paying companies are created equal. In our assessment, investors should favor those with sustainable payout ratios, healthy balance sheets, and a proven track record of responsible capital allocation, including returning capital to shareholders in the form of a growing dividend. In our opinion, focusing on these fundamentals is vital in tempering risks with inflation and higher interest rates expected to squeeze profit margins.

Performance After Interest Rate Increases

The historical data is clear: U.S. equity markets have performed well in previous tightening cycles. Notably, dividend growers and initiators within the S&P 500 have consistently outperformed others following Federal Reserve interest rate hikes *(Source Bloomberg. 12/31/1999 to 12/31/2023)*.

The Importance of Dividend Growers in a Diversified Portfolio

As we look to the future, many companies are well-positioned to continue increasing their dividends. We believe, investing in companies with sustainable dividend growth not only boosts total returns and may reduce portfolio volatility but also offers a growing income stream. This combination of solid capital flexibility and increasing dividend payments can act as a buffer against inflationary pressures and the impact of higher interest rates.

The Importance of Dividend Growers in a Diversified Portfolio (continued)

The historical performance of dividend growers and their resilience to market challenges make a compelling case for considering them in a diversified investment portfolio. With strong balance sheets and a history of sustained dividend growth, these companies could provide a sturdy foundation for investors looking to navigate uncertain financial terrain while reaping the benefits of consistent income and long-term growth potential.

Disclosure

Investors should carefully consider the investment objectives, risks, charges, and expenses of the BTS Funds. This and other information about the Funds is contained in the prospectus and should be read carefully before investing. The prospectus can be obtained on our web site, www.btsfunds.com, by calling toll free 1-877-287-9820 (1-877-BTS -9820), or by calling your financial representative. The BTS Funds are distributed by Northern Lights Distributors, LLC, Member FINRA/SIPC. BTS Asset Management, Inc. is not affiliated with Northern Lights Distributors, LLC.

Past performance is no guarantee of future results.

Important Risks

Diversification does not ensure a profit or guarantee against loss. Mutual funds involve risk, including possible loss of principal. There is no assurance that the Fund will achieve its investment objective. Investors cannot invest directly in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges.

The material provided herein has been provided by BTS Asset Management and is for informational purposes only." "This commentary has been prepared for informational purposes only and should not be construed as an offer to sell or the solicitation to buy securities or adopt any investment strategy, nor shall this commentary constitute investment advice. This commentary may contain opinions and assumptions that are forward-looking in nature. To the extent this material constitutes an opinion or assumption, recipients should not construe it as a substitute for the exercise of independent judgment. This material has been prepared from information believed to be reliable, but BTS Asset Management, Inc. makes no representations as to its accuracy or reliability. Past performance is no guarantee of future results. The views and opinions expressed herein are subject to change without notice and are the authors own and not necessarily that of BTS Asset Management, Inc.

Equity Risk

Equity securities are susceptible to general stock market fluctuations and to volatile increases and decreases in value. The equity securities held by the Fund may experience sudden, unpredictable drops in value or long periods of decline in value. This may occur because of factors affecting securities markets generally, the equity securities of a specific sector, or a specific company.

ETF Risk

ETFs are subject to investment advisory fees and other expenses, which will be indirectly paid by the Fund. As a result, your cost of investing in the Fund will be higher than the cost of investing directly in the ETFs and may be higher than other mutual funds that invest directly in fixed income securities. Certain restrictions of the 1940 Act may limit the Fund's assets that can be invested in any one ETF. This limit may prevent the Fund from allocating its investments in the manner the Adviser considers optimal or cause the Adviser to select an investment other than that which the Adviser considers optimal. The strategy of investing in ETFs could affect the timing, amount and character of distributions and may increase the amount of taxes paid.

- **Covered Call Strategy Risk**

  Covered call ETFs receive premiums from the call options they sell but limit their opportunity to profit from an increase in the value of the underlying stock. If the underlying stock declines more that the option premium received by the ETF, there will be a loss on the overall position. Covered call ETFs are also subject to the risks of investing in equity securities.

Large Capitalization Company Risk

Large-cap companies may be unable to respond quickly to new competitive challenges, such as changes in technology and consumer tastes, and also may not be able to attain the high growth rate of successful smaller companies, especially during extended periods of economic expansion.

Issuer-Specific Risk

The value of a specific security can be more volatile than the market as a whole and can perform differently from the value of the market as a whole.

Management Risk

The Adviser's judgments about the attractiveness, value and potential appreciation of particular security in which the Fund invests or sells short may prove to be incorrect and may not produce the desired results.

Market and Geopolitical Risk

The increasing interconnectivity between global economies and financial markets increases the likelihood that events or conditions in one region or financial market may adversely impact issuers in a different country, region or financial market. Securities in the Fund may underperform due to inflation (or expectations for inflation), interest rates, global demand for particular products or resources, natural disasters, pandemics, epidemics, terrorism, international conflicts, regulatory events and governmental or quasi-governmental actions. The occurrence of global events similar to those in recent years, such as terrorist attacks around the world, natural disasters, social and political discord or debt crises and downgrades, among others, may result in market volatility and may have long term effects on both the U.S. and global financial markets. It is difficult to predict when similar events affecting the U.S. or global financial markets may occur, the effects that such events may have and the duration of those effects. Any such event(s) could have a significant adverse impact on the value and risk profile of the Fund.

Turnover Risk

A higher portfolio turnover may result in higher transactional and brokerage costs and taxes.

Definitions

Dividend Growers are stocks with a positive 1-year dividend growth rate and positive dividend yield.

Dividend Cutters are stocks with a negative 1-year dividend growth rate and positive dividend yield.

S&P 500 is an index that includes 500 leading companies in leading industries of the U.S. economy and is a proxy for the total stock market. This is the primary index used for comparison to the portfolio as we believe this portfolio should be used in the equity portion of a client's account.

BTS Asset Management is affiliated with BTS Securities Corporation, member FINRA/SIPC. Securities are offered through BTS Securities Corporation and other FINRA member firms. Advisory services are offered through BTS Asset Management, Inc

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.

About BTS Asset Management

Founded in 1979, BTS Asset Management is one of the oldest risk managers, managing traditional assets with a nontraditional approach. BTS has a multi-year track record in tactical fixed income and equity management. Our goal is to find opportunities with the potential to take advantage of rising markets while working to manage losses during downturns.

BTS:

- Seeks to preserve capital
- Aims to offer downside risk management and upside potential
- Strives to reduce volatility while delivering consistent long-term returns

BTS Funds
55 Old Bedford Road, Suite 203
Lincoln, MA 01773
800 343 3040
Fax: 781 860 9051
Website: www.btsfunds.com