

Staying the Course with FVD

Ryan O. Issakainen, CFA • Senior Vice President • ETF Strategist

Emotional decision-making ranks high on the list of obstacles that often prevent investors from achieving their financial goals and objectives. The fear of incurring losses evokes a desire to sell after prices have dropped, while the fear of missing out on gains evokes a desire to buy after prices have risen. Volatility acts as a catalyst to evoke emotional decision-making by creating a sense of urgency; investors may feel that decisions must be made in the heat of the moment, because prices are moving quickly!

In our opinion, emotional decision-making has been a root cause of many investor decisions to sell equity exchange-traded funds (ETFs) in 2016, as volatility has returned to the equity markets, accompanied by negative returns. During the month of January, net outflows for US equity and sector ETFs totaled \$14.1 billion¹, as the average level of the CBOE Volatility Index surged to 23.7 (compared to an average of 16.7 in 2015)², and the S&P 500 Index declined by 5%.

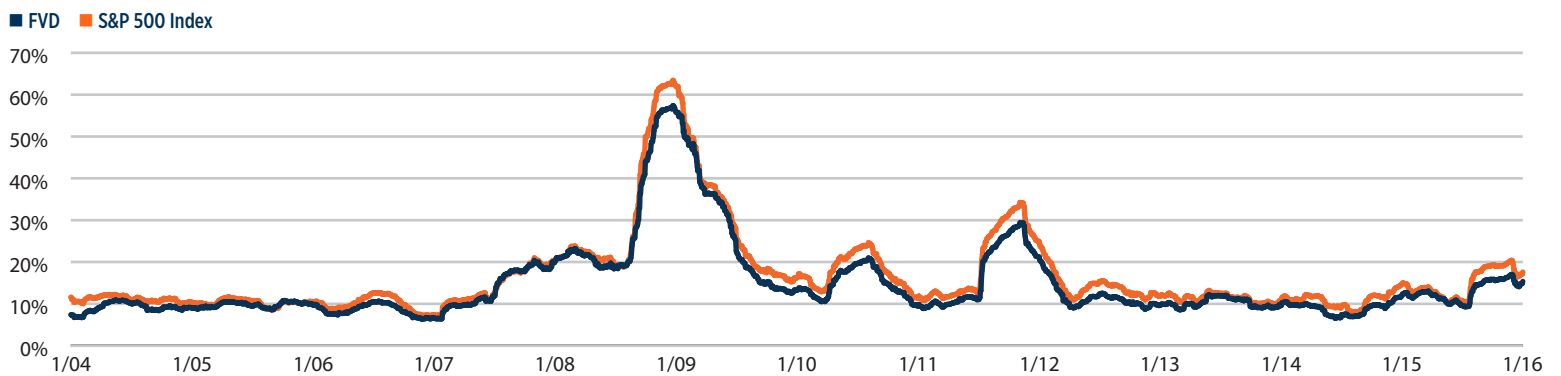
Such environments present a fresh opportunity to highlight the virtue of strategies designed to provide less volatile exposure to stocks, such as the First Trust Value Line® Dividend Index Fund (FVD). In the context of a diversified³ investment portfolio, we believe this strategy may help investors “stay the course” and avoid making counterproductive emotional decisions.

FVD is an ETF that seeks to track the Value Line® Dividend Index. This strategy builds upon the Value Line® Safety™ Ranking System to select a portfolio of stocks traded on US exchanges with low volatility, strong balance sheets, and above average dividend yields. The portfolio is equally weighted and rebalanced monthly.

A Less Volatile Strategy

Historically, FVD has consistently exhibited lower volatility than the S&P 500 Index. Since inception (8/19/03), the fund’s rolling 90-day net asset value (NAV) volatility been lower than that of the S&P 500 Index 95% of the time (See Chart 1).

Chart 1: Rolling 90-Day Volatility (1/04-1/16)²



Past performance is no guarantee of future results. Rolling volatility is a measure of standard deviation.

Navigating Sector Exposure

Monthly reapplication of FVD’s underlying strategy has historically led the fund to more quickly adapt to changing market conditions than many other indices. For example, as volatility increased in the financials sector during the months leading up to the 2008-2009 financial crisis (See Chart 2), FVD’s allocation to financial stocks declined steadily, from 34.9% on 12/31/06 to 24.1% on 9/30/08 (See Chart 3). This shift turned out to be quite timely as the S&P 500 Financials sector proceeded to decline by over 69% from 9/30/08 through 3/6/09. In contrast, the benchmark Dow Jones U.S. Select Dividend IndexSM increased its allocation to financial stocks from 44.1% on 12/31/2006 to 52.6% on 9/30/08, as declining prices of financial stocks made dividend yields appear more attractive.

Chart 2: Rolling 90-Day Volatility (1/04-1/16)²

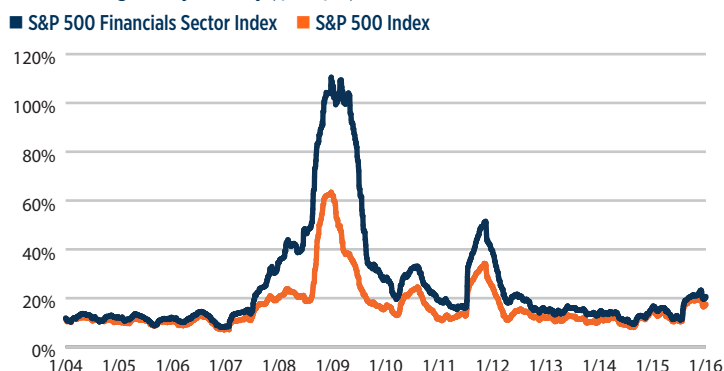
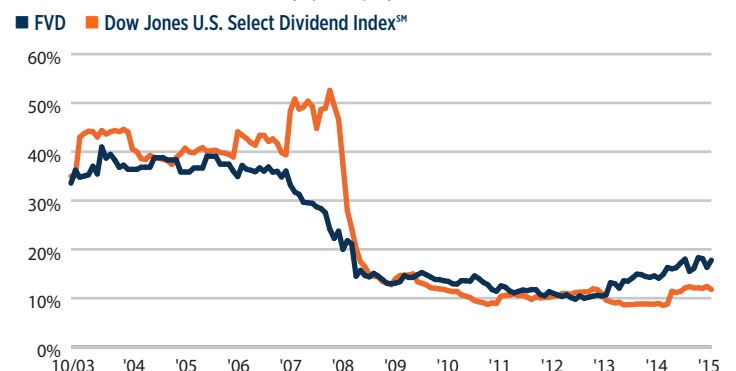


Chart 3: Financial Sector Allocation (10/03-12/15)¹



Please see page 3 for additional risk considerations and standardized performance of this fund.



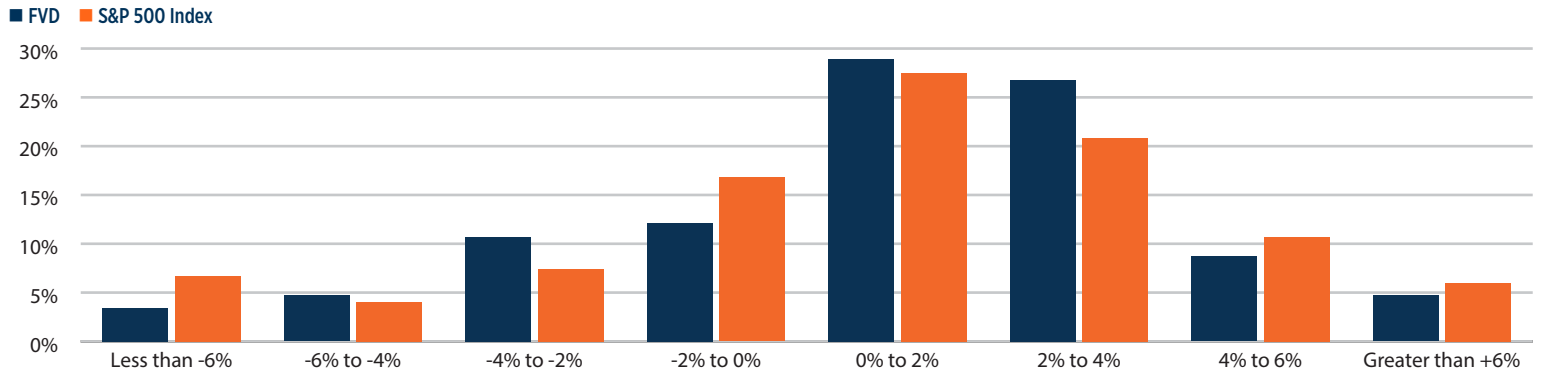
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Reducing Extreme Returns

Since inception, FVD has had far fewer months of extreme negative returns than the S&P 500 Index. In fact, FVD produced monthly total returns worse than -6% in just one of every 30 months (or 3.4% of the time), compared to one of every 15 months (or 6.7% of the time) for the S&P 500 Index (See Chart 4). Of course, FVD has also produced fewer extreme positive monthly returns than the S&P 500 Index, exceeding 6% total returns in one of every 21 months (or 4.7% of the time), compared to one of every 17 months (or 6% of the time) for the S&P 500 Index.

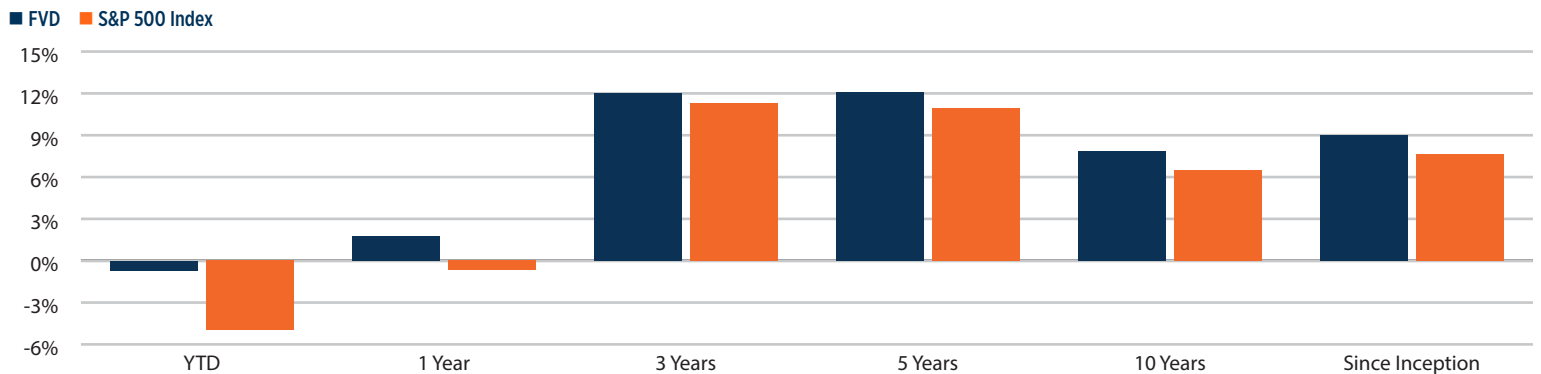
Chart 4: Histogram of Monthly Returns (8/03-1/16)¹



Historical Returns

While implementing a less volatile strategy than the S&P 500 Index, FVD has managed to deliver superior returns over multiple time periods, including year-to-date, 1-year, 3-years, 5-years, 10-years, and since inception (See Chart 5). As of 1/29/16, FVD had a 2.73% 30-Day SEC Yield[†].

Chart 5: Month End NAV Performance (As of 1/29/16)



	Inception Date	Gross Expense Ratio [^]	Net Expense Ratio	30-Day SEC Yield [†]	Unsubsidized 30-Day SEC Yield [#]	NAV Performance (%) (As of 1/29/16)					
						YTD	1 Year	3 Years	5 Years	10 Years	Since Inception
FVD*	8/19/03	0.75%	0.70%	2.73%	2.71%	-0.71	1.76	12.01	12.08	7.82	9.03
S&P 500 Index ⁴						-4.96	-0.67	11.30	10.91	6.48	7.63

Performance data quoted represents past performance. Past performance is not a guarantee of future results and current performance may be higher or lower than performance quoted. Investment returns and principal value will fluctuate and shares when sold or redeemed, may be worth more or less than their original cost. You can obtain performance information which is current through the most recent month-end by visiting www.ftportfolios.com.

Returns are average annualized total returns, except those for periods of less than one year, which are cumulative.

We acknowledge that eliminating emotion from decision-making is generally easier said than done for many investors. For this reason, we believe that it may be beneficial to consult a trusted financial advisor in order to formulate a disciplined game plan. We believe that the First Trust Value Line[®] Dividend Index Fund (FVD) may be a useful tool in such a plan, particularly for those seeking less volatile exposure to stocks.

Please see page 3 for additional risk considerations and standardized performance of this fund.



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Performance Summary (As of 12/31/15)				NAV Performance (%)				Market Price Performance (%)			
Inception Date	Gross Expense Ratio [^]	Net Expense Ratio	1 Year	5 Years	10 Years	Since Inception	1 Year	5 Years	10 Years	Since Inception	
FVD*	8/19/03	0.75%	0.70%	1.26	12.49	8.20	9.16	1.26	12.47	9.68	9.16
S&P 500 Index ⁴				1.38	12.57	7.31	8.13	1.38	12.57	7.31	8.13

Performance data quoted represents past performance. Past performance is not a guarantee of future results and current performance may be higher or lower than performance quoted. Investment returns and principal value will fluctuate and shares when sold or redeemed, may be worth more or less than their original cost. You can obtain performance information which is current through the most recent month-end by visiting www.ftportfolios.com.

*Market Price returns are based on the midpoint of the bid/ask spread. Returns are average annualized total returns, except those for periods of less than one year, which are cumulative. On December 15, 2006, the fund acquired the assets and adopted the performance history of the First Trust Value Line® Dividend Fund, a closed-end fund. The investment goals, strategies and policies of the fund are substantially similar to those of the predecessor fund. Performance information for periods prior to December 15, 2006 is based on the performance history of the predecessor fund and reflects the operating expenses of the predecessor fund.

[^]Expenses are capped contractually at 0.70% per year, at least until April 30, 2016.

[†]30-day SEC yield is calculated by dividing the net investment income per share earned during the most recent 30-day period by the maximum offering price per share on the last day of the period and includes the effects of fee waivers and expense reimbursements.

[‡]The unsubsidized 30-day SEC yield is calculated the same as the 30-day SEC yield, however it excludes contractual fee waivers and expense reimbursements.

¹Source: Morningstar.

²Source: Bloomberg.

³While diversification is intended to spread risk among a greater number of holdings, this strategy does not guarantee a profit or protect against potential losses.

⁴Indexes do not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown. Indexes are unmanaged and an investor cannot invest directly in an index.

The **S&P 500 Index** is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. The **S&P 500 Financials Index** is an unmanaged index which includes the stocks in the financial sector of the S&P 500 Index. The **Dow Jones U.S. Select Dividend IndexSM** consists of 100 widely-traded, dividend-paying stocks derived from the Dow Jones U.S. Total Market IndexSM. The **CBOE Volatility Index (VIX)** is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Since its introduction in 1993, VIX has been considered by many to be the world's premier barometer of investor sentiment and market volatility.

You should consider the fund's investment objectives, risks, and charges and expenses carefully before investing. Contact First Trust Portfolios L.P. at 1-800-621-1675 or visit www.ftportfolios.com to obtain a prospectus or summary prospectus which contains this and other information about the fund. The prospectus or summary prospectus should be read carefully before investing.

ETF Characteristics

The fund lists and principally trades its shares on the NYSE Arca, Inc.

The fund's return may not match the return of the Value Line® Dividend Index. Securities held by the fund will generally not be bought or sold in response to market fluctuations.

Investors buying or selling fund shares on the secondary market may incur customary brokerage commissions. Market prices may differ to some degree from the net asset value of the shares. Investors who sell fund shares may receive less than the share's net asset value. Shares may be sold throughout the day on the exchange through any brokerage account. However, unlike mutual funds, shares may only be redeemed directly from the fund by authorized participants, in very large creation/redemption units.

Risk Considerations

The fund's shares will change in value, and you could lose money by investing in the fund. One of the principal risks of investing in the fund is market risk. Market risk is the risk that a particular stock owned by the fund, fund shares or stocks in general may fall in value. There can be no assurance that the fund's investment objective will be achieved.

The fund may invest in securities issued by companies concentrated in a particular industry. The fund may invest in small capitalization and mid capitalization companies. Such companies may experience greater price volatility than larger, more established companies.

First Trust Advisors L.P. is the adviser to the fund. First Trust Advisors L.P. is an affiliate of First Trust Portfolios L.P., the fund's distributor.

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