Balancing Risk Amid Soaring Growth

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Investors who have become overweight in growth stocks following a stretch of outstanding relative returns are faced with a conundrum. Many wish to maintain exposure to the extraordinary long-term growth potential of new innovations, such as artificial intelligence, cloud computing, advanced medicine, and others. However, they also worry about the added risk that accompanies high growth stocks and their contribution to the overall riskiness of their portfolios. These concerns are heightened by the significant increase in valuations for many growth stocks over the past several months. Below, we discuss a barbell approach to managing portfolio risk that seeks to balance some of the higher risk exposure of growth stocks by incorporating an allocation to the First Trust Value Line® Dividend Index Fund (FVD).

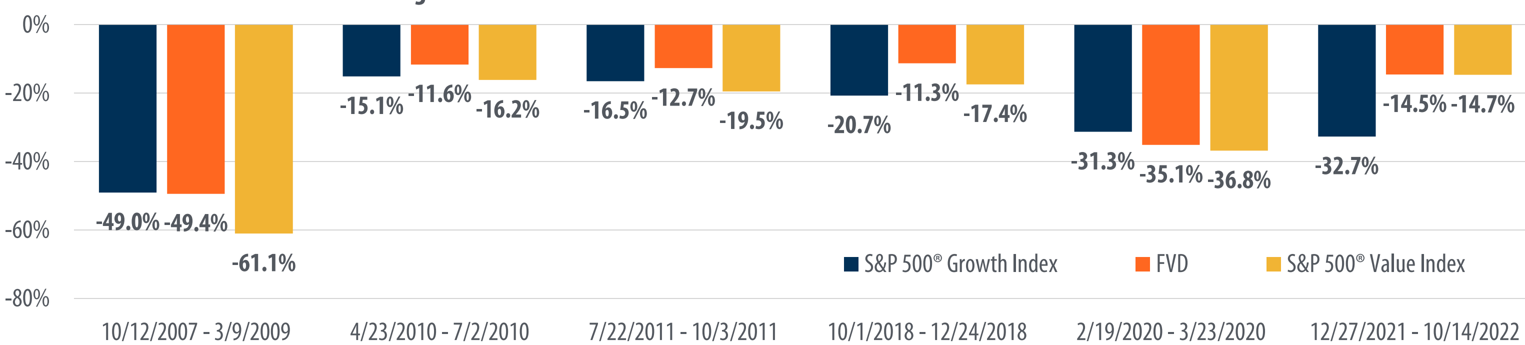
A Complement to Growth

In our view, FVD has historically worked well as a complement to growth-oriented investments due to its underlying index methodology, which typically favors high quality stocks with less volatility and market risk (beta) than broad market benchmarks, such as the S&P 500® Index. Holdings for FVD are chosen monthly based on a combination of factors, including "Safety" rankings from Value Line®—which provide a quantitative assessment of financial strength and price stability—and above average dividend yields. Very few growth stocks meet these criteria, leading to low overlap between FVD and most growth funds. As of 4/30/24, FVD holdings represented 8.6% of the S&P 500® Growth Index.[1]

One challenge for investors seeking to maintain an overweight allocation to growth stocks is that market risk for these stocks can sometimes surge. Since August of 2003 (FVD's inception month), the average beta for the S&P 500® Growth Index over 237 rolling 12-month periods was 1.0 but it reached levels as high as 1.3 and exceeded 1.0 in 48.9% of 12-month periods.[2] Conversely, FVD's average beta was 0.79 over this stretch, exceeding 1.0 just 4.6% of the time.[3] Out of 237 rolling 12-month periods, there were just 3 instances (1.3%) in which the beta of both FVD and the S&P 500® Growth Index exceeded 1.0.[4]

FVD's lower risk profile has tended to result in smaller drawdowns during severe market downturns for growth stocks. Over the past 20 years, there were six instances in which the S&P 500® Growth Index suffered a drawdown worse than 15% (see Chart 1).[5] FVD had smaller drawdowns in four of these periods, with an overall average downside capture of just 78% for all six periods. For comparison, the S&P 500® Value Index had smaller drawdowns in only two of these selloffs, with an average downside capture of 99% for all six periods.

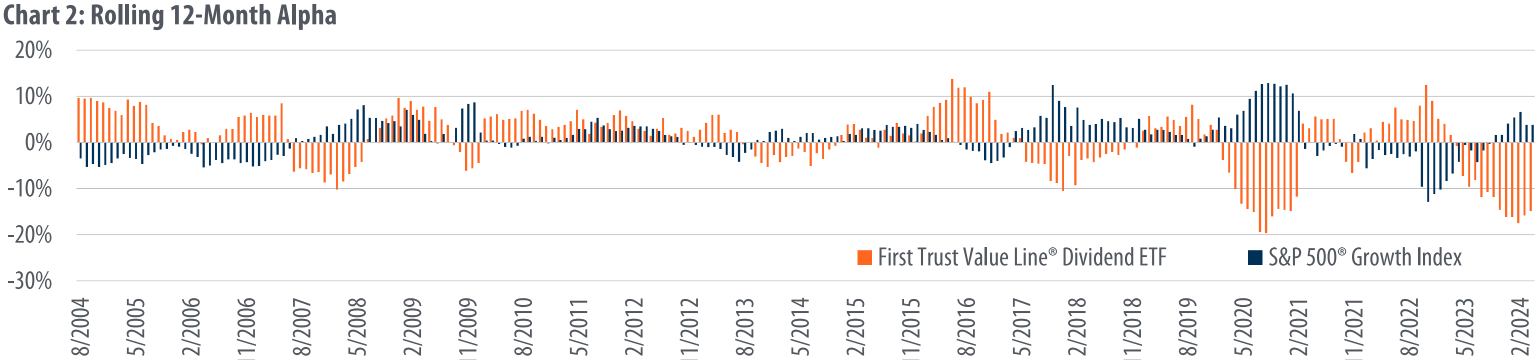
Chart 1: Cumulative Total Returns During S&P 500® Growth Index Drawdowns > 15%



Source: Bloomberg. The S&P 500® Value Index is shown for comparative purposes because it is a common benchmark for large cap value funds. The S&P 500® Growth Index is shown for comparative purposes because it is a common benchmark for large cap growth funds.

In addition to managing downside risk, many financial professionals seek risk-adjusted excess returns (alpha) for their clients. Hence, another factor that makes FVD an effective complement to growth funds and ETFs, in our opinion, is its track record of producing positive alpha during periods of underperformance for growth stocks. Since August of 2003, the S&P 500® Growth Index has had positive alpha in 62% (146 periods) of rolling 12-month periods, while FVD has had positive alpha in 65% (154 periods) of rolling 12-month periods (see Chart 2).[6] Instances in which neither had positive alpha occurred under 4% (nine periods) of the time, but instances in which both has positive alpha occurred 30% (72 periods) of the time.

Chart 2: Rolling 12-Month Alpha



Source: Morningstar as of 4/30/24. The S&P 500® Growth Index is shown for comparative purposes because it is a common benchmark for large cap growth funds.

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.

Performance information for each index shown in the charts is for illustrative purposes only and does not represent actual fund performance. Indexes 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.

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Outlook for FVD

As growth stocks have outperformed recently, FVD has produced negative alpha (see Chart 2). While periods of underperformance should be expected for any investment, we believe there are a few key attributes of FVD that have negatively impacted its near-term performance, but may lead to better results in the future, especially if growth stocks falter.

One drag on FVD's relative performance over the 12 months ending on 4/30/24 was its sector allocation, which favored "defensive" sectors, such as utilities and consumer staples—both of which underperformed—while underweighting growth-oriented sectors, such as information technology and communications services—both of which outperformed.[7]

Looking ahead, we think there are reasons to be more optimistic about the potential for the utilities and consumer staples sectors. Both have cheaper valuations (lower forward price-to-earnings (P/E) ratios) and higher dividend yields than the S&P 500® Index.[8] In our view, both sectors could also benefit if the economy begins to slow and investors crowd into more defensive sectors, especially given their relatively small size. For example, the total market capitalization of the S&P 500® Utilities sector ($1 trillion) and the S&P 500® Consumer Staples sector ($2.6 trillion) were just a fraction of the size of the S&P 500® Information Technology ($12.3 trillion) and the S&P 500® Communications Services ($3.9 trillion) sectors, as of 4/30/2024.[9] Moreover, if interest rates begin to trend lower, investor demand for high dividend paying stocks may increase, in our view. Importantly, we believe any of these shifts could occur suddenly, without advanced warning to reposition portfolios.

In today's environment, with powerful innovations reshaping the economy at a rapid pace, the potential of growth stocks is alluring. But balancing risk and returns over time is the paramount objective of investment professionals. We believe that the First Trust Value Line® Dividend Fund (FVD) may be a useful tool in helping to achieve this critical task.

Performance Summary^ (%) as of 3/28/24

FVD Performance*	**1 Year**	**5 Year**	**10 Year**	**Since Fund Inception**
Net Asset Value (NAV)	7.61	7.78	9.21	9.32
Market Price	7.62	7.76	9.21	9.32
Index Performance**				
Value Line® Dividend Index	8.36	8.64	10.08	N/A
Dow Jones U.S. Select Dividend Index	9.73	9.04	9.51	N/A
S&P 500® Index	29.88	15.05	12.96	10.52
S&P 500® Value Index	25.58	13.26	10.62	9.30

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^On December 15, 2006, the Fund acquired the assets and adopted the financial and performance history of First Trust Value Line® Dividend Fund (the "Predecessor FVD Fund," a closed-end fund), which had an inception date of August 19, 2003. The investment goals, strategies and policies of the Fund are substantially similar to those of the Predecessor FVD Fund. Accordingly, the performance information shown above for periods prior to December 15, 2006 is that of the Predecessor FVD Fund's shares. NAV and Market Value returns assume that all distributions have been reinvested in the Fund at NAV and Market Value, respectively. Prior to December 15, 2006, NAV and Market Value returns assumed that all distributions were reinvested at prices obtained by the Dividend Reinvestment Plan of the Predecessor FVD Fund and the price used to calculate Market Value return was the AMEX (now known as the NYSE American) closing market price of the Predecessor FVD Fund.

*__NAV__ returns are based on the fund's net asset value which represents the fund's net assets (assets less liabilities) divided by the fund's outstanding shares. **Market Price** returns are determined by using the midpoint of the national best bid offer price ("NBBO") as of the time that the fund's NAV is calculated. Returns are average annualized total returns, except those for periods of less than one year, which are cumulative. The fund's performance reflects fee waivers and expense reimbursements, absent which performance would have been lower.

**Performance information for each listed index is for illustrative purposes only and does not represent actual fund performance. Indexes 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 gross expense ratio for this fund is 0.60%. The net expense ratio for this fund is 0.60%. Expenses are capped contractually at 0.70% per year, at least through April 30, 2025. The Investment Advisor has implemented fee breakpoints, which reduce the fund's investment management fee at certain assets levels. Please see the fund's Statement of Additional Information for full details. Fund Inception Date: 8/19/2003.

[1]FactSet, as of 4/30/24.

[2]Morningstar, as of 4/30/24. Beta is a measure of market risk. A beta higher than 1.0 indicates more market risk than the broad market (S&P 500® Index), and measurements lower than 1.0 indicate less market risk.

[3]Morningstar, as of 4/30/24.

[4]Morningstar, as of 4/30/24.

[5]Bloomberg, as of 4/30/24.

[6]Morningstar, as of 4/30/24.

[7,8,9]FactSet, as of 4/30/24.

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You should consider a 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 a fund. The prospectus or summary prospectus should be read carefully before investing.

RISK CONSIDERATIONS

You could lose money by investing in a fund. An investment in a fund is not a deposit of a bank and is not insured or guaranteed. There can be no assurance that a fund's objective(s) will be achieved. Investors buying or selling shares on the secondary market may incur customary brokerage commissions. Please refer to each fund's prospectus and Statement of Additional Information for additional details on a fund's risks. The order of the below risk factors does not indicate the significance of any particular risk factor.

Unlike mutual funds, shares of the fund may only be redeemed directly from a fund by authorized participants in very large creation/redemption units. If a fund's authorized participants are unable to proceed with creation/redemption orders and no other authorized participant is able to step forward to create or redeem, fund shares may trade at a premium or discount to a fund's net asset value and possibly face delisting and the bid/ask spread may widen.

Current market conditions risk is the risk that a particular investment, or shares of the fund in general, may fall in value due to current market conditions. As a means to fight inflation, the Federal Reserve and certain foreign central banks have raised interest rates and expect to continue to do so, and the Federal Reserve has announced that it intends to reverse previously implemented quantitative easing. Recent and potential future bank failures could result in disruption to the broader banking industry or markets generally and reduce confidence in financial institutions and the economy as a whole, which may also heighten market volatility and reduce liquidity. Ongoing armed conflicts between Russia and Ukraine in Europe and among Israel, Hamas and other militant groups in the Middle East, have caused and could continue to cause significant market disruptions and volatility within the markets in Russia, Europe, the Middle East and the United States. The hostilities and sanctions resulting from those hostilities have and could continue to have a significant impact on certain fund investments as well as fund performance and liquidity. The COVID-19 global pandemic, or any future public health crisis, and the ensuing policies enacted by governments and central banks have caused and may continue to cause significant volatility and uncertainty in global financial markets, negatively impacting global growth prospects.

A fund is susceptible to operational risks through breaches in cyber security. Such events could cause a fund to incur regulatory penalties, reputational damage, additional compliance costs associated with corrective measures and/or financial loss.

Depositary receipts may be less liquid than the underlying shares in their primary trading market and distributions may be subject to a fee. Holders may have limited voting rights, and investment restrictions in certain countries may adversely impact their value.

Companies that issue dividend-paying securities are not required to continue to pay dividends on such securities. Therefore, there is a possibility that such companies could reduce or eliminate the payment of dividends in the future.

Equity securities may decline significantly in price over short or extended periods of time, and such declines may occur in the equity market as a whole, or they may occur in only a particular country, company, industry or sector of the market.

An index fund will be concentrated in an industry or a group of industries to the extent that the index is so concentrated. A fund with significant exposure to a single asset class, or the securities of issuers within the same country, state, region, industry, or sector may have its value more affected by an adverse economic, business or political development than a broadly diversified fund.

A fund may be a constituent of one or more indices or models which could greatly affect a fund's trading activity, size and volatility.

There is no assurance that the index provider or its agents will compile or maintain the index accurately. Losses or costs associated with any index provider errors generally will be borne by a fund and its shareholders.

Industrials and producer durables companies are subject to certain risks, including the general state of the economy, intense competition, consolidation, domestic and international politics, excess capacity and consumer demand and spending trends. They may also be significantly affected by overall capital spending levels, economic cycles, technical obsolescence, delays in modernization, labor relations, and government regulations.

As inflation increases, the present value of a fund's assets and distributions may decline.

Large capitalization companies may grow at a slower rate than the overall market.

Market risk is the risk that a particular security, or shares of a fund in general may fall in value. Securities are subject to market fluctuations caused by such factors as general economic conditions, political events, regulatory or market developments, changes in interest rates and perceived trends in securities prices. Shares of a fund could decline in value or underperform other investments as a result. In addition, local, regional or global events such as war, acts of terrorism, spread of infectious disease or other public health issues, recessions, natural disasters or other events could have significant negative impact on a fund.

A fund faces numerous market trading risks, including the potential lack of an active market for fund shares due to a limited number of market makers. Decisions by market makers or authorized participants to reduce their role or step away in times of market stress could inhibit the effectiveness of the arbitrage process in maintaining the relationship between the underlying values of a fund's portfolio securities and a fund's market price.

Mid capitalization companies may experience greater price volatility than larger, more established companies.

An index fund's return may not match the return of the index for a number of reasons including operating expenses, costs of buying and selling securities to reflect changes in the index, and the fact that a fund's portfolio holdings may not exactly replicate the index.

Securities of non-U.S. issuers are subject to additional risks, including currency fluctuations, political risks, withholding, lack of liquidity, lack of adequate financial information, and exchange control restrictions impacting non-U.S. issuers.

A fund and a fund's advisor may seek to reduce various operational risks through controls and procedures, but it is not possible to completely protect against such risks. The fund also relies on third parties for a range of services, including custody, and any delay or failure related to those services may affect the fund's ability to meet its objective.

A fund that invests in securities included in or representative of an index will hold those securities regardless of investment merit and the fund generally will not take defensive positions in declining markets.

High portfolio turnover may result in higher levels of transaction costs and may generate greater tax liabilities for shareholders.

The market price of a fund's shares will generally fluctuate in accordance with changes in the fund's net asset value ("NAV") as well as the relative supply of and demand for shares on the exchange, and a fund's investment advisor cannot predict whether shares will trade below, at or above their NAV.

Securities of small capitalization companies may experience greater price volatility and be less liquid than larger, more established companies.

Trading on an exchange may be halted due to market conditions or other reasons. There can be no assurance that a fund's requirements to maintain the exchange listing will continue to be met or be unchanged.

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

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.

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DEFINITIONS

Alpha is an indication of how much an investment outperforms or underperforms on a risk-adjusted basis relative to its benchmark.

Beta is a measure of price variability relative to the market.

S&P 500® Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance.

S&P 500® Growth Index contains those securities with growth characteristics from the S&P 500® Index.

S&P 500® Value Index contains those securities with value characteristics from the S&P 500® Index.