ARE YOU OVEREXPOSED TO THE MAGNIFICENT 7?

by Henry Pasts, Executive Vice President , BTS Asset Management, Inc.

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Why value-centric strategies could outperform in 2024 against the lofty valuations of the top names.

The S&P 500's 26.23% gain in 2023 was largely due to 7 stocks termed the "Magnificent 7" by Wall Street. These names include Apple Inc (AAPL), Amazon Inc (AMZN), Alphabet Inc Class A (GOOGL), Meta Platforms Inc (META), Microsoft Corp (MSFT), Nvidia Corp (NVDA), and Tesla Inc (TSLA).

Although these stocks led the market last year, we also have to remember how they contributed to the S&P 500's decline of -18.29% in 2022. Due to the market cap weighted nature of the S&P 500 Index, certain sectors can make up a larger percentage of the index which impacts the overall return on the Index.

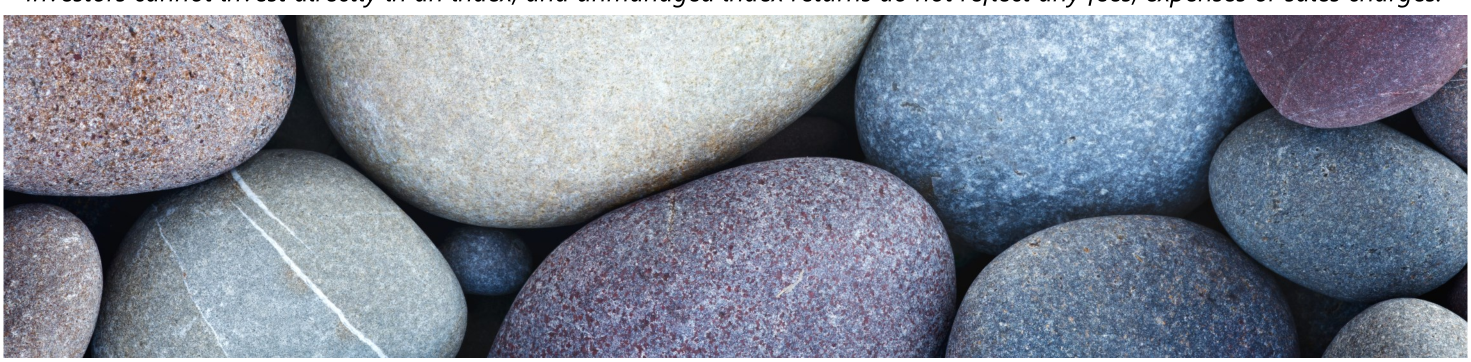
Security	Morningstar Sector	2022 Return	2023 Return	BTS Fund % Holding
Apple Inc	Technology	-26.62%	48.88%	0.00%
Amazon.com Inc	Consumer Cyclical	-50.12%	80.66%	0.00%
Alphabet Inc Class A and C	Communication Services	-39.59%	58.18%	4.20%
Microsoft Corp	Technology	-28.60%	58.04%	1.80%
NVIDIA Corp	Technology	-50.49%	238.17%	0.00%
Tesla Inc	Consumer Cyclical	-65.40%	101.43%	0.00%
Meta Platforms Inc Class A	Communication Services	-64.98%	193.48%	4.20%

	2022 Return	2023 Return
S&P 500 Index	-18.29%	26.23%

Source: Morningstar

For illustration purposes only. Past Performance is No Guarantee of Future Results

Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.



From 12/31/2022 to 12/31/2023, only the sectors that the Magnificent 7 stocks reside in, namely Communication Services, Consumer Cyclical, and Technology, saw in increase their sector's weighting in the S&P 500 Index. The other 8 sectors which do not include the Magnificent 7 stocks saw a decrease in their sector's weighting in the S&P 500 Index.

Morningstar Sector	S&P 500 Index Weight 12/31/2022	S&P 500 Index Weight 12/31/2023	Difference
Basic Materials	2.46%	2.19%	-0.26%
Communication Services	7.28%	8.58%	1.30%
Consumer Cyclical	9.52%	11.01%	1.49%
Consumer Defensive	7.61%	6.11%	-1.50%
Energy	5.23%	3.89%	-1.34%
Financial Services	13.89%	12.52%	-1.37%
Healthcare	15.90%	12.67%	-3.24%
Industrials	8.96%	8.37%	-0.59%
Real Estate	2.81%	2.52%	-0.29%
Technology	23.16%	29.81%	6.65%
Utilities	3.18%	2.34%	-0.84%

Additionally, as of 12/31/2023, the Magnificent 7 stocks, on average, make up 14.30% of the largest Large Core Funds by AUM, which means that almost 1/7th of a portfolio may be exposed to extended valuations similar to those at the end of 2021 before growth stocks, such as the Magnificent 7, declined substantially over the course of 2022.[1]

Below are the PE Ratios of the Magnificent 7 at the end of 2021, 2022, and 2023, and their averages. Generally, PE Ratios were the highest at the end of 2021, but Apple Inc, Alphabet Inc Class A, Nvidia Corp, and Meta Platforms Inc all have similar PE Ratios at the end of 2023 that are not too far behind the extended levels of 2021. Taking out the inflated number from Tesla at the end of 2021, the average PE Ratio of the other 6 stocks of the Magnificent 7 was 46.12 at the end of 2021, very close to the end of 2023's average of 47.31.

Security	PE Ratio (as of 12/31/2021)	PE Ratio (as of 12/31/2022)	PE Ratio (as of 12/31/2023)	BTS Fund % Holding
Apple Inc	29.42	21.27	31.41	0.00%
Amazon.com Inc	71.37	84.76	71.43	0.00%
Alphabet Inc Class A	28.98	17.29	25.91	4.20%
Microsoft Corp	38.47	25.84	36.10	1.80%
NVIDIA Corp	84.10	50.03	63.45	0.00%
Tesla Inc	216.48	37.68	79.70	0.00%
Meta Platforms Inc	24.38	11.35	23.14	4.20%
Average PE Ratio:	**70.46**	**35.46**	**47.31**	
Average PE Ratio without Tesla:	**46.12**			

Source: Bloomberg, note Alphabet Class A shares used for PE Calculation.

With this in mind, even if the Federal Reserve is set to cut interest rates in 2024, we believe value-oriented strategies are better positioned to outperform growth stocks, such as the Magnificent 7, because their Price-to-Earnings ratios aren't as extended. For example, the Price-to-Earnings ratio of the S&P 500 Value Index was 20.34 as of 12/31/2023, less than half that of the Magnificent 7's average.[2]

Value Equity Strategies

With Magnificent 7 valuations extended, Dividend Aristocrats, Equity Fortress, and Highest Yielding Equities all offer innovative diversification and value propositions against the large-cap and over-allocation risks of the Magnificent 7.

Dividend Aristocrats

Dividend Aristocrats are stocks that have consistently increased their year-over-year dividend payout for many years in a row. The exact number of consecutive years of growth is subjective, but generally 10 consecutive years is considered a minimum. Regardless, the main takeaway is that these stocks have consistently rewarded shareholders by paying out net income and have done so in an increasing manner.

Equity Fortress

Equity Fortress are stocks that have strong balance sheets with large cash holdings that can grow their business and weather economic downturns without taking on excess debt. These stocks are a blend of ‘cash cow’ and ‘wide moat’ stocks that offer value through their strong underlying assets. The internal growth rate is used to evaluate the strength of the ‘fortress’.

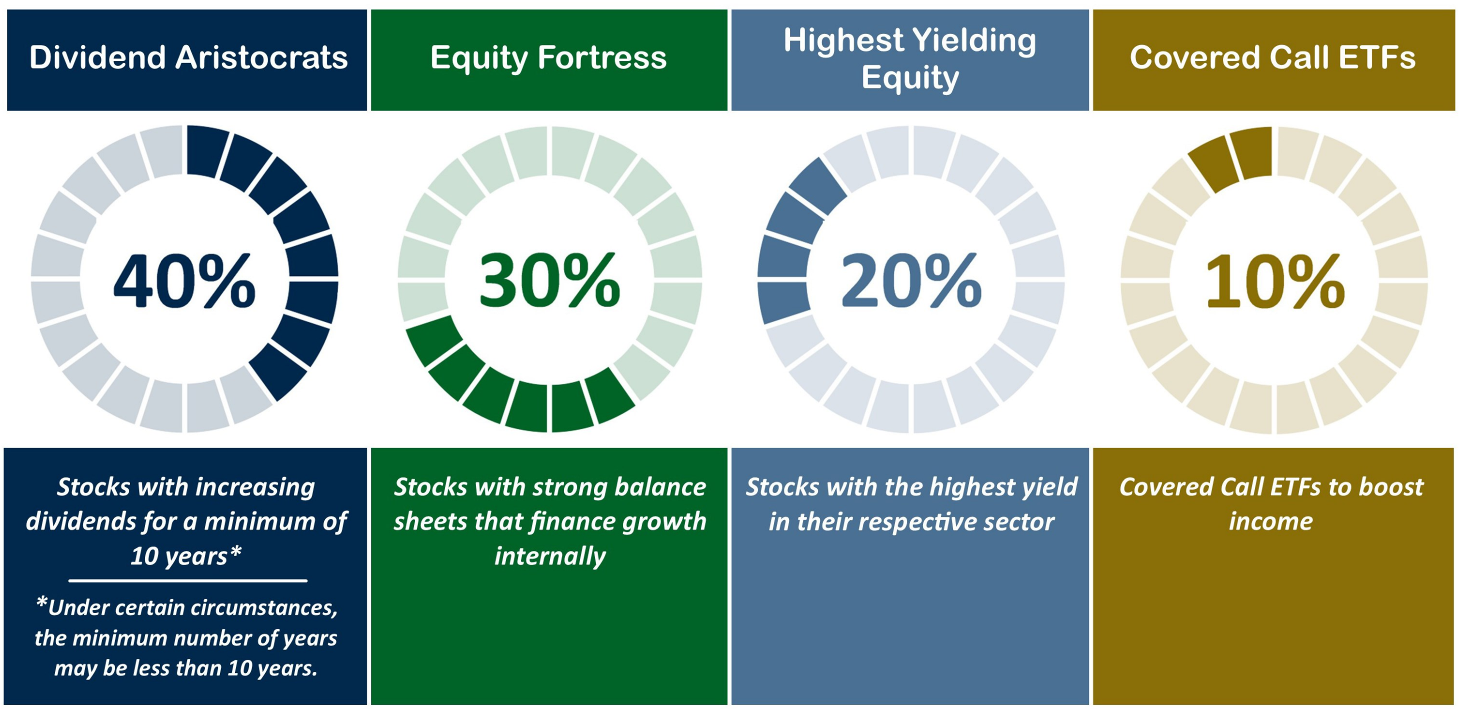
Highest Yielding Equity

Highest Yielding Equities are those stocks that have the highest dividend yields. Dividend Yields are usually compared at the sector level, with the highest yields in each sector being considered Highest Yielding Equities. Dividends can supplement income and be reinvested to buy more shares of the underlying stock.

BTS Enhanced Equity Income Fund

The BTS Enhanced Equity Income Fund takes the concepts of Dividend Aristocrats, Equity Fortress, and Highest Yielding Equity and adds additional layers of analysis to create an innovative blend of income and value that we believe is suitable for when valuations are extended. Some of these additional layers are expanding the universe of securities to the largest 1500 U.S. issued securities by Market Capitalization and analyzing securities across the 11 GICS sectors with a robust fundamental analysis process to narrow down the best securities in each strategy and each sector. A sector overweight process based on comparisons to the historical levels of the sector fundamentals is also used to overweight the top performing sector and eliminate sectors that are performing poorly compared to their historical averages.

BTS Enhanced Equity Income Fund Overview



In selecting stocks for the Fund, the Adviser employs four separate sub-strategies. Under normal market conditions, the Adviser will initially allocate the Fund’s assets across the Fund’s four sub-strategies as show above.

In an environment where valuations are extended, a strong initial equity screen followed by a disciplined fundamental and sector analysis can add diversification and strong value propositions into 2024 and beyond.

Citations:

[1] Source: Morningstar.
[2] Source: Bloomberg.

IMPORTANT RISK INFORMATION

Investing in individual stocks and individual stock selection strategies involves inherent risk, including the potential loss of principal. There is no guarantee that a particular individual stock or individual stock selection portfolio will meet its projected value, performance, or objective. The price of individual stocks can fluctuate greatly based on a variety of factors, such as the company's financial health and conditions, industry trends, broader market conditions, and geopolitical events. Unexpected operational and regulatory challenges also can negatively impact the price of a stock. Shares of newer, lesser-known equities might experience greater volatility than well-established firms. Additionally, stocks from emerging sectors or industries may be more susceptible to risks compared to those in established sectors or industries. Economic downturns, like recessions and depressions, or heightened market instability, known as systemic risk, can cause prices to decrease and potentially limit the ability to sell a stock at a desired level, known as liquidity risk. There is no guarantee that an individual stock will continue to pay its dividend. Some individual stocks may be exposed to currency risks, either domestic or foreign, that may result in price declines. Individual stocks with high levels of debt or engaged in loaning or lending businesses are subject to interest rate risk.

The 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. Returns shown are total returns with dividends reinvested.

The S&P 500 Value Index measures constituents from the S&P 500 that are classified as value stocks based on three factors: the ratios of book value, earnings, and sales to price.

The Global Industry Classification Standard (GICS) is an industry taxonomy developed in 1999 by MSCI and Standard & Poor's (S&P) for use by the global financial community. The GICS structure consists of 11 sectors, 25 industry groups, 74 industries and 163 sub-industries into which S&P has categorized all major public companies.

Cash Cow refers to an equity that can generate consistent free cash flow, or the operating cash flow after deducting capex payments and working capital requirements.

Wide Moat refers to an equity that does business in a market or has developed their business in such a way that is difficult for newcomers to easily enter and compete in.

BTS Enhanced Equity Income Fund consists of 4 sub-strategies, which are Dividend Aristocrats, Equity Fortress, Highest Yielding Equity, and Covered Calls.

BTS Dividend Aristocrats is a sub-strategy of the BTS Enhanced Equity Income Fund that breaks the largest 1500 U.S. listed equities by Market Capitalization into their 11 GICS Sectors and then filters all securities that have 10-15 years of increasing dividends, based on which sector it is in. BTS may consider a security with less than 10 years of increasing dividends if there are less than 2 securities in any given sector with less than 10 years of increasing dividends. These securities are then run through a proprietary securities selection algorithm that is rule-based in nature and does not change. The top security is then compared against similar historical Dividend Aristocrats in its sector and a historical outperformance is calculated. The sector with the highest outperformance is overweighted, and the bottom 2 sectors are eliminated. BTS Dividend Aristocrats and Dividend Aristocrats are used interchangeably and refer to BTS' sub-strategy.

BTS Equity Fortress is a sub-strategy of the BTS Enhanced Equity Income Fund that breaks the largest 1500 U.S. listed equities by Market Capitalization into their 11 GICS Sectors and then filters the top 5-10 securities in each sector based on a proprietary Equity Fortress Model that considers how well the security can finance internal revenue and asset growth without taking on excess debt. These securities are then run through a proprietary securities selection algorithm that is rule-based in nature and does not change. The top security is then compared against similar historical Equity Fortress securities in its sector and a historical outperformance is calculated. The sector with the highest outperformance is overweighted, and the bottom 2 sectors are eliminated. BTS Equity Fortress and Equity Fortress are used interchangeably and refer to the BTS' sub-strategy.

BTS Highest Yielding Equity is a sub-strategy of the BTS Enhanced Equity Income Fund that breaks largest 1500 U.S. listed equities by Market Capitalization into their 11 GICS Sectors and then filters the top 5-10 securities in each sector based on highest Dividend Yield. These securities are then run through a proprietary securities selection algorithm that is rule-based in nature and does not change. The top security is then compared against similar historical Highest Yielding Equity securities in its sector and a historical outperformance is calculated. The sector with the highest outperformance is overweighted, and the bottom 2 sectors are eliminated. BTS Highest Yielding Equity and Highest Yielding Equity are used interchangeably and refer to BTS' sub-strategy.

Covered Call refers to a financial transaction in which the investor selling call options owns an equivalent amount of the underlying security. To execute this, an investor who holds a long position in an asset then writes (sells) call options on the same asset to generate an income stream. The investor's long position in the asset is the cover because it means the seller can deliver the shares if the buyer of the call option chooses to exercise.

Covered Call ETFs refers to exchange-traded funds that deploy Covered Call strategies. BTS uses ETFs that follow S&P 500 and NASDAQ 100 Covered Call strategies in the BTS Enhanced Equity Income portfolio, namely JEPI and JEPQ.

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 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 Norther 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.

Principal Investment Risks

Diversification does not ensure a profit or guarantee against loss.

The Fund is newly formed and has no operating history.

Equity Risk The equity securities held by the Fund may experience sudden, unpredictable drops in value or long periods of decline in value.

ETF Risk & **Covered Call Strategy Risk**: Investors will indirectly bear fees and expenses charged by the ETFs in addition to the Fund's direct fees and expenses. Additionally, Covered Call ETF's 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.

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.

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

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.

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

For additional information on the Principal Investment Risks of the BTS Enhanced Equity Income Fund, please see the prospectus and consider carefully the information contained within. 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.

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Performance Sources: ***Morningstar and Bloomberg***

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