The Case for Small Cap Dividend Paying Securities in a Portfolio

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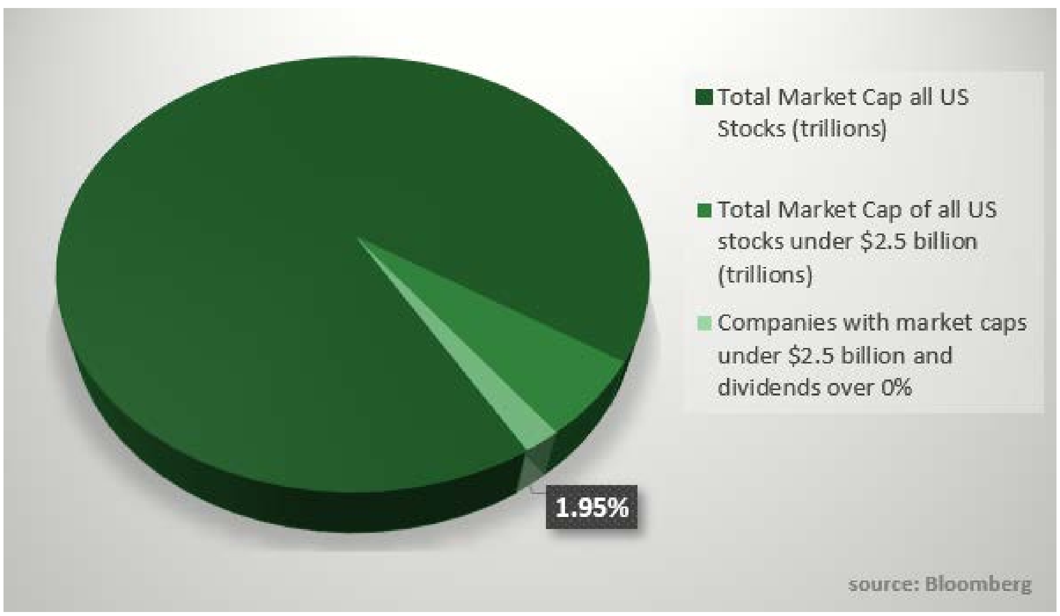
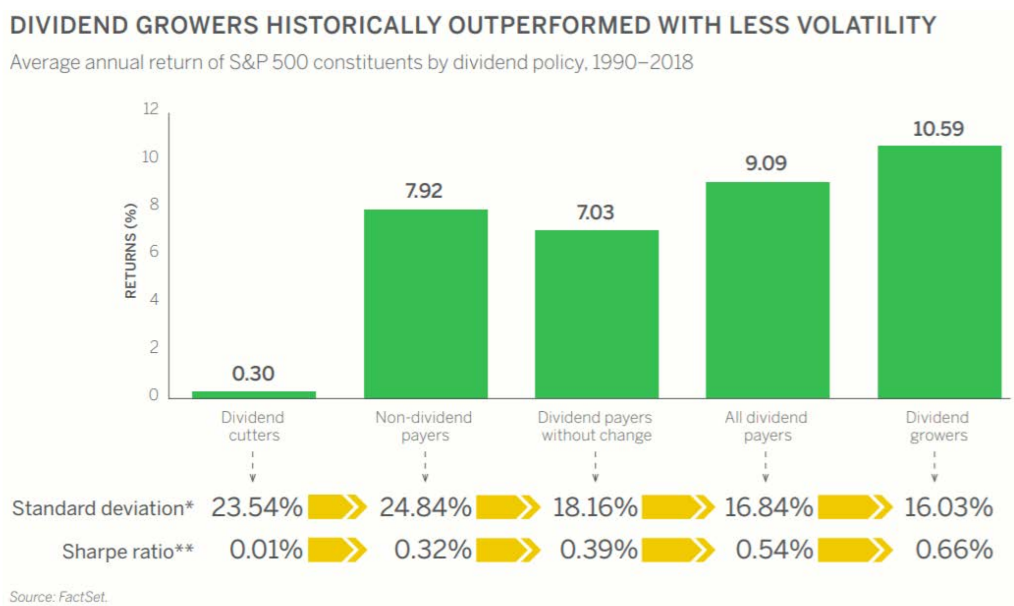
North Star Investment Management believes that small cap dividend paying stocks offer both a stable income flow and the potential for appreciation. Despite superior long-term returns for those type of companies, investors tend to have very low or no allocations to them in their portfolios. Companies with market caps under $2.5 billion and dividends over 0% total $728 billion, or only 1.95% of the total $37.3 trillion total available market cap of U.S. Companies. In fact, four individual companies, AAPL, MSFT, GOOGL and AMZN, all have market caps that exceed that of the entire universe of small cap dividend paying companies. We conclude that the average traditional portfolio does not include small cap dividend paying companies.



The Case for Dividend Payers

With the stock market indices at record highs and bond yields at historic lows, we think this asset class represents a timely investment opportunity. As the chart below illustrates, over the long run dividend paying stocks can provide a return less volatile than growth-oriented companies. Whereas share prices fluctuate, dividends still provide positive returns, even during periods of market declines. The returns from the dividend payers have been higher (9.09% versus 7.92%) with a lot less volatility (standard deviation of 16.84% versus 24.84%). This attractive combination of higher returns with less volatility makes the case for dividend paying companies to be included in investors' portfolios



*Standard Deviation: A statistical measure of volatility indicating the risk associated with a return series. Standard deviation of return measures the average deviations of a return series from its mean and is often used as a measure of risk. A large standard deviation implies that there have been large swings in the return series of the manager.

**Sharpe Ratio: A portfolio's excess return over the risk-free rate divided by the portfolio's standard deviation. The portfolio's excess return is its geometric mean return minus the geometric mean return of the risk-free instrument (by default. T-bills).

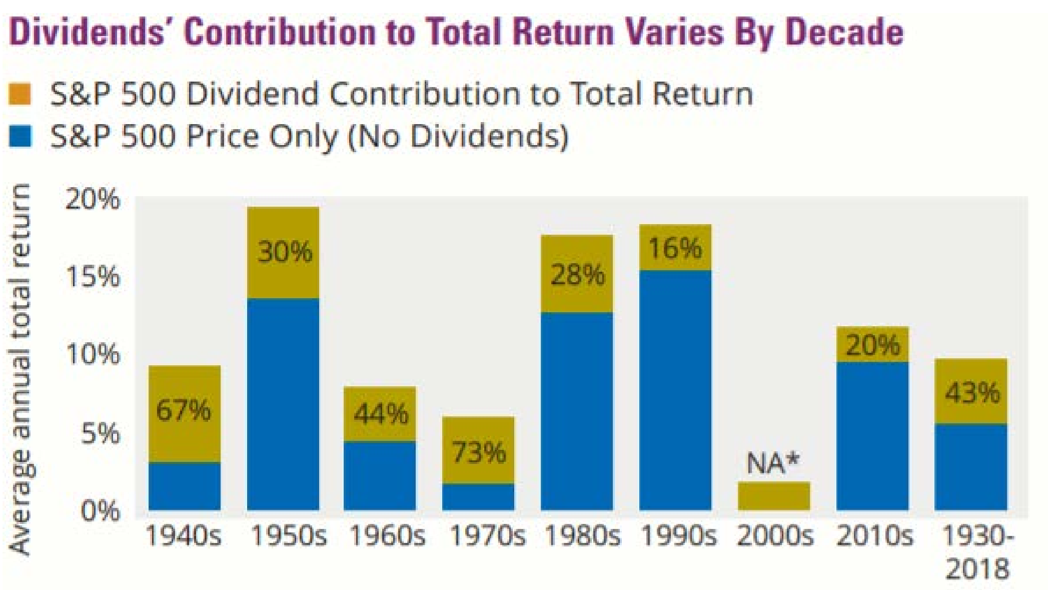
Past Performance is no guarantee of future results.

The S&P 500 Index is an unmanaged market-capitalization-weighted index generally considered to be representative of U.S equity market activity. The index consists of 500 stocks representing leading industries of the U.S economy. Index results assume the reinvestment of dividends paid on the stocks constituting the index. Indexes are unmanaged and not available for direct investment and do not represent the performance of a single fund.

When investing it is important to see a consistent history of dividend policy. Corporations that have a long history of paying dividends generally will continue to do so over time. We focus on companies that have had a consistent dividend policy for over 15 years, and favor those that have demonstrated a commitment to dividend increases, as those companies have even better risk/reward characteristics.

How Dividend Funds have Historically Reduced Risk

Dividend paying stocks can provide a return component less volatile than the capital appreciation component. Share price returns alone can be negative and quite volatile, but historically dividends have provided positive equity return contributions, especially during periods of weak price appreciation in the broad market. So far this decade share price increases have provided the lions share of the total return of the S&P 500 index, however over the last eight decades dividends have generated over 40% of the total return. In three of the decades (1940s, 1970s, and 2000s) between 67% to over 100% came from dividends.



Data Sources: Morningstar and Hartford Funds, 1/19. *Total Return for the S&P 500 Index was negative for the 2000s. Dividends provided a 1.8% annualized return over the decade.

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That lower volatility may be particularly important for investors who rely on their portfolios to fund their living expenses or retirement, as it would be unfortunate to need to sell stocks to raise cash to pay expenses when share prices are low.

High Quality Small Cap... Even Better

Most dividend strategies limit their scope to large cap companies, but over half of all stocks with 3% or higher dividends have market caps under $1 billion. Those small cap companies have also generated superior investment returns in most time periods but have underperformed over the last three years. As a result, we think the current valuations of small cap value companies present attractive opportunities. At North Star we seek to invest in high quality businesses within the small cap universe. We define high quality as having lower than average leverage ratios as well as higher than average returns on equity. This way our selection of equities maximizes the odds of growing the stock value, while benefiting from dividend stream. We believe that the inherently stable characteristics of this model are synonymous with quality in a dividend portfolio.

Why Our Formula Matters Now

We stick to a few basic principles that have driven long term performance in our dividend strategy. Given the current relatively high valuation of the overall market and the historically low level of bond yields, we think this strategy is particularly timely. We seek the under-researched smaller companies who support long-term dividend payment with growth potential, management teams whose interest align with shareholders, and business models that have historically generated high returns on equity. We believe these characteristics combine to provide a more stable return, particularly in periods of higher volatility and lower overall market returns.

Important Risk Information:

The indices shown are for informational purposes only and are not reflective of any investment. As it is not possible to invest in the indices, the data shown does not reflect or compare features of an actual investment, such as its objectives, costs and expenses, liquidity, safety, guarantees or insurance, fluctuation of principal or return, or tax features.

Mutual Funds have investment risks including loss of principal. There is no guarantee the fund will meet its objective. In general, the price of a fixed income security falls when interest rates rise. There is a risk that issuers and counterparties will not make payments on securities and other investments held by the Fund, resulting in losses to the Fund. The Fund may invest in high yield securities, also known as “junk bonds”. High yield securities provide greater income and opportunity for gain but entail greater risk of loss of principal. Foreign common stocks and currency strategies will subject the Fund to currency trading risks that include market risk, credit risk and country risk. Municipal securities are subject to credit risk where a municipal security might not make interest and principal payments as they come due. The Advisor follows an investing style that favors value investments. At times when the value investing style is out of favor, the Fund may underperform other funds that use different investing styles. Investments in lesser known, small and medium capitalization companies may be more vulnerable than larger, more established organizations. As with any investment, there are risks associated with REITs. Investments in lesser-known, small and medium capitalization companies may be more vulnerable than larger, more established organizations. The Advisor does not attempt to keep the portfolio structure or fund performance consistent with any market index. Increased portfolio turnover may result in higher brokerage commissions, and other transaction costs may result in taxable capital gains.

Investors should carefully consider the investment objectives, risks, charges and expenses of the North Star Funds. No-Load Mutual funds are sold without sales charge; however, they have ongoing expenses, such as management fees. This and other important information about each of the Funds are contained in the prospectus, which can be obtained at www.nsinvestfunds.com or by calling (855)580-0900. The prospectus should be read carefully before investing. The North Star Funds are distributed by Northern Lights Distributors, LLC member FINRA/SIPC. 9033-NLD-12/9/2019