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Arun Manoharan, Financial Economist
Division of Trading and Markets
U.S. Securities and Exchange Commission
100 F Street, NE
Washington DC, 20549-1090

October 21, 2014

RE: Reality Shares Index ETF Rule 19b-4 Filings – October 15, 2014 Conference Call

Mr. Manoharan:

As a follow up to our conversation with the staff ("Staff") of the Securities and Exchange Commission ("SEC") on October 15, 2014, and pursuant to your specific request, this memo is intended to address the Staff's expressed concerns regarding the long-term performance of the Reality Shares Index Funds ("Funds"). Our objective is to explain the key drivers of the Funds' performance and, if possible, to resolve any remaining differences between our view and the Staff's views. With this in mind, we present our views on key theoretical and technical aspects of the Funds' performance which we believe are the source of the disagreement. We'd also like to reiterate that Reality Shares' goals are aligned with the Staff's in that we aim to issue products with investment objectives and risks that are clear and fully transparent to all investors, and which are properly disclosed. We hope to demonstrate the common ground by which we all agree and clearly delineate where our views depart from the Staff's.

Summary of the Staff's concerns:

It is our understanding that the Staff economists believe the Funds' strategies will not produce positive returns for buy and hold investors over the longer term, owing to the efficient nature of markets and dividend growth, being fairly easy to predict by astute market participants. We further understand that the Staff's economists are under the impression that if all information is known, then the expected return will either be zero, or the return in excess of the risk free rate will be zero.

Response:

Our research indicates that the historical returns of the Funds' strategy have been positive over long periods of time and that an investor can reasonably expect returns in the future that are non-zero and positive in the long term. Of course, as with all investments, there can be no guarantees that this strategy will be successful in the future. To support this claim, we present two arguments, one based on economic theory and the second based on market research and historical data.

1. Economic Theory Supports Positive Long-Term Fund Returns. We respectfully disagree with the Staff's underlying premise, which suggests that given efficient markets, the long-term returns of the Funds would be ZERO. We believe all investments, even in perfectly efficient markets, are expected to have, at minimum, a risk-free rate associated with them. For example, Treasury Bills (theoretically risk-free assets) are discounted by the risk-free rate in order to entice investors to purchase them. Thus, even in a perfectly efficient market such as the one for T-bills, an investment in a riskless asset will produce a long-term return greater than zero. Another important tenet in our thesis is

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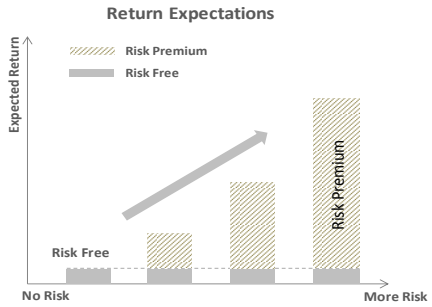
the central concept of *risk premium*. More specifically, if <u>any</u> uncertainty surrounds the future payoff of an investment, one would expect a risk premium to be attached to the investment. This would be quantified as the amount of money by which the expected return on the asset exceeds the known return of a risk-free asset. This risk premium compensates the investor for the uncertainty in their investment in a risky-asset. A simple example of this would be to look at the yield offered by short-term AAA corporate bonds. Most investors and economists would agree that even if short-term AAA corporate bonds carry very little uncertainty, the long-term investment returns for a strategy that invests in short term AAA rated debt securities is expected to be greater than zero. The returns expected from such a strategy equal the sum of the risk-free rate plus the risk premium. In this example, we do not mean to infer that the returns would be equal to the exact coupon stated on the bonds. In fact, we agree that the returns should be less (and at times far less) than the stated coupon. However, we believe this analysis provides a useful way to think about and compare the strategy of investing in expected dividend growth. If the dividend risk premium were low, we would expect the strategy to earn less than the actual growth of dividends. If dividend risk premium were high, we would expect the strategy to earn more than actual dividend growth. We believe the central point the Staff wanted us to make clear in our disclosure language is that investment in expected dividend values most likely will not equal the actual returns of dividends (they may be higher or lower). We want to be clear however, that while expected dividend returns may not match dividend growth exactly, the rate of return would (at a minimum) be expected to be equal to the risk free rate plus the risk premium.



Where do expectations for dividend growth lie on the risk spectrum? Dividends are voluntary payments made to the equity shareholders after the liabilities of the company have been satisfied. Because of their position on the capital structure they would be expected to have a greater risk premium than, for example, corporate bonds or Treasury Bills. Put simply, a company will cut their dividend payments before it defaults on its debt payment. Markets recognize this risk and assign an appropriate risk premium to the expected dividend growth.

The fact that markets demand both a risk free return combined with a risk premium explains why even in an efficient market the strategy of investing in the expected dividend growth implied in the options market would result in return expectations greater than zero and most likely, greater than corporate bonds.

2. <u>Independent Support for Proposition that Implied Dividend Strategy Can Produce Positive Long-Term Returns</u>. Beyond the theoretical analogy, it is also important to demonstrate that an investment in the expected dividend implied in the options markets has historically produced positive returns and we believe the strategy can be expected to produce future positive long-term returns. This belief is based on empirical evidence and supported by a multitude of economists publishing research on equity price returns and expected dividend growth rates. For example, we previously referenced a

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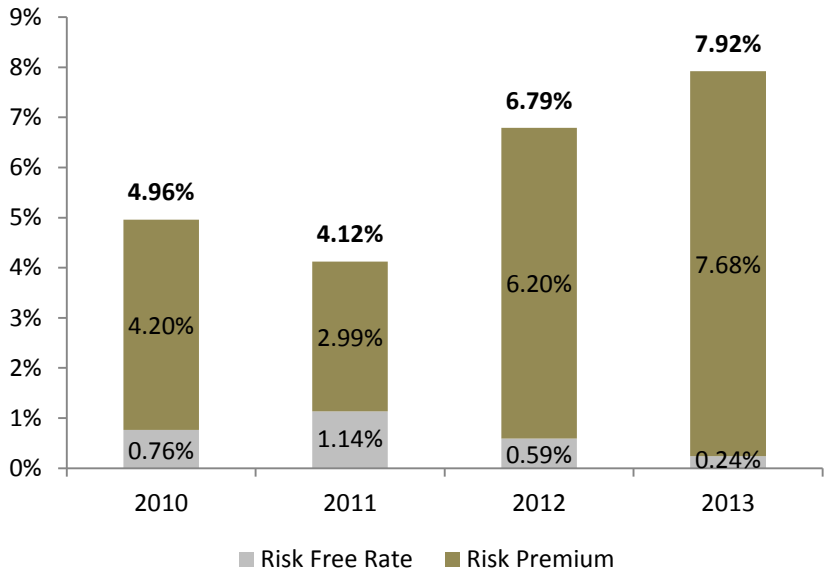
research paper that provides empirical evidence of an investment in one year dividend strips on the S&P Index using SPX index options. In this paper, Binsbergen[1] demonstrates that the portfolio earns positive long-term returns and exhibits a Sharpe ratio higher than the underlying equity index from the period starting Jan 1996 to Oct 2009. While we believe it is possible for implied dividend strategies to outperform equity returns as well as actual dividend growth, this is not the principal tenet in our investment thesis. The foundation of the Funds investment strategy is predicated on our conclusion that implied dividends in fact carry risk, and in an efficient market this risk will be reflected in the form of a dividend risk premium. In addition, we present further research in the chart below showing two-year annualized returns of four actual Dividend Swaps all earning positive systematic returns. We point out these returns are in fact positive and greater than the risk free rate over each respective holding period. This positive return can be attributed to the risk premium assigned by the market, and is associated with the uncertainty of dividend growth over that time frame.

Two Year Dividend Swap Returns versus Two Year Risk Free Rates



Annualized Return for 2-year period ending	2010	2011	2012	2013
Dividend Swap	4.96%	4.12%	6.79%	7.92%
Risk Free Rate	0.76%	1.14%	0.59%	0.24%
Risk Premium	4.20%	2.99%	6.20%	7.68%

***Risk free rate based on 2 year Treasury yields**

Source: BNP Paribas, Bloomberg

[1] van Binsbergen, Jules H. and Brandt, Michael W. and Koijen, Ralph S. J., On the Timing and Pricing of Dividends (October 7, 2011). CRSP Working Paper; Chicago Booth Research Paper No. 10-30; Swiss Finance Institute Research Paper No. 11-13.

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Conclusion

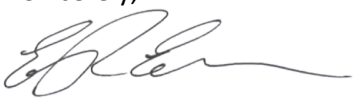
We believe there is sufficient theoretical and empirical evidence as provided by Reality Shares and outside sources to conclude all outstanding issues and refute the Staff's concern that the long-term returns of the Funds would be zero. Accounting for risk premium, a strategy tracking implied dividends would be expected to produce positive long-term returns above the risk-free rate. Given this position, we believe we have adequately responded to all of the Staff's concerns required to gain regulatory approval of the exchange listings for the Reality Shares Index Funds.

We believe our goals are mutually aligned with the Staff in that we seek to provide an investment vehicle whose investment objective and risks are clearly transparent and properly disclosed to all investors.

Please let me know if you require any further information or have any questions. We remain available for an in-person meeting should you or any interested parties within the Commission have any further questions regarding this or other concerns involving the Funds investment strategy.

Thank you for your time and attention in this matter.

Sincerely,



Eric R. Ervin, CEO

cc: Tina Berry
Michael Coe