

SEVENS REPORT *alpha*

**Webinar #4: How Long Can the Reflation Last/Eric Ervin on
DIVY/Position Updates**

Thursday, October 12th 2017.

Presenter: Tom Essaye

Guest: Eric Ervin, President of Reality Shares

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- Goals for Today's Webinar
 - “What Do You Think About Markets?”
 - Eric Ervin - DIVY
 - How DIVY works
 - Why He Invented It
 - How It Helps Advisors Outperform (Hint: Fixed Income Alternative)
 - Alpha Position Update

“What Do You Think About the Market?”

- How Long Can the Reflation Last?
 - 10 Year Yield is the Key. Still below 2.40% and that makes me concerned.
 - Bigger picture, puts a lot of pressure on economic data and Fed speak to run a gauntlet.
 - Can't be too hawkish and have rates rise too fast. Will kill rally.
 - Can't be too dovish and think the reflation isn't happening – will kill confidence (we saw that a bit on Wednesday with Evans/Harker).
- Without a reflation, market outlook dims considerably.
 - No reflation = tax cuts as the only identifiable catalyst to material new highs.
 - Corporate earnings and margins won't keep expanding like they have in '17.
 - Economic growth can't get *that* much better (i.e. no massive rising tide even with a reflation).
- Bottom Line – We need a reflation to take hold but have to wait for it.
 - Tactically, holding “reflation basket” makes sense as long as you're relatively nimble.
 - Longer term accounts – Need to wait for 2.40% to be broken materially.

Eric Ervin – President of Reality Shares, Issuer of DIVY

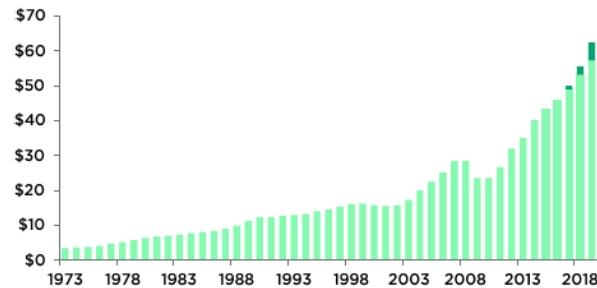
- How DIVY Works
 - Fixed Income Alternative.
 - Offers pure play exposure to S&P 500 dividend growth, which has averaged 6.4% per year for the last 44 years.
 - Achieves this exposure through dividend growth swaps.
 - The ETF buys dividend swaps, which currently price in dividend growth well below the 6.4% 44 year average. As the swaps appreciate, so does DIVY.

DIVY – How It Works

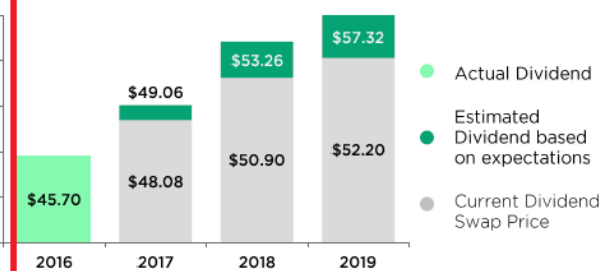
Understanding dividend swap strategy

Long-term S&P 500 dividend growth has averaged 6.4% return per annum, but the dividend swap market is pricing in just 3.5% annual growth for 2017-2023¹. Dividend swaps allow an investor to take a view on future dividend growth.

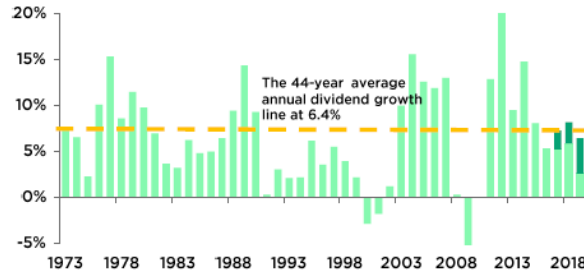
S&P 500 Dividend Per Share (1973 - 2019 Est)



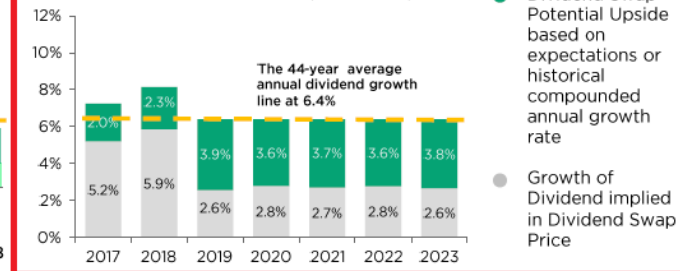
Dividend Swap Implied Dividend vs Estimated Dividends* (2016-2019)



S&P 500 Y-O-Y Dividend Growth (1973 - 2019 Est)



Dividend Swap Implied Dividend Growth vs Estimated Dividend² (2016-2023)



¹ Based on Bloomberg BVAL dividend swap prices. ² For the years 2017-2019, estimated dividends are from BBRG/JPM consensus bottom-up estimates as of 12/30/2016. 2019 and beyond use constant average growth rate of 6.4% (based on historical S&P 500 dividend growth from 1973-2015). Source Bloomberg, Compustat, S&P Capital IQ, Reality Shares Research as of 12/30/2016. Past performance does not guarantee future results. The diagrams do not represent the actual performance of the Fund, or all market scenarios.

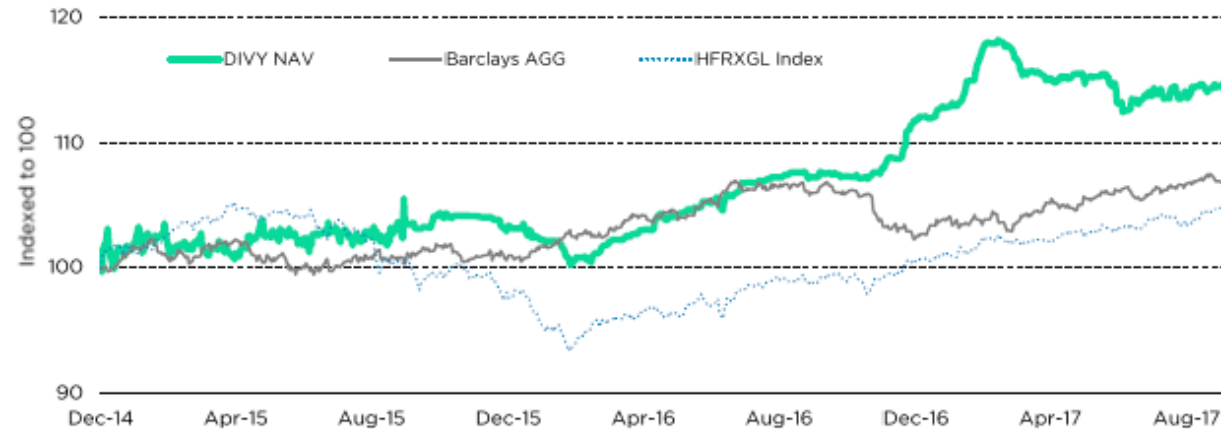
DIVY – How It Helps Advisors Outperform

- Think of DIVY as a Fixed Income Alternative
- Mid-Single Digits Annual Returns With Low Volatility – and importantly not strongly correlated to a lot of portfolio holdings, offering true diversification.
- DIVY should outperform in a period of rising interest rates (which is what we appear to be in).
 - From '72 – '81 the 10 year Treasury yield rose from 5.95% to 14.59%.
 - During that time, S&P 500 dividend growth averaged 8.07%, higher than the historical 6.4% average. DIVY would outperform bonds if that happens again.

DIVY – How It Helps Advisors Outperform

DIVY performance

DIVY NAV performance since inception
(Dec. 18, 2014 – Sep. 29, 2017)



Fund performance

As of Sep. 29, 2017	1M	3M	YTD	1Y (Ann.)
DIVY NAV	-0.45%	1.52%	2.90%	6.98%
DIVY Market Price	-0.35%	0.94%	2.18%	6.53%
Barclays AGG	-0.48%	0.85%	3.14%	-0.07%
HFRXGL Index	0.60%	1.83%	4.43%	5.64%

Since inception

Cum. Return	Ann. Return	Ann. Risk ¹	Sharpe Ratio
15.13%	5.19%	3.97%	1.25
14.35%	4.93%	5.33%	0.88
6.65%	2.34%	3.22%	0.65
5.02%	1.77%	3.54%	0.43

Inception date is Dec. 18, 2014. 1 Volatility based on weekly returns since inception (Dec. 18, 2014 – Sep. 29, 2017). Performance data quoted represents past performance. Past performance is no guarantee of future results and investment return, and principal value of the Fund will fluctuate so that shares when sold may be worth more or less than their original cost. Current performance may be higher or lower than the performance quoted. Visit realityshares.com for performance data current to the most recent month end. Returns over one year are annualized. ETF shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Market price returns are based on the midpoint of the bid/ask spread at 4 pm ET and do not represent the returns an investor would receive if shares were traded at other times.

Alpha Position Update

ETF	Issue Number	Date	Return	Benchmark
KWEB	01 – Link Here	8/17/17, 8/24/17	7.80%	5.43%
RSP	02 – Link Here	9/7/17	3.84%	3.81%
SNSR	03 – Link Here	9/21/17	1.42%	2.26%
ROBO	03 – Link Here	9/21/17	2.60%	2.26%
AMBA	03 – Link Here	9/21/17	12.39%	2.26%
QCOM	03 – Link Here	9/21/17	4.02%	2.26%
LIT	03 – Link Here	9/21/17	2.90%	2.26%
ALB	03 – Link Here	9/21/17	1.88%	2.26%
DIVY	04 – Link Here	10/4/17	1.28%	-0.03%
REGL	04 – Link Here	10/4/17	0.00%	-0.07%
SMDV	04 – Link Here	10/4/17	0.37%	-0.07%

Benchmarks for KWEB, RSP, SNSR, ROBO, AMBA, QCOM, LIT, ALB is S&P 500. Benchmark for DIVY is iShares Core U.S. Aggregate Bond ETF (AGG). Benchmark for REGL, SMDV is Russell 2000.

Position Update/Highlights

- Nine of the eleven ETFs are beating their respective benchmarks since we recommended them.
- Remain long term positive on all positions, no changes to thesis.
- If you don't own any, still would advocate buying here given medium/longer term time horizons.
- That said, if you own KWEB or AMBA and want to book a quick profit, certainly understandable.
- Self driving car names (SNSR/ROBO/AMBA/QCOM/LIT/ALB) are still medium term overbought, but have traded well. Longer term doesn't think entry point really matters that much. If our LT thesis is right, all will be much higher.