

Q. NLH-89 CA (Re: Page 8)

Dr. Kalymon states that investors in equity are showing lower dividend return expectations. Is it Dr. Kalymon's view that lower dividend return expectations equate to lower total return expectations, that is, inclusive of capital gains? Please explain.

A. **The return on equity is a combination of the dividend yield and the levels of expected growth. Lower dividend yields are sometimes indicators of a lowered cost of capital if economic conditions for growth have not changed. It is certainly clear that the lowered dividend yields are coincident with lower interest rates which directly signal a lower cost of capital.**