Q. Reference: Dr. Booth Evidence, Page 43, Lines 7-11: Please explain the theoretical basis for the Conditional CAPM. Please provide any academic literature that supports the use of the Conditional CAPM model to adjust for the artificially low interest rate environment that has been created by monetary policy.

A. Please see the Conditional CAPM and the Cross-Section of Expected Returns Ravi Jagannathan and Zhenyu Wang, the Journal of Finance, Vol. 51, No. 1. (Mar 1996), pp. 3-53.

Note that the CCAPM is just the CAPM, where the estimates of the market risk premium, beta and risk free rate are allowed to vary from period to period. It is not a new model.

For cost of capital purposes it just means that we don't use long run values but allow them to change based on judgment as to the state of the economy.

Obviously there is no research on its application for the current artificially low interest rate environment, since this has only existed for the last few years. Dr. Booth would guess that, given the 3 year wait time from submission to publication of academic journals, any work that is underway now won't be published until 2020.