Q. References: Page 77 and Appendix E, Page 8

In Appendix E, Page 8, Dr. Booth says, "In fact, going back as far as 1871, there is substantial evidence that the real return on US equities has been constant at just under 9.0%." At page 77, he states, "What the chart indicates is that investing at a time when the PE ratio is low gives higher future returns, and the highest ten year average return for the US market is 8.1%."

Please explain how both statements can be true.

A. The estimate of just under 9.0% in Appendix E comes from Dr. Booth's own research in terms of actual real returns on US equities from 1871 to 1997 published in the Journal of Applied Corporate Finance in 1999. The RBC estimate comes from their own research from 1881 to the present. The implication is that the last ten years have not been very good for the US equity market since it includes two major crashes, that of the internet bubble and that of 2008.