Q. Evidence of Dr. Vander Weide: Experienced "risk premia" Pages 19-23: Would Dr. Vander Weide accept that utilities are classified as interest sensitive equities since they are dividend rich? If not, please provide the current dividend yield for his USand Canadian utility samples and for the TSX Composite and S&P500 indexes.

A. Dr. Vander Weide accepts that the current average dividend yield for U.S. and Canadian utilities is higher than the average dividend yield for the companies in the TSX Composite and S&P 500 indices. However, the fact that utilities generally have higher dividend yields than non-utilities does not imply that utility stocks are interest sensitive. Utility stock prices should behave differently from bond prices because the expected cash flows from investing in utility stocks vary with the allowed rate of return, and hence with interest rates, while the expected cash flows from investing in a bond are fixed at the time a bond is purchased. Indeed, because the expected cash flows (dividends) from utility equities depend on the utility's expected allowed ROEs in all future periods, and allowed ROEs can rationally be expected to move in the same direction as interest rates, it would be rational to expect that utility stock prices would be relatively insensitive to changes in interest rates. In short, any change in the discount factor for utility stocks should be roughly off-set by changes in allowed ROEs, and hence, dividends.