Q: Reference: Schedule 8 and Pages 37 and 38, Lines 29-2

Please discuss whether it is more appropriate to use the income return or the total return on bonds to calculate the historic equity risk premium.

A: Both approaches provide a useful perspective for calculating historical MRPs, since each represents one way of observing the historical data and one way of treating the investment holding period. For an investor who looks at past investment rates of return to gauge likely future comparative rates of return and has no fixed sense of what his or her investment holding period will be, then observing or using total bond returns is preferable. On the other hand, for an investor who buys a bond anticipating that he/she will hold it to maturity and gauges the attractiveness of this investment against equity investments, then the bond's projected income return or prevailing yield to maturity at the time of purchase is the more relevant or appropriate value to use to assess the MRP.