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Q: Reference: Page 37, Lines 19-27 and Page 38, Lines 18-26, Schedule 7 and Schedule 10.

Please confirm that the Scotia Capital Long-Term Bond Value Index contains both provincial and corporate bonds as well as Canada bonds.

A: It is confirmed, as indicated in footnote b on Schedule 7.

It is important to note that Dr. Cannon did not use the Scotia Capital Long-Term Bond Value Index to calculate historical MRPs from the Schedule 7 data. However, Dr. Cannon did inadvertently use this data series to update the Dimson, Marsh, and Staunton data in Schedule 10, where a series of recent long-term Canada yields (not including provincial or corporate bonds) was called for.

A corrected version of Schedule 10, using Government of Canada long-term bond returns for 2001 through 2006, is attached to this response. The substitution of the corrected schedule for the original schedule has no material impact on Dr. Cannon's MRP findings and conclusions.

CANADIAN LONG-RUN SECURITY RETURNS AND EQUITY RISK PREMIA  
BASED ON DATA FROM 1900 ONWARDS

	<u>Nominal Canadian Dollar Returns On: .</u>		
	<u>Canadian</u> <u>Equities</u>	Gov't of Cda <u>91-Day</u> <u>T-Bills</u>	Gov't of Cda <u>Long-Term</u> <u>Bonds .</u>
	%	%	%
<b><u>1900-2000:</u></b>			
Geometric Mean	9.7	4.9	5.0
Arithmetic Mean	11.0	4.9	5.4
2001 Returns	-12.57	4.72	5.20
2002 Returns	-12.44	2.52	10.43
2003 Returns	26.72	2.91	7.36
2004 Returns	14.48	2.30	10.38
2005 Returns	24.13	2.58	14.45
2006 Returns	17.26	3.97	3.03
<b><u>1900-2006:</u></b>			
Geometric Mean	9.62	4.80	5.19
Arithmetic Mean	10.92	4.80	5.57
<b><u>1900-2006 Equity Risk Premia</u></b>		<u>Arithmetic</u> <u>Mean</u>	<u>Geometric</u> <u>Mean .</u>
Equities versus T-Bills		6.12	4.81
Equities versus Long Canada Bonds		5.35	4.42

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**Sources:** Elroy Dimson, Paul Marsh, and Mike Staunton, Triumph of the Optimists: 101 Years of Global Investment Returns, Princeton, NJ; Princeton University Press, 2002; Scotia Capital Markets data for 2001-2006; Dr. Cannon's calculations.