

Ibbotson® SBBI®

2010 Valuation Yearbook

Market Results for
Stocks, Bonds, Bills, and Inflation
1926–2009

MORNINGSTAR®

Key Variables in Estimating the Cost of Capital

	Value			
Yields (Riskless Rates)¹				
<i>Long-term (20-year) U.S. Treasury Coupon Bond Yield</i>				4.6%
Equity Risk Premium²				
<i>Long-horizon expected equity risk premium (historical): large company stock total returns minus long-term government bond income returns</i>				6.7
<i>Long-horizon expected equity risk premium (supply side): historical equity risk premium minus price-to-earnings ratio calculated using three-year average earnings</i>				5.2
Size Premium³				
Decile	Market Capitalization of Smallest Company (in millions)		Market Capitalization of Largest Company (in millions)	Size Premium (Return in Excess of CAPM)
Mid-Cap (3–5)	\$1,602.429	–	\$5,936.147	1.08%
Low-Cap (6–8)	432.175	–	1,600.169	1.85
Micro-Cap (9–10)	1.007	–	431.256	3.99
Breakdown of Deciles 1-10				
1-Largest	14,692.016	–	329,725.255	-0.37
2	5,975.836	–	14,691.668	0.74
3	3,428.570	–	5,936.147	0.85
4	2,386.985	–	3,414.634	1.15
5	1,602.429	–	2,384.026	1.69
6	1,063.333	–	1,600.169	1.73
7	685.129	–	1,063.308	1.73
8	432.175	–	684.790	2.49
9	214.194	–	431.256	2.85
10-Smallest	1.007	–	214.111	6.28
Breakdown of the 10th Decile				
10a	123.536	–	214.111	4.45
	10w	–	214.111	3.85
	10x	–	169.497	4.91
10b	1.007	–	123.516	10.01
	10y	–	123.516	9.05
	10z	–	76.052	12.06

¹ As of December 31, 2009. Maturity is approximate.

² See chapter 5 for complete methodology.

³ See chapter 7 for complete methodology.

Note: Examples on how these variables can be used are found in Chapters 3 and 4