

Table 10
Long-Horizon Expected Equity Risk Premium and Size Premium
 As of December 31, 2013

Equity Risk Premium

<i>Long-horizon expected equity risk premium (historical):</i> Large company stock total returns minus long-term government bond income returns ¹	6.96%
<i>Long-horizon expected equity risk premium (supply-side):</i> historical equity risk premium minus price-to-earnings ratio calculated using three-year average earnings	6.12%

Size Premia (market capitalization in millions) ²

Decile	Smallest Company		Largest Company	Size Premium (Return in Excess of CAPM)
Mid-Cap (3-5)	2,432.888	–	9,196.480	1.14%
Low-Cap (6-8)	636.747	–	2,431.229	1.87
Micro-Cap (9-10)	2.395	–	632.770	3.84

Breakdown of Deciles 1-10

1 – Largest	21,753.411	–	428,699.798	-0.33%
2	9,196.656	–	21,739.006	0.80
3	5,572.648	–	9,196.480	0.93
4	3,581.547	–	5,569.840	1.19
5	2,432.888	–	3,573.079	1.72
6	1,622.997	–	2,431.229	1.75
7	1,056.204	–	1,621.792	1.75
8	636.747	–	1,055.320	2.48
9	339.522	–	632.770	2.76
10 – Smallest	2.395	–	338.829	6.01

¹ Expected equity risk premium is based on the difference of historical arithmetic mean returns for 1926-2013. Large company stocks are represented by the S&P 500.

² Return in excess of CAPM estimation. Mid-Cap stocks are defined here as the aggregate of size-deciles 3–5 of the NYSE/AMEX/NASDAQ; Low-Cap stocks are defined here as the aggregate of size-deciles 6–8 of the NYSE/AMEX/NASDAQ; Micro-Cap stocks are defined here as the aggregate of size-deciles 9–10 of the NYSE/AMEX/NASDAQ. The betas used in CAPM estimation were estimated from CRSP NYSE/AMEX/NASDAQ decile portfolio monthly total returns in excess of the 30-day U.S. Treasury bill total return versus the S&P 500 total returns in excess of the 30-day U.S. Treasury bill, January 1926–December 2013. Calculated (or Derived) based on data from CRSP US Stock Database and CRSP US Indices Database ©2014 Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business. Used with permission.