

Stocks, Bonds, Bills, and Inflation[®]

2015 Ibbotson[®] SBBI[®] Market Report

Data as of December 2014



Table 10

Long-Horizon Expected Equity Risk Premium and Size Premium

As of Dec. 31, 2014

Equity Risk Premium

Long-horizon expected equity risk premium (historical): large-cap stock total returns minus long-term government bond income returns ¹ 7.00%

Long-horizon expected equity risk premium (supply-side): historical equity risk premium minus price-to-earnings ratio calculated using three-year average earnings 6.19%

Size Premiums (market capitalization in millions) ²

Decile	Smallest Company		Largest Company	Size Premium (Return in Excess of CAPM)
Mid-Cap (3-5)	2,552,441	—	10,105,622	1.10%
Low-Cap (6-8)	549,056	—	2,542,913	1.77
Micro-Cap (9-10)	3,037	—	548,839	3.69

Breakdown of Deciles 1-10

1 – Largest	24,428,848	—	591,015,721	-0.32%
2	10,170,746	—	24,272,837	0.65
3	5,864,266	—	10,105,622	0.94
4	3,724,624	—	5,844,592	1.05
5	2,552,441	—	3,724,186	1.65
6	1,688,895	—	2,542,913	1.63
7	1,011,278	—	1,686,860	1.77
8	549,056	—	1,010,634	2.18
9	300,752	—	548,839	2.64
10 – Smallest	3,037	—	300,725	5.72

¹ Expected equity risk premium is based on the difference of historical arithmetic mean returns for 1926-2014. Large-cap stocks are represented by the S&P 500 Index.

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 2014. Calculated (or derived) based on data from CRSP US Stock Database and CRSP US Indices Database ©2015 Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business. Used with permission.

Glossary

Bond Default Premium

Calculated as the geometric difference between long-term corporate bond total returns and long-term government bond total returns.

Bond Horizon Premium

Calculated as the geometric difference between long-term government bond total returns and Treasury bill total returns.

Equity Risk Premium

Calculated as the geometric difference between large-capitalization stock total returns and U.S. Treasury bill total returns.

Inflation

Represented by Consumer Price Index for All Urban Consumer (CPI-U), not seasonally adjusted.

Intermediate-Term Government Bonds

Measured using a one-bond portfolio with a maturity near five years.

Large Capitalization Stocks

Represented by the Standard and Poor's 500 Stock Composite Index® (S&P 500) 1957–present; and the S&P 90, 1926–1956.

Long-Term Corporate Bonds

Represented by the Citigroup long-term, high-grade corporate bond total return index.

Long-Term Government Bonds

Measured using a one-bond portfolio with a maturity near 20 years.

Small-Capitalization Stocks

A portfolio of stocks represented by the fifth capitalization quintile of stocks on the NYSE for 1926–1981. For January 1982 to March 2001, the series is represented by the DFA U.S. 9–10 Small Company Portfolio and the DFA U.S. Micro Cap Portfolio thereafter.

Small Stock Premium

Calculated as the geometric difference between small-cap stock total returns and large-cap stock total returns.

U.S. Treasury Bills

Measured by rolling over each month a one-bill portfolio containing, at the beginning of each month, the bill having the shortest maturity not less than one month.