

DISCUSSION/ANALYSIS OF STUDIES OF MARKET RETURN**Q. ARE YOU AWARE OF ANY STUDIES THAT CALCULATE MARKET RETURN DATA OVER LONG PERIODS OF TIME?**

A. Yes. There are a number of well-known studies that calculate the stock market's return over long historical periods of time. In addition, these studies calculate the return for the stock market as a whole, rather than just a small segment of the stock market (e.g. small-cap stocks only, etc.).

For example, Ibbotson and Goetzmann (2005) calculated an average annual market return of 12.39% for the stocks of the entire New York Stock Exchange (NYSE)¹ over the seventy-nine year period 1926-2004.

Another well-known scholar, Robert J. Shiller, compiled market return data for the S&P Composite Stock Price Index² over the period 1871 through June, 2004.

The data Shiller compiled shows that the annual average market return over that period was 9.76%. Shiller's data shows that over the period 1900 through June, 2004, the annual average market return was 10.57%.³

¹ Yale ICF Working Paper No. 05-04, April 2005, "*History and the Equity Risk Premium*", William Goetzmann and Roger Ibbotson, Yale School of Management, Yale University, abstract.

² Shiller, Robert, *Irrational Exuberance*, Princeton University Press, 2000, page 6, figure 1.1 description.

³ The referenced stock market data was found at the following web site: <http://www.econ.yale.edu/~shiller/data.htm>. According to the website, this data was used in Shiller's Book *Irrational Exuberance*, and has since been updated through June, 2004.

Q. WILL YOU PLEASE SUMMARIZE THE HISTORICAL MARKET RETURN DATA THAT YOU HAVE DISCUSSED ON THIS SCHEDULE OR IN THE TEXT OF YOUR DIRECT TESTIMONY?

A. Yes. The following is a summary of the market return data I have discussed:

Ibbotson and Goetzmann (Entire NYSE 1926-2004)	12.39%
Shiller (S&P Composite Index 1871-June 2004)	9.76%
Shiller (S&P Composite Index 1900-June 2004)	10.57%
Dow Jones U.S. Small-Cap Index (1 year ended 3/31/05)	6.58%
Dow Jones U.S. Small-Cap Index (3 year ended 3/31/05)	9.67%
Dow Jones U.S. Small-Cap Index (5 year ended 3/31/05)	5.10%
Dow Jones U.S. Small-Cap Index (10 year ended 3/31/05)	12.49%
Dow Jones U.S. Small-Cap Index (Dec. 31, 1991 - March 31, 2005)	12.33%