



ANNUAL CONSULTANTS' CONFERENCE

JUNE 8-11
2011
SAN DIEGO

NATIONAL ASSOCIATION OF CERTIFIED VALUATORS AND ANALYSTS • INSTITUTE OF BUSINESS APPRAISERS

Track: **International Valuation**

Sponsored by the International Association of Consultants, Valuators and Analysts (IACVA)

Session Date/Time: **Thursday, June 9, 2011 • 2:05 – 3:45 PM**

Session Title: **Equity Risk Premium: Estimating the ERP in the Continuing Distressed Economy**

Session Summary:

The Equity Risk Premium (ERP) has been termed "perhaps the single most important number in financial economics" by Professor Ivo Welch. The crisis that began in 2008 casts doubt on simply using Morningstar's realized risk premium data from 1926 as the basis for estimating the ERP. This presentation will address the research leading to the Delaware Chancery Court opinion in *Global GT LP and Global GT LTD v. Golden Telecom, Inc.* that rejected the use of the Morningstar/Ibbotson ERP of 7.1%, and instead chose the lower estimate of 6%. Citing the "...wealth of recent academic and professional writings that supports a lower ERP estimate..." that was put forward in the hearing, the Court went on to say that the "...relevant professional community has mined additional data and pondered the reliability of past practice and come, by a healthy weight of reasoned opinion, to believe that a different practice should become the norm." The session will also explore the current evidence on the long-run ERP and how to estimate the conditional (given the current stage of the business cycle) ERP. After completing the session, attendees will understand the debate about estimating the ERP and be able to evaluate market data to make their own informed estimate of ERP. For example, attendees will understand the basis for the Delaware Chancery Court decision in *Global GT LP and Global GT LTD v. Golden Telecom, Inc.*, the impact of the crisis that began in 2008 on the ERP, and understand the "implied ERP" estimates provided monthly on Professor Aswath Damodaran's website.



CPE Hours/Fields of Study: **CPE: 2 • 1Hr-AC, 1Hr-AD**

Presenter Bio(s): **Roger Grabowski, ASA**



Roger is a Managing Director of Duff & Phelps, LLC. He was formerly a Managing Director of Standard & Poor's Corporate Value Consulting practice and before that a partner of PricewaterhouseCoopers LLP and one of its predecessor firms, Price Waterhouse (where he founded its U.S. Valuation Services practice and managed the real estate appraisal practice). Roger is the co-author with Shannon Pratt of three newly released books: *Cost of Capital: Applications and Examples* 4th ed. (Wiley, 2010); the companion *Cost of Capital* 4th ed. Workbook and Technical Supplement (Wiley, 2011); and *Cost of Capital in Litigation: Applications and Examples* (Wiley, 2011). He authors the annual Duff & Phelps Risk Premium Report.