Q. Evidence of Dr. Vander Weide: US DCF risk premia, Pages 26-30: Please repeat the regression analysis on page 28 for the two separate components of the DCF required return, that is the dividend yield and the growth yield.

A. Dr. Vander Weide's evidence at pp. 26 – 30 relates to the sensitivity of the DCF risk premium to interest rates. The DCF risk premium necessarily is based on a DCF result that includes both the dividend yield and the growth rate in a single variable, the DCF result, and on an interest rate variable. Since the DCF result is an estimate of the cost of equity, and the cost of equity is not measured by either the dividend yield alone or the growth rate alone, but only by the sum of the dividend yield and the growth rate, it would not be economically meaningful to use the difference between dividend yield alone and the interest rate or the difference between the growth rate alone and the interest rate as the dependent variable in a regression.