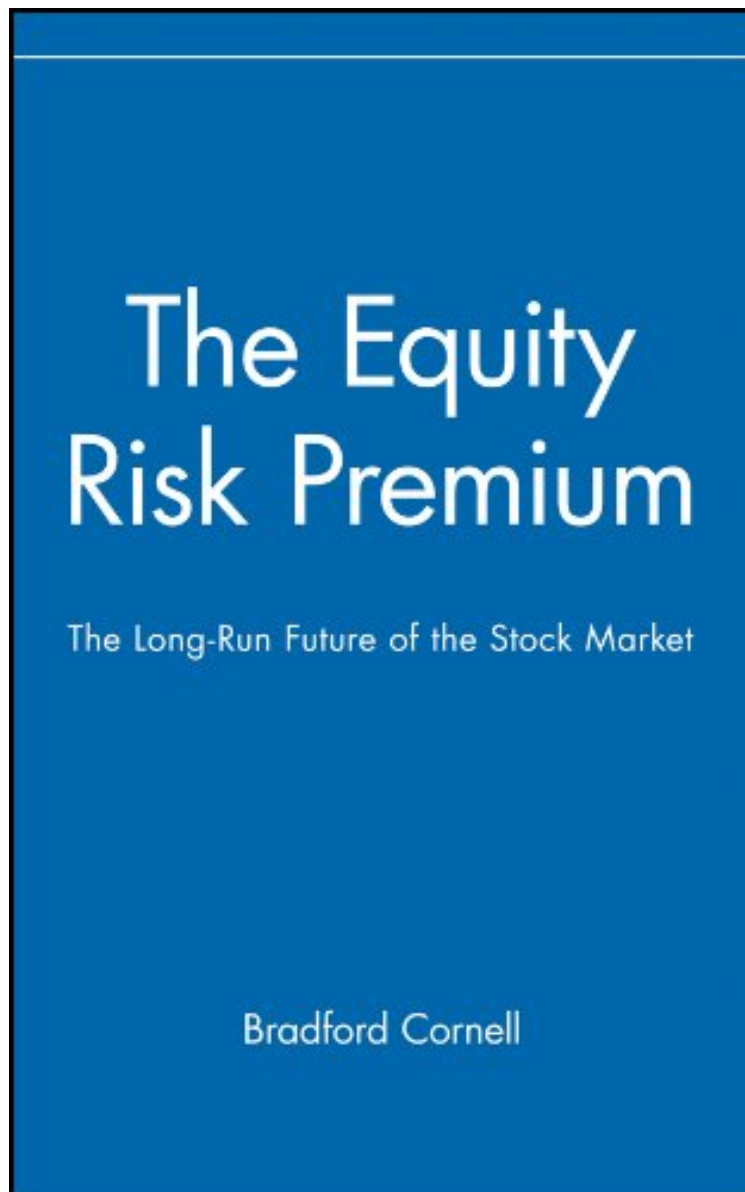


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The Equity Risk Premium: The Long-Run Future of the Stock Market (Frontiers in Finance Series)

Bradford Cornell

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Bradford Cornell : The Equity Risk Premium: The Long-Run Future of the Stock Market (Frontiers in Finance Series) before purchasing it in order to gage whether or not it would be worth my time, and all praised The Equity Risk Premium: The Long-Run Future of the Stock Market (Frontiers in Finance Series):

8 of 8 people found the following review helpful. The Equity Risk Premium By Dominic Andrade The author, Professor Bradford Cornell, gives an analytical, yet very readable, explanation and forecast of the decline of the stock market during the past couple of years. In this regard Professor Cornell makes a similar conclusion about the value of equities and slightly earlier than did Robert J. Shiller in his book, *Irrational Exuberance*. It is unfortunate that Professor Cornell and his book did not get the same attention that was accorded to Professor Shiller at the start of the stock market decline. The thesis of the book is that the equity risk premium for stocks, which is the compensation given to equity investors for holding shares of risky common stocks, was below, perhaps much below, what was historically normal. This implied that investors came to view common stocks as being a much less risky investment than stocks had been in the past. Indeed, a quite common view of many investors before the recent fall in the stock market was the view that common stock were an appropriate vehicle for "savings" rather than just for "investment." The implication of this perception by some investors is that equities in general were likely to continue to rise in price over time and thus represented a "safe" or at least low risk vehicle for discretionary income that was not spent. However, periods of relative low perceived risk usually do not last and are followed by periods of relatively higher perceived risk. The current period we are now in appears to be one in which the uncertainties regarding the stock market have increased and thus investors are now demanding greater compensation, that is, a higher risk premium, for bearing those uncertainties. The reason the book does not get five stars is that the book misspecifies the constant dividend growth model equation that forms the basis for the author's explanation of the adjustment in the equity risk premium. However, this oversight should not prevent the reader from getting a great explanation of how the prices of common stocks adjust to risks from this fine book.

1 of 3 people found the following review helpful. Not rigorous or entertaining By Fernando Saldanha This book was quite a disappointment and is very overpriced. If you have an academic background you will find it lacking in rigor. If you do not you may be fooled into the "illusion of understanding" but I would see that as a bad thing. Many people (myself included) read books on quantum physics or relativity for the layman just for enjoyment, and rationally seek the "illusion of understanding." This book does not rate highly in the "fun" scale. It is rather dry, and the subject matter itself is not as amusing as Schrodinger's cat or time travel. So I can only assume that non-academic readers really want to figure out how things really are, to trade their portfolios, and this book cannot satisfy that desire. This for two reasons: 1) researchers have not really solved the puzzles associated with the equity risk premium, 2) the non-technical reader cannot understand the subtleties of the subject matter. Given this, the "illusion of understanding" becomes a dangerous thing. Save your \$65 and buy some stocks for the long-run.

1 of 1 people found the following review helpful. Testo molto valido By Vasgu Tratta in modo approfondito della materia con numerose citazioni. Testo completato da utili tavole. Consigliato a tutti coloro che si occupano di valutazioni di aziende.

The Equity Risk Premium—the difference between the rate of return on common stock and the return on government securities—has been widely recognized as the key to forecasting future returns on the stock market. Though relatively simple in theory, understanding and making practical use of the equity risk premium concept has been dauntingly complex—until now. In *The Equity Risk Premium*, financial advisor, author, and scholar Bradford Cornell makes accessible for the first time an authoritative explanation of the equity risk premium and how it works in the real world. Step-by-step, his lucid, nontechnical presentation leads the reader to a new and more enlightened basis for making asset allocation choices. Cornell begins his analysis by looking at the equity risk premium in the light of stock market history. He examines the use of historical data in estimating future stock market performance, including the historical relationship between stock returns and risk premium, the impact of survival bias, and the effect of long-horizon stock and bond returns. Using the stock market boom of the 1990s as a case study, Cornell demonstrates what equity risk premium analysis can tell us about whether stock prices are high or low, whether the stock market itself may have changed, and whether indeed a new economic paradigm of higher earnings and dividend growth is now in place. Cornell analyzes forward-looking estimates of the equity risk premium through the lens of various competing approaches and assesses the relative merits of each. Among those scrutinized are the Discounted Cash Flow model, the Kaplan-Rubeck study, the Welch survey, and the Fama-French Aggregate IRR analysis. His insights on risk aversion theory, on the types of risk that have been rewarded over time, and on changing investor demographics all supply the sophisticated investor with important pieces of the risk premium puzzle. In his invaluable summing up of the equity risk premium and the long-run outlook for common stocks, Cornell weighs the evidence and assays the impact of a lower equity risk premium in the future—and its profound implications for investments, corporate decision making, and retirement planning. The product of years of serious analysis and hard-won insights, *The Equity Risk Premium* is essential reading for institutional investors, money managers, corporate financial officers, and all others who require a higher level of market analysis. "The Equity Risk Premium plays a critical role in legal and regulatory matters related to corporate finance. Along with the cost of debt, it is the most important determinant of a company's cost of capital. As such, it is an integral part of the decision-making process in corporate finance. For instance, whether or not a major acquisition makes sense can depend on the assumed value of the equity risk premium. In addition, the equity risk premium is an issue that regulatory bodies consider when they set fair rates of return for regulated companies.

Cornell's book is an important contribution because it includes both an historical analysis of the equity risk premium and provides tools for forecasting reasonable levels of the risk premium in the years ahead."-Theodore N. Miller, Partner, Sidley Austin. "Estimating how well stocks will do in the future from how well they have done in the past is like driving a car while looking in the rearview mirror. Brad Cornell provides us with an important forward-looking view in this easily understood guide to the equity risk premium and confounds the popular view that stocks will do well in the future because they have done well in the past."-Michael Brennan, Past President of the American Finance Association and Professor of Finance at the University of California at Los Angeles.

"An understanding of the equity risk premium is important for informed financial decision making. Cornell's book does an excellent job tying together historical, empirical, and theoretical analysis of the premium in a package accessible to practitioners as well as academics." -- Eugene F. Fama, Robert R. McCormick Distinguished Service Professor of Finance, University of Chicago

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From the Inside Flap

The equity risk premium—the difference between the rate of return on common stock and the return on government securities—has been widely recognized as the key to forecasting future returns on the stock market. Though relatively simple in theory, understanding and making practical use of the equity risk premium concept has been dauntingly complex—until now. In *The Equity Risk Premium*, financial advisor, author, and scholar Bradford Cornell makes accessible for the first time an authoritative explanation of the equity risk premium and how it works in the real world. Step-by-step, his lucid, nontechnical presentation leads the reader to a new and more enlightened basis for making asset allocation choices. Cornell begins his analysis by looking at the equity risk premium in the light of stock market history. He examines the use of historical data in estimating future stock market performance, including the historical relationship between stock returns and risk premium, the impact of survival bias, and the effect of long-horizon stock and bond returns. Using the stock market boom of the 1990s as a case study, Cornell demonstrates what equity risk premium analysis can tell us about whether stock prices are high or low, whether the stock market itself may have changed, and whether indeed a new economic paradigm of higher earnings and dividend growth is now in place. Cornell analyzes forward-looking estimates of the equity risk premium through the lens of various competing approaches and assesses the relative merits of each. Among those scrutinized are the Discounted Cash Flow model, the Kaplan-Rubeck study, the Welch survey, and the Fama-French Aggregate IRR analysis. His insights on risk aversion theory, on the types of risk that have been rewarded over time, and on changing investor demographics all supply the sophisticated investor with important pieces of the risk premium puzzle. In his invaluable summing up of the equity risk premium and the long-run outlook for common stocks, Cornell weighs the evidence and assays the impact of a lower equity risk premium in the future—and its profound implications for investments, corporate decision making, and retirement planning. The product of years of serious analysis and hard-won insights, *The Equity Risk Premium* is essential reading for institutional investors, money managers, corporate financial officers, and all others who require a higher level of market analysis.

From the Back Cover

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