



NATIONAL ASSOCIATION OF CERTIFIED VALUATION ANALYSTS

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NACVA AND THE IBA'S 2010 ANNUAL CONSULTANTS' CONFERENCE **SESSION SUMMARY**

JUNE 2—5, 2010

THE FONTAINEBLEAU MIAMI BEACH

MIAMI BEACH, FL USA

Track:

International Valuation

Co-sponsored with the International Association of Consultants, Valuers & Analysts

Session Date / Time:

Wednesday, June 2, 2010 / 10:30am – 12:15pm

Session Title:

Market Risk Premium Used by Professors and Practitioners: A Survey with 1,800 Answers

Session Summary:

There is a lack of consensus among professors about the magnitude of the MRP: the dispersion of the MRP used was high: the average MRP used by professors of the same institution range was 3.5% and the one of the same country was 6.9%. The average MRP used in 2008 in 18 different countries ranges from 4.1% (Belgium) to 10.5% (India).

There is also a great dispersion in the MRP used in 2008 by the professors that cited the same reference to justify the MRP that they use. Professors that cited Ibbotson as their reference used MRP between 3.5% and 16.5%; professors that cited Dimson et al as their reference used MRP between 3% and 9%; professors that cited Damodaran as their reference used MRP between 2.5% and 9%; and professors that cited Brealey and Myers as their reference used MRP between 4% and 10%.

There is also a great dispersion in the MRP used in 2008 by 416 European Companies: a MRP of between 2 and 30% was used. The average MRP used by European Co. was 6.4%.

The comments from 180 professors that illustrate the various interpretations of what is the required MRP help to explain the confusion of students and practitioners about its concept and magnitude.

CPE Hours / Fields of Study: Two (2) hours / Finance (FN)

Presenter Bio:



Pablo Fernandez holds a Ph.D. in Business Economics from Harvard University. He is the PricewaterhouseCoopers Professor of Corporate Finance at IESE Business School (Spain). His areas of specialization include company valuations, investment banking, and mergers and acquisitions. He consults and has written extensively on company valuation. He is the author of a paper in the *Journal of Financial Economics* (2004): "The Value of Tax Shields is NOT Equal to the Present Value of Tax Shields", and of the book "Valuation Methods and Shareholder Value Creation", published by Academic Press in 2002.