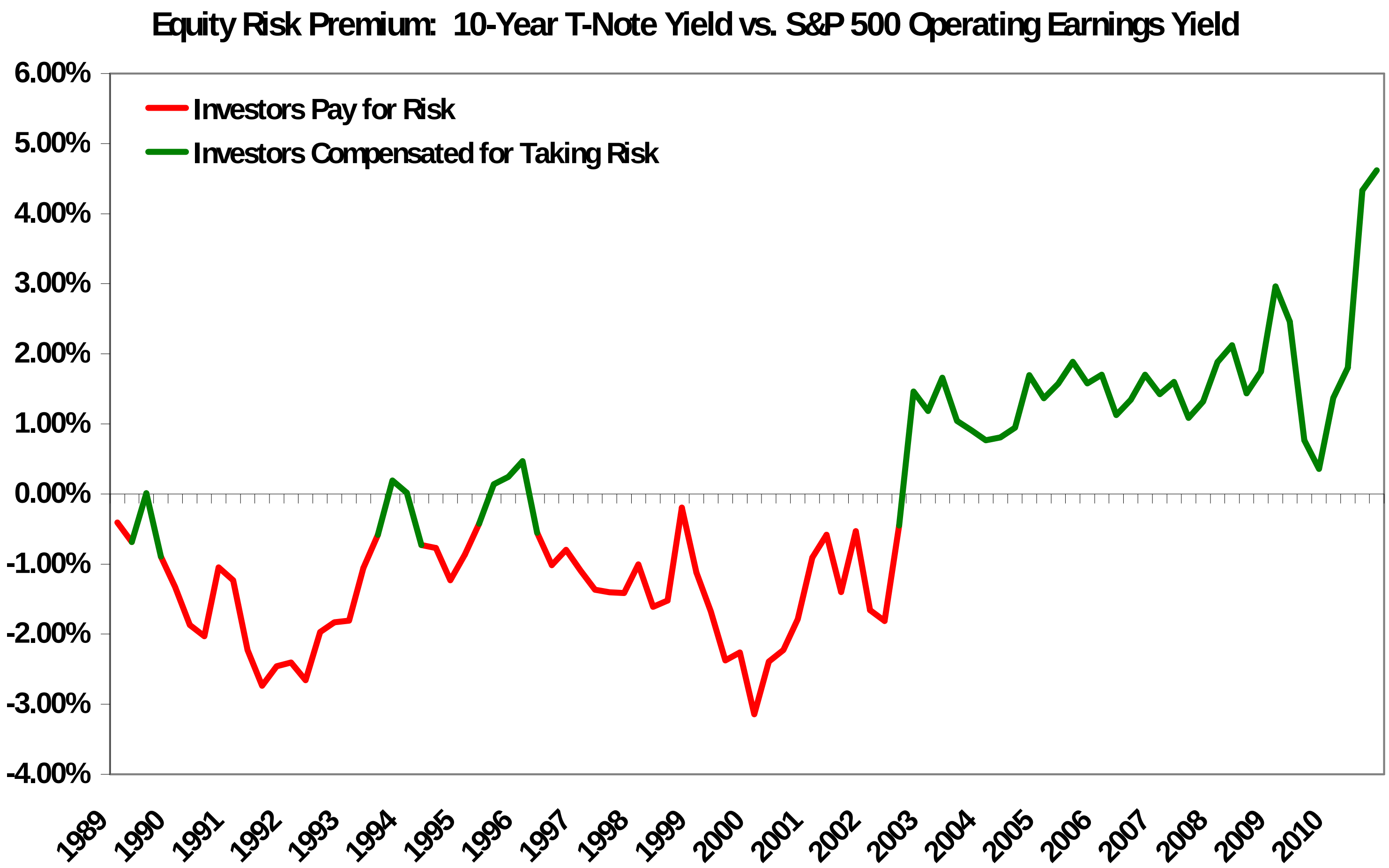
The Equity Risk Premium: Are Prices Too High Given the Additional Risks of Investing In Stocks?

- The Higher the spread of Operating Earnings Yield over 10-Year Treasury Note Yield, the more investors are being compensated for the additional risk they take by investing in stocks rather than risk-free securities. A negative risk premium suggests that rather than being compensated for taking additional risk, investors pay for the opportunity to take risk.

- Treasury Notes have never defaulted and are used as a proxy for risk-free investment. The Operating Earnings Yield for the S&P 500 is a measure of Operating Earnings as a percentage of price, and demonstrates how much income is produced by an investment per dollar of principal.



Data from http://federalreserve.gov

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