

Impl premium calculator

Implied Risk Premium Calculator					
Enter current level of index	1498.11				
Do you want to use current yield(C), 5-year average(A5) or 10-year average (A10)?	A10				
Cash yield on index (Calculated number but you can override it)	4.64%				
Enter expected growth rate in earnings for next 5 years for market =	5.27%				
Enter current long term bond rate =	2.00%				
Enter risk premium =	5.00%				
Enter expected growth rate in the long term =	2.00%				
		<b>Dividends and Buybacks Trailing 12 months =</b>		72.25	C
		<b>Dividends and Buybacks (Average yield- last decade)</b>		69.46	A10
		<b>Dividends and Buybacks (Average yield- last 5 years)</b>		74.04	A5
		<b>How to use this spreadsheet</b>		(Updated at the start of each quarter)	
Step 1: Update the index level (B2) and the long term bond rate (B6). Do not change any of the other inputs.					
Step 2: Open the goal seek function in excel (Trust me. It is in there somewhere)					
Step 3: In the goal seek box, set cell B25 to the current value of the index by changing cell C19.					
<b>Intrinsic Value Estimate</b>					
	1	2	3	4	5
Expected Dividends =	\$ 73.12	\$ 76.97	\$ 81.03	\$ 85.30	\$ 89.80
Expected Terminal Value =					\$ 1,831.84
Present Value =	\$ 68.34	\$ 67.23	\$ 66.14	\$ 65.08	\$ 1,370.10
Intrinsic Value of Index =	\$ 1,636.89				
<b>Implied Risk Premium</b>					
Implied Risk Premium in current level of Index =		5.46%	(Go under Tools and choose Solver: See below)		
	1	2	3	4	5
Expected Dividends =	\$73.12	\$76.97	\$81.03	\$85.30	\$89.80
Expected Terminal Value =					\$ 1,678.41
Present Value =	\$ 68.05	\$ 66.66	\$ 65.30	\$ 63.98	\$ 1,234.12
Intrinsic Value of Index =	\$ 1,498.11				
<b>With each of the following inputs, holding all else constant, evaluate the effect on the ERP</b>					
a. The equity index (S&P 500) goes up by 10%					
b. The cash flows on the index go up by 10%					
c. Expected growth in earnings for next 5 years increases					
d. Current long term risk free rate increases					