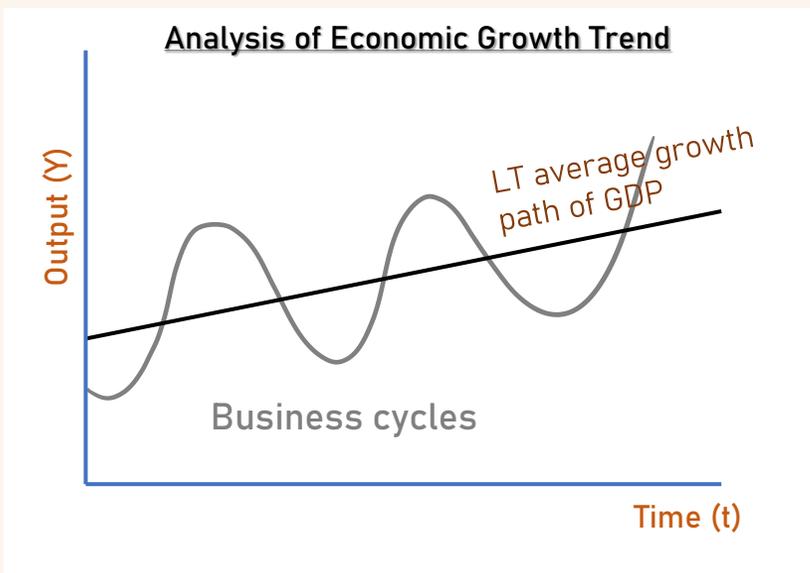


CFA® Exam Tips – LEVEL III

Study Tips

Capital Market Expectation #4



Anchoring Asset Returns to Trend Growth

1. Trend growth rate provides an anchor for LT equity appreciation:

$$V_t^e \uparrow = GDP_t \uparrow \times S_t^k \times PE_t$$

2. In the long run, share of profits in the economy (S_t^k) and P/E multiples (PE_t) can not continually \uparrow or \downarrow , trend growth rate (GDP_t) implies growth rate of the total value of equity in the economy (V_t^e).



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