Q. HOW DO THE AVERAGE RISK MEASURES FOR YOUR *VALUE LINE* PROXY GROUP OF COMPANIES COMPARE TO THE AVERAGE RISK MEASURES FOR THE RBHCS AND THE *VALUE LINE* UNIVERSE?

A. As shown below in Table 2, the Value Line proxy group of companies is also safer than either the RBHCs or the average company in the *Value Line* universe.

Table 1
Average Risk Measures for Value Line Proxy Group,
the RBHCs, and the Value Line Universe of Companies

Company Group	Safety Rank	Beta	Earnings Predictability	Financial Strength	Financial Strength (numerical)
Value Line Proxy Group	1.6	0.94~~5~~	94~~3~~	A+	2
RBHCs	2.0	1.01	85	A+	2
Value Line universe	3.0	1.05	53	B+	5

I. THE DISCOUNTED CASH FLOW MODEL AND RESULTS

Q. YOU MENTIONED ABOVE THAT YOU USED THE DCF MODEL TO ESTIMATE VERIZON NW'S COST OF EQUITY. PLEASE DESCRIBE THE DCF MODEL.

A. The DCF model suggests that investors value an asset on the basis of the future cash flows they expect to receive from owning the asset. Thus, investors value an investment in a bond because they expect to receive a sequence of semi-annual coupon payments over the life of the bond and a terminal payment equal to the bond's face value at the time the bond matures. Likewise, investors value an investment in a firm's stock because they expect to receive a sequence of dividend payments and, perhaps, expect to sell the stock at a higher price sometime in the future.