

## FRANCESCO FRANZONI

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**DATE OF BIRTH:** March 30<sup>th</sup>, 1972

### **PROFESSIONAL EXPERIENCE**

September 2007 – present:	Swiss Finance Institute Assistant Professor at the University of Lugano
February – March 2008:	Instructor for ph.d. class at the London School of Economics
September 2003 – August 2007:	Assistant Professor at HEC school of management, Paris, France
September 2002 – August 2003:	Visiting professor at Universitat Pompeu Fabra, Barcelona, Spain.

### **EDUCATION**

MASSACHUSETTS INSTITUTE OF TECHNOLOGY, Cambridge MA, USA  
September 1998 – September 2002: Ph.d. in Economics

BOCCONI UNIVERSITY, Milan, Italy  
September 1997 – June 1998: Master in Economics, with Distinction

BOCCONI UNIVERSITY, Milan, Italy  
Degree summa cum laude in Economics, 1996

### **RESEARCH INTERESTS**

Empirical asset pricing and corporate finance: market anomalies; the determinants of risk sensitivities; the effect of financial frictions and corporate governance onto asset prices; the value of cash; private equity.

### **PUBLISHED RESEARCH**

“Underinvestment Vs. Overinvestment: Evidence From Price Reactions To Pension Contributions”, forthcoming in the *Journal of Financial Economics*

“Pension Plan Funding and Stock Market Efficiency”, with José M. Marín, *Journal of Finance*, April, 2006, pp. 921-956

“Portable Alphas From Pension Mispricing”, with José M. Marín, *Journal of Portfolio Management*, Summer, 2006, pp. 44-53

## **CURRENT RESEARCH**

*Learning about Beta: An Explanation of the Value Premium*, with Tobias Adrian (conditionally accepted at the *Journal of Empirical Finance*)

We develop an equilibrium model of learning about time-varying risk factor loadings. In the model, CAPM holds from investors' ex-ante perspective. However, positive mispricing can be observed when investors' expectations of beta are above ex-post realizations. This model is used to explain the value premium. In a learning framework, the fact that value stocks used to be more risky in the past leads to investors' expectations of beta that exceed the estimates from more recent samples. We propose an empirical methodology that takes investors' expectations of the factor loadings explicitly into account when estimating betas. With the adjusted estimates of beta, we can explain the cross-section of average returns on the ten book-to-market decile portfolios, and account for the value premium in the relevant sample.

*The changing nature of systematic risk*

The paper studies the evolution of market risk over almost eighty years of data. The motivation stems from the observed downward trend in the beta of high book-to-market (BM) stocks. The cause of this decrease is identified in a change of sign in the cross-sectional link between valuation measures and beta. This fact, in turn, is explained by the changing correlation between risk loadings and the cash flow attributes of the firm. In the past, risky stocks are unprofitable companies. More recently, high beta stocks are fast growing firms. This evolution reflects the increased importance of growth for listed companies. Finally, the paper establishes that once the impact of cash flows is filtered out of BM, the value premium is halved. This result suggests that any explanation of the value anomaly should directly address the role of fundamentals.

*Where is Beta Going? The Riskiness of Value and Small Stocks*

This paper finds that the market betas of value and small stocks have decreased by about 75% in the second half of the twentieth century. The path of beta can be closely tracked using conditioning variables that summarize the state of the economy. On the basis of this analysis, the decline in beta can be related to a long-term improvement in economic conditions that made these companies less risky. Decomposing beta into the cash flow and expected return news components confirms that the payoffs of these companies are less sensitive to market conditions. This finding has implications for the debate on the CAPM anomalies. The failure to account for time-series variation of beta in unconditional CAPM regressions can explain as much as 30% of the value premium. In some samples, about 80% of the value premium can be explained by assuming that investors tied their expectations of the riskiness of these stocks to the high values of beta prevailing in the early years.

*The Determinants of early cash flows in private equity*, with Eric Nowak and Ludovic Phalippou

**HONORS, SCHOLARSHIPS, AND FELLOWSHIPS**

Holder of a TMR-CEPR grant from September 2002 until September 2003.

“Ente Luigi Einaudi” scholarship for graduate studies for the academic year 2000-2001.

Bank of Italy scholarship for graduate studies for the academic years 1998-1999 and 1999-2000.

**INVITED PRESENTATIONS**

Third Swiss Finance Institute General Assembly (Geneva); Gerzensee Finrisk Conference; University of Lausanne; University Tor Vergata, Rome; Tilburg University; ASAP Conference Oxford; HEC School of Management, Paris ; MIT; Harvard Business School; University of Amsterdam, Finance Group; Universitat Pompeu Fabra, Barcelona; Oxford Business School; IESE, Barcelona; Morgan Stanley, NYC; NERA, NYC; Goldman Sachs, NYC.

Papers accepted at: Northern Finance Association Conference, Calgary, 2008; CRSP Forum 2006, Chicago; European Financial Management Association 2003 Meetings, Helsinki; European Finance Association 2003 Meetings, Oslo.