

Isacco Piccioni

School Address

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Academic Appointment

- Stephen M. Ross School of Business, University of Michigan 2012-present
Assistant Professor of Finance

Education

- Ph.D., Finance, University of North Carolina, Chapel Hill, NC 2012
- Bachelor in Economics (laurea), L. Bocconi University, Milan 2005
Thesis: "The Black and Litterman Model for Asset Allocation."
Thesis Advisor: A. Beltratti. Final Grade: 110 out of 110, *Summa Cum Laude*.

Awards and Grants

- "Outstanding Ph.D. Student Award", 2012
University of North Carolina, Chapel Hill, NC
- Research Assistantship, 2006
University of North Carolina, Chapel Hill, NC
- Gold medal, 2005
L. Bocconi University, Milan
- Fellowship, 2001
L. Bocconi University, Milan

Teaching Experience

- Fundamentals of Investment Decisions with Symmetric Information (FIN 855), 2014-2015
Stephen M. Ross School of Business, University of Michigan
- Financial Management (FIN 551), 2015
Stephen M. Ross School of Business, University of Michigan
- Financial Management (FIN 300), 2012-2014
Stephen M. Ross School of Business, University of Michigan
- Introduction to Corporate Finance (BUSI 408), 2009
Kenan-Flagler Business School, University of North Carolina

Work Experience

- European Investment Consulting 2005-2006
 - Portfolio Consultant: specialized in applying Black and Litterman asset allocation model, for pension and mutual funds.
 - Financial Analyst: collected and elaborated financial data for risk management and portfolio analysis.

Presentations

- “Security, Potential, Goal Achievement, and Risky Choice Behavior”
University of North Carolina (April 2008)
2013 Decision Consortium, University of Michigan (May 2013)
Hosmer-Hall Interdisciplinary Research Luncheons (February 2014)
- “Rationalizing Size, Value, and Momentum Effects with a CAPM²”
University of North Carolina (May 2011)
Cornerstone Research (January 2012)
University of Michigan (February 2012)
Concordia University (February 2012)
Stockholm School of Economics (February 2012)
Federal Reserve Board (February 2012)

Papers

- “Rationalizing Size, Value, and Momentum Effects with a CAPM²,”
Under Review, The Journal of Finance.
Work in progress.
Available at SSRN: <http://ssrn.com/abstract=2264456>

- “Security, Potential, Goal Achievement, and Risky Choice Behavior,”
Submitted, *Econometrica*.
Work in progress.
Available at SSRN: <http://papers.ssrn.com/abstract=2410312>
- “Liquidity and Downside Risk are Interconnected: Which One is Driving Out the Other?”
Work in progress with Christian T. Lundblad.
- “A New Portfolio Theory with Asymmetric Utility Functions,”
Work in progress.
- “Rationalizing Hyperbolic Discounting with Target Utility Theory,”
Work in progress.

Research Interests

- Asset Pricing, Decision Theory, Portfolio Theory, Risk Management, Finance-Liquidity, Finance-Downside Risk, Behavioral.

Computer Skills

- Advanced: Matlab, Latex, Visual Basic.
- Proficient: SAS, Stata, Bloomberg

Personal

- Date of Birth: February 10, 1981; Soresina (Cremona) – Italy
- Gender: Male
- Marital Status: Single
- Nationality: Italian
- VISA status: Permanent resident (green card holder)
- Languages: English (fluent), Italian (native), French (proficient)

Abstracts

- “Rationalizing Size, Value, and Momentum Effects with a CAPM²,”
Work in progress. Under Review, The Journal of Finance.
This paper shows that a Capital Asset Pricing Model based on Continuous Asymmetric Polynomial Models (CAPM²) can identify the sources of risk that drive the cross section of stock returns. In accordance with recent decision theory models, the CAPM²

can price the key factors that drive risky choice behavior: (i) Goal Achievement (importance of the overall probability of obtaining positive payoffs), (ii) Loss Aversion (losses loom larger than gains), and (iii) preference for Security/Potential (downside risk aversion and preference for upside potential). These three factors are also the key drivers of size, value, and momentum portfolio returns. Therefore, size, value, and momentum factors do not load when they are tested on the CAPM². Moreover, zero cost portfolios that take long (short) positions on securities with the highest (lowest) loadings on the three CAPM² factors deliver positive and statistically significant risk adjusted returns.

- “Security, Potential, Goal Achievement, and Risky Choice Behavior,”

Work in progress. Under Review, Econometrica.

This paper develops a new model for risky choice behavior—Target Utility Theory (TUT)—that shed light on several puzzles of the decision making and financial literatures. In particular, TUT can explain the experimental evidence related to goal seeking behavior (Payne et al., 1980), preference for security/potential (Levy and Levy, 2002), and the effect of prior outcomes on risky choice behavior (Thaler and Johnson, 1990). Moreover, TUT can provide a framework to rationalize phenomena observed in the financial markets, such as the escalation of commitment (Staw, 1981), the disposition effect (Shefrin and Statman, 1985), and the increase in risk taking by investors that are obtaining below target returns (Coval and Shumway, 2005). Running a Logit model on several results of the decision making literature, I find that TUT significantly improves with respect to: Prospect Theory, Expected Utility Theory, SP/A theory, Regret Theory, and Disappointment Aversion.

- “Liquidity and Downside Risk are Interconnected: Which One is Driving Out the Other?”

Work in progress with Christian T. Lundblad.

We provide a framework to disentangle liquidity and downside risk. In the CAPM extended to include both liquidity and downside risk, liquidity is the dominant factor. However, the extended CAPM is not admissible for the cross-section of stock returns, and liquidity is driven out by Fama-French and Momentum factors. Interestingly, in a broader Preference-Based CAPM, which considers all sources of risk that recent works of the decision theory literature show to be relevant, downside risk becomes the dominant factor. In fact, liquidity is driven out, while downside risk, which is one of the preference based sources of risk, becomes important for the cross-section of stock returns. The Preference-Based CAPM is admissible for the cross-section of stock returns and drives out not only liquidity risk, but also the Fama-French and

Momentum factors.

- “A New Portfolio Theory with Asymmetric Utility Functions,”

Work in progress.

This paper provides a new Portfolio Theory derived from utility functions that display asymmetries in the domains of gains and losses. The new framework nests the standard Mean-Variance approach and allows to consider the implications of several models of the decision theory literature (Disappointment Aversion, Fishburn Utility, Prospect Theory, Target Utility Theory), which predict different attitudes toward risk for gains and losses. Furthermore, an Asymmetric-CAPM is derived from the new efficient frontier and tested on the cross section of stock returns. The estimated utility function is concave for losses (implying downside risk aversion), convex for gains (implying preference for upside potential), and steeper in the domain of losses (implying loss aversion). The returns obtained with zero cost portfolios built by sorting on downside risk, upside potential, and loss aversion, confirm the main predictions of the new Asymmetric-CAPM.

- “Rationalizing Hyperbolic Discounting with Target Utility Theory,”

Work in progress.

This paper shows that Target Utility Theory (TUT), developed by Piccioni (2011), is able to rationalize a wide range of phenomena related to the intertemporal decision making literature: declining discount rates (hyperbolic discounting), common difference effect, immediacy effect, magnitude effect, and sign effect. The model can also shed light on the phenomena related to the joint effect of uncertainty and delay on decision making, and it represents a significant improvement with respect to Discounted Utility Theory and Hyperbolic discounting. These results are obtained by applying a low discount rate to the value component of TUT, and a high discount rate to the regret component of TUT.