

Lorenzo Garlappi

December 2, 2008

University of Texas at Austin

McCombs School of Business

Austin, TX 78712

Tel: 1-512-471-5682; Fax: 1-512-471-5073; Email: lorenzo.garlappi@mcombs.utexas.edu

<http://www.mcombs.utexas.edu/faculty/Lorenzo.Garlappi/>

Academic Appointments

- 2001–2007 Assistant Professor, Department of Finance, University of Texas at Austin.
2008– Associate Professor, Department of Finance, University of Texas at Austin.
2008– Visiting Associate Professor, Department of Finance, University of British Columbia, Vancouver, Canada.

Education

- 2001 University of British Columbia, Vancouver, Canada. Ph.D., Finance.
Thesis title: “Essays in Asset Pricing.” Advisors: Vasant Naik and Tan Wang.
1997 Università di Trieste, Trieste, Italy. Doctorate, Mathematical Economics.
1992 Università Bocconi, Milan, Italy. Laurea Degree in Economics. Graduated with 110/110
Magna Cum Laude.

Publications

1. DeMiguel, V., L. Garlappi, F. J. Nogales, and R. Uppal, 2008, “A Generalized Approach to Portfolio Optimization: Improving Performance by Shrinking Portfolio Norms.” Forthcoming in *Management Science*.
2. Garlappi, L., and G. Skoulakis, 2008, “Numerical Solutions to Dynamic Portfolio Problems: The Case for Value Function Iteration Using Polynomial Approximations.” Forthcoming in *Computational Economics*.
3. DeMiguel, V., L. Garlappi, and R. Uppal, 2007, “Optimal versus Naive Diversification: How Inefficient Is the $1/N$ Portfolio Strategy?” Forthcoming in *The Review of Financial Studies*. Awarded the Prize for the Best Paper presented at the conferences of the Institute for Quantitative Investment Research (INQUIRE-UK) in 2005.
4. Garlappi, L., T. Shu, and H. Yan, 2008, “Default Risk, Shareholder Advantage, and Stock Returns,” *The Review of Financial Studies*, Vol. 21, No. 6, pp. 2743–2778
5. Garlappi, L., R. Uppal, and T. Wang, 2007, “Portfolio Selection with Parameter and Model Uncertainty: A Multi-Prior Approach,” *The Review of Financial Studies*, Vol. 20, No. 1, pp. 41–81. Awarded the Prize for the Best Paper presented at the conferences of the Institute for Quantitative Investment Research (INQUIRE-UK) in 2003.
6. Garlappi, L., and J. Huang, 2006, “Are Stocks Desirable in Tax-Deferred Accounts?” *Journal of Public Economics*, Vol. 90, No. 12, December 2006, pp. 2257–2283.

7. Garlappi, L., 2004, "Risk Premia and Preemption in R&D Ventures," *Journal of Financial and Quantitative Analysis*, Vol. 39, No. 4, December 2004, pp. 843–872.
8. Agrawal, A., and L. Garlappi, 2007, "Public Sector Science and the Strategy of the Commons." *Economics of Innovation and New Technology*, Vol. 16, No. 7, October 2007, pp. 517–539. An abridged version appeared also in the *Best Paper Proceedings* for the Academy of Management, Business Policy and Strategy Division.

Papers Under Review

9. Garlappi, L., and H. Yan, 2007, "Financial Distress and the Cross Section of Equity Returns." Under revision for second review at *The Journal of Finance*. Presented at the 2007 NBER Asset Pricing Meetings and at the 2008 AFA meetings.
10. Brown, K. C., L. Garlappi, and C. Tiu, 2007, "The Troves of Academe: Asset Allocation and the Investment Performance of University Endowment Funds." Presented at the 2007 WFA meetings.

Working Papers (arranged alphabetically by last name of author)

11. Boyle, P., L. Garlappi, R. Uppal, and T. Wang, 2006, "To Hold Familiar Assets or to Diversify? Keynes Meets Markowitz." Presented at the 2005 WFA meetings and at the 2006 Conference on Model Uncertainty at the Statistical and Applied Mathematical Sciences Institute (SAMSI), Research Triangle Park, NC.
12. Garlappi, L., and G. Skoulakis, 2008, "Approximate Solutions to Portfolio Choice Problems: A State Variable Decomposition Approach." Presented at the 2007 International Conference on Computing in Economics and Finance, Montréal, Quebec, Canada.
13. Garlappi, L., and G. Skoulakis, 2008, "Approximate Solutions to Portfolio Choice Problems: A State Variable Decomposition Approach." Presented at the 2007 International Conference on Computing in Economics and Finance, Montréal, Quebec, Canada.

Honors, Awards and Grants

- | | |
|------|--|
| 2007 | Grant from Q-Group (\$10,000) for the project: "The Troves of Academe: Asset Allocation and the Investment Performance of University Endowment Funds," co-authored with Keith Brown, and Cristian Tiu |
| 2007 | Grant from INQUIRE U.K. (£16,000) for the project: "A Generalized Approach to Portfolio Optimization: Improving Performance by Shrinking Portfolio Norms," co-authored with Victor DeMiguel, Francisco Javier Nogales, and Raman Uppal |
| 2007 | Nominated for the CBA Foundation <i>Research Excellence Award</i> for Assistant Professors at the McCombs School of Business, University of Texas at Austin. |
| 2007 | Received the Trammell/CBA Foundation <i>Teaching Award</i> for Assistant Professors at the McCombs School of Business, University of Texas at Austin. |
| 2006 | Nominated for the Trammell/CBA Foundation <i>Teaching Award</i> for Assistant Professors at the McCombs School of Business, University of Texas at Austin. |
| 2005 | Prize for the <i>Best Paper</i> presented at the 2005 conferences of INQUIRE-UK for: "Optimal versus Naive Diversification: How Inefficient Is the $1/N$ Portfolio Strategy?" co-authored with V. DeMiguel and R. Uppal. |

- 2003 Prize for the *Best Paper* presented at the 2003 conferences of INQUIRE-UK for: “Portfolio Selection with Parameter and Model Uncertainty: A Multi-Prior Approach,” co-authored with R. Uppal and T. Wang.
- 2002 Prize for the *Best Paper* in the Academy of Management, Business Policy and Strategy Division, for: “Public Sector Science and the Strategy of the Commons,” co-authored with A. Agrawal.
- 1999 University of British Columbia Graduate Fellowship.
- 1995–1998 University of British Columbia Killam Pre-Doctoral Fellowship, awarded each year to 20–25 doctoral students of outstanding calibre throughout all Canadian Universities.
- 1995 Bocconi University “Amici della Bocconi” Fellowship.

Professional Activities

Referee for the following journals

Australian Journal of Management; Decisions in Economics and Finance; Economics of Innovation and New Technology; Journal of Economic Dynamics and Control; Journal of Empirical Finance; Journal of Financial and Quantitative Analysis; The Journal of Finance; Management Science; Operations Research; Review of Finance; Review of Financial Economics; Review of Financial Studies; Review of International Economics.

Conference presentations and discussions

- 2008 *European Finance Association Meetings, Athens, Greece.*
Paper presented: “A State-Variable Decomposition Approach for Solving Portfolio Choice Problems”
- 2008 *Western Finance Association Meetings, Kona, HI.*
Paper presented: “A State-Variable Decomposition Approach for Solving Portfolio Choice Problems”
- 2008 *Second McGill Conference on Risk Management, Mont Tremblant, QC, Canada.*
Paper presented: “A Generalized Approach to Portfolio Optimization: Improving Performance by Shrinking Portfolio Norms.”
Paper discussed: “Idiosyncratic Volatility, Growth Options, and the Cross-Section of Returns,” by Alexander Barinov.
- 2008 *American Finance Association, New Orleans, LA*
Paper presented: “Financial Distress and the Cross-Section of Equity Returns.”
Paper presented: “A Generalized Approach to Portfolio Optimization: Improving Performance by Shrinking Portfolio Norms.”
- 2007 *18th Conference on Financial Economics and Accounting, New York University, Stern School of Business.*
Paper presented: “Financial Distress and the Cross-Section of Equity Returns.”
- 2007 *NBER Asset Pricing Meetings, Chicago, IL.*
Paper presented: “Financial Distress and the Cross-Section of Equity Returns.”
- 2007 *Western Finance Association Meetings, Big Sky, MT.*
Paper presented: “The Troves of Academe: Asset Allocation, Risk Budgeting, and Investment Performance of University Endowment Funds.”

- 2006 *NBER Summer Institute: Asset Pricing Workshop, Cambridge, MA.*
Paper presented: "Optimal versus Naive Diversification: How Inefficient Is the $1/N$ Portfolio Strategy?"
- 2006 *Texas Finance Festival, San Antonio, TX.*
Paper presented: "Default Risk, Shareholder Advantage and Stock Returns."
- 2006 *Festkolloquium in honor of Phelim Boyle, Waterloo, ON, Canada.*
Paper presented: "Default Risk, Shareholder Advantage, and Stock Returns."
- 2006 *Moody's & Salomon Center (NYU) Third Credit Risk Conference, New York, NY.*
Paper presented: "Default Risk, Shareholder Advantage, and Stock Returns."
- 2006 *Western Finance Association Meetings, Keystone, CO.*
Paper discussed: "The Value of Financial Flexibility," by Andrea Gamba and Alexander J. Triantis.
- 2006 *UBC Summer Conference, Vancouver, BC, Canada.*
Paper discussed: "What Can Rational Investors Do About Excessive Volatility and Sentiment Fluctuations?" by Bernard Dumas, Alexander Kurshev, and Raman Uppal.
- 2005 *Second McGill Conference on Global Asset Management, Montreal, QC, Canada.*
Paper presented: "Optimal versus Naive Diversification: How Inefficient Is the $1/N$ Portfolio Strategy?"
- 2005 *Western Finance Association Meetings, Portland, OR.*
Paper presented: "Optimal versus Naive Diversification: How Inefficient Is the $1/N$ Portfolio Strategy?"
Paper discussed: "Parametric Portfolio Policies: Exploiting Characteristics in the Cross Section of Equity Returns," by Michael W. Brandt, Pedro Santa-Clara, and Rossen Valkanov.
Paper discussed: "A Patent Race in Real Options Setting: Investment Strategy, Valuation, CAPM Beta, and Return Volatility," by Rujing Meng.
- 2005 *UBC Summer Conference, Vancouver, BC, Canada.*
Paper discussed: "Linear Approximations, Information Proxies, and Tests of Conditional Pricing Models," by Michael W. Brandt and David A. Chapman.
- 2004 *Western Finance Association Meetings, Vancouver, BC, Canada.*
Paper presented: "Are Stocks Desirable in Tax-Deferred Accounts?"
- 2004 *AGSM Finance and Accounting Research Camp, Sydney, NSW, Australia.*
Paper presented: "Portfolio Selection with Parameter and Model Uncertainty: A Multi-Prior Approach."
- 2004 *UBC Summer Conference, Vancouver, BC, Canada.*
Paper presented: "Portfolio Selection with Parameter and Model Uncertainty: A Multi-Prior Approach."
- 2003 *UBC Summer Conference, Vancouver, BC, Canada.*
Paper discussed: "Is It Optimal to Accelerate the Payment of Income Tax on Share-Based Compensation?" by Robert L. McDonald.
- 2002 *Financial Management Association Meetings, San Antonio, TX.*
Paper discussed: "An Analytic Derivation of the Investment Opportunity Function: An Application of Real Options Theory," by Franklin A. Michello and Zachariah Sinkala.

- 2001 *American Finance Association Meetings, New Orleans, LA.*
Paper presented: "Risk Premia and Preemption in the Valuation of R&D Ventures."
- 2001 *Northern Finance Association, Halifax, NS, Canada.*
Paper presented: "Capital Gains Taxes and the Cost of Delegated Portfolio Management."
- 2000 *Western Finance Association Meetings, Sun Valley, ID.*
Paper presented: "Risk Premia and Preemption in the Valuation of R&D Ventures."
- 2000 *European Finance Association Meetings, London, UK.*
Paper presented: "Risk Premia and Preemption in the Valuation of R&D Ventures."
- 2000 *First World Congress of the Bachelier Finance Society, Paris, France.*
Paper presented: "Risk Premia and Preemption in the Valuation of R&D Ventures."

Invited presentations

- 2008 *University of Calgary.*
Paper presented: "Financial Distress and the Cross Section of Equity Returns."
- 2008 *Brigham Young University.*
Paper presented: "Financial Distress and the Cross Section of Equity Returns."
- 2008 *HEC Montreal.*
Paper presented: "Financial Distress and the Cross Section of Equity Returns."
- 2008 *University of Texas at San Antonio.*
Paper presented: "Financial Distress and the Cross Section of Equity Returns."
- 2008 *University of Illinois Urbana Champaign.*
Paper presented: "Financial Distress and the Cross Section of Equity Returns."
- 2007 *University of Lausanne (HEC), Lausanne, Switzerland.*
Paper presented: "Financial Distress and the Cross Section of Equity Returns."
- 2007 *McGill University, Montréal, Canada.*
Paper presented: "Financial Distress and the Cross Section of Equity Returns."
- 2007 *University of Toronto, Rotman School of Management, Toronto, Canada.*
Paper presented: "Financial Distress and the Cross Section of Equity Returns."
- 2006 *University of Vienna, Vienna, Austria.*
Paper presented: "Default Risk, Shareholder Advantage, and Stock Returns."
- 2006 *Texas A&M University, Mays School of Business.*
Paper presented: "Financial Distress and the Cross Section of Equity Returns."
- 2005 *University of California at Berkeley, Haas School of Business.*
Paper presented: "Default Risk, Shareholder Advantage, and Stock Returns."
- 2005 *University of Lausanne (HEC), Lausanne, Switzerland.*
Paper presented: "Default Risk, Shareholder Advantage, and Stock Returns."
- 2004 *University of Minnesota, Carlson School of Management.*
Paper presented: "Portfolio Selection with Parameter and Model Uncertainty: A Multi-Prior Approach."

2002 *Hong Kong University of Science and Technology, Hong Kong.*

Paper presented: “Capital Gains Taxes and the Cost of Delegated Portfolio Management.”

2001 Paper: “Risk Premia and Preemption in the Valuation of R&D Ventures,” presented at:

University of Texas at Austin, McCombs School of Business.

Northwestern University, Kellogg School of Management.

New York University, Stern School of Business.

Queen’s University, Kingston, Ontario, Canada.

University of Waterloo, Ontario, Canada.

University of Colorado at Boulder.

Washington University in St. Louis, Olin School of Business.

2000 *University of California at Berkeley, Haas School of Business.*

Paper presented: “Risk Premia and Preemption in the Valuation of R&D Ventures.”

Teaching and Student Supervision

Graduate students supervised at The University of Texas at Austin

Ph.D. committee member for:

- Chunyu Yang, Information, Risk, and Operations Management (IROM) Department.
- Ti Zhou, Mathematics Department.
- Michalis Anthropolos, Mathematics Department.
- Yosef Bonaparte, Economics Department.
- Tao Shu, Finance Department. Thesis title: “Institutional Trading and Stock Price Efficiency.”
- Xiaolou Yang, Economics Department.
- Denys Glushkov, Finance Department. Thesis title: “Two Essays on Market Behavior.”
- Cristian Tiu, Finance Department. Thesis title: “Systematic Risk in Hedge Funds.”
- Shisheng Qu, Finance Department.
- Dragon Tang, Finance Department. Thesis title: “Essays on Credit Risk.”
- José Olivares, Finance Department. Thesis title: “On the Chilean Pension Funds Market.”
- Uzi Yoeli, Finance Department. Thesis title: “Asset Pricing Dynamics in a Fragile Economy: Theory and Evidence.”

Courses taught

- Financial Risk Management (to MBA students).
- Financial Risk Management (to undergraduate students).
- Investment Management (to undergraduate students).
- Financial Engineering (to undergraduate students).

Research Interests

- Asset pricing, real options, credit risk
 - Asset pricing implications of corporate investment decisions.
 - Financial distress and asset pricing.
 - Investment, growth options, and dynamic capital structure decisions.

- Asset allocation and portfolio choice
 - Portfolio choice with frictions in the form of constraints and/or taxes.
 - Portfolio decisions in the presence of parameter and model uncertainty.
 - Numerical methods for dynamic optimization problems.

Biographical sketch

Lorenzo Garlappi is Associate Professor of Finance at the University of Texas at Austin in the McCombs School of Business, currently visiting the Sauder School of Business at the University of British Columbia. He holds a bachelor's degree in Economics (with honors) from Bocconi University, Milan, Italy, a doctorate in Mathematical Economics from Trieste University, Italy, and a Ph.D. in Finance from the University of British Columbia, Vancouver, Canada.

Most of his research focuses on investments, and, within this set, his work to date has primarily been in two areas: (i) real investments and capital markets, with the aim to link the real activity of corporations to asset prices in the economy, and (ii) portfolio choice, where his research is directed at modeling and understanding the process of portfolio formation in the presence of frictions, such as taxes, and limited information, such as model and parameter uncertainty. His research has been published in *The Review of Financial Studies*, *Journal of Financial and Quantitative Analysis*, *Journal of Public Economics*, and *Economics of Innovation and New Technology*.

He received, with Raman Uppal and Tan Wang, the award for the best paper presented at the 2003 conferences of the Institute for Quantitative Investment Research (INQUIRE-UK); with Victor DeMiguel and Raman Uppal, the award for the best paper presented at the 2005 conferences of INQUIRE-UK; and, with Ajay Agrawal, the best paper award in the 2002 Academy of Management, Business Policy and Strategy Division. In 2007 he was nominated for the CBA Foundation Research Excellence Award for Assistant Professors at the McCombs School of Business, University of Texas at Austin and received the Trammell/CBA Foundation Teaching Award for Assistant Professors at the McCombs School of Business, University of Texas at Austin.

He has taught courses on Investment Management, Risk Management, and Financial Engineering.