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**LUNCH SEMINAR SERIES**

**15 giugno 2016 h. 12.00 – 13.00**  
Edificio U7, IV Piano, Aula 4066  
Via Bicocca degli Arcimboldi, 8 – 20126 Milano

**FRANCESCO REGGIANI**  
**(Visiting Professor)**

***“THE VALUE TRAP: VALUE BUYS RISKY GROWTH”***

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*Working paper, Columbia University, US.*

**Abstract**

Value stocks earn higher returns than growth stocks on average, but it is well documented that those returns come with risk. This paper supplies an understanding of that risk in terms of fundamentals. The fundamental analysis informs that, in buying value stocks, the investor may be trapped into buying firms where prospective earnings growth is quite risky. However, the trap can be avoided by recognizing how earnings and book value are accounted for in financial statements. Specifically, the application of conservative accounting informs the investor ex ante of the risk involved. A striking finding emerges from the accounting analysis: high B/P (“value”) is associated with higher expected earnings growth, but growth that is risky. This contrasts with the standard labeling that nominates low B/P as “growth” with lower risk. “Value” actually buys risky growth.

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