

Discussion of Goetzman *et al.*:

“... Beta Instability Risk”

Francis X. Diebold
University of Pennsylvania
and NBER

<http://www.ssc.upenn.edu/~fdiebold>

- Complement to Campbell-Diebold (2009, *JBES*)
- Important use of an important survey
- Extension/application of CCAPM

Campbell and Diebold:

Does $E_t G_{t+1, t+2}$ forecast excess stock returns?

Does it drive out other “standard” predictors?

$$E_t R_{t+1} = f(E_t G_{t+1, t+2}, X_t)$$

Excess Stock Returns Regressed on

$$E_t G_{t+1,t+2}, X_t$$

$E_t G_{t+1,t+2}$	-0.22**	-0.20**
DP_t	--	0.12
DEF_t	--	0.00
$TERM_t$	--	0.11

Merton I:

Why not a “standard” (non-conditional) approach to cross-sectional asset pricing?

Estimated premia
Fama-French 25 Portfolios as Test Assets

<i>CONST</i>	0.067***	0.082*	0.088***
<i>MKT</i>	-0.014	-0.039	-0.050
$E_t G_{t+1, t+2}$		0.012**	
<i>SMB</i>			0.012
<i>HML</i>			0.028**
<i>MOM</i>			0.012
R^2	-0.01	0.71	0.77

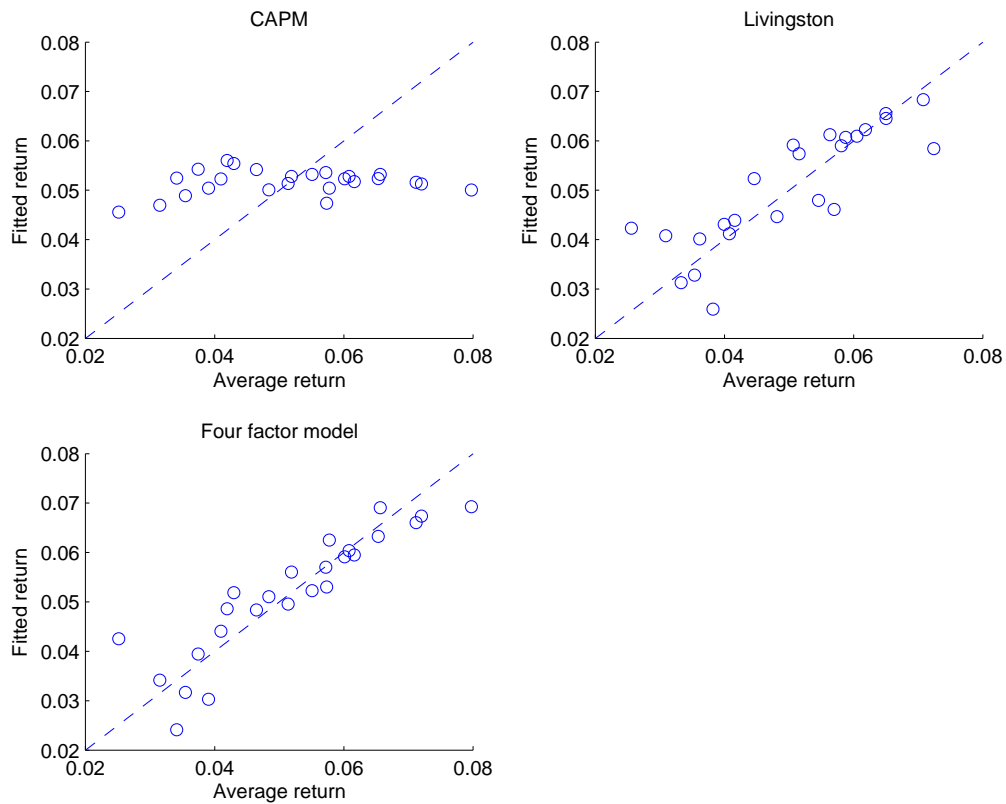


Figure 3: Fitted returns plotted against average realized returns. Fitted returns are the fitted values from the regression of average excess size-B/M 25 portfolio returns on a constant and the estimated loadings on the following factors: the excess market return (MKT) in CAPM; MKT and the lagged Livingston-Survey expected real GDP growth rate ($LEGDP$) in “Livingston”; MKT and the size (SMB), book-to-market (HML) and momentum (MOM) factors in the four-factor model.

Merton II:

Where is *CAY*?

Excess Stock Returns Regressed on

$$E_t G_{t+1,t+2}, X_t$$

$E_t G_{t+1,t+2}$	-0.22**	-0.20**	-0.20**
DP_t	--	--	0.12
DEF_t	--	--	0.00
$TERM_t$	--	--	0.11
CAY_t	--	0.22**	0.15*

III. Excitement at the macro/finance interface