

James O' Donovan

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EDUCATION	INSEAD, PhD in Finance (Expected)	2013-2019
	University College Dublin, Ireland M.Sc. Quantitative Finance, (1st in class, GPA 4.1/4.2)	2011-2012
	University of Limerick, Ireland B.Sc. Financial Mathematics	2007-2011
RESEARCH INTERESTS	Asset pricing, empirical corporate finance.	
JOB MARKET PAPER	"Understanding the Asset Growth Anomaly" <i>Abstract:</i> Non-investment components of balance sheet asset growth which are related to earnings management contributed to the asset growth anomaly in the past. These components of balance sheet asset growth are no longer related to returns since 2002 and this has contributed to the disappearance of the asset growth anomaly. I provide evidence that the Sarbanes-Oxley Act reduced earnings management and improved the integrity of accounting information: earnings manipulation has decreased, earnings predictability has increased, and analyst forecast errors have decreased. Further, the cross-sectional relationship between the accrual accounts used to manage earnings and analyst optimism has reduced. The evidence suggests that the asset growth anomaly was driven by mispricing in the past and that this mispricing has decreased.	
UNDER REVISION	"The Value of Offshore Secrets - Evidence from the Panama Papers" (with Hannes Wagner and Stefan Zeume). <i>Conditionally accepted</i> at The Review of Financial Studies <i>Abstract:</i> We exploit one of the largest data leaks to date to study whether and how firms use secret offshore vehicles. From the leaked data, we identify 338 listed firms as users of secret offshore vehicles and document that these vehicles are used to finance corruption, avoid taxes, and expropriate shareholders. Overall, the leak erased \$174 billion in market capitalization among implicated firms. Following the increased transparency brought about by the leak, implicated firms experience lower sales from perceptively corrupt countries and avoid less tax. We estimate conservatively that one in seven firms have offshore secrets.	

WORKING PAPERS "Affiliated Stocks: Business Groups, Control, and Stock Returns"
(with Massimo Massa, and Hong Zhang)

Abstract: We study how firm affiliation to a business group affects stock prices. We argue that "central" firms that allow the ultimate owner to retain control of a business group are less sensitive to informational and cash flow shocks, and that the market prices this higher stability and lower informational sensitivity by requiring a lower return on their stock. We test these predictions using a novel dataset of worldwide ownership of publicly listed firms for the 2001-2013 period for which we have information on not only firm characteristics and their prices, but also full ownership structure. We develop and use a measure ("centrality") that captures the extent to which firms are used by the ultimate owner to retain control of the group. We document that central firms display lower sensitivity to information and cash flow shocks. This limits the informational advantage of informed investors, reducing short-selling, increasing liquidity, and lowering idiosyncratic volatility. These effects are priced as central firms command lower stock returns (gross and factor-risk-adjusted). High-centrality portfolios deliver a 76 (73) basis points lower three-factor (four-factor) alpha than low centrality portfolios. A centrality factor helps to explain the cross section of stock returns in business groups and the relationship between centrality and returns is strongest at the times in which market uncertainty is highest.

**WORK IN
PROGRESS**

"Equilibrium Computation with Heterogeneous Firms: An Alternative Approach"
Abstract: The algorithm of Krusell and Smith (1998) adapted to heterogeneous firms by Khan and Thomas (2008) is often used to find the equilibrium in a market with a representative agent and heterogeneous firms. Recent applications in asset pricing include Gomes and Schmid (2016) and Chen (2017). A key feature of this algorithm is the inner-loop outer-loop structure: the firm optimization problem is solved given a forecasting rule for aggregate states and the forecast rule is updated given simulations from the optimal firm policy until a fixed point is found where the forecast rule does not change and the policy is optimal given the forecast rule. I propose an alternative algorithm that uses a histogram based approximation of the firm distribution of Young (2010) as well as the first order conditions of the agent's problem to solve market clearing and optimal firm policies simultaneously. An advantage of this approach is that each solution point can be considered an equilibrium realization conditional on the learning rule. This is similar to the idea of an "Experience Based Equilibrium" in Fershtman and Pakes (2012) where forecast rules are determined as a function of the data agent could have learned through optimal play. The algorithm can be used to understand off equilibrium dynamics and the impact of learning rules that bound rationality in the sense of the number of state variables or the number of past periods included in learning of decision rules.

**WORK IN
PROGRESS**

"Asset Pricing with Heterogeneous firms and entry: An Investigation"

Abstract: Many asset pricing anomalies are found to be larger in small, fast-growing firms. Furthermore, default risk is also related to anomaly strength e.g. Avramov, Chordia, Jostova, and Phillipov (2013). I investigate the ability of a heterogeneous firm model with equity issuance, risky short-term debt, and entry to rationalize these relationships. The key risk mechanism relies on fixed costs of issuance and decreasing returns to scale which is magnified by a leverage effect in bad times when firms are closer to default. I consider the general question of what anomalies can be rationalized in this framework, and what additional assumptions are needed to jointly match key anomalies.

"Merger Financing and the Information Content of Option Implied Moments"
(with Cal Muckley and Conall O' Sullivan).

Abstract: We show that the option market plays an important role in price discovery prior to corporate merger and acquisition events. Changes in option implied model-free skewness have the greatest predictive capacity for principally cash financed target firms. A rationale for this pre-announcement option trading is (i) that the primarily cash financed target firms exhibit the largest discontinuous price impact at announcement and (ii) this finance mechanism, unlike in primarily equity financed deals, does not facilitate equity hedging of deal risk with an equity position in the counterpart deal firm. We formalize this intuition by simulating a simple model to show the information assimilation in changes in implied moments with respect to announcement returns.

**TEACHING
EXPERIENCE**

2014-2016, INSEAD - Financial Markets & Valuation (MBA Core Finance) Tutorial Instructor

**PROGRAMMING
LANGUAGES**

Matlab, SAS, R, STATA and MySQL.

**FINANCIAL
DATABASES**

Compustat, CRSP, I/B/E/S, OptionMetrics, Datastream, Thomson One Banker.

REFERENCES

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