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October 23, 2003

2003 Harvard MBA Indicator Moves From 'Sell' to 'Neutral'

by Ray Soifer

For many years I have been keeping track of a rather esoteric but nonetheless generally accurate long-term indicator of the US equity market: the percentage of Harvard MBA graduates choosing careers in market-sensitive fields. If 10% or less of the year's class take market-sensitive jobs (identified, using the Business School's current terminology, as investment banking, investment management, sales & trading, venture capital, private equity or leveraged buy-outs), that's a long-term buy signal. Conversely, if 30% or more do so, that's a long-term sell signal.

Data released today by HBS show that 23% of the MBA Class of 2003 chose market-sensitive careers, down significantly from 36% a year earlier and 32% in 2001. This ends the long-term 'Sell' signal first sent in 2000 when 30% of the Class of 2000 did so, moving the indicator well into 'Neutral' territory. Comparable figures were 28% in 1999 and 29% in 1998. Prior to 2000, the last such 'Sell' signal was given in 1987.

Financial services as a whole attracted 28% of the 2003 graduates, down from 41% in 2002, while consulting led all fields with 30%, up from 23%. Other services accounted for 17% and manufacturing 25%, versus 13% and 23%, respectively.

Historically, the Harvard MBA indicator has been more prolific as a source of sell signals than buy signals. The last time it reached the 10% "buy" level was in the early 1980s, when the Dow traded below 1,000. In the late 1980s and early 1990s, it hovered generally in the mid-teens. As far as I am aware, the all-time low was reached in 1937, when only three graduates -- about 1% -- were adventurous enough to venture into the securities industry. If you had bought stocks in 1937, you'd have done pretty well since.

As a practical market-timing tool, the Harvard MBA indicator has some obvious drawbacks. It only comes out once a year, with a long reporting lag: most graduates make their decisions in the spring but the figures are not released until late September or early October. Yet, for long-term investors who can think in terms of decades rather than months or quarters, it's worth keeping an eye on. Besides, it's fun.

(For the record, I received my own MBA from Harvard in 1965, and remained in graduate school until 1967.)

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