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2006 Harvard MBA Indicator Reiterates 'Sell' Signal

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 Wall Street and related market-sensitive fields. If 10% or less of the year's class take market-sensitive jobs (which I identify, using the Business School's current reporting categories, 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 37% of the MBA Class of 2006 chose market-sensitive careers, up from 30% a year earlier and 26% in 2004, thus reiterating the long-term ‘Sell’ signal sent a year ago. A long-term 'Sell' signal was also sent in 2000, with 30% (compared with 28% in 1999 and 29% in 1998), and remained in effect for 2001 and 2002 (32% and 36%, respectively). Prior to 2000, the last such long-term 'Sell' signal was given in 1987.

Financial services as a whole attracted 42% of the 2006 graduates, up from 36% in 2005, while consulting drew 21%, down from 23%. Other services accounted for 15% and manufacturing 19%, versus 23% and 23% respectively.

While some may note that the S&P 500 has gained 14% since the Harvard MBA indicator came out last year, its 2005 "Sell" signal may simply turn out to have been early. Tune in next year and find out!

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 does have 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 the following autumn. 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!

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