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2007 Harvard MBA Indicator Reiterates Long-Term '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, hedge funds, sales & trading, venture capital, private equity or leveraged buy-outs), that's a long-term ‘Buy’ signal. If 30% or more do so, that's a long-term ‘Sell’ signal.

Data released today by HBS show that a record 40% of the MBA Class of 2007 chose market-sensitive careers, up from 37% in 2006 and 30% in 2005, thus reiterating the long-term ‘Sell’ signal that was sent two years 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.

Finance as a whole attracted 44% of the 2007 graduates, up from 42% in 2006, while consulting drew 21%, the same as last year. Other services accounted for 18% and manufacturing 17%, versus 15% and 19% respectively.

While skeptics may note that the S&P 500 has gained 25% since the Harvard MBA indicator came out two years ago, its 2005 and 2006 "Sell" signals may simply turn out to have been early. Tune in next year and find out! It’s a long-term indicator, after all.

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 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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