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2008 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 41% of the MBA class of 2008 chose market-sensitive careers, eclipsing the previous record of 40% set a year earlier. This reiterates the long-term ‘Sell’ signal first sent in 2005. 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 45% of the 2008 graduates, up from 44% in 2007, while consulting drew 20%, down from 21%. Other services accounted for 18% and manufacturing 17%, the same as last year.

While this year’s record may seem surprising, most of these career decisions were made before the market’s recent steep decline – some as early as the fall of 2007. Next year’s data should be interesting!

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. 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 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, or earlier, 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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