

2009 Harvard MBA Indicator Shifts 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 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 by HBS show that 28% of the MBA class of 2009 chose market-sensitive careers, compared with a record 41% a year earlier. The indicator has thus shifted from 'Sell' to 'Neutral.'

Financial services as a whole attracted 32% of the 2009 graduates, down from 45% in 2008, while consulting drew 26%, up from 20%. Other services accounted for 15%, down from 18%, and manufacturing 27%, up from 17%.

Historically, the Harvard MBA indicator has been more prolific as a source of 'Sell' signals -- e.g., 1987, 2000-02, and 2005-08 -- 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 the fall of 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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