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2017 Harvard MBA Indicator Is Still Bullish

By Ray Soifer

For many years, I have been keeping track of a rather esoteric but nonetheless usually accurate long-term indicator of the US stock 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/sales & trading, investment management, or private equity/venture capital/leveraged buy-outs), that's a long-term "Buy" signal. If 30% or more do so, that's a long-term "Sell" signal.

Data posted today by HBS show that 29% of the MBA class of 2017 chose market-sensitive careers, compared with 26% in 2016, 29% in 2015 and 30% in 2014. Thus, the Harvard MBA Indicator is continuing to signal a long-term "Neutral."

The Indicator has been more prolific as a source of long-term "Sell" signals -- e.g., 1987, 2000-02, 2005-08, 2010-12, and 2014 -- than long-term "Buy" signals. The last time it reached the 10% long-term "Buy" level was in 1982, heralding what turned out to be a historic bull market.

While not necessarily long-term "Buy" signals, upgrades from "Sell" to "Neutral" -- i.e., when the Indicator falls through the 30% level without reaching 10% -- are also bullish indications for stocks. Such upgrades have occurred in 1988, 2003, 2009, 2013 and 2015, followed in each case by a stock market rally lasting at least a year. **With readings of 26% in 2016 and now 29%, the bullish signal of 2015 is still in effect.**

As far as I know, the record low was reached in 1937, when only three MBAs, about 1%, went into Wall Street. It was a good time to buy. The record high of 41% occurred in 2008. It proved an excellent time to sell. No market indicator is always right, but in the years I've been tracking it, this one has been wrong only once: the "Sell" signal in 2010-2012. Even Harvard MBA watchers shouldn't try to fight the Fed.

As a market timing tool, the Harvard MBA Indicator has some obvious drawbacks. Harvard only graduates one MBA class a year, and there is a long reporting lag: most graduates make their career decisions in the spring, or earlier, but figures are not available until the following October or November. Yet, especially for long-term investors with multi-year time horizons, it's worth keeping an eye on. Besides, it's fun!

For further information, see <http://soiferconsulting.yolasite.com/harvard-mba-indicator.php>

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