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How job postings can indicate when a stock is undervalued

GEORGE ATHANASSAKOS
SPECIAL TO THE GLOBE AND MAIL
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Shopify headquarters in Ottawa on Sept. 28, 2018.
CHRIS WATTIE/REUTERS

There is worrisome news coming out of some highly valued companies such as Apple, Meta Platforms, Tesla and Shopify, to mention a few. They all have recently reported a slowdown in job hirings. This does not bode well for their stock prices, according to a recent academic paper, Identifying Overvalued Stocks with Corporate Job Postings, by Baruch Lev of New

York University and Xi Wu of the University of California, Berkeley. As the title suggests, the paper posits that one way to separate highly valued from overvalued companies is to examine the rate of job postings by the companies.

The researchers started with their expectation that job postings can be used to separate highly valued from overvalued companies because the former will have an above-average job postings rate needed to support future growth, whereas the opposite would apply to the latter. The data for this study were obtained from Burning Glass Technologies, which captures all online job postings in every U.S. metropolitan area. The database provides detailed information about the employer, job title, job location, and requirements for the position such as skills needed, certification, experience and education level.

For the period 2007-17, the researchers sorted all NYSE, Nasdaq and NYSE American stocks by price-to-book from high to low and concentrated on the top 30 per cent: growth stocks that either will be highly valued – or overvalued. The median market capitalization of the stocks in the sample was US$7.2-billion and median price-to-book ratio was 2.56. (Market cap, price-to-book and other financial data were obtained from Compustat.) They examined the companies that remained in the top 30 per cent over the whole period studied and compared them with those that fell out of the top 30 per cent, proof that they were overvalued before.

They found that companies with high rates of job postings were more likely to remain in the top 30 per cent of stocks (the highly valued group) than companies that had a low rate of postings (those considered to be overvalued). Extending their study, they found that even during the early part of the pandemic and ensuing economic downturn in 2020, job postings were robust enough to be able to separate the two groups of companies.

To understand the reasons why job postings were able to separate the two groups of companies, the researchers examined whether this metric could predict sales growth and gross profit growth. And indeed, they found that job postings do predict sales growth and gross profit growth for at least three years going forward, over and above conventional performance measures such as R&D spending, capital expenditures and price-to-book. They also found that the ability for job postings to predict growth in sales and gross profit was stronger for companies with highly skilled and productive employees. While not all are specifically mentioned in the study, companies such as Apple, Tesla and Shopify certainly fit the bill.

The authors conclude by saying that information encompassed in job postings can help investors separate companies that are highly valued from those that are overvalued, and in this sense, job postings can be used as an alternative piece of data to other financial information.

George Athanassakos is a professor of finance and holds the Ben Graham Chair in Value Investing at the Ivey Business School, University of Western Ontario.

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