

CIO Perspective

The Price of Failure Is Already in Your Portfolio

Julian Koski, Co-Founder and Chief Investment Officer at New Age Alpha

January 16, 2026 | 3 min read

In 2021, Peloton traded at \$167 per share. The stock was priced for hyper-growth: a home fitness revolution, subscription revenue scaling exponentially, a brand synonymous with premium wellness.

By mid-2022, it was under \$10.

Before the collapse, Peloton's h-factor was above 75%. The probability the company would fail to deliver the revenue growth indicated by its stock price was three in four.

The market didn't care. The narrative was too good. Investors filled the information gaps with optimism.

When reality reasserted itself, the stock lost 94% of its value.

That's not hindsight. That's behavioral overpricing risk—and it was measurable before the crash.

The Invisible Tax

Most portfolios contain a hidden tax: stocks priced not for what companies can deliver, but for what investors hope they'll deliver.

This is uncompensated risk. You're not paid to take it. It doesn't show up in a stock's beta. Diversification doesn't eliminate it. And when expectations run ahead of reality, someone pays the price.

If you can't measure it, it's probably you.

What You See Is All There Is

Nobel Prize winner, Daniel Kahneman, in his iconic book *Thinking, Fast and Slow*, described a cognitive bias he called WYSIATI: *What You See Is All There Is*.

Our brains construct coherent stories from incomplete information. When data is scarce or vague and ambiguous, we fill the gaps with assumptions. We make the narrative work.

In markets, this shows up as overpricing.

A stock with limited financial history gets priced for a compelling vision. A company with inconsistent revenue gets priced for a turnaround story. A speculative play gets priced for disruption.

The price assumes growth. The fundamentals don't support it. But the story *feels* right, so the stock climbs.

Until it doesn't.

The h-factor Identifies It

The h-factor® is a probability-based metric that is designed to measure one thing: **the probability a company will fail to deliver the revenue growth indicated by its stock price.**

It's calculated using only known information: the price and the financial statements. No forecasts. No narratives. No assumptions about the future.

This is a calculation about *right now*. Not a prediction about next quarter or next year—a probability about whether the price today reflects realistic growth or behavioral overpricing.

Over 20 years of evidence:

- The lowest h-factor stocks regularly outperform the highest h-factor stocks consistently
- They generally do so with lower volatility and higher risk-adjusted returns

The h-factor makes behavioral risk visible. It quantifies what others ignore. It turns "market sentiment" into a measurable probability.

The Fiduciary Implication

Here's what matters: behavioral overpricing risk is **knowable and avoidable.**

You can't predict which stocks will outperform. But you can identify which stocks are priced for growth they're unlikely to deliver—and avoid them.

That's not speculation. That's actuarial discipline. And increasingly, it's a fiduciary expectation.

Clients are starting to ask better questions:

- *Is my portfolio diversified against behavioral risk?*
- *Are any of my stocks priced for unrealistic growth?*
- *What's the probability each position will deliver?*

If you don't have answers, someone else will.

Avoid the Losers

The investment industry is built on the idea that success comes from picking winners. But the evidence suggests otherwise.

Success comes from **avoiding the losers**—stocks priced for expectations their fundamentals can't support.

Peloton isn't an outlier. It's an example of a pattern that repeats across every market cycle. High h-factor stocks disappoint more often than they deliver. And by the time the narrative breaks, the damage is done.

The only solution is to avoid the risk before it materializes.

Disclosures

This document is provided for informational purposes only and should not be construed as investment advice or an offer or solicitation to buy or sell securities. We discuss general market activity, industry or sector trends, or other broad-based economic or market conditions and this should not be construed as research, securities recommendations or investment advice. Investors are urged to consult with their financial advisors before buying or selling any securities. Any forecasts or predictions are subject to high levels of uncertainty that may affect actual performance. Accordingly, all such predictions should be viewed as merely representative of a broad range of possible outcomes.

No client or prospective client should assume that any information presented in this document serves as the receipt of, or a substitute for, personalized individual advice from New Age Alpha or any other investment professional. Any charts, graphs or tables used in this document are for illustrative purposes only and should not be construed as providing investment advice and should not be construed by a client or a prospective client as a solicitation to effect, or attempt to effect transactions in securities, or the rendering of personalized investment advice.

Past performance is not indicative of future results. Current and future results may be lower or higher than those shown. An investor in the strategy may experience a loss. Information contained herein does not reflect the actual performance of the strategy. All research and data is simulated and should not be considered indicative of the skill of New Age Alpha. You cannot invest directly in an index. This presentation does not include the deduction of any fees and expenses because an index does not have any such fees or expenses, such as management fees or transactions costs. Investments in securities will generally include fees and expenses that will decrease investment returns. The discussion of any companies mentioned in this document is not an endorsement of any company or a recommendation to buy, sell or hold any security. The views stated herein are only current through the date stated and are subject to change at any time based on market or other conditions and New Age Alpha disclaims any responsibility to update such views. New Age Alpha may own positions in any company mentioned. New Age Alpha typically holds securities in its portfolio only if it becomes part of the established universe of eligible securities that are part of each specific investment strategy (e.g. the S&P 500®). It is important to note that there can be no guarantee that the application of the h-factor to investment portfolios or certain stocks or securities can produce profitable results.

Human Factor™ "h-factor®" scores measure the probability that, according to the Human Factor algorithm, a company cannot deliver the growth necessary to support its stock price and are not alone a recommendation about how to invest. The h-factor is a risk that comes from humans interpreting vague or ambiguous information in a systematically incorrect way. We believe that the h-factor causes stocks to be mispriced. We measure how the h-factor affects stock prices to identify which stocks are over or underpriced. We apply our methodology to over 4000 stocks and global indexes to identify a risk that impacts stock prices and is caused by human behavior. Investments not included in the h-factor tool may have characteristics similar or superior to those being analyzed. The accuracy of the h-factor is materially reliant on the integrity of the information utilized in the calculations, including any assumptions and or interpretations made by the user about the data. Data discrepancies, user assumptions, and data input by user can all contribute to differing outcomes. The underlying assumptions and processes presented herein are subject to change. Furthermore, any h-factor score referenced herein is a snapshot taken at a particular point in time and any analysis or information contained in such score is outdated and should not be relied upon as investment advice as such information may have materially changed since publication.

The mention of any specific individuals, books, studies, articles or related references in this article is for informational purposes only. It does not imply any endorsement or affiliation with the mentioned individuals or entities.

All New Age Alpha trademarks are owned by New Age Alpha LLC. All other company or product names mentioned herein are the property of their respective owners and should not be deemed to be an endorsement of any New Age Alpha product, portfolio or strategy.