



The year in mispricing

What investors believed, what really happened, and what it says about risk.

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Every December, we all replay the same ritual. Analysts revise narratives, and investors review performance to assess whether decisions they made were right or wrong.

Portfolios in which the right calls were made might be a little fatter, while a wrong call or two might have left portfolios a little leaner.

Of course, no one would have known at the beginning of 2025 what a tumultuous year we'd face. And the biggest surprise might be how major indices have scaled record highs in spite of uncertainty at many levels.

For most investors, 2025 felt like a moving target. For us, it wasn't. The inputs changed, but the discipline didn't.

We follow the number

At New Age Alpha, we take a very different view on the market and how it may play out over a year, and longer.

We apply actuarial logic to our risk management.

That starts with calculating an individual stock's h-factor¹ – a measure of how much human behavior has inflated a stock price beyond what it can realistically deliver. If a stock's h-factor is too high – signaling overpricing – we avoid it, because we believe there is a higher probability it will underperform. When the h-factor is low, we see that as a sign the price is grounded in reality, and we consider the stock for investment.

So, to test this thesis, we started 2025 by tracking two baskets of stocks on the S&P 500. We split all the stocks in the index into five quintiles based on their h-factor, placing the highest and lowest h-factor quintiles into these two baskets.

These baskets weren't static. Each month we recalculated h-factor scores for every stock and rebuilt both baskets accordingly, removing names that no longer qualified and replacing them with those that did.

That matters because it means the results weren't driven by a single lucky winner or a one-time sector tilt. The constituents kept changing, but the process stayed the same. Any sustained outperformance therefore reflects the h-factor signal repeatedly identifying where expectations were too high versus grounded in reality.

The power of a low h-factor

What level of outperformance would you consider meaningful? And what performance would you expect from a basket of stocks across industry sectors, of varying market cap and growth prospects?

It's a real-time illustration of how overconfidence creeps into pricing. The more investors believe a company can do no wrong, the more risk they unknowingly assume.

The h-factor isolates that risk before it shows up in returns and removes it without relying on prediction or opinion.

In 2025, up to November 19, an equal-weight portfolio of low h-factor S&P 500 stocks had gained 9.2%, while the high h-factor group managed only 2.6%. That six-point spread is the clearest proof of all: when you avoid overpriced expectations, returns take care of themselves.

The year in mispricing 2025: low vs high-factor performance



The graph compares two equal-weighted portfolios drawn from the S&P 500: stocks in the lowest h-factor quintile and stocks in the highest h-factor quintile. Over the period shown, the lower h-factor portfolio delivered higher returns, consistent with lower exposure to expectation-driven pricing risk.

For a \$1 million portfolio, that gap equates to roughly \$66,000 left on the table in less than a year. Not because of market turmoil, but because of human behavior embedded in prices.

Avoiding the losers isn't a style, it's a discipline

This isn't a stock-picking trick or a smart-beta tweak. It's a rules-based, repeatable way to strip out human assumptions that quietly drag performance.

We're not saying the market is irrational. We're saying investors become over-confident about which stories will play out, and price that certainty in. That overconfidence is costly.

The h-factor doesn't try to outguess the future. It simply measures how far expectations have run ahead of reality.

And as 2025 has shown, that one insight – applied consistently – can mean the difference between meeting your clients' goals or falling short, quietly and avoidably.

For advisors, this isn't about picking the right narrative. It's about having a framework that consistently offers clients a way to avoid the wrong ones.

Because in a market full of noise, being less wrong more often isn't a style. It's an edge.

How much h-factor risk is hiding in your portfolio?

To see how much, go to avoidthelossers.com to request free access to the h-factor system.

Mentions of any h-factor scores in this post are only to illustrate the h-factor and current market conditions.

¹The h-factor™ is a 0–100% risk score showing the probability that a company will fail to deliver the growth already built into its stock price. A higher score means greater risk because investor behavior has driven the price beyond what the company's history suggests it can deliver.

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