

Fantasy Football and Factor Investing

There are parallels between building a strong fantasy football team and a strong portfolio.

The end of summer is a bittersweet time where we say goodbye to the long, warm days of summer but get excited as the groundwork is laid for the next NFL season. Teams are ramping up their training camps and evaluating their talent; that means fantasy football is right around the corner!

There are some strong parallels between fantasy football and factor investing—an area of the market that many financial professionals have been exploring in recent years. Factor investing can add elements of diversification, which can be helpful for navigating different market environments and may improve the efficiency of client portfolios.

We'll review the basics of factor investing, then we'll see how those same principles may help you build a better fantasy-football team. If your draft is coming up soon, be sure to check out **FIGURE 6** for some players to consider.

What Is Factor Investing?

Factor investing is based on the premise that you can understand what's driving investment returns if you look at the underlying characteristics of the stocks in the portfolio. While there are several factors that can influence investment returns, the five below are the most differentiated and backed by academic research, economic logic, and long-term evidence from practitioners:

FIGURE 1: Five Factors That Have Historically Driven Stock Returns

Factor	Definition:	Investment Logic:
Value	Lower-than-average price relative to fundamentals	Lower starting valuations have been historically associated with higher future returns
Quality	Strong profitability and efficiency ratios	Stronger-than-average profitability and efficiency allow companies to grow faster than the market
Momentum	Positive and negative price trends that continue to persist over the short/medium term	Trends in performance, both positive and negative, tend to persist longer than market participants expect
Small Size	Smaller market-cap size than average	Companies smaller in size have more of their market opportunity and growth trajectory in front of them, thus allowing greater opportunities for share-price growth than their larger peers
Low Volatility	Stocks with below-average volatility or correlations with the broad market	Low-volatility stocks have produced similar returns to higher volatility stocks over long periods with less risk, defying traditional finance theory

For illustrative purposes only. Source: Hartford Funds.

Insight from Hartford Funds



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Key Points

- Factors such as value, quality, momentum, small size, and low volatility are becoming increasingly popular ways to understand markets and potentially optimize client portfolios.
- By combining factors, you may get a more resilient portfolio because factors move in and out of favor.
- There are some strong parallels between building a factor-based portfolio and building a fantasy-football team made up of players with complementary attributes.

Historical Factor Returns

All the factors above have exhibited distinct performance characteristics for more than a century.

To quote Warren Buffett, “In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil (and inflation) shocks; a flu epidemic; and the resignation of a disgraced president (and the assassination of another). Yet the Dow rose from 66 to 11,497.”¹

He could have added that his tried-and-true investing principles, such as investing in great companies (quality) at good prices (value) while attempting to minimize losses (low volatility), worked more often than not, over that entire period.

Though it’s true that these factors have worked over time, they haven’t worked all the time. This highlights the need for diversification, not only *among* your investment holdings, but *within* your investment holdings.

Different investment factors have behaved differently across different market cycles, inflationary regimes, and other environments—not unlike how different players perform differently based on opponent, scheme, and surrounding cast.

Factor investing seeks to identify the underlying characteristics that drive stock returns.

FIGURE 2: Factor Performance Has Moved in Cycles

Factor Performance Average Annual Returns (1970-5/31/24)

1970-1975	1975-1980	1980-1985	1985-1990	1990-1995	1995-2000	2000-2005	2005-2010	2010-2015	2015-2020	2020 - Present	Since 1970
Composite Value Portfolio 4%	Composite Value Portfolio 25%	Low Volatility Portfolio 21%	Composite Value Portfolio 22%	High Volatility Portfolio 16%	High Volatility Portfolio 39%	Composite Value Portfolio 14%	Composite Value Portfolio 6%	SMID Cap Portfolio 19%	Quality Portfolio 15%	High Volatility Portfolio 27%	Composite Value Portfolio 15%
Low Volatility Portfolio -1%	SMID Cap Portfolio 24%	Composite Value Portfolio 19%	Low Volatility Portfolio 21%	Growth Portfolio 13%	Quality Portfolio 35%	SMID Cap Portfolio 8%	SMID Cap Portfolio 3%	Composite Value Portfolio 17%	Mega/Large Cap Portfolio 12%	Quality Portfolio 19%	Quality Portfolio 13%
Quality Portfolio -1%	High Volatility Portfolio 24%	SMID Cap Portfolio 17%	Quality Portfolio 20%	Quality Portfolio 12%	Growth Portfolio 31%	Low Volatility Portfolio 4%	Quality Portfolio 3%	Quality Portfolio 17%	Top 1000 Portfolio 12%	Mega/Large Cap Portfolio 14%	SMID Cap Portfolio 12%
Mega/Large Cap Portfolio -2%	Growth Portfolio 19%	Quality Portfolio 15%	Mega/Large Cap Portfolio 20%	SMID Cap Portfolio 11%	Mega/Large Cap Portfolio 30%	Top 1000 Portfolio -1%	Low Volatility Portfolio 2%	Low Volatility Portfolio 16%	Low Volatility Portfolio 11%	Top 1000 Portfolio 13%	Low Volatility Portfolio 11%
Growth Portfolio -2%	Top 1000 Portfolio 16%	Top 1000 Portfolio 14%	Top 1000 Portfolio 20%	Composite Value Portfolio 10%	Top 1000 Portfolio 28%	Growth Portfolio -2%	Top 1000 Portfolio 2%	Top 1000 Portfolio 16%	High Volatility Portfolio 11%	Growth Portfolio 13%	Top 1000 Portfolio 11%
Top 1000 Portfolio -3%	Low Volatility Portfolio 15%	Mega/Large Cap Portfolio 13%	Growth Portfolio 19%	Top 1000 Portfolio 9%	Composite Value Portfolio 25%	Quality Portfolio -2%	Growth Portfolio 1%	Mega/Large Cap Portfolio 15%	Composite Value Portfolio 11%	SMID Cap Portfolio 10%	High Volatility Portfolio 11%
SMID Cap Portfolio -5%	Quality Portfolio 15%	Growth Portfolio 9%	SMID Cap Portfolio 19%	Mega/Large Cap Portfolio 9%	SMID Cap Portfolio 21%	Mega/Large Cap Portfolio -5%	Mega/Large Cap Portfolio 1%	High Volatility Portfolio 14%	SMID Cap Portfolio 10%	Composite Value Portfolio 10%	Growth Portfolio 11%
High Volatility Portfolio -12%	Mega/Large Cap Portfolio 13%	High Volatility Portfolio 8%	High Volatility Portfolio 16%	Low Volatility Portfolio 7%	Low Volatility Portfolio 20%	High Volatility Portfolio -11%	High Volatility Portfolio 1%	Growth Portfolio 13%	Growth Portfolio 9%	Low Volatility Portfolio 9%	Mega/Large Cap Portfolio 11%

As of 5/31/24. Past performance does not guarantee future results. For illustrative purposes only. Please see page 7 for portfolio definitions.

Data Source: Compustat; Calculations: Hartford Equity Modeling Platform.

¹ Source: “Buy American, I Am.” The New York Times, 10/16/08

Building a Long-Term Portfolio with Factors

Let's say you want to build a long-term portfolio that has outperformance potential but is also risk-conscious.

You might start by looking for companies that are trading at attractive valuations (the value factor). But value alone isn't enough because some companies trade at low valuations for good reason.

Then you'd further refine your list by only including companies that have a history of profitability and deploying capital wisely (the quality factor).

Momentum is another attribute you may consider as shorter-term trends often persist; however, be aware that momentum can be the most fickle and fleeting of the factors: here today, gone tomorrow.

Finally, you could overlay a couple of additional factors (small size and low volatility) depending on your goals for additional upside, albeit with higher risk, emphasizing relatively smaller companies—or calibrate risk down using the low-volatility factor so the portfolio can potentially perform better during more challenging, higher-volatility periods.

That's the big idea behind factor investing: diversification across a variety of sources of return, though asset managers who incorporate this investing style execute it in different ways.

Market Cycles and Inflation Environments Influence Factor Returns

Rising or above-trend inflation has historically benefited value stocks and smaller-sized companies, while falling or below-trend inflation has historically benefited higher-quality, larger companies.

The past 55 years of market cycles, separated by recessions, reveal some consistent performance traits:

1. Early in the market cycle, the value and size factors consistently performed the best, and as you get to the belly of the bull market, value has been the strongest performer.
2. Quality historically gained strength the longer the bull market lasted because broad GDP and earnings tend to slow late in the cycle. As a result, companies that can continue to grow, due to their pricing power and profitability, become more scarce.
3. During the bear-market drawdowns, lower-volatility stocks (i.e., those with more stable share prices) and stocks with cheaper valuations (i.e., those with less room to fall) have weathered past storms the best.

Momentum can be the most fickle and fleeting of the factors: here today, gone tomorrow.

FIGURE 3: Factor Performance During Rising Inflation Cycles

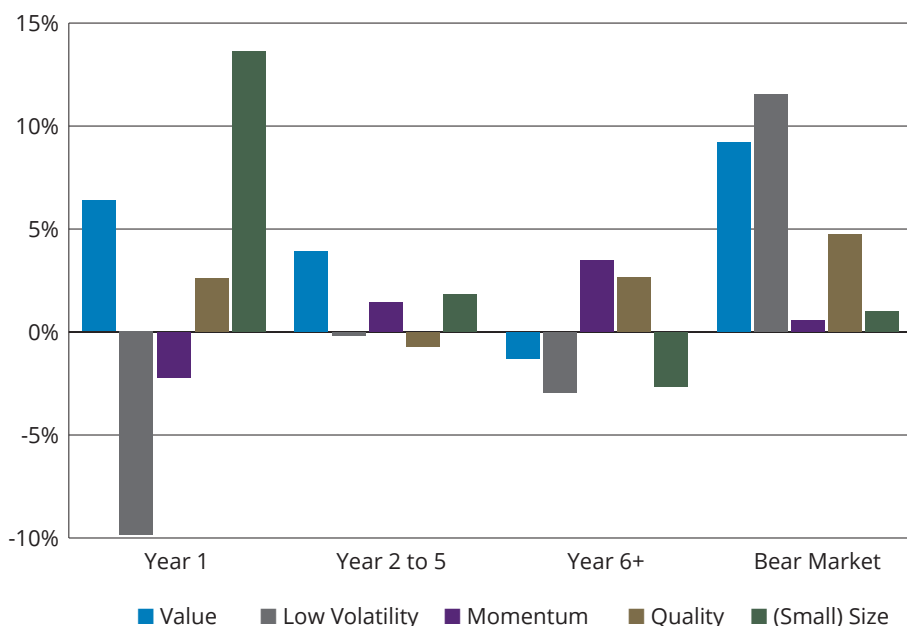
Factor Performance Average Annual Returns (1973-2022)

1973-1975	1977-1980	1983-1984	1987-1991	1999-2001	2003-2006	2010-2012	2020-2022	Average
Value 7%	Momentum 11%	Value 7%	Quality 3%	Value 25%	Value 8%	Quality 5%	Value 8%	Value 7%
Quality 4%	Value 6%	Low Volatility 6%	Value 3%	Small Size 13%	Small Size 5%	Value 4%	Small Size 3%	Small Size 3%
Low Volatility 1%	Small Size 4%	Quality 1%	Low Volatility 2%	Low Volatility 10%	Momentum 1%	Low Volatility 3%	Low Volatility 1%	Low Volatility 2%
Momentum 0%	Quality -3%	Small Size -2%	Momentum 0%	Quality 1%	Low Volatility 1%	Small Size 2%	Momentum -1%	Quality 1%
Small Size -1%	Low Volatility -3%	Momentum -8%	Small Size -1%	Momentum -4%	Quality -4%	Momentum -3%	Quality -3%	Momentum -1%

As of 5/31/24. Past performance does not guarantee future results. For illustrative purposes only. Please see page 7 for portfolio definitions.
Data Source: Compustat; Calculations: Hartford Equity Modeling Platform.

FIGURE 4: Factor Performance During Market Cycles

Factor Performance During Bull and Bear Markets (1/1/70-5/31/24)



As of 5/31/24. Past performance does not guarantee future results. For illustrative purposes only.
Data Source: Compustat; Calculations: Hartford Equity Modeling Platform.

How Might These Factors Apply to Fantasy Football?

When you're building your fantasy-football team, you need different contributions across your entire team over the course of a season when you're facing opponents of varying difficulty, inevitable injuries, and, of course, bye weeks!

Low Volatility – If you try to build a team that’s only made up of super-consistent, steady-eddie players, your team will have a decent floor but may not have enough fire power to win a championship. This is akin to building a portfolio with only low-volatility stocks.

Quality – A roster filled the highest-quality players sounds appealing until you remember there are constraints acting like a budget. This means a great player could still cost you too much for the points they (may or may not) provide.

Value – Players who have a low price or are available in late rounds may not look appealing on the surface, but as you dig deeper, you may find their previous poor performance was due to a lingering injury, a poor supporting cast, or scheme issues—and a new environment may unlock a gem.

Momentum – Boom-and-bust players are like the momentum factor in factor investing. Maybe a player is only used in goal-line situations, so all their points come from touchdowns. Or think of an explosive receiver who doesn’t get a high volume of targets but can hit paydirt once or twice a game, several times a year.

Small Size – Players in their first couple of years in the NFL often need time to establish their ability to produce for their teams and fantasy owners. Likewise, a stock that’s smaller may be less well-known because it hasn’t been a publicly traded company long enough to establish a track record that rivals its larger-cap siblings.

FIGURE 5 looks back at the 2023 season to show examples of players who typified each factor.

In our view, high-upside players in fantasy football are similar to the momentum factor, steady-eddie players are similar to the quality factor, and undervalued players are similar to the value factor.

FIGURE 5: Investment Factors as Fantasy Football Picks from 2023

Player	Factor
Value (Raheem Mostert, RB, Miami Dolphins)	Mostert, a talented but oft-injured veteran RB, was being drafted as the 40th RB and had an ADP of 115 heading into last season due to his injury history and a potential crowded backfield in Miami. He ended the season as the RB4 with 21 total TDs and was one of the best value picks of the last few seasons.
Quality (Christian McCaffrey, RB, San Francisco 49ers)	While leading his team to a Super Bowl, McCaffrey also racked up the third-most fantasy points in the league last season. He had a more than 100-point advantage over the second-highest scoring RB, Breece Hall. With more than 1,400 rushing yards, 564 receiving yards, and 21 touchdowns in 2023, McCaffrey is the best player at his position and a true set-it and forget-it player in fantasy lineups.
Momentum (DJ Moore, WR, Chicago Bears)	DJ Moore was a player who exemplified the boom-or-bust nature of the momentum factor in 2023. In 0.5 points-per-reception (PPR) leagues, he had nine games under 10 points and four games over 23 points; he ended the season as the sixth best WR.
Small Size (Puka Nacua, WR, Los Angeles Rams)	An unknown rookie from BYU and on a team with star WR Cooper Kupp, little was expected of Nacua to start the 2023 year. According to ESPN, Nacua was rostered in just 2% of Fantasy Leagues prior to week 2. With Kupp injured for part of the year, Nacua went on to finish the 2023 season with 101 receptions for 1,445 yards and five touchdowns. He epitomized the significant upside potential of small, unknown companies.
Low Volatility (Michael Pittman, Jr., WR, Indianapolis Colts)	Michael Pittman, Jr. was not the most exciting player to add to lineups last season, but he was certainly consistent. Throughout the season, Pittman had at least 4 points in 0.5 PPR scoring and scored in double digits 10 times, which provided a decent floor. He might not have won a week for your team, but he probably also didn’t lose you a week with a total dud performance; this encapsulates low-volatility investing.

Sources: ESPN and FantasyPros.

In FIGURE 6 we pull out our crystal ball for the 2024 season and predict which players might typify the five factors.

FIGURE 6: Investment Factors as Fantasy Football Picks for 2024

Player	Factor
Value (Kyler Murray, QB, Arizona Cardinals)	This season will be Murray's second year after his ACL tear, and he's hoping to capture the magic of his first two seasons in the NFL. Murray finished as a top 5 QB in fantasy points per game in his first two seasons and is currently being drafted as the QB 10 in drafts. A healthier season and the addition of Marvin Harrison, Jr. at WR should provide plenty of opportunity for Murray to outperform his average draft position.
Quality (Amon-Ra St. Brown, WR, Detroit Lions)	Amon-Ra St. Brown is coming off a career year with the Lions and is poised to continue his ascension into the upper echelon of NFL WRs. Much like Nvidia or Microsoft, St. Brown isn't cheap as he is projected as a first-round pick, but with his talent and pivotal role in the high-flying Lions offense, it's hard to imagine that the "sun god" doesn't deliver on expectations barring an injury.
Momentum (De'Von Achane, RB, Miami Dolphins)	Achane burst onto the scene last season as a relatively unknown rookie for the explosive Miami Dolphins offense and instantly made an impact. He finished as a top-10 running back five out of the 11 weeks he was healthy; the other six weeks he was outside of the top 15, so there was a wide range of outcomes for the young rusher. Look for Achane to capitalize on the positive momentum from a strong rookie campaign this upcoming season.
Small Size (Ladd McConkey, WR, Los Angeles Chargers)	The Los Angeles Chargers revamped their offense this offseason by letting go or trading veterans Austin Ekeler, Mike Williams, and Keenan Allen. This opens up plenty of opportunities for younger, less-established players to step up in their place. Justin Herbert will need to find a new favorite target, and rookie second-round pick Ladd McConkey could become that guy.
Low Volatility (Rachaad White, RB, Tampa Bay Buccaneers)	Rachaad White was a consistent workhorse for the Tampa Bay Buccaneers last season. His heavy workload week-in and week-out provides a solid floor for production from a fantasy perspective. White rarely finishes as a top-scoring RB for the week but offers solid weekly point totals; this can help teams during more volatile scoring weeks.

Sources: ESPN and FantasyPros.

From Fantasy to Reality

Combining players that exhibit a variety of different characteristics can help you build a fantasy-football team worthy of that coveted, always corny, trophy that your league still uses. Likewise, building a portfolio of companies using a variety of attractive attributes could potentially be an investment approach built to weather the inevitable storms for the long term.

To learn more about systematic investing, please talk to your Hartford Funds ETF representative.

FIGURE 2 Portfolio Definitions

Name	Type	Description
High Volatility	Portfolio	Bottom 30% of the US top 1,000 stocks based on a composite-volatility score defined by multiple equality weighted volatility metrics to arrive at an aggregated valuation metric. Volatility metrics include 3-year beta and standard deviation
Low Volatility	Portfolio	Top 30% of the US top 1,000 stocks based on a composite volatility score defined by multiple equality weighted volatility metrics to arrive at an aggregated valuation metric. Volatility metrics 3-year beta and standard deviation
SMID Cap	Portfolio	US small- and mid-cap stocks
Composite Value	Portfolio	US top 1000 stocks top 30% based on composite value as defined by multiple equally weighted valuation metrics to arrive at an aggregated valuation metric. Valuation metrics include: P/E, EBITDA/EV, operating cash flow/EV, revenue/EV, dividend yield, and B/P yield (used only in financials and real estate as a replacement to EBITDA/EV). Portfolios constructed using composite value are not neutralized or weighted at the sector level.
Quality	Portfolio	Top 30% of US top 1,000 stocks based on gross profits to assets
Growth	Portfolio	Top 30% of US top 1,000 stocks based on 1-year earnings growth
Mega/Large Cap	Portfolio	US mega- and large-cap stocks
Top 1000	Portfolio	US top 1,000 stocks, cap-weighted

FIGURES 3 and 4 Portfolio Definitions

Name	Type	Description
Low Volatility	Portfolio	US top 1,000 stocks top 30% based on a composite-volatility score defined by multiple equality weighted volatility metrics to arrive at an aggregated valuation metric. Volatility metrics include 3-year beta and standard deviation.
Small Size	Portfolio	US small-cap companies
Composite Value	Portfolio	US top 1000 stocks top 30% based on composite value as defined by multiple equally weighted valuation metrics to arrive at an aggregated valuation metric. Valuation metrics include: P/E, EBITDA/EV, operating cash flow/EV, revenue/EV, dividend yield, and B/P yield (used only in financials and real estate as a replacement to EBITDA/EV). Portfolios constructed using composite value are not neutralized or weighted at the sector level.
Quality	Portfolio	Top 30% of US top 1,000 stocks based on gross profits to assets
Momentum	Portfolio	Top 30% of US top 1,000 stocks based on momentum score

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Human-centric investing means having choices

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RODM	Hartford Multifactor Developed Markets (ex-US) ETF
ROSC	Hartford Multifactor Small Cap ETF
ROAM	Hartford Multifactor Emerging Markets ETF
RODE	Hartford Multifactor Diversified International ETF
ROIS	Hartford Multifactor International Small Company ETF
VMAX	Hartford US Value ETF
HQGO	Hartford US Quality Growth ETF

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