

OUR TAKE

There's a punt factor in stocks that investors might be missing

Speculative trading creates linkages between crypto and equities that vary depending on the stocks in question



By Rob Mannix

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Key points

- A new driver, linked to speculative investing, the “punt factor” seems to link crypto moves with certain stocks.
- Analysis shows that crypto explains about 55–60% of returns in speculative stocks, as much as 60% at times for QQQ and less for utilities.
- The punt factor shows up in returns but not volatility, posing hidden risks for institutions.

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With retail trading ballooning since 2020 to make up nearly a third of US equity market flows, investors have asked themselves how the brash new arrivals in markets might change the mood. Retail investors, after all, are a different crowd. Institutional brokers don't shower clients with digital confetti when they complete their first trade. The trading platform Robinhood used to, before regulators questioned the practice.

Which is to say, has the boom in retail flows added a new behavioural driver of returns – something that runs deeper and wider than the meme-stock frenzies that occasionally descend on individual stocks?

Some reckon it has, with this new force spilling into stocks that have some of the gambling-type payoffs that today's retail investors often chase. Harindra de Silva, head of research and portfolio manager at quant firm AJO Vista, calls it the "punt factor".

Broad signs of such an effect in markets have been emerging for a while. Stocks and crypto started to move together after day trading took off during the pandemic, having not done so before. (Crypto offers a fair proxy for the intensity of retail speculation because retail dominates trading, and because its price reflects only market views about its future – no cashflow expectations, no valuation anchor.)

Before 2019, the correlation between the two asset classes had been close to zero. In the years since, the figure has been more like 0.4. Researchers at the IMF wrote about this in January 2022, and showed that spillover effects from bitcoin – technically, the usefulness of bitcoin in predicting what would happen in the S&P 500 – had risen to be about a third as strong as those of the Russell 2000.

De Silva's assessment goes further and digs into how far these spillovers affect certain stocks more than others.

The implication for investors is they need to know which stocks are more, or less, exposed. "If you have a big selloff in crypto where people withdraw from the market, that will affect these lottery-like stocks everywhere," de Silva says. "This factor is connecting things together that may not have been connected in the past."

At one end of the spectrum, the punt factor is plainest to see in the linkages in both returns and volatility between a basket of crypto – bitcoin, ethereum and dogecoin – and an equal-weighted basket of shares in companies that benefit directly from speculative activity: sports betting outfit DraftKings, retail trading firm Robinhood and the crypto exchange Coinbase.

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Harindra de Silva, AJO Vista

De Silva's analysis uses a tool referred to as the Total Connectedness Index, the same methodology the IMF used in its 2022 paper, which measures how far moves in one asset influence the future path of another.

In the speculation-driven stocks, the punt factor is strong. Crypto registers a returns connectedness with this basket of about 55% to 60%. A reading of 100% would mean shocks originating in crypto explained all the future variation in returns of the equities basket.

At the opposite end of the range, utilities companies seem largely unaffected by punting behaviour. Return connectedness ranges between 30% to 45% in de Silva's analysis. The interesting stocks, though, lie in the middle ground.

Here de Silva's numbers show the punt factor meaningfully affects the returns of technology stocks that are widely held by institutional investors. De Silva's reading for the returns connectedness of QQQ, the popular Invesco ETF tracking the Nasdaq 100, averaged 45% and reached 60% at times.

The effect is stronger than ordinary correlation measures would indicate, he says. "If you're trading Nasdaq, you should realise that what's going on in crypto is going to affect you, whereas you didn't have to worry about it earlier. If there's a big decline, or a selloff or an FTX-type event in crypto, it will affect certain aspects of your triple-Q holdings – not all your triple-Q holdings, but some will be affected. If you're holding a utilities basket, you're completely insulated."

Interestingly, the punt factor only shows up when looking at linkages between returns in crypto and QQQ, and not in volatility. Most likely, institutional investors that hold the ETF cushion the effect of selling when speculators pull back, de Silva says. Speculative flows, meanwhile, influence price formation because the marginal buyer or seller is likely to be a retail trader.

Watch out

As for why all this matters: emerging factors concern buy-side risk managers and quant investors because these drivers are missing, by definition, from the backtests they use to road test investing strategies.

Institutions that are increasingly active in crypto, for example, might unknowingly double up unseen punt factor exposures.

It's a growing possibility. Institutions are becoming more active in crypto. Late in 2025, Harvard's University endowment invested over \$440 million, about a fifth of the fund's equity holdings, in a bitcoin ETF, for example.

Intriguingly, the punt factor might also offer a way to make money. An investor could isolate the factor using principal component analysis of stocks such as DraftKings and Robinhood alongside cryptos, de Silva says. This would produce a measurable and tradable indicator of speculative capital intensity.

If you take the view that punters who chase lottery-ticket payouts are partly seeking entertainment – and will lose money on average over the long term – shorting the punt factor ought to be a profitable trade, he says.

Risk managers, meanwhile, may be advised to watch out for punt factor effects in the volatility of their equity portfolios. For now, most stocks will see little effect. Any increase in volatility connectedness with crypto, though, would indicate a stock's buffer of institutional investors is eroding. If that happens, panic-selling from punters might become a meaningful risk.

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