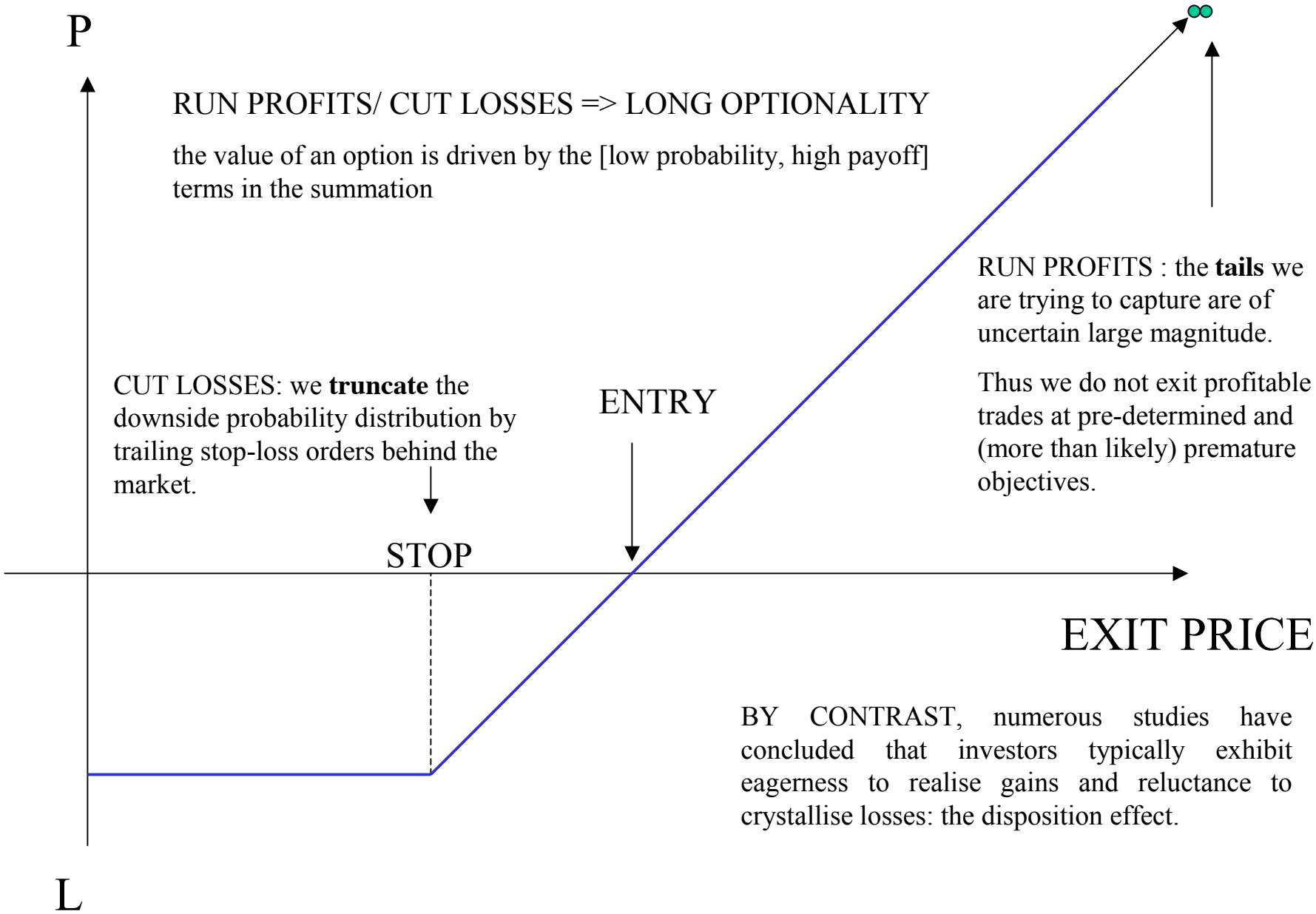
MULVANEY CAPITAL MANAGEMENT



RUN PROFITS/ CUT LOSSES => LONG OPTIONALITY

the value of an option is driven by the [low probability, high payoff] terms in the summation

RUN PROFITS : the **tails** we are trying to capture are of uncertain large magnitude.

Thus we do not exit profitable trades at pre-determined and (more than likely) premature objectives.

CUT LOSSES: we **truncate** the downside probability distribution by trailing stop-loss orders behind the market.

BY CONTRAST, numerous studies have concluded that investors typically exhibit eagerness to realise gains and reluctance to crystallise losses: the disposition effect.