Single-name event risk: the overnight halving

> **PER-NAME CAP**
>
> A ceiling on any single name's share of the account, held regardless of conviction: the only risk tool that prices the move no stop reaches - the fraud revealed, the trial failed, the guidance destroyed - where a stock halves through a halt or gaps beyond any planned exit. A stock can halve overnight; an index cannot; the cap is the entire defence.

The seed of this module is one sentence: a stock can halve overnight, and an index cannot. This lesson is that sentence, taken seriously.

Why only equities carries this lesson

An index absorbs its casualties - the failed constituent shrinks and is replaced, and the index prints a bad day. A commodity is a molecule - it cannot be discovered to have been lying about its accounts. A single company can: fraud surfaces, trials fail, contracts vanish, guidance detonates - and the repricing routinely happens through a halt or an overnight gap, from a price to half of it or less, with no tradeable path between. Module 1's residual claim is the mechanism: when the business's story breaks, the equity absorbs the whole break, first.

Why the stop and the gap-size both miss it

The stop prices continuous movement; the halving arrives through a halt or a gap - there is no path on which the stop executes anywhere near itself.Even gap sizing assumed a distance - the earnings history, doubled. The halving ignores histories: it is the tail beyond every estimated distance, and it does not book appointments.Conviction is not a defence: the halvings land on names with the most convinced holders - the conviction is why the position was big, and the size is why the event was ruinous.

The cap, and the two-constraint rule completed

The defence is embarrassingly simple: no name exceeds a fixed share of the account - a common institutional band is mid-single-digit percent - so that even a total loss is a survivable year, not an ending. Lesson 2's rule completes here: size to the smaller of the risk-budget answer and the cap. For large accounts the budget binds; for concentrated convictions the cap does - and it must, because it is the only line in the whole risk plan that still works when the price teleports. Ownership's freedom, one last time: nothing stops you betting the account on one story. The cap is you, stopping you, in writing, while it is still cheap.

Check your understanding

1. Why can neither the daily stop nor the gap-sized position handle the overnight halving?

a. Both are too expensive to maintain

b. Both assume a distance: the stop prices continuous noise, gap-sizing prices estimated events - the halving is the tail beyond every estimate, arriving through halts with no tradeable path

c. Brokers cancel orders during halvings

Answer: b. Every distance-based tool fails when price teleports. Only a tool that assumes no distance at all - the cap on total exposure per name - prices the move that skips the chart.

2. Why does the per-name cap bind hardest exactly where conviction is highest?

a. Convicted positions are usually short

b. Because conviction is what builds the oversized position, and size is what converts a halving from a bad day into an ending - the cap exists to overrule precisely that confidence

c. High-conviction names have wider spreads

Answer: b. The halvings that ruin accounts land on the names holders were surest about - the sureness built the size. The cap is written while thinking is cheap, to work when it is not.