

**Predicted Profitability**  
=  
what the  
model  
told you

**Realized profitability** = what happened

Positive

Negative

True positive

False positive  
= Type I error

You invested in a  
strategy that worked!

You invested in a strategy  
that did not work!

Positive

False negative  
= Type II error

True negative

Negative

You did not invest in  
a strategy that worked...

You did not invest in a  
strategy that did not work...