

Glossary of Terms

A

Ask Price

The current best price to sell an **Option** or stock.

Assignment

Notice to the owner of a **Call** or **Put** security to buy or sell stock at a specified price, the **Strike Price**.

At-the-Money

The price at which the security is the same or close to the price of the **Option**.
(The strike price of the **Option** is equal to the market price of the security.)

B

Bear Market

A market in which prices of securities are falling.

Bear Spread

A long-term plan designed to profit from a drop in the price of a security which involves selling a near-month futures contract, and buying a later month futures contract. This strategy makes a maximum profit when the stock declines and has maximum risk if the stock rises in price.

Bid Price

The current best price of which someone is willing to buy an **Option** or stock.

Black-Scholes Option-Pricing Model

A mathematical formula for calculating the price of an **Option**.

Bullish

A bias that the market is going up.

Buy Limit Order

An order to buy a specific quantity of a specific stock or **Option** only at or below a designated price.

Buy on Close

An order to buy a specific quantity of a specific security at the end of a trading session at a price within the closing range.

Buy on Margin

A method by which a loan is given by a broker to a client allowing the client to purchase securities with borrowed money.

Bull Market

A market in which security prices are rising faster than their historical average.

Bull Spread

A long-term plan designed to profit if the security rises far enough, and has its maximum risk if the security falls far enough. This strategy makes a maximum profit when an **Option** with a lower strike price is bought and one with a higher strike price is sold with both having the same expiration date.

C

Calendar Spread

A plan which involves selling a short-term **Option** for **Puts** or **Calls**, and buying a longer-term **Option** for **Puts** and **Calls** with both having the same **Strike Price**.

Call

An **Option** that gives the holder the right to buy a certain quantity of the underlying futures contract at a specific price for a fixed period of time.

Call Price

The price, at issuance, at which a stock can be redeemed.

Call Spread

Buying a **Call** on a security and selling a **Call** with a different expiration date, price, or both.

Cash Account

A brokerage account requiring the customer to pay the full amount due for securities purchased—an account where buying on margin is not permitted.

CBOE

Chicago Board Options Exchange—first national exchange to trade stock **Options**.

Chicago Mercantile Exchange (CME)

A not-for-profit corporation owned by its members whose primary function is to provide a location and regulated environment for trading futures and **Options**.

Clearing House

Executes transactions on the floor of the exchange using a process of matching purchases and sales. It is responsible with overseeing proper conduct of delivery procedures.

Combination Strategy

A plan involving both **Puts** and **Calls Options** on the same stock that are not a straddle. The stock has the same **Strike Price** and expiration, and are either both bought or both sold.

Commission

A fee charged by a broker to a customer when a futures or **Options** position is liquidated.

Contract

A binding agreement to buy or sell stock at a specific price on a specific date.

Contract Month

The month in which an **Option** contract expires.

Contingent Order

An order which may be executed only if another event occurs.

Cost Basis

The purchase price including commissions and other expenses which is used to determine capital gains and losses for tax purposes.

Cover

To buy back a previously sold contract.

Covered

A condition where a writer has an opposing market position, on a share-for-share basis in a security. Example, a short **Call** is covered if the stock is owned, and a short **Put** is covered if the stock is also short.

Covered Call

A plan where a **Call Option** is written or sold against long stock on a share-for-share basis.

Covered Call Options Writing

A plan where one sells **Call Options** while at the same time owning an equal position in the underlying security or strategy in which one sells **Put Options** and simultaneously is short an equal position in the underlying security.

Covered Call Writer

An investor who writes a **Call** as well as owns the stock.

Covered Call Writing Strategy

A plan where a **Call Option** is written on securities, that the investor owns.

Converted Put Write

Selling a **Put** on the stock that is being shorted.

D**Day Order**

An order, that automatically expires if it is not executed during that trading session. If it is not executed, it is automatically canceled.

Debit

Money paid out from an account. Buying an **Option** places the owner in a debit situation.

Delta

The amount by which an **Option's** price changes for every one-point change in the price of the stock.. **Call Options** have positive deltas, and **Put Options** have negative deltas.

Delivery

Procedure of satisfying a stock **Call** assignment or a **Put** exercise; both cases result in stock delivery.

Derivative Instruments

Futures and **Options** contracts whose price is *derived* from the price of the underlying financial asset.

Derivative Security

A financial security such as a future or **Option** whose value depends on the characteristics and value of an underlying security.

Diagonal Spread

A spread involving two **Options**, one a **Put**, and one a **Call**, with different expiration dates and **Strike Prices**.

E**Equity**

The dollar value of a futures trading account assuming that the account is liquidated at the going price.

Equity Options

Options on stock shares or stock index.

Exercise

To implement the right under which the holder has the right to buy a **Call Option**, or sell a **Put Option**.

Exercise Price

The specific price at which the **Option** holder may buy or sell the underlying security as defined by the terms of the **Option** contract—the price at which the **Call** holder may exercise to buy the underlying security or the **Put** holder may exercise to sell the underlying security.

Expected Return

Mathematical analysis on a probability curve of all possible rates of return.

Expiration Cycle

Dates on which **Options** on a specific security expire.

Expiration Date

The last day which an **Option** may be exercised.

F

Fair Value

The worth of an **Option** or futures contract determined by a mathematical formula.

Float

The number of shares of a stock that are available for trading by the public.

Floor Broker

A broker on the exchange floor who is paid for executing orders for clearing member or their customers.

Fundamental Analysis

A method of evaluating a security which analyzes the company's financial and operations including sales, earning, assets, debt management, products and competition.

G

Gamma

The ratio of change in a **Call Option's** delta to the change in the price of the underlying security.

Good-Until Canceled *GTC

An order to buy or sell at a specific price. The order remains until it is either filled or canceled.

H

Hedge

A careful strategy to reduce the risk of price movements in a stock by taking an offsetting position by an **Option** of short sales.

I

Implied Volatility

Theoretical value representing the volatility of a stock. It is determined by using the current **Option** price rather than the historical price data changes of a stock.

In-the-Money

A **Call Option** if the underlying security is higher than the strike price of the **Call**, or a **Put Option** that has a strike price higher than the underlying future price.

Intrinsic Value

The value of an **Option** if it is In-the-Money.

J

There are no glossary terms for this section.

K

There are no glossary terms for this section.

L

LEAPS™

Long-Term Equity Anticipation Securities

Long-term stock or **Options**—or index **Options** with expirations dates of up to three years in the future.

Limit Order

An order placed with a broker to buy or sell securities at or below a specific price.

Long

A contract(s) to establish a market position and is not yet closed out of the position by an offsetting sale.

Long Straddle

A long position taken in both a **Put** and **Call Option**—also called a bull-straddle.

M**Margin**

A method of buying a security by borrowing money from a broker.

Margin Requirement

The amount that is required to deposit before buying on margin or selling short as regulated by the Federal Board's Regulation.

Margin Account

General account that may be used for buying or selling on margin when needed.

Margin Call

A call from a broker to a customer demanding additional cash as a result of adverse price movement.

Market Makers

A brokerage member who aids in the making of a market by maintaining a firm bid and ask price in a stock or **Option**.

Market Maker Spread

The difference between the price at which a Market Maker will buy a security and the price at which the Market Maker is willing to sell it—a source of profit.

Market Order

An order to buy or sell a stock at the best obtainable price.

N**Naked Options**

A **Call** or **Put Option** sold uncovered (without ownership) of the underlying asset.

Net Change

The difference between today's last trade and that of the previous day's last trade.

Net Income

The income remaining after all taxes and expenses have been deducted, and used in calculating stock performance measures.

Net Profit

Gross sales minus interest, depreciation, taxes, and other expenses—net earnings.

New York Stock Exchange (NYSE)

Largest stock exchange in the US, on Wall Street in New York City. It is responsible for setting policy, managing member activities, listing securities, and supervising the transfer of seats as well as evaluating applicants.

O**Open Interest**

The total number of outstanding **Option** contracts in the exchange market.

Open Order

An order to a broker to buy or sell securities that has not yet been executed.

Option

The right, but not the obligation, to buy a **Call Option**, or sell a **Put Option**.

Option Price

The price paid by the buyer for the **Options** contract allowing the right to buy or sell a stock at a specified price in the future.

Out of the Money

A **Call Option** with a strike price greater than the market price of the stock; or a **Put Option** with a **Strike Price** lower than the stock futures price.

P**Paper Trading**

Simulated live trading without actually placing the trades.

Portfolio

A collection of one's investments.

Premium

The price that the buyer of an **Option** pays to the seller.

Price Spread

An **Option** plan of the simultaneous purchase and sale of **Options** of the same class and expiration date, but at a different **Strike Price**.

Protective Put Buying Strategy

A plan that involves buying a **Put Option** on the stock that is held in a portfolio.

Put

An **Option** contract gives the holder the right to sell the stock futures contract on or before a specific date.

Put-Call Parity Relationship

The relationship between the price of a **Put** and the price of a **Call** on the same stock with the same expiration date.

Put Spread

Purchasing one **Put** on a specific stock and selling another **Put** on the same stock with a different expiration date, exercise price or both.

Q

There are no glossary items for this section.

R**Range**

The difference of the high and low prices of a given stock or **Option** during specific time.

Rate of Return

Annual rate of return on a stock expressed as a percentage on the total amount invested.

Resistance Levels

A price level that a stock tried to cross above, but could not.

Return on Equity

Net income divided by shareholder's equity—the ratio of earnings to stockholders' equity.

S

Securities & Exchange Commission (SEC)

The federal regulatory agency for the securities industry. It provides full disclosure, and protects investors against fraudulent practices.

Security instrument

An investment tool that offers evidence of debt or equity.

Sell Limit Order

An order to sell a specified quantity of a stock at or above a specific price or higher.

Selling Short

A trade in which the investor borrows a stock, sells it, repurchases it at a later time, and returns it to the broker who loaned the stock—ideally at a lower price.

Settlement Date

A specific date for delivery of securities between securities firms—usually three business days after the trade was executed.

Short Hedge

The sale of a futures contract to protect the possible decline in value of a stock that will be sold in the future.

Short Interest

The number of contracts in a **Put**.

Short Position

A position where the number of contracts sold is greater than the number of contracts purchased.

Short Selling

The selling of a stock that the seller does not own.

Short Squeeze

A situation where the lack of supply forces prices upward.

Short Straddle

The selling of one **Put** and one **Call**.

Spread

Purchasing and selling of **Option** contracts simultaneously.

Spread Strategy

A plan where an **Option** position has both long **Options** and short **Options** of the same type on the stock.

Stop Loss Order

A **stop loss** order in which the stop loss **price** is set at some fixed percentage or dollar amount below the **market price** if you own the stock. If you are short the stock, then an order to Buy to Cover is placed above the price it was purchased by some fixed percentage or dollar amount.

Strike Price

The price per share for which the stock may be purchased or sold by the **Option** holder upon exercise of the **Option** contract.

Straddle

The purchase or sale of an equal number of **Calls** and **Puts** with the same terms.

Support levels

A price level that the stock tried to cross below, but ultimately stayed above.

T**Theta**

Rate of change in an **Option's** time.

Technical Analysis

A method of evaluating securities based on the assumption that market data derived from charts, volume, and interest is able to help predict future trends.

Time Premium

The amount by which the **Option** price exceeds its intrinsic value—also referred to as Time Value.

Trailing Stop Loss Order

The order that follows the entry price by a set amount.

U There are no glossary terms for this section.

V**Volatility**

The measure of the price fluctuation for a given stock,

Volume

The number of transactions reported to the Nasdaq Stock Market in a contract during a specific time period.

W**Writer**

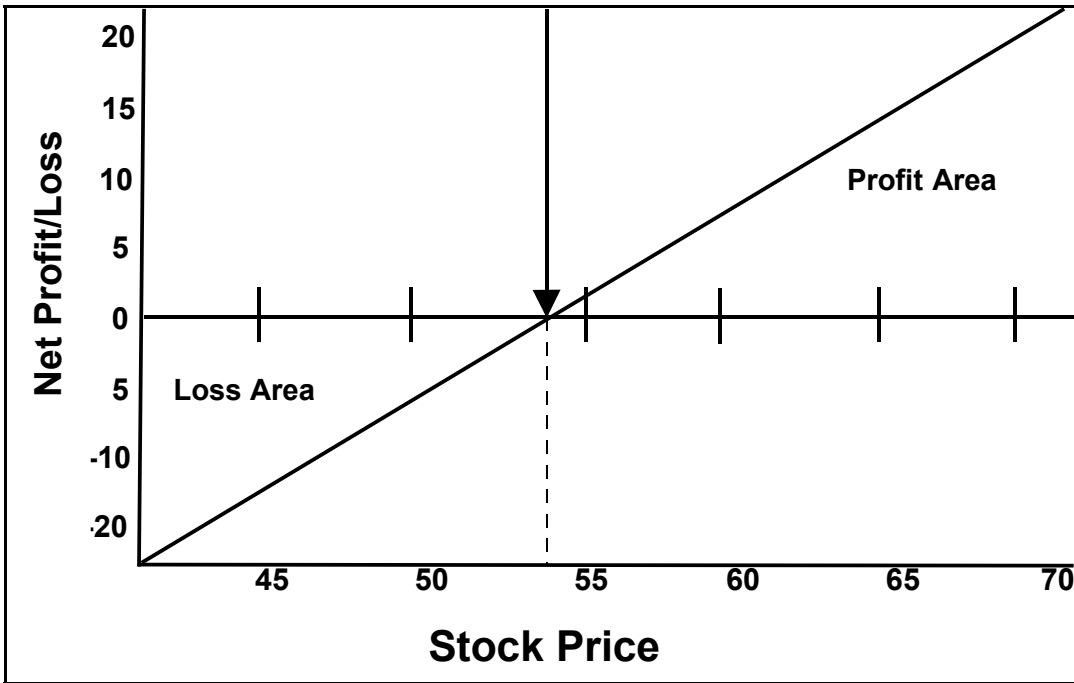
The seller of an **Option** contract.

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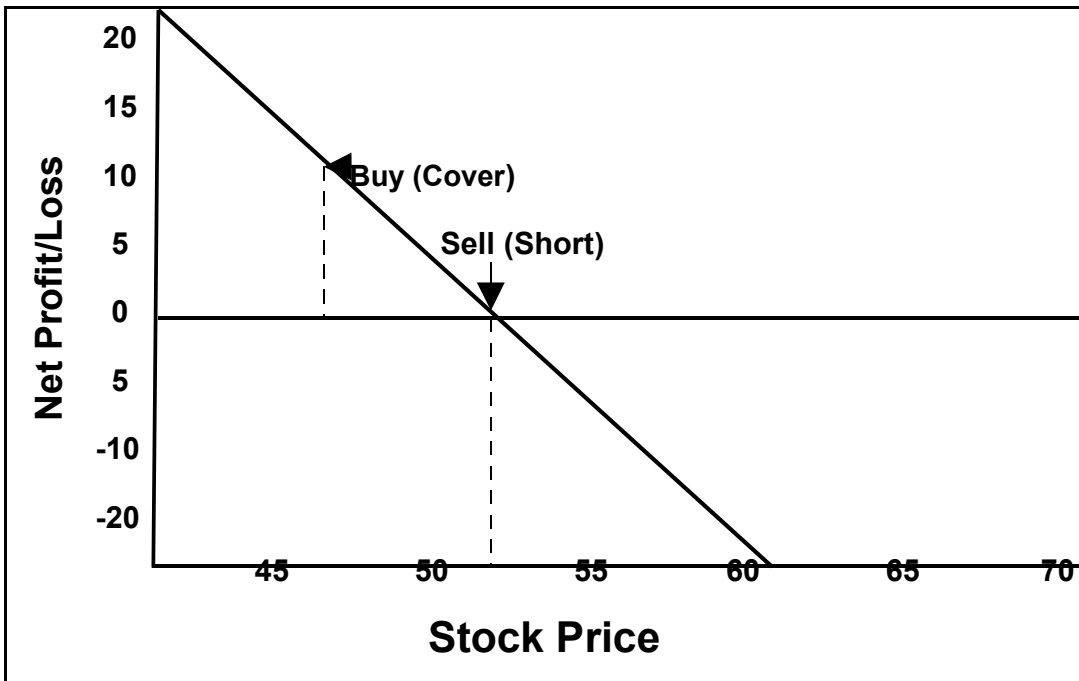
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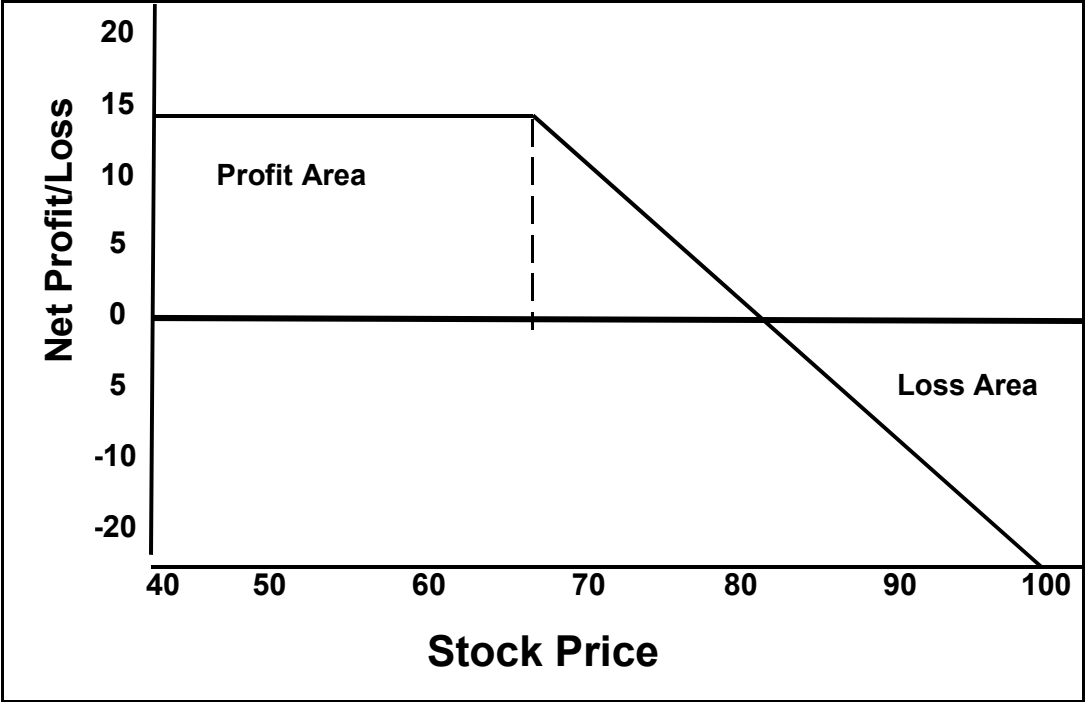
Risk Graph—Long Stock



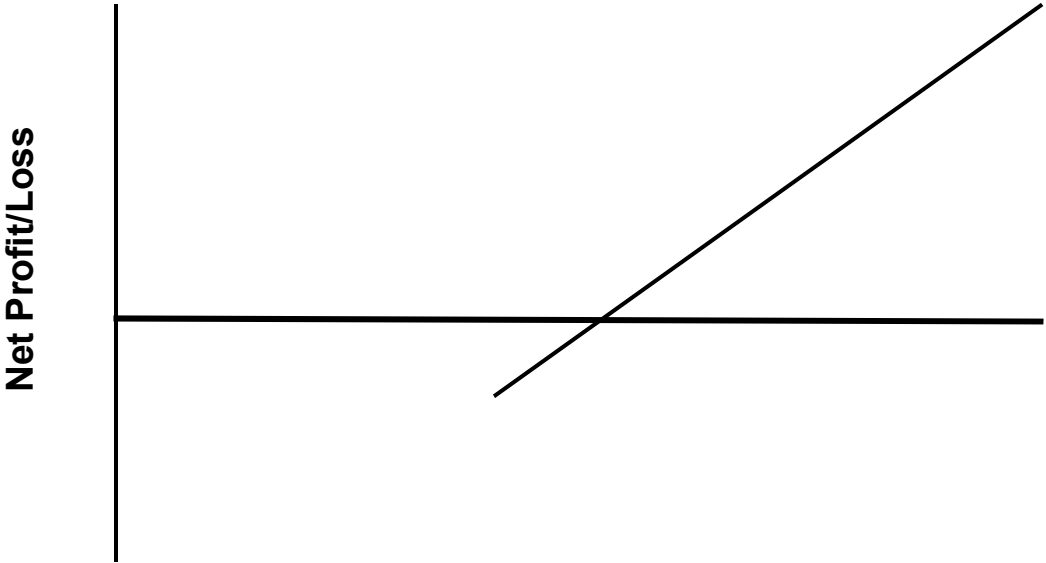
Risk Graph—Short Stock

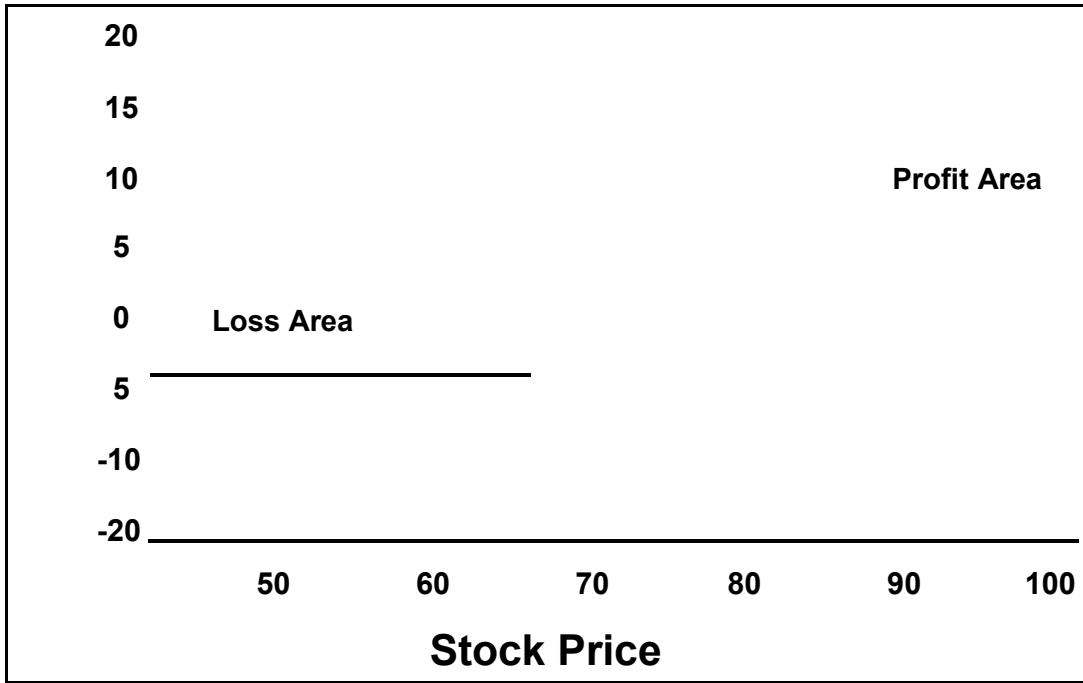


Risk Graph Short Call

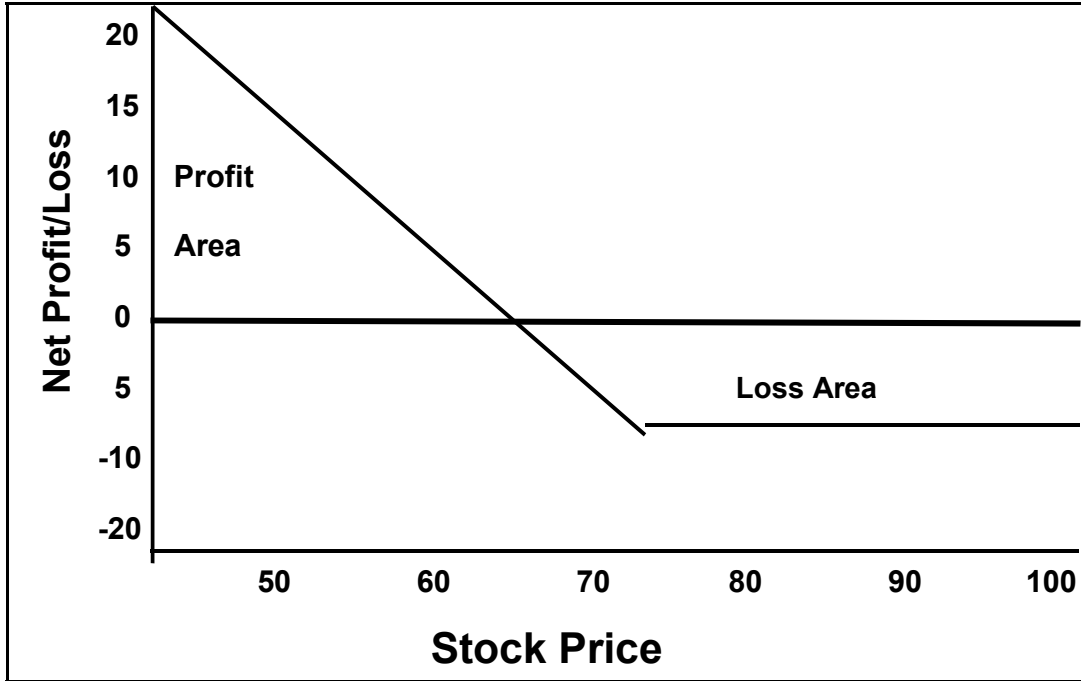


Risk Graph Long Call

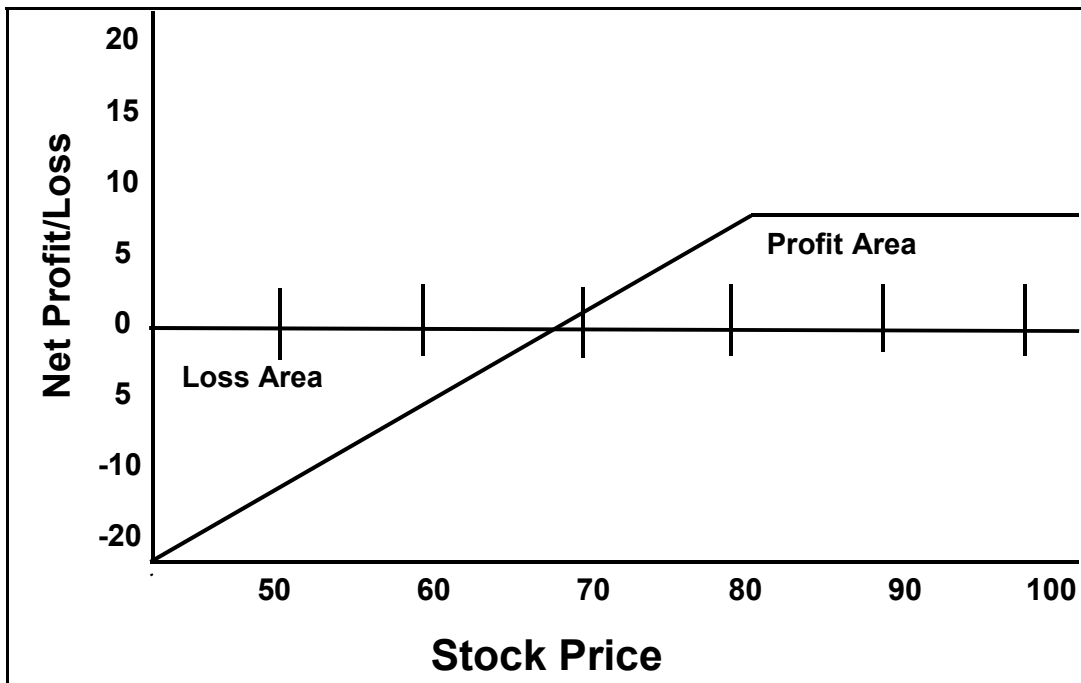




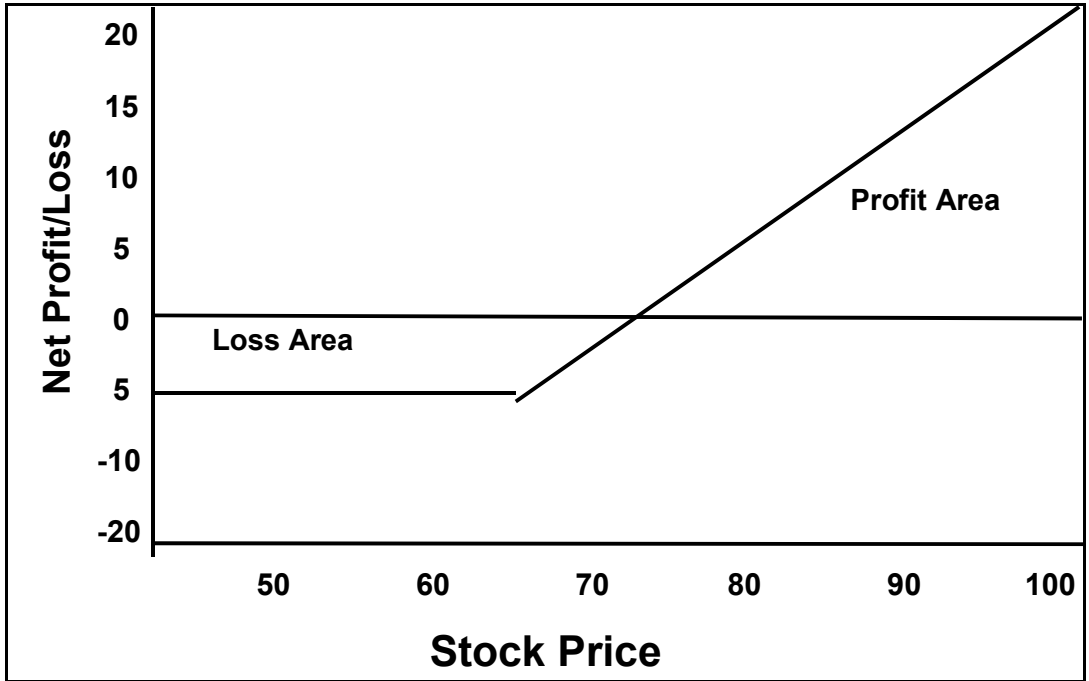
Long Put



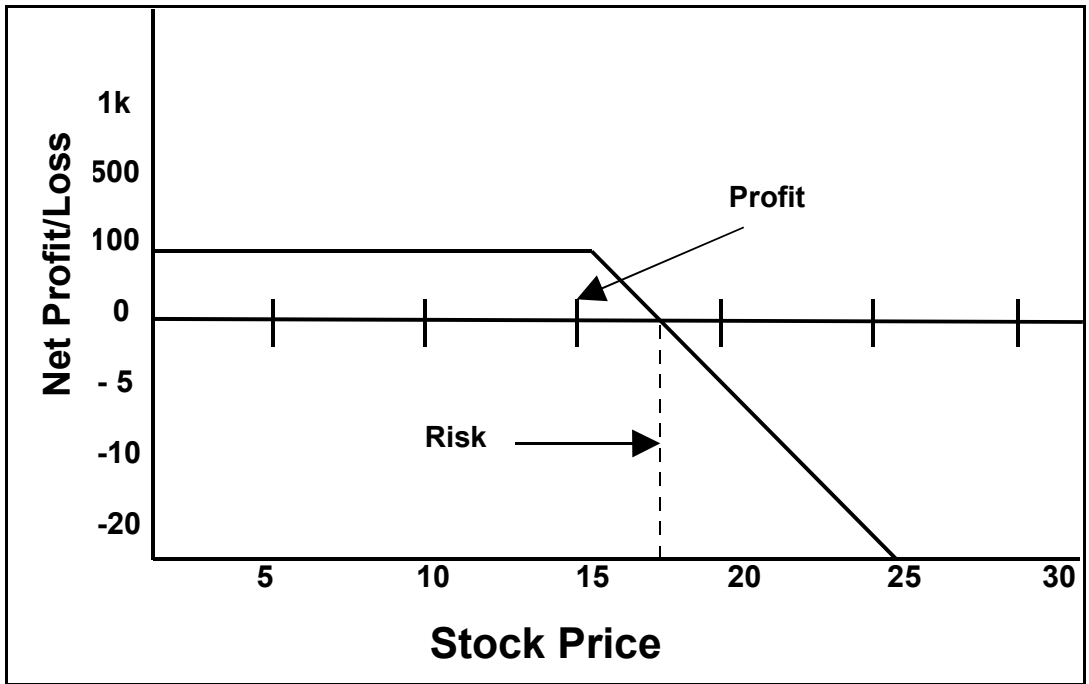
Short Put



Risk Graph Long Stock with Protective Put

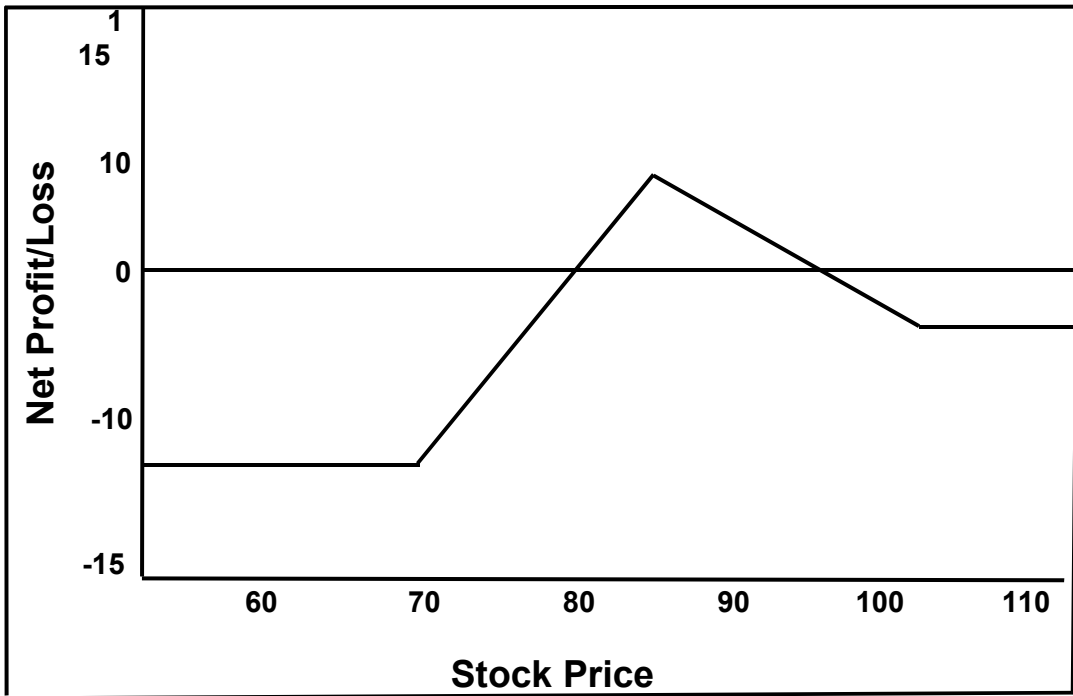


Risk Graph—Covered Put

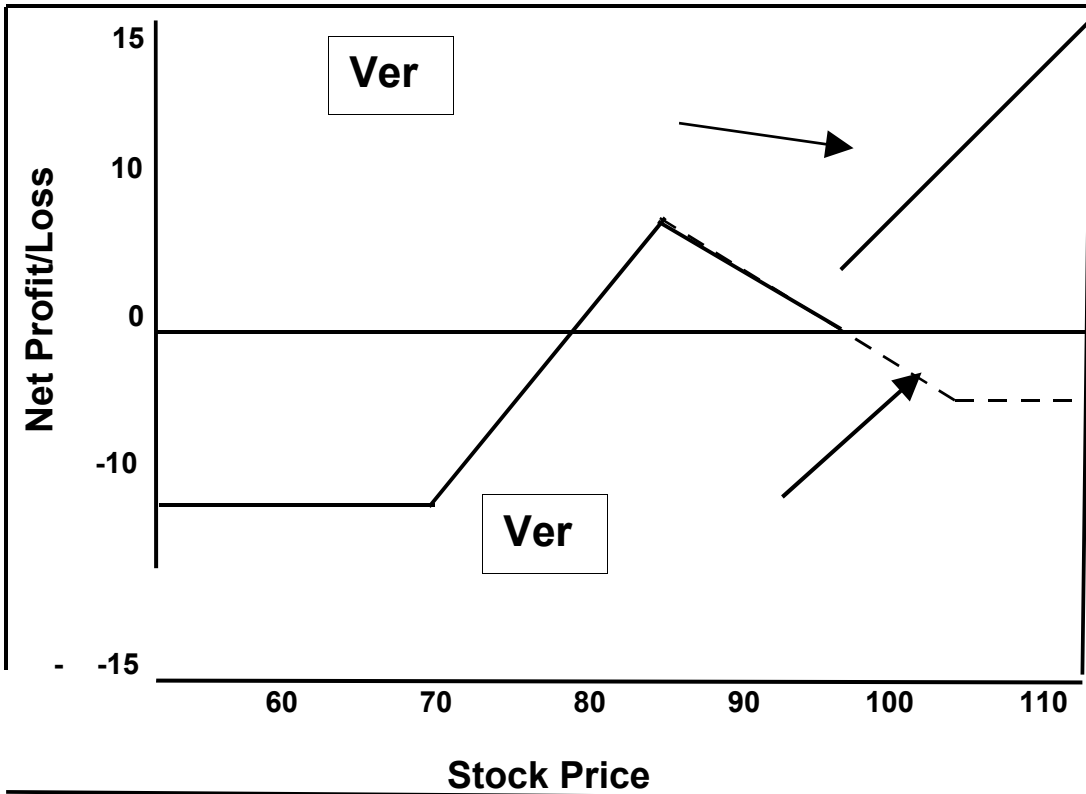


Risk Graph—Collar Version 1

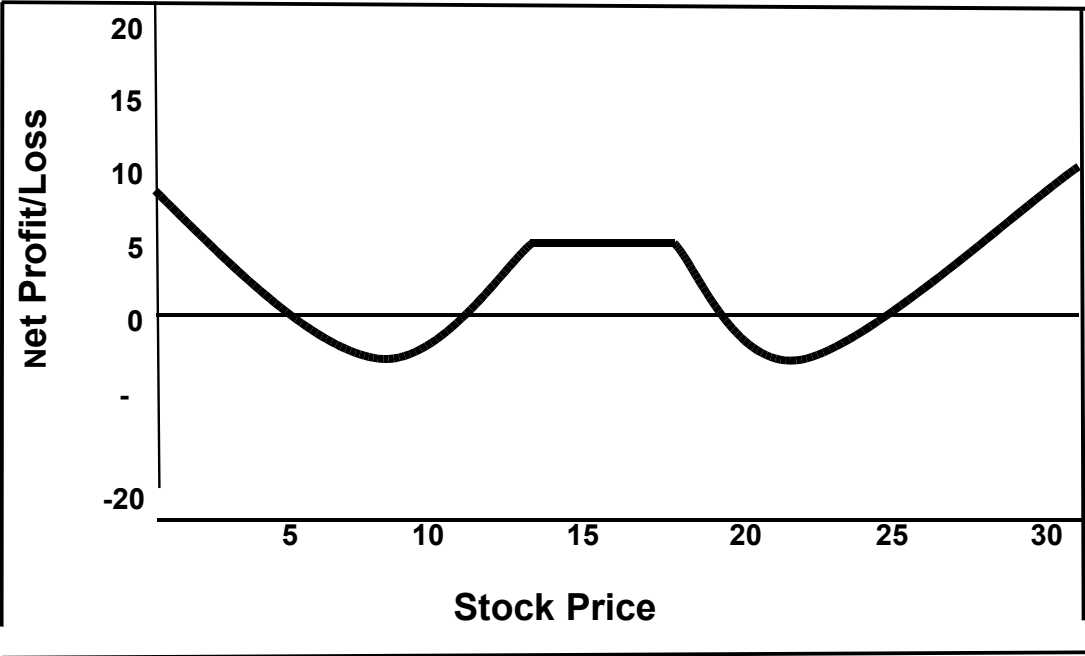
51



Risk Graph—Collar Version 2



Risk Graph—Non-Directional Calendar Spread



Practice Risk Graph



Practice Risk Graph



Practice Graph

