Traders' Catalog & Resource Guide Glossary

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X | Y | Z

A

Abandon:
The failure to exercise or offset an option before its expiration.

Actuals:
The physical (cash) commodity or financial instrument rather than a futures or derivatives contract for that commodity or financial instrument.

American Depository Receipt (ADR):
A negotiable certificate (receipt) representing a given number of shares of stock in a foreign corporation; it is bought and sold in the American securities markets, just as stock is traded. Also known as American depository share.

American-Style Option:
An option contract that may be exercised at any time between the date of purchase and the expiration date.

AMEX:
The American Exchange located in New York whose lines of business include: stocks, stock options and exchange-traded funds (ETFs). This exchange is primarily open-outcry and the only non-electronic exchange approved to trade security futures products. As of press time, they have not released contract specifications or a list of possible security futures products.

Arbitrage:
The simultaneous purchase of an asset in one market against the sale of a comparable asset in another market to profit from discrepancies in usual price relationships.

Arbitrage Pricing Theory:
A theory that if an investor earns a higher-than-normal return, it is because he or she is accepting a higher-than-normal risk.

Arbitration:
Dispute resolution technique in which both parties agree to submit their cases to a private individual or body for resolution. A forum for the fair and impartial settlement of disputes. NFA's arbitration program provides a forum for resolving futures-related disputes.

Ask Price:
Price at which a seller will sell.

Associated Person (AP):
One who solicits orders, customers or customer funds for a Futures Commission Merchant, an Introducing Broker, a Commodity Trading Advisor or a Commodity Pool Operator and who is registered with the Commodity Futures Trading Commission (CFTC).

At the Money:
An option whose strike price equals, or approximately equals, the current market price of its underlying.

Attractor:
A price level that has been visited more than once (preferably 3 or more times) which has established Support or Resistance. Can also be a Moving Average value, or a Trendline. Price tends to return to the Attractor, seeking its level of support. Term coined by Sunny Harris.

Auction Market:
A market in which buyers enter competitive bids and sellers enter competitive offers simultaneously.

B

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X | Y | Z

Back Month:
The traded contract month of a futures contract furthest in the future from the nearest expiration. Also referred to as deferred month. See also Contract Month and Front Month.

Back Office:
Departments in a financial institution in which the majority of the work is accounting, balancing, clearing and bookkeeping, not directly dealing with clients.

Balance of Trade:
The difference between a country's imports and exports during a specific time period. The largest component of a country's balance of payments; it concerns the export and import of merchandise (not services).

Balance Sheet:
A report of a firm's financial condition at a specific time.

Basis:
The difference between the price of the futures contract and the cash or spot price. (Unless otherwise specified, the price of the nearby contract month is used to calculate basis.)

Bear Market / Bear / Bearish:
A market in which prices are declining. A market participant who expects prices to fall is called a bear. An event is considered bearish if it is expected to produce lower prices.

Best Execution:
A requirement for brokers and others to execute customer orders at the best available price in the shortest amount of time.

Beta:
A measure of an investment's volatility. The lower the beta, the less risky the investment.

Beta Coefficient:
A means of measuring the volatility of an individual market in comparison with the market as a whole. A beta of "- 1" indicates that the individual market's price will move with the overall market.

Bid:
An offer to buy a financial instrument at a stated price.

Bid-Ask Spread:
The price difference between the current, highest offer to buy and the current, lowest offer to sell.

Black-Scholes Model:
A widely used option pricing equation developed in 1973 by Fischer Black and Myron Scholes. Used to evaluate over-the-counter options, option portfolios or option trading on exchanges.

Bollinger Bands:
A method used by technical analysts. Bollinger bands are fixed lines above and below a market's average price. As volatility increases, the bands widen.

Bond Yield:
The rate of return on a bond, calculated by using the purchase price and the coupon rate.

Break:
A quick and steep price decline.

Breakaway Gap:
A gap in prices that indicates the end of a trend and the beginning of a critical market move.

Broad-Based Indices:
Indices consisting of 10 or more securities. See also Stock Index and Narrow-Based Indices.

Broker:
A person paid a fee or commission for acting as an agent in making contracts or sales. More specifically, the term may refer to: 1) a floor broker who executes orders on the trading floor of an exchange; 2) an associated person (account executive) who deals with customers and their orders at a broker/dealer, futures commission merchant or introducing broker 3) a broker/dealer, futures commission merchant or introducing broker.

Broker/Dealer (B/D):
An individual or firm paid a fee or commission, who acts as an agent between buyer and seller, and may also be in the business of buying and selling securities for his/her own or the firm's account.

Brokerage Fee:
The charge for executing a transaction. The charge may be per transaction or a percentage of the total value of the transaction. Also known as a commission fee.

Browser-Based Systems:
Browser-based trading systems are a series of web pages that allow individuals to enter orders, view working orders and get quote information.

Bull Market/Bull/Bullish:
A market in which prices are rising. A person who expects prices will move higher is called a bull. An event is considered bullish if it is expected to move prices higher.

Buy or Sell on Open or Close:
To buy or sell at the beginning or end of the trading day.

C

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X | Y | Z

Calendar spread:
The simultaneous purchase of one contract month and sale of another contract month for the same instrument on the same exchange.

Call (option):
The right, but not the obligation, to purchase a particular futures contract at a stated price on or before a stated date. Buyers of call options generally hope to profit from an increase in the price of the underlying.

Carrying Charges:
Costs incurred in holding a physical commodity or financial instrument, generally includes interest, insurance and storage.

Carry Curve:
This describes a phenomenon in which a futures contract price trades at a higher level than the price of the stock.

Cash Commodity:
The physical commodity, as distinguished from futures contracts. Also known as Actuals.

Cash Market:
The underlying commodity, security, currency or money market in which transactions for the purchase and sale of cash instruments (to which futures and derivatives contracts relate) are carried out.

Cash Settlement:
The receipt of money instead of the underlying commodity to fulfill the delivery requirements of the futures contract. The amount of money is based on the daily settlement price of the underlying commodity.

Change:
The difference between the current price and the previous day's close or settlement price.

Charting:
In technical analysis, the use of charts and graphs to plot price trends, average movements of price volume, and open interest. See Technical Analysis.

Churning:
1) Excessive trading of a customer's account by a broker, who has control over the trading decisions for the account, in order to make more commissions while disregarding the best interest of the customer. This violates NASD, CFTC and NFA rules. 2) In the stock market, it refers to a period of heavy trading activity but few sustained price trends and little overall movement in stock market indices.

C**learing:**
The method by which trades are reviewed for accuracy. After trades are validated, the clearinghouse or association becomes the buyer to each seller and the seller to each buyer. Through this procedure, a clearinghouse keeps records of all trades and resulting positions, ensures performance on those positions, and facilitates daily pass through of profits and losses via a mark-to-market process.

Clearing Member:
A member of a clearinghouse or an association. All trades of a non-clearing member must be settled through a clearing member.

Clearinghouse:
An independent entity or an entity connected with exchanges through which all futures contracts are made, offset or fulfilled through physical delivery or cash settlement.

Close:
The end of the trading session, designated by the exchange, during which all transactions are considered made 'at the close.'

Coincident Indicator:
A measurable economic factor that varies directly and simultaneously with the business cycle, thus indicating the current state of the economy.

Commission:
The fee a broker charges a customer for completion of a certain duty, such as the buying or selling of futures contracts.

Commodity:
A unit of trade or commerce, services or rights on which futures contracts may be traded. Commodities may include, but are not limited to, agricultural products, financial instruments, foreign currencies, indices and metals.

Commodity Exchange Act:
The Act that provides for federal regulation of futures trading and is the mandate for the Commodity Futures Trading Commission.

Commodity Futures Modernization Act (CFMA):
The Act passed in December 2000 amends the Commodity Exchange Act and legalizes the trading of security futures products, including single stock futures, among other changes in the industry that are ongoing.

Commodity Futures Trading Commission (CFTC):
The U.S. government agency set up by Congress to oversee the futures industry through the Commodity Exchange Act.

Commodity Pool:
A venture in which assets contributed by a number of persons are collected for the purpose of trading futures contracts and/or options on futures. Not the same as a joint account.

Commodity Pool Operator (CPO):
An individual or firm, generally required to be registered with the CFTC, which operates or solicits funds, securities or property for a commodity pool. According to the NFA, registration is required unless: the total gross capital contributions to all pools are less than $200,000 and there are no more than 15 participants in any one pool.

Commodity Trading Advisor (CTA):
An individual or firm that trades for commodity pools and/or individual clients. A CTA may also issue analysis or reports on commodities, advise others on trading in commodity futures, options or leverage contracts.

Common Stock:
A class of securities representing ownership in a company whose value may appreciate or depreciate. Owners of this type of stock may also receive dividends, but only after preferred stockholders receive them. See Preferred Stock.

Consolidation:
A break in trading activity where prices move sideways. Traders often assess their positions during periods of consolidation.

Contract:
A term describing a standardized unit of trading for a commodity.

Contract Month:
The month in which a contract is to be settled, either physically or monetarily, in accordance with the futures contract.

Contract Size:
The quantity of the underlying represented by a futures contract.

Corporate Actions/Events:
Changes in the structure of a corporation or in the price and/or quantity of a stock produced by a corporation. For example, changes in price or quantity of stock may be caused by stock splits, stock consolidation, special dividends and spin offs.

Cover:
To close out a position. See Offset.

Current Delivery (Month):
The futures contract which will expire and must be settled during the current month; also called the Spot Month.

Customer Segregated Funds:
See Segregated Account.

D

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X | Y | Z

Day Order:
An order that expires automatically at the end of the trading session on the day it was entered if it is not executed.

Day Traders:
Traders who establish and liquidate positions in one trading day, leaving them with no open positions.

Debit Balance:
State of a customer's account where the trading losses exceed the amount of equity.

Deck:
All of the currently unexecuted orders in a floor broker's possession.

Default:
In futures markets, the failure to carry out a futures contract as required by exchange rules, such as a failure to meet a margin call or to make or take delivery.

Deferred Months:
The more distant delivery months in which futures trading is taking place, as distinguished from the nearby delivery months.

Deflation:
A decline in the overall price level of goods and services, which results in increased purchasing power of money. The opposite of inflation.

Delivery:
In settlement of a futures contract, the tender and receipt of an actual commodity or other negotiable instrument covering such commodity.

Delivery Month:
The calendar month during which a futures contract may be settled and delivered. See Contract Month.

Delivery Notice:
A clearinghouse notice of a seller's intention to deliver the physical commodity against a short futures position.

Delivery Price:
The official settlement price of the trading session during which the buyer of futures contracts receives delivery notice of the seller's intention to deliver and the price the buyer must pay for the contract's underlying commodity.

Delta:
The delta of an option indicates how much the option should move for every one-point movement in the underlying stock.

Demand:
A consumer's desire and willingness to pay for a good or service. See also Supply.

Derivative:
A financial instrument whose value is determined in part from the value and characteristics of another instrument, the underlying. For example, a single stock futures contract is a derivative of the underlying stock on which it is based.

Discount:
1) A description of the futures contract price where it is less than the cash price of the underlying. For example, Bank of America single stock futures trade at a discount to Bank of America stocks. See also Parity and Premium. 2) A reduction in the expected price of a financial instrument produced by various factors.

Discretionary Account:
An arrangement by which an account holder authorizes another, often a broker, to make buying and selling decisions without notification to the holder; often referred to as a managed account or controlled account.

Dividend:
A corporation's payment to its stockholders.

Dow Jones Averages:
The most widely quoted and oldest measures of change in stock prices, based on a narrow group of "blue chip" stocks.

Downtick:
A state where a financial instrument sells for less than its previous transaction price. In securities markets, the downtick rule currently prevents the short sale of stock on a downtick.

Downtrend:
A price trend of a series of lower highs and lower lows.

E

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X | Y | Z

Electronic Funds Transfer (EFT):
Any method of electronically moving money between accounts (between banks).

Electronic Trading:
Computerized trading through an automated, order entry and matching system.

Equity:
1) In a futures account, the dollar value if all open positions were offset at current market price. 2) In a securities margin account, the excess of the market value of securities over debit balances. 3) The ownership interest of a company's stockholders.

Euronext. LIFFE:
Formerly known as the London International Futures and Options Exchange (LIFFE), the derivatives business of Euronext.

European-Style Option:
An option contract that can be exercised only during a specified period of time just prior to its expiration.

Exchange:

An association engaged in the business of buying and selling commodities, financial instruments, options or equities.

Exchange Traded Fund (ETF):
A basket of securities designed to track an index, while trading like a stock. For example, OneChicago's DIAMONDS contract is a future on the DIAMONDS ETF, which tracks the DowJones Industrial Average Index.

Exercise:
To act on the right under which the holder of an option is entitled to buy (in the case of a call) or sell (in the case of a put) the underlying security.

Exercise Price:
The price at which the buyer of a call (put) option may choose to exercise his right to buy (sell) the underlying. Also called Strike Price.

Expiration Cycle:
A term describing the quarterly expiration dates applicable to derivatives. Three commonly used cycles are: January/April/July/ October; February/May/August/November; and March/June/September/December.

Expiration Date:
1) The last date an option may be exercised. 2) A term for the last trading day of a futures contract, although futures contracts technically do not expire because they must either be offset or performed.

F

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X | Y | Z

Fair Market Value:
The theoretical value of the futures contract on a stock or stock index. For example, the price of a SSF contract should equal the value of the underlying stock plus the interest rate less dividends calculated over the life of the futures contract.

Federal Reserve:
The central bank of the United States that sets monetary policy. The Federal Reserve and the Federal Open Market Committee oversee money supply, interest rates and credit with the goal of keeping the U.S. economy and currency stable. Governed by a seven-member board, led by the Federal Reserve Chairman, the Fed includes 12 regional Federal Reserve Banks, 25 branches, and all national and state banks that are part of the system. Also called the Fed.

Fibonacci Numbers or Sequence of Numbers:
A sequence of numbers identified by the Italian mathematician Leonardo de Pise in the 13th century. It is the mathematical basis of the Elliott Wave Theory, where the first two numbers of the sequence are zero and one, and each successive number is the sum of the previous two numbers (0,1,2,3,5,8,13,21,34,55,89,144,233...).

Fill or Kill Order (FOK):
A limit order that must be filled right away or canceled.

First Notice Day:
First day on which sellers can notify buyers, via the clearinghouse, of their intention to deliver cash commodities against futures contracts and on which buyers can receive notification.

Flat Yield Curve:
A chart showing the yields of debt instruments with short maturities as equal to the yields of long-term debt instruments.

Floating Rate:
An interest rate for a debt instrument that will change as interest rates change.

Floor Broker:
One who executes orders on the exchange-trading floor for someone else.

Floor Trader:
Exchange members who are personally present, on the trading floors, to make trades for themselves and their customers. Also referred to as scalpers or locals.

Foreign Exchange Market (FOREX):
Market in which foreign currencies are bought and sold and exchange rates between currencies are determined. Also called the forex market.

Forward:
Usually means a rate or price of a financial instrument or an event, which is in the future.

Forward Contracting:
A privately negotiated agreement, common in many industries, to complete a transaction at a time in the future, at a price often negotiated in the present.

Forward Curve:
The price of a series of futures contracts throughout several months.

Front Month:
The traded contract month of a futures contract closest to maturity. Also referred to as the nearby month or nearby. See also Back Month.

Fundamental Analysis:
Analysis that examines the underlying factors, which will affect the supply and demand of a financial instrument, commodity or equity. See also Technical Analysis.

Futures Commission Merchant (FCM):
An individual or organization that solicits or accepts orders to buy or sell futures contracts or options on futures contracts and accepts money or other assets from customers to pay for such orders. The individual or organization must be registered with the CFTC.

Futures Contract:
A standardized agreement to buy or sell a specified quantity during a specified month in the future that can be traded only by public auction on designated exchanges.

Futures Industry Association (FIA):
The national trade association for the futures industry.

G

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X | Y | Z

Gamma:
The gamma of the option catalogs rate of change of the delta.

Gap:
Area on a chart where no trading takes place from one day to the next (or one time period to the next).

Generally Accepted Accounting Principles (GAAP):
Guidelines that explain what should be done in specific accounting situations as determined by the Financial Accounting Standards Board.

Good til Canceled (GTC):
An order that stands until it's canceled, filled or until the contract expires.

GLOBEX:
An electronic trading platform for trading futures and options at the Chicago Mercantile Exchange.

Guided Account:
An account that is part of a program directed by a Commodity Trading Advisor (CTA) or Futures Commission Merchant (FCM). The CTA or FCM advises the customer to enter and/or liquidate specific positions, but the customer must give final approval to enter the order. These programs generally require a minimum initial investment and may include a trading strategy that will draw on only a part of the investment at any given time.

H

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X | Y | Z

Hard Assets:
Also known as tangible assets. These investments tend to perform well during inflationary times. Gold and other precious metals are the best-known hard assets.

Head and Shoulders:
A chart formation representing three successive rallies and reactions, where the second rally, or head, reaches a point higher than the other two rallies, or shoulders. It usually indicates a major market reversal.

Hedging:
The sale (purchase) of futures contracts in anticipation of future sales (purchases) of cash commodities or other instruments as a protection against possible price declines (increases).

I

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X | Y | Z

Index:
A composite of securities whose price is measured compared to a defined baseline. An index may be designed to track changes in the overall economy, the stock market or in a sector of the stock market, such as pharmaceuticals or technology.

Indexation:
The investment strategy designed to mimic the price movement of an index, or of a particular basket of securities.

Inflation:
A time of generally rising prices.

Initial Margin:
Customers' funds required at the time a futures position is established, or an option is sold, to ensure that a customer carries out the contractual obligations. Margin in futures is a performance bond, not a down payment, as it is in securities. See also Margin.

In the Money:
A call option with a strike price below, or a put option with a strike price above, the current market price of the underlying.

Institutional Investor:
A person or organization that trades securities or other financial instruments in large enough quantities or dollar amounts that it qualifies for special treatment and/or lower commissions.

Interest Rate Swap:
A derivative in which one entity agrees to pay a fixed interest rate in return for receiving a floating interest rate from another entity.

International Monetary Fund (IMF):
The agency created by the Bretton Woods Agreement to promote international monetary cooperation after World War II. It makes loans and provides other services intended to stabilize world currencies and promote orderly and balanced trade. Member nations may obtain foreign currency when needed, making it possible to make adjustments in their balance of payments without currency depreciation.

International Monetary Market (IMM):
A membership division of the Chicago Mercantile Exchange.

Intrinsic Value:
The value of an option if it were to expire immediately.

Introducing Broker (IB):
A firm or individual that solicits and accepts commodity futures orders from customers but does not accept money or other assets from customers. An IB must be registered with the CFTC and must carry all of its accounts through an FCM on a fully disclosed basis.

Inverted Market:
Futures market where the nearby months sell at premiums to the more distant months; generally occurs in a market where there is a supply shortage.

Inverted Curve:
A market state in which the price of a derivative is below the price of the underlying, or at a discount to the underlying.

Inverted Yield Curve:
Long-term debt instruments having lower yields than short-term debt instruments.

Island Futures Exchange:
An affiliate of Island ECN, an electronic trading system which, in the future, may provide electronic trading of security futures products.

J

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X | Y | Z

K

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X | Y | Z

L

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X | Y | Z

Lagging Indicators:
Market indicators that confirm or refute the trend indicated by the leading indicators. Also referred to as concurrent indicators.

Last Trading Day:
Day on which trading ends for the current delivery month.

Leading Indicators:
Major market indicators that indicate the economic state for the coming months. Some leading indicators include: index of consumer expectations; changes in material prices; prices of stocks; and change in money supply.

Leverage:
A characteristic of a number of financial instruments and commodities that allows an investor to establish a position with funds that are less than the value of the contract.

Life of Contract:
The time during which a contract is available for trade from the day it begins trading to the expiration of trading in the delivery month.

Limit Move:
The maximum price movement allowed during one trading session as designated by the rules of the governing exchange.

Limit Order:
An order in which the customer sets a limit on either price or time of execution, or both, unlike a market order, in which the order should be filled at the most favorable price as soon as possible.

Liquidation:
The purchase or sale of futures contracts, of the same quantity and delivery month as contracts sold or purchased earlier, to offset the obligation to make or take delivery.

Liquidity:
A characteristic of a market where buying and selling can be accomplished without dramatically affecting prices, and bid and offer price spreads are narrow.

Long:
A position where a security or a futures contract has been purchased; a short, in contrast, is a position where a security or futures contract has been sold.

Long Hedge:
The act of buying futures contracts to protect against possible price increases of the underlying.

Lot:
A term for one futures contract. Also describes a number of futures contracts. For example, a 5-lot purchase of Microsoft single stock futures contracts.

M

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X | Y | Z

Maintenance Margin:
The amount of money that must be maintained in an account while a futures position is open. If the equity in a customer's account drops under the maintenance margin level, the broker must issue a margin call for money to the customer to restore the customer's equity in the account to required initial levels. See also Margin.

Margin:
1) In the futures industry, the amount of money deposited by futures traders to ensure performance against the contract, not a down payment. Also referred to as a performance bond. 2) In the securities industry, a deposit made to a broker/dealer by securities traders to buy or sell securities. When traders are buying securities, the margin is considered a down payment.

Margin Call:
A call from a brokerage firm to a customer to deposit additional funds so that the equity returns to minimum margin levels required by exchange regulations; similarly, a call from a clearinghouse to a clearing member firm to make additional deposits to return clearing margins to minimum levels required by clearinghouse rules.

Mark to Market:
The daily adjustment of accounts and margin requirements to settle daily gains and losses in each open position at the end of each trading day.

Market if Touched:
A price order that becomes a market order when the future trades at a designated price at least once.

Market Maker:
An exchange member whose function is to make a market liquid, by placing bids and offers for his or her account in the absence of or in addition to public buy or sell orders.

Market Order:
An order to be filled at the best possible price and as soon as possible, unlike a limit order that may specify requirements for price or time of execution. See also Limit Order.

Matched Pair Trade:
A strategy in which one would purchase and sell two different stocks within the same industry, but in the same contract month. For example, one could buy the strong stock, sell the weak stock and profit from the difference.

Maturity:
The time between the first notice day and the last trading day of a commodity futures contract. During this time the contract must be settled by delivery or by cash.

Maximum Price Fluctuation:
See Limit Move.

Madrid Futures Exchange (MEFF):
Spanish futures exchange that trades single stock futures.

Minimum Price Fluctuation:
See Point or Tick.

Misrepresentation:
An untrue or misleading statement about a material fact upon which a customer bases an investment.

Momentum Indicator:
A line plotted to show the difference between today's price and the price of a fixed number of days ago. For example, momentum can be measured as the difference between today's price and the current value of a moving average. Often referred to as momentum oscillator.

Moving Average:
A form of technical analysis that smoothes price and volume by averaging selected prices. It emphasizes the direction of a trend and confirms trend reversals.

N

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X | Y | Z

Narrow-Based Indices:
Security futures products whose underlying is a narrow-based index focused on an industry sector. To be considered narrow-based, it must consist of nine or fewer securities.

Nasdaq Liffe Markets (NQLX):
Located in the U.S., the joint venture security futures exchange of Nasdaq and Euronext.liffe.

National Association of Securities Dealers (NASD):
The industry-wide self-regulatory organization of the securities industry.

National Futures Association (NFA):
The self-regulatory organization of the futures industry.

Nearby Month:
See Front Month.

Net Position:
The difference between the open long (buy) contracts and the open short (sell) contracts in any one futures contract month or in all months combined.

Nominal Price:
Declared price, usually an average of bid and asked prices, for a futures month. It is sometimes used in place of a closing price when no recent trading has taken place in that delivery month.

Notice Day:
See First Notice day.

Notice of Delivery:
See Delivery Notice.

Notional Value:
The face value of the underlying of a futures contract.

O

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X | Y | Z

Offer:
A sign of willingness to sell at a stated price – the opposite of bid.

Offset:
Closing an open position through the purchase (sale) of futures of an equal number of contracts of the same delivery months. This turns over contractual obligations to someone else.

OneChicago:
The joint venture security futures exchange formed by the Chicago Mercantile Exchange, Chicago Board Options Exchange and Chicago Board of Trade.

Open:
The time at the beginning of the trading session officially defined by the exchange during which all trades are considered made 'at the open.'

Open Interest:
The sum of futures contracts that have not yet been offset nor carried out by delivery.

Open Outcry:
System of public auction for making bids and offers on trading floors.

Open Trade Equity:
The potential gain or loss on open positions.

Option (Option Contract):
A one-sided contract which gives the buyer the right, but not the obligation, to buy or sell a stated quantity of the underlying at a stated price within a designated time period, no matter the market price of the underlying. The seller of the option has the obligation to buy or sell the underlying from the option buyer at the exercise price if the option is exercised. See also Call (Option) and Put (Option).

Option Premium:
The price of an options contract.

Options Clearing Corporation:
A clearinghouse for several U.S. markets and an issuer of all listed option contracts that are trading on national option exchanges.

Order Execution:
The management of a customer order by a broker, including receiving the order, transmitting it to the trading floor of the appropriate exchange, and returning confirmation (fill price) of the completed order to the customer.

Orders:
See Limit Order, Market Order, Stop Order.

Original Margin:
The initial deposit of margin money required of clearing member firms by clearinghouse rules, similar to the initial margin deposit required of customers.

Out of the Money:
A put option with a strike price below, or a call option with a strike price above, the current market value of the underlying asset.

Overbought:
A view that the market price has risen too sharply and too quickly relative to underlying fundamental factors.

Oversold:
A view that the market price has declined too sharply and too quickly relative to underlying fundamental factors.

P

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X | Y | Z

Par:
The face value of a security.

Parity:
A description of the price relation between a futures contract and its underlying when they are trading at the same price.

Performance Bond:
See Margin.

Physical Settlement:
The process of fulfilling a futures contract at the expiration date by delivering the underlying. For example, a single stock futures contract's underlying is usually 100 shares.

Pit:
A recessed area on the trading floor of some exchanges where open outcry futures or options trading takes place. Some exchanges term them "rings" instead of pits.

Point:
The minimum price movement for a futures contract.

Point and Figure Chart:
A graph of prices charted with x's for rising prices and o's for declining prices, used to reveal buy and sell signals.

Point Balance:
A computation of official closing or settlement prices provided in a statement prepared by Futures Commission Merchants to show profit or loss on all open contracts.

Pool:
See Commodity Pool.

Position:
An individual's standing in a market. For example, a buyer has a long position and, conversely, a seller has a short position.

Position Trader:
A securities, futures or options trader who maintains positions for an extended time period, in contrast to a day trader, who normally will initiate and close positions within a single trading session.

Preferred Stock:
A security that generally pays a fixed dividend and that gives the holder claims to corporate earnings and assets that surpass those of common stock holders. See Common Stock.

Premium:
1) In price relationships between different delivery months of futures contracts or between a futures contract and its underlying, one trades at a premium over another when its price is greater than that of the other, or 2) the price paid for an option.

Price Discovery:
The economic function provided by futures markets in determining market prices.

Price Limit:
Maximum price fluctuation, up or down, from the previous day's settlement price allowed for a futures contract in one trading session. This limit is set by exchange rules and can and does change periodically.

Primary Markets:
The main markets for the trading a cash commodity.

Purchase and Sale Statement (P&S):
A statement a customer receives when a position has been liquidated or offset. The statement lists the quantity of contracts traded, the gross profit or loss, the commission charges, and the net profit or loss.

Put:
In options, a contract that gives a buyer the right, but not the obligation, to sell the underlying at a certain price on or before a certain date.

Q

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X | Y | Z

Quotation:
The actual price or the bid or ask price of cash commodities, futures contracts, options contracts or equities at a specific time.

R

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X | Y | Z

Rally:
An upward movement of prices after a downward movement.

Rally Top:
The price where a rally stops. A bull move will usually hit many rally tops over its market span.

Random Walk Theory:
The theory that the past movement or direction of the price of a stock or other market cannot be used to predict its future movement or direction.

Range:
The difference between the high and low price generally during a single trading session.

Reaction:
A short-term price movement against a current trend.

Recession:
A downturn in economic activity, lasting from six to 18 months. Generally two consecutive quarters of decline in a nation's gross domestic product.

Recovery:
See Rally.

Registered Commodity Representative:
See Associated Person (AP) or Broker.

Registered Representative:
A broker/dealer employee who solicits business.

Regulation T:
A rule of the Federal Reserve Board that limits the amount of credit broker/dealers can extend to customers for them to purchase and carry securities.

Reporting Limit:
Sizes of positions set whereby commodity traders are required to make daily reports to the exchange and/or the CFTC. The sizes of reportable positions are designated by the exchange and/or by the CFTC. Daily reports include the size of the position by commodity, delivery month, and the purpose of trading, such as, speculative or hedging.

Resistance:
The price level where bullish prices stop rising. It is the opposite of support.

Retender:
The right of futures contracts holders who have received a delivery notice from the clearinghouse to offer the notice for sale on the open market, voiding their contractual obligation to take delivery; the opportunity to retender is restricted to certain commodities and periods of time.

Retracement:
A price movement in the opposite direction of the main trend.

Return:
The percentage profit that one gains, or might gain, on an investment or a trade.

Ring:
A round space on an exchange trading floor where traders and brokers stand and execute futures or options trades. Some exchanges refer to these as pits.

Risk disclosure statement:
A statement sent out to potential futures traders that they must read and sign in order to acknowledge that they understand the risks involved in trading futures.

Roll Forward:
Liquidation of a position in a nearby month, followed by the purchase or sale of a distant contract month to transfer the long or short position. Also called a rollover.

Round Turn:
The completed transaction of a purchase (sale) of a futures contract and the offsetting sale (purchase) of an equal amount of futures contracts with the same delivery month. Also known as a round trip.

S

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X | Y | Z

Scalper:
A speculator on an exchange trading floor who buys and sells rapidly for small profits and losses and holds positions for only a short time during a trading session.

Security:
Common stocks, preferred stocks, corporate bonds and government bonds.

Security Deposit:
See Margin.

Securities and Exchange Commission:
The government-created commission that oversees the entire securities industry, including self-regulatory organizations like the NASD. It jointly regulates security futures with the CFTC.

Security Futures Product:
A futures contract based on a single security or a narrow-based group of securities. See Narrow-Based Indices and Single Stock Futures.

Security Futures Principal:
The designated supervisor accountable for the manner of security futures business at a broker/dealer, futures commission merchant or introducing broker.

Segregated Account:
An account to hold and separate a customer's assets from a broker's or firm's assets.

Series:
Option contracts on the same stock having the same strike price and expiration month.

Settlement:
See Cash Settlement and Physical Settlement.

Settlement Day:
The designated day that a buyer and a seller fulfill their contract through final cash settlement or physical delivery.

Settlement Price:
The closing price, or a price within the range of closing prices, as determined by the exchange, to calculate net gains or losses at the official end of each trading day.

Shad-Johnson Accord:
An agreement between the CFTC and SEC to ban trade of narrow-based stock index futures and single stock futures, which was repealed in 2000 with the passage of the Commodity Futures Modernization Act of 2000.

Short:
A position where a security or a futures contract has been sold; a long, in contrast, is a position where a security or futures contract has been purchased.

Short Covering:
Traders that reverse, or close out, short-sale positions.

Short Hedge:
The sale of futures to protect against possible declining prices of the underlying. See also Hedging.

Short Sales:
In stocks, borrowing shares and then selling them under the requirement to repurchase at a later date. Selling short is a bearish strategy.

Short Term Capital Gains Rate:
The tax rate applied to trading profits on assets held for a year or less.

Side:
Each contract has two sides - the buy action and the sell action. Two sides equal one round turn in the futures markets.

Sideways Trend:
A movement in price that does not go above or below certain levels.

Single Stock Future:
A security futures contract based on an individual stock.

Specialist / Designated Primary Market Maker:
Exchange members responsible both for handling the limit order book and for trading their own account, to maintain fair and orderly markets.

Speculator:
A market participant who tries to forecast price changes and make profits through the sale and/or purchase of futures contracts. A speculator with a bullish price forecast tries to profit by purchasing futures contracts and then closing his/her long position with a later sale of an equal number of futures of the same delivery month at a higher price. A speculator with a bearish price forecast tries to profit by selling futures contracts and then covering his/her short position with a later purchase of futures at a lower price.

Spot:
Usually, the cash price for a product available for immediate delivery. Also refers to the nearest contract month for delivery (the spot month).

Spot Commodity:
See Cash Commodity.

Spread (or Straddle):
1) The simultaneous purchase of one futures contract against the sale of another to profit from the variations in price relationships between the two contracts. Several versions of a spread include the purchase of one contract month against the sale of another contract month of the same commodity; the purchase of one contract month of one commodity against the sale of the same contract month of a similar, but different commodity; or the purchase of a commodity in one market against the sale of the same commodity in another market. 2) The price difference between two similar markets or trading instruments.

Stand-Alone System:
A trading program one downloads directly onto a computer.

Stock:
A percentage of ownership in a company. Stock ownership entitles one to be involved in the company's growth and decline, to receive dividends as per the company's Board of Directors, to choose members of the Board of Directors, and to participate in corporate actions as determined by law.

Stock Index:
An indicator that measures price changes in a specific group of stocks and tracks that overall market. Indices vary based on their composition, the sampling of stocks, the weighting of individual stocks and the method of averaging used to establish an index.

Stock Future:
See Security Futures Product.

Stock Split:
The division of stocks into a larger number of shares, while the shares are worth less. For example, a 2-for-1 stock split would create twice the number of shares worth half the price. A reverse split creates a smaller number shares, while the shares are worth more.

Stop Loss:
A risk management strategy to liquidate a losing position at a given point. See Stop Order.

Stop Order:
An order to buy or sell that becomes a market order when the market hits a designated price. A buy stop is placed above market price, and a sell stop is placed below market price. Also known as a stop loss order.

Stop-Limit Order:
Similar to a stop order, but the trade must be executed at the exact price or better. If the order cannot be fulfilled at the exact price, it is held until the exact price or better is reached again.

Strike price:
The stated price per share for which the underlying security may be purchased (in the case of a call) or sold (in the case of a put) by the option holder upon exercise of the option contract.

Suitability Requirement:
A NASD and NFA rule that requires a security futures principal to ascertain whether customers' financial means and investment objectives are appropriate to security futures trading.

Suitable:
An assessment of an investor who trades in accordance with his or her financial means and investment objectives.

Supply:
The total amount of a good or service available for purchase by consumers.

Support:
A price level where bearish prices have stopped falling. It is the opposite of resistance. Once this level is reached, prices normally consolidate for a period of time.

Switch:
See Roll Forward or Rollover.

Synthetic Future:
A combination of a put and a call with the same strike price. If both are bullish, it is a synthetic long future; if both are bearish, it is a synthetic short future. Such combinations mimic the purchase or sale of a single stock futures contract and, thus, the risk-return characteristics of trading a single stock futures contract.

T

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X | Y | Z

Technical Analysis:
Examination of technical indicators, such as price range patterns, rates of change, volume changes and open interest, in order to forecast future prices.

Tender:
The notice a seller of futures contracts gives to the clearinghouse that he or she intends to deliver the underlying to fulfill the contract. The clearinghouse then sends the notice to the oldest recorded buyer in that delivery month. See also Retender.

Theta:
Represents time decay, or how much premium the option is losing each day as it approaches expiration.

Tick Size:
The minimum change in price, up or down, for a security, or a futures or options contract. See also Point.

Time Value:
Any amount by which an option premium goes above the option's intrinsic value, usually relative to the time left to expiration.

Trader:
1) One who trades for his/her own account. 2) An employee of B/Ds, FCMs or other institutions who trade for the employer's account.

Trading Range:
An established set of high and low price limits in which a market will spend a distinct period of time.

Transaction Costs:
The expenses associated with buying or selling an investment or trading product, such as brokerage commissions, regulatory fees, taxes and spreads between the bid and offer prices.

Transferable Notice:
See Retender.

Trend:
The general direction of price movement in a market. See Downtrend and Uptrend.

Trendline:
A line that connects either a series of highs or lows in price movement. An uptrend line represents support, while a downtrend line represents resistance. Horizontal trend lines mark periods of consolidation.

U

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X | Y | Z

Unauthorized Trading:
Buying or selling investment/trading products for a customer's account without the customer's permission.

Underlying:
1) The cash commodity, index or asset on which futures contracts are based. 2) The futures contract, index or security on which options are based.

Unit of Trading:
The quantity of the underlying a futures contract represents, e.g., the unit of trading for a single stock futures contract is generally 100 shares or one contract. Each security futures exchange sets the size of its own contracts. Also, the minimum quantity required when trading.

Uptrend:
The tendency for a market's price movements to create a series of higher highs and higher lows.

V

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X | Y | Z

Variable Limit:
A price system that permits greater than normal price movements in certain conditions, such as extreme volatility.

Vega:
Represents the volatility of the stock. The more volatile the underlying stock, the higher the vega of its options and vice versa.

Volatility:
A calculation of a futures contract's tendency for price fluctuation based on its daily price history over a period of time.

Volume:
The number of contracts traded during a specified period of time.

W

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X | Y | Z

Wirehouse:
See Futures Commission Merchant (FCM).

Writer:
The seller of an option. The seller is obligated to buy (in the case of a put) or sell (in the case of a call) the underlying. The buyer has the right, but is not obligated, to buy (in the case of a call) or sell (in the case of a put) the underlying.

X

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Y

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Yield Curve:
Comprised of market yields to maturity of a specific category of debt markets.

Yield Spread:
The difference in yield between various debt markets.

Yield to Maturity:
The internal rate of return yielded by a financial instrument held to maturity.

Z

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X | Y | Z