This glossary is intended to help define commonly used investment related terms.

Ask: the price at which someone is willing to sell

Assigned: when a put owner exercises their right the seller must buy the underlying at the strike price. When this occurs the seller has been assigned the underlying (commonly referred to as having
stock “put” to you)

At the Money: when the underlying price is equal to the strike price

Beta: measures the volatility of the underlying compared to its index

Black-Scholes Option Pricing Model: model used to calculate the value of an option which incorporates stock price, strike price, expiration date, risk-free rate of return and standard deviation of the stock’s return

Bid: the price at which someone is willing to buy

Broker Call Rate: the interest rate charged by a broker dealer on a margin balance

Calendar Spread: the simultaneous buy and sell of an option on the underlying with the different strikes and expiration dates

Call Option: the right to buy the underlying at the strike price until expiration

covered call - seller owns the underlying stock
naked call - seller doesn’t own the underlying stock
long a call - buying a call
short a call - selling a call

Called Away: when a call owner exercises their right the seller must then sell the underlying at the strike price. When this occurs the stock has been “called away” from the seller

Closing Transaction: the trade that terminates ones exposure or obligation

Collar: simultaneously buying a put and selling a call on a stock

Contrary Indicator: indicator of market sentiment which is often wrong thus telling a trader to take the opposite position

Day Order: an order that will last for the remainder of the day then terminate if not filled

Delta: amount the option will move if the underlying moves one point (also called the hedge ratio)

Equity Only Put Call Ratio: the put call ratio for all stock options

ETF: Exchange Traded Fund

Exercise an Option: the buyer exercising their right to have the seller fulfill his/her obligation of buying regarding a put and selling regarding a call

Expiration Date: a future date in which an option holders rights expire and an option sellers obligation expires

Gamma: measures how fast delta moves when there is a price change in the underlying

GTC Order: an order that remains open for a set period of time (normally 60 days) or until filled

Greeks: calculations used to represent characteristics of an options's risk (measurements include: delta, gamma, theta, rho and vega)

Implied Volatility: theoretical value that attempts to represent the volatility of the underlying based on option price gauged by strike price, risk free rate of return and expiration

In The Money: amount the underlying is above the call strike or below the put strike

Intrinsic Value: the in the money value of an option

Iron Condor: similar to a butterfly spread but the two middle positions have different strike prices

LEAPS: an option with more than nine months of life

Limit Order: an order to fill a trade at a set price

Long: create a position by buying

Market Maker Spread: difference between the bid and the ask

Market Order: entering a trade to fill at the current bid or ask

Omega: the change in option value as a percentage of the price change of the underlying (example: an omega of 2 means the option will move 2% for a 1% move in the underlying)

Opening Transaction: the trade that exposes one to an investment or obligation

Open Interest: the number of existing contracts

Out of the Money: amount the underlying is below the call strike or above the put strike

Premium: the amount per share the option buyer pays the option seller determined by the price and volatility of the underlying, strike price and time remaining until expiration

Put-Call Ratio: number of puts divided by the number of calls outstanding

Put Option: the right to sell the underlying at the strike price until expiration

Long Put - buying a put
Short Put - selling a put

Rho: the change in the price of an option resulting from a 1% change in interest rates

Sector Index: investment that moves in correlation with a certain area of the market (ie, oil, technology, healthcare, emerging markets, and can often be tracked with an ETF)

Short: creating a position by selling

Shorting a Stock: selling a stock as an opening transaction

Spread: having both a long and short position on the underlying with different strike prices;

Credit Spread - short spread
Debit Spread - long spread
Long Butterfly Spread - buy one in the money call, sell two at the money calls, buy one out of the money call
Short Butterfly Spread - sell one in the money call, buy two at the money calls, sell one out of the money call (also works with puts)

Straddle: a put and a call position on the same security with the same strike price

Strangle: a put and a call position on the same security with different strike prices

Strike Price: the price at which the option holder can exercise the underlying and the option seller is obligated

Theta: the ration of change in an options price based on the decrease in time to expiration

Time Value: the amount an option premium exceeds its intrinsic value based on time until expiration

Underlying Instrument: stock, index or futures contract on which an option is traded

Vega: the change in the price of an option based on a 1% move in volatility

Vertical Spread: Same month different strike prices

Volume: The number of contracts traded on a given day

Zero Cost Collar: the premium from the call covers the cost of the premium for the put