



Lind-Waldock **Futures & Options**
Dictionary

- Basic Terminology ■
- Options Terminology ■
- Regulatory Terms ■
- Stock and Stock Index Futures ■
- Technical Analysis ■
- Trading Strategies ■

Lind-Waldock Futures and Options Dictionary

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Your vision. Our expertise.

The lingo of commodity futures trading can be foreign to many investors. Lind-Waldock has developed this handy reference guide to translate common industry terminology for you. We cover futures and options on futures from A to Z!

Definitions are not intended to suggest the correct legal significance or exact meaning. They were collected from several sources to help in your understanding of futures and options. This guide is not meant to be exhaustive. We encourage you to pursue your futures and options education further through many resources we offer through our Web site, www.lind-waldock.com.

CONTENTS

Contents

- Basic Terminology Page 2
- Options Terminology..... Page 9
- Regulatory Terminology Page 12
- Stock Index and Single-Stock Futures Terminology Page 16
- Technical Analysis Terminology Page 20
- Trading Strategies Terminology Page 24



A

Basic Terminology

Arbitrage

The simultaneous purchase and sale of identical or equivalent financial instruments or commodity futures in order to benefit from a discrepancy in their price relationship.

Ask

A motion to sell. The same as offer. Indicates a willingness to sell a futures contract at a given price. (See Bid.)

Back Month

Futures delivery months other than the spot or front month (also called deferred months).

Basis

The difference between the current cash price and the futures price of the same commodity. The basis is determined by the

costs of actually holding the commodity versus contracting to buy it for a later delivery (i.e. a futures contract). The basis is affected by other influences as well, such as unusual situations in supply or demand. Unless otherwise specified, the price of the nearby futures contract month is generally used to calculate the basis. (See Carrying Charge.)

Broker

A person paid a fee or commission for executing buy or sell orders for a customer. In commodity futures trading, the term may refer to: (1) Floor Broker - a person who actually executes orders on the trading floor of an exchange; (2) Account Executive or Associated Person - the person who deals with customers in the offices of Futures Commission Merchants; or (3) the Futures Commission Merchant.

BASIC TERMINOLOGY

Bid

The price that the market participants are willing to pay. A motion to buy a futures or options contract at a specified price. Opposite of offer. (Also see 'Ask'.)

Bear

One who expects a decline in prices. The opposite of a "Bull." A bear attacks by striking his paw downward.

Bear Market

A market in which prices are dropping.

Bull

One who expects prices to rise. The opposite of "Bear." A bull attacks by thrusting his horns upward.

Bull Market

A market in which prices are rising.

Carrying Charge (Cost of Carry)

For physical commodities such as grains and metals, the cost of storage space, insurance, and finance charges incurred by holding a physical commodity. In interest rate futures markets, it refers to the differential between the yield on a cash instrument and the cost necessary to buy the instrument. (See Basis.)

Cash Commodity

An actual physical commodity someone is buying or selling, e.g., soybeans, corn, gold, silver, Treasury bonds, etc. Also referred to as actuals.

Cash Market

A place where people buy and sell the instrument on which a futures contract is based, such as a securities exchange, bank or grain elevator. The terms "spot" and "spot price" usually refer to the cash market price for the underlying instrument that is available for immediate delivery.

Cash Price

The price of the actual physical commodity that a futures contract is based upon.

Commodity

An article of commerce or a product that can be used for commerce. In a narrow sense, products traded on an authorized commodity exchange. Types of commodities include agricultural products, metals, petroleum, foreign currencies, financial instruments and indexes, to name a few.

Commodity Futures Trading Commission (CFTC)

A federal regulatory agency established under the Commodity Futures Trading Commission Act, as amended in 1974, that oversees futures trading in the United States. The Commission is comprised of five commissioners, one of whom is designated as chairman, all appointed by the President subject to Senate confirmation, and is independent of all cabinet departments.

Contract

Unit of trading for a financial or commodity future. Also, actual bilateral agreement between the parties (buyer and seller) of a futures or options on futures transaction as defined by a futures exchange.

Daily Trading Limit

The maximum price range set by the exchange each day for a contract. A trading limit does not halt trading, but rather, limits how far the price can move in a given day.

Day Order

An order that is placed for execution during only one trading session. If the order cannot be executed (filled) that day, it automatically expires at the close of the trading session.

Day Trade/Trading

The purchase and sale of a futures or options contract during only one trading session. If the order cannot be executed during that session, it is automatically cancelled. A day trader places and liquidates trades during one trading session.

Day Traders

Speculators who take positions in futures or options contracts and liquidate them prior to the close of the same trading day.

Deferred Month (AKA: Back Months)

The more distant month(s) in which futures trading is taking place, as distinguished from the nearby (delivery) month.

Deliverable Grades (AKA: Contract Grades)

The standard grades of commodities or instruments listed in the rules of the exchanges that must be met when delivering cash commodities against futures contracts. Grades are often accompanied by a schedule of discounts

BASIC TERMINOLOGY

and premiums allowable for delivery of commodities of lesser or greater quality than the standard called for by the exchange.

Delivery

The transfer of the cash commodity from the seller of a futures contract to the buyer of a futures contract. Each futures exchange has specific procedures for delivery of a cash commodity. Some futures contracts, such as stock index contracts, are cash settled.

Delivery Month

A specific month in which delivery may take place under the terms of a futures contract. Also referred to as contract month or front month.

Delivery Points

The locations and facilities designated by a futures exchange where stocks of a commodity may be delivered in fulfillment of a futures contract, under procedures established by the exchange.

E-Mini

A trademark of CME Group Inc., an E-mini is a contract that is traded exclusively on its electronic trading facility. It is usually based on a similar, larger contract but priced more favorably for smaller investors with a reduced margin requirement and smaller tick size or multiplier.

Equity

As used on a trading account statement, refers to the residual dollar value of a futures or option trading account, assuming it was liquidated at current prices.

Exchange

(See Futures Exchange.)

Exchange for Physicals (EFP)

A transaction in which the buyer of a cash commodity transfers to the seller a corresponding amount of long futures contracts, or receives from the seller a corresponding amount of short futures contracts, at a price difference mutually agreed upon. In this way, the opposite hedges in futures of both parties are closed out simultaneously. Also called exchange of futures for cash, AA (against actuals), or ex-pit transactions.

Exchange Rate

The price of one currency stated in terms of another currency.

Expiration cycle

A term referring to the quarterly expiration dates applicable to various classes of derivatives. There are three commonly used cycles: January/April/July/October, February/May/August/November, and March/June/September/December.

Expiration date

The day on which all open positions in a futures contract are transformed into delivery or receipt responsibilities for the underlying instrument. Often used as a synonym for the last day of trading in a given contract, although the expiration date may not actually be the last day of trading. For example, the last trading date would normally occur on a Friday for a contract with a Saturday expiration date.

First Notice Day

According to CME Group rules, the first day on which a notice of intent to deliver a commodity in fulfillment of a given month's futures contract can be made by the clearinghouse to a buyer.

Forex Futures

A shortened term for foreign exchange futures, also known as FX or currency futures. Forex futures are exchange-traded contracts to buy or sell a specified amount of a currency on a set future date, at a specified price.

Forward (Cash) Contract

A cash contract in which a seller agrees to deliver a specific cash commodity to a buyer sometime in the future. Forward contracts, in contrast to futures contracts, are privately negotiated and are not standardized.

Front Month

(See Delivery Month.)

Futures (Contract)

A term used to designate all contracts covering the purchase and sale of financial instruments or physical commodities for future delivery on a futures exchange. A futures contract is a legally binding obligation to buy or sell the underlying product, asset or instrument at some time in the future, at a price agreed upon today. Futures contracts are standardized according to the quality, quantity, and delivery time and location.

Futures Commission Merchant

A firm or person engaged in soliciting or accepting

BASIC TERMINOLOGY

and handling orders for the purchase or sale of futures contracts, subject to the rules of a futures exchange and, who, in connection with solicitation or acceptance of orders, accepts any money or securities to margin any resulting trades or contracts. The FCM must be licensed by the Commodity Futures Trading Commission.

Futures Exchange

A central marketplace with established rules and regulations where buyers and sellers meet to trade futures and options on futures contracts.

Good 'til Canceled (GTC)

An order that is worked until it can be filled or until canceled. (See Open Order.)

Grades

Various qualities of a commodity.

Heavy

A market in which prices are demonstrating either an inability to advance, or a slight tendency to decline.

Hedge

The purchase or sale of a futures contract as a temporary substitute for a cash market transaction to be made at a later date. Usually it involves opposite positions in the cash market and futures market at the same time.

Hedger

An individual or company owning or planning to own a cash commodity such as corn, soybeans, wheat, U.S. Treasury

bonds, notes, bills, etc. and who is concerned that the cost of the commodity may change before either buying or selling it in the cash market. A hedger achieves protection against changing cash prices by purchasing (selling) futures contracts of the same or similar commodity and later offsetting that position by selling (purchasing) futures contracts of the same quantity and type as the initial transaction.

Hedging

The practice of offsetting the price risk inherent in any cash market position by taking an equal but opposite position in the futures market. Hedgers use the futures markets to protect their businesses from adverse price changes. (See Selling (Short) Hedge and Purchasing (Long) Hedge.)

Henry Hub

A natural gas pipeline hub in Louisiana that serves as the delivery point for New York Mercantile Exchange natural gas futures contracts. It often serves as a benchmark for wholesale natural gas prices across the U.S.

Initial Margin

The minimum value on deposit in an account to establish a new futures or options position, or to add to an existing position. Initial margin amount levels differ by contract. Lind-Waldock sets the level of initial margin required, and it may change at any time at Lind-Waldock's discretion. Increases or decreases in initial margin levels reflect anticipated or actual changes in market volatility. Also called initial performance bond.

Last Trading Day

According to CME Group rules, the final day when trading may occur in a given futures or options contract month. Futures contracts outstanding at the end of the last trading day must be settled by delivery of the underlying commodity or securities or by agreement for monetary settlement (in some cases by EFPs).

Limit Move

(See Daily Trading Limit.)

Limit Order

An order type that is to be filled at a specified price or better. A limit buy order is placed at or below market price, while a limit sell order is placed at or above the current market price.

Leverage

The ability to control large dollar amounts of a commodity or other asset with a comparatively small amount of capital.

Liquid

A characteristic of a security or commodity market with enough units outstanding to allow large transactions without a substantial change in price.

Liquidate

Selling (or purchasing) futures contracts of the same delivery month purchased (or sold) during an earlier transaction. Or, making (or taking) delivery of the cash commodity represented by the futures contract.

BASIC TERMINOLOGY

Long

(1) One who has bought a futures contract to establish a market position; (2) a market position that obligates the holder to take delivery; (3) one who owns an inventory of commodities. (See Short.)

Long Hedge

The purchase of a futures contract in anticipation of an actual purchase in the cash market. Used by processors or exporters as protection against an advance in the cash price. (See Hedge, Short Hedge.)

Lot

A unit of trading; one futures contract.

Maintenance Margin

The minimum value that must be present in an account in order to continue to hold a position. The maintenance margin is typically less than the initial margin, and also differs by contract. If the account falls below the maintenance margin requirement, the account holder will receive a margin call. If he/she wishes to continue to hold the position, they will be required to restore the account to the full initial margin level (not to the maintenance margin level). Also known as the maintenance performance bond.

Managed Futures

Represents an asset class comprised of professional money managers known as commodity trading advisors (CTAs) who manage client assets on a discretionary basis, using global futures markets as an investment medium.

Margin

See Performance Bond.

Margin Call

A demand from a clearinghouse to a clearing member, or from a brokerage firm to a customer, to bring margin deposits up to a minimum level required to support the positions held. This can be done by either depositing more funds or offsetting some or all of the positions held.

Mark-To-Market (Marked-To-Market)

A daily accounting entry that is the bedrock of regulated futures bookkeeping. It's the end-of-day adjustment made to trading accounts to reflect profits and losses on existing positions. In other words, winnings are credited and immediately available to the account and losses are debited and immediately owed. This brings integrity to the marketplace because participants are not allowed to trade unless funds are available to cover the positions.

Market Order (MKT)

An order to buy or sell a specified commodity, including quantity and delivery month at the best possible prices available, as soon as possible.

Market-If-Touched (MIT) Order

A price order that automatically becomes a market order if the price is reached.

Market on Close (MOC)

An order to buy or sell at the end of the trading session at a price within the closing range of prices.

Notional Value

The underlying value (face value), normally expressed in U.S. dollars, of the instrument specified in a futures contract.

Offer

Indicates a willingness to sell a contract at a given price; opposite to the bid. Also called the "ask" price.

Offset

Taking a second futures or options position opposite to the initial or opening position. This means selling, if one has bought, or buying, if one has sold, a futures or option on a futures contract. (See Liquidate.)

Open Order

An order that is good until it is canceled or executed. (See Good 'Til Canceled.)

Open Outcry

Method of public auction for making verbal bids and offers in the trading pits or rings of futures exchanges. (See Pit.)

Or Better Order (OB)

A type of a limit order in which the market is at or better than the limit specified. The term is often used to help clarify that the order was not mistakenly given as a limit when it looks like it should be a stop order.

Performance Bond (Margin)

Funds that must be deposited as a performance bond by a customer with his or her broker, by a broker with a clearing member, or by a clearing member, with the clearing house.

BASIC TERMINOLOGY

The performance bond helps to ensure the financial integrity of brokers, clearing members and the exchange as a whole.

Pit

A specially constructed arena on the trading floor of some exchanges where trading in a futures contract is conducted. On some exchanges the term “ring” designates the trading area for a commodity.

Position

A market commitment. A buyer of an initial futures contract is said to have a long position and, conversely, a seller of an initial futures contract is said to have a short position.

Price Discovery

The generation of information about “future” cash market prices through the futures markets. It has been said that futures markets are often the place of “original price discovery” because that’s where the buyers and sellers are brought together to determine the price. As in any auction, the last price is considered to reflect the sum total of opinions about what price an item should be valued.

Risk Capital

Capital that is not needed for ordinary living expenses.

Round Turn

A round turn counts both the buy and the sell of a trade as one event. In a typical exchange volume measurement, a one-contract trade between a buyer and seller would be counted as one round turn. From the customer’s perspective, a round turn represents two filled orders from

his or her brokerage firm - one to take a position and one to offset that position (i.e., same customer, different trades).

Settlement Price

Also referred to as settle or closing price. If there is a closing range of prices, the settlement price is determined by averaging those prices. The exchange clearinghouse determines a firm’s net gains or losses, margin requirements, and the next day’s price limits, based on each futures and options contract settlement price. Thinly traded options may be settled at a theoretical value.

Scalp

To trade for small gains. Scalping normally involves establishing and liquidating a position quickly, usually within the same day, hour or even just a few minutes.

Short

(1) The selling side of an open futures contract; (2) a trader whose net position in futures or options shows an excess of open sales over open purchases. (See Long.)

Side

A side considers the buy and sell actions of a trade as separate events. Each matched trade, and each contract, has two sides - the buyer side and the seller side. Taken together, these two sides equal one round turn. Measuring matched trade volume “per side” counts volume on each side of the trade.

Speculator

One who attempts to anticipate price changes and, through buying and selling futures contracts, aims to make profits.

A speculator does not use the futures market in connection with the production, processing, marketing or handling of a product.

Spot

Market of immediate delivery of and payment for the product. The terms “spot” and “spot price” usually refer to the cash market price for the underlying instrument that is available for immediate delivery.

Spread

The price difference between two related markets or commodities.

Spreading

The simultaneous buying and selling of two related markets in the expectation that a profit will be made when the position is offset. Examples include: buying one futures contract and selling another futures contract of the same commodity but different delivery month; buying and selling the same delivery month of the same commodity on different futures exchanges; buying a given delivery month of one futures market and selling the same delivery month of a different, but related, futures market.

Stop Order

Sometimes called a stop loss order, although it can be used to initiate a new position as well as offset an existing position. It’s an order to buy or sell when the market reaches a specified price point. A sell stop is placed below the market, a buy stop above the market.

BASIC TERMINOLOGY

Stop Limit

A variation of a stop order. A stop limit order goes into effect as soon as there is a trade at the specified price. However, the order can only be filled at the stop limit price or better.

Tick

Smallest increment of price movement possible in trading a given contract.

Variable Price Limit

A price limit schedule, determined by an exchange, that permits variations above or below the normally allowable price movement for any one trading day.

Variation Margin

Payment made on a daily or intraday basis by a clearing member to the clearing organization based on adverse price movement in positions carried by the clearing member, calculated separately for customer and proprietary positions.

Volatility

A statistical measurement of the rate of price change of a futures contract, security, or other instrument underlying an option.

Volume

The number of contracts traded during a specified period of time. It may be quoted as the number of contracts traded or as the total of physical units, such as bales or bushels, pounds or dozens.

Underlying Commodity

The cash commodity underlying a futures contract. Also, the commodity or futures contract on which a commodity option is based, and which must be accepted or delivered if the option is exercised.

Yield Curve

A graphic representation of market yield for a fixed income security plotted against the maturity of the security. The yield curve is positive when long-term interest rates are

higher than short-term interest rates, and is inverted with long-term rates are lower than short-term rates.

Zero Coupon

Refers to a debt instrument that does not make coupon payments, but, rather, is issued at a discount to par and redeemed at par at maturity.

Zero-Sum Game

One participant's gains result from another participant's equivalent losses. The net change in the total invested capital among participants is zero; it is just shifted from one to another.



A

Options Terminology

Black-Scholes Model

A mathematical formula for calculating the value of an option. Initially developed by Fischer Black and Myron Scholes for securities options and later refined by Black for options on futures.

Butterfly Spread

A three-legged spread in futures or options. In the option spread, the options have the same expiration date but differ in strike prices. For example, a butterfly spread in soybean call options might consist of two short calls at a \$7 strike price, one long call at a \$7.50 strike price, and one long call at a \$6.50 strike price.

Calendar Spread

(See Horizontal Spread.)

Call

An option to buy a commodity, security, or futures contract at a specified price at any time between the purchase and expiration of the option contract. In futures, a call gives the buyer the right but not the obligation to purchase or (go long) the underlying futures contract at the strike price on or before the expiration date.

Called

Another term for “exercised” when the option is a call. The writer of a call must deliver the indicated underlying commodity when the option is exercised or called.

Covered Call

An option spread position where calls are sold against a

OPTIONS TERMINOLOGY

long position in the underlying instrument. In essence, the trader is limiting his profit on the long position in exchange for receiving the option premium. On option expiration day, the breakeven on the long futures is lowered by the amount of option premium received, less commissions.

Covered Option

A short call or put option position that is covered by the sale or purchase of the underlying futures contract or physical commodity. For example, in the case of options on futures contracts, a covered call is a short call position combined with a long futures position. A covered put is a short put position combined with a short futures position. Also called a covered write. (See also Covered Call and Covered Put.)

Covered Put

An option spread position where puts are sold against a short position in the underlying instrument. In essence, the trader is limiting his profit on the short position in exchange for receiving the option premium. On option expiration day, the breakeven on the short futures is raised by the amount of option premium received, less commissions.

Delta

A measure of how much an option premium changes, given a unit change in the underlying futures price. Delta often is interpreted as the probability that the option will be in-the-money by expiration.

Exercise

The action taken by the holder of a call option if he or she wishes to purchase the underlying futures contract or by

the holder of a put option if he or she wishes to sell the underlying futures contract.

Exercise Price

The price at which the futures contract underlying a call or put option can be purchased (if a call) or sold (if a put). Also referred to as strike price.

Expiration Date

In options trading, this is the last day an option may be exercised into the underlying futures contract.

Extrinsic Value

(See Time Value.)

Gamma

A measurement of how fast delta changes, given a unit change in the underlying futures price.

Grant

(See Write.)

Grantor

(See Option Seller.)

Holder

One who purchases an option.

Horizontal Spread

The purchase of either a call or put option and the simultaneous sale of the same type of option with typically the same strike price but with a different expiration month. Also referred to as a calendar spread.

In-the-Money Option

An option with intrinsic value. A call option is in-the-money if its strike price is below the current price of the underlying futures contract. A put option is in-the-money if its strike price is above the current price of the underlying futures contract. (See Intrinsic Value.)

Intrinsic Value

The amount by which an option is in-the-money.

Long Options Value

It is the combined value of all options purchased. It is marked-to-market. Options marked to the last reported price.

Naked Option

The sale of a call or put option without holding an offsetting position in the underlying commodity. Also referred to as an uncovered option, naked call, or naked put.

Net Options Value

The credit or debit value of all option positions combined. It is marked-to-market.

Option

A contract giving the holder the right, but not the obligation, hence, "option," to buy (call option) or sell (put option) a futures contract in a given commodity at a specified price at any time between now and the expiration of the option contract.

Option Buyer

The purchaser of either a call or put option. Option buyers

OPTIONS TERMINOLOGY

receive the right, but not the obligation, to assume a futures position. Also referred to as the holder.

Option Premium

The price of an option. For U.S. options, the sum of money that the option buyer pays and the option seller receives for the rights granted by the option.

Option Seller

The person who sells a call or put option in return for a premium, and is obligated to fulfill the terms of contract through delivery when the holder exercises his right under the option contract. Also referred to as the Writer or Grantor.

Option Spread

The simultaneous purchase and sale of one or more options contracts, futures, and/or cash positions.

Out-of-the-Money Option

An option with no intrinsic value, i.e., a call whose strike price is above the current futures price or a put whose strike price is below the current futures price. Its value is solely time related.

Premium

(See Option Premium.)

Put

An option to sell a commodity, security, or futures contract at a specified price at any time between the purchase and the expiration of the option contract. A put gives the option buyer the right but not the obligation to sell (go "short") the

underlying futures contract at the strike price on or before the expiration date.

Ratio Hedge

The number of options compared to the number of futures contracts bought or sold in order to establish a hedge that is risk neutral.

Ratio Spread

This strategy, which applies to both puts and calls, involves buying or selling options at one strike price in greater number than those bought or sold at another strike price.

Short Options Value

The total cost of purchasing back all short options. It is marked-to-market. Market movement may cause bids and offers to be away from the last reported price.

Spread

(See Option Spread.)

Straddle

An option position consisting of the purchase (or sale) of both calls and puts having the same expiration and the same strike price.

Strangle

An option position consisting of the purchase (or sale) of both puts and calls having the same expiration but different strike prices.

Strike Price

(See Exercise Price.)

Synthetic Futures

A position created by combining call and put options. A synthetic long futures position is created by combining a long call option and a short put option for the same expiration date and the same strike price. A synthetic short futures position is created by combining a long put and a short call with the same expiration date and the same strike price.

Theta

A measure of the sensitivity of the value of the option to the passage of time. In math terms, Theta is the derivative of the option price equation with respect to the remaining time to expiration of the option.

Time Value

The amount of money option buyers are willing to pay, above the intrinsic value, for an option in the anticipation that, over time, a change in the underlying futures price will cause the option to increase in value. In general, an option premium is the sum of time value and intrinsic value. Any amount by which an option premium exceeds the option's intrinsic value can be considered time value. Also referred to as Extrinsic Value.

Writer

(See Option Seller.)



A

Regulatory Terminology

Associated Person (AP)

An individual who solicits orders, customers, or customer funds (or who supervises persons performing such duties) on behalf of a futures commission merchant, an introducing broker, a commodity trading advisor, or a commodity pool operator.

Audit Trail

The record of trading information identifying the parties involved in a transaction - the floor broker, clearing firm, customer, etc. - as well as the terms and time of the trade.

Boiler Room

An enterprise which often is operated out of inexpensive, low-rent quarters (hence the term “boiler room”), that uses high pressure sales tactics (generally over the telephone) and

possibly false or misleading information to solicit generally unsophisticated investors.

CFTC

(See Commodity Futures Trading Commission.)

Clearing Margin

Financial safeguards to ensure that clearing members (usually companies or corporations) perform on their customers’ open futures and options contracts. Clearing margins are distinct from customer margins that individual buyers and sellers of futures and options contracts are required to deposit with brokers. (See Customer Margin.)

Clearing Member

A member of an exchange clearinghouse. Memberships in

REGULATORY TERMINOLOGY

clearing organizations are usually held by companies. Clearing members are responsible for the financial commitments of customers that clear through their firm.

Clearinghouse

An agency or separate corporation of a futures exchange that is responsible for settling trading accounts, clearing trades, collecting and maintaining margin monies, regulating delivery, and reporting trading data. Clearinghouses act as third parties to all futures and options contracts acting as a buyer to every clearing member seller and a seller to every clearing member buyer.

Commercial

An entity involved in the production, processing, or merchandising of a commodity.

Commitments of Traders Report (COT)

A weekly report from the CFTC providing a breakdown of each Tuesday's open interest for markets in which 20 or more traders hold positions equal to or above the reporting levels established by the CFTC. Open interest is broken down by aggregate commercial, non-commercial, and non-reportable holdings.

Commodity Futures Trading Commission (CFTC)

A federal regulatory agency established under the Commodity Futures Trading Commission Act, as amended in 1974, that oversees futures trading in the United States. The Commission is comprised of five commissioners, one of whom is designated as chairman, all appointed by the President subject to Senate confirmation, and is independent of all cabinet departments.

Commodity Pool

Similar to what a mutual fund is to the securities industry. An enterprise in which funds contributed by a number of persons are combined for the purpose of trading futures or options on futures.

Commodity Pool Operator (CPO)

An individual or organization that operates or solicits funds for a commodity pool.

Commodity Trading Advisor (CTA)

A person who, for compensation or profit, directly or indirectly advises others as to the value or the advisability of buying or selling futures contracts or commodity options. Advising indirectly includes exercising trading authority over a customer's account as well as providing recommendations through written publications or other media.

Customer Margin

Within the futures industry, financial guarantees required of both buyers and sellers of futures contracts and sellers of options contracts to ensure fulfillment of contract obligations. FCMs are responsible for overseeing customer margin accounts.

Delivery

The transfer of the cash commodity from the seller of a futures contract to the buyer of a futures contract. Each futures exchange has specific procedures for delivery of a cash commodity. Some futures contracts, such as stock index contracts, are cash settled.

Exchange

(See Futures Exchange.)

FCM

(See Futures Commission Merchant.)

Floor Broker

An individual who executes orders for the purchase or sale of any commodity futures or options contract on any contract market for any other person. A floor broker executing orders must be licensed by the CFTC.

Floor Trader

An exchange member who generally trades only for his/her own account or for an account controlled by him/her. Also referred to as a "local."

Futures Commission Merchant (FCM)

A firm or person engaged in soliciting or accepting and handling orders for the purchase or sale of futures contracts, subject to the rules of a futures exchange and, who, in connection with solicitation or acceptance of orders, accepts any money or securities to margin any resulting trades or contracts. The FCM must be licensed by the CFTC.

Futures Exchange

A central marketplace with established rules and regulations where buyers and sellers meet to trade futures and options on futures contracts.

Give Up

A contract executed by one broker for the client of another

REGULATORY TERMINOLOGY

broker that the client orders to be turned over to the second broker. The broker accepting the order from the customer collects a fee from the carrying broker for the use of the facilities. Often used to consolidate many small orders or to disperse large ones.

Guaranteed Introducing Broker (GIB)

An introducing broker that has entered into a guarantee agreement with a futures commission merchant (FCM), whereby the FCM agrees to be jointly and severally liable for all of the introducing broker's obligations under the Commodity Exchange Act. By entering into the agreement, the introducing broker is relieved from the necessity of raising its own capital to satisfy minimum financial requirements. In contrast, an independent introducing broker must raise its own capital to meet minimum financial requirements.

Initial Margin

The minimum value on deposit in an account to establish a new futures or options position, or to add to an existing position. Initial margin amount levels differ by contract. Lind-Waldock sets the level of initial margin required, and it may change at any time at Lind-Waldock's discretion. Increases or decreases in initial margin levels reflect anticipated or actual changes in market volatility. Also called initial performance bond.

Introducing Broker (IB)

A person or organization that solicits or accepts orders to buy or sell futures contracts or commodity options but does not accept money or other assets from customers to support such orders.

Maintenance Margin

The minimum value that must be present in an account in order to continue to hold a position. The maintenance margin is typically less than the initial margin, and also differs by contract. If the account falls below the maintenance margin requirement, the account holder will receive a margin call. If he/she wishes to continue to hold the position, they will be required to restore the account to the full initial margin level (not to the maintenance margin level). Also known as the maintenance performance bond.

Margin

(See Performance Bond.)

Margin Call

A demand from a clearinghouse to a clearing member, or from a brokerage firm to a customer, to bring margin deposits up to a minimum level required to support the positions held. This can be done by either depositing more funds or offsetting some or all of the positions held.

Mark-To-Market (Marked-To-Market)

A daily accounting entry that is the bedrock of regulated futures bookkeeping. It's the end-of-day adjustment made to trading accounts to reflect profits and losses on existing positions. In other words, winnings are credited and immediately available to the account and losses are debited and immediately owed. This brings integrity to the marketplace because participants are not allowed to trade unless funds are available to cover the positions.

National Futures Association (NFA)

An industry-wide, industry-supported, self-regulatory

organization for futures and options markets. The primary responsibilities of the NFA are to enforce ethical standards and customer protection rules, screen futures professionals for membership, audit and monitor professionals for financial and general compliance rules, and provide for arbitration of futures-related disputes.

Over-the-Counter (OTC)

The trading of commodities, contracts, or other instruments not listed on any exchange. OTC transactions can occur electronically or over the telephone. Also referred to as off-exchange.

Performance Bond (Margin)

Funds that must be deposited as a performance bond by a customer with his or her broker, by a broker with a clearing member, or by a clearing member, with the clearing house. The performance bond helps to ensure the financial integrity of brokers, clearing members and the exchange as a whole.

Position Limit

The maximum number of speculative futures contracts one can hold as determined by the Commodity Futures Trading Commission and/or the exchange upon which the contract is traded. Also referred to as trading limit.

Registered Representative

A person employed by, and soliciting business for, a commission house or futures commission merchant.

Reporting Level

Sizes of positions set by the exchanges and/or the CFTC at or above which commodity traders or brokers who

REGULATORY TERMINOLOGY

carry these accounts must make daily reports about the size of the position by commodity, by delivery month, and whether the position is controlled by a commercial or non-commercial trader.

Rules

The principles for governing a futures exchange. In some exchanges, rules are adopted by a vote of the membership, while regulations can be imposed by the governing board.

Suitability Requirement

A requirement that any investing strategy fall within the financial means and investment objectives of an investor.

Wash Trading

Entering into, or purporting to enter into, transactions to give the appearance that purchases and sales have been made, without incurring market risk or changing the trader's market position. The Commodity Exchange Act prohibits wash trading. Also called Round Trip Trading, Wash Sales.



A

Stock Index and Single-Stock Futures Terminology

Alpha Capture

Alpha refers to that part of a stock's risk and return that is attributable to the stock individually, as apposed to the overall market. Alpha capture is a spread trade between a stock future and a stock index future.

American Depositary Receipt (ADR)

A security that physically remains in a foreign country, usually in the custody of a bank, but is traded in the U.S.

Arbitrage

The simultaneous purchase and sale of identical or equivalent financial instruments or commodity futures in order to benefit from a discrepancy in their price relationship.

Ask

A motion to sell. The same as offer. Indicates a willingness to sell a futures contract at a given price. (See Bid.)

Basis

The difference between the current cash price and the futures price of the same commodity. The basis is determined by the costs of actually holding the commodity versus contracting to buy it for a later delivery (i.e., a futures contract). The basis is affected by other influences as well, such as unusual situations in supply or demand. Unless otherwise specified, the price of the nearby futures contract month is generally used to calculate the basis. (See Carrying Charge.)

STOCK FUTURES TERMINOLOGY

Bid

The price that the market participants are willing to pay. Opposite of offer.

Broad-Based

Generally referring to an index, it indicates that the index is composed of a sufficient number of stocks or of stocks in a variety of industry groups to satisfy certain economic or regulatory criteria. (See also Narrow-Based.)

Carrying Charge (Cost To Carry)

For physical commodities such as grains and metals, the cost of storage space, insurance, and finance charges incurred by holding a physical commodity. In interest rate futures markets, it refers to the differential between the yield on a cash instrument and the cost necessary to buy the instrument. (See Basis.)

Cash Market

A place where people buy and sell the instrument on which a futures contract is based, such as a securities exchange, bank or grain elevator. The terms "spot" and "spot price" usually refer to the cash market price for the underlying instrument that is available for immediate delivery.

Cash Price

The price of the actual underlying commodity that a futures contract is based upon. In the case of single-stock futures, the price of the underlying stock.

Circuit Breakers

A system of trading halts and price limits on equities and derivative markets designed to provide a cooling-off period

during large, intraday market movements.

Cross-Margining

A procedure for margining related securities, options, and futures contracts jointly when different clearing houses clear each side of the position.

Day Traders

Speculators who take positions in futures or options contracts and liquidate them prior to the close of the same trading day.

Derivative

A type of investment whose value depends on the value of other investments, indices or assets. Futures contracts and stock options are common types of derivatives. A single-stock futures contract is a derivative security of the underlying stock on which it is based.

E-Mini

A trademark of CME Group Inc., an E-mini is a contract that is traded exclusively on its electronic trading facility. It is usually based on a similar, larger contract but priced more favorably for smaller investors with a reduced margin requirement and smaller tick size or multiplier.

Exchange-Traded Fund (ETF)

An ETF is a basket of securities designed to track an index yet trades like a stock. For example OneChicago's DIAMONDS contract is a future on the DIAMOND's ETF, which tracks the Dow Jones Industrial Average Index.

ETF Futures

Futures contracts on exchange-traded Funds. ETFs have similar characteristics to single-stock futures, although the underlying security is the fund itself rather than common stock in a specific company. Thus at expiration, the deliverable assets are shares in the underlying ETF.

Fair value

The theoretical worth of a futures contract as determined by a mathematical model. Fair value is a popular calculation that quickly shows the relationship between a stock index futures contract and the underlying stock index. Traders use fair value as a tool in determining whether the futures contract is overpriced or underpriced. Lind-Waldock calculates fair value daily for the S&P 500 on our Web site.

GLOBEX®

CME Group's global electronic trading system. Globex has a number of all-electronic contracts that run virtually around the clock.

Hedge

The purchase or sale of a futures contract as a temporary substitute for a cash market transaction to be made at a later date. Usually it involves opposite positions in the cash market and futures market at the same time.

Initial Margin

The minimum value on deposit in an account to establish a new futures or options position, or to add to an existing position. Initial margin amount levels differ by contract. Lind-Waldock sets the level of initial margin required, and it may change at any time at Lind-Waldock's discretion.

STOCK FUTURES TERMINOLOGY

Increases or decreases in initial margin levels reflect anticipated or actual changes in market volatility. Also called initial performance bond.

Leverage

The ability to control large dollar amounts of a commodity with a comparatively small amount of capital.

Maintenance Margin

The minimum value that must be present in an account in order to continue to hold a position. The maintenance margin is typically less than the initial margin, and also differs by contract. If an account falls below the maintenance margin requirement, the account holder will receive a margin call. If he or she wishes to continue to hold the position, they will be required to restore the account to the full initial margin level (not to the maintenance margin level). Also known as the maintenance performance bond.

Market Basket

A portfolio of common stocks whose performance is intended to simulate the performance of a specific index or other benchmark.

Margin

(See Performance Bond.)

Margin Call

A demand from a clearinghouse to a clearing member, or from a brokerage firm to a customer, to bring margin deposits up to a minimum level required to support the positions held. This can be done by either depositing more funds or offsetting some or all of the positions held.

Narrow-Based

Similar to a stock index future, but targeted to a specific group of stocks, such as the auto, airline or telecom industries. Also called industry-sector futures and exchange-traded baskets.

Offer

Indicates a willingness to sell at a given price; opposite to the bid. Also called the "ask" price.

Pair Trading

Another term for spread trading but more specifically to securities products (stocks in particular) rather than commodities. Commonly refers to buying one stock and selling another related stock against it. An example would be spreading a Coca-Cola Co. single-stock future against a Pepsico single-stock future. (See also Spread Trade.)

Performance Bond (Margin)

Funds that must be deposited as a performance bond by a customer with his or her broker, by a broker with a clearing member, or by a clearing member, with the clearing house. The performance bond helps to ensure the financial integrity of brokers, clearing members and the exchange as a whole.

Physical Delivery

The transfer of the underlying commodity from the seller of a futures contract to the buyer of a futures contract. Each futures exchange has specific procedures for delivery of a physical commodity. Some futures contracts, such as stock index contracts, are cash settled.

Position Trader

An approach to trading in which the trader either buys or sells contracts and holds them for an extended period of time.

Program Trading

A catch-all phrase for trading activities that involve the purchase (or sale) of a large number of stocks. The term commonly includes computer-aided stock market buying or selling programs, portfolio insurance, and index arbitrage.

Sell Programs

A specific type of index arbitrage that involves the simultaneous purchase of stock index futures against the sale of a large number of stocks that comprise (or closely resemble) the index.

Shock Absorber

A temporary restriction in the trading of stock index futures which becomes effective following a significant intraday decrease in stock index futures prices. Designed to provide an adjustment period to digest new market information, the restriction bars trading below a specified price level. Shock absorbers are generally market specific and at tighter levels than circuit breakers.

Single-Stock Futures (SSF)

Single-stock futures are an agreement between two parties that commits one party to buy a stock and one party to sell a stock at a given price and on a specified date. They are similar to existing futures contracts for gold, crude oil, bonds, and stock indices. Unlike actual stock, there is no

STOCK FUTURES TERMINOLOGY

ownership or voting rights contained in a SSF. (See also Universal Stock Futures.)

Spread Trade

The simultaneous buying and selling of two related markets in the expectation that a profit will be made when the position is offset. Examples include: buying one futures contract and selling another futures contract of the same commodity but different delivery month; buying and selling the same delivery month of the same commodity on

different futures exchanges; buying a given delivery month of one futures market and selling the same delivery month of a different, but related, futures market.

Stock Index

An indicator used to measure and report value changes in a selected group of stocks. How a particular stock index tracks the market depends on its composition the sampling of stocks, the weighting of individual stocks, and the method of averaging used to establish an index.

Stock Index Futures

Futures contracts on a stock index, such as the Standard & Poor's 500 or the Dow Jones Industrial Average. Stock index futures contracts are a derivative of the underlying index, and are cash-settled.

Systemic Risk

Market risk due to price fluctuations which cannot be eliminated by diversification.



A

Technical Analysis Terminology

Universal Stock Futures

Same as single-stock futures, but used to refer to those contracts that trade on the LIFFE. (See also Single-Stock Futures.)

Bar Chart

A chart that graphs the high, low, and settlement prices for a specific trading session over a given period of time.

Bollinger Band

An indicator used to compare volatility and relative price levels over a specified time period. Three bands are plotted: a simple moving average, an upper band of the simple moving average plus two standard deviations,

and a lower band of the simple moving average minus two standard deviations. When the markets become more volatile, the bands widen, or move farther away from the average. When the markets are less volatile, the bands contract, or move closer to the average.

Candlestick Chart

Candlestick charts provide a quick visual picture of the relationship between opening and closing prices and their relative strengths or weaknesses, especially for extended periods. The body, which looks like a candle, represents the difference between opening and closing prices. Shadows, which look like wicks, represent price action above and below the body.

TECHNICAL ANALYSIS TERMINOLOGY

Channel

The range of prices between support and resistance levels that a market has traded in for a specific time period.

Charting

The use of graphs and charts in the technical analysis of futures markets to plot price movements, volume, open interest or other statistical indicators or price movement.

Chaos Theory/Trading

Also called non-linear dynamics, chaos theory involves complex analysis but is essentially a tool to determine whether repetitive patterns and cycles exist in the markets; that is, the presence of an underlying order. It involves the study of historical price action and use of mathematical and statistical tools.

Closing Out

Liquidating an existing long or short futures or options position with an equal and opposite transaction. Also called offsetting.

Commitments of Traders Report (COT)

A weekly report from the Commodity Futures Trading Commission providing a breakdown of each Tuesday's open interest for markets in which 20 or more traders hold positions equal to or above the reporting levels established by the CFTC. Open interest is broken down by aggregate commercial, non-commercial, and non-reportable holdings.

Congestion

A period of time characterized by repetitious and limited price fluctuations.

Correction

A temporary reversal in prices following a significant trending period.

Counter-Trend Trading

The method by which a trader takes a position contrary to the current market direction in anticipation of a change in that direction.

Directional Movement Index (DMI)

A trend-following indicator used to determine market trends. It has three components--one for upward price movement, one for downward price movement, and a third that measures the difference in these up-and-down market forces to arrive at an index showing the strength of a trend.

Double Bottom

Chart pattern describing a drop in price, a rebound, and another drop to the same or close to the level of the first drop, then another rebound. The chart typically looks like a "W" in shape, and the two bottom points of the W represent support areas.

Double Top

Chart pattern describing a rise in price, a fall, another rise to the same or close to the level of the first rise, then another fall. The chart typically looks like an "M" in shape, with the two top points of the M representing resistance areas.

Elliott Wave Theory

A theory named after Ralph Elliott, who contended that stock market trends move in discernable and predictable

patterns reflecting the basic harmony of nature. In technical analysis, it reflects a charting method based on the belief that all prices act as waves, rising and falling rhythmically in a pattern of five up and three down. Waves essentially reflect psychology or the marketplace as it makes its normal rallies and corrections.

Fibonacci

Leonardo Fibonacci was a thirteenth-century Italian mathematician who discovered the significance and unique properties of a simple number series, in which each numeral is added to the previous to create the next one in the series: 0,1,2,3,5,8,13, etc. Fibonacci numbers, and more significantly the ratio of those numbers to each other, can be found throughout nature and cycles. Fibonacci ratios are used in technical analysis to predict retracement areas during pullbacks, as well as targets, called "extensions," for projected price moves.

Gann Theory

A method of predicting price movements through the relationship of geometric angles in charts depicting time and price. The methodology was created by W.D. Gann, a financial astrologer who was born in 1878 and became one of the most successful traders of his time. Gann techniques can be complex, but are based on price study, time study and pattern study and operate under the premise that markets are cyclical in nature.

Gap

Price areas on a chart where no trading takes place. Gaps happen often in markets that trade only part of a day because price-moving events and announcements take

TECHNICAL ANALYSIS TERMINOLOGY

place during times when markets are closed. Follow-up price action may cover them, or “fill the gap.”

Head-and-Shoulders

A chart formation that resembles a human head-and-shoulders and is generally considered to be predictive of a price reversal. A head and shoulders top (which is considered predictive of a price decline) consists of a high price, a decline to the support level, a rally to a higher price than the previous high price, a second decline to the support level, and a weaker rally to about the level of the first high price. The reverse (upside down) formation is called a head and shoulders bottom (which is predictive of a price rally).

Liquid Market

A market in which selling and buying can be accomplished with minimal effect on price.

Momentum

The relative change in price over a specific time interval. Often equated with speed or velocity and considered in terms of relative strength.

Moving Average

A statistical price analysis method of recognizing different trends. A moving average is calculated by adding the prices for a predetermined number of days and then dividing by the number of days.

Moving Average Convergence/Divergence (MACD)

MACD analysis uses three moving averages, often exponential. Two of them are based on the number of price periods used and the third an average of the difference

between the two moving averages. The difference between the readings of the two moving averages is usually shown as a histogram, while the average of that difference is shown as a moving average line plotted on top of the histogram. An important part of MACD analysis is how its movements compare with price movements to determine strength or weakness in the market.

Open Interest

The sum of all long or short futures contracts in one delivery month in one market that have been entered into and not yet liquidated by an offsetting transaction or fulfilled by delivery.

Oscillator

A term for indicators used to determine overbought and oversold conditions, often useful when a clear trend can't easily be determined. Oscillators include stochastics, moving average convergence/divergence, relative strength index and momentum.

Overbought

A term used to describe a technical opinion on a market that has risen too steeply and too fast in relation to underlying fundamental factors.

Oversold

A term used to describe a technical opinion of a market has declined too steeply and too fast in relation to underlying fundamental factors.

Parabolic Indicator

A strategy that uses trailing stops and a reverse method called stop-and-reversal (SAR) to pinpoint entry and exit

points. Price action above the SAR would signal a bullish posture, price action below, a bearish posture.

Point-and-Figure Chart

A method of charting that uses prices to form patterns of movement without regard to time. It defines a price trend as a continued movement in one direction until a reversal or predetermined criterion is met. “Xs” are used to represent upticks, while “Os” represent downticks.

Rally

An upward movement of prices.

Range

The difference between the high and low price of a commodity during a given trading session, week, month, year, etc.

Relative Strength Index (RSI)

The Relative Strength Index compares periods with up closes with periods that have down closes to produce an index reading reflecting the strength of price changes on a scale of 0 to 100. The index provides overbought or oversold signals, and divergence/convergence with prices is an important part of the analysis.

Resistance

A price area where new selling is expected to emerge to dampen a continued rise. Areas of resistance are found above current prices.

Retracement

A move opposite the direction of the main market trend.

TECHNICAL ANALYSIS TERMINOLOGY

Reversal

A change in the direction of prices.

Squeeze

A market situation in which the lack of supplies tends to force shorts to cover their positions by offsetting at higher prices.

Stochastics

The stochastics indicator measures the closing price relative to the low of the range for a selected period to indicate rising or falling momentum, providing trading signals when its lines cross into overbought or oversold territory. As an overbought/oversold indicator, it attempts to forecast turns in market action.

Support

The place on a price chart where it is expected buying of futures contracts will be sufficient to halt a price decline. Areas of support are found beneath current prices.

Technical Analysis

An approach to forecasting commodity prices that examines the patterns of price change, rates of change, and changes in volume of trading and open interest, without regard to underlying fundamental market factors.

Trend

The general direction, either up or down, in which prices have been moving.

Trendlines

Lines drawn across successively higher bottoms in

uptrending price action or progressively lower tops in downtrending price action. Prices crossing a trendline may indicate a change in direction has occurred.

Volatility

A statistical measurement of the rate of price change of a futures contract, security, or other instrument underlying an option.

Volume

The number of contracts traded during a specified period of time. It may be quoted as the number of contracts traded or as the total of physical units, such as bales or bushels, pounds or dozens.



A

Trading Strategies Terminology

Arbitrage

The simultaneous purchase and sale of identical or equivalent financial instruments or commodity futures in order to benefit from a discrepancy in their price relationship.

Black Box Trading

Black box trading, or automated trading, refers to the use of computerized systems with buy and sell instructions generated by a proprietary software program. (See also Systematic Trading.)

Bear Spread

The simultaneous purchase and sale of two futures contracts in the same or related commodities with the

intention of profiting from a decline in prices but at the same time limiting the potential loss if this expectation does not materialize. In agricultural products, this is accomplished by selling a nearby delivery and buying a deferred delivery.

Bull Spread

The simultaneous purchase and sale of two futures contracts in the same or related commodities with the intention of profiting from a rise in prices but at the same time limiting the potential loss if this expectation is wrong. In agricultural commodities, this is accomplished by buying the nearby delivery and selling the deferred.

TRADING STRATEGIES TERMINOLOGY

Cabinet Trade

A trade that allows options traders to liquidate deep out-of-the-money options equal to less than one tick.

Calendar Spread

(See Horizontal Spread.)

Call

An option to buy a commodity, security or futures contract at a specified price at any time between the purchase and expiration of the option contract. A call gives the buyer the right, but not the obligation, to purchase (go long) the underlying futures contract at the strike price on or before the expiration date.

Computerized Trading System

(See Systematic Trading.)

Convergence

The tendency for cash and futures prices to come together (i.e., the basis approaches zero) as the futures contract nears expiration.

Contrarian

Contrarian traders take positions against the prevailing market trend, that is, buy, or go long, when prices are falling and sell, or go short, when prices are rising. A contrarian trader may aim to profit from a series of small trades based on fluctuations within the prevailing trend, or may be anticipating a change in direction based on momentum indicators or other analysis tools.

Counter-Trend

Against the prevailing trend. The market may make a short-term counter-trend move within a prevailing long-term trend. Counter-trend traders aim to take advantage of this tendency by buying when prices are low and selling when prices are high, or they may be anticipating a change in direction based on momentum indicators or other analysis tools.

Counter-Trend Trading

The method of trading by which a trader takes a position contrary to the current market direction in anticipation of a change in that direction.

Covered Call

An option spread position where calls are sold against a long position in the underlying instrument. In essence, the trader is limiting his profit on the long position in exchange for receiving the option premium. On option expiration day, the breakeven on the long futures is lower by the amount of option premium received, less commissions.

Covered Option

A short call or put option position which is covered by the sale or purchase of the underlying futures contract or physical commodity. For example, in the case of options on futures contracts, a covered call is a short call position combined with a long futures position. A covered put is a short put position combined with a short futures position. Also called a covered write. (See also Covered Call and Covered Put.)

Covered Put

An option spread position where puts are sold against a short position in the underlying instrument. In essence, the trader is limiting his profit on the short position in exchange for receiving the option premium. On option expiration day, the breakeven on the short futures is raised by the amount of option premium received, less commissions.

Day Order

An order that is placed for execution during only one trading session. If the order cannot be executed during that session, it is automatically cancelled.

Day Trade

The purchase and sale of a futures or options contract during only one trading session. If the order cannot be executed during that session, it is automatically cancelled. A day trader places and liquidates trades during one trading session.

Day Traders

Speculators who take positions in futures or options contracts and liquidate them prior to the close of the same trading day.

Delta

A measure of how much an option premium changes, given a unit change in the underlying futures price. Delta is often interpreted as the probability the option will be in-the-money by expiration.

TRADING STRATEGIES TERMINOLOGY

Differentials

Price differences between classes, grades, and delivery locations of various supplies of the same commodity.

Discretionary Account

An arrangement by which the holder of the account gives written power of attorney to another person to make trading decisions. Also known as a controlled or managed account.

Exercise

The action taken by the holder of a call option if he or she wishes to purchase the underlying futures contract or by the holder of a put option if he or she wishes to sell the underlying futures contract.

Exercise Price

The price at which the futures contract underlying a call or put option can be purchased (if a call) or sold (if a put). Also referred to as strike price.

Fill or Kill (FOK)

An order that must be filled immediately at a specified price, or cancelled if not filled at that price.

Gamma

A measurement of how fast delta changes, given a unit change in the underlying futures price.

Global Macro

A strategy in which trading decisions are based on global economic and political factors, that is, macroeconomic principles.

Good 'til Canceled (GTC)

An order worked until it can be filled or until canceled (See Open Order.)

Hedge

The purchase or sale of a futures contract as a temporary substitute for a cash market transaction to be made at a later date. Usually it involves opposite positions in the cash market and futures market at the same time.

Horizontal Spread

The purchase of either a call or a put option and the simultaneous sale of the same type of option with typically the same strike price but with a different expiration month. Also referred to as a calendar spread.

In-the-Money Option

An option with intrinsic value. A call option is in-the-money if its strike price is below the current price of the underlying futures contract. A put option is in-the-money if its strike price is above the current price of the underlying futures contract.

Intrinsic Value

The amount by which an option is in-the-money.

Inverted Market

A futures market in which contracts nearer to expiration are priced higher than those in more distant months. Also called backwardation, an inverted market typically reflects a market facing a supply shortage.

Limit Order (LMT)

An order type that is to be filled at a specified price or better. A limit buy order is placed at or below market price, while a limit sell order is placed at or above the current market price.

Liquid

A characteristic of a security or commodity market with enough units outstanding to allow large transactions without a substantial change in price.

Liquidate

Selling (or purchasing) futures contracts of the same delivery month purchased (or sold) during an earlier transaction. Or, making (or taking) delivery of the cash commodity represented by the futures contract.

Market Depth

A dimension of market liquidity that refers to the ability of the market to handle large trading volumes without a significant impact on prices. Traders may study market depth to determine how and when particular orders may impact price action, and to help time the entry and exit of trades.

Market Neutral

A trading strategy that aims to profit from both rising and falling prices, often by taking a combination of long and short positions in one or more markets. True market neutrality means the expected beta, or market risk, is equal to zero. Traders who employ a market neutral strategy are attempting to exploit market momentum.

TRADING STRATEGIES TERMINOLOGY

Momentum

The relative change in price over a specific time interval. Often equated with speed or velocity and considered in terms of relative strength.

Naked Option

The sale of a call or put option without holding an offsetting position in the underlying commodity. Also referred to as an uncovered option, naked call, or naked put.

NOB Spread (Notes over Bonds)

A futures spread trade involving the buying (selling) of a 10-year U.S. Treasury note futures contract and the selling (buying) of a U.S. Treasury bond futures contract.

One Cancels Other (OCO) Order

A pair of orders, typically limit orders, whereby if one order is filled, the other order will automatically be cancelled.

Open Order

An order that remains in force until it is filled, canceled or until the futures contract expires.

Out-of-the-Money Option

A term used to describe an option that has no intrinsic value. For example, a call with a strike price of \$800 on gold trading at \$790 is out-of-the-money \$10.

Out-Trades

A situation that results when there is some confusion or error on a trade, e.g., over difference in the understanding of a price at which a trade is done, or the number of contracts traded.

Position Trader

An approach to trading in which the trader either buys or sells contracts and holds them for an extended period of time.

Put

An option to sell a commodity, security, or futures contract at a specified price at any time between the purchase and the expiration of the option contract. A put gives the option buyer the right but not the obligation to sell (go "short") the underlying futures contract at the strike price on or before the expiration date.

Pyramiding

The use of profits on existing positions as margin to increase the size of the position, normally in successively smaller increments.

Risk/Reward Ratio

The relationship between the probability of loss and profit. This ratio is often used as a basis for trade selection or comparison.

Scale Down (or Up)

To purchase or sell a scale down means to buy or sell at regular price intervals in a declining market. To buy or sell on scale up means to buy or sell at regular price intervals as the market advances.

Scalp

To trade for small gains. Scalping normally involves establishing and liquidating a position quickly, usually within the same day, hour or even just a few minutes.

Small Traders

Traders who hold or control positions in futures or options that are below the reporting level specified by the exchange or the CFTC.

Spreading

The simultaneous buying and selling of two related markets in the expectation that a profit will be made when the position is offset. Examples include: buying one futures contract and selling another futures contract of the same commodity but different delivery month; buying and selling the same delivery month of the same commodity on different futures exchanges; buying a given delivery month of one futures market and selling the same delivery month of a different, but related, futures market.

Speculative Bubble

A rapid, but usually short-lived, run-up in prices caused by excessive buying which is unrelated to any of the basic, underlying factors affecting the supply or demand for the commodity. Speculative bubbles are usually associated with a "bandwagon" effect in which speculators rush to buy the commodity (in the case of futures, "to take positions") before the price trend ends, and an even greater rush to sell the commodity (unwind positions) when prices reverse.

Straddle

An option position consisting of the purchase or sale of put and call options with the same expiration date and the same strike prices.

Strangle

An option position consisting of the purchase or sale of

TRADING STRATEGIES TERMINOLOGY

put and call options having the same expiration date but different strike prices.

Strong Hands

When used in connection with delivery of commodities on futures contracts, the term usually means that the party receiving the delivery notice probably will take delivery and retain ownership of the commodity; when used in connection with futures positions, the term usually means positions held by trade interests or well-financed speculators.

Systematic Trading

A mechanical means of trading in which a computerized trading “system” is developed from a mathematical formula (containing a group of specific rules, or technical-based parameters) that determines entry and exit points for a given trade. These points, known as signals, prompt a trade order. Trading systems are said to remove human emotion from the trading process. Also called “algorithmic trading.”

Time Value

The amount option buyers are willing to pay, above the intrinsic value, for an option in the anticipation that, over time, a change in the underlying futures price will cause the option to increase in value. In general, an option premium is the sum of time value and intrinsic value. Any amount by which an option premium exceeds the option’s intrinsic value can be considered time and volatility value. Also referred to as extrinsic value.

Trading Arcade

A trading facility where independent traders can gather for computerized trading, often operated by a clearing member.

Trailing Stop

A technique often used in attempt to protect profits without limiting potential gains by moving a stop up or down with the market. A stop order would be raised on a long position in a bullish market, and lowered on a short position in a bear market. For example, a trader initiates a long futures position when the market is at \$4, and places a protective stop at \$3. The market then rallies to \$10. He or she then moves the stop up to \$9, exiting the position if the market falls to \$9.

Trend-Following

Trend following is a strategy that follows the market’s prevailing direction, buying when prices are rising and selling when prices are falling. This presumes the prevailing trend will continue.

Vertical Spread

Buying and selling puts or calls of the same expiration month but different strike prices.

Volatility Trading

Strategies designed to take advantage of the changes in volatility of the market rather than the direction of the market.

Weak Hands

When used in connection with delivery of commodities on futures contracts, the terms usually means that the party probably does not intend to retain ownership of the commodity; when used in connection with futures positions, the term usually means positions held by small speculators.



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