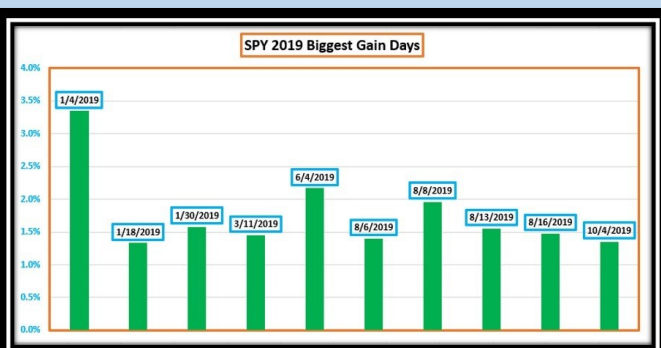




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STOCK OPTION DICTIONARY

Inside of this booklet, you will find an extensive and ever-growing list of terms, often found in successfultradings.com mediums.

[Successfultradings.com](https://successfultradings.com) aims to provide succinct definitions and understandable explanations of the terms you will find repeatedly in the trading industry. If you feel a term is missing from our dictionary, or if you feel a definition should be updated or enhanced, please e-mail Telex@successfultradings.com and we will review your submission as soon as possible to add it to our dictionary.

STOCK OPTION DICTIONARY

<i>Term</i>	<i>Definition</i>
10-K	The 10-K is an annual report done by a company that gives a detailed rundown of its performance. 10-K's typically include details such as: Equity, Financial Statements, Company Structure, Executive Compensation, Earnings Per Share.
10-Q	Similar to a 10-K, the 10-Q is a report on the state of a publicly traded business. The difference is that a 10-Q has to be filed every quarter (3 months) whereas a 10-K is a yearly report.
A	
Algorithms	Simply put, an algorithm is a set of rules for completing something in a certain way, which can be repeated endless times. Algorithms are frequently used in electronic trading to determine the timing, quantity and pricing of stock orders. They are very commonly associated with high frequency trading, which is mostly automated by algorithmic systems.
Alpha	Alpha is a term used in trading to indicate risk-adjusted performance.
Ask	Ask is simply the price in a market at which an asset can be bought (i.e. the price at which it is being sold). The ask price is usually also quoted with the amount of the asset which the seller is prepared to sell.
B	
Bear	A 'bear' is any investor or firm, which believes that the financial markets (or any asset within them) is going to fall in value.
Beta	Beta is a term used in trading to indicate volatility or systematic risk of an asset compared to that of the overall market.
Bid	Bid is simply the price in a market for which an asset can be sold (i.e. the price at which it is being bought). The bid price is usually also quoted with the amount of the asset which the buyer is prepared to buy.
Body	The body of the candle is the part of candle formed by the open and the close of an asset.
Broker	A broker is an intermediary who performs orders on behalf of a client, and takes a fee for doing so (regardless of whether the trade is profitable or not). Brokers usually have fixed trade commissions.

Bull	A 'bull' is any investor or firm, which believes that the financial markets (or any asset within them) is going to rise in value.
Buyback	<p>A buyback is a corporate action undertaken by a firm where it repurchases some of its shares outstanding from the market. This is done for one of 3 reasons:</p> <ul style="list-style-type: none"> • Increase the value of the shares (less supply, same demand = higher price). • Invest in themselves; owning more shares in the company allows them to experience a higher percentage of the profits. • Reduce the threat of any takeover by reducing the percentage of the company, which is up for sale on the markets.
C	
Call	A call is an option. An investor would buy a call option on an asset when they believe it is going to increase in price but do not wish to buy the asset itself.
Candlestick	A candlestick is a feature of a price chart which shows the open, close, low and high for an asset over a given time period. They are usually red if the asset closed lower than it opened, and green if it rose over the time period.
Close	Close refers to the price at which a security ended a period of trading, as well as the end of a period of trading for an overall market.
D	
Day trading	Day trading is a trading strategy, which revolves around opening and closing positions within a single day.
Delta	Delta is a term used in trading to compare the change in price of a derivative compared to the change in price of the underlying asset.
Dividend	A dividend is a payment by a company to its shareholders representing a portion of earnings. Usually, dividends are quoted in amount per share.
DJIA	The Dow Jones Industrial Average (commonly referred to as the Dow) is one of the benchmark indices used in the United States. It is the weighted market capitalization of 30 large corporations traded during a trading session.
Downgrade	A downgrade is when an asset, company or government has it's rating lowered. Typically, this will represent either a lowering of the quality of the asset or the increased likelihood of default on a corporate or government bond.
E	
EBIT	<p>EBIT stands for Earnings Before Interest & Tax and is a common indicator of the profitability of a firm.</p> <p>The calculation is Operating Income + Stock-Based Compensation, or Revenue - Operating Expenses - Depreciation - Amortization.</p>

	The reason behind using EBIT is because it allows you to see the profitability of a company regardless of the tax rate or capital structure.
EBITDA	<p>EBITDA stands for Earnings Before Interest, Tax, Depreciation and Amortization and is one of the most commonly used indicators of the profitability of a firm.</p> <p>The EBITDA calculation is Operating Income + Depreciation + Amortization + Stock-Based Compensation.</p> <p>The most common multiple using EBITDA is Enterprise Value / EBITDA.</p> <p>The reason behind using EBITDA is that it allows you to see both the profitability of a firm excluding taxes and because it shows the ability of the firm to service debt (hence its popularity in debt-financed buyouts) and that it is not affected by capital structure (i.e. debt payments).</p>
EPS	<p>Earnings Per Share, or EPS, is simply the profit of the firm per outstanding share. The higher the value of EPS, the more profitable the company is.</p> <p>The calculation for EPS is simply Net Income divided by number of shares outstanding.</p>
ETF	An Exchange Traded Fund, or ETF, is a synthetic asset, which is designed to track the price of an index or commodity. ETFs can be bought and sold on a stock market like any other asset, even though it may be impossible to actually buy the asset they are based on.
<i>F</i>	
Fallen Angel	Fallen Angel is a term used to describe a firm that was once extremely popular, but has declined greatly in value. This can be due to difficulties within the firm, a lack of growth, market saturation, increased competition etc.
Fibonacci	<p>Fibonacci was a mathematician and the term applies to his number sequence. The Fibonacci sequence is used in technical analysis to determine levels of support and resistance.</p> <p>The analysis used suggests that price trends will change around levels determined by Fibonacci analysis.</p>
Financial statements	<p>Financial statements are reports issued by a company that describe the financial activities of the company.</p> <p>The financial statements are broken down into three different statements:</p> <ul style="list-style-type: none"> • Income Statement - shows the income and expenditure of the company, including things such as depreciation, income tax, interest income etc. • Balance Sheet - shows the assets, liabilities and shareholders equity of a firm; it must always balance (i.e. assets = liabilities + shareholders equity). • Cash Flow Statement - shows the inflows and outflows of cash and shows whether the firm is actually making or losing money.

	Financial statements are usually issued on a quarterly and/or yearly basis and are audited by independent firms. The future performance of a firm is modelled using the financial statements and projecting into the future using appropriate assumptions.
Fundamental analysis	<p>Fundamental analysis is the technique of analyzing an asset based on its true value. This entails everything from global events to firm management to trading multiples.</p> <p>The idea behind fundamental analysis is that you gain a true value of an asset and then trade the asset based on whether it is over or undervalued. This follows the assumption that over time, all assets will be priced at their true value, which is not always correct in the markets.</p> <p>Value investors such as Warren Buffet invest based on fundamental analysis and in the long term, they usually tend to outperform the market.</p>
FX	Forex stands for Foreign Exchange, which refers to the trading of currencies on a market.
G	
Gamma	Gamma is a term used in trading to assess the rate of change of the delta of an asset relative to the change in the price of the asset, and is used to analyze the movement of derivatives relative to the underlying value.
H	
Hedge	Hedge is a term used in trading that simply means opening a position in order to reduce risk. This is usually done by either buying an asset that moves in the opposite direction to your main position, or by taking the opposite position in a correlated asset (such as a derivative).
High Frequency Trading	High Frequency Trading (or HFT) is the method of trading utilizing computer-automated algorithmic software to buy and sell assets. This software runs extremely complex systems to determine slight inefficiencies in the market and make tiny profits per trade, but to execute millions of trades per day.
Historical Value	Historical value is very simple, it is merely the price at which an asset or security has typically traded in the past and is used in trading analysis to determine if the stock is over or undervalued.
I	
In The Money	ITM is a trading term referring to the value of options. It means that the price of the underlying asset is below (Put) or above (Call) the strike price of an option.
IPO	An Initial Public Offering or IPO is the very first sale of stock to the public by a private company. This is also known as 'going public'.

IWM	iShares Russell 2000 ETF (IWM) tracks a market-cap-weighted index of US small-cap stocks. The index selects stocks ranked 1,001-3,000 by market cap. It is used as frequent benchmark for small-cap investors.
<i>J</i>	
Joint Venture	A Joint Venture (JV) is when a group of business collaborate on a business project, each taking a share of the profits, losses and control. A joint venture simply requires working together, no merger or any other kind of operations combination is required, allowing each business to keep its autonomy.
<i>L</i>	
Large-cap	A large-cap (large capitalization) firm is one with a market capitalization of over \$10 billion.
Limit	A limit is a type of order relating to the trading of an asset. It is placed with a broker and indicates a price level at which the owner of the asset wishes to exit their position. This will limit their profits to a certain amount, but also mean they do not have to monitor their positions as actively as if they had no limit order at all. Limit orders are most frequently used in conjunction with limit orders on assets with extreme fluctuation and volatility.
Limit Down	Limit Down is a term used in commodities trading to refer to the maximum amount by which the price of a commodity is allowed to fall in one trading day. If the limit is hit, then the market will either close totally for the day or will not be open for trading until the price drops below that limit price.
Limit Up	Limit Up is a term used in commodities trading to refer to the maximum amount by which the price of a commodity is allowed to increase in one trading day. If the limit is hit, then the market will either close totally for the day or will not be open for trading until the price drops below that limit price.
Liquidity	Liquidity is a term, which refers the ease and speed with which an asset can be converted into cash. A liquid asset will be exchangeable for cash very quickly with no loss in value, whilst an illiquid asset will usually take time and may even lose value as a result.
Long	Long is a term used in trading to denote owning an asset and profiting when it's value goes up.
Lower shadow	The lower shadow is the part of the candlestick that is below the body.
<i>M</i>	
MA	Moving Average is a statistical term used to show the average value of something over a changing period of time. This is frequently used in technical analysis by comparing different moving averages (20 day, 50 day, 200 day etc.) to see long term and short-term trends.

MACD	The MACD - Moving Average Convergence Divergence - is an indicator used in technical analysis for showing trends and momentum. It shows the relationship between two moving averages (i.e. whether they are converging or diverging).
Market	A market is simply anywhere or anything through which assets are traded. Stocks are issued and traded on the stock market, bonds on the bond market, options and futures on the derivatives market etc.
Market capitalization	Market capitalization is the market value of the issued equity of a firm. It is calculated by multiplying the number of shares in the market by the price per share. Market capitalization is typically used to assess the size of the firm in question, the rough categories are: Small-Cap, Mid-Cap, Large-Cap.
Mid-cap	A mid-cap (middle capitalization) firm is one with a market capitalization between \$2 and \$10 billion.
N	
NASDAQ	The NASDAQ is one of the main indices used in the United States. It is a fully electronic stock trading market which comprises mainly technology firms
NYMEX	NYMEX stands for New York Mercantile Exchange and is the largest commodity futures market in the world, and trades commodities such as gold, silver, copper, energy, platinum etc. The NYMEX was first created in 1872 and is now one of the vital markets for hedging and trading.
O	
Open	Open refers to the price at which a security began a period of trading, as well as the beginning of a period of trading for an overall market.
Option	An option is a financial derivative that gives the holder the right, but not the obligation to buy or sell a financial asset at a pre-determined price during a pre-determined period.
Out The Money	Out of the money is a trading term referring to the value of options. It means that the price of the underlying asset is still above (Put) or below (Call) the strike price of an option.
P	
P/E	Price to Earnings (P/E) is a financial metric which shows the ratio of a firm's current share price to its earnings per share. This is an extremely common multiple used to evaluate whether a company is under or overpriced. Usually the higher the P/E ratio, the more overvalued the firm is. The calculation of P/E is Market Value Per Share / Earnings Per Share.
Penny stock	A penny stock is one with an extremely low value, usually issued by a very small and risky company.

PnL	Profit and Loss (or PnL) is a common term used in trading and is extremely self-explanatory. It simply refers to the total profit or loss made by an individual or group over a certain time period.
Position	Position is a term used in trading to refer to any current exposure a trader has. This means any trade they are currently in the process of doing.
Private	A private company is one whose equity (shares) is not available for purchase on public exchanges, although they may issue stock. This means that the company is owned entirely by the employees and investors, and the value is hard to derive exactly.
Public	A public company is one whose equity (shares) is available for the general public to purchase. This means that their shares are publicly traded on a stock exchange such as the NYSE, which means the value of the company is determined by the market.
Put	A put is an option. An investor would buy a put option on an asset when they believe it is going to decrease in price.
Q	
QQQ	Invesco QQQ, previously known as Powershares QQQ, is a widely held and traded exchange-traded fund (ETF) that tracks the Nasdaq 100 Index. QQQ is heavily weighted toward large-cap technology companies and is often viewed as a snapshot of how the technology sector is trading.
Quant	With the development and advancement of computers and technology, there have been more and more people with mathematical and theoretical degrees (engineering, programming, mathematics, physics etc.) hired into the trading departments of investment banks and hedge funds. These people are known as 'quants' because they spend their time doing scientific mathematical research and calculations to work out strategies for high-frequency trading (creating algorithms mainly) so that computers can trade and make very fast profits.
R	
Rally	A rally is a term used in the movements of assets such as indices, bonds and equities. It refers to the continuous increase in price, usually by a large amount. Typically, a rally will occur after prices have either been falling or not moving for a period of time.
Rating agency	A ratings agency is a firm that attempts to provide a rating for the credit-worthiness of a corporation, government or bond. The more likely the borrower is to repay, the higher credit rating they receive. The 3 largest credit ratings agencies in the world are Moody's, Standard & Poors and Fitch.
Resistance Line	A resistance line is used in technical analysis to determine a price level through which an asset is unlikely to pass (go above). Resistance lines can be drawn at any price point, which the asset has touched several times, but not passed for a given length of time.

Retracement	A retracement is when the price of an asset or index moves against the general trend and reverses direction, i.e. during a rally it falls. Usually, a retracement is only temporary and the general trend will continue after a period of time.
Retreat	A retreat is a term used in the movement of assets such as indices, bonds and equities. It refers to the continuous fall in price, usually by a large amount. Typically, a retreat will occur after prices have either been rising or not moving for a period of time.
Revenue	Revenue is one of the most basic and fundamental financial figures for a company. It is the total amount of income from the sale of its products and/or services. Revenue is also known as gross income.
Roll down	A roll down is an adjustment strategy in options trading. This strategy allows an option trader to improve the opportunities for profit by lowering the strike price to a more favorable position. This is accomplished by closing the initial contract and opening a new contract for the same underlying asset at a lower strike price. A roll down on a put option is a bearish strategy.
Roll out	Roll out means that an expiring option position is being replaced with an identical trade in a later option series. For example, you might sell to close an April 75 call, and simultaneously buy to open a May 75 call.
Roll up	Roll up refers to increasing the strike price of an option position by closing the initial contract and opening a new contract for the same underlying asset at a higher strike price. A roll up on a call option is a bullish strategy.
S	
S&P 500	The S&P 500 or Standard & Poor's 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. The index is widely regarded as the best gauge of large-cap U.S. equities.
SEC	The SEC (also known as Securities and Exchange Commission) is a body set up by the US Congress with the purpose of regulating the security and takeover market. The SEC is needed for the protection of investors and to prevent any possible fraud. All public companies have to submit financial statements to the SEC and any corporate action in which a company acquires 5% or more equity in another firm must be reported to the SEC.
Shares Outstanding	Shares Outstanding is a term found on the Income Statement of a company and it refers to the number of shares currently held by investors. Shares Outstanding can either be: <ul style="list-style-type: none"> • Diluted: including potential share creation through options and convertible bonds. • Basic: the actual number of shares held by investors.
Short	Short is a term used in trading to denote selling an asset and profiting when it's value goes down.
Small-cap	A small-cap (small capitalization) firm is one with a market capitalization of under \$2 billion.

SPY	The SPDR S&P 500 trust (SPY) is an ETF that aims to track S&P 500 Index. The SPY ETF is a well-diversified basket of assets, which allocates its fund into multiple sectors. It is the largest ETF in the world.
SQQQ	The ProShares UltraPro Short QQQ (SQQQ) is a 3x leveraged inverse ETF that tracks the Nasdaq 100, meaning it looks to return the exact results of the Nasdaq 100 index times three. This ETF follows the Nasdaq 100, which is heavily weighted toward technology and telecommunications stocks.
Stop	A stop is a type of order relating to the trading of an asset. It is placed with a broker and indicates a price level at which the owner of the asset wishes to exit their position. This will limit their losses to a certain amount, but also means if the market dips slightly below their stop level and then rebounds they will still exit the position. Stop orders are most frequently used in conjunction with limit orders on assets with extreme fluctuation and volatility.
Straddle	A straddle is a trading strategy utilizing both call and put options with the same exercise price and expiry date. This strategy is used when an investor believes the underlying asset will be volatile, but cannot predict which direction it will move. The idea is that as long as the asset prices moves enough in either direction, the profit on the corresponding option will outweigh the losses on the other. However, if the asset price does not move enough then the investor will lose money on both options
Strike Price	Strike price is part of an option contract, which specifies the level at which the option holder may buy (call) or sell (put) the underlying asset.
Subprime	Subprime refers to a group of debtors with a poor credit history / rating, meaning they are less likely to repay their debts than other borrowers.
Support Line	A support line is used in technical analysis to determine a price level through which an asset is unlikely to pass (go below). Support lines can be drawn at any price point, which the asset has touched several times, but has not passed for a given length of time.
<i>T</i>	
Takeover	A takeover is an action by a corporation to assume control of a target firm. This is done by buying either all or most of the target's ownership stakes. Takeovers can either be friendly and favorable, or unwelcome and hostile in which case the owners of the target company tend to do anything they can to prevent the takeover.
Technical analysis	Technical analysis is the technique of analyzing an asset based on the statistics of its trading pattern and history. This includes things such as: <ul style="list-style-type: none"> • Candlestick Charts • Support & Resistance Lines • MACD
Theta	Theta is a term used in trading to measure the rate of decline in the value of an option caused by time passing.

Tick size	Tick size is a term used in trading to denote the minimum amount that the price of an asset can move. This will vary between assets, and some assets (particularly futures) have specific tick sizes (i.e. WTI oil futures tick size is \$10). Most stocks have a tick size of 1 cent, meaning the minimum amount they can move is 1 cent.
Ticker	A ticker is set of characters representing an asset listed on a stock exchange. All publicly traded companies have their own ticker symbol (i.e. AAPL = Apple, GS = Goldman Sachs, BABA = Alibaba).
TQQQ	ProShares UltraPro QQQ (TQQQ) is an ETF that provides 3x leveraged exposure to a modified market-cap-weighted index tracking 100 of the largest nonfinancial firms listed on NASDAQ.
Trader	A trader is someone who makes their living trading assets on the financial markets. Traders can work either for themselves or as part of a bank or trading firm. Typically, traders hold assets for a short length of time (rarely more than a few days).
Trend	A trend is when the price of an asset moves in the same general direction for a period of time, be it short, medium or long term. Trading with the trend is one of the simplest yet most effective trading strategies.
<i>u</i>	
Upper shadow	An upper shadow is the part of the candlestick that is above body.
<i>v</i>	
Vega	Vega is a term used in trading which measures the sensitivity of an option to changes in the volatility of the underlying asset, i.e. if an asset moves in price by 5% what will be the corresponding change in price of an option based on that asset?
Volatility	Volatility refers to the size of changes in the price of an asset. In a more technical sense, it is a measure of the deviation of returns for a given asset. If an asset is very volatile then its price is likely to change a lot. The measure of volatility provides no indication as to the direction of change, merely the amount.
Volume	Volume refers to the quantity of assets traded over any given period. Volume is very important when looking at price movements or volatility. This is because if volume traded is very low, then the market is likely to be far more volatile as the few buyers / sellers have more of an individual impact on the price than if there were hundreds of thousands or even millions of trades going on.
<i>y</i>	
Yield	Yield simply means the return on an investment, usually the interest paid on a fixed income asset. It is expressed as a percentage and the calculation is simply return divided by cost.