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TRADERS' GLOSSARY

At-the-Money (ATM) — An option whose strike price is nearest the current price of the underlying deliverable.

Average Directional Movement Index (ADX) — Indicator developed by J. Welles Wilder to measure market trend intensity.

Back-Testing — A strategy is tested or optimized on historical data and then the strategy is applied to new data to see if the results are consistent.

Breakout — The point when the market price moves out of the trend channel.

Butterworth Filter — A multipole filter response.

Call Option — A contract that gives the buyer of the option the right but not the obligation to take delivery of the underlying security at a specific price within a certain time.

Doji — A session in which the open and close are the same (or almost the same). Different varieties of doji lines (such as a gravestone or long-legged doji) depend on where the opening and close are in relation to the entire range. Doji lines are among the most important individual candlestick lines. They are also components of important candlestick patterns.

Exchange-Traded Funds (ETFs) — Collections of stocks that are bought and sold as a package on an exchange, principally the American Stock Exchange but also the New York Stock Exchange and the Chicago Board Options Exchange.

Head and Shoulders — When the middle price peak of a given tradable is higher than those around it.

In-the-Money (ITM) — A call option whose strike price is lower than the stock or future's price, or a put option whose strike price is higher than the underlying stock or future's price.

Moving Average Convergence/ Divergence (MACD) — The crossing of two exponentially smoothed moving averages that are plotted above and below a zero line. The crossover, movement through the zero line, and divergences generate buy and sell signals.

Near-the-Money — An option with a strike price close to the current price of the underlying tradable.

Out-of-the-Money (OTM) — A call option whose exercise (strike) price is above the current market price of the underlying security or futures contract.

Stochastics Oscillator — An overbought/ oversold indicator that compares today's price to a preset window of high and low prices. These data are then transformed into a range between zero and 100 and then smoothed.

Telegrapher's Equation — A variation of the diffusion equation that describes minor differences in the drunkard's walk, in which the random decision controls the change in direction rather than the direction itself.

Transform — A process to change or convert. For example, a simple moving average is a filter to reduce noise; the moving average is the transform function.

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