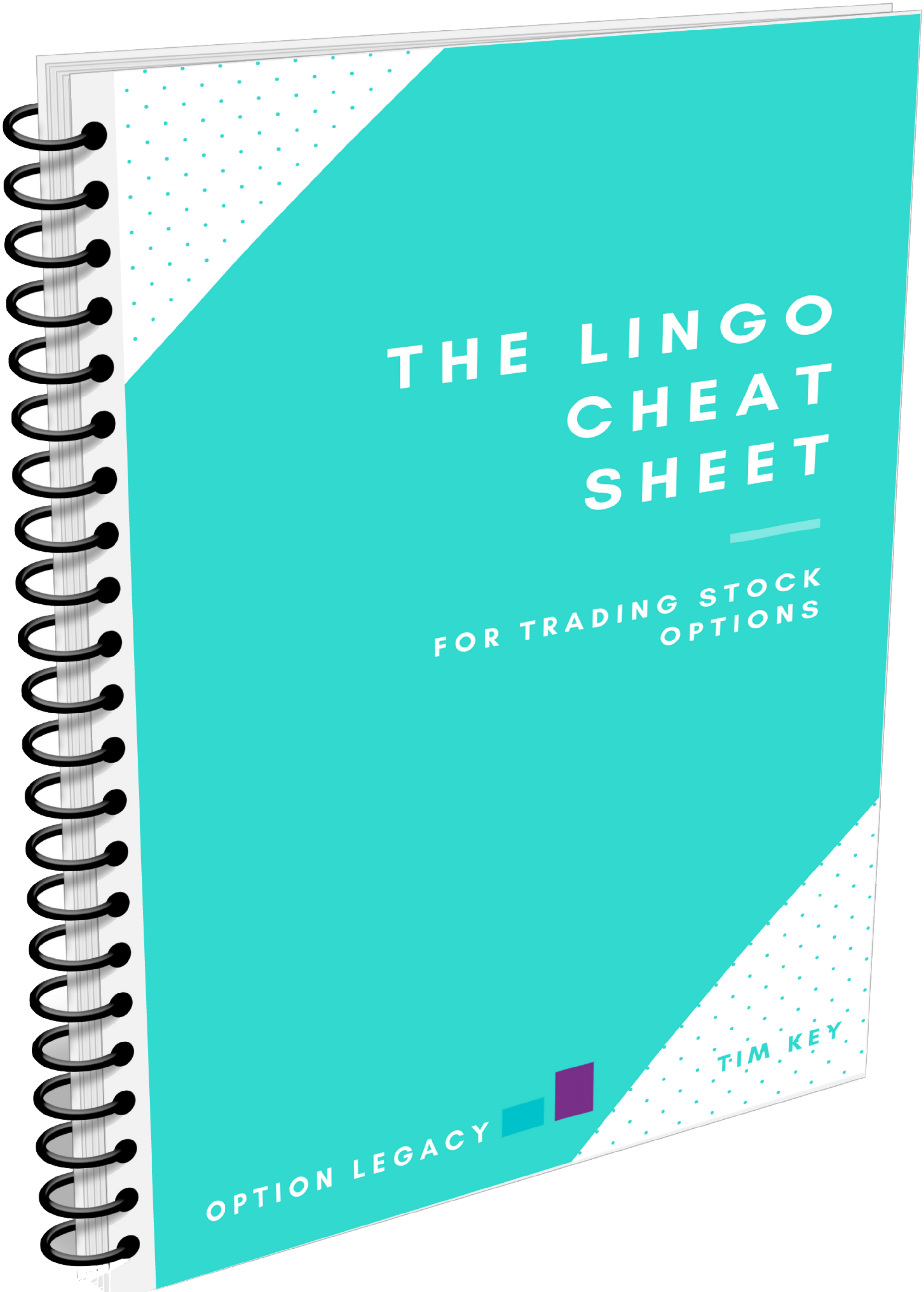
THE LINGO
CHEAT
SHEET
FOR TRADING STOCK
OPTIONS
TIM KEY
OPTION LEGACY

STOCK MARKET DEFINITIONS

BULLISH – When the market, or a stock in general is going up, it is called BULLISH.

BEARISH – When the market, or a stock in general is going down, it is called BEARISH.

OPEN A TRADE – When you enter into a position in a specific stock or option.

BTO (Buy to Open) or **STO** (Sell to Open)

CLOSE A TRADE – When you exit out of a position in a specific stock or option.

STC (Sell to Close) or **BTC** (Buy to Close)

FILLED – When the order to buy or sell you've placed actually goes through.

EXECUTED – The completion of a buy or sell order.

LONG – When you actually buy a stock or option, the position you are in is called LONG.

SHORT – When you borrow shares of stock from a broker-dealer and sell them in the market, the position you are in is called SHORT.

ORDER TYPES

MARKET ORDER – A market order tells the broker to buy or sell a stock or option at the current quoted price. Using a market order is not recommended, because control is taken away from the trader and puts control totally in the hands of the broker, market maker, and floor trader. A market order is the default option and is likely to be executed immediately because it does not contain any restrictions on the buy/sell price or the timeframe in which the order can be executed. This order is sometimes used in a quickly moving market if an exit is necessary, but even then it has some risks involved.

LIMIT ORDER – A limit order tells the broker to buy or sell a set number of stocks or options at a specified price, or better. This allows the trader greater control of buy and sell orders. Limit orders also allow you to limit the length of time an order can be outstanding before being cancelled. For example: when you give your broker an order to buy 500 shares of PFA at $120 limit order, you have told him to pay $120 or less per share for PFA but not to exceed $120.

USE A DAY LIMIT ORDER TO ENTER THE TRADE

DAY ORDER – An order to buy or sell a stock or option that will automatically expire if not executed on the day it was placed. The order will be canceled and will not be filled if the price was not met during that day's trading session.

GOOD 'TIL CANCELLED (GTC) – An order for the broker to buy or sell a stock or option at a set price at any time, that stays active until the trader either cancels the order or the order is executed. Each brokerage firm has it's own policies, but generally the GTC order stays on with the broker for 60 – 90 days, and then if not filled, it will automatically cancel. It is ultimately the trader's responsibility to monitor any outstanding orders.

STOP LOSS – A protective order that automatically closes out a trade when the trade has gone against you a pre-determined amount. Stops are highly recommended since they save you time and help to protect against large potential losses on your trades. Stop Loss orders do not protect your trades from "gaps." If a stock or option jumps past your stop price and opens lower, your trade will be filled at the lower price.

STOP LIMIT – Also a protective order that helps to protect you from extended losses. A"Stop Limit" differs from a "Stop Loss," in that a Stop Limit order will only sell at the limit price and not at a lower price.

DON'T USE A STOP LIMIT ORDER

GLOSSARY OF TRADING TERMS

AT THE MONEY – At the money is a situation where an option's strike price is identical to the price of the underlying security. Both call and put options are simultaneously at the money. For example, if XYZ stock is trading at 75, then the XYZ 75 call option is at the money and so is the XYZ 75 put option.

ASK PRICE – The price a seller is willing to accept for a stock or option.

AT THE MONEY – When the option's strike price is identical to the price of the underlying

security.

BETA – A means of measuring the volatility of a stock in comparison to the market as a whole. A beta of 1 means the price will move with the market. A beta >1 means the price will be more volatile than the market. A beta <1 means that it will be less volatile than the market.

BID – ASK SPREAD – The amount that the ask price exceeds the bid price.

BID PRICE – The price a buyer is willing to pay for a stock or option.

CREDIT SPREAD – an options strategy where a high premium option is SOLD and a low premium option is BOUGHT on the same underlying security to create a CREDIT to your account. This strategy done on just the Call or just the Put side indicates the investor expects a directional move of the underlying stock. When this strategy is played on both the Call and Put side at the same time it creates a directionally neutral position in an investors portfolio.

DAY ORDER – An order to buy or sell a security that automatically expires if not executed on the day the order was placed. A day order is good for that day only.

DEBIT SPREAD – an options strategy where a high premium option is BOUGHT and a low premium option is SOLD on the same underlying security to create a DEBIT to your account. This strategy is generally done when the investor wants to go long and instead of paying full price for a long position the investor sells a further out of the money option to help pay for the initial debit of the long position.

DELTA – The ratio of change in the price of a the underlying asset to the price of a derivative.

EXTRINSIC VALUE – Extrinsic value measures the difference between market price of an option and its intrinsic value. Extrinsic value is also the portion of the worth that has been assigned to an item by external factors. The opposite of an extrinsic value is an intrinsic value, which is the inherent worth of an item.

GOOD TIL CANCELLED (GTC) – An order to buy or sell a security at a set price that remains open until you cancel it or the order is filled.

IMPLIED VOLATILITY (IV) – Implied Volatility is the estimated value of the underlying security. Implied volatility is driven by supply and demand and is one of the deciding factors in the pricing of options. Implied volatility approximates the future value of an option, and the option's current value takes this into consideration. It is important to remember that implied volatility is all probability. It is only an estimate of future prices, rather than an indication of them.

IN THE MONEY – For a call option – an option's strike price is below the market price of the underlying stock. For a put option – the option's strike price is above the market price.

INTRINSIC VALUE – The intrinsic value for call options is the difference between the underlying stock's price and the strike price. Conversely, the intrinsic value for put options is the difference between the strike price and the underlying stock's price. In the case of both puts and calls, if the respective difference value is negative, the intrinsic value is given as zero. Intrinsic value and extrinsic value combine to make up the total value of an option's price. The extrinsic value, or time value, takes into account the external factors that affect an option's price, such as implied volatility and time value.

LONG-TERM EQUITY ANTICIPATION SECURITIES (LEAPS) – A type of option contract that expires longer out than 9 months, and sometimes up to 2 years. Standard options generally expire within nine months.

LIMIT ORDER – A limit order gives your broker a specified price (or better) at which you are willing to buy or sell your stock or option.

MARKET ORDER – A type of order that tells your broker to buy or sell your stock or option at whatever the current quoted price is when your trade reaches the trading floor.

OPEN INTEREST – Open interest is the total number of open or outstanding (not closed or delivered) options that exist on a given day, delivered on a particular day. You can think if this as an indicator of how many other traders are interested in the position.

OPTION – A contract sold by one party to another that gives the buyer the right, but not the obligation, to buy or sell a security at an agreed price during a certain time frame or specific date.**OPTION CHAIN** – A form of quoting options prices through a list of all of the options for a given security. An option chain is simply a listing of all the put and call option's strike prices along with their premiums for a given expiration date.

OPTIONS CONTRACT – Options are sold in a certain measure, called a contract. 1 contract consists of 100 shares. The price of an option is quoted per share, not per contract.

OPTIONS EXPIRATION DAY – Options expire on the third Friday of their expiration month or date specified in option's name for weekly options.

OPTION GREEKS – How incremental changes in factors affecting an option price are measured. These help to understand the risk and reward potential of option positions.

OUT OF THE MONEY – For a call option – an option's strike price is above the market price of the underlying stock. For a put option – the option's strike price is below the market price.

PREMIUM – The income received by an option seller from the option purchaser.

PUT-CALL RATIO – A ratio of the trading volume of put options to call options. An indicator of investor sentiment in the market. A high volume of puts compared to calls indicates a bearish sentiment.

PUT OPTION – An option contract giving the owner the right, but not the obligation, to sell a specified amount of an underlying security at a specified price within a specified time.

STOP LIMIT ORDER – A type of order that tells your broker to buy or sell at a specified price (or better) after a given stop price has been reached.

STOP LOSS ORDER – A protective order that closes out a trade when it has gone against you a pre-determined amount. You enter an order that will "stop" you out of the trade automatically, if the stock or option trades at or below a specified price.

STRIKE PRICE – A strike price is the price at which a specific derivative contract can be exercised. For call options, the strike price is where the security can be bought (up to the expiration date); for put options, the strike price is the price at which shares can be sold.

VOLUME – Volume is the number of shares or contracts traded in a security or an entire market during a given period of time. For every buyer, there is a seller, and each transaction contributes to the count of total volume. That is, when buyers and sellers agree to make a transaction at a certain price, it is considered one transaction. If only five transactions occur in a day, the volume for the day is five.

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