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Glossary

AT-THE-MONEY: An option whose strike price is equal to the current market price of the underlying stock.

ASSIGN: To designate an option writer (seller) for fulfillment of his obligation to sell stock (call option writer) or buy stock (put option writer). The writer receives an assignment notice from the Options Clearing Corporation (OCC).

CALL: An option which gives the owner the right, but not the obligation, to buy the underlying security at a specified price for a certain fixed period of time.

CLOSING TRANSACTION: A trade which reduces or decreases the net position of an investor.

CONTRA-HOUSE/CONTRA-SIDE: The “other person” in a transaction (i.e., the seller to your purchase or the purchaser of your sale).

DELTA: The first derivative of the stock. Delta has a three pronged definition. The first is percentage change. The delta number is given as a percentage, meaning how much in percentage terms the option price will change with a movement in the stock. A 50 delta option will move 50% the amount the stock moves. If the stock moves $1.00, than the option moves $.50. A 30 delta option moves $.30 on a $1.00 movement in the stock, and so on.
Delta can also be defined as percentage chance. This is used to describe the percentage chance that the option will end up in-the-money. A 90 delta option has a 90% chance of finishing in-the-money. Finally, delta can also be defined as hedge ratio. The hedge ratio is the amount of equivalent stock needed to properly hedge a position.

DERIVATIVE: A product which derives (gets) its price based on the price of something else. In the case of options, an options price is derived from the underlying instrument on which the option is based (i.e. stock or other security).

EXERCISE: The action taken by an option holder that requires the writer to perform the terms of the contract. Call holders exercise to buy the underlying security, while put holders exercise to sell the underlying security.

EXPIRATION DATE: The day on which an option contract expires. The expiration date for stock options is the Saturday following the third Friday of the expiration month.

EXTRINSIC VALUE: The price of an option less its intrinsic value. In the case of out-of-the-money options, the option's entire price consists only of extrinsic value. Extrinsic value is made up of several components, with the largest being volatility. Also known as Time Value.

HOLDER: The buyer of an option. Also known as the owner.

IN-THE-MONEY: An option is considered to be in-the-money when, in the case of a call, the call's strike price is lower than the price of the stock. In the case of a put, a put is considered to be in-the-money when the put's strike price is higher than the price of the stock.

INTRINSIC VALUE: The value of the option in relation to the price of the underlying security. For call options it is the difference between the stock price and striking price, if that difference is a positive number, or zero otherwise. For put options it is the difference between the striking price and the stock price, if that difference is positive, or zero otherwise. Only in-the-money options have intrinsic value.

LONG: Generally refers to ownership. The number of contracts or shares in a particular series, class or underlying stock an account possesses. Any position (stock, option, or combination of) whereby the holder of the position profits from an increase in the price of the stock.

NAKED: The term naked signifies any position that is not hedged. For example, "naked stock position" would indicate that the investor has a stock position with no form of hedge (calls, puts) against it.

OPTION: A derivative product that gives the owner the right, but not the obligation to by a specified security, at a specified price, by a specified date. The seller, on the other hand, is obligated to buy or sell a specified security, at a specified price, by a specified date.

OPTION SERIES: All option contracts on the same underlying stock having the same price, expiration date and unit of trading.

OPTION CLASS: A term used to refer to all put and call contracts on the same underlying security.

OPENING TRANSACTION: A trade which creates or increases the net position of an investor.

OPTION BUYER: The individual who obtains the right but not the obligation to exercise an option.

OPTION SELLER: (Writer) The individual who is obligated, if and when he is assigned an exercise, to perform according to the terms of the option.

OUT-OF-THE-MONEY: A call option whose strike price is above the market price of the stock, or a put option whose strike price is below the market price of the stock.

PARITY: A condition which exists when the premium for an option consists strictly of intrinsic value. The amount by which an option is in the money.
PUT: An option granting the owner the right, but not the obligation, to sell the underlying security at a certain price for a specified period of time.

SHORT: Generally refers to the selling of an option contract that is not previously owned. This term is used to designate the position the option seller has after he has written an option. Any position (stock, option, or combination of) whereby the holder of the position profits from a decrease in the stock price.

STRIKE PRICE: The price at which the owner of the option may buy or sell the underlying security. Similarly, it is the price at which the seller of the option must buy or sell the underlying security and is also known as the Exercise Price.

TIME VALUE: The part of an option premium that is in excess of the intrinsic value.

PREMIUM: The total amount paid for an option.

TIME DECAY: The rate by which an options extrinsic value decreases over time.

UNDERLYING: The stock, commodity, currency, cash index or other security to be delivered in the event that an option is exercised.

WRITER: The seller of an option.

For more Information about option trading, please click here:
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