

## Glossary of Terms

Assignment — When an option owner exercises the option, an option seller (or “writer”) is assigned and must make good on his or her obligation.

Assets-What you own.

At-The-Money (ATM) — An option is “at-the-money” when the stock price is equal to the strike price. (Since the two values are rarely exactly equal, when purchasing options the strike price closest to the stock price is typically called the “ATM strike.”)

Bank Overdraft- An overdraft occurs when there isn't enough money in an account to cover a transaction or withdrawal, but the bank allows the transaction anyway.

Broker - A brokerage firm or brokerage company is a middleman who connects buyers and sellers to complete a transaction for stock shares and options.

Call Option - Call options are financial contracts that give the option buyer the right but not the obligation to buy.

Certificate of Deposit - A certificate of deposit (CD) is a savings product that earns interest on a lump sum for a fixed period of time.

Compound Interest - Interest on both the money you've saved and the interest you earn.

Corporations- A legal entity that's separate from its owners

Credit card- Gives you access to a line of credit issued by a bank.

Credit – (Noun) A contractual agreement in which a borrower receives something of value immediately and agrees to pay for it later, usually with interest.

- (Verb) To add an amount of money to an account

Credit Report - A detailed account of your credit history.

Debt - An amount of money borrowed by one party from another, often for making large purchases that they could not afford under normal circumstances.

Debit – To remove an amount of money from an account.

Depreciation - What happens when assets lose value over time until the value of the asset becomes zero, or negligible.

Derivative- An instrument whose value is derived from the value of one or more underlying,

DOW Jones - Groups together the prices of 30 of the most traded stocks on the New York Stock Exchange (NYSE)

ETF (Exchange Traded Fund) - Funds that trade on exchanges, generally tracking a specific index such as the Dow Jones Industrial Averages.

Equity Securities- Represent ownership claims on a company's net assets

Exercise — This occurs when the owner of an option invokes the right embedded in the option contract.

Expiration Date - the date in which options or futures contracts expire.

Financial Independence - the status of having enough income or wealth sufficient to pay one's living expenses for the rest of one's life without having to be employed or dependent on others.

Financial Risk - The possibility of losing money on an investment

Great Depression - The Great Depression was the worst economic downturn in the history of the industrialized world, lasting from 1929 to 1939.

Great recession - The economic downturn from 2007 to 2009

In-The-Money (ITM) — For call options, the stock price is above the strike price. If a call has a strike price of \$50 and the stock is trading at \$55, that option is in-the-money. For put options, the stock price is below the strike price. If a put has a strike price of \$50 and the stock is trading at \$45, that option is in-the-money.

Intrinsic Value — The amount an option is in-the-money. Only in-the-money options have intrinsic value.

Investor - a person or organization that puts money into financial plans, property, etc. with the expectation of achieving a profit.

Liabilities-What you owe.

Long - Implies a position of ownership

Money Market Account

Mortgage - A type of loan used to purchase or maintain a home, land, or other types of real estate.

Mutual Fund - An investment program funded by shareholders that trades in diversified holdings and is professionally managed.

Net Worth Your net worth is simply the difference between your assets and liabilities.

Normal Distribution - Probability distribution that is symmetric about the mean, showing that data near the mean are more frequent in occurrence than data far from the mean.

One Standard Deviation - Defines a region that includes 68 percent of all the data points in a normal distribution.

Options- The term option refers to a financial instrument that is based on the value of underlying securities such as stocks.

Option Chain - A listing of all available options contracts for a given security.

Out-of-The-Money (OTM) — For call options, the stock price is below the strike price. For put options, the stock price is above the strike price. The price of out-of-the-money options consists entirely of “time value” and volatility.

Probability - The chance that a given event will occur.

Put Option – A put option is a contract giving the option buyer the right, but not the obligation, to sell.

Retail Investor – A nonprofessional investor who buys and sells securities, mutual funds or ETFs through a brokerage firm or savings account.

Savings account - A basic type of financial product that allows you to deposit your money and typically earn a modest amount of interest.

Short - Selling an option or a stock without actually owning it, is considered to be “short” that security.

Simple Interest - Simple interest is a quick and easy method of calculating the interest charge on a loan. Simple interest is determined by multiplying the daily interest rate by the principal by the number of days that elapse between payments.

Stock - A form of security that indicates the holder has proportionate ownership in the issuing corporation and is sold predominantly on stock exchanges.

Stock Exchange- A centralized location that brings corporations and governments so that investors can buy and sell equities.

Strike Price — The pre-agreed price per share at which stock may be bought or sold under the terms of an option contract.

Time Value — The part of an option price that is based on its time to expiration. If you subtract the amount of intrinsic value from an option price, you’re left with the time value. If an option has no intrinsic value (i.e., it’s out-of-the-money) its entire worth is based on time value and volatility.

Trader - A trader is an individual who engages in the buying and selling of financial assets in any financial market, either for themselves or on behalf of another person or institution.

Underlying asset- The shares of a company's stock

Wealth – An abundant supply.