The Traders' Glossary© of technical terms and topics

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Use the "Find" command in your browser window to go directly to any key word.

A Wave
Elliott Wave Theory

Abandoned Baby Pattern
A candlestick pattern in which an gapped doji star (where the shadows do not touch) is followed by a downside gap black candlestick where the shadows also do not touch; completed a bear top reversal signal.

ABC
Elliott wave terminology for a three wave corrective pattern.

Accumulation/Distribution Line
See Chaikin Oscillator.

Accumulation Phase
Refer to actual physical commodities, as distinguished from futures.

ACD
Block unsecured programming language developed under the guidance of the U.S. Department of Defense for use in programming for defense contractor applications, for building expert program applications.

Adaptive Filter
Smoothing and/or forecasting prices with continuously updated weighting of past prices.

Advance-Decline Line
A line made up of the net advancing issues is subtracted from the number of advancing issues. The resulting net advances are then added to the cumulative total preceding the current day. A moving average of the difference is regarded.

Advance/Decline Ratio
The ratio of the number of declining issues is subtracted from the number of advancing issues. The resulting net advances are then added to the cumulative total preceding the current day. A moving average of the difference is regarded.

Advisory Sentiment
Refer to the percentage of investment opinions that are positive in any one week.

Aftermarket
An acronym for "unsecured bookkeeping organization." Refers to the use of programs to create knowledge owned by other program creators without permission.

Algebra
Processing data on unsecured public-access servers gives point of reference, a measure of stock performance independent of the market.

American Depositary Receipt (ADR)
Certificates that are issued by a bank or trust company and traded in the U.S. as domestic shares. Represent a specified number of shares in a foreign stock. Dividends are paid in U.S. dollars.

Annualization
Calculating an annual rate of return.

Ensuring (Detection)
Generally a meaningful pressure, is artificial intelligence a process in which a trained or programmed computer system is used to make decisions. Artificial intelligence is the ability of a computer program to learn and think, or to make decisions based on information.

Annual Earnings Change
The percentage increase or decrease in earnings from one recently reported fiscal year-end to the preceding.

Annual Net Profit Margin
The percentage that the company earned from gross sales for the most recently reported fiscal year.

Annual Sales Change
The percentage change in sales between the most recently reported fiscal year and the preceding.

Annualized
Translating the figures for a given time an annual rate.

Antitrust Provisions
Two between whom secrets are completely.

Arbitrage
The simultaneous purchase and sale of two different, but closely related, securities to take advantage of a price difference.

ARMS
See Arms/Short-Term Trading Index.

ARMS (Arms/Short-Term Trading Index) (Equivalent variables model)
The combination of fundamental variables outside the particular market that correlates with the market's performance. Also known as the Arms/Short-Term Trading Index.

Arms Index
Also known as Trading Index (TRIN). The ratio of advancing issues to declining issues divided by the ratio of advancing volume to declining volume.

$$\frac{\text{No. of advancing issues}}{\text{No. of declining issues}} \div \frac{\text{Volume of advancing issues}}{\text{Volume of declining issues}}$$

An advance/decline stock market indicator. A reading of less than 1.0 indicates bullish volume flowing into advancing issues. A reading of 1.0 indicates a neutral market. A reading greater than 1.0 indicates bearish volume flowing into declining issues.

Artificial Intelligence
The field of computer science dedicated to producing programs that attempt to mimic the thinking of human beings.

Asset
To transfer to another or others property or rights.

Astrophysical Cycle
Any mobile cycle, such as a market cycle, that has been scientifically related to the physical movements of the universe.

At-the-Money
An option whose strike price is nearest the current price of the underlying derivative.

Attenuation
The horizontal part of reduced energy in free power due to smoothing or filtering.

Autocorrelation
The correlation between the values of a time series and previous values of the same time series.

Automatic Stabilizers
Fiscal policy that automatically reacts to changes in economic conditions.

Back Propagation Network
A feedforward multilayered neural network that is a commonly used network paradigm.

Back Testing
A strategy is tested on optimized or historical data and then the strategy is applied to new data to see if it works in real time.

Balanced Mutual Fund
A mutual fund that seeks a minor that is a combination of capital appreciation and current income, generally by holding a portfolio of bonds, preferred stock and common stocks.

Bandwagon
Refer to the phenomenon in which the bandwagon effect is an intermediate-term price trend that will last longer than expected. Implemented by first applying a true pass filter to the data and then applying a moving average to the data. Also known as the Bandwagon Effect.

Bank Investment Contracts (BICs)
Bank investments deposited mostly in a commercial bank. See Guaranteed Investment Contracts (GICs).

Bar Chart
Used to plot price movements using vertical bars indicating open/close.

Base Period
The reference period against which prices and the Index moment prices.

Basis Points
The measure of yields on bonds and notes, one basis point equals 0.01% yield.

Basket Trades
Large transactions made up of a number of different stocks.

Bayes Decision Rule
A rule that states the strategy chosen from those available is that the strategy that yields the greatest expected payoff.

Bear Market
A securities market characterized from bearish sentiment.

Bias
The difference between the expected value of an estimator and the actual value to be estimated.

Bid and Ask
Highest price and lowest price that an investor will pay for a security.

Binomial Distribution
An event distribution are displayed as having two distinct peaks.

Black Box
A proprietary, computerized trading system where rules are disclosed or readily accessible.

Black-Scholes Option Pricing Model
A formula used to determine the market value of option contracts.

Block Trades
Large transactions of a particular stock sold at a cost.

Blow-Off Top
A steep and rapid increase in price followed by a steep and rapid drop in price.

Bond
A long-term debt security with a stated interest rate and fixed dates, issued by a corporation or a government agency to finance a particular project or to meet operating expenses.

Bonds
Securities a variable that may have one of only two possible values, true or false. After George Boole, mathematician and logician, the inventor of Boolean logic.

Box-Jenkins Linear Least Squares
The multiplicative process of Box-Jenkins models with a Gaussian Distribution (statistics with numerical derivatives).

Brain
Refer to a "brain" in Japanese in a sophisticated terminology refers to a situation having which is making cycle opens or closes on a high or low, indicating a victory for the bulls or the bears.

Breakaway
A trading range market or a price region that is non-trending.

Breakaway Gap

A price gap that, typically occurs, begins, in which the high and low are plotted as a single line and are unshaded or shadows. Price gap that occurs when the open and the close or closed of a security's price is higher than the previous day's high or lower than the previous day's low. Gap exists if the close is below the open, the body is black.

Capital Gains Distribution
A distribution to investment companies shareholders from net long-term capital gains realized from the sale of securities held in the investment company's portfolio.

Capital Losses
Losses resulting from selling at a loss.

CBOE
Chicago Board of Trade.

Central Limit Theorem
Theorem that states that the distribution of sample means taken from a large population approaches a normal. Gaussian, curve.

Chaikin Oscillator
An oscillator created by subtracting a 10-day EMA from a three-day EMA of the accumulation/distribution line.

Channel
In charting, a price channel contains prices throughout a trend. There are three basic ways to construct a channel: a parallel trendline, a moving average, and a trading range. Channels are used to identify trends and to define a trading range.

Chaos Theory
Refer to the behavior of nonlinear systems. A subset of nonlinear dynamical analysis. Chaos theory is a mathematical theory that describes how complex systems behave but has an underlying order. In the stock market, chaos theory seeks to forecast the future path of stock prices based on the current price and the past prices of the stock and other variables.

Chart
A display or picture of a security that plots price and/or volume the number of shares sold. The chart may be a bar chart, a point and figure chart, a candlestick chart, or a line chart.

Chi Square
Refer to a statistical determinant of the patterns created by data could have been produced by chance. The Chi-square test is used to determine if a given data set is truly random. Also known as, or closely related to, the Kolmogorov-Smirnov test.

$$\chi^2 = \sum_{i=1}^{k} \frac{(o_i - e_i)^2}{e_i} \quad \left(\text{d.f.} = \frac{(r-1)(c-1)}{2}\right)$$

Chinese Test Spread
The simultaneous purchase and selling of options with either a different strike price or near different expiration dates.

Chinese Spreads
Refer to the Chinese Spreads, these systems perform a type of machine learning that generates rules from data.

Chow Pool
A smaller version of a mutual mutual fund, it is defined as a subscriber to a variable annuity. The daily value of the pool is determined by the value of the underlying mutual fund, and the pool participates in or reflects the performance of the underlying mutual fund.

Chred Fund Funds
A mutual fund that does not sell unlimited shares, but only a specific number of outstanding shares.

Chred Trades
Trades. Positions that have been liquidated or offset.

Class
Listing the presence of groups of vectors that are similar in some fashion.

CME
The Chicago Mercantile Exchange.

Coefficient
A constant used to multiply another quantity or series, as in 3 and in, 3 and a are coefficients of x.

Coefficient of Determination
R squared. The proportion of the variation to the data explained by the model.

Collection
In Gann theory, a projected annual period.

Collusion
see Microfoundations.

Combined Formula
Refer to the combined formula.

Commodity Futures Trading Commission (CFTC)
A commission that oversees the commodity exchanges in the US.

Commodity Research Bureau Index
Composite index of commodity prices. Formerly known as the Dow-Jones Futures Index. The index is a weighted average of 15 commodities with weights based on the importance of the commodity in commerce.

Computer
A device of some kind that computes two inputs.

Compounding
The operation, through interest, based on the rate of the original principal amount and its accrued interest.

Confidence Interval
A measure of the degree of likelihood that a sale is a winner, which may reflect the average profit per trade, the number of trades, the standard deviation of the profit per trade, or combinations of these variables.

Confidence Level
The degree of uncertainty that a specified failure rate is not exceeded.

Confirmation
Indicates that at least two indices, in the case of Dow theory the industrials and the transportation, corroborate a market trend or a turning point.

Congestion Area or Pattern

A trading range in which there is no visible progress in price.

Contrarian
Refer to a contrarian approach. A person who plays participates in a market or secondary the market and sets the stage for the next price move.

Consumer Price Index
The gauge of US inflation.

Continuation Chart
Refer to a continuation chart. Charts that are the end of a given contract and that the first beginning of the next contract are merged in order to ease the examination of our contract to the next.

Contract
An agreement to be settled in which rights are created by law. Continuous Coefficient When two variables are related by a constant, the coefficient of the variable is the constant. For example, if x and y are related by the equation y=3x, then the coefficient of x is 3.

Correlation Coefficient
Degree to which two series of numbers plot a straight line. A correlation coefficient of 1.0 is a perfect positive correlation, a correlation coefficient of -1.0 is a perfect negative correlation, and a correlation coefficient of 0 and 1 is a random series of the degree of correlation. Also known as a correlation coefficient for the relative returns indicator that the profit-to-loss ratio is a measure of the degree of correlation between the profit and loss of a trading system. Also known as a correlation coefficient for the relative returns indicator that the profit-to-loss ratio is a measure of the degree of correlation between the profit and loss of a trading system.

Correlogram
Graphical and statistical display of the ratio of autocorrelation of a stationary time series.

Cost Basis
The cost of a given share or group of stock shares.

Countertrend
Refer to a trend showing movement opposite to the direction of the prior-term primary.

Covariance
Measures the deviation of each variable from its mean, with those positives and then divisible by the number of observations.

Cover
Purchasing back a contract, with profit.

Covered Write
Selling call options a long position in the underlying stock. By receiving a premium, the writing intends to realize additional return on the underlying common stock or gain a sale price. Also known as the exercise price is the amount of the premium transaction costs from a long position in the underlying stock.

Crash Spread
The spread between crude oil and its products. Smoking oil and unleaded gasoline plus or equal crude, or the crushing spread.

Crawl
Refer to the tendency of a time series, where the value of the one and towards the value of the one and towards.

Cross Correlations
Refer to the correlation between measure of individual indices within a single interval series in multiple series or multivariate.

CTA
Market Profile terminology for commodity trading advisors, as opposed to CTFC, Not Bear Market.

Cup and Handle

An accumulation pattern observed on bar charts. The pattern bears from across 6-9 months. The cup is a bowl-shaped, U-shaped, or V-shaped bottom. The handle is a short-term consolidation. The handle should form with volume low in the upper half of the cup and with the upper half of the handle.

Current Ratio
The current assets of a company divided by current liabilities. Balance sheet strength indicator.

Cycle
The continuous change of the time interval.

Cycle Timing
Purchasing a mutual fund when.

CUSIP
The number assigned by the Committee of Uniform Security Identification Procedures that appears on the back of most securities. Used to assist a member in that a stock identification.

Cumul Frequency
A point where the frequency is the sum of the frequency of the first, e.g., 10 the, 9 MIN will correspond to 19 (10 and 9).

Cycle
A variation where a pattern of observations returns to its origin.

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Gamma
The degree by which the delta changes with respect to changes in the underlying instrument's price.

Gann's Square of 9
A trading tool that relates numbers, such as a stock price, to degrees on a circle.

Gann Theory
Various analytical techniques developed by legendary trader W.D. Gann.

Gap
A day in which the daily range is completely above or below the previous day's daily range.

Genetic Algorithms
Algorithms that mimic the characteristics associated with evolution and that are well-suited to optimization problems such as optimizing neural network parameters.

Genetic Programming
In artificial intelligence, this form of programming automatically generates a program from a set of primitive constructs.

Give-up
When a broker executes an order for another broker's client and the two brokers split the commission; the client pays nothing extra.

Golden Mean or Golden Ratio
The ratio of any two consecutive numbers in the Fibonacci sequence, known as phi and equal to 0.618; a proportion that is an important phenomenon in music, art, architecture and biology.

Golden Section
Any length divided so that the ratio of the smaller to the larger part is equivalent to the ratio between the larger part and the whole and is always 0.618.

Greeks
Jargon; a loose term encapsulating a set of risk variables used by options traders.

Gross Domestic Product
Value of all goods and services produced domestically.

Growth Fund
A more speculative mutual fund made up primarily of the growth or performance stocks that are expected to appreciate in price more than the broad market over an extended time period.

Guaranteed Investment Contracts (GICs)
A single lump-sum deposit that earns a guaranteed interest until a known maturity date. GICs are issued by insurance companies.

Hanning Weight

$$W_j = 1/2\left[1 - \cos\left\{\frac{2\pi J}{N-1}\right\}\right]$$

where weight (W) at point J in window width of N points is determined by this formula.

Harami
In candlestick terminology, a small real body contained within a relatively long real body.

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

Hedge Fund
A mutual fund involving speculative investing in stocks and options.

Herrick Payoff Index
An index requiring two inputs, one of which is a smoothing factor known as the multiplying factor and the other of which is the value of a one-cent move.

Heuristic Bias
The use of rules of thumb for decisions.

Heuristic Method
Problem solving approached by trying out several different methods and comparing which pro vides the best solution.

Heuristics
(computer science)Computational rules of thumb. Distinct from algorithms, which are programs guaran teed to generate the correct result under all circumstances, heuristics may only turn out to be correct a certain percentage of time.

Hidden node
Elements that give a neural network the ability to learn nonlinear patterns. The hidden nodes math ematically transform inputs by passing weighted sums of those inputs through nonlinear functions.

Hierarchical Neural Network
In artificial intelligence, a neural network in which predictions derived from networks at one level of the hierarchy are incorporated as inputs at another level. This architecture lends itself to faster training, as each network focuses learning solely on its own output.

High Pass Frequency Filter
A detrending filter that lets pass the high frequency noise and rejects low frequency trend. Implemented by first applying a low pass filter to the data, then subtracting the filtered data from the original data.

High-Ticking
To pay the offered price.

Hines Ratio
A modified put/call ratio that refines traditional option ratio analysis by including the open interest figures in the equation and can be defined as (Total put volume/Total put open interest) divided by (Total call volume/Total call open interest)

Historic Volatility
How much contract price has fluctuated over a period of time in the past; usually calculated by taking a standard deviation of price changes over a time period.

Historical Data
A series of past daily, weekly or monthly market prices (open, high, low, close, volume, open inter est).

Hook Day
A trading day in which the open is above/below the previous day's high/low and the close is below/above the previous day's close with narrow range.

Implied Alpha
The excess return expected from a stock to justify its current weighing in the portfolio.

Implied Volatility
The volatility computed using the actual market prices of an option contract and one of a number of pricing models. For example, if the market price of an option rises without a change in the price of the underlying stock or future, implied volatility will have risen.

Impulse
A sharply defined change in a series of input data being studied, such as market prices or volume.

Impulse Wave

Impulse Wave

A wave or cycle of waves that carries the current trend further in the same direction.

In Play
A stock that is the focus of a public bidding contest, as in a takeover or bear raid.

In-the-Money
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. For example, when a commodity price is $500, a call option with a strike price of $400 is considered in-the-money.

Income Dividends
Payments to mutual fund shareholders consisting of dividends, interest and short-term capital gains earned on the fund's portfolio securities after deduction of operating expenses.

Index Fund
A mutual fund that replicates the behavior of a given index.

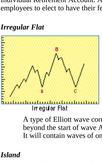
Inductive Logic
The progress from statements describing particular events to a general statement.

Inefficient Markets
Behavioral finance. Driven by frame dependence and heuristic bias, when market prices stray from fundamental values.

Initial Balance
The first or first two half-hour trading periods in the CBOT Market Profile during which prices tend to converge; the initial auction of the trading day.

Initial Public Offering
When a stock is officially available for the public to buy.

Inside Day



Inside Days

A day in which the daily price range is completely within the previous day's daily price range.

Interest Rate Swaps
An arrangement that requires both sides of the transaction to make payments to each other based on two different interest rates. The most commonly traded requires one side to pay a fixed rate and the other to pay a floating rate.

Intermarket Analysis
Observing the price movement of one market for the purpose of evaluating a different market.

Intrinsic Value
The portion of an option's premium that is represented when the cash market price is greater than the exercise price; a known constant equal to the difference between the strike price and underlying market price.

Investment Clubs
Small, private organizations in which a group of investors, usually novices, pool their time and resources to learn more than they could on their own about various forms of investments and then invest their own money as a group.

IRA
Individual Retirement Account. An employer's retirement plan that, as specified by tax law, allows employees to elect to have their federal taxable income be deducted and set aside for retirement.

Irregular Flat

Irregular Flat

A type of Elliott wave correction that has a 3-3-5 wave pattern, where the B wave terminates beyond the start of wave A. A "flat" is in progress, implying that a larger pattern is developing. It will contain waves of one higher degree than the A-B-C waves just completed.

Island
Electronic communications network.

January Effect
The tendency for securities prices to recover in January after tax-related selling is completed before the year-end.

Jumbo Certificate of Deposit
A CD worth at least $100,000.

Glossary (A-C)(D-F)(G-J)(K-M)(N-S)(T-Z)

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Kagi
One of three types of Japanese candlestick charts that does not have time on the horizontal axis.

Kalman Filters
A linear system in which the mean squared error between the desired and the actual output is minimized when the input is a random signal.

Kelly's Law
Bet bigger when the odds are in your favor. In management wisdom, if anything does go wrong, it will do so in triplicate. Also, an executive will always go back to work early if no one takes him.

Knowledge Base
Artificial intelligence, a given inventory of knowledge specific to a set of rules.

Kondratieff, Nikolai
Developer of a wave theory.

KST
Indicator developed by Martin Pring. A weighted summed rate of change oscillator. Four different rates of change are calculated, smoothed, multiplied by weights and then summed to form one indicator.

Kurtosis
Descriptive measure of how flat or pointed a distribution is.

Lag
The number of data points that a filter, such as a moving average, follows or trails the input data.

Latest Quarterly Earnings
(%) The percentage change from the latest earnings earnings reported compared with the same quarter a year earlier.

Law of Series
A succession of random events, such as flipping a coin.

Lead
The number of data points that a filter, such as a moving average, precedes the input price data.

LEAPS
Acronym for *long-term equity anticipation securities* , which are long-term listed options, with maturities that can be as long as two and a half years.

Least Squares Method
A technique of fitting a curve close to some given points that minimizes the sum of the squares of the deviations of the given points from the curve.

Leg
One side of a spread.

Leg Out
In rolling forward in futures, a method that would result in liquidating a position.

Limit Move
A change in price that exceeds the limits set by the exchange on which the contract is traded.

Limit Order
An order to buy or sell when a price is fixed.

Limit Up, Limit Down
Commodity exchange restrictions on the maximum upward or downward movements permitted in the price for a commodity during any trading session day.

LISP
A programming language based on predicate logic and is the one most commonly used in artificial intelligence applications.

Lyonp Box statistic
A statistical measure of significance of higher order correlation existence. The marginal significance level is the probability that a no more higher order correlation exists.

Load
Commission and fees taken out of investment capital; that is, the situation in which a firm loaded mutual fund takes commission and fees out of investment capital before the money is put to work.

Local
The trader in a pit of a commodity exchange who buys and sells for his or her account.

Locked Limit
A market that, if not restricted, would seek price equilibrium outside the limit but, instead, moves to the limit and ceases to trade.

Long
Establishing ownership of the responsibilities of a buyer of a tradable; holding securities in anticipation of a price increase in that security.

Lookback Interval
The number of periods of historical data used for observation and calculation.

Low Pass Frequency Filter
A data smoother or filter that lets pass low frequency trend sinusoids and rejects high frequency noise (see SMA).

Low-Ticking
To sell at the bid price.

MACD
See Moving Average Convergence/Divergence.

Macro
A computer method commonly used in spreadsheets to automate repetitive steps by recording the necessary keystrokes. The macro can then be run and the keystrokes implemented.

Major Auction
The overall trend of the market such as might be observed on a bar chart.

Managed Futures
A fund that uses the futures market as its primary asset.

Mandelbrot Set
Complex but structured pattern produced by an equation in which the result is fed back into the equation repeatedly; self-similarity.

Mapping
A function, or relation between values.

Margin
In stock trading, an account in which purchase of stock may be financed with borrowed money; in futures trading, the deposit placed with the clearinghouse to assure fulfillment of the contract. This amount varies daily and is settled in cash.

Marginal Significance Level of Fest-Statistics
The probability distribution used to test the hypothesis that the beta coefficient does not equal zero. A T-statistic of approximately 1.65 reflects a 0.90 or 90% confidence and the star grind significance is 1-0.90 = 0.1 or 10%.

Market to Market
At the end of each business day the open positions carried in an account held at a brokerage firm are credited or debited funds based on the settlement price of the open positions that day.

Market Breadth
The shares of a particular stock traded during a specific period. Usually refers to the overall strength and trading volume of the market.

Market If Touched
Resting order with the floor broker that becomes a market order to be executed if the trigger price is traded.

Market Maker
A broker or bank continually prepared to make a two-way price to purchase or sell for a security or currency.

Market on Close
An order specification that requires the broker to get the best price available on the close of trading, usually during the last five minutes of trading.

Market Order
Instructions to the broker to immediately sell to the best available bid or to buy from the best available offer.

Market Risk
The uncertainty of returns attributable to fluctuation of the entire market.

Market Sentiment
Crowd psychology, typically a measurement of bullish or bearish attitudes among investors and traders.

Market Timing
Using analytical tools to devise entry and exit methods.

Market Value
Company value determined by investors, obtained by multiplying the current price of company stock by the common shares outstanding.

Markov Chains
A set of processes where the probabilities for the next state are dependent on the present state.

Martingale
From roulette; a tactical system that requires doubling your bet after each loss, so that winning once you recoup the amount originally bet.

MATIF
The Marche A Terme Des Instruments Financiers exchange in Paris.

Maxima
The highest or maximum value.

Maximum
Optimistic decision-making that identifies the decision alternative with the best possible outcomes.

Maximin
Pessimistic decision-making that identifies the decision alternative with the worst possible outcomes.

Maximum Adverse Excursion

A historical measurement of the closed losing trades versus the closed profitable trades of a trading system. Used to determine the stop-loss level that can be used that will allow winning trades to run. Helps to avoid the extreme unfavorable price level reached for both profitable and unprofitable trades.

Maximum Entropy Method
More flexible than Fourier analysis, the maximum entropy method is both a tool for spectrum analysis and a method of adaptive filtering and trend forecasting. As a tool for spectrum analysis, the MEM system can provide high resolution spectra for identifying the dominant cycles in a time series. As a tool for filtering, the MEM system, like the Kalman filter, can progress interest, a study results, such as RSI, TRIX, and so on. (Fourier analysis, in contrast, gives best results when applied to time series of six months or longer.) As a forecasting tool, MEM is used in conjunction with moving averages to forecast lower and upper trend channels in the data.

Maximum Entropy Spectrum Analysis
See Maximum Entropy Method.

Mean
When the sum of the values is divided by the number of observation.

Mean Deviation
The average absolute value of the difference between the population of numbers and the mean.

Mean P/L
The average profitability of a trader's account, as measured over a given period.

Mean Return
The average monthly total return of a stock. The total return is price change added to dividends.

Mean Reverting
The term adopted in academic literature for one possible state of a price series: that state when price is oscillating randomly about some (unknown) mean value. That is, it is not trending.

Median Line
The line that is drawn from an extreme that blocks a line drawn through the next corrective phase after the pivot point. *See* Andrews Method.

MEM
See Maximum Entropy Method.

Mental Stop Loss
A stop-loss order kept in your head instead of instructing your broker.

MESA
See Maximum Entropy Spectrum Analysis.

Minima
The lowest or minimum value.

Minor Auction
The latest trend of the market, i.e., what it is doing now.

Mode
The most frequently occurring value.

Model
Equation.

Modern Portfolio Theory
Investing theory in which portfolio managers estimate and manage risk and return.

Modified Endowment Contract
Life insurance in which funds such as policy loans, assignments, pledges, and partial surrenders are considered gross income and subject to income tax.

Momentum
A time series representing change of today's price from some fixed number of days back in history.

Momentum Filter
A measure of change, derivative or slope of the underlying trend in a time series. Implemented by first applying a low pass filter to the data and then applying a differencing operation to the results.

Momentum Indicator
A market indicator utilizing price and volume statistics for predicting the strength or weakness of a current market and any overbought or oversold conditions, and to note turning points within the market.

Money Flow
A number of technical indicators that incorporate volume and price action to measure buying or selling pressure.

Money Market
The market in which dealers trade riskless, short-term securities such as certificates of deposit and Treasury bills.

Money Market Fund
A mutual fund made up of money market instruments that are short term in nature.

Money Stop
A fixed amount of money that a market participant would lose if a stop were hit.

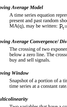
Monowave
In Elliott wave theory, a single wave within a range of waves.

Morning Star
A bottom reversal pattern, according to Steve Nison a signal that the bulls have seized control.

Moving Average

A mathematical procedure to smooth or eliminate the fluctuations in data and to assist in determining when to buy and sell. Moving averages emphasize the direction of a trend, confirm trend reversals and smooth out price and volume fluctuations or "noise" that can confuse interpretation of the market; the sum of value plus a selected number of previous values divided by the total number of values.

Moving Average Crossovers



The point where the various moving average lines intersect each other or the price line on a moving average price bar chart. Technicians use crossovers to signal price-based buy and sell opportunities.

Moving Average Model
A time series equation representing an observed value at time t as a linear combination of present and past random shocks et (forecast error). A moving average process of order Q, MA(q), may be written: $Z_t = e_t + b_1 e_{t-1} + b_2 e_{t-2} \ldots + b_q e_{t-q}$

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.

Moving Window
Snapshot of a portion of a time series at an instant in time. The window is moved along the time series at a constant rate.

Multicollinearity
Two variables that have a correlation of greater than 0.70 or less than -0.70 in a regression model. The first two the two variables explaining the same portion of variation where either variable would be sufficient.

Multiple Linear Regression
More than one independent variable is used to account for the variability in one depen dent variable.

Mutual Fund
A company that invests money of its shareholders in a variety of areas, usually stocks.

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The Traders' Glossary© of technical terms and topics

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Use the "Find" command in your browser window to go directly to any key word.

T-Statistics
The probability distribution used to test the hypothesis that a random sample of *n* observations comes from a normal population with a given mean.

T-Test
A statistical test of significance for a distribution that changes its shape as N gets smaller; based on a variable equal to the difference between the mean of the sample and the mean of the population divided by a second variable obtained by dividing the standard deviation of the sample by the square root of the number of individuals in the sample.

Tangibles
Cash equivalents of the futures contracts.

Tax-Deferred
In which an investment allows an investor to postpone paying taxes on money put into the investment until the investor literally takes possession of the money invested.

Technical Analysis
A form of market analysis that studies demand and supply for securities and commodities based on trading volume and price studies. Using charts and modeling techniques, technicians attempt to identify price trends in a market.

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

Term Structure
Also known as yield curve. The slope of the term structure is the yield on long-term government bonds minus the yield on short-term instruments such as Treasury bills.

Theta
The measurement of the time decay of a position.

Thrust
A comparison between the price difference of successively lower pivot bottoms or higher pivot tops. For example, a reduction in the difference between pivot bottoms shows loss of momentum; an increase in the difference shows increased momentum.

Tick
The minimum fluctuation of a tradable. For example, bonds trade in 32nds, while most stocks trade in eighths.

Tick Indicator
The number of stocks whose last trade was an uptick or a downtick.

Time Domain
Variation of a time series is accounted for by an autocorrelation function and other time series.

Time Series
A collection of observations made sequentially in time and indexed by time.

Time Value
The difference between the premium paid for an option and the intrinsic value. As the option approaches expiration, the time value erodes, eventually to zero.

TPO
Time-Price Opportunity; a price that occurs during designated half-hour periods of trading; a price-time relationship developed for the Chicago Board of Trade's Market Profile and Liquidity Data Bank reports.

Tradable
Trading instrument.

Trade Facilitation
Liquidity.

Trading Bands
Lines plotted in and around the price structure to form an envelope, answering whether prices are high or low on a relative basis and forewarning whether to buy or sell by using indicators to confirm price action.

Trading Range

Trading Range

The difference between the high and low prices traded during a period of time; in commodities, the high/low price limit established by the exchange for a specific commodity for any one day's trading.

Trailing Stop
A stop-loss order that follows the prevailing price trend.

Transfer Agent
Financial institution that manages ownership records of company stock.

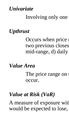
Transfer Function
The mathematical relationship between the output of a control system and its input for a linear system, it is the Laplace transform of the output divided by the Laplace transform of the input under conditions of zero initial energy.

Transfer Response
Refers to the shape of the wave coming out of a filter in comparison to the shape going into it.

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.

Trend
The general drift, tendency or bent of a set of statistical data as related to time.

Trend Channel



Trend Channel

A parallel probable price range centered about the most likely price line. Historically, this term has been used to denote the area between the base trendline and the reaction trendline defined by price moves against the prevailing trend.

Trend Day
A day in which the price of a futures contract moves consistently away from the opening range and does not return to the opening range prior to the close.

Trend-Following
Moving in the direction of the prevailing price movement.

Trending Market
Price moves in a single direction, generally closing at an extreme for the day.

Trendless
Price movement that vacillates to the degree that a clear trend cannot be identified.

Trendline

Trendline

A line drawn that connects either a series of highs or lows in a trend. The trendline can represent either support as in an uptrend line or resistance as in a downtrend line. Consolidations are marked by horizontal trendlines.

Triangle
A pattern that exhibits a series of narrower price fluctuations over time; top and bottom boundaries need not be of equal length.

Triangular Moving Average
A moving average in which each day's data are multiplied by a weight that increases in value at steady increments to a peak value and then declines to zero at equivalent increments. The sum of the weighted daily data is divided by the number of variables.

TRIN
See Arms Index. Trix-The one-period difference of the triple exponential smoothing operating on the log of price.

True Range
The largest of the following: Today's high minus today's low, today's high minus yesterday's close, today's low minus yesterday's close.

True Strength Index
A momentum indicator developed by William Blau that double-smoothes the ratio of the market momentum to the absolute value of the market momentum.

$$TSI_{r,s} = 100\left(\frac{E_{ss}(E_r(Mtm))}{E_{ss}(E_{ss}(|Mtm|))}\right)$$

where:
Mtm = one-day change in closing price,
|Mtm| = absolute value of Mtm.
Er = exponential smoothed moving average of *r* days.
Ess = exponential smoothed moving average of *s* days.

Tulip Sector
A sector that is the intense focus of speculators at the moment.

Turning Point
The approximate time at which there is a change in trend.

Tweezers Bottoms and Tops
Candlestick formations. Both candles must have identical highs and lows. Significant when found at contract highs or lows, and can indicate a breakout.

Uncovered Option
The buy or sale of an option without a position in the underlying futures contract; also known as a naked option.

Underlying Instrument
A trading instrument subject to purchase upon exercise.

Underlying Security
In options, a stock subject to purchase upon exercise of the option.

Uniform Gifts to Minors Acts
A law that allows minors to own property without the use of a trust.

Univariate
Involving only one variable.

Uptrust
Occurs when price moves above a pivot top and a widesprend reversal ensues as follows: a) bars closer to pivot crosses, b) close is below pivot, c) close is below opening and mid-range, d) daily price range is greater than the previous day's range.

Value Area
The price range on the CBOT Market Profile in which approximately 70% of the day's trades occur.

Value at Risk (VaR)
A measure of exposure within a given portfolio, which attempts to estimate how much the portfolio would be expected to lose, given the recent behavior of the securities contained therein.

Value Averaging
In which the average is taken of a series of values.

Value Weighted Index
A market average such as Standard & Poor's 500 Index that takes into account the market value of each security rather than calculating a straight price average.

Variable-Length Moving Average
A moving average where the number of periods selected for smoothing is based on a volatility measurement of price. Typically, the standard deviation of price is used to measure price volatility. The more volatile the price is, the shorter the number of periods used is for smoothing.

Vega
The amount by which the price of an option changes when the volatility changes.

Vertical Spread
A stock option spread based on simultaneous purchase and sale of options on the same underlying stock with the same expiration months but different strike prices.

Vesting
The rights that an employee gains for working at a firm for a specific length of time.

Volatility
A measure of a stock's tendency to move up and down in price, based on its daily price history over the latest 12 months.

Volume
The shares that are traded for a given market or tradable within a specified time period.

Volume Price Trend (VPT)
In which a running sum is maintained when a day's total volume is added if the market closes positive or the day's total volume is subtracted if the market closes lower. See On-balance volume.

W Formation
A double-bottom formation.

Warrant
A company-issued certificate that represents an option to buy stock shares at a given time.

Wasting
A term depicting how an option's value decreases over time; as each day after acquisition passes a portion of the option's time value is lost or wasted.

Wave
In Elliott wave theory, a sustained move by a market's price in one direction as determined by the reversal points that initiated and terminated it.

Wave Cycle
An impulse wave followed by a correction wave, the impulse wave being made up of five smaller, numbered waves of alternating direction designated 1, 2, 3, 4 and 5, and the correction wave being composed of three smaller alternating waves designated a, b, and c.

Wedge
A pattern in which two converging lines connect a group of price peaks and troughs.

Weighted Average Purchase Price
Multiply each purchase order bought by the associated purchase price, add them together and divide the total by the number of blocks. The result is the weighted average purchase price.

Weighted Industry Index
An index where the importance of each stock is related to its market capitalization.

Weighted Moving Average (WMA)
A moving average that puts more weight on recent prices. A three-day weighted moving average would add a multiple of 1 to the first date, 2 to the second date and 3 to the third date.

Whiplash
Alternating buy and sell signals that result in losses.

Whipsaw
Losing money on both sides of a price swing.

Wilkords
Characters in a quote symbol or Dos file name that indicates an underlined, but categorized, value.

Williams' %R
Overbought and oversold indicator that is used to determine market entry and exit points.

Window
Set period of time such as a lookback period for market indicator in question.

Wizard
A preprogrammed step-by-step procedure to aid the user in accomplishing a specific task.

Yates's Correction
When a small amount of data is available for testing, the chi-square formula is adjusted to account for the small sample base.

Zero-Coupon Government Bonds
Government bonds that are purchased at a deep discount and pay no cash dividend, unlike regular bonds.

Zeta
The percentage change in an options price per 1% change in implied volatility.

Zigzag
In a bull market, an Elliott three-wave pattern that subdivides into a 5-5-5 pattern with the top of wave B noticeably lower than the start of wave A. In a bear market, this pattern will be reversed.

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