Glossary

A

Alpha stock: a Stock in Play, a stock that is moving independently of both the overall market and its sector, the market is not able to control it, these are the stocks day traders look for.

Ask: the price sellers are demanding in order to sell their stock, it's always higher than the bid price.

Average daily volume: the average number of shares traded each day in a particular stock, I don't trade stocks with an average daily volume of less than 500,000 shares, as a day trader you need sufficient liquidity to be able to get in and out of the stock without difficulty.

Average relative volume: how much of the stock is trading compared to its normal volume, I don't trade in stocks with an average relative volume of less than 1.5, which means the stock is trading at least 1.5 times its normal daily volume.

Averaging down: adding more shares to your losing position in order to lower the average cost of your position, with the hope of selling it at break-even in the next rally in your favor.

B

Bear: a seller or short seller of stock, if you hear the market is bear it means the entire stock market is losing value because the sellers or short sellers are selling their stocks, in other words, the sellers are in control.

Bearish candlestick: a candlestick with a big filled body demonstrating that the open was at a high and the close was at a low, it tells you that the sellers are in control of the price and it is not a good time to buy.

Bear Market: When different indices in the market drop more than 20% in value.

Beta: In simple words, beta is riskiness of a stock, in compare to overall market. It is a mathematical regression of the stock weekly, monthly or daily return, regressed over the return of the overall market.

Bid: the price people are willing to pay to purchase a stock at a particular time, it's always lower than the ask price.

Bid-ask spread: the difference between what people are willing to pay to purchase a particular stock and what other people are demanding in order to sell that stock at any given moment, it can change throughout the trading day.

Bottoming: this is an expression used when the stock, or a specific market index, break their losing streak, and start rebounding. Many day and swing traders try to guess when a stock bottoms to take the reversal trade in the opposite side to maximize their profits.

Broker: the company who buys and sells stocks for you at the Exchange.

Bull: a buyer of stock, if you hear the market is bull it means the entire stock market is gaining value because the buyers are purchasing stocks, in other words, the buyers are in control.

Bull Flag: a type of candlestick pattern that resembles a flag on a pole, you will see several large candles going up (like a pole) and a series of small candles moving sideways (like a flag).

Bullish candlestick: a candlestick with a large body toward the upside, it tells you that the buyers are in control of the price and will likely keep pushing the price up, Figure 6.1 includes an image of a bullish candlestick.

Buying long: buying a stock in the hope that its price will go higher.

Buying power: the capital (money) in your account with your broker plus the leverage they provide you, for example, if your broker gives you a leverage of 4:1 and you have $25,000 in your account, you can actually trade up to $100,000.

C

Candlestick: a very common way to chart the price of stocks, it allows you to easily see the opening price, the highest price in a given time period, the lowest price in that time period and the closing price value for each time period you wish to display, some people prefer using other methods of charting, I quite like candlesticks because they are an easy-to-decipher picture of the price action, you can easily compare the relationship between the open and close as well as the high and the low price.

Capital Structure: this ratio shows how much of a company is financed by equity and how much of it is financed by debt.

$$Capital\ Structure = \frac{Long\ Term\ Debt}{Long\ Term\ Debt + Share\ Holder's\ Equity}$$

Cash Flow From Operation: This is the cash the company generates from its operation. This is the cash it has, after it pays all of its suppliers and other related costs.

Chatroom: a community of traders, many of which can be found on the Internet.

Choppy price action: stocks trading with very high frequency and small movements of price, day traders avoid stocks with choppy price action, they are being controlled by the institutional traders of Wall Street.

Close: the last hour the stock market is open, 3 p.m. to 4 p.m. New York time, the daily closing prices tend to reflect the opinion of Wall Street traders on the value of stocks.

Commission-free broker: a relatively new type of broker which does not charge a commission for each trade you make, they are not suitable for day trading as they generally do not provide the fast execution of trades that day traders need, with that said, they have revolutionized the trading industry by forcing established players to either abolish or significantly reduce their commissions.

Consolidation period: this happens when the traders who bought stocks at a lower price are selling and taking their profits while at the same time the price of the stock is not sharply decreasing because buyers are still entering into trades and the sellers are not yet in control of the price.

Correlation: Correlation, in the finance and investment industries, is a statistic that measures the degree to which two securities move in relation to each other. As a rule of thumb, remember that bonds and fixed incomes have a negative correlation (smart way of saying relationship) with one another.

Current Ratio: this is a very important ratio that shows solvency of a business and its ability to cover its short-term obligation. The formula is as follows:

$$Current\ Ratio = \frac{Total\ Current\ Asset}{Total\ Current\ Liability}$$

D

Day trading: the serious business of trading stocks that are moving in a relatively predictable manner, all of your trading is done during one trading day, you do not hold any stocks overnight, any stocks you purchase during the day must be sold by the end of the trading day.

Discounted Cashflow Model: this a model most of the investment banks in the Wall Street used to value companies. This model forecast revenues and costs of the business into the future (usually 5 to 10 years), and then discount it back using an appropriate discount rate. Understanding the basis of this model can help you in reading other analysts reports.

Diversification: Choosing different stocks, bonds, and assets to protect your portfolio from downturn in one specific sector or asset class. For example, having government bond to protect your portfolio from potential downturn in the stock market.

Dividend Aristocrat: elite group of companies that have raised their dividends every year for the past 25 years.

Dividend Yield: Dividend per share divided by the share price. As an example, if a company's share is trading at $10, and is paying $1 per share in annual dividend, its dividend yield is 10%.

Doji: an important candlestick pattern that comes in various shapes or forms but are all characterized by having either no body or a very small body, a Doji indicates indecision and means that a fight is underway between the buyers and the sellers.

E

Entry point: when you recognize a pattern developing on your charts, your entry point is where you enter the trade.

E.T.F: Exchange Traded Fund is a basket of investment that usually tracks an underlying index. As an example, SPY, tracks the S&P500 index, DIA tracks the Dow Jones Industrial Average and so on.

Exchange-traded fund/ETF: an investment fund traded on the Exchange and composed of assets such as stocks or bonds.

Exit point: as you plan your trade, you decide your entry point, where you will enter the trade, and where you will exit the trade.

F

Fixed Income or Bonds: These are assets that will provide you with fixed payments throughout their life

Float: the number of shares in a particular company available for trading, for example, in June 2020, Apple Inc. had 4.33 billion shares available.

Forex: the global Foreign Exchange Market where traders trade currencies.

Fundamental Analysis: is a method of analyzing a company using macroeconomics and financial factors.

Fundamental catalyst: positive or negative news associated with a stock such as an FDA approval or disapproval, a restructuring, a merger or an acquisition, something significant that will impact its price during the trading day.

G

Gappers watchlist: before the market opens, you can tell which stocks are gapping up or down in price, you then search for the fundamental catalysts that explain these price swings, and you build a list of stocks that you will monitor that day for specific day trading opportunities.

Gross Profit Margin: Gross margin is a company's gross profit (gross (total) revenue minus cost of goods sold (cost of revenue)) divided by its gross (total) revenue.

Growth Stock: A category of stocks that are growing at a higher rate, do not pay dividend or do share buy backs. They are strictly focused on growth.

H

Hedging: A hedge is an investment that protects your finances from a risky situation. Hedging is done to minimize or offset the chance that your assets will lose value.

High frequency trading/HFT: the type of trading the computer programmers on Wall Street work away at, creating algorithms and secret formulas to try to manipulate the market.

High relative volume: stocks that are trading at a volume above their average and above their sector, they are acting independently of their sector and the overall market.

I

Illiquid stock: a stock that does not have sufficient volume traded during the day, these stocks are hard to sell and buy without a significant slippage in price.

Indecision candlestick: a type of candlestick that has similarly sized high wicks and low wicks that are usually larger than the body, they can also be called spinning tops or Dojis and they indicate that the buyers and sellers have equal power and are fighting between themselves, it's important to recognize an indecision candlestick because it may very well indicate a pending price change.

Indicator: an indicator is a mathematical calculation based on a stock's price or volume or both, you do not want your charts too cluttered with too many different indicators, keep your charts clean so you can process the information quickly and make decisions very quickly.

Institutional trader: the Wall Street investment banks, mutual and hedge fund companies and such, day traders stay away from the stocks that institutional traders are manipulating and dominating (I'll politely call that 'trading' too!).

Interest Coverage Ratio: The ratio that shows if the company can pay the interest owing on its debt from the cash it earns from its operations.

$$Interest\ Coverage\ Ratio = \frac{Operating\ Income}{Interest\ Expense}$$

Intraday: trading all within the same day, between 9:30 a.m. and 4 p.m. New York time.

Investing: investing is the science of taking your money, placing it in an asset class, and hoping to grow it in the short term or the long term. Investing should not be mistaken with trading.

Investment Philosophy: This is the methodology each investor defines for him or herself before entering the market. Are you a value investor, growth investor or both?

L

Lagging indicator: these are indicators that provide you with information on the activity taking place on a stock <u>after</u> the trade happens.

Leading indicator: a feature of Nasdaq Level 2, it provides you with information on the activity taking place on a stock <u>before</u> the trade happens.

Level 2: Nasdaq TotalView Level 2 data feed, provides you with the leading indicators and information on the activity taking place on a stock before the trade happens as well as important insight into a stock's price action, what type of traders are buying or selling the stock and where the stock is likely to head in the near term.

Leverage: the margin your broker provides you on the money in your account, most brokers provide a leverage of between 3:1 and 6:1, a leverage of 4:1, for example, means if you have $25,000 in your account, you have $100,000 of buying power available to trade with.

Limit order: an instruction you give to your broker to buy or sell a specific stock at or better than a set price specified by you, there is a chance the limit order will never be filled if the price moves too quickly after you send your instructions.

Liquidity: successful day traders need liquidity, there must be both a sufficient volume of stock being traded in a particular company and a sufficient number of orders being sent to the Exchanges for filling to ensure you can easily get in and out of a trade, you want plenty of buyers and plenty of sellers all eyeing the same stock.

Long: an abbreviated form of "buying long", you buy stock in the hope that it will increase in price, to be "*long 100 shares AAPL*" for example is to have bought 100 shares of Apple Inc. in anticipation of their price increasing.

Low float stock: a stock with a low supply of shares which means that a large demand for shares will easily move the stock's price.

M

Margin: the leverage your broker gives you to trade with, for example, if your leverage is 4:1 and you have $25,000 in your account, your margin to trade with is $100,000, margin is like a double-edged sword, it allows you to buy more but it also exposes you to more risk.

Margin call: a serious warning from your broker that you must avoid getting, your broker will issue you a margin call if you are using leverage and losing money, it means your loss is equal to the original amount of money in your account, you must either add more money to your account or your broker will freeze it.

Market cap/market capitalization: a company's market cap is the total dollar value of its outstanding share.

Market maker: a broker-dealer that offers shares for sale or purchase on the Exchange, the firm holds a certain number of shares of a particular stock in order to facilitate the trading of that stock at the Exchange.

Market order: an instruction you give to your broker to immediately buy or sell a specific stock at whatever the current price is at that very moment, I'll emphasize the phrase "whatever the current price is", the price might be to your benefit, it very well might not be though if it has suddenly changed in the time since you gave your instructions to your broker.

Mega cap stock: a company with a large market capitalization. Few examples are Apple, Amazon and Microsoft.

Micro-cap stock: a company with a small market capitalization.

Moving average/MA: a widely used indicator in trading that smooths the price of a stock by averaging its past prices, the two basic and most commonly used MAs are the Simple Moving Average (SMA) and the Exponential Moving Average (EMA).

N

Net equity curve: your profit and loss after deducting your broker's commissions and fees.

Net Profit Margin: company's net income divided by its gross (total) revenue.

O

Open: the first thirty to sixty minutes the stock market is open, from 9:30 a.m. up to 10:30 a.m. New York time.

Opening range: when the market opens, Stocks in Play will often experience what I call violent price action, heavy trading will impact the price of the stock and you should be able to determine what direction the price is heading toward and whether the buyers or sellers are winning.

Options: a different type of trading, it's trading in contracts that give a person a right, but not a duty or requirement, to buy or sell a stock at a certain price by a specific date.

Over-the-counter (OTC) market: most day traders do not trade in the OTC market, it's a specific market used to trade in such items as currencies, bonds and interest rates.

P

Penny stock: the shares of small companies that can trade at very low prices, the prices can be very easily manipulated and follow no pattern or rule whatsoever, fraud is rampant in penny stock trading, day traders do not trade penny stocks.

Position sizing: refers to how large of a position you can take per trade, it's a technique and skill that new traders must develop.

Price action: the movement in price of a stock, I prefer using candlesticks to chart the price action of a stock, capturing its highs and lows and the relationship between the open and close.

Price to Sale Ratio: This ratio is calculated by dividing a company's market capitalization by its total sales in a given year. Like the P/E ratio, the P/S ratio is also widely reported.**Profit target:** as a trader, you should have a daily profit target and once you reach it, don't be greedy and risk it, you can turn off your computer and enjoy the rest of your day, in addition, for each trade you set up, you should have a specific profit target that your strategy is based upon.

Profit-to-loss ratio: the key to successful day trading is finding stocks that have excellent profit-to-loss ratios, these are the stocks with a low-risk entry and a high reward potential, for example, a 3:1 ratio means you will risk $100 but have the potential to earn $300, a 2:1 ratio is the minimum I will ever trade, also called risk/reward ratio or win:lose ratio.

R

Real time market data: to be a successful day trader, you need access to real time market data (that you usually must pay for), without any delay, as you will be making decisions and entering and exiting trades literally in minutes, swing traders on the other hand, who enter and exit trades within days or weeks, need only have access to end-of-day data, and that data is available for free on the Internet.

Retail trader: individual traders who do not work for a firm do not manage other people's money.

Risk management: one of the most important skills that a successful trader must master, you must find low-risk trading setups with a high reward potential, each trading day you are managing your risk.

Risk/reward ratio: the key to successful trading is finding trading setups that have excellent risk/reward ratios, these are the trading opportunities with a low-risk entry and a high reward potential, for example, a 3:1 ratio means you will risk $100 but have the potential to earn $300.

S

Scanner: the software you program with various criteria to find specific stocks.

Short: an abbreviated form of "short selling", you borrow shares from your broker, sell them, and hope that the price goes even lower so you can buy them back at a lower price, return the shares to your broker and keep the profit for yourself, to say "*I am short AAPL*" for example means you have borrowed and then sold shares in Apple Inc. and are hoping their price goes even lower.

Short interest: the quantity of shares in a stock that have been sold short but not yet covered, it is usually reported at the end of the day.

Short selling: you borrow shares from your broker and sell them, and then hope the price goes even lower so you can buy them back at the lower price, return the shares to your broker and keep the profit for yourself.

Short Selling Restriction/SSR: a restriction placed on a stock when it is down 10% or more from the previous day's closing price, regulators and the Exchanges place restrictions on the short selling of a stock when its price is dropping, when a stock is in SSR mode, you are still allowed to sell short the stock, but you can only short when the price is going higher, not lower, intraday.

Short squeeze: occurs when the short sellers panic and are scrambling to return their borrowed shares to their brokers, their actions cause prices to increase quickly and dangerously, you want to avoid being stuck short in a short squeeze, what you do want to do is ride the squeeze when the price quickly reverses.

Simple Moving Average/SMA: a form of moving average that is calculated by adding up the closing price of a stock for a number of time periods and then dividing that figure by the actual number of time periods.

Size: the "size" column on your Level 2 will indicate how many standard lots of shares (100 shares = 1 standard lot) are being offered for sale or purchase, a "4" for example means 400 shares.

Small cap stock: a stock with a low supply of shares which means that a large demand for shares will easily move the stock's price, the stock's price is very volatile and can move fast, most small cap stocks are under $10, some day traders love small cap stocks but do note that they can be really risky, they can also be called low float stocks or micro-cap stocks.

Social distancing: for traders, social distancing means staying very far away from anyone who thinks the stock market is a get-rich-quick scheme, in light of the 2020 COVID-19 pandemic and social distancing guidelines, protect your wealth by staying away from anyone who think stocks are designed to help you get rich overnight.

Standard lot: 100 shares, the "size" column on your Level 2 will indicate how many standard lots of shares are being offered for sale or purchase, a "4" for example means 400 shares.

Stock in Play: this is what you as a trader are looking for, a Stock in Play is a stock that offers excellent risk/reward opportunities, it will move higher or lower in price during the course of the trading day and it will move in a way that is predictable, stocks with fundamental catalysts (some positive or negative news associated with them such as an FDA approval or disapproval, a restructuring, a merger or an acquisition) are often Stocks in Play.

Stop loss: the price level when you must accept a loss and get out of the trade.

Support or resistance level: this is the level that the price of a specific stock usually does not go higher than (resistance level) or lower than (support level), stocks often bounce and change the direction of their price when they reach a support or resistance level.

Swing trading: the serious business of trading stocks that you hold for a period of time, generally from one day to a few weeks, swing trading is a completely different business than day trading is which are both different from investing.

T

Technical Analysis: is a method of identify entry points based on charts and indicators.

Ticker: short abbreviations of usually one to five letters that represent the stock at the Exchange, all stocks have ticker symbols, Apple Inc.'s ticker for example is AAPL.

Trade plan/trading plan: the plan you develop before you actually enter a trade.

Trading platform: a software that traders use for sending orders to the Exchange, brokers will offer you a trading platform that is sometimes for free but often for a fee, platforms are either web-based or as a software that needs to be installed on your computer.

V

Value Stock: Stocks that are well established and are at the maturity age of their life cycle.

Volume Weighted Average Price/VWAP: VWAP is a moving average that takes into account the volume of the shares being traded at any given price, while other moving averages are calculated based only on the price of the stock on the chart, VWAP considers the number of shares in the stock being traded at each price, VWAP lets you know if the buyers or the sellers are in control of the price action.

W

Warrant: a tool used to purchase shares in the future at a set price.

Watchlist: before the market opens, you can tell which stocks are gapping up or down in price, you then search for the fundamental catalysts that explain these price swings, and you build a list of stocks that you will monitor that day for specific day trading opportunities.