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Every Word You Will Meet

Trading Basics

Trading Papers

Every Word You Will Meet

A hundred terms in a line each, and the few where one line is not enough

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01

Why a word is not a definition

Every other paper in this library argues something. This one answers the question you have while reading them, which is what a word means.

Term	The line you get	What the line leaves out
Leverage	borrowing to control a larger position	it multiplies the loss at the same rate
Drawdown	the fall from a peak in your account	recovering it needs a larger gain than the fall
Win rate	the share of trades that made money	it says nothing about how much each one made

Three definitions that are correct and still leave the reader unprepared. The middle column is what a glossary gives you; the right one is the part that decides whether the word costs you anything. Most terms in this paper need only the middle column, which is why the last section exists.

A one-line definition is a compression, and most words survive it intact. You can be told that a ticker symbol is the short code an instrument trades under and you now know everything about ticker symbols that you need. Nothing has been lost.

For a handful of words the compression is exactly where the money is. Leverage is borrowing to control a larger position; that is correct, and it omits that the loss scales at the same rate, which is the only part that has ever emptied an account. The last section of this paper is those words, one at a time.

Everything between here and there is grouped by where you meet the word rather than by alphabet, because an alphabet puts bond next to book value and separates bid from ask. The visual terms are drawn. A definition of a wick that contains no wick asks you to picture the thing being explained.

> A reference rather than an argument, and the only one in this library. Read it in order once, then keep it for the sections you need.

02

The market itself

Term	In a line
Stock	a unit of ownership in a company.
Share	one stock; the words are used interchangeably.
Shareholder	anyone holding at least one share.
Stock exchange	the venue where shares change hands.
Public company	one whose shares anyone can buy on an exchange.
IPO	the first sale of a company's shares to the public.
Ticker symbol	the short code an instrument trades under.
Index	a number tracking a basket of instruments together.
Market capitalisation	share price multiplied by the number of shares.
Bull market	a long stretch of rising prices.
Bear market	a long stretch of falling prices.
Volume	how much changed hands in a period.
Volatility	how far price moves, not which way.
Liquidity	how much you can trade without moving the price.
Supply and demand	how many want to sell against how many want to buy.

The words for the place itself. None of these describe anything you do; they describe what you are standing in, and a sentence that uses two of them wrongly is the usual reason a beginner cannot follow the news.

These are the words for the place, not for anything you do in it. A sentence in the financial news that uses two of them wrongly is the usual reason a beginner cannot follow it.

Two of those get confused constantly and are worth separating now. Volatility is how far price moves and says nothing about direction: a market can be violently volatile and end the week unchanged. Volume is how much changed hands, which is a different question again, and a large move on small volume is a different event from the same move on large volume.

Liquidity is the one on that list you can feel in an account rather than read about. It is not a general statement about market health; it is the cost of getting in and out, and it is the reason the same instrument is cheap to trade at one hour and expensive at another.

Liquidity is the one word on that list you can feel in an account. It is not an abstraction about market health: it is the cost of getting in, and it changes by several multiples inside a single day on the same instrument.

That last bar is the same share as the one above it, eleven times more expensive to enter, for no reason except the time of day. Nothing about the company changed between the two rows. This is what people mean when they say a market is thin.

03

What you can own

The words for what you can hold, and the place where beginners collect the largest number of near-synonyms without a way to tell them apart.

Term	In a line
Asset	anything with value that can be owned.
Security	a tradable financial asset.
Bond	a loan to a company or government, repaid with interest.
Commodity	a raw good traded in standard units: oil, gold, wheat.
Forex	the market where one currency is exchanged for another.
ETF	a fund that trades on an exchange like a single share.
Index fund	a fund that simply holds whatever the index holds.
Mutual fund	a pooled fund, priced once a day, not on an exchange.
Hedge fund	a private fund, few clients, wide freedom, high fees.
Blue-chip stock	a share in a large, long-established company.
Penny stock	a very cheap share in a very small company.
Portfolio	everything you hold, taken together.
Holdings	the individual positions inside it.
Liability	what is owed, as against what is owned.

The words for what you can hold. The distinction that matters is not the label but whether you own one thing or a slice of many, and whether somebody is being paid to choose them for you.

The label is the least useful part of any of those. Two questions separate them properly: are you holding one thing or a slice of many, and is somebody being paid to choose which ones. Every fund word on that list is an answer to those two.

	Bought on an exchange	Bought from the manager
Somebody chooses the holdings	An active ETF. Traded like a share, and someone is picking.	A mutual fund, or a hedge fund if you qualify.
The index chooses them	An index ETF. The cheapest common way to own a market.	An index fund. The same thing, priced once a day.

Where the four fund words actually sit. The row is who chooses what goes in; the column is how you buy it. The fee difference across this grid is larger than the performance difference, which is the finding that made the bottom-left cell the default advice it is today.

The fee difference across that grid is larger than the performance difference, which is the finding that made the bottom-left cell the default advice of the last twenty years. That is a fact about costs rather than a recommendation, and it is the kind of fact a definition alone would never surface.

04

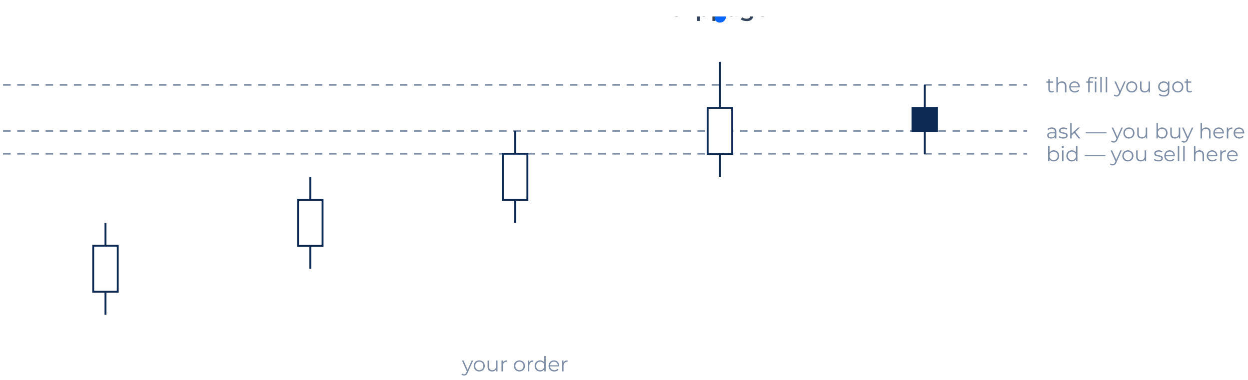
The order you send

Everything so far has been a noun. These are instructions, and each one has a different way of going wrong.

Term	In a line
Bid	the best price somebody will currently pay.
Ask	the best price somebody will currently sell at.
Bid-ask spread	the gap between them; the price of entering at all.
Market order	buy or sell now, at whatever price is available.
Limit order	buy or sell only at my price or better.
Stop-loss order	close me out if price reaches this level.
Take-profit order	close me out if price reaches that level.
Day order	cancel this if it has not filled by the close.
Good-till-cancelled	keep this alive until I say otherwise.
Fill	the price you actually got.
Slippage	the distance between the price you wanted and the fill.

The words for what you send. Every one of these is an instruction with a different failure: a market order can be filled anywhere, and a limit order can be filled nowhere at all.

The two you will use most fail in opposite directions. A market order always fills and can fill anywhere, so its risk is the price. A limit order always fills at your price or better and may never fill at all, so its risk is missing the trade entirely. Neither is safer; they trade one uncertainty for the other.



The three prices in one picture, which is the thing tables of order types never show. You see the last traded price; you buy at the ask and sell at the bid, and the fill on a market order can land past either if the book thins while your order travels.

That figure is the part order-type tables leave out. There is no single price: you buy at the ask and sell at the bid, the number quoted on a chart is neither, and on a market order the fill can land past both if the book thins while your instruction is in flight. The distance between the price you wanted and the price you got is slippage, and it is a cost like any other.

05

The position you hold

Once an order fills you hold a position, and the vocabulary changes again. Four of the words below are units of size, and they confuse people because each market chose a different one for the same idea.

Term	In a line
Going long	you profit if the price rises.
Shorting	you profit if the price falls.
Leverage	controlling a position larger than your money.
Margin	the part of your money held against that position.
Margin call	a demand for more money, or the position is closed.
Lot	the size unit in forex; a standard lot is 100,000 units.
Pip	the smallest standard price step in a currency pair.
Position size	how much you are holding, in whatever unit applies.
Exposure	how much of your account is at risk right now.
Drawdown	how far your account has fallen from its own peak.
Hedge	a second position taken to offset the first.

The words for what you are holding once the order fills. Four of them are units of size, and the reason beginners confuse them is that each market chose a different one for the same idea.

Leverage and margin are two views of one arrangement. Leverage is the multiple: twenty to one means you control twenty pounds for every one you put up. Margin is the pound. A margin call is what happens when the position has lost enough that the pound no longer covers it.

One per cent against you, at four levels of leverage. The bars are what that single per cent takes out of the account, and the reason the last one is drawn in full is that it is not an edge case: a hundred to one is an ordinary retail offer.

That is the definition doing the work it usually does not. A one per cent move against a hundred-to-one position takes the whole account, and a hundred to one is not an exotic arrangement — it is an ordinary retail offer in several markets. The word for the mechanism is leverage in both directions, which is precisely the problem with the short definition.

06

What it costs before it is right

Every trade has a bill that arrives whether the idea was good or not. These are the words for it.

Term	In a line
Spread	the gap between bid and ask; paid on entry.
Commission	a fee per trade, charged by the broker.
Swap	the overnight financing on a leveraged position.
Slippage	the difference between the intended price and the fill.
Round turn	the cost of a trade counted both in and out.
Cost basis	the price you paid, once costs are included.

What the trade costs before it is right or wrong about anything. Each of these is taken automatically, and the last two are the ones a beginner's plan usually forgets to subtract.

The first two are visible and get budgeted. The last two are the ones a beginner's plan usually forgets: overnight financing on a leveraged position accrues every night, and slippage never appears in a fee schedule because it is not a fee — it is the difference between the price you planned around and the one you got.

Where the money goes on one ordinary trade, in the order it leaves. A method tested on the close-to-close move has skipped every step but the third, which is why a backtest can be profitable and its live account not be.

A method tested on the close-to-close move has skipped every step in that figure except the third. That is the mechanical reason a backtest can be profitable while the live account is not, and it is why this paper's last section lists backtest among the words that need more than a line.

07

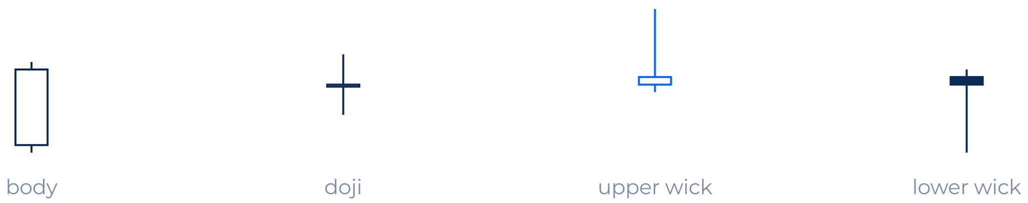
The words on the screen

These are the terms a written definition serves worst, so this section draws them.

Term	In a line
Candle	one bar: the open, high, low and close of a period.
Body	the distance between the open and the close.
Wick	the thin line to the extreme the price reached and left.
Doji	a candle that closed roughly where it opened.
Gap	a jump between one candle's close and the next one's open.
Support	a level price has repeatedly stopped falling at.
Resistance	a level price has repeatedly stopped rising at.
Breakout	price leaving a level it had been respecting.
Trend	a sequence of higher swings, or of lower ones.
Range	price moving between two levels rather than past them.
Timeframe	how much time each candle contains.
Technical analysis	reading the price record rather than the business.

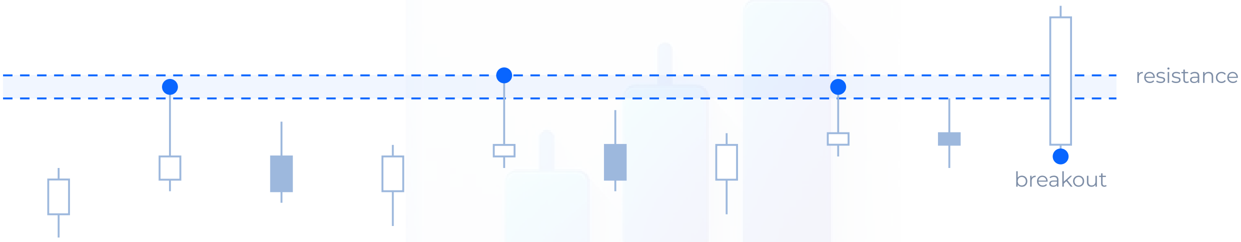
The words on the screen. These are the ones a written definition serves worst, so the next two figures draw them; a definition of a wick that contains no wick asks you to picture the thing being explained.

A candle is four numbers and nothing else: where the period opened, where it closed, and the two extremes it reached in between. The body is the distance between open and close. The wick is the record of a price that was reached and then left, which is a different kind of information from the body and is why the two are drawn differently.



Four candles, and every word from the top of that table. The first has a long body and almost no wick; the second is a doji; the third left a long upper wick, which is the record of a price that was reached and rejected; the fourth is the same shape inverted.

Support and resistance are the other pair worth seeing rather than reading. Neither is a line that exists in the market. Both are a description of what price has already done at a level more than once, and the moment it stops doing it, the same drawing is called a breakout.



Support and resistance, which are not lines in the market but a description of what price has done twice already. The zone is drawn where it was found; each mark is a bar that reached it and turned. The last one goes through, and that is a breakout.

Notice what that figure needed before it could say anything: three prior turns. A level marked after one touch is a line through a coincidence, which is the subject of a whole paper in this library rather than a glossary entry.

08

Judging a company

A separate vocabulary, for reading the business instead of the price record. Every term here is a ratio or a line from a document, and none of them is a forecast.

Term	In a line
Fundamental analysis	reading the business rather than the price record.
Balance sheet	what the company owns and owes on one date.
Capital	the money put to work in the business.
Earnings per share	profit divided by the number of shares.
P/E ratio	share price divided by earnings per share.
Book value	assets minus liabilities.
Price-to-book	share price against that book value per share.
Intrinsic value	what somebody's model says the share is worth.
Dividend	a share of profit paid out to shareholders.
Yield	that payment as a percentage of the price.
Profit margin	profit as a percentage of revenue.
Return on investment	gain against what was put in.

The words for judging a business rather than a chart. Every one is a ratio or a line from a document, and none of them is a forecast — which is the whole distinction between this vocabulary and the one before it.

The ratios are less independent than they look. Most are computed from one another, so a company that reports its revenue generously moves every number below it at once.

Reported	revenue, the money that came in
Minus costs	profit, and profit margin against revenue
Divided	earnings per share: profit over share count
Against price	the P/E ratio, which is what gets quoted

How the ratios stack. Each rung is computed from the one above it, so an error in the top line reaches every number below — and the last rung is the one people quote, which is why a low P/E can be low for a reason a screen cannot see.

The bottom rung is the one that gets quoted, and it is a fraction with a share price on top. That is worth holding on to: a P/E can fall because the business improved, or because the price collapsed, and the number alone cannot tell you which of those happened.

09

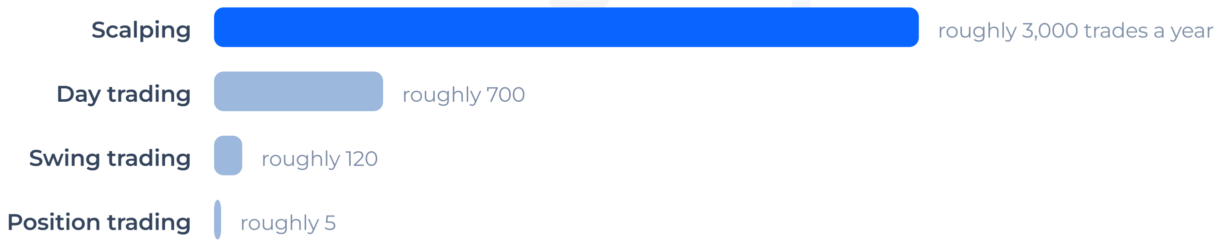
Ways people trade

These read like strategies and are not. They are holding periods, and the choice of one decides three things before any method is chosen.

Term	In a line
Scalping	many trades a day, held for minutes.
Day trading	positions opened and closed the same day.
Swing trading	positions held for days to weeks.
Position trading	positions held for months.
Value investing	buying what looks cheap against the business.
Growth investing	buying what is expanding fastest.
Dollar-cost averaging	buying a fixed amount on a fixed schedule.
Averaging down	buying more of a position that has fallen.
Fading	trading against the move that just happened.
Compound interest	returns earned on returns already earned.

The words for how often. These are not strategies, they are holding periods — and choosing one decides your costs, your screen time and how long a record takes to mean anything, which are three of the four things that decide whether it works.

Those three are your costs, your screen time, and how long a record takes to mean anything. A style that produces five trades a year cannot be assessed in a year at all, and a style that produces three thousand pays the spread three thousand times.



How many trades a year each style produces, and why that number is a cost before it is anything else. The spread is paid every time; the top row pays it about six hundred times more often than the bottom one, on the same account and the same instrument.

Two of the entries on that table are frequently mistaken for each other and should not be. Dollar-cost averaging is buying a fixed amount on a schedule set in advance, whatever the price is doing. Averaging down is buying more because the price fell. The first is a plan; the second is a response, and it is the one that turns a small loss into a large one.

10

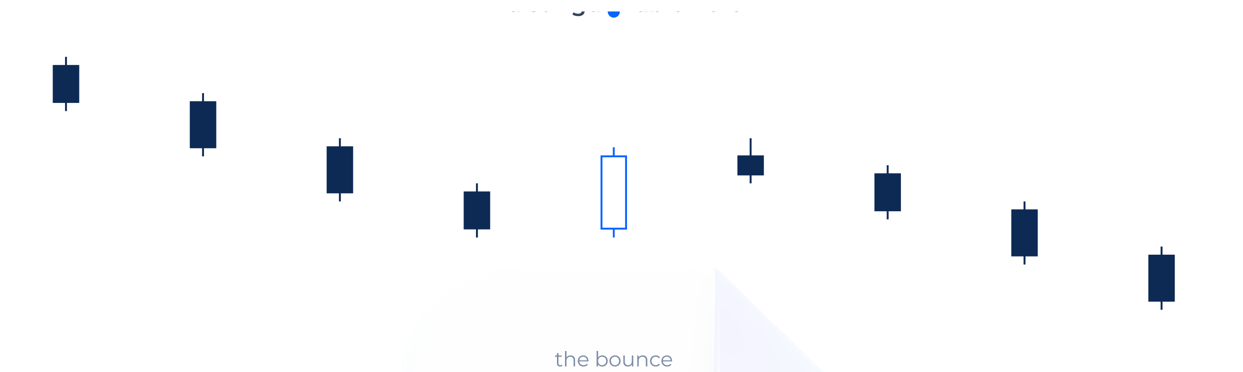
The words for what goes wrong

This vocabulary is the most repeated and the least examined, partly because a lot of it is funny.

Term	In a line
Bubble	a price far above any value anyone can justify.
Black swan	an event nobody priced, because nobody expected it.
Dead cat bounce	a brief recovery inside a fall that continues.
Panic selling	selling because others are, not because anything changed.
Tanking	falling hard and fast.
Pump and dump	inflating a price on hype, then selling into it.
Rug pull	the builders of a project taking the money and leaving.
Insider trading	trading on information the public does not have.
Short squeeze	a rise forcing short sellers to buy, raising it further.
Long squeeze	the same trap, sprung on buyers instead.
Jigged out	stopped out by a wick, just before the move you wanted.

The words for what goes wrong, and the ones you will meet first because they are the most repeated. Four of them describe deliberate fraud, which is worth knowing before somebody uses one as a joke.

Four of those describe deliberate fraud rather than misfortune, which is worth knowing before somebody uses one as a joke. A pump and dump and a rug pull both have identifiable people doing an identifiable thing to somebody else's money.



A dead cat bounce, which is only ever named afterwards. The recovery at the fifth candle is real, sizeable and completely indistinguishable at the time from the start of a reversal; what makes it the one and not the other is the four candles that came after.

The dead cat bounce is on the list for a different reason: it can only be named afterwards. The recovery in that figure is real and sizeable and, at the moment it happens, indistinguishable from the start of a reversal. What makes it one and not the other is the four candles that came after it, which nobody has yet.

That is the honest shape of most of this section. These words describe patterns that are clear in hindsight, and a vocabulary that only works backwards is a vocabulary for explaining, not for deciding.

11

Everybody else in the market

The last group of ordinary words. The distinction that matters here is not size.

Term	In a line
Broker	the firm that routes your order to a market.
Market maker	a firm obliged to quote both a bid and an ask.
Retail	individuals trading their own money.
Institution	a firm trading other people's, in size.
Whale	any holder large enough to move the price alone.
Hedge fund	a private fund with few clients and wide freedom.
Holding company	a company whose business is owning other companies.
Control stock	a stake large enough to direct a company.
Unicorn	a private company valued above a billion.
Efficient market hypothesis	the claim that prices already hold what is known.

The words for everybody else in the market. The distinction that matters is not size but obligation: a market maker has to quote you a price, and nobody else on this list has to do anything at all.

It is obligation. A market maker is required to quote both a bid and an ask, which is why there is a price at all when you want to trade something nobody is currently interested in. Nothing else on that list is required to do anything, including your broker, whose obligation is to route your order rather than to get you a good one.

The efficient market hypothesis sits at the end of that table because it is the claim the rest of this library is quietly arguing with. In its strong form it says a price already contains everything known, and that no reading of the chart or the business can improve on it. It is not obviously true and not obviously false, and every paper here that counts something is a small test of it.

12

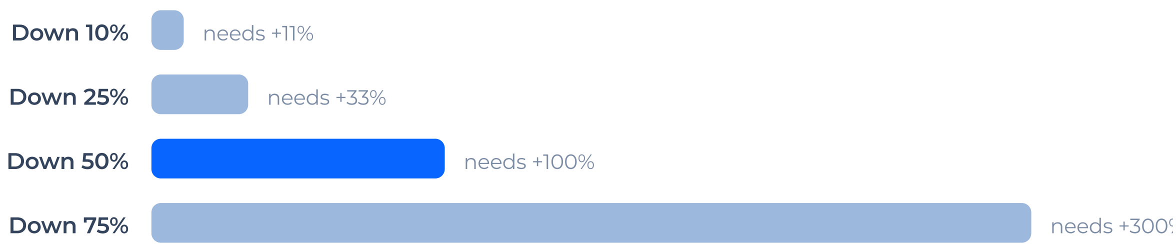
The six that need more than a line

Everything above survives compression. These do not — not because the short definitions are wrong, but because each is incomplete in the exact place that costs money.

Term	The line	The part that costs money
Leverage	controlling more than you own	the loss scales at exactly the same rate
Drawdown	the fall from your account's peak	the gain needed to undo it is larger than it
Win rate	the share of trades that won	seven small wins lose to three large losses
Average	the typical result	on a skewed distribution, nothing is typical
Backtest	the method run on past data	costs and slippage are what it usually omits
Risk-free	no chance of loss	used of things that have one; check the sentence

The six where one line is not enough. Each middle column is correct and each is the definition you will be given; the right column is the part that decides whether knowing the word protects you, and the pages that follow take them one at a time.

Leverage was covered above and is the clearest case: the definition names the upside mechanism and the same mechanism runs the other way at the same rate. Risk-free is the opposite kind of problem — it is a correct phrase attached to instruments that have risk, so the useful habit is to read the whole sentence and find out what it is claiming to be free of.



Why drawdown is the word on that list that surprises people most. The bars are the gain required to get back to the peak after each fall, and the arithmetic is not intuition: half your account gone needs a double, not another half.

Drawdown is the one that surprises people, because the arithmetic runs against intuition. A fall and its recovery are not the same size: half your account gone needs a double to get back, and three quarters gone needs a quadruple. The word sounds like a temporary dip and describes something that gets harder to undo the further it goes.

Win rate and average fail together. Seven small wins and three large losses is a seventy per cent win rate and a losing account, and an average is only a summary you can act on when the results cluster around it — which returns, notoriously, do not. Backtest is the sixth: the method run on past data is a real and useful thing, and what it usually omits is every step of the cost figure earlier in this paper.

13

Where each word goes next

A definition is where a word starts. Several of the terms above have a whole document behind them.

If you want	Read
What a candle actually records	What a Candle Says
Whether a level is real	The Structure You Drew
How long a trend lasts	How Long a Trend Lasts
What a claim has to show	What a Claim Has to Show
What the work consists of	What the Job Actually Is
What the costs come to	The Account That Doubled

Which paper takes each of these further. A definition is where a word starts; every row here is a document that spends twenty pages on what one line could only point at.

That is the intended use of this paper. Read it once in order so that no word on the screen is unfamiliar, then keep it for the section you need, and follow a row of that table when a term turns out to matter to something you are actually doing.

The three limits are worth stating plainly. Knowing the word for a wick reads no charts. Usage drifts between markets, so a lot in forex and a lot in equities are different quantities under one word. And some terms on these pages are marketing rather than description — risk-free and guaranteed are sales words wherever they appear, and the vocabulary is doing its job when it makes you notice that.

The limit	What it means here
A definition is not a skill	knowing the word for a wick reads no charts
Usage drifts by market	a lot in forex and a lot in equities differ
Some terms are marketing	risk-free and guaranteed are sales words

Three limits, in the spirit of the rest of this library. None of them is a reason to skip a glossary; all three are reasons not to mistake one for an education.

> Educational content only. Nothing in this document is financial advice, and no part of it is a recommendation to buy or sell anything.