Options Trading Glossary

Top 100 Essential Terms for Traders & Investors

A professional reference guide covering the most important concepts, strategies, and terminology in options trading.

Basics

Call Option: A contract giving the buyer the right, but not the obligation, to buy an underlying asset at a specified strike price before or at expiration.

Put Option: A contract giving the buyer the right, but not the obligation, to sell an underlying asset at a specified strike price.

Strike Price: The predetermined price at which the underlying asset can be bought or sold.

Expiration Date: The date on which the option contract becomes invalid.

Premium: The price paid by the buyer to the seller for the option contract.

Underlying Asset: The financial instrument on which the option is based.

Contract: A standardized agreement representing a specific quantity of the underlying asset.

Contract Size: Typically 100 shares per options contract.

Option Chain: A list of all available options for a given underlying.

Option Class: All options of the same type on a specific underlying.

Option Value

Intrinsic Value: The real value of an option if exercised immediately.

Extrinsic Value: The portion of price derived from time and volatility.

Time Value: The value based on remaining time until expiration.

In the Money (ITM): Option has intrinsic value.

Out of the Money (OTM): Option has no intrinsic value.

At the Money (ATM): Strike is close to market price.

Break-even Point: Price where trade results in no gain or loss.

Fair Value: Theoretical option price based on models.

Moneyness: Relationship between strike and underlying price.

Settlement Price: Official price used to settle contracts.

Volatility

Volatility: Degree of price fluctuation.

Implied Volatility: Expected future volatility priced into options.

Historical Volatility: Past price movement.

Volatility Skew: Variation of IV across strikes.

Volatility Smile: Pattern of higher IV in extremes.

Volatility Crush: Drop in IV after events.

Event Risk: Risk from news or earnings.

Earnings Volatility: IV increase before earnings.

IV Rank: Current IV vs historical range.

IV Percentile: Percent of time IV was lower.

Greeks

Delta: Sensitivity to price changes.

Gamma: Rate of change of Delta.

Theta: Time decay rate.

Vega: Sensitivity to volatility.

Rho: Sensitivity to interest rates.

Charm: Delta decay over time.

Vanna: Delta vs volatility.

Vomma: Vega sensitivity.

Speed: Gamma acceleration.

Color: Gamma change over time.

Market Mechanics

Bid Price: Highest buyer price.

Ask Price: Lowest seller price.

Bid-Ask Spread: Difference between bid and ask.

Liquidity: Ease of trading.

Open Interest: Total outstanding contracts.

Volume: Contracts traded.

Market Order: Immediate execution.

Limit Order: Execution at set price.

Slippage: Difference between expected and actual price.

Execution: Completion of trade.

Option Types

American Option: Exercisable anytime.

European Option: Exercisable only at expiry.

Bermudan Option: Exercisable on specific dates.

Weekly Options: Short-term options.

LEAPS: Long-term options.

Cash-Settled Option: Settled in cash.

Physically Settled Option: Delivered asset.

Binary Option: Fixed payout.

Exotic Option: Non-standard options.

Barrier Option: Triggered by price levels.

Strategies

Covered Call: Selling calls on owned stock.

Cash-Secured Put: Selling puts with cash reserve.

Protective Put: Buying puts for protection.

Long Call: Buying calls for upside.

Long Put: Buying puts for downside.

Short Call: Selling calls for income.

Short Put: Selling puts for income.

Straddle: Call and put same strike.

Strangle: Call and put different strikes.

Iron Condor: Low volatility strategy.

Advanced Strategies

Butterfly Spread: Limited risk range strategy.

Calendar Spread: Different expirations.

Diagonal Spread: Different strikes and expiries.

Ratio Spread: Unequal contracts.

Backspread: More longs than shorts.

Collar: Protective combo.

Synthetic Position: Replicates stock.

Box Spread: Arbitrage setup.

Iron Butterfly: Condor variation.

Covered Strangle: Sell call + put with stock.

Risk Management

Leverage: Control large position with small capital.

Margin: Required capital.

Assignment: Seller obligation.

Exercise: Using the option.

Early Exercise: Before expiry.

Max Profit: Highest gain.

Max Loss: Worst loss.

Probability of Profit: Chance of success.

Risk/Reward Ratio: Compare gain vs loss.

Position Sizing: Capital allocation.

Market Concepts

Time Decay: Loss of value over time.

Gamma Risk: Rapid delta changes.

Pin Risk: Price near strike at expiry.

Rolling: Adjusting position.

Hedging: Reducing risk.

Directional Bias: Market expectation.

Volatility Trading: Trading IV.

Expiration Friday: Common expiry day.

Quadruple Witching: Multiple expirations.

Market Sentiment: Investor attitude.