Glossary of investor keywords and terms

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Introduction

Every industry has its own unique terminology. Any career, interest or direction we want to pursue is inextricably linked to learning the specific jargon and phrases used in that particular field and industry.

To help you understand and navigate the jargon used by investors and traders, we have created this glossary of investor terms and expressions, which includes the most important and popular phrases and expressions. Once you have familiarised yourself with the glossary, reading and listening to market commentary and talking to other investors will no longer be like communicating in a foreign language. After studying the document, you will be able to talk to other traders in a way that makes sense of the language and jargon of the industry and understand what certain terms mean for yourself.

For some aspiring investors, it may be like learning a foreign language, but that’s what language is all about - putting meaning to words. Here you’ll learn specific words and phrases and their meanings to help you better understand market jargon.

Feel free to enjoy!

A

Algorithm, algorithmic trading – algorithmic trading is the process of using mathematical models operated by computers to execute orders according to set parameters without human intervention. Once a particular algorithm is programmed and allowed to trade during certain market conditions, the programme will trade the market itself. This can reduce the subjectivity in decision-making that human decisions are subject to.

Appreciation – an increase in the value of a national currency against other currencies and an increase in the value of an asset, good over time.

Arbitrage – a strategy that exploits the exchange rate differences of a single instrument traded on two different markets. The objective of arbitrageurs and arbitrage is to spot such a market opportunity which, after deducting transaction costs, can yield a potential risk-free profit. In addition, arbitrage ensures that prices do not diverge significantly, as the emergence of such divergence gives rise to the arbitrage opportunity.

Assets – are a resource of economic value that an individual, company or country owns or controls with the expectation that they will provide future benefits.

Ask – refers to the price at which a trader is able to purchase a financial instrument. The Ask price is higher than the Bid one.

Aussie – the common name for the AUD/USD currency pair.

B

Bar – chart types. A bar is a vertical line representing the price range of a certain period. The highest point represents the highest price at a given time, and the lowest point on the vertical line represents the lowest price. The tick on the left represents the opening price at the time, while the tick on the right represents the closing price.

Base currency – the first currency in a currency pair quotation.

Backtesting – is the process of testing a trading strategy against historical price data to determine exactly how the strategy would predict the final results.

Bid – it is the price at which a financial instrument can be sold. It is also the highest price the buyer can offer for the instrument. The Bid price is below the Ask price.

Broker – an intermediary dealing with the execution, as well as the transfer of investors' orders to the market. This entity charges clients certain fees, e.g. in the form of commissions.

Bundesbank – German Central Bank or the Central Bank of Germany.

C

Cable – is the colloquial term for the GBP/USD currency pair. The term comes from the telegraph cable that was laid under the Atlantic Ocean in 1858 to synchronise the exchange rates between the British pound and the US dollar.

Candlestick patterns – a group of formations and arrangements which result from the development of one or more candles and their occurrence at particular points on the chart, e.g. highs or lows. Candlestick patterns, in addition to price patterns, are, for many traders, the basis for analysing charts and trying to forecast further price movement.

Capital management – a way of determining methods for allocating the funds available in an investment account.

Carry trade – is the strategy of gaining potential profit by exploiting the difference in interest rates between the two currencies. The carry trade strategy involves borrowing a low-interest currency and investing the proceeds in higher-yielding assets, including the purchase of higher-interest currencies.

Central bank – the state institution that regulates the banking system in a country. This institution also controls monetary policy, e.g. by raising or lowering interest rates. It supervises the level of inflation and is responsible for issuing money.

CFD (Contract for Difference) – kit is a contract between two parties, usually referred to as a ‚buyer' and ‚seller', for the difference between the current value of an asset and its value at contract time. It allows traders to speculate on the changing value of the underlying asset without owning it. Only the financial difference between the buy and sell price or between the sell and repurchase price of the CFD in question is settled. CFDs can be based on currency pairs, stock indexes, commodities, cryptocurrencies, shares, bonds, etc.

CFTC – Commodity Futures Trading Commission is the US financial regulatory commission that was created to regulate the futures market.

Chart – a graphical representation of the change in the price of a financial instrument over time. However, there are also price charts that do not take into account time but only volatility, such as the Renko chart.

Consolidation – in technical analysis, it refers to a sideways, horizontal trend. A range of price movement in which local highs and lows are at similar levels.

Correction – a movement against the current trend.

Cross Rate – is created by putting together currency pairs without the US dollar (USD), e.g. EUR/GBP.

Currency pair – it is the combination of two currencies, i.e. the base currency and the quoted currency, forming an exchange rate.

D

Day trader – a term used to describe a speculator, a trader who opens and closes positions on the market on the same day. Therefore, they practice day trading.

Day trading – a style of trading that involves opening and closing trades within the same trading day.

Dax – Deutscher Aktien Index (German stock market index). An index of the 30 largest German stock companies.

Dealer – a person who executes orders on behalf of, for example, a broker.

Dealing Desk – a special department within a broker's structure, usually of the Market Maker type, where clients' trades can be confirmed or rejected, as well as where new prices can be quoted at which to trade.

Demo – short for a demonstration account. An account that allows virtual funds to be traded, e.g. to learn about a platform or test a trading strategy.

Derivatives – financial instruments (such as a futures contract, option or warrant) that have no intrinsic value but derive their value from an underlying asset such as a commodity, currency, security, etc.

Devaluation – is an administrative or statutory decrease in the official price of a country's currency, expressed in other countries currencies. The purpose of devaluation may be to improve a country's balance of payments and make exports more attractive.

Downward trend – a downward trend is formed when the price of an instrument sets lower and lower lows and lower and lower highs.inwestycyjny (zysk lub stratę).

E

EBC – European Central Bank. The entity that manages monetary policy in the euro area countries. The European Central Bank is the issuer of the single euro currency. It also sets interest rates for the euro area countries as the supreme central bank over the banks of the individual euro area countries. Above all, the ECB's task is to ensure price stability in the euro area economy.

ETF – Exchange Traded Fund is an investment product that resembles a classic mutual fund, except that the listing of ETF units takes place smoothly on the exchange throughout the session. At any time during the session, an investor can buy or sell ETF units at a price visible on the market. The main function of ETFs is to reflect the movements of market indexes, commodities, bonds, etc., in a low-cost manner. This is known as a passive fund and is designed to reflect the returns earned by the underlying market, as opposed to beating it, as actively managed funds attempt to do.

F

Fed funds rate – the interest rate on Fed funds is an important benchmark for financial markets. The interest rate that a borrowing bank pays to a lending bank for borrowing funds is negotiated between the two banks, and the weighted average of this rate for all such transactions is the effective federal funds rate. The US central bank determines at its meetings the range for the federal funds rate within which this short-term interest rate can move.

Fed, Federal Reserve System, Federal Reserve of the United States – the central bank of the United States. The Federal Reserve System comprises the Board of Governors, 12 Federal Reserve Banks, and the Federal Open Market Committee. The Fed's main tasks include seeking maximum employment, pursuing price stability, ensuring the stability of long-term interest rates, striving for stable economic growth, ensuring stability in currency markets, and promoting the financial system's stability. The Fed is also the issuer of the US dollar.

Fibonacci – actually Leonardo Pisano (Leonardo of Pisa), also known as Leonardo Fibonacci. Italian mathematician, born in Pisa around 1175. He discovered a simple series of numbers that created ratios that described the natural proportions of things in the universe. As the financial markets developed, investors and traders around the world began to look at the graphs of individual financial instruments, looking for relationships that we know from nature to identify turning points in the market. Based on these observations, a set of Fibonacci measures were defined for the financial markets that we still use today.

Flash crash – it is an event that occurs in electronic trading on securities markets in which the automatic withdrawal of orders sharply increases price declines. The result appears to be a rapid sell-off of the financial instrument, which can occur within minutes, causing a sharp plunge in the relevant market.

FOMC – Federal Open Market Committee is the body responsible for setting monetary policy, overseeing open market operations in the United States and setting money supply targets. The Committee has 12 members who meet under the chairmanship of the Chairman of the Board of Governors of the Federal Reserve. At its meetings, which take place every six weeks or so, the Committee decides, among other things, the range for the federal funds rate.

Forex – Foreign exchange market. It is the largest market in the world in terms of turnover, where currencies are exchanged. Average daily turnover can reach or exceed 5 trillion USD. It is a decentralised, over-the-counter market that operates five days a week, 24 hours a day. The participants of this market can be central banks, commercial banks, mutual funds, corporations, companies or individuals.

Fibonacci – właściwie Leonardo Pisano (Leonardo z Pizy), znany również jako Leonardo Fibonacci. Włoski matematyk ur. ok. 1175 r. w Pizie. Odkrył prostą serię liczb, które stworzyły stosunki opisujące naturalne proporcje rzeczy we Wszechświecie. Wraz z rozwojem rynków finansowych inwestorzy i traderzy z całego świata zaczęli przyglądać się wykresom poszczególnych instrumentów finansowych i szukać na nich zależności, które znamy z przyrody, aby określić punkty zwrotne dla rynku. Na podstawie obserwacji określono zestaw mierzeń Fibonacciego dla rynków finansowych, którymi posługujemy się do dziś.

Fundamental analysis – is a method of market analysis that focuses mainly on the impact of economic, political and environmental events on prices on the financial markets. Using fundamental analysis, investors and analysts attempt to estimate, for example, the future price of currency pairs, share prices, stock indices or raw materials.

Futures contract – it is a standard contract between transaction parties to buy or sell a specific commodity or asset at a predetermined price at a specific time in the future.

G

G7 – a group of the world's seven most important countries in economic respects. They include the USA, Germany, the UK, Italy, France, Japan and Canada.

H

Head and shoulders – abbreviated as RGR, a popular technical analysis formation that can forecast a reversal of a previous trend in a given market.

Hedging, hedge – is an investment technique designed to compensate for a potential loss from one investment by opening a second trade in the opposite direction or a market correlated to the instrument from the first trade.

I

Ichimoku – the Ichimoku Kinko Hyo strategy was developed before World War II in Japan. Its creator was the journalist Goichi Hosoda (alias Sagami Taro or Ichimoku Sanjin). The Ichimoku technique was presented in 1968 and was refined for more than 20 years by many people (it is worth noting that around 3,000 people worked on the project for so many years). The completed version of Ichimoku was published in a book, which initially only reached the Japanese market and gained popularity there. Literally translated, Ichimoku means „chart balance at first glance".

Inflation – an increase in the price level in the economy, a decrease in the purchasing power of money. Excessive increases or decreases in inflation can trigger central bank action and increases or decreases in interest rates.

Investment strategy – in short, it is a set of assumptions about how to invest funds in the market. Investment strategies can include issues such as capital management, position management, when to open a position, when to close a position, how to manage defensive orders, pending orders, etc.

K

Kiwi – the colloquial name for the NZD/USD currency pair. The name is derived from New Zealand's symbol of the kiwi bird.

KNF – Polish Financial Supervision Authority, an institution regulating and supervising the financial market in Poland.

KNF – Komisja Nadzoru Finansowego, instytucja regulująca i nadzorująca rynek finansowy w Polsce.

L

Leverage – leverage is a mechanism that enables you to control more funds than you have in your account. When you enter into a leveraged transaction, it can mean that even a small change in the price of an instrument can significantly affect your investment outcome (profit or loss).

Limit – an order to execute a buy or sell transaction at a specified price or a better price. It is a pending order that will only be executed when the market price reaches the level specified in the order.

Liquidity – a term for the number and size of orders in the market. The higher the liquidity, the theoretically better, as it is easier to execute a trade due to the appropriate size and number of opposite orders. The forex market has the highest liquidity in the world.

Long – a long position, in other words, the purchase of a particular financial instrument with the expectation that its price will rise over time, which could result in a potential profit for the investor.

Loonie – the colloquial name for the USD/CAD currency pair.

Lot – is the unit that determines the volume (value of the order). In the case of currency pairs, it defines the amount of buying/selling of the base currency. 1 lot is equivalent to 100,000 units of the base currency.

LSE – an abbreviation for the London Stock Exchange.

M

Margin – is the money held in a trader's account required by the broker as collateral for trades to be executed so that one side of the transaction is solvent to the other, especially when leverage is used. Typically, the margin is expressed as a percentage of the value of the transaction.

Margin call – a demand to deposit additional funds in an account to meet margin requirements due to adverse price movements and the failure of the investor's funds to cover a loss.

Market Depth – it is a list displaying the real-time volume of sell orders and buy orders at specific price levels. The list is ordered by price level and reflects the activity in a given market along with its liquidity.

Market Maker – one of the types and models of broker operation. A Market Maker type of broker creates the market for its clients on his/her own. They present prices for financial instruments, take orders and may be the other party in a transaction.

Market order – it is an order to buy or sell a financial instrument immediately at the best possible price available on a given market.

Market sentiment – it is the general feeling and expectations about a particular financial instrument, market or economy.

Micro lot – 1/100th of a standard lot, or 1,000 units of the base currency.

Mini lot – 1/10th of a standard lot, or 10,000 units of the base currency.

Momentum – it is the rate at which the price of the underlying instrument changes, either up or down. Once the price starts to gain momentum, it is considered increasingly likely to continue moving in the same direction.

N

Nasdaq – National Association of Securities Dealers Automated Quotations, a securities exchange in the United States. The Nasdaq exchange was launched on 8 February 1971 as the first completely electronic securities trading system in the world. One of the more popular indexes created by the exchange is the Nasdaq 100 index.

NDD – No Dealing Desk is a way of executing orders incoming from a broker's clients. Brokers using the No Dealing Desk model pass the trades/orders they receive from their clients directly to the liquidity providers. They do not intervene in any way between the trader and the market.

Net long – a term used to describe net long positions, most commonly in the futures market. It is the difference between long and short positions in a given market among a given group of investors.

NYSE – the New York Stock Exchange is the largest stock exchange in the world in terms of turnover and capitalisation. The exchange was established in 1817.

O

Order – an instruction to enter into a specific transaction.

Oscillator – in technical analysis, oscillators are technical indicators that move (oscillate) around a midpoint, deviating up or down from it. Extreme highs or lows tend to be considered overbought or oversold points in a given market.

OTC – over-the-counter or off-exchange trading. It is a type of financial market that does not have a single trading location or supervisor. In the OTC market, transactions take place between market participants and may be mediated by financial institutions and banks. One of the OTC markets is the largest market in the world, the forex currency market.

Overbought – it is a phenomenon when a security or instrument is believed to be trading above its true value. If the market is overbought, according to traders, it is expected to correct its price downwards in the near future. This belief is often the result of technical analysis derived from the price history of the instrument.

Oversold – it refers to an instrument whose value is above its true value. If a market is, in the opinion of traders, oversold, it is expected to correct its price upwards in the near future. This belief is often the result of technical analysis derived from the price history of an instrument.

P

Pips – short for point in percentage, is a very small measure of the change in a currency pair in the forex market. A pip is a standardised unit and is the smallest step by which a currency can change in valuation. Typically, it is 0.0001 USD for currency pairs pegged to the US dollar and 0.01 for pairs pegged to the Japanese yen, JPY. Nowadays, we can find quotations to five decimal places.

Position – taking a position means entering into a transaction for a particular financial instrument. A long position implies the desire to make a potential profit as the price of the financial instrument rises. In contrast, a short position will allow for a potential profit when the price of the underlying instrument falls.

Price formations – also known as chart formations or chart patterns. It is a set of technical analysis formations based on the shapes a chart can take, created by price movement over time. Formations have well-defined shapes.

Q

Quoted currency – in a currency pair, this is the second currency.

R

Rate – the changing price of a financial instrument over time.

Range – is the movement range within which a price moves. It defines the price spread for a specific period, for example, a day, month or year, and indicates the price volatility of financial instruments. The more volatile an instrument is, the greater its fluctuation range will be.

RBA – Reserve Bank of Australia; it is Australia's central bank responsible for conducting monetary policy in Australia and setting the level of interest rates.

Renko – a Renko chart is a type of chart showing the change in the price of Japanese origin, used in technical analysis, built based only on price movement without taking into account time.

Re-quoting – a phenomenon that occurs when a broker is unable to complete a client's order at a certain price due to unusually rapid price movement. In other words, if the broker operates an instant model and the price changes between the time the client places the order and the time it is confirmed, the client will receive a message with the new price.

Resistance, resistance level – a price level above the current market price - a potential point or area that can stop any further price increases of a particular asset.

Rollover – is an operation that involves a transaction in which the difference between the interest due on the currency borrowed and the currency bought is settled. This is the rate of interest that investors pay or gain when they hold a position open overnight. So-called swaps are then charged.

S

Scalping – an investment strategy in which traders aim to benefit from small price movements by quickly opening and closing a large number of positions in a very short period of time.

Scalping – refers to collecting just a few pips from the market in a very short period of time.

Short – a short sale is the sale of a financial asset/instrument to be bought later at a lower price, providing a potential profit to an investor who has anticipated a fall in prices in a particular market.

Sideways trend – we speak of a sideways trend when the price does not set new highs or new lows. It moves within a defined range of fluctuation, forming a consolidation.

Signal – a potential moment to take a position. A signal can come, for example, from the appearance of a particular price formation, candlestick pattern, trendline crossing, etc., as well as from the appropriate positioning of technical analysis indicators, such as an exit from overbought levels, a crossing of averages, etc. Signals can also come from fundamental analysis. Trading signals are part of the overall investment strategy.

Slippage – this may occur when a trade is executed at a price significantly different from the expected one. It usually happens when liquidity is low or during periods of high volatility when traders use market orders and stop loss orders that are automatically filled at the next best price.

SNB – Swiss National Bank; it is the central bank of Switzerland and is responsible for setting the country's monetary policy, issuing its currency, the Swiss franc (CHF).

Social Trading – meaning trading on a social basis, based on imitating the trades of other traders.

Speculation – is the act of carrying out financial transactions with a significant risk of loss solely with the expectation of significant profit.

Spike – a sudden and relatively large upward or downward price movement that occurs over a short period of time. It can occur during the publication of macroeconomic data, the execution of pending orders or, for example, during a flash crash.

Spot – in finance, spot contracts are an agreement to buy or sell a commodity, security or currency for immediate settlement (payment and delivery) on an immediate date, usually two business days after the transaction date.

Spread – the difference between the Ask and Bid (buy and sell) prices. The smaller the spread is, the better for the trader, as their trading costs are then reduced. The position has to make up the smaller difference to make a potential profit.

Stop loss – a pending order designed to cut a loss when the price of a financial instrument reaches a level set by the investor.

Stop Out – it occurs when all positions are liquidated (closed) at the market price when insufficient free funds are in the operating account to cover the open trades. It is a mechanism that will be automatically triggered when the trader's position(s) are making increasing losses.

STP, Straight Through Processing – is a straight-through processing method that directs trades directly through a broker's servers to liquidity providers without the intermediary of a dealing desk confirming trades. STP is responsible for the anonymous and very fast transmission of client orders.

Support, support level – a price level below the current market price - a potential point that can stop any further declines in a given stock.

Swap, swap points – is the interest charged when holding a position in a currency pair from day to day. Swap points can be positive or negative. They can be added to a trader's position or deducted. This depends largely on the level of interest rates at one central bank and the other central bank, whose currencies make up the currency pair involved in the transaction carried out.

Swissy – the colloquial name for the USD/CHF currency pair.

T

Take profit – it is a pending order issued to the main order, the purpose of which is to book a profit when the price reaches the level indicated by the trader.

Technical analysis – a form of analysis that involves predicting the future price of an instrument based on charts. For technical analysis, fundamental events are irrelevant. Only the charts matter. Technical analysts study the price itself, recognising that it discounts all available information, so there is no point in studying the causes, only the effects of their impact on the price of a financial instrument.

Tick – is the difference between the current price and the last quoted market price. In other words, a tick represents the quotation by which the market has moved in a given time. Unlike the pip, the tick is not a fixed number. It changes in real time depending on the prevailing market conditions. A tick is the smallest recent price movement.

Trader – a person who actively trades on the financial market.

Trading volume – this is the size of the position a trader decides to open in the market. For example, a volume of 1 lot.

Trailing stop – is a stop loss order used to protect profits or limit losses. The trailing stop follows the market price at a distance equal to a predetermined number of points/pips.

Trend – jest to zlecenie stop loss stosowane w celu zabezpieczenia zysków lub ograniczania strat. Trailing stop podąża za ceną rynkową w odległości równej z góry określonej liczbie punktów/pipsów.

Trader – is the dominant direction in which the price of an asset or market is moving.

Triparty arbitrage – this type of arbitrage results from a discrepancy between three foreign currencies that occurs when the exchange rates are not exactly the same (e.g. the EUR/GBP rate is different to what the EUR/USD and GBP/USD rates would imply). These opportunities are rare, and traders who take advantage of them usually have sophisticated computer hardware and software to automate the entire process.

U

Upward trend – we refer to an upward trend when the price of an instrument forms higher and higher highs and higher and higher lows.

V

Volatility – is a measure of the range of fluctuations by which the price of an asset is expected to change over a given period or has changed over a given period in the past.

Volume – volume, e.g. in the stock or futures market, shows how many shares or contracts have been bought or sold at a given time. Turnover is calculated based on the volume and the price of the transaction. Volume is expressed in shares and turnover in currency.