TRADERS' GLOSSARY

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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.

Out-of-the-Money (OTM) — A call option whose exercise (strike) price is above the current market price of the underlying security or futures contract. For example, if a commodity price is $500, then a call option purchased for a strike price of $550 is considered out-of-the-money.

Over-the-Counter (OTC) — Securities not traded on exchanges (generally because they fail to meet listing requirements). They are traded directly via computer or by phone.

Range — Difference between the high and low price during a given period.

Retracement — A price movement in the opposite direction of the previous trend.

Spike — A sharp rise in price in a single day or two; may be as great as 15-30%, indicating the time for an immediate sale.

Pip — The smallest price unit for a given currency or commodity. In the case of US dollars: one cent.

Stochastics Oscillator — An overbought/oversold indicator that compares today's price to a preset window of high and low prices. These data are then transformed into a range between zero and 100 and then smoothed.

Stop-Loss — The risk management technique in which the trade is liquidated to halt any further decline in value.

Support (Resistance) Line — On a chart, a line drawn indicating the price level at which falling (rising) prices have stopped falling (rising) and have moved sideways or reversed direction.

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

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

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

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

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 for smoothing.

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.

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