

Trading Terminology

Bid

Price where one is willing to buy.

Offer

Price where one is willing to sell.

Spread

The difference between the offer and the bid.

Example

A market is 10 bid and 12 offer (10 at 12); 10 is the buying level and 12 is the selling level. The spread is 2.

Sell

When you sell in the market it means that you sell the bid. Please think about this as it can be confusing.

Buy

When you buy in the market it means that you buy the offer. Please think about this as it can be confusing.

Settlement

The actual price at which the product settles (see the example in the end).

Long

Anything that you buy from a neutral starting position leads to a long position.

Short

Anything that you sell from a neutral starting position leads to a short position.

Call

The right (option) to buy, not an obligation, an underlying at a predetermined price before the option expires.

Put

The right (option) to sell, not an obligation, an underlying at a predetermined price before the option expires.

Hedge

An investment or trade to reduce your existing exposure to risk.

Strike price

The strike price is the level at which an option can be exercised and the price at which the option can be bought or sold.

In the money

An option that has intrinsic value. In a call option this means that the strike price is lower than where the underlying is trading.

Out of the money

An option without intrinsic value. In a call option this means that the strike price is higher than where the underlying is trading.

Market Making Explanation

Make a market on the number of stolen bikes in Amsterdam a day. The unit for final profit/loss is 1 EUR per 1 bike.

THIJS

MARKET MAKER FLOOR

The spread should be max.10% wide.
The offer price cannot be more than 10% higher than the bid price.

There are around 800,000 people in Amsterdam and around 1/10 of my friends get their bike stolen every year.

I can buy at 210 and can sell at 231.

I'll buy!

I can buy at 225 and can sell at 247.

I'll buy!

I can buy at 240 and can sell at 264.

I think the actual number is around 250.

Google

On average, 200 bicycles are stolen in Amsterdam every day.

The settlement is 200 bikes. Floor sold one unit at 231 and one unit at 247, so her profit and Thijs' loss is 78 EUR.