

Options:

Calls: An option contract giving the owner the right (but not the obligation) to buy a specified amount of an underlying security at a specified price within a specified time.

Puts: An option contract giving the owner the right, but not the obligation, to sell a specified amount of an underlying asset at a set price within a specified time. The buyer of a put option estimates that the underlying asset will drop below the exercise price before the expiration date.

Expiry, Strike Price, Dividend, Interest Rate, Volatility

Greeks:

Delta: The ratio comparing the change in the price of the underlying asset to the corresponding change in the price of a derivative. Sometimes referred to as the "hedge ratio".

Gamma: The rate of change for delta with respect to the underlying asset's price.

Mathematically, gamma is the first derivative of delta and is used when trying to gauge the price of an option relative to the amount it is in or out of the money.

When the option being measured is deep in or out of the money, gamma is small. When the option is near the money, gamma is largest.

Volatility: A statistical measure of the dispersion of returns for a given security or market index. Volatility can either be measured by using the standard deviation or variance between returns from that same security or market index. Commonly, the higher the volatility, the riskier the security.

A variable in option pricing formulas showing the extent to which the return of the underlying asset will fluctuate between now and the option's expiration. Volatility, as expressed as a percentage coefficient within option-pricing formulas, arises from daily trading activities. How volatility is measured will affect the value of the coefficient used.

Vega: The amount that the price of an option changes compared to a 1% change in volatility.

Theta: A measure of the rate of decline in the value of an option due to the passage of time. Theta can also be referred to as the time decay on the value of an option. If everything is held constant, then the option will lose value as time moves closer to the maturity of the option.

Equalities:

Long Stock = Long call + Short put

Short Stock = Short call + Long put

Long call = Long stock + Long put

Short call = Short stock + Short put

Long put = Short stock + Long call

Short put = Long stock + short call

Trading Psyche:

Individuality

Discipline

Stress capabilities

Work ethics