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## A Glossary of Terms

**Algorithm Trading:** In financial markets, an algorithm is a complex set of mathematical rules for trade orders run on computers. Written to remove human emotion from the trade, the computerized algorithm decides key aspects of trades such as the timing, price, or even the final quantity. Widely used by hedge funds, also referred to as algo trading, black box trading, or robo trading.

**AutoTrading:** A unique Collective2 feature that fully automates trades, allowing investors to turn their computers off and go about their routines without fear of missing a transaction. The web-based service does not require any special software.

**Day Trader:** Someone who buys and sells financial instruments like stocks, options, futures, derivatives, and currencies within a single trading day; positions will usually be closed before the market closes on a trading day. Depending on one's strategy, this may involve from several to hundreds of daily transactions

**Forex:** Short for foreign exchange, in trading terms it means buying and selling currencies. A bit of a misnomer because the U.S. dollar may be involved. For instance, an investor may short the dollar while going long on the Euro or Yen.

<b>Futures:</b>	Standardized, transferable contracts requiring delivery of a commodity, bond, currency, or stock index, at a specified price, on a specified future date. Unlike options, futures convey an obligation to conduct the transaction. The exchange of assets occurs on the date specified in the contract with losses on one side of the trade equaling profits on the other.
<b>Hedge Fund:</b>	Primarily used by wealthy individuals and institutions, hedge funds employ aggressive strategies not available to mutual funds. Often aided by complex algorithms and powerful computers, activities include selling short, leverage, program trading, swaps, arbitrage, and derivatives. Exempt from many of the rules and regulations governing other mutual funds, hedge funds typically follow aggressive investing goals. By law, each hedge fund can have no more than 100 investors, and must maintain high investment minimums.
<b>Institutional Day Trader:</b>	One who works for a financial institution such as a broker-dealer. Available tools include large amounts of capital and leverage, large availability of fresh funds, dedicated and direct lines to data centers and exchanges, and expensive, high-end trading and analytical software.
<b>Limit Order:</b>	An order to buy or sell a security at no more than or no less than a specified price. This protects an investor by controlling the price at which a trade is executed. By its nature, a limit order means a transaction won't execute if the specified price never materializes.
<b>Margin:</b>	Allows investors to use borrowed funds from a broker to make investment purchases. Stated

in percentage terms, margin means the amount of equity in a trade. A margin of 50 percent means the investor must put up \$5,000 for a \$10,000 trade.

**Margin Account:** A brokerage account authorizing the use of margin trading. To open a margin account, investors must deposit an initial amount of \$2,000 in cash or securities

**Options:** The right but not the obligation to buy or sell specific amounts of a given stock, commodity, currency, index, or debt, at a specified price, called the strike price, during a specified period of time. A buy order is a call option. A sell order is a put option.

**Retail Day Trader:** One who works for himself or in partnership with a few others. A retail trader generally trades with his own capital, though he may also work with other people's money. Securities laws restrict the amount of other people's money a retail trader may manage. In the U.S., day traders may not advertise as advisors or financial managers.

**Stop Order:** An order to buy or sell once the price of a security has climbed above or fallen below a specified price. A broker enters a market order once the specified price is reached.

**Stop Limit Order:** A trading tool that combines the features of a stop order and a limit order. Once the stop price is reached, the stop-limit order becomes a limit order to buy or to sell at no more than or less than a specified price. As with all limit orders, a stop-limit order will not get filled if the security's price never reaches the specified limit price.

**Stop Loss Order:** Becomes a market order for a broker once a security sells at or below a specified stop

price. It is used to protect oneself against a potential downward slide in a security.

**Trading System:**

Simply put, a trading system is a collection of formulas and rules that generate buy and sell recommendations based on price, volume or other data. Among other items, these rules typically include exit strategies for adverse conditions and orders to take profits after a certain amount of market gains. Hedge funds and other institutional investors typically employ computer-operated algorithmic trading to remove emotion and detect trends before human traders can spot movements.