Glossary · A–E

30 terms

01
Algorithmic trading
Automated, rules-based trading executed by software — institutionally, mostly market making, large-order execution, and arbitrage, not hunting individual retail accounts.

02
Ask
The price at which you can buy an instrument — the higher of the two prices in a quote.

03
ATR (Average True Range)
A measure of an instrument's average price movement over a recent period, used to set stops that scale with current volatility instead of a fixed pip count.

04
Averaging down
Adding to a losing position at a worse price, hoping a small bounce brings the whole position back to break even. It makes the position bigger exactly when the trade is wrong.

05
Balance
Your account's value based only on closed, settled trades — doesn't move while a position is open.

06
Bid
The price at which you can sell an instrument — the lower of the two prices in a quote.

07
Breakeven win rate
The minimum win rate a strategy needs, given its reward-to-risk ratio, just to avoid losing money overall.

08
Buy limit / Buy stop
A buy limit waits for price to fall to a better level; a buy stop triggers a purchase once price breaks above a level, confirming a move already underway.

09
Candlestick
A chart bar that summarizes one period with four prices: open, high, low and close. The body spans open to close, and the wicks reach the high and the low.

10
Carry trade
Buying a higher-interest currency funded by a lower-interest one to earn the rate difference. It pays while markets are calm and can lose quickly in a risk-off move.

11
Central bank
The institution (e.g. the Federal Reserve, ECB, Bank of England) that sets interest rate policy for a currency — among the highest-impact drivers of currency movement.

12
Chart pattern
A recurring price shape (head and shoulders, double top, triangle, flag) reflecting common crowd behavior like momentum, exhaustion, or consolidation.

13
Commission
An explicit, separate fee charged per trade, usually per lot — one of two components (with spread) that make up total trading cost.

14
Commodity currency
A currency of a country that earns much of its income from exporting raw materials, such as AUD, CAD and NZD. It often follows commodity prices, though the link is a tendency, not a rule.

15
Correlation
A measure from -1 to +1 of how closely two instruments move in relation to each other.

16
CPI (Consumer Price Index)
A measure of how fast consumer prices are rising, and the most-watched inflation report. Markets react to the surprise versus the forecast, not to the number alone.

17

Currency pair

Two currencies quoted against each other, such as EUR/USD. The first is the base and the second is the quote: the price shows how much of the quote currency one unit of the base costs.

18

Demo account

A simulated trading account used to learn platform mechanics and forward-test strategies — useful, but unable to replicate the psychological weight of real money.

19

Devaluation

A deliberate cut in the official value of a currency under a fixed or pegged system, such as the UK pound falling from $2.80 to $2.40 in 1967. Under a float, the term for a market fall is depreciation.

20

Discretionary trading

A trading approach relying on in-the-moment judgment rather than fully fixed rules — more adaptable, but harder to backtest and more exposed to emotional bias.

21

Divergence

When price makes a new high or low that an oscillator like RSI fails to confirm — sometimes read as an early sign of weakening momentum.

22

Diversification

Running more than one trading approach to smooth an equity curve — only effective when the strategies are genuinely uncorrelated, not just the same bet duplicated.

23

Doji

A candle whose open and close are almost equal, leaving a tiny body. It shows indecision between buyers and sellers, and can hint at fading momentum or just a pause.

24

Double top / double bottom

A reversal pattern of two peaks (or two troughs) at about the same level, confirmed when price closes through the neckline between them. Many such patterns fail.

25

Drawdown

A decline in account value from a peak — the basis for the "unforgiving" recovery math showing why big losses need disproportionately bigger gains to recover from.

26

ECN (Electronic Communication Network)

A no-dealing-desk broker model that routes orders into a pool of liquidity from multiple banks and traders, rather than filling them internally.

27

Engulfing pattern

A two-candle pattern in which the second candle's body completely covers the first one's and has the opposite color. It shows a sudden shift in control.

28

Equity

Balance plus floating profit or loss — the true current value of your account if everything were closed right now. Drives your margin level, not balance.

29

Exotic pair

A major currency paired with a currency from a smaller or emerging economy — typically wider spreads and more event risk than majors or minors.

30

Expert Advisor (EA)

A program that follows written trading rules and places, manages and closes trades automatically on a platform such as MetaTrader. Also called a trading bot or robot.