

AA-06

THE LANGUAGE OF THE MARKET

The core vocabulary traders use every day — defined for humans.

Alpha Academy · Team Alpha Trading

The Language of the Market

Traders have their own slang, and at first it sounds like a foreign language. Someone says "I'm long, the tape looks strong, but watch that resistance level" — and a beginner hears nothing. Here is the good news: the core vocabulary is small. Learn the few dozen words in this chapter and you will understand most of what traders, news anchors, and trading apps are actually saying.

We will go slowly. Every term gets a plain definition, then a tiny example so you can hear it used the way traders really use it. By the end, you will be able to read a typical market sentence and translate it into plain English.

> **NOTE**
> Words do not make anyone money — understanding them just keeps you from being confused while you learn. Treat this chapter like a phrasebook you will keep coming back to.

Bulls, Bears, and the Mood of the Market

- **Bull / bullish.** A **bull** is someone who believes prices will go **up**. **Bullish** means feeling positive about a price rising. The image is a bull thrusting its horns upward. *Example: "I'm bullish on this stock — I think it goes higher."*
- **Bear / bearish.** A **bear** believes prices will go **down**. **Bearish** means feeling negative. The image is a bear swiping its paws downward. *Example: "He turned bearish after the bad sales report."*
- **Bull market.** A long period when prices in general are rising — commonly described as a rise of 20% or more from recent lows. *Example: "Stocks were in a bull market for years after 2020's bottom."*
- **Bear market.** The opposite: a long decline, commonly described as a fall of 20% or more from recent highs. *Example: "In a bear market, even good companies get cheaper."*

> **NOTE**
> Those 20% lines are conventions — labels journalists and analysts agree on — not laws of nature. A market does not change its behavior the day it crosses 19% to 20%.

- **Green day / red day.** On charts and apps, **green** means the price went up and **red** means it went down. A "green day" is a day your stock (or the whole market) rose. *Example: "Finally a green day — my account is up 2%."*
- **Rally.** A strong move upward over hours, days, or weeks. *Example: "After the good jobs report, stocks rallied all afternoon."*
- **Pullback.** A small, temporary dip during an overall uptrend — prices rising overall, taking a short step back. Traders often see pullbacks as normal breathing, not danger. *Example: "The stock is up this month despite Tuesday's pullback."*
- **Correction.** A drop of about 10% or more from a recent high — bigger than a pullback, smaller than a bear market. Also a convention, not an exact law. *Example: "Analysts called the 12% slide a healthy correction."*
- **Crash.** A sudden, violent drop — think double-digit percentage falls in days, with panic in the air. Crashes are rare, fast, and emotional. *Example: "In the 2020 crash, the market fell about a third in a month."*

A quick ladder to remember: a **pullback** is a small step back, a **correction** is roughly 10% down, a **bear market** is roughly 20% down, and a **crash** is a bear-sized move arriving all at once.

Your Position: Long, Short, In and Out

- **Position.** What you currently own or owe in a trade — your stake. If you buy 50 shares, your position is 50 shares. *Example: "My position is small while I'm learning."*
- **Long.** You are **long** when you own something and profit if its price rises. Buying a stock the normal way puts you long. *Example: "I'm long 100 shares of Acme at $50 — I need it above $50 to make money."*
- **Short.** You are **short** when you profit if the price **falls**. Shorting means selling something you borrowed, planning to buy it back cheaper later. It is an advanced move with serious risk, covered in a later chapter. *Example: "She shorted the stock at $80, hoping to buy it back at $70."*
- **Entry.** The price (and moment) where you start a trade. *Example: "My entry was $50.10, right after the open."*
- **Exit.** The price where you end the trade — hopefully planned before you entered. *Example: "His exit was $54, where he took his profit."*

Every trade is just: choose a **position**, mark your **entry**, and eventually take your **exit**. Everything else in trading is deciding those three things well.

The Scoreboard Words: Volume, Liquidity, Volatility

- **Volume.** How many shares changed hands in a period — the market's activity meter. High volume means lots of people trading; low volume means a quiet market. *Example: "Ten million shares traded today — huge volume."*
- **Liquidity.** How easily you can buy or sell something quickly at a fair price. Cash is perfectly liquid; a famous stock is highly liquid because buyers are always there. An illiquid (hard-to-trade) stock can trap you. *Example: "That tiny stock has no liquidity — when I tried to sell, nobody was buying."*
- **Volatility.** How much and how fast a price swings. A calm stock might move 0.5% a day; a volatile one can jump 8% before lunch. High volatility means bigger possible gains *and* bigger possible losses. *Example: "Earnings week is always volatile for this stock."*
- **Spread.** From the last chapter: the gap between the **bid** (what buyers offer) and the **ask** (what sellers want). A tight spread means cheap, easy trading; a wide spread is a hidden cost. *Example: "The spread was only a penny, so getting in and out was cheap."*
- **Level 2.** A screen showing the line of buyers and sellers waiting at different prices — not just the best bid and ask, but the whole queue behind them. *Example: "Level 2 showed a huge wall of sellers at $60."*
- **The tape.** The live stream of trades as they happen — every price and size, scrolling by. "Reading the tape" means watching that flow to sense who is winning, buyers or sellers. The name is a leftover from the paper ticker tapes of a century ago. *Example: "The tape stayed green all morning — buyers kept stepping in."*

The Trading Day: Open, Close, and Beyond

- **The open.** The moment regular trading starts — 9:30 AM Eastern Time for US stock exchanges. The first minutes are often wild, because a night's worth of news hits at once. *Example: "I never trade the first five minutes after the open — too chaotic."*

- **The close.** Regular trading ends at 4:00 PM Eastern. The **closing price** is the day's final price, the one headlines use. *Example: "It closed at $52, up a dollar on the day."*
- **Pre-market.** Trading before the open, starting as early as 4:00 AM Eastern on many platforms. Volume is thin, prices jump around, and spreads are wide. *Example: "The stock jumped 5% in pre-market on the earnings news."*
- **After hours.** Trading after the close, into the evening. Same warnings as pre-market: thin, jumpy, wide spreads. *Example: "She sold in after hours instead of waiting for tomorrow."*

> **TIP**
> As a beginner, trade during regular hours (9:30 AM–4:00 PM Eastern). Pre-market and after-hours moves often reverse by the next open, and their wide spreads quietly tax every trade.

Words for Price Levels: Support and Resistance

- **Support.** A price level where a falling stock tends to stop and bounce, because buyers step in there. Picture a floor under the price. *Example: "It bounced off $40 support three times this year."*
- **Resistance.** The opposite — a level where a rising stock tends to stall or turn back, because sellers step in. Picture a ceiling over the price. *Example: "Every rally this month has died at $60 resistance."*

Support and resistance get a full chapter later in this course. For now, just hear them correctly: floors below, ceilings above, and prices often reacting when they arrive at either one.

How Traders Judge Themselves

- **Risk/reward.** The comparison between what you could lose and what you could gain on a trade. If you risk $100 to make $300, your risk/reward is 1 to 3. *Example: "I only take trades where the reward is at least twice the risk."*
- **Win rate.** The percentage of your trades that make money. Winning 6 of 10 trades is a 60% win rate. *Example: "Her win rate is only 40%, but her winners are much bigger than her losers — so she still profits."* That example matters: win rate alone does not decide success.
- **Drawdown.** How far your account has fallen from its highest point. If your account peaked at $10,000 and is now $8,500, you are in a 15% drawdown. Drawdowns are the pain every trader must survive. *Example: "He stopped trading for a week after a 10% drawdown to clear his head."*
- **Catalyst.** An event that can move a price — an earnings report, a new product, a court ruling, an interest-rate decision. Traders watch calendars for catalysts the way sailors watch weather reports. *Example: "Earnings next Tuesday are the catalyst everyone is waiting for."*

Common Beginner Mistakes

- **Mixing up long and short.** "Long" is not about time — it means you profit when the price rises. Saying it wrong leads to placing the wrong trade entirely.
- **Thinking a correction or bear market is "the end."** These are normal, recurring weather in markets. Every historical crash has eventually been followed by recovery, though no single stock is guaranteed one.
- **Believing volatility is purely bad.** Volatility is movement. It creates the opportunities traders want — it just punishes the unprepared harder.

- **Chasing pre-market moves.** A stock up 8% before the open on thin volume often gives it all back by 10 AM. Beginners buy the excitement; the spread takes its cut either way.
- **Judging yourself only by win rate.** A trader can win 70% of trades and still lose money if the 30% of losses are huge. Risk/reward and drawdown tell the fuller story.
- **Using words you can't define.** If you cannot explain a term in this chapter in your own words, do not trade on a sentence that contains it.

Chapter Summary

- **Bullish** means expecting prices up; **bearish** means expecting them down. A **bull market** is a long rise (about +20% by convention); a **bear market** is a long fall (about −20%).
- Moves have sizes: a **pullback** is a small dip, a **correction** is about 10% down, and a **crash** is a sudden, violent fall.
- Your **position** is your stake; being **long** profits from rises, being **short** profits from falls; every trade has an **entry** and an **exit**.
- **Volume** counts shares traded; **liquidity** is how easily you can trade; **volatility** is how wildly prices swing; the **spread** is the bid–ask gap; **Level 2** shows the queue of buyers and sellers; **the tape** is the live stream of trades.
- Regular US hours are 9:30 AM–4:00 PM Eastern; **pre-market** and **after hours** are thinner and jumpier.
- **Support** is a floor under price; **resistance** is a ceiling above it.
- Judge trading with **risk/reward**, **win rate**, and **drawdown** together — and watch for **catalysts**, the events that move prices.

Check Yourself

1. A friend says, "I'm bearish here." What does she expect prices to do?
2. A stock rises for months, dips 3% for two days, then keeps rising. What is that dip usually called?
3. You buy 100 shares at $25. Are you long or short, what is your position, and what was your entry?
4. Why is trading at 7:00 AM usually riskier for a beginner than trading at 11:00 AM?
5. Your account peaked at $5,000 and is now $4,500. What are you experiencing, and how big is it?

Answers: 1) She expects prices to fall — bearish means negative on price. 2) A pullback — a small, temporary dip inside an overall uptrend. 3) You are long 100 shares; your position is those 100 shares; your entry is $25. 4) 7:00 AM is pre-market: thin volume, jumpy prices, and wide spreads, while 11:00 AM is regular hours with deep liquidity. 5) A drawdown — your account is down 10% from its peak ($500 ÷ $5,000).

> **RULE**
> Never use a market word you cannot define in one plain sentence. If you can't say it simply, you don't know it yet — and the market charges tuition for lessons learned live.