See also: Market Crashes, Liquidity, Extreme Value Theory, Portfolio Insurance, Hedging, Risk Management.

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Strike Price

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Strike price is the prespecified price that a buyer or a seller of a derivative contract agrees to use to purchase or sell an asset. It is also known as the exercise price. For example, in a call option for an XYZ company stock, the buyer of the contract has the right to purchase the XYZ company stock on or before delivery date for the strike price of X, but not the obligation. If at the expiration, strike price is above the existing spot/market price, this option contract becomes *out-of-the-money* and the holder of the contract prefers to let the contract expire. On the other hand, if the strike price is below the existing market price at the expiration, the contract becomes *in-the-money* and exercising the contract creates a positive gain for the holder. For a put option, the holder of the contract has the right, but not the obligation, to sell the stock at the strike price on or before the expiration date. If the existing market price of the stock is below the strike price, put option contract becomes *in-the-money* and the holder of the contract prefers to exercise it. However, if the strike price is below the market price, the holder of the contract lets the contract expire without exercising it.

Strong Hands

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The term "strong hands" refers to the ability/willingness of futures market participants to hold on to market positions in the face of adverse price moves. Since the margin requirements for the purchase or sale of a futures contract represent only a tiny fraction of the value of the futures contract, on average approximately 5% of the value, it is possible for market participants to obtain very significant leverage in the futures markets. And although the leverage would act as a multiplier to increase returns if the participant correctly anticipates the direction of the price movement, either up or down, of the commodity or financial instrument that is represented by the futures contract, an adverse price move can result in significant losses due to this same multiplier effect. Many small investors are quickly forced to liquidate their positions during an adverse price move. However, there is a class of market participant that is well capitalized, has a long-term view with respect to the direction of price and the conviction/ability to sustain temporary losses in pursuit of greater rewards. This group of investors is usually described as having "strong hands."