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# Stock Trading Techniques: Orders

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## Introduction

There are a number of ways for investors to buy and sell equities. These techniques allow a great deal of flexibility in how you try to achieve a return on your stock investment or hedge against possible losses. Some of the more popular techniques are discussed below.

## Market orders

When you ask your broker to buy or sell a stock for you, the transaction is known as a market order. Your broker executes the trade at the best price available in the market at the time your order is received. However, with market orders you can't be sure of the price you'll get, especially for larger orders or more thinly traded securities. Market orders usually involve the lowest commission because they involve relatively little work.

**Example(s):** You place a market order to buy 1,000 shares of XYZ Company. XYZ currently has a bid–ask spread of \$20 – \$20.10, with 200 shares being bid for at \$20 and 200 shares being offered at \$20.10. Your market order would "hit the ask" at \$20.10 for the first 200 shares. Your next 800 shares would then be executed at the next asking price(s), which could, depending on the liquidity available in the security, be substantially higher.

## Limit orders

Unlike market orders, a limit order allows you to specify the price at which you wish to purchase or sell. A buy limit order can only be executed by your broker at a price that's equal to or less than the price you specify. A sell limit order can only be executed at a price that is equal to or greater than the price you specify. In both cases the restriction is that the price has to be as good as or better than the limit price you specify—better from your perspective as either the buyer or seller.

Limit orders can protect you from a stock that experiences significant intra–day swings. Unlike a market order, where a stock can move substantially between the placement of the order and its ultimate fulfillment, a limit order allows you to restrict your trades to a specific price range. However, with a limit order, you run the risk that the order will be only partially filled, or perhaps never filled.

**Example(s):** XYZ Company's shares currently have a bid–ask spread of \$20 –

\$20.10. You place a limit order to buy 1,000 shares of XYZ Company at \$20.05 after deciding to see if you can split the spread. After placing the limit order the spread narrows to \$20.05 – \$20.10, reflecting your bid of \$20.05. After a few minutes, a seller of 500 shares decides to hit your bid and you purchase 500 shares at \$20.05. However, a few minutes later, a large institutional buyer begins to purchase XYZ and exhausts the available stock at \$20.10 all the way to \$20.20. As a result, the stock price moves up to a bid–ask spread of \$20.20 – \$20.25. The good news is that you bought 500 shares at a more favorable price than if you had just placed a market order. The bad news is that only half your order got filled.

## Stop orders

When you place a stop order, you instruct your broker to buy or sell a stock for you once it reaches a market price that you specify. The order to buy or sell is executed at market prices once the stop price has been hit. As a result, the price when the order is actually executed may be different from the stop price, especially if the market is changing quickly.

A buy stop order, which is always set above the current price, is mostly used as a technique to cover short sales (more on short selling below). In this case, a short seller of the stock could use a buy stop order to automatically buy stock once the stock price had risen to a certain point, so as to stop further losses on the short sale.

A sell stop order, which is always set at a price below the current price, can be used to lock in a certain profit level on a trade or to protect against additional price declines. The sell stop order could be used, for example, by an investor who had an unrealized gain but who wished to sell if the stock declined by more than a certain dollar amount. This way, should the stock decline to that price level and the investor wasn't watching the market at the time, the brokerage firm would automatically execute the sell order at market prices and the investor would be protected against further declines.

## Stop limit orders

If you want to target a given price even more closely, you could instruct your broker to use a stop limit order. For example, you would instruct your broker to buy a stock for you only when it is selling at or below a price you specify. Thus, the stop limit order has the same starting point as the stop order in that you set the initial hurdle for the trade price. However, by using a stop limit order, you have set a limit on the price you are willing to pay should the market price fluctuate quickly while the order is being filled. You can also place a stop limit order to sell a stock only when the bid price (the price someone is willing to pay for it) rises to a level you stipulate. Stop limit orders typically have time limits, such as a day, a week, or a month. Brokerage fees for limit orders usually cost more than market orders.

## Order duration

### *Day orders*

Unless otherwise indicated, any trading order is a day order, and is only executed, if possible, during standard trading hours on the day the order is placed. Day orders do not carry over into after-hours trading or additional days. Any market orders are automatically day orders as they can be executed immediately.

### ***Good until canceled orders***

A good until canceled order allows your order to extend over multiple days. They remain open until they are filled, you cancel them, or they expire (the expiration period varies by broker). These orders can result in partial fills spread over more than one trading day. Depending on your broker's policies, there is the possibility that you may be charged multiple commissions on each day that a part of your order is filled.

### ***All or none orders***

Some brokerage firms will allow you to place an all or none limit order which, depending on each firm's policies, will allow you to specify that an order needs to be executed completely or not at all. All or none orders allow investors to avoid partial order fills.

### ***Immediate or cancel orders and fill or kill orders***

Additional refinements to limit orders available at some brokerage firms include immediate or cancel orders and fill or kill orders. An immediate or cancel order specifies that you want your order to be executed immediately (entirely or in part) or, if that is not possible, canceled. Fill or kill orders are close cousins to immediate or cancel orders, except that they require full—not partial—execution. A fill or kill order thus will be executed immediately for the full order amount, or if that is not possible, canceled.



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