Market Talks
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Order Types: Market, Limit and Stop

How to enter a trade now or at a price you choose, how stop loss and take profit orders manage it for you, and the small details that decide when an order is filled

11 min read 8 quiz questions with answer key

FOREX · BEGINNER · LESSON 11 OF 15

Order Types: Market, Limit and Stop

IN ONE SENTENCE

A market order trades immediately at the current price. A limit order waits for a better price, and a stop order waits for the price to move through a level. Stop loss and take profit orders close a trade automatically, and a trailing stop follows the price as it moves in your favor. Knowing which order to use, and when it is triggered, lets you plan trades instead of watching the screen all day.

Market orders: trade now

The simplest order is a **market order**. You click BUY or SELL and the trade opens straight away at the best available price: a buy at the ask, a sell at the bid (Lesson 3).

Market orders have one big advantage: they are almost always filled. Their disadvantage is that the price is not guaranteed. In a fast market, or around news, the price can move between the moment you click and the moment the order is filled, so you may get a slightly different price. That difference is slippage (Lesson 9).

Use a market order when getting into or out of the trade **now** matters more than the exact price. For everything else, there are **pending orders**: instructions that wait until the price reaches a level you choose.

The four pending orders

There are four basic pending orders. Two are **limit orders**, which wait for a better price than now. Two are **stop orders**, which wait for the price to move further in the direction you expect.

- **Buy limit**: buy if the price **falls** to a level below the current price.
- **Sell limit**: sell if the price **rises** to a level above the current price.
- **Buy stop**: buy if the price **rises** to a level above the current price.
- **Sell stop**: sell if the price **falls** to a level below the current price.

An easy way to remember it: **limit orders aim for a better price**, buying lower or selling higher. **Stop orders follow the move**, buying higher or selling lower once the market has shown its direction.

One detail matters a lot: buy orders are triggered when the **ask** reaches your level, and sell orders when the **bid** does. Because charts usually show the bid, a buy order can be filled even though the chart line never seems to touch it (Lesson 3).

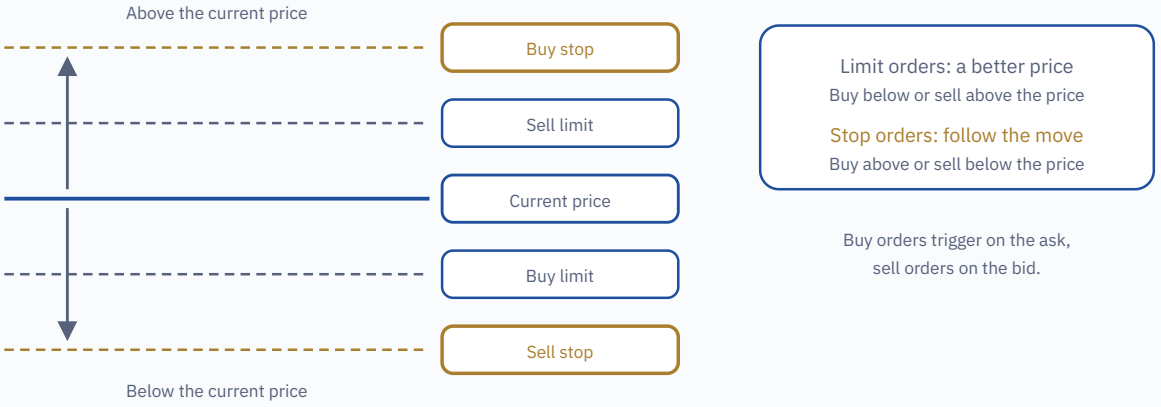


Figure 1. Where the four pending orders go. Limit orders wait for a better price; stop orders wait for the price to move further.

Limit orders: waiting for a better price

Anna likes EUR/USD at 1.0850, but she thinks the price may first pull back to a support level near 1.0820 before rising. Instead of buying now, she places a **buy limit at 1.0820**. If the price dips to that level, her order is filled at 1.0820 or better, 30 pips cheaper than buying immediately.

Limit orders give you a better entry price, and they are filled at your price or better, so there is no negative slippage on the entry. The risk is the opposite: the price may never come back to your level. If EUR/USD rises straight from 1.0835, Anna's order is never filled and she misses the move. Many traders accept this, because a missed trade costs nothing, while a bad entry can cost money.



Figure 2. A buy limit below the market is filled only if the price dips to it.

Stop orders: following a breakout

John has watched GBP/USD move sideways in a range for several days. He believes that if the price breaks above the top of the range, it will keep rising. He places a **buy stop** a few pips above the top

of the range. If the price breaks out, his order turns into a market order and he is in the trade. If the breakout never comes, nothing happens.

Stop orders let you trade only when the market confirms your idea. But because a triggered stop order becomes a market order, it can be filled at a worse price than the level you set, especially when the breakout is fast or happens on news. And breakouts sometimes fail: the price pops above the level, fills the order and falls back. That is why every stop entry needs a stop loss too.

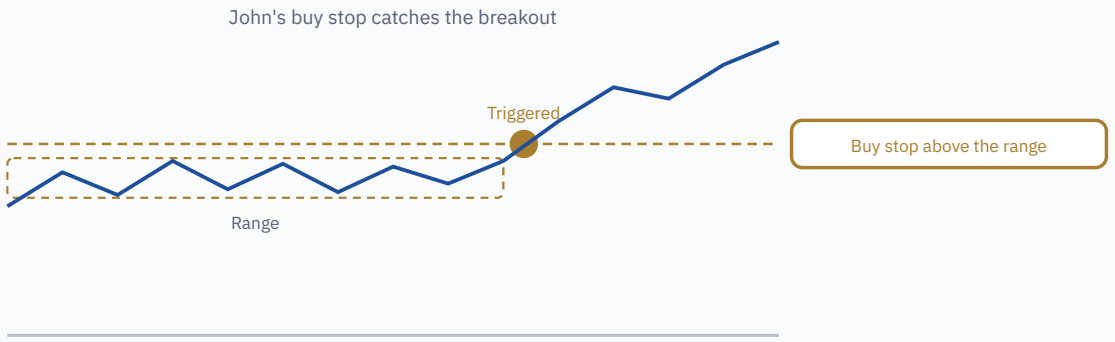


Figure 3. A buy stop above a range turns into a market order when the price breaks out.

Stop loss and take profit

The most important orders are not the ones that open trades, but the ones that close them. When you open a trade, you can attach two orders to it:

- A **stop loss** closes the trade if the price moves against you to a chosen level. On a long trade it sits below the entry; on a short trade, above it. It turns an unknown possible loss into a planned one.
- A **take profit** closes the trade when the price reaches your target. On a long trade it sits above the entry; on a short trade, below it.

Technically, a stop loss is a stop order and a take profit is a limit order, working in the opposite direction to your trade. So a stop loss can slip in a fast market, while a take profit is filled at your price or better.

Setting both before you open the trade means you decide the risk and the reward while you are calm, not in the middle of a move. Lesson 12 shows how to use the stop loss distance to choose the right position size.

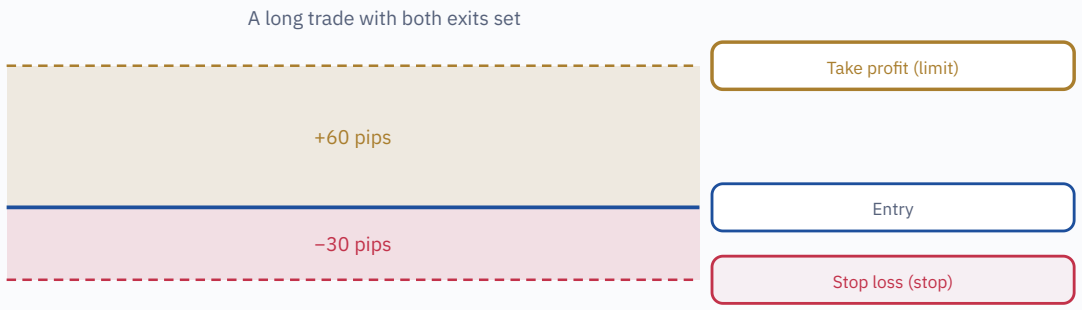


Figure 4. A long trade with a take profit above the entry and a stop loss below it. The pip distances are examples.

EXAMPLE: DAVID'S COMPLETE PLAN

EUR/USD is trading at 1.0850, above a support level at 1.0800. David places a **sell stop** at 1.0795, just below support, because he only wants to sell if support breaks. He attaches a **stop loss** at 1.0825, above the old support, and a **take profit** at 1.0735. His possible loss is 30 pips and his possible gain is 60 pips. Then he closes the platform. If support never breaks, nothing happens; if it does, the trade is fully managed by his orders.

Trailing stops: locking in profit

A **trailing stop** is a stop loss that moves automatically as the price moves in your favor, staying a fixed distance behind it. If you set a 20-pip trailing stop on a long trade, the stop rises every time the price makes a new high, but it never moves down. When the price finally turns and falls 20 pips from its high, the trade closes.

Trailing stops let a winning trade run while protecting part of the profit. Their weakness is that a normal pullback can close the trade early if the distance is too tight. On many platforms, including MetaTrader, a trailing stop only works while the platform is open on your computer, so check how your broker handles it.

Many traders prefer to move their stop loss by hand, for example to the entry price once the trade is in profit, so that the worst case becomes a small loss or break-even.

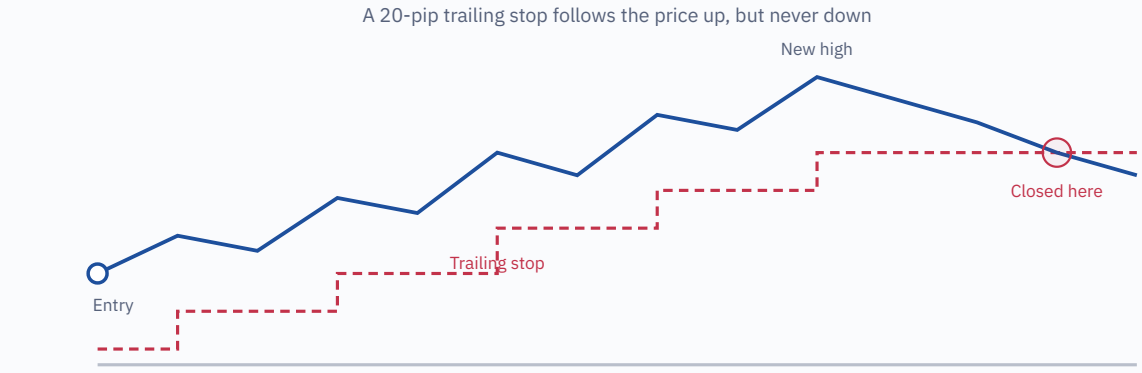


Figure 5. A trailing stop rises with each new high and stays put when the price falls, until it closes the trade.

Expiry, OCO and other useful details

A few extra settings make pending orders more practical:

- **Expiry**: a pending order can stay active until you cancel it, called **good till cancelled (GTC)**, or expire at a time you choose, such as the end of the day.
- **OCO (one cancels the other)**: two linked orders where filling one cancels the other. For example, a buy stop above a range and a sell stop below it: whichever side breaks first, the other order disappears.
- **Weekends and gaps**: if the market opens on Monday beyond your pending order, the order is filled at the first available price, which can be much better or much worse than your level (Lesson 6).

Order	Placed	Filled	Typical use
Market	No level	Now, at the best available price	Enter or exit immediately
Buy limit	Below the price	At the level or better	Buy a dip
Sell limit	Above the price	At the level or better	Sell a rally
Buy stop	Above the price	As a market order once reached	Buy a breakout
Sell stop	Below the price	As a market order once reached	Sell a breakdown
Stop loss	Against your trade	As a market order once reached	Limit the loss
Take profit	In favor of your trade	At the level or better	Lock in the target

Why this matters for traders

- **Never trade without a stop loss.** Decide where your idea is wrong before you enter, and put an order there.
- **Use pending orders to remove emotion.** Planning entries, stops and targets in advance stops you from chasing the market or freezing when it moves.
- **Remember the spread.** Buy orders trigger on the ask and sell orders on the bid. Leave a few pips of room around obvious levels.
- **Gold moves fast.** On XAU/USD, stop orders can slip more than on major currency pairs, especially around US data. Place stops where the chart says, not where it is convenient.

Key terms

Market order	An order to buy or sell immediately at the best available price.
Pending order	An order that waits until the price reaches a chosen level.
Buy limit	A pending order to buy below the current price.
Sell limit	A pending order to sell above the current price.
Buy stop	A pending order to buy above the current price, often used for breakouts.
Sell stop	A pending order to sell below the current price, often used for breakdowns.
Take profit	An order that closes a trade automatically when the price reaches a profit target.
Trailing stop	A stop loss that follows the price at a fixed distance as the trade moves in your favor.
Good till cancelled (GTC)	A pending order that stays active until it is filled or you cancel it.
OCO	One cancels the other: two linked orders where filling one cancels the other.

Key takeaways

1. A market order trades immediately but its price is not guaranteed; pending orders wait for a price you choose.

2. Limit orders aim for a better price (buy below, sell above); stop orders follow the move (buy above, sell below).
3. Buy orders trigger on the ask and sell orders on the bid, so leave room for the spread.
4. A stop loss limits the loss and can slip; a take profit locks in the target at your price or better.
5. Trailing stops, expiry settings and OCO orders help you manage trades without watching the screen.

Test yourself

Circle one answer for each question. The answer key with explanations is on the next page. You can also take this quiz online at markettalks.info and see your score instantly.

1. What is the main advantage of a market order?

A. It always gets a better price
B. It is almost always filled immediately
C. It has no spread
D. It cannot slip

2. EUR/USD is at 1.0850. You want to buy only if it falls to 1.0820. Which order do you use?

A. Buy stop
B. Buy limit
C. Sell limit
D. Sell stop

3. GBP/USD is in a range below 1.2700. You want to buy only if it breaks above 1.2710. Which order do you use?

A. Buy limit
B. Buy stop
C. Sell stop
D. Take profit

4. Which price triggers a pending buy order?

A The bid
B The ask
C The average of bid and ask
D The previous day's close

5. On a long trade, where is the stop loss placed?

A Above the entry
B Below the entry
C At the entry
D There is no stop loss on long trades

6. Why can a stop loss be filled at a worse price than its level?

A Because it becomes a market order once triggered
B Because brokers always add 10 pips
C Because stop losses only work at night
D Because it is a limit order

7. A 20-pip trailing stop is on a long trade. The price rises 50 pips, then falls. When does the trade close?

A Immediately, at entry
B When the price falls 20 pips from its highest point
C When the price returns to entry
D Never

8. What does an OCO order do?

A Opens two trades at once
B Cancels the second order when the first one is filled
C Closes all trades at the end of the day
D Doubles the position size

Answer key

1 B

It is almost always filled immediately

A market order trades right away at the best available price. The price itself is not guaranteed, especially in fast markets.

2 B

Buy limit

A buy limit is placed below the current price and buys if the price falls to that level.

3 B

Buy stop

A buy stop is placed above the current price and buys once the price rises to that level, which suits breakouts.

4 B

The ask

You buy at the ask, so buy orders are triggered when the ask reaches the level. Charts usually show the bid.

5 B

Below the entry

A long trade loses money if the price falls, so the stop loss sits below the entry.

6 A

Because it becomes a market order once triggered

Once the level is reached, a stop order is executed at the next available price. If the price jumps, that can be worse than the level.

7 B

When the price falls 20 pips from its highest point

The trailing stop follows the highest price at a distance of 20 pips, so the trade closes after a 20-pip fall from the high, locking in about 30 pips.

8 B

Cancels the second order when the first one is filled

One cancels the other: two linked orders where filling one automatically cancels the other.

SOURCES

- MetaTrader 5 Help, Types of orders: https://www.metatrader5.com/en/terminal/help/trading/general_concept/order_types
- Investor.gov (US SEC), Types of orders: https://www.investor.gov/introduction-investing/investing-basics/how-stock-markets-work/types-orders
- MetaTrader 4 Help, Trailing stop: https://www.metatrader4.com/en/trading-platform/help/positions/trailing

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