Market Talks
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STOCKS · BEGINNER · LESSON 7 OF 15

Order Types

Market, limit, stop, stop-limit and trailing stop orders: what each one does, when to use it and what can go wrong

12 min read 8 quiz questions with answer key

STOCKS · BEGINNER · LESSON 7 OF 15

Order Types

IN ONE SENTENCE

An order tells your broker what to buy or sell, how much, at what price and for how long. A market order fills straight away at the best available price, while a limit order sets the worst price you will accept. Stop orders wait in the background and act only if the price reaches a level you choose, which makes them useful for limiting losses, but they can fill at a much worse price when the market jumps.

What an order is

In Lesson 3 you saw what happens after you tap "buy": your broker sends the order to the market, where it meets an order on the other side. This lesson is about the order itself. An order is a set of instructions, and on any trading app it is built from the same five choices:

- **Side:** buy or sell.
- **Stock:** the ticker, for example BRBN, the imaginary Bright Bean shares from Lesson 6.
- **Quantity:** how many shares, or with some brokers an amount of money.
- **Order type:** market, limit, stop, stop-limit or trailing stop. This decides *how* and at *what price* the order can be filled.
- **Time in force:** how long the order stays active if it is not filled straight away.

Choosing the order type is the most important of these decisions, because it is a trade-off between **certainty of execution** and **control over price**. No order type gives you both. In this lesson every example uses BRBN with the same imaginary prices as Lesson 6: last price $42.60, bid $42.58 and ask $42.62.

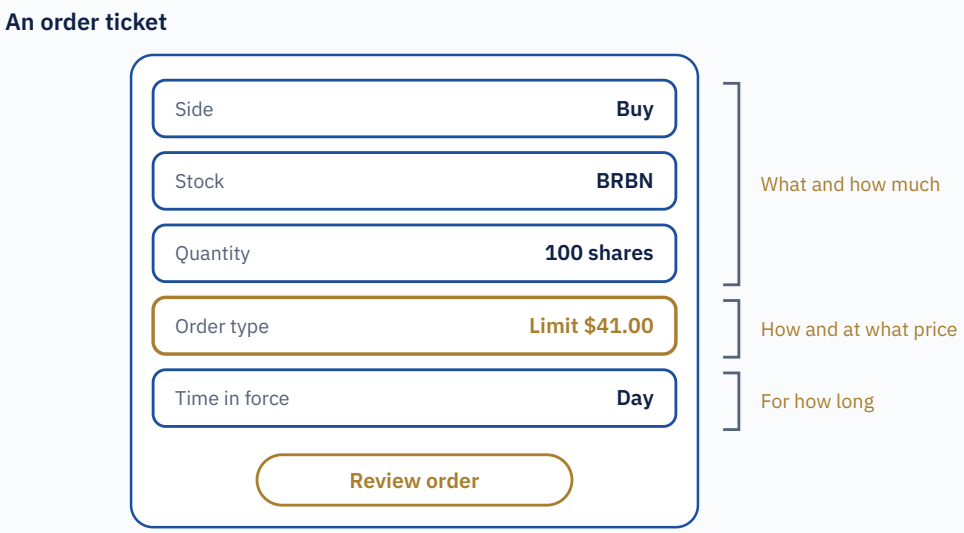


Figure 1. Every order is built from the same five choices. The order type decides how and at what price it can fill.

Market orders: fast, but no price control

A **market order** says: "buy or sell now, at the best price available". During regular trading hours it is filled almost at once, which makes it the most common order type and the default on many apps.

The catch is that you do not choose the price. A market buy order takes the lowest asks in the order book, and if your order is bigger than the shares waiting at the best ask, it moves on to the next price, as John's order did in Lesson 3. The difference between the price you expected and the price you got is called **slippage**.

For a large, busy stock with a tight spread, slippage is usually tiny. It becomes a real cost in small, thinly traded stocks, in fast markets right after big news, and at the open, when prices can jump in seconds. Outside regular hours, many brokers do not accept market orders at all.

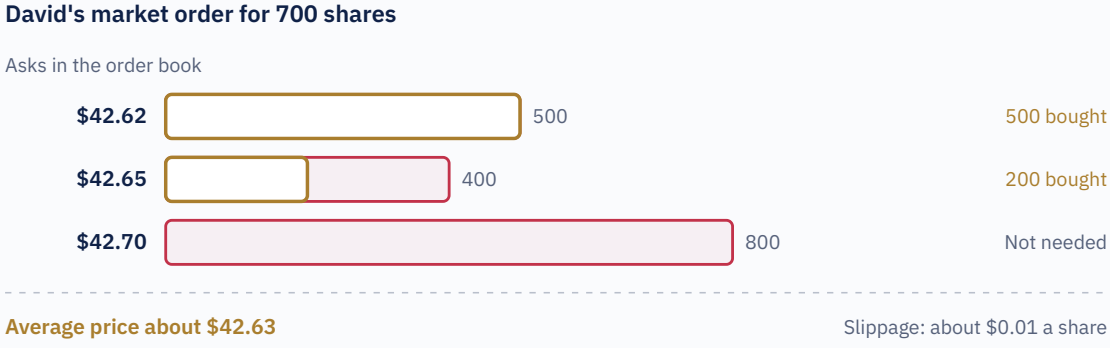


Figure 2. A market order takes the best asks first and moves up the book until it is filled.

EXAMPLE: DAVID'S MARKET ORDER

David sends a market order to buy **700 BRBN shares**. The order book shows 500 shares offered at $42.62, 400 at $42.65 and 800 at $42.70. His order takes all 500 shares at $42.62 and then 200 shares at $42.65. He pays $29,840 in total, an average of about **$42.63** per share, slightly more than the $42.62 he saw on the screen. In a stock with fewer shares on offer, the gap could have been much larger.

Limit orders: you set the price

A **limit order** sets the worst price you will accept:

- A **buy limit** fills only at your limit price **or lower**.
- A **sell limit** fills only at your limit price **or higher**.

Emma would like to own BRBN, but she thinks $42.60 is a little expensive. She places a buy limit order for 100 shares at **$41.00**. Her order now waits in the order book as a bid. If sellers push the price down to $41.00, she buys at $41.00 or better. If the price never falls that far, she buys nothing.

That is the trade-off: a limit order protects you from a bad price, but it may **never be filled**, or only partly filled if not enough shares trade at your price. Limit orders are the safer choice for small or volatile stocks, for large orders and for trading outside regular hours. A limit order placed at a price you can trade at straight away, for example a buy limit at or above the current ask, is filled at once like a market order, but with a ceiling on the price.



Figure 3. A buy limit fills only at or below its price, and a sell limit only at or above its price.

Stop orders and the gap risk

A **stop order** waits in the background and does nothing until the price reaches a level you choose, called the **stop price**. Once that happens, it becomes a **market order**.

The most common use is a **sell stop**, often called a **stop-loss**, to limit the loss on shares you own. Emma bought her BRBN shares at $41.00 and decides she does not want to lose more than about 5%. She places a sell stop at **$39.00**. If BRBN trades down to $39.00, her order becomes a market order and her shares are sold.

A stop-loss is a useful tool, but it is not a guarantee. A stop order triggers at the stop price, but it is filled at the **next available price**, which can be much lower. This happens most often when a stock **gaps**: it closes at one price and opens much lower the next morning, after news that came out overnight.

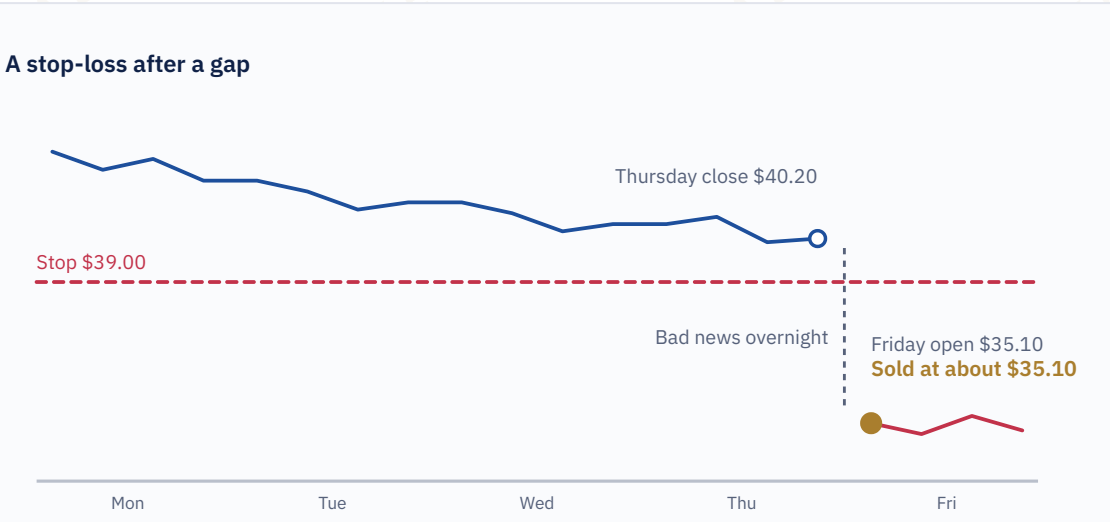


Figure 4. A stop-loss triggers at the stop price, but after an overnight gap it fills at the next available price.

EXAMPLE: WHEN A STOP-LOSS GAPS

BRBN closes on Thursday at $40.20, above Emma's stop at $39.00. That evening, Bright Bean cuts its sales forecast. On Friday morning the first trade is at **$35.10**. Emma's stop is triggered at the open and her shares are sold at about $35.10, not $39.00. Instead of losing about $2 a share, she loses about **$5.90 a share**, roughly 14%. The stop did its job of getting her out, but the price was not the one she set.

Stop-limit orders and a quick comparison

A **stop-limit order** has two prices: a stop price that activates it and a limit price that sets the worst acceptable fill. When the stop price is reached, it becomes a **limit order** instead of a market order.

Suppose Emma uses a sell stop-limit with a stop at $39.00 and a limit at $38.50. On a normal day, if BRBN slides through $39.00, her shares are sold at $38.50 or better. But on the gap morning, when BRBN opens at $35.10, her order becomes a sell limit at $38.50 that nobody will fill. She still owns the shares, and if the price keeps falling, her loss keeps growing. The stop-limit controls the price, but it can leave you with no protection at all.

Order type	What it does	Main advantage	Main risk
Market	Fills now at the best available price	Almost certain to fill	The price can be worse than expected
Limit	Fills only at your price or better	Full control of the price	May never fill
Stop	Becomes a market order at the stop price	Gets you out when the price falls	Can fill far below the stop after a gap
Stop-limit	Becomes a limit order at the stop price	Controls the exit price	May not fill, leaving you in a falling stock
Trailing stop	A stop that moves up as the price rises	Protects gains without watching all day	Same gap risk as a stop, and normal swings can trigger it

Trailing stops: protecting a gain

A **trailing stop** is a stop order whose stop price follows the market up, by a fixed amount or percentage, but never moves down.

David buys BRBN at $42.60 and sets a **10% trailing sell stop**. His stop starts at $38.34, 10% below $42.60. Over the next weeks BRBN climbs to **$50.00**, and his stop rises with it to **$45.00**. When BRBN then pulls back, the stop stays at $45.00. If the price falls to $45.00, the order becomes a market order and his shares are sold, locking in a gain of about $2.40 a share instead of letting the whole rise disappear.

The hard part is choosing the distance. Too tight, and normal day-to-day swings will stop you out of a good position. Too wide, and you give back too much of the gain. Like any stop, a trailing stop also has gap risk. Many traders base the distance on how much the stock usually moves, a topic the Intermediate level covers.



Figure 5. A trailing stop rises with the price but never moves down, so it can lock in part of a gain.

Time in force: how long an order lasts

Every order also has a **time in force**, which says how long it stays active if it is not filled straight away:

- **Day:** the order is cancelled automatically at the end of today's session if it has not been filled. This is the default on most apps.
- **Good 'til cancelled (GTC):** the order stays active until it is filled or you cancel it. Many brokers still cancel GTC orders after a set period, often between 60 and 180 days, so check your broker's rules.
- **Extended hours:** some brokers let you mark a limit order as active in the pre-market and after-hours sessions too. Lesson 8 explains these sessions.
- **Market on open and market on close:** orders that take part only in the opening or closing auction you met in Lesson 4.

Forgotten GTC orders are a classic beginner mistake. A buy limit placed weeks ago can suddenly fill after bad news, when you might no longer want the stock. Review your open orders regularly.



Figure 6. Time in force decides how long an order stays active if it is not filled straight away.

Choosing the right order

Stop orders can also be used to **buy**. A **buy stop** above the current price becomes a market buy order if the stock rises to that level. Traders use buy stops to enter when a stock breaks above a level they are watching, and traders who have sold short use them to limit losses if the price rises.

For most beginners, a few simple habits cover most situations:

- For a large, busy stock during regular hours, a **market order** is usually fine for a small trade. For anything else, use a **limit order**.
- Use **stop orders** to limit losses, but remember that they cannot protect you from a gap.
- Check the order ticket before you press the button: side, ticker, quantity, order type, price and time in force. A wrong digit in the quantity or price is the most expensive typo in trading.

No order type removes the risk of investing. Orders control *how* you buy and sell, not whether the stock goes up or down.

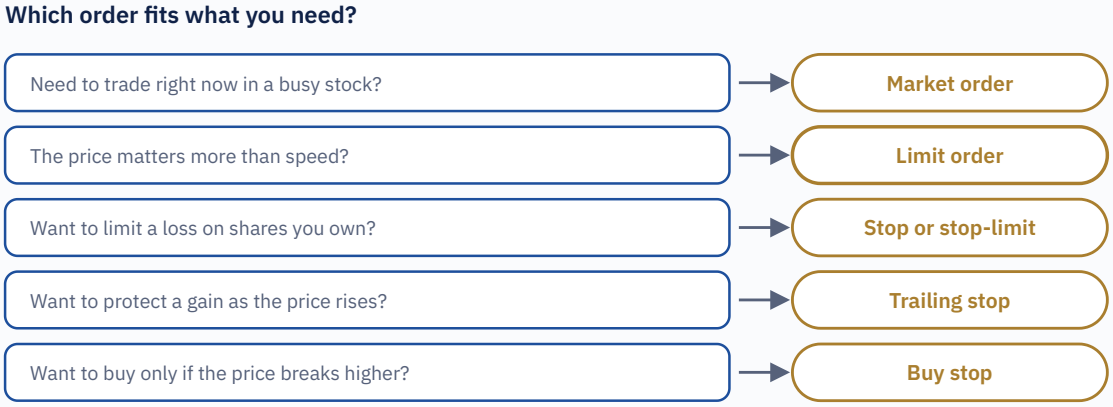


Figure 7. A simple guide to which order type fits each situation.

Why this matters for traders

- **Order type is part of every trade plan.** Decide your entry order, your stop and your target before you trade, not after the price starts moving.
- **Stops are not guaranteed prices.** Earnings reports, overnight news and market opens are when gaps happen. Plan position sizes as if a stop could fill well below its level.
- **Limit orders avoid chasing.** In fast markets, a limit order stops you from paying far more than you planned for a stock that is jumping.
- **Stop levels attract orders.** Many traders place stops just below obvious support levels or round numbers, so the price can move quickly when those levels break.

Key terms

Order	Instructions to a broker to buy or sell a stock, including quantity, order type, price and time in force.
Market order	An order to buy or sell straight away at the best available price.
Limit order	An order to buy at or below, or sell at or above, a price you set.
Slippage	The difference between the price you expected and the price you actually got.
Stop order (stop-loss)	An order that becomes a market order when the price reaches a set stop price.
Stop-limit order	An order that becomes a limit order when the price reaches a set stop price.
Trailing stop	A stop order whose stop price follows the market by a fixed amount or percentage, moving up but never down.
Gap	A jump in price between one trade and the next, usually between one day's close and the next day's open.
Buy stop	A stop order above the current price that becomes a market buy order if the price rises to it.
Time in force	How long an order stays active, for example day or good 'til cancelled (GTC).

Key takeaways

1. Every order has a side, a stock, a quantity, an order type and a time in force. The order type is a trade-off between certainty of filling and control of price.
2. Market orders fill almost at once but can suffer slippage. Limit orders control the price but may never fill.
3. Stop orders become market orders at the stop price. They limit losses in normal markets, but after a gap they can fill far below the stop.
4. Stop-limit orders control the exit price but may not fill at all. Trailing stops follow the price up to protect gains.
5. Day orders expire at the close, while GTC orders stay active until filled or cancelled. Always review the ticket and your open orders.

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 trade-off when choosing an order type?

A. Speed of the app against its colour
B. Number of shares against the ticker
C. Day orders against weekend orders
D. Certainty of execution against control over price

2. David sends a market order for 700 shares. 500 are offered at $42.62 and 400 at $42.65. What happens?

A. 500 are bought at $42.62 and 200 at $42.65
B. All 700 are bought at $42.62
C. The order waits until 700 shares are offered at $42.62
D. The order is cancelled

3. Emma places a buy limit order at $41.00 while the stock trades at $42.60. When can it fill?

A Immediately at $42.60
B Only at $41.00 or higher
C Only at $41.00 or lower
D Only at the close

4. What does a sell stop order at $39.00 become when the stock trades at $39.00?

A A limit order at $39.00
B A market order
C A buy order
D It is cancelled

5. A stock with a sell stop at $39.00 closes at $40.20 and opens the next day at $35.10. At about what price is the stop filled?

A $40.20
B $39.00
C $35.10
D It is not filled

6. In the same gap, what happens to a sell stop-limit with a stop at $39.00 and a limit at $38.50?

A It sells at $39.00
B It sells at $38.50
C It sells at $35.10
D It becomes a limit order at $38.50 that does not fill, so the shares are still held

7. **David sets a 10% trailing sell stop at $42.60. The stock rises to $50.00. Where is his stop now?**

A $38.34
B $42.60
C $45.00
D $55.00

8. **What happens to a day order that has not been filled by the end of the trading session?**

A It is cancelled automatically
B It stays active forever
C It becomes a market order
D It moves to the next stock

Answer key

1 D

Certainty of execution against control over price

Market orders are almost certain to fill but give no price control. Limit orders control the price but may not fill. No order type gives both.

2 A

500 are bought at $42.62 and 200 at $42.65

A market order takes the best price first and then moves to the next level, so David pays an average of about $42.63.

3 C

Only at $41.00 or lower

A buy limit fills at the limit price or better, which for a buyer means lower. If the price never falls to $41.00, nothing is bought.

4 B

A market order

A stop order becomes a market order when the stop price is reached, so it fills at the next available price.

5 C

$35.10

The stock gapped below the stop. The stop triggers at the open and becomes a market order, which fills near $35.10, not at the stop price.

6 D

It becomes a limit order at $38.50 that does not fill, so the shares are still held

The stop activates a sell limit at $38.50, but with the stock at $35.10 nobody will pay $38.50. The shares are not sold and the loss can keep growing.

7 C

$45.00

The stop follows the highest price 10% below it: 10% below $50.00 is $45.00. It does not move down when the price falls back.

8 A

It is cancelled automatically

Day orders expire at the end of the session. Good 'til cancelled (GTC) orders stay active until they are filled or cancelled, often with a broker limit such as 60 to 180 days.

SOURCES

- FINRA, Order Up: Six Common Types of Stock Orders: https://www.finra.org/investors/insights/order-six-common-types-stock-orders
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