Day Trading -Types of Orders

Placing orders correctly is probably one of the most important aspects of trading. It is vital that you understand and use the correct order when you trade.

Market Order

This simply tells your broker to buy or sell at the current market price. This is preferable in fast market conditions or when you want to ensure that a position is taken and to protect against missing an opportunity. The broker will attempt to buy or sell the security at the current market rate.

Limit Order

This order can be used to enter or exit a trade. It specifies a price that the trader is willing to pay or accept (or better). A buy limit order is placed below the current market price and states the highest price the trader is willing to pay for a purchase. A sell limit order is placed over the current market price and is the lowest price the seller is willing to accept.

If you already have a position in the market e.g. you were long the market, you could use a limit order to tell the broker at what price you wanted to sell once your price objective had been reached. You could also use the order to tell the broker at what price you want to enter the market. If ABC Company was trading at 45.50 and you wanted to buy that company at 44.00 you could use a buy limit order to take you into the market.

Stop Loss Order

Probably the most important and most commonly used order. It can be used to establish a new position, limit a loss on an existing position, or protect a profit. A stop order specifies a price at which an order is to be executed. A buy stop is placed above the market and a sell stop is placed below the market. (Which is the opposite of the limit order). Once the stop price is hit, the order becomes a market order and is executed at the best price possible. On a long position, a sell stop is placed below the market to limit a loss. After the market moves higher, the stop can be raised to protect the profit (a trailing stop). You could also use the sell stop to enter the market as the market declines. A buy stop could be placed above the market to initiate a new long position or close an existing short position. Since the stop order becomes a market order, the actual 'fill' price may be beyond the stop price, especially in a fast market.

Stop Limit Order

This order is a combination of both a stop and a limit order. This type of order specifies both a stop price where the trade is activated and a limit price to close the position. Once the stop is elected, the order becomes a limit order. This type of order is useful when the trader wants to buy or

sell a breakout, but wants to control the price paid or received.

Market On Open (MOO)

This order as the name implies will be executed at the opening price of the market. As market openings can tend to be volatile it can be difficult for a broker to get the exact opening price and the settlement price may be different from the opening price.

Market On Close (MOC)

Also as the name implies this order is executed on the close of the market. In some markets the actual closing price may be different from the settlement price particularly if it's a fast moving market.

Market If Touched (MIT)

Not all exchanges accept MIT orders. Like the stop order the MIT order is executed if the market price reaches the MIT price you have elected. Once the market touches your elected price the MIT order becomes a market order.

Good Till Canceled

This type of order is also know as an 'open order' the order remains in effect until the order is executed or the trader cancels the order.

Fill Or Kill (FOK)

This order is sent to the pit and should be executed immediately. If the order cannot be filled immediately the order is canceled.

All Or None

This is essentially a limit order to buy or sell a security. The important point of this order is that the total order must be filled or none of it.

Day Order

An order that terminated automatically at the end of the day. If you have placed an order to buy or sell a security at a particular price and it is not filled the order is terminated at the end of the day.

The above orders are the most common orders. Some securities may not use all of the above orders, as each market is different. It is important when you first start using orders that you have a chat with your broker and just go over the order procedure with him.

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Good Trading

Best Regards
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