Your Order Please: A Guide to the Different Ways to Buy and Sell Securities

By John E. Deysher

Once you've made up your mind about a stock, the rest is easy, right? Just call up your broker and say "buy" or "sell."

Unfortunately, it's not always that simple. There are multiple ways to give buy and sell instructions to a broker, and just as many ways to get burned if you mess up.

Here is a rundown of the most common types of orders used by most stock exchanges and brokers. Some brokers, though—especially the on-line variety—may not accept every type of order, so check ahead of making your transaction.

Day Orders vs. GTC Orders

Day orders are good for the current trading session only, and are automatically canceled if not filled by day's end.

Good-till-cancelled (GTC) orders remain in effect until canceled by the customer or executed by the broker. However, some brokers will cancel GTC orders after 30 to 60 days, so it's always good to check in with your broker to make sure that a GTC order is still good.

GTC orders are usually used by price-sensitive investors who have longer time horizons.

Market Orders

This is probably the most commonly used order. It instructs the broker to buy or sell "at the market," or the best price available, immediately. It's nearly always filled since there is no price specified.

For example, if Microsoft is quoted at $28 bid and $28.10 offered, your market order to buy would be filled at $28.10 and your market order to sell at $28 if those prices are still good when your order is executed. However, if the quote changes after you enter your order but before it's executed, you will receive the then-current price.

Market orders are the easiest to enter and execute, but the disadvantage is that you may end up with a less advantageous price than you expected based on the quoted price.

Limit Orders

These are used when an investor wants to restrict or "limit" the price received or paid for a security. This is done by specifying the minimum price at which a stock will be sold or the maximum price at which a stock will be bought. Once the price reaches the "limit," the order is normally filled at that price (or better) if there is sufficient trading volume at that level. On thinly traded issues, you may receive a "partial fill" meaning only part of your order was filled at the limit price.

The biggest risk to limit orders is that they go unfilled completely. For example, if Intel is trading at $31 and you wish to buy shares at a $29 limit, you may regret this decision if Intel trades down to $29.25 but then zooms upward, leaving your order unfilled. Or, it could trade down to $29 but only for a small number of shares; if your limit order is behind other limit orders at the same price, those orders must be filled before yours, and by that time the price may have headed back up.

Of course you can always change your limit, but doing this too frequently will drive your broker crazy.

When using limit orders, I normally wait for the price to approach the limit I wish to pay and then put the order in.

One trick worth considering is using "odd ball" limits. Most investors place limits ending in the digits 0 or 5—for instance, buying at $25.10 or selling at $30.50. Consequently, limit orders tend to cluster around certain price points, making fills tougher since limit orders at the same price are filled by time priority.

I've found that adding a penny to buy limits (say to $25.11) or subtracting a penny from sell limits (say to $30.49) increases my chance of getting shares since my order is "ahead" of the rest.

Limits can also be useful in trading in stocks with big spreads between the bid and offer. If the quote is $15 by $15.50, you might place your order in between at $15.25, to lower transaction costs. In my experience, such orders stand a good chance of being filled.

Limit orders are most easily used on listed securities (NYSE or Amex) where your limit order becomes part of the specialist's book and remains there until filled or canceled.

For Nasdaq issues, you can instruct your broker to post your order on an ECN (electronic communications network), such as Archipelago or Island, where you can see it on a Level II quote screen. Once the market reaches your price, your order will normally be filled at that price.

Note that exchange specialists must always execute all limit orders on their book at the limit price before trading for their own accounts at that price. However, Nasdaq market makers may trade ahead of your limit even if you placed your order first.

The Menu of Stock Market Orders

Day Order: A buy or sell order that expires at the end of the trading day even if it has not yet been executed.

Good-Till-Cancelled (GTC) Order: A buy or sell order that does not expire until it is either executed or cancelled.

Market Order: An order to buy or sell at whatever the market price is when the order is executed.

Limit Order: An order that specifies the minimum price at which a stock will be sold or the maximum price at which a stock will be bought. Once the limit price is reached, the order is normally filled at that price (or better) if there is sufficient trading volume at that level.

Stop Order: An order to buy or sell when a stock reaches a certain price. When this price is reached, the order becomes a market order and is executed at the next available price.

Stop-Limit Order: A limit order that goes into effect when a certain price is reached and is executed at the limit price or better.

Fill-or-Kill Order: An order to buy or sell at a specified quantity and at a specified price (or better) immediately. If it can't be executed immediately, the order is automatically cancelled.

All-or-None Order: An order to buy or sell at a specified quantity and at a specified price (or better) immediately, and the order remains open until executed, either for the day (a day order) or GTC.

Market-Not-Held (Disregard the Tape) Order: Similar to a market order, but it allows the floor broker more time and discretion in buying or selling if they can get a better price by waiting.

Stop Orders

Stop orders tell a broker to buy or sell once a stock reaches a certain price. Once this occurs, the order becomes a market order and is executed at the next available price. These orders are usually used to protect against losses or preserve gains. You might place a stop order to sell at 10% to 20% below the current price if you hold a stock.

For example, say you have a nice gain in Citigroup, which now trades around $50. To preserve that gain, you might consider a sell stop order at $40, which is 20% below the current price. If Citigroup continues to advance, you'll participate, but if it declines by 20% you're out.

Although stop orders sound like limit orders, there's a difference. Sell stop orders must be placed below the current market price and buy stop orders above the current price. Conversely, sell limit orders must be placed above the current market price and buy limit orders below.

Remember, stop orders become market orders when triggered, meaning the price you obtain could be far from your stop price if the stock is moving rapidly. Stop orders guarantee *execution*, not price. Many investors discovered this the hard way in the crash of 1987, finding that stop orders were executed well below their stops.

Stop-Limit Orders

To protect against the above, you might want to consider stop-limit orders, which become limit orders when triggered. Unlike stop orders, which become market orders when triggered, stop-limit orders restrict the order to a specific price.

A stop-limit order to buy becomes a limit order executable at the limit price or better when the security trades at or above the stop price.

A stop-limit order to sell becomes a limit order executable at the limit price or better when the security trades at or below the stop price.

For example, "sell 1000 GT 12 stop limit" tells the floor broker to sell 1,000 shares of Goodyear at $12 or better once the shares sell at or below $12. If that price is not met, the order goes unfilled.

While stop-limit orders eliminate the possibility of a worse than expected price, if the market or stock is moving quickly, your order may go unfilled if the broker cannot execute your order fast enough once the price passes your limit.

Fill-or-Kill & All-or-None Orders

A fill-or-kill order instructs the broker to buy or sell at a specified quantity and at a specified price (or better) immediately. If this can't be done, the order is automatically canceled or "killed" immediately.

This type of order is typically used when you want a certain quantity and price and will accept no substitute. It is favored by active options and stock traders who are looking to profit from relatively small price moves.

The all-or-none order is similar, except it is not canceled if it is not filled immediately upon presentation to the trading crowd. It may be a day order or GTC.

Market-Not-Held Orders

Market-not-held orders are like market orders without the immediacy. They allow the floor broker more time and discretion in buying or selling if they think they can get a better price by waiting. Normally, these are given with a "top" or "bottom" price not to be exceeded. For example, a market-not-held order to buy 1000 GM with a top of $50 allows the floor broker to try to buy GM up to $50 as trading occurs. These orders are also known as "disregard the tape" and are always done at the customer's risk. Since they require the use of a floor broker to "work" your order, they normally aren't available through on-line brokers.

Normally, I will use this type of order for thinly traded listed issues where I'm willing to pay the market price but don't want the specialist exploiting the order as would happen with a regular market order.

Orders and On-Line Brokers

Most on-line brokers will accept day, GTC, market, limit, stop and stop-limit orders, although some may charge an extra $4 to $5 per ticket for non-market orders. AAII publishes an annual survey of on-line brokers detailing what type of orders they accept [most recently updated in the January/February 2004 issue of *Computerized Investing*].

If you need assistance entering a specific type of order, call customer service, since it is easy to make mistakes, especially with stop and stop-limit orders.

Also, think carefully about entering market orders during non-trading hours (at night). Doing so tells the broker to find the current price during the initial trading, which is generally the busiest and most volatile time. Therefore, try to enter a limit order, but if you must use a market order, do it during the day instead of at night. ➤

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