The TICKER TAPE MONTHLY

TD Ameritrade

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I want to welcome you to the redesigned TD Ameritrade newsletter, The Ticker Tape Monthly. With an increasingly volatile investing landscape, it was important to take a new approach to our publication... **>>**

VOLATILITY REPORT

THINKMONEY ARCHIVES

There are all sorts of ways to open and close positions,but they may not all be what the unsuspecting investor ordered.

Words By:
Mark Ambrose

Stop. Trailing stop limit. Market on close. Contingent orders. There are a multitude of order types available on the TD Ameritrade Trade Architect platform. Some are more complex than others, and you might believe that the more complex the order, the more "professional" or useful it is. Right? Well, sometimes yes. Sometimes no. The key is to understand how these orders work before you use them in live trading. All orders, however complex, can be seen as variations on two basic themes: market and limit orders. A market order guarantees a fill but not a price. A limit order guarantees a price but not a fill. Period. The other order types attempt to make your life a little easier, but they're not meant to replace a real person monitoring positions (read: you). Let's dive into the world of order types and learn how to manage them properly.

The Building Blocks

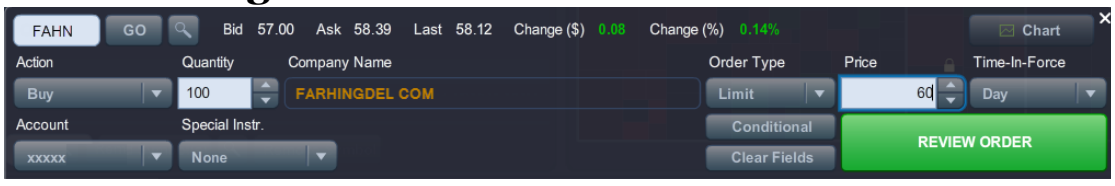

FIGURE 1 *Stock order screen on Trade Architect. For illustrative purposes only.*

MARKET ORDER

VIX Dips to Start 2012

While investors wonder if the storm clouds over Wall Street have passed, some forecasts are calling for another spike in the VIX. **>>**

LIVING ROOM CHAT

The Longevity Conundrum

What if you outlive your assets? Have a seat at our virtual roundtable for a discussion of how portfolios can work harder for a population that's living longer. **>>**

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With a market order, the markets are allowed to execute the order without regard to price or time. The market will fill the order. But in exchange for that certainty, you have no idea what price you'll get, or what time the order will be executed. In the world of electronic trading, the time until execution will likely be measured in milliseconds after you route the order. But the rule is that the exchanges and market makers are not held to anything but getting you a fill. Be warned: under turbulent market conditions, or with issues that are not really examples of liquid stocks, market orders are like writing blank checks to the floor. A few other familiar order types that turn into market orders when they're triggered include stops, trailing stops, and market on close.

LIMIT ORDER

With a limit order, the exchange or market maker can't fill at a price that's worse than your limit price. That is, you won't pay more than your limit price when you're buying, and you won't sell lower than your limit price when you're selling. That's good because it gives you control over the price where you execute the order. But the downside is that you might not get filled at all if market conditions move against you or fail to move in your favor. The bottom line is, whether they're market or limit, there is no order that guarantees both a fill and a price. You can have one or the other, but not both.

STOP ORDER

Beyond the standard market and limit order, probably the most well-known is the stop order, aka "stop loss." A stop order is most commonly used to help protect against an adverse move in the stock price, and can be either a buy stop (used if you have a short stock position) or a sell stop (used if you have a long stock position). If I were long 100 shares of XYZ currently trading at about $50, I could enter a sell stop order at $48. If XYZ drops to $48, the stop is triggered and routes a market order to sell 100 shares of XYZ. Because it's a market order, there's no guarantee of price, and if XYZ gaps below $48, the stop order will be triggered, but the price where I sell XYZ could be much lower than $48.

An extension of the stop order is the stop limit order, which triggers a limit order when the stop price is hit. If I set a stop limit order for my 100 shares of XYZ with a $48 stop and a $48 limit, and XYZ drops below $48, the limit order to sell the 100 shares at $48 will be routed.

Because it's a limit order, there's no guarantee I'll be filled, and XYZ could keep dropping and dropping. In practice, I might set the limit part a bit away from the stop order. With a stop price of $48, I might make the limit price $47.90. That way, I have a somewhat better chance of getting filled on my limit order when the stop is triggered. While stops and stop limits can help manage the risk of losses, they can't really protect profits if the stock goes up and comes back down. That's where trailing stops come in.

TRAILING STOP ORDER

Trailing stop orders behave like a ratchet: they move in one direction but not the other. The stop price is set at a certain number of pennies or points away from the current stock price. As the stock moves higher, so does the trailing stop, following the price of the stock but staying the same number of pennies away. Once the trailing stop ratchets up, it doesn't ratchet back down if the stock moves down. If I set a trailing stop of 0.20 for my 100 shares of XYZ at $50, the initial stop is set at $49.80. If XYZ drops that 0.20 to $49.80, the trailing stop is triggered and a market order to sell the 100 shares of XYZ gets routed. But if XYZ goes up to $51, the trailing stop follows it higher. The 0.20 trailing stop will be set at $50.80. If XYZ goes higher still to $51.50, the trailing stop moves up to $51.30, which is 0.20 away from the stock price. Now, if XYZ drops to $51.30, the trailing stop is activated and routes a market order. In this way, a trailing stop can help protect profits.

1 of 2 **Next>>**

Customize Your Orders

Explore all of the various order types in Trade Architect. There's no download necessary and it's calorie-free. Just log in to your account at tdameritrade.com and go to Trading Tools > Trade Architect.

The information contained in this article is not intended to be investment advice and is for educational purposes only. Clients must consider all relevant risk factors, including their own personal financial situation before trading.

Options involve risks and are not suitable for all investors as the special risks inherent to options trading may expose investors to potentially rapid and substantial losses. Options trading privileges subject to TD Ameritrade review and approval. Please read Characteristics and Risks of Standardized Options before investing in options.

Market volatility, volume and system availability may delay account access and trade executions.

You are responsible for all orders entered in your account when a trigger you set is activated. Please make sure you keep sufficient funds or positions in your account to support the trigger.

Execution price, speed and liquidity are affected by many factors, including market volatility, size and type of order and available market centers.

Sufficient funds or positions required when Trade Triggers orders activate. Trade Triggers options functionality limited to option-approved accounts. Options trading involves risks and is not suitable for all investors. Use of Trade Triggers may increase these risks.

A trailing stop order will not guarantee an execution at or near the activated trailing stop price. Once activated, they compete with other incoming market orders.

With a stop limit order, however, you risk missing the market altogether. In a fast-moving market, it might be impossible to execute an order at the stop-limit price or better, so you might not have the protection you sought.

The risk of loss on a short sale is potentially unlimited since there is no limit to the price increase of a security. There is no guarantee the brokerage firm can continue to maintain a short position for an unlimited time period. Your position may be closed out by the firm without regard to your profit or loss.

Past performance does not guarantee future results.

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