



SEC

OFFICE of INVESTOR
EDUCATION and ADVOCACY



Investor Bulletin: Trading Basics

Understanding the Different Ways to Buy and Sell Stock

The SEC's Office of Investor Education and Advocacy is issuing this Investor Bulletin to help educate investors about the different types of orders they can use to buy and sell stocks through a brokerage firm. The following are general descriptions of some of the common order types and trading instructions that investors may use to buy and sell stocks. Please note that some of the order types and trading instructions described below may not be available through all brokerage firms. Furthermore, some brokerage firms may offer additional order types and trading instructions not described below. Investors should contact their brokerage firms to determine which types of orders and trading instructions are available for buying and selling stocks as well as their brokerage firms' specific policies regarding such available orders and trading instructions..

MARKET AND LIMIT ORDERS

The two most common order types are the market order and the limit order.

Market Order

A market order is an order to buy or sell a stock at the best available price. Generally, this type of order will be executed immediately. However, the price at which a market order will be executed is not guaranteed. It is important for investors to remember that the last-traded price is not necessarily the price at which a market order will be executed. In fast-moving markets, the price at which a market order will execute often deviates from the last-traded price or "real time" quote.

Example: An investor places a market order to buy 1000 shares of XYZ stock when the best offer price is \$3.00 per share. If other orders are executed first, the investor's market order may be executed at a higher price.

In addition, a fast-moving market may cause parts of a large market order to execute at different prices.

Example: An investor places a market order to buy 1000 shares of XYZ stock at \$3.00 per share. In a fast-moving market, 500 shares of the order could execute at \$3.00 per share and the other 500 shares execute at a higher price.

Limit Order

A limit order is an order to buy or sell a stock at a specific price or better. A buy limit order can only be executed at the limit price or lower, and a sell limit order can only be executed at the limit price or higher. A limit order is not guaranteed to execute. A limit order can only be filled if the stock's market price reaches the limit price. While limit orders do not guarantee execution, they help ensure that an investor does not pay more than a pre-determined price for a stock.

Example: An investor wants to purchase shares of ABC stock for no more than \$10. The investor could place a limit order for this amount that will only execute if the price of ABC stock is \$10 or lower.

SPECIAL ORDERS AND TRADING INSTRUCTIONS

In addition to market and limit orders, brokerage firms may allow investors to use special orders and trading instructions to buy and sell stocks. The following are descriptions of some of the most common special orders and trading instructions.

Stop Order

A stop order, also referred to as a stop-loss order, is an order to buy or sell a stock once the price of the stock reaches a specified price, known as the stop price. When the stop price is reached, a stop order becomes a market order. A **buy stop order** is entered at a stop price above the current market price. Investors generally use a buy stop order to limit a loss or to protect a profit on a stock that they have sold short. A **sell stop order** is entered at a stop price below the current market price. Investors generally use a sell stop order to limit a loss or to protect a profit on a stock that they own.

Before using a stop order, investors should consider the following:

- Short-term market fluctuations in a stock's price can activate a stop order, so a stop price should be selected carefully.
- The stop price is not the guaranteed execution price for a stop order. The stop price is a trigger that causes the stop order to become a market order. The execution price an investor receives for this market order can deviate significantly from the stop price in a fast-moving market where prices change rapidly. An investor can avoid the risk of a stop order executing at an unexpected price by placing a stop-limit order, but the limit price may prevent the order from being executed.
- Some brokerage firms have different standards for determining whether a stop price has been reached. For these stocks, some brokerage firms use only last-sale prices to trigger a stop order, while other firms use quotation prices. Investors should check with their brokerage firms to determine the specific rules that will apply to stop orders.

Stop-Limit Order

A stop-limit order is an order to buy or sell a stock that combines the features of a stop order and a limit order. Once the stop price is reached, a stop-limit order becomes a limit order that will be executed at a specified price (or better). The benefit of a stop-limit order is that the investor can control the price at which the order can be executed.

Before using a stop-limit order, investors should consider the following:

- As with all limit orders, a stop-limit order may not be executed if the stock's price moves away from the specified limit price, which may occur in a fast-moving market.
- Short-term market fluctuations in a stock's price can activate a stop-limit order, so stop and limit prices should be selected carefully.
- The stop price and the limit price for a stop-limit order do not have to be the same price. For example, a sell stop limit order with a stop price of \$3.00 may have a limit price of \$2.50. Such an order would become an active limit order if market prices reach \$3.00, although the order could only be executed at a price of \$2.50 or better.

- Some brokerage firms have different standards for determining whether the stop price of a stop-limit order has been reached. For these stocks, some brokerage firms use only last-sale prices to trigger a stop-limit order, while other firms use quotation prices. Investors should check with their brokerage firms to determine the specific rules that will apply to stop-limit orders.

Day Orders, Good-Til-Cancelled Orders, and Immediate-Or-Cancel Orders

Day orders, Good-Til-Cancelled (GTC) orders, and Immediate-Or-Cancel (IOC) orders represent timing instructions for an order and may be applied to either market or limit orders. Unless an investor specifies a time frame for the expiration of an order, orders to buy and sell a stock are **Day orders**, meaning they are good only during that trading day.

A **GTC order** is an order to buy or sell a stock that lasts until the order is completed or cancelled. Brokerage firms typically limit the length of time an investor can leave a GTC order open. This time frame may vary from broker to broker. Investors should contact their brokerage firms to determine what time limit would apply to GTC orders. An **IOC order** is an order to buy or sell a stock that must be executed immediately. Any portion of the order that cannot be filled immediately will be cancelled.

Fill-Or-Kill and All-Or-None Orders

Two other common special order types are **Fill-Or-Kill (FOK)** and **All-Or-None (AON)** orders. An FOK order is an order to buy or sell a stock that must be executed immediately in its entirety; otherwise, the entire order will be cancelled (i.e., no partial execution of the order is allowed). An AON order is an order to buy or sell a stock that must be executed in its entirety, or not executed at all. However, unlike the FOK orders, AON orders that cannot be executed immediately remain active until they are executed or cancelled.

OPENING TRANSACTIONS

Investors should be aware that any order placed outside of regular trading hours and designated for trading only during regular hours will usually be eligible to execute at an opening price. Investors should contact their brokerage firms to find out their brokers' policies regarding opening transactions.

RELATED INFORMATION

For additional educational information for investors, see the SEC's Office of Investor Education and Advocacy's homepage. For additional information relating to the types of orders investors may use to buy or sell stock, please read our publication "[Orders](#)."

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