SCA Financial club

ORDER TYPES

November 17, 2022

Topics

1. Order types
   a. Market.
      i. Instructs market to either buy or sell your chosen stock right now, at any price, just get the trade done
         1. Risk, gap in price
         2. Large spread between bid and ask
         3. Tape behind on large volume
         4. You enter the order after the market closes today, and the first price tomorrow is vastly different
   b. Limit
      i. Instructs market to buy or sell your stock at a specific price, no guarantee that you will be able to buy or sell
         1. Risk: stock gets really close, but doesn't touch your price
         2. Lost opportunity by cutting your price too fine..
         3. Partial fill: there aren't enough shares to complete your whole order at your specific price
         4. You get bumped back in line:
            a. Your order is queued up based on time received. But market orders have priority, so it is possible to watch your stock trade at your price and you don't get "executed" (also called "Filled") as there are other orders at your price in front of you, or market orders take the available shares before you
   c. STOP Orders
      i. Sell Stop.
         1. You want to protect your profits/investment, so you enter a order to sell below the current price. This is referred to as "stop loss" protection
         2. Nothing will happen until the market price touches or drops below your stop price, once the market price does that your order becomes a market order and will execute at the next trade
         3. Risk, these orders are almost always GTC, so if your have an order to stop sell at X, but the company announce something really bad when the market is closed, the first trade the next day might be at 3/4X, and you will execute cause your order became a market order as soon as there was a trade below X
         4. To avoid the risk of #3, there is an order called a **stop limit sell order**. Here you have two prices, your stop price, X, and a lower limit price which represents the lowest vale you are willing to take, say 9/10X
      ii. BUY Stop

1. A Buy stop is placed when you want to buy a stock but only if it reaches a higher price than the current price. These is used by chartist and technicians
    a. As an example as tock you follow has hit $80.00 per share three times and then traded lower. You think the stock might break out to new highs, so you place an order to buy ONLY if it trades above $82.00. if it does that it has a good chance of trading even higher because it has broken out of it's resistant level @ $80.00… but you wouldn't want to buy at $80.00 as it might trade lower again.
2. Buy Stop Limit
    a. Similar to sell stop limit, put a max amount you are willing to pay

d. Day order vs GTC
    i. Day order means that your order is for that trading day only (or tomorrow if you enter it the prior day after the market closes
    ii. ALL MARKET orders are day only. Your order will execute that day. If for some reason it doesn't (trading halt) you have to enter a new order for the next market day
    iii. Limit orders, and all the others to be discussed, can be either day or GTC.
        1. Though GTC means "Good until Cancelled" it is only good for **60 days, 60 real days not 60 trading days**
        2. On day 59, or so, your broker will send you a notice that you have "expiring Instructions"
        3. If you have an open order to sell all your shares at a higher price, and you decide to sell at the market, you will need to cancel or change the open order, your brokers computer will not allow you to sell more shares than you have, nor will it automatically cancel your open order if you place another order that executes.

e. Other timing orders that you will never use
    i. Immediate or cancel (IOC)
    ii. Fill or Kill (same as IOC except has to be 100% of order, IOC can have partial fill)
    iii. All or None
    iv. On open
    v. On Close

2. Selling stocks SHORT
    a. When you enter an order to buy a stock, you are going "Long" that stock
    b. When you enter an order to sell a stock that you do not own, you are going "short " that stock
    c. The old adage is that you are trying to "buy low, sell high", but wall street also allows you to reverse that and "sell High, buy low"
    d. So you would short a stock because you believe the price is going to go down and you want to profit from that price movement
        i. To sell a stock short you need to borrow the shares from your broker

ii. The broker lock up some of your assets (50% of the market value short) that will serve a collateral for holding the short position
iii. Your broker will charge you interest on the borrowed shares if they go Up, but not if they go down
iv. This is a form of trading on margin, and if you are wrong you could get a margin call and be asked to add $$$ to your account, or they might sell some of your other assets to cover your margin call
v. In theory there is unlimited risk in shorting a stock because if the stock goes up in price there is no ceiling to it's maximum price. If you buy a stock, it can only go to zero, there is known potential loss amount
vi. To close a short position, you buy the shares
vii. Also the rules allow for lots of shorting, it is possible for investors to be short more than 200% of the outstanding shares, thus creating opportunities for a "short Squeeze"
    1. An example, is Game Stop in early 2021. It was a $5.00 stock and heavily shorted as investors thought it would fail as a company. But some people decided to try to "short squeeze' the stock, and in 3 weeks ran the price up to about $75.00 before all the "shorters" had capitulated and bought back their Short positions. A month later is was $13.00, now about $26.00