



Lesson 3

Placing Orders

The price buyers are willing to pay is called the *bid*. The price sellers are asking is called the *ask*. And the distance between the two is called the *spread*.

If you believe the price is going to go *up*, you would buy a *long* position, and then look to close it by selling when the higher price is reached. If instead you think the price will go *down*, you would sell and enter into a *short* position. The idea then is to *cover* your position by buying back at a lower price.

Order Types

When you want to enter into a position immediately, at the best available price at that time, you would place a *market order*. The downside to a market order is that if markets are moving fast, there is sometimes the chance that your order will get filled at a price different than what you wanted. The difference is called *slippage*.

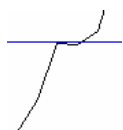
If instead you are more concerned with getting the right price, and are willing to wait and enter the market when those conditions are met, then you would place a *pending order*.

There are several different kinds of pending orders:

Buy Limit – This order is placed when the trader believes the price will begin to rise after first dropping to a certain level. It is executed when the asking price becomes equal to the pending order.




Buy Stop – A trader would place this order if they believe the price will continue to rise after it breaks above a certain level. This type of pending order is also executed at the ask price.



Sell Limit – This order is placed when the trader believes that the price will begin to fall after it reaches a certain level. It is executed when the bid price is equal to the pending order.

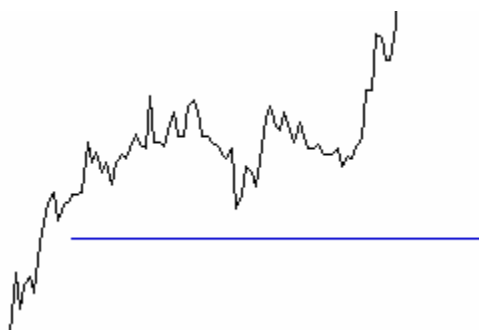


 **Sell Stop** – A trader would place this order if they believe that the price will continue to fall if can break below a certain level. This type of pending order is also executed at the bid price.

Stops

Another type of pending order is designed to stop your losses by automatically closing your position in the event that price moves in a direction different than what you expected. It is called a *stop loss*, or simply a *stop* for short.

If you are buying a long position, you would set your stop somewhere underneath your entry in order to protect you from a sudden drop. If you are selling a short position, then your stop would be placed somewhere above it, just in case there is an unexpected rally. A stop can also follow the price once it moves in your favor – in this case it is called a *trailing stop*.



Stop Protecting Long Position



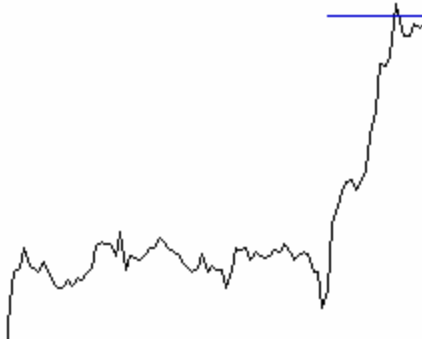
Stop Protecting Short Position

A stop under a long position automatically closes if it is touched by the bid price, meanwhile a stop placed over a short position executed when it is touched by the ask price. Proper use of stops is critical to trading success.

Take Profit

Another order which can close your position automatically for you is called a *take profit* order (sometimes abbreviated *TP*). Just like a stop is intended to protect your position in the event something unexpected happens, a take profit order assures you that your position will be closed should your target price be reached while you are away from the computer, or in a fast moving market where price may touch the target too quickly to react. It is generally a good idea to have both a stop and a target when entering new positions.

A target would normally be set above the current price if you are in a long position, and below the current price if you are in a short position. For long positions, the take profit order would be executed when the bid price becomes equal to the amount you set, and for short positions the ask price must equal the take profit amount.



Take Profit on a Long



Take Profit on a Short