

Sharemarket Game

Understanding order types



Market to limit order: A market to limit order starts out as an order that gets filled at whatever is the best price currently available in the market.

However, if the order isn't completely filled and the price moves away, the remainder of your gets turned into a limit order at the price you paid for the filled portion of your order.

For example: Suppose you entered an order for 1000 shares as a market to limit order. The market price is \$10.00 but you only get 600 shares filled at this price before the price changes to \$10.02.

Once the price changes, your market to limit order automatically becomes a limit order....so in this example, the remainder of your shares (in this case 400 of them) become a limit order at \$10.00 which is the price you got for your first fill.

What can you do now?

You can just leave it as a limit order for 400 at \$10.00 and wait for the price to come back or if you want to purchase the stock at the price in the market, you can go into your pending orders and amend the order either

- 1) back to a market to limit order
- 2) or you might want to change the price on your limit order, if buying - to a higher price around or a bit above the current market price, or if selling and the market price has fallen to a lower price around or a bit below the current market price to make sure your order is filled.

Is this how it works in the live market?

These changes have been made because that is how the real market now operates.

Previously, if you put in an order to buy "at market" you were saying I want to buy this number of shares and I don't care how much I have to pay to get them. As a seller you were saying I want to sell this amount of shares and I don't care how little I get for them.

This might be alright in a normal market, but when markets are volatile it can be a different story. Consider when markets fell during the financial crisis in 2008. If you put had put in a market order to sell you could have ended up selling for a fraction of what you really expected to get.

This is why the market to limit order was introduced; it adds an element of protection to your order.

Order type

Market to limit

Limit

A Limit order: With a limit order you set the price that you want to buy or sell your shares at. It doesn't matter what the current market price is you will only trade at a price that is acceptable to you.

For a buy order you would set a price below the current market price to try and get the shares at a cheaper price.

For a sell order you would enter at a price higher than the current market price to try and get a better sale price.

What if you don't like using market to limit orders?

If you don't want to use the market to limit order but still want the current price that is in the market, you could use a limit order but at a price a bit higher than the current market if buying, or a bit lower if selling. It will still execute at the best price but it gives you more scope to get all of your order filled straight away.