Order types and what each commits you to

> **ORDER TYPES**
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> An order is an instruction to your broker, and each type trades one certainty for another. A market order fills now at whatever price is available. A limit order fills at your price or better, or not at all. A stop order waits at a level and becomes a market order when the level trades - so its trigger is certain, but its fill price is not.

Every button on your platform sends one of three instructions, and each one signs you up for a different bargain. Knowing which certainty you are buying - and which you are giving up - is the difference between an order doing what you meant and an order doing what you said.

What does each order actually promise?

A market order buys certainty of execution: you fill now, at the ask if buying, the bid if selling, and in a fast market at whatever those have become by the time your order lands. A limit order buys certainty of price: it rests at your level and fills there or better - but the market owes it nothing, and it can wait forever unfilled. The trade-off is exact: market orders never miss and never guarantee the price; limit orders never disappoint on price and never guarantee the fill.

A stop order is the hybrid that catches people out. It waits at a level - beyond the current price - and when that level trades, it becomes a market order. The trigger is certain; the fill inherits every market-order property, which is why a stop through a gap fills at the far side, as the last lesson priced. Stops close positions defensively and open breakout positions; either way, the moment they trigger, you are a market order in whatever book exists right then.

Worked example - figures in USD

You trade 0.5 lots of EUR/USD on a 0.8 pip spread. A pip on a full lot is worth $10.

1. Price each promise on EUR/USD at your 0.5 lots size. The market order's certainty costs the spread: at 0.8 pips, $4 to fill this instant - paid whichever direction you deal.
2. A limit order at the bid pays no spread if the market comes to it. Its cost is the miss: if price never returns to your level, the fill simply does not happen. That risk has no invoice, which is what makes it easy to forget.
3. A stop triggered in a fast market fills like any market order - at what remains. Three pips of slippage on this size is $15 beyond the level you named ($10 per pip on a full lot). Same instruction, different market, different bill.

What this means for you

Choose the certainty the situation needs. Entering without urgency, a limit costs nothing but patience; exiting a position that is moving against you, the market order's certainty is the one worth paying for. Say what you mean precisely - a stop where you meant a limit buys the opposite bargain. And carry the last lesson with you: a stop's named level is a trigger, never a guaranteed price, so what it costs depends on the book it wakes up in. With the market's machinery now mapped end to end, module 2 turns to reading it.

Check your understanding

1. You need out of a losing position immediately. Which order type, and what does it cost you?

a. A market order - certain execution, at the current bid plus whatever the market does to it
b. A limit order - it is free of spread
c. A stop order at the current price
d. Any type - they all fill immediately

Answer: a. Urgency is what market orders are for: they fill now at the available price. A limit might never fill while the loss grows, a stop at the current price just becomes a market order with extra steps, and neither limits nor resting stops promise immediacy.

2. Your limit order to buy sits below the market, and price runs the other way without touching it. What happened?

a. Nothing - the order rests unfilled, which is the risk limits carry
b. The broker owed you a fill at your level
c. It converted to a market order after a timeout
d. It filled at the worse price the market moved to

Answer: a. A limit fills at its price or better, or not at all - the miss is the cost, and it never appears on a statement. No fill was owed because the level never traded, nothing converts on a timer unless you configured it, and filling at a worse price is exactly what a limit exists to prevent.

3. A sell stop sits 30 pips below the market. Price gaps 50 pips down in one tick. What does the stop do?

a. Triggers and fills as a market order near the far side of the gap
b. Fills at exactly the 30-pip level
c. Cancels, because its price never traded
d. Waits for price to come back to the level

Answer: a. Once the level is passed, the stop becomes a market order in whatever book exists - beyond a gap, that is the far side. The named level is a trigger rather than a promise, the pass-through still triggers it, and a triggered stop never waits.

4. Which certainty does each order type give up?

a. Market gives up price, limit gives up the fill, stop gives up the fill price once triggered
b. Market gives up the fill, limit gives up price
c. None - order types differ only in speed
d. All three guarantee price but not timing

Answer: a. That is the whole taxonomy: execution-certain and price-uncertain, price-certain and execution-uncertain, and trigger-certain with a market order's fill. The second option states it backwards, and the last two erase the trade-off that makes choosing an order type a decision at all.