SPECTRUM®

PRICE VS SPEED

Picking the smartest Execution Method

When placing a trade, there is a lot to take into consideration. One crucial decision to make is the execution method: "at market" or "at limit". Indeed, investing success may depend on picking the right order type.

As a trader, if you want your buying or selling order to be executed as soon as possible, you have to place a **market order** (also referred to as buying or selling "at market"). Effectively, this type of order increases the likelihood of execution over the price of the relevant security, meaning the order might not be executed at the anticipated price or might deviate from the fair value. The risks are obvious: unexpected, rapid price swings. When wanting to buy a security right away because it appears to be trading at an attractive entry price, you may end up paying more than you wanted – suddenly a great-looking trade can turn into a non-profitable position. Similarly, when wanting to sell a security immediately, you eventually may not earn the profit you calculated based on the pure mark-to-market, independently of the size available in the book.

Such risks can be avoided by opting for the other execution method: **a limit order** (also referred to as buying or selling "at limit"). As the term indicates, this type of order sets a limit on the price – either for a security you want to buy or sell. Only when your price (or a better price) is met, the order will be filled. That means, when buying a security, a trader is protected from quick price increases and the same applies when selling, a trader is protected from sudden price drops.

However, there is a downside to the limit order, too: By stating an exact price at which you want to buy or sell a security, you run the risk that your order is partially filled or not filled at all, meaning you could end up not being invested or failing to sell. Also, the speed with which your limit order is filled generally depends on the distance of your limit to the current price and the liquidity of the security.

After having placed a limit order, it is recommendable to continue to observe the relevant market or check any news that may impact the security price. For example, if you placed a buy limit order and later learn that the security price will likely fall significantly deeper than you had initially expected, you may want to adjust down the price of your buy limit order accordingly. In this way, your trade may become even more profitable.

All of this requires, of course, an understanding of how the markets work, especially the spread between bid and ask prices and the liquidity principle.

Inexperienced traders should familiarise themselves with the pros and cons of market orders and limit orders, so that they can increase their chances to profit from the ongoing price fluctuations in the markets. On Spectrum Market's platform traders will find a range of securitized derivatives on highly liquid indices, currency pairs and commodities that can be traded 24-hours, five days a week.

Get in touch today to discuss how the cost-efficient, seamless market access that our venue provides, can help to grow your retail client business.

Please don't hesitate to get in touch if you wish to receive further detail.

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