optionsXpress BY charles SCHWAB

Unique Risks of Stop Limit Orders

Stop limit orders face unique risks when used as loss control orders and depending upon market movement may result in no closing transaction.

Stop limit orders become limit orders when the stop price is triggered in the marketplace. Once triggered, the stop limit order may not be eligible for execution because the limit may be exceeded by current market pricing. In other words, a stop limit becomes a "live order" when the market touches your stop price, but you do not get a fill when, and if the market ever reaches your limit or better.

As an example, if the "stop" price is $1.75 and the limit price is $1.75, then the market must price or fill at $1.75 **twice** in order for you to be eligible for an execution. If it trades once, and triggers but never reaches the price again on that day you are not eligible for an execution and will not be filled no matter how far the market trades against you.

Other issues can also lead to unexecuted stop limit orders including fast markets in a security which may lead to the limit being "skipped". Also, a stop limit order can be skipped due to the bid/ask spread exceeding a triggered stop limit.

For more information on the drawbacks or uses of stop limit orders please contact optionsXpress´ trading support at (888) 280-6505, 9am-5:30pm, Mon-Fri.

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