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Basics · BEGINNER · AI ASSISTED · 7 min read · Sep 24, 2026

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Market vs Limit vs Stop Orders: Which One Should You Use?

What each order type does, what it guarantees and what it doesn't, and the mistakes that cost beginners money.

Updated 4 Nov 2026

Read online: https://traderange.net/learn/market-vs-limit-vs-stop-orders-yxy7l9ua/



When you buy or sell a stock, you do not just press a button that says buy. You choose an order type, and that choice decides the price you get and whether your trade happens at all. Most beginners stick with the default: a market order. Even so, the other types exist because the default is not always the best choice.

The core trade-off: price vs certainty

Every order type is a trade-off between two things. You can be certain your order will be filled, or you can control the price at which it is filled. You cannot fully have both; once you understand that trade-off, each order type becomes easy to understand.

Market orders

A market order tells your broker to buy or sell right away at the best price currently available. Its strength is certainty: in a normal market for a widely traded stock, a market order is filled almost instantly. Its weakness is that you do not control the price. If the price moves between the moment you click and the moment the order is filled, you get the new price — a difference known as slippage.

During normal trading hours, slippage is usually small for large, liquid stocks. It can be much larger for thinly traded stocks, at the market open, or during fast-moving news, when the gap between the best buying and selling prices (the bid-ask spread) is wide.

Limit orders

A limit order sets the worst price you are willing to accept; a buy limit order will only be filled at your limit price or lower. A sell limit order will only be filled at your limit price or higher. As a result, limit orders give you control over price.

> **Worked example**
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> A stock trades at $50; you place a buy limit order at $48. If the price falls to $48 or below, your order can be filled. Should the price never drop that far, the order is never filled, and you do not own the stock, even if it later rises to $70.

The risk with a limit order is not a bad price; it is missing the trade entirely. On top of that, even if the price touches your limit, other orders at the same price may be ahead of yours in the queue, so your order may be only partly filled or not filled at all.

Stop orders (stop-loss orders)

Until the stock reaches a price you choose, called the stop price, a stop order stays inactive. Once that price is reached, the stop order becomes a market order. It is most often used to limit losses on a position a trader already owns, which is why it is often called a stop-loss order.

Here is the key detail: a stop order does not guarantee the stop price. Once triggered, it becomes a market order and is filled at the next available price. If a stock closes at $50 and opens the next morning at $40 after bad news, a stop order at $45 will be filled at or near $40, not $45. That jump is called a gap.

> **Stops in a fast market**
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> During the flash crash of 6 May 2010, some US stocks briefly traded at prices far below their normal value. Stop orders triggered in those minutes turned into market orders and were filled at those extreme prices.

Stop-limit orders

A stop-limit order combines the two. It has a stop price, which activates the order, and a limit price, which sets the worst price you will accept. When the stop price is hit, the order turns into a limit order rather than a market order. In a gap, this protects you from being filled at a much worse price. The cost: if the price moves past your limit, the order may never be filled, and you may still hold a position that keeps falling.

Order types compared

HOW THE MAIN ORDER TYPES TRADE PRICE CONTROL AGAINST CERTAINTY OF BEING FILLED.

ORDER TYPE	WHAT IT DOES	PRICE CONTROL	CERTAINTY OF BEING FILLED
Market	Buys or sells immediately at the best available price	None	High
Limit	Buys or sells only at your price or better	Full	Not guaranteed
Stop	Becomes a market order when the stop price is reached	None once triggered	High once triggered
Stop-limit	Becomes a limit order when the stop price is reached	Full once triggered	Not guaranteed

Order duration

Most brokers also ask how long an order should stay active. If it has not been filled, a day order expires at the end of the trading session. A good-til-cancelled order stays open until it is filled or you cancel it, although many brokers set a maximum time limit. As a result, it is worth checking open orders regularly, because a forgotten order can be filled weeks later when you no longer want the trade.

Common mistakes to avoid

- Using market orders on thinly traded stocks, where the spread can be wide.
- Placing market orders right at the open, when prices can move quickly.
- Assuming a stop-loss guarantees the stop price.
- Setting stops so close to the current price that they are triggered by normal daily movement.
- Forgetting good-til-cancelled orders that are still open.

Practising without real money is the best way to learn how orders behave. TradeRange's trading games let you make decisions on real price data without risking your savings, and our guide to trading games vs paper trading explains how the two approaches differ.

KEY TAKEAWAYS

- ✔ Market orders guarantee execution but not price.
- ✔ Limit orders guarantee price but not execution.
- ✔ A stop order becomes a market order once triggered, so it can be filled well below the stop price in a gap.
- ✔ Stop-limit orders protect the price but may never be filled.
- ✔ Check open good-til-cancelled orders regularly.

Not investment advice

This article explains how common order types work in general. Exact rules vary by broker and exchange, so check your broker's own documentation. It is meant for education only, not as investment advice.

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