

Market Order Definition

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What Is a Market Order?

A market order is a request by an investor – usually made through a broker or brokerage service – to buy or sell a security at the best available price in the current market. It is widely considered the fastest and most reliable way to enter or exit a trade and provides the most likely method of getting in or out of a trade quickly. For many large-cap liquid stocks, market orders fill nearly instantaneously.

The Basics of Market Orders

A market order is considered the most basic of all orders. It is meant to be executed as quickly as possible at the current asking price for a security. That is why certain brokerages include trading applications with a buy/sell button. Hitting this button generally executes a market order. In most cases, market orders incur the lowest commissions of any order type, as they require very little work from either a broker.

KEY TAKEAWAYS

- A market order is a request by an investor to buy or sell a security.
- It is well-suited for high volume securities such as large-cap stocks, futures or ETFs.
- A trader will execute a market order when he or she is willing to buy at the asking price or sell at the bid price.

When to Use a Market Order

Market orders are well-suited for securities that are traded in very high volumes such as large-cap stocks, futures or ETFs. For example, market orders for the E-mini S&P or a stock such as Microsoft tend to fill very rapidly without issue.

It's a different story for stocks with low floats and/or very little average daily volume. Because these stocks are thinly traded, the bid-ask spreads tend to be wide. As a result, market orders sometimes get filled slowly for these securities, and often at unexpected prices that lead to meaningful trading costs.

Market Order Slippage

Any time a trader seeks to execute a market order, this means the trader is willing to buy at the asking price or sell at the bid price. Thus, the person executing a market order is immediately giving up the bid-ask spread.

For this reason, it's sometimes a good idea to look closely at the bid-ask spread before placing a market order – especially for thinly traded securities. Failure to do so may result in very high costs. This is doubly important for individuals who trade frequently or anyone utilizing an automated trading system.

Market Order Versus Limit Order

Market orders are the most basic buy and sell trades. Limit orders, on the other hand, allow investors to have more control over the bid or sell price. This is done by setting an acceptable maximum acceptable purchase price amount or an acceptable minimum acceptable sales price.

Limit orders are good for trading securities that are trading thinly, are highly volatile or have wider bid-ask spreads.

Real World Example of a Market Order

Say the bid-ask prices for shares of Excellent Industries are \$18.50 and \$20, respectively, with 100 shares available at the ask. If a trader places a market order to buy 500 shares, the first 100 will execute at \$20.

The next 400, however, fill at the best asking price for sellers of the next 400 shares. If the stock is very thinly traded, the next 400 shares might be executed at \$22 or more. This is precisely why it's a good idea to use limit orders for these types of securities.

The trade-off is that market orders fill at a price dictated by the market as opposed to limit or stop orders, which provide traders more control. Using market orders can sometimes lead to unintended, and in some cases, significant costs.