Morgan Stanley

The Balog Group at Morgan Stanley

Trade Instructions

This week we're going to break down the different type of instructions one can provide when buying or selling a stock. There are 5 different types of order types depending on whether you are buying or selling and what you believe a stock may do in the future. On the following page are 4 exhibits that should hopefully help illustrate and better explain the different order types and the reasons why you may choose one over another.

A Market Order:
An order to buy or sell a stock at the best available price as soon as possible. If you place an order after market hours (1pm PST or 4pm EST) the trade will be executed at market open the next trading day.

A Limit Order (buying):
An order to buy a stock with a maximum price to be paid. The 'limit price' is set below the current market price and the trade is executed only if/when that price or better is met. There is a risk that the trade will never execute. You may choose the trade to be good for a single day, or good-till-cancelled (GTC) which allows the instructions to stand for up to 1 year.

A Limit Order (selling):
An order to sell a stock with a minimum price to be received. The 'limit price' is set above the current market price and the trade is executed only if/when that price or better is met. There is a risk that the trade will never execute. You may choose the trade to be good for a single day, or GTC.

A Stop Order (buying):
An order to buy a stock only if it moves past a specific price above the current levels. Once the stock moves past the 'stop price', the order becomes a market order and is executed as soon as possible. There is a risk that the trade will never execute, or that it may execute above the stop price. You may choose the trade to be good for a single day, or GTC.

A Stop Order (selling) – aka 'A Stop Loss':
An order to sell a stock only if it moves past a specific price below the current levels. Once the stock moves past the 'stop price', the order becomes a market order and is executed as soon as possible. There is a risk that the trade will never execute, or that it may executed below the stop price. You may choose the trade to be good for a single day, or GTC.


Anouchka Balog, CFP®
Financial Advisor


Rita Kikawa
Portfolio Associate


Christopher Mullery, CRPC®
Business Development Director


Steven Anderson, CFA® CFP®
Portfolio Management Assoc.

Visit our website at: https://advisor.morganstanley.com/the-balog-group
Connect with Anouchka on LinkedIn: https://www.linkedin.com/in/anouchka-m-balog

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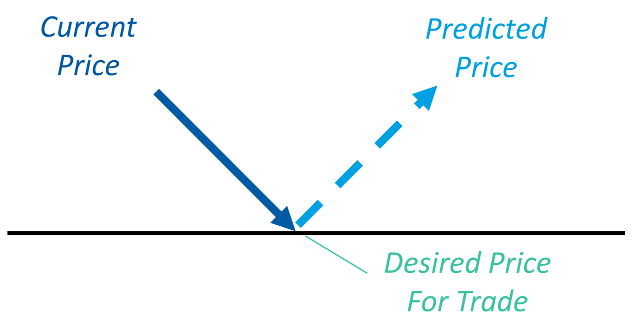
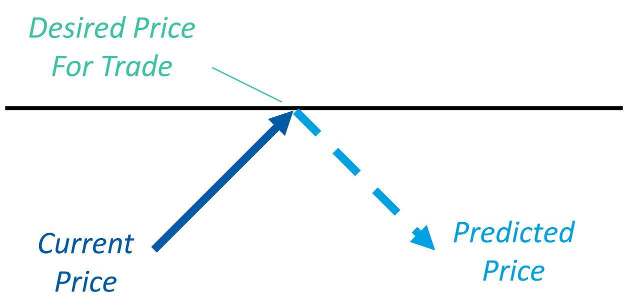
Trade Instructions [continued]

Exhibit 1. A Buy Limit Order



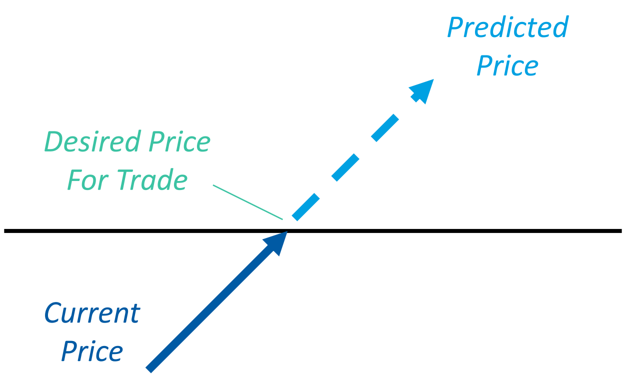
Typical rationale for placing the trade:
You want to own a stock and believe it will do well in the future. However, at the current moment you believe it may be too expensive and should come down in the near future.

Exhibit 2. A Sell Limit Order



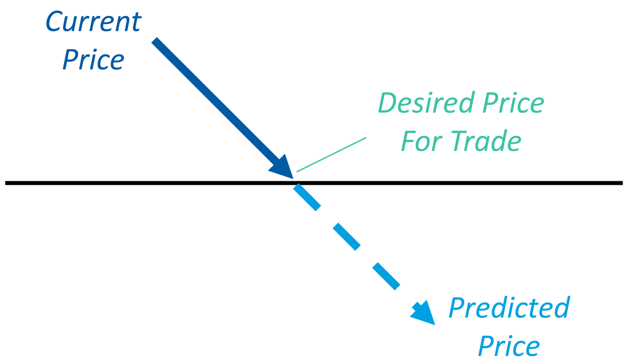
Typical rationale for placing the trade:
You currently own a stock that you believe will do well. However, you don't believe it will go above a certain price and would want to lock in a profit if it reaches that level.

Exhibit 3. A Buy Stop Order



Typical rationale for placing the trade:
You think the price of a stock will go up more if it reaches a certain level. However, you are not certain it will reach that level and do not want to own it unless it reaches that price.

Exhibit 4. A Sell Stop Order (aka A Stop Loss)



Typical rationale for placing the trade:
You currently own a stock that you believe will do well. However, you want to protect yourself in the event that it goes down beyond a certain point.

Sources:
1. Morgan Stanley

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Investment Advisor Representative; General Securities Representative; Managed Futures
NMLS#: 1282780
CA Insurance License #: 0A87150

28202 Cabot Road, Suite 500
Laguna Niguel, CA 92677
Direct: 949 365 5306