London Investment Markets – Education Hub

London Investment Markets

LIM is the exclusive, institutional-grade trading platform providing a definitive edge for CFD traders in Forex, Crypto, Equities, Indices, and Commodities.

London Investment Markets – News & Markets

LIM keeps you informed with the latest financial news, market analysis, and economic events that move global markets.

Explained: Stop Orders

A **Stop Order** (often called a "Stop-Loss" or "Stop-Entry") is a type of order that remains invisible to the market until a specific price condition—known as the **Stop Price**—is met.

Once the market touches or breaches your stop price, the order instantly converts into a **Market Order** and executes immediately at the next available market price.

Traders primarily use stop orders for two reasons: **risk management (protection)** and **momentum trading (entry)**.

1. How the Mechanics Work

Unlike a limit order (which is placed in the order book for everyone to see), a stop order is a passive instruction held by your broker. It is only triggered when the market price crosses your predetermined line in the sand.

- **The Trigger:** Market hits your Stop Price.
- **The Action:** The order instantly transforms into a live Market Order.
- **The Execution:** You are filled immediately at the best available current price.

Crucial Warning (Slippage): Because a stop order turns into a market order upon activation, **your fill price is not guaranteed**. In fast-moving markets or gaps, you may experience slippage, meaning you get filled at a slightly worse price than your trigger price.

2. How Traders Use Stop Orders
Traders utilize stop orders in two completely opposite ways depending on whether they are trying to exit a losing trade or jump into a breakout.

A. Defensive: The Stop-Loss Order (Risk Management)
This is the most common use. It acts as an emergency exit to limit your losses if a trade goes against you.

- **For a Long Position (Buy):** You place a **Sell Stop** *below* the current market price. If the asset drops to your stop price, the broker automatically sells your position to prevent further financial damage.

- **For a Short Position (Sell):** You place a **Buy Stop** *above* the current market price. If the asset rallies against your short, the broker buys it back to close the trade before losses spiral.

B. Offensive: The Stop-Entry Order (Breakout Trading)
Sometimes, traders don't want to buy an asset when it's cheap; they want to buy it when it proves it has momentum.

- **Buy Stop Entry:** Placed *above* the current market price. If an asset is stuck under a heavy resistance level of $100, a breakout trader might place a Buy Stop at **$101**. They only want to enter the trade if the market proves it has the strength to break through that ceiling.

- **Sell Stop Entry:** Placed *below* the current market price. This is used to automatically short an asset the moment it breaks below a major support level.

3. Stop Order vs. Limit Order
The easiest way to mix up order types is to confuse a Stop with a Limit. Here is the golden rule to differentiate them:

Order Type	**Direction Relative to Market**	**Priority**	**Guarantee**
Buy Limit	Placed **BELOW** current price	Price Control	Guaranteed Price (or better), No Execution Guarantee
Buy Stop	Placed **ABOVE** current price	Momentum / Protection	Guaranteed Execution, No Price Guarantee
Sell Limit	Placed **ABOVE** current price	Price Control	Guaranteed Price (or better), No Execution Guarantee
Sell Stop	Placed **BELOW** current price	Momentum / Protection	Guaranteed Execution, No Price Guarantee

4. Advanced Stop Variation: The Stop-Limit Order

To solve the issue of slippage, brokers offer a hybrid order called a **Stop-Limit Order**.

When using this, you must set two prices: a **Stop Price** and a **Limit Price**.

1. The market hits your **Stop Price** (the trigger).
2. Instead of turning into a wild market order, it turns into a precise **Limit Order**.
3. It will only fill at your **Limit Price** or better.

The risk? If the market crashes right through your levels, a Stop-Limit order might never fill, leaving you trapped in a losing position. This is why most retail traders stick to standard Stop Orders for their defensive stop-losses.

Summary Checklist for Traders

- **Best For:** Limiting losses automatically and buying technical breakouts.
- **Visibility:** Hidden from the order book until triggered.
- **Slippage Risk:** High during high-volatility news events.
- **Golden Rule:** Never trade without a defensive stop-loss in place.

Why Choose LIM

Institutional-Grade Trading

Access the same trading tools and conditions previously available only to large financial institutions.

Regulation

London Investment markets Limited is registered in the Marshall islands, Registered Number: 134064. Senior management is comprised of UK qualified Head of Compliance as well as English qualified lawyers who manage the firm to the highest standards of regulatory compliance.

Client Money Protection

Client money is segregated into a dedicated client money account.

Corporate Governance

The firm is managed by a UK qualified Head of Compliance as well as English qualified lawyers. All procedures at LIM are drafted by market leading professionals.

Liquidity from Large Financial Institutions

Sophisticated technology allows us to provide wholesale interbank prices, historically available only to large financial institutions and corporations.

No Dealing Desk execution

All trades are executed by systems without human interventions.

Secure

Your data is protected by enterprise-grade encryption.