PROTECT YOUR VALUABLE CAPITAL / COLLATERAL by using STOP LOSS Order

STOP LOSS order is a Buy/Sell order placed to **"Limit the Losses"** when you fear that the prices may move against your trade.

For instance, if you have bought a stock at Rs 100 and you want to limit the loss at 95, you can place an order in the system to sell the stock as soon as the stock comes to 95. Such an order is called STOP LOSS, as you are placing it to Stop a Loss more than what you are ready to risk.

There are 2 types of STOP LOSS orders:

Type 1 : STOP LOSS Market Order (SL-M Order) = Only Trigger Price
Type 2 : STOP LOSS Limit Order (SL-L Order) = Price + Trigger Price

SCENARIO 1 :

If you have a Buy Position, then you will keep a Sell STOP LOSS. That is to say that, if you have a Buy Position at 100 and you wish to place an STOP LOSS at 95.

Type 1 : SL-M Order Type - You will place a Sell SL-M order with trigger price = 95. Here, when the price of 95 is triggered, a sell market order will be sent to the exchange and your position will be squared off at market price.

Type 2 : SL-L Order type - You will place a Sell SL-L order with price and trigger price. Since your order needs to be triggered first, the (trigger price ≥ price.) Here, this order type gives you a range of the Stop-Loss.

Let's assume a range of Re 0.50 (50 paise). Here, you can keep trigger price = 95 and price = 94.50. When the price of 95 is triggered, the sell limit order is sent to the exchange and your order will be squared off at the next available bid above 94.50. So, your SL order may get executed at 95 (or higher) or 94.95 but not below 94.50.

The disadvantage of this order is that if the market falls steeply, then after 95 is triggered and before the Sell Limit order of 94.50 is sent to the exchange if the stock price is already below 94.50, then your Stop-Loss order will still be open and your losses could be much higher.

You will have to use your discretion whether to use SL or SL-M depending on the market scenario.

SCENARIO 2 :

If you have a Sell Position, then you will keep a Buy STOP LOSS. That is to say, if you have a sell position at 100 and you wish to place an SL at 105.

Type 1 : SL-M Order Type - You will place a Buy SL-M order with trigger price = 105. Here, when the price of 105 is triggered, a buy market order will be sent to the exchange and your position will be squared off at market price.
Type 2 : SL-L Order Type - You will place a Buy SL-L order with price and trigger price. Since your order needs to be triggered first, (the trigger price ≤ price.) Here, this order type gives you a range of the stop-loss.

Let's assume a range of Re.0.50 (50 paise). Here, you can keep trigger price = 105 and price = 105.50. When the price of 105 is triggered, the buy limit order is sent to the exchange and your order will be squared off at the next available offer below 105.50. So, your SL order may get executed at 105.05 or 105 but not above 105.50.

Alternate use of STOP LOSS Order:

Since Sell STOP LOSS orders are used above your buy price and Buy STOP LOSS orders are used below your sell price, you can use these order types to Buy above Last Traded Price (LTP) and Sell below LTP.

1. To Buy above LTP, you can place a Buy SL order with the price at which you want to buy.
2. To Sell below LTP, you can place a Sell SL order with the price at which you want to sell.

SMIFS strongly advises to its Clients to Use STOP LOSS Orders as a Matter of Risk Management Policy to restrict losses and preserve valuable capital. A Voluntary use of STOP LOSS Orders by Clients helps in restricting the use of Liquidation of Open Positions of Clients by SMIFS in a Volatile Market Condition.

It is always safe and wise to use STOP LOSS Order facility for preservation of Valuable Capital.

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