

# Operation of Stock Exchange

## Topics to be Discussed

Stock Market Transactions  
Types of Brokers  
Types of Trading Orders  
Role of Specialist  
Trading and Settlement Dates

## Stock Market Transactions

When you buy, you buy from another person  
When you sell, you sell to another person  
The stock exchange itself neither buys, sells, nor sets prices  
The exchange provides the marketplace

## Types of Brokers

Commission House Broker

- a member executing orders on behalf of his own organization and its customers

Floor Broker (\$2 Broker)

- a member standing ready, willing, and able to execute orders in any security for any organization

## Types of Trading Orders

### Price Limits

#### ☛ Market order

- the broker must buy or sell at the best price obtainable
  - ⇒ the customer is certain that a market order will be completed

#### ☛ Limit order

- the broker is to execute at the limit or better
  - ⇒ a limit order to **buy** is executed at the limit or **lower**
  - ⇒ a limit order to **sell** is executed at the limit or **higher**
  - ⇒ there is a chance that the order may not be executed

#### ☛ Stop order

- to buy -- limit price is placed above the current market price
  - ⇒ stop order becomes a market order when the stock sells at or above the stop price
- to sell -- limit price is placed below the current market price
  - ⇒ stop order becomes a market order when the stock sells at or below the stop price

#### ☛ Stop limit order

- to buy -- limit price is placed above the current market price
  - ⇒ stop order becomes a effective as soon as there is a sale at the stop price or higher, and then it is executed, if possible, at the limit or lower
- to sell -- limit price is placed below the current market price
  - ⇒ stop order becomes a effective as soon as there is a sale at the stop price or lower, and then it is executed, if possible, at the limit or higher

#### ☛ Time limits

- Day order
  - ⇒ to buy or sell during the day or expire at the end of that trading day
- Open order (Good Till Canceled)
  - ⇒ to buy or sell at a set price until the order is either executed or canceled
- Fill or kill
  - ⇒ if the order cannot be filled at once, in its entirety, at the stipulated price, it is canceled and a fresh quote is given from the floor
- Immediate or cancel
  - ⇒ similar to the fill or kill order except the broker may fill as much of it as possible and cancel the remainder

## Role of Specialist



Specialist is member of exchange appointed to maintain an orderly succession of prices in selected stocks

- ☛ specialist expected to buy securities in declining markets and to sell securities in rising markets
- ☛ specialist buys for his/her own account

## Trading and Settlement Dates

Confirmation statements - provided by broker

- ☛ number of shares
- ☛ name of the securities purchased/sold
- ☛ unit price
- ☛ amount that is due/receivable

Trading date

- ☛ date of purchase/sale

Settlement date

- ☛ purchaser has three business days after trading date to pay amount that is due
- ☛ seller has three business days after trading date to deliver stock to broker