Even the most patient stock investors have to buy and sell sometimes, and how you trade can make a big
difference in how much money you make.

You could buy or sell a stock using a “market order,” an instruction to your broker to trade as soon as
possible at the best price available in the market. Or you could use a “limit order” that indicates the
highest price you are willing to pay if you are buying—or the lowest price you will accept if you are selling.

In today’s world of electronic exchanges dominated by high-frequency traders using advanced technology
to trade at blazing speed, market orders can wreak havoc on your returns without warning.

Consider data from Eric Hunsader, founder of Nanex, a firm in Winnetka, Ill., that analyzes trading
patterns. It looked at recent price moves in the shares of Parsley Energy of Austin, Texas, an oil-and-gas
production company with a total stock-market value of about $2.1 billion.

Let’s say you placed a market order to buy shares in Parsley at 11:06:34 a.m. on Feb. 6, when the stock
stood at $16.30. By 11:06:35, it had leapt to $18.20—a 12% gain in a single second. Over the next three
seconds, it wilted back down to $16.60.

A spokeswoman for Parsley said the price move could have been related to a positive earnings
announcement that morning, although the news was released before the market opened.

This past week, Parsley traded at about $16.80. Someone who used a limit order to buy at $16.30
already is in the black. Someone who, one second later, bought with a market order at $18.20 needs the
stock to go up 8% from here to just break even.

Such momentary jolts in price have been occurring dozens of times a day for years, Mr. Hunsader says,
and can affect larger companies, too. Only 32 seconds after the market opened at 9:30 a.m. on Feb. 10,
shares in General Motors nose-dived from $37.17 to $36.40 in less than one-quarter of a second.

If you had entered a market order to sell GM when it was at $37.17, you might have gotten only $36.40
instead, or 2% less than you expected. Two seconds later, the price had recovered to $37.10.

Investors balk at paying brokerage commissions, but they often don’t even notice that a market order led
them to pay far more for a stock than they should have.

One antidote, traders and researchers say, is what is known as a “marketable limit order.”

Stocks are quoted with both a “bid” and an “ask.” The bid is the highest price that buyers are willing to
pay; the ask is the lowest price that sellers are offering to accept.

Say the best bid on a stock is $10.00 and the best ask is $10.02. If you want to buy immediately but don’t
want to pay more than a few pennies extra, submit a marketable buy-limit order at $10.05.
Such an order should be filled at $10.02 unless the market instantly runs up, in which case you are protected against paying more than $10.05. If the market drops, you will buy at that lower price.

A disclosure called a Rule 606 report shows basic information about how a brokerage handles trades, including the proportion filled as market orders.

The percentage of market orders in New York Stock Exchange trades disclosed on the Rule 606 filings of retail brokerage firms varies widely, from 15% at TD Ameritrade to 24% at Vanguard Brokerage Services, 43% at E*Trade Financial and 50% at Fidelity Brokerage Services and Charles Schwab.

Some firms, including Credit Suisse Group, say they automatically convert most market orders to marketable limit orders in an effort to get the best prices for their customers. Most retail brokerages charge the same commission on limit and market orders.

**Speak up to make sure your trades aren’t being handled as market orders.** Joe Saluzzi, partner at Themis Trading, an institutional brokerage firm in Chatham, N.J., suggests calling your broker or financial adviser to ask how your trade was executed and why it was filled at a particular price.

“Often they don’t even know,” he says. “Make them do a little tap dancing and figure it out for you.”

You always should use a marketable limit order when trading, says Lawrence Harris, a finance professor at the University of Southern California and former chief economist at the Securities and Exchange Commission. “It forces you to think more carefully about your order.”

It also could save you from trading at a price that could eat up a year’s worth of return on a stock.