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WHAT IS STOP LOSS

Capademy Tutorial Series



What is Stop Loss

The stop-loss order is a type of advanced trade order that can be placed with most of the brokers. It works as an automatic order from an investor to a broker to sell the instrument when it reaches a predetermined price. This is different from conventional market order.

How Stop-Loss Order Works?

A stop-loss order is essentially a part of the risk management system which helps traders to manage risk. An order is placed with a specific trigger price given by an investor to his broker if the trade goes against the trader and price hits the specific trigger price set by the trader an automatic order will be executed on behalf of the trader. Such orders are designed to minimize the loss of an investor.

Let's understand the concept with an example.

Let's say an investor owns 100 shares in X company. The price of a single share is \$50. After some time, the price of each share comes down to \$48. Now the investor is not sure if the prices will come down or move up so, he uses the Stop-Loss order. He puts the Stop-Loss at \$47, now by doing this; his position will close automatically when the price of the share reaches \$47. This allows him to limit his losses and secure his investments.

Advantages of and disadvantages of stop loss:

Advantages	Disadvantages
<ul style="list-style-type: none">· It acts as a risk management tool.· Protect traders from volatile market action· It helps traders to automate trade· It allows trades to fix risk exposer· Implementing stop loss is very easy· It allows traders to use multiple positions	<ul style="list-style-type: none">· If placed without proper analysis, can cause position to close too soon, hence limiting the profit potential· Traders need to do proper analysis as the market is highly volatile

Stop loss and Negative Balance Protection

The most important advantage of stop loss is to protect the traders account from a negative balance. e.i. it prevents the traders account from going into minus.

But some time due to high volatility the stop loss may not execute for example in case of a gap down opening below stop loss but don't worry because at Capital Street we offer a legally binding negative balance protection. So a trader associated with Capital Street won't have to worry as his account will never go into minus.

How to place a stop-loss order

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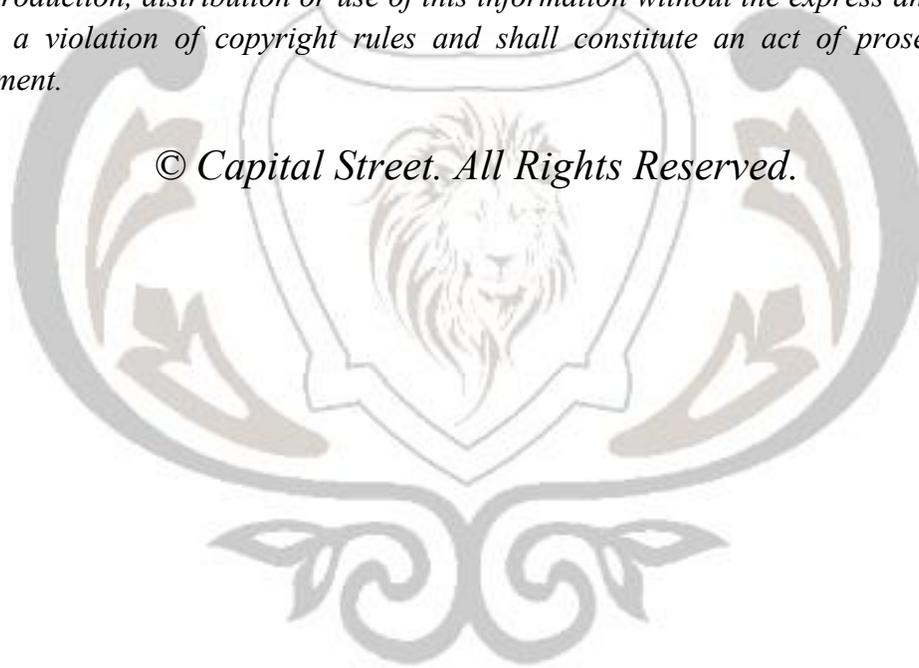
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Stop-loss orders can be set in very simple steps. When a trader opens a new position after selecting market order or limit order, you will see an option to add Stop loss. Simply determine the amount e.i. The amount you want to risk on a particular trade or you can set a price at which you want to exit and hit submit.

Congratulation your stop-loss order has been set. But the actual problem is that it needs a bit of practice to set a stop-loss. If placed to close a sudden fluctuation can hit your stop-loss order and if placed too far will increase your risk exposer. After you perfect your analysis, you will find that stop-loss order is very helpful.

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