Capitol Report

NYSE joining Nasdaq in eliminating stop orders

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Goodbye stop orders on the Big Board

It's green on stop orders at the New York Stock Exchange — until February. Reuters

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A type of order traders use to protect against losses is being phased out, as stock exchanges seek to deal with the ramifications of huge intraday swings.

The New York Stock Exchange, in a statement, said it would no longer accept what are called stop orders, beginning Feb. 26, joining the Nasdaq NDAQ, -0.12% in barring them. Another order type called good-till-canceled also is being axed.

The NYSE, a unit of the IntercontinentalExchange ICE, 0.03%, cited the risks that occur from such orders during volatile trading. A stop order could be triggered after a big downward move, but investors could be unhappy when the stock quickly recovers its value. Another risk is the stock falls much further than the level where the stop order was intended to be executed.

(Short sellers place stop orders in the opposite direction, buying if a stock exceeds a certain price.)

MarketWatch columnist Michael Sincere explained the potential pitfalls of stop orders.

In any case, the orders were rarely used — just 0.2% of the time.

But the orders have their proponents, too, and traders sounded their unhappiness on Twitter.

Even though the exchanges have or are about to eliminate such orders, brokers will still be able to structure such order types, in what potentially could be lucrative.