The purpose of this case is to give traders a chance to familiarize themselves with the RIT interface and learn how order driven markets work. Traders should focus on understanding the step by step procedures of trading: submitting the order, viewing its status in the trade blotter, observing its effect on the limit order book, and finally its effect on the trader’s cash position.

1) The RIT Platform

Traders should take the time during this first case to get very comfortable with the RIT Platform, assuming you will be trading other cases, you will be using RIT a lot! The application is completely modular and you can have multiple instances of any module. In this case, the important modules are: Market View, Market Depth View, Order Entry, Trade Blotter, Transaction Log, and User Info. Of these modules, you will most likely want to have multiple order entry windows (one or two per security) and multiple market depth views (one per security).

2) Limit and Market Orders

The most important learning objective for students is to understand the tools of trade, the limit and market order. A limit order submits an order into the limit order book at the price that you specify and for the shares that you specify. It will trade when the market reaches your price. The market order gives you speed of execution because it instantly trades with the best available prices in the market. However, you are often making a sacrifice and not getting the best price by submitting a market order. For example, when a market is currently trading at 10.01 bid by 10.15 ask, instead of submitting a market order to buy (in which case you’ll get your shares at the 10.15 price), try submitting a limit order to buy at 10.02. If you in fact get filled, you will be saving $13.00 per 100 shares you transact. It may not seem like a lot, but considering you will often be trading thousands of shares, it certainly adds up. It is also important to understand that submitting market buy and market sell orders will cost you both the transaction costs and the bid-ask spread cost. If you were to buy 100 shares and sell them instantaneously via market orders, you would be buying at 10.15 and selling at 10.01, losing $14.00 plus trading commissions.

On the other hand, traders may find that sometimes they will submit a limit buy order, only to see the market trade higher and higher. Moments later they realize that their attempt to save a few cents on the price has actually cost them a lot more since the stock currently trades 25 cents higher. This same example can be reversed for the selling shares. Limit orders will save you the bid/ask spread at the risk of not transacting at all if the market doesn’t trade up or down to your order. After trading with each order type for a while you will start to gain an appreciation for the speed/price tradeoff and when to use each order type.
Another important lesson: it is almost never advantageous to submit a large market order. Submitting a market buy or market sell order for say, 50,000 shares will usually give you a very bad average price (note your order VWAP in your trade blotter from such a transaction). Although you may have pushed the price in a certain direction, it will generally move back towards the original price prior to your order. Breaking your order into smaller pieces and submitting them as market and limit orders will typically get you a better price.

3) Margin and Short Selling

Short selling is the act of selling securities that you do not own. In order to make money short selling, you need to buy the securities back at a price lower than what you sold them for. The common adage “buy low, sell high” is simply reversed with short-selling: “sell high, then buy low”.

Short selling will cause your cash in your User Info window to increase. Just because your cash is going up, does not mean you are making money! You are obligated to repurchase all of those securities that you short sold, which will cause your cash to deplete. Once again, if you repurchased the short-sold securities at a price lower than what you sold them at, you will generate trading profits. There is no special way to short-sell a security, simply sell shares that you do not own and your position will be negative. Try it!

Both securities have long-margin loans set to 50% and short margin requirements of 150%. This means that although you only have $1 Million in cash, you can purchase up to $2 million dollars worth of securities. Likewise, you can short sell up to $2 Million worth of securities as well. The easiest way to keep track of your margin usage is to watch your buying power in the User Info module. The buying power adjusts constantly depending on the value of your securities and the amount of cash that you have.

After trading for a while, try thinking about what modules you find useful and prioritize their screen space. There’s a reason why professional traders have 4 screens on their desktop, they want as much relevant information as possible. Some traders prefer more information on a single screen, while others prefer less information on the screen but focus on specific items more. It’s completely up to you. This case is meant to give you a chance to learn how to trade without worrying about valuation of the securities. Take the time to execute different trades and focus on understanding how transactions take place. This will give you the important building blocks for future cases that are more complex.