Market Volatility Overview

What is a Volatile Market?

A volatile market is often characterized by extreme price fluctuations and widespread uncertainty. We (Robinhood Financial LLC, and Robinhood Securities, LLC) want to highlight things that may happen during extreme market volatility. The links contain additional information on specific topics. You can read more about market volatility here and in the customer agreement.

How Are Orders Handled During Market Volatility?

1. Order Routing

Robinhood generally routes orders to market makers for execution. During periods of market volatility, those market makers may adjust their order handling procedures, which could impact your order. For example, the execution of your order may be delayed. In extreme circumstances, your order might not execute.

2. Trading Halts

During market volatility, there is a greater risk that trading in a security may be halted. Trading halts are initiated by the specific stock exchange where the stock is listed or by the Securities and Exchange Commission.

3. Delays

High volumes of trading at the market opening or intra-day may cause delays in execution and executions at prices significantly away from the market price quoted or displayed at the time the order was entered.

How Do Different Orders Work During Volatile Markets?

Robinhood supports different types of orders, which are described here. In volatile markets, limit orders and stop orders have risks that you should understand.

If you place a limit order, it will execute only at the specified limit price or better. This provides price protection in a moving market, but there is the possibility that the order will not be executed. Stop orders have specific risks in volatile markets:

- Stop prices are not guaranteed execution prices. A “stop order” becomes a “market order” when the “stop price” is reached and firms are required to execute a market order fully and promptly at the current market price. Therefore, the price at which a
stop order ultimately is executed may be different from the “stop price” you input, particularly in a highly volatile market, where prices are rapidly fluctuating. This means that while you may receive a prompt execution of a stop order that becomes a market order, during volatile market conditions, the execution may be at a significantly different price from the stop price.

• Stop orders may be triggered by a short-lived, dramatic price change. During periods of volatile market conditions, the price of a stock can move significantly in a short period of time and trigger an execution of a stop order (and the stock may later resume trading at its prior price level). You should understand that if your stop order is triggered under these circumstances, you may sell at an undesirable price even though the price of the stock may stabilize during the same trading day.

• Sell stop orders may exacerbate price declines during times of extreme volatility. The activation of sell stop orders may add downward price pressure on a security. If triggered during a precipitous price decline, a sell stop order also is more likely to result in an execution well below the stop price.

• Placing a “limit price” on a stop order may help manage some of these risks. A stop order with a “limit price” (a “stop limit” order) becomes a “limit order” when the stock reaches the “stop price.” A “limit order” is an order to buy or sell a security for an amount no worse than a specific price (i.e., the “limit price”). By using a stop limit order instead of a regular stop order, a customer will receive additional certainty with respect to the price the customer receives for the stock. However, you should also note that because Robinhood may not sell for a price that is lower (or buy for a price that is higher) than the limit price selected, there is the possibility that the order will not be executed at all. A stop limit order may be desirable if you wish to prioritize achieving a desired target price more than getting an immediate execution irrespective of Price.

Still have questions? Contact Robinhood Support