On the Limit Order Behaviour of Retail and Non-Retail Investors

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Abstract

Motivated by the dichotomy in access to trading technology, this study examines the limit order behaviour of retail and non-retail investors (institutions and market-makers) in the Australian equity market. Fundamental differences are found in the trading behaviours of the two groups, consistent with non-retail investors having a relative speed advantage. Non-retail investors trade more via limit orders, are more aggressive with their limit order placement, exploit fleeting orders to search for latent liquidity and react more quickly to liquidity opportunities. We also find evidence that institutional investors are more responsive to non-execution risks and retail investors experiencing higher adverse selection costs at the hands of non-retail investors.

JEL classification: G10; G18; C41

Keywords: Limit Orders, Order Revisions, Non-Execution Risk, Adverse Selection Risk, Fleeting Orders

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