

The continuous chart, and the seams in it

BACK-ADJUSTED CHART

A continuous commodity chart in which historical prices have been shifted so that each contract roll joins without a jump. Differences and percentages read correctly across the join; the absolute price levels in the past are no longer prices anyone traded. The unadjusted alternative keeps true levels and fabricates jumps at every roll. Neither is wrong - they answer different questions.

Module 1 told you the continuous chart is a splice. This lesson is about the two ways to make one, because they disagree, and the disagreement is exactly where beginners get hurt.

The problem restated

The front month expires every month or two. A long-run chart must jump from the old contract to the new one, and on the day of the jump the two contracts have different prices - not because the market moved, but because different months are worth different amounts. The chart builder must do something with that gap.

Choice one: keep the levels, keep the lies

An unadjusted chart plots each contract's real prices and accepts a fabricated jump at every roll. The levels are honest - that price traded on that day - but every roll prints a gap that looks like a market event and was actually a change of subject. Gap studies, moving averages and anything measuring change across a roll will read these phantoms as signal.

Choice two: fix the changes, forfeit the levels

A back-adjusted chart shifts all history at each roll so the join is seamless. Percent changes and indicator maths now read correctly across decades - this is the chart for backtesting - but the levels are constructed. Old prices on a heavily adjusted chart can sit far from anything that ever traded; on long-history charts of persistently rolling markets they can even go negative. A support level read off deep history on a back-adjusted chart may be an artefact of the adjustment arithmetic, full stop.

The rule

Measuring change - returns, indicators, backtests: back-adjusted, always. Reading levels - what price actually traded, where the round numbers sit: unadjusted, or better, the individual contract's own chart. Unknown provenance: assume the worst for whichever question you are asking. Platform documentation says which construction is used; most chart windows do not.

Your CFD platform made this choice for you and rarely advertises it. Finding out which chart you have been reading is a ten-minute job that reclassifies years of what you thought were price levels.

Check your understanding

1. A backtest on an unadjusted continuous chart shows a strategy profiting from overnight gaps. What is the first thing to check?

- a. Whether the strategy works on other commodities
- b. How many of those gaps are contract rolls rather than market moves
- c. Whether the gaps persist on a shorter timeframe

Answer: b. Unadjusted charts print a fabricated jump at every roll. A gap strategy tested across them may be harvesting the splice, not the market - profits that exist only in the chart's construction.

2. On a back-adjusted chart, crude shows a 'support level' from six years ago. What is the caution?

- a. Six years is too old for support to matter
- b. The level has been shifted by every roll adjustment since, and may match no price that ever traded
- c. Support levels do not apply to commodities

Answer: b. Back-adjustment moves historical levels to make changes read truly. The further back you look, the more accumulated shifting sits under the number on the axis.