

The correlated-exposure trap

CORRELATED EXPOSURE

Positions in different pairs that share a driving currency move together, so their risks add rather than stand apart: long EUR/USD and short USD/CHF are both short the dollar, and a dollar move hits both stops in the same week of bad luck. Honest risk counting sums exposure per currency across all open positions, not per ticket - two tickets can be one position wearing two names.

Your plan says 1% per trade. You are long EUR/USD at 1% and short USD/CHF at 1%, two pairs, two tickets, two stops. Then the dollar strengthens sharply one afternoon, and both positions lose together, because both positions were the same bet: dollar down.

Why do different pairs move together?

Module 2's charts-rhyme lesson showed the mechanism: pairs share legs. EUR/USD and USD/CHF both contain the dollar, and when the dollar itself moves - a rate decision, a risk-off hour - every dollar pair moves with it, in the directions their notation dictates. Long EUR/USD profits from a falling dollar. Short USD/CHF profits from a falling dollar. One driver, two expressions.

The correlation is not a statistical curiosity that comes and goes. It is built into what the instruments are. Statistical correlations between unrelated pairs do drift; shared-leg arithmetic does not.

How do you count exposure honestly?

Per currency, across every open ticket. List each position as its two legs - long one currency, short the other - and sum the legs. The two-ticket example nets out as double-long euro-bloc against double-short dollar, and the honest risk to a single dollar move is the sum of both tickets' risk, as the worked example prices.

The per-trade fraction from lesson 1 was doing its job on each ticket. The counting failed at the account level, and the account is where the money lives. A per-currency cap - a ceiling on summed exposure to any one currency - is the plan-level rule that closes the gap, and lesson 9 gives it a line in the template.

Is the answer to spread positions out?

The answer is to know what you hold. Summing exposure honestly sometimes tells you to skip a second ticket, and sometimes tells you that the two positions you like are genuinely distinct bets. Either answer is fine; holding two tickets while believing they are independent when they are not is the only failure here. Whether concentration or variety suits a method is a strategy question for module 6 - this lesson only insists the count be true.

Worked example - figures in USD

Two tickets, each sized honestly at 1% of \$12,000 with 30-pip stops - and both positions long the same currency once you read the pairs.

1. Each ticket was sized correctly alone: 1% of \$12,000 is \$120.00, buying 0.4 lots at a 30-pip stop.
2. Read both tickets' legs: both are the same direction on the shared currency. One driver moves both.
3. Count honestly: 2 tickets sharing a driver put \$240.00 - twice the plan's per-trade figure - behind a single move. The plan said 1% per idea; this is one idea, counted once.

Diagram: Two trades at 1% each. One currency. The exposure is 2%, whatever the ticket says.

View it in the web lesson: <https://ticksprout.com/learn/fx/risk-management/the-correlated-exposure-trap>

What this means for you

Before adding any position, write your open exposure per currency, long and short, in one line each. If the new ticket deepens a currency you already hold, size it as an addition to that bet, or skip it - the choice is yours, made with a true count in front of you. The trap was never having two positions; it was believing the count was two when it was one.

Try it yourself with the position-size calculator: <https://ticksprout.com/tools/position-size>

Check your understanding

1. Long EUR/USD and short USD/CHF, both at 1%. What is your exposure to a sharp dollar rise?

- a. 1% - the positions are in different pairs
- b. About 2% - both positions are short the dollar, and a dollar rise hits both
- c. 0% - the positions hedge each other

Answer: b. Both tickets profit from a falling dollar, so a rising one damages both together - the risks add. They neither hedge nor stand apart: reading each position as its two currency legs is what makes this visible before the afternoon it happens.

2. Why is shared-leg correlation different from statistical correlation between unrelated pairs?

- a. It is built into what the instruments are and does not drift away
- b. It only appears during news events
- c. It is weaker

Answer: a. A pair containing USD moves when USD moves - that is notation, not statistics. Measured correlations between unrelated instruments strengthen and fade; shared-leg arithmetic is permanent, news or no news.

3. What does honest exposure counting require you to do before opening a new position?

- a. Sum your open exposure per currency and treat a ticket that deepens an existing leg as an addition to that bet
- b. Always hold positions in unrelated pairs
- c. Halve the size of every second position

Answer: a. The lesson's rule is a true count, not a portfolio shape: sometimes the count says skip, sometimes it says the bets are genuinely distinct. Mandatory variety and mechanical halving are both substitutes for counting, and neither is the point.