Levels on a series where nothing traded

> **INDEX LEVEL**
>
> A price on an index chart that repeatedly stopped or reversed a move. The usual explanation - resting orders, participants defending a price - cannot apply, because nobody trades the index. What makes an index level work is different, and knowing the difference tells you which levels to trust.

On a traded instrument a support level has a mechanical story: buyers left orders there. On a calculated index nobody left anything anywhere, and yet the levels visibly work. This lesson is about why.

Three real mechanisms

Constituent levels, transmitted. If several large constituents have their own levels, the weighted sum inherits a level at the corresponding index value.Derivative levels. The future and the options on it are traded, orders do rest there, and your broker's quote derives from the future - so a level in the traded contract shows up on the index chart.Attention. Everyone is looking at the same round numbers and the same prior highs, and acting on them in the traded wrappers, which moves the calculation.

The third is the weakest mechanically and often the strongest in practice, which is uncomfortable and worth sitting with.

Which levels to trust

Levels formed with heavy participation in the traded wrapper are more meaningful than levels formed in thin conditions. That means a level made in the cash session generally outranks one made overnight, for the same reason module 2 lesson 5 discounted the overnight range.

A level struck at a closing auction is the most participated price of its day, which is the strongest version of this argument.

Round numbers

An index level has no units, so a round number is arbitrary in a way a round price in a currency is not. It still attracts attention, and attention is one of the three mechanisms, so the arbitrariness does not stop it working.

That is a genuinely odd fact and the honest framing is: the level does nothing, the attention does something, and the attention is real.

What this changes

It gives you a reason to prefer some levels over others rather than treating every touch as equivalent, and it tells you what to check - was the wrapper busy when this formed - rather than only what to draw.

Check your understanding

1. Why can a support level on a cash index chart not be explained by resting orders?

a. Orders are hidden on indices
b. Nobody trades the index, so no orders rest at any index level
c. Index orders are matched only at auctions

Answer: b. The index is a calculation. Levels work through constituent levels transmitted, levels in the traded derivative, and sheer attention.

2. Which index level is the stronger claim?

a. One formed overnight on the futures series
b. One struck at a closing auction
c. A round number, because everyone sees it

Answer: b. The closing auction is the most participated price of its day. Overnight levels form in thin conditions and deserve the same discount as the overnight range.