Why index charts rhyme

> **SHARED MOVEMENT**
>
> The tendency of major equity indices to move together, often closely. Reading two such charts as independent agreement double-counts a single piece of information, and the second chart adds far less than it appears to.

Put two major indices side by side over a year and the shapes will usually rhyme. Different countries, different companies, different currencies, similar picture.

The reading error

It is treating the second chart as confirmation. If two series share most of their movement, a pattern appearing in both is one observation shown twice, not two observations agreeing.

This is the same fault as the correlated exposure trap in the FX track, met at the level of reading rather than sizing. Two things that move together give you less information than two things, and the feeling of confirmation is strongest exactly when the sharing is highest.

Where the rhyme comes from

Overlapping constituents, in the literal sense: the largest companies in several indices are the same companies, or ones with the same customers. Shared macro drivers - rates and risk appetite - reach every market. And index products themselves are traded as a bloc by participants expressing one view across several markets.

Why any of that happens, and when it stops, is module 5. What matters here is that it does happen, and it changes what a second chart is worth.

The rhyme is not constant

Indices move together more in falls than in rises, and more in fast markets than slow ones. So the periods when a second chart looks most confirming are the periods when it is adding least.

A relationship that holds for months can loosen when one market gets its own news - a domestic rate decision, a currency move, a sector that only one index carries much of.

Reading two charts usefully

Divergence is more informative than agreement, because agreement is the default.When two rhyming indices stop rhyming, that is the observation worth having.Ask what each index holds that the other does not before treating a difference as meaningful.

Closing the module

Nine lessons about reading a series that nobody trades, quoted by your broker from a contract that expires, charted over hours that vary by platform, with a volume figure measuring one of three different things.

None of that makes index charts unreadable. It makes them charts with a construction, and knowing the construction is the difference between reading the market and reading the wrapper.

Check your understanding

1. Two major indices show the same pattern on the same day. What have you observed?

a. Two independent confirmations of the pattern
b. Largely one observation, shown twice
c. Evidence the pattern is about to resolve

Answer: b. If the series share most of their movement, the second chart adds little. The feeling of confirmation is strongest precisely when the sharing is highest.

2. When are two index charts adding least to each other?

a. In slow, quiet markets
b. In fast markets and falls, when they move together most
c. When they are denominated in different currencies

Answer: b. Indices move together more in falls and fast markets. Those are exactly the periods when a second chart looks most confirming and tells you least.