

# Market Regime Recognition Checklist

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Signal Pilot Education Hub

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## Market Regime Recognition Checklist

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### Lesson 29: Market Regime Recognition

This checklist helps you identify the current market regime (trending, ranging, volatile, quiet) and adapt your trading strategy accordingly.

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## Pre-Trade Regime Analysis

### Trend Regime Identification

- [ ] **Check ADX (Average Directional Index)** -  $ADX > 25$  = trending,  
 $< 20$  = ranging
- [ ] **Measure swing structure** - Are highs and lows progressing  
(trend) or overlapping (range)?
- [ ] **Identify slope of moving averages** - 20/50/200 MA aligned and  
sloping = trend

- [ ] **Check for clear impulse moves** - Strong directional candles with small pullbacks = trend

## Volatility Regime Assessment

- [ ] **Check VIX level** - < 15 = low vol, 15-25 = normal, 25-35 = elevated, > 35 = crisis
- [ ] **Measure ATR (Average True Range)** - Compare current ATR to 20-day average
- [ ] **Look at Bollinger Band width** - Bands expanding = rising vol, contracting = falling vol
- [ ] **Check recent range vs. historical** - Is current daily range above/below average?

## Market Breadth Analysis

- [ ] **Check advance/decline ratio** - More advances = bullish breadth, more declines = bearish
- [ ] **Monitor sector performance** - Are all sectors moving together (strong regime) or mixed?
- [ ] **Look at new highs/lows** - Expanding highs = bullish regime, expanding lows = bearish
- [ ] **Check correlation** - High correlation (0.7+) = regime-driven, low = stock-specific

## Liquidity Regime

- [ ] **Check bid-ask spreads** - Tight spreads = liquid, wide = illiquid
- [ ] **Monitor volume** - Volume above 20-day avg = active regime, below = quiet
- [ ] **Look at order book depth** - Thin book = low liquidity regime
- [ ] **Check time of day** - 9:30-11 AM & 2-4 PM = most liquid (US markets)

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# 🎯 Strategy Selection by Regime

## Trending Regime (ADX > 25, clear direction)

- [ ] **Use trend-following strategies** - Janus sweeps, breakouts, pullback entries
- [ ] **Trade in direction of trend** - Don't fight strong directional moves
- [ ] **Let winners run to 3R+** - Trends can extend far beyond initial targets
- [ ] **Avoid mean reversion** - Fading trends = getting run over

## Ranging Regime (ADX < 20, oscillation)

- [ ] **Use mean reversion strategies** - Fade extremes, trade support/resistance bounces
- [ ] **Set tight profit targets (1-2R)** - Ranges don't offer large moves
- [ ] **Trade both directions** - Long at support, short at resistance
- [ ] **Avoid breakout strategies** - Most breakouts fail in ranges (false breaks)

## High Volatility Regime (VIX > 25)

- [ ] **Reduce position size by 50%** - Wider stops needed = smaller size
- [ ] **Widen stops appropriately** - Use 1.5-2x normal stop distance
- [ ] **Take profits earlier** - Price can reverse violently (1.5-2R targets)
- [ ] **Avoid overnight holds** - Gap risk elevated in high vol
- [ ] **Consider pausing trading** - If VIX > 35, stay in cash

## Low Volatility Regime (VIX < 15)

- [ ] **Increase position size moderately** - Tighter stops = can size up slightly
- [ ] **Expect smaller moves** - Price moves are compressed (adjust expectations)
- [ ] **Use time-based exits** - Trades may take longer to hit targets
- [ ] **Watch for volatility breakout** - Low vol doesn't last forever (VIX mean reversion)

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## During Trade (Regime Monitoring)

### Real-Time Regime Shift Detection

- [ ] **Monitor VIX intraday** - Spike > 5 points = regime shift (consider exit)
- [ ] **Watch for news events** - Fed announcements, earnings, geopolitics shift regimes
- [ ] **Check if structure breaks** - Trend suddenly turns choppy = regime change
- [ ] **Observe volume changes** - Volume spike + price reversal = potential shift

### Adaptive Position Management

- [ ] **If regime shifts against you, exit** - Don't hold trend trade in new ranging regime
- [ ] **Tighten stops in volatile regime** - Move stop to breakeven faster
- [ ] **Trail stops in trending regime** - Use wider trailing stops to stay in trend

- [ ] **Take partial profits if regime unclear** - Lock in gains, reduce exposure

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## Post-Trade Regime Review

### Regime Accuracy Check

- [ ] **Was regime correctly identified?** - Did market behave as trending/ranging/volatile?
- [ ] **Did strategy fit regime?** - Trend strategy in trending regime? Mean reversion in range?
- [ ] **Did regime shift during trade?** - If yes, did you adapt or get caught?

### Performance by Regime

- [ ] **Track win rate by regime type** - Which regime do you trade best?
- [ ] **Measure avg R by regime** - Trending = higher R? Ranging = lower R?
- [ ] **Identify worst-performing regime** - Avoid trading or adjust strategy
- [ ] **Log regime at entry** - Tag every trade: Trending / Ranging / High Vol / Low Vol

### Lessons Learned

- [ ] **Which regime indicators were most accurate?** - ADX? VIX? Breadth?
- [ ] **Did you adapt strategy appropriately?** - Or force wrong strategy on wrong regime?

- [ ] **When did you miss regime shifts?** - What early warning signs did you ignore?
- [ ] **Next improvement** - Build regime dashboard, set alerts for regime changes

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## Pro Tips

### Regime Recognition Mastery

- **Build a daily regime checklist** - Start each session: Identify regime  
→ Select strategy
- **Use multi-timeframe regime analysis** - Daily regime trumps 15-min regime
- **Monitor regime at session opens** - London open, NY open often shift regimes
- **Track regime persistence** - Trending regimes last weeks/months, ranging = days

### Common Mistakes to Avoid

- **✗** Trading without checking regime first (most costly mistake)
- **✗** Using one strategy in all regimes (adapt or die)
- **✗** Ignoring VIX spikes (high vol = danger zone)
- **✗** Forcing trades in unclear regimes (when in doubt, stay out)

### Regime-Based Risk Management

- **Trending regime:** Risk 2% per trade, let winners run
- **Ranging regime:** Risk 1.5%, take profits at 1.5-2R
- **High vol regime:** Risk 1%, reduce size, take profits at 1.5R

- **Low vol regime:** Risk 2%, be patient with time-based exits

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## Related Resources

- **Lesson 28:** Institutional Order Flow (order flow shows regime shifts)
- **Lesson 32:** Volatility Trading (trade volatility regime changes)
- **Recommended Indicators:** ADX, VIX, ATR, Bollinger Bands, Advance/Decline Line

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**Version:** 1.0

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**Difficulty:** Advanced

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Remember: The market has no obligation to fit your strategy. Your strategy must fit the market's current regime. Adapt or get left behind.

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