Trading Behavior vs Market Sentiment

A Data-Driven Analysis of Leverage, Profitability, and Sentiment

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Date: September 09, 2025

Executive Summary

This report explores how trader behavior (leverage and profitability) varies across market sentiment regimes (Fear, Neutral, Greed). The findings reveal important patterns that highlight how risk appetite and performance shift with sentiment. These insights can guide smarter trading strategies and risk management practices.

Leverage vs Market Sentiment

Leverage usage increases significantly in Greed periods, showing higher risk-taking behavior, while Fear markets reflect more conservative positioning. Charts below illustrate leverage distribution and averages across sentiment regimes.

[Insert Chart: Leverage vs Sentiment Boxplot]
[Insert Chart: Average Leverage per Sentiment]

Profitability vs Market Sentiment

Profitability (closed PnL) tends to vary strongly with sentiment. Greed markets show higher variance — larger potential wins and losses — while Fear periods can yield steadier outcomes for disciplined traders. Charts provide a comparison of PnL distribution across sentiment.

[Insert Chart: PnL vs Sentiment Boxplot]

Correlation Analysis

Correlation analysis of leverage, profitability, and sentiment shows that leverage is moderately influenced by sentiment, whereas profitability is less correlated. This indicates risk-taking behavior is sentiment-driven, but performance outcomes are less predictable.

[Insert Chart: Correlation Heatmap]

Key Insights

1. Leverage increases significantly during Greed markets, reflecting higher risk appetite.
2. Fear markets can favor disciplined traders with steadier profitability.
3. Correlation analysis confirms leverage is more sentiment-driven than profitability.

Conclusion

Trader behavior clearly shifts with sentiment. Recognizing these dynamics allows for better-informed trading strategies, improved risk management, and smarter allocation of leverage across market regimes.