

Market Regime Recognition Checklist

Signal Pilot Education Hub



Market Regime Recognition Checklist

Lesson 29: Market Regime Recognition

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



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)

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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Difficulty: Advanced

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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