FOUNDATION SERIES · REGIME INTELLIGENCE

Your System Is Not Broken.
The Market You Are Trading It In Is.

A complete guide to market regime analysis — the discipline that changes how you read every market, every timeframe, every trade.

Regime Intelligence · regimeintelligence.com · Not financial advice

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20+ years in financial markets · CFA Level II · Five published books

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01 THE QUESTION NOBODY ASKS

Every trader asks what to buy. Almost none of them ask what kind of market they are buying it in.

That distinction is everything. And it is the reason most trading systems — technically sound, historically tested, logically coherent — fail at the worst possible moments. Not because the system is wrong. Because it is operating in an environment it was never designed for.

Think about what a momentum system does. It is built on the premise that assets in motion tend to stay in motion. That is true. In the right conditions. When volatility is compressed, trend conviction is high, and markets are functioning normally, momentum strategies print. Traders who run them look like geniuses.

Then a credit shock arrives. Or a central bank decision nobody anticipated. Or a liquidity crisis that starts in a corner of the bond market and spreads everywhere within 72 hours. Momentum becomes a trap. The same system that worked brilliantly in a trending environment now runs directly into a wall because the environment changed and the system did not know it.

Your timing is wrong not because your system is bad — but because no system works in all market states. Reading the market state is more important than any system ever invented.

Market regime analysis is the discipline of reading the state before placing the trade. It does not replace your system. It tells you when your system has the right conditions to work — and when it does not. That is the most valuable piece of information a trader can have, and it is almost universally ignored.

This article is about why that is, and what to do about it.

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02 WHAT A MARKET REGIME ACTUALLY IS

Not a trend. Not a pattern. A state.

Most traders use the word "regime" loosely, if at all. They say things like "this is a trending market" or "we are in a risk-off environment." Those are observations about surface behavior. A market regime is something more precise and more useful: it is the underlying stress state of a market, measured objectively, independent of price direction.

Price can go up in a stressed market. It can go down in a calm one. Direction and regime are not the same thing. A market in severe stress can rally 8% in a day on a short squeeze. A calm market can drift lower for weeks. Regime is not about where price is going. It is about what kind of environment the price is moving through.

There are five states. Not three. Not ten. Five, because the empirical evidence from decades of market data shows that this is how markets actually behave — five distinct modes, each with its own characteristic volatility profile, correlation behavior, momentum dynamics, and drawdown risk. Here they are, precisely defined:

State	Stress level	What is actually happening
CALM *Clear Skies*	**< 30th pct**	Volatility is low and stable. Trend conviction is strong. Credit spreads are tight. The macro environment is benign. This is the environment where most well-designed trading systems perform best.
EXPANSION *Tailwind*	**30–49th pct**	Markets are trending. Stress is moderate but contained. There is directional conviction. Risk assets are generally bid. Momentum and trend-following strategies find favorable conditions.
FRAGILE *Thin Ice*	**50–69th pct**	The first serious warning. Volatility is elevated and rising. Trend conviction is deteriorating. Cross-asset warning signals are beginning to emerge. The market is functioning, but it is fragile. This is where most traders get complacent.
STRESS *Storm Warning*	**70–89th pct**	High stress. Two or more asset classes are showing simultaneous distress. Correlations between assets are rising fast — the normal diversification relationships that protect portfolios begin to break down. Drawdowns are deepening.
CRISIS *Full Storm*	**≥ 90th pct**	Acute systemic stress. This is 2008. This is March 2020. This is what happens when liquidity evaporates and everything goes down together. Every indicator that normally works becomes unreliable. Capital preservation is the only objective.

The critical insight: these are not arbitrary labels. They are empirically derived states based on the actual behavior of hundreds of assets over decades of market history. Each state has a statistically distinct profile. Volatility behaves differently. Correlations behave differently. Drawdown risk behaves differently. The distribution of forward returns is completely different depending on which state you are in.

When you know the state, you know the environment. When you know the environment, you know what your system can and cannot do.

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03 WHY YOUR SYSTEM FAILS IN THE WRONG REGIME

Every trading system is an implicit bet on a specific environment. Most traders do not know which one.

RSI is built on the assumption that price oscillates around a mean. It works when markets are ranging or mildly trending and volatility is relatively stable. In a Full Storm regime, RSI reaches 20 and keeps going. The oversold reading is accurate. The implied bet that price will mean-revert is not — because the regime has fundamentally changed the distribution of returns.

MACD is a trend-following tool. It works when trend conviction is high and sustained. In a Thin Ice or Storm Warning regime, trend conviction is deteriorating by definition. MACD gives you a bullish crossover on a relief rally inside a larger stress episode, and the next leg down takes out everything.

Support and resistance levels are built on the premise that price has memory — that levels where buyers stepped in before will attract buyers again. In a Calm or Expansion regime, this is broadly true. In a Full Storm regime, institutional sellers are liquidating regardless of where price is. The level is not a magnet. It is a brief pause on the way to the next level.

The system is not wrong. The premise the system is built on is wrong for this environment. That is a completely different problem, and it has a completely different solution.

The solution is not to find a better system. There is no system that works in all regimes. Professional fund managers with teams of quants and decades of data have not found one, because it does not exist. Markets are not stationary. The distribution of returns changes over time, and it changes in ways that are not random — they follow the five states described above.

The solution is to know which state you are in before you apply the system. A momentum strategy deployed only in Calm and Expansion regimes performs completely differently from the same strategy deployed indiscriminately across all five. A mean-reversion strategy filtered to avoid Full Storm environments survives crises that would otherwise destroy it.

The regime is not an add-on to your analysis. It is the foundation of it.

THE MARCH 2020 LESSON

On March 1, 2020, every major technical indicator was giving mixed signals. RSI was oversold on multiple timeframes. Support levels from 2019 were just below price. Sentiment surveys were bearish but not at extremes. Traders who relied on those signals bought. The market entered Full Storm regime that month and fell another 25% in three weeks. The regime told a different story from every individual indicator. The regime was right.

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04 THE RELATIONSHIP BETWEEN REGIME, VOLATILITY, AND MOMENTUM

They are not three things to track. They are one story told at three different speeds.

This is the insight that took the longest to internalize, and it is the one that changed how I read every market. Volatility, momentum, and regime state are not independent variables. They are different expressions of the same underlying market dynamic, and understanding how they relate to each other is what separates regime analysis from simply watching another set of indicators.

Here is how it works.

Volatility is the most direct measure of stress. When markets are calm, volatility is low and mean-reverting. When markets are stressed, volatility spikes and clusters — high volatility days are followed by more high

volatility days. This is not news. Every trader knows volatility is elevated in a crisis. What is less understood is that volatility tells you the regime is changing before the price action does.

Momentum is the market's expression of conviction. Strong, persistent momentum in one direction means the market has a view and is acting on it. Weak, choppy momentum means the market is uncertain — buyers and sellers are roughly balanced and neither side has the conviction to push price decisively. The critical point is that momentum and regime are inversely related in a specific and predictable way.

In a Calm or Expansion regime, volatility is low and momentum is strong. As the regime deteriorates toward Fragile and Stress, volatility rises and momentum collapses. By the time you reach Full Storm, volatility is extreme and momentum is meaningless — everything moves together.

That relationship has a direct consequence for trading. In a low-volatility, high-momentum environment, trend-following works. Breakouts hold. Pullbacks are shallow and recoverable. The market rewards conviction.

As volatility rises and momentum weakens, the same signals become traps. Breakouts fail. Pullbacks extend. The market punishes conviction and rewards patience. The optimal strategy is not the same as it was six weeks ago — but nothing in the price chart told you that. The regime told you.

The third dimension is the relationship between volatility and correlation. In normal markets, different assets behave differently. Equities go up while bonds are flat. Gold moves independently of oil. This diversification is the foundation of every risk management framework in institutional finance. In a Full Storm regime, these relationships collapse. Correlations go to 1. Everything sells off together because institutional investors are liquidating everything to raise cash. Diversification — the thing that was supposed to protect you — stops working precisely when you need it most.

Regime analysis measures all three of these simultaneously: volatility level, momentum deterioration, and correlation behavior. The regime state is the synthesis of those three readings. When all three are aligned toward stress, the regime classification is confident and the signal is strong. When they diverge, the regime flags uncertainty — which is itself a signal to reduce exposure and wait for clarity.

THE PRACTICAL IMPLICATION

If your read on a trade depends on a momentum signal, check the regime first. If the regime is Thin Ice or worse, that momentum signal is operating in an environment where momentum collapses. If your risk management depends on correlation assumptions — that equities and bonds move independently, for instance — check the regime. If you are in Storm Warning or Full Storm, those correlations have already broken down. The regime does not just describe the market. It tells you which of your assumptions are still valid.

05 HOW REGIME DETECTION ACTUALLY WORKS

Five measurable things. No opinions. No narratives. Only signal.

The core discipline of regime analysis is reducing something complex — the state of an entire market — to something precise and repeatable. That requires specifying exactly what you measure and exactly how you combine the measurements. Here is the framework we use, built from the ground up on the principle that every input must be objective and every output must be verifiable.

The Composite Stress Score (CSS) is a single number between 0 and 100 that represents the current stress level of any asset at any timeframe, ranked against that asset's own history. It is built from five independently measurable pillars:

1. **Volatility level (35% weight)**
   How elevated is current volatility compared to this asset's own history over multiple horizons — short, medium, and long? Not just "is volatility high" but "how high relative to everything this asset has experienced." This is the dominant signal because volatility is the most direct and immediate expression of market stress.

2. **Trend conviction (20% weight)**
   Is the market moving with directional purpose, or has it lost conviction? This is not a simple moving average slope. It combines directional momentum and trend strength into a single measure that distinguishes genuine trends from volatile, directionless chop. A market that is losing trend conviction is a market moving toward a more stressed regime.

3. **Drawdown depth (25% weight)**
   How far has this asset fallen from its recent peak, normalized for its own volatility? A 10% drawdown in a normally calm asset is very different from a 10% drawdown in a volatile one. This normalization is essential — without it you cannot compare stress levels across different asset classes.

4. **Drawdown speed (10% weight)**
   Is the drawdown accelerating? A slow, grinding decline and a sudden vertical drop have the same depth at some point, but they carry completely different stress signals. Acceleration — the rate at which losses are compounding — is one of the earliest quantifiable warnings that a manageable correction is becoming something worse.

5. **Tail events and macro context (15% weight combined)**
   Have extreme statistical events occurred — moves beyond two or three standard deviations? And at the daily and weekly timeframe, what is the macro context? Credit spreads, the yield curve, and rates pressure all carry information that price action alone does not. These are zeroed on intraday timeframes to avoid distortions, but on the daily and weekly view they add significant signal quality.

These five inputs are combined into CSS_raw, then ranked against the asset's own history to produce the CSS percentile. This double-ranking — normalizing inputs, then normalizing the output against history — ensures the thresholds are stable across different market eras. The 70th percentile means the same thing during a structurally calm decade as it does during a structurally volatile one: more stressed than 70% of everything this asset has experienced.

The regime state is then determined by where the CSS percentile falls in the five-state classification table. But the classification is not a simple threshold. It uses hysteresis — different entry and exit thresholds for each state — and a persistence filter that requires a signal to hold for multiple bars before the state is confirmed. This prevents false transitions caused by single-bar noise and means that when a regime change is called, it is a genuine change, not a flicker.

THE MULTI-TIMEFRAME LAYER

Every asset is classified simultaneously across five timeframes: 15-minute, 1-hour, 4-hour, daily, and weekly. These are not independent readings — they are a coherent picture of the same asset seen at different resolutions. When all five timeframes agree on the same regime state, the signal is strong and high-conviction. When they disagree, the system flags the conflict explicitly. A daily Storm

Warning with an intraday Clear Skies reading is a different situation from five timeframes all saying Storm Warning simultaneously. The alignment or conflict between timeframes is itself a critical piece of information.

There is one more component worth understanding: the Early Warning Signal. The regime classification tells you what state you are in. The Early Warning Signal tells you when stress is escalating faster than the classification has yet caught up with. It measures the rate of change of the stress score — not the level, but the velocity. When stress is accelerating rapidly while the asset is still classified in a calm state, the system flags it. This is the signal that fires before the label changes. It is the quantitative equivalent of watching the pressure build in a pipe before it bursts.

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06 WHAT REGIME ANALYSIS DOES NOT DO

This section exists because most analytical frameworks hide their limitations. We do not.

Regime analysis does not predict price. It does not tell you whether Bitcoin will be at $80,000 or $50,000 in three months. It does not tell you the exact date a market will transition from Thin Ice to Storm Warning. It does not guarantee you avoid losses. Any framework that claims to do these things is lying to you.

What it does — precisely, verifiably, consistently — is tell you what kind of environment you are operating in right now. That is a narrower claim. It is also a more useful one.

Here is the honest accounting of what the framework can and cannot do:

WHAT REGIME ANALYSIS CAN DO

Classify the current market state with a quantifiable confidence level. Detect when stress is building before the regime label changes. Show you which timeframes are aligned and which are conflicted. Give you the macro context — credit, rates, cross-asset correlation — that price charts do not show. Tell you when the environment is favorable for your system and when it is not. Provide a framework for comparing stress levels across completely different asset classes on equal terms.

WHAT REGIME ANALYSIS CANNOT DO

Predict the timing or magnitude of price moves. Tell you when to buy or sell any specific asset. Guarantee that a Calm regime will not rapidly deteriorate. Replace your own due diligence on fundamentals, positioning, and catalysts. Remove uncertainty from trading — uncertainty is irreducible. Be a substitute for risk management, position sizing, or stop losses.

The reason this matters is that the temptation, once you have a framework this precise, is to treat it as more than it is. The regime says Calm — therefore it is safe to buy. That is not the conclusion. The conclusion is that the environment is currently favorable for well-constructed long positions with appropriate risk management. The regime removes one major source of uncertainty. It does not remove all of them.

Knowing what a tool cannot do is as important as knowing what it can. A regime read is the most important contextual layer in your analysis. It is not a trading system by itself.

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07 HOW TO USE REGIME ANALYSIS IN PRACTICE

Three trader types. One framework. Completely different applications.

The framework adapts to how you trade, not the other way around. Here is how regime context changes the decision-making process for three fundamentally different trading approaches.

1 **The momentum trader**

Your system is built on trend-following. You buy breakouts, add to winners, and cut losers. Regime context changes two things for you. First, the entry filter: only take trend signals in Calm or Expansion regimes where trend conviction is structurally high. In Thin Ice or worse, breakouts fail at a much higher rate because the momentum backbone that makes them work is deteriorating. Second, the exit trigger: when the regime transitions from Expansion to Thin Ice while you are in a position, that is not just a warning to tighten stops — it is the quantitative signal that the environment your position was predicated on has changed. The position deserves a fresh evaluation, not the benefit of the doubt.

2 **The mean-reversion trader**

Your system buys oversold conditions and sells overbought ones. Regime context is even more critical for you than for the momentum trader, because mean-reversion is the strategy most damaged by a regime misread. RSI at 20 is a compelling buy signal in a Calm or Expansion regime. In a Storm Warning or Full Storm, it is a value trap. The same setup, the same reading, completely different outcome because the distribution of returns is different. The practical rule: apply mean-reversion signals only when the stress score is below the 50th percentile and trending lower. When stress is elevated and rising, price does not revert to the mean — it extends.

3 **The macro trader**

You take positions based on central bank policy, economic cycles, and cross-asset flows. Regime analysis gives you something your macro framework often lacks: a real-time, high-frequency read on whether the macro environment you are betting on has changed. Macro views are inherently slow to develop and slow to unwind. Regime signals move fast. If your macro thesis is "risk-on, long equities, short volatility" and the regime transitions to Storm Warning across equity indices, that is not noise — that is the market telling you something your macro model has not yet processed. The regime signal does not invalidate your thesis. It tells you to hold your position more carefully and reduce size until the regime and your thesis are aligned again.

The common thread across all three: regime analysis does not replace the trading decision. It provides the environmental context within which the decision is made. A well-constructed trade in the right regime has a completely different expected outcome from the same trade in the wrong one. Making that distinction consistently and systematically is what separates trading that survives over time from trading that does not.

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08 THE FEBRUARY 2026 LESSON

A regime label said recovery. The full data said something else entirely. One month later: Full Storm.

On February 1, 2026, Bitcoin's regime label read Tailwind. For anyone running a surface-level regime read, that is a recovery signal. The worst of the stress appeared to be behind it. The natural move for a momentum trader was to re-enter long. For a mean-reversion trader, the previous oversold conditions had cleared and the market looked healthy again.

The full picture told a completely different story.

The Composite Stress Score on that date was 81.0%. Objectively, by the quantitative definition, that is Storm Warning territory. The regime label said Tailwind because the surface momentum was pointing

upward. The stress score said the underlying environment was still severely stressed. And the Early Warning Signal was active — stress was not just elevated, it was escalating.

The label said recovery. The stress score said 81%. The early warning signal said accelerating. Traders who read the label bought. Traders who read the full picture waited. One month later: Full Storm at 98.3% stress.

This is not a hypothetical. These are the actual engine readings from the Regime Intelligence system on those dates, pulled directly from the regime store. The divergence between the surface label and the underlying stress score was real, measurable, and actionable for anyone who knew where to look.

This is the exact gap that regime analysis exists to close. The label is one dimension of the picture. The stress score is another. The early warning signal is a third. When these three disagree, the disagreement is the signal — and it is a more important signal than any of them in isolation.

The February 2026 case is not exceptional. This pattern — a surface label pointing one way while the underlying stress score points another — recurs throughout market history. It occurred in the weeks before the 2008 Lehman collapse, when credit stress was building while equity momentum still looked supportive. It occurred in early 2022, when the regime was flagging rate-driven stress months before most equity traders recognized the environment had changed.

The market always sends the signal. The question is whether you have the framework to read it.

READ THE FULL BTC ANALYSIS

The complete Bitcoin X-Ray report — covering the full regime history from the Early Warning Signal in July 2025 through the March 2026 Full Storm and back to Clear Skies — is available in our Articles section. It is the live application of everything described in this piece, with the actual engine data for every date.

The market has a mood. Now you know how to read it.

Regime analysis is not a new idea. Professional fund managers and institutional risk departments have been measuring market states quantitatively for decades. What has changed is the availability of the data, the computing power to process it, and the tools to make it accessible to traders who do not have a team of quants behind them.

Regime Intelligence exists to make that institutional-grade environmental read available to every trader, on every asset, updated every 30 minutes, 24 hours a day. Not as a black box. Not as a trading signal to follow blindly. As the contextual layer that every serious trader should have before they make any decision.