Playbook: Range Trading

By disciplined_daytrader · January 4, 2023

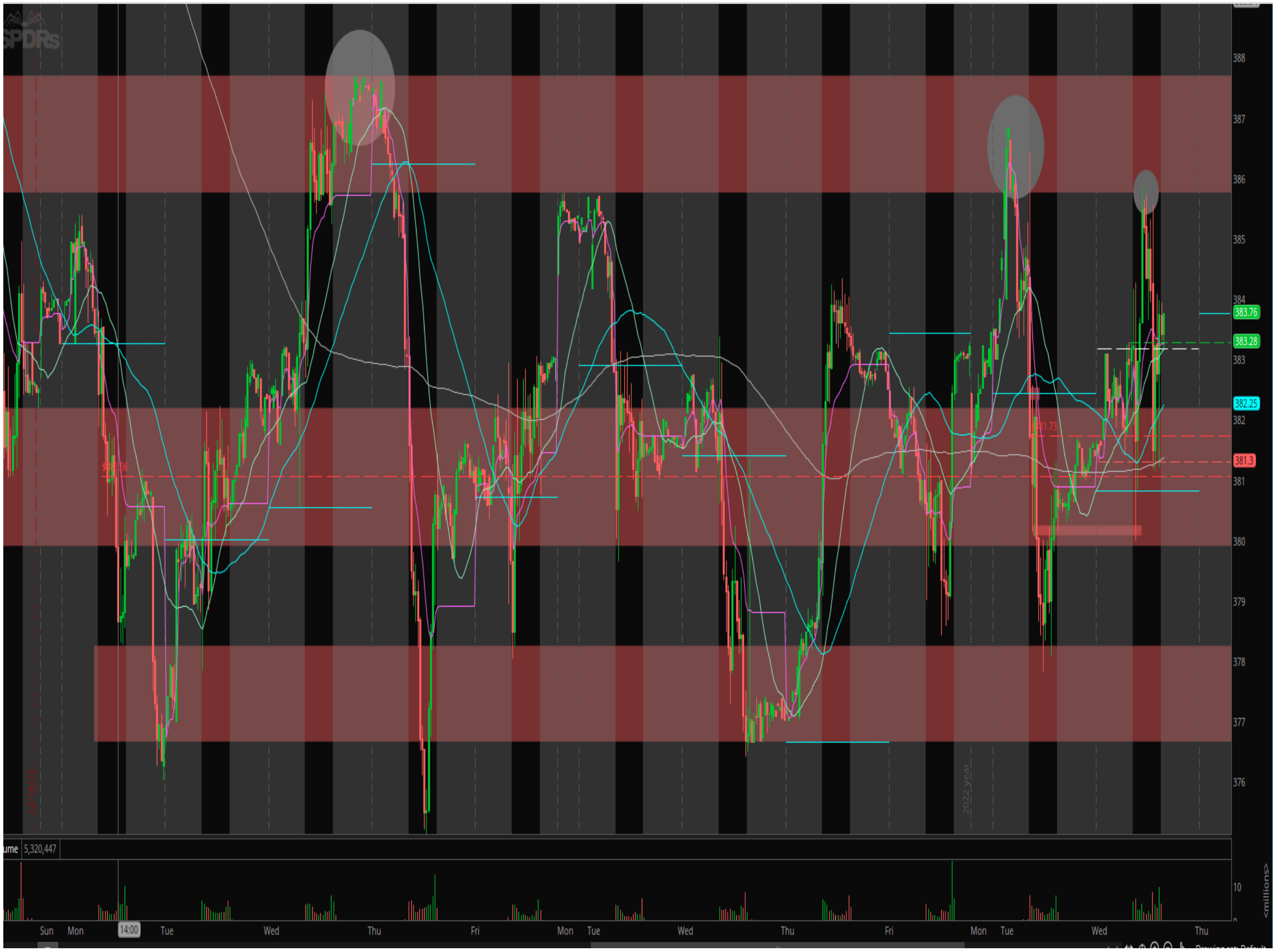
TL;DR

This blog post discusses the principles of range trading, highlighting the importance of understanding range setups and market momentum. It contrasts two specific setups for the SPY ticker, emphasizing the challenges of trading in the center of a range and the risks associated with trading during macro bear markets. Key insights include recognizing clean ranges versus complex, multi-range scenarios that can lead to losses.

Rules of Range Trading

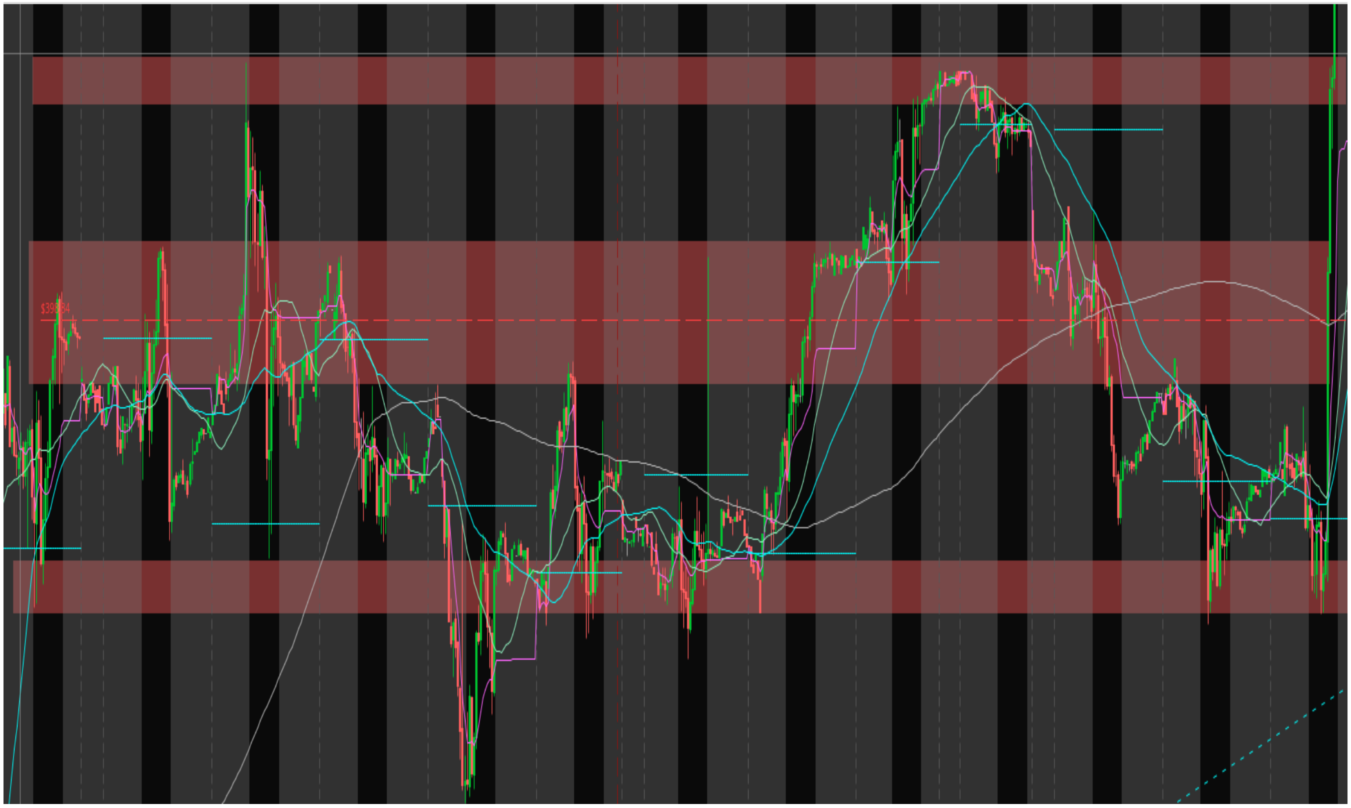
Similar to trends, not all ranges are equal in +EV

30d:30m SPY$747.03+0.72% A+ Range Setup

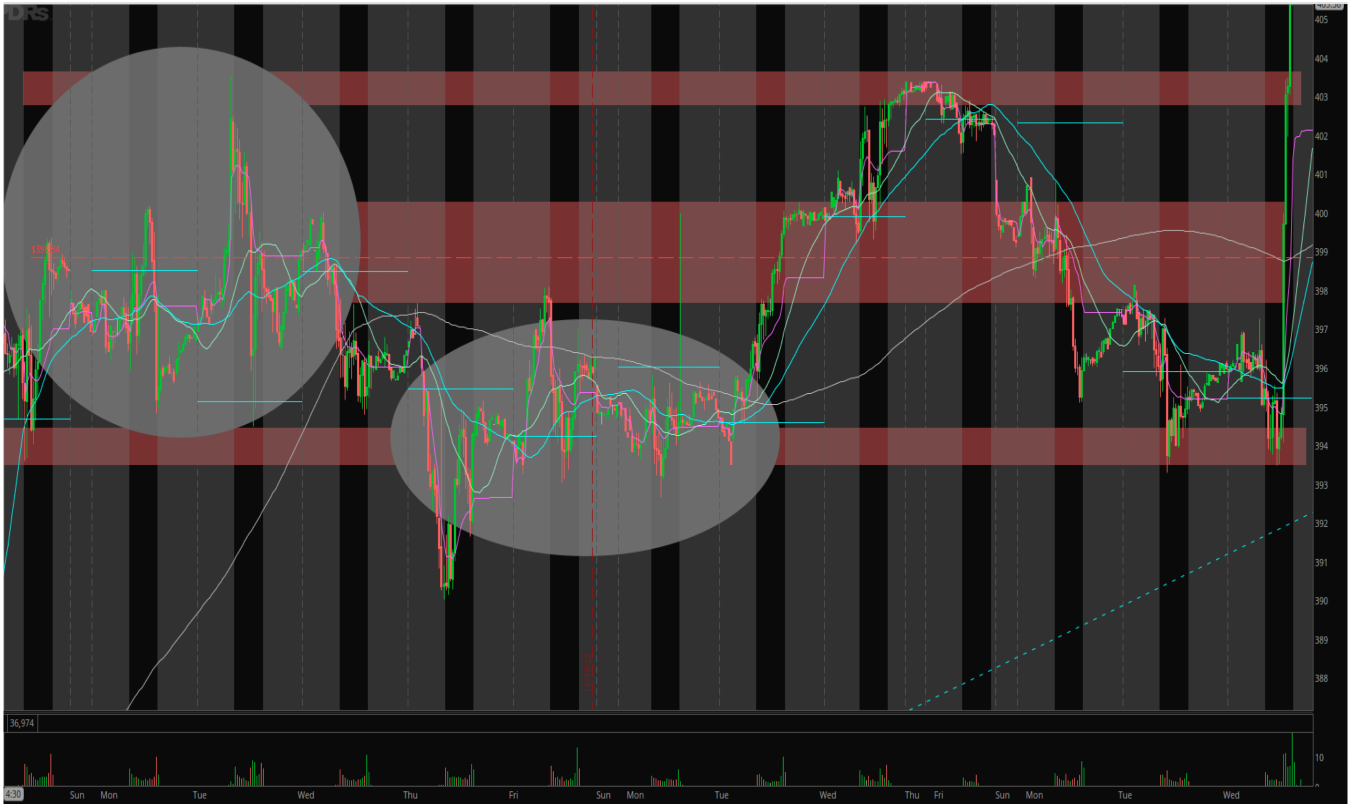


- This range is quite good for a couple reasons. Firstly, we have hit the upper and lower bounds of the range 5 times on each side. The mid range also is not getting tighter but allowing the ticker to continue going from top to bottom range back to back to back. One essential aspect of range trading is the idea that it is ABSOLUTELY IMPOSSIBLE to make money trading in the center of the range. The center of a range is exactly what it sounds like, a cluster fuck. The stock will go up down left sideways and into the future all in 15 minutes when trading in the center of the range. Another essential aspect of ranges is to know what the range was doing prior to its creation. For this example above we just broke down heavily from a nice lower high on the daily chart. This means that we should have lower highs expected on the top end of this range. This would continue the thesis that we have clean momentum to the downside.

30d:30m SPY$747.03+0.72% B- Setup



- This is not nearly as clean as the above example because this range started after a very large uptrend occurred and as we should all know, uptrends inside of a macro bear market are extremely dangerous because you never know when the next lower high will form. This happened right after that moment. If you look closely you will see that there are actually multiple ranges packed into this single picture.



-See how we have these 2 oval areas right back to back? Those are 2 ranges within this larger pictured range. They are both very tricky to trade because the bottom and tops of the range are just packed with breakouts and breakdowns that just end up reversing. These are very very difficult to trade and often result in just tons of random losses that are not worth trading. In these scenarios it is almost always best to just leave the market alone. There are certain days where the range gets extended and you can perhaps take a nicely risked trade but in general its extremely hard.

FAQ

What is range trading?

Range trading is a strategy that involves buying and selling assets within a defined price range, capitalizing on price fluctuations between the upper and lower bounds.

Why is trading in the center of a range discouraged?

Trading in the center of a range is discouraged because it often results in unpredictable price movements, making it difficult to achieve profitable trades.

What makes the 30d:30m $SPY A+ range setup favorable?

The 30d:30m $SPY A+ range setup is favorable because it has established clear upper and lower bounds with consistent price action, indicating potential for profitable trades.

What are the risks of trading in a macro bear market?

Trading in a macro bear market can be risky due to the potential for sudden price reversals and the difficulty in predicting lower highs, which can lead to unexpected losses.

How can multiple ranges within a larger range affect trading?

Multiple ranges within a larger range can complicate trading as they may contain conflicting signals, leading to breakouts and breakdowns that can quickly reverse, resulting in losses.