

Trading the Chop

*A Systematic Trader's Guide to
Trading Range-Bound and
Rotational Stocks and Markets*



Identify
Trading Ranges



Trade
Rotational Moves



Profit in
Sideways Markets

Not every market or stock trends and the ones that don't quietly drain an account built on trend-following habits.

This guide was built for the market or stock that may be in front of you right now, one shaped by retail options volume at record highs, summer sector rotation, and election-year headline risk. Trading the Chop takes the same systematic, rule-based approach behind ChartSmart, the MACD Divergence Guide, and Timing the Market, and applies it to the conditions where trend-following tools break down: range-bound, headline-driven, rotational price action. Choppy markets happen frequently and can be part of a transition from an up to a down trend.

Inside, you'll find a clear, practical framework for reading the regime you're in, using momentum and MACD divergence to trade sideways markets on purpose rather than by accident, and managing risk when nothing is trending.

Whether you trade stocks, ETFs, or options, this guide gives you the tools to:

- ✅ Identify chop before it costs you money
- ✅ Use momentum confirmation together with MACD divergence as chop-specific signals
- ✅ Build defined-risk options trades for sideways conditions
- ✅ Avoid the overtrading and false-signal traps chop markets or stocks set

Use it as your companion for the market or stock you're trading, not the trending market or stock you wish you had.

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Chapter 1: The Market or Stock You're Actually Trading

Every trading book is a product of the market it was written in, whether the author admits it or not. This one is no exception, so it's worth naming the conditions plainly. Retail participation has surged since the pattern day trader rule was repealed (while researching this book I discovered the June 4, 2026, FINRA change), and retail traders are now running record options premium volume, buying dips aggressively and staying active in the same handful of crowded sectors, led by semiconductors and broad-based ETFs. That's a very different market than the one most trend-following systems were designed and tested in.

Layer on top of that the ordinary seasonal effects: institutional volume drops through the summer months, when the pros adopt "Sell in May and go away," leaving a thinner tape more easily pushed around by retail flow and headlines. Add a midterm election year, where campaign-driven volatility historically rises through the summer and fall regardless of the eventual outcome. Add an uncertain Federal Reserve path and periodic geopolitical flare-ups. None of these individually is unusual, but stacked together, they describe a market structurally biased toward rotation and range-bound chop rather than sustained, clean trends.

This isn't a forecast that trends won't happen. They will, in individual names and occasionally across the broad market (there's an SPY chart below showing trend vs chop). It's an argument for carrying a second toolkit alongside your trend-following systems, one built specifically for the regime that current conditions make more likely than usual. That's what the rest of this guide provides.

It's also worth being honest about what this environment rewards and punishes. It rewards selectivity, patience at range boundaries, and defined-risk structures. It punishes the instinct to force a directional bias onto a market that isn't offering one, a form of wishful thinking, and the single most common way traders give back gains during extended chop.



SPY daily chart showing the last 30 months with major trends and chop periods

Chapter 2: Why Chop Is Different

What Exactly Is “Chop”?

It's worth being precise about what “chop” means, since the word gets used loosely. Chop is not one single, well-defined pattern — it's an umbrella term for any market that isn't trending, and it shows up in two distinct flavors that call for two different responses.

The cleaner flavor is a genuine trading range: price oscillating between a well-defined support level and resistance level, testing each boundary repeatedly without breaking through. This is the tradeable version of chop, and it's what Chapters 6 and 7 build a rule-based approach around, since well-defined boundaries give you an actual entry and exit framework.

The messier flavor has no such structure. Price whipsaws back and forth without settling into a repeatable range, breakouts fail in both directions, and support/resistance levels shift or fail to hold from one test to the next. This is chop in the truest sense — two-sided, low-conviction, headline-driven noise — and the safest response is often to reduce size or stand aside entirely rather than force a range trade onto a market that hasn't settled into one.

Key Rule: Before you trade “chop,” decide which flavor you're looking at. The regime identification in Chapter 3, the momentum confirmation in Chapter 4, and the boundary mechanics in Chapter 6 all exist mainly to help you tell the two apart before you risk capital — trading the clean version and standing aside from the messy version is, in practice, most of the skill this book is teaching.

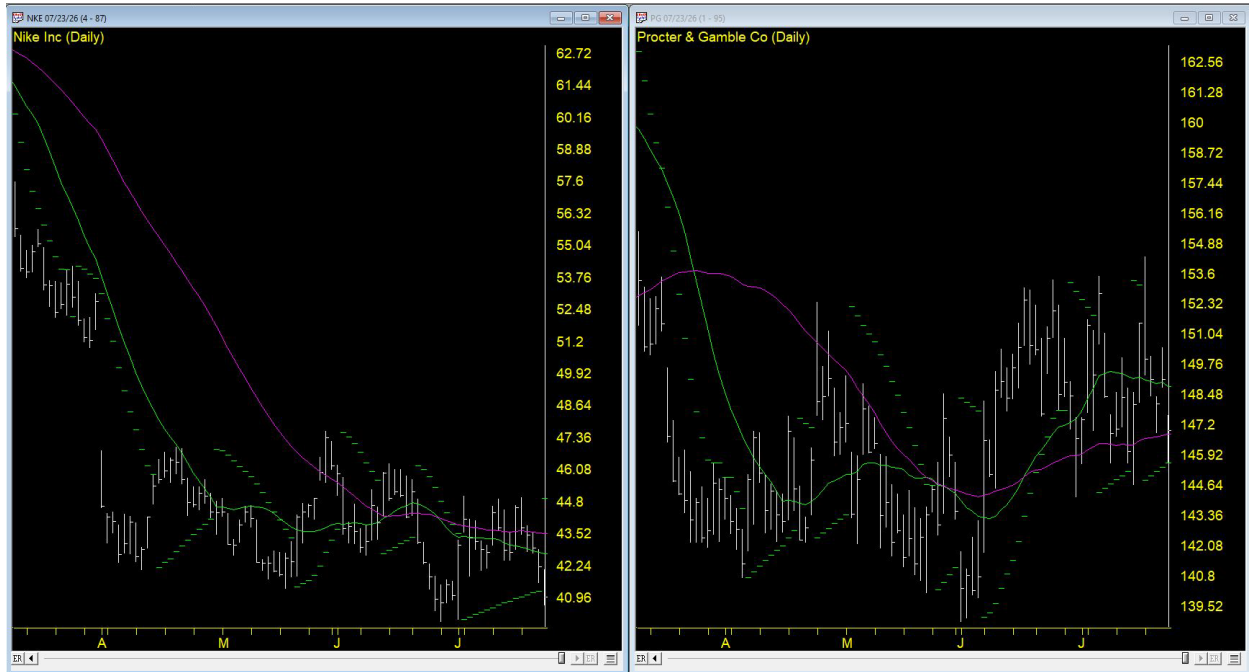
A trending market rewards patience and punishes hesitation. A choppy market does the opposite; it rewards patience and punishes conviction. Trend-following tools like Moving Averages, Parabolic SAR, and simple crossover systems are built on the assumption that price, once moving in a direction, tends to keep moving. Strip that assumption away and those same tools generate a steady stream of whipsaws: buy signals that reverse within days, stop-outs that get triggered right before the real move, breakouts that fail.

This is not a flaw in the indicators. It's a mismatch between tool and regime. The Average Directional Movement Index Rating (ADX) and Trading Channel Index all exist specifically because trend strength varies over time, and a system tuned for trending conditions needs a way to know when those conditions aren't present.

The recent market environment makes this distinction more than academic. Record retail options volume, summer institutional volume drops, sector rotation between technology, financials, and small caps, and midterm election headline risk are all producing the kind of rotational, two-sided price action where trend-following systems get chopped up, literally.

In a trend, the discipline is holding through pullbacks and letting winners run. In chop, the discipline is the reverse: taking profits at the boundary rather than letting a range

trade run and treating every strong-looking breakout with suspicion until it's confirmed. Traders who carry only trend-following habits into a chop market tend to do exactly the wrong thing at exactly the wrong moment: they hold losers hoping a reversal becomes a trend, and they cut range-trade winners early out of trend-trading muscle memory.

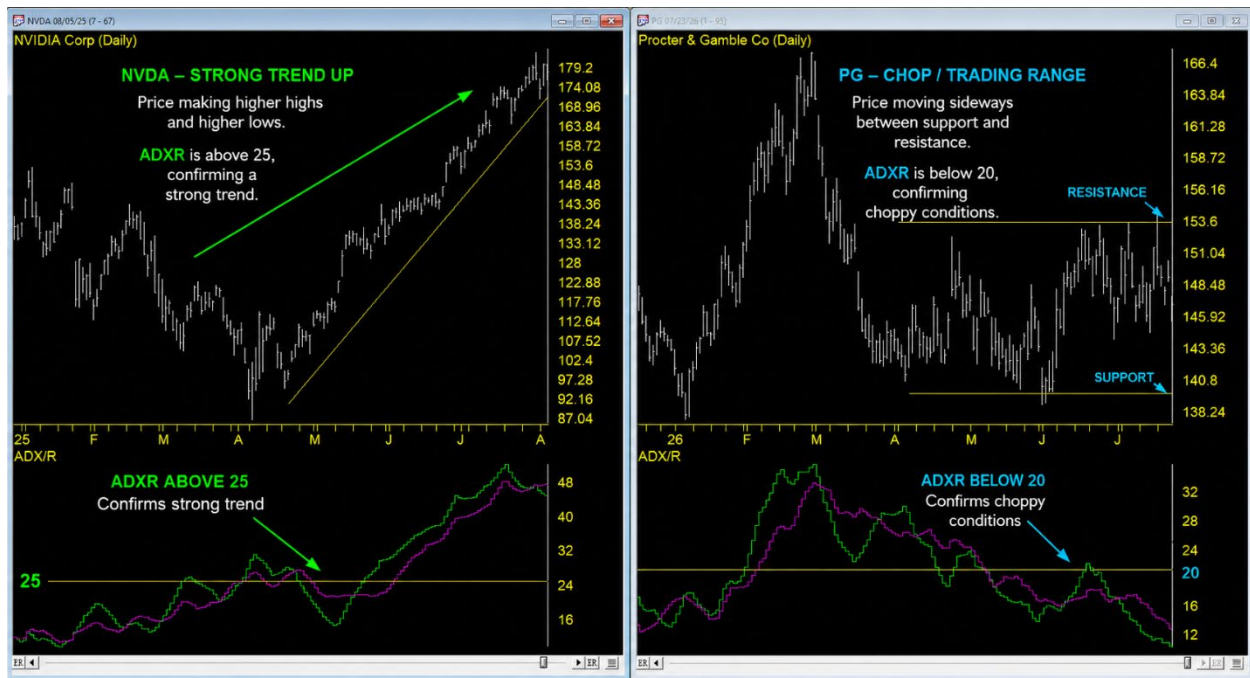


Two Dow 30 constituents, NKE and PG showing 3 + months of range bound chop with 21 and 50 MA and ParaSar providing whipsaw signals

Key Rule: When ADXR is below 20 and Trading Channel Index is oscillating without sustained follow-through, treat every breakout as suspect until confirmed by momentum.

Common Mistakes to Avoid

- Applying a trend-following system unchanged in a market ADXR has already flagged as non-trending.
- Mistaking the first strong day off a range boundary for the start of a new trend, rather than a normal range oscillation.
- Widening stops on a trend-following system instead of switching frameworks when ADXR confirms chop.



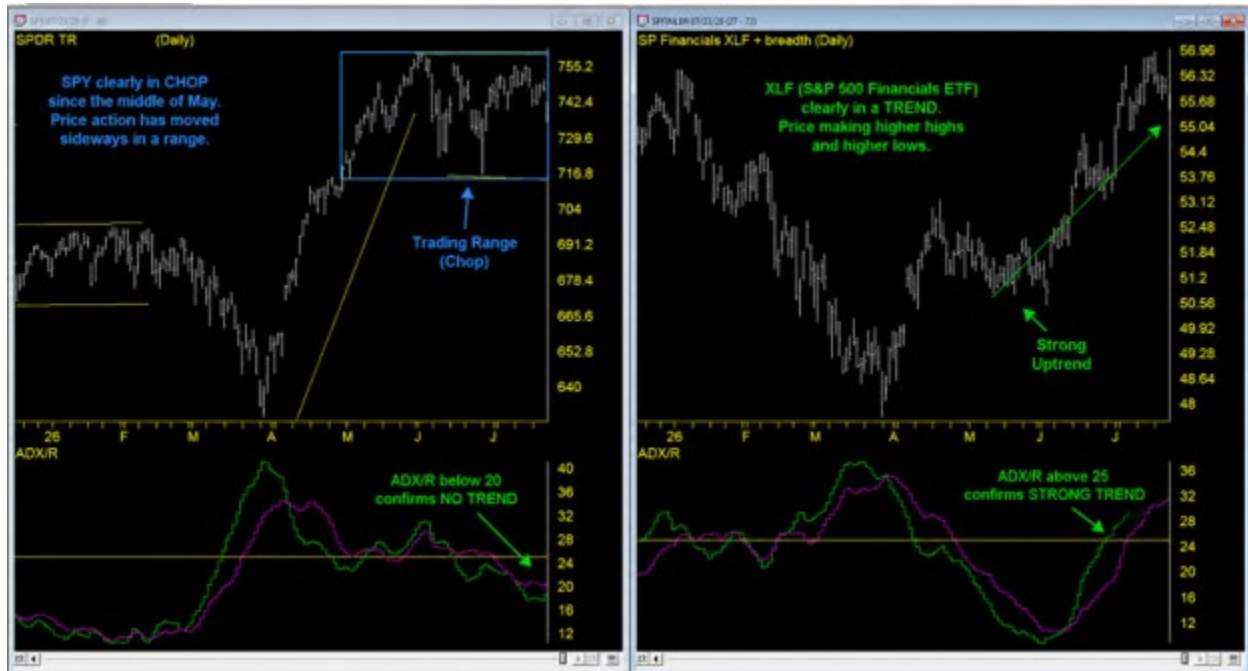
NVDA on the left with strong trend April to September 2025 ADXR over 25 confirms. On the right PG in trading range and chop during April to July 2026 ADXR below 20 confirms

Chapter 3: Reading the Regime

Before placing a single chop trade, you need to know you're in one. Start by identifying where a ticker or index sits in its market cycle, basing, advancing, topping, or declining, since that's the first filter for regime identification. A ticker sitting in a prolonged basing phase, neither breaking out nor breaking down, is a chop candidate. One in a clean advancing or declining phase is not.

ADXR is the direct trend-strength gauge. Readings above 25 indicate a market with enough directional conviction that trend-following tools are appropriate. Readings below that threshold — and especially readings drifting toward zero — mark range-bound conditions where the tools in this guide take over.

Sector rotation adds a layer worth watching separately. A market that looks flat at the index level can still be trending hard underneath — money moving out of technology and into financials or precious metals, for example — while the index itself chops sideways. Run the same cycle-phase and ADXR check on the individual sector ETFs you trade, not just the broad index, since a rotational market can show trending conditions at the sector level even when the S&P 500 itself is stuck in a range.



SPY is highlighted as range-bound since mid-May with ADX/R below 20 confirming a lack of trend, while SP500 Financial ETF, XLF during same period, is in a strong uptrend with ADX/R above 25 confirming trend strength

Timeframe matters too. A ticker can show a clean chop regime on the daily chart while a longer-term weekly chart reveals it's still inside a larger uptrend or downtrend — and vice versa. Confirm the regime on the timeframe you intend to trade, and check one timeframe higher before committing size, so a range trade on the daily chart isn't fighting a much larger trend on the weekly.



On the daily chart CAT in 2026 (left), the ADXR remains below the 25 threshold on 2 occasions, confirming price action is non-trending. In contrast, the weekly chart (right) the ADXR remains well above 25 in 2026, confirming a longer-term primary trend

Generally Accepted Input Values

ADXR — Time Period: default 14 days (range: 1–55). Readings above 25 indicate trending conditions; readings below 25 indicate range-bound conditions.

Chapter 4: Momentum and Market Confirmation at Range Boundaries

A confirmed range is only half the picture; the other half is knowing whether a given touch of support or resistance is worth acting on, or just noise. That's a job for momentum oscillators used the way they were originally intended: not as trend-timing tools, but as overbought/oversold gauges at defined boundaries. The Relative Strength Index (RSI) and Stochastic both work well here and using them together reduces the odds of acting on a single indicator's false reading.

The practical application is straightforward. A bounce off range support carries more weight when RSI is emerging from oversold territory (below 30) and Stochastic is turning up through 20% at the same time. A fade off range resistance carries more weight when RSI is easing down from overbought (above 70) and Stochastic is turning down through 80%. Agreement between the two is confirmation; disagreement is a reason to stand aside.

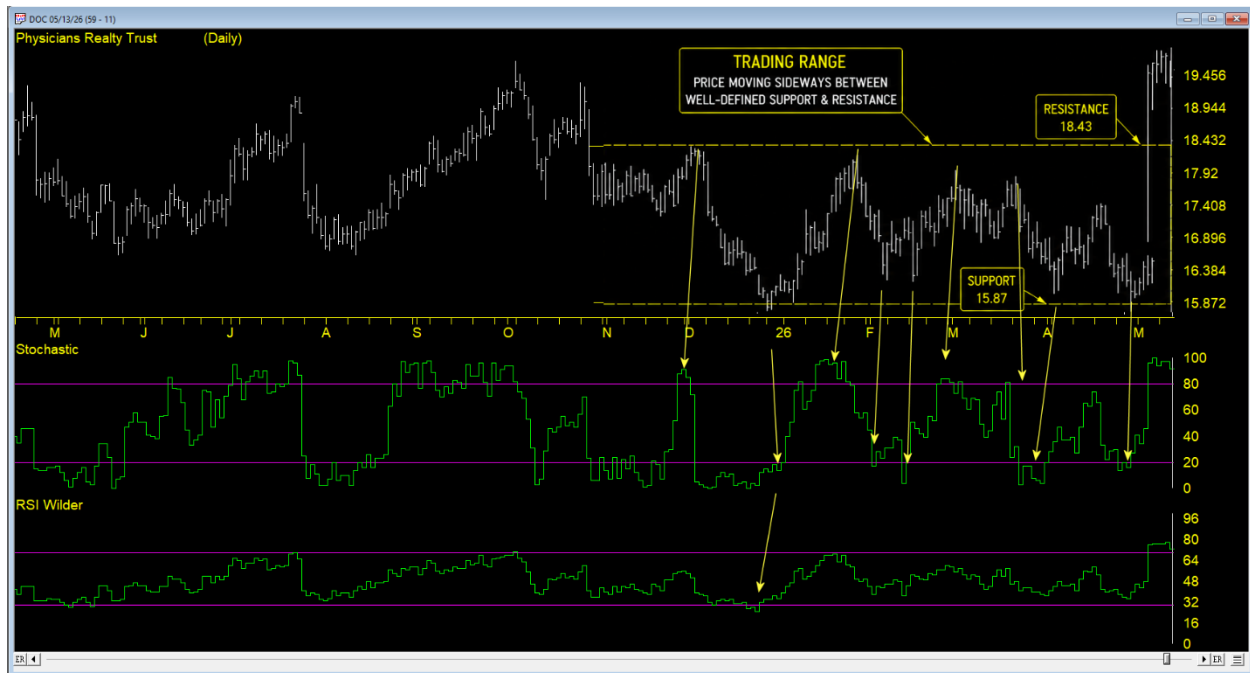
Key Rule: Beware of over-confirmation. RSI Wilder and Stochastic crossing their exact threshold on the same bar is a strong setup when it happens, but it doesn't happen often — the two are calculated differently and tend to reach their extremes a few bars apart, not simultaneously. If you treat perfect, same-bar alignment as a requirement, you will sit out most legitimate boundary touches and end up with almost no trades. Look for both indicators pointing the same direction within a few bars of each other, and weigh a clear, unambiguous reading from one over a weak or absent reading from the other, rather than demanding both fire at once. The same caution applies to every multi-indicator check in this book: confirmation should raise your conviction, not become a gate every signal has to clear at the same instant.

Consistency matters more than any single reading. A boundary touch that shows RSI and Stochastic both confirming once and still fails to bounce isn't necessarily a bad signal; it may simply mean the range itself wasn't as well-defined as it looked. Track how reliably a fully confirmed boundary touch produces the expected bounce or fade over a rolling sample of trades, and use that hit rate, not any individual signal, to decide how much size to commit.

Getting close to the boundary in RSI Wilder, especially at the lower end, has a tendency to signal the change in direction. Waiting for the indicator to cut into oversold territory may result in a missed opportunity.

It's also worth distinguishing genuine boundary-quality confirmation from oscillators that are simply drifting with the range's own internal noise. RSI or Stochastic readings that whip rapidly between overbought and oversold inside a tight range are telling you the range itself is choppy at a level below what you're trying to trade, a signal to step back

to a wider timeframe rather than force an entry on a reading that will likely reverse within a day or two.

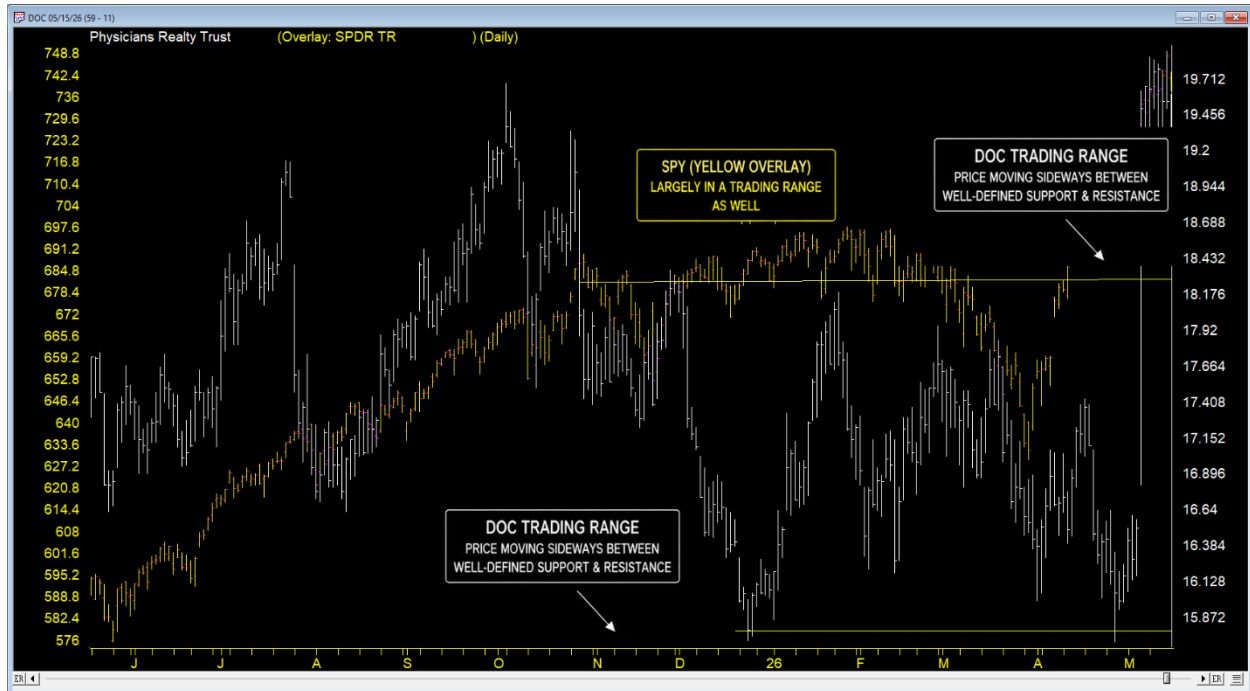


DOC in a trading range with RSI and Stochastic the best indicators for defined boundaries



SPY in a trading range with RSI and Stochastic the best indicators for defined boundaries

Watch for the market movement at the same moment an individual ticker is bouncing off its own range support. That broad-market participation meaningfully increases the odds the bounce holds; a single ticker turning at support in isolation, with the market flat or falling, is a weaker signal than the same setup with market confirming.



DOC with an overlay of the SPY showing the sideways pattern on the SPY during recent trading range of DOC

Generally Accepted Input Values

RSI — Time Period: default 14 days (range: 2–30). Oversold below 30, overbought above 70.

Stochastic — Time Period: default 21 days (range: 1–65). Buy below 20%, sell above 80%.

Common Mistakes to Avoid

- Acting on RSI or Stochastic alone without checking whether the other confirms, or whether the market is participating.
- Treating one failed boundary signal as proof the approach doesn't work, rather than revisiting whether the range itself was well-defined.
- Ignoring rapid oscillator whipsaw as a sign the range needs to be reassessed on a wider timeframe.

Chapter 5: MACD Divergence as a Chop Signal

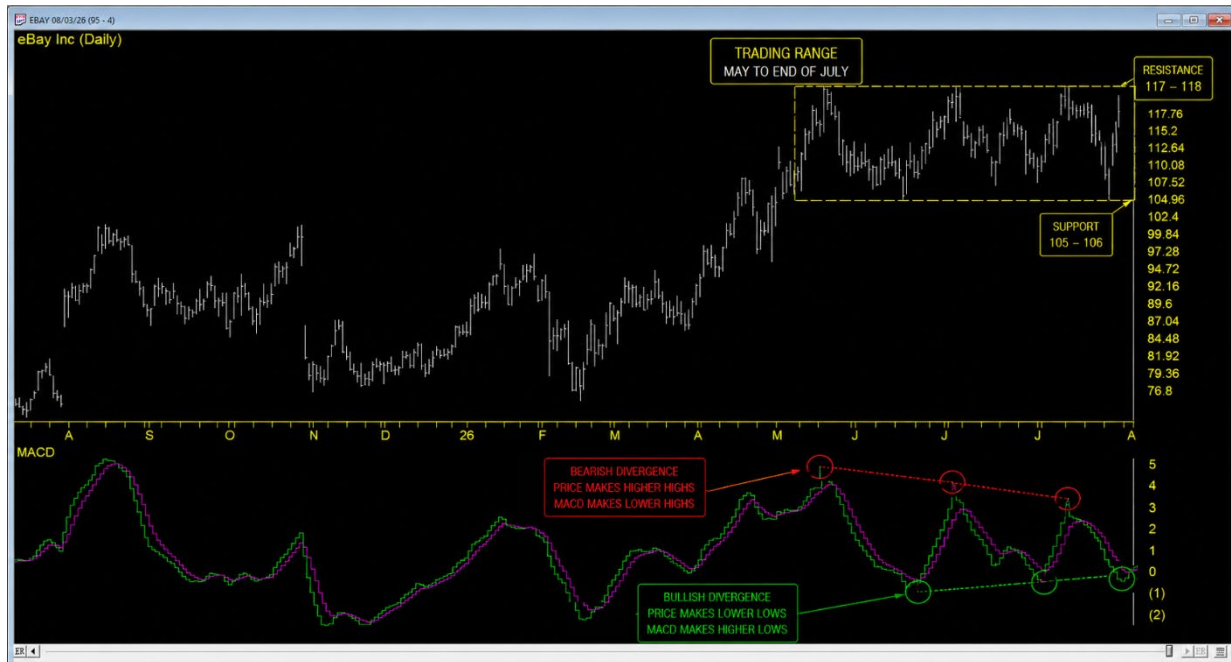
MACD divergence — where price makes a new high or low that isn't confirmed by the MACD line — is normally taught as a trend-reversal signal. In a choppy market, it does double duty as a range-boundary signal. When price pushes to a new high at the top of an established range but MACD fails to confirm, that nonconfirmation is often the clearest available warning that the range ceiling is going to hold rather than break.

The same logic applies in reverse at range lows. A price low that isn't matched by a corresponding MACD low suggests selling pressure is exhausting itself — useful information for timing a bounce trade rather than chasing a breakdown that likely won't follow through.

This is a meaningfully different use of MACD divergence than in a trending market, where divergence flags an approaching reversal of the primary trend. In chop, there is no primary trend to reverse — divergence instead confirms that the current range boundary is likely to hold, which is exactly the information a range trader needs.

Pay attention to the strength of the divergence, not just its presence. A marginal new high on light volume with a mild MACD nonconfirmation is weaker than a sharp price spike that MACD barely acknowledges at all. The larger the gap between what price is doing and what MACD is doing, the more conviction you can put behind the signal — and the tighter a stop you can justify placing just beyond the boundary, since a genuine breakout should show MACD confirming alongside it.

Divergence works best as confirmation stacked on top of the regime and momentum checks from the previous two chapters, not as a standalone trigger. A MACD nonconfirmation appearing on a ticker that hasn't been confirmed as range-bound by ADXR is far less reliable than the same signal appearing on a ticker that's already passed those checks.



EBAY in a clear trading range from early May to the end of July, note the MACD at each peak and trough of the trading range

Generally Accepted Input Values

MACD — Fast: 12 days. Slow: 26 days. Signal: 9 days. These are the standard defaults; adjust the signal period shorter (5–7 days) for more responsive divergence detection in fast-rotating chop.

Common Mistakes to Avoid

- Treating any nonconfirmation as a signal, regardless of how large the gap is between price and MACD.
- Using MACD divergence as a standalone trigger without first confirming the regime and range structure.
- Be nimble. These ranges and signals last only a few days once you are near the upper or lower range, so be prepared to exit.

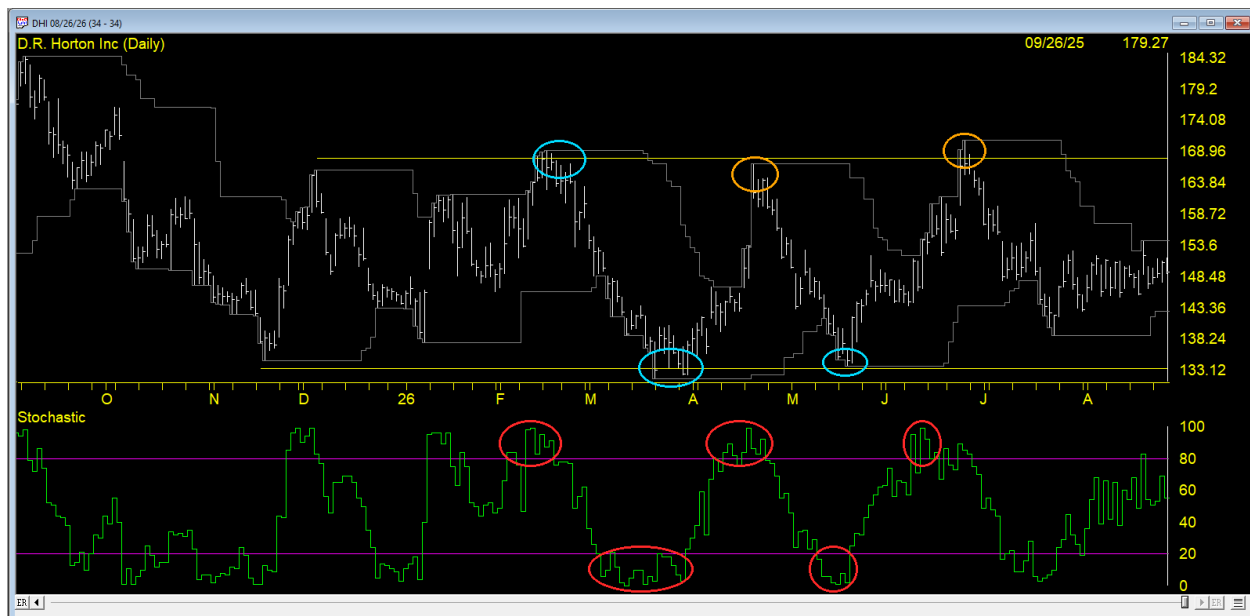
Chapter 6: Support/Resistance and Range Trading Mechanics

Once a range is confirmed by cycle-phase identification, market, and ADXR, the mechanics of trading it are straightforward — but only if the boundaries are defined by rule rather than by eye. The 21-Day High and 21-Day Low indicator provides an objective, non-discretionary definition of the current range: the high marks resistance, the low marks support.

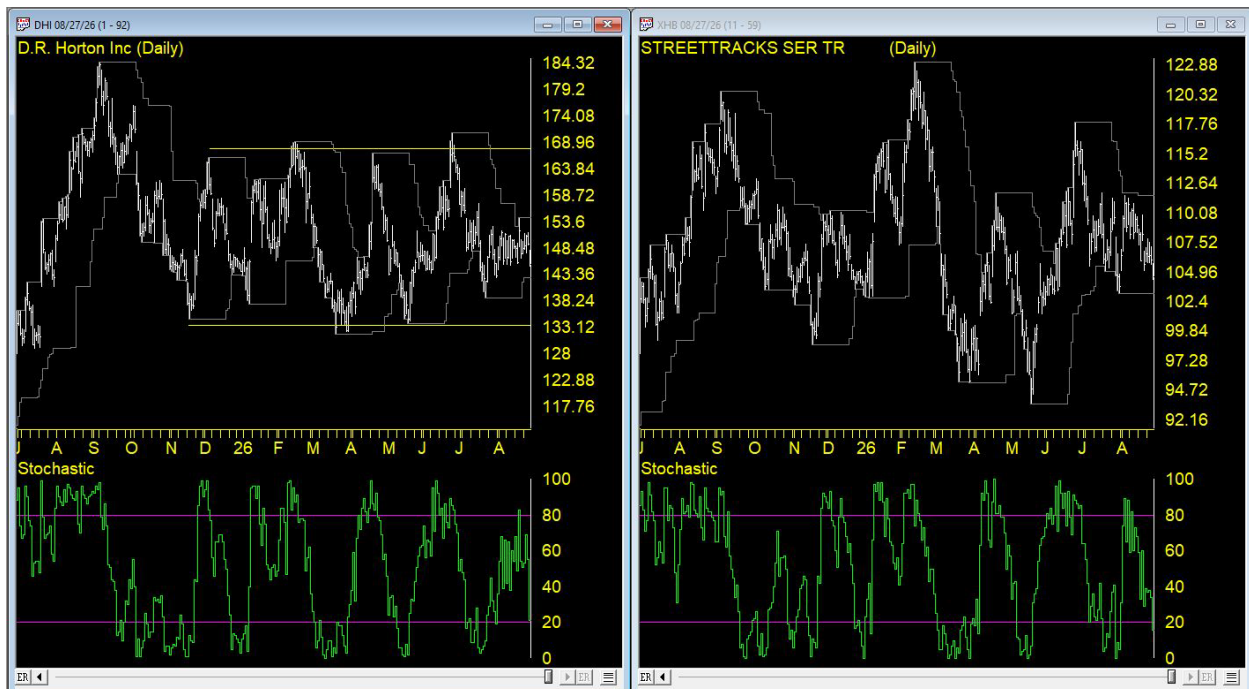
Stochastic rounds out the entry timing. Inside a confirmed range, the traditional 80/20 overbought/oversold interpretation — normally a liability in trending markets — becomes an asset. Buy signals near 20% at range support and sell signals near 80% at range resistance are exactly the conditions this indicator was built for.

Not every range is worth trading. Width matters: a range so narrow that the distance between support and resistance barely covers transaction costs and slippage isn't tradeable regardless of how clean the signals look. As a practical filter, look for ranges wide enough that a single leg from boundary to boundary represents a meaningful multiple of the ticker's typical daily movement — otherwise the reward doesn't justify the risk of a boundary failing.

Age matters as well. A range that has been held for many weeks and survived several tests of both boundaries is more reliable than a range still in its first few days of formation. Early ranges are more prone to failure simply because they haven't yet been stress-tested by the market. Weigh your position size accordingly — smaller on freshly forming ranges, larger on ranges with an established track record of holding.



DHI with trading range and Stochastic displaying overbought and oversold with 21 day high and low providing confirmation



DHI on the left in defined trading range, XHB on the right during the same period no distinct range

Generally Accepted Input Values

21-Day High/Low — Lookback Period: default 21 days (range: 5–250).

Stochastic — Time Period: default 21 days (range: 1–65). Buy below 20%, sell above 80%.

Common Mistakes to Avoid

- Trading a range too narrow to cover transaction costs and normal slippage.
- Entering on a Stochastic 20/80 reading alone without confirming the 21-day high/low agree on where the boundaries sit.

Chapter 7: Options Strategies for Sideways Markets

A confirmed range is one of the few conditions where selling premium has a structural edge. Defined-risk, premium-selling strategies — credit spreads and iron condors positioned outside the 21-day high and low boundaries — profit precisely when price does what a chop market does best: stay inside its range.

The momentum-confirmation and MACD divergence tools from the previous chapters translate directly into strike selection. Confirmed momentum exhaustion together with MACD nonconfirmation at range resistance is the signal to sell a call spread above that level. The mirror-image setup at range support supports a put spread below it.

Position sizing on these trades should account for the retail options volume surge documented in the current market: elevated retail participation can push implied volatility higher than the underlying range justifies, which cuts both ways — richer premium to collect, but wider tails if the range does eventually break.

Strike placement deserves its own discipline. Selling premium at the boundary itself leaves no margin for a boundary test that pierces the level intraday before reverting — a common occurrence even in a genuine, holding range. Placing the short strike a modest distance beyond the 21-day high or low, rather than directly at it, trades some premium for meaningfully better odds of the position expiring worthless.

Expiration selection matters as much as strike selection. Shorter-dated options decay faster, which favors the premium seller, but they also give a range less time to prove itself — a boundary test with three weeks left to expiration is a very different risk than the same test with three days left. Match the expiration to how long the range has already demonstrated it can hold, not simply to whichever expiration offers the richest premium.

Key Rule: Only sell premium against a range once ADXR and the 21-day high/low structure all agree the range is genuine — never sell premium against a range defined by price action alone.

Common Mistakes to Avoid

- Selling strikes directly at the boundary rather than leaving margin for a normal intraday test of the level.
- Choosing expiration based on premium richness rather than how long the range has already proven it can hold.
- Sizing options positions without adjusting for retail-driven implied volatility that may be running ahead of what the range itself justifies.

Why Sell the Spread, Not Buy the Bounce

A reasonable-sounding objection comes up the first time a trader sees this setup: if a credit spread loses value as the long leg decays, why not just buy the option that profits

directly from a bounce — a put at range resistance, a call at range support — and skip the second leg entirely?

The objection misses that these are two different trades built on two different theses, and the range itself decides which one has the edge. Buying a put at resistance or a call at support is a reversal bet: it requires price to move away from the boundary, move far enough to clear the cost of the option, and do it before expiration. Selling a credit spread outside the boundary is a containment bet: it only requires price to stay inside the range, or drift toward the short strike without ever reaching it. That is a dramatically lower bar to clear, and it is exactly what a range-bound market does most of the time by definition.

Three mechanics explain why the range favors the seller:

- Time decay works for the spread, against the long option. Every day price goes nowhere, the long put or call bleeds time value waiting on a move that may never come; the spread seller collects that same decay.
- Implied volatility is usually compressed inside a confirmed range. Ranges form because realized volatility has already dropped, and the options market prices that in — buying premium here means paying for movement the market itself does not expect.
- A whipsaw costs the option buyer twice. Price can dip off resistance, prove the buyer directionally right, and still lose money if the move is too small or too slow to outrun decay before it chops back. The spread seller only loses if price actually trades through the short strike.

A credit spread is not risk-free, and it is not undefined risk either — the long leg caps the loss, the same as a long option caps its cost. The real difference is win rate versus payout size: the option buyer wins big and rarely, the spread seller wins small and often. A confirmed range is precisely the condition where wins small and often has the edge, because the rare large win the option buyer needs is, by definition, the move the range is currently not making.

Key Distinction: A long put or call at a range boundary is a reversal bet and needs price to move. A credit spread sold outside the boundary is a containment bet and only needs price to stay put. Confirmed-range conditions structurally favor the containment bet.

For a trader who wants to play the bounce rather than bet on containment, a debit vertical is the more disciplined version of the long option: buy the put at resistance, sell a further put below it for a partial offset. The short leg reduces cost and softens the drag of decay versus a naked long, but the thesis is still reversal, not containment — size and manage it as a directional trade, not a range trade.

Chapter 8: Risk Management When Nothing Is Trending

Chop markets don't just produce false signals — they tempt overtrading. Every touch of a range boundary looks like an entry, and the absence of a sustained trend means there's no large winning trade to offset a string of small losses the way there is in trending conditions. Position sizing discipline matters more here, not less.

The Volatility indicator adds a check. Rising volatility after a period of compression often precedes the eventual range breakout — the exit event every range trade is implicitly betting against. When Volatility readings start expanding off a multi-week low, tighten position size and widen stops rather than adding new range trades.

A practical cap worth adopting is to limit total simultaneous chop-strategy exposure to a fixed fraction of the account, regardless of how many attractive-looking range setups appear at once. Because chop trades are inherently correlated with each other — they all lose together if the broad market suddenly breaks its own range — treating them as independent bets is a mistake that only shows up when several boundaries fail on the same headline-driven day.



SPY volatility begins to rise after a multi-week low July 30, 2026, prior to the range breakout in early August

Generally Accepted Input Values

Volatility — Time Period: default 21 periods (range: 2–100).

Common Mistakes to Avoid

- Adding a new range trade after Volatility has already started expanding off a multi-week low.

Chapter 9: Building Your Chop Trading Checklist

Systematic trading works because it removes the moment-to-moment decision-making that emotion exploits. The checklist below consolidates the rules from this guide into a single pre-trade sequence. Use it before every chop trade, without exception. However, the most important indicators are the ADXR and the 21-day high/low. MACD Divergence, RSI, and Stochastic are secondary and useful to have confirming the trade.

1. Confirm the regime: ADXR below 25, cycle-phase identification showing a basing or non-trending phase.
2. Check one timeframe higher to make sure the range isn't fighting a larger trend.
3. Define the range: 21-day high/low for support and resistance.
4. Confirm the range is wide enough and old enough to trade — not a fresh, narrow, untested range.
5. Check RSI and Stochastic confirmation at the boundary touch — agreement at support or resistance, not mid-range.
6. Confirm with MACD divergence — nonconfirmation at the boundary supports the range holding.
7. Size the position for chop, not trend — smaller size, tighter risk, no averaging into a losing range trade.
8. Watch Volatility for compression-to-expansion shifts that warn of an approaching breakout.
9. Exit at the opposite boundary, or on a confirmed close beyond either level — never hold a range trade through a rule-confirmed breakout.