

Market Regime Dependence of a Contrarian Order-Flow Trading Strategy: An Exploratory ADX-Based Analysis

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IMPORTANT

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Abstract

Active VictoryMarkets strategies include a contrarian order-flow strategy on gold (XAUUSD) that fades the aggregate net positioning of the client trading population. This research summary examines, within a historical backtest, whether that strategy's realised profitability appears conditional on the prevailing market regime. Using the Average Directional Index (ADX) computed on the daily timeframe as a regime classifier — $ADX \geq 25$ denoting a trending market, $ADX \leq 20$ a range-bound market, and the 20–25 band a transitional state — we retrospectively tag 87 closed trades from a fourteen-month historical simulation (June 2025–August 2026) with the regime in effect at the moment of entry. In this sample, gross backtested profitability was heavily concentrated in trending regimes (67 of 87 trades; +\$275,588 gross, 71.6% win rate), with a smaller but positive contribution from range-bound regimes (8 trades; +\$19,660 gross, 75.0% win rate) and a negative contribution from the transitional band (12 trades; −\$11,381 gross, 41.7% win rate). Kruskal-Wallis and pairwise nonparametric tests indicate these differences are directionally consistent with a genuine regime effect but do not reach conventional statistical significance at this sample size (all $p > 0.05$, with the Trending-vs-Transitional win-rate contrast closest at $p = 0.053$, Fisher's exact). We report the analysis as an exploratory, hypothesis-generating study based on historical/simulated results, and close by outlining the further validation — chiefly a larger sample — needed before any conclusion is drawn for live use.

1. Introduction

A recurring question in evaluating systematic trading strategies is whether a given edge is regime-dependent — concentrated in particular market conditions rather than distributed uniformly through time. This matters practically: a regime-dependent strategy can potentially be improved by gating or resizing entries by regime, and a strategy whose profitability derives entirely from a narrow subset of conditions carries materially different risk than one whose edge is stable across conditions. The strategy examined here is a contrarian order-flow strategy trading XAUUSD at VictoryMarkets, which trades against the aggregate client base's prevailing net positioning once certain internal conditions are met. Its specific entry, exit and filter logic are proprietary to VictoryMarkets and are not disclosed in this note; the strategy contains no explicit regime-awareness of its own — it fires on the same underlying signal regardless of whether the market is trending or range-bound. We test, retrospectively, whether its realised performance nonetheless differs systematically by regime, using ADX (Wilder, 1978) as an independent classifying instrument applied after the fact.

ADX is one of several available tools for this kind of classification. Alternatives include the Hurst exponent and rescaled-range analysis (persistent vs. anti-persistent price behaviour), formal stationarity tests such as the Augmented Dickey-Fuller and KPSS tests, the variance-ratio test of Lo and MacKinlay (1988), and Markov regime-switching models in the tradition of Hamilton (1989), which estimate latent-state probabilities directly rather than thresholding a single indicator. ADX was chosen here for tractability and its widespread use as a trend-strength measure, not because it is presumed superior to these alternatives — cross-validation against an independent classifier is listed as a next step in Section 6.

2. Methodology

2.1 Strategy Description

The strategy is a contrarian, order-flow-based strategy on XAUUSD that periodically evaluates aggregate client positioning and trades against the prevailing crowd exposure once specific internal conditions are met, subject to an internal trend filter, with a defined exit and risk-management framework. The strategy's full parameterisation, signal thresholds and exact decision cadence are proprietary to VictoryMarkets and are not disclosed in this note; the description here is limited to what is needed to interpret the regime-classification methodology in Section 2.2.

2.2 Market Regime Classification

For each trade in the sample, ADX(14) on the daily timeframe is read from the most recently closed bar at the time of entry and classified as TRENDING ($ADX \geq 25$), RANGING ($ADX \leq 20$), or TRANSITIONAL ($20 < ADX < 25$). Every trade is stamped with the regime and raw ADX value at entry. This classifier is external to the strategy itself and is applied to its normal, unfiltered trading record for tagging and post-hoc analysis only — it does not gate which trades were taken in the sample analysed here.

2.3 Data and Statistical Methods

The dataset comprises 87 closed XAUUSD trades from a single continuous backtest, June 2025–August 2026. Reported P&L is gross (price-based, at the quoted lot size) and excludes swap/commission, which the source trade log allocates only at the portfolio level. Given small, uneven regime sample sizes (Trending $n=67$, Ranging $n=8$, Transitional $n=12$) and non-normal per-trade P&L, we use a Kruskal-Wallis H-test across all three regimes, pairwise Mann-Whitney U tests for per-trade P&L, Fisher's exact test for win/loss counts, and Cohen's d for effect size. All tests are two-sided; no correction for multiple comparisons is applied, which is treated as a limitation (Section 7) given the exploratory framing of this study.

3. Results

3.1 Descriptive Statistics

Table 1 reports descriptive statistics for realised trade P&L by regime; Figure 1 shows the same comparison graphically.

Regime	n	Win rate	Gross P&L	Mean/trade	Median/trade	Mean ADX
Trending	67	71.6%	+\$275,588	+\$4,113	+\$2,592	40.9
Ranging	8	75.0%	+\$19,660	+\$2,458	+\$937	17.7
Transitional	12	41.7%	−\$11,381	−\$948	−\$1,291	22.5

Table 1. Descriptive statistics of realised per-trade gross P&L, by ADX-classified regime at entry.

Performance-basis note: the P&L figures in this summary are research outputs derived from a historical backtest simulation. They should not be interpreted as realised client returns or as net investable returns. This summary does not specify whether spreads,

slippage, swap/financing charges, or other transaction costs are fully reflected in the reported figures; document those items alongside the underlying dataset before relying on the results for implementation or external comparison.

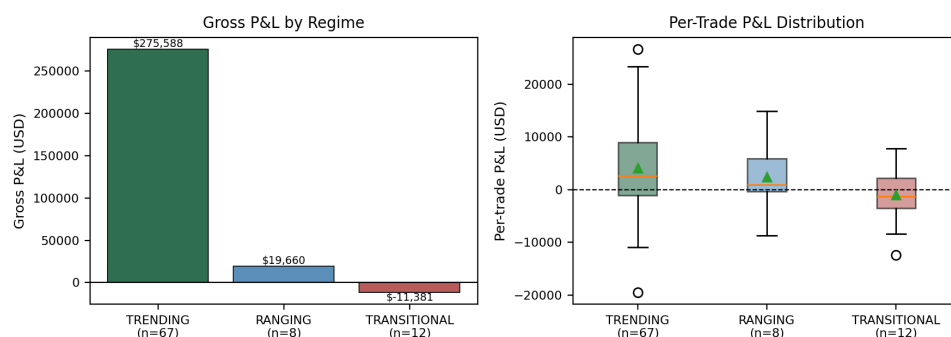


Figure 1. Gross P&L (left) and per-trade P&L distribution (right) by regime.

3.2 Statistical Tests

A Kruskal-Wallis test across all three regimes was not significant ($H = 3.72$, $p = 0.155$). Pairwise comparisons appear in Table 2; the strongest, Trending vs. Transitional, approaches but does not reach conventional significance.

Comparison	Test	Statistic	p-value	Cohen's d
Trending vs. Ranging	Mann-Whitney U	$U = 292.0$	0.692	0.19
Trending vs. Transitional	Mann-Whitney U	$U = 543.0$	0.055	0.59
Ranging vs. Transitional	Mann-Whitney U	$U = 60.0$	0.384	—

Table 2. Pairwise nonparametric comparisons of per-trade P&L between regimes.

Win-rate comparisons (Fisher's exact) follow the same pattern: Trending vs Transitional (48/67 vs 5/12 wins; $OR = 3.54$, $p = 0.053$) is closest to significance, while Trending vs Ranging ($p = 1.000$) and Ranging vs Transitional ($p = 0.197$) show no evidence of a difference. A joint chi-square test is consistent ($\chi^2 = 4.40$, $df = 2$, $p = 0.111$), though some expected cell counts fall below 5. Raw ADX value correlates only weakly with per-trade P&L (Pearson $r = 0.111$; Spearman $\rho = 0.077$), suggesting a threshold effect — trending vs. not — rather than a continuous relationship between trend strength and profitability.

3.3 Directional Breakdown

Table 3 splits results by trade direction within regime. The long side drives most trending-regime profit, while the short side accounts for the entire transitional-regime loss.

Regime	Direction	n	Gross P&L	Mean/trade
Trending	Long	43	+\$211,314	+\$4,914
Trending	Short	24	+\$64,274	+\$2,678
Ranging	Long	5	+\$12,807	+\$2,561
Ranging	Short	3	+\$6,853	+\$2,284
Transitional	Long	5	+\$10,487	+\$2,097
Transitional	Short	7	-\$21,868	-\$3,124

Table 3. Gross P&L by regime and trade direction.

4. Discussion: Why the Regime Pattern Emerges

The ordering — highest edge trending, smaller but positive edge ranging, a loss in the transitional band — is consistent with the strategy's contrarian design: a directional market is plausibly the condition under which an over-extended, one-sided client base is most likely to be proven wrong, which is what the strategy is structurally positioned to capture. The transitional band may capture markets shifting between regimes, where contrarian and momentum dynamics are both partially present, and neither dominates, making directional bets less reliable. This is offered as a hypothesis for further investigation, not an established finding, given the sample size discussed in Section 7.

CONCLUSION

Within the available dataset and methodology, the observed regime pattern — highest profitability in trending markets, smaller but positive profitability in range-bound markets, and a net loss in the ADX 20–25 transitional band — is directionally consistent with regime-dependent performance in the historical backtest, but does not reach conventional statistical significance at the present sample size ($n = 87$). This is a hypothesis-generating result based on historical/simulated data, not a confirmed or forward-looking conclusion.

4.1 Practical Implications

If this pattern holds under further validation, it suggests two directions for refinement: restricting new entries when ADX falls in the transitional band, or reducing position size there rather than excluding it outright. Neither is recommended on the strength of the present result alone — the Trending-vs-Transitional contrast, the strongest finding reported, remains short of conventional significance.

5. Ideas That Could Strengthen This Result (Untested)

The tests above rely on a single classifier, a single instrument, and one continuous backtest window. None of the following has yet been tested, listed in increasing order of effort.

- Larger sample. Extend the backtest across additional history and, where available, additional instruments, specifically to grow the Ranging and Transitional buckets past the point where the Trending-vs-Transitional gap can be judged at conventional significance.
- Threshold-sensitivity grid. Re-run the classification across a grid of ADX threshold pairs rather than relying solely on Wilder's original conventions.
- Cross-validation against an independent classifier — a rolling Hurst exponent, a variance-ratio test, or an Augmented Dickey-Fuller stationarity test — to check whether the pattern reflects a real market-structure distinction or is specific to ADX's own construction.
- Net-of-cost, risk-adjusted comparison, incorporating swap/commission and drawdown or tail-risk measures by regime, not average P&L alone.

6. Limitations and Caveats

CAVEAT

The Ranging ($n = 8$) and Transitional ($n = 12$) regime buckets are small; every estimate for them carries wide uncertainty, and no test involving either group reaches conventional significance. Treat regime-specific figures in this note as directional, not precise.

Beyond the small-sample caveat, all 87 trades come from a single continuous backtest on one instrument; the effect has not been tested against a held-out period or a live record. The ADX thresholds (25/20) are Wilder's original conventions, not fitted to gold or to this strategy. Five statistical tests are reported without correction for multiple comparisons — under a Bonferroni-style correction the already-marginal Trending-vs-Transitional result would not survive. Reported figures are gross P&L, excluding swap/commission, and no drawdown or tail-risk analysis was performed.

The performance statistics reported throughout this note should be read as comparative research metrics within the tested framework, not as a forecast, promise, or representation of future returns. Before any change to live strategy logic is considered, these results should be reproduced with a fully specified observation window, signal count, execution assumptions, transaction-cost treatment, and the additional robustness checks listed in Section 5.

7. Recommended Next Step

Extend the backtest sample before drawing any operational conclusion. Re-run the strategy's existing regime-tagging logic over additional history and, if available, additional instruments, with the explicit goal of growing the Ranging and Transitional trade counts to a level at which the Trending-vs-Transitional contrast can be judged with adequate statistical power. This requires no new indicator or classifier, only additional backtest runs against the tagging already implemented.

8. Conclusion

This exploratory analysis finds that a contrarian order-flow strategy on gold at VictoryMarkets shows, within the tested historical sample, a performance pattern consistent with regime dependence when classified by ADX: profitability and win rate were highest in the trending band, positive but more modest in the ranging band, and negative in the transitional band. None of these differences reaches conventional statistical significance at the present sample size ($n = 87$), and the strongest result obtained falls just short of $p < 0.05$. We present this as hypothesis-generating, based on historical/simulated results, with sample-size expansion as the priority validation step before any change to live logic.

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