



Mean Reversion

Mean Reversion | INTERMEDIATE | Timeframes: 15M, 30M (context: 1H)

STATUS: TESTING

3921 backtested trades | win rate 47.8% | profit factor 0.78 | worst drawdown 56.3% | avg RR 1:1

Past results do not guarantee future results. Educational use only.

What it is

When price oscillates between a clear top and bottom, it tends to return toward the middle after reaching either edge. This strategy sells reactions at the top of a well-defined range and buys reactions at the bottom, targeting the middle, with a stop just outside the range.

In simple words

If price keeps bouncing between a ceiling and a floor, trade the bounces: sell near the ceiling, buy near the floor, and aim for the middle. The big danger is that the range breaks, so the stop must be close and you must give up if it does.

Why it may work

In balanced markets, buyers and sellers agree on a fair range, and moves to the edges often attract the opposite side. A small, quick target gives a decent win rate in that environment. The risk is a breakout that turns a series of small wins into one large loss, so the stop and the discipline to stop trading a broken range are essential.

Example chart



Price oscillates between two zones. A rejection at the top of the range gives a sell back toward the middle, with the stop just above the range. (Illustrative diagram drawn by Bahari Academy. It is not real market data and not a prediction.)

Best market conditions

- A clear range with at least two touches on each side
- Low-to-moderate volatility
- Price reaches an extreme with a rejection candle
- An oscillator such as RSI at an extreme (optional extra evidence)

When NOT to trade it

- A breakout is under way or a trend is forming
- The range is very narrow compared with the spread
- Major news can break the range
- You are about to trade the third or fourth touch of the same edge in a row

Timeframes

Entry: 15M, 30M. Context: 1H. Define the range on the 1H chart and trade the edges on the 15M or 30M chart.

Step-by-step setup

1. Mark the range top and bottom as zones
2. Confirm price has bounced between them at least twice each
3. Wait for price to reach an edge
4. Look for a rejection or engulfing candle at the edge
5. Enter toward the middle with the stop just outside the range
6. Take profit at or near the middle; stop trading the range if it breaks

Entry rules

- Price touches a range edge zone
- A rejection or engulfing candle closes back toward the middle
- RSI is stretched in the same direction (optional)

Stop loss

Just outside the range edge (above the top for a sell). A close outside the range means the range has broken.

Take profit

The middle of the range (a 1:1 target is common) or slightly before the opposite edge.

Risk / reward

Often around 1:1, so this approach needs a higher win rate than 1:2 setups. Check the costs: spread matters a lot with small targets.

Confirmation

- A rejection candle at the edge
- A weakening move into the edge (smaller candles, long wicks)
- No news or volatility event in the next hour

Invalidation

- A candle closes beyond the range edge
- Volatility expands sharply
- Price makes a higher high and higher low out of the range

Common mistakes

- Fading a trend that is breaking out
- Trading a range that is too narrow for the spread
- Widening the stop when the range breaks
- Taking too many trades at the same edge

How this strategy performed in our own backtests

Backtested on 3921 trades but not verified: 6 of 9 checks not met (win rate above 50%; profit factor at least).

Tested on 2026-10-03 with engine bahari-bt-1.0.0. Counter-trend: an engulfing candle at a zone with an RSI extreme, stop 1.2 ATR, 1:1 target.

Markets: BTCUSDT, ETHUSDT, SOLUSDT. Timeframes: 15m, 30m, 5m. Conditions with enough trades: 0 profitable of 9.

To be VERIFIED a strategy needs at least 300 trades, a win rate above 50%, a profit factor of 1.2+ and drawdown under 25%, across several markets and timeframes and both halves of the history.

- [pass] Sample size of at least 300 trades: 3921 trades
- [not met] Win rate above 50%: 47.8%
- [not met] Profit factor at least 1.2: 0.78
- [not met] Average result per trade above 0.05R after costs: -0.123R
- [not met] Worst max drawdown at most 25%: 56.3%
- [pass] Average planned reward:risk at least 1:1: 1:1
- [pass] Tested in at least 4 market/timeframe conditions (2+ markets, 2+ timeframes): 9 conditions, 3 markets, 3 timeframes
- [not met] Profitable in at least 67% of the conditions: 0 of 9
- [not met] Profitable in BOTH halves of the history (profit factor at least 1 in each): first 0.74, second 0.83

Quiz

1. Mean reversion works best in:

- A) A well-defined range
- B) A strong trend
- C) A news spike
- D) A gap

Answer: A. It relies on price returning toward the middle of a balanced range.

2. What is the biggest risk?

- A) A breakout that ends the range
- B) A quiet market
- C) A narrow spread
- D) Low volume only

Answer: A. A broken range turns many small wins into a large loss if you do not respect the stop.

3. Why does the spread matter more here?

- A) Targets are small, so costs take a bigger share
- B) Spreads are larger in ranges
- C) It does not matter
- D) Brokers charge double

Answer: A. With 1:1 targets, costs reduce the edge noticeably.

4. A candle closes beyond the range edge. You should:

- A) Widen the stop
- B) Accept the loss and stop fading that range
- C) Double the position
- D) Ignore it

Answer: B. A close outside the range invalidates the premise.

Practical challenge

Find a ranging chart in a challenge and decide whether an edge trade or WAIT is the better call. Open Challenges on bahari-academy.netlify.app to practise with the future candles hidden.

Important

Trading involves risk, and you can lose money, including all of the capital you risk. This lesson is for education only and is not financial advice. Nothing here guarantees profit, and backtested results do not guarantee future results.