

Building an options view

THE OPTIONS VIEW

A view assembled from the layers: the underlying analysis (direction and catalyst), the timing judgement (does the expiry match), the volatility judgement (is the implied volatility expensive or cheap), and the structure that expresses all three - stated with its breakeven, its maximum loss, and the honest acknowledgement that all three judgements must be right. And the occasionality clause, sharpest here: most of the time, one of the three judgements is missing, and the honest output is no options position at all.

The analysis module closes by assembling the three judgements into a view - and by acknowledging, more than any track, how often the honest answer is that there is no options view, only an underlying one or none.

The assembly

The underlying read: direction and catalyst, from the equity analysis (lesson 8) - the foundation, and the first judgement. The timing judgement: does an option's expiry match the catalyst's timing, or is the timing too vague for an option (lesson 3)? The volatility judgement: is the implied volatility expensive or cheap, is the move already priced, is there an event crush ahead (lesson 4, 5)? The structure: the payoff shape expressing all three, stated with its breakeven and maximum loss (lesson 6, module 4).

The occasionality clause, sharpest here

The occasionality clause survives its sixth telling and is sharpest in options, because three judgements must align: most of the time, at least one is missing - the direction is there but the timing is vague (so the underlying, not an option, expresses it), or the direction and timing are there but the volatility is expensive (so the option overpays), or the volatility is attractive but there is no directional edge. When any judgement is missing, the honest output is no options position - the underlying, or nothing. Options require the rare alignment of three judgements, and forcing a position when only one or two are present is the analytical error module 5 is built to prevent.

The module's close

An options view, honestly built, is the rare case where direction, timing and volatility all align and a structure expresses them - stated with its breakeven, its maximum loss, and the acknowledgement that all three must hold. Most analysis produces no options view: an underlying view better expressed in the underlying, or no edge at all. This is the discipline the whole module builds toward - not generating options positions but recognising the rare view that is genuinely an options view, and expressing the far more common one in the underlying or not at all. Module 6 turns to whether such views, tested, have an edge net of costs - and finds that options' non-linear payoffs break the platform's

expectancy tool, requiring a new way to evaluate them. The options view is three judgements aligned; the honest default is that they are not.

Check your understanding

1. Why is the occasionality clause sharpest in options?

- a. Options are always available
- b. Three judgements must align - most of the time at least one is missing, so the honest output is the underlying or nothing, not an options position
- c. Options never have a view

Answer: b. Direction without timing suits the underlying; direction and timing with expensive volatility overpays. Forcing a position when only one or two judgements are present is the error module 5 prevents.

2. What is an honestly-built options view?

- a. Any directional conviction
- b. The rare case where direction, timing and volatility all align and a structure expresses them - stated with its breakeven and maximum loss, most analysis producing no options view at all
- c. A cheap far option

Answer: b. Options require the rare alignment of three judgements. The discipline is recognising the genuine options view and expressing the far more common underlying view elsewhere.