# The common analytical errors

> **THE ANALYTICAL ERRORS**
>
> The recurring options analysis mistakes, each a neglected judgement: buying options on direction alone (ignoring timing and volatility), buying into events (paying the crush), chasing cheap far-out-of-the-money options (distant breakevens, wide spreads), and selling naked premium for the steady income (ignoring the tail). Each is a way the three judgements are skipped - and each is marketed as a strategy by an options-education industry that profits from the churn.

Options analysis fails in recurring ways, each a neglected judgement, and each sold as a strategy by an industry that profits from options churn. Naming the errors is the analytical discipline's negative image - what not to do, and why.

## The recurring errors

Direction alone: buying an option on a directional view without judging timing or volatility (lesson 2) - the share trader's instinct, and the most common options loss.Buying the event: buying options before earnings or a decision, paying inflated implied volatility and facing the crush (lesson 4) - correct-direction losses, manufactured by ignoring the volatility judgement.The cheap-option chase: buying far-out-of-the-money options because they are cheap - ignoring their distant breakevens, wide spreads and near-certain decay to zero (module 1's lottery tickets); cheap and low-probability are the same thing.Naked premium selling: selling options for the steady income without defining the risk (module 4) - ignoring the tail that gives it all back, the seller's version of skipping a judgement.

## Why the industry markets them

Each error is sold as a strategy because each generates activity, and an options-education-and-brokerage industry profits from the churn: 'buy calls on your conviction', 'sell premium for income', 'cheap options for asymmetric upside' - marketed frameworks that skip the judgements and produce the trades. The noise lesson of the crypto track applies - a signal-selling industry monetising the gap between what options require and what most traders do - and the options version is particularly aggressive because the instrument's complexity gives the frameworks cover. The disciplined analyst recognises the marketed error and does the three judgements the framework skipped.

## The errors as a checklist

The errors invert into a discipline: before any options position, has the timing been judged (not just direction), has the volatility been judged (is it expensive, is there an event), is the breakeven realistic (not a distant lottery ticket), and if selling, is the risk defined (not naked)? Each question is an error avoided, and together they are the three judgements enforced against the instincts and the marketing that skip them. Options analysis is as much recognising the seductive error as constructing the view -

because the errors are common, marketed and intuitive, and the discipline is the boring correct thing the frameworks are built to bypass.

## Check your understanding

### 1. What do the common options analytical errors have in common?

a. They use the wrong broker

b. Each is a neglected judgement: direction alone skips timing and volatility, buying events skips the volatility judgement, and naked selling skips risk definition - and each is marketed as a strategy

c. They are all illegal

Answer: b. Each error skips one of the three judgements, and an industry that profits from churn markets each as a framework. The discipline is doing the judgement the framework skipped.

### 2. Why is 'cheap and low-probability the same thing' for far options?

a. Cheap options are underpriced

b. A far-out-of-the-money option is cheap because it is unlikely - distant breakeven, near-certain decay to zero; the low premium reflects the low probability, not a bargain

c. They have no spread

Answer: b. The cheap-option chase mistakes low price for value. The premium is low because the option probably expires worthless - cheap and unlikely are the same fact.