The underlying analysis beneath

> **THE UNDERLYING BENEATH**
>
> Every options view rests on an analysis of the underlying - and the options track assumes the equities track precisely because the direction judgement is an equity analysis, and the timing judgement often rests on an equity catalyst. Options add two judgements on top of the underlying read, but they never replace it: a wrong view of the underlying is a wrong options position, however well the volatility is judged. The option is a derivative of the analysis, not a substitute for it.

The options track assumes equities for a structural reason this lesson makes explicit: the direction judgement is an equity analysis, and options build two judgements on top of it - they never replace the underlying read. A wrong underlying view is a wrong options position.

What the underlying analysis supplies

The direction judgement: which way the underlying moves is an equity analysis (the equities track's whole subject) - the options view's first judgement is the equity view, imported.The timing catalyst: the timing judgement often rests on an equity event - earnings, a product, a decision - so the equity analysis supplies the catalyst the timing judgement times to.The volatility context: the underlying's own behaviour - how it moves, how it reacts to events (the equities track) - informs the volatility judgement, because implied volatility is a claim about the underlying's future movement.

Options add, never replace

Options layer timing and volatility on top of the underlying analysis, but the underlying analysis is the foundation: get the equity view wrong and no amount of volatility skill saves the position, because the direction judgement - the first of three - was an equity judgement that failed. This is why the track's prerequisite is not a formality: the options analyst is an equity analyst who has added two judgements, and a reader without the equity analysis is making the direction judgement blind. The option is a derivative of the underlying and of the analysis of the underlying - both.

The layered discipline

The disciplined options view is layered: the equity analysis first (direction and catalyst), then the timing judgement (does the option's expiry match the catalyst), then the volatility judgement (is the implied volatility expensive, is the move already priced), then the structure (which payoff expresses all three). Each layer sits on the one below, and the bottom layer is the equities track. Options analysis is not a separate skill from equity analysis - it is equity analysis with two more judgements and a structure choice on top, and the reader who treats it as separate has cut it off from its foundation. The underlying analysis beneath is where every options view begins, and the options judgements are what the track adds to it.

Check your understanding

1. Why does the options track assume the equities track?

a. For convenience

b. The direction judgement is an equity analysis and the timing catalyst is often an equity event - so the options view is built on the equity read, with two judgements added, never replacing it

c. Options and equities are unrelated

Answer: b. The option is a derivative of the underlying and of its analysis. A wrong equity view is a wrong options position, however well the volatility is judged - the prerequisite is structural.

2. What is the relationship between options analysis and equity analysis?

a. They are separate skills

b. Options analysis is equity analysis with two more judgements (timing, volatility) and a structure choice layered on top - each layer sits on the underlying read beneath

c. Options analysis replaces equity analysis

Answer: b. Options add, never replace. The reader who treats options analysis as separate has cut it off from its foundation - the equity read every options view begins with.