Why direction is not enough

> **DIRECTION IS NOT ENOUGH**
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> The share trader's instinct - get the direction right - is necessary and insufficient in options, because the breakeven must be cleared in time and against the priced volatility. A correct directional view fails as an option when the move is too small (does not clear the breakeven), too slow (decay wins first), or already priced (the volatility was in the premium). Direction is the judgement options traders over-weight and the one least sufficient on its own.

The most common options error is the share trader's instinct misapplied: get the direction right and expect to profit. This lesson shows why direction, the whole of a share view, is the least sufficient of the three options judgements.

The three ways a correct direction loses

Too small: the move happens but does not clear the breakeven (strike plus premium, module 1) - the direction was right, the magnitude insufficient, and the option expires below its breakeven despite the correct call.Too slow: the move happens but after expiry, or after decay has eroded the option - the direction was right, the timing wrong, and the decay collected the premium first.Already priced: the move happens as expected, but the market expected it too, so it was in the premium's implied volatility - the direction was right, the volatility judgement wrong, and the priced-in move paid nothing.

The breakeven as the direction test

The breakeven (module 1) is where direction meets the other two judgements: a directional view must move the underlying past the breakeven, before expiry, by more than the priced volatility already assumed - three conditions folded into one price the underlying must reach in time. A share view is satisfied by the underlying moving the right way at all; an options view is satisfied only by clearing the breakeven, which encodes magnitude and time. The breakeven is why direction alone is not enough: it is the direction judgement made concrete, and it demands the move be large enough and fast enough, not merely correct.

The discipline this installs

The disciplined options analyst never stops at direction: having judged which way, they ask how far (does the move clear the breakeven), how fast (does it beat decay), and how much is priced (is the move already in the implied volatility) - the three judgements, applied. The share trader who buys an option on a directional view alone has made one of three judgements and left the other two to chance, which is why correct-direction option losses are the most common and most frustrating: the analysis was right about the only thing a share view judges and silent on the two things options also price. Direction is necessary; the discipline is remembering it is not enough.

Check your understanding

1. What are the three ways a correct directional view loses in options?

a. Wrong strike, wrong expiry, wrong broker

b. Too small (does not clear the breakeven), too slow (decay wins first), or already priced (the move was in the implied volatility)

c. Too large, too fast, too cheap

Answer: b. Direction can be right while magnitude, timing or the volatility judgement is wrong. The breakeven encodes the first two; the priced volatility is the third.

2. How does the breakeven encode more than direction?

a. It does not

b. It demands the move be large enough and fast enough - past the breakeven, before expiry, by more than the priced volatility assumed - three conditions in one price the underlying must reach in time

c. It sets the premium

Answer: b. The breakeven is the direction judgement made concrete, folding in magnitude and time. A share view needs the right way; an options view needs to clear the breakeven.