

Reading implied volatility

READING IMPLIED VOLATILITY

Implied volatility is the market's expectation of movement, read off the premium - and reading it means knowing whether options are expensive or cheap relative to their own history and to what is coming. High implied volatility means the market expects a lot of movement (options are dear); low means it expects little (options are cheap). Reading it is how an options trader knows whether they are buying possibility at a fair price or an inflated one.

Module 1 introduced implied volatility as the premium's largest force. Reading the options market means reading it fluently: whether the volatility priced into an option is high or low, why, and what that means for buying or selling it.

What reading implied volatility tells you

Expensive or cheap: implied volatility against the underlying's own history says whether options are dear or cheap now - high implied volatility means inflated premiums (costly to buy, rich to sell); low means the reverse. The single most important read before any options position. What is priced in: implied volatility rises before known uncertain events - earnings, decisions, data - because the market expects movement; the elevated premium is the event priced in, and buying into it means paying for the expected move in advance. The crush ahead: implied volatility elevated before an event will collapse after it (the volatility crush of module 1), so a buyer paying the elevated premium faces a deflation the moment uncertainty resolves - readable in advance from the elevated implied volatility itself.

Implied against realised

The deeper read compares implied volatility - what the market expects - against realised volatility, what the underlying actually did: when implied sits well above realised, options are pricing more movement than the underlying has been delivering, and the premium-seller is being paid for movement that may not come; when implied sits below realised, options may be cheap relative to the underlying's actual behaviour. This implied-versus-realised gap is the core of how volatility is actually traded - and it is a read, not a signal, held to the platform's crowd-reading discipline: implied volatility is the crowd's expectation, and the gap is a differentiated view of it, not a certainty.

Why this is the options trader's core read

A share trader reads price; an options trader must read price and volatility, because the premium embeds both - and reading implied volatility is what separates buying an option on a genuine view from overpaying for inflated possibility. The most common sophisticated-retail error is ignoring it: buying options before earnings on a correct directional view and losing to the crush, because the volatility was high and the reader did not check. Module 5 makes volatility one of the three judgements an

options view requires; module 8 maps its full structure across strikes and expiries. This lesson installs the habit: before any options position, read whether its volatility is expensive or cheap, and against what.

Check your understanding

1. What does implied volatility above realised volatility mean?

- a. The underlying will rise
- b. Options are pricing more movement than the underlying has been delivering - so a premium-seller is paid for movement that may not come, the core of how volatility is traded
- c. Options are cheap

Answer: b. Implied is the market's expectation, realised is what happened. The gap is a differentiated read of the crowd's expectation - held to the platform's crowd-reading discipline, not a certainty.

2. What is the most common sophisticated-retail options error this lesson addresses?

- a. Choosing the wrong broker
- b. Ignoring implied volatility: buying options before earnings on a correct directional view and losing to the crush, because the volatility was high and unchecked
- c. Trading too small

Answer: b. A share trader reads price; an options trader must read price and volatility. Buying inflated possibility and losing to the crush is the error reading implied volatility prevents.