

What the options market prices

WHAT OPTIONS PRICE

The options market prices a distribution, not a direction: the whole chain, read together, is the market's probability distribution of where the underlying might be at each expiry - implied volatility its width, skew its asymmetry, term structure its evolution over time. Reading the options market is reading that implied distribution, and an options view is a disagreement with some part of its shape, not merely a direction on the underlying.

The module closes on what the whole chain, read together, actually represents: not a set of bets but a distribution - the market's probability map of where the underlying might go, priced across every strike and expiry. This is the deepest thing the options market says.

The chain as a distribution

Implied volatility is the width: how spread out the market thinks the underlying's outcomes are - high implied volatility, a wide distribution; low, a narrow one (module 1, lesson 5). Skew is the asymmetry: options are often priced with different implied volatilities across strikes (module 8), which is the market pricing an asymmetric distribution - typically more downside risk than upside, the crash the market always half-expects. Term structure is the evolution: how the distribution widens and shifts across expiries (lesson 6) - the market's map of movement over time, dated events and all.

An options view is about the distribution

This reframes what an options view is. A share view is directional - up or down. An options view is a disagreement with the implied distribution: that the market's expected movement (implied volatility) is too high or too low, that its asymmetry (skew) is mispriced, that a dated event is over- or under-priced in the term structure, or that a direction is more likely than the distribution implies. Options let a trader express views on the shape of the distribution, not just its centre - which is their unique power and the source of their complexity, because there are more ways to be right and more ways to be wrong than direction alone.

The reading module's close

Reading the options market is reading its implied distribution: the chain's premiums, its implied volatility across strikes and expiries, its delta-shorthand odds, its liquidity - assembled into a picture of what the market expects and how confidently. Module 1 built the vocabulary; module 2 has read the market that vocabulary describes. What follows builds on the distribution: module 3 prices the cost of expressing a view on it, module 4 sizes the risk, module 5 makes the view three judgements about the distribution's shape, and module 6 finds that the non-linear, distribution-shaped payoffs break the platform's linear tools. The options market prices a distribution - and reading it is the foundation of everything the track does next.

Check your understanding

1. What does the options market price, read as a whole?

- a. A single direction
- b. A distribution: the whole chain is the market's probability map of where the underlying might be at each expiry - implied volatility its width, skew its asymmetry, term structure its evolution
- c. The underlying's fair value

Answer: b. The chain read together is an implied distribution, not a set of bets. Reading the options market is reading that distribution's shape across strikes and expiries.

2. How does an options view differ from a share view?

- a. It does not
- b. A share view is directional; an options view is a disagreement with the implied distribution - that expected movement, asymmetry or a dated event is mispriced, not merely a direction
- c. It is always about volatility

Answer: b. Options express views on the distribution's shape, not just its centre - more ways to be right and wrong than direction alone. Their unique power and their complexity.