



SIMPLE IS BETTER

SIMPLE IS BETTER – ISSUE -2 – POWER OF COMPOUNDING IS EVERYWHERE

In [Issue - 1](#), I discussed briefly regarding compounding and an extraordinary effect of compounding. In this issue, I am going to explain compounding, its effect and most importantly essentials for taking benefits of compounding in more detail.

Actually, many of us live life with a belief in our mind that compounding is only related to investment field (I was also in same belief). But when I thought about my life then I come to know that **“Power of Compounding is Everywhere”**. This power has performed a huge role in my life. According to me, from the our born to our current life and also in future, we have experience effects, benefits and entire process of compounding in our life.

You may ask question –

How? Where? What are those benefits?

So, for explaining in detail let me start with basic meaning of compounding for our better understanding.

Meaning of compounding in a general context-

“to make or form by combining parts, elements, etc.; construct” - “to increase or add to” - Dictionary.com

In a simple word, if we are combining elements or efforts to construct something; then that is known as a compounding.

Let me explain few of the examples from our life which can able to simplify concept.



A small baby puts small efforts, when starts walking. Baby cannot able to learn to walk from first try but with each try learn something. And at last small baby can able to walk, can able to run. Take first step, may be cannot able to stand, may be fall down, try to walk with any support and at last can able to walk.

All efforts which puts by small baby to learn walking is also an example of compounding. Every small tries / effort combined together and then only a small baby can able to walk and run well.



Transforming to 6 pack abs, we need a constant workout effort then and only then above transformation can be possible. From the 1st day, we cannot able to make 6 pack abs; we need to give a time and constant efforts of daily workout in a prescribed manner.

If we are planning for the race, then we need to start with lower miles target and then slowly we need to cover a long distance. From the 1st day we cannot able to prepare to cover a long distance.

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
—	—	—	—	—	—	1 mile
X-train >20 min	Rest Stretch Weights	1 mile	Rest Stretch Weights	1 mile	Rest	2 mile
X-train >30 min	Rest Stretch Weights	1.5 mile	Rest Stretch Weights	1.5 mile	Rest	2.5 mile
X-train >40 min	Rest Stretch Weights	2 mile	Rest Stretch Weights	2 mile	Rest	3 mile
X-train >50 min	Rest Stretch Weights	2 mile	Rest Stretch Weights	1.5 mile	Rest	RACE

As we have seen in above examples that we have experience power of compounding in many of the area of our life. Slowly and slowly, we are combining efforts to reach at our target.

For writing a full sentence, first we need to learn about alphabets then words then proper arrangements of words can create full sentence. By combining each days in our life, our life gets constructed which also an example of compounding.

There are a few common points when we experience the power of compounding.

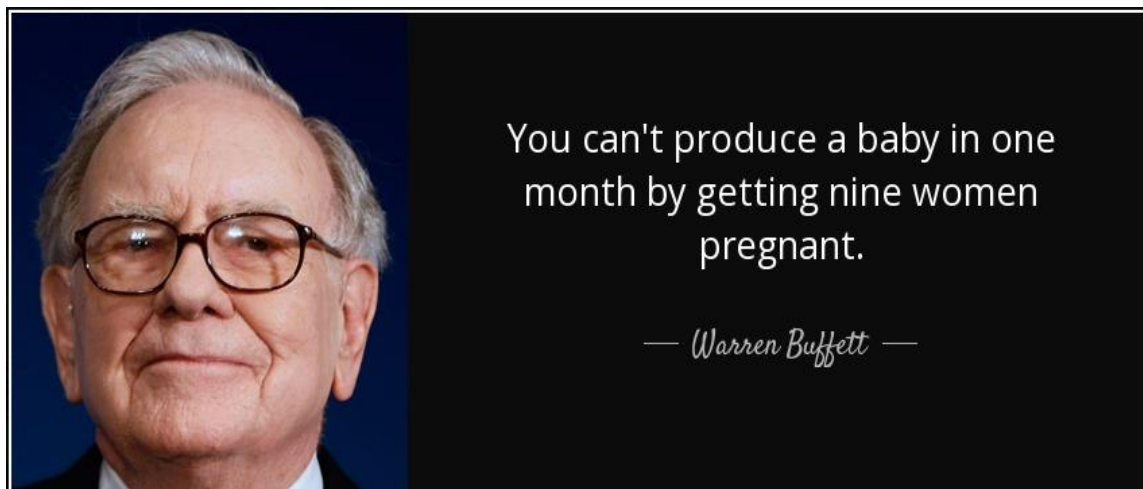
1. Constant Efforts

If we want to take a benefit of the power of compounding, then we need to put a constant effort and at last combination of all our efforts till date will bring us towards result. Many a times a small baby fall down and cannot able to stand properly, but a little baby never lose hope and keeps on putting efforts and at last a little baby can able to walk, can able to run.

2. Patience

Patience is the essential quality, we need to taking a benefit for power of compounding. Without proper patience, we may not able to get desire outcomes.

If we done a workout for 1-2 days and see ourselves in mirror and think that still our body is not in proper shape. Or after doing work out every day, we see ourselves in mirror then that is of no use. We need to keep patience to achieve our desire target. If we do a workout for a month and look at mirror and think that still our body is not in proper shape. And stop doing work out by thinking it as a waste of time; then that is one of the our biggest mistake. We need to do a constant effort with keep patience.



3. Discipline

"the practice of training people to obey rules or a code of behavior." - Dictionary

Without a discipline, we cannot able to achieve our desire result. So, that we have to get free from all emotions and need to focus on making constant efforts in prescribed manner. Lack of discipline can able to delay or disturb outcome of compounding. Many a times, we experience that our mind stop us from putting efforts to achieve desire result but with full discipline, we can able to win our mind and also able to achieve a desire result.

We have always experience power of compounding in our life but when it comes to investing; we not follow common practice. Many a times, we fail to follow any of the above discussed point and that adversely resulted to us.

Meaning of compounding in an investment context -

“Compounding is the process of the exponential increase in the value of an investment due to earning interest on both principal and accumulated interest.” - Investing Answers

Compounding in investment also comes when we can able to focus on above discussed points.

When we make, decision related to investment, we need to put **constant efforts** in terms of tracking our investment decisions, tracking business in which we have put our hard-earned money and also try to searching for other good business in which we can create a good wealth.

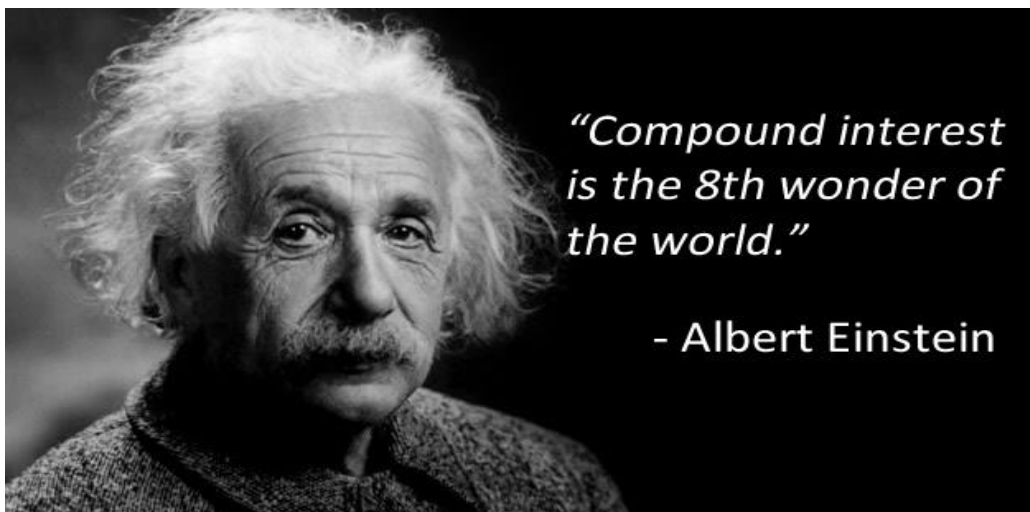
With constant efforts, we need to keep a huge **patience** with us for growing a tree of our investment. Because we cannot able to become a master of any field by reading all available books, we need to give time to our knowledge and experience to get compounded.

Only constant efforts with patience do not able to provide us a desire outcome. If we cannot able to **follow rules (Discipline)** and fall in trap of emotions, then our patience with all those efforts cannot able to help us and we can loss desire result.

If we focus on above points when we make an any investment decisions, then we can able to experience power of compounding in our investment which is as similar as which we have experience throughout of our life. Power of compounding is one of the biggest power which we have experience.

We can walk, talk, write, read and doing all works because of power of compounding. Initially we learn slowly & slowly and when we combined our learning, we can able to do any of the work (Power of compounding). Our entire life is based on power of compounding. If we start analysing every event of our life, then we can found that power of compounding has an influence on each and every event of our life.

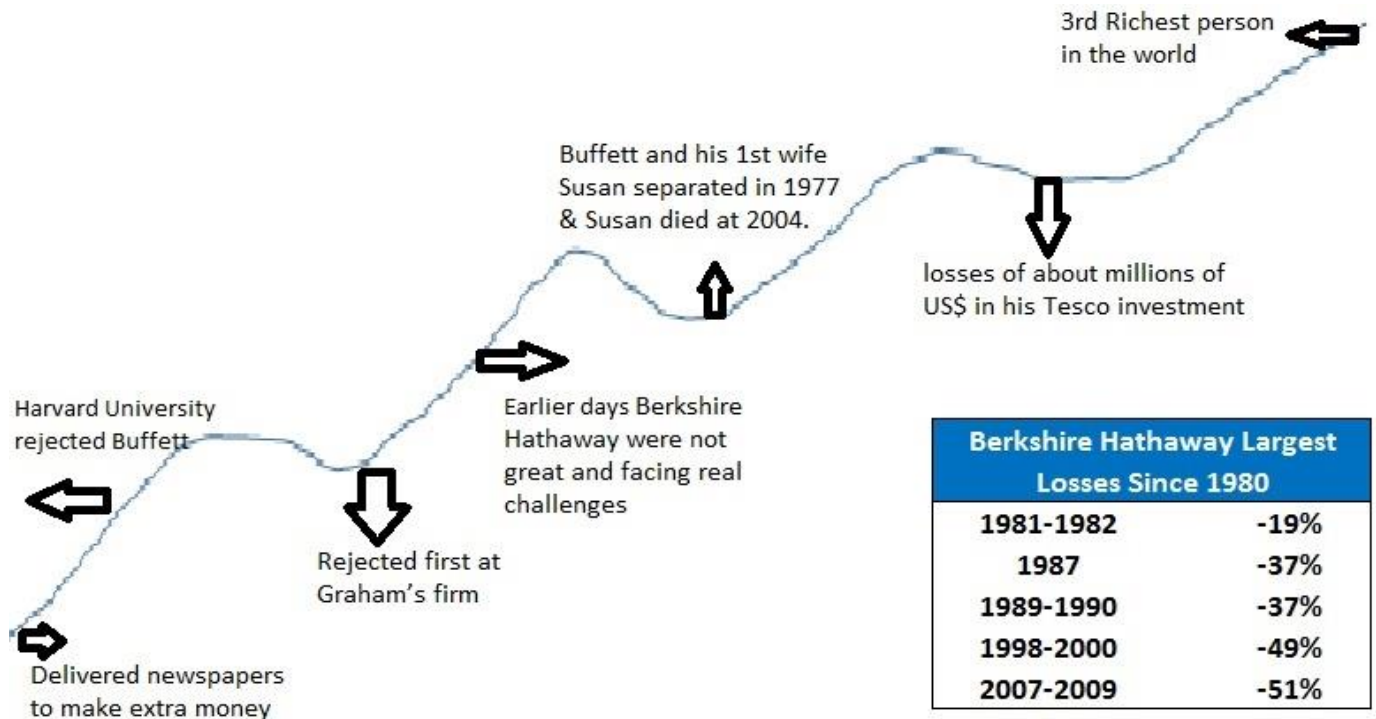
Power of compounding beyond our imagination and this power can able to creates a huge miracle for those who can able to focus on above discussed 3 points.



For supporting my entire discussion, I am attaching link of one video which is recently posted by Mr. Mohnish Pabrai - [Einstein: Compounding is the 8th wonder of the world](#)

We need to focus on compounding a good habit which can resulted into a better & peaceful life. Because everything we do, all are getting compounded and those provide an unbelievable result.

Many a times, it happens when we fail in any of the area of our life, but without losing hope; if we make constant efforts with patience and with full discipline then all those efforts turn out to be miracle outcome.



Warren Buffett's Life

(From my article - [Equity Investment is as Similar as a Human Life](#))

Up and downs in our life is normal, we have to make constant efforts with patience and discipline then ultimate result can be an unbelievable.

Love to read again and again

- [A Guide to Reading for Investors](#)
- DURGESH SHAH : Wizards of Dalal Street [1](#), [2](#), [3](#), [4](#), [5](#), [6](#), [7](#), [8](#), [9](#), [10](#), [11](#), [12](#)

My Popular articles

- [WHAT IS ROE \(RETURN ON EQUITY\)? AND WHY ALWAYS CONSIDER DEBT WHEN CALCULATING ROE?](#)
- [WHY CONSIDERING ROCE \(RETURN ON CAPITAL EMPLOYED\) WITH ROE \(RETURN ON EQUITY\) IS BETTER????](#)

Simple is Better Series

[Issue - 1](#)

Disclaimer

Above article is just my perception, and perception can be wrong. For me, my perception can be right but for others it might be wrong.

I am Grateful to

I am really grateful to - Mr. Neeraj Marathe Sir, Prof. Sanjay Bakshi Sir, Mr. Vishal Khandelwal Sir, Dr. Vijay Malik Sir, Mr. Rajeev Thakkar Sir, Mr. Raunak Onkar Sir, Mr. Vijay Kedia Sir, Mr. Howard Marks, Mr. Warren Buffett, Mr. Charlie Munger, Mr. Benjamin Graham, Mr. Porinju Veliyath

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As a founder of Lucky Idiot; My mission through “Lucky Idiot” is to educate novice investors and to distribute learning to more and more people in a simple manner.

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