



SIMPLE IS BETTER

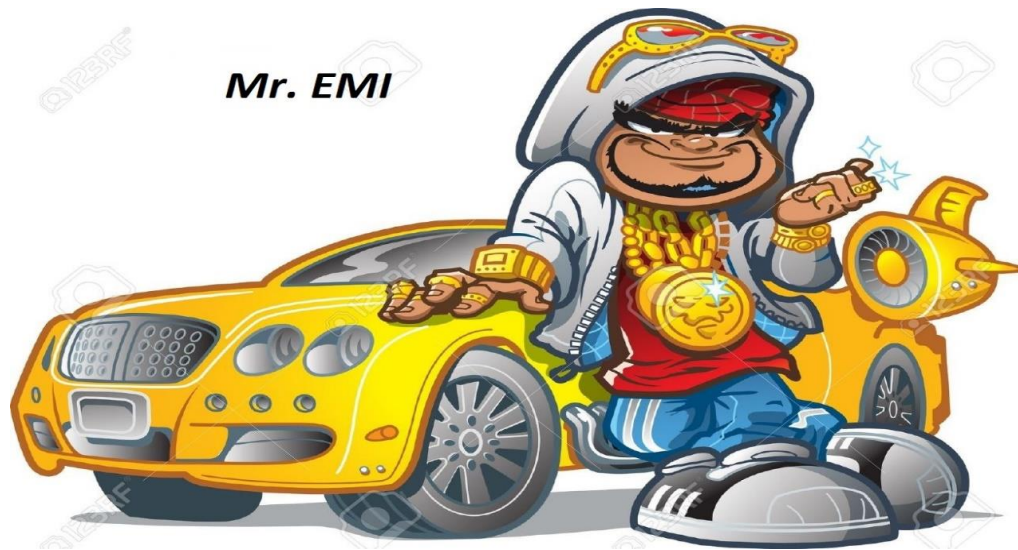
SIMPLE IS BETTER – ISSUE -4 – Mr. EMI V/S Mr. SIP

In my last 3 issues, I have written on how we can save money ([Simple is Better - 1](#)), Power of compounding ([Simple is Better - 2](#)) and Expectations v/s Reality ([Simple is Better - 3](#)). Now, in the current issue, I am going to talk about the transformation of our living style for creating a wealth.

I am going to try to explain this concept with one story, which can help us to understand the concept in a simple manner.

This story contains 2 families and both the families are living in the same city but they have a huge difference in thinking, living style etc.

Let me start the story with 1st family, a family of **Mr. EMI**.



Mr. EMI and his family live their life in the present world, they thought we should live our life today and enjoy it fully; there is no certainty of future. Then why we should worry for tomorrow. We came into this world with an empty hand and when we will go out of this world, then also we will have an empty hand. He is a person who spends money like anything. He never ever thinks of the future. He fulfils each and every wish of his family.

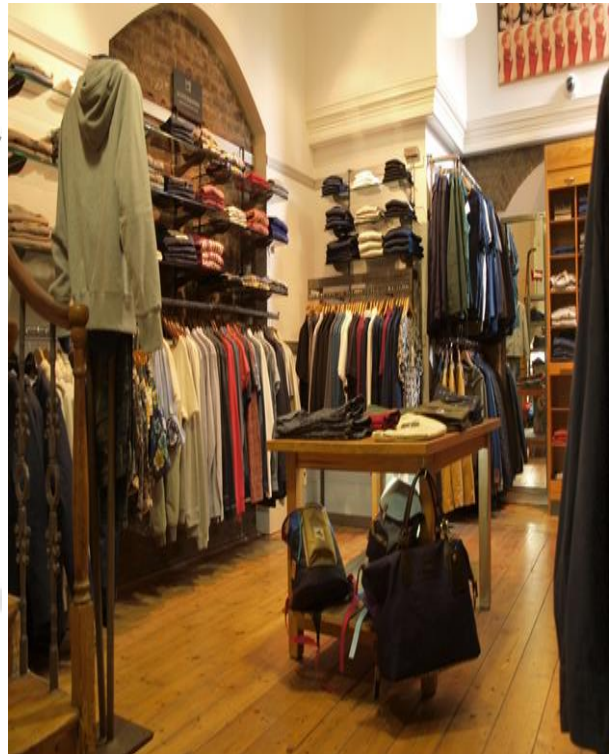


If he doesn't have an enough money to buy products to fulfil demand, then he buys it through the instalment system (EMI). And uses many credit cards to extend the payment cycle.



Photo: Nadzi Eunos

He bought many things on EMI such as home, car, smart phone, home appliances, etc. Also, he prefers branded clothes, watches, etc. He lives a luxurious life with having a thought that I am earning for myself and for my family then I must have to spend it on myself and on my family.



Now, let me talk about family of Mr. SIP.



He is a person with very conservative nature and also thinks that we should save for tomorrow. He thinks that the future is uncertain and if we not save money for tomorrow, then how we can able to help ourselves in unforeseen future problems. He is a person who prepared plans before making any spending. He also saves money for the future. He also tries to fulfil the wishes of the family, but with proper planning and with huge priority. And also with the better alternative which can contribute happiness to the family but also save costs.



(Source: IDFC- Bachat Nivesh Badhat)

He prefers to buy a normal product rather than buying a branded product. Also, he never buys any things on EMI. His thought is to enjoy our life today, but never forget tomorrow and always saves & grow our savings for tomorrow.



As time passes, the income of both family keeps on increases. But with this incremental income, Mr. EMI increases his EMIs; and Mr. SIP increases his savings & investments.

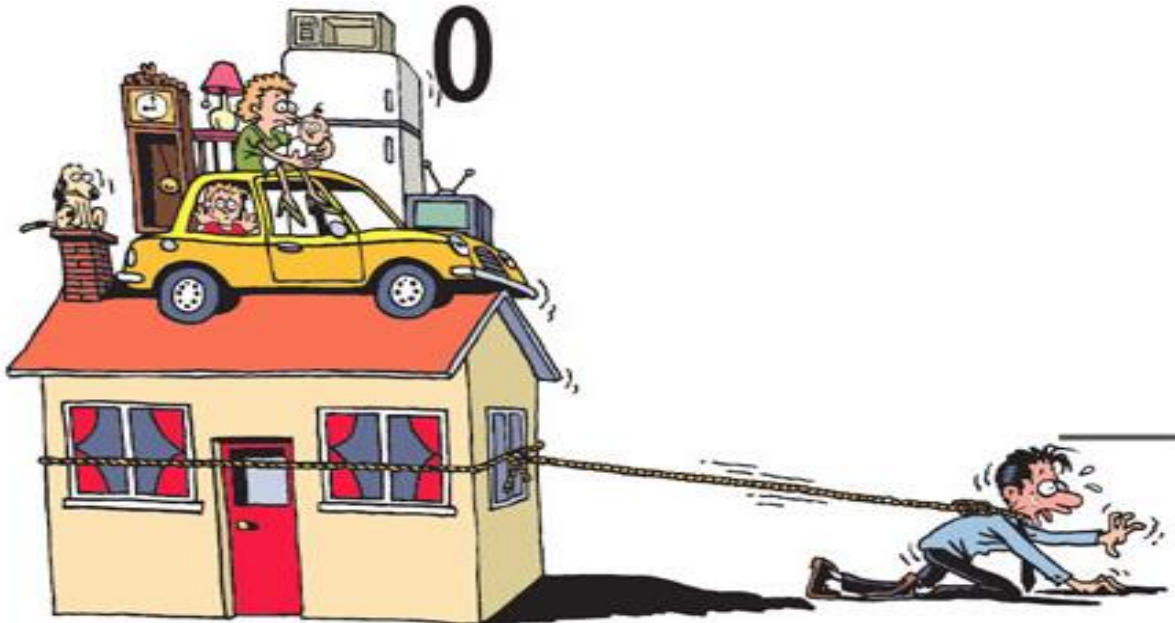
One day son of Mr. EMI and son of Mr. SIP faced an accident and admitted to hospital.



Both families have to pay the huge amount of medical bills.

Mr. EMI has started paying the amount through credit cards, but slowly limit of all cards gets completed and still they need to pay extra payment. They put their jewellery on the pledge to make payments. After this incident,

they do not leave with any money. But they left with huge EMIs. They cannot able to pay their EMIs on time and the result of it, their car, home appliances and even home have taken charge by the bank.



On the other side, Mr. SIP has done all planned in advance so he has an emergency fund, mediclaim etc., which has supported him very well. And as well as his investment also does not get affected by this incident. Additionally, he does not buy any products on EMIs so not having the burden of EMIs and his home stay protected. After short-term disturbances, Mr. SIP gets on track easily and due to his regular investment, he can able to create wealth whereas Mr. EMI has to suffer a lot.



Mr. EMI has followed the traditional definition of savings-

“Savings, according to Keynesian economics, consists of the amount left over when the cost of a person's consumer expenditure is subtracted from the amount of disposable income he earns in a given period of time.” – Investopedia

So, after spending for his consumer expenditure, he always left with nothing so he is not able to save.

Whereas, Mr. SIP has followed definition by Mr. Warren Buffet-



Due to following Mr. Buffett's definition, he can able to save good and also transform his savings into an investment for creating a wealth.

Mr. EMI keeps on paying EMIs-

“An equated monthly instalment (EMI) is a fixed payment amount made by a borrower to a lender at a specified date each calendar month. Equated monthly instalments are used to pay off both interest and principal each month so that over a specified number of years, the loan is paid off in full.” - Investopedia

| Plan (months) | EMI (payable to provider) | Annual Interest (charged by provider) | Total Cost (payable to provider) |
|------------------|---------------------------------|---|--|
| 3 | ₹ 26,802.74 | 13.0% | ₹ 80,408.22 |
| 6 | ₹ 13,617.95 | 13.0% | ₹ 81,707.71 |
| 9 | ₹ 9,224.55 | 13.0% | ₹ 83,020.95 |
| 12 | ₹ 7,029.00 | 13.0% | ₹ 84,348.00 |

And on another side Mr. SIP keeps on making an investment-

“The Systematic Investment Plan or SIP is an investment strategy offered by fund houses to investors, making it convenient to invest small sums of money in their mutual funds. The frequency of investment varies from weekly to monthly to quarterly.” – HDFC Life

If Mr. SIP gets 12% return p.a. on his ships and he invested Rs.5000 per months, then also after 15 years he has a Rs.25, 22,880. And at 15% return p.a. then Rs.33, 84,315. (*does not count incremental investment with incremental income)

If we want to get enrolled in Warren Buffett's secret Millionaire club,



Then we have to live our life like a Mr. SIP. We also have to sacrifice our short-term pleasure for our long-term gains. We should enjoy our today, but not by way of killing our tomorrow.

EMI is a slow poison to our life. When it will kill us, that nobody can able to guide us. Stay away from debt, keep on savings and investing for creating a wealthy life.

(Inspired by - [Bachat Nivesh Badhat](#) by IDFC Mutual Fund)

Love to read again and again

- [7 Steps to Becoming Your Own Financial Planner](#)
- [Analysis: Indo Count Industries Limited](#)

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 | Issue - 2 | Issue - 3 |
|---------------------------|---------------------------|---------------------------|

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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Please forgive me, if I forget to mention any person who has contributing value to my journey.

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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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