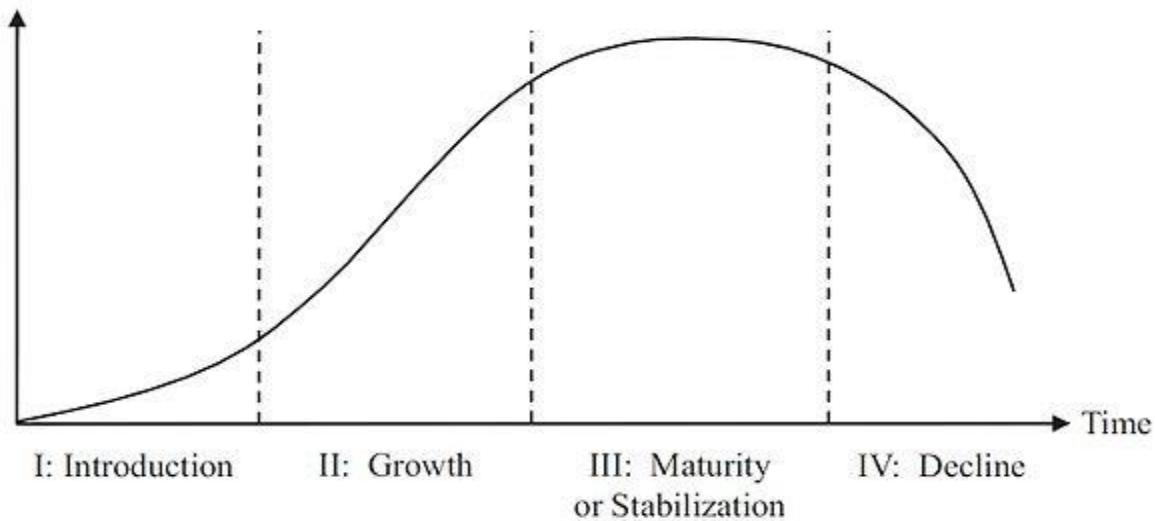




# SIMPLE IS BETTER

## SIMPLE IS BETTER – ISSUE -7 – OUR LIFE AND INVESTMENT

I have talked about compounding and benefits of compounding in all of the previous issues of Simple is the better series. Now, from this issue, I am going to discuss similarities between our life & making an investment and how we can learn many things in investing from our life. We also can learn many things in our life of the equity investment.



In our life, we live in 4 phases and the majority of us passes from all these phases (Except early death or any illness).

Let me start with our birth.

### 1) Birth / Introduction

The 1st phase of our life is our born and our entry into the such a beautiful world. In this phase, we mostly eat, sleep and take the breath. ;- ) We learn walking, talking, playing, etc. into this phase.



As similar to this, the company/business gets formed into this phase. The company launches a new product and due to the new product, the company has to spend more money for marketing and developing better products into this phase. Many a time Founder himself roams around the marketplace for selling his product to develop his business as parents work hard for their child to keep happy. The company might not be able to sell a huge volume in this phase due to unawareness among the people.

As we learn to walk by holding the hand of our parents, similar business starts getting develop by holding the hands of its founder's.

## 2) Growth

After our birth phase, we all start working for our growth. An earlier time of this phase, our parents, teachers, etc. Supports us from growing and from those learnings, we work hard for getting our own development. Also, whenever we get confused or lose confidence, then again, our parents, teachers, friends, etc. support us for crossing hurdles in the life.



Similarly, such happens with the business, founder of the business and his team works hard for the development of the products/services in a good manner.





Due to hard work from management, business started growing. Whenever business gets into some trouble, management again works with the business to overcome such temporary troubles. In this phase, sales growth is much higher and the company spends more on promotional activities for the growth of the company.

### 3) Maturity

After the growth phase, we enter into the maturity phase. In this phase, we use our experience, learning which we earned during the growth phase. In this phase, we try to fulfil many of the responsibilities and try to encash our learning.

The business also gets into a good shape by its journey and also started delivering good returns to its promoters. The business has built up a good market share, competitive strength which can help in generating the additional return to investors in forms of dividend, buys back etc. in this phase, company works on more improvement of its product.

### 4) Decline

This the last phase of life and our business. In this stage, we get the release from the all of the major responsibilities and get retired. In this phase, we also meet the end of our life.

In this phase, many a times we fight against illness as similarly business fight for its survival. Market share of Products starts to shrink into this phase. Similarly, to the business, when business reaches to the decline phase, then also business suffers a lot and many of the business get wiped out into this phase and Many of the business gets reborn.



These all 4 phases we live in our lives and also businesses live all 4 phases.

We must have to identify that in which phase the business is operating before making an investment decision.

It is essential to know the phase of business, because if we enter into the end of maturity or into the decline phase then we might lose our wealth. Fall of business will result into the wiped out of financial strength. And if the business does not get reborn then investors have to lose their investment.

There is an example of many businesses which gets wiped out due to declines in business such as Nokia, Kodak, Compact Disc, wired phone, etc. If we cannot able to identify an end of the business, then that will have led to the end of the investment journey. If Business is at decline stage, then company available at very cheap valuation and having a financial strength into the company will also cannot able to protect our wealth.

***Article published on 21st April, 2010 and all data are of that time period.***

CMP Rs.74/-

Market cap Rs.4600 crores

The company is debt-free.

Cash on books as per March 09 balance sheet Rs.4803 crores

Investments on books as per March 09 balance sheet Rs.465 crores.

The company looks very cheap on the basis of the financial metrics, but if someone who do not have paid attention to the business of the company then---

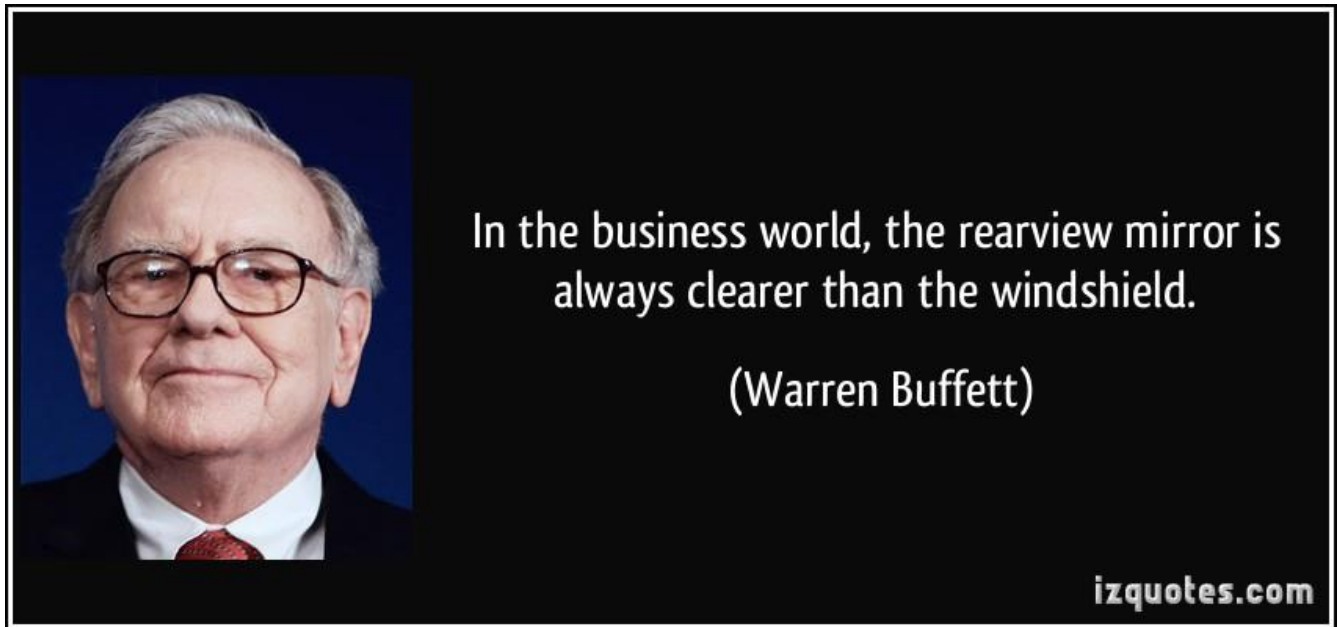


An investor has lost his capital if cannot able to identify future prospects of the business and the phase in which business is operating. (For detail article, Kindly visit - <http://neerajmarathe.blogspot.in/2010/04/mtnl-value-trap.html>)

The safety of our investment is only while we make an investment into the 2nd phase of the cycle at the earlier time of the 3rd phase. In these phases, we can able to protect our capital and also can able to earn a return on our investment.

Sometimes at maturity phase with proper knowledge of the business can provide us a chance to earn by protecting our wealth. But in such situations, we must have to ready with the strict exit plan otherwise we get trapped into it. (For detail article, Kindly visit - <http://neerajmarathe.blogspot.in/2014/03/noida-toll-bridge-alternate-view.html> )

We can able to create wealth while we have a thorough understanding of the business and the phase in which it is operating. We need to work hard on an understanding of the business for protecting damage to our wealth and also as an investor, we are becoming a partner of the business not an owner of a piece of paper.



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**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. Walter Schloss, Mr. Porinju Veliyath

I am especially grateful to Mr. Vishal Khandelwal Sir for getting inspiration to start series of articles.

I am really grateful to my friends who has encouraged me for joining the gym, help me with preparing a proper diet plan, help me with proper exercise and always supports me.

I am really grateful to my parents and almighty for providing me always support whenever I needed.

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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