

Title:

Importance Of Positively Correct Expectation

Word Count:

430

Summary:

In business, do we maximize profit or our business market value?

Well, it turns out both are the same. What we mean by maximizing our profit is that we maximize the amount of profit the business will generate in the future discounted by the interest rate.

And guess what, that's the value of our business.

The catch is we don't know how much profit the business will generate in the future. So the value of our business depends on the expectation of such profit.

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Keywords:

Article Body:

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And guess what, that's the value of our business.

The catch is we don't know how much profit the business will generate in the future. So the value of our business depends on the expectation of such profit.

The interesting part in this is that the value of our business is a function of the expectation of our profit.

When we can convince enough people that our business will make a lot of money, at that time, the value of our business have gone up. At that time, the profit has been made.

That is why plenty of CEOs use a lot of the company's money to increase the perceived potential profit the company will make.

That means one thing important. Expectation matters. If stockholders think that your business is bad, at that time, a loss has been made. When stockholders think that your business is good, at that time a profit has been made.

You can see the profit through the increase of companies' market value in the stock market.

So why not just polish up the image of the company rather than earning actual profit? Why not print glossier income report rather than increase product quality?

That's because there are restrictions. Expectation of the future is built upon performance of the past. Would you believe that a business that fail to grow and make any profit last year will make any profit in the future?

Over expectation can lead to bad reputation in the future when the market corrects the shortcoming.

On the other hand, some conservatism will result in the reputation of being conservative.

That puts certain constraints that make expectations don't go far from reality.

It's not very strange that improving image can increase the bottom line. Just like more attractive packaging can make a sausage sell more, a more attractive and professional bookkeeping can increase stock price. Good companies do both.

Speaking of good expectation, that's also probably why we're happy with honest compliments. It increases our self worth without the risk of underperforming.

We all should concentrate on our strengths than weakness. Knowing what our strengths are will increase our profit and income in the future. At that time, our worth has increased. At that time, the profit has been made.