

## **Mohnish Pabrai's Q&A session with Finance Club of IIT Patna on May 10, 2023**

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**Madhur Jain:** Hello everyone. On behalf of the Finance Club IIT Patna, I, Madhur Jain, welcome you all to a very special guest. Today we have Indian American Investor, Mr. Mohnish Pabrai as our guest, who is the managing partner of Pabrai Investment Funds, and the founder chairman of the Dakshana Foundation. He's also an alumnus of Harvard Business School. He's a very reputed value investor in the whole world and has also worked and collaborated with top investors, like Charlie Munger, Li Lu, Warren Buffett, Guy Spier, and many more. The session will be in a Q&A format where in the first half we'll ask the collected questions, and then in the second half, audience members can raise their hands and ask their questions directly. We are extremely honored and grateful that you have accepted our invitation and will share your insights and experiences with everyone today. Personally, I am very inspired by your Dakshana Foundation initiative, which is creating an unbelievable impact in India.

**Mohnish:** Well Madhur, it's a pleasure and honor to be with all of you. I think this is my first recorded session with IIT-ians and that's wonderful. It's so great to be with students at IIT Patna and I look forward to speaking about what you have on your mind. So, let's get to it.

**Madhur Jain:** We observed that in the last few years, you have conducted so many sessions with all the educational institutions in the world, and you are very keen to share your learnings and experiences with everyone. It's an honor for all of us to learn from you and interact directly with you.

**Mohnish:** Well, I have an ulterior motive for doing that because the best way to learn is to teach. What I'm trying to do is just teach myself, and there's a side effect that some other people hopefully are learning a few things, and so it's a win-win situation and it works out well.

**Madhur Jain:** Yes, sir. I think we can start with the collected questions. Can you share your framework for identifying and analyzing deep-value stocks, especially in ignored global markets, like your investment in a Turkish company?

**Mohnish:** Well, I think that value comes in many shapes and forms and sizes, and sometimes we can see the value very obviously in the numbers or the earnings or the stock price of a company. But sometimes we have to dig a little bit.

For example, through most of its history, Amazon either had very little earnings or if you look at the PE ratio for something like Amazon it might be around a hundred or so. The reality is that even if you had bought at that very high multiple, you would have had a spectacular result because Amazon wasn't trading at a hundred times earnings. What they were doing is, they were running a very profitable business, but they were taking the cash flows from that business and investing into the future. Those cash flows were being invested in a very high return on equity manner. That is in general a superior business model to, let's say, a company like Google, which doesn't appear to be that expensive relative to Amazon but does not have the same reinvestment engine. The only choice Google is left with is maybe to buy back stock and so on. Value comes in many shapes and forms and sizes. We can find some things which are sometimes priced very cheaply from an optical point of view. As long as the operations are stable and maybe even growing if you are buying at a very cheap price the outcome may be good.

Even if the business is not that great, we may buy something at 2 times earnings, and it might be worth 10 times earnings. At other times like Amazon, we could be paying a very high multiple and have an even better outcome. I think the nature of investing is that in terms of the kind of finding bargains or finding anomalies or finding things that are likely to be places where value hides, one can look at some data points.

Going back to the Amazon example, the first desk that Jeff Bezos had in his office was a converted door. He took a door, made that the surface of his desk, and just put some stand on it. He worked on that door desk for a long time. When Amazon established operations in India, the guy who came to run Amazon in India, used to be a shadow for Jeff Bezos for a couple of years. Jeff has these shadows who are kind of like apprentices learning everything. He made his desk a door also because it was more symbolic because Amazon could obviously afford to buy one. I think the symbolism was that it is a company that watches its pennies.

Even today at Amazon, nobody is paid more than \$170,000 base salary which is something below one and a half crore or so. The base salary at Amazon is the lowest among all its peers. Of course, people go to work there and stay there for a long time. However, Jeff's perspective is that money should be enough to live on and then the upside can come from the stock and bonuses and other things, but even cash bonuses are low. The main way Amazon compensates is through stock option grants, but even stock option grants on a company-wide basis. Many companies are diluting 3% to 5% or more of their total shares outstanding every year as stock-based compensation. For Amazon, that number has usually been 1 or 2% Jeff Bezos himself has never awarded himself any options. He typically had a lower salary than even the \$170,000. He hasn't had a bonus and he hasn't had stock options. When we look at anomalies, we see on one side a company that is tight about how it spends its cash, and on

the other side, we look at its income statement and we see that they have no earnings.

The third piece is that we know that many of their businesses are truly exceptional businesses. For example, they have a large advertising business. The cost of their advertising business approaches zero. The margins on the several billion dollars that are taken on advertising could be somewhere between 50 to 90%. It's a very profitable business, but that money doesn't show up in the income statement. When they do third-party logistics, the third-party bookseller, and Amazon doesn't own the book, but it manages the sale process, that is a very profitable business for them because they have no inventory, and they are providing services. Probably the margins of the return on capital on that business are also very high. But again, that doesn't show up. Of course, Amazon Web Services is likely to be spectacularly profitable. When you look at the company's financials, you can see the revenue of all these businesses, and you may even be able to see the expenses of some of the businesses, but you can see the expenses of the whole company. They may not break out expenses by each business, but we can do an adjustment on that. We can say, we think that the logistics business maybe has a 25% margin, for example, and we think the cloud business maybe has a 40% margin. We think advertising has a 60% or 70% margin. You can run those numbers and you can get to a kind of more realistic picture of earnings.

Mohnish: Let's go to the next question.

Madhur Jain: Yes, sir. What are some of your biggest takeaways from both Charlie Munger and Li Lu, which are very rare and important in an investing journey?

Mohnish: I would say the most things I have learned from Charlie are not what he has said. It is by observing him in his home, in his club, with his friends, with his family, and observing how he organizes his time and things like that. One of the things that is true is that when Warren and Charlie are working on a particular problem, they're very focused on that problem, and they put all energy and interest into that. But after they have solved that problem or fixed the problem, they eliminate it from their minds. This may seem obvious, but what happens with other humans is that they dwell in their brains on things that they have accomplished. People like to think back, oh, I did so well in school. I got good grades, I got a good GPA, I got a good job, I have a good wife, and I got promoted. They're looking at the past and dwelling on the past.

Warren and Charlie have a very large body of accomplishments and the reason their body of accomplishments is so large is they never think about what they have already done. They never really even congratulate themselves on all their accomplishments. What they are most focused on is the next problem in front of them. I will give you an example of this phenomenon.

There is a very large ranch in Central California. It is called Doheny Ranch, and it is tens of thousands of acres, and it has two miles of beachfront. It is

extremely valuable land. I would say probably the market value of Doheny Ranch would be several billion dollars, around 10 to 20 billion dollars. Charlie found out that the family that owned the ranch was interested in selling it. He contacted the family, and he convinced them to sell the ranch to him for 75 million dollars, which is less than 1% or even maybe one 10th of 1% of the real value of the property. What he told them is "I will buy this for 75 million and the next day I will donate it to the University of California at Santa Barbara." That ranch is eight minutes from the Santa Barbara campus, UCSB campus. if you build a tram system to go between the current Santa Barbara campus and this new 20,000 acres. He told the family, "The California Coastal Commission, which controls all development in the area, will never let you or any buyer, which is a private party, ever develop this property. They will put so many roadblocks in front of you for decades that nothing will happen. But here you can do a lot of good because if the university owns it, they will be able to convince the state and other authorities to allow development. After all, it is for the good of the people of California. Amazingly, that family agreed, and Charlie bought that property for \$75 million, and the next day he donated it to the University of California Santa Barbara. 300 years from now, this particular transaction will have a massive positive impact on students at the University of California, Santa Barbara. The University of California Santa Barbara, unlike all the other universities of California campuses like Berkeley, and UCLA will never run out of land. They will never, no matter how much they grow, have problems with student housing or anything. They have plenty of land in perpetuity, and it is very prime land. It's a beautiful land with hills and valleys and a beachfront and everything. Charlie got this done. It is a very significant accomplishment. He's never talked to me about it after that. He doesn't talk about it to anybody. The media doesn't know about it. There are hundreds and hundreds of such things that these guys have done. Each is more powerful than the other. But the concept of not looking back, not patting yourself on the back, not wanting other people to pat you on the back, and just being a machine going forward and being a Karam Yogi where we must do our job, it is not our duty to do a job to expect some reward in terms of people saying, you're a great guy, or you've done such a good job. He doesn't care about those things. This has been a very powerful lesson for me because I've seen how he's designing student dorms.

One time he said that this design that he has done for student dorms will probably be used by hundreds of universities around the world. It is very ground-breaking architecture. After he was done with this, he's never talked about, done, finished. Buffett bought GEICO, which became a great success, and he doesn't care. He bought the Burlington Northern Railroad, which will be a property that even a hundred years from now, will be very powerful and very important to Berkshire. He doesn't ever care or talk about it, but he was very focused when that deal was happening.

I also observed Charlie interacting with his kids, grandkids, daughters-in-law, sons-in-law, great-grandkids, friends, and business partners. I've seen a lot of interaction with all those people. What I find is if anyone is looking at all their family members, every family has a lot of weird people. This is not just my family. Every family. My family has more weird people than most families, but all families have strange, weird, crazy people. I don't think that situation is any different with the Munger family. I've seen Charlie interacting with all these people and he can maintain extremely good and strong relationships, even when the people are strange. He could just tell himself, "This person is strange. I don't need to spend time with this person."

The other thing is about his friends. We cannot choose our family members. We are going to end up with a lot of weirdos as our family members. That's just the way it is. But we can choose our friends. When I met Charlie's friends, I realized that the quality of these individuals was extremely high. It was much higher than any of my friends. It was much higher than almost most humans I'd ever met. They were extremely high-quality individuals. I never met a single friend of Charlie's who was not a truly exceptionally high-quality person. Many of his friends are not wealthy. They are just ordinary in terms of net worth, but they're very high quality. I did two things. One is I made all of Charlie's friends my friends because *already quality bahut high hai*. And the second is I have tried hard to apply that filter. When we have friends, we have to be very harsh graders. There are lots of people we are friends with who appear very pleasant, but they are useless. Their core qualities are useless. We have to banish them from the kingdom. We have to cut off all interaction. Very difficult to do. But I have tried to do that. My life has become a lot better because it has created room for other relationships. These are some of the things, we can learn without knowing Warren and Charlie. There's no need to know them, to learn from them. The main learnings I got from them were not what they were telling me because almost anything that they're telling me they've already said before. What matters is looking carefully at how they're living their lives.

**Madhur Jain:** Some of the very amazing observations that you shared, like how they always focus on the present moment and that they are not obsessed about their famous status, all those aspects and how dedicated they are by choosing their friends and surroundings so that it would be a good learning environment. A lot of students like us can highly relate to the friends' point of view because most of us just become friends with anyone and try to spend time with all of them. It's a game changer thing because as it is said, you are the average of the 5% that you spend most of your time.

**Mohnish:** It is a very important thing to carefully look at your friendships and get rid of the bottom 80%. Maybe even get rid of the bottom 95%.

**Madhur Jain:** A very common follow-up question that most of us have on this topic is that when we remove those bottom 95 or 99%, then we are hardly left with one or

2% Since we have very limited surroundings, it's very difficult to find good high-quality people in our life. How can we approach that situation?

**Mohnish:** *IIT Patna me to itne high quality bhare hue hain, aise to koi problem hi nahi hai.* I have two points to make for you. One is what my father used to say. He used to say to live a very happy life, one needs just one good wife and one good friend. Less is more. One does not need to go out and say, let me find 10 great friends. You just need one person. After you have one person who you think is truly exceptional and you have a good and deep relationship with that person, after that, you can leave it to nature and osmosis. Life will put you in situations where you interact with many people. If you follow the notion of being a harsh grader, then you will end up with more great relationships.

I moved to Austin, Texas about 15 months ago. When I moved here, I didn't know anyone. My best friends are spread out all over the world. Even when I was in California, they were spread out all over the world. There were very few close friends who lived close to me, but I thought, let's run an experiment. For sure there are great people in Austin, Texas, and it's a little nicer if you can interact with your friends in the same geography. What I decided to do was that twice a month different people reach out to me for different things. If something looks intriguing about the person, I invite them to my home in the afternoon for Assam tea. I make excellent Assam tea, the best around. It was taught to me by a very talented Pakistani chef in California. My Assam tea I know is exceptional. In the last year or 15 months, I must have had maybe 25 or 35 people come to my place for Assam tea. There's only one person I invited back and then I invited him back again. Then I invited him back again. Then I told him, "Look, every time we meet, we meet for Assam tea, and you have been in Austin for so long and you know this city so well. We can go somewhere else. We can have lunch somewhere; we can have dinner somewhere. We can go for a walk somewhere." He said, "The best place in Austin is at your place for Assam tea. No other place is as good. I don't want to go to any other place. I just want to come here as often as you want us to meet." We continued meeting. The other people I met are pretty high-quality people. The thing is that there is no penalty for not letting a great person into your life, but there is a penalty for letting a not-so-great person. I'm sure there were many of those 35 people who if I had spent more time with them, would have come across as being exceptional. But because there are an infinite number of humans on planet Earth, it therefore mathematically follows that there are an infinite number of great humans on planet Earth. Since we don't need more than half a dozen, one dozen great people out of infinity, you can let great people, you can make mistakes on great people and that's perfectly okay.

The important thing is not to make the mistake of letting in not-so-great people. This person whom I have met many times, every time I've met him, my opinion of him has gone up even higher, and I've gotten to know him even better. In 15 months, there was one person who passed the filters, and if every



15 months one person passes that filter, that's okay. It's a great thing. Really good. Now, there's a person coming tomorrow afternoon. *Ab sirf teen percent chance hai ki kuch ho sakta hai*, but that's okay. 3% is better than zero.

**Madhur Jain:** Can you tell me something that you observed in Li Lu, which makes him very special as very little is spoken in public about him?

**Mohnish:** I asked Charlie, "Charlie, you meet this Chinese person by accident, and then you have never given other money managers money to manage, and you give this person money to manage. Why did you do that?" Charlie said, "It was a complete no-brainer. All one had to do was look at the historic record with Li Lu, and it became very obvious that I was dealing with someone highly unusual." Li Lu was a student leader in the Tiananmen Square protests in 1989. The Tiananmen Square was one of the largest uprisings that took place in China in the last several decades. He would've been one of the top four or five student leaders who were heading that protest. When the Chinese government cracked down on Tiananmen with the tanks and everything else, they wanted to arrest Li Lu, and then we would never, ever hear from Li Lu again. He would be somewhere in some dungeon in China for his whole life, and that'd be the end of Li Lu. Some people were able to smuggle Li Lu out of China to Hong Kong, and then some business people from Hong Kong helped him come to the US. Columbia University gave him a scholarship and he did three simultaneous degrees. He did a law degree, an MBA, and an undergraduate degree, all at the same time. He was near the top of his class and you have to remember, when he came to the United States, he did not speak a word of English. While not knowing English and starting those three degrees he was at the top of his class in all three degrees. In the history of Columbia University before or after Li Lu, no one has accomplished that. Columbia University and other supporters had funded all his education and living expenses, some loans, and some grants to have him do his degree. What would happen at the beginning of the semester is he would get some money to pay his rent and his expenses and tuition and books and everything. He would have sometimes this money, which was a few thousand dollars for a few months before it was needed. They would give him money for four months of rent on day one. While the money was waiting in his bank account to be paid for rent and other things, he invested that money, and it wasn't a whole lot. Columbia at that time would've been like \$30,000 a year or something. So they probably gave him 2,500 a month or \$10,000 every three, four months, or something. When he graduated from Columbia after three, or four years, he had \$1 million with him. He took the money they gave him; he paid all the rent and tuition and everything else, and with the float and the earnings on the float, he made a million.

After that, he went into early-stage venture capital, did extremely well with that, and then he started investing. Charlie said, "I didn't have to do much analysis on Li Lu. I could just look at the record. And from the record, it was obvious that I was dealing with someone who was highly unusual and who

was going to do extremely well.” Li Lu is a very focused person. He's a driven guy. He's a natural leader, and he is very comfortable in situations that might make other people uncomfortable. For example, he used to have a lot of investments in Korea. He doesn't speak Korean. He has the same disadvantages in Korea as I do. But he was able to navigate that country well.

In general, when you're trying to figure people out, do not listen to what they are saying, just look at the track record and the history. Don't try to project forward. This also applies to companies. Don't look at what the company is saying. Look at what the company has done.

**Madhur Jain:** This is a very amazing story about Li Lu and the lesson that concluded from that part. I heard about this story one year ago, but I was often wondering how he managed all those unbelievable things together. Not knowing the language, three degrees simultaneously, and unbelievable investment performance at that time.

**Mohnish:** That is because he is a highly unusual person. I think in investing and in life, we want to look for anomalies. Li Lu is an anomaly; hunger is an anomaly. Buffet is an anomaly, and we want to look for anomalies and we want to look for investments that are anomalies. Amazon, for example, is an anomaly.

**Madhur Jain:** What are your thoughts about the Chinese ADRs listed in NASDAQ like Alibaba, Tencent, JD, etc.? There is an existing risk due to the Chinese government, but they have been massive cash printing machines and the backbone of the Chinese economy for a long time.

**Mohnish:** Yes, those are very high-quality businesses. They're likely to do very well in the future, but for me, they've fallen into too hard a pile. We have a lot of unpredictability with the leadership in China. The political leaders of China do not want a second power base of people in China who will threaten them. It may be rational or irrational, but that's how they look at things. When you have a factor that is kind of hard to forecast and it can have a huge impact on the investment, then, maybe staying away is appropriate but also people could do well making those investments.

**Madhur Jain:** One of the biggest competitive advantages of the US economy had been the dollar being the global reserve currency for the last 70 years. Recently, India, China, Russia, and others have been trying to reduce the dollars and the US is also facing high debt to GDP. Along with the inflation, do you think that it would be a turning point for countries like India from an investment point of view, whereas difficult to get great opportunities in the US?

**Mohnish:** I don't expect in my lifetime for the US being the reserve currency to change. I'm going to die on June 11th, 2054, and we have about 31 years and one month left. I don't expect in the next three decades and probably beyond there'll be any change in the reserve currency of planet earth. The United States has an incredible number of strengths. It has several problems, and if it chooses to, it



can fix those problems relatively easily. It's the only country in the world that has imported an incredible talent pool from all over the world. It has also harnessed that talent pool extremely well. We have a person like Elon Musk, who was a finished product. He came from South Africa and has created tremendous value for the United States. We have Sergey Brin whose parents migrated from Russia. We have so many IIT alums in the US who have done so well, and it goes on and on. I think that I would never bet against the US and I don't think any other country for as far as I can see, even a group of countries together can be the reserve currency.

**Madhur Jain:** Charlie Munger once said that earning the first hundred thousand dollars is a base and you have to do it no matter what. What could be some good and relevant ways for a college student to do that, who wants to become a successful investor in his career?

**Mohnish:** I'm sorry, I didn't get the first part. What were you saying in the first part of the question?

**Madhur Jain:** I was saying that Charlie Munger once said that earning the first hundred thousand dollars is a base and one has to do it no matter what. So what could be some good and relevant way for a college student?

**Mohnish:** The surest way to accumulate a nest egg is to spend less than you earn. We can control our savings rate and we can invest the savings rate in mid-cap, small-cap, and small-cap equity index funds in India, for example. Focus on improving our skills, improving our income, and increasing our savings. You may get a hundred thousand dollars in savings in 10, 15 years, or less. Be a young man without taking much risk, then you can go from there.

**Madhur Jain:** What are your thoughts about algorithmic trading as well as Bitcoin? Bitcoin has already sustained the last 14 years, along with three to four cycles successfully, and it seems it is for quite a resilience till now.

**Mohnish:** I don't have an interest in Bitcoin. I think the people who invest in it will in the end be very sorry, but it doesn't matter whether I'm right or wrong because I don't have a long or short position. I would say that bubbles are very common in our environment and bubbles can go on for a long time. Whatever has happened in the history of Bitcoin does not necessarily mean that the future's great. Algorithmic trading is outside my circle of competence. All I can say is that I don't see any algorithmic traders among the 10 or 20 richest people in the world, and I see a lot of them with no net worth.

**Madhur Jain:** What are your five favorite not-so-famous books or resources that help you a lot in your investing journey?

**Mohnish:** There's a book I read recently that I thought was exceptional which is called *What Darwin Taught Me About Investing*. It's an extremely well-written book. It's an IIT-ian who wrote the book; he graduated from IIT Delhi; Pulak Prasad.

That's an exceptional book. Another book I'm just finishing, which I think is also a very good book is *Where the Money Is*. I forget the name of the author, but that book came out I think last year. Historically I've gotten a lot out of poor Charlie's Almanack and the Buffett biographies and so on. So these are some good books from my vantage point.

**Madhur Jain:** How can small retail investors potentially find stock that may give big returns like 50X or 100X in the longer run? What would be some good early signs of those companies?

**Mohnish:** The small investor has a big advantage over the large investor. Investing is one of the only disciplines where size is a disadvantage and therefore a person working with very small demands of capital can invest in anything. A person like Buffett needs to put tens of billions to work at a time, and that exceeds the market cap of almost all companies. The universe for investing for Buffett is very small. The universe for investing for small investors is extremely large. A small investor has a huge advantage if they can harness that advantage. To harness the advantage they need to be focused on anomalies. They need to be focused on things that are relatively small because you're going to generally have more mispricing amongst the smaller names and the larger names. Someone willing to do the work, willing to roll up their sleeves and do the work. Did you want to open the floor to questions from the audience?

**Madhur Jain:** Yes, sir. Audience members can ask their questions one by one. They can raise their hands, and I will tell them to unmute one by one. Saifuddin, you can ask your question now.

**Saifuddin:** Mr. Pabrai. Thanks a lot for giving us time. My question was regarding a time at TransTech. You were kind of a retail investor back then. How was your process of looking at stocks back then? Now since you're managing professionally, how has that changed? Another question is, are moats quantifiable? We can do it quantitatively or it's always quantitative since Munger and Charlie so closely how they do it and how we can take advantage of that?

**Mohnish:** I think when I started my journey as an investor in the mid-nineties the industry, I was most familiar with was software and technology. Of course, we know that those industries have, generally speaking, very high returns on equity and high returns on investment capital. Those tend to be good places if you are not overpaying. That's where I focused my attention because it was very much within my circle of competence at the time. At that time, I was just a straight buy-and-hold investor. I wanted to buy these great growing businesses and just hold them for a long time.

One of the things that happened in 99 thereabouts, is that I could see a lot of froth in the market at that time. I could probably see the bubble maybe a few months before most other people were aware of it, the.com bubble of the very massive bubble. So in 99 or thereabouts, I started to make a change to my investing style where I left buy and hold in favor of Graham because I was

noticing that very basic non-tech businesses had gotten cheap while the tech businesses were getting kind of euphoric in the market caps and pricing. That worked extremely well. When I started my journey as a professional investor in 99, I had mostly switched over to Graham.

As the NASDAQ crashed and burned in 2000, it took more than 10 years to get back to where it was. Pabrai Investment Funds did well because we didn't have any exposure to highflyers. The first year we were up 70% while the NASDAQ had already begun its crash, and it continued to crash for two more years and eventually lost 75% of its value while we continued to host annualized returns at 30%. What I should have done is probably around the 2012 timeframe or thereabouts, I should have switched back to the great businesses. We are always better off investing in great businesses. It's just that I was seeing such egregious pricing that I was very concerned, which was a good call because we wouldn't have done so well if we were holding a bunch of tech names in 2000. But I had become so comfortable with these Graham-type bets that I didn't start to make the switch till around 2020. Eight years I would say was suboptimal, which still had some good investments and such in that period. But it could have been better if I had been more focused on the buy and hold. Of course, that's where I am today. I've almost come full circle. I don't have tech investments like I used to have in the mid-nineties because they were quite fairly priced, I would say, in the mid-nineties, and they started to get overpriced. Today we have so many more savvy investors picking over these businesses. They're coming public a lot later. They're coming public at much richer valuations, the game is a lot harder on the tech side. I look for those and I've made the transition to buy and hold. I just haven't made the full transition to buy and hold in tech at some point, hopefully, those opportunities will present themselves.

Madhur Jain: Bhupesh you can ask your question by unmuting yourself.

Bhupesh: Hi good morning, sir. This is the third time I'm interacting with you. My question is, what were some of the most influential books in your life related to investment or life in general?

Mohnish: I think *Poor Charlie's Almanack* is a seminal work. If you look at the back of *Poor Charlie's Almanack* there is a book list by Charlie Munger. That's another great list of books. The Buffett biographies are excellent. I also think that all the archived annual meetings on [buffett.cnbc.com](http://buffett.cnbc.com) where they've archived probably more than 25, 30 years of meetings and each one is more than five hours, is a tremendous resource. Then, of course, the Buffett partnership letters and shareholder letters and such. I think that is a good body of work to go through.

Bhupesh: Any suggestions for someone who is at the very beginning level in the investment field?

Mohnish: I would say *Poor Charlie Almanack* is a good place to start.

Bhupesh: Okay. Thank you.

Mohnish: You are muted, Madhur.

Madhur Jain: I'm sorry. Anuj, now you can ask your question.

Anuj: Hello? Am I audible?

Mohnish: Yes.

Anuj: Yes, sir. My question to you is that you have told us that we should surround ourselves with high-quality individuals, but to attract high-quality individuals, we should be high-quality individuals ourselves. because "like attracts like." What are your suggestions on how we can convert ourselves to high quality?

Mohnish: Well, you don't need to be high quality. You just need to get people who are of higher quality than you. It's all relative. I would say that Buffett says that if you look at people, and especially if you look at your classmates or your hostel and so on, look at the individuals that you admire the most, and then ask yourself, what are the qualities they have that are leading to that admiration? Then ask yourself if you can incorporate some of those qualities into yourself.

One of the base qualities I think is kindness. It is a very important trait. I think there are no people who are kind, who will die without friends. Kindness is a great philosophy.

There is a book by Adam Grant called *Give and Take*, which is a great book to read. Adam Grant is now a good friend of mine. He says that there are three kinds of people in the world. There are the givers, there are the takers, and there are the matchers. The takers are the people you want to have nothing to do with. These are the people who are always trying to see what they can get from other people; what they can extract from other people without any payback or reciprocation by them. Those are the ones you should try to eliminate as soon as possible.

The matchers are also people you don't want to have anything to do with. They are the kind of people who say, "Madhur was nice to me. He lent me a book of his, I will also lend him a book someday." The matchers also are all useless people. We don't want the matchers. What we want in our lives are givers, and what we want to be in our lives are givers. The givers, if you read that book, are people who are trying to help other people without looking for something to come back to them. They are just selfless, kind of like Mother Theresa. Of course, Mother Theresa is an extreme example. They're selfless, and in many ways, Buffett and Munger are selfless. They're givers. What we want to do in life is we want to surround ourselves with givers, and we want to be a giver. We don't want to be doing an exact mathematical analysis of what someone has done for you, and therefore you should do the same. You should be willing to do things for people whether they've done anything for you or not. A lot of

people tell me repeatedly that we should tell the Dakshana scholars to donate some portion of their income to Dakshana after they're doing well. But we don't do that. We do not talk to them at all about anything related to helping Dakshana or giving money to Dakshana or any of that. We don't do that. Now, many of them do give donations to us. They help us liaise with their companies and different things. They do a lot of things for us. They do it voluntarily, and that's a signal. Those are probably the givers because in many cases, they're giving a disproportionate amount. We have probably spent about \$2,500 or \$3,000 on each of these folks. Many of them have already given many times that to us. They're not trying to match and we are not trying to tell them, but we observe. We observe, *kaun kya kar raha hai*, and then that becomes easy to sift through people and so on. Even in Dakshana, we don't believe Dakshana should be a matcher organization or a taker organization. It should be a giver organization, and the rest will take care of itself. It's perfectly fine.

Madhur Jain: This was a nice part that you said about giving selflessly instead of just taking or just being involved in bargaining. Like, for example, I give to someone, only if he or she has given to me or equal to that measure, a classical bargain thing. Some more people have raised their hands to ask questions, but it's already one. If you're available, we can ask them.

Mohnish: We can keep going for some time. Let's take a couple more questions.

Madhur Jain: If anyone else has questions, they can raise their hands, and those who have already asked, please lower your hands. Deepanshu, you can ask your question.

Deepanshu: Hello. I'm a Dakshana scholar from Dakshana Kottayam and I met with you four years ago. At that time, you did all the mathematics of the rule of 72 and how we can develop our money in four years by getting 18%. You told us that from the second year onwards, we can read a lot of books to learn about that, how to make that 18% work. Since then, I'm reading a lot of books, but right now I have two major questions which I would like to ask. The first question is how do we filter out the companies? As Ben Graham has said in *The Intelligent Investor*, great investments and great companies, both are different, and we need to look for great investments and great investments are the investments that Wall Street doesn't know.

Mohnish: I think that the most important thing is to be patient. The second thing is to be a student. We want to be students of business. By the way, I said that not the second year, but the third year "*aap thoda jaldi shuru ho gaye ho*", but that's okay. You are a high achiever, an overachiever. It's okay. We want to be students of business. We want to understand businesses, we want to understand what their economics and different things are. After that, we want to look for what I would call anomalies, which is something that stands out to you. Something that does not make sense. Something that the market doesn't understand and doesn't appreciate. For the most part, most businesses don't fit those parameters. There are thousands of listed companies in India and

outside India, and we are only looking for maybe 2, 3, or 4 of them, but we are only looking for one at a time. It's a treasure hunt.

I'll give you a story that some of you may have heard. When Buffett was about 11 or 12 years old, he used to go to the horse racing track in Omaha Ak-Sar-Ben which is Nebraska spelled backward. After all the races had been run and everything was over, people had thrown all their tickets on the ground or in the garbage. He used to go through and pick up all the tickets that people had discarded in the hope that somebody who was drunk or something had thrown away a winning ticket. He would gather up thousands of these tickets, then go home, and carefully look at each one. He would always find a few tickets where there was a winning ticket or there was some money you could win but the person didn't understand or just threw it away. Because he was under 18, he could not go to the window to claim the award. He used to send his Aunt Alice. His Aunt Alice used to take the winning tickets, and go claim them and give him the money. When he was in his mid-twenties, he used to go through something known as *Moody's Manual*. I have the manual here. I'll see if I can just pull it up. This is the *Moody's Manual* that Buffett used to use in the fifties. You can see it's a very thick book, and if I open it, it has a lot of numbers and details about different companies. There are a number of these *Moody's Manuals* that come out every year. Buffett went through every single page of these manuals more than once. Some of them, he went through two or three times. After going through like 1000, 2000 companies, he would find some company where the market cap is 15 million and last year's earnings were 25 million. Things that make no sense. Then he would research those and he would buy them and he did well. He continued to do that in his life even more recently. He enjoyed the hunt. If you have a personality, which is very determined and dogged about picking up thousands of these tickets and finding three tickets that may have \$20 or \$10 or \$30 or something in winnings that someone didn't claim, you go through all the work of doing that or go through these big thick manuals and you're looking for particular anomalies, you will find them. If you are like the Upanishads say, "As is your wish, so is your will. As is your will, so is your deed. As is your deed, so is your destiny." Then the punchline is, "Your deepest desire is your destiny." If you are interested in finding needles in haystacks and finding anomalies and you're focused on that, don't let your grades fall at IIT. You can do that. It's available for you to do that.

Deepanshu: One more question I have. I was watching your talk with the Peking University students, and in that talk, you had a lot of information about Mr. Chaand of Motherson Sumi Systems, and you had a lot of information about the Rain Industries, the management, the CEO of the Rain Industries, and I was amazed that you were able to gather all this information after so many difficulties. You had a lot of difficulties in meeting the CEO of Rain Industries. I am slightly confused about how we can get information about such CEOs or management people since we are very small.



Mohnish: We don't need to meet them to get the information because we want to look at the track record. The track record is available in black and white. With Mother's Sumi Systems, we can look at the history and it's a large company, so a lot of things have been written up on them. There's a lot of history available. Jagan Reddy is now at Rain, we are friends, so that's good. I think I usually meet Jagan once a year and that's fine, but those meetings are not relevant in terms of the thesis for Rain or the investment of Rain or any of that. I think that I'm much more focused on the history and the history of both these businesses will tell you a lot about the future.

Deepanshu: Thank you, sir.

Mohnish: Sure. I wish you all the best and say hello to all the Dakshana scholars at IIT Patna.

Deepanshu: Sir, actually I am from IIT Roorkee. I will say hello to IIT Roorkee scholars.

Mohnish: You are like using digital technology to transcend Patna. That's okay. You can let your classmates at Roorkee know I said hello.

Deepanshu: Okay sir. I will.

Mohnish: Why don't we take one more question from Manav?

Madhur Jain: Manav, you can ask you a question.

Manav: Am I audible?

Mohnish: Yes.

Manav: Hello, sir. I'm Manav from IIT BHU and I am rejected piece from Dakshana. Sir, I will ask one question like you did lunch with Warren Buffett, so thing will let us know about that you learned from him celebrating that time.

Mohnish: Lunch with Buffett turned out to be way better than I ever thought. I just wanted to meet him and thank him. I didn't have any expectations from that, from that lunch, it took place 15 years ago in 2008.

One of the things that is important to Buffett is that he knows that these lunches are very important to the people who bid for them and win them, and he wants them to feel like they got a bargain. So I think last year the lunch went for 17 million or 19 million, some large number, but he's very focused on making sure the person thinks they got a bargain. When he came for lunch, he told us, "Look, I have nothing going on in the afternoon. I can be here as long as you guys want, and when you guys are sick and tired of me, you can let me know and I'll leave." He didn't set a timeframe for that lunch. And after that lunch, I had a few other lunches with some other, tech CEOs and different things, and it was a very different experience. They were in a hurry. They met in the company cafeteria. They had 45 minutes. It was a very different experience.

With Buffett, you feel like you're meeting your grandfather. What he tried to do is every question we asked him, he tried to make it into a learning opportunity. Of course, what I did not expect to happen as a result of that lunch was that there was a friendship developed at Warren. He introduced us to Charlie Munger, which led to a very deep friendship with Charlie Munger. I probably played Bridge around 30 or 50 times with Charlie on Fridays at his club, probably four or five hours each time, including lunch every time, and then dinners at his place, and so on. Many things came out of that lunch, which I had no expectations for. It's an example of how the givers end up ruling the world. My objective was only to give, I didn't have any objective to receive anything. But usually what happens is that when you're trying to selflessly give the universe conspires to help you, and so there's a lesson there as well. I mean it worked out very well. I am just grateful that we will look back at this time with some astonishment that we lived in the time of Warren and Charlie. It's kind of like living in the time of Gandhi or Einstein or Newton and going and meeting them for lunch. That would be quite an experience. No complaints. Life is great. Thank you.

**Manav:** Thank you.

**Mohnish:** Shall we bring it to a close Madhur?

**Madhur Jain:** Yes, sir. I was just seeing the ending note. So as you said like *acha kaam karne se apne aap sab cheeze achi ho jaati hain!* So, on behalf of the entire team of the Finance Club IIT Patna, I would like to thank Mr. Mohnish Pabrai for such a truly insightful session. I am certain that every person in the audience to evaluate insights from it. I would also like to thank the audience for being so patient and enthusiastic today. Thank you, everyone.

**Mohnish:** Thank you, Madhur, it was a pleasure to hang out with all of you.

**Madhur Jain:** Thank you, sir.

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