Mohnish Pabrai's Q&A session with students at the Mendoza College of Notre Dame on September 29, 2023

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Dibin: Thank you so much Mohnish for being here. Before we start, I want to thank Professor Stiver at Mendoza College of Business and Mark Dumich at Notre Dame Institute for Global Investing. I also want to thank Anuradha and all your staff members Mohnish for the communication. It was very smooth, and I had no problem setting everything up. With Mohnish, there was a recent eBay auction I saw that was a 30-minute Zoom call that sold for about $26,000, if that is right, Mohnish. That means this hour-long Zoom call we have with you is worth at least $52,000. If not, probably even, that is a gross underestimate if we can gather more insights from you here today.

Mohnish: The guy who won that auction thought he had so much value that he sent $30,000 over. He increased the amount because he felt bad. He thought it was too low.

Dibin: Well, everyone in the classroom then, if that is the case just be mindful when you phrase your questions. We are getting great value here today. If that's okay, Mohnish, we will get right into the first question.

Mohnish: Alright, sounds good.

Dibin: The first question, Mohnish for great businesses and compounders with long runways you have said that even when it is appropriately valued, you shouldn't sell it. And even when it is overvalued, you shouldn't sell it. That one is interesting. We can think of two reasons. One, if the investors have a large amount of capital like Buffett or even yourself perhaps, where there are not that many stocks to invest in, and that is why you must hold onto the compounders. Second, we get an interest-free loan from the government with no maturity. Those are the two benefits. Apart from those two benefits, why would you not sell a compounder with a long runway, even when it is clearly overvalued by definition?

Mohnish: That is a great question. One of the reasons we don't want to sell is because first, these great businesses and these great compounders with long runways are very rare. We should be grateful that we get a couple of those in our portfolio. The second is that when you have these kinds of businesses in your portfolio figuring out intrinsic value is a non-trivial exercise. You may make errors in figuring that out. For example, let us say you owned Amazon at some point in your portfolio, and it looked optically overvalued. Amazon has always looked optically overvalued because they are putting their earnings into so many other initiatives that their earnings look artificially low. When you just look at the basic number and we don't know which of the bets they are making we don't know which are going to work out and which are not, and what the economics of those bets are going to be. We would not be able to, for example, have any kind of idea about AWS before the whale surfaced what the economics or long-term prospects of that business are, or even other businesses that Amazon may enter in the future. I would say that the idea should be that when it is very clear that a business is egregiously overvalued, you should absolutely sell it. This is more art than science. When you get past what you think is fair value and it is 20, 30% overvalue to something, I think you must give the benefit of the doubt because there are so many unknowns that could work in your favor, and this is especially the case with the gifted management teams. At what point in Microsoft's 40-year history or so as a public company, should it have been sold? We know that we hit that point around 2000.

When it was 600 billion second most valuable business on the planet. If you exclude that one bubble, in which everything became crazy where a lot of things deserve to be sold. Is Microsoft overvalued today? Is it egregious or overvalued? I don't know whether Microsoft is priced or overpriced. It is probably somewhere in that kind of range, but I wouldn't venture to say it is egregiously overpriced. I would say that egregious overpricing becomes obvious when it is happening, and one can act on that, but I think you need to give it a lot of rope. The other thing to keep in mind is that it is always good to think of it as if you are the owner or founder of the business. Would a founder sell his company because they got an offer that was 20, 30% more than what they thought the business was worth, and if it got a runway and all those things? It is probably unlikely. If they got an offer of 500% of what they thought the business was worth they would be very happy to sell. I think having a founder mindset is also very useful.

Dibin: Mohnish to that point though, when we say we must give the benefit of the doubt in a way, we are also giving the benefit of the doubt to the management team and believing that they will continue to throw things on the wall, and hopefully, produce that rate of return that they have been. We are putting faith in the history of that. Okay just to be clear.

Mohnish: Another thing to keep in mind is, when you do that, the risk that you run is that a business that you thought was great might go into decline. Let us say you have had a 30 x or a 50 x in some business, held it for a long time, it has been a great return, and you don't spot the exact moment when the business goes into decline. You may sell it at a 20% or 30% discount from the peak valuation. There are far worse tragedies than that in life. We are okay if we don't capture the last dollar and we don't optimize. However, I think the downside of getting off a great runway is much worse.

Dibin: Even when we don't see a clear path to how this valuation could be justified because like with Amazon and AWS, there is so much internally going on that we don't know we are going to trust it.

Mohnish: I haven't looked at Amazon's market cap lately but let us take a quick look at what Mr. Market is putting for Amazon today, and then we can maybe have a little bit of intelligent conversation about this great business. Amazon's market cap is about 1.3 trillion today. If I were an owner of Amazon, it would not bother me if the market cap was 2 trillion or even two and a half trillion. I would give it a lot of rope because I think that they have such an ability to enter new businesses and such an ability to execute, and any of those embryos that we can't even see could become big in the future. I would just give them a lot of room and take the risk that we may eventually end up selling at less than those numbers. But, if you have had a good run for a long time, it is still okay.

Dibin: Okay. Thank you very much. Let's turn it over to the classroom. I think Arnav would like to ask you a question.

Arnav: Hi. I was just curious when you exited TransTech, what pushed you to start your investment fund? Was it like investing in any of the already existing value funds?

Mohnish: That is a great question. When I was at that crossroads in 99 what I wanted to do was, I wanted to go work for Warren Buffett. That was my goal in life. At that time, my liquid net worth was north of 10 million, which I thought was a huge amount of money. I never had anything like that in the stock market, maybe 10, 12 million. I felt I didn't need to work anymore. I don't need to get a paycheck anymore, but what do I want to do? I thought that what I wanted to do was continue to get better at investing, and how do I get better at investing? Well, go to apprentice with Warren Buffett, so I wrote Warren a letter in 99, probably January or February of 99, and I told him, "Listen, this is my background and I don't need a salary or anything. I can work in Omaha or Chicago where I am living. You can pretty much tell me to do anything including sweep the floors. It is okay. I don't need a title or anything." Within a week, I got a response from Warren, which means that my letter probably got responded to in Omaha maybe the same day or the next day after it got there. He said that he works alone, and he likes working alone. Then he said, "You might wonder why I am saying that when there is Charlie Munger in the picture. Charlie is in LA, and I am in Omaha. We don't work together on a day-to-day basis." Then he says, good luck reorganizing your life. I am not the answer." I was very depressed and dejected when I got that letter because I could not think of anything else I wanted to do. I could not think of any other place I wanted to go to work. I was part of a group called the Young Presidents' Organization, YPO, and I had some friends in YPO. I used to give some of these guys stock tips over the years, and they had done well with those tips. So, they said, "Look why don't you just set up a partnership like Buffett had, and we don't want stock tips from you. We want to give you some money to manage, and you manage that money and see what you can make of it." They were like eight or nine of them giving me a hundred thousand dollars each. I would have liked a million dollars under management, which I didn't think was enough to pay the rent or anything. But I didn't need income. I thought, I can set up a vehicle like the Buffett partnership to take care of my friends' 1 million, and if I am buying a stock for my portfolio, there is no additional work involved in buying it for this second portfolio." It is five minutes more work. I started that plan B because Buffett said no, and because I thought I could do this. This doesn't solve my problem but let me see what else I can do. About 15 months after I started the fund which I thought of as a hobby, not a real business, we had done well the first year. We were up like 70% and the fund had some more money come in. It had about two and a half million under management in 2000. I decided at that point that I was enjoying the fact that I had some investors, and I had this pool of capital. So I thought, why don't I stop treating it as a stepchild and start treating it like a real business and raise assets and run it more professionally? I did that and I decided I was going to try to grow and scale Pabrai Investment Funds. That is how I went down that path.

Dibin: Got it. Thank you, Mohnish. The next question is regarding cigar butt investing specifically. Graham did it, Buffett did it, Walter Schloss did it, and even you did it at a point. I know you would say that finding compounders is the best, but sticking to cigar butt investing, if in a situation we have three stocks A, B, and C, and their net-nets are all trading at, let us say one 10th their value. We buy three 33% in each stock. We go to sleep for two years and then wake up and find that one of the stocks has gone up quadrupled essentially. It is now trading at 40, 50% of its net-net value. The other two are just coast-lining, really doing nothing. In this scenario does the concept of portfolio rebalancing make sense because there is more room to go, more puff left in the other two, compared to this one stock? Would that make sense to trim that and pour it over to the other two stocks?

Mohnish: To answer your first question about whether to do net-net investing or to just focus on compounders, in investing it is always good to have a “Swiss Army Knife Approach” to investing where you can maintain flexibility. Finding great compounders at compelling prices doesn't happen that often and this year when Buffett's letter came out, he talked about the fact that in 58 years of running Berkshire Hathaway, there were 12 decisions that he made that ended up probably creating 80, 90% of the value for Berkshire. He made hundreds of decisions in the last 58 years and probably bought more than 300 stocks which led to this tremendous outcome. It was like one good decision every five years on average. Even for a person with the talents of Warren Buffett, finding these great businesses like Geico, Coke, Amex, or Burlington Northern, or all these things that have worked so well, National Indemnity, and so on, were rare. They happened relatively infrequently. I think it is always nice to have more tools in your arsenal that you can deal with. One of the things that did not get so much clarity or publicity about what Buffett did recently was that on his birthday in 2020, August 30th Berkshire announced that they had taken more than a 5% stake in five Japanese trading companies like Mitsui, Mitsubishi, Marubeni, and Sumitomo. He had invested north of about 5 billion in all these five companies, and they were forced to disclose because they went over 5%. What he did, interestingly, when he made this bet, is that he borrowed the entire amount. Berkshire's sitting on a large amount of cash, but he borrowed the entire amount in yen at half a percent a year-long term. These five companies had average dividend yields of about 8%. He made a $5 billion bet, putting no money down. The dividends were going to be about 400 million a year, and the interest he was paying was 25 million. Basically, 375 million of easy money coming in, and when we fast forward three years now, he has increased that stake, but the dividends have all doubled and the stocks have doubled to quadrupled. That 5 billion that he put in became about 12 or 13 billion or something collectively. Instead of making 400 million a year, now he is making 800 million a year on those bets. It was a huge home run and he did it because it took him some time to understand the nature of these companies. Buffett intends to hold these businesses for a long time. He says, well passed after he has gone, Berkshire will continue holding them, now they don't fit the perfect template of great compounders. They have some dividends. They are buying back shares. They have this huge smorgasbord of assets all over the world. It is not a clean story like you might have with Amazon, Salesforce, or Berkshire Hathaway for that matter. This was classically what I would call part of the Swiss Army Knife. This was a bet that if you think about the way he made that bet, the odds that he would lose money on that were very low. There was no currency risk. The yields were so much higher if you study the stock prices of all these companies. They were hitting multi-year lows in 2020 when you bought them. Japan in general has still not hit the highs that it had in 1990. We are now 33 years after the bubble, and we haven't hit that same mark yet. It is still a 30, 40% discount. When you look at net-nets or you look at the Japanese bets he made, or merger arbitrage, or any number of things you could do convertible bonds, whatever else you could do in the stock market it is good to maintain flexibility. In your example, you make a basket bet with some net-nets and one works out and two have flatlined. It is hard to answer the question that way. You have to kind of peel the onion some more, and understand those businesses some more, and the other two continue to be undervalued? Is there something structurally wrong with them or are they melting ice cubes? If you get an opportunity with small amounts of capital, doing these other things can work out well. But I would say that it is always good to have an eye out on the compounders. That is kind of plan A. If plan A doesn't work, then we have plan B, plan C, plan D, and so on. We can play these Mickey Mouse games on the side while we are waiting for plan A and that can work out just fine.

Dibin: Mohnish to be fair for folks who are early in their careers and maybe still in school finding a compounder would we even have the insight to find a compounder and truly understand a business that well? Wouldn't it take maybe 10, 15, 20 years of studying and building knowledge and information before we can even try that?

Mohnish: It is not that hard to find great businesses and compounders, and there is a hack you can do to get there. I am going to give you the hack so you can go straight to the promised land. The hack is to make a list of all the brands that you are a customer of. If you eat at McDonald's occasionally, add that to the list. If you go to Chipotle occasionally, add that to the list. If you are buying a certain clothing line, your headphones are a certain brand, or you are using certain types of perfume. Look at everything you spend money on and just make a list. The thing is that for some company to succeed in getting even a tiny part of your spending is a huge accomplishment because all of us are very discerning about what we want. We are very particular. I want to wear certain types of shoes. I want to wear certain types of socks. I want to buy certain kinds of furniture or buy certain appliances. I am buying a Samsung phone or an iPhone, or whatever. Just make a list of everything you are consuming, then start saying, "Okay, which of these are listed public companies." Now, let us understand why. Ask yourself, "Why did I go to McDonald's, why didn't I go to Carl's Jr or some other brand like Whataburger? Let us probe into McDonald's and see what kind of business is it, is it undervalued? If you are a consumer of the business, you already know a lot about it, and you don't even need to get to the balance sheets and all that. Now, just basically in your head, what you would ask is, where is this business going? Is it going to explode? There is a new line of a new brand of sneakers I saw people wearing. I am not lucky enough to have sneakers yet, but I read an article that was exploding in sales. For whatever reason, people have an interest in that. I would just be curious to understand what is going on there, what kind of business is it and why would it be sustainable or not sustainable. Peter Lynch was a big advocate of this approach. It is going to get you relatively close and what you will find is sometimes you latch onto brands that are just emerging. Like college students with the very first demographic to get rid of landlines. Some of you don't know what I mean by a landline, but that is okay, you can be forgiven for that. When people started disconnecting landlines, the very first demographic that did that was college students. College students were able to see that landlines were going away. They were probably also the first to disconnect from cable or satellite TV. When the behavior patterns are changing, you sign on to some streaming platform for some content chance that you guys may be ahead of the curve versus the rest of the crew. When Facebook first started, it was only for a few colleges. It first started at Harvard and then expanded from there. Those individuals who were early consumers of Facebook have a huge advantage because the rest of the world didn't even know what Facebook is. They never used it. You are at Notre Dame at a huge advantage to Warren and Omaha; a massive advantage because he is not changing anything about what he is doing, whereas you guys driving change. Very easy to find a compounder. I gave you the formula.

Dibin: That works Mohnish, thank you so much.

Mohnish: Alright

Dibin: Turning it back over to the classroom, we have another student who wants to ask a clear question.

Speaker: Part of Charlie's thinking, and subsequently yours, has to do with multidisciplinary thinking and using several different mental models. I was wondering if you have advice for students without decades of experience. How do we go about developing that skill set and then subsequently applying it as well?

Mohnish: That is a great question. Charlie's a great collector of models and he is really good. The amazing thing about how his brain works is how he can immediately recall, or bring to bear, four or five different models almost instantly. He has practiced that a lot. But if you go through the book Poor Charlie's Almanack, on the back of the book, they have the 10 great speeches he has given. One of the speeches was about the psychology of human misjudgment and he modified that talk. The original talk was given at Harvard and is on the Internet. You don't even need to spend $2. You just ask God Google, and God Google will give you all of that content for free.

I try to read that essay every year, and that essay contains a good 30 plus marks, and it gives you a lot of insights into how our brains function and that gives you a lot of big legs up in how you can figure things out. For example, in that essay, he talks about association tendency. Association tendency is used by companies like Coca-Cola, where Coca-Cola wants to be any place where humans are happy. So if there is the Olympics or the World Cup, or the NFL or NFL game, or a movie theatre, any place where humans are happy, Coke wants to be there, and Coke is willing to do whatever it takes, to be there for that purpose and the very strong association tendency. When we see Coke in a happy setting, it carries on to other areas of life where we want Coke with us, because we think if we have a Coke, we are going to be happy. Coke uses advertising and celebrities in its advertising. For the same reason, if Brad Pitt is drinking a certain brand of beer that is the brand of beer I need to be drinking. He goes through several models. I think it took Charlie probably 30 or 40 years of stumbling around in the darkness to come up with those models. He distilled it down in that talk. What took him 30 or 40 years you could absorb in a day or two, which is a tremendous leg up on Charlie and there are quirks in the wiring of the human brain. It is very important to understand those quirks because once you start understanding those quirks, you can get a huge leg up on other humans. For example, humans have built into our brains this reciprocation tendency that if someone does us a favor, we feel that we need to do them a favor. The reciprocation tendency is built into most humans. Charlie thinks it comes from going very way back in our evolutionary history. When we lived in hunter-gatherer societies, there was a hunter who brought down a big beast and brought it to his small group. He cannot consume the whole beast himself, and there is no refrigeration. What he does is he stores that meat in the bellies of his neighbors, and he invites them all to share in his feast. Later, when one of them brings down a beast, they know they are going to invite him. He knows he is going to get invited, and so it works. It is a win-win for everyone.

There is a quirk in the reciprocation tendency; because of the way our evolutionary brains evolved, the reciprocation tendency etched into our brains does not have a calibration engine. I can remember that John did a favor for me, but I am not good at calibrating the size of the favor, and Cialdini talks about it; the psychology of persuasion that salespeople use all the time in a way to take advantage of people and get more sales, etc.

I have used this tendency to increase assets in Pabrai Investment Funds. When a potential investor approaches me and says, “Hey, I am interested in investing in Pabrai Investment Funds” for example, everything they need to make that investment could be sent to them by email or various documents and perspectives and disclosures and whatever, and they can look at that. We do that. We send them all the information digitally, but what we also do is send them a physical package. The physical package has all the same documents in hard copy, but it also has some giveaways. It usually has a book, and it has a very nice cross pen. When the person receives the package, he gets this very nice cross pen, which he never asked for, doesn't even want it, but it is there, and the book is there now. Maybe one or two out of a hundred people, I would send these packages to return the whole package to me with a note saying, “Thank you, Mr. Pabrai for sending these documents. I decided it was not for me and warm regards.” What they are trying to do is they are trying to get rid of the reciprocation obligation, and, for 98% of humans, there is too high a frictional cost to try to return that package. You got to go to UPS and all of that. It is a complicated thing. If they don't return the package now, it is like, they ate my meat. They ate the beast I gave them, and so they feel obliged. And if you feel obliged, then the minimum investment is a few million dollars. You can send a few million dollars, and now we are even, and so the pen is equal to a few million dollars because the brain cannot calibrate. That's a useful mental model. There are used car salesmen who take advantage of this in nefarious ways, but you can take advantage of it in very above-board ways.

Being aware of these quirks in the way human brains are wired is going to give you an advantage in life. For example, one of the things that has helped me a lot is, that I am a shameless cloner, and I have still not figured it out. I know that humans, for whatever reason, have an aversion to cloning. They consider it beneath them. They think it is like cheating. I don't know why there is a human aversion to cloning. What I do know is it exists because a lot of people will look at something that somebody else is doing, and they will decide that is a good idea, but it has already been done, so there is no point in trying to copy it or it won't work. They don't copy it. A good example of that is when I first ran into Chipotle, the restaurant we all love, I loved it. It was great. About 20 years ago, I used to go every day and have my lunch at Chipotle because I am a creature of habit, and I like to keep it simple. Chipotle had a particular innovation in the way Mexican food was being served, which is that they allowed extreme customization and no two people in line ordered the same thing. Because of the way their whole assembly line was set up, it was very easy to customize; customers just went down the line and told them what they wanted. This is a great innovation. This is a fantastic innovation. Then I would go to Baja Fresh and they just give you some standard burrito and you tell them to change this, add that. But it is not a seamless experience. Baja Fresh has not scaled. I saw when there was Baja Fresh, and I saw when there was Chipotle, and if I was the CEO of Baja Fresh, what I would have done is completely clone Chipotle and make everything exactly the way Chipotle did. There is room for more than one. We have some other restaurants like CAVA, that have come up with the same concept with different kinds of food, but there could have been more of the same. Nobody cloned McDonald's fries. Why are you not cloning those fries? Those fries are great. It is not rocket science. Let us clone it. Nobody cloned the egg McMuffin. Why are you not cloning the egg McMuffin? It is great. Just because you didn't invent it doesn't mean you can't clone it.

When I look around the world, I find that there are so many opportunities, but for doing what has already been done, there is no need to make any changes to what has already been done, because there is room for two or three players or four players easily in whatever has already been done. But nobody does that and that is just the way the world works. When I realized that humans have some weird aversion to cloning, what I said was, “Okay, Mohnish, if you become the shameless cloner right off the bat, you will have an advantage because other people are not willing to do that, and this is going to give you a huge leg up.”

I remember in 2012 I noticed that Berkshire Hathaway in the 13F filing had bought General Motors stock. I also noticed that it was David Einhorn who bought GM stock. I always hated the car business. I think the car business is horrible, high CapEx unions. We see what the unions are doing right now, and you are subject to consumer tastes, and if something is even slightly off, they won't buy your car. All of these things are very competitive. A horrible business to be in. I thought, “Why would these smart people want to go into a business that is worse than having a root canal?” Why would you want to invest in a stupid business like General Motors what I decided to do was I said, I am just going to dig into this to understand what drugs these people were smoking? I decided I was going to study GM to try to come up with an answer to why these smart people bought GM. When I started to study it, I realized that the auto business had changed, and it had changed in a very major way. I was not aware that it had changed. What happened in the auto business is that in the financial crisis in 2008 and 2009 GM and Chrysler went through bankruptcy. When they went through bankruptcy, they got rid of their legacy liabilities. They got rid of their debt, they got cleansed out of all the sins of the past. I

read a book called *Overhaul*, which was written by Steve Rattner, who was the auto tsar appointed by President Obama to fix the auto industry. He was responsible for the US government bailout of GM and Chrysler and managing those companies to come back to health. When I read his book *Overhaul*, which is a great book to read, I realized that. Every five years, like we are seeing right now, the UAW renegotiates, the Union contracts, and they have a lot of leverage because they will go on strike. If they go on strike, obviously the company will then be in a lot of pain. They have just struck so many of their plans and distribution centers, that if you take your car in now, they can't get the parts because the distribution centers are all on strike. The people are all on strike. So in 2009, I think that the auto task force in DC Steve Rattner and his colleagues were going to Detroit to meet with some of the leaders of GM, Ford, Chrysler, and so on. They had a meeting with the UAW at about 4:00 PM and their flight was going to be leaving at 5:00 PM. When they met the UAW, they said, "Look we are going to redo the contracts because what is there in place right now is not sustainable. We have actually come up with a new contract with how things are going to work, and here is a new contract, and on the last page you can sign and then we can move on." The UAW leaders told them, "Listen, I don't think you understand how things work in Detroit. We appreciate that you have come up with a new contract. We will take this and study it. Seeing the first few paragraphs of what you have written, I can assure you none of it is going to be acceptable to us. We will come back to you in a few weeks with a counterproposal, and then we will go from there. Okay?" Steve Rattner says to the UAW leadership at that point, "My plane leaves in 40 minutes, and if in 35 minutes you have not signed this contract without changing, not even a comma, I will shut this city down tomorrow. I don't particularly care if you go on strike or not, and I don't particularly care whether you come to work or not. The companies need US government money to stay alive, and the US government is not going to be putting in a penny unless this contract is done exactly the way it's written." The UAW, for the first time in its history, signed that contract on the spot without changing a comma. I went to God Google, and I pulled up that contract, and it was the most orgasmic piece of reading that I had done in a very long time. They are now fighting to take out those conditions that were put in 2009 that are still there in the contracts now. But what I realized when I read that contract is that Detroit used to be the best place on the planet to make cars. The reason was that all the factors of production were right there, and the Great Lakes were right there to transport everything cheaply. You had huge iron ore deposits around the Great Lakes. You had huge coal deposits, you had huge steel mills, you had a huge auto parts industry, all in that Great Lakes ecosystem, very efficient transportation. Detroit was one of the only places on the planet that had all of that in one place. Then the labor became so extreme that it became the worst place to make a car. The Koreans and the Japanese took over that industry and became a lot more efficient. What had happened with that revised contract is that Detroit had, again, become the best place to build a car. I realized that there was a major change, so I went from hating the auto industry to loving the auto industry just because I had no aversion to cloning. I just decided that even though I have to hold my nose and read up on GM, I will hold my own nose and read just to understand. Then what ended up happening is that, sometimes you will see a company and you don't understand why some investor invested. You study it, but then you find another company in the same industry that is even better. I studied GM, I studied Ford, and I studied Chrysler. I realized when I studied Chrysler that Fiat Chrysler which had been dead, was an acquisition by Fiat, was an incredible business because they had a rock star manager, Sergio Marchionne, and if you know, in hindsight, I sold to. The entire market cap of Fiat Chrysler in 2012 was $5-6 billion. It was a company with 135 billion in revenue and with 5 billion in market cap. It had been cleansed. A lot of the debt was gone, and within that five or 6 billion was 80% of Ferrari. If you look at it today, Ferrari has a $50-60 billion market cap. They went public a few years later. The stock that is 5 or 6 dollars, Ferrari is about $300 a share right now. At that time, the effective value of Ferrari was about $15 a share that was embedded in there. I never paid much attention to Ferrari because I was interested in the RAM franchise and the Jeep franchise, which was so strong, and the RAM and Jeep franchise were both capable of producing more than 5 billion a year in cash flow. I had a business with a $ 5 billion market cap. You had two franchises; you could eliminate the rest of the business and you would be making 10 billion a year. But they also had the Minivan franchise, which was also good. They also owned Maserati and they owned Alfa Romeo and a whole bunch of other things that they owned. They owned Ferrari and they owned these parts companies and all of that. In the end, this 5 billion market cap, when you ran it through, became more than a hundred billion between Fiat and Ferrari and the rest of the pieces.

It all came out basically because I took a position. I took a 10% position, and I held it. It all came out of wanting to understand why someone did something. I realized that nobody else would do that. Nobody else would look at the GM that Ted Weschler bought and ask the question why? It is really important. If you look at the Berkshire Hathaway portfolio today, very recently, they have bought a bunch of home builders, Lennar and Ulti, and a few others. They probably bought a bunch because of the amount of money they wanted to put in; they needed a basket. I know that if you study it, you will come to an aha moment because what the Lennar of the world has started doing is they have copied, finally, after more than 20 years, the NVR model. An aversion to cloning, NVR, the home builder, which had a great model, bought back like 85% of their stock, and they stopped issuing dividends. NVR in the last 25 years has been an 800 bagger. It has gone up 800 x. It is a stupid homebuilder. It is not ChatGPT or something. It has gone up 800 times and the others in the industry for more than 20 years, they watched them do so much better than them, and none of them adopted that model till finally after 25 years, they said they couldn't take it anymore. They finally succumbed after 25 years. Now they have started cloning the NVR model. I think Berkshire saw that, and they said, let us go party. That is another model that can be helpful. I am sorry for the long-winded answers.

Dibin: I think the French fries thing is true Mohnish. Every company should follow McDonald's French fries.

Mohnish: Yes. What is so hard about it? Do you know what you can do? You can incognito become a McDonald's employee, and you can make those French fries. You can extract every bit of the intellectual property and just clone it.

Dibin: It's not happening because humans have these screwed-up brains. What can I say?

Dibin: Well, Notre Dame will be the first to do it; there is a student-run organization.

Mohnish: That is great.

Dibin: Mohnish, we have one student waiting to ask her question.

Student: Hi. Can you talk about the parallels between bridge and investing and if you have any bridge hacks or strategies?

Mohnish: Are you a bridge player?

Student: I am, but I keep losing to like 90-year-olds and 95-year-olds.

Mohnish: Do you play duplicate bridge?

Student: I am an intermediate player, I would say.

Mohnish: But you play duplicate, and do you play online or live?

Student: Live.

Mohnish: Live. Okay. Like the local bridge clubs.

Student: Yes.

Mohnish: That is excellent. I think the sad part about bridge is that we have more people dying who play bridge than new people, young people who are starting to play. I first started playing bridge when I was about 23 years old. I just loved the game. At that time, there was no online bridge. I used to go to the local clubs and play. I was always a topper in math and understood probabilities and all of that. I was never in a math class, and I was not the best student. This had never happened in life. So, I thought, I am going to have so much fun with bridge. I went to a bridge club, and I remember I was playing with this couple, like you were describing the 90-year-old couple. The guy had an oxygen tank and he was really old and frail in a wheelchair. I thought I hated to beat these people, but somebody has got to do it. What can I say? Then they proceeded to make minced meat out of me. I was just shattered by the scores they got and all of that. That made me do a double-take. I would say, go back to square one and find another gear; learn some more. Definitely, with bridge, I think experience and the duration of time that you play it because you start seeing more and more patterns are going to be very helpful to you. It is a great game because it takes 15 minutes to learn and a lifetime is not enough to master it. Now that we have Bridge Base, which is an online platform as well as, the Live bridge and the local clubs and all of that, I think the way to get better at bridge is first of all get some great books and keep reading them and the ACBL bulletins with all the different tips and puzzles and all of that.

The other thing that can be helpful is to play with someone. I have two kinds of folks that I play with. I play with some teachers who are exceptional, and I play with some peers who are at my level or so, and it is really when I am playing with someone far better than me, that the learning is really at a good, accelerated pace. It is important to have a great teacher or coach and to absorb them and learn from them. I enjoyed it a lot. I spend maybe five or six hours a week playing bridge and I would be happier if it was more. Now, after more than 20 years, I started going to live tournaments. We have three national tournaments in the US every year, every four months. And I decided I am going to try to attend all three of them at least for three, four days, or five days or something. The next one is in Atlanta, and I am looking forward to that. What a wonderful hobby to have. Not expensive. Bridge Base is around $99 a year plus maybe $1-2 per game. It is a relatively cheap form of entertainment. It is helpful for an investor to play bridge. Both investing and bridge are games centered on probability, so we don't have absolutes in investing. Everything you will look at will have some hair on it. There are some probabilities; what happens at Amazon if Andy Jassy is not there, or what happens if the FTC succeeds in putting some handcuffs on them? We always have things that can come from left field, and so investing is a probabilistic exercise, and bridge is very much a probabilistic exercise because we are continuously evaluating odds and odds are continuously changing as the cards are played to the extent that your brain becomes better and better at probability calculations and thinking probabilistically. It can be very helpful. I don't think it's a coincidence that Buffett and Munger and many other great investors are bridge players, but now I run into a lot of investors who don't play bridge because it is kind of not regarded as so cool anymore. But I would encourage all of you to take up the game. I think you will get an incredible amount of joy, satisfaction, and entertainment out of it, and you will become a better investor. It tastes great, and it is less selling.

Dibin: Okay, great. Thank you, Mohnish. Before we end, would we have to mention the Dakshana Foundation? I feel like it is customary now, and in your recent talk with Meb Faber, you mentioned that there will be a point ideally when 12% of the admitted students in IIT would be from Dakshana, about one-eighth, and after you reach that point, what would be the vision afterward and how would you want to funnel your capital toward other social causes?

Mohnish: It is a very good question. I don't know the answer right now. I think Dakshana lucked out that there were the IITs and this whole ecosystem, and we could leverage that. Nobody was doing it, but it is going to cap out. We are currently spending about $3 million a year. Once we are spending $7-8 million a year, we will have maxed out. I don't think we can spend more than that. First, our spending needs to get to 7-8 million, which is a high-class problem. That is great. I think we will get there in a few years. If I had, let us say, 20 or 30 million a year to give away, for example, one of the problems in philanthropy and charity is that finding great causes and generating great social returns is much harder than finding compounders. The compounders are a cakewalk compared to once you enter the realm of charities and all of that. Let us take the problem of homelessness in LA, for example. A huge problem of homelessness in San Francisco. If I was given that problem to solve, I can assure you I will fail. A lot of smart people have put a lot of money into that problem, and they failed. It is a very difficult problem to solve, and these other problems, like environment, healthcare, education, poverty, illiteracy, and all these things, are difficult nuts to crack. I am always experimenting with a few things just to see if this can scale up or can scale up. So far, these experiments have not led to something that I can say is the second model. Once we hit 8 million, we can do this model, and this can carry us. I have not hit that point yet. But I think what I will be forced to do is I will have to reduce my expectations. It is just like Berkshire Hathaway. When Warren was managing 1 million, he said he would do 50% a year, and when he is managing 600 billion, he is barely able to beat the S&P. It is a big difference. As we grow at Dakshana, I think we will have to lower the bar of what we would consider acceptable. We may have to find some cause that does good for society, but it doesn't do it at the level that we are doing today. What we are doing today is magical. I think we would be extremely lucky if we ever find another thing that is so magical. It is just difficult. We will still try and see what we can do.

Dibin: That is not just what you are saying, it is also what Warren is saying - it is one of the best, well-written reports ever. He has read for non-profit, so yes. That is great. Well, Mohnish, I think we are essentially out of time. We would stick around forever if you would like to continue, but we would like to respect your time and the time with the students and folks in the classroom. Thank you very much Mohnish for joining us today.

Mohnish: Thank you, Dibin. It was a lot of fun. I enjoyed the session and I hope you got something out of it. So, all the best.

Dibin: Thank you. Thank you all.

Mohnish: Alright, thank you. Bye.
