Mohnish Pabrai's Talk at the YPO Waterloo Austin on October 17, 2023

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Pradeep: We have a special guest, Mr. Mohnish Pabrai, to kick off our LDR this year. Mohnish is a highly respected value investor. He's an author. We have his books here. He's a philanthropist (I'll talk about that in a bit) and the founder of Pabrai Investment Funds. Mohnish is a YPO gold member in Austin. He's originally from California. He transferred when he moved to Austin in 2021. He started his entrepreneurship journey in 1991, when he borrowed heavily on his credit card debt, almost $75,000, and completely borrowed from his 401 K to start his first IT consulting business. He grew that to 20 million and sold it in 2001 during the dot-com bubble to a company called Salmon Associates. He's a hustler. He's a salesman. He's a founder. Today, he's a managing partner at Pabrai Investment Funds. He modeled it on the Berkshire Hathaway and Buffett partnership model of 1960, which he shut down in 1970 if my memory serves me right. However, the most meaningful thing about Mohnish is he's a philanthropist. In 2005, he started the Dakshana Foundation. Without much further ado, let's welcome Mohnish Pabrai.

Mohnish: It's so great to be here and thank you for having me. It's always a pleasure for me to speak to YPOers. This is my 27th year in YPO. I used to have a head full of hair when I first started, and gradually that all went away. As many of you probably know, the more you are engaged with YPO, the more exponential, and the payback. It changed my life in more ways than I can count. It's been a great organization and a great journey for me with tremendous lifelong friendships.

I'd like to start with a story. We'll talk about two or three stories and then we'll see what you guys want to talk about after that. In 1626, there were some Dutch settlers on what we know today as the island of Manhattan. The Indian name for it is Manahata. They kind of tweaked it to Manhattan. The Dutch wanted to buy the island from the Native Americans. They had a guy, their negotiator, Peter Minuit. They sent Peter to make a deal with the Indians, and the deal was done for 60 Gilders which was about $24 at the time. For $24, the Indians handed over the rights to the island of Manhattan to the Dutch. When people hear that, they say, "Well, the Indians kind of got taken," because it was very prime land and great natural harbors and all of that. But, if the Indians had a trust officer or investment manager who was going to take this $24 and invest for the benefit of the tribe, and let's say the guy wasn't that great, but could do maybe 7% a year. We have something known as the rule of 72. Some of you

might be familiar with it. The rule of 72 is a very easy mental way to understand how long it takes for money to double. If I have a 7% rate of return, I can just do 72, divided by seven, it's approximately 10. You would just say it's 10 years. If I was, for example, getting a 10% return, if I do 72 divided by 10, it's seven. It works well for a pretty large range of percentages. It's a good back-of-the-envelope way to understand what different interest rates will do in terms of building wealth over time. If the Indians were getting a 7% rate of return every 10 years, that money would double. In 1636, it'd be $48, and in 1646 it'd be $96, and we'd keep going. Now, if you do 10 doubles, that's two to the power of 10, so 10 doubles would take a hundred years. Every 10 years we are doubling. If you go for a hundred years, that becomes two to the power of 10, and two to the power of 10 is 1024. Because we want to keep the math simple, just throw away the 24. Ten doubles at 7% means that whatever you started with, you would have a thousand times that. If you start with $24 in 1626, then by 1726 it's 24,000; it's 1000X because of that 7%. In 1826 it's 24 million and in 1926 it's 24 billion, and in 2026 it's 24 trillion. Now we are 2023, not 2026, so I'd say take about 23% off; maybe around 20 billion. Twenty trillion is where if the Indians had invested it, they would have about 19 or 20 trillion. Then, you ask, "Would the 19 or 20 trillion be more than undeveloped land in Manhattan?" The entire wealth of the United States, every man, woman, and child, everything we have is about 150 trillion. It's unlikely that just undeveloped land in Manhattan would be one-eighth of that. That's not likely. We've got plenty of other things in the country.

There's another way to kind of do this. Manhattan is about 626 square miles. Convert that to square feet. Today, if you were buying prime land in Manhattan, you'd pay about a thousand dollars a square foot for it. This works out to something like 32,000 a square foot. The Indians got overpaid at $24. The screw-up was that they didn't invest it properly.

One of the things about compounding is that Einstein called it the eighth wonder of the world. The reason it's the eighth wonder of the world is that we are not used to thinking exponentially. We are used to thinking linearly, but compounding doesn't work linearly. It works in a kind of a log scale. It's a simple concept, but it takes some thinking to get around it.

If I take another story when Columbus sailed for America. In 1491, it was rumored that Queen Isabella was a great venture capitalist. She funded him with $30,000 for the voyage. If we leave inside the psychic benefits of finding a new hemisphere, people will say, "Well, that was a tremendous return on the 30,000 that found the Americans." But if we take an even lower rate of return than the 7%, let's say that 30,000 was on a 5% rate of return. If we take the rule of 72, 72 divided by five is approximately 15, so the money would double every 15 years. From 1491 to 2023 is 532 years. If we divide that by 15, it's approximately 35. What that means is that we had 35 periods where the money would double. You start in 1491 with 30,000, and in 1506 you would have 60,000, and then in 1521, you'd have 120,000. You keep going. Two to the power of 35 is two to the

power of 10, 10 to the power of 10,10 to the power of 10 times to the power of five, right? If it's split up, that's a thousand times, a thousand times, a thousand times 32. That's 32 billion. If you started with a dollar in 1491, you would have 32 billion today, but she gave him 30,000 and 30,000 at the 5% compounded. That's about a thousand trillion. The entire wealth of planet Earth is 500 trillion. Even Queen Elizabeth Isabella didn't get a great deal. She gave Columbus too much money, and even though he found the Americas, he couldn't make it happen.

There was a newspaper article a few years back where they said that there was a janitor who worked at a college all his life with a very basic salary. People were surprised that when he passed away, he had given $4 million to the college as a gift. They all reported that it was a huge gift. This guy never ran a business or did anything. The 4 million, because the journalists are not mathematically astute, is not a big number. The number should have been much higher because he lived a modest lifestyle.

When my younger daughter was 18, she got a summer job just before she started college, and she saved about 5,000 from working in the summer. I told her, “Listen, the law allows you to put the entire 5,000 in an IRA, and if you trust me and you give me a power of attorney on that IRA, I can do some things with it.” She agreed, so we opened an IRA, and she gave me power of attorney on that, to manage that account. I told her, “Listen because you're so young, we can concentrate very intensely. I could put it in one stock, for example.” She went to school at NYU, so I used to pick her up in California, at one or two in the morning and usually drive home 40 miles from LAX. I thought this was a good time to teach her lessons on compounding. I told her, “That 5,000 that you gave me. Rule of 72, you would double every five years and you're 18. What would that money be at the age of 68?” I pull all these numbers out to make all the math easy for me, from 18 to 68 is 50 years, and lo and behold, it's 10 doubles. Lo and behold, we know 10 doubles is 1000. Then I tell her, “You start with 5,000 and you're at 5 million at 68.” Suddenly she's wide awake and says, “Whoa, how did that happen?” I repeated everything for her, and I said, “But you are going to be 19 and you're going to have another summer job. We hope you'll also save some money and we'll put it in that IRA again, and at 69 there'll be another 5 million, and now you're at 10 million. At some point, you're going to graduate, and get off my payroll. That might happen when you're around 22 or something, and you might save 10,000 in a year, not 5,000. Maybe at some point, you're saving 20,000.” Then I asked her, “When you are 70, how much money are you going to have?” She said, “My head is about to explode. It’s too big a number.” The janitor at the 4 million, we shouldn't be surprised. When you look at the statistics of how much people have on average in IRAs when they turn 65 or 70, or how much they have in 401 Ks, it's a pathetically small number. For the country, if you look at the averages, The IRA average is maybe 150,000 or something. It's a small number for someone who's been putting money away for their whole life.

The reason for that is, if we go back to these dynamics of these rates of returns and these runways, Buffett was asked one time, "Look, if a genie shows up and the genie says, 'Mr. Buffett, you're such a good guy, I want to give you any wish you want,' What would you say? Warren says, "I only want one wish." He says, "When they look at my corpse when I'm dead, they should say, 'Man, he was old.' He doesn't want to live a long time because he likes to hang out with us. He just wants a very long runway of compounding, and that's all he cares about. So in his case, his compounding journey started at the age of 11. By 12 or 13, he had figured out the rule of 72 and compounding and all of that. He was born in 1930 and he just turned 93. He's been running that compounding engine for 82 years. He ended up the richest person in the world quite a while back, but he's been giving away a lot of his money; he gives away 5% of the total for quite a few years that's been going on. If Warren had not given away any money and just kept everything until today, he'd be the wealthiest guy today by quite a distance even ahead of Elon and the LVMH guy. With compounding, three variables come in, and that matters: the starting amount, the length of the runway, and the rate of return. These three are interchangeable. What I mean by that is that if I had 10 years and a 7% return, or if I had seven years and a 10% return, the end number is the same in both cases because of the rule of 72. You can interchange the rate of return with the duration, and you can get back and forth on that. We have a lot of entrepreneurs here who've done very well and are very successful. It's important to take something. I wish this event was not with you guys. The problem is half your runways are gone. I'm talking to you at the wrong time. It needed to be a YMG event. The YMG guys I can do something with them. When you have a YMG event, let's have me back.

Crowd: Absolutely.

Mohnish: Because of this crowd, I already lost so much of the runway; it's useless. But the YMG crowd, they're all going to live to over a hundred and maybe over 110 or 120; a hundred-year runway. What could be more orgasmic than that? That's the ultimate situation. If you have a very long runway, like Queen Isabella or the Indian, then obviously very small amounts to start with, and even relatively small rates of return end up with a large number. But if you take a normal human lifetime, our lifetimes, we start at let's say 18 or 20 or 22, and we go till 80 or 90 or a hundred. You get a 60 to 80-year runway that's a good size because if you take the S&P, which is done about 9% a year for the last hundred years, 72 divided by nine is eight. In the S&P, we are doubling every eight years, and what that means is if you have a 60-year runway, it's like seven and a half doubles. It's all about the number of doubles. That's all that matters here. So seven doubles is 128, and eight doubles is 256, so seven and a half, maybe like 150. Whatever you start with, you have 150X where you end it. But since you're adding to your savings every year, that number keeps increasing. It would dwarf in many cases what might be a great exit at some point in your business because the exit might come when you're 50 or something reduced runway time whereas the savings have been going on for 30 years. Why people don't

end up ultra-wealthy is they get in their way. Charlie Munger, Warren Buffett's partner, one of his best quotes is "Never interrupt compounding unnecessarily." What that means is, if you are in an index, we don't care about the market, we just dollar cost average every month, the savings are going in and it's irrelevant what's happening to the market or economy or whatever. We just keep on that program. Most humans are not like the janitor. They're not able to stay with the program. They are too smart for their good. Another thing about investing is it's a very strange industry in the sense that the people who pay the lowest frictional costs win. Rich people like to think that they have got some exclusive guy, some fund manager, and some hedge fund guy. Very bad idea. That guy will get rich skimming off the top. If you bought the Vanguard, you know, S&P ETF, your frictional costs are five basis points, a year 0.05%. If you're at some hedge fund or something, it's one and 22 and 20 or something. Most of them after fees are going to be behind the S&P. Even a 1%, 2% or 3% delta in returns, if the 9% goes to 7% or 6% over a few decades, will be a massive delta.

It's an interesting field in the sense that Joe Public has an advantage over the YPOers because Joe Public has no access to hedge funds, and Joe Public is forced to go to Vanguard and buy the S&P, and then Joe Public ends up ahead. Please be like Joe Public. But the other thing is that don't be like Joe Public, where Joe Public leaves his job and goes to Hawaii on a vacation with the 401 K before starting the next job. Don't do that. Never interrupt compounding unnecessarily. When I started my first business, I was 25 and I pulled 30,000 for my 401 k. That worked out in the sense that, in the end, the exits and all were fine, but taking those tax-deferred assets into consumption is not a good idea. Not to mention the penalties and all of that. My message to you is to keep it simple; Vanguard S&P and a modest lifestyle, max the savings, and try to stay healthy. The runway is long, but since you guys are mostly over the hill, focus on getting this message to your kids. They still can be salvaged. We can do stuff with them and maybe get them to get jobs when they're like 13 or 14 because the IRA has no minimum age. You can start the IRA when you are three months old, if you make the money. You must make sure they make the money. It must be earnings from wages. Try to figure out some gig that they can work on when they're like two years old and get the compounding started early. Let's talk about what you guys want to talk about. Thank you.

Pradeep: Thank you, Mohnish. Your speech reminds me of Charlie Munger's saying," Take a simple idea and take it seriously." Most of us forget the "taking seriously" part. Having said that, we will start with the Q&A. I have one question, to begin with. Why do we have to delay gratification to make our grandkids rich when we have only one life? And why do we have to think about the scale where we are making our grandkids trust kids when we can live and have a meaningful life and a rich life where it's not just about wealth, but it's also about experiences, relationships, and friendships?

Mohnish: Well, the good news is that since you're YPOs, you can walk and chew gum at the same time. You don't need to delay gratification. You can gratify yourself

all you want and still have a compounding engine running at the same time. You don't have to make a choice. The other piece we didn't talk about here is that large inheritances do more harm than good. One of the best exercises I had in YPO and forum, around 20 years ago, is a eulogy exercise. Have you guys done the eulogy exercise? You guys might be too young for that, but it's coming. The eulogy exercise is coming. The exercise was, that we were on a 400 retreat, some beach in Mexico, and we were supposed to prepare this before we left. The exercise was that yesterday you died and your best friend's going to deliver your eulogy at your memorial service. Write the eulogy as if you're your best friend and assume that you were one day shy of your 80th birthday when you died. I did the eulogy exercise a few times, but at that time I was 40. I knew what happened in the first 40 years. I had no idea what would happen in the next 40 years. I had to kind of extrapolate and think, how many grandkids do I have? What's going on and where am I living? We all sat around a fire on a beach in Mexico, and we had about five or seven minutes each. We each read out our eulogy with no processing in between, and then we all went for dinner. The second part of the exercise was that if something didn't make it into your eulogy, why are you spending time on it? This forces you to think about what's important and what’s not important. We spend our time on so many unimportant things. That was a powerful kind of message. One of the things I took away from that exercise, I got from a guy who passed away recently. Have you guys heard of Chuck Freeney? There's a book, which is a good book to read. It's called *The Billionaire Who Wasn't*, and it's his story. Chuck Freeney was a very successful entrepreneur. His first business was in the duty-free shops. Those are like the 90% margin business. He made a few billion dollars on that. Then he started General Atlantic Partners, which is a top-flight venture capitalist fund. Chuck's objective was that when he passed away, he wanted to pass away with zero. Over his lifetime, he gave away about 9 billion. He also tried hard to give it away anonymously. In many places when he gave money, they had no idea who the donor was. In most cases, like if he gave a lot of money to Cornell, that was his alma mater, he made them sign contracts. They couldn't disclose it was him and so on. Most of the giving was anonymous in the end. He passed away about a month ago. In the end, he moved to San Francisco with his wife. He had a rented apartment, and about six years ago, he was left with 2 million. He was winding that down. I don't think he died more than a few hundred thousand. Chuck's my hero. I like Chuck. I talked with my kids a while back and I said, “The large inheritances are just not going to be helpful to you.” Both are completely on board with it. They're not looking for anything. I got divorced about four years ago, but what my ex-wife and I had done is every year we used to max the gift to the kids, the UGMA accounts, and the maximum gift you can give them, 17,000, whatever. Of course, I used to invest in that and was very concentrated. They got a few million dollars when they turned 18. The good thing with a UGMA is that you've got no lawyers; it's an act of Congress, but the kids get full control at 18. I wanted them to have full control at 18, because my perspective was that if my wife and I had not transferred values till they were 18, trying to say, “You're going to get so much

at 30 and so much at 40," and all of that is nonsense. At 13 or 14, I told them that when you get this money at 18, you can buy Ferraris, you can buy drugs, you can do whatever you want, you have full control. In both cases, what they did was at 18, they just turned it over to me to manage; they didn't touch it. My idea was that this would take care of their college, but we were doing well, and we could take care of their college, so the money never got touched. They're now using it. My daughter's using it because she's an entrepreneur. The other one didn't want us to support her. She wanted to pursue a PhD. She used that for some of her beyond the normal graduate-level standard of living. They did better than I thought they would do. I said, "Okay, you got the money, and then what's left?" I like to play math games. I play bridge. I play blackjack. I play compounding games. There are two games I'm playing. There's one game, which is compounding money. I have about 900 million of other people's money that I get overrides on, but I nicely get overrides. I have no management fee. one-fourth, over 6% comes to me. My investor and I are on the same page. They all like that. The thing is that there's a compounding engine, which I am focused on, and then there's a giving engine. So far Dakshana, we've given away about 30 million. I'm going to die on June 11th, 2054, and my objective is to be down to a hundred dollars. We'll see if we succeed, but we're going to try. There's one game of growing it and another game of giving it away. Also, I don't want to give it to the Red Cross. I don't want stupid things happening with money. One of the things about the giving has been, which worked out better than I thought, is that it has very high social returns on invested capital. It works well both ways. To answer your question, you can walk and chew gum. You can enjoy life but don't plan on large sums. It's not a good idea. Next question.

Question: I'd love to hear more about your story, your background and how you got to where you're now.

Mohnish: One of the things I've always tried to follow in life is that if on Monday morning I'm not excited to go to work I do two things. Number one, I don't go to work. And number two, I hit the reset button. That happened three times in my life when I had to hit the reset button. Each time was going into the abyss, but it led to greater growth. I was an engineer working at a tech company and getting very bored. We had shipped the product, and they didn't have much for us to do. I switched from engineering to international marketing within that business company, a lot of learning and growth. Then again, a couple of years after that, it was kind of plateauing out and I left to start my own business. That was the second reset. I heard about Warren Buffett accidentally in 94. I was 30 years old at the time. When I read about him, I said there were a couple of big epiphanies for me. I had never gone to business school or invested or bought a stock or any of that. What surprised me about Buffett when I read about him in 94, because the first couple of biographies on him had just come out, is that, the framework he was using to make investments is the same framework we use as entrepreneurs. The framework for making investments in the stock market and the framework I would use, for example, when I was running my IT

business to figure out, where I want to invest the extra excess capital. I'm looking at the highest return and lowest risk possibilities in the business. That's what all of you are doing. Buffett has a quote, "I'm a better businessman because I'm an investor and I'm a better investor because I'm a businessman." He had this very business approach to investing, which made a lot of sense to me. At the same time, what I noticed was that I didn't know there was a hedge fund industry, but I knew there was a mutual fund industry. When I looked at the mutual fund industry, I saw that these mutual funds had hundreds of stocks. They had like 80% annual turnover, and they were violating all these basic framework rules of Ben Graham and Warren Buffett. It's strange, you kind of have people who say, 'I don't believe in gravity.' Whether you believe in gravity or not, it's going to affect you. I had a theory at that time that if someone who had no investing experience applied Buffett's framework to investing that person should do better than 90% of yoyos running funds. I had sold a small portion of my business at that time. I had a million dollars after taxes and everything. I said, "Okay, I'll take the million. I'll invest it in the public markets, and I want to see what happens. I want to see what I can do." It went well. In five years, the million was 13 million. It was north of 70% of the year. I said, "Well done, Mohnish. I knew you could do this." I was more and more interested in investing and compounding, less and less interested in running an IT business with 170 people. My job turned into herding cats and so I said, "I don't want to herd cats. I'm done with herding cats. I just want to sit in my room with zero employees and just invest." And so I called our forum moderate. I said, "My head is all screwed up. I don't want to go to work on Monday. There's nobody to resign to. I don't know what I'm supposed to do because I'm ready to hit the reset button." I had a nice session with my forum, and they said something simple to me. They said, "You can own the business without running it." I said, "Oh, why didn't about that? That's a great idea." They said, "Look put a smile on your face. Go back to work for six months. Start a search for a CEO. In six months or less, you'll find the guy. Hand over the reins and then go do whatever the hell you want to do." That's what I did. I left the business, a new CEO came in and then about four or five weeks after that, he called me and said someone wanted to buy the company. He had relocated from Dallas. My business was in Chicago. I didn't want to pull the rug out from under him, so I said, "I don't want to do anything here that is disruptive to you. What do you want to do? What would you like me to do?" He said, "Sell it." All his options, everything was going to west on change of control, instantaneous after four weeks of work. The other beautiful thing was that the buyers wanted to lock him up. They wanted nothing to do with me. They were going to give him a new deal, so he rang the register after four weeks and got a new deal. Of course, he's saying, "Sell it," so we sold the business and the only thing they asked of me is they want to non-compete. They wanted to make sure that I was not going to enter the IT business for around four years. I said, "Look, can we make it like 40 years and we can add a few more million to the purchase price." They said, "No, we just want four years." I tried to get some more money for them, but I knew I wasn't going back to herding cats. That's the story. That's great.

Question: How did you get a 13X of the million dollars in five years?

Mohnish: You saw the video, *The Circle of the Wagons*. Buffett had a quote this year, a few sentences in his annual report. He said, “In 58 years of running Berkshire Hathaway, most of my investing decisions have been no better than so-so. They've only been 12 spectacular decisions.” If I look at the 58-year history of Berkshire Hathaway, Warren Buffett, and Charlie Munger, these guys are like the Gods of investing. They're good at what they do. The Gods of investing are saying that they probably made more than 300 different investments over that almost 60-year period. Out of those 300, only 12 mattered. It was like a 4% hit rate. The other 296 were not losers. They perhaps flat-lined or did a little bit but didn't move the needle much. Investing has this trait of where you see this new business, you can get outsized returns. But the outsized returns are not going to happen to every investment you make. If I look at Warren and Charlie, they're so good at what they do. Four percent is a shockingly low number to do well at, but the ones that they did well on those 12 decisions that moved the needle, were just so spectacular. In that period when I had that 13X, there were 200 baggers, two stocks that went up 100X. In one case I had put a hundred thousand and it became nine or 10 million. The other one was much smaller. There was an overseas investment I'd made. It was only about 10,000, but that was a 150X that became a million and a half. If you take out those two, it's just ho-hum. One million becomes around 2, 3 million, or something. But if you put those in, it changes. That has happened a few times.

Question: People who are running their businesses and betting on themselves every day, one of the things that I remember Buffett saying a long time ago is, that he knows what he is, but he does so much research, and wherever he is putting his money, he more than any of us could ever spend that time or chosen to spend time doing that. Your family members and we all had businesses that were doing well and giving us outsized returns compared to the market, at what kind of a ratio would you say, “Hey, you should take this percentage of your net worth and just leave. Put it in S&P and just don't even think about it. Then the rest of this, keep pouring it back into your business.

Mohnish: Well, usually the issue you're going to run into your business cannot absorb the cash it generates at high rates that it's already generating. What I'm saying is the invested capital that you have and the cash flows that are generating are spectacular for many of you. If you were to put another 10 million in, you would not get a return on that because the business cannot absorb it. In your case, you're not in a capital-intensive business. Even putting a million in is hard. What are you going to do? It's just difficult to spend the money in your case, or many cases in my business, there isn't a choice of putting it in the business because you're going to naturally see that. A simple rule I would use is if I'm not getting a 20, 30, or 40% annual return by putting it into my business with a very low risk, I'm not interested. Whatever the business can absorb at those types of returns, it should take that. The rest index the rest, and you're done.

Question: What was the hardest shift moving from operator to investor? Did you find it as exciting, as rewarding? What was the hardest skill or discipline to develop?

Mohnish: Well, my forum in Chicago, there was an amazing retreat we had where we had these two industrial psychologists who had come in and they interviewed us all. They interviewed our spouses, our employees, and our friends, and did a full 360 on us. They gave us what I call our owner's manual. They cracked our heads open and said, "This is who you are." When they did that for me, they said to me that they had no idea. That time I was still running the IT business. I was about to leave the business. They said, "We don't even have any idea how you function every day with all those people and all of that. You like to play games; you like to play math games. You like to play single-player games. They said, "You're not the kind of guy who is happy being in a soccer team where you are one of the guys, and the outcome depends on the team." I like to play games where the outcome depends on me. They said, "The company you're running is just a ridiculous mismatch." When I described to them what I was just about to start, a Pabrai Fund, they said, "This is perfect." This was 24 years ago. One of them became one of my original investors. I was telling him, "Listen, man, I haven't done this before. You don't want to do this." He said, "No, no, no, we'll do fine. I looked in your head and I knew what was going on. It's okay." When COVID hit and we had to work from home, I found that I was more productive working from home. I'm happy when I have no human interaction. I can deal with humans in very small doses. After something like this, I need a long period with no humans, to kind of get back to square one. For each of us, the answer is different. But for me, I found working from home is better. I have an office in Austin, I stopped going to work and it's so much better. I'm more productive. Everything is great and all the tools are there now that we can do everything remotely. From my point of view, I don't miss it at all. It's great. I don't want to do anything else. It's good.

Question: One of the things you mentioned was this 4% success rate on big wins, a lot of times we make investments in our businesses, and we must cut our losses. How did you go about thinking about when you picked a stock or an investment strategy? You say it's in 96%, not the 4%. How much time did you give it? What was the thought process?

Mohnish: That's a great question. The best answer I can give is when it's obvious. You don't want to be trigger-happy, but I would say in two or three years, the writing should be on the wall. Once you own a stock, that's when you start learning about a business. You don't know much about a business before you buy it. It's only after you buy it. When it drops 50%, you become an expert at it. You know it well. It is obvious because you would know. I don't think you want to use the stock price to guide your decisions. But it would over time become clear what the real economics and realities of the business are, and then you can just take it from there. It's important. One of the things I try to do before I buy anything is I want to be able to explain it to a nine-year-old in four sentences. What's the thesis here? It can't be a spreadsheet. It needs to be four

or five sentences that a nine-year-old is going to understand. I have a very simple thesis. If as time goes on, those sentences are no longer applicable, there's something flawed in the analysis I had done, then we need to move on. But it needs to be clear before you go in. You have clarity when you are running your business, you're investing, and some CapEx, you have a lot of clarity about what you're expecting that to do, and you need to have the same clarity on the investing side.

Question: I love everything you're saying and it's so true. One of the things that you've been touching on, whether it's sort of in your stories about your daughters or you personally, has been sort of the golden cuffs, you're able to put around either your compounding strategy or sort of taking the emotion out of like, I've got to walk away from the SUSAR, or I'm okay doubling down and concentrating and taking this much risk. I think that's one of the nuances that just cannot get lost in the points that you're making. Like the janitor, I love that story. You could have had more, you're right, but it was because he was able to put that money away and not go to Hawaii.

Mohnish: Yes.

Question: What you articulated, what do you think about kind of the behavioral, and financial aspects, you can cut your emotion away from the palpitations that sometimes happen. What do you think about that?

Mohnish: For most of us, the answer is to just index. When you make the transition from index to picking stocks, that is a huge leap. That comes with a lot of bells and whistles and caveats and, thinking and whatnot. I would say that the amazing thing about investing is that a know-nothing investor who just index spends less than they earn, will end up winning the race. There's a reason why the index works. If you look at the S&P, it has 500 stocks and 500 companies. When you look at the individual names of these companies, they're very successful. That's how they got on that list. They made some changes to the index. A couple of companies might go in a year and a couple will come in, but for the most part, it stays static. What happens is that the index is too dumb to know that it owns Apple. It's too dumb to sell Apple. It's too dumb to sell Microsoft. It's too dumb to do anything. What ends up happening, if you think about the 4% situation, is there are a lot of companies in the S&P that will not do well, but those don't matter. The thing is, it's got some that will do exceptionally well. It has NVIDIA in there. It's going to have the full run of NVIDIA, which nobody else is going to have. Everyone else will join that bandwagon after it's a trillion-dollar market cap, but it was in there in the S&P at 20 billion or 10 billion. It just had that entire run in the index. The index is very powerful because you have ownership of some of the best businesses on the planet, and they're running and they're doing their thing, and you don't think about it, and it is tax efficient and everything. Like I said, there are three variables. One variable that you just put away, the other variable is, spending less than you earn, you have more control over that, and the runway starts as early as you can. That's it.

Question: When you talk about the hundred, 200X investments, can you describe the asset class that those were in? I say that because I'm typically the person that people invest in to try to get a hundred, 200X. I'm just thinking about those startups for those ventures, what type of investment has that profile?

Mohnish: I don't take risks. I'm not a risk guy. The things I invest in if I were in real-time to tell my investors what I was doing, they would throw up all over the place. Since you are not my investors, I don't think you're going to throw up, so I can tell you. For example, five years ago, I started going to Turkey. I had a good friend there who is a hardcore deep-value investor running a small fund there. Turkey had had a lot of dislocation. It still has a lot of dislocation with currency that's very unstable and mass exodus of foreign investors. I told my friend Hyder, "I want to come to Istanbul, and I just want to visit the companies that you have in your fund. Don't take me to any companies that you think are great and this and that. If you don't have your money in those companies, I don't want to see them." I went to Istanbul, and I've been going every year since other than the COVID year, but in the second trip I made in 2019, he took me to see this company where the market cap was $16 million. As we were driving over, he told me, "Mohnish, the liquidation value of the businesses is somewhere between 600 to 800 million." I said, "Is it a fraud? What's going on here? What kind of people are running the place?" He said, "No. I have money in it. It's simple. It's a REIT." They rent warehouse space out and they're the largest warehouse operator in Turkey. There are 12 million square feet of class-A warehouses. Their clients are Amazon, IKEA, Carrefour, Mercedes, and Toyota. Ninety-nine percent lease inflation, index leases, all of that. I met with these guys, the father and son who run it. They looked perfectly fine, honorable people to me. I went and visited the warehouses, they looked exceptional, great locations. I thought that it'd be hard to get the stock because it's like such a nano cap. Turkey is an interesting place because the local investors in Turkey have a complete gambler approach to investing. Their approach to investing is to buy a stock at 10 o'clock, sell it at three o'clock, and make 10%. That's their model. Good luck with that. Buffett has a quote, "The stock market is a mechanism to transfer wealth from the active to the inactive." Like he said, it's like playing bridge with someone who doesn't look at the cards. I thought, "If I'm going to be buying companies from these types of people, this will be a very fun experience." I was very surprised. For $8 million, I was able to get one-third of the company. The trading volumes are high in Turkey because of this. If you take out what the insiders own and what the foreigners own, the floating stock cycles every nine days; the entire company's market cap cycles every nine days. In the US it might be like one and a half times a year or something for most companies or two times a year at the most. Every nine days is very hyperactive. Anyway, we bought one-third of the company. For the last few years, I have been visiting them and know them well. That 600, 800 million liquidation value is now approaching about 2 billion. It's been about four years since we bought it. The currencies collapsed. When I bought it, it was 5 liras to the dollar, it is 28 liras to the dollar. In dollars, the market cap now is 600 million. It's still sitting

at one-third of where it needs to be, but in Lira, it's an infinite return. From my point of view, the father and son who run this are smart. They're very astute capital allocators. We have no plans to sell that. Of course, the issue I run into is that it's become such a large portion of some of my funds that I must keep giving disclaimers to all my investors that, this is not the only investment we have in Turkey. We had this type of situation in Turkey because there was just a mass exodus going on, people leaving, and then the local market and all that. I own the Coke bottler in Turkey, which bottles in about 12 countries. They also own the number one beer business in Turkey, 55% market share. They have the number one and number two market share in about 12 countries in beer, including Ukraine and Russia. I paid nothing for those businesses. What I'm saying is I'm looking for no-brainers. I'm looking for places where there is a lot of irrational hatred and irrational behavior. Then we hone in on things that I can explain in three sentences. So that's what we do.

Question: How much weight do you put on the macro?

Mohnish: Zero.

Question: Does the outside influence like the Vanguards and BlackRock's on the S&P concern you at all?

Mohnish: No, because the amount that's indexed relative to the side of the market is still small. There are concerns with them about how they vote and things like that. They have some influence, but I don't think it matters in terms of how the investor's going to do. If you look at the total amount in the S&P versus the total market cap, the S&P index versus the market cap of the 500 companies is a huge delta. So, it's okay. If that number starts to converge, which I don't think can happen, and it would take several decades to happen, then it would become an issue. But not an issue right now.

Question: How much of your investment, if any, has been in private companies versus public sectors?

Mohnish: It's all public because I cannot get these deals in negotiated transactions. Private equity is a huge industry in the US, and it has a lot of headwinds, mainly because there's too much money chasing. All of you will see that, anytime you are looking to put your company for sale, it goes into an auction and then it gets bought. Who's in the title business? You're in the title business, right? You were talking about how at the peak, all these guys sold, right? At peak valuations. That's when the sellers are going to sell. They can see the peak, but the idiot PE guys can't, and it's other people's money that they're playing with collecting fees. What do they care? I don't like to deal with private anything because usually, I'm not dealing with someone stupid on the other side. I like to deal with stupid people on the other side.

Question: We've got some good to take home.

Mohnish: Thank you very much.

Pradeep: Mohnish has written a book called *The Dhandho Investor*. We bought a copy for everyone. On the way home grab one, and get an autographic signature from him. Another thing is we are donating to his cause Dakshana Foundation from the YPO. Mark Schillinger $5,000 to be donated.

Mohnish: Oh, thank you very much.

Pradeep: Thank you so much.

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