Mohnish Pabrai's Q&A with London School of Economics - Value Investing Society on January 30, 2024

The contents of this transcript are for educational and entertainment purposes only, and do not purport to be, and are not intended to be financial, legal, accounting, tax, or investment advice. Investments or strategies that are discussed may not be suitable for you, do not take into account your particular investment objectives, financial situation, or needs, and are not intended to provide investment advice or recommendations appropriate for you. Before making any investment or trade, consider whether it is suitable for you and consider seeking advice from your own financial or investment adviser.

Host 1: A huge thank you to all of you for coming to today's event and joining along with value investor Mohnish Pabrai. Today's event will be quite similar to those of last week. We will have approximately 20 to 30 minutes of questions planned for us. We will then open up the floor to you guys so you can hopefully come up with some interesting questions, which I am sure Mohnish will very much enjoy answering. I will not spend too much time introducing him. He is, of course, a man that requires little to no introduction. However, he started his investment career focused on buying high-quality growing businesses and then started Pabrai Investment Funds in 1999, where he switched to deep-value investing. He has remained a managing partner at the firm, which has provided a staggering 781% net of fees compared to 378% in the S&P in the last 22 years; an exceptional track record. In an era where so many investors have been wooed by flashy tech stocks, high growing companies, he has remained committed to his classical value investing style, which has come from deep inspiration from Warren Buffett, with whom he paid $650,000 to have lunch in 2018. I will not waste too much of your time. Let us give a huge applause for Mohnish Pabrai.

The first question we have for you is sort of a warmup question; an intro. You are perhaps best known for your book, *The Dhandho Investor*. Would you like to start by giving a quick overview of the book and the inspiration you had for writing it?

Mohnish: First of all, thanks for inviting me. It is great to be back and good to be in such august company; that is wonderful. I wrote the book to crystallize some concepts in my mind. As the saying goes, "The best way to learn is to teach." I wanted to just put down on paper frameworks I had in my head; kind of a more structured formalized format. It ended up being a book. I used to have a goal of writing one page every day. I would sit down in the morning, spend about an hour, and then I would go off to do other things. In about six months the book was done, which was great. Some of you might be fans of Seinfeld. He wrote a very good book called *Is This Anything?* His approach in life has been to sit down for a couple of hours every day with a yellow notepad and write down things he observed about humans or the human experience. He would noodle on something. Do you remember there was an episode of Seinfeld where they go to pick up a rental car and the person at the rental car company tells them, "We have your reservation, but we do not have a car." And Seinfeld replies, "If you have the reservation, it means you have the car. That is the whole point of a reservation, right?" It is these types of daily interactions that we have. He would write down whatever he observed, then he would come back the next day and again, look at what he had written down and try to develop it.

Most things would fall by the wayside, and a few things would end up having enough meat on the bone that it could become part of a comedy routine or maybe even part of a Seinfeld episode. That discipline of sitting down every day and going about it in a very scientific way set him apart from other comedians because others may have been funnier or may have had better delivery, but they did not have the discipline. That is what set him apart and of course, made him very wealthy. Sorry for the long answer.

Host 2: Mohnish, I want to ask another question about the book that you wrote. *The Dhandho Investor* was published 17 years ago. That is a statistic you may not like to be reminded of, but it came out at a time when many of us in this room were just mere infants. If you were to now write a revised edition for a new generation of investors, what would the main message that you would like to convey be?

Mohnish: I do not have any plans to do a second edition, but if I were to do something, I would emphasize more the notion of the hundred baggers and the notion of the relentless hunt for great long-term compounders. At the end of the day, in an investing lifetime, if you were able to find two or three of those with some reasonable portion of your portfolio allocated to them you would be done pretty much. You could have a 95% error rate and you still hit the ball out of the park for a six, I might add. I would kind of explore more the end of the wealth creation that is possible if one is honed in on that.

Host 3: Mohnish, recently we have seen a lot of traditional value investors gradually shifting toward a more quality-oriented philosophy like that you just spoke of. For example, Guy Spier has invested in Ferrari at 50 times earnings, but you still follow a very value-oriented approach. What is the reason for that and how come you are stuck with it?

Mohnish: I used to own more than 1% of Ferrari. It is a deep regret I have that we are old too soon and wise too late. I did not fully appreciate the quality of that business and the width and depth of that boat. I got Ferrari as part of my purchase of Fiat Chrysler about 12 years ago. At the time, Ferrari was being valued at less than 2 billion for the entire company. It is more than 25 times that today and in not that many years. I am still always going to be trying to buy assets well below what they are worth, but one of the evolutions I have gone through is to appreciate that some assets need to be held when they are fully priced and even held when they appear to be overpriced.

Host 1: To follow up on that, a core of your investment philosophy is taking bets on outside return profiles and betting heavily on them. Finding businesses with accepting large margins of safety, allows us to place such large positions in your portfolio with singular companies. But given that you take such a deep value perspective where you are looking for such fundamentally valued assets, whatever emphasis you place on evaluating the quality of management, and how do you go about assessing management and finding motivation? I ask that because for new investors, determining the quality of management and whether they are truly aligned with the long-term interest of a business can be exceptionally hard, especially given that they are all trained by the same PR departments and they all have the same sort of dribble on their annual report.

Mohnish: Figuring out the nature of management, the competence, capabilities, and how engaged they are and likely to be engaged in the future is of

fundamental importance. The prescription that Buffett and Munger have for that, which I have followed, is not to focus on what they are saying will happen in the future, but to focus on what they have said in the past and what actually transpired in the past.

Unfortunately, most management now does not write the annual letter or the annual report. That is going to be relegated to some PR firm or the IR part of the company. But what I find useful is to go look at the earnings and other transcripts over the last several decades. If a management team or CEO has been running a particular company for 10, 15, or 20 years, that is tremendous because then we have a long history. They probably have been holding quarterly calls and a lot of that is unscripted because they do not know what questions are going to get asked. When they are answering different questions and giving their perspectives, the messaging is far less controlled. Of course, you can overlay that with the actual performance of the business. Then you can apply other nuances to come up with what Munger would call a "Latticework of Mental Models." Using all of that, in some situations, you may have a really good grasp of the nature of management, and in an even smaller number of cases you may end up finding some truly exceptional management teams, and maybe the world does not see it or recognize it because they have not gone through that process like you. There is a big decision to be made on which rabbit holes you decide to go down. It is important to try to go down rabbit holes that you think may have some promise. When you go deep down into rabbit holes that show some promise, that is likely to end up giving you a very significant competitive edge because you have a very deep understanding of that business.

For example, in 2012, I mentioned I invested in Fiat Chrysler. They had brought in a person from outside the auto industry to lead Fiat Chrysler. He joined in 2004 when it was Fiat. He was the fifth CEO they had hired in two years and the company was in very bad financial shape, bleeding millions of euros every day. The banks were ready to put the noose around them. He had a really tough hand dealt to him, and he executed brilliantly. By the time I made the investment in Fiat Chrysler in 2012, there were eight years of history of Sergio Marchionne to look back on at Fiat with a lot of transcripts, presentations, and financial reports available to look at what had transpired.

One could also look at the whole acquisition of Chrysler. I spent about four months digging deep. There was a book on the Agnelli family and there were some Harvard case studies on Sergio. I realized that this was a tough business, but it was a business run by a truly once-in-a-generation manager which most of the other market participants did not appreciate. The second thing is, that it was a business that was doing about 130 or 140 billion in sales with a $5-6 billion market cap. They had some products and brands that were alone capable of producing 5-6 billion a year. For example, the Jeep franchise could easily produce that. The RAM franchise which does not exist in the UK could easily produce that. One had to just get rid of some of the non-performing pieces, and you would have a company making about 10 billion a year. That came about after digging into Sergio and into the business. As I said, the data set is too large. Going down promising rabbit holes is important. If you go down a rabbit hole that you think is promising and then appears to be not so promising, you need to back out and go into the next rabbit hole.

Host 2: I just thought it would be worth following up on the point you just made then you spoke at quite a long length about Fiat. Now Fiat has been packaged up in a new business, Stellantis, which is trading at three times forward earnings. I am curious, do you have a view on the business? Do you think it would be quite a good value opportunity if you were to try to take back a similar thesis that you previously made?

Mohnish: I do not want this to be about stock tips, but I will give you some perspectives. I do not have any ownership in Stellantis. It is being run by a great and gifted manager; Carlos Tavares. He can squeeze blood out of a rock. He buys $200 suits. He is happy when he is visiting the different Fiat factories. He is happy to have a $3 sandwich for lunch. He is a pretty no-nonsense guy. If the game is about squeezing efficiencies, Carlos is your man. He is truly exceptional at it. On the weekends, he is a race car driver; he is on the track. He loves the auto business in general. I think the difference now versus when I was looking in 2012 is that we have the looming transition to EVs (electric vehicles) and that transition is a very expensive transition for the legacy auto manufacturers like Stellantis; with tens of billions in CapEx. You got to go toe to toe with two mavericks; Elon and Wang Chuanfu at BYD in China.

My perspective is that if you find yourself in the unhappy situation of having to compete with Elon, go find something else to do. Just take your ball and leave the arena. Do not try to compete with Elon. Do not pass go and do not collect 200. It is bad for your health and definitely bad for your wealth. There is only one guy Elon is afraid of, and that is Wang Chuanfu in China. Chuanfu runs BYD and the Indian guy who is talking to you had the good pleasure of meeting him a few times. BYD is a company in China, which Berkshire Hathaway has maybe a 7-8% interest in.

When Charlie Munger was in 2008 trying to get Warren Buffett interested in investing in BYD, Warren had no interest in investing in some Chinese company he had never heard of and did not want to do the work. He just told Charlie, "I am not interested." Charlie told Warren, "Warren, this guy is the second coming of Henry Ford." Warren said, "Charlie, I am still not interested." Then Charlie said, "Warren, he is Henry Ford and Bill Gates in the same person." But Warren was still not interested. Then Charlie told him, "Warren, he is Henry Ford, Bill Gates, and Thomas Edison in the same person." What Warren did is he owned 80% of a company called Mid-American Energy, which was mainly controlled by Berkshire. He asked them to put 250 million into BYD, getting about 8-9% stake, which has gone up, around 20, 25 fold at this point. The only person who gives Elon pause is Wang Chuanfu. Even if you are Carlos Tavares, when you have to go toe to toe, not just with Elon, but with Elon and Elon squared, just do not be in the same arena. It is not going to work even if it is just Elon. Stellantis is very cheap, it is very well run. If there were no EV transitions, things would be fine. The other problem is that if Elon and Elon squared make a 10% margin on the EVs that they sell, Stellantis, Ford, and GM are going to lose money because their cost advantage is more than 10%. Let us fast forward to a world where no combustion engine cars are being sold as new cars. There are only electric vehicles sold maybe 15-20 years from now. You have a negative margin, and Elon and Elon squared are making 10%. At a negative margin, the business has no value. To me, it falls into what Charlie Munger

and Warren Buffett would call "the too-hard pile." I just put it into the too-hard pile and move on.

Host 3: You mentioned in previous interviews that you had the pleasure of having dinner with Charlie many times, meeting, talking, and even playing bridge occasionally with him. What did you learn from him and about him that you think made him such a great investor?

Mohnish: Warren and Charlie have been such open books over their lives that pretty much anything you want to learn from them or know about them is in the public domain. They both have been very generous and exceptional teachers. If you want to learn from Charlie Munger, which I think is a very good exercise, it is really simple. First, there is a great book called *Poor Charlie's Almanack*. It costs around $50-$75. If you read that book carefully, you would unfortunately get more out of that book and be wiser than the years at LSE. Unfortunately, LSE is charging you slightly more than $75 for the years you are spending here. *Poor Charlie's Almanack* would run circles around what the esteemed professor at LSE has to teach. Then you could overlay that with the Berkshire meetings. Buffett.cnbc.com is where the last 29 years or so of annual meetings are archived; around six hours each. In this case, you do not have to spend the $75; it is zero. It is even a better deal than *Poor Charlie's Almanack*. You get around 150 hours of Buffett and Munger talking to you and charging you nothing. Again, slightly better economics than LSE.

In my interactions with Charlie, some of the things that gleaned from him, which maybe were not directly in the public domain, was his focus on the problem at hand. I used to repeatedly remind Charlie about the great work he had produced in his lifetime and the huge impact he had had on humanity and capitalism, but he just brushed it off. He never wanted to spend time thinking or talking about that. All his energies were focused on the issue in front of him. So he would repeatedly tell me, "Berkshire has all this cash, but we cannot find a good place to put it to work." He would mourn and groan about it, and I would always tell him, "Charlie, you guys always find a way, so do not worry, it is going to happen." Then one time he was looking for a CEO at Daily Journal, one of the public companies he was a chairman of, and he was totally focused on that. He did not really care about so many of the things that he had accomplished. I realized a lot of us humans go to elite institutions and work at some great places. We might start a business and do well. We look back and we say, "Oh, well done Mohnish, that has been a good job, well done." That takes away from the focus. I learned that you should keep your nose to the grindstone, focus on the problem at hand, not be satisfied by what has transpired in the past, and continue to move the ball down the field. Those are some of the lessons I took from Charlie. Most of what I learned from him was not from the direct words he spoke to me. It was just observing him; observing him in his home, with his daughter-in-law, or with his grandkids, partners, and different people he was interacting with.

Host 1: One of the greatest things about the value-investing community is we have access to so many great teachers like yourself who publish so much literature for us to read. Yet despite all that, cloning investment strategies is exactly difficult. What is it about cloning strategies do you think that make it so difficult, and what do you think we can do better? You describe yourself

as a shameless cloner and someone who has taken so much inspiration from Buffett, so what sort of things did you do to be able to gain the sort of thought processes that Buffett uses? What do you think we can do better to be able to clone the investment strategies of many of the investment grades that they teach us?

Mohnish: One of the problems in investing is that the data set is too large. We have 50,000 stocks around the planet. Each is a rabbit hole, and each rabbit hole that you might want to go down might take a few days to a few months to really get your arms around it. A lot of these rabbit holes are not even in your circle of competence. Even if you went down them, you would not understand them. There is a need to get some shortcuts and cut that data set down dramatically. One of the shortcuts you can use to cut that data set down is to be a shameless cloner. Do not just be a cloner, be a shameless cloner like me. If you have understood how some investors invest, and how their minds work, they usually have to make filings in various geographies around the world disclosing what they have. They do not want to do that, but they have to. If you understand the investor, you see what kind of position they have and you like the way they approach things and they have a good track record, that can cut your data set down by more than 99%. You might be able to take a 50,000-stock universe down to maybe 50 stocks or less, maybe 20 stocks, and then start going down those rabbit holes. Cloning can be a really good way to trim the data set, but you still have to do the work and you still have to figure out whether it is something that is within your circle of competence and whether you can understand the business well enough and whether there is a big delta between price and value.

Host 3: You made quite the controversy recently with your bet on coal with Alpha Metallurgical Resources and Consol Energy. Do you think that in light of the onset of ESG, buying out of fashion companies will continue to yield cost returns for value investors?

Mohnish: Now we are getting to things that are current positions in the portfolio, and I prefer not to talk much about the current positions in the portfolio. We might still be buying them, we do not need competition, but I would say in general that coal when you get all the ESG and ESG pressures and different things, a lot of US foundations and endowments will not allow the managers that they invest in to own these stocks which is quite irrational because we would not have a civilization if we suddenly shut down, coal mining or for that matter, even thermal coal mining. The state of the world today is that if we try to satisfy our energy needs with solar, wind, and nuclear, we would have some really cold nights and we would have some pretty dark homes.

All the AI computers, which are massive power hogs, could not be kept alive. The reality is for base loads, and I am talking about thermal coal, but for base loads, humanity will have a dependency on thermal coal for some time. Thermal coal consumption is going down in the US and Europe. It is still on the rise in places like India and it is very much required for quite some time to have a civilization. Metallurgical coal, which is used to produce iron and steel, has no practical substitutes. If you want to try to have a civilization without iron and steel, it would not be much of a civilization. On the metallurgical coal side, the need is mandatory and there are no real substitutes for it. That is all I have to say about the coal business. I would

love to talk more about it if and when at some point we have no ownership in these names and you guys still have a deep interest in talking about it.

Host 2: The last question from us three before we open up to the audience to ask their questions. As investment societies, we are all very keen on practical advice. Perhaps you could just talk about almost the process that you go through from initially coming across the business to then getting a conviction.

Mohnish: When I run into some business or company that is on the 13F of some investor I admire, the first question I ask is, “Is it within my circle of competence?” A lot of businesses are wiped out when I ask that question. Now, if the business happens to be in my circle of competence, then I ask the second question, “Is it widely mispriced?” I am not interested in something that is selling for $75 a share and is worth a hundred dollars a share. That is too Mickey Mouse for me. What I am looking for is it is selling for $75 a share and maybe it is worth 300 or 400 or 500 a share or more. The next question I ask myself is, “Does there appear to be a very large gap between price and value?” Of course, the world is a competitive place, so in most cases for this question, the answer is going to be “No.” But sometimes the answer might come out, “Yes, there does appear to be a pretty large gap.” Then I say, “Okay, let us go down the rabbit hole and try to understand the business better. What is it about, how will it look like in 5 or 10 years, and what might we make if we own it?” That is the process.

Host 1: I will open the floor to questions from you guys. I am sure you guys are very keen. Any questions you guys might have?

Audience 1: As we are young and many of us are graduating, what would be your recommended path of starting a job or investing career to not be stuck in some career that will not lead us to for example, be an investor, but that would teach us skills that could be utilized in the future?

Mohnish: If you have an interest in being a professional investor, I would suggest that you create a very separate brokerage account from where you do not write cheques for your groceries or withdraw funds through a debit card or something like that. Something where the track record could easily be audited in 5 or 10 years. You put money in, you invest it, and then you look at what those returns are after 5, 10, 15 years. If those returns are significantly above the index, then you have some basis to think about asking other people to give you money, but you would need some kind of track record that warrants that. I would get that going as early as possible. The size of the account is not that relevant. Having the discipline that it is auditable and demarked from everything else you are doing is important. While that is going on, you would probably have a job and probably be working for someone. I would just clone Warren Buffett's advice, which is, that you go to work for people you like, admire, and trust.

When Warren took his first job with Ben Graham, and Ben Graham told him to come to New York to join him, he never asked Ben Graham what his salary was going to be. He never asked Ben Graham what his title was going to be. He just took the next train and went to New York. One of the negative things that a lot of new grads do is focus on the name brands. It is prestigious to say that you are going to be working for Goldman Sachs, for example. Going to work for Goldman Sachs is not as important as knowing who is going to

be your immediate boss and who is going to be the people you are going to work with. If those come with the name brand, that is fine. If they come without a name brand, that is also fine. But you have to go to work with people you like, admire, and trust. When Warren gives the criteria of like, admire, and trust, he is not asking you to go work for the company that gives you the highest offer, in that sentence there is nothing about the salary. You need to think about the people and the places you admire the most and reach out to those people and places to see if you can be a part of those teams. Do not worry about the salary and so on. The rest will take care of itself. If you find yourself in a place where you are questioning the quality of the people both your boss and/or your colleagues or you are questioning the ethos of the organization, you cannot stay there; you need to move on. That is what I would suggest.

Audience 2: Buying a business worth about $500 per share, at around $75 is an example you gave for a monumental margin. How often is it that you find yourself wrong in price predictions and could you possibly outline a case where you were? If we have a widely mispriced security, how often does that happen?

Mohnish: If I can find one of those in a year, it is a really good year, and you do not need very many of those. The interesting thing about the stock market is that there are 50,000 stocks if you set criteria saying, "I am only going to buy things that are trading at one-time earnings," you will find companies that meet that criterion. If you say, "I want to buy things that are trading at 0.5 PE six months' earnings," you would find those as well. If you say, "I do not want to buy anything that is more than three times earnings, and I want the earnings to be very stable," you will find those as well. It is like auction-driven markets that things are not always properly priced. They can be severely underpriced and they can be severely overpriced.

I remember that in early 2000, I had started my fund about six months earlier, and one of the guys who had invested in my fund was one of the very early employees at Microsoft. I had very few people who had invested at the time. Because he was very early, he had gotten stock options and he had done really well. He had retired and he had given me some money to manage. He told me "Listen, Mohnish, if you ever find yourself in Seattle, I can take you and introduce you to a bunch of Microsoft guys who are quite wealthy, and many of them may have an interest in investing with you." It was a Tuesday. I said, "As a matter of fact, I am going to be in Seattle on Thursday." He said, "Okay, then I will take you to meet some people." I went on Thursday with him to the Microsoft campus, and he introduced me to a bunch of folks he knew well. A number of them invested with me. I told them at that time, "Listen, you guys work for a great business, but this business, Microsoft, is ridiculously overvalued. Not only is your livelihood coming from here, but something like 90% of your net worth is in Microsoft stock and options, and that seems to be quite a dangerous place to be." They told me, "Listen, Mohnish, you are a value investor. You do not understand technology and you do not understand Microsoft. The stock only goes up. It does not go down and the sky is the limit for the company." Microsoft was trading at such a nosebleed valuation; it had a 600 billion market cap at the time, with single-digit billions in earnings, around 70-80 times trailing earnings. From 2000 till 2013 or so, the return on the stock was zero. Now, the company did extremely well and it grew a lot in that period. Not only were the returns zero, it was a very rough ride, including a drop of

more than 70% of the stock from top to bottom. It had been really hard to hold that stock for 13 years. Many of those insiders lived through that suffering. That was a case of a very overvalued business; it was an exceptional business. It still is an exceptional business.

Just like things can overshoot in spectacular ways, things can also undershoot in spectacular ways. Charlie used to say, "Why should it be easy? Why should it be easy to get rich?" Yes, there are lots of undervalued securities. Why should it be easy to find them? If you enjoy the treasure hunt and you are singularly focused on it, you will find them. In India, maybe 2000-3000 years ago, *The Upanishads* books were written. One verse from the Upanishads is "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 it continues to say your deepest desire is your destiny. If you are passionate about finding 10 baggers, 100 baggers, or 50 baggers, and that becomes your most intense singular pursuit in life, it will happen. Your deepest desire is your destiny. The only question is what is your deepest desire going to be?

Audience 3: Going back 25 years ago when you founded Pabrai Investment Funds, I would like to know more about your experience and your approach to having a successful initial fundraising growth. Were there any challenges or concerns you had that could have made it better at this point? If you can explain that, please. How did you attract the mission of investors?

Mohnish: It is extremely simple. Warren Buffett says that if you deliver above-average returns, above-market returns, they will swim to you in shark-infested waters in the middle of the Atlantic to invest with you. You can be a leper and they will invest with you. You can be obnoxious and they will invest with you. You can be the worst salesman in the world and they will invest with you if you deliver above-average returns. From 1999 to 2007, Pabrai Investment Funds did not have a single down year. In the first eight or nine years, before fees, we delivered about 35 or 36% a year on average. In the first eight years, after fees, it was high twenties and I started with 1 million and in 2007 it was north of 600 million. They found me, I did not have to do anything. They swam through shark-infested waters to invest with me. I told my investors and potential investors, "I am not available to talk to you. I am not available to have meetings with you. If you want to invest with me, you have our audited annual reports, you have my letters to partners, and you have access to our website. If it works for you, you can invest." I did not do any sales meetings with people, schmooze them, or any of that because I wanted to test the theory. I can tell you the theory works. All you need to do is put your nose to the grindstone and beat the market and they will find you.

Audience 4: I was wondering what your approach to risk is. Do you focus exclusively on the micro and the business model? I know in the past you have brought up a company that was operating near your airport that got swept up by Uber even though it had great fundamentals. I was wondering, should we even consider interest rates in the equation or is it exclusively company-specific?

Mohnish: I try to run a 10 stock portfolio and when I make a bet, I try to make a 10% bet. John Templeton said that even the best analysts will be wrong, at least one out of three times. If the best analyst is going to be wrong one out of three times, probably half my portfolio is not going to do what I expect it to do. If I had invested in that parking business near LA Airport, Wally Park, and

if subsequently it got blown out by Uber, it would have been a 10% bet and I have had 10% bets go to zero. Like Elton John said, "I'm still standing," so it is okay. It is a great song by the way. It was a great movie too; *Rocketman*. What a great actor and what a great movie!!

Audience 5: Earlier, when you were talking about your Ferrari position, you mentioned that you have learned to appreciate holding assets when they are at fair value or maybe even above. I was wondering how you rationalize that. How does it fit into your value-investing philosophy, and more broadly, how do you think about closing your positions?

Mohnish: We want to hold great businesses, certainly when they are fairly valued. We also want to hold them when they are overvalued if we bought them at a much lower price and we do not want to hold them when they are egregiously overvalued, kind of like the Microsoft situation. There is overvalued and egregiously overvalued. When things get egregious, we need to do something, but there is a huge gap between overvalued and egregiously overvalued. One of the reasons why we want to give the business that type of rope is that we do not really know what the real intrinsic value of a business is. We may have some estimate of it, and good businesses or great businesses will surprise us to the upside.

For example, Amazon morphs into web services. Microsoft morphs into a leader in AI and Google buys YouTube. These are home runs. Google buys Android and that is a home run too. When you have great management teams and you have great moats, they can do things that can surprise us to the upside. You do not need to leave enough leeway on the other side. How many times in your lifetime do you need a hundred bagger to get incredibly wealthy? If it happens early in your life, then that hundred-bagger may not have the impact that you need. In 1995, when I had a liquid net worth of maybe a million dollars, and then I owned an illiquid business, which was worth a few million dollars at that time from that million-dollar portfolio I ended up with two 100 baggers. One of them was only a $10,000 bet; a 1% bet. The 10,000 ended up becoming close to a million and a half. It was almost a 150-bagger. The other one was a hundred thousand dollars bet; a 10% bet. That ended up becoming about 10 million. The rest of the portfolio, when I put it all together, it became around 14 million or something. But these two positions were 11 and a half out of that 14 million. They were very significant. At that point, even if I did not have my business, I could have hung up my boots and retired. It was really a 100-bagger on a million-dollar base with a hundred thousand investment that gave me financial independence. You do not need to be right many times.

Going back to the Ferrari example, Ferrari is a very unusual business. It took me a while to understand that, but 20 or 30 years from now, I would expect the moat of Ferrari to be wider and deeper than it is today. The rich are getting richer and rich men as opposed to rich women have very few ways in which they can express their wealth. What can a rich man do with his wealth? The Hermes ties are not going to move the needle, but a collection of 20 Ferraris might get some of them excited. If there is a rich guy who has 100 million, 200 million, or 500 million, what can he do to express his wealth? One of the best ways is to buy a Ferrari. Ferrari will be able to sell cars at 90% margins. There will be cars that they will produce, which will be sold for 5 million by Ferrari, where the cost to produce the car is less than

400,000. They might produce 200 of those and they will be sold out five minutes after they announce them because rich men have no other way to express their wealth. It is an incredible moat. When I look at Ferrari, at the time I invested, it was a one and a half or 2 billion market cap. It is 40, 50, 60 billion now. It is about a 20-30 bagger already on a significant base. I owned it when it was one and a half billion. It was about a $20 million investment in Ferrari in 2012. If it is a hundred bagger, $2 billion, you are not going to get that very many times. When you find yourself in the happy position of the ownership of such a great business, you just stick it into the bottom drawer and forget about it.

Speaker 1: There are plenty of more questions, but we will have one more before we wrap it up.

Audience 6: We are living in a time where technology is really fast and in the traditional areas of value investing, reading through the 10-Ks, earnings calls can be replaced by large language models and AI. How much do you believe that the public information gap is kind of closing and how does this affect value investing do you believe that future track records of certain individuals are more largely attributed to skill or is it more luck or maybe inside information because the information is kind of closing the gap?

Mohnish: We have had a transition with technology over the last several decades where information that you should take days or weeks to pull together can be pulled together in minutes or seconds. It has speeded up a lot more. The nature of investing is that it is part art, part science, and AI is very powerful. AI can maybe help a fair bit, but I am not sure it can get to understanding the moat of a Coca-Cola, the moat of a Ferrari, because it has a lot of subtle nuances that come into play. Another thing about investing to keep in mind is that when someone is a really good investor and has small amounts of capital that they are working with, let us say someone is an exceptional investor, they have $5 million that they have under management, their universe is very large, they can invest in almost anything because they could make $500,000 bets or something. As the world finds out about them, the 5 million under management goes to 5 billion, for example, they can no longer make 500,000 bets. They have to move up the food chain. When they move up the food chain, the bottom of the food chain gets emptied, which means that that space becomes available to new entrants who can only make 500,000-dollar bets.

The nature of investing is that the very smart brain power that is initially at work at very small nooks and crannies of the market, by definition, that brain power will move away from those nooks and crannies because they will get successful and they will move into larger greener pastures. Value investing has this kind of notion where continuously the bottom is being emptied for the next generation to come in. For all of you, if you have small amounts of capital at your disposal, you have a huge advantage. Maybe you can deploy AI to give you some speed. At the end of the day, I doubt there is a substitute for the deep dive and understanding things because so much of it is non-quantitative and so much of it changes so much from one company to the next. Circular competence comes in a big way and many factors come in. Last year I was studying the coal industry. I spent seven months only reading and studying coal. I went more than 200 stories underground into four different coal mines. I spent about 10 days with coal miners in the coal

mines in the coal terminals, and I am continuing to do that. Still, after seven months, I do not know the industry that well. The people with ADD who want it on a platter in an hour or 15 minutes, good luck.

Speaker 1: We have reached the end of our event. I know you cannot see many faces, but everyone seems to enjoy the answers you provided to our questions. It was hugely insightful as always. We hope you enjoyed the event as well.

Mohnish: It was great. Thank you very much.

Speaker 1: Thank you.

The contents of this transcript are for educational and entertainment purposes only, and do not purport to be, and are not intended to be financial, legal, accounting, tax, or investment advice. Investments or strategies that are discussed may not be suitable for you, do not take into account your particular investment objectives, financial situation, or needs, and are not intended to provide investment advice or recommendations appropriate for you. Before making any investment or trade, consider whether it is suitable for you and consider seeking advice from your own financial or investment adviser.