

Mohnish Pabrai Lecture at Peking University (Guanghua School of Management) on December 22, 2017

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Jiang: We are very honored that both authors are here with us today. All right, our speaker today, let's do an introduction. Mohnish spoke at this class last year or two years ago. Also, I asked around the students in the class, I think many of them know you already, it is clearly a fantastic performance over the last decade and more. Today when Israel speaks in English, Chinese, don't worry, I told the French track, right? French track will ask the questions on your behalf if you don't ask Mohnish directly. We encourage more interactions after the lecture and basically, we finish this lecture within two hours and then a reception afterward outside. Then you can interact face to face, one on one. It's five black. I think for me to have them in this classroom, it's very lucky for all of us that we can hear what they think about the value university face to face. It's a rare opportunity. Let us give them a very round of applause.

Mohnish: I didn't tell you the whole talk is in Chinese. Pleasure to be here with all of you. Last year I was with you through a webcam. It's better to have a face-to-face interaction. I really enjoyed the talk last year and I'm looking forward to this year as well. This session is in two parts. The first part is my choice, and the second part is your choice where you can ask me whatever you would like to ask me. In the first part, what I'm going to focus on is, there's a quote by Einstein. He says that "take a simple idea and take it seriously". When you study a lot of successful people, this goes beyond investing. If you study a lot of successful people, when you break it down and get to the core, you will find that the idea that made them so successful is simple. What made them successful was that they were very intense and they were very fanatical about the idea. For example, even when I was walking here, I saw the yellow bicycles and I was told that it was one of the London schools started at Peking U. The idea is not complicated, right? It's a simple idea. It's about the execution. It's very important that when we find simple ideas that are very powerful that we adopt those ideas in a very intense manner. When we adopt those ideas in an intense manner, that's when you can have a very amazing outcome. We know we are going to go back to a time almost 70, 80 years ago, 1941. It was in the middle of World War II, and the world was in the middle of blowing itself up. While the world was in the middle of blowing itself up, there was a 11 year old kid in Omaha, first name Warren, who checked out a book from the Omaha Public Library. Can we put up a picture of the book? They just press next, so this is the book that Warren Buffett checked out when he was 11 years old. "1000

Ways to make a thousand dollars” very corny title. The book was actually published in 1936. If you go on Amazon or other websites in China, you can still buy the book today. Very easy to buy on your smartphone. Warren Buffett, when he was 11 years old, read this book. After he read this book, he thought he died and went to heaven, because after he read the book at 11 years, he said that “by the time I’m going to be 35 years old, I’m going to be a millionaire”. Now the book is not telling you how to be a millionaire. It’s only telling you how to make a thousand dollars and a thousand dollars in 1936 today would be around \$15,000, approximately, I think for 15 x inflation, which is approximately 100,000 RMB. All the book is saying is, how do you make a hundred thousand RMB? What Warren was doing was he has overly two mental models. The first model was the book that showed many ways to how to make a thousand dollars. He needed some seed. This was a seed captain. The second was what Einstein called the 8th wonder of the world, which is the power of compounding. At 11 years old, even before he was 11, he had figured out the power of compounding. He knew that if he could get the thousand dollars and he can put it on a compounding engine, then by the time he’s 35, he did the math, (he was very smart at math), he would have a million dollars. What happened is that, when he was 35 years old in 1965, he was probably worth close to I would say eight or 9 million dollars, which is today probably worth maybe about 60 or 70 million. He made it. What he said he was going to do happened. I’m going to come back to the 11-year-old kid in Omaha in a second. We’re going to put him on the side for a minute. What we are going to do is, we are going to go back about four centuries. I’m sorry, this is a history lesson. But we are going to go back about four centuries to 1626, okay? In the year 1626 the Dutch in the North America, we’re trying to buy the island of Manhattan. New York City sits on an island. That island is called Manhattan, about probably 50, 60 square kilometers of land. The Dutch wanted to buy that land, and that land is where all the, center epicenter of western capitalism and so on sit today. The Native Indians who owned that land said, okay, let’s make a deal. There were no bankers. The deal was done in 1626 for \$24. Peter Minivet was a guy representing the Dutch, He gave the Indians \$24. The title of that property, which is now Manhattan, passed to the Dutch. Now, when people normally hear this story, they say, Oh, the Indians, they got taken. Look at Manhattan so valuable and just \$24. But let’s say that the Indians had a Chief investment officer, and let’s say they told the chief investment officer,” Listen for the benefit of the tribe for the next several generations, please invest this money. We don’t have high expectations. Please get us 7% a year. We are happy if you could give us 7%”. Most of the people in this room will easily do more than 7% if the investment officer had delivered 7% a year, there is something known as the rule of 72. Most of you are probably familiar with the rule of 72, but I’m saying the rule of 72 for the benefit of JC. JC, the rule of 72 is very important, more important than what your teacher, the school tell pay attention. Alright? The rule of 72 in the simple way for us to calculate how long it takes money to double. If I have a 7% rate of return, I can do 72 divides by seven, approximately it’s 10. It takes 10 years for the money to double. If in 1626 I have

\$24, it means in 1636, I have \$48, 16, 46, I have \$96, and so on. Right? Now, if I take 10, 10 periods of 10 years each, that is \$10. Two, the power of 10 is 1024, two power 10. One of my favorite numbers, I love that number. 1024, let's throw away the 24 because it makes the math hard. JC we want to focus on two, about 10 is 1000, right? If you take a period of a hundred years, you get 10 doubts, whatever you start with, you add three zeros. 1626, you have \$24. 1726, we have \$24,000. 1826, we have 24 million. 1926, we have 24 billion. 2026, we have 24 trillion, but we went too far. It's not yet 2026. We take away 10 years and we take away one double. 13 trillion. Okay? If the Indians have invested the \$24 and 1626 in a manner, which gave them 7% compounded, they would today have 1320. Okay? What is the undeveloped land in the island of Manhattan world? I don't know, but I know this, the total wealth of the entire planet is 400 trillion. The total wealth of every man, woman, and child in the United States is 100 trillion. Just land 52 square kilometers in the United States cannot be one eighth of that. It's much less than that because the whole thing, a hundred trillion. If the Indians had gotten 7%, they would've come out ahead, but they had a stupid Chief investment officer who could not get them the 7%. They don't end up having one eighth of the wealth of the US. This is the reason why Einstein called it the eighth wonder of the world. Now, let's massage these numbers a little bit. We said the starting amount was \$24 I'm sorry, it became 12 trillion, right? You start with, let's say the deal was done in 1616 at \$12, the outcome would be the same, right? Or 1606 at \$6, same outcome, or 1596 at \$3 or 1586 at a dollar 15 or 1576 at less than a dollar and you can keep going back, you'll get to 1 cent. We go back further, you'll get to 1 cent and 1 cent becomes 13 trillion, right? It became 13 trillion. Without using a high rate of compounding, we use a 7% rate. It's not a very high rate. Now the rule of 72 is interesting, because actually what I love with the rule of 72 is, it is what I would call elastic math. I love elastic math. If you get a 7% return, it takes 10 years to die. If you get a 10% return, it takes seven years to dump it. You can interchange the rate of return with a number of years, and it still works. I think compounding is one of the most important ideas to be fanatical about. It's also very important to be able to do the math in your head with the rule of 72. Let's go back to the kid. 11-year-old kid in Omaha already understood before he read the book on thousand dollars, what compounding can do over long periods. Just like JC understands, he understands the long-term impact you can have. He just did some numbers and he said, Oh I think that if you have a thousand dollars, and in his case, he was going to 20, in 24 years, he wanted to go to a million dollars. That rate bond is very high. He's probably closer to 30%, but he felt, at 11 years old, he could do 30%. I don't know what was going to his mind, but he felt he could do that. From the age of 11 he became obsessed with becoming incredibly wealthy. I told you the wealthiest people are most successful people. They become very successful around a very simple idea, but they're very intense about how they pursue that idea. This kid was very intense. A few years back, I was at a dinner in Omaha, and seated next to me was Warren Buffett's older sister. I said, "wow, this is a lot of fun". I can talk to her about the kid. I asked her Birdie, I'm sorry, she's the younger sister of Warren, Birdie. I asked

Birdie Hey, can I ask you about Warren as a kid? She said, Yeah, yeah, sure. I said, he was doing a lot of different business ventures and different things as a kid, and I'll tell you about some of those ventures. She said, he was always busy. He's always doing things. She said that he had a drawer, and in this drawer, he kept all his money. He had a newspaper around; he was making money. He would get golf balls from the bottom of the lake and resell all these different things he was doing, and whatever money he would make, small amount of money he kept in this drawer. Birdie said that if we ever touch that drawer, that's it. Our parents would be behind us. He'd be behind us. We knew you can do anything. Don't touch the drawer. He was that intense about it. She said that you could do anything more except touch the drawer. Graham touched the drawer. There was a person Warren Buffett went to high school with. When he was a teenager, about 15 years old, his father was a congressman in Washington DC. The family moved to Washington, DC and he was going to school in DC, and he was very close friends with another person in that high school called Don Danley. Don Danley became the valedictorian of that high school. He was at the top of the school, he taught the high school, very smart guy. Don Danley after went on to work for NASA on the space program, and he worked on the Apollo missions to put man on the moon. Very smart guy. He put the man on the moon. Okay? This was Warren's best friend in high school. Many years ago, I've been going to Omaha every year. I've been going since 98. In the early two thousand, I ran into Don Danley and I said, "Oh my God, here's Don Danley". I said, "Don, can we talk about Warren as a teenager?" He said, "Sure, what do you want to talk about?" Don Danley was really good at fixing things. Really good. Warren used to see that there'd be some old beat up car, and Don Danley would buy it for nothing. Then he'd go in there and fix it, and he'd be running this far. One day, Warren goes to Don Danley's house, and he sees in the garage that Don Danley is fixing a pinball machine. You play pinball. He saw that Danley is working on fixing the pinball machine. In a few hours, the pinball machine is working. Warren asked him how much you buy this machine for? He said, "Oh, this is not working, you can buy it for 10, 15, \$20, because people just want to get rid of it. They don't want the thing of space. Warren says, "You can fix them". He, "Oh, yeah, it's easy". He says, "Most of these don't have much wrong with them". Warren has an idea. He says to Don Danley that, Listen, we are going to form a company, and the name of the company is going to call Wilson Coin Operating Machine Company. What we are going to do is, we are going to go to barbershops in Washington DC and we are going to tell the barbers, "Listen, Don and I, the 15 year old kids, we work for Mr. Wilson". (Mr. Wilson does not exist it's just a Fictitious character). Mr. Wilson told us to give you a great deal. He said we should put this pinball machine in your barbers shop for free. Then whatever money comes in the pinball machine where people are playing pinball once a week, we're going to take the machine, half is yours and half is Mr. Wilson's. Do we have a deal?" The barber said, "Yeah, put it in the corner". Of course, the barber has no expense, just put it in the corner. They went to first barber shop, they put the pinball machine, they went to Second Barber, he said, Yes. Then Warren found a beat up pinball machine, told Don Danley start

fixing it, okay? They went to Third Barber, and soon they had about 25 barbers, 25 pinball machines. Don was busy all weekends, fix the machines, put them in all the barber shops. Then after one week on the first barber shop, Buffett goes to the first barber, opens the machine, there's \$5, okay? He gets two and a half dollars to the barber and the other two and a half dollars. When he sees that, he thinks he died and went to heaven, because he's thinking, I only spent \$15 on this machine, Don and I, our total cost is \$15, in six weeks I'll get the money back. I can tell you this, there's almost no businesses on the planet that have a higher return of capital than the Wilson Coin operating company that these two 15-year-olds created. Almost no company. If you look at 10,000 companies, maybe one, maybe better than that, no Baidu or Tencent or Google or one of those companies, but almost no other company can have that type of return on capital. It's very high. The 15-year-old kid already at 11, he read the book, and already he knows he has to create money. Now he's thinking, we are just going to become the Mughals of pinball machines and we are going to keep collecting, right? Then another venture they had, and so Don Danley was used to tell me these stories. He passed away a few years ago. He had cancer, unfortunately, but he's great guy. He was telling me that one time Warren saw an ad in the paper for an old beat up Rolls Royce, right? This Rolls-Royce did not run, could not move at all, available for sale for \$200, not working. Warren asked the guy, who's going to put the man on the move? Can you fix the Rolls? Of course, he can fix the Rolls, no problem. If you can put a man on the move, Rolls is not a problem. They bought the rolls. I think another \$200 in parts, they got the rolls running this 50 up, made it look nice every weekend. They rented for weddings, a hundred dollars a weekend, four weekends, they got the money back, even better than the pinball machines business is the road choice rental business. Pinball machine, all the money coming in the drawer can touch it, okay? His father was a stock broker before he became a congressman. Warren used to be around the office looking at all the stock charts and all. He didn't know exactly how you can make money with stocks, but he knew the prices moved and they changed so much that the delta is there. He was trying to figure out, he was first trying to do technical analysis and different things, and by the time he was, I think 16 or 17, he had about \$9,000 saved up. He told his father, "Listen, I'm going to pay my own way through college and pay all the money to my sisters. I don't need the money. I got my capital". Obviously, the rest of the story. At 20, he heard about Ben Graham, then he went to Columbia and then learned all about value investing. Then he got the framework, but from 11 to 20, the main thing that he did was he collected the seed capital, right? The \$9,000 in today's money would be around maybe 70,000. That 70,000 is where it is today, became the richest person on the planet. When I first heard about Warren Buffett, I was 30 years old, much older than you, we were huge advantage over anyone else in the classroom? What's the average age of the classroom?

Jiang: About 25 to 28.

Mohnish: One of the problems is that you lost some runway, it's very sad, but you lost some runway. But it's not lost. The good news is you live for longer than me or Professor Jiang Guahua probably. My guess is most of you will probably live past 90, maybe past a hundred. We don't know what medicine does in the next 50 years, but if you take 90 as the age, most of you will stop compounding. We have about 65 years. In compounding, there are three variables, right? One variable starting capital. Second variable will return third variable length of runway. I told you already, you have a 65-year runway. Now, starting capital, unfortunately, you didn't start a Wilson Coin operating company at 15, and you didn't start the Rolls Royce rental business at 16. You are still in school at 25, that's unfortunate. But very soon you're going to leave Professor Jiang Guahua and start the engine. When you start the compounding engine, it's very important, don't spend the money, don't buy the Tesla, How much does the Tesla cost in China? More or less what?

Student: 800,000?

Mohnish: Maybe around \$120,000 or something. It's not 120,000. The person who bought the Tesla shall we calculate what it costs them. At 15% for 50 years is 120 million. That's what the Tesla costs. 800 million RMB, don't buy the Tesla, it's too expensive. In fact, don't even buy Starbucks. One Starbucks is about 5,000. Starbucks, 35,000 RMB, don't buy the Starbucks flicks, you should stick with the water, have filtered water. I can assure you like I bought the Evian. Someone comes to Warren and offers him some wine at a party, "Mr. Buffett would you have some wine?". You know what he says? He said, "no thanks". If he's walking down the street and he sees a penny on the ground, what he does? He goes to reach the penny. It's not a penny start of another billion. It goes for the penny because you got to start cracking it out. The thing is that we've got these three variables, right? We know run length of runway starting capital and how much you earn. Also, you can figure out the one that you don't know about is the compounding rate, right? But that's the reason you are in this class. The whole reason for being in this class is to maximize the compounding rate, right? Make sure you learn well, because all that matters is the one variable that you have control over, but you don't know exactly what it is. The other two variables, we don't have so much control over. When I first heard of Buffett, I was 30 years old, 1994, so much older. But in 94, when I read about him, and I was lucky, the first biographies on him had just come out Lowenstein and a couple of others. When I read about him and I understood what was going on with this kid, with compounding and all these things going on, I said, "Oh my God, this guy is destined to be the wealthiest person on the planet because he's just going on a path". That path is just there. What I noticed was that, from 1950, (which is when he started compounding at the age of 20 when he had the \$10,000) to 1994, he had compounded at north of 30% a year, very strong compounding rate for 35 years. Not only that, he got other people's money. OPM can be good for you. He ran the profit partnerships from 1956 to 1969, where the returns of over one fourth came to him. He got money because of money he made for

others. Then he was continuing to run that. The end result is what we see today where if he was not giving his money away, which he'd been giving for several years, he'd be at the top, he'd to be at the top. He's given away so many tens of billions. At that time in 94, I was running a technology company, an IT company, IT services. I had just sold a portion of the company and I got after taxes, everything, I got \$1 million I was very happy. First time ever in my life, I had money in the bank. I was always kind of running the company on credit cards and so on. We paid off on the credit card, and I actually had cash. I heard about Buffett and I said, I didn't start at 15, but 30 is okay. It's not too old. We can still start today. I had the 1 million, so starting capital is better than the Indians, than \$24. I said, let's try to start a compounding engine. I decided I would try to play a game, and I play a game for 30 years. I said, "look, we have \$1 million. If I can double it every three years, which is a high rate, about 26% a year, then in 30 years, it's true to power 10, 1000, 24 right thousand times. A million becomes a billion. I said billion is a lot better number than a million. Why don't we try to go for the billion. What I did is a few years after that is, I came up with a license plate, state of California allows us to pick our license plate. This is the plate on my car, which my daughter took away. Now it's her plate, not mine. Been pass the next generation. What does the license plate mean? Pardon? Raise your hand. Yeah.

Student: Compound 26.

Mohnish: How do you get that?

Student: I had this in your speech, earlier.

Mohnish: Okay, LB is pound, English LB is an abbreviation for pound compound 26. Okay? To make sure I don't forget what the mission is, I put it on the top. Every day I'm reminded that we have to compound 26. What ended up happening is that I got lucky, I think from 95 to 99 it was compounding at more than 70% a year which is a very high rate. Then a bunch of friends asked me to create a partnership they could invest. I thought it'd just be a hobby for me and my friends. Pabrai Investment funds actually started in 99, and then from 99 to 2007, I think we had done mid-thirties per year before fees. Then I think after fees were high twenties. Then from 2007 to 2009, the financial prices went down a lot. We went down almost 70%, two thirds. The compounding went in reverse, which is not good. Then from 2009 onwards, it got back on track. We are right on track from where we started till now, exactly where I need to be. But the thing about the way the compounding works is, if you look at someone like Warren Buffett when he was 50 years old, and you look at his network today, if he had not given any money away to charity his network when he was 50, was one-third of 1% of the network today at 80 cent. 99% and two thirds of his wealth have come after the age of 50. Just like you saw with the Indians, \$24 after a hundred years, \$24,000 after 200 years, so as time goes on, it's geometric. What our human brains is, we are not used to thinking geometrically. We are used to thinking arithmetically, not geometrically. You

have to train yourself to think geometrically. In my compounding journey, (it has now been there are seven years left), amazingly, 23 years went by, I blinked my eyes and 23 years are gone along with all my hair. I used to have a head full of hair when I started compounding. Now it's become just like Professor Jiang Guahua, almost the same. Seven years are left, but most of the money comes in the end because the way the compounding works. I decided why to stop at 60? This is so much fun. We can keep going. Maybe I'll get to 80, maybe 85, you'll see. Just keep going as long as we can and have as much fun as we can along the way. That's kind of where I'm at. But what happened with me was that I read a book in 94, and I could have said, after reading that book, "Oh, that's an interesting book" but I didn't do that. I took that book and turned my life and said, I'm going to focus on this. The important thing is that when you attend a lecture, like what you're attending today, there are two ways you can kind of process it. One way you can process say, "oh, that was an interesting lecture", and then go to the next lecture or the second way you can say, "wait, I need to make some changes". Starbucks is history, the Tesla is history. I'm going to make a different way to make it happen. I'm going to focus on, Warren Buffett did not understand compounding, he did not understand how to compound. He just understood compounding. By 11 years old, he understood compounding, but not how to compound. He understood how to compound and even how to compound. He understood at 20, but that method needed to go through change. When you met Charlie Munger, it's from buying a fair business at a good price. You're better off buying a good business, a fair price. That change of going from fair businesses to good businesses took place almost when he was passed, it was passed 50 with almost 55, close to 60 years old when that changed took place. He had a model at 20, and that model served him well, but at 50, 55, he had to change that model. The good thing about a guy like Warren is, he's continuously looking to how can I improve and how can I change. But he always keeps a focus on compounding. Always focused on compounding. What I really wanted to talk about today is that, compounding truly is what Einstein said, it is one of the worlds, because you saw how it can be transformational and if you can put it to work for yourself at a young age, for a long time, it can have a huge impact. On the other hand, if you are spending more than you make and then you have credit card debt and all of that, then it works in reverse, then you are compounding downward, and that can have a downward spiral. You have to be very careful that you make compounding work for you and not work against you. With that, maybe we will open up for questions and see what you guys have and have in mind.

Student: You had bought an insurance company and then you recently sold it saying it was a mistake. Can you please talk about what you learned after buying that company?

Mohnish: Sure. The company is not yet sold. It's going to be sold soon. I hope the buyer doesn't see the video and decides not to not buy it. But it's a good company, good people, and it does well. But the industry itself is difficult industry. For

example, what happens in insurance is, anytime someone is buying a policy, they don't believe they're ever going to file a claim. They think an insurance policy premium is like a tax. Let's say you buy a car and the government says you have to have insurance you think it's like a tax. You try to find the cheapest insurance you can. In insurance, your dumbest competitor sets your price. You don't have pricing power, right? The second is, it's a very strange business because it's one of the only businesses where you sell a product, but you don't know the cost of the product for five or 10 years. Just imagine that, I give you this bottle of Evian, and I sell it to you. If I don't know what the cost is, how do I price it? They're making mathematical guesses about the pricing, but the real number will come out later. Yesterday I visited a company Maotai, right now that is a company where the X-factor price of one bottle is 800 RMB, I'm afraid to ask them the cost. It's not 800 RMB or 400 RMB or 200 RMB. It's below that. It's a license to print money. What a beautiful business, right? The insurance business is the opposite of that, where everyone is fighting to get the policy. Everyone is dropping the price to get the premium without concern for what happens when the claim comes. Let's say we have a lot of inflation in the future then the claims will be higher where you collect in today's dollars, but you pay in future's dollars. There are a number of structural issues with the business. I used to think insurance was a great business because Buffet went into it and did so well. I think it was because Buffett was an incredible manager that he was able to make even a difficult business, like insurance worked so well, but most other people in the industry have had difficulty. The good news is I had three years of experience owning an insurance company, and I learned a lot. I don't want to learn anymore. I think between now and the time I leave and end the compounding I'm going to stay away from the insurance industry. All right? Yeah, please.

Student: You sold your company in 1994 and therefore when you started your fund you could charge a zero management fee because you had plenty of money set aside. That is not the case with most managers. How can most managers charge zero management fees if they are not wealthy?

Mohnish: Okay, that's a good question. Yeah. I think the zero management fees is a very important thing because it gives you a competitive advantage. Very few companies can offer that. The fund business when I started my fund, it had no expenses. It was in my house. There's no other employees or staff. I was working on it part-time, one computer, which you already have. There's no expense. If you don't charge a fee, all that means is that you don't have an income. My take is that, if you are going to manage money for others, you should have first managed money for yourself, and you should have done well to earn the right to manage money for if you have done well for yourself, there should be some money, which maybe not much, but there should be some money because it's compounding at some rate. The other thing is that, you don't need to be full time to manage a portfolio. First five years, which were the best years of my entire history as investor I was part time. 95 to 2000, I was

running another company, I was only maybe 10, 15 hours a week. The returns were the best of the entire period. It is not necessary, in my opinion, to be full time. You can take care of the expenses of your family and living by some other method and still have the zero fee. Again, if you're compounding at a good rate, then even a small sum will start adding up. I think it's important to make sure if you have no money to have a good job, so the money is coming in, you can save some money, and then you can start putting it together and then start convincing people to give you money to manage. That's how I would do it. Yeah.

Student: Actually, I have three questions.

Mohnish: I don't know if Professor will allow.

Speaker 3: First of all, as an individual investor, you can't buy the Berkshire house, which is compounded at nearly 20% a year, and now its \$300,000 a share. What's the purpose of hard working if you can already buy a share by compounding at a such high rate? What is the purpose of our hard version? This is from first question. The second question is, I read your interview, you said a large portion of your investment is overseas, it's not in US. What's your portion of investment in China? Well, yeah, I know a large portion is in India, what about China. The third question is, I read almost every speech, I don't know his name. What's the relationship between you guys?

Mohnish: Let me take your questions in reverse. Guy and I are just good friends. Sometimes you meet someone like Warren Buffett and Don Danley, or Warren Buffett, Charlie Munger, you meet someone.

Student: I mean, when you are making your investment decisions, you're changing your views or,

Mohnish: Yeah. A lot of times we will talk, sometimes we don't agree, and we try to. What I find with Guy is that his life experience is different from mine, and he tends to look at things differently than the way I look at them. Many times, when I bring up some investment idea to him, he will come up with some things that I may not think about. It is always an advantage to have someone to talk to about your investments. I think it's always an advantage, especially if someone is going to look at it independently and such. We get along and we have fun together. I told him I was coming to China, he said, "Oh, I'll come too", and here he is. That's the relationship. Regarding the lack of money invested in the US, for most of the time that I've been an investor. Most of the assets have been invested in the US because I understand that market well, and I've been in that market for a long time, but I found in the last two or three years, I'm not able to find hardly anything I've been able to find. One of the reasons is obviously the US markets have gone up a lot. A lot of markets have gone up a lot. The second thing that has happened, specifically in the US is. if we go back, let's say 20 or 30 years, there used to be about 8,000 public companies in the US. Now there are less than 3,700. The number of public companies has gone down a lot, and

it continues to go down. At the same time, the number of brain cells employed to look at these companies has sky rocketed up, right? A lot of smart people who studied physics. Going to NASA, they join a hedge fund, right? Instead of sending a man to Mars, they're trying to figure out the next trade. It's so sad. The second thing is, we have a lot of brain power focused on these 3,700 stocks. Too much brain power, in my opinion. Mispricing becomes less in that scenario. I was just finding that I'm not finding much. I started to look in India, and I found that in India, the number of public companies is more than the US 5,000 public companies in India. Probably 4,000 of them have nobody following them because they're too small. Because the economy is growing at a good rate, is growing at a faster rate than the US. A lot of companies have a huge tailwind because a lot of things don't exist in India. Just like in China, a lot of things didn't exist two decades ago, right? In fact, I noticed that this time I came to China in 2017. The last time I came was in 2008. I just see such a huge difference just looking around between 2008, what I saw in 2008. Even then the economy was doing well. 2017, it almost looks to me the standard of living is close to double. That will happen. We know that 7% in 10 years is double, right? If the economy is going five, 6% for that long, you're going to see a difference and I didn't even see it here, even when I went to Maotai and I was looking around there, even there, the development is incredible and such, it was just amazing to see all the infrastructure. India, basically, I think over the next two or three or four decades has a lot of room to grow. One of the things that's important in investing is to fish where the fish are. I don't think there's much fish in the US. I think there are a lot more fish in India, and I think there are a lot more fish in China. The problem I have in China is, it's outside my circle of competence. I'm almost sure that if I focus on China, I will get my head handed to me, Okay? Because I don't understand a lot of things about the culture, the nuances of the company, about whether the company is honest or not. There are a lot of things that will have a difficult time figuring out. The most important thing in investing is well, most important thing is patience, but second most important is the circle of competence. You have to stick to companies that are within your social confidence. In Pabrai Investment funds, I manage about 870 million. I have only one investment in China, Maotai. I bought the company a few years back, Thank you Maotai. But I have no aspirations to because I don't think every second comes Chinese company is Maotai. There's only one Maotai. In the whole world, there's only one Maotai. I was lucky that I was able to invest in a hundred percent hit hatred. One for one is good. But I don't have a second idea in China that I am excited about. I know about maybe if you can educate me, then we can do, no you must. Please send me your best Chinese ideas mp@pabraifunds.com. Please send them to me. I'm anxious to increase Chinese exposure. If you have great ideas, I'm all ears, I would love to know that. Then your third question about Berkshire Hathaway. Basically, there are two classes of stock, class A and class B. They're both the same. The Class A stocks sell for 300,000. The Class B is about \$200 share, I think approximately about \$200 share. You can definitely buy the B shares. Each one is about less than 1400 R&B if you want to do that. Berkshire has done well in the past. It will

do well in the future, but it will not do as well as it did in the past because it's big. The problem is that the numbers get large. It's difficult to compound at high rates. I could compound at 70% because there's only 1 million, right? It's hard for me to do 70% a year at a billion. That's much harder. Berkshire Hathaway is a good choice but there are many choices, in the industries and such. But I would say that I think for most of you the Chinese market is one that you are probably very familiar with and one that you can understand well. Probably ones where there are still lots of opportunities because there's a lot of growth ahead. There are a lot of great entrepreneurs, and as long as you can identify the right companies, entrepreneurs' kind of right tailwinds, it can work out quite well. But you have to be careful. Yeah, go ahead.

Student: According to you, your fund changed portfolio strategy after 2008 financial crisis. Before that, your 10 stocks took the 80% of the fund, and after the financial crisis ,20 stocks and per stock 5% of the fund. What's your opinion on thinking about the change and the risk and the benefit?

Mohnish: Yeah, that's a good question. Actually, what I used to do before 2008 was, if I made an investment, it would be 10% of assets. I was trying to run what I would call a 10 by 10 portfolio, 10 stocks, 10% each. What I realized during the financial crisis is that, there were a couple of things going on at that time. One is, I was finding whole sectors where there was a lot opportunity. Like I found the whole commodity center is collapsed, and it was hard for me to tell which one is the best one. What I did is a basket approach. I put 2% into a number of companies in the commodity space, and actually, we have no loser. All of them made money. They all did well. I changed from just 10% to three numbers, either 2% or 5%, or 10%, three numbers, right? Even now, I prefer to invest 10% if I can, because you don't want to have too many stocks. The most jobs you have, the less well, you got to know that. My preference is to put 10%, sometimes either I have a basket available or I'm concerned about some risk reward parameters, I may take it low and such. For example, when I made the investment in Maotai, it looked very good to me, but there were a lot of things about the company culture and including me never having tried the product that gave me pause. I only put, I think at the time, about 3 or 4% of the assets into Maotai. Now it grew a lot. It's about 10% of the pie. My preference is through 10%. Then days from there. That's what I would prefer. Yeah.

Student: Do you have your personal money, do you put everything in your firm?

Mohnish: Most of my family money is in the funds. Some money is outside the funds. There's no money in Guy's firm, sorry to say. But no, historically I've been, and I mean, I'm the largest investor in Pabrai Investment funds. Even if the money is outside Pabrai Investment funds, it is invested very similar. I'm eating my own cooking. I avoid giving the money to other managers like Guy or anyone else, because my investors would question why you're doing that. If something else is a better place for the money, maybe they should put the money there too. I try to maximize the money in our funds. Actually now for US citizen investing

in India is possible, but it's complicated. It took me a long time to get Pabrai Investment funds set up to invest in India. I personally have not set up to invest in India. If I want exposure to India, which I do, I have to be in Pabrai Investment funds to get that. More incentive to be more into Pabrai Investment funds. We try to do that.

Student: Everything is not in fixed income?

Mohnish: Oh, yeah, I'm not a fixed income investor. What I have done with my life is number one, I have no leverage in my life. Our home, there's no mortgage, my office, which we own, there's no mortgage. Any assets I have, which are appreciating assets, there's no debt on it. If I buy a car, it is financed. Depreciating assets, I finance because otherwise, the car is going to be like the Tesla, it's going to cost me too much, so better for the bank to pay for it. Then beyond that, the idea is, we may not be a hundred percent invested all time, but we are looking to invest in equity. Yeah, absolutely.

Student: Which area is your perspective on investing in healthcare sector in China?

Mohnish: In China? I have no idea. I am hoping you can tell me.

Student: I think the market in China, it is maybe health care, and maybe education.

Mohnish: Okay. Yeah. I think my problem is that I would not be able to figure out who are the future winner in China.

Student: How do you figure Maotai?

Mohnish: Maotai I had some help. Someone helped me. I need your help. I cannot do it without help. I need your help, please. Yep.

Speaker 6: What's your method to figure out the true value of a company and how can you achieve a higher company rate?

Mohnish: Okay, yeah. That's a very good question. When a few years back, I went to Warren Buffett's private office. He was giving me a tour. Me and Guy were both there. On his desk, there's a box, and the box says too hard. He says that 98 or 99% of companies or ideas that come to him go in that box too hard. He cannot figure it out, okay? When I went to his office, I saw the box then. I said, Warren I thought you said everything. Just go in the box. It's too hard. He said, Oh, let me fill it up. He took a bunch of paper to put it in, make it full. But the amazing thing is that, this kid, I think Warren is still a kid, when I see him, I think I'm meeting 11 year old kid. He is fanatical about compounding, right? One of the most important things to compound well is a circle of competence, you have to stay within your circle of competence. She said China, healthcare will do. Well, what happened in my brain when she said that is, "Mohnish, what do you know about Chinese healthcare? Nothing. Mohnish, are you going to invest in Chinese healthcare? No. Now, if she sent me a 20 page writer on a company, which explains why it makes sense, maybe I can do something, please send it.

But at this, then I can't do it". We have to do what I would call anomaly. We have to look for strange things that show up once in a while. They don't show up all the time. We have to be like scanning the horizon and doing that. Once in a while, something will show up. It makes a lot of sense. Then you act on. I'll give you an example. A few years back, someone sent me a write up on a steel company in the U., The kind of economics of this company was that, the stock price was I think around \$45 a share. They have \$15 a share in cash, no debt. Next two years, they have contracts where the earnings are \$15 a share, which of the next two years. Between the cash and the next two years of earnings, you are getting, you are paying 45, and you get the 45 back in two years, but you still have the company, all the plants and everything else. After two years, there's no visibility into what's going to happen. But it's a cyclical business, it can go up and down, right? I said, Okay, we are going to make the investment, we're going to keep it for two years and see what happens. Because I'd taken the cash, and at that point, I got all the cash back. I bought the company for 45. One year goes by and they say another two years is \$15 a shift. One more year is set, the stock is now at 75. It move up. I say, Okay, now it's \$60 for 15 plus three years, \$60. I say, let's wait, because we are now above our cost. Then they announce one more year, \$15. Now this stock is at 90, right? It's doubled. Then I'm thinking I should sell. Then they announce someone is buying them for \$150. I don't even wait for the deal to close. The stock goes to 150, I sell it. I don't need a lot of horsepower to figure that out. It was easy to figure out. But it doesn't happen every day. The important thing is that, Charlie Munger says there's a friend of his, he's a billionaire. He lives near Stanford University, John Arrillaga. John Arrillaga only invests in real estate within one mile of Stanford University. You take Stanford one mile around, that's the only thing. He invested nothing else. From having no money 40 years ago, he's a billionaire. All he did was he never put on a lot of debt. When things went down, he bought, and when everyone got euphoric, he sold. That's all he did. He just managed that. What is John Arrillaga's circle of confidence? Is it real estate? No. Is it US real estate? No. Is it California real estate? No. Northern California real estate? No. Bay area real estate? No, Only real estate around Stanford. The circle of competence is this small. He knows nothing. If I talk to John about the steel company in and out, he won't do anything. He's just going to listen to me and drink some coffee and say, Okay, next. I'm not interested in that, because it's not in his circle, right? The good thing about getting wealthy is, we don't need to understand a lot of things. How many companies in China will go up a hundred times in value in next 10 years? A lot of companies, probably more than 50 companies. Am I going to be invested in any of them? Probably not. Am I sad about it? Do I look sad? Okay, the good thing about the investing game is like Buffett says, "there are no call strikes in baseball, three strikes and you're out". In investing, you let a thousand balls go by, right? The key is, I come to China, I come to picking you, I meet all of you. Yesterday I went to Maotai, we make 400% of something on the investment. Well done Mohnish. Thank you. I don't know what will come out of this trip. I just enjoy being with you guys. But maybe someone send me an email, or something happened. Maybe if something comes out, that's good.

If something doesn't come out, that's also good. Either way, I'm happy. No problem. Tonight I'm going to India. I'm going to meet with about six companies that I know nothing about. It's like a MBA class. I sit down with them, and drink the Indian chai. Hey, tell me about the business. I don't care whether I invest or it, I just want to learn. I enjoy learning, right? If I keep doing these meetings, sometime there will be like the steel industry. I was at one meeting a few months ago. The market cap of the company is less than a hundred million earnings in three years, 50 million a year. I said, Excuse me, please repeat. I made him repeat three times, just to make sure I heard it correctly. That's it. We didn't need to do a whole lot. We studied the company. It's obviously there. All the numbers are there. We can make sense of it. The market at that time was not interested in that industry. They hate the industry. That's what you want. Things that are hated and unloved. That's what I look for. What do people not like? A few years back, Maotai price went down because of all the corruption, right? If you're a government official, you cannot be drinking Maotai. Much of the consumption is government. Price went down, I'm happy. No problem. I'm happy to buy it, because I just see what happens in long term, not what's happening in one quarter or two quarters of one year. That's the important thing. Circle of competence. Stick to what the good thing with all of you is when you start out in life, just like with Warren Buffett, nothing, very little about any industry, but if you are a curious student, you will learn. I'm going to meet a company in India, which specializes in housing finance. There are a lot of things about housing finance I don't understand in India. I have long list of questions for them. My purpose is just to educate myself. My purpose is not to invest. I just want to understand. My objective for my India trip is when I leave the country, I understand things a little better than when I went there. That's it. Charlie Munger says is, "every day, if you sleep a little bit wiser, that when you woke up, that's it". The main thing you have to be is, you have to be a student who takes in knowledge, just learning all the time, furious. The bike company, the yellow bikes. How does it make money? Does it make money? Is it a good business? Or how did they expand? What is the quality of the team? Who are the guys who run it? What is important to them? What is their ethos? What are their principles? I'm curious about all these things. I have no idea about these things, but I'm curious about these things. That's how you got to have a curiosity to keep taking in data. Then once in a while, when you're taking in the data, suddenly things will fit. Then when they fit, you can act. That's how you do it. Yeah.

Student: Do you use stop loss to protect your position?

Mohnish: Okay, that's a great question. I have an interview on Indian TV in three, four days. I told them I want to talk to them about the subject of the stupidity of stop losses. The whole interview is about that subject. Because what I found very strange is, if I turn on the stock channel in the US like CNBC and somebody is making some recommendation, they will just say, the stocks at \$10, it should be worth 13, something like that. They don't talk about stock stop loss. In India,

when I turn on the TV, there were too many channels for stocks. When I turn on the stock channel, every single Pundit who comes has a stock loss and a target. They say, "the stock's at 10, Target is 12, stock loss is nine". I look at that and I say, "Oh my God, this is so stupid". Let me explain why it's stupid. It'll help me prepare for the event, thank you. Stock markets are auction driven entities. People come in, buy and sell, and the buying and selling create a clearing price, right? That clearing price may or may not have anything to do with the underlying value of the company. It is going all over the place. For example let's say Amazon is a company selling for \$1,200 a share, for example. What is the value of Amazon? Well, the value of Amazon is all the cash they will produce from now till the date the company doesn't exist. Then you discount that back to a present value. That's the value of Amazon. We have to know what the cash flow is in 2018, 2019, 2020, 2021, and we have to know when the company doesn't exist, Okay? First question to have, when does Amazon not exist on planet Earth? I have no idea. In fact, if I go to Jeff Bezos and ask him the same question, he has no idea either. I go, "Hey, Jeff, listen buddy, can you tell me when your company is not going to exist in". He's first of all going to hit me for mentioning such a thing, and then say, "I have no idea". Then second question to Jeff Bezos, "Hey Jeff, everything about Amazon. Can you tell me where the cash flow is in 2018? Tell me where the cash flow is in 2019, 2020, 2021 et cetera". He has no idea. Person in the company running the company has no idea, but the market has given a precise number for the value of Amazon, precise number to the cent. This is the value of Amazon to the cent. What the market is saying is, the market knows everything. All the future cash flow, Amazon is \$1,200 per share. Present value, Okay? The reality is, the market also doesn't know the 1200 could be too low or it could be too high, but the odds that it is correct is very low. It could be too low or too high. If I buy Amazon and someone tells me, Listen, \$1,200 a share, \$1,100 stock loss, \$1,400 Target, that would be a very stupid thing to do because for example, let's say when I was buying Maotai three or four years ago, I think the stock price was like at 170 RMB, right? I looked at the company and looked at everything. It looked cheap to me. I walked. Right after I finished buying, it went to 150 RMB. If I put a stock loss in that, it'll all be gone today, I would have no amount time. Let's say I buy 170, 155 stop loss, and 300 RMB target, it will go to one 50. It got taken out, gone. The nature of equity markets is that they fluctuate. They fluctuated all the time. We cannot have our investments taken away from us just because they fluctuate it. Let me take another example. Let's say there is a house in Beijing. Let's say the value of the house is 5 million RMB. Okay? Let's say the house is listed on the stock exchange. Only thing in the stock is this house. Now, let's say I have a friend who is a real estate agent, who knows stock. The price of the house is very well. I tell this friend, Listen, come and have coffee with me every day and every day when you come and have coffee with me, please tell me the price of the house. I buy the house for 5 million RMB. Next day I call my friend, what is the price of my house? He's said, Listen, idiot, still 5 million RMB didn't change two days, still 5 million. RMB. Every day he's getting upset that he called. You call him and he has to give you the same information. There no change. Then

after two months, he says, oh, listen, there's some change. It's gone half percent. You feel very happy. The same house on the stock exchange is doing this every six seconds. 5 million RMB 4.8 million for RMB 5.2 million RMB 0.7 million, RMB, that stock price is moving everywhere without consideration for the underlying asset because buyers and sellers are creating the stock price. Whereas in the house, it is one intelligent buyer, one intelligent seller who look at the price and set the price. The reason why Buffett became a billionaire is because of auction driven markets. Auction driven markets create opportunity. They undervalue companies and they over value companies all the time. A stop loss makes no sense. I'm never going to buy a company unless it is worth at least double or what I think it should be. I never buy anything, and at least a double, I want at least a double, right? If I buy something for 20 RMB, it has to work at least 40. I bought Maotai at a new value more than that, right? If I'm buying for a double, one of the things I have to reason I have no debt and no leverage is because everything I buy goes down in price. I don't know what happens to you without what happens to me. Everything goes down in price after I buy it. It knows Mohnish bought it, take it down after he bought. It all happened. If you only take one thing from the class, which is not compounding, take away this. Forget about stock loss. If you're doing value investing, stock loss makes no sense. Yeah.

Student: Can I ask what's your worst investment and why?

Mohnish: There are many worse investments because they went to zero. You can't do more than zero. I have had a number of zeros. How many of them do you want me to talk about? For example, in the financial crisis in 2008, I had a company I used to own Delta Financial. They were a mortgage originator and lender. They originated, and they were actually a business that ran sensibly. They were not doing kind of strange bad practices, but what happened is that they had these warehouse lines of credit where they will issue mortgages to a bunch of people take on the mortgage, on the balance sheet, then they would securitize it, get the money back, buy more mortgages. That was their business, right? In the financial crisis, what happened is that securitization stopped. It froze. They were stuck with these mortgages, and then they violated the lending comments and they didn't have much equity. In all of that, it collapsed to zero. It was very painful because we lost 70 million dollars, 70 million going to zero, not good. One of the things that came out of that was I created the checklist. One of the things that I learned from the checklist, and the single number one reason why investments don't work is leverage. That's why I'm very skeptical about banks financial institutions. I'm going to meet this housing finance company in India. I have a lot of skepticism. Cause the equity is small and the debt is very large. They make a lot of money. It all works really well when the system is working, but when the system doesn't work. The good news is when I meet this housing finance company, I already learned a lot of things in 2008 because I lost money, right? This time when I meet these people, I have a long list of questions for that, maybe questions they themselves have never thought

about. Because what can happen in leverage situations is you can have extreme events. We talked about stop loss, right? Because I have no leverage in my portfolio. I don't care how low prices go. For example, let's say the guy and North Korea launches a bunch of missiles. What do you think the stock market's going to do when they open? Straight down, no flow, just falling straight down. We may be down 50%. I mean, if we actually launch and get a hit close to a major city, maybe down 50, 60, 70%, we don't know, right? I don't have leverage. 10% is Maotai. What is the impact on Maotai? Maybe for a few days, people will bring more amount and time, cause of the launch. But after that, the consumption will go back to normal. But the stock price will go down for sure. I don't want it sold. I don't want stock loss or anything. I want it sold. I want sit there. I want to hold it. We have to have the ability in our portfolio to have, so most businesses will not be affected long term by a missile launch, but this price will go down. What is the impact on real estate around Stanford? Unless the missile comes in there, no impact, right? Long term is the same, but instantaneously prices will go down. We have to have the ability to take advantage of such events. More even better. Not to hope it never happens, but we definitely don't want to be in a situation where when the event happens, we go to zero. Any number multiplied by zero is zero. That's the problem. You cannot go to zero, you cannot have leverage. One of the things I learned is not to have leverage in my personal life and to be careful about what companies have leverage to make money, the best companies make money without leverage. Google has no leverage and it makes a lot of money. Maotai, no leverage makes a lot of money. That's what you want to look for, great businesses that just crank out cash and they don't need any debt. That's a great way to go. Did we have some questions which are from the investors that We Chat with? Yeah.

Jiang: Anyone is here who is asking individual group. They ask now, and I can translate box.

Student: I have a question. If you have so many work to do, you're looking for young manager to help you, what are the important things of the young manager you see?

Mohnish: Can you repeat the question?

Mohnish: Okay. As the manager. Are you applying for the job? Actually I have no analyst. I have no team. I work alone. I think it negative to have a team because in general that will cause activity. Because if I hire someone, for sure, the person will be very smart, right? I'll not hire someone stupid. It will be smart. If I hire someone really smart, their brain is working. They'll come to me with some idea and their circle of competence and my circle of competence are different. They come with an idea and I'm not interested, next day, another idea, not interested. After one month, they'll say no to every idea they came up with. I feel bad. Okay? Then I say, Oh, let's take the idea. Not good. Okay? I don't want to have a situation where so when, when people send me ideas, which I hope

all of you, I have no obligation to even tell you what happened, right? No obligation at all. Hopefully don't feel bad if I don't buy the idea. That's also good. There's a lot of wisdom in crowds, lot of wisdom in crowds. Two and a half years ago, a person, I don't know, in Canada sent me an idea for stock in India to invest. Very elegant writer. Remarkable, very high quality, right? I was blown away. I never met this person, still haven't met the person, and I don't know the person. I read the write up. After I read the write up, I said, "this is beautiful". All I need to do is just check all the facts. I spent about two hours just checking. If he says the debt is so much, I check if the debt is so much debt and if it is non-recourse, I check it's non-recourse. Every single thing the person said is correct, and if I need answer, so the stock is trading at one 10th of the valley, one-10th. After three hours, I say pull the trigger. The only problem is the stock in India is a market cap of I think less than 200 million. I can only put 20 million in India, I cannot own more than 10% of company. 20 million. I said, fine, I would like to put 70 million, but we can only put 20 million. We put the 20 million. I thought that in five years, worst case, we make at least five times and probably make 10 times five years, right? Two and a half years the stock is gone up 10 times. I still haven't met the guy. Thank you, Perry. Thank you very much. Keep them coming. The thing is, there's a lot of wisdom in the crowd. It's not the experts who have the ideas. Individual investors looking around in different areas are going to find things that I may not find. I would never have found that company. Without that write up, I could not invest. That's a complicated company. If the person didn't make it easier. That write up was on the internet for anyone to look at one year before he sent it to me. Nobody did anything about it. What I find since I bought the company and I learn about some more, we are not done yet. I think it may go even more. We sit on it like mouth time, just sit on it. I cannot hire an analyst as good as that guy. What I want is 10,000 analysts, not one analyst, 1 million analysts. All of you are analysts, Pabrai Investment funds, mp@pabraifunds.com. Keep them coming, but please nothing less than a dime. Don't send me something. This is 80 RMB. It's going to be worth 110. No, sorry, not interesting. 80 RMB worth, 200 worth 300. That's good. At least a double otherwise, can't support the lifestyle, can't compound. We need high compounding compound 26, when you compound high rates.

Jiang: Maybe most of the question has been asked. But there's one question, can foreigners invest in India stock. If yes, why, how?

Mohnish: Yeah. Foreigners can invest in Indian stocks. It's just complicated and I think many of you will find it similar. I think I find many very similar in between China and India. They can be a lot of bureaucracy. In India, for example when we were trying to get Pabrai Investment funds set up to invest in India, my hand started paining with the number of times I signed my name. I must have signed my name, I don't think less than 600 times. I don't even know what I signed. Maybe I gave them my first bond. I have no idea what I signed. Guy is trying to get set up with India. Guy, how many times did you sign your name?

Guy: I've been working on it for about a year and I think we were a few weeks away now.

Mohnish: Okay, so after one year, guy is going to be ready.

Guy: I've been watching all these six Xs and five Xs.

Mohnish: Yeah. It's possible you just have to be patient and go through the process. The simple way to do it is identify the broker in India who you are going to trade through, then the broker can hold your hand and get you through the process. We worked with a couple of firms in India. We work with a very good firm called Kotak Mahindra. They're a good broker good firm actually. Then another one we work with is UBS, which is in Switzerland. They've got a branch in India. These are the two brokers we work with, but there are many good brokers you can work with, but the process takes a while. But what I find is, after we are set up it's very clear, very smooth, very quick, no problems. I think I've been investing for the last two and a half years, No issues. The best thing about investing in India is the long term capital gains is zero. If you hold a stock for more than a year you don't pay taxes in India at all. You only pay taxes based on the jurisdiction of the country you're investing from. I never sell anything in India less than a year. All the profits we make in India, we don't pay any tax in India. We pay taxes in the US but nothing in India. That's great. Yeah.

Student: What's your opinion about what is good characteristics of value investors?

Mohnish: Well, I think good characteristic of value investor is number one to be very patient. If you are a person who likes to watch paint dry, then this is the profession for you. After a wall is painted, you sit and watch it drive. If you love doing that, it's a great profession for you. The second is circle of competence. We talked about that, right? It's very tempting when your neighbor comes to you and say, I bought this and the target went up five times, Okay? You have to maintain the integrity of not investing if it's not within your circle of competence. One of the first questions you have to ask yourself is, do I understand the business? Most important question, do I understand the business really well? If you cannot answer that question just take a pass. The good news with the investing is you were asking about investing in India, et cetera. Like I said, with John Arrillaga, he only invests in Stanford real estate. There's a fund in the US I think it's called the Mayors and Powers Fund. The charter of that fund was they could only buy stocks of companies based in Minnesota, one state in the US okay? Beat in the market. They're only allowed to buy companies based in Minnesota. They can't buy in any of the other 49 states. They can't buy outside the US. They beat the market. Actually it's more less and having a lot of things to look at is not an advantage. I think John Arrillaga's advantage is he had very little to look at, but who knows Stanford real Estate better than John Arrillaga? Nobody. On the whole planet, there's nobody who knows it better than him because that's what he saw. There's a huge advantage of gain by specialization. One should not be trying to figure

everything out. One should try to become really good at a few things. If you become really good at a few things and then just wait for those opportunities to show up you will do well. That's what I try to look for, is there something that is very obvious, the world is afraid and there's an opportunity, and then we can do that. I'm not at all concerned about if we go three months or six months or one year with make no investments, there's no problem. We want to make sure that when we invest, we invest with things that we understand. Figuring out the future of one business is very hard. If I just told you to figure out for me the yellow bicycle company, where's that business in five years? Very hard question to answer, right? Sorry, go ahead.

Student: What is your experience with investor relations during the financial crisis?

Mohnish: The investor reaction? Oh, investor relations. I didn't have much issue, the fund went down a lot, but I was just honest with the investors. I was honest. I think the important thing, you have to be just being honest that I made some mistakes. The market is down and we've got a lot of opportunities and if people take the money away, that's their choice. I've never been concerned about people taking money away. In any case if you go back to the 20-year-old kid in Omaha with \$10,000, he did not plan to manage other people's money at that time. He was just thinking of managing his own money, right? This is a business where you can do really well without having any clients just managing your own money. I have so many friends who are really good investors, they don't manage money just to own money and they've done really well. Redemptions are not a issue, or investor relations is not an issue. Just be honest. It's a privilege to manage someone else's money. It's their right to take it away from you, and that's fine. They want to take it away. That's probably okay, no problem. Other questions? Yeah,

Student: How can we be sure that we really understand a company? Is there simple test?

Mohnish: Yeah, there's a very simple test. If you are asking yourself a question, do you understand this company? I don't understand. I'm not joking. Most important, if you have a doubt on the answer, I'm telling you the answer, you don't understand the company. When you have no doubt on the company, absolutely no doubt. The test to use is just ask yourself. If you feel yourself asking the question, I don't know that I understand the copy or not. The answer is you don't understand the copy. Very simple. That's the way you, know the answer. I mean, it has to be a complete no brainer. It has to be where it's absolutely clear. You have a good, you are as good understanding of the business as the CEO. That's how it has to be. If you're not there, either you pass, put it in a two hard file or study it more, but you study it till the point. You get to the point where there is no doubt. If you have a doubt, the answer is it's not in your circle of competence. I can almost tell you that person like John Arrillaga, just look at a building, and probably knows what the value is, like that because he knows a code. You cannot compromise on circular competence, that's why Warren Buffett says. Warren Buffett, the smartest guy, 99% of stuff he doesn't

understand. 99 out of hundred businesses that come to him, he doesn't understand, throws them in the two hard part one out of hundred, right? One time, when I had lunch with Warren, I told him "Warren, you are such a good judge of people". He said, "No Mohnish, I am not a good judge of people". He said, "If you put me in a room with a hundred people and I just meet them all, all I can tell you is about four people are really good and four people are really bad. The other 92, I have no opinion. He said, "what I'm going to do is, I'll take 96 people and remove them for my life, and only the four that are very good, I'll add to money". He says that the 92 people who are quote unknown, he's going to not even bother take them up. We have 50,000 public companies in the world, 50,000. How many do you need to get rich? Maybe three or four. That's it. You have 65 years. You don't need to do too many things, just wait and learn and keep learning. When the opportunity comes, strike, and then the rest of the time they have flights to Beijing, talk to the students. Have fun. Yeah, please go ahead.

Student: Thank you. You just mentioned that the auction-driven market creates opportunities. But we are basically buying undervalued shares from, people don't understand them so well. It looks like we are taking advantage of those people. Is there some moral consideration here or are we just collecting a tax from people who are not that smart?

Mohnish: I'm not a heart surgeon from saving lives. I am doing something very low-value investing, low quality, but high income. Okay? What we are doing doesn't really add, it adds some value to society, but not add a whole lot of, the only value possibly is that money gets channeled into companies that deserve it. For example, let's say there are some companies that are trying to raise money and I see that the stock is undervalued and they're a very good management team and they're doing a good job creating housing or something. If I give them the money, I'm helping society. But that's a small country. Most of the time we are buying things already issue. You are absolutely right. If you want to improve the planet, then becoming a value investor is not the way to improve the planet. You can improve the plan of being a value investor if you give the money away. I'm trying to give the money away to try to make up for the low quality of my day-to-day endeavours. You're absolutely right that you should not aspire to value investing as being some high call.

Student: Maybe we should try to be a good tax collector and then return to the society.

Mohnish: If you do that, then everything's fine. Because we can probably do a better job of giving it back to society than the government, right? Better way. That's right. Because I have a low calling in life, I'm trying to make up for it, I have a foundation that's the Dakshana foundation which is trying to help out. Trying to balance it. That's right. We had a question over here. Yeah.

Student: Many questions. The very first one is, I knew one banker and she just retired from Goldman Sachs and she told me under her most great stuff, she was

involved in the IPO of Tencent. She knew the company well and she didn't buy one share from the beginning to today. She's still very close friend of the chairman, CEO and also Martino when she was the associate to do the actual. I think I can say she's one person who knew very well and she never invested in Tencent, and you just did buy one stock in India market after you raise them maybe after 3 hours of work.

Mohnish: Sure. The thing is her experience is not uncommon. A lot of bankers have a lot of knowledge about the companies, but they don't execute. The thing is that you have to put conviction behind the ideas, right? Let's say someone sends me an idea. One of the first questions I ask is, "what percent of your network did you put into that idea?" That tells me how much conviction you have. The thing about the world, with humans is, it's not enough to know what happened. You have to go to the next step. The next step is not easy because the next step required her to take money from her account because that is showing conviction, right? To show the conviction, you got to take the money and put it. For whatever reason, she had a mental block she didn't do it, and she's not the only one. A lot of people don't do that. Many times I make investment decisions that don't work out. It's a restrict, but that's the nature of the game. You're not going to have a hundred percent batting average. Many investments Warren Buffett makes even after rejecting 99% are mistakes. Mistakes are part of the equation, but the end result is that I used to have 1 million in 1994, and the last time I counted, I have 170 million well done. We took 70 million hit of Delta Financial. We took so many zeros in the last 23 years. Still it's 170 x from what I started. I didn't know much. I just read a book and I figured out compounding. That's it. Let me give you another example - Maotai. My learned friend, Guys Spier, Oxford University, Harvard Business School, okay? Very smart. I called Guy, I said, "Guy, there's this company. I think I died and went to heaven. This company is so amazing, right? I'm bouncing up and down explaining about Maotai. He's not very excited. "Oh some Chinese company. How do you know the accounting? How do you know this?" I say, "No, no, listen to me about this. Finally, I was able to convince him and how much did you buy it Guy?"

Guy: Oh, about \$300,000.

Mohnish: At that time, how much was the size of your fund?

Guy: Oh, at the time it was about 160 million.

Mohnish: Okay, he has 160 million under management. If he bought 1.1%, it'll be 1.6 million. He didn't buy 1%, he didn't buy half percent, he bought 0.2%. Then yesterday he visited Maotai with me. How I like to have fun with Guy? I said, Guy, when I was bouncing up there now telling you this is it, right? Just like the 10 cent. Let's say at that time we had made a trip three years ago, four years ago to Maotai seeing everything, what would you have invested then? Guy, what should you have invested?

Guy: I don't have balls of steel like Pabrai does, but I'd like to believe I would've done 5%.

Mohnish: 5%. Disappointed. I have another friend Yong Pingan, some of you might know him. If I had the same conversation with him, he probably got 25%, just different way of thinking about, and even I had concerns. To give Guy benefit of doubt, I had never invested in China before. I really like the company. One of the things is that liquor companies, you can be an idiot whose father or grandfather formed a liquor company. You will not be able to destroy it. Even if you're an idiot, even if you try to destroy it, you are not going to be able to destroy it. One of the surest way to make money is by owning a liquor across the world. One of the lowest rates of business failures of different classes of businesses is liquor companies, especially liquor companies with a brand. Then you take a brand which is made thousand years old. Then you take a country which is exploding like China, you start adding all those pieces that there's no competition, nothing, all these things you keep adding mental model upon mental model on this thing. When I was thinking about it, I said, Okay, it's a liquor company check, Okay? Who does compete with no one, no competition, no second person one fourth of the planet population, or one fifth of the planets population as it rises. Limited supply, good execution, just there was so many things you would check off with this thing. The thing is that position sizing, that's what you're talking about, position sizing. Your friend at Tencent decided the correct physician size was zero. Guy was close, he was 0.2. Not entirely zero, but something, at least he was at 0.2 at least good thing Maotai has grown now is now 1%, 1% of the portfolio we're getting up there. That's great. Position sizing is a very complicated subject. It's a very difficult subject. I was making fun of Guy, but it's not a easy subject. Once we decide we are going to invest, then the big question becomes how much of it going to invest? That's not an easy question to answer sometimes. Sometimes it's a total no brain effect. When I saw the report that guy from Canada sent me, I wanted to buy three times what I was allowed to buy. But I just could do whatever I could do and went from there. Other questions? Maybe the last question? Yeah.

Student: You say about precision sizing and you have invest in general motor, and I think you used the leap. Is this a consider of the sizing or how do you decide when to buy a stock and when to buy the cost?

Mohnish: Yeah, actually I did not use the leap. I used a warrant. It's a little bit of a difference. I would not be interested in Pabrai Investment funds in buying leads. But I bought the warrant and the reason I bought warrant is like a leave, but it's a longer duration. When we bought the warrant in 2012, we had seven years left on the warrant. The maximum home we get in the leave in the US is two years. We had a long time. The second is that, that leap had unusual features. One of the features was we could give it to the company and get stock anytime. Normally a leap you have to the sell in the market or you have to exercise. This gave you a little bit of more options. We went with the lead not with the lead, but with the warrant on GM because those warrants were issued

at a time when GM was in trouble. The, the United States Treasury wrote the document for the warrant and they told them sign here. GM could not control the terms because at that time they were going bankrupt. Then the US government took that warrant and they sold it to the public. When they sold it to the public, we got instrument that GM would never issue except when they were under distress. It was a very good instrument. That's why I invested that. Alright, with that, it's been a pleasure talking to everyone, meeting everyone, thank you very much. Wish you all the best and important thing to remember is it's about the simple ideas, but it's about the intensity that you go after it. I hope you'll do that. Thank you.

Jiang: This is the concluding session of the value investing for this semester. I think we started with four lectures by Guanghai, which describe the basics of value investing. Then I introduce financial analysis for a few lectures and then it's all up to the students to form groups to study our firm. They are doing cases and in January, Pabrai will fly back, and we will conduct the presentation, the final exam. Alright, so today I think our management lecture talk is a wonderful concluding session for this value investing course. This is the course offering and think we are getting better and better and also getting more better and better known in China. Thank you, Mohnish and Guy, as well for this wonderful lecture. We hope to see you in this classroom again in the future. All right.

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