Mohnish Pabrai's Q&A Session with YPO Nairobi, Kenya on October 11, 2022

Pradeep: Before he starts, I want to add a little bit to what Mohnish is saying. I've come across this letter from Warren Buffett to Mohnish a few months ago. I just want to read a couple of lines. It says, "Dear Mohnish, I remain incredibly impressed by what you have done, what you are doing and what you will do at Dakshana, it is simply terrific, far more impressive than what business titans, investment Gurus and famous politicians ever accomplish. I'm glad my annual report doesn't get compared to the Dakshana annual report". It's an honor even to be quoted in it with that mention, Warren Buffett, Mohnish, this is amazing.

When you come and sit here, I'd like to ask you about your relationship with Warren and what inspire you to follow his model. What are the learnings for us? In your book, The Dhandho Investor, you've mentioned that in the Patels, on the very first page, the successful Patels and the Gujaratis and as you can see, a lot of us are from that ethnic background. But we'd like to learn what you have picked up and the synthesis of the Dhandho investor and the success that you have seen. Give us some examples of the companies that you invested in. Again, that's more say, the anti-fragility part of it. We live through turbulent times up and down, and every few years, we are going through some exceptionally difficult times at this moment. What do we make out of this? Where do we bounce back even better upon this?

One more thing. You had an amazing Safari experience; you can tell us about that. We had offered some spots to YPOers, preparing Mohnish on the safari experience. One of the persons who went there was Herman Mashaba, who is from Johannesburg, a wife here from Johannesburg, and the likely future president of South Africa. Mohnish, you spent some time with him and maybe you can share some insightful information about that as well. Tell us about the star experience as well if you can. Welcome and over to you.

Mohnish: Thank you for that gracious introduction, Moyez and Pradeep, I wish my kids were here to listen to it. They might think a little higher of me than they do right now, but no, I've been overwhelmed by the hospitality YPO, managing director Pradeep and the YPOs. This is my 25th year in YPO. I used to have a head full of hair when I joined, and I spent many years going to the YPO Harvard program with some of you here like Pradeep and Moyez and so on. It's wonderful to see them all again.

Yeah, what I'll do is, I'll just start with a story and then I'll go into some of the questions you asked.

This is a story from one of Buffett's letters to his investors in the 1950s in 1626 Dutch, the original Dutch settlers in the New York area, which is now New York, they wanted to buy the island of Manhattan from the Native American Indians. They nominated this guy, Peter Minuit, and they told Peter to negotiate with the American Indians to buy the island of Manhattan, which was great, had a great harbor and so on. The deal was done for about 60 guilders, which is about $24. The ownership of the island of Manhattan passed the Dutch. When most people hear the story, they think “oh, the Indians got taken island of Manhattan for $24”. But let's say the Indians had a chief investment officer and they gave the $24 to the investment officer and said please invest it for the benefit of the tribe and let's say this investment officer was not too bright, but he could crack out about 7% a year.

If you get a 7% return, there is something known as the rule of 72. Some of you might be familiar with the rule of 72. It's a kind of mathematical hack to know quickly how much time to take money to double. If I know that I'm getting 7% a year compounded, I can just do 72 divided by seven, it's approximately 10. At 7%, it'll take 10 years to down. The $24 will become $48 in 1636 and $96 in 1646. If you take 10-year periods, that's $10, right? That's the power of 10 and 2, the power of 10 is 1024 and we can draw the 24 to keep the math easy. It's a thousand. Basically, if you compounded it 7% a year for a hundred years, you would have 1000 times what you started with, $24 will become $24,000 by 1726.

Then we go another a hundred years, another thousand, it'll become $24 million, that's 1826 and then we go another a hundred years. You are at $24 billion in 1926 and then you go another hundred years 2026 and you are at $24 trillion. Of course, we are not yet at 2026, we are in 2022. If you take away one double, it'll be, maybe 16, 17 million, something like that, 16, 17 trillion, sorry zero there. What's the island of Manhattan worth without just a land value? Because of undeveloped land there, what we know is that the entire wealth of every man, woman, and child on the planet is about 500 trillion. The wealth in the United States is about 130 trillion and it is very unlikely that, out of the 130 trillion, some 15% or something of it is just undeveloped land Manhattan because there's so much other assets in the US and probably if you look at land values in Manhattan and extrapolate it out today, you will get to maybe a few hundred billion in the value the most.

The Indians actually got a good deal. The problem they had is, they didn't have a good trust officer and they didn't end up with 17 trillion. The thing about compounding, this Einstein says that “compounding is the eighth wonder of the world” and he says, as we saw in this example, if you go for a long enough period of time. The interesting thing about the way compounding works, let's say we go back a hundred years from 1626 to 1526, go back a hundred years and we had 2,400 cents in 1626, you would have 2.40 cents in 1526 and if in 1516, you would be at one 1.20 cents. 1 cent basically grows to the 16, 17 trillion. There are three variables which are interplay with each other. There is the rate of compounding, there is the length of the runway, and there is the starting amount, the amount to start with and you can actually massage these three.

One thing about the rule of 72 is, it works, it's very flexible. 7% a year with a double in 10 years or 10% a year will double in seven years. If you know the interest rate, you can figure out the period for the double. If you know the period in which, let's say I want my money to double in five years, I can just do 70 to divide by five, which is approximately 15. I know that if I get a 15% rate of return it'll double. Actually, the rule of 72 is interesting because it works both ways. If you know the interest rate, you know how long it takes, and if you know the period, you can figure out what the effective compounding rate should be.

Warren Buffett, I think he bought his first stock when he was 11 years old, and he says he was wasting his time until then. I think by then, he was probably 17 or 18, he had figured out how compounding works and such. I think he had a good handle on that. He used to do a whole bunch of different jobs when he was a teenager and he had about $10,000 saved up when he was 18, which in today's money, would be about 120,000, which is quite a bit for a 18 year old who saved up through part-time 10 jobs and so on. He knew that with that 10,000, he was on his way towards compounding. Actually, his compounding journey started around the time he was 18 years old, and he started to invest in such, my younger daughter when she was 18, just before she started college, she had done a summer internship and she made about $5,000 and she didn't really have the expenses so she had saved the 5,000.

I told her you can put this money in an IRA, which is a retirement account in the US and so the growth of that money gets tax deferred until you pull it out, which might be when you're 65 or 70 or something. I asked her to put it into an IRA and I said "look, it is $5,000, you're 18, if you are able to compound it at 15% a year below 72 will be done every five years. What would the money be when you're 68? I choose all these periods because I want to be easy on the math, so it's 50 years, five-year periods, that's 1000. 5,000 becomes 5 million" Now I have her attention. Then I said when you're 19 you go to another internship and you have some more skills. Maybe you make, let's keep the math exactly the same as 57 15, which is 15% more than what you meet at 18 and again at 68 that would end up with another 5 million and at 20, if you do that with 65 or 6,700, it'll again end up being another 5 million, and the 5 million keeps coming in. At some point, that total you'll graduate, and you might be able to say more of that, some of might pay you a good amount.

I think the important thing with compounding is that if the length of the runway is really long, then you don't need a high rate of compounding and you don't also need a high amount of starting amount. It's just the interplay of those three. If a genie came to Buffett and said, “Mr. Buffet, you can have any wish you want” He would basically say, “I only want one wish, which is that when I die and they look at my corpse, they should just say, man, he was old” He doesn't want to live because he likes us or any of that, he just wants to compound. He just turned 92 a few weeks ago and 74 years of compounding so far, for him still in good health, doing well, and going strong.

One of the interesting things about investing is that the individual retail investor, unlike a lot of other fields or areas, has an advantage over the professional, which is usually not the case. Usually, you would have people who are experts in their fields who would have the advantage of some weekend mechanic of something. But the thing is that the two or three things that are going for the individual investor is investing the lower the amount of capital you have to put to work, the wider the range of opportunities. As the size of the capital grows, the range of things that you can invest in keeps narrowing down. If you look at someone like Warren Buffett and he needs to put tens of billions to work at a time and there are only so many things, you can put to work with tens of billions.

Whereas my daughter with $5,000, she would put it almost anywhere. The other advantage the individual investor has is that you really need to know nothing about investing. You can just index. If one were to invest in the S&P 500 index over a hundred years, it's delivered 9% a year and probably in the next few decades, two periods back and forth. But I would say that highly likely the next few decades also it'll deliver 8-9 % a year, which is about what the compounding rate for the idiot was. You get 9% with knowing nothing and just buying and holding forever. Most fund managers have a very difficult time beating the index. They have a difficult time getting more than the 9% a year. The reason they have a difficult time is for two reasons.

One is, if I buy an index of five basis points, 10 basis point or 0.05% or 0.1% is the amount of the fees every year. If I'm given to a professional manager, usually it's one or 2% a year. First, they must overcome the one or 2% to just match the index, right? The index is doing 9, they must do 10 or 11%, which becomes very hard. That's why 85% of money managers lag the index. The second reason they lag the index is that the index is too dumb to know that it owns Apple, it owns Microsoft, and it owns Starbucks and it's too dumb to ever sell these companies. It just sits there owning all these great businesses, never sells them. When you look at the professional mutual fund managers in the US, their typical annual turnover rate is like 80 to a 100 percent, which means that their holding period for a stock is one year or less and Buffett says that the stock market is a mechanism to transfer wealth from the active to the inactive.

Basically, the professional managers do themselves good favors, they've got the fees they have to charge for, which gives them a disadvantage and then they will buy Apple or Alphabet or Microsoft, but they will not hold it and they'll typically buy it after everyone else has bought it and so on. In many ways actually for the individual investor, when I met Buffett for lunch, there was a friend of his Rick Guerin, there were three of them who were really close friends in the sixties, Rick Guerin, Charlie Munger and Warren Buffet and Rick Guerin philosophies of the earth like mid-seventies. We never heard from him after that. One of the first questions I asked him is, I said, "Warren, are you in touch with Rick? What happened to Rick?" It was just like I will question, I was just trying to figure out, let me get some historical facts here about what went on with Rick.

He converted all our questions into great learning opportunities. He said, "in 73, 74, the US stock market went through a very severe correction. Actually, it was more severe than the 1929 crash. It was just in slow motion. It took place over two years and Rick was leveraged, we had bar loans and all at that time and those, he got margin calls, and he owned a bunch of Berkshire Hathaway stock. I bought a Berkshire Hathaway stock from him at that time at $40 share". That's what the share was trading at that time. Those shares now trade at over $400,000 a share. It was a 10,000X in the last 48 years or so. Rick lost some of his wealth at that time, but then Warren actually made a statement. He said that "if you are even a slightly above average investor who spends less than they earn, you cannot help but get rich over a lifetime".

Basically, the formula is really simple. You have some kind of savings rate. You have a very long runway. One of the sad parts about our conversation today is, we really shove at 50 years ago. There are too many grey hairs, in my case, no hair. I also started late in my compounding journey because I heard about Buffett for the first time when I was 30 and I said 30, okay, not too bad, better than 50 or 70, but 20 would've been better. I really wish that some of these compounding things were part of the curriculum in high schools. I think that's really where kids can get the most benefits. We are taught probability and we are taught compounding and we are taught all these things as concepts in classrooms, but they don't connect the dots with wealth creation and savings and so on. I think with that maybe we can open to questions.

Pradeep: Can you tell us about some of the successful investments you've made and how do you find the long runway in your investments and the stability of the return year after year?

Mohnish: Yeah, one thing about the investing business and there was a very famous investor, John Templeton, he was a global investor, used to invest all over the world, passed away a few years ago and he said that even the very best investor will be wrong one out of three times. This is a forgiving business where you can have a high error rate and still do well. If you're a brain surgeon, you can't screw up one out of three times or even one out of 10 times or one out of 20 times that would work for you. You are out of business pretty soon. But in the investing business, you could be wrong even half the time and still do well. I know I mentioned the index with the 9%. The 9% a year on the index is really coming out of about 4% of the stocks.

Basically, 1 in 25 stocks over time, delivers great results and the other 24 out of 25 don’t do great. That's another reason why the active managers have a hard time because how do you get to the one out of the 25, you might get to the other one of the 24 thinking that's one of the 25 and you might skip it and the index is so long 25. It has that in the mix. I think, the approach to investing, if you move from the index to stock picking, which I think is a significant move, I would actually suggest for most of you to stick to indexing.

But if you move to active stock picking, then I think what you're looking for is, you're looking for anomalies and you're looking for things which make no sense. Like they hit you in your head by two by four. In my case, I think if I can find a couple of stocks in a year, we are doing pretty well. Even if sometimes I can find one stock in a year, that's great. We are looking for things that are aberrations. The other interesting thing about the stock market is that, if I were to try to buy the partial or complete ownership of a business in a private negotiated transaction, basically that type of transaction typically would be an intelligent buyer facing an intelligent seller. Typically, it'll end up happening at some rational, maybe even exorbitant price unless there is some kind of distress at that time that may give you some kind of a better deal.

But in the stock market, we don't have to do negotiated transactions. If I look at all the stocks in the New York Stock Exchange, let's say they were in a newspaper, all the stock codes, 72 week range, all of that. I threw a dart at that page of all the stock codes and I look at any random stock that the dart hits, the 52 week range of that stock price is going to be something like $60 to a hundred dollars or like $55 to $110. Usually there'll be a pretty wide range, and this would be happening in normal years where there's nothing unusual going on, just the normal. But if I were to look at a private business, and I go to the seller of the private business and I say, Hey listen, I'm interested in buying a business, like I said, okay it's worth 10 billion.

If I go back the next day and I ask him, he'll say its 10 million all again, then I go back the third day, he'll tell me, listen, idiot, it's still 10 million. If I go back every single day and he gave me a price, the band of that price would probably not change more than nine or nine and a half million to 11 million. It would be a pretty tight band. But the same business, if it was trading on the stock market would not have a range of nine to 11. It would have a range of five to 15. Auction driven markets create a much wider disparity in pricing. Because of the nature of auction driven markets, you get stock prices that either undervalue business or overvalue business hardly ever do, they actually correctly value the business. If I'm looking to buy a business, there are always 50,000 stocks in the world and there'll be businesses that'll be severely undervalued and they'll always be businesses that are very exuberantly overvalued and everything in the middle.

Basically, knowing that the stock market is interesting if you said to yourself, I only want to invest in businesses that are available for one-time earnings, I'm going to get my money back in one year in earnings because of 50,000 stocks that are plenty of stocks trading in the world where the PE is one. If you said I want my money back in two years, you can find 20 with a PE two. Pretty much the stock market can give you whatever your screening criteria is, which is one out of place. I'm going after Kenya to Kazakhstan, and I've never been to Kazakhstan before actually quite frankly I'm more excited about the Kazakhstan trip than the amazing safari because work is more fun than fun. We have exciting things to discover.

I have a couple of investments in Turkey and Turkey is an interesting place in terms of the stock market. I've been going there for about four years. If you look at the entire Turkish market, 80% of it is either owned by insiders or foreigners. That 80% of the market hardly trades. It is just static. The other 20% is owned by retail Turkish investors. They're really not investors. They're speculators. That 20% turns over every nine days. It's hyperactive in terms of how much volume there is. I was actually surprised at the volume. So most of the retail Turkish investors don't even call it investing in the stock market. Their model is, I want to invest at 10:00 AM and I want to sell at 3:00 PM and I want to make 10% and that's my model. Pack up my shop at 3:00 PM and then the next day again start at 10:00 AM and good luck with that.

Like Buffett said, transfer well from the active to being active Turkey that like extreme case of that. When people are doing that, they aren't looking at the business and they aren't looking at the value business. When I looked at businesses in Turkey, it's a bit of a crazy place that's inflation rate is 85%, currency is going through crazy devaluations and most foreign investors, everyone has left the scene and that's a good time to enter. Three years back, I have a good friend in Turkey who's a Buffett Munger Graham disciple. I just told him, listen, can we just go visit all the businesses in your portfolio? He said, oh yeah, sure, that'd be fine. I was going through 2018, I went to visit a bunch of companies in 2019, he took me to this company, they were a bunch of businesses, but they are the main businesses. They are a warehouse owner and operator. They own 12 billion square feet of warehouses, and you could sell those warehouses in six months or three months. They're all prime. 99% leased inflation index leases, Amazon, Ikea, car four, these. These are the tenants.

Those warehouses were worth about a billion dollars. They were about 200 million of debt and the market cap was 20 million. We are paying 20 million for a business that you can liquidate for 800 million. This is better than a PE. I said, where do I sign? I met the parish, the father and son who run it. They seem perfectly normal, honest people to me. Then I thought I wouldn't get any stock because 20 million market cap. What are we going to do? But we ended up for 7 million in one third of the company, then I said Okay, we own one-third of the company and then it's not just, so the liquidation value was even hundred million at the time, but they're really good capital allocators. Now the liquid liquidation value probably is over a billion two and Turkish real-estate activity is depressed. It's actually probably worth double of that. On top of that, they're smart about how they invest.

My game plan there is to just spend my time talking to YPOs and do nothing. Just sit there and I'm going to Kazakhstan because there's an airport operator in Turkey. They operate 15 airports in eight countries and 3% of airports in the world are privately operated. 97% are operated by governments and municipalities and so on. That 3% will grow up because it's a no-brain interaction to give to a bad operator. During the pandemic, they did a deal in Kazakhstan when there were no flights in 2020, 2021 where they bought the Almaty airport, which is the number one airport in Kazakhstan for 400 million. Actually, most of the airport deals are BOT get them for 30, 40 years. This is forever. It is an outright purchase and they're putting in about 200 million Capex, 600 million. I think in a few years they'll be making one 200 million a year on it.

That asset is a tremendous asset but there are 14 other assets, and it trades in Turkey. That's awesome. A bunch of the airports is not in Turkey. The interesting thing about TAV the airport company is, even in the airports in Turkey, all their revenue is in Euros, all their revenue in all their forces are in Euros. The leader devaluation is irrelevant and even with the warehouse operator, they have cement and steel and land which is automatically inflation indexed. Again, the inflation rate doesn't matter there because just adjusts. I just looked at investments where inflation becomes a tailwind, not a headwind. Then I just have the people I'm buying the stock from.

Buffet says it's like playing bridge with people who've been told it does no good to look at the cards and that's the way it is. That's what I do, basically I look for anomalies and I just have to be patient. The number one skill is patience and let the game come to you.

Member 1: One question and then I'll pass on to the others in the room. In the last three years or so, two significant changes that happened in the markets, because of the pharmaceutical companies that had COVID medications, pharmaceutical companies share price, defense companies, contractors, prices have grown dramatically after the Russian War and in between trade companies, in certain trade companies, did you see these trends? Did you invest in these, are these within what you call your circle of competence?

Mohnish: I'm too dumb to do these so I actually skipped the entire US healthcare sector because it doesn't run on market forces, it runs on other forces other than the market. I think anything in healthcare or pharmaceutical or anything, I just don't even look at. I don't think I bring in the party usually I think that if you look at things in this type of a lens, my general sense is you would be late to the party. I think that there's a lot of smart people in the markets and the question you will ask is if you look at pharmaceutical companies today, are they still a great deal? They may be, but they're not obvious to me. I would say that probably it's better to look whether it is not in the headlines. The friend of Charlie Munger's, John Arrillaga, he passed away I think a couple years back. One time billionaire and John only invested in his entire life within two miles of the Stanford University campus. He only invested in real estate, and only invested in real estate just around the Stanford campus.

If you walk with him in that area, he could just look at every building and tell you what the rent is, what the cost of the building is, and what the history of the building is and pricing. He knew that area cold. What is John area of confidence? It is not real estate; it is not California real estate. It is not even Northern California real estate or Bay Area real estate. It is real estate in a very small geography. The thing about investing is that we don't need to know. If I were talking to John and say, Hey John, Pharmaceuticals are doing great, he would just go straight over, he wouldn't even pay attention. If I told him, listen, Southern California real estate is doing great, he will not care about that either. But if I talked to him about some particular building on El Camino, like near the Stanford campus or something, he'd be all ears. He'd be interested.

Basically, what he did is that when things got very euphoric in these areas, he unloaded the entire portfolio and he went completely to cash he could clearly tell when the ratio of rents to prices, people willing to pay him 3% cap rates or whatever, he was out and then when the downturns came, he just bought dollar. He just did this a few times and mostly this on doing it. I think in investing, the important thing and the first most important question to ask is, is it within my circle of competence? Is it something I'm looking at and understand really well? I don't have a clue about pharmaceuticals. I don't have a clue what defense stocks, I've never spent much time looking at them. I don't like to get away from market forces. I just stay away from something driven by the government and so on.

The thing is that, because these are auction driven markets, because people are vacillating with fear and greed all the time, there are all kinds of things going on with individual companies all the time. If there's something that you can understand well and the pricing is not like 20% off, I would say the pricing is 80% off, 90% off. That should get you excited.

Member 1: Thank you. It was very interesting.

Member 2: I got a couple of questions. If you look at a market like this, how do you react?

Mohnish: I don't really care about the market.

Member 2: I don't mean any market.

Mohnish: That is what I'm just saying I don't care about any market; I care about individual businesses and individual stocks. I don't really pay attention to that, I don't care about the interest rates, I don't care about fed policy, I don't care about the inflation rate.

All of that to me is in the noise level. If I look at that the Turkish real estate company, what does it matter what all these factors are? When we invested three years ago, the lira was five to the dollar. Now I think it's almost 19 liras to the dollar. We almost suffered a four to one devaluation in dollar terms of market cap now is 150 million. It went up 7X in the last three years, it's still undervalued, it's worth over a billion but it went up 7X and the lira collapsed, and Turkey’s got crazy economic policies and we got the war going on and all these different things going on. I would say that, for most businesses, the micro would trump the macro. The specific things around the business will be the ones that will dominate the long-term results and if we were smart enough to understand Amazon 10 years ago or something, it didn't matter what else happened.

If you want to stock and you sell it, then that would be just fine. I think the important thing in investing is to keep it really simple. Usually, the macro factors are really hard to figure out. What is the trajectory of the war in Ukraine? Who knows when does it end, who knows how long would the Fed keep raising interest rates? Who knows? I don't even try to answer these questions. If you look at most of you in the room, you know you're running businesses, when you're running the business, you're not running it based on some macro factors. There are three or four variables that control most of the outcome of your business and you're focused on those three or four variables. As an investor, I need to hone in on those same variables and then I can see these are the three or four variables that affect this business.

Can I have a viewpoint on these variables which is a high probability and if I feel that I can do that, then there could be a basis to make an advance. The other thing is one of the things the world in general is whatever period of time you look at looks like the worst step. This time looks terrible, but the financial crisis look terrible too. March 2020 with COVID looked terrible too. The great depression looked terrible too and the Vietnam War looked terrible. There is a whole bunch of things that look terrible. I think the world always if you look at it in a certain way, looks terrible.

What is also true is that this too shall pass. Whatever is dominating the headlines and taking up a lot of space, someday the Ukraine conflict will be solved. We don't know how and when, but it will get solved at some point and someday US inflation will get under control and someday you got a new leader in Kenya, you got a new President, and he might make some great changes and that might be great as well. I think that the world has a way of getting itself into trouble and also a way of getting out of trouble. This too shall pass is a good way to think about it.

Member 3: Thank you Mohnish, I said this to you publicly, I loved the book, The Dhandho Investor, I have it by my side. I read it five years ago, it still inspires me. I want to ask you about exits. I love your story, which I tell often about the chakravyuha in the Mahabharata, the story about to get out is more difficult, it's great to get in but then you don't know the story about how to get out. I still don't how to get out. What is the right time? How do you time it right? How do you know that you had enough and how do you find it out? Out particularly on illiquid investments you invest in the stock market. I invest in venture, it's a little more illiquid. How do you get out?

Mohnish: Getting out is much harder than getting in. Yeah. One of the chapters in my book, Pradeep you send it to them, or are they going to get it? They're going to get it. Okay. Yeah. It's from the Mahabharata. The story of Abhimanyu, most of you are probably familiar with the story where he's a fetus in the womb of his mom. Arjuna was a great warrior explaining how a warrior can enter a chakravyuha for fort formation in a battlefield which is complicated and also how he can exit. When he explains the second part, which is how you exit the chakravyuha, the pregnant mother falls asleep. The Abhimanyu listening in the womb only got half the story, so you only learned how to get in. He didn't learn how to get out.

The famous investor, Phil Fisher would be a great approach to buying great businesses. He says, "if the job is done right, one would never need to sell". He also says that from that lens, every seller's decision is a mistake. Of course, in your case you've got length of the funds, have a finite life and so on. That complicates things a bit. I stay away from early stage investing completely. I think it's really difficult and I also stay away from private equity investing. Again, you call liquidity and so on. Even in the public markets, I lose myself to public markets. Sometimes getting out can take time, sometimes when we are trying to get out of the position might take us a year because the liquidity is not there or whatever else. But yeah, I think that buying a stock is easy and there are a couple of things that happen with buying a stock.

You really understand the business only after you own the stock. You really don't understand the business while you study it. It's after you own it, and you really understand it really well. When it drops 30 or 40%, that's when you get a really good understanding of the business. The selling part is really hard. I think the number one skill that investors can bring to the party is to be very patient. Patience is the number one skill that can be helpful because like I said, you look at a company 60 to 100 in a year and so it may be going through some temporary pick up or whatever else and study it, stick to the circle of competence and then hopefully the services can be a little easier. But I think in your case, I don't know what I can advise you because you have earlier stage businesses.

Of course, in your case you can also tolerate a very high mortality rate. Most venture funds will make most of their returns in 10% or 5%, 1 in 10 bets or 1 in 20 bets works and that takes care of the portfolio. A game there is not so much about the liquidity, it's about whether you have a winner and a big winner, then the others won't matter so much. But I'm probably the wrong guy to ask the question you're asking.

Pradeep: Great answer, thank you. You are the right person and then we know the right answer. I suggest we start dinner and as we are closer of we can resume question and answer and that hopefully you can have a bite as well and please do ask the questions because that's the only way that we will get the best out of Mohnish and to learn.

Mohnish: That's a great question. (Please have a seat, please keep eating). In 1956 there was a senate hearing, a US senate where Senator Fulbright who favors the Fulbright intelligence and all that was questioning Ben Graham, who was Warren Buffett's teacher. He said to Mr. Graham, there's a stock that trades at $10 and you think it's worth $20 and what are the forces that would make this talk actually go to $20. What Ben Graham said was, he said, "Senator, this is one of those mysteries to which I have no answer, but what I can tell you is that in the physics value is 20, it will get there eventually". Basically, value is its own catalyst. Whenever I invest or Buffett invest or people were in this framework of investing, we never focus on catalysts. When this company was trading at 20 million and it's 800 million or whatever, I had no idea whether it takes six months, one year, two years, five years, 10 years to get there. I had no idea when it will get there, but I do think it will get there.

So far what has happened is that we won 20 million to one 50 million in three years with a lot of macro turmoil going on, but on the other hand, they've raised the value of the business in the meanwhile. It doesn't matter, we can be patient, what I look at is, I told my investors this, I told them, "Listen, when we give you a valuation it's based on the stock market value, right? But between us girls, we understand what the real value and so just understand that take there". At some point, it'll manifest themselves because we believe in our guru Ben Graham.

Member 3: Thank you very much.

Member 4: You've talked to us about Kazakhstan and Turkey. At our table here, we were contrasting investment opportunities in Africa and in India. We were also talking about the UK and its troubles. What regions of the world excite you most these days?

Mohnish: Yeah, I actually don't think about it that way. Turkey was a little bit of an aberration because I was just curious about four years ago because I saw that there was a lot of turmoil from a lot of fiscal and monitoring perspectives, and I also would see a lot of people exiting. I just wanted to explore what was possible in Turkey. I had this friend and I just told them, let's just go meet your businesses and your portfolio and so on. Once I'm outside the US, historically when I first started investing and until maybe seven, eight years ago, almost all my investments were in the US. When I invested in the US I rarely have ever be managed. The odds that I would lose money in the US because of outright fraud is so low.

I will lose money because I'm stupid, but not because of outright fraud. Once I leave the US to going to Africa or Turkey or India or whatever, the odds of outright fraud become elevated. They're going down in all these places. One of the things I need to assess is the integrity and ethics and competence of management, how they would treat outside shareholders, that sort of thing. There's another layer of two diligence that comes in for companies outside the US, but it also takes a lot of effort, right? Because there's a lot of travel and drill down. Also, when I'm dealing with different countries, there may be many things about the country that I did not understand. I would rather, at this point, spend more time in a place like Turkey becoming more familiar than start looking at another country.

On the other side, I only make two investments a year. There are 50,000 stocks and we need to buy two. Then there's John within two miles of the Stanford campus, and he's doing the fine, he's not even going to the next county. I think that one doesn't need to cast a really wide depth. I think it's better to be an inch wide and a mild deep than a mile wide and an inch deep. It'll expand by osmosis, but I'm not looking to specifically expand it.

Turkey is interesting, there is a Coke bottler in Turkey, and I like being in businesses like the Coke bottler. The Coke bottler Turkey is the only coke bottler in Turkey and 20% of the company is owned by the Cocoa cola. The Cocoa cola company sits on that board. I met these people, and they are really high quality people and they also happen to own 49% of the Coke bottler in Pakistan, which is, and at some point I think that coke owned the other 51% at some point coke bottler sell that 51% down to these tax.

Besides Pakistan and Turkey, they have 11 other countries in the region. I care about Jordan, Uzbekistan, Kazakhstan, all places. Coke is a really good business. The Coke bottling business is not as good as Coke, but it still is a good business. When you have a business like that based in turkeys it, you have all these coke bottlers in the world that are formally listed, and it created like a certain multiple and then there's the Coke bottler in Turkey which trades at a discount only because it's based in Turkey. That kind of makes it interesting. I met the coke bottlers once and I really like them and I told them that, if you go on YouTube and you do a search on me, there's a talk I gave at University of California Irvine, which was about a two and a half hour talk on the business model of Coke.

I told these guys that, hey listen, when I met them the first time that you might want to look at that video I did and that video has actually got like quarter million views. They looked at the video and then they called me, they said we need to discuss our business with you, so I met them for lunch. Then I said, what are you guys doing? What are you guys going to order? They both said regular coke. I said, okay, I'm also going to have regular coke. Then it was a really funny meeting because they're asking me all these questions about what they should do, should we make this investment, should we set up this botting block? I said you are the guys running the business. I'm just the outsider. Actually, we didn't invest in them so far because it wasn't as cheap as a warehouse operator in Turkey. But I think that a place like Turkey serves up companies like this, which is really fun. It's good.

Member 5: Tell us something about the Safari experience.

Mohnish: I was on autopilot, Pradeep set up the plan and we just said, okay, he's the boss, he knows what's going on here. It was really wonderful because we spent three nights, I think at this Gencha camp. It was nice, and I did in Mara a lot of game and good driver and good drives. It was nice, and I think the staff was good. Then we spent a couple of nights at Mr. Branson's camp, which I think was a lot more expensive. But I would go with Gencha again and Mr. Branson's with due respect. There's a chapter on Branson in my book. Our friend was interested in the chakravyuha chapter, but there was a chapter on Branson, which I might enjoy, but a very nice facility. But this kind was a more corporate-like thing versus the other one felt more like family.

Then the one that I really liked; we really liked a lot was "The Star Bet". That was just out of the world experience. We actually didn't even go on any drive, we just wanted to be in the room. That was good. Yeah, I really enjoyed it. I think it's very therapeutic and the staff and the people, I think these lodges, because they're so small, it's difficult to imagine that the business model is that great. There's so much staff and things and all the stuff has been brought in and all that. It's really kind of like a labor of love. I'm grateful they did that and the star of it. I thought whoever designed that place was a genius. Really well done.

The best meal we had was last night at the Star. We made a goat curry chapatti jeera rice. Really well done actually in the bush. Yeah, I think we were grilling in right there. It was very nice. Great, thank you for that.

Member 6: What are your thoughts on the new age investing companies creating new losses, massive multiples and out? How do you feel about those?

Mohnish: I'll answer your question in a story. Everything has to be a story, right? I'll tell you a story. When we set up this lunch with Buffett, we had to interact with his assistant, and I got to know Debbie really well. My friend: Guy, and I told Debbie, Hey Debbie, we'd really like to take you out for lunch. She said, okay,

When you come for the annual meeting, she said, normally annual meeting is on a Saturday. She said, come on Thursday, I'm relatively free, I can go to lunch because Friday becomes crazy. I said, okay, we'll come on Thursday. We went to lunch with Debbie and that lunch with Debbie was better than lunch with Warren. Because this is our drop Debbie. I said, "Debbie, between us girls can we talk?" Then I ask her, "does Warren have cell?" This was in 2008 or 2009. She starts laughing, she said, “Yeah, he has a cell phone but it's in my drawer, my desk. He doesn't really know how to use it. When he goes on a trip, I charge it and give it to them. He only knows how to call me on that side. He doesn't know if someone answering what I want to do. Whenever he needs to reach someone, he calls me, but usually doesn't even use the cell”. Anyway, we went to lunch with Debbie a few times and one time we were going to lunch with her I think in 2010 or 2011. We went to the Berkshire headquarters. Warren was standing at the elevator, the employee was standing at the elevator apparently to greet us, fortune 10 company CEO with nothing to do to greet some yoyos who come to lunch with their assistant. He says to God, do you want a tour of headquarters? I said, sure. He's taking us around, showing us all the memorabilia, different deals, he's done different things. Then he takes us into his private office.

In his private office, there is a box on his desk and the box says, “too hard”. This is a very famous box. Buffett says that 99% of things that come to his desk in terms of investment ideas fall in the too-hard pile. They go into that box means I'm not interested. I looked in the box and said “Warren the box is empty, it's supposed to be full”. He said, “oh, we'll fill it right now”. It takes a bunch of paper and puts in, it's full. To answer your question, basically most things we look at go into the too hard boxes means there's no point wasting brain cells. If a company has never made money, I can't tell what the future is, I don't know what's going on. The rest of the world is excited about it, whatever, too hard part and 99% of stuff, just go the too hard part. Then once in a while, a Turkish warehouse company comes in, which doesn't look so hard, then we can buy that. Hope you like your story. Yes. I think they want to get you a mic.

Member 7: Thank you. What would be your top picks for the next 10 years?

Mohnish: Top stock picks? I only have a couple of ideas a year. There's not much out there in the sense that don't have a long list and half the stuff I buy end up not going anywhere. I can't help you after already. Now you already have a couple names, just read between the lines. There's not so much for a month and this and that, it's whatever you sell, 40% is coming to me. A hundred dollars bottle, $40 goes to the airport operator, and then now we’re left with $60, then 25 or $30 is the cost of bottle and 10, 50, $20 is the cost to run the shop. Then the company operating the shops like $10 something.

The airport operator, basically what happens is like lambs to the store. When an aircraft comes in or 200 people in the aircraft, that's a hundred people on a per passenger basis. That airplane will end up with duty free sales for all 150 people together of about $1,500. One airplane will bring in about $1,500 of top line revenue, which means that the airport operator gets about $600 for each airplane that's coming in. When these concessions are given to these airport operators, the government which gives a concession will set the per passenger fee to give the airport operator. When this airplane comes in, the 1500, the 150%, if it's an international flight, it's about $50 to $20 per passenger. About $3,000 or something per airplane coming in as their fee, the duty fee portion is not regulated.

The duty fee is whatever you can charge, whatever you want, make whatever you want, do whatever you want. Same with food and beverage is not really regulated too much. There are some parts of the business that are regulated like this per passenger fee and so on, but some parts aren't. It took a blend of all of that. What was interesting about the Kazakhstan one that they got was that, like I said, they didn't have a BOT. They own it outright and Kazakhstan was the only airport they got where they actually had the fueling. Normally, the airport operator doesn't deal stuff on the runway and all that and on the ground. Fueling is the biggest piece of the pie for them. Kazakhstanis landlocked. Everything has to come into land over here.

Anyway, that's the economics of that business, the difficulties in that business are that you can get animal spirits. When there's a new air airport being announced to be privatized, then there are multiple people who want to get those duty fee and all that. The danger is then they get over bid. If they overbid, then you end up with a situation where you pay too much for the concession and then it doesn't quite work out. But one of the things that I think the airports has going for is that, the geography operator does not attract a lot of the big boys. Like when they were doing the Kazakhstan deal, especially in 2020 and 2021, nobody wanted to buy an airport when there's no traffic. I really enjoyed in that particular case, I knew the airport business generally had good economics, but then I studied it, it was lot of fun to study. Now I think we own about five or 6%. Every 20th bottle of Johnny Walker is for the benefit of my investors. It should be good. Yeah, go ahead. Sorry.

Member 8: just switching gears, can you talk more about your Dakshana foundation and how you get those 61% pass rates?

Member 9: Just a quick question. I have to apologize to interrupt you, but I'm down to know. Talked about you like telling stories and you talked about long stories about Warren Buffett. What about your own, what was your first factor that enabled you to, what's your story?

Mohnish: Okay, we might be here all night. My story was already given by boys and that's it. We gave the whole story. Let me put it this way. I would say that this is the way it is for most of us in life, many times when we make decisions or we might enter into a business venture or buy a stock or whatever we do start a venture, whatever we do, it may not work, right? Many times, we have initiative, and two years back I bought an insurance company, not in the stock market. I bought the company and was a mistake. I realized within three months of buying the company that it was a mistake, and I was thankfully able to sell it. Just a little bit about the price you bought it though and was done with that.

Many times, we do these things where it doesn't work out. But the thing is that the payoffs are so asymmetric that the ones that work, they work so well that they make up for the ones that don't. I think like Teddy Roosevelt would say the man at the arena or noting venture, nothing gains. I think I'm always trying to make sure that anytime there's something that seems to have an asymmetric payoff, but where if it doesn't work, it will ruin it. Be something that can be tolerated, then I want to do that. Just to give you an example of the asymmetric payoffs. When I was thinking of bidding for lunch with Buffett, my wife, at the time, caught it weird. She did this kind of strange cost, hundreds of thousands of dollars and what's the point with whatever you want to do it.

Member: The launch money goes to charity?

Mohnish: The last money goes to chat, right? My thinking at the time was, this was 2007 at the time I had a network of 85 million. A large portion of that was because of Buffett's intellectual property that I was using for free. My take was the tuition fee, right? What is the appropriate tuition to pay? I said, 2 million is fine, they paid 2 million. It should be okay because there would be also more earnings in the future, right? I was bidding for the lunch, and I said, I'll keep bidding until I have 2 million if I have, and the bidding pool, the 650,000. We didn't get there. My only objective in doing the lunch was just to thank him. I didn't have any agenda. He's willing to take a break to sit down for lunch, which is great. I can say thank you Warren. I actually told him, listen Warren, you will not understand this. I need to touch your feet and when I touch your feet you need to put your hands on my head. He said, "Mohnish I will do whatever you want". He went through that with me even though I didn't understand what was going on.

My only agenda was to be able to thank him. Now what ends up happening with that lunch is that a friendship develops with him. But then, the more important thing is he introduces me to Charlie Munger. Lunch with Charlie was way better. Then much closer friendship. When I was in California, we would meet at Charlie's place for dinner at least once every two, three months. I'd play bridge with him probably at least twice a month. It'd be like Friday afternoon to five o'clock or so and so much rich interaction.

Several times in the last few years when I had issues, problems and so on, not related to investing, I brought it to Charlie and I got incredible advice and incredible perspective, which was very helpful. I never expected that from the labs. Once was to say thank you. Then later my wife would say it was, other than marrying me, the smartest thing you did. In your case, the question you asked about Dakshana, the thing is that when I started Dakshana, one of the things that I understood, it's been about 15 years now, is that giving money away is far more difficult than making it, especially giving it away effectively is much more difficult. I started to give it away when I was 43 because I felt like if I got into my seventies or eighties, I would be too old and I would have no energy and I would not be able to do anything other than just write a check.

I was going to be giving money in India and at that time I was living in California, I was not planning to spend much time in India. It would be delegated very heavily. The odds that we would get taken for a ride and that we would lose money were extremely high. When we started Dakshana, I just had a very simple model. I said that we would give away 2% of our assets every year. I didn't really care if the 2% went with no results as a complete fraud. We lost the money. I said if we lost the money in the first year or 2%, the next year we put another 2% down. We'd keep doing that with the idea that I'm not an idiot. I keep learning. The difference between investing and charity is, in investing we try to go low risk, high return. We try to minimize that downside, maximize the upside.

In charity, what you have to do, if you want to succeed, you have to go high risk, high return. You have to swing for the fence's baseball term. Like only on cricket terms only go for Sixers. You might get bowled out, but you only go for Sixers. The only way to move the needle in charity is to go for Sixers. Just by accident, I ran into this guy in India, Super 30. He was taking 30 kids a year, very poor kids. He was training them for the IIT entrance exam, which is a very tough exam. He was getting 27, 28 or 30. I went to visit his facility. He was running in a slump, but his mother used to cook for the kids and he used to rent these almost slum like homes for these 30 kids to live while they were being coached.

He and a couple of teachers basically donated time to make it happen. He was already gifted math teacher. He was really good at it. I told him, why don't we scale it right? I said, "I'll fund you and why don't we take 30 to 300?" He said, "I don't want to scale, I don't want any outside money". He was running tuitions on the side, which was funding these 30 kids will keep doing that. One of the things that have really helped me in life, a core mental model I've used a lot, is the model of cloning. Most humans are not willing to clone. They think it's beneath them. I asked Anand, I said, "Anand, do you care if I replicate your model, if I clone your model?" He said, *"yeh to badi achhi baat hai",* it's a very good thing. Please go ahead, clone it, I'll help you. I decided that there was already this guy doing this model and I wanted to do it on an industrial scale. I said, okay, we basically will do this model. We have several things that we didn't know how to do at that time, we didn't know how to find the kids. But then we found this amazing school system run by the government into the magnet school system, which we did.

Pradeep: What's your next book?

Mohnish: There are two books I get to write, but the problem is knowing the answer. That's why I ask you these questions. The problem is, I can't explain why, because we get 11'o clock, the problem at 12 o'clock. I can only give you the title of the books and then I'll let Pradeep explain to you in the next meeting what the books is all about. One book I end up here to write is called "Adventures in Vegas". I'm looking forward to writing the book. It's a wild place, "A Wild Adventures". The other book that I have yet to write is "How to Talk to God". New ones are clueless about many things. They don't know how to talk to God, and I need to explain how to talk to God. Those are my two books I get to write, but Pradeep will explain why.

Pradeep: It is a mystery.

Mohnish: All right, thank you.
