Mohnish Pabrai's Q&A with Finance and Investment Cell at SRCC, Delhi on June 14, 2023

Purvi: Good evening, everybody. On behalf of the Finance and Investment Cell at Shri Ram College of Commerce, I extend a warm greeting to every one of you. Thank you so much for joining us today for yet another thought-provoking speaker session organized by the Finance and Investment Cell of SRCC. Today we are thrilled to have Mr. Mohnish Pabrai as our esteemed speaker. A very warm welcome to you, sir. We also welcome our esteemed faculty advisor, Dr. Saroj Joshi, and thank her for her unwavering support in all our endeavors. Visionary in finance and philanthropy, sir has an audacious entrepreneurial spirit. He has founded several successful companies and pioneered the Munger-Buffett-focused value investing approach. He's the founder and managing partner of Pabrai Investment Funds and manages over $500 million in assets. Yet the impact he has created extends beyond finance. As the Founder and Chairman of Dakshana Foundation, he has transformed the lives of thousands of economically and socially disadvantaged, but gifted students worldwide by providing them with world-class educational opportunities, having mastered the art of balanced living. He cherishes family literature and the strategic complexities of duplicate bridges.

Samarth: Being someone who carries the pursuit of excellence and the power to create lasting change, it is our utmost pleasure to be able to learn from your wisdom sir. We are honored to have you, and this honestly feels extremely surreal for all of us. I just want to put it out there please, do excuse us if our questions are maybe redundant or if they seem like childish curiosities. A note for the audience: please put your questions in the chat box and we'll try our best to entertain them if time permits. Now given that a good number of our audience today are high school and college students, we have some questions tailored in that respect.

With that said, where do you think investing should be on the list of priorities for a teenager?

Mohnish: Alright Samarth and Purvi and everyone, it's great to be here. So, two score and one year ago I was a student at SRCC and I joined SRCC just like many of you have joined SRCC. Abi, if you are confused about two score and one year ago maybe because you haven't heard the Gettysburg Address of four score and seven years ago, but two score and one year ago is 41 years. In 1982, when I finished high school and applied to various colleges at Delhi University, I was very excited to join Shri Ram. That year there were some very extended strikes at the university. I attended for a few weeks, and then the whole place shut down for quite a few months. My brother and I basically applied to US universities and I switched from commerce to computer science, and then to computer engineering. I finished my degree in the US and kind of life trajectory changed. I have very fond memories of taking the youth special buses and the few weeks at Shri Ram at DU. It was wonderful.

In terms of investing and teenagers, I think that educational systems around the world, do a disservice, because really while we are taught compounding in a mathematical sense in math classes, nothing is taught in terms of investing and savings and runways and so on in high schools. I think it would be very beneficial because three things matter in terms of ending up being extremely wealthy over time, even if you have relatively modest earnings over your lifetime. The first is spending less than you earn. That is really important right from the beginning. Charlie Munger says that if you consistently spend 5% more than you earn, you will have a life of extreme misery. But if you spend 5% less than what you earn, or 10% less than what you earn, you're going to have a very bountiful life. Just a small difference, there can lead to a huge delta and outcome. Spending less than you earn is very important, and I wish that was reinforced in high school. Putting the savings in a low-cost index fund is also a very good idea. You don't need to understand how to pick stocks or find out what are good investments or any of that, just by a low-cost index fund. There are plenty of them available in India. The third is the length of the runway. It's really important to start as early as you can and start putting money away. What's going to end up happening is a few decades later, you look to your right and you look to your left, and you left all your peers way behind, and life is great. I wish these basics were part of core high school curriculums around the world, but sadly they're not.

Purvi: Okay, sir. Moving on to the next question. What value do you accord to investing in oneself when there are other options for investing as well? For example, if I'm interning and earning a certain stipend, would you advocate for upscaling or investing in some securities instead? Also, do you think people ascribe lesser value to self-learning because returns are not exactly as evident as opposed to the many glaring examples of how financial investments can reap healthy profits?

Mohnish: Usually an investment in improving yourself is going to deliver the greatest returns, especially if those investments are made very early in life. But I think the most important factor is to pursue your passion. One should not do an MBA, because it's going to raise your compensation or open up more opportunities or any of that. One should be doing that if one is very passionate about management and investing or commerce and industry in general. It is not easy as a young person to have clarity on what is your calling in life and the more time you can spend early in life trying to get clarity on who you are and what excites you and doesn't excite you is important. I think some clues of that will come to you when you notice that maybe in high school, you're excited about certain classes and certain subjects and not so excited about other classes and other subjects. Start spending more time on the things that you're excited about, start thinking about careers, etc. in that direction. I think self-learning is extremely important.

If I look back at my undergraduate, computer engineering degree, there are just a couple of courses I can think of that had a huge lifelong impact on me. One was an elective class I took on public speaking, and I enjoyed that class. It was wonderful. I just tossed a coin, whether that class or technical writing, and it turned out public speaking was excellent. I think to the extent that you can, because when we go through formal degrees and such when you look back after 5, 10, 15 years, very little of what you learned during your school days is going to be relevant in the real world. What is going to help you a lot in the real world is if you go to sleep every day a little wiser than when you woke up and that you make reading a lifelong activity. I think it's just like compounding. What happens in 10, 15, 20 years is that you look to your right, look to your left, and your peers are so far behind and you've gone so far ahead and you didn't go ahead because you just sprinted fast. It's more of a marathon than a sprint, but that distance keeps increasing daily and you're enjoying the journey as well. I'd say invest in yourself through formal degrees and self-learning. We have a limited time on planet Earth, so try to make the most of it and try to enjoy the journey.

Samarth: Sir, I think I just have a follow-up question. You say we should become wiser every day and find what our true calling is, what drives us, right? But do you think one should do anything at all for the sake of it, or do you think, as you said, inherent motivation and inclination should drive all our endeavors? I'm asking this against the backdrop that while crafting one's career, several options and opportunities may fast-track one's career, but at the core of it, they have a hollow impact on one's personal growth. Do you think those opportunities are maybe worth pursuing, or is it just the "become wiser every day" approach you would maybe suggest?

Mohnish: Well, there are practicalities in the sense that basically when we pursue degrees, we don't have a lot of choice about what courses we take and what professors we get and which classes are interesting and which classes are not. A lot of that is going to be hit or miss. We don't have a whole lot of choices there. The only choice we have is whether we do the degree or not. So, try to make sure the degree is as closely aligned with what you're interested in. I think beyond that, if you follow your nose, it'll lead to great things. I think that what I've always found is that when I'm curious about something and I'll go down a rabbit hole of trying to figure it out many times it's extremely rewarding. I ended up in the investment business just because I accidentally picked up a book on investing to read on a flight from Etro to Chicago. I picked it up at random. I never worked in the industry, and I didn't have degrees in finance. It was that book that led me down a rabbit hole of other readings and other books and other writings. I think it's important to pursue what you are interested in and pursue it to the fullest extent that you can.

Samarth: Thank you so much for that answer, sir. You are an advocate of Dhandho. You say it's the approach to doing business; a business that guarantees an upside without the possibility of a downside. Now, another word that fascinates me is jugaad. I just want to understand from you, what do you think jugaad relevance is for an entrepreneur and an entrepreneur's journey?

Mohnish: Well, I think the Indian word jugaad is kind of difficult to directly translate. But I think most of you know what it means. Hacks in life are important. When I'm looking at a particular business or a particular industry, the data set is very large. When you're looking at some industry, I think there's the amount of information and what is going on can be daunting. But the important thing is that you must get to the three or four important factors that will drive most of the outcome and the result of that investment or of that business. That's where a lot of the jugaad and hacks come in. You must be sensitive to how you accelerate the process if you can. There's the base path that you can take, which is you can read a lot of historic annual reports you can read a lot of historic transcripts, and you look at a lot of things the company has said in the past, etc., you can read industry reports and you can read competitors' annual reports. All of those things over time will give you a picture in your head of what's going on and what's important. It can be accelerated sometimes when you read something that someone else has written about the business or the industry where they've digested a lot of facts already. It can accelerate learning, but you have to be careful that you're kind of reading the right stuff or weighing the right stuff in the right amount of weightage that should be given. I would say that in investing, what is important is that we started a very large data set, and what you need to end up with is 2, 3, or 4 factors that are etched in your brain that are going to drive an outcome and why those factors are going to, are likely to work out in a certain way. Now, the reality of investing is that it's a high error rate. Even when we do all of that because businesses are uncertain, we may have 30, 40, 50% of the time that we are just wrong, and that's okay. We learn and keep moving on. But if you're right half the time and you hang on, the result will be just fine. No issues.

Purvi: Thank you, sir. Being a global investor, what's the India story that you see? What is the future that you envision for the people of India, and what would you probably say to somebody who wishes to settle abroad because of maybe better prospects?

Samarth: Just an add-on, what do you think or how would you envision your life or your career would be had you probably stayed in Shri Ram and not gone to the US?

Mohnish: Let me take the second question first and then I'll get to Purvi's question. When I was in India in high school, I changed a lot of different schools and moved to a lot of different places, but I would say none of my classmates or when we were growing up had ever expected that we would live any part of our life outside India. That pretty much just wasn't part of the equation. The idea was that you would finish college. I lost touch with a lot of my high school friends but then Facebook came around and after many decades, I was reunited with many of them. What I noticed was that more than half of my classmates in the different schools I went to ended up outside India, it was a very large number. I had not expected that, but it was a large number. I think part of the reason that happened was that if I had gone to Shri Ram, probably what would've happened is, one way or another I would've probably ended up in the IT field because it was growing so fast, and a lot of people were doing like these diploma courses at an IT. Then there was a huge boom of people coming to the US because there was many IT jobs that had opened up outside India. And so probably the likely trajectory may have been that I may have ended up in the US many years later with a somewhat different trajectory than where I ended up.

When we look at the situation today, the situation today is a little bit different in the sense that the IITs when they were graduating a lot of students in the 70s and 80s and maybe even in the early 90s, there just weren't a lot of opportunities in India. A large portion of those folks ended up going for master's degrees in the US and they ended up staying there. I think today the opportunity set in India is very different. It's very significant. A lot of multinationals have come to India. A lot of Indian companies have grown a lot and they're world-class in terms of how they operate and the opportunities they offer. At the same time, if I look at a place like the US, the immigration situation is such a mess over here that for people coming on a work visa, sometimes at least on paper, it looks like it'll take 70 or 80 years to get a green card, following the backlogs and waiting lists and all that, which is ridiculous. I think the big strength of the US has been that it's attracted talent from all over the world, and it has built the country. I wish the US would fix its immigration system. Canada has a good system, Australia has a good system, and Singapore has a good system. Many other countries are gaining what the US is losing which is unfortunate from my vantage point. Looking at it from the point of view of being in India I think probably the best way to make the decision is in terms of lifestyle and family and what your personal preferences are, and personal aspirations are. There are a lot of opportunities in India, and there are also a lot of opportunities outside India. I think at this point it's up to the individual what they prefer.

Samarth: Sir, I just want to go back to the youth investing perspective. Do you think behavioral finance is maybe more important for teenagers when they start their investing journey? I see the technical aspects of investing, ratios, analyzing financial statements, valuation, etc., can be picked up eventually too. But is ingraining and investing temperament more important in the youth years and if so, how do you think the youth can learn about the psychology of investing?

Mohnish: There's a big demarcation that happens between, so one can do extremely well by just being a passive investor; just investing in index funds. One never needs to study a business or any of that. You'll end up with a great result. Now, if you decide to cross over to the other side where you want to analyze businesses and figure out investing and buy stocks and all of that, I think that is a very different game. I think that game would take some time to master and probably there's no better way to master it than to take arrows in your back. As you invest, as you make mistakes, you should endeavor to learn from those mistakes, and you should endeavor to learn a lot from other people's mistakes. When you move from passive investing or index investing to active management and such you have to have a framework as the first step. The first few pieces of the framework are how many stocks does your temperament say that you should hold. Are you comfortable with 5, 10, 20, or 30? That needs to fit what your temperaments are. The second is that many aspects of investing cannot be taught. They are inbound traits that either exist or don't. If one has the natural tendency of a hyperactive trader who's in and out of positions several times a day, it may be difficult to transform that person into someone who buys one stock a year, for example, and holds them for 10, 20, or 30 years.

I think knowing your temperament and knowing your aptitude and comfort level and style is important. You start with the baseline of some things, you read everything you can, that's been put out by Warren Buffett and Charlie Munger and all the Berkshire Hathaway meetings, which are online at buffett.cnbc.com, which is a tremendous resource, hundreds of hours of video of the greatest investors ever. A great place to try to understand what your framework should be. The notion of behavioral finance versus the quantitative stuff, all that kind of naturally falls into place. Once you have a framework that you can work with, you need to come up with something that fits you and can work for you, take it from there.

Purvi: Just to follow up on that sir, if you were to give percentages as to why investors make mistakes, because of their temperament or emotions versus actual stock picking, what do you think that percentage would look like? Also, do investors lose less, I'm not saying make more, but do they lose less when they don't care about investing?

Mohnish: I'm sorry, can you repeat that last sentence?

Purvi: Right. Do investors lose less when they don't care?

Mohnish: When they don't care?

Purvi: Yes.

Mohnish: Well, I think with investing, the reason the error rate is high is primarily because of two reasons. One is that humans tend to project present circumstances to infinity. For example, we have a company in the US called NVIDIA, and it just hit a trillion-dollar market cap. It's up almost 200% this year in five, or six months. NVIDIA is a great business. It's at the epicenter of the AI boom. A lot of people think that NVIDIA will do well. I don't have any position in NVIDIA, and I'm not suggesting you should go buy the stock, but I'm just using it as an example. I would say that there's a lot of euphoria around NVIDIA, and if one were to do some type of analysis of a discounted cashflow model where you look at the earnings of NVIDIA today and you do some projections of what you think their earnings are in 3 years or 5 years or 10 years and then you discount it back, I think it'd be difficult to justify the trillion-dollar market cap. It'd be difficult to come up with a future cash flow stream in the next 10 years or so that would exceed that. I have no idea what would happen to NVIDIA, but I would just say that what I have noticed in equity markets is that they vacillate a lot between fear and greed. They tend to, at times, get very overheated and overvalued, and they tend to get very depressed at other times. Because it's an auction-driven market where prices are set by the sentiments of investors there's a lot of positive sentiment about NVIDIA.

It's a great business, but a similar sentiment existed in early 2000 with Microsoft. I remember that when I started my fund in 99, one of the first individuals, probably the first 20, or 30 investors I had, was an Indian guy who had risen quite high in Microsoft and had retired early. He was one of the very early employees of Microsoft. He knew Bill Gates well. He had invested in Pabrai Investment Funds, then he told me, "Hey, listen, if you're ever in Seattle, I can introduce you to a bunch of current and former Microsoft people. These guys are quite wealthy. They've got a lot of stock options from a long time ago, and some of them may be interested in investing in your fund." Pabrai Investment Funds was very new, with around $2 to 3 million in assets. And I said, "Oh, I'm going to be in Seattle the day after tomorrow." He said, "Oh, that's great." He walked me around Microsoft and introduced me to different people. A bunch of them later invested in me, but I told many of those individuals I met that their livelihood was coming from Microsoft. Most of their net worth was in Microsoft stock or in Microsoft options that had been granted. When I looked at Microsoft's market cap at that time in early 2000, it was over 600 billion. It was in the top three most valuable companies in the world at that time. The top three most valuable companies were Cisco, Microsoft, and General Electric. None of those would've been a great investment. If you put a portfolio of one-third each in these three investments, General Electric has, for practical purposes, disappeared. Microsoft never saw that 600 billion market cap for the next 13 years. It took a huge drawdown. The 600 billion went down to I think less than a hundred billion or so. It was a huge drawdown. It's now at a much higher valuation. It has done well. But I think from 2000 to 2012 or 2013, it would've been a very rough and bumpy ride, and I don't know anyone who would've held onto their stock through that ride. History doesn't repeat itself, but it does rhyme. When I look at NVIDIA's situation today, to me it rhymes a lot with the way Microsoft was at that time. It was just the blues of the blue chips that create business recurring revenues. How can you do without Word and Windows and Excel and all of that?

The other thing about investing is that there are no called strikes. It's a baseball term. You can let a lot of balls go by and there's no penalty. You could only get a penalty if you try to hit something. If I don't make an investment in NVIDIA and it ends up being a $10 trillion company 10 years from now, I don't lose anything. Yes, I didn't make that 10 x, but what matters is what I invested in, and what happened with those things. So, NVIDIA could be 10 trillion a few years from now. It could be a few hundred billion a few years from now, or even less, we don't know. One of the reasons for the error rate is that people get caught up in the euphoric flavor of the day, fear of missing out, and all of these things. Another reason why there's a high error rate in investing is we are trying to predict the future trajectory of a business. The future trajectory of a business has so many different unknowns and variables. A great manager leaves or a great manager comes in, or government regulations change, or some duties prevent competitors from abroad from coming in, and those duties go away. There are factors internal to the company, and external to the company that is with competitors, that could affect future outcomes. When we are trying to look at a business and say, "Oh, I think 5 or 10 years from now, this will be worth three times what it's worth today," that's an exercise that's prone to, by definition, a high error rate. We need to be aware of that. I think that in general having a strong dose of pessimism, investing is an interesting art, you need to be a pessimist and an optimist at the same time. Kind of keep two thoughts in your head at the same time. If you can do that, then that can work out quite well.

Purvi: Sir, do you think investing is a privileged concept, and do you think there's any further scope for democratizing investing and if that is possible, then how do you think that we should go about it?

Mohnish: Well, the advances that have taken place in investing, for example, we now can trade from our phones and the apps are pretty good. The frictional costs are very low. In the US, we can trade with zero frictional costs. We don't pay any commissions if you don't want to. On the surface, these look like great things. In reality, what would help investors a lot would be Buffett's rule of the 20 punch card. Buffett says that if you were allowed to only buy 20 stocks in your entire lifetime, you would be careful about each stock that you bought because now you only have 19 left and then you would have 18 left. I think that the ease of trading and the reduction of frictional costs have probably had a negative impact on investors because they've increased the propensity to go in and out of positions. If there was a 20-punch card rule, investors would be helped. If there was a rule that said if you invest in a company, you cannot sell it for at least five years, that will help investors. It's kind of counterintuitive, but if you slowed down the activity and slowed down and reduced the number of decisions investors would get help.

Samarth: I just want to go to China for a bit. Ray Dalio has fleshed out in his book *The Changing World Order* that he sees China being the next global superpower, displacing the US. Now, I've listened to a couple of your interviews where you've reasoned out why you exited Baba, but I want to know how you look at this thesis from a geopolitical point of view. Investing aside, do you think this will play out even a bit?

Mohnish: Well, I think when you're investing, you are far better off focusing on the business and not spending a lot of time trying to figure out geopolitics. I think that there was a time in the early eighties when the expectation was that Japan's GDP would exceed the US in some finite period because it had been growing so fast and the Japanese economy stalled. What was a juggernaut and miracle economy in the fifties, sixties, seventies, and eighties did not do, as most people had forecasted. China has had a spectacular run. I think it is an unprecedented run in human history in terms of the number of people lifted from poverty since the 1970s. It's a truly spectacular outcome. India would be a very small shadow of that in terms of what China was able to achieve. If India can achieve anything resembling that in the next few decades, we would not be able to recognize India. It would just be a different ballgame. The place would look like Dubai everywhere. I think that some of these trajectories become not so easy to figure out.

One of the negatives that China is now dealing with is negative population growth which has been a difficult problem for governments to solve. The average couple needs to have 2.1 kids for the population to neither grow nor drop. Japan has been below 2.1 for a long time. In fact, for the last couple of years, about 1.6 million people, for example, died last year in Japan and 800,000 were born. You're losing close to a million people a year, which is a very significant rate of decline taking place. In the case of Korea, it is far more extreme. The Japanese couple's average children are around 1.4 or 2.1, which is quite low. Korea is less than 0.8. That is a shockingly low rate. In the case of Japan, you're seeing a less than 1% annual rate of population decline. In the case of Korea, you would see a lot more than a 1% population decline. Both these countries have historically, including China, all three of these countries have historically, but especially Japan and Korea, been very reluctant to bring in immigrants. I think the Japanese now are beginning to shift on that and my guess is the Koreans, their concern is that the homogeneous culture would get destroyed, and that is a legitimate concern. The citizens of the country have a right to decide how they want the future to unfold. I think with China, I don't know whether the government policies of basically trying to get more couples to have more kids, more couples to even just get married. That's a big challenge even in Korea now. Just getting couples to marry is very uphill. The cost to raise a kid keeps going up so much.

One of the amazing things about the United States is that there are, it is an anomaly actually for an advanced economy to have a growing population, generally speaking, when GDP per capita incomes rise significantly, and you get to be an advanced civilization and women are in the workforce. With a lot of independence and equal rights, the natural outcome is a drop in the birth rate. The United States amazingly has been able to keep up a birth rate over 2.1. It's now, I think right on the edge or below that now, but with the inclusion of immigration. If we didn't have immigration in the United States, we would have a declining population. The birth has been below 2.1 for a while, but when you add immigration to the US, when I came to the country, two score years ago there were about 250 million people or so in the country. We are now approaching about 335 million in the country. It's gone up. It's a good 30-plus percent increase over 40 years, which is great. My general take is that one will face some headwinds in most businesses when one is investing in economies with declining populations, you would need to either have a mousetrap that most of the population doesn't have and therefore there'll be a large market that'll be going after those products like NVIDIA's products, for example. Or you would need to be an export juggernaut or something where you are leveraging country resources, but your real market is the world.

But if you are a standard consumer products company domestically focused in a competitive market you are facing a lot of headwinds because your market is shrinking. Having said all of that, I think one is better off focusing on the micro versus the macro. I think when you look at an investment I made in Alibaba, for example, which is a mistake as that investment kind of went sideways because there were things the state did, which came from left field. I probably should have paid more attention. But as I said, it's hard to predict these types of things when the past environment has been so benign for such a long time. We've always run into that. We'll always run into things that don't work out for several reasons. As I said, a 40 to 50% error rate is just par for the course. Warren Buffett would have a 50% error rate in businesses that he's buying and he's the best of the best. Even though we had the mistake in Alibaba, I would still be a proponent of being very focused on the core business rather than trying to figure out a lot of macro things.

Purvi: Sir, so in one of your interviews you said if there are no humans, there are no problems. Now, although this was said in a different context, do you think it extends to the business of investing and more specifically the money management industry?

Mohnish: Well, Pascal, the famous mathematician said that all man's misery stems from his inability to sit quietly in a room and do nothing. I would kind of paraphrase Pascal and say all investment manager decisions and all investment manager misery stem from the inability to sit quietly in a room and do nothing. My dad used to say that to have a great life, all one needs is one good wife and one good friend. Less is more and quality is more important than quantity. I would say that it is very much worthwhile for most of us. If we had a few great relationships with people who are vastly better than us, then a lot of mediocre decision relationships that we spend a lot of time with may even end up having negative impacts on our life. There's a gravitational pull that happens. We hang out with people better than us, we get better. We hang out with people worse than us; we get worse. There should be a very deliberate, strong effort made to try to hang out and be friends with people who are vastly better than us. I think that would lead to just great outcomes in the long term. The good news is we don't need them in large numbers. It's better if they're in very small numbers. That's the way to go. The less human contact I have, in general, I think the happier I am. But with some humans, I enjoy the contact a lot, and I'm happy to spend time with them.

Samarth: Sir, I was reading an article that Musk tweeted today actually, which showed that SMB Global gave Tesla a lower ESG score than Philip Morris International, the Marlboro Company. I want to know, what do you think is the inherent relevance of ESG, both in terms of returns, as well as the societal impact when certain work and secondary aspects of ESG sort of veil the very business impact a company may have?

Mohnish: I think that tree huggers have kind of gone nuts. I don't think that they have a balanced view of life. For example, coal is treated as a four-lettered word. Anyone using coal is a bad person. Anyone mining coal is a bad person. The reality is that we would not have a civilization if we didn't have steel. You really cannot produce steel at reasonable prices at a reasonable cost without metallurgical coal. If the tree huggers would simply shut down all metallurgical coal mining, civilization would come to an end. I don't spend a lot of time thinking about ESG. I think yes, we have one planet and yes, we should take care of it. But as Charlie says, the answer is not necessarily always prevention. The answer can also come from advanced engineering and different things. For example, technologies are being worked on right now to pull carbon from the air and put it deep into the earth. Those are functioning technologies today. They are very expensive, but it is worth investing in those technologies and bringing down the cost curves on those. We may have difficulty as a civilization taking emissions to zero. I think airplanes will use fossil fuels for decades, or could be a century or more, because there is no real practical alternative like electric airplanes, and the pipe. I think that in many cases we will be a species that does impact the environment, and there could be answers that come out of advanced engineering, which negate those negative impacts. I take the ESG stuff with a pinch of salt because I just see so much bizarreness in how things are being done, and it has become very political and there are all these kinds of weird outcomes you get where Tesla is a bad company and some oil refiner or oil producer is a good company. That's just kind of strange.

Samarth: Sir, I want to ask you a question related to venture capital. Do you think with private equity or venture capital firms, their success lies in others' loss? I'm saying this being that more often than not, this happens, and these are for most of the firms, not all. What I mean is that private capital cares about one thing and one thing only, which is valuation. Valuations, at least in the recent past, have been as frothy as they can pre-IPO. Private equity players have essentially made their money, but when these IPOs have hit the market, there's the strong narrative that the VCs put out has flowed along to the public markets. I want to say that retail investors have maybe been brainwashed by it, and they end up investing only to realize that value is inflated and maybe absent even. What do you think about that?

Mohnish: Well, I would say an investor who ends up with a poor outcome has only himself or herself to blame. No one put a gun to their head and asked them to buy X or buy Y or buy Z. It is like investing in that we have a lot of snake oil, snake oil salesman, investment bankers, underwriters, and so on, who will bring things to public markets and package them in manners that look exciting. We've seen this story for a hundred years. Our job as investors is to sift through all that. One of the simple rules an investor can use is not to invest in IPOs and not to invest in any businesses that have less than 5 or 10 years of history as a public company. If you just put that filter in, you wiped out the salesman, and the salesman's pitches don't mean much.

I do not believe venture capital is evil, and I do not believe that it's a zero-sum game or that they're taking money from somebody else. I think venture capitalists provide a real service to society. I also think that venture capital is a really difficult business to do well in. If you look at the historic returns in Silicon Valley or venture firms, there is a massive delta between the top quartile firms and the bottom quartile firms. If you are not in the top quartile firms in Silicon Valley, you will have terrible results, because in venture capital, deal flow matters, and the deal flow is going to end up with the people who have the brands. I have several venture capitalists who are investors in my fund. For example, one of them was telling me that if they had access to the trash can of Sequoia Fund, their results would be spectacular. They said, "If we could just take a look at everything Sequoia turns down, we would do so well." Not the deals that Sequoia invests in, the ones that Sequoia rejects, because his firm doesn't have the brand name. Those deals never show up on his doorstep. The deals that show up on his doorstep are so useless compared to the deals that show up at Sequoia. If you are Sequoia or Andreessen Horowitz or Y Combinator, you get the pick of the litter and you have a very good chance of doing well because you are going to say no to a lot of great things, but you're probably going to say yes to some truly exceptional things that most other people never get to look at. I think venture capitalists as a group do a huge service to society. They're providing high-risk capital to entrepreneurs who would not have a way to scale. Of course, it is the job of venture capitalists and bankers, and private equity players to dress up the pig as best as they can and bring it to the public markets at some point so they can get an exit. We know that, and it's our job to be very skeptical to the extent that we can do our job and we'll be fine, and they should be allowed to do their job, and they'll be fine too.

Samarth: Thank you so much for that. We can maybe end today with one or two audience questions if that's okay with you.

Mohnish: Sure.

Samarth: We have a question from Aryaman Sethi. He asks, "Do you believe tech giants like Microsoft and Google will dominate the AI race, or is it startups who will lead that?"

Mohnish: I think that's a good question. I must pinch myself sometimes, but accidentally, this year in Omaha, I got seated next to Bill Gates at a small dinner for two and a half hours. I spoke to him about everything under the sun. We had a very long one-on-one engaging conversation, which I never thought would ever happen in my life. He probably still doesn't know who I am, and he probably forgot the conversation already, but that's okay. I would just say this, I had a perspective on Bill, and I looked at his history and all of that. Truly one of the great brains and business leaders of our time. I played a game with Bill. I said, "Bill, I'm going to name a tech company and you tell me whether you would go long or you would go short, or you'd be new neutral." I won't go through the results of that over here, but I went through, NVIDIA, AMD and Google Salesforce, and a whole bunch of names with him, and he was just rapid-fire, giving me answers and drilldowns and why, and so on, and the breadth and depth of his knowledge on a wide variety of subjects, even beyond technology. We spent time talking about nuclear reactors and we talked about toilets in India. He's just a guy who has picked up a lot of data and he's got a brain that can synthesize a lot. I would just say that he's not running Microsoft. He does interact a fair bit with Satya.

But I would say this, these types of questions about who wins the AI race to me fall into two hard piles. If I were to invest, I have an idea where I would invest, I won't share that here, but I would say that if you were an investor in Microsoft, I would just keep that investment. I don't know if you were looking to invest in Microsoft today, whether I would do it, or again, pay a rich price for a company that's a tremendous company. I'm a cheap skate at heart, so it's hard for me to pay up for things. But yes, I think those types of questions about who's going to win the AI race, I like to have simpler questions in investing where the answer has a higher probability of success than blue sky thinking like that.

Samarth: Sir, I think the last question, and maybe a simpler question is which stock should we buy? No, I'm joking. I guess we would love to entertain more questions, but we're short on time, so I guess we'll close it at that, over to Purvi.

Purvi: Sir, we would like to express our heartfelt gratitude. Thank you for making this session such a great success with your valuable insights and expertise. Your presence today has truly left us enriched, and we are grateful for your participation. Thank you so much for taking the time to be here with us and enriching us with the knowledge that has been built over many years of experience. I also extend our gratitude to our teacher in charge for always allowing us to learn better. Lastly, thank you, everyone, for joining us today and being such a wonderful audience. We are sure it was an amazing session for everybody. Thank you so much, everyone. Have a good night.

Samarth: Thank you, sir.

Mohnish: Thank you. It was a true pleasure to hang out with you guys. I enjoyed the kind of direction you guys took and the kinds of questions you asked. It was different from many of the other interviews I've done, and I was especially excited when you guys at SRCC asked me to do a session with you. Now you can understand why because two score and one year ago I was on that campus, which was a lot of fun. Thank you very much. It was great to hang out with all of you. We'll see you around. Thank you.

Samarth: Thank you so much, sir.

Purvi: Thank you so much.

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