Mohnish Pabrai's Fireside Chat at the London School of Economics on January 18, 2023

Mohnish: Yeah, it is a pleasure to be with all of you. I think we have got a very smart audience at LSE. I am looking forward to the session. Thank you for having me.

Speaker 1: Absolutely. It is an incredible pleasure to have you. Hopefully, our introduction wasn't too long. To all of you who joined, just a quick rundown of the event. We are going to ask the hardest questions we could find for Mohnish, hopefully, some excellent answers, which I am sure they will. Then 40 minutes in, we will open it up for questions from the rest of the audience as well.

Mohnish, our first question. You used to be more of a, let us say, deep value kind of guy and then you evolved becoming more of a moats kind of guy. This is very, very broad. But we would like to focus on the moat part. Not all moats are made equal, right? What is the best source of sustainable competitive advantage for a company? I.e., what is the best moat that an investor could find in your experience?

Mohnish: Just a little bit of a correction, when I actually started my journey as an investor, which is now about 28 years ago, I was actually a buyer of great growing businesses. You always do the best if you can buy into a business that is going to grow intrinsic value significantly over time, usually, that is better than buying discounted dollar bills and such. But then, as we got to 1999, 2000, it was the great dot com bubble that was brewing. I was probably able to see it not very much in advance, but probably two or three months ahead of where everybody else was or most people were. Thankfully I was able to sidestep the bubble.

Things went really well from 1995 to 2000. I think I had a million dollars, and it was up to about $13 million in that period. Then Pabrai Investment Fund started in 1999. At that point, I switched to Graham Deep Value. The interesting thing was on March 9th, 2000, which is the day that Nasdaq peaked at about 5,000, was the day that Berkshire Hathaway hit a multi-year low. There were lots of undervalued assets in non-sexy businesses, and there was a lot of froth and euphoria in the whole tech and dot com space. Of course, Nasdaq over the next three years went down from 5,000 to about 1,200, I think. Like a 75% decline. I was buying funeral homes, steel companies, and so on. Those did extremely well over that period.

In general, to answer your question, capitalism is brutal, and businesses are aberrations. The nature of capitalism is such that if someone builds a better mouse trap, which grows a company, generates high returns and equity, and very profitable and so on, they have a target on their back. In general, that will attract a lot more competitors to enter your space and they will try to chip away at whatever advantage is there and mostly they will succeed.

The moats are really more the exception to the rule. Let us say you have some small city in England, and it has no Thai restaurant, for example. Someone looks at it and say, “Yeah, I think a Thai restaurant would do really well here.” They open a Thai restaurant and they do well. They are full all the time and they can charge premiums versus London and other cities. That is going to attract more people and more entrepreneurs to open Thai restaurants until eventually the economics of the Thai restaurants in that small city may be no different from other parts of England.

Now, sometimes what happens in capitalism is we get aberrations and when this pharmacist started the Coca-Cola Company, he had no idea what he was onto. No one could have imagined that Coke would end up being the brand it is today. Quite frankly, there is nothing particularly magical thing about Coke in the sense that they say they have the formula locked up in some bank vault in Atlanta. It is easy to clone Coke and several companies have done that.

When Pepsi introduced the Pepsi Challenge in the 1980s, they basically gave people two Colas to drink with no brands on them. They said, “Tell us which one is better.” Most people preferred Pepsi, which was because it was a little sweeter. Then after they took the test, they would tell them, “Oh, by the way, you prefer Pepsi.” But if they presented the two drinks to most people with the brands Coke and Pepsi, most people would prefer to take Coke.

Coke’s moat is, if you look at it kind of objectively, it really doesn't make any sense. They have a product that can be very easily cloned. They have competitors, in many cases, who have better products. But a brand got built and people have preferences. They don't have a full lock-on monopoly in the sense. When you go to the supermarket, if Pepsi is 20% cheaper, a lot of people will switch. The brand loyalty is not that extreme in something like Coke.

The same applies to Visa, MasterCard, or American Express. If you just look at the different businesses, we see them as having great moats. We can tell in hindsight that a business has a great moat. Now, even a business that has a great moat, the nature of capitalism is that moat is very likely eventually to get filled in.

If we go back in history and we look at businesses that have survived and thrived for a long time, very few businesses that are founded make it past their first year. A few will make it past their fifth year, and even fewer will make it past their 10th year, 20th year, or 30th year. It just keeps going down. If we start looking at businesses that are more than 100 years old, for example, we will recognize the Coca-Cola company, Wells Fargo Bank, and so on. It’s a very small number. If we go to, let us say 200 years old, maybe get some liquor companies, a few things here and there. The known oldest business on the planet is a very small boutique hotel in Japan, 30 odd rooms that has been running for about 700 years in the same family. I think it is like in the 35th generation or something. They have survived World Wars. They have survived all kinds of things. Japan has gone through a lot of change in 700 years. Basically, if you start looking at businesses that are 200 years old, 300 years old, 500 years old, you are not going to find very many. We are not going to find very many that are even 50 years old.

If you look at a business today, let's say for example, Apple today. Is Apple going to be with us in 10 years? I would say that's a pretty good bet that they will be around in 10 years. Will they be around in 20 years? I think the odds are high that they would be around in 20 years. But I don't know whether I could make a statement that the Apple of 20 years from now will be a more valuable company than the Apple of 2023. It very well maybe or it may not be. Let us ask the question 50 years from now or 100 years from now, do we expect Apple to be a more valuable company a 100 years from now? If I were a betting man, which I am known to be, I would take the other side of the argument and say that I don't think it is going to be more valuable.

I was having a conversation with Charlie Munger a few weeks ago. I told him, "Charlie, the one thing that is going to survive in the Berkshire portfolio for more than 200 years is going to be the railroad." Berkshire owns Burlington Northern Railway. Now, 200 years from now, the technology of rails may change, maybe, or freight, it might be Maglev or something else. But the point is they own the rights of way, they own the land, they own the connection to the ports, and all of that. Humans need some way to transport goods in large land masses. I think the Burlington Northern Railway is likely to be around and thriving 200 years from now.

Then Charlie said to me, "I think our utilities will be there as well." They have a big business with a lot of power companies that Berkshire owns. He is probably right about that. But he didn't mention to me that Coke would be there, for example. I think Coke will be there. I think that has a decent shot. But they may very well may not be, we don't know. 200 years is a long time.

The difficulty with capitalism is that when we look at businesses that may look dominant today, our job with investors is to project what these businesses may look like 5, 10, 20 years from now. That is a very difficult exercise because you have all these marauding intruders who want to take away your moat, who want to take away those profits, and they are continuously coming at you. That's what makes this a fun and exciting endeavour for my point of view, because trying to figure those things out is not that straightforward.

Speaker 2: Mohnish, you talk a lot about the time, I think particularly given that the market typically runs on 12-month cycle, do you think that investors structurally undervalue these quality fantastic compounding businesses? It is just a matter of course because how is it possible to value a business that you know is going to be producing cash for the next 100 to 200 years? Do you think that therefore the opportunity for retail investors is A, obviously in the time, but B, also to spend almost all of your time looking at the quality of the business rather than anything else?

Mohnish: One of the arrows in our quiver as value investors is patience. In general, we don't really have an information edge. If I am looking at a business, there is not much I am going to be able to come up with about that business that a lot of other people haven't figured out or can figure out. The information edge, for the most part, doesn't exist.

There can be another edge, which is an analytics edge, which is two individuals have the same information, but one person is able to look at that data and come to conclusions that are different from the other person. An analytic edge can be a real edge, but even that is difficult because there is a lot of smart people looking at a lot of companies. The one edge, probably the strongest is the time horizon. Even Jeff Bezos says that a lot of his competitors are focused on the next one, two, or three years. And he said, “Amazon always took the approach of looking out longer, looking out five, seven, or 10 years.” He said, “When they looked out longer and they invested with their longer time horizon, they got an edge and they were willing to make investments where they knew that the payoff is not going to come in three years.” I think yes, the ability of an investor to think longer term is one of the reasons why the index does so well. The Index is too dumb to know that it owns Microsoft. It is too dumb to know that it owns Alphabet. It is too dumb to sell these things. It keeps these things endlessly forever.

We look at the S&P 500 Index, for example, which is for the most part, great businesses. Every year, they might take one or two businesses out and replace them with one or two new ones. Usually, the ones they take out are not the ones that are climbing. Recently, they removed General Electric from the Dow Jones Industrial average. If you look at the Dow Jones Industrial average over time in general, you get rising stars going in and you get kind of companies that are going to long in the tooth that have passed their prime being taken out. The S&P 500 will hold Apple, Microsoft, Amazon, or Alphabet for 20 to 30 years. That type of holding period on these great businesses can be a great edge.

When we talk about moats, we are obviously talking about competitive advantages, which is an overused term of business for the room as well. A moat really is a sustainable competitive advantage that you can maintain over time, right? The need that a business can survive an idiot running it, because one day an idiot will. I think a lot about moats. It provides that kind of downside protection. When you talk about like 10 and 100 values, particularly that requires that serious level, competent, and impeccable management execution. I think personally, finding good competent management integrity is probably the single, hardest thing because anyone can look at Coke and say, “This is what makes the business better than Pepsi.” But to really look at a person and say, “This person has not only got a good track record, but they can tackle the issues of tomorrow in a way that no one else can. This seems to me to be almost impossible.

What do you normally do when you are looking for your 100 baggers or your 10 baggers? How do you go about that kind of issue?

Mohnish: Yeah, there are two different frameworks that one can employ. A simple way to get 100 baggers on a company that is never going to grow by buying it at 1% of liquidation rate, right? If something is worth a billion and you are able to buy it for $10 million, you are pretty confident that the billion value would not go down, you might have yourself 100 baggers.

Speaker 2: Exactly.

Mohnish: I am not trying to be facetious. I just want to point out that Charlie Munger says that the greatest investing mistake of his life was a friendly broker. He called him in 1977 and offered him 300 shares of an obscure pink sheets company called Belridge Oil, which had a very large oilfield in Bakersfield, California. Charlie was familiar with this company. It was very thinly traded and there wasn't much disclosure. He knew that at the price he was being offered those shares at that time, I think the market cap of the company was something like $120 million or something, and the dividend yield was like 15%. It was very cheap. Charlie said that without even doing much of an analysis, you knew that you were buying it for one fifth or one tenth or less of what the actual underlying assets worth. It was quite a remarkable field. They owned the land, it wasn't the lease, and they owned everything under the underground. He bought the 300 shares at $115 a share that were offered. Then two days later, the broker called him back and offered him another 1,500 shares of Belridge Oil. Again, at the same price. This time Charlie didn't have the cash handy, and he would have had to sell something to buy Belridge. He should have sold because whatever else he owned in his portfolio was not a 20-cent dollar. It was not that cheap, but it required him to sell something, raise the money, and then buy. He called the broker back and declined. Two years later, this a hundred million market cap company that was bought by Shell Oil for $3.5 billion. It was like 30x or something, $120 million. 30x in two years. At that time, in 1979, Berkshire Hathaway was trading at about $300 a share or something, which is now approaching half a million dollars a share.

If you think about Charlie's 30 odd thousand, he put in, it became a million dollars in two years. It was probably more than a 1000x, more 1500x or 2000x, was a journey from Berkshire. That million became something like a billion and a half today. The 30,000 in effect became one and a half billion. The 1,500 shares that he took a pass on would be worth something like 7.5 billion today, which I think exceeds his total net worth today. I would say it's the cross connect where you take the first company, and you get 30x. Then you take the second company, and in his case, he got a 1,500x. Then you end up with 45,000x, some crazy number like that. When well passed a 100x, we are not in Kansas anymore.

That was now the second company that he invested in. Berkshire Hathaway was a great growing business and that generated a lot of the returns because of the growth. Recently in 2019, I found my Belridge Oil, which I thought would never happen to me, but I know God loves me. In 2019, I found this company in Turkey, which was basically trading at 3% of liquidation value, very similar to Belridge. Unlike Belridge or maybe not quite unlike, Shell pulled out something like 40 to 50 billion of oil from that oilfield. It is still flowing today.

This company in Turkey, not only was it a 3-cent dollar bill, it is growing its value. In fact, in the last three years, it may have doubled its value. I was buying something with a market cap of $20 million that was probably worth at least $600 or $700 million. It is probably worth something like at least a billion and a half today. It is going to keep going. I may not need to do a cross connect. All I may need to do, which is very difficult to do, is do nothing for a very long period, like Rip Van Winkle, just go to sleep. I could either go to sleep for 20 years or I could spend 20 years talking to the students at LSE.

I hope you will invite me back because I need something to do for 20 years. I have literally got nothing to do now. I just must twiddle my thumbs and make sure there is no sell orders placed. One way you can get 100s is to take a step back. There is 50,000 or so publicly traded companies around the planet, all their prices are set in an auction driven format like horse racing, the parimutuel system. The way prices are set on the New York Stock Exchange, the way the odds are determined on the racecourse is identical. Basically, it is the buyers and sellers that set the price and because of the auction driven nature of the market. If we have a private company, we have a gas station, they want to sell the station, they want to sell that petrol station, you are generally going to have intelligent buyers facing an intelligent seller, and you will come up with some price that will be close to the actual value of the gas station. When you have auction driven markets, you have a lot of undershooting and overshooting that happens all the time.

In 2022, we saw a lot of overshooting. A lot of highflyers, a lot of great businesses got going really a year ago, for whatever reason. These auction participants gave Facebook/Meta Labs a certain valuation. Then by the end of the year, they had taken it out back and shot it the same business. Not much has changed. But in a year, there was a dramatic change in valuation. If Meta had been a private company and they tried to sell themselves a year ago and they were trying to sell themselves today, the delta may not be anywhere near the way it is in the equity market. When we see the undershooting of securities that gives us some possibilities. Then you might say that this is so hard, 50,000 stocks. If you ask Warren that, he will say, “Start with the As.” Buffett went through in the 1950s something known the Moody's Manual, which listed all these companies. They had four companies on a page, very thin pages, big thick books. I bought a couple of Moody's Manuals on eBay a few years back, just for nostalgia's sake. But he would go through each company and there were thousands of companies. They just had basic balance sheet and income statement data. He ran some classes with MBA students a few years back and he would find a company where the earnings were $15 million a year and the market cap were $25 million, things like that. Just things that made no sense. When he found these things that made no sense, then he would dig into those, and he did really well.

To take a step back, going back to horse racing, you know who we are as humans at the age of five and who we are at the age of 95. There is no change. Basically, our personality template, our traits, our likes, and dislikes, who we are, is pretty much hard quoted at the age of five. Between your genetics and your experiences in the first five years of life that is die casted. After that, there is not going to be any change. Buffett, when he was a young teenager in Omaha used to go to the local racetrack, Aksarben, which is Nebraska, spell backwards. What he would do is after all the races had been run, he would collect all the tickets that people had discarded and thrown on the ground. He would collect them all. He would bring them home and he would go through each one carefully to see if some drunk guy had thrown away a winning ticket. Lo and behold, he would find a few tickets, which actually were winners, but people had thrown them away. Then because he was underage, he couldn't go to the window to cash it, so he would send his Aunt Alice with these tickets to cash them in. The kid who was doing that at the age of 12, was the same kid who at the age of 26 or something, was thumbing to the Moody's Manual in 1956 or 1957.

One time my friend Guy Spier and I visited his office in Omaha. I think this must have been like 2010 or 2011, we used to go have lunch once a year with Buffett's assistant, Debbie Bozak. We paid a good amount of money to have lunch with Buffett, but quite frankly, the lunches with Debbie were a lot more fun. I learned a lot from Debbie.

One year, I think 2010 or 2011, thereabout, we had gone to have lunch with Debbie. When I went to the 14th floor of Kiewit Plaza with Guy Spier, Warren was standing right at the elevator to receive us. We didn't really have an appointment with him or anything. He says to us, "Would you like a tour of headquarters?" I said, "Warren, if you want to hang out with a couple of yo-yos, perfectly fine with us. We have got nothing to do, twiddling your thumbs." He gave us a great tour of the headquarters showing us all the mementos and different things. Then he took us to his private office and there I saw on his desk the Japan Company Handbook, which is basically just like the Moody's Manual, it is like the value line for Japan. They have two companies on one page, listed every Japanese company and he was thumbing to it. Now, Berkshire's managing tens or hundreds of billions at that point, and you can't be playing these Mickey Mouse games with the Aksarben tickets and stuff.

I had been going through the Moody's Manual, just coincident Japan Company Handbook before I actually went to the office. I took his copy of the Japan Company Handbook and I said, "Warren, I am going to like dog ear some pages that I found interesting that you might find interesting." Now, I don't know if whether he was horrified that I was taking his Japan Company Handbook and mutilating it, but I just went ahead and did that. A lot of the companies that I thought were these super cheap companies, statistically were towards the back of the book. He says, "Yeah, what I found is the good stuff is always at the back."

The kid at 12, the kid at 26, the kid at 81 or 82, it was the same kid. No change, no change at all. Because the kid today is the same too. Munger would say, when you say, this is so much work and this and that, his answer would be, "Why should it be easy to get rich? Why should it be so easy for you to find the three-cent dollar bill?" What I am here to tell you is the three cent or two cent or one cent dollar bill is sitting there, it is there today, it is there tomorrow, it's there five years from now. The only question is how determined are you to find it and how many pages are you willing to flip? How many rocks are you willing to turn over?

Like this company in Turkey, it's like one and done. I don't think God loves me so much that I am going to find another one, but I still keep looking. I am still hunting. One and done is perfectly fine with me. It is better than zero and done.

All of you are young, you are really smart, you have a lot of tools and resources to look up all of these companies. Start with the As or maybe it might be better to start with Zs because the good stuff is in the back.

The second approach is where you identify a great compounder. People not willing to look at the right time horizons can look around the corner. You can pay them reasonable or even expensive looking prices can give you a great result. If we have a crystal ball that can tell us what a company might look like 50 years from now, 30 years from now, then we could buy something at a billion-dollar market cap and it might become $200 billion. For me personally, that is a lot harder game to learn and play. I would like to do that, but I am open to both games. I think for me personally, the first game might be a tad easier and because we have these auction driven markets and because people who oscillate between fear and greed, we can get there.

Speaker 2: Excellent. Thank you so much for your answer, Mohnish. Well, we have reached 40 now. We would like to open to the audience for questions. Of course, we have got a lot of questions still here, so we are happy to continue.

Rene: Hi, my name is Rene, I am studying political economic. You mentioned that in recent times you no longer look at companies in the US, you look at companies in India. When you are looking for companies to invest with, are you looking for companies that have an intrinsic value that is higher than what they are valued on the market? I wanted to know if you had any advice on navigating certain trade-offs associated with investments in emerging markets.

Mohnish: Yeah, there are two or three important things, but I would say probably amongst the most important filter is circle of competence. When we look at a business, we really have to understand its code. If we aren't and most humans have a limited circle of competence, there's no problem with having a small circle of competence. In fact, you can get extremely wealthy with an extremely narrow circle of competence. That is the nature of most entrepreneurs. Their circle of competence is very narrow. They are in many cases an inch wide and a mile deep and it works well for them. We have to be honest with ourselves and we have to ask ourselves, is this business within our circle of competence? It might be the case in 98 or 99% of businesses you encounter. The answer is no. If I encounter any biotech company, I don't know nothing about it, I can't do anything. I don't like the healthcare space. I just say I will take a pass on that. There is an entire large like defence companies or defence contractors. I just don't like businesses that do that, just have one customer, which is the government, because I think that it gets a little shady sometimes. They could be non-market forces. I just don't like those businesses. Now, they could be good investments for someone else, but they are not for me.

Lots and a lot of things I will quickly get rid of fully or irrationally. It doesn't matter if you get rid of a business that eventually goes up a hundred times or a thousand times, what matters more is to avoid the ones that you don't really understand. The first is circle of competence.

The second is marginal safety. If you have a good understanding of a company, by definition, you know what it is worth. You can't really have a good understanding and then basically say, I don't know what this is worth and if you know what it is worth, and obviously the market is giving you a market price that you see a large enough delta there.

The third thing is – to be very unreasonable. If you say to yourself, I want to buy things that are 50% off, you will find plenty of companies. If you become more unreasonable and I say, I want to buy something that is 75% off, you will still find companies. If you say to yourself, I want things that are 90% off, you will still find companies because the universe of companies is so large. If you are willing to dig through those 50,000 businesses, you will find them at 50, 70, 90, 95% off. They are not that common and obviously you have to overlay that with circle of competence, but they are there. It is a treasure hunt looking for a needle in the haystack. You want seven moons to line up.

The other side of this is if you made eight or 10 bets like this and even half of them didn't work, which is probably going to be the case error rate here might be 50%. It doesn't matter if you are right and four out of eight, or five out of 10, or six out of 10, it is going to work out spectacularly. It is a straightforward plan. I would say template and game plan execution is not so straightforward, but if you are dogged and focused, you can get there.

David: Mohnish, question from online from David. Would you say a better use of your time is to spend time looking at industry leaders or investors for young people learning how to invest their money?

Mohnish: I think it is unlikely that a large business that is followed by 20 analysts is widely mispriced or widely under-priced. It could happen, but it is unlikely. I think you could have paid any multiple for Microsoft when it went public in the 1980s, almost any multiple for Walmart when it went public in the 1970s. You would have still done extremely well. There are some truly great businesses with very long-term moats that just held them for long enough, you would do well.

But I think the better framework is to take the path less travel. Like when Charlie bought Belridge Oil, it was a very obscure company. When I bought Reysas Logistics, I couldn't convince even my best friends who are really good investors to even spend five minutes to look at the business. They just said, "Turkey, some nano cap, I am not interested." And I couldn't even get to the next sentence with them. I think you are better off being an independent thinker and you are better off going through some of these obscure names looking for that needle in the haystack.

David: Excellent. Thank you, Mohnish. Just getting a question from online.

Jonas: Yeah. Hi, Mohnish. I am Jonas, I am the President of the Hedge Fund Society and on behalf of our society also really wanted to thank you for taking the time. I have been following you for a few years and it is a great pleasure to have you over as a speaker. I am unfortunately not in London right now, so I am chatting online.

But I have a question about your process. While I was following you, sometimes I just wonder because you usually talk about more qualitative factors, so I just wonder what your investment process is. Do you have a sophisticated financial model? Do you rather look at something more simplified like multiples or is it more of a qualitative analysis and you want the valuation to be so obviously cheap that you don't have to really dive deep into the valuation? A bit of color on that would be super interesting.

Mohnish: One of the issues we face is that the data set is too large. When you have 50,000 stocks in the world, and if you were to spend a month on each one, unfortunately God hasn't given us 50,000 months on planet Earth to go through them all. We have got probably less than 10,000 or 12,000. We get less than probably 10,000 months total and or less than a 1,000 I would say. It is 120 months is 10 years. We only have about 1,500 months before we are dead and gone. If you spent your whole life looking at every business and you started when you were 20, went until you were 80, you could look at 6 or 7,000 businesses or something. It is not much that you would actually be able to get through, actually not even six or 7,000. You would get through about a hundred businesses every 10 years and you would probably get to 600 or 700 businesses in a lifetime. There is just doing nothing else, which means that you would basically have only looked at something like 1% of the full data set. We need hacks. We can't just do it so there are several hacks you can use.

One hack you can use is you could go and look at something like Value Investors Club, which as a rigorous membership requirement and the quality of the ideas posted is well above average. If you limit yourself to only companies that have a write up on Value Investors Club, that is a much more manageable data set, and you could actually drill down on a lot more businesses if you went down that route. You might be able to look at a few hundred businesses a year. And the good thing with the Value Investors Club is that you get digested data. You get both qualitative and quantitative data in a digested form where someone has spent the time to write it up and is giving you the story and all that. Now you may agree or disagree or not understand the story and that is fine. You can let things go if they don't make sense. That is one hack.

Dataroma is another hack, which is a site that lists major holdings of a bunch of great investors. It is already gone through one filter, someone smart that you admire, already bought it. That is a great list to go window shopping and then hopefully actually shop in. You can do some hacks like that. What does Berkshire's portfolio look like, for example? Take it from there. These are some of the things you can do where you can dwindle down the 50,000-stock universe, which is impossible to go through into something more manageable.

Then on the other end of the spectrum, other side, if you end up with one or two ideas that you can find in a year that go through all these filters, that is a good outcome. If you can find one good investment a year, I think that is a year well spent. That is how I would, and that is how I do go about it. I am a shameless cloner and I want to leverage what other people have already figured out. Value Investors Club is good, Dataroma is good, and anything I can find out where someone else has already done some work and has some perspective, I would like to understand the perspective and then take it from there.

Jonas: Great, thank you. Just a very quick follow up. In terms of you actually evaluating it yourself, do you actually build a financial model or how do you assess it or do you think that it is a waste of time and a false wish for accuracy?

Mohnish: I gave a talk some years back, 10 commandments of investment management. The commandment that came down the mountain, there were two sets of 10. One was for investment managers, and one was for humanity. The investment manager tablet dropped and broken. We never got that. I had to create it for us investment managers. One of the commandments is, "Thou shall never use Excel." If you find yourself reaching for Excel, then you know you don't have Belridge Oil and you don't have Reysas. If it doesn't hit you over the head, like this is a total no-brainer. I think it is a good idea to look at things and read things where things are so blindingly obvious just on the first read. Now you may need to do more work to fine tune it, but it should just hit you. So obviously that this is worth 10x what I am going to be paying for, and that is the way to go. Excel is not the way to get there.

Jonas: All right. Thank you.

Cedric: Hi, Mohnish. I am Cedric here and thank you for sharing with us. You just mentioned that we should probably not use the Excel when it comes to value a business. I just wonder like for example, Charlie has mentioned lots of mental models, collective misjudges and probability. I just wonder if there are any mental models that you think are very useful to recommend it for us to study?

Mohnish: Yeah, so first of all on Excel, I know that I and your finance professors at LSE are completely in sync. They would never ask you to use Excel for anything and neither would I. That is wonderful. We can just toss Excel out the window because no self-respecting business school professor would ever ask for that. Having said that, you know what I would say with the mental models is the following. I sometimes have to pinch myself, but I have had a chance to have dinner with Charlie many times in his home and I have played Bridge with him for many hours. I think what I learned the most from all of that was just observing him, not so much what he was saying, but just watching how he functions. I think watching him gave me more insights than anything that he was saying. What I realized about Charlie is that he has a very large brain, very high horsepower, and what he is also doing with that very large brain is he is pounding a massive amount of information into that brain. I think Charlie must read, read 400 or 500 books a year when he is sitting in his easy chair at home. There is a pile of books on one side and another pile of books on the other side. He has taken an assembly line. These books, he is just pounding through probably more than one or two a day. But neither the large brain nor that huge amount of data going into his brain is responsible for his success.

In my opinion, what I believe is truly responsible for his success is the mental model hacks. What Charlie has been able to do over the last 50, 70, 80 years is that he has been able to figure out certain mental models. He gets them etched into his brain. When you start putting something like 30, 40, 50 mental models in your brain and you encounter some company or business that you are looking at and instantly three or four mental models come and work on that particular business, you are able to get to a perspective on that company relatively quickly and probably relatively accurately that most of the humans are going to have a hard time with. The key to getting great at some of these things is to get a lot of fluency.

First, you must get the mental models into your system. The second is you must believe in those models. The third is you have got to be able to overlay very quickly three, four, or five of these models that apply in a particular situation. Especially when Charlie says, “that when multiple metal models are working in the same direction that is when you get lollapalooza effects.”

For example, if you look on YouTube, there is a talk I gave many years ago on Coca-Cola and I went through a bunch of the mental models that Warren and Charlie used when they were figuring Coke out. There is a whole bunch of different ones that go in and once they saw that there were four or five models working in the same direction, they knew they had a winner because of the way that would work. There are many different mental models. Cloning is a mental model; the reciprocity of humans is a mental model. There are many mental models. If you go to Charlie's Almanac, which is my favourite book, there is the last chapter in the book is the Psychology of Human Misjudgement, which is a talk Charlie gave a long time ago at Harvard. It probably took him something like 40 or 50 years to prepare for that talk. I don't think he could have given that talk 30 years ago, 40 years ago because he didn't have the models. That talk lays out something like 30 models, 20 or 30 models that I try to reread every year. When I reread it, I pick up new stuff and I am not that good at being able to overlay these models and recall them that quickly like he does. He has got a fluency of recall and understanding which ones apply. When you look at a situation and you just look at a lot of data you have in your head against that situation is a very blunt tool.

But if you look at a situation and you can recall four mental models, like one of the mental models for Coke is something we and humans have known as association tendency. Coke likes to advertise wherever people are happy. They are at the Olympic games, and they try to be at the Super Bowl. They want to be with you at movie theatres and all of this, right? Because they feel that if you are in a happy place and you consume Coke, then it is kind of Pavlov's dog conditioning; you are going to think that it is a Coke that made you happy. The association tendency is something that advertisers understand really well, and it is one mental model that Coke uses. If you start overlaying these other mental models with that, then you start getting these kinds of unusual effects. That is the same reason why Coke uses celebrities. If we have some George Clooney type character drinking coke, we are going to think, “Oh, we will be like Clooney too if we drink the Coke.” The association tendency kicks in there as well.

I think that building an arsenal of mental models and doesn't even need to be that I don't think I am that good at it. I have just got a few models that I think a lot of humans ignore that I don't think one should ignore that can give you a good edge. I think cloning has given me a huge edge in getting a head start in life. I think that I understood how Warren and Charlie went on these treasure hunts and it fits with my psyche to go on treasure hunts. For some people it may not fit with their psyche, but for some people it will. The combination of a treasure hunt with being able to take something that shows up and then overlay a bunch of other models on it.

For example, this company, Reysas, in Turkey was cheap. But the thing that was more interesting to me about that company was not that it was a three-cent dollar bill. It was more interesting to me about it was that they are not interested in investing capital if the rate of return is below 25 to 35%. It is the reinvestment rate that is more interesting. The three-cent dollar bill, I will get a 30x. If the dollar bill becomes a $20 bill, that is far more interesting and now three cents can become $20. That is much more interesting than three cents becoming a dollar. The mental model of compounding is well understood by many of us. When you overlay cheapness with goodness, which is what you get with high return and equity businesses, good businesses generating high returns, we know that high returns over long period with long runways get you remarkable results. When you overlay that with something that is really cheap, you are going to get what Munger would call lollapalooza effects. If I bought the same thing at a 100-cents on the dollar and it compounds, I still do well. But if I buy it at five cents or three cents, then it compounds it's just off the charts. I would say focus on the hacks, focus on the mental models, and build. Munger can give you a big head start because it takes a while to build these, learn these, and internalize these.

Cedric: Thank you so much for sharing.

Mohnish: Okay, I think are we out of time?

Speaker 1: I was actually just going to ask if we could ask one more question that relates a little bit to what you were just saying with regards to Munger. Is that okay?

Mohnish: Yeah, that would be great.

Speaker 1: Excellent. Well, first, brilliant book, as Mohnish mentioned it. All of you should read it. I'm just reading it now. Excellent book. One of Charlie's interviews, Munger mentions that one of the reasons that Buffett continues to build Berkshire, and I am sure you are aware of this as well, is to have a platform to essentially have people listen to his very good notions, his lessons that he has to share. Obviously, you have benefited hugely from it. We have benefited hugely from it. Probably a big reason why all of us are good today and now we are also here benefiting from your platform. What is your motivation to build a platform that you have and is it for similar reasons?

Mohnish: I think the value investing community, going back to Ben Graham has an ethos of knowledge, sharing, and teaching. It goes back to Graham. Graham did a great job with that very selflessly and then Buffett and Munger did a great job with that, very selflessly. I think it is just part of the community. I think there are a lot of practitioners in the community who follow that ethos and not going to become any poorer by sharing any of these things. I have no original ideas. Whatever I am sharing from you is coming from other masters and I have figured something out. I haven't figured anything out. I am just a shameless cloner. I would say that I have been deeply enriched by the teachers that came before me who were such great teachers to the extent that I can be helpful, I'm more than happy to be helpful.

Speaker 1: Thank you very much.

Mohnish: One interesting thing, Buffett says that he wants just one thing on his gravestone, "Was a teacher." I think that is what he wants to be most remembered as, that he was a teacher.

Speaker: Well, Mohnish, thank you so much for your time. There is no way, no better way to end it other than that.

Mohnish: It was a pleasure. Thank you very much. I really enjoyed the session. I am sorry my answers are long winded, so we probably didn't get to a lot of your questions. Hopefully, we can do this again in another session maybe next year and we can make some progress.

Speaker 2: Absolutely. We will reserve it for the next year. Mohnish, thank you so much for your time.

Mohnish: All right. Bye.
