Mohnish Pabrai's Q&A with students at the Harvard Business School on September 15, 2023

Charles: A visionary, although he will tell you, he is a cloner. Mohnish is a long-time value investor and a CEO. He is an entrepreneur, an author, and a philanthropist. He regularly gives his time to meet with students to share his wisdom on investing, business, and life more broadly. Mohnish is the founder of the Pabrai Investment Funds and one of the most successful value investors in the world. He is an admirer and disciple of Warren Buffett and Charlie Munger, and famously paid just over $650,000 to have lunch with Warren Buffett back in 2007, which he later said was worth every penny. We will get to this.

Without further delay, let us extend a warm welcome to the man himself, Mr. Mohnish Pabrai. Please join me in giving him a virtual round of applause. Okay, so now back to DJ Khaled. DJ Khaled is famous for his song; *All I Do Is Win*. I know we would all love to win all the time, but maybe that isn't realistic. Mohnish, you have taken a slightly different road and you have this saying, "Heads, I Win; Tails, I Don't Lose Much" that you have used about your style of investing in the stock market, your successful run at the casinos, and also the Patels who started investing in motels in the 1970s or so. Mohnish, what does "Heads, I Win; Tails, I Don't Lose" mean to you? How would you come up with this framework and how have you applied it in investing and other businesses? In your response, feel free to address any or all the examples I mentioned, including your experience in the stock market and casinos and the Patels and motels.

Mohnish: Sure. Well, Charles, it is great to be here. It was also wonderful to bump into you at the AirTrain at JFK which was kind of a fun, short meeting there. I think many times in life we are confronted with exactly these types of odds where if you go for something it could be a winner. The downside is very limited, from taking a random meeting with a stranger to a variety of other things that you might engage with. For example, I think Michael Jordan said, "You miss all the shots that you don't take," so sometimes going for a few things, even if it is not a hundred percent sure bet, can work out well in life. I think one of the misnomers that people have about entrepreneurs is that they think entrepreneurs are risk-takers. The reality is the complete opposite.

If I look at startups, I would put them into two different categories; venture-backed startups and non-venture-backed startups. Non-venture-backed startups make up 99.999% of all startups, and venture-backed startups are the anomaly. I am not talking about venture-backed startups. We can ignore those startups. Non-venture-backed startups tend to have entrepreneurs who, even though they don't think about it in this format explicitly, do everything in their power to minimize risk. I gave an example in my book that let us say there is a barber in a small town and he has a barbershop and he's got customers. He is kind of doing okay. But there are just about as many barbers as are needed in that town. No one just does extraordinarily well, but everyone does. The barber notices that there is a new town emerging about 10 or 15 miles away, and he goes out there and he sees that, kind of, there is some growth happening, people moving in, etc., and that there are no barbershops in that place because it is brand new. So, what he does is he, sublets a small space, puts in a chair, and decides to spend one or two days a week, starting with one day a week at the emerging town. Because he is the only barber in town, he can charge more for a haircut and the opportunity cost for the people living in that town is that they would have to travel 10 or 15 miles for another barber. So they are willing to pay a little bit more just for the convenience. He goes out there once a week, and since he is the only barber in town and hair grows and people need their follicle trims and so on, business picks up and takes off, and he is doing better than average. He is making more in one day there than he does one day in a town with a lot of barbers. He bumps that up to two days. He starts spending more time there. That is the way entrepreneurs go about it. If you think about what is the risk that the barber is taking by stepping into this new town, well, he subleases some very small space. He will probably buy some used equipment. He doesn't have any payroll or anything. He is just going kind of himself and, he might for a few days, not have a hundred percent load. He might lose some business that he would have had in the other place. However, the whole risk profile is extremely muted. It is very low.

On the other hand, if this town booms, he could eventually be full-time in the new town. He might even be able to hire other barbers to work at his shop. Now he has at least temporarily super-normal profits. This is kind of classic how a lot of entrepreneurs go about it. This is the way the Patels went about it. The Patels came to the US as refugees. They were thrown out of Uganda by Idi Amin. They had been there for a hundred years, and so Idi Amin said that Africa is for Africans, these guys were Africans. They weren't black, but they had been there for several generations, and they became stateless because he threw them out and they dominated the Ugandan economy because of their great approach to doing business. The UK took some of them in as refugees. Canada took some of them, and the US took some of them as refugees, and basically, all their assets were nationalized. They lost almost everything, and they were able to convert a few of their assets into gold and get it out of the country. However, when they came to the US, they didn't have too many skills that would have been in high demand in the US. The motel business looked very attractive because they could live in one or two rooms in a small motel. A bank would finance 70, 80, or 90% of it, and they could employ the entire family in motels or work into doing all the different tasks needed for the motel; the housekeeping, and front desk, and so on. What happened is the Patels accidentally didn't set out to do this. They became low-cost providers because they had no workers' comp or payroll or anything. Because they were the low-cost provider in a particular area, they could look at what other motels were charging in the area and charge 10 or 15% less and still have the same profitability as everybody else. However, when they charged 10 or 15% less, their occupancy went to nearly a 100%. They had super normal profits relative to the other motel owners and the very small group of refugees that came in. I would say Patels in the US are in the tens of thousands today. They are not in the hundreds of thousands. They might be a hundred or two hundred, but if you look at the US population of 330-340 million, they are not even one 10th of 1% of the US population. Today, they own around 50% of all motels in the country. When you are at a motel somewhere, you may not realize it, but you are at a Patel Motel, and they have moved upscale into the Marriotts and the Hiltons and all of that. Among the lower-end motels, they have 50, 60% ownership. Even at the higher-end ones, they are creeping upto 15, 20, and 25% of those. It worked just the way the barbershop, except in their case, what happened is, that entrepreneurs started as arbitrage players. That is really what they are doing. They are arbitrage players.

The barber is a classic example of an arbitrage player. What happens is that over time, in that new town, super-normal profits will not last. More barbers are going to come into that town, and eventually, all those extra profits and higher prices that he charges usually will get eroded. Sometimes what happens in business is he is a talented barber, and people get used to it. We are kind of creatures of habit. They like him, and if he is very talented, they might be willing to pay him 10, 15% more than anyone else just because even though there are other barbers available, they now have a habit of coming to him. Sometimes what should be a non-durable competitive advantage ends up becoming a competitive advantage by accident. That is the same thing that happened with the Patels. What should have been a non-durable advantage became a sustaining advantage over 50 years. They took over their industry. We see this over and over. This "Heads I win; tails I don't lose much" is the way almost all non-venture-backed businesses get started. If you look at a small mom-and-pop Chinese restaurant that opens, they go through the same. I am looking at Cambridge. Do they have an oversupply or undersupply of Chinese restaurants? There are too many Chinese restaurants in Cambridge. Let us forget about that idea. How about going 70 miles away from Cambridge? What is the situation there? There you might find a town with pathetic Chinese food, and these guys are talented chefs, and they might make it happen. That again non-durable competitive advantage, if they are talented and they get a following, may become sustaining over time. That is the way capitalism works. That framework is also applicable in investing.

The important thing in value investing, as practiced by Warren Buffett and Charlie Munger, is that the very first thing is downside protection. We don't even look at the upside until we first look at the downside. It is just like the barber. The barber doesn't want to lose when he opens this new place. He is not going to go sign some fancy lease on some big space and put all his savings into that new thing. He is going to scrounge to keep the risk down. If he does the fancy place with all the razzmatazz, he will be out of business soon, and that will be the end of the barber. The entrepreneurs that make it are arbitrage players. They focus on the downside. We, as investors and value investors, do the same thing. Whenever I am looking at an investment, what we want is we are looking for free lunches. We want the downside to be zero or as close to zero as we can get with a massive upside. Because we function in auction-driven markets, and because auction-driven markets tend to overshoot or undershoot, things get either too richly priced or too pathetically priced. The richly priced we can leave aside. We don't need to go buy Nvidia, but you can look at things that are hated and unloved. There are always things that are hated and unloved. When you get things that are hated and unloved, you can get mispriced in the right direction. If seven moons line up, where occasionally some great businesses are hated and unloved for temporary reasons or some temporary issue, then that can lead to a good result. That is what we try to do.

Charles: Wonderful, wonderful. Thanks for breaking that down. I would like to backtrack a little here. You were born and raised in India. You came to the US for college and studied engineering at Clemson. After graduating, like many of us, I think on the call, you went to work for a company for a few years but in your mid-twenties, you decided to start your own business. Can you tell us what that business was, what motivated you and gave you the courage to take the risk if you even viewed it as risky to start the business and how did your upbringing, anything I have touched on in terms of your growing up in India, studying in the US or anything else influence your decision to go off on your own relatively early to start your first business?

Mohnish: That business was my third business. The first business I was trying to do when I was about 22, about a few months after I started working. I had some ideas for some software tools and I probably spent maybe $500-600 and it never went anywhere. I put it to bed, and again, it was classically "Heads I win, tails I don't lose much." $500 down, we can handle that. The second business, which I tried to get off the ground, was with two other good friends of mine. One of them was a very talented software programmer. He had developed some tools and we were going to try to see if we could market those. For that one, I probably spent a couple of thousand and maybe about six months, part-time on the side. That didn't go anywhere. We put that to bed too. Again, it was easy to handle that too, with no problem. The third business, which I was by now about 25 years old, was one I decided to do on my own. I was trying to get the business off the ground while I was working because I am like the barber guy. Just like the barbershop, we are not taking any risk. We have zero risk. For about nine months from the time I founded that company to the time I quit, I was working around 80 hours a week. I was doing my job.

What I decided to do for my third business was that I always used to get great reviews and was always focused on making sure I was a good employee. One of the changes I made in my mental model is that we are not interested in great reviews. We are not interested in being an employee of the month, an employee of the year, or top ranks or anything. We just want to make sure that I don't get fired and that I am putting all my energy into the new business. I am getting off the ground, and the only thing I need the existing job to do is keep the paycheck coming. I try to figure out how much I need to work and what kind of productivity I need to have, so they do not fire me, because that would kibosh the plan pretty badly. I think I calibrated it pretty well. In this third business, after about nine months, I had three clients. There was significant revenue from each client, and I was just dying with so much work to do. I worked evenings, weekends, and early mornings, so I had enough cash flow coming out of this business that was more than what my paycheck was. I went to my boss and I gave my resignation, and he said, "What are you going to do?" I said, "I got this business off the ground. It doesn't compete with the company I am at." I was doing two things for nine months. I met with my boss and his boss, and they said to me, "Mohnish, we were puzzled about what happened to you in the last few months because we saw such a big drop off in the Mohnish we knew." He said, "We had several discussions about what is going on, and we discussed whether you should be fired. And the conclusion we came to was that it is not so bad that he needs to be fired." I said, "Exactly. I was trying to calibrate. I kept above firing level just slightly above; just my neck above water." He said, "You hit it so well because we never got to the point where it dropped so much." I said, "Man, this is beautiful." Anyway, both of them stayed. They are still good friends, and after about 10 years, they both invested in Pabrai Investment Funds and they invested with me. It has been a long relationship.

The third business got traction. That was an IT consulting system integration business. It was the same thing as a barbershop. Instead of opening a barbershop 10 miles out, I was just doing two jobs at the same time. Someone is paying the paycheck, someone is paying the rent, doing all of that, and there's no downside. The first business, $500 gone, no problem. The second business, $2000 gone, no problem. The third business, I took $30,000 out of my 401K. I was 25 years old. I wasn't concerned about retirement. I said, "We can deal with retirement later." I then took every credit card that would give me an offer. I had about $70,000 in unused credit cards with me. One by one, because the business needed a lot of cash for cash flow, I maxed out all my credit cards. Eventually, $100,000 went into that business, but it was already profitable. It already had clients, and eventually, I sold that business and then went into the investing business. However, in everything I have done in my career, my only employer has always been the "minimization of risk." Anytime I have done ventures where I have decided to do something very professionally with proper resources, etc., those have all failed. It has only been these, scroungy crappy startups, which don't take any capital that have worked. That has been the journey so far.

Charles: Okay, so the first business didn't go so well, but that is okay. Tails you didn't lose much. The second business was the same thing. The third business comes around, you are in your mid-twenties, you start this one, you have some traction, and I believe a few years passed by. You are now in your early thirties. It is the year 2000, and you sold that business for $20 million.

Mohnish: Yes.

Charles: I think you netted about $1 million personally. In today's dollars adjusted for inflation, I think that's about $1.8 million. I am curious.

Mohnish: No. We had about $20 million in revenue. It sold for a lot more than that.

Charles: A lot more. Okay. Okay.

Mohnish: You are coding my return numbers.

Charles: In terms of netting the profit, I think it was a significant amount personally.

Mohnish: Yes. I sold that business in 2000. I stopped working there in 99. I lost interest in the business, and I got a lot more interested in investing and Buffett and Berkshire. What I had done with that business is in 94, I had sold a portion of that company, a small portion of the business. After taxes, I got about a million dollars. I still owned the business. I just sold one small piece of it. I started investing that million in the equity markets using Buffett's approach. That million, over the next five or six years, became about 13 million. That was like a 70% analyzed rate of return. I got more interested in the investing side, and less and less interested in being a CEO and managing. The business I was running had close to 200 people at that time. It was very operationally intensive. I like to lead a laid-back life and that was not the case.

In 1999, I did two things. The first thing is that I applied to Warren Buffett for a job because I was thinking, "Well, what do I want to do next?" I said, "What I want to do is to go work for Warren Buffett. That would be great." I already had enough money, and I didn't feel like to work anymore. I said, "Now, I can do what I want." Buffett said, "Thanks. No, thanks. I work alone." My friends then told me to start a fund, like the Buffett partnerships, which is what I did in 99. I hired a CEO to run the business. About six weeks after he came on board to run it, he moved from EDS in Dallas. He called me and said, "Someone wants to buy the business." Now, I have done a deal with him where he is going to have, all these incentives if he grows the business. I said, "Look, I don't want to pull the rug out from under you. What do you think we should do?" He says, "Sell the business." For six weeks, he was going to get paid a lot of money, and the new people who were buying the company were not looking at me because

I had already left. They wanted to lock him up to run the business. They gave him a new deal with a new package. He said, "Please sell the business so I can ring the register once and then work on ringing the register a second time." I was happy because I had no interest in the business anymore. It worked out great for everyone. Then, I started focusing on Pabrai Investment Funds. We started with a million dollars from eight investors, and we grew that over the years, and it worked out.

Charles: Thank you for the clarifications there. Can you talk a little bit more about the transition from running that business to getting into investing, following the Buffett framework? I think soon, if not already, many people on this call will find themselves with a sizable amount of cash and will want to, and need to do something with it. I am curious, what advice do you have for us, and how did you choose how to invest the money that you earned?

Mohnish: I think investing money was an easy thing for me to do because I had been studying Buffett's approach to investing for a while. It had been about five or six years I had been studying it. I applied for it and I did very well with it. I just had a very simple approach, which was what I would call a 10 by 10 portfolio. I was only making investments in the public markets. If I invested, it was typically one 10th of the assets. When I was fully invested, I would have like 10 stocks and that was it. I would then wait for them to reach intrinsic value. Sometimes you make mistakes. but the investing business is very forgiving. Even if you are wrong half the time, you will still do well. I knew that I could invest well. I never really planned to be in the investment business. What happened in 99 was that a few friends of mine came to me. I used to give my friends stock tips from 94 to 99. I would buy a company, and after I am loaded up, I would tell my friends, "Hey, I researched this business and it looks good. If you want, feel free to invest in it. Place some trade on e-trade or whatever you want. No reps and guarantees or anything, but you can do whatever you want." Many of them would take my tips and invest, and they did well. They came to me as a group in 99, and they said, "We would like you to manage some money for us because this is too random. You give us a stock tip, then we don't see you for a while, and then we don't know what to do." Pabrai Investment Funds started as a hobby between me and eight friends. They gave me collectively about a million dollars. I put a hundred thousand in, and now I manage around 900 million or so. I thought of it as a hobby at that time in 99. The first year we started was in July 99. By June of 2000, we were up like 70%, and the Nasdaq had crashed. Everything had crashed, and nothing had happened to us. Nothing had happened to us because I was buying funeral homes when everyone else was buying Pets.com. I was buying funeral homes at two times earnings, and I was buying steel companies, coal companies, and whatever that people didn't have an interest in. Everyone else was interested in all these high-flying internet stocks that eventually went to zero. The markets were a difficult place to be from 2000 onward because they were so overheated. Coke was trading at 50 times earnings. Microsoft was at 600 or 700 billion dollars market cap. It did not see that market cap again for 10 or 11 years. If you invested in Microsoft in 2000 you had seriously negative results for the next 10 to 12 years. Of course, I had no interest in investing in Microsoft. I was just looking at very basic business at that time. I changed my investing style in the nineties. I was doing a lot of tech investing because it was not overheated, and I understood the space. In early 2000, I switched to hard-core Ben Graham Deep Value, because that was the only thing that made sense. I could never make sense of investing in Microsoft at that time. It worked out just fine, no problems.

Charles: I imagine through that time as you were studying some of these investors, you were picking up their principles and philosophies. I have heard you mention that this wasn't a common trend during that time. It made me wonder how the best investor in the world sitting in Omaha, openly sharing his investment philosophy and approach, and virtually no one follows it. I think in many cases they don't. They go ahead and they do the exact opposite. I would guess that Mr. Buffett doesn't analyze companies using Excel. You have your investing 10 commandments, and one rule is "Thou shall not use Excel." I think in your book, *The Dhandho Investor*, you have also demonstrated that instead of using Excel, Bed Bath & Beyond uses a Texas Instruments calculator. You ran a DCF (Discounted Cash Flow) model and came up with a valuation for Bed Bath & Beyond. I am wondering how we should think about and reconcile this. On the one hand as business school students, a lot of us here sit through finance classes and develop models in Excel. But your view, correct me if I am wrong, is that if the investment requires you to follow Excel, you take an automatic pass on it. How should we think about this and reconcile that?

Mohnish: I am so sorry to break it to you, Charles, but they wasted your time. They have filled your head with mush. You need to reprogram, you need to detox, you need to go into rehab, and then come out the other side with no need for Excel ever again, and life will be great. One of the things I have found is the quirk about humans. I know the quirk exists, but I am not exactly sure why it exists. I have tried to understand why it exists. I still haven't figured it out. For whatever reason, humans have an aversion to cloning. You said that I am a cloner. I am not a cloner. I am a shameless cloner, so let us not miss the full thing. A cloner just doesn't do justice. I am a shameless cloner.

I remember when I first met Warren and Charlie and they were asking me if I had replicated the rules of the Buffett partnerships, which I thought were good rules. I told Charlie, "Look, Warren ran these partnerships from 1956 to 1969. They had the best record of any investment partnership even probably till today. There might be very, very few that have done better than that. He had an approach to doing that that made all the sense in the world. He never charged any management fees. He took one-fourth of the upside, over 6%. I replicated all those rules." I then told Charlie, "Look, the Buffett partnerships ended in 1969. The Indian guy in front of you started Pabrai Investment Funds in 1999, 30 years later. I looked high and low for anyone who had replicated that model in the last 30 years. All I could find was nobody, zero." I realized just like so many other things that people are not willing to clone that. When you find something that is a great idea, what you will repeatedly find is nobody else is interested. I just really don't understand why this is the case. If I look at a business like Chipotle, it is a fantastic business. I wrote about it in my first book. I wrote about how amazing the business is from then till today. What is so difficult about Chipotle? Nothing. If you are a talented chef, you could clone every single aspect of Chipotle. Nobody has done that. We have had some players come in like CAVA and a few others in other fields, but they came after a long time. No one thought that I should make a burrito or make a taco in a format where the user controls what goes in it. That was the thing they changed. You don't order the taco and tell them, give me this and that. You direct each ingredient going in, which is what makes it unique because you can make it exactly the way you want it. It is not rocket science, but just like no one replicated the Buffett partnership, there is a gazillion things around us, which are terrific businesses and terrific ideas. They could be five of those and no one is interested. This is the nature of humans.

There is a lot of opportunity in a lot of different fields because humans are not interested. I told Charlie, "Listen, 30 years, the Indian guy had to finally come along and do this." Charlie said, "Well Mohnish, there were a couple of guys who cloned our model." I said, "Yes, but Charlie, I didn't know about them." He said, "No, they were very obscure. You would have never heard of them. You are right that 99.9999% of humans have no interest in what we are doing." When I look at Buffett's approach to investing, there are very, very few business schools, Columbia, University of Florida, Missouri, and Jack McDonald at Stanford, you notice I skipped Harvard. It is a place with a lot of intelligent life, but no strong value. An investing program doesn't exist. Bizarre, but it is the way it is. If I look at the others, a hundred other business schools in the US, don't have that program. That is because the capital asset pricing model and a zillion other things, efficient market theory, are beautiful things to play around with in Excel, and they have nothing to do with reality and nothing to do with the way the world works. What would be a way to make a lot of money is not taught in these schools. It is just taught in very, very few places, and you don't need to go to any school. You can just go to buffett.cnbc.com, as all the annual meetings for the last more than 25 years are six hours each. It is about 150 hours of Warren and Charlie talking. I went through every single one of those in the shower twice. It took about six, or seven months while I was showering and shaving and brushing every morning. I am going through it right now for the third time. Each time I learn more. Every morning I get educated, and it is right now I am in the year 2001, the afternoon session. It is an orgasmic experience, and the thing is, it is all there. It is free. Then you have all the Berkshire letters, and you have all the transcripts. You don't need to spend even $5; it is all there. You don't need to pay tuition to anybody, but no one's interested. It is all there, but no one is interested. I thought, okay, the Buffett partnership partner structure, no one is interested in it so I will clone it. Buffett's approach to investing, no one is interested. I will do that too. Even today, some people follow value investing. It is still a very small slip. We continue to find inefficiencies in the markets. We continue to find widely mispriced great businesses. There is a hundred-dollar bill on the ground. There are two University of Chicago economists walking by. They see the hundred-dollar bill. One guy says, "Oh, look, there is a hundred-dollar bill." They are both efficient market theorists. The other guy says, "It is not there. If it was there, it would have been gone a long time ago. It is not there. Start, keep walking." That is the way the world works. The hundred-dollar bill that they can see is not there. The Indian guy is going to go in and pick up the stupid hundred-dollar bill that no one else wants to see. It is okay. That is what we do. We just go pick up a hundred-dollar bill lying around.

Charles: Wow. $5 for this Buffett education, and here I am paying a couple thousand notes. I will probably have to wait until after the semester, but once I am done with my classes, I will scrub my mind off Excel.

Mohnish: Maybe you should ask for a refund.

Charles: I don't if that will work out, but I think another thing is this idea and the power behind diversification. I see some benefits to it. We learned quite a bit about it in our first year, but I can also appreciate one consolidating their efforts and investment on a few select opportunities. You have said to make few bets, big bets, and infrequent bets, particularly when there is little risk and high uncertainty. Can you talk more about your view on diversification? I know Charlie Munger refers to it as diversification. Perhaps you can even highlight how your perspective on diversification has influenced your investments in Pabrai Investment Funds.

Mohnish: Well, the thing is, if we go back to the 99.99% of startups that are not venture-backed, and some of them succeed, just like my company. My third startup succeeded for a long period, more than 90%, 95% of my net worth was in one company, and that is not unusual. The couple that owns the Chinese restaurant, got 90% of their assets in one company. The barbershop, most of it is one company. Okay, they are not diversified. Not only are they not diversified, it is not liquid. They can't trade it, they can't monetize it, they can't do anything with it. But they are very happy with all of that. You don't see them breaking out in hives about the fact that, oh my God, I only have everything in one business. Control is overrated, saying that if I have everything in one business, just because I control it, I should be okay. That is a flawed approach. In the stock market, we have the option of not having it all in one business, but once you get past 5, 6, 7, or maybe 10 businesses after that, you start hurting yourself because you are not going to know the 11th business as well as your second business. Why buy more of the 11th business when the second-best business you love so well? A few years back I started investing in Turkey, and no one is interested in Turkey. When I was investing, everyone was exiting. All the foreign investors had left. Everyone left and the local Turkish investors are all gamblers. If you look at the Turkish stock market, which has 200-300 listed companies and you exclude the stake owned by the promoters, the founders of the businesses the float is cycling every nine days. If some company has a 70% float of their stock, it changes hands completely every nine days. Every nine days of the new set of shareholders. Now, Buffett has a quote, "The stock market is a mechanism to transfer wealth from the active to the inactive." I looked at Turkey and I said, "This is beautiful. I am playing poker with people who want to be blindfolded. If you want to be blindfolded and play poker, no problem. I will play poker with you." When I went to Turkey, there was so much fear. Everyone was excited. Today, we own three businesses in Turkey. One is a warehouse operator. The warehouse operator, just to tell you about the hundred-dollar bill on the floor that no one wants to pick up. This company, the day I went to meet them in 2019 the market cap was 16 million US dollars. The liquidation value of the business was about 800 million, 2% of the liquidation value. The liquidation value would take about 20 minutes to figure out, because they have a bunch of warehouses rented out to Amazon, IKEA, Carrefour, Mercedes, Toyota DuPont, and all these multinationals, 99% lease, 10-year leases, inflation index that you could flip and be done. Those warehouses were about a billion dollars. There was 200 million of debt, you would net about 800 million. Cash flows were coming out of those rents in the market capital of 16 million. Then I thought, it is going to be illiquid. What am I going to get for $8 million? I got one-third of the company. Fast forward to 23, when I was investing, the Turkish lira was five to the dollar. Now it is 28 liras to the dollar; it has collapsed. The market cap is over 700 million dollars. In lira my return is infinite. But who cares about that? The business is now worth about a billion and a half. They have increased the value of the business over the years. The hundred-dollar bill was just sitting on the ground, and no one was interested. I remember Templeton Funds, who was in a hurry to get out of Turkey, they sold me a block, a 5% block of that company. I own one-third of the company, but 5% block of that company for a million dollars, $1 million of 5% of that company, which is today worth a billion and a half. It would be about 75 million, so it would be about one-75th of the current value is what some guy in New York decided he wanted to sell that for. That is fine, no problem. We own a Coke bottler in Turkey and Coke Bottling is a great business. We own an airport operator. All three assets were widely mispriced. There was a hundred-dollar bill on the ground. What I do is I just spend all my time talking to students, like Charles, and then every once in a while, we find a hundred-dollar bill on the ground, we go do some work, we pick up the hundred-dollar bill, then come back to talking to the students again. And that is my life.

Charles: Wow. Okay.

Mohnish: Thank you, Warren.

Charles: Speaking of Warren, I would like to go there actually, shoveling a little bit back to 2007. You put into practice Buffett's rules of investing. You are simultaneously developing your complementary investment philosophy, and you are outperforming the market as you would say, "Life is good." At that point, I think it gets even better for you. You get the opportunity to bid for a charity lunch with Warren Buffett. You invite your friend Guy Spier to join you, and together you pay over $650,000 to win the auction with Buffett. I remember within the first few months or so at business school, a professor of mine took the time to tell my class that as we go through this business school journey, we should make sure that we are developing relationships that aren't just transactional. The opposite of a transactional relationship is a relational relationship which emphasizes building trust, mutual understanding, and a long-term connection without an immediate expectation of receiving something in return. Do you feel that this opportunity you had to have lunch and interact with Buffett was transactional, or was that relational? How and why did you intentionally cultivate one over the other and finally, what unforeseeable benefits did that lead to?

Mohnish: Well, it led to all kinds of great things, which I never imagined. I didn't do so much business school thinking about that lunch. The Indian guy came to the US as a foreign student. He finds this guy in Omaha, reads up on him, makes some money, and in 2007, he finds he is worth $85 million. Most of it is coming from plagiarizing everything Buffett has done. Cloning the hell out of him. There's a tuition bill due here, even though he didn't charge me. Then I see that the guy takes bribes to have lunches once a year. I said to myself, "We are going to pay the bribe. We are going to have lunch." Then I thought what should be the tuition bill for something that makes 70, 80 million or something and I said, how about $2 million? 2 million, done. 3% something is a cheap deal if you give 3% for what you get. I invited my friend, Guy Spier, because we are allowed to bring seven people to the lunch. I told my friend, Guy Spier, "Listen, I want to bid for this lunch." I didn't know him very well then. He was the only guy I approached. I said, "Do you want to come in with me on this?" He said, "Yes, my wife and I would love to attend." I said, "Look, there will be four of us because I was going to go with my kids and there will be two of you, so you pay one-third, I will pay two-thirds. I am going to bid up to 2 million dollars." He said, "Whoa, wait, wait, I can't do $650 thousand. It is too much for me." I said, "How much can you do?" He said, "I am good for a quarter million." I said, "Okay, no problem. You are capped at a quarter million no matter what the bidding goes crazy at, you have two slots at the lunch for a quarter million." I was still willing to bid 2 million. Nobody else wanted to bid more than $650,000. My only agenda item when I met Warren was to look him in the eye and just say, "Thank you." I had no other agenda item. Now the lunch goes on for like two, or three hours. You can ask all kinds of questions. I wrote down a bunch of questions. My kids were asking questions. Guy Spier was asking questions. We had a ball.

When Buffett came, we had lunch in New York City, he said, "Look, I got nothing going on all afternoon. When you guys get sick and tired of me, you let me know I will leave, but I don't have to be anywhere till like 7:00 PM, I am here for as long as you want me to be here." I never expected that the lunch would lead to anything. I told Warren, "Thank you, I learned so much from you. I plagiarized you. I cloned your model and all of this without asking your permission. I am so sorry but thank you so much." Then, he introduced us to Charlie Munger. I met Charlie with my wife, and I enjoyed the lunch with Charlie a lot more than with Warren. That was so much fun, and it led to a friendship with Charlie and then a friendship with Warren. Buffett used to have brunch every Sunday at the Berkshire meeting with the directors and the CEOs of all his companies, and his friends. He would invite Guy and me to that brunch that is like all A-listers. Guy and I would go to that brunch, and I would tell Guy, "Listen, Guy, don't turn around, but right behind us, Bill Gates and Bono are having a conversation. Maybe we'll go get some pictures with them a little later." I met so many NFL players there. I met Hollywood stars there. Bill Gates would always show up. Bono and musicians, and a bunch of celebrities, CEOs, and whatnot also showed up. Every year I tell Guy, "Next year we're going to be off the list. We are the only two yo-yos here. Everyone else is somebody except us, but we keep getting the invite." I had no agenda for that lunch. I just wanted to say thank you and pay a 2, 3% tuition bill. I didn't even pay 1%, it was a very cheap deal. The last lunch they did went for I think 19 million. Now there are no more lunches. He stopped taking bribes. Such is life.

Charles: Wow, that's great. You've managed to outperform the market. You've generated all this wealth for yourself and others who have invested in your fund. You've met the guru, of all gurus in the investing world, Warren Buffett, and managed to form a close relationship with his business partner, Charlie Munger. Now you have to decide what else you want to do with your life and what to do with all the money that you've accumulated. I think around this time in 2007, you also started the Dakshana Foundation as I mentioned earlier in the intro. It's an extraordinary organization that has had unique success and has helped to lift thousands of families out of poverty. But don't take my word for it. I have here a copy of a letter from Warren Buffett, which he wrote to you. This letter reads, "Dear Mohnish, I remain incredibly impressed by what you have done, are doing, and will do as Dakshana. It is simply terrific, far more impressive than what business titans, investment gurus, and famous politicians have ever accomplished. I'm glad my annual report doesn't get compared to Dakshana's annual report. It's an honor to even be quoted in it, with admiration, Warren E. Buffett." Warren Buffett is known for his annual reports, and he says he doesn't want it to be compared to Dakshana's annual report. How has Dakshana managed to accomplish what it has for its students and families? What advice do you have for us about how we should think about social impact philanthropy and finding meaning in the work that we do?

Mohnish: Well, first, we should not believe everything Mr. Buffett says or writes. I think he's being very modest. He was very generous with the letter he wrote, made my day, made my year, and made my life. It was great. But his annual reports are the gold standard. I cloned his annual report, that's why he likes my annual report. We don't put any pictures in the annual report, just like his annual report. I use the same font that he uses. I think he likes it because of all those reasons. But anyway, the thing is, at the core, Mohnish is a gameplay. I like to play games, blackjack, bridge, investing, philanthropy. They are all games. But I don't just like to play games. Some psychologists who got into my head to figure out who I am, said, "Mohnish, we cracked your head open. We know exactly what's going on. You like to play games." I said, "That's right, I like to play games." He said, "But not just any kind of game. You like to play games where you think you can win." I said, "Yes, who wants to play games that you're going to lose at?" He said, "No, a lot of people play a lot of different games, but you like to play games that you have some edge that you can win." One of the games I'm playing is a compounding game that's going on. We go to Turkey, we pick up some dollar bills, we buy some coal companies in the US that nobody wants to touch, whatever else, we do. This compounding engine builds wealth. I cannot spend this wealth. Nothing that I would do with this money would increase happiness or anything. I live life, I have the lifestyle that I want, and I don't need to go beyond that. There are hopefully going to be significant amounts left over. What I want to have happen is June 11th, 2054 is the day I am leaving Planet Earth. One day before that, which is June 10th, 2054, my net worth needs to be down to a hundred dollars, maybe a thousand dollars, so the funeral gets taken care of. My network needs to be down to a few thousand dollars at the most, done. We have an engine that is growing wealth. There needed to be another engine that would take that wealth down. Two games are going on, the wealth accumulation game, and the wealth disbursement game. Because I'm a game player, I want to play the games well. If we are going to give the money away, we are not going to do any nonsense. We are not going to just randomly pick some nonprofit charity. We want to find the best charity. First, what I tried to do is I looked for organizations that impressed me in terms of how they went about doing social good. I was looking at this in 2005, 2006.

What I came up with was deep disappointment. I could not find even one nonprofit organization that impressed me with doing things the way I thought they should be done, which is that when we are giving money away, we must look at the social return on invested capital. We must look at what we put in and what is the output, and we have to measure that output. If I give a charity a thousand dollars, I want to know what happened to the thousand. What did it do? What benefit did it create? The problem with giving money away is that measurements are hard. Even most charities are run by well-meaning people, but they've not even thought about measuring because it's so hard to do. So what I did is I used Charlie Munger's principle, which is the inversion principle. He says inward, always inward. What I said is, "The only causes I'm going to look at are causes where measurements are easy." We could go into environmental, healthcare, homelessness, education, poverty, whatever. There are a hundred different causes you could focus on. I decided I was going to focus on the ones where we can measure outcomes easily. One of the things that happen in education, when you focus on education there's a report card, and you can measure those outcomes. Just like the Gates Foundation thought, if you reduce class size, you will get better outcomes. They put a lot of money behind it and later discovered that reducing class size didn't have the outcome, so they gave up on that.

But, they measured it and they found that it didn't work, so they went and did something else. In our case, we said, "Let's prep these kids for the IIT entrance exam in India." The interesting thing about the IITs and the medical schools in India is that they are free to attempt. But if you get in, Microsoft will hire you, Amazon will hire you, and Google will hire you because that's where they go to recruit. But getting in is hard, and the prep to get in India now costs like $5000-6000. I'm dealing with families living on 1 or $2 a day for the family. You've got a family making $300 a year, or $600 a year, how are they going to spend $5,000 on prep for a test where 1.3% are successful? You're not going to spend 5,000 or a 1.3% shot, even if you had the money, you need to have $100,000 to put the 5,000 at stake. The only people who can afford, and without professional prep for these schools, the IITs have 2 million kids, 2 million kids applying for 13,000 seats. It's a 1.3% admit rate, and it's hard. What we were able to do is create an engine to find raw talent among poor kids in rural India. Then we reset everything. We brought them to campus. We have seven campuses in India. The largest one is 109 acres. It's a better facility than any of the for-profit prep places because we didn't build it to make money, we built it to give the best thing, and it worked. We were able to take these kids many of them wouldn't have gone to college. Many of them are in the US, working at all these multinationals. We get a report card every year, and my team cannot manipulate the report card, because it's the IIT entrance results. No one can manipulate that. It is what it is, it's what the test result is, and it's an independent third-party test result. We got measurements, and now we've been doing this for like 16 years or so. Every year when we get the results, we look at them and we look at what we can change, and we tweak the model. We kind of fine-tune. We spend more time on thermodynamics, and we will get this result. If we spend less time on organic chemistry, we kind of tweak things around to optimize things. We just keep doing that and it works.

I think Warren appreciates all of this and it worked out way better than I thought. This was all like an academic pipe dream. I expected to fail on this. I had no expertise in any of this when we started. I still don't have expertise, and I just ended up with a great team in India, which made this happen. It worked, despite all the odds. Now, we have so many of our alumni who work for us. Eventually, Dakshana will be completely run by our alumni. They'll run and manage them. They'll do everything and it's great. It worked out great. But the game is still, one engine creating the wealth, one engine giving it away. I still must figure out, because the wealth, if the wealth-building engine compounds, and 2054 is 31 years away, and if I can compound at a good, healthy rate, that's a good amount of money. Even if I compounded, for example, at let's say 10% a year, I mean, rule of 72 every seven years, it would double, that'd be like four or five doubles. Five doubles mean 15x. 2, 4, 8, 16, 32, 32x, is 32x. Whatever I have would be 32 times in that period, and I'd have to give away the whole 32 times. We have to keep figuring out ways to give away the money, but we need to do it optimally.

I play bridge, I play blackjack, I play investing, and I play philanthropy. These are the four games I play, that's it. A little bit of tennis, a little bit of pickleball, a little bit of golf, and that's it.

Charles: The last three, I'm trying to pick up myself. I'll circle very soon to what you said about 2054. But before we get there, I just wanted to say, that I met you in person for the first time, in May 2022 at the Berkshire annual meeting in Omaha. I visited your office in Austin in August 2022 and met some members of your staff. Then this summer on a train ride to JFK, you addressed this in the beginning, you and I randomly, totally random, sat next to each other on the train. As you can tell, I was very surprised to see you there. In your classic way, you said to me that the universe conspires to help us. So what did you mean by this? I've been thinking about it and wanted to ask you, what did you mean by this? Do you believe this and in what sense? Is there a higher power? What can we do as humans to maybe get in sync with the universe or that higher power and help it conspire to help us even more?

Mohnish: Many of the things I notice in my life turn out magically, but they shouldn't turn out magically. They should be hard. Dakshana is a good example. India is a very difficult place to do things, and we should have failed. I expected to fail. But it worked, and I think it worked because there was a purity of purpose. The team that came was more passionate about it than I am because it's such a pure purpose. I think when you have this purity of purpose, the universe does conspire to help you. It's hard to explain, but I think that the important thing in life is to be a good person and focus on some good core principles and some good mental models. After that, I think what happens is that just naturally great things happen. There's a book written by Adam Grant, *Give and Take*. He says, there are three kinds of people in the world, the givers, the takers, and the matchers. The matchers are people who think someone did them a favor. I'm going to do a similar favor for them. They kind of match things in life. The takers who you want to have nothing to do with are extractors. You don't want to have takers in your life. The givers are the ones who are doing things for you without any expectation of anything coming back to them. What Adam Grant pointed out in his book is that the givers are trying to give things, but what ends up happening is they get 10 times more. It's like the Buffett lunch.

For the Buffett lunch, there was no agenda. It was just a "Thank you, Warren, you've been so good." A lot came back from it that I never wanted, thought, or expected. This happens repeatedly. What you want to do in life is you want to be a giver. You want to make sure that there are no matchers or takers in your life. Eliminate those. This is hard for most humans. If you have a friend who is a matcher, a decent person, they need to be wiped out. That's hard for humans, but that's the path you need to be on. You need to have only givers around you. When you do that, when there are only givers around you, it just becomes a different kind of life, a very different kind of life. I used to play bridge with Charlie Munger when he was going to his club every Friday, probably two, or three times a month. I got to know Charlie's friends, I played bridge with them, and I got to know them. It struck me that these were some of the highest quality people I had ever met in my life. Charlie had collected a set of people that were unbelievably high quality. I thought to myself that I was never going to be able to find people like this on my own. I'm going to go one step beyond cloning, I'm just going to make these guys my friends. That's what I did. I worked on making them my friends because I knew I could not find better people than them. All of them are givers. We must be harsh graders with whom we spend time. We become who we spend time with. We have to focus on spending time with people who are the highest quality people that we can find, and who will have us as their friends. After that, it becomes so magical.

Charles: Well summarized. The last one in terms of this portion from me. Warren Buffett recently turned 93 years old, and his partner Charlie Munger, will turn 100 years old on January 1st, I believe. You've said that you have until 2054 left. I hope that you clone the age aspect of both Warren and Charlie, and you live much longer than that. But in any case, what's next for you? How do you even approach maximizing the time that you have left? In other words, what's your framework for discovering what matters most to you? In a world full of noise, how do you focus on those things and do them exceptionally well?

Mohnish: I don't try to approach it that way. I told you, I approach it from the point of view of a game player, and I want to have fun at all the games I play. Investing must be fun, Dakshana has to be fun, and bridge has to be fun. If we are doing fun things, we will do them well and we'll enjoy them. I don't have any big plans. I have no idea where the next investment idea will come from. It's a very opportunistic thing. I don't know where Dakshana will be in five years. I have no idea about many things. There's no kind of blueprint or plan. It's just that there's a high-level idea that we want to end up at zero. There's a book called *The*

Billionaire Who Wasn't, written by someone whose forgot his name, he succeeded in doing that. He created a bunch of businesses, made billions, and now he just has a rented condo in San Francisco. He lives on $5000-$6000 a month, and everything's gone. He's in his eighties. He was very successful at doing that. That's the model, but I don't have much more than that laid out.

Charles: All right. That's sort of it on my portion. I did want to open it up to the audience and see if we could get a few questions in from the audience. If anyone does have a question again you can go ahead and raise your hand. Please state your name, what school, or what your occupation is and come off mute and we'd love to hear from you. I think the first one is Tracy Dixon; we'll go ahead and take it.

Tracy: Hi, my name is Tracy. I'm at the Hartford Graduate School of Education in the online education leadership program. It is a pleasure to hear you speak. I'm a music teacher and I teach violin and I'm making a shift. I don't know what I'm doing. I'm 49 years old, and a bit mixed up. My question is about strategy with stocks. I come from humble beginnings, and I've been investing since the early nineties. I didn't know what I was doing. Now I have some money and I try to keep buying bits of the Berkshire B Class stocks because that's what I can afford. In my mind, my strategy is to continue chipping until I can get to that next spot. I just wanted to know, is that a strategy or I'm constantly learning?

Mohnish: Tracy, that's a very good strategy. I think the Berkshire Bs are great. The only possible change I would make is I would maybe do 50% Berkshire B and 50% S&P 500. I would not sell your Berkshire Bs to go into the S&P. What I would do is, if you have a certain allocation to Berkshire Bs in the future, I will move the future savings as they come in, into the S&P, so that way you would end up with two vehicles. I think that it's hard for me to predict which of the two does better. Even Warren and Charlie may have a difficult time figuring that out. But it just gives you a little bit more diversification, even though Berkshire itself is quite diversified. But I think the Berkshire B is a good way to go and maybe just add the S&P on top of it and you're done. You can get a low-cost ETF, a very low frictional cost on the S&P 500 at Vanguard or one of those places. The cost is low, and that can work well.

Tracy: Thank you very much.

Charles: I think in the interest of time, we'll take these three more that are up there. Johnson, you're next, if you want to come off mute.

Johnson: Hi Mohnish, my name is Johnson. I'm a senior researcher here at Harvard. I'm a big fan of yours. I've been following this for a long time, and I've read both of your books which I think are both great for aspiring investors. My question is why did Buffett close his partnership? I never quite understood this. He had this great engine, he was generating great returns, you cloned it 30 years later, why did he shut it down? Why didn't he continue with it?

Mohnish: He decided to shut it down in late 69. We ended it in 1970 because the markets were extremely overheated at that time, and he was having a very hard time finding any investments. We had the NIFTY 50 at the time. There was a major bull market going, and he was just having difficulty. Warren at that time personally was worth about 25 or $30 million, which in today's money would be more than 200 million. I think when he hit that point, he was just around 40 years old, and he wasn't sure what to do next. He knew that if he just managed the money on his own, he would do okay with that. At that point, his thinking was that he didn't want to keep chasing an investment rabbit for his whole life. Some of his friends thought that he would run for president or something which, he even says now that's just not him. What happened in 1977, was a very easy decision for him. He said, "Look, we've had a great run, we've made all this money for all these people, I'm not sure I want to keep doing this. I've got plenty of money on my own, so I'm going to disband the partnership." He already had a stake in Berkshire Hathaway, and he rolled his portion of the fund into Berkshire Hathaway. There was no grand plan. It owned a few private companies, but he just said, "Okay, those look undervalued, I just keep it there."

In 1977, when he turned 47, he felt his life was over. His wife Susie had left him. She moved to San Francisco. She wanted to end the marriage, but in the end, they decided they would stay married but just be separated. He felt that he had accomplished everything, and he felt like everything was done, everything was over. He was talking about this recently, and he said that most of the interesting things in his life happened after 77, after he was 47. He never even thought that that would happen. Most of the interesting investments in Berkshire and all the different things that happened in his life came after that. The partnerships being shut down was simply a function. What ended up happening is, that Charlie Munger, for example, continued running his partnership and he got clobbered. The 73-74 downturn was very intense. The stocking market went down 60- 70% over those two years. It was a crash in slow motion. Charlie ended his partnership in 74 after that huge downdraft. Amazingly, Warren Buffett, being Warren Buffett, was on the sidelines with all this cash, and the markets had crashed. He had a quote in 1969 in which he said, "I feel like a sex-starved man on a deserted island." He meant he could find nothing to do. In 1975, he made a quote in which he said, "I feel like a sex star man in a harem." There was such a massive change. Everything had collapsed. The Dow bottomed out in 1981. The 75 to 81 period and through the 80s was an incredible period to be investing in. He was able to come back, and with all that dry powder on the side really kind of killed it after that.

Charles: Harvey, I think you're next.

Harvey: Hi, Mohnish, thank you so much. I'm Harvey and I'm an HBS student. Thank you so much for your talk. I wanted to go back to the issue of diversification. I was listening to a conversation that you had with Guy Spier earlier today where you were talking about throughout the life of an investment manager people tend to get more concentration in their portfolio as the winners become big winners. I'm wondering if that philosophy of not constantly trimming the huge winners in your portfolio is limited in any sense. Is it relevant mostly for investment managers? Is it relevant mostly for people who are starting out and throughout their lives trying to build wealth through investing? Is there a point at which greater diversification makes sense? The one thing that stuck with me was you mentioned that the Walton family still has most of their net worth in Walmart's stock. Does that still make sense if one is a new Walton coming in, not to diversify away from that? Thank you very much.

Mohnish: I think that's a great question. Chris Davis is on the board of Berkshire Hathaway. He replaced Bill Gates and he's the third generation. The grandfather Davis was an insurance actuary, and then he started investing in insurance companies in the 1930s, and he bought a gazillion insurance companies. Insurance is a difficult business, even though he knew it well. They were mostly mediocre to useless investments. 2% of his portfolio went into AIG when AIG was a tiny insurance company in Shanghai. One of the things that Grandfather Davis did is good, bad, or ugly, he never sold anything. He just kept the entire basket. That 98% of the basket did nothing, it was all useless. But the 2% became 95% of the pie. AIG became huge, north of a hundred billion market cap, and the Davis family became incredibly wealthy.

As Munger says, you only need to get rich once. I think that if we are at a point where we are not independently wealthy and haven't made a lot of money, the approach of keeping the winners and concentrating and understanding the business well is the way to go.

I already mentioned the Chinese restaurant, the Patels, they're sitting with 90, 95% of net worth in one illiquid company, and they're comfortable with it. They're not breaking out hives over that. I would be a proponent of that. If the Walton family decided that, we'd build all this wealth, and what if I take half of it and put it into the S&P 500 or something, for example, it's not the worst decision in the world. It is okay. That's a good wealth preservation view. In the end, capitalism is very brutal, and everything goes to zero. There are no businesses that survive forever. I think the oldest business on the planet is a 700-year-old hotel in Kyoto, Japan. Then, you start looking and there are very few businesses that have been around for 300-400 years and even been around for 150-200 years, so durability becomes a real issue. I think that I would like to keep concentrating on good business. The big mistake I've made in most of my career is I've sold too soon, and repeatedly sold great businesses too. For example, this Coke bottler we own in Turkey, does Coke bottling in about a dozen countries, and they also have the number one beer brand in another dozen countries. I hope I'm smart enough to hold that for a very long time. The airport operator, I hope I hold that too for a very long time. It's going to become a large portion of the net worth of the warehouse business. It already is more than 60% of one of the funds I manage, and I keep telling my investors every quarter that this is the way it is, if you have discomfort, then you should do something. I do think that concentration is the only way to build wealth, and one would not fault you after you became independently wealthy if you took sub-chips off the table. But I would be more in the camp if it's a great business to keep it there.

Charles: Mr. Cash, your turn.

Cash: Thank you Mohnish for being so generous with your time. I'm a first year here at Harvard Business School, and my question is about questions because I find that questions tend to direct your attention. I'm curious if you have any perspective, or rather I'll frame it like this, who in your life asks the best questions? If you could share, what have some of those questions been, that have been able to sort of direct your attention and kind of shift the way that you think about things?

Mohnish: I think the person who asked the best questions is Charlie Munger. One of the things he says is that you have no business having an opinion if you cannot state the other side of that argument just as eloquently. If you were a big fan of Trump, for example, can you also say why he's so useless? Or if you think he's useless, can you also say why he's so good? Those are hard things for humans. It's hard for humans to keep two conflicting ideas in their heads at the same time. People ask Charlie, "What's the one reason you've done well?" He said, "I'm rational." I always find that Charlie asks the best questions. He has these great mental models, he's able to run through. I remember I would have these conversations with Charlie about the kind of fork-in-the-road issues that we are facing with Dakshana. He's never been to India. He doesn't have the frameworks and all that, but before I've even articulated the question, he's answered, and it's a perfect answer. That is the way his brain works. I think Munger runs through so many scenarios like that so well in his head. He uses the principle of inversion and different mental models. There's a book called *Poor Charlie's Almanac*, which is a great book to read. He gave a talk at Harvard many years ago, *The Psychology of Human Misjudgment*. That's an incredible talk. I try to reread that every year. If you understand those weird nuances of humans, it will give you a big edge, to understand kind of the quirks in the way our wiring is, because our brains are such a mishmash of ancient and modern and different weird wiring coming from evolution. It's not wired optimally. We would want it to be. Understanding those quirks can give you a big leg up. I always find that Charlie has the best questions.

Charles: Mohnish, do you have time for one more, it looks like we have one more.

Mohnish: Yes, why not? Let's go.

Charles: Let's go, Tim.

Tim: Hi Mohnish, I just want to say thank you so much for being generous with your time. My name is Tim Kalska. I'm a first year HBS. I appreciate the note to Vanguard throughout the call. I spent five years at Vanguard and was most recently on Vanguard's manager team. My question has evolved throughout the call. Given your previous response on Charlie which you shared over the call and that you have an intimate friendship with him that you developed over time, my question is, all of us at HBS are motivated by the number one person, but Charlie is a great number two, maybe one of the best number twos that have ever lived. If Warren is Batman, I think it would be appropriate to call Charlie Robin. You have Warren Buffett who leads Berkshire, he is the chairman. I think Charlie Munger is the vice chairman but has done an incredible job of playing number two at the firm. How does one play that role and do it exceptionally?

Mohnish: I think these two guys are very unusual. I find Charlie is a very strong type A personality. I asked him, "Charlie you have different businesses with different partners, and with all the other partners you have, you are the dominant alpha male in that relationship. Berkshire is the only one where you are very clearly the number two. I cannot imagine you ever deciding to be number two to anyone. How do you." He said, "Why wouldn't I want to be number two to Warren Buffett? What kind of no-brainer is that? Of course, I want to be number two." Warren has a quote. He says, "Berkshire has been created with the architectural model created by Charlie Munger. My role has been that of a general contractor." What Buffett is saying is that Munger came up with what Berkshire should be, and they didn't even have the framework. It evolved. But it was Charlie who was kind of leading the charge. Even today, Charlie is a big proponent of paying up for better businesses. Warren got there eventually.

A few years back, Warren made this joke at the annual meeting. They came back right from lunch and Warren says, Charlie and I were on this airplane, and it got hijacked. I see Charlie is very puzzled. He's looking at Warren and he's really confused. Then he says, the hijackers knew that we were loaded, and they said, "We are going to make some demands of some ransom to your families, and then when they pay that money, you guys can go." They made this demand for several million dollars, and Warren said that their families told them, "Listen, these two guys are useless. They don't do anything all day. They just sit around. We don't have any use for them, and we are not sending any money. You can do whatever you want." The hijackers at this point are quite upset and were thinking, "Not only are we not going to get paid, but we're also going to lose two bullets in getting rid of you guys. Before we put an end to both of your lives, do you have a last wish?" Charlie raises his hand and says, "I'd like to talk one more time about the virtues of investing in Costco." Warren says, "Shoot me first." Costco, in which Charlie was the manager forever, tried so hard to get Warren to pay up and take a stake in Costco and Warren just could never get there. Now Warren regrets it because it has been a great investment. Charlie was on board Costco telling him, this is an unbelievably great business. The second in command is a very unusual role, but it's the power of Charlie's mind that he even was able to accept being the alpha male that he is. It has worked out beautifully. Warren and Charlie say that they've disagreed many times, but they've never had a remarkable argument. Charlie is very opinionated. Even in a situation like Costco where Warren knows he is wrong. He just accepts that he's the boss, and I'm the helper. Of course, Warren understands that Charlie is the architect and he's tried to get there, but he's still not going all the way there. It's a great partnership.

Charles: Robby, your turn.

Robby: Thank you so much for spending so much time with us today. My question is regarding private market investing. I'm a new student for Benjamin Graham, reading up about buying a small PC that negotiated price and big public enterprise. This summer I was very close home to you in Houston, investing in the energy services market, and I saw a lot of oil field services, businesses, and private ones selling at steep discounts because everybody thinks they're too toxic to touch. The hypothesis that I developed over the summer was, why not use a lot of leverage? Not that this is a good time to get debt, but in decent markets, use leverage to buy all these private companies, which are basically hundred dollars lying down on the ground. Do you think that's a viable plan, or is this strategy a better fit only in public markets when you buy non-negotiated small parts of public companies?

Mohnish: Well, if you are picking up assets or pennies on the dollar you shouldn't need to lever it. If something is one-fifth of liquidation value or intrinsic value, then leverage isn't needed to get a great return. In general, it is a good idea to avoid leverage in your life. I know private equity doesn't work that way, but at the same time, I feel that maybe when you're starting, if you were able to structure it in a kind of non-recourse way where if things went south, your loss is limited, then it can work. I would just say that if the business is that good, and in fact, it may be, it may cloud your judgment to think of it from a kind of levered return point of view. It may be better to think of it from an unleveraged return point of view. There's a really good book that came out this year. It's called W*hat I Learned From Darwin About Investing* written by a guy named Pulak Prasad in Singapore. A well-written book. One of the things Pulak does in his investments, and he's done well in his investments, is none of his portfolio companies have any leverage, zero. The fund doesn't have any leverage, but he doesn't invest in businesses that use leverage. His logic is that a leveraged business doesn't have optionality and freedom in a downturn. They must play defense. What you want to do in a downturn is play offense. The businesses that have no debt, when the bad times come, they're not feeling any pressure, they're in good shape. In general, it's a good idea. I think that's a good investing model to follow. If you have a great business, it really should not need leverage to generate great returns. That's kind of my two cents on leverage.

Robby: Thank you so much.

Charles: Thank you, Mohnish, and thanks all for the great questions. To wrap up, I've enjoyed organizing this event and I love how it came together, Mohnish. I'd like to do more events like this. As we close, I have two final questions. One is, who should our next guest be? And the other is, what's one question you'd want to ask that person?

Mohnish: I think the two folks that you should try to get are the two lieutenants working for Warren, Ted Weschler and Todd Combs. To the extent that they're willing to share, you should ask them how the sausage is made. You should go behind the scenes. For example, I think Todd goes over to Buffett's house on many Saturdays and they discuss different companies and investments. Ted lives in Charlottesville, Virginia, but he private jets on his own dime to Omaha every Monday and comes back every Thursday and he spends time with Warren talking about different things. I would just say with these two, fly on the wall, what can we learn?

Charles: Alright, perfect.

Mohnish: The good news is, just like you miss all the shots you don't take, there's no downside to asking them.

Charles: Alright, I think that's a great next setup. We'll see how it goes. Thank you, Mohnish, so much. On behalf of everyone attending today, I'd like to present these gifts as a small token of appreciation. There's a water bottle here, at Harvard Business School.

Mohnish: Alright.

Charles: Although I know how you truly failed at Harvard Business School.

Mohnish: Well you may not know this, but I'm an alum of HBS. I didn't go through the MBA program, but I spent 11 weeks on campus over 11 years, and I think after 9 years doing the Harvard YPO president seminar, they gave me alum status. I have the same status as the HBS grad.

Charles: It looks like you did it more efficiently though. I don't think you're a big hat person, but I'm going to send this over.

Mohnish: Alright, that's great. Wonderful.

Charles: Thank you again Mohnish for your time being so generous with it. It's been a pleasure to spend Friday afternoon with you. Thank you to everyone in the audience for your participation. I hope this was a meaningful and valuable experience for you.