

Mohnish Pabrai's Interview at Morningstar, The Investor's Mind on December 1, 2023

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Larissa: Welcome to Morningstar. I am Larissa Fernand, and I am super excited to be talking to "The" Mohnish Pabrai, a world-renowned author and investor, and founder and managing partner of Pabrai Investment Funds. Mohnish, thanks a million for your time. Thank you.

Mohnish: Larissa, it is a pleasure to be with you. I have a lot of admiration for Morningstar and everything you have done for individual investors, so it is a pleasure to be here. Thank you.

Larissa: Lovely. Okay. My first question to you is, when you look at investment, you bring this very analytical mindset to the table. You decide on particular criteria and in the first few hours whether a company even passes a test. When you think in such a structured way, does it spill into your personal life? Do you introspect about relationships, and how you relate to people? Do you overanalyze situations or conversations?

Mohnish: People close to me have suggested and said that I have a very low emotional response to most events. Some of them wish the emotions were higher but it is not something I can control; it is the way it is. All of us are hardcoded in terms of who we are between our genetics and our experience in the first five, or six years of our life. I became aware of this when others put a mirror in front of me. That is an advantage in business and investing. Many times it is also an advantage in life, but it also has disadvantages.

Larissa: I was listening to a podcast, earlier this year, where you said that the world functions on trust, and not contracts. People do business with you because they trust you, and the best contracts are the ones you never look at once you sign. You bring a lot of candor and integrity. Your standard is very high when you come into a relationship. What about arrogance? Does arrogance in people put you off?

Mohnish: One of the natural filters I use, and probably a lot of other humans use, is ego. It is a turn off. Arrogance is a subset of ego. Those types of traits, generally speaking, are a turnoff. One of the things I learned a lot from was when I had lunch with Buffett. I said to him, "Warren, you are an exceptional judge of humans. Were you always a great judge of humans?" He said, "You are mistaken, Mohnish. I am not that great at judging humans. If you put me in a cocktail party with a hundred people and gave me about five minutes to meet each person individually, I would probably be able to tell you that there were four people out of those hundred who were exceptional, wonderful people, and there were four people who were turnoffs because of their arrogance and ego. The other 92, I probably would not be able to form an opinion about." Then he went one step further. He said, "What you ought to do is bring those four people who you were impressed with into

your inner circle, and the other 96 just take them out.” He was being a very harsh grader. He was grading the people that he could not form an opinion about the same way that he was grading the people who turned him off. That is a very powerful mental model to use in life. It is a very unfair model to use because it is unfair to a person whom you considered between those 92, who may be a good person, but you excluded. However, what happens is that by being a harsh grader, if you take the perspective that there is an infinite number of humans on planet Earth, and if there is an infinite of humans on planet Earth, it means there is also an infinite, or near infinite, number of good people on planet Earth. We do not pay a penalty for excluding a good person from our circle; we pay a big penalty for including a not-so-good person.

Larissa: Wow.

Mohnish: By being an unfair and harsh grader, you get a huge advantage in life. Buffett also says, “If you hang out with people better than you, you become better and if you hang out with people worse than you, you become worse.” When I meet people for the first time, the filter is pretty rigorous in the sense that if I uncover anything, even minor, that may be a concern for me, I will just exclude the person. The people who get included are those who in those five minutes, just impressed me so much. When I moved to Austin about two years back, I got a lot of requests from people who wanted to meet for lunch or coffee. Usually, a lot of them get discarded because of what I know about the request. But at times, I say, “Okay, let me meet some of these folks and see what is going on.” I think in the last almost two years, I must have met maybe 30 or so individuals, one-on-one. Only one person became a very good friend, and I like to spend time with him. The other 29 mostly went by the wayside. There might be one or two others who are okay to hang out with. It is not that they are bad people or anything, it is just that I was using Buffett's filter, where even if I could not tell, I moved with the decision to move on. It is a difficult mental model for most people because people want to be fair. But I think fairness will get in the way of being the best version of yourself.

Larissa: What is a trait that you have seen in someone, whether it is someone you met just like that, or a promoter of a company, and you said, “Okay, I got to keep my distance”?

Mohnish: I would say ego becomes one part of it. You can tell if someone has a low ego or a high ego. How do they treat people? Three, or four levels below them at the bottom of the totem pole? What are their friends like? What are their likes and dislikes? How do they make decisions? What are the different things they choose to spend time on? There is a lot that can tell you about the person. Some of those things might be fine for the person. They may be good. They just may not be a fit for someone like me. Like Buffett said, “Many times we cannot tell because people put up fronts.” It is not always possible in a short meeting to get past those fronts. But to the extent that you can, it can be really helpful.

Larissa: I have felt that most of the time, our personal experiences have a lot of impact on the way we deal with money. It could be you get married, then you have children, then you have turbulent relationships, then you make a lot of money, then you make financial losses. As you said, your parents lost

money quite often when you were young. How does all this impact your idea of loss and risk? How has it evolved?

Mohnish: When I finished college, I got my degree in engineering, and I got a very good job as a software engineer. My plan at that time, when I was 22 and started working, was to stay at that company forever, and hopefully get promoted along the way and put 15% into my 401(k) retirement plan. I ran the numbers and I thought that in 30 years or something, I would be set financially with the savings. That is the path I wanted because I was trying to run away from the turbulence that I had seen with my parents. I was living in Chicago at the time. My dad was visiting me. I was about 25 years old at the time. He told me, "It is time for you to quit and start your own business." I said, "Well, I have no plans ever to do that. You do recall the experiences I had in my childhood with all the gyrations I saw with you and all the different ups and downs of the businesses?" My father just brushed that aside. He said, "That is what makes life fun. It is just part of the great experience of living. Your situation here is that whatever you do in this company, you will not see most of the reward of that, because you are just one cog in a very big wheel. You will not be able to exercise all your creativity and everything else, because you will be seen as a person who has a particular talent in a particular area. That is about it." At that time, the company I worked for had just started international sales and marketing. They had a dominant US footprint. They were going overseas. When I joined that group, it was seven people. Their mandate was to get half the revenue of the company from overseas. The US side had about 1500 people, and in about three years, that seven people had gone to about 800 people. We had done an acquisition and grown a lot. What I noticed is that my job description, which was doing everything when we were seven, kept getting narrower and narrower as we were at about 800. I liked it better when it was seven. At the same time, my father was talking to me about work, and I knew that I was not happy with the situation, even though it was a great company and they took great care of me. I then worked on a startup on the side. Once that got traction, I quit my job. In my childhood, I kept seeing the flaws that my father had in his businesses. He was really good as an entrepreneur in identifying opportunities and scaling them. But he was very aggressive, and the businesses were under-capitalized. The first storm would just bankrupt the company. I learned a lot from the experience, and I tried to build much more resilience into the businesses than what I was doing. I focused a lot on the downside while going for the upside. Those experiences in my childhood were very helpful in helping me navigate through that.

Larissa: How did the GFC, the global financial crisis, impact the way you deal with loss? I think your portfolio dipped quite a bit during that time if I am not mistaken.

Mohnish: Just before the global financial crisis, my net worth in June of 2007 had peaked at 84 million, which was awesome. At the absolute bottom, it had bottomed out at under 20 million. There are worse problems in life than at 20 million net worth. It was not the end of the world, but the area that it was having the greatest impact on me was that I had started the Dakshana Foundation and we had agreed that we would give away 2% of our net worth every year to Dakshana, as long as the net worth was over 50 million. It would give us at least a million dollars a year going into Dakshana. Dakshana was off to a very strong flying start in 2007. But in late 2008 and early 2009,

Dakshana was spending at that time, around a million and a half a year. It had a significant footprint, and there were no outside donors. I had been funding it, and I got very concerned that if my net worth never increased, it would put things in peril. We had hundreds of kids who were preparing for the IIT exams. I had a joint venture with the government of India. I went and spoke to them, and I said, "All these kids that we have in our program, we are going to fund the program and see them through their studies and IIT admissions, but we are not going to take another batch. We are not going to take a new batch in 2009." People in the Ministry of Human Resource Development understood my situation. They appreciated the candor, and they said, "The government works with precedent. We have got a MOU, and we have got a partnership with you. What we would recommend is that you reduce the scale of the program, but do not eliminate it, because restarting will be hard." We were taking about 400 kids a year at that time, and I took their advice. In 2009, we took the smallest batch of 50 kids. It was still going to be a burden, but it would be maybe a quarter million dollars. That was something I was comfortable with. It did not impact me much because I have a modest lifestyle and whatever I was doing, there was no leverage in my life. It did not make much difference to me. I could also see that the things that we owned, the businesses that I had invested in, looked extremely cheap. I was selling things at PE of four to buy things at PE of two. Things were even cheaper. I could see that there was a decent chance that things would bounce up from here. The important thing I learned from my parents was that even though I was poorer than I was two years back, I did not have any leverage. That was fine. In March 2009, the markets bottomed out. In that year, Pabrai Investment Funds were up; the different funds were up between 110 and 130%. By the time we got to the end of 2009, my net worth was almost double where we had bottomed. We were still below the 50 million. But then, we had several years of very strong performance after that, because we were coming out of such lows. The batch we took in 2010 was a normal batch of 400. Everything worked fine. I am grateful for the advice from those guys in the ministry, and it worked out very well.

Larissa: Since you are very successful in all the different aspects of your life, how do you view success? How much of a role does money play in your idea of being a successful human being?

Mohnish: Charlie Munger just passed away earlier this week. He was 99.9 years old. He was about a month shy of his hundredth birthday. I developed a very good friendship with Charlie over the last 14 years; a very unlikely thing to happen, but it did happen. Over the last 14 years, I had many bridge games and dinners at his place with him. I got to observe him in a very intimate setting. When I looked at the way Charlie was, one of the things I noticed over time was that he did not look back. I would always tell Charlie, "Charlie, look at the work that you have done in your lifetime. It is so immense and impressive. You are going to go down as one of the great historical figures of all time, especially as a philosopher and an investor." He would always brush it off, and his focus would always be on whatever problem he was looking at in front of him. Berkshire has been successful, but he would moan and say, "We have too much cash. We cannot find investments. We are looking, things are so expensive." He would not spend time talking about the past of Berkshire Hathaway or the past of Charlie Munger. He was also chairman of a company called the Daily Journal Operation, and he was

looking for a CEO successor for the Daily Journal. He would moan and groan to me that he needed to find someone, and that he was not able to find someone. What I found is that all of his energies were focused on taking the next step forward; they were not focused on looking back and saying, "Wow, I have covered a lot of distance behind me." Anyone else looking at Charlie would say, "Forget what is in front of you; the Daily Journal CEO, or Berkshire's money. Drop that today. It is fine." The history is so impressive, but that is not how he thought. That is also not how Warren Buffett thinks. I tried to learn from that. I used to be like a lot of others. Humans, by instinct, look back, and say, "We did well at school. We did well in business. We did well in the investment fund or Dakshana. Oh, this is great." But, in my opinion, it is a better mental model to focus the energies going forward. I do not think in terms of what success is. My dad was not a religious guy, but he had an area where he used to go and say his prayers in the morning. In that prayer area, he had a quote written in English that said, "Success is not a summit or a peak. Anything you do can be done better." The way I look at it is that I have been very lucky. Luck plays a big role in how and where we end up; right place, right time, right people. There is a lot of luck involved in everything that happens in life, especially the good things that happen in life. My focus is more on what the next problem or next milestone is, and I direct all my energies on that.

Larissa: Does anything make you insecure or give you sleepless nights?

Mohnish: I do not have any problems with sleep. One of my personality traits is that I do not have a high emotional response to a lot of things. For example, in 2009, when we were at the bottom, I was not so concerned about what was happening to me. I was more concerned about what was happening to my investors because the funds were down like 65% from the peak. That was more than the index was down; the index was down about 40%. My concern was that some of these people would exit. If they exit, I can never make it back for them. Thankfully, the exits were somewhat limited, which was good. One of the things I did at that time, which has served me very well, is that I created a spreadsheet of my portfolio. I put down the current prices of everything, and I also put down what I thought those businesses were worth. I spent more time thinking about what their values were versus what their market prices were. Many years back, when I was 10 or 11 years old, my father had gone bankrupt. He was down to nothing. There was an astrologer who used to show up at our home in Mumbai, in Bandra. He used to be in an orange robe with a lot of marks on his forehead. He used to read my father's horoscope and tell him what he thought the future would be like. My father was an engineer. He was a very rational person. One day, I went up to him quietly and said, "You have to know that whatever this person is saying is total nonsense. It has nothing to do with reality. Whatever he is telling you is not real. We do not have a lot of money, and every week you pay him when we have very few resources." My father said, "When I pay this guy and tell him to come back next week, he knows that he will only be invited back if he gives me a rosy forecast for the future. I am at the bottom of a very deep well, and I need a rope to climb out of that well. This weird astrologer with the orange robes is my rope. What I can do is suspend reality and just immerse myself into what he is saying will be reality in the future and that is giving me the energy to look at what I can do next, what business I can start next, and get on a recovery path." In 2009, when I was seeing this

portfolio down, that spreadsheet became the rope. I spent more time looking at what the businesses should be worth than what the quoted values were. That gradually helped me keep a sensible outlook. But I never really got depressed. It is just not the way I am built. I am grateful for that. It is not something I can control on a day-to-day basis; everything was just fine. I had a roof over my head and good food to eat; everything was fine. There was nothing to panic about.

Larissa: Because you are a public figure, you are always in the limelight. I see some people fawning over you, while others are very acerbic and critical. How do you stay mentally resilient in the face of all these expectations and comments?

Mohnish: Warren Buffett talks about the inner scorecard and the outer scorecard. When we met him for lunch, he said, "Would you like to be the greatest lover in the world and known as the worst, or would you like to be the worst lover in the world and known as the greatest? If you know how to answer that question, you have got it all set." I noticed that sometimes I would interact with people, and they would only have negative comments on people like Gandhi. They would bring up all these negative things about Mahatma Gandhi, and I would try to tell them some positive things about him. They would brush it off and say, "No, he is a very cunning man," and he was this and that. The way I look at it is that some people are very critical of Warren Buffett. Some people are very critical of Charlie Munger. Some people are very critical of Jesus Christ. Some people are very critical of Mahatma Gandhi. I am a lowlife compared to all of these people. The way I look at it is that if I can learn from the critics that is great, but I try to focus on an inner scorecard; putting the chips where they are, and the good, bad, and ugly. I look at it from a holistic point of view; not thinking that I am awesome and not thinking I am the worst person but trying to have a sense of reality. External folks coming to me, fawning over me, or being critical does not have much impact. Both do not have much impact. I try to look at it from an internal point of view.

Larissa: The late American investor, Julian Robertson of Tiger Management, employed a psychoanalyst, Dr. Aaron Stern, to tell him how people in his team looked at risk and how they worked together. Stern used to like the sports guys because it made them very competitive at work. He also liked the generalists, not the specialists, because they understood a multitude of angles to a story. The reason I am bringing this up is because decades ago you employed two industrial psychologists to do a 360-degree analysis on you, and they did a bunch of tests on you. They interviewed your spouses, your friends, your employees, and your colleagues, and they helped you fathom who you were on the outside vis-a-vis the inside. Now, here is my question to you. If you had to do the test today, is who you are on the inside perfectly aligned with the role and the image you project on the outside? Would you fare very well today?

Mohnish: Those guys were a godsend. The initiative that I went through cost me \$2,000 and it was one of the best \$2,000 I spent. What they did is now north of 10,000; still a good deal. The mental map of who we are is hardcoded at the age of five or six. That is not going to change. From six to 60 to 96, it is going to stay the same. The further we are out of alignment with who we are on the inside, the less the degree of happiness we are going to have, and

the less the degree of effectiveness we are going to have. In an ideal situation, you want to lead a perfectly aligned life. When I met them, it was misaligned and their whole idea was trying to get me as aligned as possible. There are some individuals we see who get to that perfect alignment. When you get to the perfect alignment, you can go through brick walls. In my opinion, Warren Buffett and Charlie Munger are pretty close to being perfectly aligned. Probably people like Bill Gates, Steve Jobs, and a bunch of folks we see have very strong alignment. Elon Musk is very aligned. Once they gave me the map of who I was, it made life a lot easier because I could see for the first time who I was on the inside. I am much closer to alignment than I have ever been since 1999 when I went through that. It has been 24 years. I have deliberately been trying in the last 24 years to move closer toward an alignment with the inner self. I still feel that I am not there. There is still some misalignment, but that is what makes life fun for the future. We can keep working on that. If I can ever get closer to that the payoffs are exponential.

Larissa: Wow. I am sure you will get there. I am sure of it.

Mohnish: Yes, it is a fun journey. I enjoy the journey.

Larissa: What makes you happy? That is my last question. What must happen in a day for you to say, "What a happy day this was."

Mohnish: One of the things I try to do is, I look back on things that I have done recently, and ask myself, "Did I enjoy that? Was that fun?" What I try to do is when I go and do something and I like it, I try to increase that in my life. When I find something that I did that I did not like, I try to push that down. For example, I have been playing bridge for more than 35 years; a very long time. When the kids were younger, bridge kind of took a backseat; a lot of family responsibilities. I used to go to a lot of bridge tournaments in the 1980s. We did not have online bridge. I used to go to live tournaments, and it was a lot of fun. I was single, and I could go for three days to Michigan and play a bridge tournament. It was a lot of fun. Recently, I got into online bridge, and then more recently I decided that I am going to increase my time for playing *Bridge Live* at tournaments. That is because I am a math guy and I like to play games. These are kind of fun things to do. This summer, I spent four or five days in Chicago playing bridge; morning till evening. I had not done that in a long time in a live setting. I had not done that in 15-20 years and I enjoyed that experience. I just went to another tournament in Atlanta for five days, and again did that. But I realized that while I enjoyed those experiences, I could improve them. One of the things I am going to change is that I want to keep learning and getting better at bridge. I need to play with people who are much better than me. The last two times I played in Chicago and Atlanta, I played with people who were at my level or a little lower. I could see that if I made that change it would increase the euphoria of playing bridge. If I am not mistaken, the next national tournament is in Louisville, Kentucky, in March. I want to go for that, but I will only go if I can figure out the partners and team that I can be part of. I just look at the things I do and the degree of enjoyment they give me. If I meet someone and I like it, I will try to increase the interaction with that person. If I go to a place for dinner and I like that, I will try to increase the times I go there. The foods I like to eat, the people I like to be with, the activities I like to do, I try to do more of. In all these cases, I am trying to

increase happiness. If I have been so deliberate about this for so many decades, then life is very blissful.

Larissa: Lovely. Very few have that privilege.

Mohnish: It is not that hard for a lot of people because the best things in life are free. Happiness does not correlate very much with wealth, of course, once you get past a certain base level like having a roof over your head. If people just spent more time thinking about what would make them happier, they would take some deliberate actions on that. They would get there. Absolutely.

Larissa: Lovely. Talking to you has made me happier.

Mohnish: That is great. That is wonderful. It made my day.

Larissa: Mohnish, thanks a million for your time. I enjoyed every single moment. Thank you.

Mohnish: Likewise. I have to say, Larissa, that you hit the ball out of the park. No one has asked me any of these questions before and it was a lot of fun for me. Thank you very much. You did a lot of work to get there. I appreciate that. Thank you.

Larissa: Thank you so much.

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