

Mohnish Pabrai's FINSEC Dialog Conversation with Sandeep Parekh on June 1st, 2022

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Sandeep: Welcome everybody. A special thanks to Mohnish for being part of this conversation. Of course, Mohnish needs no introduction. Maybe he can introduce me instead.

Mohnish, I thought I would kind of structure this into three parts. The first, and it's not just me that is very impressed with your Dakshana story, Warren Buffett wrote a letter saying that he wants to benchmark his Annual Reports with the Dakshana Annual Report. Maybe if we can start a bit with your Dakshana Journey. For those of you who have not seen your videos, I would highly encourage everybody to look at the incredible work that Mohnish has done with Dakshana. It is very similar to his investment philosophy, which is a very, very long gestation period, but kind of super, supermassive returns over the long term. Can we start with that? Then maybe we can move to the regulatory changes, the tax laws, etc.? Just a little bit on the regulatory side. Then we'll come to Mohnish investment philosophies. Of course, we end with kind of some Q&A, depending on how much time we have.

Mohnish, maybe we can start a little bit with your Dakshana story?

Mohnish: Sure. Sandeep, it's a pleasure and honor to be here with you and all the listeners. I think it's wonderful. This is the first time I'm on Twitter space, so that's a good growth opportunity for me.

The story of Dakshana is one where I did not have a choice. Basically, if you're even a slightly above average investor and you spend less than you earn, the nature of compounding and long runway will basically put you in a situation where you will have more assets than you can consume in a lifetime, which is a good problem. When you end up with more assets than you can consume, you really have only two choices of what you can do with those assets.

My dad used to say that no one has succeeded in even taking a pin with them when they leave planet Earth. The only two choices you have, you can either give it to your gene pool or you can somehow recycle it back to society, or a combination of the two. Large inheritances to your kids and relatives do more harm than good. Like Buffett says that if you're Jesse Owen's son, the sprinter,

you shouldn't be allowed to start a 100-meter dash at the 40-meter line. He said, "It's okay to start at the 10-meter line, but not at the 40-meter line."

The journey has been really exciting because we started from zero, in the process of building, and it makes life exciting. If you bestow very large amounts on children, in effect you're putting them in a welfare state. You basically are like the IV drip into their arms, and it's going to significantly sub-optimize what potential they could achieve in their lives. Basically, there's more harm that happens if you think about it from a gene pool point of view.

Then you get left with the other option, which is give it back to society. Giving it back to society has some challenges. The kinds of problems with this challenge are that you must deal with trying to help humanity, things like poverty, education, healthcare, and the environment. Each of these, and several others, are very tough nuts to crack. There's been a lot of well-meaning people in the past and there have been trillions of dollars by governments who have gone on to attack these problems. Some of it has worked, a lot of it has not worked.

In investing, what happens is that we get to choose our spots. We get to choose which company we want to invest in, and we can let 99.9% of the market go by the wayside, not interested.

When you are looking at philanthropy or helping the society, you are forced to confront these very tough problems. The rules become different. One of the things that I realize is that if I were to wait until I was 70 or 80 years old to try to recycle assets or whatever else, basically I would have very little energy left. My only choice would be to just write a check to somebody.

Dakshana started when I was 42 years old. I'm now going to be 58 in a couple of weeks. My thinking was that trying to do work in India, while hanging out in shorts in California, is a recipe for disaster. I thought that Dakshana would probably have 10 years of spinning its wheels, getting ripped off by a lot of people, etc. Then maybe after 10 years, after having paid big tuition bills, we would understand what to do. I wanted to give enough time for that learning.

What ended up happening with Dakshana was that we got traction right away. We got traction in a few weeks, and there were a few people who ripped us off, but nothing material. We were able to obviously eliminate those entities from our universe. Basically, the idea is that we don't really have a choice here. And what I wanted to do with Dakshana is that if I'm going to give money away, I do care about the fact that the money is utilized effectively. It's very hard to do in these areas, so the rules for non-profits become different.

One of the important rules you have to follow, is you'll be very willing to fail. In investing, we go low risk, high return, and we try to minimize risk. In philanthropy, you have to go high risk. High return like Buffett would say in

baseball terms, "You should swing for the fences, don't go for singles. And if you swing for the fence and you miss, it is okay. Keep swinging for the fence." Basically, you must be bold, and you have to be willing to completely fail. That's the only way to really move the needle. The way Dakshana was set up is with the idea that every year a certain amount of money goes. Following Buffett's formula, he gives away 5% of his Berkshire shares every year to charity. Berkshire's value goes up by more than 5% a year. His network keeps going up and the amount given every year keeps going up. He could leave whatever and wouldn't really run out of money.

I followed something similar when I started with 2% of our assets going every year. Then increasing that as the net worth grew. The idea was that money, once it went to Dakshana, I was very willing that it would disappear, and not get used properly. I would try to learn and improve. I find with most non-profits, which is so disappointing, is I actually did not want to start Dakshana. I wanted to find an entity that existed that I could just write checks too. When I looked 15 years ago, and in the last 15 years I've looked at a lot more, I've come away disappointed. I haven't found a single organization that really didn't have funding issue. Or that really thought about it in terms of focusing on the highest social returns, maximizing input to output, and all of that. I was just forced to go into Dakshana. We ended up because we copied the model from Anand Kumar of Super 30. It was a well proven model, we just scaled it. Some great people showed up and it worked, which is awesome.

Sandeep: Great, Mohnish. can you just spend 30 seconds on what Dakshana does, for the benefit of the people who don't know about the work this is? I've seen your lectures with the students, the website, and some of the stuff that you've done. Just kind of an introductory, for those people who don't know about Dakshana, that would be a good distinct point.

Mohnish: Yeah, Dakshana is purely focused on education. That's the one area we decided to focus on. Specifically, with an education, we have a model that gives us a very high ratio of money invested versus output generated. If you guys are familiar with the Super 30 model, Anand Kumar basically identifies 30 really smart poor kids in Bihar. He coaches them for a year for the IIT entrance exams. Something like 90 to a 100% of them gets accepted at IIT. It's a very high acceptance rate versus the 1 or 2% that I take every year out of the entire pool that's trying to get in. We cloned Anand's model, and we basically scaled it. Instead of taking 30 kids a year, we are taking more than a thousand kids a year.

We are like, between 60 and 80% of the kids every year get accepted to either the IITs, medical schools, AIMS, and so on. These kids, the demographic they are coming from is most of their parents are illiterate farmers, laborers from rural India and so on. Typical income, family income is less than a hundred dollars a month. Maybe less than five, six, 7,000 rupees a month. Most of the parents don't even know what IIT is. We get a very large portion of the kids,

like I said, 60 to 80% get accepted. Since we've been doing it for about 15 years, we track the kids after they finish. They of course, also want to relate to us. Now, a lot of the Dakshana staff and faculty are alums.

Alums have gone all over the world. They've worked at all these top-class companies, Microsoft, Amazon, Google, and so on. Many have joined the IAS, the government, and so on. They've actually had some quit IIT and been funded by top VCs for startups and such. We spend about \$2,500 to \$3,000 per kid over the two years there with us, one or two years with us. What we get out of it is quite significant because the increase in their lifetime earnings is exponentially more than that. We haven't seen the kind of crest of that wave. I think a lot of these kids, when they hit their forties and fifties will probably have some billionaires in their ranks and so on. That's kind of what we do.

Sandeep: Yeah, this amazing work. Of course, they're open for donations. Anybody on this chat who wants to donate even a small amount, it would be preceded.

Just moving on to the second part of the conversation. In terms of the macro interest rates going up in some regime, which we've not seen for 40 years, the tax laws are changing rapidly. There's a kind of global coordination. Can you just give us a broad sense of where you think we are going in the next six months, to the next maybe six years? What is your take in terms of your investment philosophy or given the completely changed circumstances?

Mohnish: These are questions I don't spend a lot of time thinking about or trying to come up with answers for because I don't think I can come up with any kind of answer that's better than anyone else.

What I try to spend my time on is trying to figure out whether I can understand certain businesses and I can maybe understand the trajectory of those businesses. It's hard enough to try to figure out just a trajectory of a given business, very hard to figure out these big back roll calls. But every so often, you run into situations where it lends itself to being able to be understand and with a high probability you can predict the trajectory and so on. The bottom line is that if you go back and look at different businesses that have been listed for a long time and so on, many of those businesses have done well regardless of what was happening in the economy, interest rates, unemployment, or government policies. They have a model and an engine that transcended all that. In general, I believe that for most businesses, micro situations, things that affect the business directly are much more relevant for an investor to understand than macro considerations. If one can figure out the three main factors, they will drive the outcome of a business. That's really the most important thing. I don't tend to try to figure out the other questions you're asking.

Sandeep: Right, right. No, in fact, I saw your comment about being a small brain. I'll come to that in a few minutes. I was asking that question, given the context

that I think your first big kind of public showing of your record happened after the dot com bubble, basically daily. NASDAQ went down almost 80% and you were giving 30 to 35% of returns probably a better part of the decade after that. Are you saying that you had kind of really no sense of the macro, and you really didn't care about the macro at that point of time? You said that you had a sense of the bubble a few months before the others, but can you give us a little perspective about your macro sense back in '99 and 2000?

Mohnish: Yeah, sometimes we get to such extremes in the market that things become obvious. I think it was obvious in 1999, early 2000 that we were in a period of extreme euphoria, with a lot of bubble-sequel type situations in a lot of different areas. I remember in early 2000, I visited Microsoft headquarters. I had an early investor who wanted me to come, he wanted to introduce me to other possible Microsoft people to possibly invest with me. I made a trip to Seattle, and I went to Microsoft. I was talking to a lot of these people and of course, in what they had seen from 1976 until 2000 was just a straight, nonstop upward trajectory of Microsoft. Nothing else. They continued to believe that would continue to do well.

I told them that it was probably not the smartest thing in the world for them to have all their income coming from Microsoft and 90% of their net worth in Microsoft stock or something. They just looked at me like, you really don't understand the company or whatever. the thing is, it was extreme. Microsoft's market cap at that time was amongst the three largest market caps in the world. I think north of 600 billion. The cash flows they were generating were single digit billions something. It was trading at like 70 to 80 times earnings, something not growing that much. But it was a very good business. I told them, the business will keep doing well, but everything has a price and everything has a value.

In 1999, 2000, it was obvious that a lot of things were very frothy. There's a book your listeners may enjoy, it's called *TrendWatching*. It was written by a guy named Ron Insana, he was a CNBC anchor. CNBC anchors are not good writers, but he chronicled that book, *Chronicles Bubbles*. When you read that book, you'll see that bubbles are extremely common. They happen all the time, different asset classes, different geographies. They're happening all the time. The reason they happen is that humans vacillate between fear and greed. At any given time, we could have big bubbles, little bubbles, bubbles in different areas, whatever. In 1999, 2000, it was a time when there was a massive bubble in dot com. There was also a bubble in stocks like Coke, General Electric, and Microsoft.

These companies had real learnings and such. But even they were very stretched valuations. At the same time, in 1999, 2000 when this was happening, a lot of very basic non-sexy businesses got cheap. The day the NASDAQ peaked, I think March 9th, 2000, was the day that Berkshire Hathaway hit a multi-year low. I mean, literally, people were selling Berkshire

Hathaway stock and buying Pets.com. Warren Buffett will be on the cover of Barons and they're asking, "What's wrong, Warren? Why aren't you participating?" That sort of thing.

Actually, Pabrai Investment Funds did really well. We started in 1999. First year we were up like 70%, which was through the crash. We continued to be 20, 30, 40% a year for the next several years. That's because I was buying things like funeral homes at 2x earnings, steel mills at 3x earnings, and that sort of thing.

There's very non-sexy stuff, which was very stable, and it did really well. There are times we can clearly see these things. I did not see the financial crisis coming. I saw the dot com crash. I didn't see the severity of the financial crisis coming until it was well into it. When you look at the current situation, some things are obvious to me. It doesn't matter if I'm wrong about these things because I'm not. I have not bet in this area. For example, I think crypto is a bubble. Whether it turns out to be a bubble or not is irrelevant, because I have no longer a short position in crypto. But I think it appears to me, given the fact that bubbles are common, and all of these bubbles have a kernel of truth at the core.

Crypto is a bubble. We have things like GameStop in the US in a bubble. AMC is a bubble. We don't have widespread bubbles today. Of course, we got into frothiness in a small part of the tech sector which is now corrected somewhat. I'm not sure if it's corrected fully or what will happen there. Again, I don't have bets in that area, so not very relevant.

I don't think the situation today is as extreme as 1999, 2000. We do have areas of the market that are bubble-sequel. Over time, those will get back to where they need to be. I think what investors better off doing would be is not fixating on these things and just try to focus on things that they are able to understand well. Sometimes when they can understand something well and the pricing makes no sense, then that can be an opportunity.

Sandeep: I know you said it in your past talks, but if you can tell the funeral story, it's so fascinating, I'd love for listeners to hear that, maybe a shorter version of the funeral story. It's very fascinating.

Mohnish: My first book, *Mosaic* is out of print, but all the chapters in that book are PDFs. They're on my blog, Chai with Pabrai. You can go to ChaiWithPabrai.com You can pull down those chapters. There's a chapter on the funeral business. I'll get to your question in a second.

In general, funeral businesses are really, good businesses. For example, we have a company in the United States called TJ Maxx. TJ Maxx has done really well, probably 80-plus percent a year for like decades. What they do is they buy out clothing that is kind of excess and surplus from different manufacturers, they had an extra line they made, or things didn't get sold, and

they buy them at very low prices. Then they put them in their stores. When you go to a TJ Maxx store, it's not like a normal clothing store where you can find the same stuff, every time. It's kind of like a treasure hunt where the inventory keeps shifting. Sometimes they might find a hundred or a thousand jeans that were produced extra, and they'll buy those and put them up. Every time you go into the stores, the kind of mix of products is different. They are good at picking up this excess kind of things.

The companies who are in the funeral business or the recycling business, they do very well. If you look at the US, you know, for the longest time the US had a huge advantage over the rest of the world because it has a very advanced bankruptcy law system in the Delaware courts and all of that. Now India is putting into place and starting with NCLT. This system allows its companies that got into trouble, this cleansing, and recycling process that was very efficient. The debt would be converted to equity, be recycled, or whatever else. The company would come out the other end. It would still be running with new owners and kind of a new life. That rebirth process is good.

Again, the people in Delaware, those law firms, you know, Kirkland and Ellis, and all of them, those lawyers are making like \$10 million a year because they were in the recycling and funeral business. There are many, many businesses in different areas that you will find that basically end up in effect being in this funeral recycling business.

The specific investment I made in the early 2000s is when two roll up companies in the US had bought up thousands of funeral homes. In the US you had all these Mom and Pop funeral homes all over the place. These two companies, Service Car and Stewart Enterprises, bought up all these funeral homes. They took on a lot of debt and they got very overloaded. The music stopped. People got really concerned about whether they can really manage their debt or what was going to happen. They also made a bunch of bad acquisitions where their cash flow was nothing, they paid a lot, and so on. What ended up happening is that these companies, and again, we had the dot com bubble and all that, no one wants to be in the funeral business. Stewart Enterprises market cap was \$200 million and was producing \$100 million a year in cash flow. It had a billion in debt, but after paying the debt service, they were still producing a \$100 million.

We can own this business for two years. We get our money back basically in earnings in the next two years. In the next few months after I bought it, they sold off the European business, which was not generating any cash. They got \$5 or \$500 million with that and paid down debt. I think less than a year or maybe 18 months, it was a multi-bagger and such. The lowest rate of business failures is funeral homes in the US because I don't know who's going to die in St. Louis next year. But I do know how many are going to die. That's a pretty precise number and we know they're going to die. When you have your favorite uncle who's passed away and you need the last rights done in the US,

you're not going to go hunt for the low bid. You just want those things done well. It's a business that has good economics and a lot of people. 22-year-olds don't aspire to go into the funeral business. It has limited competition and it has tradition, so it works out well.

Sandeep: Yeah, Mohnish. It is very interesting.

Mohnish: I subscribe to Value Line, and it has different lists. They have different screens, like physical, not electronic. On their list is companies with low PEs. I found these two companies that were sitting at a low PE. I read a while back that the lowest rate of business failure is funeral homes. It's very interesting. We have these companies that are sitting at 2x earnings. The business never fails. This prompted me to look at them and when I looked, I said, "This is amazing. We'll go for it."

Sandeep: Great, sir. I'm going to make it a little interesting. I'm going to throw five allegations at you, Mohnish. You have to defend yourself against each of these. These are insults, but these are taken from your own speeches. You can pardon my friend.

The first is that you are quite an original. You love cloning and you gave the example of McDonald's and Burger King. Maybe you could talk a little bit about how being unoriginal has helped you in your investment journey.

Mohnish: Munger endorses cloning quite a bit. No one is smart enough to figure it all out themselves. One of the things that are huge advantages of investing is that you can look at what other people you admire, and trust have already put their money into. If I know someone is a really good investor and I can see what their portfolio is, it's already gone through one filter where they've put their own money on the line, that's a better place to start looking for businesses than to start with a list and start going with the A's, and then the B's, and C's, and so on. I like investing because the data set is so large. There are 50,000 stocks and you need some shortcuts. There is no way you can study 50,000 stocks for their entire lifetime. You won't even do that for 30,000 stocks in a lifetime. You need shortcuts.

One of the great shortcuts is to look at what great investors are doing. For example, about four years ago, I made my first trip to Istanbul, and I noticed that the Turkish market was many different areas of screening very cheap. It had a lot of issues, macro issues, and whatever else was going on. I have a good friend there who is a hardcore Ben Graham type investor. I told him, "Hey, I'd like to come to Istanbul and spend a week just visiting every company you've invested in. Would you be okay with doing that?" He said, "Oh, it'd be a lot of fun. Let's do it."

I went and I visited Istanbul. That was really fascinating for me because just going in and looking at these different businesses, there's a Coke bottler there in Istanbul, which also owns 49% of the Coke bottling market in Pakistan and

10 other countries. They're large outside Turkey. But significant within Turkey as well. There are just different businesses like that.

Then my second trip, he took me to this company, which basically, he was telling me the market cap is \$20 million and the liquidation value was like \$700 million. And I said, "Is it a fraud? What's going on here?" And he said, "No, no. As far as I can tell, they're straightforward, honest people." He had an investment in the company, I couldn't find anything wrong with it. The liquidation value was really easy to figure out because they had a bunch of warehouses.

You could go to any commercial realtor and probably in the afternoon, he would give you approximate prices for those properties, a very prime 99% lease. Amazon, Ikea, Car Four, DuPont, these are the tenants and all of that. I really, really couldn't understand what is going on here. But I couldn't see anything wrong. Then Turkey is a market where the retail is all gamblers. The average holding period is nine days. Most investors are holding this for a few hours. It's a dream market for value investors. I was surprised. I spent \$7 million, and we ended up with one third of the company. It's 12 million square feet of warehouse space. They're the largest freight train operator in Turkey, the largest truck freight in Turkey. I think the footprint is worth over a billion, given how well they allocate capital it is probably worth a billion and a half. The whole thing is going for \$20 million.

When we invested in Turkey at that time, there was a lot of macros. Even now, there are a lot of macro problems. The leader had just collapsed from three Lira to the dollar, to five lira. When we invested, it was five Lira to the dollar. Now it's approaching 17 Lira to the dollar. Three years is gone from 5 to 17, our investment in dollars has gone up 5x. I mean, Lira has gone up a lot more, but who cares about that? That was a situation where we focused. I focused purely on the micro, and I focused on these assets that were basically, these assets have an international price/ There's steel in there, there's concrete there, there's land in there, all of those things have an international price. It is prime and it's got these long leases, all of that.

It was in Turkey where everyone and their brother have exited that market. I don't have much interest in looking at the US markets. I think they're either fully valued or maybe overvalued, etc. Maybe some parts are a little bit undervalued. But if you go to a place like Turkey and you look at the top hundred companies there, I mean, they are so widely mispriced because of this major uncertainty. But when you look at things like the Coke bottler, such a resilient business. Coca-Cola Company owns 20% of that and they have this 50% market share in 8, 9, 10 countries or something. We want to focus on things that the world is not focused on, which make sense to us, and so on.

Sandeep: Right. The second charge against you is, I think you addressed it already, you call yourself, small brain, which by this you mean you look at these companies

which are undervalued. Obviously, you had an incredible run post the Dot com bubble and you had quite a successful run even after the financial crisis.

Maybe if you can just tell us a bit about how you address the challenge that the markets can be insane longer than your ability to make a profit out of misprice assets? How do you deal with that challenge? We saw one big hedge fund go virtually bankrupt because they shorted AMC. How do you tackle situations like that when you know it can continue to remain mispriced for maybe half a decade or more?

Mohnish: Well, the first thing is that one should not use leverage. There are a few rules which I have followed for a very long time. Leverage is a bad thing. I think the problem with leverage is that you may not get to play out your hand. Markets can do this because these are auction driven entities and prices gyrate. If you took a dart at every company listed on the NSE or BSE and just threw that dart, just look at the 52-week range of the price. It might be 100 to 300 rupees, or 200 to 400 rupees. It's a huge swing. Whereas, if you look at like an apartment or a flat in Mumbai, you ask a realtor every day to give you a quote, what the price of the flat is, it may not change by even 10% in a year.

It is the nature of auction driven markets that will have wide swings even when there's nothing going on from a macro perspective. Of course, the swings will get even wider if there's uncertainty and fear. Ukraine and all these other things going on. We really don't know the extremes to which markets can go. What you want to do is you want to set yourself up so you can play the next day and you're not going to be swept out or taken out. Not having leverage is a very good rule. Not shorting anything is a very good rule. Because shorting is kind of dumb. The maximum you can make is doubling your money and the maximum you can lose is bankruptcy. There's no limit to how high or low stocks can go.

As we saw with GameStop and AMC, I mean those companies, the valuation makes no sense. The hedge funds that did the analysis, they did it correctly. But they are gone. Investing is not the small brain. It is not. It really is not a game where the highest IQ wins. The most important thing is temperament and patience. Like this company in Turkey, you didn't need more than a 100 to 120 IQ to figure out that it's cheap. There was nothing special about that. You needed to have a temperament where you were willing to buy when others were not and that you're willing to hold for a very long time. That's a lesson I'm still learning. I'm still learning that, holding periods matter.

I'll give you a quick story on that. You know, in 1995 when I first started investing, because I was just investing my own money, I had a total of \$1 million that I could put into the market. It didn't matter what happened to it and so on. I put most of that in the US market and there was quite a bit of technology stocks and such because that's what I understood well. But I carved out \$20,000 and I opened an account with Kotak Mahindra in India.

Out of the \$20,000, I put \$10,000 into an IT company, Satyam. This was before Satyam had any of the fraud, all that came many years later. So, \$10,000 ran into Satyam and then the other \$10,000 ran into three other stocks.

I knew that at that time in 1995, the Indian Postal System was useless. And if people wanted to get anything anywhere, they wouldn't need to use private courier services. And there were two listed courier companies, Blue Dart and Sky Pack. I put like \$3,000 into each of them. Then last minute, as I was kind of doing all of this, because I had been interacting with Kotak, it's interesting. Falguni Nayar was my contact at Kotak in London when I was opening the account. I was really impressed with the Kotak team, and I really was impressed when I came to India. I didn't even look at the financials much. I said, "I'm going to put about \$3,000 into Kotak." Basically, my four bets were Satyam, Blue Dart, Sky Pack, and Kotak.

And then, this whole Dot com thing and I got physical shares. These dilapidated share certificates because there was no Demat at that time. I just stuck those shares at the bottom drawer of my office. I said, "I'm never opening that drawer, just let it sit there forever." And what happened is, I think after four or five years, I noticed that Satyam, which I bought at 40 rupees a share, was sitting at like 6,000 rupees a share. I said, "Let me just do an analysis, what this thing is actually worth." Because all these things, like I told you about Microsoft, all these things that become very euphoric. They had spun out of Dot com, and I could not make head or tail evaluations. None of it made any sense to me. I said, "We're not going to keep this in a drawer forever. We're going to sell this."

I also had concerns whether these certificates were worth anything and whether we'd be able to repatriate the money back for my NRI account, all these kinds of uncertainties. Anyway, I sent this stuff to Kotak and the \$10,000 had become \$1.5 million by the time I sold it, was over 7,000. We sold; I think within 10% of the top. That was like a huge home run. \$10,000 became \$1.3 or \$1.4 million. Then I had these other three stocks and they had done nothing. They were all sitting flat. \$10,000 I put in, were still sitting at around nine or \$10,000. For no good reason, I sold all three. I just said that it is not written in the cards that you're going to have 300 rupees out or 400 rupees.

I said, "We got a great home run in India. We cashed out of the top of a great bubble. Life is good." I sold Kotak, Blue Dart, and Sky Pack. Kotak went up from then till now, 500x. Blue Dart is 300x. Sky Pack went down 90%. That never worked. Out of four stocks, three were more than a hundred rupees. If I had the patience, it was so stupid. It was so stupid to sell it because there was no reason. I didn't need the money. I think that is the biggest lesson I've learned in all these years of investing. The most important skill is to be patient. If you're patient, amazing things happen.

Sandeep: That gets me to the third charge. Are you very lazy in your investments?

Mohnish: I'm not. I'm not as lazy as my friend, Guy Spier, you know?

Sandeep: Is the moral of the story, really, you need to be even more lazy than you are?

Mohnish: Yeah. I think there was a study done in Fidelity where they looked at the accounts that the investors made their own investment decisions. They wanted to not rely on an advisor or someone, they studied the returns, those accounts were generated, and they found a set of accounts where there was hardly any activity. Those accounts had done the best. Then they discovered that many the accounts that had done truly the best, the customers were already dead. They had no trading because the owner of the account is not alive. Those accounts had done the best.

The first investment I made when I started Pabrai Investment Funds was on July 1st, 1999. It was with a company in Silicon Valley called Silicon Valley Bank. I was trying to find a way to play the bubble where there was upside with no downside. I was looking for ways to play it. Silicon Valley Bank is a really well-run bank and they used to take warrants. They only had clients who were venture-back companies. Whenever they made an equipment loan or something to a venture back company, they would obviously charge the interest rate, whatever else. They would also take warrants. In Silicon Valley, even if you're a masseuse, you get warrants. If you're a waiter, you get warrants. Everyone gets warrants and stock options. They had no disclosure on this huge basket of warrants they had, but it was known that they had this basket of warrants, and all these Dot coms were going public. I saw that this company is trading close to book value, but there's this huge unknown asset sitting there.

I put 10% of the fund and we started with \$1 million. \$100,000 went into Silicon Valley Bank. A few months after that, they started to sell the ones that had gone public. They got out of the lockups and all that. They started selling and it was a multiple of what their normal earnings were. I mean, it was these very significant amounts that were coming out. Then people got clued in. This thing actually is a huge, massive gift that keeps on giving. I think I got like 2.5x on my money in a year. A \$100,000 became \$250,000. In my infinite wisdom, I sold, because obviously I thought this whole bubble and everything is going on. But Silicon Valley Bank, what I failed to appreciate was that it was an incredibly well-run bank. Even Today, the franchise that they have, there's no other bank that caters to the venture back companies. It has compounded from 1999 to now at like 26% a year. I never captured any of that.

It would be like buying HDFC, something, or buying Kotak at that time. Like I say, old too soon and wise too late. This is the interesting thing about the investing business. It's a very forgiving business. If I go through my list of all my mistakes and screw ups, we'd be here for several hours. But despite all that things work out, which is what makes this business wonderful.

Sandeep: One thing I've not understood is you're willing to go to Turkey and inspect factories there, but how come you just have one US investment? You know, I would assume that you would be able to find at least a few value values within the place where you live. Where does that come from?

Mohnish: It's coming from the place that I am very focused on large multi baggers. This is how I used to invest when I first started in 1995. That's why I bought those, Blue Dart, etc. I just saw that that runway was going to go on forever. I switched in 1999, 2000 because things got so euphoric and crazy. What I should have done is switched back in 2009. 2009 would've been the perfect time to switch back, back to compounders.

I'm not really interested in making an investment where I can double my money. What I'm really interested in is, can I hold something for 10 or 20 years and can we get 30x, 50x, 100x of what we put in. When you have a framework where you have that type of horizon, two or three things become important. One is you want to be investing in businesses that have these long runways and have very strong staying power and so on. They may be many businesses like that, but I'm not able to see them. There's a very small sliver of them that I'm able to understand. When I look at the US markets, it's difficult for me, in this environment, even with the corrections we've had recently to find things that would go up even 5x or 10x in the next 5 or 10 years. I think that's hard to find. I find that if I go to a place like Turkey, most of the businesses, I think you're better off not touching. There's a sliver of them that are amazing, and I think they're going to transcend all the macro headwinds. That's why I end up where I end up.

Sandeep: You're not living up to your name, your moniker of being lazy. I think it is a lot of hard work, it seems.

Mohnish: Well, I think the thing is that I don't think of it. Tom Murphy just died recently, he was 95 or 96. He ran Capital Cities ABC and then they sold to Disney. Anyway, a wonderful guy. New York Times had a long obituary on him, very close friend of Buffett. He said in one of the speeches he gave at Harvard, that he's never worked a day in his life. He was just so excited every day to go to work and do deals and solved problems that he never really thought he worked. My job description really is reading and thinking. I really don't think of it like that. I went sight-seeing in Turkey. I would not be that happy. But if I spent a week, you know, visiting 15 businesses that's an orgasmic experience. To me, it's not work. I think it was just understanding these things and figuring them out. The idea in investing, the job description is really reading and thinking and not acting. Actions need to be very infrequent, and you need to be curious. You need to be willing to understand different things and then that can make it a great life.

Sandeep: Right. That brings me to my fourth charge against you, which is that you are boring. I think you go through very intense periods before your investment

and then you probably kind of just lock it and forget it. I think obviously you read a lot, you think a lot, you kind of philosopher, and you are also a teacher. I've seen your sessions, and of course, you are obviously a philanthropist, so I guess some part of your time as well.

How do you respond to that? Being kind of lazy and boring, as you said that dead people are the best investors. Is there another way? At least most investment professionals spend 18 hours studying companies reports, etc., etc. You have a very different style from those people. It's a successful style. Maybe you could talk a bit about the fourth judge.

Mohnish: Even Buffett spends maybe 10 hours or more a week playing bridge. I probably spend a similar amount. Maybe eight hours a week, maybe 10 hours a week playing bridge. It's awesome. I had an interest in Bridge and started playing it about seven, eight years before I even heard of Warren Buffett. I know this did not come from him. It was kind of two independent things that happened to coincide two or three years ago, I think maybe, two or three years ago, Buffett made an investment or set of investments where he bought 5 to 10% stakes in a bunch of Japanese trading houses. It wasn't a lot of money. I think it went like \$6, \$7 billion went into that, which is very small for Berkshire.

But the interesting thing is that when he did that investment, the entire amount, he invested the entire \$7 billion he invested, he borrowed in yen in Japan. He borrowed it at like half a percent a year or something. Here's Berkshire Hathaway sitting with \$100 billion of cash, earning nothing sitting in the US. Treasury is earning nothing. A quarter percent or something. He goes and invests in these, three or four Japanese companies, and he doesn't put up his own money. He borrows the whole thing. The reason he did that was these companies had a dividend yield of 7 to 8%. He probably also understood that they were cheap. They were sitting quite cheap. Now, what has happened in the last three years is all of them have moved up like 50 to 70%. He's paying that half percent interest and he's collecting the 7% dividend.

This is what Munger describes. As he says, "Warren has a very large brain, and that brain needs to be active. But it needs to be active in a manner that is not detrimental to Berkshire Hathaway." This Japanese bet is not going to do anything for Berkshire Hathaway. But what it does is it soaks up brain power for Berkshire. It is this kind of funny, interesting, mathematical game where he can show the world that, "Hey, look, here's something that was sitting there, where I couldn't put a lot of money into it, but I go 6 to 7 billion, without any risk really. I'm going to make several billion on it." I mean, the annualized return on that and the annual return on equity invested is infinite. It's a crazy bet. He's done this in the past, like one time he issued Berkshire, he issued debt for Berkshire, and a negative interest rate, right?

And he issued it just to show that it could be done, right? There's a bunch of activities that Buffett engages in, which is basically to soak up extra horsepower, because if you don't soak up the extra horsepower, it's going to lead to negative results. The bridge soaks up some extra horsepower. The Japanese bets, soak of extra horsepower. He's done a bunch of these weird things, special situations, and things. He does some of that in his own personal account. All of that soaks up horsepower. He bought a bunch of cheap Korean stocks one Saturday afternoon looking at a report, and none of that moves the needle. But basically, what Munger told me is that those activities are really important because they make sure that nothing weird happens with that extra horsepower. We have to find ways. It's good to have Dakshana. It's good to have bridge. Most important, it's very important to talk to Sandeep.

Sandeep: That brings me to the final judge. I call you lazy, small brain, original, and boring. The last one request, the kind of the most detailed response from you, which is, you mentioned that even if with 5% of Warren Buffett's capacity, you can actually be a superb investor. Can you maybe tell me, from what I hear, even though you've been very open about your investment philosophy. It appears to me that 99.9% of every professional investor can't replicate what you do. The second part is really what you do is not scalable. If you had \$500 billion tomorrow, would you be able to be, Mohnish Pabrai investor?

Mohnish: Yeah. The second answer is no. I mean, all investors are going to do worse as the assets go up. Your universe shrinks dramatically. I think one of the reasons Buffett was doing that, that Japanese stuff, is because basically at this point Berkshire needs to put up \$30 to 50 billion at a time to move the needle. What kind of equities can you buy where you could put \$20 to 30 billion to work? Well, you need to buy companies. You want to keep less than 10% over \$20 or \$30 billion in market value. How many of those are great values, etc. It becomes hard. The large, large sums make it hard.

Einstein said that compounding is the eighth one of the worlds. If you are a no nothing investor, and you just bought the index, whenever till now, or you look at the Dow, the S&P, whatever, the S&P has given us 9% for very long period, a hundred years plus. Like I said, you're spending less than you earn. You're putting the money away even at 8 to 9%, whatever the power of compounding takes over. You don't need to compound at high rates.

There are three variables that control the eventual wealth, right? One is the most important of the three variables is the length of the runway. Then the second is the rate of return. The third is about the capital you start with. It's a combination of those three. Buffett gives an example, he gave an example in the 1950s, in his investment letters to his partners about the Minuet Indians, where he said, the Dutch, I think, 1622, or something, they bought the island of Manhattan from these Minuet Indians for the equivalent of \$20. People listen to the story and say, the Indians were taken advantage of. Buffett says,

"If the Minuet Indians had an investment officer, they gave the investment officer this \$20, and they said, please invest it for the benefit of the tribe." If that guy wasn't so bright, he could do 7% a year. If you do 7% a year, the rule of 7, your money will double every 10 years. If you take a hundred-year period, it doubles by 10. That's 2 to the power of 10. That's 1,000, 1,024. Let's say it's 1,000. If he was doing 7% a year by 1721, it would be \$20,000. By 1821, it would be \$20 million. By 1921, it would be \$20 billion. By 2022, it would be \$20 trillion.

Okay. 7% for 400 years. If you just take this thought experiment a little bit backwards. Let's say we started in 1522, going back a hundred years, so \$20 is 2,000 cents. Basically, it'd be 2 cents. In 1522, if you had 2 cents, in 2022 you would have \$20 trillion at 7%. Basically, the thing with compounding is that when you look at this kind of a situation like Buffett says, "Hey, if you could have only one wish, what is the wish you would want?" He said, "I really only want one thing." He says, "That when they look at my corps, they should say, man, he was old." Because what he wants more than anything else, if he wants the longest possible runway to compound. It's amazing. He started 11 and now he's 91.

He's been running this engine at 14 or 15, like \$5,000. Of course, now more than a \$100 billion after having given them a lot of money. What I'm trying to say is that people can lose sight of 6, 7, 8% returns. 9% returns are not anything to look down on, right? Those are very robust numbers. Over a lifetime, the Minuet Indians had started with \$20 and never get to add. You're making savings every year. The simple thing, the important thing is just to be consistent about it in the end. You can't help getting wealthy if you follow this consistently. I think that's why Einstein calls it the eighth wonder; I think compounding is magical.

Sandeep: Let me just close with one final question. I start as falling your trajectory, and I found it very similar to Nick Sleep's trajectory in terms of he talks about how the short end of the equity yield curve, there's a lot of competition, but there's very little on the longer yield curve. Both of you went into philanthropy. He's, of course, hung up his boats, and both of you went into long-term philanthropy, which has long gestation periods, but outsized returns. Both of your kind of are in the business of teaching to fish rather than writing checks. I don't know who inspired who, but it's quite an interesting journey.

The final question really is in terms of him being a geography major and you kind of having more of an engineering, IT services background, being an outsider helped as an investment professional as compared to a person who is straight out of MBA, kind of managing money?

Mohnish: Yeah, it's a good question. I think I would've done much worse if I had followed it. My teachers have been Warren and Charlie, and I never really worked in the investment business under anyone. I learned from them and

Ben Graham, and I think that's a gift. It's a gift that they were willing to teach everything. It is in the public domain, that you could take it from there. I think Nick is miles ahead of me from an investing point of view. He really figured out a lot of stuff quite well. A lot of it people don't fully understand, but he's got some incredible wisdom on a number of fronts in his investing. I think he has overdosed on the Dakshana Annual Reports. He reads those, and I think maybe some inspiration may have come from that.

Like I said at the beginning, basically at the end of the day, you end up with this quandary where there are only two choices, right? You've got the gene pool or society. He confronted that as well. He likes race cars and races race cars on the track. He's biked across China. He's a very adventurous guy on different fronts. But I think he'd realized obviously that for him and his partner that they really had to find a second, an engine to give away the money. We have a similar psyche in the sense that all of us want to optimize. I think that's why Buffett wrote that letter, because he also wants to see that his money is going to charity and is well used. I think Nick wants to see that it values, and he recognizes that it's difficult, a challenge. He's trying to do a good job as he can on that front.

Sandeep: Great. I don't know how much time you have for questions, but hopefully, we can take at least one.

Mohnish: Yeah, why don't we take a couple of questions?

Sandeep: Yeah. How much in your journey do you attribute to luck?

Mohnish: Well, luck is a huge part of the equation. For example, in 1994, I was vacationing in London with my wife. I was looking for something to read on the flight back, I picked up one of Peter Lynch's books. I was running an IT company. I don't think I'd bought any stocks or anything until then or something, but I found that book really fascinating. And then I wanted to know more. I read the second Peter Lynch book, and then the second one is talking about Buffett. I was curious who this guy Buffett is, and I was very lucky that they were the first couple of biographies on him were out. I kept going. What I'm saying is that the fact that I even became an investor is a total fluke. I could have picked up a book on a different topic, the trajectory would've been quite different. Quite inferior, I would think.

Sandeep: Samar, do you unmute yourself?

Samar: Yes. Am I audible?

Sandeep: Yes, please.

Samar: Yes. Mr. Pabrai, you said that it's hard enough picking the stocks and understanding the trajectory of earnings. By the macroeconomics people who want global diversification, their best result is index funds. Don't you think

understanding macro perspectives for index funds and for global allocation is important?

Mohnish: Well, I mean, I think if you have a good understanding of where things are going to go, that's wonderful. But I think it's hard to do that.

Let's take a situation. I think this year at the Berkshire meeting, a lot of people picked up on this and all. I got a distinct sense that both Warren and Charlie do not think that the odds are zero that Russia will resort to nuclear weapons. They're getting backed into a corner, and you've got a megalomaniac who's getting backed into a corner, and you've got this huge nuclear arsenal. He may decide to use some of it. They wrapped it in some jokes, etc. The thing is that the odds of us, having a nuclear event, nuclear weapons, at least one or more set off in 2022 is not zero. It's not even, I think it's more than 1%. I think it might be even 5%. I don't know how to place those odds, but that's an example of why this stuff becomes so hard. How much do you want to overdose on that? How do you want to think about some factors like that? I think that if you were globally diversifying dollar cost averaging and going in overtime, equity markets can do whatever they do, but if you have a long enough runway and all of that, it's probably the best way to go. I think trying to answer these types of questions are really hard.

Sandeep: Shefalika.

Shefalika: Hello. Hi. Thanks for the opportunity, Sandeep. I would like to ask Mr. Pabrai, what is his outlook on India from an investment point of view for the future come given the current global scenarios?

Mohnish: Yeah, I think, India has a lot of promise and long-term tailwinds. The sad part about India is that I always find that there is so much low hanging fruit. It would make the country so much better and wealthier. And people's standards of living would rise if a few of these changes were made. They're obvious changes. Some of them are maybe politically, be a little bit difficult. But I find that the entrepreneurial spirit, letting free enterprise do its thing is so curtailed and constrained in India that it just hurts itself in a major way. If you just see the trajectory China has been on and what it accomplished when it unleashed full on capitalism versus we are still very heavily rooted in a lot of government red tape and bureaucracy in a lot of areas. It's sad.

But I would say even given all those realities, I think India's a good place to be, and I think it'll do really well.

Sandeep: Pradeep.

Pradeep: Hi Mr. Pabrai. Thank you for this opportunity, Sandeep. I just wanted to quickly mention Mr. Pabrai, one of the jokes that regarding the keenness joke in your Trinity College was a funny one. But in terms of questions, I would like

to ask in terms of any specifics from an Indian perspective? Any specific growth sectors that you think are worth looking at from your perspective?

Mohnish: Well, I mean, there are areas in India that will do well. I think that IT services, cloud, all of that will do well, even though it's sizeable today. The issue that comes up is that many of these things can be obvious. I mean, if I knew that the IT sector would draw a lot, it doesn't mean that I can make money out of it. Then you get to the valuations, individual businesses, and all of that. I don't think it's so easy. I don't look at things that way. I don't start at the top and then go down. I don't usually look at it like that.

What I'm looking for is what I would call anomalies. You can make a lot of money even when there is no growth if the value is so compelling. The Turkish bet I made, those guys are good capital allocators. If I did absolutely nothing to the business, we would still make 30x when it gets valued fairly. Just to get from the value I bought to the fair value would be a 30x, it's hard for them to destroy that value. What they've shown is they're increasing that value, they're really smart about it. I don't particularly go looking for the hottest sectors or the highest growth or any of that. What I'm looking for is the anomalies, and I'm looking for what other smart investors are doing, and why they're doing it. Also, whether there's stuff that I can understand that makes sense, then I take it from there.

Sandeep: You're the last person for the question. We've taken a lot of time from Mohnish, so we'll take that as the last question.

Speaker 6: Thank you, Sandeep for the opportunity. I wanted to ask Mr. Mohnish, what do you think of the idea of buying Net Nets at the current market? Do you think it's still compelling or is the anomaly gone?

Mohnish: I mean, I think Net Nets can work as long as they're not going to the Dot com era. We had a lot of Net Nets, but they were fake in the sense that they were going to destroy all the value they were because they were bleeding so much every day. It was an illusion that those stocks were cheap. But if you can find real Net Nets, it can work out.

It's not an area that I have much interest in anymore. It took me a long time to learn that. I think the one thing about this stock market is that 50,000 stocks globally, whatever the criteria are set, can say, "I want to buy Net Nets. I want to buy PE of one or so, I want to buy anything that's less than PE of three. I want to buy 10 baggers or a hundred baggers, or a thousand baggers." Whatever you said is your criteria. If you stay focused on that, you will find it. That's the amazing thing. There are thousands of dollars out there, a hundred baggers out there, 10 baggers out there, two baggers out there, PE of one., Net Nets, all the above. I decided for myself that I like the multi-bagger game. It's kind of a fun game. It's a lucrative game. That's where I want to put my energy. I think if you decide to put your energy on Net Nets all in, you will do

well with that because they're overlooked and all of that. That can work out quite well.

Sandeep: Great. Thanks, Mohnish. I think somebody on Twitter asked, if we can find stock stuff on Nick Sleep. I think there are semi-annual letters which he has written, which are available on our site. I posted on Twitter, and you could go to that. It's called igyfoundation.org.uk. Those are great letters and I'm sure Mohnish would endorse that with that. Thanks so much Mohnish for being here. Thanks once again for being here.

Mohnish: Well, one thing I just wanted to say Sandeep is that and I wanted to say this to all the listeners. I gave Sandeep a big challenge when we were going to do this. I said, "Listen, Sandeep, here are the rules of this session. Number one, don't send me any questions in advance, that really makes it very non fun for me. Number two, don't ask me any questions that I've answered 20 times before." The second one was hard for him because he had to go probably listen to all kinds of videos and whatever, which I'm sure he spent a lot of time doing in the last few months. Actually, I have to say that this was a very fun session for me especially because you followed that second rule. I answered a bunch of questions I never answered before, which was fun for me. I think they were just wonderful questions. Thank you very much.

Sandeep: Thanks. Thanks so much. Thanks everybody. Sorry we couldn't take all the questions. We have 20 more questions. Hopefully Mohnish will give us time another time next year. Until then, thanks everybody and connect. Bye.

Mohnish: Bye.

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