

## Mohnish Pabrai at the TiE Austin Speaker Series - Investment & Entrepreneurs on August 12, 2022

Mohnish: It's great to be here, by the way. Thanks for coming. Harshal recently becomes the leader of TiE Austin. He is the President of the Chapter. I invited him over to my place for tea a few days ago, and I thought, *ek cup chai piyenge sath me*, we will have one cup of tea together. But he drank several cups of tea, not one cup, till I told him, "Harshal I am out of tea", but anyway I think it is because I make killer Assam tea.

What do you call a woman who only has one cup of tea? Jaswanti! *Thoda slow hai audience*. What do you call a woman who pushes her father? Pushpa! Anyway, thank you for laughing at my jokes. I have another one which is unrelated. I will give you one more joke. We might like that a little bit better. This is actually one of Reagan's jokes. Reagan used to have a bunch of jokes about the Soviet Union. Back before the Soviet Union had collapsed, only like one in seven Russian families had a car, kind of like in India also, and it was like 10 years waiting list to get a car. You basically went to buy your car, you paid for it, and then they would say, "Okay, come back in 10 years and you can take your car". This guy goes over, pays the money, and the car guy tells them, "Okay, I will see you in 10 years". He says, "shall I come in the morning or the afternoon?" The guy says, "how does it matter? It is 10 years out. Well, the plumber is coming in the morning". Anyway, we will get back to the subject at hand, which is basically getting your start-up off the ground without external funding. In the United States, every year we have about a million businesses that get formed approximately. One of the huge benefits we had during the pandemic was that, in 2020 and 2021, the business formation rate went to 1.4 million. It went to which of the very significant increase. We had the great resignation and all of that. The labor market had come back almost to where it was. But you have this extra 40% new businesses that got formed. I think we will see the echo of this 40%, probably in the next 10, 15 years in the form of some very large businesses that got created during the pandemic. There is a lot of good news. There is a lot of good news that came out of the pandemic. It was a terrible event for humans. But there is a silver lining and, on several fronts, we have become more efficient in how we work, the locations we work at, reduction in business travel, and just less friction in being able to do business, and so on. I think there is a huge number of benefits, but if you go back to the million number, under 1%, maybe even close to 1-10th or 1% are venture back start-ups. 99.9% of businesses that get formed are not venture backed. That is most of the start-ups. Of course, the venture backed start-ups get a lot of media play and all of that. But what really is important and what makes the economy grow and thrive in the US and elsewhere is the mom-and-pop non-venture backed start-ups.

This area of the non-venture back start-ups is understudied. When people start their different businesses, in many ways, they are reinventing the wheel, even

though there are some very definitive frameworks, and I will talk about some of those. We don't have that much time; I will just go into three or four areas in the time we have. But basically, if you adopt those frameworks, then you get a huge head start in terms of the likelihood of the startup making it. One of the most important things is that in a week, there are 168 hours. If you have a full-time job and you don't live too far from work, maybe 40 hours or 50 hours is what you are dedicating towards your employer. Even when you take out time for eating, sleeping, shaving, whatever, you easily have another 40 hours that can be dedicated to a second activity.

Of course, what a bunch of people did in the pandemic is they got a 40-hour job, and then they said, I can have a second 40-hour job and I can do two jobs at 20 hours each. They both won't know the difference. That is going on quite a bit. There is another benefit. We have got that kind of extra productivity going on, which is actually great for the economy if they can pull it off. But basically, because the second 40 hours is available, it is a very important weapon in getting your startup off the ground. Because the most important thing when you start a business is to make sure that someone else is paying, still paying for your rent, still paying for your groceries, still paying all your utility bills so you don't have a burn. To the extent you can keep your employer and your job, you basically have another 40 hours to kind of play around with. What has happened in the last few years is not only are a lot of possibilities for people in TiE kind of digital type businesses, but in the last few years, they have gone more towards apps and kind of converting in different ways, atoms into bits, right? There is a whole bunch of different businesses that have been formed and will continue to be formed, that are effectively converting atoms into bits. When you are trying to do these, you come up with an idea of some kind of atom to bit conversion, you have your job, we have AWS, you don't need to buy a server, you don't need to buy a computer, anything, you can just rent everything from Jeff and he will rent it to you at a very low price, which is great. You can give it a shot, so you come up with some app or you come up with some business, the amount of capital it needs is very low because it is mostly between your years, what you are thinking about. Capital is really not required. You have got someone paying your bills and you give this a shot and let us say it doesn't work, it is okay, no big deal. You go back to the drawing board, come up with a second idea and give that a shot. If that doesn't work, that is also okay. As long as you keep your job, you can keep firing bullets from this gun 50 times, 30 times, right? Eventually, if you pay attention to some of the rest of the things I am going to tell you by the third time you might hit paid, you might not even need to get to the 10th time. You might get there at the third time. When the revenue curves cross where you have got enough cash flow coming, you can tell your employer, see you later and move on. When I started my first business, I didn't have any money and I definitely needed my job. What I was doing is, basically, I used to get great performance reviews and all of that. I said, all that is out the window. We are not interested in great performance reviews anymore. My model was, I need to work just enough so I don't get fired. What I did is, I just took it way down, right? I said, they are going to get 40 hours, they are not going to get 40.1

hours. It is going to be 40 hours. Before I went to work, I would work a couple hours on my business, and after I came back at work and on the weekends, I work, and then if I had client meetings, I would take half a day off and then go to those meetings and about nine months after I was doing all of this, I had the first client. Then I think by the 10th month, I had like three clients. Of course, there is a big pipeline that had been built, so I knew a lot more. By that time, I had enough cash flow, it exceeded my salary. I went in to see my boss to resign, and I said, "I have got this business I started, it is getting growing, and so I am leaving". When I met my boss and his boss, they said, "Mohnish, we were really confused for the last 10 months. We're completely confused that your performance had really dropped off. We talked about it several times, and we said, he is not so bad that we want to fire him, but it is just above that".

I said, "exactly, I am glad we nailed it perfectly. But you guys never even came and talked to me". Then they said, "Look, when your startup fails, not if your startup fails", they said, "When your startup fails, you come back and you have got a promotion, you have got more money, more responsibility". I said, this is fantastic. Because my concern was that if things failed, I would have to scramble to find another job. I had good skills, but still, it might take a few months to get there. I said, done, man. Like if it doesn't work in one day, I am back here and better than where I was. There is no downside. Of course, the business never failed, and things went on just fine. I have a friend of mine to who I tried to explain these 168 hours deal. He was a hired gun CEO. He had saved a couple of million dollars, and he told me he had some idea for a startup. I listened to the idea, I said, this is such a dumb, stupid idea. I said, it is okay. You want to try it, you try it, but please don't quit your job. He said, "no, I can't do two things. I have to go all in". I said, "Look man, you got like a \$400,000, \$500,000 lifestyle which is not going to go down. This \$2 million isn't going to last very long because you want to take office space and hire people. I was trying to tell him, forget all that, just scrounge yourself on the side on the weekends and keep doing your job. He ignored me, he quits his job blows through the \$2 million is gone, then he is scrambling to find a job, which he did find eventually, but now the money is gone, right? You didn't need to do that. It was such a stupid idea. I don't even want to tell you the idea because you see how stupid it was, like I knew it wasn't going to work. Anyway, I tried to give all the frameworks, of course he wasn't interested, but that is okay. He has designed to be a hired gun. He will be a great hired gun forever, which is great. I want to give you some frameworks which I think you guys might find interesting. There's a book that came out maybe close to 25 years ago. It is called The Origin and Evolution of New Businesses. It was written by a guy named Amar Bhide and Amar is now a good friend of mine, I have known him for a few decades. He used to be a professor at Harvard, I think now he is at Tufts, and he was at Columbia before that. He is a very good guy. Like I told you, entrepreneurship really doesn't get studied in business schools. One of the reasons it doesn't get studied is because if you are a business school professor teaching or studying entrepreneurship, you will not get any consulting, okay? Because us entrepreneurs got no money to pay no business school professor any consulting money. If you do marketing

or branding or organizational behavior, sales, or anything else, as a specialty in business schools, you will get a lot of consulting. The business school professors go where the consulting is. Nobody goes into studying entrepreneurship, plus it is very messy to study. What are you going to study? What Amar did is, he went and interviewed 10 years' worth of Inc. 500 CEOs.

He wanted to understand, is there a framework that is common across all these businesses when they get started and can I interview and talk to a whole bunch of people who had very successful start-ups and go back to the formation of those start-ups and the kinds of things they were doing, and can I distill that into a framework? The book does an incredible job of doing that. The amazing thing is that these guys never talk to each other. These people don't know each other, but they had a lot of commonalities in how they approach things. Amar was able to distill all that commonality and lay out the framework. It actually made it like a blueprint you can use to improve the odds significantly that you will succeed. One of the things is, all of these start-ups want to appear bigger, right, you are a one man, one woman company, but you want to project that you are bigger because nobody will give your business, you are like one man band, they would put like international in the name of the company or global in the name of the company, they would make the company name appear like it is some big company. This wasn't like one or two of them, like a third of them had done that. Another thing that I found that many people in Amar's book had done that is, I had two different business cards when I was starting out. One said President and CEO, which I never used, and the other said, Vice President marketing, which is the only card I used. Whenever I would go meet prospects for sales, I would give my VP or marketing card and they would think, "oh, he looks pretty impressive. It must be an impressive organization". They just didn't know it was me in my bedroom. I am not even full time; I am doing this on the side on the weekends. They didn't know any of that. They didn't need to know that.

Basically, the start-ups were doing things to appear bigger, right? That was the kind of common thing that they were doing. One of the most important things is that almost every business that gets started is doing some form of arbitrage. Arbitrage is extremely important. Basically, what happens is an entrepreneur notices an offering gap, something that he or she thinks is something that the market wants, but is not being provided, right? If there are no sushi restaurants in downtown Austin, that is an offering gap. That was 25 years ago before Uchi showed up, and killed it, right? Offering gaps exist all the time in all kinds of places, right? The important thing is that as an entrepreneur, the only thing you can hope for is great moats. Buffett and Munger talk about these great moats and all of that. You cannot see the moat on day one in 99.99% of cases, you cannot start a business saying, I am going to build a deep moat like Coca-Cola and the rest will be history. That doesn't work. Even Doc Pemberton who started Coke, had no such ideas didn't even understand what he had. He was just doing arbitrage with say, hey, this cola drink sounds cool. Nobody has it. Maybe these people who come to my shop to buy it. That's all he understood. Offering gaps are really important. As an entrepreneur, you just have to keep your eyes and

cars peeled and look at kind of what is available in the market and what might be an offering gap.

Sometimes you don't even need an offering gap. I will get to that little bit later when I talk about cloning. But basically, what you are really focused on is these offering gaps. Let me give you an example from Amar's book of what an offering gap looks like, right? I think this was a company in the eighties. There was a guy who was a college dropout tech in the army who had enough with the buzz haircuts, and he quit the army trying to figure out what to do, right? He has got a studio apartment in Florida, doesn't have too much money or anything. In his apartment, the way the apartment was set up is, his computer was in one end of the room and the printer was in the opposite end, and he needed to connect them. At that time, these interfaces between a specific compact computer and a specific HP printer were not standard. Everyone had their own proprietary plugs and everything else. He went to the computer store saying, "Hey, I got this computer, and I got this printer and I need this 25-foot cable". The guy in the shop tells him, "Look, I have got the cable, I don't have that length, but you can daisy chain them. You can daisy chain like four cables, and you'll get your length". He says, "That's very expensive. I don't want a daisy chain". He said, "That is all I got". He used to make cables in the army. He said, "do you get people coming to you asking for different lengths of cables?" The guy said, "all the time". He said, "what if I made all the different lengths that you don't have, and I gave them to you to sell?" He said, I am not interested in unbranded weird stuff, I can't do that. I can't take some cables which have no brand or anything".

He said, what if I give it to you on consignment? He said, consignment, yeah, put it on the floor. No problem. He goes back, makes a matrix of all the missing cable lengths of all the different computers and printers, and he starts making these cables and he gives them to this shop. He goes up and down the coast of Florida finding all the computer shops, same deal consignment, plugs all the cables and gets going, and super normal profit, 80% margins because he is competing against those daisy-chained, cloggy things. What would happen is that, these cables that he came up with, the shelf life or the product life was three months or six months or eight months because either the computer would change or the manufacturer would come up with longer lengths, some mix where eventually that particular cable no longer had a market, but he kept up with, what were the new computers coming out, new printers coming out and he just kind of kept going from one curve to the next curve to the next curve, trying to stay alive, right? Just arbitrage between, because he was much nimbler than the bigger guys who are taking maybe six months or a year to come up with the cables. Eventually that business morphed into cable installations for large companies. When I looked at this last, they had 1800 employees, okay? What I am saying is that he starts off with this weird-ass business, which doesn't have a moat, doesn't have anything. He is just jumping curves and just trying to stay alive and eventually hits on something which then becomes an enduring sustainable business. When you read Amar's book, you will see example after

example where the original idea is kind of stupid. This is a stupid idea. This guy started with, "I am going to do cable lengths". If you put on a business school hat, you would have told him, "Listen man, this is all going to be going away in no time", but he made it right? Arbitrage is important. If you follow the 168 Hours and you follow the arbitrage, you will sometimes be wrong about the offering gap. You think there is an offering gap, it is not there, no one in Austin like Sushi, something like that, and then you say, "Okay, I will try Dim sum and see how that goes and take it from there". The arbitrage is really important.

The second thing that is really important is that whatever idea you come up with in your ivory tower is not going to work, because you come up with something in your head, which you think, okay, there is this offering gap, I can go and I can do it. What will happen is that when you go talk to customers, they will say, "No, I don't need this". Right? But the important thing that you have to do is that you have to really pay attention to what your customer is telling you. What will happen is, in the conversation that you are having, they might make a passing remark, I don't need this, but if you had something like this, I would be interested. When they say something like that, what you got to do is drop your stupid idea and go all in on what they are saying, because they are going to tell you what the real offering gap is. Whatever you came up with is useless and doesn't exist. What one customer tells you is this pure gold.

I will give you an example. When I first started my IT consulting firm, this was 1991 and with my employer, one of the things I had done is, we were one of the first US companies that had set up R&D in Bangalore to actually do engineering work in a JV with Bangalore. At that time in Bangalore, where I used to go, there would have been like three companies doing work offshore, Texas Instruments had just set up and a couple others. There was nothing there, but I could see, and we had done a joint venture with Indian telephone industry, some pretty high-end telecom equipment where we had sent some of our engineers over and all that. I just saw that this is huge, right? I said, this is what I am going to do. I am going to leverage all the great Indian offshore talent. I had all this slight deck and everything, and I remember I went to this very large bank in Chicago, First Chicago, which is now part of JP Morgan, and I am meeting with the CIO and he is kind of looking at my deck and I am going through it, and then I go to like slide 11, he says, take it back to slide 10. I again show him slide 10 again, go to 11. He says, do not move it from slide 10. I don't give any, (he used the F word) about anything else on any slide. I only want to focus on the second bullet, forget the rest of your deck. I am looking at the second bullet and because I am trying to figure out what he is interested in and it turns out the second bullet is talking about Oracle, and what had happened, which I hadn't really honed in on, what happened in India was that, in India in the seventies, they threw IBM out. They wanted to nationalize all these companies. They threw IBM out. Large Indian companies, when they wanted to run big IT shops, they no longer had the option of having a mainframe computer, so they were forced.

India was one of the first countries, that was forced to go minicomputer for pretty high-end IT work, which would normally, in the US, would be IBM mainframe. Relatively large Indian companies were running client server, type architectures with databases like Oracle, etc., way before it became mainstream in the US. The problem he was facing with this guy, the CIO was facing, is they were moving to Oracle and he needed a lot of Oracle experts to help him, and he couldn't find them. I am trying to tell him, "Well, we can do it in India". He said, "I have no interest in India. Can you bring me people here who can do Oracle work?" I said, "How many do you want?". The business got going, and then I went back, I took the one bullet and made that the whole deck, okay? Everything else went away, and the business took off. Basically, what we did is we just said, our middle name is client server. That is, it. I figured out that in India, there was this mother load of talent and in the US, there was none, and we were able to scale, right? I wouldn't have been able to figure it out. But the customer, I just had to pay attention when he told me, especially when he told me, "Don't move from that slide". I mean, that is like God is talking to you right there. I remember there is a really good friend of mine in Chicago, Viresh Bhatia, Viresh is this kind of maverick kind of computer geek. He had done a lot of different kind of software tools, he was like 19 or 20 years old, and he was going to this software tools trade show to show off all the different tools he had built.

Like he was trying to do Google Maps 25 years ago. The computing couldn't handle it 30 years ago, like it was going to fail. But he had all these ideas about different things he wanted to do. He is making kind of the background for his booth, and he had these seven tools he wanted to talk about. It was like four on one side, four bullets, and then three on the other side. It wasn't matching. He wanted like eight bullets instead of seven bullets. He comes up with a fictional product, which doesn't exist, and he makes that the eighth bullet. Then two days in the trade show, no one has any interest in any of his bullets. This one guy who has got a booth across the aisle from him has spent two days looking at those eight bullets, and after two days, just before he is like wrapping up, he comes across the aisle to talk to him. He said, I want that eighth bullet product. Viresh said, okay, I can get it to you in about six weeks. Or like, I can do it. Sure. It turns out the eighth bullet became InstallShield. The tool we all use to install anything on Windows, right? Viresh basically created InstallShield because the guy across the aisle came to him and says, "I need that install tool to install my software. That is what I want". He goes back, he creates InstallShield for this one customer, and then he realizes no one has any interest in any other nonsense he is working on. And then he goes all in on InstallShield, and Viresh is now walking off into the sunset doing just great, doing just fine. I think he was retired in his thirties, part of computer folklore. Worked out great. I think the important thing is that your customer will always tell you what you need to do. What happens with most of us is we are too headstrong to listen. You must, sometimes, it will just be a passing remark because they are not going to tell you, "Listen, build this or do this". They are the, I wish I had this, or something like that will come up in conversation. You must really pay attention.

I think that is important because it is difficult as an entrepreneur without having all the market know-how to really understand what is going on.

Finally, there are many mental models, but the last one I will talk about is this model on cloning. There was this guru, kind of a management guru in the 70s and 80s called Tom Peters. He was like kind of the Jim Collins of his time, Jim Collins also probably before your time. But Tom Peters was great, He was a great writer. He wrote a bunch of books like In Search of Excellence, Passion for Excellence. I read one of these books when I was like 24 or 25 years old, and Tom was talking about these two gas stations in California with a true story. There were these two gas stations that were diagonal from each other, and they are both self-served gas station. At that time, you guys may not remember, but you couldn't just put your credit card and take gas, you basically went in the shop and did your transaction and all of that. It was a kind of more cumbersome way to fill gas. That is the way it was then. This one gas station owner, what he used to do is, every hour and a half, he would come out, pick a random car and just tell the driver, stay in the car, I will give you a full serve. I will pump your gas, check your tires, check your oil, and clean your windshield. The guy diagonal from the street can see this happening. His perspective is, well, this is stupid. You can't do it for everyone. What is the point right? After a while, the guy providing the random service is getting more customers. The guy who is not doing this, diagonal across from him, has seen that his business has gone down and also knows why his business has gone down, and there is no behavior change.

Tom Peter says, you can sit down with your most direct competitor, and you can lay out all your trade secrets and everything to them. They will listen to you carefully, and there will be no behavior change. I said, this guy must be on drugs. This is like the most ridiculous thing I ever read. Guy, this is ridiculous. I said, how can some guy who is losing money, knowing why he is losing the customers, not make a change? I said, here is what I am going to do. I am going to spend my life proving Tom Peters wrong, okay? I am going to prove him wrong two different ways. First, if I see someone, competitor, or other industry or whatever, doing something smart, I am going to force myself to copy that because that proves Tom Peters is wrong, number one. Number two, I am going to release all my trade secrets to all my competitors. There is a kind of academic streak to me where I am not really particularly concerned about hurting myself just to prove the point. I said, I am going to really go to bat on this, and I am going to make sure all the things I figured out about why my company works, is told to my competitors, and then I want to see what they do, right? Because I think Tom Peters is smoking whatever substances he is smoking. In this IT company, we had a lot of 20 somethings, right? I mean, sometimes I was hiring three people a week. I mean, we were just growing so fast, and we have very high turnover because there is so much demand for these people that they would come in and say, I got a job that is 40% more pay. Here is my notice, I am leaving, or they would come and tell me, I am going to compete with you. I am setting up my own company to compete with you.



When they came and told me, they would come and resign. I would ask them, what are you going to do? Where are you going? They would look at their shoes, they wouldn't look at me, they would look at their shoes and say, "I am going to set up a business". I said, "what kind of business are you going to set up?" He said, "I am going to set up a business to compete with you, (still looking at his shoes). I said that is awesome, man. "I want to help you. Sit down. Let me tell you everything I figured out. There is a bunch of stuff in this business that is not visible to you. I want to tell you everything". First of all, the guy thinks I have lost my mind. Doesn't know what is going on. Like I am playing with him. Or he is saying, this guy, I thought he was crazy, but he is really crazy. What is going on? He is bullshitting me. They wouldn't believe me, right? I would lay out everything I learned, everything that I knew worked, and I lay it out, this is how you go and find this is prospecting, this is how it's efficient, these are the metrics, blah, blah, blah. I must have done this for like 15 guys. Then I sit back and watch no one follows anything I told them, I said, I can't prove Tom Peter is wrong. I tell them exactly what to do. Now the inversion of cloning, if you understood to me, cloning is one of the most powerful mental models. The reason it is powerful is, for the Tom Peter's reason that something like 98% of humans thinks cloning is beneath them. They think it is somehow like copying or something below the belt. They are not interested. They want to come up with their own ideas. Because most humans are not willing to do it, it gives you a big edge. For example, Buffett ran his investment partnership, which was the most successful investment partnership ever in the history of the investment business from 1956 to 1970. It had unusual set of rules. He had no management fees, all these things. When I was going to set up an investment partnership in 1999, which was almost 30 years after he shut down, I could find no funds that had mirrored the Buffett partnerships, 30 years most successful partnership, best guy in the business. Now I was such a disciple of Tom Peters. Oh, I know why Humans hate to clone. They are not going to clone Warren Buffett, even though he is God, they were not going to do it because it is beneath them, I said, the Indian guy is going to do it.

There was a biography on Buffett written by Roger Lowenstein, I took that to my lawyer. I marked some pages. I said, "convert this into a legal document, okay and follow these rules on these pages. Don't make up your own rules. These are the rules" I told him to clone it and he did. We set up Pabrai investment funds. Pabrai investment funds have no competition. Hallelujah. I think like my middle name is Forest Gum. My full name is Mohnish Forrest Gump Pabrai. Then Forrest Gump ends up meeting Warren Buffett, like, what the hell! Then I end up meeting Charlie Munger from Warren Buffett. When I meet them, I told Charlie, I said, "Charlie, those Buffett partnership rules, nobody followed them. The Indian guy was forced to follow them because nobody followed them". He said, "Well, Mohnish, there were a couple of guys who followed them". I said, "yeah, but I couldn't find them". He said, "yeah, you were not going to find them. They are too obscure to find". When I started getting my investors, some investors came to me because they hate the concept of paying fees, which are not linked to performance, which is the way the whole

industry works, right? The way the industry works is, you pay me one or 2% for breathing and then after that, if I do well for you, you pay me another 20%. What a concept. But that is the way the whole industry works. Some people came to me because they just didn't want to deal with that.

The ones that came to me, because they just liked me. I made sure they understood everything. I just brainwashed them that these frictional costs are important. I just kept brainwashing all my investors, frictional costs are important. Then finally they agreed with me. Yeah, frictional costs are really important, so they just stayed me. Then if someone else approached them to invest with them, they would not go because they said, "oh, you have management fees. I can't go there. I can't pay management fees. Please take it to zero". They would say, "what are you talking about, take it to zero". I think the thing is that cloning is a really powerful heuristic, from a startup point of view, right? You can listen to the customer, and you can change direction. Even more powerful than that is clone an existing model. Someone has figured out something that is working, set your ego aside, just mirror it and it will work. It is even better than listening to the customer because it is already scaled. You might be able to do it little better than what they have done it at. Anyway, there are many more models, but we are out of time. I think Harshal, we need to go to Q&A

Harshal: Yes, sir.

Mohnish: Okay. We will go to Q&A.

Victor: Hi, good evening, everyone. Mohnish, thank you. I am Victor Perzoy, I am from Argentina, and I live in Houston. I am a member of the Value Investors Meetup. We get together once a month and we always listen to your wisdom. You shared a lot of really amazing mental models and frameworks on entrepreneurship. But I have a question. Being from Argentina, with what is happening, there is kind of crazy right now with hyperinflation and a lot of problems. I wonder if you had any framework and recommendation on how to approach investing in a country that is going through a mess like Argentina. I know you have experience investing in these different countries around the world.

Mohnish: Yeah, I think it is really hard. Well, one of the things about Argentina is that I think a large portion of the US dollar bills and circulation outside the United States are in Argentina. They are either in Argentina or Iran. Those are two places that have all the dollar bills, but a huge amount of it is in Argentina. The reason is that a lot of transactions take place in dollars. Not only does it take place in dollars, but if you are buying an apartment, they don't trust a wire transfer or something. You show up with the stacks of cash in dollars at the closing, then you move the stacks over. These people like, you know, have these stacks and then you have got false floors and you have got safes and all kinds of things. Sometimes people forget about these stacks, and they end up on the street and there is money flying around. You heard those stories, right? All these things going on. It is a wild place. I have investments in Turkey, which has about 80% annual inflation. Basically, the way I approached it was that I

focused on businesses where the revenues were only in euros or dollars and the expenses were in Lira. The CFO, of one of the companies was explaining to me that he said, Mohnish, every time the lira drops by 10%, our earnings and euros go up by 3%. I said, Hallelujah, let us keep banging on that 80% till infinity. Because we don't really care about 80% anymore. We wanted to keep going. I didn't invest in this company, but there is a juice company in Turkey where 98% is exported and revenues in Euros, and they have this dynamic. There were like a hundred investible businesses in Turkey, and about three of them had this type of dynamic and no one is interested in Turkey because the inflation, I just focused on the 3%. Life is great. In one case, the market cap was \$20 million, and the liquidation value was \$700 million. The liquidation value has gone up to close to a billion now. Even with the inflation and all that made no difference in dollars. I mean, these are just in dollars, in Lira it went up crazy. I would say that to the extent, in Argentina, you can hone in on that type of a dynamic, because with the inflation headwind Argentina has, it is really hard. The other thing that is even better answer than that is, don't invest in Argentina. You are in Austin man. Exactly. There are two ways. One is, you can take the root canal and try to enjoy the root canal. The second is you just go have a Pina colada, that can work out just as well. Other questions?

Sanjay: Hello good afternoon. My name is Sanjay. I had a question about Alibaba. I know you are great friend of Charlie Munger, and that is one of his favorite stocks he has been holding onto. I have been following it when it was 250 or something, and now it is close to hundred less than that. I think Alibaba is a great business. I think Ali Express is great, but with regards to China trying to take away stocks from American exchanges and putting them in Hong Kong and other countries, how big of a risk do you think that is? What do you think overall of Alibaba as a stock, not as a company, like just a stockholder kind of perspective?

Mohnish: Well, I would just say that I think a business like Alibaba is unlikely to do things from a governance perspective, which would hurt investors. I think it is a very high-quality operation from that point of view, right from the original formation of the business. It got its start because of foreign investors. The earliest money that came in was not Chinese, and they have always respected their non-Chinese investors. I don't think that will change if the listing changes and so on. I don't think the risk with Alibaba is related to a listing going from New York to Hong Kong or something. I think that is an irrelevant data point. The key issue to ask yourself is, what does the business look like five or 10 years from now? If you have a view of what the business looks like after five or 10 years, then you would have a view of what the stock price might be at that point. I can't help you very much on that. Not really in the stock tip business, but I would just say it is a high-quality business. It is faced headwinds, it has very good management, it has multiple deep moats, but it also has challenges. You have to sift through all that and see where you land on that

Vivek: Mohnish did you practice the 168 Hour arbitrage stuff when you started the investment company, or did you start only when you started the IT consulting?

Mohnish: Yeah, the investment company started as a hobby. I was running the IT company when Pabrai Investment fund started. But what had happened is, I had all these friends I used to give them stock tips when I met them in the mid and late nineties. From 1994 to about 1999, 2000, I was just a private investor, but I had done well, I think north of 70% a year for like five, six years. I had a million dollar that I had gotten from selling a small portion of the business, and that million had become \$13 million. When I used to make investments, after I bought my position, what do I care? I would just tell my friends, "Hey, I think this company is good and you should invest in it. These guys would sometimes take me up on that. But then, some guys worth \$5 or \$10 million and they would put \$10,000 into whatever I told them, and it would triple or quadruple or something, but it wouldn't move the needle for them. A few of them came to me and said, "look, this stock to business is random. You tell us something, then we don't see you for a while, and then we don't know whether you have sold or what is happening". They said, "we want you to run money for us, like a pool for the friends". I said, "Okay, if I am going to manage your money, it wasn't going to be much, like a million dollars from all of them combined". I want to do it in a manner which is going to make sure that it's in run done in a good way. That is when I copied the Buffett rules and all of that, and I was really concerned about that. I didn't want them to have losses. What I did was, I gave them a personal guarantee on the principle and a guarantee of a 6% annual return. What a country. Because I didn't want a situation where I went upside down and my take was, I had 13 million outside my company and I was going to run a million dollar fund. It didn't matter what happened, wouldn't affect, and the funds were just a hobby. Then I think about a year later, I had sold a business and I was really enjoying the investment management part of it, and I wanted to scale the operations, but I couldn't scale it with this guarantee, right. I went to my investor in the first year, we were up like 70%. I went to them and said, "Hey listen, I want to do an amendment where we remove the guarantees". They said, "No, we like the guarantees, we don't want any such amendment". I said, "Okay, I am setting up a new fund and we are closing the old fund and sending your money back". They all came into the new fund, but no guarantee, life went on and they're still my friends. I did do kind of couple of things at the same time. I think the Pabrai Investment funds was even more exceptional. I don't think I invested more than \$500 in the business and there have been years when our earnings have been like 50 million. It's a great economic model. Worked well. Other questions?

Priya: Mohnish, my name is Priya Patel, and I am actually a fund manager myself. one of the questions I have for you is, what is best piece of advice you have and not necessarily for fund management, but just in general, to grow your business, what was the piece of advice that was given to you that has flourished and allowed you to grow.

Mohnish: I would say, the way I kind of go through life is, I think in terms of what I would call hacks. You can also think of it in terms of what Munger calls. You call them mental models. The thing is that once you understand a mental model and you

go all in on it, especially when you have five or 10 of them that you have gone all in on and they interplay with each other. When you have an interplay between models and most other humans are not functioning that way, you get a big advantage. I talked about cloning at the model, right? That gives you an advantage. Another mental model is, there is a book I read more than two decades ago, it is called Power versus Force and it is kind of a weird book. I really like the book a lot. It is written by a guy named David Hawkins, who is kind of like a new age ponytail guru in Sedona, Arizona. He passed away a few years ago. When I recommend that book to friends of mine, I get two kinds of reactions. One, they throw the book at me, and they hope it hurts me. They are so upset with the book. Or the second is they love it. I don't get any reactions in the middle, ah is okay, I never get, it is like one extreme or the other. David Hawkins had this very weird idea, and I think that is where I lose some of my rational friends. He said that if I lie to you and in your conscious state you don't know that I am lying to you, in your subconscious state, you do. For most humans, there is a pipe between the subconscious and the conscious, but it is mostly clogged. The signal doesn't get through, but it is not a hundred percent clogged. For most humans, it is not a hundred percent clogged. Most humans might be like 90% clogged because of a bunch of life experiences. There is a whole other session we could do on unclogging that pipe, but that is a different talk for a different day. But let us say for example, you are talking to a used car salesman, and he is going a million miles an hour and trying to close a deal. You don't know what part of what he is telling you is a lie, but you know there is a lot of lies, you just know that out of the 10 things he said that at least four of them that are not true. You just don't know which four. If you are interacting with the Dalai Lama, like you have gone to Dalai Lama and you are hanging out with him and you are talking to him, you are probably going to come to the conclusion that the Dalai Lama is not lying to you, and you feel good being around the Dalai Lama, it feels great being around the Dalai Lama. What Hawkins was saying is that humans emit these attractor fields. What happens is that when the used car salesman is talking to you, what Hawkins said is that if we put sensors on my muscles, not the used car salesman muscle, but my muscles listening to him, it is going to pick up signals which say that he is lying, and he talked in terms of going weak versus going strong. He said, if someone is lying to you, you are going to get a signal that says weak and someone is not lying to you, then it is going to say strong. The takeaway from that is, if you just accept that, now I have never done these probes and tested all of that. But I said, Okay, let us accept that as a gospel truth. Let us accept what Hawkins is saying is correct. If you accept it is correct, then what you would conclude is that there is no point lying. What is the point of lying when the other guy is going to know that you are lying? He or she may not know exactly what you are lying about, but they won't feel good being around you, they will kind of take it down. I decided I am going to test everything, like I want to test Tom Peters. I said, I am going to test this theory, and I spent about probably 25 years testing this thing. Let us say for example, my wife, now my ex-wife, we date night, we are going to see a movie and such. We're about to leave, she says how do I look? I

look at the dress and I am like, not crazy about the dress. Now, the old Mohnish should have said, Awesome, let us go. The new Mohnish said, we got to test this out. I said, I think you can do better on the dress. What would happen is, that was the end of the movie, okay? There was no movie happening. But what happened is, the relationship became stronger. Now the thing is, she is the ex-wife now, but she is the largest investor I have, and we split eight figures in 30 minutes with no lawyers. I never saw the inside of a courtroom. We were done in 30 minutes. Probably get almost the same number of messages for her now than before marriage. Like what the hell? Anyway, the thing is, it is a good relationship, it is a healthy relationship. I think one of the reasons it is a healthy relationship is, she has complete trust. Even now, she has complete trust. What I eliminated from my life about two and a half decades ago was the small lies. If you do that, then it is not going to work. The thing is that the world functions on trust. It doesn't function on contracts. People must be able to trust you. They are not doing business with you because there is some contract that is going to protect you and like one guy told me that, if we ever must look at the contract, you are in trouble. There is a problem if you ever must go back and look at the contract. I would say that, when I read Hawkins and I adopted that model, life became easy. No need to be diplomatic, let it fall where it falls and just lay it out, say things as you will. And I think it might be one of the reasons I have a really good friendship with Buffett, but an even better friendship with Charlie, I mean, I probably see Charlie four or five times a year for dinner at his place. In fact, I was moving to Austin, I said, "Charlie, don't think of the fact that I am not in California when you think you want to have dinner, I can just take a Southwest flight, so it is okay" and he did take me up on it. I got a call, he said, "Can you come on Friday or Saturday for dinner?" I asked him, is the Pop Catholic and I was there. I think part of the reason is that these are intimidating guys, but the way I deal with it is, if they ask me anything, I am just going to give them a straight answer, I don't care what they think of the answer, I am going to tell them exactly the best, most truthful way I can say things. I would say that if you follow that principle, the problem is the small lies and the small lies is really what the half-truths is what is difficult. But if you can go down that path, I think the payoff long term is huge. That is what I would suggest. Okay

Harshal: Now the audience knows why I had so many chats right with you.

Mohnish: I thought it was because I make great tea. Didn't you like the tea?

Harshal: I love the tea and I have a lot of that here in the headliners club. Actually, I can come with it for that, but no, to that point, the reason why I said that was, we spoke about multiple things, right? I think you spoke about God speaking. I think you are doing something on those lines as well. Do you want to touch upon that?

Mohnish: I have a family foundation now. It is a public charity. I think I get more credit for it than I should because basically, if you spend less than you earn over a lifetime, you will end up with assets that you cannot consume in your lifetime. Then in that case, you only have two choices. You either give it to your gene

pool or you give it to society. Giving it to a gene pool is not a great idea. I think if it is a small inheritance, it is fine. You can help your kids out. But I think large inheritance is a problem. I think you would cause more harm than good. Like, Buffett says that if you are Jesse Owen's son, the sprinter, it is okay to start a hundred-meter dashes at the 10-meter line, but not at the 40-meter line. You are not going to become the best sprinter starting at the 40-meter line. I didn't set up the foundation for any other reason other than that I had no choice. Basically, at some point I am going to die and at some point, there will be some assets and it is better to start early than late. If I am going to give the money away because I am comparative, I want to try to make sure that it is utilized well. I didn't want to set up a foundation. I was looking for a good place to write cheques to. When I started looking around, I was disappointed. I was very disappointed. The way most non-profits operate, they are usually run by people with great hearts, great sense of purpose, but they are not business people. It is a big negative if you don't put on a hardcore businessman's hat when you are running a non-profit. You kind of need a combination of heart and head and that is where I found that most non-profits will fall flat. They do things that feel good, but then they don't measure, and they are just into the feeling good kind of thing versus trying to see what does the best for society. Dakshana took a very kind of holistic approach, which said that we want to measure what we do, we want to see what the outcomes are, and we want to keep improving. It worked out really well. I was lucky that I found a great team in India who executes, they are way better than I would be if I were running the place. The good thing is I am not running the place, which is great. Anyway, go ahead.

Partha: My name is Partha Sharma; I am from Houston. I had a question. I read your book *The Dhandho investor* and one of the principles that you laid out was investing in businesses that had a known limited downside and a potential unlimited upside, In Pabrai Investment funds when you invest, what do you see the role of options? For example, do you use options because of the certain ways you can structure options when, where your downside is very limited and your upside could be potentially very much high. Do you see a use for that in Pabrai Investment funds?

Mohnish: Yeah, I mean I think options can be a way where you can reduce or minimize downside. I think Pabrai Investment funds was specifically set up. One of the rules we have is, we cannot go into derivatives. We don't use derivatives in general. One of the reasons we don't do that is most options expire unexercised, right? The probably overwhelming number of options is that the premium collected is just kept. But having said that, it does have its place, it can give you that downside protection, but you can also get that downside protection in other ways. Many times, we are able to get it without actually having to have a specific, we can get it by actually looking at the business and looking at the delta between what it is worth versus what it is being traded at and that sort of thing. But that is a valid way to go if you want to go that way,

Partha: Probably because the investment horizon's probably longer than what many people would sell options. You can buy leaps now probably for a couple of years, but you are probably looking in terms of 1.

Mohnish: Yeah, one of the things that took me a long time to figure out was you, like they say old too soon and wise too late. Thomas Phelps wrote a great book, 100 to 1 in the stock market. The book came more like 50 years ago. It is still timeless, I think it was Philip Fisher who said that if the job is done right, you never need to sell. I think that is a great way to approach it. I think the holy grail is that if you can find yourself in the happy place of ownership of a great business that is compounding and growing at the long runway and you never need to touch it, I think that is awesome. It is a great way to go. I used to practice that in the nineties, then I moved away because of the bubble. Then what I should have done is gone back to that by 2009. But I went back to that more like 2018. Now I am pivoting more towards where, if I can get to the point where we have no buys, no sells, and just cost, that would be great.

Partha: Finally, one last question. Can you please share how you came up with the idea of having lunch with Warren Buffett?

Mohnish: Yeah, I think it was straightforward in the sense that he was willing to take a bribe to sit down for lunch. Buffett runs these annual charity lunch auctions once a year. This year was the last year that he did it. I think this year it went for more than \$19 million. In 2007, my net worth, I think at that time was like 84 million. Overwhelming portion of that was because of Buffett's intellectual property. He has published everything, and I was leveraging that to learn how to invest and so on so forth. I felt like there was a big tuition built you, so I said, "Okay, he has this auction going on and all I wanted to do was win the auction and just look him in the eye and say thank you". I didn't have any other agenda item or anything. You can take seven people to the lunch and I was going to go with my family. There were still three seats, and the only person I reached out to was Guy, actually didn't know that well at the time, Guy Spier, who is now really close friend. I asked him if he wants to kind of bid on this lunch with me. At that time, I said, how much would I be willing to pay? I said, "Well, the tuition bill, couple of million should be fine" I told Guy, "Listen, if you come, there will be two of you and we have four of us, so you can pay one third, we will pay two third". He said, "Mohnish, I can't do a third of \$2 million or whatever".

I asked him, I said, Okay, what is your max, he said, I am good for a quarter, a million dollar. I said, so whatever. I said, whatever it ends at, you are capped at a quarter million, right? And I will take care of the rest. The bidding ended at 650,000. He never hit his cap. We met Warren. Buffett's mindset with these lunches is that he wants to make sure that the winner thinks they got a deal. He is all about maximum value edition. The first thing he told us when he met us was that "I got nothing going on all afternoon (we were meeting in New York) I am completely free, whenever you guys get sick and tired of me, you let me know, I will leave". After three hours, we said, we have no more questions.



Then we took a bunch of pictures and he left. I told Warren that, “look, my wife is a huge fan of yours, but her true love in life is Charlie” and Buffett got competitive. He said, “Charlie is a very boring guy, I am the one who is exciting. He is just a very old curmudgeon, negative on everything he just wants. Listen, I am going to set you guys up to meet Charlie for lunch, and then after you meet him, you will know who the real like Amigo is here”. I thought he was just joking but two days later, I get an email from his assistant to Charlie's assistant saying, “I met this couple, really enjoyed it, they seem to think you are more interesting than me. I think they need to meet you. Then they will know I am the guy”. Then there was lunch set up with Charlie, and I said, Okay, buy one, get one free. This is great. I enjoyed the Charlie lunch better than the Warren lunch because Charlie is unplugged, like, he doesn't really care. Then that one lunch became a friendship, so it is converted to infinite lunches, which is great. My wife and I were bidding for lunch. She thought it is kind of weird. She said, “Okay, whatever”. Then later she said, “Other than marrying me, this is the best use of your money. You like collecting forever on this”. Yeah. I really had no agenda other than to just say thank you to him. It morphed into something great. The way I looked at it is that, if you lived in the time of Einstein or Newton or Gandhi or any of your heroes, and you had a chance to meet them, what would you be willing to do to meet them and this was a pretty easy way to do it, it was a no brainer.

Harshal: The exact same thing here Mohnish. We never know what is going to happen in the next 20 years, right? You are here and we have food here as well. Let us go ahead and get that.

Mohnish: All right. Thank you very much.