

Mohnish Pabrai's Q&A session with students at the William & Mary College on October 26, 2021

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Mohnish: I'm going to be meeting Charlie on Thursday for lunch in about a couple of days, which would be fun. He's going to be 98 on January 1st. No mental decline, lots of physical decline. But Charlie says to me that he hasn't spent an hour in his life working out and all the thousands of hours he saved, added to his reading time. All his doctors who kept telling him otherwise are all dead. He also tells me that 99% of the friends he's known are dead. But I told him, it's okay, Charlie, you got some new ones. He always looks at the positive side. I think Charlie is one of the, I would say, broadest thinkers you would ever encounter. I have to pinch myself, I mean, not only that I meet him, but even in living in the same time, all of us are living in the same time as he is living.

Just like it's very unusual for all of us to be living in the same time as Elon Musk is living. These are very unusual people and historic figures that will go down in history and such. But the range of things we talk about is quite wide. But I would say that both with Warren and Charlie, there is so much in the public domain with both of them that you don't need to know them especially, and that's especially through Warren that you can learn a lot from both of them just by being in the room you're in and not going anywhere. They're open books, they've shared quite widely and they've shared quite openly. That gives us a lot of wonderful learning and knowledge, which is great. The things that I probably learned from Charlie in the interaction with him, I would say has more to do with me just observing him. Not so much in terms of what he says, but in terms of just me just seeing how he lives his life and how he spends his day and so on.

One is that Charlie has these mental models that he believes that if you hard code them in your brain, especially learn to overlay them, it gives you huge advantages in life. But one of his mental models is to not engage in self-pity. His wife died a few years ago, they had a very long close relationship. I mean, she had an accident, she fell backwards down the stairs. It was very unpleasant, then she had a lot of surgeries and such. But the whole experience was very negative. But I've never seen Charlie rude about it. He has sight in only one eye and a few years back I saw that he was having a lot of trouble with his second eye. There was some problem with the optic nerve, now on the second eye where he almost lost his sight and then he was able to do an experimental procedure that brought back a lot of the sight. But he still had to use very powerful lights.

Through that process when I saw him about to lose his second eye. The only thing that Charlie cares about a lot is reading. It's his number one love in life. It's kind of nature taking away the one thing he truly loves. Even in that circumstance, I did not see him engage in self-pity. What I just heard him say at the time was, I might have to learn braille, and so he looks

forward and even now he was recently telling me that his eyesight is really deteriorating. It's much harder for him to read, sees a lot of floaters and such. But I think the big lesson I've taken from Charlie is not what he has said to me, it is what I have observed and what I have observed is stoic behavior to the power of stoic behavior. To me that's the biggest take home, he is someone who doesn't complain no matter what, just takes whatever is dealt to him and continues forward. It's been really wonderful to see that in action and learn from that.

Speaker: Speaking of observation, I believe I saw a tweet by you go about an hour ago where it seems like your daughter is starting an entrepreneurial journey. What are some things that you think she might have learned from watching you and your entrepreneurship success?

Mohnish: As you can see, I have this beautiful stash, and the stash is beautiful because I use the product of my daughter's startup. There are four of them who started this kind of beauty product stash startup. They have this first product, which is Terra edition, which is a pre-shampoo. One of them is a very gifted chemist. I think she did a kick-ass job on it. Well, I think I find that my daughter picked up a lot of stuff about entrepreneurship and things because of just observing things going on. Of course, we've had a number of conversations over the years, but I find that her instincts on a number of funds are pretty right on. I think that when you're engaging in a startup, I would separate startups into two categories. Venture back startups and non-venture back startups. Venture back startups may make up less than maybe one tenth or 1% of startups. They are, for the most part, irrelevant. They're an aberration or anomaly.

Non-venture back startups are what 99.9% of humanity engages in. In non-venture back startups, what entrepreneurs do is they try really hard to minimize risk. They do everything in their power to reduce risk which is countered to what most people think. People think that when people start businesses, they go high risk, high return. Most entrepreneurs are trying to go low risk, high return. I've seen it even in her startup, they've tried to do a number of things which muted the downside and took away the odds of spectacular failures and so on. They did a good job. I think the product is pretty good. It's still very uphill and it's still very low probability that it would scale and grow and be very successful, but they don't have much of a burn and they've got a long runway. Wish them all the best.

Speaker: Is there anybody out here have questions on Zoom? Raise your hand.

Speaker: First off, thank you so much for letting us to have the opportunity to speak with you. I really appreciate it. I'm a portfolio manager for the Mason Investment Club that we are co-sponsoring tonight with the Entrepreneurship Center. We always like to talk about learning more, educating ourselves in investing. My question is, if you were to advise a college student interested in investing and they have limited knowledge, what would be the first thing that you would tell them to do? you would be your recommendation to learn, I guess, on like learning and how to better yourself and gain knowledge?

Mohnish: Well, the first thing I'd suggest to them to do is open a brokerage account, but I wouldn't ask them to open it at Robin Hood. I would ask them to open the account at maybe interactive brokers or TD Ameritrade, E*TRADE

one of those discount brokers. Robin Hood is too much like a video game, so that might defeat the purpose. I would say that the great thing about investing now with all these platforms is that they've gone to commission free trading, which means that even if you had \$100 or \$1000 or \$10,000, you can get started. The frictional cost is zero, basically. First, I would open a brokerage account and second is that I would do research into different businesses and I would make myself aware of what Buffett called the 20-punch card.

What Buffett says is that if investors thought of themselves as having this punch card where you could punch it 20 times in your lifetime and when you punch it for the 20th time, that's your last punch. What he's saying is you get to make 20 stock picks in your whole life. Now that's a very extreme view, but if you knew that you only had 20 picks that you could make over the next 70 years, then you open a brokerage account and you start doing an analysis of different businesses. You start with businesses that you're familiar with businesses whose products you use, it might be a user of Apple or Android, or which means alphabet and you might use a certain paint company's products and you might wear certain clothing and use certain products for cooking or whatever.

You're using all kinds of products in your everyday life. You're clearly familiar with the company's products and for you to have chosen that company's products is what you're using already clears a pretty high bar, because most things that we encounter we're not going to consume. Then I would just say, study those businesses to see which ones make sense and such. Then when you study businesses, there are different tools. You could read the Berkshire Hathaway letters going all the way back, all the annual meetings are now on CNBC. They've archived them, I think Buffett does cnbc.com. Then you've got the different biographies on Buffett and Charlie, you've got a book called Poor Charlie's Almanack. There's a lot of data to consume. In the brokerage account, I would hope that you don't have a portfolio of more than three stocks. First of all, you've only got 20 picks for 70 years. You can blow them all in. You can blow 10 in one year. Maybe pick one or two or three stocks that you have extreme high conviction about and then take it from there. But you need a brokerage account so that it's real. The gains and losses are real. It wouldn't be the same doing it in excel.

Miguel: Hi Mohnish, my name's Miguel. I'm currently a junior attending the college. I had the question actually pertaining to one of the holdings in your fund. I was able do a little bit of research and I was very interested in the fact that you had the Alibaba, the Chinese online retailer on there, because I remember a couple months of back that the Chinese government actually imposed an antitrust law on them, which tanked a lot of their value. But I found it very interesting, it seems like you have a decent holding in that company and for me personally, I wasn't able to see the growth value had not stop, since the growth transformers might actually restrict the growth. I just wanted to ask about your perspective on that, like what sort of value you see and just if you could also talk about your investment strategy.

Mohnish: All right, the only question that I'm probably going to duck today are the ones relating to current portfolio holdings. I will duck the question on

Alibaba, if you have another question now, maybe you could ask it or maybe you could ask later. Would you like to ask another question?

Miguel: I'll think of another one.

Mohnish: Okay, sorry about that.

Speaker: How about kind of going into Miguel's question, you're in a few different countries, you're not just invested in the United States. How do you think about assessing the political currency? Any risk like that, maybe not necessarily China, but when you look at other countries outside of the US?

Mohnish: At the end of the day, I really don't care that much about the geography and such. I'm a bottoms-up stock picker. What I'm most concerned about is the specific nuances of the business in general. Micro events will trump macro events. The long term return you get out of a business will usually depend on how well that business does or how poorly that business does. It won't have that much to do with what's happening with the currency and what's happening with who's running the place and who's running the country and so on. In general, there are differences in different geographies in terms of some markets are more overvalued at certain times and others are more undervalued. You can find more opportunities in certain places versus others based on that. I would say in general; I find a place like Turkey is very undervalued because of so much macro noise.

Japan is undervalued because it's delivered such terrible returns for so long. Some pockets are maybe India and China might be undervalued. You can definitely find a lot of undervalued businesses right here in the US as well. That's fine. You don't really need to necessarily be looking across the globe. I think the more important thing is to focus on looking at things that are within your circle of competence. It is not necessary to be aware of things globally. There's an investment fund in Minnesota, and I don't know if this is still mandate, but it's called the Maris and Powers Fund. It's a mutual fund. Their mandate was, we mostly invested in Minnesota companies and the fund did quite well. I mean they did really well. If you think about it, you will think that that'd be quite restrictive to be limited just to Minnesota businesses or mainly to Minnesota businesses, but less can be more. That type of a focus allows you to get very specialized and allows you to actually know the business as well. In their case, it's really easy for them to travel and meet the companies or be aware of the business. They might have neighbors who are employees there or consuming the products and so on. It can give you a big edge if you are narrowly focused. One doesn't need to be very broadly focused; I think there's multiple ways to skip the cat.

Speaker: Yeah. Mohnish, one of the things that you mentioned was actually like your circle of competence and just investing within that realm. Not everyone can be Mohnish like have text startups and things like that. How do we as young individuals find that circle of competence and actually like grow that knowledge within that circle of competence? We can actually be better at investing?

Mohnish: Yeah, actually, so to ask the question is to answer it. If you find yourself asking yourself, is business X in your circle of competence, I can give you the answer. The answer is no, it's not in your circle of competence.

Anytime you find that you're asking yourself a question like if you ask yourself a question, do I understand Apple? Then I would say, no, the answers you don't understand because you wouldn't have asked yourself that question if you understood that business.

Speaker: We got a question from Quas Nick and he was asking, when you started TransTech in 1991, how did you go about recruiting and identifying high quality people to join you sitting the small amount of capital that you started with?

Mohnish: Well, I made a lot of hiring mistakes. I hired a lot of people who were the wrong hires. I didn't have 90% of the frameworks I have now. That is exactly what a lot of other entrepreneurs do as well. I mean, the thing is we just don't know everything we need to know at the time we need when we are executing. There were lots of hiring mistakes. There were also, by random chance, you end up sometimes with amazing people. You end up with all of the above. I think that there's a famous old picture of Microsoft which has like, and you guys might have seen it, it has Bill Gates and Paul Allen, Paul Allen has a big beard and it's got about eight or nine other kind of seventies looks early Microsoft employees in this. Some of you might have seen that picture, maybe you can Google it.

In that picture, the only people who stayed on for some period of time after that were just Paul Allen and Bill Gates. The rest of those guys were gone. Even the likes of Bill Gates, who I think is extremely good at hiring and very smart also made a lot of hiring errors. Those early people in Microsoft went away and then the next crowd that came was a little better and they caught better over time. I think a lot of early-stage companies are getting going, especially again, non-venture backed, venture backed to get the fund granted, because the venture VCs can help you on that front. They're going to make a lot of hiring mistakes because number one, they have no brand. Nobody's heard about them, really exceptional people may not be interested in joining them. They see a lot of career risk. But the bottom line is that it doesn't mean that the business is not going to work. You just keep plotting ahead. It can still work if it's a great model, it can transcend some incompetence in the team. The important thing over time is to try to improve the team. Either by natural attrition or deliberate action, you need to start improving the team.

Speaker: Yeah. Just on that point, I think that starting your startup, you said you make a lot of mistakes. I mean, what was the thing that really helped your company succeed though in overcoming those mistakes?

Mohnish: Well, I think the important thing is that you have to have the right strategy. You have to have the right product, you have to have the right price, and you have to know how to sell those you can't screw up on. There's a wonderful book it's called The Origin and Evolution of New Businesses. It was written by a guy named Amar Bhide. He used to be a professor at Harvard, I think now he's at Tufts in Boston. Amar is a friend of mine, I didn't know him when I read the book, but he's become a friend since then. He interviewed about 10 years' worth of 500 CEOs for the book, because basically entrepreneurship is significantly understudied in business schools. I mean, business school professors get paid a lot to study, marketing, branding, HR, different things, but there's no natural sponsors to study entrepreneurship.

Anyway, Amar did a very detailed study and what he found was that there were a lot of common themes amongst these inked 500 CEOs because these are the 500 fastest growing businesses in the US for over 10 years. I mean for 10 years he had like basically thousands of companies he had access to. What he did is when he interviewed a lot of these in 500 CEOs, he synthesized a lot of what all of them was saying because he found a lot of commonalities. Even though these people didn't know each other, the way they were going about their businesses had a lot of commonalities. I think this study was done in the nineties, so it's been a few years. But for example, he found that a large number of the owners of these companies either put global in their company name or they put international in their company name.

The reason they put global or international in the company name is so they appeared larger. One of the things that you have to do with a startup is you have to convince large mainstream businesses to give your business and they're not really interested in giving your business if they know that you're a fly-by-night startup who just got going. They would, like a blowfish, pump themselves up and present an aura of being much larger. Another thing that I did, which again he found in the book lot of other people who had done that is I had two different business cards. I had a business card that said president and CEO, and I had another business card which said Vice President marketing. I never used president and CEO business card.

Whenever I was in a sales situation, I always presented myself as a VP of marketing for the business. The reason I did that is it made the business look bigger and it made the business look more impressive because they would say, "Oh, this guy looks pretty good. He's working for someone so that someone he works for must be also pretty good". It just gave the impression that the company was kind of larger, a little bit deceitful, but a lot of us startup guys do some deceitful things to get going. I was surprised that I wasn't the only guy who had done it. A lot of people had done that. Like this, you found a number of kind of models that were common across the board. I would say that if you read that book, it would give you a head start on models that you should use because a lot of people already figured it out, so you don't figure it out on your own.

Most of these guys, I think, had issues with the team that probably wasn't that good and whatever, but what was probably absolutely dead on correct for them to make it is they were attacking the absolutely correct market with the absolutely correct product at the right price. That equation is going to be helpful. Usually when there is disruption going on and some kind of change taking place in a marketplace, that's usually when new entrants have a way, have the ability to penetrate and get traction. For example, electric cars are new, Tesla can come in because the other guys haven't yet established themselves, right? The other thing you would find with using 500 companies is they had identified what I would call an offering gap and which was clearly a pain point for their customers, but not many people were addressing that main point, and that's how they were able to grow and scale, even if they didn't have the right team behind them initially.

Speaker: Just a reminder for the people on Zoom, if you'd like to ask Mohnish a question instead of sending it to me, just raise your hands, unmute yourself, and then you can ask your question. I believe we had one from Tanika who asked, so you've talked a bit in the past about leverage and business, how they're not always a great mix. Can you elaborate a bit more on that, and can you give any examples on when leverage is appropriate in a business?

Mohnish: Yeah, I think in general, capitalism is brutal and almost all businesses are very fragile. They cannot survive for very long if even few things go wrong, just because things are so competitive for most businesses. In general, if you are levered and you encounter a headwind, the odds of making it through that headwind go down dramatically, if you are levered. I mean, just to give you the example of my daughter, with their product, they don't have any debt or anything. In fact, all of them are working at other jobs and other things, so they've got income coming in. The business really does not face any financial crunch. But I would say whether you're a startup or even a Fortune 100 company, if there's a lot of debt in the picture, it can come to hurt you in a manner that doesn't allow you to play out your hand.

Of course, in public markets what can happen is that debt can create opportunities to invest. For example, in the financial crisis, day 2008, early 2009, there was a lot of stuff that was crashing and burning. One particular industry that got really almost destroyed, hammered really badly was the commodities industry. Almost all commodity prices collapsed to unprecedented levels because demand went down so much. There was a Blue-Chip Canadian minor in Vancouver called Teck Cominco. They had a very dominant footprint in metallurgical coal. Metallurgical coal is used to make iron and steel. It's kind of like an oligopoly. There are just a few places in the world where you can get large amounts of metallurgical coal and actually once you have a steel plant, the chemistry of the particular met coal that you use becomes very specific. You can't just suddenly switch from one mind to another, the chemistry matters.

This means that you get to these long-term contracts with these R&M steel plants. Tech Cominco, in 2008, had done a very large acquisition of one of their met coal competitors. What they had done when they did the deal was they financed it quickly with a one year bridge loan. Their plan was that within the year they would issue long term debt, 10, 15-year, 20-year bonds and then straighten out the balance sheet and go about their business. What happened is they closed the deal with that one-year bridge loan and then commodity prices tagged and the financial markets for the most part shut down. They had no ability to refinance, and it wasn't even clear how they could service the debt, because they had taken on so much leverage, which some assumptions on what the price and such would be.

The stock, I think went from \$45 to \$4 in just a few days. I looked at it when it was at \$4. The stock price of the commodity has collapsed and there were some so many bargains, but I felt like the banks who had this debt would not want to take over a bunch of metallurgical coal mines, because banks are not in the business of running mines. What they would probably do with a company like Tech Cominco is they would extract a pound of flesh and extend that loan out a little bit, just because it just

made more sense to that rather than trying to turn the screws on something. Then all the company would say, well, here's the keys to the mine, good luck. They don't want that. They want the loan to be kind of current and ongoing.

I also felt like they had so many other assets that they could try to sell and do different things forward sell some production, do different things where they could get out of the jam. I didn't really see a downside where they would go bankrupt or something. I think that they would be able to kind of work it out. We actually invested a good amount in early 2009 in Tech Cominco and within a year it was back at 45. They had exactly what I had forecasted, the banks gave them some breathing room, extracted higher interest rates and all of that. Then they were able to sell some assets and then they were able to forward sell some sales and the mix of all that, they got out of the jam and eventually they were able to refinance the whole thing. It can create the opportunities for an investor, but I think if you're an operator, not going down the leverage path is a really good idea.

Seeker 2: Looks like someone is raising their hand, go ahead.

Speaker: Hi, I'm Tanishka. Thank you so much for your answer. I have another question. I have been reading 2018 article, and I was interested because your opinion and you're answering one of the questions there. Why do you think non-profit organizations should think about capitalization and returns?

Mohnish: I'm sorry, non-profit organizations should think about how should they think about returns?

Speaker: Capital returns, capitalization, yes.

Mohnish: Well, I would say that if you refer to let's say university, let's say William & Mary College have an endowment, for example, how that endowment is invested and how it performs has a significant impact on the wellbeing of the students, nonprofits need to be very businesslike in how they invest their assets and how they invest their money. There was a very small liberal arts college. There is a very small liberal arts college in Iowa called Grinnell. Grinnell, I think last I checked, was like less than a thousand students. Grinnell very early when they endowment had almost no money, they got Warren Buffett on the board of the, one of the advisors to the endowment. Then they had I think Joe Rosenfield was one of the guys who was running the place and they just hit it so far out of the park in terms of how well the investments did that, for example, Grinnell was one of the early investors in Intel, when Intel got formed because one of the alums was from Grinnell, one of the founders. Eventually Grinnell's endowment went past a billion and a billion for a thousand students is like \$10 million per student. It's a lot of money and I think Grinnell could probably have afforded to go tuition free for everyone, housing free, everything free. If you look at the Yale endowment for example, I think last time I looked at it, something like one third or 35% or something of their total expenses were coming from the endowment. It was covering a third of the entire, I think Harvard is similar, so if those institutions come here to do well, they can get to the point where almost everything is paid for. I think it's very important for nonprofits to have people on the team who are

astute about capital allocation. It's really important. Unfortunately, most nonprofits are not like that. They make decision by committee. You don't get fired for buying IBM, that type of notion. It's very subpar.

Speaker: I guess I have one more question. You talked a lot about management driving a lot of success in these companies. I guess my question is, we always talk and hear about Buffett, Steve Jobs, Elon Musk. Are there any CEOs that you can think of from any time period that you think are underappreciated and that people should study up more on?

Mohnish: Well, I think we have a lot of amazing leaders and I think in many cases they either they have written autobiographies or others have written biographies on them. For example, there's a guy, I think Ken Iverson, who was the founder, leader of Nucor. I forgot the name of the autobiography he wrote, but you can look it up, I think it's on Amazon. It's an exceptional book explaining that if you look at the founders of Home Depot if you look at it, some of them are very unusual. If you look at someone like Reed Hastings, at Netflix, he doesn't have an office and he doesn't have a desk. When he goes to work, he just kind of wanders around, picks up conversations randomly with people. It's seems like a very disorganized way to try to run anything. One time I was listening to him at a TED Talk and he said that it's been three months since he made any decisions at Netflix.

He said the longer I can go without having to make a decision, the better the place runs. His management style is unusual. It probably maybe fits a company like Netflix, but it might fit other places as well. It's an unusual style. I think when you see a lot of success in different places, it's worth studying, in almost in all cases, the leaders are too low, eager to write anything, and in most of them, no one else writes anything about them. For example, there was a guy named Sole Price who was the founder of Price Club, which is the model that Costco followed and eventually Costco bought Price Club, Sole Price's, son wrote a biography on his dad.

I think that guy was unbelievable. I think everything that Costco does that makes it such a great business came from Sole Price. There is a bunch of unusual traits that Sole Price had and unusual belief systems that he had, which made Costco a very successful place. He did not think of Price Club as a retailer. He thought of Price Club as a buying agent for the consumer. He felt that he was on the side of the consumer trying to get them the best possible deal, going up against the manufacturers and curating and picking the best products and making sure they got great deals and keeping a very small sliver of the proceeds for themselves. That was just an extremely enlightened way to run things and it's worked out extremely well. I think studying business success and studying business biographies, I mean, the good news is if you go on Amazon and just start, Michael Dell recently wrote a book and it'll bring up suggestions via the books and look at some of those. You can just keep going very soon have 200 biographies to plow through and you wouldn't have scratched the surface. It's a great area to spend time in and it's a great area to read about.

Speaker: Hi Mohnish, thanks for meeting with us. Do you still believe that a discounted cash flow methodology of owner's earnings for analyzing securities is still one of the most fundamental forms of security analysis?

How does that sort of overlay into the venture capital space or potentially private equity? Thanks.

Mohnish: Yeah, I think all intelligent investing is putting out cash today with the objective of getting more cash in the future. That's the essence of investing. If I'm going to put out a \$1000 today, the only reason I'm putting it out is that I expect to get more than a \$1000 back in the future. If I want to get \$5,000 back in the future, so every single business on the planet, it doesn't matter whether it's Tesla or whether it's McDonald's, it is worth the sum of future cash flows that business will produce from now till judgment day discounted to present value by some reasonable interest rate. The difficulty that we get into with investments is in the vast majority of businesses, it is very difficult to have a high degree of certainty on those future cash flows, and they become extremely uncertain as you go further out in the years.

The issue is, it's not that whether a DCF model makes sense or not, a DCF model is the only way to really value anything. There's no other way to really value it. The issue is that if I look at a company like Facebook and let's say for arguments, Facebook is trading at 20- or 30-times trailing earnings, whether that price is low or high or reasonable depends on what our view is on what cash flows Facebook will generate in 2022, 2023, 2024, all the way till when Facebook exists. The outer years don't matter that much because when you discount them back, they don't have much impact because the time takes care of that. Most of that value is there in the next five years or seven years, for example. If we knew for certain that a business was going to grow 50% a year for five years, for example, which would mean that 1.5, 2.25, 3.35, seven and a half times, whatever the earnings are today, it'd be about seven and a half times in five years.

If the earnings, or let's call it eight times for example, if it was trading at a multiple of hundred times earnings and it was growing 50% a year, what that would mean is in five years, if the price didn't change, it would be at 12 or 13 times earnings. If after five years they still had a very robust growth engine ahead of them, it would be very wise to buy that business at a hundred times earnings. On the other hand, if you have a business where earnings are declining by 5% or 10% a year, it may be too much to pay 10 times earnings for that. The DCF models are absolutely kind of like there's no debate on those or I think that's just the only way you can truly value any asset. The difficulty is in determining what those cash flows are.

Speaker: We have a question that came in from online. If you were to give advice to young people who are looking to start their own investment partnership today, what kind of advice would you give? What sort of pitfalls and traps should they try to avoid and how should they go about forming the partnership?

Mohnish: Yeah, I would say that even if you start this very modest sum, let's say for example you started with \$10,000 and let's say you were a very gifted capital allocator, able to compound money at high rates. If you were doing 20%, 30% a year, let's say 25% a year, that 10,000 would be doubling every three years. If you went for 21 years, it'll be seven doubles. I think seven doubles is 128. You would have more than a hundred times the 10,000. You would have like one and a quarter million or something. I think that there should be a couple of conditions in terms of managing money for others.

Number one, you should be independently wealthy. If you've compounded well with your own capital for some period of time, the nature of compounding is that you'd be quite wealthy.

Then at that point, once you are wealthy, whether you manage money for others or not becomes irrelevant because you, kind of compound and do well if you are never. If you are 20 years old and you were doing this 20%, 30% a year, by 41 you would have over a million, and by 71 you would have over a billion without ever adding anything to the 10,000 you started, without ever managing any money for anyone. My take is that the first rule should be that you should have proven that you are a great investor, and the proof would be that you'd be independently wealthy. If you've done that, then at that point, if you said that you wanted to, manage money for others, I think that would be a relatively easy thing to do. In fact, a lot of people will find you and want to give you money. You wouldn't even ever spend much time looking for them.

Speaker: We have a few more questions online and then I'll ask a question about the Dakshana Foundation so you can promote that and then we'll wrap up. How does that sound?

Mohnish: Sounds good.

Speaker: All right. One of the premade questions was a few years ago you took part in buying an insurance company, but it didn't seem like that investment really panned out. It seemed like you had the idea of investing the float, but that whole business you had to sell it later. Can you talk about what happened? Was that a mistake in your mind? What did you learn from that experience?

Mohnish: Yeah, I think when we bought the insurance company, it had a 60 odd million-dollar book value. When we sold the insurance company, it had a 60 odd million book value and we basically got just a little bit above what we paid for it. It wasn't a loss, which was fine. The guy who bought it, in my opinion, is a much better operator than me, because in the last few years that he's owned it, the book value has gone to almost 140 million. They've done really well on underwriting, and they've done exceptionally well on the investing. He's actually a much better investor than me. Fixed income is not an area I would consider myself to be top end on. In the insurance business, we were forced to put a large portion of the assets in low risk fixed income type investments.

I think in that case, right when the Covid crisis hit in March of last year, he was sitting with almost the entire fixed income portfolio in US treasuries. Then he went to work in a major way where I think he was finding stuff to invest in where the risk was low and the yields were 10%, 20%, which is really good on the fixed income side of the portfolio. He has also done well on the equity side. It's worked out well. I think it was the right thing to sell the business. I think it's under a better manager than I could have been. I think he understands the insurance management end also better than me. It's been great. But I think for me it was a mistake to buy the business because one is, insurance of the core is a terrible business.

You're writing a policy today and taking on risk and the actual real risk will not be known for several years. It's like you're selling a product whose cost

you don't know. When Costco sells a product, they know they have a 15% markup. When an insurance company sells a policy, they are statistically hoping based on past models that they have not underpriced the policy and they're kind of hoping and proving that that's the case. The second thing is the buyer of these insurance policies, in our case, Stonetrust was a worker's comp insurance company. The buyers of workers comp insurance, the companies that buy workers comp are required to buy the insurance because it's required by law. They think of the insurance premium like a tax, and they think that they get nothing for that tax. Everyone believes when they buy an insurance policy that they will never file a claim.

When you buy a car insurance policy, you're trying to get the cheapest policy and you don't think you'll ever file a claim. Everyone thinks it's just a one-way transfer of money, but the claims do come in. When the company is trying to buy a policy or when an individual is trying to buy an auto insurance policy, all they're focused on is the lowest possible cost. Pricing is set by your dumbest competitor. It's really bad to be in businesses like airlines, where pricing is set by your dumbest competitor. It's great to be in a business like Patek Philip, where you can set your price to whatever you want, and the higher the price of the watch, the higher the demand for the product. That's a great business. Or Tiffany's, for example, a strong pricing power. I think the core economics of most insurance companies are terrible. Even my friend who's done so well, we have to see really in the fullness of time. I think the insurance end of that business is challenging. If you are very smart on the investment end of it, you can overcome some of the challenges of the core economics of the business. But I am happy not to be in the insurance business.

Speaker: Do you have any more questions online or in person, right, so I'll ask the final question, which allows you to plug the Dakshana Foundation a little bit, and then we'll have to try to wrap it up. I believe in one of your recent interviews, you talked a bit about how there was a small change in the Dakshana Foundation going forward, and so can you kind of talk about what your hopes are for the foundation, what you look to accomplish, and where you want it to be in five years?

Mohnish: Yeah, I think Dakshana has been a really wonderful journey. It's been almost a 15-year journey for me so far. Everything about it has widely exceeded my expectations. I think it's done better than my wildest dreams so far. It looks like it'll continue to do very well. It worked out really wonderfully. I think it's worked out wonderfully for two or three reasons. One is that I got very lucky with an extremely high-quality leadership team, and they've just done an incredible job, so, that's been huge. The second thing that has helped us is that we took a very business-like approach to philanthropy. I was only interested in doing things where the social return on invested capital was extremely high. We looked at it. The problem most charities have is the people who run them have tremendous hearts.

They have too much heart and too little head. To run in nonprofit, well, you need a balance between heart and head. You need a great heart, but you also need very solid horsepower in terms of the return on invested capital that you're putting into the societal benefits. How the investment end of it

is running all of that. Generally, the skill sets are so different for all of them. In general, what we find is that now we are in this situation where we have a lot of very successful leaders and entrepreneurs like Bill Gates or Michael Dell, etc., who've set up foundations, Mark Zuckerberg, and so on. They have such strong business skills that I think those foundations are likely to do well. But I think that Dakshana just got lucky because we cloned a great model, we brought a great team and we were very disciplined about saying no to almost everything that was suggested that we do. We only do one or two things today. We do them well. We do them better than almost anyone else. We do them better than any other non-profit I'm aware of.

The focus has really helped. Philanthropy is more difficult in making money. Capitalism is brutal, but philanthropy is hard, because you're trying to go after problems like poverty, education, health, environment. These are all tough problems. Lots of very smart business leaders, governments, billions, and trillions spent. Those problems are still with us. The only way you can move the needle is by being very focused. One difference from investing is, in investing we go low risk, high return. That's what we're trying to do. In philanthropy, you must go high risk, high return. What you must be willing to do is when you identify a problem, you have to be willing to swing for the fences and you have to be willing to completely lose out.

The only way to move the needle is to swing for the fences. Most philanthropic organizations are very meek in the approach they take and they are unwilling to fail. That's a recipe for disaster. It's kind of like the Gates Foundation putting money into vaccines, very high risk. They haven't in all these years had a single home run, but it's the right place to put the money because if you get a malaria vaccine, it has huge impact on humanity. If you eradicate polio, it has a huge impact on humanity. You have to go for these very bold, difficult things, which kind of fly's counter to the way most of us like to approach life. Dakshana believes in those pretty strongly. I think that's been helpful to us.

Speaker: All right. Now, I believe we can just stay on for a few minutes, I'll try to wrap up this conversation for us.

Speaker: Thank you so much. Thank you all for being here today. This is what we're all about, the entrepreneurship center. We just have events, resources, and programming. We have alumni coming to speak to us, much like Mohnish today. He's not alumni, but in a similar fashion. He'll come to speak to us and share their experience. You can have some questions. Let's just put that with our check-in form. If you could click that and if you're in person, could you scan this QR code? It'll take you to our check-in page and just get your name, see that you're here today. Just choose to check in at the hub. It's really important to us. Just scan it with the QR if you're here or just click a link online, takes like 32nd stops and you can go ahead and do that now or afterwards. But pretty much what we're all about, the entrepreneurship center is providing opportunities for students once you guys can be able to learn. Learn about the different pillars that you see over here. Failing wisely. Openness to risk, grit, self-direction, and collaboration. In a similar format to this next Thursday, we have Beth Comstock coming to speak to us. Some of you may or may not have heard about her company, a little thing called Hulu, yeah, she started it. She's a

William & Mary alum. She'll be here speaking with us, and we hope to see you all see there. Thank you so much for your time here today. We hope you had best of your time.

Speaker: Thank you Mohnish, I hope you'll enjoy your Thursday lunch.

Mohnish: Actually, I'm looking forward, thank you.

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