Mohnish Pabrai's Guest lecture at University of Nebraska, Omaha on October 15, 2024

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Prof. Liu: We are very honored to have Mohnish Pabrai right here with us. Mohnish Pabrai managed a multi-billion-dollar hedge fund. The growth rate of the Pabrai Investment Funds will beat the market every year. The S&P 500 gross rate is about 7%, and the annualized gain of Mohnish Pabrai's fund is more than 12%. Mohnish has been featured in the Wall Street Journal, Forbes, CNN, CNBC, Bloomberg TV, and many others. If you just Google his name, you will see all those news articles talking about his success in the investment world. Mohnish and I met at the Berkshire Hathaway meeting, and since then we have had a connection. Mohnish has been very generous, giving us seminars at CBA in the past years, and we continue doing this. Today he is giving us a guest lecture. He has given guest lectures at Columbia, Boston University, Cambridge, and all the prestigious universities. We are very lucky to have Mohnish here with us today. Let us welcome Mohnish.

Mohnish: Thank you, Prof. Liu. It is a pleasure. It is always fun to be in your class. Also, the live session in May in Omaha is always wonderful as well.

Prof. Liu: Let us get started.

Mohnish: You all know that Charlie Munger passed away last year. He was a director of Costco for many decades. Charlie truly loved Costco. I used to meet Charlie for dinner at his place maybe three, or four times a year. I used to play bridge with him sometimes on Fridays, at the LA Country Club. Almost every time I met him for dinner, we talked for at least 20-30 minutes about Costco. He always had several things to say about Costco. Charlie referred to Costco as the ultimate win-win-win business model. It is a business that does an exceptionally good job for all its customers. It is a business that does a very good job for its shareholders. It is a business that does a really good job for its employees. It is a business that does a very good job for its vendors. The entire ecosystem benefits. There are many business models that you could call win-lose. For example, if there is a company that stretches out the payments they have to make to their suppliers, maybe they take 60 days or 90 days to pay their suppliers, and they use that float to improve their financials. That works well for the company, but not so well for the supplier. That is an example of a win-lose business model. Munger always brought up how Costco was amazingly win-win across the board. There is a quote he said in 2022 which was, "Just imagine

how good a country the US would be if everybody followed the Costco model." Even if you look at something like employee compensation at Costco, there are a lot of hourly workers. It is a retail operation. Costco's hourly rates are 50% more than Walmart's, for example. Their employee turnover is much lower than all other retailers, and they heavily promote from within. In fact, the present CEO of Costco started as a forklift operator, and he moved up to be now the CEO of this large company. It is definitely a win-win for the employees. If you go to the food court in Costco, you can get a hot dog and a Coke or soda for $1.50 and that $1.50 price has not changed in several decades. We have had a lot of inflation in the last few years and beyond. They have kept that price the same. You can have a full meal at Costco for under $2. You cannot do that even at McDonalds. They have always tried to keep prices low. They do not mark things up more than 15%. That is the maximum markup they have. Costco could raise prices by 5% or more tomorrow across the board, and their profits would go up and their sales would not change, at least not in the short term. They do not do that because they are not really a retailer. They are like buying agents. Charlie always loved the Costco model. These win-win business models are very rare and they tend to do extremely well for investors. One of the things to look for when you are looking at different businesses is if it is a win-win. This whole notion of win-win-win lose is very complicated. It appears to be simple, but it is not.

At the 2005 Berkshire Hathaway annual meeting, there was a question someone asked. I am not going to go through the whole answer, but Warren had answered part of the question. Then Charlie said, "I think he is asking in part, are there some businesses we will not have as subsidiaries in Berkshire, even though they are wonderful businesses? Are we rejecting some business opportunities on moral grounds?" Warren Buffett says, "Well, we have referred in past meetings to one we did on that basis. We will own stocks of companies where we would not want to own the whole business." I am not sure that the logic is perfect on that, but we would not have trouble owning stock in a cigarette company. We would not want to manufacture cigarettes. We might own a retail company that sells cigarettes. There are all kinds of gradations, but there are things we do not want to own and be responsible for their businesses where we have no problem owning their stocks or bonds. Some years back, Charlie and I went down to Memphis, and then Buffett said, "We were invited down and we looked at a company that made a product that is perfectly legal; probably one of the best businesses I have ever seen in terms of the economics of it." Then Charlie Munger says, "Absolutely." Buffett then says, "Still doing well. We went to a hotel. We met in the room with the people that had the business and the people were perfectly decent and they described the business to us. We went down in the lobby and I remember we sat down in the lobby and just decided that we did not want to be in that business. The lines are not perfect on this sort of thing. I am sure there may be ads in the Buffalo News that are selling some investment advice or something that I would cringe at if I knew the people involved or what they were selling. If you own a big retail

establishment, a retailer, or general merchandise, you are probably going to be selling cigarettes when you do not think you should smoke yourself or that your children should smoke, and they are not perfect. But we have turned down some, the most dramatic being that one. It took us a trip of 1000 miles or so to finally face up to the fact that we did not want to own it. Charlie, do you have anything to add to it?" Charlie says, "No, but that was interesting because we were young and poor then by modern standards and we are very human and we could see it was just like putting $100 million in a bushel basket and setting it on fire as we walked away." Let's play a video.

[VIDEO PLAYS]

Mohnish: Charlie was saying that the company that they passed on was Conwood Chewing Tobacco. The odds of getting cancer by chewing tobacco versus smoking cigarettes is like one 20th. It is 5% of the odds of getting cancer by smoking cigarettes. It is much lower than cigarettes, but it is not zero. They passed on the business. The Conwood deal came to Buffett and Munger in 1986. It was offered to them for $400 million. The operating profit in 85 was around 22% pretax. If you fast forward to 2005 or so, which is about 20 years after they passed on the deal, you can see that sales had gone up, but profits had gone up a lot more. They had gone up more than five times. The pretax margin on the business was around 55%, much better than 20 years before that. The net profit and net operating margin was 36%. The Pritzkers bought the business for 400 million in 86. As Charlie said, Jay Pritzker snapped it up so fast because it was so easy to see this was going to just mint money. Pritzker sold it 20 years later for three and a half billion. They had close to eight or nine times. The business kept going after that. If you go another ten years forward to 2016, you can see that sales have doubled, and profits have gone up even higher than sales. Now the after-tax margin is almost 40%. This is an unbelievable business. Munger said in 86 when they saw this that it was the most no-brainer business that they were looking at. It was just like putting 100 million in a bushel basket and setting it on fire as we walked away. Buffett said this was probably one of the best businesses he has ever seen in terms of the economics of it. In 1980, the stock price of Berkshire Hathaway was around $400 a share. What is now about close to $700,000 a share was almost one 200th of that price in 1980. In 1986, I am guessing the price may have been somewhere between 1000 and 2000 per share. The market cap of Berkshire, which is now hovering around a trillion, would have been around 500 million or so. This particular deal was a very meaningful deal for them in terms of if they had done this deal, it would have been a very sizable part of Berkshire Hathaway at that time. It would have driven some incredible results for them, but they took a pass on it. I already told you that it kept compounding.

Let us now look at Valeant Pharmaceuticals. Some of you may be familiar with Valeant, or maybe you were too young when Valeant was imploding about eight or nine years ago. Valeant was a darling of a lot of investors till around the middle of 2015. Then it began to decline very precipitously. In June 2015,

Sequoia Fund, or Ruane, Cunniff & Goldfarb, was a fund that started in Omaha. It was the fund that Buffett's original partners in the Buffett partnership were recommended by Warren to invest in when he shut down his partnership in 1970. In many ways, Warren says he feels like he is the father of the Sequoia fund or Ruane, Cunniff. Anyway, Ruane, Cunniff, at that time, in the middle of 2015, had more than one-third of its portfolio in Valeant; $7.5 billion in Valeant out of a $21 billion portfolio. Bill Ackman's Pershing Square had about 30% in Valeant. About 4 billion out of a 14-billion portfolio. Some of you might know Jeff Ubben, ValueAct Capital. He had about 3.3 billion in Valeant out of a $20 billion portfolio. All three of them suffered huge declines and huge losses when Valeant imploded. Buffett was really upset at the whole Valeant saga, at the way Ruane, Cunniff invested in it, and made it its largest position. As we will see, it was not a win-win business model. Before the decline in the stock price, Charlie Munger called Valeant's core strategy of buying smaller drug companies and then raising prices, deeply immoral. He said "sewer" was too light a word for Valeant and Buffett and Munger made these comments while Valeant was still flying high and deeply loved by Ackman, Ubben, and Ruane, Cunniff. What was the problem with Valeant? The CEO of Valeant, who was a former consultant at McKinsey had an insight that pharmaceutical companies had a lot of inefficiency in the way they spent money on R and D. He had analyzed and found that a lot of pharma companies really do not do a holistic analysis of how efficient or effective their R and D is. He came up with a business model where Valeant would acquire smaller drug companies. It would gut their R and D departments; almost wipe them out, and then they would look at the portfolio of drugs that the company was selling, and they would increase the hell out of the prices on those drugs. Many of these drugs were under patent. Many of these were lifesaving drugs that really did not bother them. They raised prices to as high as they could get away with. Of course, when you do the combination of those two things, the earnings go up a lot. Then they were running almost like what Warren called a chain ladder where they would continuously buy these drug companies, continuously gut their R&Ds, continuously raise prices dramatically, and just keep going. Bill Ackman is a smart investor. I am going to talk about some investors here. I am not trying to be beat up on them. I respect a lot of these investors, but I am just telling you how easy it is for our brains to miss something obvious. These are really smart investors. Ruane, Cunniff is a very good shop. Pershing Square is a very good shop. ValueAct Capital is a very good shop. They missed something very basic. What they missed was that the business model was win-lose. A lot of investors do not pay enough attention to the win-loss nature of business models. It is really important. When you run businesses through that lens, you can say "no" very quickly to a lot of businesses without spending a lot of time on them.

Credit Acceptance is a company that makes auto loans to people who have the worst possible credit. These are people who have repeatedly not paid back their loans in the past, people who have defaulted on their credit cards, and who have had maybe foreclosures on their homes. They have never been

responsible for credit. Those are the people they lend to. But they have a very unusual business model. What Credit Acceptance does is because they are lending it to people with extremely low FICO scores and a very high risk of default, the interest rates are extremely high; 30%, 40%, 50% interest rate. The second thing that they do is that the car dealership that is selling the car is made to have skin in the game. Let us say, for example, there is a car being sold for 10,000, and let us say, for example, that the car dealer is going to make $2,000 on that sale. The cost of the car is like 8000. They are going to sell it for 10,000. Let us say that credit acceptance is going to finance $9,000 off that car loan. What they will do is they will tell the car dealership to finance 3000. In other words, 3000 is coming from the car dealership and 6000 is coming from Credit Acceptance. The borrower gets 9000 at a very high interest rate. They do this so that the car dealer who is the one who is meeting the borrower is making some assessment of whether this is going to work or not. Because if it does not work, the car dealer is going to be upside down at a $2,000 profit. But they have put 3000 into the deal, so they would be upside down if the loan does not get paid. When the car is financed, there is a device put in the car in most of the deals where once the payment is 24 hours delayed from its due date, the car will not start. They will remotely disable the car from starting. The person goes to get in the car, it does not start, and then they call Credit Acceptance. Credit Acceptance says, “We have not received your payment. Please send your payment, and your car will start again.” After maybe four or five days or a week of no payment being received, one day the person will go outside and see there is no car; it has been repossessed. They have a very good ecosystem of repossessions and non-starting cars.

One of the interesting things about car financing is people are more willing to default on their mortgages versus car payments. The reason is that if you default on your mortgage, it is going to take twelve to 18 months for the bank to get you out of your house. But if you default on your car payment, even if it is not Credit Acceptance, even if it is Chase or somebody, they will start working on repossessing your car in a few weeks. You will not be able to go to work. Whereas if you do not pay your mortgage, you can still go to work every day.

Auto financing is a pretty good place to be because of these nuances. Credit Acceptance has not imploded like the way Valeant imploded. It is doing fine. It is extremely well-regarded by investors. They have delivered incredible returns to the shareholders. The present and past shareholders of Credit Acceptance include Ruane, Cunniff, Seth Klarman, and Francois Rochon. He comes to Omaha every year and runs the great fund from Montreal, Rob Vinal in Europe, Francis Chu and Maverick Capital, and so on. I studied Credit Acceptance a few years back and I was really impressed by their business model and thought that this is a good business; it is helping people who would not have the ability to get a car. While I was studying business and I was interested and excited about it, I had a dinner with Charlie maybe three, or four years back. I said, “Charlie, have you heard of a company called Credit Acceptance?” He said, “No.” I said,

"Let me describe the business to you." I must have spent less than a minute talking to Charlie about Credit Acceptance, explaining the business exactly the way I explained it to you. He interrupted me and said, "We are not interested in that kind of business." That was really surprising to me. He said, "We do not want to do predatory lending. We do not want win-lose business." It was interesting to me because till I spoke to Charlie, it had never really dawned on me that Credit Acceptance was a win-lose model. To me, it seemed like they were helping a demographic that would not have wheels, would not have a car, and would help them become responsible. But Charlie's kind of standards are that we can make a lot of money by taking the high road. He immediately rejected Credit Acceptance, and when he brought up the win-lose nature to me, I immediately stopped looking at Credit Acceptance. Thank God for Munger, as a friend, I did not make that investment. But of course, a number of these people that I have on this list still have an investment in Credit Acceptance, and they love it. They talk in glowing terms about it.

Let us talk about TransDigm. If you look at this company, it's up 173x in the last 18 years, 33% annualized. Unbelievable. You can see that their revenues have gone up a lot. The earnings have grown a lot. The present and past shareholders of TransDigm are many. Wally Weitz is based in Omaha. Some of you might know Wally Weitz. He is on the Berkshire board. He runs Weitz Mutual Funds. Chuck Acre, Maverick Capital, Stephen Mandel, Daniel Loeb, Brian Lawrence, David Abrams. A very good set of investors have either currently or in the past owned TransDigm. In one of his last public comments before he died, around eight to twelve weeks before he passed away, Charlie Munger was asked about TransDigm in a podcast. He said, "I do not like that way of making money. It is too brutal. They figured out something that has a little monopoly due to the Defense Department regulations. They raised the price ten times and they are famous for it. I regard that as immoral. What is the TransDigm business model? TransDigm is in the aerospace parts manufacturing business. What they do is buy the smaller aerospace parts manufacturers. If you have something like the Boeing 737 airplane, for example, almost none of those parts are made by Boeing. Boeing is only an assembler. The fuselage comes from Spirit AeroSystems, the engines come from GE, and so on. It takes a lot to get a part qualified and approved by the FAA to go into an airplane. This is why air travel is so safe. Typically, these parts that go into the Boeing 737 or Airbus, do not have more than a couple of manufacturers. Sometimes they might just be one manufacturer of a particular part, and they may never be more than two or three, because it is not that you manufacture the part. You have to have that part approved by the FAA. The FAA is not going to approve a part unless they are 5000% sure about the quality and nature of the manufacturer and all of that. What TransDigm does is when they buy these companies, they dramatically jack up the price a lot and to whatever the market will bear. The market can bear a lot because there are not ten different manufacturers you can go to for that part. Munger immediately saw that as a win-lose. He was very familiar with TransDigm and with the money they were making. Berkshire has never invested

in it but there are people on Berkshire's board, like Wally Weitz, for example, who have had these investments. These win-lose type scenarios are not easy to figure out all the time. Sometimes it is obvious, but many times it is not. You can look at a cigarette company and say that this does not work or you can look at a casino and say it is win-lose. But sometimes you get to models like TransDigm, which appear to be great.

I thought a lot to myself about how Charlie did it. How was he so fast? I saw his brain and it blew my mind to watch his brain in action on Credit Acceptance, a company he has never heard of. In less than 60 seconds, he dismissed it. I realized that the model that he is using is the model of inversion. Charlie always said, “Invert, always invert.” A lot of problems can be solved by using inversion. The question he asks himself anytime he encounters any investment is not, “Why should I make this investment?” He is looking for the flimsiest reason to take a pass. His mind is immediately running on, “Why is this a bad investment?” and not “Why is this a good investment?” When he keeps hammering on it and cannot come up with a reason like Costco, then he falls in love with the investment. Those win-win-win investments will end up having tremendous returns for investors because of the extreme loyalties and goodwill. If you think of the customers of TransDigm or Valeant, those are pissed-off customers. They are being forced into a corner and they are forced to pay a high price. A customer of Credit Acceptance, even if he is a deadbeat, thinks the 50% interest rate he is paying is gouging, even though he has defaulted on every loan he has taken in the past. In capitalism, because there are 50,000 stocks, we can be extremely selective. We can say “no” to almost everything. Warren's biggest complaint with Charlie was he was what he called the abominable. Warren knew that anytime he called Charlie, he was going to tell him how stupid he was and how bad the idea was. Warren knew even before he called Charlie that almost anything he was going to bring to Charlie's attention, Charlie was going to reject.

I remember, for example, they bought General RE, which was the largest acquisition Berkshire had made, in 96 or 97 or somewhere around then. General RE turned out to be a huge problem investment for Berkshire. They had to work hard because the culture had eroded. They had not realized that, and they paid a big price for it. Munger was asked about General RE investment. It was a $20 billion acquisition for Berkshire at the time. The market cap was only around 60, 70 billion at the time, maybe less. He said, “Oh, I did not know about this deal until it was almost done.” It is interesting. A $20 billion deal is not brought to the board of Berkshire. It is not brought to the lifetime partner of Warren Buffett. Warren looks at the deal and proceeds on his own. Probably one of the reasons he did not bring it up to Charlie is because he got sick and tired of the no’s. Charlie is a huge value to Berkshire. I wish we had a list of every investment that Warren wanted to make, and Charlie rejected. That would be a great list to look at because it went through one great mind and then the second great mind stopped it. It is because of the second great mind that Berkshire has the

record it has. It is because so many of the deals that Warren would have done did not happen. These are just some thoughts I wanted to share with you guys in terms of win-lose. When you look at investments, it is a very good filter to always begin in your head with, "What is wrong with this? Why won't this work? Why should I not invest?" Thank you.

Prof. Liu: Thank you, Mohnish. Now it is time to ask questions. I know many of you guys are interested in finance, and investment, and we have an expert here. You can ask anything related to the lecture or anything about investment in general.

Speaker 1: Do you think anyone could replace Charlie Munger?

Mohnish: There was always one Charlie Munger. I have to pinch myself because I got to see Charlie up close and personal, but we do not need to see him up close and personal. If you look at the body of work that Charlie has put together, we have not had a mind like that amongst humans in at least 2000 years. We are unlikely to see a mind like that. Charlie is one of a kind. My friendship with Charlie was about 13-14 years. In 13 or 14 years, I never asked him to meet me because I always felt like he had a lot of demands on his time, and I did not want to be making requests. Whenever I met for bridge or dinner or whatever, it was on Munger's initiative. He was the one who wanted us to meet. In the summer of 2023, I felt like I wanted to meet Charlie. For the first time, I approached his assistant and said, "Can you please see if Mr. Munger is available for dinner sometime? I would like to meet him." He immediately said "Yes." I met him and it turned out that that dinner was exactly 30 days before he died. I did not know at that time that that would be the last time I would see him. It was just me and him. There were just two of us for dinner, and his mind was still sharp and everything. Charlie has eight kids, and many grandkids and great grandkids. I asked him, "Charlie, in your gene pool, who stands out?" His answer to me was, "No one." I said, "What do you mean, Charlie? I know so many of your kids and grandkids. They have gone to all these elite schools, and they have done so well." He said, "They are smart and have done well in school and life, but they do not stand out. They are not at that level." There was no one there and that was his gene pool. But I say that my view is that if you go outside the gene pool to 8 billion humans that are currently alive, there is no one like Charlie. If you go back 2000 years in history, there is no one like Charlie. People draw analogies with Ben Franklin. Ben Franklin is one of a kind; he is very unusual. Charlie has a lot of common traits with Ben Franklin, but there are things about Charlie that are not part of Ben Franklin. Many things about Ben Franklin are not part of Charlie. The amazing thing about Charlie is that there is an incredible body of work he left for us. We have *Poor Charlie's Almanack*. We have all the Berkshire meetings, which are archived on buffett.cnbc.com. We have all the daily journal transcripts. We have a lot of resources and things that Munger left for us. Studying those can only help us become better. Today's talk was very small, less than one 10th or 1% of Charlie, which is this whole idea of win-lose and why should I not make the investment? It is a small part of what he does. There is no other Charlie Munger, and we will never see one.

Kaegon: The day when there is no Warren Buffett, do you think that Berkshire is going to be the same company with the same values, or is it going to be something different?

Mohnish: It is a different skill set to keep Berkshire going than what was required to create it. The creation of Apple needed Steve Jobs. Tim Cook could not have created Apple but he has proven to be a great leader in managing and running Apple. The skill set needed at Berkshire to take it forward from here is not the skill set that Warren and Charlie had that led to the creation of Berkshire. Keeping it going is a lot simpler than the creation. Having said that, the big challenge with Berkshire Hathaway is size, and its size is the problem, even if Warren and Charlie lived forever. It is not so much a successor issue. It is an issue that would be an issue no matter who is running it. Greg Abel will be a very good leader. He is a very capable guy, very smart, and he understands the Berkshire culture. Berkshire has got a lot of tailwinds going for it and has a great reputation. Humans have a good record of creating crises every 10-15 years or so. If we have a crisis, Berkshire will shine. It has got a lot of liquidity, and it can go on the offense. The Berkshire of the future has a good future.

Kaegon: Let us say you are 19 years old. You do not have what you have now, and you are doing it all over again. How would you start?

Mohnish: Should I assume you're 19?

Kaegon: Good guess.

Mohnish: Well, it is a very big advantage to be 19. Warren always says that when he is asked this kind of question, he would happily trade places with you. He would give you everything he had and make you 94 years old, and then he would be 19 and go from there. He would be happy to trade places with you. It depends on what your objectives in life are. If your objective in life is to compound assets, be successful, and be wealthy, it is a relatively simple game. You are already asking me the question when you are too old. I wish you asked me this question when you were seven years old, because we lost twelve years, man. We lost twelve years that we cannot bring back. But it is better than asking me this question when you are 30 years old. It is not too bad. 19 is not a bad age. One of the things to keep in mind is that the laws for individual retirement accounts, IRAs, are that you could be six months old and you can have an IRA. There is no minimum age to have an IRA. The requirement is that the money that you put into an IRA has to be wages earned by you. For example, if you were 15 years old and you did some odd jobs and worked at a McDonald's, and made, let's say $10,000 in a year, you could put 5000 or 6000 of that. I do not know what the exact number is. It is six and a half thousand into an individual retirement account. You could put up to 100% of those earnings into an individual retirement account and they would be tax-sheltered. They would not be taxed until they were withdrawn. If it was a Roth IRA, they are taxed upfront

but never taxed later. Having fluency in the US tax code is important. Being able to compound money in a tax-free manner is important.

When my daughter was 18, she finished high school and got a summer job. She made$5000 or $6,000 that summer. She was living at home and did not have any expenses. The 5000-6000 was just sitting there and was not used. I told her, “If you want to take my advice, I will just put this money into an IRA and if you trust me, you can give me power of attorney and I can manage that.” She did that. She opened an IRA. She went to school at NYU and we were living in California then. I used to pick her up at two or three in the morning at LAX when she would come home. One time we had a long drive, more than an hour. It was two or three in the morning, and we were driving back. I thought this was a good time to talk about the power of compounding with her. I said, “Look, that $5,000 you put in your IRA. I am only going to put it in one or two stocks and concentrate the hell out of it. Let us say it grows at 15% a year. What would that amount be when you turn 68, which was 50 years from now?” The rule of 72, which you can Google, says that 72 divided by 15 is five. In other words, 15% compound; it will double every five years. 5000 is going to become 10,000 in five years. It is going to become 20,000 in ten years, 40,000 in 15 years. 50 years is ten five-year periods. That is two to the power of ten which is 1024. Let us throw away the 24 because I like easy math. 5000 times 1000 is 5 million. The 5000 that she made at 18 at the age of 68, 15 percent annualized compounded is $5 million. I told her, “At 19, you might do another internship. You might make a little bit more money, but let us say you save another 5000. At 69 that is going to be another $5 million. At some point, you are going to graduate. At 22 or something, you will make maybe 100,000 a year, and you might save 10, 20 thousand and you might be able to put that away because you can now do 401K and an IRA and so on.” She was falling asleep, but she was wide awake when she heard that. I said, “You keep doing this and after 10, 15 years your income might be a quarter million or something. It keeps going and you keep saving. How much money do you have when you are 70?” She said, “I do not know, it is too big a number.” There were not a lot of heroics required to do that.

Now you can take that 15% compounding rate down to even eight or 9% and even then the number will be very large. At the age of 19, I cannot do anything about what happened in the past in life because you never came and talked to me when you were seven. It is terrible but that is okay. At least we talked today. From here on, you can stop making the mistakes you made in the past and spend less than you earn. Always put the money to the max if you can, in a retirement account and let it compound. One of Munger's best quotes is, “Do not interrupt compounding unnecessarily.” We are not going to go on vacation, empty the 401K or the IRA, go to Hawaii, or buy a fancy car and all of that. We are going to live a happy life, and a happy life does not need a lot of money. For example, once a week my partner and I have dinner at Costco. Both of us have hot dogs, the drinks are free. I might sometimes get a slice of pizza. It is around $6. It is a great date night and I get to spend an hour in the most orgasmic place

on Earth; Costco. I just watch the swarms of humanity so happy with their loaded carts as they leave Costco. It is a great date and the price is right. Then the next night we go for dinner at some fancy place. It is around $200 and it is not even as good. I would say just do all your dates at Costco. Meet the right person and keep compounding and you are done. You live a good life, you put some away, and then you wake up one day, you look to your left and look to your right, and those people who are your peers, they are way back from where you are and you cannot even see them from where you are. That is it.

Speaker 2: How do you feel about Blackstone Investment Firm?

Mohnish: Well, Blackstone is a wonderful company. Stephen Schwarzman built a tremendous company. The sovereign wealth funds have huge amounts of money to put to work, and they have very few places where they can give that money to be put to work. There are three or four tall bridges like Blackstone, Apollo, Brookfield, and the Abu Dhabi Investment Authority. Or the Qatar Sovereign Wealth Fund or Singapore's Wealth Fund. These are the places they have to give the money to. They have been really good at how they have deployed at scale. It is a very good business. If you think of it from a win-win-win-lose point of view, huge part of it possibly could be leverage. Leverage is always a negative, but, almost all their leverage is non-recourse. They are usually quite prudent about the way they do that. It is a good business serving a demographic that needs its product.

Prof. Liu: Mohnish, when did you start your first investment?

Mohnish: I did not know a lot about investing. I accidentally read a book about Warren Buffett when I was about 30 years old and the light bulb went off. At 19, you have a huge head start on me. I did not know what investing or stocks or compounding or anything else was till I was 30. In 1994, that was when I first started to invest.

Prof. Liu: Tell us more about your story. The students are very interested. How did you become so successful even though you started late? What is the secret to the recipe?

Mohnish: Well, the thing is that for all of us in different fields or different interests that we have, we are going to sometimes have an "aha" moment. The important thing when you have that "aha" moment is to seize the moment and go all in. When I was reading one of Warren Buffett's biographies, I read a quote that he said which is, "I am a better investor because I am a businessman, and I am a better businessman because I am an investor." There is an interplay between running a business and being a good investor. What I realized when I was looking at the way he was doing different investments is that I had been an entrepreneur since my mid-twenties. I was spending maybe three or 4% of my time figuring out the strategy and direction of the business I had, and then about 95, 96% of the time on the blocking and tackling to actually execute that strategy. Most of the time went on executing. What I realized when I read about

Buffett is that he was using the same part of the brain I was using to figure out my strategy for my business, to figure out his investments, and accept that it was 80% of his time and not three or 4% like I was. Because he was not running something, he had a lot of time available to invest. I always found the 4% time on strategy to be a lot more interesting than the 96% herding cats and making things happen. It was fun, but the 4% was the most fun; figuring out what is going to be a strategy, what is going to be a direction, all of that. I realized that if I spent more time as an investor, that 4% time would increase. I was very interested in that. In 94, when I was 30, I had about a million dollars. I had just sold a portion of my company, and after-tax I had 1 million. I thought to myself that I was going to start studying these public companies and try to figure out which ones are likely to do well in the future. That whole notion of trying to figure out what these companies are all about and how they are likely to do in the future was very similar to trying to figure it out for my own company. Like I said, it is using the same part of the brain. That is why Buffett said, "I am a better businessman because I am an investor…" and so on. And so when I started to invest, I found my life was a lot happier and more exciting because now that 4% time was increasing. I was spending about maybe 10, 15, 20 hours a week doing investment research, and that was really exciting for me. I got to the point about five years later when I pretty much lost interest in the company I was running. The million that I had at that time in 94 had done really well. I had compounded at more than 70% a year. It was sitting at about 13 or 14 million. It had done extremely well. At 35, I was independently wealthy outside of the business I had. It enabled me to make a choice where I said, "I am not going to run my business anymore." I started a search for a CEO so that I would leave my business and I could spend all my time on that 80% like Buffett was spending. The genesis of all that was that when I read the Buffett biography, there was an "aha" moment. These "aha" moments can come to us in all kinds of different fields and areas. It can come in sports; it can come in whatever you have an aptitude for. But the important thing is that you have to take the bull by the horns at that point. You cannot just say, "Oh, that is interesting" and move on. You have to really go for it at that point when you have these "aha" moments. That is what I would recommend and suggest.

Kaegon: Do you have any books you recommend or anything to start understanding that stuff better?

Mohnish: Well, the one book that I am sorry to say would be of more value than four years at UNO would be *Poor Charlie's Almanack*. If you were to spend about $25 buying *Poor Charlie's Almanack* that is slightly cheaper than the four years at UNO with more take-home value other than Prof. Liu's class. The back half of the book has about eleven talks that Charlie Munger has given over the years. Those are priceless. Those have thousands of years of human wisdom in them. One of the talks, *The 25 Causes of Human Misjudgment; Psychology of Human Misjudgment*, I try to re-read that talk every year. That talk really does a great job of explaining how humans are wired. It is a huge advantage in life if you

understand, especially the wiring defects of humans. Our brains are not rational creations. Our brains are a result of a very messy, long history of evolution. There are ancestral parts of our brain and newer parts of the brain, and it is a mishmash of a lot of different things and there is a lot of distortions from reality caused in our brains. That is one of the reasons. For example, we see all these great investors who invested in Valeant. Right? Why did that happen? Well, that is partly the result of this crazy wiring the brain has. It is not a perfect rational creation. It has got weirdness. It is understanding that weirdness can be a big advantage.

Prof. Liu: You gave Kaegon advice for those 18-19-year-old students. What other advice would you give them? Not just about investment; but about life in general.

Mohnish: One of the things that Buffett talks about is that if we hang out with people better than us, we become better. If we hang out with people worse than us, we become worse. That should be pretty obvious when you think about it. The issue that we run into as humans is we have friendships, and sometimes we may have friends who are not great humans. They may even pull us down. One of the important things in life, which is difficult to do, is to be a harsh grader with your friends. You have to increase interactions and friendships with the people who are better than you, and you have to let go of some of the ones that are not quite there. A lot of people are loyal, and this flies in the face of loyalty. If your mental model is loyalty over all else, then you may be hurting yourself long-term. In life, what happens is that we have choices. Many times these choices require us to take what sometimes might be difficult or unpleasant actions, and those actions may not be natural and may even be, one might say, inhumane or cold-hearted. But those are essential things to keep in mind. When I became friends with Charlie, I started to meet his friends. When I met his friends, I was blown away. The quality level of these people was truly off the charts. I know that what may have happened, which I did not see in the decades before I met Charlie, was that he probably went through a pruning process where he increased interaction with some folks and decreased interaction with other folks. One of the easy decisions I made was I try to make friends with Charlie's friends. A lot of them are old, and some have passed away, but that actually was extremely wonderful, because these people were just so off the charts, and that same thing has been true in many ways. I have been coming to Omaha every May since 1997; almost more than a quarter century. Many deep friendships have come out of Omaha. When I look at the folks I met in Omaha who are now part of my close friends, they are off the charts. For example, the average Berkshire Hathaway shareholder is an above-average person. He or she is not the same as the general population. That universe of people in Omaha is kind of self-selected and self-filtered to give you a certain kind of person. In the case of Charlie's friends, that was an extreme version of that. Being a harsh grader and being very deliberate about who your close friends are has a huge impact long term.

Prof. Liu: Thank you so much, Mohnish.

Mohnish: Thank you.

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