Mohnish Pabrai's Interview at the Manual of Ideas Global on January 21, 2025

The contents of this transcript are for educational and entertainment purposes only, and do not purport to be, and are not intended to be financial, legal, accounting, tax, or investment advice. Investments or strategies that are discussed may not be suitable for you, do not take into account your particular investment objectives, financial situation, or needs, and are not intended to provide investment advice or recommendations appropriate for you. Before making any investment or trade, consider whether it is suitable for you and consider seeking advice from your own financial or investment adviser.

John: It is such a great pleasure to have with us the one and only Mohnish Pabrai, who truly needs no introduction, to the MOI Global community. We are very excited Mohnish that you are joining us after two years. We do this on a two-year cycle. There is a lot to discuss. We got a ton of questions in from both MOI members as well as the broader investment community via X. Let us jump right in. Most questions were actually about the coal industry, believe it or not. To the extent that you are willing to discuss, we would love to hear your thesis and feel free to go as far back as you like to sort of lay the foundation for how you became interested.

Mohnish: We are still buyers in this space, so we do not need more competition in terms of more people curtailing, etc., but I can make some general comments from a mental model and education perspective. Maybe your listeners may find this useful. Taking a step back a long time ago, this must be close to 25 years ago, Warren Buffett had auctioned off his wallet and he had done it for charity. It was a Boystown or something in Omaha. He had put a stock tip in the wallet and that went for quite a bit of money. I do not remember how much but it turned out the stock tip was a company called First Industrial which used to be an industrial REIT in Chicago. I was friends with the CEO of First Industrial. We were both in Chicago, so we knew each other. I told him "Hey, by the way, do you know that Warren must be a shareholder because he recommended your stock?" One of the things about REITs in general is that Berkshire Hathaway doesn't buy them because the tax treatment is not friendly for corporations to own REITs. This was a case where he was probably buying it personally. And there was no conflict with Berkshire because Berkshire could not buy it even if it wanted to because it did not work very well. I told him, it is probably likely that Warren personally owns his shares. He was intrigued by that and he reached out to Warren and just said, how humbled and grateful he was that Warren would even have spent any time looking at his small business. Warren responded to him saying, "If you are ever in Omaha and do not call me, I will be quite upset." Then my friend told him, "What a coincidence, I am going to be in Omaha the day after tomorrow." And so he went to Omaha, he and Warren had lunch, etc., but one of the things that John had told me at around that time, I used to own First Industrial stock as well, is that they mostly invested in industrial real estate kind of warehouses and factories and that type of stuff.

He said that the gestation period to build a warehouse usually is less than a year and the gestation period to build an office tower is close to five years with all the permissions and all of that. He said that in industrial real estate, we do not get big cycles of booms and busts, because if there is tightness in the market, and a lot of people go out and build a bunch of warehouses,

that space is going to hit the market in 12 months or 18 months. There may be some temporary weakness, but if there was overbuilding, it would reduce the propensity to build more warehouses. As the economy grew, that excess capacity would kind of get absorbed, and things would get to kind of baseline, and again, when things got tight, people would build again. But he said that in Office Towers because of the kind of five-year period when office vacancies become very tight and rents go quite high, everyone starts building towers at the same time, and because of the three to five-year gestation period, all these towers hit the market at around the same time. The boom and bust cycles are much more pronounced because of this lengthened period. Because, for example, if in 2020, we have a tightness in office towers, the first ones are going to get delivered in 2025. People will still be starting new Office Tower Constructions in 21, 22, 23, and even 24, because they have not seen the impact of all the inventory that is about to hit, and real estate guys are eternally optimistic till they get eternally pessimistic. Of course, once that inventory hits, you have more inventory coming for another four or five years because of all the stuff there that started. In other words, you would have a five-year boom followed by a five to 10-year bust, and then the cycle would repeat. He says that the boom and bust cycles get kind of aggravated in the case of office towers. In fact, in Austin, where I live right now we are seeing that play out right now with tall residential towers, kind of luxury residential towers. Austin was going through so much growth. Three, or four years ago real estate was very tight, and difficult to get a space. Pretty much everyone started building and now these big towers are being completed. Some of them are going to be completed in the next one or two years, and there is a huge glut and such. It is not just office towers. We see that even in residential towers because of the same kind of phenomena. But this particular notion of the gestation period, the boom and bust, and how pronounced it is, I found out since that time when I spoke to John about this, that it comes up in many other sectors.

I noticed the same thing around 22 years ago in the oil shipping business; the very large crude carriers. Again, this was a situation, in maybe 2001 or so, when there were about 400 VLCCs, very large crude carriers that are used to carry larger amounts of crude around the world. There was a big glut. Oil demand went down and there were too many tankers. Because there were too many tankers, the rental rates collapsed. These tankers were being rented at a loss because it was better than making zero. If your cost was 15 or $20,000 a day from one of these VLCCs, the rates went down as low as seven or 8,000. What happened at that time was that there was a lot of scrapping because these owners were so distressed. The global fleet went from 400 to 360 or 350 with a lot of scrapping because these owners wanted to get some cash. Then the market tightened, and oil demand came back, but the tankers had the exact same situation as the office towers. They take, again three, or four years to get delivered after you place an order with a Korean shipyard. What happened is these oil tanker rates went all the way to a quarter million dollars a day. They went to the other extreme. It was just extreme obscene profitability for these tanker companies. Their brother at that time went to the Korean shipyards and placed orders. Of course, the Koreans are not stupid. They know that they are the toll bridge that everyone has to pass through to get their tanker. Prices for new tankers went through the roof; what used to be a $70 million ship might be quoted

at 120 million, 130 million, 150 million. You have no choice; you want a ship, and you pay what the guy wants to charge you. Of course, the problem is that when those ships got delivered, again, they all hit at the same time, and then, the same cycle. What I have noticed in the last two and a half decades is this mental model, which applies to office towers as well as to many different classes of investments. Understanding that mental model can give you a big edge.

One of the things in the coal space, especially the metallurgical coal space, which is coal that is used to make iron and steel, is that coal is now a four-letter word. I remember I was talking to one of the coal CEOs in the Appalachians, and this is not a Met coal company. This is a thermal coal company, CONSOL Energy, which now just merged with Arch Resources, and it has become a Core Natural Resources. CONSOL is a 150-year-old thermal coal company. It has very high-quality thermal coal, at an extremely low cost operation in 150 years of operating. Because of their strong product quality and low prices, they have never had financial distress, and they have never gone bankrupt, which is almost an anomaly in mining in 150 years. CONSOL never had to restructure and never went bankrupt, and that is because they were always at the bottom of the end of the cost curve, and they always had the highest quality coal. They always made money. They would be the last mines to shut down. The CONSOL senior management was telling me that they have had a banking relationship with JP Morgan Chase for maybe several decades; 50, 60, and 70 years. JP Morgan told them that they could no longer have them as a client. Now, CONSOL is not borrowing any money. They have 2 to 3 billion in revenue. If you are a commercial bank, the banker of someone like CONSOL with all their letters of credit and all the cash flowing through the account, it is a highly, highly profitable account. For JP Morgan to come and tell them that they could not have them as a client because they were a pretty much ideal client, was just because of ESG pressures. These ESG pressures have gotten really irrational. CONSOL, for example, has difficulty getting workers' company insurance. Now, the company is very willing and does self-insure for millions of dollars per incident or per worker. They actually do not need the insurance. They are effectively self-insured. They just need insurance to satisfy the statutory requirement that they have workers' company insurance. The insurance company is never going to see a claim. But again, the same thing because of ESG pressures, they have a lot of difficulties getting quotes, so literally all the kinds of factors of production that they need to run their business, treat them like a pariah. Especially historically mining companies needed to raise debt in addition to equity whenever they were going to have some kind of CapEx or growth or whatever. But if JP Morgan is not interested in having you as a banking client who is never borrowing money, they are not going to have you as a client that they are going to lend money to.

These coal companies had two things happen to them, which were very unusual for the mining business. The first is because of the Ukraine war and the super normal pricing for coal in 2022, all of them were debt-free. They paid off every last bit of debt, which was never the case. Coal companies, and mining companies, always had debt, and that is what would usually get them into trouble because prices would go down and there would be a down cycle. If they could not service the debt, they would go bankrupt, and

then the cycle would repeat, and so on. But we had this situation starting in 22 and 23, where a lot of the coal businesses were net cash which had never been the case. Not only were they net cash; the second issue is the same boom and bust mental model applies here as well. Let us say, for example, there is a downturn in the metallurgical coal market where prices are too low and everyone is losing money or barely making money. Well, what would happen is that the high-cost mines eventually would shut down. They would try to run them for some time even at a loss because they would be hoping for a turn. But at some point, if this persisted long enough they were shut down. In fact, we currently have weak pricing for metallurgical coal, and several Appalachian mines and mines around the world have shut down. When these mines shut down, restarting is very complicated.

Let us say, for example, metallurgical coal prices right now; PLV, the Australian Index, let us say is 190 or 200 per ton currently, which is quite low. A lot of producers would have difficulty making ends meet at that price. Let us say, for example, the price went to 250 or 300. Well, that would make it very profitable for a lot of mines, including the mines that have recently shut down. But if those same companies or individuals tried to restart those mines they would face a lot of difficulty. Typically, when you shut down a coal mine, what happens is that you lay off all the miners, you pull all the equipment out, and you sell it off, because what are you going to do with it? You want to raise as much money as you can and salvage whatever you can. So the equipment is gone, the workers are gone, and sometimes the mining permit has gone because you got to keep paying royalties and different taxes, so the permit is going to be gone as well. When you want to do a restart, the first issue you are going to face is that there is no financing available. Any restarts would need to be kind of all equity restarts, which is unusual in mining, even if you could arrange the money on a pure equity basis. The difficulty with raising money on a pure equity basis to start a mine where coal prices are high is there is no assurance of what the coal price is going to be six months, one year, two years, or three years from now. What type of risk capital would be willing to come in equity or debt when the future is unknown? The $300 price might last for three weeks or three years; we do not know. Financing debt or equity would be problematic if that hurdle were crossed. When the index prices go high, there are no miners available, and it takes years and years and years to build those skills. It is not like you can go place an ad and hire miners. When you have gotten rid of your miners and they have taken other jobs or gone to other industries or whatever else, trying to get miners back or hire miners in a $300 per ton environment would be very challenging. That would be the second barrier to entry.

The third barrier to entry would be that when you try to procure the equipment, just like the Korean shipyards, the equipment is going to be two to four-year backlogs. Just like the Korean shipyards, you would be paying very high prices for the equipment because the equipment manufacturers are in the driver's seat. You would face a multi-year period to get the equipment, a lot of challenges to get the labor, and a lot of challenges to get the capital. Then, even the permits may become difficult depending on the geographies and such, because coal is a four-letter word. Unlike office towers where there is some predictability and such that your main kind of gating factor would be, is someone willing to lend to you? If rents are high,

there may be banks willing to do that. There may even be people willing to sign leases with you in the future, etc., so coal has this situation. With the boom and bust that is more intense now than with a lot of the other situations. We see this boom and bust situation, not just in office towers, residential towers, or coal. We see it in many, many places.

For example, if we were to look today at offshore oil drilling rigs that went through a period of severe distress a few years ago, and again, they have the same situation, 3 to 4 years to build a rig and these rigs cause a billion, billion and a half. Again currently there is an oversupply. No one is going to build a rig when there is oversupply, but when it gets typed again, you have got a 3, 4, 5-year period. From an education perspective for the MOI Global community and your listeners at large, I have found in my investing career a focus on this mental model to be very lucrative. Once you understand this mental model, and you can go long in one of these areas at the right time in the cycle, what can happen on the other end can challenge your wildest imagination. The booms can be very spectacular. What I find with some of our coal bets is they have no debt. They have got a very good position on the cost curve and we kind of break even or maybe lose a little bit of money at the low end, but when we have got super normal profits coming at the other end, that is a good equation from my perspective.

John: Thank you so much, Mohnish. That is very educational and can be applied, as you say, to many different industries at different points in time. It sounds like capital cycle theory on steroids right now for coal and maybe for offshore drillers as well. Some even say, that if you take copper miners, it takes like a decade or something like that to bring a new copper mine online. In something like copper, you have the long-term tailwind also of greater electricity and so forth. Maybe wondering if that is the thesis, why not also expose yourself to a few other industries that have that same thesis as kind of a risk management tool?

Mohnish: I am always open. I like that model, but it is not enough to just understand that a particular industry has a boom and bust. You also have to have some other ingredients in place; the right management team, and the right capital structure. Typically, you would be coming into these industries at times when things will not be at a boom. They may not be at the absolute bottom, but they may be somewhere between the bottom and the boom. You typically would be entering at a time of murkiness. Being able to have the resilience to live, to see the boom, and fully capitalize on it will vary from business to business. One would need to evaluate that, but yes, it applies in many different contexts.

John: It sounds like that is another kind of pattern or where pattern recognition comes in, comes with experience also, as you said, with the tankers. I remember probably a couple of decades ago or more when you invested in those when they were trading for less than scrap. How do you take that and also the other side, which is investing in great businesses for the long term? I know you do both. How do you trade one off versus the other?

Mohnish: Well, the tanker bet was quite profitable, but it was extremely painful. I just want to explain that a little bit before I answer the rest of your question. I had done at that time only first-order thinking. I had not done second-order thinking with the tankers. It was very clear to me when I invested in Frontline tankers of VLCCs that all their debt was non-recourse. The debt

was at the individual tanker lab, and the parent had almost no debt. There was a ready market for these tankers to be traded. There is a market for them to be scrapped, etc., and when you looked at the market cap and the debt, and you looked at the liquidation value of the portfolio, there was no way you could lose money. The market cap was so much below liquidation value, and so I did not even pay a lot of attention to the upside. I just knew that from a downside perspective, it was very protected and it was a relatively easy 50, 70, 80% return in maybe not that much time. In fact, in less than a year, maybe even less than six months, we had a 70, 80% return. I sold our position and I patted myself on the back saying, "Well done, Mohnish." And then completely missed what happened after that. If I had held on to the Frontline for the next few years, because things went too stable, the rental rates went to 20, 25,000 a day, which means they were profitable. The stock moved up, and then it went all the way to 250, $300,000 a day. At that point, it is ungodly cash flows coming into their business because their entire fleet was on the spot market. What I did not appreciate then was that John Fredrickson, who was the chairman and CEO, was a gifted capital allocator; just an incredible operator. It would have been, when I calculated in about four or five years, a 70-bagger investment for us. Instead, it was not even a double, and that was terrible.

One of the things to understand is these things do not go into nice buckets where you can say that Google is a great business, and the oil tankers are just a special situation. That is not quite true. The oil tanker business was one where you could have just done some second-order thinking and understood that there were some possibilities; some non-zero possibilities that there were some spectacular result possibilities if one just hung on for a little bit. In investing, flexibility is important. I always like to say that Warren Buffett has a kind of Swiss Army knife in his pocket when he goes about doing his investments. For example, when Berkshire made their investment in the Japanese trading companies, they borrowed almost the entire amount. This is a company that is drowning in cash, a hundred billion plus in cash, and he still borrows the amount for the entire investment in Yen because mathematically it was the right thing to do. The infinite return on equity that he got on the investment is truly spectacular. In investing, the best place to be is the great businesses that are bought at great prices and are going to execute well for a very long time. You are going to end up with, 10, 20, 30, 50, a hundred times your money in 10, 20 years or whatever. That is ideal. The lines are blurred. It is not a very clear red line or black line, that one is on one side and one is on the other. Flexibility is important, and being open is important.

John: I believe that was a little bit also the thesis with Micron when you first came across it, because that industry had been a bad commoditized industry for a long time, and you saw that that was changing. Would you say that was also a little bit along those lines?

Mohnish: Micron was an oligopoly. For the three players, the barriers to entry are extremely high. It is almost impossible, even if you gave somebody a hundred billion dollars, to enter the memory business. One time, the CFO of Micron told me that there is so much black magic involved in the production of memory chips that he said that if one of their fabs burnt down and they have got all the patents and they have got everything, they are not sure that they can get a replacement fab up and running, even though theoretically

they know how to make memory because there is so much you know kind of black magic type stuff in the production of memories, the yields and all that. It is a very difficult business. If you have got three players and they are rational actors and they are likely to be rational actors that would likely work out well. Our Micron bet worked okay. What happened is we had a double in a few years but then other stuff showed up on the radar that looked just far more interesting, so I made the switch and moved on. But yes, Micron, especially now when we see everything that's happening with AI and all that, the memory guys are a good place to be.

John: Another example, I believe a couple of years ago you looked at Meta and said that it was an easy double, which it has been even more than that. There is a compounder that got really cheap. Given how many great ideas you find, how do you think about portfolio concentration, and how many ideas to own at any given time? Because it seems like some of these ideas could be owned in parallel instead of focusing on one or the other.

Mohnish: Meta was a good case. It looked cheap. It is a good business. A number of the businesses inside Meta are products that we all use daily, so a lot of people would have competence and understanding of what Meta's business is. I actually never invested in Meta, even though I saw that. Probably one of my flaws and mental blocks is I have difficulty with the Meta caps; kind of the law of large numbers. Well, how much bigger can it get? If you make an investment in NVIDIA or Microsoft or Apple, multi-trillion-dollar market caps, you know where is it 10 or 20 years from now? Someone like me would be skeptical, and sometimes I would be wrong about that. For whatever reason, at that time, I did not go for Meta because of this concern, and probably because other names on the radar looked interesting. I do not know whether they performed as well or not, but that is just the way it rolls. What I try to do in portfolios typically is a 10 by 10, where if I am making a bet, I make it 10% of the portfolio. Now what ends up happening is that if you get a very big winner in one of those bets, then the portfolio will start to get skewed. I see different degrees of skewing in some of the different portfolios I run.

For example, we have an offshore fund and an offshore hedge fund, and it has 400 odd million in assets. That fund alone owns 20% of a business that we found extremely cheap in Turkey; real estate investment trust Reysas. When I first visited Reysas in 2019, and the first time I ever heard of them, the market cap was $16 million, and now it is over a billion in the last five and a half years or so. Reysas is north of 60% of that offshore fund. By the time we get to our fourth position in that fund, it is a hundred percent so that fund only has five stocks in it. What happened over the years is that we kept the ideas that we had the greatest conviction on, and whenever redemptions or things were going on, the lowest conviction ideas were the ones that were candidates to be sold. That is a normal situation that should be happening in portfolios. But I warned my investors that we are not cutting position size for the sake of diversification. They should cut exposure to the fund if it is a large portion of their net worth, etc., and some of my investors did that, which is great. I just told them that we are going to run this fund concentrated because that on a risk-reward basis seems to be the best way to go about it. A 10-stock portfolio in that particular case is now a five-stock portfolio with very extreme concentration. The other funds are not so concentrated, but they also, by the time you get to the fourth or fifth

position, you might be at 80, or 90% of assets. Again, that is a natural outcome when some winners get going and we take it from there.

John: Mohnish, how do you think about which countries are investible or uninvestible at any given time? For example, there are a lot of cheap equities in Hong Kong and China at the moment. Do you have a view that it is simply the downs, there was a downside scenario where that is a zero due to geopolitics?

Mohnish: No, that would generally be a mistake if investors take a kind of wide paint brush and do that with different countries. They would be missing a lot of opportunities. The thing is, the devil in this business is in the details. When we invested in Turkey in 2018 onward then, and even now, the currency has been a basket case; inflation has been extremely high. Now they have got a very good central banker, and he has taken some great steps, and I think inflation is coming down quite aggressively, which is great. However, our focus was on businesses that were immune to these issues and where these issues were irrelevant, but where investors with kind of broad brush strokes were just exiting. In general, look at places that have historically had macro issues and have had a mass exodus of investors. Let us say, for example, places like Argentina or Brazil. Argentina is going through a big change, right now; there aren't many listed companies unfortunately in Argentina. Brazil is a little bit more interesting from that perspective because there are more listed companies there. Like Charlie used to say, you go fishing where the fish are. In these areas where there is obvious distress and obvious exits taking place, the focus has to be on the highest quality businesses in those places with the highest quality management teams where the macro situation that is causing the distress is irrelevant to those businesses. For example, in Turkey, there is a listed company that has the exclusive right to franchise Burger King. They have just been growing like crazy last several years and doing very well. That business is going to transcend a lot of the kind of macro noise. That is what we did in Turkey. We looked at businesses where the currency was not relevant and the inflation was not relevant.

John: Mohnish, how would you say your investment process has changed or evolved since you started investing about three decades ago?

Mohnish: Well, the big change that takes place for all investors is we keep learning more things. Different mental models get more resilient and stronger, like for example the boom and bust mental model which I encountered maybe 20-plus years ago, but it took this period to really appreciate all the nuances associated with that. We get expertise in different industries over time that we did not have. We get expertise in different ways of looking at things, maybe different geographies and cultures. All of that is going to help. At the same time, the second big change that has taken place in the last three decades is that I used to manage a million dollars for myself in 1995 and now it is over a billion dollars. Obviously, that change changes the universe of what you look at. Competence grows if you are doing well, the assets will grow, and all of that will naturally drive some tweaks and changes to what you are doing and where you are looking.

John: When it comes to evaluating management teams, I believe you did not really talk to management as part of your process. Has that changed?

Mohnish: Yes, I realized that I was doing my investors a disservice. The negative of interacting with management, which is what I had taken from Ben Graham, is that they are great salespeople. That is what got the CEOs into their jobs, to begin with. If you are talking to a great salesman about a subject he knows everything about and you know nothing, you are likely to get swayed. That still happens to me. I still get swayed, but many times the interactions with management can help you understand the nature of management and how they think about capital allocation and things, and how they think about their business and the different decisions they are making. It can help long term to have a better sense of what they are all about who these people are and how they think. If I had the choice today, I would spend more time with senior management and the CEO if it is available to me. Sometimes, that is not a choice. That is okay. We can roll with that as well. But if we can, none of this is related to anything that they can tell you, which is going to help you next quarter or anything like that. We are looking five to 10 years out. For example, when I met the management teams and went into the minds of the different coal companies, the single greatest driver of how well we do long-term with coal is the price of coal. None of them can help you with that. They just do not have any crystal ball that is better than your crystal ball. That is the 800-pound gorilla in that case. But you can understand from the interactions, who would be the best companies, the best teams, and, the best culture, and then, can take it from there.

John: It sounds like it is a combination. Speaking of coal specifically of good capital allocation, meaning buying back your own shares when they are undervalued. It sounds like you can have a high degree of confidence that the management is not going to misallocate capital there.

Mohnish: Well, some of these coal plays, their reserves go out for 50-plus years. It is quite plausible. I would say more than a 50% probability that these mines may be running, and these companies may be running till all the coal is gone and they would be running for 50 years or more because of the processes to make iron and steel; those are difficult to change. Brand new blast furnaces are being built even right now to produce island steel in Asia and India, for example, that will last for 30, 40, 50 years. That capital is going in with the expectation that those plans are going to run for three or four decades. If you have a situation where a company has a market cap of let us say $2 billion, and you think they are going to produce on average, let us say a billion dollars a year for 50 years, and then they disappear, well, that would to me be the definition of an exceptionally great business. I would say, “Where do I sign?” That is what things looked like in 2023. When we looked at some of these coal plays where we said, “Okay we do not think the billion a year is going to come like clockwork. There might be years when it is a hundred million or 50 million or zero, and there might be years when it is two or 3 billion. My bet was that if we fast forward 50 years and average it out, it might end up at a billion a year or more. If those are the numbers those are fantastic bets to make.”

John: Absolutely. More generally, what do you think about the length of that tail, because some industries are in decline?

Mohnish: Well, if you are paying 2 billion, what do you care whether it's 10 years or 20 years or 50 years? Do you care? One of the things about investing is a lot of comfort with uncertainty. Let us take a situation in which a company has a

market cap of 2 billion, and let us assume that it is going to produce on average a billion a year. Let us say it lasts for 5 years and disappears, or lasts for 10 years and disappears, or lasts 20 years or 50 years. In all of those answers, you make money, right? So there is uncertainty on several things, but the risk-reward looks great.

John: Absolutely. I think that is a great way of putting it, Mohnish. I was wondering if you could talk a little bit about investor psychology, what tendencies you have found that are most detrimental to investors, and if there is anything that you think is especially beneficial.

Mohnish: The most important skill for an investor to have is patience. All businesses after you invest in them, are going to surprise you in many ways. Many times those surprises are negative. Sometimes those surprises are positive, but it is rarely going to happen that what you think is how it is going to play out is how it actually plays out. The first skill set is extreme patience. The second skill set in many of these companies is a lot of comfort with uncertainty. I have talked about this several times and risk and uncertainty are two separate things, and a lot of investors get confused between the two. A lot of investors are looking for certainty. If you are looking for certainty, like Buffett says, you will pay a high price for a cheery consensus. If you have comfort with uncertainty, a combination of high uncertainty with low risk is likely to give you a great reward if you are patient. That is the equation that would fit the coal business; the risk is low, the uncertainty is high, patience is key, and one should love watching paint dry.

John: Great. Just coming back to the question about investible countries and how you think about that. Are there any red flags where you would say, "I do not want to touch anything in this particular country?"

Mohnish: There are several countries where I just do not want to go to. I do not want to go to Russia, Venezuela, and Zimbabwe. There are a lot of countries like that where I think that basic respect for property rights and basic respect for investor capital and capital flows and such may be questioned. The good news is that investors can have an extremely tight set of conditions that need to be met for them to be interested in going to a particular geography. I always talk about the example of John Arrillaga, who was Charlie Munger's friend. He only invested in real estate within a mile of the Stanford campus. That is all he did. If you walked with him around Stanford, every building, he could tell you the history, the rents, kind of what has transpired, who owns it, whatever. He knew every single building cold; his knowledge was extreme. John Arrillaga died a billionaire with, a very narrow circle of competence, obviously never invested outside the US, never invested outside of California, never invested outside of that very tight radius around Stanford, and that worked extremely well for him. We do not need large circles of competence, and we do not need to be going to esoteric places or countries. We should do what we are comfortable with. There is a lot of opportunity everywhere. It is a question of how well you are versed in seeing it and acting on it.

John: If you were starting from scratch today, let us say with a million dollars, how would you do it?

Mohnish: Well, the anomalies would be of deep interest. These are the weird special situations and such because we could go into a lot of nooks and crannies

that we cannot go into with the funds. I could even do some of it with long-term options and such. The focus would almost completely be on these special situation anomalies and kind of take it from there because we would be putting like a hundred thousand dollars to work on a given idea. If you are going to put a hundred thousand to work, there is a huge universe of opportunities to look at because almost anything is a possibility. That is what I would do.

John: In other words, take advantage of the small size to do things that bigger funds cannot do.

Mohnish: Yes. One of the interesting things about investing, which Joel Greenblatt pointed out, is that if you are a really good investor, starting with a very small amount of capital (let us say a hundred thousand dollars or a million), and you are exceptional at what you do, what will happen is that that million is going to grow to 10 million or a hundred million or a billion. The very tiny stuff that you were doing when you started in a few years or maybe a decade, will not be able to do it anymore because it just would make no sense for you. You would have to leave those, what I would call fertile pastures to find larger, not-so-fertile pastures, which still have some good yield. But what ends up happening is that you open up that white space for a new young person coming in with a hundred thousand or a million dollars. In effect, what is happening at the very low end of the market is this constant exodus taking place of the best players. The ones who are extremely good at it have no choice but to leave that space and so it is a kind of evergreen situation where that kind of batch graduates and then those opportunity sets are available for the next batch, and then that next batch graduates, and it is available for the next batch after that. It is kind of evergreen from that perspective in the sense that if you are looking in these nooks and crannies, there is a lot of opportunity because the guys who are really good at it have already moved on. They had no choice but to move.

John: That is a great dynamic, and it provides an opportunity for new investors coming up.

Mohnish: Absolutely. It just makes the business very exciting and this is also an interesting business where the little guy has a big advantage over the big guy; the little guy has a huge advantage.

John: Sometimes there is a misconception around that. A lot of folks think that the big firms can move markets and they have all these resources, but actually, there are a lot of opportunities they cannot even look at because they are so big.

Mohnish: I have a friend of mine who runs a small fund, and he is extremely good at options. He studies his businesses really well, and then he finds the ones that kind of lend themselves to these different option bets. He is consistently being over 50% a year, but his total capital under management is small. It has grown a lot, but it is still relatively small. When he was doing this on student loan float, like Li Lu a while back, and now he has passed that. He has a small fund, but the thing is that he will have to leave those pastures in the sense that the capital will just get too large and it will not be even that long. It might be a year or two, and he has got to go and play somewhat differently. He is enjoying it now, and so then those pastors will get left to the next guy.

John: Well, it is always good when you leave something for the right reason, for a positive reason.

Mohnish: Yes.

John: Mohnish, maybe we will end on this. We always like to ask about books that we should be reading and learning from. Is there anything that you would highlight that maybe you have not talked about before, a lot that could be of value to our members?

Mohnish: Sure. Whenever I used to go to Charlie's place for dinner, which was four or five times a year, there would always be a few tables around where he would sit with a lot of piles of books. A lot of these were books that people had sent to him. I would always take pictures of the different books and I would ask him about which ones he had read and what he thought about them. On one of my last visits with him, I saw a book called *The Joys of Costco.* Someone had sent it to Charlie and I asked him if he had read the book. He said that he had and that it was not exactly Shakespeare. It is not the highest quality literature, but it is a very good effort. I bought the book and I really enjoyed it. It was about a couple that are diehard Costco fans, and they visited hundreds of Costco stores. It is kind of their thing to do; they just keep going from one Costco to another. They put it together in a book with all these quirky factoids about Costco. They did a very good job. It is a colorful book and it is easy to read. I sent that book out to people on my Christmas list this year, and I got more comments than I usually get when I send books out. It actually hit a nerve with a lot of people, because a lot of people are such dear fans of Costco and it actually teaches you a few things about how to even improve your Costco experience or get more out of it. That was great and it actually shows one of the things that the book did really well is that it just showed the incredible mode of Costco. Every time I met Charlie, at least 30 minutes were on Costco. Somehow or the other, the conversation would always go to Costco, and he would always want to spend time on some nuance of it. That might be a book people might enjoy.

John: Well, I can tell you, I would love to have a Costco in Switzerland. I would probably travel the whole country. It is a small country, but still, it would be a highlight.

Mohnish: It will come, do not worry. They have such a long list of places and stores to open. So they are cranking along.

John: The one good thing about having missed the stock and it being so expensive is that I am kind of sure it will come because there is so much growth priced into the stock that it has to come.

Mohnish: Absolutely. I think the runway for Costco is very long.

John: Well, Mohnish we will leave it on that note. Very grateful to you as always, for taking the time and really answering all the questions. It is great education for our members and the broader investment community. You have been such a great member and mentor to all of us. Thanks once again and we will be looking forward to reconvening in a couple of years, if not sooner.

Mohnish: John, I just want to say that you do a tremendous service to the value investing community. The manual ideas are just a terrific offering to the community. I am so very grateful for your efforts. Thank you.

John: Well, thank you so much, Mohnish. It means a lot. All the best to you and goodbye for now.

Mohnish: Alright, thank you.

The contents of this transcript are for educational and entertainment purposes only, and do not purport to be, and are not intended to be financial, legal, accounting, tax, or investment advice. Investments or strategies that are discussed may not be suitable for you, do not take into account your particular investment objectives, financial situation, or needs, and are not intended to provide investment advice or recommendations appropriate for you. Before making any investment or trade, consider whether it is suitable for you and consider seeking advice from your own financial or investment adviser.