

## Fireside Chat with Jeff Pintar & Mohnish Pabrai on May 21, 2020

---

*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.*

---

**Jeff:** Hello everybody, welcome to the second series of our weekly webinar. We're very excited to have Mr. Mohnish Pabrai join us today. Mohnish is one of the legendary value investors of our time, having started Pabrai Investment funds back in 1999 with just about a million dollars, and grew it to nearly a billion at its peak over the years. Prior to that, Mohnish moved to the United States from Delhi, India in 1983, where he attended Clemson and ultimately graduated with a computer engineering degree. Mohnish has been a longtime friend and mentor of mine. He is a disciple of Warren Buffett, Benjamin Graham, Charlie Munger, and investment value investment philosophies, and has just great insight into all things, not only investing, but very worldly and has his touch on a lot of different things. Mohnish, thank you for taking time out of your day to join us and share some of your thoughts.

**Mohnish:** Well, Jeff, it's a pleasure to be here with you and I'm looking forward to the session.

**Jeff:** Hey, look, I notice you don't have a mask on and neither do I, I know it's a webinar, although I've seen some people wear masks at webinars, and I see them driving around in their cars by themselves with masks on. But I know you also took a recent trip on a plane this week, what was that like? I'm curious, because I haven't been on a plane. I haven't been in an airport in months, what was it like traveling?

**Mohnish:** Yeah. Yesterday, unfortunately, I went to attend a funeral in Northern California. I flew Southwest and well, the airport was a coast town, I mean John Wayne Airport in Santa Ana that we are familiar with, for all three terminals. There was just one person from TSA checking people's IDs and such for the entire airport, and there was no line for that person. There were like four people standing there. I think most of these flights are going with less than 10 or 20 people. I was trying to stand by on a flight that had one passenger. I really felt sad, I think we've taken this, what I would call, "rockstar economy", the best economy the planet have ever seen. We've basically taken it, it didn't get derailed. We deliberately took the train off the rails, and it's really quite unprecedented. I think it'll take a while to come back. I don't think people have thought through all the second and third-order effects here.

**Jeff:** There's been a lot of discussion around that where the past downturns that we've experienced as a country or within the world, there's been some sort of financial catalyst to it. The most recent one being the GFC, and it was definitely a financial driver of that recession. There's been a lot of discussions and it's in the news where it almost feels like the current situation while tragic because the virus is a real thing, but it's almost being

driven out of political means now versus the overall health of a nation over the world.

**Mohnish:** Yeah. I think what we are seeing is unprecedented and also a lot of the policy decisions taking place around the world. My general view is I think that if we had a shutdown that had lasted maybe three weeks or so, then after that, the contact tracing, social distancing, and then the United States has never been cleaner than it's ever in its history than right now. I think we would've been fine. I think history will look back at many of the decisions we have made as a society in this environment as not being the right ones. My not so popular view is that, we've overreacted. I think that when you look at nearly 40 million people filing claims within the last couple of months for unemployment, I mean, no one talks about the increase of suicides amongst that 40 million, the increase in depression, the increase in the divorce rate, the increase in child abuse, domestic violence, all the other impacts we see when you start taking these draconian actions.

Simply and purely measuring, the COVID debt rates, while even ignoring other underlying conditions people had, is overstating the damage the virus is causing. I'm in the minority camp that I think we should open up the country, even if we open up Orange County, a lot of people will still not come out and participate, which is fine. I think that's an individual choice, and that should be fully respected. But I think that the medicine is far worse than the disease. I'm hoping, I mean, we have a lot of natural experiments going on in the world. We have Sweden, we have that one town in Northern Italy, and we even have in New York, where they did the testing and they found more than 20% have already had the virus. I think that the evidence is overwhelmingly against keeping the country on lockdown.

**Jeff:** To add to that point, you do have this worldly view from, not only your investments that you're constantly analyzing and looking for, gold as you do. But it also gives you a great sort of insight in a view of what other countries may be a little bit further ahead of the US in terms of opening back up and seeing what those results are, if we were to look into the future to see how, maybe a South Korea or some of these other countries that have started opening up earlier, what the results are coming out of there.

**Mohnish:** Well, I think that we will take a long time to get back to where we were in January. We may not get back to where we were in January, even five years from now. Capitalism and businesses are very fragile creations. We know this as entrepreneurs that when you start a business and you grow a business, the only reason it's able to survive and thrive is that it's got some product and service offerings that are superior to the others, and it has to be better and others will try to come and take that away from you. That's the classic creative destruction and capitalism. Most businesses will not survive if you take away 60 days of revenues or 90 days of revenues, very few businesses can survive that. We will see a very large number of businesses. I think there is something like 1600 businesses a week in the United States, in normal times, that go out of business, that's just a normal creative destruction that goes on to the economy, and that is very healthy.

**Jeff:** Even in the best of times?

**Mohnish:** Yeah. Because those 1600 get replaced by another 1600 or 1700 businesses that are better than the ones that went away. They are more resilient. That's

how our economy becomes better and better. Eventually, we end up from the 18th century to today where, when we deliver the kind of shock that we've delivered to the system where it's not 1600 businesses going out of business in a week, it's multiples of that is going out of business permanently. There is a silver lining in the sense that, for example, we will have a large number of restaurants never open up again. They will get replaced eventually, but they will get replaced, I think with better restaurants, different restaurants more interesting restaurants, so that's good, but the thing is that for the restaurant business to do well, and to be where it was, we need a 3% unemployment economy, and we will not have, in my opinion, a 3% unemployment economy, even in 2025, because this damage that has been inflicted on the greatest economy on the planet is not going to be undone for a very long time.

I think we will get back to maybe 7, 8, 9% unemployment people a year. But I think then from there, getting to three or four where we were maybe a really long haul, that's my best crystal ball that I can think of and it's very unfortunate.

Jeff: I think that's a great segue into kind of my series of next thoughts that I'm really interested to get in your opinion on. But I also wanted to mention to the audience, which I fell to at the beginning, is this is a little bit of an interactive webinar. If you have a question to the audience, we do have a Q and A button down at the bottom of your screen that you can just click on and type up your question for Mohnish, and we'll try to get to that at the end of the webinar. My next thought that you provoked, as you were describing, in a natural course of an economy of these businesses that come and go and more entrepreneurs and it creates entrepreneurship. One of the great things in our country is, if we look back to when you started Pabrai Investment funds, you were already an entrepreneur, you were this guy from Delhi who came to the US like many do from around the world, got a degree, and went to work and became a tax paying citizen. Then you switch gears to your own businesses that you were owning and running. What ultimately made you switch gears and hit the reset button and focus all of your time on value investing which you've been doing now for 20 plus years?

Mohnish: Yeah. Well Jeff, that's a wonderful question. It was actually an accident of history that I became a value investor. I have never gone to business school and my training as an investor basically really came from reading and studying Warren Buffett, Charlie Munger, and Ben Graham. I accidentally happened to read a book maybe around 25, 26 years ago by Peter Lynch, a guy who ran Magellan one up on Wall Street. That really intrigued me in terms of how investing in stocks is not really buying piece of paper. You're really buying fractions of a business, and that's how you should think about it, buying a fraction of a business and approaching it as if you were buying the whole business. Of course, that exposed me to Warren Buffett, and I got really intrigued with that whole framework.

I was blown away when I understood compounding is the eighth wonder of the world. That's what Einstein used to say. I realized that I could analyze businesses really well and really quickly, and that was a critical skill to doing well as an investor. I started to invest on my own using just the same analytics we use when we run businesses and figure out what works and what doesn't. That did well and then a few friends asked me to set up a fund

to manage funds for them. Pabrai Investment Funds actually started in 99 of a million dollars just as a hobby and for me and my friends. Then that morphed into a real business and here we are.

Jeff: Yeah, it's an amazing story. I've heard you many times describe your hobbies akin to playing games. A million bucks is no small amount of money. What you've grown it into with, a lot of other investors, is definitely no small amount of money. But some of the games you really enjoy are like bridge and blackjack, which require a lot of strategy, managing of emotions, similar components which make people successful or not successful investors. But you've become quite the successful blackjack player and what's this I hear about you getting kicked out of some casinos in Vegas. What's going on there, man?

Mohnish: Yeah, last year, actually on New Year Eve, I got my first-lifetime ban from playing blackjack at a Vegas casino. They were really nice and polite about it. They told me, listen you can enter our property at any time, and you can use the facilities, but you cannot ever sit down at a blackjack table. They were very nice and polite to me. They said they had been observing my play every time I visited for the last more than a year. They came to the conclusion that they would lose to me consistently. I tried to explain to them that they normally have problems with card counters, and I don't count cards. They said, "yeah, that's what took us a while because we realized you weren't counting cards, and it took us a while to figure out that, a system which doesn't rely on card counting can still beat them".

Jeff: I mean, how does that work, you say they're very nice. I mean, I'm picturing like these old mob movies where you got Al Pacino or Charlie Pace coming in with the guys, grabbing you and taking you to the back alley. It wasn't like that.

Mohnish: Well, the Vegas of the sixties was mob run, the Vegas of this era is a bunch of listed corporations. I think the mob is relegating to running the taxis in Vegas, and they're quickly dwindling down. I think Vegas has been corporatized for a while and they have more to lose than weight gain if they pursue those types of tactics. They don't really need to, because to beat the casinos at blackjack or the other games is not easy. They know that and they just need to take out the small sliver of people that figure it out and their business is a great business.

Jeff: You would've been more worried if they were very polite, but they ushered you to like this taxicab they had been waiting for?

Mohnish: Actually, they were very nice. Actually a few weeks after they banned me, my daughter who knows my system was playing at the same casino, and the general manager came and sat down with her, just like, he came and sat down with me, and she said to him, "you're not going to ban me, are you?" He told her she's playing very small stakes, \$25 a hand. He just told her, "not yet". Then the guy told her something, which she never told me, he said, "look, I watched all your dad's videos, and I'm a huge fan but it just wouldn't work to have him play blackjack here". That was really very nice.

Jeff: How long were you playing there? Can you share what size of stakes you were playing before you got the tap on the shoulder?

Mohnish: I used to go to Vegas maybe every two, three months for a day or two, weekend or something. I wasn't playing high stakes. I was just proving out my system. I would play, like up to a few hundred dollars, a hand type thing. But the winnings can get up there, I ended up making a solid six figures from them, but I think that the concern they had is where that trajectory was going.

Jeff: They didn't want to see then.

Mohnish: I think they Googled me, they said to me when they banned me, they said, "look, we realize that your system works. We realized there's plenty of money behind you and the whole equation doesn't bode well for us".

Jeff: That's fun. That's fun.

Mohnish: But I was bummed out about being banned, but also, I would say I was happy that it was kind of validation that the theory I had actually worked.

Jeff: Right. It's just one casino, it's not all of them, right?

Mohnish: Oh, yeah, so far, it's just one. But I can do that in another, so it's a matter of time. But one thing about blackjacks, and I've studied about Edward Thorp, actually I met with Edward Thorp for lunch. He wrote "Beat the Dealer" and more recently, "Man Who Beats the Market" it's a great book. Blackjack has always been a game of cat and mouse, where people figure out how to beat the casinos, then the casinos change the rules, then people figure out how to beat the new rules, and they again change the rule. The game has evolved quite a bit in the last 60 years. If you go and study 60, 70 years of blackjack history in Vegas, you can see the kind of the evolution and transitions that have happened.

Because Vegas is such a competitive market with so many casinos, some casinos have to juice the offerings to bring the people in. I think the first basic thing is, which blackjack game do you play, and where do you play it, that's the first rule. That's the first thing to put in the odds in your favor. I'll just digress for a second, but there's a website called BJ21.com and they actually publish the odds on every blackjack table in North America and they update that once a month. It's like a hundred dollars a year for a subscription which I have. That just makes it really easy to figure out which table to sit down at and then go from there.

Jeff: Well, I think that's a really interesting thing, what you're just describing there, because I don't think most people go to Las Vegas armed with the information before they invest, but you've actually done quite a bit of research on what is simple and a fun game as blackjack, which probably also ties into some of your investment philosophies and why you've done success.

Mohnish: I would have zero interest in playing blackjack if the casinos took my money. I would've zero interest in playing any game, which involves betting where I don't have the odds to win.

Jeff: Right.

Mohnish: In investing, it's the same way. Actually, blackjack is terrible compared to investing, because I'm fighting to get a 50.1% odd versus 49.9. In the equity markets, I can make bets where the odds are 80% in my favor which I can

never do in Vegas. I think Vegas is kind of interesting and fun. But the way I play blackjack, what most of my friends say, they find it extremely boring.

Jeff: The way you play blackjack?

Mohnish: Yeah, the way I play blackjack, and I explain to them, you can either optimize fun or you can optimize dollars, but you cannot optimize both.

Jeff: Vegas is usually optimizing fun versus dollars. It's usually at a cost of dollars.

Mohnish: Yeah, exactly, I'm all about optimizing dollars.

Jeff: Got it. I'm curious about your opinion of Vegas, if we go off strip for a minute, I know we have a lot of people in the audience that are investors of real estate in Las Vegas. You'd mentioned earlier, you kind of threw out some projections about the unemployment rate. My guess is, that's kind of an annual or a national number, and is this coming from kind of gut feel, or is it empirical data? That's kind of a two-part question of where your numbers came from that standpoint. Then Las Vegas specifically, which has been completely shut down. But prior to that, it was very robust in becoming a diverse economy. Do you think will Vegas come back? I guess first thing, where did you kind of get the unemployment data numbers that you were talking about? Is that a gut feel?

Mohnish: Yeah. I just think that when you take this train and take it off the tracks, and then one day you decide that you're going to put it back on the tracks, it's not going to get back to the same speed. That takes a while. I don't know how long it takes. I mean, we have some examples. We have examples like Japan which has been in stasis for decades on different issues. It's not apples to apples, but I think the United States is an incredible, robust unbelievable economy, and it'll come back, and I would never bet against America. I would also never bet against Vegas. I personally, once in a while, bet against Vegas, but as a town, I would not bet against it. Las Vegas has always won itself and gotten to higher highs.

For example, I remember after the financial crisis, Vegas was a ghost town, and now it's a real ghost town compared to what happened. I mean, what happened last time was Mickey Mouse compared to what's going on right now. But I think that man is a social animal. Las Vegas is California's adult playground. It's where the adults go to play.

Jeff: Yeah.

Mohnish: That will not change. It will take some time. For example, now when they open the casinos, you're going to have three people to a blackjack table of six, and you're going to have six people around a craps table, intro 15, for example. They will control it. But if you fast forward to a point in time when everyone's vaccinated, and as such, I will say that Vegas will probably not get back to January levels even then, because some people will not come out of the bomb shelter even after vaccination. But I think that in a few years, Vegas will be back, absolutely. I think the trajectory that the pace at which it'll start coming back once they open will be quite significant, but it'll take a while. I don't think we should expect it to look anything like normal for at least a couple of years.

Jeff: Interesting. As a one-stop or one-shop pony, I'm calling myself that as a real estate investor, it was as hindsight gives us a lot of clarity of buying dollars

for 50 cents in the last downturn. But at the time, it was not so clear. And as a value investor, the equity markets change very rapidly, right. I've heard you talk about it, timing the market is akin to being a fool. It's very difficult unless you're armed with that information. As you've been doing this now for 20 some odd years, and you've been through some dips and you've ridden the downs and the ups, how do you view this derailing of the economy as an opportunistic buying opportunity for value investors?

**Mohnish:** Yeah, actually the equity markets don't reflect the reality of the economy. The Nasdaq is pretty much where it was at the start of the year, no change. The down the S&P are off less than 15% from the beginning of the year. The Nasdaq, you can argue, you can justify it by saying that it's loaded with companies that get a lot of tailwinds from what's going on. I mean, Amazon is a beneficiary of what's happening, many companies, even Facebook, they're long term beneficiaries of what's going on. Our transition to digital lives is being accelerated right now. Online shopping is going through very fast growth right now. I would say that as an investor in the equity markets, it has not been easy to find bargains, because part of it is, which I think is a good thing, the Fed has pumped so much money and the Congress has come through in a big way.

Those have really helped, and those are the right actions. Those have really helped Main Street, and they have really helped Wall Street as well. From an equity investor point of view, the prices we saw on March 23rd when markets hit a low, we are so far off from there at this point. I find it really hard to find bargains in this environment. We may see equity markets, it's hard to predict what the market does, but it's possible they could go down as different kinds of news coming up in the next few months and such.

**Jeff:** I mean, is it naive to think the balance we've had in a very little time with zero, I wouldn't say zero, but close to zero, positive news that will be greatly impactful to derail this economy at least prior to an election where at least one house, one side is going to get in office and then take us whichever direction they have. But it seems like this battle's becoming more political and it's difficult to determine what's real and what's not. But I guess the discussion around the market bouncing back, is it a dead cat bounce? Will we test the lows again? Will the lows go farther? There's been a lot of comparison to previous times where the equity markets have fallen as far as they have. I'm just curious, do you have an opinion on that?

**Mohnish:** Yeah, I think we saw some resemblance of this in 1999 and 2000 with the dotcom bubble. At that time, what happened is, a lot of money went into one small sliver of the market, and it really drove valuations and multiples ridiculous levels in the dot coms and tech area, and the Nasdaq, in March 2000, hit \$5,000 and a couple of years later was at \$1200. At that time in March 2000, we didn't have a bubble across the board in equity markets. We had a bubble in a sliver of the equity markets. What I find today is that I do think there is a bubble in equity markets, and I think the bubble isn't even a smaller sliver of the market that was there in 1999, 2000. When you look at the FANG stocks and such, everything in equity markets is around the kernel of truth.

Yeah, those businesses are incredible businesses. But everything has a price. I think those prices are disconnected from reality. I'll give you an example, in early 2000, I visited Microsoft headquarters in Seattle, and some of the

very early investors in my fund were from Microsoft. In fact, there was one guy who was very early in Microsoft. He invested, and then he told me, "Hey, listen, if you ever visit Seattle, I can just introduce you to a bunch of folks who might be interested". I said, "what a coincidence, I'm going to be in Seattle day after tomorrow". I went to Microsoft headquarters and the guy took me to a bunch of different offices of the senior execs at Microsoft, and many of them invested in Pabrai Investment Funds. I told them at that time, and they thought I was some cheesy salesman.

I said, "look something like 80%, 90% of your net worth is in Microsoft stock and your livelihood comes from Microsoft". I look at the company, and it's a great company. At that time, Microsoft had a \$600 billion market cap, and I think it produced less than 10 billion in cashflow. I told them that this is going nowhere but down. They had never seen Microsoft go down, just like we had never seen housing prices go down. They dismissed what I was saying. The good news was, I told them, "Listen, take your Microsoft holdings and move it to Pabrai Investment Funds". Of course, they were very dismissive of that, but they did give me some money to invest. That \$600 billion market cap went down to less than a third of what it was.

It took about 13, 14 years to get back to the 600 billion. In fact, if you look at it from 99 to now even going 21 years or 20 years, it's gone from \$600 billion to like \$1.3 trillion. It's doubled, right? If you held on for the last 21 years, you're going to double, I mean a double in 21 years is like a 3% annual rate of return. The 3% is not without volatility.

It was 3% with a very rough rollercoaster ride. In many ways, when I look at some of these businesses today, I see those businesses as a great businesses. I saw Microsoft as a great business in 2000, but every great business, no matter how great it is, has a finite price. I have to look at the future cash flows a company will generate and discount those back. That formula will not change a thousand years from now on how you value a business. When you try to run the future cash flow of many of these businesses, you have to make a lot of heroic assumptions.

**Jeff:** Very interesting. A question just came in from the audience, which I think is in line with this current discussion, it says, "given the current economic challenges, the economy faces and the relatively high valuations we are seeing today, is a buy and hold approach still valid?"

**Mohnish:** Yeah. I think one of the things to keep in mind about today, kind of caveat, what I just said is long-term interest rates have a direct impact on equity markets. If we had a crystal ball which told us that the 10 year treasury is going to be less than 2%, five years from now, in that scenario, equity markets are not expensive. If we knew what interest rates 5 years or 10 years from would be now, and if we knew that those interest rates would be 1 or 2% for the long bond, the markets are not expensive, then even the FANG valuations can be justified. But I don't know how to handicap that, and I don't know how to handicap that when we have the printing presses running full out. That has confounded economists during the last financial crisis when we again ran the printing presses. But those printing presses are nothing like the printing presses that we are currently running. I mean, the way the Fed and the treasury are pumping money into the economy, which I think is the right thing to do makes "O8O9" look like nothing.



Jeff: Yeah. That is interesting. That last question came from a self-described kind of Buffett fan, as I know you are as well and you've had times over the years to get and develop close relationships with both Warren and Charlie Munger. Is there anything you can share? or if you had any recent sort of interaction that you could share that wouldn't put in violation, your relationships with them on some of their insights with us during this current timeline?

Mohnish: Well, I think Warren and Charlie are both open books, and I think if you just look at what's in the public domain about them, I think that would give you a lot of insight. I think one thing that is very interesting about Berkshire and Buffett, and even with Charlie Munger, is they have been net sellers of equities through this entire, I mean, they were sitting on \$130 billion in cash. They got rid of all the airlines, which is not a surprise because I think the airlines have been in for a very rough sled for a long time. They sold Goldman Sachs completely, which was a surprise, one hitch to sell stuff. That is a very high-quality business that he almost completely exited, and they haven't bought anything. I am sure they've been approached by many, many people for different kinds of deals and they haven't pulled the trigger.

Charlie actually made some comments publicly where he said that, "we're like the captain of a ship in a tempest, and we just want to ride out the storm". We don't want to buy a bunch of businesses and roll the dice if you will. I think their perspective, I mean if you just read it to their actions, they seem to be quite bearish. They seem to not think that we will get anywhere close to where we were in any limited timeframe. I mean, that's the only thing I can read from what I'm seeing with them.

Jeff: Yeah. A way to observe their actions is, they're highly cashed up. Doesn't sound like they've been making any major investments, even when the markets fell 30 odd percent, which probably talks to their testament of discipline. I think one of the famous quotes, I don't know if it was Charlie or Warren, but it resonates with me, I think the comment was around, "a lot of people confuse where you make your money". They think it's what you make in the buying or the selling of an investment. They said that's not entirely true. It's made in waiting for the right investment and then backing up the truck and loading up.

Mohnish: Yeah. I think what we're very instructive with this period is that Berkshire's own market cap has gotten close to book value. Warren has been willing to buy at 1.2 and even higher than that, and he's bought it more than that in the past. He hasn't been buying Berkshire stock, and he said that he doesn't think that the \$130 plus billion cash files that Berkshire has is that big in this environment.

Jeff: He doesn't think it's that big?

Mohnish: He always, until now, said that we are drowning in cash. Recently in the annual meeting, he said, we really don't have that much cash.

Jeff: Wow.

Mohnish: I think it's a data point. No one has a crystal ball. What I've always focused on as an investor is, forget the macro. The macro is too hard to figure out, okay. Focus on individual businesses in your business, it's really simple. If there is a house for sale and you look at the unlimited levered return from

the rent, you know what the rent is, and you know what the cost of that house is, and both of those are current situations, and you can make a judgment call, hey, this is in a great area, I know the area, I know whatever. The micro in investing always trumps the macro. As investors, our jobs are not to figure out what the unemployment rate's going to be, what the interest rates are going to be, what all those things are going to do. Our job is to say, "hey, listen, if I can get a home for a quarter million and the rent is going to be \$25,000 a year, or \$30,000 a year, my NOI in real estate terms, you do that all day long".

Jeff: Right.

Mohnish: Right. I think it's the micro that one should focus on, forget the macro.

Jeff: Yeah. Our business is a very simple business, and I think that's why guys like me, bumpkins from Tigard, Oregon can stumble our way through it and still find some success with the long term vision of things. I think your comment about understanding the macro environment and articulating around that and making projections is nearly impossible. In a time like this, is there any industry or things that you're particularly interested or fearful of, that you could share with us. I know you don't like talking about specific stocks, so I won't ask you about that, but is there anything you can share with us and the listeners to get insight of your brain?

Mohnish: Well, we're that I would call "anomaly-based investors". I think you are even an anomaly-based investor. You're looking for the diamond in the rough, right. You're looking for that mispriced house or maybe the house that needs a little bit of work. Then it becomes a great asset. That's what we are doing in all environments.

All I can say is that, yeah, we've found some stuff to invest in, but it's not by looking top down, I never invest top down. I don't say I want to be in a particular sector, and now let me find the best play in the sector. That's usually not how I approach investing. I always look at it from an individual business point of view, and what can that business do. If I take an example of a company like Live Nation, Live Nation owns Ticketmaster. It's a public company. It's a phenomenal business. They have their hand in 35,000 big concerts around the world, which have gone to zero, 35,000 concerts have gone to zero, and the stock has hardly corrected. I mean, it's maybe down 40% or something. I mean, that business is gone. The top line is gone. It's gone for 2020. It's probably gone for most of 2021. After that, who knows where the new normal is, because even when you open everything up, do all humans want to cheek with other humans. Two years from now, even after the vaccine, in a 10% or 9% or 8% unemployment economy, what does their business look like?

I think Live Nation will come back, but whether it comes back to where it was and how long that takes, is a different question. I looked at something Live Nation, I said, yeah, this is a business under stress, but the valuation is still not that compelling. I look at another business, carriage services, they're very dead people. It's a publicly traded funeral services operator. Then two or three, their business, as morbid as it sounds, has gone up. Whatever delta you have in increased debts, they're down 30% as well. You explain that to me. The only way to explain all of this is, equity markets are auction driven. Garage services should not have dropped in value through the entire virus

scenario, because no matter what happens, we want the last rights of our deal, ones done properly, we don't go shopping to get the low bid, and it's a great business, and no one aspires to go into that business. There're very few operators. It's a wonderful mote and the consistency of cash flows in a funeral services business is like more of business you would see, it has the lowest rate, it's the SIC code with the lowest rate of business failure of any SIC code in the US. If you want a business where you clip coupons, please go into the funeral services business. It's a great business. But the thing is, because we are in auction driven markets, you get strange pricing on carriage services, and you get strange pricing on Live Nation. Now, if carriage services were a private company, and let's say they were worth a billion dollars in January, and someone came to them in April and wanted to buy them in June and offered them \$700 million saying, hey, by the way, Corona's going on well, they would laugh at them. They would say, what do you mean Corona's going on?

Our revenues are the same, our cashflows are the same. They have actually gone up a bit. All these humans in this country are eventually going to die, and they're all going to come to us. When we give a quote, we don't get people shopping at four other funeral service places to figure out where they want the last rights done. That is not how humans operate. You will do that when you're buying a mattress. You will not do that when you're bearing your grandmother, right.

What I'm saying is that auction driven markets give us strange pricing, which enables us to make hay and normal buying and selling. Jeff, in your business, you are not dealing often with irrational sellers.

Jeff: Right.

Mohnish: For the most part, because you are buying and selling assets where the seller can see the value and the buyer can see the value and a price gets arrived at. But when you look at the equity market, when a single funeral home comes on the market for sale, the way that transaction takes place versus the stock of the funeral home on the New York Stock Exchange being bought and sold, the two are completely different. That's why we can make money in the equity markets. It's because of the distortion. That is why Microsoft got priced where it got priced in 99, and that's also why it got priced that way differently in 2002 and so on so forth.

Jeff: Let me ask you this. Thank you for sharing those two very different businesses in different trajectories that they've taken. As an expert of studying business models that you are, that's what you do for a living. You started your business with a certain business model, copying and mimicking and cloning the early Buffett partnerships. I had the opportunity of being with you at the daily journal annual meeting where Charlie Munger was there, and there were, I don't know, 10,000 people stuffed into this hotel ballroom. People were coming up to you, and I'm just like, this is Mohnish, but people were loving you. But Charlie singled you out in the middle of it, basically applauding you and had the audience applaud you for the business structure that you've created. When you look at the longevity of that business structure that you adopted and are doing yourself, what made you believe that was the best structure for your funds and investments for your industry?

**Mohnish:** Warren Buffett has banned his partnerships; he charged no management fees to his investors. He had 0% management fees, and then he took one fourth of the gains above 6% as his fee. For example, if his funds were up 20% in a year, he would get three and a half percent, the investor get 6%, and then the remaining 14, he would get one fourth of that. He'd get three and a half percent, and the investor would get 16 and a half percent. They both were happy with that outcome. I thought that was a very fair structure. In Buffett terms, I didn't think I should get paid for breathing which is what most funds do. They have a \$5 billion fund charging a 2% annual fee. I mean, that's a hundred million a year in fees for doing nothing, and you can be down 10%, you still collect a hundred million, that is just a very unfair, in my opinion, very unfair structure.

When I saw the Buffett partnership structures of 0625, I thought that was a great structure. At Pabrai Investment Funds, it worked out well. In fact, in 2007, I must have collected \$30 plus million in fees, which was perfectly fine with me. Then from 2007, 2009, the funds went down almost two-thirds, like 65%, 67%. For us to earn a fee, we had to get back to the high watermark and 6% a year annualized every year from there. It took me, in one of my funds, from 2007 to 2017 before I earned a fee again. I did not shut the funds and started over. I didn't ask my investors, "hey, can we reset this or anything?" I felt that it was a fair arrangement that until they got 6% a year from the previous high, why should I collect a fee? Because that's what they put in. We got to that point in 2017 where we got past the previous highs, and in 2017 and 2018, I collected more than \$50 million in fees. Don't shed any tears for Mohnish. Mohnish is doing just fine. I thought that was a win-win. It was a win-win for them and a win-win for me. It was a fair arrangement, and I think Charlie appreciated the fairness of that arrangement. It was very flattering to be singled out in that gathering. Yeah, I've had the opportunity to play not blackjack, but bridge with both Warren and Charlie, and I played a lot of bridge with Charlie. It's a blessed life when you can actually meet and interact with your heroes. It's been great, but I think that I wish the investment community followed that fee structure, because 80% of the industry would disappear.

**Jeff:** Because they wouldn't be able to withstand the downtime.

**Mohnish:** But they have so much, this industry has a lot of waste. When you have a hundred million coming in, you can imagine that your offices are going to be overlooking Central Park and your rent's going to be north of a hundred dollars a square foot and all that good stuff.

**Jeff:** Which leads me to another thought that I've always found interesting. Some of the greatest investors in the world, you think, oh, they're all in New York or San Francisco or Tokyo or Hong Kong, or London, these major metro areas. But that's not necessarily the case, is it?

**Mohnish:** In fact, it's an advantage.

**Jeff:** Irvine, Warren, Omaha, and Charlie in fact is not with Warren and so.

**Mohnish:** Yeah, I think the more removed you are from these epicenters of action, let's call them the better you're going to do. I think that there's less noise and less clutter in your brain. I mean, investing is really an activity, in many ways a solitary activity.

Jeff: Right.

Mohnish: We get paid to read and think, and you have a better chance of reading and thinking when you're not with several million humans around you.

Jeff: Yeah. Don't confuse activity or busyness with productivity in the action of trades, or things like that with productivity.

Mohnish: In fact, Charlie Munger once told Chris Davis. He runs the Davis funds in New York, several billions are under his management. He told Chris Davis, "Listen, if you moved, just moved your operation from New York to Santa Barbara, just that move alone would increase your analyze returns by probably half a percent a year". Chris seriously considered that. But then, he, for whatever reason, stayed in New York.

Jeff: I mean, Santa Barbara's not a bad place to live.

Mohnish: It's a good place to think.

Jeff: Yeah. We're nearing the last few minutes. What we've covered has been amazing and thank you for your insights. But I'd like to spend the last few minutes on something I know is near and dear to your heart. Personally, I find it one of the greatest gifts of humanity. You've created the Dakshana foundation, which is educating the hearts and minds of privileged but very bright and intelligent students in your native India. Can you tell us a little bit about that for a minute? If you were to give us a pitch, I'd really love the audience to hear about it because I just think it's an amazing organization and the team's doing it.

Mohnish: Yeah. Well, Jeff, you have a firsthand view of it. You've visited the Dakshana campus in Pune in India, and your daughter spent a few weeks there, and I hear rumors that the second one is getting ready to spend a few weeks there.

Jeff: Yes.

Mohnish: Which is wonderful. Yeah, I think that from Warren and Charlie, because I've overdosed on them so much, it became obvious to me a long time ago that large inheritances are actually a disservice to our kids and grandkids. I think we take away from them more than we give them. I think it's problematic to plan to just hand over large inheritances. We enjoyed the journey, they should enjoy the journey, just being in effect, trust fund kids and welfare kids, they're both in the same boat. An IV drip and IV drips are not good. I knew that pushing the money into my gene pool wasn't the answer. The only real answer was then that you give it back to society, and I am competitive, and I want to make sure that when we give our money back to society, we do it in an efficient, optimized manner. Social return on invested capital was important to me. I also did not want to start thinking about that when I was in my seventies. We set up the Dakshana Foundation about 14 years ago. I thought we would have a lot of headwinds in India, because there's so much corruption and problems with me trying to do something remotely. But I ended up and we got traction right away, and we can identify very bright kids, who were very poor, and who was the future trajectory of those families forever.

We've been able to do it on a scale. Now it's on a very robust financial footing, and it's got a wonderful 110-acre campus in India, and we would like

to invite everyone on the podcast, that when things return to normal and you go to India, you should visit the campus, I think you'll really enjoy that. But for the journey, and I think if you go on the Dakshana website, dakshana.org, I think that can help you understand a lot about.

**Jeff:** Can you just share with us a little bit; how many students has Dakshana educated over these years and what's the current class size on the different campuses?

**Mohnish:** Yeah, we've taken on several thousand kids, around 5,000 kids over the years. Basically, we typically spend around \$3,000 per kid. At any one time now in our program, there's about 800 or so kids in our program, and they're with us for one or two years, and we prep them for the IIT and medical entrance exams which are very hard. But once they get in, they are heavily government subsidized, you get a MIT or Stanford level education with almost nothing out of pocket. When you finish those degrees, global companies are willing to hire you. We've got people who work at Google and Mountain View at Amazon in Seattle, Microsoft, and pretty much, Samsung in Korea and all over the world. These are kids whose parents, for the most part, are illiterate. They are laborers or farm workers, and most of them come from families where the annual income is less than a hundred dollars a month. We have, like for example, one kid at Google probably makes over a quarter million a year and his father used to be a tailor making less than \$50, \$60 a month. It's a massive transformation in terms of what happened before and after.

**Jeff:** Maybe you would have thought of removing the next generation out of what we call poverty, into highly educated productive citizens to fast forward a hundred years and really start to see the remarkable change that can have on society. I applaud you and your family and your team at Dakshana for taking on that challenge, because I do know, like, you like challenges and you are competitive in the next space.

**Mohnish:** Thank you Jeff. This was wonderful. I really enjoyed the interaction and with all regards, I hope the Pinter bar behind you comes to life in the next few weeks as you open.

**Jeff:** We will let others in and it's been a little dusty, so yeah, we got to get it back in shape. But thank you so much today for sharing insights into the past, present and future of Pabrai Investment Funds and it's always a joy to catch up with you. And to our audience, this is the second in our series of webinars. We have our next webinar coming up next Thursday where we will have Ignacio Wine's accounting firm give us an update in overview of opportunities on investing, is kind of some updated new rules and regulations have come out. Please join us again and keep your eye out for that. In the meantime, I thank everybody for taking time out. Stay healthy.

**Mohnish:** All right. Thank you, Jeff.

**Jeff:** Thank you, Mohnish.

---

*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.*

---