

Mohnish Pabrai's Q&A with Members of The Babson College Fund (Babson College Students) on February 9, 2021

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Patrick: Good evening, everyone. My name is Patrick Gregory. I'm the managing director of the Cutler Center for Investments and Finance and the director of the Babson College Fund. It's my pleasure to introduce tonight's speaker, Mohnish Pabrai, he is the managing partner of Pabrai Investment Funds, which has more than \$500 million in assets under management and invests in public equities using a focused value approach. With this approach, his fund has delivered annualized returns of 12% since inception in 1999 versus 8% for the Nasdaq index. Mohnish has been profiled on Forbes and Barons, he appeared frequently on CNN, CNBC, and Bloomberg TV, and he is the author of two books on value investing. Those are "The Dhandho Investor" and "Mosaic: Perspectives on Investing". We expect tonight's discussion to last approximately 60 minutes. He's going to be interviewed by Anay Gawande, who is an undergraduate student and one of the sector managers in the Babson College Fund. Anay will spend the first 20 to 30 minutes on prepared questions and then open it up to the audience for Q&A. I should note that recently a 30-minute zoom call with Mohnish raised \$7,600 on eBay for the Dakshana Foundation, which he founded for gifted, but underprivileged children. Put differently, the next hour is valued at just over \$15,000. We're certainly in for a treat and grateful to Mr. Pabrai for taking the time to speak with us this evening. With that, I'll turn it over to Anay.

Anay: Thank you for that Patrick. Just to kick things off Mohnish, value is a style class that has been underperforming growth for several years. How has this changed your investment philosophy, and can you expand on the idea of compounders that you started to talk about and how do you go about looking for those?

Mohnish: Anay, anyway, it's a pleasure and honor to be here. Just before I answer your questions, I just want to state that Babson is a unique place in the universe and its focus on entrepreneurship is one of the reasons why it's so unique. In business schools, entrepreneurship is a neglected area and it's a neglected area because generally, business school professors, will generally find it hard to get consulting assignments if they specialize in entrepreneurship. If you're a business school professor, you specialize in branding or leadership or organizational development or marketing, you will have a lush consulting career on the side. But if you specialize in entrepreneurship, US entrepreneurs are too cheap and scruffy to engage these school professors to tell us what to

do because we also think we know what to do. Also, the other thing is that, to teach the subject well, you would've needed to be a practitioner. Entrepreneurs usually don't have the PhDs and the credentials. They would have a harder time with tenure and getting appointments and so on. For a multitude of reasons, basically entrepreneurship gets ignored. I think that it is the engine that drives everything. It's the engine that created these United States, made us one of the richest large countries in the world and the most powerful nation in the world. At the core of all of that is an entrepreneur with an impossible dream that he or she is chasing. Anyway, after more than two decades, Babson finally called; I was ready for the call. Thank you. Anyway, to your first question, if I can still remember it, value and growth are two sides of the same coin. You cannot really separate them, and you cannot say, for example, value has underperformed, and growth has done well. Any business is worth the sum of all the future cash it's going to produce from now till judgment day, discounted to a present value. If a business is growing 10% a year, growing 15% a year, growing 50% a year or declining 5% a year, all of them have future cash flows coming out, which drive the result in terms of what that business is worth. If we are paying meaningfully less than those discounted cash flows, then we are engaged in value investing. I think that is timeless. If we are willing to pay anything for those future cash flows, then usually that has led to not such good results in the long term. Some of the things that we are seeing currently in the markets are frothy and some of the things eventually we will find out who's been swimming naked when the tide goes out. That would become apparent. But I'll just give you an example. In early 2000, I visited Microsoft headquarters in Redmond. One of my early investors, the funds was just about a few months old, he was a very early employee at Microsoft, he has done well at Risen. He said "look, if you ever find yourself in Seattle, I could probably introduce you to some current and former Microsoft employees who might have an interest in your fund". I said, "what a coincidence, I'm going to be there the day after tomorrow". He said, "Oh, that's great". I spent a day where he took me to different offices in Microsoft and I met with a bunch of current and former employees. When I was suggesting the Pabrai Investment funds, maybe a place they could put some money, most of them had almost all of their assets in Microsoft in stock and options and of course, their paychecks came from the company. Microsoft in 2000, when I looked at it, it was a very successful company, but it was very overvalued. I told them, "Look, I don't think it's a good idea to have this much exposure to Microsoft because I think, quite frankly, the future results aren't going to be that great. Their perspective and their response to me was, "well, what if you really don't understand technology well and you don't understand our company well. We have done nothing but go straight up for 24 years, and that's all we've always done. The stock always does well, and it'll continue to do well". I said, "Well, the math is against you because you're producing less than \$10 billion a year in cash flow, and your stock is valued at \$600 billion, probably the second most valuable company on the planet or something at the time". I just said that unless those cash flows go up quite dramatically, it's just not going to be worth that money. It turned out that right

from 2000 till about 2015 or 2016 or so, Microsoft was a terrible company to own, even though the business did really well. The company did well, the business did well, but the stock was just too overvalued. Even though cash flows were higher in years after 2000, it just wasn't enough to keep that. In fact, at one point, you had a 70%, 80% drop in market cap. It was a rough ride and Cisco had the same issue. These are not fly by night pets.com type businesses, which had no business model. We see some of that today, where there are companies where valuations look quite extreme. I haven't studied them in detail, but if you were to do these future cash flow calculations, if you take a company like, let's say Snowflake, I mean, I would love to see the future cash flow calculations on Snowflake for the next 20 years, and that would just give you the answer whether it's overvalued or not. Value and growth are the ones and the same joint of the hip, and it's all about buying those future cash flows at well below what they are worth.

Anay: Thanks for that Mohnish. Moving on to the second question, you spoke about how Microsoft's market cap at 1.5%, 60%, 70%, there was a similar story where your fund lost 65% to 70% in the great financial crisis. I think as a young investor, what I want to know is, how do you maintain your conviction, your so-called intestinal fortitude and continue to remain to hold when you know things aren't working out for you?

Mohnish: Yeah, well that's a good question. I think that, in general, if you are going to be a participant in auction driven markets, you have to understand that these markets overshoot and undershoot all the time. There are times when markets get euphoric and there are times when the market gets pessimistic. I think, like Charlie Munger says, that three times in his life so far, Berkshire has dropped 50% or more from the previous high, and he just considers that like kind of par for the course. At the time in 2008, 2009, when we lost two thirds of value, the intrinsic value was a lot higher. One has to have the right framework in those times. Let me take a step back. If you look at any stock on the New York Stock Exchange or Nasdaq, and just look at the 52 weeks range on that stock, you'll find that something is traded from 50 to 100 dollars in the last 12 months and currently valued at \$40 to \$90, and currently valued at \$85 or something. The thing is that you'll almost always across all these stocks, see like a 100% delta between the high and low price in a 12-month period. These are not 12-month periods with a stretch, like you could go back and look at any 12-month period, you could look at 2008 or you could look at 2007 or 2006 or 2015, you'll find the same phenomena. Auction driven markets causes this attenuation because prices are set in the near term by people voting by buying and selling their shares. In the long run, they get weighed appropriately; they get weighed based on what they're worth. In 2008 and 2009, when we were down two thirds, our funds were much undervalued. In nine months, I think in the year 2009, I think the funds were up over 110%, for example. It's not like those businesses did a lot better. It's that we were sitting very undervalued at that point. I think for the next few years, the funds did very well. I think that if you're

going to participate in auction driven markets, you have to understand volatility is part and parcel of that. There are few rules on that front. The first rule is not to be leveraged. Leverage becomes lethal when you are going to have large drawdowns because then, your broker's going to tap you on the shoulder and ask you to send more cash just. At a moment you happen to be short of cash. That's not a good situation to be in. First is, to always avoid leverage. The second is that I always remember this old saying, "if wealth is lost, nothing is lost, if health is lost, something is lost, and if the character is lost, everything is lost. We are only talking about a temporary loss of wealth. It has never bothered me when my portfolio has dropped a lot or the funds are down a lot. Because in general, those very times when that is happening generally tend to be very orgasmic periods in terms of opportunities to invest in. I'm more interested in, "Hey, this is a good time to improve my portfolio. Can I get rid of a lesser quality business and maybe a better-quality business?" Because when everything's being thrown out, they're getting thrown out in different ways. Some things get more deeply undervalued than others and so you can do some reshuffling. I mean like in 2008-2009, commodity prices and commodity stocks got crushed. I mean, they just went to numbers that made no sense. It was happening at such a furious pace that I created a basket of commodity bets, I mean companies in the commodities area, and I just kept putting 2% into each bet because I didn't have that much time to really drill down on the businesses. We had like seven or eight different commodity bets. Not one of them did not work. I mean, every single one of them was at least, a double in a relatively short period of time, and some of them went up seven, eight times, so they went up a lot. It was just a great time. I think that's just par for the course with auction driven markets, you're going to have volatility and you should just be comfortable with that.

Anay: That totally makes sense. I think to expand on your point, you are very famously known to run a very concentrated portfolio. I'm wondering if you can lend some insight into how you think about structuring your portfolio and some of the other portfolio management related issues that a portfolio manager may face.

Mohnish: Yeah, I think you should think of yourself, not as an investor, but more as a partner in a business. I think that's a better way of looking at the business. You might own like, 0.1% or 0.01% of the company, but you should think of yourself as a co-owner of the business. Once you kind of take an approach where you think of yourself as the owner of a company, when you look at entrepreneurs and you look at great entrepreneurs like Sam Bolton or Steve Jobs or Bill Gates, any of them, one thing you'll notice is that in general they are extremely non-diversified. When they are building their businesses, sometimes 99% of their wealth is in a single business. Many times, that single businesses privately held illiquid cannot be sold, etcetera. Some couple that owns a Chinese restaurant for example, I mean, they may have everything in that business, and they're not diversified, they're just all in one. We as investors have a better set of hands to play than the typical entrepreneur. The entrepreneur is almost naturally driven

towards extreme concentration, right? 90 plus percent of assets in one business. Buffett says that if you understand a few businesses, well it is madness to put any money in your 25th best or your 30th best idea. Charlie Munger would be more direct, and he would say that there's no need to have a portfolio of even more than five stocks. His perspective is, three stock portfolios are more than enough. In my personal accounts or my IRAs and things that I rarely have more than two or three stocks. Sometimes I just have one stock, my highest conviction idea. In Pabrai Investment Funds, because it's OPM (Other People's Money), I have told my investors that I won't put more than 10% at cost into a single idea and I stick to that. But it has happened in the past that we've had a single position, or two positions become 60%, 70% of the portfolio. Because they've gone up so much and at those times, I've been reluctant to cut them back. I don't think you need to have too many positions. I think that it is very hard to outperform the index if you have a 20-stock portfolio with 5% going in at a max at any company and that sort of thing. If you understand a bunch of businesses, there are clearly a set of businesses that you understand extremely well, and there's a difference between the ones you've understood extremely well and not so well. Then also, there's a convergence between a business that you understand well and that particular business being very undervalued, then you need to step up to the plate. Or like Buffet says that when it's raining gold, don't put out a thimble, put out a bucket.

Anay: That's certainly helpful. I'll ask my last question before we open it up for Q and A. Mohnish, when you build a checklist to screen for new companies, and now as you start looking for long term compounders, what are you looking for? In other words, in the story of Arjuna when he aims for the fish's eye, what is that center of eye? What is that one piece that every company you look at has to have?

Mohnish: Yeah. Actually, that's a great question because I went through a significant change in my thinking last year on that. For most of my career as a professional investor, I took the approach of trying to buy a dollar bill for 40 or 50 cents or less and sell it for 90 cents or a dollar, kind of capture that arbitrage. Hopefully if the intrinsic value went up in that period, then it could be more than a 2X or if I bought it at, for example, 20 cents of a dollar, it could be a four or 5X. Like in the financial crisis, those commodity plays were pennies on the dollar. They were very cheap. The change in thinking I went through last year was to switch from looking at these undervalued businesses to looking at great compounders. The one difference is that I've made many investments in the past in great compounders, but the problem was that they would get to full price or maybe even get a little bit overpriced. I would see it as risky to keep holding and I'd want to go put it into some of the investment. Of course, the negative with that is that, in taxable accounts, its tax inefficient. In great states like Massachusetts and California, we have even more extreme results because of all the high state income taxes. It's very tax inefficient if you are in taxable

accounts. The second is that if you could identify businesses with very long runways that you can buy even at small discounts, for intrinsic value and they may not be 50% off, and then you are right on the runways and the long-term value creation, then those can turn into 10 baggers or a 100 bagger. In those scenarios, just a couple of positions can make a big difference. I'll give you an example. In the late sixties, early seventies, there was this notion of the NIFTY 50, which was that you identify these 50 great businesses, which were quite richly valued at the time, but they had great prospects. The thinking was, just buy this basket of these 50 businesses, don't worry about the price and everything, it will take care of itself. This basket included things like McDonald's, Coca-Cola, it had Polaroid, Xerox, Kodak. I mean if you look at a company like McDonald's in 1970, I mean, you could not see the end of that runway. It just such a huge, massive runway. Even now it's growing, it's been 50 years since then and it's growing. Coke is still growing and so on. But the result of that NIFTY 50 wasn't great because some of these companies were trading at 70, 80, 100 times earnings. First, you had to crash in 73, 74, combined, the market lost like two thirds of value. These companies just got crushed. First, if you had strong intestinal fortitude and you saw your portfolio go down 75% and you decided, "well, it's not a big deal, I'll keep holding". Even after that, the pain wasn't over because they were just so overvalued. But there's a kind of a small, ignored footnote in the NIFTY 50. There's a controversy whether Walmart was in the NIFTY 50 or not. Walmart had come public in 1970. If you put Walmart in the NIFTY 50 and you put 2% into Walmart and you run the numbers, the NIFTY 50 beats all the indices by a mile. It does well. If you take out Walmart, it performs terribly. Walmart is in there at just 2% weightage at the beginning. One business at 2% weightage causes this because Walmart in 1970, when they had come public, I mean the market cap was less than \$30, \$40 million. It was very small business at the time. Look at the runway, it's a 50-year runway, it's still going. One of the things that took me a long time to figure out, I should have learned this long time ago, is like, if I have a portfolio of 10 stocks carefully picked and they're all compounders with long runways and they aren't bought at ridiculous valuations, like the NIFTY 50 was, you may not need more than one or two of those to have a good run as long as the rest of them don't cause you too much heartburn. It is given that when you make 10 bets, at least four of them are not going to work the way you think they're. Predicting the future of businesses is not an easy thing to do, but even if you have a 40% error rate, in the case of the NIFTY 50, you had a 98% error rate and you still did well if you were right on the 2%, right? That's something to keep in mind. The other thing is that when you think of yourself as an owner of a business, that's the mindset you must be, because the only way you'd be able to keep, no one other than the Walton family has kept Walmart stock from 1970 till now, or even 1980 till now, or even 1990 till now. Why is that? Is it not obvious it's a great business? Is it not obvious that it has very strong ethics and moat and all of that? There are a lot of things obvious about Sam Walton and Walmart. Just to give you a little bit of an example, before my enlightenment of 2020, I made an investment in 2019 in this company in Turkey, in Istanbul. When I made the investment, the

market cap of this company was 19 million dollars, and the best that I could tell is the liquidation value of the business because they've got 12 million square feet of warehouses. They have got the largest freight operations network, the largest truck fleet in Turkey and so on. They have got a bunch of businesses. Liquidation value was at least around \$500 million or so. That wasn't even the best part. The people who ran the business were exceptional capital allocators. I was buying a business, probably less than 5 cents on the dollar, the kind of opposite of the NIFTY 50 you can say. I said, okay, this is great, we'll hold this for a while, and I was lucky. I think that because Turkey has got so much trading volume, the average holding period for most of the retail investors is a few hours or a few days. They've got very high stock volumes and Buffett has another quote that the stock market is a mechanism to transfer wealth from the active to the inactive. My funds own one third of this company now, and we bought the one third for a little less than \$7 million. It's gone up about seven or eight times in the last, let's say 20 months or so. But when I look forward maybe 10 or 20 years, and I say, okay, the intrinsic value is \$500 million. What do I think this father son team that runs it, can do in terms of growing intrinsic value? I'm thinking, probably on a bad day, they probably triple it in 10 years or something, or maybe they might even do more than that. It might be worth maybe a billion and a half or something in 2030, maybe 10, 3X from where it is. What do I need to do? I just need to be good at sitting on my ass and nothing else. The main challenge that I have is to just spend all my time talking to students at Babson for the next 10 or 15 years and let the father son team. They own like 40 odd percent of the company and their idiot passive minority investor and happily cheering them on from the sidelines. The son is very young. He's about 35. I think this got like a three- or four-decade runway. My first stop on this business will be in 2030 to like Rip Van Winkle, wake up and say, "Oh, where are we at? Oh, we are a billion and a half market cap. Okay, that sounds good. Are they still kicking ass? Yeah, they're still kicking ass. Okay, let me go to sleep for another 10 years and I'll wake up and see what's going on after that". This company was one and a half percent of our assets when we invested and the other 98 and a half percent is not exactly slouches, it wasn't invested at Kodak at a hundred times earnings. I think those other bets have some legs as well. The number one skill you need to do well as an investor is extreme patience. If you are the kind of person who loves to watch paint dry, this is the business for you. If you get really excited about watching a white wall drying, this is just perfect for you.

Anay: Thank you for that Mohnish. I love that story. I'm going to invite everyone in the class to raise their virtual hands and I'll call on to you to unmute and ask a question to Mohnish. Okay, we heard Manny, and then we'll follow that with ShaSha and John.

Vladimir: Hi Mohnish, thank you for taking the time to come speak with us today. I was just curious to see your opinion on the current macro state of the global economy. We have around \$14 trillion negative yielding sovereign debts. Equity

markets are all time highs in terms of ratios on average indices. Do you think that we're going to see a significant correction? What are your views on current valuations and how are you personally handling this with your funds?

Mohnish: Okay, yeah. 99% of what grows on this planet, I do not understand. Most of what you said just now went way above my head, my little brain can only handle little things. It cannot handle these big thoughts like, what's going to happen with the Federal Reserve balance sheet and what's going to happen with all our debt and what's going to happen with all these strange things going on around the world. At the end of the day, what mattered for Walmart was, Sam Walton and his principles and his work ethic and his team. That's what drove the result for Walmart. If you look at Walmart from 1972 to now, you know right as they got going, they had the oil shock, they had the impeachment of a president, they had sky high interest rates, you know, price controls, huge lines at gas stations. And then we had all these, you know, we had the Vietnam War, and then we had the Gulf War, and we've got this endless of Afghanistan War and Iraq and so on. So, there's endless stuff going on all around the world. But through all of that, Walmart did just fine. Through all of that in the last 27 years, Mr. Bezos did just fine. Right? I think the important thing for investors is to focus on the micro, don't focus on the macro. Try to understand certain businesses that you think are understandable and try to get a sense of where those businesses are headed and if you have a very high degree of conviction about where those businesses are headed. Like for example, when I went to Turkey in July of 2019, the macro scene was like this. They thought the currency was going to implode. Foreigners were pulling their money out in max from the Turkish market, like there's all these fund managers saying "Turkey is done, leadership is questionable, and currency is going to go bananas. They've got weird fiscal policies, all of that". I'm going in as the theater is empty, there's a fire in the theater and everyone's exiting through all the exits and I'm going into this burning theater, right? My take was that, okay, we have these 12 million square feet of warehouses, and we are going to convert dollars into a certain ownership stake of those warehouses. We don't really care whether it was for three days in Turkish lira before it went into the warehouses, because now my stake is a certain ownership of those warehouses. What the currency is irrelevant. Those warehouses have endured value and their leases were indexed to inflation and all of that. They were a hundred percent leased and they were leased to Amazon and Car four and IKEA and all these companies. My take was that I'm buying the warehouses for one year's rent. I'm paying \$3 a square foot to buy the warehouses; the rent is \$3 a square foot. You're giving me, it's like going and buying some apartment building in LA where I can buy it for one year's rent. Who's crazy to give that to me? Nobody. But they were giving it to me in Istanbul in 2019. I couldn't care less what was going to happen to the lira. I said, the lira can do whatever it wants, it's irrelevant. We went in, we didn't care what happened to the lira. The lira went down 40% within six months after I invested. Didn't matter because in dollar terms, we were up 7X, in lira terms, we were up like 12X. But who cares? Because if the lira goes down

dramatically, cement prices are going to go up. If cement prices go up, the cost to make a new warehouse goes up quite dramatically, which means the cost of the existing warehouse goes up. I said, it's not going to matter. None of this is going to matter. The thing is, forget all the macro mumbo jumbo, whatever else is happening and all this noise with Bitcoin and the shorting of GameStop and all that. This is all just to get the popcorn with a lot of butter and just watch the show. That's all you wanted to do watch the show. Then the real stuff is elsewhere, where no one's paying attention, and something's just being ignored and whatever else.

Anay: Thanks. ShaSha, you can ask your question.

ShaSha: Yeah. Thank you so much again for your time to speak with us. I'm ShaSha, I'm a graduating senior. I guess I'm just more focused on your whole screening process. It sounds like investing stocks internationally, because all asset industries, like that's a huge battle of auctions and how do you even like narrow it down to smaller now that all of them are alike. I find it hard to just narrow everything down. What is the screening process and how hard is that to narrow it down.

Mohnish: Yeah, so both approaches are valid. If you take a very narrow view of the world and you say that, okay, I understand a certain few things. I'll give you the example of Charlie Munger has a very good friend John Arrillaga, he's a billionaire and he only invests in real estate within two miles of the Stanford campus, right? I mean, that's all he's ever done his whole life. If you went to John Arrillaga and said, "hey we've got this strip mall in Sacramento", he wouldn't even let you finish the sentence. He would say, "I'm not interested". You say, no, it's really cheap or if I went to him and said, "listen, John, I got this warehouse in Turkey"; I would not be able to finish the sentence. He's not interested. That's fine because when people come to him with Stanford real estate around the campus, who knows it better than him, nobody else knows him better than him, I mean, if you walk down the street with him, he can just point to buildings and tell you exactly what the rent is, exactly what the value is, exactly what the cash flows are. I mean, he has it wired. When things get euphoric, he exits his portfolio. Then when things get very pessimistic, he buys it all back. He's done that several times in his career. He is done really well. To do well as an investor, you do not need a large circle of competence. What is most important is to stay within the circle. It doesn't matter how much you understand, but it's important to understand the boundaries of what you understand and to stay within those boundaries. What I was finding is, I was finding that when I'm looking at things in the US, I was just not able to find things that looked undervalued. I just couldn't and I'm talking about before Covid in 2018, 2019, I was finding it hard, so what I did is over the years, these people have contacted me. Like for example, there's a very good investor in Korea and it's very clear from the interaction we had that he's extremely well trained and deeply well versed in the Graham Buffet Munger way of thinking. What he invests in Korea is just those deep value things. I told him, "Hey David, listen

would you mind if I came to Seoul, and we spent a few days just visiting all the companies in your portfolio". He said, "Oh, Mohnish it will be a fun experience to hang out". I said, "okay". I made several trips to Seoul where I just went through the businesses that he had, because it's already pre-selected. Already been through one set of filters with him. I could clearly see how he thinks. I say, okay, and then similarly in Turkey, my man in Turkey, God bless him, I did the same thing with him. I just said, "hey listen, can we just hang out in Istanbul? I hear the tea is great. I heard that you have the Turkish coffee, and the Baklava is great, and in between those we'll go meet a few companies". He said, "oh yeah, that's great". I mean, we did that. Now I had to do some tweaks because these guys in these places, they tend to be more heavily Graham than Munger, which means that they are much more focused on these deeply valued businesses versus the compounders. I'm more interested in the compounders, but I still wanted to just see what they had. What I did is, I tried to educate them about moving from the deep value to the compounds, because these are very cheap markets. Korea is a very cheap market. Turkey is a super cheap market and was even cheaper in 2019. I mean, you could buy the Coke bottler in Turkey for seven times the earnings. You cannot buy a Coke bottler in the United States for seven times the earnings. Coca-Cola company owns a stake in that business in Turkey, okay? There's nothing wrong with it. It's similar to the bottler here. In fact, it's got better economics because it's got higher growth than we have over here. There are lots of great businesses like that. What I was able to do is, in a few geographies using these friends of Mohnish, I was able to expand my circle a little bit, right? Because I could rely on them, I said, "Look, are they honest? What's the local kind of know-how on these people and the auditor and that sort of thing". Just the things that would take me a much longer time to figure out was easier because they had done a lot of the work already. But I would say that you don't need to try to figure out the whole world, just focus on what you easily understand. One of the things that you most easily understand is the products and services that you use. If you use Amazon, that's a starting point, just trying to understand that company. If you are a fan of Peloton, that's a starting point to understanding that company. I would say that the starting point should be, maybe companies that you have some familiarity with. Then from there, you go through and try to understand how does the company make money and what are the runway, what's the growth prospects? Is it at a great price or not and so on.

Anay: Thanks for that Mohnish, John McDowell, your next, and then if we have time, George, and Matt.

John: Yeah, Mohnish great to have you here. I was wondering, when you say you're looking at a new market, do you look up top at the total addressable market? It's something that's just growing by leaps and bounds and then tries to narrow down that funnel and find investments in that space because obviously with coronavirus in the pandemic, we've had so many structural changes in the economy, where 10 years of change have happened overnight. The biggest one

I'm looking at is connected TV. You've got \$60 billion worth of advertising, still going to old school cable TV, only \$7 billion going to streaming, but the eyeballs are over here on streaming. The AD dollars just haven't caught up. I'm hugely bullish on that space. I want to get your thoughts on some structural changes you've seen in the coronavirus, and did you look at those sectors and then narrow it down to find investments in them as a result of the pandemic?

Mohnish: Yeah, that's a good question. Usually, I go bottoms up. I usually don't go top down because I'm much more interested in how a business would work. I'm not saying that your approach has any flaws in it. It's perfectly fine. There are a hundred ways to get to Mecca. They're all fine. I personally have just got more comfort looking at a particular business and first asking myself, okay, is this something I understand? That's my first question I ask. Then if I can say, yes, I think I understand this, then I'd say, okay, what's it worth? Because if you understand it, then you'd be able to figure out what it's worth. I would say that when you look at AD dollars, for example, and you look at the universal AD dollars, if you looked at some streaming play or some digital play where the AD dollars are changing, let's say if you look at a business like Twitter, right? I haven't spent much time looking at Twitter. I do recognize it's a very powerful platform and I also recognize that they probably can monetize way more than they are doing today. In fact, they used to not monetize at all, right? Google is the same way where there's so many things that they give away for free or so many things where they don't even try to monetize. When you start to kind of tweak those and say, okay, if I were running this business and I don't want to kill the goose of playing the golden eggs, but can I get more eggs out of this goose? In most cases, the answer is yes, big time. I mean, even the other day, I saw notice on my Netflix, which I said, "Oh, by the way, we are now going to 1799 a month". Warm regards, right? They can go from 1799 to 1999 to 2299, and I don't think that disconnect rates are going to be anything near the percentage increase that they're, if they bump up prices by 15%, for example, which is I think approximately what they were doing on that last go around, I don't think the disconnects are going to be 15%. I think Netflix is like an IV drip. We all need it. I mean, how you going to breathe without Netflix? They've undervalued and I used to think, "oh, 10 bucks, we get all this stuff for 10 bucks. This is so awesome". Yeah, he was just getting us addicted and over time that's going to be bumping up. I think both approaches are valid and I think you can start with a high level construct, but I think you've got to get down to an individual business and then figure out the individual business and take it from there.

John: Thank you. One last question, Mohnish, what is your best pick right now? What is your 100% or 95% conviction pick? We haven't heard that one yet.

Mohnish: I will duck that question.

John: Oh, come on. You can't talk like that. This is a stock pick. We are stock pickers here.

Mohnish: Right? The problem is that there's only downside for me. There's no upside for me. One is I do not want to give you guys any names, because one of the things are that I can't guarantee, even the Turkish bet could go to zero, okay? There are weird things that happen in the world, so I cannot have Babson students lose money on something I tell you. That's just a bad outcome to begin with. The second is that it's a bad idea to buy something when someone else tells you about it. That's in general, the starting point is bad. But I would say this, that if you are a know nothing investor and just getting going, then dollar cost average S&P index over time. The important thing about getting wealthy is just two things. There are three variables that drive the long-term creation of wealth. Three variables, Okay? One is, the amount of capital, right? How much money are you putting into the part? The second is the length of the runway, how much time do you have? Then the third is the greater return. These are the three variables. Now the thing is that, for most of you, because you are so young, and I think most of you may live past a hundred, because the way healthcare is going, so the thing is your runway is like 70, 80 years or more. You have a really long runway, okay? Now the second variable, which is the money you put in. My younger daughter went to NYU. Despite my best advice, neither of them went to Babson, such is life of a dad, you can only point the horse to the water, you can't make them drink. Anyway, she was at NYU and then, she'd come back on these late-night flights to California. One time when she was, I think 18 and she had just finished working in the summer and she had made \$5,000. I told her, "Listen, this \$5,000, can we open like a Roth IRA?" She said, "yeah, that's fine". I said, "can you give me part of attorney to manage that account?" She said, "yeah, sure, no problem". I said, look let's say I'm able to compound that \$5,000 at 15% a year, right? There's something known as the rule of 72, which means that you do 72 out of 15, which is approximately five. At 15% your money will double every five years. Life is all about the number of doubles. I told Momachi, "Listen, you are 18 now, what would this \$5,000 be worth when you are 68 years old if I'm compounding at 15% and doubling every five years?" Its, I think, two in the morning, she's falling asleep and whatever. I said that it is \$5 million. Now she's wide awake. She said how did that happen? I said, "well, one double, which means when you're 23 its \$10,000 and then you're 28, its \$20,000, and in you're 33 it's \$40,000. It's doubling. 10 doubles, which is 50 years is 2 to the power of 10. 2 to the power of 10 is 1024. Let's throw away the 24 because I cannot handle complicated math. We have 1000, so you have \$5,000 times 1000 add three zeros, and that's \$5 million". Uncle Sam doesn't get any of it, ever. Awesome. I said, "then when you are 19 and you do another summer job, how much will that be when you're 69?" She said, \$5 million. I said, "Oh, that's great". Now we have \$10 million, okay? Then I said, "at some point you will graduate and be able to save more than \$5,000 a year. At 22, you might get a job \$70 or \$80,000 or whatever, and you might save maybe \$10,000 in a year or something. In your late twenties, you might be making \$200,000. I said, "what is the total of all these numbers?" She said, "my head would explode if I could figure that out". The numbers become mind boggling, right? Does it take superhuman amounts of saving? No, you can even reduce

the compounding rate. If I take the 15% down to 10% and I increase the period to seven years, it's the same thing. It doubles every seven years. 72 divided by 10 is seven years. Instead of a 50 year runway for a 70 year runway, the end result would be the same. The bottom line is we don't need great stock picks. That's not where the game's at. Because if I give you one stock pick, it'll run out of steam in two or three years, then what are you going to do? I won't be anywhere to be found. Then you'll be wondering, "hey, where do I get my next stock pick?" Forget all that, put it in the S&P, you'll own Apple and Amazon and all these other great businesses, which is just fine. Set it and forget it, and that's it. You're done. The more important thing than which stock is your savings rate, there's a guy called Mr. Money Mustache. Raise your hand if you heard of Mr. Money Mustache. Nobody has heard of Mr. Money Mustache. Oh, one enlightened person who's a Major Ardent. Are you a fan of Mr. Money Mustache?

Speaker: I love Mr. Money Mustache.

Mohnish: Can you please invite Mr. Money Mustache to speak to you guys? Okay. Tell him I told you to get him over. Anyway, Mr. Money Mustache was a software engineer. Now he has a blog and he's got you big following and whatever, but when he was a software engineer and he graduated at 22, (and I'm sorry, I'm going over but hopefully that's okay. We'll be done in a few minutes. I hope that's okay). Anyway, when he was graduating with his computer science degree, he knew that the Gods were not so benevolent to land him at Snowflake. Then he just rides that coattail into becoming a billionaire. He knew that was not what was going to happen to him. He assumed that when he graduated, he would get a generic programming job somewhere and playing a generic salary with a generic basic bonus, living a very generic life. His goal was that when he turned 30 that he would be financially independent, and he would no longer be working. That was his goal when he graduated. He said, "I've got eight years and I'm not going to be making high incomes and I don't need a great amount of comfort and such". For example, Mr. Money Mustache would not be caught dead in a Starbucks. I mean, \$4 for a latte, that's not happening for him. I mean, he would choke if that ever, for him, it's like more like 5 or 10 cents max for beverages in a day. The thing is like, people graduate, and they tell you, "okay, spend one third of your income on housing and all that stuff. That's only for the mass uneducated majority. If you go to his blog, you will understand what frugality means. Like he lives on like \$8,000 or \$10,000 a year, a new car, not in three generations would he ever buy a new car? A three-year-old car, No. Like now he's in the woods of Colorado somewhere. He retired at 30, he made a lot of money, he retired because he had no expenses, then he's a carpenter on the side. He built himself his own wood shack in somewhere in the middle of nowhere in Colorado. Lo and behold, in his twenties, he met Mrs. Money Mustache. Mrs. Money mustache is even more dedicated than him. She's even more frugal than he is. It's very important that if you're going to be Mr. Money Mustache, that you find Mrs. Money Mustache. Now the two of

them are completely financially independent, quit their jobs. He bikes everywhere for everything. I think his annual consumption of gas is like maybe 15 gallons a year. Like one tank a year. To get wealthy, the important things that you can control, we can control our savings rate, okay? We may not be able to control our income; we can control our savings rate. You can also control the runway because you can just assume I'm giving you an 80-year runway. The gods have told me to give it to you, so I'm just giving it to you. Just a very generous guy. You've got the 80-year runway, you've got the high savings rate. We don't know the rate of return, but it doesn't matter because Mr. Money Mustache got it done in eight years and he's quite happy. Anyway, you can visit his blog and then you might not get any useful work done for a while, but that's okay. Thank you very much. It was a pleasure to hang out with all of you.

Anay: Thanks so much Mohnish. We really appreciate the flexibility and the time to go over. Very privileged to hear from you and we hope that you come every year of Babson and give a similar talk to our students.

Mohnish: It would always be a pleasure to do that. It's wonderful. Thank you very much.

Anay: Thanks Mohnish.

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