

# THE ONE PERCENT SHOW

WITH VISHAL KHANDELWAL

EPISODE #4

**MOHNISH PABRAI**  
FOUNDER AND MANAGING PARTNER,  
PABRAI INVESTMENT FUNDS



[VISHALKHANDELWAL.COM](http://VISHALKHANDELWAL.COM)

## The Story Behind “One Percent”

Ben Franklin said, “Little strokes fell great oaks.” The Japanese have talked for centuries about Kaizen, which means ‘small continuous improvements.’ And you must have seen this equation showing the power of compounding 1% per day over 365 days:  $1.01^{365} = 37.8$ . In other words, 1% compounded each day is almost 3800% better each year. Big change, with just one percent.

What this equation and the accompanying advice means is that instead of trying to make radical changes in a short amount of time, if you can just make small improvements – just 1% better – every day, that will gradually lead to the change you want in your life.

That is the idea behind *The One Percent Show*. To take you on an open-ended exploration into the minds of the wisest people around whose insights and wisdom can help us learn to think, invest, decide, and live each day a little, as little as one percent, better.

### Subscribe to *The One Percent Show* on:

[YouTube](#)  
[Google Podcasts](#)  
[Apple Podcasts](#)  
[Spotify](#)  
[Amazon](#)

### Know more at:

[vishalkhandelwal.com](http://vishalkhandelwal.com)  
[@safalniveshak](https://twitter.com/safalniveshak)

Welcome to [The One Percent Show](#) with Vishal Khandelwal. This show is an open-ended exploration into the minds of the wisest people around to help us learn to think, invest, and live each day a little, as little as one percent, better. You can learn more at [vishalkhandelwal.com](http://vishalkhandelwal.com).

My guest today is **Mohnish Pabrai**, who is the founder and Managing Partner of Pabrai Investment Funds and the author of two amazing books – *The Dhandho Investor*, and *Mosaic: Perspectives on Investing*. He is an engineer by training and was running an IT services firm in the 1990s before starting to manage money.

Mohnish is an outlier in the world of investing given that he is a rare investor who has chucked ego out of the door as he calls himself a shameless cloner. He has in fact been quoted as saying, “I’m a shameless copycat. Everything in my life is cloned...I have no original ideas.”

One of his favourite investors is Nick Sleep of Nomad Investment Partnership who, as Mohnish has said, has transformed his investing style. In one of his letters for Nomad Capital, Sleep wrote, and I quote, *“Investing is a wonderful, thoughtful, adventure but it can also be self-centered, a tendency that can be reinforced by the wealth that can follow. We think it is true that, once past X-amount, real meaning comes with reinvesting in society through charitable giving, which can also be a thoughtful, challenging, wonderful adventure, but with the added bonus that it feels like the world working properly.”*

This description fits Mohnish to the tee, given that he also runs the Dakshana Foundation that provides comprehensive scholarships and support for very impoverished and very bright kids to undergo 1-2 years of intensive coaching before taking the IIT entrance exam in India. In short, he is transforming the lives of countless kids pulling them and their families out of poverty by giving them opportunities that might otherwise be unthinkable.

In today’s show, among other things, we are going to talk about the biggest lessons Mohnish has learned from the people with whom he has been the closest in life – like his father, Warren Buffett, Charlie Munger, Nick Sleep, and Guy Spier.

\* \* \*

### **Vishal Khandelwal: Mohnish, welcome to The One Percent Show. Thank you for agreeing to do this.**

Mohnish Pabrai: Vishal, it’s a pleasure to be here. You do a great service for the common man. You help people very well by helping them becoming better at investing and managing their money, growing their wealth, and financial stability. So, I think it’s really wonderful. It’s things that should be

“One of the things I learned from Mr. Buffett is, you have to be really good at saying no. And I learned from Warren that he hates to say no, but he has to say no a lot. Just to keep sanity, he has to say no a lot. And so, I think that what makes us alive, what makes me feel alive, it's really the end-result of a process of culling. Less is more.”

part of our core school curriculum before 12<sup>th</sup> standard, but it's not there. So, we need you. So, thank you.

**It's my pleasure Mohnish. In fact, as I have mentioned earlier too, all I've done is, like Newton said, stand on the shoulders of giants like you. I have learned a lot from you, Warren, and Charlie. And all I am doing is trying to pass on those learnings to people who need them the most. So, thank you so much for that and for your kind words.**

**So, to get started, I take you 20 years back when you were still running your tech company and you hired two industrial psychologists to assess you, they revealed how ill-suited you were to manage a large staff and that you were wired to be working best all alone, which you have done over the past 20 years. And that came at a time when you were almost on the verge of starting your investment firm. The rest, as they say, is history. Now, while researching for this conversation, I went to the website of one of those psychologists who is Jack Skeen, and the question right up on his homepage is – What makes you feel the most alive? And that is my first question for you, Mohnish. What makes you feel the most alive?**

Well, I think that I was lucky I stumbled upon Jack Skeen and Jim Dethmer, his other partner. They were together then, now they've kind of gone on different journeys. I didn't realize how far out of alignment I was. I think what happens with most of us is that we can tell when we are unhappy with something. I mean, if you have a job and you're not excited in the morning to go to work and such, then you know that there's some issue there, or if you have a relationship, and again, it's kind of dragging or whatever, you know there's issues there. And if that persists for a while, then it's probably worth taking some action to try to fix things.

So, for me, at least in the last 20-22 years, maybe even earlier than that, I always try to look at what would make me happy and what would get me excited. When I'm trying to figure out different things to do during the day, or planning things in the future and so on, that's the overriding thing I look at. And one of the ways I get to it is that I do a post-mortem on things that have happened. So, let's say for example I meet someone for lunch, and we have a conversation or whatever, and when I come back, I ask myself how was that, how was the meeting, and was it great or exceptional. And if it really didn't move me in some way, or had really off the charts take-home value, I probably will not meet that person again for lunch or dinner or whatever.

Basically, I think one of the things I learned from Mr. Buffett is, you have to be really good at saying no. And I learned from Warren that he hates to say no, but he has to say no a

“What makes me excited is a process of feedback-driven mechanism where I do an activity, I ask myself how I feel about it, what did I like, don't like, and I don't really care what other people think, I care about how the glove fits on me...I'm really happy because I'm basically living life the way I want to live.”

lot. Just to keep sanity, he has to say no a lot. And so, I think that what makes us alive, what makes me feel alive, it's really the end-result of a process of culling. Less is more. You cut out as many of the things that you can that aren't that exciting to you.

I have very basic needs in life. I don't have very esoteric needs. When I was running my IT company, and when I first started the company, when I was just kind of bootstrapping it, there was a Chinese restaurant which was about 2-3 miles from my office, and every day for about four years, I carried out the exact same lunch from that restaurant. I really liked it a lot. This is before the internet and everything. It was to the point that when I used to call and say, hello, they used to say 10 minutes. We didn't need to talk anymore. I'd just say, hello, they'd say 10 minutes, and that's it, and then I just go in. And it was \$4.27 for a meal, it was a good meal, and I miss that. My office moved, and I couldn't go back. So, to me, I don't need a lot of variety, I just need things that I like. I liked that place. And even now, every year, once a year, I go back to Chicago, I have one meal at that same restaurant, and now the couple has retired, and the kids are running the place.

So, I think what makes me alive and what makes me excited is a process of feedback-driven mechanism where I do an activity, I ask myself how I feel about it, what did I like, don't like, and I don't really care what other people think, I care about how the glove fits on me. And so, I love playing Bridge, so I play a good amount of Bridge. I love reading, I do that. I don't really enjoy having a lot of things on my calendar or meeting people for lunch and dinner, so there's very little of that. And then when I do all of that, I'm really happy because I'm basically living life the way I want to live.

**Great. In a sense, you're saying the ability to say no to a lot of things which don't really matter has helped you live a life and find a life that you really are actually living, right? So that's the essence that I can draw out.**

Less is more.

**Yes, less is more. Mohnish, we are living in a world of FOMO (fear of missing out). You've learned over the years, you've evolved over the years, but for someone starting out or someone right in the middle of their journey, we are surrounded by a lot of noise and a lot of fear of missing out factor. How does one actually get over this or develop this quality of saying no? Because it's all there upon us. It's an attention economy that we're living in. So how have you done that over the past few years?**

It's interesting. In 1994, I was vacationing with my wife in London, and I was looking for something to read on the way

“What I find a lot with other humans is, they'll encounter something, and they'll read a book, it's interesting for them, but they'll just move on. They'll move on to something else. I think what you have to do is, if something grabs you, it means it's hitting something in your psyche or whatever, you have to be willing to go down that rabbit hole, and you have to be willing to go down the rabbit hole till you get to the end of the rabbit hole and have satisfied yourself that, okay, I want to be in this rabbit hole, or no, this is not for me, let me keep walking.”

back, and I read this book by Peter Lynch (One Up on Wall Street), and that was the first time I read an investing book in my life. And then I got interested, I went to the next book, and then that led me to Buffett, and I started digging. What I find in a lot of humans is that they will encounter something they like or something that's of interest, but then they don't take it further. And I think that for me the thing is that I'm, you can say, obsessive compulsive. If I find something is of interest, I want to keep digging.

For example, I've known Nick Sleep for probably more than 15 or 17 years, long time, but we've never had much interaction. Once in a while I would meet him. He lives in California. Sometimes in Omaha, I bump into him. Once in a while, he'd send me his letters. It was kind of very sporadic. And he's really Guy Spier's friend, that's how I got to know him. And I had not really kept in touch with what Nick had been up to. And then when William Green sent me a galley copy of his book, which was about a year ago, I was amazed reading the Nick Sleep chapter. I said, wow, he's been on this journey, he went from Zimbabwe Cement to Amazon, which is quite a leap. And he's let Zimbabwe Cement behind, and he's gone all in on Amazon, which is great. And so, I wanted to drill more. I wasn't satisfied with just what William had written, so I talked to William, he gave me more data about his interaction. Then I contacted Nick, and then he sent me all his letters, and I went through that. Then I again had some exchanges with him.

It opened a nice world for me and seeing that trajectory that he went through helped me make this leap. And the leap is a difficult leap. It was a difficult leap for Buffett. I think it was a relatively easy leap for Charlie (Munger). He's not human, so he can leap pretty quickly. But Warren, I think even today is not completely there, and I'm not completely there. So, the notion of investing in good businesses and paying up for them is not an easy notion when you try to balance it against other options and other things that are going on and such.

So, it's a fascinating area, and it's part art, part science. For example, that's an area, like I said, it's a journey that I'm on and I want to know and learn more. But what I find a lot with other humans is, they'll encounter something, and they'll read a book, it's interesting for them, but they'll just move on. They'll move on to something else. I think what you have to do is, if something grabs you, it means it's hitting something in your psyche or whatever, you have to be willing to go down that rabbit hole, and you have to be willing to go down the rabbit hole till you get to the end of the rabbit hole and have satisfied yourself that, okay, I want to be in this rabbit hole, or no, this is not for me, let me keep walking.

I just find that a lot of humans just don't do that, and the successful ones I think go there. You can be a mile wide and an inch deep, or you can be an inch wide and a mile deep. I

think the willingness to just dive into something that you encounter when you're just kind of scanning the radar is an important thing to pay attention to.

**Talking about Nick Sleep, it's good you talked about him right here. You have evolved a lot over the past 20 years of being an investor in public markets. In 1999 when you started really managing other people's money, you mentioned that you were a classic Graham style investor, and you were looking to buy dollars for 50 cents and sell when the stocks became overvalued, and you did it very successfully for the past 20 years. But in an interview last year, you mentioned, and you mentioned just now as well that you've shifted focus to now trying to find those long-term compounders with long runways, even if the stock looks a bit overvalued at this point of time, and you want to keep holding on to those kinds of compounders till the story or till the business remains good.**

**And you mentioned that you learned much more deeply about this idea from Nick Sleep, who has been your friend for many years. Tell us about your transition? What are those most critical lessons that you've learned as an investor in the past 20 years of your life?**

Actually, I didn't start as a Graham investor. I started as an investor investing in good businesses. If you go further back, when I first started investing, 1994 to 1999, I was doing investing just my own money. In that period, I was very heavily focused on looking at good businesses. And my experience in running the IT firm had shown me that very small amounts of capital with effort and some intelligence applied yielded enormous returns. I mean, literally there were some businesses that I started where I think the money that went in must've been less than \$10,000 or 20,000, and very soon it was making more than a couple of hundred thousand. I had seen that directly, the direct experience in my business, and I was looking for that in the public markets, and that's how I invested.

And from 1994 to 1999, it was like 70% a year. A million had become about 13 million. It had done really well. The issue that came up was in 1999-2000 was that I could see that there was a massive bubble, the dot-com bubble was coming about, and there was change coming, but there was also incredible euphoria. And I was able to just see things maybe a month or two ahead of most of the other people just maybe, I was not that far ahead, but I could see things a little bit further ahead. So, when Pabrai Funds started in the middle of 1999, in our first year, we were up more than 70%. From mid-1999 to mid-2000, we were up more than 70%. The NASDAQ peaked in March of 2000, and then started crashing.

“The reason that Warren Buffett does well is because he's a Swiss army knife. He brings out different blades for different opportunities, and he's willing to go across the spectrum.”

And in fact, for the next eight or nine years, I was up more than 35% a year before fees. And the NASDAQ went from 5,000 to 1,200 in the next 2-3 years. Everything crashed, but I didn't crash. And the reason I didn't crash is that in 1999, I was really concerned about valuations. And when I was trying to look at what are you paying for these businesses versus what are you getting in cashflow, I said to myself, “This makes no sense. It made sense five years ago because those numbers were much more palatable, but it had moved so much, didn't make sense.” So, I completely shifted to Graham. Because what I found at the same time, the day the NASDAQ peaked was the same day that Berkshire Hathaway hit a multi-year low, they both happened on the same day.

Literally, people were pulling money out of Berkshire Hathaway and putting it into Pets.com. So, that's what was happening. Because there was so much money flowing in one particular area, that no one was interested in those Graham type bets. There were arbitrage and different things going on. And that worked really well. And the thing is that what I was supposed to do, which I completely forgot about, is I was supposed to switch back. I mean, the idea was that, okay, you go to Graham, get some cover against this craziness going on, then when everything gets back to normal, get back to being a compounder investor. And I had become so used to that approach of investing that the reversal should have happened earlier. The ideal time to make that reversal would have been 2009.

I think a lot of great businesses were really mispriced and under-priced then. And if I missed that, then probably 2011-2012 was also fine. But I missed all of that. I missed switching over. Because in 2009, you could buy great compounders at 10-12 times earnings, but you could find other stuff at 2 times earnings. And, of course, at this point, I would say that if you're buying the MasterCard or Visa at 12 times earnings, that's a better way to go than something else, which is cigar butt and such. So anyway, the switch took place later than I should've made it happen. And all was not lost, because I still found great returns on a number of businesses and investments we made. And where I am today, is I'm going through an evolution where I've found that you can't go all Nick Sleep.

The reason that Warren Buffett does well is because he's a Swiss army knife. He brings out different blades for different opportunities, and he's willing to go across the spectrum. I think the thing is that it is definitely a great thing to do to buy great businesses and hold them for a long time, if you can get them at reasonable prices, you can also do really well using Graham's techniques, that also works, so probably the right answer is some mix thereof. And actually, the thing what I've even been thinking about is, can I have my cake and eat it too. That would be the best. And so, the best of all these worlds is to find compounders at Graham prices.

“I actually don't think we have a mega bubble. I think the situation today is very different from 1999-2000. Then you had everyone and their brother pumping all they could into this massive bubble.

What I see today, I don't see that situation, I see a little bit different situation. I see a bubble in a very narrow set of assets.”

So, everything is possible in a world with 50,000 stocks. For example, I got lucky, and I invested in this company in Turkey in 2019, and this was a business where it was worth about \$500-600 million, and the market cap was \$20 million. It was trading at 4%, a \$1 for 4 cents, but the second thing on top of what this business had is, it had great assets, these are really, really good assets, and incredible capital allocators. There's a father-son team that run it who are really smart at how they allocate capital. And so, I bought the business. I own a third of the company now, and I was able to buy a third of the company for \$7 million, which is great.

That business now is valued in the market about 120 million or so, it's moved up 5-6 times, but they have moved the value of the business to maybe \$800-900 million. So, what was a \$500-600 million businesses is now about \$800-900 million, and I know that they will keep moving it up. So, I still have a gap. I was \$20 million to \$500-600 million, now I'm \$120-140 million to \$800-900 million. And what I want them to keep doing is keep moving the top line higher and higher, so I don't have any decision to make. Because a classic Graham investor, we would say, if it stayed at \$500 million and this thing got to \$400-450 million, let's move on. But what I want to do is, I want to keep this forever.

And so, in my mind, I think of myself as an owner of that business, and I've decided that just don't bother with it. Even if the market cap goes to a billion today, for example, don't worry about it. They're still allocating capital well. It might be a little bit overvalued, it's okay. So, we bring in a little bit of Nick Sleep, and we mix in a little bit of Graham. And the problem is, these are very rare. But on the other side, you don't need more than two or three of these in a lifetime. You might even do well with even one in a lifetime. It can work out really well, and so that's the beauty of this business. And the learning and the growth where I'm trying to say, can I get the best of both worlds, and can I try to learn from all these people and make it work the way it would work for Mohnish and see what happens.

**Wonderful insights there. The biggest takeaway for me from this response of yours, I think this ability to change the mind with changing times. That comes very rarely to people. We are stuck in a status quo, and we keep on investing the way we invested 20 years back, but I think that's what differentiates people who do really well.**

**I have a question on the current market that is factoring in such unrealistic growth prospects, and it has become actually virtually impossible for so many businesses to grow into the valuation, as you rightly say, that such opportunities have become even rarer at this point of time. And now we are also seeing**



“This is the beautiful part about this business, is that you can let a lot of great balls go, and you don't need to hit on every ball that's coming at you. And so basically when things line up beautifully, you can hit a six out of the stadium, and the rest of the time you don't need to do anything.”

**businesses becoming more fragile because of rapidly changing technology.**

**There's endless amount of money that is being printed by central banks. And over that, we have a new breed of Robinhood investors that does not believe in downsides, and instead willing to take all the investing rules to the cleaners. In this environment, how does one maintain sanity? What's your advice in terms of maintaining sanity and practice detachment, and live and invest with inner scorecard, that you've talked about so often in the past? So, basically, my question is, amidst all the hype and overvaluation, what qualities do you believe could help investors stand a better chance of making optimal decisions for the future?**

I actually don't think we have a mega bubble. I think the situation today is very different from 1999-2000. Then you had everyone and their brother pumping all they could into this massive bubble. I remember in January or February of 2000, I was taking a cab ride in Chicago, and I used to live in Chicago, so I was just downtown, just got into a cab, there was Pakistani cab driver, and he asks me, “What's your view on Cisco?” And I'm a network engineer. That's my specialty. Cisco had become the most valuable company in the world. There were three companies, there was GE, Cisco, and Microsoft, they were all sitting at more than \$600 billion, and there was just no way to justify that valuation. And this is like the 1929 outside the stock market in New York Stock Exchange, the shoeshine boy is giving you stock tips. So, to me, that was a major red flag when a cab driver is hot and heavy on Cisco.

And so, what I see today, I don't see that situation, I see a little bit different situation. I see a bubble in a very narrow set of assets. In 1999-2000, it was a very large bubble. It was massive. Just like in the housing crisis, we had a massive bubble, and it was a very large part of the economy. This is very narrow. So, for example, in the US we have crazy pricing on GameStop, we have crazy pricing on AMC, on Tesla, maybe on Bitcoin, but I don't think you can even get to 10 or 15 names.

I mean, to me, GameStop is funny, because it's a ridiculously useless company. It's completely obsolete. They have no real estate, they only have debt, and they have leases. They have long-term leases which have liability on them. And everything in video games has gone digital. So, they have this huge aircraft carrier that they have to keep feeding and paying. There is no business, and it's not even worth \$5 a share. And they've taken it to crazy highs. And if you can issue stock at those high prices and try and do something with it, you might be able to make something work, but it's a very tough uphill battle. What I find now is that this complete disconnection from reality in a very small sliver of

names, and all these guys who are on Reddit and on Robinhood and all of that, they're all focused on those names.

The other day I was talking to this lady, and she's got some kind of a nursing business and such, and she's just, a matter of fact, telling me, "Basically life is really simple. I have a Robinhood account, and every month, whatever money I get, I put with three stocks." And I said, "Which three stocks?" And then she goes, "GameStop, AMC and Tesla. They all go up, and it's all great, and everything's fine. That's the portfolio." So, I think that this bubble will pop, all bubbles pop at some point, but this bubble is very narrow. It is not clear to me that Amazon is in bubble territory or Microsoft is in bubble territory.

They could be overvalued, but they're also exceptional businesses, so they could even grow into that valuation if they don't have that value today. So, I'm not in the camp which believes that everything is crazy or whatever. I think that the craziness is very limited. And probably I think in India, it's similar.

Humans vacillate between fear and greed, and so that's kind of the norm with it. But I forgot your original question, your original question was, how do you keep sanity?

**Yeah. How do you keep sanity, and amidst all the noise, how do you practice detachment? Especially for you as a public market investor, your every move is publicized. Or even for a normal investor, how do you detach from the FOMO, from the noise, from attention. Or like Buffett said, people want you to act, but you don't want to.**

Yeah. But I think that for me is easy because I'm not particularly interested in winning popularity contests. I'm not interested in people's opinions about me, like the inner scorecard versus outer scorecard that you brought up. I think that that has helped me a lot in terms of just framing things internally. For me, the hunt is all about finding ideally like the business I found in Turkey. My attention is focused there. My attention is not focused on Tesla and GameStop and whatever else is going on. And I don't need to figure out if D-Mart is overvalued or undervalued. It just doesn't fit what I'm looking for, and it doesn't fit the valuation criteria I'm looking for, so it's fine.

And this is the beautiful part about this business, is that you can let a lot of great balls go, and you don't need to hit on every ball that's coming at you. And so basically when things line up beautifully, you can hit a six out of the stadium, and the rest of the time you don't need to do anything. So, I think that model, for me, it's pretty easy, because that's how I think. I'm not particularly concerned with how other people

think or what they think. I'm not concerned if people think I'm stupid or people think I'm smart or whatever else, I think all that is not very relevant to me.

**I think that's great advice for people to take as well in general. Here, I want to bring in Warren and Charlie, your two favourite people. Warren has called Charlie 'the best thirty seconds mind' he has ever seen. And if I'm not mistaken, you also often ask this question while making decisions – What would Charlie do? In that light, and if not in thirty seconds, what would you look at in a business as a potential investment if all you have is five minutes? We talked about fragile companies, economies, we're talking about disruption, all those kinds of things. Amidst all these changing scenarios, if you have five minutes to discard a company or choose a company for a deeper study, what are those key factors that would help you make up your mind either way?**

It's pretty easy to tell if a business has great economics or not, return on equity, just intrinsically, does it fit in your head as a great business or not. So, I'll give you an example. I'll digress a little bit and come back. I've always had difficulty understanding Amazon's business model. In fact, the business model never made any sense to me. I order a box of Band-Aid which costs \$4 or something, and it's delivered to me next day at the \$4 with no shipping price. The real cost of getting that to me has to be north of \$10 or \$20. There's a guy driving a truck, and there's a warehouse somewhere, and there're multiple warehouses. I mean, there's a whole backend stuff going on to get that Band-Aid to me.

And it shows up at the \$4 price, and Amazon has a \$1 margin on it, 25% margin. They have a \$1 margin on that, and I think the last mile costs are ridiculous. So, to me, it never made sense that this was a good business. And then recently I was listening to Jack Ma of Alibaba, and he says the exact same thing. He says, "This makes no sense to us." And so, Jack Ma has not taken ownership of the inventory. And he doesn't control the distribution, he controls the digital pipe. And there's someone else doing the deliveries, and someone else who's taking the inventory risk and all of that, and he's sitting in the middle of all that with the payments and the pipe.

That model makes sense to me. The Amazon model doesn't make sense to me. And Jack Ma said, "Look, I have 25,000 people..." This was a few years back. "If I go to the Amazon model, I need 10 million people." He said, "I'm having difficulty managing 25,000, I don't know how I can manage 10 million, so I'm not going to go there." It was two very different approaches. Now, Amazon has made it work. Eventually, basically they've made it work. And Alibaba has

never gone there. The negative with Alibaba's approach is the link to the customer is not as strong. The Amazon approach is you're just locked in. We love Amazon. And so, there is a kind of ebb and flow there. But for me, the thing is, if I was looking at Amazon, 30 seconds, I would just not be interested because it intrinsically doesn't make sense.

If I looked at something like MasterCard, it would very quickly make sense, because they get a certain percentage of every transaction, and it's a bunch of servers. I mean, it's going to be 80% margin business, because after you have scale, every incremental transaction almost has no cost. So, you can tell very quickly if a business has great economics or not, doesn't take much time, what does take more time is the durability. You can tell whether a business is a good business or not, the second question, is it a durable, that's a much harder question. And if you're going through it in 30-seconds, you have to run through in your head all kinds of things about durability.

I'm reading a book by Terry Smith. Terry Smith runs Fundsmith in the UK, with I think £30 billion under management. He says, "I don't want to pick winners." He says picking winners is very hard. "I want to call the winner after the race has ended." So, he says that basically once the race has ended, we know who the winner is, and that's who I want to invest with. What he means by that is, he has no interest in any companies which don't have a very long history. So, he's interested in Nestle with 150-year history, where I think there was one quarter they lost money or something, or like Colgate-Palmolive and so on, or Microsoft or whatever. So, he's saying, "These companies already won. Nestle has won, Microsoft has won, all these companies have won, so I just want to look at all the winners, and then just pick from those."

His approach is, we know their return on equity is high, we know that they have durability, because they've already shown they're durable. Who's going to take Nestle out? Who's going to take Unilever out? His approach to that is, I'm going to answer the question in a simple way, which is the race is already over. I think that if you use those two models, if you just have the durability and the return on equity, those are the only things you really looked at, you could pretty much in 30 seconds get there with a lot of businesses.

**I think that's a great insight about durability. You've had a hugely successful career, but I'm sure like all investors, you must have also had your moments of failures, mistakes. In an interaction with your friend Guy Spier in 2014, you mentioned you've found failure to be your driver of growth, and that you thought that you are a much better investor because of a whole bunch of different stumbles. So here I want to ask you**

**specifically about this company called Digital Disruptors that not many people may know of, but it was a company that you started in 1999. And as you mentioned somewhere, you quickly lost \$1.8 million of your own money, and around \$2.5 million of outside investors money in that company. And somewhere you also called it as the biggest investing mistake of your life. Take us through the lessons you learned from that failure and that actually set you up for future success?**

When I look back at Digital Disruptors, it was a wonderful experience. And in the end, it ended up being extremely valuable for me. This was a private business that I had founded I think in 1998, and I was making all these tech investments. The first time I went on the internet I think was in 1994. Whitehouse.gov was the first website I saw in 1994. And it was very clear to me as the '90s went on that the internet was transformational. So, one of the reasons why that bubble became such a big bubble, because all bubbles at the core have a kernel of truth, there is a kernel of truth at the core, and there was a kernel of truth here, which is that this amazing internet technology was going to be transformational and will change a lot of things in a lot of industries.

That was actually a true statement. We are seeing it unfold even now. But the thing is, at that time, it was the blind leading the blind. So, it didn't have the thread marks of what's going to work and how things will change and so on. So Digital Disruptors was an endeavour which was trying to take old line businesses to create a new line business. And in fact, it was using Clayton Christensen's disruptive innovation model which said that established businesses will eventually die, and they will get disrupted by some small, scummy business that looks useless. Kind of like when Japanese cars came into the US, they were not that good in quality, they were much inferior to the General Motors American cars. But over time what happened is that the Japanese improved their quality, and they stuck to small cars, and consumers switched to small cars, and GM was never able to adapt to that. In the end, so the disruptor killed the incumbent.

And so, the idea was that we could go to a bank and say, look, you have your banking model and you're running it, but let's set up a digital bank, and let's keep the digital bank separate from the mothership and let this grow on its own. And so, I think the model had some relevance, but I think we were trying to do too many things in too many industries at the same time. And at the same time, while we were doing all of that, the whole dynamic of everything was shifting. The bubble was about to crest and go on, and these models would take a long time to get cash flow positive.

And so, you needed deep pockets. We also found that we did not have the capital, we did not have the runway. There were a lot of issues coming up. So, I had raised venture capital, I had funded the company myself. I had \$1 million, in 1994, it had become about \$13 million, so I put some of that money into Digital Disruptors, the \$1.8 million that went in, and then outside investors, venture capitalists came in as well. And then I think by late 1999, we just realized it's not going to work. And so, I just started to salvage and close and help people get good jobs. And most of the team landed on their feet and all that, so that was fine. But what was really helpful with that whole experience was, I was able to see around the curve a few months before the public markets could see it, because I was dealing with this stuff right at the ground level.

And so, when Pabrai Funds started, it completely sidestepped the entire bubble. Because of the Digital Disruptor experience, I understood what the problems of these models were much better than most people understood them, and so I went in a different direction. In the end, it actually worked out much better, because Pabrai Funds had a lot more capital eventually, and this was a painful lesson, but it was great lesson. And I think every time for everyone, we don't grow with success, it is the failures that help us grow. Success really doesn't teach you anything. You just feel good and life is great, but you don't really grow as a person with success. So, I'm always grateful for the failures. The rough times, the tough times, they are the ones that really in the long run give you a lot of dividends, and so we should be very grateful for all the failures and stumbles that we have.

**Was it that time after Digital Disruptors that you wrote that letter to Warren Buffett asking to work for free for him?**

Yeah. So, I wrote that letter in early 1999. And at that time, I was very clear that I was leaving my IT business, I didn't have an interest in that. Digital Disruptor was still going on, but I was just trying to figure out what am I doing next and where am I going, and I could see that it might come to an end. And so, when I talked to my friends and they quizzed me, I said, the only thing I'm really excited about doing is I want to go work for Warren. And I don't need money, I can work for free. And so, I wrote him a letter. It went by regular mail, and within seven days, I had a response back from him which said, "Thanks, but no thanks, and I work alone." And then he said, "In case you think that Charlie works with me...that's actually not true, because he's in LA, and I'm in Omaha, so good luck." He's final thing was, he said, "Good luck reorganizing your life, I'm not the answer."

**If I were to ask, how did you pitch yourself when you wrote that letter to Warren? What did you say that he should have hired you?**

Well, I just wrote a very candid letter to Warren which just gave him a very quick synopsis of my background. That I was an immigrant, I started this business, I had grown the business, I had then learned about him, and I followed his approach, and I wanted to just keep that learning growing, and I thought that the learning and growth would be tremendous, and I thought I could also add some value for him. And I told him, I'm not looking for a job description, I'm not looking for a title, I'm not looking for a paycheck, you can pretty much ask me to scrub the floors in Omaha, that's fine, and I just want to learn. And so, basically, I just wrote him a very candid letter based on what I wanted to do. And I think he was thoughtful about it in terms of it wasn't a formal letter that came back, he was thoughtful about it. I think he went through everything I sent him, and then that's how he responded.

**Continuing with Warren, you've experienced him from much closer quarters and for much longer time than most other people have, and what are those things that people miss out when they read or learn or think about him, and only find out when they observe him or talk to him in person? Or to put it other way, what are your biggest learnings from him that are not so obvious to people who read or study him from afar?**

Yeah. So, one time someone at an annual meeting asked him, "Mr. Buffett, there are 50,000 stocks in the world, how am I supposed to study them?" And his answer was, "Start with the A's." And, actually, it wasn't just a gimmicky answer, if you will, or just being a smart Alec. That's exactly what he did. In the 1950s, when he was running the Buffett Partnership, he went through the Moody's manuals. And I actually bought one of the Moody's manuals from eBay, just for nostalgia's sake. They don't publish them anymore. And it's a thick book, and it has maybe 20,000 stocks, and very fine print, and had maybe be 3-4 stocks on a page, and it has the salient financial information on each company.

And he went through all those manuals twice. That's pretty intense work. And pretty much he would be upstairs at home before he would move to the office at pretty much from 7:00 AM in the morning to maybe midnight. Other than that, he's just going stock by stock, by stock. And one out of 1,000 or two out 1,000, he'd find something that looked interesting, then he would drill down some more. And so sometimes he would find a company's market cap is \$15 million, and they made \$27 million last year, for example. So, he'd find these quirky anomalies, then he'd drill down on them, and then he made some investments based on that. So, the thing about him that people don't understand is how intense he is about

the work he puts in, and how obsessive compulsive he is when he does that.

And he still does that. Recently when I visited his office, there was a book on his desk called the Japan Company Handbook, and it had half a page on every Japanese company. And when you go through things like the Japan Company Handbook or the Moody's Manual, you are not looking for great businesses, because you're not going to be able to find a great business based on the numbers. You will just find Graham type stuff when you look at the numbers. And so, the Graham in him is still alive. And even though he understands that I need to buy great businesses, he also spends a lot of time on this weird stuff. And so, I think what people don't understand about Buffett is how intensely he studies stuff and how deep his knowledge is.

For example, there's a friend of mine who used to work at this Illinois National Bank in Rockford, Illinois. Berkshire had bought that bank in 1969, and then they were forced to divest I think in 1980 or something. So, he was an intern at the time when Warren owned the bank, and once a month Warren would show up at the bank in Rockford, Illinois, and he said that two or three days before Warren was coming, the whole bank was upside down, getting ready for his visit, because they knew that he's going to ask questions. And someone else said that Warren never forgets a number, and so they wanted to be fluent on all the questions he's going to ask. That was an exceptional bank. They never had a single dollar as non-performing, or they never had any bad debts.

I mean, literally the most extreme, well-run bank you could imagine. And so, there is no banking analyst on the planet today who is better than Warren at banking. And the reason is that he's been at it for 50 years, and he owned a bank, and he studied the hell out of that bank. I mean, his track record on banking is 100%. There's no bank he's ever invested in that has not worked out. And in fact, many of them have worked out extremely well.

Now, he also has made a lot of bets in retail that have blown up for him. So, his retail record is terrible. His banking record is exceptional. And so, I think he's continuously living and learning, trying to do things. He made a mistake with IBM, for example, he made a mistake with Tesco in the UK, he made a lot of mistakes with buying these retailers, but I think what I find that people may not fully understand about him is that he's the opposite end of someone who says, okay, AMC is going up, let me go buy it. He's the complete other end of it.

**That was insightful. Talking about Guy Spier, who's been your friend for 15 years. He's written this wonderful book called The Education of a Value Investor wherein he has dedicated a chapter to you and**



“Your kids are not going to learn from what you tell them. Your kids are going to learn by observing you. So, basically, we are host, because we can't tell them, listen, I know what is right or wrong, don't look at me, this is what you should do. They're not going to listen to that.”

**what he's learned from you over the years being friends with you. He's a great investor and a human being, as we come across by reading his book. What, according to you, have been your biggest learnings from Guy over the years?**

I think Guy has been a wonderful friend, and we have a lot of fun when we're together. And I think the thing I find amazing about Guy is how little he touches his portfolio. He says it's a great year when no changes are made. This is something that has always bothered me, and I have a lot of discussions with him about it. So, for example, Guy has owned Nestle forever, and I tell him, "Guy, there's no meat on that bone. They're 30 analysts tracking the stock, and it's priced to perfection, and whatever juice there was, has been extracted." So, I would just tell him, "Look, yes, Nestle is a great business, they'll be around even 50 years from now, it's great, but what if you look at the Turkish company?" So, I said, "You can't even compare the two." So, Guy just says to me, "There's no way in hell, Mohnish, that I'm ever putting a dollar into Turkey. End of story." He says, "I just don't want to go there."

So, what I admire about him is that he wants to be extremely comfortable in what he owns. It doesn't bother him if it's suboptimal, which would bother me. Something suboptimal would bother me. It doesn't bother him. And so, I actually have a lot to learn from him, because he leaves these things alone for a long time, and I think that's the key. Businesses take a while. I think to have real change in a business, and change in value, and growth and all that, it's decades. It takes a long time. And he's very well-suited for that. So, I admire very deeply his degree of conviction on these companies like Nestle, for example, and the willingness to hold through thick and thin. He just holds them.

**That's wonderful. You've mentioned in one of your talks that passing on your wealth to your kids is a disservice to them, because the fun is in the journey, having limited resources, carving your own path and figuring it all out. So, if not your wealth, I'm sure you must have passed on some very important lessons to your daughters on how to live a good life. What has been your advice to them, and what are some of the key work and life skills that they, or for example, any young person should learn and hone to do well over the next few decades?**

I think that's a good question, and I think your kids are not going to learn from what you tell them. Your kids are going to learn by observing you. So, basically, we are host, because we can't tell them, listen, I know what is right or wrong, don't look at me, this is what you should do. They're not going to listen to that. So, I think that kids are too smart. Kids are too smart to really sit down and just take a bunch of lessons from

their parents. What we have learned from our parents has been by observation, and what our kids are going to learn from us is by observation. I mean, actions speak louder than words. And so how you have interacted with them, how you interact with others, how you conduct your affairs, all these things.

I'll give you an example. My daughter has a startup. She just started a company. She has a few other co-founders. And there was something that they wanted to do where she was questioning the ethics, she was not sure whether it's the right thing to do or the wrong thing to do, and so she came to talk to me about it, and she described the situation and she said some people are feeling one way, and some people are feeling the other way, and then she herself brought up the example, which I didn't realize had a huge impact on her.

When Dakshana first started, I made an internal line in the sand, and what I said is that, under no circumstances will Dakshana give a one-rupee bribe ever to anyone, no matter what the circumstances. And if we ever hit a brick wall where we can't go without paying, we will shut down all operations and pack up, but we're not going to do things like greater good or anything like that, it's a hard line.

And in 2009, we were running a hostel in Faridabad in India. We had taken this place, and we had kind of transformed it, we put a classroom in the basement. The place needed a higher power connection to satisfy all our needs. Because we had air conditioners running and all of that. So whatever power was coming there, it needed to be upgraded. And so, we went to the electric company, and we said that we need the power upgraded. The guy came and he showed a tariff card, if you want so much power, it's so much. And the tariff card, which looked like a tariff card, was actually not a tariff card, it was a bribe card. So, the guy said, "Look, what we have done in our department, is we just streamline it." So, we don't want someone X pays one bribe and Y pays another bribe, we have made it so all the bribes are the same based on what you are asking for. So if you ask for a lot of power, the bribe is higher, if you ask for less power, the bribe is lower."

We told them that we are a non-profit, we are trying to help these poor kids, and we need this power, and this is not some commercial enterprise, so please give us our power. He said, "No, there's no such thing as giving the power, you have to pay." And the bribe was very small. The bribe was less than ₹15,000. It was not a big bribe for us. We could have paid the bribe. Nobody would have ever known that we had even paid the bribe if we had wanted to do that. So, we were not going to pay that bribe, obviously, because it's part of our core, but I also need infrastructure that works for us.

So, we put the diesel generators in. It created a big racket in the front. It looked ugly. There were a lot of problems with it. Environmentally, very negative. And it was costing us ₹50,000 a month in fuel charge to run that diesel generator. It did not bother us at all. So that hostel ran for a year, we happily paid the ₹50,000. That power guy came 3-4 times after that to tell us, "Hey, listen, what are you doing here? This is much cheaper," this and that. But we never did that.

So, my daughter was actually familiar with that story. And when she was looking at this dilemma at her startup, she said the Dakshana power thing was the gold standard for her. She said she wanted to live at that level. I said, "If you want to live at that level, then you can't do what these other guys are saying. If there's even a small question here, you can't do this." The reason she was feeling uncomfortable is because of that example. The others in her team had never seen something like that. So, they did not have a reference point. And whatever their life experience had been, but for her it was a very clear line in the sand that it has to be a certain way, or she can't be part of it. And so, I would just say that I would have had zero impact on my kids if I told them, "Please be honest. Please don't give bribes." None of that means anything.

So, I think you have to practice it. And the amazing thing is that I did not expect that she will be aware of that issue. We have had so many instances in India, with Dakshana, with bribes. The team knows it, and everyone knows it. We deal with all the hurdles that come. But we have never paid a bribe. That is pretty cut and dry. And we deal with whatever consequences come out of that.

I think that's the important thing with your kids. They are observing you when you think you are not being observed. And they know everything about everything you are doing. So, you are fully exposed.

**That's a great lesson in parenting. Moving from the advice to your kids, to the advice you received from your parents. Your father was an entrepreneur and as you mentioned in an interview in the past, he must have started, grown, and bankrupted at least 15 different companies in 15 different industries over his career. You also mentioned that around age 16, your father started taking you on sales calls with him, and so by the time you were 18, you had finished many MBAs. What lessons did you learn at the "Pabrai Business School" that have stood the test of time and that you are still applying with success today?**

I did not realize this till much later in life. The human brain is optimally set up to specialize between the age of, say, 12 and 19. The brain is the fastest growing organ after we are born. It grows faster than any other organ for the first five

years of life, because the birth canal is too narrow, and so the brain is the most under-developed organ we have when we are born. And it goes through very rapid changes in the first five years. There is a massive expansion.

From 12 to 19, the neuron connections get cut. It's cutting a lot of stuff, and it's willing to give a large part of the brain one area or one activity. So, if you have an interest or speciality in that window, the brain is just perfectly set up. That window starts closing once you are past 20 or so. So, the way our education system is set up, you are forced to be jack of all trades till you are past 16 or 18. Then you can start specializing. But, by that time, that window is gone.

Michelangelo started when he was nine or ten, Buffett said he was wasting his time till he was eleven, when he bought his first stock. Bill Gates was programming when he was eleven or twelve. And you can see a lot of examples of people who have done really well when they had a lot of experience in their teen years.

And so, I was going through an education system which makes me a jack of all trades. But in that window of time, my father was running his small businesses, he would get into trouble, and he had nobody to talk to. So, he would sit down with my brother and me around the age of 12 or 13 and he would go through the issues the business was having. We had to come up with how to make it survive for one more day. All the walls are caving in, everything is collapsing, the creditors are coming, and the ship is sinking. How do we make it work one more day? Then after we made it work for one more day, again at night he would sit and ask how we make it work one more day.

When you are going through those kinds of discussions, you are completing many MBAs every week. Everything under the sun is being looked at, sales is looked at, payrolls is looked at, receivables, cash, bank, overdrafts, everything is looked at. Then, I think, after I was 15 or 16, he would take us on sales calls. I was able to observe how he was going into these businesses. He was literally cold calling. I saw how he built those relationships, and they became customers, and then they became friends, and that whole transformation, and how many doors get slammed on your face. So, it was a really powerful lesson that I didn't realize other people didn't have. I think a lot of people in investing have never run a business and look at things through spreadsheets. You really have no idea what's going on there. You are like floating on some vapour.

Even when I started running my first business, those lessons were so transformational because I understood very well what areas needed the most work. So, the thing that these start-up businesses need, a lot of expertise, is on the front end to bring in the sales. You can cover everything else after

that is going on. But a lot of people focus so much on what they like to do, like build a product, and they don't want to deal with the sales-end because it's very frustrating. There's a lot of failure there. So, they just don't want to deal with that. And then you are done. The business is not going to go anywhere.

So, I think there were tremendous lessons that came from my dad. And I don't think he was trying to do this in this way, or maybe he was, of which I am not sure. But definitely, my life's trajectory would have been vastly inferior without that. And then, my mom has too many good qualities to list. She was very quick on the high-level math and the 'mota hisaab' (approximate accounting) type stuff. The main lesson I learned from her was the way she dealt with people. She had a very large circle of people who had extreme goodwill for her. She was a very benevolent, very generous person. So, there were tremendous lessons from both. Quite a blessed situation to have the two of them in my life.

**I am sure. Anyways, a few quick questions here before we end. First, what is the best piece of advice you've ever got?**

The best advice I received was from my dad when I was working in a job, the only job I've had. He said it's time to quit and start your own business. I had decided when I started my career that I would never be an entrepreneur. I had just seen too much turmoil with being an entrepreneur. I told him I have a very good job, a good savings rate, and it's a great trajectory for the next 40 years. I don't need to rock the boat.

He said, "No, you need to quit." When I told him if he had forgotten what we went through, he said, "Yes, but that's what makes life interesting. If we didn't have that, it would have been so boring." I realized later that he was right.

**What is the worst piece of advice you've ever got?**

You get a lot of negative advice from people. You want to do something, and they will tell you not to do it. So, bad advice comes all the time.

**If you have to keep just one book with you and give away all others permanently, which one would you keep and why?**

Poor Charlie's Almanack.

**Here is my closing question. Most of the time, most of us have no idea who we are. Like you said in a past talk, we do not have an owners' manual that guides us in how we should live, and most of our life is spent conforming to how others think we should live.**

Subscribe to *The One Percent Show* on:

[YouTube](#)

[Google Podcasts](#)

[Apple Podcasts](#)

[Spotify](#)

[Amazon](#)

Know more at:

[vishalkhandelwal.com](http://vishalkhandelwal.com)

[@safalniveshak](#)

**Just as a thought experiment, if you were designated by God to design an owner's manual about how humans should live their life generally, what would you put on that?**

First, it would be different for each people. That's the whole point. We are all very different. But what I would put in the owner's manual is this.

Pay very close attention to what excites you, what irritates you, what upsets you, and what energizes you. Things that give you a lot of energy, you want to increase them big time in your life. And things that are draining you, you want to get rid of that. Don't worry that the world doesn't need another painter, or doesn't need another poet, or whatever else. Just pursue what gives you the most joy, satisfaction, and growth. And be very deliberate when things happen, when you do something. Go back and look how you feel about that experience.

I think if you continue to do that, as you go through life, if you are sampling a lot of things, then you are going to find that some things really resonate, and a lot of things don't. And so, just keep going deeper and deeper into the things that resonate with you. That's basically the owner's manual, without spending \$10,000 with Jack Skeen. The better answer is to go and do it with Jack Skeen.

**I am sure. With that, thank you so much Mohnish for being a great teacher all these years, and I must congratulate you and thank you for the wonderful work you and your team are doing at Dakshana, bringing up so many lives positively. Thank you so much. It has been an insightful conversation for me. Thank you so much for everything, Mohnish.**

Vishal, I always enjoy the way you interact with people, and make them into better investors. I feel very sad when I look that most people just don't have the basics. They're smart people, good people, they want to get there. But through all the learnings they went through, this piece is basically missing. So, you are filling a great void, which is wonderful.

**Thanks, Mohnish, for your kind words.**



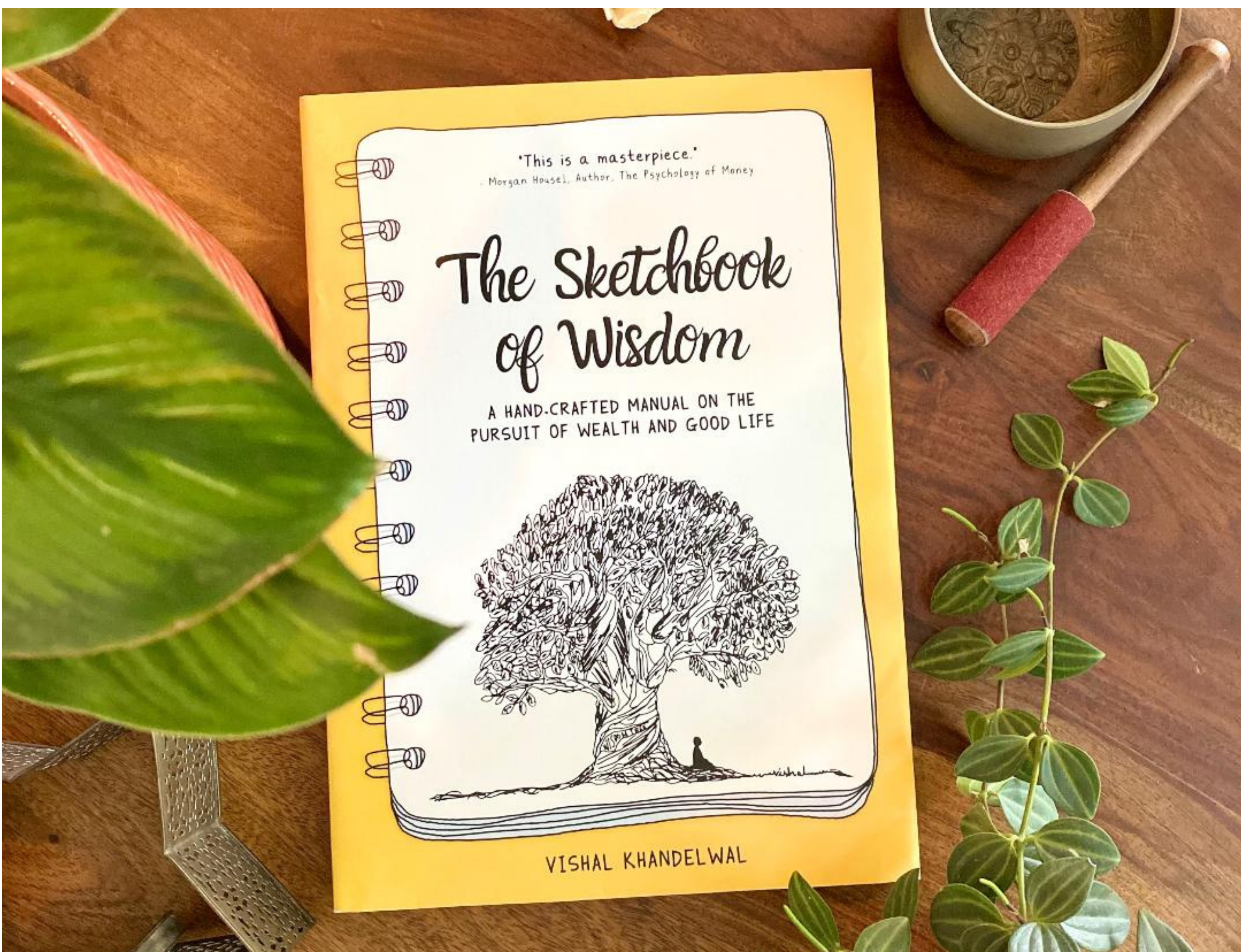
**This is a masterpiece.**

**Morgan Housel**  
**Author, The Psychology of Money**



**Template on how to lead  
a happier and fuller life.**

**Ramesh Damani**  
**Member, BSE**



**ORDER YOUR COPY AT -**  
**[BOOK.SAFALNIVESHAK.COM](http://BOOK.SAFALNIVESHAK.COM)**