Mohnish Pabrai's Interview at
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Shaan: Welcome. Good morning.

Mohnish: Great to be here, Shaan.

Shaan: There are a bunch of different places I could start from. I guess I want to start here: You are a great investor, but you started as a businessman. I am a businessman, trying to become a great investor. How do those two relate?

Mohnish: We use the same part of the brain in both activities. Warren Buffett has a great quote. He says, "I am a better investor because I am a businessman and I am a better businessman because I am an investor." A lot of people do not know that Warren had done a lot of different businesses in different areas before he was 17, starting when he was five or six years old. His very first business was buying Cokes from his grandfather's store at a nickel a piece, and then selling them at a dime a piece.

Shaan: Buy wholesale, sell retail.

Mohnish: Yes. That was one of his first ones. One of the things that a lot of people do not understand about the way our brains work is the human brain. When we are born, it is the most underdeveloped organ, because the birth canal is not wide enough. We are born with a very minimally functional brain. Humans have a long infancy. For the first five years of life, the brain is the fastest-growing organ that we have as humans. The neuron connections are growing at an exponential rate from the age of about 11 to about 20. That window is when the brain is set up to specialize, and the neuron connections get cut, so they go down quite a bit, but the brain allocates areas to hone in and specialize. If you think of someone like Michelangelo, Bill Gates, or even Warren Buffett, these guys started specializing at 10 or 11. If you start writing code at the age of 10 or 11, as Bill Gates did, by the time he was 20, the expertise that he had someone else starting at 20 would not be able to match him even at 50. That 10-year window is very critical in human development. Unfortunately, our education system does not recognize that.

Shaan: Right. Unfortunately, I am 35, so it is too late.

Mohnish: We hope some 11-year-olds are listening or tell your kids. The cake is not fully baked yet. The thing with Warren was that when he was about 10 or 11 years old, he was running a bunch of very interesting businesses.

Shaan: What was he doing? I have never heard of these.

Mohnish: One of his first businesses was, that he used to go to a racetrack in Omaha called Aksarben, which is Nebraska spelled backward. He used to publish racing tips called *Stable Boy Selections*, telling you what horses to bet on. What he would also do is when all the races had been run, he would collect all the discarded tickets on the ground, and he would go home and go through each one carefully to see if some drunk guy had thrown out a winning ticket. He had found a few, but he was too young to go to the window to collect them because he was under 18, so he would give them to his aunt Alice, who would go and collect for him. When he was in high school, his dad was a congressman, so he was in Washington, DC. At around the age of 14 or 15, he had a very good friend in high school called Don Danley, who was smart. He was a valedictorian of the high school. Warren and Don became really good friends. Danley was a tinkerer. He was very mechanically inclined.

Shaan: More like an engineer.

Mohnish: Yes. He was a smart guy. One time Warren went to his home and saw that Don was working on a pinball machine in his garage. He asked Don what he was doing. He said, "Oh, I just bought this pinball machine that was not working. They gave it away. I paid 15 bucks for it, and I can get it working." Warren asked him how much is it going to cost. He said, "It is going to cost $3 in parts and maybe a couple of hours to get it working." Then Warren says, "Can you find more machines like this, which do not work?" He said, "Oh, yes. There are a lot of machines you can buy, that people do not want because they do not work. Don and Warren formed a company in their minds; they never actually incorporated anything. They called it *The Wilson Coin Operated Amusement Company*. These two nerdy-looking 15-year-old boys went to barbershops in DC and said, "We work for Mr. Wilson and Mr. Wilson has asked us to present you with a proposition that we can put a pinball machine in the barbershop, and we will come by once a week, and whatever coins are in there, we will split it 50-50 with you, half for you, and half for Mr. Wilson. The barber said, "Yes, put it in the corner." Warren got Danley busy fixing pinball machines, and the two of them would go on weekends to the barbershops.

Shaan: Every week they are making some money.

Mohnish: He had eventually something like 40 barbershops with these machines. Warren said that the first week he went back to the first barbershop, he thought he died and went to Heaven. There were five or $6 in there. Their take was like $3 on $18 of capital in one week.

Shaan: Right.

Mohnish: He told Don, "Go as fast as you can." Warren had all these different businesses that he was a senior partner and whoever he was working with, a junior partner. One time Danley showed him an ad for a Rolls Royce for sale for $300, but it did not run. It was an old beat-up Rolls. People are giving away junk. He thought he could fix the Rolls, so they bought it for 300, maybe another 50 bucks in parts, and Danley had it running. Then they spruce it up and rent it on weekends for a hundred dollars to weddings. On the weekdays, the two of them would go to high school in the Rolls. What happened is Warren did not know this, but he was specializing and figuring out business in that window of time; the 11 to 20. By the time he was 17 and went to college, he had $15,000. He told his dad I was going to pay for my college myself. He also told his dad, I do not need an inheritance. Whatever money there is, leave it to my two sisters.

Shaan: 15,000 back then is a lot in today's dollars.

Mohnish: Well, it's about 10 to one, so 150 grands.

Shaan: 17-year-old.

Mohnish: Yes. 17-year-old with 150 K. At that time, college was cheap. The other thing is that he got interested in investing. His dad was a stockbroker, so he used to go to his dad's office on the weekends. He says that at the age of 11, he bought his first stock. He said that he was wasting his time till then. He did not have a philosophy. He did not have an investing philosophy. At 19, he read *The Intelligent Investor* by Ben Graham, and that was transformational. He thought Ben Graham was this guy who passed away. But then he discovered that Ben Graham was a professor at Columbia. When he finished his undergrad, he applied to Columbia to go to business school there, so he could learn directly from Ben Graham. He joined Columbia's MBA program when he was around 20. Then of course, after that Graham hired him.

Shaan: Isn't there a story where he tells Graham, "I will work for you for free," and Ben Graham says your price is too high?

Mohnish: That is correct. Yes.

Shaan: But he still ended up convincing him somehow.

Mohnish: At that time, Jews were very heavily discriminated against. There was a lot of anti-Semitism on Wall Street. Ben Graham, who was Jewish, wanted to give the few jobs that he had to Jewish kids and young Jewish people because there just were not many opportunities. He told Warren, "Look, I got to take care of the community." But then Warren went back to Omaha, and about a few months after that Graham called him and said if you want to come to New York, I got something for you. Warren never asked him what the salary was or what the position was. He just took the next train to New York, with his wife and they went from there. He was very lucky. It got seared in, in that window of time. Both Warren and Charlie can crack businesses and business models fast. He already had the business model down on the investing side. When we start a business we will spend maybe three or four or 5% of our time on figuring out the strategy; what is the product or service going to be?

Shaan: Market, pricing, price point.

Mohnish: Yes. How are we going to make it work? All the different plans. Then 95, 97% is all the blocking and tackling to make it happen.

Shaan: Right. It is Danley fixing machines.

Mohnish: Exactly. In the case of investing, we use the same brain cells that we use in that 3 to 5% of the time. One of the things that attracted me to investing was that 3% becomes 80% because we do not need a Danley. We have got public bunk companies and all of that. We just have to pick which businesses we want to own partially and which ones we want to ride and so on. I always find it strange if I run into investors who have not been entrepreneurs because they are missing a very key part.

Shaan: Right.

Mohnish: On the other hand, I find that entrepreneurs are very naturally already set up to be great investors if they make a couple of tweaks. But what ends up happening is that we do not see a lot of entrepreneurs becoming investors. We also see a lot of investors who have not built businesses met payroll. Both have flaws. If you had the good fortune of having the entrepreneurial experience, then I believe looking at the Buffett-Munger frameworks, is a very easy transition.

Shaan: Right. It is probably also easier to go business with an investor than an investor for a long time and then suddenly go try to be an entrepreneur.

Mohnish: Well, investor to business, the problem is the window is closed.

Shaan: Right.

Mohnish: You would be at a disadvantage to start with. But yes, the earlier you start on both endeavors, the better off you are.

Shaan: Warren and Charlie are great investors. I read the shareholder letters, and they are amazing, but they are very high-level and philosophical in a way. I saw a letter Warren wrote to the CEO of See's Candies. I do not know if you have seen this, but it is a letter that I expected to be very philosophical and amusing. Instead, he is brass tack right away; sort of like "I went to the store and I have a few ideas for you." It is a very operational tactical. I noticed this price point, and I noticed this, and I thought, "He is a businessman." Today we only think of him as one bucket, but he has got both gears.

Mohnish: Yes. See's is a wonderful business. It taught them a lot. It taught them more than they ever thought they would learn from a stupid candy business. One of the things Warren did when he first bought See's is he told the CEO, "Listen, you got free rein. Run the business like you have been running it, but on December 26th, I am going to set the prices for the next year." He would sit down with the entire See's price list, and he would bump all the prices by 10 or 15%, and inflation might have been 3%. He would raise prices significantly above inflation, and what he would observe is volumes went up. The year after that, he would again bump it by another 10, 12%, and volumes still went up. Both he and Charlie were amazed that you could have a business where you are continuously raising prices significantly above the rate of inflation, and there is no resistance. There is no resistance from the customer base to accepting those prices. That is what gave them a huge lesson in brands. He was a hardcore deep-value investor. It was hard for them. They paid three times the book value for See's. They were choking almost when they paid that amount. They bought See's for 25 million. Looking back, they could have paid 200 million and it still would have been a good deal. See's has sent dividends to Berkshire in the billions. It has been about 50 years since the purchase, and billions of dollars have flowed from See's to Berkshire, which has then been used to buy a whole plethora of other businesses. If you look at their purchase of Coke, for example, they put a quarter of the entire book value of Berkshire Hathaway into Coke in 1988. If they had not bought See's, they would have never bought Coke.

Shaan: Right.

Mohnish: The lessons that they learned about branding and the power of brands is what led to the Coke investment, which was a much bigger home run. They have made many more brand investments since then.

Shaan: Half the portfolio is Apple right now, right?

Mohnish: Yes.

Shaan: Best brands in the world.

Mohnish: Warren understood this notion of consumer behavior and how powerful brands can be and how powerful habits can be, and then he went from there.

Shaan: One of the interesting things about See's is that it was not a fast grower. They bought it and then its sales exploded. The beauty of See's, if I remember correctly, is that no additional capital had to go in. Everything was just free cash flow coming out.

Mohnish: Yes. See's is very much a California story. It was founded in California. Almost all the sales were in California. If you look at See's from the time they bought it till today, about 50 years, the unit volume has gone up on average 2% a year. California's GDP, at least in the seventies, eighties, and nineties, was going up at least 4 or 5% a year. Part of that might have been the price increases. But even with those heavy price increases, they still got the volume going up slightly.

Shaan: Yes.

Mohnish: When you overlay that, you do 50 years of 10%, that is a very big number. See's is not cheap today. Warren was very excited about being the candy mogul of the world. They tried hard to send these everywhere. They would open a store in Chicago and then fall flat on their face, then they would open in Arizona and they fall flat on their face. They repeatedly tried over and over and over again to broaden See's and expand it. By and large, those efforts did not work. Even today, the bulk of the volumes of See's are in California. When the Coke investment came about, they found something very different than See's. They knew See's does not travel well, but they could look at more than a hundred-year history of Coke. They knew Coke travels well. There are two countries in the world where you cannot get Coke. North Korea and Cuba. If they opened up to Coke in either of those two countries and Coke did not advertise at all, sales would take off. It is so embedded in the pop culture. Even in countries and places where they have never done any branding before like people in Pakistan, India, or Bangladesh having Indian food with a Coke. It is ubiquitous. That did not exist with See's Candies. It was not ubiquitous. Warren understood you cannot consume infinite amounts of candy. There is an aftertaste and all that. Coke, you can consume a lot of.

Shaan: Right. There is no what does he call it? Taste memory.

Mohnish: There is no aftertaste. Yes.

Shaan: That is right.

Mohnish: They moved from being hardcore, quantitative, deep value guys to understanding a lot of nuances of brands and consumer behavior, which was very fundamental to how and why Berkshire did so well.

Shaan: You talked about specializing; in that 11 to 20 years old-ish window. Today you have done phenomenally well. You have managed almost a billion dollars or maybe more and have done incredibly well investing. Did you do that when you were 11 to 20 or were you a late bloomer?

Mohnish: It was just dumb luck. A lot of things in my life have been dumb luck. My dad was a quintessential entrepreneur, and he was really good. To be a great entrepreneur, one of the first traits you need is to be able to identify offering gaps, some product or service that ought to exist, but does not like Starbucks before Starbucks or McDonald's before McDonald's, and so on. My dad was good at figuring out that; this product should be there, but is not. He was good at identifying these offering gaps. He was also really good at starting businesses from scratch and putting things around them, getting them going, getting teams of great people working with him, and so on. But his downfall was that he was always very aggressive, and he was always over-levered. When the businesses were going, he was taking every last dime of profit coming in and everything that he could borrow, and just pounding into the growth as aggressively as possible. The negative was that when the first headwinds showed up, the businesses had no staying power, and so they would run into trouble. India did not have a venture capital culture. The banks were difficult. Trying to get something out of distress was hard. My brother and I, after we were nine or 10 years old, were on his board of directors. I remember when I was 10 or 11 years old, my dad, my brother, and I would sit down in the evening and we had to figure out how to make the business survive for one more day. All the walls were caving in, everything was going bad, and there were a lot of moving parts. We put our heads together and we try to figure out how to make it last. Then we would make it past the one day and the next night the same thing over. I finished many MBAs by the age of six. At 15 or 16, I do not know why my dad did it, but I am grateful he did. He used to take me on sales calls. Who takes a 15-year-old on a sales call? It just does not fit, but my dad did not care. That was just incredible for me because I was getting to see and learn things. I finished high school in Dubai. I was in Dubai from the age of 16 to 19. In that window of time, my dad had a gold jewelry business. He was manufacturing gold jewelry, and selling it to retail merchants. He is going into cold calling, and I am observing him going into a jewelry store. He does not know them.

Shaan: Were you a silent shadow, or did you have a role?

Mohnish: No. I was very silent.

Shaan: Okay.

Mohnish: But I was soaking it in, and sometimes when he was traveling, my brother and I would run the business. There were all these goldsmiths, and we would manage to give them the gold and to take the jewelry and all that. I did not realize it then. When I went to college, I studied engineering, and then I joined a telecom networking company as an R&D engineer. When we were working on the different products, I asked my boss, "What do we want to sell this for? Who is the customer and what are you going to make on it?" My boss would tell me, those are all questions for marketing and sales. We do not need to care about that. Just design the product. He did not know the answers. He did not care. I found that all the people I worked with, the engineers did not care. I thought, "How stupid can you be? You do not have the big picture. The big picture is interesting and exciting. If you know the big picture, you can change the big picture." What I did after two and a half years with the nerds I switched to international marketing, and that was such a breath of fresh air. It was so great. My learning again, skyrocketed. I had a big advantage because I had a very strong engineering background, but I also had all the background for my teen years. What I found is that I was able to connect with customers and figure out what they wanted and how to get the order much better than guys with 20 years more experience than me because they had not had all these experiences and they did not think like entrepreneurs. It was just a small subset. Later in life, when I heard about Buffett for the first time, I found a lot of commonality. He had a very different experience in the sense that he was his own entrepreneur. But one of the things that is important is that when I look at a CEO, I always try to find out if they ran a lemonade stand when they were 12. Because if they did not run a lemonade stand when they were 12, they are not going to be that great at business at 30. The little itty bitty lemonade stand has a lot of lessons.

Shaan: Right.

Mohnish: When we have kids, it is really important in that window. They do not need to run nominate stands, but they need to be doing what is going to be their calling. That is what the biggest responsibility of parents is. They need to expose them to more of what they think their passion is.

Shaan: I have done 500-plus episodes of this, and the podcast is named *My First Million* because when we first started, I would just say I was fascinated by the many different ways people became millionaires. I thought that it was cool to hear the stories. That is how the podcast started. Along the way, I noticed three common things about what you were doing in your teens because I used to ask this question: "You are amazing now. If I met you when you were 14, what were you doing and would I have known that you were going to go on to do things?" Most people are very humble. They would say, "Oh, you would not have known." But then when I say, "What were you doing?" it is always something that no other 13 or 14-year-old is doing. It would be something like, "Oh, I used to go to the shop and I found these CDs, Rosetta Stone, that I could go sell for three X on eBay, and I made an eBay account or I started buying shoes and flipping them. It was always eBay flipping or sneaker flipping is a super common one. Another one was competitive video games. Because a lot of the strategy, communication, collaboration, and just extreme competitiveness gets built in there. There are a couple of others, but another one is a Mormon mission. Mormons who go and have to sell Jesus to a bunch of people get rejected a thousand times in a year. They become incredible salespeople. These backgrounds were kind of forged at an early age to do this.

Mohnish: We have a common friend, Syed Balkhi. You interviewed him for your podcast.

Shaan: Yes.

Mohnish: Syed Balkhi was an entrepreneur at the age of eight or nine, even earlier than that. He was making and selling greeting cards on street corners. By the time he was 11 or 12, he was writing code and developing websites, and he went from there.

Shaan: How did you make your money? People want to be investors, but they believe they need to have a lot of money before they do that. Give me the highlights of your progression in terms of your own ability to generate money and then start to invest it.

Mohnish: I never wanted to be an entrepreneur. I never wanted to start a business because I had seen so much turmoil in my childhood. I remember I was 24 or 25 years old, and my dad was visiting me. I was living in Chicago. He tells me it is time to quit and start my own business. I said, "Have you forgotten my childhood? All the ups and downs?" My dad just said, "Oh, that is what makes life great. The company you are working in; you are one of 2000 people there. You are such a tiny cog in such a big wheel. You could drop dead tomorrow and they will not even miss you. You do not matter. What you want to be doing is figuring out something where there is an offering gap and going for it." I was getting a little bit frustrated at work because the company had been growing. It was getting more and more bureaucratic. I started to think about what might be possible. I was 24, 25 and I did not have any money. What I did was I came up with some IT services offerings that I thought would be pretty unique because, at that time, Client Silver Computing was just getting going early nineties. I had about $30,000 in my 401k. I said to myself, "Okay, we worry about retirement later and we will pay the penalty." I pulled that out.

Shaan: Nice.

Mohnish; I applied for every credit card I could get my hands on. I had 70,000 available to me in different credit limits, in credit cards. I thought, "Okay, we have got up to a hundred thousand that we can play with." The third thing that I did is I did both. I was going to my job, and I had started my company at the same time because what I would do is from six to nine in the morning, I would work on my business. Then from 6:00 PM till midnight, I work on my business again and on weekends. But somebody was paying the rent, I still had a paycheck and all that. I thought, "Okay, once we have enough revenue, clients, and profit, I can quit." I always tell people that if you think about it, there are 168 hours in a week. Your employer needs you for 40. If you live close to work or work remotely, the commute time is not that much. If you take out time for eating, sleeping, and everything else, you have at least another 40, to 50 hours that you can engage in something other than work and I used to always get great reviews when I was starting my business. I said, "The plan is to not get fired. The plan is not to be employee of the year.

Shaan: I am going to give them just enough." I am just above firing level, where it is not so bad that they call me in and terminate me. I need to be above that. I did this over nine months, and then I had clients, revenue, and all that, and I went to my boss and his boss and I resigned. They said, "You know, Mohnish we really could not figure out the last nine months. It felt like you checked out." I said, "Exactly. My goal was to just do enough so I did not get fired." They said they saw a big drop in the old Mohnish and the new Mohnish and that they talked about it and said that it was not so bad that they would fire me but there is something off that we could not figure out. I explained to them I was going into my own business which was not comparable with theirs. They said, “Look, *when* your business fails, not *if* your business fails, you can come back. We are going to give you more money. We are going to promote you, and you are going to do great.” I thought to myself, “I got my degree. I can look for a job. I can apply for personal bankruptcy, clean everything off, and start over. This is even better. I do not have to look for a job. I get more money.” People have a false mental model. People think entrepreneurs take risks. Entrepreneurs do not take risks. They do everything in their power to minimize risk. If you think about Buffett's pinball machine business, what was the risk? Those two 14-year-olds took nothing. It is $15 for a pinball machine, which they could use themselves.

Shaan: Right. Worst case scenario.

Mohnish: $3 in parts. The second pinball machine will only get bought when the first one is already producing cash. The third one, after the second one. There is no risk. If it fails, they sell those machines for more than they bought them.

Shaan: Entrepreneurs are great risk reducers.

Mohnish: That is the other thing that is a commonality between entrepreneurs and value investors, which is why the same brain cells get used. Both are trying to minimize risk. We, as value investors, want to go low risk, high return, and great entrepreneurs, that is exactly what they are doing. They are going low risk, high return. Nobody is doing a high-risk, high return. If you look at the United States, more than a million businesses a year are formed. Venture-backed businesses are much less than even 1% of that pie. In most years, less than one 10th of 1%. If there was no venture capital and no venture-backed businesses, it would make no difference to the landscape. We would still have a million businesses being formed. Venture-backed businesses are a different animal because they are high risk, high return. What the VC wants you to do, the VC has got 10 bets. He does not care whether your bet works or not. He just wants one of those 10 to work. He wants you to step on the gas as aggressively as possible. If you blow up, you blow up. When you are an entrepreneur who is not venture-backed, that is not how you go, you do not put your foot on the gas. You are very careful about downside protection.

Shaan: Even some of the big entrepreneurs like Richard Branson. People see him as a free, risk-taker, reckless sort of guy. But you have pointed out that that is not true about Richard Branson in this case.

Mohnish: One of the stories I love about Branson is when he had the idea to start Virgin Atlantic Airlines. The minimum that you need to start transatlantic service is a Boeing 747; a couple of hundred million dollars. Branson got Virgin Atlantic off the ground with no money. What he did was call directory assistance in the United States. He calls 2065551212 in Seattle and asks for the number of Boeing. He gets the number, calls the main switchboard, and says he would like to lease a 747 that they might have to hang around that they are not using. They hang up on him. He keeps calling them. Finally, the lady on the switchboard thinks to herself, "Let me transfer you to someone who can get rid of you properly." She transferred him to someone who is head of commercial sales. This guy tells him, "Listen, Mr. Branson, in every country, we have one customer, and you are not the customer. In the UK it is British Airways. Therefore, there is nothing to talk about. Richard tells him, "Listen, I agree with you. That is fine, but just humor me for a second. Do you have an old Boeing 747 lying around that you are not using?" He replies, "Yes, actually we do." Richard goes on to say, "And if one of your customers, like British Airways, called you and they wanted a plane, what would you lease it for?" He says, "Well, I do not need to have this conversation, but we would lease it for about 2 or 300,000 a month." Branson was able to convince Boeing to lease him that 747 because it was sitting and doing nothing.

Shaan: Right.

Mohnish: When he set up Virgin Atlantic, he said, "You get paid for all the future flights in advance because people buy tickets. The plane is going to fly in April. People already bought tickets in February. I got cash coming in two months, three months before the plane is going to fly, and I am going to pay for the fuel 30 days after that plane lands." He had negative working capital, and the lease payment was also in arrears. He was able to get Virgin Atlantic off the ground with zero equity. Now, the way I look at it is that if you can start an airline with no money, you can start any business with no money.

Shaan: Right.

Mohnish: You just have to replace capital with creative thinking. When we look at the non-venture backed businesses—the Chinese restaurant, the laundromat, the pinball machine business—the common theme is that they do not take risks, and they have upside even when Michael Dell is here in Austin. When he was going to UT Austin as a freshman, his parents were driving him to UT Austin. He had three computers in the backseat, and he was fiddling with computers and making them and selling them. That is what he started doing in his dorm room, and we have now Dell computers. That is just a story that got repeated over and over.

Shaan: Well, one of the best ones you have told answers the following question. How is it possible that 0.1% of the population owns almost 70% of all the motels in America?

Mohnish: That is right.

Shaan: This is an incredible story. Can you explain how is that possible?

Mohnish: Yes. When we look at East Africa and a country called Uganda in East Africa, and in the early seventies, a dictator came to power in Uganda, Idi Amin. He noticed that in Uganda, most of the businesses were controlled by East Asians, Indians, and Patels; they controlled 80% of the economy, and these Patels had come to Uganda. They were brought to Uganda about a hundred years ago to work on the railroad almost as slaves. But because they are natural entrepreneurs, they went from railroad builders to eventually owning and controlling their whole economy, right? He was pissed. Idi Amin said, "Africa is for Africans, and you guys are not Africans. These Patels had been in Uganda for three or four generations. That was their home. They were Ugandan citizens, born and raised. What he did is he nationalized all their businesses and he threw them out of the country,

Shaan: Which just means took their businesses, right?

Mohnish: He just took them. Yes. He confiscated all their businesses, homes, assets, everything and he told them, "You have 90 days to leave the country." These Patels in Uganda were stateless. Imagine you, a citizen of a country, and the country is throwing you out. They lost all their money. They were able to convert a very small sliver of the assets into gold. The United States took some Patels as refugees. The UK took them, and Canada took them. India surprisingly refused to take the Patels and refused to recognize the Patels at any right to return to India, because they had not been here for a hundred years. India was, at that time, dealing with the Bangladesh refugee crisis, so it could not deal with anything anymore. But a small number of Patels, a few thousand of them, came into the United States in the early seventies as refugees. They did not have skills there where they could get great jobs. They spoke English with a funny accent. They realized that if they buy a really small motel, a 10, 12, or 14-room motel, the family can live in one or two rooms. Motels are labor intensive. The family can do all the work.

Shaan: It is a job and a house together.

Mohnish: Yes. Jobs like cooking, cleaning, front desk, laundry. What they started doing was buying motels, firing all the staff, and moving into two of the rooms. Because they had no costs, they were able to charge nightly rates that were lower than all the neighboring motels. What would happen is that the Patel-owned motel would be running a hundred percent occupancy. The other motels could not match that rate. They would lose money because they had staff and workers' compensation and all that stuff. Patels were very frugal. They were vegetarians. At that time, in the US, if you were vegetarian, you could not eat out anywhere. They were forced to just cook themselves, which was cheap. There was not much of a grocery bill. What they started doing is, when their nephew grew up, for example, they would help him out to buy his own motel. Then the nephew would get that going, and then the next one, and the next one. You run this for 50 years, and you end up with 70% of the motels in the country under Patel ownership. Not only that, they have gone upmarket now. A lot of the Hiltons, Marriott's Westerns, if you look, you will find they are under Patel's ownership. Same math. They always are very good operators. Then they went into Seven-11 laundromats, Dunkin Donuts, you name it. The bottom line was that these were entrepreneurs who were low-cost producers, and they had an inherent advantage. I remember when I first met Charlie, he had read my book and we were discussing the Patels. He said, "I got some friends in the motel business. I just tell them not to ever try to compete with a Patel. If you ever find yourself in competition with a Patel, just find another game to play. Just move on. It is not worth it."

Shaan: You said you met Charlie. That has got to be kind of a surreal thing for you to have met and become friends with Charlie Munger and Warren Buffett. How did that happen? How did that come about?

Mohnish: I was this scrawny kid who grew up in the suburbs of Mumbai. I accidentally heard of Warren Buffett in the mid-nineties, and it was a big aha moment for me at that time. I was lucky because the first couple of biographies of him had come out. What I realized is when I read about how Warren was investing, I thought that all these models are the same models that an entrepreneur uses. But the big advantage he seems to have is that 4% of the time of strategy is 80% time for him. Even in the IT business I had created which had grown and scaled, I always enjoyed the 4% more. I was happy doing sales calls, building teams, and all that. That was great. Because the business was moving so fast, I had to redo our direction every two or three years because everything would change. I enjoyed the time that I was figuring things out. I said, "Wow. If I go into investing, it would be 80% of my time because there's no blocking and tackling. Someone else is doing that." For me, that was a big aha moment that I should switch. I was lucky. In the mid-nineties, just when I was getting my arms around the Buffett model and all that, someone bought a small portion of my business. After taxes, after everything, I got a million dollars, and for the first time, I had money in the bank. I did not need the million. I thought, "Okay, what we are going to do is we are going to take this million, and invest in the public markets, and find out if we can do this.

An idea is like an asshole. Everyone has one. Ideas do not mean anything. It is the execution of the idea that has value. Entrepreneurs get kind of hung up on, "Oh, I need to get a patent and all that." One of the things you have to understand is you can go to your most direct competitors. You can tell them all your trade secrets. They will listen to you carefully, and they will not change their behavior. You do not need patents for anything. The ideas do not mean anything. It is the execution. I thought, "Let us take the million, start investing, and figure out what happens." I was surprised we did well. From 1995 to 2005, that million became 13 million. I said, "Wow, well done Mohnish." They got 70% a year compounded. I was doing investing part-time while I was running my IT business. I was much more interested in the investing side, losing interest in the business side. In 1999, I did not even feel like going to work. I just wanted to focus on investing. I made a couple of big changes, and then I looked for and found a CEO to run my company. I felt 13, 14 million was enough to retire and do nothing. I could do investing full-time. I planned that someone could run the business. Whatever value is there, is there. It does not matter. I can go off and just do investing full-time. I had a few friends to whom I used to give them stock tips. In the mid-nineties, I would find some company, and I would invest after that. I did not care who bought the stock. I already bought it. I tell my friends, "Hey, I found this company. You ought to see if you want to take a flyer on it and buy it." They did well on the stock tips. A bunch of these friends came to me and said, "Look, we do not like this randomness of stock tips. We do not see you sometimes, and you may have sold, we do not know. We want you to manage some money for us." They were proposing giving me a hundred thousand dollars each, and it would be a million dollars in all. I agreed to do it. I thought of it as a hobby. I did not even think of it as a fund, but I wanted to do it in a format that works for me. I love the Buffett partnerships where he did not charge management fees. He only charges performance fees.

Shaan: What is a normal structure, and then what did Warren do?

Mohnish: A normal hedge fund would be a 2 and 20 structure. They would take 2% of assets to the management fee for breathing every year. Then 20% of the profits. If a hedge fund, for example, has a billion dollars under management, the general partners would take $20 million a year.

Shaan: For breathing?

Mohnish: For breathing. Then if it went up 10%, they would make a hundred million, for example, on the billion, and they would take another 20 million on that. What would happen is the investor who put up the money on a 10% return gets a 6% return right below the S&P because of all these frictional costs. Buffett ran his partnership by saying, "There is no management fee. The first 6% returns go to you, and above that, I will take one-fourth, and you take three-fourths." In the same situation, if the fund is up 10%, in Buffett's case, the first 60 million goes to the investors, and the remaining 40 million is split. It becomes 10 million to him and 30 million to the investors. It is half the fee. You are paying for performance. If he is not up that much, you do not pay anything. I like that structure. I told them, "I want to set up a fund so it is all legal, and we will do it with that structure." They did not care what structure it was. Pabrai Investment Funds started in 99 as a hobby with me and my buddies. I had 13 million on the side, which was my main focus, and I said, "There is another million here. It is okay if I find something I can buy for both. It makes no difference." A year after that, there were about two and a half million. We were up like 70% in the first year. Some more money had come in and I said, "Why do I treat the fund like a stepchild? Why don't I think of it like a real business? Why don't I grow and scale it like a real business?" I started to do that. Pabrai Investment Funds had a very good run for the first eight or nine years. We were doing like mid-thirties a year on average. No down years. The assets grew. In 2007, we were at 600 million in assets under management, and I had made a lot of money; the fees and the compounding and all of that.

Shaan: In 10 years, you turned the million dollars of managed money into about 600 million of assets in management, including new money coming in.

Mohnish: Yes. It was not just organic, but the original money had almost tripled or quadrupled in that period. I

Shaan: I told you yesterday when we were hanging out that there are two questions when you hear this story. Number one, how the hell were you getting these returns? What did you know about investing? What was that part? But the second part is, what did you do on the fundraising side? How did you get so much more money to come through the door? You have had a great line about how you get more money to come through the door because you did not strike me as a guy who wanted to be out there fundraising and knocking on doors and trying to raise funds. So how does it happen?

Mohnish: Buffett has a great quote. He says that if you are in a rowboat in the middle of the Atlantic, they will swim to you in shark-infested waters to invest with you if you have beaten the market. They will find you. He says that you could be a leper and they will invest with you.

Shaan: That is what happened.

Mohnish: One of the things that was very difficult for me was that the SEC has a lot of rules and laws around hedge funds. One of those is you cannot solicit the general public. When I was running my IT business, I could call on any CIO and say, "Hey, would you like to use our services?" I could call anyone out of the phone book. When you are running a fund, you cannot just get a list of dentists in North Carolina and pound them. That is not legal. You cannot do that. The SEC said, "You can only talk to people." I said, "The people I know, I am going to run a Rolodex in like five minutes. There are very few people I know." What I did is I started to meet my investors once a year for an annual meeting where I would give them their results and take their questions and all of that. I told them, "Listen there was one reason and one reason alone, you were put on Planet Earth, and that is to bring assets to Pabrai Investment Funds." Humans are always looking for a calling. They are looking for some cult leader to follow and be part of the cult.

Shaan: So you gave them one.

Mohnish: They were wandering in the wilderness. They needed purpose. I said, "Here is what you need to do. You need to go talk to your friends and family because I cannot talk to them. The SEC will not let me talk to them. You talk to them and tell them about me. Tell them to contact me. Once they contact me, I can engage with them. Go out and spread the word, and send me more of your assets too." Like I said, I started with a million. A year later, it was two and a half million, two years later, it was 10 million, and it was growing. Part of it was that the annual returns were added. I had eight investors when I started. A year later there were 17, and two years later there were 25. Now I had an audience of 25 to proselytize and spread the word and of course the results. The other thing that was happening was that when I started the funds in 1999, we were nine months away from the biggest bubble about to burst. That had happened in decades, the dot-com bubble. I was able to see the bubble not very much in advance of the rest of the world, maybe just two or three months ahead. I knew the internet was transformational but I also knew that the euphoria was too much. We had Pets.com trading at multi-billion dollar valuations with no revenues. People were counting eyeballs. They were not counting dollars. They were not looking at net income. They were not even looking at revenue. They were just looking at eyeballs. I thought, "Okay, this is bad news. It will blow at some point. The bubble is going to burst. I did not know when. I had always been a tech investor from the mid-nineties, and I had done well.

Tech had a great run from 95 to 2000. It had done well, and I had ridden that coattail. But what I did in 99 when the fund started, and also with my capital, is I did a 180. I switched completely to classic Ben Graham, deep value; what Buffett had started doing in the fifties. One of the things that was happening in the equity markets at that time was the day the NASDAQ peaked, March 8th or March 9th, 2000, was the day that Berkshire hit a multi-year low. People were pulling money out of their Berkshire stock and buying pets.com. Then that goes to zero eventually. There were a lot of basic businesses that had become cheap because nobody was interested. I was buying funeral homes at two times earnings. I am buying steel companies at three times earnings. A lot of basic businesses, which are very predictable and doing well, were trading cheaply. The NASDAQ imploded. It hit 5,000 in March 2000. By the time it bottomed out in the next two or three years, it was a 1200 - 75% drop. The S&P did not go down as much, but they also went down a lot. It was a traumatic period for investors. It was a great period for me. It was very easy for me to talk to my investors because I was the only guy making money for them. If they had five accounts, they would just move it all to me because everything else was going down.

Shaan: Everything else was red.

Mohnish: Yes. That is how we got going. In 2007, my net worth at that time was around 84 million. Warren had been running these charity lunch auctions where once a year you could bid on eBay to have lunch with Warren Buffett, and the money would go to the Glide Foundation, which was feeding the homeless and all that in San Francisco. I thought to myself that I was using this guy's intellectual property. I am making all this money off him. I have a big tuition bill I need to pay and lunch is a great way to do that. I can bid for the lunch, and I will meet Warren. I will be able to thank him in person, and it goes to a cause that he supports. I thought about it and decided that an appropriate tuition bill would be 2 million. If I gave him 2 million, I would feel good about that. I decided in 2007 that I was going to bid for that lunch. I would go up to $2 million and you can bring up to seven other people to that lunch. I was going to take my family, but there still were a couple of seats empty. I contacted my friend, Guy Spier, who lives in Zurich. I said, "Hey, Guy, I am going to bid on a lunch with Warren Buffett. Do you want to come with me? If you and your wife want to join us because there will be four of us and two of you, you can pay one-third. I am willing to go up to 2 million." Guy says, "Well, that is too much for me. I cannot pay one-third of the 2 million. I am good for a quarter million." I said, "Okay, whatever the bid ends up at, you are capped at a quarter million." I bid for it. It settled at 650,000, much less than what I was willing to pay. One-third of that got paid by Guy. My only agenda in meeting Warren was to just say, "Thank you, Warren." Warren's agenda when he has these lunches is different. His agenda is that he wants the people who won that lunch to feel like they got a great bargain. He would take all our lemon questions and turn them into lemonade. He is a great teacher. He was trying to give as much value as he could in that lunch. When we met him, he said, "Look, I got nothing going on all afternoon. When you guys are sick and tired of me, you just let me know and I will leave." We kept asking him questions for three hours, and then we were exhausted. We said, "Warren, we just do not have anything else to ask you." He said, "Okay, I will take off. No problem." In that lunch, I told him, "Look, Warren my wife Harina is a huge fan of yours, but her true love in life is Charlie." Warren got competitive. He said, "Charlie is a very boring guy. He is very pessimistic. He always says no to everything. I am the interesting guy. What I am going to do is since you guys live in California, in LA, I am going to set you guys up to meet Charlie for lunch, and then when you meet him for lunch, you are going to find out that he is useless, and I am the guy." I thought he was joking about that. Two days later, I got an email from his assistant to Charlie's assistant copying us saying, "Hey, I met this wonderful couple in California, and they seem to think you are more interesting. They just do not understand, so I want them to meet you so we can set the record straight."

Shaan: This is really what he was saying?

Mohnish: This is exactly what he said in the email.

Shaan: Was he joking or was he not joking?

Mohnish: Then Charlie's assistant sets us up to meet Charlie for lunch. Now, Warren, you can bribe and have lunch with him. With Charlie, there is no bribing. This is great. My wife and I met Charlie in 2008 at the California Club in LA. I found that lunch a lot better than the Buffett lunch. It was great because Charlie is just so direct. I never expected these lunches or any of this to lead to anything. This is a one-and-done. But it led to a friendship with Charlie. He started asking us to come to his place for dinner and I would meet him four or five times a year for dinner. Then we started playing bridge together. Usually on Fridays, he would play bridge at the LA Country Club. I would meet him about once a month or something to play bridge. That used to be lunch, and then about four or five hours of bridge after that. It was a wonderful deep friendship for 15 years which was unexpected.

Shaan: Let us go back to the lunch. You ask him questions for three hours. What were the interesting questions and answers? I know you have said one that I want to hear you explain. I have heard the titbit, but I wanted to hear the full story. He said something about being a harsh grader of people.

Mohnish: Yes.

Shaan: What does that mean?

Mohnish: I told Warren, “Warren you know, you and Charlie are such good judges of humans and human nature. Were you always that good at figuring people out?” He says to me, “Mohnish, you are mistaken. I am useless at figuring people out. If you put me in a cocktail party with a hundred people and you gave me 5 or 10 minutes to meet each person, I could tell you three or four people were exceptional. I could tell you three or four people you want nothing to do with. The remaining 92, I would have no opinion on them because there is not enough time to figure them out.” He also said, “Look, what you do in life is those three or four people who are exceptional, you bring them into your inner circle, and, the three or four people who are not great humans, you are not going to have anything to do with them. The third thing you do is treat the 92, just like useless humans and you exclude them. Be a harsh grader. When you have friendships, and when you have people, you work with, there is a gravitational pull. If you hang out with people better than you, you are going to get better. If you hang out with people worse than you, you are going to get worse. One of the things that most humans are not willing to do is loyalty get in the way of them. They may have a friend who is kind of weird or quirky or has ethical issues, but they have had a long friendship. They will keep that person going with them which has detrimental impacts.” I took that to heart, and I said that I was going to try to see if I could focus on the great relationships, the great people. That has been a journey I have been on now for 16, or 17 years. It has been tremendous. It is great, but unfair because you are treating the unknown the same as useless people. But that is the way life is. Sometimes you have to make these difficult choices because if you do not do that, then the impact of that is significantly negative. When I started to get to know Charlie, I got to meet Charlie's friends. I would play bridge with his friends. I would meet his friends. What I realized is his friends were so off the charts, they were so exceptional. I said, “Wow, this is like a different world.” I said, “I am going to take a shortcut. I am going to make Charlie's friends, my friends, because he has already done all the work.

Shaan: He did the filtering.

Mohnish: You can get a better filter than Charlie Munger. I worked on building relationships with Charlie's friends and some of his family, and that has been beautiful. There is such a huge delta in off the chart, top 0.1%, top 1% of humans, and the rest, and, we, we talked about this. Adam Grant wrote this wonderful book, *Give and Take*. He categorizes people into three buckets; the givers, the takers, and the matchers. The takers, you do not want anything to do with. They are just going to extract whatever they can from you. They are not people you want to have in your life. The givers are people who are selflessly trying to help the planet. They are not concerned about what comes back to them. Those are the ones you want to be with. The matchers are kind of doing math in their heads. For example, Shaan did this for me, so I am going to do something similar. Even the matchers are not that great. What you want to do is you want to seek out the givers. More important than that is you want to be a giver. The interesting thing that he pointed out in that book is that when you are a giver, the universe conspires to help you. I found that magical. Warren and Charlie are great examples of givers. Everyone is trying to help them in any way they can. The funny thing is that the matchers who are trying to do this, equalization, end up losing. The best way to get the most is not to ask for anything. It will all come to you. These are wonderful models to incorporate.

Shaan: Yes. There is even some game theory with that, which is the cost of excluding somebody who might be good or might be great is quite low to you. But the cost of accidentally including somebody who might have some toxicity is quite costly to you. Even in investments, we have the good pile and the hard pile.

Mohnish: Warren has a lot of baseball analogies. He says that in investing, there are no call strikes. In baseball, you are at the pitch, three strikes, and you are out. He says, "I can let a thousand balls go by. Thousand stocks go by and do not swing. I only need to swing when eight moons line up."

Shaan: The fat pitch. Right?

Mohnish: Yes. The fat pitch. The thing is that we live in a world with infinite humans. If there are infinite humans, it also implies that there are an infinite number of good humans. Excluding a good human from your circle because you cannot figure them out, there is no penalty for that, because there is an infinite supply. But when you bring in a substandard person, there are so many drains. It is just a negative.

Shaan: I want to hit you with some of your big investing philosophies and tell me what the phrase means and how you use it. Let us start with "Heads I win; tails I do not lose much."

Mohnish: This classically comes from the Patels. It is the Dhandho philosophy. This is how we want to do all our bets with people, with stocks with everything.

Shaan: Asymmetric.

Mohnish: Yes. We always want to look for things where the odds are so heavily in our favor. In investing, we get these anomalies where you take low risk.

Shaan: What is one that you have benefited from? What is an example in your portfolio or your career investing where you felt like your downside was capped, but your upside was high?

Mohnish: If I look at my first business, for example, I am taking 30,000 for my 401k, which I can make up. At that time, the credit card laws were very different. If you declared personal bankruptcy, you got a clean slate and did not affect your credit because you could not file again for seven more years. Everyone will give you money after you file. They have changed the laws now, but at that time I realized that starting a business has high rates of failure. I thought, and this is what all entrepreneurs do "How do I minimize the risk on that? If this thing blows up, which there is some probability that could happen. I got my job already. They want to take me back. I clean up the slate and I would also de-risk it because the company was already cash flow positive by the time I quit my job." There was already a pipeline and such. I will give you an example. In 2003 or 2004, there was a steel company in Canada IPSCO. I noticed that they were trading for three times their earnings. The stock was at $45. They had $15 a share of cash on their balance sheet. They had no debt. They had contracts over the next couple of years where they said, their earnings for the next two years are going to be $15 a share each year. These were not forecasts; these were hard contracts. I said, "Okay, so the stock is at 45. If I just buy the stock and hold it for two years, I get $45 cash in the company. Now, it was a cyclical business. The third year could be zero, could be negative. But I own all the plant equipment, everything for free." I invested. I put 10% of assets into IPSCO, and I said, "All I want to do is I want to see what Mr. Market does with this stock in two years. I am just going to hang out and see what happens." We invest, and then a year later, the company announces that we are going to have one more year of $15. Now you are going to have 60 versus 45. By now, the stock has kind of gone up and it is sitting at about $90 (double in one year). I said, "Okay it is still a very cyclical business. Maybe we should take our chips off the table." While I was thinking about all that, one day I woke up and the stock was at 155. Some Swedish company came and offered 160 to buy them. Five minutes later, I sold the company and moved on. What I am saying is that that is what we are looking for. In the equity markets because these are auction-driven markets, when you look at areas that are hated and unloved, you will find these anomalies. Last year, for example, I spent about seven or eight months studying the coal industry. A four-letter word hated and unloved more than anything else. A lot of endowments and funds are not even allowed to invest in the coal industries. There is so much hatred for it.

Shaan: So you got excited.

Mohnish: The math was like this: If there is a business that is going to exist for 50 years, on average, it is going to produce a billion a year in cash flow that is going to be distributed to shareholders available to buy for less than 2 billion. Where do I sign? That was a coal industry, okay? In auction-driven markets, you repeatedly run into companies emerging from bankruptcy. There are things that people just do not like. There are different reasons why things get mispriced.

Shaan: Right. You talked about private markets versus public auctions. Why do you think public auctions present more of these dislocations, more of these opportunities for you?

Mohnish: Let me put it this way. Let us say this home of mine was a publicly traded company, listed on the NYSE. Every day its price would change. It would be wiggling here and there. If I look at the average public company on the New York Stock Exchange, the 12-month range of the stock might be 70 to 140 in 12 months. If I just throw a dart at any company in the New York Stock Exchange, and I just look at the 52-week range on that stock price, it is going to be 60 to 100, 70 to 130.

Shaan: So like a 50% swing.

Mohnish: It is a big swing, yes. My home, which might go up 4% in a year or a good year, maybe three, 3% would be vacillating in value. It would be sometimes trading 20, 30% more than its worth, and sometimes trading 20, 30% less than its worth. If I had a realtor friend, and I told him, "Listen can I call you every day and just tell me what my house is worth," the guy would think I was stupid. But I would call him on Monday and ask what my house is worth and he would say it is worth 2 million. I called him the next day and he said it is still worth 2 million. The third day he said, "Listen, idiot, it is 2 million." After a month, he would tell me it had moved to 2,030,000. Then again, he would be at 2,030,000 for a while. It would not move because it is an intelligent buyer facing an intelligent seller. You are not typically going to get a company like IPSCO available as the whole company for the price. You can buy some shares, because the whole company, there is an intelligent guy. The Swedish company paid four times that price to buy the company. I have always liked public markets because there is so much irrationality. Just be patient. In a year, if I can make two good investments, it is a good year. We do not need a lot of activity. We just need to be patient and wait for the times when something weird is causing a mispricing.

Shaan: Let me ask you a few questions. Number one, in your opinion, should somebody just buy the low-cost index fund or actively invest?

Mohnish: The index is a really good way to go. The index is too dumb to know that it owns NVIDIA and it is even more dumb that it will never sell. It owned Apple for the last 10 years and never sold it, for example. I would say for the overwhelming majority of humans, probably more than 99% of humans, you are best off just buying an index. The US equity markets, and the US financial services industry are so efficient that the frictional costs for honing, and owning an index through an ETF is, single-digit basis points, less than 1/10th of 1% less than 0.05% or 1% or so on. It is very small. It is very smart to go with indexing.

Shaan: Yes. For the vast majority of people.

Mohnish: For almost everyone.

Shaan: Who should not do that?

Mohnish: If you have the talent and the patience to figure out what a business is worth, and then you can buy those businesses well below what they are worth and patiently hold them, those slivers of humans that can do that would be better off just doing it that way.

Shaan: If I said, what is the number one trait that makes a great investor, what comes to mind?

Mohnish: Patience. If you are a guy who loves to watch paint dry, you will do very well. You paint a wall and just sit there and watch it dry. Did you ever watch Seinfeld?

Shaan: Some episodes; not religiously.

Mohnish: Elaine is on a flight with her boyfriend. The boyfriend is just staring at the seat back in front of him. Elaine says to him, "Would you like something to read?" He keeps looking at the seat back and says "No." She then asks if he wants to talk about something. And he says, "No." He is doing nothing; just looking at the seat back in front of him. By the end of the flight, she has broken up with him.

Shaan: Yes.

Mohnish: He would have made a great investor.

Shaan: That is what you need.

Mohnish: Pascal has a great quote. He says that all man's miseries stem from his inability to sit quietly in a room alone and do nothing. If you have this ability to watch paint dry, watch the back of an airplane seat for a few hours, and just be in a nirvana state, this is the work you need to be doing.

Shaan: I do not know if you know this, but you have fans in a Subreddit on Reddit. I do not know if you have ever been on it.

Mohnish: I have not done much on that. No.

Shaan: When I was doing my research for this, I was seeing what people think about you. What questions do people have? One of the best comments I thought was such a great compliment, says, "The day I knew that this is my guy I want to follow, he was on CNBC, on a TV show, and they are asking for stock picks. They go around the horn and everybody gives their stock. It is going to be this, it is going to be this, it is going to go up." They go to you and you say, "I do not give public stock tips like this." They tell you, "You are on TV, you got to do something." The comment was that you refused to just randomly name a pick or tell people to go buy something. The TV hosts were thinking why are you on TV? You said this is not what you do, and you stayed steadfast. I thought it was such a great compliment, but also so big of a contrast from you. The opposite of patience. Should people avoid that?

Mohnish: It is a big red flag. If you are taking stock tips from some guy on TV, that is just not going to end well. The guy on TV is not going to be there when it is down 30%, right? He is off somewhere. Not available.

Shaan: Have you seen the Reverse Kramer index? It is not just samba, but whatever he said, people just do the exact opposite. You are up, crushing the market if you just did the exact opposite of this guy.

Mohnish: Yes. As I said, indexing is a great way to go for most people. I wish in high school, even middle school, compounding was part of the curriculum from an investing point of view. It is really simple. But, people do not pay attention to the math. Three variables matter with compounding. One is the starting capital you have. The second is the annualized rate of return you get. And the third is the length of the runway. There is something known as a rule of 72, which is kind of mathematical.

Shaan: Yes, it is a very helpful rule. But explain it.

Mohnish: It is a beautiful rule.

Shaan: Luckily one teacher in college, used to be a student. She came back to teach because she used to say, "I wish we taught things that were relevant in the real world." She took it upon herself and became a teacher to come back and teach personal finance. One thing she said was that compounding is the eighth wonder of the world. Let me just tell you the rule of 72, very simple math, explain it.

Mohnish: The rule of 72 is just a mathematical quirk that happens to work. For example, if I am getting a 7% return a year, and I want to know how long is it going to take for this money to double, I can take 72 divided by seven. It is approximately 10, so 10 years to double. Now, if I have a 10% interest rate that I am getting, and again, if I do 70 divide by 10, it is seven years. You can switch between the years or the interest rate, and it tells you the other one. The most important thing in life is how long something takes to double because that leads to everything else. For example, if you look at someone like Warren Buffett, he started his compounding journey when he was like 10 or 11 years old. He would say it was when he was seven years old. He is going to be 94 this year. That is an 87-year runway so far. Now the thing is that if you have a long runway, then a low rate of compounding would still get you a big number. Or if you have a shorter runway, a higher rate would, again, get you the same result. It is very important in life. That is why I wish they would do this in high school to start that engine early. For example, let us take the situation of someone who has just finished college. At 22 years old, they got some job making 70, 80,000 a year or something, and they put away $10,000 in their 401k. They are 22 years old, in an index that has done 10% a year. What that means is that 10% a year means that that 10,000 will double every seven years. Let us take a situation where the person is now 64 years old. They started at 22, so it is 42 years. 42 years is six doubles. I do this to make it easy. That is two to the power of six.

Two to the power of six is 64. That 10,000 that the person saved at 22 is 640,000 at 64. But that is not all they have. At 23, they save 11,000. That is, again, sitting at some big number, and you keep going. Sometimes we see these news articles. There is some guy who is a janitor at some college. He gives 4 million to the college and lives in a one-bedroom apartment. Why are we surprised? If you run the math, he did not even save that much. He did not even have such a great compounding engine. It is not like he found Apple 20 years ago or something. That is not what happened. What happened was that there was a consistency. My pushback to my dad when he was telling me to start a business is I was telling him at that time, "Look, I got a 401k. I got 30,000 in the 401k. I am continuing with 15% a year." My employer at that time was matching the first 2%, so it was becoming 17% tax-free. It is tax deferred and my income is going up over time. When I first started working, my salary was 31,000. I am saving 4,500 a year. But if I was still working, my pay would have been hundreds of thousands or more, and I am putting away a lot of money. By the time I get to retirement, it is game over. Lots of extra cash available no problem. I never missed the money because it was pre-tax taken out. It is just great. I hope that young people understand that. You can pursue lottery tickets; you can pursue entrepreneurial dreams. You can do all of that. That is fine. But on the side, keep this going.

Shaan: Start it early.

Mohnish: Let it be boring. Let it be a stupid index, one vanguard, and whatever, and that is it. The tortoise is going to win the race.

Shaan: What is the "circle the wagons" philosophy?

Mohnish: Well, the "circle the wagons" philosophy came out when I was thinking about Buffett's letter last year to shareholders, the 2023 letter. He pointed out that in 58 years of running Berkshire, there were only 12 decisions that he had made that had moved the needle for Berkshire. Berkshire had a tremendous run. Till recently we have been compounding at 20 plus percent a year for 58 years. If you are 20% a year, you are doubling every three and a half years, and that means after 35 years, it is 10 doubles, and 58 is another 23 years. You have got 16 doubles, so two to the power 16. The way to do two to the power 16 is two to the power 10 times two to the power six. Two to the power 10 is 1000; it is a thousand times. Two to the power six is 64. It is 64,000 times what you started with. If you start with a hundred dollars, it is 6.4 million. A hundred dollars to 6.4 million. In the last 58 years, Buffett made at least 400 different investment decisions. He is saying 12 are the ones that mattered. The God of investing has a 4% hit rate. That is the God of investing. That is why we should index.

Shaan: What are the rest of us mere mortals supposed to do?

Mohnish: I was thinking about his 12 bets, and I thought, which were the 12? He never mentioned that, but you could guess which ones. See's Candies would be one of them. Coke would be another one. Amex, Gillette, capsid, and Washington

Post. You can come up with the names. Hiring Ajit Jain probably was the biggest bet for them which paid off. Huge for them.

Shaan: What is the story about his recruiter?

Mohnish: What I realized when I thought about these 12 bets was it was not the buy decision. The buying decision is important. The important thing was they never sold. See's Candies stayed in the stable for 50 years. Coke has been in the stable for 40-plus years. It was not the buy decision; it was the paint-drying decision. That was the important thing. When you find yourself in the happy position of a small ownership in a great business, just find something else to do with your time. Play bridge or whatever.

Shaan: Right. Have you considered golf?

Mohnish: I have, yes. Golf is great. If you ask Charlie, he would say the single best decision, the best investment Berkshire Hathaway ever made was the search fee they paid to hire Ajit Jain. Ajit Jain walks into their offices in 1985-1986, never having worked in the insurance business. From scratch without them putting a venture of capital or anything. The business he has created for them today probably has a value north of a hundred billion. It just gets lost in Berkshire, where Berkshire is so big. I will give you an example of a discussion I had with Charlie, around two, or three months before he passed away. He was telling me that Berkshire Hathaway writes super catastrophe insurance, like insurance against hurricanes, earthquakes, and so on. When people are looking for hurricane insurance in Florida, Ajit will look at the rates being offered and just take a pass. He would find it is too competitive, and people are not giving enough. What he did in 2023 and they mentioned it at the meeting actually, is that he wrote hurricane insurance on Berkshire's behalf reinsurance with a maximum payout of $15 billion. I just want to explain how Ajit's mind works. Berkshire would pay out on a big catastrophe, like an earthquake or a hurricane, 3 to 5% of the total insured loss incurred. For them to have a 15 billion payout, you would have to have had an event with insured losses in Florida of 300 billion beyond Andrew and Katrina. It would need to be a really big event for them to have a 15 billion payout. The premium he collected to write that 15 billion policy was … take a guess.

Shaan: 5 billion.

Mohnish: He collected 5 billion.

Shaan: I was sweating that guess.

Mohnish: That is exactly what he collected. How much did he pay out in 23?

Shaan: Zero.

Mohnish: There was one that came through. My guess would be they might have paid out 3, 400 million.

Shaan: Okay.

Mohnish: Around 300 million.

Shaan: Collect 5 billion.

Mohnish: What Charlie told me is that Ajit did this about six times, where he has picked the years that he has written these policies because what is happening in most years is the premium offered was 2 billion. He just took a pass. A lot of all the other insurers wrote that policy, but Berkshire took a pass.

Shaan: No called strikes.

Mohnish: Right. We had some unusual losses. For example, that ship in Baltimore. That is going to end up being about three to 5 billion in losses, and it is the biggest maritime loss in global history. It is going to change premiums for ships. In the future, Berkshire will probably be writing when everyone else is saying, “I do not want to do that.” It is like the cat who sits on a hot stove and does not want to sit on any hot or cold stoves ever again.

Shaan: You have a sign in your office that says, “Trouble is opportunity.”

Mohnish: Absolutely. That's a quote.

Shaan: What is the story of that?

Mohnish: It is a quote by John Templeton. I have a good friend called Prem Watsa in Canada, as they call him Berkshire Hathaway of Canada, or Warren Buffet of Canada. I had seen that sign on his desk, and somebody sent it to me. It is a great quote. That is what we are trying to do as investors; we need to be fearful when the world is greedy, and we need to be greedy when the world is fearful. When the world is running away from coal, we need to run toward coal. I am always looking at what is hated and unloved. Usually, you will get a lot of mispricing when something is hated and unloved.

Shaan: Tell me about Bitcoin. Are you a fan of crypto, Bitcoin? Are you a believer?

Mohnish: Outside my circle of competence, and If you put a gun to my head, I would say it is going to end badly.

Shaan: Why is that?

Mohnish: It is in the eye of the beholder. There is no intrinsic value, as I understand it, to Bitcoin. Now, you can argue that there is no intrinsic value to the dollar but it has the full faith and credit of the US government, which is then backed by the hardworking American people. For me, it is in the too-hard pile, but for most people, I would just say take a pass. Most people who have invested in Bitcoin could not tell you what it is going to be worth, and why it should be worth that.

Shaan: Okay. Fair enough. One of the reasons I wanted to fly here is because it is fun to meet this kind of investors, or even just hear the stories. I have heard you tell a couple of stories about them. I would love for you to tell the stories because I think most people have never heard of these people. Tell me about Nick Sleep. Who is Nick Sleep, or Jhunjhunwala, whichever is your favorite? Tell me one of the stories that you love.

Mohnish: Nick is a wonderful guy, and there's a book called *Richer, Wiser, Happier*, that came out maybe two, three years ago and there is a chapter on him. Nick is a recluse. He does not do interviews and such. I was surprised he even talked to the author, but it is worth reading the book. He and his partner, Zach, would come into their office and just sit and read annual report after annual report that they were blue in the face. They would want to see if they could understand different businesses, and that exercise of reading those annual reports led them to the annual report of Amazon. For example, I have been a customer of Amazon, have known Amazon for a long time, and am familiar with the business. But every time I would take a cursory glance at Amazon, it looked very expensive on an earnings basis, a PE basis. It looked really expensive because they were investing so far ahead of the curve on the growth that what should have been categorized as CapEx was just categorized as expenses. The US government was funding their growth because no taxes were being collected. What Nick and Zach were able to do, because they were just sitting in their office with no distractions reading, year after year, Buffett offered Bezos's letters, and the Bezos letters are worth reading. They are very clear. He laid out in those letters what he was up to. He was not completely candid, but he was basic. You could tell that the business had very high returns on capital, and he was investing. He was throwing a lot of things against the wall, but they were very low-risk bets. If any single bet did not work, it would not sink the company. For example, one of the bets they made was AWS which became huge. They did not know it was going to become as big as it did. They also made a bet on Amazon Fire, which did not work. What Nick and Zach realized is that he was a very gifted capital allocator who understood all the different facets of building a team and going after different markets. He disrupted multiple industries. They had placed a bet on Amazon, and because Amazon was doing so well, it was becoming a larger portion of their fund. In the UK, there are more regulations on hedge funds than we have in the US. The UK regulator was telling them that we see this position as very high risk and you guys need to diversify. They were getting pressured, and they felt that they understood the business so well. They were managing two or 3 billion. They had made hundreds of millions for each of them. They said, "Look we are independently wealthy. We never thought we would be here. We are young. Why do we have to listen to some regulator? We could return all the capital to all our investors." What Nick said is, "If we return the capital, I am going to put everything into three stocks." He owned maybe a dozen stocks, but he was going to go into three stocks. He was going to put one-third into Berkshire, one-third into Amazon, and one-third into Costco. He said, "I am very comfortable with these three stocks. They are very built to last businesses." He did that, and what happened a few years after they hung up their boots was funny. Amazon still kept going. It became 70, 80% of the pie. Instead of them being one-third each, it was 80, 10, 10, for example. Nick decided "Oh, maybe I should take some chips off the table here." He cut the Amazon position in half and bought another business, which would not have done well if we went sideways. That goes back to Buffett's point of 12 that worked in 58 years. If Warren Buffett has a 4% hit rate, the rest of us are going to have a 2% hit rate. But you also need to get rich, just once. What worked well for Nick and Zach was they took the Buffett lesson, which is that once you have a great business, just leave it alone. Even after he was sloppy and took chips off the table from 80% or whatever, it still went very well. One of the things that investors forget is that if you look at the Walton family, none of them are running Walmart. Sam Walton passed away a long time ago. It has been several decades since Sam Walton passed away. The Waltons have, for the most part, kept the Walmart stock, and for most of them, it is almost the entire net worth in a single stock. More concentrated than even Nick Sleep is, and it is not a business that they control. It is not a business that they run. It is not a business that they are on the board of. None of them gives them sleepless nights.

For example, in 2018, I started visiting Turkey, and I was just looking at things hated and unloved at that time. I saw that the Turkish markets were screening cheaply. Everyone was exiting Turkey. I have a really good friend of mine in Istanbul; a very good investor, kind of a classic Ben Graham investor. I told him, "Hey Hayder, I would love to visit Istanbul, and I would love to visit all the companies in your portfolio, starting with the company with your strongest conviction, biggest position to the smallest position. Do not take me to see any companies where you do not have money."

I went in 2018 for the first time to Istanbul. The blue fish on the Bosphorus was great, and all these different businesses we saw were great. I did not do much work. He told me what places we were going to, but I just said, "Let me meet the companies first." I went back in 2019, and we were driving to a company, and I said, "Hayder, remind me, what company are we going to? What is the Cliff Notes version?" He said, "This company we are going to visit, Reysas, has a $16 million market cap, and the liquidation value of the business if you sold it today is 800 million." I said, "Is it a fraud?" He said, "No, I am invested in the company." I said, "You are telling me the company is trading for 2% of liquidation value?" He said, "Yes, because it is Turkey. Everything is cheap." I said, "Well, this is the outlier cheap." Reysas is a very simple business. They are the largest warehouse operator in Turkey; they rent out all these different warehouses. These are 99% leased inflation indexed, and they are leased to Amazon, Ikea, Car4, Mercedes, Toyota, like blue chip clients, and all of that. I went and met the father and son who run the company and the founders. After that, I went and visited a bunch of the warehouses, and I could not find anything wrong with them. He was right. If you just went to any realtor in

Turkey and said, this is their 80 warehouses give me a value on each one, he would just look at the rent and he would tell you that you are looking at about 70, $80 a square foot for each warehouse. They had 12 million square feet. It was about a billion dollars, and there was 200 million of debt, so with 800 million liquidation value and 16 million market cap. Then I thought that this thing probably trades by appointment and maybe cannot buy the stock, but Turkey has a very high trading volume because they are all gamblers. I found that when I started buying the stock, huge volumes were available and I spent $8 million to get a third of the company. The way I look at it is that when you look at Buffett's letter with the 12 positions or you look at Sleep with Amazon, the family that runs the business, they have maybe 40, 45% ownership. I am an outside investor at 33%. I have no board sheet, I have no say in the business, none of that. I am a passive investor. But the way I look at Reysas is the way the Walton family looks at Walmart stock. What I have noticed since 2019, is they have increased the value of that business. I would say that probably today the business might be worth one and a half to two billion, somewhere in that range, and they will continue because I have never seen them make any stupid decisions. They are very smart about the decisions; it is very well run. So I said, "Okay, we are done. We will keep that business. I do not care about the stock price." The 16 million market cap now is about 500 million, in four years. The Turkish lira, which when we were investing was five liras to the dollar, today is approaching 33 lira to the dollar. The Turkish lira has collapsed in dollars; we are up almost 30 times. But the business is worth more. The thing is that it is exactly what Buffett says, just leave it alone. As long as that family and that father and son are running the business, we will just keep our stake and let it keep running. The idea is that, when I look back, I am going to find there were a few things that moved the needle big time. The key to moving the needle is inactivity. You have to be very patient and be very inactive.

Shaan: You talked about Bezos being a capital allocator, and Buffett a capital allocator for Berkshire. Who are the others? If I just throw some names or some companies at you, I am curious to hear your take on how well they allocate capital, because we know how good their brand or their product is. We were talking about this yesterday. There is a transition from being a product manager where your focus is building products to being a people manager, where you are building an organization," and then you are a money manager, and now, you are sitting on a hundred billion dollars. You have to figure out some way to invest it. Tell me, Meta or Facebook, how do you think they have done with capital allocation?

Mohnish: It was really surprising to see how he did a 180. Mark moved from being a spendthrift to being a Patel. It was remarkable to see an entrepreneur pivot that way. Meta was a country club. They had all this spending going on in all these areas, and he tightened it up. It showed up in the numbers. Facebook is a great business. All the different brands they have and the different properties they have are tremendous. It is the norm in capitalism that great businesses will be sloppy with how they execute. It is very rare to find a great business, which is also tight-fisted and Meta was not tight-fisted, but it is now. That was just wonderful to see. The capital allocation there is excellent now.

Shaan: What do you think about Elon Musk fellow Texas resident?

Mohnish: One of the most beautiful things about the United States is that Elon was not born here. He was not educated in his first 20 years of life over here. We, the United States, got a finished product. He has created tremendous value, and tremendous jobs and disrupted multiple industries. Elon is an exceptional allocator of capital. It is terrific.

Shaan: Is Tesla overvalued? Is it undervalued? Is it too frothy? What is your take when you look at a business like Tesla? How does your mind analyze a business like Tesla?

Mohnish: It goes into the too-hard pile. I would say that Elon is not human. He is beyond human. If you just think about all the things he has done, Neuralink, SpaceX, and all that, it is very remarkable. The execution is off the charts. He is unbelievable in terms of what he has been able to accomplish. Elon understands capital allocation well. All the businesses that he gets involved in or he finds do so well because he gets so much out of the people, which means he gets so much out of the capital. His hiring is so good. The teams that he is building are exceptional. When you are hiring a software engineer there could be an engineer who is worth 10 million a year, and there could be another guy worth a hundred thousand a year. He can tell the difference, and that is a great skill to have.

Shaan: Yes. I love that. We will end with this question about Charlie who passed away recently. You were friends with him. What is your favorite story or lesson from Charlie Munger?

Mohnish: I miss Charlie. He was one of a kind. I have been thinking for the last several months about so many of the lessons I learned. In one of his last interviews, he was asked, "What would you like on your gravestone?" He said, "I tried to be useful." Those words, "I tried to be useful," encapsulate Charlie well. If you look at Warren Buffett's tribute to him that he did this year in the letter, Charlie selflessly helped Warren a lot. Without Charlie Munger, there is no Berkshire Hathaway even though you had a Warren Buffett there. Twice, I went to Charlie when I was facing difficult personal situations, nothing related to investing. He was extremely helpful to me on point. I just did exactly what he told me to do, and those issues disappeared. Charlie was always trying to see how he help the world in all the institutions that he touched. His memorial was at the Harvard West Lake School in California LA. He transformed that institution. He was on the board of the Good Samaritan Hospital. He transformed the hospital. He transformed Berkshire Hathaway. I met so many partners he had in different businesses. He always gave them the better deal. In every way possible, he was correct. He selflessly tried to be useful. Charlie did not believe in God. He did not believe in religion. He did not believe in legacy. He believed that when we are gone, we are gone. It is ashes and dust. One day before he passed away, he was in the hospital. He knew he was dying. He was trying to get one last grant done to a non-profit. Six days before he passed away, he was buying a stock. Charlie extracted everything he could from his mind and his body. The other thing was that he never complained. He lost sight in one eye many decades ago. He was almost blind in the other eye. He cared most about reading. that was the most important thing to him. One time the second eye was giving him a very serious problem where he could have gone blind. This was maybe 10 years ago. Even when he was facing the prospect of complete blindness he was so stoic. He never said, "Oh, poor me." No self-pity. His response to me was, "I am going to have to learn braille." That was how he was going to deal with it. The book *Poor Charlie Almanac* is such a big and rich body of work that he left behind. There is a lot to learn from him.

Shaan: Thank you for sharing that. Thank you for being with us and sharing some of your wisdom.

Mohnish: It is a pleasure. I enjoyed the session. Thank you.