Mohnish Pabrai's Session at the University of Nebraska, Omaha on May 3, 2024

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Prof. Liu: Hello everyone. Let us welcome Mohnish Pabrai, the Managing Partner of Pabrai Investment Funds inspired by the original 1950s Buffett partnerships and a close replica of the original Buffett partnership rules. From inception in 1999 through December 2023, a hundred thousand investments in Pabrai Investment Funds had grown to 1.83 million. This equals an annualized gain of more than 12% versus 7% for the S&P 500.

Mr. Pabrai is the founder and the chairman of Dakshana Foundation, which is a public US 501(C) charity. Dakshana Foundation focuses on poverty alleviation through education. Mohnish loves playing duplicate bridge and received his first lifetime ban in 2019 from playing Blackjack at Las Vegas Casino. With all that, let us give a big round of applause to our dearest guest Mohnish Pabrai.

Mohnish: It is great to be here and wonderful to have UNO hosting us. Thank you, Professor Liu and the team at UNO. It is wonderful to be here. It is going to be hallowed ground to be able to speak to all of you, and I will try to keep my monologue brief, as I am more interested in learning what you want to talk about. Last year I talked about this concept of circling the wagons, which is an important concept for my vantage point on getting great results on investments. The best way I know to learn is to teach and so, I have an ulterior motive for being here which is trying to teach myself. What I am going to talk about today are some thoughts and ideas that are not fully formed. You guys are the guinea pigs. Thank you so much. I have never talked about these things before, and I do not have them developed enough to be a framework. In the next few months or maybe a year or two, we might put it together into a tight framework. Meanwhile, I am excited to at least help get my head around some of these ideas.

The wagons concept is that when we find ourselves in the fortunate situation of partial or complete ownership of a business that has great economics and wonderful prospects, we hang on to those businesses and do not try to become too cute about whether it is overvalued or should we buy something else, etc. Less is more, less activity is more profitable. Going down that path is a great way to go, but that concept kind of skims over the notion of intrinsic value, because intrinsic value at the end is the bedrock that we base everything on. The definition of intrinsic value is painfully simple. John Burr Williams came up with it probably close to a hundred years ago. It is just the sum of all the cash a business will produce and distribute between its start and end. That is the intrinsic value of a business discounted to present value by some reasonable interest rate. The definition is really simple. Figuring it out is far from simple and trying to figure out what a business might produce 5, 10, or 15 years from now becomes somewhat complicated. If you look at a business like Berkshire Hathaway

that most of us are familiar with, both Warren and Charlie have commented that they both have an idea about the intrinsic value of Berkshire. If they were both to write down that number or range of numbers, they would not be identical. They would be somewhat different in that total. What Berkshire has also done is they have engaged in buybacks of the stock at prices that they believe are well below intrinsic value.

Recently they were willing to buy back shares at 1.2X of tangible book value. Both Buffett and Munger have commented that as Berkshire has become more of a collection of wholly owned businesses, tangible book value becomes less of a valid metric to value Berkshire. To give you an example, when they bought See's Candies, they paid more than three times the book value for See's. If you were valuing Berkshire at like 1.2X book, you would undervalue a business like See's. If you look at a business like Burlington Northern Railway and you looked at it from a replacement cost point of view to replace that railroad, going transcontinental probably could not be done. Even if you were somehow able to do it, it would exceed the market cap of Berkshire, probably north of 700, 800 billion, and might be over a trillion to replicate that railroad. How would you value Burlington Northern? If you valued it at those numbers, that might be overstated, because they do not have an earnings power that would correlate with that type of book value.

For many reasons, book value is an inadequate measure. I also feel that when Buffett and Munger say that they have a range of the intrinsic value of Berkshire, in their mind, what they are thinking about is very likely to be a number less than two times book value. If you look at Berkshire Hathaway today, for example, it trades at approximately one and a half times book value. Current valuations are one and a half times, and I would say they would both consider it probably optimistic to value Berkshire two times book value. As I thought about this, what I realized is that when you look at Berkshire Hathaway's past, what you find is that there have been times in the past when Berkshire has been very willing to issue stock. They issued stock to buy Dexter shoes, which one would like to forget about. They also issued stock to buy Burlington Northern. There were times when even though they were reluctant to issue stock, they were very willing to issue stock to get these transactions done. When you look at Buffett himself, he has never bought or sold a share of Berkshire. In almost 60 years of running Berkshire, his ownership has stayed static. Even when the price has gone down a lot, he has not bought anything. When Berkshire has gotten into what some might consider euphoric pricing, he has not sold anything. Even though Berkshire Hathaway has engaged in transactions periodically in terms of issuing shares and buying back shares, Warren Buffett himself has never done that. Regarding this notion of intrinsic value, when you think about this notion that Warren and Charlie put forth, that probably the value of Berkshire is less than two times book value, that does not fully capture things. For example, let us say we go back to 1990, stock was trading at that time at approximately $4,000 a share. If you multiplied by one and a half million shares, which is approximately what they had outstanding then, and even now, it had a $6 billion market cap at the time, and book value was probably some fraction of that; maybe 3 or 4 billion. If you were to come up then and say, "Okay, we will apply this kind of two times of book value multiple as a shorthand for intrinsic value, you would end up with some number less than $8,000 a share, maybe $6,000 a share or something. It

would be some number not that far off from the $4,000 market price, but we know clearly since we are in the future. In 1990 we could not see it because we could not see the future cash flow stream.

If we step into the future and look at the future cash flow streams from 1990 to 2024, and then you discount all of that back, what you would end up with is a number that would be much higher than even 10 or $20,000 a share. You would end up with several intrinsic values that would be significantly above the numbers that Warren and Charlie put forth as the likely intrinsic value. What is the intrinsic value of Berkshire? Is it using a metric like Warren and Charlie tell us to use, which is, some premium to book, or is it more where you run some assumptions on future cash flows and then try to discount back? In my simplistic way of thinking about it, there might be two different intrinsic values and two different ways to describe intrinsic value. Those two different ways to describe intrinsic value might correlate to the two different ways Warren Buffett deals with Berkshire stock. He deals with Berkshire stock one way when Berkshire is either buying businesses or buying back shares. There is some activity with Berkshire shares that goes on in that realm. Then we look at the second realm, which is his own ownership of Berkshire Hathaway, which never changes. It has been absolutely static other than giving money away to charity and so on. He has never entertained the notion of selling a share. He said that he will, in the future as well, never sell a share. In my opinion, Warren, the individual, had a far better grasp on the intrinsic value of Berkshire Hathaway than Berkshire Hathaway, the company, did.

Warren Buffett, the individual understood better what the value of Berkshire was. So, in 1990, at the $4,000 per share, they may have been willing to issue shares to buy businesses, but then, or even now, he is not willing to sell the stock at those prices. When I look at my own example, I run Pabrai Investment Funds, which has wonderful business economics. It is a great business. I have not really talked very much about the economics of the general partner of Pabrai Investment Funds, but I would just say this, in 25 years of running Pabrai Investment Funds, our pre-tax margin is about 88%. Of the fees that Pabrai Investment Funds earns and has earned over the last 25 years, 88% is operating income. It is a great business, better than Apple. Very nice, no complaints about life. People have approached me from time to time to buy a portion of the general partner, even though I have never shared financials with them, they were very eager to buy an interest in the general partner, and it did not even take me five seconds to ignore all those offers and turn them down. The reason was pretty simple; if I were to try to calculate what is the intrinsic value of the general partner for Pabrai Investment Funds, I do not know what that value is. I just know that there is probably a pretty wide range on that, and at the upper end of that wide range could be some spectacular numbers. I do not know which way it will fall in the sense of at the top end or the bottom end. One is that if Warren has ownership of Berkshire Hathaway and understands the business as well as he does, clearly he sees all the great wide deep moat on Berkshire and wants to stay there. It is the same with Charlie Munger, more than 90% of the net worth in Berkshire Hathaway.

There are two ways to think about intrinsic value. There is a standard way to think about intrinsic value, and then I would say there is another way which is owner intrinsic value, or the owner's definition of intrinsic value. The

owner's definition of intrinsic value is not just this maybe broader look at the business for a much longer period. It also has intangibles related to, for example, having control. One of the things I realized is that the moment I sold some portion of the general partner, there would be a clock on the business because whoever bought that stake at some point would want to monetize it. Those types of concepts were not of interest to me. There is an aspect of intrinsic value that relates to future cash flows in both definitions. There is an aspect of it that deals with the intangibles that come with ownership. When you go back to the notion of circling the wagons, it skimmed over the notion of intrinsic value. It just said, "Hey, you have a great business, you just hold onto it and do not ask too many questions." But if we were to ask some questions, we would say "no," but every business has a finite value. The reality is that we need to only get rich once. We do not need to get rich multiple times. In fact, as Charlie says, "Once you get there, you do not want to go back." The second is that for the most part, you only need to be right once. You might make 100 investments in stocks, and it is possible that even 90-plus percent of them do not work, but some could work so spectacularly that they could make your overall portfolio look great. In the last couple of days, the Financial Times noted that Warren Buffett in the Berkshire portfolio has bought and sold 65 companies, and 65 stocks, which is a lot.

We do not think of Warren as a trader. They said the average holding period of the stocks that he owned was a little over four years. Todd and Ted, under him the FT reported that they also had a large number of trades, and their average holding period was less than three years. A large error rate is normal in this business. Finding the holy grail of the great compounders is few and far between, but this notion of intrinsic value, is worth paying attention to, especially the notion of owner intrinsic value. The notion of owner intrinsic value can give us more conviction to hold on rather than just the basic "it is a great business." If I take the example of Starbucks, more recently, Starbucks was taken out back and shot in the last few days. Is it a business that has secular negative issues in the future or is it a business that had a speed bump? These things become hard to answer in real time. In the fullness of time, we will understand whether it was a speed bump or something more than a speed bump. If we were to look at a business like Starbucks and analyze every speed bump, it would become really hard to be able to hold that business for a long time.

I was listening to a podcast just before coming to Omaha with Ken Langone. Ken Langone was the founder of Home Depot, and he had multiple great hits. The interviewer asked him, "Ken, when you held Home Depot for more than four decades, what type of financial analysis did you do on Home Depot and what was the continuing financial analysis as it went along?" Ken just laughed and said, "I bet on people. I bet on these guys and that was the end of the analysis. There was nothing else I did beyond that." He said he has been married to the same woman for 68 years. She still puts up with him. He said that the mental framework he uses to stay married to the same woman and the framework he uses to hold onto the Home Depot stock are both the same. It is all about loyalty. He said, "If you want my framework, it is loyalty, and that is it." The guy had multiple 100-baggers in his lifetime, and multiple companies that did extremely well for him, all because of inactivity. He talked about some businesses that we had never heard of. He

had a stake in Eli Lilly that came about when they bought a business that he had ownership of. Inactivity never did anything. That was a 40-bagger for him just on the side while Home Depot was going. These are other bets on the side that are happening.

Let us try to think about intrinsic value from the perspective of an owner, even if we are not an owner. If you had ownership, a small ownership stake in Starbucks, if you thought about it the way Howard Schultz would think about it, for example, then your lens will go out further. It will look out further into the future, and you might be able to see things that a quantitative analysis is not going to show you. This is the limit of what I have to talk about to you today on this subject. I will reflect back and try to improve the next time I talk about the subject. I would like to switch to another subject. The second subject is that, again, going back to the circle, the wagons concept, I had mentioned that, Warren had 12 great super hits in 58 years that led to the creation of Berkshire Hathaway. I had speculated that he might have made 300 decisions, but 12 really mattered, given that he has been this hyperactive trader in the last couple of decades. Maybe he had 500 or 600 decisions, so it might be even a smaller number, like 2 or 3% that really hit the ball out of the park for all of us. The second question that comes up is, why is the ability to find hits so spread out? He said he was able to find on average one great idea every five years. For the rest of us humans, maybe one every 25 years.

The question is, and this is Warren Buffett saying this, “Why does it take so long to be able to identify and invest in a great business and hold on?” The answer there is that the circle of competence grows very slowly, and both Warren's and Charlie's circles of competence have expanded dramatically over the last several decades. Both have said repeatedly that many of the deals they did in the last 10, 20, 30 years, would not have been possible for them in the first 30 years, because they were too dumb. They would not have understood them. The Coke investment, for example, would not have happened without the See’s investment. If there was no investment in See’s Candies, there was no investment in the Coca-Cola company. There are also no investments in probably Apple because both of those businesses were about brands. It was an investment related to the power of brands and where those brands could go.

If you look at a business like Coke, that Buffett invested in the late 80s, and early 90s, at that time, they put one-fourth of book value into Coke. That was a huge bet. It was probably the largest bet that Berkshire had made until that point. It might be the largest bet they have ever made. It is very atypical for an insurance company to take a quarter of its entire book value and put it into a business they do not control. But they were very confident in that bet and that confidence about the size of the bet and the duration of ability to hold on till today and beyond is because of the very deep learning that came to them after the See’s Candies purchase. See’s Candies was bought in 1972, and the very first Coke stock was bought in 1988, 16 years later. They would not have even fully figured out the framework for Coke until it was into the 80s.

For example, the only area of operations that Warren Buffett got involved in with See’s Candies was changing the price on December 26th every year. He told Chuck Huggins, who was running the business, “Please run the business

as if you own it. You are not going to hear from us. Just do what you think makes sense, except I, Warren Buffett will control pricing." On December 26th, he would sit down with See's pricelist, scratch out all the old prices, and jack the prices up by more than two or three times the rate of inflation, 10, 12% a year when inflation might have been running 3, 4% a year. He would himself be really surprised that a year later the volumes had gone up 2%, and that the prices were accepted by the consumers of See's. Then the following year he would bump it another 10% and he would again be amazingly surprised that it went up another 2% in volume. See's is a California phenomenon for the most part. California's GDP in the 70s, and 80s, was probably growing at 5 or 6% a year. It was a pretty rapid period of growth for California. These heavy price increases may have crimped some volume where it did not keep up with California's GDP growth. It was maybe 40% of GDP growth, but it did not matter. It was a brilliant decision because there was a river of cash coming out of See's. They had paid 25 million for See's. Even going back 10 or 15 years, they had collected dividends of more than 2 billion from See's.

However, they saw limitations in See's. The biggest limitation was they repeatedly tried to expand the geography. Warren wanted See's to be in all states and all countries. He could not even make it dominant in a second state. They repeatedly would open a store in Chicago and they would lose a lot of money, and then they would shut it down. They would open one in New York, same thing. The number of experiments See's did over the years, along with the brain power of both Warren and Charlie, could never expand the brand beyond California. When they encountered Coke and read its history, they saw Coke had no difficulty in geographic expansion. We only have two countries in the world today, Cuba and North Korea, that have no Coke. If tomorrow either of these countries opened up to Coke without a dollar of advertising, sales would take off in both those countries. The pop culture embeddedness of the brand and all of that is very powerful. When they compared Coke to See's, See's was already a home run, but they saw this was a home run to the power of a home run. It became a no-brainer. They were buying every share they could. That is the reason these hits show up every five years for Berkshire, because coming up and figuring out these types of insights into brands, intangibles, does it travel, the aftertaste, all these different things that come up with Coke and See's or with Apple, just take a long time. It takes a long time to get your head around them. With that, those are my comments. I appreciate your bearing with me. Thank you very much.

Prof. Liu: I would like to follow up on your talk. You talked about two intrinsic values and you talked about the value of people. Big investors, like you, have access to the management team, but a lot of ordinary investors, do not have that access to the management team to get to know the people in the companies. What do you advise those investors?

Mohnish: That is a great question. Access to management teams and insiders or owners can be a positive, but it can also be a negative. If we look at the Berkshire example of the Coke purchase, they had no contact with management. They never reached out to the Coca-Cola company. All they did was read the publicly available information on Coke and one of the things that both of them did is they read every annual report of Coke from the time Coke was public, which should have been something like 70 years

of Coke annual reports. Warren and Charlie went through every one of those 70 years of annual reports, and they noticed that unit volumes never went down. They never went down during the Great Depression. They never went down during World War I, World War II, the Korean War, the stagflation of the 70s, all of that. The volumes just kept going up every single year. There is a large amount of information available on every public company. Some of the things that may really matter in terms of what will drive long-term results, insiders may not be able to help you plus insiders are salespeople. They are going to actually lead you astray. I have been led astray by many managers. It is better not to talk to them. If you are an individual investor, you have an advantage if you do not have access.

Prof. Liu: Reading news from just public information can be more objective.

Mohnish: I was speaking at one of the colleges recently and one of the students asked, "My circle of competence is so small. I just understand very few things. How can I get an advantage?" I said that she had a significant advantage over me because college campuses are usually the places where change comes first. For example, college students were the first demographic to get rid of landlines. Everybody else got rid of landlines later. Some of you may not know what a landline is and that is okay. The first demographic that got rid of landlines was college students. The first demographic that started cutting the cord on cable was college students. The first people who got to experience Facebook were kids in a few colleges. In fact, Facebook was only open to initially Harvard and some Ivy Leagues, and then other colleges. A lot of restaurants get their start in college towns. You will be able to see some brands and stuff that will take off. In many ways, a young person has a huge advantage over someone like me, unlikely to change many things about the way I live my life; it is just static. But a young person is willing to experiment and do different things.

What I said to that lady is, "Look at your expenses every month, look at where every dollar that you are spending is going." What are you spending on cloud storage? Who are you sending that money to? What are you spending on? Which apps do you spend time on? Which restaurants do you eat at? What clothes do you wear? What brands do you use? Just make a list of all of those. Even if you spend 50 cents a month on something, write it down. Then in the next column, whether it is publicly listed or not. Many of them are going to be publicly listed because I want to actually get your money and all that. They have got to have some presence. After that, you begin your research, because now these are things that you are already a consumer of. You have got a lot of non-quantitative data on the business, which will give you a big edge. That is the way to go.

Prof. Liu: Yes, that is the way.

Mohnish: It is all happening at UNO.

Prof. Liu: Yes. That is great advice for college students who want to invest. That takes me to my next question. You mentioned that it can take five years to find a good investment. For five years, you see some return, but what about for young investors? For people like you, who are well established, even if the first four years, did not perform, people are patient. But for young hedge fund managers and young investors, five years is a long time. What is your

advice for young people? What do you advise investors who want to start their career in this field?

Mohnish: The very first thing that should have happened is you should have done well with your own investments. You have been doing this for some time, and you have got some track record that can be audited with your own money. Maybe there have been a few hits. If you have been doing it for 5, 10, 15 years, then you have got a few things that have worked really well. The next step after that is to talk to friends, family, and fools, especially the fools. Fools are important. Then you convince people that you are the person that they ought to give some money to manage, and then you go from there.

Prof. Liu: Those are my questions from your talk. I also want to ask you questions about your background. You were majoring in engineering in college, and after many years you switched to investment. In your previous talk, you mentioned that when you were in engineering school, you needed to work hard. When you took some business classes, it was so easy and natural for you. At first, you thought that you did not want to be peers with these fools in business school. You wanted to do engineering. Many years later, you switch to business and investment. Can you tell us a pivotal moment or story about how you made that change, and do you think engineers are smarter or business people are smarter?

Mohnish The 20-year-old Monish, who I am glad you guys did not meet, had a very jaundiced view of the world. He thought about things in a very limited way. I was an engineering student, but I really enjoyed taking business classes; accounting, economics, and investing. I did my undergrad at Clemson University, South Carolina. I used to take as many classes as they would allow me to take at the business school. What I noticed is that usually, I was topping the class. I would be number one in most of the classes I was taking. I remember that in one investing class, I had a 106% average going into the final. The professor called me to his office and said, "I looked up your background, and I was surprised to see that you are not a business major. I do not know what kind of engineer you are going to make, but you are in the wrong major. You need to switch." The very limited worldview Mohnish had at that time had a view that when I took my engineering classes, they were really hard and I was never the number one person in the class, or even the number three person in the class. I had to really work hard on those. In the business classes, it just came so easily that I just felt that the students I was taking the classes with were a little different demographically from my engineering classmates. I did not understand this at that time. This happened in 1984, and 1985, and the US Stock Market had bottomed in 82. I remember in one of the investment classes we were doing, they had given us all subscriptions to the Wall Street Journal for the semester student rate and the professor had done a case study on Disney. I remember at that time companies like Disney were trading at six times, seven times earnings. Things were very cheap. I remember he went through some of the parts of Disney where just the real estate of Disney exceeded the market cap. Of course, Disney had a lot of intellectual property and all of that, which has grown over the years. I remember looking at all of that and said, "Wow, this is really remarkable. You can get these things so easily." I was really excited about my investment classes and probably was very engaged with all of that. The professor was right that I should have switched, but Mohnish was too dumb to make that switch at that time. About 8 or 9 years after that, I

heard about Warren Buffett for the first time and eventually, I did make the switch. I made the switch maybe 15 years after I should have. We stumbled along but we got to some decent endpoint. It worked, and here we are.

Prof. Liu: We are on the eve of the Berkshire Hathaway meeting. I believe many of the audience here are going to the Berkshire Hathaway meeting. Last year, Charlie Munger passed away, and we know that you had a profound friendship with both Warren and Charlie. Would you like to share a memory with Charlie?

Mohnish: It is very sad and we will probably see the movie tomorrow. They said they are going to stream it. They have never streamed that movie before. It might be all Charlie zingers, so bring a lot of Kleenex to the meeting. Charlie was one of a kind. We never see someone like him again. The way I felt after Charlie passed away was similar to the way I felt after my mom passed away, and lesser extent my dad. I felt that my mother was an incredible person. I was really gifted and blessed to have a person like that as my mom. There are so many things that were great for me because she was my mother, but I realized after she passed that I had a lot of regrets. There were many things that I wish I had spent more time on, asked more things, did more things with her and all of that even though we had a whole life together. Many of the same thoughts came to me when Charlie passed away. There were so many things that I wanted to explore and talk about and never got there.

Last time I met Charlie was exactly a month before he passed away and I did not know at the time that it would be the last time I would see him. It was a dinner at his place, and it was just the two of us. Charlie never complained. He always had so much pain and things going on, but he would just joke and say, "Any morning I wake up without some new pain is a great day. If everything is the way it was yesterday, things are great." He was almost blind at that point. It was difficult for him to read, but still he never complained. He talked about soldiering on. Most of the things I learned from Charlie were just by observing him, not what he said, not what he wrote. Look at *Poor Charlie's Almanac*, there's a lot of incredible wisdom, but just by observing him, you could learn a lot. You could put any food in front of Charlie, and he would just eat it. He would never complain about anything.

You cannot do that with Warren. Warren told me that he ate exactly what he ate when he was six years old. No change in the diet from the age of 6 to the age of 93. When I had lunch with him, someone put a shrimp on his plate, and he was horrified. He could not believe there was a shrimp on his plate. He could not wait to get rid of it, but Charlie would eat anything you put in front of him. Charlie loved See's Candies. I remember this one young lady I met at the airport, and she was talking about the meeting. It was the first time she came, and she said, "I wish Charles Munger spent less time eating peanut brittle and more time answering questions." He was just focused on eating the peanut brittle. When I would go to Charlie's house, the peanut brittle was rationed. I was told that the peanut brittle is only brought out for dinner twice a month. Sometimes it would happen when I would be there, and I would tell them, "Listen, try to keep the peanut brittle for when I come," because then there is an association tendency that when Mohnish shows up, life is great." I would see that after dinner, the peanut brittle would come out, and it would be gone in two seconds; all gone. But he would never ask for more. He would never, on a non-peanut brittle day, say

he wants to have peanut brittle. He just accepts it, which is remarkable. Most of us cannot do that. Most of us would throw our weight around and buy what we want. A lot of things I learned from Charlie were just observing him with his grandkids, his daughters-in-law, and all his different kids and friends. They were just incredible lessons from observing the way he was. I really miss him, and it is nice to be in Omaha. Tomorrow will be a wonderful day, so thank you.

Prof. Liu: Thank you for sharing that with us. That is new for all of us. You observed Charlie Munger, not just in the investment field. You observed his personality, how he interacts with his family, and his lifestyle. How do you think that impacts your investments, personal growth, and even personal life? How does it influence the way you approach life?

Mohnish: Being Charlie is not easy. He is so evolved. But whatever we can do to emulate him is going to make us a lot better. He is the gold standard, sitting up there, but whatever we can absorb and learn from him and bring into our lives would be great. In one of his last interviews, someone asked him, "What would you like on your gravestone?" His answer was, "I tried to be useful." That is a very accurate way of describing how Charlie was. Whoever he interacted with, whoever he encountered, he tried to be useful. If you look at Berkshire Hathaway, Warren wrote, "He started helping Berkshire Hathaway when he had no economic interest in the company." His willingness to work on improving Costco, including improving Berkshire or improving Mohnish had nothing to do with economic interest. It was all driven by him trying to be useful. It is a really great ethos to live by.

Prof. Liu: Yes. I can see that impact through the charity work you have done both in the US and in India. That is remarkable.

Mohnish: Thank you.

Prof. Liu: Even the thing you are doing for us, like right now. We met in the Berkshire Hathaway meeting in 2021. I walked up to Mohnish Pabrai and told him, "Would you like to give us a talk at UNO?" He accepted and did not even hesitate. He gave me his card. He did not even give me his assistant's card. His dedication to education, to the young people, to the investors is admirable. Thank you for all the work you have done.

Mohnish: Well, it has made my Omaha trips more fun, so thank you. It is awesome.

Prof. Liu: You mentioned you like to copy Charlie Munger's investment strategy. You also mentioned in your book you like cloning successful investors. Could you walk us through a specific instance where you have applied this strategy and the lessons learned from it?

Mohnish: From cloning?

Prof. Liu: Yes.

Mohnish: Well, Jim Senegal, who was the founder and CEO of Costco for a long time, used to work at Price Club before Costco and he worked under Sol Price. He was asked one time, "What have you learned from Sol Price?" He said, "It is the wrong question. There is nothing I know that did not come from Sol Price." Of course, what happened is, in the case of Costco, later Costco bought Price Club and became far more successful than Price Club. The student became better than the teacher.

Cloning is extremely powerful. Nothing I can think of that I know, came up with myself. Everything is cloned. That is the great thing about this world; you can just pick up things that are already known and someone has already done. People will say that Starbucks is a great business model, but somebody already did it or McDonald's is great, but somebody already did it. There is room for three or four or five. If you know that Starbucks is a great model, you can clone it and it will work. Just to give you an example, in my book, *The Dhandho Investor*, which I was writing in 2006 and 2007, I wrote about what an amazing business Chipotle was. I loved Chipotle. At that time, I was eating Chipotle for lunch every day, and I just marveled at the business. Bill Ackman is the one who made all the money from Chipotle, not Mohnish. I love the business, I never invested in the business, and it's been one of the most spectacular home runs. I saw Chipotle when it was embryonic. It was really small at that time. There were very few stores. I thought about it, then in 2006, and even today, no one has cloned Chipotle. The most surprising thing for me is that Chipotle has no clones. I remember there was another Mexican fast-food taco place, Baja Fresh, which Wendy's used to own then. I went to Baja Fresh, and of course, the experience was terrible compared to Chipotle. I never went back again. I thought to myself, why don't these guys just go and do what Chipotle does? Just reconfigure your line where you are producing the tacos and burritos to be exactly that. Make it the same ingredients, hire those chefs, and make the taste the same, nobody has done it. If you look at the world over and over and over again, you will find great things around with no clones and those are all wide-open opportunities, so long live cloning.

Prof. Liu: The “Heads I win; tails I do not lose much” philosophy resonates with many investors. Can you share a memorable investment where this principle was put to the test and the outcome taught you valuable lessons?

Mohnish: “Heads I win, tails I do not lose much,” is the cornerstone of investing. It is like breathing. They said that when Warren was like six or seven years old, he would walk with his knees slightly bent forward. The reason he did that is that he did not want to fall, and he found that if you walk with your knees slightly bent forward, you would never fall. Warren has a very extreme aversion to negative outcomes. Negative outcomes hurt him a lot, like falling down, for example. They gave away 2% of Berkshire Hathaway shares to buy Dexter shoes, and Dexter shoes went to zero. Whatever they paid in those shares went to zero. Every few years Warren will bring up Dexter's shoes and say, it is a $10 billion mistake. It is a $12 billion mistake and now it is more than a $15 billion mistake. Then he would say that when the stock goes down, he feels good. For someone like Warren, the experience of falling down and the experience of the loss of Dexter's shoes are very similar feelings. With both Warren and Charlie, their approach has always been a focus on the downside. As investors, we really want to be heavily focused on the downside. We must do whatever we can to reduce or eliminate the downside. Even then we make a lot of mistakes, but if the focus is on the downside, many times the upside will take care of itself.

Many of the investments I made were investments where the downside was almost non-existent. Last year I invested in a company called Consol Energy. It is a thermal coal producer. Of course, now they have the Baltimore Bridge down, which has dramatically affected them in terms of the ability to ship anything for the last couple of months. I had never heard of the company

before. Consol Energy was a company that came on my radar because someone put a tweet out saying, "David Einhorn's Consol Energy bet looks like Mohnish's IPSCO bet." IPSCO was a company I had invested in almost 20 years ago; in 2004. I have very fond memories of IPSCO. Whenever someone brings up IPSCO, I get very excited. IPSCO was this classic "Head I win, tails I do not lose much," where this was a Canadian steel company whose stock price was $45 a share. They had $15 a share in cash, they had no debt, and they had contracts that were going to give them at least $15 a share in earnings for each of the next two years. They had publicly given this guidance, and it was not just guidance. These were contracts on their books. If you have just bought the stock and you held it for two years, it would have $45 on the balance sheet, and all the plant, equipment, and inventory, would be free. I had no idea what Consol's long-term intrinsic value or cash flows or any of those things are. I had no idea about it. In fact, it was such a cyclical business that in year three earnings could be zero, earnings could even be negative because they could go up and down. All I wanted to do was to buy Consol. I want to own it for two years. I want to see what Mr. Market does to the stock price. That was the extent of my analysis on Consol, nothing more than that. What happened is, a year later, they announced we were going to have one more year of $15 a share. I said, "Hallelujah." We cannot lose money, and by that time, the stock had drifted north to about 80 or $90 a share. It almost doubled in 14, or 15 months. I was thinking, it was time to move on. Who knows what happens after that, because this is very cyclical. Mr. Market is giving you a double in 15 months, life is good.

Then, as I was thinking through all that, one day I woke up and the stock was at 155. Some Swedish company offered to buy them for 160, and about five seconds after that, I sold all the shares I had. In 2023 when someone tweets, this is like Mohnish's IPSCO bet. I thought I would never see another IPSCO in my life. I said, "There is a God, and the God loves me. Let us look into Consol." Consol was very similar in the sense that they sold a year in advance all the coal that they were going to produce with price bands that were fixed. It cannot go above or beyond a certain range. In 2023, they have already done all the deals where that money is going to show up in 24. It was not as good as IPSCO in the sense that it was not two years fully locked in for that, but the market cap was under 2 billion and these cash flows in a single year, which they locked in, was about 600 million. They were almost a third. There were two advantages they had over IPSCO. Unlike IPSCO, it was unlikely that they would have a year where they would lose money. Consol is a 150-year-old company. They have never gone bankrupt in 150 years. They have always made money because they are the lowest-cost producer of some of the highest-quality thermal coal reserves in the world. They are sitting at a very low end of the cost curve, so they always make money. I said, "Okay, this is actually better than IPSCO because you are in advance, and you cannot really lose money. The second thing that they had going with IPSCO was that they were going to spend all their money buying back shares, even if you are trading at three times, four times, five times cash flows, and someone is going to buy back all the shares. Long live Twitter. That is all I have to say. Here we are heavily loaded on coal, because of that tweet, so life is good. Thank you.

Prof. Liu: Thank you for sharing that. You gave us several examples of evaluating the interesting value of business. That is one of the most important things for

value investors. I want to ask you, how many of you are value investors? How many of you would consider yourselves to be value investors? We have a large audience of value investors, but there is also a trend that more people are making passive investments, investing in an index fund. There is this concern that the population of value investors is shrinking, like an index fund, does not pick up those undervalued stocks. If you are under a billing, it is hard to get noticed. In the past, the mechanism is that, like value investors, like you guys, you observe out there and there is an undervalued stock and the people started investing in it. They bring up the price of the stock, but the population of value investors is shrinking. What are your thoughts on that?

Mohnish: It is good. When people ignore stocks, that is awesome. I would love for the Consol price to stay extremely low for a very long time. In fact, it is not good if it goes up. They would buy shares back at high prices. In general, if you have identified an undervalued business and no one agrees with you, and it remains undervalued, at the end of the day that business is producing cash flows and you have a claim on those cash flows. If the business is prudent about how it is either using or distributing those cash flows. At the end of the day, the market is a weighing machine. Those cash flows have to show up as dividends or value to the investor. I would say it is a blessing for investors that all the money goes into the Fab Four; that is awesome. Put it all there. It is great. Go Nvidia.

Prof. Liu: I am a professor of economics and macroeconomics. I also studied financial economics, like financial markets. I want to put an investment in this big environment, macroeconomic environment. We have seen lots of changes in the past few years. The pandemic changed the way of business. You also see the US-China, the tension, and political risk increasing, and you see the supply chain and Ukraine war conflicts. Like the rise of nationalism around the world, and the impact of globalization. In this dynamic macroeconomic environment, how does that affect your investment particularly?

Mohnish: I focus much more on the micro. I always start with the business. I do not start with, "Okay, there is a pandemic. Let me find out how I can make money from the pandemic or whatever." I always try to go back to business, because understanding economies or big macro things is beyond my little brain. I cannot get my arms around that. Understanding just a business itself is complicated, so I do not want to make it more complicated. Keep it as simple as possible.

Prof. Liu: Let us open the questions to the audience.

Alan: I am asking this on behalf of my kids. How can they be rich and successful like you, but faster? Thank you.

Mohnish: Please make sure you repeat this to your kids. To ask the question is to answer it. The answer is in the question.

Mohnish: When you figure it out, let me know next year. Next question.

Speaker 1: Hi, Mohnish, thanks for giving this talk. I remember you said once that your dad gave you a credit card and he said, "I trust you with this. You do not have to tell me how much and you do not have to tell me what for." We just had our first son two months ago and my question is, raising a young son, what came first for your dad? Was it trust or did he know you would do the right

thing because of how he raised you? What was the story and impetus behind all that?

Mohnish: That is a great question. My dad was a very strict father. You had to be on your best behavior around him. Suddenly there was a switch when I turned 16. He told us, "You can go to my wallet, take as much money as you want, and spend it on whatever you want. You never need to tell me what you are doing." His demeanor changed from a father to a friend. I really could not believe this. I always thought there was an ulterior motive; something is going to change someday. What I realized later was that there was a transfer of values that took place in the first maybe 15, or 16 years and he probably felt that things were okay. What I had done with my own daughters is I pushed the envelope a little bit. I did not wait till 16. We gave them both credit cards when they were 12 and these were Amex platinum cards. They had no limit. They had Amex platinum cards at 12, but not even $10 got spent. Of course, I had more tools than my dad, because he was giving cash, which he could not track. But with credit cards, the bills are coming to me. I can see what happened. It is actually a leash even though they do not realize that. We never saw anything happen with those cards at all, which gave me cause for concern. The important thing as a parent is a transfer of values, and you cannot transfer values by talking to them. Do not try to give them values by lecturing them. They will pick up values by observing you, especially when you do not think they are observing you. Just know that they are going to be watching things and seeing things, even the interaction between both of you, that will get deeply embedded in their psyches. Good parenting is about good behavior. All the best. Congratulations.

Prof. Liu: I recently learned that your grandfather is a famous magician in India, how does that impact you?

Mohnish: The mustache is from him. He was far greater on stage. We can only aspire to be like him. My grandfather, my mother's dad, is probably the most incredible grandfather anyone could have. We used to go to his place in the foothills of the Himalayas. The day would start in the morning. He used to do magic tricks with us, and then he would take us for dessert. He was number one in the world; the best in the world in the art that he practiced, so it was really good.

Speaker 2: Thank you for a great talk here. I was thinking about what you were saying about how investors have, or at least Warren Buffett and Charlie had a high loss aversion in terms of investments. As you know, there are many ways to invest, but how do you manage that? There are things that can tap into a company that is beyond our control. Then, how do you make sure that you are not having too much of a loss if something goes wrong that is beyond your control, but you're also heavily invested in one or a concentrated portfolio?

Mohnish: I would still say that the loss aversion aspect, there is no downside to overdosing on that. Obviously, at some point, you need to make some bets. But if you look at almost all entrepreneurs who start different businesses, people think that entrepreneurs take risks. The reality is entrepreneurs do everything possible to minimize risk. When you analyze what risk they are taking, typically they do not have much money. If you do not have much money, you cannot lose much money. The downside is already limited. When I started my first business, I had taken out about 25,000 from my

401(k). I was 24, so I did not care so much about retirement at that time. I signed up for every credit card they would send to me. I had 70,000 in unused credit card lines and eventually, all of that got drawn as I was growing the business. But I had researched bankruptcy law at that time. If the business had not worked, that debt would have been wiped out. That law has been changed now. The 401(k) going away at 24 is not an extreme tragedy. I had looked at the downside of doing this versus the upside. The upside was very asymmetric. Loss aversion is a very good principle. It is a very good mental model to have. You do need to have some creativity, and you need to have some interest in at least making bets, and trying to exercise what you think might work. But you can do it in the context of minimizing or eliminating risk, and then that can work well.

Chloe: Hi, Pabrai. I am Chloe from Singapore. Thanks so much for all the YouTube videos that you shared. They have taught me so much about investing. I have two questions. Question number one is, since you talk about the importance of the downside and recently China has been dropping so much, what is your view toward investing in China, despite all this political uncertainty, particularly in terms of index investing in China? The second question is, what is your view on companies like Starbucks and McDonald's which borrow a lot of money buying back their shares, and which results in negative equity? Are you concerned about that? Thank you.

Mohnish: Those are great questions. Thank you. Regarding China, most of it would be outside my circle of competence. I cannot do much about that. To the extent that things are within the circle of competence, I can look at them. I used to have an investment a few years back in Moutai, which I should never have sold, but you know, that is the way it is. I also had investments in Alibaba and Tencent, which we do not have, but it did not work for us at the time we invested. Most of China is outside of what I can do just because of the range of understanding that I have on that. The best businesses are ones that have no debt. I actually think there is a lot to be said for businesses that operate with zero debt. I am not a proponent of a company borrowing money and doing buybacks. Many companies do that, but I would say that probably the gold standard is Berkshire Hathaway. Warren and Charlie have said many times that they could have introduced modest leverage, and it would have increased their results even more than they have been, but they never went there. In fact, if you look at Berkshire, it is overloaded with cash. Businesses are very fragile. Very few businesses that are around today, even large dominant businesses that are around today will be around 50 years from now, or 30 years from now. One of the reasons that businesses do not last is they cannot withstand heavy storms. All businesses are going to run into headwinds. Most management teams do not fully think that way. If they study Berkshire Hathaway, they study some truly great businesses. One of the hallmarks of a great business is high returns on equity with no use of leverage. That is a classic definition of a great business. I am not a proponent of borrowing money to buy back shares. That is not good.

Speaker 3: Hello. My question is, if I get approached by somebody like you in this meeting, how do I know it is not just luck? What are five good questions I should ask that person to see if it is a repeatable framework that will help me? Can I retire?

Mohnish: Well, I would say that the identification of a good investment manager is much harder than the identification of a good investment. The default should be an index fund, and then if something shows up on the radar where seven moons are aligning, you can look into that. Peter Kaufman talks about the 5 aces. I do not know if I can rattle off the 5 aces here, but God Google can rattle them off for you. You are looking for things like an alignment of interest, for a track record, for how that track record was developed, for ethos, for a certain kind of character, and for someone who is fishing where the fish are. These are some of the things you would want to look for, but I would say that even looking for all of those, it would not be a tragedy to be indexed all the time. That would be fine.

Speaker 4: The question is about cryptocurrency. What is your take on cryptocurrency? Is it a conspiracy? What is the intrinsic value of cryptocurrency?

Mohnish: I would say, first of all, this is outside my circle of competence. The second is, that I would echo Charlie's rat poison, not my words, Charlie's words. I would tell myself, "It does not matter what is happening with crypto because it is not something I understand or would invest in anything. If it ends up being a bubble that blows up, that will not surprise me at all." Blockchain technology has a lot of positives, but the crypto world attracts just certain types of characters in the realm. From my point of view, it is an easy pass.

Tony: Hi, my name is Tony. I am from Seattle. You answered "Consol energy," and it sort of seems obvious. But not everybody did it. Not every investor bought Consol. Somehow you had an edge to see that, and everybody else that stood on the sidelines did not buy Consol. Why didn't they buy Consol? The math is the same.

Mohnish: That is a great question. One of the things about investing is that all knowledge is cumulative. When we go through different investments and experiences, it helps us. For me, the reason I bought Consol is very different from the reason David Einhorn bought it, even though I took the idea from David. David complains about exactly what we talked about. He complains about the over-indexing of the market, which leads to under-valuations for a very extended period of these companies. He believes it is a negative. He believes that these companies that never get to intrinsic value are negative. I believe that if a company never gets to intrinsic value, that is a huge positive for you because it means that you could be collecting dividends and you could be buying back shares. The company gets through many other things that would not be possible if it was appropriately priced. You end up in a situation where you can have higher returns when the market misprices things for extended periods. For me, the reason why most investors would not be able to go into something like Consol is, first of all, coal is a four-lettered word, so right there, a lot of people will be halted in their tracks. The second is that they may not understand the framework of IPSCO. For me, the Consol investment would not have happened if the IPSCO investment had not happened. That framework was very important, and Consol is interesting because it is a good investment, but it led me to look at even better things, which was moving from thermal coal to metallurgical coal, and many of the same dynamics apply on both sides. That is classically what Charlie talks about, which is that everything needs to be looked at from the lens of opportunity cost. Beauty is in the eye of the beholder. Most

things that most people will get excited about may not appeal to a lot of other people, because their life experience is so different. Just because I invested in Consol or I liked it, does not mean that it is going to resonate with a lot of people. It is just the nature of humans.

Crystal: Hi, I am Crystal Jane. I am from Stanford Business School, and I am a computer scientist, so engineering - roots like you. You talked a lot about cloning. My question is, if you could build a digital twin of yourself or clone yourself, what aspect of yourself would you clone and would you do it to preserve value for future generations?

Mohnish: It might be above my pay grade to be able to answer the question, so I do not know if I can even answer it. One of the things that we are investing in is what makes it so much fun; it is a mix of art and science. One of the things I find myself wondering is that almost every week we are seeing breakthroughs with AI, which we did not think was possible. Almost every week I get surprised. I see a lot of creativity coming out of AI that I would not have thought would be easy to get to. There is a site I ran into recently, suno.ai, which creates any song you want with a prompt of seven words or something and the music is exceptional. I was really blown away. I have thought about the issue of creating AI models with things like Warren Buffett's template, or Charlie Munger's template, and I am still skeptical about that. I do not know whether we can get to AI on that to that extent, but certainly, it can be a great tool to cut down the universe to a few companies that are worth drilling down. It may work that creating a Berkshire index, or a Buffett index could do better than the S&P, so those are possibilities. But again, as I said, things are changing so fast that we do not know yet. Thank you everyone. It was great to be with all of you.

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