

Mohnish Pabrai's Talk at My First Million on March 27, 2025

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Shaan: Mohnish, welcome back for round two.

Mohnish: Shaan, it is always a pleasure.

Shaan: I want to start with something that I was reading in your book, and it is it has kind of smacked me in the face. It said, "In investing, the small guy has the advantage." I love that because in everything else in life, it feels like the big guy always has the advantage. Why does the small guy have an advantage in investing?

Mohnish: Yes, if you think about it, a small guy is an exceptional investor. Picking through weird anomalies, arbitrage, and other opportunities that are tiny, they would compound capital at a very high rate. Very soon, they could not play in that arena because that arena can maybe take a hundred thousand or a million of capital. Once they get past a hundred thousand, a million, or 5 million, they have to seek out larger pastures, and they have to move up. Because if you have a hundred million dollars of capital, you cannot put it out 10,000 at a time. That is not going to work. But if you had a hundred thousand, you could put out 10,000 at a time. When they go from a hundred thousand to a million, five or 10 million, they have to leave the small space. The small space now becomes open for the next generation, and the best of the next generation come in and again, kind of hit it out of the park, and then they leave it for the next generation. The very tiny opportunities are always a fertile hunting ground. Buffett says that if he were running a million dollars or \$10 million, he would do 50% a year.

Shaan: 50, yes, and he did right at the beginning.

Mohnish: Yes, he was killing it. But when you start getting from 1 million to 10 million, it changes a lot. From 10 million to a hundred million, it changes even more. When you are looking at sums below a hundred thousand, that is the most orgasmic space to play in because the entire universe is available to you, and there are many opportunities where the returns are very high, but the amount of capital that can go in is extremely tiny. Those would be the nooks and crevices that the small guy would play in.

Shaan: Let us play a game. Let us say you are my investing coach, and I have \$10,000 that I want to turn into a million. The podcast is called "My First Million." That is a hundred x or a hundred bagger in your terms. What would you be advising me? How would you coach me to think about that? How would I take 10K and turn it into a million?

Mohnish: I would make some tweaks to your thinking first about the 10K. I would say that the 10K is a good starting point, but what I also want you to do separately from that is have a day job. I want you to spend less than your

earnings. I want you to take the 10K, and I also want you to take your annual savings. Maybe that is five, 10,000 a year or whatever it is. Normally, I would say put it into an index. The index, like the S&P, is overheated. We cannot go there right now, circa 2025. Maybe in 2035 we can, but not in 2025. What I would do is I would treat Berkshire Hathaway as the index because they have such a huge portion of the market cap in cash.

Shaan: What makes you say the S&P is overheated?

Mohnish: If you look at the MAG7 in terms of just trailing PEs and all of that, it is way above the S&P long-term average. But even if you ignore the MAG7, look at the 493 other stocks; they are also trading significantly higher than historic averages. It is not just that. The tech portion, or the large techs, are exceptional businesses, and they may well continue to do exceptionally well for a while. But the thing is that when the multiples become high, it becomes difficult. You hit a brick wall, and this is not the first time we have seen this story play out. For example, in early 2000, three stocks were over a 600 billion market cap. On the whole planet, there were only three stocks over 600 billion. They were Cisco Systems, Microsoft, and GE, and we know how that story ended. Cisco never saw that market cap again from 2000 to 2025. The company has done well, it has grown, and all of that, but it was just too euphoric. Microsoft has also done exceptionally well. But from 2000 to 2015, 15 years, zero returns. It was not just zero returns; it went from a 600 billion market cap to a 200 billion market cap before coming back to 600. It was not pleasant. If you look at GE, we do not need to talk about that. That just imploded; it never came back. In general, investing in the largest market caps in a time of euphoria is not a great recipe for success. I would not want to be all in on the MAG7 and say that is where I am going to be. That may be pushing it, but I would say that compared to even the remaining 493, I would take Berkshire with a 493 in the S&P. I would just say the default currently is you put it, dollar cost average, into the Berkshire class B shares, and you keep doing that day in, day out. The thing about investing is that opportunities are not going to show up just because you have the cash. There is a mismatch between when you are ready to make an investment versus when the opportunity is there. Our plan A is just to keep putting money into Berkshire. If we did that, the math is simple. Even if we were doing 10% a year, which is pretty reasonable for Berkshire, following the rule of 72, we would double every seven years. Life is all about doubles. If we are doubling every year, and let us say we are a 20-something guy with 10,000, and go for 50 years or 49 years, it is seven doubles, which is 128. It is 128 times your money. I gave you more than a hundred x. I gave you 128 x in 49 years without doing anything. This is just plan B, where we put the 10,000 in, it becomes more than a million; 1.33 million with no taxes paid, there is no dividend, there are no taxes, there is nothing. We have not even gone to plan A yet. This is just sitting there. The other thing is that every once in a while, there will be opportunities that show up. What we are looking for is something that hits you in the head with a two-by-four. The best investments are ones that make no sense. You cannot make sense of the numbers. It is too good to be true. It is just weird when these kinds of unusual things come together where things do not make sense, that is when we want to dive in.

Shaan: Give me a simple example (either from your own investing, a Buffett investment, or a case study) of a great investment that does not make any sense. The numbers just seem wrong.

Mohnish: I will give you one example where it was a money maker for me, but I did not make even 3% of the money I should have. It was given to me on a platter, and I blew it. I still made money, but I want to explain how the best ideas, when you finally figure that out, are very simple. Around 2001 or 2002, I encountered the shipping company called Frontline. It was a company that owned a fleet of about 75 VLCCs, very large crude carriers. These are giant ships that transport crude from countries like Saudi Arabia to the US. The entire global fleet at that time was 300 VLCCs, and 75 of them were owned by Frontline; 25% of the market. The guy who ran and was the founder of Frontline, John Fredriksen, had put the entire fleet on the spot market. There are two ways he could have dealt with his fleet. He could have done one-year time charters, three three-year deals, where he is guaranteed cash flows per day. Or be a gambler, put it on the spot market, and play it. He had put the entire fleet on the spot market. These VLCCs have a cost with the crews and all of that of around \$15,000 per day to break even. At that time, we had the Iraq War and different things going on, so oil demand fell a lot, and there was not enough need for VLCCs. The shipping rates collapsed to the point they went to 7,000 per day, so now you have Frontline losing 8,000 per day x 75 ships, and they are levered. The stock got taken out back and shot around a 90% drop. Most of it was valid because when we are making investments or when equity markets look at a company, they want to see consistency of cash flows. They reward consistency of cash flows. Here, what we were seeing was the consistency of losses. No one could tell you when these losses abate. The stock was down to around \$3 per share. When I looked at it, I noticed two things. The first thing is that all that debt was non-recourse. That debt was tied to individual ships. There was no debt with the parent. If they defaulted on the debt of a ship, the bank could just take the ship. They could not take the company; they could just take that ship, like a car loan. The second thing I noticed was that there is a somewhat liquid market to buy and sell these ships. Even when the rates went to 7,000 per day, the ships had dropped in price; a 25-30% drop from where they used to be. What I realized is that if Frontline got into a crunch where they were having cash problems, they could just sell three ships. If they sold three ships, paid off the debt, they would have enough cash left over to keep sustaining operations for six to nine months. They could sell three more ships after that. I felt like there was no way the company was a candidate for bankruptcy. The other thing is, I could look at the entire company and say, "Okay, what if they sold all the ships?" If they sold all the ships, paid off all the debt, you would end up with nine or \$10 a share (you are at three bucks), so you make three times your money if they just liquidated the whole business. They were the arbitrage between the price of the stock and the net price of the assets in a distressed scenario. I said, "Okay, we cannot lose money here, and we are going to go buy Frontline. I put 10% of my funds into Frontline because I just could not see a way that we could lose money. Now, when these rates were at 7,000, what happened is that the scrapping of ships skyrocketed. There are Greek ship owners who have one or two VLCCs. They are 25- 30-year-old rust buckets. They send them to Bangladesh, India, to be broken up, sold for scrap, get 10, 15 million out, and go do something else with the money. The old ships stop getting rented

because they are single-hulled. After Exxon Valdez, everyone wants double-hull ships. When the market goes weak, everyone wants to rent the double-hull ship because the prices are about the same, so all the single-hull ships are getting scrapped. Now the fleet went from 300 ships to about 250 ships. After a few months, the rates start improving, the oil demand starts coming back up, the rates go to 15,000, then they go to 20,000; the stock is at 10 bucks. I sell my shares and tell myself, "Well done, Mohnish." In eight months or something. This was exactly what I thought. Rates then go to 300,000 a day. At 300,000 a day, they are making something like 285,000 a day, times 75 ships. That number is like infinity.

Shaan: Yes. I was trying to do the math.

Mohnish: Just assume it is infinity, the stock goes up in the next three years, 80 x, and here is stupid Mohnish. Patting himself on the back with the double. I did not even get a double; I got around 80% return on my money, and that was that. That was an example of where I did first-order thinking, but I did not do second-order thinking. Buffett always says that the most important question to ask in investing is, "And then what?" Whatever you think, then ask, "and then what?" You keep asking that "and then what?" If I had been so smart as to ask the question, and then what? You see that the rates are terrible. You see the scrapping; you see that the fleet is going to shrink. Even if oil demand does not come back the way it was, it is going to come into balance eventually, and those losses are going to go away. Then you do the next thing, which is that when oil demand comes back, it takes three to four years to build one of these things. When the rates went to 30,000 or 50,000, and all these guys can see that this is a great business now, well, when you go to the Korean shipyards, who are now inundated with orders, they are going to say, "Go to the back of the queue. I will give you a ship in five years, and by the way, the ship is no longer 70 million, the new price is 120." Because they got more orders than they can handle. We had this dynamic, if I had thought about it, that once the demand became tight, you could not increase supply for at least three or four years. What is 285,000 times 75 times 1000 days? That is the minimum number of times, and that price is not going to come down. It is only after three or four more years that ships start getting delivered, and you start getting more balance and all of that. But that is an insane amount of cash flow. As our friend Jim Cramer says, "There is always a bull market somewhere." If we are plan A Berkshire Hathaway, plan B looking for anomalies, every so often (not very often), you will find something weird. We have all the time in the world. We can research something for three months. It turns out it is not that great, let it go. We have Berkshire shell cracking. If you look at Warren Buffett, in his 2022 letter, he said that in 58 years of running Berkshire, there have been 12 decisions that have moved the needle for Berkshire stock. In 58 years, he made more than 300-400 purchase decisions for stocks and businesses. Out of 300 (if I take a conservative number, it is more than that), only 12 were exceptional. He said there was one good idea on average every five years. This is Warren Buffett, with a 4% hit rate. Great investment ideas are rare. We are not going to run into them every week or every month, or every year. Plan A, stick it in the index, plan B, keep running a Geiger counter over everything, looking at different things. When something does not make sense, drill down, and every so often, you are going to hit the mother lode. When you find something that is a mother lode, you peel off 10, 15% of what

you have in Berkshire, put it into that, let it play out, then put it back into Berkshire. Just you keep doing that, and now your hundred x is going to show up in half the time or less.

Shaan: I like that story. I have heard all these examples of whether it is Buffett, Munger, or your investments that you have made that are interesting. But what I do not know is the process. You tell me the story about these ships, and when you explain it, I can see it just like you see it, "Oh, that is the opportunity." But the thing I do not get is why you are looking at crude oil ships? How do I even know where to look? What is that process for you? Do you pick one industry and look at a hundred companies in it? Do you read books on 50 industries? Do you look at what other investors are doing and try to reverse engineer? Where do you even know where to look?

Mohnish: I am going to lay it out for you. It is going to be so easy, but it takes a certain temperament. First, I want to talk about the temperament. If we go back to Warren Buffett, when he was a teenager, he used to go to the race track in Omaha, Aksarben. He used to go to the race track, and one of the things he did was, after all the races were done, he would pick up all the tickets that people had left lying on the ground. These are mostly losing tickets. They just toss them in the garbage cans. He would pull them all out, then he would go home and, one by one, look at every ticket he would find. Sometimes a horse would come in second, and the ticket was for win or place. It was a winning ticket, but they did not understand that because they were drunk or whatever. He would always find a bunch of tickets, which were in the money, but they had been discarded. He was underage, so he could not go to the counter to collect the money. He gave them all to his Aunt Alice, his favorite aunt. She used to go to the counter, collect the money, and give it to him. When Warren became older, let us say 24 or 25 years old, he went through the *Moody's Manual*. I have one with me here. Let me show you while I tell you the story. For nostalgia, I bought it on eBay. There were a number of these that came out. This, for example, was in 1953. It was about railroads, airlines, and shipping. If I open the *Moody's Manual* to any random page, what it is doing is it has got two or three companies per page. The print is very fine; you need a magnifying glass. It gives you a summary of every company. This is just one of them in 1953. There were probably about seven or eight of these books that came out in 53. Similar numbers in 54, 55, so on. You are talking about a big stack of these. He went through these books two or three times. What he did was read each one, page by page, and he was looking for anomalies. He used to host these MBA students, and he brought them printouts from the *Moody's Manual* to the ones that he made an investment in. He would find something like Western Insurance, for example, where the stock price was 15 and the earnings last year were 25. The stock is \$15 a share, earnings are \$25 a share, and book value is \$80 a share. That is what we call an anomaly. Hitting you by a head with a two by four, makes no sense. He would make a list of all these companies that made no sense in the positive direction. Then he would study them, and make investments. In order for Warren to find Western Insurance, he might have had to spend 14 hours a day nonstop reading these for three months before he finds one or two of them, but he only needs very few of them. Warren is a prodigy. His mind was programmed to have intense work; the work never bothered him. Just like no other teenagers were going and collecting all those tickets on the floor and then going through each one

with the optimism that I am going to find something that is a free lunch. He went through *Moody's Manual* and started finding these anomalies. Then started making investments in them and did well. Now we have a shortcut because I know that your listeners are not going to do what Buffet did. I cannot do what Buffett did. Even though I am I like what he does and I want to do what he does. I do not have the wherewithal and the ferocious intensity that Warren does. Almost no one does. He is just extreme anomaly on that front. For example, there is a website called Value Investors Club. If you go to Value Investors Club, it is free. You do not have to pay anything. If you give them your email, you can see all ideas that are 60 days or older, and if you do not give them your email, you can see all ideas that are 120 days and older. It does not matter because there is ideas and values versus clubs that are 10 years old, 15 years old; it is very difficult to become a member of Value Investors Club posting ideas. It is a curated website. The members have to submit two ideas a year, which get a decent rating in order to keep their membership. What I have found is the Value Investors Club has a lot of brain power. It has brain power coming out of their years and it is all free. All someone has to do is sit down and read the write-ups on Value Investors Club. There are maybe 500 write-ups in a year. Each write-up may be around 10, 15 pages max. Then there are comments. It is much easier than the *Moody's Manual* because someone is digesting the information for you. It would be easy for someone without putting too much work into it to read four or five ideas a day. They could have a full-time job and easily do that. That is not a difficult thing to do. You do not need to read the whole idea. What I would say is you read the first few paragraphs and see if this is something that is interesting to you or not, or something that is grabbing you or not. What I do is I look at every idea that is posted. I do not care to look at them right when they are posted because those ideas will work even five years from now. For example, recently, I started investing in a company where the original write-up was in 2021. It is 2025 and it is still valid. There is a lot of history of comments and I can look at what happened to the business last few years. What I am saying is that the Value Investors Club is a very good shortcut. What you still have to do is you should use it only as an input to ideas. Just like the *Moody's Manual* is not telling you what to buy and sell. Once you see the idea, you do all your own work, do your research, do everything, make sure it is something you understand well, make sure it is within your circle of competence, whether you buy into the idea or not. There is a wide range of businesses, sometimes the same business because Value Investors Club has now been around for more than two and a half decades. Sometimes the same idea has been written up seven, eight times. You can go and look at all of them. It shows you the whole history of what has been happening with that business. If someone is a student and wants to be like Buffett was in the Aksarben race track, the Value Investors Club is a great tool. Buffett is still doing this. There is another book called the *Japan Company Handbook*, let me bring it and show you.

Shaan: Okay. Sounds good. I am excited about this because you hear a lot about Buffett's See's Candies, Coke, Geico; those well-known Buffett's best bets.

Mohnish: Yes.

Shaan: But as I understand it, Buffett made some incredible investments in Japan.

Mohnish: Well, the most recent letter he wrote, there was more than a page on Japan. This book, *Japan Company Handbook*, the good news is it is in English. It is like the *Moody's Manual*, except that it is two companies in a page; there are four companies on two pages. The other thing is that it updates every quarter. They publish this every quarter. It is on the Amazon website. Very simple. You can go on the Amazon website or the Amazon Japan website and just place an order and they will send it to you. Unlike *Moody's Manual*, which is no longer published, this is something you can buy anytime you want. Again, you do not need it every quarter. You could buy one of these maybe every five years or something. What Buffett did with this is exactly what he did at Aksarben. He just flipped through page after page. It was maybe 12 or 13 years ago, Guy Spier and I were visiting Warren Buffett in his office. We were not visiting Buffett; we were there to have lunch with his assistant. Guy and I got to know his assistant Debbie well when we were setting up the lunch with Warren Buffett. Debbie is awesome I told Debbie, "Listen, it would be great if Guy and I could take you for lunch." She said, "Look, when you come to the Berkshire meeting, Fridays are crazy in the office. All these celebrities are coming in. I cannot leave the office on Friday, but if you come on Thursday, I can go to lunch with you guys on Thursday." I said, "We got nothing to do. We can be there on Thursday. No problem." We started going to Omaha. We would get there Wednesday night and then Thursday we would meet Debbie for lunch. This went on for several years. What I realized after a few of these was lunch with Debbie turned out to be better than lunch with Warren because I would tell Debbie, "Debbie, between us girls can we talk?" She would say, "What do you want to know Mohnish, ask me anything." I would get the most peculiar habits that Warren had, like how he goes through his mail, how he does this and that; all these different things. She would tell me exactly how they did things. One year we were going to have lunch with Debbie and we go to Omaha, to the Berkshire headquarters on Thursday. When Guy and I get off the elevator on the 14th floor, Warren is standing there. I thought maybe he is going out somewhere, but he had come to meet us. Think about a Fortune 10 CEO coming out to the elevator to meet a couple of yo-yos, he does not even have an appointment with. He tells me, "Would you guys like a tour of Berkshire headquarters?" We were surprised. We said, "Warren, if you want to waste your time giving us a tour, we are all in." He takes us around, shows us his coke fountain, and all the different stocks on the board and a lot of paraphernalia there that he is going through, explaining a lot of history. Then he takes us into his private office, and I see the *Japan Company Handbook*, on his desk. I knew before I went there that Warren was into the *Japan Company Handbook*, and I had just gone through it. I said, "Warren, I have been going through this as well. Can I mark some of the ones that I believe you can just go straight to instead of flipping every page?" He is very skeptical of the whole thing, but he says, "Go ahead, Mohnish. Do whatever you want." I took his copy of that handbook and dog eared the pages that I thought he should look at. I told him, "Warren, it just turns out that most of the good stuff is at the back." He said, "That is always the case. All the good stuff is always in the back." We went through that and I marked the *Japan Company Handbook*. It was 2019, I believe, when he was starting to buy the five Japanese trading companies.

Shaan: Do you know why he did that? Is he normally looking at different countries?

Mohnish: Let me explain the total no-brainer nature of that bet. These five Japanese trading companies had 8% dividend yield. They were paying an 8% dividend. It was very cheap. Japan's index has not gone anywhere for almost 30 years. Warren got insane return on these. What he did is he borrowed the entire amount in yen at half a percent a year.

Shaan: It was not a small amount. It was like 5 billion.

Mohnish: Yes. He put 5 billion, but he borrowed the 5 billion at half a percent in yen. Now he has bought a Japanese company in yen, that is paying dividends in yen. The dividend coverage is 16 times his interest payment. He put no equity, and he is instantly making 7.5% on 5 billion, which is about 350, 400 million out of nothing. It is just coming to him. Now what happens is, because these companies are sourced cheap, in about three or four years, they all doubled in price. Now the 5 billion has become 10 billion. The equity that went in is nothing, so it is infinite return. They all raised the dividend. The dividend based on the original purchase price is about 15% and then after that, what he did is he increased the bet. He was under 5% of all of them. He is now approaching 10% on all of them. He met the companies and said, "Look, I am obviously not an activist or going to take over the business or any of that. Are you okay if I buy more?" They said, "It would be an honor to have you as an investor." He flew to Japan to Tokyo with Greg Abel, and he is in a penthouse suite in a hotel in Tokyo. He is very old, past 90. They came to see him in his room. They came one by one and he met all five companies and then he flew back. What I am saying is that that bet is the same as the Aksarben bet. It is the same as those bets with the *Moody's Manual*, and he found it in here.

Shaan: Your core philosophy is, "heads I win tails I do not lose much."

Mohnish: Yes. What I am saying is anyone could have looked at the *Moody's Manual*, or the *Japan Company Handbook*. He viewed these companies as companies like Berkshire, which they are. These are, Mitsubishi, Marubeni and all these guys. They have been around for decades. They are very exceptional businesses, great capital allocation, smart people, and pro-shareholder. Warren found mother lode where he could put 10 billion. This is not even like something where you could put 10,000 or a hundred thousand. This could accommodate 10 billion at spectacularly high returns. It is a matter of how hungry are you? It is the same as any entrepreneur. Anyone who starts a business, whatever, they got to go all in; intense passion, 18 hours a day, all in very strong belief. It is the same thing here. If you truly are focused on it, you can do very well. The universe is going to conspire to help you with whatever your passion is. It is just a matter of whether you want it.

Shaan: One of the things I find interesting is: Munger has this philosophy of inversion. Instead of "Here is why we should invest in this," you have said before, he was looking for the 62nd answer of why not to invest in a company.

Mohnish: Yes.

Shaan: I believe that if I am here today and I want to be a better investor, instead of saying, "Here are all the things I need to do," I should find what are the things I need to not do? You have a list of some of these. For example, one

of the do nots is, "Thou shall not use Excel." This surprised me because I thought it is a lot of modeling and advanced financial analysis, but you think it is not that.

Mohnish: Let us look at Buffett's Japan investments. He has not turned on a computer for investments ever.

Shaan: Did Debbie tell you that? By the way, does he use Excel?

Mohnish: He does not use Excel for sure. He uses his computer for Google and all that, but he uses his computer mainly to play Bridge. Warren would not be caught dead using Excel. The thing is that he is looking for things that hit you in the head with a two by four. When he is going through a *Japan Company Handbook* or the *Moody's Manual*, there is no Excel needed. What will Excel help you with? When the earnings are \$25 a share and the stock is \$15, you do not need Excel. When dividend yield is 8% and you are borrowing at half percent, you do not need Excel. In fact, if you need Excel, it is an automatic pass because it means that there is something complicated there, which is not fitting in. Did I need Excel for Frontline? No, I did not need Excel for Frontline. I look up the liquidation prices, the ships, and where the ships are at. All these things are very basic numbers. You do not need Excel for it. Recently I was talking to a friend of mine and we were looking at some international stock exchange. This international stock exchange trades at a trailing PE of around 30. It is growing at 15, 20% a year; very rapid growth. 60% of revenue is profit, and as they grow, that 60% might become 70% because they have got operating leverage. If you just forward two or three years, the PE becomes less than 10. There is no need for Excel. You can just do it all in your head. It has got \$10 of earnings today. It is going to have \$12 a year from now, 14, \$15 two years from now, maybe 17 or \$18 three years from now, stocks at 300. Now when you are at 18, you are already at a 15 multiple. You already cut it in half, but it is growing by that time. It should be trading at even more than 30 times earnings. The stock may be at six or 700 by then. What I am saying is that if you cannot do the math in your head, it is an automatic pass because that means there is something complicated. Another important thing is you should be able to explain your thesis of a stock in about four or five sentences to a 10-year-old. If you cannot do that, it is a pass. You cannot sit down with a 10-year-old with an Excel spreadsheet. They are not going to like you and they are not going to be interested. Einstein used to say, "There are four levels of intelligence: smart, intelligent, genius, simple. The highest level of intellect is simplicity. The other thing about investing is that you have to have conviction. It is very difficult to have conviction if you keep needing to go back and look at your Excel model. You need to do it in your head. Buffett never needs to go anywhere. It is in his head. He knows what the dividend yield is, he knows what he paid, he knows what the yen is, he knows all of that. It is pre-programmed; you do not need to think about it.

Shaan: I have another one. In the "do not" pile, we have "do not use Excel" and "do not overcomplicate." It is what that means. The second is leverage. Do not over leverage. Can you tell us that story about Rick?

Mohnish: Yes, Rick Guerin.

Shaan: What happened to Rick? What have you learnt from Rick?

Mohnish: Warren, Charlie, and Rick Guerin used to do deals together. They were all independent doing their thing, but they used to share ideas and sometimes they would go in together. Rick Guerin was based in LA and he was good friends with Charlie. We later became good friends with Warren. Rick found blue chip stamps for them, and he also might have been the guy See's Candies contacted. After the early seventies, we never heard about Rick. He kind of fell off the radar. When I met Warren for lunch, I asked him just a very innocent question. I said, "Warren, what happened to Rick? It should be three of you, and then we never heard from him after that." Warren said, "Charlie and I knew that we would get very rich and we were not in a hurry. Rick was in a hurry." Rick was always using some leverage. Then when the 73, 74 downturn came, that was very intense; it was a crash in slow motion. Over a two-year period, the stocks went down more than 40, 50%. It was a big draw down. Rick got margin calls. Warren said, "When he got the margin calls, I bought his Berkshire Hathaway for \$40 a share." The stock that is now 700,000. Rick was forced to sell it at a time when it was probably the worst time to sell. Warren went one step further because he is always trying to add value of these lunches. He says to me and Guy, "If you are even a slightly above average investor, spend less than you earn, and use no leverage, you cannot help but get rich in a lifetime." The same thing we went through when we started at 10,000 to a million. We are not using leverage. We do not even need to be above average. You do not need to be a genius, and if something shows up on the radar like the Japanese bets or Frontline or something else, you can make that bet, and that would hopefully help your returns. But if you did not do any of that, you would still end up okay. What happened later, which was funny, is that in 2009 I became friends with Charlie and then I started playing bridge with him. Rick was his bridge partner. We used to play bridge at the LA Country Club. Those are some great years. We would always meet and have lunch in the dining room and then we would go play bridge in the bridge room. I was sitting and the other two guys had not shown up. I was sitting on a small table for four, and Charlie and Rick were in front of me. I said, "You guys think this is just some lunch. This is an iconic moment." These two guys are amused. Some Indian guy is a big fan of theirs. I said, "I cannot even imagine that this is true, that I have Rick Guerin who I thought disappeared and he was such a fantastic guy. I also have Charlie. You guys did all these deals together. Is there some deal that you did that stands out; something interesting? Tell me about some of the good times in the sixties when you were shooting fish in the barrel after the water had been run out. They look at each other and Rick tells Charlie, "Why don't you tell him about the nurse?" Charlie says that Rick found that there was a business where the owner had died. He was a kind of crazy maverick entrepreneur. What this guy had done is he had invented an additive fluid that you could put into your engine in your car, and it would plug any leaks. You just put it in your engine, and if there was an oil leak or something it would just seal it up and it would not interfere with anything else. What the guy used to do is he would go to auto repair shops with his gun, shoot a hole in his engine in front of them with his gun, then he would pour his thing.

Shaan: Wow. What a salesman.

Mohnish: Yes, he was great. Crazy maverick. That is how he built sales. Then he has a heart attack and dies. This guy was a great inventor, but the business was

all upside down with a lever, this and that, a lot of issues. Rick told Charlie, "We should take control of this company. If we take control of the debt with the banks, we will own the business because equity is not worth any." They bought up all the bank debt at pennies on the dollar, but then there was a twist. The guy had a mistress. The mistress was his nurse and his wife found out after he passed away because he made the mistress the executor of his will, and the wife was going to inherit the business. But the two women were very upset with each other. The nurse, as Charlie was describing her to me, was a blonde, large breasted woman. The guy had borrowed about \$80,000 from the wife's aunt in his business. What Charlie told the widow is, "Look, we want to be fair to everyone. We want to pay your aunt the 80,000 full face value of the loan," even though they are buying everything at less. He continued, "We would like to have your blessings to move the business to us so that no one is upset about it." The issue was that the two women were not interested in doing anything to help the other one, so Charlie decided to meet the nurse at the California Club, which is a very blue blooded place. He used to always go there for lunch and have his table. That is where I met Charlie the first time. It is kind of a lunch club. He invited the nurse to meet him for lunch so he could calm her down, smooth the feathers, and get the deal done. She came straight from work, in a nurse's uniform, which was about three sizes too small. Charlie said when he was having lunch with her (a blonde in a nurse's uniform), the rest of the members in that club thought that Charlie is meeting a porn star. They could not believe Mr. Munger, one of their most distinguished members is having lunch with a porn star. Anyway, Charlie said that he was able to smooth things over, regardless of what all the members were talking about. He was able to get the deal done. That was one of the funny stories. But these guys, they had a blast together.

Shaan: What ended up happening to Rick? He did not get back into Berkshire, or he did later?

Mohnish: He did later. Rick was an extremely good investor. Of course he had suffered a big draw down and taking two steps back in '73, '74. But when he passed away a few years ago, he owned most of the Daily Journal. I would guess Rick was worth hundreds of millions of dollars. He was doing fine.

Shaan: One of the other "do not's" that I like is, you say something like, "Do not cut your flowers and water your weeds," which I believe is about diversification and growing up. Diversification is the smart way to invest. Can you please explain that?

Mohnish: If we go back to the comment that Buffett made in 2022 in the annual report, that he had one good idea every five years, which is a total of 12 ideas in his whole 58 years running Berkshire, the flowers are rare and the weeds are caught.

Shaan: By the way, is he just being self-deprecating or is that real?

Mohnish: That is real. He has not had losers. He has not had many investments that have gone to zero. There have been a few that have gone to zero. The one that pains him the most is Dexter shoes. But for the most part, when he has not done well, it has flatlined or done low returns. But these dozen positions have been out of the park. They have been spectacular. We know that the flowers are rare and the weeds are plentiful. That is just the nature of

investing. What was very important for Berkshire, is not to cut those 12 flowers. This is one of the mistakes I have made through most of my career. I have repeatedly sold good businesses, because they appeared expensive, and I was always wrong in how expensive they were. They were far less expensive than I thought they were. It is almost always a mistake to sell a great business just because it looks fully priced or overpriced. Focus more on the quality of the business than the valuation. If you find yourself in a situation where you have ownership of a very good business, leave it alone. Let it do its thing for you.

Shaan: Last time when we did the episode, my favorite story was the Seinfeld story, so we brought you a little gift. This is a portrait of what a great investor looks like. Elaine's blueprint. You can watch paint dry. I got this for your wall.

Mohnish: Thank you so much. This is very beautiful. Like the breakup at the end of the flight out of nothing.

Shaan: Exactly. Munger has this great quote where he says, "If you have so happened to find yourself in ownership of a wonderful business, go find something else to do." Like your job is to stop inactivity and that is what gets rewarded.

Mohnish: Yes.

Shaan: Whereas as an entrepreneur, activity always got rewarded. That is a big mindset shift I have tried to make, as I think about investing versus operating.

Mohnish: Every time I would meet Charlie for dinner (which was probably every two, three months), and I would play bridge with him, almost at every single meal, one common area of discussion was Costco. Costco came up at almost every meeting of mine with his, and we would spend at least 30 minutes on some nuance of Costco.

Shaan: It is like the meme of guys nowadays, once a week they think of the Roman Empire.

Mohnish: Yes.

Shaan: Charlie's Roman Empire was Costco. He is just thinking about Costco all the time.

Mohnish: I love going to Costco. In fact, my partner and I, we have a date night at Costco probably once every two, three weeks. It is hot dogs with a free drink that is a dollar 50 each, and then one slice of pizza for about six bucks and we are done. We are happy. When I am sitting in the food court with her, I look at the store where we have the register and we see the whole store behind us. I especially see all these loaded carts and these very happy people, walking through, and getting to the exit. I also see a lot of Indians who have like fully loaded because Costco sells the Indian yogurt Dahi. They sell the Indian clarified butter ghee. They sell the basmati rice. If I were to go to Edison, New Jersey, Costco, it would be all Indian food or Indian stuff. But even in Austin, which is not an Indian centric community, they have nailed it so well. Every time I go there, I marvel at the incredibleness of the moat, where they are doing public service. That is why Costco does so well; so much of the benefit goes to the members. That is why Charlie was always in love with it.

Shaan: Speaking of Value Investors Club, there is a viral PowerPoint doc called *The Resilience of Costco*. Did you ever see this going around?

Mohnish: I have not seen that.

Shaan: It is one of the best docs I have ever seen. It is created by an anonymous guy who analyzes companies. In this doc, his argument is that retail has been going down, and Amazon is going this way, so and so is going that way, but one company has been incredibly resilient. He points out the beauty of the Costco model where they are selling the goods for 10 or 15% above the cost.

Mohnish: Yes, they have a maximum markup of 15%. I will give you one story as an example. There were these Levi's jeans that normally are for \$30-40 apiece. They kind of came across a very large lot that they could buy; tens of thousands of jeans for \$9 apiece. Costco bought the entire lot, and some of the managers were telling the senior management, "Even at 25, it is a great deal for our customers. If we priced them at 25, they would all fly out." Jim Sinegal told them that it is not going to be priced above 15% of what they paid. They priced them at 10 bucks and in two days they were all gone. They left a lot of money on the table, but it is trust that they built because of actions like that. People have this incredible loyalty and love for Costco.

Shaan: You mentioned the dollar 50 hotdog. He is sort of maniacal about not raising the price. Is that symbolic or what do you make of that?

Mohnish: If you study the dollar 50 hotdog, they backward integrate. They used to have a vendor, they built their own plant, they manufacture themselves. They have tried to take out all the costs they could possibly take out. Now it probably could be losing money. But, how much can they lose on that? Jim Sinegal said, "That is a sacred cow. We are not going to change the price on that." The members appreciate it. In fact, Costco raises its membership fee every five years. The last time they did not raise it for like seven years; they did not need to do that. They said, "We are making enough money, we do not need to do that." On so many levels, and to a large extent, it is because Charlie was on the board. Charlie would not even say it to me, but he improved that business and they would not even have realized that he is improving it. He is not an activist, but, he would have given them small suggestions here and there, and over time, that just kind of cascades on itself.

Shaan: What is his style? You knew him, and when you know somebody, it is very different than reading or hearing about somebody or hearing what they say publicly. You pick up more just observing somebody in their day-to-day interactions. Was he very blunt in his suggestions? Was he very good at getting people to think it is their idea? What was his style in terms of influence?

Mohnish: Charlie comes across as having a lot of rough edges; a very blunt person. But what surprised me (both with Warren and Charlie) is they have very warm and tender hearts. They are beautiful people when you get past the exterior. To some extent, to protect themselves, they have this kind of exterior. But if you get into the inner circle where you can get past that, they are wonderful people. Charlie, at the same time called a spade a spade. But when they are interacting with CEOs or people who are running businesses

for them, they understand well that the person needs to have the freedom to build the sandcastle they want to build, and they give them that freedom. They do not second guess when they think they are making a mistake. But if they are asked for different inputs, they will in a very careful way give you the path that they might want to go down, and take it from there. The managers are very motivated because they are very empowered. They do not feel that someone is looking over their shoulders. To a large extent, the managers do well because they do not want to let these guys down.

Shaan: Tell me about the difference between risk and uncertainty?

Mohnish: That is an important concept to understand because Wall Street gets confused between the two. In fact, when Wall Street gets confused between the two is where the greatest opportunities lie. We talked about Frontline. Frontline was an example of a situation where uncertainty was extremely high and risk was very low. What Wall Street is looking for is certainty. If we look at a company like ADP, the process payroll, they have had around 50 years of nonstop growth because you are running payroll which is going to keep going up. Your cash flow is going to go up. It is all in a straight line and that is beautiful. Wall Street will reward you extremely well for that. Whereas if you look at a company like Frontline, it will be priced for euphoria. It will be overpriced because they love that. That is what they are looking for. That is music to the ears. On the other hand, if a company exhibits high uncertainty, it will be taken out back and shot, and that is where opportunity is. One of the cues to look for is whether this is a business with low risk and high uncertainty. Something to keep at the back of your mind is, "Is this a high uncertainty business? Is this a low risk business? A combination of the two?" When you get to the combination of the two (low risk plus high uncertainty), that equals high rewards. That is a deep vein to look into.

Shaan: I was looking at your portfolio, and you have a company in Turkey that you invested in. It is a Coke bottling company. Would you say that is a good example of risk and uncertainty mismatch? Or how would you describe that one? Because once I heard the story, I thought, "That makes a lot of sense; that clicks." What was the clue that that sort of tipped you off? Or what concept would that fall under?

Mohnish: We made money on it, but we exited. The reason I exited is that the Coke bottler had a parent company, which was the dominant beer bottler in Turkey and several other countries. Their largest operations were in Russia, where they have number one market share, 50/50 joint venture with AB InBev. Russia has effectively nationalized that business. They did it because they were somewhat upset with Erdogan about his support for Ukraine or something. When that happened, it went in the too-hard pile for us.

Shaan: Explain the too-hard pile, please. That is something I stole from you.

Mohnish: It is a Warren thing. We will get to that in a second. It was something I could not handicap. We were sitting at a game and we have this event take place. I get to get my bet back with some added return, and we close it. I said, "Where do I sign?" I can go find something else to play with. But the too-hard pile is a physical box on Warren's desk. If you Google Warren Buffett too-hard, and look for images, that image will probably pop up. He has a box on his desk, which he calls too-hard, and he says that 99% or more of

investment ideas that you encounter should go into that box because we are not going to be able to figure it out. One of the things to understand is that if there are 50,000 stocks in the world, we are not going to understand more than a few hundreds of them at the most after quite a while of studying them. Most companies that we would encounter should go into that box. One of the important things in investing is humility to understand. Warren has no issues with the humility to know that he does not know most things and that most things are not going to be able to be figured out or handicapped or any of that. We do not need to. If you can understand a very small sliver of things, and when those things get overpriced and underpriced, that is all you need. You do not need anything else.

Shaan: There is a guy who owns a bunch of real estate, in a very small area.

Mohnish: Yes, that is John Arrillaga.

Shaan: Yes, what is his story, because it sounds like it is a good example of this? A very thin full circle of competence, but he knew the pricing.

Mohnish: John Arrillaga was a billionaire. He passed away two, three years ago. His daughter is married to Mark Andreesen. That is billionaire to the power of billionaire. John Arrillaga had a very narrow circle of competence. He did not understand most things, but he only invested in real estate within two miles of the Stanford campus. That is all. If you walked with him around the campus, he could tell you the full history of every single building; when it was built, what the current value was, what the rents were, who the owners were, and what the history was. He knew that about every building. He was an inch wide and a mile deep, and that is a good trait for an investor: to be very narrowly focused. What John Arrillaga did was he ran, generally speaking, a very unlevered portfolio. His portfolio always not a little debt. When the downturns came, he aggressively bought all these distressed properties around. This is the most prime real estate you can think of (other than Park Avenue). He would just buy these things up. Everyone was getting foreclosed and bankrupt, and he went to the banks and bought them from them. He then gets them all leased and fair value. Again, take the leverage down, and again, next down cycle, the same thing, and he stuck to that. He did not wander into other areas like Mountain View or Wynn California and do it. He did not do all that. He did not invest in tech or something. He did not do any of that. He stuck to real estate. That is all he did, did it extremely well, and died a billionaire. One of the important things about that story is that we do not need to know many things about many things. We need to know a lot about a little. That is the important thing. For example, if I am looking at Frontline, I should learn everything I can about shipping. I should learn everything I can about oil shipping, about tankers, about the history, who makes them, and every nuance about them. The deeper I go, the better it is going to be for me. I should not be spending time next week on airplanes. I was talking the other day to an older gentleman, a 70-plus investor. He is a good investor, and he was telling me that he has had an investment for a long time in this aircraft leasing company called AerCap. That is a very good business. Again, if you spend time in that industry and business, you would understand the nuances and take it from there. But it is very important to be willing to go deep. That is why the Value Investors Club can get you going. You can read the annual reports and the history, and just keep going deeper.

Shaan: Right. Why do you think most people do not do that? Because when I hear that, I think, "Ah, there is a blueprint." You are not going to do exactly what he did. That was a one-off move. But the blueprint is there. He was smart enough to see it and think, "Hey, this area in California near Stanford is going to be a good place for me to be in." Generally, I pick a good wave and then do not overlever. When everybody is fearful, they get greedy. When everybody is greedy, be fearful. He did that, and to just say, "I am going to go deep. In this two-mile radius, I need to become super knowledgeable. I do not need to get distracted by everything else, and I will hold forever," that is a blueprint.

Mohnish: Nick Sleep has a quote which is, "The best investors are entrepreneurs who never sold." If you think about entrepreneurs, that is what they are. They are John Arrillaga. If I look at Sam Walton, Sam Walton is John Arrillaga. All he did was retail. All he did was visit competitive stores. He never bothered about anything else.

Shaan: Sam Walton, the founder of Walmart? What do you mean? Tell me more about him.

Mohnish: Sam Walton said, "There is no human who has ever lived or ever will live, who has spent more time in competitor stores than me." Whenever he would go on vacation with his family and they were passing a retail store, he would tell them that he would be back in 20 minutes, and he would go.

Shaan: What was he doing in there? What did he do?

Mohnish: He used to like to visit all his stores and all that, but if he saw a competitor store sometime, he would go in with three or four of his managers. One time, he went into the store and his manager told him, "That was such a badly run operation." Sam replies, "Yes, but did you see the candle display? Did you see how fantastic that candle display was?" His perspective was, "I can learn from losers. I want to learn the spark that is there in something that is a total loser." One time in Brazil, in a retail store, they found this older guy flat on the ground. They call the paramedics. It turns out it was Sam Walton. What he was doing is he was measuring the space between the aisles, and he did not have a tape measure with his body. The space between the aisles is a very important data point for a retailer, because you are going to either waste square footage or be too narrow, and the people want to enjoy the experience. You have to get that right. He was in Brazil saying, "How are they doing it? Am I three inches too wide in Walmart? Am I three inches too narrow?" This was a game of inches. That is who Sam Walton was. In fact, Walmart has not innovated at all. At least for the first 20, 25 years that Walmart ran, everything came from somebody else who was already a competitor. They took a lot from Sears and Kmart, and then they killed them. They kept learning from one competitor after another. Sam Walton used to say, "I am not the smartest tool in the toolbox. I am not a smart guy, but I am a learning machine. I am going to keep at this." It is very funny. He goes and visits Sol Price, the founder of Price Club, which eventually leads to Costco. He looks at Price Club and he says, "This is fantastic," and he creates Sam's Club. Costco was also taken from Price Club. Both Sam's Club and Costco would not have existed.

Shaan: Sam's Club is Sam Walton?

Mohnish: Oh yes.

Shaan: I did not know that.

Mohnish: It is part of Walmart.

Shaan: Oh, I did not even know that.

Mohnish: It was completely cloned from Price Club, which was a predecessor to Costco. Sol Price was an incredible entrepreneur. No one has had more impact on retailing than Sol Price, because he influenced Sam Walton and Jim Sinegal, the founder of Costco, in a major way. These are the pillars, and then these two companies influenced Amazon. It is all coming from Sol Price. Someone told Sol Price, "You are like the father of retailing in the US and globally. What do you think of that?" He said, "I wish. I would want a condom."

Shaan: Too good. That is amazing.

Mohnish: Yes. It is amazing. In fact, he was amazing. It is in his son's book. But this is a very good book, and it is out of print. It is hard to find, but it is one of the best books on retailing. For example, some of those things that Costco does, Costco pays 50% more than Walmart pays its employees. The entry-level people are making 50% more, and that has not hurt the profitability. In fact, Sol Price's view was similar to Henry Ford's view that "I want the people who work in my stores to be able to shop in my stores." Just like Henry Ford said, "I want my workers to be able to buy my cars." At that time, automobiles were for the rich, and Henry Ford said, "No, I want them for everyone." He wanted to drop the price. At Costco, the lowest wage is 20 an hour. Then, they have tuition reimbursement, all kinds of other things, and they get a lot of productivity out of their people because of that.

Shaan: How many books do you think you have in your library? A thousand books?

Mohnish: A few thousand.

Shaan: We are surrounded by a cave of books on every topic. I see some business books over here. I see investing books. You just brought a retail book about Sol Price, the founder of Price Club, from over there. There is science on that wall.

Mohnish: Yes.

Shaan: What does this door go to? What is this?

Mohnish: That is my bedroom.

Shaan: That is a bedroom. You live in the library essentially, and you nap every day.

Mohnish: Absolutely.

Shaan: We are both nappers.

Mohnish: Napping is a great thing.

Shaan: Massively underrated.

Mohnish: Yes.

Shaan: What is your case for napping? I have mine. What is yours?

Mohnish: Well, I just get tired in the afternoon.

Shaan: It is pretty simple.

Mohnish: I have been so used to napping that if I do not nap, my productivity goes down. I do not like to work if I am not productive. What I find is that even if I lie down for half an hour, 45 minutes, I am re-energized. For the work I do, I need to be all in. I cannot do this work if I am tired.

Shaan: Yes. There is an athlete, Conor McGregor, who was once asked about his training schedule, and he said, "One of the big mistakes I made is that I was always trying to train all the time. I wanted to come to the gym three times four times a day. I thought that was how you win." His coach was saying, "You are a light that is always just dimly flickering, because you never turn off and therefore you can never turn on and be as bright and as effective as you could be. This flickering, dim light is not doing you any justice." I have used that in my own model. I would ask myself, "Where is my light right now?" If I need to just shut it down briefly, 30 minutes, an hour, whatever it is to come back full brightness, that is the move.

Mohnish: Jeff Bezos said all important decisions should be made in the morning. He is very particular; he needs a solid eight hours at night. He leaves work at a normal time, but he says that they do not make the important decisions in the afternoon. It is the first thing in the morning, because he wants the highest energy levels. In fact, I find my best work is in the morning as well.

Shaan: I am curious about your style, because I came over to your house once, and you were very calm. It did not seem like you were on the clock. You were moving from one meeting to the next. There was not a big bustling team of analysts and junior people. You seem like you keep a pretty clear calendar. Is that intentional? Is that just what you like, or is that effective?

Mohnish: In the business I am in, if I can find a couple of things to buy in a year, in the case of Buffett, one thing to buy every five years, I am doing well. This is a case where you are taking in a lot of information, but there is not much action. You are trying to improve your mental models and understand more about the businesses that you already own. I am going through Value Investors Club and some zero, and that sort of thing, and just looking at what else is there. Sometimes I find amazing ideas, then there is a deep dive, and that might take a while.

Shaan: I was reading something interesting. In our first episode, we talked about how you got started. You were an entrepreneur first. You said this great thing, "I realized that as an entrepreneur, maybe 3 to 5% of my brain power was on strategic decisions, clear thinking, coming up with the right answer, and then 95% of my time was blocking and tackling." You also said, "As an investor, it is great, because that 3% becomes 95%. It is just about clear thinking and making the right strategic move. I do not have to busy myself." But one thing I thought was cool is that I read that you took some personality test, or you got some analysis done on you that helped you. They sort of told you your temperament is for single-player games. What is this? I did not understand what you did.

Mohnish: This was kind of accidental, but it turned out to be one of those great things that happened in my life. In 1999, I was at a crossroads where it was very clear to me that the business that I had built, my IT business, I had lost

interest in. I had become a lot more interested in investing. It was a difficult time because I had around 170 people in the company who thought I was motivated, and I could not fake it. Accidentally, I was with two industrial psychologists, and they did a 360 on me. They had me take a bunch of tests. They talked to me, my friends, family, and spouse, and they built a kind of 360 view of who I was. Then they gave me what I call my “owner’s manual.” Everyone should have their owner’s manual.

Shaan: Like the one that comes with an appliance you buy.

Mohnish: Yes. We show up, but we do not have an owner’s manual. Each one of us is programmed differently. What they said is that the way a human is—their traits, likes, dislikes, and what passions they are—is hardcoded at the age of five, and that is not going to change from the age of five to the age of 95. You can try to change behaviors, but you cannot change traits. Traits are between your genetics in the first five years of life, hard-coded. The good news is, once we figure a person out, even after 20 years, they will not change. In fact, the people I went to high school with (all pre-Facebook), and I lost touch with (they were in India and the Middle East), I found them when Facebook showed up. At the time, they were in their forties and fifties. I have not had any interaction with them for like 20, 25 years, but there was no change. The guy at 18 and 48 is the same because the traits are so hard-coded. That makes it easy for us because once we figure a person out, we do not have to figure them out again. It is one and done. The problem most humans have, which I had, is that we do not know what those traits are. What most of us try to do is we do what they call mirroring. We look at what the world considers acceptable and we adapt our behaviors so that we fit in, but that can be a big disservice. What they were able to tell me is: “When we look at the company you are running and we look at who you are, we do not even know how you are functioning.” I was in a lot of pain. The thing was that I loved that business when it was just me. I loved the business as it was growing until we got to the first 10, 15 people. Then, as it started growing beyond that, my life and my job description became HR. I am just herding cats. I am not a cat herder. That is not who I am. What they said is, “That business that you have, you need to get rid of it in some way as soon as you can.” This was in March or April of 1999. I was thinking of starting Pabrai Investment Funds. They looked at it and they said, “This is perfect for you. This is going to work extremely well for you.” In fact, one of them invested. He is one of the first investors who came in.

Shaan: He put his skin in the game. He believed in this.

Mohnish: Yes. I told him, “Listen, I am paying you guys 2000 to do this, and you are giving me a hundred thousand. I do not want to lose your money.” He said, “I do not have any doubts, Mohnish. You are going to do very well. I do not see any risk here.” He did extremely well. They were right because now it has been 26 years since I have been running it, and I have not gotten bored.

Shaan: What did your owner’s manual say?

Mohnish: First of all, they said that I had very high horsepower and that I was one of the smartest guys they had come across, which was great. But they also said, “You are a guy who likes to play single-player games. You are not the kind of guy who would be happy being in a soccer team, for example, where you are one of the forwards, and your performance depends on the team.

You seek single-player games where you think you have some edge, and when you think you have some edge and it is that sort of game, you will kill it." I got banned in Vegas playing blackjack because I figured out a system that beat them.

Shaan: Counting cards? What were you doing?

Mohnish: I did it without counting cards. In fact, it took the casino almost a year of watching me. I used to go every six weeks or something, and they played those tapes over and over, because the markers that they looked for were not there. What I am saying is that the games I like are games like blackjack, bridge, investing, and even Dakshana. Dakshana Foundation is also a game.

Shaan: That is your philanthropy.

Mohnish: Yes. But they are all mathematical games. Even Dakshana is a mathematical game because what I am looking at are output ratios. People think I am doing all this good in the world and all that. What they do not understand is that I am a game player. What I am trying to do with Dakshana is to determine how much money is going in and what is coming out. That is the only thing I am focused on is what is going in. What ended up happening with the entity like Dakshana is that Warren Buffett wrote me a letter saying that this is the best. He took the time to write the letter. He had never done that for any philanthropy that he had looked at. He did that because there is no nonprofit I know of that does it better than Dakshana. The reason is that there is a game player who is not focused on the name and lights or a bunch of fancy pictures in the annual report. We have no pictures in the annual report, and it is just like the Berkshire report. It is about honest input and pro-output. Our focus has always been, "This year needs to be better than last year." It is the same as the way Sam Walton ran Walmart. He wants next year to be better than this year. If you take a step back and say, "I want to give money away to make the world a better place," the natural second step you would get to with that is "I want very high returns on the money I am putting out." Social return on invested capital should be extremely high. Most nonprofits do not even think this way. They all think, "There is a homeless guy. Let me help the guy." They do not analyze what is going in and what is coming out. In 2006, I ran into this model, where a guy was taking 30 kids who were very poor in India, in Bihar. Most of these kids were coming from illiterate parents, but they have very high IQs. He prepped them for about 10 months, and he had them take the IIT entrance exam. The IITs are the best technical institutes in the world. The thing about the IITs is that about 1.3 million kids are applying for 16,000 seats. It is about a 1.3% admit rate. Princeton is about a 5% admit rate. Harvard is about 5 or 6%. This is 1.3%. If you get into the IITs, it is free to attend. The government subsidizes it. If you are a very poor person and you get into the IITs, Microsoft will hire you, Google will hire you, and anyone will hire you. But getting in is expensive because the coaching is expensive. What this guy had done was he had made the coaching free for these very poor kids. What was happening is you had a family that was making \$60 a month, let us say, the kid graduates and Google hires them for 120,000 a year. In five years, the guy is making 300,000 a year. All he was spending was \$800 per kid, all inclusive. You spend \$800, and you take a family from \$60 a month to \$10,000 a month. What is the ROI on that? You are going to do that for this whole lifetime, and you are going to reset the extended family and all of

that. The ROI is off the charts. When I saw that, I said, "Wow, this is the holy grail." I went to the guy and I said, "I would like to fund you." He said, "I do not want to scale. I do 30 kids. I do not want even 31 kids. I do not want to take outside money." I am the shameless cloner, so I told him, "Do you mind if I clone your model?" He said, "No, this is a very good thing. You should clone it. It would be great. I will help you in any way I can." I took his model, and that is what Dakshana is. He was doing 30 kids a year. We are now doing a thousand kids a year. We are doing it at scale, and it will be about 2,500 kids in a few years. He was doing it at \$800 a kid because his mom was cooking for them. I have chefs cooking for these guys. I am at \$3000 a kid. We have much better infrastructure and all of that, but it does not matter. You are taking a 60, 80, 100-dollar-a-month family, and making them part of the global economy, hired by Microsoft and whoever else. It is a zero-to-hero story. The ROI on that is hard to measure. Dakshana spends about 3 or \$4 million a year. Just imagine what the output of that is when you look at it from each family. We have been doing it for 17 years. What we get out of \$3 million a year, a lot of other nonprofits would not get out of even a 100 million a year. We have a footprint that is much larger than what it should be in terms of impact, but to take it back, it is a math game. We had two or three important things, and that is how I looked at this. The first was the yield, so the IITs accept 1.3% of the kids who apply, and they accept 70% of our kids. That 70%, in the first year we started, was 8%. We had a lot of mistakes in how we were doing things back then. All I said is, "I am at 8%, it is going to be more than 8% next year. I know what the issues are and I am going to fix them." We went up to 15, 20%. Then every year we looked at what was happening, how we could tweak it, how we could reduce our costs or increase them, and we kept chugging at it. We have been chugging at it for 17 years. It is just like Walmart, Amazon, or any of those companies, where you want excellence, and excellence is not going to come in a day. But you just keep going every day.

Shaan: That is amazing. I love that model, and I love how you took the skill set from A and applied it to B.

Mohnish: Now, what I am doing is I have a game that puts two models together. One day before I die, I want to have \$10,000 left. Inheritance does not do much. My kids already have, and they are doing well.

Shaan: What is your philosophy on that?

Mohnish: In general, large inheritances are going to do more harm than good. You do not want a person to be on an IV drip for their whole life. That is the worst thing you can do to someone. One of Buffett's great quotes is, "I want to give my kids enough money for them to do anything they want, but not enough to do nothing." Because I am investing for a living and we have compounding going, I am going to end up with more than I need. I do not need to spend any more than I am spending. I could not increase happiness by spending more. There is no point in spending more. I am very happy with the lifestyle I have. Everything else needs to get recycled, but it needs to get recycled at high returns. On one hand, I have a compounding engine and a net worth that is growing. On the other hand, I have to give it away. God Google told me that on June 11th, 2054, I will be leaving Planet Earth.

Shaan: You asked AI? What did you do? Average life expectancy?

Mohnish: If you go to God Google and just say, "Hey, I am 52 years old. Tell me when I am going to die," he will tell you. Now that I have the date, and my birthday is June 12th, just to make it poetic, I made it June 11th. We have an exact number; 2054 means I have got 29 years and change left. At any kind of compounding rate, it is a ridiculous amount of assets that get built over time. But I want to end on June 10th with \$10,000. There is one game, which is to give it away, and the other game is to make it, and we need the two curves to be where the giving away becomes, probably in the next few years, much more dominant. The 3 million a year needs to go to 5, 10, 15, eventually, and so on. For me, it is the same as playing blackjack. It is just a math game. These are both math games. There are a lot of families getting helped, and my investors are happy, and that is fine.

Shaan: What was your blackjack system? I am skeptical.

Mohnish: I do not want to destroy the casino. They would have to either change the game or something. But, I will give you some pointers of kind of what is going on here. There is a publication called BJ21. If you go to BJ21.com and you give them a hundred bucks, they are going to give you a PDF, and you get a one-year subscription. You can update it every month. It gives you the odds of every blackjack table in North America. For example, if I go to the Wynn Las Vegas, which has a bunch of different blackjack games, single deck, double deck, six decks, every single one of those gives you the odds if you play perfect blackjack. These odds vary depending on how competitive. If I am going to some board in Indiana, I am not going to get the same odds as Vegas. The Vegas strip is going to be more efficient because it is more competitive. Usually, the house will end up with something like 0.3, 0.4% all the way to like 2% edge over the bet, which means if you make a hundred-dollar bet, every bet you are making, you are losing your 50 cents or whatever, and such. There is a casino in Vegas called the El Cortez. It is a small casino. It was started by Bugsy Siegel, who made the flamingo before World War II. The El Cortez is in downtown, not on the strip, but it is a little away from the action of downtown. To induce people to come, they improve the odds. Still in their favor, but the single deck game at the El Cortez has the thinnest house edge of any blackjack table on the planet. The house edge is 0.18%. If you look at BJ21, they have the edges of every table. This one is the lowest. What threw them off, which took them a long time to figure out, is that they play single-deck blackjack. But they only deal half the deck. The reason they deal half the deck is that they can make it difficult for the counters. As you may be counting cards, the deck becomes very favorable, but then they shuffle. High cards at the back but they never get dealt, so the counters get screwed. I had a system that relied on the fact that blackjack occasionally has streaks, where you may win six, seven, or eight hands in a row or lose them in a row. What I did in the betting was that when I was losing, it was always the minimum bet, and when I was winning, the bets were increasing. With the variance of that, what happened is I was able to overcome the 0.18. I do not want to go more into that, because that gives enough to get going.

Shaan: I have tried to use a Martingale strategy on the system.

Mohnish: With Martingale, you are going to go bankrupt. What confused them (because they had never dealt with that before) is that, normally, what the counters do is, on a brand new shoe, it is a low bet. In my case, there was a

brand new shoe, and there was a high bet. They said, "We just shuffled. The whole deck is there. There is no odd edge he has on the deck because the entire deck is there. He has a high bet."

Shaan: Did they ever figure it out?

Mohnish: They figured it out. What happened is that I am playing blackjack. The general manager, who is very friendly to me, comes and sits down next to me and tells the dealer, "Stop dealing." She is in the middle of a hand, so she continues dealing. He screams at her, "Stop dealing now." She never heard that before. Literally, in the middle of the deck. He said, "Shuffle, we are not dealing anymore." Then he tells me, "Mr. Pabrai, I like you. I read your book, I watch your videos, and you have a system that we cannot beat." I told him, "I am not counting cards." He said, "That is what threw us off. We know you are not counting cards, and that you will beat us. You can come to this casino anytime you want, but you cannot sit down at a blackjack table." Then I am thinking, "Why would I come here? Why would I come to El Cortez if I am not going to play blackjack?" But whenever I go to a place to talk, and they introduce me, I always tell them, "Listen, just say that I have a lifetime ban in Vegas," because I do not care about everything else on my CV. That is irrelevant.

Shaan: That is impressive. You are a Harvard dropout. That is a higher status symbol. You are good at blackjack and have made money with blackjack. "*I was banned from a casino.*" That is the highest status symbol.

Mohnish: Yes. I took them for a 150,000 or something. This was a very low table limit. The table limit was only 2,000. But at 2,000 I took them, so they said, "We are done."

Shaan: I love it. I will call out some names, and you can say, "pass" like I do not know them, or "I have a story about them."

Mohnish: Sure.

Shaan: That is because your stories are so amazing. I can listen to your stories all day. Michael Burry. My favorite movie is *The Big Short*. Michael Burry is the mysterious character. Did you ever meet him?

Mohnish: When we finish this conversation, you will know that my middle name is Forrest Gump. That is where we are going to end up. I always tell people that God loves me. He loves me more than other people. I will explain why. In 2008, when the financial crisis had not yet happened, in March or April of 2008, things started getting topsy-turvy. I was visiting San Jose for something else, and I knew Michael Burry had an office there. I did not know him, but I sent him an email telling him, "Mr. Burry, I like you, admire you, and would love to visit you."

Shaan: He was well-known?

Mohnish: He was not very well-known. But he was posting on the Value Investors Club; he was there a little bit. I liked the way he thought. He said, "Yes, stop by." I go to his office in San Jose. A few analysts were sitting outside. It looked like a very depressing place. It was a little dark, and there were a few analysts there. Then I go into his office. There were huge piles of paper everywhere, and he immediately launched into CDSs. He says, "I want to tell you something about something that is going to make you extremely

wealthy.” He then downloads to me at 1 million miles an hour. I have never heard of a CDS. He is talking about the housing crash, the coming implosion, and all this stuff. Housing never crashed in the US. None of that. 80-90% went straight over my head. He just gave me a full core dump in half an hour. My sub-human intelligence could not handle it. I come out of the meeting, my head is spinning, and I say, “Well, that was interesting.” Then, of course, he rides off into the sunset. Then the movie comes out. What you see in the movie is exactly how he is. I felt like God, who loves me so much, took me to the epicenter of the epicenter of what would have been the best place to be. The best teacher to have, and Mohnish blew it. But that is the way it is.

Shaan: Where does that rank in terms of the best calls or foresight that you have seen in your career?

Mohnish: This has happened to me a lot, in the sense that, like I said, we put 98-99% in the too-hard pile. Even now, I believe it was right of me not to do anything with it, because I could not understand it. Even after the financial crisis, it took me a while to understand the CDSs. All these tranches and how they were doing all this stuff. It took me a while to get my arms around that. Even after knowing about that, I would have been skeptical about making that bet. Hats off to him. He figured it out, and a few people figured it out.

Shaan: Tell me about the greatest investor from India. Who is the greatest investor from India?

Mohnish: The greatest investor from India would be Rakesh Jhunjhunwala. I never met Rakesh. I know his friends quite well. Guy Spier went to his office and met him. He was a wonderful guy who died relatively young, a few years back. But, Rakesh was a very interesting, kind of split brain in a sense that he would have 3-4 Bloomberg screens in front of him, and he had all these charts and everything going on, rapid fire trading going on. But on the other hand, he had these 2-3 stocks that he never touched. I do not know anyone like that. He was great at both, but the ones that he never touched, they just went through the roof.

There is a company in India called Titan Industries. It is a branded jeweler. A branded jeweler did not exist in India. There was a trust deficit. In India, you have 22K gold. You are buying gold, you do not know whether it is half gold, 80% gold, or what else is going on. The jeweler knows, but you do not know. That Titan brand is owned by the Tatas, who have very high integrity. They were able to take a sector that had a huge trust deficiency. Titan is still in its infancy. Rakesh, compounded at a rate of 40% a year for several decades. He started with \$10,000 borrowed. He did not even have that of his own. Someone lent him the money.

Shaan: What made him great? Was he a brilliant mathematical mind? What was the trait that helped him?

Mohnish: He was a trained CPA. In India, CPAs are Chartered Accountants. He understood numbers well. But he was smart about understanding business, and about a few things that he thought would do extremely well.

Just before he died, he had figured out about Indigo, which is a low-cost carrier in India. They have something like a 70% market share, growing very rapidly. It might become the largest airline in the world. They have got a

1000-plane order. They are growing very fast. He had done well as an investor in Indigo. But then he took the next step. He set up a clone of Indigo. Just think about the guts you need to set up an airline from being a passive investor. While he was dying (he was in bad shape in the hospital), that airline was up and running and cranking. It was doing great. If he had lived longer, he would have gone not just as an investor but also shown that he could have been an operator. When I was in India in the last month, in February, I met one of the guys who worked for him. Just very impressive and down-to-earth people.

Shaan: You said something like if he had lived longer, this idea of runway and how early you start, matters a ton. Even Buffett, you have said that, had he not been giving away so much money, he would have been the wealthiest guy in the world right now. When you talk to people, do you tell them you should have started 30 years ago?

Mohnish: The important thing is that if a young person is listening, they must start. The funny thing is that if you look at the rules for an IRA or a ROTH IRA, there is no minimum age. You could be 6 months old and have an IRA. The only rule is that you can only put in wages that you earn. I was just reading in the Wall Street Journal, there is an entrepreneur who has hired his 4 and 6-year-old kids to do different things in the business because he is putting \$6000-\$7000 into their ROTH IRAs, which is equal to their W2 earnings. Probably stretching the limits of what he can get away with. That is beautiful. But even if you are not doing that, and start earning at 22, the important thing is that a small amount saved is more important than a larger amount saved at 32. Because you get started earlier. It is important to spend less than you earn and put it into Berkshire. Set it and forget it. Because if you are 22 today and you start, you could live over 100 or 110 because of all the advances taking place. A 90-year runway is something. If you are talking about a 10% return, we are only going to look at doubles. Every 7 years, that is 2^{13} . 2^{10} is 1000. So 2^{13} is 8000x. The first \$10,000 you invested is at \$8 million. The second \$10,000 is another \$8 million. It is a mind-blowing amount of money if you start early. The length of the runway is important.

Shaan: Do you pay attention to the macro? Because my head just starts spinning. There are interest rates, wars, and all these different factors that you could pay attention to, and there are some people who have paid attention to that. Do you pay attention to the macro?

Mohnish: No, because I cannot handicap, and I would not know what to do with the information. I always try to keep the bet simple. I need to be able to explain to a 10-year-old in 5 sentences. I am not going to be able to figure out the macro. That is why I could not make that CDS bet. It was so much; housing is going to crash, and this and that are going to happen. I just could not get my arms around it.

Shaan: Buffett famously missed a lot of the techwaves that happened in the last 30 years. I know he owns Apple among other things, but largely internet was not his zone of genius. Do you think about AI? In my world, everybody is talking about AI. Everybody is thinking about AI. You cannot make a move unless you factor in AI. Do you think about AI?

Mohnish: The problem is; I bring nothing to that party. I am probably going to get my head handed to me if I try to participate, so it is not in the no-brainer

category. It is not something where I have an edge. Of course, I do believe that it is transformational. But I knew the internet was transformational. We know that electricity is transformational. We have known the App Store was transformational. But in investing, you can do extremely well, without understanding all these things. Go back to John Arrillaga. Do not understand any of these things. Or even Warren Buffett. Apple is in the rearview mirror. He has sold most of it. They might have sold all of it by now. That was a one-and-done. We do not need to understand the flavor of the day. We do not need to understand NVIDIA or AI. If you understand it, then more power to you. That is awesome. If you know how to leverage your understanding into dollars you make, that is even better. But that is not me. We all have to play to our strengths.

Shaan: Well, Mohnish, this has been an incredible Part II, and I am happy with it. I asked you in the beginning, "Is this like one of the Hollywood sequels, where the first one was incredible and the second one like they just did it?" But no, I believe we did a good job. The sequel, if not better, was at least as good as the first.

Mohnish: You have got some material. You can cut and paste. It was fun, I enjoyed it. It was awesome.

Shaan: Awesome. Thanks for doing it.

Mohnish: Thank you!

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