

## Mohnish Pabrai's session with Ashoka Investment Club on April 22, 2025

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**Speaker:** Firstly, thank you so much, sir, for taking the time to speak to us, even though it is early in the morning for you. I am honored to have you with us today. Mr. Mohnish Pabrai is a well-known investor and philanthropist all over the world, and he is currently a managing partner of Pabrai Investment Funds.

**Speaker:** Thank you so much for coming. It is an absolute honor and a privilege to be moderating this session. My first question is on mental models, both you as well as your longtime friend and advisor, Charlie Munger, have emphasized the importance of having several tool kits or having several mental models to prevent man with a hammer syndrome. How do we, as young investors and students, go about developing that in a way that, if you look at the problem, we have several ways to analyze it. That is the first part. And the second one is, what have some of your favorite mental models been?

**Mohnish:** Mental models are important. They give you an unfair advantage in life. It is always good to have an unfair advantage. A lot of mental models will come from direct experience, and so you will increase your repertoire and range of mental models over time. But you can take some deliberate action to get more proficient at different mental models. If you notice that you understand something about the way the world works that most of your peers or others around you or people on the planet do not understand that or do not appreciate how important that is, that can get you a significant edge. You have to be an observer, and you have to pay attention to what is going on.

For example, you could jumpstart your journey toward having a latticework of mental models by reading Munger's essay, *The 25 Causes of Human Misjudgment*, which you can pull up online. There are also a few videos online. It is the last chapter in *Poor Charlie's Almanack*, which is now published in India as well. You can get that fairly cheap, and it took Charlie more than four or five decades, maybe more, to gain the knowledge and perspectives to give that speech. *The Psychology of Human Misjudgment* is a talk that took Charlie a lifetime to accumulate and understand, so we will not get it as well as Charlie because we do not live it. We are just reading it. I try to reread that speech every year because every time I read it, I find stuff that I am sure I am reading for the first time. Like I say, I have never thought about this.

These mental models come from the fact that, because evolution is a very messy process and because our brains are a mix of ancient and modern mishmash together, there are a lot of quirks and weirdness in our brains. Having an understanding of some of those quirks and weirdness can be

quite important. For example, in the times of hunter-gatherers, someone would go hunting and bring down a big animal. When they bring down a big animal and they bring it to their community, they cannot refrigerate that animal and eat it over a long period of time because there is no refrigeration. What the hunter does is he calls all his neighbors and says, "I want to share a big feast with you." In effect, what he is doing is he is storing that meat in the bellies of his neighbors, and he solves a refrigeration problem with that approach. Then, when somebody else brings down a beast, they remember, "Oh, Karthik gave me a nice feast a few weeks back. I am going to call Karthik for my feast this time." Reciprocation as a trait in humans probably got hard-coded in us around that time because the people who reciprocated generally did well in life. Their genes got passed on, so reciprocation became etched. But there is a quirk in the way the reciprocation gene exists in most of us. I can remember that Karthik did a favor for me, but I cannot calibrate how large or small that favor was. All that my brain can process is a favorable opinion of Karthik. I have used this for several decades, and I continue to use it even today. For example, if someone asks for information on Pabrai Investment Funds, they want to invest or they are thinking of investing, most of my competitors or other funds will send them stuff online and different things and say, "Here is all the documents and information. We can talk and do that." But what we also do is we send them a physical package, and the physical package has some freebies in it. It has a book. It has a very nice cross pen, and it has the same documents and everything in hard copy as well, which they do not need, but it is there. When people receive that cross pen or the book, what happens is that implicitly they are obliged to me. They received something from me, and in their brains, they think they have to give something back, a favorable opinion of Mohnish. But the way it works is that I send you a \$30 cross pen, and you send me \$10 million because you cannot calibrate; it is not there in the brain. How many \$30 pens can I send out before I lose my shirt? An infinite number? Not even a rounding error. What happens is that one or two out of a hundred packages we send out they send the entire package back. In a way, they are saying, "I looked at it and I am not interested. I am returning it." Those people are trying to avoid having the obligation. The problem is that returning the package is complicated. You have to put postage and take it to a post office, UPS, or FedEx. There is a frictional cost of time and effort involved in doing that. Most people who even want to send it back are unable to do so. If you do not send the package back, you will have a favorable opinion of Mohnish. What ends up happening with the favorable opinion of Mohnish is that the Ashoka students want to talk to Mohnish, because somehow they think I am a great person to talk to. That is one model; the reciprocation tendency and the quirk in how reciprocation works like this. There are hundreds of models, and what Munger said is that when multiple models work in the same direction, that is when you get lollapalooza effects, where one plus one becomes 11, not 2. Our focus is that one plus one should equal 11. There is another mental model that has been very important to me, and I still do not understand exactly why humans are this way, but humans have an aversion to cloning. Somehow, they think that cloning or copying is beneath them. Most humans feel that when they create a company or create an organization or start some endeavor, they have to do something new, because how can you make things work if you just copy what someone else is already doing? They look at something being done and say, "Oh, that is a good idea, but I cannot do that because somebody is already doing it." But

the reality is that in the world, there is room for multiple participants to provide the same product or service. Just because someone else is doing it does not mean that the opportunity is gone. In fact, if you are an intense cloner, you will do extremely well. The richest family in America is the Walton family; the descendants of Sam Walton, who founded Walmart. There is no single Walton who is the richest guy, but if you pooled all the Waltons' wealth together, they would be the richest. It has been 55 years since the IPO of Walmart. It has been 33 years since Sam Walton died. The Walton family collectively owns 46% of Walmart today. Sam Walton was the ultimate cloner. Every single thing that Walmart did, at least for the first 20 years, maybe more, there was no original idea that Sam Walton had. He copied Sears, Kmart, and a zillion merchants. Anytime his family would go on vacation, taking road trips somewhere, and they would pass some retail store, Sam would tell the family, "Stay in the car. I will be back in a few minutes." He would run into the store to see what they were doing and what he could copy from them. Sam Walton said, "There is no human alive who has stepped inside more retail stores, which are not named Walmart, than me." He was always going into competitive stores. Even when the competitors were useless, he was trying to learn. The result is that Walmart is an amalgamation of copied ideas from a bunch of different places, and intensely pursuing those ideas and doing well. If you look at Microsoft, Windows is copied from Apple. Word is copied from WordPerfect. Excel is copied from Lotus. Bing is copied from Google. My friend Warren Buffett tells me, "Mohnish, do you know what Bing stands for? Bing stands for, *But it's Not Google.*" Everything that has worked for Microsoft, including AI, has been copied from other places, and Microsoft spends billions of dollars every year on research. Nothing has come out of it. There are internal research labs with all these PhDs and top 100 rank IIT-ians and all of that. Nothing has been produced by them that we can look at and say, "Oh, this is great." Everything that has worked for them, which has created most of the wealth, has been from someone else. That is another mental model. When you read *The Psychology of Human Misjudgment*, and you understand it, that will get you going. However, you need to read it several times. The other thing you can do is you need to be a curious person, and you need to read and imbibe a lot of things from a lot of areas. You also need, at the same time, to go deep into an area that you have a deep interest in. Do not go into a popular area. In fact, my advice to you would be to ignore what is popular. What is more important is to try to understand who you are. Understanding who you are is very complicated, but if you can understand who you are, if you can understand what your strengths are, you can understand what your passions are. If you can go all in on those, that is excellent. I am sorry to tell you this, but school is not a good place to figure all this out because nothing comes outside the syllabus. This is outside the syllabus, sir. Real life is that you encounter issues and problems where there is no syllabus. In fact, most things in real life you have to figure out, and many problems nobody has figured out. That is the skill you need to hone in what school does. Unfortunately, now Ashoka does a better job than others, but what school does, unfortunately, is that they make you into good test takers. This is what school teaches you that has no relevance in the real world. Sorry to break it to you now, but this is the way I am.

Speaker: Thank you for that answer. You mentioned cloning as a mental model for you. When you look at, say, Buffett or Munger holding a stock, how do you

get through the bias of them holding that stock and their own thesis of the buying or selling or no thesis at all? How do you get through that bias of them owning it?

Mohnish: I play bridge. I like playing duplicate bridge. I would recommend you guys take up bridge, especially duplicate bridge. Recently, I started playing duplicate bridge with a former world champion. This guy became world champion at 23, and he is 38. He was telling me that the most important thing when you are playing bridge and you are playing a hand is to ask yourself the question, "What is going on here?" If you see a strange card come out that makes you do a double-take, ask yourself the question, "What is going on here?" When this guy plays bridge, it is like the opponents have exposed all their cards to him. Whenever I play bridge with him, it is like he already knows what people are holding, even though they are holding the cards in their hand, in his head, he already knows every card where it is. It is just amazing, incredible to watch.

The Buffett Partnerships, which was what Buffett originally started with, were run from 1956 to 1969, 13 years. The Buffett Partnerships had unusual rules. One of the rules that Buffett had was that he did not charge a management fee. All mutual funds charge management fees, and hedge funds charge one and 20 or two and 20 or whatever his fee structure was 0 625; zero management fee, 6% hurdle. Above the hurdle, he got one-fourth, and the investor got three-fourths. When I heard about Warren Buffett for the first time in 94, 95, it had been more than 25 years since he closed the partnership. When I looked, I could not find a single case of anyone who had set up a partnership or investment fund following Buffett's rules of no management fee, zero. What that told me is a wide-open opportunity. Multiple mental models are coming in here. The first is what my bridge partner, Roger, says: "What is going on here?" Well, what is going on here is that we already know humans are idiots about cloning. A model of the greatest investor ever, the greatest returns, but nobody wants to touch it. Well, the Indian guy is going to go touch it and take it because it is just sitting there. I saw that that model was not cloned. I know that humans are bad at cloning. That is why Walton did well, and that is why Bill Gates did so well. Because people are not willing to stoop so low as to create a company like Walmart or Microsoft. They think that is beneath them. These are low-quality businesses and low-quality operations because they have copied. No one is interested in these companies. I said, "The model is there. Nobody wants it. I can go do it." When I took that model, when I go to potential investors, I have a unique proposition. I tell my potential investors, "Everybody else is going to take a fee from you. They will get rich when you get poor. No matter what happens, they will get rich. In my case, I only get rich when you get rich. We are aligned." It became unique. I took a little detour from your question because I wanted you to understand this notion of offering gaps. There was someone who had come up with a model, and 25 years had passed. In fact, it was 30 years by the time I started the model. Later, when I became friends with Warren and Charlie, I told Charlie, "This is what was going on." He said, "Mohnish, there were a few people who had copied that model." I said, "Yes, but Charlie, I could never find them." He said, "Yes, yes, you would never be able to find them. These are very obscure people." Again, it was like 99 percent of humans had not done that.

**Speaker:** Let us say a legendary investor buys your stock. How do you overcome that bias when looking at it yourself?

**Mohnish:** Let us say you made a list of 20 great investors, and you look at their top two or three holdings. You are now looking at 50 to 60 stocks. There are 50,000 stocks in the world. We would have already cut out 99.9% of stocks by doing that, which is beautiful. Cloning helps you trim the data set properly. When you look at those 50 to 60 stocks, the most important question you have to ask is, "Is this stock in my circle of competence?" Most of the time, the correct answer is no, because most of us are only going to understand a few things. Out of those 50, 60 stocks, maybe 45 will disappear because they are outside the circle of competence. Now we are left with five or 10 stocks, and then those are within a circle of competence, and we can go into a deep dive. The deep dive is focused on first answering the first question: why did Mr. XYZ buy this stock and make it one of his largest positions? Why did he or she do that? Then we go down from there.

**Speaker:** My next question revolves around the fact that in several podcasts, as well as interviews, you have mentioned the importance of buying a good quality, well-run company and holding it through thick and thin, everything surrounding the company, which is mainly noise to ignore. But given the current scenario, especially with the Trump tariffs, how do you differentiate between something that is actual noise versus something that is substantial and might eventually change the world order?

**Mohnish:** Trump tariffs are mostly irrelevant. Let us take the example of a great business in India called DMart. What impact do Trump's tariffs have on DMart? Do we think DMart has become a useless business now because of Trump tariffs? Let us take a business like IndiGo. What impact do the Trump tariffs have on IndiGo? When we look at DMart and know clearly the Trump tariffs, we will have some negative impacts if global GDP growth slows down. But we do not know exactly how those things may play out. One of the things about the whole tariff situation is that, in a free and fair trade scenario, overall, the world is better off. Trump's pet peeve is that trade is not fair. If you look at it in the context of India, I completely agree with Trump in the sense that a lot of American goods coming into India attract very high duties coming in. A car made abroad coming to India, very high duties. It is not a free and fair trade. If the result is that India reduces its barriers to foreign goods coming in, in general, that will be good for India because what would happen is that it would force domestic producers to sharpen their pencils and get better. It would also force resources within India to go into areas where India has an edge. India has an edge in shrimp farming. In Andhra, the rice farmers had become shrimp farmers. There was no government program. The government did not even know this was happening. India has become the number one shrimp exporter in the world. It used to be Thailand. Out of nowhere, in a very short period of time, India has become dominant in shrimp farming. The reason it became dominant is that various factors of production, when you put them all together, India has a competitive advantage. It has a competitive advantage in pharma manufacturing. It has a competitive advantage in outsourced IT services. What India needs to focus on is the places where it has a serious competitive advantage, and remove the shackles that restrict growth. There are gazillion shackles in India, which restrict growth. For example, farms are not allowed to become large. The buying and selling of agricultural land is very restricted

because there is an inherent distrust. But in the US, all we have are large farms. It used to be in the US that 95% of the population was focused on farming. Now, less than 2% is focused on farming, and we are producing so much that we need to export it to the US. In India, still, a majority of the country is focused on farming. We only need five or 10 million people focused on farming. Let the farm become efficient, remove the shackles, let us go. When we have headlines like Trump tariffs this and that, all that is not relevant. What you have to do is you have to look at a particular business, and you have to play that tariff out in the context of that business. What you will usually find is internal micro factors or factors around that business with its competitors have most of the impact on how that business does in the future, not some global macro thing.

**Speaker:** Thank you, sir. While starting, we were restricted to researching Indian businesses and restricted to the Indian markets. You have a very global perspective on how you invest. What are the benefits of having a global perspective, and what is the biggest challenge you face while looking at multiple geographies for investing?

**Mohnish:** One does not necessarily gain an advantage by having a large canvas to draw on. I have mentioned a few times in previous talks, there was a very good friend of Charlie Munger, John Arrillaga. John Arrillaga was a real estate investor. He was a billionaire, and his daughter is married to Marc Andreessen, so that is billionaire to the power of billionaire. John Arrillaga, in his entire life, only invested in real estate within two miles of the Stanford University campus. That is all he did, and he became a billionaire. What is John Arrillaga's circle of competence? Well, it is tiny. One can get extremely wealthy by having a very tiny circle of competence.

One of my mental models which is a very simple model (I came to realize this during the financial crisis) is that if you are a commodity producer producing let us say iron ore or coal or oil or whatever, and you are at the low end of the global cost curve and have a lot of reserves, that is a business that was with a very wide and deep moat. All they are doing is mining some commodity. If we look at a business like let us say Saudi Aramco, it used to produce oil at one or \$2 a barrel. That was their cost. I do not know what their cost is right now, but I would be shocked if it is more than \$10 a barrel. Maybe it is like five or \$7 a barrel. Everybody else would stop producing oil if oil went to \$20 a barrel. But Saudi Aramco would still be producing and still be making money. That is a very durable moat. It is a very simple model, which is that if there is a commodity producer and they are sitting on the low end of the cost curve and they have a lot of reserves, that is a license to print money. You want to make money no matter what.

There is a company in my portfolio that produces metallurgical coal, which is used to produce iron and steel. They have an extremely low cost. They are very close to the port. They can send their products globally. They have very long-lasting reserves and have no debt. Where do I sign? That becomes very simple. Trump tariffs, who cares? What we want to do is that when something hits us over the head with a two by four (two by four is an American term; it is not the metric system. Two inches by four inches. It is a log of wood commonly used for construction of US houses), if something hits you in the head with a cricket bat, that is what we want. We want things that are total no-brainers. We like what is going on here? Take it from there.

We do not need a large circle of competence. John Arrillaga proves that to us. We can have a very tiny circle of competence, and we do not need to know a lot of things about the way the world works. We need to know a lot about a few things. It is better to be an inch wide and a mile deep than to be a mile wide and an inch deep. If you understand very few businesses or very few industries, but you understand extremely well, and then you invest in them in periods where it appears you cannot lose, then that, over time, may work.

**Speaker:** Mohnish sir, my next question is the fact that Pabrai Investment Funds has not hired an analyst apart from you. What is the rationale behind that, doing it all by yourself?

**Mohnish:** I do have a couple of guys now who are very helpful to me. That was because I had started a business that did not work, and we got out of the business, but I liked the guys, and I wanted to keep them. I told them I do not want them to generate ideas. They do not generate ideas, but they have been very helpful to me in terms of the deep dives, when I have specific things I want to go deeper into. It has been helpful, but if that accident had not happened, I would not have had anyone. The reason is that in a year, I am buying one or two things, and maybe I am selling one or two things. I do not believe I do the job right, but if the job is done right, then one would never sell. Anytime there is a sale of anything, it means I have made a mistake. When I look back, that means I have made a lot of mistakes. The bottom line is that we do not need to own a lot of things. We do not need to find a lot of things. What we are looking for are no-brainer anomalies. We should invest when things make no sense, and when things make no sense, that is when I get excited to look into what is going on. For example, seven years ago I started visiting Turkey, and when I went the first time in 2018, I had no big agenda. I was only going to visit Istanbul once. The reason I was making that visit is that I had a very good friend in Istanbul who is a very good value investor. In fact, the problem is that he is too much Graham and too little Munger. Anyway, I told him Turkey was screening extremely cheap; everyone was exiting. I told him that =I would like to visit companies in his portfolio, starting with the ones that were the largest positions and then going down the list. I did not want to visit any companies that he did not have money in. He was okay with doing that, and he was very excited to do it. He said, "Yes, it would be great. Let us hang out." When I visited Turkey, the first time, I remember the first company he took me to was a PE of 0.1. It was trading at one month's earnings. I will not go into the details of that business because that will use up the rest of your time without getting to the point. I found Turkey incredibly cheap. I found that everyone was exiting, so I said, "Let us look at the businesses that are immune to currency and inflation. Usually, when I was visiting Turkey, I did no work on the businesses we were going to visit until after we visited them, because I did not want to waste my time. I said, "I am going to see how the meeting goes and if there is anything that interests me about the business. Then after that, if there is interest, I will dive in." Usually, when we are driving to a business, I would ask my friend a few questions, like what business they are in. What industry? What is going on? Why did he invest? I am not a complete village idiot at the meeting. In the second visit in 2019, he was taking me to a company. He said, "Mohnish, the market cap is \$16 million, liquidation value is 800 million." I said, "Is it a fraud? Is it trading at 2% of liquidation value?"

He said, "No, I have money in the business. It is in my portfolio." I said, "Why is it so cheap?" He said, "Well, everything in Turkey is cheap." When I visited the company, it seemed like a pretty normal company; very basic, boring business. They rent warehouses to large Fortune 500 companies like Amazon, Ikea, Carrefour, Mercedes, Toyota, and DuPont. 99% lease inflation index, or dollar leases, or euro leases. You could have gone to any realtor in Istanbul, showed them the portfolio, and they would have told you in about half an hour, this is worth a billion dollars, and there was 200 million of debt. He was right. It was worth 800 million, and the liquidation value was 16 million. The market value was 16 million. Then I thought there would not be any volume to buy the stock. But Turkey is a country of gamblers. The average float of a Turkish company cycles through in about 21 days. Very high trading volumes. The float is just continuously cycling through the typical retail Turkish investor, invests at 10 o'clock, and exits at three o'clock, and makes 10%. That is their model. Where do I sign? Buffett has a quote that "The stock market is a mechanism to transfer wealth from the active to the inactive," and it could not be truer in Turkey. When we started buying the stock, there were huge volumes, and for \$8 million, we got one-third of the company. Six years after that, the market cap is about a billion. The Turkish lira is decimated. In Turkish lira, our returns are infinite, but in dollars, it is gone from 16 million to a billion. But now the liquidation value of the business is over 2 billion. Maybe close to 3 billion. I go to Istanbul once a year. I meet the founders; we have fish on the Bosphorus (bluefish on the Bosphorus is wonderful). I tell them that the business is our family business, their family and my family, that it is not a portfolio position, and that I am not selling that business until they do something. If they sell, then I would sell. What I discovered after investing is that I bought this business at a huge discount to what it was worth, but I did not realize at the time that it had gifted capital allocators. I have seen them for six years, I have not seen them make any single mistake. All their reinvested capital is invested at 20 to 35% or more annualized dollar returns. This company is going to keep compounding for a while. My main job is to talk to students at Ashoka and do nothing. Just sit there, do nothing, and play bridge. We do not need too many insights. We do not need to understand too many things. What we do need is to look for things that make no sense, look for anomalies, look for weird things, try to answer the question, "What is going on here?" and then take it from there.

**Speaker:** You wrote *The Dhandho Investor* around 20 years ago. If you had to rewrite it today, which concepts would you remove or rewrite based on the mistakes that you have made or what you have learned from the other investors? Also, have you moved away from the cigar butt approach, like from the Pioneer Distilleries to more compounding bets like Micron or DMart, as you talk about?

**Mohnish:** That is a great question. I had flawed models in terms of how I was investing earlier, and so many mistakes because of those flaws. If I could go back one of the big tweaks I made, (it is so easy to understand this and just shows you how dumb I am), is that if you find yourself in the fortunate situation of partial ownership of a great business with great management what I used to do is I used to calculate the intrinsic value of that business. When it got to about 90% of the intrinsic value, I would sell that business to buy something that was half off. That is stupid for a few reasons. The first thing

is that we do not know what intrinsic value is. We may have some idea, but we are probably going to be wrong about it. Secondly, these great businesses with great management are very rare; they are anomalies. I will give you an example. When I first started investing in the equity market in 95, I had \$1 million to put into the equity markets (my own money). I was going to see how I do with that. I had no prior experience investing in stocks. This was 30 years ago, in 1995. Out of that 1 million, I put 20,000 of that into Indian stocks. I made four bets in India. They were Satyam Computers, Blue Dart, and Sky Pack. I was only going to make these three bets, and then while I was going through the process, I was interacting with Kotak because Kotak was my broker. At that time, they did not have their banking license, and I was interacting with Falguni Nayar. Some of you might have heard of Falguni. She was running Kotak's London office at that time. Falguni helped me open my account, and I was extremely impressed with the Kotak team, both in London and in Mumbai. When I saw that, in the last minute, I decided to put some of that money into Kotak. Out of the 20,000, 10,000 went into Satyam and 2000 or 3000 went into Kotak. The rest was between Blue Dart and Sky Pack. The Satyam fraud happened much later. That was more than 10 years after I invested. But in five years after that, in 2000, Satyam was up 140 x, so the 10,000 I had invested in Satyam was sitting at 1.4 million. The 980,000 that I had invested outside of India in the US was sitting at about 13 million. The Satyam bet and these others had taken a million to like 14 million or something. I said, "Mohnish, well done. Life is good." Then, unexpectedly for no good reason, in 2000, I realized we are sitting on a mega bubble, and Satyam is ridiculously overplayed. In January of 2000, I told Kotak to unload, and I got out of Satyam within 5% of the peak price; I cashed in the whole thing. I was not even sure the Indian government would allow me to pull the money back. I said, "These guys are not stupid. I put 10,000 into India. I want to pull 1.4 million of foreign exchange out. Someone is going to protest somewhere." But no, they just wired the money. It was very smooth. At that point, I said, "Well, God is not so benevolent. God likes Mohnish, but not infinitely." These other stocks, Kotak, Blue Dart, and Sky Pack, had done nothing. At that point, they were sitting approximately where they were; maybe 10, 20% up. I wanted to clean up my books. I sold those three stocks. Kotak is 350 x after that. Blue Dart is 500x. Sky Pack went nowhere. I know maybe I have been a fraud or whatever, I have no idea, but there was no good reason to sell Blue Dart, Sky Pack, or Kotak. They were so small that it did not matter. When I go through and look at the last 30 years, there are so many exceptional businesses I invested in and sold. In the case of Kotak and Blue Dart, they were sold for stupid reasons, but in other cases, they were sold because I thought they were fully priced. You cannot come up with an intrinsic value for Kotak or Blue Dart or any of these businesses because what will management do in the future? We do not know what they will do. If they are exceptional, they can do exceptional things. The idea is that what took me forever and ever to learn is that you do not sell a great business when it is fully priced. Do not even sell it when it is overpriced. Just sit on it until it becomes completely egregious. You cannot possibly come up with any scenario where that valuation makes sense. But the good news is I got that message etched in my brain well before I am going to die. Hopefully, there are 29 years and a few months of compounding left, so we can apply those lessons. Life is good. Let us take one last question.

**Speaker:** I want to understand how you distinguish between distressed businesses and businesses that are valued, perhaps? How do you gauge whether these businesses are going to come back in favor? A small follow-up to that, do you time these investments for teams that are out of favor, and how do you go about timing that accurately?

**Mohnish:** That is a great question. In the late sixties and early seventies, there was a concept in the US known as the Nifty 50, which is very different and has nothing to do with the Nifty 50 in India. Forget the Nifty 50 in India. In the late sixties in the US, the idea was you put 2% into 50 stocks. That would be your portfolio. The 50 stocks were the bluest of the blue chips: ADP, McDonald's, Coke, Procter and Gamble, Xerox, Polaroid, Kodak, Avon, all of them. The idea was you do that and forget it. You do not worry about valuation or anything else. There is some controversy about whether Walmart was part of that Nifty 50 or not, but let us say, for our discussion, it was part of that Nifty 50. In '73, '74, there was a major downturn in the US market. It was a crash in slow motion, but 60-70% of equity markets' value got wiped out. These Nifty 50 were taken out back and short. That portfolio got decimated. After 1974, no one ever talked about the Nifty 50. But let us take a scenario where you own the Nifty 50, you put 2% into Walmart, and the remaining 98% goes to zero, and you forward this whole portfolio for 55 years (from 1970 to now). What happens is that with a 98% error rate, the Nifty 50 compounds at almost 15% a year for 55 years and blows out the S&P, which does a respectable 10%. That is with 98% going to zero. I took Amex to zero, Coke to zero Procter and Gamble to zero. I took all these companies to zero. A bunch of companies in the Nifty 50 went to zero, like Xerox, Kodak, and Polaroid. The reality with this business is that anytime you enter the investing business, you are going to make a lot of mistakes, value traps, frauds; all part of the landscape. No matter how good you are, you are not going to be able to avoid them. Even the best investor, John Templeton, said that we will be wrong one out of three times. Warren Buffett out of around 400-plus decisions that he has made in the last 60 years, and only 12 have moved the needle for Berkshire. That is around three or 4% hit rate. That is God we are talking about. The important thing is not the avoidance of the value traps. You can try and do that, and you may or may not be able to completely do it, but you can try. The important thing is recognizing and hanging on to your winners, and the traps will not matter.

Thank you so much. It was such a pleasure spending time with you guys.

**Speaker:** Thank you so much, Mohnish. It was a wonderful session, and we hope that the next time we interact and have a session, it is in person. Not just you, but Mr. Spier as well. He was also quite enthusiastic about interacting with the club. We hope that we have you guys in person at Ashoka.

**Mohnish:** I look forward to that. That will be wonderful. Thank you.

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