

Mohnish Pabrai's Interview at Mint Equitymaster Investor Hour on April 11, 2023

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Rahul: Mohnish, thank you very much for making time to do this Mint Equitymaster podcast with us. We are super delighted to have you at the show.

Mohnish: Well, Rahul, pleasure is all mine.

Rahul: Wonderful. Thank you. You know our podcast is more about the individual and the way they've approached situations in life, and from there we draw the lessons. So, we'll do the same thing today. I want to kick it off by starting right from the beginning. If you could spend a few minutes talking about where you grew up, a little bit about your parents, what were they like, professionally, business-wise, and whether at that point in time, there were any investments, discussions, IPO papers, or something during the rounds in the house. If you can give us a little bit of background on that.

Mohnish: Sure. I was born in Bandra in Mumbai.

Rahul: I am actually at Khar right now.

Mohnish: Okay, on Linking Road?

Rahul: Oh, wow. Just here.

Mohnish: The first 18 years of my life were 10 years in Mumbai, 6 years in Delhi, and 2 years in Dubai. Though it was not in contiguous streams, I had 2, 3-year periods in Delhi in the middle, but Mumbai was the biggest one out of the three. But these other places were also interesting. My father was, you might call him, a quintessential entrepreneur, and he was extremely good at identifying what I would call offering gaps. He was good at kind of scanning the radar and saying, "Oh, this is a product or service that does not exist, and I think there'll be good demand for it." He was also extremely good at starting businesses with zero money. That's a skill I picked up from him. He used to say, "You could put me naked on a rock in the middle of nowhere, and I would start a business." He had a great ability to identify opportunities and create something which didn't exist, from scratch. His downfall was that he was an eternal optimist, and was very aggressive. When he identified an opportunity and the business would invariably take off, he would step on the gas with everything he had. The common trait in all his businesses was that they were very highly levered and whatever the banks would give him to the max, he'd take all that. They had no

real staying power when the first headwinds came. Basically in my childhood, every three or four years my father would go bankrupt. There would be a great business that would have very rapid growth, and then it would blow up. Some of these things got pretty large. They got up to like 300-400 people and then blow up. My parents were very poor financial planners. When times were good, they lived like kings, but when the business went bankrupt, we did not have money for rent. We didn't have money for groceries. When the business was having difficulty, we were personally having difficulties, borrowing money from friends and relatives. There was this kind of constant boom and bust. But my dad would go through bankruptcy, have nothing left, and then he would find another opportunity. He started businesses in maybe 10 different industries. In many cases, he started businesses with no prior experience in those industries. For example, the last bankruptcy he had in India was when I was 13 years old. Just to go back a little bit, after I was about 10 years old, my brother was about 11 years old. We were like the board of directors for my dad. I remember that we would sit down at night maybe when I was like 12 years old or something, and the business was in very serious trouble. We were trying to figure out how to make it run for one more day. All the walls are caving in. All the creditors have their knives out, and everything is collapsing. In the middle of all that, all we are trying to do is keep it alive for one more day. Then we would meet the next day at night, and we'd try to figure out how to keep the business alive for one more day.

When I was about 16 or so, I used to go on sales calls with my dad. By the time I was 18, I had finished many MBAs; many degrees in business that are not taught in any business school. It was a very accidental experience. One of the quirky things about humans and our brains is that the brain is the most underdeveloped organ when we are born. The birth canal is too narrow, so the brain that comes out is almost premature, you can say. However, it's the fastest-growing organ in the first five years of life. The neuron connections are going crazy. You can see an infant, a one-month-old who is dependent and with almost no abilities. Then that changes very rapidly. The brain goes through very rapid growth in the first five years of life. After about the age of 10 or 11, it is optimally set up to specialize. So from the age of 11 to about 20, the neuron connections get cut. They're reduced, and there are sections of the brain that are optimally set up to specialize. That is the only window of time in our entire lifetime, from 11 to 20 when it is the biggest bang for the buck to specialize. Now, in our education systems, what happens is we are forced to be a jack of all trades from 11 to 20, or at least 11 to 18, or maybe in India, 11 to 16. That window closes for most humans. However, there are some humans, like Bill Gates, who started programming at 11. Warren Buffett bought his first stock at 11. If you look at Michelangelo and Leonardo Da Vinci, you go back into their lives and you will see there's a lot of activity taking place from 11 to 15, which is helping them specialize. Someone like Bill Gates had probably done more than 10 or 15,000 hours of programming before he was 20. Someone in their forties who's done a similar amount of work from 20 to 40 cannot match Bill Gates because he did it

in a window over hell things were just optimized. In my case, it was accidental, where my parents had no clue about all this that I got a huge education in business while going through this jack-of-all-trades, stupid education system. But I was learning business on the side and it weighed on our minds because these things were going under, and you had to figure out a lot of things, and you get good at a business when it's facing adversity. That's when you're trying to turn over every rock and whatever.

Rahul: Necessity is the mother of all inventions.

Mohnish: Yes. I'll give you an example. My dad, at the age of 13, went bankrupt for the first time, then he took a job in Dubai. He moved to Dubai, to get some stability for the family. One time he was taking a flight to Dubai from Mumbai, and a jeweler was sitting next to him on the flight. They didn't know each other, just randomly sitting next to each other. The jeweler was explaining to my dad how the UAE had these laws where raw gold coming into the country had no duties or tariffs, but finished gold had a 2% duty. He explained how if the manufacturing that's done in India of this handcrafted Indian jewelry was done in Dubai, even with elevated labor costs because of this nuance, there was a widespread, and nobody in the UAE was manufacturing jewelry in the country at that time. By the time the flight finished, my dad had decided to go into the jewelry business. He had no prior experience in the jewelry business and to leverage this arbitrage. The guy he was with eventually turned out to be a crook, but he taught my dad the jewelry business. My dad was very smart, he could pick up stuff. By a year or 18 months later, that guy had left with a bunch of gold or whatever, my dad at least understood the business and that business paid for my college education in the US. That was just to give you an example of kind of how he moved, and again that business went bankrupt when I had about a year and a half left to finish college. Because again, he was pumping on all cylinders. It was jamming as aggressively as he could. Then there was a downturn, it blew up, and so on. That was kind of the formative experience in the early years and I would not trade my parents for any other parents. They were amazing individuals and taught me wonderful things. Raised us all very well. Overall, I would not change anything about the whole experience.

Rahul: Was your mother working or was she at home?

Mohnish: No, she was at home.

Rahul: She was at home?

Mohnish: Yes.

Rahul: The other question I had related to this is about investments. Were you all making any investments at all? I know you mentioned that when the times are good, you are not investing much there.

Mohnish: One of my deep regrets is that I think that by the time I learned about Buffett and Munger and was kind of coming up to speed and all of that, my dad passed away about two years after that. I never had a chance to discuss capital allocation and the Buffett Munger frameworks. I think he would've absorbed that quickly, and I think it would've changed his trajectory quite a bit. I think what was happening is that when times were good, we were living well, but everything was going back into the business.

Rahul: Yes.

Mohnish: It was all eggs in one basket.

Rahul: Yes. You studied in the US and you graduated. Where did you go next? What did you do next? And where did this whole idea come about? Was it accidental or was it a planned move? Did you think, "Hey, you know what, I'm going to be good at picking stocks or making investments?"

Mohnish: My degree is in computer engineering, and I came to the US.

Rahul: It makes perfect sense.

Mohnish: I had no idea, people just said computer, a heart. I started in computer science and then it was more math in engineering. I switched to engineering and I was on a student visa at the time. My priority was to get a green card. My parents were in very bad financial shape at that time, so the immediate necessity was to get a job and support them. I started working in the tech industry. Then I had made up my mind that I had a good degree, I had a good job, and I was going to kind of rise in the corporate world. I had very specifically decided that I'm never going to be an entrepreneur. Mainly because I had seen a lot of traumas in childhood. I remember my dad was visiting me one time. I had been working in engineering for a couple of years, and I used to be dressed shabbily. You work in the lab, normally care how you dress, whatever. He sat me down and said, "I have failed. I have failed as a father." He said, "You wake up at like 9:00 AM and then you roll into work at 10 or 11:00 AM and you dress in all these torn jeans and whatever." My dad was always a perfect dresser, bow tie suit. He was just immaculate throughout. He was once reading the company newsletter that came home; the company I was working with. He saw in the newsletter that they were opening an international division company that was doing about 200 million in sales. They wanted internationals to bring 200 million in about five or seven years. They were going to invest a lot of money in growing their product and customer base outside the US. They had just set up an international group. They were just talking about that in the newsletter. My dad said, "This guy, Peter Fus in this newsletter, I want you to call, and to go meet him. I want you to tell Peter that you want to go work for him." I told my dad, "Listen, you know nothing head or tail about what I do, nothing head or tail about this company, nothing head or tail about Peter." I said, "Peter's not interested in me." My dad said, "That's okay, I just want you to call Peter." Every day when I'd come home, he would ask me if I called Peter and I'd say, no. I then said to myself, let me get the

old man off my back. I'll call Peter. Peter will tell me to go fly a kite, and that'll be the end of that. So I called Peter and Peter's interested to meet me. So I tell my dad that I called Peter and he wants to meet. He said, "Great, let's go shopping. You can't go meet him the way you dress every day." I said, "I can't show up, work in a suit and all that." He said, "No, one day when you go meet Peter, you're going to." He was excited. We went shopping, he reset my wardrobe, and I went to meet Peter. Peter gave me a job. At that time, the engineering stuff was kind of getting a little boring because we had shipped the product. There was no work. I made the switch from engineering to international marketing. That was a very exhilarating three years, because the group I joined, which was like maybe six people, about three years later, had 800 people. And we had made a couple of acquisitions overseas, and I was probably 80% of my time traveling all over the world. Doing a mix of engineering and sales and marketing. It was a really exciting time. I was single, and I would be on a business trip to Bangkok, and then I'd spend the weekend there, all company paid, everything paid. After a couple of years, my dad visited me again. I'm dressed every day in a suit. He sits me down and says, "It's time to quit." I said, "You are the guy who told me to take this job. I took this job. I love this job. It's awesome. And this is just great. Everything is great about it." He said, "Look, all you're doing is making somebody else rich. You don't see any of the rewards of what you're doing." I said, "Have you forgotten my childhood? I don't want the rollercoaster ride." He said, "The rollercoaster ride is what makes it exciting." He was able to convince me to start my first business, and I knew how to do that because of all the time and childhood, and so on. I started the IT services company, and I kept my job and the startup till it had enough cash flow where I could quit my job and I would be making more than what they were paying me. That business did well. It was growing fast. It was the early nineties and accidentally, my wife and I were vacationing in London in 94, and I was looking for something to read on the flight back. I picked up one of Peter Lynch's books *One Up On Wall Street*. I had never bought a stock before. I'd never made any investments before. I didn't know head or tail about any of this stuff, but I enjoyed Lynch's book. I looked up and found he has another book. I read that, and then I was out of Peter Lynch's books. There were only two books, and I wanted to keep going in this area, but he was talking in the second book about a guy named Warren Buffett.

Rahul: *Beating The Street*, I think.

Mohnish: Yes. I read *One Up On Wall Street* first and then *Beating The Street* the second one. He was talking about Buffett. I'd never heard about Buffett, so I started researching him, and I was very lucky. The first couple of biographies on Warren Buffett had just come out. That led me to the Berkshire shareholder letters and that opened a huge world. I had an "aha" moment in 94 when I studied Buffett, and the way he invested, and the only kind of professional managers that I knew about was the mutual fund industry. When I looked at what Buffett was saying about how to invest, and I looked at the way the mutual fund industry functioned, the two were night and day. Buffett says, you have this 2020 punch

card in a lifetime, you buy like 20 stocks. Each one is a big decision, and the typical mutual fund has a hundred stocks and an 80% annual turnover. They're like dancing in and out of the stocks all the time. Their results reflected that dancing. When I looked at all the mutual funds, I would find like 80, 90% of them did worse than the index. I had a notion. If somebody just follows Buffett's approach to investing, understanding the business, making a decent bet, sticking to it, understanding intrinsic value, circle of competence, and so on, one should be able to do better than the professionals. That theory has no merit till there's some proof or execution behind it. In 94, I sold a small portion of my company after taxes. I had \$1 million, and I didn't need the money. The company was doing well, and it was an extra one million. It was the first time I had money in the bank. I said to myself, "Okay, I'll take this million. I'll start investing it using Buffett's frameworks." I was going to buy like 10 stocks, 10% bets and I wanted to see what would happen. This was my day job; I'm still running my IT company. In about five years, that million has turned into 13 million. It was like a 70% analyze the rate of return it did exceptionally well. I said, "Well done, Mohnish. We knew you could do this." I was probably spending maybe 15, to 20 hours a week on investment research and analysis and I was spending probably 40 hours, 50 hours a week on my business. I was getting less and less interested because what had happened with the IT company was, it was up to about 150, 170 people. My job had turned into human resource management. I was just managing a bunch of political games, played by a bunch of vice presidents, and I had no interest in that. It got to the point where I didn't even feel like going to work. What I did in 99 was I started a search for a CEO for the company so I could leave the company because I didn't have any interest in being there. I decided my first plan was to go work for Warren Buffett. I wrote him a letter offering my services for free. He wrote back saying, thanks, but no thanks. Then my friends, to whom I used to give stock tips after I had bought something that had done well, came to me and said, "Listen, we want you to manage money for us. You tell us to buy something, we buy it and it doubles. We sell it, and then we don't see you, and it's already random." They wanted to give me money to manage. I set up Pabrai Investment Funds in 99, as a hobby for me to invest. It was a total of a million dollars between me and eight friends. About a year and a half later, we had a 70% year. The first year I had brought in a CEO who had taken the whole of my business about a couple of months after he started, he said someone wanted to buy it. We sold the business because he was going to get a new deal, and again, another bite of the apple. In 2000, I decided not to treat the fund as a stepchild. I should treat it as a real business and try to grow and scale it. I started to pay more attention to Pabrai Investment Funds in terms of adding more investors and assets and so on. It grew and did well. That's kind of how the journey got going.

Rahul: Wow, what a fascinating journey. I have a few questions related to this. One is 99 is a pretty peculiar year to launch a fund because it's on the eve of what would turn out to be one of the biggest crashes we've seen in a long time. The TMT

bubble burst in the first quarter of March and April 2000, and you still get a very good year.

Mohnish: Yes. The NASDAQ peaked on March 9th, 2000. When I started investing almost all my investments were tech investments because that's what I knew well. I could probably see the bubble not very much in advance of the others, maybe three to six months ahead of the others. But by the middle of 99, I was very convinced that this thing was going to end badly. I didn't know when it would end and how it would end. What I did is a complete 180. So Pabrai Investment Funds launched on July 1st, 99. What happened was that the day the NASDAQ peaked on March 9th, 2000, was the same day that Berkshire Hathaway hit a multi-year low. While one portion of the market was very frenzied and going crazy pets.com and everything else, basic brick-and-mortar businesses got very cheap. Funeral homes, steel mills, Berkshire Hathaway; they got single-digit multiples. I remember I bought a funeral home for two times my earnings. People were selling basic companies and dumping everything into pets.com. In 99 when the fund started, I completely switched to classic Ben Graham deep value which I had never done before. The first year we were up 70% and the NASDAQ started to crash. From July 1, 99 to June 30th, 2000, I was up. In the last three months, the NASDAQ was cratering, and NASDAQ took a crash in slow motion. It took about two years to go from 5,000 to 1200. It gradually went on. Basically from 99 to 2007, Pabrai Investment Funds did 37% a year before fees and no down years. The disparity between us and the indices was massive, and I wasn't doing anything special. All I was doing is I was looking for companies that had very stable cash flows and operations, extremely boring, and no one's interested.

I'll give you an example. I think in 2004, I ran into this steel company called IPSCO. It was trading at about \$45 a share. They had \$15 a share in cash. They had no debt, and these guys were building tubular steel, kind of like what goes into pipelines. They had an order book that went out several years, and they had very visible cash flows. They had publicly stated that the next two years' cash flows were \$15 a share each. The stock is at 45 is 15 of cash. If you take the next two years' cash flow, you're going to have \$45 of cash, and the plant and equipment and everything else is free. It's a very cyclical business. We don't know what the cash flows are after two years, but I said, I just want to buy the stock and let's see what happens after two years. A year later they announced, one more year, we will have \$15 a share in cash flow, and by now the stock is at 70. I was thinking, okay, this is cyclical. Maybe we should let it go. We made our money and all that. Then it gradually drifted up to about 90, and I was getting ready to sell it. It doubled in less than two years. I woke up one day, there was an announcement that some Swedish company was buying it for 160. The stock immediately goes like 155. I don't even wait for the deal to close. We exit and move on. I don't know why that Swedish company didn't come in two years before that when it was at 45, but this is the way the world works. No one was

interested in the steel business and whatever else, so it was just kind of classic Ben Graham mathematical games, and you guys go from there.

Rahul: My memory of March 2000 is, I don't have the dates, but the Berkshire Hathaway annual letter came out and he again said the same thing effectively every year. Then someone wrote a piece, and I'm sure I have it somewhere in my archives, someone said, Buffett doesn't get it, he's lost it.

Mohnish: Yes. He was on the cover of Barron's you know, by Tech Warren. What's up, Warren?

Rahul: Some of these guys are so smart, Warren Buffett, Munger, you've got to listen to them because even when someone's like questioning the basic understanding, irrationality is the dominant emotion.

Mohnish: Yes.

Rahul: That's where you make a move.

Mohnish: Yes.

Rahul: That's never left me, and it happened again and again, right? It happened multiple times in the last 30, or 35 years. It's a great way to get a signal on what one should be doing. Did you get to buy Berkshire Hathaway then when it hit its low in March 2000?

Mohnish: I've never had much Berkshire Hathaway. I've occasionally had it in the funds. But there was so much other stuff that was way more mispriced.

Rahul: Yes.

Mohnish: More interesting, as well. Generally, I was buying tanker companies and funeral homes.

Rahul: Old economy stuff.

Mohnish: They were very mispriced. Yes.

Rahul: It's amazing. Right?

Mohnish: Just to continue the story further, it did very well till 2007. Then the financial crisis I did not see coming. From 2007 to 2009, the funds went down probably around 65, 67%, and the markets went down probably 37% or so in that period. We went down a lot more than the markets did. I remember in like 2008 and 2009, commodities had been crushed; commodity stocks and commodities, and I was selling PE of three to buy PE of two. You know, that's kind of what my trades were. And so, I remember in 2009, after we bottomed out in March 2009 we were up, I think 140% for the year 2009. Gradually that recovery got underway and we started to get our money back. One of the things I should have done is probably around 2012 or so, I should have switched back to what I used to do

originally, growth investing. Usually, the best way to invest is to buy businesses that will grow over time. It's just that sometimes you get periods where there's such extreme euphoria where that strategy is not going to work because when we are buying things at a hundred times earnings or whatever, it's just not going to work pretty well. By that time, I'd been running this Graham playbook now for 13 years, and the playbook had worked well, so it was just very comfortable. I just kind of continued and I did not make the switch over back to the growth stocks, et cetera, till around 2020. I would say I was probably eight years or so behind. Now, the thing is that there were things I was doing, which still worked well.

For example, in 2012, I invested in a company called Fiat Chrysler, and that was a huge multi-bagger we made over the years. In 2012, Fiat Chrysler has a 5 billion market cap and 135 billion in revenue. It's trading at less than 4% of revenue. They had brought in a rock star CEO, and I could see that a lot of things would change inside Fiat Chrysler; a piece I didn't pay much attention to was 80% of Ferrari. They owned 80% of Ferrari. Just to give you a sense, I didn't capture all of it, but, in effect, about one-third of that market cap was attributed to Ferrari. Out of the 5 billion, about one and a half billion was attributed to Ferrari. Ferrari now has about a 50 billion market cap by itself. Fiat also a lot of dividends and such and gone. What I'm saying is that even though I didn't switch to growth investing till later, there were bets like Fiat Chrysler, bets in India, like Rain Industries which did well, huge multi-baggers. More recently I made the switch, but I made the switch somewhat carefully, because we still had in 22 a lot of euphoria, and the bubble popped. We again got to crazy valuations and that's where we are today.

Rahul: I want to ask a question about the 2007 and 2009 periods. I'm sure you've thought about it a lot. Why do you think you missed it? That there is a euphoria happening and you could get caught in it?

Mohnish: Well, I think that in that period of seven to nine, there was a very small number of humans you can count on probably fingers of one hand who saw the whole bomb. You've seen the movie *The Big Short* and just to give you a side story about the bubble, Michael Burry is in *The Big Short*. I know that God loves me, and I'll give you some evidence of why God loves me. In 2008, I'm making a trip to San Jose, California, and Michael Burry's fund, and Michael Burry is based in San Jose, California. I don't know him, but I know of him. I contact him and said, "Hey, Michael, you don't know me, but I'm a fund manager and I'm going to be in San Jose, do you want to grab coffee? He said, yes, just come by my office. This is October of 2008. I go to Michael Burry's office and he's got these huge stacks of paper, and he doesn't even say hello, welcome, or any of that. He launches straight into CDSS. He says, do you know what a credit default swap is? I said, no, I have no idea, and I'm not even looking to know what it is. You know, I'm not interested. Then he goes into this detailed drill down with me on CDSS and CDS squared, and the tranches and how to short it, and how real estate's going to blow up and everything are going to blow up, and the whole

western world is going to blow up. This is the way you play it. Now all God could do is he could take the horse to the war. He took the horse to the epicenter of the best lake. The horse was too dumb to drink and it was taken to the water, but the horse did not drink. I came out of Barry's office saying, okay, that was weird, but what the hell, we're going to kind of move on. Of course, exactly what he was saying proceeds to happen. It was a kind of very interesting experience. I did not see the downturn being as severe as it ended up being. My way of investing is I don't spend any time on macro. I'm focused on businesses where those businesses might be growing, and that itself is a complicated thing. Figuring out the future of one business is complicated, figuring out the future of an economy, there are just a few humans that are gifted enough to do that. I'm not one of them. I would say that I was able to see the 2000 bubble mainly because I had made some private investments in 98, and 99 which were in effect participating in the bubble, and those had already blown up. By the time the fund started, I'd already seen the movie on the private markets. The public markets had not fully woken up to the fact that this whole thing was a pack of cards. I'm not going to be a guy who's going to be able to see. I would say that even Buffett and Munger say that sometimes things are obvious, and you can call it, I would say, bubble in crypto we can call it, you might even say bubble in snowflake and things like that. You can call some of those, but for the most part, usually, you don't get these extremely clear signals when bubbles are underway.

Rahul: On the 2020 piece, this is a question I asked, most of my guests, when did you first hear of this COVID, how did you think through it, what you should do, and what did you end up doing?

Mohnish: I did not understand the severity of COVID. If you look at someone like Bill Ackman, he got it. He got it well in terms of COVID and what was going to happen.

Rahul: He gave the whole controversy around it.

Mohnish: Yes. When the first news of COVID was hitting, I just thought, okay, this will be something where we might have a few weeks of lockdown, the virus will die out in the population, and eventually we'll have a vaccine. I did not expect anything spectacular out of it. When they deliberately shut down the whole economy that kind of blew my mind. I said this is worse than 08, 09, because 08, 09, we are not deliberately trying to. I mean, the shutdown of the US economy and global economy on purpose is unprecedented. It's never happened. We had the Spanish flu a hundred years ago. No one shut down anything at that time. It was not within my realm of ability to think that humans are going to deliberately shut down an entire economy. That just blew my mind. I think as COVID was unfolding I was as surprised as anyone else, and I was trying my best to try to make sure that the businesses that we owned were not going to get washed away. In general, one of the things to remember about our business, and I saw this with my dad when I was growing up, is businesses are very fragile. Almost all businesses are very fragile. If a business loses revenue for a month, something

like 95% won't be around after that. The mortality rate it's like cutting off oxygen. Bill Gates took the view very early in Microsoft that he wanted Microsoft to have enough cash so it could run for two years with no revenue. Microsoft built a cash reserve that matched that, 99% of businesses can't do that. They just don't have favorable economics, whoever generates that kind of cash or has that kind of staying pump. When you have something like COVID, you're shutting down things, and you're not allowing a business to get revenue. Airlines, hotels, and restaurants were immediate casualties. What saved a lot of them was this incredible amount of government support. But if we didn't have that support, I think the economy even today would be in terror. The policy response was exceptional. Mind-blowing. But for someone like me, I'm not good at these things.

Rahul: The economy offers a view on this, a lot of people believe they call the COVID trade, right? I believe they were just plain lucky because no one knew how it was going to turn out. They went out and in and they thought we timed it. It's a pure fluke. And I remember Munger stated because there was a statement from Buffett very quickly that he'll not be speaking till the AGM. There was no need to wait for Buffett to speak. But Munger, I think, did a call, or he spoke to CNBC, I don't recollect. He said, if we came out on the other side of this crisis with more cash than we have now, then that's the great scenario or something to that effect, basically plays utmost importance on having cash on the balance, like the point you're making, right?

Mohnish: Yes.

Rahul: Yes, and he has the visitor.

Mohnish: Yes, Berkshire. Berkshire is built. Just to give you an example, Berkshire's Cash is not in any bank.

Rahul: I know. I have a screenshot of that.

Mohnish: Yes. They've never had cash in banks, because Warren has had a perspective, even JP Morgan basically, that it's not safe. His perspective is he wants to make sure the cash is absolute, and certainly there, he's not trying to maximize the yield on it. It all sits in very short-term treasuries.

Rahul: Short-term treasuries. So, I have a March-April, 2020 snapshot of the presentation he made on the 1st of May.

Mohnish: Yes.

Rahul: I think it was 107 billion dollars of cash, or what is the amount, like a crazy amount of money, or in short-term treasury bills.

Mohnish: Yes.

Rahul: I thought, oh my God, that's the solution for everyone.

Mohnish: They've been running like that for 50 years.

Rahul: That's amazing.

Mohnish: Yes.

Rahul: Okay. Moving on. Do you recollect, which was the first investment that you made? First stock?

Mohnish: Well, there are two answers to that. I think some of your audience might care about some of the stocks I bought in India. In the US they were tech investments, mainly in software companies, because I was very familiar with them. We were doing a lot of services for relational databases, IBASE, Oracle, and others. I knew those businesses well. I knew what their growth engines were. We were generally invested in those types of things. Towards the end of 94, or early 95, I opened an account with Kotak in India. At that time, there was no Demat, there was no Kotak bank. My banking, which Kotak introduced me to, was Union Bank of India. They said, you're going to transfer funds to Union Bank, then Union Bank will give it to our security trading arm. We'll buy the stuff and custody of it. Then when we sell it, when you instruct us, we will send it back to Union Bank and they can send it to you in dollars. I remember I didn't put much, I had about a million dollars with me. I only invested 1% of that in India. 2%, about \$20,000. Half of that, \$10,000, I put into Satyam computers. This was probably about 10 years before anything was wrong with Satyam. Satyam was a perfectly normal company at that time. All the books and everything were clean. I knew the business well because I used to meet them; they were trying to do business with me. Their Biz Dev teams would meet me, and I could see how they were growing in the US. It grew by about 70, to 80% a year. But, if you remember the early nineties in India, mid-nineties, Satyam's market cap was less than the value of the Hyderabad real estate. So just the office space and all that they had, there was no value being ascribed to a business that was growing about 80% a year with high margins. I remember the Kotak analyst gave me a report that Kotak had done on Satyam. I looked at the report and said, "This is total nonsense. You don't even understand what the business is all about." The stock was at 40 rupees, and she had a target of 55 rupees. The Hyderabad real estate was something like 70 rupees a share, and it was making something like 10 rupees a share growing 40, 50%, 60% a year. Anyway, I put \$10,000 into Satyam. I bought four stocks in India at that time. I bought Satyam, Kotak, Blue Dart and Sky Pack, Sky Pack Courier. I was only going to buy Satyam, Kotak, and Blue Dart, and my thesis on Blue Dart and Sky Pack was very simple, that the Indian Postal system was useless. If you wanted to get a package from anywhere to anywhere, you had to use private couriers, and there were two listed companies at that time. It was Blue Dart and Sky Pack. As the Indian economy grows, these two are huge beneficiaries of that. As it turned out, Sky Pack went nowhere and eventually went to zero. They disappeared for the most part. And in January 2000, I got physical share certificates for all these talks. I just stuck them at the bottom of my desk drawer. I told myself that there is never a need to open this

drawer. We can keep this forever. I noticed that in January 2000, Satyam is trading at like 6,000 rupees a share from 40 rupees. It's gone up 150x. I told some relatives of mine to buy Satyam and so their whole day used to start in the morning by looking at the newspaper, what is happening. And I told them, "Listen, I'm going to sell Satyam because when I look at the math, there's no way to justify this valuation." No one understands the business. This company is growing to 50,000 rupees a share. It's going to keep going. They're trying to explain the IT business to me. I was also concerned because I looked at the share certificate that I had for Satyam; they're pieces of paper that are falling apart. So, I said, "I don't even know if I send it to India, these are fake or real or what, and I don't trust the Indian government will allow me to repatriate." I gave them 10,000. I'll be pulling out one and a half million on Satyam alone, forget the other stocks. I said, "I don't think they'll let me even pull the money back." I sent all the shares to Kotak and asked them to sell them. They sold the shares, and I got some 1.4 million in proceeds. Then I moved it to Union Bank, and I told the Union Bank to convert it to dollars in wire to me. the bank manager tells me, "Mr. Pabrai, it's nearly the end of the month. It'll make me look good if I do the wire like on the second or third, it was like the 27th." I said, "Please be happy. Wire it on the third. No problem." Third, the money is in my US account, no taxes, no nothing, everything's fine, all done. I thought to myself, "Wow, this works." Blue Dart, Sky Pack, and Kotak, for five years, had done nothing. They were just sitting flat. Like I told you, God loves me, but I don't think he loves me so much. He gave me 20,000 dollars in India, which became 1.4 million. I said, "These others are still sitting at 10,000, so fine, just close the positions, and move on." I sent all those shares to India, and I told Kotak to sell all of them, and again, I got my \$10,000 back. God loved me more if I had just paid attention. Kotak went up about 500x from there. I had put only about \$2,500 into Kotak, but anything at 500x is, is a big number. Blue Dart went up a similarly about 300-400x. I remember what happened is that they sent me one share certificate back a hundred shares of Blue Dart and they said, this is a fake certificate. So I said, "Mr. Kotak, you are the ones who bought these shares for me. If it is fake, you are responsible." They said, "No, no, we have no such responsibility. This is your problem." They don't have the same liability law as the US does. They send me these hundred shares and the hundred shares sat in my drawer for like 15 years. Every time I'd look at the shares, I'd say, I don't think this is fake. So by that time, I had started investing in India, and I had a relationship with Kotak, they are our custodians in India. I didn't tell them it was fake or anything. I said, "Look, I have a hundred shares of Blue Dart, and I would like to sell them." They said, "We need to Demat it and open an account." I said, "Okay, let's go through the process." So I went through the process, and they sold the shares. It wasn't fake. And I got about eight or nine lakhs for those hundred shares, which was around 300 or 400x, but it was a small piece of the pie. The big lesson I got from all of that is that when you find yourself in the happy situation of the ownership of the fraction of a great business, just like Munger says, just sit on your ass, there's nothing else to do. There was no reason for me to sell those things. Even now, we look at an investor like Rakesh Jhunjhunwala, a great investor who passed away last year. He had a

total of \$400 when he was 25 years old, and he started investing as a chartered accountant, and he passed away with 5.8 billion. He never managed outside money. He started Akasa Air, but none of the money came from businesses he started; all of this was on passive investing. In 2003, he put about 4% of his net worth into Titan, and he just kept it. That 4%, which was only about 3.4 million dollars at that time that he put into Titan, with dividends approaching more than 2 billion. So even if Rakesh was useless at everything else, the only thing he had to get right was the Titan purchase, and more importantly, the decision to hold. That's it. It's a very forgiving business.

Rahul: When I'm listening to you and you're narrating these stories, with humility. Many factors are playing into your decisions. But you talk about Graham a little bit, the Graham approach. You talk about how you pick stocks. You spend all those hours. Can you talk to us about 2, 3, or 4 things that are like really the key things one should look at to minimize the chance of going wrong, maybe in a stock-picking decision?

Mohnish: I think the best way to approach investing is what I would call anomaly-based investing.

Rahul: Okay.

Mohnish: Basically, we are in the business of looking at anomalies. We are in the business of looking at things that make no sense. Because we are in auction-driven markets, like what I saw with Satyam 95. It just made no sense on any metric that it should be priced like that. For example, a few years back, I started making trips to Turkey. Last year the Turkish market was up like 120% in dollars. It had a huge year, but even after going up that much, it is one of the cheapest markets in the world. No one has any interest in Turkey. The inflation rate is 80%. In 2019, I visited this company in Turkey where the market cap was 16 million dollars, 16, and the liquidation value was 800 million. The liquidation value was one of the easiest things to figure out. This company has 12 million square feet of prime warehouse space, which is 99% leased inflation index leases to people like Ikea, Amazon, Carrefour, Mercedes, Toyota, DuPont, etc; a pristine client list. To build a warehouse in Turkey, on average, costs \$80 a square foot. \$80 and 12 million square feet, that's 960 million dollars. There was 200 million of debt on their books. It's worth 760 million. The market cap is 16 million. I remember my Turkish friend, I had him take me to businesses he owned. I said, "I only want to see businesses that are already in your portfolio. Don't take me to some company you have not invested in." While we were driving to meet the owners of one of the businesses, I asked him, "Is it a fraud?" and he said, "No, it's good guys running it." I met the father and son who run the business. They came across as perfectly honest, smart business people to me. Smart. Not only was the value there. I spent an afternoon visiting all the warehouses and then I saw 16 million when I tried to buy it. There'll be no stock available, but, because Turkey is a market filled with gamblers, and the trading volumes are extremely high, people buy stocks at 10 o'clock, and sell at three. They're in the holding

period. That's it. They don't even hold overnight, it's a gambling den. Buffett has a quote. He says, "The stock market is a mechanism to transfer wealth from the active to the inactive." It could not be truer in Turkey. I started buying the shares, and for about less than 8 million, I got one-third of the company. At the time when I was buying the shares, it was five liras to \$1. Today it is 19 liras to \$1. The lira has collapsed. In dollars, the market cap has gone from 16 million to 350 million in the last four years. Now, what happened to the liquidation value, I was just in Turkey for two weeks, is it's at least one and a half billion now. Rents have gone up a lot. Building materials, prices have gone up, all these things have gone up. So the price has moved up, but the value, and they're very smart capital allocators. They've done a bunch of smart things and they've increased the value. So even after we've had this big run-up, we still have something that is trading at like one-fourth, and the thing is, they will keep increasing the value of the business. All these years of all these arrows in the bag that I've taken, what I've learned is this company in Turkey, we just have to do one thing, which is never, ever sell it, it's very boring. It does nothing. It just sits there. We are happy to let it sit there. It doesn't matter what the lira does because cement prices go up and steel prices go up, concrete prices go up and land prices go up and rents go up. It is automatically inflation-indexed. In Turkey, there's one business after another like this. I'll give you another example. We have a company in India called Varun Beverages. Varun is the Pepsi Bottler for most of India. I think other than Andhra and Kashmir, they have the rest of India. I think the last time I looked at the market cap is about 11 billion dollars. Their volume last year was a little less than 700 million cases. So just remember that 700 million cases and 11 billion, and it's growing, it's a great business and it'll grow a lot. There is a Coke bottler in Turkey that is bottling for Coke, but it's not just bottling in Turkey, it's bottling in about a dozen countries where they have exclusive rights for the whole country. One of the countries they have exclusive rights to bottle is Pakistan. In Pakistan, 51% of the co-bottler is owned by the Coca-Cola company in Atlanta, and 49% is owned by this Turkish company, okay? Coca-Cola Enterprises in Atlanta recently agreed to sell 51% to this Turkish company for \$300 million. The Pakistan bottler was valued at 600 million, and a half was sold for 300 million in Pakistan the Coke bottler volume is 400 million cases a year. Varun is a little under 700 million. Let's double it. 600 million is the value for 400 million cases. 1.2 billion for 800 million cases. They may be some differences in growth rate, but the bottler in Pakistan is sitting at 10% of the valuation of the bottler in India and Coke is a better brand. Between Coke and Pepsi, people will go for Coke. It's the more dominant, better brand. Now that Coke bottler in Turkey has operations in all these countries, including Turkey. The market cap of that business, which is about 1.6 billion cases a year, is 2.8 billion. It is one-fourth of the value of Varun beverages at almost three times the size. It's an anomaly. One of the three things is true; Varun is overvalued, the Coke bottler is undervalued, or a combination of the two. When we can look at cash flows, we can look at many other things. But the thing is that even in Pakistan and India, the per capita consumption of Coke and Pepsi is extremely low. If we fast forward 10 years or 20 years, the per capita numbers will go up a lot. The

population will go up, and all of those numbers will change. In both places, it's a good business. Varun may even grow faster because Pakistan's having all kinds of issues, but 10 to one difference in value. One is trading at 50 times trailing earnings, and the other is trading at nine times trailing. What we are looking for in investing are things that when you look at them, you say, you are astonished. If you don't get astonished when you look at a stock about something, just pass, and wait for something else that astonishes you. Because in auction-driven markets, you will find astonishing things. It'll not happen every day, every week, or every year, but you only need one Titan. You only need one racer. One Coke bottler, you don't need too many things, one Blue Dart, just focus on the astonishing.

Rahul: I love the way you put that. You mentioned that you quoted Charlie Munger "Just sit on your ass" after you bought the stock, right? But there does come a time sometimes when you must sell stock. So, when and what sort of signal do you look for to know that's time to get rid of stock?

Mohnish: Selling is a lot harder than buying.

Rahul: I've heard that in many podcasts.

Mohnish: I have made more selling mistakes than buying mistakes, okay? What I have learned after all these arrows in the back on selling is basically to be extremely reluctant to sell. If a company's valuation is fully priced, it's not time to sell. If it's overpriced, it's still not time to sell. It has to be egregious, that you cannot come up with any way cash flows and the valuation to bridge the two with even heroic assumptions. A business is worth the sum of future cash it'll produce. Now till judgment day, discounted back, if some company is earning 1 million dollars a year and the valuation is 200 million, you bought it for 8 million, now it's 200 million, it probably should not have been sold at even 30 million or 40 million or 50 million because that is within the realm of reason past a hundred million, 150 million to you can let it go. It must be extreme. We need to be extremely averse to selling. Now, if we have bought something where we have very clear evidence, the business is low quality, the people are low quality, and the competition is intense, then absolutely you can. The important thing with selling is separate the signal from the noise. So when you are convinced you have a real signal and you don't have noise, a company can have a bad quarter, two quarters, three quarters, that's noise. But if there is integrity or management in question, if competitors are eating their lunch and they've kind of lost their competitor advantage, they're no longer the low-cost producer. When things become secular, and you're convinced they become secular. One thing about selling is you don't need to rush. You can be sloppy on the selling. If you find something is overvalued, take your time to convince yourself that it's truly egregious. If it's just simply overvalued, don't do anything.

Rahul: Good advice.

Mohnish: It's a great way to make your broker starve.

Rahul: I know we don't have much time and I have a bunch of questions I have to cover with you. What are your thoughts on investing beyond stocks? Do you do gold? Do you do property? Do you do debt? Is there anything else that comes to mind that you think people should look at and try and study and get good at it, to make some money?

Mohnish: There's one thing very unusual about the stock market, which does not exist in other markets. Stock markets are auction driven. It's buyers and sellers coming together in a marketplace and setting prices. Auction-driven markets have a very specific peculiarity. They get depressed at times and they get euphoric at times. If I just randomly throw a dart at any stock listed on the Mumbai stock exchange, and I look at the 52-week range on that, it'll be like 60 to 130 or a hundred to 250. Even if you look at Reliance or any blue chip stock, you'll see a pretty wide range between the 52-week low and the 52-week high. Let's say I have a real estate broker friend of mine, and I own an apartment in Mumbai. In Khar. I tell my broker friend, "Listen I'm going to call you sometimes, just tell me what my flat is worth." He says yeah sure no problem.

So you call him on January 1st and he says the flat is worth six crores, and you're feeling really good. You call him the next day and he says it's worth six crores. Then you call him on the third day. He says, "Listen, idiot, it's still worth six crores." Because he's your friend, he tolerates you every day the stupid call you make to him. Every day write down the price he gives you. Finally, after 30 days, he tells you there's a movement. It is 6.1 crores. You write down the 6.1, and you keep calling him. When you do the whole analysis for the whole year, the price of your flat has varied between six and seven crores for the whole year at the most. It has not gone from three crores to nine crores. But if that flat was sitting inside a listed company, it would be between three and nine crores. Taking the same asset and converting it into pieces of paper and shares and all that causes this attenuation. When we look at non-auction-driven markets or non-auction-driven assets, let's say for example, I'm a private equity investor. I'm buying and selling whole businesses. What's going to happen is I'm going to be facing an intelligent seller. It's an intelligent buyer facing an intelligent seller. Unless there are like crazy things like COVID or something going on, you will end up with an intelligent price, otherwise, there'll be no deal.

When I was looking at this company in Turkey, which was a 16 million market cap, I told the owners of the business, I'll give you 25 million, please give me the whole business. They would've just laughed at me out of their office. But in the market, it's available. The whole business cannot be bought for 25 million, but 10%, 20%, and 30% can be bought at that place. The only time I have that doing something other than auction-driven markets is because I think they, this nuance of publicly traded stock exchanges, all of that gives us a way to invest, which is not available in all other asset classes. It is not available in gold. It is not available in buying whole businesses. The one time I used this knowledge for other purposes was in the nineties when I was investing in tech, I used to notice that some software companies were trading at a very high market. I knew they

were growing a lot, but the trailing P/E was more than a hundred. The company is growing by 30, or 40%. Maybe it is undervalued possible, but I can't bring myself to pay a hundred times trailing earnings. But what I took that signal to mean is that it has high growth.

There was a company called PeopleSoft HR Software. It required a lot of customization to implement in Fortune 500 companies. I decided I will set up a PeopleSoft practice only because I saw that the valuation is so high. Now, I don't even know how to spell PeopleSoft. To do PeopleSoft practice, I need to have a practice leader. And a practice leader at that time would cost like a quarter million, 300,000. I decided in my business, I will take a chance. I said, "300,000, we can take a bet if it doesn't go, we will see." I placed an ad for a PeopleSoft practice leader, and within a few days, I got connected to a guy who looked exceptional. A great guy, Paul Yates. We gave him a quarter million base salary and some upside. He was going to start in two weeks. When he started with my company, I have no business in PeopleSoft. On day one, it is going to be burning 20, 25,000 a month. One week before he starts, Paul Yates calls me and says the client where I am working is asking if my new employer will give me to them on a consulting basis to continue working on. So I said, "Paul what would they be paying?" He said they will be paying about \$3,000 a day. So I said, Paul, tell them, yes. Paul has not started with me yet. Every month the billing is going to be 60,000, okay and in a year, it will be 700,000, like expenses, 300,000. If I look at the actual amount invested in the PeopleSoft practice, it was like a thousand dollars for an ad. I have only invested a thousand dollars, which I will make back on the first day that he starts working, and his payroll will be paid later. I am not even paying the payroll till he has worked. In the meantime, I already built the client collectively. Then after a week, Paul calls me again, he says the client wants me to manage a team of about a dozen developers, and he is asking me if we can provide a team of 12 PeopleSoft developers. So, I said, "Paul do you know PeopleSoft developers?" He says, "I am the president of the user group in Chicago. I know a dozen guys whom I can bring." So, I said, "What will they be paying for each of these guys?" He said, "About \$2,000 a day each." I told him to tell them, yes. We hired these dozen people for a hundred, 150,000 each, and they all came to work too. What I realized is that better than investing in the stock market is just looking at the highest P/E software company which needs services and starting that service practice because it tells you the growth is very high. I started doing that. Then we set up a business objects practice, and so suddenly the IT business is on steroids, because of this stuff. That is the only time when I took data on the auction-driven market, and I didn't invest in those companies, but we made more by not investing. That was the only time when I kind of used it weirdly. But I would say that one of the things about life is that you want to specialize. You want to be an inch wide and a mile deep. We have a mouse trap, we have auction-driven markets. We don't need to go hunting in other less favorable pastures.

Rahul: This PeopleSoft story that you tell us, is like your father finding opportunity gaps. You found an opportunity.

Mohnish: Yes, but I found the gap because I was an investor.

Rahul: Investor, yes.

Mohnish: I knew the company was great. I knew the stock was great, but I couldn't buy the stock, because I just couldn't do that.

Rahul: Fascinating. Do you have kids?

Mohnish: Pardon?

Rahul: Do you have kids?

Mohnish: Yes. I have two daughters.

Rahul: Two daughters. How do you teach them about money and do they listen to you? Do they sit down with you and try and absorb all your life learnings or invest in how to manage money?

Mohnish: I will give you an answer because it has worked out beautifully. I think about 25 years ago there was this guy, I was in this group in YPO and this guy had come to talk to us; Bill Harlow. Bill had been part of a buyout of a chemical company from his employer. Eventually, that got sold. He ended up with like 60, 70 million dollars. He did well. He had, teenage kids. What he did was when they were approaching 18, he walked them into Goldman Sachs, opened accounts for them, and put 6 million dollars in their account, and he said, "This money is your money. You have full control of this at 18 to do anything you want with it. You can buy Ferraris, buy drugs, you can use it for education, whatever you want." He told them. "The reason I am giving you this money at 18 is that I don't want you to make career choices based on what pays the most or based on what people are saying, you should do this or you should do that. I would like you to make career choices based on what you are most passionate about. So you have enough money to live a comfortable life, even if you have a profession which doesn't pay very well." And when Bill Harlow came to talk to us, his kids were already in their thirties. He said, one guy did a Ph.D. in physics, and then he went to teach physics in high school. He wanted to teach high school kids. He says the high school physics teacher, that doesn't get paid much, lives in a \$2 million home, and he loves his life. The second son did a master's in architecture. He has an architectural firm and doing fine. He did not want to set it up so that the money was dribbling out to them at 30 or 35 or 40. Inheritance is only relevant to the person receiving it. If it comes very early in life, later in life it has no meaning. We really can't do a whole lot with it. What I had done with my daughters is when I heard the story, I liked it. We have this law UGMA accounts, The Uniform Gifts to Minors Act. Where we can give \$15,000 a year. It used to be about \$10,000 a year for each parent to each kid or anyone who want to, and it

is tax-free. I set up these accounts for them, and I used to invest the money in like three, or four stocks in these accounts. The way the UGMA account works is that 18, they get full control, just like what Bill Harlow did. What happened with these accounts, which we were putting like 20, 30,000 a year in, is that they have done well with the investments and it was a solid seven-figure sum in both their accounts. And when they were about 12 or 13 years old, I sat them down and explained to them that this account is there. I also explained to them that beyond this account, nothing else is coming to them, and it is a sizable amount. I said, even if we are not doing well, your college is covered; exactly what Bill Harlow told his kids, I told my kids, which is basically to pick professions based on their passions. Don't look at what is the flavor of the day or what people are saying or what will be good to talk about or any of those things. It worked out beautifully. My younger daughter is going to finish her Ph.D. in psychology in a year and a half. She wants to be a therapist. For her Ph.D., she wanted to support herself, so she never bothered with the money or anything else. The older one has started an investment fund. I never talked to either of my kids about becoming an investor. I always told them to do what they love. It is not like the apple didn't fall far from the tree. It fell directly under the tree. She has very good instincts and raising money and doing well. I think that will work out well. I think as parents, we have 18 years to transfer values. If we have not transferred values in that period, you can give them nothing and you still have a problem. On the other hand, if the values are transferred then the money is going to end up being a huge positive. All their friends have pursued all these STEM degrees. Both never went down that path. The degrees they went to, the schools they went to, they just looked at what they were interested in, and they just went down that path, which I think was excellent.

Rahul: I find that very fascinating. I thought you are going to go in some other direction when you spoke about the Bill Harlow story, but it is a complete revelation. Thank you for sharing that. I have got two quick questions. I am going to keep the last one about giving money. That is the most critical question I have to get to you. But before that, talk to us a little bit about reading and multidisciplinary reading and give our listeners some advice on how broad should it be, how global it should be, and how they can use that reading process to become better versions of themselves.

Mohnish: I am buying books all the time. I read something that some guy recommended or some podcasts. Probably more than half the books in my library have not been read yet. There is a large amount that I have not yet gotten to. A lot of books that I pick up to read, I don't finish, they just don't appeal to me. I just go through my library looking for something interesting to me at the time, and the book has to draw me in, in the first 10, or 20 pages. If I don't get drawn in, I will just move to something else. It is a very magical feeling when you are reading something and it draws you in. Investing is a very broad discipline. The kinds of things that affect the future of a business are just a huge broad array of factors. Understanding humans, understanding human psychology, understanding

nuances of what type of business is likely to do well, have staying power, all these things just so, so you could be reading a book on some political leader or could be a book on health, or you could be reading a book on some business biography. All knowledge is cumulative. So the most important objective in reading for me is having fun. I have to enjoy what I am reading. Just like I try to enjoy my day. I work on things that are interesting to me. I don't believe in retirement. I will never retire. I could have retired, never worked after I was about 33 years old. From 33 till now, there was no reason for me to work for money, but it would have been a terrible life, a useless life. Every day I choose to do the things that I want to do, and reading is also a choice. Different things come up. I am very biased toward business biographies. That is my favorite genre, but I am reading a lot of other things as well. Recently I read a book on Munjal, Hero Honda, and it was written by one of the kids. It was a great read. I think just that journey that they took was one of the things I learned which was a revelation to me that we think bicycles are very low-tech. The idea with the Munjal was that here is this, you know, multinational Japanese conglomerate Honda, they bypass all the main large Indian conglomerates when they are looking for a partner and they partner with a bicycle company. That is a fly in the face of logic or rational anything. They would have met the TATAs, they would have met all these players, and they bypassed all of them. What I learned when I read that book is that a bicycle is not that simple. When they broke down all the different parts, there is a lot of specialization. We take it for granted because it is so mature and there is so much supply chain. In the early days, they had to, many times, make those parts themselves. They got a lot of expertise. The brand's transition from a bicycle to a motorcycle, especially when they are getting a collaboration with Honda, was a relatively simple one for them. What was very important to Honda was family values, and that was really what Honda was after. They got some great values and it was a great partnership. I think to me the biographies are the best.

Rahul: I love biographies, by the way. My last question to you is to tell us about the Dakshana Foundation. I hope I am pronouncing it right. I see it on your Twitter thread, you posted a letter Warren Buffett had sent about the annual report of Dakshana. Just talk to us for a few minutes about your thoughts on giving on Dakshana, and what you are trying to achieve. Hopefully, it will be an inspiration for some of us who are listening and viewing, and maybe start that journey sooner than later.

Mohnish: I think the genesis of Dakshana came from this notion that I read with Buffett where, he was talking about the fact that large inheritances, do more harm than good. He was saying, "I want to give my kids enough money for them to do anything they want, but not enough money to do nothing. "What is that number, it is a kind of interesting question, but, you know, large inheritances will end up robbing the person of leveraging their capabilities. What we tried to do with my daughters was give them a sum that would give them a push in line but it wasn't like it would be an IV drip for their whole life. Buffett says if you are

Jesse Owen's son, the sprinter, you are not going to become the best sprinter if you start a hundred-meter dash of the 40-meter line. He said, it is okay to put your son at the 10-meter line, but not the 40-meter line. I knew that basically with the compounding journey, we would end up with more money than we needed or could consume in a lifetime. The only thing you can do if you are not going to give it to your gene pool is to recycle it back to society. Giving money away is more difficult than making choices like poverty and education and healthcare and the environment. All of these are very complicated problems. It is tough nuts to crack. With Dakshana, what I wanted to do was, I wanted to start early in life so that I got some experience. I wanted to take the arrows in the back and get better at giving.

So Dakshana started when I was 42. The idea was to give 2% of my net worth every year, and it was designed to be like a tuition bill, pay tuition, so you learn, as it turned out, we got immediate traction, and we got some great people in India and Dakshana just took off. It has a great model, and it was a great model coupled with a great team. I did not have that much to do with it other than the funding and the direction. I am not based in India, all the operations are in India, and it is a fairly large team now. What we are doing is identifying very bright, but very poor, 16 to 18-year-olds. Then we prep them for one or two years, and they take the IIT or medical entrance exams. The IITs have a 1.4% admit rate, and we get 60 to 80% of the kids into IITs. Our admit rate is almost a hundred percent. In medicine it is similar, the rate is pretty high. We spend about \$3,000 per kid, that is approximately what it cost us over one or two years for each kid the transformation over five or six years in the family's wellbeing. Typically, these kids are coming from families where the income is less than 6-7,000 rupees or less than a hundred dollars a month. They are rural and quite poor, and they will graduate and be making 5, 7, or 10 lakhs to start. Then it just keeps going up from there. It was just a very no-brainer.

If I see that there is a family making, let us say one lakh a year, and I tell you, Rahul, I will make their income, five lakhs it cannot be done. You could try various things. What we are doing is we are selecting families where the kid is very bright, so their income is low, but the horsepower, raw horsepower is very high. Then we are harnessing that horsepower and connecting it to the global economy. Once we harness that and connect it, we can easily take the income to five or 10 lakhs. That engine works if you harness the brains and you know, we are spending \$3,000, the government spends on a subsidy basis, one in a quarter crore for each kid at IIT, over four years. That is the tune of the government's subsidy. The government is spending about north of 20,000 crores on the IITs. So the two or three lakhs we spend is matched like 30 or 40 to one by the government, which is why we can lift, and what is happening with Dakshana is that we can redirect that money from the middle class to the poor, and so it is utilizing those funds by the government in a better way.

Rahul: Fascinating. You know, it is always inspirational to hear about such efforts. Congratulations to you and your team here for doing this. How many years have you been doing this now Dakshana?

Mohnish: Dakshana started in 2007.

Rahul: 2007. Wow.

Mohnish: Yes.

Rahul: Oh, you celebrated 15 years.

Mohnish: Yes. It is almost 16 years. Yes.

Rahul: Wow.

Mohnish: Yes, time flies. And our oldest grads are in their thirties.

Rahul: Wow.

Mohnish: Some are making more than half a million a year. We have some that have quit IIT and done startups, and they have been funded by VCs. A lot of good things going on.

Rahul: Those reunions and all would be fantastic.

Mohnish: Yes. It is a great alum network. Yes.

Rahul: Wonderful, wonderful. Many congrats once again. Since I have you, is there any one idea of thought you would want to leave our listeners and visitors with?

Mohnish: Well, I would say that an important idea to keep in mind is the magic of compounding. Einstein calls it the 8th wonder of the world, compounding the 8th wonder. If you think about compounding, three factors drive the result, starting capital, the annualized rate of return, and the length of the runway. If you have a very low rate of compounding and you have a very low amount of starting capital, but the runway is long, you will again, end up with astonishing results. There is an interplay, we don't have the time to go into it, but there is an interplay between these three factors where a modest amount of savings every month going into a SIP being put into an index fund and just done over a lifetime and you are suddenly going to wake up and you are a wealthy guy. It didn't need to do a whole lot, didn't you save a whole lot? It all just worked out. In that case, it is the length of the runway. Starting early is important. Having a savings rate is important. Then the rest of it is just the magic of compounding. You don't need to be a stock picker. You don't need to find an investment advisor. You just buy the midcap or small-cap index and you are done.

Rahul: Mohnish, thank you very much for taking time out. We overshot our timeline, so thank you for accommodating us. It was wonderful talking to you. It is a dream come true.

Mohnish: Well, likewise, I had a lot of fun and I look forward to the final clip when we release it. That will be great.

Rahul: Great. Thank you, Mohnish.

Mohnish: All right, thank you. See you. Bye.

Rahul: Thank you.

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