Mohnish Pabrai's Interview at the Meb Faber Show on July 28, 2023

Meb: Mohnish, welcome to the show.

Mohnish: Meb, it's a pleasure to be here. It's been too many years, so I'm looking forward to it.

Meb: Just got back from two weeks on the road, so I'm a little out of sorts.

Mohnish: Where were you at?

Meb: My family, my mom's side is from North Carolina, and they do an annual trip back to this tiny little beach called Topsail Island. We went there and saw a bunch of family, Winston-Salem. Have you ever been to North Carolina?

Mohnish: Well, I went to Clemson, so I spent a lot of time in Carolina.

I always felt when the Clemson Carolina game took place that everything changed. I mean, it literally, like the sky color, changed. There's no other day like that. There's no other football game or anything else you could go there to that would give you that. The whole place felt completely different.

Meb: I remember receiving a $2 bill when I was a kid. I have never seen a $2 bill, but it had two orange paw prints on them. I assumed that's what came on the $2 bill. I probably still have it somewhere. I don't even know the answer to this. How'd you end up in Clemson?

Mohnish: Oh, just very random. When my brother and I were coming to the US to study, we had one distant relative and my parents asked, "Hey, the boys are coming. What school should they attend?" This guy had done his PhD at Clemson. He said, "Oh, of course, they should go to Clemson."

Meb: So funny and ...

Mohnish: That's how I ended up there. I got parachuted into Clemson from Dubai and India, and I never realized a couple of things. One is how pretty that part of the country was till I left because I just assumed this was the US and all of the US was like this.

Meb: In a slightly different, multiverse timeline. You would end up being an agriculture guy. Like, that was a very big Ag school, right?

Mohnish: Sure, yeah.

Meb: How'd you not end up being a farmer? That could have been a different path for you.

Mohnish: I didn't even know what to study. People say computers are hard. I studied computer engineering and that was that, and I just kind of drifted through. I didn't have a good idea of what I should be doing or what I should be studying, so I was open to suggestions.

One of the things that happened to me at Clemson is I had a deep interest in economics, and the accounting business in general. My father was an entrepreneur, so I tried to take as many elective courses as I could in business school. I used to just look at whatever I could take in business school just because I had an interest. I remember I was taking an investing class. I was a junior or something. This was 1985, and the markets had just started to turn. 82 onwards, they started to rise. The professor got us all a student subscription to the Wall Street Journal. I remember he was doing these case studies like Disney for example. I was just surprised how cheap things were and I had a, 106% average in that class going into the final. The professor called me to his office. He said, "I was really surprised and looked you up. You're not a business major and you are topping my class. I called you here for two reasons. First, you don't need to show up to the final, you have an A so you're exempted from the final." I said, "Okay, that's great. One less class to worry about." He then said, "The second reason is I think you're in the wrong major. I don't know what kind of engineer you're going to be, but I know you'd be great at investing." My perspective at that time was that these business school students were so stupid. They were so dumb. My perception as a 20-year-old was when I used to go and take my engineering classes, I was challenged. They were tough classes, but the business school came so easily to me with a cakewalk. I'd say, I can't have a major with these guys, that'd be terrible. I just said, "Thanks for the input, but I'm just going to stay where I am." Then after I think nine or 10 years, I heard about Buffett for the first time. I then did a pivot about 13 years after graduating. It's funny. I went and caught the ear around like this instead of just going straight. That was kind of funny.

Meb: That was another serendipitous, right? You came to Buffett just by grabbing a book, right? I feel like I almost remember you're on an airplane and just grabbing a book or something. I wonder if you end up grabbing some other book, maybe a romantic novel or something, you'd be a romance novelist at this point. I don't know. But it's funny.

Mohnish: No, I think the data points were already there when I was doing my undergrad. I really liked the stuff. It's just that I had a mental block, and I didn't know what to do, going into investing or whatever. I knew that I was on a student visa. I needed to get a job. It would be easy for an engineer to get a job. It's really after a few years that I realized that no, especially when I read the first Buffett biography, I felt like a lot of it was speaking to who I was. I found a lot of commonalities about eight or nine years before I heard about Buffett. I have started playing Bridge and I love playing Bridge. Then I found out that he was, even now, playing Bridge three, four nights a week, and Bridge correlates a lot with investing. I was always drawn to probabilities and math, and I grew up with an entrepreneur father, so I was always around business and all that. A mix of all of that just worked for me.

Meb: It's funny about the Bridge topic because I'm 46 and I feel like there's a line somewhere around here where the generation that's slightly older than me, all the way through my parents' generation plays it. My parents met while playing Bridge. I have never played Bridge in my life. I played every card game. I grew up playing what my grandmother called 21, blackjack, spades, poker, and on and on. I love playing games. By the way, Mohnish has a request on Twitter listeners for a solid Ringer Bridge partner. What was the request to play the Swiss team or something?

Mohnish: Yes, I just spent a week in Chicago. The ACBL (American Contract Bridge League) has three national conferences every year in the US: spring, summer, and fall. It's the first time I went to a Bridge tournament in like 20 years. I'd been busy with the family playing online, etc. I hadn't gone to Live Bridge in a long time. I said, "You know what, I'm going to take a week off and just go play Live Bridge." I didn't even know whether I would like it because one of the problems with playing Live Bridge is it's a lot slower, online everything is slower. You must do it at their timing. You must go to a particular place. What I found is that it was a blast. I mean, I had a great time, and I didn't have a partner, so I had to pick up a partner at a partnership desk, and I didn't want to. There are many different Bridge games, but you can play pairs where you and your partner play a bunch of other people or you can play teams and it'll take some time to describe, but it's a 4-person team. I had a partner, a good guy from New York, and then every day we were finding two others to make up our Swiss team, which is a particular kind of game, that is difficult to play online. You must play in person. Swiss teams are just a blast. The format is good. As I said, what would enhance this is if I had a regular partner because Bridge, it takes to build compatibility and understand what your partner means, and all of that can take years. I said, "If I can find a great partner and then we can have a great team, four people who play two, three times a year at these national tournaments, it would just be a blast." The funny thing is, what surprised me, I have 188,000 Twitter followers. I have 50,000 followers on LinkedIn, and I have about 5,000 on Facebook. Not one person I sent was shocked. I thought I'd get inundated. and this is a smart investing crowd. The people who follow me on Twitter are interested in investing and zero. I was just shocked at that. Even when I go to the Bridge tournaments, I see a few young Chinese kids. You see 12-year-old Chinese kids, 15-year-old Chinese kids, you'd see a couple of Indian nerd kids, but then the rest of the crowd is over 70, over 80, oxygen tank, over 90.

Meb: What is the reason? Because other games translated to the younger crowd. Poker certainly has had its moment. I mean, a lot of interest in clear games in general. What about Bridge?

Mohnish: I don't understand it. I think it's such an amazing game. It's a game that you can never master in your lifetime. It's a game that would give you so much joy and pleasure. I think the thing is for the younger crowd, there are so many options that weren't there for your parents. The range of options with video games and everything else that they can do with all the distractions, with the phones and all that, the interest level is not there, which is sad. It's a really good game. It's a wonderful game, and it's a game that'll give you a lot of pleasure. I was really surprised that it happened to me. I feel like Forrest Gump, that I spent a few years playing Bridge with Charlie and his friends. I have to pinch myself because that was a blast and a half. One time quite accidentally, I played Bridge with Warren. The thing with Bridge is that when you're playing with someone, you have to have an understanding. Warren and I start playing together online and there's a chat box. You can even chat with your partner and others. I'm quickly trying to message him, trying to get his conventions and he's saying, “I kind of play that I don't play this and that,” and I'm saying, “I'm going to blow this game so badly that he's number one. The funny thing is, the other two people we were playing with had no idea that it was Warren Buffett playing. because his handle is T-Bone and people don't know T-Bone is Buffett.

Meb: They do now.

Mohnish: We whipped. Amazingly, I didn't screw up. We did well. Three days later I got a message from Buffett's assistant. When you play online, you can go back and review all the hands. You can do everything. There's a record of it. which you can't do in Live Bridge. I got this long email from his assistant Debbie, saying, “Hey, Warren enjoyed the session with you. He was impressed with the play, especially board six. The way you did the bidding, and then the kind of end play with the hands and all that. I said, “He's got a zillion other things to do. He's going back and reviewing the hands.”

Meb: Come on. T-Bone was going through those. He is saying, “Mohnish board four. We may have to evict you as the partner. Your bidding was a little suspect.” That's funny.

Mohnish: Exactly.

Meb: Well, I'll try it. I've never played, but I love games in general. If you were to go back and teach, I know you do a lot of student Q&As and talks, but one of the things is that we don't teach money in schools in the US. I think it's up to maybe a third of high schools teach some form of personal finance and investing is sort of like a rounding era of that. What would your kind of idea or advice be as you talk to who you know, your kids, your friends' kids, and college students today? How do you put them on the right path? Or if you're an administrator of Clemson, let's say the president of Clemson and was asked to lay this out the right way. How would you think about it? What would you say?

Mohnish: I think the correct age to start this is in high school. I think 9th or 10th grade is just perfect. It's a big failing of the education system that it's not given because it wouldn't take much time. It would not be a very long curriculum or course, or even a discussion. The important thing to get across is the power of compounding. What Einstein says is the 8th wonder of the world. The thing about compounding is we are all taught compounding in math. We understand from a mathematical point of view what it is, but from a money point of view its impact on your life point of view, because it's on a log scale and because of how the numbers change over the decades, no one ever goes through that. The simple thing about the rule of 72 about telling people is “Look, if you have a 10% return a year, your money doubles every seven years. If you have a 7% return, it doubles every 10 years. Even if you get a 7% return, the power of starting early, basically it's how many doubles. We know that, but high school kids need to know that. What is lost in all of this is that if an 18-year-old is fully familiar with this and he or she knows they have a 60, 70, or 80-year runway, you are even doing around 10% a year or something around that. You could have close to 10 doubles in a lifetime. 10 doubles mean 1024. Whatever you save at the age of 18, it's multiplied by a thousand. If you saved a thousand dollars when you were 18 that would be a million, 70 years from now. At 19 you would save some more, and at 20 you would save some more. The important thing is about spending less than you earn, putting it into a compounding engine, and not messing with it. People have 401 Ks, they leave their jobs, they go to Hawaii, they pull all the money out, they pay a penalty, and then it's gone. By the time they get to 70 years of age, their 401 K is $40,000 or a hundred thousand dollars and it should be in the millions. This is such a simple low-hanging fruit.

Meb: There's this obvious challenge, which is my 18-year-old wants an iPhone, a new truck, go out with friends, wants to go on a spring break, a new surfboard, whatever it may be. There's the allure and seduction of the hedonic treadmill. There are the people that get it, so let's ignore those that there's a certain percentage that hears that statement. They hear you talk to their high school class and they're like, "I'm in like the Buffett inoculation." They heard it once they were in. But for the vast majority of everyone else, having a failure nudge behavioral system in place because a lot of it right now is opt-in, as far as retirement.

Mohnish: The first thing is it becomes an opt-out. The 401 K money gets taken out. You don't get to see it. It goes automatically to an index if you do nothing, and you cannot take a loan against it unless it's important there's some real hardship and it's complicated to opt-out. You just put those pieces in place and the employer match goes in and you cannot even pull out no matter what. It's too easy to shut off the engine today or not even start it.

Meb: There seem to be ways that the capitalist free market could solve this, presuming the government doesn't get its act together. But TBD.

Mohnish: What doesn't happen today is even when people join 401 Ks, nobody explains the logarithmic nature of compounding. They just say, "You do this and you get 10% a year," and no one connects the dots. It's that piece left hanging to figure it out on your own. Even for me, I was always great at math and all that, it was surprising, when I studied it and I looked at it and I looked at Buffett and looked at what he had been doing. It was a revelation for me. I was always good at math, and I always would've probably understood all that, but I still never really properly understood it.

Meb: Well, let's use that as a segue. I want to hear a little bit about this big school initiative that you've been doing. How long now? It has been 10 years now.

Mohnish: It's now 16 years.

Meb: Wow. I was watching one of your YouTube videos and it was fun because the comment sections, which for some reason on YouTube are very pleasant now. One of them was a doctor who said, "I had been through this program," and I thought how amazing it was to read that. Finally, the fruits of doing this for so long. Tell the listeners what I'm talking about and give us kind of an update, an overview of what's been going on there.

Mohnish: Our oldest alums now are 32 years old, and they're starting to make their mark, which is fun to see. The idea is that we identify very poor kids who are bright and we identify them between the ages of 16 and 18. We spend one or two years with them, and we prep them for the engineering and medical entrance exams in India. One of the things about India is that the engineering and medical schools are really good. They are run by the government and they are pretty much almost free to attend, basically very heavy government subsidy. But getting into those schools is hard. It's very competitive. For example, the IITs, Bill Gates says that if he was only allowed to recruit from one school, he would only recruit from the IITs; the Indian Institute of Technology,

Meb: I've worked with a couple of IIT guys and they are smarter and more capable than I am. They can negotiate every single possible thing in the world, even when you're not even supposed to be negotiating. They are extremely capable.

Mohnish: Well, there are 1.3 million kids, 18-year-olds who take that entrance exam for 16,000 seats. It's a 1.3% admit rate. If I look at Princeton, it's a 5% admit rate. Harvard is a 5% rate. The thing is that they will give priority to legacies and they give priorities to all kinds of donors and whatever else is going on, which now they're getting clawed on the head by. On the other hand, the IITs are purely a quantitative measure. It doesn't matter if you are the Prime Minister's son or the daughter of the richest person in India, or how much you're willing to donate. It's based on your test score on that test. That entrance exam test is the hardest in the world. If you score 34% on that test, you have a seat at IIT. You just need to get a third correct.

Meb: That kind of makes me want to take it right now. I'm a little curious to see how bad I was.

Mohnish: They have negative markings too. The thing is, if you get a wrong answer, they ding you. They take away a quarter point for a wrong answer. 70% of test takers end up below zero.

Meb: Oh my God, that's so demoralizing.

Mohnish: They would've been better off just turning in the empty paper. Anyway, the thing is that we identify these kids. Most of these kids have illiterate parents, kind of laborers, farmers, and so on. The parents don't even know what we're doing with the kids. We bring them into a boarding school system so we can completely have control because they don't have electricity, they don't have a desk, they don't have a computer, there's nothing, there's no infrastructure where they're at. We bring them to our centers, which are fully equipped. We've got the best faculty, the best of everything. Our testing is good in that we identify that they have horsepower, and then we spend two years prepping them for the test. The national admit rate is 1.3%. Our success rate is close to 60%. If I include the next level of schools, the NITs, which are right below the IITs, it's over 90%.

Meb: What is the lag time on how long they're in the program? Is it like six years? Is it two years?

Mohnish: They're with us for two years and then they go into the IITs for a standard four-year undergraduate degree. We usually start with them at 16, and we're done at 18. They finish with the IITs at 22, and then they enter the workforce and then we go from there. Our kids were recruited straight from the IIT campuses directly by Google, Microsoft, Amazon, and all these companies all over the world. They end up with Samsung in Korea and different companies in Singapore and all over the place and of course all over India as well. These kids are coming from a kind of less than $3 a day kind of family income. It's a very low income. They go from something like a thousand dollars a year of family income to $150 - $200,000 when they start. It's a huge reset. From my point of view, it's a real zero to hero. The return on invested capital and social return on invested capital are off the charts. One of the things that makes Dakshana work so well is it costs us about three grand to take a kid through the two-year program, the boarding, lodging, and everything. The subsidies from the government are a 25-to-one match. Our 3000 unlocks about 75,000 in government subsidy because that's the cost of the IIT degree that the government is paying for. We can lift these families from poverty permanently. It looks like a magic bullet because you spend 3000 and suddenly the guy's making 150,000, but that's because there's another 75,000 of spending. The 25-to-one match is really what makes it work so well.

Meb: I think I've heard you say, you guys are starting to be a non-trivial percentage of the IIT intake each year. How many students are kind of going through the program per year now, or aggregate in total?

Mohnish: Every year we have about a thousand graduates. We're taking about 4% or so of the IIT seats currently, and a similar number of medical seats currently. When we get to about 12 or 13%, we'll pretty much max out. It's very competitive. There are a lot of rich people with a lot of resources going after these seats with a lot of brain power as well. We will not be able to take more than one in eight seats or something.

Meb: What's been the response from locally and in India? The communities in which you're involved are probably universally positive. Has Modi reached out and been like, “Hey man, this is amazing. We must help you out on this path. We see that you're doing God's work.” What's been the response from government corporations, kind of just people boots on the ground?

Mohnish: Well, for the entire 16 years, we've had a huge relationship with the government. We work with the largest magnet school system in India, which is a government school system in rural India. We could not do the work if we were not tied into them because they are sourcing these kids in sixth grade from all over the place in India with the language. The government has been very supportive. It's been a great partnership. In Dakshana, we don't focus on trying to get a lot of patches in the back or whatever else. We just put our heads down and get the work done. We do get accolades from Modi and others, and that's fine, but it's all about the inner scorecard. We just want to do our work and do the best we can and let the chips fall where they may.

Meb: Well, you get about another generation 10 years of these and you're going to have a bunch of these graduates starting to percolate through the ranks of corporate and government in India anyway. We'll just have a Pabrai army of well-equipped and grateful people.

Mohnish: Some of our kids have already dropped out of undergrad. They got funded by Y Combinator and all these top-end VCs, some are already on their second startup. I think in 10 or 15 years we'll start seeing some amazing stories. We already see that. We have a kid at Google, and when Sundar does his IO presentation, he's a part of that. Some of those slides are done by him, so they're already starting to make some waves, which is great.

Meb: We talk a lot about startup investing here and having been doing that for a while, there's a trend maybe about half a decade ago where I started to see a lot of companies because The Y Combinator template has spread around the world. You're seeing a lot of startups have very real traction in India, Bangladesh, Pakistan, Africa, and Latin America. My idea is we're going to auction off the top hundred spots. We bring in 10,000 a year. The top hundred you get in no matter what, but it's going to be a blind auction. You don't have to name a building; we don't want your name on the building. We'll do a blind auction, but we'll be honest about it. To me, this seems like a much more transparent way to go about these. However, I like the pure merit base too. That makes a lot of sense.

Mohnish: I think your idea is a good one. I think the bottom line is that a college education is a lot more expensive than the tuition you can charge and should charge. It does need in some ways to be subsidized by the rich. You can give some quid pro quo to the rich, but I think the more straightforward and transparent you make it, the better it is.

Meb: If you look back, Bill Gross, Muhammad El-Erian, trying to think who else, Soros, ever having male portfolio managers, when they had mustaches, was their best performing years than when they were cleanly shaven. If you're watching this on YouTube, you see what I'm talking about. If you're listening to this on podcasts, Lenis has a beautiful duster right now. Do you find any correlation? Have you been putting up better years with than without a mustache because you've been clean-shaven before?

Mohnish: I actually didn't have a mustache until about eight or nine years ago, maybe 10 years ago, but I have never been asked that question before Meb, so thank you. Congratulations.

Meb: We're going to have to go through the annual Christmas cards and say, "Did he have a mustache?" Then look at the returns for the year and then we'll do a regression analysis and we'll see what the answer is. But I feel like I have a high hit rate on this.

Mohnish: I'll say in my case, there's no direct correlation. I'm so sorry to disappoint you with that, but maybe we don't have enough data.

Meb: We'll put some IIT interns on this and we'll see what they can come up with.

Mohnish: We don't have enough data because the mustache years are short relative to the non-mustache years.

Meb: I was Googling, and you'll probably know better than me. I was trying to find some pictures of Warren Buffett or Charlie to see if they ever had a mustache. I don't think they have.

Mohnish: There was only one time when Warren went through some kind of surgery and he was in the hospital for two or three weeks where he grew a beard. That was the only time when he didn't shave, but, and Charlie, I've never seen that.

Meb: That's probably when Berkshire paid their only dividend too, right? He's in the hospital, came back, and he was thinking, "What's going on here? I got a beard. You guys are paying dividends." You like many, there are some non-consensus views. One of my favorite Twitter threads that we ask people is, "What is something, a view that you hold personally about investing that the vast majority of your peers do not hold?" Let's talk about like 70, 70%, two-thirds, 75% if you said this today, almost everyone would be like, I do not agree with you on this. Is there anything that comes to mind?

Mohnish: There are several that come to mind. The first one that comes to mind would be investing in a place like Turkey. I've been going there for about five years and I've talked to a lot of smart investors about what I think were total no-brainer investments. They can't get past the country. I can't even get to the company. The second thing, which took me a long time to figure out, I realized this year when Buffett's letter came out is even Warren Buffett has only made most of his money on about 4% of the bets that he's made. It is one out of 25 bets that have moved the needle for him. This is Warren Buffett. He doesn't make mistakes and is so particular and so careful. Investing is a kind of very unusual art that can tolerate a very high error rate. However, for it to work with a very high error rate, you have to have held the ones that you truly had high conviction and truly understood for a very long time.

I think one of the extreme cases of this is Shelby Davis, the Davis Dynasty. Shelby was very early in investing in international insurance companies, and he bought a zillion of them; lots and lots and lots of bets. They were not concentrated bets. A lot of them were less than 1% of the assets you were managing and almost nothing worked. However, the Davis Dynasty ended up with a very large net worth because one worked. They were very early in AIG and the thing is, whether he made a great bet or a lousy bet, he just kept them all. He never sold. One great bet was AIG, which was less than 2% of the total amount of money they had ended up becoming 80, 90% of the fortune. It was a big fortune. This notion about investing, which is anytime we look at a business, we have a view of what it would look like 5 years, 10 years, 15 years from now, and most of the time you're going to be wrong. That's just the real candid answer to that. Sometimes you'll be right, but to harness and collect the fruits of that labor, you have to have held all the wrongs and the rights for a very long time. That's when people get into trouble because most mutual funds are going in and out of stocks all the time. The index does so well because it's too dumb to know that it owns Microsoft and too dumb to sell Microsoft, too dumb to sell Google, too dumb to sell Facebook. It just ends up in a place where these great businesses stick in. The only time

S&P throws a company out of the portfolio is when it's so long in the tooth that it's obvious. They'll never throw out Google until Google's lost it completely.

Meb: This concept of this power law investing, two groups understand this. I think my startup VC friends get it because, by definition, they can't sell. So, they invest in 20 companies, they get that one or two, are going to drive the returns of the entire fund. My quant trend followers get this because they've modeled it out and they say, "Hey, our batting average is like 30%, but that one trade on Eurodollar or wheat or short bonds or whatever it was, makes up for all the losers." If they get a double or triple, they are like "this is amazing! The best thing ever". However, every 10-bagger or 100-bagger at one point was a triple. I think the challenge of holding things for very long, and there are a couple of good books on this, *"100 Baggers: Stocks That Return 100-to-1 and How to Find Them."* I think it is hard, obviously because of the drawdowns. Warren and Charlie have a massive, concentrated holding now, and this sucker Apple, historically, I think every decade has had at least a 50% drawdown. I think except for the last one, I think 80. What do you think about it?

Mohnish: I think the mental model you have to use is you have to think of yourself as the founder or the entrepreneur. If I look at the Walton family, they're the only ones who've held Walmart from 1970 till today. They held it after Sam Walton was gone. They held it when no Waltons were running the place. I think there might be one Walton on the board or something, and they've had no control over this business, and they've held it for this entire period. Why should an investor use a different framework from an entrepreneur? We see this all the time. You see entrepreneurs having 99% of their wealth in the business they created, and they go to sleep at night, very comfortable with that. People say, well, they've got control. Well, control is overrated. It's not control. I think that the framework we must use is to think of ourselves as if we are not the founders. We're an owner or a partner. Think of it as a partnership in a private enterprise. I think that once you make that shift where you say that this is a family business and I own 30% of the business, I'm not the founder, but I have a significant stake and I understand the business, then those two - the investor and the entrepreneur - start blending and we see this over and over. Take the IKEA guy, for example, put the entire company into a foundation, and 99.99% of his net worth was IKEA. We just see all these entrepreneurs all over the place, and they remain comfortable. If you look at the Google guys, they stepped aside but they kept their stake and were perfectly okay.

Meb: Let's say Warren says, "All right, Ted and Todd, they're awesome Mohnish. We need your help too. What do you think we should do with Apple? This is a big, big stinking part of our portfolio." Warren wouldn't say this, but I don't want to have another 1999 Coke where this thing is probably expensive. I don't want to pay taxes. This is a good business, a great franchise. What do you think you would do in their seat at this point? Would you start to trim this big position, or do you hold on thinking this might be the world's first $10 trillion company? I think the first 5 trillion too. I don't think we have a 5 trillion yet, do we?

Mohnish: Well, I think the framework you use when you are a large owner of Apple, or let's say the founder of Apple, let's say Steve Jobs's widow, for example, is not to do anything till there is a permanent secular decline. We realize that we'll not be able to cash out at the top when there is a permanent secular decline. Everything at the end is going to go south. That's just the nature of capitalism. I don't see anything on the horizon that is a concern for Apple for the next 5 or 10 years at least, and maybe beyond. The simple math that I would do if I was at Berkshire and someone or Warren asked me this question, I would just say, “Do nothing.” The way I look at it with Berkshire is they made a $2 billion investment in Mid-American energy, which is today approaching a hundred billion. It's a 50-bagger. Their railroad investment is huge, and they're sitting on 130, 140 billion, and there's 30 billion a year coming in. If you look at the entire enterprise, Apple is maybe a fifth of the pie; fourth or a fifth of the pie. We don't see any issues right now. Leave it alone, focus on the money that's coming in, and put that to work. Even if you take a situation where at some point that value declines, there are other engines there, other things are going on there. I think that the framework has to be that you give it very long just like the Walton family.

Meb: Okay. I'm not going to tell you to sell Apple. However, let’s take Turkey, for example. We love foreign markets. I spent an inordinate time talking about investing beyond our shores. Walk us through a little bit how a guy whose first checklist rule is the circle of competence. How did this guy get interested in Turkey of all places? What was the inspiration? Were you just vacationing and you thought, “The food here is wonderful. It is a beautiful and great country. Let me go with Jim Rogers’s style. Go check in on some businesses.” How did you come around to the Turkey interest and how much other foreign investing had you been doing at this point? Was it a large part of the investing strategy? Walk us through kind of how it happened.

Mohnish: Before Turkey, I had been investing in India. I have been making trips to Korea. I have looked at things in China, looked at things in Japan, and so on. However, what caught my eye in Turkey in 2018 was their ratio of GDP to market cap and the GDP to market cap is not something you can always hang your hat on, but there's a correlation. A certain amount of the country's wealth is in publicly traded companies. If you look at the US GDP and US market caps, the US has more than a hundred percent of GDP in publicly traded market caps. In Turkey, it was a small fraction, a relatively very small fraction. The second thing I noticed was that everyone had exited. Everyone had left the country. I happened to have a very good friend who's a very diehard Graham investor. He comes to Omaha and he's very well-versed in Buffett, Graham, and Munger. Though he's too overdosed on Graham, I'm trying to move him over to Munger. I'm making a little bit of progress, but not enough. I told him in 2018, “Listen, I'd like to come to Istanbul and I know the food's great. We're going to have a good time, but I just want to visit the companies that you have in your portfolio. Don't take me to companies that you don't have an investment in. I want to visit the businesses that have the largest positions in your fund, and would you be okay with doing that?” He said, “Oh, yeah, it'll be a blast.” I still remember the first day we were going to visit the first business. He tells me, “Mohnish, the PE is 0.1, not the PE of one.” A 0.1 means that the company's going to earn its entire market cap in one month. I said, “Does it have hair on it?” He said, “Yeah, it has a little bit of hair on it.” I said, “What kind of hair does it have on it?” It turns out it was one of the largest banks in Turkey, and they had been violating the UN sanctions against

Iran, and they were facilitating all these transactions with Iran. They were not supposed to do that. The US got wind of that, and they were pissed off. The CFO of the bank who didn't have a whole lot to do with all of this, was a chairman driving all this. He had come to the US to vacation with his kids at Disney World. The Feds picked him up in New York while the rest of his family watched, and they put him straight in Rikers Prison. Erdogan then called Trump and told him, "You've got to let this guy go." Trump replies, "It's the state of New York that's going after this. It's not me. I can't do anything. They don't listen to me." In the meantime, the companies trading in the market and the US are thinking of just taking them off the international, swift, and everything else. I went to that first meeting, it was a very well-run bank, and I told my friend, "This is too much hair for me. I can't go there. Can we just take it down a notch? We can't be doing this, 0.1 P. At least take me to P of one." But what I found in Turkey is that there was very high inflation that was going to persist and continue, but there were a set of businesses that were not affected at all.

Mohnish: In fact, some of them had tailwinds because of inflation, and the baby got thrown out of the bathwater. No one was interested. just looked at those businesses and I had a lot of cover because my friend knew, the families knew where the skeletons were. He studied these businesses a lot. It was like I had a great unpaid analyst on the ground. We didn't do a whole lot. If I look today, I made so many trips to Turkey. We have three investments, that's it. We have three investments in Turkey after probably having visited about 80 or 90 businesses there over the years. The three companies don't have any correlation with Turkish inflation or anything else. One of them gets a tailwind from it because their revenues are Euros, and all the costs are with Liras. They get tailwinds from inflation. They were very strong businesses. For example, there's a Coke bottler in Turkey. Not only do they bottle Coke exclusively in Turkey, but they do it in about a dozen other countries. They have a very good relationship with the Coca-Cola Company. The Coca-Cola Company owns 20% of the business and sits on the board. You can look at Coke bottlers around the world. The economics are very similar. They should trade at similar multiples. If the growth rates are different, you can put different multiples on them. This thing was an outlier. The Coke bottler, only about a third of their volume, maybe 35% or 40% was coming from Turkey. The rest was coming from things that had nothing to do with Turkey. They're the largest Coke bottler in Pakistan. They're the only Coke bottler in Pakistan, so it's huge volumes. What I found is that there was a sliver of businesses there that no one was interested in. We invested in a warehouse company. I still couldn't believe it, but the liquidation value was like 6 or 700 million, and the market cap was 20 million. I just couldn't understand that. It was just crazy.

Meb: People get so caught up in the macro, and so many investors get sidelined by it because they see what's going on with the currency, or they see what's going on with the government, or they see what's going on, all these lists of things that, in our opinion can be controlled. How do you think about, broadly speaking, the currency side of it? Is it something you hedge at all, or you mentioned some have even more complicated and even beneficial, you know, parts of the hedging's type of thoughts, but how much of the macro picture plays in for you guys on either dissuading you or it didn't because you do it.

Mohnish: Well, we've never hedged currency anywhere. In some places, like Turkey or India, it would be quite expensive. You wouldn't be able to do it for very long. It would be somewhat impractical. We had a view that the currency would continue to devalue quite significantly and that inflation would be high. It wouldn't go down in any finite period. I looked at businesses where those conditions were irrelevant. If I am bottling Coke, for example, I will get paid a certain amount for someone's labor to give them a Coke. That's the deal. That currency is not that relevant. They're going to be able to adjust it based on whatever was going on. In other cases, there were businesses in where we don't have an investment here, but there's a juice exporter in Turkey where all their revenues are coming from Europe in Euros and their costs are all in Liras. It's not relevant to them what is happening in the country. From an inflation point of view, they get tailwinds because the labor costs go down. After all, the standard of living goes down with all this inflation. I think the macro is important when you have these crazy things going on. I just tried to kind of sidestep and look at a sliver of things because the baby got thrown out of the bathwater. Most of those companies deserve to be clobbered because inflation will clobber everything about them. The market is mostly correct about that, but it's not entirely correct. What I found is even very smart, rational people I would talk to didn't have an interest. That's when I could see that this was a very irrational reaction because I know these guys are smart, but they're still not willing to even go look at it. Not invest, but just look at it.

Meb: Well, Turkish stock certainly had a monster in 2022, which I would also like to point out. Correlates with the mustache year Mohnish. Whereas you look beyond our borders, are you getting curious about the Omaha crews in Japan, or any other countries? How does India look? Any other places that are interesting right now?

Mohnish: Well, usually for me, India. India is also another good place because it has a lot of secular tailwinds. The whole of China is in the penalty box and all of that is a big tailwind for India. There's a big demographic dividend. It's the only country with a growing population. I would say in any country other than the US, Canada, and India and maybe some Western European countries, I need ground cover, my cover. I need someone on the ground who understands Buffett and Munger and understands the ground realities. Someone sends me some stock in Mexico or something unless I have trusted people, I really can't do a whole lot. I think that once you step outside the US borders governance becomes a big issue. People become a big issue. What I found in Turkey is in these businesses, we invested in the people running these businesses, some of the highest quality people I've met. Just incredible talent, and incredible ethics. One of the families in Turkey, the one that has the Coke bottling, they have all the McDonald's franchises in Turkey. They have a big joint venture with AB InBev for beer. I could see why that's the case because they have the most pristine reputation in Turkey and all these companies, before they would partner with anyone, they do very extensive due diligence and they had very deep comfort. It was important to make sure that the families and the promoters we were dealing with were absolutely the top-notch, highest quality. I think we ended up with much higher quality teams and promoters than I would have in the US, and those are also an anomaly. There are few and far between. I think that when

I'm looking at foreign markets, these factors more than macro the people become a lot more important.

Meb: We haven't even spent much time on US markets. What does the opportunity set look like? You know, in the summer of 2023, you find a lot of opportunities. Are you finding a lot of landmines? What do things look like to you?

Mohnish: I was having a very hard time finding stuff in the US and part of the reason is my fault; I'm a cheap skate. The amazing thing about someone like Warren Buffett is he's still adding to Apple. We discussed whether he should trim at the current market cap. He's still adding, and he's adding at five times the price he first bought at. Amazingly, he's not anchored. It's a great skill to have to be able to do that. I did find a couple of things in the US. I was surprised I found them recently, but we will not talk about it. It'll come out. It'll come out in the next 13F.

Meb: We'll watch your 13Fs. It's funny that we both have been long-time followers and curious about the concept of cloning. To me, and Charlie talks about it, I think certainly more than just about anyone. I don't know if Warren talks about it as much, but Charlie talks a lot about that, that concept of 13Fs. I love looking at yours because usually there are not a lot of names on there. Sometimes there's like four. Oh, we got what? Micron Brookfield.

Mohnish: Yeah, I think the last one maybe had two or three names, and that was it. The thing is that we just haven't been able to find stuff. Part of it is my problem. I think that I didn't fully grasp how strong the tech tailwinds were and how strong, for example, a business like Amazon is. I was surprised that in Omaha this year at dinner, I was seated next to Bill Gates, and I had two and a half hours with Bill Gates. I thought this would be fun. I played a game with him. I said, "Look Bill, I'll mention the name of a company and you tell me whether you'd go long or short or neutral." He was willing to play the game and I was just surprised at how much insight he had into some of these tech names and the way he sliced business like Google versus Amazon versus Apple. He was complaining to me. He said, "You know, I invested in Berkshire as a hedge against everything else I'm doing, and then I see that they had this huge Apple publish." When I asked him about Apple, he was in a book. He said, "Look, they don't do R&D." He said, "We do R&D, Google does R&D not as well. They kind of lose R&D, but Apple is just top-down. It was designed by Steve to be one guy driving everything. It's a very different company than something like Amazon." If I look, for example, at Facebook and Amazon compare them, they will put a lot of stuff against the wall in Amazon and a lot of small bets. Then they watch, and then they nurture the ones that are getting traction. However, when you have things like fire that Bezos loves, he'll bury it and doesn't get traction. He'll bury it. If you look at someone like Facebook, it is one big bet. It's one big bet on the Metaverse and between the two, I just want to do the Amazon way. I don't want to do the Facebook way. That's just all or none. Mark has gotten that message now. Now he's become hardcore; cut the cost and show me the money kind of guy, which is great. It was fascinating to hear it from Bill in terms of these different companies, even the semiconductor companies. He gave me a 20-minute lecture on ASML and the technology of ASML. He just knows it down to the nitty-gritty, which is impressive. I can tell you what he would do. He would go along with Amazon, he would go along with Microsoft, and he would go along with AMD. Those were his picks.

Meb: He is also a famous ex Elon keeps whining about it. He is very famously short Tesla or has been because Elon's always asking, "When are you going to close out this Tesla short position?" It's like on Twitter all the time.

Mohnish: Yeah, I think that the whole shorting thing is a little bit dumb. I think shorting someone like Elon is very dumb.

Meb: On the hundreds, thousands maybe, of investments you've made in your career, what's been the most memorable? It doesn't have to be the best, doesn't have to be the worst, but just the one that pops into your head as the most memorable investment for you.

Mohnish: The thing is that what I have always found interesting is the anomalies. For example, I remember in 2004, there was a steel company based in Canada called IPSCO. IPSCO had no debt. It had $15 a share in cash, and it had given guidance that the next two years' earnings were going to be $15 a share each for the next two years. There were $30 earnings coming in, and the stock was at 42. The reason they gave the guidance was that they used to make these tubular steel pipes where they had contracts with these pipelines where they wanted to deliver. The pipelines had given them purchase orders, and so they were going to deliver these pipes, and the cash flows were guaranteed. It's not like they were giving guidance based on future sales to be made. These were sales that had already been made. I said, "Okay, I don't know what will happen after two years, but I know that after two years, there'll be $45 of cash on the balance sheet, no debt, and the stock price currently is 42." I said, "I just want to see what the stock price is two years from now. I want to see what Mr. Market does with this." I just bought it based on that notion. A year later, the company announced that we had one more year of visibility, and we had another $15 a share in earnings for one more year. Now the stock is at about 70 or 80. It's gone up a bit, It's a steel company, it's a very cyclical business. Then it starts drifting close to 90, and I'm thinking of taking it off. As I said, double in 15 months is good, so let's move on. I woke up one morning and the stock was at 157 and some Swedish company offered to buy them at 160. About five minutes after that, I downloaded the stock. I said, "We don't need to wait for the last $3. We're done." Recently, the two stocks I found in the US which I got very excited about, are like that. I never thought I'd find that again, where it's this kind of anomaly where the guaranteed cash flows are exceeding the market cap and all of that.

I remember a couple of years before that, in 2001, I had read a long time ago that the lowest rate of business failure of any kind of business that you can have is funeral homes. If you want to have a guaranteed long-term successful business, just buy an existing funeral home that's doing okay, and nobody goes into the funeral home business. Nobody takes low bait when their favorite uncle dies. You just want it done, right? They have no cost pressures, they have no margin pressures, and there's nothing. I thought, "Okay, wow. That's interesting that the funeral businesses have these great characteristics." Then in 2001, I read Value Line. Every week I read it, and one of the areas I look at is the stocks with the lowest PEs. We can't help ourselves. We always go to the lowest PE stock. I see two funeral services companies with a PE of two, two of them sitting there, the lowest in the value line list. I said, “Okay, maybe there's some craziness in the numbers or something.” I went back and looked at those companies. They had two times their earnings. I said, “Wait a minute, these businesses never fail, and it's two times earnings, and I know that it's a great business.” It turned out both these companies have done big rollups in the business. They had a lot of debt. There was a concern about the debt, but I thought the cash flows were so resilient. We don't know who's going to die next week in Peoria, Illinois, but we know how many are going to die. There's absolute certainty on that. I bought Store Enterprises, a funeral services company at two times earnings. It was eventually at 10 times earnings and got to where it needed to get to. I think the best ones are the anomalies. When I go to Turkey, I go to this meeting, and the whole market cap is 20 million, and the liquidation value is 700 million. You scratch your head; it just hits you in your head by 2/4. Those are the ones that interest me.

Meb: Your comments I think are very important and profound. They sound very simplistic, but listeners like the concept. You don't have to have an opinion on every stock that comes your way, particularly the ones like Tesla, or Bitcoin. It's not a stock, but everyone feels like they have to have an opinion on every single thing. It's very refreshing to simply say, “You know what? There are tens of thousands of stocks out there. I don't have to have, like Jim Cramer, an opinion on every single one. I can just simply sit there and let them pass by.”

Mohnish: Well, as Buffett says, we're in a business with no call strikes. You're not going to be struck out by letting three balls go. You can let 3000 balls go. We don't need to know much about anything. Charlie brings up his friend John Arrillaga. He just invested all his life in real estate, one mile around the Stanford campus. That's all he did, died a billionaire. Then his daughter marries Mark Andreessen. It's a billionaire to the power of a billionaire now. What I'm saying is that Arrillaga has such a tiny circle of competence. He didn't even do Bay Area real estate. He didn't do California real estate. He only did real estate around Stanford. If you walked with him around the Stanford campus, he could point to any building outside the campus and he'd tell you everything about it; when was it built, what the rents are, what you could buy it for, and everything you need to know. I think investing and entrepreneurship an inch wide and a mile deep is the way to go. You don't want to be an inch deep and a mile wide. I think that you can pick your spots. You don't need to know everything about everything. You need to know a lot about something a little bit, and then it works out well.

Meb: Well, Mohnish, we kept you long enough. Before we let you go, what's the best place for people to kind of check in with you, listen to you, what you're up to, is Chai with Pabrai the best spot?

Mohnish: Chai with Pabrai is good. My Twitter handle is good. If you're a Bridge player, direct message me on Twitter. We can play together and you know, LinkedIn is fine too. Any of those is just fine.

Meb: Awesome. It's been a blessing to catch up with you, buddy. I hope to see you in the real world. Thanks for joining us today. Thanks.

Mohnish: Meb. It was a pleasure.
