Mohnish Pabrai's Session with YPO Delhi Chapter on July 9, 2024

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Akash: First of all, a very, very warm welcome. My name is Akash Choudhary. I am the learning chair for YPO. My partner Anupam Thareja is the YPO gold learning chair for this year. We are kickstarting our first event with Mr. Mohnish Pabrai. We have prepared questions, but we will also have a Q&A session at the end of the day.

Today, it is my distinct honor and privilege to introduce a distinguished figure in the world of investing, philanthropy and thought leadership, Mr. Mohnish Pabrai. Mohnish is the managing partner of Pabrai Investment Funds which he founded in 1999. His investment philosophy has been greatly inspired by two legends in the investment world; Warren Buffett and Charlie Munger, who have delivered outstanding returns and garnered respect and admiration all over the world. Beyond his remarkable work in the field of investment, Mohnish is also a dedicated philanthropist.

His book, *The Dhandho Investor*, offers a unique perspective on low-risk, high-return investing, making complex financial strategies accessible to a broader audience. Today, we are fortunate to hear Mr. Pabrai as he shares his invaluable insights on investing market trends and life lessons. Please join me in welcoming Mr. Mohnish Pabrai, along with Gaurav Dalmia, fellow YPOer, and the day chair for today. Gaurav, thank you.

Gaurav: Good evening everyone. It is my pleasure to invite Mohnish who is a legendary investor. I finished reading his book, *The Dhandho Investor*. He gives some remarkable examples in that book, why the Patel community owns $40 billion worth of hotel assets in the US, how Richard Branson built Virgin with very little capital, and so on. I will hand it over to Mohnish. Thereafter, I will ask him a few questions and we will go into generic Q&A.

Mohnish: It is great to be here and I am always excited to speak to YPOs. This is my 27th year in YPO and I am in gold now. I used to have a head full of hair when I joined, and it has been a life-altering experience like for all of you. One of the reasons I like to speak to YPOers is that Buffett has a quote in which he says, “I am a better businessman because I am an investor and I am a better investor because I am a businessman.” If you are running a business or if you are an entrepreneur, it is the exact same brain cells that get used when you are making investment decisions. All of you have all the core tools already in place, far more valuable than an MBA or going to business school and all of that. You just have to make a couple of tweaks in terms of how you think about investments and how you think about allocating capital in your business, and then it gets to kind of complete alignment. They are both the same. I want to start with a story. I like to tell stories.

In 1626, the Dutch settlers in New York were negotiating with the American Indians to buy the island of Manhattan from them. There was a guy, Peter Minuit, who was a negotiator for the Dutch, and they reached an agreement for the Indians to sell the island for $24, and that deal closed. When people hear that story, they say, "Oh, the Indians got taken." Manhattan Island is so valuable and $24 is nothing; all these natural harbors, a great location. Let us say the Indians had a trust officer and they had told this trust officer to invest this $24 for the benefit of the tribe, and that trust officer was somewhat competent and could generate a 7% return on that money. There is something known as the rule of 72. How many of you have heard of the rule of 72? We have a few hands, which is great. If you only take away from this evening the rule of 72, from my point of view, it would be a home run. The rule of 72 is kind of a mathematical hack that happens to work where if I want to know how long it will take money to double. If you tell me that I am going to get 7% compounded, for example, and I want to know how long it is going to take to double, I can just do 72 divided by seven, and that is approximately 10. In around 10 years, it will double. If let us say I am getting 5% a year, I can do 72 divided by five, and that is approximately 15. It will take about 15 years to double. If I am getting 25% a year, it will take about three years. Knowing the number of years, I can calculate the investment to double. If I want my money to double in 10 years or five years, let us say I already double in five years, I know I need a 15% interest rate. It just happens to work because of some quirk. The Indians, with their competent trust officer, getting 7% a year in 10 years, that money will double, which means in 1636 it will be $48, and in 1646 it will be $96. If we take a hundred years, that is 10 doubles. Every 10 years, with doubling a hundred years away, is 1024. We want round numbers, so we throw away the 24; it is 1000. By 1726 it is 24,000, and by 1826 it is 24 million. In 1926 it is 24 billion and in 2026 it is 24 trillion. *Abhi do saal bache hain* for 2026, we are not at 2026, so you can take that 24 trillion and take out 15%, which makes it 21 trillion or something. That $24 would be about 21, 22 trillion today. If you look at the entire wealth of the planet, the wealth of every man, woman, and child, it is about $550 trillion. Out of that 550 trillion, US wealth is close to 200 trillion. It is a little more than one-third. It is unlikely that 1/10 of US wealth would be undeveloped land in Manhattan. What I am saying is that if you took the entire island of Manhattan with no buildings in it, just land value it would not be 20 trillion. It would be much less than that. The Indians did not get taken, the Indians got a great deal and it was a trust officer who screwed up because he did not generate the 20%, the 7%, and 7% is not a heroic rate. If we go back, let us say the deal in 1626 was happening in 1526. You had 2400 cents that this deal took place. If you go back a hundred years, you could have made the deal for 2.40 cents and you would still end up with the 21 trillion. Every cent matters.

Einstein called compounding the eighth wonder of the world. We humans have difficulty with the concept of compounding because it is not linear; it is on a log scale. We do not normally think on a log scale, but it is really important to think in those terms. My younger daughter went to NYU. We were living in California at the time. I used to pick her up at like one or two o'clock in the morning from LAX and we were about 50 miles away. We had a long drive back home and she is kind of falling asleep. One time I decided this was a good time to give a lesson on compounding. I told her, "Hey Momachi, you are going to have this internship in the summer, and you do not need the money. You are going to save about $5,000 over the summer and you are 18. Let us say that we put that money in an IRA, a retirement account, that is not taxed, and let us say you gave me power of attorney on that account and I was able to generate a 15% return on that $5,000. Look, 68 is 50 years from 18. From 18 to 68, we are doubling every five years. The important thing is how long things take to double. Life is all about how long things take to double. You will get 10 doubles and that is a magical number; 1000. At 68, you will have 5 million, but you will do another internship when you are 19 and maybe you will make 6-7,000 and that will be another 5, 6 million. Then at some point, you will graduate and get a job and you will be able to save a little bit more." By now she is wide awake. I then said, "How much money will you have when you are 68?" She said, it is too big a number, my head will explode." I was happy she got it, and I said, "The important thing is that you have to start early."

There are three variables. When we look at the Indian story, three variables go into the end result with compounding. The first variable is the starting amount. What do you start with? The second variable is what is the return rate. The third variable is the length of the runway. These three have interplay. We saw that you can start with 2.40 cents with a long runway and end up with a really big number at a relatively low rate of compounding. Or you can have a kind of above-index rate of compounding. I was giving my daughter about a 15% smaller runway, not that much of a starting capital, but still ended up with a large number. It is really important when you are young. I was telling them when they were putting this event together *ki YPOers se kyun baat kara rahe ho? Especially YPO Gold walon se kyun baat kara rahe ho*? It was too late. We needed to have this conversation 50 years ago. But we have a few YNG people here. Can the YNG folks raise their hands? I am only directing my comments to you guys, the rest of you are just here to fill the seats. But you YNG guys can do something about it because you have a runway. It is really important to start as early as possible. Warren Buffett says that he bought his first stock when he was 11 and that he was wasting his time before that. Anyway, I just wanted to set the stage where I said that these are really simple concepts, but Charlie Munger, says that you have to take a simple idea and take it very seriously.

Compounding is a very simple idea, but it has a lot of power if you fully unleash it. Anyway, with that Gaurav, let us see what you have in mind.

Gaurav: Thank you, Mohnish. We are all aware that Warren Buffett takes complex investment ideas, and dissects them into simple steps. The trouble for most people that I talk to, and I am an avid follower of Buffett myself, is that for example, my own investments, and our time horizon for investments is 15, to 20 years. But for a normal investor, how does he maintain a Buffett-like discipline when there is so much noise all around?

Mohnish: Last year in 2023, Buffett wrote in his annual letter that in 58 years of running Berkshire Hathaway, and even more than that, probably close to 70 years or more of compounding, 12 investment ideas that he came up with move the needle. If I go back to, just the period when he ran Berkshire Hathaway, the 58 years, there was approximately one great idea every five years. There were 12 over 58 years. Over 58 years, he acquired about 85 companies. I am estimating that he would have invested in something like 3 or 400 stocks over that period. Even if you take a total of 400 bets made over 58 years, it is a 3% hit rate by the God of investing. *To humara kya hoga?* Why did it take Warren Buffett 58 years to come up with just 12 great ideas? The 12 great ideas, he did not name them, but we can guess them. They are things like American Express, Coca-Cola, See's Candies, ABC which is a television network, the Washington Post, GEICO, hiring Ajit Jain, and so on. Hiring Ajit Jain probably was number one in terms of return because he says that if you calculate the headhunter fees they paid, he created more than a hundred billion of value for Berkshire. That is like an infinite annualized return. Why did it take so many years for this guy, who is the best we know of ever, to come up with just 12 ideas that moved the needle?

To get to your question, in 1972 Buffett and Charlie Munger bought a company called See's Candies. It is a small California company. They paid three times the book value. They were choking at the price. Warren at that time was a deep-value guy. He always wanted to buy things at a discount. Here he was buying a business where two-thirds of the money evaporated. They were intangibles. They paid about 13, 14 times trailing earnings for that business. They were really choking on the price and they finally said that if the family wanted even $10,000 more, they would have walked. They paid about 25 million for that business. He always left his manager alone to run the business. But he told his manager, Chuck Huggins, that on December 26th, every year, he will set the prices for the following year. He used to go for the See's Candies price list, and he raised the prices every year by 10%. What blew him away was that they raised prices by 10% and sales went up, and then the next year they raised it another 10%. This is not in a country with an inflation rate of 2-3-4%. For 50 years, they have been raising the prices by 10% and See's delivered an avalanche of cash. They mentioned a few years back north of 3 billion in dividends to Berkshire. Warren and Charlie said that they could have paid a hundred million, even 150 million for the business, six times, five times what they paid, and it would have been a bargain. But at that time, when they bought the business, they did not know that or understand that, but it took them about 5 or 10 years, probably more, maybe like 15 years to truly understand the power of See's and the power of brands. In 1988, they invested in Coca-Cola. At that time, he put one-quarter of the total book value of Berkshire Hathaway into a single stock, Coke. A huge bet. An insurance company buys a company they do not control. Coke was a huge home run. Warren said that if they had not made the See's investment, they would not have been able to make the Coke investment because they would never understand Coke. The Apple investment, which was more recent, would not have happened without See's and Coke. It was not a tech investment with an investment in a brand and consumer behavior. He understood consumer behavior. When we look at investing, it has to be a complete no-brainer at the time you are investing. Whatever opportunity is in front of you, if you need a spreadsheet, it is a pass. If you need Excel, it is a pass. If you cannot do the math in your head that I will put this money out today and in 3-4 years I will get it all back, it is a pass. There will be investments that will show up at unpredictable times. Our job as investors is to be like a salmon fisherman standing by a stream with a spear. He does not know when a juicy salmon will go by, but he has to be very patient waiting for a long time. The juicy salmon will come, but we do not know when it will come. We do not know how big it will be. That is the nature of investing. It is very opportunistic. It is also an extremely forgiving business. In the case of Buffett, as long as he did not lose a lot of money, a 95% miss rate still made him the wealthiest human. It is an extremely forgiving business. The best of us will be wrong half the time. Most of us will be wrong two-thirds of the time, but that is okay. The errors do not matter. What matters is the focus that when you do find something great that you keep it for a long time.

We have Rakesh Jhunjhunwala who most of you are familiar with him. Rakesh was probably the greatest investor India ever produced. He was a split-brain. I do not know how he did it, but he had one side where he was trading frantically every day in and out, three, or four screens in front of him. On the other side, he has these few stocks that he never touches. For example, very, very early he bought Titan. What is remarkable is he then loaded up more on Titan paying 16 times what he paid for the first take. Most of us will never be willing to pay 10 times, 15 times what we paid for something two years before. We are not going to pay another zero for that. He did that. In fact, he kept buying Titan repeatedly at higher and higher prices. It ended up that when he passed away, he never managed money for anyone else; just his own money, $5.6 billion. About 2 billion of that was Titan. How many times did he need to be right? But he knew in this case he was right. At the same time, he is trading in and out of hundreds of stocks. But he does not touch Titan. That is a remarkable guy.

Gaurav: I just want to reiterate. I was talking to Sanjeev Mirchandani who is also a legendary venture investor, and asked him, "What is your secret." One point he made was in his venture investments, he feeds the winners. If a company is doing well, it will invest in every single round. In his mind, he reserves almost two-thirds to three-quarters of the capital for future investing in case there is a winner. That is how he makes big stakes in Policy Bazaar or Zomato. I just found a statistic today, if Warren Buffett had not given away 55 billion worth of shares in Berkshire Hathaway, which he has given away since 2006, his net worth today would have been $293 billion, which would be $41 billion more than the current richest man, which is Elon Musk. His net worth is after giving away 55 billion.

Mohnish: Someone asked Buffett, “If a Genie comes to you and gives you one wish, what will you wish for?” He says, “When they look at my corpse, I want them to say, man, he was old and he wants to die really, really old.” That is not because he likes to hang out with us. He just wants a long runway. He understands, like he said, first 11 years, he was wasting his life. he has been compounding now for 83 years, and that is what he wants to do. Just keep it running for as much as you can, as long as you can.

Gaurav: Let me ask you about the technology sector. I am defining tech more classically, high gross margin, not e-commerce, which is a low gross margin business, high gross margin, high growth, yet outlandish valuation. How would you make a trade-off of investing in tech, the American definition of tech?

Mohnish: For all businesses, it does not matter whether they are growing, whether they are flat-lined cash flows, or whether they are declining cash flows. All businesses have a value, and the value is the sum of all the future cash that will be produced till that business does not exist anymore that will come out to investors and be discounted back at some reasonable interest rate. The problem we have is that we do not know what those future cash flows are. In most companies, we do not know that. If I take a business like Nvidia, for example, and if I had a crystal ball that told me for the next 10 years, these are the cash flows Nvidia will produce, let us say that crystal ball told me that in the next 10 years, Nvidia will produce 2 trillion in cash flow. The market cap is 3 trillion. A Patel would say easy pass. Even someone like me looking at it, I would say that if I am going to buy Nvidia stock, one of the first questions I ask is, “How much would it cost me to buy the whole business?” I am not, I do not care about the stock price, I care about the price to buy the entire business. Let us say the price to buy the entire business is $3 trillion. Then the second question I would ask is, *ye 3 trillion kitni der me mujhe wapas mila*. “How long is it going to take me to get that three trillion back because I want it back as soon as possible?” If I come up with math that starts getting into more than 7, 8, 10 years, you have lost me.

I have an investment in Turkey, and I will go a little bit into it. There is a father-son team that runs that company, very gifted capital allocators, but they do not understand how gifted they are. I try to explain it to them, but I do not think they understand. Neither of them went to business school. They tell me that they have really simple math that they run. Anytime they are going to make any capital allocation decision in the business, in dollars, they want the money back in two years. The maximum, if they are getting really euphoric is three years. Any project they look at, that is the lens that they wanted back in three years or two years. If you get your money back in two years, the rule of 72, is a 36% annual rate return. Three years is a 24% annual rate return. Both are very acceptable and they need to see that. I keep observing all the different investments and things that they make. They make very few mistakes and very high returns because they just never put cash out if they do not have that. It does not matter if you are investing in a tech business, a motel business, real estate, or whatever. It all boils down to what am I putting out and how long it takes me to get that money back. When we get to some tech businesses in this environment that we are in, there is a lot of euphoria. Generally, when you get to euphoria, you are not going to get these 2, 3, or 4-year returns. The good news with investing is that we can keep saying no. We can keep saying no to everything. We can say yes, once a year, once in five years, we can say yes whenever we want to say yes. The great thing about investing is we have a lot of freedom of when to say yes.

Gaurav: Let me come to quant. I was in Columbia in 1988 and David Shaw has just left Columbia. He was teaching at Columbia to start D.E. Shaw, which is one of the world's greatest hedge funds today. I had met him at that point, and it was a very nice idea at that time. Today, quant investing is a mainstream idea. We all know of Renaissance, which has delivered gross returns of 65-67% for the last 20 years. What do you think about quantum investing? I do not even know what it means actually.

Mohnish: It is beyond my pay grade. I would say that almost nobody has been able to do what Renaissance did and what Jim Simons was able to do. That is very much an outlier. The best way to approach investing is that if you do not fully understand something, that is okay. That is the case with 99% of things in the world. We just take a pass. Quant, I do not have to waste brain cells. We move on. Somebody else can make a lot of money and that is perfectly fine.

Gaurav: Let me come to India. The S&P over the last several decades has returned about 9.5%. The nifty has returned about 14%. So after factoring in the rupee versus dollar risk premium for India, what would you pick?

Mohnish: Well, today I would pick neither. The S&P is at a trailing multiple of about 28 or 29. In September 2000, it had a trailing multiple of 26. Then the returns for the next 11 years for investors, including all dividends reinvested, were zero. It was a 0% return after 11 years. It was not just a straight zero. You had a very volatile ride. There were periods in there where 30-40% of the money had gone. It would have been difficult for most investors to hold on in that environment. What I find interesting about India is that it has far more tailwinds than the S&P or the US have. Growing population emerging and massive amount of per capita and GDP growth. You can see it everywhere. There is a big difference between investing in a great business and making a great investment. For example, Hindustan Unilever is a great business. If I were to make a list of the truly exceptional businesses in India, most of us would not have difficulty coming up with such a list. Varun Beverages is an exceptional business. Is he A YPO?

Gaurav: No, I do not think so.

Mohnish: Okay. I do not want to offend people.

Audience: Sister's daughter is.

Mohnish: Okay. But exceptional business; terrific promoter, great management. I gave a talk last December at Flame University where I compared Varun Beverages to a Coke bottler based in Istanbul and the Coke Bottler has roughly about two times the volume that Varun does. They bottle in about 14 countries. Coke just gave them half of Bangladesh. They do all of Pakistan and they do all of Turkey and a bunch of other countries. We can compare Coke and Pepsi bottlers around the world. The Coke and Pepsi bottling business around the world is very similar. The economics are very similar. You can make some adjustments for growth rates and such. The Turkey business trades at about close to one-eighth or one-tenth of the effective valuation of Varun and Varun trades at something like five times the effective valuation of all of the Coke and Pepsi bottlers around the world. If I look at Coca-Cola FEMSA in Mexico, phenomenal business; one-fifth or less than the multiple of Varun. I see that play out in several different businesses in India where the businesses are exceptional. There is a huge amount of growth ahead; truly exceptional promoters and management. But you are paying a lot to have a seat at the table, and in the end, the stock market, as Buffett says, is a voting machine in the short term, but it is a weighing machine in the long term. In the end, everything gets weighed appropriately. I had just suggested that if we were to go 5, 10, or 15 years in the future, and we looked at these two businesses Coca-Cola is second to Turkey and to Varun beverages in India. We just looked at kind of where they end up 15 years from now in terms of investor returns, Varun's trailing PE is more than a hundred in terms of current PE. The difficulty that India has is that there are tremendous tailwinds, but it is also a place where there are lots of great investors and not that many businesses with exceptional corporate governance. If you take the entire listed base space, and let us get to the ones that have great governance and great moats, you might end up with a hundred businesses and all the money goes into those hundred businesses, the SIPs, every month. The result is predictable. One of the things about investors is that investors love to have lemming behavior. They believe that whatever has gone up recently will keep going up. It just kind of perpetuates, but eventually, things do get to a head and then a new cycle begins. That is how I see it. What I would do if I were in the US and was forced to be an index investor, I would take the equal-weighted S&P rather than the normal S&P where each business in the S&P has a 0.2% weight. It is equal weighted and that way you get rid of all the tech euphoria and the NIFTY in India. It has been a great place to be, but I do not know whether I could be very bullish about where it is 10 years from now.

Gaurav: So let me ask you about a businessman's dilemma that we debate in our office all the time. Let us say I have two options in any business. One is I can do a lower ROCE business, which is high growth in my industry. I can veer toward that. On the other hand, I can veer toward a higher ROCE business, which is more niche and therefore has lower growth. As a businessman, I would tend to go with the higher ROCE. Growth matters less, but the markets reward exactly the opposite. They will not care whether I am in the low ROCE business or not, but they will reward growth. How do you balance this? It is not either/or. How do you balance this ROCE versus growth?

Mohnish: This is the dilemma Berkshire Hathaway faces. If we look at something like Berkshire Hathaway today, it has an 800 billion market value. They have to put 50-60 billion out at a time to move the needle. There are very few places where you can put 50-60 billion in one shot. How many businesses in India have a market value more than that? The conclusion Buffett and Munger came to was that we have to keep running the runway at a lower rate. I would say between the two, it is important to keep compounding and it is important not to be the flash in the pan. If you have got some consistent growth, but it is a low ROE and at the end of the day, it boils down to the opportunity cost. You have limited dollars to invest. If, in the near term, one is giving you a high ROE, you can put money there, but you may not be able to put much money there. The other one may be able to absorb the last, and that is how we do it. Everything boils down to opportunity cost.

Gaurav: So my questions are over. What I am going to do is I have audience questions and then we will all also open it to the audience.

Mohnish: Sure.

Gaurav: The first question is; can you generate serious wealth by investing in passive index funds or mutual funds?

Mohnish: Yes, you can generate great wealth. We have seen that the important thing is the length of the runway; start early. The second point is that the good thing about this group is God has been kind to all of us. We also have significant annual earnings, and we can push that in as well. If we get a long enough time horizon and we do not need to have heroic rates, you can compromise between the rate of return with the length of the runway and starting capital and so on. You can do well with a passive. In fact, you are more likely to do better with a set-it-and-forget-it approach than with some advisor who is telling you, “We are going to buy this and sell this.” You are going to do far better just by having a very basic vanilla approach.

Gaurav: How do we overcome greed and fear? By not reading the newspaper?

Mohnish: Well, we do not need to overcome greed and fear. All we need to do is to be fearful when the world is greedy and we need to be greedy when the world is fearful. I will give you an example. I manage about 1.1 billion and I have the weirdest asset allocation I have had in 35 years as an investor. I have never had this weird allocation. 75% of the money is in three stocks in Turkey and another 20% is in three coal stocks; the four-letter word "coal" in the US and the other 5% does not matter. I think about this quite often and what I really need to do in the next 10-15 years is just do talks like this and do no work and life will be great.

I started going to Turkey in 2018 because it was screening as an extremely cheap market. I had a friend in Turkey who is a diehard Ben Graham investor; a wonderful guy. I told him that I would like to visit him and Istanbul, and I would like to visit the companies in his portfolio. He thought it was a wonderful idea and that we would have a great time. So I said, "Here are the rules: I only want to visit companies that you have money in. Do not take me to any company you have no investment in that you think is good or whatever. I want to start with the one that you have the highest conviction, the most money. And then we go down the list." When I went the first year in 2018, I visited about 20 businesses and was amazed at a few things that I came across. Then I went the next year in 2019 and Hayder, my friend, sent me the list of businesses that we were going to visit, but I never did any work on any of them because I said that I wanted to do the work after meeting the management. I wanted to have some base-level knowledge, then I would spend time drilling down. I was just too lazy to do the work upfront. We were driving to a company and I said, "Hayder, I have not looked at this company. Can you tell me about it?" He said, "Yes. Its market cap is 16 million, and liquidation value is 800 million." I said "Is it a fraud? What do they do?" He told me that they rent warehouses. I asked him why it was so cheap and he said everything is cheap in Turkey. The first business I visited with him was a bank trading at a PE of 0.1.

Mohnish: It was 2018. The bank was trading at a PE of 0.1 and that means that one month's earnings is the entire value of the business, but that is a separate story. I could not invest in something that has too much hair for me. Anyway, this is the father-son team that I met, and they looked like very smart and honest people to me. I went after that and visited the warehouses and then told my guys to buy every share. Turkey has a rule that individual stocks cannot go up more than 10% in a day. I told him to tell the broker up to the 10% limit above the market price and buy every share available of this company. That was the 16 million market cap. For $8 million, I got one-third of the company. The father-son team that runs it, has 42%. The Indian guy with a great mustache is at 33%. I meet them every year. I tell them, "Listen, I am your cheerleader on the sidelines. I do not want to do any work. I do not want to be on board. I just want to be your silent partner." They are happy with it. I am happy with it. Everyone is happy with it. That company has a value now in the stock market of a billion dollars. The lira, which is why everyone was exiting Turkey at the time when I invested, was five liras for $1. Now it is 33 liras to $1. The lira has collapsed, but the collapse of the lira meant nothing, which I knew even then because I own warehouses. They are made of steel, iron, concrete, and land, which are all inflation-indexed. I told myself, there are no currency issues here. It is all okay. The liquidation value of the business, which used to be 800 million is now somewhere between 2 and 3 billion, so I cannot sell cheap. It took me a few years to figure out that I had not bought a cheap asset where something was cheap. What I had bought was an asset with two gifted capital allocators who are going to compound this thing.

Last month I was in Turkey and I went to dinner with the son. The father does not come to too many dinners with us. He asked me a question. He said, “What is my business going to look like in 20 years?” He is asking me, the Indian guy, who was not even in Turkey all the time. So I told him, “Listen, man, it is really simple. The wealthiest families in Turkey are all second, third, and fourth generation. They are professional managers running those businesses. The families are no longer running them. You are pounding day in and day out and you are wheeling and dealing day in, day out. You have these very clear metrics on how you invest. You are 39. I hope you are excited about this business when you are 70 and if you are excited about this business when you are 70, you will be the wealthiest family in Turkey because it is just math. You just keep compounding. It is just math. My job is to just cheer you on and do nothing.” That business is, like 350 million or something out of the pie. It is a family business. It is the Pabrai family business. We are not the founders, but that is okay. We do not need to be the founders and we do not do any work, and that is also okay. It is all okay. Turkey was just so cheap. It is just ridiculous.

The coal business, just to tell you kind of how things work. Let us say there is a company that will produce a billion dollars a year for 50 years and then it goes out of business. It is going to exist for 50 years and it is going to pump out 1 billion a year. What would you pay for that business? *50 billion aane wala hai 50 saalo me.* The market was asking me to pay less than 2 billion. US-listed company, New York Stock Exchange. No one is interested. The Indian guy with the mustache is interested. We loaded up on these coal companies. We were buying 2 billion for 1 billion; we were buying a billion of cash flow for 2 billion. They are buying back shares and there are no restrictions on buying back shares. In a few years, there are no long-term holders of that stock. We are one of the only guys who own the stock, a lot of traders. We just sit there. The funny thing is that those companies in the US, their major market is India. We cannot produce iron and steel without metallurgical coal. India has a massive need for metallurgical coal, but it does not have much metallurgical coal in the country, so it has to import. There are only six, or seven places in the world where you get that quality of coal and no one is investing. No one will invest in a coal mine. No one will finance a coal mine. That is all fine. It is all locked. We just sit here. We do not need Nvidia. I do not need all these bets to work. If they all work, then hallelujah. We do not know what we will do then, but even if half of them work, it is okay. Even if 40% work, it is okay. All of you have the skills because you are hardcore businessmen. You are hardcore Dhandho guys. You know how to allocate capital to your businesses. If you know how to allocate capital in your businesses, allocating capital outside your business is the same. Whenever someone tells you, "Okay, we should invest in this IPO, we should invest in this and that," my only questions are "What is the market cap? And when am I getting that money back?" If I am not getting that money back in three or four years, I am not interested. The interesting thing about the stock market is that if you say that you only want to invest in companies that are PE of one, PE of two exists. PE of 100 also exists. The market will deliver whatever you want. You can set whatever threshold you want and then you are done.

Gaurav: Next question. I think you already have answered, but just for the sake of it, if there is one big takeaway from today's session, what would it be?

Mohnish: Well, they should answer it. What is the takeaway? Please raise your hand.

Audience: Go to Turkey.

Mohnish: I am telling you, man, Turkey is the place to go. Do not put it in the nifty 50. I was talking to the CFO of a company that is like Tata in Turkey. They are like one of the biggest groups, a blue-chip group. And he was telling me, "Every country has a national sport. In the US, it is poker. Poker is a game, which is a mix of skill and luck. In China, it is Bukhara, only luck. In Russia, it is chess, only skill. Do you know what the national game of Turkey is?" I said, "No, educate me." He said that it was Backgammon. The Turks are mad about Backgammon. They have all these places where they go and play backgammon. It is a total luck game. There is not much skill involved. The average Turkish investor wants to buy a stock at 10 o'clock and sell it at three o'clock and make 10% and then do the same thing the next day." Buffett has a quote. He says, "The stock market is a mechanism to transfer wealth from the active to the inactive." When I was looking at this 16 million market cap company, my concern was, that there would be no liquidity. There will be no shares available that will sell this company. Massive amounts of liquidity. I was shocked at the amount of trading volume. The average Turkish company, if you exclude the founders' stake and the foreign investors, cycles through the whole market cap in 11 days. Every 11 days, it is cycling. It is what I would call an orgasmic market to invest in. For people like us who want to buy something and never sell it, there could be no better place than that because you are dealing with people who are trying to get the value of a business for the next six hours. They are trying to understand what is this going to give me in six hours. If I am willing to go for six years and he is at six hours, I have a huge advantage.

Gaurav: Changing topics a little bit. What does the next US presidency look like?

Mohnish: I do not know. Have any of you read Robert Caro's books? Are there any Robert Caro fans? Every six months I go to Kerala. I come to India only to go to Kerala. It is more interesting than Delhi with due respect. I have these two masseuses who work on me three hours a day. All I do in Kerala is that I have my one-and-a-half-hour massage in the morning, and one-and-a-half-hour massage in the evening. I have a "do not disturb" sign on my door, and I read Robert Caro. I will just digress for a second. There is a documentary on Netflix probably available in India called *Turn Every Page*. I do not think there is any writer or researcher on the planet as good as Robert Caro. This guy is now like 93 or something. He spent about 10 years writing each of his books. He wrote five books and he is working on his sixth one. I hope he finishes the sixth one before he dies. It will be very sad if he does not finish it. Every time I come to Kerala, I bring a Caro book with me. This time I brought *Master of the Senate*. It is 1000 pages. Four out of his five books are on Lyndon Johnson. The thing about the United States is because of the brilliance of the founding fathers and all this separation and distribution of power between the presidency, the Senate and Congress, and the states that the US does well, no matter who the president is, is quite frankly irrelevant. Right now, we do not have a president. Everything is jamming and the reason everything is jamming is because, on the status quo basis, the country works. We will not get some new rules. We will not get new things. We have had a log jam, we have had parties not agree, and the government shutdowns. They have these parties not agreeing. We have all these things going on in a parliamentary democracy like we have in India. Modi cannot be in power if he does not have a majority of the lower house in the US. The president is elected separately from both the houses. He may or may not control both of them. Many times in the history of the US the president has been from one party and the houses are controlled by the other party. It is a complete log jam. Through all of that, out of the 550 trillion, 200 trillion is in the US. At the end of the day, that country had 4% of the global wealth when it was formed, and now it is 30% of the global wealth. It just moved without having 30% of the population. I do not know who is going to be the president, but it does not matter. It is okay. Read Robert Caro. Start with the first one. Every time I come to Kerala, I bring one book; the Caro book. What I feel really sad about is after two more trips, I will have no more Caro books. Then I do not know what I will do with my life. I am trying to find a Caro number two, but there is no Caro number two. You should watch the documentary *Turn Every Page*. If you watch that, which is about Robert Caro and his editor and then you go to his first book, *The Power Broker*, it is a page-turner. You will not be able to stop reading it.

Gaurav: We have three more questions here, which I cannot ask because we are running out of time. I want to open it to the floor, but you can ask these during dinner.

Audience 1: Mohnish, you talked about the criteria to use when to buy. That is good knowledge to have, but what I usually struggle with is when to sell. I would love to get your thoughts on that.

Mohnish: If the job is done right, it never needs to be sold. When we invest, we should think of it like a family business that can never be sold. Buffett uses the analogy of a punch card. He says, “You have a card that has 20 punches and then you cannot punch it anymore. Each time you buy a stock in your whole life, you punch it once, and when you have bought your 20th stock, you cannot buy any more stocks.” If that was a rule that was imposed on you, you would think long and hard about each stock. One of the things you would think about is, “Can I live with this forever?" We are always trying to buy things at a discount, and that is one of the biggest mistakes I made through most of my career. For most of my career, my model was to buy something at 40 or 50 cents and sell it at 80 or 90 cents. Then go back and buy another one for 40, 50 cents. It took me around 25 years to figure out that is so stupid and that these compounding machines that come along are so rare. If you find yourself in the happy position of having one of those, then you should even keep it when it is overvalued. You should not keep it when it is egregiously overvalued, but you should keep it when it is overvalued. Give a lot of benefit of doubt to the holdings that you have in terms of whether or not they are overvalued. Give them a lot of benefits and try to keep them for a longer period. If you have a family business, you do not do a calculus every year saying, "What can I sell this for? Should I sell this?" You just do not do those types of things. If you have a house that you like, you do not care what somebody will pay you for it. I moved to Austin, Texas recently. I bought a home. I do not like to move. I said, "I am never moving. This is the home. This is it. We are going to die in this home." Then the realtor who sold me the home, calls me and says that the Wall Street Journal did a feature of the library of my home. After that, there was some interest. A couple in Connecticut said that they wanted to buy my home. The realtor already told them it was not on the market and that I would never sell the home. They told him that everything was for sale. Everything on earth is on sale for a price. I told him, "They are right, everything is on sale for a price. Tell them this is the price." That was about three times the value of the house. They came back and asked to see some more pictures. Then I told them that I did not want to waste time. I told them to write me a three-paragraph essay about why they want to buy a home for three times what it is worth. They went away. Nobody likes to write anything, and thankfully I get to keep living in the same house that I did not want to. That would have been a sad day if they said they would pay 3X. Then I would have been regretting that. But that is okay. In summary, if the job is done right, we never have to sell.

Audience 2: I was amused at least a couple of times. You said the Indian man with the mustache. I cannot help but ask where do you get your mustache done? My follow-up question is when you were talking about the candy company and all of that, like every time the prices increase. You were describing Veblen Goods and then another of the other stock prices. The price of the stock kept increasing and then he would buy some more.

Mohnish: Yes, the Titan.

Audience 2: Yes, the Titan one. Rakesh Jhunjhunwala.

Mohnish: Yes.

Audience 2: This all seems like a whole Veblen concept happening over there, that the demand is kind of going up when the price is going up, but what do you mean when you say consumer behavior and brand that you buy into? Or how does a product even achieve Veblen status? What have you seen businesses do, so that their ordinary product achieves like a Veblen status?

Mohnish: Those are two great questions. First of all, about the mustache. I have Chinese men come up to me and ask me how they can have a mustache like mine. I tell them, “Some things are just genetically impossible.” It did take me about five, or six years to figure it out, and then we got the hang of it. It took some time.

The question about brands and consumer behavior is complex. I will give you an example. Buffett and Munger bought a company called Kraft Heinz. Heinz used to be by itself but it bought Kraft cheese and it became one company. On the Heinz side, they have ketchup and they can raise prices much more than on the cheese side. On the cheese side, even a tiny amount of price increases, and consumers switch to another brand. People do not seem to care which cheese they are buying, but they seem to care a lot about which sauce they are buying. Humans have some kind of taste memory or taste history where they are particular about the kind of ketchup, and they are not so particular about the kind of cheese. In the same company, they are facing this issue and this notion of consumer behavior and brands is complicated. The devil is in the details. When Buffett and Munger bought See’s Candies, they saw this 10% price increase was going on, and they loved that. That was just awesome. See’s is very much a California phenomenon. It is very popular in California. They would open a store in Arizona, but it would fail. They would open a store in Chicago, but it would fail. They tried 100 things all over the world. There is even a store now in Dubai, for example, and they have had a lot of difficulty with the growth of See’s outside of California and it is boxed chocolate. Boxed chocolate is not a growth category. It is not only boxed chocolate; it is boxed chocolate with dedicated retail. They have their own See’s Candies stores, which again, is another weird thing. For whatever reason that equation worked in California and it has worked over 50, 60 years that they have owned it. People have changed and everything has changed. Technology has changed, but the candy is still going.

When they encountered Coke, it blew them away. One of the big reasons it blew them away was because Coke traveled so well. Coke travels easily to any part of the world. You can put up a Coke factory anywhere in the world, start producing it, and instantly there is demand. That brand has magical power. They looked at See’s and at how powerful it was, but they could not grow it. Then they looked at Coke and they said, “This is See’s on steroids.” When they looked at Coke and they saw how powerful it was, they went all in. One of the things different between Coke and See’s Candies is there is no aftertaste of Coke. What that means is that you can consume a huge amount of Coke, but candy has an aftertaste. We will start hitting kind of upper limits relatively soon with candy that we will not hit with Coke. A person can easily have five Cokes a day or five Diet Cokes a day. They would not see anything unusual about that. But what I have been able to glean is I do not consider brands and consumer behavior my forte. It is a very complicated area that seeing is believing. I do not know whether there are rules that go across like you see that See's does not travel and Coke travels. You cannot raise the price of Kraft cheese but you can raise the price of ketchup. Those are things I would never be able to forecast. If you can forecast those things, you can have some major home runs but it is not that easy. But there are a lot of rewards if you can figure it out.

Thank you, Gaurav. It was a pleasure and thanks to all of you for being such a great audience. It is always fun for me. Thank you.
