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Five Tips From Pabrai for Finding 100-Baggers Pt.2

The final 2 criteria

June 26, 2018

This is part two of a mini-series on [Mohnish Pabrai \(Trades, Portfolio\)](#)'s five criteria for finding 100-baggers.

In the [first part of this series](#), I covered criterion one through three. From investing in companies with significant tailwinds to investing in businesses where the market is confusing risk with uncertainty and the opportunities this might bring.



To follow are the two final criteria.

The fourth criteria is the specialist bankruptcy market. This isn't an area of the market most investors will be able to access or extract value from because specialized experience is required.

- [Mohnish Pabrai Stock Picks](#)
- [Mohnish Pabrai Current Portfolio](#)
- [This Powerful Chart Made Peter Lynch 29% A Year For 13 Years](#)

Also, in most cases, minority holders end up holding the bag, so unless you're able to invest enough to take control, bankruptcy situations are unlikely to yield the best results.

Still, some investors have made significant gains from investing in distressed situations

([Martin Whitman \(Trades, Portfolio\)](#) was one of the best at this) as they've been able to use their influence coupled with tax knowledge to draw the best out of the situation.

Pabrai had this to say on the topic:

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Performances of the stocks mentioned by Rupert Hargreaves

Symbol	Company	Current Price	Change (%)	Gal (%)
FCX	Freeport-McMoRan Inc	\$ 16.65	-0.64 (-3.70%)	22.61*
SYF	Synchrony Financial	\$ 32.23	-0.73 (-2.21%)	-4.84%
IEP	Icahn Enterprises LP	\$ 76.15	1.42 (1.90%)	49.52%
CHK	Chesapeake Energy Corp	\$ 5.21	0.09 (1.76%)	-5.1%
PYPL	PayPal Holdings Inc	\$ 87.70	-1.43 (-1.60%)	97.3%
VSAT	Viasat Inc	\$ 69.55	-0.88 (-1.25%)	5.89%
CAT	Caterpillar Inc	\$ 140.77	1.35 (0.97%)	48.98%
CW	Curtiss-Wright Corp	\$ 122.91	1.09 (0.89%)	31.33%
ARII	American Railcar Industries Inc	\$ 41.82	0.29 (0.70%)	-4.17%
XRX	Xerox Corp	\$ 25.33	0.17 (0.68%)	-11.56%
Summary			-0.19%	23.02%

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the very best people on the U.S. tax code. They know U.S. tax code better than anyone else. Way better than Donald Trump. They really know the tax code. And I don't think Sam Zell has ever sent much of a tax bill to U.S. government because he's just so efficient with the way he runs his tax affairs."

The fifth and final category is based on Pabrai's "heads, I win; tails, I don't lose much" philosophy. This is based on finding cheap stocks that are set to benefit from a substantial secular trend.

The issue with this strategy is that it has more in common with buying lottery tickets than investing based on clear fundamentals. Still, when investing based on a trend that has no clear winner, a "spray and pray" strategy may be the best course of action. Here's Pabrai explanation:

"The final and fifth model I want to talk about is upside without downside. I also call this playing the bubble. In the late '90s, the dot-com boom was on in a big way, and everyone thought it's going to be transformational, it's going to change everything. Companies like Pets.com, etc., had huge valuations. Even Amazon was a huge valuation, Yahoo - all these companies. I had spent some time in technology. I knew that the internet was important but I could not tell which company would make it, which company would not make it. I was definitely not interested in buying anything which was even trading at 10 times earnings. I like to buy things at three times earnings, or even better, like Fiat, one times earnings...And if they turn out to be something, then we have a huge, huge run."

So that's it. Five strategies to find multi-baggers. Granted, these tips won't guarantee multi-bagger success, but to quote [Charlie Munger \(Trades, Portfolio\)](#): "The first rule of fishing is 'fish where the fish are,' and the second rule of fishing is 'don't forget rule number one.'" If you know where to look for 100-baggers, your chances of finding one are significantly improved.

"Those are the five models. We have the huge tailwinds with the idiots who can run the company and the company does well. The second is a huge tailwind, but you cannot have idiots, you need smart people running it like Amazon and GEICO. The third is markets getting confused between risk and uncertainty. We talked about Ipsco and Tesoro, Frontline, and Teck Cominco on that. The next one was the grave dancer, Sam Zell. Bankruptcy, reorganizations, public LBOs, busted LBOs, special situations. Those can all work out quite well as well. Then you finally have the upside without downside which has happened only once to me. They have the most mega bubble that I had in 22 years in the late '90s with the dot-coms."

Disclosure: The author owns no stocks mentioned.

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About the author:

Rupert Hargreaves

Rupert is a committed value investor and regularly writes and invests following the principles set out by Benjamin Graham. Prior to his investing and writing career, Rupert was as a proprietary currency trader. Rupert holds qualifications from the Chartered Institute for Securities & Investment and the CFA Society of the UK. He covers everything value investing for ValueWalk and other sites on a freelance basis.

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