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Investing Lessons From Mohnish Pabrai

A summary of some core principles

July 12, 2018

Mohnish Pabrai ([Trades](#), [Portfolio](#)) is one of my favorite investors to read about, listen to and write about. The reason I follow him so closely is because he has a way of simplifying investing.

Pabrai is a value investor at heart and, unlike [Warren Buffett](#) ([Trades](#), [Portfolio](#)), who has modified his strategy for the modern age by investing in companies that would not usually be considered value investments, he still buys stocks trading at single-digit earnings multiples. In addition, he is not afraid to travel the world to find the best bargains.

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



This is by no means a comprehensive list of everything I've learned from Pabrai, but it is a summary of what I believed to be his core principles.

Lessons from Pabrai

The first lesson comes from Pabrai's advice on how to find 10 to 100-baggers. In particular, he is talking about distinguishing the difference between risk and uncertainty and the opportunity uncertainty can present if you are willing to do the extra research.

"The third one is when the market gets confused between risk and uncertainty. When you find a combination of low risk and high uncertainty, that combination is usually going to give you a

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Symbol	Company	Current Price	Change (%)	Gain (%)
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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Lesson: If you are willing to go the extra mile and look past the noise, you can generate outsized returns.

"If you study any number of entrepreneurs... what you'll find is that they have repeatedly made bets which are low-risk bets, which have high-return possibilities. So they're not going high risk, high return. They're going low risk, high return."

This is part of Pabrai's Dhandho Investor strategy. The whole concept of Dhandho is investing with minimal risk in businesses that could have a huge payoff. Otherwise defined as "heads, I win; tails, I don't lose much," these bets produce the best outcomes with minimal losses since nothing is ever guaranteed in business.

Lesson: Losing is just part of investing, you can only exceed over the long term if your losses are minimal, but the payoff is asymmetric.

"I'm a better businessman because I'm an investor. ... My experiences as a businessman have very direct, long-term positive impacts on me as an investor, because when I'm looking at an investment, I now look at it like the way I looked at my first business...the first thing I'm looking at is, how can I lose money on this?... The upsides will take care of themselves. It's the downsides that one needs to worry about... the crossover between entrepreneurship in investing, and value investing especially, is protecting your downside."

Similar to the point above, this quote relates to the benefit of having experience as a businessman and how this can help you to invest. A broad understanding of the business world can help you understand companies better, as well as the risks and opportunities they may have available.

Lesson: The more experience you have, the better. If you're only experienced in one area, stick to your circle of competence.

"Industries with rapid change are the enemy of the investor. Tech businesses, particularly, biotech is a problem from that point of view. All industries work with change, but you should ideally be investing in businesses with a low rate of change, not a high rate of change."

Investing is hard, so it is always best to make sure the odds are in your favor before making an investment. This means understanding each opportunity in depth. In a rapidly changing industry, understanding the company, its competitors and what the rest of the sector is doing at the same time is challenging. It could only be a matter of time before you miss something important.

Lesson: Investing is hard enough, keep it simple by investing in industries with a slow rate of change.

"You don't make money when you buy stocks. And you don't make money when you sell stocks. You make money by waiting."

Lesson: Invest for the long term and don't be in a rush to make money.



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Genius, Simple.' For Einstein, simplicity was simply the highest level of intellect."



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The last two points are connected. During a talk at Google in July 2014, Pabrai spoke about the importance of simplicity in investing and why it is never sensible to overcomplicate an investment. With every investment you make, it is important you understand the opportunity, risks, rewards and threats. If these are easy to understand, that's great. If not, the risk of something going wrong is too high. As mentioned earlier, investing is hard enough without having to worry about factors you don't understand.

Lesson: Don't be afraid to keep it simple.

"The most important thing is that, before you invest, you should be able to explain the thesis without a spreadsheet within four or five sentences. Typically I write down those sentences before I invest, so if I have a conversation with someone you could very quickly explain why this investment makes sense."

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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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