Mohnish Pabrai's 2009 Chicago Meeting (Notes)

By Miguel Barbosa Founder of SimoleonSense "Enriching Ideas For Intelligent Investors"

Currently the fund's assets under management are 351million. If the fund had a 2% plus 20% fee structure it would be taking 8 million in fees this year. The Pabrai family is the largest investor. Mohnish will close the partnership to outside money after reaching 1 billion assets under management.

1. Structural changes made to the fund (given the financial crisis)
    - Mohnish has become influenced by Seth Klarman's position sizing. This translates into investment positions of (at most) 5% of total assets. Moving in the direction of a Klarman like structure will take 1-2 years.
    - Mohnish read a piece by Dr. Atul Gawande on the use of checklists in hospitals. This piece plus Charlie Munger's influence have pushed him to create his own checklist of 66 items many of which were constructed by analyzing the mistakes of the best investors.
2. So what happened last year and how did he manage the funds?
    - Used redemptions as an opportunity to clean house and sold the weakest positions. This later turned out to favor remaining partners.
    - Monetized the success of FairFax financial investment. Cut the exposure and invested in companies that he thought were deeply undervalued (around the March 2009 period).
3. What investments failed and what did he learn?
    - Compucredit 72% loss
        1. Highly leveraged, and took part in predatory lending. Was profitable during booming times but not in tough credit times.
        2. Lesson Learned: Look at the entire business ecosystem. Make sure all stakeholders are winning. In this business the customers are the losers. Don't invest in businesses unless it's a win/win for everyone.
    - Sears
        1. Invested in "a collection of assets" doesn't seem like Lampert can monetize these assets. Why? Because there are too many employees in the way.
        2. Felt like he should have avoided this investment, after all in Mosaic he clearly outlined a reason for avoiding retailers. Doesn't think Sears can compete with Target or Walmart.

Miguel's Favorite Quote of the Meeting
"Sometimes you have to be like Cortes and burn the ships" particularly resonated with me and has motivated me to leave Florida and move to Chicago (and job search).

Q/A with partners.

Q. What characteristic of your portfolio led to larger losses than those experienced by index investors?

A. Concentration . This is why he is taking a Seth Klarman approach to investing.

Q. Are you seeing many opportunities?

A. No. The fund is a net seller more than a buyer at this moment.

Q. Do you feel confident the 3-5-10 position structure will produce better results than the 10x10?

A. He feels a basket will spread risk more properly and allow him to take bets without suffering adverse scenarios. Also spoke of meeting Charlie Munger and telling him that he had decided to go for this new structure. Initially Charlie didn't like the idea, but then he said if you looked at the top 20 businesses of Berkshire Hathaway they would represent 80% of the investment success.

Q. What do you think of dollar purchasing power?

A. Believes inflation in the future is unavoidable. Has focused on investments that are undervalued but that will benefit from inflation. (Says he would rather be in Costco than Tiffanys). In addition he is looking at businesses that are asset heavy, that have already had major capex (and do not need to make new ones in the future). Also these businesses should produce important goods/services.

Q. Last year you said you were undergoing education to learn about options? What have you learned will you start using options for the partnership?

A. He has used his own personal money to study options. So far he has only lost money and has found the mathematics flawed. He does see some potential in writing covered calls, but he doesn't feel knowledgeable to use the technique.

Q. Let's talk about the checklists

A. No investments that he has made have gone through the checklist without issues. Often times the checklist point him in the direction of searching for more data. He believes most investment mistakes are human errors over market errors. He re-evaluates the checklist by analyzing his mistakes.

Q. Are you interested in distressed investments?

A. Thinks distressed investing is a great business. Oftentimes likes to look at businesses that are under distress and greatly undervalued.

Q. Berkshire was used as a placeholder for the funds what has happened to that use? And can you comment on the intrinsic value since the crisis?

A. Doesn't see Berkshire as the best place holder or cash equivalent. Some businesses are clearly not in the sweet spot (example Borshiems, Net Jets, etc). Some are in the sweet spot (like Geico). With respect to the intrinsic value he says to take the lower end of any estimates he has ever made and if anything give that estimate a haircut.

Q. How does an Iron Ore mine have a moat?

A. Lower Costs are the moat/competitive advantage. If it truly has the lowest cost of production (he mentioned a mine in Alaska) then it has a durable moat. (Miguel's personal point…You can also have lower shipping costs. I believe some Korean steel makers enjoy these advantages)

Q. What have you changed or tweaked since writing the Dahando Investor?

A. The only departure has been that of concentration. He now approaches concentration via the Seth Klarman framework.