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- MARKET OUTLOOK -

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*I*n a [recent speech, Mohnish Pabrai](#) recounted how Warren Buffet noted in his 2022 letter that because of his many mistakes, Berkshire has a large group of companies that are just marginal businesses. The best investor of all time then goes on to say, that in his 58 years of capital allocation, most of his decisions were just so-so and that the 'satisfactory' result that is now Berkshire Hathaway is a product of about twelve truly good decisions. Looking at it more analytically, Mohnish Pabrai estimated that over those 58 years, Berkshire made approximately 300 important decisions including acquisitions, common stock investments and key managerial hires and that therefore less than 5% of Warren Buffet's decisions resulted in Berkshire returning 3,787,464% (19.8% p.a.) compared to the S&P 500 which returned 24,708% (9.9%).

*M*ohnish Pabrai surmised that in his opinion, it wasn't so much the buy decision that accounted for such an outstanding achievement, but more the decision not to sell those great businesses and hold them over a long duration while they compounded their retained earnings at good Returns on Invested Capital. He concluded that while an investor can buy many mediocre investments over their lifetime when they identify a truly exceptional business at a reasonable price, they should not dispose of it and should allocate a disproportionately higher allocation of their portfolio to it. He cited several examples to rationalize his conclusion:

*N*aspers: Mohnish Pabrai noted how Koos Bekker the CEO of Naspers bought 47% of Tencent in 2001 and while they sold a small portion of their holding in the IPO in 2004, they held the bulk of their investment right through to 2018 resulting in a $32m investment growing to $170b.

*R*akesh Jhunijhunwda: Rakesh was a stock trader managing his own assets who bought a 6% holding in Titan Industries (a jewellery manufacturer in India) in 2003. He subsequently increased his holding to 11% in 2011 at 20 times his initial purchase price something that is very difficult for most investors to psychologically do. By the time Rakesh sadly passed away after 37 years even if all his other investments went to zero his $400 of initial capital would have grown to $1.4b.

*N*ick Sleep: Nick was the portfolio manager of the Qais Zakana fund that returned 18.4% p.a. over 12 years compared to 6.5% in the MSCI World Index. When he shut the fund, he advised his clients to do what he would personally do with his own portfolio, which was to buy three stocks: Costco, Berkshire Hathaway and Amazon. When Amazon reached 70% of his *all his other investments gone to zero over 18 years he would have compounded a return of 15.4% vs 9.5% for the S&P 500.*

*B*en Graham: Ben was the father of value investing who advocated buying stocks below liquidation value, less than their net working capital etc. and sell them once they had reached those values. However, his greatest investment success was a $712,000 investment in GEICO the insurer that he held for 28 years and grew to $95m. Had all his other investments for which he was famous for gone to zero he would have returned 12.9% vs 6.9% for the S&P 500 simply by buying and holding a good business.

*N*ifty Fifty: Mohnish Pabrai compared two scenarios here. One in which Walmart was included in the Nifty Fifty and one where it wasn't. Despite the sky-high valuations that the Nifty Fifty stocks had reached and the subsequent crash thereof, in the first scenario had all the stocks in the Nifty Fifty gone to zero except Walmart the Nifty Fisty would have returned 13% vs 10.7% for the S&P 500 over 52 years. In the second scenario, with no price discipline, the Nifty Fifty excluding Walmart would have matched the S&P 500.

*M*ohnish Pabrai's key lessons were: "1) A large error rate is par for the course with investing, 2) hold onto great business for dear life, 3) try not to pay fancy prices for great business; and 4) focus on great businesses with great people and a long runway." It could be added that when such great businesses are identified 'bet big'.

*I*n conclusion, the insights from Mohnish Pabrai and the investment journey of Warren Buffet underscore a profound truth in the realm of investing: the power of discernment and patience. It is not the quantity of decisions but the quality of a few that can lead to monumental success. As we reflect on the staggering growth of Berkshire Hathaway, it becomes evident that a handful of judicious choices, coupled with the fortitude to hold onto exceptional businesses, can yield results that far surpass the broader market. Investors are thus reminded that while the allure of frequent trading and portfolio adjustments is strong, the real triumph lies in recognizing and steadfastly nurturing those rare investments that promise extraordinary returns. This philosophy of strategic selection and long-term commitment is what aspiring investors should glean from the legendary tales of Buffet, Pabrai, and other titans of the investment world. It is a testament to the adage that sometimes, doing less is indeed doing more.

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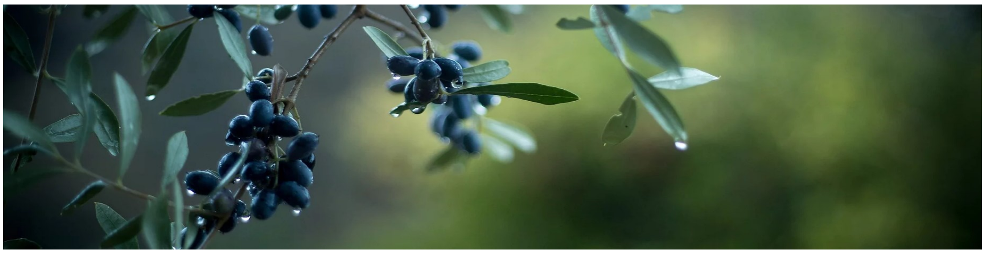

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Strong Roots, Sustainable Growth

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