

Mohnish Pabrai's Interview session at The Diary of a CEO on July 13, 2025

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SUMMARY

Monish Pabrai discusses the importance of mental models in entrepreneurship, emphasizing that successful business ventures often stem from cloning existing ideas rather than creating entirely new ones. He argues that risk in entrepreneurship can be minimized through strategic planning and that many successful entrepreneurs have thrived by identifying and exploiting gaps in the market.

- *Mental models are frameworks for thinking that can lead to innovative solutions when combined.*
- *Cloning existing successful business models can be more advantageous than creating something entirely new.*
- *Entrepreneurs often minimize risk rather than take it; starting a business can be less risky than staying in a 9-to-5 job.*
- *Listening to customer feedback is crucial for refining business ideas and ensuring they meet market needs.*
- *Successful entrepreneurs often focus on delivering value rather than solely pursuing profit.*
- *Hiring exceptional talent is critical for scaling a business, and founders should prioritize recruiting.*
- *The concept of "circling the wagons" emphasizes the importance of holding onto successful investments rather than selling too early.*
- *Compounding returns through consistent investing in index funds can lead to significant wealth over time.*

[Music] [Music] Monish Pabry with the work that you do and the sort of public educating that you've done more recently in your career. What is the message you're trying to convey? If you had to summarize that message and exactly who are you trying to convey it to?

>> It really depends on what message. There are a few different mental models that I've figured out over the last few decades. when you have you know clarity on these mental models and especially when you can start overlaying them that's when you get 1 plus 1 becomes 11. So these mental models are not all in the same direction or in the same genre. >> So just to pause there for a second so the the word mental models >> Yeah.

>> means it's basically a framework for thinking. >> Yes. >> So one framework for thinking is this idea of cloning. >> Yes. >> Um as one such example. >> Yes. Let's take the mental model of cloning. >> Cloning. >> Cloning. Right? So what we are taught is that if you want to start a business, you need to come up with something new, something that hasn't been done before. But the reality is that the world will very easily accept three of the same thing or five of the same thing. And usually it is an advantage to look at something that already exists and say can another one of those exist for example or can I take what's there and tweak it a little bit. So there's something peculiar in the human psyche maybe going back into our history and our ancestral evolution where humans look down upon cloning. But if you look at it, so for example, two of the greatest

cloners I think in human history were Bill Gates and Sam Walton.

Now we think of Bill Gates as an innovator and we think Sam Walton created Walmart, which was also new, but actually they're both me too models. And Microsoft would not have existed without being a great cloner. So when we look at Microsoft Word, it came from Word Perfect >> which was a company >> which a competitor that he took out. We look at Excel, it came from Lotus. We look at Bing came from Google and you know what Bing is but it's not Google.

Everything that Microsoft has done well at has come from copying someone on the outside. And when we look at Sam Walton, who's you know the Walton family, if you pull them all together, it's the richest family in the world. It's richer than Elon and everyone. And Sam Walton, by his own admission, would tell you that he has no original ideas. So, originally Walmart cloned Sears and Kmart.

>> For my international listeners, these are two big supermarket chains. >> Yeah. And they're both gone. And in fact, Walmart buried them. And Sam Walton was one of the most intense cloners ever. So if he was driving on vacation with his family and he's passing some retail store, he would tell his family to stay in the car and he would go in the store just to check it out. And he said that there is no human who has lived in history or will live in the future who has visited more retail stores than he has.

One time there was a manager of his and he would go in with his managers to these stores. Retail is one of the most transparent businesses. You can go into your competitor's store and you'll figure out the entire business model in 10 minutes. You don't need to talk to them. Okay? It's beautiful. So he went into this retail store and the manager says to him, "Oh, what a terrible operation. The whole store was topsyt." And Sam says to him, "Yeah, but did you see the candle display? The candle display was fantastic." So Sam felt that he could learn from anyone. It didn't matter if you were a useless operator or great operator or whatever, anyone in the middle. Walmart is just an amalgamation of ideas from other places. If you look at a company like Starbucks, we think of Starbucks as innovative. But actually what Howard Schultz did is he saw a concept in Italy and his idea was that I think this is work in the US, right? And so he cloned that idea from Italy and brought that coffee shop experience to the US. If you are a great cloner, you will be 90% ahead or 95% of the rest of humanity.

Now another mental model, humans have this perspective that starting a business is risky. In reality, entrepreneurs do not take risk. They do everything in their power to minimize risk. And in many cases, when they embark on a business, the risk approaches zero. What is extremely risky is a 9 to-ive job because we have one life, right? And it goes away and you may not get to do what's in your heart. You may not get your music out, right? And so getting our music out is really important. So this notion which is drilled into us that if you're an entrepreneur, you're taking risk really kind of does a big disservice to most humans. And if humans understood that if I embark on a business, I can do it in a format where the risk is zero or close to zero and I can clone an existing business. Right now you've combined two mental models and we can start adding more to them.

But two has become 11. 1 plus 1 has already become 11. It's nonlinear. And why is it that why am I saying that

entrepreneurs do not take risk? So if I take my own case as an example and I can give you a hundred cases like that but if I take my own case as an example I was working 9 to 5 at a company and I had a business idea my employer expected me to work 40 hours a week. Right? there's 168 hours in the week. So I felt like there must be at least another 30 40 hours that I could work on my startup.

>> Could you show me this in context? >> Yeah. So if we look at our whole week for example these beautifully arranged Legos, if I take one of these blocks of Legos, so each one of those blocks in there is two hours. So eight hours a day. We're sleeping 8 hours a day, right? >> And we're doing that 7 days a week, right? So, basically, we've got 7 days a week. 8 hours a day we're sleeping. The blue Legos are showing our 40 hours a week. 8 hours a day, 5 days a week, we're working, right? Then we get to other, you know, uh preparing dinner and showering, shaving, getting ready, whatever else. So that's about 4 hours a day on the weekdays, which is including commute time, and about 8 hours a day on the weekend. Then we get to free time, you know, social media, watching Netflix and hanging out with friends, going for dinner. And we've got quite a bit. We've got about 4 hours a day of doing that and about 8 hours a day on the weekends.

So this is kind of typical what a typical week for most people would look like. Right >> now, when you're starting a business, the important thing is don't shut off the cash flow. Some other yo-yo is paying your rent and some other yo-yo is paying your groceries. So, we don't want to rock the boat, but we're going to make one change to blue, >> which is the amount of hours I'm working for my 9 to 5. >> Now, before I started my startup, I used to get top reviews as an employee. I was very focused on doing a great job for my employer all in. Right. The day I decided I'm going to run do my startup I decided I need to be just above firing level. My performance needs to be just good enough so they don't can me but nothing beyond that because I need all my energy to go into my startup. So that's the only tweak I'm making is the blue stays but we're not doing extra blues like we were doing before. Right. And blue for anybody that doesn't can't see because you're listening on audio is work.

>> Exactly. Yeah. Blue is work. Exactly. Now when we embark on a startup, we should never do a startup to make money. It's the worst reason to start a company. The purpose of business is not to make money. The purpose of business is to deliver an incredible product or service to humanity. If you do that, the money is a side effect. It'll happen. We don't need to focus on it. So, what we are looking for is do we have a product or a service that we are thinking about that we could bring into this world that is going to improve the world in some way?

>> How do I know if it's a good idea? Whatever idea you have come up with is not going to work. Okay? Because you came up with it in an ivory tower between your ears. Okay? And that's not really a great place to find great ideas. What's going to happen is we're going to be doing what I call rapid prototyping, which is we take this idea and show humans what it is. And when you show it to humans, you will get feedback. Maybe I'll just give it in more practical terms.

>> When I was starting my first business, it was going to be a IT services business, okay? Information technology services. And I was going to be providing these services to very large businesses, companies that are, you know, billion dollars or more in earnings or cash flows. I was in a meeting with senior IT guy at a very large bank in Chicago and I was going through my PowerPoint deck with them. I came to the 10th slide, said my spiel, went

to slide 11. So the boss who was sitting in the meeting said, "Go back to slide 10." So I went back to slide 10 again, gave my speech that I had for slide 10 and took it to 11. He said, "Go back to slide 10 and do not change the slide. I don't have an interest in any other slide." Okay. So I took it back to slide 10 and all he wanted to talk about was what was on slide 10. My deck was talking about seven things we could do.

Slide 10 was one of those seven. It was an extreme pain point for him. He needed help on that one thing. He didn't need help on all the other riff raff stuff I was talking about. So when you're doing a startup, you have to be listening very carefully. Your customers or potential customers will tell you exactly what you need to do. Whatever you came up with may be 80% right or 70% right or 40% right, but your customer will tell you what is 100% right.

>> Okay? Because that's a real pain point. So I went back and thought about it and I realized that his pain point and I could see it was a severe pain point because he gave me a purchase order at the end of that meeting was going to be a pain point for a lot of people. So I went back I took slide 10 blew it up into 20 slides and that became the deck. Okay. Everything else got thrown out right now. I couldn't have done that without him. my brain is too small to have figured that out. So, anytime you're doing a startup of any kind and you have a prototype or a early product or something going on, your users are going to tell you exactly what tweak they want. You've just reminded me of a conversation I had this morning, >> okay, >> where I interviewed someone because much of what you're saying is orientated towards startups, but it's actually every single day of everyone's life because I interviewed someone this morning for a really critical role in the company. And this person has spent 20 years at one of the biggest companies in the world. And when I was doing the interview, she was telling me about lots of things she's done in those 20 years.

And I was just trying to get to this one thing. Can you put on events? And she was telling me about this and that and the other thing and this and this and the thing. And I was just actually I'd only come to this interview to figure out if she could do put on big scale events. So we spent of an hour conversation. We spent 55 minutes talking about a bunch of things I wasn't interested in. And actually as you were speaking I was going you know what she could have done at the start of that conversation. She could have gone Stephen can I ask you one question?

>> What is the what are you looking for from this person? >> And if and then I would have gone I just want someone that can put an event and then the next 55 minutes could have been persuading me that she can do that. >> Sure. And it just applies to what you just said there. How could you of the as the saleserson that day in that meeting with what you know now, how could you have done a better job without going through all of those slides?

>> Well, I think what I would do now if I were doing something like that is that my radar on listening would be 10x. You know, we don't learn when we speak. >> We learn when we listen. So I would really be trying to talk less and extract more >> and I wouldn't even rely so much on slides. I'd like to really try to bring them in into into what they are trying to say. And so basically if you study businesses, you know, ventureback, non-benture back, whatever, this is a very common thing. There are almost no businesses who end up with the business

model that was originally conceived. I mean that just is would be such an anomaly. It's really the interplay between the founding team and the early customers which really leads to taking this wet clay and making into something that people want >> you know and so you know if you think of something like Google Glass you know when they came up with those glasses that they thought the whole world was going to wear.

>> Yeah. >> So it didn't work. Well why didn't it work? Well, the reason it didn't work is you're talking about something extremely personal. Okay? Like for example, Wrigley's chewing gum. Okay? My mouth is a very personal space. I'm not going to put Gloth's chewing gum in there. >> What's Gloss Chewing gum? >> Exactly. >> Okay. Yeah. >> You're not going to put some brand that's half the price of Wrigley's. >> Yeah. >> In there. Because you don't want to go there. That's not of interest to you. So when we wear glasses or sunglasses or anything we wear that's very personal.

So the ergonomics and the human factors are very important. If it's slightly off now Meta is trying to do the same thing but they went to Rayban, right? They did a JV with Rayban. Those glasses look like normal glasses. >> Mhm. >> I think there's a higher chance. >> Well, I've got some. We use them. Yeah. You don't have any Google Glass. >> No, no, no, no. I mean, I think they they cut the project, didn't they?

Google. >> Yeah. So, what I'm trying to say is that we have to pay very close attention to the customer. I mean, Steve Jobs was right. The customer doesn't know what he wants. Okay. But if you put it in front of them, then they can now tweak and tell you exactly what they want. >> Right. And that's another mental model, which is now we get to the third model, which is that you're not smart enough. Whatever founding team you have is not smart enough to figure out what people want. period. So you have to have very good listening skills and you have to be have the flexibility and again when you're listening separate the signal from the noise, right? Take in what is real signal and ex leave out what is the noise and then you're starting to get down a path which is going to make more sense.

>> The other thing that's kind of a model maybe woven into there was this idea of just like attention to detail. I'm not even sure if that's a model, but when you told me about the Walmart founders laying between the aisles to measure the exact centimeter of length, the model there for me was just like precision and detail. It's a game of inches. I mean, what I'm saying is that when Sam Walton was trying to figure out the name of the company, one of the reasons he went with Walmart was it was seven letters and he was looking at the cost of putting up signage in his stores and he was trying to come up with a name with the fewest letters because it costs less.

>> Okay. And so I mean cost sensitivity is all over the place in Walmart, right? I mean that's just front and center with what they do, right? They just really squeeze blood out of a rock, you know? So basically, I mean, I think that was and that's the reason why they became so successful. One of the things you can always control in business is your cost. You may not be able to control your margins and selling prices and a lot of other things, but you can always control cost. So that's another model where you have to have discipline.

>> You have to have very strong discipline on the cost side. If you look at something like LVMH, you know, the guy who runs it, I mean he's in luxury goods. He's in high-end >> LVMH make Louis Vuitton and >> Yeah.

Yeah. Yeah. I mean everything, you know, is you know they've taken over Tiffany's everyone. But when you look at how the company is run, it's very tight. He spends money on the best real estate because that's important, but the deals he negotiates on those real estate is mind-blowing, you know. So, it's a very tightlyun operation on a product category that doesn't necessarily need it. That's why he's become the wealthiest guy in Europe >> because that mentality will then apply to every decision.

>> Absolutely. >> And if you apply it to a 100 things, it does matter. >> Oh, it does matter big time. Yes. So I have these yellow blocks here which represent working hours working on your own business. >> So show me how you would take some of these blocks away. >> Yes. >> And introduce hours working on your own business. >> Yeah. So basically it's really quite simple. We're really not going to mess with our sleep cycles. We're going to leave that alone.

>> Sleep staying the same. >> And we need our blue, which is our work work space 40 hours. We need that to continue. One of the changes we're going to make is we're going to live close to work. So we're going to cut down commute time as much as we can. >> Okay? >> Because every hour matters. Okay? So the area that we're going to focus on is the free time. Okay? >> And the reason why taking out the free time is not a problem is because what we are embarking on like we just discussed is not about making money. It's getting our music out.

>> Getting our music out. What do you mean by that? Which means that we have something in us that we know the world needs and we want to bring it to that world. We want to bring it to the world and because we want to bring it to the world, it's not work. >> I think the audience might be challenging themselves in their head and saying, "But I love my the thing I do for work. I'm I'm one of maybe the rarer group of people that I get to work with puppies every day, and I love that."

>> Yeah. So I think this is not for everyone. So I think you have to ask yourself who you are. If you are truly excited about your 9 toive job and what you're spending your main waking hours on, awesome. That's great. I mean, everyone's not going to be an entrepreneur. Everyone's not going to have a startup. Everyone they may be getting their music out in a different way on someone else's platform, which is perfectly fine. But if that is not you, where when you go to work, you're not super excited to get up in the in the morning and you're not tap dancing to work every day. If that's not happening, then there's something wrong. And you have to ask yourself, well, is there something else that you're passionate about that you want to do? And this is not something that should take a lot of effort. So if we go back and look at for example Bill Gates and Paul Allen, right? I mean, Bill Gates is at Harvard and he sees magazine which shows a very early personal computer and he realizes that there's a paradigm shift and he realizes that he needs to be part of it.

And Paul Allen is the one who sent him that magazine and he told Bill, "We got to go do this now. This is our time now." And for Bill, it was a very easy decision. Very easy decision. Very difficult for his parents. His parents were in shock that he's going to abandon his degree. And you know, he told his parents, "Don't worry about it. I'm going to come back and I'll finish the degree." And several decades later, Harvard gave him an honorary day. and his parents were in the audience and he told them, "I told you I'd come back, finish it off."

Right? >> I put some numbers to this. 12% of people according to the stats that are listening right now are explicitly unsatisfied with their job, which means they hate it. 85% of workers globally are disengaged, meaning they're not fully invested or happy at work. So, it's a huge number of people. More than half of the US workers are at least somewhat satisfied, but engagement remains worryingly low. So if we look at that 85% number, 85% of workers globally are disengaged, meaning not fully invested or happy at work. So it's really those >> sure >> people. And the thing is it's not just enough to be unhappy at work. That's one piece of it. The unhappiness can be an symptom. One of the causes can be that you have a different calling in life and you are not following following your calling. Now sometimes for someone like Bill Gates for example and Paul Allen they figure out their calling and they just went right for many of us it may not be that easy. So what we have to do is we have to try a few things. You know you try on different shoes to see what fits. And so, you know, have some thought experiments. Talk to your friends. You know, say, "Okay, you know, I'm a UPS driver. This is what I do. And I really like playing the guitar or I like to make these art figurines or something at home and whatever else, right? So, you have to figure out what your calling is. And I'm probably not the best person to tell you how to figure out what the calling is. Maybe another guest of yours can can uh can help them with that.

>> Do you think everyone has a calling? >> Yeah, I mean I think we are all unique children of God and I think we all have some music we want to get out and knowing what that is and getting it out may not be the easiest thing but it's a worthwhile journey to try to get there. Right? So, we can't do this just because we're dissatisfied. And we can't do this just because we want to make money and get rich. We've got to have something that we think the world would be interested in. And you know, in my case, I I'd gone through this session with a couple of industrial psychologists and they told me, "Monish, you like to play games. You're a game player." And actually, they couldn't be more accurate. So when I was doing my startup, I'm a numbers guy and a math guy. So I actually like that. So what I used to do is because I had no money, I used to send 200 letters a week to these senior IT people at 200 different companies. But what I did is so all these people I was sending this letter to, they had a gatekeeper, some secretary etc. whose job was to not let anything through. And my whole purpose was I need this letter to get through.

It needs to get through the gatekeeper. So I was using mailmerge which was mass-producing these letters. But there was customization the mail word where if person some person's name was David Smith, it said dear Dave. Okay. And then throughout the letter it talked Dave. Dave's name came up like three four times. when the assistant got a letter, she couldn't tell whether I know Dave or not >> because he used his shortened name, >> his shortened name, and she doesn't want to throw a letter that is somebody that he knows. So the letter would go through enough times right now. What I also did is one week after those letters were delivered, I called I made 200 calls. I called all 200 people and basically if I got voicemail, left a message, whatever else right now they have entered the sales funnel. Okay, so Dave Smith is in the salesfunnel. If I get no response from Dave Smith, after one week there's one more call. Then the calls start getting spaced out double time. Two weeks out, then four weeks out, then 8 weeks out, then 16 weeks out. But Dave never leaves that funnel, okay? Until he tells me, "Do not bother me anymore and I have no interest," they're going to stay in that funnel. So the second week, I send out another 200 letters, make another 200 calls, right? And now I've got the first week, second week. So you can see as time goes on, I'm calling non-stop, >> right? because this thing is but what I was tracking because I'm a math guy what I was tracking is okay these 200 letters went out how many people did I get any kind of positive response from right because not everyone's telling me to get lost okay and how many meetings am I

having and what is the ratio of calls to meetings meetings to close etc and my ticket size of the item I was selling was very large hundreds of thousands of dollars right 9 months after doing this where now let's go back here so we're going to take our free time so what I've tried to describe is that what I'm doing is actually more exciting than the orange the yellow is more exciting than the orange so basically >> what is the yellow >> the yellow is our startup >> so that's working on your startup >> so on the weekends I'm going to do 10 hours a day because I'm not working, right? And on the weekdays, I'm going to do four hours a day because I've got other things to do because I have a job and whatever else is going on. So, there's my weekdays, 5 days there where I'm putting in four hours a day and then I'm putting in 10 hours on the weekend. And the free time, this is not as exciting as pounding Dave.

Pounding Dave continuously till he says either get off my back or here's your purchase order is very exciting. It's way more exciting than playing some social media or watching Netflix or whatever else which is what people currently do with their free time. >> So one of the litmus tests of whether you should be doing a startup or not is yellow needs to be more exciting than orange. >> Your startup needs to be more exciting than your free time. Netflix should be so painfully boring for you and going on Facebook or Instagram whatever should be very boring for you >> compared to >> this is exciting >> compared to building your company.

>> Yes. So you know the Pink Floyd song we don't need no education. >> Yeah. >> We don't need no thought control. >> Yeah. >> We don't need none of this. This is so useless. You understand how useless this is? Yellow is where it's at. It's not It's not the orange stuff. We don't need this. Thank you, Stephen. >> So, we don't need any free time. >> This is better than free time. >> Building your business.

>> You're having an orgasm every hour. >> So, what can you what what can be better than this? Much of what I do here when I'm having these conversations is I'm trying to put myself in the shoes of the person who is currently sat in a in a ninety-five job and they've got an idea and their idea is isn't really hasn't really gone anywhere yet necessarily and the the pressure they're feeling in their lives is isn't probably now a financial one like they want financial freedom. They want more optionality in their lives to be able to go on holiday, make more choices and have more freedom.

If you're that person, what are the mental models that we haven't discussed yet that you need to be thinking about to get from zero to one? >> So, one of the things to keep in mind is that we live in a world now where most things that you would want to do in terms of starting a business are not capital intensive. >> What does that mean? >> Doesn't take much money. In fact, what's been happening over time is startups need less and less and less money because they need more and more and more brain power, right? So, the good news is that a gating factor is not that you need money. When I started my business, I signed up for every credit card that would come to me. So, I had 70,000 in unused credit lines in probably a dozen Visa and Mastercards, right? I had about \$30,000 in my retirement account, my 401k, which I also took out. I said 25, I can make that up later, right? So basically, I had \$100,000 of capital and that \$100,000 got used because once I got going, I needed working capital and so on. But then the business was actually cash flow positive. 9 months after I was doing this, I was able to get rid of this.

So after 9 months my business was producing enough cash flow that I went and resigned. Okay. Yeah. We can we can put that in here as well. So what happened is that I went to my boss and his boss and basically told them that I'm started a business. It's not competitive with the company and I'm going to be leaving in 2 weeks and this is my two weeks notice. And basically that was that right. And you know they sat me down and said you know Monish we were so confused for the last 9 months because we met several times because we saw big drop off in your performance but it was never so low that we wanted to fire you.

I said exactly that was exactly what I was trying to do. I was trying to say just above firing level. He said, "Well, you mastered it." Because we we met several times, but we couldn't get rid of you. What they told me is they said, "Look, when your business fails, not if your business fails. When your business fails, please come back, we'll give you more money, you're going to get a promotion, and we'd love to have you back."

>> I could immediately come back. So, I said, I got one free shot. >> Yeah. where I leave my job, I go, I do this thing, and if it doesn't work, I'm back to almost exactly where I was. Almost no change. Right. >> Amazon's type one, type two decision-m. >> Yeah. And this is not just me. What risk does Bill Gates take? Okay. Bill Gates, what is his value as a Harvard freshman in the job market? Zero. Okay. Nobody would pay him anything. and he could come back anytime and finished a degree.

So let's say he went to New Mexico, things didn't work out. He's got wealthy parents in Seattle. Okay, he just comes back, graduates a year later and he goes on. So what was the risk? There was no risk. And if you study entrepreneur after entrepreneur after entrepreneur, what you're going to find, so if you look at Sir Richard Branson, he wants to start an airline. Okay. Now, to start the airline, you need a jumbo 747 that costs like 150 million.

>> The plane. >> The plane, right? That's some serious money. Richard Branson got Virgin Atlantic off the ground with zero and with zero risk. So, here's what he did. You replace capital with creative thinking. So he calls 2065551212 which is directory assistance in Seattle Washington and he asks for the phone number for Boeing. Okay. So he calls the main Boeing switchboard.

>> Boeing sell the planes right? >> Yeah. Boeing makes the 747. So he calls the main switchboard of Boeing giant huge company and says I'd like to lease a jumbo. And they hang up on him. Okay. He calls about 30 times and they keep hanging up and finally they get tired of his calls and the lady says, "Let me put you in touch with somebody who's in charge of leasing and they can tell you to get lost." Okay. So, she transfers him to a person who's actually leasing jumbos. And this person tells Richard says, "Look, Mr. Branson, in every country we have one customer and in the UK that is British Airways, so we have nothing to talk about. So he says, well, just humor me for a second. He said, if British Airways called you and said that they wanted to lease old used jumbo, do you have one lying around? So the guy says, as a matter of fact, we do, but that's academic. He says, well, what would you lease it to British Airways for? Just since we're having a conversation. What ended up happening is Boeing leased him that jumbo. And the reason they leased him that jumbo is they had one just sitting around. So they didn't really have any risk because they said the moment the guy doesn't make any payments, we're going to pull the plane.

>> Right? So now when you have an airline, you sell all the seats 4 months in advance. The cash has already come in. You pay for the fuel 30 days after the plane lands and you pay for the lease after the plane lands. You don't need any capital. Virgin Atlantic got off the ground with zero capital. Okay. Now, if you can start an airline with needs a jumbo with zero capital, you can start any business with zero capital. Okay.

So, basically when you look at business after business after business, all of them what they do is they start small, they're embryonic, they minimize risk, they get a few customers and then after that they just roll with the customers, right? And then that's how they get going. So the important thing is that when we take the blue out, when blue is no longer here, >> which is work, >> which work is gone, yellow is going to almost double or triple because this is where all the organic activity is.

>> So we move the work, we quit the 9 to 5 job and we move that time over to >> I was working on my startup like from 7:00 to 9:00 in the morning and then I would come back 6:00 p.m. and work till 10 or 12 in the evening >> when you had a job. when I had my job and then I'd work on the weekends and I was so desperate to just go full-time into it because I just said if you just let me go full-time I can tear it up and that's exactly what happened. I mean we in about first year we did 400,000 revenue second year 1.4 million third year 3 million and by the sixth or seventh year we were at about 15 17 million. It just grew because basically then I had no shackles on me, you know, I could just go full out, right? And the engine I knew all the statistics, these letters, so many calls, so many this, so much this means this and all of that >> and it works. So, and if it doesn't work, you can go back to your 9 to 5 and give it another shot, you know? So, you actually could do this a few times. I think that's a really unappreciated framework as you call it or mental model which is because you said you sent 200 letters. I so many times kids come up to me in the street and they say look I've been looking for a job. I've sent six emails.

>> Yeah. >> And they go no one's got back to me. >> Yeah. >> And you can see that it's hit their confidence and now they've actually arrived at the conclusion that getting a job is like harder and possible cuz they sense six. >> Yeah. >> Now when I interview people like you, they all give me much bigger numbers. They say 200, 300, 5, you know, and there's something in this sort of law of averages which is just like just take more swings, you know, you see it in like cricket.

>> My daughter when she was graduating from Berkeley came to me and I was really surprised. She said, I want to work at a hedge fund. And so I said, okay. And her degree was not in business. So she was not a natural candidate to be even considered. I said, can you make a list of every hedge fund in New York and LA? and put it in Excel. Managing partners' name, address. Now, we don't know people's email addresses, but we know everyone's mailing address.

Okay, the mailing address is a public piece of data. >> The address, >> the address is easy, right? She got a list of about 1,200 funds in LA and New York. And I said, what you're going to do is you're going to ask for the job, but you're going to have two pages behind that giving them a stock tip. You're going to give them a pitch that you have written up of a company that if they invest in, they're likely to make money. We sent the 1,200 letters, physical letters, okay? All physical letters, no email, right? And there's a 85-year-old guy in New York who gets

the letter. He's retired. The fund doesn't exist. It shouldn't have been on the list, whatever. But he has a friend in LA. He says, "Hey, Jamie, aren't you looking for an analyst?" And this girl, she seems to have the perfect kind of background. And she ends up with a higher salary than anyone who went to Berkeley business school with a much higher GPA than hers.

>> I was thinking about what you're saying. Um, and I made a video the other day which I think is somewhat relevant where I was trying to describe to people how to send a message to someone in a way that creates impact. And the framework that I came up with, which I'll I'll we'll animate on the screen, but is basically so this axis here is the signal versus noise of the channel you're using. >> So a high signal channel is one where it gets past the PA.

>> Mhm. It's less saturated, less busy. A high noise channel, which is the opposite, would be sending an email. Yeah. To the like press your company.com's email. So like everyone goes through that path and it doesn't get doesn't get to the person. And then the other axis is basically the emotional impact of the message. >> Yeah. >> So high emotional impact is doing what you said, put a stock tip in there, you're going to stand out, they're going to think you're a little bit strange or what you said about like shortening the name. That creates more emotional resonance. And then low would just be >> AI slop copy and paste jargon and really like the most successful messages are up here.

>> Absolutely >> high like high signal channel high emotionally resonant. >> Absolutely. >> But what h ends up happening is people send loads of messages down here and then they get depressed and demotivated. So no one's going back to me. >> Yeah. Like Michael Jordan used to say you miss every shot you don't take. >> Yeah. Yeah. Yeah. I mean, I think one of the things about entrepreneurs is that you need to have resilience. Like for me, for me, what the data I was looking for is that if I send 5,000 letters, okay, which takes 25 weeks, 6 months, how many meetings does that end up in?

If that ends up with 10 meetings or 20 meetings, well, now I have my number, right? And then the second part is the meeting to close ratio, right? And so to me as a math guy, I was just interested to know that it's not zero. >> Okay, I just want to make sure and I could see very quickly it was not zero. Literally within first two three months I could see it's not zero. I think one of the the most formative experiences you can give your children which I got at 16 through through 16 to 19 years old, which is what I did, was working in cold telly sales. So my job at 16 years old was to call people at 9:00 p.m. cold and try and get them to buy windows and doors. And it taught me the exact lesson you're describing, which is yes, 80% of people tell you to off.

>> 98% say that, but doesn't matter. I always like 80 80% told me to off, 15% said it in a nice way and then 5% were at least receptive to what I had to say. >> Maybe 1% close. But when you understand that, you think of life through that lens. >> And actually, Stephen, I had the almost same experience. So my father was an entrepreneur. He was really smart at identifying what I call offering gaps, like things that should exist in the world but didn't. And he would get these businesses off the ground with no money.

I saw him do it repeatedly. His downfall was he was very aggressive in growing the businesses. And so they

didn't have staying power. There was almost no equity. Always very lever. He went bankrupt eight or nine times, right? Repeatedly. When I was about 11 or 12 years old, my brother and I, we were like his board of directors, okay? Because he had nobody else. The three of us would sit down at night to figure out how to make the business last for one more day. Okay? Everything's caving in, the creditors are caving in, the business is collapsing. How do we make it work for one more day? And then the next night, we'd get together and how do we make get it work for one more day again? Right? At 16, and I don't know why my dad did this, but I'm so grateful that he did. He was at that time he had a gold jewelry factory in Dubai and he was going cold calling in person to jewelry shops to buy his jewelry that he was manufacturing. So he took me with him on many of these trips and I was 16 just like you, right? So we would take the taxi from Dubai to Abu Dhabi and now there's all these gold shops.

He doesn't know any of them, right? and he's going one after the other after the other after the other. And I would be stunned that fifth shop, he makes a sale. >> Yeah. >> And it's a very small sale because he has no trust and all that, but he's made the sale. Then I noticed that after 3 months, we go back to that same shop we made the little sale to. The guy brings out tea. He there's a there's a lot of chemistry bigger order and then I saw the orders increase right and then he's continuing to do that and I I went with him to do cutter and again the same thing it was like you know I saw how those doors opened >> and I saw how it didn't matter to him when they closed that was irrelevant to him you know >> really interesting new way to think about it because what you're saying there is actually when you get that one yes it's actually a seed that's being planted that can grow into something.

>> We just care about the ratio and the number. Okay. So, what effort did it take? Like I was saying, if I send 5,000 letters and I get 20 meetings, that's awesome. >> Mhm. >> I mean, that's a fantastic ratio because one sale is going to get me about 200,000 or 300,000. It's a significant amount, right? I mean, so that I don't need large numbers. And >> but the lifetime value of that, >> it's huge. Yeah. Yeah. I mean, these relationships I got then, they're still with me. It's like forever.

>> Here's a philosophical way to think about that for just everybody, which is you can remember probably conversations you had in your life that you thought were totally inconsequential, but then 8 years later that seed became a business relationship. The example I always give is when I was 14, I applied for the apprentice. They did this like junior apprentice on the BBC and it's a long story. 35,000 kids in London and across the UK applying. I met a kid in the line while I was queuing up for my audition and he said to me, "Oh, my dad runs this um \$500 million company." And I was like, "Yeah, whatever." Like not interested. I went through the auditions. I didn't and didn't end up getting on in the show for whatever reason. But then I ended up cuz we were waiting in the queue that day. I was really nice to this kid and I added him on Facebook. Five years later, I get a message on Facebook. Hey, five years later, although I didn't get on the show, which would have got me about \$25,000 investment in my company if I'd won. Five years later, I'm working on a startup. That kid from the line says, "Hey, um, my dad has sold his business for a billion dollars and I've been watching you on Facebook for the last 5 years. My dad would love to meet you."

It was an Indian family, the Alawalias. They had sold a business called Euro Car Parts. They took me to London

when I was literally so broke. I was like shoplifting food to feed myself. and his dad invested double what I would have won on the show into my business. Um, and I and that always reminded me that like every conversation that I have is like planting a seed that at any point in my life >> sure >> could turn into something >> like you know >> I mean you know I always bring up Adam Grant's book givers and takers. I don't know if you've seen that. All humans on the planet fall into one of three categories.

They are either a giver or a taker or a matcher. There are no other categories of humans. There just these are the three categories. Now the matchers are relatively simple to understand. Their mental framework is if Steven does me a favor, I'm going to try to do something similar for him. You know, one to one. They kind of doing matching in math in their heads. The takers who you don't have anything to ever do with are trying to scam and screw everyone and always take and never give.

Okay. The takers basically go nowhere. Okay. And if you have any takers in your life, get rid of them. Okay? Now the givers, what the givers do is the givers are not focused on what comes back to them. They just want to help you. They want to help humanity and what ends up happening is the universe conspires to help them. >> So the givers become the most successful. Everyone is trying to give to them even though they're not asking for it. And that's the book that Adam Graham Grant wrote, Givers and Takers, is one of the mental models. This is a great mental model to have is to be a giver. Don't play math games, you know, always try to make sure the other guy gets the better end of the deal and just keep going through your life that way and that goodwill will compound and it will take care of itself.

>> And the time horizon, you don't worry about the time horizon. >> You're not doing it for getting something back. That's the key. You're not doing any mathematics like I'm going to do. You're not calculating I'm going to do this so XYZ happens. you're just doing it. End the story. >> I was sat with my girlfriend last night. She runs a breath work business. So, she's essentially a soloreneur. Um, and she's at that point where she's trying to scale. In fact, I just meet so many I think I actually ran a survey before and the vast majority of business owners are in that theme category, that small small sort of business category. It's the back startups are the backbone of our economy. But they they come to me with the same problem, which is maybe I started as an individual. I've got high demand and now I'm a bottleneck and I don't know how to get out of being like a freelancer. How does the freelancer become an agency? And the thing I was chatting to my girlfriend about last night was um the steps she hasn't taken yet is to hire someone exceptional. And so many founders come to me, these early stage founders, they're like, uh, like I I my customers like me, I do it better. I don't trust anybody. I I wondered if you had like a mental model for thinking about >> the thing is so if you look at people like Elon Musk and Steve Jobs, they believe their number one job is recruiting. The first 3,000 people who joined SpaceX, all personally interviewed by Elon. Just think about that. Those are 3,000 hires. Think about the number of interviews to get the 3,000 hires. Okay? He did not believe there was any other way.

And what Steve Jobs used to say is that A players want to work with A players. The moment you start introducing B players, B players will hire B and C players. They will never hire an A player. So your downhill the journeys already started the moment you get a B player. And so as an entrepreneur, you know, we have a lot of demands on our time, right? But recruiting has to be at the top and you've got to be willing to spend

inordinate amounts of time on recruiting. Okay? And you know there are tools that you can use.

We use there's a company called Caliper we use for pre-employment testing. And the thing is that between the genetics of a human and the first 5 years of their life experience, who they are, their traits are hardcoded. That is not going to change from 5 to 95. Okay? So it's not like you're going to change a human. Human is the way they are. Okay? Now these pre-employment testing tests can get you data that you're not going to get in interview. So recruiting is really important. And I think the other thing is we're willing to hire people who may not do things as well as we do, but actually also what I've also found is I have so many people on my team who are better than me. You know, they're better at many of these things because it's not my natural bent to do those jobs.

>> So that's really when you get a huge bang for the buck is you end up with team players that are way better than you. >> How do you think about firing people? Cuz this is the other thing I hear from founders. >> Hire slow, fire fast. >> Founders really struggle with the fire fast thing. >> And it is very important to fire fast. I think fire fast is more important than hire slow and you're doing the person a service because they may be exceptional in another role at another place. So you are helping them try to find that >> and you're helping your other team members. If I was trying to work for your companies, what is the one non-negotiable? Like what is the trait that I would demonstrate where you would immediately not even consider me?

>> The most important is integrity. >> Mhm. >> You know, I mean, we want three traits, right? We want intelligence, we want integrity, and we want willingness to work hard, right? And none of these three are really negotiable. >> And what does integrity mean in your definition? >> Well, it's absolute honesty. It's pretty simple. You know, it's black and white. you conduct yourself with the highest levels of ethical standards. So on all fronts when you're dealing with a customer or internally or externally, it's the moral standards need to be very high.

>> When you think about your wealth, how much of it has come from building businesses versus being a great investor of the capital that you manage to make from those businesses? >> I think currently most has come from the investing side. You're very well known for being a really excellent investor over many many many many many years. I'll put a graph on the screen that I found which I think shows the returns of your investment strategy versus the the Dow Jones this graph. Have you seen that one before?

>> I haven't seen it this way but people put up all kinds of things. Yeah. >> I mean all this says is that you're extremely good at investing. So I want to know if I if I'm in starting my investing career. I'm working in a 9 to 5 job at the moment. I've got a couple of thousand dollars in my my bank account. How should I be thinking about investing? Should I be investing? >> So, there are three things that matter in terms of getting a great outcome with investing. Starting capital, how much the amount you start with, length of the runway, how long are you going to invest the money, >> and the rate of return. Okay. So, before I answer your question, I want to tell you a story. And this is a true story.

In 1623 in New York, the Native American Indians in New York who owned the island of Manhattan, the Dutch settlers wanted to buy the island. And so they went to the Indians and said, "We'd like to buy the island of

Manhattan, great natural harbors. It can be a great place for us." And the Indians and the Dutch reached an agreement to sell the island of Manhattan for \$23. And when people hear that, they think, "Oh, the Indians got taken." You know, I don't know Manhattan for \$23 is ridiculous. But let's say the Indians had a trust officer who they said, "Invest this \$23 for the benefit of the tribe and try to do a decent job."

Right? Now, there's something known as the rule of 72. And the rule of 72 is a very important rule, and I wish they would teach it more in high schools. In elementary school, it tells us how long it takes money to double. And it's a kind of a mathematical hack. So, for example, if I'm going to get a 7% return and I do $72 / 7$, that's approximately 10. And at the 7% return, it's going to take 10 years for the money to double.

7% compounded will take 10 years. If I have a 10% return, it will take 7 years. $72 / 10$ is 7. If I have a 15% return, it will take five years. $72 / 15$ is five approximately. And if I have a 20% return, it'll take 3 and $1/2$ years. So this rule of 72 is a nice hack. And it's very important to know how long money takes to double because then we can start doing a lot of math in our heads. So when we look at these Indians with the \$23 if they were getting a 7% return it would become \$46 in 10 years and then it would become \$92 in 20 years and \$184 in 30 years so on.

Now if you go 100 years right it's 10 periods of 10 and 10 periods of 10 is 2^{10} and 2^{10} is 1,024. So we throw away the 24 because we don't want to complicate the math. So at 7% for 100 years you would have a thousand times what we started with. And this is why because compounding becomes nonlinear. People have a hard time getting their hands around it. So >> nonlinear meaning >> it's not going up in a straight curve.

It's going up in a >> hockey stick. >> Hockey stick club. Yeah. So in 1723 the Indians would have 23,000. It would have gone up a,000. And then if they continue at the 7% in 1823 they would have 23 million. And in 1923 they would have 23 billion. And in 2023 they'd have 23 trillion. Okay. Now the entire wealth of every man, woman, and child in the United States is 150 trillion. 16th of that is not undeveloped land in Manhattan. So if the Indians had invested at 7% a year for the last 400 years, they would have more money than owning the land.

>> So they were not taken. They were given a fair deal, but they just didn't have a good trust officer who could actually make it happen for them. So the magic of compounding is that we started with \$23 and we end up with 23 trillion without having a great rate of return. It's just an okay 7% is just okay. It's not great. It's not bad, but it's okay. Now if you go back a 100 years, so we started at 1623. Go back 100 years to 1523.

We had 2,300 cents in 1623. >> 2,300 cents. >> \$23 is 2,300. >> Oh, okay. If they'd got it >> just converted to cents instead of dollars, right? >> Now, if you make it 1,000th of that, >> so just so I'm clear here. So if you're saying if you went back 100 years from that point and you gave them just 23 cents. >> If you gave them two cents, >> if you gave them 2 cents, >> 2.3 cents to be exact, but if you just gave them two cents, >> yeah, >> a 100 years later there would be \$20. If you gave them 2.3 cents, a 100 years later they'd be \$23 and now it would be the 23 trillion. Right? So what I'm trying to say is that if the runway is long enough, the starting capital doesn't matter. Even the rate of return doesn't matter if the runway is long enough. Now, so when people are

thinking about investing, they have to keep a few things in mind. The first thing is spend less than you earn. So always try to save the first dollar rather than the last dollar. So if you are making \$50,000 a year, put \$5,000 into savings to start with and then do the rest of your expenses after that. Now it's very important when we saw with this example, you start young.

So when people start working at 22 or 23 whenever they start working they have to be saving then because that early money at 22 can compound for 50 years and that's what we want. So we don't need to do heroic things with finding the next Nvidia or whatever else. We can just put it into an index. And the important thing is spend less than you earn and keep putting that 5 7 10,000 every year into the savings. Don't go have a vacation in Hawaii with it. Let it keep compounding and just put it into a broad index and we don't really care.

>> So for someone who has never invested before, yeah, >> which would probably be the majority of the audience, how do we simplify even further in terms of just put it in an index? What does that mean? So basically, you could open an account at Fidelity or Interactive Brokers or Robin Hood, any of these places. You could open a brokerage account for very little money. >> And there's lots of them in every country. >> Yeah. And then you could just ask them to buy you the S&P 500 index, for example, and they will get you invested in that.

>> And the S&P 500 is basically the top 500 companies. >> It's the Yeah. the 500 dominant businesses in the US like Nvidia's in there and Microsoft and Apple and so on >> and you're going to get your 10% a year if it if the trend holds over the last century. >> The S&P has plenty of periods where it does nothing. It's somewhat overheated right now. But I think if you have a long enough time horizon and your dollar cost averaging in, it's perfectly okay. What you could also do as an alternative is buy Berkshire Hathaway.

So that's a stock BRKB. So you could again tell these people that just put it into Berkshire Hathaway. It's like an index. And again, it's like set it and forget it. You don't need to think about the investing side. You focus on yellow, okay? And keep putting this little money away on the side and it's going to compound. And so at 18, if you put away \$5,000 and you fast forward to when you're 68, 50 years later, right now, if you got a 10% return on that money >> every year, >> let's say, every 7 years it would double.

Okay? 72 divided 10 is 7. 50 years is 7 doubles. 2^7 is 128. Okay? So, we can throw away the 28. Keep it simple. You're going to have 100 times what you started with. So, the 5,000 at 18 is going to be 500,000. Okay? At 19, if you put money away, that's another 500,000. 20, you might have 10,000 you can put in. So, you can start seeing that over a lifetime, you know, you're going to be having too much money.

>> You've been referred to as the the Dando Investor. And uh I've I've got a book here which you wrote called the Dando Investor. What what what does this word dando mean? And why do they call you the Dando Investor? Dando is actually a word from Gujarat which is on the western coast of India where Gandhi came from. They are extremely astute business people and dando if you translate it directly in Gujarati it means business but it doesn't really mean business.

What it means is it's a way of doing business where the downside is non-existent. We already discussed how Mr. Branson is a dando investor. He had no downside. Mr. Gates was a dando investor. He had no downside. Mr. Walton is a dando investor. They had no downside. So all of these people embarked on businesses, built huge fortunes without taking risk. And so the dando investor was written from the perspective of how can we minimize risk while keeping the returns intact.

>> You use this example of the Patels. >> Mhm. >> What is what is that story? >> The Patels went to Uganda more than 100 years ago. Maybe close to 130 years ago. >> It was a family. >> It's ethnic group in India. So this ethnic group came to Uganda to build the railroad but they are very savvy business people and over the course of the last 100 odd years when they were in Uganda through their dando methods of doing business they became very successful entrepreneurs and they controlled large parts of the Ugandan economy and Idi came to power in Uganda in the 1970s and he said Africa is for Africans. So what he did is he threw all the Patels out and he nationalized all their assets. So now the Patels were stateless.

The US took them in, the UK took them in, Canada took some of them in. And when they landed in the US, they basically really didn't have any skills that would allow them to get good jobs, white collar jobs in the US. And what a few of them started to do was they realized that if they bought a motel, a small 10 or 20 room motel, the family could live in one or two of the rooms and they could use the money they got out and get a bank loan and run the motel. Now motel are very labor intensive businesses. So what they did is when a Patel took over a motel, they fired all the staff >> and the family took over all the jobs, you know, the cleaning and front desk and everything else, right? And the Patels are vegetarians and they are very they live a very simple life. So when a Patel took over a motel in an area, what they were able to do is they were able to undercut the prices of all the other motel in the area because they have no labor. They have no payroll. They have no workers comp, none of those things.

And so they were if everyone else is charging \$25 a night, they're charging, you know, 19 a night. So the occupancy was higher than everyone else. And they saved their money. And then what they would do is buy the next motel, send the nephew to run it, and then buy the next motel. And this started happening in the early '70s. And when you fast forward to today, 80% of all the motel in the US are under Patel ownership. 80%. So the Patels make up .1% [Music] of the US population. Indians make up about little over 1% maybe 1.2 1.3%.

Just onetenth of that is the Patels. And this .1% population is controlling 80% of the motels in the country. It's because of the Dando way. So, if I want to steal from the Dando way, you told me it's good to be a copier. Um, what are the principles of the Dando way that I need to be thinking about? Because you I think there was there nine? Yeah, there was nine principles in total in the book. >> Well, the most important one is heads I win, tails I don't lose much. Everything we discuss today, Stephen, is heads I win, tails I don't lose much. When I started my business, when Bill Gates started, when Sam Walton started, when Richard Branson started, that was the formula. If they won, they would win big. And if they lost, they'd lose nothing. So everything has to be in business about risk reduction. Everything has to be about free lunches. We love free lunches. We always have to think about how do we get this done without capital, without risk. free lunches. Do you think there's an opportunity for people because everybody's at the moment thinking about AI and technology and these like

really advanced um new innovations as an opportunity but does that create an opportunity in the boring in the motel in the laundry mat >> you know the reality is so entrepreneurship is not studied much in business schools because there's nobody going to give you consulting project for studying entrepreneurs if we really study startups in the US or actually anywhere in the world. 99.99% of startups are non venture-backed.

>> What does that mean? >> What I what I mean by that is those are your laundromat, your Chinese restaurant, your you know eBay seller, whatever Amazon seller so on, right? The small businesses. None of those companies were formed because of venture capital. So the media focuses on all the venture capitalised businesses. And so people think that oh if I have to do a startup I got to do something in technology. Well that's like onetenth of 1% or less. You can ignore it. You don't need to really worry about it. The important thing is to be an observer and to look at what my dad would call offering gaps. So let me explain an offering gap, right? So let's say there's a town we let's call it town A.

Town A. There's a barber shop in town A. Okay? And the barbers one of many barbers doing well, etc. There's another town about 30 mi away, town B, which also has barbers. They're also doing fine. There's a new township coming up in the middle of these two towns called Town C. Town C doesn't have much of a population, but it's growing fast. So, the barber in town A goes to see what the all the hoopla or town C is all about. So he makes a takes a trip there, sees that there's some increase in population. People are moving in and he notices there's no barber shops. Why would there be any barber shops? Because it's brand new, right? So he's thinking, how do I do this without taking risk?

And what he does is he rents, subleasases a small storefront, buys some used barber equipment, and then decides that one day a week he's going to go into that town and cut hair every Wednesday. And puts up a note board saying, "I'm available Wednesdays." And what happens is people start coming in. They come in because they have no choice. If you don't go to this barber, you got to spend half an hour driving to one of those two towns.

Now, he normally charges 30 bucks for a haircut. But here, he doesn't need to charge 30 because there's an opportunity cost of the time you're saving. So, he can charge 45. He's charging 45 over here. And then when he's in his own town, he's charging 30. Now, what he what he notices is Wednesdays are filled up. So, he says Tuesday and Wednesday. Okay. And gradually what ends up happening is that that business is full-time and he's making 45 bucks an hour per haircut. Mhm.

>> But the nature of capitalism is more barbers are going to show up. So the second barber comes in, the third barber comes in, eventually the haircut there is going to be 30 bucks. It's going to neutralize. But in the meanwhile, he's doubled his business. >> Mhm. >> Right. What risk did he take? So going into Town C was addressing an opportunity gap. When Howard Schulz started Starbucks, he saw an offering gap. He thought that what Italians love about cafes might be what Americans love too. Didn't exist, right? And he went and did it.

>> You know that barber that moves into town C first and they're really having a great time because there's no competition. One of your points when you're talking about the Dando method is this idea of creating a durable

moat. It's point four of the nine. >> So sometimes what happens is that you start a business. Every business starts off without a moat. >> What is a moat? >> We have a castle, a knight in charge of the castle to keep the invaders away.

And one of the ways to keep the invaders away is you put a moat of water around the castle. So when you put a moat of water around the castle, it makes it harder for anyone to take the castle. >> And a business with a moat around it is a business that competitors will have a difficult time taking business away from. So what can happen with our barber in town C? Humans are creatures of habits. We don't like to change our barber every month. We like the same barber. So, if he's competent and good, what's going to end up happening is that his client base will stay with him.

>> What about loyalty points? I was just struck the other day when I was shopping in LA at Arowan, which is a supermarket here in LA and I someone had recommended to me on the plane, which actually goes to your point about actually give a great product cuz an airline hostess on my flight over here went, "Oh, you're um you're on keto diet. You need to go check out Air1." I got to So, that's the recommendation.

>> 10x more powerful than any ad or anything else they could drive. >> And I went there. Yeah, >> when I landed cuz I needed a supermarket and didn't know the place. But then interestingly, when I was at the checkout yesterday after my second visit, the lady at the checkout goes, "Hey, are you are you an Air1 member?" And I was like, "A1 member?" And she goes, "It does cost." She went, she was honest. She went, "It costs money, but here's what you get." She goes, "On this order today, you would have got 10% off this entire order." It's expensive. And she goes, "And we give you a drink every month." She listed all the things off.

>> I signed up and bought the membership to L1. I tell you now, >> I'm not going anywhere else. I don't know what it is, but now that I'm a member and I have the app, I'm not going anywhere else. >> Well, now that's the hack that Amazon did, right, with Prime. And two or three years ago, I was seated at dinner next to Bill Gates. You know, my middle name is Forest Gump. These things happen once in a while. And Bill is describing to me how the business model of Costco and the business model of Amazon is illegal.

Okay. So, I said, "Why is it illegal?" He said, "When you put a membership fee, what you're doing to the consumer is you're locking them in." >> Mhm. >> Which means the consumer is no longer going after the lowest price because there's a distortion in their behavior. >> Yeah. >> Okay. So now the FTC doesn't believe it's illegal, but Bill Gates does. And I was just thinking, well, that's because you're competitive with Amazon, >> you know.

>> Yeah. Yeah. >> That Prime thing with Amazon is super smart. >> Yeah. and and that was taken from Costco. >> Oh, okay. I didn't know that. But basically, yeah, the lock in lockin is very powerful. >> One company I wanted to talk to you about was Apple because Apple I find is a really interesting company. You talked about being a copycat, kind of arriving later to the party with new things. They've kind of been a story of both sides of the equation. They've been innovative, it seems, especially under Steve Jobs. And more recently, >> I mean, they were like copying other people, but now I'm not even sure what they are.

>> Well, Apple is a very unusual company in that everything emanated from one guy. >> Okay. And that one guy has been gone for a long time. And if you look at Apple, basically nothing new has come out since he left. We don't have a Steve Jobs at Apple. And the same thing happened at Disney. you know, they had to buy Pixar because there was no Disney anymore. Mr. Disney was gone. And so Apple actually I find somewhat risky >> as an investment.

>> Yes. Because if the form factor So currently humans walk around with a brick in their pockets or in their hands, at some point that form factor is going to change. It may be integrated into something we wear or some other more ergonomic situation. That may or may not be Apple and in fact more likely not to be Apple. It's probably some guy in a garage somewhere. And so if they are smart enough to find the guy in the garage early enough and buy them, they're okay. And bring them in as the next street jobs, that's okay. But even there, the odds are low. What does this say to you about founders? The specialness of founders. Are they a unique animal or can you swap them out and still be tremendously successful?

>> Well, I would say that there are a lot of elements of luck. So, first of all, founders are all great at what I call offering gaps, right? They find something that the world doesn't have that needs, etc., and they go after it. Sometimes what happens with the offering gaps is a moat gets built, right? Someone starts Visa, it becomes a Moti company or American Express and so on and and it perseveres and scales >> like Apple with their ecosystem, their closed ecosystem.

>> But 100% of businesses eventually will go to zero. And so it very well could be that a business could last for 50, 100, 200 years, 150 years, could last well past the founders's lifetime. Those are businesses which were built with a lot of principles and a lot of core great core values. You know the founder of IKEA every decision he took was with a 500year view. How many businesses think with a 500y year view and IKEA you know I was studying IKEA some very remarkable things about it. First of all he never ever took debt. Every single store they built they built out of retained earnings and cash. He never took debt.

And I've studied business failure quite a bit. The single biggest reason why businesses fail is leverage. They owe people money and they can't pay it back and that they're gone. So IKEA has never taken debt. If you never take debt as a retailer, you're going to grow slower, right? You got to keep kind of bringing in the cash, but it's a very solid foundation because it's on a rock solid balance sheet and such. And his second principle was no two IKEA stores can be the same. So what he said is that whenever we opening a new IKEA store, there has to be some innovation that is going into that store that does not exist in our previous stores because he says that if I don't keep innovating, I'm done. And so we don't notice it because we think all the IKEA are the same. But actually if you study them and look at when they were when they were built etc. you start seeing these incremental changes that they're making.

>> That's a really interesting idea that I could implement into everything that I do which is just making sure that every podcast I do there's one new experiment or innovation or every piece of work you do whatever team you're in is just to run out one experiment in every Absolutely. >> But you have to make it measurable right or else it's not a >> experiment. So um you also talk about making fewer big infrequent bets. >> Yeah.

>> Who who's that relevant for and in what context? >> So one of the things that Warren Buffett says he says that you get a punch card which you can punch 20 times in your lifetime and each time you buy a stock it's one punch that's gone. So what what Warren is saying is if there was a rule which said that you cannot buy more than 20 stocks in your whole life. What would happen is you would be very thoughtful about what you bought. Okay? And chances are those decisions might be good decisions because you only have 19 left and then you only have 18 left, etc. So in venture investing, a very small sliver of companies that venture capitalist invests in do well, right?

There's a high high burnout rate. And if you look at the stock market, 4% of listed companies generate 90% of the return. So most companies that we may think about investing in are likely not to do well >> for us. It's a 96% odds. That's why the index is so important is when you buy the index, you bought that 4%. And if you go pick stocks, you have one in 25 chance of getting one of those 4%.

>> You said earlier the punch card analogy of 20 things in the punch card. You got to pick 20 in your life. If you only had three or three to five things that you you would bet or back now, >> which I think is actually kind of what you do. What would those things be? >> Well, I mean, I'm trying to resist going to specific names. >> Yeah. because I think that would hurt people more than help people.

>> Okay, that's fair. >> What I would prefer that people do is focus on the other two variables, which is the amount you're saving and the length of the runway and focus on the index. So, I think that it's it's kind of like saying I want to be a great AI developer because it's the way it be will to be a great AI developer is going to take time. It's just the nature of the situation. >> What do you think about these people that day trade? Because so many young people, specifically men, are being sucked in by these adverts that you can day trade your way to wealth.

>> It's not good. I think it's the broker is going to make all the money. Robin Hood will do well, not you. >> Do you think anyone can make loads of money as a long-term day trader? >> I look at it this way. If you study the Forbes 400, the 400 richest people in the world, actually, I don't see any day traders in there. One of the last things I want to speak to you about is this idea of um circling the wagons.

>> Yes. >> What does circling the wagons mean? >> Warren Buffett said that over a 50-year period of running Berkshire Hathaway, he's made hundreds of investments and only 12 have moved the needle for Berkshire Hathaway. So it's the same 3 or 4% rule where if we say that Warren made 300 investments, he probably made more than 300, but let's say he made 300 decisions, only 12 have resulted in what we see as Berkshire Hathaway today. And the important thing was not the buy decision on those 12. The important thing was never selling them. So, circle the wagons is a term that comes from the 19th century when these pioneers were moving west, the wagon trails moving west and the native Indians would attack or bandits would attack these wagon trails. So, what they would do is they would put themselves in a circle.

Mhm. >> They would circle the wagons, then defend that circle as best they could with their guns and so on. But the wagons being circled was the best possible way of trying to face off that attack. >> So in effect, they circle the

wagons around the crown jewels. So when I'm talking about circle wagons, what I'm saying is that in a lifetime of investing, there are very few times when you're going to actually have a huge multibagger. What's that?

>> A big big winner, you know, something that goes up 10x, 50x, 100x. And what you want to do is you want to effectively circle the wagons around that idea so it doesn't get sold. So we are not going to know before we invest whether something is going to be a multibagger or not, but we may figure it out after we own it. >> Mhm. So, we only going to know a business after we own it. We're not going to know it before we own it. After we own it, we may understand the business well enough to know that this is a great business. And when we figure out it's a great business, you don't want to sell that.

>> When I meet people like you, I am always so inspired because we spend a lot of time thinking about the wins, the great decisions. We've talked about that. I've shown you the graph of your great decisions. What is the worst ever decision you made in terms of financial performance? Well, I've had so many zeros. So, I mean, uh, >> the one that got away. >> I mean, there's mistakes of commission, which is things going to zero, and there's mistakes of omission. The mistakes of omission are far worse.

Okay. So, the biggest mistakes I have made aren't the ones that have gone to zero. The biggest mistakes I've made are the ones that I sold and I shouldn't have, where I should have circled the wagons and I didn't. And those have been very costly. >> Give me one example. >> Well, I think this was in about 13 years back, 2012. I invested in a company called Fear Chrysler Automobiles. Basically, it was coming out of bankruptcy after the financial crisis.

They had gotten rid of all that debt and everything and the stock was very cheap. It was about 5 or 6 billion that you could buy the whole business. One of the things I didn't pay too much attention to at the time was that 80% of Ferrari was inside Fiat Chrysler and they owned Ferrari 80% of it. But they had many other assets which I like. They had the Ram trucks and Jeep and Maserati and so on. And when I looked at the business, I thought the business was worth many times the five or six billion even ignoring Ferrari. And I was right. So in the end, I made several times my money.

And in 2017 or 2018, they took Ferrari public. So they actually then listed the company and it looked like that they had captured all the value. And so I sold I used to own approximately 1% of Ferrari as part of that purchase that I had made. So 80% of Ferrari was in this \$5 billion company. Ferrari now has a market cap of almost a hundred billion and I would have about a billion more if I had not done that stupid thing. So, I made a couple of hundred million on this whole thing, but it would have been a lot more. And all I needed to do was just not sell it.

>> Do you deal in crypto at all? Do you invest? >> No, it's outside my competence. I don't understand it. >> I was going to say one of the things I noticed about you that's quite rare for someone that deals in bees, billions, is you have a smile on your face. You seem like a really genuinely happy person. >> Well, what would be the point of the bees without being happy? >> Well, a lot of people aren't, as you as you know. Well, then they've lost their way somewhere.

I mean, on a daily basis, I specifically ask myself, how do I want to spend today? And I focus on spending it not with the focus on maximizing money. I focus it with maximizing what Monish loves and that changes all the time, but that's the way it is. You know >> what is that? >> Well, currently it's golf. Like one of the things I really struggled with today was there wasn't going to be any golf. So I said it's either Steven or golf.

>> Should I go to Steven or should I go for golf? I said, you know what? Give the arms a rest. >> Let's go meet Steven. >> I'm glad you did. We have a You probably just answered this question. We have a tradition where the last guest leaves a question for the next, not knowing who they're leaving it for. And the question left for you is if you could go anywhere right now instantly, where would you go?

>> I'd go to the golf course. >> Thank you so much. Thank you. Everything that you do, it's so incredibly important and I now know why you why people love listening to you and learning from you and it's because you have this most remarkable ability to tell deeply engaging stories. Thank you so much. [Music] Hey. Hey. Hey. [Music]