
Selected Insights and Ideas by Guy Spier

Prepared exclusively for participants of Ideaweek 2018, St. Moritz, Switzerland

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This article is authored by Guy Spier, chief executive officer of Aquamarine Capital.

Dear Mr. Pabrai,

Thank you so much for having me as a guest at your partnership meeting. I learned a lot about life, and investing, and I also met some great people.

Warm regards,
Guy Spier

One simple card in the mail, soon forgotten. Three months later, I received an email. Mohnish Pabrai was coming to New York — would I like to meet for dinner? I most certainly did. Thus began a wonderful friendship and research partnership.

Compounding that is a deceptively simple but immensely powerful concept that can be applied to much more than just making money. The principle has worked exponentially in my life to expand my connections to the world. Each time I reach out to say “thank you,” it is as if I am inviting serendipity to strike — my only regret is that I did not discover it sooner.

After every conference and gathering I attend, I make the time to send a note to the people I enjoyed meeting. And I always take care to write “thank yous” to great people I’ve met along the way — all the way from the taxi driver and bell-boy to CEOs and Chairmen of major corporations.

Even before this sort of social correspondence began to help my business (which it has, in spades), it began to make my life so much more interesting: I never know, from day to day, what awaits me in my office. Because my hand-written notes generate the desire in others to reciprocate — which comes in all sorts of ways: In response to my notes, I have been invited to dinners, to join clubs, to speak to gatherings of people. I’ve received gifts of photographs, books and even notes of “thanks for the thanks.”

Every now and then, the notes even result in a new investor in my fund. But the best of all is that the responses are always out of generosity, and never from a sense of obligation: In fact, you could say that I am addicted to the process of writing these notes and the occasional responses that they generate, which are invariably a delight to receive.

The real returns, though, come in the form of a sense of interconnection: The very act of reaching out rewires my brain to embrace more of humanity into my in-group. I cannot predict how many friendships, partnerships and opportunities will arise from my daily correspondence, but the journey most certainly has been its own reward.

P.S. I was thinking of writing a longer piece about how “thank you” notes have changed my life, but the brother of a friend, John Kralik, beat me to it. In his book [A Simple Act of Gratitude](#), he describes how a year of writing “thank you” notes took him from failing lawyer to high court judge. The book is a great story, and a great inspiration.

In the fall of 2017, John Mihaljevic sat down with Guy Spier, chief executive officer of Aquamarine Capital, at the Aquamarine offices in Zurich for a wide-ranging conversation on value investing in Europe and beyond.

The following transcript has been edited but may contain errors.

John Mihaljevic, MOI Global: Guy it's always a pleasure to be with you here at the Aquamarine offices in Zurich. I look forward to getting your your wisdom and insights into the investment landscape, specifically in Europe. The markets have been going on for quite some time are you still finding bargains?

Guy Spier, Aquamarine Capital Management: John, thank you for having me. The audience should know that even though I live in Zurich and John lives in Zurich, we haven't seen each other since The Zurich Project several months ago. So, I haven't seen you for a long time. It's great to see you.

You know it's always very flattering when you say that I have wisdom because I don't feel like I have any I'm just in the business of acquiring wisdom. I just came back from about a two week period where I was doing three annual partnership meetings in Zurich, London, and New York. I can remember the things that I said at the partnership meetings.

I don't look just in Europe. I'm looking around the world. What I said at the partnership meetings is that I really feel like it's never been more difficult for investors. The new technologies that are ripping through the world are having a huge impact on old businesses. The new technologies, to the extent that their public, have nosebleed valuations and we have an environment over and above that where enormous amounts of money are going into ETFs and indices. It's not an easy or happy environment.

In spite of all of that in spite of not thinking that the portfolio was particularly cheap I still prefer to be fully invested because in the event that we get inflation, we don't know what would happen you know what would happen faster stock prices going up, which is what they do in inflation, or stock prices going down because interest rates have gone up.

In Europe it turns out and I never would have expected this so the amazing thing is that i going into this had basically I would argue two kinds of stocks in my portfolio. The vast majority of them or a significant number of them were inflation-protected stocks so basically in and around financial services. I was happy to be there because I wanted to be protected from inflation which hasn't shown up and you know in Japan inflation hasn't shown up for twenty thirty years, so we don't fully understand the central bankers don't fully understand central banks owning vast proportions of the public debt which is basically self-dealing by the government.

There are two European companies in the portfolio that have performed extraordinarily well. One is Fiat Chrysler and the other is Ferrari. While I knew it was extraordinarily cheap, it caused me a lot of discomfort. I'm different than Warren Buffett, Mohnish Pabrai,

and various other great investors—when I find something I know is a good buy, I still throw up every time I issue the buy order. There was a certain amount of discomfort owning Fiat. It's one of the stocks I would have conceded was not inflation-protected, and it's worked out even faster than I expected it to work out.

Europe is the site of some extraordinarily good businesses, Ferrari being one of them. If I had gone to people three years ago and said, "Ferrari is not an automobile stock, it's a luxury brand", people would not have agreed. Ferrari and Maserati had a cloud over them because Fiat was a hated European automobile stock. Suddenly, people perceived Ferrari differently and "re-rated" it from an automobile company to a luxury brand. It's hard for us in Europe and North America to understand [because to us] Ferrari is an automobile brand. But it turns out the rest of the world is developing, and they want stuff like that. Suddenly, the demand for Ferrari cars from places like China, in spite of luxury taxes, is through the roof. New rich people are being minted on a daily basis, and some of them want a Ferrari. What Europe has, the rest of the world wants, whether it's Hermes scarves, Patek Philippe watches, or Ferrari automobiles.

If you look at Fiat, a similar phenomenon is becoming apparent to the analysts. It was fun to invest in Fiat when I was investing at roughly 5% of sales. Fiat was an also-ran European company fighting with the likes of Volkswagen, Mercedes, and BMW. Nobody really thought of Fiat as much of a company, but then they went and bought Chrysler. Everybody knew Chrysler had gone bankrupt, but nobody understood some of the powerhouse brands in there. Great Wall Auto was very interested in buying Jeep — they make Jeep knockoffs right now, but it's not the real thing. Jeep has been converted into a blockbuster brand. People needed to dig below the surface to realize that Fiat Chrysler had these blockbuster brands in there. Another one that's doing extraordinarily well is Maserati, which has all this European cache, and people around the world want it.

Fiat and Ferrari are two European stocks I'm pleased I own in the portfolio. I continue to look at smaller caps. While many of the "uber-compounders" have come out of the U.S., not all of them will come out of the U.S., and Europe has a very fair shot.

The environment in Europe and North America is difficult because most things are very highly valued. I discovered at the Pabrai Funds meeting that a very small proportion of Mohnish's portfolio is now in the U.S. He has a tremendous advantage over many of us, as he has been spending a lot of time in India. I have accompanied him on one of those India trips, but I don't have a license to invest in India, and I don't have the same in-depth cultural knowledge of India to make the kinds of calls he's likely able to make. So that's a tremendous advantage for Mohnish.

MOI Global: You invested in Fiat when it was extremely cheap, so part of it has been other investors catching onto that. How much has it also been the management, which was part of your thesis, continuing to execute and create value intrinsically at a pace you're happy with?

Spier: There are two extraordinary personalities at the head of Fiat, which makes it special. I have to credit Mohnish — I did a lot of the work alongside him, but it's Mohnish who had the original insight. People see an also-ran European brand and compare it with

Volkswagen, which is part-owned by a German Bundesland [state government] and has a very corporate management.

When you look at the people who run Fiat, chairman John Elkann is a significant family holder and represents the Agnelli family, which is about as close as you would get to royalty in Italy. This is a different kind of royalty as compared to British royalty, for example, because they are industrialists. John Elkann is ten years younger than I am and was carefully selected by his dad. He runs Exor and is an extremely thoughtful guy — you can read his letters.

Sergio Marchione was the perfect guy to run Fiat. He grew up as an Italian in Windsor, Canada, where much of the automobile production takes place — and even some Fiat plants. He has a broad range of industrial and financial experience and was behind the turnaround of a Swiss company called Societe Generale de Cerveyonce, based in Geneva. He was also a director of UBS. I met another guy who was also a director of UBS, who had some interesting things to say about Sergio and the differences between running an industrial company and a bank. Sergio as an industrial manager is extraordinarily capable.

The stock was deeply undervalued, and people hated it. I remember only three years ago on a conference call the auto analyst from Sanford Bernstein giving Sergio Marchione total grief. It was fun to give him grief, but the pace with which he went into Fiat, saw what needed to be changed, and focused resources on what was going to work. The old management of Fiat had this idea of Fiat as an Italian company. Think of Land Rover, a British brand owned by an Indian company. Fiat is no longer an Italian company. It is actually headquartered in Amsterdam and the main corporate office is in London. [Sergio] was able to see that this was an Italian brand that owned some American and other brands, and then to reallocate resources — “Do we need to be producing these brands in Italy, or can we produce them in Brazil or the U.S.? And, actually, which of our portfolio brands is going to take the company forward? The Fiat brand on an auto may not be so powerful. The Jeep brand on an auto? Very powerful. Alfa Romeo? Very powerful.”

The ability to see the brand portfolio differently and then to put the right resources behind it — that’s capital allocation. It’s pretty hairy capital allocation because you’re making some big bets. Sergio Marchione made sure on the conference calls that we knew that every now and then one of those big bets, e.g., a \$1 billion new automobile platform, might not work out. So far, they seem to have worked extraordinarily well.

How many automobile companies are still run by a family who were able to put in a very smart CEO? I guess Ford still has some family management in there, but it’s not the same dynamic management willing to make big, gutsy moves. So, Fiat was undervalued, with great capital allocators. In a market environment that was pretty fully valued, this was sitting right in front of everybody. I’m pleased with how fast and how well it’s worked out.

MOI Global: Both Fiat and Exor are publicly traded. Do you ever look at which of those two might be the better long-term investment? Do you ever consider Exor instead of Fiat.

Spier: Exor is a really interesting company. I’m going to be attending their annual meeting,

and I'm looking forward to going. John Elkann writes in their annual report that they see themselves as builders of businesses. Not so long ago they divested their stake in C.B. Richard Ellis, the real estate company, and they bought control of an insurance company called Partner Re.

I understood the cheapness of Fiat Chrysler, so I wanted to be fully exposed to Fiat Chrysler. When you go to the "mothership" you expose yourself partly to Fiat Chrysler and partly to a few other businesses. One may or may not like those businesses and the valuations at which Exor bought into them. I can't say I understand the mothership as well as I felt I did Fiat Chrysler. However, Exor and John Elkann are certainly a group of people to watch. I would put Exor up there with companies like Berkshire Hathaway and Market Corporation, where you can invest your money alongside an owner family and leave it there for a very long time.

MOI Global: Looking at the auto business itself, there are a lot of concerns around technological advances and what they might do to established companies. How do you assess those risks?

Spier: Charlie Munger has said that the moats, even of some businesses described as "inevitables" by Warren Buffett, have narrowed a bit. Charlie said he's pretty sure American Express will be around and will have an excellent business in twenty years, but he is less sure of it now than he was, because of all the dynamic changes happening.

That's true of the automobile business. I don't think I could honestly say that I had squared off all those risks and had put them away so they were nonexistent. The risks of electrification and self-driving cars are out there, but some risk of technological change is out there for so many other investment ideas as well. Here's what I could tell: The world is super-excited about electrification, autonomous driving, and car-sharing or "Uber-fication". While the world certainly should be excited, we know what happens when the world gets excited: Things get "thrown out with the bathwater". So we know the crowd is over there. How likely is it that things are going to be as bad as they are expected to be for the Fiat Chryslers of the world?

My wife has a new car with some self-driving features, but all of the evidence is that self-driving is far away, at least at least a decade or, I would argue, two decades. It's exciting to think about a self-driving world, but on a moral level — I'm not saying this is right but an observation of the truth — the public is willing to allow humans to kill other humans on the road on the order of 40,000-50,000 people killed on U.S. roads every year, but they're not willing to have computers do it. Somehow if one human kills another human, that's acceptable, but if a computer does it, it's unacceptable. To come to people and say, "self-driving cars are killing 30,000 people" is not going to be acceptable. We are not going to accept the same error rate, and street driving is extraordinarily complex.

I know I've regularly underestimated the rate of technological change. The people who are bold say, "You think it's ten years away, but ten years becomes three years, and so on." Sergio Marchionne's point is that Fiat can buy in the technology as well as anybody else. So, when the technology is there, and it's proven and works, Fiat will be buying it in. It will be

just like installing a different battery or a different seat system in the car, so it won't affect the automobile business.

Similarly with electrification. We are still in that first part of the curve, where we overestimate the impact of the technology. Things like Tesla soar, and at some point we become disillusioned with the rate of technological adoption.

Did you know there's an electrified Formula One series? That technology is being tested out in Formula One; they're figuring it out. There are also many electric cars coming onto the market.

We all love Uber, but how many of us are giving up our car in our hometown? Cars are so much more than just a means of transportation. [I don't agree with] this argument that the car is being commoditized and the iPhone is what gives us our identity. Cars are not just an expression of our identity; they're also our personal space. Many people, when they have their commute in the morning, want to be inside a personal space; they don't want to be in a space they're sharing with somebody else.

The impact of technological innovation on the economics is further off than people think. Most importantly from the standpoint of the MOI Global community, it's pretty clear that people are impressed with the new technologies they think are around the corner. That's where the exuberance is. Old-line car companies that are not at the forefront of technology are considered to be in the backwaters. If you know that people's attention is over there, then where it isn't may be where the opportunity is. That was the case with Fiat Chrysler.

MOI Global: Switching gears toward the financial stability of the system in Europe... Even though the markets in general are quite highly valued, some large banks are not highly valued. What are your thoughts on their capital position and the future for equity holders?

Spier: I have not looked at European banks recently, so I can't comment too strongly, other than to say that Basel III, local regulations, and the requirement for banks to increase capital were massively pro-cyclical. In the exact period in which you wanted banks to be extending credit, they were all pulling their haunches, because they were being regulated by local banking authorities, through Basel III requirements, and the credit rating agencies. So, I have not looked at individual banks in Europe - it's harder for me to understand that environment.

Forgive the political commentary, but an interesting development from Brexit is that the "Brexiters" in the U.K. thought that Britain voting to leave the EU would weaken the European system. I actually think that it strengthened it. Countries like France and Germany as well as other countries in Europe have seen the fickle desire of the British to leave the EU, and they are more committed now than ever to European institutions and to making them work. Even guys like the former Greek finance minister, Varoufakis, even though he's so happy to get on TV and talk about the "thugs" in Brussels, there's never any question in his mind that Greece should be a part of the EU.

We'll see a strengthening of commitment, both on a political and popular level, to the

institutions that make Europe work. It's likely that in the future we'll see appropriate bailouts of banks if necessary. I have not followed up on specific banks and what their capitalization looks like, how cheap they are, and what they look like in a unified European financial market, which is what I expect will happen.

MOI Global: You mention Brexit. Does that make you more or less likely to consider UK equities?

Spier: Unfortunately, I have not found anything I particularly like in the UK. I have looked from time to time.

Give the British economy twenty or thirty years to adjust and the UK will do absolutely fine, if they actually go through with Brexit. But those thirty years "ain't gonna be pretty", and we don't even know what the environment will be like. It's inevitable Britain will do well, but they may be delayed by thirty years. It will be like Britain's National Rail - you eventually get into London, but you may spend some significant time waiting on the railway yards before you get there.

The picture is murky, but there will be some extraordinary globally active businesses in the UK. They are figuring it out right now. A company like Ryanair, which flies in and out of the UK, has pretty big uncertainty regarding how that new system will be regulated. They can retool for it, but I haven't seen the valuations go down [enough] to get excited.

MOI Global: In terms of what does get you excited, are there business models or industries that you feel are particularly interesting?

Spier: We all understand the economics of bundling in cable TV, but [until recently] I didn't understand the economics of bundling on the iPhone. The MOI Global community probably already understands this, but the simple idea is, the more useful apps you have on your iPhone, the more valuable the iPhone becomes. The more you can bundle into it, the better.

What's a supermarket? It's a bundling of stuff. Think about bundling on Amazon and all the stuff you can get in one space. Who would have thought that the time to move from one website to another is enough for the bundling effect on Amazon to be significant? You have the same checkout and your credit card stored there.

Bundling effects are huge, and network effects are huge. The businesses that have taken advantage of those effects have been important, such as Amazon and Facebook. There will be more industry verticals where it's going to be a winner-take-all market in the way Uber has been.

Consider the dynamics of competition between Facebook and Snapchat. Facebook, through its ownership of Instagram and Whatsapp, is undermining Snapchat at every turn. Snapchat may not succeed in breaking through to build a niche and be a "winner take all". Even Twitter may not be succeeding the way it ought to be. All new advertising revenue is divided between Google and Facebook.

There are other industry verticals where it's different enough to get people's attention and sell advertising to them, and those companies could be in Europe, they could be anywhere in the world.

With businesses I research, it comes down to whether I have confidence in the business model, the concept of bundling, economies of scale, and network effects. For every Amazon there are twenty companies that looked like Amazon twenty years ago. The enormous problem I have is you have to pay a very high valuation.

With an investment like Fiat, [we were] paying 5% of sales in terms of the market cap and maybe 12% in terms of enterprise value. Even for a cyclical automobile company, 50% of sales would be more reasonable; 5% or 10% is just an extraordinary number, and they're making physical stuff. It was obviously cheap by the kinds of metrics we understand.

Then, we have this whole world in which companies trade at two-digit or higher multiples of any number you want to consider and at a multiple of revenue. The only way you can argue they are cheap is to look at a five- to ten-year horizon and say, "If this business grows the way I expect it to grow, it could multiply fivefold. Then, when we fast-forward three years, we will look back and see that it was cheap."

But in a certain way, the world of value investors seems to have bifurcated into the guys who have been willing to take on those new valuation models and the guys who haven't. By and large, I've been part of the second group. I wrote about it in my letter to investors and I may be proven wrong, but what I'm really hoping to do is find the ones that are extraordinarily good business models and can still get them at single-digit multiples. Maybe that's just too hard a task, but I'm trying.

MOI Global: You just said you were trying to stay disciplined in terms of the valuation and that a lot of value investors have bifurcated into those who are willing and those unwilling to accept new valuation models. To me, it sounds like a late-stage bull market, the things you might expect to happen. If the past is any guide, it has not usually ended well when someone has strayed from the traditional valuations they were willing to pay.

Spier: I didn't fully read it, but there was an article recently by or about Jeremy Grantham, who's about as dyed-in-the-wool value investor as you can get. Apparently he wrote a piece somewhere where he basically said, "No, this time it really is different." Something I gave my investors as justification for not doing that is this idea of just going where the crowd isn't. We know that the crowd loves Tesla, electrification, and self-driving cars. If you're not where the crowd is, then that's probably a good place to be. Maybe Amazon continues to compound at 50% per year or whatever it is from here, but I know that if I were to buy Amazon, I'd be joining a crowd. So, basically, don't join any crowd. One of the problems I have with these smaller-cap, less well-known potential enormous compounders is that there's already quite a crowd around them. I mean, it's not the same crowd that surrounds Amazon, but there's a crowd of devoted followers who are true believers, and they've driven the price up to a level where it no longer feels like a slam-dunk to me.

I looked at some analysis on Facebook a year or two ago, and it's like 30 times or 50 times

EBITDA, and what I was supposed to do was understand that revenue is growing by 50% per year and costs are not growing at the same rate. So, three billion in operating profit this year turns into seven billion next year, which turns into 15 billion the following year - how much are you willing to pay for 15 billion? Those are just numbers I pulled out of the air, I'm not sure they are accurate. But you can already feel how the crowds are excited about that.

So, late-stage bull market? I don't know, you can't predict it, and if I really did believe it was late bull market, maybe I'd want to have lots of cash. But what's also telling - and this happened to this Rockefeller's company whose name escapes me - is that European antitrust and taxation authorities are looking for ways to take out Google and Amazon, they're saying this cannot be right. One way or another, the opportunities to compound in those companies are going to go away, but whether we're getting anywhere near to a crash or correction? We can't assume that.

MOI Global: Just to finish on that topic of joining or not joining the crowd...The only argument I can see for why it might be OK to join a crowd is if there are in fact winner-take-all economics in some of these industries so that being contrarian and on the outside just ends up with a loser who then has zero value.

Spier: You're right in that you don't want to get into a competitor of Facebook. To the extent that Snapchat is a competitor of Facebook, you don't want to be there. However, where it comes to competing for attention, Google's a pretty effective competitor of Facebook. I mean, YouTube competes very, very effectively so maybe there are two winner-take-all markets. But then this is all for attention-based stuff - the minute you're making physical stuff, the probability of the winner-take-all market goes away.

I may not invest in any of the FANGs and still do fine. If I get my PAN license investor number in India and I manage to beat the bushes, there will be businesses that will do extraordinarily well, huge multi-baggers which have nothing to do with anything internet-related. There's still plenty to do there. Think of Warren Buffett buying power plants and power companies, or think of the business Bill Ackman was in (I don't know if he's still there). The ownership of pipes, basically, networks of pipes. Once you own a network of pipes, your economic opportunity is so much better than anybody else's because you just have incremental capex whereas everybody else has to do the first capex. So those businesses are still around and there are plenty of us who will be able to make a very good living out of them. You don't have to be invested in those FANGs.

MOI Global: Is Eastern Europe investable for you?

Spier: Let's leave Eastern Europe for a second and just go to Western Europe. Here I am, an Anglo-Saxon who fancies himself as a European. I've looked in France and I've looked in Germany. Germany has some great businesses, but I've not successfully invested in any of them. The last time I did a deep dive on an Eastern European business I discovered this company called AAA Auto, which specializes in secondhand cars in the Czech Republic. I went and visited the company and their locations in three different cities - in Prague and Bratislava and then in Budapest (Hungary) - just to see what they were doing. I figured out at the time that there were huge governance issues.

There's also one pharma company in Hungary that I looked at a long time ago where governance issues were not so great. When you have a whole bunch of smart scientists working in a drug development company or in a generics company, then they're the first ones who get good governance, they figure out that it's important. We're probably on a 20-year or 30-year cycle to get there with Eastern Europe. It doesn't happen in half a decade or even a decade; it's more like a whole generation of people have to live through their business careers before you get there. As a small outside private minority investor, I am really counting on good governance.

Here's a warning signal: it's scary to see what happened to Teva. It's almost in Eastern Europe, it's in Israel; perhaps more of an American company now, but still very heavily owned by Israeli pension funds. These funds do not seem to have paid enough attention to corporate governance. This is, to all intents and purposes, a well-run company, but they made one acquisition where they probably overpaid, bet a little bit too much on the farm. It was too big an acquisition relative to the existing size of Teva, and when business slowed down, suddenly they were looking at tripping covenants on their debt. Most observers would probably say there was a failure of corporate governance. That's the issue in Eastern Europe: getting to a place where I can be confident that the corporate governance is great.

Meanwhile, it's an amazing hunting ground for private equity. To the best of my knowledge, that's what happened with AAA Auto - it got taken over by a private equity firm. That was really right because the founder was an entrepreneur and the private equity fund was in a position to put in the kinds of systems and controls that enable somebody like me to be comfortable. So, if you're private equity or a major corporate, blast away.

MOI Global: You are not in Eastern Europe right now, you haven't found much in the UK, Germany or France, and you are invested in Italy simply by virtue of Fiat (Spier: Amsterdam, to be precise, it's a global holding company.) We are sitting here in Switzerland, so I assume this is a safe hunting ground.

Spier: I was saying to somebody that Switzerland's got some of the best companies on the planet and also some of the most mediocre companies on the planet. It's an incredibly open economy.

A company that I really feel quite angry at myself for missing is Sika. It's the kind of global champion you'd only find in Switzerland in that they are present in something like 130 companies around the world. What they really do is organize the building products supply chain - they get in specific parts of that business, they figure out where people need consistent quality, and then they go and organize that part of the supply chain. The company has had some interesting share price gyrations because of the quirks of Swiss law on minority and majority ownership. Saint-Gobain is in the process of buying out the founding family and its members realized that the bylaws of the company allow them to sell their shares at a huge premium to the outside private minority investors, which resulted in a massive drop at the time. It would have been the most fantastic buying opportunity because the business is working out just fine in spite of some murkiness.

That's a classic situation where good analysts paying attention can get involved. There's

nothing wrong with the business, it's great: you've got a bunch of Swiss managers who operate like machines, grinding through the business model. Then you have this corporate governance issue, a very real dispute that's taking place, and we don't know how it will work out. Still, you just know that it won't affect the business so you can safely go and buy the shares, knowing that the corporate governance dispute will be worked out one way or another. Some very astute people did. One, I believe, is Chris Rossbach, a member of the MOI Global community. Another one is the fund that manages money for Bill Gates. I don't remember the name of the family office, but they were here to attend one of the annual meetings.

There are some really amazing businesses in Switzerland so you are not required to just go and own Nestlé. I happen to own it, as does Tom Russo. Mohnish Pabrai laughs at me for owning it. Nestlé has got its own headwinds. The interesting thing is that Nestlé is managed now by a classmate of mine from Harvard Business School, Mark Schneider. I can't say that he was a friend, but he's a guy that I certainly socialized with. They just bought Blue Bottle Coffee for \$500 million. So, if you sweep the Nestlés off the table, there are some interesting, world-beating businesses here and also some real doozies.

Another one that I missed - and I'm just so bummed about it because I've sent people their chocolates - is Lindt & Sprüngli. It's not a chocolate company; it's a luxury brand. They continue to grind through a growing market share a little bit every year. The premium end of the chocolate market will continue to grow by a little bit more. Over time, people become more interested in higher quality chocolate. That's a company based down the road here. When I got to Switzerland, it was trading in the high teens of earnings, and I just felt like that was too much to pay. I was a guy who would have liked to have gotten single digits. I believe it's now trading in the high 30s, and there's no way I can buy it though I wish that I could.

Another interesting thing I'd like to talk about is the future of the high-end watch industry, and I'd be grateful if any of your listeners want to e-mail me to discuss the subject or share any insights. I now alternate between wearing a nice Swiss watch and wearing my Fitbit or a Garmin. I know that the managers in the luxury Swiss watch business - which is companies like Richemont and Swatch Group - are not worried at all, but on some level that business may be decimated. I don't know what the impact of the Apple Watch 3 will be, but there's something very real going on there. I don't know how long it takes. At a minimum, it will shrink the size of the luxury watch market because I see it's happening on my own wrist.

MOI Global: You mentioned Sika and Chris Rossbach. He actually presented Sika at one of our online conferences one or two years ago, I believe right around the time that corporate governance issue just hit. We also recently had the Latticework Summit in New York and the topic there was "Intelligent Investing in a Changing World." You alluded to that a little bit by mentioning Nestlé or those kinds of established brands, this rise of challenger brands and the ease with which brands can be created in markets that were previously thought impenetrable. If you take Gillette, they'd already won that war and then came Dollar Shave Club. How do you look at that in the context of very well established brands and do you see

any challenger brands out there that interest you?

Spier: One of the great frustrations of seeing the world from where I see it is that Dollar Shave Club was never publicly traded. The Sarbanes-Oxley Act has made it far more difficult and uninteresting for smaller companies to go and give themselves a public listing. I don't know a 100%, but I believe there are changes in the regulations taking place right now to make it easier for private companies to be publicly listed. I don't remember who bought Dollar Shave Club, but it was for about a billion dollars. While the founders of that company made enormous amounts of money, at the end of the day that was a bleed of a billion dollars of value from the shaving business. But I don't think that the market structure of the shaving business has changed all that much. So it is a threat, but one shouldn't overestimate the size of that threat. The two big changes that have taken place are that shelf space is suddenly free, which was never the case before, and access to the consumer mind is free.

Again, I just don't see them, and at a certain point I was doing a careful study of, believe it or not, the rum market. I had an investment in a company called Todhunter, which owned a rum brand. I don't remember the name of the brand, but through that I got to know Bacardi and Captain Morgan's. When you look at the liquor business, do you know how many challenger brands are out there at any one particular moment? I mean, there are thousands; I can't tell you how many tequila brands are out there but it's a lot! So it's not that easy to find the winners. It's easy to talk about Dollar Shave Club, but for every Dollar Shave Club there are many, many others. The opportunity has probably passed for the shaving business. The dominant players were caught off guard, but they now dominate that space as well. It's not going to happen again. You're not going to be able to start a Dollar Shave Club, that's done.

Just to give you the other perspective, let's look at concentrated alcohols. The two largest brands of rum are Bacardi and Captain Morgan's. They're also some of the worst-tasting, according to a competitive taste test. Those guys just don't care; they don't have to make it taste very good because they just dominate in so many other ways. And that's not going away and there are thousands of challengers the whole time.

Soft drinks, even. There's a coffee shop that I like to go to in New York. It's owned by Bar Boulud and is a high-end sandwich and coffee shop. No Coca-Cola, Diet Coke, Fanta, or Sprite because that's too low-end for this very high-end coffee shop. But give it three or four years and then eventually the brands will be there. I noticed the same pattern with Starbucks: it used to be a Coca-Cola free zone. Maybe Coca-Cola goes in with brands I don't even recognize are Coca-Cola, but eventually it gets in there. In a rambling and long-winded way, I guess I'm saying that it's not hard to overestimate the power of challenger brand. It's also certainly not hard to overestimate or underestimate the difficulty of finding the ones that will be winners.

That's where I part company with the people who are willing to pay very high multiples for future winner-take-all businesses. The failure rate is extraordinarily high.

MOI Global: I have a feeling you may not end up investing in those two.

Spier: I continue to pick away at it. Every now and then, there are things that come up where I can just say, "Wow, I understand why this thing is cheap." I understand why the crowd is over there and I feel very safe doing this.

My biggest mistake is that I get fearful of buying even those things where I've figured out they are safe. My friend Mohnish makes fun of me, saying that when it's raining, Guy holds out a thimble, and what you need to do is hold out a big bucket. For me, the best image to hold in my head is of Warren Buffett during the financial crisis, when he made a huge commitment to Goldman Sachs without knowing how the hell things were going to work out. He just knew that people were extraordinarily fearful and in such an environment people were running away from every financial institution. He had a very good idea that Goldman Sachs would survive. He didn't know how, so he just went and made a massive commitment. Every now and then those things appear, and they have reasonable valuations.

MOI Global: You mentioned Warren Buffett. Would you tell us in a sentence or two about that letter I just saw in your office came about?

Spier: Very well snuck in there, John! So, Mohnish Pabrai started writing annual reports the way Warren Buffett does and they really are superb. They're worth reading and collecting; I have a few of them here. The Pabrai Funds annual reports are worth reading and so are the Dakshana reports - I just got the most recent one and it's fantastic, there's so much to learn from it.

I started taking my audit report and turning it into an annual report and then some things really changed my ability to produce quality work. Through writing my book, I became a better writer and then, over and above that, William Green, who edited my book, agreed to help me edit my annual report. So I got my own version of Carol Loomis, and I actually think that William Green is the Carol Loomis of our generation. It pleases me very much to see William doing Latticework in New York, and maybe you will invite him to do the Zurich Project as well. It would be great to have William over in the summer.

William started editing my annual reports and then Cecilia Wong, who designed my book, began designing them so the quality went up. I send a copy to all sorts of people, including Warren Buffett, and he's been getting them for a long time. I don't receive a regular holiday card from Warren Buffett, but three or four years ago he sent me one. He signed the front of the card, saying "Happy Christmas" or something, and then "Enjoyed your annual report, Guy," which, of course, made my heart flutter. The annual report with the help of William and Cecilia was really high quality, he liked my discussion of Amazon and Valeant and the juxtaposition of those two companies - two very different outcomes but, in many ways, similar situations that you'd buy in the future. He wrote me a letter, basically saying that I'd done a terrific annual report and that I must have a bunch of very happy investors. I didn't quite drop on the floor, but I was blown away by that. "So succinct" - two lines, but those are the two lines that any professional investor wants to hear from God himself. I knew that I had to write a succinct response, so I wrote to Debbie Bosanek and said something like "A two-line letter from Warren put me into seventh heaven for the rest of the week. I'm still glowing. Thank you so much. Guy."

It was very kind of you, John, and you're extremely generous to give me the opportunity to talk about that. Let me tell you what the biggest lesson from that is. I'm not the only guy that Warren Buffett has written a letter to. Some people have the ability to give recognition, either in public or in private, and Warren Buffett is doing this kind of thing constantly. He's saying "Who do I know who deserves recognition and I can make them feel good, give them a gift that will make them remember me for the rest of their lives, and make them want to talk about me?" I like to believe I deserve it. He's doing it out of the generosity of his heart, and it's something I exhort myself to do. You, John, already do it in all sorts of ways, and you just did it by asking me that question.

We see Warren Buffett and we want to be like him, be the chairman of Berkshire Hathaway, run \$200 billion and have a 30% annualized track record. That's all very nice, but most of that is not under our control. What we can do is look into our own Rolodex and say "Who do I know who's a good person, who's doing a great job, and who I could actually change outcomes for by giving them some measure of recognition?" Because that's really what Warren Buffett did. And he hasn't done it just with me; he's done it with other people. We've had this conversation many times: I don't know that I'm a great investor, but I've really learned a bit about this idea of generating goodwill. The key thing about this generation of goodwill is that it's not zero sum, so by exhorting the Manual of Ideas community to do, it doesn't detract from me. In fact, it makes me more valuable because I'm a member of the community and I'll benefit from the improved relationships inside it.

So yes, he wrote me that letter, and it's not the only one he's written - he does it on a regular basis. It did put me on cloud nine. The key lesson from that is "Now turn around" and I turned around immediately after that and found 20 people that I could write a similar letter to. Maybe some of the MOI listeners have received such a letter. So, when I see somebody doing a really good job, I try to recognize them in a formal way.

MOI Global: Well, thank you, Guy, that's really a great point and a great note to end the conversation on. I'll just say you've been a wonderful mentor to me in that regard. In fact, I'd say the Manual of Ideas community would not be what it is without your mentorship because many of these things you may never figure out or it may take you 30 years to do it. Thanks to you, I figured them out early on, so thank you for that.

Spier: The best way to learn something is to teach it. You know, John, when I was figuring some of these things that you and I both understand, I was so excited to share them with you because I was just learning them. You won't believe me, you'll think I'm just saying this for the listeners on your show or to the conference participants, but when I've seen great ideas, I've tried to share them with all sorts of people. With most, it goes in one ear and out of the other or doesn't even go anywhere near, whereas John is a freaking learning machine! John sees it, understands it, and acts on it in a way that is, in all seriousness, really, really inspiring to see because you get the essence of what's going on.

You might want to turn this into a second section or something. You didn't pick it up from watching just me, John, but also from watching Mohnish Pabrai and other people: the first thing is give without expecting anything in return. I don't know where you figured that one out, and now you have Shai Dardashti, who's like the exemplar of that. There he is, younger

than me, probably younger than you, John, and he figured it out before everyone else – give without expecting anything in return. But at the same time, when you get takers in your life because they realize somebody’s giving things out for free, put distance between yourself and them very, very fast.

Then I would also argue that those four or five years that we did VALUEx together, I was excited to apply some ideas there. But then you figured it out and I was blown away at what a great environment the Zurich Project was because you had applied many of the things that we learned together in VALUEx. Among those things is create an environment where nobody is selling or is allowed to sell, where in fact selling is frowned upon. That would be the first thing and the second thing is allow people to be vulnerable. When I attended the Zurich Project, I was like “Holy moly, this is really good,” and it was because of those two things. I’m curious, did you pick that up from VALUEx or were there other places where you also learned from?

MOI Global: I don’t know specifically, but I will say VALUEx is that kind of environment. It really is a place where I’ve always felt just incredibly at home because of who attends and what happens there. That’s definitely something I tried to recreate with the Zurich Project and, fortunately, a lot of those people showed up. Many of them are also VALUExers, and they just love it so much that they want to do it twice a year and see you again in June, Guy.

Spier: One annual gathering is enough for me, but I think – and I don’t know what are you going to do with this because it goes into a whole new topic but it’s so interesting and fun – that up to that point, every investment conference that I knew of was a place where people dressed up in suits and promoted themselves. By taking away the selling aspect and by allowing people to be vulnerable, in its very small way it changed the atmosphere in the world that we inhabit. Conferences that were around don’t seem to exist anymore. This is special and I don’t know where the hell it went to.

MOI Global: You invented that with VALUEx. I remember when we did that first VALUEx, you practically wrote down the principles. One was to Chris Anderson from TED, I forget what the other two were, but those are basically the principles, the bedrock.

Spier: Here’s the thing: you figured it out and you applied it perfectly. So, in any case, there’s just a little lovefest going on here between Guy and John. I’ll let you bring the interview to an end.

MOI Global: Without further ado I will. Thank you so much, Guy, for your insights today, it’s always a pleasure. I never know what we’ll touch on going into these conversations, but it’s always fascinating and we learn a lot.

Spier: And because I didn’t know what John was going to touch on, please forgive me, listeners and conference participants, for my rambling answers. Thank you, John, it’s always fun. Thanks a lot!

Guy Spier shared an update on investing in Europe at European Investing Summit 2015.

The following transcript has been edited for space and clarity.

John Mihaljevic: It's such a pleasure to welcome Guy Spier to this session at European Investing Summit 2015. Guy, always a pleasure to have you with us. We've talked in the past about Europe and investing, a lot has happened since our last conversation. Give us an update on your assessment of where we are in Europe today - how do you see the investment landscape?

Guy Spier: As you know John, I live in the middle of Europe because I like to live here. I don't necessarily live here because I want to invest here or invest here because I live here. But there are a few things that might have changed my outlook on Europe. I was really interested to see that GE is moving a bunch of jobs into France. France won a bid to get a GE factory related to building aero engines.

Particularly for the larger corporations, if you learn to navigate the rules in a country like France, you can learn how to get some pretty low costs. So it's often a better investment environment than many people from outside of Europe think about. I haven't looked into it yet, but there are these small European brewers like Carlsberg and Heineken that have not been able to participate in the consolidation of the beer industry.

And now we have Anheuser-Busch bidding for SAB Miller. It's a global behemoth responsible for 30% or so of global beer production. Heineken seems determined to remain independent, which can't be easy at times. Maybe Heineken's waited outside too long and they're going to be doomed to low shareholder returns for a very long time.

Mihaljevic: Interesting. Quite a bit has happened in Greece as well. How do you assess the macro risks? Are any countries particularly attractive to you now, or do you avoid certain Greek parts of Europe?

Spier: I find it very difficult to tell. Europe will continue to muddle through, just as the rest of the world will continue to muddle through. I don't think we're in any huge crisis right now and I don't think we're on the brink of any huge crisis.

The market climbs a wall of fear, a wall of worry. It's a murky picture but that's what we should expect to have. I don't have any specific insights. But I personally have become more optimistic that in spite of a European bureaucracy and some aspects of Brussels that I don't like (aspects of the French economy and other economies in Europe that feel like socialism to me), below the surface of those rules is an attractive environment for investment. Particularly for large corporations who are better able to navigate those rules than people on the surface of it realize.

Mihaljevic: Now, you obviously look globally and can allocate capital anywhere. Within that sphere, are you finding good opportunities in Europe? Or is most of your capital going somewhere else?

Spier: The majority of my capital is in the U.S. I have found a specific idea in China that I'd mentioned at my annual meeting (which I can't talk about here - it's related to a specific brand and a specific business in China that I feel like I understand). So there's some money going in there. And I'm looking at an aerospace company here in Europe.

I find it interesting that Boeing was not far away from being the sole global supplier of wide-bodied jets. Europe managed to create a very good second competitor - Airbus - but it is still a duopoly.

I'm trying to understand the airplane engine manufacturers - Pratt & Whitney, General Electric, Rolls Royce - to understand what kind of competitive moat there is. And it so happens that Rolls Royce is based in the UK, but it could be based anywhere else in the world and I'd be looking at it the same way.

Mihaljevic: If I recall correctly, I've seen an activist presentation or pitch on Rolls Royce recently?

Spier: ValueAct, I think. The basis of their presentation is that Rolls Royce insists on being in industries like sea and land which are highly competitive, more competitive than the aerospace wide-bodied jet engines business.

And this is just a bugaboo of the management and if they could put less capital into those businesses, their returns would go up.

The accounting in these aero engine businesses is very hard, because you have this twenty to 25-year cycles where you have huge investments. And the existing companies are able to be in the position that they are in because they've been investing in aero engine technology for the last 100 years.

But an investment over the next ten years will take 25-30 years to pay off. So understanding exactly which year you take your profit, understanding which year the companies are actually taking their profits relative to where they ought to be is part of the challenge of the sector.

Mihaljevic: Since we're speaking about this general sector, any insights or thoughts on Berkshire's acquisition of Precision Castparts?

Spier: I don't know enough about it to comment. I should have already downloaded the 10-K because now we have the last set of 10-Ks to look at before the company is buried in Berkshire Hathaway.

But a place that's always good to look is the Sequoia Fund or Ruane, Cunniff annual general meeting and their reports because they owned Precision Castparts. And if one goes back into their letters and conference presentations, there's a lot of great questions on Precision Castparts.

They feel to me a bit like (inaudible, 7:45). They do a really good job at what they do and they have a competitive advantage through intense focus on one specific part of the

production chain, but I don't understand it well enough.

Mihaljevic: And just to get back to Rolls Royce and those types of companies, to what extent does the investment thesis depend on a robust aerospace market, both commercial and on the consumer side?

Spier: It certainly does depend on that. But that's the easiest part of it, because there is no doubt that in twenty or thirty years' time (unless we have a nuclear winter or something), there's going to be a vast number more people traveling. The number of engine miles that are going to be traveled is going to be higher, which is fantastic.

In fact, if I just focus on that fact, it makes me want to go out and buy Rolls Royce right now. There's no issues there at all. And when you stop and think of Boeing and Airbus, they're the only two suppliers of wide-bodied jets in the world.

There are certain markets where there are two competitors that beat each other to a pulp, but that doesn't seem to be the case here. Airbus does have a very close connection to the European political system, which could be a negative. They might decide to run a price war with Boeing for the next ten years.

But the real issue if one starts looking at wide-bodied jets, for example, is wide engines for wide-bodied jets. What happens if China decides that they want to compete in that market the way Europe decided they wanted to compete in wide-bodied jets? And even for a country like China it's very, very hard to get into that market.

Mihaljevic: That was going to be my next question. Is there a risk of competition from Asia? It seems to be an attractive space for them to get into, especially if they're thinking more militaristically in certain areas to develop that technology strategically.

Spier: The jet engine is one of the most complex things that we manufacture as a civilization. It's an extraordinary piece of engineering and machinery. And when you combine the amount of experience that these companies have with the installed base, you would just have to have very long loss lead times in order to get into that business.

If they start with jet engines for jetfighters and continue, who knows how long it would take until you have a third competitor, which is still not the end of the world. And you have a third competitor who's quite interested in earning a return in order to have some guarantee.

We account for corporations on an annual basis. This seems to be an industry where you'd want to account for it in a ten-year periods, basically. You're really forcing the companies into a straightjacket to force them to account for much of their business on an annual basis. It's just too short a timeframe.

Mihaljevic: Obviously we've had a lot occur over the past year in oil and gas, a lot of companies look like bargains. There are some European majors, almost every country has one company that stands out there. Is that at all something you would look at, given the valuations?

Spier: I haven't yet looked at it. I just haven't gone to it yet. There's no specific reason.

Mihaljevic: In terms of oil services, there's also companies like Transocean that are headquartered in Switzerland. Any derivatives on the oil being in the doldrums?

Spier: I actually have a much easier time saying no to them. First of all, they feel very much like shipping companies to me. (And there's a fantastic book, absolutely incredible, *The Shipping Man* by Matthew McCleery.) The shipping industry and the drilling services industries appear to me to be industries where insiders do well. Outsiders may sometimes do well, but there's no point even trying to do well if you're not an insider to the industry.

One of the amazing things about Ben Graham is that he was trying to show people a way, and develop a way for himself to make money without being an insider. And there are so many industries where you can make money if you're an insider. The movie industry is a great example. Every single form of venture capital is an insider's game. Much of private equity is an insider's game. The enormous amounts of work that go in there are to get yourself into an insider position, so then you can make outsized returns.

And so the shipping industry (as well as the drilling services industry) is an insider's game and there's a certain arrogance that people have.

Mihaljevic: That's a fascinating topic, Guy, industries where you can make money as an insider but very rarely over the long term as an investor. And I have to admit I've been burnt on some of those that looked cheap. Take Greek shipping, for example. Are there any other industries that come to mind where you feel like investors really have to be extremely careful, because it is an insider's game?

Spier: Yes. There are some industries where it's totally obvious. Venture capital, the movie industry, we talked about the shipping industry, I think shipping services probably.

But the insiders in those industries need capital. And in order to get capital, they will want to convince investors by hook or by crook. Wall Street's a selling machine. And so they will convince rubes like us that we don't have to be insiders and actually this is a fantastic deal for us.

And it's worth adding that every now and then you get extraordinary personalities like Richard Kinder, who makes it safe to invest as an outsider in that industry.

That's part of what Warren Buffett does. He goes into these industries like the insurance industry (the main industry where he's done it). He's made it safe for us to be investors in the insurance industry through Berkshire Hathaway.

And then every now and then, some of us try to actually invest directly into the insurance industry and we realize how incredibly hard it is.

So the big question to ask is whether this is an industry where insiders do well? Is there some element of this investment opportunity or the way it's being presented to me, that is actually the insiders trying to make it look like it's safe for me to invest?

Mihaljevic: Guy, we would be remiss if we didn't touch on Fiat a bit, given that you've looked at it and you've been close to the situation. How do you look at it today, do you still embrace it?

Spier: You may not see it in my portfolio because it's not a U.S. position and I only have to report my U.S. positions. Ferrari is a brand that you don't have to be an insider in order to invest safely in, I believe. Ferrari is going to be fascinating to watch, they have amazing plans for Ferrari.

Part of why John Elkann would be willing to lose control of Fiat in the right circumstances is because he'll retain control of Ferrari and he'll transfer all of the Italian-ness into the Ferrari brand. So that's really exciting to watch. And they say the IPO of 10% of the shares is coming in the next two or three months.

And Automotive News has an eight-part series in the last two or three sections where they mainly focus on Sergio Marchionne's statement (made during a conference call) that the automobile industry manages capital really, really badly. And it took me some time to understand it.

If we stop and think of the number of parts that are individually engineered and designed for specific car brands, we can compare that to the computer industry, where we could have a Lenovo or Samsung or HP laptop and they might all share the same screen. Why don't we have that in cars?

Sergio is starting to have an impact that maybe some time down the road automobile manufacturers will be much more willing to share production platforms for certain common parts, because of what he's doing.

If the consumer can't recognize that the part differentiates the car, why work on engineering it separately when you could focus on the parts that really differentiate your car? So probably the automobile industry will end up having much higher and better returns on capital for shareholders over sustained periods of time after some kind of industry restructuring. It's going to be interesting to watch.

Sergio's pulled off some amazing deals in his time - like buying Chrysler for nothing. We'll see what he manages to do with Fiat. It's a great space to watch.

Mihaljevic: And what about the John Elkann vehicle - Exor - that essentially allows you to invest in an outsider or an owner operator?

Spier: I would say that John Elkann has better access to Warren Buffett than I do. And he's a big fan of Warren Buffett, and he shows up at Berkshire meeting, and anybody who reads his letters will see that he really cares about learning from what Berkshire Hathaway has done.

Surprise, surprise he's gone and acquired PartnerRe. He paid a high price for it and he's probably got a lot of challenges there. It's going to be interesting to see what he does with

it. He's also got access to much higher quality management than the rest of the world has.

Also, interestingly enough, the Financial Times has sold its share of The Economist and he and a group of other families have acquired The Economist. Interestingly enough, at Harvard Business School they have a case on two publications that have not suffered during the conversion to the internet. One is The Economist, which continues to do very well. And the other is Harvard Business Review, so it's interesting that he's gone and acquired that.

Mihaljevic: Did John Elkann buy The Economist through Exor?

Spier: I don't actually know. You can download The Economist's accounts from their website and it just said a group. I suppose that we'll have to wait and find out from Exor's annual report. If they did it through Exor or not, it's not clear to me.

I'm not far from putting Exor in that category of vehicles like Fairfax, Berkshire or Markel, which is something you can just buy and leave in your portfolio. The kind of thing that you'd recommend your aunt or your grandmother to buy and just leave alone.

Mihaljevic: Are there any other companies in Europe where you feel like the management really stands out as owner operators you can trust and get on board with for the long term?

Spier: I am certain that they are around but I don't feel like I've focused on it enough. And part of that is probably a reaction to the European culture where insiders win. They're there but none spring to mind and I'd like to spend more time over the next five years trying to uncover them. Nobody comes to mind.

It's funny, because all of these businesses are global. The Sequoia Fund also owns shares of Compagnie Financière Richemont and that's an Afrikaner, a South African guy of Afrikaans origin, Johann Rupert.

And they claim in their most recent meeting (the Sequoia Fund meeting in New York), that the Cartier brand (controlled by Richemont) is the watch brand par excellence.

And it's Tom Russo who said that as we get richer, there are fewer and fewer ways to express our individuality. If you're at one level of wealth, you go and buy a Rolex and then when you become Abramovich, just about the only thing you can do is buy a super yacht to express your individuality, so they play on that trend.

Many people think that that would go by the wayside as a result of Apple watch. But if Apple watch really gets its legs, it's more likely that they'll partner with those watch brands.

It's an interesting and really well-managed company. It just violates one of my latest checklist items which is, is this a company that's based on creating desire (which is certainly what Richemont is) or is it about fulfilling a human need?

You have me here talking about Europe. Like I said John, I live in Europe, I don't necessarily invest in Europe.

Mihaljevic: We did get some great insights from you, as always. Thank you so much.

Guy Spier shared insights into investing in Europe at European Investing Summit 2014.

The following transcript has been edited for space and clarity.

John Mihaljevic: A warm welcome back to all of you to this live Q&A session at European Investing Summit 2014. We have with us Guy Spier, CEO of Aquamarine Fund. Guy is in Zurich, as am I. We're not in the same location, so we are leveraging technology here. Excited about this session because I haven't caught up with Guy in a little while. There's been quite a bit happening in Europe in terms of markets and news. Also, I know, Guy, you've been very busy with your book, *The Education of a Value Investor*, and the response that it's received. Congratulations on that. To anyone who hasn't read it yet, I highly recommend it. You can actually buy it right now as we speak on Amazon. Now, Guy, why don't we start it off by you setting the stage a little bit and just giving us kind of an update on where you see Europe? We have spoken a couple of times in the past. I know you have a speech coming up with a banking group in Switzerland and so banking is something we can talk about as well, but let's take it even one level above that and give us an update on how you look at these markets right now.

Guy Spier: John, thanks for having me. It's great to be here. Hello, all the members of Manual of Ideas and attendees of this conference. Just checking that you can hear me. I just replaced the computer here.

John Mihaljevic: We can hear you. It's a little on the low side in terms of volume.

Guy Spier: Is this better now?

John Mihaljevic: Yeah, that's better.

Guy Spier: I apologize. What I will tell the listeners is I feel like there are no interesting things to look at in many parts of the world. I don't think the markets are overvalued and I am almost fully invested, but I like what I own. I don't think it's the cheapest it's ever been. I don't think I was particularly interested in investing in Europe before and I'm not particularly excited about investing in Europe now. Europe is still working through the overhang of 2008. Some countries are doing it better than others. I think that the UK is doing it better than France, for example. That's not a huge, astounding insight for everyone. I realize this is a European investing phone call, so where I had spent some time looking at things is Korea where I ended up earlier this year, buying something in Korea. That was the last time I bought something, I bought POSCO. I talked about it at public conferences.

What I would say to the group of conference attendees, John, is that Korea is clearly a cheap market and there's some very cheap and high quality businesses in Korea. This is really just a personal reflection on me is that I'm finding myself unwilling, especially after my experiences in Japan where I worked very, very hard for not that great return, I find myself unwilling to start buying preferreds and start having to do a basket and starting to have to buy smaller position sizes because often the annual reports are not in English and so I'm

staying put with the positions that I own. The one position that I own that is European is Chrysler, which is still going through a transition. They've just announced a spinoff. They plan to spinoff Ferrari. The Ferrari brand is sui generis, you can't really describe that as an automobile company. It's like Harley-Davidson is one of the great brands of the world. It's a luxury brand, it's an automotive brand. It's possible that the core of the current market cap, once the Ferrari spinoff is traded at the kind of valuation I think it would be expected to trade at, it's kind of like getting the car company for free.

Earlier this summer, they had a vote to move the headquarters of the company from Italy to Holland. It was only a year or two ago that it wasn't even clear that the two companies would be able to merge and that this pension fund was asking for too much money, that Fiat wouldn't want to pay it and they didn't have any money. Well, that merge has now happened and the stock started trading on the New York Stock Exchange, but it's only been trading for a few days, so they haven't really gone out and done a roadshow. I think it's still a company in transformation that's still trading at a vast discount to many of the other automobile companies. I'm excited to own that and I still have to confess to the group that I own Nestle. It's a very high quality business, but isn't cheap, as we know.

I'll stop there. I have some ideas that I'm going to throw out at this gathering of financial market participants here in Zurich. I'm really happy to share it with the group. In fact, after I've express these ideas, if you have feedback you want to email me, I'd be really happy to hear it. My goal in delivering the talk is really to get the Swiss financial industry to rethink what they're doing. When John cues me, I'll give you five or ten minutes on that if you like.

John Mihaljevic: Guy, thank you. Actually, we already have a few questions that have come in and one does ask about Nestle and is specifically focused on the valuation, as well as their current positioning and fundamentals versus the peers. Maybe just give us a couple minutes on Nestle and your take right now.

Guy Spier: I think Nestle, as we look historically, it's most comparable peer is probably Kraft. I think it's performed better than Kraft. Nestle has been focusing on international markets longer. I think something I've learned over the past ten years is this idea of businesses that allow for attractive reinvestment opportunities. I think Nestle is the kind of business that throws that up. I think it's a business that is close to Warren Buffet's description of an inevitable and so it's just an incredibly comfortable thing to hold in the portfolio, even if the valuation is not as low as some other things. It's something that you can just hang out with for a very long time and know that you'll do well. That certainty of knowing that you'll do well, it's just a matter of time, is a wonderful thing.

Earlier today, I spoke to this investor, Nick Sleep. If you don't know who he is, you will eventually find out who he is. He's brought extraordinary returns and he told me he's giving all the money back to his investors and he's going to own three stocks. I think it's okay to tell you that one of them will be Berkshire Hathaway. He has no clue where Berkshire Hathaway will be in a year's time, but he knows the business is going to grow massively. The valuation is going to grow massively over the next five to ten years, which is all he cares about. I think that Nestle is the same. It's not worth getting into too much of a quibble on valuation. In fact, I would put to you, John, if someone is asking too much on valuation, it

may be that they're too focused on the short-term.

John Mihaljevic: Guy, you mentioned Berkshire Hathaway there. We could get an update on Berkshire from you as well, but one thing came to mind. Recently, Berkshire either reduced or totally sold its position in Tesco in the UK and Buffet called it a huge mistake. Since this is a European conference, I know you've looked into and been active in the UK in the past. What's your take on Tesco? Do you agree with Buffet and why do you think he made a mistake in the first place?

Guy Spier: By the way, he's not doing very well with his IBM position, either. Tesco's not a company I've ever looked at, but I think there are some amazing lessons there. I remember seeing a very cogent buy recommendation coming into my email inbox a year or two ago for Tesco. The person cogently argued and said, "Look, first of all, Warren Buffet owned it. That says a lot." Then it argued about how Tesco was the low cost operator in the UK. It's a very concentrated food retailing environment. I had the distinct impression that Tesco was clearly being built up or being sold in this write-up as sort of a Wal-Mart equivalent position. I don't know if that was the thesis Warren Buffet had. It seems like two things happened and they compounded each other. The first thing is that there are these new entrants into the UK market, companies like Aldi and Lidl, which are both German, stack 'em high discounters.

Even though the thesis given was that there's not a lot of real estate available for large format stores in the UK, the idea was that that market's all sewn up. It seems like Lidl and Aldi have found locations and so Tesco's topline was not growing Wal-Mart-like the way people expected to or the way it ought to have grown. Then there was an accounting for supplier discounts that warped buying while the company was growing and weren't valid. I have not looked into the accounting myself, but the minute that you don't have growth, then the assumptions that you make for that aren't valid. That's why this company booked this large loss or restatement of earnings, which has got everybody very upset. I have to say, I raise my eyebrows to see Warren Buffet was selling. You wouldn't expect Warren Buffet to sell a company just because it has a bad quarter or because growth has slowed for a while.

I think he must have realized two things. His thesis of being the low-cost operator and being able to grow at the speed that Wal-Mart has just hasn't played out. It seems either they're not the low-cost operator or Aldi and Lidl are lower cost operators, but then to compound that, I'm sure that he's not particularly happy with the management and he feels like the fact that they didn't reverse that account and seen it shows that they're not the most ethical of people. I look at that and I think to myself, "Wow, I dodged a bullet." This piece that came in really made me feel like if I'm not invested in Tesco, I must be an idiot and so I think that it's just a lesson for me that sometimes we spend a lot of time in this business being like idiots and that's okay. If you feel like an idiot, it may well be you're doing the right thing. It shows what a treacherous business retail is. It shows how hard it is to find really, really good business. It shows that Warren Buffet can make big mistakes and that was a £465 million mistake. He should have given the money to me and all of us. We would have done better with it for him.

John Mihaljevic: Thank you, Guy. There was a follow-up on you mentioning Nick Sleep and

him liking Berkshire Hathaway. Any insights on the other two companies he likes?

Guy Spier: I would love to talk to you about it, but I feel like it's not appropriate for me. I'd so love to, but what I will talk about is if I do that, I'd be violating something that's very valuable, which is to keep what is told to me in confidence confidential. I don't think it's a secret that Nick Sleep likes Berkshire Hathaway, but the other two might be. I can certainly ask him permission and if he gives permission, then I would be happy to share it out. It's just a really important value - keep what you hear confidential. I'm really sorry I can't share it, but if your listeners are interested in it, then I can certainly see if he's willing to share.

John Mihaljevic: Absolutely, we respect that. Guy, a question on the auto industry. You mentioned Fiat and Ferrari coming up. What is your general view of the auto industry today? The question also specifically touches on BMW and the fact that the preferred shares trade at an attractive valuation right now. Any insights you can give on autos would be great.

Guy Spier: I will share this insight. This is what got me to a point where I was comfortable to invest in what is not the world's best automobile company. I think the world's best automobile company is VW, just extraordinary. This is what I realized is that I don't know exactly why it is because we could certainly manufacture cars that could last thirty years, fifteen years or ten years, but it seems that people get bored with their cars or for one reason or another, people want to change their cars after somewhere between five and seven years. That just means that - I remember the number for the United States - you have about 100 million cars. I don't remember where it is right now in the United States. You can say somewhere on a level run rate, you have to have between 16 million and 17 million cars being manufactured or purchased a year.

If the average age of the US car fleet extends its time, so if the average age of the car fleet is moving from five years to six years to seven years, that means that car sales will stay below 17 million, which is the replacement rate. Then you know at some point that it's going to catch up because that number - I don't remember exactly, it's somewhere between five and seven years - over long periods of time is very stable. You can be pretty certain if it's 13 million cars, at some point that demand is going to increase. If it's 25 million cars, it's going to decrease. There's a similar number, of course, for the whole world. You can start looking at how do you produce 17 million cars or for the whole world - I don't have the number in my head for the whole world - how do you produce the number of cars in the whole world that need to be replaced every year? There are all sorts of specialized facilities that you need. You need access to steel, you need access to plastic. You need access to parts. A lot of those are locked in on long-term supplier relations, whether it's the steel that you're buying or the parts that you're buying.

In some way, yeah, the productive capacity of the industry does change and people do, from time to time, construct new plants in new countries, but if you're an existing volume participant in that market, so if you're a Fiat, I can't guarantee that Fiat will have fantastic sales at a time when the market is at a cyclical low as Fiat has been suffering in Southern Europe, but when the market gets to balance or it even goes beyond balance and it's selling greater numbers than the numbers just to replace, so the average age of the car fleet is

getting shorter, that's a situation in which you're showing up at the car dealer and you want to buy a car, it's a question of what's available because there's a limit to how many cars can be produced in that environment. I realized that by buying one of those players, I was buying into existing productive capacity. Even if Fiat had the worst cars, there was going to be a point in which even Fiat cars would sell in volume. I would say that that was a huge insight and an important insight for me that made me comfortable buying into the car industry.

I will also say the other insight was that the profitability of the car companies is highly related to the throughput in the factories. Past utilization is really, really important and if you can survive the down markets, you'll make substantial money in the up markets when there's high capacity utilization. Those are some of the aspects of the economics that I cared about. When I see things like e-cars or the Tesla, the key point there is you need to manufacture those cars somewhere and by far and away, the least expensive place to manufacture them is within the existing productive capacity of the industry. In the case of Fiat, I bought one of the least valued, but also least respected players and I didn't pay a very high price for it at all. I hope that's helpful.

John Mihaljevic: Absolutely. There's another question that says, "In 2012, you had talked about starting to think about the European crisis as Anglo-Saxon versus continental argument and how Draghi was using the crisis for further integration. What do you think about tangible steps towards integration or lack thereof so far and what do you think of the investment landscape going forward?"

Guy Spier: I was in the UK last week, so I see things from a slightly more British attitude. I would say from an investment standpoint and I've said this before, I find Europe very hard to invest in because I don't like the fact that there are limitations to hiring and firing. It's an old labor market and there are all sorts of restrictions on how corporations can operate. I think that means they're going to constantly be under attack from competitors around the world, places like China, India and the United States. I think that Draghi, the European Central Bank and European institutions have a lot more influence over countries like Greece and Spain today. I think if you're somebody who's fully believers of power in Greece, the problem is you're going to be checking in with various bureaucrats in Brussels.

Now it's a lot higher than before the financial crisis, so I think that the crisis was used, even if they haven't formally arrogated more power to themselves. I believe the lines of communication and what needs to be done in Greece and run accordance to both, from Greece to Frankfurt to Brussels, is much more than they were before. I would say that there's going to be a very interesting interaction between the EU and the UK over the next few years because UK has this UK Independence Party and if it argues on the very large, ridiculous spectrum that argues that the UK should not be in the EU, they now just want to seek parliament and they have growing strength.

Their leader, Nigel Farage, is a quite a successful media personality and there's a very strong body of opinion that wants to keep Britain in the EU, but the current leader of the United Kingdom, David Cameron, is, in a certain way by this UK Independence Party, being given cover to drive, at the very least, a very hard bargain out of Brussels. It's a very

powerful thing when one of your largest and most important countries in the EU says, "If you people continue to centralize power and to run this as a political project, then you may lose your largest member." I think most sensible people expect David Cameron to use that to extract a kind of future for Europe that is more in line with an Anglo-Saxon view of just having the economic benefits without political integration, but it's reasonably certain to me that Holland and France, the smaller balance countries, Germany, don't feel that way, so it's going to be interesting to see how that develops. Of course, all of that's, in a certain way, relevant for us as investors.

I apologize, John. I just don't think I'm a great expert. I'm not trying to find the world's greatest companies in Europe and I haven't seen anything I wanted to invest in here. Maybe I should look harder and I just haven't. Maybe that's something in itself. That may be a reflection on me, that may be a reflection on my Anglo-Saxon values and what I'll tell your audience is don't take that as a given. I would say take that with a grain of salt. That may be more of a reflection on who Guy Spier is in the state of the European market. If any of your listeners, John, want to email me with their European ideas, I'd be really happy to look at them. I haven't looked at the latest copy of Manual of Ideas and maybe it might come up.

John Mihaljevic: Well, we are focusing on European ideas in this issue and we will send you a log-in for the conference as well, so maybe you'll find something. There is a question that does mention a large bank that has global operations. It says, "I know that you are invested or were invested in the money center banks in the US. What do you think of the recent selloff and standard charter due to the US investigations? It is trading below tangible book value. Peter Sands has navigated the bank through the 2009 crisis as one of the only banks that didn't need a bailout. Sounds like the earning power is still intact. Any thoughts or interests here?"

Guy Spier: The strange thing is, I will tell you this, I met Peter Sands. I study with the Prime Minister of Britain and I was invited to a cocktail party and 10 Dannon Street and Peter Sands was also at that cocktail party. I didn't get a chance to dive deeply into the operations of Standard Chartered with him, but just to meet him, I liked him. I have never looked closely at Standard Chartered's accounts and I haven't studied the business in depth. I don't know what are the latest allegations that the bank was accused of, but I know that the opinion that I heard and your questioner may know better than me was that it's not the first time that the senior management of it being responsible for something that doesn't look good from the outside. I would say that from my knowledge of Standard Chartered, I would say they have a really interesting business and they have a business that is, in many ways, might be comparable to Citibank's international business in that they're really quite deeply embedded in the markets in which they operate. I know that in Korea they have a whole branch system and they have a branch system in a number of countries. They have kind of a unified brand and it's an Anglo-Saxon brand. It is not an American brand, so I think it's something that is interesting to dive deep into. One of the reasons why it's interesting, they have something that probably many of the American money center banks have is that they are very meaningful to the United Kingdom, so it can probably borrow money.

They have access to the discount window and can borrow money at relatively cheap rates in

the UK. I would say it's an interesting place to look, but I haven't dug deep on it. At a conference, initially I brought up whether Royal Bank of Scotland was an interesting investment for similar reasons. They have the backing, they're a large money center bank. They have the backing of the Bank of England, so they have access to the discount window. They have access to low-cost financing and it's a pretty concentrated market in the UK, but when I looked at it recently, for some reason it had not performed well, not performed the same as the US money center banks. The best I could tell was the housing recovery in the UK was a little more sluggish and the economy recovery was a little more sluggish. There are reasons for me to believe that it's not within my circle of competence. There are things I don't understand about the British banking industry because I didn't get the call right that I made on RBS and it's clear to me that Standard Chartered is something that I don't understand about it. It definitely intriguing, but I might want to put it into the 'too hard' pile.

John Mihaljevic: Now let's segue into your views on European banks in general, as you have a talk coming up to a group of Swiss bankers, I believe. What are you going to tell them?

Guy Spier: First of all, we don't think of ourselves as participants in the financial market or participants in the financial industry. We're kind of investors and many of us may run small funds, but I will tell you all that that's not the way the public sees us. The public sees us as full-blooded participants in the financial industry. I've been on this book tour, so I've met all sorts of media people. The global population and it may be hard for us to understand, are really quite angry the whole planet's industry and that includes us. If I look at the causes of the financial crisis, the fact that investment banks like Lehman Brothers and perhaps Bear Stearns and others were taking risks with shareholder money that then was capable of getting contaminated into the Board of Banking system is something that we failed to regulate well. Those regulations are coming in in this barcarole that separates out and the risky side of the banks is seeking to do that, but then I was just looking at these two large Swiss banks, which are universal banks with multiple divisions operating in multiple countries seeking to be all things to all people.

They have their investment banking division, they have the private wealth management division. They have their high street leveling businesses, they're in multiple countries in the world. It struck me that all of the large money center banks in the United States are headquartered in New York. Except for Wells Fargo, which is headquartered in San Diego, but Wells Fargo doesn't have a very large investment bank. It's not a significant operation to them, the investment bank. For them, it's to serve their existing banking clients. Then I kind of looked at Zurich and thought that Zurich struck me as a bit like Boston. It's a similar size and certainly a similar feel to the city. It was interesting to me that here's Zurich. If you take the board surrounding area, you have about five million people here. The City of Zurich is tiny, but five million live within a one-hour commute of Zurich and you have two very, very large banks with a trillion or more, \$2 trillion balance sheets.

I'm not a shareholder in either, I wouldn't want to be a shareholder in either and I'm not trying to engage in activism, but it seems to me that not only the Volker Rule and other

rules apply, but also it seems to me that you have a thriving financial industry in Boston that's full of very, very specialized firms. Firms like State Street, which is a custodial bank or Fidelity Mutual Funds or Putnam Management and some even more specialized firms like the bench capital industry. I know I'm going into a different city, but out in San Francisco, you have firms like FICO, Verasisc that just do consumer credit ratings. My hunch is that buried within Credit Suisse and UBS, there are probably four or five world-class businesses that standalone on their own and that actually has a region. The financial industry in Zurich has been stifled by these two large institutions. It really behooves the Swiss public and the regulators to try and find a way to force these banks to break themselves up into their constituent parts, some of which would carry the Swiss name.

Right now, in many quarters in the banking industry, to be called 'Swiss' is actually a negative expression from the United States. Why not just call the Swiss part of it what you want to call Swiss? You can have wealth management parts of UBS and Credit Suisse and maybe don't have a Swiss connotation, but when you think of high quality Swiss engineering, there's no reason, it seems to me, why maybe two or three custodial banks couldn't do a phenomenal job applying the Swiss policies of decision, efficiency and reliability rather than forcing a broad institution to carry that reputation. I think that what's extraordinary and surprising to me is that here in Switzerland people seem afraid to say it. You have these two big institutions that have become a rule unto themselves within Switzerland, which is not healthy for Switzerland and probably not healthy for them, so that's what I'm going to be talking about. It's not a buy or a sell, not a Credit Suisse or UBS. If anything, it's perhaps more like the sell and buy recommendation, but that's the thesis.

John Mihaljevic: Thank you, Guy. That's very interesting. A bunch of questions have come in, so my job is very easy here. I have a lot of good stuff to choose from. I want to switch to POSCO real quick. You talked about it in Italy in July and there are a few questions on POSCO. One says, "They don't break out the EBITDA per segment. They have several different segments in addition to steel. For a \$40 billion enterprise value, what do you think is the normalized earning power on the steel segment and what would cause the earnings to normalize?"

Guy Spier: First rule, 'think' is the right word because I don't really know, but what I can do is tell you that in the last ten years, they got into a whole bunch of businesses that they probably shouldn't have gotten into. We could look at their profitability like I did at that conference in Italy. Just look at their profitability over time. At one point, they had 15% net income or 12% were sort of their income margins. I know that their steel productivity is extraordinarily high per worker. I believe that their steel operation is extremely efficient and low cost. Exactly what that margin is, I suspect that to get back to 2007 margin numbers is unlikely. What I think of is just in terms of reporting their income margins and I think 6-7% would be a very nice number, but I think that's it's possible. I don't really what it would be, but that's still way below what they showed in the peak of 2007.

John Mihaljevic: Guy, the second question on POSCO says, "The thesis relies upon normalization of margins over time. In a market-driven economy, unprofitable mills should close, which leads to normalization of margins, but in China, with a government that has

shown a willingness to keep unprofitable businesses operating for the sake of employment, this may not be true. For margins to normalize, the world might need to grow into current supply. How do you think about the possibility that government involvement prevents this market from normalizing?"

Guy Spier: I hope it's not true and I can't prove it. If it is true, then what the question says is absolutely right. I think the global demand does grow into that supply. I think of what I saw with the consolidations that Mittal has done, extraordinary consolidations. Mittal acquired companies that nobody ever believed the government would allow to be sold to another national corporation. I think that over time, extraordinary things can happen. [...]

I will tell you I was in Southern Africa two or three weeks ago. We always think of Africa as a basket case and there were a number of Black entrepreneurs, some Muslim entrepreneurs that I met and they were joking about how the rest of the world is just not aware of what is going on in Sub-Saharan, Africa. The argument was there's huge Chinese involvement in the African economy, there's huge Indian involvement in the African economy, but no Anglo-Saxon involvement in the African economy. There's global demand for steel and it may well be that China ends up producing a lot of the steel that's used in Africa, for example, and they're buying a lot of raw materials from Africa and sending them back a lot of steel. I think the idea that global demand will rise is quite a plausible one.

John Mihaljevic: Guy, a more general question on your portfolio. How do you size positions generally and how many positions do you hold?

Guy Spier: By this time, the answer I can say is badly. I'll step back and say I haven't read the article, but I glanced at it and it now has been deleted from my inbox, but if somebody asked me for it, I guess I could try and push it out. They asked what makes the point that many dead investors, so studying the portfolios of investors who are deceased but the portfolios continued, do better than portfolios of people who are alive. One of the key things is not to meddle and one of the key things is not to spend too much time adjusting things. In terms of position size, I would say it varies from 12-15% for some of the larger positions. There are 22 positions in the portfolio and some of the small positions are utterly insignificant, but I would say that seven, eight or nine positions are about 80-90% of the portfolio.

If I had real guts or courage or less desire for a safe performance, I would be selling down some of the small positions and buying into some of the bigger positions, but I'm trying to account for the fact that I don't know enough to be as concentrated as three stocks, for example. What I'm trying to do now is if I buy a new position, I don't want to make it less than 5% and I probably need to have an enormous amount of conviction to take it over 10% as an initial purchase price. It seems to me that that 5-10% range is large enough that an idea has a significant impact if it goes up, but if for some reason I get it wrong, the idea is not so big that it'll have a devastating impact on the portfolio.

John Mihaljevic: Guy, another question, have you looked at E&P companies or energy servicing companies in the recent selloff? There are quite a few small companies that provide capital equipment to this industry in Europe.

Guy Spier: I haven't and maybe I should is the answer.

John Mihaljevic: Next question, aside from Nick Sleep, are there any other under-the-radar investors in Europe that you admire? Here's an opportunity to plug our fellow Value Xers.

Guy Spier: I'll tell all of you that there's this guy, John Mihaljevic, who's a genius level IQ, who runs a portfolio only for himself that he keeps super private. I don't even know what's in it, but I have a suspicion his returns, although volatile, are extraordinary and I would say that you should pay a lot of attention to John Mihaljevic and you should cherish any advice.

John Mihaljevic: Okay, Guy, you can give us a real answer now.

Guy Spier: Because one of these days, John Mihaljevic is going to stop publishing the Manual of Ideas and he's just going to start investing money and then there'll be no more Manual of Ideas. John Mihaljevic will do very, very well both for his investors and his shareholders. He interrupted me because he doesn't like me saying it, but I do think that John Mihaljevic is an extraordinary investor. Look, some of the people I have talked to about investment ideas - he does it privately, he doesn't do it for public consumption - this guy, Chris Detweiler, he's a Value Xer. He's a super smart guy and has really interesting insights into some of the companies I've discussed with him. There's a guy here in Zurich called Robert Leiss, who I've enjoyed talking to and he strikes me as being similar to somebody that I've met who's been a Value Xer, Josh Tarasoff, who I feel like when I look at them, I see myself 15 years ago. I often see them making some of the mistakes that I made 15 years ago. There's a whole host of superstar people in London. I'm thinking of a guy from Metropolis Capital. He is just a smart and thoughtful guy. His name escapes me. There's a man named John McGlagly in London, who's incredibly thoughtful and smart. I can't remember the name of their fund, though. I've had some very interesting interactions with Francois Babelon. He's a super smart guy. I hope that's helpful.

John Mihaljevic: Well, you pulled it out there at the end, Guy.

Guy Spier: I will tell you to put this on John Mihaljevic.

John Mihaljevic: There is a question related to the wisdom in your book. It says, "What have been the best ways that you have restructured your life to be more focused on the inner scorecard instead of the outer scorecard?"

Guy Spier: I do think that moving from New York is a huge deal and I will tell you all that I was in London last week and London is not New York. I was staying with my parents, they live in Chiswick, but I was going to town every day to promote the book because I want it to do as well as it possibly can and I think that I started feeling those avaricious juices coming back to me in London. Here in Zurich, just to give you a thought, I became a member of a squash club that's about halfway between where I live and where John lives, which is about a seven-minute drive for me and a seven-minute drive for John. I've never paid dues more than once because I realized I just wanted to pay every now and then and I wasn't an active participant. On the winter evenings especially, it's wonderful. I take my son there sometimes or I'll go and meet John there. I know we haven't done that for a while. When I

can do that, I don't have envies. I guess it's living in the right place and having access to the things that we love at a low cost whether that's nature or whatever floats one's boats.

Furnishing the right people in our lives is just extraordinary and that's doesn't mean that we have to kick out all of our existing friends, but maybe once you stop listening to this conference call to go and look at the emails in your inbox. I'm really a big believer in building from the group up, from the simplest steps. Look at the three emails from people who you know are kind of time-wasters maybe or who just have negative energy, they sort of suck energy out rather than putting energy into your life. Don't not respond to them, but just choose to respond to them in four days rather than three and pick three emails from people who really have a positive energy and respond to them right away. I just think starting from those kinds of small things and doing it consistently, over a relatively short period of time, five years, you can end up with a radically different set of friends and that will drive a whole bunch of other things in a positive direction.

John Mihaljevic: Going back, Guy - I know we're short on time here, just a couple questions to finish it up - Buffet and IBM, why do you think he bought it? What would have piqued his interest in IBM?

Guy Spier: By the way, I'll just be glad if none of your listeners haven't fallen asleep. I hope everybody's still awake out there. Isn't IBM just intriguing? There's one thing that's certain for me. I'm certain that it's not bothering Warren Buffet one bit. That's certain for me. He's not losing one millisecond of sleep over it. I think if I bought IBM at the prices he bought it at, I don't know if I'd be losing sleep, but I wouldn't be happy about it. The one little insight that I have is obviously the revenues aren't growing. What seems to me to be the case is that when you have the kind of computer systems that you're running through your clients, it's just natural that your clients will come to you for new pieces of businesses because it's very hard for you to go and take that to a new vendor when you already have so much that's invested and so much that's easy to do with the existing vendor. That seemed to be a lot of the insight that Warren Buffet had for investing in the idea.

Something I heard today is that Amazon doesn't only give us free shipping and low-priced books and all sorts of other stuff that we want, it seems like Amazon is just phenomenally aggressive on their pricing and client services. They have a similar kind of model where you stack it high and sell it cheap, extraordinarily cheap. The question that is on my mind about Amazon is is this a company that will ever make money for its shareholders? Maybe at the point which they decide to make money for their shareholders, their competitive advantage has disappeared. That may or may not be true, I have no idea, but if that is true, then unfortunately IBM as touted in the computing space is at least one almost irrational competitor, but has the deep pockets to continue to price its products in an irrational way, which doesn't bode particularly well for IBM. I haven't yet second guessed Buffet, I don't believe, and turned out to be right. In situations like this, it's interesting to watch and see. There may be things that Warren Buffet totally understands and it's just a question of time to watch it play out.

John Mihaljevic: Last question, but feel free to take as much time as you like because no one is falling asleep here. Can you name some owner/operators that you admire whose

companies you would buy if the price was right and any CEOs whose annual letters you like and read?

Guy Spier: Here's the conversation that happened today. It's a new checklist item for me, actually. Look at Jeff Bezos. I don't know that Jeff Bezos has to make the most money for his shareholders. I think it might be that the personality of Jeff Bezos is that he would like to go down in history as having run this awesomely, extraordinary business that delivered massive amounts of consumer service. It did amazing things for consumers around the world, but didn't do as much for capitalists. If that turned out to be the case for Amazon, would that be the worst thing that happened in the world? Absolutely not. To ask the question, "What game is the CEO playing," if you look at Microsoft, Microsoft has generated enormous amounts of cash and that was a game on some level that Bill Gates was playing. Perhaps if Bill Gates had been more like Jeff Bezos, he would have played a different game. Some of these great business leaders may be extraordinary historical figures, but they might not be people we want to invest with because they're just not playing the game in the same way.

We want to be around people that are not just playing the game, but they love to play the game. They love to play the game for the sake of playing the game because if they play it well, within a short period of time they're going to have more money than they know what to do with. If they do it out of a desire to keep the wealth away from the poor, then they'll lose the motivation to take care of shareholder firms in the best possible way. I think it's a really interesting checklist item. It kind of forces you to make the distinction between the personalities of people like Jeff Bezos and Bill Gates when he ran Microsoft and Elon Musk would maybe fall into the Jeff Bezos category. It's a very high valuation, but I think the guy who started and runs Salesforce.com, he's a guy who wants to win. He absolutely wants to win and the money is the scorecard. He doesn't want to win by some sort of more difficult to imagine what consumers suffer or how did he deliver value to consumers the way that Jeff Bezos might think about it, which is perhaps a more sophisticated way to think about your life. No, Marc Benioff wants to win in a very, very visceral way that's measurable.

In terms of capital allocators, looking at full capital allocators and people who do it well, I would tell - you that I happened to have a short conversation with him today - I would pay a lot of attention if a guy like Nick Sleep ends up finding a permanent capital vehicle to run. Pay a lot of attention to what he does. I would say he's a friend of mine and I know him very well, I'm not invested, but Mohnish Pabrai now has this company called Dhando Holdings, which is buying insurance companies. The intent is to take it public at some point. It will probably get taken public at book value and pretty soon it will go to twice book value. I think that he is extraordinarily talented both as a manager and as an investor. I think that he is somebody who likes to play the game. He stopped doing what he was doing for the sake of keeping the wolf away from the door a long time ago. He's doing it because he loves to do it, he enjoys doing it. There's the right motivation there and I think he will do extraordinarily well. I'm certain that he's the new guy who will have a permanent capital vehicle a bit like Fairfax Financial, Markel, Berkshire Hathaway, some of the ones that are better known. He's a new one to watch and the other ones are ones that we already know about.

A trio of value investors came together at an online conference hosted by MOI Global in 2014 to delve into the topic of investment checklists. In a Q&A session that lasted more than an hour and explored various aspects of checklist-based investing, Mohnish Pabrai, Guy Spier, and Michael Shearn shared their wisdom and insights into this important topic.

The following transcript has been edited but may contain errors.

John Mihaljevic, MOI Global: We've got three exquisite minds with us to discuss the topic of investment checklists, something that's crucial in scrutinizing investment ideas. We have Mohnish Pabrai, who needs no introduction. He runs the Pabrai Investment Funds, has done so for quite a few years with amazing success and follows a strategy that seeks out undervalued companies. He is known in the industry for having a process that involves having an investment checklist and so we look forward to his perspective. Also joining us is Guy Spier, my Zurich-based friend and successful value investor who runs Aquamarine Fund. We also have Michael Shearn, who founded Time Value of Money and is the author of the excellent book, [The Investment Checklist](#).

I'll open the floor by mentioning that Mohnish a few minutes ago held up his investment checklist, and while I politely requested to see the checklist, we're going to hear excerpts and thoughts about the process of constructing a checklist. Mohnish, could you talk about how you realized that checklists were of such importance to your investment process?

Mohnish Pabrai: The topic of checklists is something I don't need too much cajoling to talk about. It's near and dear to my heart. To give you a little backdrop, the pioneer of the usage of checklists is the aviation industry. Aviation today is ultra-cheap and ultra-safe, and those two attributes are directly a result of the usage of checklists. The *modus operandi* I followed in trying to create an investing checklist was to look at the FAA [Federal Aviation Administration] and the way it deals with airline safety. I used that in building a checklist.

If you go back a little further, Boeing had produced this bomber, and they wanted a large contract at that time from the U.S. Air Force. They were a shoe-in to get the contract and they had arranged for all the military top brass to come see a demo flight. When this B38 took off, it promptly leaned on one side and then crashed with casualties. That was the end of Boeing getting that contract, and the company had invested a huge amount in that airplane. They went back and analyzed what had gone wrong. This was a very complex airplane, and they came to the initial conclusion it was too much plane for a person to fly. It was too complicated.

Then, Boeing drilled down into the problem and came up with the first aviation checklist. To assist the pilot they said, "Before takeoff, here are some things you can do. While you're in flight, here are the next things you need to do for landing and so on." They convinced the Air Force to give them another try and, of course, the plane flew flawlessly. Subsequently, they had virtually no crashes unrelated to being shot at during World War II, so that plane performed magnificently. It was called the Flying Fortress.

From then on, checklists became fundamental in aviation. The way the FAA goes about looking at airline safety and flight safety is, on a steady-state basis the FAA does nothing. They get going when there's a plane crash anywhere in the world of any significance. When there is a plane crash, they send their experts, and the NTSB [National Transportation Safety Board] gets involved. The main thing they're focused on is to find out exactly what caused the crash. They spend ungodly resources to get that answer.

They have a very pragmatic approach. The FAA has a certain price for a human life, and that goes up every year to account for inflation. Last time I checked a few years back it was about \$3.5 million per person. If there's a plane crash, for example that "crash" landing on the Hudson where those flying geese hit that flight. They're able to model what the probabilities of something like that happening are and, in fact, in the early 1960s, there was another airplane that crashed. That plane was hit by a bird or a few birds in one engine and then shrapnel flew out from that engine and destroyed the second engine, even the fuselage. It caused damage in the fuselage. That plane crashed and no one survived.

When that crash took place, the FAA studied the problem and mandated a number of changes in the way aircraft engines were manufactured in the future. They required an aircraft engine to not throw out any parts when it ingested a bird. It could fail, but it would fail in a manner that would not threaten the airplane. Birds hitting airplanes is a common occurrence. We never hear about it because there isn't a crash, because there's still at least one functioning engine. The Hudson crash was not just birds, but Canadian geese hitting the airplane. They looked at it, took a pragmatic approach, and tried to figure out the probabilities. My guess is they might put more rules around how airports control birds around airfields.

The approach the FAA takes, which is you send in people to examine a crash and then figure it out, is exactly the way I built the investment checklist. The equivalent of an investment crash is when you have a permanent loss of capital, so I said, "Why don't we try to find a whole bunch of value investors who had these permanent losses of capital? Then once we see a permanent loss of capital, ask ourselves the question, 'Was it obvious before the investment was made that there was likely to be a problem with the investment, something that was visible before the investment was made?'" Looking at the B38 model, which is investing a multi-variable-type activity, which a lot of different factors going into the dynamics for the future of business and one can easily get swayed by the upsides while ignoring some of the red flags and so we are building a list of red flags to look out for.

I looked at Warren Buffett's mistakes, Charlie Munger's mistakes, Longleaf Partners, Third Avenue, Seth Klarman, David Einhorn, and so on. I had an intern help me build a checklist and what we found is that in almost all cases, it was very obvious before the investment was made what was a very significant blind spot the investors, some great minds, didn't think about. As we saw these mistakes, like for example, the easiest ones are Buffett and Munger because they talk about most of their mistakes, so things like Dexter Shoes, Berkshire Mills, U.S. Air, NetJets and these types of business, diversified retailing and so on, we were able to start to put together some questions about what had caused the failure and then we went to other investors. I also look at my own mistakes, obviously, because I had a full dataset. With

some investors, they don't talk much about their mistakes, so there was an exercise of trying to reverse engineer and sometimes we could and sometimes we couldn't. If we couldn't reverse engineer it, we just left it alone, but the ones that we could, we did.

I went about basically just building a list of questions. For example, when we saw the failure of Dexter Shoes, the question that came up was is this a business that can be negatively affected by cheap, foreign competition or cheap labor with these locales. Sometimes we had issues with businesses with unions. With something like US Air, the airlines have multiple issues because you've got a duopoly of suppliers, you've got a duopoly of engine manufacturers, you've got unions and then you've got pricing set by your dumbest competitor trying to cover marginal costs, so a number of different checklist questions that come out of that sort of a business. We just went around one-by-one and looked at the list and just started building the list. Eventually, the checklist now has about 97 questions on it and what I found so remarkable was that they fell into some very nice categories.

For example, I have the checklist here with me and this is the one I ran before we made the investment in Chesapeake Energy. It goes on for a few pages, but that's because we've got all the mistakes below every question, but there's a very neat section. The first section is on leverage and leverage doesn't have a lot of questions, but it has the maximum number of failures, so all kinds of different issues with lots and lots of great minds missing things related to leverage. Another area is management and ownership and that has a number of different questions. Things like it has a senior team and the CEO has been together for a while, will the death or departure of the CEO have a significant impact, that sort of thing and then the next one we get to is on moats and basically comparative advantage, so state of competitive advantage. Then we get to business valuation as another area and finally, there's a catchall, which is a small group, which is personal biases. We made all these lists of questions and then reorganized it by subject, so they basically fell into five broad categories.

Checklists, just like in aviation, we have such a low rate of air crashes and fatalities in crashes and checklists are, to a large part, responsible for that. They are a tool that carries a lot of weight without adding a lot of burden. For example, typically when I run the checklist the first time when I'm looking at an investment - it's the last thing I do before making an investment - it usually takes no more than 15-20 minutes, maybe 30 minutes max to run it, but the first time I run it, it pops up all sorts of questions to which I don't know the answer. That's like been the biggest value addition, which is there are these blind spots that I have completely ignored. Then I go back and research the business some more to get answers to those questions and sometimes that can take a week or longer. Then I rerun a second time. Now the second time when I rerun it, we've got all the questions answered and we can see the failure or possible failure points.

There are no businesses that will get a clean bill of health on all 97 questions, that's not going to happen on pretty much any business, but it demonstrates very clear what are the issues that could possibly cause a problem and it forces you to think about it and to try and weigh in your mind what the odds and probabilities are of those sorts of events coming to pass. Then you can make a very sensible go/no-go decision, so I've been using the checklists

for about four years, I would say close to five years and it's been a lifesaver in the sense that the error rate - it's a short time to draw conclusions - the error rate at Pabrai Funds over the last five years is almost nonexistent. There have been only two situations where we've had a permanent loss of capital. The total amount of capital we lost in those two situations was \$5.5 million out of more than \$500 million, \$600 million in investments, somewhere along that number, so less than 1% ratio of loss. I'm sure the loss ratio will go up in the future, but that's a muted number.

Out of the \$5.5 million, \$5 million was a loss on one investment, which was based in Egypt and we lost money there because there was a revolution. There were very extreme stresses placed on this particular business, so knowing what I know even today, I would have still made that investment because that was an outlier factor. The checklist has been remarkable. I've very thrilled with the fact that I was able to add this to our arsenal and it's a significant advantage for investors.

MOI Global: Guy, do you use a checklist after you've already done significant research, and then use the checklist as a tool to verify that nothing is missed, or do you use a checklist as a skeleton that guides you through the entire research process?

Guy Spier: I just feel lucky to be included in the research portion of Mohnish's work, so if you look through checklist, he got all my mistakes. We went through them and there's a relatively complete dataset there. I guess there's a shopping list of the things that we would like and that, in a certain way, could be a checklist. If you go shopping, your wife gives you your list of items and you go down them. I would argue that this is something very different. It's not about remembering anything. I don't know if you, John, or any people watching this have had the experience. I've had the experience of reading a text and then I suddenly realized that I'd skipped a whole paragraph and there was something in the paragraph that I skipped that was important and I need to go back and reread it so that I get the full meaning. We've all had the experience of reading a book and then rereading it and learning all sorts of new things that we didn't read the first time. It just seems like our minds have the capacity to jump things and we all do it.

When it comes to all sorts of elements in life, it's probably fine, but when we're deciding to commit a huge amount of capital to something and we don't want to lose money, we want to try and prevent our minds from doing that. The checklist is not a failsafe mechanism, but it's like Granny's rule - we eat our dessert after we've had the main course. It's a way of trying to interrupt that natural skipping that the mind does, so that's a long answer to your straightforward question, which is there are all sorts of ways to find good investment ideas and maybe you could use a shopping list approach. There's all sorts of other ways, but this is something that comes at the very end, just before pulling the trigger and it's about trying to figure out where has my mind skipped important details? I can force my mind back and look at them.

MOI Global: Michael, in your book, *The Investment Checklist*, you advocate for checklists as a tool for going through all the stages of the research process. Talk about how you approach checklists and the key benefits of a checklist.

Michael Shearn: We use it as a skeleton to value a business because the questions are helping to guide us in understanding what the stability of the cash flow, the earnings are of a business and how they're likely to change in the future. We use it very much as a tool to value a business and to help us gain a perspective. We want a holistic view of a business instead of just looking at it from one aspect. We can look at it from a lot of different angles, so one of the big benefits I'd say we have found as far advantage is it's a great feedback mechanism, so as we answer the questions, you get a written report of where you've gone wrong in your analysis of the company - what you've probably overlooked or what you need to look at again.

For example, one of the issues we had that we discovered through looking through our checklist on a lot of multiple companies that we used it on was we continually underestimated the operating leverage of businesses. In other words, the impact that fixed cost would have on the revenues of the business. For example, we would say that if there was a 10% drop in revenue there'd only be a 20% drop in earnings and the reality was it'd be closer to 60% drop. It allows us to find the weakness that we'd had for a long time and continue to refine it because a checklist to us is it just enforces the application of every lesson you learn and so we use it for those two purposes - one is the value of the business and the second is the feedback mechanism.

MOI Global: Mohnish, how do you use checklists after an investment has been made? You mentioned Chesapeake and the checklist you used when you made that investment. Then there was a management change and other things moving around. Do you go back to the checklist, and if so, how often do you reevaluate a business?

Pabrai: So far we haven't gone back and rerun the checklist after we made the investment when there are changes and such, but I am tracking the business. I'm not tracking it with minutiae on a day-to-day basis, but usually every three months or six months I'll do an update. With Chesapeake particularly, the cast of characters that have come onboard on the board of the company - you had a Carl Icahn representative, you had Lou Simpson, you had Longleaf Partners - that is not a cast of characters that are going to just be shrinking violets on the board. I expected that governance would get a pretty careful look and some overhaul and even management would be put on a straight and narrow path. I don't know exactly how things would play out, but we understood that there were issues there. We understood that there were dynamics in play that would probably work out just fine. In that case, we ran the checklist, we had several red flags and then we were comfortable enough looking at the full spectrum to plunge forward and it will work out for us.

MOI Global: On Chesapeake you mentioned the leverage items on your checklist. Obviously, Chesapeake passed those tests. Can you give us an example of a company or just discuss how a company would fail your leverage items on the checklist?

Pabrai: On leverage items you want to look at it and go through it. The questions on leverage, what it's looking at in general is whether the business is levered in the first place and in the second place, what is the governance and all that, then recourse, nonrecourse and those sorts of things. Obviously, I did scrub that fairly hard on a business like Chesapeake and in the end, we felt that it was a pretty reasonable. The company still is

significantly leverage, but winding down that degree of leverage, so that's okay. Guy, you can think about it, but there've been very many businesses we looked at where the leverage has given us pause. I forget the name, but we were looking at an East Coast waste recycle company in the Northeast. They had some tailwinds from all the fracking and such and we looked at them. It was showing on Value Line as very cheap and such, but the leverage in that business just gave me heartburn, if you will. I liked many elements of the business, but basically, we just didn't want to go there.

The number of businesses I pass on because of leverage issues is pretty large. One of the things that I've learned even outside of the checklist now, even before I run the checklist I know that there's been all these failures that have deeply entrenched my brain, which are related to leverage. That's one of the benefits of building your checklist is that it gets entrenched in a better way, so I'm just a lot more sensitive to leverage issues in a post-checklist world than I used to be before.

Spier: John gives an example, so this is why it's an important thing that taking over somebody else's checklist is not going to work as well as doing one's own checklist because each person approaches the investment challenge differently. We all bring different proclivities and biases. For example, early on I found Tom Russo, I discovered this idea of GARP. I loved it, I felt like it was comfortable to me and I find myself naturally attracted to businesses that didn't have some collateral values provided the earnings engine was running. That was great, but if the earning engine failed, there was nothing else to cash the investment. The question is, "Is the value of the company backed up by some easily identifiable collateral value that does rely on just the earning stream?" It's an important checklist item in my checklist and would rule out probably a company like Apple, which does not have that collateral values, just the earnings engine. The earnings engine breaks, then you don't have anything to supporting it.

The other element on the leverage side that has come up for me since the 2008 crisis, it's stopped me and I can't give you specific examples, but the leverage doesn't just extend to balance sheet items. There could be elements of revenues that depend on the customer being leveraged and if the customer can't access the capital markets, it will hit your revenues in some way. Again, those are two examples of ways in which my mind will just skip, so I will not look at the collateral values of the business because I'll fall in love with the earning stream and I need something to force me to not make that skip and to look at collateral values. Similarly, I need something to make me step back and say, "Who is the customer? How are they funding these purchases? Is this an easy purchase for them to make or do I need to do more analysis there? Hopefully that's helpful."

I have this idea that keeps coming up for me. Ultimately, good investing is an inward journey. What I need to do is look inside myself and say, "What have I done, what is it about me that takes me into these businesses with no collateral values and how do I figure out a question that I can ask myself that will prevent me from doing that going forwards?" That's part of the effective construction of a checklist and is the reason why it's different in every case for each individual. I'll just say it's a pleasure to be here. It's a pleasure to be with you, John, and this is only the second time I've been in the home offices of Mohnish's and I will

tell you that there are so many elements.

This is true when Mohnish and I visited Warren Buffett's office, a checklist is one element of the environment in which we conduct our work and to have a checklist is a good thing, but it's also good to have a notice board up on the right reminding you of certain things. It's also good to have a library behind you, it's also good to have Charlie Munger staring at you. There are many ways in which we construct our environment to improve our decision-making of which the checklist is one element of it. What I've seen in Mohnish's case, what I've seen in Warren's case is that they will not lose any opportunity to improve their investment process, so there is this sign as you walk into Warren's office above one of the doors. Mohnish, now I don't remember what it says.

Pabrai: "Invest like a champion today."

Spier: He's walking under that sign every day.

Pabrai: In fact, that sign, Warren copied it from the Notre Dame football locker room where all the players touch a sign, which says, "Plays like a champion today." In fact, he had the exact same sign made and, in fact, we copied that and put that in my office, which says, "Invest like a champion today."

Spier: This guy, Warren Buffett, one of the smartest guys on the planet, perhaps the greatest investor that ever lived is not losing any opportunity to improve. If it worked for the University of Notre Dame, maybe it'll work for him. He's putting a sign up there. I guess before you ask the question, it's not a be all and end all. The guy who created the checklist sitting to my right over here is also looking for every other opportunity he can to improve his investment process, to improve his investment decision-making. He's not just going to rely on his intellect. He's going to find as many ways as possible to form an environment around him that is conducive to good investment decision-making.

Pabrai: John, just to digress for a second and we can bring this back in pretty quickly, but I realized recently that I had looked at Seagate and Western Digital a couple years back. In fact, I have an investor who's a senior engineer at Western Digital and I've had long discussions with him about disk drives and storage and such, nothing about the dynamics of Western Digital in particular, but that industry. It was very clear that that industry has been a terrible industry for a long time, but it's consolidated down and it's consolidated down to basically two players having most of the market. In the last couple of years, Western Digital has gone through the roof. I haven't looked lately, but it would have been a six or seven X or something because I was looking at it 15 or something and it's close to 85 or 90.

Spier: Now you talk about it and now you bring it up?

Pabrai: So there was this notion, which was a powerful notion, which is that when these bad industries, like disk drives are one of the worst places to ever invest in because there are so many players, prices are falling, it's an industry of rapid change, all these negatives and then when I looked at Western Digital, in the end I decided to give it a pas for those reasons, but once you shrunk down to two or three players, it worked really well. Then the

same thing happened in the airline business. If you look at the U.S. airline industry, which has for the longest period been one of the worst places, it shrunk down to a small number of players having most of the market share, and they've been able to tack on all these fees, baggage fees, and so on. They've merged away most of the competition and it's been a tremendous run. They were previously step-children for a long time, so I don't know whether I would have ever gotten to the point of making an investment in the airline.

More recently, I was listening to David Einhorn talking about Micron, which is in the DRAM business. Probably worse than the disk drive business is the DRAM business. That's a dog-eat-dog world, horrible business. Intel used to be in the business, they exited it. DRAMs, again, have gone through the same process that airlines and disk drives have gone through and it's consolidated down to three players. As soon as it got down to three players, it's rational pricing and rationality. Of course, one advantage or one common element all three of these industries have is they have very high capex and especially in DRAMs and in disk drives, it's very hard to enter the business. Airlines, you can just enter relatively easily, but these other two are much harder. I missed all three and I missed them because of these biases, so that's something that now I've added to - you could say - my latticework of models, if you will, which is pay attention when you have bad industries go through some rationalizations because if you can get some dynamics there, the pain may already be gone and the upsides can be quite significant.

Like I said, checklists are one attribute, but the key in investing is to be a learning machine and to look at the same data that everyone's looking at. You don't get an information advantage, what you're looking for is that analytics advantage. Just take a step back and sometimes you can see the forest from the trees.

Spier: The question?

MOI Global: The question is how do you think about pruning the checklist and removing questions that are no longer useful?

Pabrai: It's irrelevant because it doesn't take much time. There's a number of questions for a particular business, the answers, and it doesn't apply, so it's fine. We just put 'N/A' and just go to the next question. There is so little time that goes into answering a question. It's on the order of seconds and that's the beauty of the checklist is that it basically adds virtually no baggage and no overhead to your investment process, but it delivers massive return. From my point of view, I don't see myself ever deleting questions because we don't pay much of a price for having stupid questions on there.

Spier: There's a great part of Charlie Munger's 24 Causes of Human Misjudgments. At the end of his talk he says to the audience, "Is there some element of these 24 causes which are duplicative and repetitive?" He said, "Absolutely," and "What's the problem?" Whatever way we get our minds to behave a bit better is just fine, so we're not trying to create a beautiful, well-founded, well-constructed, intellectual argument or beautiful paper. It's a tool that works, it's a practical tool and it doesn't have to be complete, it doesn't have to be non-duplicative. All of those things are relevant.

MOI Global: Here's a question in terms of what items are most important on the checklist and the question flips it around. Rather than items that you would use to avoid a stock, what do you look for the most when you're looking for good ideas?

Shearn: We spend a lot of time on management and asking questions about management. Surprisingly, there is a lot of information out there that's accessible to you on management. For example, you can just look at the biography and the proxy statement, which is one of the first places we go to, and see how did they rise? Is it a management team that's product-focused or are they sales-focused? Did they come from the corporate suite? We were looking at Sysco, the food distributor, and looked at the background of the senior office, the CEO, and he had previously been the CFO. Most of his career had been spent in the corporate office, so this is a business where operational details are very important and somebody who doesn't have a lot of experience with that and so we'd avoid that. We spend a lot of time on the management side trying to understand who we're partnering with, what's their background.

Another resource that we believe is underutilized is a source called Factiva, which is historical archive of articles in the Wall Street Journal or Barron's or local business journals found in communities. What we do is we run articles on the CEO that we're researching and you can get a multitude of track records of the CEO and stories about them. You'd be surprised, even some that are Pink Sheet-type companies we find a lot of articles written in local business journals or local community newspapers from that Factiva source. We spend a lot of time on the management side and also on the customer side and understanding it. Using, again, Factiva, understanding how the business helps the customers and then helping us identify new customers.

MOI Global: Thanks, Michael, for that perspective.

Shearn: I hope that helps you.

MOI Global: Yeah, absolutely. I would also maybe pass that question onto Guy and Mohnish and maybe ask them what items they use on their checklist to test the quality of management.

Spier: The item on the checklist that says 'Quality of Management.' Investing is like swinging at a golf ball. You see so many people swinging in so many different ways and some swings are ugly-looking and some swings are strange, but it's the results that count and people come at it from so many different angles. I'm fascinated to hear Michael talking about what he does and I've been fascinated to learn what Mohnish does. You have to distinguish between the 'I'm about to pull the trigger, I'm going to run the checklist' and the investment search. The search, the more the merrier, the more sources and at the end of the day we've all been there. Michael was talking about following management teams, it's a great idea. There's something interesting, unusual going on that catches us. That says, "This is unusual, this is strange. This could have an incredible return, but exactly how that works, I mean I would even argue that on each investment idea, that process is different, exactly how one gets to it is different.

Pabrai: One thing about investing and it's a discipline of contradictions. The reason it's a discipline of contradictions is on one hand as an investor, you need to be very careful. You need to look at all sorts of things, a multitude of disciplines and it's always helpful to be very skeptical and such, but at the same time, you have to have a bent that's willing to make large bets and so this seeming conflict between extremely careful and think that all sorts of things could go and at the same time being willing to make large bets are a contradiction to have both attributes in the same mind. That's why the Buffetts of the world are so rare, so my take on the checklist is a couple of things. One is not to try to outsmart it, so I don't want to go into running the checklist with a bias that a particular question should get a much higher weighting than another question. I want to run it without any bias and just see what comes up, then analyze what comes out of it. First of all, I'm not trying to overthink that, "We need to own it on this factor and not that factor." The value a checklist adds is to let it do its thing.

The second thing to remember is that we are in a field where you are going to make errors and you are going to make lots of errors. One should try to minimize an error, but one is never going to get to zero errors. That's not going to happen. One has to be careful, but one has to also understand, like what Templeton said, that the best investment analyst is going to be right two out of three times. If you're batting 66% or something, that's supposed to be an exception. My take is that you're not going to eliminate errors. The checklist goes a long way toward reducing them, so that gives you a significant advantage. It goes a long way towards highlighting things that would normally escape.

Guy talks about this notion of the cocaine brain. Basically, once we see something that's going to have massive upside, our brains want to skip over and not even think about things that could cause problems. The checklist acts as a circuit breaker and it forces you to think about everything that could cause a problem, so that's a huge value, but the bigger picture is that you have to understand that a great investor is not going to just be someone who's super careful and super conservative. You have to have a conservative bent with an aggressive bent. Those two attributes, many times, are diametrically opposed to each other, but you need them in the same person.

MOI Global: Mohnish, there's a question that came in related to that - the willingness to be aggressive - and the questioner talks about you advocated a 10x10 portfolio and then maybe you became a little more cautious right through the crisis. It seems like you're back at the 10x10. Could you talk a little bit about your views on that, how they've evolved and whether you still believe that that type of concentration is optimal.

Pabrai: That's a very good question. To me, it just made natural sense. I hadn't thought about it a whole lot right from the time I started practicing value investing. This is the 1994-'95 timeframe, well before Pabrai Funds. In my personal portfolio, typically if I made a bet, it was 10% of assets. Of course, when Pabrai Funds started I carried that on and I carried that on 'til about late 2008. We had taken very serious losses in 2008 and early '09. In fact, the funds from top to bottom were down two-thirds, so we had underperformed the market by some significant margin and, of course, one of the things that came out of that big hiccup is the checklist, but the other thing I was looking at at that time - the fourth quarter of

2009, first quarter of 2009 - was such a large universe of great opportunities.

For example, the commodities space, we were finding so many different ideas in commodities and didn't have that much time to look at them, so we took a basket approach. I thought that being less concentrated would be helpful because we'd taken large losses on these concentrated positions. I told my investors I'm going to move from this 10x10 to sometimes even taking a 2% position or 5% position and, of course, sometimes you take a 10% position, spread it out. That worked fine in that '08-'09 timeframe because there were so many ideas, but like Buffett says, "Good investment ideas are rare." In hindsight that was - you could say - a shell-shocked Mohnish trying to find every which way to figure out how to avoid another two-thirds down scenario. As I looked back, I said we are not going to have these periods very often where we can have 30 ideas to act upon. That's just unrealistic to expect, except one in a long time.

The tendency to diversify beyond a 10%, I started to question that. In fact, now I'm full circle and typically now when we make investments I do the 10% of assets, so we've come full circle. In fact, my thinking has evolved even further. Pabrai Funds is a vehicle where the investors have signed up for a certain type of ride and so I don't want to concentrate more than 10% because that's what we've always done and my investors have come to expect that, but for example, I manage our family foundation and their particular concentration is very extreme. In fact, I would say three ideas might make up most of the pie and I'm in the process of looking at another vehicle, which would be a permanent capital vehicle, which we could get something public in the next few days on that. There again the degree of concentration is going to be higher. In fact, it will be a lot higher. It might be, again, at times where we have just three or four ideas that make up most of the pie.

My journey is towards more concentration, but more checks and balances before making those bets, but it is the Pabrai Funds instinct to use out 10x10 model and take it from there. Of course, what has happened is that, the good ideas being rare and valuable, it's now approaching 19 months that I haven't had a new idea. It's probably the longest period I haven't had a new idea and maybe part of it is the checklist. If we are going to go through periods which are 19 months longer we don't find anything, we can't own 30 things. That's just not going to work, so that's my take on concentration.

Spier: Two reflections, John, on that as I listen to that. One is I find it interesting that there's no hard and fast rule and, to some degree, what we saw Mohnish doing is responding to the environment and maybe environments in which 30 stocks is great. Maybe 2008-2009 and there are other environments in which it is not and one needs to intelligently reevaluate that, but the other thing that I have learned from observing all sorts of investors, including Mohnish is that just as that works for Mohnish doesn't mean that that works for me or for John Mihaljevic or for any one of your members. The side that you don't see is the internal workings of how Mohnish's mind works in relation to ideas. I mean we had a little bit of it, how he approaches his family foundation versus how he approaches a vehicle in which other investors invest. What I've found and I believe very strongly is the right thing is I need to do what fits right for me entirely.

Going through 2008, I promised myself I would never be more than 5% of my capital into

one stock. I found myself over the last six months putting more than 10% of my capital into one stock, but I am naturally a guy who is more risk-averse than Mohnish is. Losses impact me in a greater way and I can get all twisted and bent out of shape over why that is the case or I can just be accepting of that and say that I can have a perfectly decent track record and I'll live a happier life and probably make better decisions if I'm internally aligned the way I am. So one part of what Mohnish is saying would be people should listen to Mohnish and say, "Okay, that is Mr. Pabrai speaking. Who am I and what is right for me? That is what is right for him." Interestingly enough, I have a question for Mohnish now. If we looked at the track record of the super investors, Charlie Munger had an extremely volatile set of returns, much more volatile than Warren's. Now I would have had great difficulty with that. Do you think that Charlie was more accepting of volatility when Warren was more capable of it?

Pabrai: It's a good question. In fact, I had a discussion about this whole concentration issue with Charlie during my shell-shocked years. In 2009-2010, Charlie's perspective was very clear. He says, "You have to do what you are comfortable doing. You cannot say that X is the answer towards the degree of concentration or not," and that's the correct answer. For the degree of concentration and the degree that one makes a bet and all of those sorts of things. It's individual and it's situation-dependent is probably the best way to look at it. Those are probably the best ways to go about it.

MOI Global: Here's a question that says, "How do you avoid falling into 'check the box' mode when using a checklist versus thinking creatively about an investment?"

Shearn: When I first started compiling questions on the checklist, I fell exactly into that trap where I was just answering questions to answer questions and I'd keep asking, "To what end am I answering all this?" When I first started, the questions were geared more towards understanding a business, just having a greater understanding of the business and the management team. I fell into that trap and I'd say the way I got out of it is I started thinking about what is the purpose of answering all these questions and, again, it brought me to am I answering these questions to better understand what the stability of the cash flows are and how they can change. If you have a new management team entering the business, obviously that's going to have or could, depending on the business model, have a significant impact on the business as we saw Ron Johnson come in with JC Penney. Very few decisions lost a lot of revenues there, but you just have to have this purpose of is this helping me value this business or am I just answering these questions to answer the questions. Having that purpose behind you is what I've found a very useful tool in helping me avoid that.

MOI Global: There's a book by Malcolm Gladwell, *Blink*, and the thesis is sometimes you make better decisions by thinking without thinking, so to speak, or not using a checklist. Tell us how you balance the rigors of a checklist and your creative impulse to go out and find those ideas that can be ten-baggers over a few years.

Pabrai: The *Blink* concept is not incompatible with the checklist. We have 50,000 or so stocks and no one's going to know even the small fraction of that, so you are looking for something to trigger something in your brain to start research. The number of arrows you have in the quiver to research things is very limited and so there has to be something right

at the outset, which is telling you, “Don’t go there and go here.” For example, for me, large numbers of stocks get rejected within five or ten seconds because I just very quickly know that and, of course, there are plenty of mistakes of omission that happen there, which is fine because, like I discussed with all those businesses — disk drives and such — we had plenty of mistakes or omission, if you will, but I’m never worried about the mistakes or omission. The core mission one that I’m more concerned about.

The *Blink* concept is an important one to basically help you get rid of large slats of businesses that there’s no point drilling down on. At the same time, it’s also important because something can trigger and tell you in your gut that this is a particular business that you want to spend time on and so those are what goes on in your brain to cause that. It’s sometimes a bit difficult to pinpoint, but you need some mechanism quickly to say, “Yes, I’ll spend more time researching something and, no, I’m done with this.” The no (s) have to be very fast, otherwise, the universe that you could possibly look at is very small.

MOI Global: Another question that’s interesting and it basically asks how you deal with companies that may not be meeting some of your checklist items, but are clearly moving in the right direction. It may be also getting at things like the airlines and Micron or companies like that where in the past they would have flunked the checklist and maybe even today they’re flunking it, but there’s positives there. Maybe just talk a little bit about that because that’s where maybe some great opportunities can be found.

Spier: This is not a mechanical thing and you just saw how Mohnish talked about his approach to concentration. He intelligently approached it. Yes, something will fail it. Look, it will fail a checklist item, but the world’s a probabilistic place, but what the checklist has done is it’s forced one’s mind to focus on it, assign a probability and then taking it all into account, so now you’re at least focused on what checklist items this investment fails. There’s no reason why one can’t make an investment in a company that has failed a checklist item. We’re not putting ourselves in straightjackets here. We’re intelligently... what did Mohnish call it?

Pabrai: Bowling with bumpers.

Spier: Exactly.

Pabrai: That’s cloning. You’re bringing up a different subject.

Spier: On ideas of a different subject, yes.

Pabrai: I think there is not company that’s going to come through with flying colors with the checklist. They all are going to have hair on them. That’s just the nature of business because by definition business is like that. I mean you could look at a business like Coke and break out in all kinds of hives about the whole sugar issue and that may be benign for decades or it may not be benign for decades. At some point, it becomes a judgment call which way it goes.

Spier: One example, U.S. money center banks, the fact is they were leveraged. They had a

lot of losses coming through, they had leveraged balance sheets. They failed all sorts of leverage checklist items, but then you go and say, "Wait, hang on a second. They're money center banks." There's a bank called Bank of America. Will the FED, after having gone through all of the financial crisis, will they even want to force Bank of America to make new equity? You'd make a probabilistic decision as to whether they would or wouldn't and even though Bank of America failed a checklist item, it was a very juicy idea. It was worth investing in. There's one example and there are plenty of others.

Nothing comes to my mind right now, but it fails a checklist item, I mean this is just an example I brought up, but I did not invest in OPAP, the Greek lottery company that ended up doing extremely well because the product is not for the greater good. Sometimes the focus on that, to fail a checklist item, is this for the greater good, is this a net benefit to society that this company exists? Perhaps not, therefore, I don't want to make the investment. The focus on that, I've realized the first take on that answer is not the right answer. There was an example of the company that makes submarines, the US defense company.

Pabrai: General Dynamics.

Spier: The first approach is, "Hang on, this company makes weapons that create mass destruction." On the face, it failed the 'greater good' question and then second take around, this helps keep the peace and one can see it as a secure world in which these products are properly used, so the actual failure of the checklist item drives a better and deeper, more nuance to understanding the business and you realize it's not really a failure of the checklist item. I hope I've made that point clearly. If I didn't, I can remake it.

MOI Global: Make sure to use the weapons on the bad guys.

Pabrai: They also make Gulfstreams, so they're forgiven.

Spier: Use the checklist item to drive a deeper understanding of the business. Is it really a failure of the checklist item or what do I need to drill down on now that I know it fails this item to make myself comfortable with this when I get there?

MOI Global: Have you used the checklist on Fiat?

Pabrai: We own Fiat. I think Guy owns it as well and it would not have been bought if it hadn't gone through the checklist. Of course, the double-take and triple-take I did on Fiat right upfront when it first came on the radar was a valuation. At that time, it was three euros and change with the market cap in single digit euros, still single digit euros, but I think now it's pretty much a double since we bought it. It will be a long discussions, but there were these aha moments we had, which was giving us an understanding of the auto business, especially the auto business in the United States, which was different from consensus opinion. The opinion we came up with was widely different from consensus and so that's why I made the investment in GM and Fiat, because of the dynamics and such and understanding of the business and, of course, of the checklist. The auto business in general has three red flags - it has high CAPEX, it has unions and it's taste-dependent - and any one

of those three can kill you. Obviously, we needed to have some perspective on each of those.

Spier: Just to correct something, Mohnish says ‘we.’ I don’t know what ‘we’ he’s referring to. He did all that on his own. I was just trying to keep up with his rate of learning on the auto industry and the checklist is no substitute for having a fine mind, a creative way of approaching the investment challenge.

Pabrai: With the autos, I think we got to a place that we didn’t get to with the disk drives and the DRAMs and such, which is a perspective which was different from the consensus and a strong conviction of that perspective.

Spier: This is not checklist-related, but two other things. I think the manual of ideas had an impact on triggering your thinking.

Pabrai: We wouldn’t have made the investment if there was no MOI Global. I had noticed that Berkshire had bought GM and that went through, in and out, of my brain in five seconds because I absolutely hated the auto business for some of the reasons I just explained, seeing the pathetic way the US auto industry operated for decades. Then when I was flipping through the manual of ideas where you give up data on what everyone’s been buying and such. I noticed that David Einhorn had a position in GM. Not only did he have a position in GM, it was the second largest position behind Apple.

The question I asked myself if why would Berkshire...and the Berkshire/GM position, I was sure was one of the two new managers, and probably I thought it was Ted Weschler because it was distressed and he did WR Grace and such, so I thought it might be him. I said, “Why would someone like Weschler and someone like Einhorn, who are both very smart investors, why would they hone in on this really crappy business?” I drilled down on GM, not from a perspective that it looked intriguing as an investment, but I just wanted to clearly understand why they made the investment so that I was clear as to why I was passing. Of course, as I drilled down, GM kept looking better and better and in the process of looking at GM, I looked at all the competitors and Fiat entered the radar and such, so all of that happened because there’s the manual of ideas that makes it so easy to do that.

Spier: Just one other point that I think is important to me at least is that Mohnish has got a fantastic investing mind, but he doesn’t rely on himself. He’s looking to what Warren Buffett is doing, he’s looking to what David Einhorn is doing. He’s looking at what Ted Weschler is doing. I think that something I did early on in my career is I tried to be self-reliant and just accepting that we don’t have a monopoly on good thoughts and to figure out how to get in tune with other smart people whether it’s going to a virtual meeting, subscribing to the manual of ideas, attending events like this and figuring out what other people are doing and what insights they have. It’s worth adding that David Einhorn or Ted Weschler might go through dry years, but they all have a fantastic insight, but to keep observing them because every now and then they will and see if we can reverse engineer it is an absolutely key part, it seems to me, of any good investor’s thought process. I don’t know how Warren does it. Maybe Warren doesn’t need it. Is he reverse engineering anybody, Mohnish?

Pabrai: Yeah, I think Warren is not as “low life” a cloner as I am. I think he has vastly more

original thoughts, but I think, for example, his AMEX investment was made because of a discussion on a golf course with the CEO of Hertz and the Hertz CEO impressed upon him how critical AMEX was to his business and how amazing the moat was. I think Warren went back from that golf game and made a significant purchase with American Express. I think it's basically a permanent holding pretty much at Berkshire, but I think Warren is definitely much more independent in his thinking. I think he's just read and seen a lot more and can come up with more patterns. I think his ability to see, like we saw that in the railroad where there was a consensus opinion and he had a different opinion. He went with the different opinion and it worked out really well for Berkshire. That railroad today with what they're churning out today could not be bought even for \$100 million, so it was an incredible purchase by Berkshire.

MOI Global: Thank you, Michael, Mohnish, and Guy for having joined us and having shared your insights so freely with our members.

We had the pleasure of hosting a live online Q&A with value superinvestor Guy Spier in the summer of 2015. With registrations at maximum capacity of 1,000 people more than a week before the call, Guy was able to get through only a small subset of the many insightful questions asked of him. The one-hour Q&A session ended up lasting nearly two hours.

Read a transcript of this session, [translated into Spanish](#).

The following transcript has been lightly edited for clarity. However, transcription errors likely remain. If in doubt, please listen to the [audio replay](#).

John Mihaljevic, *The Manual of Ideas*: A very warm welcome to this Q&A session with Guy Spier. It's such a pleasure for me to welcome here in Zurich my friend, mentor and value superinvestor, Guy Spier. He is the head of Aquamarine Capital Management and has written a wonderful book, *The Education of a Value Investor*.

Guy Spier: It's a real pleasure to be here and thank you, everyone, for listening in. I don't know that I even have one-hundredth or one-thousandth of the wisdom that Warren and Charlie do, so I'm both honored and a little bit surprised and bewildered. I want to make sure that we hear from the audience, so I've got the questions up there. I'm going to go to a few of them and then, John, I'll come back to you to get some people to respond and just hear what people are thinking, so it's interactive. Just to let you know where I am, I'm at my office in Zurich. Behind me, you should be able to see this bust of Charlie Munger. I gave one of those to John Mihaljevic, but then he gave it away to the Dakshana Foundation. Then also behind me, you can see a photograph of Warren Buffett and Charlie Munger, so I'm at my office at my desk.

Onto the questions. We've received a series of questions from Ben Schmidt. One of the questions that Ben has asked says, "As I perceive it, Aquamarine is a one-man show. Where does Guy Spier see the merits of solitary analysis versus having a regular sparring partner on investment ideas?" There's so much evidence that shows that investment decisions are better taken by an individual rather than a committee. I'm, in a way, a one-man show by design, but that doesn't mean to say that I don't have many conversations about investments with all sorts of people. In fact, a lot of what I do here at my office is develop relationships with those people. It's just that I don't want to have those people as employees. I would also say that I've distinguished between two kinds of cognitive styles when it comes to discussing investments. There are people who want to have a really hard debate and express their views vociferously with some kind of sparring partner. I don't think that that works very well for me because that when I express my opinions vociferously, I get caught into something and I will end up defending something that maybe I don't agree with. I reduce my ability to change my mind, so I prefer to be around people who are helping me to keep my pond calm, so to speak.

Going to the second question, "Do I review my investment theses on a systematic and regular basis?" I like to believe that I review them on a regular basis, although it has not been systematic. I was deeply influenced by Rolf Dobelli, who wrote about how he considers news to be like sugar when it comes to a diet. You have your meats and potatoes, which is what we should be eating and news is like sugar. A tendency to want to try and review ideas

too often may result in us going after news or going after the sugar of the investment world. My experience has been that what Rolf Dobelli says is the big events, you'll hear about anyway, even if you don't read a newspaper. I'd like to believe that the big events that happen to the portfolio companies, I've done sufficient research on them before I went into them and am around enough stuff and enough relationships that I hear about those companies, even if I'm not really following them on a daily basis.

That said, as part of the registration for FINMA, I've had to give them a policy both on pre-trade checks, so I need to check with my risk department before I exit these trades and I need to write up a rationale. I agreed to that because I felt like it was a good idea. I felt like making myself write that up before I trade and once a quarter is a good thing. I guess, Ben, I am going to something that is more systematic. The key, though, is that I don't want to spook myself out of an investment idea, so I looked at Moody's recently. I sold out of Moody's after the financial crisis. I had a 3x on it when I sold it, but I didn't have about a 7x that I could have had. If I would have just not done anything, I would now have about a 15x, I believe. I allowed myself to be spooked out of it. We should realize that when bad events are happening, that will make us want to revisit our thesis and if we spend too much time in that kind of loop, we can convince ourselves an idea that is actually a perfectly good idea is not.

The example I've given - I don't know where I gave it last - is that if you're landing an airplane and I don't have a pilot's license, but I did take lessons as a child as far as landing an airplane, you have to keep your eye on the horizon and let the ground come up in your peripheral vision and fly the plane as you land it. If you look over to see where the ground is, the plane will roll. The plane goes where your eyes go and so the key in investing is to keep our eyes on the lookout for great businesses at discounted prices to survey the portfolio, but without getting into a deep dive or unbalanced dive on something that could lead us to get spooked out of the investment because often some of the investments that work really well have got hairy stuff associated with them. I'll stop at that question. I'm going to do a couple from Nitin Khandkar, who also sent a number of questions in and then I'm going to go to Ben. Ben, I hope you're online, just hear what you have to say and then I'm going to go to Nitin and hear what you have to say. Nitin's first question is a review of Aquamarine Capital's holdings from the last three quarters reveals that almost all its holdings are in US and European companies. What are my views on emerging markets? Would I consider investing in emerging markets? If yes, what is my favorite emerging market from a macro perspective?

It's interesting to get this question in the light of an adjustment from China. A couple of days ago, I had a whole bunch of radio and TV stations asking me if I would comment. I ended up not doing any commentaries, so I can give you my commentary now, which is that I'm blown away by the way the world overreacted. Everybody knows that China and other emerging markets, they're going to go through dips. They're going to go through changes and adjustments. France is coming up against the demographic issue. It probably also needs to convert from being a production-based economy into more of a consumer-based economy. I don't think there's any doubt in anybody's mind that that's going to happen, so from an investing perspective, the turmoil over the last few days is a buying opportunity, nothing

else.

Nitin, I do the very best I can to see the world as just one economy and one that's sort of a place from which to select companies to invest. Having said that, nobody can ignore the fact that the institutional environment in the United States is the best in the world and we have various markets like the UK and others that are very, very good, but I'm trying to find things that I can buy nonetheless of where they're based. To give an example, anybody who's studied Berkshire Hathaway understands why Coca-Cola's a great business. If I can find a Coca-Cola-like business in the Philippines or in Vietnam, yes, I would like to believe that I would invest, all other things being equal. I did that in the Philippines with a company called Alaska Milk that was written.

In general, when it comes to which emerging I like from a macro perspective, there's no question that Indonesia's really interesting given what's happened, but I just spent a lot of time in Mexico, the first six months of this year and despite a lot of problems that Mexico has, it's on the right path and I believe there's another thing that happens. For example, Brazil is suffering right now, but one of the things that happens is when people get richer and people in Brazil have been getting richer, they tend to be more willing to focus on the negatives in their economy and in their country. That gets reported in the news and then there's a bit more of a negative spin on that country. The best thing to do is to ignore a lot of that stuff. What I'm looking for is better businesses that I can understand at reasonable prices and I'll look for those everywhere and anywhere and I'm not trying to say, "I need to invest in India," or "I need to invest in Brazil."

Another investment I'm about to probably do a post mortem on for my partnership meeting is this company, CRISIL. The fact is it was based in India was secondary to the fact that I was really interested in investing in the credit agencies. The commonality with Mohnish Pabrai's portfolio—and it goes through Citigroup, Bank of America, GM, Fiat Chrysler, Horsehead, POSCO—how does my analysis and investing style differ from that of Mohnish? The first thing and this is not false modesty, Mohnish Pabrai is a better investor than I am. He's a better investor because he has less fear of things that look risky to me and is able to act decisively in size when he sees something. I am more fearful and I'm less able to act decisively and with size. I have a harder time distinguishing with risk and uncertainty. Mohnish is able to see very clearly in many circumstances where something that is just risky to and I'm scared stiff about, Mohnish Pabrai can take a subset of those where he can show this is not actually risky, it's just an uncertain outcome and can analyze it differently, but I've benefitted enormously from conversations with him.

In some cases there, Nitin, the one that was certainly the case, it was Bank of America. I figured out Bank of America I'd like to believe - Mohnish may think differently - either at the same time or even before Mohnish did, so not necessarily all ideas Mohnish figured out first, but whether it's from conversations or from us engineering some of these investment decisions, the fact that it's passed somebody else's filter is a great positive and it took me a long time to learn that 'not invested, invented here' syndrome is very bad when it comes to investing. You really want to buy the ideas that have been vetted by other people if you can. It's a much better way to invest, I believe. I will stop there and, John, perhaps Ben or Nitin,

either of them want to have a comeback for me or some supplemental before we move onto other people.

MOI: A question from Ivan Kurniawan: He asks about you and Mohnish in relation to Benjamin Graham. He says, "Use the 35% minimum margin of safety as a yardstick before investing. What do you use as a yardstick in general?"

Spier: Ivan, I wish I had such precise sense of what something is worth and a precise sense of the discount, but I don't. Maybe other people do, but I just don't believe it's possible. When I'm making an investment, it's partly where's the downside and where's the upside? What is the worst that can happen here? What I'm looking for is an upside where I can't even see the end where it can be worth many, many times more. Just to give you an example, I believe that at the time I invested in Fiat, the whole of the price that I was paying for Fiat was represented by the value of their Ferrari subsidiary. That subsidiary is going to be spun out in the not too distant future. What is the rest of the company worth? I don't know. It was certainly worth the same as my purchase price, perhaps two or three times that. So I could see a 3x or 4x return. You could argue that's a 75% discount. I don't think I'm seeing it like that. I'm just saying there's huge upside and a very, very unusual upside.

I had another question, which came over Twitter, which partly answers this question—the sustainability of American Express' moat. A lot of people were concerned because they lost their JetBlue account and they lost the Costco account. They haven't replaced those yet and there's a lot of changes happening in the payment space. Apple iPhone has a new payment to it and then to top all of that, we have Charlie Munger at the annual meeting who says that prosperity is not something that can be assured even in the best of companies and then imagine American Express, so everything an American Express investor gets all concerned. But here's some analysis that I find inexorable with American Express, which is just fascinating is that let's say American Express does not have as much prosperity in the future as it's had in the past. Let's say that the business even shrinks, which is extremely unlikely, but the business uses so little capital to generate such a high return that if the business were to shrink, they would be shrinking the number of shares at a very, very rapid rate and so a huge amount of the capital would be returned to shareholders.

Even in the less good American Express scenario, I believe that my capital is safe just because they have such a high return on equity. The returns on equity are much higher in the business than the accounting suggests that they are and that would be coming back to me in terms of dividends and in terms of share repurchases if the business is destined for a less great future. That said, American Express is extraordinarily sustainable and if you, Ali, listen to some of the conference calls and maybe he's biased, but if you listen to some of these execs at some of these MasterCard, Visa, American Express talk about what's going on in the payments industry, in a certain sense, every new comparison that comes along, every Apple Pay that comes along actually embeds the existing payments even more because they cannot do their business without those payment networks, even PayPal. Now you could argue that they take away growth. They might have taken away growth from the existing payment networks, but they actually become more firmly embedded.

Nitin Khandkar: I have a follow-up question. You seem to have restricted your exposure to

mainly three sectors, namely automobile, financials and metals and mining. These are all old economic sectors, as they are popularly known these days. Have you avoided exposure to sectors such as IT outsource and media, in particular stocks like Apple and Facebook and possibly Tesla in the auto space on purpose? Also, there seems to be almost no exposure to midcaps or small caps, except Horsehead (ZINC), so will you please throw some light on this, Guy? Thank you.

Spier: Nitin, about seven years ago, a friend of mine who is a brilliant guy – his name is Patrick Hestebelt – he lives in New York City and he’s a former Microsoft programmer and Intel engineer. He takes out an iPhone in 2007 and he says, “Guy, this is going to change the world. This is extraordinary, this is a platform. This is going to embed Apple into so many people’s lives and, by the way, all the best engineers like me want to go and work at Apple.” He said, “You should go and buy it.” In that case, I just felt like I did not understand it well enough. I didn’t understand where this thing was going to go. Of course, I can look back and if I had invested in Apple at the time, that would have been more than a 10x, I believe. A similar thing happened to me with Amazon. It was easier with Amazon for me, and we’re still at a big question mark over Amazon as to when they start making money. Even Steve Ballmer, there was an interview somewhere and he says, “At some point, as a dominant American business, you have to make money.” I would love to own those companies, but I just don’t think they meet the very narrow, carefully set criteria that I set for myself that I know will work over time.

What we are going through right now is a narrowing of the market in which a certain small group of varying select companies keep getting higher and higher valuations and are darlings of the stock market. Those higher valuations help them in all sorts of ways in their business as well and to try and invest by catching that moving train, I don’t think is a great way to go. It reminds me also of 1999 when at the Berkshire meetings and elsewhere Warren Buffett was being told he was a real idiot for not investing in the new economy and ultimately he was proved right for not doing it. There’s a difference between 1999 and today in that the businesses that are stock market darlings and are written about are very real and profound businesses that are changing the rest of the world, I’d love to get exposed to them at the right price. It’s not that even about getting exposure, I want to own the right businesses at the right price and those aren’t they.

Market cap is not something that is of particular interest to me. I would even tell you that I would prefer to invest in the larger market cap companies because as you go up the market cap ranges – this is not a given – in general, all other things being equal, a larger market cap is going to have less company-specific issues that hit it. It’s easier to analyze a McDonald’s or a Coca-Cola than it would be to analyze a much smaller company that’s doing the same thing. There could be board issues or management issues, production issues that affect that, but then another way to sort of helping to see where I’m coming from is, Nitin, there’s the story of the two men and they both start running away from the lion. One man says to the other, “Why are you running? You’ll never be able to outrun the lion,” and he says, “I’m not trying to outrun the lion. I’m trying to outrun you.” How does that apply to what we’re doing?

In a certain way, I'm a flawed individual with flawed abilities to understand and make the decisions, but I don't have to be the best or I don't have to be perfect. I just have to be better than the majority of the market participants. If I can come into work every day asking, "Do I have the optimal portfolio," that's a very hard question to answer and it's a very hard goal to execute against, but a much easier goal to execute against is to say, "How do I behave in such a way that I am behaving in a more rational way than the vast majority of the market participants?" One of the first things I need to stop doing if I want to do that is to stop trying to be smart on an everyday basis. I'm trying to build up behaviors from the most simple things, like I write about in my book about not having the Bloomberg monitor open, looking at stock prices too frequently, trying to focus on the right things. Then from that environment that I'm building for myself, decisions arise, but those decisions are not arising out of some preconceived idea of where my portfolio should be allocated or how much do I have allocated to small caps or midcaps? It's just based on the way the world responds or the way I've conditioned myself to respond to the world.

In that regard, there's a question that I saw somewhere - it's you Nitin - that states Chrysler was a 20% position in my portfolio. The story of Fiat Chrysler, how I ended up investing in it is that at the time that I made the investment, I'd just sold Alaska Milk and I had a whole big chunk. For various quirky reasons, my Philippine pesos have been converted into euros. I could have converted that into dollars and made a dollar investment, but Fiat Chrysler came along. It made a lot of sense to me. I understood various things that were going on, not just the fact that the whole market cap was represented by the value of Ferrari and I just felt like the right thing to do was go and dump all of that into Fiat. Within a month or two, all of what I had sold from the sale of Alaskan Milk in the Philippines went into Fiat Chrysler Auto.

Then the value of the stock since I've owned it has quadrupled, so it went up a 3.5x, maybe even a 4x, so it's large for that reason, but I wouldn't want to sell it just because we bought large. I want to sell it because there's no more margin of safety and the future ROI on the investment as well. Ferrari spun out and there's a few more things that will happen, I will not hold onto it, but if you look for some overarching logic to why some of these industries or these market caps, this is just the way Guy Spier is reacting given the condition he's given himself to information that is coming in at him. It's both idiosyncratic and I've accepted that it's not optimal either prospectively or with hindsight, but that's all that I'm trying to execute against. I'm trying to execute against what are the behaviors that I can engage in that would make me behave in a more rational way than the vast majority of market participants. Back to you, John.

Gaspar Fierro: If we follow, read and/or gather with people better than us, people that we admire, don't you think that there is a high probability that we are all likeminded, meaning that we all think the same way, which means we all will agree almost on everything. How do you fight or balance or consolidate the risk of falling into group thinking or group polarization or confirmation bias?

Spier: Gaspar, I appreciate your writings and emails that I've seen. That is a phenomenal question and you have a very, very good point. In many cases, the question has within it the

answer. As with so many things, we have to be intelligent about how we execute on it. Now I would just tell for everybody's benefit that it may seem obvious to Gaspar, it may seem obvious to the rest of you, but I don't think it was as obvious to me until Gaspar made the distinction. You're absolutely right, Gaspar. In selecting the people that we're close to, it's clearly very important to have a diverse group of people and that probably should be something that you should work hard to get because there are many biases in how we select the people that we hang out with and so we may not even realize. We may, on some level, be thinking about diversity in our groups of friends and in our networks, but we may not really achieve it.

You're absolutely right and the answer is to guard against it and to consciously put ourselves in environments that are unusual and different for us. I don't think that there's anything that I have learned about business and life that I don't realize in the minute that I understand it that Warren Buffett didn't already know. If you think of the lunch that he had with me and Mohnish Pabrai, that is also a way of Warren Buffett saying, "I want to add some randomness into the kind of people I spend time with." He just says, "Okay, whoever bids the highest price, I'll go have them hang out with me for three hours, really get to know them and find out who they are." That's a way for Warren Buffett to see what other people are thinking and so finding ways to add that kind of randomness into our lives where we're not selecting. I will tell you, Gaspar, if anybody on the call has made hiring decisions, we make very different hiring decisions if we see a picture of the person than if we don't see a picture of the person. That's just innate bias.

Now I have a friend here who plays in the Zurich Opera and when they audition a new instrumentalist, it's blind. They audition the guy behind the screen so that they cannot tell anything about how old they are, what they look like, all different things. Creating those kinds of environments for ourselves is one very good way to do it. Gaspar, we Europeans have a problem because we tend to want to hang out with people that we think...in a more homogenous society than in the United States, we hang out with people who are more like us. If you go to an American college now, you see so many Far East Asians, Indians, just a variety of people. Now they might all think the same, but the fact that people come from different places gives probably more cognitive diversity, but it's up to us to try and make that happen. Thanks for teaching me something, Gaspar.

MOI: I'll ask a question by Andrew Wynn: As your investment process evolves, are you expanding or contracting the size of your investment universe?

Spier: The vast majority of people that I observe start off in their investment career thinking that their circle of competence is bigger than it really is. What we all experience over time is that the circle of competence becomes smaller. We self-define ourselves, we become clearer about what it is and it becomes narrower and narrower, so in a certain way my invest circle of competence is smaller and narrower than it was or I might perceive this. The actual circle of competence has probably grown, but the deceived circle of competence is...sorry. I perceive myself to know a lot about a little. To just know a lot about all sorts of things 20 years ago or even ten years ago and now I realize how little I know and, therefore, I'm a lot more careful about where I'm willing to invest and I'm not willing to invest.

This has come up in a talk I've had with John before, I actually thought that I might be able to invest in some retail businesses successfully. I don't think you'll ever see me invest in a retail business in my lifetime probably, but it's hard to define. There are probably quirky types of businesses that I feel like I'm totally nailing it and that doesn't adjust for factors where if you've seen a very, very smart and successful guy come into that business and it has certain other characteristics and is very cheap, maybe something that I would not have defined in my circle of competence five years ago, I might find in my circle of competence right now, but it's because of those extraneous factors.

Spier: Building a circle of competence... I love when Warren Buffett gets asked this question, his answer is, "We start at the As," which I used to think was not an answer, he was just avoiding the answer, but in a certain way, it is the answer. There is no right way and you just have to start wherever you can start and start trying to dig deep into something, anything, whatever's in front of you. When you realize it's enough time that you've spent in front of whatever that thing is that is in front of you, then you move onto the next thing and you obviously devote your time to the highest value research that you can. In a certain way, you want to get onto your own path. You don't want to follow somebody's path. Following your own interests and instincts and where the information, the research is leading you is really, really important.

Probably anybody who has had one or two successful investments in their portfolio, who has experienced this aha moment when they go, "Oh my God, I totally get why Bank of America's unbelievably cheap," or "I totally get why I need to own at the right price every single credit rating in this business around the planet if I possibly can." There's such a reward, a mental reward when we get to those aha moments. Maybe that's what we're looking for and it's not just that I need to spend a little more time with this to get comfortable. It's like, "Oh my God, I totally can see why I get this and the market doesn't and why there's huge margin of safety in this. I can define this into my circle of confidence." Once they've had one or two of those moments, they know what they're looking for. They're just really, really hard to find, so maybe that's a way of going about doing that. There's a question at the bottom here, John. Hi, Varenya. I just saw your comment on Slack.

Swadesh asks the question, "Would I consider buying whole businesses instead of just buying public equity and if so, will I place more consideration to valuation in the privately-owned businesses?" I don't think there should be any difference between the valuation that one would face in the private business or the public equity. What I've learned and seen from the people around me who've gotten control of whole businesses is that management is a whole different set of skills to investing. Very, very difficult skills and in many ways, much harder than investing. Well, not in many ways, it is much harder than investing. No question about it and probably there are less financial rewards. You really have to work hard within a business in business to make it run well. That's why our hats should go off to people like this group that run AmBev and who took over Restaurants International. They do incredibly hard, heavy lifting with making businesses have good, high profitable returns. I'm not sure that I have the skills to do that and I'm not being falsely modest. Different people have different skills.

For me to want to do that, I need to know that I have the right people on my team and we'll see, maybe that will come up or not. On my own, the way I'm structured right now, I don't have the right people to help me. The idea is intriguing because if you control a business, there are all sorts of things you can do. You control the allocation of the capital within the business. I'd like to believe I know more about how to allocate capital better than the average manager and that's something you want to try your hand at. There's no guarantee that I would succeed, though, and I don't want to do it. It's the kind of thing that I don't want to strain and stretch to do it. I'd want to do it if it pretty much fell in my lap and it was just the slam dunk obvious thing to do.

Alejandro Refojo: I have a couple of questions. The first is could you describe to us your typical day at work and the second one, how do you decide to size a holding in your portfolio? Do you look for upside or for the downside protection? Thank you.

Spier: Spanish is one of the most important languages in the world and we have some really fantastic value investors in Spain and probably there's some great ones emerging in places like Mexico and other parts of Latin America. We should all learn Spanish, really. A typical day for me, the way my timetable works out here is that I used to get into the office at 9-9:30 and then I end up working late. Mohnish is in California, there's all sorts of things going on in the United States. I end up not really having any time off during the day, so now I've figured out, especially because I'm trying to lose weight is that the right time for me to do sport and exercise is first thing in the morning, so my days begin with breakfast with my children and then I go and do some form of exercise. Through the VALUEx conference here in Zurich, I got into CrossFit, so I go into a CrossFit class or I go and swim or I go for a bike ride or I might go for a run or I go to a boot camp class with my wife. I try to do that every weekday morning. That takes about two hours, so my workday starts at 10-10:30.

Then my office is about a ten-minute train ride and I know that once I get to the office, there'll be a whole bunch of things like documents to sign or mail has come or questions and emails, so I try to spend some time at home doing reading on something, whatever annual report I've taken home, the transcript of the conference maybe or whatever happens to be there when I'm trying to get some thoughtful time into my day. This morning, I was with John. I arrived here about 10:30 and I hung out for a couple of hours with John before going to lunch and having a doctor's appointment, but once I've gotten through the two or three hours of busywork I like to have printed out something investment-related. I'll go away to the other end of the office and read it or maybe take it home to read. That describes my ideal day punctuated by all sorts of things. Alejandro, you had another question I'd forgotten in speaking Spanish. Could you repeat it for me?

Refojo: My second question was how do you decide to size something in your portfolio? Thank you.

Spier: An interesting side question to that that I'm going to try and answer first is how much cash would you hold and in both of those, I'm probably being suboptimal. When we look at how much we hold, in some way, your first 80% of ideas, let's say, go into something that you feel comfortably can earn you at least 15% or 11% ROI, but then as you start putting your last 20% of cash to work, things have to become increasingly undervalued for you to

want to put it to work, so one could argue that once you're 80% invested, the next 10% should go into something that at least the analysis indicates that the ROI would be, let's say, above 20% and then in the last 10% you really only want to allocate it to ideas that give you perhaps 30%-plus ROI, so you've always got firepower for the very, very best ideas.

I don't think I execute particularly well against that ideal. What I do do is I try to remain not fully invested, but the majority of the portfolio is exposed to companies that I like and I'm not trying to manage the cash in the portfolio, so there's been some of cash built up through a couple of sales and some new money coming into the fund. When I make my next investment, I'll be using a proportion of that cash to make the investment. How much of that cash will I use? The happy number for me is a 5% position, and what's interesting about a 5% is that if 5% is halved, you've only lost 2.5% of your portfolio, which is very likely to be survivable. A 50% loss, rotational loss on the investment is not the end of the world. At the same time, a 100% gain of 5-10% of your portfolio is meaningful in terms of contribution to performance.

By contrast, if you've made something as an initial position size a 10% position, 5% needs to become perhaps a meaningful drawdown even though on the upside, an extra 10% is very, very big. My tolerance for volatility means that the happy medium for me is a 5% position. That said, I have made 10% investments where I've had very, very high degree of conviction. I believe that the total amount I put into Fiat is about 7% of the portfolio at the time, so that's some thinking around that topic, but again, the key thing to go against or the key yardstick, which is a different kind of yardstick is to just throw optimization out the window. Forget about optimizing and just say, "I'm an imperfect decision-making animal. How do I do it so that my decisions are less bad than the average market participant?" If I can get my decisions to be less bad, I don't need them to be perfect and I don't need them to be optimal. I just need them to be less bad than as many of the market participants as possible and so long as I'm confident that my decisions are doing that.

I'll give you one example of that. In times of heightened volatility like we've had over the last few days, even among smart investors there's a very, very strong bias to want to say, "Hey, I'm sure there's values here. I need to pick them up and take advantage of these few days of volatility before they go away," but if you're like me, there's as much likelihood that I will make a dumb decision in the heat of the moment than a good decision, so my rule is just not to trade during periods of high volatility. Simple as that and it makes my life so much easier and more comfortable because I know that the vast majority of market participants do not make good decisions during periods of market volatility. They make much worse decisions. Now that's not to say that if I wasn't buying something, if I made the decision to buy something before the volatility started and it doesn't change my thesis at all, then I can continue buying that through the volatility.

Simply saying, most people make bad analysis when the market is emotional, so I'm not even going to think about trading when the market's emotional. The rest of them are trading, many of them are making stupid decisions. If I keep building up those kinds of simple rules, I'll end up doing better and if I try to nail one particular piece of analysis in a way that kills it, kills it in a positive way. I don't know if Alejandro has studied mathematics

anywhere - high school, university - but if you did, what mathematics gives us is this deep desire to get the problem out, to solve it, to draw a double line on the bottom and say, "QED, that's the answer," and trying to get that in investing is very hard and that is just an incredibly messing thing. It's a bit more like cooking where even the greatest cooks, even if they're cooking to a recipe will always vary the recipe. Why? Because of their experience in the kitchen. That's probably the way investing is.

Anric Blatt: As an investor and as a longtime hedge fund investor, I struggle with this tremendous human bias of buying high after watching a manager become successful, then selling low or near the low after I've run out of excuses of defending him in front of my investment team, sitting on the sidelines whilst I wait to get my money back and then missing the recovery whilst it's building up demand again, Rinse and repeat. All of my institutional investors are exactly the same, just that their toys are more expensive and they longer to do that. How do you stop yourself from that terrible bias that really makes fools out of all of us?

Spier: With great difficulty. It's interesting, you mentioned that you have an investment team and I'm not denying that there are many, many great things about having an investment team, the amounts of information and analysis and sheer horsepower that you have around you is probably very high and certainly greater than what I have around, but there's something really telling when you say at some point you get tired of defending XYZ, poor performance to the investment team, so you eventually give in. I would argue that you have probably for very understandable and some very good reasons created an environment that makes it very hard to be contrarian because you have the weight of opinion. I've experienced this and I write about it in my book where the weight of opinion is not sitting in some other office a phone line away. They stare at you as you walk into the office every day and that may not be optimal. That may require rethinking.

Some of the kinds of experiences for me required me to rethink who I want around me and it's interesting, Dhandho Holdings, Mohnish Pabrai's permanent investment vehicle is based in Puerto Rico. They have a very real office there, some very smart people doing some very good work there and that's about as far away from Mohnish Pabrai on the North American continent as you can get, but there's a logic to that. He doesn't want those very smart people scrambling his brain on a daily basis. That is one example of how environment influences performance where you might want to think about how you setup environmentally or it might just be another couple of behavioral rules in which one just puts the investment away for two years or three years. There is a study that war photos of dead people performed better than photos of live people. It was really, really compelling to me as to the importance of just leaving things alone.

Moody's, I just had to leave the damn thing alone. Yes, I was spooked by the fact that Warren Buffett had sold some of his shares. I was also spooked by the fact that the Attorney General, I believe it was or the Governor of Connecticut was saying some very, very scary things in the senate about indicting the company. If I had just let it alone, I would have had a lot more money in my fund today than if I had sold it. It goes back to this earlier question I don't think I answered so well. If we create an environment in which we have to keep

analyzing the thesis as to whether it's right or wrong. If we do that too often, we're eventually going to come to the other conclusion. So there's a great argument for parsing our activities and even our analysis. Do analysis, only invest in it when the analysis really does work and it's really watertight and then just leave it alone for a very, very long time. Mohammed at Allianz comes to my mind. This guy quietly accumulated shares of Coca-cola and about three other companies over his whole lifetime. I don't know if that's helpful, Anric.

Blatt: It is as an individual investor and I've just told my father-in-law he should stop investing in stocks and just give you his money because he just doesn't have that appetite. I built a faith-based family office quite recently that is not really beholden to many outside investors and if you do not need to waste capital and prove why people should invest in you and constantly report back and seem busy, then I find you make better investment decisions, but in our institutional multimanager business, I just found it incredibly destructive because the human nature is there and despite all the connotative tools, you just can't help yourself sometimes. I read your work, by the way. Absolutely wonderful, really, really, very, very useful and I saw how you took yourself out of the New York vortex and set yourself up to win in this environment, but surely your human emotion must come into play when you're buying and selling things, hence my question.

Spier: Two things, I would argue that if managing money for institutional investors is what it takes to put food on the table for his family, then I'm a full supporter of the person doing whatever it takes to do that job as best they can, but Charlie Munger's idea that there is business that you do if you have to, but the minute you can stop doing it, the better. I suspect that the institutional money management business is one of those types of businesses. I will tell you that I've made some very clear choices to not grow because I don't know that growing brings me anything. For example, to use the book as a platform to grow may not be very, very suboptimal to me and deeply influenced by that idea of Charlie Munger that once you can make the choice. The business that you would do if you didn't have a choice and you had to put food on the table for your family, but once you have the choice, you want to get out of it.

Then the second thing is, even despite all the changes I've made, do I feel certain pressures? I had an investor get in touch with me, funnily enough, from South Africa who was like, "Hey, you're down this year. Why?" It's not a happy conversation, it's not easy. We'd much rather explain to people why you're up than why you're down. I can insulate myself from that either by not having outside investors, which may be something I rationally should decide to do in the future and also by giving myself these rules of just once I own something, even if it's down, I'll hold it for another two years, for example, and really sticking to that. Thanks for the question. It sounds like you've done some great things and I suspect that everybody else on this conference call should look up Anric and see what we can learn from you.

MOI: What sources of information do you use to evaluate the culture of a company? Will you pay a premium for a company with a great culture?

Spier: There's only one good way to evaluate wealth. I don't think that any amount of

hanging out on the premises with the management is going to help in terms of doing a valuation. I really do think that the best thing to do is to evaluate. Most companies are these complex systems that are generating data and we need to remember the data they're generating is just one small subset, some fraction of the data they're generating of what their activities are. One very important piece of data is the audited accounts. Those audited accounts leave clues as to what kind of decisions and the ways in which those companies operate. You're not going to come to a clear conclusion on what the culture is, but you're going to see signals of where the culture's going or what kinds of people are making decisions by seeing how they put their accounts together and seeing what kind of shortcuts they do or do not take or what kinds of policies they use, whether their footnote are understandable or not.

Obviously, what we're looking for are companies where all of that is explained in a very clear way and wherever you push or wherever you go to a footnote, it becomes clear very quickly and you get the sense these are people trying to communicate what's going on to you. I even think that extends to whether the company is parsimonious with other people's money or not. The way the annual report is produced, what kind of paper it's printed on, all of those things would go into it.

Jean Philippe Tissot: My question comes after reading a lot about Warren Buffett, you and all the people who think alike and I found very surprising the lack of photo ops in the management style of Warren Buffett. Everybody tries to pick up his investing style, so the question is why do you think everybody tries to follow Buffett's investing skills and almost nobody follows his management skills? He has created an example of a company as a CEO - no bureaucracy, simplicity, common sense. I firmly believe if companies follow his management style the benefits of society would be enormous. Muchas gracias.

Spier: Following his management, it's hard enough to follow his investment style. Following his management style is an order of magnitude more difficult. I have a little bit of a window into that from observing Dhandho Holdings. If you take me, I did not have an operating business before I started Aquamarine Fund and becoming an investor. Mohnish Pabrai, in addition to being a brilliant thinker and a great investor, also built a business and sold it before he became an investor. He's a very, very good operational guy. He could run a substantial and complicated business that requires a lot of time and energy and he'd do really well at that. I will tell you, for the world to watch, that's a big experiment that Mohnish Pabrai is running with Dhandho Holdings. He's actually asked exactly that question, "Why has nobody tried to replicate this on the management side?" He's applying all of those management philosophies and it will be a spectacular success. There's one example of somebody who's doing it, but he's an extraordinarily talented guy and if you take me, for example, and this is not false modesty, I really don't know that I have the skills to do that.

The other thing I'd say, Jean Philippe, is some of these investment holding companies like Markel and Fairfax Financial have a culture that is very close to Berkshire Hathaway's culture and a very similar kind of management style. You might want to go take a look at Markel and maybe attend their annual meeting. I haven't attended the Markel meeting, but

I attended the Fairfax Financial meeting this year and it was a really worthwhile event. Prem Watsa has studied Warren Buffett and he's studied his management style. Fairfax has this motto 'fair and friendly,' which is where Fairfax comes from, fair and friendly acquisitions, so maybe there are a few people out there and maybe there'll be more over time. I agree with you that the benefits to society would be enormous because there'd be a lot of cost savings. People would probably be happier. Who knows, maybe it's not just Mohnish Pabrai, the guys at Markel and Prem Watsa. Maybe there are a few other people who would do that, but it's a great question.

The next one is Kirill Pavlov: What is the most useful trick that I've learned in my life, which has helped me cope with attention deficit disorder and maybe summing up this whole thing, which is connected to investing and attention deficit, does it help or does it make problems? Kirill Pavlov, if you have ADD, then the most important thing you can do is recognize it. The worst is not to recognize it and, more generally, to separate our willpower from the way our brain operates. I see a lot of monumental proclivities in my son and I've started talking to my son in these terms. His name is Isaac and I say, "Look, Isaac, what you need to understand is that your brain works different to everyone else's and if you want to operate your brain the best, these are some of the leaders you need to follow, these are some of the ways in which you need to manage your brain that you'll never learn in school because most people don't have a brain that jumps around the way your brain jumps around."

Once we recognize that that's an issue with us, we can get going on finding the solutions. The solutions are actually not that hard. It's just the awareness that my brain is different to other people's brains. My brain does this and, therefore, these are the consequences in conversations, in social situations and obviously in investing and investment research. There's one interesting way in which the way my brain works in that I'll forget all sorts of details that are insignificant to my brain like where I put my keys, but I'll hyper-focus on things that are super interesting to me. The key thing is that managing my brain is a bit like going surfing and the best thing is when I'm surfing a wave or when I'm totally focused and intensely interested in something. To find that in terms of investment themes and ideas is where I get most of my really good investment research work done.

Rehmann Rayani: My question is a similar question to one that was asked about ten or fifteen minutes ago related to Rule #7 in your book, "If a stock tumbles after you buy it, don't sell for two years." I'll ask it a slightly different way, but I'm just wondering if this is an absolute rule in your mind and, specifically, what happens if you've made a mistake or how do you differentiate between making a mistake and simply riding volatility in the market? If you did make a mistake, wouldn't dollars be better placed in another investment despite having to take a permanent loss to do so? Thank you.

Spier: Here's the piece of research that just blew me away when I read it is that there are so many times when we think we're making a decision, but actually there was a prior trigger that made the decision and then we rationalize it for a different reason. If I'm not misquoting these experiments, they've been able to trigger a state of mind using connotations of senses of smell or connotations of images that predisposes somebody to deciding one thing or another and when they interviewed them afterwards, they have no

recollection of the stimulus that was provided in the controlled experiment to get them to decide one way or the other.

To continue learning from that for me is to get rid of this idea of me, Guy Spier, as a rational actor making decisions and the image that I had is a cockpit where I am sort of there before my hand is on the levers. There's stuff happening below the surface of my mind that is predisposing me to think in a certain way and I need to guard against that. Specifically, the very idea XYZ decision was probably a mistake may not come up because I am rationally evaluating all the information in front of me to decide that it was a mistake, but there's some trigger that's happened that I'm unaware of, to use the analogy of the experiment, that's making me think that way. Certainly, the action of the market will trigger all sorts of things like that. In fact, most of what we see in price movements every day is some really wonderful interaction between price movements and what that's triggering in the market participant's brain.

We go back to the Moody's example and I most certainly felt at the time that I had sold it that I had made a mistake to think that this was a business inevitable and then that was about to be legislated away by congress or taken away by the courts and I was completely wrong about that. The analysis that I had and I could have made up for you at the time was absolutely right. It was just a very unusual time and unusual circumstances. What I needed in that moment was a circuit breaker. In the moment when that analysis is coming up, it is extraordinarily hard to make a distinction between whether this is volatility or whether this genuinely was a mistake and so my conclusion is to just override it with a kind of granny's rule, just do not act.

What I'd say, though, is that when you invest and I invest knowing that that's my rule, that makes it impossible for me to invest in anything where circumstances could change sufficiently that it would turn into a mistake. You'll never see me investing in a biotech company that is relying on FDA approval or relying on some trial to go well because there, a piece of news that the trial went badly really does impact it in a very, very significant way. What I would add for that question, Rehmann, and many of the other questions is that they are great questions. They're great questions because there's no easy and straightforward answer. I appreciate you asking me those questions because it makes me think about them and thinking about them helps us, but there are no easy answers. This is hard, it's not easy.

Another question: Somebody asks about volatility in commodity prices and lack of pricing power. Is there a place for commodities and exploration and production companies in a long-term investor's portfolio, and in what situations?

One of the attendees of VALUEx is also a friend is a guy called Ori Eyal. Ori has read *The Singularity is Near* by Ray Kurzweil... The future that is painted by Ray Kurzweil is a future in which there are no resource constraints because we've solved the energy problem and we've managed to reduce reliance on all these physical constraints of the world, and the prices of them will be zero. It's interesting to me that it feels like only yesterday that Warren Buffett was being asked the question at a Berkshire meeting about peak oil, and now we're at the absolute opposite, and the truth is somewhere in the middle. Anybody who's holding commodity stocks, commodity-related stocks right now is going to feel like they've made a

mistake and the whole zeitgeist is not of trying to slow down a maturing economy and commodities are no longer necessary and low oil price. I feel very confident that that will turn around at some point. It might not turn around in the next three or four years, but I fully expect there to be another boom in commodity prices at some point in the future. I just think that's inevitable. That's an example of where if I've held any commodity stocks, I would not want to start analyzing if I've made a mistake right now because I don't think I'd be able to think about it clearly.

Lukas Neely: It's funny you mentioned your brain being hyper-focused at times because that can sometimes drive my wife crazy. I had a question. Your interview with Mohnish was amazing and he had a thought, an idea that he thought that the US was a physical idea, a great idea and he brought up the thought of the US is the new emerging market. I was wondering if you had any insights or thoughts to the US being the new emerging market in the years to come.

Spier: I do, but I also have thoughts and insights into your relationship with your wife.

Neely: I was going to ask you about that later.

Spier: Which I'm very concerned about as well because we all could use help in relationships with our wives. Actually, it's funny, I didn't get into it in the book, but if you have what I have in the way my attention darts around, to help the rest of you on the conference call understand it, some people's attention is like a deflated football filled with sand. You throw it down and it just sits there, just there wherever it goes or wherever you want it to go. My attention much of the time is a bit like a bouncing golf ball. That's about as long as it will stay in one spot. Lukas, as I got to understand it, it can be infuriating. Very, very difficult for one's wife and one's children who are in close contact with us.

First of all, I started to understand that I started modifying how I was around my family to help them. Initially my wife really thought I was being uncaring and unthoughtful. As times went by, she's come to understand that it is not something I deliberately do, but if there's any comment on those whose minds work differently is to work really hard to see where it grates on the people around us and show them that we're making an effort to change the way we do that. You should not underestimate the difficulty that it gives to your wife and you can tell her that if you don't honor her, I honor her for having to put up with it. It is hard, there's no question about it. Through John, if your wife needs it, she can have a conversation with my wife. Sorry, everyone, about that. Let's get back to the investing.

It's a great thought. Warren Buffett, the one time I spent three hours with him - I've spent ten minutes or a little bit of time here and there - the guy is from the Midwest and he's Midwestern in so many ways if you just think about your classic Midwesterner, but then there's this worldly understanding, a super sophisticated understanding of how the planet, how the United States and how the planet is put together that it fits into his Midwestern outlook, but actually it goes well beyond the sort of focusing experience he gives. Warren Buffett gives this idea that anybody betting against the United States for the last 200 years is a really dumb idea and will continue to be a really dumb idea for the next 200 years is not just a folksy Midwesterner showing love for his country. It shows a very, very keen analysis

of different countries in the world, the investment environment in different countries in the world and the clear understanding that the United States is the most desirable place and an extraordinary set of circumstances have come together to create the United States.

There are plenty of other countries that have done extraordinarily well and there are plenty other countries that are working to better their economies that much of what created the United States is not through any genius. There was genius in the founding fathers and there's genius in the British common law the United States adopted. There was plenty of genius, but there was also an enormous amount of luck. The ability to dominant a continent with two peaceful neighbors on either side. You have to guard yourself against immigrants, but you don't have to guard the southern border for any military reason. You don't have to have heavy military equipment there. On the northern border, you don't need any military equipment at all. You have this incredible relationship with Canada, as this columnist for the Washington Post described. Then on the east and the west coast, the closest you get to enemies is fish.

Just strategically, the United States is extraordinary if you look at the stand of the continent, the wealth of the continent and then you look at the wealth of the continent in terms of the diversity of mineral resources, the diversity of agricultural resources, the diversity of proximity to Asia on the one side and Europe on the other, then you look at the immigrant groups that came in there and the incredible diversity of people you have there and on top of that, the founding fathers of the United States were clearly super smart people who did some extraordinary intelligent things with how they wrote the constitution. I also think there is an element of dumb luck. They got so much of it right and it's created this extraordinary thing that in 200 years of its founding, the super powers emerged and it continues.

The very simplistic idea of looking at the drop in the price of power and the price of natural gas and the loss that that's done, but the United States is not the only place that has shale gas. Europe has shale gas, Israel has shale gas, but even Israel, which is a very fast, dynamic, advanced country, has not managed to develop its shale resources as fast and as effectively as the United States, so it's probably a comment that I've ignored to the extent that I've invested outside of the United States. I might have done better just investing in the United States until I got to a size where I couldn't do it. It's right and a guy like me who is based in Europe needs to look very closely and carefully at the United States. I'm blessed with I can travel there anytime and you're blessed because you live there and it's just an incredible country and a force of good in the world.

MOI: There's a question from Ulrich Volk: Guy, you've been vocal about keeping a checklist. How do you not down your learnings from investments that didn't work out? Is your checklist still increasing and if so, what have been some of your recent key learnings?

Spier: Two things: One is that I commit to my investors. I've got some partnership meetings coming up to do a postmortem on at least one or two of my mistakes or investments every year and that's an opportunity to review and understand. The amazing things about this dinner registration is that now I'll be doing that at least once a quarter and that's probably a good thing. The thing that I have not done, which I fault myself for and is really ridiculous

given that there's no reason not to do it is keep an investment diary. I haven't seen any evidence from anyone anywhere that has shown that keeping an investment diary has been a negative in some way and the vast majority of evidence that it's a positive. It's not like I don't have an investment diary, I do. In my Evernotes account, I have an entry, which is my diary, but I don't update it on a consistent basis, which maybe is not once a day, but once a week or once a month.

Certainly, the process that I now have to follow for dinner registration will require me to update effectively my investment diary once a quarter. The last time I added something to the checklist, it came from the annual report. That was the last time. When I was writing the annual report three or four months ago, I talked about this distinction between companies that meet a human need and companies that meet a human desire. My sense of it is that Berkshire Hathaway, Warren Buffett's folks are the companies that meet human needs rather than meeting desires, so I don't want to say that Richemont and LVMH and other luxury goods companies don't have an extraordinary future, they do, but they're inherently more difficult businesses to manage and they inherently have more potential question marks around the continuance of their moat because they're in the business of creating desire for highly priced product.

They're extraordinarily good at doing that, but who knows? Maybe at some point, they fail to execute or a new highly desired product comes around. The amazing experience that for me observing was Absolut Vodka was blown out of the market by a higher priced gauge of vodka, even though the products were functionally exactly the same. That is less likely to happen in a company that is providing automobile insurance like Geico or helping people buy stuff they want like Costco and Walmart. I'll just put that in there. It's not going to stop me from buying an incredibly cheap and very solid luxury goods brand, but it's going to make me more aware that there's a risk in doing that. That was the last time I did it. I guess the FINMA process will have me closer to keeping an investment diary. We should really do that.

MOI: I want to go to Aziz Alnaim: Recently, Warren Buffett mentioned that he's not interested in media stocks and was negative on them, even though Ted and Todd, I believe, have invested in them. How do you feel about media stocks given the big declines in their valuations? Do they have a moat and is there an opportunity?

Spier: There is a lot of innovation coming into the payment space and even here in Zurich, there's a group of people who are looking at that, but what I see when I look at the three major credit card networks - Visa, MasterCard, American Express - like I said before, that innovation ends up embedding them even more closely and it widens their moat effectively. I just don't feel I can say the same about media companies. Even though Google hasn't figured out how to monetize YouTube, for example, or there was just an article today that I read about how Nielsen is starting to get better at comparing ratings for TV shows on Netflix versus other more traditional channels.

I just think the turmoil there is completely rewriting the value chain in a way that I feel like I'm not qualified. I guess that's one way of saying I'm defining it outside of my circle of competence. Even this whole pipeline into the home, that scenario where many people have

made a lot of money investing alongside John Malone, but even John Malone, in a certain sense, got out of that cable business when he sold out to AT&T, so even he didn't feel that confident. The amount of capital they had to put to work to keep up with increasing demand for bandwidth and the fact that he couldn't necessarily through his companies honor a return on that increasing bandwidth, it was over the top companies like Netflix and others who are owning that return. It's a hard space, it's a hard space to understand.

I have not followed the valuations of media companies recently. Movie studios, in any case, would be very hard to invest in, but Disney had this blockbuster Mickey Mouse. The famous thing about Disney that Warren Buffett said is that Mickey Mouse doesn't have an agent, Mickey Mouse is fully owned unlike many of the other movie studios. Then you see what Pixar did to Disney before they bought it and you realize that was a whole area of expertise that Disney had that suddenly Pixar had as well. Pixar did better and what else is coming there, I don't feel particularly comfortable around those kinds of consideration.

MOI: Go ahead, why don't we pick another one from the Slack stream?

Spier: I'll go to Malcolm: Do I have any thoughts on taking a position in an operator type business where the controlling founder own the majority stake? I often come across a solid business with great balance sheet and strong cash flow as well as a great track record by management. What scares me off is that taking a minority position in such a business holds me in a weak spot from the get-go and in case the controlling shareholder decides to do something with the business that may put it in future risk. Do I have any thoughts on how to manage this? As I was reading the beginning of that question, Jackie, I was thinking, "Yeah, I've got an investment in Berkshire Hathaway. There's only one operator and Buffett controls the majority and I guess I'm happy with that."

When you go down below a billion dollar or maybe a half a billion dollar market cap, what's really important is to realize that for many of the top management and directors of those kinds of businesses, they're role as a director or senior management may combine with their retirement plan and the idea that the management is separate from the business is actually a false distinction within those companies and so you're absolutely right in being concerned about being a minority in those companies. Therefore, some combination of the valuation and the ethics and the willingness of the majority shareholder to treat the minority fairly has to be very, very, very, very strong. You need to be able to calm that concern. If you can, it can work out extraordinarily well. It did for me with Alaska Milk, but the controlling shareholders were the Uytengsu family who treated their minority investors incredibly well and they were controlling the company, but we all made out like bandits.

One thing that may help you is that if you can get an analysis of who the majority shareholders are and what their relationship to the controlling shareholders. There are cases, there is one I'm thinking of here in Switzerland, it's a chocolate company called Jacobs Suchard, where the majority family effectively expropriates members of their own family and there's a dispute that emerges in the family, but there may be cases and Alaska Milk was one where the family, the controlling family saw themselves as stewards not just for the money, for their own families, extended families who were all invested in one way or another in that vehicle and so they were going to treat everybody fairly. Another example of

that would be - I've got his report on my desk - this guy, John Elkann, who's the next generation of the Agnelli family and he manages an investment company called Exor. They're controlling shareholders, but he has an awful lot of people that he cares very deeply about from the shareholder register. I'd feel comfortable being a minority shareholder on there.

Just to give one other example of that, in my CRISIL investment, what I was counting on was that there were two big investors in CRISIL, Standard & Poor's and ICICI Bank, plus some minority investors of which I was one of a number, but I was counting on the fact that ICICI Bank and Standard & Poor's were going to make sure that they were treated fairly and because they were strong and powerful organizations, the rest of us would also be treated fairly. A careful analysis of what the relationship is between a majority shareholder and the minority shareholders can often lead to an insight that will enable you to even make the investment or to definitely not make the investment.

Luis Carlos Sánchez: Hello, Guy. I'm Carlos from Colombia. Thank you very much for this opportunity, it is an honor to be here. I just want to ask one question and I'll read it, "Being a value investor, you don't make decisions based on macro forecasts. However, you said that since 2008, you have been keeping an eye on economic cycles. What framework or economic theory do you think explains economic cycles best? Thank you very much.

Spier: I probably did write that, although I don't remember writing it. There are some markets where the capacity adjusts very, very quickly to the price. None are coming to my mind right now, but when demand declines and price declines, it has to adjust quickly. Then there are markets where it isn't the nature of the way it works, it has to adjust very, very, very slowly. The examples there are mining companies, shipping companies where you have to buy a ship, this big, hulking metal that's sitting there and you can't get rid of it from one day to the next. Those kinds of dissertations between private demand and asset reduction creates cycles, so we have low prices for all sorts of natural resources right now.

At this moment, there's not much that a mining company can do with capacity to affect that other than shut down production of their highest cost mines, which they're probably doing. Then over time, what they may well do is not develop resources that would only be profitable at higher prices. There's an inevitable process by which supply is going to shrink in that kind of business where the capital decisions play out not just year-to-year, sometimes over decades. Supply of all sorts of commodities whose prices are down now is going to shrink over time. That's just a given and at some point, supply at a given price is going to be outstripped by demand and suddenly the price is going to rise, which is going to be the signal for all these producers to start producing, but it's just going to take time for them to get that capacity up and that creates many of the cycles, I believe, and they continue to be created. The simple idea is to just get a sense of where we are in the cycle.

To give another example, the credit cycle, which is much more powerful doesn't seem to be based so much on those kinds of physical capacity, but just a propensity of banks to lend out their money and to some degree, the kind of leverage ratios that society will tolerate. At the height of the pre-2008 boom, we had investment banks that were leveraged 40:1 and everybody was claiming that that was okay and it was safe. Then post-crisis ten times

leverage is too much and actually maybe five times is right now. That adjustments and people's expectations of what the leverage ratio should be in a financial institution is pro-cyclical. In a time when you want to be expanding credit and when responsible central banks were doing everything they could to expand the credit, the banks themselves and the regulatory agencies are starting to ask them about their regulatory capital and how leveraged they are and they need to reduce that leverage, which all has the effect of dampening credit, so an incredibly powerful cycle is created by credit. The contraction of the credit cycle probably still hasn't happened. For as long as you hear questions about tests of bank balance sheets and capital adequacy and Basel rules, you know that you're still in the down cycle. You're in the down part of the credit cycle and the down part of credit. When that turns, there are all sorts of things that will happen. I guess it's good to know when we're in the down part of the credit cycle and so I hope that's helpful.

MOI: Alex Mattsson wrote in a dozen great questions today on the Slack channel. I'll just ask the first one. With Warren Buffett being your favorite investor, have you ever had any doubt in any of his actions or words?

Spier: I don't approve of his choices of political candidates, but that said, I wouldn't approve probably Mohnish Pabrai's choices of political candidates either. That would be one place. Bobby Fisher was a pretty good chess player. I don't think he was outstanding in anything else. So pay attention to the way Bobby Fisher plays chess, don't necessarily pay attention to how we do other things. In the gentlest possible way, I also want to say that I don't want to have the same relationship with my children as Warren Buffett has with his children and I'm willing to forego an awful lot of professional and financial success in order to have a great relationship with my children and spend a lot more time with my children than, let's say, Warren Buffett did. On the investing front and that's the equivalent... Bobby Fisher, you might want to take parenting lessons from him. You might not want to take political lessons from him, but you certainly want to learn from his chess.

On the investing front, Warren dabbled in silver five or six years ago. He wrote in his more recent annual report that it was probably a mistake to do it. I was a little confused. Not confused, I didn't think that that was a Buffett-style thing to do, so that was a question mark for me. There are tons of investments Warren Buffett makes where I don't understand it and just say I withhold judgment. I really didn't understand why he was invested in Tesco and it turned out to be a mistake and he sold in disgust. We're all watching IBM to see the way it turns out. Many people believe that that was a mistake, but here's my respect for him. I don't think it pays to second guess Warren Buffett on the investing side, but where it does pay is to second-guess him on a whole bunch of things that are not investment-related. I wouldn't ever want to be on the opposite of a trade by Warren Buffett or for that matter, on the opposite side of any negotiating table with Warren Buffett. That would not be smart.

Martin Grant: I heard you say one time, "Seek not the masters. Seek what the masters sought," which is awesome. Such a good idea because then you can start to read and see what they read and it's just this great rabbit hole to go down, but sometimes that can get a little lonely just sitting there reading by yourself. It's fun to hang out with the master occasionally. Now I guess in playing tennis, you always want to play with someone who's

better than you in tennis, but the person who's better doesn't want to play you. Any advice for hanging out with a master occasionally?

Spier: Come to the Berkshire meeting. Come to VALUEx. I had this experience with Mohnish Pabrai, who for me is a master and I suddenly realized he wants to hang out with me, so there's a guy, in your analogy, who's a better tennis player and he wants to play tennis with me. You need a cognitively diverse of friends, so Mohnish is reaching out to me partly because he wanted the cognitive diversity and he saw a difference in the way I talked to a bunch of other people in his network.

I just would like to believe, Martin, that sooner or later one of those masters will realize they want to hang out with you because there are aspects to the way you think and the way you do things that that master is into and interested. If you keep studying them, and that's the great thing about the Berkshire meeting, about VALUEx, about other kinds of gatherings is that you get to hang out in a certain place, this remarkable place with friends and relationships in a relatively rarified and selected area, which is these are all people who are already pretty self-selected in some way. That's a very random answer, but the short answer is keep going to gatherings where both the masters and the fans of the masters hang out and keep making friends with those people. Eventually, you'll find that you have a pretty extraordinary group of friends.

Davide Diana: My question is about speed reading. Todd Combs and Warren Buffett say that they read 500 pages of annual reports every day. How do you develop a fast reading skill, in your opinion and you know nowadays with all these tablets and you could read annual reports in a digital format, do you still prefer printing your reports or do you also use the digital version?

Spier: Davide, my Italian was much better until I spent some time in Mexico and then it got much worse. I'm looking around because, as you can see, I wanted to see if I have it, I just think there's something about not just printed out, but the bound version that they send you is the very, very best. This idea of speed reading sounds to me like something that is sold on late night TV shows and on the worst kind of ads that appear on the right to the left of one's screen. I don't believe in any of that. I believe that somebody with good academic training has got the ability to squeeze all sorts of insight and knowledge out of a document. It's not really speed reading. When you flip through something, there's all sorts of information that goes in as a result of flipping through, checking different parts of it. The 500 pages a day, what they're really saying is read a lot, but they're also saying stop reading stuff that's not providing you with anything and spend time on stuff that is providing you with something and simply be intelligent about what you read.

Just to pick up 500 pages and sequentially read through them or to develop some technique to sit hunched and read through them at a faster rate I don't think is what they're talking about. There's no substitute. You need understand that Warren Buffett is asked so many questions by two guys whose names escape me, Todd and Ted, are asked many questions and often they have limited time. They don't want to go through a detailed explanation of what they're up to, so they have to say something which is accurate and true while not leading to a whole discussion that they don't have the time or the interest to go into.

Reading 500 pages a day should be taken as a comment like that. Not take too literally, it should be taken intelligently. I do not read 500 pages a day. One of the great things I had when I was on vacation earlier this summer was that I read seven books in the course of about two and a half weeks and it made me so happy. Now that I'm back here, I'm about three-quarters of the way through *Stress Test* by Tim Geithner, which is just a wonderful book. That's a book in which I was reading every page carefully. It really was fascinating. Something like annual reports, certain kinds of annual reports is where you ought to skim through it or just test read a few of the footnotes and see what they say.

This is a good opportunity to say thank you to all of you. It's a real honor for me to feel like you want to listen to what I have to say. I want to tell you that modesty that I'm giving you is genuine, it's not pretending. I am not as smart as some of these other guys, Howard Marks. I've had long conversations with William Green, who wrote this wonderful book, *The Great Minds of Investing*, which I urge you all to go and buy, the excerpts are really wonderful. Howard Marks is a more brilliant, sharper mind than mine is. So is Mohnish Pabrai's, so is Warren Buffett's, so is Charlie Munger's. If there's anything I want you to take away from this is that the rest of us should do really well by just paying attention to our own weaknesses and trying to work at reducing the influence of our weaknesses. This was fun, John. I'm happy to do this from time to time. It's a useful use of my time. I love the questions that your audience asks, so I've benefitted from this as well.

MOI: Well, Guy, what can I say? Thank you so much. I just feel very privileged and grateful that I was able to be here and try to facilitate some of the discussion.