Graham & Doddsville

An investment newsletter from the students of Columbia Business School

Issue XIX Fall 2013

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Heilbrunn Center for Graham & Dodd Investing

COLUMBIA STUDENT INVESTMENT MANAGEMENT ASSOCIATION

Guy Spier — Build Your Life in a Way That Suits You

Guy Spier

Guy Spier is the founder and managing partner of Aquamarine Capital, an investment partnership styled after the original 1950's Buffett partnerships. In 2008 Mr. Spier, along with Mohnish Pabrai, had lunch with Warren Buffett after submitting the winning bid for Buffett's annual Glide charity auction. Mr. Spier completed his undergraduate studies at Oxford and earned an M.B.A. from Harvard Business School.

Graham and Doddsville (G&D): How did you first become interested in investing? What drew you in and what keeps you going?

Guy Spier (GS): I guess there are some natural proclivities that I have. One is that I don't like managing people and I'm really bad at executing on stuff. Getting Mr. Guy Spier to have the ambition of building Starbucks like Howard Schultz did would never happen. Guy would still be running some crummy coffee shop because I'm just not very good at execution. I know that I'm an extrovert, I enjoy meeting people but on

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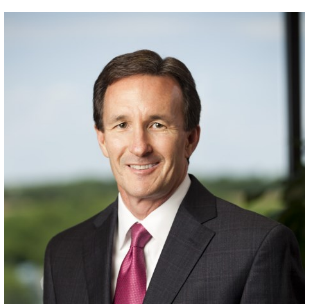
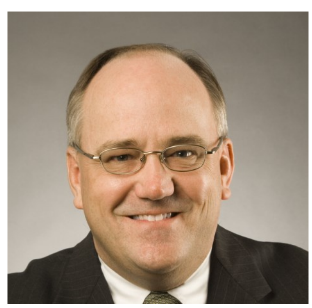
Koch Industries — Creating Value in Society



Dave Robertson



Steve Feilmeier

Koch Industries is an industrial conglomerate headquartered in Wichita, Kansas. It is the second largest private company in the U.S. with $115 billion in sales. Its businesses range from petroleum refineries and fertilizers to chemicals and fibers, as well as Georgia-Pacific, which Koch acquired in 2005 for $21 billion.

Koch's recent investments include a $1.5 billion minority stake in Guardian Industries, an architectural glass manufacturer; an investment in Colfax Corporation, a diversified manufacturing and engineering company; and a $240 million preferred stock investment in American Greetings Corp.

Richard Hunt, *Graham and Doddsville*'s former AVP and a summer business

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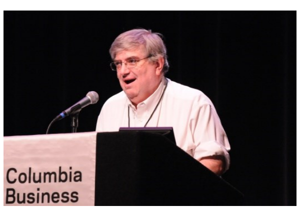
Welcome to *Graham & Doddsville*

Pictured: Heilbrunn Center Director Louisa Serene Schneider. Louisa skillfully leads the Heilbrunn Center, cultivating strong relationships with some of the world's most experienced value investors and creating numerous learning opportunities for students interested in value investing. The classes sponsored by the Heilbrunn Center are among the most heavily demanded and highly rated classes at Columbia Business School.



Pictured: Professor Bruce Greenwald. The Heilbrunn Center sponsors the Value Investing program, a rigorous academic curriculum for particularly committed students that is taught by some of the industry's best practitioners.

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It is our pleasure to bring you the 19th edition of *Graham & Doddsville*. This student-led investment publication of Columbia Business School is co-sponsored by the Heilbrunn Center for Graham & Dodd Investing and the Columbia Student Investment Management Association (CSIMA).

As students return to campus here at Columbia Business School, we are reminded and implore our readers to continue the search for what Charlie Munger has called "worldly wisdom." By dedicating our lives to continuous learning, we become not just better investors, but better thinkers and contributors to the world in which we live.

Our first interview is with **Guy Spier**, the founder and portfolio manager of Aquamarine Capital. In a candid discussion with *Graham & Doddsville*, Mr. Spier discusses everything from his use of checklists to several of his recent investments. Insightfully, he points out that it does little good to aspire to be a different investor, but instead suggests to focus on creating an investment philosophy and portfolio that is consistent with who you are.

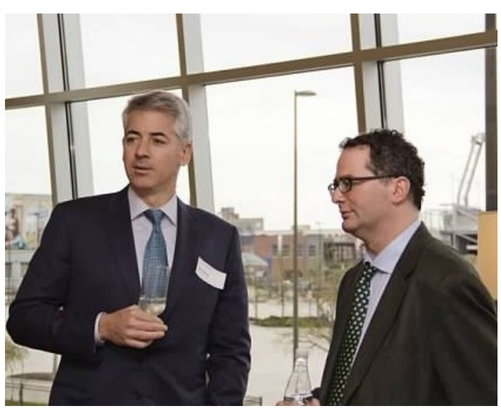
We also sat down with Koch Industries Executive Vice President and Chief Financial Officer, **Steve Feilmeier,** as well as President and Chief Operating Officer, **Dave Robertson**. They discuss their approach to finding investments that are not only great standalone businesses, but also ones that can be integrated into their existing operations.

We continue to bring you pitches from current students at Columbia Business School. CSIMA's Investment Ideas Club meets regularly throughout the year, including during the summer, and provides CBS students the opportunity to practice crafting and delivering investment pitches. Three of the best ideas from this summer are contained for your perusal—long the 9.75% senior guaranteed 2020 USD notes of Homex (EJ0116982), long Wabash National shares (WNC), and long Active Network shares (ACTV).

Looking forward to the coming academic year, we are working to bring you even more fascinating interviews; we plan to expand our gaze to international investors as well as to some of the newer and less-familiar faces in the investment community. We also have a few other ideas in store, so stay tuned for our upcoming editions.

As always, we thank our interviewees for contributing their time and insights not only to us but to the investment community as a whole, and we thank you for reading.

- G&Dsville Editors



Bill Ackman and David Winters at the Omaha Dinner in May

Students waiting to hear the final presentations at the 2013 Pershing Square Challenge

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Guy Spier

Guy Spier

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some level I lose patience with humanity as well. Being in a situation where I don't have to deal with too many people if I don't want to, and I don't have to manage them is a big plus. So I think there are very specific ways in which it was natural for me to go into investing. I think it's something that is suitable for me, but at the same time the world of investing is broad so you still want to find a niche or a place in it that suits your own particularities.

Five years ago I asked Warren, 'Berkshire Hathaway is structured a bit like the starfish versus the spider?' The idea is that a starfish, if you cut off a leg, it regenerates. A starfish is a decentralized organism and a spider is not – you pick off a leg and it doesn't grow back a new leg. Decentralized organisms are more resilient to having their legs cut off and Berkshire Hathaway is the same way. It's very resilient as opposed to a command and control organization. I asked Warren, 'That's really smart. Did you figure that out twenty years ago?' And he said, 'No. I absolutely had not figured any of that out. Berkshire Hathaway is the way it is because it suits me. It suits my particular personality.' I don't know if he actually said it, but he clearly implied that if he had Jack Welch's personality and abilities and internal wiring, Berkshire Hathaway would have looked very, very different. So why investing? I think that at the end of the day, it suited my internal wiring. I think I'm aware of some of that wiring but I'm not aware of all of it.

> ***"I sometimes ask myself, 'If you had the choice between either Oxford/HBS and the education that you get around Warren Buffett, Charlie Munger, Ben Graham, etc.' I think hands down Charlie Munger, Ben Graham and all of that is much better."***

G&D: Can you talk about your background at Oxford where you studied philosophy, policy and economics? Did that affect your investment methodology or philosophy?

GS: I was lucky enough to attend both Oxford University and Harvard Business School. But I sometimes ask myself which I would have chosen if I could only do one. Two very different educations. People who go to Oxford are great thinkers, they just can't get anything done. That's a broad generalization. Oxford brought out my proclivity for discussing, writing essays, all of those things. Harvard Business School on the other hand, is much more practical. It would have been very hard to choose between those two.

Then I sometimes ask myself, 'If you had the choice between either Oxford/HBS and the education that you get around Warren Buffett, Charlie Munger, Ben Graham, etc.' I think hands down Charlie Munger, Ben Graham and all of that is much better, for me at least.

At Oxford, for example, I studied the Rudi Dornbusch exchange rate overshooting model. It's a beautiful thing and it might describe some measure of reality. But it's a very powerful idea that grabbed hold of the whole of academic economics, this idea that you could solve equations representing the economy through time by assuming rational expectations, which is now an important part and parcel of the neoclassical model of economics. Now you've got a way of moving things to equilibrium through time even if people don't know what the outcome is because somehow all the actors in aggregate are moving the market price to their rational expectation of

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Guy Spier

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what it should be.

I think that it handicapped me in a profound way. Because there I was at Harvard Business School and Warren Buffett shows up and I have no interest in him. I also have no interest in the financial markets because in my rational expectations view, there are no dollar bills on the ground; they would have been picked up by this spectacularly efficient market. Now I'm sure I learned plenty at Oxford and at HBS, but I don't think they helped me much professionally. I'm sure I'm a better human being but they did not help me with investing, I don't think. And I don't know one person I studied with who even understands what I do or understands the basic philosophies of value investing. They just think, 'Whatever. He's just a finance guy.'

G&D: Not even David Cameron gets it?

GS: David Cameron is a very, very, very smart guy and he understands British politics and understands what can and cannot be done with Britain in a way that I could be living in Britain 100 years and not understand. But we underestimate how many people have any clue about the way we feel, which is, 'Oh my God. This is so exciting. There are market inefficiencies that I can exploit. If I just get a few things aligned right I could make billions and live this incredible life.' And many people who do value investing end up living these incredible lives. And we live long lives is what we've figured out. We know from Warren Buffett that it's not got to do with intelligence - he says some people get it, some people don't.

"It took me a long time to figure out that my job is not to be Warren Buffett or to be Bill Ackman. My job is to be Guy Spier."

I got it, but my God, have I strayed from the path in so many different ways. I had such a narrow understanding of the wisdom that Warren Buffett had to impart. If my investment career is the only thing we're talking about, I definitely lost at least five years, perhaps more, getting started on it because my head was filled with all these ideas of efficient markets. But I've lost more time by not fully learning the lessons that are available there for all to see.

The basic tenets of *The Intelligent Investor* – Mr. Market, things having intrinsic value, stocks representing part interest in businesses – are fantastic. But I was in a position ten years ago not to charge a management fee the way Warren Buffett did, but I was charging a management fee. Why on earth was I doing that? I don't know how many years ago I met Mohnish [Pabrai]. He was not charging a management fee. I was an example of the guy sitting on the other side of the road at the gas station. You know the Tom Peters story? Mohnish talks about cloning and seeing whether people are willing to clone or not. I'm sitting there, laughing at all those idiots who don't clone. At some point I realized, 'Wait. I'm the guy on the other side of the road who is not cloning what is obviously working.' There are so many things that I lost time with and didn't learn because I had too narrow an understanding of the wisdom that was to be imparted.

G&D: You went straight from being in investment banking to managing money raised from friends and family. What caused you to do that?

GS: A few things. It took me a long time to figure out that my job is not to be Warren Buffett or to be Bill Ackman. My job is to be Guy Spier. I'm not going to do a very good job of being

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Guy Spier

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Bill Ackman or being Warren Buffett but I'm going to do a damned good job of being Guy Spier, better than anybody on the planet.

Everybody's path is unique and I think it's really, really important that we find our own path. If I look back at the path that I took, there are many mistakes that I made. Many things I would have done differently. But that's yet another thing we have to learn, to own our path with its mistakes and to be accepting that every single person has massive mistakes in their path, and that's part of life.

Leaving business school, I had this pristine resume. I'd worked for a consulting firm, had a great undergraduate degree, Harvard Business School and I wanted to throw up all over anything that had to do with the establishment. I just had no interest. I did not pursue interviews with Goldman Sachs and all of those people. Which I think was a mistake. I was feeling rebellious and had to break out of these straight and narrow tracks. However, I think that there's so much to be said for being on the corporate bandwagon for a while and not getting off it right away.

I started working for a guy who was also a graduate of Harvard Business School who had his own banking/ investment firm, he was very solidly in the third tier. If the first tier is Morgan Stanley, Goldman Sachs, Credit Suisse, globally recognized brand names and then you have a second tier of Robert Baird and Associates and regional investment banks. Then you have this third tier doing things like taking penny stocks public or venture investment banking where you would take a company that didn't have any earnings and take it public. After I joined, I discovered that there were people engaging in practices which were on the borderline of legal. In fact, five years after I left, the SEC shut down half of the firm. I knew that to go and join Goldman Sachs I would have been a glorified photocopier or something like that. I didn't care what brand name I had, I wasn't doing that. I was doing something real. That said I should have left that place three months into it because it was a snake pit.

"Something I believe quite strongly is that if you want to understand who an investor is, you need to understand their relationship to money in general, their relationship to the money that they specifically manage, and what the money means to them."

What happened to me, and again I'm just describing my path, was I was reading all sorts of books. I pick up *The Intelligent Investor* and a light goes on in my head. An aha! moment happens and now I'm applying for jobs as an analyst doing what you guys do, except that I'd gone to work for DH Blair. I was interviewing with a number of places but I wasn't having an easy time of it and these question marks arose. I made a very, very, very bad judgment call in terms of my own personal reputation. I had associated myself with a guy that I should not have associated myself with, and in finance especially, your associations count. People don't have the time, the energy or the interest to really dig deep to find out if this is a good guy or not. You don't have to get yourself burned. If you see there's smoke you don't have to put your hand in the fire. The good news is that when you make mistakes you want to make them early. You want to make those mistakes when you're 25 and not when you're 40 or 50 or 60.

In my case, I was very interested in this investing stuff. I started putting together mock portfolios. I met some great people on the way, Carley Cunniff was very generous. That's when I started going to the Berkshire meetings. I didn't know anybody, but just started showing up. Then in my case what happened is that my father notices this. There's a family business in London trading agricultural chemicals. He had made some money and he started investing that with me. From my father's perspective he wanted me involved, whether consciously or subconsciously, he realized that by getting me to invest the family wealth he was getting me back involved. I didn't realize but at that point, on some level, I had re-joined the family business.

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Guy Spier

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G&D: How did you feel comfortable starting out on your own and managing close relations' money?

GS: My father is the kind of person who doesn't do things half measure. He doesn't say, 'Here's 10% of my wealth and if you do well with it I'll give you another 10%.' He dumps all his liquid wealth on me, which was pretty much everything, which instantly made me unbelievably risk averse because I knew exactly what I was dealing with. Then again, I've gone back and said to myself, 'If he would have dribbled it out to me, I think I would have been much more willing to take big gutsy bets.' In that period I had really great investments. One was Duff & Phelps which is one of the credit rating agencies. It's now part of Fimalac and that was a 7X over three or four years, just a wonderful, amazing situation, but I didn't invest very much. I was scared stiff. One thing that I'm adamant about is I'll leave with one track record and all of those things go into the track record.

Something I believe quite strongly is that if you want to understand who an investor is, you need to understand both their relationship to money in general, their relationship to the money that they specifically manage, and what the money means to them. Money means very different things to very different people.

I don't understand some peoples' approach to money. I don't understand why they love it so much. Now contrast that with somebody that we all know pretty well—Mohnish. Mohnish is on record as saying that his dad went bankrupt a number of times so he's very familiar with having money and not having money. And he's very familiar with seeing how his parents were unchanged through that. His core family circumstances actually didn't change that much. He has a much lower fear of loss of money I think because of that. The other thing is when he started Pabrai Funds it wasn't Guy's dad saying, 'Here's some money that I've made. Invest it.' It was Mohnish having sold his business and taking a portion of that and investing it. That again is a very, very different psychological relationship to money and I think that drives a huge amount of investment behavior.

I would love to do the analysis on Bill Ackman on that front. I don't have enough information, but Bill I think, like me, came from an environment where there was established wealth. For Bill, money, it seems to me, is the opportunity to play out stuff that on some psychological level he cares about. Misgovernance in the companies that he follows gets under his skin. Some people just go, 'You know... Warren owned Coca Cola during the period when Doug Ivester was messing up completely but it didn't get under Warren's skin.' People had to practically read the Riot Act to him before he acted to remove Doug Ivester. You have one extreme there and then you have Bill. I think understanding those personality traits and realizing they are unbelievably idiosyncratic in each one of us is really important to do.

G&D: Clearly you're heavily influenced by Benjamin Graham and Warren Buffett, value investing legends. But what do you think sets you apart from those guys that gives you an edge in investing?

GS: I'm dumber. The Aquamarine Fund is open but I'm not really trying to raise money and it's a wonderful release because I don't care about distinguishing myself and differentiating myself and all of those things. Warren Buffett has a 180 IQ, maybe higher. Mohnish has a way higher IQ than I do; it's 160 or more. If you ask me, I think Mohnish's IQ is not as high as Warren's but I tell you they're both streets ahead of me. Warren runs around saying that you don't need a high IQ, he's just being nice. Having a high IQ really helps. He says it's better to be sensible than to be super smart – he's

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"The investors that we appreciate and do well somehow have found a way to reflect their inner life in a very fundamental way in their investing moves."

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Guy Spier

Pictured: Bill Ackman and Louisa Serene Schneider at the Omaha Dinner in May 2013.

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absolutely right. But if you can be sensible *and* super smart that is definitely better.

The investors that we appreciate and do well somehow have found a way to reflect their inner life in a very fundamental way in their investing moves. At the end of the day, every successful investor ends up differentiating themselves on the unique aspects of their personality and who they are. I'm not trying to be the best investor. I'm just trying to be Guy Spier. If you give me a path in life that involves higher returns to my limited partners and/or high returns to me, but it makes me less Guy Spier, I wouldn't take it. So in a certain way I guess I disagree with the premise of the question, which is I'm different to all those investors because I'm Guy Spier and I'm not Ben Graham and I'm not Warren Buffett. I shouldn't try to out-Warren Warren.

To compare myself to any of those other people is a very dangerous thing to do and probably not helpful actually. But they are all smarter than me and they're all better investors and that's okay. I'm comfortable with that. It's about being the best version of yourself. That may be investing in low cost index funds because that's where you're at in terms of your ability to analyze and your relationship to money, and that's perfectly fine. Warren Buffett has deep respect for John Bogel. In many ways John Bogel is not an investor; he's just a guy who runs a machine.

G&D: How do your personality and your life experiences manifest themselves in your investing decisions? What do you look for?

GS: I don't like situations where there's a lot of public controversy. I get particularly scared when I see very smart people on both sides of the equation. I know that I'm much more comfortable in a place where people just aren't paying attention. That feels much, much better to me. I figured out I know absolutely nothing about retail, that retail is just a dumb place for me. I've realized that it would not be smart for me to invest in the healthcare sector, but I think I can get through life without investing in the healthcare sector.

G&D: Which industries attract you more?

GS: The core home base for me is branded consumer goods. It's really hard to find something that's super attractively cheap but I just know that I'm on safe territory there. I actually now feel I'm in a lot safer territory in terms of natural resources. They have to be the lowest cost producer, for example, and we have to understand the supply and demand dynamics of a particular commodity. I never thought that I would understand banks and I know that I nailed banks two years ago but it was really specific—large American money center banks were unbelievably underpriced and a really safe place to put lots of money.

People jeeringly said to me, 'You don't understand Bank of America's balance sheet.' I'd come right back and say, 'Neither does Brian Moynihan but it doesn't matter.' I think that what's interesting is I have a much better sense of when something is in my circle of competence and I'm much more willing to define stuff outside of my circle of competence.

In reverse engineering the Berkshire Hathaway 13-F filing, one of the positions they have is a company called VeriSign. VeriSign is a beautiful, beautiful business. It's probably not cheap but I never thought that a company that is in the tech space would be within my circle of competence. I gave up doing the work because it's too expensive and because allocating one's time to the stuff that's cheap rather than spending all this time studying great businesses is smarter. But I think I would have been ready to define VeriSign as being within my circle of competence.

G&D: Would you by any chance be willing to discuss

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Guy Spier

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any current ideas you have?

GS: I will tell you that, where I am right now, I have not found something that I want to put in the portfolio for quite a long time. There's been quite a dry spell; it's not like we're not looking. I'm happy with my portfolio the way it is so I haven't done a lot recently. I'll tell you one that I rejected, but I think it is an interesting business and is such a puzzle.

The one that came up was Reciprocal Patent Exchange (RPX). So I was introduced to the whole world of intellectual property. First of all, IP is a big deal. What I learned is that 200,000 or 300,000 patents get granted every year and nobody completely knows what the patent covers or doesn't cover. But in the US and Western countries, the policy is, we grant people patents. A patent lasts 25 years. What does that patent give you the right to do? It gives you the right to pull somebody to court and say, 'You're violating my patent.' It's an interesting right and it becomes a lot more interesting or uncertain when you realize the scope. At the end of the day a judge has to decide was the patent being violated or not? What happened with Apple versus Samsung is extremely unusual because what happens is like nuclear warfare between two countries, when you have two big corporations with a lot to lose you can counter-sue each other and you can say, 'If you're going to get me on violating this set of patents I'm going to get you on others so why don't we just call it a day? You get on with your business and we'll get on with ours.' This is what usually happens.

Then there are these things called patent trolls. They just sue people for violations of patents and collect some kind of reward. If I'm a patent troll, I will acquire a pool of patents from somebody and haul Apple into court and I say, 'You're violating this set of patents.' I didn't invent it, and I don't have a business off it, but I own the IP. The law is if you own the IP, you're the inventor. The problem that Apple has is Apple has to go and defend that. Now if I was some other operating business Apple would say, 'Let's sit down and talk. Let's see what you've got. Let's get some arbitration, we don't really want to go to court. We can see you're a small business, you're trying to grow this division. Why don't we buy a whole bunch of stuff from you? Why don't we license you?' There's some kind of business arrangement that settles it out. Not with the patent trolls. The patent trolls say, 'We don't have a business. We are secure. You can't sue us for anything but we can sue you for that.' So at the end of the day Apple settles.

This is a huge cost to American industry. On the one side they're hated by people like Apple and the other large companies and on the other side they're the champions of inventors who often feel they've been screwed over by big industry. What Reciprocal Patent Exchange does is they go to all these companies that are basically settling at the court's door or they're paying these companies to go away and they say, 'Why don't we pool our resources?' To cut a long story short, it's fractional ownership of patents. Like fractional jet ownership, fractional patent ownership. You pay a subscription to us, we'll acquire all this IP and you'll never get sued on account of this IP. It doesn't take away the legal risk entirely, but it massively reduces the legal risk and they now have much more buying power because it's on behalf of all of their clients and they have something like 200 clients. It is a really interesting business and it's cheap and they generate massive amounts of cash. Really, really interesting, but at the end of the day I put it in the 'too hard' pile.

G&D: What about Fiat, would you be comfortable discussing that investment?

GS: What I'd say about Fiat, I don't want to talk too much about it because of commitment, consistency and all of those things but it

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"The idea that we're managing some finely tuned machine is just not the case. I'm just trying to get it right 55% of the time or get it slightly better 55% of the time."

Guy Spier

Pictured: Rahul Raymoulik, Richard Hunt, and Stephen Lieu at the 2013 Pershing Square Challenge.

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really is an interesting situation. What I think is interesting about Fiat is that what the Italians and the Europeans see is some also-ran European automobile manufacturer. They see a company that is a much smaller automobile manufacturer with sales skewed to Southern Europe, which has been much worse hit than Northern Europe. They don't have a clue what Chrysler is but people here in the United States understand that Chrysler is a substantial business, they have some blockbuster brands, and it has a real franchise value. But they can't invest in Chrysler because it's all owned by the VEBA, this voluntary employee benefits association, and Fiat. I think that is one of those unusual situations.

The whole way in which Fiat acquired Chrysler is very interesting. Sergio Marchionne, the CEO of Fiat, comes to the negotiating table. They're close to doing a deal for an undisclosed sum of money, but the day before Barack Obama says, 'we're going to save Chrysler as well.' So Sergio says to the people negotiating on behalf of the government, 'Do you really want to go back to your president and say that actually there is no deal and what the president said to the American public isn't true? It's that or you're giving it to us for free.' The US government didn't care about the money being made or lost. They cared about saving jobs.

I think there is space on the planet for one Italian brand. We have four or five German brands, global German brands. The only company that has a chance of being a global automobile brand from Italy and not just in the high end like Ferrari is Fiat. Chrysler does an amazing thing for Fiat. Fiat's business has already improved dramatically because they now have the ability to allocate costs and production around the planet.

Fiat used to be very heavily under the thumb of the Italian government and Italian unions. Now Fiat can say, 'Yeah, we're headquartered in Turin but we don't have to manufacture cars in Turin. We'll produce them in Brazil and we'll import them to you...' Chrysler has given them a global base from which to really allocate production across different factories. I think that takes three or four years to play out.

I got the permission from the people I did the work with on Chrysler to talk to *Forbes* about it but I think that for me, investment theses are fragile. I don't want to say what I just said too many times; the more times I say it the more difficult it becomes should I want to change my mind. Keynes said, 'When the facts change I change my mind. What do you do?' You want to be in a position to do that. The more people who know what your opinion is on Fiat, the less easy it is to change your mind. Dangerous stuff.

G&D: How do you make your sell decisions?

GS: Very badly. The idea that we're managing some finely tuned machine is just not the case. I'm just trying to get it right 55% of the time or get it slightly better 55% of the time. What has worked for me is first of all, do not touch the portfolio unless you have a clear reason for action. One of the things that I do is I don't want to look at the portfolio too often. I know I will perform better if I can do this.

A lot of the time what happens to me is I'm cleaning positions out for something else. I look at the investment more as a source of performance or as a source of cash. When I have a great new idea I'm saying, 'Where am I going to raise money for it?' and I will sell the thing that I believe is the least undervalued or the least likely to contribute to performance going forward. But I've been surprised a number of times by things that I've had in the portfolio that have gone up anyway. I will tell you, an experiment that is really worth running is to pick portfolios by darts

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Guy Spier

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or by any other system and then you just leave those portfolios alone, and it's often only one or two companies that provide most of the performance. I think that meddling just ends up reducing returns so I really try to leave it alone until there's a compelling reason for action.

I'd like to be optimal, I just don't know how to be optimal. I have two barriers, or two difficulties, in doing that. One is I don't actually know if the conclusions that I'm drawing are accurate conclusions. I don't know if the information that I have is the right or the full and complete information or whether I have enough information. I don't know if I'm analyzing it correctly. Then there's overcoming my bias towards inaction and overcoming all the personal psychological biases about endowment effects and all of those things - fricking nightmares.

G&D: I think there's an investor presentation I looked at that had a litany of biases that humans have in decision making. So what do you do specifically to make sure you don't fall prey to those biases?

GS: Suffer.

G&D: And use a checklist?

GS: That's a great one. A checklist is a very personal thing for me. It's what mistakes have I made, what mistakes have people close to me made that I understand, and am I repeating these mistakes? It's a bit like the common law. You're not trying to talk in generalities. You're saying, 'I remember when I invested in EBC oil and someone in management was going through a divorce and it really messed up the investment. Is anybody here going through a divorce I need to know about?' I remember when I invested in Lab Corp of America it was over-leveraged. We didn't realize it was over-leveraged. It was a great business but the investment went down by 80%. Is that the case here? That's definitely one thing.

I will tell you that other things I've picked up from Mohnish that are just smart moves. Don't buy when the market's open. Don't trade when the market's open. I don't like to talk to the traders. I just want to send them an e-mail. I don't want any feedback from the market or any of those things.

Sequencing the information that I get is another way. A sales person will get in touch and say, 'Hey, I want to call you up and talk about something.' The standard response is, 'Please put it in writing.' Make people submit stuff to you in writing first because we know that we're less biased when we get the information in writing.

Our information diet goes from the sugar and sweets to the meat and potatoes. Sugar and sweets is most of the stuff that comes up in a Google search. It's designed to get that instant response. Meat and potatoes is down in the 10-K. Reading the 10-K or reading something that, because of the process through which it went through – e.g. in the case of the 10-K, legal checking by lawyers – to make sure the claims being made are correct. That's where we really want to start. Then once we've got the solid diet, the meat and potatoes, we can move on to the sugar and sweets. But if we allow the sugar and sweets in first, there's no space for the meat and potatoes and we know that what comes into our brains first affects us massively. If I favor the meat and potatoes sources of information before other sources of information, over a lifetime of decision-making, my decision-making will be a little bit better and that little bit better is what I need.

Another simple thing is how one communicates with management, which is part of this information diet idea. Company visits are a very dangerous thing. I haven't done a company visit in quite a while, but my goal is not to make a buy or sell decision within three days of visiting a company because there are all sorts of influences.

For instance, a company

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"What has worked for me is first of all do not touch the portfolio unless you have a clear reason for action."

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called Quicksilver Resources. I've no idea how and why it came onto my screen. Another reject. Very good reputation, family controlled, natural gas, making a lot of money on their hedges. I e-mailed the investor relations guy and he said, 'I'm happy to get on the phone and talk to you about the company.' I said, 'That will be great. But before we do that, I just have two questions. Maybe you have an e-mail answer for me which would be quicker.' Again, wanting to have the written communication before the verbal communication because I know this guy can sell the pants off me. 'I'm having trouble understanding how you have been so successful at hedging over so many years.' The price at which they're selling the natural gas is at $2.60 or $2.70 but it's coming in with the hedges at $5. But if you're doing that year after year after year these hedges must cost a lot of money and I just couldn't figure out where the cash was coming from. And I said, 'Could you tell me what your all-in cost of production is?' No response. That shouldn't take more than a paragraph to answer. My conclusion was that their cost of production was way higher than they'd like it to be. If you're doing anything, if you're half doing stuff right, you know that number and you're trying to allocate resources based on it because some wells are high cost of production and some wells are lower cost and obviously you decide where to go based on those costs. I knew I didn't have to go any further.

The other thing that I would say is unbelievably critical is to have relationships with the right people. How does one practically do that? I think that this really works; if somebody I know is not a healthy influence on me for decision-making, I'll respond to their e-mail three or four days later. Maybe I'll leave it in my inbox for a month. So they'll get a response, but I'm simply prioritizing and being mindful and conscious about how and why I'm prioritizing.

In fact, take the people with whom one can have healthy conversations and write them a thank you note every now and then or send them something or find a reason to deepen that relationship, even if it's just a little bit. Over a short period of time there's no obvious change but over a long period of time that can make a massive, massive difference.

G&D: What other ways besides through your network do you find the right contacts?

GS: Something I've tried without much success, but is really interesting, is LinkedIn. So pull up the company, see who's connected to it, e-mail 20 people. But don't just say, 'I'm trying to find out about Quicksilver,' or 'I'm trying to find out about RPX.' Instead say, 'I've been doing some work on RPX. Looks like an interesting business. Here are three articles that I think are the best articles I've found. Here are some links. Here are some of the things that I've learned but I would love to see if you might be willing to contribute to my knowledge or point me in the right direction.' It's giving value in the e-mail at the same time as asking for something. If anything, you develop your network.

G&D: Honestly, as a student you get an almost 100% response rate.

GS: I would still develop the habit of adding value to them and not just saying 'I'll be really grateful to you and happy to do something for you in the future.' What you're doing is building up your analyst franchise. In five years' time you want to be in a place where there are so many people who just love you because every time you have had a conversation about some company you have found a way to add value back in their lives. Your information flow will be that much better than other people who weren't doing that. You don't have much of a way to distinguish yourself now from many other people but over five years that makes a big difference. How did I learn this?

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G&D: Mohnish Pabrai and the practice of cloning?

GS: What's so beautiful about cloning is that it's not mutually exclusive. The more you do it, it's helpful for the whole community and enough of humanity will never do it. I'm at the Berkshire meeting with Mohnish and all of these people are coming up to him. He has spent the last twenty years making people feel glad that Mohnish Pabrai's on the planet. In small ways and in big ways, just doing it as a habit. So if you've been handling people right for 20 years, you become a very real asset to whatever business you're a part of because you're just going to get lucky more often. I've experienced that over the last five years. I've gotten luckier with people more and more often and it's just a lovely thing. I had to realize I was not put on earth to help Guy Spier. I was put on earth to help humanity.

I'll give you an example. Bill Ackman got into doing this a year or two before me. I knew him; he was a year above me in business school. They had offices in 245 Park Avenue and he just said, 'Come here, use Bloomberg, spend as much time as you like. Really happy to have you here.' I remember that and I would leap at the opportunity to help him out in some way if he asked me to.

G&D: Mohnish got that idea from Robert Cialdini, right?

GS: There's a huge amount of wisdom there. I told somebody 10 years ago, 'I'm writing 20 thank you notes a week.' And they say, 'How ridiculous. Who are you writing thank you notes to?' I say, 'The doorman, anybody I can put my hands on really, the person who served me at the shop. You name it, left, right and center.' They're like, 'How's that working for you? Have you seen any changes?' Not really. They say, 'What a dumb idea.' I say, 'Well, the doorman was really nice to me this morning.'

So say I'm writing thank you notes like that and I attend the Pabrai Fund Annual Meeting and I write him a thank you note, one of twenty I wrote that week, but that may have been the only thank you note Mohnish received from the meeting he held in Chicago. And when he was in New York for some reason he had the idea to call or to e-mail me and to say, 'Would you like to get dinner?' These simple changes in behavior make such a massive difference because at the time my derisive friend is asking me how my relationship with the doorman is going, the thank you note to Mohnish Pabrai hadn't been written.

I'll tell you something else. It's made me more successful that the average member of Joe Q. Public and the average person in my set of friends is incapable of giving it the attribution it deserves. They'll say, 'You're lucky. You're smart. You're in the right place at the right time.' And I'm like, 'No, no, no. It's because I was doing Cialdini for the last five years. You can do it too.' You know, in some way that is even more surprising to me than value investing because value investing is a very narrow thing. All we're talking about now is a strategy for anyone to improve their lives. Finally, after ten years of being married and five years of doing this, my wife gets it.

As you can see, in a certain way I'm more enthusiastic about this than value investing. Having read Ben Graham would not have helped me if I was a poor boy in Bangladesh, but this Cialdini reciprocity stuff is much more basic and would have helped anyone. Warren has this famous saying about how he was very lucky as to where he was born. If he was born in Bangladesh those good business practices wouldn't have made a big difference.

It's like Wal-Mart. Sam Walton figured something out with Wal-Mart: stack it high, sell it cheap, keep delivering massive value to the consumer, always give them better value than they can find elsewhere, work really hard to negotiate with your suppliers to give

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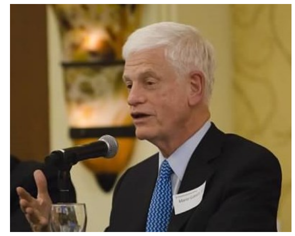

Pictured: Mario Gabelli '67 speaking at the 2013 Omaha Dinner.

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[customers] great stuff at low cost. Who would have thought that piling it high and selling it cheap would have developed into the amazing business franchise that Wal-Mart is now. Where I started off on this little reverie is that we can do the same things. I can't be Wal-Mart and I can't be Sam Walton but my God, I have the tools to develop a similar unique Guy Spier franchise just by getting mind space and getting people to feel a certain way about me. It's just caring about them, caring about the outcomes in their lives, and figuring out a way to help them. That's the ideal, actually helping them, but the second best is to let them know you would have wanted to help them. That's effectively what a card does. I have a rule—every single person who sends me a job application gets an e-mail back. It's particularly important for people who apply as analysts because they're likely to go on and do great things so I want them to like me. I want to help them.

"My goal is not to make a buy or sell decision within three days of visiting a company because there are all sorts of influences."

G&D: Could we talk about the lunch you had with Buffett? Can you give us some questions that you asked him and were you surprised by any of the answers to his questions?

GS: One of the things that Mohnish did is he set the tone of the lunch in the right direction. We were there to say thank you. What can you guys give the people that you want to get close to? The first natural response is, 'Nothing.' But we can. First of all, thanking people. Every human being wants to feel thanked. We were there to say thank you and we were there to appreciate him, not just some idiot on the street, but as people who had studied him really closely.

I sent my most recent annual letter to Debbie Bosanek. Here's what I said to Debbie. I said, 'Debbie, there's no wisdom in here Warren's going to glean, nothing about the world that he doesn't already know, but I think he might enjoy seeing what a powerful impact he has had on me. This thing has got 'See what Warren Buffett inspired me to do' written all over it and he might enjoy it on that level'.

I think the mentors that you and I want, we can't necessarily spend every day with because they don't have time and you may not know them and they may not even be alive. So studying them really closely to get a good sense of the answers they would give to the questions we have is totally the right track and a very, very smart thing to do, especially with people who are not alive. What would Shackleton say? What would Ben Graham say? What would Franklin say? You can go to Seneca. You can go to Marcus Aurelius. They're all available the minute you drop the idea that they have to be in the room with you to mentor to you.

Before our meeting with Buffett, we sent our bios over. I sent this bio, 'I grew up in South Africa and Israel, lived in London, and moved to the United States.' My wife Lory, the only thing her bio says pretty much is 'born in Salisbury, North Carolina.' Warren had no interest in the fact that I'd lived in Iran, Israel, whatever, but he liked the fact that Lory grew up some place. That's his mind-set. He's not just an American guy; he's a guy from the American mid-west and he knows what he likes and he likes what he likes and he's not interested in experimenting very much with other stuff.

The starfish and the spider that I talked about was really an awakener for me. It was not just what he said, but the way he said it because he knew exactly where I was coming from. In a certain way he was teaching me a really important lesson. 'Don't try to build the best business you can build. Build the business that suits you the best. Build your life in a way that suits you.'

Realize you only have one life to live on the planet. 'Yeah, Berkshire Hathaway is this wonderful big company, but it suits me.' That's the most important thing about Berkshire to Warren. So in a certain way

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I came away with a renewed appreciation of how unusual Warren is. Given the choice between building a bigger Berkshire and building a Berkshire more suited to him, or building a Berkshire with higher returns, he takes the Berkshire more suited to him. He said, 'We're not going to make any decision that would get us more money if it means we lose one night of sleep.' That's effectively saying, 'I want this to suit me. I don't want to be the best, biggest, fastest.'

That's just a profound insight and I can tell you it's scary for me to stand up in front of my investors and say, 'I'm not trying to have the highest possible returns. I'm trying to run this in a way that fundamentally really suits who I am.' Half your investors leave the room.

I'll just give you one final thing. We talked about the limits to the size of Berkshire. For some reason we haven't had a company that's broken through a trillion dollars in market cap and somehow that seems to be the limit to size. The fierce pride with which Warren asserted that Berkshire wasn't subject to that was fascinating.

G&D: What did you learn from Debbie?

GS: Let me tell you how special a person Debbie is. She's somebody who's so self-confident about who she is that she doesn't mind being perceived as Warren Buffett's assistant. She's so much more than that. She knows everything that's going on. It's impossible for Warren to function if she doesn't. She's a repository of a huge amount of knowledge at Berkshire Hathaway. She's a repository of many things that managers at Berkshire don't know. I don't think Warren could be who he is if Debbie wasn't who she is.

"In five years' time you want to be in a place where there are so many people who just love you because every time you have had a conversation about some company you have found a way to add value back in their lives."

Something I've learned is that to say I have a relationship with Warren is to say he knows who I am. But if I want a good relationship with people like Warren, the key is to have a good relationship with their assistant. And it's not trying to manipulate them into doing right for you. It's really genuinely caring about who they are, caring about what their job is, and trying to help them to do a good job for the guy that they're working for. When you get them as allies it's a huge amount of fun and joy. I don't even address anything to Warren anymore. I address it to Debbie. I say, 'Dear Debbie dot dot dot.' Or I might say, 'Warren might want to see this, but only if you're printing it out for him and giving it to him at the right time when he's not busy, when he's ready for a bit of a laugh.'

G&D: Guy, thank you for your time.