9 COUNTERINTUITIVE INVESTMENT PRINCIPLES

FROM MOHNISH PABRAI

A field guide for the investor who doesn't want to die trying to beat the market.

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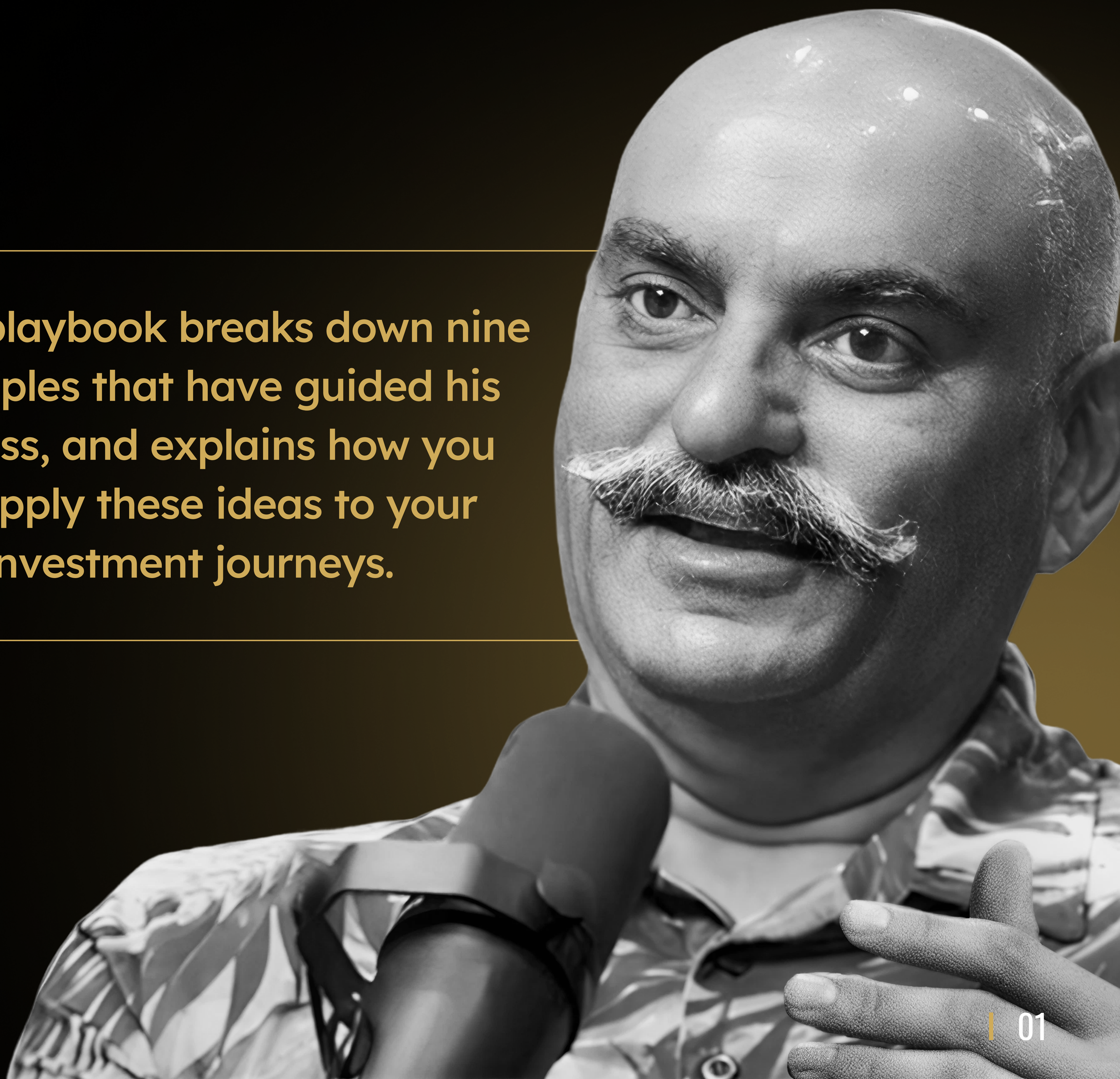
Meet Mohnish Pabrai

Mohnish Pabrai bootstrapped an IT company to $20M in revenue, then sold it in 2000. Now he's all-in on value investing, with $1B under management across investment funds. A disciple of Warren Buffett, Pabrai has the uncanny ability to find opportunities hiding in plain sight.

The Counterintuitive Advantage

Most investment advice focuses on complicated formulas, technical analysis, and fast action. Mohnish Pabrai takes the opposite approach. Drawing from the philosophies of Warren Buffett and Charlie Munger, he's built a remarkable investment career on simplicity, patience, and occasional action when the odds are overwhelmingly in his favor.

This playbook breaks down nine principles that have guided his success, and explains how you can apply these ideas to your own investment journeys.



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PRINCIPLE #1 ONE GOOD IDEA EVERY FIVE YEARS

“Warren Buffet said that in 58 years of running Berkshire, there have been 12 decisions that have moved the needle for Berkshire stock... there was one good idea on average every five years."

Pabrai emphasizes **quality over quantity** in decision-making. Great investment opportunities are rare — even Buffett only has a 4% hit rate.

The truly exceptional decisions that can meaningfully change your financial trajectory might only come around once every few years.

TRY THIS ↘

Evaluate your portfolio turnover rate. If you're making more than 2-3 significant investment decisions per year, consider if you're overtrading and potentially missing the deeper analysis that leads to exceptional returns.

PRINCIPLE #2 THE "TOO HARD" PILE

"Warren has a box on his desk which he calls 'Too Hard.' He says that 99% or more of investment ideas that you encounter should go into that box because we are not going to be able to figure it out."

Out of 50k+ stocks in the world, you'll understand maybe a few hundred at most. If you can't explain the investment thesis to a 10-year-old in five sentences, it belongs in **the "too hard" pile**. This principle demands genuine humility. You don't need to comprehend everything. You just need to:

1. Understand a small sliver of the investment universe
2. Recognize when those specific investments become underpriced
3. Act decisively when those rare opportunities appear

TRY THIS ↘

Create a decision tree for your investment process that starts with "Can I explain this business model to a 10-year-old?" If not, it goes to the Too Hard pile.

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PRINCIPLE #3 BE AN INCH WIDE, A MILE DEEP

"John Arrillaga didn't understand most things, but he only invested in real estate within two miles of the Stanford campus."

Billionaire John Arrillaga was "an inch wide and a mile deep." He knew the complete history of every building he invested in: when it was built, current value, rental rates, ownership changes, and market trends. He maintained minimal debt and aggressively bought during downturns when others were forced to sell. He didn't diversify into other locations or asset classes, maintaining his focus for decades.

The best investors understand a narrow domain with incredible depth.
Your **circle of competence** doesn't need to be large — it just needs to be well-defined and deeply understood.

TRY THIS ↘

Map your circle of competence by listing industries, business models, and investment types where you have genuine expertise or insight. Then deliberately narrow this list to just 1-2 areas where you can develop unmatched depth.

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PRINCIPLE #4
SIMPLICITY = GENIUS

"If you need Excel, it's an automatic pass. Because it means that there's something complicated there which is not fitting in."

The best investment ideas are so obviously good that they don't require complex modeling. When Warren Buffett found Western Insurance, the stock price was $15/share while the company's earnings were $25/share and the book value was $80/share. No Excel needed — the opportunity was immediately obvious. Similarly, when analyzing Japanese trading companies, Buffett discovered they had an 8% dividend yield while he could borrow in yen at just 0.5%. This 7.5% spread on billions of dollars required no complex analysis to recognize as exceptional.

As Einstein said, there are four levels of intelligence: **"Smart, intelligent, genius, simple."** The highest form of intellect is simplicity.

TRY THIS ↘

For your next potential investment, try explaining it without using numbers or referencing a spreadsheet. If the fundamental value creation isn't clear without complex math, reconsider the opportunity.

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PRINCIPLE #5
THE SMALL INVESTOR'S ADVANTAGE

"In investing, the small guy has the advantage."

As capital grows from $1M to $10M to $100M, investors must abandon these smaller, often more lucrative opportunities. While big funds need to deploy billions, individual investors can find opportunities in smaller, overlooked corners of the market. Buffett has said if he were managing only $1M, he could achieve 50% annual returns.

Your smaller portfolio size isn't a disadvantage — it's actually your greatest edge. You can exploit market inefficiencies in smaller companies, special situations, and niche markets that large funds must ignore.

TRY THIS ↘

Identify market segments where large funds can't participate (companies under $500M market cap, special situations with limited capital deployment, or niche markets with low liquidity). Create a watchlist specifically for these types of opportunities.

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PRINCIPLE #6 PLAN A AND PLAN B

Plan A: The Obvious Opportunity: "The best investments are ones that hit you in the head with a two-by-four. Where things don't make sense, right? That's when we wanna dive in."

Plan B: The Default Compounder: "I would treat Berkshire Hathaway as the index... Dollar cost average into the Berkshire class B shares, and you keep doing that day in, day out."

By default, have your capital working in a reliable compounder like Berkshire Hathaway **(Plan B),** which combines safety with reasonable returns. Meanwhile, scan for rare, obvious opportunities **(Plan A).**

When you find one, like **Frontline** trading below liquidation value during a shipping industry crisis, you "peel off 10-15% of what you have in Berkshire, put it into that, let it play out, then put it back into Berkshire."

TRY THIS ↘

Establish your default position (Plan B) with automatic investments, then create a clear checklist of criteria that would qualify an opportunity for Plan A funding. Review your Plan A checklist quarterly to ensure you're maintaining discipline.

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PRINCIPLE #7 RISK VS. UNCERTAINTY

"Wall Street gets confused between risk and uncertainty. And in fact, when Wall Street gets confused between the two is where the greatest opportunities arise."

The market rewards certainty and punishes uncertainty, but **uncertainty isn't the same as risk.** When shipping rates collapsed to $7k per day (below the $15k breakeven cost), the Frontline stock dropped 90%. Wall Street saw a company bleeding cash with no clear recovery timeline — the definition of uncertainty. But Pabrai saw something different:

1. The debt was non-recourse (tied to individual ships)
2. The liquidation value was $9-10 per share when the stock was trading at $3
3. Despite the uncertain future, the risk of permanent capital loss was minimal

When Frontline's shipping rates eventually recovered, Pabrai sold for an 80% gain in 8 months.

TRY THIS ↘

When evaluating beaten-down stocks, separately assess uncertainty (unpredictability of future outcomes) and risk (probability of permanent capital loss). Look specifically for situations with high uncertainty but where tangible assets, balance sheet strength, or other factors limit actual risk.

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PRINCIPLE #8
LEVERAGE FREE RESOURCES

“Once you see the idea, you do all your own work, do your research, do everything, make sure it's something you understand, make sure it's within your circle of competence.”

You don't need to read through thousands of company reports like Buffett. Modern investors have powerful shortcuts to find investment ideas that previous generations could only dream of, like **Value Investors Club.**

It's a curated collection of investment theses from skilled investors, available for free. Pabrai uses it as his own personal "Moody's Manual," regularly reviewing ideas that are months or even years old. One of his recent investments came from a four-year-old write-up posted in 2021. **Great ideas don't expire quickly.** Ideas from 3-5 years ago can still be relevant today.

TRY THIS ↘

Create an account on Value Investors Club and commit to reading at least one analysis per day.

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PRINCIPLE #9 DON'T CUT YOUR FLOWERS AND WATER YOUR WEEDS

"This is one of the mistakes I've made through most of my career — I have repeatedly sold good businesses because they appeared expensive and I was always wrong in how expensive they were."

Most investors instinctively sell winners (cut their flowers) while holding onto losers (watering their weeds). Pabrai made this mistake when he sold Frontline after getting quick profit. The stock continued climbing to an astonishing 80x return as shipping rates soared from $15k to $300k per day. By selling what appeared "expensive," he missed life-changing returns.

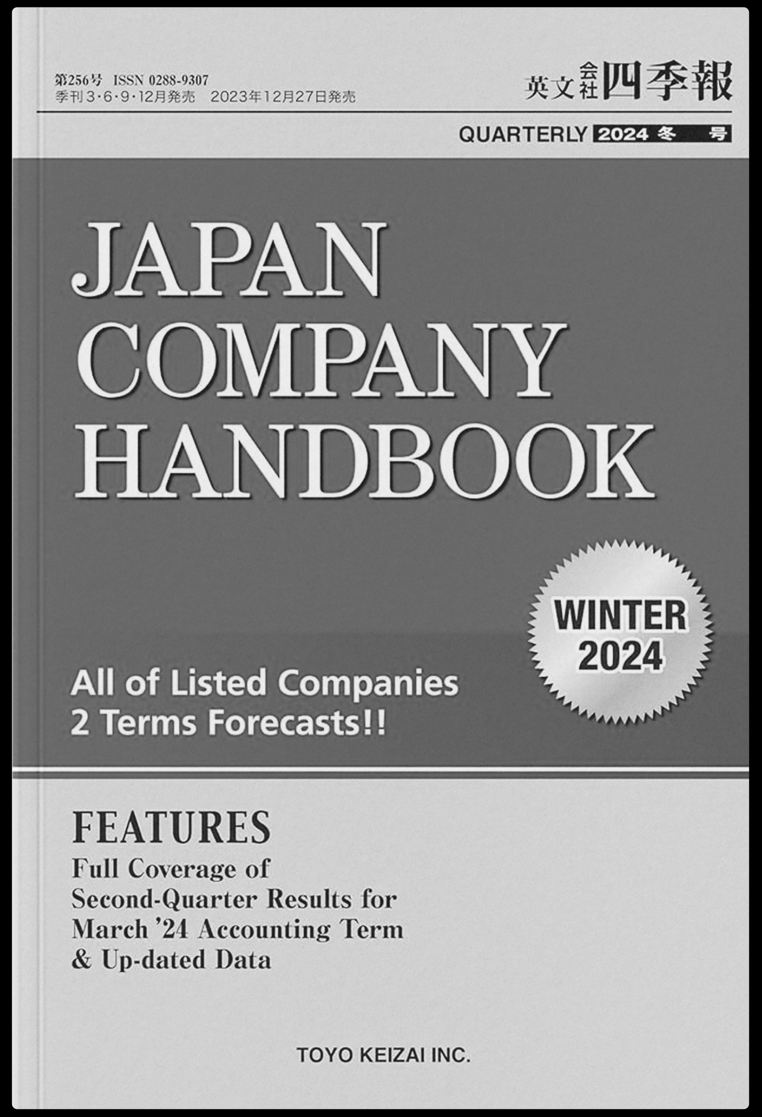
Truly exceptional businesses have much more potential than investors initially realize. While valuation matters, the quality of the underlying business matters far more when deciding whether to sell. Charlie Munger demonstrated this principle through his unwavering commitment to Costco. He recognized that **Costco's extraordinary business model**, with its fanatical customer loyalty and disciplined cost structure, would create value for decades regardless of short-term valuation concerns.

TRY THIS ↘

Create a "never sell" category in your portfolio for businesses with durable competitive advantages, strong management, and long growth runways. Establish criteria that would trigger a review (not necessarily a sale) based on fundamental business deterioration rather than valuation metrics.

ESSENTIAL RESOURCES

Investment Research



- Value Investors Club: A website where skilled investors share detailed investment analyses. Free with email registration.
- Japan Company Handbook: Used by Buffett to find his Japanese trading company investments. Updated quarterly and available on Amazon.
- Moody's Manual: The resource Buffett used when starting out, containing financial data on thousands of companies.

Books by Mohnish Pabrai

- The Dhandho Investor
- Mosaic: Perspectives on Investing

Other Resources

- Berkshire Hathaway Annual Letters: Buffett's communications with shareholders, from 1977 to 2024
- BJ21.com - A resource for analyzing odds in blackjack (finding edges in complex systems)

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THE PRINCIPLES AT A GLANCE

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