

WELCOME

Introduction to Guy and YIS Live

James: Guy, thank you very much for joining. We have Pennsbury High School in Philadelphia joining us today. They are online in their classroom ready to ask questions with their teacher, Mike Zisa.

Guy: Hi, Mike.

Mike: Nice to meet you.

Guy: Great to meet you.

Mike: Thank you for having us.

Guy: Hey, it's a pleasure. Really. It's a pleasure. James is just so enthusiastic and he's been so great in the way he's been in touch with us. I haven't met James in person but I'm not quite in the position that I will do anything for James. But, if he had a request for me, I would look at it very carefully.

James: Guy, why don't I give an introduction and then you can kick it off. We are now broadcasting live on YouTube, and we are incredibly grateful for your time and for your knowledge. Just as introduction, we now have schools throughout California, throughout the East Coast in the United States watching. A lot of schools will also tune in later to hear you speak during their club meetings later in the week.

Young Investors Society is a group of high-school students around the world that are interesting in learning about business and investing. YIS is supported by incredible board. One of the teachers is Mike Zisa, who leads Pennsbury High School – Young Investors Society.

Today, we have Guy Spier speaking to us on YIS Live. Guy is a hero of mine. He is a hedge fund manager for Aquamarine Fund, a hedge fund. He is also a Warren Buffett prodigy. Guy also wrote a book called *The Education of a Value Investor*, which in Young Investors Society is recommended to our students. So, with that Guy, I would just kick it off to you as an introduction. What got you interested in investing? How did you get where you are?

Guy: Thank you, James! Actually, before I do that, is it ok if I ask the classroom a few questions?



Guy Spier is a renowned value investor. He manages the Aquamarine Fund and is the author of the book, *The Education of a Value Investor* (2014).

He is famously known paid for a lunch charity with Warren Buffet. He and famed investor Monish Pabrai paid \$650,000 for that lunch.

Speaking to Pennsbury High School on a live webcast was his first time speaking to high-school students.

James: Sure! Yeah.

Guy: Part of the reason I am doing that, everyone, is that you are the first group of high school students that I've ever spoken to about investing. So, you know, yesterday, I spoke to extremely accomplished CEOs. Different talks, different groups of people switch on or switch off in different things. Actually the group of people that I normally speak to are: either individual investors – that's people who've 20 years in their professional careers. They've got some cash and wanted to invest it. And the other group of people that I speak to people who are just kind of just before or after doing an MBA, and a kind of having a serious career in financial markets. And then, they read my book and wanted to avoid the mistakes that I make. But, I've never spoken to high school students. So, if I go back – what is the age range in the room?

Mike: I would say 14 to – I'm sorry. I would say 16 to 18.

Guy: So, it's 16 to 18. You started off with 14. At age 14, I was at school in the UK. I was beginning to do Calculus in Mathematics. I remembered some Geography and History lessons. I don't think I even knew what stock was. I certainly have no concept of investing or anything like that. I mean all I was focused on what getting good grades I guess. And, I was trying to have some fun with my friends when I wasn't trying to get good grades. So, I guess my question to the room is: What brought you into investing so early? I'm kind of curious to understand that.

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Student 1: I got into investing because I want to set my ahead and want to make sure I have a good life ahead of me.

Guy: It's amazing. I'm on the floor because.. Tell me your name.

Student 1: I'm Sam.

Guy: Sam. How old are you?

Student 1: I'm 16.

Guy: 16. Amazing! Ok. Who else wants to go?

Student 2: Mr. Spier, I got into investing because Mr. Z showed us the benefits of starting at young age, and what are the benefits you get when you are older.

Guy: One more person. We have two males. Let's go for female.

That's fine. You raise your hand. That's alright.

Student 3: First of all, thank you, Mr. Spier, for coming online. I think we all appreciate it. But here at Pennsbury, we are lucky to have someone who established business curriculum with all sorts of different classes and I started with the class called Investment Management. It was about the very basics of stock market and investing. I thought it was fascinating and I thought there is no other way that I'm going to learn about investing and such an early age. It really stuck a chord with me. And set me in this path of investing and finance. It's a product of the education opportunities of Young Investors Society available at our high school, which I think is very unique not only in this area but across the country.

Guy: That's amazing. So last person..

James: Guy, I would just butt in right there. Who just spoke right there was Alex Lucas. Alex was the national finalist last year in our Stock Pitch Competition. He did a stock pitch on Ford Motors that was on par with those at a professional level. These kids are very accomplished. Very awesome.

Guy: Yeah. You just psych me out that one, James.

Sorry. There's somebody else who raised their hands too...

Student 4: I got into investing in my freshmen year, 9th grade. Along with Alex what he said that Pennsbury has great curriculum and I took great interest in business along with micro-economics my sophomore year. And the teacher would just talk about her own personal investment and I got more and more interested because she would just tell us her actions and more and more about stock market so that's how I got interested into investing.

Guy: Thank you. That's great! I guess I'm just going to talk for about 10 minutes maybe. And then, we'll make it interactive again. I'm awe the fact that you guys are so switched on to something so valuable at the age that you are. Because first of all, I was not at that age. Also, I don't think that there are so many things going on around me here in Switzerland, extremely healthy and good. I don't think there is anybody who is thinking about investing here in Switzerland.

With that in mind, I guess what I want to get into in a very short way are some really big career mistakes that I make early on. The main point of doing that is to rub my own nose on my own mistakes if that's the good thing to do. And also, to help you see those mistakes and not make them.

When I graduated high school, I went straight to university. I studied economics. After I went work for a consulting firm. And that was all great. I think that there's nothing wrong with any of those decisions. I think during that time – I felt that I was kind of railway track. I felt I was making choices. In theory, I was making choices but in practice, I was just doing what somebody in my shoes was expected to do. So I didn't feel like I had – I was in control of my own life. I wasn't the hero of my own journey. That came to my head after

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I graduated business school which I was age 27. That was like 10 years on from where you are. Until one day I had a big rebellion. I was like – screw this! I don't want to be in someone railway track. Everybody was expecting to go apply for a job. I was like I'm better than that I wanted to strike that on my own. Having decided to do that at age 27, I made a very dumb choice as where to go to work.

The Mistake: Gordon Gecko

Guy: Do you see the image that I put up? (showed a picture of Gordon Gecko from the movie Wall Street)

Mike: Yes.

Guy: I know that this is a different generation. But, do you know that movie?

Mike: I have a poster of that on the wall behind my desk.

Guy: You do?

Mike: Yes.

Guy: Is that good or bad thing?

Mike: Could be a little bit of both.

Guy: So, you know, at the time I was determined to go away from what I felt was railway tracks. So, there was a guy called Morton Davis who advertised at the business school that he was looking for an assistant. He invited me for an interview. I showed up in his office. Believe me the whole environment was not at all different from the environment of the Gordon Gecko movie, the guy in the movie. He actually used the

words: If you come to work for me, I will make you rich. I can't believe how little judgment I had because the idea that I showed up in his office, he was going to give me the title vice president, which sounded pretty good because most of my classmates would start with a job title of associate or junior or what not. He was going to give me a chance to make quote "good deals". I thought it was great and seemed like I was going to make a lot of money fast. Even in my naïve state, it took me six months to figure out what they were doing at that firm was certainly unethical. It was probably not legal either. I kind of went from hero to zero. A guy with a really good resume to having really tainted, my business reputation in a certain way, because most people saw that I worked for this place, which had really bad reputation but I kind of refused to see. Those days, it wasn't like you can just type the name of the company into Google and see what came up. But there was New York Times articles about what happened at D.H. Blair that had given me a food for thought. My friends of mine from business school who told me "You should think twice about going to work there."

A year and a half out of business school, in some sense, I was unemployable or had great difficulties in my desire to be in the financial markets. So I guess just to point out my really important mistakes that I made there; one, I was lunging for the money in a certain way. Somebody basically a Golden Gecko type waved some dollar bills under my nose and I was like "Oh, this is what I need to do." Which was kind of a very stupid move in my part. It also showed a very naive judgment as to what's important and what's not. I was able to figure out that this guy was non-savory character. Once you got around a non-savory character, once you got around people that you don't admire, like trust and respect, it is going to be very hard to make something good out of that. But I tried for 18 months to make something good out of that. Of course, I wasn't going to succeed through no fault of my own. It was just the wrong environment.

When I eventually left D.H. Blair, I had to in a certain way in spite of having had this educational experience. I had been to all the right places, and done all the right things – up to that mistake. I kind of had to start from the start and re-invent myself.

There is nothing wrong with doing that. I think at the end of the day, if you're a good person, you're going to get something great in life. But I think by doing that, by making that mistake, I delayed it. I made it that much harder and much longer to get to good place in my life, which is completely and utterly unnecessary.

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Start and Re-invent

Guy: I had some wrong ideas in my head. It was about that time that I picked up the Intelligent Investor. And I picked up Roger Lowenstein's biography of Warren Buffett. Not because I met Warren Buffet – I hadn't been to the Berkshire Hathaway general meeting. But I was starting to get the right ideas into my head. Believe it or not, it was not until that point. I was 27 years old when I started getting the idea to be successful on Wall Street and in the investing world if you like – the good long term strategy was not to make money of people but to make money with people.

There was an expression. I think most people still use it. The expression was: the investment banker ripped the client face off. Which is, basically, that you took them for what they were worth. You freeze them for as much money possible. It was a whole new world I was entering into. Wherein I could see that Warren Buffett was not a hard charging salesman. He wasn't trying to pull a fast ball to anyone. He was actually trying to

make money alongside with the people that he was doing business with. Not make of them, so he make money with them.

Once I got the right ideas into my head, I started making progress in my career. But up that point, up to age 27, I had this false idea that what I really wanted to do was to be the smartest guy in the room and to use my intelligence against other people. It was only after that certainly difficult failure in my life. The downfall that I had - I could start figuring out what made sense.

Valuable Message

Guy: I want to share with you is – I don't want to talk for too long without being interrupted. But I think one of the things that I would – if there's a message that I could share with you that I think it is valuable.

If the investment journey or the career journey or the journey into Wall Street or how you guys live your lives is just about making money, then it is quite likely that you will end up having it happen to you like happened to me at D.H. Blair. When you just think about money and that's all what you care about, there's a time that you will probably have a lot of money but might not have a very nice life. Or, very likely that you might come to some kind of career downfall the way I did.

I think that I came to that in my book after giving it a lot of thought. It made an enormous amount of sense to me is this idea of seeing that we need to be heroes of our own journey.

Be a Hero of Your Journey

Guy: Each of us in a certain way, when we read the Iliad and the Odyssey. We don't have to read the Iliad and the Odyssey; we can just watch Star Wars and see Luke Skywalker. And the key message of all these stories is the same.

Odysseus and Luke Skywalker basically have the same personality. And that personality is actually you or anyone of us. The key thing that happened and the key stories of how they become masters of their own journey and how they become masters of their own destiny. One should see one's life and one's career as not how much money can I make and how do I make it. But how do I become the master of my own destiny and what do I need to do in order to make the most of it!

In the case of my decision to work at D. H. Blair, I was just this creepy guy who was trying to be rich as fast as he could. Instead of asking myself, what I should have asked myself, if I would see myself as Luke Skywalker: Who do I want as my friends? Who do I want to be my business associates? What kind of people do I want to see in the office every day? And what kind of consequences do I want to my actions? Do you want to be a Darth Vader type who through one flick of his eye brow that kills and destroys life, which is what many investment bankers in Wall Street do? Or do you want to be the kind of guy who creates goodness and justice in the world.

I think the minute that I started seeing it that way and it was really through Warren Buffett that I started seeing my life in that way good things started happening. Good things started happening because I became interested in the world in the different way. I think that also applies to investment so I think I become a better investor but I am not asking the question: The primary question is not what's the cheapest company and how can I make the most money. But the best question is what is the most meaningful thing for me to do in this circumstance and how do I deliver the most value given in my circumstances into the world through

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my chosen career, through investing? That is a continuing journey for me. In some sense, showing up and doing this talk with you is my way of doing that.

People could say why you are wasting your time talking to bunch of students when you could be researching the next investment idea that could be better than the ones already in your portfolio. My answer is: I need to work to make the world better, if you like.

What is my message? My message is the great stories either Iliad and Odyssey, or Luke Skywalker. Anywhere you see a hero, the inspiration that you in the room and that I need to draw from that is to see ourselves as the heroes in our own journey and trying to make the decisions that heroes would make; the decisions that Luke Skywalker and Odysseus would make in the world, which is to choose the virtues, if you like. If you choose the virtues, then great things will come after that. If you lunge for the kind of thing that you want, which is not just the money or just the power, or just the education, you won't come to that sticky place that I did.

A Few Tools to Get Started

Guy: I'll just go a little bit farther and give you a few tools that I wish I had if I was in your shoes. If you think of the value investing as a philosophy, it's more than just a philosophy in investing. The simple idea is that value investing finding things priced at a discount to what they really worth and you buy them. That's a beautiful idea but it's such a limited aspect in a profound principle, which is investing. How about investing in who we are, and the social and psychological environment that what we are creating around us every day by what we do.

Up on the wall, in Warren Buffett's office he studied at Columbia University but he doesn't have his degree of certificate of Columbia University up there. He studied at the University of Nebraska. He doesn't have his certificate of University of Nebraska up on his wall. The certificate up on his wall is the certificate of a course that he did at Dale Carnegie. If you are like me that brought up in the UK, people will laugh at me.

Dale Carnegie wrote a book, How to Win Friends and Influence People. It sounds like a tacky title but if I were your professor, I would make you go and buy it before you could even pass the class. Dale

Carnegie is full of ways to make friends and influence people. It can simply narrow down to a simple idea of 'people don't care how much I know, until they know how much I care about them.' We all know that there is so many people who get high scores on their tests but still nobody likes them. And there are people in the classroom who have maybe not the highest score on the test but people really like them. They are good people. The people that you trust to be around. And at the end of the day, in the world, the second type of people become far more successful.

I didn't understand that. I didn't understand it early enough. Last week, I had lunch planned with the former chairman with the UBS. He reached out and was interested in having lunch with me. I was very excited to have lunch with him. I cancelled that lunch because I went to – I flew over to London, which is an hour flight from here, to go to a funeral of a friend's mother. Because I knew that, because that is the most precious moment that I can show to my friend in his difficult moment having lost his mother, was more

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important to me than anything else going on in the planet. That was kind of investing in relationship. Being present, showing somebody that I care about them which I was willing to drop everything else in order to do that – I know that was the right thing to do at that moment. If it was a test, it was the kind of quality that I want to maximize over the 20 years. It was like learning how to be a great friend and investing in relationship.

I just want to give another example of that. I'm sure some of you have followed the ups and downs of Bill Ackman who is from the class above me at business school. Bill Ackman has had a very difficult 18 months. He had a significant investment in a company, Valiant, which was down I don't know 90%.

When good people go through difficult time, it is a most precious moment to do value investing in relationships. Forget about value investing in corporations. So I wrote him a note basically saying 'Dear Bill, I can't imagine how difficult it is for you right now. I want you to know that having met you and having studied you, I know this is temporary. I know that a lot of people are not giving you credit for your enormous ability' – I don't know exactly what I said – but basically, I told him that you are a good guy. If he would have been high on his ladder, this letter must have been thrown out to the trash by his assistant. Instead his assistant made sure that he saw that letter. Within a week of having sent it or maybe two, he wrote me a very nice email. He said "Guy, thanks for your note. Next time you are in New York, please come by."

So, I was in New York. I did go by and I had 10-minute meeting with him which there was of no consequence other than I enjoyed being in his company. Which, in and of itself, was a valuable thing.

If you are going to be a hero of your own journey, then I think you just see your life differently. If I'm going to be the hero of my own journey, I'm going to turn away from the opportunity to meet the chairman of UBS in order to be at my friend's mother's funeral. If I'm the hero of my own journey, then at the time I would have not gone to work for D.H. Blair. Because the hero of my own journey takes the time to write Bill Ackman a note and recognize him for who he is. That is showing people, good people, that I care and showing that I care at moments when perhaps they aren't that strong.

Dale Carnegie's book is incredibly worth reading. It is worth rereading. I was still at this horrible place D.H. Blair when I discovered Warren Buffett. If we could take another image in our mind, it is Sir Edmund Hillary climbing Mt. Everest. Can you imagine how he standing there at the foot of Mt. Everest or in the UK planning to climb Mt. Everest? How do you do that? How did he do it? Thomas Edison invented the light bulb. How do you get there? There's no roadmap. There's no plan. There's no how to cook book.

In some way, seeing you in the room there, I have no doubt that each of you has dreams or ambitions as to how you want to be in 20 year's time. I was there I was like how would I know how to get there? I don't have any of the tools. I don't have anything. I don't know anybody. What am I going to do? I think in those circumstances it is important to use the power of modeling.

What Would Warren Buffett Do?

If we go back to Edmund Hillary's image or back to young Guy Spier sitting in his horrible office, I started doing something that is incredibly powerful thing to do. I simply would ask myself a question "If Warren Buffett was in my shoe, what would he do?" I didn't ask it in some theoretical sense. I sort of imagined that if Warren Buffett was sitting at my desk at this moment, right now, what does he do? I was thinking because I

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was at my weakest. I was literally frustrated because I didn't like my life. I knew the life that I wanted, but I didn't know how to get there. I was like, I have to pick up the phone first or pick up whatever document in front of me and think like Warren Buffett did. Then I realized that what Warren Buffett would do is at least he would have his annual reports around somewhere. So I called up to the head office and ordered the annual report for a company.

A few weeks later, I did it again so I had another annual report. I thought that what Warren Buffett would do is to read up some of his portfolio companies at Berkshire Hathaway. So I looked down and read up some of his portfolio companies. One of them was Disney, one of them was called ABC, and another was Coca Cola. I called up those companies, there was no Internet at that time, and started reading annual reports. I know that Warren Buffett reads annual reports. And I learned all sort of things. I learned how real CEOs communicate to their shareholders. I saw what incredibly profitable companies these businesses were. I saw what it means to own a business that gushes cash, which is what each of those businesses did.

Even though I haven't met Warren Buffett, even though I was working in this horrible environment, I started become aligned to different universal forces – which started putting me in a good condition. I think now that anytime I am stuck in my life, and believe me if it looks like I am having an easy ride I promise you that every successful person you look has not had an easy ride. They have had a difficult ride. But one thing is that they have chosen to be the heroes of their own journey which I urge you to do.

One thing is invest in people. Invest in relationships. Before you become an investor in money, you should become an investor in your own environment. There are all sorts of ways that we can do that.

The second thing is figure out who your heroes are and figure out what those heroes would do. Gordon Gecko wasn't a good hero. In the end of the movie, he ends up in prison. Luke Skywalker is perfectly a decent hero to have in our life. What would Luke Skywalker do, or in my time, what would Warren Buffett do?

There are some thoughts. It is not directly speaking about investing but it is for me a profound lesson that applies to investing and it is also broader than investing.

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Lunch with Warren Buffett

Question 1 (Alex): Regarding your lunch with Warren Buffet, what did you hope to learn? By paying for this to have lunch with him, did you learn what you had hoped to?

Guy: What had I hoped to learn? We were bidding for the lunch around 2006. That was the period a very strong performance for the fund for me. But before I go there, I was like the way most people were. I was like “What a crazy thing! Who would pay so much money to have lunch? I mean he's a great guy but so much money to have lunch. Monish (Pabrai)'s first point to me was: “Look! You actually are not paying the money to have lunch. You're giving the money to a charitable cause. And the money comes with an added benefit. You can give, Guy, to a charitable cause and all you get is your name on a plaque underneath of some building. At least in this case, you get an interesting lunch with somebody.”

And that got my curiosity quite sufficiently. I thought 'he's got a point'. So I was coming from a period of strong performance and it was money I could afford to spend. I wasn't spending money that I could have

put away for my children's education. It was money that I could afford to spend. In some way, I was buying a lottery ticket. Let's see what happens. The worst case is that nothing happens.

In Mohnish Pabrai terms it was similar to heads I win, heads I don't lose much. It was the first time in my life that I took a chance like this– it was money that I could afford to lose but it was still a big amount. In retrospect, you know the Jim Carrey movie, the guy that keeps saying 'Yes'? This guy is living a very boring life until he decides to say 'yes' to everything and then his life becomes super fun and super interesting.

This idea to saying 'yes' more, providing that it doesn't kill you, providing that it doesn't put you in permanent any damage in any way, it is something that I hadn't done a lot of. I was just trying to be too smart. Sometimes you just have to roll the dice. I was ready in a certain way to just roll the dice. I can't measure the returns to me from that lunch in financial return. I can't do the study that says this is what my fund and this is what my financial life would look like had I not done the lunch. I decided to do the lunch and I am living that life. I don't know what the alternate life looks like.

Relative to my expectations, I was blown away by so many things. There I was, some guy, and Warren Buffett showed up, a freaking billionaire, one of the richest guys in the world. And you know he is determined to deliver value to me. He is there to serve me and other people, Mohnish Pabrai, Mohnish's wife and my wife. It's pretty unnerving thing. It's like 'Oh my god!' He is important one – not me. But he is treating that I am the important one.

In some sense, it taught me to take that simple orientation towards everyone. Having been to that lunch meeting with Buffett. He turns to me and says hello to me and in that moment he treats me like I'm the most important person in the planet to him. I really felt that way. I've never met Bill Clinton before. People told me that Bill Clinton has the same kind of charisma.

You can say that it is right and simple message but then to actually experience it, not just some guy is telling me. But it actually happened to me to have that lunch. Warren Buffett spent three and a half hours with us. It was just a most profound lesson in how Warren Buffett takes the idea of delivering value. More value than what he paid for. He said it in some point to the lunch. He said "Hey look! You, guys, put up a lot for this. You've got to get your full value." It was such very special to see and experience. It changed my orientation to many things in the world.

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To contrast that, God bless Steve Jobs, there was in some point in which Steve Jobs did some auction of some kind. Except for Steve Jobs, it was half an hour in the cafeteria of Apple. It was very clear at the terms of the auction that it was half an hour, not 35 minutes or 50 minutes. But it was done without the same generosity of how Warren Buffett did it. I think that right there it was an enormous value to me for just being present.

I think that the world – I don't know how to put it - breaks differently around different people. And being in the presence of the guy who is so rich and so powerful and at the same time so humble and so smart and so generous, I think you just have to experience it once. And having experienced it, I can relate to all sorts of other people that much easier for me having been in the presence of those who are rich and powerful. Because I know what it's like being in the presence of Warren Buffett so I am not unnerved by it and I have the sense of what kind of responses they have to me.

I would tell you that much of the learning was some kind of visceral or experiential learning. Another thing that taught me, and I have done a lot, of is you really make an effort. If there is somebody valuable or important, there's nothing wrong to fly to the other side of the planet to visit them if you have enough money.

Because that meeting, hanging out with that person, even if it's just half an hour makes a lot of difference in my life.

I will just tell you one other thing from the lunch, I always had this idea that I've often been the smartest guy in the room. And even going to the lunch, I really wanted to believe that in some level I was as smart as Warren Buffett. I now have no doubt that he is way smarter than me! It was hard for me, but in a certain way, it was liberating as well because once I understood that and it was clear to me, I was kind of freed up to be me rather than trying to be someone I wasn't.

You know I had a conversation with the guy at dinner this evening and I said something to him that if people heard this they sort of shocked by it, but it's true. The point I was making: Is that I am not trying to be the best investor that it is possible to be. Surprising that it is that it sounds. I am trying to be the best Guy Spier that I can be. I am trying to make my life the most meaningful given the full person that I am. I am an investor but also, I am also a dad. I am also a 50-year old who likes cycling. I'm all of those things. In a certain way, until that lunch, I was in some kind of ridiculous way in competition with Warren Buffett. Having seen that I couldn't touch him in all sorts of ways, the lunch gave me the idea to give up the idea to be in competition with him.

You may have heard it before but it was such a powerful statement. "The best idea in the world is you because everybody else is already taken." You know nobody's going to blame me for not being Warren Buffett but people are going to blame me for not being Guy Spier. Or another way of saying the same thing is you know. I'm not going to out-Buffett Buffett. How do you beat Bobby Fischer? It is to play anything other than chess. If you play chess, he's going to beat the stuffing out of you but anything else is fine.

How can I beat Warren Buffett? I can be a much better version of Guy Spier than Warren Buffet can ever be. I think it's just the answers to so many questions we get so many things wrong but we asked the question and the point that I was reiterating early on is for me it would be- who is Guy Spier supposed to be? Who do I want Guy Spier to be in this moment? Who am I? Because the decisions that I make will determine who I am and who do I

want to be? I am the hero of my own journey. And that creates the basis for far better decision making and I think that the lunch with Warren Buffett enabled me to change from having him as my hero on a pedestal and not trying to beat him anymore.

My friend, Mohnish Pabrai, has a charity lunch. I am kind of blown away. He sells it on eBay and I think the highest price he got to was 60,000 dollars, which is not the six million dollars that Warren Buffett does but still a lot of money.

"THIS MAY SOUND SHOCKING, BUT I AM NOT TRYING TO BE THE BEST INVESTOR THAT I CAN BE. I AM TRYING TO BE THE GUY SPIER THAT I CAN BE."

GUY SPIER

Politics and Investing

Question 2. How much control does the President and the Prime Ministers of a country have to control the economy?

Guy: We know that the president has a very few direct levers at least in the long term. But at the same time I've seen an incredible move at the stock market with the change of the president. In some degree, when I compare some of Donald Trump's statements the fact that he is now the President. I had been comforting myself the fact that the American political system is quite capable of delivering gridlock to the president that it doesn't like or when there's no unified desire for the same action of cross-multiple branches

of the government, it becomes hard to get anything done, which is probably the design of the American constitution.

But as the same time, we see the changing in Presidents as delivering an enormous change in the tone of the market. You know the marketplace, the stock market, it seems to be saying that they expect the president and the people that he puts into office help him manage the American economy that he's going to do really well. It's a mystery and I'm being mystified by it because he's talking about delivering these huge cut to corporate taxes, would he really achieve it? I don't know. But the market seems to think so.

There's some skeptics I've heard out there that this is a false rally. The answer is: I don't know. I just don't know. I don't think in terms of political leaders, the president, does not have that much influence. But at the same time, I am recognizing the very profound change to the tone of the market ever since Donald trump become elected. I tell in terms of my own personal investing, I am sure you've heard from Warren Buffett, I just try to ignore it completely. What is it... God gives us the courage or the ability to change what we can change and accept the things which we can't change. My deal is to be between 80 to 100 percent invested at all times.

Guy's view on Debt

Question 3. How would you recommend handling college debt?

Guy: I may not be the right person to answer that question. I have other than a little bit of credit card debt that I paid off every month, I have not had debt in my life. Period. I had a disagreement with Warren Buffett on this at the lunch that we had. Because I kind of told the story of my family philosophy, which was, you just don't do debt, period. He disagreed with me. He said "No. There are circumstances where it does make sense to do debt. I can't think a better place to do it when investing in college education."

Actually the conversation with Warren Buffett was over a trip to Disney. He just said "Look I can't tell you that it doesn't make sense for a family to decide to take on some credit card debt to go on take my family to Disney." I disagreed with him. I said "No. Under any circumstance can we find other entertainment at home."

I think when it comes to investing in your education, it's a whole different thing. In some sense because if you borrow to consume, that is a very different kind of decision whether to borrow to invest in yourself. I don't like debt personally. Investing to leverage company took me to the worst career experience in my life. If I did decide that I was going to take on debt to do something important like getting an education, I would get rid of it as soon as I possibly could. I would like to pay it off, even if it would make financial sense to hold on to it because it has really very low interest rates.

I would also look at working through college education to minimize the debt that I take on. I'm not telling you that it's prescriptive. I'm just telling you that's where I come from. That's where I want to be in the world. I realized that the vast portion of the United States that you can consume credit in various different ways. Of the entire consumer loans out there, buying a home and getting education certainly are the most or the best uses of it.

Yes, certainly take on the college debt. Go to the best possible college. And then, pay it off as quickly as possible. If you are taking on college debt, you are going to be far more focused than any of your peers in the university. And you can put that in great use. In a certain way, I think we can go back to the power of

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modeling. I think the research that I would do is to study who are some people that I really admire – who took on college debt and paid it off afterwards? In the world of today, you can probably do Google searches, find some personalities and characters. And write to them and say “I am about to take on college debt. I want to be where you are now. Can you help do it the way you do it?” Maybe they respond or not. If they do respond, great! If they don’t, study them. Find out what they did. There are probably certain things that they did. Maybe for you and me, there are four different kinds of snows. But for Eskimos there are forty different kinds of snows because they are around so much of it every day. That is why you want to ask the experts.

Start by trying to identify these people that you admire and want to be like. Your world will expand while you notice that there are different actions, different things that they did, different subjects, different universities they went to, different job search strategies, which will help you to manage yourself far better than if you don’t have those people as model. Go about it in an intelligent way. I think there is so much in the world that is encouraging us to do some things in a very dumb way. Just be aware that you are about to do something, if that is taking on debt, that should not be taken on lightly. There’s a good reason for you to do it. Be intelligent about it. Play it as smart as you possibly can. And learn from the people who have been there in that journey. I’m sure you will do phenomenal.

As you look around you, you may have peers that who don’t take on college debt. I think what you would do and what I would want to do if I were in your shoes, is to use models. You know it’s an opportunity for you to learn stuff that your peers may only get to learn on the later day.

Guy’s donation to YIS

James: Just to let you know and anyone on the broadcast that Guy Spier generously donated two cases of his book, *The Education of a Value Investor*, to Young Investors Society members. We are going to give some of those to Pennsbury High School and we will also use for future prizes for the competition in the Young Investors Society.

On behalf to Young Investors Society, I would like to sincerely thank Guy for his donation.

Investment Checklists

James: Guy, I would like to ask a question, we have about 10 minutes left. When I read your book and you talked about having an Investing Checklist, it’s a practice that really resonated with me. I think you describe it as Mohnish Pabrai having looked at pilots and saw how when they took off they followed a series of checklist items that kept them disciplined and focused and made sure they didn’t miss any items, and he was kind of blown away by the idea. And I know you kind of adapted this practice as well in investing. I’ve tried it as well during my investment process. Do you have an advice or any particulars in your investor’s checklist of the things you look for companies?

Guy: You know I recognize that I’ve taken so much from Mohnish and so much to the work is kind of proprietary to him. I am not at liberty to share it, to share his checklist or the checklist of his that I’ve done or added to, but it’s primarily his work.

We can perhaps do a live work now. For example, what is the investment mistake either out of your portfolio, or one that we both know of, that’s been in your mind recently?

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James: Maybe we can talk about Valiant and Bill Ackman, which we brought it up earlier.

Guy: I think that's great. That is where I was going to go too. You know we ask ourselves. It's kind of like the flying equipment of a plane crash. Or, it's not a crash. It's flying pretty low and it might hit a few buildings and cut a wing or two. The question is: what could we have seen? What are the warning signals that we could have seen at that time? An extremely confident and promotional manager would be one thing. So that goes down as a checklist item. Does the company have extremely confident and promotional manager?

The next thing that comes to my mind and I haven't studied Valiant particularly well or personally is: Are they making money through acquisitions? Or, is it a roll up? For me, roll ups often have those issues that came up with Valiant. Are they price gouging their customers? You know that through the whole process of acquiring companies and jacking up the pricing on drugs that they could increase the price by many multiples. Again, that is part what happened to Valiant. There are three checklist items simply from Valiant. Literally, it's going and saying what are the attributes of the company at the time the investment was made that I could have identified were warning lights, if you like.

If you go and do that for 50 more companies, any more mistakes that you find. What can I say about Horsehead, which was a mistake for me this past year? What would have I known at that time? One is simple question: Is the company building a new plant? If I would have said that I don't want to be in companies who are building big new plants. That would have done right for me. Profound question. Another question is: What does the funding look like? I've got a checklist item now which is: has the company taken a new debt recently and why? In that case, they'd taken the debt to build a new plant. They would have taken a new equity to build a new plant. That would be a totally different story.

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My key point to you, that many people don't understand is, that it is not about Does the business have a good moat. It is about, literally, what mistakes have I and people made specifically? And am I about to repeat the same mistake? "All I want to do is to know where I'm going to die so that I don't ever go there." So you already know that in the investment I don't ever want an investment company building a new plant and funding it with extra debt. I made that mistake once. I don't want to make that mistake again.

I don't want to invest to companies that go on raising prices on customers for drugs or for products where they cannot go anywhere else, through price gauging. It's just creating a bad world around you. Literally, the checklist just gets built up through those and many other mistakes. Checklists items kind of overlap each other so one probably covers the pricing gouging aspect of Valiant: Does the business benefit the ecosystem generally? So you just keep going. Collect tons of mistakes and then study those mistakes and see what one could have seen ahead of time.

Stories of Success

James: Maybe one more question from me. With humility you talk about your mistakes and one thing that I admire about you is that you're honest and humble and you are just a great guy. You can talk about those mistakes. I think you demonstrated it tonight. Just like how you care about other people and how you invest and in all aspects in your life. But we'll give you a minute to not be modest and tell us about an Investment success and a story of a stock that did go well for you. And how do you come about that idea?

Guy: You know a story but I don't know if I talked about it in the book. I don't know why I like telling this story. It's the one about Alaska Milk.

So Dan Moore is working for me in New York and I'm really interested in investing in a for-profit education company. I've done research on for-profit education around the planet. I found this one in the Philippines called Far Eastern University. I become interested in the stock, so I send Dan Moore a shout. I said "Look. Can you go and visit them?" So he flies out to the Philippines. He's a smart and resourceful guy. He looks at some other companies while he's there. One of the companies he visits on the trip was Alaska Milk. He comes back and said that "Look, Far Eastern University is very cheap but they just keep on spending money facilities and are never going to return money to shareholders. It's a cheap business that will always abuse shareholder funds."

But there's another company, Alaska Milk, and they're really good. And so, Alaska Milk trading is single digit multiple of earnings and no debt. Alaska Milk makes condensed milk as their primary product. The Philippines doesn't have any cows because it is just not the right climate. Filipinos like drinking milk. There's increasing consumption of condensed milk. It's kind of sweet product. The price of powdered milk which is the raw material for them had been very high so profits would depress. The Philippines is very corrupt place and very full of all sorts of shady characters. The fact that the family behind this company, I just looked at their 10-year annual report and they seemed like incredibly solid people. And there was a classmate of mine from business school, when I asked her about Alaska Milk, she said yeah she owns shares of Alaska Milk and they were great people.

Then there was something I saw that I brought up to them. They had bought an office building and re-rented part of the office building out to themselves. This was a reportable self-dealing transaction and had not been reported. When I asked the company that question, they came back to me so quickly with a very reasonable answer and all the reasons why they've done it.

I thought this was a very logical response and they seemed fair minded. I bought the shares in the company and I think I made five times my money in a period of five years. You know, this family group was very ethical people. They managed the business well and they ultimately sold it to a Dutch company.

That's how the world is when things go well. We have to remember those because there's no rule that all of our investments will go that way.

James: Guy, we want to profoundly thank you for your time. You said earlier that you were blown away by how Warren Buffett showed such generosity into making sure he delivered value to you, during your lunch. Would just like to say that we feel the same way. We are blown away by how generous you have been in sharing your time and knowledge with us today.

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