

## Mohnish Pabrai's Spawner Stocks Framework – How To Find 10 to 100 Bagger Stocks

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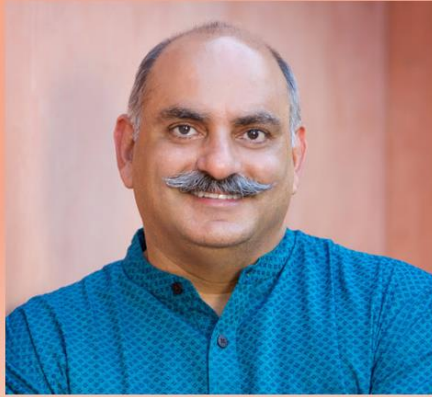
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This is a deep dive into the Spawning Investing Strategy recently often discussed by Mohnish Pabrai. As investing is always a process, this is the start of what I see growing into something immensely powerful because not only are we going to discuss spawners and the related strategy, but also build a database of spawners that should lead to remarkably interesting investing ideas over time.

We will first discuss Pabrai's investing history that turned him from a pure value investor into a 'spawner investor'. We will then dig deeper into the spawning framework, discuss many spawner stocks examples, and conclude with an investment framework that should give you enough information to decide whether spawner stocks are something for your portfolio.

# 10 to 100 Baggers - PABRAI

## SPAWNERS



5 Paths to Finding Stocks  
That Will 10x to 100x

Explaining Spawners &  
Types of Spawners

Pabrai's Spawning Rules  
& Investing Strategies

Mohnish Pabrai's Spawning Framework – Source: Author

As for me, I will add the spawning framework to my investing tool set because it complements perfectly with what I do. Spawner stocks can add that extra touch of upside when it comes to investing in good businesses trading at a fair price.

Then, when you know an additional investing strategy, the key is to compare the risk and reward of potential investments and see what is best for you to reach your financial goals. I am sure this spawner stocks framework will come increase the average investment returns over your investing life cycle.

I have added a list of spawners that I will work on over the coming years to my List of publicly analyzed stocks that you can [download for free on my Research Platform](#).

Here is the video version of this report: [Pabrai's Spawners Framework \(Theory, Strategy, Stocks List Database Creation\)](#)

### Mohnish Pabrai's Investing History

Mohnish Pabrai is one of the most famous value investors of the last 20 years. He is most known for his friendship with Charlie Munger and Warren Buffett but also for his amazing returns between 1999 and 2018 where if you had invested \$100,000 with him, you would have reached \$1.8 million by 2018, representing a return of 15.5% per year, remarkable compared to 7.5% of the S&P 500 for the same period.



Mohnish Pabrai has weekly meetings with Charlie Munger

However, things went south from 2018 onward when some investments did not work out as expected and Pabrai's return since inception fell to 671% representing a still good, but not stellar anymore, return of around 10% per year (source: [Richer, Wiser, Happier – book chapter on Pabrai](#)). Also, in 2016 he expanded [his Indian funds](#) offering and the returns there were not satisfying either.

The above issues over the last few years, in addition to the ugliness of being a pure value investor; buying stocks that nobody wants, investments with issues but cheap, where the risk might be low, but the upside is also not that great and if you are wrong, you lose a lot as we have seen with Pabrai's performance, made Pabrai switch to a different investment strategy – from value investing and searching stocks with a PE ratio of 1, to investing in spawners.

## Investing in Spawners for 10x to 100x Performance

The spawning framework has just recently been developed by Mohnish Pabrai and discussed firstly in a [presentation on spawners](#) he made for the Guanghua School of Management in December of 2020. The presentation is one and a half hours long where it is not all about investing in spawner stocks, so the purpose of this article is to focus on the spawning framework and then also dig deeper into examples and expand there.

Pabrai's lecture on investing in spawners: [https://www.youtube.com/watch?v=pUiwBs\\_N5cE](https://www.youtube.com/watch?v=pUiwBs_N5cE)

The investing in spawners idea is derived from Nick Sleep's letters to shareholders which is next on my reading list so do not forget to subscribe to either my [YouTube Channel](#), Newsletter below or [Free Stock Market Investing Course](#) to be notified when that comes out.

## Comparing value investing and spawning + other paths to multibaggers

It is interesting to compare value investing and investing in spawners as even Pabrai has switched strategies. The issue with value investing is that you must constantly be on the search for new bargains while with spawners, once you find one, you just stick to it for the very long-term.

# INVESTING OPTIONS

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## 1. Discounted Pies – Buying a dollar for fifty cents (VALUE INVESTING)

- A treadmill of activity – constantly looking for value and catalysts
- Very tax inefficient – buy low, sell high
- Difficult to get more than 2x or 3x returns

## 2. Growing Pies – Spawners

- Tax efficient – buy and hold strategy
- Set it and forget it once you find a real spawner
- 10x to 100x investing possibilities

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Investing options: Spawners investing & Value investing

Spawner Alphabet stock is up about 50 times since going public in 2004. The set it and forget it strategy might be an attractive one for many investors.

Alphabet Inc Class A

**2.523,80** USD

+2,469.64 (4,559.90%) ↑ all time

Closed: 7 Jul, 04:30 GMT-4 · Disclaimer

Pre-market 2.544,52 +20,72 (0,82%)

NASDAQ: GOOGL

+ Follow

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | **Max**

Alphabet stock historical chart

Of course, pure value investing and spawning are two investing extremes but there are many other ways to find 10x to 100x stocks.

## 10x to 100x Investing Strategies

1. Focused Mousetraps – narrow focus with long runways – Costco, Chipotle, McDonald's, Moutai
2. Great Capital Allocators (Berkshire, Exor)
3. Uber Cannibals (strong buybacks – [Autozone](#), Apple)
4. Deeply Undervalued Players/Public LBOs (turnarounds and other undervalued bargains)
5. **SPAWNERS: COMPANIES THAT CONTINUOUSLY SPAWN RELATED AND UNRELATED BUSINESSES** (Amazon, Alibaba, Tencent, Google, Baidu)

Investing strategies for 10x stocks

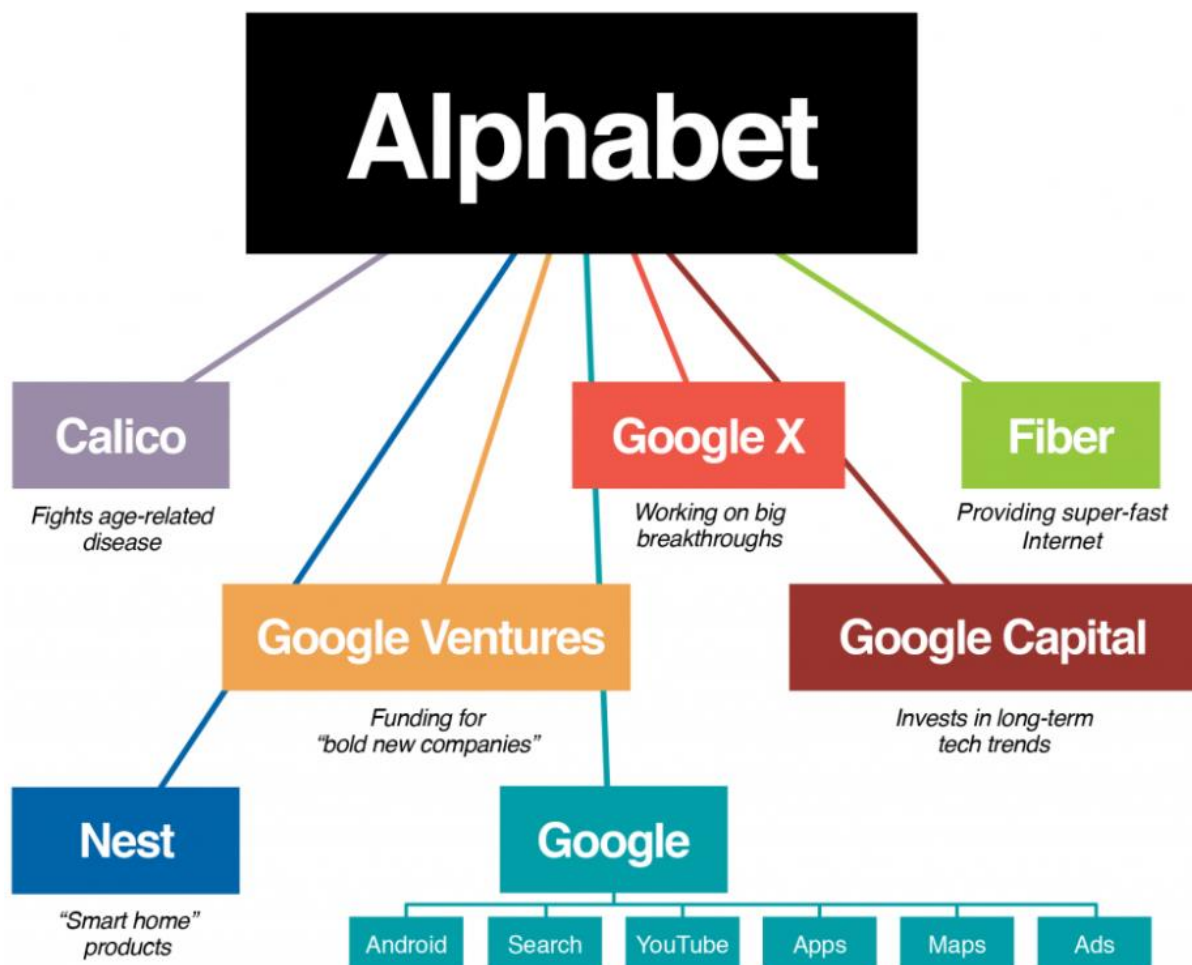
All the above strategies work well, but it is always good to expand your investing toolbox with new ideas so that you can take advantage of the opportunities the market often offers in the best possible way. I would argue that one can combine value investing and spawning for an even better investment return with less risk. (Books to read on 100x investing: [100 to 1 by Thomas Phelps](#))

## What is a Spawner Stock?

Spawning is defined as:

- Releasing or depositing eggs (for of a fish, frog, crustacean, etc.).
- Producing offspring for a person.
- To produce young especially in large numbers.

When you think of spawning from an investing perspective, it is about companies that have it in their DNA to constantly create new business models. A great example of a spawner stock is Alphabet (GOOG) with its many new business ideas, some related to its core search business, some far away from it.



### Google Spawner Stock Example

The idea behind investing in spawners is that you can achieve exponential upside because you never know how much traction these new business ideas could get in the future. For example, if [Calico](#) manages to create a breakthrough in the aging health space, it could easily be valued more than Google itself.

The option of unlimited upside created from usually zero, is something you simply do not have with businesses not focused on constantly expanding and creating new businesses.

**DNA – ADDING NEW BUSINESSES ALL THE TIME**

**MANY FAILURES ARE EXPECTED – WALL STREET HATES THAT**

**TAX EFFICIENT FOR THE COMPANY AND INVESTOR – USING PRETAX EARNINGS FOR GROWTH, NOW CAPITAL GAINS FOR INVESTOR**

SPAWNERS

#### Spawner stocks framework

Spawner businesses constantly create new ideas that offer unlimited growth and it is in their DNA to focus on such things but this also leads to many failures, failures myopic Wall Street hates.

Just think of the many investors that sold Amazon stock because of the Fire Phone flop. Amazon tested it, cancelled when failed, took a \$170 million impairment charge, and went on developing other, better business ideas. In 2015 AMZN stock was down 20% from its 2013 peak but is more than 10x since.

Accepting failure as a given is perhaps one of the most powerful investing contributions from the spawners investing framework. Wall Street, any other business school trained person or most people with an ordinary education, all expect things to develop linearly. However, the unlimited upside with the limited downside is what is extremely hard for people to grasp. Amazon lost \$170 million with the Fire Phone but compare that with the upside if it had worked out – perhaps \$170 billion given the demand for phones now.



Amazon spawner failure example – be ready for such things.

Another peculiarity is the double tax advantage of investing in spawners. To develop the Fire Phone, Amazon used pre-tax earnings which makes investing much more tax efficient for the company while buy and hold spawner investors have no transaction costs and pay no capital gain taxes due to trading.

### Types of Spawner Stocks

Here are the types of spawners that you can find:

1. **ADJACENT SPAWNERS** – Expanding withing related business.
2. **EMBRIONIC SPAWNERS** – acquiring small businesses and make them grow.
3. **CLONER SPAWNERS** – no innovation but coping what works.
4. **NON-ADJACENT SPAWNERS** – create or buy new, unrelated businesses.

**APEX SPANWERS** – All Four Above Categories.



# TYPES OF SPAWNERS STOCKS

1. **ADJACENT SPAWNERS** – Frappuccino bottles, tea, food, alcohol.
2. **EMBRIONIC SPAWNERS** – INSTAGRAM, WhatsApp, Oculus...
3. **CLONER SPAWNERS** – Windows, Word, Excel, Teams, Azure.
4. **NON-ADJACENT SPAWNERS** –entering the automotive business.



BYD AUTO

## APEX SPAWNERS - All Four Above Categories.

Types of spawners

The above examples are all great businesses, but it is even better if you can find apex spawners that have all the 4 types in their DNA.



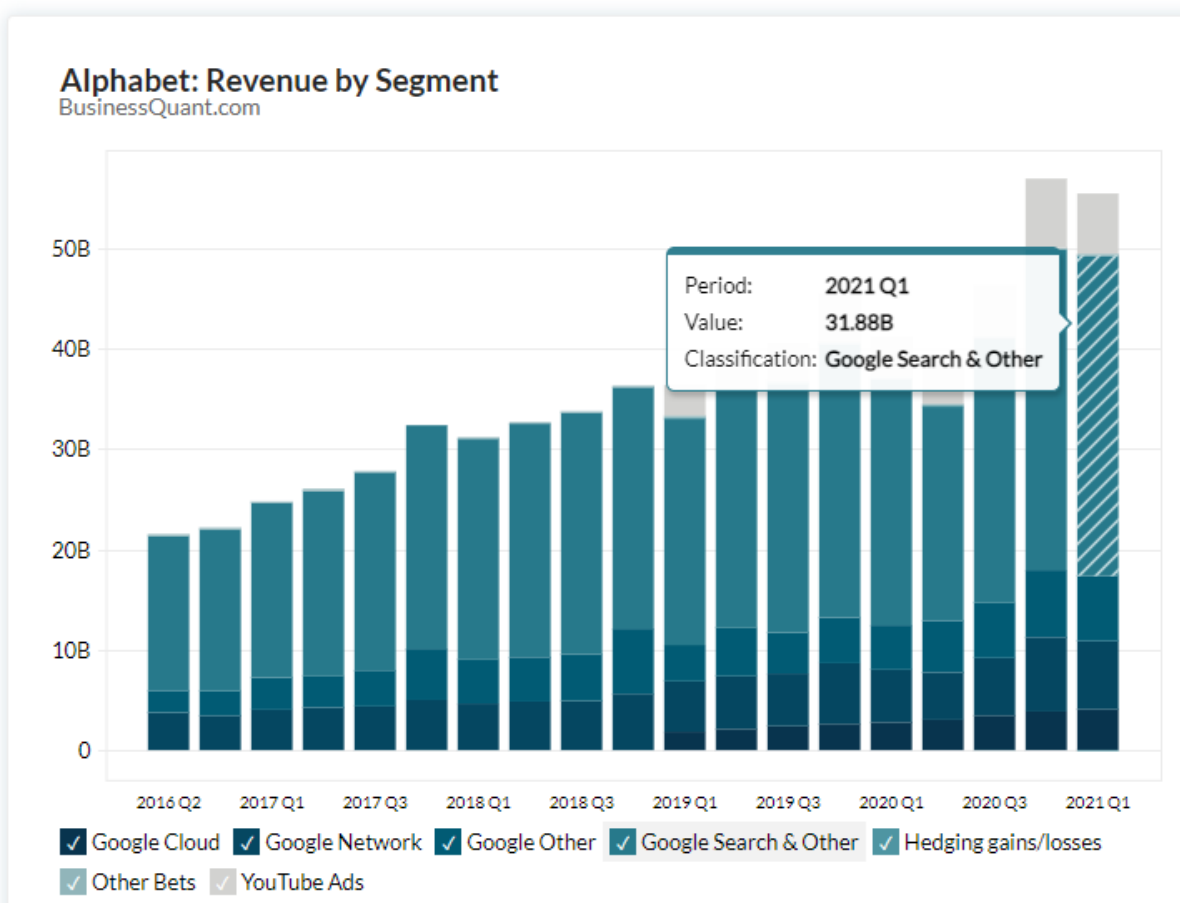
Amazon is an apex spawner

Apex spawners are companies like Amazon, Alibaba, Berkshire, Baidu, Tencent and Alphabet as they constantly invest in all four business categories. Another good example is Baidu and you can find my [Baidu Stock Analysis here](#). When it comes to Baidu, you have the value investing search business and the unknown potential of robotaxis, cloud, AI, autonomous drive, and all other business options they work on.



Baidu Stock Example – [Baidu Stock Analysis](#)

Spawning looks extremely attractive from an investing perspective but not all agree it is the holy grail of investing. In a [recent interview Stanley Druckenmiller](#) said how Google Search is probably the best business ever existed but also how Alphabet is throwing money at so many different ideas where the outcome is very questionable. The point being that return on investment must not be forgotten. Also, after two decades, 80.5% of Google’s revenue still comes from advertising on its search platforms.



Google revenue breakdown – Source: [Business Quant](#)

More money has gone into Google Cloud and Google Other than came out of those projects which confirms the thesis that it is extremely difficult to invest in spawners because of the uncertainty where nobody knows, not even Google, what will be the outcome of all the investments it is making over 10 to 20 years.

Our **Other Bets** are also pursuing initiatives with similar goals. For instance, as a part of our efforts in the Metro Phoenix area, Waymo is working toward our goal of making transportation safer and easier for everyone while Verily is developing tools and platforms to improve health outcomes.

#### **Moonshots**

Many companies get comfortable doing what they have always done, making only incremental changes. This incrementalism leads to irrelevance over time, especially in technology, where change tends to be revolutionary, not evolutionary. People thought we were crazy when we acquired YouTube and Android and when we launched Chrome, but those efforts have matured into major platforms for digital video and mobile devices and a safer, popular browser. We continue to look toward the future and continue to invest for the long-term. As we said in the original founders' letter, we will not shy away from high-risk, high-reward projects that we believe in because they are the key to our long-term success.

#### **The power of machine learning**

Across the company, machine learning and AI are increasingly driving many of our latest innovations. Our investments in machine learning over the past decade have enabled us to build products that are smarter and more helpful. For example, a huge breakthrough in natural language understanding, called BERT, now improves results for almost every English language search query.

DeepMind made a significant AI-powered breakthrough, solving a 50-year-old protein folding challenge, which will help us better understand one of life's fundamental building blocks, and will enable researchers to tackle new and difficult problems, from fighting diseases to environmental sustainability.

Google's business strategy explanation – other bets and moonshots – Source: [Alphabet's Annual Report](#)

Now that we have explained what spawner stocks are, let us dig deeper into the strategy of investing in spawners because the above discussed outcome uncertainty can be managed with a proper investment strategy.

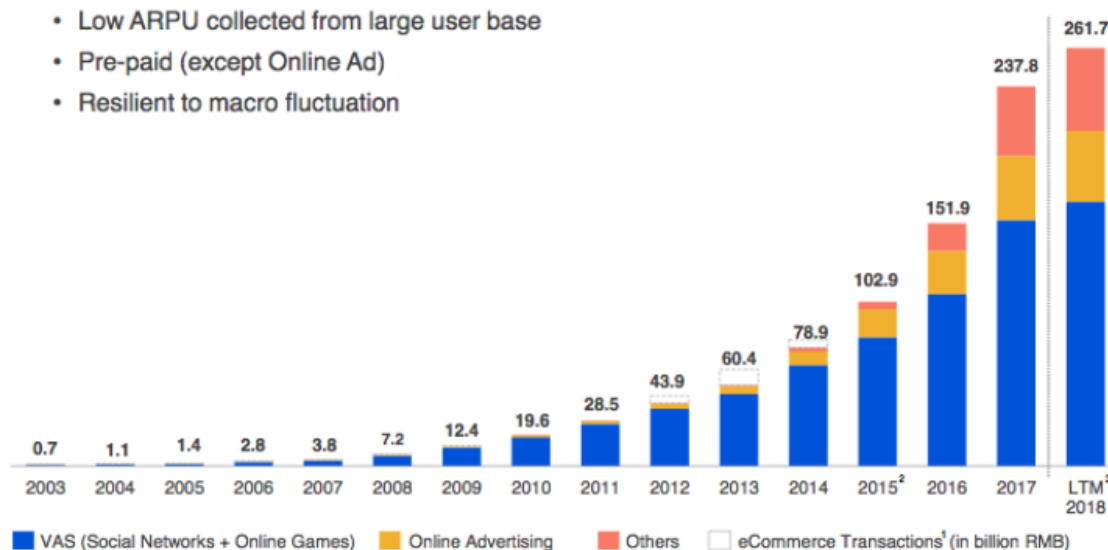
## Spawner Stocks Investing Strategy

Businesses can be considered live beings and therefore we must expect all businesses to eventually die as things always change. Therefore, to just stay alive, businesses must spawn.

Without expanding into new products, companies like IBM or GE would have died many years ago while many companies that currently dominate their respective markets would only be shadows of themselves if they had not spawned new ventures over time. Imagine Apple still being just a computer company and not spawning into the phone business.

## Diversified Revenue Streams

- Low ARPU collected from large user base
- Pre-paid (except Online Ad)
- Resilient to macro fluctuation



<sup>1</sup> Effective from Mar 10 2014, we have divested our B2C and C2C eCommerce marketplaces and deconsolidated such revenues.

<sup>2</sup> Other revenues for 1Q2015 include revenue from eCommerce transactions.

<sup>3</sup> Last twelve months' revenues as of March 31, 2018

Tencent revenue streams – Source: [Tencent Stock Analysis](#)

Companies like Tencent understand the life cycle of a business and constantly invest in new ventures and business opportunities. What I find peculiar with Chinese spawner businesses is that there is no fear of investing small stakes into a new venture. The feeling on Wall Street is that one must own it all, but in China companies have no issues with even owning just small stakes, test the relationship, possible business contributions and then if still good, increase the ownership. Few know it, but Tencent even owns 5% of Tesla and many other businesses around the world.



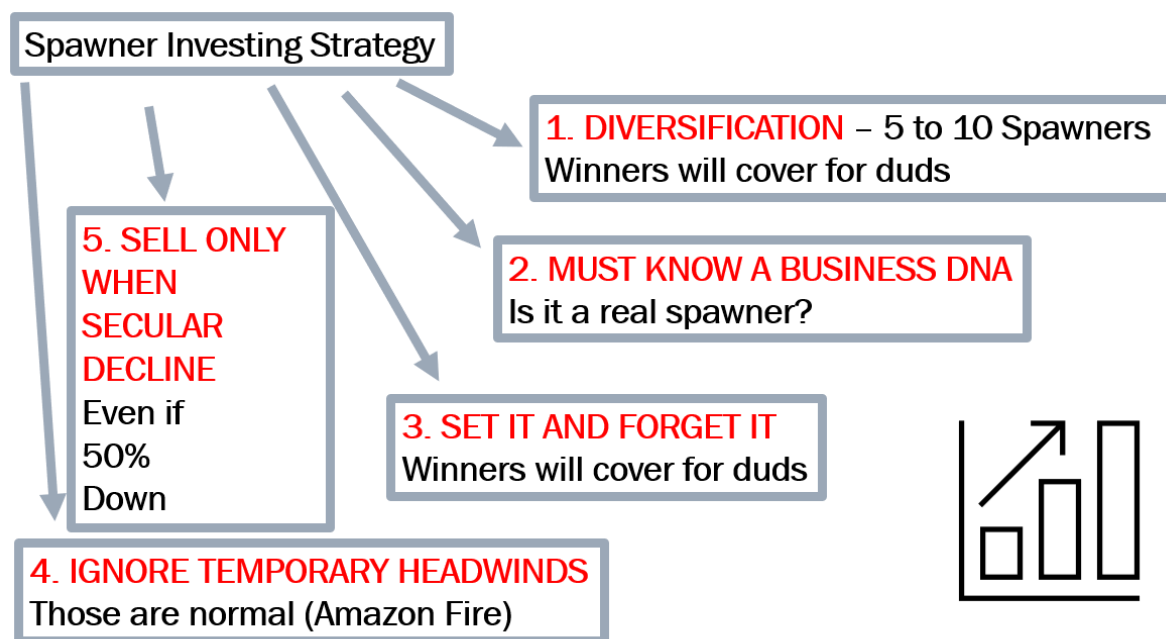
Tencent metaverse – Source: [Tencent](https://www.tencent.com)

The above business metaverse diversifies the risk of a singular business and increases the chances of success where the upside if you succeed is unlimited while the downside it limited to what you invest into a venture. When you have a core business like Tencent, Alibaba, Amazon, Google, Baidu or Facebook have, the cost of investing and building on top of your network are not that high.

Over the years, Tencent has successfully diversified its revenue stream away from social networks and online games.

## 5 Strategy Concepts for Investing in Spawners

I extracted 5 concepts from Pabrai's Spawners investing framework:



Spawner stocks investing framework

### 1) Diversification

As diversification is the core of business spawning, it must also be the core of a portfolio strategy. Pabrai's idea is to compose a portfolio of 5 to 10 spawners where the unlimited upside of those that do good will cover for the inevitable duds.

### 2) Spawning must be in the DNA of the business

In his interview and mostly in the Q&A part, Pabrai discussed how to spot fake spawners and how to spot the right ones. My summary conclusion is that you must know the business very well, you must understand how it evolved over the last 10 to 15 years and you must be incredibly careful about companies that lost their way like GE or IBM or where the owners don't really care about money like in Tesla's case.

Speaking of burning money, most real spawners companies make relatively small bets that can easily be swallowed if ending up a failure – think of the \$170 million impaired by Amazon for the Fire Phone. What is \$170 million compared to the current market capitalization measured in trillions.

### 3) Set it and forget it

When you find your spawner stock, and Pabrai says you should be incredibly happy if you find just one per year, the key is to set it and forget it which is the only strategy that allows to take the advantage spawners offer. To set it and forget it, you must also disregard the temporary headwinds.

### 4) Ignore temporary headwinds

All businesses have good and bad periods but if you know the DNA is good, then you must ignore all temporary business headwinds and especially negative stock market related news.

For example, Amazon got sued by Barnes & Nobles around its IPO because it was calling itself a bookstore while it was only a book merchant according to the fearful competitor, then the stock crashed 90% when the dot-com bubble popped, Amazon stock was down more than 50% during the financial crisis of 2009, 20% down after the Fire Phone flop and more than 25% during Q4 of 2018. So, there will be plenty of issues but if the business is good, you must ignore the temporary headwinds.

### 5) Sell only if the structural trends turn negative, even at a loss

Set it and forget it does not mean you have to hold something for eternity. Pabrai discusses how if the secular trend is over, it is better to sell, even if you are 50% down from the peak (the initial upside should cover for the decline while waiting for absolute clarity). Amazon is still growing fast, so there is no fear of a secular trend reversal, but when it will be clear the trend is turning negative and there are no other options, one might better sell.

Even if Amazon's stock crashes 30% before you understand it is not a spawner anymore, you should still sit on great gains while the spawning and growth last.

Amazon.com, Inc.

3.718,55 USD

+2,983.11 (405.62%) ↑ past 5 years

Closed: 12 Jul, 19:53 GMT-4 · Disclaimer

Pre-market 3.713,00 -5,55 (0,15%)

NASDAQ: AMZN

+ Follow

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



Amazon stock spawners gain example

The next step is finding the right spawners to invest in.

### How To Find And Own Great Spawner Stocks For 10x or 100x Returns (research, size & valuation)

With more than 50,000 listed stocks globally, it is not easy to find spawners and if you find one per year, you should be ecstatic.

Another key thing with spawners is that you must look for smaller companies. Very few companies will reach \$500 billion in market capitalization where most reach \$50 billion in their best-case scenario. Therefore, if you hunt for 100x stocks, to maximize your investing returns, you must fish in

a pond of stocks with a market capitalization of around \$500 million while if you fish for 10x stocks, you may go higher to \$5 billion.

When it comes to valuation, Pabrai discusses how as a value investor you often simply attach a value of zero to the new ventures a business is testing, but he finds that wrong. When it comes to spawners, it is ok to pay a little bit more from a valuation perspective because great businesses will always trade at a premium and it is worth to own a great spawning business for the long-term. Amazon has been and is still trading at relatively extreme valuations, but given the growth and spawning upside, the valuations must be swallowed if the business is really an apex spawner.

### Spawner stock examples & database

Given the hardship in finding spawners, I will develop a database so that we can build on this framework together and find a few great ones using our social reach. (The spawner stock sheet is [downloadable on my research platform](#) for free and you can add your spawner idea there in the comments or first message me. (BUT ONLY IF YOU TRULY BELIEVE IT IS A SPAWNER AND YOU HAVE READ ALL OF THE ABOVE and YOU MUST GIVE a clear 10-year spawning DNA explanation!))

Over time, we should have a nice spawners database and then perhaps even build a nice portfolio of spawners if the risk and reward is acceptable.

This is the table of spawners at the time of writing:

Name	Ticker	Spawning comment	Link to analysis
Berkshire Hathaway	BRK.B	Buffett constantly enlarging his business portfolio	<a href="https://svencarlin.c">https://svencarlin.c</a>
Restaurant Brands	QSR	Growing by doing acquisitions	
Starbucks	SBUX	Growing and constantly adding adjacent businesses	
Microsoft	MSFT	Still growing relatively fast	
Alphabet	GOOG	Moonshots and Google Other	<a href="https://www.youtu">https://www.youtu</a>
Brookfield Asset	BAM	Growth strategy	
Amazon	AMZN	Spawning constantly into new ventures	<a href="https://www.youtu">https://www.youtu</a>
Alibaba	BABA	Going Global	<a href="https://www.youtu">https://www.youtu</a>
Tencent	TCEHY	Building an incredible metaverse	<a href="https://sven-carlin-">https://sven-carlin-</a>
Baidu	BIDU	Old search engine spawning new tech	<a href="https://www.youtu">https://www.youtu</a>
Facebook	FB	Incorporating new cool things into the network	
Shinoken	SHIOF	Japanese stock owned by Pabrai	
BYD	BYD	Spawning into automotive and new transportation	
Pinduoduo	PPD	Looking to disrupt into many new areas	<a href="https://sven-carlin-">https://sven-carlin-</a>

Spawner stock database available for download – Source: [Sven Carlin Research Platform](#)

Not all of the above stocks are apex spawners, but you have to see whether the business fits your portfolio and might lead you to your financial goals over the long-term – that is the key when it comes to investing.

Most of the above are very well known businesses with large market capitalizations so 100x returns are unlikely, but some still have a relatively small market capitalization. Restaurant Brands International (NYSE: QSR) has a market capitalization of \$29 billion and is spawning by making acquisitions.



## Three Iconic Brands



*Tim Hortons*

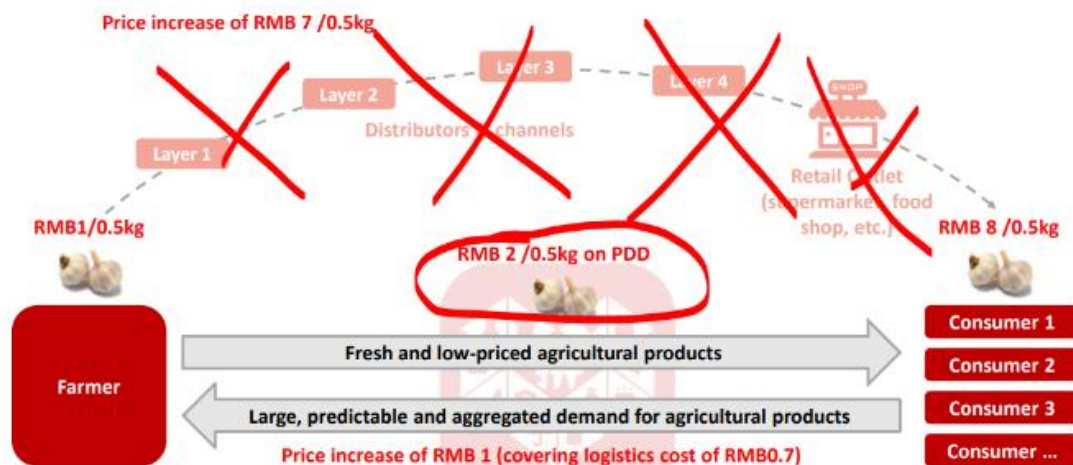


Brand	Since	Acquired	Restaurants	Countries
Burger King	1954	2010	>18,600	>115
Tim Hortons	1964	2014	>4,900	>10
Popeyes	1972	2017	>3,400	>25

Restaurant Brands Overview – Source: [RBI Investor Relations](#)

Pinduoduo (NASDAQ: PDD) achieved amazing growth thanks to its disruptive group buy business model in China but is now spawning into logistics with the goal of eliminating intermediaries.

### Case study: 1 Agriculture



For instance, our one-day “Pin Agricultural Goods” event held in Hebei’s Zhongmu County in 2018 fetched 47,000 orders, helping impoverished farmers sell over 165 tonnes of garlic and generating over RMB 1m in sales for farmers while reducing the retail price of garlic for consumers by ~76%

Pinduoduo agriculture savings – Source: [Pinduoduo Business Model Presentation](#)

Alibaba is spawning for world domination and challenging Amazon with 72-hour global delivery.

<https://www.youtube.com/watch?v=r6jGTdQc-Ms>

WSJ Alibaba vs Amazon video

I feel both businesses have still plenty of room to grow so there will not be increased competition and therefore, it all boils down to what best fits your portfolio which depends on the risk and reward of a specific investment.

### **Spawner stocks investment risks**

There are many risks when it comes to investing in spawners and one must not be blinded by the potential upside:

- 1) **Avoid fake spawners** – it is better to miss a great spawner than to jump into one that is not. Set a high bar, it must be obvious it is not a fake spawner.
- 2) **Do not expect miracles from spawners with a valuation in trillions** – hard for Amazon to 10x from the current level.
- 3) **It might take a lot of time for the new ventures to gain traction** – Baidu is heavily investing in autonomous drive, but given it is not profitable and nobody knows when it will be, the market hates uncertainty.
- 4) **Very few are real spawners** – finding one per year is great.
- 5) **Accept negative news as a given but hold the business if it keeps the spawning DNA** – results will never be delivered in linear fashion.
- 6) **Many new ventures will fail, and the management will look bad for a while** – the market is myopic, and people want stocks that constantly go up. Therefore, when things do not go as planned, expect big stock price swings. Real investors take advantage of such opportunities, but you must be sure it is an apex spawner.
- 7) **Capital allocation questions will always surround spawners** – irrelevant with real spawners because profits will come eventually while extremely important for those that spawn relentlessly just so that the CEO can get a bigger plane.

If you enjoyed this introduction into investing in spawners, do not forget to subscribe to either my [YouTube Channel](#), Newsletter below or [Free Stock Market Investing Course](#) to be notified when the spawners database is updated and when I make new investing content where my goal is to add value to your financial freedom path.

For in depth professional analyses on stocks, coverage and my portfolios, check my [Stock Market Research Platform](#).