

What Navy SEALs and Value Investors Have in Common

Michael Zapata, chief investment officer of Sententia Capital Management, has generously provided us the following article and value investing interview for publication. At the conclusion of this post, we also include a video of our exclusive conversation with Michael.

Humble, soft-spoken, husband and father of two, Michael Zapata, Founder and CEO of value investing based Sententia Capital Management in New York City portrays the classic image that many draw in their mind when they think of somebody that has the discipline and focus required to ignore the noise on Wall Street and seek out companies that Warren Buffett once famously dubbed “cigar butts”. He does not, however, strike the unsuspecting onlooker as a person who, prior to studying at the prestigious Heilbrunn Center for Graham & Dodd Investing during Columbia Business School’s MBA program (5% of MBA class), served in a military unit so secretive that congress is not authorized to formally acknowledge its existence.

Prior to his life in the asset management business, Michael accepted a commission in the U.S. Navy to pursue the challenge and goal of joining a great team and becoming a Navy SEAL. Starting and graduating with Class 237, his desire to serve crystalized when 9-11 occurred in the middle of BUD/s training. In the proceeding Global War on Terrorism, his deployments included multiple tours in Afghanistan, Iraq and various other locations in the Middle East and Africa. His commands included SEAL Team TWO, SEAL Team TEN, and ultimately Naval Special Warfare Development Group (more famously known as SEAL Team SIX) where the top 5% of SEALs are selected to serve in the Navy’s elite counter-terrorism unit. 10 years and countless highly classified missions later, he decided to salute old glory as a veteran one last time, permanently hang up his uniform and attend business school where he apprenticed under some of the greatest value investing minds in the world. As I later found out, Wall Street luminaries Mario Gabelli and Jean-Marie Eveillard were not only his mentors while in school, but later became partners in his firm. Asking Mr. Gabelli for this interview why he chose to invest in Sententia Capital amongst the potentially thousands of requests for consideration to invest in over his decades of success, he stated, “Mike was highly successful in his former profession. He has the intangibles of great investors and he is proving to be a great investor in the tradition of Graham and Dodd.”

As Chair of the Veterans Roundtable for the New York Society of Security Analysts (founded by Ben Graham, the father of value investing, and currently the flagship member society of the 145,000 member CFA Institute), I first became aware of Michael when our group was searching for panelists to share their experience in transitioning from military service to a career in finance at the annual Veterans Transition Symposium. He graciously accepted our invitation to participate in the panel and share his experiences in 2015. Staying in touch with him since that time, I recently asked for permission to interview Michael so others can read his fascinating story, to which he once again graciously accepted.

Lance Widner (LW): So the investing world wants to know, what is the link between being a Navy SEAL and value investor?

Michael Zapata (MZ): Almost everything. Believe it or not, the same skills we used in the military are directly applicable to the investment management business. Discipline, patience, risk management, risk mitigation, serving a greater purpose, accountability, decision-making with less than perfect information, decision-making in dynamic environments, humility when things go bad, ability to

forecast and forward think, understanding incentives, putting others first, honesty...the list goes on and on. The specifics of each role may be different, but the underlying traits required to succeed are exactly the same.

LW: I would imagine that these characteristics apply to most careers. How did you decide to start a value investing shop, specifically?

MZ: There were three things I valued while I was in the (SEAL) Teams: autonomy, responsibility and accountability. The traits can be found in the fabric of Sententia as the success depends on our decisions, both our investment and the firm. We bear the responsibility of growing our partners' investments. And I am accountable to them and the future of the firm. It's a great challenge, and one that I intend to perform well.

LW: You're obviously no stranger to high levels of competition, but this business is extremely competitive. What's Sententia's edge?

MZ: When it comes to competition, we are in a league of our own. What I mean is, I'm competing against myself, and the goal is to continually improve. What is our edge? Mettle. We walk the line between risk mitigation and outperformance. We invest in value stocks, which is a natural risk mitigator. Deep research and a focus on key levers further mitigates risk as we work to understand various business, industry and management dynamics. Decision making, sizing, incentive awareness, timing signals...we use these aspects to gain an edge as we seek outperformance. It's uncomfortable to invest in this manner. That's where the mettle comes in. Some of the best investors I know have it, and we look to prove ours in this environment.

LW: It sounds as though you've been able to garner the attention of some extremely influential value investors. How did you get their attention?

MZ: I want to learn from the best. Columbia and the Heilbrunn Center for Graham and Dodd provided the opportunity to learn from the best. I've been able to meet some of the legends such as Mr. Gabelli, Michael Price, Jean-Marie Eveillard, Bill Miller - these guys have been successful over decades, and I have great respect for their experience. Fortunate to receive an initial introduction, I have kept each of them and others updated over the years about Sententia's progress. But I'd be misguided if I thought they invested in me because they thought I was the best investor they had ever seen. It was likely to support a nice guy (my words) who has served his country. They are both decision makers and genuinely nice people, which is important to me, and I consider all of them mentors. At the end of the day, they are some of the greatest value investors who seek to invest in underappreciated assets. And my job is to be a multi-bagger for them, and all my limited partners (LPs)

LW: Anything else you want us to know about Sententia?

MZ: We are a purpose driven fund. Sententia is Latin for 'purpose'. The genesis of the fund, from my personal investments, is to give back a portion of my gains to the families of fallen SEALs. The better we do, the more we can give back.

LW: What do you do for fun when you are not busy running a capital management firm?

MZ: Spending time with our boys, Solomon and Isaac. They are four and two. Solomon is our X-Man and Isaac is our Isaac. I love running around the park with them. When we are not together as a family, you can find me reading or working out, likely both outside.

LW: Lastly, any interesting stories (non-classified) that you can share from your time as a Navy SEAL?

MZ: We were overseas, flying over an ocean in a helicopter en route to a mission. It was at night and our helicopters were blacked out. Our helicopter started to shake a bit and dip. Then it plunged down. Not that we would have survived had we plunged into the drink from that altitude, but I instinctively touched my oxygen bottle next to me to make sure I knew where it was. As I clicked my night vision goggles on, I quickly realized that the helicopter was just positioning for an in-air refueling. I also noticed others were reaching for their O2 bottles. That made me feel a little better as I wasn't the only one thinking we were going down! Ha. It was a special place to be, and I was fortunate to serve in that capacity with such great men.