

Idea Brunch with Alex Bossert of Bossert Capital

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Welcome to [Sunday's Idea Brunch](#), your interview series with great off-the-beaten-path investors. We are very excited to interview Alex Bossert!

Alex is currently the chief investment officer of Bossert Capital, a value-oriented firm he founded in February 2017. Bossert Capital has offices in both Minneapolis, Minnesota and Austin, Texas. Prior to launching Bossert Capital, Alex worked at multiple investment firms, including Milestone Capital Management, based in Wayzata, Minnesota, and a UK-based hedge fund. Alex is also active [@alexbossert](#) on Twitter.

Alex, thanks for doing Sunday's Idea Brunch! Can you please tell readers a little more about your background and why you decided to launch Bossert Capital?

First off, thank you for reaching out to do this interview. I grew up in a small town in Minnesota called St. Cloud and have been a stock junkie from a young age. In fact, I bought my first share of stock at age eleven. Shortly thereafter, I read a book on Warren Buffett and was completely hooked. Ever since then, value investing has been a passion of mine. Throughout middle school and high school, I devoured every book I could find on investing and began attending the Berkshire Hathaway annual meetings at the age of fourteen. In college, I began working as an analyst for a successful fund manager in Minneapolis named Pat Conlin. After graduation, I left Milestone and joined a UK-based hedge fund. I left that role in 2017 after being prodded by several prominent families to manage a portion of their capital. In February of that year, I launched Bossert Capital with the backing of a group of successful business owners, entrepreneurs, and family offices.

You seem to take a lot of inspiration from Warren Buffett and have even listened to or attended [every Berkshire meeting since 1994](#). How has Buffett impacted your investing style and your approach to running your fund?

I attended my first Berkshire Hathaway annual meeting at the age of fourteen with my father – back in 2005. And I have attended every single in-person Berkshire Hathaway annual meeting since then.

I have studied everything I can get my hands on about Warren Buffett. It's always been my dream to meet him, but it hasn't happened yet. However, I was fortunate to have gotten to know Charlie Munger quite well. I had quite a few dinners with him at his house in Los Angeles which was an incredible experience.

I have done my own case studies on as many of Buffett and Munger's investments as possible. Not only the investments they made through Berkshire Hathaway, but also their personal investments and investments made back when they ran their partnerships. I have found inspiration from what Buffett and Munger did in their early days when they had less capital and were able to invest in more obscure investments. I have even gone back and obtained copies of the pages in the Moody's Manuals of many of Buffett's partnership investments in the 1950s and 1960s. It's a fascinating exercise. Most people will say opportunities of that quality no longer exist. I could not disagree more. The opportunity set today is just as good if you are hunting in the right places.

Our portfolio consists of investments that fit two buckets. The first bucket consists of investments made based on techniques that Buffett employed in his early years. The second bucket consists of investments that take inspiration from Munger's approach. Let me explain the first bucket in more detail. In Buffett's early days, he was heavily influenced by Benjamin Graham and was buying dirt cheap stocks at large discounts to asset value. He called these stocks "cigar butts." Buffett produced fantastic returns buying these types of stocks. A portion of our portfolio is in stocks like this. They are businesses we don't want to own for the long run but are undervalued and have a large margin of safety. We have earned strong returns from these types of investments over the years. These investments keep the lights on.

The second bucket represents the bulk of our portfolio. This bucket consists of investments in high-quality businesses that we intend to own for the long run. These are quality businesses with enduring competitive advantages and long growth runways. Today, buying “compounder businesses” has become quite fashionable. I think I see a new write-up on Copart once a week. Most of these “compounder stocks” will disappoint because they have been bid up to very high valuations. Everyone knows Costco is a fantastic business. But at 50 times earnings there is not much of a margin of safety. We are buying quality businesses when they are temporarily unloved. For example, we invested in a wonderful business in Poland called Dino Polska in early 2020 when the pandemic broke out and bought more again just after the war in Ukraine broke out. The stock went on sale temporarily during that time even though the unfortunate situation in Ukraine benefitted this business because of the influx of refugees into Poland. Dino Polska is a business I hope to own for the long run.

You mentioned on Twitter that you like to [attend annual meetings](#) and are sometimes the only outside shareholder to attend them. What value do you get from going to annual meetings?

99% of money managers aren't even investors at all, they are glorified marketers who spend their time focused on raising money rather than doing actual, thoughtful investment research. It is an integral part of my investing process to visit the companies I am invested in. I seek to get to know the management teams well and add value to them over time. Attending annual shareholder meetings of the businesses I am invested in is something I do often. You learn an incredible amount. I go out of my way to attend annual meetings, even if they are in far-flung places. A few years ago, I traveled all the way to Sydney, Australia for the annual meeting of a \$30 million market cap company. It's amazing to me how few investment managers make the effort to visit the management teams of businesses they are invested in. Recently, I was the only outside shareholder at the annual meeting of a half-billion-dollar market cap company that has been a hundred bagger over the past 25 years.

I want to be the most knowledgeable shareholder of every single business I own. Spending an entire day with the management team at their annual meeting is one way I achieve that objective. Those deep insights give me an edge. In my view, the publicly accessible information on a company (10Ks, 10Qs, conference calls, etc.) are critical to

read but tell you only a fraction of the full picture. What's amazing to me is that most money managers don't even bother to read the publicly available documents.

One of your most successful investments is Solitron Devices (OTC: SODI — \$39 million), which is up ~10x over the last five years. Can you please tell us a little about what attracted you to Solitron and where you think the company goes from here?

Solitron Devices manufactures semiconductor components primarily for military and aerospace applications. When I first began studying Solitron in 2017, it looked risky on the surface level: it was losing money, it was delayed on its SEC filings, and it was experiencing operational hiccups with its production process. For most investors, it was an easy stock to quickly pass on.

However, I knew from studying aerospace parts businesses that they are generally very good businesses. So, I decided to dig deeper.

Since 2015, the company has been led by Tim Eriksen, who took over as part of an activist campaign. The company required a full operational restructuring due to the prior CEO's mismanagement. A business turnaround is neither easy nor quick. Many impatient investors in Solitron who expected a rapid turnaround lost patience. The stock traded down substantially in 2018 and 2019 because of this selling pressure. I recognized the restructuring was bearing fruit and the company was turning the corner after a period of challenging years. This is when we got involved. Anyone who was following the company at this point and was willing to do more than cursory analysis could have discovered what we saw. Yet almost no one was paying attention.

My thesis for investing in Solitron was very simple: one-off expenses related to the turnaround efforts were obscuring the company's true underlying profitability. These expenses were significant but transitory. Once those expenses rolled off, we expected the market to value Solitron fairly.

So I flew down to Solitron's manufacturing facility in West Palm Beach and after spending the day meeting with company executives, I saw a business that was humming along. Yet, the market had not caught on to the fact that they had fixed the issues inherited from the previous management team.

We acquired the majority of our Solitron shares at less than \$2 per share (equivalent to a \$4 million market capitalization at the time). Based on our current estimate of Solitron's normalized profitability, we paid less than one times free cash flow for our shares. In my view, this business merits a low double-digit multiple of free cash flow, at the very least. Bossert Capital continues to own a large stake in Solitron and we believe the stock is still undervalued at the current price of \$18.

In December 2022, President Biden signed a \$1.7 trillion omnibus spending bill that included appropriations for replenishing military supplies used in Ukraine and increasing stockpiles. Solitron is involved in several programs that are part of this restocking program, anticipating \$20 million in increased sales over a five-year period (around \$4 million annually). Based on comments at the annual meeting, I expect this will add \$1 million - \$1.5 million to Solitron's annual operating income soon.

Once the restocking order commences, Solitron should be generating more than \$5 million per year in free cash flow. At a recent share price of \$18, Solitron's market capitalization is \$37.5 million. That's why, at less than an 8x multiple of free cash flow, Solitron remains undervalued. Yet, there are several positive factors that will likely lead to significant earnings per share growth beyond just the restocking order, including: 1) winning additional new contracts, 2) expanding military budgets due to rising geopolitical tensions, 3) sales growth at its newly acquired subsidiary, Micro Engineering, and 4) cash allocation toward share buybacks and additional acquisitions.

However, it gets even more interesting. The Ukraine aid bill signed by President Biden this spring has the possibility of delivering another windfall for Solitron Devices.

For context, the \$1.7 trillion omnibus spending bill signed by Biden back in December 2022 authorized \$11.9 billion to be spent on replenishing stockpiles of weapons sent to Ukraine. As mentioned above, this 2022 bill triggered \$20 million of incremental sales for Solitron which the company will begin shipping to later this year (or next year) and will last 5 years (i.e. \$4 million of incremental sales per year).

The new Ukraine aid bill authorizes an additional \$13.4 billion to be spent on replenishing weapons already sent to Ukraine (13% more than the 2022 bill).

If the mix of weapons included in the amount authorized to be spent on weapons replenishment in this recent appropriation is similar to the 2022 bill (it is too early to know if this is the case), then this new bill will be 13% more impactful for Solitron than the 2022 bill and could generate another \$23.4 million in sales for Solitron. This would obviously be huge for Solitron!

What is an interesting idea on your radar now?

We are a shareholder in a small, Atlanta, Georgia-based bank called **Citizens Bancshares** (OTC: CZBS — \$114 million).

This is a unique bank for several reasons:

- It is one of the most overcapitalized banks in the United States.
- The bank is minority-owned, minority-managed, and serves minority customers. It is a [Minority Depository Institution](#) (MDI) and a member of the [Community Development Financial Institutions Fund](#) (CDFI Fund).
- It is the recipient of funds from the Emergency Capital Investment Program (ECIP).
- The bank is over 100 years old and has been profitable every year for at least the last 30 years (including 2008/09) and has only lost money two years since its founding in 1921.
- The bank was founded with \$500,000 in total capital in 1921 by five African Americans with the goal to primarily serve the African American community as an African American-managed bank. In 1934, it became the first African American-owned bank to become a member of the FDIC and, in 1947, it became the first African American bank to join the Federal Reserve System. In 1955, Martin Luther King, Sr. joined the bank's board of directors!

The bank has recently repurchased a meaningful amount of stock. I take this as a great sign that the management team understands how to allocate capital wisely. The bank currently has 1,786,947 shares outstanding and at the recent share price of \$47, it has a market cap of \$83 million. In the first quarter of 2024, it reported net income of \$1.95 per share. Annualized earnings per share are \$7.80 for a P/E of about 6x.

A bank of this quality should be trading for much greater than 6x earnings. This is a well-managed bank, with a safe loan book and a management team that is allocating capital intelligently by repurchasing stock.

Furthermore, its EPS has the potential for meaningful growth in the next several years, driven by multiple tailwinds, including: (i) converting risk free securities to additional loans which yield higher risk adjusted rates, (ii) reinvesting maturing securities at higher rates. The securities book yields just above 3%. As those securities mature, they are being reinvested at 5% - 6%+, (iii) existing fixed rate loans renewing at higher rates, (iv) increased non-interest income from the Empowerment Fund which is an ESG focused money market fund that generates fee income for the bank, (v) additional government grants. Citizens has done a good job accessing various grant programs from the government due to its status as an MDI and CDFI, and finally (vi) continued share buybacks.

It is important to note several earnings headwinds that the bank faces as well. I expect it to be paying higher rates on deposits. Although I think further increases in deposit rates from today's level will be minimal. Additionally, the dividend on the ECIP preferred will kick in during the second quarter of 2024 and cost the bank approximately \$2 million per year.

These headwinds will not be too detrimental. The tailwinds will more than offset them.

The true value of ECIP capital the bank received continues to be underappreciated by the market. The most important benefit of the ECIP capital is it gives this bank a permanent cost of funds advantage.

In mid-2022, Citizens was the recipient of \$95.7 million in funds from the United States Treasury as part of the Emergency Capital Investment Program (ECIP). The ECIP funds are in the form of preferred stock that Citizens issued to the Treasury with the following terms:

- It is non-cumulative (i.e., missed payments do not accrue).
- It is perpetual (i.e., it never has to be paid back).

- The interest rate on the preferred stock will be 0% in years one and two. From years 3-10, the rate will be between 0.5% and 2.0% based on how it is deployed (i.e., how much it is able to increase lending to minority groups). After year 10, the interest rate will be fixed in perpetuity at a rate equal to the average rate paid from years 3-10.
- The Treasury will transfer its preferred investment in a merger/acquisition if the buyer is a CDFI or MDI. If the buyer is not a CDFI or MDI, then the Treasury may still transfer its investment, but prior approval is required.
- The Treasury has the right to sell this preferred security at any time. When the Treasury sells this security, the preferred stock is first required to be valued by an independent third party. Then, the issuing bank has the first right of refusal to buy back the preferred stock at that valuation. This preferred stock is worth a substantial discount to par because it is perpetual, yields just 0-2% and the investor has basically no ability to enforce payment (i.e., it is non-cumulative). In my view, it is worth ten – 25 cents on the dollar. The Treasury realizes this and has put in a stipulation that the preferred cannot be repurchased for below ten cents on the dollar. At some point in the future, this preferred stock may get redeemed at a large discount to par, which means it essentially turns into a grant.

Here is an overview of the ECIP program from [Investopedia](#) and here is more information on it from the Department of Treasury: [Emergency Capital Investment Program | U.S. Department of the Treasury](#).

When looking at the bank's financial statements, many investors do not correctly account for the true fair value of the ECIP preferred. The balance sheet values the ECIP preferred as a liability at 100 cents on the dollar. Is it fair to value this liability at 100 cents on the dollar given how advantageous the terms are (to the issuing bank), and the fact that it may be redeemed for a fraction of par value in the future? My answer is no. I think it should be valued at a small fraction of its face value. If we value the ECIP preferred at 25 cents on the dollar, that adds another \$71,775,000 to common equity or \$40 per share ($\$71,775,000 / 1,786,786$). Adjusted shareholders' equity thus becomes \$126,002,000 (\$70.50 per share). This is a more accurate reflection of the banks' equity value to shareholders. Based on this assessment, Citizens is trading at 66% of its adjusted book value, which, again, is very cheap for a well-run bank.

I have spent a meaningful amount of time with the top executives at Citizens, as well as the board of directors, and I am impressed by the caliber of people at this small bank.

Alex, what are some of the first things you do when researching a potential investment? What does that first hour of research look like for you? Do you do anything that few others do?

When I initially begin researching a business, I do my best to only rely on primary source documents like 10Ks and 10Qs and avoid reading any other investor's views on the business to avoid any bias. I seek businesses where the market perception is wrong, as this can lead to a mispricing.

After studying the publicly available primary source documents, I employ sleuthing techniques in order to deeply understand the business and industry. I often visit the company and spend a meaningful amount of time with the management team. I also try to get to know at least several junior employees, which is enormously helpful to understanding the culture of a company. Additionally, I aim to speak to at least several former employees who trust that I will keep our conversation confidential and in turn share their true views on the company and the management team. I also speak to competitors, industry experts, thoughtful shareholders, and customers to get an independent understanding of the business.

What would you like Bossert Capital to look like 10 years from now?

I am focused on earning the best returns I can over time for a select group of investors that I admire while always investing prudently. In ten years, I hope to have built a track record that I am proud of.

Alex, thank you for the great interview! What is the best way for readers to follow or connect with you?

Thank you for the interview, Edwin. I enjoyed it. Readers can get in touch with me through our website: www.bossertcapital.com or follow me @alexbossert on Twitter.

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