Intrepid Capital Funds
the constant pursuit of value

INTREPID DISCIPLINED VALUE FUND

1st QUARTER 2014 COMMENTARY

1Q2014

MARCH 31, 2014

PERFORMANCE

	Inception Date	Total Return: Qtr.	Total Return: YTD	Total Return: 1 Year	Average Annualized Total Returns as of March 31, 2014: 3 Year	5 Year	Since Inception
Intrepid Disciplined Value Fund - Inv.	10/31/07	2.73%	2.73%	12.21%	8.64%	16.61%	6.37%
S&P 500 Index		1.81%	1.81%	21.86%	14.66%	21.16%	5.30%
Russell 3000 Index		1.97%	1.97%	22.61%	14.61%	21.93%	5.74%

Performance data quoted represents past performance and does not guarantee future results. *Investment returns and principal value will fluctuate, and when sold, may be worth more or less than their original cost. Performance current to the most recent month-end may be lower or higher than the performance quoted and can be obtained by calling 866-996-FUND. The Fund imposes a 2% redemption fee on shares held for 30 days or less. Performance data does not reflect the redemption fee. If it had, returns would be reduced.*

Per the Prospectus, the Fund's annual operating expense (gross) for the Investor Shares is 1.59%. The Fund's Advisor has contractually agreed to waive a portion of its fees and/or reimburse expenses such that the total operating expense (net) is 1.30% through 1/31/15.

April 2, 2014

Dear Fellow Shareholders,

For the quarter ended March 31, 2014, the S&P 500 Index returned 1.81%, and the Russell 3000 Index returned 1.97%. For the same period, the Intrepid Disciplined Value Fund (the "Fund") returned 2.73%. At first blush, the quarter appears to be rather boring in light of some of the much higher returns achieved in other recent quarters. But when we dig a bit deeper, we see a market with much more volatility, as shown in the chart to the right. By February 3, 2014, the S&P 500 Index's year-to-date return was -5.66%, while the Russell 3000 Index was down -5.51%. In that same window of time, the Fund was down -1.32%. In our opinion, the markets were down because of fear that company results could not match the relatively high earnings multiples being placed on the underlying stocks. In addition, investors were worried about the Federal Reserve reducing its monetary stimulus scheme which has kept short term rates near zero for more than five years. By the end of February, however, most of this fear had subsided. As March ended, Federal Reserve Chairwoman Janet Yellen reassured investors that the Fed's easy monetary policy would continue until the employment picture looked better. The last two weeks of January were like a bad dream that investors were happy to forget.

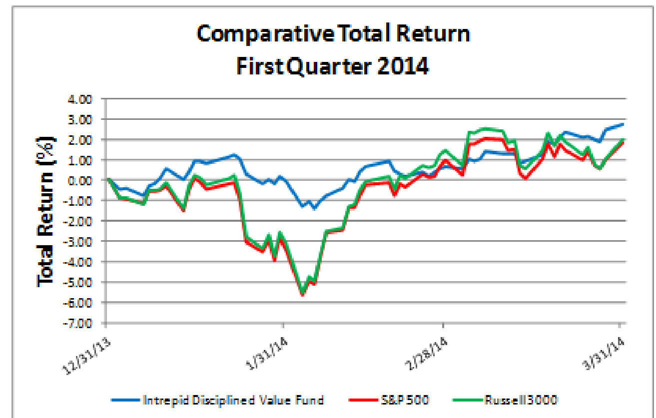


Figure 1 Source: Bloomberg

And yet the short period in late January should serve as a reminder to all investors of what could happen when an outside force- in this case, the Federal Reserve- discontinues its interference. And we firmly believe that the market's reflation is a result of the Fed's easy monetary policy. Consider the second chart to the right. The red line shows the value of the S&P 500 beginning four years ago in April 2010. With the exception of a few hiccups along the way, it has climbed inexorably to an all time high. Meanwhile, the price to earnings ratio for the S&P 500 (the blue line) has also been climbing. Why? Is a dollar of corporate earnings inherently more valuable than it was four years ago? We think not. Rather, with interest rates near zero, we believe that the Fed has forced money into the equity market, because there is nowhere else for the money to go. Thus, equity investment becomes less of an exercise

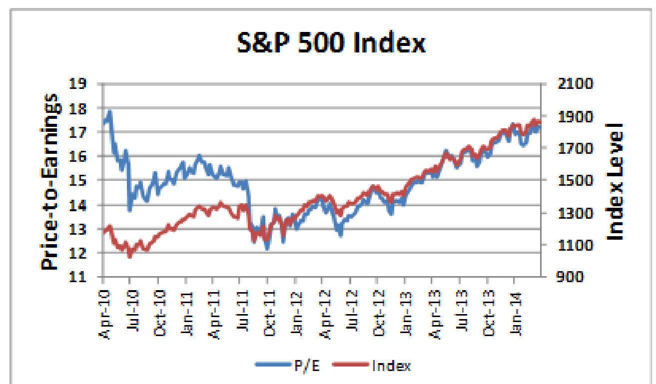


Figure 2 Source: Bloomberg

in determining what a business is worth, and more of a game of musical chairs. The Fed makes the music while investors walk around the chairs. To remain fully committed to such a market is in our minds a dangerous game, and it is clear to see what happens when investors fear that the music is about to stop. No song can last forever.

In light of the current environment, what is an investor to do? It is our goal not only to outperform the market when it is selling down, but also to find new ideas for investment when prices become more favorable. Last quarter, we reported the Fund's cash level at an all-time high of 61.3%. The brief selloff in this quarter did enable us to pick up some new investments. By quarter end, cash was at 48.8%. The purchasing activity includes both new purchases and additions to existing positions.

Top Ten Equity Holdings	(% of net assets)
Newfield Exploration Co.	3.2%
Cisco Systems, Inc.	3.1%
Laboratory Corp. of America Holdings	3.0%
Quest Diagnostics, Inc.	2.8%
The Bank of New York Mellon Corp.	2.8%
Northern Trust Corp.	2.6%
Staples, Inc.	2.5%
Apple, Inc.	2.5%
Microsoft Corp.	2.3%
Coach, Inc.	2.1%

Top ten holdings are as of March 31, 2014. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security.

Among the new additions to the portfolio were some recognizable names that we consider to be somewhat out of favor. We'd like to highlight a few of those. We'll start with the most recognizable company in the stock market: Apple, Inc. (ticker: AAPL). The very simple case for investing is this: the balance sheet is loaded with cash and at the time of investment, the stock was selling for just over six times its EBIT (Earnings before Interest and Taxes). The company had just released results and guided revenue to be flat to down for the next quarter, which is something Apple had not done in ten years. The stock sold off, and we saw that as an opportunity. Will Apple be able to permanently maintain dominant market share and command massive gross margins from 45% to 55% for iPhones? We don't think it can. Nor do we think it must to justify investing in it. As a matter of fact, when we value this business, we assume a reduction in gross margin. And yet we still believe that we own a company that trades at a discount to its intrinsic value.

We also purchased shares of Mattel, Inc (ticker: MAT). Mattel is the world's largest toy maker and owns a diversified portfolio of enduring brands including Barbie, Fisher-Price, American Girl, and Hot Wheels. Mattel caught our eye as shares declined sharply in early February due to poor fourth-quarter sales. We were able to buy shares of this shareholder-friendly company at a 4% dividend yield and a reasonable discount to our valuation.

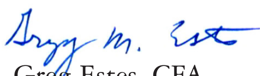
Another investment was Intuitive Surgical (ticker: ISRG). Intuitive is the market leader in robotic assisted surgical units. Actually, it is the only FDA-approved device maker for robotic surgery. Its product is known as the *da Vinci*, and its applications for minimally invasive surgery can be found in the fields of urology, gynecology, cardiothoracic and general surgery. Like several of our recent investments, this was an opportunistic purchase. The stock had sold down on concerns that unit sales had slowed, which is natural given the changing regulations in U.S. healthcare. In addition, there are criticisms that outcomes for robotic-assisted surgery are no better than more standard laparoscopic surgery. However, we believe that adoption of robotic assisted surgery will continue onward as more physicians become trained on it and as the FDA approves the device for more types of procedures. The implementation of the ACA (Affordable Care Act) is more of a general concern among all healthcare companies. We believe that, as the only company in this field, the company is well positioned and it should continue to see procedure growth in robotic-assisted surgeries.

The top performers in the quarter were varied. Newfield Exploration (ticker: NFX) was the Fund's top gainer as commodity companies were among the best performers in the market for the quarter. World Wrestling Entertainment (ticker: WWE) gained on continued speculation that the company would sign a more lucrative television deal, thus boosting operating profits. The decision has not yet been announced, and we have exited the position because the current price is above our estimate of the company's underlying worth. Finally, the Fund's investment in two lab service providers, Quest Diagnostics (ticker: DGX) and Labcorp (ticker: LH) both rebounded in the quarter on news that Congress is considering controlling the amount of reimbursement cuts for lab service paid by Medicare and Medicaid.

The Fund's worst performers included FTI Consulting (ticker: FCN), which posted weak forward guidance for 2014. Staples (ticker: SPLS), a name we have owned in the past and had repurchased in the quarter, announced that it will be cutting its brick-and-mortar footprint in the U.S. to focus more resources towards its online presence. Although this development gave us an opportunity to purchase, our timing was not perfect. We believe that Staples will be able to add value by shrinking its less profitable operations over time. Finally, CSG Systems (ticker: CSGS) delivered what was, in our opinion, a solid fourth quarter. However, the market wanted better forward guidance for 2014 than the company delivered. Therefore, the shares traded down for the quarter.
As we have done with every quarterly letter, we close by citing the average discount within the Fund. We derive our own internal

values for each stock, and we compare those values with their corresponding stock prices to calculate the discount for each position. When we cite the average discount in the Fund then, we are simply giving you the mid-point among all the individual discounts within the Fund. At quarter end, that average discount was 7%. To us, this indicates that discounts are small, which should come as no surprise given the increase in the stock market over the past five years. We will, however, continue searching for value and when possible take opportunities in the event of a market selloff. We appreciate your confidence in our investment process.

Sincerely,



Greg Estes, CFA
Intrepid Disciplined Value Fund Portfolio Manager

Mutual fund investing involves risk. Principal loss is possible. The Fund is subject to special risks including volatility due to investments in smaller and medium sized companies, which involve additional risks such as limited liquidity and greater volatility. The Fund is considered non-diversified as a result of limiting its holdings to a relatively small number of positions and may be more exposed to individual stock volatility than a diversified fund. The Fund may invest in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods.

Diversification does not assure a profit or protect against a loss in a declining market.

Prior to April 1, 2013, the Fund was named the Intrepid All Cap Fund.

The S&P 500 Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. The Russell 3000 Index is an index representing the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market. The Dow Jones Industrial Average is an unmanaged index of common stocks comprised of major industrial companies and assumes reinvestment of dividends. You cannot invest directly in an index.

EBIT is calculated as the company's Earnings Before Interest and Taxes. Price-to-Earnings Ratio (P/E Ratio) is an equity valuation multiple calculated as market price per share divided by annual earnings per share.

Opinions expressed are subject to change, are not guaranteed and should not be considered investment advice or recommendations to buy or sell any security.

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