Intrepid Capital MANAGEMENT INC.

Index Returns	
1/1/2016 to 3/31/2016	
Dow Jones:	2.20%
S&P 500:	1.35%
NASDAQ:	-2.43%
Russell 2000:	-1.52%
MSCI EAFE:	-3.01%

PRESIDENT'S LETTER

April 2016

"Indeed it has been said that democracy is the worst form of government except for all those other forms tried from time to time"

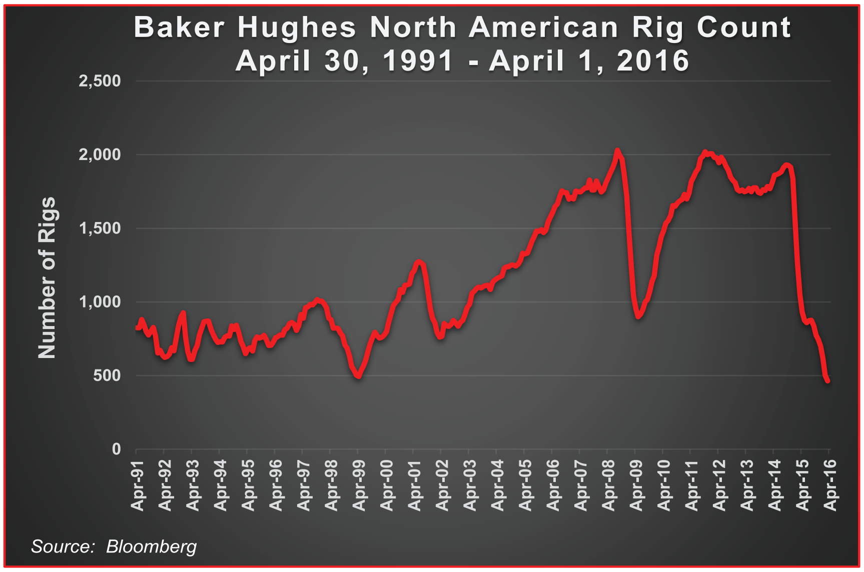
— Winston Churchill

Dear Friends and Clients,

After reading the reference to democracy in the quote above, I am also reminded of watching sausage being made – not a pretty process! As we enter the 'silly season' of presidential politics, the electorate is angry and frustrated that Washington doesn't work the way voters wish it did. This frustration, along with inflation adjusted incomes lower than they were eight years ago, is manifested on both sides of the aisle by the presidential candidates. This could get interesting.

2016 began with the markets selling off, led by companies with exposure to oil, which fell below $30/barrel by mid-January. The billions in debt borrowed in the last six to seven years to expand the U.S. oil and gas production business is now an albatross around the industry's neck. What modeled out beautifully at $100/barrel doesn't work at $30/barrel. Much of the issuance in the high yield (less than investment grade) bond market has been borrowed by the oil and gas industry.

As the chart below shows, the U.S. rig count compiled weekly by Baker Hughes has now dropped to 25-year lows. Although we believe this reduction in new wells will eventually restrict production and push oil prices higher, we just don't know when.



The interest rate decisions made by the Federal Reserve affect the bond market. It has been said that when the bond market sneezes, the stock market catches a cold. As the bond market has demanded higher and higher interest rates on loans (bonds) to the oil and gas industry, this has had a chilling effect on the equity market. We like to remind shareholders that the "bankers eat first" in a business with a lot of debt, while the equity holders get what is left. For many companies in the oil and gas industry, the bankers' portion – interest and principal payments – consumes any profits, leaving the equity virtually worthless.

As defensive portfolio managers with what many of our peers would consider intolerably large cash balances, we welcome the lower equity prices as an opportunity to put money to work at attractive prices. Please keep in mind, this desire of ours is often juxtaposed with those of our shareholders, many of whom, as I sarcastically say, "buy high, sell low," and treat a market down 10% or more as an opportunity to flee! We would contend that the better time to withdraw would be after a large upswing in performance, like after 2009, when the Intrepid Balanced portfolio increased 29.92%, net-of-fees, for the calendar year. Our underperformance is generally driven by our conservatism and willingness to sell when prices reach our estimates of value. The corresponding cash balances become a sea anchor, particularly if prices continue to rise.

We are pleased with our results over the last decade, less so with the shorter periods. Unfortunately, to obtain the long-term results that most people express is their desire (we can debate this one in future letters!), we often have to suffer in the short run. This bull market is old (greater than 7 years), faces an interest rate headwind (Mrs. Yellen - Federal Reserve Chairwoman), and is expensive, with a price earnings (P/E) ratio of 22 compared to a long-term average of 16. These indicate to me that we will face challenges ahead. The good news is we at Intrepid Capital will be ready!

Thank you for your continued support as we attempt to compound your capital, and ours, at an attractive risk-adjusted rate.

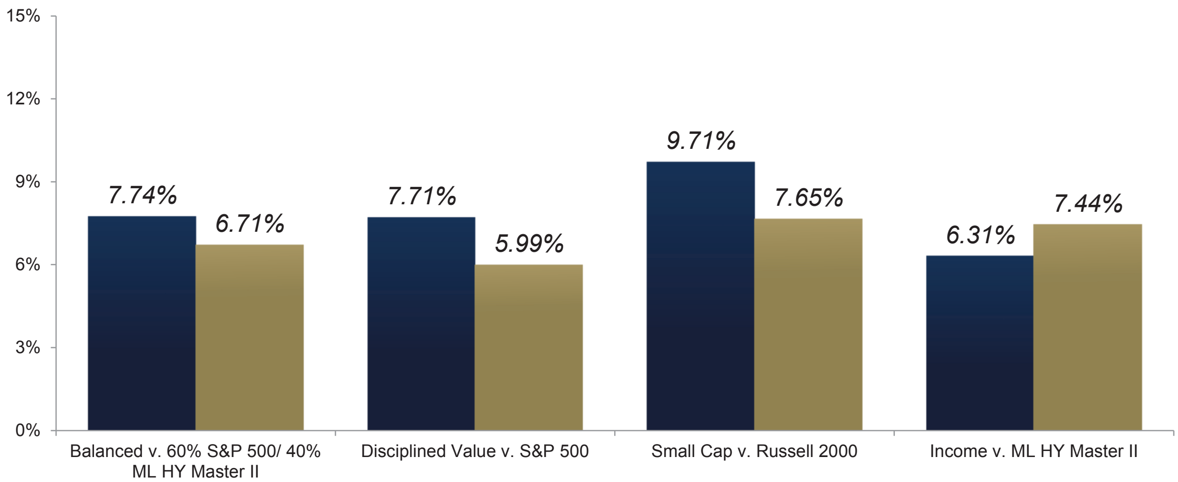
Best regards,

Mark F. Travis
President/CEO

ANNUALIZED PERFORMANCE

TRAILING 15 YEAR RISK/RETURN

MARCH 31, 2001 TO MARCH 31, 2016

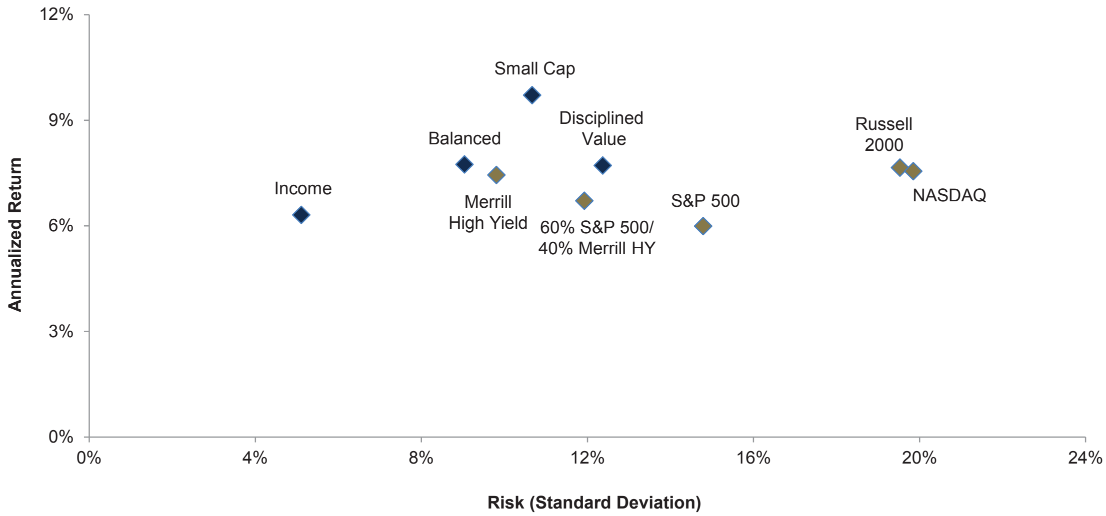


- Past performance is no guarantee of future results. Intrepid composite returns are presented net of investment advisory fees and all returns are presented annualized for the 15-year period ending March 31, 2016. Returns reflect the reinvestment of dividends and other earnings. The volatility of the listed benchmarks may differ materially from the volatility of any Intrepid composite. As of December 31, 2004, the firm changed its fixed income benchmark from the Salomon High Yield Short-Term Index to the Merrill Lynch High Yield Master II Index.

RISK ADJUSTED RETURNS

TRAILING 15 YEAR RISK/RETURN

MARCH 31, 2001 TO MARCH 31, 2016



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