Intrepid Capital
MANAGEMENT INC.

Index Returns	
4/1/2015 to 6/30/2015	
Dow Jones	-0.29%
S&P 500	0.28%
NASDAQ	2.03%
Russell 2000	0.42%

PRESIDENT'S LETTER

July 2015

"I believe the market is extremely overheated… if more respected investors had warned about the market in '07, we might have avoided the crisis in '08."

— Carl Icahn, on Twitter

Dear Friends and Clients,

I read the above quote from Carl Icahn, the famous corporate raider, in a recent edition of *Barron's* magazine. I find it of continuing interest that other well-known investors have expressed similar opinions, along with notable academic luminaries, including Janet Yellen, Chairwoman of the Federal Reserve, and Yale professor Robert Shiller, yet no one appears to be listening, at least at the moment. The gravitational pull away from non-existent returns on cash has left most investors with a "tin ear," either deaf to the fact that equity and debt valuations are stretched, or helpless to remove themselves from the capital markets due to a need for current income.

The 3-year and 5-year returns of the S&P 500 are both over 17% annualized. This fact, coupled with very low equity price volatility and the aforementioned microscopic returns on cash and savings accounts, have led many investors to adopt the attitude of Alfred E. Neuman of *Mad Magazine*, "What, me worry?" Yes, one should worry. In fact, that is largely what we do on your behalf — worry. Many have made the choice to invest in unprofitable, speculative businesses that could take decades to generate enough cash to repay the initial investment, if ever.

In the fixed income world, such investments usually involve seeking yield without regard to maturity or the inherent risk of capital loss if interest rates begin to rise in the future. The timing of such a move is uncertain. I, for one, don't think the good old U.S.A. can afford higher rates on the additional nine trillion dollars the federal government has borrowed since 2008. According to the Congressional Budget Office, net interest payments were $231 billion in 2014 with a 1.8% average rate.[1] A mere 1% rise in rates would require an additional $128 billion in interest on the same amount of debt. Significantly higher interest rates would be tough if not impossible to swallow within the confines of the U.S. budget.

At Intrepid Capital, we believe that prospective returns are driven by what we pay for an asset and the corresponding cash flows that come with it. Please keep in mind that as volatility increases, the more likely mispricing is to occur, and the more likely we are to find investments where there is a favorable risk/reward profile.

At this juncture in early July 2015, most returns in the capital markets, equity or debt, have been rather subdued year to date, ±1%; not exactly what many were expecting given the strong bull run of 2013 and 2014. If prices become more attractive, I will look forward to reporting back to you what we have found.

Thank you for trusting us with your hard earned capital. It is not a position we take lightly.

Best regards,

Mark F. Travis

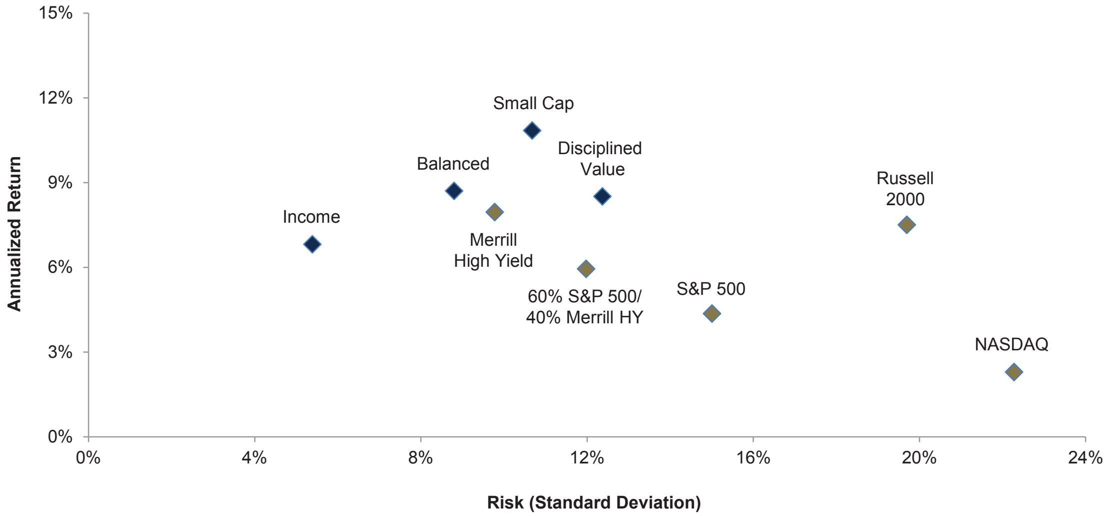
Mark F. Travis
President/C.E.O.

1 https://www.cbo.gov/publication/45684

RISK ADJUSTED RETURNS

TRAILING 15 YEAR RISK/RETURN

JUNE 30, 2000 TO JUNE 30, 2015

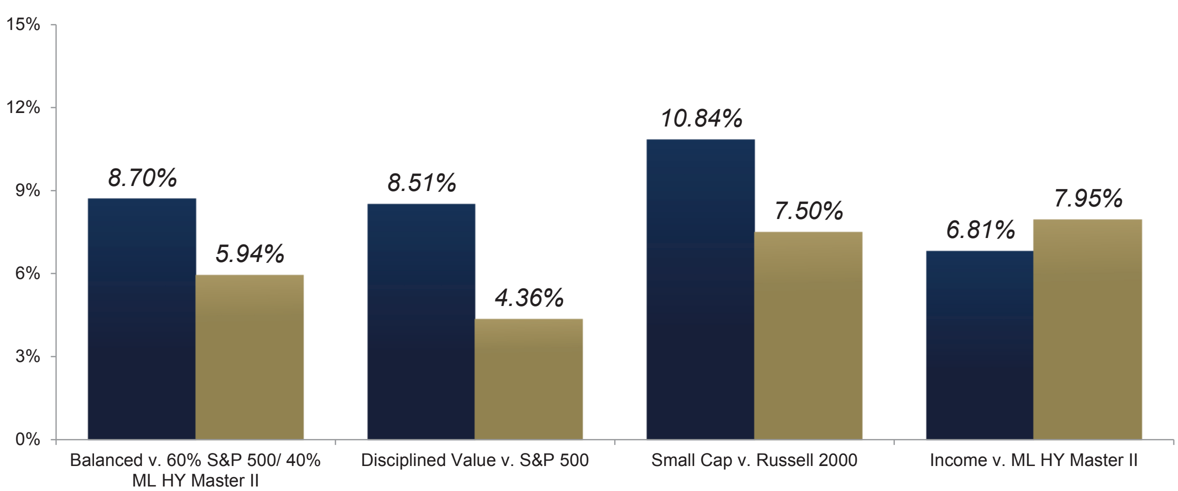


• Past performance is no guarantee of future results. Intrepid composite returns are presented net of investment advisory fees and all returns are presented annualized for the 15-year period ending June 30, 2015. Returns reflect the reinvestment of dividends and other earnings. The volatility of the 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.

ANNUALIZED PERFORMANCE

TRAILING 15 YEAR RISK/RETURN

JUNE 30, 2000 TO JUNE 30, 2015



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