Intrepid Capital
MANAGEMENT INC.

Index Returns	
4/1/2016 to 6/30/2016	
Dow Jones:	2.06%
S&P 500:	2.46%
NASDAQ:	-0.23%
Russell 2000:	3.79%
MSCI EAFE:	-1.46%

PRESIDENT'S LETTER

July 2016

"Keep your eye on the ball and hit 'em where they ain't."

— Willie Keeler, MLB player (1892-1910) & Hall of Fame inductee

Dear Friends and Clients,

We are pleased to announce that the Intrepid Balanced Portfolio (the "Portfolio") increased 5.69%, net-of-fees, for the quarter ended June 30, 2016, comparing favorably against the various all-equity indices. For the same period, the Russell 2000 Index, which consists of smaller capitalization domestic stocks, and the S&P 500 Index, a capitalization-weighted index of larger U.S. companies, returned 3.79% and 2.46%, respectively. The Blended benchmark - 60% S&P 500 Index (equities) and 40% BAML High Yield Master II Index (high yield bonds), returned 3.83% for the same period.

As we have mentioned many times, "bankers get to eat first!" By that we mean that a bond represents a superior claim on the cash flows of a business or government entity (e.g. Puerto Rico). Equity shareholders accept a junior position in the food chain in exchange for potentially higher returns, but occasionally there are cases, such as our current investment in the notes of EZCORP, where a position higher in the capital structure offers potential returns equal to or greater than those of an equity stake. This happened to be the case for bondholders in aggregate through the first half of the year, as bonds have had better absolute and risk-adjusted results than most equity shareholders. Key bond indices have increased year-to-date around 7-8% versus 2-4% increases for most equity indices, meaning incremental risk-taking by investors in equities was largely unrewarded as central bankers continued their various methods of interest rate suppression.

While our central bankers (Federal Reserve) haven't tried out negative interest rates on U.S. depositors yet, as Japan and various European central banks have, we do have two presidential candidates with nothing more than retread policies. One is advocating for more of the same economic agenda that has resulted in negative inflation-adjusted wage growth for the average household over the last eight years, coupled with a record low labor force participation rate. The other wants a wall separating the U.S. from one major trading partner (and paid for by that partner!) and tariffs imposed on another. Pick none of the above.

We need better policy. In fact, we should demand better policy as we are the ones paying for it and the politicians are, at least in theory, the ones working for us. Our country has plentiful resources and hard-working people, coupled with deep and highly developed capital markets. It's debatable how quickly our economy needs to grow if we are to pay our debt and the entitlements both parties have promised (Social Security, Medicare, Medicaid, etc.), but the magic number is much higher than the anemic 1.76% annual real GDP growth we've experienced since 2009. Taxes can be raised, but at some point high taxes start to discourage economic production and drive rational taxpayers to take drastic actions, like the case of Facebook co-founder Eduardo Saverin, who renounced his citizenship and moved from California to Singapore prior to Facebook's successful IPO to reduce his capital gains taxes. Next time you see a politician, and certainly before writing him or her a check, ask "What are you going to do to make our economy grow faster?"

We have endured the first half of the year, despite all the gyrations, starting with a drawdown into early February due to the plunging price of oil, and more recently with the surprising outcome of the U.K. deciding to leave the European Union, aka Brexit. We feel good about where the Portfolio's performance is year-to-date with an increase of 8.27%, net-of-fees. This has confirmed to us once again, that if you don't want the results everyone else is getting, you'd better try something else.

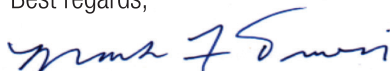
The world has shifted in a significant way toward “passive” investing, where portfolios are constructed to mimic an index that serves as a proxy for the whole market. This strategy has blossomed in the low volatility world in which equity investors have found themselves for the last seven years, courtesy of central bank rate suppression policies. I think many investors are making a rational choice in indexing, if the alternative is an “actively managed” portfolio that largely apes an index but charges 100 basis points more for the privilege. However, many investors who converted to passive strategies simply because they saw the market going up and didn’t want to miss out may be rethinking their decision as the previously soaring equity markets have largely stalled since the end of Quantative Easing (QE) in October 2014. Since then, the S&P 500 (large caps) and Russell 2000 (small caps) have had annualized returns of only 4.6% and 0.3%, respectively, and have seen temporary drawdowns of 12-20%. Our intent is not to bash passive investing as a concept, but to note that indexing tends to be very popular on the way up and equally as unpopular on the way down. Before switching to an index-based portfolio, every investor needs to understand that the post-recession market returns to date are not normal historically and consider their intestinal fortitude ahead of the inevitable next downturn.

At Intrepid Capital, we have chosen an entirely different path – one that rests on the backs of our eight-person analyst team. The benchmark indices for each of our portfolios are not a reference point for us during portfolio construction, and each security is carefully underwritten as to business valuation for equity and assets or free cash flows for debt. We thrive on periods of market turmoil, as volatility dislodges opportunities to put our cash reserves to work and scoop up businesses at bargain prices.

We continue to seek businesses that can be valued with a high degree of confidence and those we believe to be selling at a discount to our fair value estimate. Our goal is to provide attractive absolute risk-adjusted returns, which we believe we have done so far in 2016. The Portfolio ended the quarter with a healthy (by industry standards) cash balance of 20.9%, available to deploy should volatility continue to increase in the back half of the year.

Thank you for entrusting us with your hard earned capital; it is not a position we take lightly. If there is anything we can do to better serve you, please don’t hesitate to contact us.

Best regards,

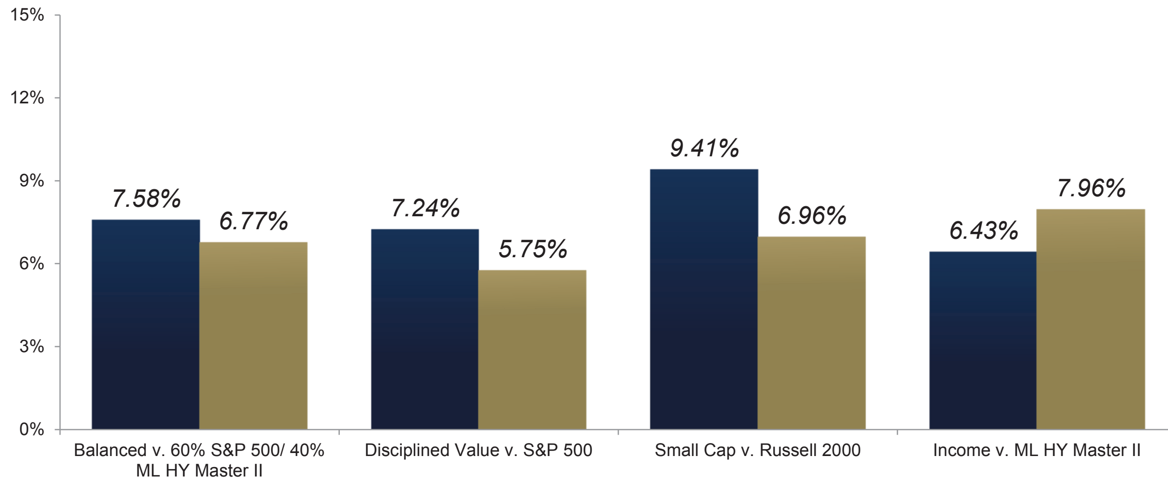


Mark F. Travis
President/CEO

ANNUALIZED PERFORMANCE

TRAILING 15 YEAR RISK/RETURN

JUNE 30, 2001 TO JUNE 30, 2016

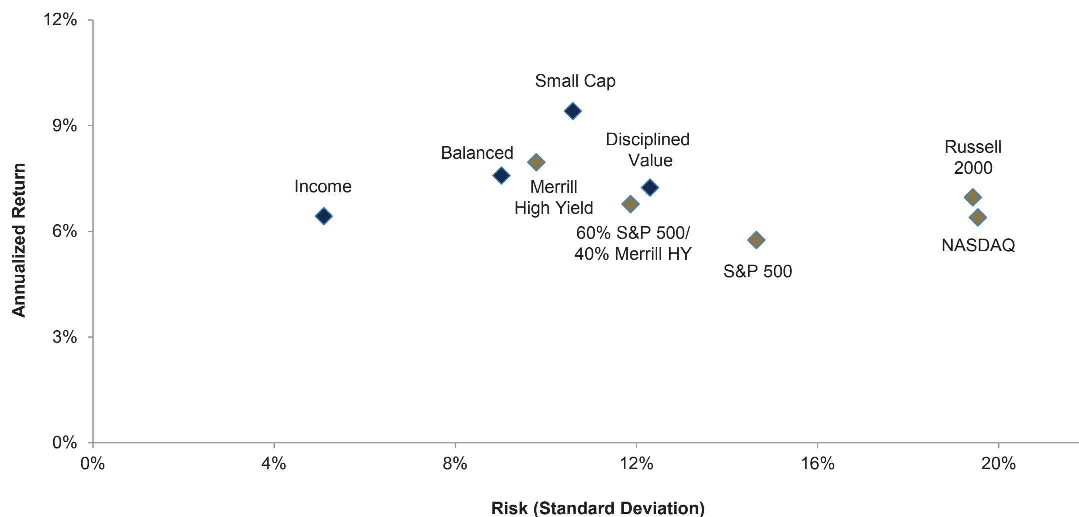


- Past performance is no guarantee of future results. Intrepid composite returns are presented net of investment advisory fees and all returns are presented annualized for the 15-year period ending June 30, 2016. Returns reflect the reinvestment of dividends and other earnings. The volatility of the 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

JUNE 30, 2001 TO JUNE 30, 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 June 30, 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.