Intrepid Capital Funds

the constant pursuit of value

INTREPID CAPITAL FUND

3rd QUARTER 2014 COMMENTARY

3Q 2014

SEPTEMBER 30, 2014

PERFORMANCE

	Inception Date	Total Return Qtr.	Total Return YTD	Total Return 1 Year	Average Annualized Total Returns as of September 30, 2014 3 Year	5 Year	Since Inception
Intrepid Capital Fund - Inv.	1/3/05	-0.69%	5.33%	10.23%	12.85%	10.59%	7.71%
Intrepid Capital Fund - Inst.	4/30/10	-0.70%	5.52%	10.41%	13.13%	-	8.98%
S&P 500 Index		1.13%	8.34%	19.73%	22.99%	15.70%	7.44%^
Russell 2000 Index		-7.36%	-4.41%	3.93%	21.26%	14.29%	7.15%^
BAML High Yield Master II Index		-1.92%	3.61%	7.23%	10.95%	10.40%	7.92%^

^Since Inception returns are as of the fund's Investor Class inception date. Since the inception date of the Institutional Class, the annualized return of the S&P 500 Index is 14.60%, Russell 2000 Index is 11.72%, and BAML High Yield Master II Index is 8.66%.

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 expenses (gross) for the Investor Share Class is 1.42% and for the Institutional Share Class is 1.17%. 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 1.40% and 1.15% through 1/31/15, respectively. Otherwise, performance shows would have been lower.

October 1, 2014

"A government which robs Peter to pay Paul can always depend on the support of Paul"
-George Bernard Shaw

Dear Friends and Clients,

I was recently asked to speak to a group of largely retired businessmen, and the title of discussion was "5 things I have learned in 20 years of running Intrepid Capital." I find it useful to reflect in the hope I won't have an unforced error twice! By recreating it here, I thought it would help clients to understand our investment process a little better.

Lesson #1: There is more than one way to investment heaven.
I don't believe we have cornered the market (no pun intended) on how portfolios should be managed. In fact, there are many ways to investment heaven, but most won't make it for lack of sticking with a consistent, disciplined process, whatever that may be. At Intrepid Capital, our goal is to participate on the upside and protect capital on the downside. We aim to do this with a conservative and strict underwriting process, carefully assessing business value and attempting to pay significantly less than that amount. To the dismay of some, our valued oriented process will often underperform the market. The incremental outperformance over a full market cycle (Bull & Bear market), compounded over a long investment horizon (20 years), should lead to a substantial dollar difference in terminal value, if you stay with it.

Lesson #2: Price matters.
Price is not always indicative of value. At Intrepid Capital, we believe that the price you pay today is the largest determinant of your investment outcome, whether for a stock, bond, real estate or a private business. We try to pay such a cheap price so that our outcome is asymmetrical. In other words, we seek a lot more upside than downside when we establish a position.

Lesson #3: Fish in a deeper pond.
Most of the financial press and many a portfolio manager only follow the largest 500 equity securities by market capitalization. At Intrepid Capital, we search the globe for mispricings, leaving what we generally regard as efficiently priced domestic large capitalization companies to others. In the U.S. today, there are roughly 343 companies with market capitalizations north of $15 billion, but almost 9,000 companies with market capitalizations less than $2.5 billion, hence the deeper pond where we prefer to fish. In addition, we continue to look outside of this country, with more and more eyeballs devoted to the task.

Top Ten Holdings	(% of net assets)
Northern Oil and Gas, Inc., 06/01/2020, 8.000%	3.5%
Corus Entertainment, Inc. - Class B	3.3%
Berkshire Hathaway, Inc. - Class B	3.2%
The Western Union Co.	3.1%
Intuitive Surgical, Inc.	2.8%
Oaktree Capital Group LLC	2.4%
Tetra Tech, Inc.	2.4%
Staples, Inc.	2.3%
Bio-Rad Laboratories, Inc.	2.3%
Amdocs Ltd.	2.3%

Top ten holdings are as of September 30, 2014. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security.

Lesson #4: Don't do something . . . Just sit there.
Frankly, in almost ten years at the helm of the Intrepid Capital Fund, I have been amazed over the speed in which money comes in and goes back out, often to the detriment of the underlying shareholders. Until 1975, stock brokerage commissions were a high cost that made frantic trading difficult and expensive. Up until that time, portfolio turnover averaged maybe 30% per year, implying a holding period of just over 3 years. Today, trading costs are negligible and portfolio turnover is 100% or greater in some instances. Please keep in mind our "friends" at the I.R.S. charge almost 2X in taxes for capital gains on a profitable position held 364 days versus one held 366 days. The top marginal rate for short term capital gains is roughly 44% versus 23% for gains held over one year. Lastly, I have heard the no load fund business, at times of heightened volatility, referred to as 1-800-GET- ME-OUT! Unfortunately, many, if not most mutual fund shareholders buy high and sell low. A study by Dalbar and Associates of Boston found that over the last 20 years the market averaged roughly 8% but the average mutual fund investor only 4%. This is largely the result of emotion- driven purchase and sale decisions. When you find a manager and process you like, don't do something…just sit there.

Lesson #5: Opportunities are the greatest when fear is the highest.
This last point is important to note as we are now five and a half years into a bull market with the last three having been particularly benign from the Federal Reserve's continuous morphine drip of interest rate suppression. As rates seek a higher level, either on their own or with the helping hands at the Federal Reserve, equity prices could reset lower rather quickly. The VIX, or Volatility Index, is a good indicator of fear in market participants. Our process is somewhat counter cyclic in that we tend to be fully invested when prices are absolutely cheap, and when prices are high, our cash levels tend to follow. Our job, when the fire bell rings and the VIX index spikes from rampant fear, is to slide down the fire pole and buy mispriced securities! Our fire suits are on and we are listening.

The Intrepid Capital Fund (the "Fund") declined 0.69% for the quarter ended September 30, 2014, outperforming the BAML High Yield Master II Index which declined 1.92% but underperforming the S&P 500 Index's return of 1.13% for the period. In the Fund's fiscal year ended September 30, 2014, the Fund gained 10.23% versus the increases of 7.23% and 19.73% for the BAML High Yield Master II Index and S&P 500 Index, respectively. We are pleased to report the Intrepid Capital Fund (Investor) received an overall 4-Star Morningstar Rating out of 737 Moderate Allocation funds for the period ending September 30, 2014 (derived from a weighted average of the fund's three-, five-, and ten-year risk adjusted return measure, if applicable).

The top contributors to the quarter's performance were American Eagle Outfitters (ticker: AEO), Intuitive Surgical (ticker: ISRG), and Berkshire Hathaway B (ticker: BRK/B). In contrast, the Fund's largest detractors for the quarter were Bill Barrett (ticker: BBG), Mattel (ticker: MAT), and Newfield Exploration (ticker: NFX). However, Newfield Exploration was a top contributor for the Fund's fiscal year, along with World Wrestling Entertainment (ticker: WWE) and Bank of New York Mellon (ticker: BK). Coach (ticker: COH), Mattel, and Western Union (ticker: WU) were the largest detractors for the fiscal year ended September 30, 2014. Many of these companies are discussed in our other fund commentaries or have been discussed in prior quarterly commentaries.

Thank you for entrusting us with your capital, it is not a position we take lightly.

Best regards,

Mark F. Travis
President
Intrepid Capital 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 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. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer term debt securities. Investments by the Fund in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher rated securities. The Fund may invest in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods.

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 Bank of America/Merrill Lynch High Yield Master II Index is Merrill Lynch's broadest high yield index, and as such is comparable with the broad indices published by other investment banks. The Russell 2000 Index consists of the smallest 2,000 companies in a group of 3,000 U.S. companies in the Russell 3000 Index, as ranked by market capitalization. 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 Chicago Board Options Exchange Volatility Index (VIX) is a widely used measure of market risk used to gauge the market's anxiety level. You cannot invest directly in an index.

Morningstar Proprietary Ratings reflect risk-adjusted performance as of 9/30/14. For each fund with at least a three year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar risk-adjusted return measure that accounts for variation in a fund's monthly performance placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in distribution percentage. The Intrepid Capital Fund received 3 stars among 737 for the three-year and 4 stars among 652 Moderate Allocation Funds for the five-year period ending 09/30/2014.

References to other mutual funds should not be interpreted as an offer of these securities.

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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