Intrepid Capital Funds
the constant pursuit of value

INTREPID CAPITAL FUND

3RD QUARTER 2016 COMMENTARY

3Q 2016

SEPTEMBER 30, 2016

PERFORMANCE

		Total Return			Average Annualized Total Returns as of September 30, 2016			
	Inception Date	Qtr.	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Intrepid Capital Fund - Inv.	1/03/05	3.86%	12.25%	12.87%	4.92%	8.53%	7.43%	6.78%
Intrepid Capital Fund - Inst.	4/30/10	3.92%	12.46%	13.16%	5.16%	8.81%	-	6.96%
S&P 500 Index		3.85%	7.84%	15.43%	11.16%	16.37%	7.24%	7.39%^
Russell 2000 Index		9.05%	11.46%	15.47%	6.71%	15.82%	7.07%	7.31%^
BAML HY Master II Index		5.49%	15.32%	12.82%	5.27%	8.24%	7.59%	7.30%^

^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 12.21%, Russell 2000 Index is 10.59%, and BAML High Yield Master II Index is 7.28%.

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 1/31/17, respectively. Otherwise, performance shown would have been lower.

October 3, 2016

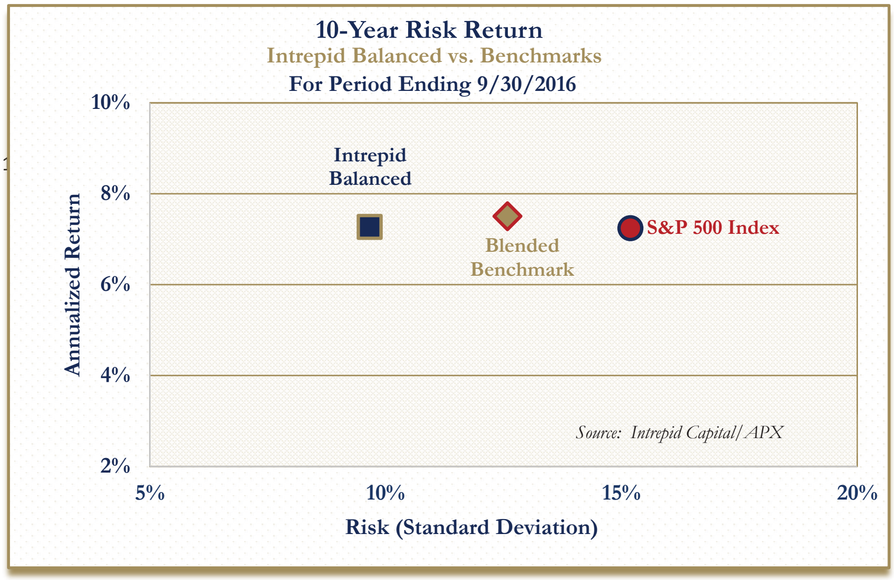
"Look for the ridiculous in everything, and you will find it."

— Jules Renard

Dear Friends and Clients,

We are pleased to announce the Intrepid Capital Fund (the "Fund"), our balanced strategy, ended the third quarter of 2016 with an increase of 3.86% compared to 3.85% for the S&P 500 Index, a capitalization weighted index of larger U.S. companies, and 9.05% for the Russell 2000 Index, which consists of smaller capitalization domestic equities. As an outsider looking in, one might review the close proximity of outcomes and suspect a "closet indexer," but in our case, nothing could be further from the truth. It's just pure coincidence. The Fund is designed to seek attractive risk-adjusted returns over time by holding stocks, bonds, and cash. As of September 30, 2016, the Fund consisted of 49.4% equities, 28.8% bonds, and 21.8% cash.

We find it interesting that by *going our own way*, our balanced portfolio has out-performed the higher-risk, all-equities S&P 500 with a return of 7.43% compared to the index's return of 7.24% with significantly less volatility, for the ten-year period ended September 30, 2016. The Blended Benchmark (60% S&P 500/40% BAML HY Master II), consisting of stocks and bonds, barely outperformed the Fund over the same time period, with a 7.51% increase, but did so with more volatility than the Fund.



Top Ten Holdings	(% OF NET ASSETS)
Berkshire Hathaway, Inc. - Class B	3.4%
Royal Mail PLC	3.2%
Tetra Tech, Inc.	3.0%
Corus Entertainment, Inc. - Class B	2.7%
Teradata Corp.	2.7%
Leucadia National Corp.	2.6%
Patterson-UTI Energy, Inc.	2.6%
Western Digital Corp.	2.4%
Pitney Bowes Intl Pfd Stock, 6.125%	2.4%
Tech Data, 09/21/2017, 3.750%	2.2%

Top ten holdings are as of September 30, 2016. Fund holdings are subject to change and are not recommendations to buy or sell any security.

As has been the case for several years now, we find ourselves confronting high equity prices, both here and abroad. On a trailing 12-month basis, the S&P 500 is trading at a Price-to-Earnings (P/E) ratio of 24.5. Some might say, "well, that is an 'earnings yield' of ~4%, which is competitive with the 10 Year US Treasury at 1.60%." However, investors can replicate that "yield" in the U.S. bond market with a superior claim to that of an equity investor, so we see little additional return potential to compensate for the higher risk inherent in stocks.

As the lead pilot of Intrepid Capital, like those at Delta, American, United, and Southwest, I think after 7 ½ years of a bull market, it would be prudent to review safety features that we believe are important to address before the advent of the next bear market.

1. **Consider holding some cash.** In over thirty years in the industry, I can count on one hand, with some fingers left over, how many investors I have met who were truly comfortable and committed to a 100% stock portfolio. If you wouldn't be able to sleep at night knowing you owned a cashless portfolio, or worse, not be able to watch your savings decline 30-50%, I would consider cash or a ladder of treasuries equal to a multiplier of six months to two years of your monthly expenses.

2. **Expand the scope of your equity investments.** At Intrepid Capital, looking across the globe in developed markets for companies with equity market capitalization north of $250 million gives us approximately 15,000 possibilities. U.S. stocks represent approximately 30% of the total value of global markets. Consider that the results of the market cap-weighted S&P 500 are essentially dominated by the share price performance of the largest 100 U.S.-based companies.

3. **Consider the position sizes in your portfolio.** Hopefully, the position sizes are neither too small (0.0010%) nor too large (10%). In the aftermath of the last two major bear markets (2000-2002 and 2008-2009), most investors have opted for what we call "di-worsification" with very diluted and diffused equity holdings. We encourage the "Goldilocks" (Just Right) mix of 2.5% to 4.0% positions at cost, resulting in a portfolio of 25-40 individual holdings. This results in a more intimate understanding of each holding, allowing quick deployment from cash reserves (see #1) if prices become disconnected from long-term value.

4. **Be prepared to hang on.** Rome wasn't built in a day, and the next bear market may not be over quickly either. Please keep in mind that turning over a portfolio regularly, like many tend to do, leads to high frictional costs in the form of commissions, bid/ask spreads, and for holdings held less than a year, higher taxes.

5. **Hold shorter maturity/duration bonds.** Don't reach into longer-maturity bonds just to grab a few extra basis points of yield. We are concerned that global central bank rate suppression has turned many of the "savers" of yesterday into the "investors" of today. Starved and groping for income in all the wrong places, they are now invested in long-duration assets (bonds and stock) that are most susceptible to an increase in interest rates when that day comes.

6. **Focus on "absolute" positive returns.** When the market only goes up, as it has for the last several years, many think only of return and forget about the evil twin sister, risk, until it is too late. Don't get caught up in how your portfolio is performing relative to the market. Focusing only on looking good against a benchmark index may be good for a fund manager's job security, as he's unlikely to be fired for being down 18% when the market is down 20%, but it has little practical benefit for individual investors. You can't eat relative performance, particularly if it is negative!

So there you have it, a pre-flight checklist that could potentially help you survive the next bear market; oh, by the way, the life vest is under the seat!

As we mentioned, the Fund ended the quarter with a cash balance of 21.8%, available to deploy should volatility increase. The Fund's five largest contributors during the quarter were Teradata Corp. (ticker: TDC), EZCORP 2.125% Due 06/15/2019, Tetra Tech (ticker: TTEK), Western Digital (ticker: WDC), and Fenner PLC (ticker: FENR). The Fund's five largest detractors for the quarter were Dundee Corp. (ticker: DC/A CN), Corus Entertainment (ticker: CJR/B CN), Verizon (ticker: VZ), Coach (ticker: COH), and Express Scripts (ticker: ESRX).

Thank you for trusting us with your hard-earned capital. If there is anything we can do to serve you better, please don't hesitate to call us.

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 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 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 (BAML HY Master II Index) tracks the performance of below investment grade, but not in default, US dollar-denominated corporate bonds publicly issued in the US domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P. The Blended Benchmark is a custom benchmark consisting of 60% S&P 500 and 40% BAML HY Master II. You cannot invest directly in an index.

Basis Point is a unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument. Price-to-Earnings (P/E) Ratio is calculated by dividing the current price of the stock by the company's trailing 12 months' earnings per share. Standard Deviation is a statistical measure of portfolio risk used to measure variability of total return around an average, over a specified time. The greater the standard deviation over the period, the wider the variability or range of returns and hence, the greater the fund's volatility.

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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