

Index Returns	
7/1/2015 to 9/30/2015	
Dow Jones:	-6.98%
S&P 500:	-6.44%
NASDAQ:	-9.16%
Russell 2000:	-11.92%

PRESIDENT'S LETTER

October 2015

“If you can't stop, smile as you go under”

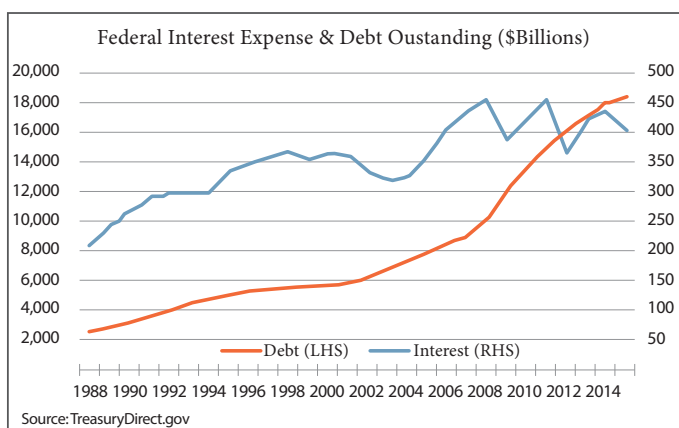
— Bumper sticker on large 4 x 4 truck

Dear Friends and Clients,

In reflecting back on the third quarter of 2015, as well as the last calendar year, I am not surprised by the fact that the returns in the capital markets have been unattractive. We have warned investors repeatedly that prices were high and the pickings slim.

Volatility was finally reawakened in late August with the Chinese central bank announcing a devaluation of the Chinese currency, the Yuan, in an effort to prop up their collapsing economy. The Chinese have pulled out all the stops to try to slow a crashing stock and housing market, including banning selling by major shareholders, temporarily halting trades in more than half of the companies listed on Chinese exchanges, and even threatening short sellers with imprisonment. So much for central planning!

The story is less dramatic but not all that different on this side of the Pacific. Our Fed policy, which I have referred to in the past as a “morphine drip of interest rate suppression,” is now called into question as the Fed declined the opportunity at their mid-September meeting to move the Fed's Fund Rate up even 25 basis points (¼ of 1%)! This is after the recession was declared over in June of 2009, more than six years ago. This government-led rate suppression has caused a massive misallocation of capital and over-investment, as investors attempt to find any investment vehicle yielding more than the roughly 0% offered on the shorter end of the yield curve.



It's not difficult to understand why the federal government would be in no hurry to see higher rates. The rate suppression has enabled the government to continue its profligate deficit spending, driving up the national debt without feeling the full effect of higher interest payments. As the accompanying graph shows, interest expense on government debt has been relatively stable over most of the last decade even while the amount of debt has skyrocketed. The answer to our annual government deficits is not as simple as taxing the rich or retreating from foreign entanglements, as my friends on the left would have you believe. A more normalized (4-6%) interest rate would cause much more fiscal pain in our

federal government. I hope this pain would force those on the right and left to reconcile their differences and generate policies conducive to a higher rate of growth than we have had in the past.

In a normal business cycle, a severe recession is usually followed by a “bounce”; a strong rebound in economic conditions. That has not been the case this time around as the government adopted policies and regulatory burdens at the trough of the cycle that have retarded economic growth, including Obamacare, the Consumer Financial Protection Bureau, and a host of oppressive and costly EPA “earth first” policies.

These policies, and many others in which power is taken from individuals and state and local governments and abdicated to an ever larger federal government, make this country more and more subject to what I call “Euro Sclerosis” – policies followed in countries like France, with rigid inflexible labor costs, high regulatory burdens, high unemployment, particularly among their youth, and nearly invisible growth rates. France’s GDP has grown less than 0.5% a year since the late 1970’s. I don’t think this is an outcome we as a country want; I know I don’t.

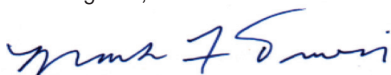
In preparation for writing this letter, I like to look back at past communications with shareholders to help me gain a longer-term perspective. I noticed at year-end 2014 that I commented, “it will be interesting to see how the Federal Reserve works its way out of the ‘box canyon’ in which it finds itself.” I went on to say, “With an aging bull market, coupled with high stock and bond prices, we believe the prices could swing dramatically.” In a word, YES, they have, over the course of the third quarter of 2015. The equity indices, along with the Bank of America Merrill Lynch High Yield index, all fell over the period. We were not immune, unfortunately.

Our cash buffer may have helped at the margin, but maybe not as much as I would have liked. I am hopeful that we “took our lumps” earlier in the year, largely related to oil and gas investments made over the course of the last year. I think the markets have “caught” us on the way down, hence my bumper sticker quote at the top of this letter!

As uncomfortable as it is to be down for the moment, I regard this as a normal part of our value-seeking contrarian investment process. These difficult days will hopefully let us plant the seeds of new investments at attractive prices for the next “harvest” in years hence.

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

Best regards,

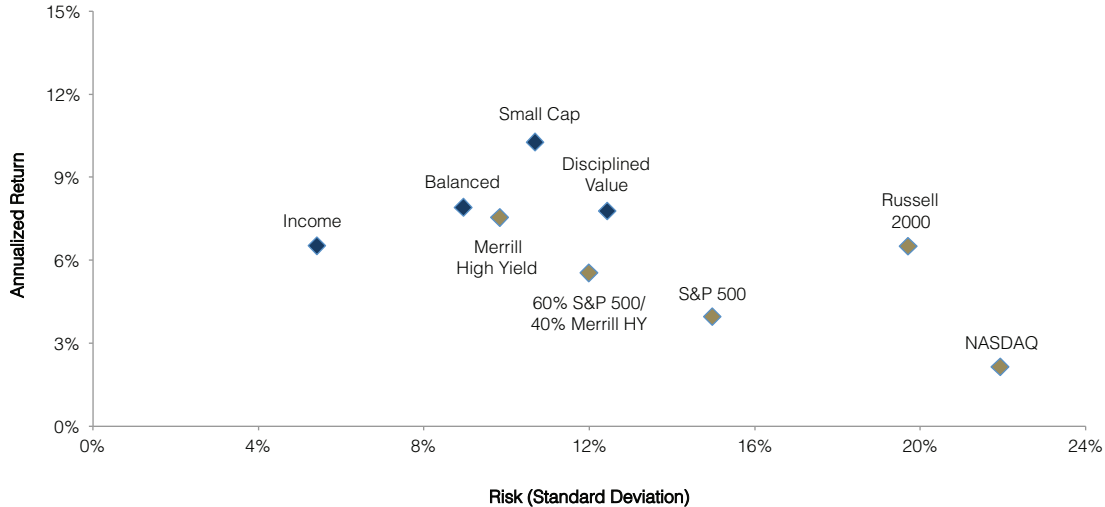
A handwritten signature in blue ink, appearing to read "Mark F. Travis".

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

RISK ADJUSTED RETURNS

TRAILING 15 YEAR RISK/RETURN

SEPTEMBER 30, 2000 TO SEPTEMBER 30, 2015

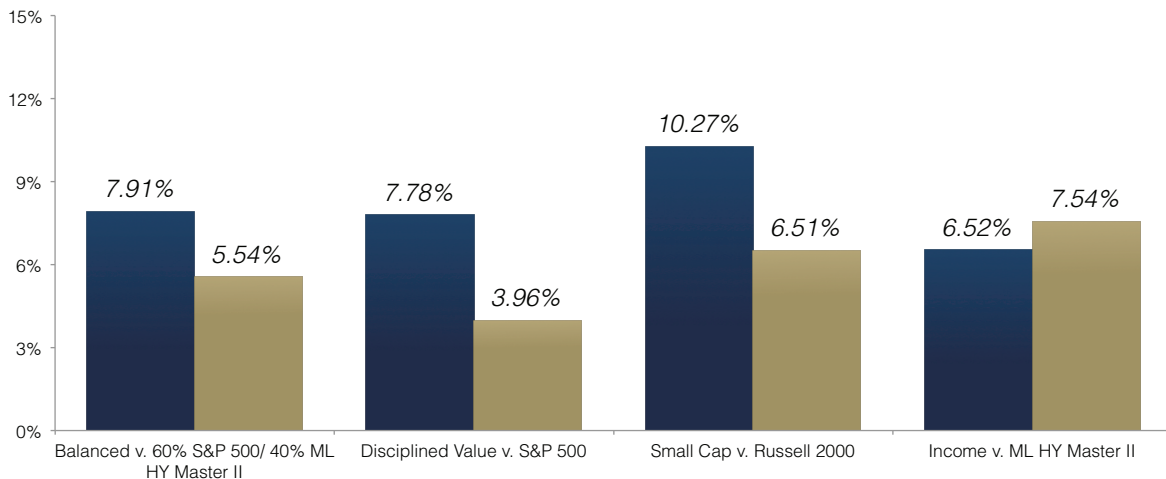


• Past performance is no guarantee of future results. Intrepid composite returns are presented net of investment advisory fees and all returns are presented annualized for the 15-year period ending September 30, 2015. Returns reflect the reinvestment of dividends and other earnings. The volatility of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

SEPTEMBER 30, 2000 TO SEPTEMBER 30, 2015



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