

# MARTIN CAPITAL

## ADVISORS

*A Registered Investment Advisor*



Martin Capital Advisors, LLP  
1600 Virginia Avenue, Suite A  
Austin, TX 78704

[www.martincapital.com](http://www.martincapital.com)

## Table of Contents

About Martin Capital Advisors, LLP.....	3
The Flexible Portfolios.....	4
Style Attribution.....	5
Adding Value.....	6
Our Process.....	7
Our Products.....	8
Our Services.....	9
Quarterly Client Reports.....	10
Growth of \$10,000.....	11
Comparative Rates of Return.....	12
Our People.....	13

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## About Martin Capital Advisors, LLP

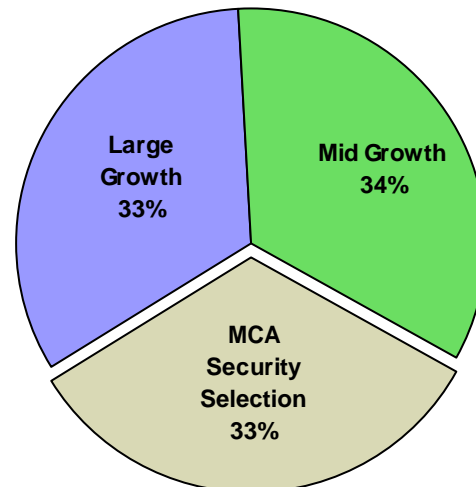
- ✦ A registered investment advisor specializing in managing portfolios for long-term growth and capital appreciation.
- ✦ A successful investment manager for over seventeen years...  
... performance ranked among the top equity managers by Nelson's database of investment managers ([www.nelsoninformation.com](http://www.nelsoninformation.com)).
- ✦ Our stock selection discipline couples the identification of successful business models with a rigorous analysis of company financial attributes.
- ✦ Superior long-term performance with low turnover.

## The Flexible Portfolios

- ✦ Our flagship composite, which comprised approximately 40% of our assets under management on 12/ 31/ 07, earned our clients a 13.0% net annualized return since 1/ 1/ 1991.
- ✦ Style attribution analysis shows a high correlation between our performance and the S&P 500 mid-cap and large-cap growth indices, and
- ✦ Long-term performance above the constituent indices achieved through superior, non-correlated security selection.

## Style Attribution

- ✦ The Performance of the MCA Flexible Portfolios has been consistently attributed to large & mid-cap growth factors and
- ✦ There is a positive, non-correlated component to our performance, represented by the security selection sector in the chart below:



Style Attribution Percentages Over the Past 15 Years as of December 31, 2007

## Adding Value

- ✦ The “Security Selection” component of the Flexible Portfolios’ return has been positive.
- ✦ The Flexible Portfolios have earned 2.8% per year above their constituent growth indices over the past 15 years at a cost of about 16% in additional variability.
- ✦ Large-cap growth and mid-cap growth are the key components of our investment style.

## Our Process

- ✦ **Paul Martin** manages the portfolios. He primarily looks for companies that appear to have an enduring competitive advantage. Although the stocks selected are not restricted by industry or size, style attribution analysis indicates a bias for large and middle capitalization growth stocks.
- ✦ **Alston Boyd** tracks and analyzes macro-economic factors affecting global markets. His input helps determine asset allocation.
- ✦ **Jim Shropshire** places securities trades for the portfolios, maintains trading records, provides current account information and produces detailed reporting for clients.
- ✦ **Dave Ward** manages investment services, primarily providing information to prospective clients.
- ✦ **David James** monitors and analyzes trends and other technical indicators.
- ✦ Our trading strategy is deliberate. 10 year average portfolio turnover has been 18.3%.

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## Our Products

- ✦ **Flexible Portfolios** – The asset allocation mix is tactically managed with the goal of maximizing long-term investment returns through a portfolio of stocks, bonds and cash equivalents. This portfolio is designed for investors willing to accept significant short-term volatility in the pursuit of superior long-term investment performance. Flexible portfolios have been managed for over 10 years, and their performance has achieved recognition from independent rating companies such as Nelson's World's Best Money Managers.
- ✦ **Capital Growth Portfolios** – The asset allocation mix consists of stocks and cash equivalents. This portfolio is designed for investors willing to accept significant short-term volatility in the pursuit of superior long-term investment performance.
- ✦ **Tactical ETF Portfolios** – Exchange Traded Funds (ETF's) are tactically allocated based on proprietary technical analysis. This portfolio is designed for investors willing to accept high position turnover and significant short-term volatility in the pursuit of superior long-term investment performance.
- ✦ **Balanced Portfolios** – The asset allocation mix of stocks, bonds and cash equivalents has a target bond exposure of approximately 25%. This portfolio is designed for investors willing to accept a slightly diminished long-term performance expectation in exchange for smaller short-term account fluctuations.
- ✦ **Conservative Portfolios** – The asset allocation mix of stocks, bonds, and cash equivalents has an average equity exposure of approximately 50%. This portfolio is designed for investors who wish to reduce short-term account fluctuations, accepting a lower long-term performance expectation as a result.
- ✦ **Fixed Income Portfolios** – The asset allocation is 100% invested in fixed income securities and cash equivalents.
- ✦ **Advisor Portfolios** – The asset allocation varies according to individual investor preferences. This portfolio is designed for investors who want to have a hand in the management of their investments. Short-term volatility and long-term performance will vary with investors' preferences.

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## Our Services

- ✦ Quarterly performance reviews – Shows detailed portfolio information and comparisons with many major investment benchmarks.
- ✦ Client retains custody of assets – We work with the bank or brokerage of the client's choosing. Clients receive trading confirmations and monthly statements directly from the brokerage.
- ✦ Fee-only compensation – We are compensated on a fee-only basis, depending on the amount of assets under management.
- ✦ The Compass - Four times per year we discuss general market trends, provide analysis of economic conditions, and review portfolio performance. Our newsletter, The Compass, is published at the beginning of each quarter. In addition, a weekly summary of economic releases and conditions is sent to those who request it.

## Quarterly Client Reports

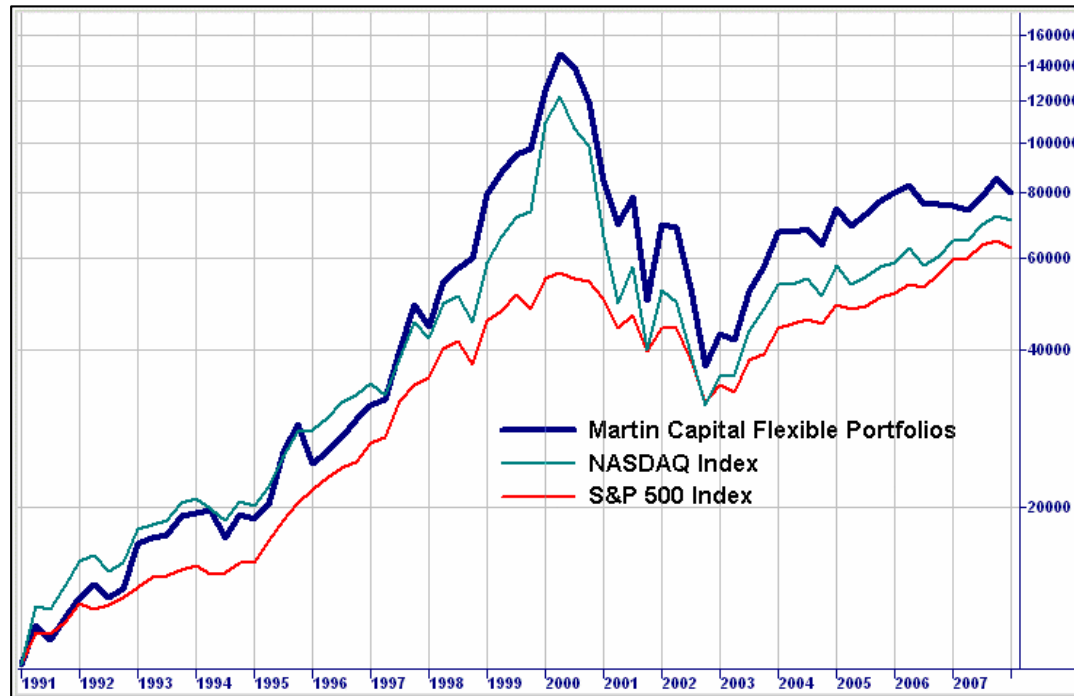
Quarterly client reports include:

- ✦ **Relative Performance** – Shows a comparison between the portfolio and several major benchmarks.
- ✦ **Performance Review** – Summary of portfolio values, inflows and outflows, and capital appreciation.
- ✦ **Portfolio Position Report** – A breakdown of portfolio holdings, grouped by sector.
- ✦ **Realized gains and losses** – A YTD summary of capital gains and/ or losses.

Sample Quarterly reports are available upon request.

## Growth of \$10,000

### ☀ Martin Capital Flexible Portfolios vs. NASDAQ and S&P 500



1. These figures include the reinvestment of dividends received and reflect cash and cash equivalents and are net of fees and expenses.
2. The Martin Capital Flexible Portfolios tend to be more volatile than the S&P 500. From time to time, portfolio performance may reflect the use of margin investing as well as material investments in bonds or cash. The manager will utilize stocks, bonds, and cash in an attempt to enhance returns.
3. Past Performance is no guarantee of future results.
4. The Martin Capital Flexible Portfolios contain primarily equity stocks that are managed with a view toward capital appreciation.
5. The Flexible Portfolios composite represents approximately 40% of client assets under management by Martin Capital Advisors, LLP.
6. Performance is for the period of 1/1/91 to 12/31/07.

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# Martin Capital Advisors, LLP

## Comparative Rates of Return through 12/31/07

Year	<b>MCA Flexible Portfolios</b>	<b>NASDAQ</b>	<b>S&amp;P 500</b>	<b>Dow Jones Industrials</b>
1991	<b>33.9%</b>	56.9%	30.6%	24.5%
1992	<b>26.8%</b>	15.5%	7.7%	7.3%
1993	<b>14.5%</b>	14.8%	10.0%	17.0%
1994	<b>-2.1%</b>	-3.2%	1.3%	5.0%
1995	<b>27.5%</b>	40.0%	37.4%	36.9%
1996	<b>29.4%</b>	22.7%	23.1%	28.7%
1997	<b>41.4%</b>	21.6%	33.4%	24.9%
1998	<b>78.8%</b>	39.6%	28.6%	18.1%
1999	<b>58.2%</b>	85.6%	21.0%	27.2%
2000	<b>-33.0%</b>	-39.3%	-9.1%	-4.9%
2001	<b>-17.4%</b>	-21.1%	-11.9%	-5.4%
2002	<b>-38.3%</b>	-31.5%	-22.1%	-15.0%
2003	<b>56.8%</b>	50.0%	28.7%	28.3%
2004	<b>10.7%</b>	8.6%	10.9%	5.3%
2005	<b>7.6%</b>	1.4%	4.9%	1.7%
2006	<b>-5.6%</b>	9.5%	15.8%	19.1%
2007	<b>5.9%</b>	9.8%	5.5%	8.9%
Avg.	<b>13.0%</b>	12.2%	11.5%	12.7%

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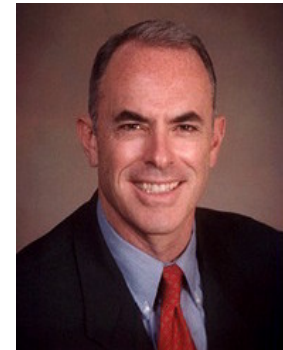
## Our People

Paul Martin

Managing Partner, Chief Investment Officer

Paul Martin founded Martin Capital Advisors in 1989 in New York City and moved the business to Austin in 1990. Prior to Martin Capital, he was a financial consultant with Merrill Lynch and Oppenheimer & Company. For many years, Mr. Martin's money management performance has often ranked him at or near the top of all equity managers.

Mr. Martin is a retired U.S. Naval Reserve commander and a former U.S. Naval Reserve SEAL Delivery Vehicle Team commanding officer. He has served in Europe and Asia. Mr. Martin received a Bachelor of Arts degree in liberal arts from St. John's College in Santa Fe, New Mexico, in 1980.



Mr. Martin has served on the Board of Visitors and Governors of St. John's College, which included service as chairman of the investment committee. He also has served on the St. John's College Alumni Association Board of Directors and as president of the Austin chapter. Mr. Martin is a member and past secretary and treasurer of the Austin Investment Association and is an associate member of the Austin and San Antonio CFA Societies. He has served as president of both the Southwest Texas Council of American Youth Hostels and the Austin chapter of the American Association of Individual Investors. Mr. Martin also has served as a trustee of the Jung Society of Austin. He is currently a member of the Board of Governors and chairs the investment committee of the Middle East Institute.

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# Martin Capital Advisors, LLP

## Alston Boyd

### Partner, Economic Director

Alston Boyd joined Martin Capital in 1996 as Economic Director. His duties include collection of global, national, regional and local economic data, then preparation of charts that describe economic conditions and trends, which are posted to our web site. Mr. Boyd delivers verbal summaries of economic conditions and writes economic reports. He consults with Paul Martin regarding economic conditions and their potential impact on the financial markets.

Mr. Boyd obtained a B.A. degree in geology from Williams College, Williamstown, MA, and an M.A. in geology from The University of Texas at Austin. After working as a professional geologist and math teacher, Mr. Boyd, developed several sizeable real estate properties in the Austin area. He also prepared financial models for sale to real estate professionals for evaluating projects and continues to be a licensed real estate broker.

Mr. Boyd is a past president of the Austin chapter of the American Association of Individual Investors and for many years has conducted a monthly special interest group of the AAII on investment timing. He serves as the Treasurer of the City of West Lake Hills, Texas, and acts as an interpreter for MEDICO, an organization delivering medical care to people in remote parts of Central America.



## James Shropshire

### Partner, Trading Director

Jim Shropshire has been with Martin Capital Advisors, since 1994 when he began his career in the financial industry. He is currently the Trading Director for the firm. Mr. Shropshire served ten years on active duty as an officer in the United States Navy and is retired from the Naval Reserve. He has a B.A. degree in mathematics and a B.S. degree in electrical engineering from The University of Texas at Austin and he is a Level II candidate in the Chartered Financial Analyst (CFA) program.

Mr. Shropshire places securities trades for the portfolios, maintains trading records, and produces detailed reporting for clients. He provides current account information to the portfolio manager on a daily basis.



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# Martin Capital Advisors, LLP

David James, CFA

Partner, Technical Analysis Director

David James joined Martin Capital in the spring of 2004 as Director of Technical Analysis. He keeps track of market trends and indicators, alerting chief investment officer Paul Martin to any changes in the technical picture of the markets. Prior to his association with Martin Capital Advisors, he was head trader and assistant portfolio manager for Capital Cities Asset Management (CCAM) from 2000-2004. Mr. James was instrumental in the establishment of CCAM's in-house mutual fund, and was in charge of the day-to-day operations of the fund. His duties at CCAM also included client services and writing and editing for the All Star Fund Trader newsletter.



Mr. James has a B.A. degree in music from Berklee College of Music in Boston and an M.F.A. degree in music composition from The University of Texas at Austin. Though his background was in music, Mr. James developed a keen interest in the stock market in the early 1990's. He began trading his own accounts at that time and became active in the Austin chapter of the American Association of Individual Investors (AAII). He has conducted monthly educational meetings for local AAII members for many years, focusing on options and investment and trading strategies and has served as president of the Austin chapter of AAII. Mr. James is a Chartered Financial Analyst (CFA) and has passed all three tests for the Chartered Market Technician (CMT) designation.

Dave Ward

Partner, Investment Services Director

Dave Ward received a B.B.A. in accounting from the University of Nevada and began his career as a deputy legislative auditor, for the Nevada State Legislature in 1976. He then moved to Chicago to become a member of the Chicago Mercantile Exchange, International Monetary Division, floor trader and a principal in an independent broker group from 1978 to 1991. He has managed his own investments, C.M.E. memberships, real estate, and equities since 1974.



Mr. Ward currently lives in Austin, Texas with his wife Kem, and their twin children. He is involved in community affairs and enjoys working with children. He has been active in Parkside Community School, West Austin Youth Association, Sundragon Karate for children, and Odyssey School.

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