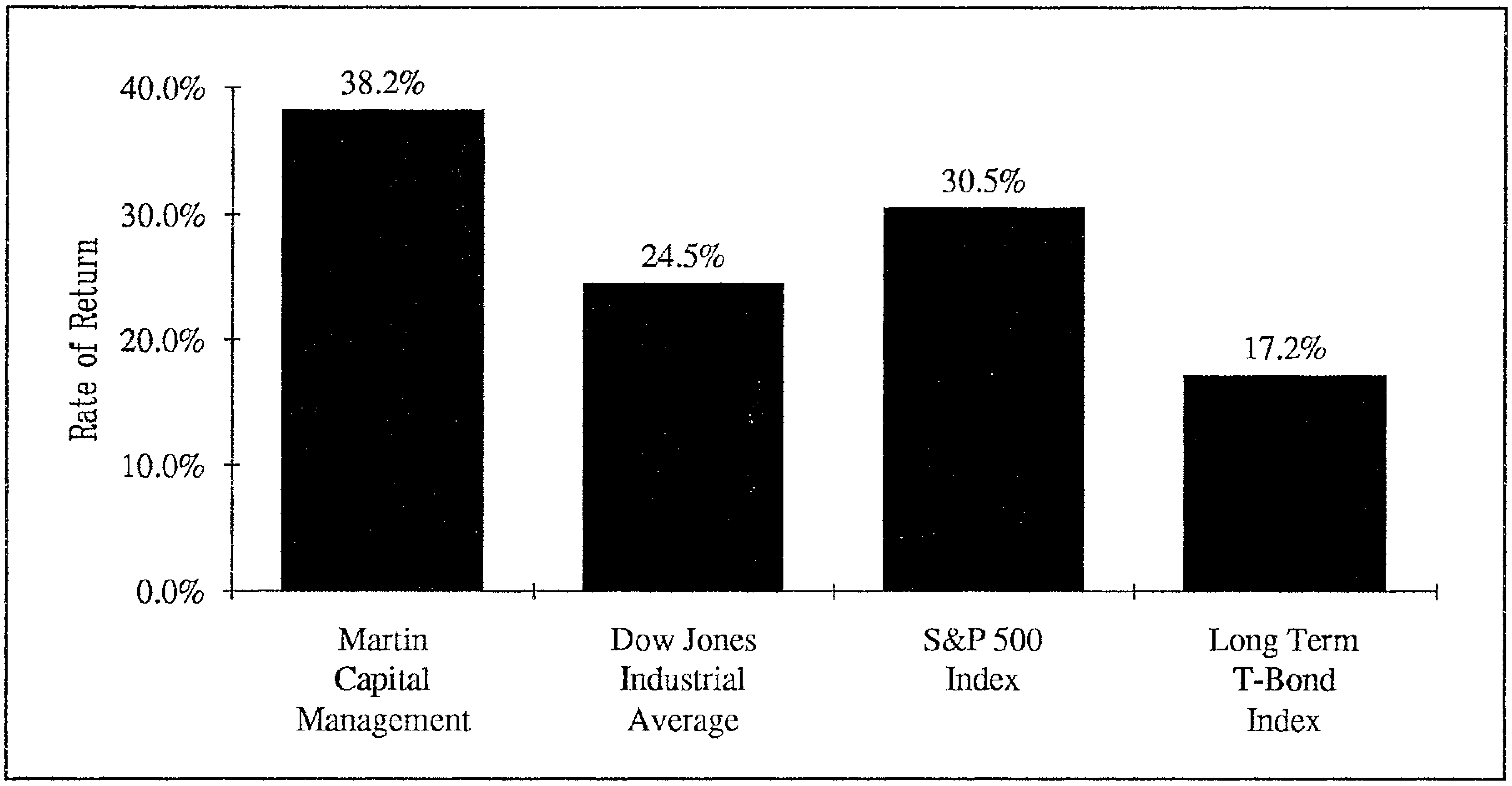
THE COMPASS

A QUARTERLY NEWSLETTER FROM MARTIN CAPITAL MANAGEMENT

1781 SPYGLASS DRIVE, #376 AUSTIN, TEXAS 78746 512-327-6854

January 15, 1992

Investment Results for Calendar Year 1991



Investment Perspective

The stock and bond markets ended the quarter with a strong continuation of the rallies which began earlier in the year. While there has been increasing sentiment for some time that inflation is under control and interest rates should decline, the stock market's strong finish to the upside caught many investors by surprise. As most of you know, we have been very positive about the stock market throughout the year, maintaining the perspective that while bond prices benefit from lowering interest rates, stocks benefit even more. Also, just as economic expansions do not last forever, neither do recessions. Anyone waiting for the economy to pick up before investing in stocks must be willing to pay much higher prices and accept below average performance in the long run.

Despite the prevailing notion that stocks are overvalued, we believe that the risk-reward ratio for equities continues to be very favorable. Stocks again in 1992 should substantially outperform all other investments. With low interest rates making other investment alternatives less attractive and corporate earnings rebounding from recessionary lows, equity portfolio returns in excess of 20% should be achievable over the next twelve months. An added boost to U.S. securities may occur if relatively high European and Asian interest rates begin to drop, thus strengthening the dollar and stimulating greater commitment of foreign capital to U.S. financial markets.

Stocks are already off to a good start this year; however, markets do not go up or down in a straight line, and we would not be surprised to see a small correction in the near future. Though we may institute some options hedging strategies as the market moves higher, we will be careful not to jeopardize our long-term perspective in order to achieve positive short-term results.

Investment Philosophy

Our investment approach focuses on the reality that in order to achieve long-term superior performance there must be an acceptance of some amount of short-term risk. With this in mind, we pursue a portfolio investment strategy oriented towards a diversified mix of high quality stocks - structuring our clients' portfolios according to their ability to withstand short-term volatility in the pursuit of long-term investment performance.

Both fundamental and technical factors are taken into account in determining a prospective investment's risk-reward ratio. Socially responsible issues such as environmental policies and employee relations are evaluated as part of our investment risk assessment.

Overall market risk is considered in the timing of investment decisions and the implementation of hedging strategies. The reduction of investment exposure during periods of high market risk, and the complementary increase of investment commitment during periods of low risk, should normally reduce volatility and enhance portfolio performance.

Our general goal is a 20% average annual return over the course of a five year period or market cycle. We expect that this goal can be achieved with minimized risk through our combination of risk-reward analysis and market timing strategies.

Common Stock Position List

Banc One	Georgia Pacific	Motorola	Southwest Airlines
BankAmerica	Goodyear Tire	Novell	Texaco
Berkshire Hathaway	Hanson PLC	Office Depot	Union Pacific
Cyprus Minerals	Home Depot	Oppenheimer Capital	Zweig Fund
Dell Computer	Intel	Quest For Value	
Gabelli Equity Trust	Microsoft	Charles Schwab	

Comparison of Investment Results

		Performance of Relevant Indices				
	Martin* Capital Management	Dow Jones Industrial Average	S&P 500 Index	Long-Term T-Bond Index	Money Market Avg. Yld.	Consumer Price Index
1986	+ 33.7%	+ 28.1%	+ 18.6%	+ 24.1%	+ 6.1%	+ 1.1%
1987	+ 13.5%	+ 5.7%	+ 5.2%	- 2.7%	+ 5.6%	+ 4.4%
1988	+ 27.3%	+ 16.6%	+ 17.1%	+ 9.2%	+ 5.9%	+ 4.1%
1989	+ 37.9%	+ 32.4%	+ 31.5%	+ 18.9%	+ 6.5%	+ 4.8%
1990	+ 5.8%	- 0.5%	- 3.2%	+ 6.3%	+ 5.9%	+ 5.4%
1991	+ 38.2%	+ 24.5%	+ 30.5%	+ 17.2%	+ 5.2%	+ 4.2%
Total**	+289.5%	+158.9%	+142.7%	+ 95.3%	+ 40.8%	+ 26.5%
Avg. ***	+ 26.7%	+ 17.8%	+ 16.6%	+ 12.2%	+ 5.9%	+ 4.0%

* Total annual performance, net of commissions, fees, and expenses, of all discretionary investment portfolios.

** Total compounded return, including reinvestment of dividends and interest.

*** 1986-1991 average annual return.

(Past performance does not guarantee future results.)

Martin Capital Management is a registered investment advisor, managing discretionary investment portfolios on a percentage fee basis for individuals, trusts, and pension plans.