

THE COMPASS

A QUARTERLY NEWSLETTER FROM MARTIN CAPITAL MANAGEMENT

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April 8, 1992

DJIA 3181 / S&P500 394.50 / Long T-Bond* 7.96%, 4224 / T-Bill rate 3.87% / Dollar** 86.0 / Oil 20.65 / Gold 337.90 / Inflation (CPI) 3.2%

Recent Investment Results				
	Martin Capital Management	Dow Jones Industrial Average	S&P 500 Index	Long Term T-Bond Index
First Quarter 1992	6.2%	2.1%	-3.2%	-3.6%
Calendar Year 1991	38.2%	24.5%	30.5%	17.2%

Investment Perspective

The financial markets began the first quarter with a positive bias, treaded water in mid-stream, then sold off at the end. As we discussed in the January newsletter, the stock and bond markets remained attractive, yet were vulnerable to a short-term correction. The bond market corrected first, and is now rallying from the lows. As for the stock market, despite the pull back at the end of the quarter, and the mixed performance of the various indices, many stocks still managed to achieve respectable increases in share values.

The second quarter may prove to be a little more difficult. Stocks have continued the down trend which began at the end of the first quarter. We believe that the pattern which developed at the end of last year - a decline in stocks from mid-November to mid-December, then a strong advance - may occur again over the next few months. It would not surprise us to see bonds fare slightly better than stocks in the near-term, with the Long T-Bond rate possibly dropping as low as 7.5% by the end of the quarter.

Although we are somewhat cautious about the short-term prospects for stocks, our intermediate viewpoint remains very positive. As the economy rebounds in a low inflationary environment, corporate profits are poised to more than justify current high price/earnings valuations. Historically, this is the best time in the economic cycle for superior stock market performance. The low inflationary aspect of a gradual economic recovery also bodes well for bonds - though, over the long run, stocks should continue to outperform bonds by a substantial margin.

Market Timing Viewpoint

Three Month Performance Expectation

	Optimistic	Average	Pessimistic
DJIA	+10.0% (3500)	+02.5% (3275)	-05.0% (3050)
Long T-Bond*	+05.0% (7.5%, 4400)	+01.5% (7.9%, 4250)	-02.0% (8.25%, 4100)

T-Bill rate: lower / Dollar: higher / Oil: neutral / Gold: lower / Inflation: lower

One Year Performance Expectation

	Optimistic	Average	Pessimistic
DJIA	+25.0% (4000)	+17.5% (3750)	+10.0% (3500)
Long T-Bond*	+15.0% (7.25%, 4850)	+10.0% (7.75%, 4600)	+05.0% (8.25%, 4400)

T-Bill rate: lower / Dollar: higher / Oil: neutral / Gold: lower / Inflation: lower

* Lehman Brothers T-Bond Index

** J.P. Morgan Index

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 an investment allocation strategy emphasizing 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

Adobe Systems	Chrysler	Georgia Pacific	Novell
Apple Computer	Clearly Canadian	Home Depot	Office Depot
Au Bon Pain	Cyprus Minerals	Honeywell	Oppenheimer Capital
Banc One	Dell Computer	Intel	Southwest Airlines
BankAmerica	Digital Equipment	Intelligent Electronics	Union Pacific
Berkshire Hathaway	Disney	Microsoft	Unisys
Charles Schwab	Egghead	Motorola	

Comparison of Investment Results

	Martin* Capital Management	Performance of Relevant Indices				
		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.