THE COMPASS

A QUARTERLY NEWSLETTER FROM MARTIN CAPITAL MANAGEMENT

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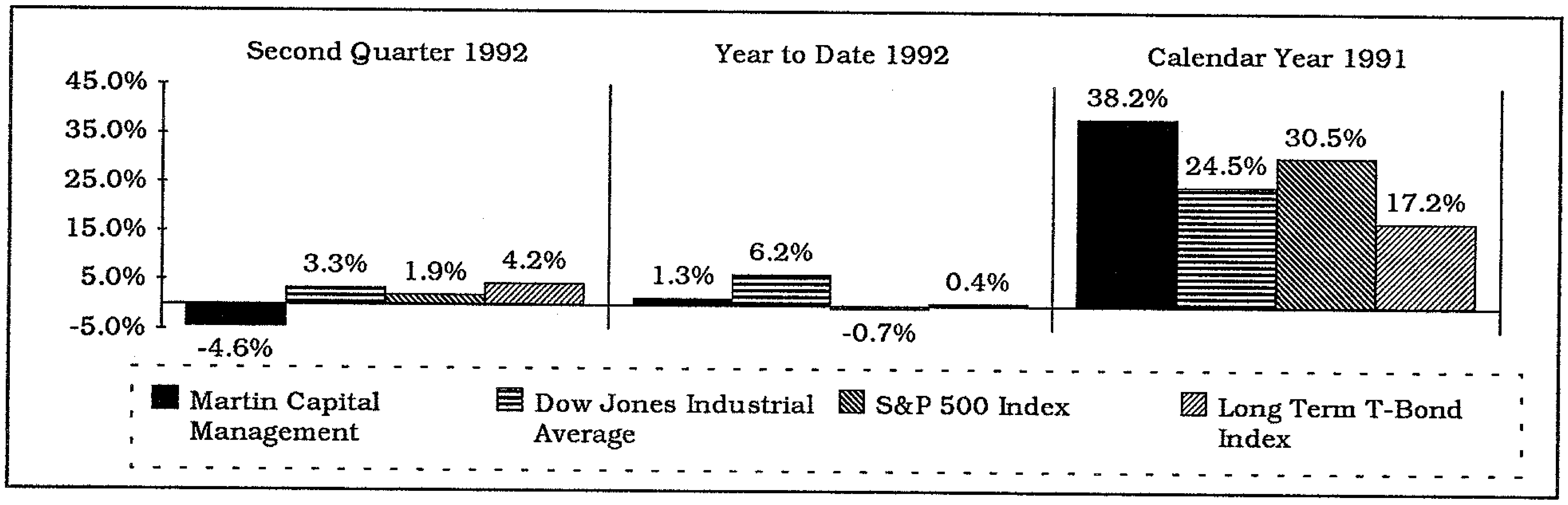
DJIA 3319 / S&P500 408.14 / Long T-Bond Index 7.78% / T-Bill rate 3.70%
J.P. Morgan Dollar Index 82.5 / Oil 21.60 / Gold 343.10 / Inflation (CPI) 3.0%

Recent Investment Results

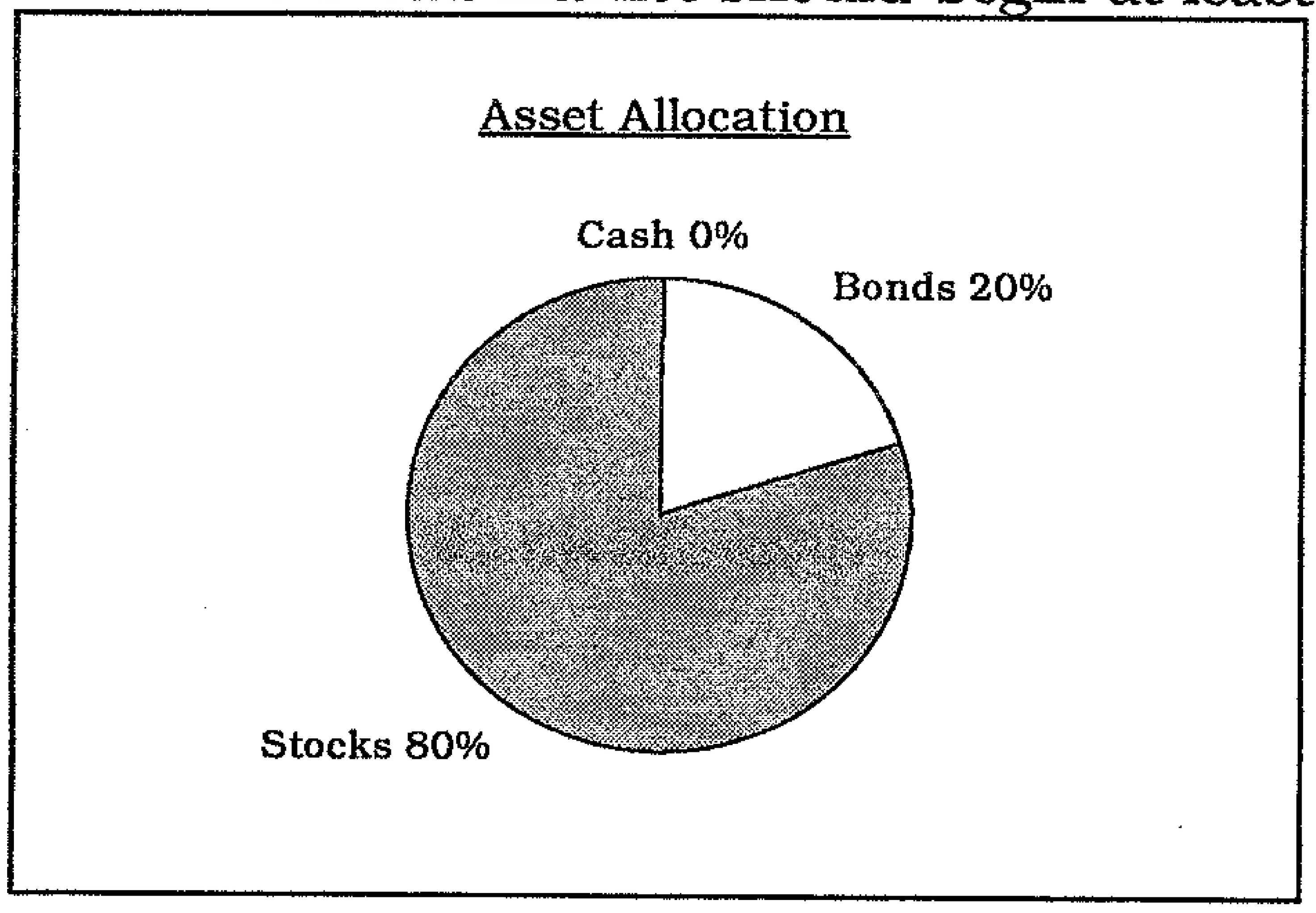


Investment Perspective

As we discussed in our last newsletter, the second quarter did "prove to be a little more difficult" for stocks than the first quarter. While the DJIA and S&P 500 managed to achieve slight gains for the quarter, most broad market indices were down - and in some cases, such as the OTC market, down quite a bit. As also discussed in our last newsletter, bonds did "fare slightly better than stocks in the near term".

Despite our accurate prognostications, our portfolios declined with the broad stock market sell-off. While we did take some measures to react to our short-term negative stock market viewpoint, part of our strategy for superior investment performance is not to miss the forest for the trees by getting too caught up in short-term suppositions. We will continue to base our asset allocation models and option hedging tactics on intermediate and long-term performance expectations.

The short-term decline (several months), then strong advance for stocks scenario suggested in our last newsletter looks like it may take longer to play out than originally conceived. The operative term for the next quarter for stocks is consolidation - with a positive bias. The broad market should begin at least to hold its own relative to the DJIA. We expect the performance for most stock market indices to be somewhere in the range of the 5% gain indicated for the DJIA in our Market Timing Viewpoint on the next page. Bonds should also do well. We continue to look for the long treasury bond to trade below the 7.5% level in the near future.



For the next twelve months we remain very positive. The economy will continue to gradually improve in a low inflationary environment. We expect both stocks and bonds to substantially outperform money markets and short-term securities.

Market Timing Viewpoint

Three Month Performance Expectation

	Optimistic	Most Likely	Pessimistic
DJIA	3650 (+10.0%)	3500 (+05.0%)	3150 (-05.0%)
T-Bond Index	7.0% (+10.0%)	7.4% (+05.0%)	8.0% (-02.5%)

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

One Year Performance Expectation

	Optimistic	Most Likely	Pessimistic
DJIA	4150 (+25.0%)	3900 (+17.5%)	3650 (+10.0%)
T-Bond Index	6.5% (+15.0%)	7.0% (+10.0%)	8.2% (-05.0%)

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

Common Stock Position List

Apple Computer	Chrysler	Intel	Southwest Airlines
Banc One	Dell Computer	Intelligent Electronics	Synergen
BankAmerica	Goodyear	Microsoft	
Berkshire Hathaway	Home Depot	Office Depot	
Charles Schwab	Honeywell	Oppenheimer Capital	

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, which will vary depending on inflation and individual client risk tolerance, is a 15% to 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.

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. ***	+ 25.4%	+ 17.1%	+ 15.9%	+ 11.8%	+ 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 annualized 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.