

# THE COMPASS

A QUARTERLY NEWSLETTER FROM MARTIN CAPITAL MANAGEMENT

1781 SPYGLASS DRIVE, #376

AUSTIN, TEXAS

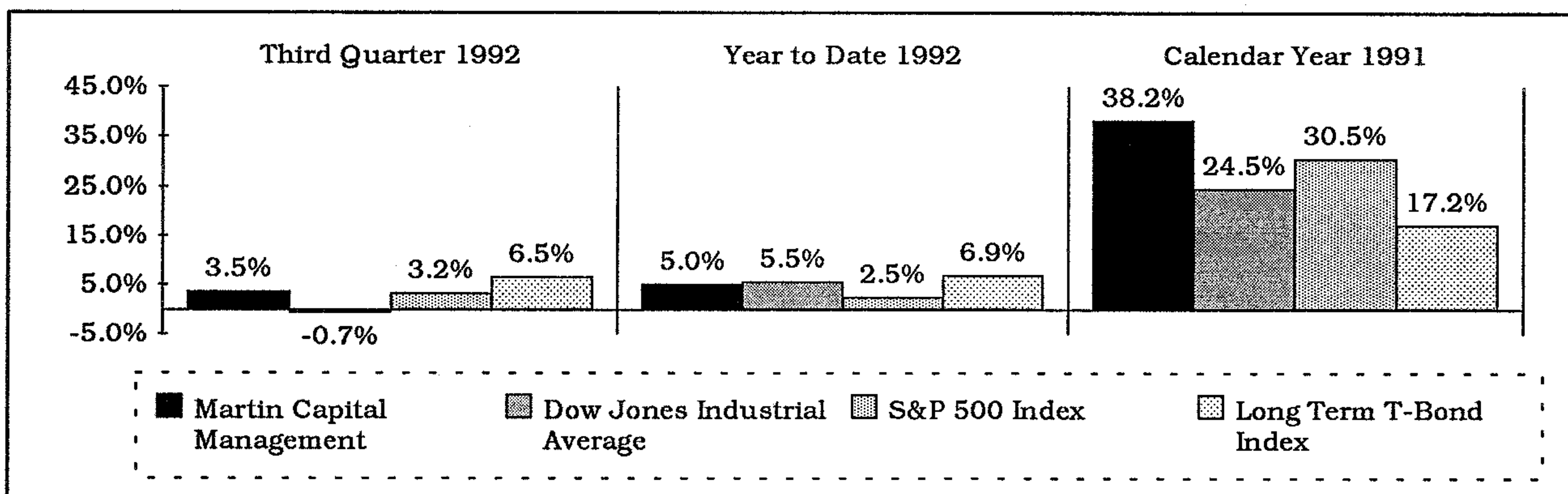
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512-327-6854

October 1, 1992

DJIA 3272 / S&P500 417.80 / Long T-Bond Index 7.32% (4652) / 3 month T-Bill rate 2.69%  
 J.P. Morgan Dollar Index 81.7 / Oil 21.70 / Gold 347.80 / Inflation (CPI) 3.1%

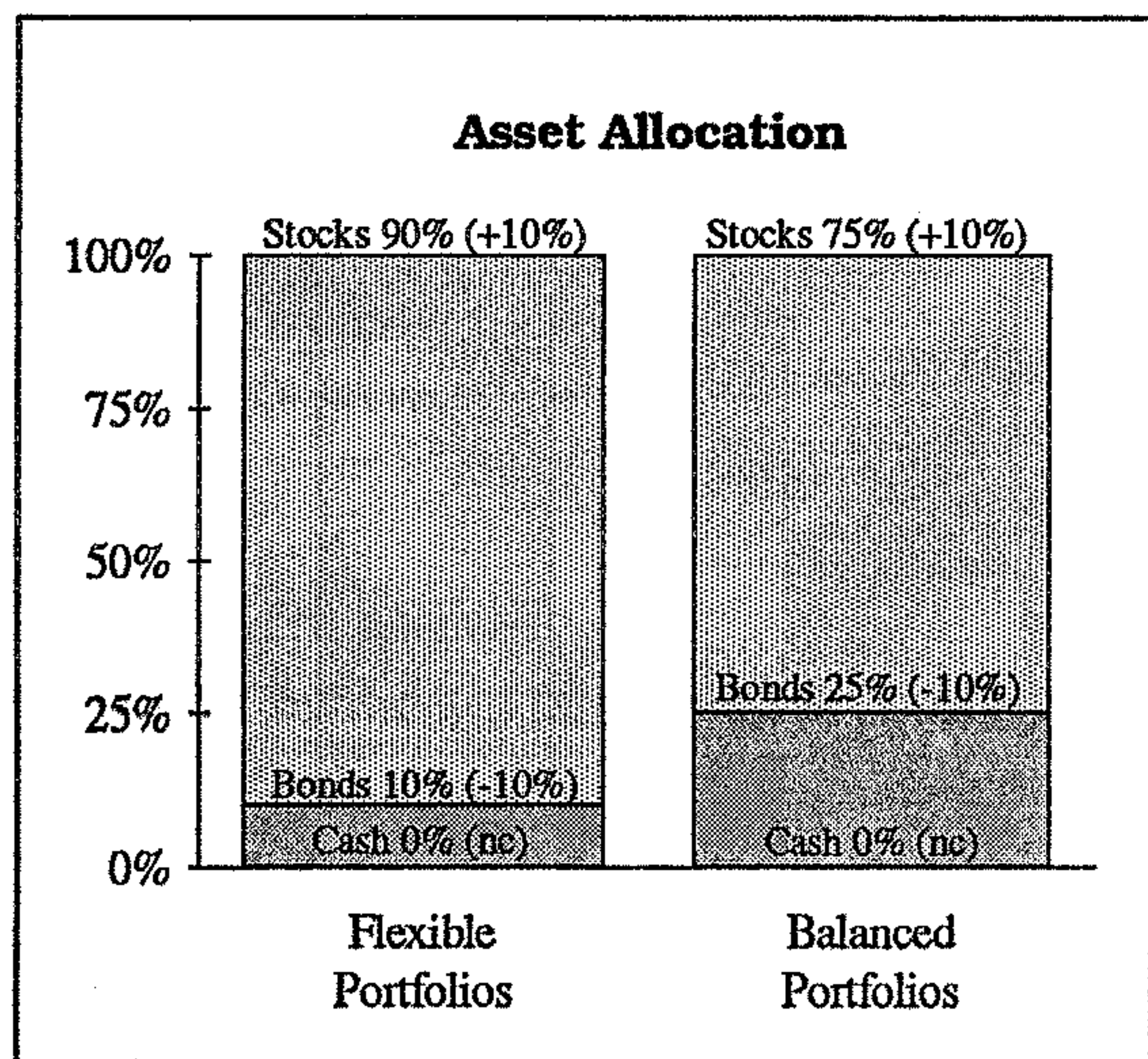
## Recent Investment Results



## Investment Perspective

As predicted in the July issue of *The Compass*, the stock market "consolidated - with a positive bias" during the third quarter. While the DJIA ended off a fraction, the broad market began to "at least hold its own relative to the DJIA," and, in fact, outperformed the DJIA by several percentage points - approaching the "expected plus 5% performance for most stock market indices." Bonds also did well, with "the long treasury bond trading below the 7.5% level" to 7.3%, for a slightly better drop in yield than the 7.4% expectation.

The upside potential for the next quarter is even greater as the economy continues to grow at a sustainable pace, with low inflation; however, the quarter may get off to a difficult start as the presidential election draws near. The uncertain impact of Ross Perot's renewed participation will no doubt cause the financial markets some additional consternation, especially if the election appears headed into the House of Representatives. Near-term, it would not be surprising to see both stocks and bonds make a quick retreat below the



"pessimistic" expectation of minus 5% performance indicated in the Market Timing Viewpoint on the reverse side. After the election, the "most likely" expectation should prevail, with stocks making a strong advance in the range of 10% to 15%, and T-Bond yields rallying down to around the 7% level.

The strategy for the next several months is to be fully invested by the election - using any downdrafts as buying opportunities. Some shifting from bonds into stocks will take advantage of the anticipated outperformance of stocks over bonds by the end of the year. Accordingly, as shown in the graph to the left, the percentage for stocks in both the flexible and balanced asset allocation models has been increased to 90% and 75%, respectively.



## Market Timing Viewpoint

<u>Three Month Performance Expectation</u>			
October 1, 1992 to December 31, 1992			
	Optimistic	Most Likely	Pessimistic
DJIA/S&P500:	3750/460 (+15.0%)	3650/440 (+10.0%)	3100/400 (-5.0%)
T-Bond Index:	6.6% (+10.0%)	7.0% (+5.0%)	7.7% (-5.0%)
T-Bill rate: neutral / Dollar: higher / Oil: neutral / Gold: lower / Inflation: neutral			
<u>One Year Performance Expectation</u>			
October 1, 1992 to September 30, 1993			
	Optimistic	Most Likely	Pessimistic
DJIA/S&P500:	4150/520 (+25.0%)	3900/490 (+17.5%)	3650/460 (+10.0%)
T-Bond Index:	6.2% (+15.0%)	6.6% (+10.0%)	7.7% (-5.0%)
T-Bill rate: neutral / Dollar: higher / Oil: neutral / Gold: lower / Inflation: neutral			

## Common Stock Position List

Apple Computer	Charles Schwab	Intelligent Electronics	Sprint
Armstrong World	Chrysler	Lotus Development	Stanley Works
Banc One	Dell Computer	Microsoft	Synergen
BankAmerica	Goodyear	Motorola	Texas Instruments
Berkshire Hathaway	Hewlett-Packard	Novell	Union Pacific
Best Buy	Home Depot	Office Depot	Unisys Corp.
Black & Decker	Honeywell	Oppenheimer Capital	Waterhouse
Browning-Ferris	Intel	Southwest Airlines	

## 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

	<u>Performance of Relevant Indices</u>					
	Martin Capital*	Dow Jones		Long-Term	Money Market	Consumer
	Management	Industrial	S&P 500 Index	T-Bond Index	Avg. Yld.	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.