

THE COMPASS

A QUARTERLY NEWSLETTER FROM MARTIN CAPITAL MANAGEMENT

1781 SPYGLASS DRIVE, #376

AUSTIN, TEXAS

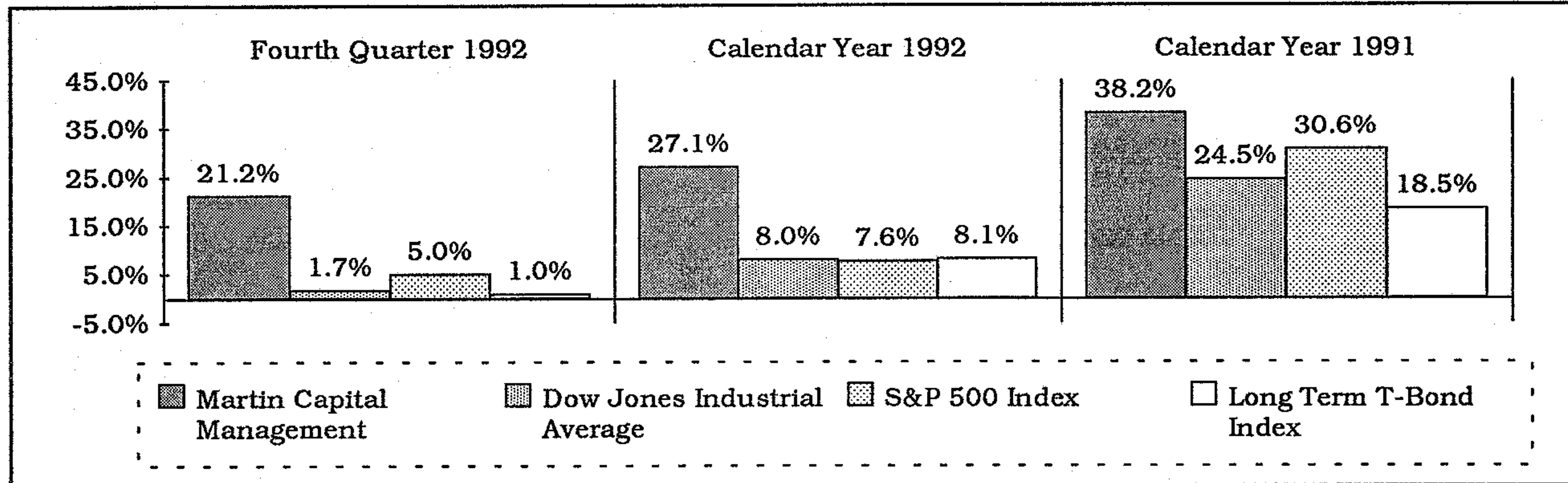
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512-327-6854

January 1, 1993

DJIA 3301 / S&P500 435.71 / Long T-Bond Index 7.42% (4699) / 3 month T-Bill rate 3.08%
J.P. Morgan Dollar Index 88.9 / Oil 19.50 / Gold 333.10 / Inflation (CPI) 3.0%

Recent Investment Results

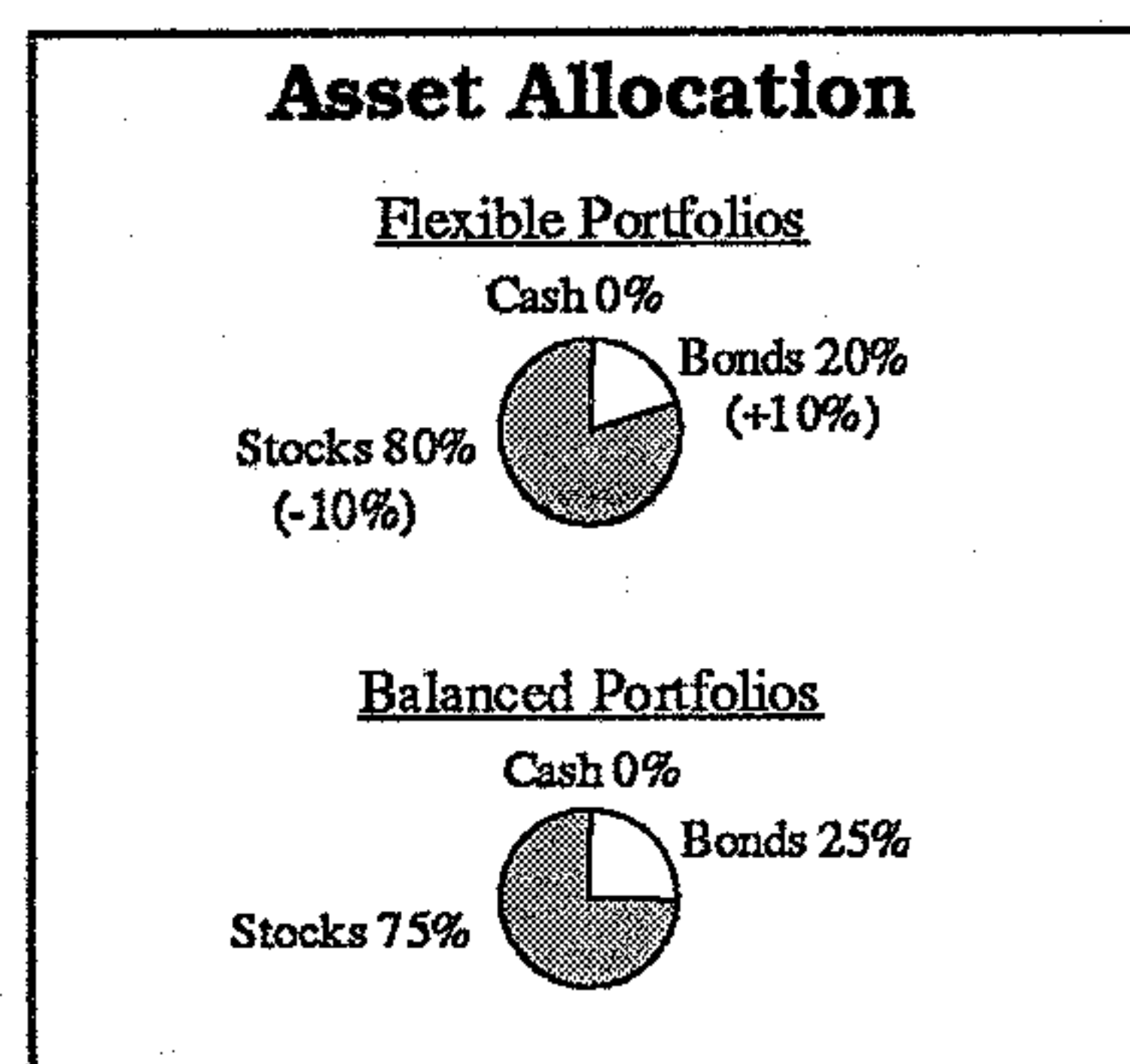


Investment Perspective

As expected, the last quarter of 1992 more than made up for the mediocre performance of the first three quarters of the year. Despite the DJIA and S&P 500 indices falling short of our projections of 3650 and 440, respectively, the broad market indices ended the year with a very strong advance. While we correctly anticipated that stocks would outperform bonds for the quarter, we were surprised to see the long T-bond rate back up to 7.42%, well off our target rate of 7.0% - resulting in a less than expected T-bond quarterly total return of only 1%. Our average portfolio ended the quarter up 21.2%, closing the year with a 27.1% total return.

We do not have a strong conviction as to the short-term direction of the stock market for the first quarter of 1993. Our best guess is that there may be some initial backing and filling as the market absorbs the recent advance, then another rally to new highs later in the quarter. The bond market is a different story. We are more positive in our expectation for the long T-bond to rally to the 7.0% level by the end of the quarter. While we are more confident in our optimistic outlook for bonds than for stocks in the first three months of 1993, we will make only a slight shift toward bonds in our asset allocation model, as we are hesitant to reduce our exposure to stocks in light of our slightly higher one year projections for the equity markets (see our Market Timing Viewpoint section.)

For the time being, our strategy will be gradually to reduce exposure to overextended stocks, but for the most part remain fully invested. As funds become available, we will purchase bonds to achieve our increased flexible asset allocation target of 20% indicated in the graph below. For the rest of the year, we are fairly positive about the prospects for both



stocks and bonds as the economy continues to improve in a low inflationary environment. Two positive factors which could give an extra boost to the financial markets during the course of the year are a potential reduction in the capital gains tax rate and any change in sentiment toward the view that the government is taking concrete steps to deal with the budget deficit. On the negative side, in the unstable post-Cold War international environment, there is always the very serious threat of a significant increase in world tensions, which probably poses a greater risk to short-term market performance than any present economic concerns.

Market Timing Viewpoint

<u>Three Month Performance Expectation</u>			
January 1, 1993 to March 31, 1993			
	Optimistic	Most Likely	Pessimistic
DJIA/S&P500:	3650/480 (+10.0%)	3450/460 (+5.0%)	3100/410 (-5.0%)
T-Bond Index:	6.75% (+10.0%)	7.0% (+5.0%)	7.75% (-5.0%)
T-Bill rate: neutral / Dollar: higher / Oil: neutral / Gold: lower / Inflation: neutral			
<u>One Year Performance Expectation</u>			
January 1, 1993 to December 31, 1993			
	Optimistic	Most Likely	Pessimistic
DJIA/S&P500:	4100/540 (+25.0%)	3800/500 (+15.0%)	3450/455 (+5.0%)
T-Bond Index:	6.0% (+20.0%)	6.5% (+15.0%)	7.75% (-5.0%)
T-Bill rate: neutral / Dollar: higher / Oil: neutral / Gold: lower / Inflation: neutral			

Common Stock Position List

Apple Computer	Browning-Ferris	Intel	Southwest Airlines
Armstrong World	Charles Schwab	Lotus Development	Sprint
AT&T	Chrysler	Mail Boxes Etc.	Synergen
Babbages	Coleman	Michaels Stores	Texas Instruments
Banc One	Cyprus Minerals	Microsoft	Union Pacific
BankAmerica	Dell Computer	Motorola	Unisys Corp.
Berkshire Hathaway	Electronic Arts	Novell	U.S. Surgical
Best Buy	Hewlett-Packard	Office Depot	Waterhouse
Black & Decker	Home Depot	Oppenheimer Capital	Whole Foods Market
Bombay Co.	Honeywell	Primerica	

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%	+ 6.1%
1991	+ 38.2%	+ 24.5%	+ 30.6%	+ 18.5%	+ 5.2%	+ 3.1%
1992	+ 27.1%	+ 8.0%	+ 7.6%	+ 8.1%	+ 3.3%	+ 3.0%
Total**	+395.1%	+179.7%	+161.3%	+113.5%	+ 45.4%	+ 29.7%
Avg. ***	+ 25.7%	+ 15.8%	+ 14.7%	+ 11.4%	+ 5.5%	+ 3.8%

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

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

*** 1986-1992 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.