THE COMPASS

A QUARTERLY NEWSLETTER FROM MARTIN CAPITAL MANAGEMENT

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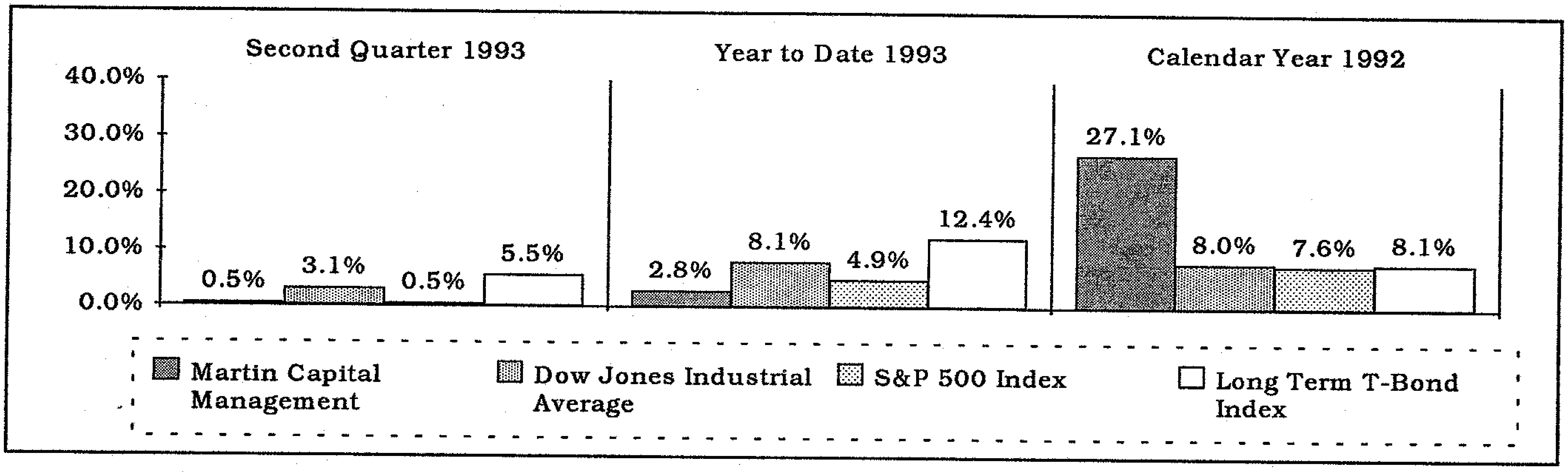
July 1, 1993

DJIA 3516 / S&P500 450.53 / NASDAQ Comp. 703.95 / Long T-Bond Index 6.63% (5280) / 3 month T-Bill rate 3.03%
J.P. Morgan Dollar Index 87.8 / Oil 18.85 / Gold 378.40 / Inflation (CPI) 3.2%

Recent Investment Results



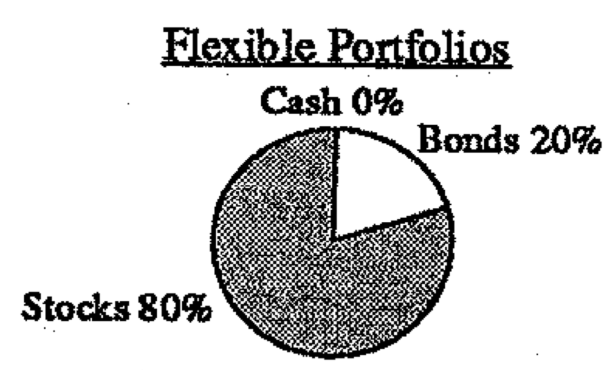
Investment Perspective

The financial markets performed in line with our expectations. Stocks got off to a weak start in April and rebounded at the end of the quarter to post a slight advance. Long-term interest rates declined from 6.97% to slightly below our target of 6.65%. Low inflation statistics were the primary contributor to the continuation of the bond rally and strength in stock prices. Our average portfolio underperformed some of the indexes for the quarter due largely to greater than expected weakness in the technology sector. Also, as anticipated in the previous newsletter, volatility in the performance of individual issues intensified during the quarter, with many stocks being beaten down to surprisingly low valuations.

The third quarter may see some further consolidation in over-extended stocks; however, we believe that any sell-offs in the stock market will be fairly mild and set up quite attractive buying opportunities. By the end of the quarter, the stocks of small to midsized companies should begin another period of substantially outperforming the DJIA and S&P 500. While bonds have appreciated much faster than stocks for the first half of the year, we do not expect this trend to continue for the rest of the year. Although they should do reasonably well for the quarter, dropping to a rate of about 6.5%, they will probably not do as well as stocks through the latter half of the year. For the time being, we are maintaining a 20% exposure to bonds for flexible portfolios. As the quarter progresses, we may sell some bonds to take advantage of opportunities to purchase stocks at lower prices.

We're looking for another strong rally in the OTC market by the end of the year. This rally will be sparked by higher earnings projections as companies continue to benefit from major restructurings and a slight pick up in the global economy. The increase in economic activity may put some short-term pressure on interest rates; however, the impact should be minor as we expect inflation to remain under control. In the long run, we see several factors contributing to better than average historical performances for both stocks and bonds: Number one, the baby boom generation's positive effect on inflation and productivity as this bubble of maturing workers competes for jobs and saves toward retirement; Number two, the greater efficiencies generated by the accelerating expansion of the global economy; Number three, enhanced technological development produced by advances in communications and information processing. The many negatives which could be listed, such as the national debt and ongoing deficit, are all surmountable problems, and when resolved will contribute further to the outstanding performance of the financial markets into the next millennium.

Asset Allocation



Market Timing Viewpoint

	Three Month Price Expectation September 30, 1993		
	Optimistic	Most Likely	Pessimistic
DJIA/S&P500:	3850/500 (+10.0%)	3700/475 (+05.0%)	3350/425 (-05.0%)
T-Bond Index rate:	6.30% (+05.0%)	6.5% (+02.5%)	7.0% (-05.0%)
T-Bill rate: neutral / Dollar: higher / Oil: neutral / Gold: neutral / Inflation: neutral			
	One Year Price Expectation June 30, 1994		
	Optimistic	Most Likely	Pessimistic
DJIA/S&P500:	4050/520 (+15.0%)	3850/500 (+10.0%)	3700/475 (+05.0%)
T-Bond Index rate:	6.0% (+10.0%)	6.15% (+07.5%)	6.65% (unch)
T-Bill rate: neutral / Dollar: higher / Oil: neutral / Gold: neutral / Inflation: neutral			

Common Stock Position List

Prices as of June 30, 1993

Apple Computer	39.5	Cyprus Minerals	24.625	Microsoft	88	Taco Cabana	24
Applied Materials	54	Dell Computer	18.75	Motorola	87.375	Texas Instruments	69.875
Banc One	56.25	Electronic Arts	30.25	Office Depot	26.25	Union Pacific	61
Best Buy	34.625	Hewlett-Packard	81	Oppenheimer Cap.	25.5	Waterhouse	33.5
Bombay Co.	49.25	Honeywell	37.125	Primerica	52.625	Whole Foods Mkt.	44
Charles Schwab	28.5	Intel	55	Southwest Airlines	43.625		
Chrysler	47.25	Lotus Development	34.625	Sprint	35.125		
Coleman	26.625	Michaels Stores	30.625	Synergen	11.625		

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 stocks and bonds - 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 this goal can be achieved with minimized volatility 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.