THE COMPASS

A QUARTERLY NEWSLETTER FROM MARTIN CAPITAL MANAGEMENT

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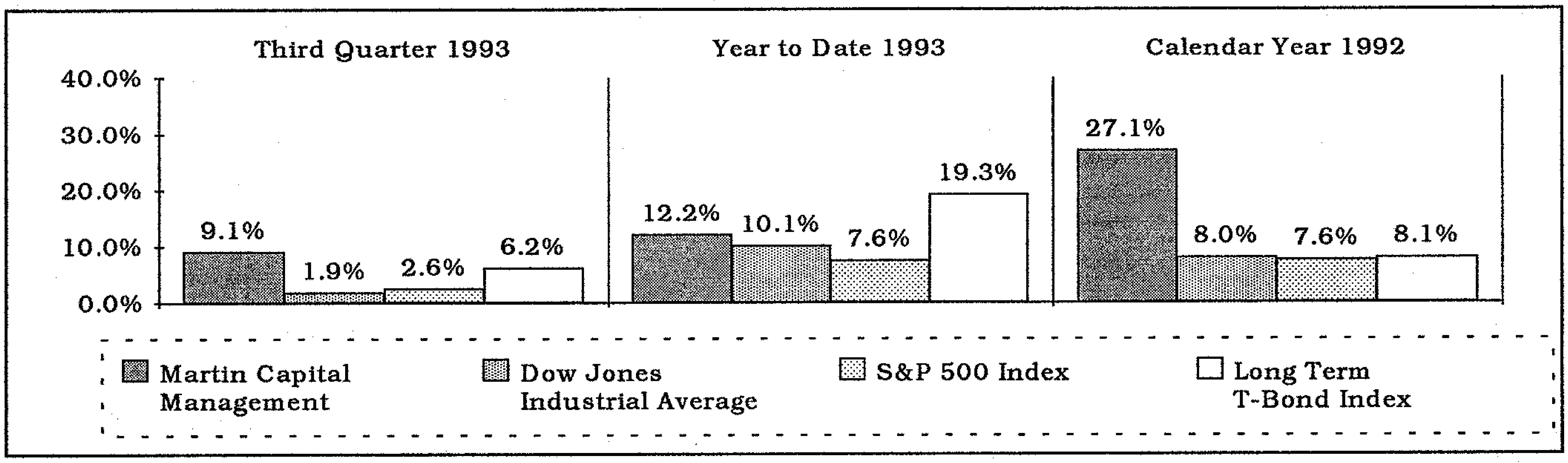
October 1, 1993

DJIA 3555 / S&P500 458.93 / NASDAQ Comp. 762.78 / Long T-Bond Index 6.09% (5606) / 3 month T-Bill rate 2.92%
J.P. Morgan Dollar Index 88.2 / Oil $18.80 / Gold $355.10 / Inflation (CPI) 2.9%

Recent Investment Results



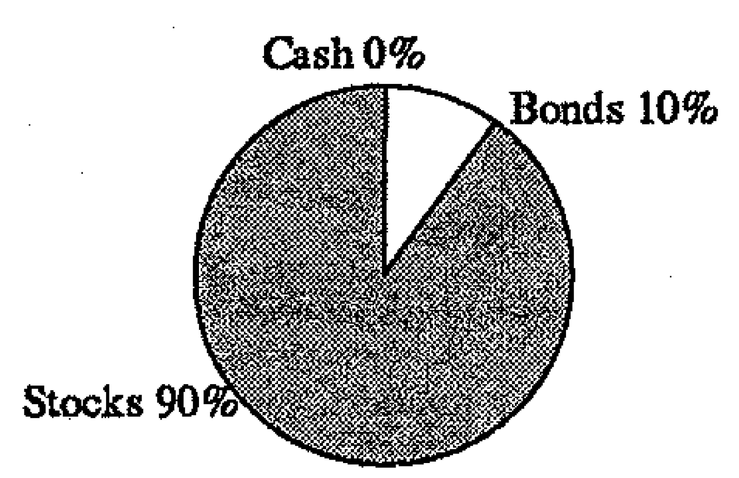
Investment Perspective

The results of our projections for the third quarter were mixed. Despite continued economic sluggishness, the broad stock market indexes, led by small to midsized companies, managed to outperform T-bonds as expected. However, since the economy did not pick up by the end of the quarter as much as we thought it would, long-term T-Bond rates fell further than anticipated, to 6.09%, well below our target of 6.5%. Consequently, we made only minor shifts in bond allocations to stocks over the course of the quarter, maintaining a 20% exposure to bonds for flexible portfolios.

For the fourth quarter, we anticipate a similar positive pattern for stocks as occurred in the third quarter. There will be a few brief corrections as the economy accelerates, but by the end of the year the broad stock market indexes will have advanced to substantial new highs. Bonds will have a mediocre performance as they consolidate recent gains and adjust to an improving economy. As the quarter progresses we will reduce the current 20% bond asset allocation for flexible portfolios to the 10% level indicated in the graph below.

Going into the next year, we remain very positive about the potential for the financial markets. While present high valuations should not be ignored, they are not the sole determinant of market performance. Most astute market timers are aware that liquidity ultimately drives the pricing mechanism of any market. Many of the liquidity measures we review indicate tremendous underlying strength in both the stock and bond markets. Although there will continue to be corrections from time to time, those who hesitate to participate in the long-term super-bull market will pay the price of losing their short-term conservative gains to inflation and taxes. As outlined in our last newsletter, we believe that low inflation and moderate, sustainable growth will push financial markets to better returns over the next decade than even the outstanding performance of the past ten years. Accordingly, we will be very careful not to over-play short-term hedging opportunities at the expense of long-term investment performance.

Recommended Asset Allocation



Market Timing Viewpoint

Three Month Price Expectation
December 31, 1993

	Optimistic		Most Likely		Pessimistic	
DJIA/S&P500:	4100/525	(+15.0%)	3800/495	(+07.5%)	3400/435	(-05.0%)
T-Bond Index rate:	5.75%	(+05.0%)	6.0%	(unch)	6.4%	(-05.0%)

T-Bill rate: 3.0% / Inflation: 2.8% / Dollar: +5% / Oil: +5% / Gold: -10%

One Year Price Expectation
September 30, 1994

	Optimistic		Most Likely		Pessimistic	
DJIA/S&P500:	4500/575	(+25.0%)	4100/525	(+15.0%)	3700/480	(+05.0%)
T-Bond Index rate:	5.2%	(+15.0%)	5.65%	(+07.5%)	6.0%	(unch)

T-Bill rate: 3.0% / Inflation: 3.0% / Dollar: +15% / Oil: +10% / Gold: unch

Common Stock Position List

Prices as of September 30, 1993

Applied Materials	71.5	Chrysler	48	Lotus Development	45.5	Southwest Airlines	34.625
Banc One	41.5	Dell Computer	16.625	Michaels Stores	35	Taco Cabana	28.25
Best Buy	51.875	Electronic Arts	34.25	Microsoft	82.5	Texas Instruments	75.5
Bombay Co.	47.125	Hewlett-Packard	68.375	Motorola	101	Waterhouse	50.125
Charles Schwab	34.5	Intel	70.75	Oppenheimer Cap.	28.5	Whole Foods Mkt.	39.5

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

	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%	+ 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.