THE COMPASS

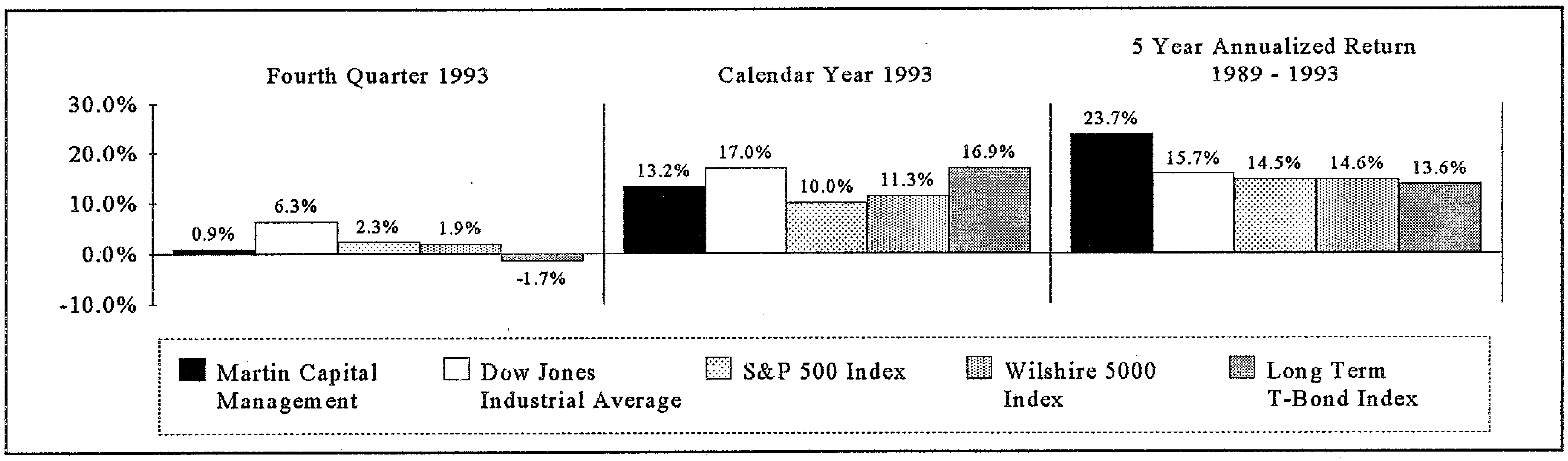
A QUARTERLY NEWSLETTER FROM MARTIN CAPITAL MANAGEMENT

100 Congress Avenue, Suite 2100 / AUSTIN, TEXAS / 78701 / Tel. 512-469-3772

January 1, 1994

DJIA 3754.09 / S&P500 466.45 / NASDAQ Comp. 776.80 / Wilshire 5000 4657.83 / Long T-Bond Index 6.42% (5512.63)
3 month T-Bill rate 3.01% / Inflation (CPI) 2.7% / Federal Reserve Dollar Index 96.84 / Oil $14.15 / Gold $390.80 / GDP (3Q) 2.9%

Investment Results



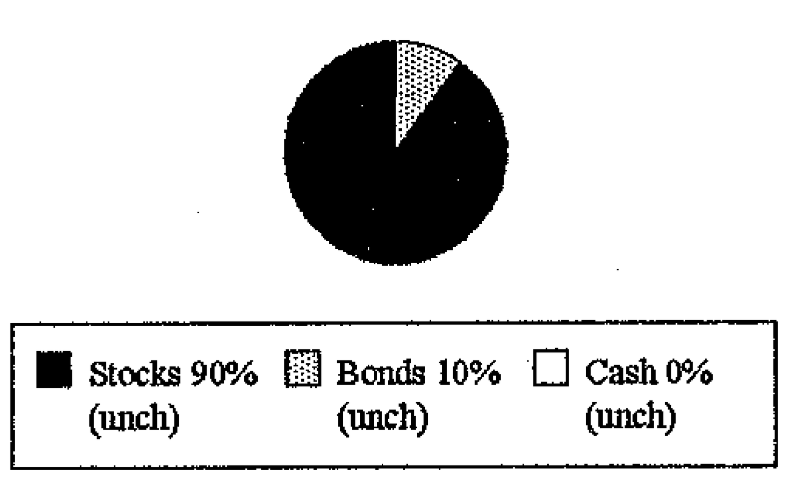
Investment Perspective

The fourth quarter was not quite as strong for stocks as we had anticipated. Although the Dow Industrials came very close to our consistent one year and fourth quarter 3800 price expectation (*The Compass*, 1/1/93 & 10/1/93), broader market indexes did not do as well. Likewise, bonds were somewhat weaker than expected for the quarter, but not totally out of line with our "mediocre performance" prediction (*The Compass*, 10/1/93). For the year, bonds slightly exceeded our one year performance expectation of +15%, with the rate dropping a bit lower than our target of 6.5% (*The Compass*, 1/1/93).

The broad market advance we thought would occur as 1993 drew to a close should happen in the beginning of 1994. We believe the first quarter will see a strong start for both stocks and bonds as the economy continues to build strength in a low inflationary environment. In particular, we are positive short-term because most liquidity conditions remain extremely favorable, especially as reflected in the persistence of bearish sentiment. Accordingly, our recommended asset allocation is to remain fully invested as shown in the chart below.

Despite the prevailing notion that "it doesn't (i.e., can't) get any better", it appears to us that there is room for further US economic expansion as major foreign economies pick up again in 1994, thus increasing US trade and enhancing GDP well beyond current forecasts. Cost cutting efforts combined with technological improvements will continue to propel US corporate earnings at a faster rate than most analysts' predictions. Meanwhile, competitive labor demographics (a primary ingredient for low wage inflation), federal spending constraints, and global economic competition will keep inflation low and allow further bond market rallies despite accelerating economic growth. There is always the potential for an international crisis or domestic disaster, but the tremendous underlying liquidity of the global financial markets will keep the negative impact short lived. Long-term investment performance proves that, when in doubt, it's better to assume the best.

Recommended Asset Allocation



Market Timing Viewpoint

			Three Month Performance Expectation March 31, 1994			
	Optimistic		Most Likely		Pessimistic	
DJIA/S&P500:	4300/535	(+15.0%)	4000/500	(+07.5%)	3750/465	(unch)
T-Bond Index rate:	5.75%	(+10.0%)	6.0%	(+07.5%)	6.4%	(unch)
T-Bill rate: 3.0% / Inflation (CPI): 2.7% / Dollar Index: 102 (+5%) / GDP (4Q): 4.5%						
			One Year Performance Expectation December 31, 1994			
	Optimistic		Most Likely		Pessimistic	
DJIA/S&P500:	4700/580	(+25.0%)	4300/435	(+15.0%)	3900/490	(+05.0%)
T-Bond Index rate:	5.25%	(+25.0%)	5.75%	(+15.0%)	6.5%	(+05.0%)
T-Bill rate: 3.25% / Inflation (CPI): 2.9% / Dollar Index: 111 (+15%) / GDP (3Q) 5.0%						

20 Largest Common Stock Positions

(Prices as of December 31, 1993)

Apple Computer	29.25	Dell Computer	22.625	Lotus Development	55	Schwab (Chas)	32.375
Applied Materials	38.75	Egghead	9	Michaels Stores	35.75	Southwest Airlines	37.375
Banc One	39.125	Electronic Arts	30	Motorola	92.25	Taco Cabana	17.75
Best Buy	46.5	Hewlett-Packard	79	Office Depot	33.625	Waterhouse	21.25
Chrysler	53.25	Intel	62	Oppenheimer Cap.	28.25	Whole Foods Mkt.	22.5

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 market conditions 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 Indexes					
	Martin Capital* Management	Dow Jones Industrial Average	S&P 500 Index	Wilshire 5000 Index	Long-Term T-Bond Index	Money Market Avg. Yld.	Consumer Price Index
1989	+ 37.9%	+ 32.4%	+ 31.5%	+ 29.2%	+ 18.9%	+ 6.5%	+ 4.8%
1990	+ 5.8%	- 0.5%	- 3.2%	- 6.2%	+ 6.3%	+ 5.9%	+ 6.1%
1991	+ 38.2%	+ 24.5%	+ 30.6%	+ 34.2%	+ 18.5%	+ 5.2%	+ 3.1%
1992	+ 27.1%	+ 8.0%	+ 7.7%	+ 9.0%	+ 8.0%	+ 3.3%	+ 3.0%
1993	+ 13.2%	+ 17.0%	+ 10.0%	+ 11.3%	+ 16.9%	+ 2.5%	+ 2.7%
Total**	+190.0%	+107.0%	+ 96.9%	+ 97.2%	+ 89.1%	+ 25.6%	+ 21.3%
Avg. ***	+ 23.7%	+ 15.7%	+ 14.5%	+ 14.6%	+ 13.6%	+ 4.7%	+ 3.9%

* Total annual performance, net of commissions, fees, and expenses, of all discretionary investment portfolios.
** Total compounded return, including reinvestment of dividends and interest.
*** 5 year annualized return (1989 - 1993).

(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.