THE COMPASS

A QUARTERLY NEWSLETTER FROM MARTIN CAPITAL MANAGEMENT

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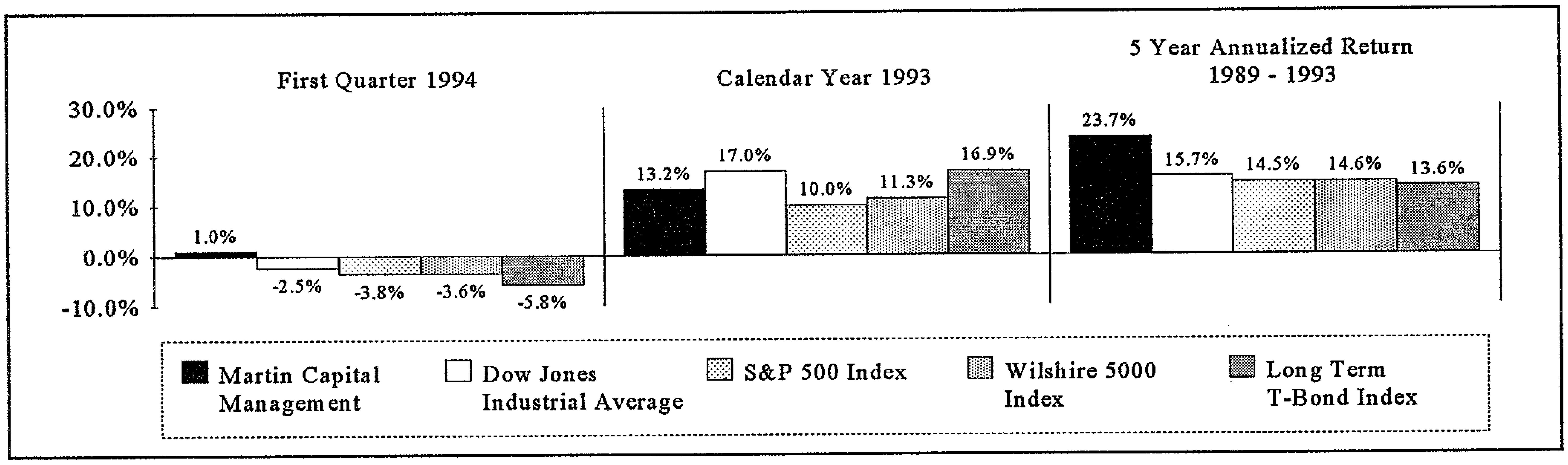
April 1, 1994

DJIA 3635.96 / S&P500 445.77 / NASDAQ Comp. 743.46 / Wilshire 5000 4457.69 / Long T-Bond Index 7.18% (5190.30)
3 month T-Bill rate 3.48% / Inflation (CPI) 2.5% / Federal Reserve Dollar Index 93.06 / Oil $14.80 / Gold $391.80 / GDP (4Q) 7.0%

Investment Results



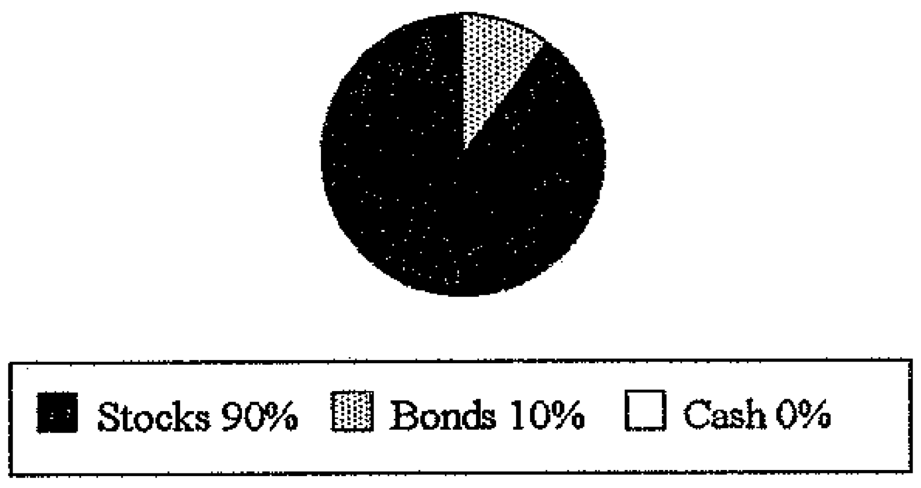
Investment Perspective

The first quarter began with a strong rally as expected. Just over one week before the end of the quarter our average portfolio was up ten percent. Then the "revenge of the lemmings" hit as institutional money managers panicked over increasing economic strength possibly fueling inflation. By the time the heavily leveraged hedge funds started throwing themselves off the cliff the financial markets were down significantly from their recent highs. Although bonds suffered their worst quarterly decline in many years, the damage to the stock market indexes was not nearly as severe as the intense growling of the bears and hand wringing of most institutional money managers would lead one to believe.

We are fairly bullish in our expectations for the second quarter. When the dust settles the current correction should prove to be just that - a typically swift and unnerving correction in a powerful bull market. This does not mean that the bulls will come stampeding back right away. It will take time to consolidate the current negative momentum, but by the end of the quarter we expect to see a modest rally in both stocks and bonds. This improvement will occur as continuing low inflation and positive economic fundamentals again force long-term interest rates back in the direction of historical levels (averaging 5% from 1926 to 1993).

The recent interest rate increases will have a dampening effect on the economy; therefore, we have reduced our real GDP forecast for 1994 to +3.5%. This rate of growth assumes that interest rates will not rise much higher than current levels, and that long rates will decline again by the end of the year. Given the present level of economic activity it is reasonable for the Federal Reserve to continue to move short rates up to a neutral position even as inflation remains low. The bond market is wrong, however, in assuming that, because the Fed is moving away from economic stimulation, the economy must be heating up enough to generate much higher inflation rates in the near future. Inflation is primarily caused by increases in wages. Due to demographic and structural conditions which will persist through at least the next decade, employment competition will keep wage increases under control. When the dis-inflationary influences of the global economy, and the productivity enhancing effects of technological innovation are factored in, it becomes very difficult to make a case for inflation rising much above the 1926 to 1993 average of 3.2%. Accordingly, we see no reason to change our long-term bullish viewpoint.

Recommended Asset Allocation



Market Timing Viewpoint

	Three Month Performance Expectation					
	April 1, 1994 to June 30, 1994					
	Optimistic		Most Likely		Pessimistic	
DJIA/S&P500:	4000/490	(+10.0%)	3800/470	(+05.0%)	3450/425	(-05.0%)
T-Bond Index rate:	6.5%	(+10.0%)	6.8%	(+05.0%)	7.5%	(-05.0%)
	1994 Performance Expectation					
	April 1, 1994 to December 31, 1994					
	Optimistic		Most Likely		Pessimistic	
DJIA/S&P500:	4500/560	(+25.0%)	4300/525	(+17.5%)	3900/480	(+07.5%)
T-Bond Index rate:	5.75%	(+20.0%)	6.25%	(+12.5%)	7.0%	(+2.5%)

T-Bill rate: 3.75% / Inflation (CPI): 2.9% / Dollar Index: 105 (+10%) / GDP 3.5%

20 Largest Common Stock Positions

(Prices as of March 31, 1994)

Apple Computer	33.25	Egghead	8.625	Lotus Development	70.50	Schwab (Chas)	26.875
Applied Materials	44.50	Electronic Arts	26.25	Michaels Stores	41	Southwest Airlines	32.75
Best Buy	63.875	Hewlett-Packard	82.125	Motorola	101.25	Taco Cabana	17.50
Chrysler	51.875	Home Depot	40.75	Office Depot	34.875	Texas Instruments	77.25
Dell Computer	25.25	Intel	67.50	Oppenheimer Cap.	23.75	Whole Foods Mkt.	18.75

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.