THE COMPASS

A QUARTERLY NEWSLETTER FROM MARTIN CAPITAL MANAGEMENT

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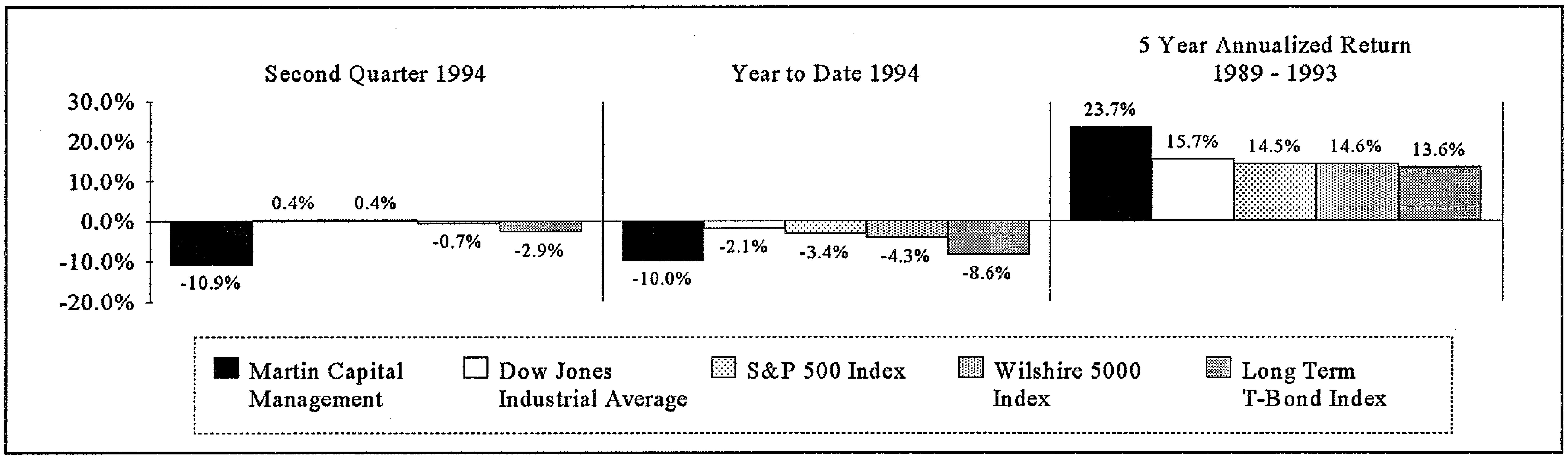
July 1, 1994

DJIA 3624.96 / S&P500 444.27 / NASDAQ Comp. 705.96 / Wilshire 5000 4395.22 / Long T-Bond Index 7.68% (5041.31)
3 month T-Bill rate 4.15% / Federal Funds Rate 4.25% / Discount Rate 3.5% / Prime Rate 7.25% / Inflation (CPI) 2.3%
Federal Reserve Dollar Index 89.62 / Oil $19.35 / Gold $385.80 / GDP (1Q) 3.4%

Investment Results



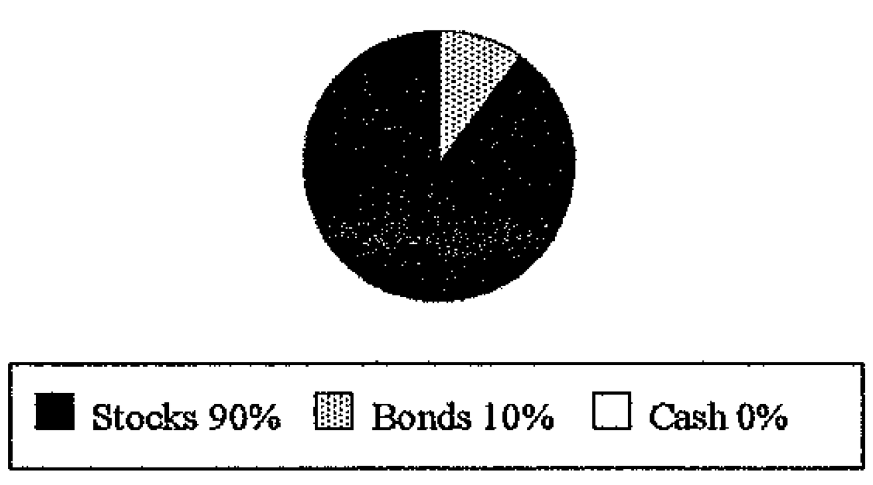
Investment Perspective

Market psychology turned decidedly negative during the second quarter. Inflation paranoia was whipped into a frenzy by fears of an over-heating economy, rising commodity prices, and a weakening dollar. Technology stocks, which have the highest weighting in our portfolios, were particularly hard hit, resulting in the worst quarterly performance since Iraq invaded Kuwait in the third quarter of 1990. As we did not then properly appreciate the stupidity of Saddam Hussein, we are now surprised by the severity of the financial markets' reaction to the Federal Reserve Board raising interest rates to a neutral monetary position.

Though the "Chicken Littles", most of whom have been proclaiming "the sky is falling" for years, are now clucking a cacophony of "I told you so's," we believe we have already sailed through the worst part of the storm. Our best policy now is to maintain course. Commodity prices are beginning to settle down; the dollar's decline is not significant enough to be inflationary; and, since the economy has probably slowed to a low-inflationary real growth rate of about 3.0%, the Federal Reserve Board should be close to completing the recent series of interest rate hikes. In fact, before the end of the year the Fed may have to lower short-term interest rates to compensate for the economic drag created by the bond markets' surge above 7.5%. Stock and bond prices should begin to bounce back by the end of the quarter as investment perceptions focus once again on the realities of low inflation and sustainable growth. By the end of the year stocks should be reaching new highs and long bond rates should be below 7.0%.

The financial sell off of the last few months admittedly caught us off guard for the first time in almost four years. While it has been disconcerting, we are confident that it will soon prove to be just a sharp correction in a secular bull market. One of the truest and best known statements on Wall Street is that "bull markets climb a wall of worry." We are presently in the midst of a great deal of worry. We believe, as always happens in bull markets, that most of these worries are exaggerated. Inflation seems to be the primary concern today; however, there are too many disinflationary trends for the current level of economic activity to result in above average levels of inflation. When the financial markets realize that prevailing demographic, technological, and global economic forces are capable of compensating for the inflationary effects of robust economic expansion, the value of financial assets will resume climbing to new heights.

Recommended Asset Allocation



Market Timing Viewpoint

	Three Month Performance Expectation July 1, 1994 to September 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:	6.9%	(+10.0%)	7.3%	(+05.0%)	8.1%	(-05.0%)

	One Year Performance Expectation July 1, 1994 to June 30, 1995					
	Optimistic		Most Likely		Pessimistic	
DJIA/S&P500:	4700/575	(+30.0%)	4350/535	(+20.0%)	4000/490	(+10.0%)
T-Bond Index rate:	6.1%	(+20.0%)	6.9%	(+10.0%)	7.3%	(+05.0%)

20 Largest Common Stock Positions

(Prices as of June 30, 1994)

Apple Computer	26.50	Hewlett-Packard	75.25	Microsoft Corp.	51.625	Southwest Airlines	26.25
Applied Materials	42.75	Home Depot	42.125	Motorola	44.625	Taco Cabana	13.50
Banc One	34.25	Intel	58.50	Office Depot	20.125	Texas Instruments	79.50
Best Buy	28.875	Lotus Development	36.75	Oppenheimer Cap.	23.625	Whole Foods Mkt.	15.50
Dell Computer	26.375	Michaels Stores	33.625	Schwab (Chas)	24.75	Williams-Sonoma	30.25

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.