THE COMPASS

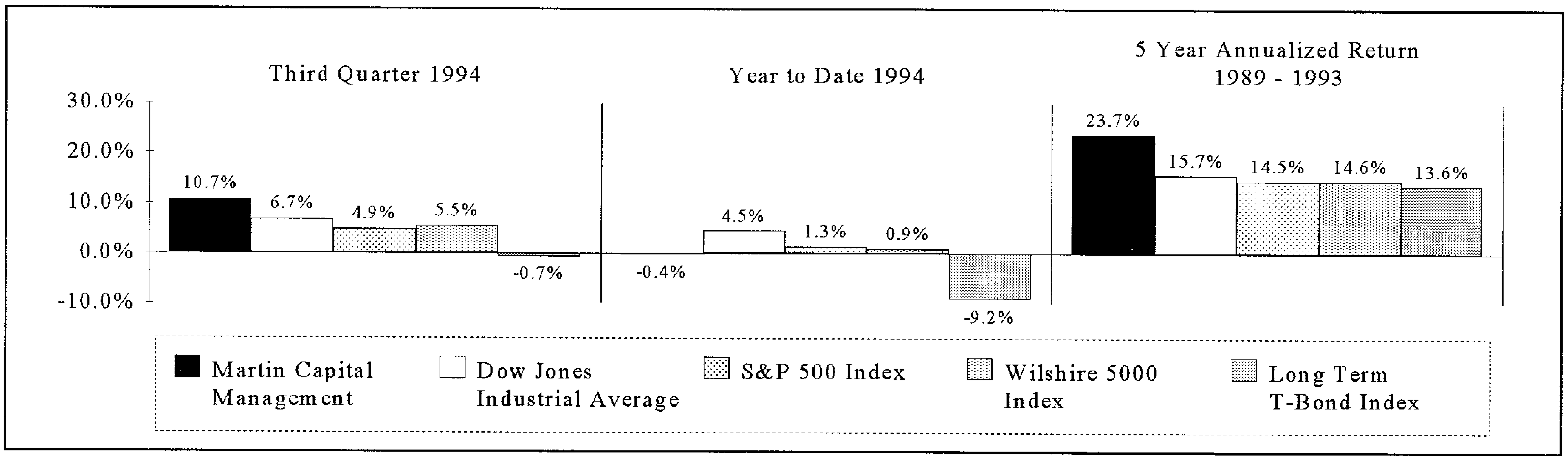
A QUARTERLY NEWSLETTER FROM MARTIN CAPITAL MANAGEMENT

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

October 1, 1994

DJIA 3843.19 / S&P500 462.69 / NASDAQ Comp. 764.29 / Wilshire 5000 4605.82 / Long T-Bond Index 7.95% (5006.69)
3 month T-Bill rate 4.67% / Federal Funds Rate 4.75% / Discount Rate 4.0% / Prime Rate 7.75% / Inflation (CPI) 2.9%
Federal Reserve Dollar Index 87.88 / Oil $18.40 / Gold $394.20 / GDP (2Q) 4.1%

Investment Results



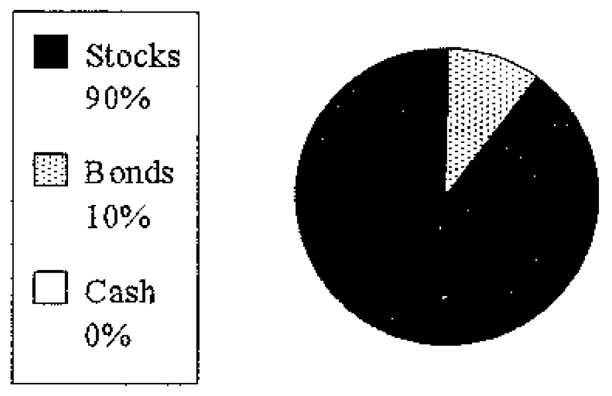
Investment Perspective

As expected, the stock market staged a respectable rebound during the third quarter, with technology issues leading the way. Much of the improvement came from the realization that many companies have successfully restructured themselves to profit even in the face of tighter monetary conditions. Unfortunately, improvements in productivity have created a resiliency in the economy which the bond market abhors. Despite only modest inflationary increases, the bond market remains traumatized by the fear of even the slightest pickup in economic activity.

For the next three to six months, moderate inflationary forces will persist as the economy continues to expand. Though inflation may rise to 3.5% next year, the current treasury bond rate of almost 8% compensates for an inflation rate of roughly 6%, which we do not believe is in the cards. While the Federal Reserve Board may tighten rates again to appease overblown fears of inflation, the bond market's paranoia over economic growth may soon have the desired result of substandard (less than 2%) economic performance. When the economy begins to slow this quarter, long-term interest rates will quickly fall back toward the 7% level. Stocks will also fair well as corporate profits only slightly decline in an improving monetary environment. As the quarter progresses we may shift our asset allocation model to an additional ten percent bond allocation in anticipation of bonds outperforming stocks in the first quarter of next year.

It is truly impressive to see so many prognosticators of doom standing by their pronouncements of imminent financial destruction year after year in the face of one of the most powerful bull markets in history. Surely someday they will be right. Unfortunately, for them, when the next secular bear market begins they most likely will have just converted to the bullish camp. It must be granted that the bears have had their moments of justified righteousness from time to time - especially during the 1987 crash. But it's hard to give them much credit when even in 1987 after all was said and done most fully invested portfolios had a positive year. While we do not wish to tempt fate, it seems appropriate to at least make a few logical observations in the current climate of fear and trembling. First no one "knows" which way the financial markets are going in the short-term. One thing we do know, however, is that most commentators and analysts are wrong most of the time. When the fat lady sings, most market gurus will be trumpeting the praises of a never-ending economic renaissance. Another thing we know is that the stock market usually goes up, averaging 12.3% since 1926, and has *always* outperformed all other investments over any twenty year period. Rather than focusing on what is wrong with the world, successful investing in the long run depends more on the perspective of seeing what is right.

Recommended Asset Allocation



Market Timing Viewpoint

	Three Month Performance Expectation October 1, 1994 to December 31, 1994					
	Optimistic		Most Likely		Pessimistic	
DJIA/S&P500:	4200/510	(+10.0%)	4000/485	(+05.0%)	3650/440	(-05.0%)
T-Bond Index rate:	7.2%	(+10.0%)	7.5%	(+05.0%)	8.3%	(-05.0%)
	One Year Performance Expectation October 1, 1994 to September 30, 1995					
	Optimistic		Most Likely		Pessimistic	
DJIA/S&P500:	4800/575	(+25.0%)	4400/535	(+15.0%)	4200/510	(+10.0%)
T-Bond Index rate:	6.4%	(+20.0%)	6.8%	(+15.0%)	7.5%	(+05.0%)

20 Largest Common Stock Positions

(Prices as of September 30, 1994)

Apple Computer	33.6875	Hewlett-Packard	87.375	Microsoft Corp.	56.125	Southwest Airlines	22.50
Applied Materials	46.75	Home Depot	42.00	Motorola	52.75	Texas Instruments	68.00
Best Buy	39.125	Intel	61.50	Office Depot	26.00	Waterhouse Invest.	14.125
Dell Computer	37.4375	Lotus Development	36.75	Oppenheimer Cap.	22.75	Whole Foods Mkt.	15.00
Electronic Arts	18.50	Michaels Stores	41.4375	Schwab (Chas)	29.625	Williams-Sonoma	34.1875

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.