THE COMPASS

A QUARTERLY NEWSLETTER FROM MARTIN CAPITAL MANAGEMENT

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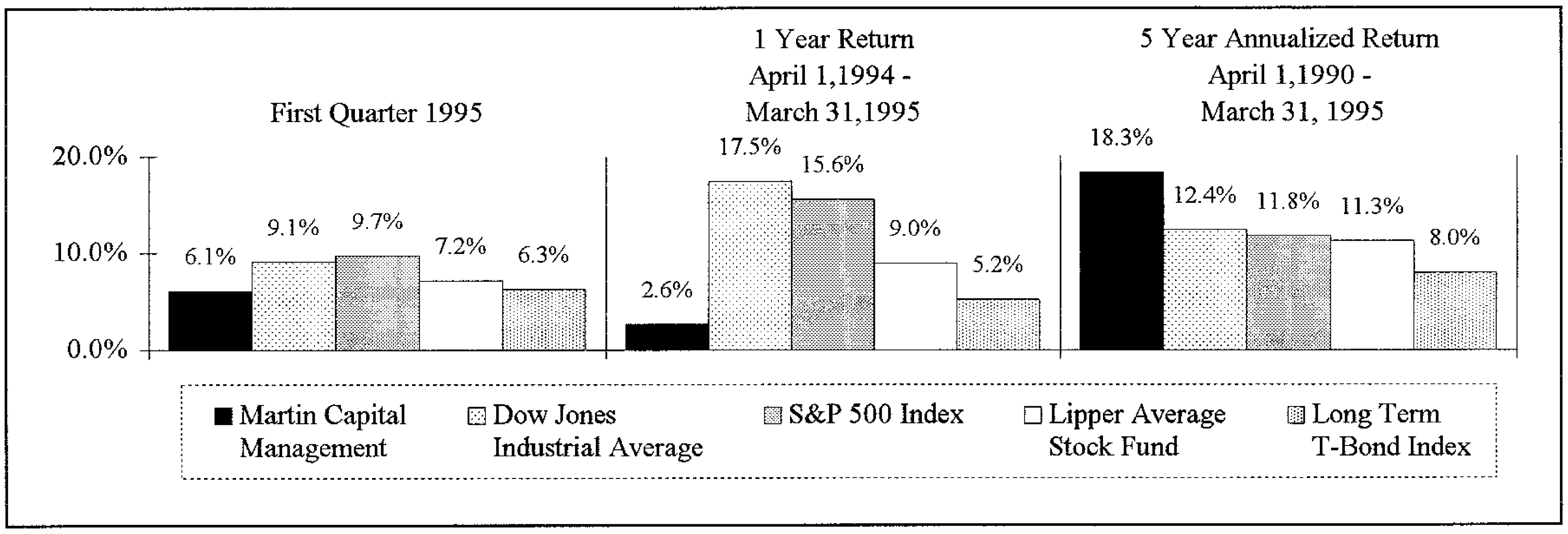
April 1, 1995

DJIA 4157.69 / S&P 500 500.71 / NASDAQ Comp. 817.21 / Wilshire 5000 4920.42 / Long T-bond Index 7.52% (5454.07)
3 month T-Bill rate 5.70% / Federal Funds Rate 6.00% / Discount Rate 5.25% / Prime Rate 9.0% / Inflation (CPI) 2.9%
Federal Reserve Dollar Index 81.90 / Oil $18.90 / Gold $392.20 / GDP (4Q) 5.1%

Investment Results



Investment Perspective

The first three months of 1995 turned out as we suggested at the beginning of the year. Most U.S. stock indexes achieved greater than 5% gains. The yield on the long-term treasury bond index dropped almost to our 7.5% target. Inflation remained below 3%. Unfortunately, midsized to small capitalization stocks continued to under-perform large capitalization indexes, exacerbating our one year performance comparison shown in the chart above. The precipitous decline of the dollar has been a big factor in the out-performance of large capitalization stocks for the past year. Although the dollar's further devaluation during the quarter was surprising, it was not unexplainable given the unrelenting expansion of the U.S. trade deficit. The positive performance of U.S. financial markets was all the more impressive in the face of the dollar's dramatic descent.

Our second quarter expectation is about the same as what we said for the first quarter in the last newsletter. Treasury bond rates should continue to fall toward 7%. Stocks will advance another 5% to 10%. The dollar will begin to bounce back as it becomes clear that the Japanese must make further efforts to open their markets. Economic growth will slow somewhat, yet continue to be higher than what the anti-inflation hawks would like to see. Inflation will pick up slightly, though not much over 3%. The "Goldilocks" economy - not too hot, not too cold - is well on its way to a soft landing by the end of the year. When the dollar stabilizes and investment capital begins to flow back to the U.S., the performance of our financial markets could be spectacular.

The Federal Reserve and most economists underestimate the low inflationary growth potential of the U.S. economy. They earned their stripes in the hyper-inflationary trenches of the 1970's and 80's. Demographic and global economic conditions have turned around 180 degrees from where they were twenty-five years ago. It is already proving to be quite difficult for political and regulatory agencies to brake the economy to what they conservatively consider to be a safe, low inflationary speed. Fortunately, the Fed really doesn't appreciate what it's up against in trying to hold back the economy, or they would increase interest rates much more aggressively. Efforts to reduce economic growth through higher credit costs are quickly counter-balanced as U.S. companies accelerate plans to increase production and lower costs with improved technologies, legions of over-educated and under-employed baby boomers compete all the more actively for jobs, and foreign economies provide alternative markets to pick up any slack in the system. Although the government's efforts to regulate the economy are as inconsequential today as they were in the previous two decades, they will get as much undeserved credit for steering the preset course of low inflation and solid economic growth over the next twenty years as they received undeserved blame for high inflation and steep recessionary cycles over the past twenty years.

Recommended Asset Allocation

Stocks	95%	(Δ unch)
Bonds	15%	(Δ unch)
Cash	-10%	(Δ unch)

Market Timing Viewpoint

	Optimistic		Most Likely		Pessimistic	
Three Month Performance Expectation April 1, 1995 to June 30, 1995						
DJIA/S&P 500	4575/550	(+10.0%)	4365/525	(+05.0%)	3950/475	(-05.0%)
T-Bond Index rate:	6.8%	(+10.0%)	7.1%	(+05.0%)	7.9%	(-05.0%)
One Year Performance Expectation April 1, 1995 to March 31, 1995						
DJIA/S&P 500	5200/625	(+25.0%)	4780/575	(+15.0%)	4575/550	(+10.0%)
T-Bond Index rate:	6.0%	(+20.0%)	6.4%	(+15.0%)	7.1%	(+05.0%)

20 Largest Common Stock Positions

(Prices as of March 31, 1995)

Apple Computer	35.25	Electronic Arts	22.625	Michaels Stores	33.25	Southwest Airlines	17.875
Applied Materials	45.125	Hewlett-Packard	120.375	Microsoft Corp.	71.125	Texas Instruments	88.50
Best Buy	21.625	Home Depot	44.25	Motorola	54.625	Waterhouse Invest.	16.125
Cirrus Logic	34.00	Intel	84.878	Office Depot	24.375	Whole Foods Mkt	11.625
Dell Computer	43.75	Lotus Development	38.25	Schwab (Chas)	32.25	Williams-Sonoma	25.00

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 returns.

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%	+ 18.1%	+ 10.0%	+ 11.3%	+ 16.9%	+ 2.5%	+ 2.7%
1994	- 2.3%	+ 5.9%	+ 1.3%	- 0.1%	+ 1.5%	+ 2.4%	+ 2.7%
Total**	+183.3%	+119.5%	+ 99.5%	+ 97.1%	+ 74.7%	+ 28.6%	+ 24.5%
Avg. ***	+ 19.0%	+ 14.0%	+ 12.2%	+ 12.0%	+ 9.7%	+ 4.3%	+ 3.7%

* Total Annual Performance, net of commissions, fees, and expenses, of all discretionary investment portfolios.
** Total compounded return, including reinvestment of dividends and interest.
*** 6 year annualized return (1989 - 1994).

(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, trust, and pension plans.