THE COMPASS

A QUARTERLY NEWSLETTER FROM MARTIN CAPITAL MANAGEMENT

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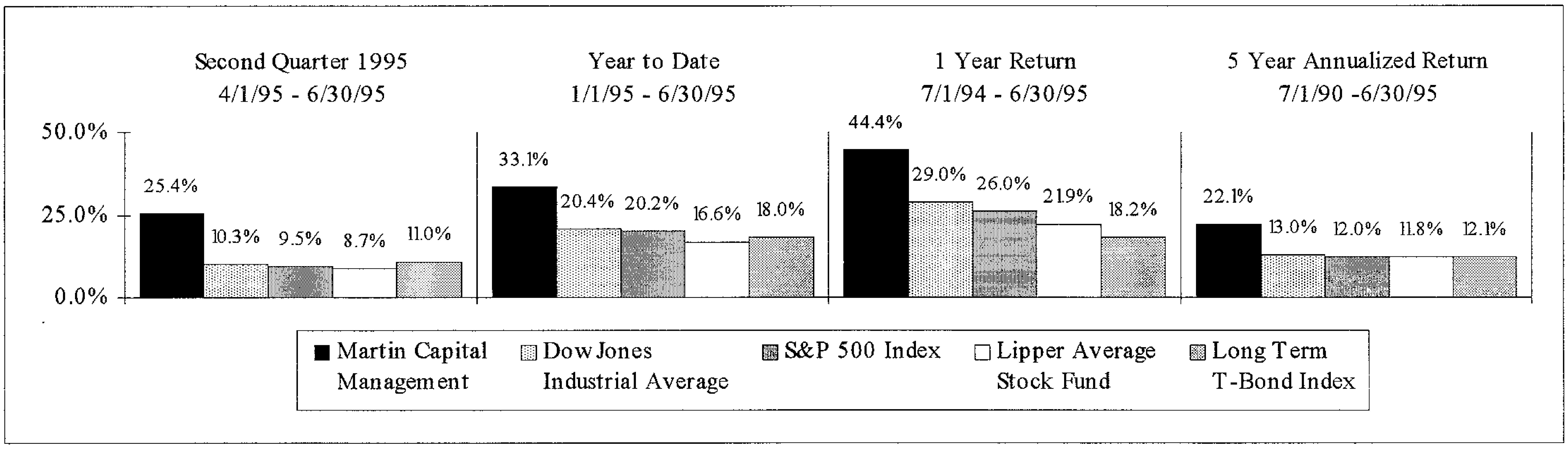
July 1, 1995

DJIA 4556.10 / S&P 500 544.75 / NASDAQ Comp. 933.45 / Wilshire 5000 5348.77 / Long T-bond Index 6.65% (6053.29)
3 month T-Bill rate 5.44% / Federal Funds Rate 6.00% / Discount Rate 5.25% / Prime Rate 9.0% / Inflation (CPI) 3.2%
Federal Reserve Dollar Index 81.58 / Oil $17.40 / Gold $384.90 / GDP (1Q) 2.7%

Investment Results



Investment Perspective

U.S. stock and bond markets hit the upper end of our performance expectations for the second quarter. The S&P 500 gained almost 10%, while long-term treasury bonds returned about 11%. Year to date stocks and bonds have advanced approximately 20%. Indications of a slowing economy have provided most of the fuel for the rally. The bond market has been betting that any incipient acceleration of inflation will be nipped in the bud by the current contraction in growth. The stock market has been clearly factoring in a touch and go economic landing, with sustainable low inflationary growth to follow. As suggested in the last newsletter, dollar stabilization also contributed to the second quarter's positive results. Our performance benefited most from high exposure to technology issues, which are finally beginning to be priced less as cyclical stocks and more as semi-consistent growth stocks.

At the risk of sounding like a broken record, our third quarter projection is again for a 5% to 10% return for both stocks and bonds (specific performance expectations are on the reverse page). Given the amount of buying power we still see on the sidelines waiting to come in, the financial markets have plenty of room to go on the upside. Combined with the fact that we are in the best part of the economic cycle for both stocks and bonds, now is not the time to fall back on the excuse that prices are "too high". The key to being a successful investor in the long run is not to be found in avoiding bear markets, but in the ability to ride bull markets. Much to the chagrin of the short sellers and purveyors of cash, we are in the middle of a very strong bull market. As we ride out the bucking bull, our goal is to hang on through the buzzer. Accordingly, despite the great run we've already had this year, we are only marginally shifting our previous recommended asset allocation, as shown in the chart below.

At some point in the not too distant future we will have a cyclical correction. What the trigger will be is unknown at this time. The most important question is how far can the stock and bond markets run before they stumble into a significant bear market. Many prognosticators of doom try to demonstrate that it is impossible for the stock market to go higher by pointing to one or two numbers, such as the low average dividend yield or the high national debt. Their mistake is twofold. First, they do not properly interpret the data. Second, and the far greater error of the two, they seek simple answers for an extremely complex issue. In our estimation, the most important factors in financial market performance are liquidity levels and economic cycle position. While it is very tempting to take the easy way out by simply focusing on the fact that the stock market is "too high," when we balance the many negative variables against the preponderance of positive data, we have to remain bullish.

Recommended Asset Allocation

Stocks	90%	(Δ - 05%)
Bonds	10%	(Δ - 05%)
Cash	0%	(Δ +10%)

Market Timing Viewpoint

	Three Month Performance Expectation July 1, 1995 to September 30, 1995					
	Optimistic		Most Likely		Pessimistic	
	Target	Return	Target	Return	Target	Return
DJIA/S&P 500	5100/615	+12.5%	4900/575	+07.5%	4200/525	-05.0%
T-Bond Index	6.0%	+10.0%	6.4%	+05.0%	7.0%	-05.0%

	One Year Performance Expectation July 1, 1995 to June 30, 1996					
	Optimistic		Most Likely		Pessimistic	
	Target	Return	Target	Return	Target	Return
DJIA/S&P 500	5700/680	+25.0%	5500/650	+20.0%	5000/600	+10.0%
T-Bond Index	5.25%	+20.0%	5.75%	+15.0%	6.5%	+07.5%

20 Largest Common Stock Positions

(Prices as of June 30, 1995)

Apple Computer	46.438	Dell Computer	60.125	Intel	63.313	Southwest Airlines	23.875
Applied Materials	86.625	Egghead, Inc.	13.375	Microsoft Corp.	90.375	Texas Instruments	133.875
Best Buy	26.625	Electronic Arts	27.125	Motorola	67.125	Waterhouse Invest.	23.00
Cirrus Logic	62.688	Hewlett-Packard	74.50	Office Depot	28.125	Whole Foods Mkt	15.25
Cisco Systems	50.563	Home Depot	40.75	Schwab (Chas)	43.875	Williams-Sonoma	22.00

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%	+ 5.0%	+ 1.3%	- 0.1%	- 7.6%	+ 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.