THE COMPASS

A QUARTERLY NEWSLETTER FROM MARTIN CAPITAL MANAGEMENT

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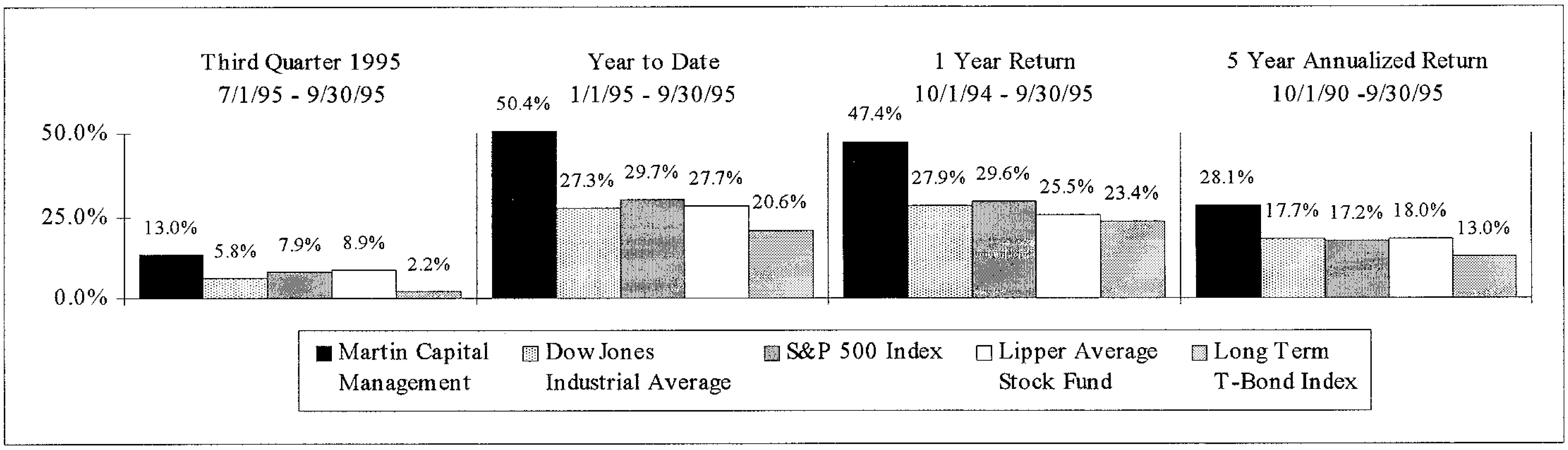
October 1, 1995

DJIA 4789.08 / S&P 500 584.41 / NASDAQ Comp. 1043.54 / Wilshire 5000 5806.63 / Long T-bond Index 6.60% (6185.85)
3 month T-Bill rate 5.24% / Federal Funds Rate 5.75% / Discount Rate 5.25% / Prime Rate 8.75% / Inflation (CPI) 2.6%
Federal Reserve Dollar Index 84.29 / Oil $17.53 / Gold $383.80 / GDP (2Q) 1.3%

Investment Results



Investment Perspective

Third quarter stock market performances were in line with our + 7.5% expectation. The treasury bond market, however, faired slightly worse than our + 5% target - returning only 2.2% for the quarter. Improving earnings and stable inflation contributed most to the stock markets' positive follow through from outstanding second quarter returns. Bond market performance was held back by signs that the economy was not as weak as previously thought. We have put forth the viewpoint for some time that the economy is more resilient than most economists' hypothecations. Unfortunately, the Federal Reserve Board and the fixed income markets see the economy's resilience as a reason to keep interest rates at relatively high levels - still fighting the hyper-inflation battles of the last generation. Generally better than expected earnings results for many of the companies in our portfolios propelled our total performance to a 13% gain for the quarter.

We are looking for a 0% to + 5% stock market return in the fourth quarter. Bonds should do better, with a + 5% to + 10% total return. The most likely scenario for stocks, especially Nasdaq issues, is a pull back of 5% to 10% during the first part of the quarter as the Fed's tight monetary policy finally begins to hurt earnings comparisons. Stocks will rebound by the end of the year as treasury bonds rally toward a 6.0% yield and Federal Funds drop toward a neutral 4.75% rate. Contrary to the smooth economic touch and go landing we visualized last quarter, the Fed's hesitancy to put down the flaps and add power by more aggressively lowering rates has put the risk of recession back on the horizon. The drag of the slow global economy could stall the otherwise resilient US economy if the Fed does not move decisively toward a neutral interest rate position over the next few months. Despite these concerns, we believe the economy will make it through a rougher than previously anticipated landing without sustaining too much damage. Accordingly, we will maintain our fully invested asset allocations for the time being.

Our long term expectations for the financial markets remain quite bullish whether or not the Fed and the fixed income markets ease further in the near future. We believe that we are in the greatest secular bull market of the century for several reasons. First, demographic trends will be quite positive for financial instruments well into the next millennium as baby boomers competing for jobs hold down wage inflation, and their burgeoning retirement savings increase investment liquidity. Second, the global economy presents tremendous economic opportunities for expanding markets and stabilizing inflation through price competition. Third, advances in science and technology will continue to enhance productivity, resulting in higher standards of living and lower inflation. In conclusion, we will view any near term bear market as a cyclical event to be endured on the road to higher stock market returns.

Recommended Asset Allocation

Stocks	90%	(Δ unch)
Bonds	10%	(Δ unch)
Cash	0%	(Δ unch)

Market Timing Viewpoint

	Three Month Performance Expectation October 1, 1995 to December 31, 1995					
	Optimistic		Most Likely		Pessimistic	
	Target	Return	Target	Return	Target	Return
DJIA/S&P 500	5250/640	+10.0%	4900/600	+02.5%	4300/525	-10.0%
T-Bond Index	5.75%	+12.5%	6.1%	+07.5%	7.0%	-05.0%

	One Year Performance Expectation October 1, 1995 to September 30, 1996					
	Optimistic		Most Likely		Pessimistic	
	Target	Return	Target	Return	Target	Return
DJIA/S&P 500	6000/730	+25.0%	5500/675	+15.0%	5000/615	+05.0%
T-Bond Index	5.25%	+25.0%	5.75%	+15.0%	6.50%	+05.0%

20 Largest Common Stock Positions

(Prices as of September 30, 1995)

Apple Computer	37.25	Cisco Systems	69.00	Intel	60.125	Southwest Airlines	25.125
Applied Materials	102.25	Dell Computer	85.00	Microsoft Corp.	90.50	Texas Instruments	79.875
Best Buy	26.25	Electronic Arts	36.75	Motorola	76.375	Waterhouse Invest.	25.50
Chrysler	53.00	Hewlett-Packard	83.375	Office Depot	30.125	Whole Foods Mkt	13.125
Cirrus Logic	57.25	Home Depot	39.875	Schwab (Chas)	29.00	Williams-Sonoma	20.75

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 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.