THE COMPASS

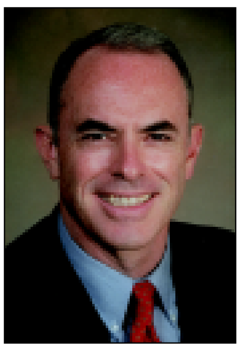
Third Quarter, 2000

A Quarterly Newsletter of Martin Capital Advisors, LLP

INVESTMENT PERSPECTIVE by Paul Martin, Managing Partner

Second quarter decline reduces short-term risk

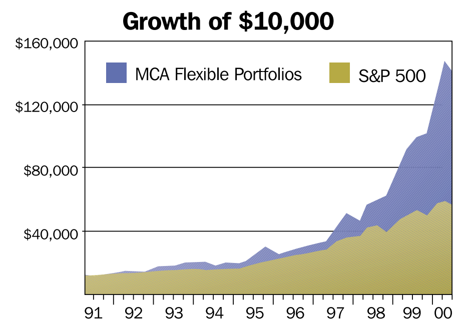
The near-term risk cited in the previous newsletter hit the stock market hard in April and May. In light of our long-term positive expectation we did not hedge in advance of the sell-off. Instead, securities were purchased at lower prices to bring all portfolios to fully invested positions. June saw a substantial rebound from the market lows, reducing the damage done earlier in the quarter. Bonds fared better than stocks as the Federal Reserve Board continued to tighten rates despite initial signs of slower economic growth.



As we begin the third quarter short-term stock market risk has been reduced considerably by the second quarter correction and the prospect that the Fed may be nearing the end of the latest interest rate tightening cycle. Our short-term stock market performance expectation is now neutral. Although short-term risk is reduced, there is still a fair chance that we could see another pullback during the third quarter if corporate earnings start to show signs of significant deterioration. If the stock market weakens again during the quarter we will consider using margin to take advantage of lower prices. There is a good chance that bonds will again outperform stocks this quarter, but we will continue to maintain a low bond asset allocation given our much more positive long-term stock market performance expectation.

The Fed's overly restrictive interest rate policies will have a short-term negative impact on the economy and the stock market, resulting in slower economic growth than could be achieved otherwise and limiting short-term stock market returns. Higher than necessary interest rates, however, will not knock out the great long-term bull market. The global economy is so well established, U.S. demographics are so positive, and productivity enhancing high technology is advancing so rapidly that long-term stock market returns should continue to be well above average for the foreseeable future. The negative consequence of slightly slower than optimal economic growth will hit home many years from now when the benign macro-economic fundamentals that exist today begin to unravel. Then the less robust economy of the future may not have the resources necessary to counterbalance deteriorating macro-economic conditions. When economists eventually take note of the greater prosperity that could have been achieved at the dawn of the new millennium, I wonder whether Alan Greenspan will be revered as much as he is today.

MCA Flexible Portfolios
12-month Tax Efficiency: 99.0%
(After Tax Return divided by Before Tax Return)



Martin Capital Advisors vs. S&P 500
1/1/91–6/30/00

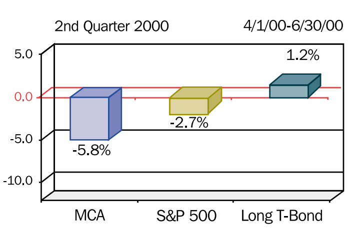
See Important Disclosure Notice on back page.

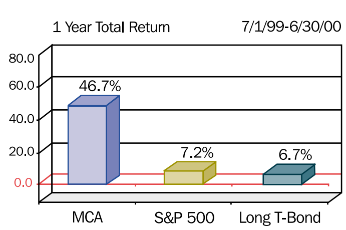
The Texas Opportunity Fund will begin trading August 1. We are now taking indications of interest for the fund. Information about the fund will be available at our website. Please let us know if you would like a copy of the prospectus.

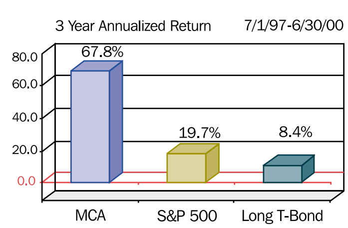
To make time-sensitive information available sooner, we now offer you the option of receiving e-mail notifications of our updated online versions of *THE COMPASS* and Alston Boyd's economic reports. Please e-mail us at mail@martincapital.com and indicate whether you would like to receive either or both of these publications online. We will continue to send you print versions of *THE COMPASS*.

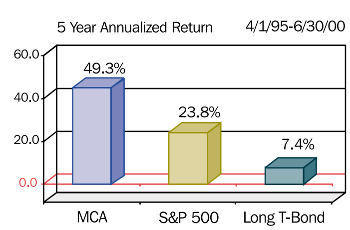
INVESTMENT RESULTS

Martin Capital Advisors Flexible Portfolios vs. the S&P 500 Index and the Lehman Brothers Long Treasury Bond Index









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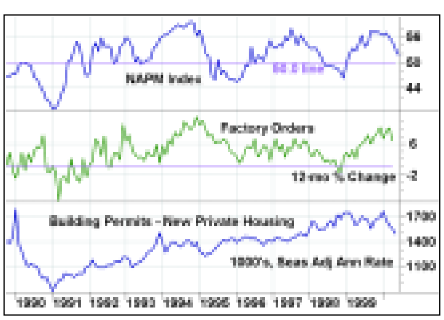
QUARTERLY ECONOMIC REVIEW by Alston Boyd, Economic Director

The second quarter saw slower economic growth than the 5.5% annualized increase in GDP seen in the first quarter, although the advance figures will not be seen for several weeks. The Fed's tighter monetary policy has clearly had a slowing effect. Besides slower economic growth, the Fed's policy has impacted the stock market: none of the major stock indices managed to show a gain in the second quarter (see table at end of this report). Perverse as it may seem, this was also part of the Fed's plan. Short interest rates reflect the Fed's tightening: the 13-week T-bill yield has risen 25% in a year, while the Fed funds target and discount rates have risen 30% and 33%, respectively. Small wonder that we see a slower economy. The inflation present in our economy today is almost entirely due to higher crude oil prices, and has thus been "externally" introduced. It is not a product of overly rapid economic growth. The labor market has remained tight and is still the Fed's prime source of worry about potential inflation.

MANUFACTURING

Growth in the manufacturing sector is decelerating. The North American Purchasing Managers Index fell for the fourth month in a row to 51.8 in June. The NAPM report showed that backlogs of orders were shrinking and inventories were being drawn down less quickly. The latest figure is down sharply from 56.9 in February, and barely above the 50.0 level separating growth from contraction. The Industrial Production Index rose 0.4% in May and 5.8% in 12 months. It has not shown the slowing apparent in the NAPM Index, although June's figure has not yet been released. The output of consumer goods fell 0.1% in May, while the output of information-processing equipment for business rose by 0.7%. The end of a strike boosted production in defense and space industries by 1.1% for the month. As consumer spending has been the main driver of our economy, the drop in consumer goods production is good news for inflation hawks at the Fed.



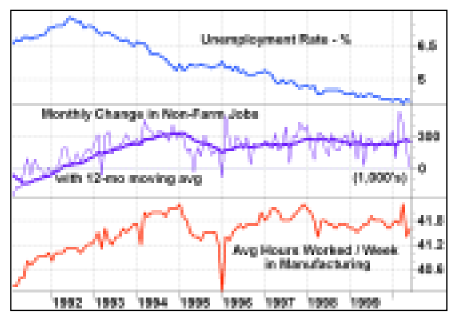
Home building has slowed due to higher mortgage rates, although construction spending as a whole has remained steady. Building permits for new private housing are down 10.2% in 3 months. They fell to an annual rate of 1.492 million units in May, the lowest since December 1997. Total construction spending was up only 0.1% in May and up 6.6% in 12 months, with industrial construction the only strong category in May among widespread weakness. Looking forward, construction contracts fell 4.9% in April, implying that a further slowdown lies ahead.

SALES

Consumer spending has been the driving engine behind our robust economy and there are signs that it is beginning to slacken. Retail sales fell 0.6% in April and 0.3% in May. While the percentages may be small, they represent the first monthly declines since July 1998. The 12-month change has fallen from a sizzling 11.6% in March to 8.6% in May, the lowest annual rate of change in nearly a year. Auto and light truck sales fell from an annual rate of 19 million units in February to 16.9 million in May. New home sales have remained strong, down slightly in April and May at annualized numbers of 877,000 and 875,000, respectively. Continued strength of home sales in spite of higher mortgage rates can probably be attributed to adjustable rate mortgages, which have lowered monthly payments. Sales of existing homes, which normally occur at about six times the rate of new homes, have suffered more from the higher mortgage rates and are down about 15% from last June's high. The main force behind the slowing has been higher interest rates, which are having precisely the effect desired by the Fed. A second factor has been the rise in oil prices. As consumers have had to fork over considerably more cash to pay for gasoline and other forms of energy, they have less left over to make other purchases.

LABOR

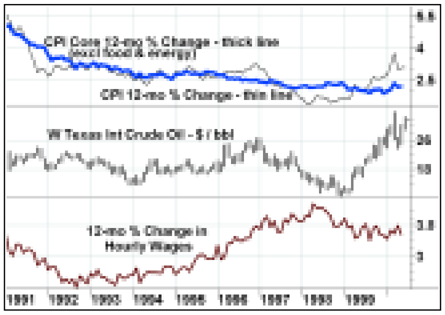
The labor market remains tight, with the unemployment rate falling a tenth of a percent in June to 4.0%. May showed the biggest jump in two years, up two-tenths to 4.1%. The government's hiring of temporary workers for the census, a net 357,000 to date, has clouded the jobs picture. Non-farm jobs rose 231,000 in May, although this included 375,000 temporary census workers. Subtracting these temporary



workers leaves a net loss of 126,000 jobs, the largest loss of jobs since the 1990-1991 recession. June showed an increase of only 11,000 jobs, but some census workers were let go, so private sector jobs actually rose 206,000. The two months' numbers without census workers seem to indicate that demand for labor is easing, especially considering more census workers will be let go. Also, the average numbers of employees' hours worked per week in May, both in the manufacturing sector and in the entire economy, equaled the lowest figures since 1996. The average number of overtime hours per week has only been lower in one month since 1996. Only a slight recovery was seen in June. The numbers of hours worked is a rough indicator of where hiring practices are headed because employers tend to cut down on hours worked and overtime before letting go of employees when business gets slow. While these figures are volatile, a trend toward a softer labor market seems to have been established.

INFLATION

The Consumer Price Index rose 0.1% in May and 3.1% over 12 months. The CPI "core" rate, excluding food and energy components, rose 0.2% in May and 2.3% over 12 months. The Producer Price Index of wholesale prices was unchanged in May but rose 3.7% in 12 months. Over half the 12-month increase in the PPI was due to higher oil prices. Looking at individual components of the CPI, transportation was up an annualized 5.4% in the past three months and up 6.2% in 12 months. This large increase is mainly due to higher fuel costs. Energy was up an annualized 3.8% in three months and 14.6% in 12 months. The slight dip in energy prices in May was unfortunately only temporary, as prices rose again in June. This latest increase will inevitably cause the PPI and CPI to rise some more. Of the major CPI categories, only medical care showed increases greater than the CPI itself. The rise in the CPI "core" rate,



which tracks the background rate of inflation, shows that higher energy prices have leaked over somewhat into the rest of the economy.

Our economy has created 3.3 million new jobs in a year and the pool of workers available to be hired has shrunk to an alarmingly small number. Consequently, the labor market has become the Fed's biggest inflation worry. The Employment Cost Index rose 1.4% in the first quarter because benefits increased sharply. Hourly wages rose 3.6% in 12 months through May, close to the 3.7% increase in productivity registered in 12 months through the first quarter. Productivity increases related to the high-tech and communications revolution have increased rapidly, offsetting wage increases. Workers are able to produce more in a given amount of time, so the cost of producing each article stays the same or comes down. Furthermore, measurements of productivity have typically understated the real increases. These increases are deflationary, holding back the wage spiral that might have resulted from such a tight labor market in years past. Added to this is the deflationary effect of a world economy with competition coming from every direction.

SUMMARY AND OUTLOOK

We now have a slower economy that will slow some more. The effect of the Fed's last rate hikes seven weeks ago will not show up for at least another four months and higher energy prices will continue to be a drain on the economy. While higher prices in general are by nature inflationary, higher oil prices shrink disposable income and decrease demand for other products, slowing the economy. This combination of rising inflation and a slower economy was called "stagflation" in the 1970s, and it was caused then by a huge increase in energy prices. Taking all these factors into consideration: the degree of slowing already seen in the economy, the drag of higher oil prices, and the fact that the Fed's last half-point rate hike hasn't even registered, I believe that the chances for another Fed rates hike in the next few months are about one in three. The economy will probably slow to a growth rate of 3% or less in the next two quarters. The chances of a recession, however, are slim to none, given the robust nature of our economy.

MARKET AND ECONOMIC STATISTICS

as of Market Close June 30, 2000, with 3-month and 12-month changes

1ST QUARTER, 2000

GDP-Bil$	9158	5.5% apr	5.1%
GDP Deflator	105.9	3.0% apr	1.8%
Empl Cost Index	146.5	1.4%	4.5%
NF Productivity	116.3	2.4% apr	3.7%

STOCK INDICES*		3 mo	12 mo
Dow Industrials	10448	– 4.3%	– 4.8%
S&P 500	1455	– 2.9%	6.0%
NASDAQ Comp	3966	–13.3%	47.7%
NASDAQ 100	3765	–14.4%	63.9%
NYSE Comp	644	– 0.5%	– 0.6%
Wilshire 5000	13619	– 4.7%	8.2%
Russell 2000	517	– 4.1%	13.0%

*excluding dividends

INTEREST RATES		3 mo	12 mo
91-day T-Bill DR	5.84%	– 0.5%	25.3%
30-yr T-Bond Yld	5.89%	1.0%	– 1.3%
FNMA 30yr mortg	8.23%	–1.1%	8.4%
Prime Rate	9.50%	5.6%	18.8%
Fed Funds Trgt	6.50%	8.3%	30.0%
Fed Disc Rate	6.00%	9.1%	33.3%
S/L Long T-Bnd Ind	8642	1.2%	6.7%

PRICES, INFLATION		3 mo	12 mo
CPI, May	171.3	0.8% apr	3.1%
PPI, May	137.3	0.7% apr	3.7%
Gold, cash	289.6	4.0%	11.0%
W Tx Int Cr Oil	31.80	18.7%	71.2%
Copper, cash	0.82	1.9%	7.3%
CRB Futures Ind	223.9	4.5%	16.9%
CRB Raw Indust	258.0	–0.2%	–0.7%

MONEY

M2, Bil Curr$, May	4759	1.6%	5.5%
Free Reserves	805	–23.1%	–27.9%
Money Mkts - Bil$	1684	–1.1%	15.7%
US $$$ Index	109.4	3.8%	6.5%

INDUSTRY

Indust Prod Ind, May	144.2	1.6%	5.3%
NAPM Index, June	51.8	–4.0	–5.2
Cap Utiliz, May	82.1%	0.6%	1.6%
Bldg Permits, May	1492K	–10.2%	–9.0%

LABOR

Unemployment Rate	4.0%	0.1%	–0.3%
New Non-Farm Jobs	231K	+125K	+2703K
Avg Hourly Wages	13.71	1.0%	3.5%
Avg Init Unempl Clms	303K	+40.6K	+3.0K

MARKET TIMING VIEWPOINT

Recommended Tactical Asset Allocation

Stocks 90%	+ 5%
Bonds 10%	Δ Unchanged
Cash 0%	– 5%

Performance Expectation

	July 2001		July 2005	
	Target	Total Return	Target	Total Return
S&P 500	1700	+15%	3300	+135%
30-Yr. T-Bond	5.3%	+15%	4.15%	+ 50%

MARTIN CAPITAL

OPPORTUNITY FUNDS

	NAV*	YTD*	Annualized	Life**
Austin Opportunity Fund	$12.04	–8.86%	N/A	+20.40%
U.S. Opportunity Fund	$15.53	+6.15%	+42.16%	+55.30%

For Daily Net Asset Value, call 1-888-336-9757

* Net Asset Value as of 6/30/00
** Austin Opportunity Fund inception date 9/1/99; U.S. Opportunity Fund inception date 4/1/99.

Obtain a prospectus and read carefully before investing. Call 1-877-477-7036 for a copy. Mutual funds are subject to investment risks, including possible loss of the principle amount invested. Distributed by AmeriPrime Financial Securities, Inc.

FLEXIBLE PORTFOLIO TOP 20 POSITIONS

1	Dell Computer	49.31	6	Texas Instruments	68.69	11	Enzon	42.50	16	Tiffany	67.50
2	Charles Schwab	33.63	7	Intel	133.69	12	Hewlett-Packard	124.88	17	Home Depot	49.94
3	Cisco Systems	63.56	8	Sun Microsystems	90.94	13	Advent Software	64.50	18	LAM Research	37.50
4	Applied Materials	90.63	9	Microsoft	80.00	14	LSI Logic	54.13	19	Altera	101.94
5	Oracle Systems	84.06	10	Micron Technology	88.06	15	Advanced Micro Dev.	77.25	20	Whole Foods Market	41.31

COMPARISON OF INVESTMENT RESULTS

Performance of Relevant Indexes

	Martin Capital Advisors*	Dow Jones Industrial Avg.	S&P 500 Index	Wilshire 5000 Index	Long-Term T-Bond Index	Money Market Avg. Yld.	Consumer Price Index
1991	+33.9%	+24.5%	+30.6%	+34.2%	+18.5%	+5.2%	+3.1%
1992	+26.8%	+8.0%	+7.7%	+9.0%	+8.0%	+3.3%	+2.9%
1993	+14.5%	+18.1%	+10.0%	+11.3%	+17.3%	+2.7%	+2.7%
1994	–2.1%	+5.9%	+1.3%	–0.1%	–6.9%	+3.8%	+2.7%
1995	+27.5%	+36.9%	+37.6%	+36.5%	+30.7%	+5.5%	+2.5%
1996	+29.4%	+29.1%	+23.0%	+21.2%	–0.8%	+5.0%	+3.3%
1997	+41.4%	+24.9%	+33.4%	+31.3%	+15.1%	+5.1%	+1.7%
1998	+78.8%	+18.1%	+28.7%	+23.4%	+13.5%	+5.0%	+1.5%
1999	+58.2%	+27.2%	+21.0%	+23.6%	–8.7%	+4.9%	+2.6%
2000 YTD	+10.9%	–8.5%	–0.4%	–0.7%	+9.1%	+3.0%	+1.5%
Total**	+1,292.0%	+410.9%	+448.1%	+434.9%	+135.6%	+52.8%	+27.3%
Avg.***	+32.0%	+18.7%	+19.6%	+19.3%	+9.4%	+4.6%	+2.6%

*Total Annual Performance, net of commissions, fees, and expenses, of all Martin Capital Advisors flexible investment portfolios. Audited 1991-99 by Carpenter & Langford, P.C., Certified Public Accountants. **Total compounded return, including reinvestment of dividends and interest. ***1991-2000 annualized return.

IMPORTANT DISCLOSURE NOTICE: Past performance does not guarantee future results. Figures include the reinvestment of all dividends received and reflect cash and cash equivalents. The volatility of the Flexible Portfolios may differ from that of the benchmark. From time to time, portfolio performance may reflect the use of margin investing as well as material investments in bonds or cash. The manager will utilize stocks, bonds and cash in an attempt to enhance returns. The Flexible Portfolio average represents 70 individual portfolios and 51.7% of all funds under management by MCA on 6/30/00. Clients explicitly elect this management style on their personal data form. The Flexible Portfolios are tactical asset allocation investment accounts containing stocks and bonds that are managed with a view toward capital appreciation.

INVESTMENT PHILOSOPHY

Our investment approach recognizes that to achieve long-term, superior performance, there must be an acceptance of some short-term risk. We pursue an investment allocation strategy that emphasizes diversification to manage short-term volatility in pursuit of long-term performance.

We then consider fundamental and technical factors in determining a prospective investment's risk-reward ratio. We also evaluate social issues, such as environmental policies and employee relations, as part of our investment assessment.

Overall market risk is considered in the timing of investments and implementation of hedging strategies. We seek to maximize portfolio performance and manage volatility by reducing investment exposure during high market risk, while increasing investment commitment during periods of lower risk.

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