

THE COMPASS

Fourth Quarter, 2000

A Quarterly Newsletter of Martin Capital Advisors, LLP

INVESTMENT PERSPECTIVE by Paul Martin, Managing Partner

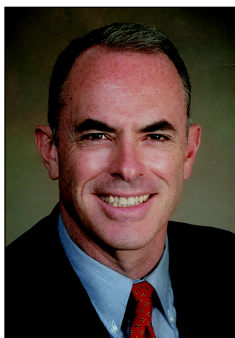
High-tech selloff creates excellent buying opportunity

October 6, 2000

During the third quarter, high-tech corporate earnings showed further signs of weakness and their stocks paid the price. September's -16.0% flexible portfolio return was the worst monthly performance since the flexible portfolio track record began in January 1991. This contributed to the second worst quarterly performance, -13.9% — just slightly better than the -15.9% return for the fourth quarter of 1995. As in 1995, our above average high-tech stock exposure was the primary reason for the extremely negative nominal and relative third quarter performance. As anticipated, bonds did well during the third quarter, returning +2.65%.

As the fourth quarter begins, I am moving to a positive short-term market expectation. At our mid-quarter review in August, I said that there was still some stock market risk, but that we should see a fourth quarter rebound.

MCA Flexible Portfolios
12-month Tax Efficiency: 97.4%
 (After Tax Return divided by Before Tax Return)



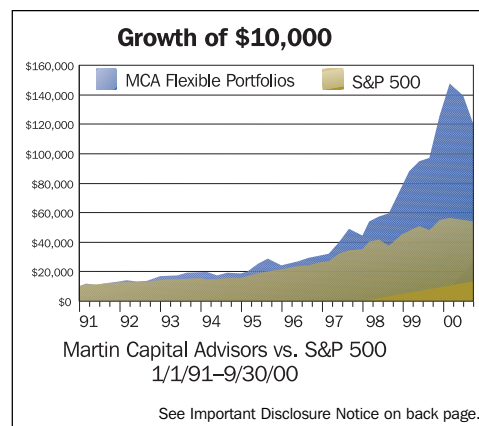
Given the severe high-tech selloff and the corresponding valuation improvement, I am even more positive that our portfolios should begin to rebound by the end of the year. Accordingly, I have taken all portfolios allowing leverage to a roughly ten percent margin position.

If there is a further stock market decline, especially in the high-tech sector, then I will consider another ten percent margin increase. Bonds should perform well as long-term rates continue to drop.

There is a Wall Street saying that no one rings a bell at the bottom, meaning that it is difficult to know when the next rally will begin. I accept that it is impossible to know how low the market will go

before it turns around; however, with current attractive valuation levels and the high probability of long-term strong economic growth with low inflation, I am very confident that somewhat higher exposure to the stock market today will be rewarded with better investment returns tomorrow.

We are in the greatest bull market of the past one hundred years. High-tech

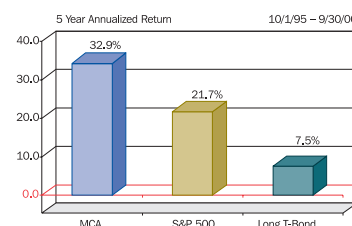
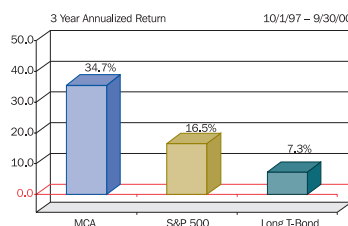
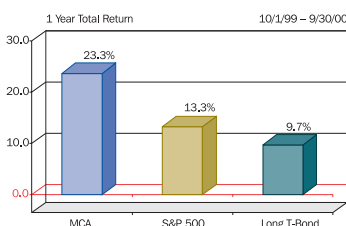
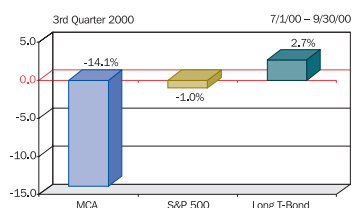


companies will continue to achieve well above average growth, but, from time to time, there will be occasional valuation corrections. We are in the middle of one of these corrections. High-tech valuations now have discounted most of the expected earnings shortfall. When the stock market begins to look past the current earnings weakness to the resumption of above average growth, then high-tech stocks will regain their stature as the preminent growth stocks of the twenty-first century.

The Texas Opportunity Fund began trading August 1. Information about the fund is available at our website, www.martincapital.com. Please let us know if you would like a copy of the prospectus.

INVESTMENT RESULTS

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



— See Important Disclosure Notice on back page —

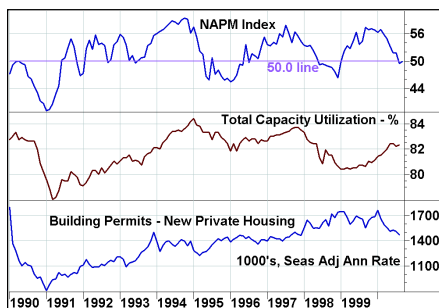
MARTIN CAPITAL
 ADVISORS

QUARTERLY ECONOMIC REVIEW by Alston Boyd, Economic Director

The growth rate of our economy in the third quarter was slower than the 5.6% recorded in the second, although the advance third quarter GDP figures will not be available until late October. Real GDP growth over 12 months through the second quarter was 6.1%, the largest such increase since 1983. The peak came in the fourth quarter of 1999, with an annualized growth rate of 8.3%, also the highest such rate since 1983. Because of this high rate of growth, the Fed tightened the screws on the economy by raising interest rates. The negative effects of higher interest rates and slower growth on stock indexes are shown in the table at the end of this economic review.

MANUFACTURING

The manufacturing sector of our economy has shown clear signs of slowing, as the North American Purchasing Managers' Index has fallen below 50.0 for two months in a row. The 50.0 level separates growth from contraction, and September's figure of 49.9 was just below the line. The 12-month change in the Industrial Production Index has fallen slightly since last May, but was still up 5.8% through August. Total capacity utilization rose steadily from 80.4% in April 1999 to 82.4% last May, then fell slightly. Factory orders, particularly for durable goods, have been extraordinarily volatile, up 16.4% in May and June, then down 13.1% in July. The 12-month change in durables orders through August was up 4.2%, a slow rate of growth compared to the past 8 years. Home construction has been hit by higher mortgage rates, as building permits fell in August to a seasonally adjusted annual rate of 1.468 million,



the lowest since December 1997. Total construction spending was up 1.4% in August after declining for each of the four previous months. Taken together, all of these figures on manufacturing and industry imply either slower growth or no growth at all.

SALES

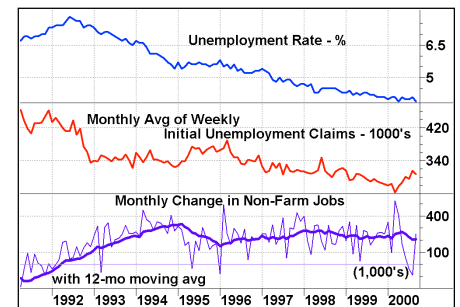
Strong consumer spending has been the backbone of our economy, particularly for the last three years, powering us through the Asian economic crisis. Recently, however, higher interest rates and higher oil prices have left consumers with less disposable income. As a result, retail sales growth is slower than early this year, up 7.2% in 12 months in August vs. 10.8% last March. Sales of new homes are gradually declining. Auto and light truck sales have not been affected as much as retail sales or home sales. After reaching an annual rate of 18.8 million units last February, close to an all-time high, sales have fallen nearly 10%. Although spending by businesses is less important in our economy than consumer spending, it still has an impact. The negative factors of higher interest rates and oil prices have the same effect on businesses as on consumers: less money is available for spending. As the demand for consumer and business products declines, it necessarily means less production, and thus the slowdown of the economy proceeds.

LABOR

The labor market has remained tight, with the unemployment rate below 4.2% since last October. It dropped to 3.9% in September, the low of its range in the past year. In spite of this low figure, several indicators show signs of a possible change. The monthly average of initial unemployment claims turned up in April, reaching 311,500 in August, the highest since February 1999. Although down slightly in September, this upward trend implies that more

people have been losing their jobs. A second important indicator is the number of new jobs being created in our economy each month. The numbers have been volatile over much of the last 12 months because the government hired and subsequently let go hundreds of thousands of temporary workers for the census. This increase and decrease in jobs related to the census, all of which occurred in the last 12 months, has masked a change that has taken place. The 12-month average of net new non-

farm jobs fell to 204,900 in August, and then rose slightly to 208,600 in September. The September gain of 252,000 jobs was unexpectedly strong. However, adjusting the figure for the numbers of striking workers going back to work and temporary census workers being let go brings the September figure down to 204,000, very close to the average. The important point here is that the 12-month averages for last two months are the lowest since May 1996. Fewer jobs created in our economy means less demand for workers. A third indication of less pressure on the labor market is the drop in the average number of hours worked per week. The average workweek for all workers was 34.3 in

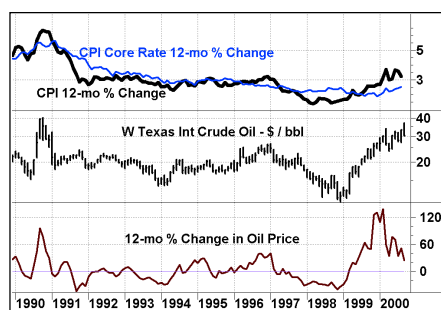


August, moving up to 34.4 in September. The workweek for workers in manufacturing was 41.3 hours in August and 41.2 in September. The lows for August and September show the shortest average workweek since 1996. Average overtime hours were the lowest in 18 months. The three indicators together

confirm that the labor market has not been as tight as it appeared in the past few months and that the trend is toward further loosening.

INFLATION

Oil has been on everybody's mind recently, as demand outstripped supply, at least in the short term. Supply problems include worldwide oil production being slightly less than consumption in a recovering world economy, delivery problems of both oil and derived products like gasoline, and refining capacity that has been stretched to the limit. While crude oil prices have been higher than at any time since the Gulf War of 1990 (inflation-adjusted prices are a third lower), the bulge it is producing in the Consumer Price Index will soon begin to fade. The bottom chart shows the 12-month change in the price of oil, now coming down off a spike. Peaks and troughs in the 12-month change of the Consumer Price Index, the heavy line in the top chart, have a pretty close correlation with those in the bottom chart. As the percentage change in the price of oil has come down, the overall inflation rate is almost sure to follow. The "core" rate of the CPI, which omits the volatile food and energy sectors, has risen slightly to 2.5%, but has remained well



below the CPI's 3.2% increase in 12 months. So far, the inflation in oil prices has leaked over only slightly into the rest of the economy. If we get through the winter without heating oil prices rising strongly because of limited refining capacity and without political problems in the Persian Gulf area, the inflation picture for next year will look very good.

SUMMARY AND OUTLOOK

The rate of growth in our economy, which peaked last fall and eased slightly in the first two quarters of this year, slowed further in the third quarter. The combination of higher interest rates and higher oil product prices have left consumers and businesses with less disposable income, so sales of all kinds have been pinched. Manufacturing has slowed as less production is needed to meet reduced demand, so fewer new jobs

are created. As mentioned above, the labor market shows signs of loosening up, so there is a slightly slower growth in new payrolls and therefore slightly slower growth in consumer spending. Added to all this is the fact that we're only four and a half months out from the last Fed rate hike, so that hasn't yet had time to produce a slowing effect on the economy. Thus, the outlook is one of continued slowing over the next few months. Nevertheless, we have an extraordinarily robust economy in this country. Most people who want to work have jobs and are earning good pay; few remain unemployed. Because of this employment situation, the strong flow of paychecks into consumer purchases will continue. As two-thirds of our economy is based on consumer spending, there is little to no chance of a recession. Although the labor market may be loosening a bit, the change is nowhere near being substantial enough to become a drain on the economy. We are fortunate because other countries around the world with less vigorous economies may have considerably more trouble coping with higher oil prices in the longer term. As the inflation rate eventually ebbs and the economy slows, I predict that the Fed will need to lower rates early in 2001, which will bring a return to more rapid economic growth with low inflation.

MARKET AND ECONOMIC STATISTICS

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

2ND QUARTER, 2000

GDP-Bil\$	9319	5.6% apr	6.1%
GDP Deflator	106.7	2.4% apr	2.0%
Empl Cost Index	147.9	1.0%	4.4%
NF Productivity	117.9	5.3% apr	5.2%

STOCK INDICES*				INTEREST RATES				PRICES, INFLATION			
		3 mo	12 mo			3 mo	12 mo			3 mo	12 mo
Dow Industrials	10651	1.9%	3.0%	91-day T-Bill DR	6.20%	6.2%	28.4%	CPI, Aug	172.6	0.8% apr	3.2%
S&P 500	1437	-1.2%	12.0%	30-yr T-Bond Yld	5.88%	-0.2%	-2.6%	PPI, Aug	137.8	0.4% apr	3.2%
NASDAQ Comp	3673	-7.4%	33.7%	FNMA 30yr mortg	8.13%	-1.2%	3.4%	Gold, cash	273.6	-5.5%	-8.1%
NASDAQ 100	3571	-5.2%	48.3%	Prime Rate	9.50%	0.0%	15.2%	W Tx Int Cr Oil	30.83	-3.1%	26.0%
NYSE Comp	663	2.9%	11.9%	Fed Funds Trgt	6.50%	0.0%	23.8%	Copper, cash	0.92	12.3%	11.6%
Wilshire 5000	13613	0.0%	16.2%	Fed Disc Rate	6.00%	0.0%	26.3%	CRB Futures Ind	226.6	1.2%	10.4%
Russell 2000	521	0.8%	22.0%	S/L Long T-Bnd Ind	8871	2.6%	9.7%	CRB Raw Indust	259.6	0.6%	-4.9%

*excluding dividends

MONEY

M2, Bil Curr\$, Aug	4828	1.2%	5.6%
Free Reserves	542	-7.4%	-37.8%
Money Mkts - Bil\$	1748	3.8%	16.8%
US \$\$\$ Index	113.2	3.4%	14.9%

INDUSTRY

Indust Prod Ind, Aug	145.7	0.7%	5.8%
NAPM Index, Sept	49.9	-1.9	-7.9
Cap Utiliz, Aug	82.3%	-0.1%	1.6%
Bldg Permits, Aug	1468K	-2.8%	-11.5%

LABOR - Sept. '00

Unemployment Rate	4.1%	-0.1%	-0.3%
New Non-Farm Jobs	+252K	+121K	+2503K
Avg Hourly Wages	13.83	0.9%	3.6%
Avg Init Unempl Clms	312K	+24.2K	+22.5K

MARKET TIMING VIEWPOINT

Recommended Tactical Asset Allocation

Stocks	105%	Δ	+ 5%
Bonds	5%	Δ	- 5%
Cash	-10%	Δ	-10%

Performance Expectation

	October 2001		October 2005	
	Target	Performance	Target	Performance
S&P 500	1650	+15%	3450	+140%
NASDAQ	4590	+25%	10100	+175%
30-Yr. T-Bond	5.3%	+15%	4.3%	+ 27%

MARTIN CAPITAL

OPPORTUNITY FUNDS

	NAV	YTD	Annual-ized	Since Inception
Austin Opportunity Fund-MCAUX*	\$10.74	-18.72%	+ 6.78%	+ 7.37%
Texas Opportunity Fund-MCTSX*	\$10.31	+ 3.12%	N/A	+ 3.12%
U.S. Opportunity Fund-MCUSX*	\$14.15	- 3.30%	+25.96%	+41.37%

*Inception Dates: MCAUX 9/1/99 • MCTSX 8/1/00 • MCUSX 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. Past performance is no guarantee of future results.

FLEXIBLE PORTFOLIO TOP 20 POSITIONS

1 Dell Computer	30.81	6 Applied Materials	59.31	11 Tiffany	38.56	16 Palm, Inc.	52.94
2 Charles Schwab	35.50	7 Texas Instruments	47.19	12 Home Depot	53.06	17 Citigroup	54.06
3 Cisco Systems	55.25	8 Intel	41.56	13 Microsoft	60.31	18 EMC Corp.	37.50
4 Oracle Systems	78.75	9 Enzon	66.00	14 Hewlett-Packard	97.00	19 Advanced Micro Dev.	23.63
5 Sun Microsystems	116.75	10 Advent Software	69.88	15 Whole Foods Market	53.69	20 Starbucks	40.06

COMPARISON OF INVESTMENT RESULTS

Performance of Relevant Indexes

	Martin Capital Advisors ¹	Dow Jones Industrial Avg.	S&P 500 Index	NASDAQ ²	Wilshire 5000 Index	Long-Term T-Bond Index	Money Market Avg. Yld.	Consumer Price Index
1991	+33.9%	+24.5%	+30.6%	+56.9%	+34.2%	+18.5%	+5.2%	+3.1%
1992	+26.8%	+8.0%	+7.7%	+15.5%	+9.0%	+8.0%	+3.3%	+2.9%
1993	+14.5%	+18.1%	+10.0%	+14.8%	+11.3%	+17.3%	+2.7%	+2.7%
1994	-2.1%	+5.9%	+1.3%	-3.2%	-0.1%	-6.9%	+3.8%	+2.7%
1995	+27.5%	+36.9%	+37.6%	+40.0%	+36.5%	+30.7%	+5.5%	+2.5%
1996	+29.4%	+29.1%	+23.0%	+22.7%	+21.2%	-0.8%	+5.0%	+3.3%
1997	+41.4%	+24.9%	+33.4%	+21.6%	+31.3%	+15.1%	+5.1%	+1.7%
1998	+78.8%	+18.1%	+28.7%	+39.6%	+23.4%	+13.5%	+5.0%	+1.5%
1999	+58.2%	+27.2%	+21.0%	+85.6%	+23.6%	-8.7%	+4.9%	+2.6%
2000 YTD	-4.8%	-6.3%	-1.4%	-9.7%	-1.4%	+12.0%	+4.5%	+2.4%
Total ³	+1,095.2%	+423.0%	+442.7%	+882.6%	+430.8%	+141.8%	+55.1%	+28.5%
Avg. ⁴	+28.9%	+18.5%	+19.0%	+26.4%	+18.7%	+9.5%	+4.6%	+2.6%

¹Total 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. ²Without dividends. ³Total compounded return, including reinvestment of dividends and interest. ⁴1991-2000 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 71 individual portfolios and 50.0% of all funds under management by MCA on 9/30/00. 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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