INVESTMENT PERSPECTIVE by Paul Martin, Managing Partner

Long-Term Prospects for Stocks Continue to be Bullish

April 29, 2015

The stock market held on to significant 2014 gains in the first quarter with a 1.0% rise in the S&P 500. Bonds, as represented by the Barclays Aggregate Bond Index, also achieved a small gain for the quarter. Oil prices were significantly lower through the end of March, but have since begun to stabilize and have recovered almost all of the year-to-date losses. Gold finished the quarter virtually flat, and although it now has risen a few percent in April, the downward trend remains intact.

Stocks have continued to work their way higher so far in the second quarter, while bond prices are off slightly. Despite weaker than expected economic growth over the past several months, the economy still appears to be on track for moderate growth in the range of two to three percent on average for the foreseeable future. This bodes well for corporate earnings and the prospects for higher stock prices over the next few years.

Many investors continue to miss the forest for the trees by worrying too much about possible stock market corrections and consequently missing out on much of the secular bull market rally. Although corrections will happen from time to time, they are difficult to predict and typically turn around very quickly – not giving investors a lot of time to get back in before prices rebound. For taxable accounts, market timing can also result in realized gains with tax consequences that can be fairly expensive. Investors would be better advised to stay focused on the longer-term potential for economic growth, which highly correlates with stock market returns, rather than trying to anticipate and react to negative events that don’t have a material economic impact.

Historically, Federal Reserve policy has been the best predictor of economic growth, and the current policy is very accommodative. At the next Fed meeting in June there is some chance that there could be a decision to raise the Fed Funds rate by .25%; however, the first rate increase, whenever it happens, would be more of a signal of the Fed’s confidence in the economy than an impending restrictive monetary policy. Even if the Fed were to aggressively raise rates, it would take about a year to get to a restrictive policy, so moderate economic growth is likely for at least another year. In an expanding economy, the S&P 500 goes up about 15% per year; therefore, the odds are good that the stock market will be a fair amount higher by this time next year.

COMPARISON OF INVESTMENT RESULTS

<table>
<thead>
<tr>
<th></th>
<th>Martin Capital Advisors¹</th>
<th>S&amp;P 500</th>
<th>Wilshire 5000</th>
<th>Barclays Aggregate Bond Index</th>
<th>3 Month T-Bill</th>
<th>Consumer Price Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total²</td>
<td>1559.5%</td>
<td>935.1%</td>
<td>1014.5%</td>
<td>349.5%</td>
<td>98.6%</td>
<td>75.4%</td>
</tr>
<tr>
<td>Avg.³</td>
<td>12.3%</td>
<td>10.1%</td>
<td>10.5%</td>
<td>6.4%</td>
<td>2.9%</td>
<td>2.4%</td>
</tr>
</tbody>
</table>

¹Total performance, net of commissions, fees, and expenses of all Martin Capital Advisors’ Flexible Growth Portfolios.
²Total compounded return, including reinvestment of dividends and interest. ³1991-2015 annualized return.
Real annualized gross domestic product grew at a rate of 2.2 percent in the fourth quarter of 2014. While growth slowed considerably from the second quarter, the report showed consumer spending grew at a rate of 4.4 percent, which was the most since 2006. Estimates for the first quarter 2015 are for weaker growth; however, the slowdown is largely being attributed to an unseasonably harsh winter. (Figure 1)

The labor market continues to be a strong suit of the economy. While the 126,000 jobs added in March was a surprising drop, in the previous four months the economy averaged an increase of over 300,000 jobs per month. The unemployment rate is now at 5.5 percent, which is close to full employment. The drop in job growth is being attributed to the colder winter, the impact the strong dollar is having on domestic manufacturers, and the effect that lower oil prices are having on the domestic energy sector. Although the strong dollar and lower oil prices will continue to be headwinds to the growing labor market, weekly jobless claims continue to be at historically low levels, indicating that employers are holding on to employees. (Figure 2)

US manufacturing continues to slow due to the strengthening dollar. In March the ISM Manufacturing Index fell from 52.9 percent to 51.5 percent, which is its lowest level in two years. Unsurprisingly, the index is being dragged down by ailing new export orders caused by the strong dollar. While manufacturing may be hurting, the services sector is a more important contributor to the economy, and has yet to be meaningfully affected by the strengthening dollar. The ISM Services Index remains near recent year highs at 56.5 in March.

Consumer sentiment continues to improve: the University of Michigan Sentiment Index reached an 11-year high of 95.5 in January, although it slipped last month to 93.0 as gasoline prices ticked up. Typically rising confidence is a positive indicator for retail sales; however, the cold weather seems to have caused a drag on sales, too. Last month retail sales posted a gain of 0.9 percent in March after falling for three straight months. Looking ahead, retail sales should be boosted by recent year highs in the personal savings rate, which has been spurred by low inflation and a tightening labor market.

The housing market continues to show mixed signals, but nevertheless is trending upward. New home sales rose 7.8 percent in February to an annual rate of 539,000, reaching the highest level since 2008. Existing sales increased 1.2 percent in February; however, housing starts fell 17 percent to 897,000, which is the lowest level in a year. Once again, the decline largely took place in regions that experienced cold weather and slowing construction. Housing permits increased 4 percent for the month, indicating that future housing starts will be higher.

Falling oil prices and the rising value of the dollar are creating deflationary pressures in global prices. After four months of decline, the consumer price index rose 0.2 percent in March, but was flat year over year. Core prices rose 0.2 percent in March and are 1.8 percent higher for the year. (Figure 3)

Weak international economies and aggressive foreign central bank bond buying programs have boosted the demand for US Treasury notes and bonds as investors search for higher yields. This has driven down long-term US bond rates and flattened the yield curve. The two year US Treasury yield has risen above 0.50 percent from 0.40 a year ago. Meanwhile, the 10-year has fallen below 2.00 percent from around 2.65 a year ago. Normally, declining long-term rates signal a softening of economic expectations; however, the current movement is more of a function of foreign monetary policy than declining US growth expectations. (Figure 4)

While the U.S. economy appears to have hit a soft patch in the first quarter, the weakness is likely more of an aberration than a sign of poor economic health. The economic trend is one of continued growth bolstered by the low inflationary environment, accommodative Fed, and an improving labor market. Although low oil prices and a strong dollar are likely to persist well into 2015, any negative effects that they may have on the domestic economy should be limited. In aggregate, most Americans benefit from low oil prices and a strengthening dollar is a sign of economic health.
LEADING ECONOMIC INDICATORS

as of April 17, 2015

<table>
<thead>
<tr>
<th>Economic Indicator</th>
<th>Current Reading</th>
<th>1-month change</th>
<th>6-month change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conference Board Leading Economic Index</td>
<td>121.4</td>
<td>+0.2%</td>
<td>+1.8%</td>
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<tr>
<td>S&amp;P 500</td>
<td>2079</td>
<td>+0.1%</td>
<td>+4.3%</td>
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<tr>
<td>Average weekly hours, manufacturing</td>
<td>41.8</td>
<td>-0.1</td>
<td>-0.3</td>
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<tr>
<td>Initial Jobless Claims</td>
<td>285.5K</td>
<td>-20.0K</td>
<td>-10.7K</td>
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<tr>
<td>Manufacturers' new orders, capital goods ex. aircraft</td>
<td>41.8B</td>
<td>+0.9%</td>
<td>-3.6%</td>
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<tr>
<td>Manufacturers' new orders, consumer goods and materials</td>
<td>133.2B</td>
<td>+0.2%</td>
<td>-1.0%</td>
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<tr>
<td>ISM New Orders</td>
<td>51.8</td>
<td>-0.7</td>
<td>-7.6</td>
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<tr>
<td>Building Permits</td>
<td>1039K</td>
<td>-5.7%</td>
<td>0.0%</td>
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<tr>
<td>Spread between 10-yr Treasury Note and Federal Funds Rate</td>
<td>1.93</td>
<td>+0.6</td>
<td>-0.51</td>
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<tr>
<td>Avg. Consumer Expectations for Business Conditions</td>
<td>0.50</td>
<td>+0.01</td>
<td>+0.49</td>
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<tr>
<td>Leading Credit Index (negative readings are positive for the LEI)</td>
<td>-0.84</td>
<td>+0.36</td>
<td>-0.10</td>
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RELATIVE LONG-TERM PERFORMANCE

January 1, 1991 to March 31, 2015

INVESTMENT RESULTS

Martin Capital Advisors’ Investment Portfolios vs. S&P 500 and Barclays Aggregate Bond Indexes

MCA FLEXIBLE GROWTH PORTFOLIOS TOP 20 STOCKS as of March 31, 2015

2. Whole Foods Market 52.08 7. Oracle 43.15 12. SanDisk 85.06 17. Blackstone Group 38.89

INVESTMENT RESULTS

Martin Capital Advisors’ Investment Portfolios vs. S&P 500 and Barclays Aggregate Bond Indexes

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MCA claims compliance with the Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. The listed composites contain all fee-paying accounts with an investment strategy as indicated by the composite title. Non-fee paying or nondiscretionary portfolios are excluded from the composites, but are included in the definition of total firm assets. Performance results are expressed in U.S. dollars. Performance returns are considered PRELIMINARY numbers until examined according to GIPS for the reporting period. To receive a complete list and description of Martin Capital composites and a presentation that adheres to the GIPS standards, contact Robert Godines at (210) 694-2100, ext. 2, or robert@martincapital.com.

www.martincapital.com
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Returns are shown in U.S. dollars net of fees.

Leverage (margin) is not normally used except temporarily or at client request. Derivatives such as options may be used occasionally as a risk reduction measure.

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MCA Flexible Growth Portfolios are invested in publically traded companies with the goal of maximizing long-term returns. These portfolios are classified as an all-cap core strategy, but predominately invest in large and mid-cap stocks, blending the characteristics of both growth and value investing. Each portfolio typically invests in 30 to 40 stocks that are rigorously selected to meet our core philosophy of investing in companies with an enduring competitive advantage that offer growth at a reasonable price. These portfolios are for investors who are willing to accept significant short-term volatility in the pursuit of superior long-term returns. The benchmark for this composite is the S&P 500 Index, which is an index of the 500 leading companies in the U.S. and is designed to reflect the risk and return characteristics of the large-cap U.S. equities universe.

MCA Balanced Portfolios are invested in equities and fixed income securities with a target asset allocation of 75% equities and 25% fixed income. These portfolios are for investors with a long-term investment horizon who seek to grow capital, but want to do so with less short-term volatility than the MCA Flexible Growth Portfolios. The equity investments in the portfolios are classified as an all-cap core strategy and are managed in the same way as the MCA Flexible Growth Portfolios. Fixed income investments include both individual and ETF fixed income securities. The benchmark for this composite is a blend of 75% S&P 500 Index and 25% Barclays U.S. Aggregate Bond Index, rebalanced monthly. The S&P 500 is an index of the 500 leading companies in the U.S. and is designed to reflect the risk and return characteristics of the large-cap U.S. equities universe. The Barclays U.S. Aggregate Bond Index is made up of the Barclays U.S. Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, and only includes securities that are investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million.

MCA Conservative Portfolios are invested in equities and fixed income securities with a target asset allocation of 50% equities and 50% fixed income. These portfolios are for investors who prefer to significantly reduce short-term volatility in their investments rather than maximize long-term returns. The equity investments in the portfolios are classified as an all-cap core strategy and are managed in the same way as the MCA Flexible Growth Portfolios. Fixed income investments include both individual and ETF fixed income securities. The benchmark for this composite is a blend of 50% S&P 500 Index and 50% Barclays U.S. Aggregate Bond Index, rebalanced monthly. The S&P 500 is an index of the 500 leading companies in the U.S. and is designed to reflect the risk and return characteristics of the large-cap U.S. equities universe. The Barclays U.S. Aggregate Bond Index is made up of the Barclays U.S. Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, and only includes securities that are investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million.

To receive a list of composite descriptions of MCA and/or a compliant presentation, contact Robert Godines at (210) 694-2100, ext. 2, or robert@martincapital.com.