

THE COMPASS

October 2017

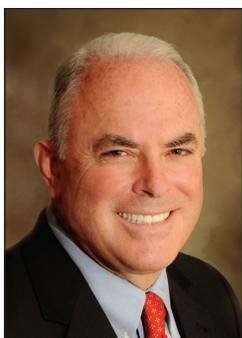
A Quarterly Newsletter of Martin Capital Advisors, LLP

INVESTMENT PERSPECTIVE by Paul Martin, Managing Partner

Improving Corporate Earnings Driving Stocks Higher

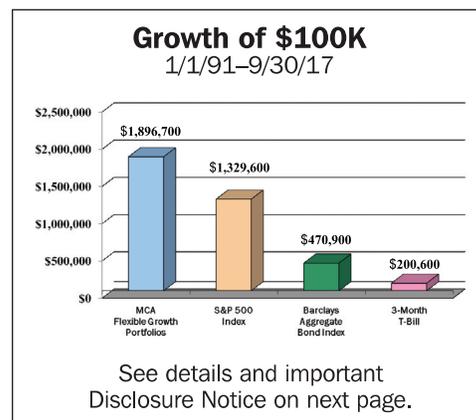
October 26, 2017

Ditto on my comments in the January, April, and July newsletters: stocks climbed higher in the last quarter as corporate earnings continued to improve, with the S&P 500 returning 4.5% for the quarter and 14.2% year-to-date. Bond returns were slightly positive in the third quarter, resulting in a year-to-date return of 3.1% for the Barclays Aggregate Bond Index. This continued to be in line with my expectation in the last few newsletters that as the Fed continues to raise rates in the face of low inflation and modest economic growth, bond prices will have a bias to the upside in anticipation of even lower inflation. Gold rallied early in the quarter, then fell back, but preserved a modest gain by the end of the quarter. However, gold is still about where it was a year ago, remaining in the bear market it has been in since 2011 and the sideways trend that has persisted since 2013. Oil prices rebounded



in the third quarter, but are still down for the year and significantly lower than they were a few years ago.

As we enter the fourth quarter, once again announcements for corporate earnings are coming in strong, resulting in stocks continuing their bias to the upside, which I think will prevail at least through the end of the year. The question for the economy and for bonds is whether the Fed will stay on track for raising the Fed Funds rate without signs of higher inflation and stronger economic growth. Although the Fed has been on hold for a little while, there is a strong consensus that the Fed will raise rates in December, despite weakening inflation statistics. This could have the opposite effect of what I had suggested last quarter – resulting in higher bond prices, but eventually weighing on stocks and the economy. With the prospects for low inflation and modest economic growth for the foreseeable future, the most likely trend for gold



and oil remains sideways, at best.

While it is likely that the Fed will raise rates in December, which raises the risk of a yield curve inversion, the odds are that stocks will be a fair amount higher well into next year as the economy will most likely stay on track for modest growth. However, since yield curve inversions have preceded every recession and major bear market since the 1950s, Martin Capital will closely monitor the statements and actions of the Fed, as well as the Leading Economic Indicators (LEI) index. In the meantime, we are refining our option hedging strategy to minimize the effect on investment portfolios in the next recession-driven bear market. Please let me know if you are interested in learning more about this option hedging strategy.

COMPARISON OF INVESTMENT RESULTS

January 1, 1991 to September 30, 2017

	Martin Capital Advisors ¹	S&P 500	Russell 3000	Barclays Aggregate Bond Index	3 Month T-Bill	Consumer Price Index
Total ²	1796.7%	1229.6%	1301.9%	370.9%	100.6%	83.5%
Avg. ³	11.6%	10.2%	10.4%	6.0%	2.6%	2.3%

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. ³1991-2017 annualized return.

— See Important Disclosure Notice on last page. —

RELATIVE LONG-TERM PERFORMANCE

January 1, 1991 to September 30, 2017



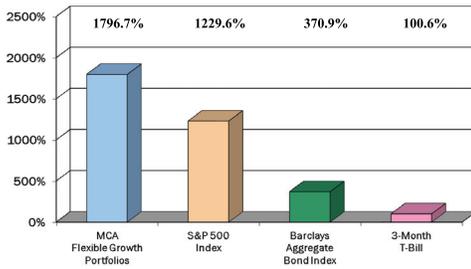
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559 E. Huisache Avenue
San Antonio, Texas 78212

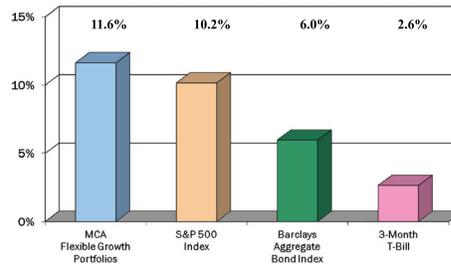
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Martin Capital Advisors, LLP, is a registered investment advisor managing private and institutional investment portfolios.

Total Return



Annualized Return



MCA FLEXIBLE GROWTH PORTFOLIOS TOP 20 STOCKS

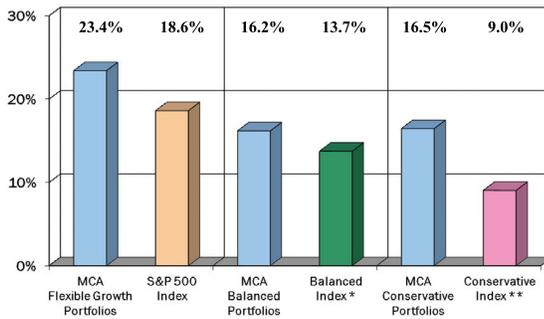
as of September 30, 2017

1 Apple	154.12	6 Edwards Lifesciences	109.31	11 Blackrock	447.09	16 Costco Wholesale	164.29
2 Intuitive Surgical	1045.88	7 Charles Schwab	43.74	12 Oracle	48.35	17 Tractor Supply	63.29
3 Starbucks	53.71	8 Texas Instruments	89.64	13 US Physical Therapy	61.45	18 Intercontinental Exchange	68.70
4 IPG Photonics	185.06	9 Visa	105.24	14 Toll Brothers	41.47	19 Tiffany	91.78
5 MasterCard	141.20	10 IDEXX Laboratories	155.49	15 DaVita	59.39	20 Diamond Hill Investment	212.35

INVESTMENT RESULTS

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

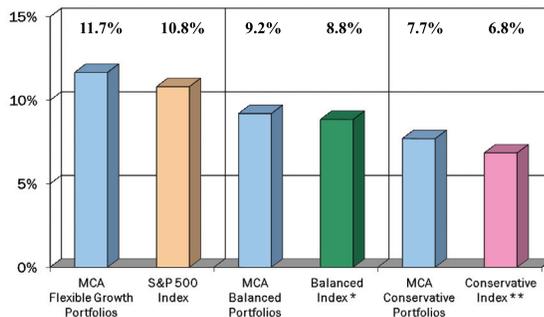
One-Year Returns as of 09/30/17



* 75% S&P 500 Index + 25% Barclays US Aggregate Bond Index

** 50% S&P 500 Index + 50% Barclays US Aggregate Bond Index

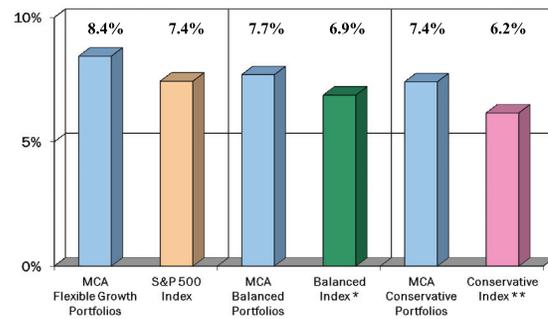
Three-Year Annualized Returns as of 09/30/17



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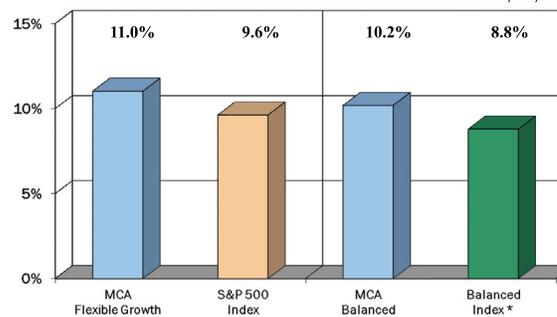
Ten-Year Annualized Returns as of 09/30/17



* 75% S&P 500 Index + 25% Barclays US Aggregate Bond Index

** 50% S&P 500 Index + 50% Barclays US Aggregate Bond Index

25-Year Annualized Returns as of 09/30/17



* 75% S&P 500 Index + 25% Barclays US Aggregate Bond Index

IMPORTANT DISCLOSURE NOTICE

Past performance does not guarantee future results. Figures include the reinvestment of all dividends received and reflect cash and cash equivalents. Martin Capital Advisors, LLP (MCA) composite returns are net of all fees and expenses. From time to time, composite performance may reflect the use of margin investing and options, as well as material investments in bonds and cash, and volatility may differ from that of the benchmark. As of 09/30/2017, the MCA Flexible Growth/Balanced/Conservative portfolios' returns represent, respectively, 36/6/1 individual portfolios and 71%/23%/2% of all funds under management by MCA. Clients explicitly elect these management styles on their Personal Data Form. The MCA Flexible Growth Portfolios are managed for capital appreciation, and the MCA Balanced and Conservative Portfolios are managed for capital appreciation and income. Independent performance reporting is provided by CGM Investment Management.

MCA claims compliance with the Global Investment Performance Standards (GIPS). MCA has been independently verified for the periods January 1, 1991 to June 30, 2017 by Dabney Investment Consulting Associates, Inc. The verification reports are available upon request. 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. To receive a complete list and description of Martin Capital composites and a presentation that adheres to the GIPS standards, contact Paul Martin at (210) 694-2100, ext. 1, or paul@martincapital.com.

ADDITIONAL DISCLOSURE NOTICE

MARTIN CAPITAL ADVISORS, LLP (MCA) is a registered investment advisor based in San Antonio, Texas, founded in 1989. MCA specializes in managing customized equity and balanced investment portfolios with an all-cap equity strategy to grow capital, as well as balanced strategies to grow capital with less volatility.

MCA claims compliance with the Global Investment Performance Standards (GIPS®).

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.

Martin Capital Advisors, LLP has been independently verified for the periods January 1, 1991 to September 30, 2017 by Dabney Investment Consulting Associates, Inc. The verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

MCA Flexible Growth Portfolios are invested in publicly 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-Back 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-Back 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 Paul Martin at (210) 694-2100, ext. 1, or paul@martincapital.com.

DABNEY INVESTMENT CONSULTING ASSOCIATES, INC.

130 RAINBOW DRIVE #3040
LIVINGSTON, TEXAS 77399-1030

WWW.DABNEYINVESTMENTCONSULTING.COM
(281) 335-3859

October 25, 2017

Mr. Paul Martin
MARTIN CAPITAL ADVISORS, LLP
559 East Huisache
San Antonio, Tx 78212

RE: Independent Verifier's Report – Verification Opinion Letter

Dear Mr. Martin,

DABNEY INVESTMENT CONSULTING ASSOCIATES, INC. has examined the Claim of Compliance of MARTIN CAPITAL ADVISORS, LLP with the Global Investment Performance Standards (GIPS®) for the time period January 1, 1991 through September 30, 2017.

The firm's management is responsible for compliance with the GIPS and for the design of its processes and procedures. Our responsibility is to express an opinion based on our examinations.

Our examination was conducted in accordance with the Verification Procedures set forth in the GIPS, and, accordingly, included procedures examining, on a test basis, evidence about the firm's compliance with the requirements mentioned below, evaluating the design of the firm's processes and procedures referred to below, and performing the procedures for a Verification as set forth by the GIPS and other such procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the firm has, in all material respects (1) complied with all the composite construction requirements of the GIPS on a firm-wide basis; and (2) designed its processes and procedures to calculate and present performance results in compliance with the GIPS.

In performing the examination, we, DABNEY INVESTMENT CONSULTING ASSOCIATES, INC., have not performed a performance audit of any specific composite and have not determined whether any specific composite presentation is presented in conformity with the GIPS. Accordingly, we express no opinion on any such specific composite performance results.

Sincerely,



Joseph T. Dabney III, CFA, CIPM
President