

THE COMPASS

October 2018

A Quarterly Newsletter of Martin Capital Advisors, LLP

INVESTMENT PERSPECTIVE by Paul Martin, Managing Partner

Third Quarter Stock Market Advance Stalls as Program Selling Knocks Back Gains

October 24, 2018

Stocks rallied in the third quarter, with the S&P 500 advancing +7.7%, resulting in a year-to-date return through the end of September of +10.6%. The ongoing strength in corporate earnings has been the primary driver of higher prices for the last two years. Bond returns were flat, with the Barclays Aggregate Bond Index generating 0.0% for the quarter and a year-to-date return of -1.6%. Gold continued the down trend it has been in since April and the price of WTI Crude was off slightly for the three months ending September 30, but still up over +20% year-to-date.

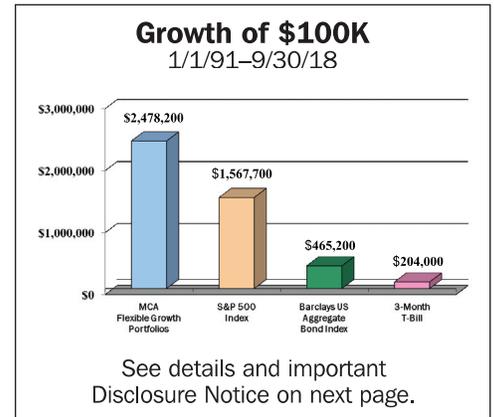
In a similar fashion to the stock market sell-off that began at the beginning of February, program



selling has dampened year-to-date gains thus far in the fourth quarter. While there are some concerns about the prospects for corporate earnings next year, the recent decline in the

stock market is not justified by any material weakness in earnings or the economy. The rise in bond yields, which may also have been a catalyst for the recent correction in stocks, has resulted in a further decline in bond prices. Gold prices have bounced back slightly since the beginning of the quarter and WTI Crude Oil has corrected even more than stocks so far in the fourth quarter.

Despite the latest weakness in stocks, I remain fairly sanguine about the potential for the economy and corporate earnings, and the consequent potential for higher



stock prices over the next year. That said, the Federal Reserve's Fed Funds rate increases may start to have a significantly negative impact on the economy sometime next year, so it bears closely monitoring the possibility of a severe yield curve inversion and subsequent bear market in the next year or two. However, it is important to keep in mind that we are probably just at the beginning of a multi-generational bull market, so investment portfolios should be skewed towards stocks and their ability to outperform all other investment options over the long run.

COMPARISON OF INVESTMENT RESULTS

January 1, 1991 to September 30, 2018

	Martin Capital Advisors ¹	S&P 500	Russell 3000	Barclays Aggregate Bond Index	3 Month T-Bill	Consumer Price Index
Total ²	2378.2%	1467.7%	1548.4%	365.2%	104.0%	88.4%
Avg. ³	12.3%	10.4%	10.6%	5.7%	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. ³1991-2018 annualized return.

— See Important Disclosure Notice on last page. —

RELATIVE LONG-TERM PERFORMANCE

January 1, 1991 to September 30, 2018



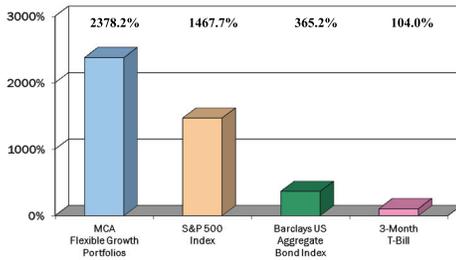
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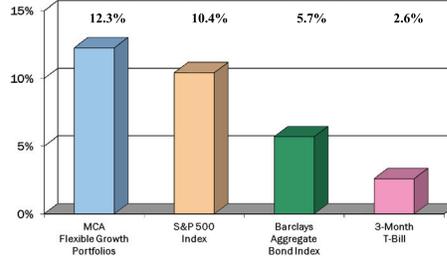
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Martin Capital Advisors, LLP, is a registered investment advisor managing private and institutional investment portfolios.

Total Return



Annualized Return



MCA FLEXIBLE GROWTH PORTFOLIOS TOP 20 STOCKS

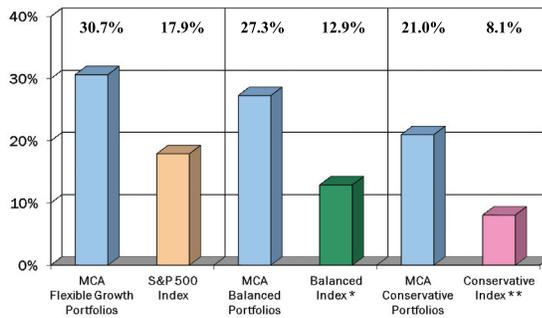
as of September 30, 2018

1 Apple	225.74	6 Starbucks	56.84	11 Charles Schwab	49.15	16 DaVita	71.63
2 Intuitive Surgical	574.00	7 US Physical Therapy	118.60	12 Texas Instruments	107.29	17 Oracle	51.56
3 Square	99.01	8 IDEXX Laboratories	249.66	13 Costco Wholesale	234.88	18 Tiffany	128.97
4 MasterCard	222.61	9 Visa	150.09	14 Blackrock	471.33	19 Alphabet Cl A	1207.08
5 Edwards Lifesciences	174.10	10 IPG Photonics	156.07	15 Tractor Supply	90.88	20 Williams-Sonoma	65.72

INVESTMENT RESULTS

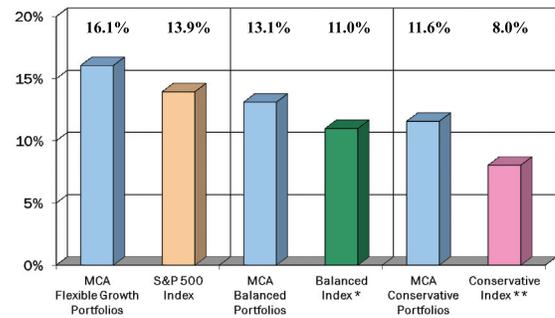
Martin Capital Advisors' Investment Portfolios vs. S&P 500 and Barclays Aggregate Bond Indexes

One-Year Returns as of 09/30/18



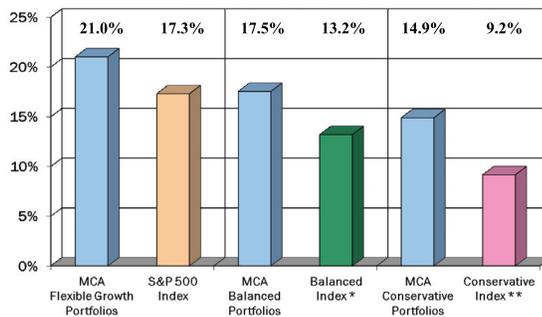
* 75% S&P 500 Index + 25% Barclays US Aggregate Bond Index
** 50% S&P 500 Index + 50% Barclays US Aggregate Bond Index

Five-Year Annualized Returns as of 09/30/18



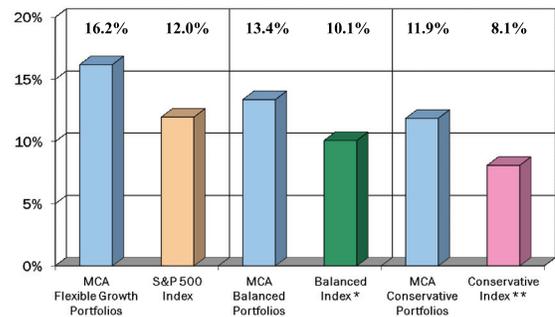
* 75% S&P 500 Index + 25% Barclays US Aggregate Bond Index
** 50% S&P 500 Index + 50% Barclays US Aggregate Bond Index

Three-Year Annualized Returns as of 09/30/18



* 75% S&P 500 Index + 25% Barclays US Aggregate Bond Index
** 50% S&P 500 Index + 50% Barclays US Aggregate Bond Index

Ten-Year Annualized Returns as of 09/30/18



* 75% S&P 500 Index + 25% Barclays US Aggregate Bond Index
** 50% S&P 500 Index + 50% 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 09/30/2018, the MCA Flexible Growth/Balanced/Conservative portfolios' returns represent, respectively, 38/5/2 individual portfolios and 73%/21%/3% 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, 2018 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 Darby Ivins at (210) 694-2100, ext. 2, or darby@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 June 30, 2018 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 Darby Ivins at (210) 694-2100, ext. 2, or darby@martincapital.com.

DABNEY INVESTMENT CONSULTING ASSOCIATES, INC.

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(281) 335-3859

July 20, 2018

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 June 30, 2018.

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