

THE COMPASS

January 2019

A Quarterly Newsletter of Martin Capital Advisors, LLP

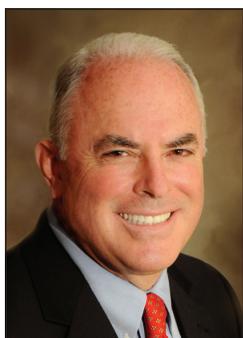
INVESTMENT PERSPECTIVE by Paul Martin, Managing Partner

Hawkish Fed drove stocks lower in fourth quarter, but recent dovish statements have resulted in a rebound so far in the first quarter

January 31, 2019

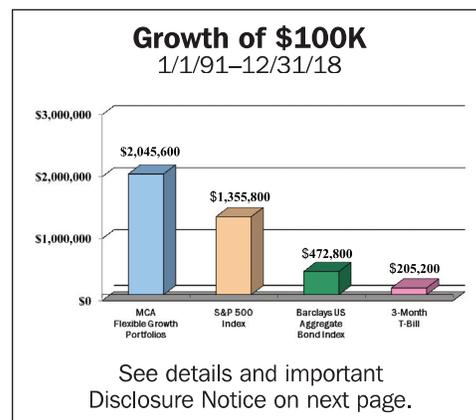
Hawkish statements from the Fed resulted in a significant pullback in the stock market in the fourth quarter, and slightly negative returns for the year in the wake of very robust performance through the end of the third quarter. Bond yields fell and prices rose in anticipation of Fed Funds rate increases leading to the possibility of a recession sooner than later. The good news is that corporate earnings were very strong throughout the past year, so equity valuations are much more attractive today than they were a year ago.

With signs that the Fed may be less restrictive in 2019, stocks have rebounded at the beginning of the first quarter, resulting in the best January performance for the S&P 500 in 30 years. This may be a good sign, as above average performance in



January has historically been a harbinger of above average returns for the year. That said, there are still many political and global uncertainties that could weigh on the economy and financial markets in the coming months. However, the odds are that the stock market may have bottomed in December, so any global disruptions or political uncertainties from here probably should be looked at as more of a buying opportunity than a reason to sell, with the caveat that short-term timing is a very difficult game to play.

Although stocks are one of the most volatile asset classes, they are also the best performing in the long run. This is because most companies have been very successful at growing their earnings over time – some better than others, of course. The problem is that short-term corporate missteps, political and global uncer-



tainties, and Fed driven recessions scare many investors out of great businesses and into more conservative strategies. At Martin Capital, we look for great businesses at reasonable valuations that we think have the kinds of products and services that could double their earnings in five years. This approach allows us to weather the storms of unpredictable volatility and stay focused on the long-term potential of companies in which we invest. However, the Fed has driven the economy into every recession, at least since the 1950s, so we will continue to monitor their actions very closely and offer an options hedging strategy to our clients in the event of a severe yield curve inversion.

COMPARISON OF INVESTMENT RESULTS

January 1, 1991 to December 31, 2018

	Martin Capital Advisors ¹	S&P 500	Russell 3000	Barclays Aggregate Bond Index	3 Month T-Bill	Consumer Price Index
Total ²	1945.6%	1255.8%	1312.6%	372.8%	105.2%	88.4%
Avg. ³	11.4%	9.8%	9.9%	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. —

MARTIN CAPITAL
ADVISORS

RELATIVE LONG-TERM PERFORMANCE

January 1, 1991 to December 31, 2018



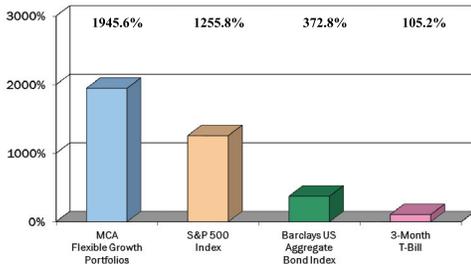
A Quarterly Publication of
MARTIN CAPITAL
ADVISORS, LLP

559 E. Huisache Avenue
San Antonio, Texas 78212

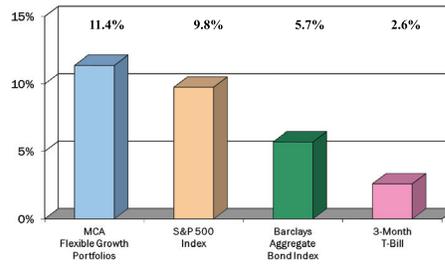
210-694-2100

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

Total Return



Annualized Return



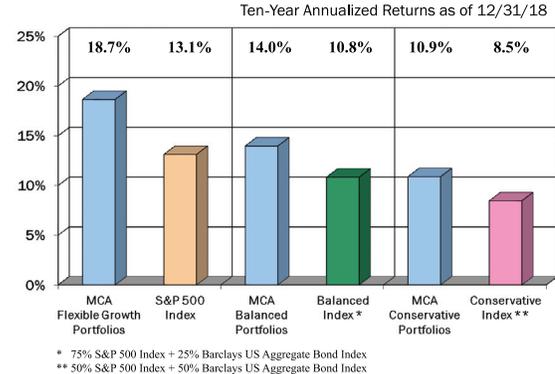
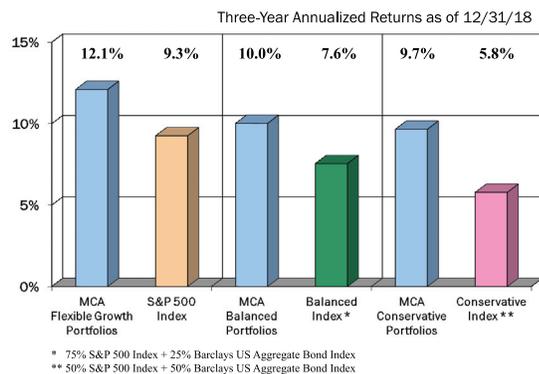
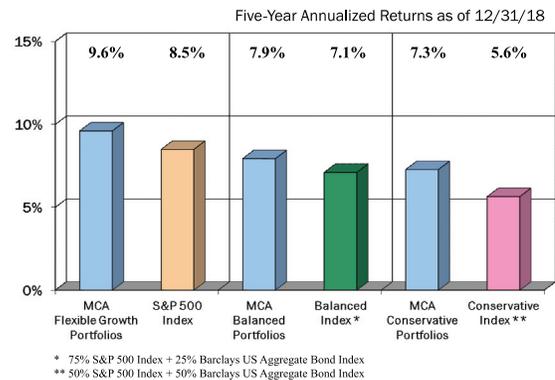
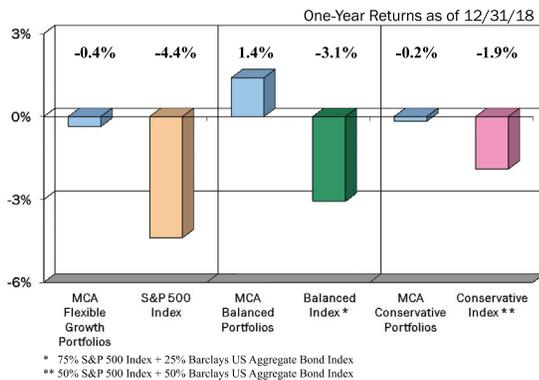
MCA FLEXIBLE GROWTH PORTFOLIOS TOP 20 STOCKS

as of December 31, 2018

1 Apple	157.74	6 Square	56.09	11 Costco Wholesale	203.71	16 Oracle	45.15
2 Intuitive Surgical	478.92	7 US Physical Therapy	102.35	12 Charles Schwab	41.53	17 Intercontinental Exchange	75.33
3 Starbucks	64.40	8 Visa	131.94	13 Tractor Supply	83.44	18 Alphabet Cl A	1044.96
4 MasterCard	188.65	9 IDEXX Laboratories	186.02	14 IPG Photonics	113.29	19 Toll Brothers	32.93
5 Edwards Lifesciences	153.17	10 Texas Instruments	94.50	15 Blackrock	392.82	20 Nasdaq	81.57

INVESTMENT RESULTS

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



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 12/31/2018, the MCA Flexible Growth/Balanced/Conservative portfolios' returns represent, respectively, 37/6/2 individual portfolios and 73%/22%/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 September 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.

Martin Capital Advisors, LLP has been independently verified for the periods January 1, 1991 to September 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.