

THE COMPASS

April 2019

A Quarterly Newsletter of Martin Capital Advisors, LLP

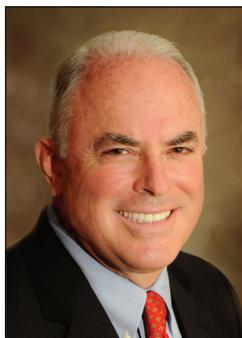
INVESTMENT PERSPECTIVE by Paul Martin, Managing Partner

Pause in Fed rate hikes drives stock market rebound

April 26, 2019

Stocks rebounded in the first quarter from their Fed driven decline at the end of last year and are back around their September highs as we near the end of April. Bonds have achieved respectable returns so far this year of over 2% (at least relative to their long-term returns), while the S&P 500 is up over 17% through April 25. Gold is flat this year as the bear market that began in 2011 persists without an end in sight. Oil has rallied strongly, up almost 40% this year, as uncertainty about the impact of sanctions against Iran has created concerns about the availability of supply.

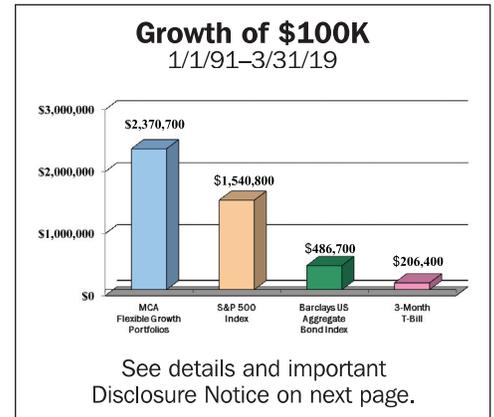
At this point, concerns about the Fed inverting the yield curve sufficiently to cause a severe recession have abated. Although the curve is



now flat, i.e., short rates are about the same as long rates, this has not been a major problem for the economy and the stock market in the past. In fact, even yield curve inversions, where short rates are higher

than long rates, most of the time historically have only resulted in mild recessions and have had little impact on the stock market. However, extreme yield curve inversions, such as in 2007-2008 (the deepest inversion on record going back to the 1950s), have always resulted in worse than usual recessions and bear markets.

Today, despite the Fed tightening that has been going for several years, we are still a long way from the yield curve predicting a severe recession and bear market. With the valuation of the S&P 500 being in the range of what it has been on average and with interest rates still near all-time



lows, the bias for stocks to continue to achieve above average returns, which they have done for the past ten years, should continue for the foreseeable future. That said, we will be monitoring the yield curve closely and if our proprietary indicator signals a recession based bear market, as it has done within a few months of the cyclical tops for stocks going back to the 1970s, then we will propose an index option hedging strategy for our clients and interested parties. In the meantime, quick sell-offs like the fourth quarter decline in 2018 should be seen more as buying opportunities than the beginning of an economically driven cyclical bear market.

COMPARISON OF INVESTMENT RESULTS

January 1, 1991 to March 31, 2019

	Martin Capital Advisors ¹	S&P 500	Russell 3000	Barclays Aggregate Bond Index	3 Month T-Bill	Consumer Price Index
Total ²	2270.7%	1440.8%	1511.0%	386.7%	106.4%	88.9%
Avg. ³	11.9%	10.2%	10.3%	5.8%	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. ³1991-2019 annualized return.

— See Important Disclosure Notice on last page. —

RELATIVE LONG-TERM PERFORMANCE

January 1, 1991 to March 31, 2019



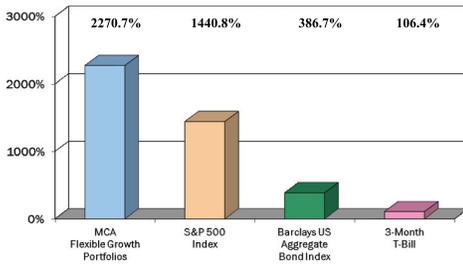
A Quarterly Publication of
MARTIN CAPITAL
ADVISORS, LLP

1100 NE Loop 410, Suite 300
San Antonio, Texas 78209

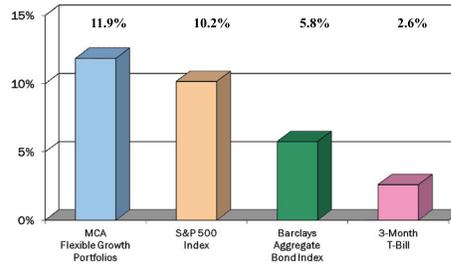
210-694-2100

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

Total Return



Annualized Return



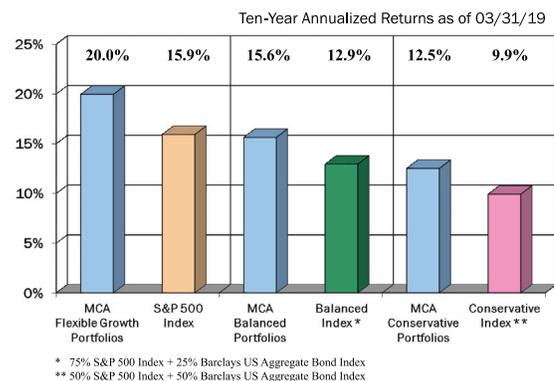
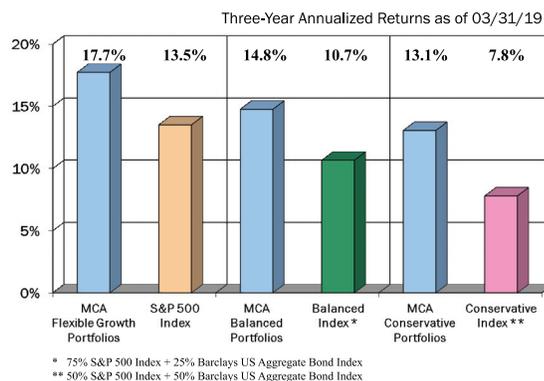
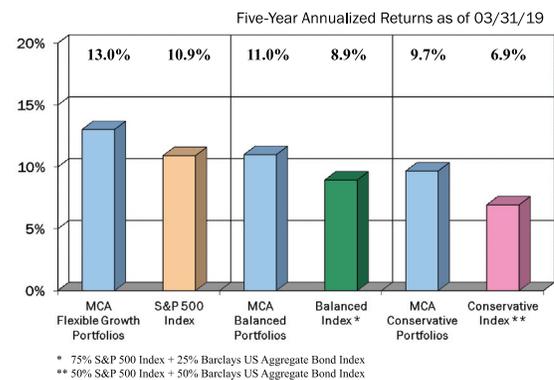
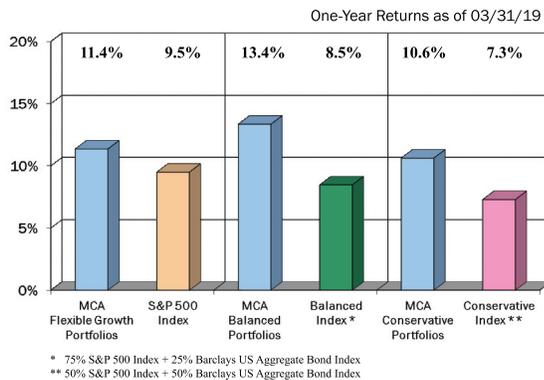
MCA FLEXIBLE GROWTH PORTFOLIOS TOP 20 STOCKS

as of March 31, 2019

1 Apple	189.95	6 Edwards Lifesciences	191.33	11 IPG Photonics	151.78	16 Oracle	53.71
2 Intuitive Surgical	570.58	7 Visa	156.19	12 Charles Schwab	42.76	17 Alphabet Cl A	1176.89
3 Starbucks	74.34	8 US Physical Therapy	105.03	13 Texas Instruments	106.07	18 Toll Brothers	36.20
4 MasterCard	235.45	9 IDEXX Laboratories	223.60	14 Tractor Supply	97.76	19 Intercontinental Exchange	76.14
5 Square	74.92	10 Costco Wholesale	242.14	15 Blackrock	427.37	20 Nasdaq	87.49

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 03/31/2019, the MCA Flexible Growth/Balanced/Conservative portfolios' returns represent, respectively, 35/6/2 individual portfolios and 66%/20%/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 December 31, 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 December 31, 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 Composite consists of all fully discretionary portfolios that 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 Composite consists of all fully discretionary portfolios that 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 Composite consists of all fully discretionary portfolios that 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.