THE COMPASS

August 2019

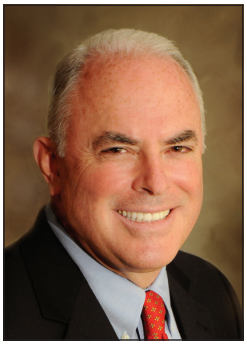
A Quarterly Newsletter of Martin Capital Advisors, LLP

## INVESTMENT PERSPECTIVE by Paul Martin, Managing Partner

# Despite Recent Market Volatility, Stocks Remain Significantly Higher This Year

*August 10, 2019*

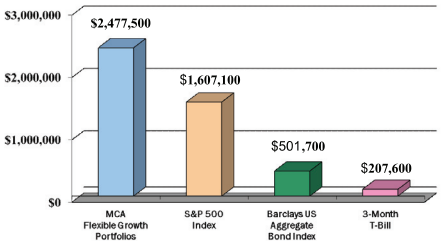
The second quarter saw a continuation of the first quarter rally, but with higher volatility, mainly driven by renewed concerns about the pending trade war with China. Bond prices benefited as yields fell in the face of this renewed uncertainty and the potentially negative impact of tariffs on the economy. Gold prices also rose in response to the latest turmoil over trade, but oil prices fell in the wake of the probability of weaker demand if the economy begins to slow.



The third quarter started off well for stocks, but prices began to roll over to the downside as trade tensions heated up again; however, at this time the S&P 500 is only down about 4% from its recent high and still up over 17% for the year. Bonds, gold, and oil have maintained their second quarter trends, with bond and gold prices rising and oil prices falling.

Despite the latest negative news on the tariff front, stocks have held up quite well so far. While it's a flip of the coin as to whether stocks give back more ground in the near-term, the odds are good that trade negotiations will eventually be successful (since it's in the best interest of all parties to work something out), thereby relieving the trade related pressure on the economy and stock market.

Becoming of greater concern at this point is the further drop in interest rates relative to the Fed Funds rate. The Martin Capital *Yield Curve Inversion Hedging Model*, which has called economically driven bear markets within a few months of every bull market top since 1953, is moving closer to a sell signal. The saving grace, however, is that the Fed began to preemptively cut the Fed Funds rate last month prior to any significant signs of economic contraction, as was done in 1995 and 1998. These rate cuts helped the economy avoid a recession and allowed the stock market to power higher until the Fed severely inverted the yield curve in 2000. My guess is that the Fed gets it this time, as they did in 1995 and 1998, and will watch the yield curve closely and cut rates as necessary to prevent a severe inversion. If this proves to be the case, then odds are good that the bull market could still have a long way to run.




See details and important Disclosure Notice on next page.

## COMPARISON OF INVESTMENT RESULTS

January 1, 1991 to June 30, 2019

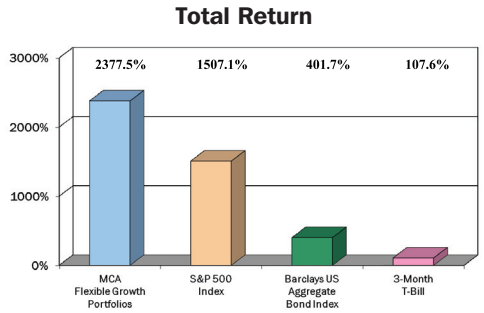
| | Martin Capital Advisors[1] | S&P 500 | Russell 3000 | Barclays Aggregate Bond Index | 3 Month T-Bill | Consumer Price Index |
|---|---|---|---|---|---|---|
| Total[2] | 2377.5% | 1507.1% | 1577.0% | 401.7% | 107.6% | 91.4% |
| Avg.[3] | 11.9% | 10.2% | 10.4% | 5.8% | 2.6% | 2.3% |

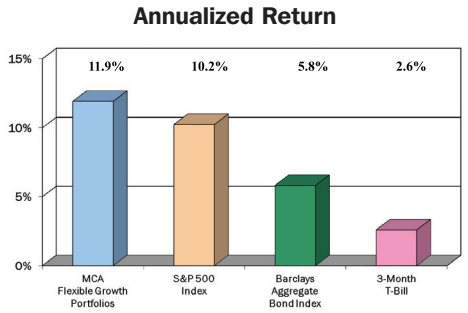
[1]Total performance, net of commissions, fees, and expenses of all Martin Capital Advisors' *Flexible Growth Portfolios.*
[2]Total compounded return, including reinvestment of dividends and interest. [3]1991-2019 annualized return.

—— See Important Disclosure Notice on last page. ——

## RELATIVE LONG-TERM PERFORMANCE

January 1, 1991 to June 30, 2019





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A Quarterly Publication of
MARTIN CAPITAL ADVISORS, LLP

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


## MCA FLEXIBLE GROWTH PORTFOLIOS TOP 20 STOCKS

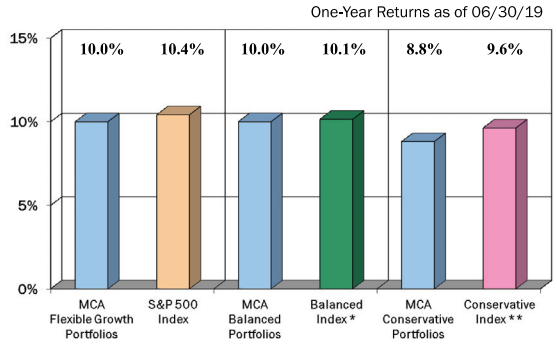
as of June 30, 2019

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Apple | 197.92 | 6 | Square | 72.53 | 11 | IPG Photonics | 154.25 | 16 | Oracle | 56.97 |
| 2 | Intuitive Surgical | 524.55 | 7 | IDEXX Laboratories | 275.33 | 12 | Tractor Supply | 108.80 | 17 | Intercontinental Exchange | 85.94 |
| 3 | Starbucks | 83.83 | 8 | US Physical Therapy | 122.57 | 13 | Texas Instruments | 114.76 | 18 | Nasdaq | 96.17 |
| 4 | MasterCard | 264.53 | 9 | Visa | 173.55 | 14 | Blackrock | 469.30 | 19 | Toll Brothers | 36.62 |
| 5 | Edwards Lifesciences | 184.74 | 10 | Costco Wholesale | 264.26 | 15 | Charles Schwab | 40.19 | 20 | Alphabet Cl A | 1082.80 |

## INVESTMENT RESULTS

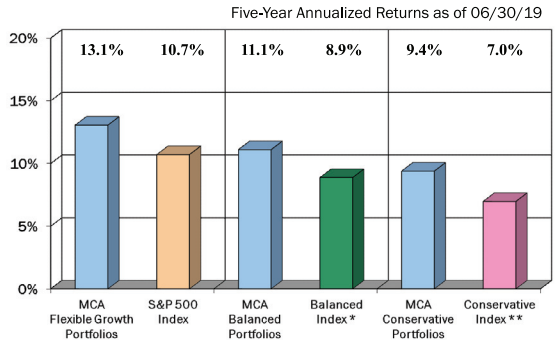
Martin Capital Advisors' Investment Portfolios vs. S&P 500 and Barclays Aggregate Bond Indexes

One-Year Returns as of 06/30/19




* 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 06/30/19

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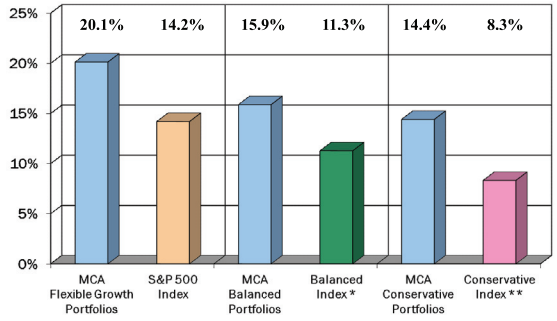
Three-Year Annualized Returns as of 06/30/19

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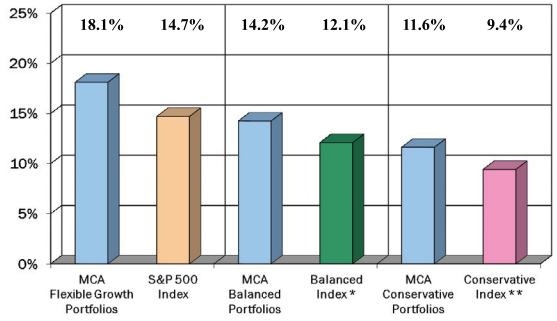
Ten-Year Annualized Returns as of 06/30/19

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## 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 06/30/2019, the *MCA Flexible Growth/Balanced/Conservative* portfolios' returns represent, respectively, 33/6/2 individual portfolios and 67%/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 March 31, 2019 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 March 31, 2019 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.