THE COMPASS

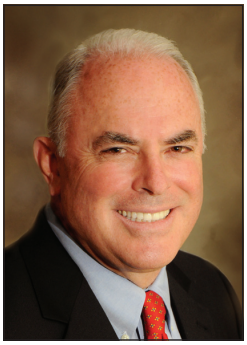
January 2020 A Quarterly Newsletter of Martin Capital Advisors, LLP

INVESTMENT PERSPECTIVE by Paul Martin, Managing Partner

Stocks Climbed Higher in 2019, Despite a "Wall of Worry"

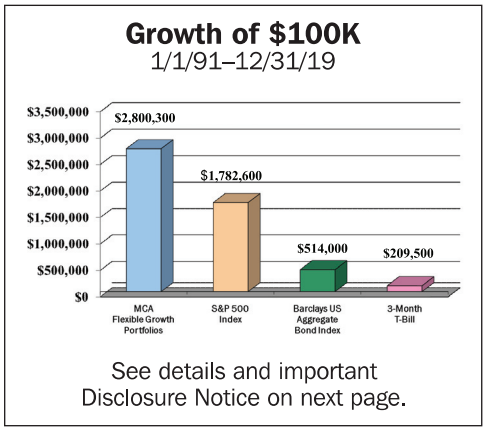
January 27, 2020

Stocks added to 2019 gains in the fourth quarter to finish the year with a 31.5% total return for the S&P 500, despite the "wall of worry" that persisted throughout the year. The saving grace for the stock market was that the Federal Reserve made three rate cuts and resumed quantitative easing – moving from what had been a restrictive monetary policy in 2018 to a somewhat accommodative policy in 2019. Historically, such as in 1995 and 1998, these reversals by the Fed have allowed the economy and stock market to remain on track for further expansion and higher stock prices – and this was the case again in 2019.



At some point there will be a major increase in global tensions or some other unforeseen issue, such as perhaps the recent coronavirus outbreak, that will temporarily weigh on the stock market. Also, considering the well above average stock market return in 2019, the odds are higher than usual that, whatever the negative impetus may be, stocks may lose some of their luster in a correction (more than a 10% decline) sometime in 2020.

My experience, however, is that corrections in bull markets come out of nowhere and recover very quickly, so it's a mistake to make investment decisions based on short-term issues and uncertainties. The key to long-term investment success is to focus on investing in great companies that can withstand periodic headline risk and economic volatility. This is one of the main reasons Martin Capital has outperformed our benchmarks for almost 30 years.



See details and important Disclosure Notice on next page.

In every quarterly newsletter last year I talked about the importance of the Fed having moved to a more accommodative policy and the resulting probability that the bias would be to the upside for stocks, and that has proven to be the case. That said, for 2020, as in 2019, we will continue to monitor our proprietary Yield Curve Hedging Indicator. If it signals a market top due to a severe yield curve inversion, then we will recommend the employment of our options-based hedging strategy. In the meantime, as long as the Fed remains accommodative (or at least neutral), then my best guess is that stocks will be higher a year from now and, more importantly, a lot higher five years from now.

COMPARISON OF INVESTMENT RESULTS

January 1, 1991 to December 31, 2019

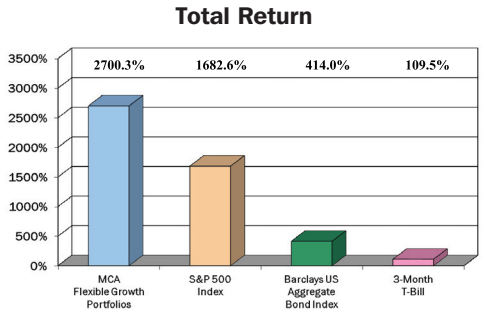
	Martin Capital Advisors[1]	S&P 500	Russell 3000	Barclays Aggregate Bond Index	3 Month T-Bill	Consumer Price Index
Total[2]	2700.3%	1682.6%	1750.8%	414.0%	109.5%	92.2%
Avg.[3]	12.2%	10.4%	10.3%	5.8%	2.6%	2.3%

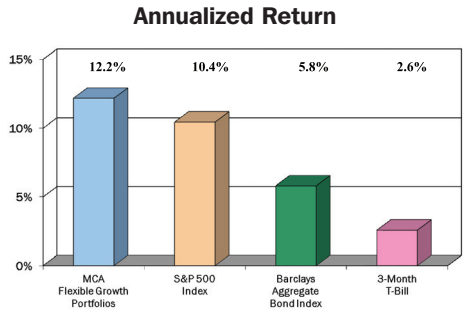
[1]Total performance, net of commissions, fees, and expenses of all Martin Capital Advisors' *Flexible Growth Portfolios.*
[2]Total compounded return, including reinvestment of dividends and interest. [3]1991-2019 annualized return.

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

RELATIVE LONG-TERM PERFORMANCE

January 1, 1991 to December 31, 2019





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MARTIN CAPITAL ADVISORS, LLP

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

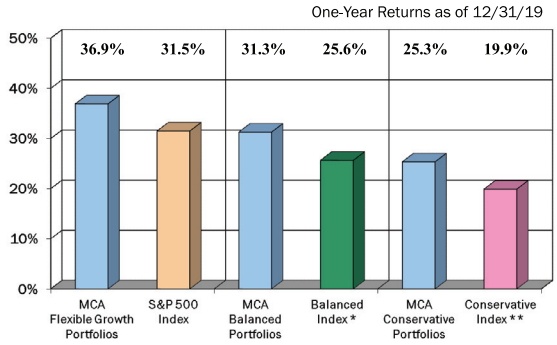
MCA FLEXIBLE GROWTH PORTFOLIOS TOP 20 STOCKS

as of December 31, 2019

1	Apple	293.65	6	Visa	187.90	11	Texas Instruments	128.29	16	Tractor Supply	93.44
2	Intuitive Surgical	591.15	7	IDEXX Laboratories	261.13	12	IPG Photonics	144.92	17	Nasdaq	107.10
3	MasterCard	298.59	8	US Physical Therapy	114.35	13	Charles Schwab	47.56	18	Alphabet Cl A	1339.39
4	Starbucks	87.92	9	Square	62.56	14	Blackrock	502.70	19	Oracle	52.98
5	Edwards Lifesciences	233.29	10	Costco Wholesale	293.92	15	Intercontinental Exchange	92.55	20	DaVita	75.03

INVESTMENT RESULTS

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



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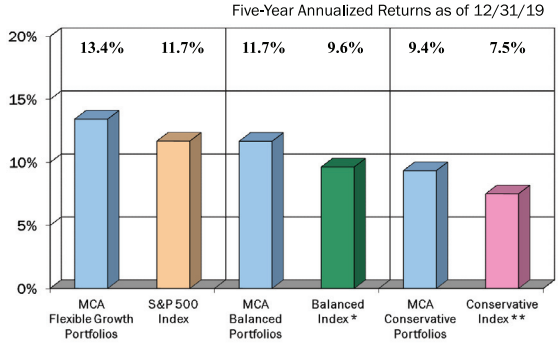

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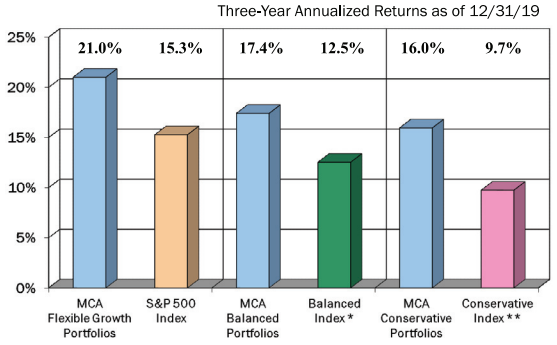

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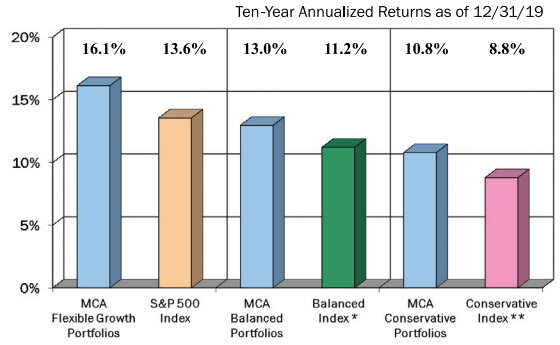

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IMPORTANT DISCLOSURE NOTICE

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 12/31/2019, the *MCA Flexible Growth/Balanced/Conservative* portfolios' returns represent, respectively, 34/6/1 individual portfolios and 69%/20%/1% 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, 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 December 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. In addition, from time to time this strategy may utilize material amounts of leverage, options, bonds and strategic cash reserves. 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. In addition, from time to time this strategy may utilize material amounts of leverage, options, bonds and strategic cash reserves. 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. In addition, from time to time this strategy may utilize material amounts of leverage, options, bonds and strategic cash reserves. 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.

Since inception these strategies have had no material use of leverage, derivatives, or bonds on the composite level.

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.