

THE COMPASS

February 2021

A Quarterly Newsletter of Martin Capital Advisors, LLP

INVESTMENT PERSPECTIVE by Paul Martin, Managing Partner

The Fed's Continuing Unlimited Accommodation – Good for Stocks, Bad for Bonds

February 24, 2021

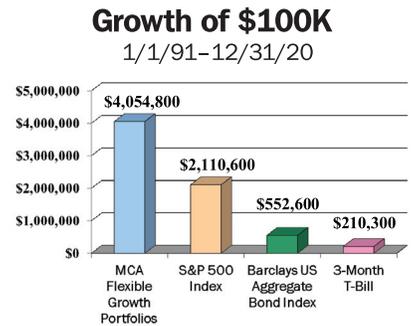
Although 2020 was a very volatile year, most investment markets achieved quite good returns. For example, the total return for S&P 500 Index was up 18.4% and the Barclays Aggregate Bond Index was up 7.5%, despite both markets selling off early in the year in response to the emergence of the coronavirus pandemic. The quick bounce back of the markets was driven primarily by the Fed dropping the Fed Funds Rate to zero and moving to unlimited accommodation. Additionally, government stimulus programs mitigated much of the negative economic impact caused by efforts to reduce the spread of the virus.

2021 has started off with financial markets digesting last year's gains, with both stock and



bond markets roughly flat on the year. At this point, a stock market correction is a possibility, as it is at any time, but I don't think that the odds are nearly as high as they were at the beginning of last year when I

wrote in the January 2020 edition of The Compass: "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." Although there are plenty of issues that could weigh on the stock market this year, including coronavirus, my best guess is that stocks will be higher at the end of the year – driven by the aforementioned Fed accommodation and continuing government economic stimulation efforts. If the spread of COVID-19 is contained later this year, then that would be



See important disclosure notice on next page.

another positive factor for the economy and the stock market.

Bonds, however, will probably not fare as well, as higher inflation, which the Fed is pursuing, should eventually cause a fairly significant rise in interest rates. Incorrectly, I think, many commentators have begun to voice concerns about higher inflation also being a problem for stocks. Historically, as the Fed knows, some inflation is natural in a growing economy and actually positive for stocks. It is not until inflation becomes very high, approaching 10%, as it did in the 1970s and early 1980s, that it has a negative effect on the stock market – and today's inflation rate is a long way from that.

COMPARISON OF INVESTMENT RESULTS

January 1, 1991 to December 31, 2020

	Martin Capital Advisors ¹	S&P 500	Russell 3000	Barclays Aggregate Bond Index	3 Month T-Bill	Consumer Price Index
Total ²	3954.8%	2010.6%	2137.4%	452.6%	110.3%	94.5%
Avg. ³	13.1%	10.7%	10.9%	5.9%	2.5%	2.2%

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. ³1991-2020 annualized return.

— See Important Disclosure Notice on last page. —

MARTIN CAPITAL
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RELATIVE LONG-TERM PERFORMANCE

January 1, 1991 to December 31, 2020



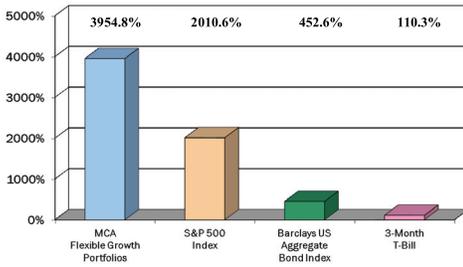
A Quarterly Publication of
MARTIN CAPITAL
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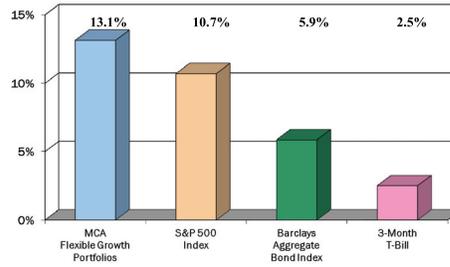
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Martin Capital Advisors, LLP, is a registered investment advisor managing private and institutional investment portfolios.

Total Return



Annualized Return



MCA FLEXIBLE GROWTH PORTFOLIOS TOP 20 STOCKS

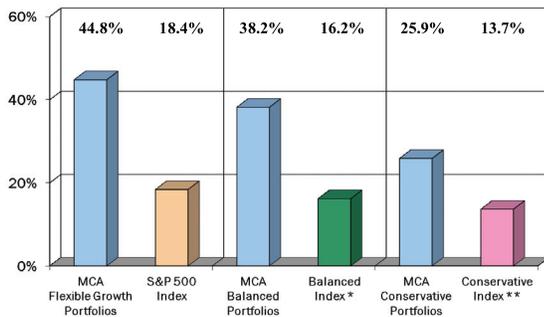
as of December 31, 2020

1 Apple	132.69	6 MasterCard	356.94	11 Texas Instruments	164.13	16 Tractor Supply	140.58
2 Square	217.64	7 Edwards Lifesciences	91.23	12 IPG Photonics	223.79	17 Charles Schwab	53.04
3 Intuitive Surgical	818.10	8 Visa	218.73	13 US Physical Therapy	120.25	18 Lam Research	472.27
4 Starbucks	106.98	9 Costco Wholesale	376.78	14 Blackrock	721.54	19 Alphabet Cl A	1752.64
5 IDEXX Laboratories	499.87	10 Paypal Holdings	234.20	15 Trex	83.72	20 Intercontinental Exch.	115.29

INVESTMENT RESULTS

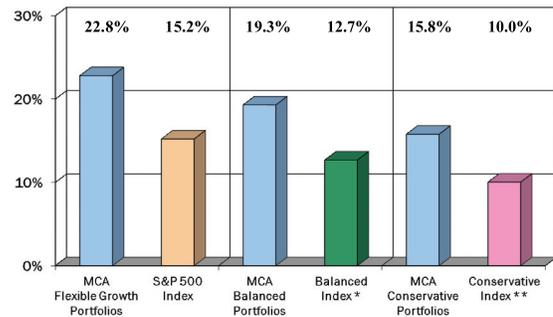
Martin Capital Advisors' Investment Portfolios vs. S&P 500 and Barclays Aggregate Bond Indexes

One-Year Returns as of 12/31/20



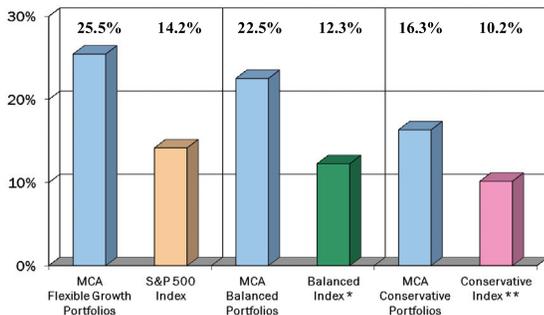
* 75% S&P 500 Index + 25% Barclays US Aggregate Bond Index
** 50% S&P 500 Index + 50% Barclays US Aggregate Bond Index

Five-Year Annualized Returns as of 12/31/20



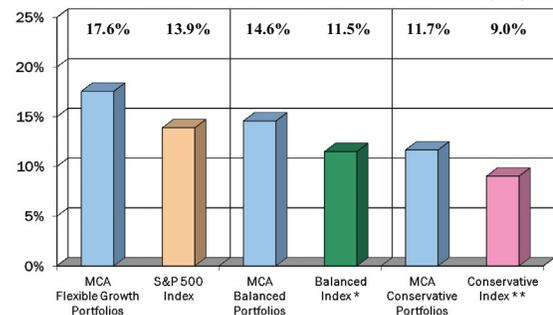
* 75% S&P 500 Index + 25% Barclays US Aggregate Bond Index
** 50% S&P 500 Index + 50% Barclays US Aggregate Bond Index

Three-Year Annualized Returns as of 12/31/20



* 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 12/31/20



* 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 12/31/2020, the MCA Flexible Growth/Balanced/Conservative portfolios' returns represent, respectively, 43/7/2 individual portfolios and 75%/21%/2% 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's GIPS® compliance 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. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. The reporting currency is U.S. dollars. Returns are net of fees. To receive a list of composite descriptions of MCA and/or a GIPS® Composite Report, 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.