

# THE COMPASS

September 2021

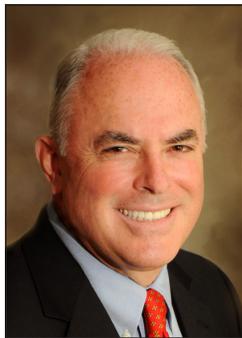
A Quarterly Newsletter of Martin Capital Advisors, LLP

## INVESTMENT PERSPECTIVE by Paul Martin, Managing Partner

### “The only thing we have to fear is ... fear itself”

September 8, 2021

The title of this newsletter is a quote from part of Franklin D. Roosevelt’s 1933 presidential inauguration speech. It came to mind recently because of the continuing unwarranted fears about the impact of higher inflation on the potential performance of the economy and the stock market. After re-reading my last newsletter commentary, I realized that my viewpoint hasn’t changed since then, so here it is again:



“Even though it is part of my job to at least have an opinion of where markets are going in the near future, I always hesitate to get caught up in short-term market timing because the main reason that the Martin Capital Advisors investment portfolios have out-performed in the long-run is due to the buy and hold approach we take to investing in great companies at a reasonable price. Anyway, for whatever it’s worth, I am a

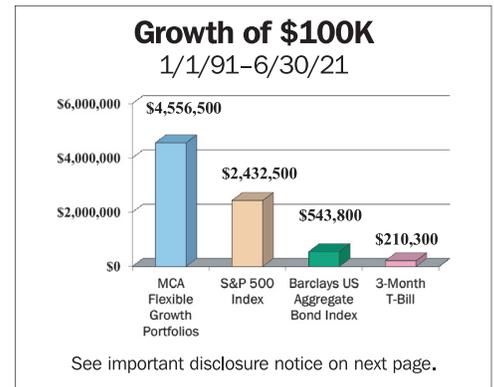
little perplexed by the latest position that most media pundits are taking that higher inflation is bad for the economy and the stock market and, therefore, government stimulus and

Federal Reserve Board interest rate accommodation will soon be a problem.

Since 1926 inflation has run much higher than it is today (averaging 3.3% per year), and it has not been an issue for the economy and the stock market until it’s gotten above about 8%. The biggest problem for the economy and the stock market is deflation, which happened in the 1930’s

and again in the 2000’s. Bonds, of course, do not do well as inflation picks up, so there is a much bigger risk in that asset class today than there has been in many years. (Details of this analysis can be found in the *Long-Term Performance of Stocks, Bonds, T-Bills, and Inflation* on the Martin Capital website, [www.martincapital.com](http://www.martincapital.com).)

Historically, the real issue for stocks



and bonds in the short-term is the yield curve, which is controlled by the Federal Reserve Board. Our research going back to 1953, which is reviewed in our *Yield Curve Hedging Strategy* presentation on our website, shows that all recessions and bear markets are driven by the Fed inverting the yield curve. The Fed recently has been very explicit in saying that they will err on the side of a steeper yield curve and higher inflation. This is bullish for the economy and the stock market and bearish for bonds.”

All of that said, there is a new factor to be considered since my commentary three months ago: the spread of the Delta variant. Although it is a terrible viral mutation, I think that the net effect could be that it makes the Fed more accommodative than they would have been otherwise and thus a net positive for stocks and the economy.

## COMPARISON OF INVESTMENT RESULTS

January 1, 1991 to June 30, 2021

	Martin Capital Advisors <sup>1</sup>	S&P 500	Russell 3000	Barclays Aggregate Bond Index	3 Month T-Bill	Consumer Price Index
Total <sup>2</sup>	4456.5%	2332.5%	2475.5%	443.8%	110.3%	101.2%
Avg. <sup>3</sup>	13.3%	11.0%	11.2%	5.7%	2.5%	2.3%

<sup>1</sup>Total performance, net of commissions, fees, and expenses of all Martin Capital Advisors’ *Flexible Growth Portfolios*.

<sup>2</sup>Total compounded return, including reinvestment of dividends and interest. <sup>3</sup>1991-2021 annualized return.

— See Important Disclosure Notice on last page. —

MARTIN CAPITAL  
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# RELATIVE LONG-TERM PERFORMANCE

January 1, 1991 to June 30, 2021



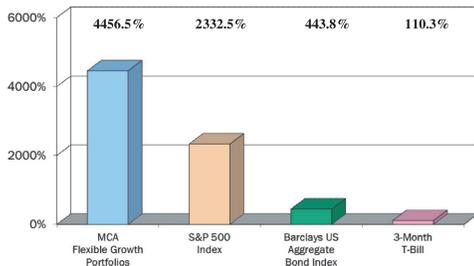
A Quarterly Publication of  
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ADVISORS, LLP

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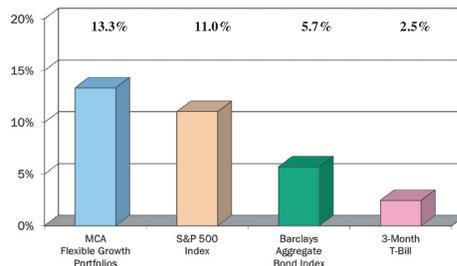
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Martin Capital Advisors, LLP, is a registered investment advisor managing private and institutional investment portfolios.

## Total Return



## Annualized Return



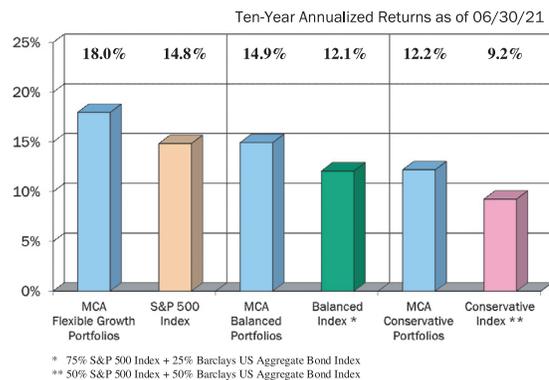
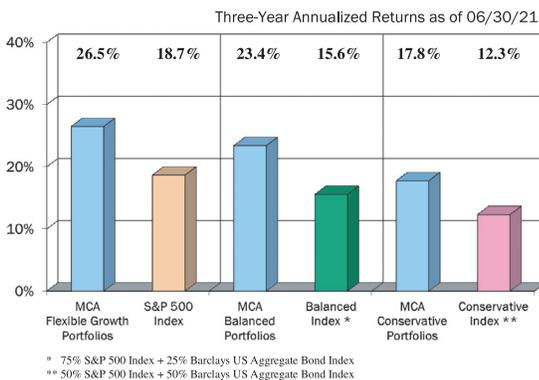
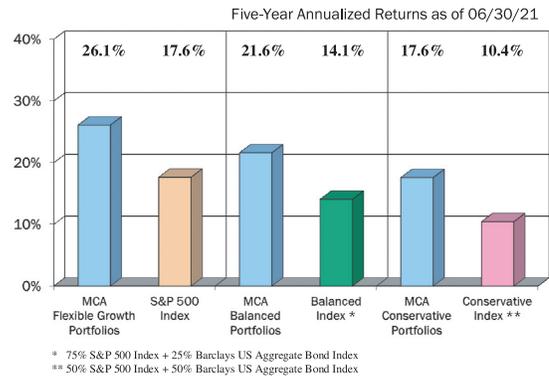
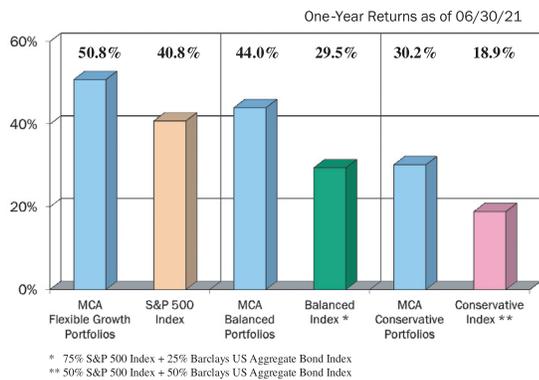
# MCA FLEXIBLE GROWTH PORTFOLIOS TOP 20 STOCKS

as of June 30, 2021

1 Apple	136.96	6 MasterCard	365.09	11 Costco Wholesale	395.67	16 Alphabet Cl A	2441.79
2 Square	243.80	7 Edwards Lifesciences	103.57	12 Blackrock	874.97	17 Lam Research	650.70
3 Intuitive Surgical	919.64	8 Visa	233.82	13 Charles Schwab	72.81	18 US Physical Therapy	115.87
4 IDEXX Laboratories	631.55	9 Paypal Holdings	291.48	14 Tractor Supply	186.06	19 IPG Photonics	210.77
5 Starbucks	111.81	10 Texas Instruments	192.30	15 Trex	102.21	20 Williams-Sonoma	159.65

# 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 06/30/2021, the MCA Flexible Growth/Balanced/Conservative portfolios' returns represent, respectively, 45/9/2 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](mailto:darby@martincapital.com).