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Second Quarter, 2000

A Quarterly Newsletter of Martin Capital Advisors, LLP

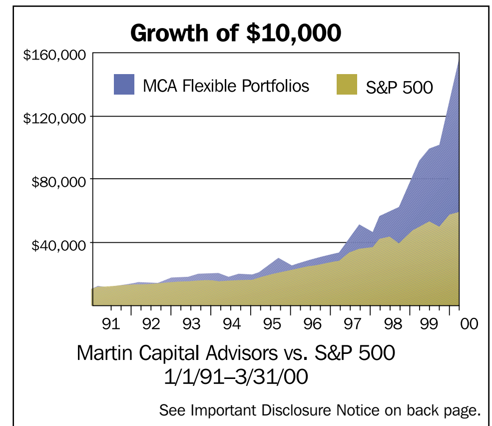
INVESTMENT PERSPECTIVE by Paul Martin, Managing Partner

Near-term risk high; long-term prospects bullish

The first quarter proved to be as volatile as expected; however, the performance divergence between old economy value stocks and new economy growth stocks was somewhat surprising. Continued strength in the high-tech sector helped our portfolios achieve excellent returns for the quarter. Bonds rallied as anticipated during the latter half of the quarter, with yields dropping back below 6%. Despite the Federal Reserve Board's inflation worries, the bond market has started to sense that the economy will slow by the middle of the year and the threat of inflation will moderate accordingly.

Short-term stock market risk remains high at the start of the second quarter. The question of whether this higher level of risk will be resolved by a bear market or by a mild correction will be determined by whether the economy falls off into recession as a result of further Fed interest rate hikes. Each rate hike from current levels increases the probability of a significant economic slowdown or recession. If the stock market senses a high probability of recession or below average growth, a bear market will ensue. If economic growth shows signs of merely slowing to a sustainable rate of growth, a mild correction will suffice to adjust stock market imbalances. If the Fed continues to tighten, we will consider hedging to counterbalance a potential bear market; otherwise, we plan to simply ride through any near-term weakness. In any event, we will hesitate to hedge against short-term stock market risk, given our very positive long-term outlook for strong economic growth with low inflation. Bonds will do well during the second quarter as the economy shows signs of slowing whether the Fed tightens more or not.

Powerful bull markets are characterized by high valuations. As long as the economy grows at above average rates and inflation remains lower than average, high valuation levels can be sustained indefinitely. The catch is that, from time to time, when the economy shows sign of slowing to a below average rate of growth, or inflation looks like it may pick up, the stock market can be merciless in abruptly reducing valuation levels. Just as quickly, however, when the stock market begins to look past short-term economic growth or inflation concerns to long-term above average economic growth and lower inflation trends, the bull market resumes, taking stocks to new highs, well above historical average returns. As long as we can make a good case for long-term sustainable growth with low inflation, we will be much less inclined to try to protect portfolios from apparent short-term risks at the expense of possibly missing out on long-term bull market returns.

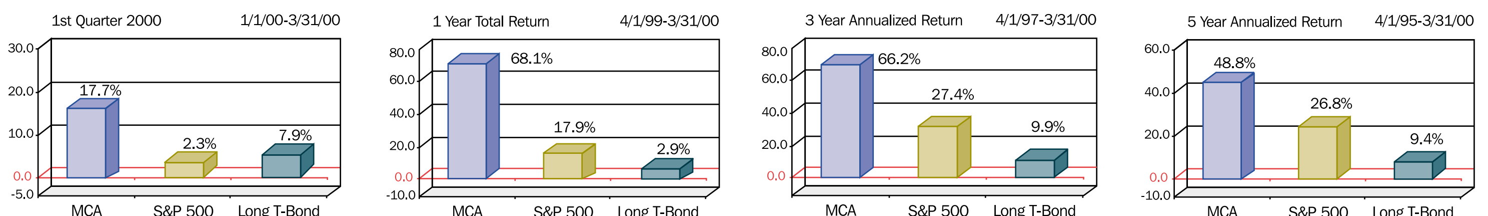


On May 1, 2000 Martin Capital Advisors will raise the minimum investment to $500,000 for new individually managed portfolios. This change will not affect existing clients. For any prospective clients in discussions with us, the current minimum of $250,000 will remain in effect until June 1, 2000.

MCA Flexible Portfolios
12-month Tax Efficiency: 99.5%
(After Tax Return divided by Before Tax Return)

INVESTMENT RESULTS

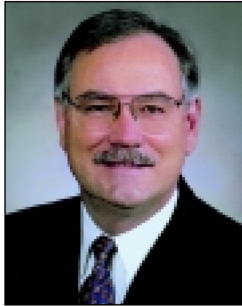
Martin Capital Advisors Flexible Portfolios vs. the S&P 500 Index and the Lehman Brothers Long Treasury Bond Index



MARTIN CAPITAL
ADVISORS

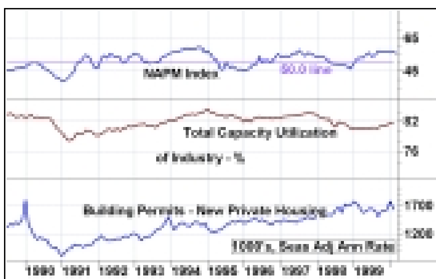
QUARTERLY ECONOMIC REVIEW by Alston Boyd, Economic Director

The past six months have been a period of rapid economic growth with low inflation, except for oil prices. High consumer confidence and the "wealth effect" resulting from big gains in the stock market have led to a surge of consumer spending that has fueled the rapid economic expansion. GDP growth in the 4th quarter of 1999 was pegged at a 7.3% annual rate, the fastest rate for any quarter since 1984. While that's old news, the torrid growth rate seems to have continued into the first quarter of the new millennium. Some other important elements are the lowest unemployment rate in 30 years and big increases in productivity. The longest unbroken economic expansion in US history has brought us to a point of having few people unemployed and available for new jobs. Oil prices tripled over 12 months, adding inflationary pressure to a worldwide economic rebound following the Asian economic crisis. In spite of the pressure from oil prices and a tight labor market, evidence of inflation is difficult to find outside of the energy sector or transportation. Deflationary forces of productivity, international competition and deregulation have kept inflation from spiraling out of control.



MANUFACTURING

The manufacturing sector of our economy has continued to power ahead, with the North American Purchasing Managers Index falling just slightly to 55.8 in March. This is only a little off the high of 57.3 reached last September, and it is higher than most of the monthly figures for the past five years. Capacity utilization has increased steadily from the low of 80.4% at the end of the Asian economic crisis to February's moderate figure of 81.7%. This is nowhere near a level that would imply that capacity is getting tight. Total factory orders are strong, up 8.5% in 12 months, led by non-durable goods, which are up 9.8% in that period. In spite of much higher mortgage rates, the construction industry remains strong, with total spending up 1.5% in February and up 6.8% in 12 months. Building permits for new private housing and housing starts remain close to historical highs. In the past, when a 30% increase in mortgage rates occurred within a year, the effect on construction and housing was typically severe. This time, the higher rates have had little effect. Surprisingly, the big jump in February construction was in the commercial sector, which has been more sensitive historically to mortgage rates than private residential construction.



SALES

Measurements of consumer confidence, sentiment and expectations have all remained near record highs for the past three years. This reflects a widespread sense of security about jobs and financial futures in much of the population. As a result of this security and confidence, many people have felt free to spend more than they otherwise might. In addition, many have made big profits on stocks and feel better about spending rather than saving for retirement. This "wealth effect" coming out of stock market gains is seen as being an important factor in boosting consumer spending. As a result of these factors, retail sales have been growing at close to the highest rates in the past decade. Auto and light truck sales in February hit an annual rate of 19.0 million units, the second highest in history. In spite of mortgage rates that are a third higher than they were in early 1998, new home sales are only slightly below record highs. Sales of existing homes have fallen a bit more but are still relatively strong. Adjustable rate mortgages are probably helping home buyers cope with higher rates. Strong consumer spending in 1998 helped the U.S. avoid a downturn during the Asian economic crisis. Today, as the world economy is gaining strength, such strong consumer spending seems to be too much of a good thing.

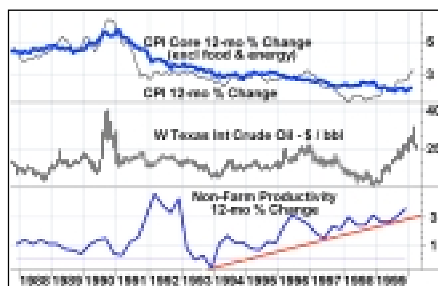
LABOR

The unemployment rate in February rose to 4.1% from 4.0% in January, which was the lowest since January 1970. Initial unemployment claims, a measure of the number of people who have just lost their jobs, have fallen to lows not seen since 1973, when our workforce was only 60% of what it is today. The number of new jobs being created in our economy each month has been volatile, but the 12-month average has been running between 215,000 and 235,000 per month for the past year. This rate of job creation is greater than the rate at which new workers are entering the workforce, hence the continuing slide in the unemployment rate. Two factors have combined in preventing an outbreak of wage inflation. First, we are in a global economy that encourages factories to be built selectively where labor costs are low. As

a result, many jobs have been exported from this country, or we would see an even lower unemployment rate and a higher wage scale. Second, productivity has increased tremendously. The high-tech revolution has had an enormous impact on automation, communication and manufacturing techniques, increasing the output per hour of the average worker. This trend will continue to mitigate wage inflation in the future.

INFLATION

The Consumer Price Index rose 3.2% in 12 months through February, the fastest such increase since January 1991. Rising oil prices are mostly responsible for the rapid increase (middle chart). The top chart at right shows the 12-month change in the CPI (thin line) and 12-month change in the CPI core rate (heavy line), which excludes the volatile food and energy sectors. Although some of the effect of higher oil prices has leaked over into the core rate via the transportation sector, the core rate of inflation is only up 2.1% and its trend is almost flat. As stated above, the price competition in a global market plus increasing productivity have helped hold down our rate of inflation. The following chart shows the 12-month change in non-farm productivity.



The steady increase since 1993 has reached an annual rate of 3.6%. This works as a deflationary factor directly opposing increased labor costs. If wages and benefits are increasing at a 3% annual rate and productivity is increasing at a 3% rate, the net result is neutral to inflation. A third factor holding down inflation is deregulation, which is opening the door to competition where restrictive governmental regulations have tended to prop up prices.

SUMMARY AND OUTLOOK

The Fed has taken aim at our rapidly growing economy because such a rapid rate of growth in the past has almost always brought with it rising inflation. A few years ago, the maximum rate of economic growth sustainable without inflation was considered to be a 2% to 2.5% annual rate. Now, recognizing the increases in productivity brought by the high-tech revolution, the maximum rate of growth is considered by the Fed to be 3.5% or a little more. Our economy is like an engine that can't run faster than a certain speed because if it does, friction makes it overheat. If a new, improved oil is introduced that reduces friction, the engine can run faster without overheating. The increased productivity has acted on our economy like that improved oil. In fact, the rate of growth possible without causing an outbreak of inflation may be more than 4% annually, perhaps as much as 5%.

We find ourselves nine months out from the first Fed interest rate increase at the end of June 1999. It takes at least six months for any effect of higher interest rates to be measured, so we have no reason to expect a great deal of slowing in our economy thus far. We have an extremely resilient economy and it will take a lot to slow it. The Fed will probably continue with another couple of rate hikes in the next few months, and this will eventually slow the economy. Though slowing will occur, the chances of a recession are practically nil. After the bulge of higher oil prices works its way through the economy, the higher inflation rate will subside.

MARKET AND ECONOMIC STATISTICS

as of Market Close March 31, 2000, with 3-month and 12-month changes

4TH QUARTER, 1999

GDP-Bil$	9037	7.3% apr	4.4%
GDP Deflator	104.7	1.9% apr	1.3%
Empl Cost Index	144.5	1.1%	3.4%
NF Productivity	115.5	6.4% apr	3.6%

STOCK INDICES*		3 mo	12 mo
Dow Industrials	10922	– 5.0%	11.6%
S&P 500	1499	2.0%	16.5%
NASDAQ Comp	4573	12.4%	85.8%
NASDAQ 100	4398	18.6%	108.8%
NYSE Comp	648	– 0.4%	7.3%
Wilshire 5000	14296	3.5%	22.1%
Russell 2000	539	6.8%	35.6%

*excluding dividends

INTEREST RATES		3 mo	12 mo
91-day T-Bill DR	5.87%	13.1%	34.9%
30-yr T-Bond Yld	5.83%	–10.0%	3.7%
FNMA 30yr mortg	8.32%	3.0%	18.9%
Prime Rate	9.00%	5.9%	16.1%
Fed Funds Trgt	6.00%	9.1%	26.3%
Fed Disc Rate	5.50%	10.0%	22.2%
S/L Long T-Bnd Ind	8543	7.8%	2.9%

PRICES, INFLATION		3 mo	12 mo
CPI, Feb	170.0	0.7% apr	2.6%
PPI, Feb	136.4	1.3% apr	3.3%
Gold, cash	278.4	–3.5%	–0.5%
W Tx Int Cr Oil	26.80	4.7%	60%
Copper, cash	0.80	–6.2%	29.0%
CRB Futures Ind	214.4	4.5%	12.1%
CRB Raw Indust	258.5	–3.9%	0.7%

MONEY			
M2, Bil Curr$, Nov	4684	1.3%	5.3%
Free Reserves	902	15.4%	–32.4%
Money Mkts - Bil$	1703	8.4%	16.3%
US $$$ Index	105.4	3.5%	5.3%

INDUSTRY			
Indust Prod Ind, Feb	142.1	1.9%	5.6%
NAPM Index	55.8	0.3	1.5
Cap Utiliz, Feb	81.7%	0.8%	1.3%
Bldg Permits, Feb	1631	1.2%	–6.2%

LABOR			
Unemployment Rate	4.1%	0.0%	–0.3%
New Non-Farm Jobs	43K	–214K	2602K
Avg Hourly Wages	13.53	1.8%	3.6%
Avg Init Unempl Clms	283	–3.5%	–8.2%

MARKET TIMING VIEWPOINT

Recommended Tactical Asset Allocation

Stocks 85% Δ Unchanged
Bonds 10% Δ Unchanged
Cash 5% Δ Unchanged

Performance Expectation

	April 2001		April 2005	
	Target	Performance	Target	Performance
S&P 500	1725	+15%	3150	+110%
30-Yr. T-Bond	5.5%	+ 5%	4.25%	+ 30%

MARTIN CAPITAL
OPPORTUNITY FUNDS

	NAV	YTD*	Life**
Austin Opportunity Fund	$14.04	+ 6.3%	+40.4%
U.S. Opportunity Fund	$16.19	+10.7%	+61.9%

For Daily Net Asset Value, call 1-888-336-9757

*Net Asset Value as of 3/31/00 **Austin Opportunity Fund inception date 9/1/99; U.S. Opportunity Fund inception date 4/1/99.

Obtain a prospectus and read carefully before investing. Call 1-877-477-7036 for a copy. Mutual funds are not FDIC insured; are not deposits or obligations of, or guaranteed by, any financial institution; are subject to investment risks, including possible loss of the principle amount invested. Distributed by AmeriPrime Financial Securities, Inc.

FLEXIBLE PORTFOLIO TOP 20 HOLDINGS

1	Dell Computer	53.94	6	Oracle Systems	78.06	11	Home Depot	64.50	16	Motorola	142.38
2	Charles Schwab	56.81	7	Intel	131.94	12	Tiffany	83.63	17	Micron Technology	125.75
3	Cisco Systems	77.31	8	Sun Microsystems	93.70	13	Hewlett-Packard	132.75	18	Advent Software	45.88
4	Applied Materials	94.25	9	Microsoft	106.25	14	Enzon	37.69	19	Advanced Micro Dev.	57.06
5	Texas Instruments	160.00	10	LSI Logic	72.63	15	LAM Research	45.06	20	Whole Foods Market	41.44

COMPARISON OF INVESTMENT RESULTS

Performance of Relevant Indexes

	Martin Capital Advisors*	Dow Jones Industrial Avg.	S&P 500 Index	Wilshire 5000 Index	Long-Term T-Bond Index	Money Market Avg. Yld.	Consumer Price Index
1991	+33.9%	+24.5%	+30.6%	+34.2%	+18.5%	+5.2%	+3.1%
1992	+26.8%	+8.0%	+7.7%	+9.0%	+8.0%	+3.3%	+2.9%
1993	+14.5%	+18.1%	+10.0%	+11.3%	+17.3%	+2.7%	+2.7%
1994	–2.1%	+5.9%	+1.3%	–0.1%	–6.9%	+3.8%	+2.7%
1995	+27.5%	+36.9%	+37.6%	+36.5%	+30.7%	+5.5%	+2.5%
1996	+29.4%	+29.1%	+23.0%	+21.2%	–0.8%	+5.0%	+3.3%
1997	+41.4%	+24.9%	+33.4%	+31.3%	+15.1%	+5.1%	+1.7%
1998	+78.8%	+18.1%	+28.7%	+23.4%	+13.5%	+5.0%	+1.5%
1999	+58.2%	+27.2%	+21.0%	+23.6%	–8.7%	+4.9%	+2.6%
2000 YTD	+17.7%	–4.7%	+2.3%	+3.8%	+7.9%	+1.4%	+0.8%
Total**	+1,377.8%	+432.1%	+463.0%	+459.2%	+132.8%	+50.5%	+26.5%
Avg.***	+33.8%	+19.8%	+20.5%	+20.5%	+9.6%	+4.5%	+2.6%

*Total Annual Performance, net of commissions, fees, and expenses, of all Martin Capital Advisors flexible investment portfolios. Audited 1991-99 by Carpenter & Langford, P.C., Certified Public Accountants. **Total compounded return, including reinvestment of dividends and interest. ***1991-2000 annualized return.

IMPORTANT DISCLOSURE NOTICE: Past performance does not guarantee future results. Figures include the reinvestment of all dividends received and reflect cash and cash equivalents. Our Flexible Portfolios tend to be more volatile than the S&P 500. From time to time, portfolio performance may reflect the use of margin investing as well as material investments in bonds or cash. The manager will utilize stocks, bonds and cash in an attempt to enhance returns. The Flexible Portfolio average represents 62 individual portfolios and 52.3% of all funds under management by MCA on 3/31/00. Clients explicitly elect this management style on their personal data form. The Flexible Portfolio contains primarily equity stocks that are managed with a view toward capital appreciation.

INVESTMENT PHILOSOPHY

Our investment approach recognizes that to achieve long-term, superior performance, there must be an acceptance of some short-term risk. We pursue an investment allocation strategy that emphasizes diversification to manage short-term volatility in pursuit of long-term performance.

We then consider fundamental and technical factors in determining a prospective investment's risk-reward ratio. We also evaluate social issues, such as environmental policies and employee relations, as part of our investment assessment.

Overall market risk is considered in the timing of investments and implementation of hedging strategies. We seek to maximize portfolio performance and manage volatility by reducing investment exposure during high market risk, while increasing investment commitment during periods of lower risk.

A Quarterly Publication of
MARTIN CAPITAL ADVISORS, LLP

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