

# THE COMPASS

November 2023

A Quarterly Newsletter of Martin Capital Advisors, LLP

## INVESTMENT PERSPECTIVE by Paul Martin, Managing Partner

**“In the short run, the stock market is a voting machine, but in the long run, it is a weighing machine.”**

**– Benjamin Graham (Warren Buffett’s mentor)**

November 7, 2023

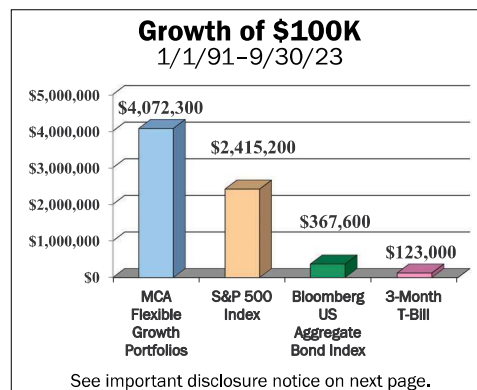
Following a strong first half of the year, stocks gave back some gains in the third quarter, and have bounced around so far in the fourth quarter, resulting in a slightly positive return for the quarter, at this point. The net result is that the S&P 500 total return, as of Monday, November 6, is up 15.25%, year-to-date (YTD). Meanwhile, the Bloomberg US Aggregate Bond Index total return is down 1.0%, YTD. Martin Capital portfolios are outperforming their YTD benchmarks; however, as can be seen in our Investment Results on the second page of this newsletter, our three-year returns are now underperforming their benchmarks, but all the other time frames are still outperforming.

Today, as always, there are a number of factors that are affecting the short run “voting” of the stock market. Many would say that there are more issues than is usually the case, auguring big



problems ahead, but I would say that it’s a mistake to get too caught up in the short run. For instance, concerns about increasing hostilities around the world are often cited as harbingers of danger to the U.S. economy. In fact, throughout history, war times have been very positive for the economy and stock market. For instance, during World War II the S&P 500 went up significantly every year of the war from 1942 through 1945. That said, I have to acknowledge that if World War III happens, then the stock market will cease to exist, but it’s also the end of the world, so it’s pointless to try to make investment plans for that scenario.

U.S. debt is another major issue that is being cited as a serious risk to the economy and financial markets. Although it is certainly a concern, the fact is that the U.S. debt-to-GDP ratio today is not much higher than it was after World War II, and the U.S. economy still managed to do very well for almost thirty years after the war.



As I have mentioned many times before, our research shows that severely inverted yield curves, driven by the Federal Reserve (and not inflation, per se), are always the primary catalysts for significant economic and stock market underperformance. Our proprietary yield curve indicator, however, is not currently signaling a high risk to the economy and the stock market. This does not mean that a mild recession is not on the horizon, but it also does not mean that the downside risk to the stock market is above average, since the stock market goes up most of the time in mild recessions. So, investors should remain focused on the “weighing machine” of stocks that have great products and services that have the potential to grow their businesses in the long run and not get too distracted by the “voting machine” in the short run.

## COMPARISON OF INVESTMENT RESULTS

January 1, 1991 to September 30, 2023

	Martin Capital Advisors <sup>1</sup>	S&P 500	Russell 3000	Bloomberg U.S. Aggregate Bond Index	3 Month T-Bill	Consumer Price Index
Total <sup>2</sup>	4072.3%	2415.2%	2453.0%	367.6%	123.0%	130.0%
Avg. <sup>3</sup>	12.1%	10.3%	10.4%	4.8%	2.5%	2.6%

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

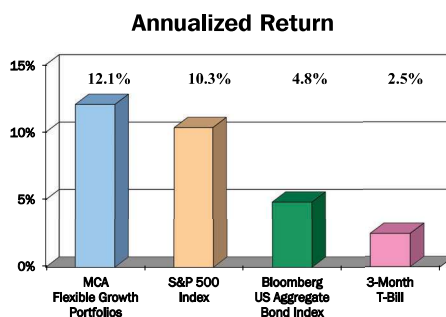
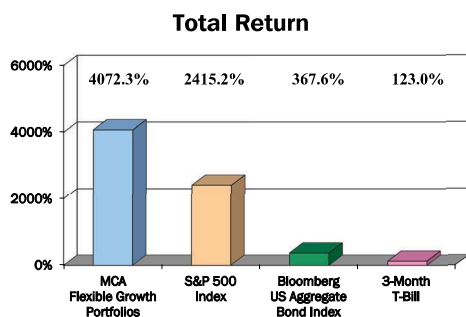
<sup>2</sup>Total compounded return, including reinvestment of dividends and interest. <sup>3</sup>1991-2023 annualized return.

— See Important Disclosure Notice on last page. —

MARTIN CAPITAL  
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## RELATIVE LONG-TERM PERFORMANCE

January 1, 1991 to September 30, 2023



**THE COMPASS**

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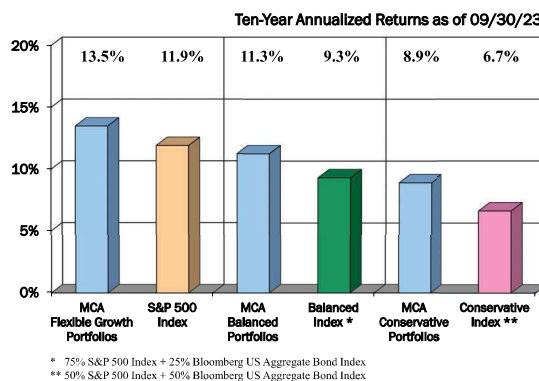
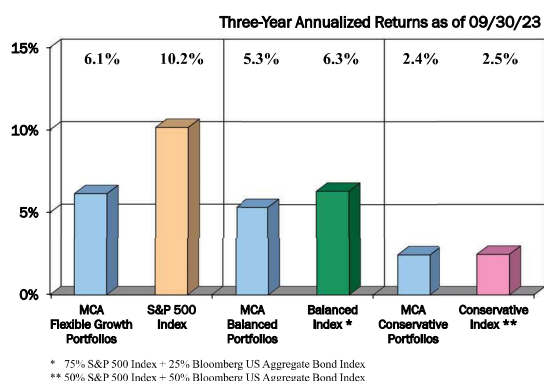
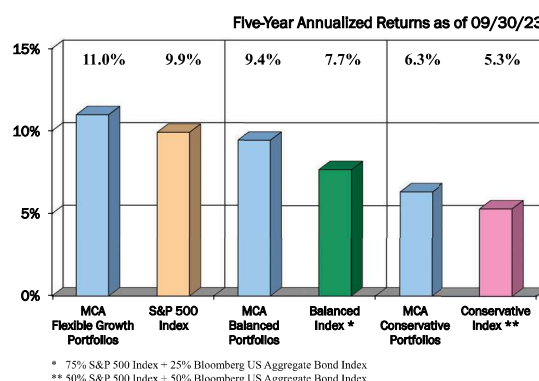
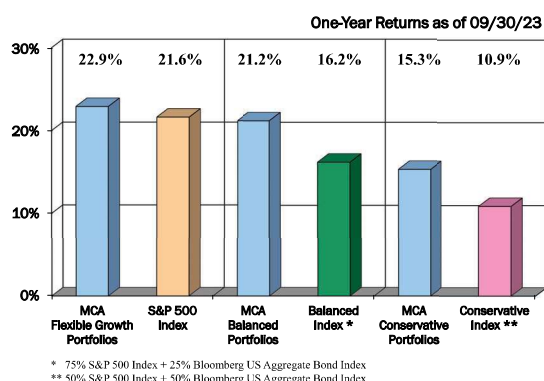
## MCA FLEXIBLE GROWTH PORTFOLIOS TOP 25 STOCKS

as of September 30, 2023

1 Apple	6 Costco Wholesale	11 Visa	16 Charles Schwab	21 Adobe
2 Intuitive Surgical	7 Lam Research	12 Intuit	17 Chipotle Mexican Grill	22 Tractor Supply
3 Nvidia	8 Oracle	13 Alphabet Cl A	18 Block	23 US Physical Therapy
4 Starbucks	9 IDEXX Laboratories	14 Williams-Sonoma	19 Trex	24 Cisco Systems
5 Mastercard	10 Texas Instruments	15 Edwards Lifesciences	20 Blackrock	25 GoDaddy

## 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 09/30/2023, the MCA Flexible Growth/Balanced/Conservative portfolios' returns represent, respectively, 52/10/2 individual portfolios and 67%/27%/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.

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## 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 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. An options hedging strategy is available for this portfolio.

**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% Bloomberg 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 Bloomberg U.S. Aggregate Bond index is made up of the Bloomberg 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. An options hedging strategy is available for this portfolio.

**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% Bloomberg 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 Bloomberg U.S. Aggregate Bond index is made up of the Bloomberg 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. An options hedging strategy is available for this portfolio.

Past Performance does not guarantee future results.