

# THE COMPASS

January 2024

A Quarterly Newsletter of Martin Capital Advisors, LLP

## INVESTMENT PERSPECTIVE by Paul Martin, Managing Partner

### Stocks go up and stocks go down in the short run, but stocks always go up in the long run

January 24, 2024

Following a disappointing year in 2022, stocks rebounded significantly in 2023. Despite a myriad of ongoing disasters, wars, politics, and financial concerns, the stock market managed to focus on a resilient economy and falling inflation. Meanwhile, bonds rebounded a bit from disastrous returns in 2022 to historically average returns in 2023.

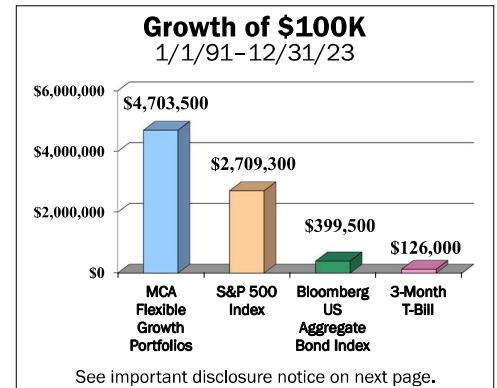
So far in 2024, stocks and bonds have bounced around a bit in response to a variety of factors. The influence of these factors can vary significantly over the course of just days and weeks and that is why trying to predict the short-term performance of the financial markets is a very difficult game to play. The saving grace is that the stock market always goes up in the long run, as can be seen in the *Growth of \$100K* chart next to this commentary. Since 1991, Martin Capital Advisors (MCA) *Flexible Growth Portfolio* has achieved a total return of 4,703.5%, or, as the chart shows, \$100,000 invested



in 1991 has grown by \$4,703,500. (It should be noted that this performance includes the two worst bear markets since the 1930s.) In the same period, a \$100,000 investment in the S&P 500 also grew significantly by \$2,709,300, while the Bloomberg US Aggregate

Bond Index grew only \$399,500 and the 3-month T-bill grew only \$126,000. (Please see third party verification information under *Important Disclosure Notice* at the bottom of the next page.)

While there will continue to be many negative and positive influences on the financial markets in 2024, the Fed has the potential to have the biggest impact, for better or worse. Control of the Federal Funds Rate gives the Fed enormous power over the economy and the financial markets. Historically, this power has been managed prudently; however, there have been a number of periods when the Fed has kept the Fed Funds Rate too high for too long. This last happened in 2007 to 2009, resulting in the worst recession and bear market since the 1930s. Since



then, MCA has developed a yield curve hedging strategy that has been 100% accurate in predicting severe bear markets and recessions since 1953. Today, this indicator is still in the range of signaling only the possibility of a mild recession, in which case the stock market usually goes up. At this point, the question is whether short-term interest rates, such as the 1-year T-bill, eventually fall to a severely inverted rate relative to Fed Funds. If that happens, then we will implement our options hedging strategy for clients who would like us to do so. (More information can be found on our website, [www.martincapital.com](http://www.martincapital.com), under the Resources tab in the *Yield Curve Hedging Strategy* presentation.) For now, we will stay focused on the upside potential for stocks in the long run, but closely monitor the actions of the Fed in the short run.

## COMPARISON OF INVESTMENT RESULTS

January 1, 1991 to December 31, 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>	4703.5%	2709.3%	2761.2%	399.5%	126.0%	129.5%
Avg. <sup>3</sup>	12.4%	10.6%	10.7%	5.0%	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. —

# RELATIVE LONG-TERM PERFORMANCE

January 1, 1991 to December 31, 2023

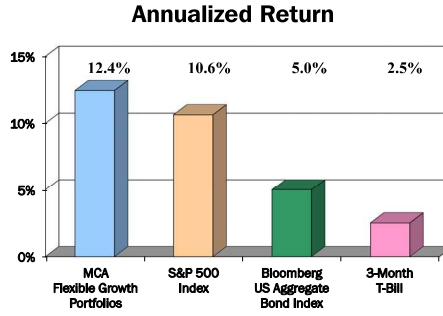
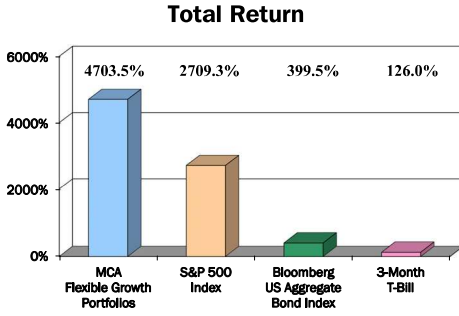


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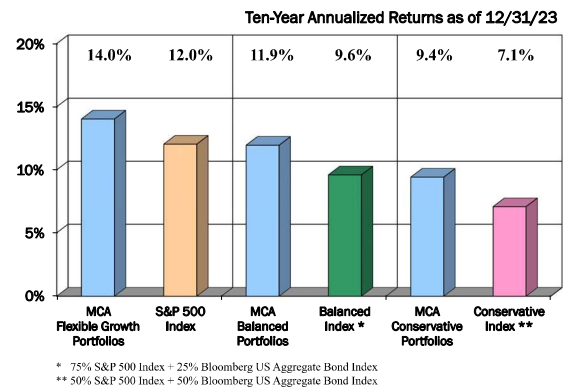
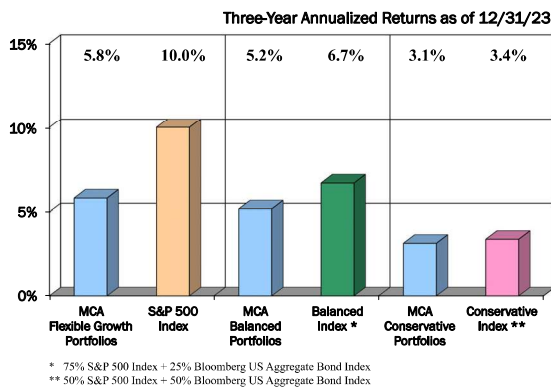
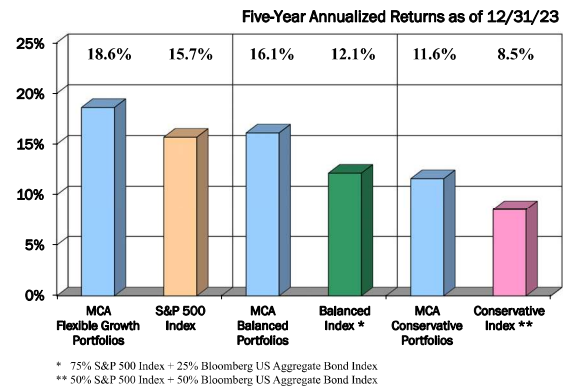
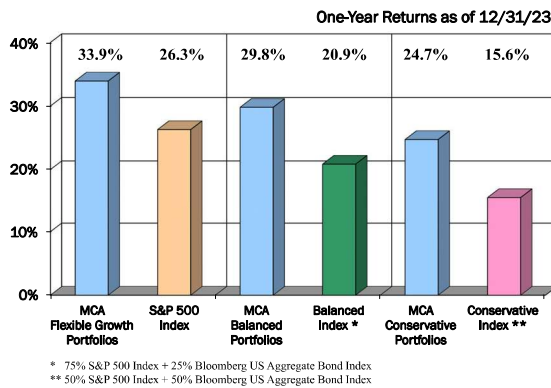
## MCA FLEXIBLE GROWTH PORTFOLIOS TOP 25 STOCKS

as of December 31, 2023

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

## 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 12/31/2023, the MCA Flexible Growth/Balanced/Conservative portfolios' returns represent, respectively, 53/11/2 individual portfolios and 66%/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.

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, 2022 by Absolute Performance Verification LLC. 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 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.