

# THE COMPASS

June 2024

A Quarterly Newsletter of Martin Capital Advisors, LLP

## INVESTMENT PERSPECTIVE by Paul Martin, Managing Partner

### Stocks continue to climb as the Fed is tight, but not too tight

June 12, 2024

Almost halfway through the year, the S&P 500 is performing quite well. Although there are many issues that could weigh on the stock market, earnings and economic growth continue to be positive – thanks to a Fed monetary policy that is tight, but not too tight, so far.

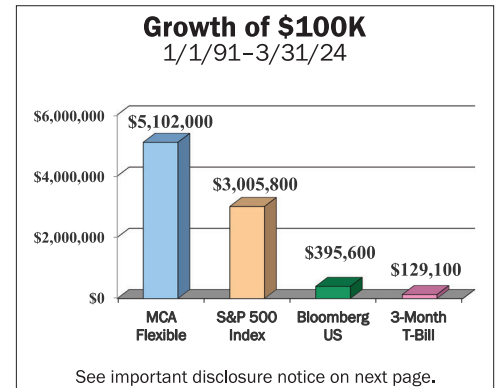
While many market pundits make the argument that the current inflation rate is too high, even after dropping significantly over the last few years, they ignore the fact that the Consumer Price Index is now in the range of its historical average of 3.0% since 1926 (Ibbotson).

Historically, at least going back to 1953, the only factor



causing severe bear markets has been the Fed being too tight with monetary policy. When the Fed has caused a steep inversion of the one-year Treasury Bill rate to the overnight Fed Funds rate, severe recessions have resulted in severe bear markets. Currently, there is only a slight inversion, and the stock market is performing pretty well, despite a myriad of political, monetary, and global concerns.

Although relatively mild bear markets, such as happened in 2022, can happen anytime, they are very difficult to predict. The saving grace is that they turn around fairly quickly. Severe recessions and bear markets driven by the Fed being too tight, such as 2007 to



2009, take many years to recover, so Martin Capital has developed an options hedging strategy to minimize the downside in Fed driven bear markets. (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.)

At this point, since the Fed is not too tight, long-term investors should maintain their stock market positions in anticipation of achieving annualized returns in line with the S&P 500's compounded average return of 10.3% since 1926.

## COMPARISON OF INVESTMENT RESULTS

January 1, 1991 to March 31, 2024

	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>	5102.0%	3005.8%	3047.9%	395.6%	129.1%	133.4%
Avg. <sup>3</sup>	12.6%	10.6%	10.9%	4.9%	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>1991-2024 annualized return.

— See Important Disclosure Notice on last page. —

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# RELATIVE LONG-TERM PERFORMANCE

January 1, 1991 to March 31, 2024

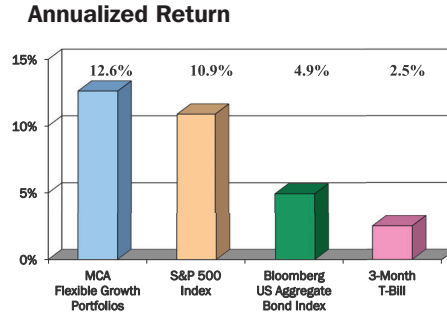
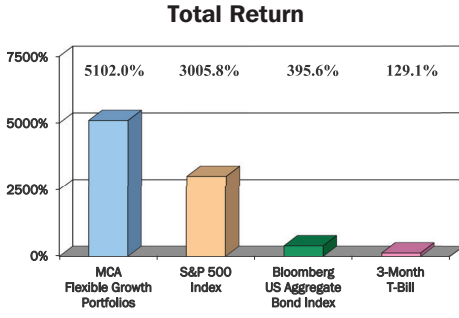


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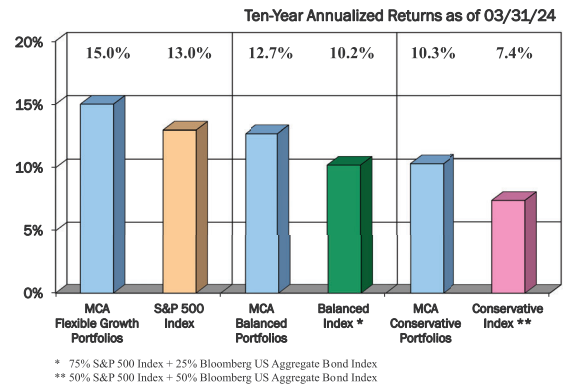
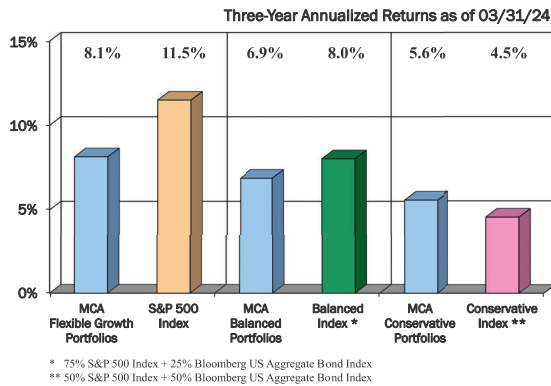
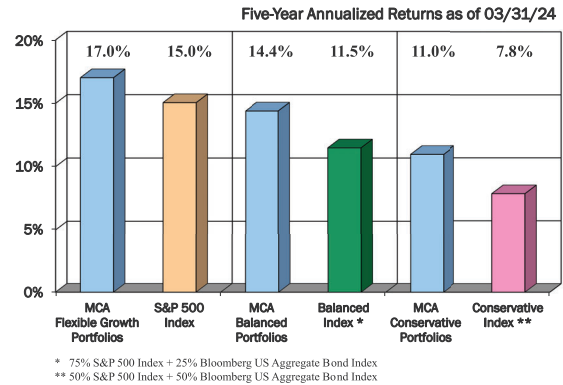
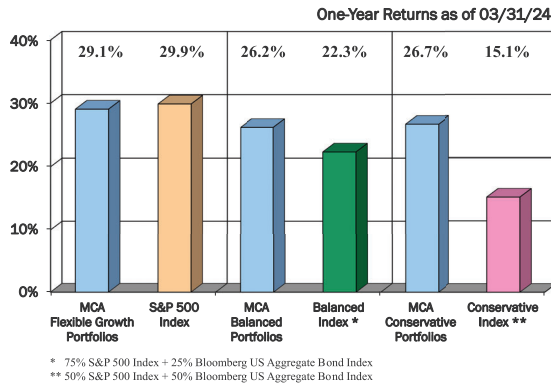
## MCA FLEXIBLE GROWTH PORTFOLIOS TOP 25 STOCKS

as of March 31, 2024

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

## 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 03/31/2024, the MCA Flexible Growth/Balanced/Conservative portfolios' returns represent, respectively, 52/10/2 individual portfolios and 66%/26%/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, 2023 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.