

An Introduction to Martin Capital Management



Martin Capital Management (MCM) is a privately owned registered investment advisor. Since 1987, we have remained committed to a fiercely independent, risk-averse, concentrated, value-oriented investment philosophy. Long-term compounding of capital is our ultimate goal, achieved by following the cardinal principles of preservation first, growth second. Making money begins with not losing it; accordingly, we seize the opportunity to invest only when we find companies or other investments that are underpriced by the markets. We measure growth of capital in absolute terms, not on a relative basis which seems to have become the industry standard.

MCM has thus steered many clients through turbulent times while still growing their capital. Over the “lost decade” of 1999-2009, typical MCM investors nearly doubled their money while the market as a whole remained essentially flat. Our average Total Accounts outperformed the S&P by an average of 600 basis points annually from 2000-2010 – a period that included two of the three most devastating bear markets since the 1930s. The results are all the more noteworthy when viewed through the prism of risk aversion: MCM limited exposure to equities during a decade when the S&P 500 was chronically overvalued; the average MCM client was not more than 70% invested in stocks, nor less than 25%.

The MCM track record came from adherence to our stated principles: We reduced our equity holdings in favor of cash as the markets overheated; then we went bargain hunting during periods of anxiety-driven selling. As a result, most MCM Total Accounts were already seeing new levels of cumulative capital value less than a year after the market carnage of 2008. The S&P average dropped 37% in 2008, while MCM accounts – heavily in cash as the stock market bubble reached its bursting point – dipped only 7.8%. The liquidity of our portfolio made it possible for us to buy mispriced equities at depressed prices during the panicky phase of the sell-off, and resulted in a 21.6% gain in 2009.*

Our preference is to purchase equity shares of well-run but mispriced companies. At MCM, we believe markets can and do make mistakes in pricing – often when a good business, industry, or sector falls out of public favor. Finding those mistakes (read: opportunities) requires diligent, rigorous, process-driven analysis. Our skilled research team gauges a company’s intrinsic value by carefully studying the business and those who manage it, knowing that price normally gravitates toward that underlying value over time. Buying at bargain prices increases the probability of outsized returns while reducing the amount of loss in the event of judgment errors, thus effectively improving our odds of long-term positive outcomes.

MCM limits (or concentrates) the number of equity securities held to approximately 12-25 companies that pass detailed, internally-driven research scrutiny. For each, we weigh three signature characteristics: 1) A long-term competitive advantage in a strong and growing business or industry, 2) Dedicated, competent, and shareholder-oriented management, and 3) A bargain purchase price, the one variable we can control by being patient. The search for these standout equities is not style-box limited. We research small-cap, mid-cap, and large-cap companies alike to find the relative few that fit our selective and restrictive criteria.

At the same time, MCM employs flexibility – at times holding large amounts of the portfolio in cash, for example – as a hedge against macroeconomic threats and/or overvalued markets. We are convinced of the importance of synthesizing bottom-up research (scrutinizing individual industries and companies) with top-down vision (scanning the broader economic landscape for hazards and opportunities). Those with too narrow a focus can be blindsided by a financial collapse like 2008; those with too broad a focus often become gun shy – fearful to pull the trigger and buy, even when opportunities arise. Between these unproductive extremes, MCM seeks what Aristotle described as a “Golden Mean” – a virtuous balance that can produce long-term success in investing.

At MCM, we believe the hallmark attribute of the few truly great investment managers is temperament. We are very often at odds with the crowd – and perfectly comfortable in that position. The harsh reality is that we will be destined to be average if we think and act like everyone else. Thus, our clients tend to be those who have the discipline and patience to see “winning by not losing” as the *first* step in making money. The second step is painstaking research to find – and buy – what we believe are mispriced investment instruments. The goal is not to have the highest return today, this week, this month, or even this year; it is to preserve and compound wealth over the long haul. If this sounds like an investment strategy well suited to your own temperament, I welcome you to join us.

Frank Martin
Founder & Chief Investment Officer

**Disclosure: MCM Total Accounts refers to the performance of all assets held in fully discretionary fee-paying accounts managed per our model portfolio. MCM believes that because the fully discretionary accounts are, and historically have been, so similarly managed in terms of types and proportions of securities, survivor bias – if any – is not material. Performance figures are net of all management fees and include the reinvestment of all income but do not reflect the effect of taxes. MCM Total Accounts are compared to the S&P 500, an unmanaged market-capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to signify U.S. equity performance. S&P 500 returns do not include consideration for fees or taxes.*

*Due to client nuances including equity allocation constraints, start date, cash flow differentials, constraints on derivatives, tax issues, etc., an individual’s account performance may differ materially from the composite. **Past performance is no guarantee of future results.***