April 2011

Market Price Manipulation, Tail Risk, Disaster Myopia, and MCM Portfolio Strategy

A year ago and 10% below where the S&P 500 is today, as Chief Investment Officer I made the decision to over-hedge portfolios. During the next four months the market experienced its first noteworthy setback since March 2009, backtracking 15%. At that point the hedging strategy seemed to be a good call, but I misjudged just how apprehensive Fed Chairman Ben Bernanke had become about the unresponsiveness of the goods and services economy in an unfamiliar balance-sheet recession (described more fully in the MCM 2010 annual report). In a related misjudgment, I underestimated how terrified he was that the markets in risk assets—stocks and low-quality bonds—might be on the verge of suffering the same fate as residential and commercial real estate. On August 27, he laid to rest all doubt as to how far he would go in attempting to prop up the markets. Capitulating to his asset-deflation fears, the man who said "There are no atheists in foxholes and no ideologues in a financial crisis" opened the QE2 floodgates. Casting aside any worries about long-term consequences, his reasoning was simple: If you don't survive today, of what relevance is tomorrow?

There is no more difficult or more unforgiving job—nor one more likely to bring on eventual recriminations—than that held by Dr. Bernanke. Economic philosophers Adam Smith, John Maynard Keynes, and F.A. Hayek warned against the havoc that is well-nigh inevitable as a result of interfering with the inexorable (and at times inexplicable) dynamics of otherwise free markets. The Bernanke Fed has been off balance ever since the summer of 2007, first in reacting to a mutating financial meltdown that it had only months earlier deemed nonthreatening, and now finding itself in an equally problematic position of attempting to manipulate asset and capital markets to induce a recovery without first allowing the pendulum of sentiment to swing through its full cathartic arc. Business cycles, as the name implies, have a certain irregular symmetry to them in which excesses are painfully purged, before animal spirits and optimism reappear of their own volition. Like crocuses in the spring, they don't rise up through the late winter snows simply because they are commanded to do so. If not tomorrow, I fear that in time this reactionary experiment in intervention, like virtually all its predecessors, will end badly.

The question frequently asked is: "Did Bernanke have a choice?" Could the U.S., nay, the world, endure the economic hardship and perhaps class warfare that would surely result from allowing the markets to take their natural course? Counterfactualists will muse on the subject for years. In their latest paper (July 2010), leading economic historians Ken Rogoff and Carmen Reinhart, to whom I often refer, would no doubt argue that the question itself is quite remarkable. Almost no sovereigns throughout history have had the luxury of truncating a crisis and avoiding the humbling consequences of years of excess.

To be sure, worldwide banking crises are relatively rare throughout history because the legal and technological underpinnings of modern private banking simply had not reached a stage of maturity and depth to facilitate them. Before the recent crisis, the Great Depression was the last systemic failure, when 40% of the world, weighted by GDP, was in default on external debt. By contrast, the quiescent period from World War II to the 1970s was precisely the result of the harsh lessons learned in the Depression era. It is the sad state of human affairs that suffering is often the most effective teacher.

Politically, Bernanke likely had no choice because he possessed the monetary firepower and a currency that would not collapse from profligacy. His actions, however, likely came at a huge cost. Socially and economically, he may have helped create a lethargic economic environment somewhat similar to Japan after its real estate bubble burst in 1989. Is death by a thousand cuts more desirable than one fell swoop? The privileged status of the U.S. dollar as the world's reserve currency is a rarity in history and has made it possible for the Fed to pursue a unilateral expansionary policy that will almost surely result in a variety of unexpected and unintended consequences. Many of them are likely to be harsh, swift, and destabilizing.

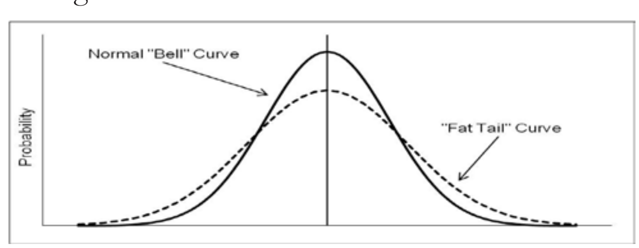
The Bernanke "put," as an element of the "too big to fail" doctrine, has been implicitly expanded to include the markets in risk assets, joining the financial intermediation institutions (AIG, Fannie, Freddie, etc.) that have been exempted from market discipline since 2007, thereby effectively expanding the coverage of those under the moral-hazard umbrella far beyond the resources of any government and its agencies.

Although ostensibly the Fed's policies are intended to encourage wealth-effect spending, only 20% of Americans actually own stocks outright. The real driver is better concealed: The entire financial intermediation industry, to say nothing of state and local governments, cannot yet tolerate the cost burden of both an increase in interest rates and a corresponding decrease in asset values. The Fed has thus deemed, at considerable peril if it's wrong, that savers will underwrite much of the cost by gravitating from low-interest bank accounts to riskier market assets in search of higher returns.

The Fed is disinclined to mention yet another motive for keeping stock prices on an upward track: Protecting tax revenues driven by wealth. Over the last two decades, the wealthiest 1% of Americans have become the largest—and also the most unstable—source of federal revenues, with their incomes closely tied to the financial markets through stock options and equity investments. According to the IRS, the top 1% of earners paid a remarkable 38% of federal income taxes in 2008, up from 25% in 1991. But between 2007 and 2008, their incomes fell 16% compared with 4% for U.S. taxpayers as a whole. Bernanke is aware that a relapse in the capital markets would wreak havoc with both state and federal deficits. And all this must be balanced against the specter of social discontent over the income disparity between the wealthy and everyone else. That problem is growing but has not yet reached the boiling point.

Tails, You Lose

"Tail risk" is a term that describes the probability of unusual events of extreme deviation from the norm. The recent 9.0 earthquake in Japan serves as an example, or, in financial circles, the financial meltdown of 2008. A "fat tail" (hence, the name tail risk) is an unexpectedly thick end or "tail" toward the right or left edges of a distribution curve:



Fat tails indicate an irregularly high likelihood of a catastrophic (left tail) or windfall (right tail) event. Interestingly, the fat tail on the right side of the curve may well describe the environment in which we find ourselves today—i.e., a doubling of the market in spite of the economic and financial backdrop (eerily similar to April 1930 through the market peak in 1932 that preceded very dark times).

"Disaster myopia," the tendency over time to *underestimate* the probability of historically infrequent "tail risk" events, has insidiously pervaded the capital markets today in much the same manner as the real estate markets in the first half of the decade. When tail risks are infrequent or one of a kind, assigning probabilities seems arbitrary—or even pointless. In fact, risk analysis is so abstract at that level that practitioners often resort to assigning such tail risks a probability of zero. Thus, under normal circumstances (with thinner tails as in the "bell curve" illustrated above) people logically consider these events so unlikely to occur and difficult to predict that most choose to ignore their possibility altogether.

Much of the investment-management industry, given both its short-term orientation and style-box structure, could thus be seriously overstating present returns by understating tail risks. Perversely, short-term bonus arrangements actually *encourage* the assumption of tail risk. To that one adds the near ubiquitous disaster myopia in combination with fierce performance competition—the sum and substance of the recent but long-forgotten financial crisis—and you have the recipe for a man-made tail-risk disaster.

In simple language, most people know they're unlikely to get hit by lightning in a thunderstorm. But if they increasingly assign the risk a zero probability and more and more people begin walking around outside in the storm, they substantially increase the risk of the unthinkable event happening: They fatten the tail of the probability curve. Similarly, if investors develop a mindset that disasters can't happen (or won't be *allowed* to happen) and pile in to the markets, they increase the tail risk as well.

Markets Are a Terrible Master but a Worthy Servant

Capital markets in which prices are more and more dictated by highly leveraged short-term speculators are inherently vulnerable to disappointment. If some catalyst unexpectedly promotes a compelling preference for liquidity, and equity speculators become pell-mell liquidators, who will step up, and with what means and at what price, to purchase the current $17 trillion worth of U.S. equity securities outstanding? The equity markets were in the process of clearing in early 2009, sinking to $9 trillion in value. What will it take this time?

Investors have suspended their demand for risk premiums during this artificially induced market advance, in part because of the belief that the Fed has their back. What if, come crunch time, the Fed doesn't—or can't—play the role of savior? If the fragile underpinnings of the market give way, at what valuation levels will the long-term bargain hunters step in? When disaster myopia is rampant, it's easy to imagine that dividend yields of 5% or a sub-10 Shiller P/E may be what it takes. It won't be the first time in our history, nor will it be the last.

Moreover, global debt reduction had just begun when central banks imposed an intervention-facilitated two-year hiatus. When the deleveraging resumes, it will likely expose gaping fissures in the balance sheets of financial intermediaries, the very walking wounded that have subsisted on an interest-rate subsidy from savers and the asset-quality forbearance of regulators. Could the recent disclosure of massive foreclosure fraud among the largest banks in the U.S. be the canary in the coal mine?

With tail risk underappreciated, disaster myopia pervasive, risk premiums nonexistent, a balance-sheet recession in progress, and Mr. Market euphoric, this is not the time, in my judgment, to be aggressive on offense.

– Frank Martin, CFA

First Quarter 2011 Portfolio Review

As risk-averse stewards of your capital, the broad economic view described in the preceding pages helps determine how we allocate investment resources. Obviously, we don't think now is the time to be "all in," as they say at the Texas Hold 'Em table, because the odds are not in our favor given the cards that we know have yet to be played. At the same time, we haven't taken all the chips off the table and gone home. Our goals, after all, are to protect your capital, then grow it—in that order of priority. Within a margin of safety, we do own equities of several well-managed companies on your behalf, and they continued to perform well in the first quarter of 2011. Driven by Stryker, Garmin, and others, MCM equities were up 6.5%. The average total account, however, rose only 2.0%. The reason for the discrepancy between the two performance figures is simple: Driven by skepticism of overall valuations as described above, MCM has on average only 28% of its clients' money invested in stocks. Most of the rest resides in safe U.S. Treasuries, which produce a modest current yield and serve as our "dry powder" for buying stocks and bonds on your behalf when the markets are more reasonably valued.

	1st Quarter
MCM Equities *	6.5%
MCM Total Account *	**2.0%**
S&P 500	5.9%

** approximate, net of fees*

(The MCM Equities Composite shows the performance of equity investments and equity-based options included in the accounts we manage at Fidelity. The equity percentage that each account holds at any given time may vary from 0% to 100% of the portfolio depending on each individual investment policy. Consequently, the returns shown do not necessarily reflect the returns any individual client actually obtained and are certainly not an indication of how your account will perform in the future. The MCM Total Account Composite shows the performance of all assets held in fully-discretionary fee-paying accounts that we manage at Fidelity, who have given us authority to invest 100% of the account in equities, and are managed per our model portfolio. Due to timing related to the QCM and MCM's desire to provide timely information to clients, a complete detailed calculation of returns is not done on a quarterly basis and both composites are therefore approximate. Both composites are net of all management fees and include the reinvestment of all income but do not reflect the effect of taxes.

The S&P 500 Total Return Index is an unmanaged market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent 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 and cash flow differentials, derivatives constraints, tax issues, etc. an individual's account performance may differ materially from the composite. Past performance is no guarantee of future results.)

As MCM's new research director, I have spent time during the first quarter reviewing clients' core holdings. I have shared my thoughts on them with both the research team and with Frank, and we are all in general agreement on how we view them. A thumbnail sketch of each follows—so that you can better understand how we're thinking about the core holdings in your portfolio.

Stryker is a good example of the kind of company we own for you, as well as the kind of company we're looking for. Its business—surgical implants and equipment of various kinds—is profitable, growing, and well protected by patents and economies of scale and distribution. Its management we know well, based as it is right up the road in Kalamazoo. Just as important, Stryker's interests are aligned with ours, as insiders own more than 30% of the company's shares. Finally, the price we paid for Stryker was excellent. Though it has appreciated considerably, we don't consider it outside the range of fair value. While we'll continue to study developments here—longtime CEO and Chairman John Brown has just left active involvement altogether—this is a good example of a core MCM holding.

Walgreen is another. Along with CVS, it maintains a duopoly in the critical business of supplying Americans with prescription drugs. As a self-described "convenience store on steroids," its stores are strategically located on prime locations throughout the United States. Imagine how hard it would be to replicate—and compete against—a company with Walgreen's scale. Its management has historically been strait-laced and conservative, preferring to grow organically rather than (over)pay for existing pharmacy chains. Like all good management teams, they stick to their knitting, having recently chosen—wisely in our view—to exit the murky, noncore business of pharmacy-benefit management. Like Stryker, Walgreen's price is above our cost but remains reasonable.

Brown & Brown, on the other hand, is a name we have recently begun to reassess. We like the underlying business of insurance brokerage very much: As an intermediary, Brown & Brown puts up no capital; it merely collects a commission on an essential product that must be bought and sold every year. However, several developments—some recent and some brewing for a while—give us pause. Management has been busy over the last decade buying smaller insurance brokerages, but it appears there is little to show for it. Despite a doubling of equity capital employed since 2005, earnings are merely flat. Meanwhile, management also has materially changed the compensation system in a way that both lowers performance hurdles for equity-share grants and shortens the timeframe in which employees can earn them. We, of course, prefer higher hurdles and longer timeframes. While there may be mitigating factors to explain some of the above developments, suffice it to say this company is going to get more scrutiny from us in the months ahead.

Lowe's, **Gannett**, and **Garmin** are in the same camp as Brown & Brown, though for different reasons. We need to reassess our ownership of all three of these businesses—not because the business or the management has eroded, but because the price has appreciated considerably from where we bought them. In this sense, they are "good problems": We bought all three in textbook-value fashion, headed into or in the depths of the crisis when many businesses were being priced for failure. Garmin in particular is one to be proud of. It's a good example of getting granular—that is, calmly and dispassionately doing meticulous business analysis while other investors are running around in a panic. Many were rightly concerned about the commoditization of Garmin's core automobile GPS business, but they failed to calculate the value of Garmin's other, lesser known divisions. Garmin makes a lot of money selling satellite-centered systems into the aviation, marine, and outdoor-recreational markets. The first two in particular have strong barriers to entry and much less risk of commoditization. Based on our analysis, at $22/share an investor in Garmin was paying fair value for all of Garmin's non-auto businesses and getting any future auto GPS profits for nothing. MCM's average cost basis is slightly more than $17/share, providing a comfortable margin of safety; meanwhile, the stock has appreciated to $34/share.

As the Garmin example suggests, all three of the aforementioned equities are now priced for conditions considerably better than failure. This makes the price-to-value equation—the most crucial equation of them all in the investment world—considerably less favorable. If we're right that the next housing boom is years away, Lowe's will have to rely primarily on repair-and-replacement demand. Gannett, for its part, remains burdened by a considerable debt load. It owns valuable local TV stations and has a sizable stake in Careerbuilder.com, which has been doing well in the growing online help-wanted market. However, Gannett also generates considerable profits from the sadly declining business of newspaper publishing.

One might raise the same objections about **Washington Post**, another of our core holdings—except one would in this case be mistaken. Despite its name, Washington Post currently derives almost no income from its fabled newspaper group. In fact, most of its profits today come from its Kaplan for-profit education segment. This business has been controversial in its own right—but we bought Washington Post at favorable prices, using an analysis very similar to the one described above in Garmin. For-profit education companies have rightly come under scrutiny for admitting students whose only compelling characteristic is that they can secure federal student loans with little chance of ever paying them back. If this is true, the future of for-profit education companies could be severely curtailed. This may end up being the case—and though we doubt it with Washington Post—there is enough value in the company's other businesses to justify our purchase price. The newspaper business, as mentioned, unfortunately has little value. Washington Post's local television franchises, however, are cash machines. So too are its rural cable-television systems—enough, in fact, that if the education segment went out of business, we would still have paid fair value for Washington Post's remaining assets.

This is what you pay us for: Digging into companies and understanding their businesses well beyond their name and what others understand only in passing. We're also paid to evaluate the managements of the businesses we study—their integrity and their ability to profitably run their business. Certainly the management criterion is a critical driver in our final two core holdings, **Progressive** and **Berkshire Hathaway**. Both are in the insurance business, but the compelling factor for owning them is that they are run by managers who have deep financial and emotional investments in their enterprises. They run them as if they were their own. Specifically addressing a recent concern about Berkshire, we are aware of the situation involving one of Warren Buffett's top executives, David Sokol. While the matter is generating headlines at the moment, we don't think it will be material in terms of the overall health of the company.

Finally, we are paid to evaluate the critical "price vs. value" equation mentioned earlier. Everyone knows that a cashmere sweater is valuable. By the same token, everyone also knows that polyester sweaters in the bargain bin, though inexpensive, are probably not well made. The trick in our business is to find the cashmere sweater in the bargain bin—to take advantage of the stock market's inherently irrational, manic-depressive nature and buy only when the market has marked businesses down well below fair value. The second job (no less difficult) is to decide when to sell the merchandise once it has appreciated out of the bargain bin.

Both decisions, buying and selling, involve weighing the value of the business and management in question against the price the market is asking us to pay. At a certain low price, even the worst of businesses may potentially be a good bargain; similarly, at a very high price even the best business in the world should be sold.

We are currently researching literally dozens of companies in the systematic fashion described below. Most of them will turn out to be non-investable, at least immediately, as the price/value relationship will not be currently favorable. Some, however, may well make their way into your portfolio as time goes on.

–Adam Seessel

Research Group: Process and Structure

MCM's research group is built to methodically and comprehensively understand industries and individual companies. We aim to know more about companies and industries than most investors, a critical element in delivering repeatable and superior investment results to our clients. In today's fast-moving era, one in which billions of shares move with a simple mouse click or keystroke, we believe we can gain an edge through slow, patient research that over time yields a wider and deeper base of knowledge than our investment competitors.

Our research department is structured so that each of MCM's three analysts covers two industry sectors. Aaron Kindig is responsible for energy and healthcare; Clint Leman covers manufacturing and technology; and Zack Clark oversees the financial sector, as well as macroeconomic-related issues. As the months and years pass, they will build up a base of industry- and company-specific knowledge that will prove invaluable to making key investment decisions on behalf of clients. Technology permeates people's lives, but how many investors really delve into how Google makes money, for example, or how technology affects agricultural farm equipment? The banking crisis was a catastrophe, but how exposed are banks today to further shocks and setbacks? These are the kinds of questions we ask ourselves at MCM—and then seek to answer.

Because investment analysis is complicated and multi-layered, at MCM we use three primary lenses through which we filter all the data coming our way about a specific company. First, we ask ourselves: What is the quality of the *business* we are researching? Does it have strong or weak competitive advantages, large or meager growth prospects, high or mediocre returns on invested capital, and so on? Next, we focus on *management*, knowing through experience that the best business in the world can go to seed if there's poor decision making at the top. Do members of management have a significant at-risk position in the stock of the company they're running? Do they care about and focus on shareholder value? Are they responsible and ethical in their behavior both inside and outside the company they run? Finally, we ask ourselves about the *price* the market is asking us to pay. How does it compare to the quality of the business and the quality of management we're getting? Everyone knows that a Cadillac is a fine car—but it's another thing altogether to find a good one at a cheap price.

By focusing on these three variables—business, management, and price—we seek to distill complex investment decisions into relatively simple ones, grading each factor on a schoolboy scale of A to F. We buy only when all three grades are consistently high. Otherwise we wait, content to continue to study our industries and companies until the variables line up in our favor … as they will at some point.

Frank, as MCM's founder and chief investment officer, has the final say on all investment decisions. This entails both stock-specific decisions within the portfolio and the overall extent to which client assets are exposed to risk. As research director, my job is to serve as a conduit between the analysts and the CIO, overseeing the research effort, making sure the analysts stay focused and productive while funneling good ideas up to the CIO. As a former consumer products analyst, I also am responsible for the retail and consumer products sectors.

Students of investing history generally agree that value investing works, and as value investors our goal is to make it work for the clients of Martin Capital Management. To achieve that end, we must sweat the details, embracing the meticulous daily effort to fully understand our companies and sectors—thereby providing the information needed to make intelligent decisions. Knowledge, combined with patience, tends to bear fruit—in life as well as in investing.

–Adam Seessel

Municipal Bonds: Looking Beyond the Obvious

As we describe in MCM's 2010 annual report, U.S. state and local governments face serious financial challenges in the years ahead. That fact could make the usually placid world of municipal finance a very interesting place indeed.

Historically, muni bonds have been a relatively low-risk, low-reward investment. Attractive because of their federal tax-free status and historically a safe haven, these securities have usually been looked at as little more than steady, income-producing vehicles for those in high tax brackets. We think this may change—at first for the worse, and then for the better.

Specifically, we believe that in the months and years ahead there may well be several large and well-publicized problems in the world of state and local finance. Many local governments have been so careless with their coffers that somewhere in America there are going to be problems: A city will have trouble making its interest payments; a state (as California did recently) will have to issue IOUs instead of paying its bills; there may even be some outright defaults, as state and local governments cry uncle under the heavy debt burdens they've incurred over the last generation. When that happens, the normally staid world of muni bond trading will become flustered and disorganized. We have already seen a foreshadowing of this last fall, and we believe it's merely a prelude to more serious unrest to come.

In the short term, that will be bad news for muni-bond holders, as investors sell these normally safe investments. It is then, if such a scenario occurs, that Martin Capital Management intends to step in—not by buying run-of-the-mill, garden-variety muni bonds, but ones that we have already researched and know will be "money good," no matter how severe the problems in municipal finance become.

MCM has identified a certain type of municipal bond that we have a high degree of conviction will both perform well during the most severe crisis and also will repay principal at par. These bonds are insured by Berkshire Hathaway Assurance Company, or BHAC, a subsidiary of Warren Buffett's fabled Berkshire Hathaway. Buffett found it profitable to insure muni bonds for a short time during the latest fiscal crisis when nearly all the other, less well-capitalized insurers fled the market. Over a period of two years, by our count he insured at least $20 billion in face value of these bonds. The bond insurance is irrevocable and provides that the Berkshire subsidiary make all interest and principal payments *in full when due* should the issuing municipality be unable to do so. Well capitalized and backed by Berkshire's larger subsidiaries, BHAC's insurance wrapper provides us, we believe, with a large margin of safety if and when the underlying bonds go on sale.

We believe there's a good chance they will. BHAC-backed bonds do not trade today at an appreciable premium to those without the BHAC guarantee; indeed, we can buy some today at tax-equivalent yields of 8–9%. Like animals, investors move in herds—and with municipal finance perceived to be "under control" right now, investors are not discriminating between one bond and another. Fortunately for us, that will probably be the case if/when the muni market starts to panic. We believe that BHAC-backed bonds will be sold off just like any other municipal bond. Having done our research and identified our targets when everything was quiet, MCM will be there to buy them when the price is right. It may surprise you to learn that this BHAC distinction is not widely known or understood in the marketplace; and even for those who have the insight, finding these particular bonds takes a good deal of effort.

One could make an argument that these bonds are buyable today, yielding as they do very close to the long-term annual returns of the equity market, but with much less risk. It's our hope and belief, however, that the day will come when we'll be able to purchase on your behalf BHAC-backed bonds at even better prices—a low- to mid-double-digit, tax-equivalent rate. Rising interest rates may erode the mark-to-market price of these bonds, but they will pay 100% upon maturity, and meanwhile we can reinvest the double-digit yields at progressively rising rates.

Sometimes bad news is good news, but only if one has recognized the possibility of misfortune and done the preparation necessary to turn it into opportunity. That is precisely our mindset in the world of municipal finance. If we can get a good selloff in this arena, we think we have a research edge that we can profitably exploit, one that is not easily duplicated by others—especially under duress. If so, we'll turn what historically has been a low-risk, low-reward proposition into something much better: a low-risk, high-reward investment opportunity.

–Zack Clark, Adam Seessel

A Message from the MCM Marketing Department

Now *there's* a headline you don't see every day. A *marketing* message from Martin Capital Management? So when did Frank start a marketing effort at MCM?!

About 1987, actually.

Frank Martin built this firm from the ground up by spreading the message about how he believed your capital should be protected and grown over time. Most of you have had firsthand experience with Frank expressing his fiercely independent views. Let's face it: He has seldom been shy about telling the MCM story. By doing so—and by building a successful investment track record—he has attracted a cadre of wonderful clients who share his approach to wealth management. That's the very definition of marketing.

Now he'd like to spread that same message to a wider audience and grow the firm slowly and surely—but never to the disadvantage of current clients. Why grow? There are four principal reasons:

1. Because of the firm's low fee structure, we must maintain an asset base of sufficient size to recruit and retain talented investment professionals and provide essential services to clients.
2. A more prosperous business fuels the engine of your investment performance: research. Like all good long-term-oriented businesses, we intend to plow back much of any additional revenue into our research department with a view toward widening our advantage, as Adam describes in the pages above.
3. Given our solid, long-term performance record, we feel called to deliver a better product to more people. Many Americans received poor (or no) advice before and during the crisis of 2008–09. We think they deserve better—and would greatly benefit from our risk-averse style.
4. A slow and steady approach to growth ensures that we won't become too unwieldy in the process. Some of the best value investments come from being nimble enough to take advantage of them; so we won't allow the firm's growth to outpace our primary responsibility to clients.

My job as chief marketing officer is to help Frank continue telling the story of MCM and develop relationships with like-minded individuals who may wish to invest with us for the long haul. Over the years, our clients have often provided the impetus for growth by recommending us to personal or business acquaintances. A referral, as we all know in business, is the sincerest form of flattery. Please feel free to call or email me anytime if you know someone who should be interested in our services.

And speaking of getting the word out … perhaps nothing tells the story of MCM better than Frank's latest book, due to be released before the end of April. Titled *A Decade of Delusions*, the book is a compilation of his communiqués with investors during the so-called Lost Decade of 1999–2009. Wiley & Sons is the publisher, and the book includes a powerful endorsement in the Foreword by Jack Bogle, the iconic founder of the Vanguard Mutual Fund family of investments. The new release includes material from Frank's earlier work, *Speculative Contagion*, but adds the final years of 2005–09, along with his visionary warnings about the looming collapse, which you may recall he termed a "Perfect Storm" in the title of an essay as far back as 2005. We all know what happened in 2008, and MCM investors were among the very few who didn't have to toss and turn at night worrying about their portfolios. *A Decade of Delusions* explains how and why the firm positioned clients for long-term growth through both boom and bust.

It is truly a pleasure and an honor to work with Frank, Aaron, Adam, Clint, Karman, Zack, and all the dedicated staff of Martin Capital Management. I look forward to meeting and talking with each of you in the future.

–Gary Sieber

Website Information

www.mcmadvisors.com

- For additional periodic updates on both investment research and portfolio activity, visit the client section of our website at www.mcmadvisors.com.
- To log in, please enter either your email address (if on file at MCM) or your Fidelity account number into the Username box and MCM into the Password box.
- We recommend you change your password once you've accessed the client site. Passwords using combinations of upper-case and lower-case letters, as well as numbers, offer more security than simple names or numbers alone. Should you have any questions, or any suggestions as to how we can make the website more useful to you, please don't hesitate to contact us.
- If you would prefer to receive the MCM Quarterly Capital Markets Review in hardcopy format by regular mail, please call or email Kristen Smith-Myers (574-293-2077; kristen@mcmadvisors.com) and she will make the necessary arrangements.
- We'd love to hear your comments on this, or any other, communication from Martin Capital Management. Please call or email Gary Sieber (574-970-2926; gary@mcmadvisors.com).
- Please remember to contact Martin Capital Management if there are any changes to your address, in your financial or investment objectives, or if you wish to impose, add or modify any reasonable restrictions to our investment management services. A copy of our current written disclosure statement discussing our advisory services and fees remains available for your review upon request.

MARTIN
CAPITAL MANAGEMENT, LLC
Registered Investment Advisor

300 NIBCO Parkway, Suite 301 ▪ Elkhart, IN 46516 ▪ Phone 574.293.2077 ▪ Fax 574.293.2153 ▪ www.mcmadvisors.com