

Seidman Business Review

Volume 17 | Issue 1

Article 7

1-1-2011

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Recommended Citation

Dimkoff, Gregg (2011) "West Michigan Stock Returns," *Seidman Business Review*: Vol. 17: Iss. 1, Article 7.
Available at: <http://scholarworks.gvsu.edu/sbr/vol17/iss1/7>

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West Michigan Stock Returns

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West Michigan Stocks Roar in 2010

Individuals who invest mostly in publicly traded West Michigan-based companies should be elated over their gains during 2010. The index of 15 local stocks rose nearly 41% during the year. That's 3.7 times the return the Dow Jones Industrial Average produced, 3.2 times the S&P 500's return, and 2.4 times the return generated by the NASDAQ Index. Compared with any of these performance yardsticks, local stocks had a great year.

All the more impressive, last year's return followed a 32.5% return in 2009. In other words, \$1 invested in the Index two years ago would have grown to \$1.87 by the end of 2010. Table 1, Stock Market Returns, shows how the West Michigan Index performed over the past three years relative to the most commonly used yardsticks: the Dow Jones Industrials, the S&P 500, and the NASDAQ Composite Index.

	2010	2009	2008
West Michigan Index	40.8%	32.5%	-45.2%
Dow Jones Industrial Average	11	18.8	-33.8
S&P 500 Index	12.8	23.5	-38.5
NASDAQ Composite Index	16.9	43.9	-40.5

¹The West Michigan Index consists of 15 publicly traded companies headquartered in West Michigan. Each company's return is weighted by the number of shares of common stock outstanding, the same procedure used in the S&P 500 Index and the NASDAQ Composite Index. In contrast, the DJIA's Index uses a simple unweighted average return. The indexes ignore dividends.

The West Michigan Index experienced three significant changes in 2010. OAK Financial—the corporate holding company for Byron Bank—disappeared from the Index after Midland-based Chemical Financial Inc. acquired it mid-year. In addition, Stryker Corporation was added to the index. Finally, Independent Bank enacted a 1:10 reverse stock split at the end of August to raise its stock price tenfold in an effort to keep its stock from being delisted by the NASDAQ Exchange. As a consequence, the Bank's shares fell from about 75 million to 7.5 million. All three changes are reflected in Index returns shown for the three years shown above.

Of the 15 stocks comprising the Index, only two—Community Shores Bank and Independent Bank—ended 2010 with a price lower than at the beginning of the year. Both are banks hard hit by Michigan's depressed economy but without the financial size or geographical diversification to bounce back in 2010. At the other extreme, prices of both Mercantile Bank and X-Rite more than doubled during the year, and over the past two years, both X-Rite and Gentex more than tripled.

The performance of each of the West Michigan-based companies is described below.

West Michigan Banks

When investors buy stocks, they buy the future stream of earnings and dividends the stocks will generate. In other words, they buy based on the future, not the past or present. As badly as local bank stocks performed in 2009, prices of three of them generated great returns in 2010 because investors believe the banks have turned the corner. Investor demand for the stocks drove up the prices. Investors in both Mercantile and Macatawa banks reaped the benefit as prices soared. Choice One was one of the few banks in the US avoiding losses in 2009, and as a result, its price didn't fall as much as its peers. Because the bank's profit was about 40% higher through the first nine months of 2010 compared with 2009, investors bid up its price 33%.

Although there is reason to believe both Community Shores Bank and Independent Bank also are turning the corner, some investors aren't convinced either bank will survive long enough to return to profitability. Only time will tell.

X-Rite

X-Rite completed its second year of rebound in 2010. As was the case in 2009, sales grew (by 21% in 2010), it continued to pay down its long-term debt, and most recently, its credit rating was raised by Moody's. In response, several stock analysts raised their recommendations for X-Rite. These combined actions drove up the company's stock 110% in 2010 following a 46% increase in 2009.

Herman Miller and Steelcase

Both companies turned the corner in 2010 with earnings increases and projections exceeding analysts' estimates. For example, Steelcase raised its 4th quarter earnings forecast to 11-15 cents per share, exceeding stock analysts' estimates of 8 cents. Similarly, Herman Miller's earnings are soaring. In its most recently completed quarter, net earnings rose 87% while net sales grew 19.9%. Its backlog of orders grew nearly 35%.

Gentex

After its stock price rose more than 102% in 2009, Gentex followed with a 66% increase in 2010. Its stock is now at an all-time high. Investors are pleased with the company's high growth rate, and even better, the prospects for accelerating growth due to the National Highway Traffic Safety Administration's recent proposal to require rearview cameras in all new cars by 2014. The potential exists for Gentex to increase its vehicle camera market from one-third to one-half of all light vehicles.

Meritage Hospitality Group

Meritage Hospitality Group is the nation's only publicly traded Wendy's and O'Charley's restaurant franchisee and operator of over 70 restaurants and leisure properties. Because its stock began the year at \$1.25 per share, a small change in price will lead to a large percentage change. Its stock rose only \$0.80 in 2010, but that equated to a 64% increase. Investors are pleased with the company's high sales growth and a more than six-fold increase in net income during the six months ended July 4.

Perrigo

Perrigo stock continues to soar, reflecting strong earnings growth quarter after quarter. For example, its 3rd quarter earnings were 87 cents per share compared with analysts' estimates of 77 cents. Whenever a company beats the consensus estimate, the stock is bound to rise. The company also raised its estimate of full-year earnings.

Spartan Stores

Grocery store sales suffer during recessions. Customers buy lower margin products and cut back on their purchases of higher-priced products. The result is that sales and profits fall. Spartan Stores was not immune from the cyclic downturn beginning in 2007. Now that the recession has ended, Spartan's profitability is rising. After a first quarter profit of \$3.2 million, its profit rose to \$6.0 million in the second quarter, and \$11.2 million in the third quarter. Investors noticed this trend, and bid up the company's stock.

Wolverine World Wide

Wolverine World Wide achieved record sales and earnings in each of the last three quarters. The company's chairman and CEO, Blake W. Krueger, reported that, "The momentum in our business continues to build." Because the company has a history of delivering what it says, investors bid up the price 17%. If the US dollar continues to weaken, Wolverine's global sales will increase, helping its bottom line, and increasing the odds of further increases in its stock price.

Stryker

Stryker's stock was added to the West Michigan Index in 2010. Many companies in the health care industry have been in the doldrums since the recession began. That's the case with Stryker, especially because consumers can, and have, postponed elective orthopedic procedures such as hip and knee replacements. Now that the economy is strengthening, the market for this segment will grow, helping Stryker's bottom line. Even without great growth, Stryker stock managed to generate a nearly 7% return in 2010.

Universal Forest Products

Grand Rapids-based Universal Forest Products Inc. is a major company in the lumber and wood production industry. That's a problem when the housing and building industry is in a depression. As a result, Universal has been limping along since the bottom of the industry fell out beginning in 2006.

The company projects no earnings growth for the year 2010, but is optimistic for 2011. Its stock did eke out a nearly 6% price increase during 2010, however.

In summary, 2010 was a great year for West Michigan stocks. Prices of thirteen out of fifteen publicly traded stocks rose, and the entire index rose 40.8%. It may be many years before we see another year with such across-the-board high returns. Performance of the West Michigan Index demonstrates an important point for investors: The best time to buy stocks is when they are on sale, not when they are high-priced.

Just about all stocks were on sale in 2009. No special knowledge was needed to make money in the stock market. The only requirement was to buy. Yet fear is greatest when stocks are on sale. Many investors sold their stocks, putting their money in bonds paying interest rates at the lowest rates in decades, just the opposite action needed to earn the high stock market returns that followed.

At the very least, you shouldn't try to time the market by selling in a panic when stocks tank. Stay the course, or, if you can handle the uncertainty, jump in, buying when stocks are on sale. ■

Table 2: LOCAL COMPANY RETURNS
1/2/10 through 12/31/10

	2010 PRICES		
	Closing	Opening	Price Change
Mercantile Bank	\$ 8.20	\$ 3.08	+166.2
X-Rite Inc	4.57	2.18	+109.6
Macatawa Bank	4.12	2.09	+ 97.1
Steelcase	10.57	6.36	+ 66.2
Gentex Corporation	29.56	17.85	+ 65.6
Meritage Hospitality Group	2.05	1.25	+ 64.0
Perrigo	63.33	39.83	+ 59.0
Herman Miller, Inc.	25.30	15.99	+ 58.2
ChoiceOne Financial Services	12.00	9.00	+ 33.3
Spartan Stores Inc.	16.95	14.29	+ 18.6
Wolverine World Wide	31.88	27.22	+ 17.1
Stryker	53.70	50.37	+ 6.6
Universal Forest Products	38.90	36.81	+ 5.7
Community Shores Bank	0.40	0.80	- 50.0
Independent Bank	1.30	7.20 [†]	- 81.9

[†]Price has been increased tenfold to reflect a 1:10 reverse split 8/31/10.