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Local Stock Returns—Disappointment Continues

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For the second straight year, the performance of publicly listed West Michigan corporations was dismal. On average, they lost 2% of their value in 1999, following an average price decline of 20% in 1998. As shown below, 1999's poor performance contrasts sharply with the gains on the major market indexes.

Stock Index Returns 1/1/99 Through 12/31/99

NASDAQ Composite Index	+86%
S&P 500 Index	+20%
Dow Jones Industrial Average	+25%
West Michigan Index	- 2%

Banks led the decline. The prices of all seven publicly traded West Michigan banks fell, and on average, they fell nearly 19%. The reason for the drop may seem obvious—higher interest rates in the economy as the Federal Reserve Board tried to slow our red-hot growth rate. The perception exists that, when interest rates rise, bank earnings fall. Indeed, some banks are hurt by higher interest rates, but others are not. Rising interest rates are not the whole story, however. The NASDAQ bank index, consisting of banks all across the US, fell only 8% in 1999. Clearly something else must be going on to explain why West Michigan bank stock prices fell almost two and one-half times more.

We cannot point our fingers at earnings and dividend growth rates as the cause. For most local banks, 1999 continued to be a great year and was characterized by record earnings and dividends. Rather, local investors have bailed out of local banks, and there haven't been enough new investors to stem the tide. I suspect that the allure of high-tech investing drew money out of bank stocks. Savvy investors knew that bank stocks were likely to fall, so they sold their shares and reinvested in high-tech stocks where returns have been astronomical.

The table below shows the performance of each West Michigan stock. There are several winners, but that's misleading. Alternative Marketing and Meritage Hospitality led the way, more than doubling during 1999, but neither company's stock rose more than \$1.50 per share. Both are small companies with relatively few shareholders. Even though they gained over 100%, their impact on West Michigan investors was small.

Four companies did well because of one-time events. Both Autocam and Foremost are being acquired and soon will no longer exist as separate companies. Their prices rose on the news, generating good returns in 1999. In addition, Amway is in the final stages of repurchasing all of the shares of its two publicly traded subsidiaries: Amway Japan and Amway Asia Pacific. The

prices of both subsidiaries have languished for many years, disappointing investors and Amway executives alike. The buybacks at a premium to market prices were the cause of the excellent returns.

If we take away these one-time events, we are left with Gentex and SPX as the only widely held West Michigan companies that outperformed the S&P 500 Index. At 39%, the return from Gentex was great by just about any measure. This comes on the heels of a 64% return in 1998. With a 21% increase, SPX just barely out-performed the S&P 500 Index last year.

Local Company Returns 1/1/99 Through 12/31/99

	1999 Prices		Price Change (%)
	Opening	Closing	
Alternative Marketing	.69	2.00	+191
Meritage Hospitality	1.25	2.88	+130
Amway Asia Pacific Ltd.	9.13	17.94	+ 97
Gentex Corporation	20.00	27.75	+ 39
Foremost Corporation	21.00	28.19	+ 35
Amway Japan Limited	5.31	6.56	+24
SPX Corporation	67.00	80.81	+21
Finish Master	7.00	7.94	+13
Autocam	16.50	18.06	+10
Donnelly Corporation	13.00	14.00	+ 8
Macatawa Bank	15.25	14.50	- 5
Perrigo	8.81	8.00	- 9
Horizon Group Properties	3.88	3.38	- 13
Mercantile Bank	14.75	12.75	- 14
Herman Miller, Inc.	26.88	23.00	- 14
Bank West Financial Corp.	9.50	8.13	- 15
Ottawa Financial Corp.	21.25	18.13	- 15
Wolverine World Wide	13.25	10.94	- 18
Riviera Tool Company	4.75	3.88	- 18
X-Rite Inc.	7.75	6.25	- 19
Knape & Vogt	17.25	13.81	- 20
Old Kent Financial	46.50	35.38	- 24
Independent Bank	20.25	14.63	- 24*
Steelcase	16.00	12.00	- 25
Universal Forest Products	20.06	14.75	- 27
Flagstar Bancorp, Inc.	26.13	17.25	- 34
Tower Automotive	24.94	15.43	- 38

*Includes a 5% stock dividend at the end of October.

The West Michigan office systems industry experienced a slowdown last year, depressing the prices of both Herman Miller and Steelcase. Further, competitive pressures and the expectation that the year 2000 will be slower than 1999 hurt the stock prices of several local companies dependent on the success of the auto industry. Although Gentex and SPX fared well, Tower and Riviera did not have a good year, and Donnelly's stock performance was only so-so.

The U.S. economy is still sizzling, and there doesn't appear to be a major slowdown coming in the year 2000. But expect at least one or two more interest rate hikes by the Federal Reserve. The biggest impact on West Michigan stocks will be continued low, or lower, prices of bank stocks.

If the Fed is successful in slowing the economy, interest rates will level off or fall a little toward the end of the year, helping banks regain some of their lost value. Banks again will be good investments. The only problem is that when it happens, it may happen so quickly that investors on the sidelines will miss the opportunity.

West Michigan companies have out-performed the S&P 500 Index for most of the 1990s, but not during the past two years. As a result, there are many good local companies that represent excellent bargains.

