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West Michigan Stock Returns

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Local Stocks Are Left Behind by the Bull

The market performance of the West Michigan Stock Index is heavily dependent on the performance of two industries: banking and auto. Economic pressures were not kind to either of these two industries in 2006. The Federal Reserve continued to raise short-term interest rates even as Michigan's economy remained in the doldrums. The higher rates eroded bank interest rate margins, reducing bank profitability. A reduction in mortgage lending fees—partly the result of the housing bubble bursting—also cut into bank profitability. The result has been intense competition among area banks, price cutting, slower growth, investor skepticism about the short-term outlook for the banking sector, and the first bad year for local bank stocks in several years.

As if that weren't enough for West Michigan investors, vehicle sales by the traditional Big Three manufacturers continued to suffer from the high price of fuel and a slowdown in the U.S. economy. Local vehicle parts suppliers watched demand for their products fall off, leading to losses and sinking stock prices. The double whammy on bank and auto industry stocks caused the West Michigan Stock Index to under-perform the bull market returns from three major national market indexes as show below in Table 1.

Spartan Stores was the best performing West Michigan stock in 2006, repeating its top performance in 2005. Its price more than doubled in 2006 after rising 57% in 2005 and 33% in 2004. That's equivalent to a 61% compound rate of return over the past three years. Why the investor enthusiasm? One big reason was increased sales—estimated to be at least \$200 million annually—from the acquisition of D&W Food Centers at the end of 2005. In addition, sales per customer rose, as did the number of new distribution customers.

Wolverine World Wide's great performance reflects its solid double-digit earnings growth rate, a rate even beating stock analysts' expectations in the third quarter. The company also benefits from a wide array of footwear with strong brand name recognition and high quality.

Both Herman Miller and Steelcase continued to benefit from a recovery in the office systems industry that began early in 2003. The stocks of both companies have doubled since the recovery began.

Universal Forest Products took its investors on quite a roller coaster ride during 2006. From May 2005 to May 2006, its stock doubled as the company's sales and earnings soared. Then the housing bubble collapsed, decreasing the demand for lumber and lumber products. By the end of the third quarter, lumber prices had decreased 21% from a year earlier, while third quarter sales and operating profits fell 4% and 7%, respectively. As a consequence, Universal's investors drove the stock price from nearly \$80 per share at its 2006 peak to less than \$50 by year's end.

Just as in 2005, Clarion, Riviera, and Gentex again ended the year at the bottom of the list. It's no secret why: The entire industry is in a deep recession brought on by high fuel prices and the resulting drop off in demand for gas guzzling, expensive SUVs which generate the lion's share of industry profits. It looks like high fuel prices will be around for a while, so don't hold your breath for a quick turnaround. Clarion's price also has suffered from the loss of its Electrolux contract and problems at its Mexican facility.

A quick look at Table 1 shows that there has been no single best stock index over the three years 2004 through 2006. In 2006, the best performing index was the Dow Jones Industrial, while in 2005, it was the West Michigan stock index. In 2004, highest returns were generated by the S&P 500 Index. And although it's not shown in the table, the NASDAQ Composite Index had the highest returns in 2003. Based on this interesting outcome, here's a fairly safe course of action for 2007: Diversify your equity investments among different size firms. You never know in advance which market segment will turn out to be best.

Table 1 **Stock Market Returns**

	2006	2005	2004
West Michigan Index	5.5%	4.5%	4.8%
Dow Jones Industrial Average	16.3	-0.1	3.1
S&P 500 Index	13.6	3.0	9.0
NASDAQ Composite Index	9.5	1.1	8.6

The 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.

Table 2**LOCAL COMPANY RETURNS**

01/01/06 through 12/31/06

	2006 PRICES		PRICE CHANGE
	Opening	Closing	(%)
Spartan Stores Inc.	10.42	20.93	+101
Herman Miller, Inc.	28.19	36.36	+ 29
Wolverine World Wide	22.46	28.52	+ 27
X-Rite Inc.	10.00	12.30	+ 23
Perrigo	14.91	17.30	+ 16
Steelcase	15.83	18.16	+ 15
Mercantile Bank	36.24 ¹	37.30	+ 3
Meritage	4.73	4.72	0
Independent Bank	25.93 ²	25.29	- 2
Macatawa Bank	23.10 ³	21.26	- 8
Community Shores Bank	15.14	13.36	- 12
Universal Forest Products	55.25	46.62	- 16
Gentex Corporation	19.50	15.36	- 21
Riviera Tool Company	0.57	0.31	- 46
Clarion Technologies	0.05	0.02	- 62

¹ Price adjusted for a 5% stock dividend on May 16.² Price adjusted for a 5% stock dividend August 31.³ Price adjusted for a 5% stock dividend August 31.