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West Michigan Stock Returns

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West Michigan Stocks Lose 3.9% in 2011

After rising 87% during the two-year period 2009–2010, the West Michigan Stock Index fell modestly in 2011. It fell 3.9%, slightly more than the 1.8% decrease in the NASDAQ Composite Index, the index most similar to the West Michigan Index.

Table 1, Stock Market Returns, shows how the West Michigan Index performed over the past three years relative to commonly used yardsticks: the Dow Jones Industrials, the S&P 500, and the NASDAQ Composite Index.

Table 1: **Stock Market Returns**[1]

	2011	2010	2009
West Michigan Index	- 3.9%	41.4%	32.5%
Dow Jones Industrial Average	5.5	10.1	18.8
S&P 500 Index	0.0	11.8	23.5
NASDAQ Composite Index	- 1.8	16.8	43.9

[1]The West Michigan Index consists of 16 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.

Perrigo was the top performer in 2011, generating a nearly 54% stock price increase. Conversely, two small banks—Community Shores Bank and Independent Bank—turned in the worst performances. Table 2, Local Company Returns, shows how each stock in the West Michigan Index performed in 2011.

The performance of each of the above companies is described below.

West Michigan Banks

All four West Michigan banks in the Index are still recovering from effects of the Great Recession. The recession reduced loan demand, dropped the prices of bank investments, and caused a huge dollar amount of loan defaults. Of the four banks, Mercantile is recovering the quickest. Its stock rose 18.9% in 2011 reflecting a nearly 40% decrease in reserves for bad loans and an increase in net income of approximately $18 million from the third quarter of 2010 to the third quarter of 2011. In another sign of its rapidly improving financial health, Mercantile paid all deferred trust preferred stock dividends during 2011. These were dividends the bank deferred to save cash during the recession. Mercantile still owes a little more than $20 million in TARP loans, and you can be sure repaying that money will receive top priority in 2012. Once it's repaid, the bank can resume its common stock dividend, a sure boost to the stock price.

Likewise, Macatawa Bank is coming back strongly. Through the third quarter of 2011, it earnings per share were $0.22 compared with a loss of $1.06 in the same quarter a year earlier. Nonperforming loans fell $40 million in the first nine months of 2011, a 46% decrease. The bank's financial strength improved greatly in the 2nd quarter when it raised $20.5 million by issuing nearly 9 million new shares of common stock. The move was necessary to raise capital to satisfy a regulatory consent order. The bank is now well-capitalized, but the 50% increase in the number of shares reduced the price per share proportionately.

Table 2: **Local Company Returns**
1/3/11 through 12/30/11

	2011 PRICES		
	Closing	Opening	Price Change
Perrigo	$97.30	$63.33	**+ 53.6**
Mercantile Bank	9.75	8.20	**+ 18.9**
Wolverine World Wide	35.64	31.88	**+ 11.8**
Spartan Stores Inc.	18.50	16.95	**+ 9.1**
ChoiceOne Financial Services	12.25	12.00	**+ 2.5**
Independent Bank	1.33	1.30	**+ 2.3**
X-Rite Inc.	4.64	4.57	**+ 1.5**
Gentex Corporation	29.59	29.56	**+ 0.1**
Stryker	49.71	53.70	**- 7.4**
Meritage Hospitality Group	1.71	2.05	**- 16.6**
Universal Forest Products	30.87	38.90	**- 20.6**
Herman Miller, Inc.	18.45	25.30	**- 27.1**
Steelcase	7.46	10.57	**- 29.4**
Macatawa Bank	2.28	4.12	**- 44.7**
Community Shores Bank	0.05	0.66	**- 92.4**

Both Community Shores Bank headquartered in Muskegon and Independent Bank headquartered in Ionia have yet to turn the corner in their recoveries. Community Bank lost money in every year beginning with 2007 including $8.8 million in 2010 and $1.9 million through the first 9 months of 2011. In its third quarter 2011 report, it said the problems it faces, "… creates uncertainty about the company's ability to continue as a going concern." That's a very bleak statement.

Independent Bank has yet to turn a profit since the recession began, but it made progress reducing it non-performing loans by 25% in 2011. Bank executives have their work cut out for them in 2012.

Gentex

Gentex's stock paused its upward march in 2011 after increasing 167% in the prior two years and over four-fold since bottoming at $7.21 March 6, 2009. During the past 19 years, sales of the automotive mirror and rear camera manufacturer have grown at a 19% annual compound growth rate, equivalent to a 27-fold increase. Still, the company always seems poised for further growth. Its third quarter sales and profits hit all-time high values in 2011, and the company projects 20–25% growth in the 4th quarter. The company broke ground in December on the first of several expansions that will add several hundred thousand square feet of manufacturing space at a cost of $160 million. An announcement is imminent from the US Department of Transportation requiring rear camera display mirrors on light vehicles beginning with 2014. The potential exists for Gentex to increase its vehicle camera market from one-third to one-half of all light vehicles, and maintain its high growth rate.

Herman Miller and Steelcase

Both companys' revenues increased 7–8% in their most recent fiscal quarters ended December 3, while Steelcase's profits increased 21% compared with the same quarter a year earlier, and Herman Miller's profits increased 32%. These are good numbers, and many companies would be elated with them. Not Steelcase and Herman Miller investors, however. That's because accompanying Herman Miller's earnings announcement was a warning about a slowdown in domestic orders during 2012. The office furniture systems industry was hurt by the deep recession, and even through economists say the recession ended more than two and one-half years ago, new office construction hasn't recovered, and many large businesses are reluctant to spend money on new office furnishings until uncertainties about the economy are resolved favorably. In the meantime, don't expect the stock prices of either company to soar in 2012.

Meritage Hospitality Group

Meritage Hospitality Group is one of the nation's leading franchise operators, operating 89 quick service and casual dining restaurants and leisure properties. With only about 800 shareholders, the company's stock is thinly traded and followed. Through the first three quarters of 2011, sales increased 15.1%, but net income fell 50%. The company attributes lower earnings mostly to higher beef costs.

Perrigo

Perrigo — the Allegan-based generic and over-the-counter drug manufacturer and maker of generic health and beauty aids — reported 1st quarter (ending October 27) earnings of $1.10 per share beating analyst's consensus estimate of $1.03. When a company outperforms the consensus by that much, its price will rise. That good news, plus company guidance of 16–20% growth for its 2nd quarter, put Perrigo's stock performance at the top of the West Michigan stock index in 2011.

Its stock jumped approximately $10 per share in late November when both the NASDAQ 100 and S&P 500 Indexes announced they were adding Perrigo to their Indexes on December 6. Even without that bump up, the company's stock price would have risen nearly 38% during the year.

Spartan Stores

In its most recent quarter ending in October, Spartan Store's string of four consecutive quarters of year-over-year profit increases ended when net income fell 8.8% despite a 2.9% increase in revenue. The company fell short of analysts' consensus estimates for the second consecutive quarter. On top of that, its gross profit margin fell because of cost increases, and analysts are lowering their projections for the entire fiscal year ending in April. That bad news trimmed Spartan's price by almost a third during the summer, and it is still recovering. None the less, its stock rose 9.1% in 2011.

Stryker Corp.

Stryker's stock traded around $60 per share through early July. Then it reported a 3.1% decrease in second quarter profits and lower profit margins, knocking its share price into the low-to-mid $40 range. In the 3rd quarter of 2011, sales grew 14.9% compared with a year earlier, but earnings fell 3% because of a one-time charge generated by acquisition costs. Even though the medical products company is well-run, diversified, and has many new products in the pipeline, intense industry competition placed downward pressure on its price and weak demand for several of its orthopedic implant devices. Stryker's stock price recovered somewhat toward the end of 2011, and most stock analysts are bullish on the company's longer-term performance.

Universal Forest Products

As was the case in 2010, Universal Forest Products has struggled to increase its stock price in an environment where relatively few new houses are constructed. Third quarter revenue fell 2.4%, but profits more than doubled. How can that happen? Cost cutting and great inventory control. Universal's outlook for the near term is for continued pressure on profits, but when the housing market rebounds, UFP will be in great shape to take advantage and earn much higher returns.

Wolverine World Wide

It seems Wolverine World Wide is every analyst's and investor's favorite. Its most recently completed quarter, the quarter ending September 30, was the fifth consecutive quarter where revenue set a record (earnings have reached record high levels for seven consecutive quarters), and even the company's gross profit margin rose. The company is well-run and well-diversified, and its outlook continues to look bright. Wolverine also has a history of delivering more than it promises.

X-Rite

X-Rite's stock price more than tripled during the two year period 2009–2010. The company was recovering from severe strains caused by slowing world-wide economic growth and a huge debt burden incurred to finance acquisitions. That recovery continued in 2011, but at a slower pace. Net sales increased 9.4% through the first three quarters of 2011, operating income increased nearly 41%, and nearly $12 million of debt was repaid. With a price/earnings ratio of nearly 50, X-Rite remains a pricey stock.

In summary, 2011 was a little disappointing for the West Michigan Stock Index, but after the two preceding years gave investors a combined 87% return, stepping back 3.9% is not that bad. Several West Michigan publicly traded companies are poised for a great 2012. If you've been following the returns generated by local firms over time, you likely understand two important points about investing. First, it's difficult to predict accurately how individual companies will perform. And second, there is safety in numbers. Any index is less volatile than its individual components. You should leave the job of picking individual stocks to risk seekers, and instead, stick to mutual funds. ■