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West Michigan Stock Returns

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West Michigan Stocks Gain 13.2% in 2012

The West Michigan Stock Index rose 13.2% in 2012. That's a great return, and most investors likely are delighted with those results given the Dow Jones Industrial Index's single digit gain of 7.3% and the negligible returns paid on bank deposits. Both the S&P 500 Index and the NASDAQ Composite Index, however, outperformed the West Michigan Index as shown below in Table 1, Stock Market Returns.

	2012	2011	2010
West Michigan Index	13.2%	- 3.7%	41.9%
Dow Jones Industrial Average	7.3	5.5	11.0
S&P 500 Index	13.4	0.0	12.8
NASDAQ Composite Index	15.9	- 1.8	16.9

¹The West Michigan Index consists of 14 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 Index uses a simple unweighted average return.

The news is even better for investors in publicly-traded corporations headquartered in West Michigan when 3-year cumulative returns are considered. The West Michigan Index far outperformed the three other indexes during the years 2010 through 2012 as shown below:

Index	3-Year Cumulative Returns
West Michigan Index	54.7%
Dow Jones Industrial Average	25.7
S&P 500 Index	27.9
NASDAQ Composite Index	33.0

Prices of the area's two smallest banks—Community Shores Bank Corp and Independent Bank—more than doubled in 2012, making both the best performing stocks in the Index. The price of Community Shores Bank rose from 5 cents to 21 cents, generating a 320% return, while Independent Bank's stock rose from \$1.33 to \$3.50, equivalent to a 163% return. As great as that sounds, only the boldest investors earned these returns. You may recall

the severe uncertainty surrounding both banks during the past four years. Many investors were concerned about Community Shores Bank's ability to remain a going concern, and in fact, the bank's latest quarterly earnings report still warns that the outcome remains in doubt even though the bank eked out a small profit in each of the past two quarters.

Independent Bank's outlook is much better. Through the first three quarters of 2012, the bank generated \$11 million of net income compared with a loss of \$14.6 million during the same period in 2011. The bank also reached an agreement December 10 to sell 21 of its NE Michigan and Battle Creek branches to Chemical Bank, a deal that will generate cash needed to help repay the Federal Government's TARP money.

Table 2, West MI Company 2012 Returns, shows how each stock in the West Michigan Index performed in 2012. In contrast to most years, the stocks of only two companies—Spartan Stores and Gentex—declined during the year.

	2012 PRICES		
	Closing	Opening	Percent Change
Community Shores Bank	0.21	0.05	+320.0
Independent Bank	3.50	1.33	+163.2
Steelcase	12.74	7.46	+ 70.8
Mercantile Bank	16.50	9.75	+ 69.2
Meritage Hospitality Group	2.55	1.71	+ 49.1
Macatawa Bank	2.89	2.28	+ 26.8
Universal Forest Products	38.04	30.87	+ 23.2
ChoiceOne Financial Services	14.44	12.25	+ 17.9
Herman Miller, Inc.	21.46	18.45	+ 16.3
Wolverine World Wide	40.98	35.64	+ 15.0
Stryker	54.82	49.71	+ 10.3
Perrigo	104.03	97.30	+ 6.9
Spartan Stores Inc.	15.36	18.50	- 17.0
Gentex Corporation	18.85	29.59	- 36.3

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

Other West Michigan Banks

While none of the five West Michigan banks in the Index has completely recovered from the real estate bubble and the resulting deep recession, provisions for loan losses are falling significantly, residential mortgage financing is strong, and profitability is improving.

As was the case in 2011, Mercantile is recovering the quickest. Its stock price rose 69% in 2012. Nonperforming loans have decreased 69% since peaking in early 2010. There are virtually no delinquent loans in the 30–89 day category, and best of all, the bank repaid all of its TARP funds during the year, and then reinstated a common stock dividend of 9 cents per quarter.

Macatawa Bank also had a great year. Net income through the first three quarters of 2012 was \$14.3 million versus \$1.7 million in the 2011 comparable period.

Like other area banks, the outlook for Choice One Financial Services, a Sparta-based bank holding company, has improved significantly. The bank's financial health wasn't hurt as badly by the recession as were other area banks, however. It didn't miss a regular common stock dividend as a result of the recession, something no other West Michigan bank can say.

If profitability of area banks has increased so drastically, why aren't bank stocks selling for much higher prices? It's because a good portion of the return to profitability is attributable to the release of reserves held for non-performing loans. As a bank's portfolio of bad loans is reduced—either because some of the bad loans are repaid, or they are foreclosed and the resulting property pledged as collateral is sold—the reserves held in case of a complete loss are transferred to earnings, goosing reported profits. But those profits are a one-time event, and don't reflect a bank's ability to compete with other banks for business. Even with the higher reported earnings, therefore, there is still uncertainty over longer-term financial health. It will take at least another year or two before investors can be sure of the true profitability of area banks.



Gentex

Gentex finds itself in the unusual position of having had the worst stock price performance of any stock in the Index during 2012. Two major factors are affecting Gentex's stock price: Concerns about slowing sales of luxury light vehicles in Europe, and further delay in the anticipated announcement from the U.S. Department of Transportation requiring rear camera displays on all light vehicles. That announcement seemed imminent at this time last year, but now there is doubt about if and when the rule will come. As a result, Gentex is predicting flat sales growth, and investors have lost some of their optimism about the company's future.

Herman Miller and Steelcase

In the quarter ended December 1, Herman Miller announced it had failed to meet its earnings expectations but also reported increased order activity in each of its product segments. Similarly, Steelcase reported three weeks later that it was optimistic about growth in the Americas, and that announcement pushed up its stock price 12% the next day. Sales and profits of both office systems manufacturers follow the economy closely, and indications from both companies are that 2013 will be a better year than 2012.

Meritage Hospitality Group

Meritage Hospitality Group operates 92 restaurants in the Americas. At the end of the third quarter, Meritage reported its 9-month sales had increased 8.8%, and its net income was up 117%. Its stock price increased steadily beginning in May, ending the year with a nearly 50% gain.

Perrigo

Perrigo's net income was in line with investor expectations in the latest quarter ending November 7, but sales were \$50 million less than expected. The bad news about sales knocked about \$10 per share off the company's stock price and caused Perrigo's stock return to increase only 6.9% in 2012.

Spartan Stores

Spartan operates 97 corporate-owned grocery stores and distributes 45,000 items to 475 independent grocery stores. It experienced a slight decrease in same-store sales, and that was enough to make the company's stock fall 17% in 2012.

Stryker Corp.

Stryker's common stock price meandered between \$51 and \$56 per share throughout most of 2012. Net sales grew 3.7% through the first 9 months of 2012, while net income increased 11.2%. Stryker's stock price likely is lower than otherwise because of uncertainties about how fully-implemented ObamaCare regulations and taxes will affect medical device producers.

Universal Forest Products

Universal's stock price rose steadily during the year, reflecting the strengthening housing market. As the housing market strengthens further, the company's sales and profits

will continue to increase, and that should be reflected in a higher stock price in 2013.

Wolverine Worldwide

The company's long string of consecutive quarters of increasing sales and record earnings ended in 2012 as weak economies in Europe and slow sales in Canada hurt shoe sales and company profits. Still, a 15% stock price increase is a good return, no doubt spurred on by Wolverine's purchase of PLG on October 9. PLG makes Keds, Stride Rite, Sperry Top-Sider, and Saucony brand shoes. This is a major acquisition, and should strengthen Wolverine's market strength, sales, and income.

Here are a few facts about stocks in the West Michigan Index:

- The company whose stock is most responsive to stock market changes is Macatawa Bank. For every 1% change in the stock market, Macatawa's stock changes 2.2%.
- The most defensive stock is Community Shores Bank. For every 1% drop in the stock market, its stock rises 1.9%.
- Stryker has the greatest number of outstanding shares: 380 million.
- Community Shores Bank has the fewest number of outstanding shares: 1.5 million.
- Dividends added another 1.4% to the Index's 13.2% return in 2012, giving a total return of 14.6%.
- X-Rite dropped out of the West Michigan Index after being acquired by out-of-state Danaher on April 12. ■