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West Michigan Stock Returns

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West Michigan Stocks Retreat in 2015

The West Michigan Stock Index increased 240 percent during the six years 2009 through 2014. In other words, $1,000 invested at the beginning of 2009 would have grown to $3,400 by the end of 2014. That's a 22.6% annual return. Seasoned investors know there will be ups and downs from year to year, and the down finally happened in 2015: West Michigan stocks retreated 6.5%. Joining the local index with losses for the year are the Dow Jones Industrial Average's 2.2% decline and the S&P 500 Index's 0.7% loss. The NASDAQ Composite Index, comprised mostly of smaller corporations, finished the year with a 5.7% gain, however. Table 1, Stock Market Returns, shows how the West Michigan Index has performed compared with the major indexes over the past three years.

Table 1: Stock Market Returns[1]

	2015	2014	2013	3-Year Cumulative
West Michigan Index	- 6.5%	17.4%	42.2%	56.1%
NASDAQ Composite Index	5.7	13.4	37.4	64.7
S&P 500 Index	- 0.7	11.4	29.1	42.8
Dow Jones Industrial Average	- 2.2	7.5	25.8	32.3

[1]The West Michigan Index consists of 14 publicly traded companies headquartered in West Michigan. Each company's return is weighted by its market value—the number of shares of common stock outstanding multiplied by the company's stock price. The index matches the weighting methodology used by both the S&P 500 Index and the NASDAQ Composite Index. The Dow Jones Industrial Average is price weighted.

As shown in Table 2, one-half of the companies in the West Michigan Index ended 2015 with stock price increases, and the other half had losses.

The 2015 performance of each of the companies in the Index is described below.

Meritage Hospitality Group Inc.

Meritage Hospitality Group's stock outperformed all other West Michigan companies in the Index, rising 115%. The company operates 167 quick service and casual restaurants in seven states and has approximately 5,100 employees. Meritage continued a multi-year trend of growing its portfolio of new restaurants by adding 20 locations in 2015. The number of restaurants it owns has doubled since the beginning of 2012, and not surprisingly, its stock increased 449% during that period. Its 2015 financial performance would be the envy of most companies: Sales more than doubled, and its net profit margin increased substantially.

Community Shores Bank Corporation

Community Shores Bank Corp. rebounded 45% in 2015 following a disappointing 2014 when its stock price fell by more than one-half. The bank continues to make slow progress toward recovering from the Great Recession. It renegotiated a data processing contract projected to save the bank $1.8 million over the next six years, and completed a rights offering late in 2015, raising money to repay long-term debt, to increase bank capital, and for other general corporate purposes. Yet, it remains out of compliance with a 2010 Consent Order from the FDIC and the State of Michigan's Department of Insurance and Financial Services requiring minimum capital ratios. Additionally, a Written Agreement with the Federal Reserve Bank places several restrictions on the Community Shore's financial operations and other bank matters.

Table 2: West Michigan Company Returns

	2015 Prices		2015
	Closing	Opening	Price Change
Meritage Hospitality Group Inc.	$11.25	$ 5.23	115.1%
Community Shores Bank Corporation	2.18	1.50	45.3
Universal Forest Products, Inc.	68.37	53.20	28.5
Mercantile Bank of Corporation	24.54	21.02	16.8
Independent Bank Corporation	15.23	13.05	16.7
Macatawa Bank Corporation	6.05	5.44	11.2
ChoiceOne Financial Services, Inc.	23.80	21.90[1]	8.7
Stryker Corporation	92.94	94.33	- 1.5
Herman Miller, Inc.	28.70	29.43	- 2.5
Gentex Corporation	16.01	18.07	-11.4
Perrigo Corporation PLC	144.70	167.16	-13.4
Steelcase Inc.	14.90	17.95	-17.0
SpartanNash Company	21.64	26.14	-17.2
Wolverine Worldwide, Inc.	16.71	29.47	-43.2

[1]Adjusted to reflect a 5% stock dividend on May 5.

Universal Forest Products, Inc.

Universal's stock price has been on a tear since October 2014, having risen from around $42 per share to nearly $78 in mid-November 2015, before closing the year at $68.37. When a stock rises that much, you can be sure earnings are the reason. Sure enough, the company has surpassed stock analysts' consensus earnings estimates every quarter beginning with the first quarter of 2014. Over the past five years, revenue has grown an average of 8% annually, while dividend growth averaged 18.6%. Zack's Investment Research—a widely followed and respected firm—projects a 12.3% increase in earnings for Universal in 2016 and gives the company its highest rating: a strong buy.

Universal designs, manufactures, and markets wood and wood-alternative products to retail, construction, and industrial customers.

Mercantile Bank Corporation

Grand Rapids-based Mercantile has 53 branches in central and western Michigan. Its stock price slowly declined for most of 2015 until third quarter financials were reported in early October. Stock analysts had expected earnings per share equal to $0.40, but the bank reported $0.45, a significant difference. The stock quickly shot up to $24-$25 where it closed at the end of 2015. The bank raised its dividend two times in 2015, once in January and again in July. Not only do most investors love dividends, but increases send a message that management expects higher earnings and dividends to continue in the future.

Independent Bank Corporation

Independent Bank Corporation is headquartered in Ionia and operates 70 bank branches across the Lower Peninsula. The year was marked by increasing revenue and profits. After the bank raised its common stock dividend by 33% in late October, the stock price reached a 5-year high in November and was up 16.7% in 2015.

Macatawa Bank Corporation

Holland-based Macatawa Bank Corp. had another great year. Its assets, revenue, profits, and loan quality steadily increased, while the common stock dividend was increased from two cents per share to three cents in the second quarter. Macatawa's stock price held steady around $5.25 for most of 2015. But after release of the third quarter's strong performance, the price immediately shot up to $6 per share and held there through year end.

ChoiceOne Financial Services, Inc.

Choice One is a Sparta-based bank holding company with 12 full-service offices in Kent, Ottawa, Muskegon, and Newaygo Counties. Bank investors have enjoyed annual dividend increases and rising stock prices for several years, and that was again the case in 2015. With only 3.3 million shares outstanding, the stock is not widely held, and its investors tend to be long-term investors. As a result, changes in ChoiceOne's stock price are not closely correlated with movements in the major stock indices.

Stryker Corporation

A year ago Stryker had a price/earnings ratio of 57 and a price of $94.33. Twelve months later, the ratio is nearer to 30—a decrease of nearly one-half—yet its price is about the same. How can that happen? It happens when investors lose some of their confidence about the company's future and are not willing to pay as high a price for a dollar's worth of earnings. They will pay $30 for each earnings dollar, not $57. As a result, Stryker's earnings have nearly doubled without an increase in its price. That earnings strength, the associated increase in earnings per share, a low debt level relative to the healthcare industry, and a higher return on equity relative to the industry are factors suggesting long-run success for the company. On the other hand, increasing competition, weaker global markets, and the strong U.S. dollar are offsetting some of that optimism. As 2016 progresses, it will become clear whether Stryker's strengths can offset the headwinds it faces.

Herman Miller, Inc. and Steelcase Inc.

Both companies began the year amid much optimism. Sales growth was strong, continuing the trend from 2014. Stock prices of both office furniture companies were having a great fiscal year. But as the year continued, the economies of the Eurozone, Asia, and Africa weakened considerably. Further, the U.S. dollar strengthened relative to many currencies, making U.S. products more expensive for international customers. This compound problem hurt international sales of both Steelcase and Herman Miller.

The size of the impact became obvious when both companies released financial results near the end of 2015. When Steelcase failed to meet analysts' revenue and earnings expectations and reduced it guidance for its next fiscal quarter, its stock fell nearly 23% in a single day. On the other hand, Herman Miller has experienced four consecutive quarters of profit increases, driven mostly by strong, double-digit increases in North American sales. Yet, its stock price had barely budged by the end of the year, falling by $0.73.

Gentex Corporation

Many readers can recall when Gentex's stock price briefly rose above $37 in early December, 2014, an all-time high. At the end of December, however, Gentex paid a 100% stock dividend, reducing share price to $18.07. Then, during the second quarter of 2015, the stock drifted down to around $16 and stayed there for the rest of the year. Still, at $16, the stock is only 11% below its highest price ever.

2015 sales and earnings were approximately in line with stock analysts' projections, which reflected concerns about the strong U.S. dollar (making Gentex products more expensive to foreign customers) and the possible effect on Gentex as sales to Volkswagen, an important Gentex customer, could fall due to Volkswagen's EPA-tricking software scandal.

Zeeland-based Gentex Corporation is best known for designing and manufacturing automatic dimming automotive mirrors and other electronics for the automotive industry.

Perrigo Company PLC
Perrigo, the leading manufacturer and seller of over the counter healthcare products, underperformed in 2015 compared with the prior 15 years in which its stock price increased 30-fold. The company's share price rose from $140 to $203 during the first eight months of 2015. Much of the increase was due to a hostile takeover bid by Dublin, Ireland-based Mylan NV. Perrigo shareholders rejected the offer after Perrigo executives said they would raise stock value by cutting costs and increasing share buybacks. After the Mylan bid was rejected, Perrigo's stock returned to earth, settling at nearly $145, a 13% decrease from January 1.

SpartanNash Company
Grand Rapids-based SpartanNash began the year with its stock trading at $26 per share, but when first quarter earnings-beating expectations were announced, its stock bounced up to nearly $33 where it stayed until early November. At that time, the company reported third quarter revenue had fallen 1.9%, and that led to a stock price decline for the rest of 2015.

The company owns several grocery store chains across 46 states including Family Fare Supermarkets, Family Fresh Markets, and D&W Fresh Markets in West Michigan. It also has a military segment supplying grocery products to military commissaries and 400 exchanges, and operates as a grocery distributor.

Wolverine Worldwide, Inc.
By dropping 43%, Rockford-based Wolverine Worldwide's 2015 stock performance was the bottom performer in the Index. Its stock price fall began in mid-August and continued through the end of the year. Surprisingly, the company hasn't been doing badly. Third quarter earnings were in line with analysts' expectations, and revenue was lower than expectations by only 0.3%. The company is facing a few issues, however. The strong U.S. dollar is affecting its financial performance, and the company has lowered both its earnings guidance (approximately 12%) and its revenue guidance (by 1.8% to 2.6%). As a world leader in marketing footwear, it has faced such problems before and has prevailed. Wolverine Worldwide is a solid company, suggesting it will bounce back.

Although the West Michigan Index fell 6.5% in 2015, stocks in the Index averaged a dividend yield of 1.4%, reducing the loss to 5.1%. Only one company in the index didn't pay cash dividends. That one company is Community Shores Bank. Bank regulators prohibit it from doing so until its capital ratios meet minimum requirements, and it hasn't been able to do so since the capital requirement was imposed in 2010. Mercantile Bank Corporation and Choice One Financial Services, Inc. have the highest dividend yields, the ratio of dividends per share to current market price. At 2.3%, Mercantile is highest, while Choice One is close behind at 2.1%. Perrigo and Wolverine World Wide have smallest dividend yields, 0.3% and 0.8%, respectively. Wolverine hasn't increased its dividend since March 2011—nearly 5 years—in spite of strong earnings.

Table 3: Market Capitalizations of Companies in the WM Stock Index

Company	Capitalization ($ Billion)
Stryker Corporation	$34.9
Perrigo Corporation PLC	21.2
Gentex Corporation	4.7
Steelcase Inc.	1.8
Wolverine Worldwide, Inc.	1.7
Herman Miller, Inc.	1.7
Universal Forest Products, Inc.	1.4
SpartanNash Company	0.8
Mercantile Bank Corporation	0.4
Independent Bank Corporation	0.3
Macatawa Bank Corporation	0.2
ChoiceOne Financial Services, Inc.	0.08
Meritage Hospitality Group Inc.	0.06
Community Shores Bank Corporation	0.003
	Total Value: $66.3 billion

It's interesting to note a coincidence in Table 2. All of the companies with market capitalizations greater than $1 billion saw their stock prices fall during 2015.

Because the West Michigan Stock Index weights each company's stock return by its market capitalization relative to total index capitalization ($66.3 billion), negative returns from the large firms outweighed positive returns from the small firms in 2015. ■