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West Michigan Stock Returns

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Local Stock Returns: What a Great Year!

At this time last year I mentioned that local stock returns weren't good, but compared with the national market indexes, we had no reason to complain: local stock had fallen about 6% compared with double digit decreases for the three most widely followed national market indexes. It's even better this year — the average West Michigan stock rose over 35%, far better than either the Dow Jones Industrials or the S&P 500 Index, but not quite as good as the NASDAQ's 50% rise. The table on page 9 shows the performance of each West Michigan stock.

	2003 Stock Index Returns (1/1/03 – 12/31/03)	2002 Stock Index Returns (1/1/02 – 12/31/02)
West Michigan Index	37.1% ¹	- 5.7%
Dow Jones Industrial Average	25.3%	- 16.8%
S&P 500 Index	26.4%	- 23.4%
NASDAQ Composite Index	50.0%	- 31.5%

Topping the list of winners with triple-digit gains are Spartan Stores and Riviera Tool Company. Stocks of both companies are recovering from a world class beating in 2002. Spartan Stores returned to profitability during the second half of 2003, reversing three quarters of operating losses. A better retail climate, additional revenue from three new stores, and sale of the poorly performing Food Town chain in Toledo contributed to the good news. Riviera, a designer and manufacturer of die-stamping systems, changed a \$3 million loss in 2002 into a \$0.9 million profit in 2003 by landing large new contracts and cutting costs.

As has been the case for several years, all four area banks on the list continued their great performance. Stocks of Independent Bank, Mercantile Bank, Macatawa Bank, and Community Shores Bank all rose between 49% and 62%. That's quite an accomplishment considering they weren't recovering from bad 2002 performances. In fact, 2002 was a good year for them. What's the explanation? All of them are exceptionally well-run, benefited as interest rates fell, avoided the lines of business causing trouble for large banks (like credit card operations, auto leases, and high integration expenses due to acquisitions), and continued to benefit from

Fifth-Third Bank's acquisition of Old Kent, causing many disgruntled or apprehensive customers to seek different banks.

It also looks like X-Rite finally is getting its act together, refocusing on color recognition products and services. Investors were not happy about X-Rite's earlier digression into venture capital activities. But that area has been abandoned, many new executives have joined the company, and optimism is running high that X-Rite's stock will regain the magic it enjoyed in the 1970s and 1980s.

A combination of great product lines and higher prices helped Wolverine World Wide (shoe and boot manufacturing), Universal Forest Products (lumber products), and Gentex (auto mirror systems and fire detection devices) achieve record earnings. The stock market took notice, driving up their prices by at least a third. Knape & Vogt (shelving and hardware) benefited from new product lines as well, resulting in a nearly 17% increase in sales for the summer quarter.

The office systems industry may be on the verge of turning the corner after the industry's worst downturn ever. Herman Miller's stock was up 32% due to more than three years of intense cost cutting and a return to profitability. Likewise, Steelcase has been cutting costs drastically, a process expected to continue into 2005. It's still losing money, however, and a quick turnaround is not expected. Nevertheless, investors like management's efforts to turn the company around, and they bid up Steelcase's price 31%.

As is usually the case, each year at least a few local companies disappointed investors, resulting in falling stock prices. Earnings for both Meritage Hospitality Group Inc. (the nation's only publicly traded franchisee of Wendy's restaurants) and Alternative Marketing Networks, Inc. (marketing services) are lower. Meritage earnings per share fell from 10 cents to 6 cents through August compared with the same period in 2002.

A Federal Reserve Bank of Chicago study found that more than 90% of the time, major increases in the S&P Index precede by 3-9 months major strengthening in the U.S. economy. With all stock indexes shown above up sharply since March, we have good evidence the economy has turned the corner. Will West Michigan stocks continue their blistering pace skyward? No one really knows. On the other hand, stock

¹ The West Michigan Index consists of 18 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. The DJIA's Index, however, uses a simple unweighted average return.

WEEKLY NYSE STOCK SPOTLIGHT

MOST ACTIVE

Week YTD %Chg 1-yr. %Ret Exc %Shrs Traded

LOCAL COMPANY RETURNS 01/01/03 THROUGH 12/31/03

	2003 PRICES		PRICE CHANGE
	Opening	Closing	(%)
Spartan Stores Inc.	1.51	5.00	+231
Riviera Tool Company	1.30	4.27	+229
Mercantile Bank	23.65	36.50 ¹	+ 62
X-Rite Inc.	6.99	11.32	+ 62
Independent Bank	30.26	46.79 ²	+ 55
Universal Forest Products	21.32	32.40	+ 52
Tower Automotive	4.50	6.83	+ 52
Macatawa Bank	19.85	28.39 ³	+ 50
Community Shores Bank	8.00	11.92	+ 49
Clarion Technologies	0.46	0.66	+ 44
Gentex Corporation	31.64	44.16	+ 40
Wolverine World Wide	15.11	20.38	+ 35
Herman Miller, Inc.	18.40	24.25	+ 32
Steelcase	10.96	14.36	+ 31
Perrigo	12.15	15.72	+ 29
Knape & Vogt	10.65	11.94	+ 12
Meritage Hospitality	5.00	4.70	- 6
Alternative Marketing	0.33	0.06	- 98

¹Price adjusted for a 5% stock dividend in February.

²Price adjusted for a 3:2 stock split January 2 and a 10% stock dividend in October.

³Price adjusted for a 5% stock dividend in May.

prices are closely tied to earnings over the long-run. Now that it seems certain the U.S. economy has turned the corner, economic recovery in the State of Michigan won't be far behind. The same is true for West Michigan. The potential for significant earnings increases over the next year or two is a real possibility, and that bodes well for stock prices.

Individual stock investors and potential investors can learn a lesson from stock prices in 2003: you can't time the market. Last winter the talk was about bailing out of stocks and getting into safe bond funds. If you know anyone who did this, they've been hit with a large stupidity tax. They sold stocks low, and when they get back in, will have to buy high. That's a hard way to make money. The time to buy was late last winter. Since none of us can predict market turning points, the only strategy that consistently works in the long run is investing on a schedule whether or not market values seem high or low.