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West Michigan Stock Returns

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West Michigan Stocks Tank, Matching U.S. Markets

It should surprise no one that stock returns for 2008 were horrible across most industries and regions. Stock prices mostly reflect two major factors: the ability of companies to earn money, and the degree of investor optimism. Both are in the toilet because of the double whammy of this past summer's worldwide financial crisis and the development of a worldwide deep recession.

Investors in stocks of West Michigan-based companies mostly suffered big losses in 2008. The weighted index of fourteen local companies lost 48.3% during the year, the worst performance in at least a generation. That was worse than any of the three major national stock market indexes as shown in Table 1 below. Since most of the 14 local companies are small, the NASDAQ Composite Index is the most appropriate standard of comparison. The average NASDAQ stock lost about 41%, not greatly different than the average West Michigan stock.

Table 1 Stock Market Returns¹

	2008	2007	2006
West Michigan Index	-48.3%	+ 6.7%	+ 5.5%
Dow Jones Industrial Average	-33.8	+ 6.4	+16.3
S&P 500 Index	-38.5	+ 3.5	+13.6
NASDAQ Composite Index	-40.5	+ 9.8	+ 9.5

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's Index uses a simple unweighted average return.

The price of only one local stock rose in 2008—Spartan Stores—while nine companies experienced a more than 50% fall in price. Table 2 shows the 2008 performance of individual West Michigan stocks listed from best to worst.

Spartan Stores turned in the “best” performance in 2008, but in a normal year, its stock's 1.8% return would be unimpressive. Still, investors in all other locally based stocks lost money, often lots of money. It's especially notable that Spartan's price increase follows a 9% increase in 2007 and a 101% increase in 2006. Spartan generated the highest three-year gain of stocks listed in Table 2, and is the only one to avoid a year-over-year price drop during those years.

A brief summary of the industries and companies comprising the West Michigan Index follows.

West Michigan Banks

No matter which area bank is your focus, stock performance was horrible, ranging from a 43% decrease (Oak Financial, Byron Bank's owner) to Independent Bank's 77% thumping. Bad loans are the main culprit. As the real estate market collapsed, developers weren't able to repay their loans, wiping out bank earnings and capital. Collapsing bond prices and the intensifying recession have added to the pain. Banks are in for a relatively long period of poor performance. It will end only after the Michigan economy turns around, and virtually no one is predicting anything but a weak economy for at least all of 2009.

Bank dividends were exceptionally high at the beginning of 2008. Dividend yields ranged from 7% to more than 9%. Whenever yields are that high, you can be sure something is wrong, and the high yields will be only temporary. Sure enough, banks slashed their dividends throughout the year. For example, Independent Bank cut its annual dividend from \$0.84 to \$0.04 per share, and Mercantile Bank reduced its dividend from \$0.60 to \$0.16.

Spartan Stores

Like the Energizer Bunny, Spartan's revenue and earnings just keep going. Income jumped 22% in second quarter (ending 9/30), and company executives forecast a 2009 growth rate in the low single digits. That's notable considering the state's economy will be in a tough recession. Spartan's stock price rose during 2008 because of its earnings growth, and because of the general belief among investors that the grocery industry is relatively immune from recessions. That belief isn't necessarily true, but Spartan's growth may offset declining sales margins. At any rate, investors are both pleased and optimistic.

Perrigo

Even though its stock price fell slightly, Perrigo had a great year. First quarter (ending September 27) revenue rose 25% to a record level, and the quarter's net income also set a record. The company's guidance is that 2009 earnings will grow 22–27% from 2008 levels. Thanks to a continuing stream of acquisitions and new products, the company has a reputation for dependable growth.

Wolverine World Wide

The company's stock held its value throughout most of the year. After the company reported record sales and earnings per share in the third quarter (the 25th consecutive quarter for both records), stock analysts began expressing concern about the effects of a strengthening U.S. dollar on Wolverine's international sales, and the ability of the company to maintain its sales levels in a global recession. If the dollar remains

strong against the Canadian dollar and Euro, Wolverine's earnings may take an \$8 million hit in 2009.

Universal Forest Products

As home construction, manufactured housing, consumer do-it-yourself projects, and home remodeling plans have plummeted, pricing and demand pressures on Universal Forest Products changed modest profits at the beginning of the year into losses at the end. Still, relative to the average stock, Universal's stock performance looked great—a decline of only about 9%.

Meritage Hospitality Group

Meritage Hospitality Group is the nation's only publicly traded Wendy's and O'Charley's restaurant franchisee and operator of over 50 Wendy's restaurants. Its stock is thinly traded, and its price barely budged from around \$1.50 per share during the second half of 2008. The company returned to a small profit in 2008 in contrast to losses the year earlier.

Gentex

Gentex is in the unique position of having no debt. Thus, it's nearly impossible for it to go bankrupt. In addition, 70% of its sales are outside the U.S. Yet, the company's stock fell 50% during the year over uncertainty about survival of the Big 3 auto companies, the toll the recession will take on the auto industry and its suppliers, and foreign currency exchange rate losses resulting from the strong dollar.

Herman Miller and Steelcase

Both Herman Miller and Steelcase are victims of the global recession. An increasing amount of vacant office space exists as many companies go out of business and many others cancel expansion plans. Used office systems and furniture are flooding the market. Both companies will struggle until well after the economy turns around.

X-Rite

X-Rite's stock turned in the worst performance during 2008. The company's debt burden became excessive after it acquired Amazys and Pantone, and then sales fell as the economy began to tank. To survive, X-Rite raised over \$150 million from three private equity firms and used the proceeds to reduce its debt level, but in the process, increased its number of common shares from 29 million to over 76 million. The dilution and investor skepticism drove the price to an all-time low during the year.

Investors in local, publicly traded companies will remember 2008 for four developments. Certainly, the pounding stock prices endured will be at the top of the list. Second, dividend yields sank, especially among the banks. Third, for the first time in at least several decades, not a single West Michigan based publicly traded company split its stock or declared a stock dividend. No surprise there: Splits and stock dividends both lower a company's stock price, something making little sense when prices are tanking by themselves. Finally, several non-bank companies used their cash hoards to repurchase shares at low prices. Steelcase, for example, repurchased nearly three million shares. Not only does a repurchasing company get its shares back at a bargain price, but also with fewer shares outstanding, the price per share should rise. That's not a bad outcome in a bear market. ■

Table 2 LOCAL COMPANY RETURNS

1/1/08 through 12/31/08

	2008 PRICES		PRICE CHANGE
	Closing	Opening	(%)
Spartan Stores Inc.	\$23.25	\$22.85	+1.8%
Perrigo	32.31	35.01	- 7.7
Universal Forest Products	26.91	29.46	- 8.7
Wolverine World Wide	21.04	24.52	-14.2
OAK Financial	19.18	33.65	-43.0
Gentex Corporation	8.83	17.77	-50.3
Meritage Hospitality Group	1.00	2.15	-53.5
Herman Miller, Inc.	13.03	32.39	-60.0
Macatawa Bank	3.47	8.59	-61.5
Steelcase	5.62	15.87	-64.6
Community Shores Bank	2.00	5.96	-66.4
Mercantile Bank	4.30	15.50	-73.6
Independent Bank	2.16	9.50	-77.3
X-Rite Inc.	1.49	11.62	-87.2