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West Michigan Stock Returns

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West Michigan Stocks Roar to a 52.3% gain in 2013

2013 was one of those rare years most investors can only dream about. Returns from the three major market indexes—the Dow Industrials, S&P 500, and NASDAQ Composite—were at their highest since the heydays of the Dotcom frenzy in 1999 when, for example, the NASDAQ Composite Index rose an unbelievable 86%. Returns from those three major indexes, collectively known as the Security Market Indicator Series (SMIS), however, pale compared with the West Michigan Index's 52.3% return last year as shown below in Table 1, Stock Market Returns.

Table 1: Stock Market Returns[1]

	2013	2012	2011	2010	4-Year Compound Return
West Michigan Index	52.3%	13.2%	- 3.7%	41.9%	135.6%
NASDAQ Composite Index	38.3	15.9	- 1.8	16.9	84.0
S&P 500 Index	27.6	13.4	0.0	12.8	65.8
Dow Jones Industrial Average	26.5	7.3	5.5	11.0	59.0

[1]The 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 price-weighted return.

The news is even better for investors in publicly-traded corporations headquartered in West Michigan when 4-year cumulative returns are considered. The West Michigan Index far outperformed the three other indexes during the years 2010 through 2013. As shown above, the Index generated a 135.6% return, far more than any of the SMIS indexes.

Note these interesting points about prices and returns in Table 2. For the first time in the 16 years that I've been preparing these annual stock return summaries, the price of every stock in the Index rose. Further, while it's not unusual for the top performing company's stock price to double or maybe even triple, Community Shores Bank stock's more than 14.5-fold increase in only 12 months is breath-taking. It gets better. In January 2012, Community Shores price was $0.05. In a little more than twenty-two months, it reached an intra-day high of $4.95. That's a 99-fold price increase. Finally, Wolverine Worldwide split its stock price two for one on November 1. Why is that notable? It was the first stock split among firms in the West Michigan Index since Macatawa Bank split 3:2 in mid-2006.

The 2013 performance of each of the companies in the Index is described below.

Community Shores Bank Corp.
As a group, investors usually aren't irrational, so there had to be some mighty good news behind Community Shores' 1,448% price increase in 2013. When the year began, the bank was in default of its $5.8 million dollar debt to Fifth Third Bank, and its ability to continue as a going concern was in question. Then the good news: Fifth Third agreed to accept $500,000 and write off the remaining $5.3 million. A small group of bank insiders and other investors had loaned Community Shores nearly $1.3 million, giving the bank cash to repay Fifth Third and take other actions to improve its financial health. Although the bank still faces a highly competitive environment, the outlook for its future is much improved.

Independent Bank Corporation
The Ionia-based bank exited from the TARP program during 2013, re-paying the Federal Government $81 million. It also continued to reduce its non-performing loan balance, reduced its provision for

Table 2: West Michigan Company 2013 Returns

2013 PRICES	Closing	Opening	Price Change
Community Shores Bank	$ 3.25	$ 0.21	1,447.6%
Independent Bank	12.00	3.50	242.9
Macatawa Bank	5.00	2.89	73.0
Gentex Corporation	32.98	18.85	75.0
Meritage Hospitality Group	4.45	2.55	74.5
Wolverine Worldwide	33.96	20.49[1]	65.7
Spartan Stores Inc.	24.28	15.36	58.1
Perrigo	153.46	104.03	47.5
Stryker	75.14	54.82	37.1
Universal Forest Products	52.14	38.04	37.1
Herman Miller, Inc.	29.52	21.46	37.6
Mercantile Bank	21.58	16.50	30.8
Steelcase	15.86	12.74	24.5
ChoiceOne Financial Services	17.09	14.44	18.4

[1]Adjusted for a 2:1 stock split on 11/1/2013.

loan losses as it experienced fewer defaults, and improved its capital ratio in excess of the “well-capitalized” bank standard. Essentially, it has recovered from the Great Recession. Further increases in earnings and stock price will reflect the bank’s ability to out-compete its competition.

Macatawa Bank Corp.
Similar to Independent Bank’s year, Macatawa continued to recover from the recession in 2013. It reduced its loan loss provisions and reduced its non-performing loans to the lowest level since mid-2007. Further, it paid interest on its trust preferred securities for the first time in 15 quarters, and its capital ratios now are at the highest levels in bank history. Like all area banks, Macatawa’s challenge is to grow in a competitive banking environment.

Gentex Corporation
Gentex’s stock traded at around $18-$19 per share through the first four months of the year. Then the company announced it would purchase Johnson Controls’ HomeLink® business, a vehicle-based radio frequency control system allowing drivers to remotely operate garage door openers, home lighting, entry gates, and other related devices. Gentex predicted the acquisition would raise company profit margins 1-1.5% and revenue by $125-150 million. Even better, when the company reported 3rd quarter earnings in October, sales were up 8%, gross profit margin had increased 3.1%, and net income was up 33%. In response, investors drove up the company’s stock price another 30%.

Meritage Hospitality Group
Meritage Hospitality Group operates 119 quick service and casual dining restaurants including Wendys, Twisted Rooster, and Crooked Goose. The company added 29 restaurants during the year. At the end of the third quarter, Meritage reported its 9-month sales had increased 39%, and its net income before taxes was up 135% compared with the same period a year earlier. Investors reacted to the good news by bidding up the company’s stock price nearly 75%.

Wolverine Worldwide
Wolverine designs and sells many well-known footwear brands including Hush Puppies, HyTest, Merrill, Sebago, Sperry Top-Sider, Stride Rite, and Keds. The company’s stock price has steadily increased since 1998 reflecting years of increasing sales and profits. Through the first 9 months of 2013, it has been more of the same: Sales rose 9%, earnings per share increased 61%, and that was further good news for the company’s stock price.

Spartan Stores Inc.
Spartan, the nation’s 9th largest grocery distributor, operates 102 corporate-owned grocery stores (including D&W Fresh Markets and Family Fare Supermarkets) and distributes more than 40,000 items to 380 independent grocery stores. Sales were up 4.5% and adjusted earnings from continuing operations for the most recent quarter ended September 14 increased nearly 19%. The company’s biggest news of the year was its merger with Nash Finch. The combined company will be named SpartanNash beginning May 2014.

Perrigo
Perrigo announced record sales and net income at the end of its fiscal first quarter ending September 28. Sales and earnings per share were up 21% and 20%, respectively. The company announced at the end of July plans to acquire Ireland-based biotech firm Elan and move its headquarters to Ireland, saving the company $150 million per year in income taxes and operating expenses. At the end of December, JP Morgan raised its target price for Perrigo to $180 per share.

Stryker Corp.
Stryker executives project 2013 sales will increase 4.5–5.5%, while earnings per share will increase about 4%. The company increased its common stock dividend 15% effective January 31, 2014. It also announced or completed several acquisitions during the year, but the biggest was the $1.65 billion acquisition of Mako Surgical Corp., a pioneer of robotic assisted surgery in orthopedics.

Universal Forest Products
Universal designs, manufactures, and markets wood and wood-alternative products. Most of the company’s stock price increase occurred after its October earnings announcement when executives reported earnings per share of 71 cents compared with 21 cents in the year ago quarter. The company also reduced its long-term debt 41% in 2013.

Herman Miller and Steelcase
Herman Miller’s stock out-performed Steelcase primarily because Steelcase’s sales and earnings have been mostly flat, whereas Herman Miller’s sales rose over 5% in its two most recent calendar quarters. The fortunes of both companies are highly correlated with new office construction and occupancy rates, both of which tanked during and immediately after the recession. Industry sales were projected to rise 4% in 2013, and estimates for 2014 are for a 6% increase. The stock performance of both companies will be muted until industry sales are much higher.

Mercantile Bank Corp.
All of Mercantile’s stock price increase occurred after June due to two factors. First, the bank’s earnings increased 28% at the end of the second quarter compared with a year earlier, and then 43% at the end of the first 9 months. Second, Mercantile announced a proposed merger with Firstbank in August, more than doubling Mercantile’s size.

ChoiceOne Financial Services, Inc.
The stock price of Sparta-based Choice One Financial Services increased 18% in 2013. In a normal year, that’s a wonderful return, but compared with the Index’s eye-popping return, the bank ended up at the bottom of the list in Table 2. Net income for the first 9 months of 2013 was up 19%, but the

bank's stock price did not increase as much as would be expected. ChoiceOne's stock price doesn't move in step with the overall market, likely because only around 600 shares are traded daily.

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

- The company whose stock is most responsive to stock market changes continues to be Macatawa Bank. For every 1% change in the stock market, Macatawa's stock has changed 2% over the past 5 years.
- Similarly, the most defensive stock is Community Shores Bank. On average, for every 1% drop in the stock market, its stock rises 1.9%.
- Stryker has the greatest number of outstanding shares: 378 million.
- Community Shores Bank has the fewest number of outstanding shares: 1.5 million.
- Dividends added another 1.0% to the Index's 52.3% return in 2013, giving a total return of 53.3%.

Finally, here are two predictions for 2014. First, because of the huge increase in stock prices during 2013, many stocks in the West MI Index are at all-time highs. As a result, you can expect to see additional stock splits. Second, things will surely change. There are no assurances that the Index, nor any of its components, will continue to rise in 2014. Invest in stocks only if your time horizon is long-term, and diversify, diversify, diversify. ■