2014

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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.

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

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.

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Table 2: West Michigan Company 2013 Returns

<table>
<thead>
<tr>
<th>2013 PRICES</th>
<th>Closing</th>
<th>Opening</th>
<th>Price Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Shores Bank</td>
<td>$3.25</td>
<td>$0.21</td>
<td>1,447.6%</td>
</tr>
<tr>
<td>Independent Bank</td>
<td>12.00</td>
<td>3.50</td>
<td>242.9</td>
</tr>
<tr>
<td>Macatawa Bank</td>
<td>5.00</td>
<td>2.89</td>
<td>73.0</td>
</tr>
<tr>
<td>Gentex Corporation</td>
<td>32.98</td>
<td>18.85</td>
<td>75.0</td>
</tr>
<tr>
<td>Meritage Hospitality Group</td>
<td>4.45</td>
<td>2.55</td>
<td>74.5</td>
</tr>
<tr>
<td>Wolverine Worldwide</td>
<td>33.96</td>
<td>20.49</td>
<td>65.7</td>
</tr>
<tr>
<td>Spartan Stores Inc.</td>
<td>24.28</td>
<td>15.36</td>
<td>58.1</td>
</tr>
<tr>
<td>Perrigo</td>
<td>153.46</td>
<td>104.03</td>
<td>47.5</td>
</tr>
<tr>
<td>Stryker</td>
<td>75.14</td>
<td>54.82</td>
<td>37.1</td>
</tr>
<tr>
<td>Universal Forest Products</td>
<td>52.14</td>
<td>38.03</td>
<td>37.1</td>
</tr>
<tr>
<td>Herman Miller, Inc.</td>
<td>29.52</td>
<td>21.46</td>
<td>37.6</td>
</tr>
<tr>
<td>Mercantile Bank</td>
<td>21.58</td>
<td>16.50</td>
<td>30.8</td>
</tr>
<tr>
<td>Steelcase</td>
<td>15.86</td>
<td>12.74</td>
<td>24.5</td>
</tr>
<tr>
<td>ChoiceOne Financial Services</td>
<td>17.09</td>
<td>14.44</td>
<td>18.4</td>
</tr>
</tbody>
</table>

1Adjusted for a 2:1 stock split on 11/1/2013.
Sales were up 4.5% and adjusted earnings from continuing operations of more than 40,000 items to 380 independent grocery stores. Spartan Stores Inc., the nation’s 9th largest grocery distributor, operates 102 corporate-owned grocery stores (including D&W Fresh Markets and Family Fare Supermarkets) and distributes 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 21 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.