West Michigan Stock Index Increased 10.5% in 2020

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Perhaps many of us are getting spoiled when we see that the West Michigan Stock Index increased “only” 10.5% in 2020. After all, it increased 32.7% in 2019. Compared with the 43.6% increase in the NASDAQ Composite Index this past year, and the 16.3% increase in the S&P 500 Index, 10.5% seems modest. It isn’t. After thirty years of earning 10.5%, investors would have increased their investment balance twenty-fold. That level of performance makes people wealthy.

Table 1 below highlights 2020 annual returns for several indices.

Table 1: 2020 Stock Market Returns[1]

Stock Indexes	Returns
West Michigan Index	10.5%
NASDAQ Composite Index	43.6%
S&P 500 Index	16.3%
Dow Jones Industrial Average	7.3%

Table 2 below ranks the fifteen companies comprising the West Michigan Stock Index by their 2020 stock returns.

Table 2: West Michigan Company Returns

	2019 Prices Closing	2019 Prices Opening	Price Change
Whirlpool Corporation	$180.49	$147.53	22.3%
SpartanNash Company	$17.41	$14.24	22.3%
Gentex Corporation	$33.93	$28.98	17.1%
Stryker Corporation	$245.04	$209.94	16.7%
UFP Industries, Inc.	$55.55	$47.70	16.5%
ChoiceOne Financial Services, Inc.	$30.81	$31.96	- 3.6%
Mercantile Bank Corporation	$19.20	$20.00	- 4.0%
Wolverine Worldwide, Inc.	$31.25	$33.74	- 7.4%
Kellogg Company	$62.28	$69.16	- 9.9%
Perrigo Corporation PLC	$44.72	$51.66	- 13.4%
Independent Bank Corporation	$18.47	$22.65	- 18.5%
Herman Miller, Inc.	$33.80	$41.65	- 18.8%
Macatawa Bank Corporation	$8.37	$11.13	- 24.8%
Mercantile Bank Corporation	$27.17	$36.47	- 25.5%
Steelcase Inc.	$13.55	$20.46	- 33.8%

The West Michigan Stock Index weights each stock’s return by its market capitalization. Accordingly, the higher a stock’s price and the more shares outstanding, the higher the weight, and the greater the impact that stock has on the Index. For instance, Meritage Hospitality Group Inc. has about 6.5 million shares outstanding, while Stryker has nearly 376 million or about 58 times more shares. Further, Stryker’s stock price is about 20 times greater than Meritage. These two factors give Stryker a market weight of over 600 times that of Meritage. That explains why the Index rose 10.5% even though the stock prices of only five companies increased while ten fell. In general, the companies with the most weight were the ones that performed best.

[1] The West Michigan Index consists of 15 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 the NASDAQ Composite Index. The Dow Jones Industrial Average is price weighted, while the S&P 500 Index uses a somewhat complex method dividing the sum of the market values of each component stock by a proprietary index divisor.

The 2020 performance of each of the fifteen companies comprising the Index is described below. Most of the discussion is based on year-to-date performances as reflected in quarterly earnings reports through the most recent quarter. Companies are grouped by industry or otherwise listed alphabetically.

The Banks

Not a single company was able to avoid investor reactions to the COVID-19 lockdown in mid-March and the disruptions that followed. Some were hit harder than others, but all of them saw their stock prices fall. By the end of the year, stock prices of several had fully recovered, but prices of others were still lower than their January and February levels including all four local banks. They were hit with a double whammy. The shutdown, and people's fears, immediately threw the U.S. economy into a recession. Interests rates fell significantly, and that's bad for banks. Bank earnings fall in low interest rate environments and in recessions.

Second was the fear that many, many businesses and consumers would default on their bank loans. And to some degree, that has happened. Think of movie theater owners, restaurant and bar owners, and the millions of people who lost their jobs. The Federal Government's PPP loans to businesses have helped, but that program may not be extended. The race is on to get people vaccinated and stop COVID-19. Optimism is keeping bank prices from falling even lower, and when the pandemic ends, bank prices should snap back.

Here's a final point about banks: They all are owned by bank holding companies, a structure somewhat unique to the banking industry, and it has been that way for many decades. In fact, it would be rare to find a bank that isn't owned by a holding company anywhere in the U.S. So, for example, when investors say they own stock in Mercantile Bank, that isn't quite true. They actually own stock in Mercantile Bank Corporation which owns Mercantile Bank of Michigan.

ChoiceOne Financial Services, Inc.

ChoiceOne Financial Services, Inc. is the holding company for Sparta-based ChoiceOne Bank and Lakestone Bank & Trust, the latter representing ChoiceOne's acquisition of Lapeer, Michigan-based County Bank Corporation in May 2020.

ChoiceOne has been actively looking for, and completing acquisitions over the past two years. Not only did it wrap up its acquisition of County Bank Corporation in 2020, but it also acquired Community Shores Bank in 2020. The merger was completed on July 1, and consolidated (implemented) in October. Muskegon-based Community Shores changed from a publicly-traded corporation to being privately held in January 2019. It now no longer exists as a separate entity.

In more good news for ChoiceOne, it was named the best small bank in Michigan by Newsweek in October 2020.

Independent Bank Corporation

Even though Independent Bank Corporation's stock price closed the year 18.5% lower than at the beginning of January, the bank had a very good year. Through the first nine months of 2020, its earnings per share increased to $1.76 from $1.40 the prior year, a nearly 26% increase. In addition, its return on assets and return on equity – two measures of profitability – were relatively high. With the price per share low and profitability good, the managers approved a share repurchase plan to buy back up to 5% of its shares, approximately one million shares.

Like just about any other bank, however, the specter of COVID-19 uncertainty is keeping the bank's stock price depressed.

Macatawa Bank Corporation

Macatawa Bank Corporation is the holding company for Macatawa Bank. The Holland, MI-based bank has 26 branches across three West Michigan counties: Kent, Ottawa, and Allegan. Its stock price began 2020 at around $11 per share, and then promptly lost half of its value in March with the first COVID-19 lockdown. It recovered a little, but then dropped again early in the fall, ending the year down almost 25%. Bank earnings were down 11% for the first nine months of 2020 compared with the same period a year earlier. Executives attribute the earnings drop to COVID-19-related effects including lower interest rates and the recession.

Mercantile Bank Corporation

Grand Rapids-based Mercantile Bank Corporation is the holding company for Mercantile Bank of Michigan. Its stock performance through the first nine months of 2020 was similar to that of Macatawa Bank. Its stock price was beaten down in March, recovered, but went down again after third quarter earnings were reported. Its third quarter earnings were down 14.3% from the year earlier period, while earnings for the nine-month period were down almost 16 percent. Lower interest rates on both loans and the bank's short-term investments caused a significant part of the lower earnings.

The Office Furniture Industry

Stock prices of both Herman Miller, Inc. and Steelcase Inc. also were severely affected by the COVID-19 pandemic. Investors were worried about the shift of millions of workers away from company offices to home offices. If a significant number of those workers and their employers remain happy with the new arrangements, demand for office furnishings might permanently remain lower. Even if it doesn't, there has been a drop off in demand. Fewer business owners are adding new offices or renovating existing offices. This is a very worrisome development for the office furniture industry, and it made 2020 a terrible year for their shareowners.

Herman Miller, Inc.

Herman Miller's stock began the year at $41 per share, plummeted to $15 in mid-March, recovered by mid-December, and then fell again the last two weeks of December as worries about COVID-19 intensified. It didn't help that the company reported results from its second quarter (ending November 28) showing profit margins had decreased, organic sales fell 15% compared with the year earlier period, and earnings per share decreased 34%. It is difficult to be optimistic about the near-term outlook for Herman Miller and the office furniture industry.

Steelcase Inc.

Steelcase reached its highest price in nearly 21 years on December 1, 2019 at $21.75 per share. But that price is nowhere near its initial public offering closing price of $37.25 on February 1, 1998. Steelcase's stock price has fluctuated between $4 and $20 in the years since then, giving potential investors many opportunities to buy the stock at a low price.

The stock bottomed out at $7.33 in mid-March, and mostly traded in a narrow range from $11 to $13 per share for the remainder of the year. At -33.8%, its price performance in 2020 was the worst of any stock in the Index. The same factors affecting Herman Miller affected Steelcase: lower sales and lower earnings caused by COVID-19. Sales were down 35% in the third quarter, and the company had no operating income. Even so, the company's price-earnings ratio was 17.5 at year end, a level suggesting investor over-confidence.

The Other Companies

Gentex Corporation

Zeeland, Michigan-based Gentex is a supplier of digital vision, connected car, dimmable glass, and fire protection technologies. Like other companies, its stock price took a significant hit in March, decreasing 35% to $20 per share. The pandemic reduced production of light-vehicles, negatively impacting sales of Gentex's dominant product, dimmable glass mirrors. By the third quarter ending September 30, however, orders were rolling in, and the company was struggling to keep up with demand. Net sales for the third quarter were second highest in the company's history. Earnings increased sharply, as did profit margin, and the company repaid $50 million of debt in the third quarter. By the end of 2020, the company's stock price hit an all-time high. There is even more glee: The company predicts a 15-20% increase in sales revenue for 2021. If that happens, the company's stock price should continue to rise.

Kellogg Company

Battle Creek-based Kellogg's 2020 stock price changes reflected what investors thought about the outlook for COVID-19. The stock price tanked in March, but once investors realized Kellogg's products fit nicely with COVID-19 lockdowns and stay-at-home families, its stock price recovered. But it began to fall slowly as people went back to work and school. Through the first nine months of 2020 (through October 28), sales were up 7.2%, earnings were up 4.4%, and the company reported it was operating at capacity. Even so, its stock price fell nearly 10% in 2020.

Meritage Hospitality Group Inc.

Grand Rapids-based Meritage is the nation's largest owner of Wendy's restaurants, as well as the owner of several other types of restaurants. In total, it owns 341 restaurants, including eight that opened in 2020. It also plans to open 22 new restaurants in 2021 and renovate another 30. Despite the pandemic, Meritage reported a 15.9% increase in sales in the third quarter ending September 27, and a 74% increase in net earnings. Its share price fell a modest 4% in 2020.

Perrigo Corporation PLC

The company has accomplished several notable projects over the past two years including over $1 billion of mergers and acquisitions, a 20% increase in its cash dividend, accumulated $850 million in cash as reported on its balance sheet, announced plans to build new North American headquarters in downtown Grand Rapids, and announced it would repurchase $150 million of its stock. Perrigo reported a 4% increase in both net organic sales (3% is considered good in the industry) and earnings per share through nine months, results company executives described as "very strong." Although Perrigo's stock price fell 13.4% in 2020, its price has been remarkably stable for the past two years, varying between $45 and $60.

SpartanNash Company
Grand Rapids-based Spartan Nash was the worst performing stock in the Index in 2019 due to two unique expenses, but its fortunes reversed in 2020. Its stock price rose 22.3% in 2020, less than a tenth of one percent behind Whirlpool at the top of the list. The company's third quarter was full of good news. Sales were up 10.6%, earnings per share were up 133%, and in October, SpartanNash signed an agreement with Amazon to sell SPTN products in exchange for warrants allowing Amazon to buy up to 15% of SPTN stock if certain sales goals are met. Spartan's stock price jumped 26.3% on the day of the announcement. At year end, after the initial euphoria from that announcement had faded, the stock returned to its previous level before the announcement. Still, the agreement should have long-term benefits for SpartanNash.

Stryker Corporation
Kalamazoo-based Stryker is a major medical technology company. By now you know most companies saw their stock prices drop in March due to uncertainties about the COVID-19 pandemic. Stryker was no exception, but with one difference: Its stock price dropped by almost $100 per share, from $225 to $126. As it turns out, that was only a temporary setback. By the end of the year, Stryker's price had more than recovered, ending the year at $245.04, an all-time high, and a 16.7% gain for the year. Net sales were up 4.2% in the third quarter, while earnings per share grew 32.5%. Stryker has generated nearly nine years of sharply rising share price without letup.

UFP Industries, Inc.
UFP Industries, Inc. was one of only five companies in the Index whose stock price rose during 2020. Its price dropped $17 per share in March, but then it was nothing but good news. By August 1, share price rose to $61, an all-time high for the sixty-five-year-old company. As an example of the good news for shareholders, the company described its third quarter earnings report as the, "Best Quarterly Results in Company History." Sales were up 28%, and earnings were up 49%. A spike in consumer demand for houses and remodeling caused demand for wood products to spike at a time when there was a national shortage. The company also made several acquisitions during the year to strengthen its product offerings.

UFP Industries designs, manufactures, and markets wood and wood-alternative products. It is headquartered in Grand Rapids.

Whirlpool Corporation
Benton Harbor-based Whirlpool's stock price led the way in 2020, finishing with a 22.3% gain. Third quarter results included sales growth of 3.9%, a 74% increase in earnings per share, and $1 billion of additional cash flow. In addition, through its first three quarters of the year, the company achieved $350 million of its annual goal of $500 million of expense reductions. Whirlpool also reiterated its original estimates of earnings for 2020.

Wolverine World Wide, Inc.
Rockford-based Wolverine World Wide, Inc. designs, manufactures, sources, markets, licenses, and distributes footwear, apparel, and accessories. Its stock price began the year at around $34 per share, but dove to $12.19 – a nearly 65% decrease – when COVID-19 fears dominated the outlook in early spring. By the end of its second quarter on July 31, the company reported it was significantly outperforming its expectations in every key financial metric. Even so, revenue was down 39% for the second quarter compared to the prior year. Further, EPS was $0.08 per share compared with $0.52 in the prior year.

In the third quarter ending September 26, the company's performance continued to fall short of pre-pandemic levels. Revenue was down 14% from a year earlier, while its eps of $0.27 was down from $0.57 a year earlier. Nonetheless, there were bright signs. Inventory was down 22%, and cash on hand was nearly three times higher than prior year levels. Investors remain optimistic about 2021 as evidenced by the company's exceptionally high price to earnings ratio of 79. ■