Economic Indicators

"Economic Indicators: An Update for the 7 Rivers Region" reports on a long-term study of regional economic indicators. The research is ongoing and spans a period of time to enable us to understand and report trends. This project is expected to continuously build on a base of economic information and provide decision makers with valuable tools for strategic planning. The information will also provide a basis for comparison with other regions and a measure of our progress.

State Bank Financial sponsors this research project in collaboration with the University of Wisconsin-La Crosse College of Business Administration and the *La Crosse Tribune*. These programs will continuously build on a base of information and provide decision makers like you with valuable tools for strategic planning.

Specific goals of this project are:

- Support business owners in their business decisions by gathering key local economic indicators and trend information.
- Develop specific economic indicators for this region that are not readily available to decision makers.
- Develop tools to assess our progress in economic growth. Prepare baseline measures that will allow comparison with other regions and measure future progress of the region.
- Track the region's participation in the "new economy" and development in the high tech arena.
- Bring professionals together with business owners for discussion about the local economy and related critical issues.
- Create a business recruitment and retention tool by publishing the information.

Core economic indicators cover the following areas:

- Employment
- Income
- Cost of Living
- Consumer Attitude and Behavior
- Real Estate and Housing
- Interest Rates
- Equity Performance

Economic Indicators and Trends

Taggert J. Brooks, Ph.D., UW-La Crosse Department of Economics

Core economic indicators have been tracked since 2001 to have objective measures for our 7 Rivers Region economy. The special focus of the fall meeting is the Wisconsin Way initiative. Dr. Brooks begins with some observations on the US economy and moves on to some regional comparisons, finishing with a discussion of the principles of taxation.

Please note: Dr. Brooks recently launched the 7 Rivers Region Economics blog, which will contain ideas and writings that might or might not be included in this publication provided at the Economic Indicators breakfast meeting. Dr. Brooks will use the blog to track different topics and collect ideas. The Web address is: http://sevenriversecon.blogspot.com/

The Federal Reserve

The Fed has acted aggressively to stave off the negative effects of the housing market contraction and the continued problems in the financial markets. Their target for the Fed funds rate currently stands at 2.00 percent and the futures market predict (Chart 1 and Chart 2) it is likely to stay there through the October meeting of the FOMC. Liquidity continues to be a problem in some debt markets which in some cases have turned into solvency issues. The Treasury Department is currently considering options for rescuing Fannie Mae and Freddie Mac. However, lowering the Fed funds rate to mitigate these problems would not likely work because the rates are a function of uncertainty and unwillingness to trade. No amount of stimulus from the Fed can change that. Besides, the specter of inflation remains in the Fed's sights, and they are unwilling to risk the inflationary effects of pumping more liquidity into the system.

Despite the abnormal acceleration of inflation we have seen in recent months, much of it can be attributed to food and energy prices, which appear to be subsiding with the slowing of the global economy. This gives the Fed some breathing room to put off raising their target for the Fed funds rate.

Chart 1

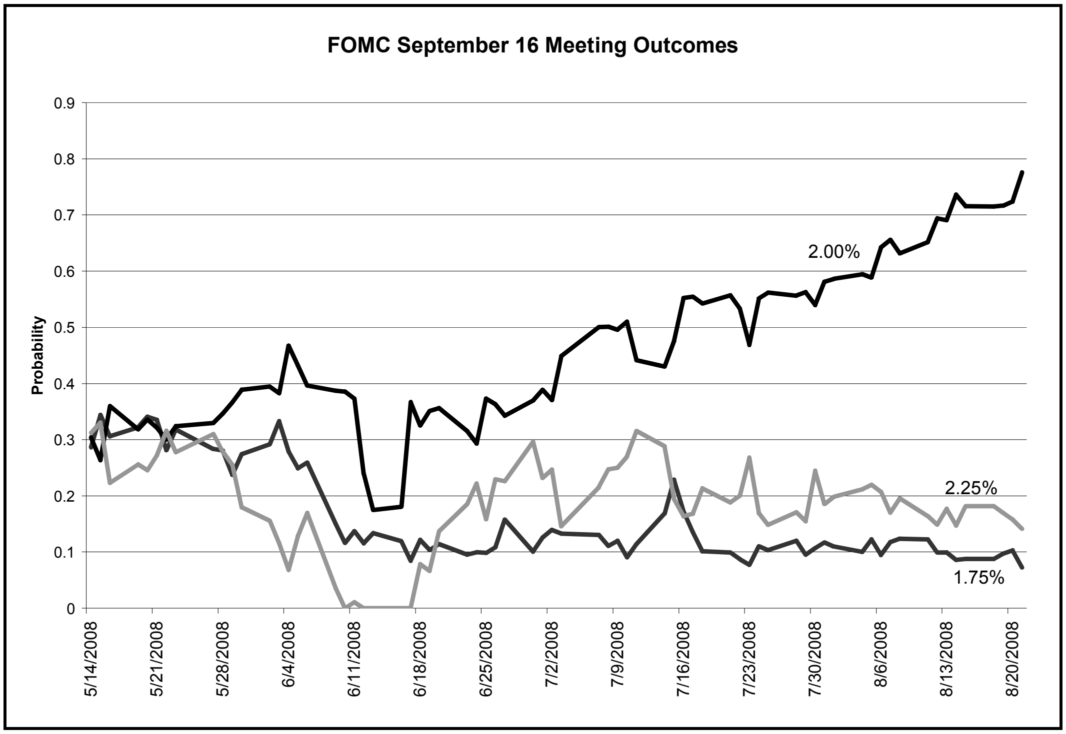
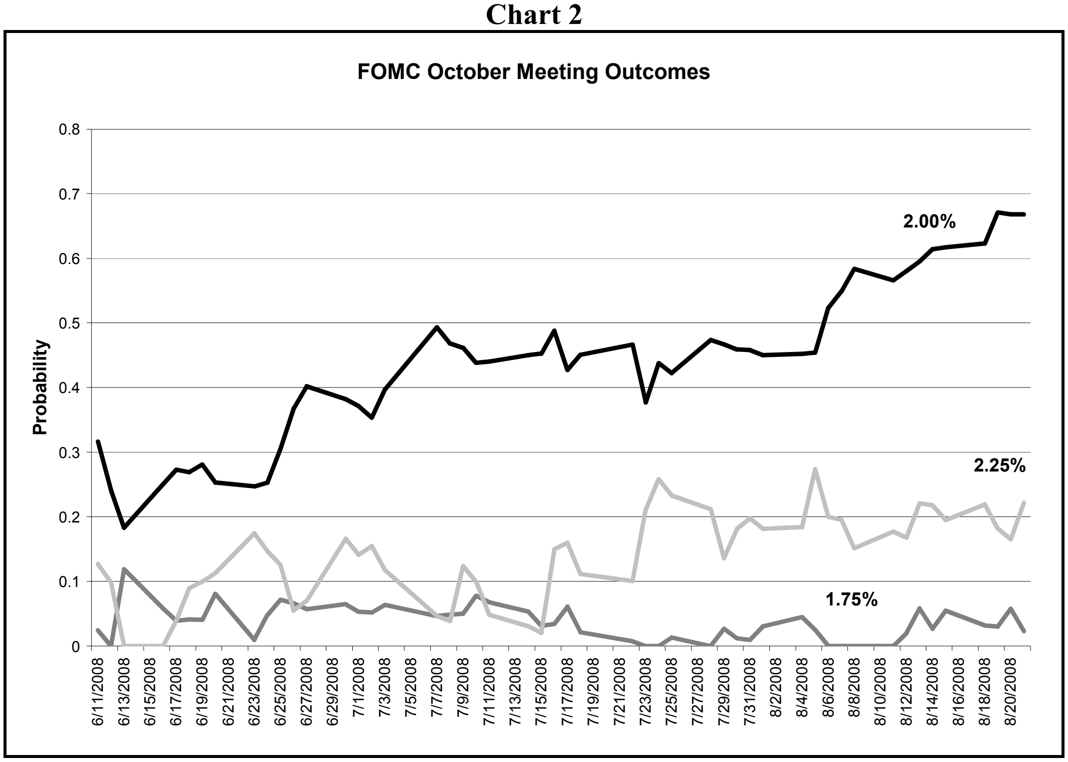


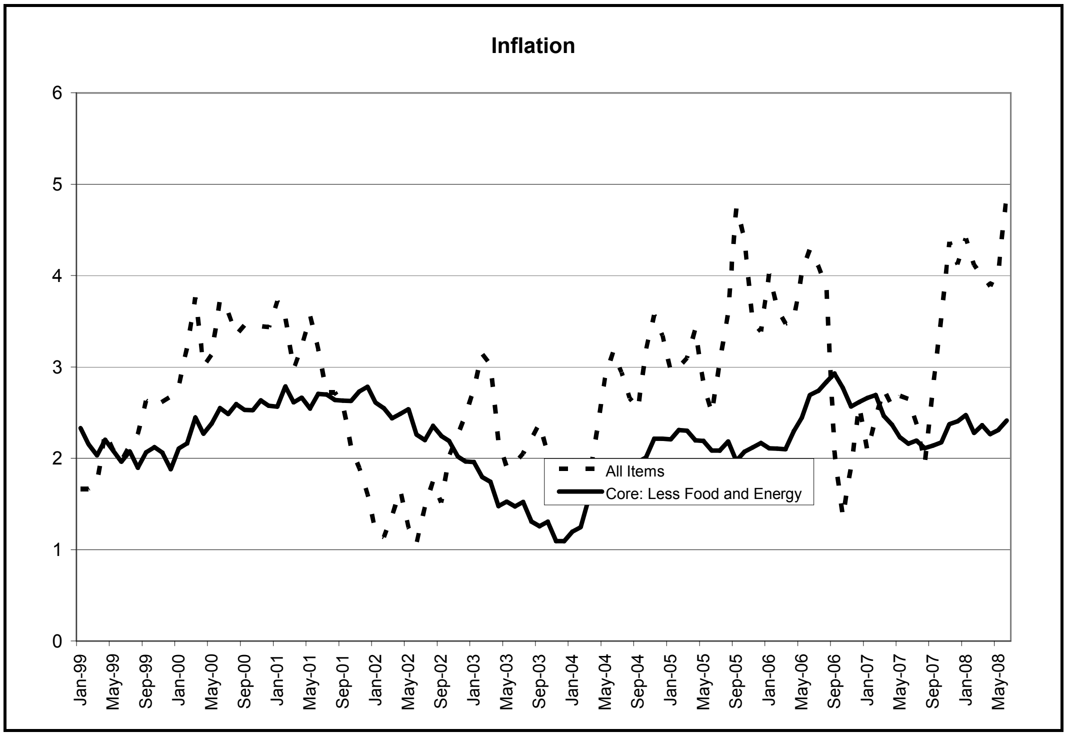
Chart 2



Inflation

As you can see from Chart 3, the overall CPI has risen dramatically in the last 12 months. Most of this can be attributed to food and energy prices, because the core CPI is still below 3 percent. Yet the fed is diligently watching the situation, lest some of the food and energy prices feed through to the broader economy.

Chart 3



Gas and Oil

Locally gas prices have retreated below $4.00 a gallon, as they have fallen throughout the country. These lower prices are coming just in time, allowing the Fed to hold off on rate increases.

Chart 4

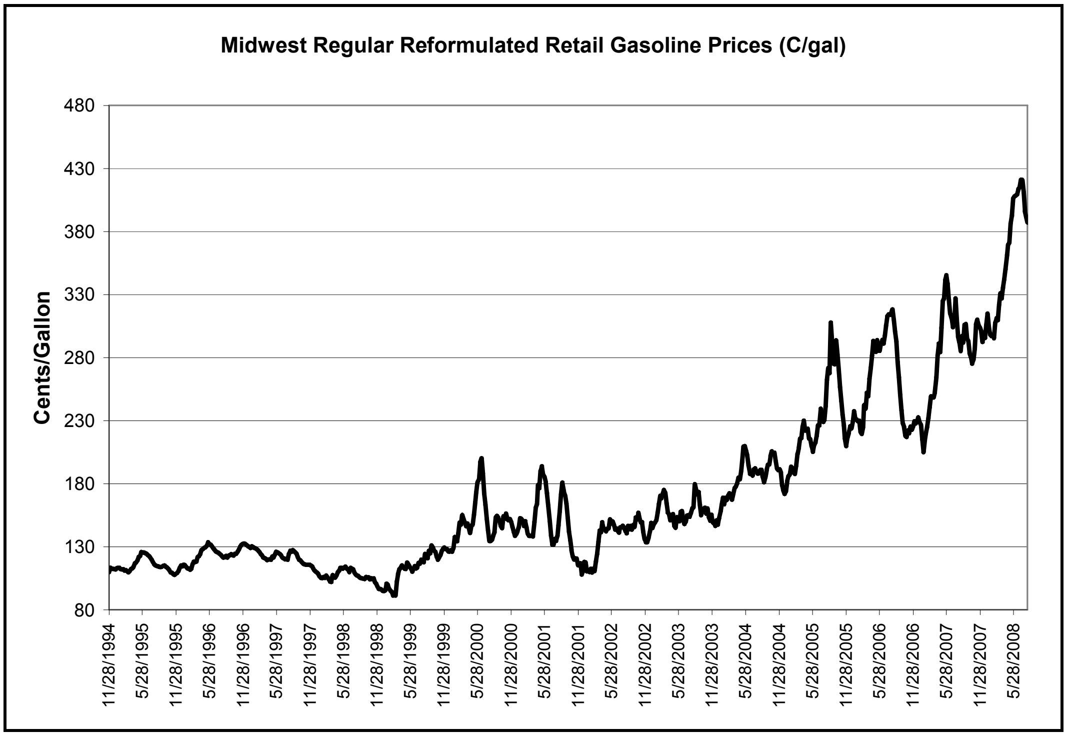
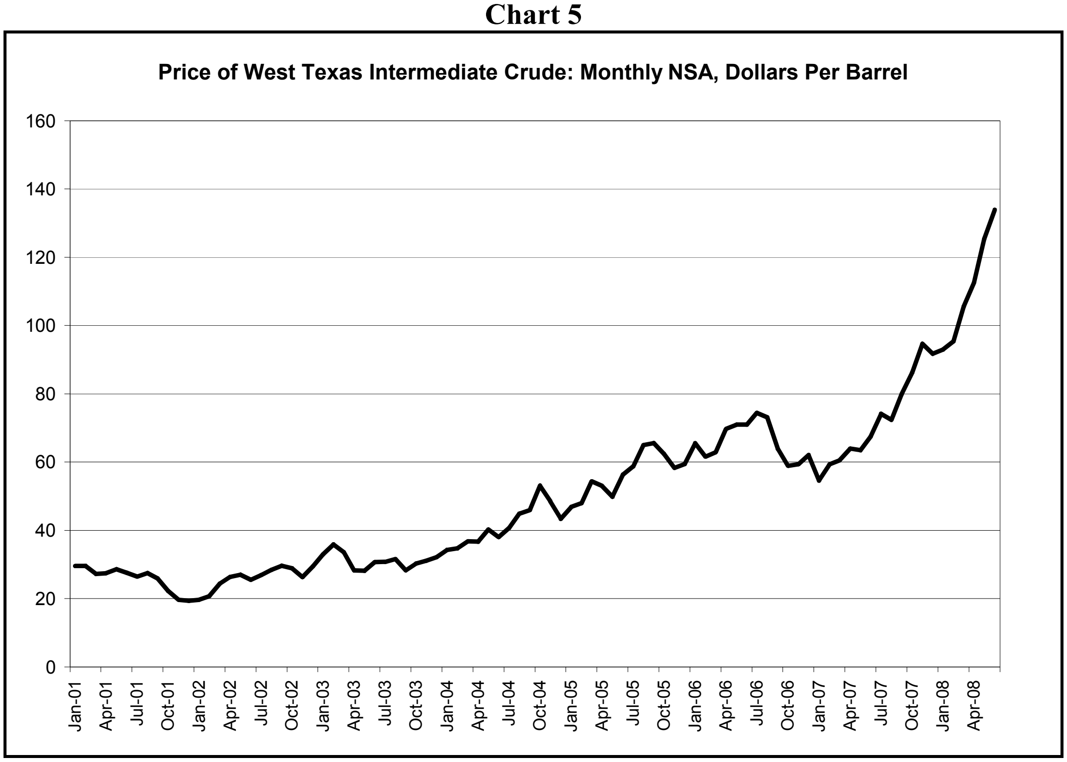


Chart 5



An Update on Local Foreclosures

Weakness in the housing market continues to be the primary concern of many economists. Before I present an update on local foreclosures, it might be useful to briefly discuss the foreclosure process and the statutory differences between Minnesota and Wisconsin in the foreclosure proceedings.

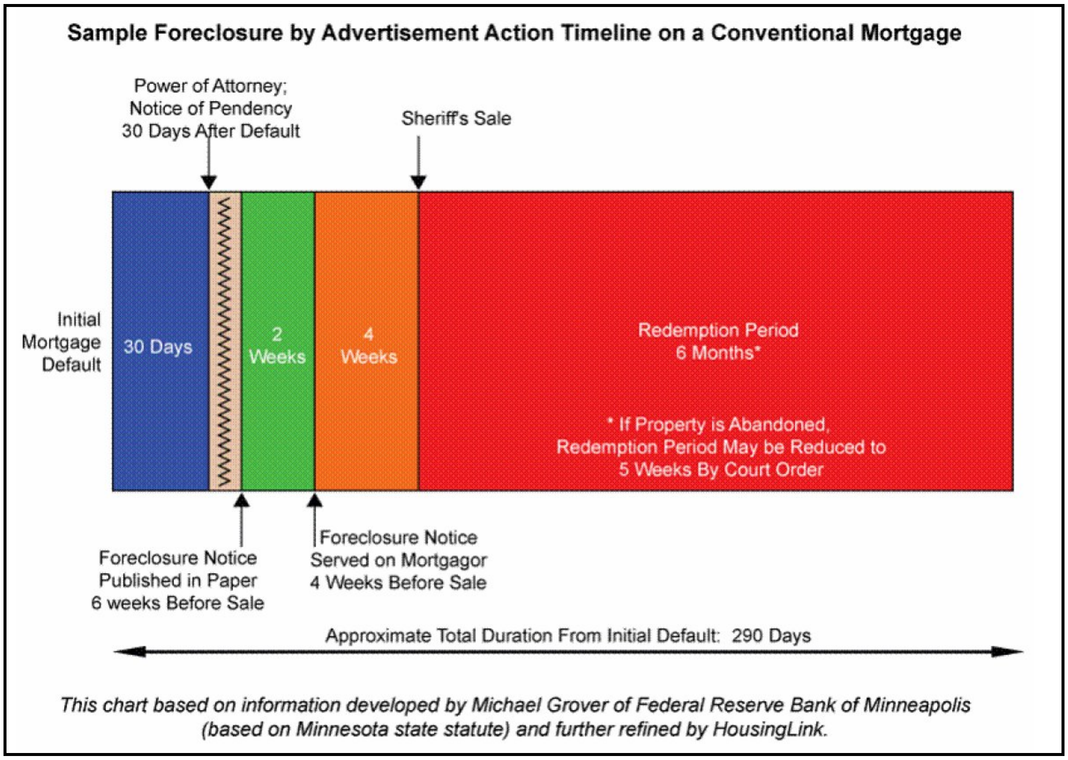
A foreclosure is not a discrete event, but rather a process that begins with the borrower failing to pay their mortgage on time and it can end when the borrower becomes current on the loan or the property is finally sold and the borrower is forced to vacate the premises and forfeit title. It is important to understand this process because if we want to track and measure foreclosure activity we must find a point in the process to consistently and accurately capture the number of properties in the process. Keep in mind that our purpose in counting the number of properties caught in this process is to measure the number of people in financial stress and to capture the number of properties that might be on the market, which further effects home prices.

In Wisconsin all foreclosure proceedings must be filed with a judge. This allows us through the open records law and the Wisconsin Circuit Court Access[1] to track the number of foreclosures that are filed. There are a few problems with this data, it sometimes includes commercial properties, and sometimes includes duplicate filings, but those errors are likely to be very small.

The problem with trying to do the same in Minnesota is that foreclosures do not have to be filed with a judge, in fact, most are not. Most foreclosures are merely advertised by an attorney for the mortgage holder in the local newspaper. But even if they were filed with a judge, Minnesota does not allow the same kind of easy Web access to court records as Wisconsin, so we would be unable to count them. The timeline below comes from the report on foreclosures by HousingLink[2]. It describes the Minnesota process for foreclosure by advertisement, which is the method for a majority of foreclosures.

[1] http://wcca.wicourts.gov/

[2] http://www.housinglink.org/adobe/reports/MinnesotaForeclosureReport_final042808.pdf accessed on August 24, 2008.



However, it is difficult to count foreclosures by advertisement, and even if we did we would miss the foreclosures by judicial filing. So for both Wisconsin and Minnesota we are trying to build a consistent historical database for Sheriff's sales. These sales represent a point further along the process, which is likely to lead to a smaller number of properties because some will have cured their mortgages before the sale date. Even if the property is sold at the Sheriff's auction, it is still not foreclosed in the sense that the property owner is forced to vacate the premises because there is a redemption period. In some cases owners will redeem, which lowers the final number of properties actually foreclosed still further.

Please refer to Table 1 below for a sense of some of the Sheriff Sale data[3].

Table 1

Year	Jackson	Juneau	La Crosse	Monroe	Trempealeau	Vernon	Winona	Houston
1999	8							
2000	11							
2001	13							
2002	13		57	38		12		
2003	22							
2004	12							
2005	19							8
2006	30						39	14
2007	34		130				58	10
2008*	34		57				70	7

When looking at the number of judicial filings in Wisconsin one can see that they far exceed the number of Sheriff sales (Table 1 versus Chart 6). For example, in 2006 the total number of filings for Jackson County was 51 compared to 30 sheriff sales. In 2007, La Crosse County had 239 filings versus 130 sheriff sales. In Charts 6 and 7, the 2008 projections of judicial filings have been updated to reflect the higher pace of filings in the beginning of 2008.

Number of Homes Sold

The rising number of foreclosures along with sluggish sales has lead to an increase in the number of days on the market and the number of homes on the market. Chart 8 shows the decline for the Midwest and the US, while Chart 9 shows the drop off in the number of listings sold through the Multiple Listing Service for the 7 Rivers Region.

[3] The data for 2008 are projected and they where compiled by Jenny Welsh of the SBDC and come from the following sources. Jackson County information came from the Sheriff's department. Winona & Houston information came from http://www.housinglink.org/adobe/reports/MinnesotaForeclosureReport_final042808.pdf. Information from 2002 for La Crosse, Monroe, & Vernon counties came from http://lacrossetribune.com/articles/2003/11/02/news/00lead.txt. Information from 2007 for La Crosse County came from http://lacrossetribune.com/articles/2008/01/24/news/00lead.txt. Information for 2008 for La Crosse County came from http://www.lacrossetribune.com/articles/2008/06/06/news/00lead.txt.

Chart 6

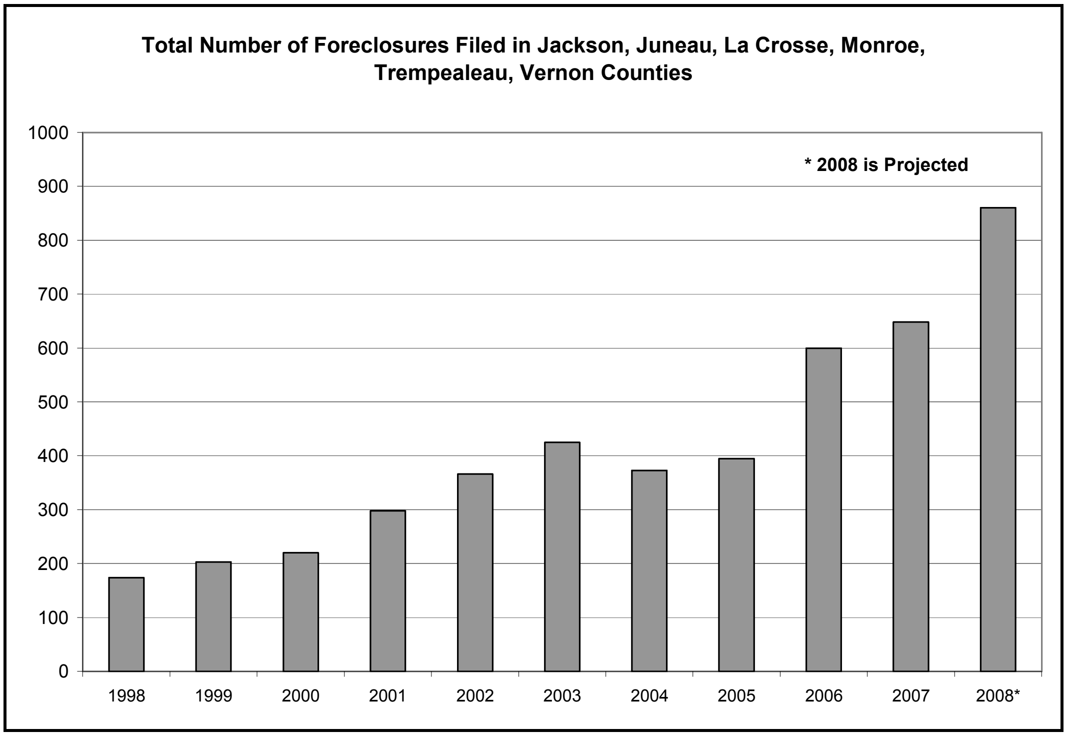


Chart 7

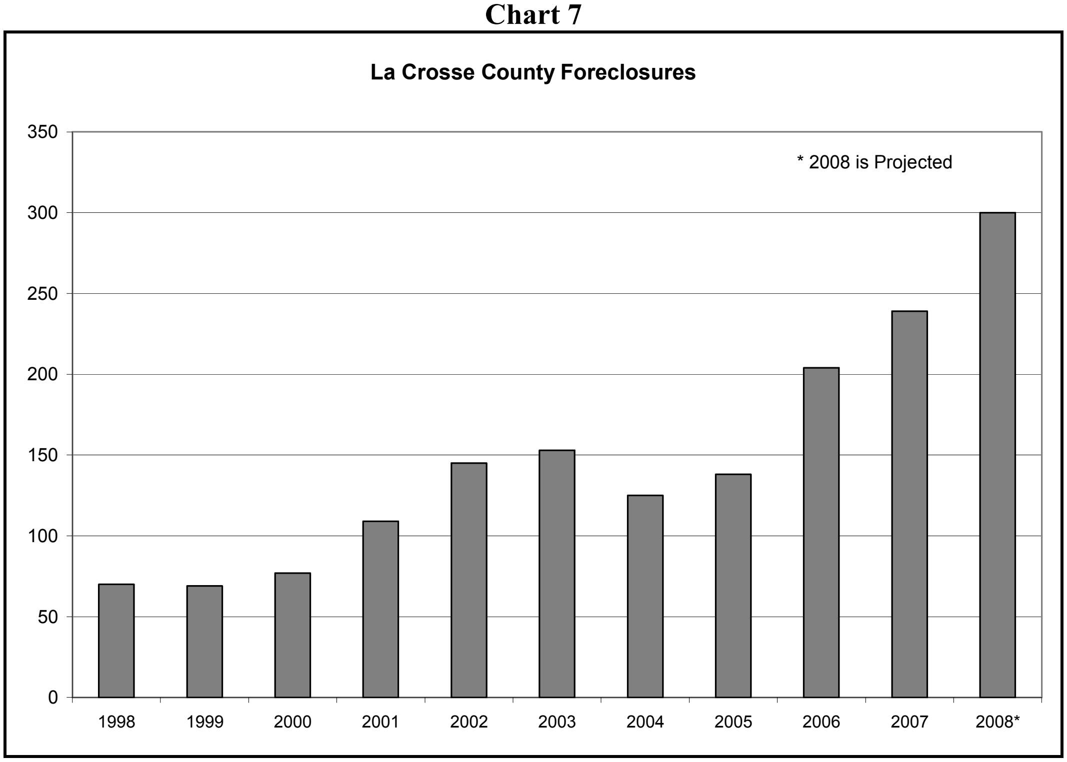


Chart 8

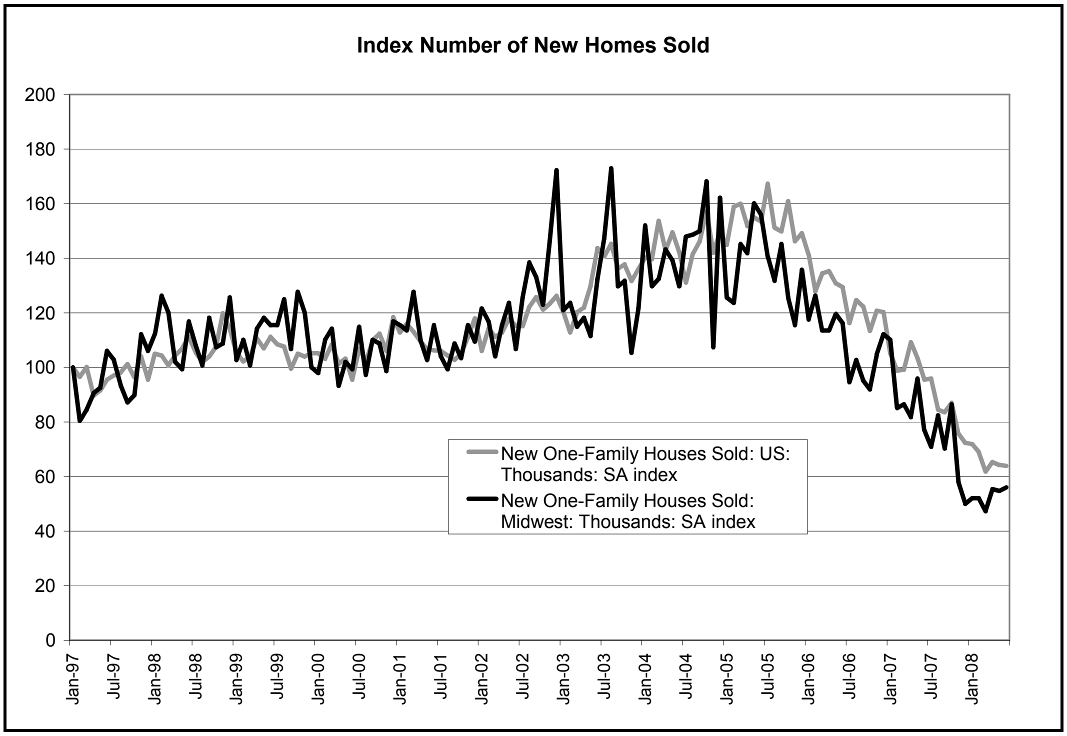
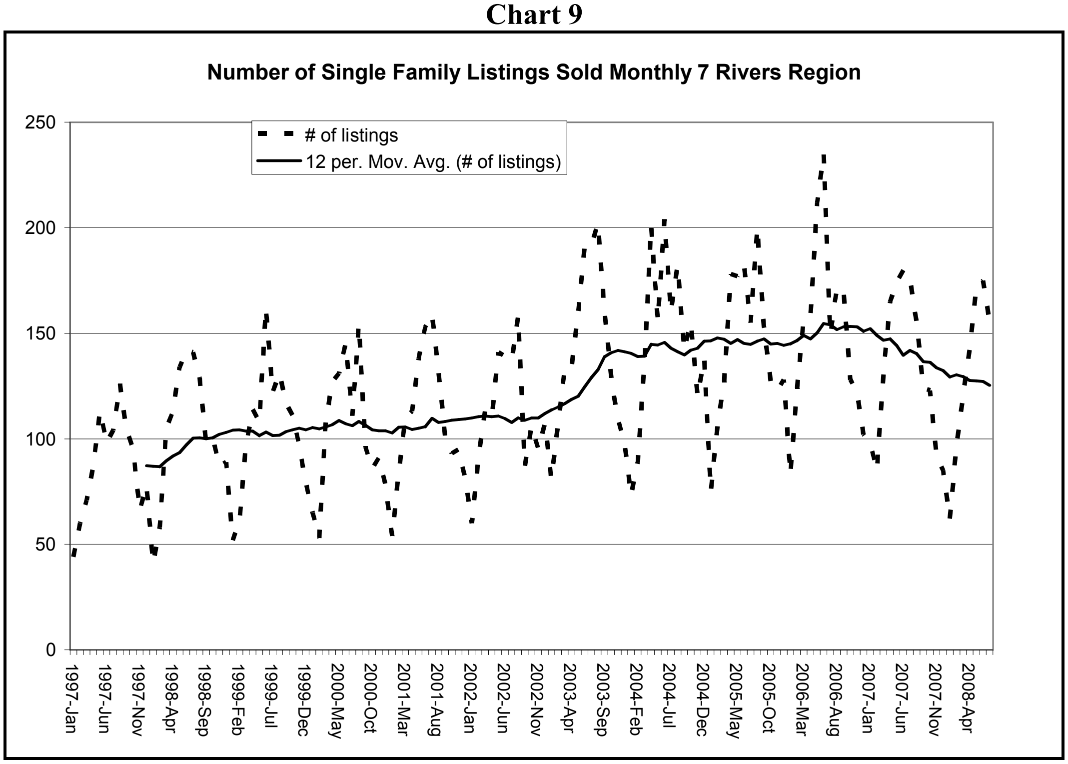
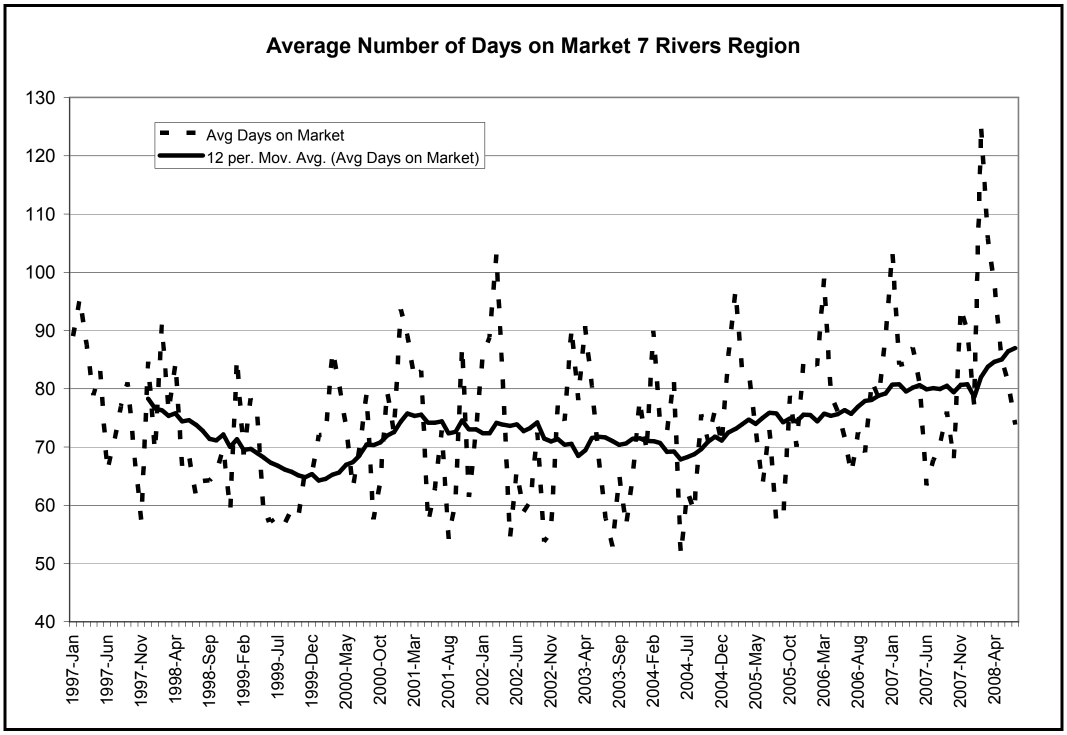


Chart 9



The consequences for fewer sales and increased foreclosures on the market mean the average number of days on the market is rising, which can be seen in Chart 10. The 12-month moving average currently sits just below 90 days for each listing, up from the low of 64.

Chart 10

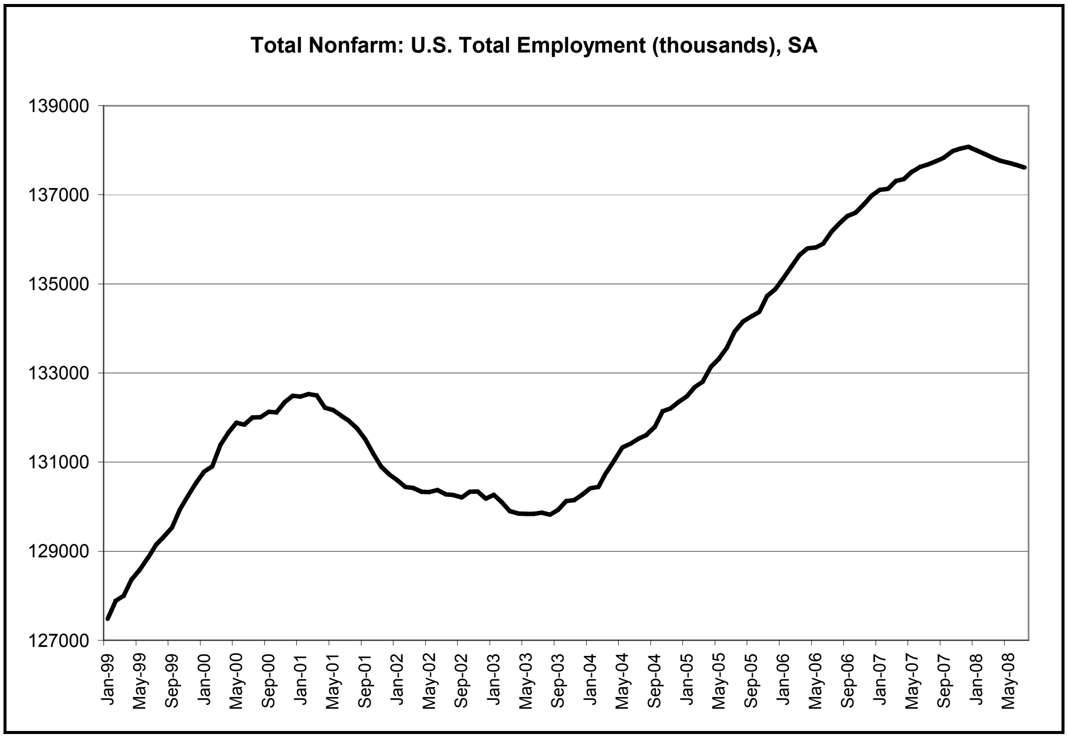


Regional Employment Data

Employment growth, or rather a contraction in employment, has long been one of the major indicators of a recession. The top of the previous cycle, and the start of the last recession, was dated to coincide with the March 2001 peak in employment. Looking at the national data, it appears we have seen a peak in employment levels recently. While Chart 11 below does not yet show the kind of decrease in jobs we have come to expect with recessions, it does not mean there are no signs. According to Menzie Chinn, the aggregate weekly hours data apparently shows a major drop off that is consistent with past recessions. This suggests that employers at the moment are less willing to let their employees go, hoping rather to get through the slow period by merely reducing aggregate hours[4].

[4] http://seekingalpha.com/article/92302-another-look-at-the-labor-market accessed August 24, 2008.

Chart 11



Both the Minnesota and Wisconsin series (Charts 12 and 13) appear to have leveled off, if not contracted, but the declines are also not precipitous enough to declare a recession. And the 7 Rivers Region (Chart 14) has rebounded from the slump in employment that occurred between January 2002 and January 2006.

Chart 12

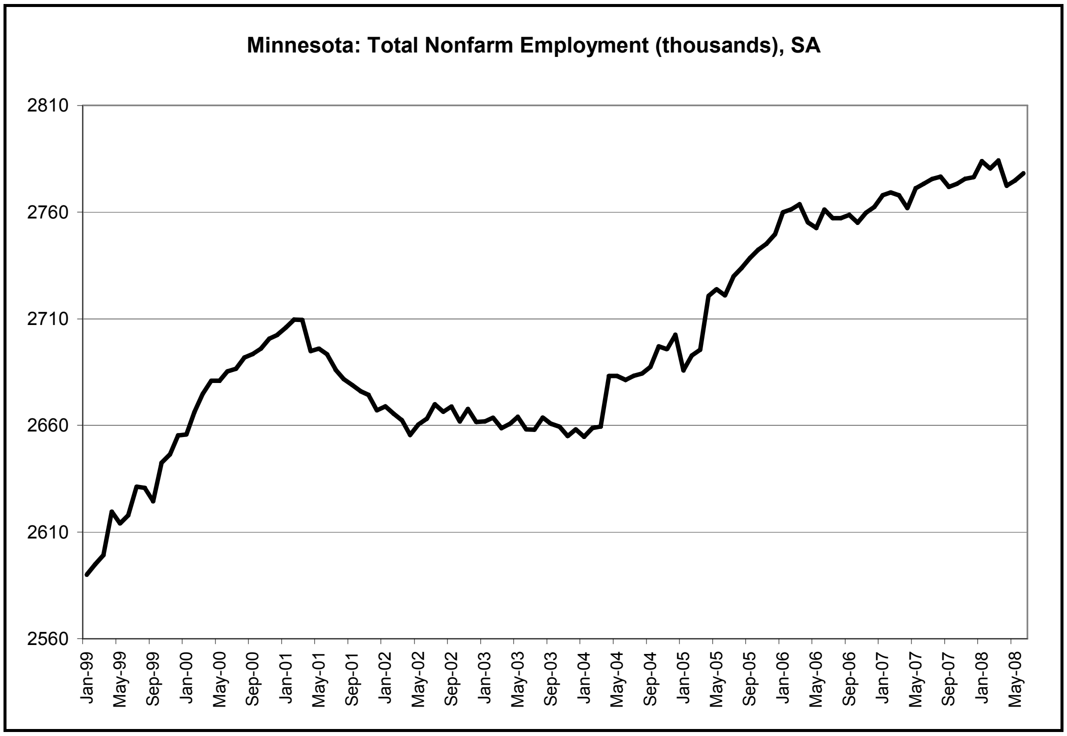


Chart 13

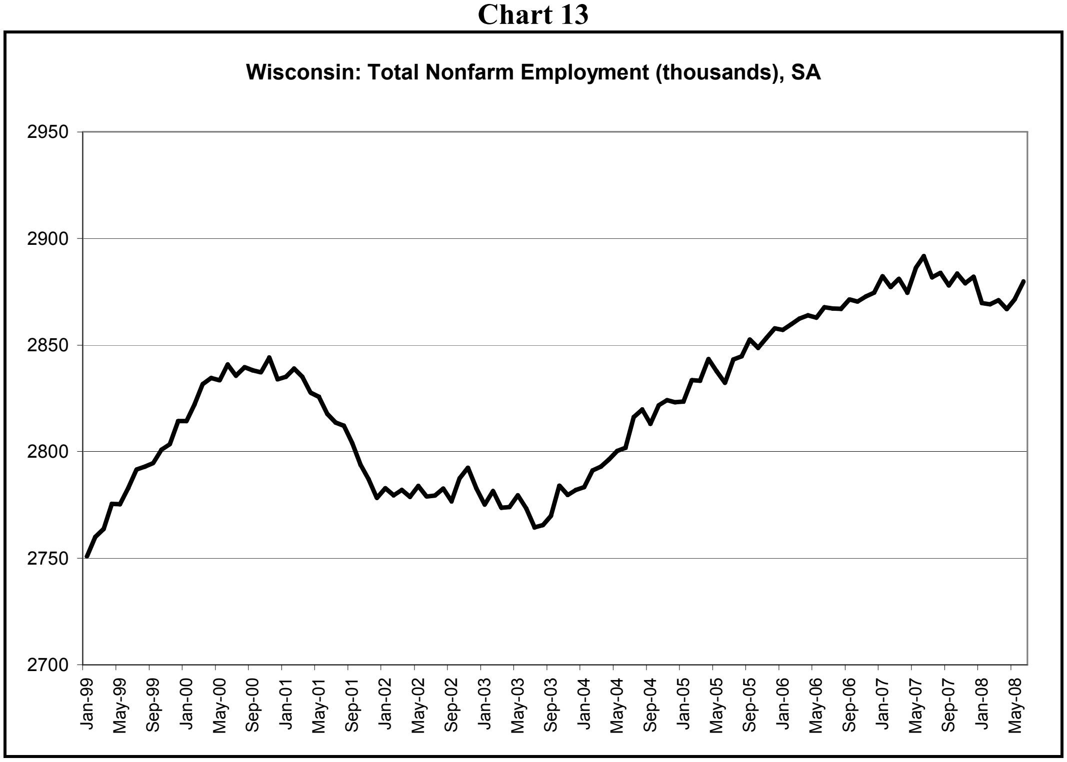
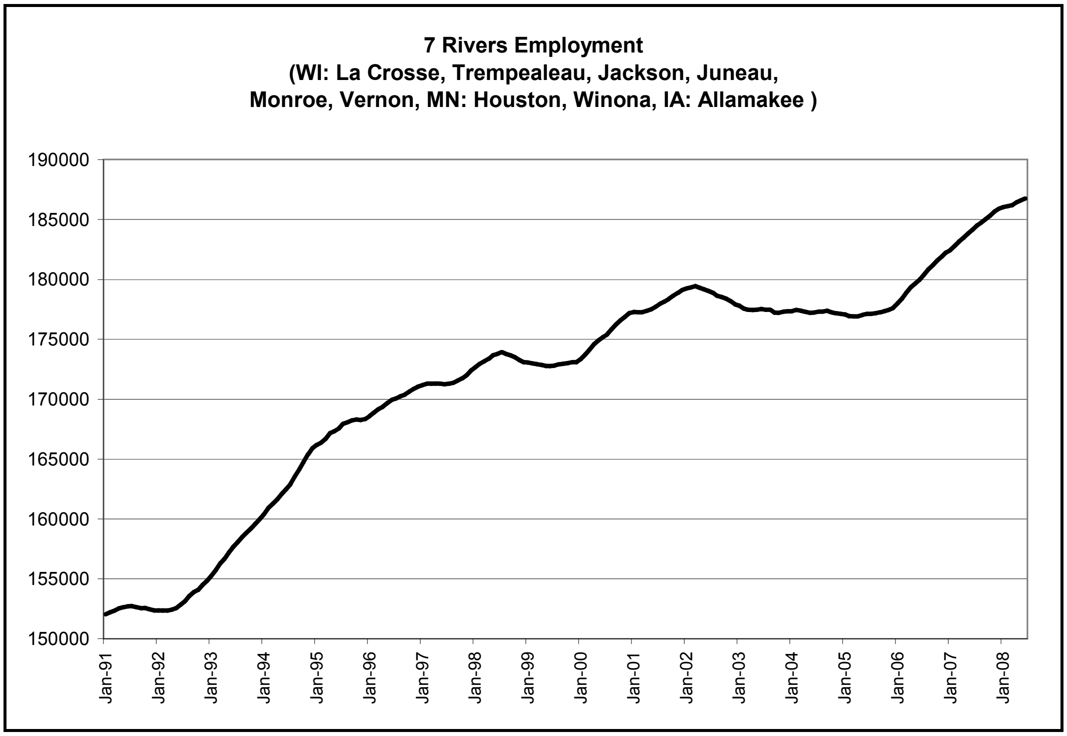


Chart 14



7 Rivers Region Consumer Sentiment

The 7 Rivers Region Consumer Sentiment survey has continued its transition from its previous incarnation as a phone survey to a Web-based survey. While the last three surveys have all been delivered via the Web to a target group of Economic Indicators attendees, the last two have been the exact same instrument in terms of the structure of alternative answers allowed. The results tend to be extremely sensitive to the options offered, so one needs to be careful when interpreting the changes from previous surveys. Typically the survey gets emailed to between 600 and 700 e-mail addresses, with around 150 responses.

The survey was administered between July 28 and August 4, 2008. 133 surveys were completed from the 663 emails, yielding a response rate of 20.1 percent. The latest measure of the overall consumer sentiment index fell from 79.1 to 69.9, mirroring the dramatic fall for the national number, which fell from 70.8 to 61.2. This puts the 7 Rivers region index at its lowest value since it was introduced in 2002 (Chart 15). Similarly the national number reached a 28 year low at 61.2.

Chart 15

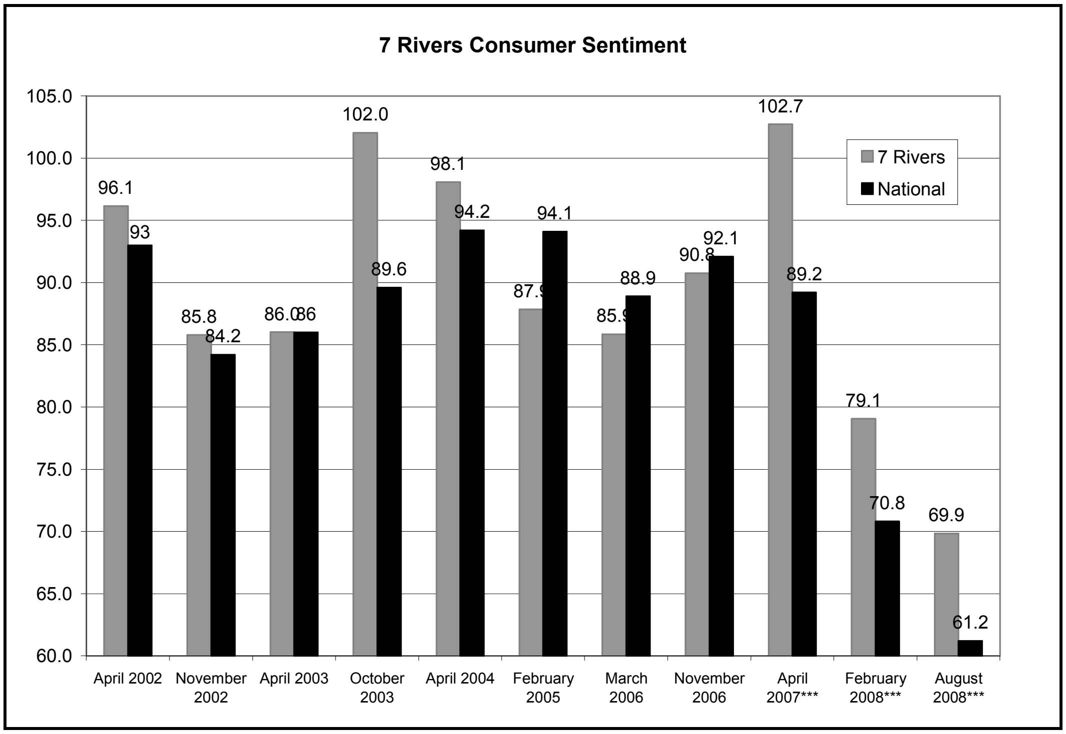


Chart 16

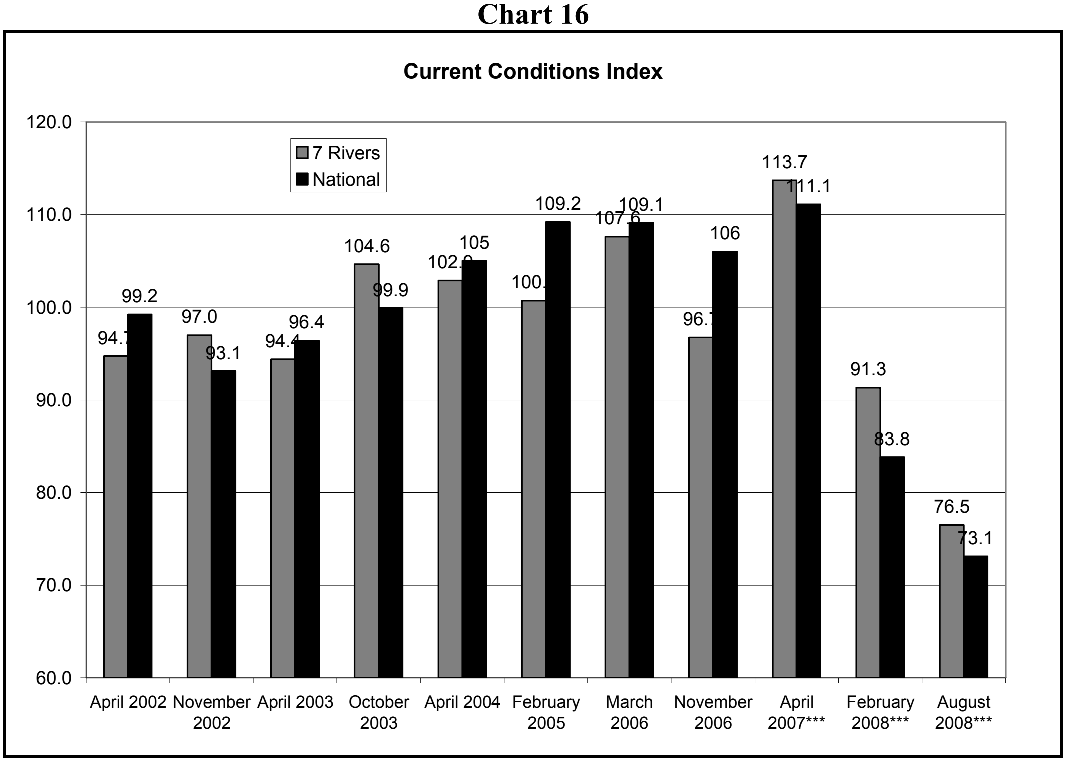
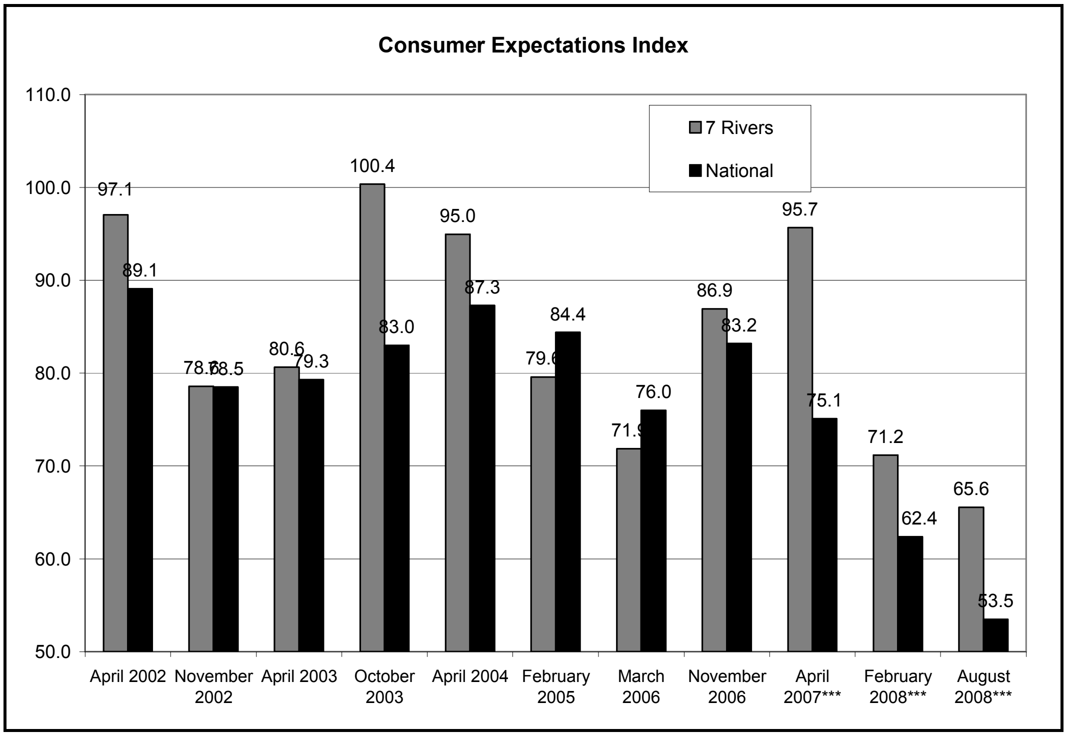


Chart 17



The sub-indices provided in the above charts (Charts 16 and 17) break consumer's sentiment into two parts. The first is a measure of current conditions, and the second is the more closely watched expectation of future conditions. It is here that we have a stark contrast between the local data and the national data. At the national level most of the decline can be explained by a relatively larger decline in future expectations, whereas the 7 Rivers Region experienced a relatively larger decline in current conditions.

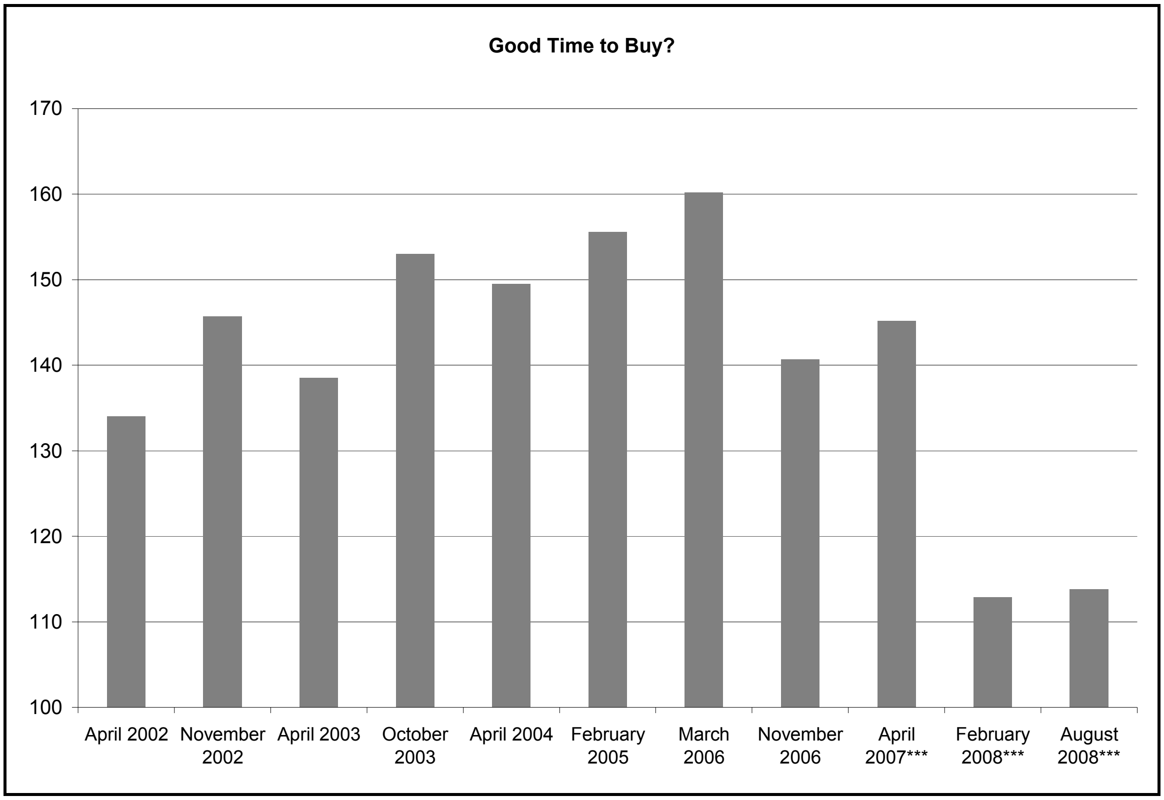
Recent research by James Wilcox[5] suggests that individual questions from the consumer sentiment survey do a better job of predicting consumer expenditures. In particular question number 5 asks about big purchases consumers might contemplate.

> *Question #5: About the big things people buy for their homes—such as furniture, a refrigerator, stove, television, and things like that. Generally speaking, do you think now is a good or bad time for people to buy major household items?*

Chart 18 plots the percentage of favorable responses (good time) after subtracting the percentage of unfavorable responses (bad time) and then adds 100. The forecasting accuracy also appears to be best during times of slowing consumption.

[5] http://www.frbsf.org/publications/economics/letter/2008/el2008-19.html accessed August 24, 2008.

Chart 18



The Wisconsin Way

The focus of the September meeting is on the grassroots initiative entitled the Wisconsin Way. According to their Web site[6]:

> *The Wisconsin Way is a non-partisan, grassroots effort to reduce property taxes by creating a more fair and equitable funding system that promotes excellence in education and public service. Between October 2007 and January 2008, The Wisconsin Way organized public forums in 15 Wisconsin communities, and held more than 100 institutional briefings. Wisconsin Way organizers have been working diligently with industry economists, private sector policy analysts, UW–Madison public affairs faculty members and a prestigious advisory panel to research and frame Wisconsin citizens' comments and visions into potential policy solutions. This summer, area residents with different viewpoints and from all walks of life are being invited again to come together for a public conversation on the fairness of the tax structure and possible solutions to the challenges we all face in protecting and preserving Wisconsin's unique quality of life.*

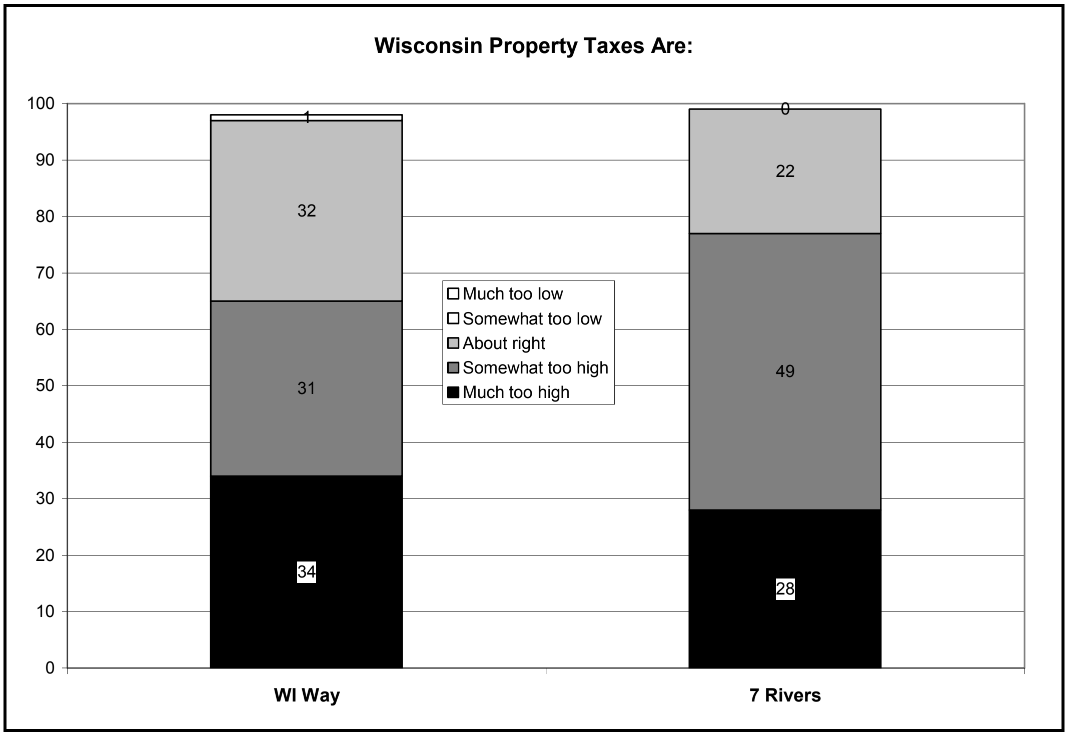
In my comments below I will try to provide a very broad overview of the important economic issues being considered. I think that all too often when we engage in discussions of these issues, people have trouble seeing past their own economic circumstances, and often supplant anecdotes

[6] http://www.wisconsinway.org/Template1.aspx?pid=8 accessed August 19, 2008.

for general principles. I hope that the conversation begun and carried out by the Wisconsin Way can be an important force for facilitating a democratic process for change.

As part of the preparation for this meeting we conducted a survey, similar to the statewide survey conducted by the Wisconsin way. Our survey consisted of a series of questions added to the consumer sentiment survey discussed above. While that survey targeted members of the 7 rivers region, in the results I present below, we have filtered out responses from residents of other states, which leaves us with 94 responses.

Chart 19



It is probably not a surprise to many that a majority of Wisconsin residents and 7 rivers region members feel that property taxes are too high (Chart 19). Wisconsin traditionally ranks fairly high on surveys of property taxes[7].

But remember that taxes are merely a means to raise revenues to fund public expenditures that often provide goods and services that we would have to buy in the private market if not provided by the government. For example, let's say you need to buy water that costs $1.00 per week. You could be taxed $1 per week and provided the water by a government entity. Or you could lower your tax burden by the same dollar, but be forced to the private market to purchase your water from a private supplier. Thus it is very important to consider the level of public goods provided for the given level of taxation.

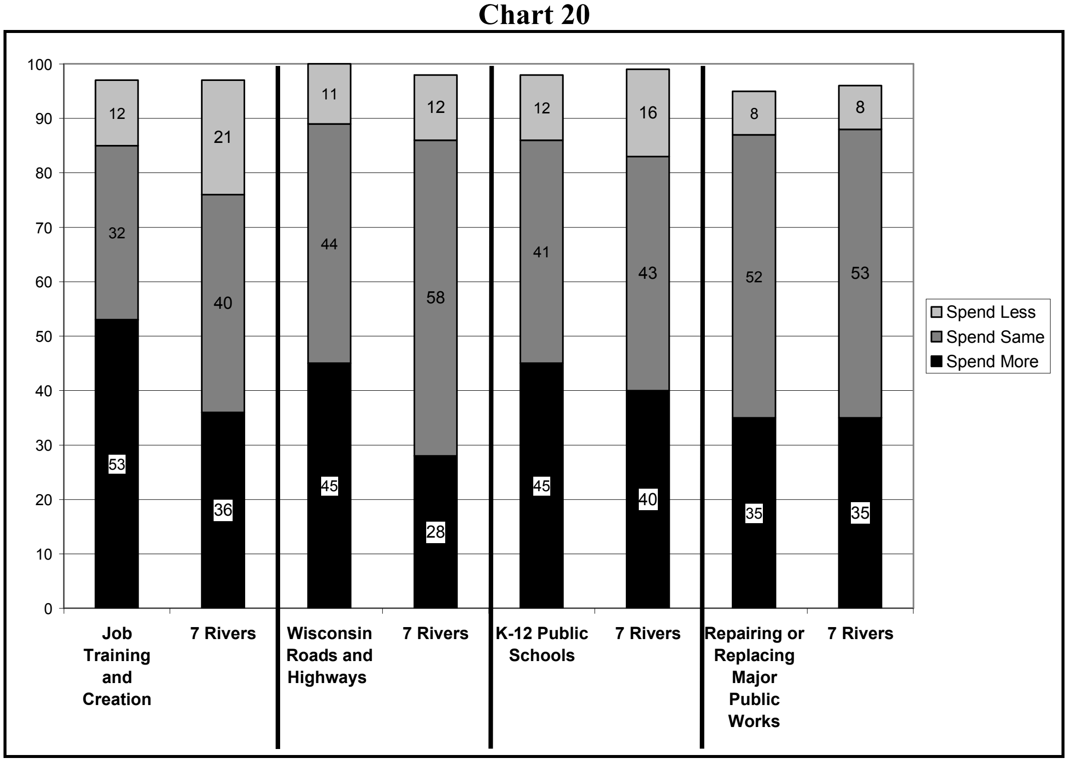
7 http://articles.moneycentral.msn.com/Taxes/Advice/PropertyTaxesWhereDoesYourStateRank.aspx

A study by the Wisconsin Taxpayers Alliance[8] found the main reason for Wisconsin's high taxes was its high public spending. In particular, Wisconsin's higher than average spending on K-12 education, both in the form of lower student teacher ratios and higher non-wage benefits for teachers than other states. The state also spends more on roads than most other states having one of the highest number of miles of paved road per capita in the country. The third reason for Wisconsin's higher than average expenditures is attributed to higher education spending.

The next chart comes from the following question:

> *Based on the challenges and opportunities Wisconsin faces at the moment, which of the following services do you think we should spend more money on, which should we spend less money on and which should we continue to fund at their current levels? For example, given the challenges and opportunities Wisconsin faces, do you think we should spend more money, less money or the same amount of money we are currently spending on our K–12 public schools?*

Chart 20



The difficulty faced by legislatures is apparent in the above chart. A majority of respondents at both the state and local level want to continue to spend as much or more on most programs. It doesn't take an accountant to recognize the inconsistency and impossibility of these preferences.

[8] The executive summary is here http://www.wistax.org/news_releases/2003/why%20high%20taxes%20exec%20summ.pdf accessed August 19, 2008. And the full report can be found here http://www.wistax.org/news_releases/2003/why%20high%20taxes.pdf

In the face of structural deficits spending has to fall by more than any cut in tax revenue collected to restore fiscal balance.

The next set of questions asked people to rate the importance on a scale of 1 to 10, with 10 being an issue of critical importance that requires immediate attention and action and 1 being an issue of minimal importance that can wait for attention and action, where would you rank each of the following? The responses are grouped into three categories and represented as the percentage of respondents who ranked the issue 1 to 3, 4 to 7, and 8 to 10.

Chart 21

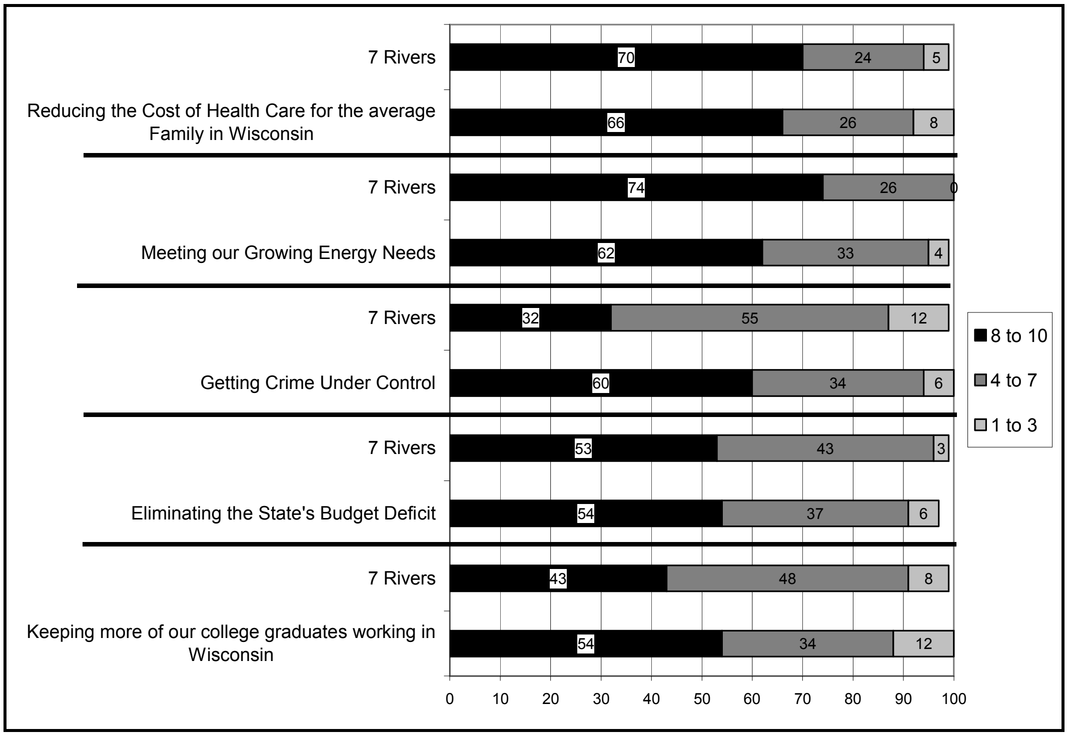
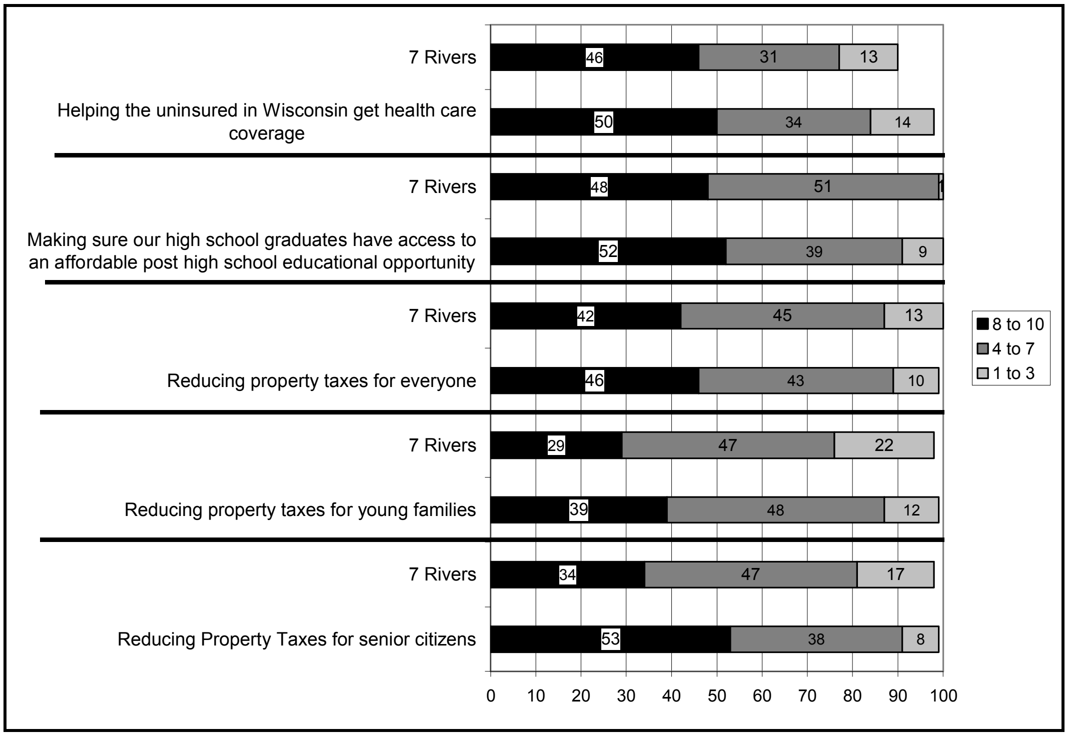


Chart 22



The only real significant difference between the statewide survey and the 7 Rivers Region survey concerns crime. It is most likely due to crime rates being a more serious problem in the urban centers of southeastern Wisconsin than the western portion. There are also some differences on the importance of lowering property taxes for young families and senior citizens. I would likely chalk this up to the demographics of survey respondents. Our regional survey was computer based, whereas the statewide survey was a phone survey. Phone surveys have been experiencing rapid changes in the sample of respondents that complete the survey because fewer people maintain land phone lines and of those who do, they often screen their calls with caller ID.

Some General Tax Principles[9]

When considering changes to the current tax structure I think it would be useful to consider the principles of good taxation according to most public finance economists.

1. **Equity and Fairness:** People in similar financial positions should pay similar amounts of tax. This is often referred to as horizontal equity. People also view some form of progressivity as “fair”.
2. **Certainty:** An important part of a good tax system is stability and predictability. People need the ability to plan, which is only made possible in an environment where the tax structure is known in advance.
3. **Convenience of Payment:** Collecting taxes should involve transferring resources efficiently. The more difficult it is to pay your taxes, the more likely you are to avoid

[9] Adapted from http://www.cob.sjsu.edu/nellen_a/Good%20Tax.ppt accessed August 24, 2008

them. Taxes should also be collected when it is most convenient for the payer. This is important when considering the often liquidity constrained elderly.

4. **Economy of Collection:** Again, minimize the costs of collecting, both the costs to the payer and the payee.
5. **Simplicity:** You should not have to consult a tax attorney and accountant before every economic decision.
6. **Neutrality:** Taxes should be neutral to the underlying activity. That is to say they should not alter incentives and change behavior. The obvious exception would be Pigouvian type taxes whose main purpose is to alter behavior, as is the case with cigarette taxes and the proposed carbon tax. However, the main point of Pigouvian type taxes is to alter behavior, not to raise revenue that funds ongoing government activity. Taxes to fund ongoing public expenditures should remain as neutral as possible.
7. **Economic Growth and Efficiency:** The tax structure should not reduce or slow the growth of the productive capacity of the economy.
8. **Transparency and Visibility:** Tax payers should be aware of the tax they owe before they make their relevant (i.e. the taxed) decisions.
9. **Minimum Tax Gap:** The gap between what is owed and what is collected should be small by reducing non-compliance and reasons for non-compliance.
10. **Appropriate Government Revenues:** The tax system should make revenue collection stable and easy to forecast. Poorly constructed taxes make government planning more difficult.

Tiebout Hypothesis Sorting

In 1956 economists were puzzled as to how to determine the optimal size of government. Since the traditional market mechanisms seemed to be unavailable to help determine how much spending the government should engage in they were puzzled. Charles Tiebout developed a model that showed the mechanism was already in place. He pointed out that a majority of government spending was controlled at the local level, and if people could easily move between local municipalities they could “vote” with their feet. This would allow a mechanism to develop that resulted in different levels of public expenditures. Others have since questioned the practicality of the Tiebout hypothesis, given that moving is often expensive, and local familial or business connections might inhibit optimal sorting.

Yet recent research has confirmed that people do vote with their feet. Whether it is from one school district to the next or further, people consider the public expenditures and taxes when deciding where to live. Examples might include childless retirees moving to warmer climates, which tend to spend less on public schooling. Texas, Florida and Arizona are notorious for their relatively poor public schooling, and it is no surprise that those tend to be idea locations for retirees. New families might move to the Midwest in search of better educational opportunities.

Any alteration of the tax and spending structure of our state and local governments should keep in mind that many people might have moved to their current location, because of their preference for that particular structure. While they would all like lower taxes and more services, the economic reality is that they might already be receiving the optimal bundle. So any changes that might be made should try to preserve flexibility to allow Wisconsin residents to continue to vote with their feet.

Legal Incidence versus Economic Incidence of Taxes.
The legal incidence of taxation refers to the person legally responsible for paying the taxes, but that is wholly different than the person who actually bears the economic burden of the tax. An easy and obvious example would be the sales tax. The retailer is responsible for collecting the tax, but the burden of the tax falls on both the retailer and the consumer, often varying depending on demand and supply conditions for the purchase in question. If the supply is pretty inelastic, that is to say, the quantity is relatively fixed and independent of price, then the burden falls to the supplier. The supplier can not pass much if any of the tax on to the consumer. If consumer demand is fairly inelastic, and largely independent of price, as it is for some medication, then the incidence is born by the consumer because the supplier is able to pass on much of the tax.

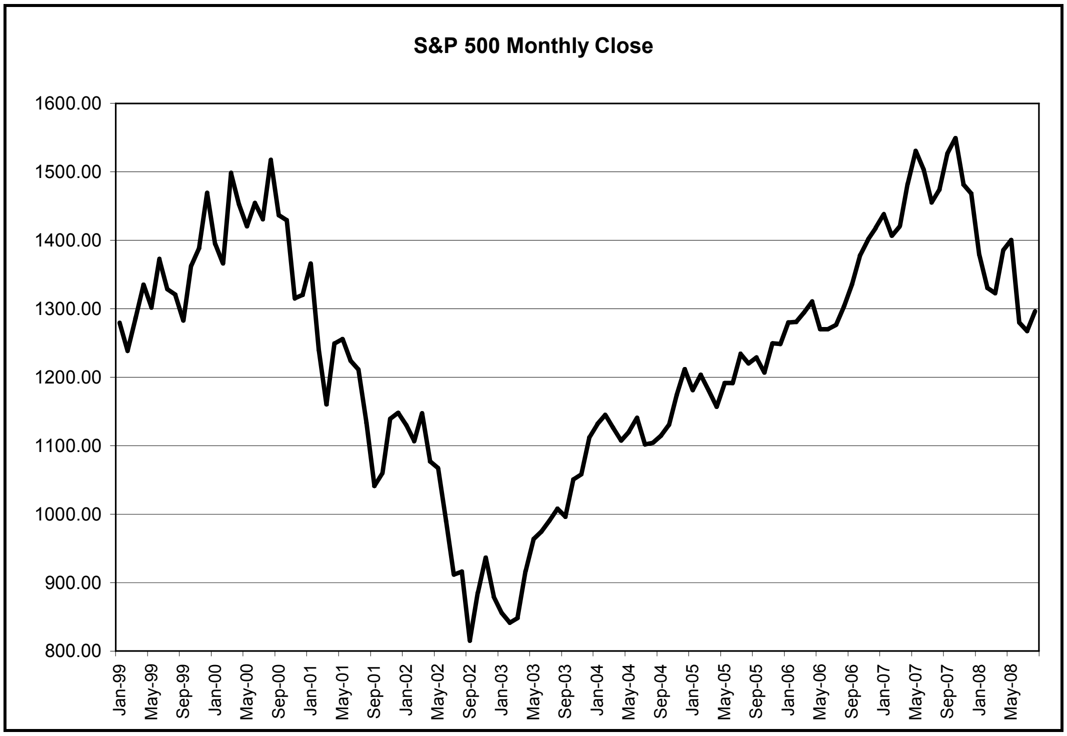
A recent study of the incidence of Wisconsin taxes[10] tries to estimate the economic incidence of different taxes to get a better understanding of the fairness and equity of our current tax structure. This is not an easy thing to do, and it is fraught with many potential complications, but it is an important undertaking. Minnesota is also required by law to do a tax incidence study every two years.[11].

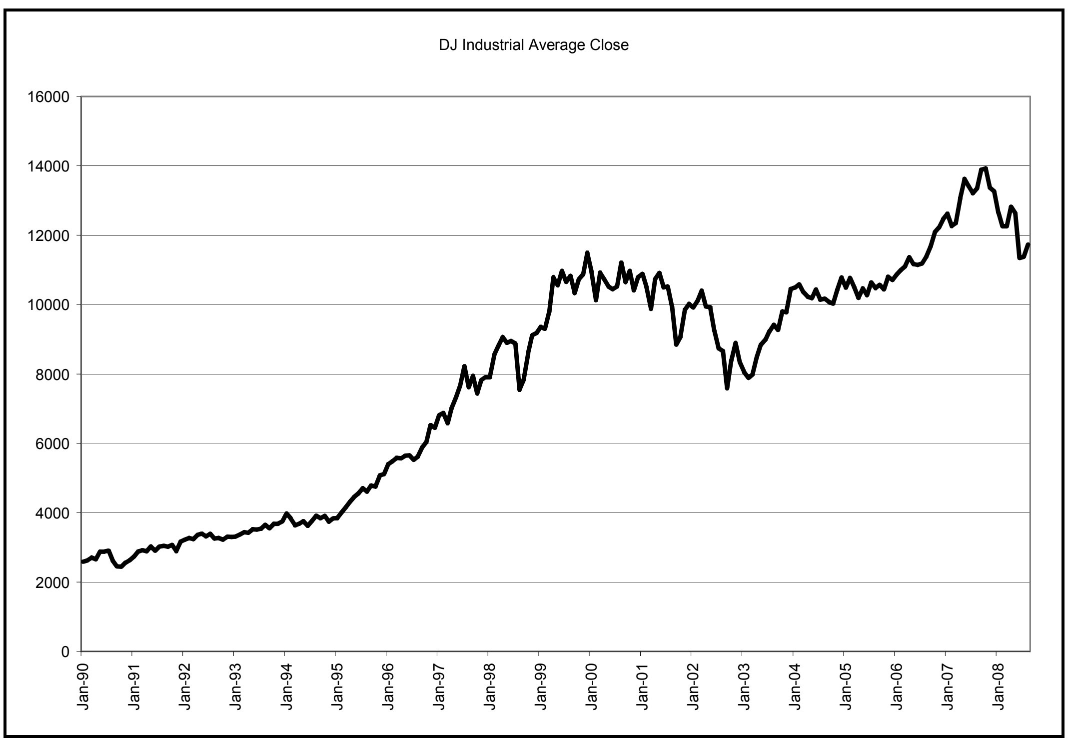
When considering tax changes we should be sure to have a firm understanding of the economic incidence of those taxes, rather than believing the legal incidence is the only important factor.

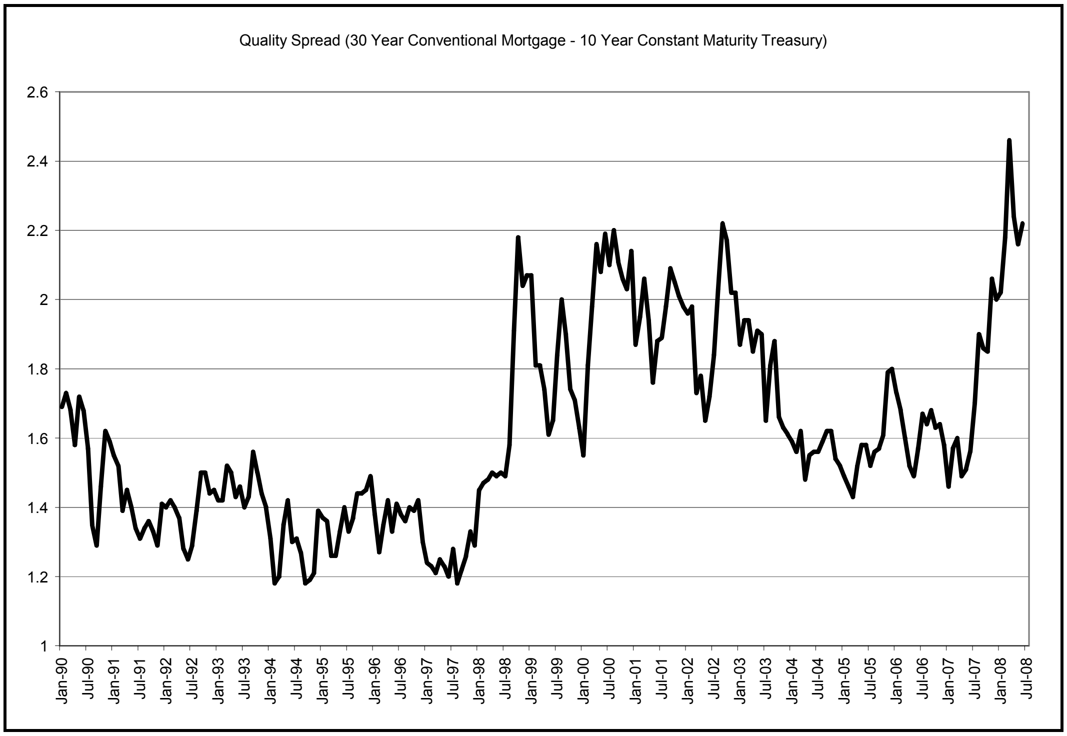
[10] http://www.dor.state.wi.us/ra/txinc04a.pdf accessed August 24, 2008.

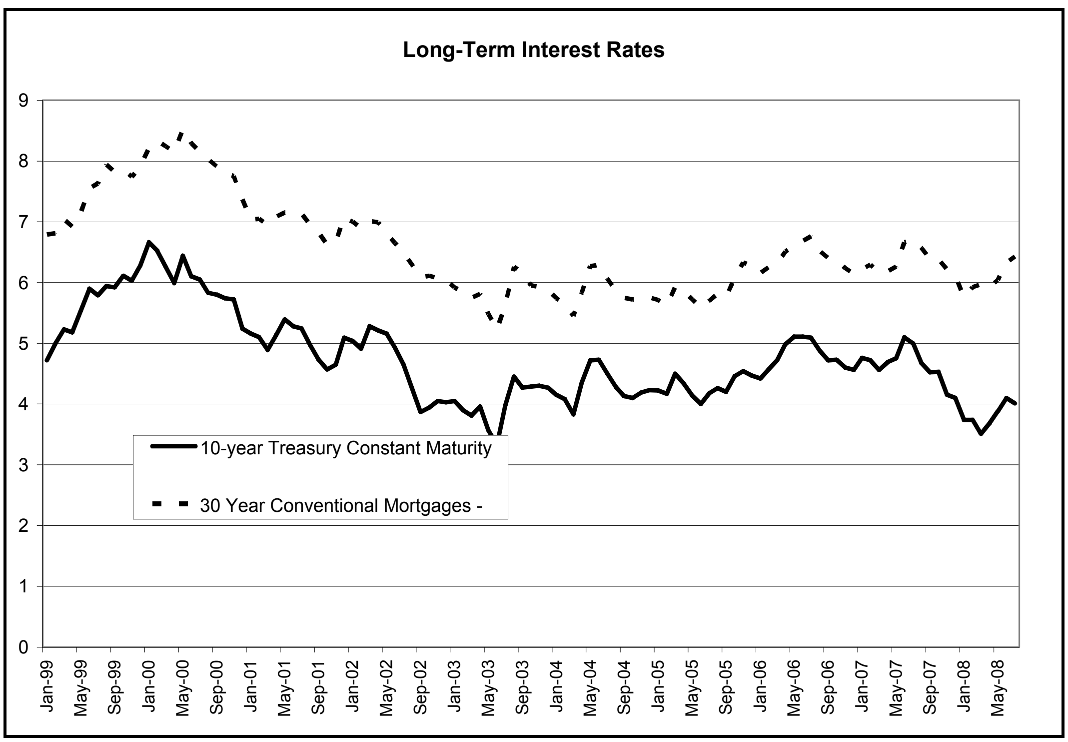
[11] http://www.mncn.org/bp/incid07.pdf is the summary study and the complete study is available here. http://www.taxes.state.mn.us/legal_policy/other_supporting_content/07_incidence_report_links.pdf accessed August 24, 2008.

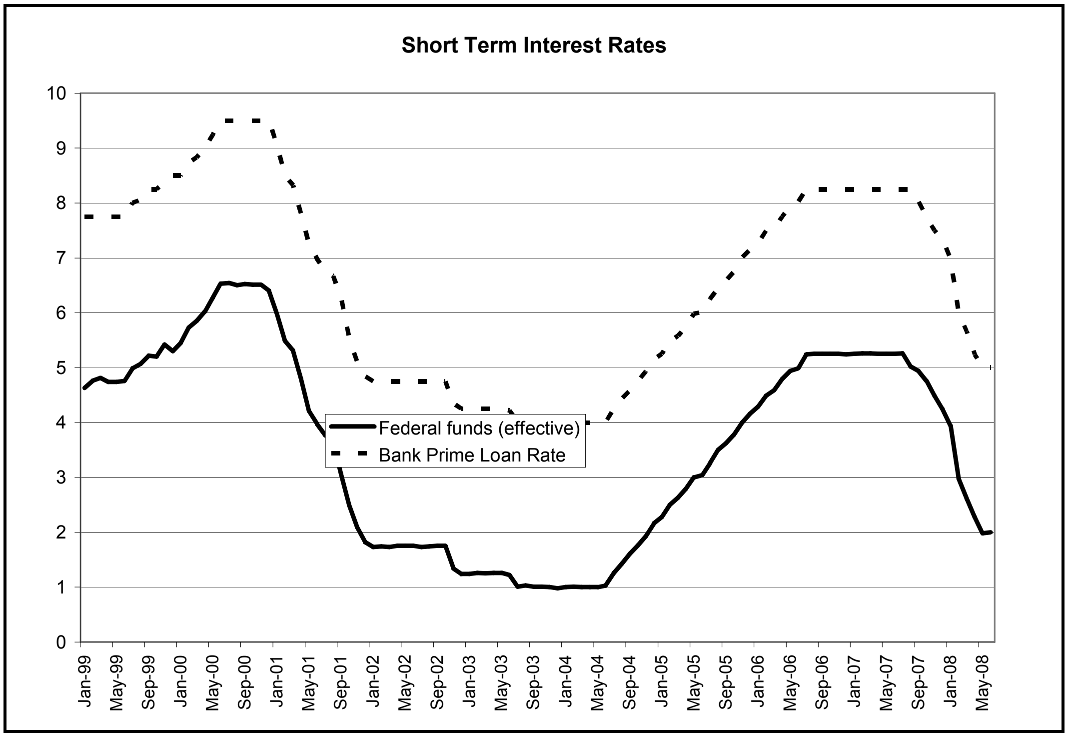
Appendix: Additional Charts






Quality Spread (30 Year Conventional Mortgage - 10 Year Constant Maturity Treasury)
2.6
2.4
2.2
2
1.8
1.6
1.4
1.2
1
Jan-90
Jul-90
Jan-91
Jul-91
Jan-92
Jul-92
Jan-93
Jul-93
Jan-94
Jul-94
Jan-95
Jul-95
Jan-96
Jul-96
Jan-97
Jul-97
Jan-98
Jul-98
Jan-99
Jul-99
Jan-00
Jul-00
Jan-01
Jul-01
Jan-02
Jul-02
Jan-03
Jul-03
Jan-04
Jul-04
Jan-05
Jul-05
Jan-06
Jul-06
Jan-07
Jul-07
Jan-08
Jul-08


Long-Term Interest Rates
9
8
7
6
5
4
3
2
1
0
10-year Treasury Constant Maturity
30 Year Conventional Mortgages -
Jan-99
May-99
Sep-99
Jan-00
May-00
Sep-00
Jan-01
May-01
Sep-01
Jan-02
May-02
Sep-02
Jan-03
May-03
Sep-03
Jan-04
May-04
Sep-04
Jan-05
May-05
Sep-05
Jan-06
May-06
Sep-06
Jan-07
May-07
Sep-07
Jan-08
May-08


Short Term Interest Rates
10
9
8
7
6
5
4
3
2
1
0
Federal funds (effective)
Bank Prime Loan Rate
Jan-99
May-99
Sep-99
Jan-00
May-00
Sep-00
Jan-01
May-01
Sep-01
Jan-02
May-02
Sep-02
Jan-03
May-03
Sep-03
Jan-04
May-04
Sep-04
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Jan-06
May-06
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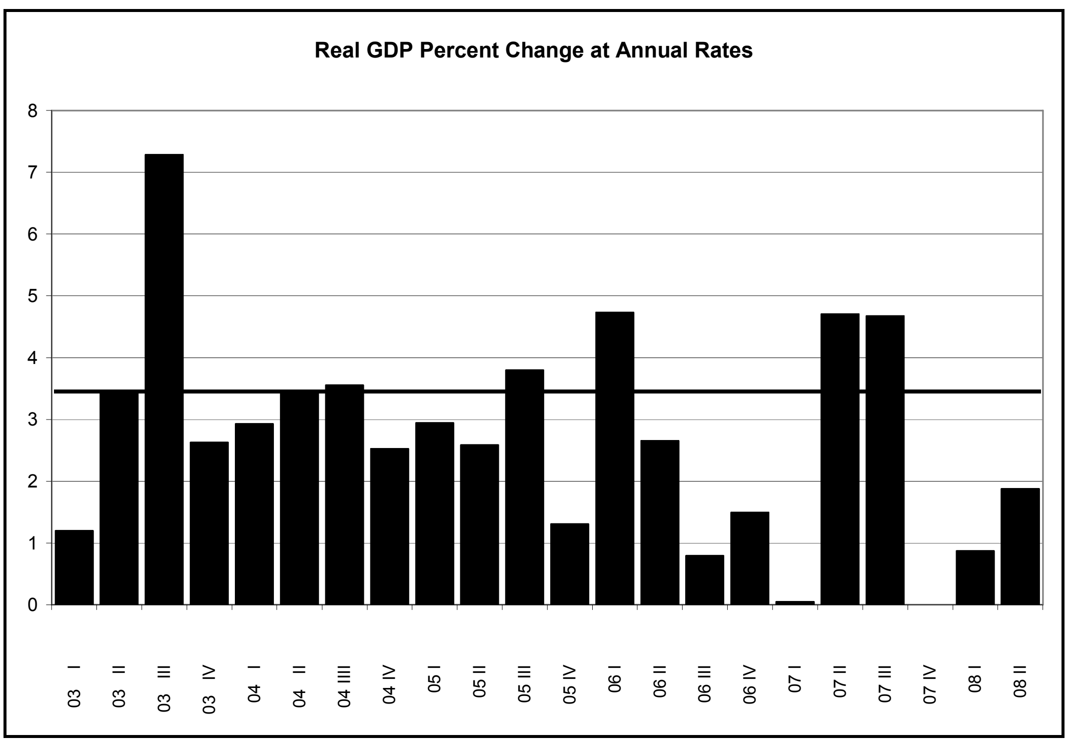
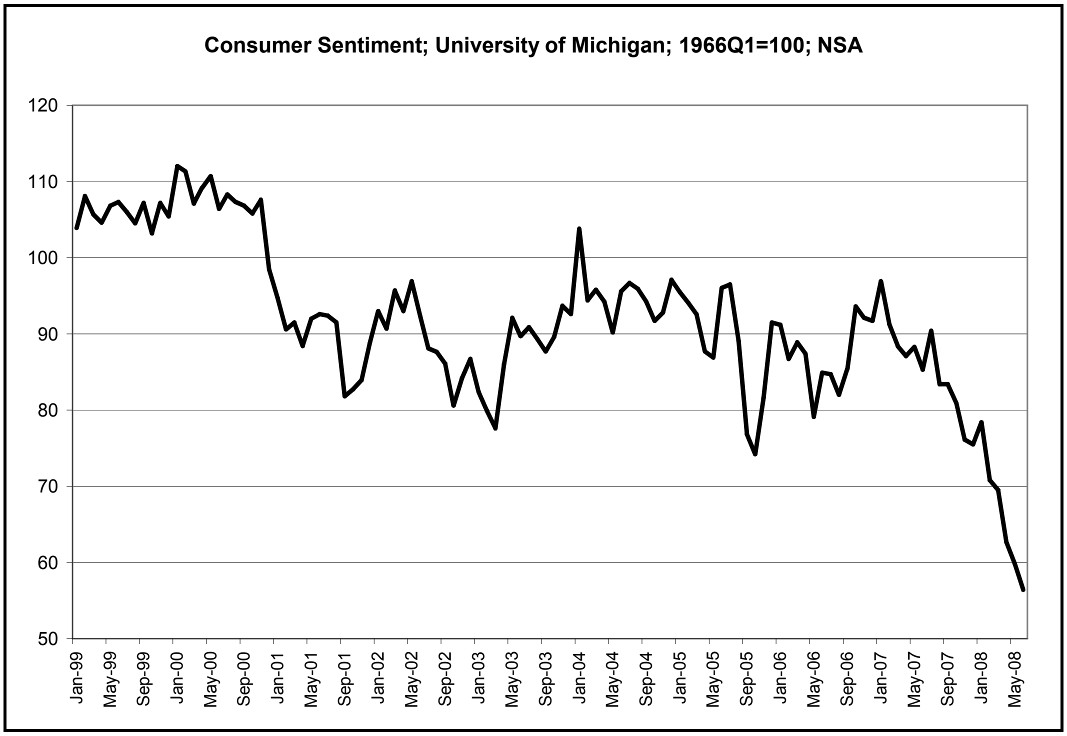
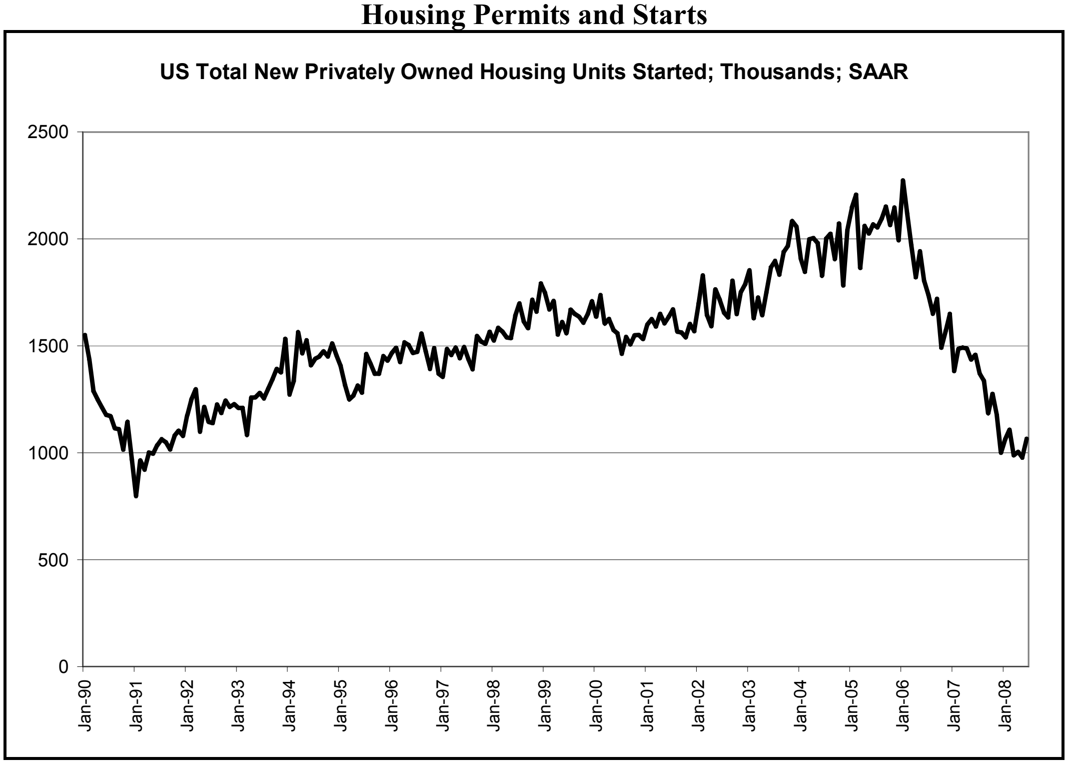
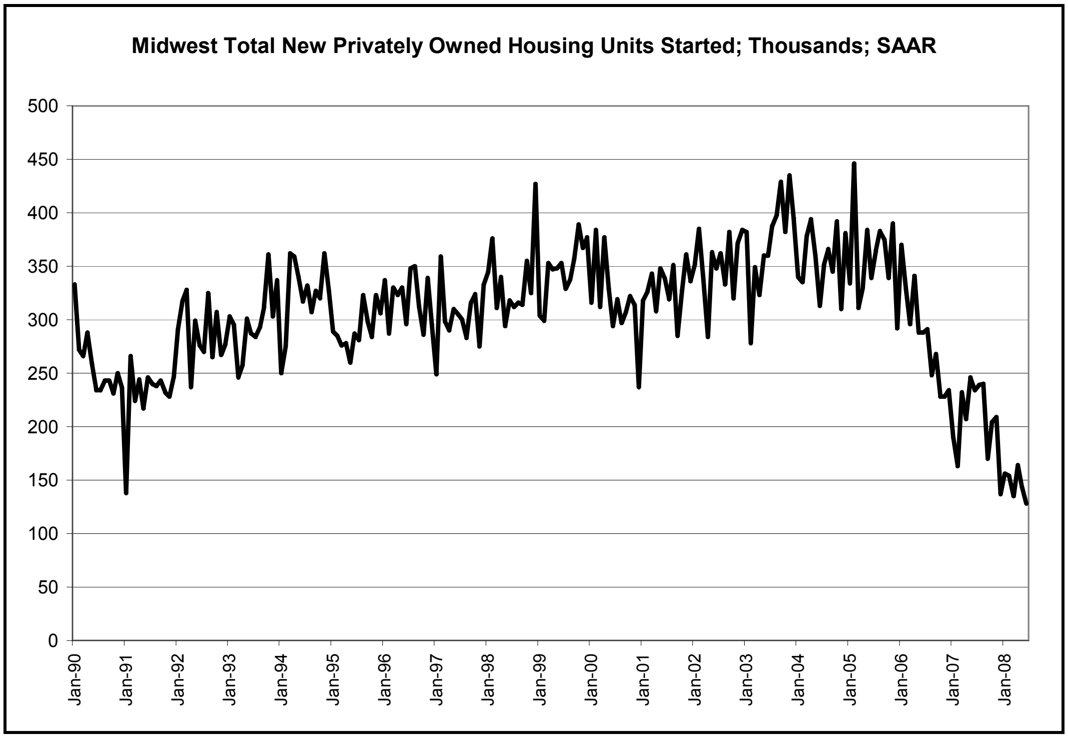
Jan-07
May-07
Sep-07
Jan-08
May-08

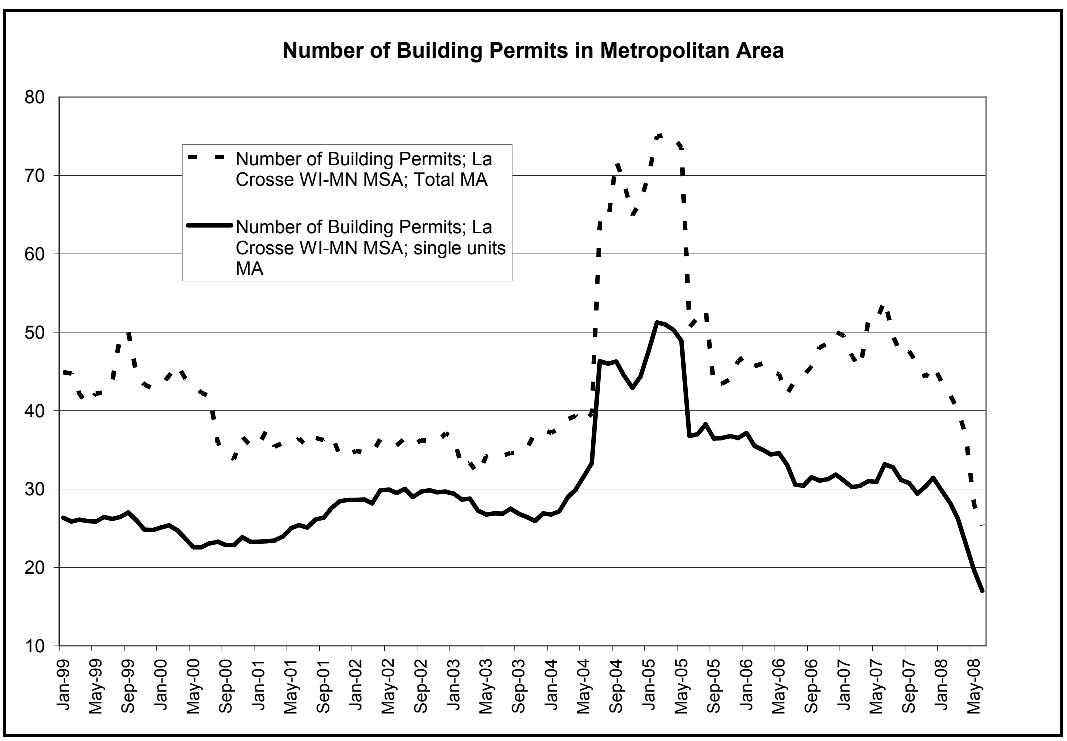

Real GDP Percent Change at Annual Rates
8
7
6
5
4
3
2
1
0
03 I
03 II
03 III
03 IV
04 I
04 II
04 IIII
04 IV
05 I
05 II
05 III
05 IV
06 I
06 II
06 III
06 IV
07 I
07 II
07 III
07 IV
08 I
08 II



Housing Permits and Starts




Midwest Total New Privately Owned Housing Units Started; Thousands; SAAR
500
450
400
350
300
250
200
150
100
50
0
Jan-90
Jan-91
Jan-92
Jan-93
Jan-94
Jan-95
Jan-96
Jan-97
Jan-98
Jan-99
Jan-00
Jan-01
Jan-02
Jan-03
Jan-04
Jan-05
Jan-06
Jan-07
Jan-08


Number of Building Permits in Metropolitan Area
Number of Building Permits; La Crosse WI-MN MSA; Total MA
Number of Building Permits; La Crosse WI-MN MSA; single units MA
80
70
60
50
40
30
20
10
Jan-99
May-99
Sep-99
Jan-00
May-00
Sep-00
Jan-01
May-01
Sep-01
Jan-02
May-02
Sep-02
Jan-03
May-03
Sep-03
Jan-04
May-04
Sep-04
Jan-05
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Jan-06
May-06
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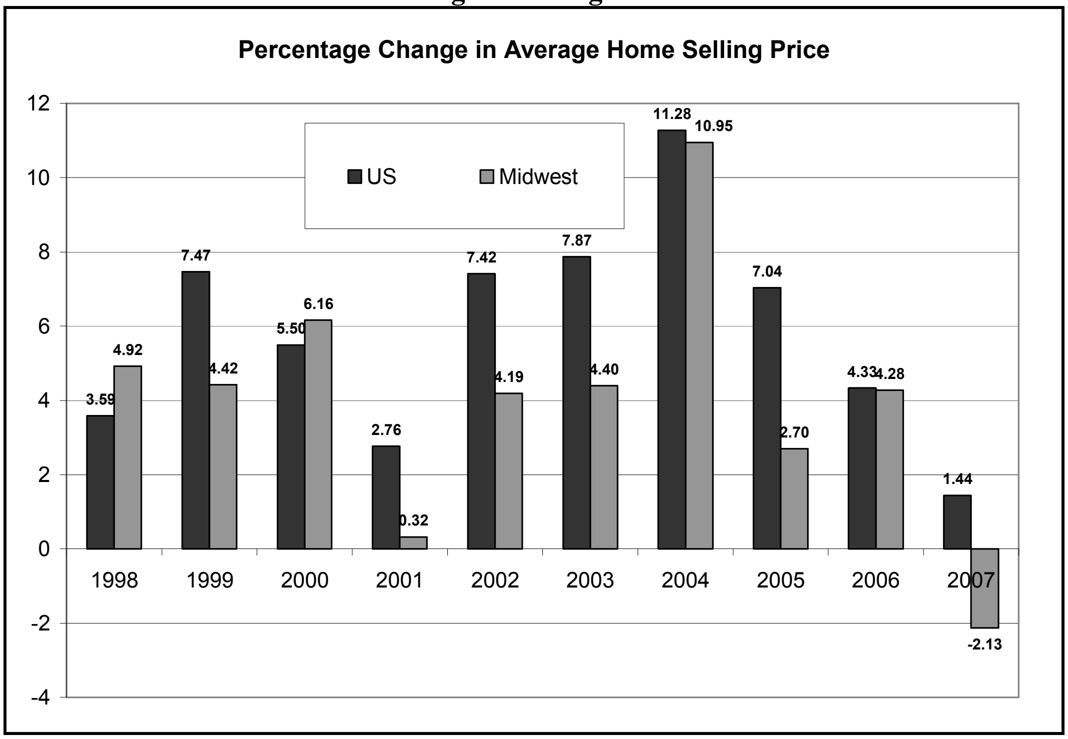
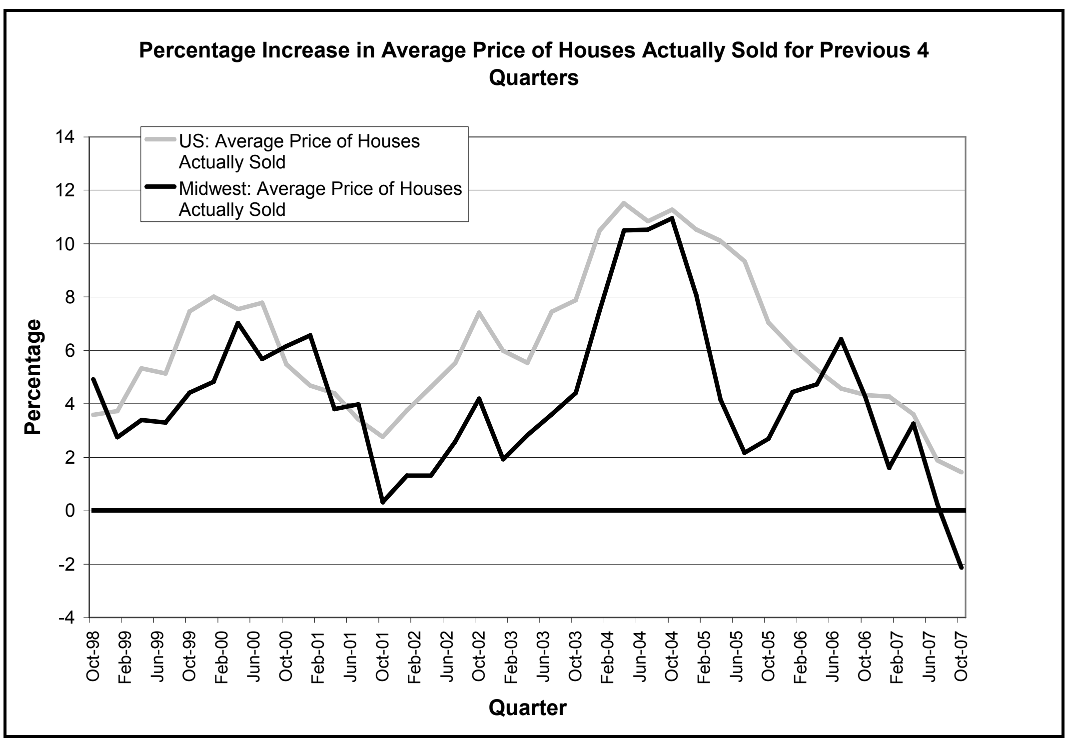
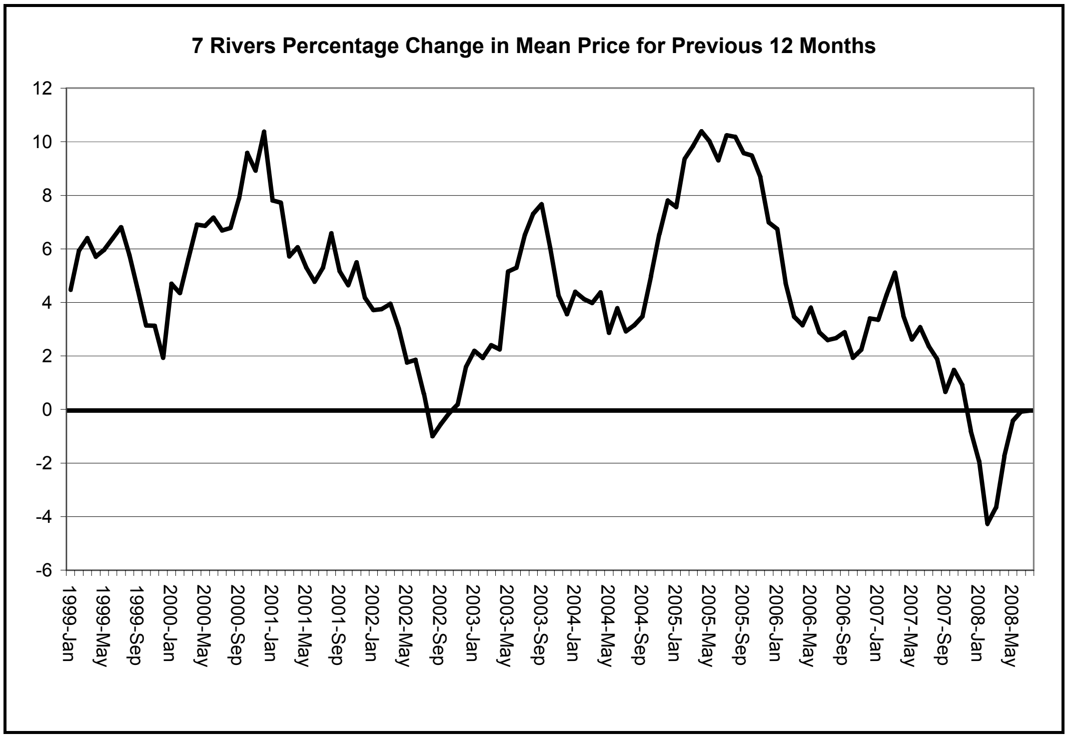
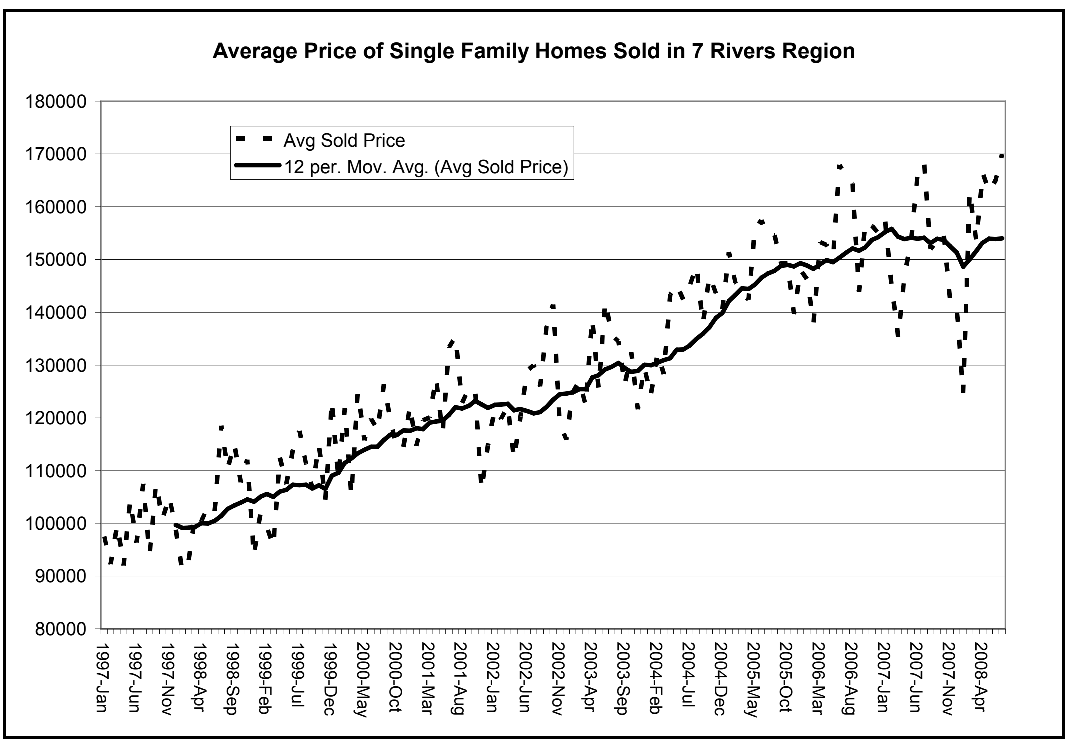
Jan-07
May-07
Sep-07
Jan-08
May-08

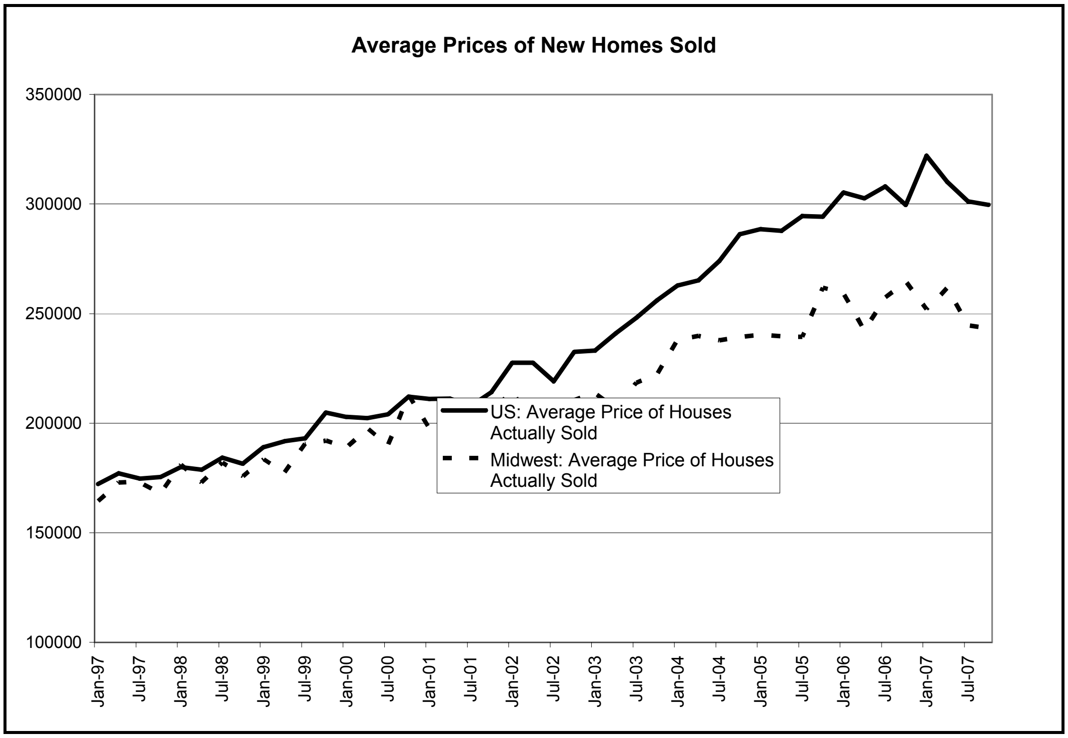
Change in Selling Prices

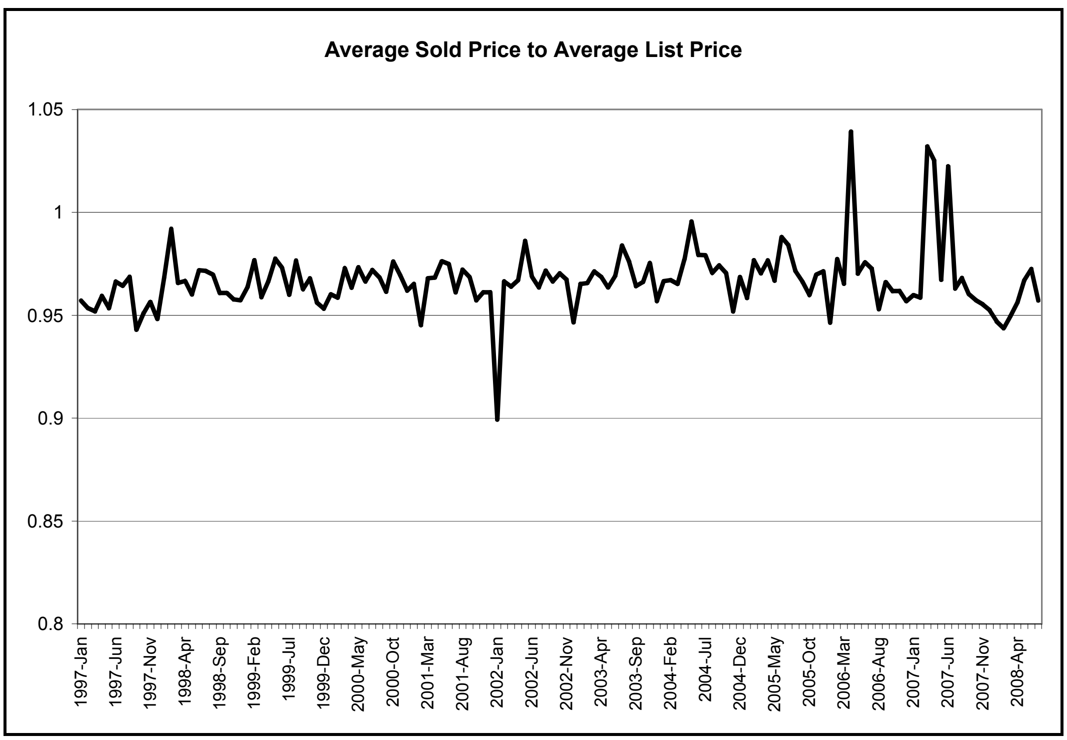


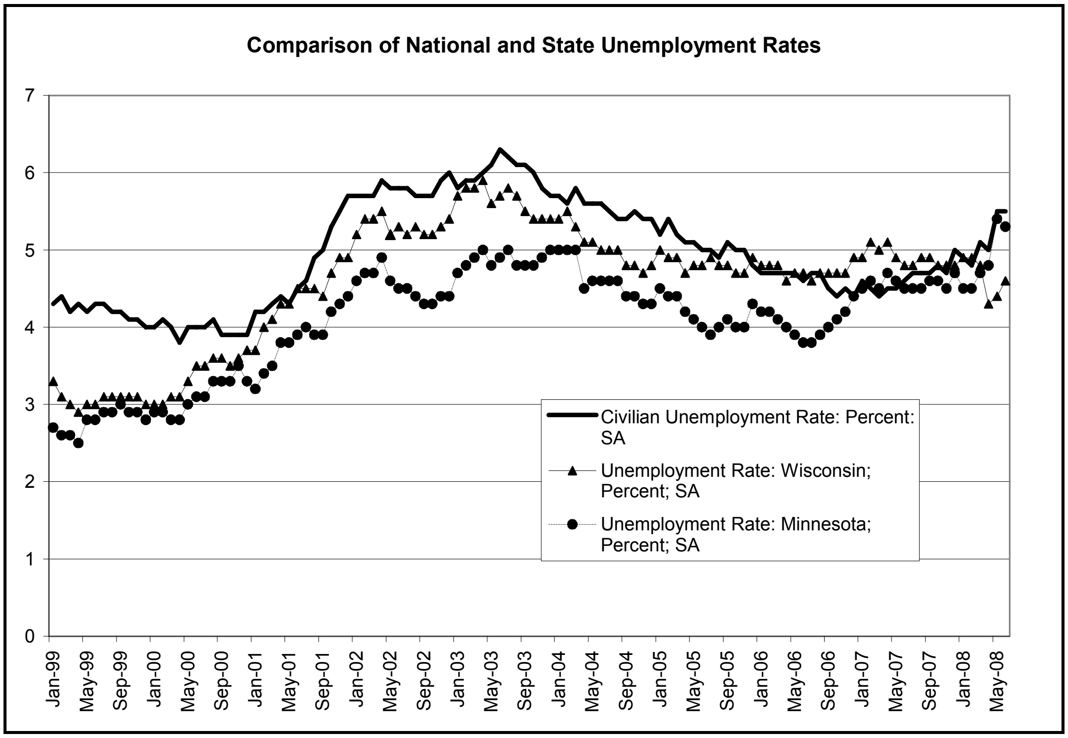


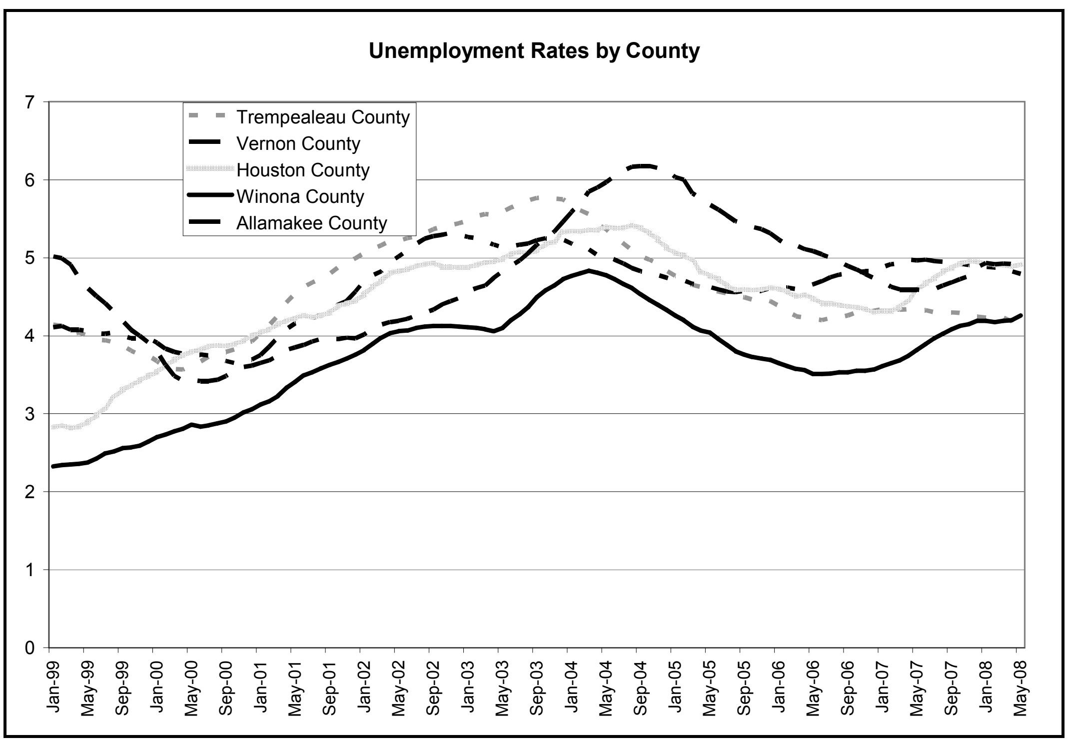

7 Rivers Percentage Change in Mean Price for Previous 12 Months
12
10
8
6
4
2
0
-2
-4
-6
1999-Jan
1999-May
1999-Sep
2000-Jan
2000-May
2000-Sep
2001-Jan
2001-May
2001-Sep
2002-Jan
2002-May
2002-Sep
2003-Jan
2003-May
2003-Sep
2004-Jan
2004-May
2004-Sep
2005-Jan
2005-May
2005-Sep
2006-Jan
2006-May
2006-Sep
2007-Jan
2007-May
2007-Sep
2008-Jan
2008-May

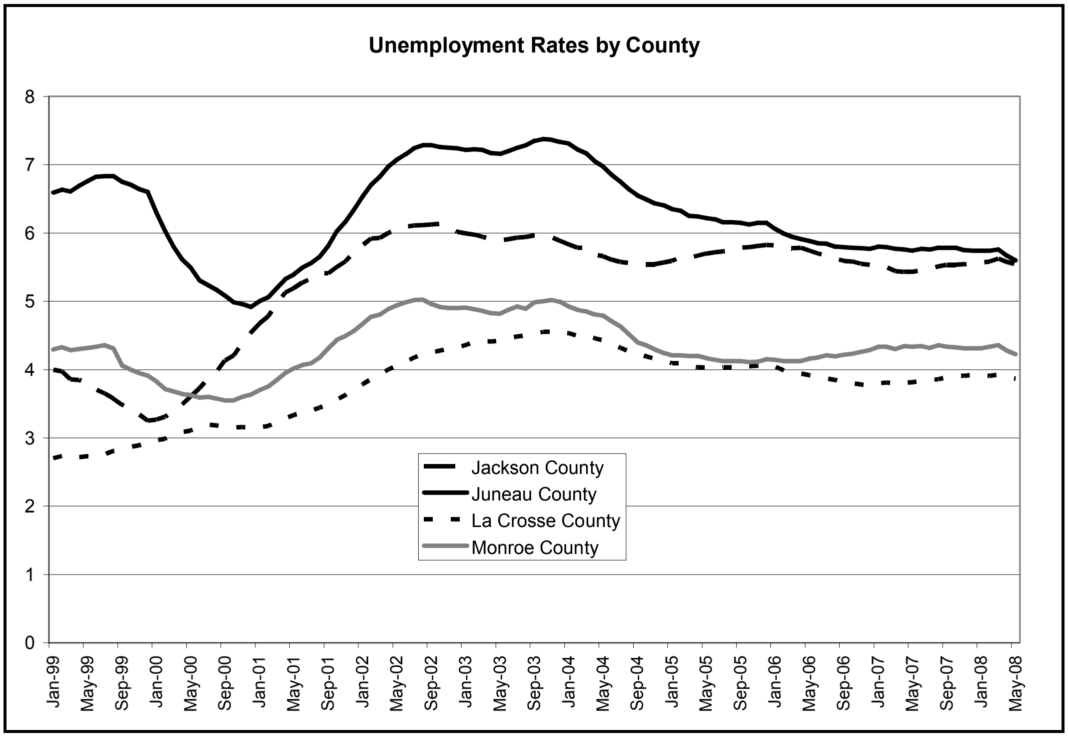

Average Price of Single Family Homes Sold in 7 Rivers Region
Avg Sold Price
12 per. Mov. Avg. (Avg Sold Price)
180000
170000
160000
150000
140000
130000
120000
110000
100000
90000
80000
1997-Jan
1997-Jun
1997-Nov
1998-Apr
1998-Sep
1999-Feb
1999-Jul
1999-Dec
2000-May
2000-Oct
2001-Mar
2001-Aug
2002-Jan
2002-Jun
2002-Nov
2003-Apr
2003-Sep
2004-Feb
2004-Jul
2004-Dec
2005-May
2005-Oct
2006-Mar
2006-Aug
2007-Jan
2007-Jun
2007-Nov
2008-Apr

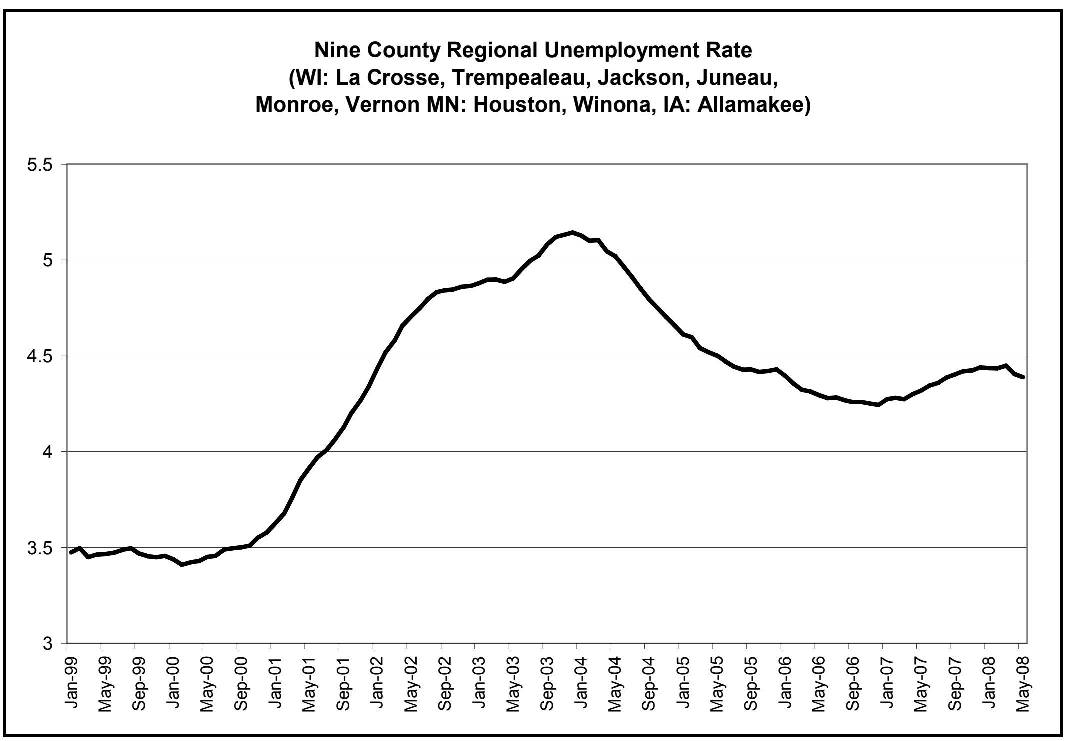

Average Prices of New Homes Sold
350000
300000
250000
200000
150000
100000
Jan-97
Jul-97
Jan-98
Jul-98
Jan-99
Jul-99
Jan-00
Jul-00
Jan-01
Jul-01
Jan-02
Jul-02
Jan-03
Jul-03
Jan-04
Jul-04
Jan-05
Jul-05
Jan-06
Jul-06
Jan-07
Jul-07
US: Average Price of Houses Actually Sold
Midwest: Average Price of Houses Actually Sold

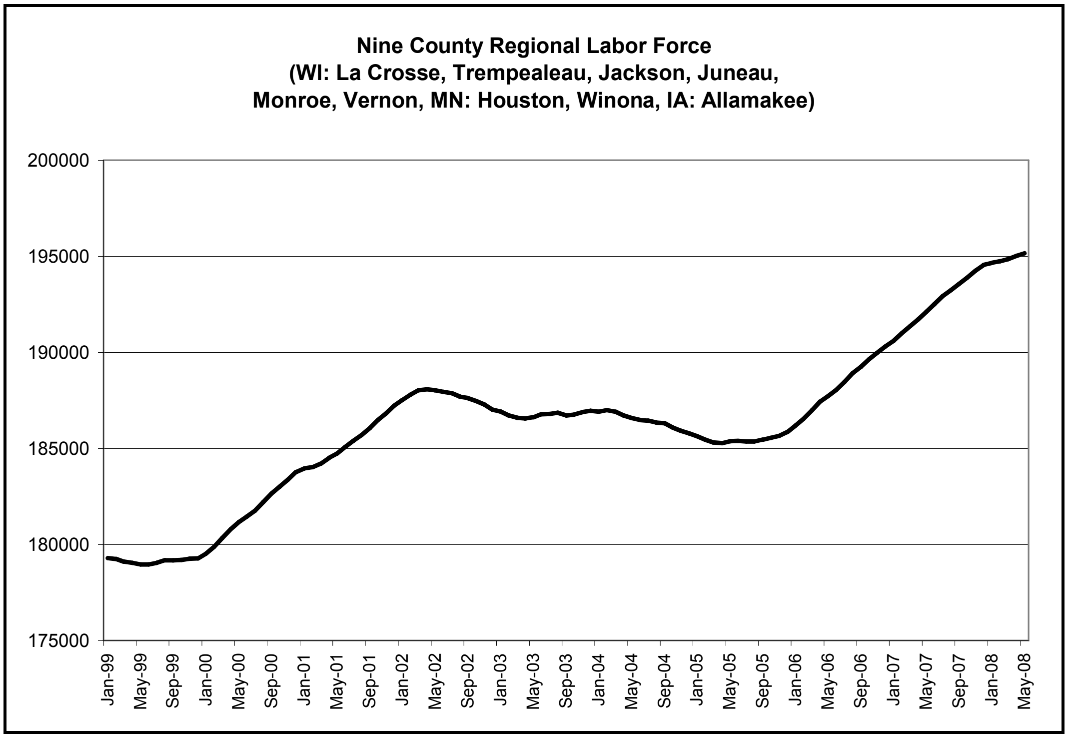

Average Sold Price to Average List Price
1.05
1
0.95
0.9
0.85
0.8
1997-Jan
1997-Jun
1997-Nov
1998-Apr
1998-Sep
1999-Feb
1999-Jul
1999-Dec
2000-May
2000-Oct
2001-Mar
2001-Aug
2002-Jan
2002-Jun
2002-Nov
2003-Apr
2003-Sep
2004-Feb
2004-Jul
2004-Dec
2005-May
2005-Oct
2006-Mar
2006-Aug
2007-Jan
2007-Jun
2007-Nov
2008-Apr

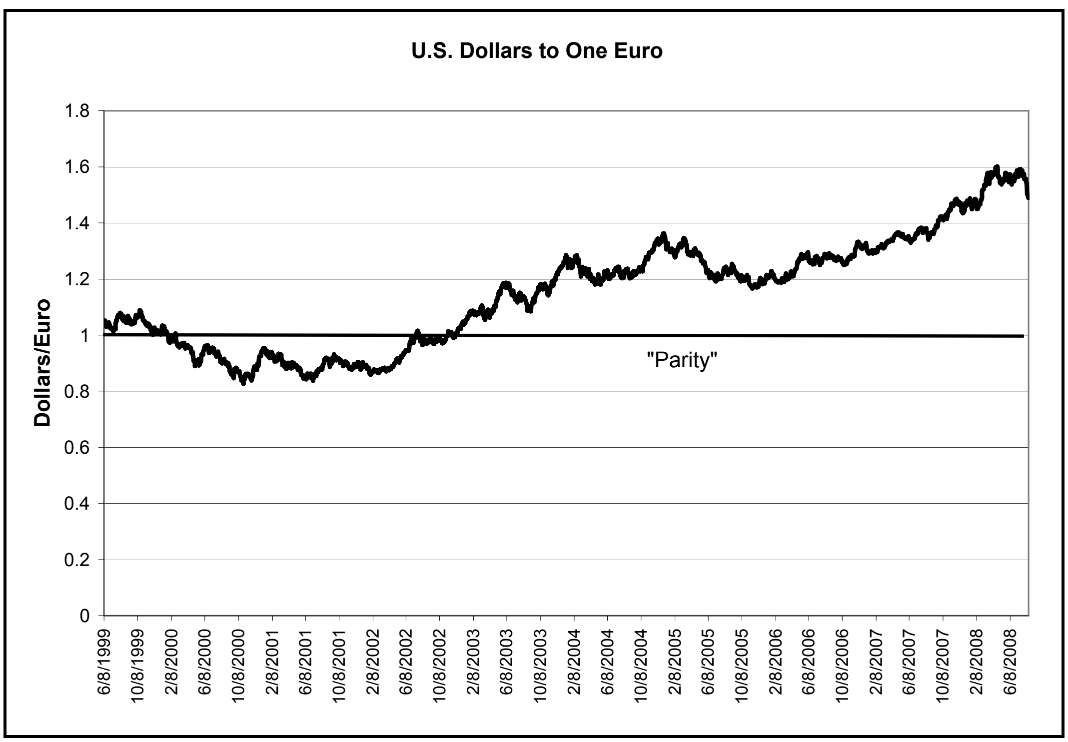

Comparison of National and State Unemployment Rates
0
1
2
3
4
5
6
7
Jan-99
May-99
Sep-99
Jan-00
May-00
Sep-00
Jan-01
May-01
Sep-01
Jan-02
May-02
Sep-02
Jan-03
May-03
Sep-03
Jan-04
May-04
Sep-04
Jan-05
May-05
Sep-05
Jan-06
May-06
Sep-06
Jan-07
May-07
Sep-07
Jan-08
May-08
Civilian Unemployment Rate: Percent: SA
Unemployment Rate: Wisconsin; Percent; SA
Unemployment Rate: Minnesota; Percent; SA

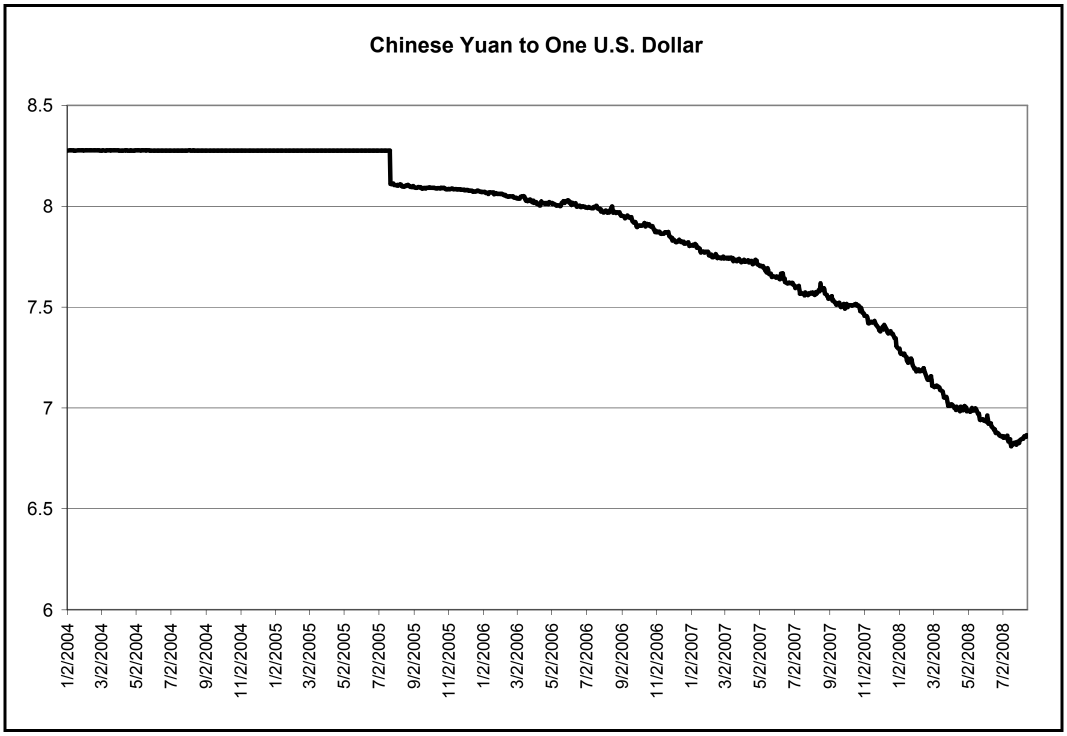

Unemployment Rates by County
0
1
2
3
4
5
6
7
Jan-99
May-99
Sep-99
Jan-00
May-00
Sep-00
Jan-01
May-01
Sep-01
Jan-02
May-02
Sep-02
Jan-03
May-03
Sep-03
Jan-04
May-04
Sep-04
Jan-05
May-05
Sep-05
Jan-06
May-06
Sep-06
Jan-07
May-07
Sep-07
Jan-08
May-08
Trempealeau County
Vernon County
Houston County
Winona County
Allamakee County


Unemployment Rates by County
8
7
6
5
4
3
2
1
0
Jackson County
Juneau County
La Crosse County
Monroe County
Jan-99
May-99
Sep-99
Jan-00
May-00
Sep-00
Jan-01
May-01
Sep-01
Jan-02
May-02
Sep-02
Jan-03
May-03
Sep-03
Jan-04
May-04
Sep-04
Jan-05
May-05
Sep-05
Jan-06
May-06
Sep-06
Jan-07
May-07
Sep-07
Jan-08
May-08

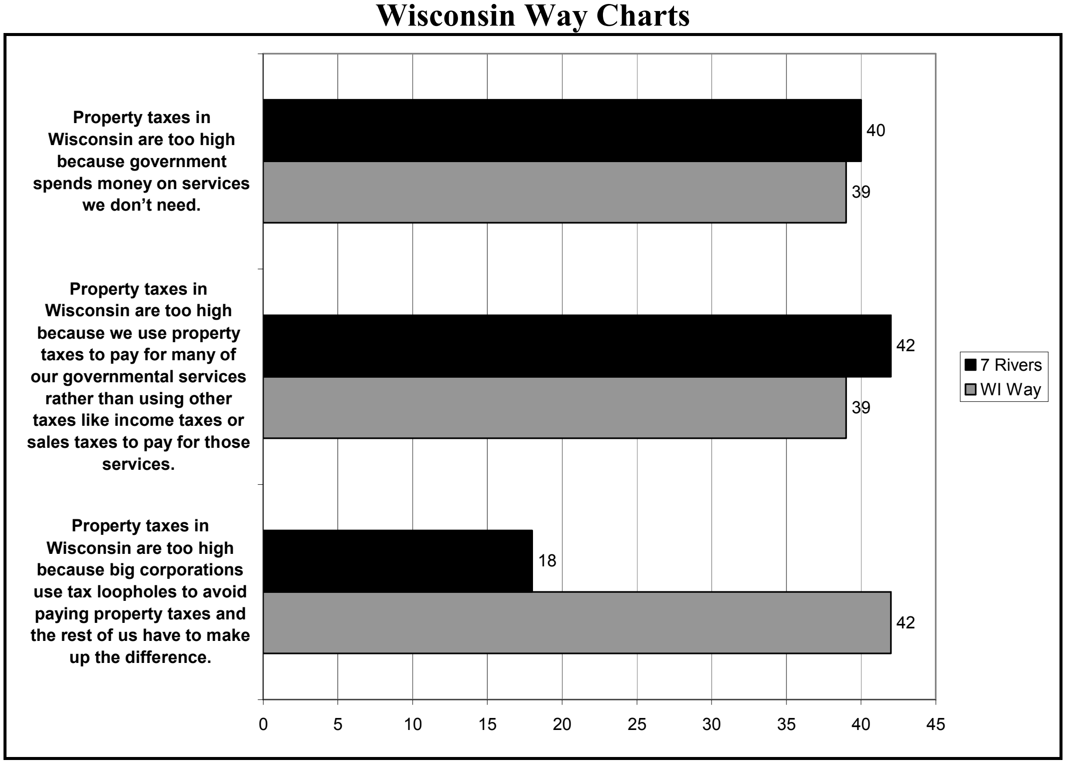

Nine County Regional Unemployment Rate
(WI: La Crosse, Trempealeau, Jackson, Juneau,
Monroe, Vernon MN: Houston, Winona, IA: Allamakee)
5.5
5
4.5
4
3.5
3
Jan-99
May-99
Sep-99
Jan-00
May-00
Sep-00
Jan-01
May-01
Sep-01
Jan-02
May-02
Sep-02
Jan-03
May-03
Sep-03
Jan-04
May-04
Sep-04
Jan-05
May-05
Sep-05
Jan-06
May-06
Sep-06
Jan-07
May-07
Sep-07
Jan-08
May-08

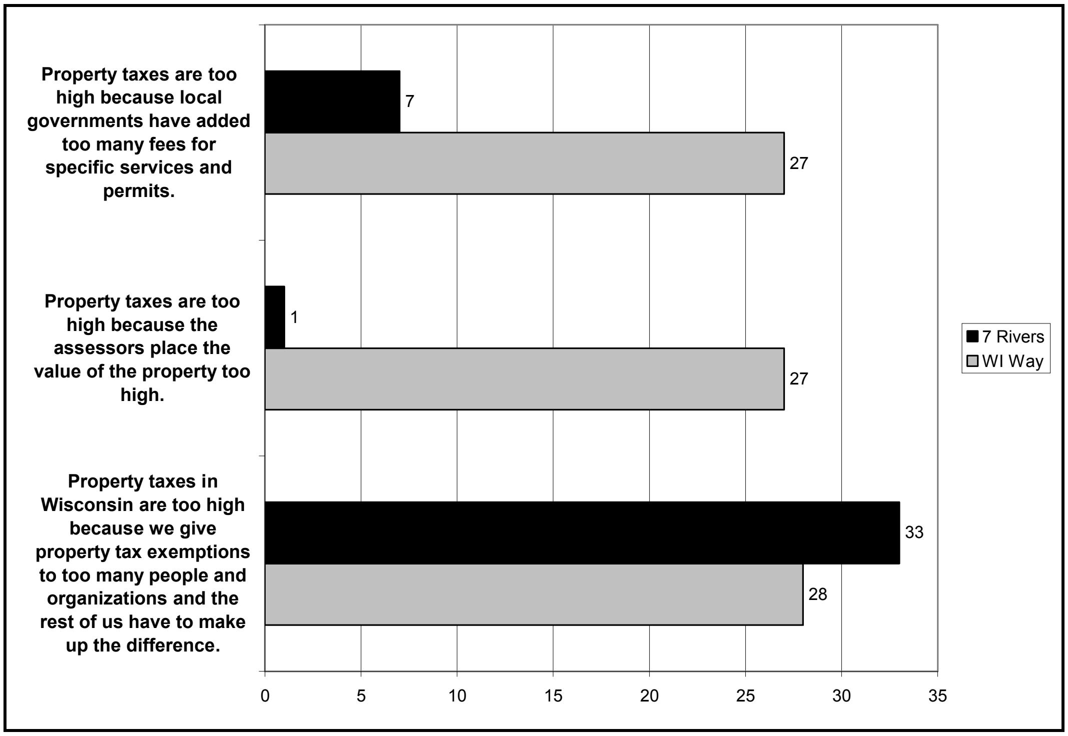

Nine County Regional Labor Force
(WI: La Crosse, Trempealeau, Jackson, Juneau,
Monroe, Vernon, MN: Houston, Winona, IA: Allamakee)
200000
195000
190000
185000
180000
175000
Jan-99
May-99
Sep-99
Jan-00
May-00
Sep-00
Jan-01
May-01
Sep-01
Jan-02
May-02
Sep-02
Jan-03
May-03
Sep-03
Jan-04
May-04
Sep-04
Jan-05
May-05
Sep-05
Jan-06
May-06
Sep-06
Jan-07
May-07
Sep-07
Jan-08
May-08


U.S. Dollars to One Euro
Dollars/Euro
1.8
1.6
1.4
1.2
1
0.8
0.6
0.4
0.2
0
"Parity"
6/8/1999
10/8/1999
2/8/2000
6/8/2000
10/8/2000
2/8/2001
6/8/2001
10/8/2001
2/8/2002
6/8/2002
10/8/2002
2/8/2003
6/8/2003
10/8/2003
2/8/2004
6/8/2004
10/8/2004
2/8/2005
6/8/2005
10/8/2005
2/8/2006
6/8/2006
10/8/2006
2/8/2007
6/8/2007
10/8/2007
2/8/2008
6/8/2008



Wisconsin Way Charts




Property taxes are too high because local governments have added too many fees for specific services and permits.
Property taxes are too high because the assessors place the value of the property too high.
Property taxes in Wisconsin are too high because we give property tax exemptions to too many people and organizations and the rest of us have to make up the difference.
7
27
1
27
33
28
0
5
10
15
20
25
30
35
7 Rivers
WI Way

The 7 Rivers Equity Index: Local Stocks for the Long Run

Thomas M. Krueger, D.B.A., Professor of Finance, UW-La Crosse Department of Finance

Introduction

Stocks for the Long Run is the best known book by Jeremy Siegel, a Professor of Finance at the Wharton School of Business at the University of Pennsylvania. Siegel is also a frequent financial contributor to publications like the *Wall Street Journal* and *The New York Times*. Its first edition was released in 1994, and fourth edition was released on November 27, 2007. According to Pablo Galarza of *Money Magazine*, Stocks for the Long Run sealed the conventional wisdom that most of us should be in the stock market," while *The Washington Post* called it one of the 10 best investment books of all time. Siegel argues that stocks have returned an average of 6.5 percent to 7 percent per year after inflation over the last 200 years. Even though the book has been termed "the buy and hold Bible," Siegel admits that he expects returns to be somewhat lower in the next couple of decades.

After, months of debate, ES Browning of *The Wall Street Journal* weighed in on July 3, 2008, followed by Morningstar on July 12, 2008. In essence, both questioned the accuracy of the assumptions and the very title of Siegel's text. In *Lost Decade Tarnish Stock's Image*, Browning questions the accuracy and even the very title of Siegel's book. Browning notes that over the prior decade stocks have been one of the worst investments, trounced even by Treasury bonds.

There are two issues to be addressed. One is "How bad has the last decade really been?" Have certain pockets of the stock market performed well? As will be shown, over the eight years ending December 2007, publicly held firms in the 7 Rivers Region earned an annualized rate of return of 4.9 percent. By contrast, the Dow Jones Industrial Average rose at an annualized rate of only 1.8 percent, and the Standard & Poor's 500 essentially earned a zero rate of return. Adding the returns of 2008 through July only augments the difference between the performance of the 7 Rivers Equity Index and popular equity index measures.

The other concern is whether the following decade will also be "lost." Consumer borrowing and spending kept the economy afloat after the dot-com, Y2K stock bubble burst in 2000. Emboldened by high home income values, people borrowed at levels rarely seen, pushing up corporate profits. But having higher profits and low inflation, in a world buffeted by surging energy prices, exploding health care costs, and economic sluggishness, is virtually impossible. As we enter the fall of 2008, the jobless rate is at its highest in four years. However, in a recent forum on the UW-La Crosse campus held by U.S. Representative Ron Kind, information was released showing that the 7 Rivers Region had not witnessed as rapid an economic deterioration.

Making investors and citizens in general even more nervous is the impending drama of the 2008 conventions, elections, and change in the White House. There appears to be some distinct differences between Senator Obama and Senator McCain's vision of prosperity. McCain promises to renew the full roster of President Bush's tax cuts and add more for businesses and upper-income individuals. Obama would repeal tax cuts on the wealthiest taxpayers and investors, while seeking additional tax cuts for senior citizens, middle-income taxpayers, and working poor. He also wants lots of new spending for health care, education, and many other federal programs. These proposals are being weighed by investors with an eye on the U.S. budget deficit that is expected to equal half a trillion dollars in 2009. With such concerns it is not a surprise that investors are nervous about any money they are putting at risk. What will the future hold, and more precisely, will there be another "lost" decade?

To gain insight to these questions, the remainder of this report examines the investment prospects of firms in the 7 Rivers Equity Index. Investment returns of the 7 Rivers Equity Index are compared to national stock market performance. Those companies that have contributed the most to the success of the 7 Rivers Equity Index will be identified. Following the policy adopted when the 7 Rivers Equity Index was first documented in 2002, the remainder of September's report will focus on the investment merits of local companies. Research tools used in this investigation include the Value Line Investment Survey, Morninstar.com, and my.zacks.com. For the most recent synopsis of managerial performance within 7 Rivers companies, please refer to the April 2008 edition of *7 Rivers Region: An Economic Update,* pp. 20-29.

The 7 Rivers Equity Index

Two criteria must be met for inclusion in the 7 Rivers Equity Index. One, the firm must be publicly held with share price data available from the financial press or Internet sources. Two, the company's headquarters must be within 100 miles of La Crosse, which includes the 7 Rivers Region. A listing of such companies is generated with the assistance of *ReferenceUSA*, a data service allowing one to screen public corporations by state. The thirteen companies currently in the 7 Rivers Equity Index set are identified in Table 1.

These are the same 13 companies that the 7 Rivers Equity Index had at the beginning of 2008. As you can see on the bottom of Table 1, 11 companies have dropped out of the 7 Rivers Equity Index because they were acquired by other corporations, went private, or went bankrupt. The most recent deletion resulted from Hain Celestial's acquisition of Eau Claire's TenderCare International in December 2007.

Performance of the 7 Rivers Equity Index, an equally-weighted index of regional companies, is presented in the first column of Table 2. The index is based on share prices, excluding dividends, which are obtained from Yahoo! Finance. The values listed in Table 2 represent the value of $100 invested in local shares on 12/31/1999. For instance, in 2000 the value of the 7 Rivers Equity Index dropped 9.3 percent to 90.7, meaning a $100 investment would have lost $9.30. Over the first seven years through December 2006, the 7 Rivers Equity Index rose 56.5 percent, to 156.5! Meanwhile, $100 invested in the Dow Jones Industrial Average would have been worth only $108.4, an $8.40 increase over seven years! Worse yet, investors in the Standard and Poor's 500 companies would have experienced a $3.50 loss per $100 invested.

The superior performance of the 7 Rivers Equity Index did not exist in 2007. Last year the 7 Rivers Equity Index declined by 8.8 percent. By contrast, the Dow Jones Industrial Average and Standard & Poor's 500 rose by 6.4 percent and 3.5 percent, respectively. Perhaps investors in local shares were simply quicker to adjust prices for the coming economic chill. Perhaps, local companies are not as sensitive to economic woes experienced on a national scale. Paralleling the situation in 2001 and 2002, (though local stocks dropped slightly in the midst of a general market swoon), local shares have risen during the first seven months of 2008 while major market indexes have declined by over 10 percent!

A $100 investment in the Dow on December 31, 1999 would now be worth only $99. A $100 investment in the S&P 500 would be worth $86.80! By contrast, a $100 investment in the 7 Rivers Equity Index would be worth $146.20. Although this only represents a 4.5 percent annual gain by the 7 Rivers Equity Index, the index exceeded the 3.11 percent inflation rate over the same period, as measured by the Consumer Price Index (Source: Bureau of Labor Statistics, as reported by www.econmagic.com). Furthermore, as will be pointed out below, average dividend yield is currently 3.1 percent.

Such relatively good performance requires verification, which is presented in Table 3. The first column reports individual 7 Rivers Region firm performance since the beginning of 2008, while the right hand column includes returns since inclusion. All of the public local financial institutions experienced a share price decline during the first seven months of 2008, ranging from a decline of 3.0 percent at Citizens Community Bank to a decline of 40.9 percent at HMN Financial. However, offsetting these losses, are the positive returns—actually superb returns, when considering the overall market performance—at Marten Transportation (+49.0 percent), National Presto (+37.9 percent), and Fastenal (+23.5 percent)! Marten Transportation reported that operating revenue increased by 12.3 percent during the first six months of 2008, and a 2.7 cent per mile increase net of costs, including fuel surcharges. In January 2008, Motley Fool selected National Presto as one of four "obvious" stock selections, accurately forecasting that the economic downturn would increase the demand for kitchen cookware and appliances, which enable consumers to save money by preparing meals at home. The average of the 2008 returns presented in Table 3 is 2.4 percent, which is consistent with the number in parentheses for July 2008 exhibited on the bottom of Table 2.

Fastenal (352.5 percent) and Rochester Medical (+224.7 percent) share prices rose by over 200 percent in 103 months. This equates to an average annual yield exceeding 13 percent. The superb returns in 2008 have helped Marten Transportation's and National Presto's returns since inception to surpass the 100 percent mark. Such good returns are more than sufficient to offset the three declines in value from investment in Flexsteel Industries, Merchants Financial Group, and Wausau-Mosinee Paper.

The bottom half of Table 3 recaps the holding period return of the eleven 7 Rivers Region firms that are no longer publicly traded companies. A majority of these firms provided a positive return. In fact, three (Bone Care International, First Federal Capital, and TenderCare International) provided a return of 100 percent, or more! Hence, despite the huge losses associated with the bankruptcies at Northland Cranberries and Sheldahl, deleted firms added value to the 7 Rivers Equity Index during the period they could be purchased, and would have outperformed and Dow Jones Industrial Average and S&P 500!

On average, companies still in the 7 Rivers Equity Index have provided a 76.9 percent return since January 2000. The 11 deleted companies provided an average rate of return of 9.8 percent. Calculation of the weighted average results is an average rate of return of 46.2 percent. Adding the original $100, we get the current $146.2 value of the 7 Rivers Equity Index, as of July 2008, which was reported in Table 2.

Local Common Stock Characteristics

Risk and Return Insights from Value Line

As shown above, local shares have performed markedly better than the two aggregate measures of stock market performance. It has not been a lost decade in the 7 Rivers Region! Looking forward, investors are wondering what the next decade holds in store for local firms. In order to gain insight to this issue, information from Value Line Incorporated, Morningstar, and Zacks Investment Research was obtained. These firms are in the business of selling information. Hence, their focus is on producing accurate reports that are not biased towards the purchase of certain stocks. All information presented here is freely available.

Value Line publishes more than a dozen print and electronic products, but is best known for *The Value Line Investment Survey*. The survey is a comprehensive source of information and advice, with one-page of *Ratings and Reports* devoted to each of 1700 large companies, plus a two-page discussion of industry prospects. The slightly larger Small- and Mid-Cap Edition provides almost as much information about 1800 more firms. A complete set of publications is available at both the La Crosse Public Library and UW-La Crosse's Murphy Library.

Several measures of stock price performance are provided by Value Line. Table 4 exhibits individual firm rankings and measures for the ten 7 Rivers Region firms analyzed by Value Line. Value Line measures have been examined since 2004, allowing for the analysis of changes in firm rankings. The following paragraphs describe each measure and how some of the 7 Rivers Region firms size up on that metric.

Timeliness Ranking is Value Line's rating of a stock's probable performance over the next 6 to 12 months. Stocks ranked 1 (the highest) and 2 (above average) are likely to outperform the market, while those ranked 4 (below average) and 5 (the lowest) are expected to underperform the market. There are only 200 companies in the extreme categories of Timeliness, Safety, and Technical Ranking. As shown in the first row of Table 4, Heartland Financial has a ranking of 1, the best. The arrow next to the "1" indicates that this ranking is higher than it was a year ago. HMN Financial and Wausau-Mosinee Paper have a Timeliness ranking of 4. The arrow was placed next to the "4" for Wausau-Mosinee Paper because it represents a drop of two ranks from its 2007 ranking of "2". HMN Financial was ranked "3" in 2007. One negative signal about the future is that the July 2007 average Timeliness ranking is worse than it was, on average, over the prior four years.

Safety Ranking is Value Line's measure of the potential risk associated with the financial strength of an individual stock (e.g., financial leverage) and price stability (e.g., stock price variance). Safety rankings range from 1 (most secure) to 5 (most risky). As shown on the second row of Table 4, Hormel and HMN Financial are considered the most secure, while none of the 7 Rivers Equity Index firms have a safety rating below "3". A downward-pointing arrow is next to the HMN Financial "2", because this represents a decline from last year's safety rank of "1". The safety rankings have been very stable and better than the overall average of 3.0 for all firms in the Value Line universe.

Technical Ranking is Value Line's predictor of short-term (three to six months) relative price change for a stock. Technical rankings are based on 10 relative price trends for a particular stock over different periods in the past year. As shown in the third row of Table 4, Marten Transportation has the highest technical rankings, which is an increase from 2007. In contrast, Rochester Medical's technical ranking is now one notch below the average, which is lower than it was in 2007. The 2008 average technical rank is about 10 percent better than it was during the 2004-2007 period.

Institution Buy/Sale Ratios allow one to compare the performance and implied sentiment of professional money managers. The 1.0 value for Fastenal indicates that institutional investor purchases equaled sales over the past quarter. At the high end, institutional investor purchases were seventy percent higher than sales at Heartland Financial. The greatest increase in institutional purchasing occurred at Renaissance Learning. By contrast, institutional purchases were only 60 percent of sales at Heartland Financial, which experienced the largest drop in institutional demand among 7 Rivers Region Equity Index firms. Overall, the number of institutional purchases versus sales is up slightly in 2008 from the 2004-2007 average.

Price Stability, given in fifth row of Table 4, is based on a ranking of the standard deviation of weekly price changes over the past five years. Value Line reports price stability on a scale from 100 (highest) to 5 (lowest) in increments of 5. While Hormel has the highest price stability rating among 7 Rivers Region Equity Index firms, the greatest increase in price stability was experienced by Heartland Financial. The most volatile stock is Renaissance Learning, with a price stability rating of only 20. However, the greatest increase in price instability, occurred in the pricing of Wausau-Mosinee Paper. Overall, prices were slightly less stable in 2008 than they were during the prior four years. This similarity is not necessarily a surprise because five years are used in creating a measure of price stability.

Price Growth Persistence, exhibited in the sixth row of Table 4, is Value Line's proprietary measure of the tendency of share prices to rise when compared to other stocks. It also is measured on a scale from 100 to 5, in increments of 5. With a rating of 100, Fastenal has the highest level of persistent stock price growth. Not only has Fastenal had the highest returns among 7 Rivers Region Equity Index firms, as was exhibited in Table 3, but reading indicates that those returns have been spread fairly evenly across time.

Rochester Medical has experienced the most dramatic improvement in growth price persistence, though with a value of 50 its persistence is only consistent with an average firm. By contrast, Renaissance Learning's growth price persistence dropped to 15. Such a reading is not a surprise given that its stock price has deviated by 100 percent, from $10 to $20 over the past two years. Although growth price persistence fell from 57 in 2007 to 52 in 2008, it is still above the 2004-2007 average.

Beta measures, exhibited in the seventh row of Table 4, are reported by Value Line with a regression towards the mean using a proprietary model. That is, Value Line does not expect firms that exhibit large deviations from general market performance to have the same abnormal level of performance the following year. Not surprisingly, industrial concerns Fastenal and Wausau-Mosinee Paper are the most sensitive to market conditions. Meanwhile, Flexsteel (the maker of upholstered furniture for use in homes, businesses, and recreational vehicles) and HMN Financial have the lowest sensitivities to market conditions. As one would expect given their role as a dispenser of goods, Marten Transportation's sensitivity to market performance has intensified during the past year. Also, given that the consumption of SPAM© probably rises with market declines, the correlation of Hormel's price with the market would be expected to drop during the current economic downturn. With an average beta of 1.0, local firm beta values equal the market average. Therefore, the 7 Rivers Region Equity Index's abnormally good performance cannot be attributed to taking additional risk.

Dividend yield, which is exhibited in the eighth row of Table 4, is the ratio of the dividend payments over the next 12 months, as estimated by Value Line, divided by the current price. Several 7 Rivers Region Equity Index companies pay dividends at a rate exceeding what local investors would receive on savings accounts, with National Presto leading the way at 8.4 percent. Two local firms (Marten Transportation and Rochester Medical) do not pay a dividend. The increase in HMN Financial's dividend yield is a result of its stock price decline. There has been a significant increase in the dividend payments, from $1.70 to $3.10 per $100 invested.

Price projections, given in the last two rows of Table 4, are Value Line's estimate of the annual, compound total rate of return for the largest firms in the 7 Rivers Index. Yields are based on appreciation from the current price to both the high and low ends of the anticipated price range in three to five years. Because the data being used was published in mid-2008, the forecast is for the period from July 2011 to June 2013. Unfortunately, Value Line makes these predictions only for a select group of typically larger firms. While share prices for National Presto common might grow at a thirty-two percent annual rate, Hormel's best, projected annual performance is only nineteen percent. Fastenal received the biggest increase in maximum price projections, while Wausau-Mosinee Paper witnessed a drop from 29 percent to 20 percent.

Value Line predicts that, at worst, Wausau-Mosinee Paper will provide a capital gain of ten percent, which is down from 19 percent last year. National Presto's price, at worst, is expected to increase by 21 percent. The current average maximum growth rate is the same as it was during the 2004-2007 period. However, the current estimated minimum growth rate is higher than before, which is a good sign for the future.

Valuation Insights from Morningstar

Morningstar is an investment research firm providing commentary, portfolio management tools, and detailed reports on stocks and mutual funds. It can be accessed at www.morninstar.com. This report studies the pricing of securities, relative to earnings, sales, and cash flow, which is presented in Table 5. One advantage of Morningstar's investigation is that although Value Line's financial analysts might not review small firms, all public firms have a share price and are likely to have earnings, sales, and cash flows. Financial analysis is performed on 11 of the 13 firms in the 7 Rivers Region Equity Index. Despite the economic slowdown, only Wausau-Mosinee Paper had negative earnings and Rochester Medical reported a negative cash flow. Of course, all firms have a price/sales ratio because all had sales.

Price/Earnings ratios divide a stock's current price by the company's trailing 12-month earnings per share. The higher the price/earnings ratio, generally the more confident the investor that the firm will provide earnings growth in the future. As shown in the first two columns of Table 5, almost twice as many firms had price/earnings ratios exceeding their industry average, as opposed to being less than their industry's average. Marten Transportation had the greatest percentage increase in price earnings ratio. Rochester Medical's high price/earnings ratio, in a period when its share price dropped, indicates that the firm had a significant drop in earnings.

The strength of 7 Rivers Region Equity Index companies can be seen in the average rows at the bottom of Table 5. The current price/earnings ratio is higher than it was in the 2005-2007 period. By comparison, the industry price/earnings ratios dipped dramatically. One can also observe a drop in the Standard & Poor's 500's price/earnings ratio. Over the 2005-2007 period, the 7 Rivers Region Equity Index firm's price/earnings ratio was 3.2 (22.5 – 19.3) higher than the S&P Average. Local firm price/earnings ratios now exceed the S&P average by 5.1.

Price/Sales ratios, exhibited in the center columns of Table 5, divide a company's current price by sales per share over the past 12 months. Price/sales ratios are commonly considered in conjunction with price/earnings ratios because even companies with negative earnings produce sales. Generally, confident investors pay more for shares, which implies that they will pay more per dollar of sales. Reviewing the center two columns of Table 5, approximately half of the 7 Rivers Region Equity Index firms had price/sales ratios exceeding their industry average. Although Fastenal, Renaissance Learning, and Rochester Medical have price/sales ratios exceeding 3.0, only Fastenal and National Presto have price/sales ratios twice their industry's average.

Hormel's price/sales ratio had the largest percentage increase, which as noted above might be due to Hormel's low level of systematic risk. Given the nationwide problems at financial institutions, it is not surprising that HMN Financial registered the largest percentage decline in the price/sales ratio. Though still higher than the industry average, the 2008 average price/earnings ratio is lower than the 2005-2007 average. Meanwhile, the average S&P company had a higher price/sales ratio than observed in local companies or their industries.

Price/cash flow ratios, presented in the right columns of Table 5, divide a company's current price by cash flow per share over the trailing 12 months. Price/cash flow ratios show the ability of a business to generate cash and can be an effective gauge of liquidity and solvency. Again, about twice as many 7 Rivers firms reported higher price/earnings ratios than their industry. As in 2007, the greatest valuation difference was observed at Citizen's Community Bank, where investors are paying almost nine times the industry average per dollar of cash flow. At the other extreme, large a negative cash flow out flow of $30.6 million for expansion resulted in a large negative price/cash flow number at Rochester Medical. This large negative value held down the 2008 average price/cash flow ratio. In prior years, the price/cash flow ratio of 7 Rivers firms had been about thirty-three percent higher than the industry and S&P 500 averages.

Average Broker Recommendations from Zacks Investment Research
The paragraphs above present a significant amount of information regarding historical return, risk, and current valuations. Nonetheless, one still has to decide whether or not to buy a specific company. To gain insight to the correct decision, average broker recommendations (ABRs) were obtained from Zacks Investment Research, which uses the flowing five-step scheme to rate companies:

1: Buy 2: Outperformance expected 3: Hold 4: Underperformance expected 5: Sell

ABRs, the number of analysts giving a recommendation, perceived pricing errors, industry rank, and company rank within their primary industry are exhibited in Table 6. HMN Financial has a "Buy" rating, but only one recommendation. Among those with at least four recommendations, Fastenal (2.5) has the highest average ABR rating and Heartland Financial (3.00) the lowest average rating. Given the similarity of these numbers, more insight probably arises from the direction of ABR change. Specifically, Marten Transportation's ABR rating rose, while that of Heartland Financial dropped. On average, local companies have an ABR rating of 2.3, which is between "Outperformance Expected" and "Hold (current position)." The current average ABR equals the average from the 2006-2007 period.

An important insight provided by Zacks is a ratio of a firm's estimated value relative to its current value. The estimated value of Wausau Paper is 95 percent higher than the current value. At the other extreme, Marten Transportation is considered to be worth only 95 percent of its current value. However, if one were to short Marten Transportation stock, and buy it back after it had dipped five percent, much of the gain would be absorbed by transaction costs and taxes.

Zacks also ranks industries and firms within industries on the basis of expected price performance over the coming year. The larger the values in columns four and five of Table 6, the better the anticipated performance of the industry (in column 4) and the firm (column 5). The fourth column of Table 6 shows that Renaissance Learning and Hormel are considered to be in two of the better industries. The largest percentage rise in industry rank was recorded by the paper industry, while National Presto's "diversified" industry experienced the largest percentage drop. On average, the industries in which one finds the 7 Rivers Equity Index firms are about 10 percent less highly regarded than in the 2006-2007 period.

Of course, the 7 Rivers Equity Index firms might be stars in otherwise lackluster industries. For instance, HMN Financial and Wausau-Mosinee Paper are in the top quintile of industries that fall into the bottom half in the industry ranking. In fact, HMN Financial is rated near the top of its financial sector. The drop in percentile rank for Marten Transportation within the trucking industry, in light of generally good information about Marten Transportation reported above, might reflect even greater improvement by other firms in the trucking industry. With only three of 11 firms in the top half of their industry's rankings, it is not a surprise that the 2008 average percentile rank in industry has dropped from the 2006-2007 average.

Summary

Should one purchase "stocks for the long run?" To answer this question, this report analyzed the 7 Rivers Equity Index, a measure of the share price performance of firms headquartered in the local area. Local firms have outperformed stock market benchmarks during this decade, with the difference increasing significantly during the first seven months of 2008. In fact, while the Dow Jones Industrial Average and S&P 500 advanced during only two months in 2008, the 7 Rivers Equity Index has registered gains in five months. Since their inclusion in the 7 Rivers Equity Index, the stock prices of only three common stock prices have declined. Even if one had held the portfolio of firms that are no longer in the 7 Rivers Region Equity Index, they would have done better than major market indexes.

Three Web sites available to readers at no charge were used to examine the investment value of local companies. Many of the common stock characteristic measures bode well for 7 Rivers Region Equity Index firms, including having a higher Timeliness ranking, technical rating, institutional buy/sell ratio, price growth persistence rating, and dividend yield, versus the average values from the past four years. When analyzing the total return from share price appreciation and dividend yields, one can paraphrase Jeremy Siegel, saying that investors should have been in local stocks so far in this millennium.

Firm valuation measures, including higher average prices per dollar of earnings, sales, and cash flow (excluding Rochester Medical's investment in new facilities), when compared to industry benchmarks, suggest that investors are confident about the continued success of local companies. With a lower price/sales ratio than the S&P 500, local firm share prices will be less sensitive to any reductions in sales as the recession lingers onward.

Although brokerage recommendations have held steady, estimated value per dollar of current price, industry rankings, and firm rankings within industries have declined slightly. Hence, careful analysis should be made of individual 7 Rivers Region Equity Index firms before investment. What is clear is that, the performance of local firms have run counter to national trends and all is not lost on the investment front. There appears to be good investment opportunities among local companies for the long run.

Table 1. 7 Rivers Equity Index

The headquarters of each of these public firms is within 100 miles of La Crosse

Wisconsin		
Baraboo Bancorporation (BAOB)	Baraboo	Retail banking
Citizens Community Bank (CZWI)	Eau Claire	Retail banking
Marten Transportation (MRTN)	Mondovi	Trucking
National Presto (NPK)	Eau Claire	Cookware
Renaissance Learning (RLRN)	Wisconsin Rapids	Educational software
Wausau-Mosinee Paper (WPP)	Mosinee	Paper products
Minnesota		
Fastenal (FAST)	Winona	Threaded fasteners
HMN Financial (HMNF)	Spring Valley	Savings & loan
Hormel (HRL)	Austin	Pork and turkey processing
Merchants Financial Group (MFGI)	Winona	Retail banking
Rochester Medical (ROCM)	Stewartville	Urinary treatment products
Iowa		
Flexsteel Industries (F LXS)	Dubuque	Home furnishings
Heartland Financial USA (HTLF)	Dubuque	Retail banking

Firms included in the La Crosse Equity Index that are no longer publicly held:
- Ag Services of America – acquired by Rabobank (1/2004)
- Bone Care International – acquired by Genzyme Corporation (6/30/2005)
- Featherlite – acquired by Universal Trailer Holdings (10/2006)
- First Federal Capital Corporation – acquired by Associated Banc-Corp (10/29/2004)
- La Crosse Footwear – relocated to Oregon (3/2001)
- Land's End – acquired by Sears (6/2002)
- Northland Cranberries – privatized (11/2005)
- Pemstar – acquired by Benchmark Electronics (1/2007)
- Sheldahl – bankrupt (4/2002)
- State Bank La Crosse – privatized (2/2003)
- TenderCare International – acquired by Hain Celestial Group (12/2007)

Table 2. Comparative Index Performance

Since 12/31/1999 Index Value of 100
(Year-to-Year Change in Parentheses)
[12/2006-to-Month Change in Brackets]

	7 Rivers Equity Index		Dow Jones Industrial Average		Standard & Poor's 500	
12/1999	100.0	(n/a)	100.0	(n/a)	100.0	(n/a)
12/2000	90.7	(-9.3%)	93.8	(-6.2%)	89.9	(-10.1%)
12/2001	98.6	(8.7%)	87.2	(-7.0%)	78.2	(-13.0%)
12/2002	98.1	(-0.4%)	72.6	(-16.7%)	59.9	(-23.4%)
12/2003	114.0	(16.2%)	90.9	(25.3%)	75.7	(26.4%)
12/2004	135.8	(19.2%)	93.8	(3.1%)	82.5	(9.0%)
12/2005	136.5	(0.5%)	93.2	(-0.8%)	85.0	(3.0%)
12/2006	156.5	(14.6%)	108.4	(16.3%)	96.5	(13.5%)
12/2007	142.8	(-8.8%)	115.4	(6.4%)	99.9	(3.5%)
January 2008	147.2	[3.1%]	110.0	[-4.6%]	93.9	[-6.1%]
February 2008	144.5	[1.2%]	106.7	[-7.5%]	90.6	[-9.4%]
March 2008	144.7	[1.3%]	106.7	[-7.5%]	90.0	[-9.9%]
April 2008	147.5	[3.3%]	111.5	[-3.4%]	94.3	[-5.6%]
May 2008	148.4	[3.9%]	109.9	[-4.7%]	95.3	[-4.7%]
June 2008	137.0	[-4.1%]	98.7	[-14.4%]	87.1	[-12.8%]
July 2008	146.2	[2.4%]	99.0	[-14.2%]	86.2	[-13.7%]

Table 3. Recap of Holding Period Returns			
Firm	**Date of Inclusion**	**Return Since 12/31/2007**	**Return Since Inclusion**
Baraboo Bancorporation	July 2003	- 24.7%	11.5%
Citizens Community Bank	April 2004	- 3.0%	30.4%
Fastenal	January 2000	23.5%	352.5%
Flexsteel Industries	January 2000	-1.0%	-11.1%
Heartland Financial	November 2000	15.1%	50.0%
HMN Financial	January 2000	- 40.9%	28.9%
Hormel	January 2000	- 9.7%	90.1%
Marten Transportation	January 2000	49.0%	142.2%
Merchants Financial Group	December 2005	- 4.5%	-13.0%
National Presto	January 2000	37.9%	104.6%
Renaissance Learning	January 2000	- 8.7%	14.2%
Rochester Medical	January 2000	3.6%	224.7%
Wausau-Mosinee Paper	January 2000	- 2.7%	-25.2%
Deleted Companies		**When Deleted**	**Return over period in 7 Rivers Index**
Ag Services	January 2000	January 2004	- 43.2%
Bone Care International	January 2000	June 2005	161.4%
Featherlite	January 2000	October 2006	16.6%
First Federal Capital	January 2000	October 2004	127.7%
La Crosse Footwear	January 2000	March 2001	- 49.3%
Land's End	January 2000	June 2002	78.3%
Northland Cranberries	January 2000	November 2005	- 98.7%
Pemstar	September 2000	January 2007	-76.9%
Sheldahl	January 2000	April 2002	-100.0%
State Bank of La Crosse	January 2000	February 2003	8.1%
TenderCare International	December 2005	December 2007	100.0%

Table 4. Common Stock Characteristics for 7 Rivers Equity Index Members

Data Provided by Value Line Investment Survey[a]

Arrows reflect the direction of change for the company with the amount amount of change for a specified Value Line-reported characteristic[b]

	Fastenal	Flexsteel	Heartland Financial	HMN Financial	Hormel	Marten Transportation	National Presto	Renaissance Learning	Rochester Medical	Wausau-Mosinee Paper	**2008 Average**	**2004 – 20007 Average**
Timeliness Ranking	2	3	1↑	4	3	3	2	2	3	4↓	2.7	3.0
Safety Ranking	3	3	3	2↓	1	3	3	3	3	3	2.7	2.6
Technical Ranking	2	3	2	3	2	1↑	3	3	4↓	3	2.6	2.9
Institution Buy/Sale Ratio	1.0	1.5	0.6↓	1.7	1.4	0.8	1.6	1.4↑	1.4	1.3	1.3	1.1
Price Stability	60	70	80↑	90	95	25	75	20	25	50↓	59	62
Price Growth Persistence	100	25	10	70	85	80	65	15↓	50↑	15	52	48
Beta	1.3	0.6	1.0	0.6	0.8↓	1.1↑	0.9	1.2	0.8	1.5	1.0	0.8
Dividend Yield (%)	1.1	4.5	1.8	6.5↑	2.0	0.0	8.4	2.1	0.0	4.3	3.1	1.7
3- to 5-Year Projected Returns												
Maximum	23↑	na	na	na	19	na	32	24	Na	20↓	24	24
Minimum	12	na	na	na	13↑	na	21	12	Na	10↓	14	11

[a] Value Line does not cover the other firms in the 7 Rivers Region Equity Index. Specific 3- to 5-year projected returns are only provided for the 1700 largest firms.

[b] In cases of a tie, the arrow was given to the value that is most extreme. The absence of an arrow in a given direction, such as a down arrow in the Safety row above, indicates that none of the firm's had a change in this direction for the specified Value Line-reported characteristic.

Table 5. Current Share Valuation
As of August 10, 2006

Data Provided by Morningstar.com[a]

Arrows reflect the direction of change for the company with the largest percentage change for a specified Morningstar-reported characteristic

	Price/Earnings		Price/Sales		Price/Cash Flow	
	Firm	Industry	Firm	Industry	Firm	Industry
Citizens Bank	38.2	10.9	2.3	1.8	67.6	7.9
Fastenal	29.2	14.4	3.4	0.3	31.5	10.3
Flexsteel	7.7	13.7	0.2	0.4	15.8 ↑	6.9
Heartland	15.2	10.9	2.5	1.8	10.4	7.9
HMN Finance	6.1	-20.0	1.3 ↓	1.7	6.7	6.3
Hormel	15.5	20.4	0.8 ↑	1.3	13.8	17.9
Marten Trans	33.9 ↑	19.3	0.8	2.0	7.4	11.2
National Presto	12.0	13.7	1.1	0.4	15.1	6.9
Renaissance	42.9	22.2	3.4	3.1	15.2	15.9
Rochester Med	80.0	32.1	4.1	3.1	-90.1 ↓	21.1
Wausau Paper	-18.3 ↓	13.8	0.3	0.5	7.6	8.0
2008Average[b]	23.9	13.8	1.8	1.5	9.1	10.9
2005-2007 Average[b]	22.5	19.3	2.0	2.2	20.1	14.9
2008 S&P 500:	18.8		2.6		12.6	
2005-2007 Average S&P 500:	19.3		2.8		14.5	

[a]Baraboo Bancorporation (WI) and Merchants Financial Group are not covered by Morningstar.
[b]Data was gathered on approximately August 1 of each year

Table 6. Average Brokerage Recommendation (ABR)

Data Provided by My.Zacks.com[a]

Arrows reflect the direction of change for the company with the largest percentage change for a specified Zacks-reported characteristic

	ABR	Number of Ratings	Estimated Value / Current Value	Industry Percentile Rank	Percentile Rank in Industry
Fastenal	2.5	8	1.03	33	43
Flexsteel	NA	NA	NA	19	20
HMN Financial	1.0	1	1.8	21	99
Hormel	2.8	11	1.13	67	20
Heartland Financial	3.0 ↓	4 ↑	1.02	5	65
Marten Transport	2.6 ↑	5	0.95 ↓	57	36 ↓
National Presto	NA	NA	NA	26 ↓	50
Rochester Medical	NA	NA	NA	53	10
Renaissance Learning	3.0	1	NA	74	14
Wausau Paper	1.5	2	1.95 ↑	47 ↑	83 ↑
2008 Average	2.3	4.6	1.15	42	44
2006-2007 Average	2.3	5.0	1.32	46	55

[a]My.Zacks.com does not include an analysis of Baraboo Bancorporation, Citizens Community Bank, or Merchants Financial Group.