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's Blueprint for Change. *Dr. Brooks begins with some observations on the labor market and moves on to a discussion of the State budget and the Blueprint for Change.*

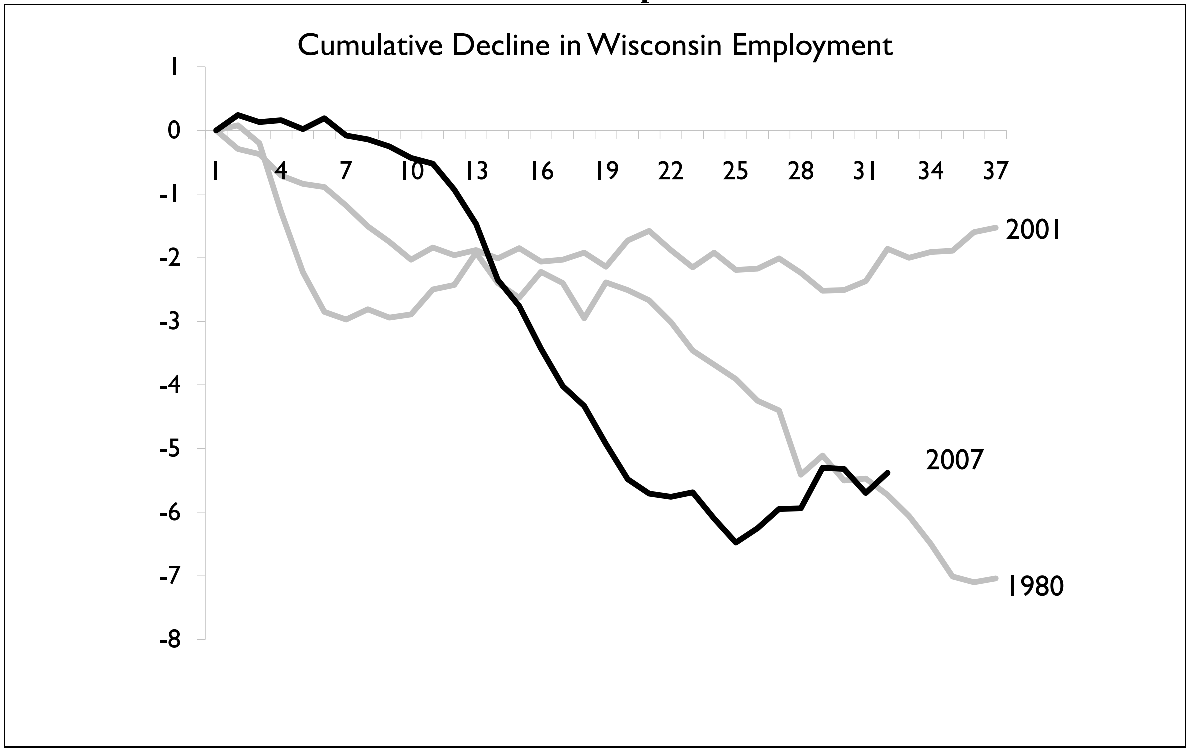
Please note: Dr. Brooks occasionally writes on the 7 Rivers Region Economics blog, which will contain ideas and writings that may or may not be included in this publication provided at the Economic Indicators breakfast meetings. Dr. Brooks will use the blog to track different topics and collect ideas.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

September 2010

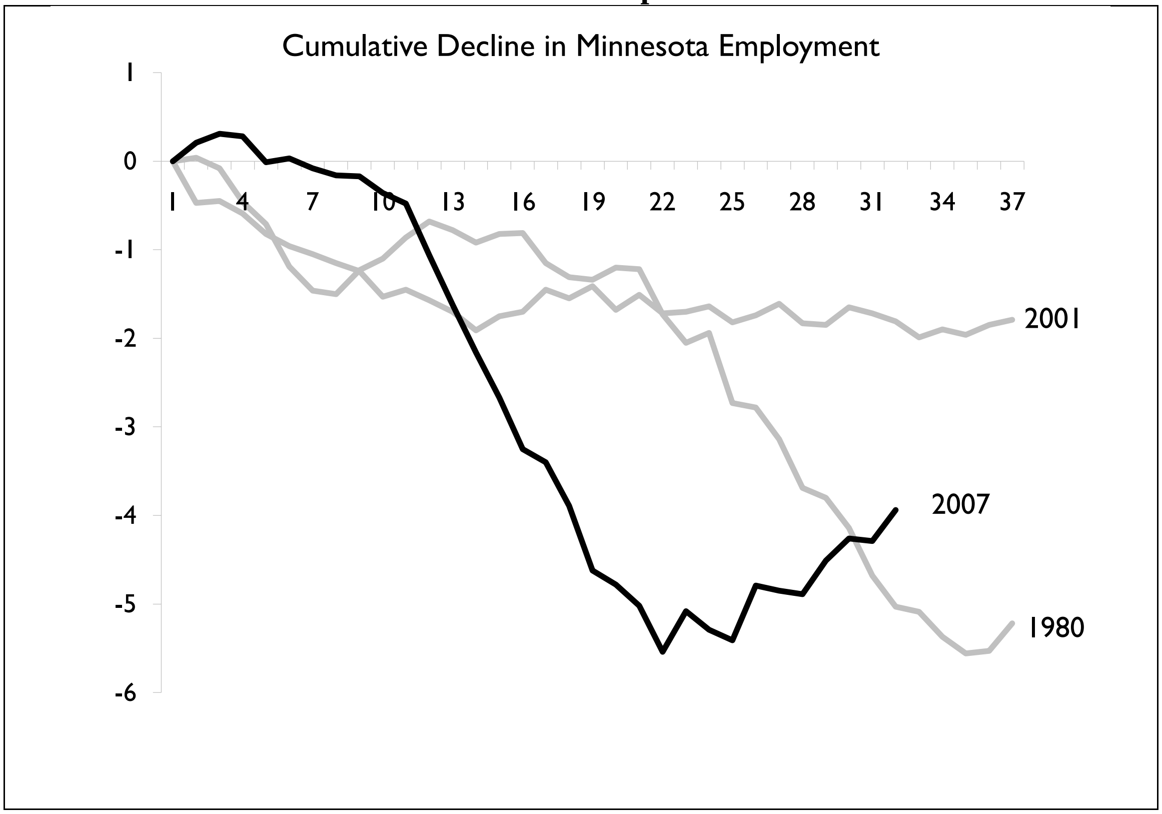
Employment and the Labor Market

While we have likely been in recovery nationally for the past year, the recent gains in the labor market have been tepid. In the past I've shared the cumulative loss in employment from the beginning of the recession for the United States as a whole, along with the losses in previous recessions. Those graphs have been updated and can be found in the appendix. This time I would like to share similar graphs for the states of Minnesota and Wisconsin. I have included the previous recession of 2001 along with the particularly deep recession of 1980 for both states. In both cases you can see the recent recession was nearly as deep as the 1980 recession, but the trajectories were quite different. Comparing the 2007 recession to the 1980 recession we see the decrease in employment came well after the national peak. This demonstrates the fact that both Wisconsin and Minnesota entered this most recent recession after the rest of the country, certainly relative to the 1980 recession, where the losses in Minnesota and Wisconsin came more closely after the national peak.

Graph 1

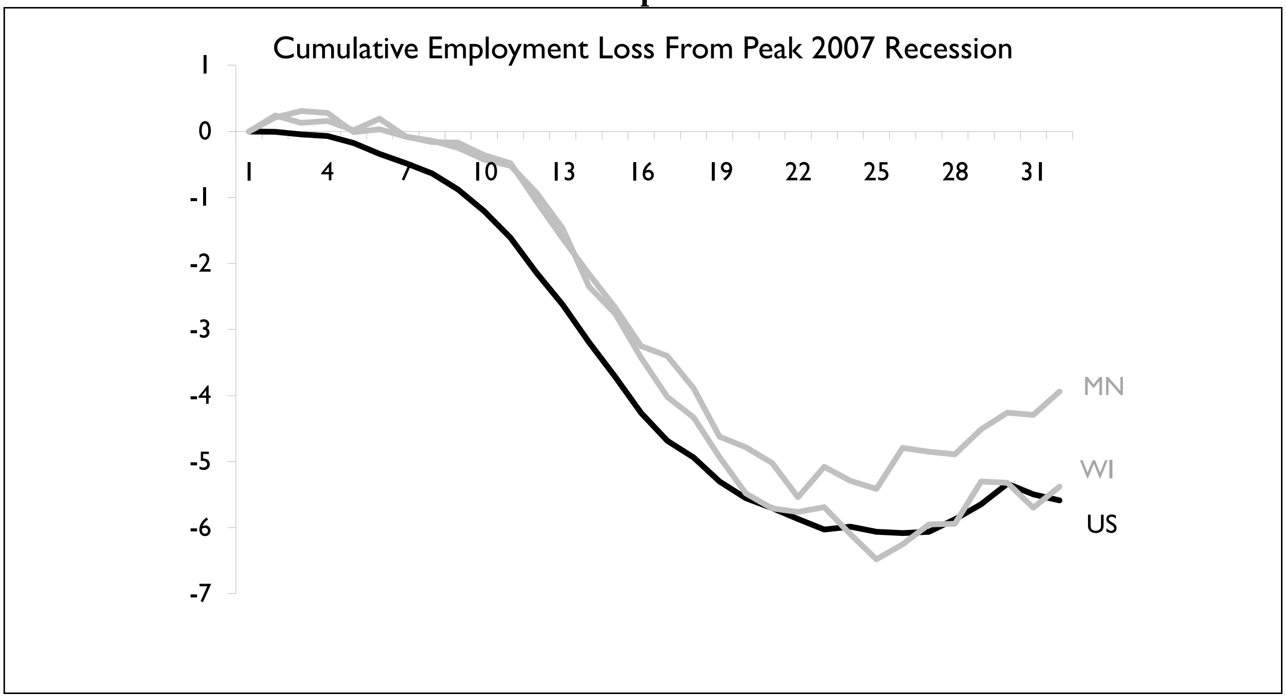


Graph 2



Finally in the following graph I compare the employment trajectory in the most recent recession for Minnesota, Wisconsin, and the United States as a whole. We can see that the employment losses appear to have hit the bottom and look to be rising, albeit rather slowly. Minnesota is fairing better than the United States and Wisconsin, which both appear to making slow gains. The appendix also contains graphs of the unemployment insurance claims for each state. There are two graphs; one includes initial filings for unemployment benefits and the other includes continued claims for benefits. Both series for both states seem to have hit their peaks around January of 2010. However, unemployment claims remain at very high levels.

Graph 3



Housing Market

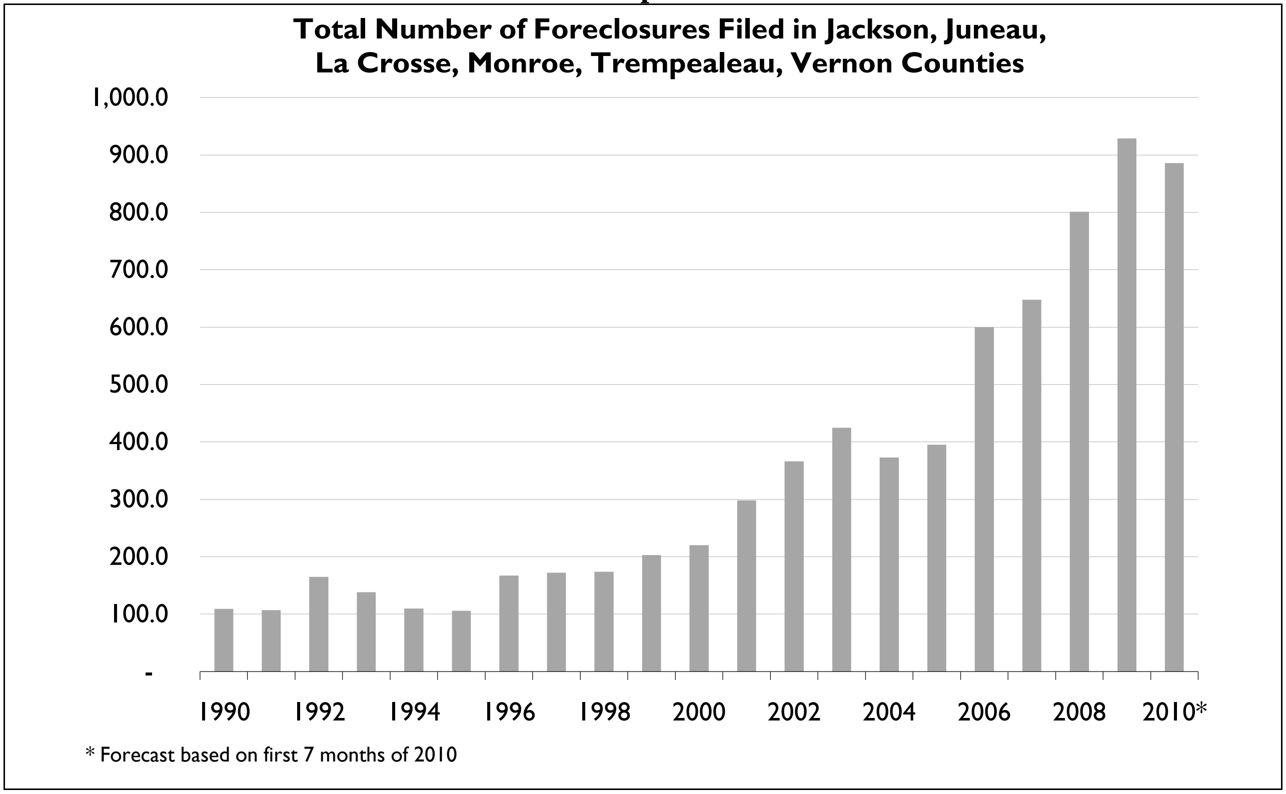
The crisis had its origins in the housing market, and it continues to experience difficulties nationally. The tax credits for first time homebuyers have expired resulting in an unprecedented drop off in sales.[1] Locally we continue to perform relatively well. The appendix includes the usual graphs produced of the MLS data for the region. The data suggests home prices have risen recently, although far below their peak, and still below prices from one year ago. Nationally the supply of homes for sale has risen to over 12 months, suggesting prices have room to fall.[2]

Forecasting foreclosures for the remainder of the 2010 suggests we appear to have past the peak. It does appear that we will have fewer than 900 foreclosures in the area this year, which is below

[1] http://www.calculatedriskblog.com/2010/08/summary-for-week-ending-august-28th.html
[2] http://www.calculatedriskblog.com/2010/08/summary-for-week-ending-august-28th.html

last year's record of 929. This mirrors the national trend of declining foreclosures. Unfortunately, it is possible that the reduced foreclosures is not due to fewer homes experiencing liquidity problems but rather possible "procrastination" by lenders as they wait, hoping the market turns around.[3]

Graph 4



Evictions

While the economic crisis has certainly had an impact on homeowners, the collateral damage has affected employment demand, resulting in the high levels of unemployment we are witnessing. The lack of income affects not only homeowners trying to make house payments, but also renters trying to make their monthly rent. Rental companies are often forced to turn to eviction to re-rent the property. Higher eviction rates mean more open rental properties, and downward pressure on rents.[4] Below are the total eviction filings for the 7 Rivers Region. It is easy to discern the impact of the 2001 recession and now the most recent recession.[5]

[3] http://www.calculatedriskblog.com/2010/08/are-lenders-procrastinating-on.html
[4] http://www.calculatedriskblog.com/2009/08/bre-properties-rents-to-decline-well.html
[5] Eviction data was graciously provided by Professor Russ Kashian, Director of the Fiscal and Economic Research Center at the University of Wisconsin-Whitewater, and the University of Wisconsin-Extension.

Table 1

	Total Eviction Filings									
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Jackson	11	7	22	13	32	15	23	15	32	21
Juneau	34	57	47	35	45	47	38	58	62	70
La Crosse	276	285	294	281	276	332	328	304	339	368
Monroe	68	71	85	79	75	61	47	74	82	89
Trempealeau	20	41	33	30	33	36	36	34	24	29
Vernon	18	15	25	25	21	35	37	33	59	42
Total	427	476	506	463	482	526	509	518	598	619

Consumer Sentiment

The first week of August I distributed via email the semi-annual consumer sentiment survey to 1425 past participants in programs related to the Seven Rivers region. I received 333 responses for an overall response rate of 23.4%. The table below provides all the data since the inception of the regional survey. We see from February of 2010 to August the regional overall consumer sentiment index has remained stable, owing in large part to the stability of the current conditions sub index.   The Expectations sub index has turned mildly more pessimistic, though not to the same degree as the national expectations index over the same period. Pundits have been keeping a particularly close eye on measures of consumer expectations, looking for signs that consumers have an increased confidence in their jobs and in economic conditions.

Table 2

	Consumer Sentiment		Current Conditions		Consumer Expectations	
	7 Rivers	**National**	**7 Rivers**	**National**	**7 Rivers**	**National**
April 2002	96.1	93	94.7	99.2	97.1	89.1
November 2002	85.8	84.2	97.0	93.1	78.6	78.5
April 2003	86.0	86	94.4	96.4	80.6	79.3
October 2003	102.0	89.6	104.6	99.9	100.4	83.0
April 2004	98.1	94.2	102.9	105	95.0	87.3
February 2005	87.9	94.1	100.7	109.2	79.6	84.4
March 2006	85.9	88.9	107.6	109.1	71.9	76.0
November 2006	90.8	92.1	96.7	106	86.9	83.2
April 2007***	102.7	89.2	113.7	111.1	95.7	75.1
February 2008***	79.1	70.8	91.3	83.8	71.2	62.4
August 2008***	69.9	61.2	76.5	73.1	65.6	53.5

Table 2 – Continued

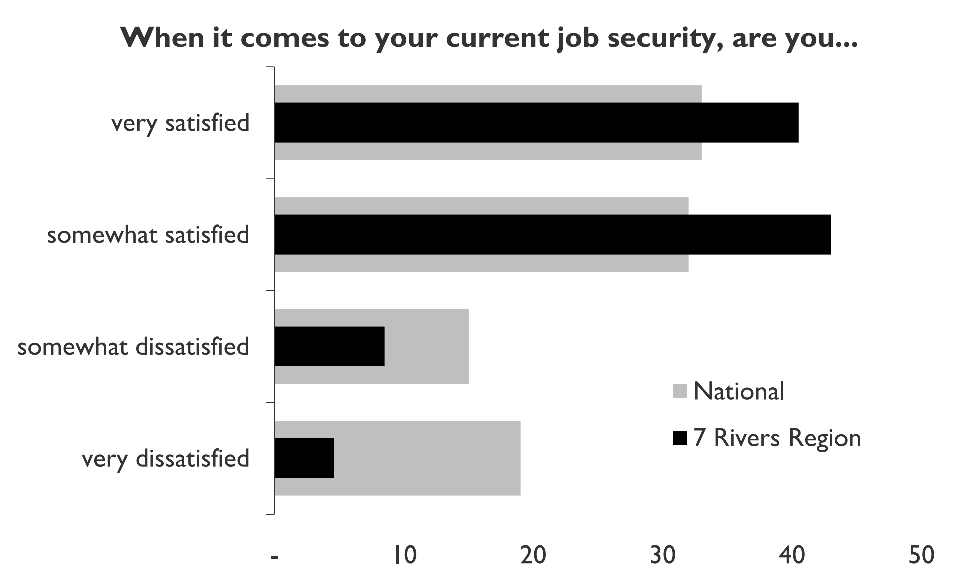
	Consumer Sentiment		Current Conditions		Consumer Expectations	
	7 Rivers	National	7 Rivers	National	7 Rivers	National
December 2008***	70.9	60.1	87.0	69.5	60.6	57.8
February 2009***	59.7	56.3	75.9	65.5	49.2	50.5
July 2009***	75.2	66	83.7	70.5	69.7	63.2
February 2010***	79.2	73.7	91.8	84.1	71.2	66.9
August 2010* **	**79.0**	**69.6**	**91.5**	**69**	**70.9**	**64.1**

***** Survey moved to the web.**

One potential source of pessimism continues to be the labor market. Employees face declining job security as firms try to negotiate the crisis. To get a better measure of job security and respondent's expectations of future economic conditions, I asked a couple of additional questions on the surveys.[6] The survey asked:

When it comes to your current job security, are you very satisfied, somewhat satisfied, somewhat dissatisfied, or very dissatisfied?

Graph 5



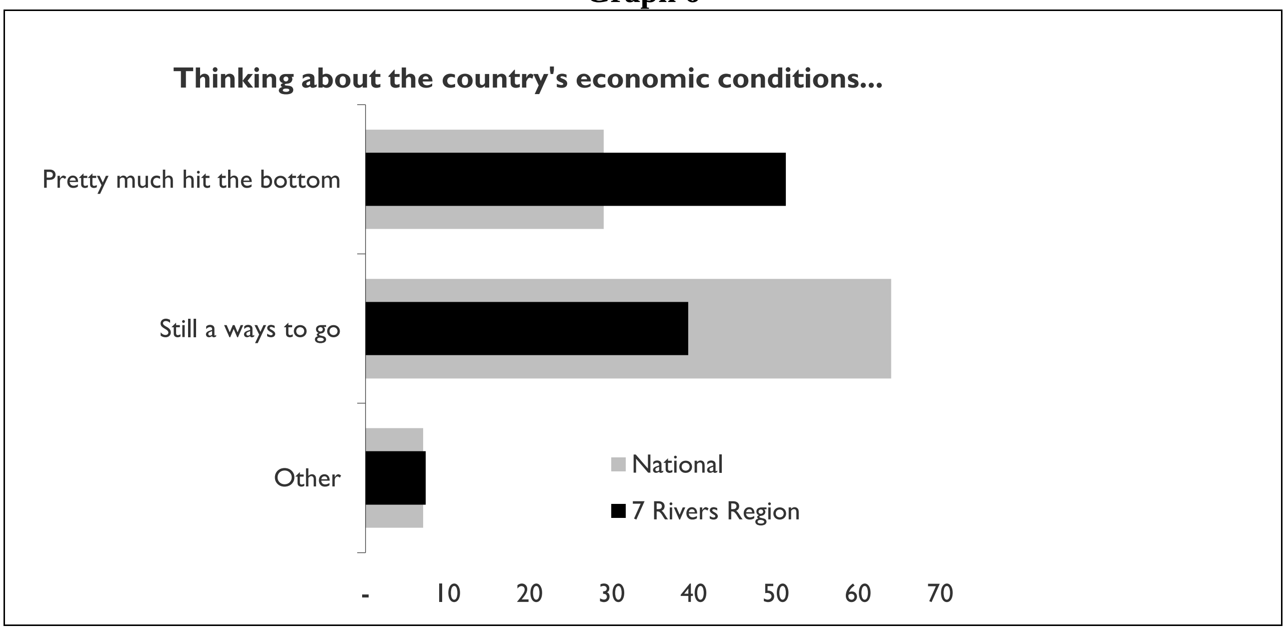
[6] These additional questions come from a *Wall Street Journal*/NBC poll, the results can be found here: http://online.wsj.com/public/resources/documents/wsjnbcpoll-08122010.pdf

From Graph 5 it is clear that regional respondents are far more secure in their jobs than the national survey respondents. It is important to note that the group sampled for the regional survey is not a random sample of the regional population, so one should be cautious when drawing a comparison to the national survey. The 7 Rivers Region survey respondents tend to be more educated, have higher incomes, and have the attendant social status. Therefore, it is not a surprise that they are relatively more satisfied with their job security.

However, despite the difference in samples the 7 Rivers Region respondents can be a better barometer of where the economy is heading because they are more frequently in management positions that involve hiring and other important employment decisions. To get a sense of how respondents viewed the current economic outlook, the survey also asked:

Thinking about the country's economic conditions, have we pretty much hit the bottom, or is there still a ways to go before we hit the bottom?

Graph 6



Again, we find that local respondents had a more optimistic view of the state of the economy. Of the participants in the 7 Rivers Region survey, 51.2 percent felt the economy had pretty much hit the bottom, relative to only 29 percent nationally.

The Wisconsin Way: Blueprint for Change[7]

The meeting in September brings us back to discuss some proposals that have made it into the Wisconsin Way's *Blueprint for Change*. You may recall that the Wisconsin Way began listening sessions back in 2007, coming to La Crosse in October of that year and then following

[7] http://www.wisconsinway.org/BluePrintForChange.pdf

up a year later and participating in the September breakfast in 2008.[8] Before we begin the conversation I think it is important to point out that our current difficulties are cyclical, and there is little we can do to alleviate the problem. The following quote captures this idea clearly:

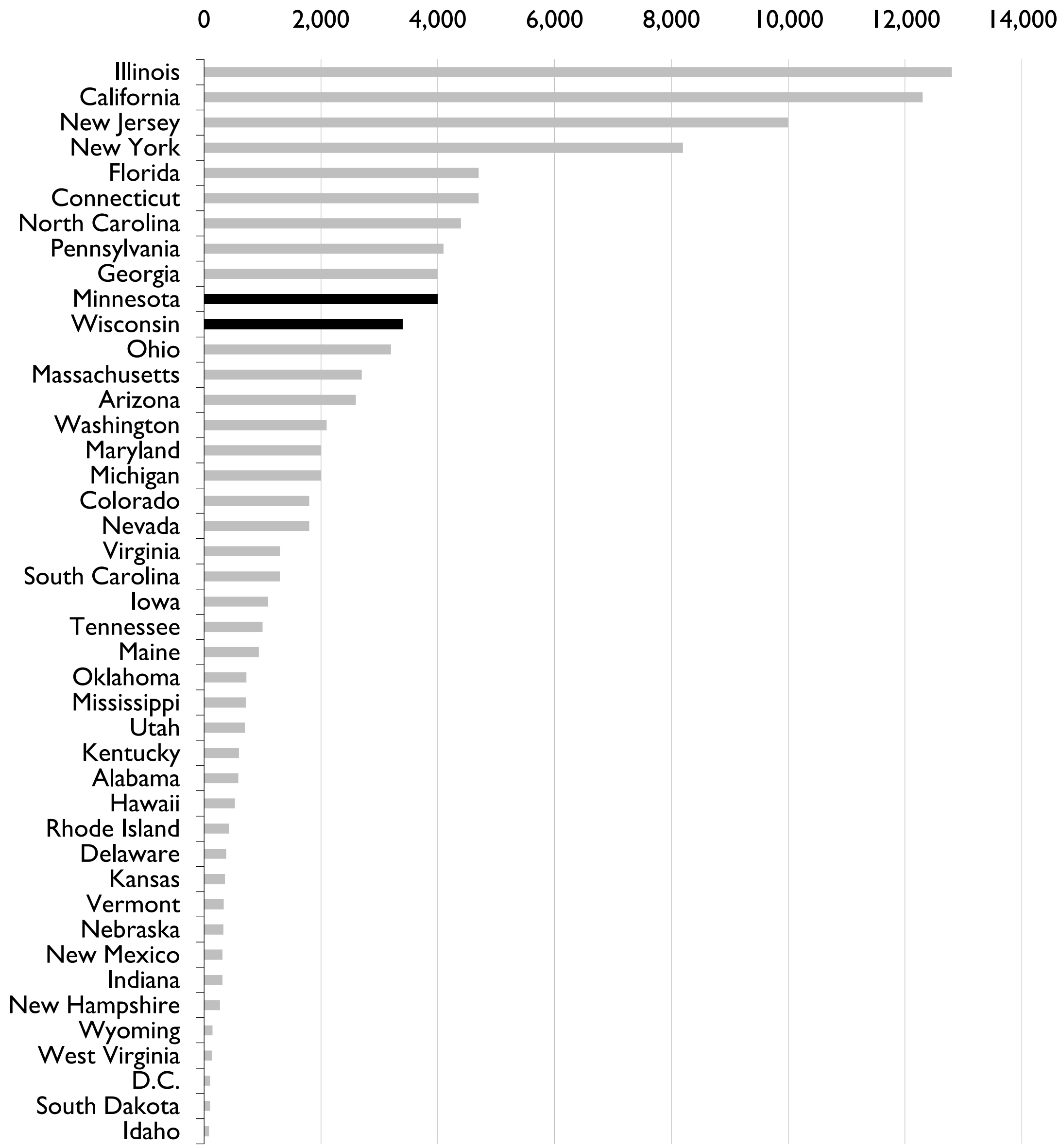
> Politicians are in charge of the modern economy in much the same way as a sailor is in charge of a small boat in a storm. The consequences of their losing control completely may be catastrophic (as civil war and hyperinflation in parts of the former Soviet empire have recently reminded us), but even while they keep afloat, their influence over the course of events is tiny in comparison with that of the storm around them. We who are their passengers may focus our hopes and fears upon them, and express profound gratitude toward them if we reach harbor safely, but that is chiefly because it seems pointless to thank the storm. (p. 25)[9]
>
> Paul Seabright, *Company of Strangers*

While we have little hope that politicians can save us from the current storm, it should not prevent us from demanding that they begin building a better boat for the future. The *Blueprint for Change* is an attempt to begin that conversation.

The first challenge that will need to be confronted is the budget position. Graph 7 depicts the projected budget deficits for all States. Minnesota and Wisconsin rank 10th and 11th, respectively, in terms of the size of their deficits.

[8] http://lacrossetribune.com/newsupdate/article_b753e2b5-c77d-53d5-9878-9880cfc54488.html
[9] http://www.petergordonsblog.com/2010/08/interesting-analogy.html

Graph 7



FY 2011 Projected Budget Shortfalls in Millions

Data Source: The Center on Budget and Policy Priorities

To facilitate our conversation today we will be asking our panelists a series of questions. They are as follows:

Q1. How can the 7 Rivers Region alter its tax structure to collect the same revenue, but improve the economic climate?

Q2. What reform will help our region most effectively create and retain college graduates?

Q3. How can we identify and eliminate ineffective local public expenditures?

Q4: How can the state best align income taxes with its desire to grow, expand and attract business and create jobs? (Refer to page 27 of the Blueprint).

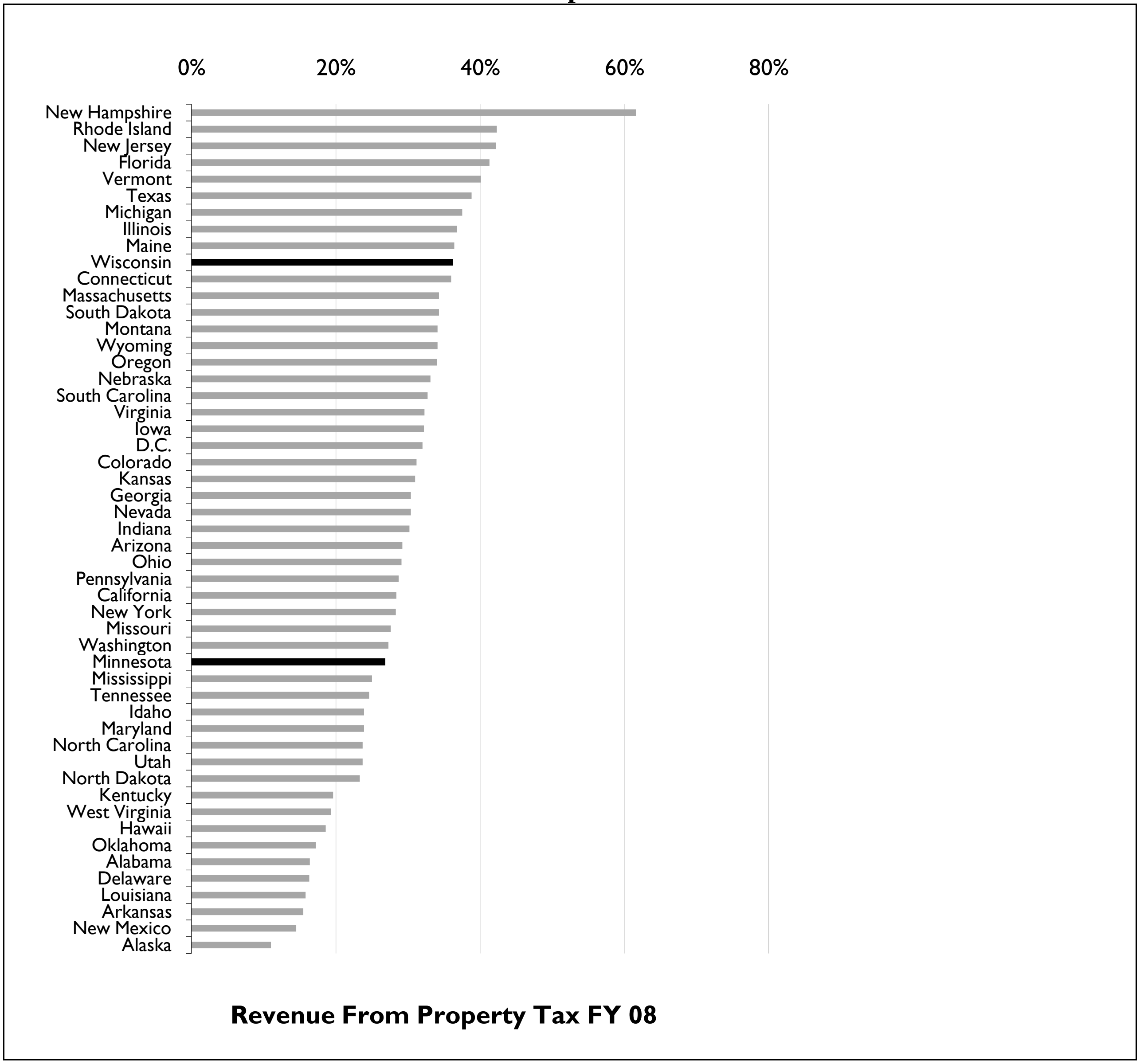
Q5: How can the state increase its support for cluster industry, training and productivity initiatives? Specifically, how to enhance existing industry clusters such as agriculture, manufacturing, paper, forest products and tourism, and emerging industry clusters such as high-tech, bio-tech, business services, and IT-enabled services? (Refer to page 10 of the Blueprint).

Q6: Should the state create an economic development investment fund (i.e., a fund that would invest money in specific economic enterprises in expectation of a return on that investment) able to provide a two to one match for funds raised by certified regional economic development entities (i.e., those belonging to the confederation with certified business plans)?

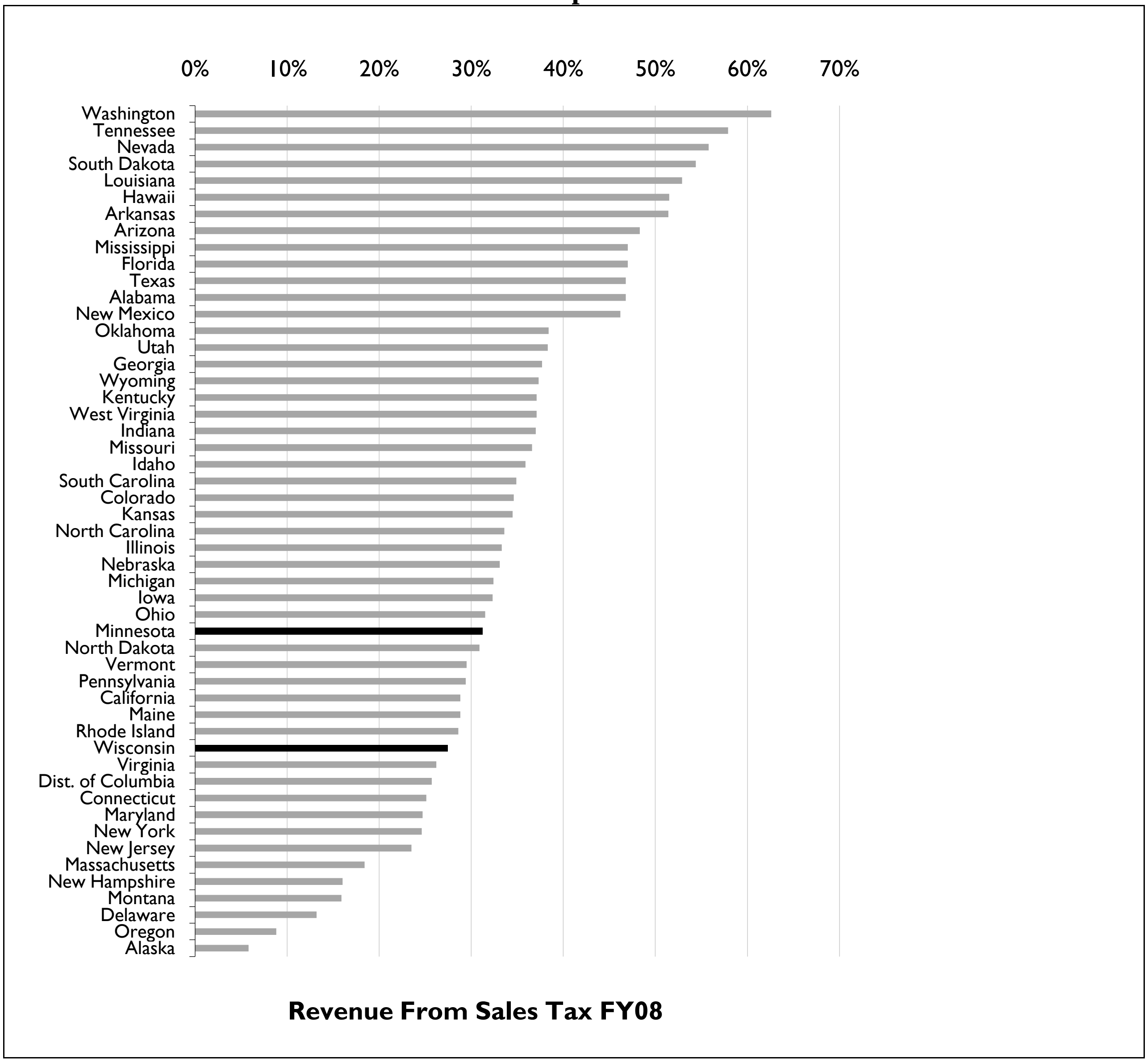
Sources of State Revenue

The following graphs might assist in assessing how different states collect the revenue to conduct their business. We have three graphs that order states by the percentage of their own revenue raised through each tax (property tax, sales tax, and income tax) for the fiscal year 2008.

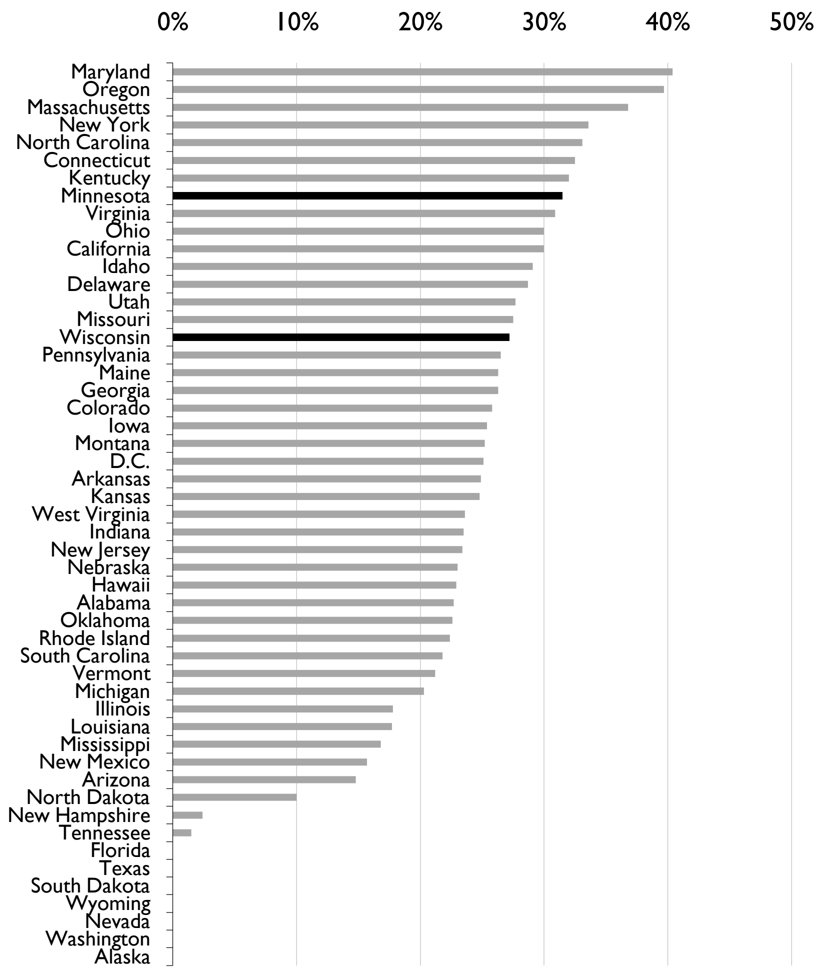
Graph 8


0%
20%
40%
60%
80%
New Hampshire
Rhode Island
New Jersey
Florida
Vermont
Texas
Michigan
Illinois
Maine
Wisconsin
Connecticut
Massachusetts
South Dakota
Montana
Wyoming
Oregon
Nebraska
South Carolina
Virginia
Iowa
D.C.
Colorado
Kansas
Georgia
Nevada
Indiana
Arizona
Ohio
Pennsylvania
California
New York
Missouri
Washington
Minnesota
Mississippi
Tennessee
Idaho
Maryland
North Carolina
Utah
North Dakota
Kentucky
West Virginia
Hawaii
Oklahoma
Alabama
Delaware
Louisiana
Arkansas
New Mexico
Alaska
Revenue From Property Tax FY 08

Graph 9

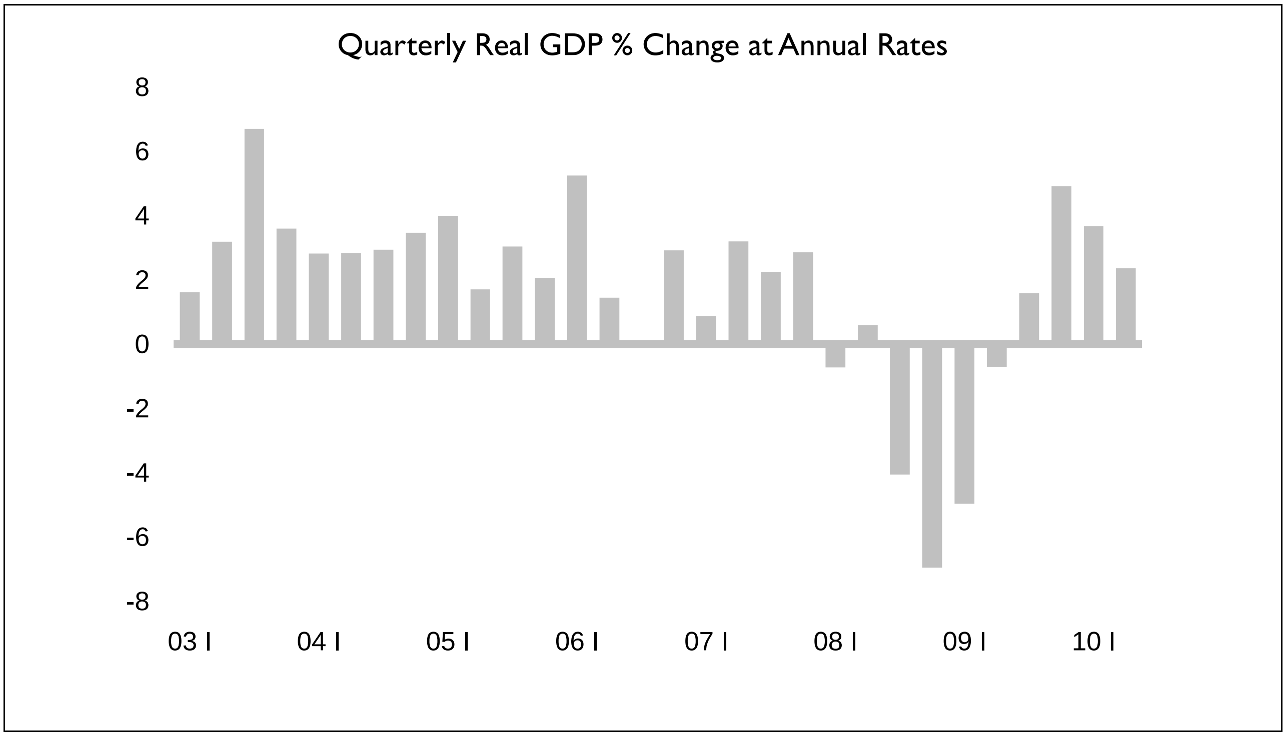

0%
10%
20%
30%
40%
50%
60%
70%
Washington
Tennessee
Nevada
South Dakota
Louisiana
Hawaii
Arkansas
Arizona
Mississippi
Florida
Texas
Alabama
New Mexico
Oklahoma
Utah
Georgia
Wyoming
Kentucky
West Virginia
Indiana
Missouri
Idaho
South Carolina
Colorado
Kansas
North Carolina
Illinois
Nebraska
Michigan
Iowa
Ohio
Minnesota
North Dakota
Vermont
Pennsylvania
California
Maine
Rhode Island
Wisconsin
Virginia
Dist. of Columbia
Connecticut
Maryland
New York
New Jersey
Massachusetts
New Hampshire
Montana
Delaware
Oregon
Alaska
Revenue From Sales Tax FY08

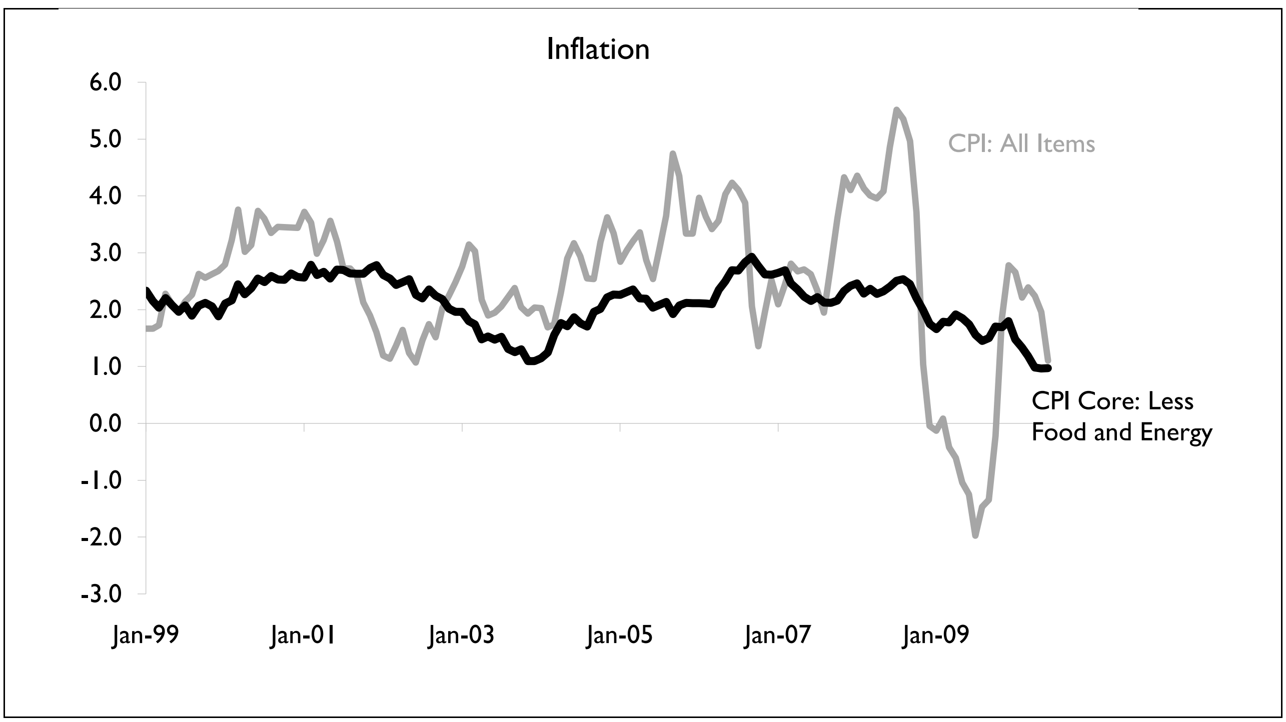
Graph 10



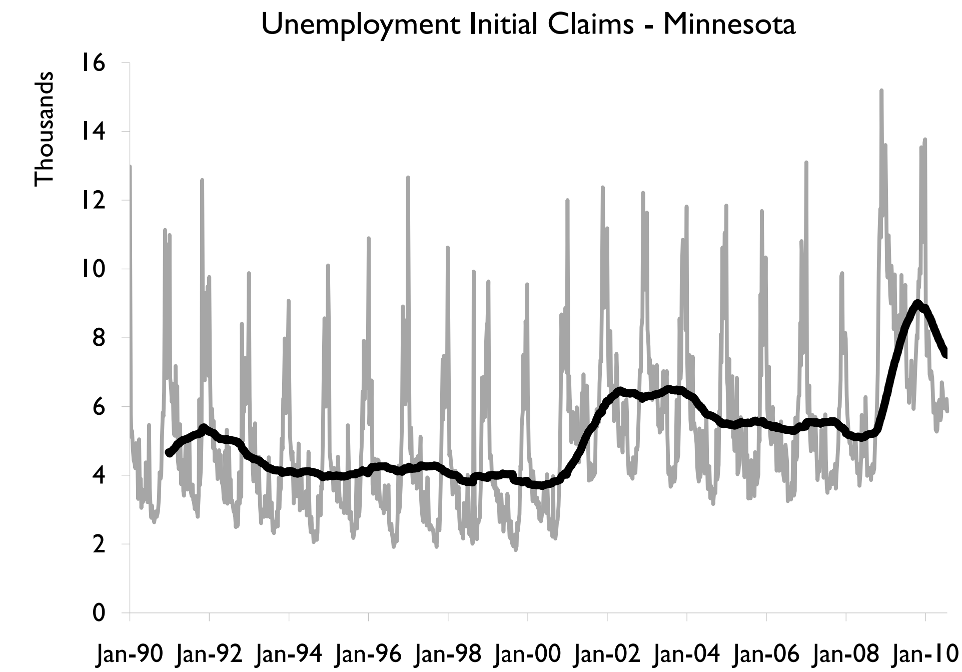
Revenue From Income Tax FY08

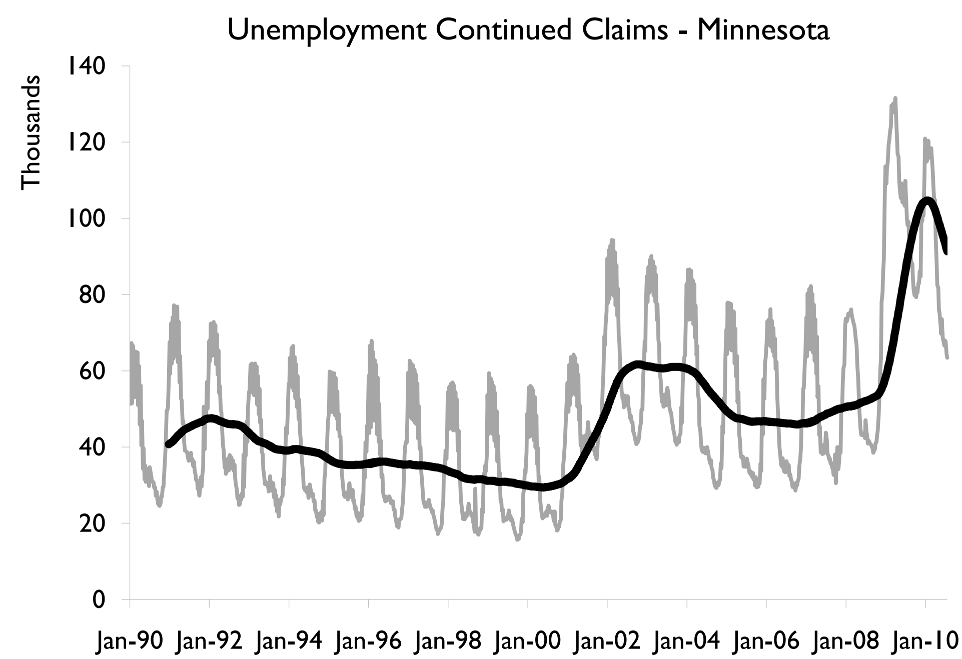
Appendix: Extra Graphs

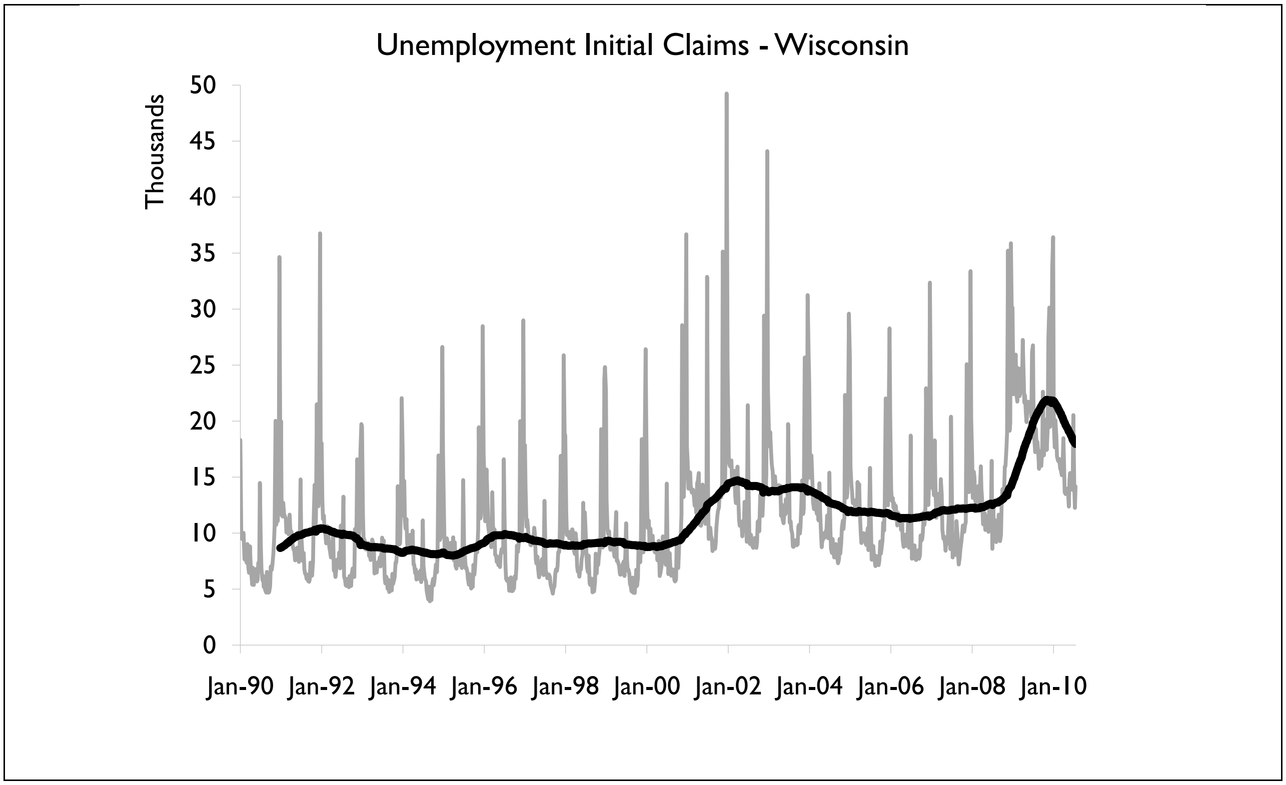


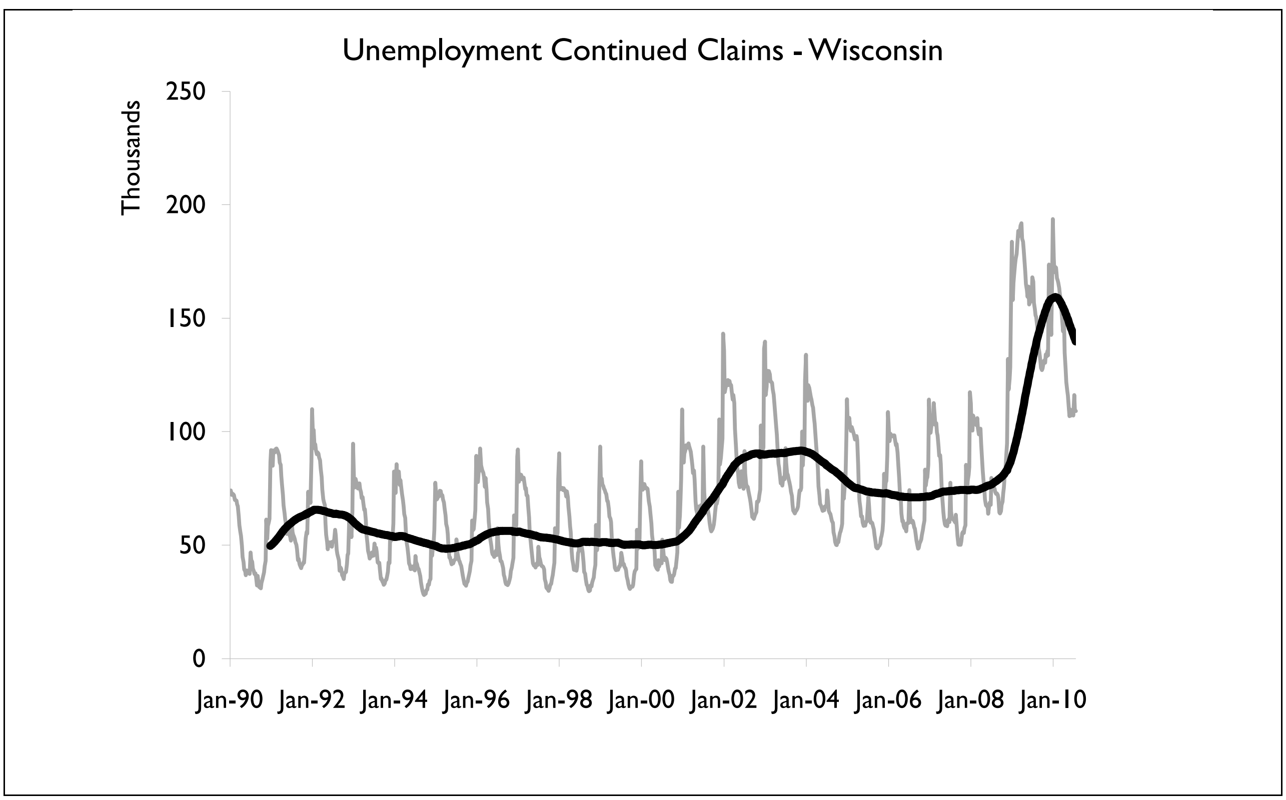


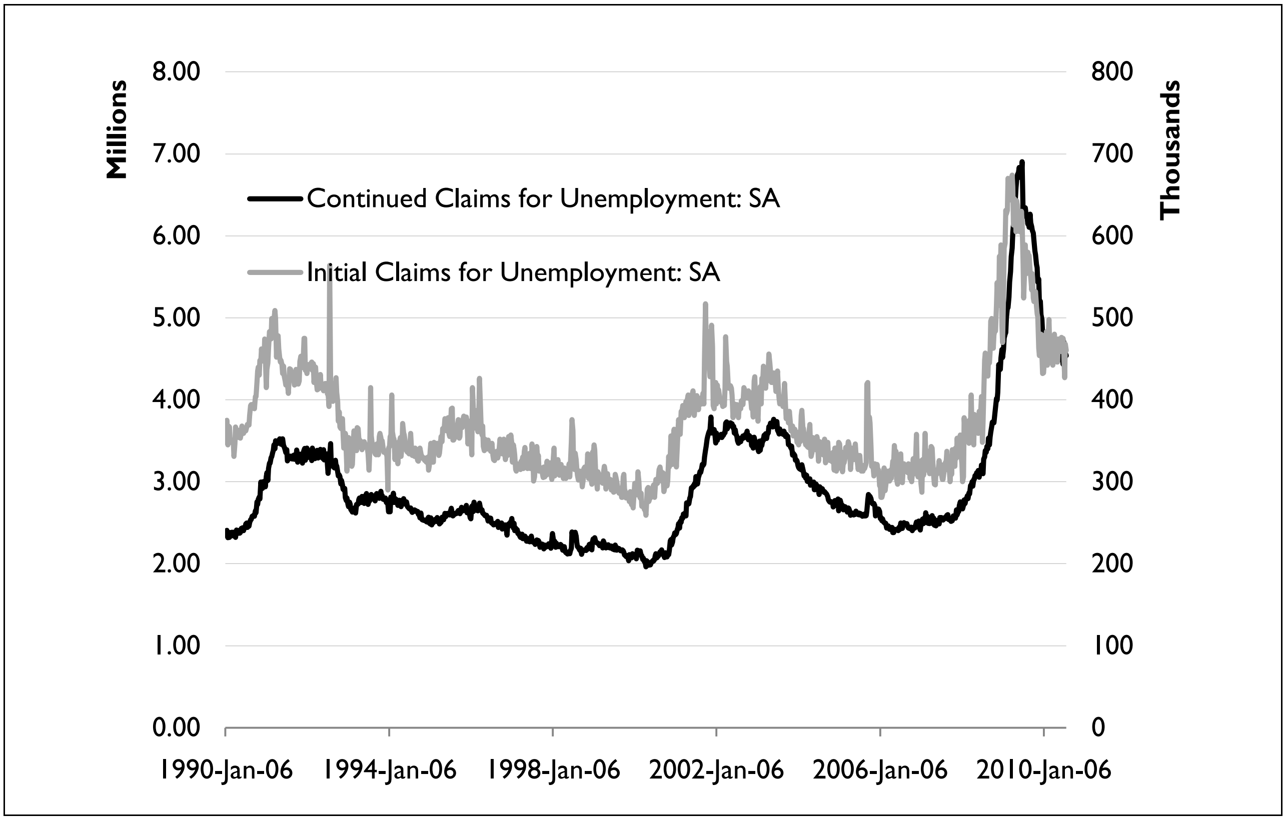
Labor Market Indicators

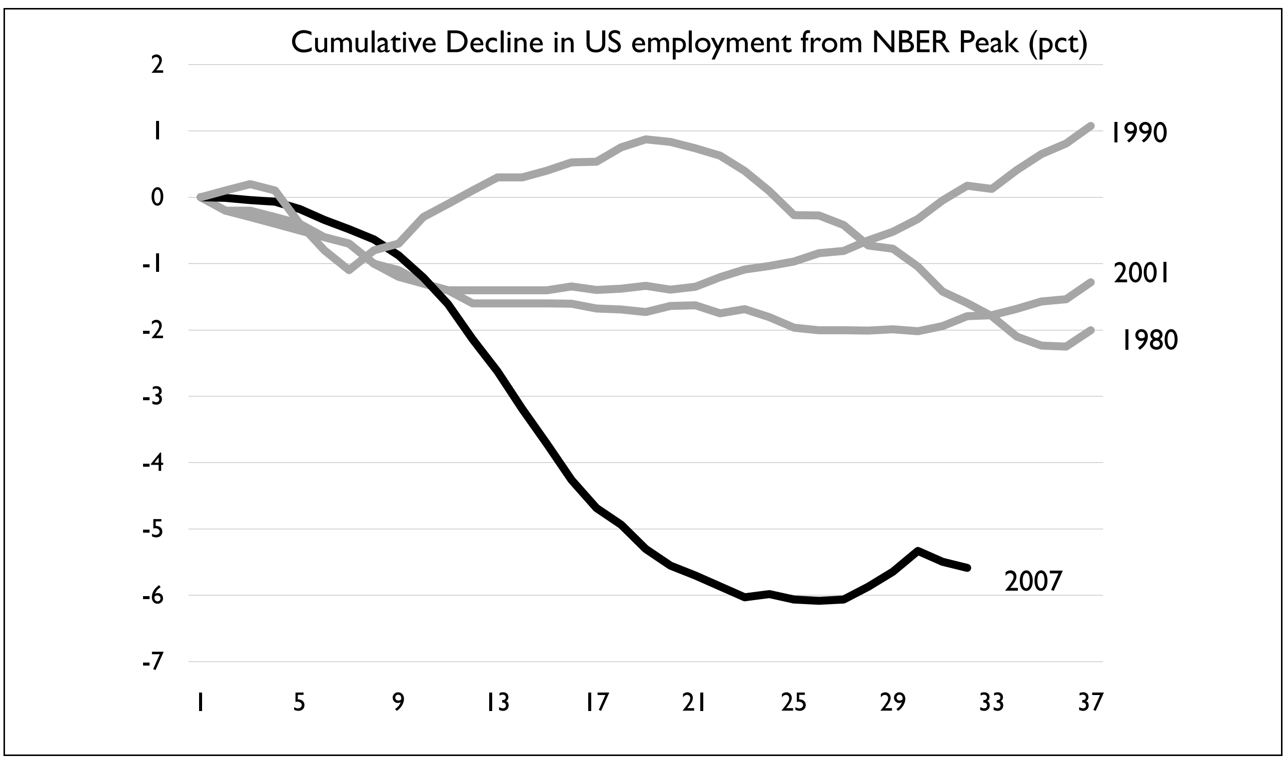


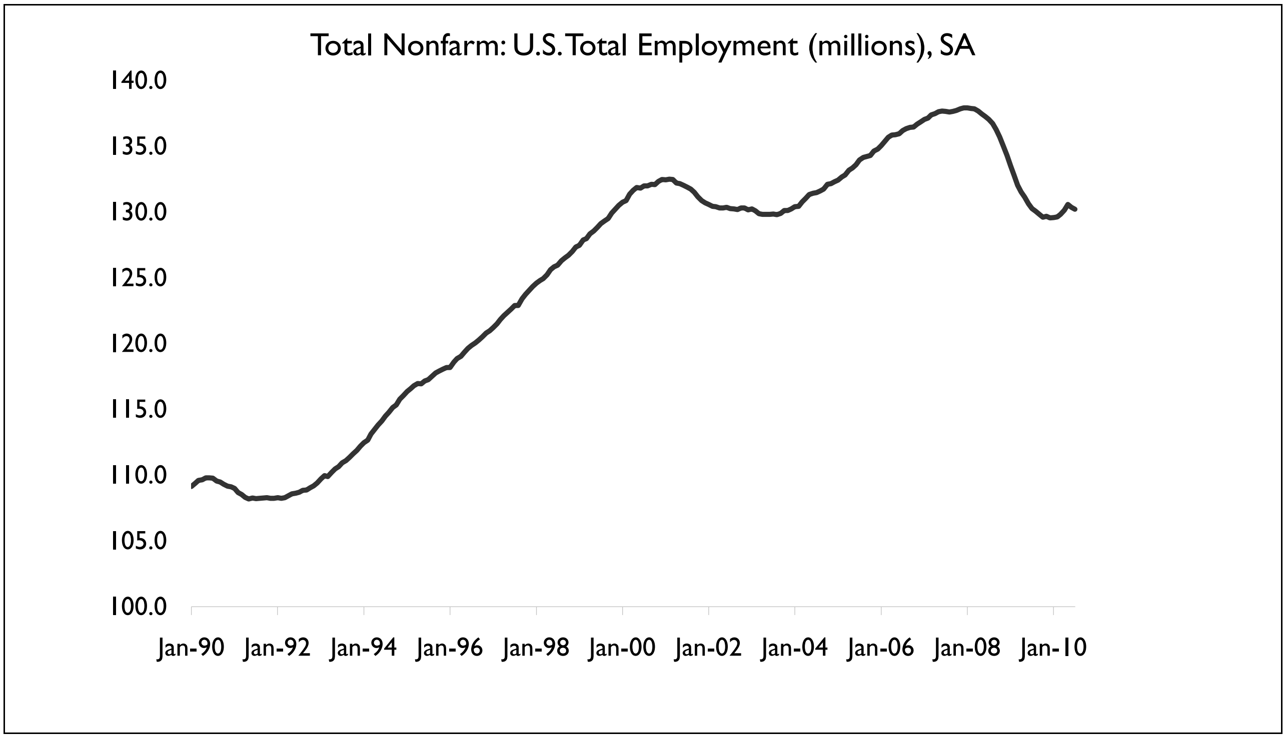


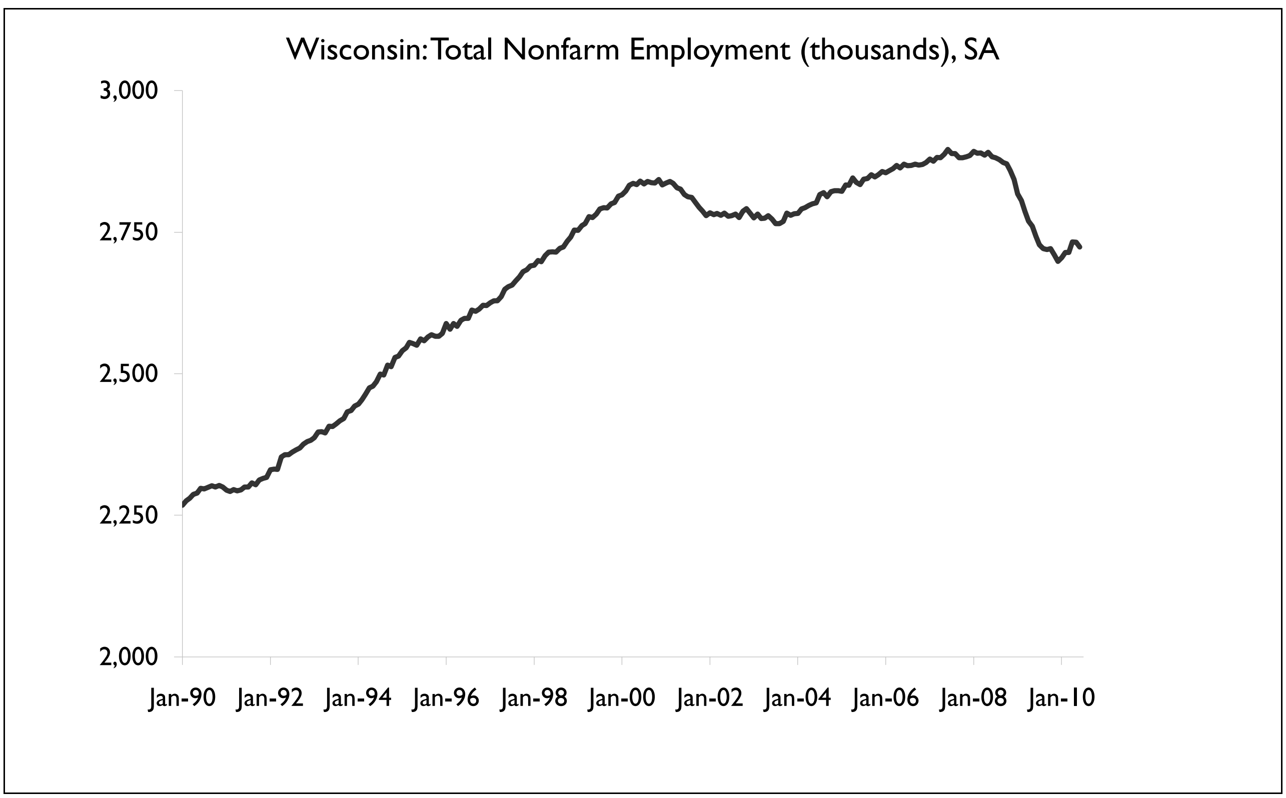

Unemployment Initial Claims - Wisconsin
Thousands
50
45
40
35
30
25
20
15
10
5
0
Jan-90 Jan-92 Jan-94 Jan-96 Jan-98 Jan-00 Jan-02 Jan-04 Jan-06 Jan-08 Jan-10

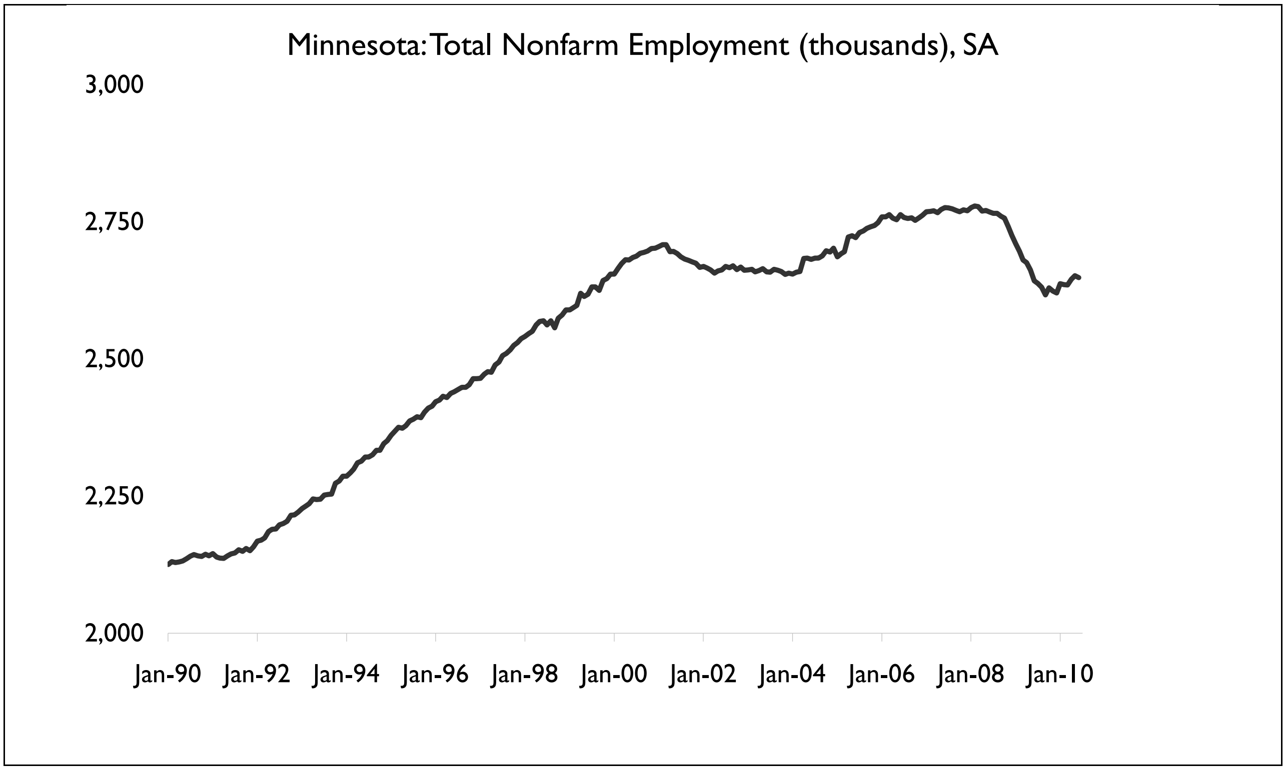

Unemployment Continued Claims - Wisconsin
Thousands
250
200
150
100
50
0
Jan-90 Jan-92 Jan-94 Jan-96 Jan-98 Jan-00 Jan-02 Jan-04 Jan-06 Jan-08 Jan-10

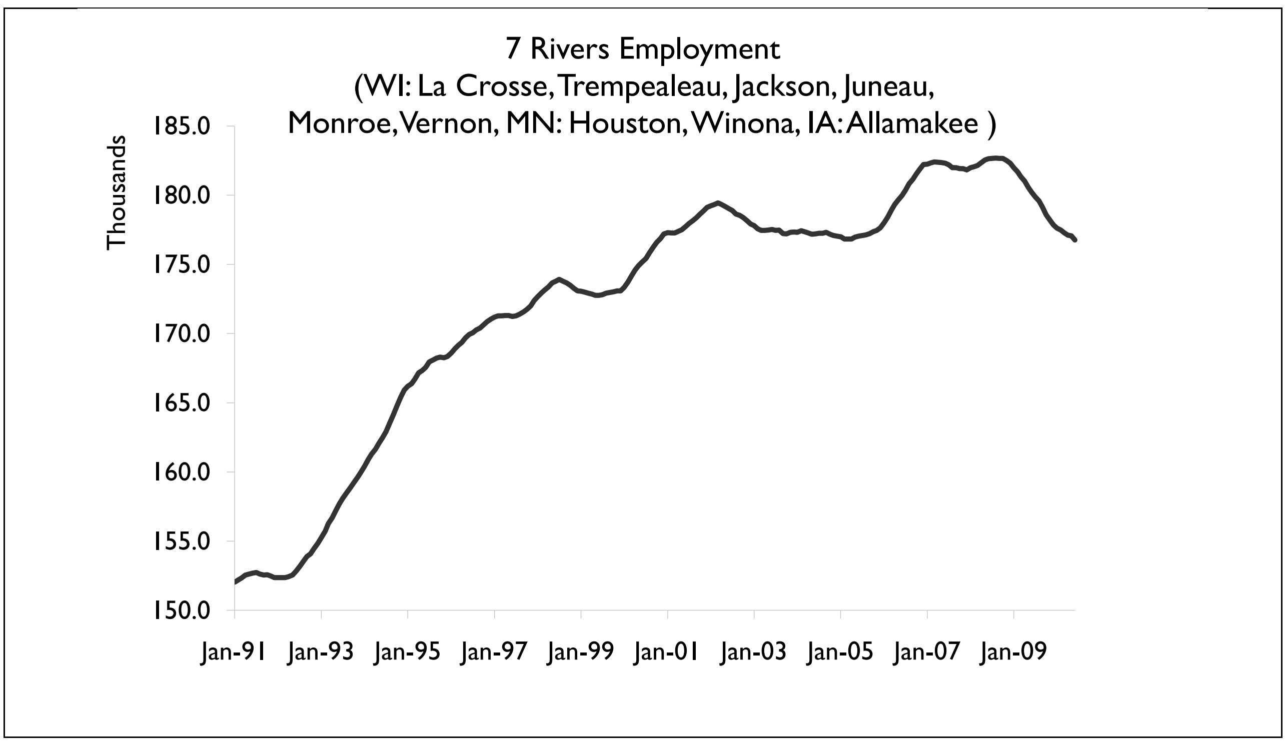

Millions
Thousands
Continued Claims for Unemployment: SA
Initial Claims for Unemployment: SA
8.00
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
800
700
600
500
400
300
200
100
0
1990-Jan-06
1994-Jan-06
1998-Jan-06
2002-Jan-06
2006-Jan-06
2010-Jan-06


Cumulative Decline in US employment from NBER Peak (pct)
2
1
0
-1
-2
-3
-4
-5
-6
-7
1
5
9
13
17
21
25
29
33
37
1990
2001
1980
2007

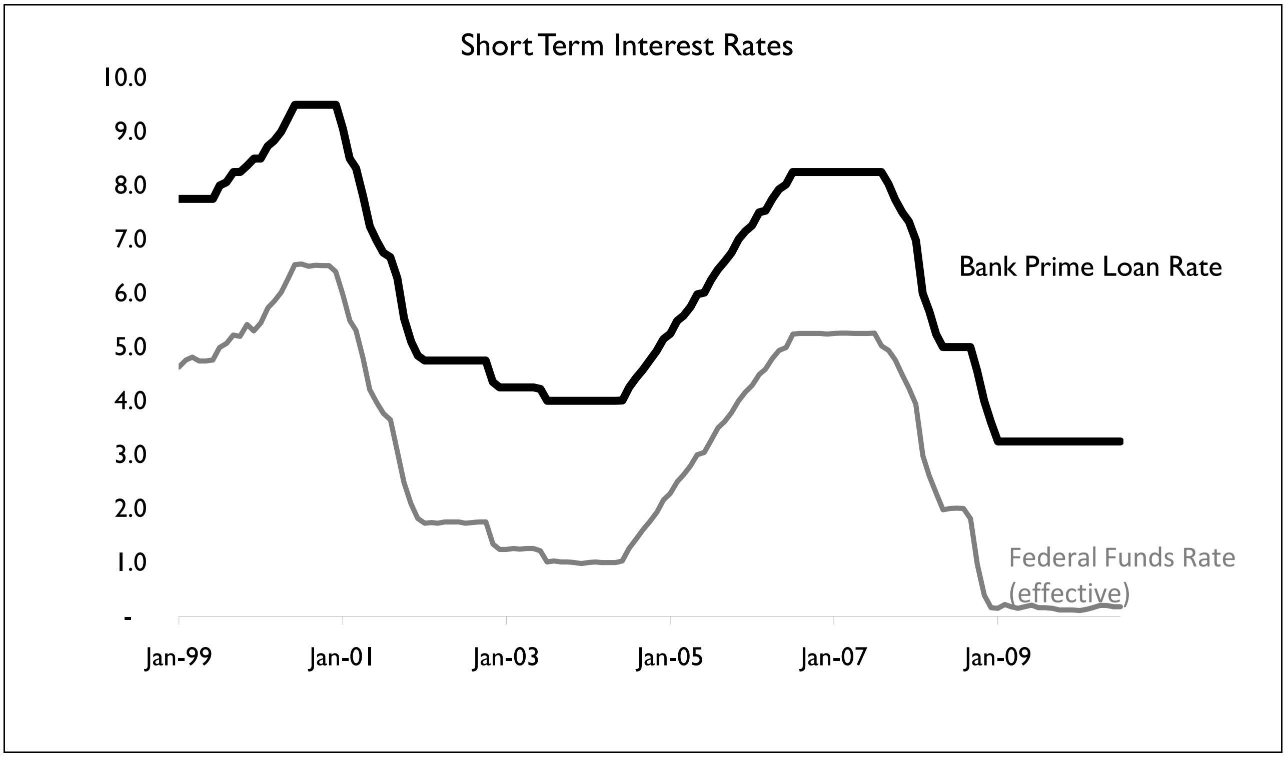

Total Nonfarm: U.S. Total Employment (millions), SA
140.0
135.0
130.0
125.0
120.0
115.0
110.0
105.0
100.0
Jan-90
Jan-92
Jan-94
Jan-96
Jan-98
Jan-00
Jan-02
Jan-04
Jan-06
Jan-08
Jan-10

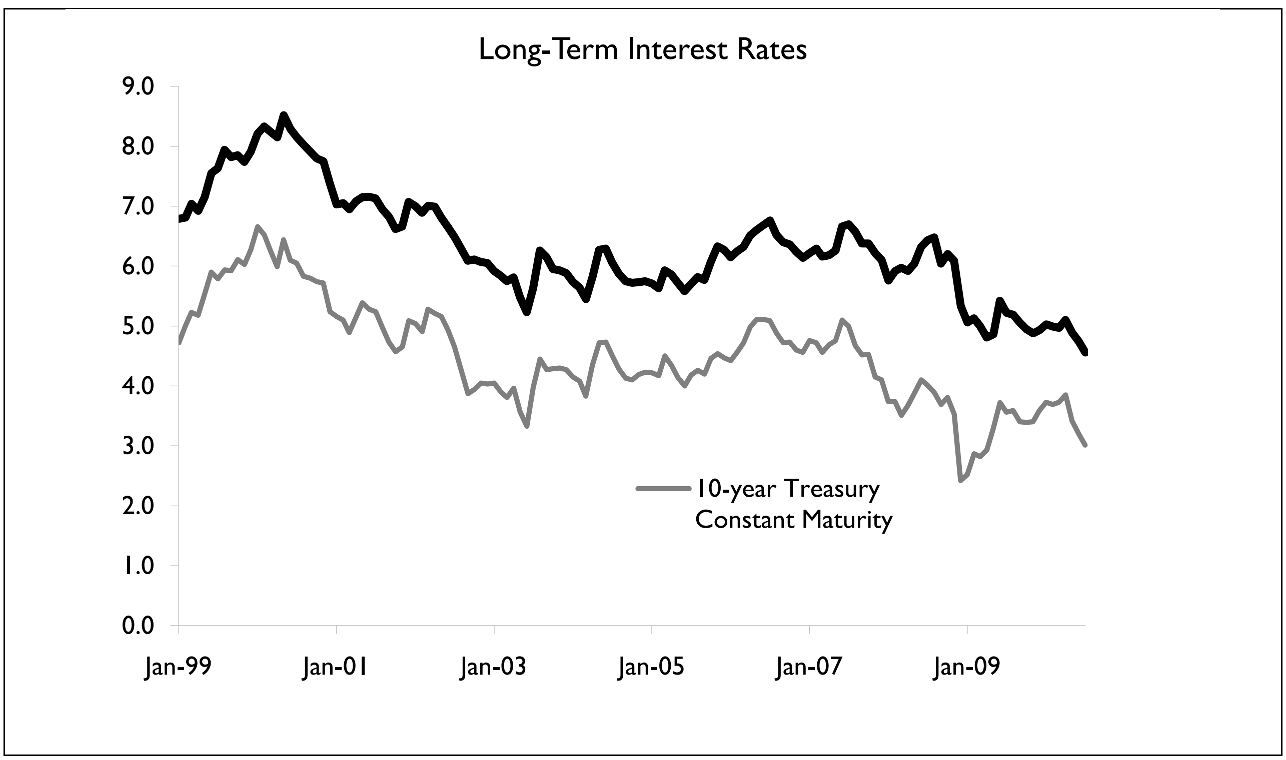

Wisconsin: Total Nonfarm Employment (thousands), SA
3,000
2,750
2,500
2,250
2,000
Jan-90
Jan-92
Jan-94
Jan-96
Jan-98
Jan-00
Jan-02
Jan-04
Jan-06
Jan-08
Jan-10

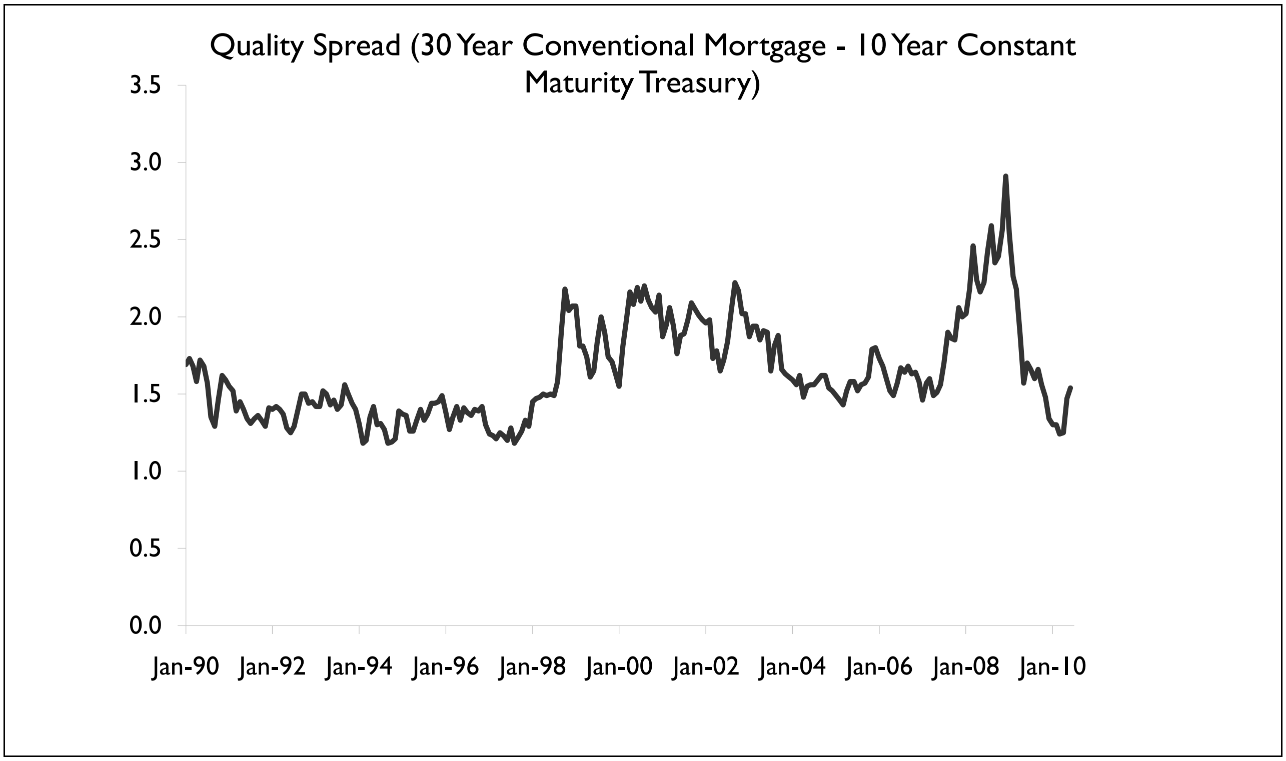

Minnesota: Total Nonfarm Employment (thousands), SA
3,000
2,750
2,500
2,250
2,000
Jan-90
Jan-92
Jan-94
Jan-96
Jan-98
Jan-00
Jan-02
Jan-04
Jan-06
Jan-08
Jan-10

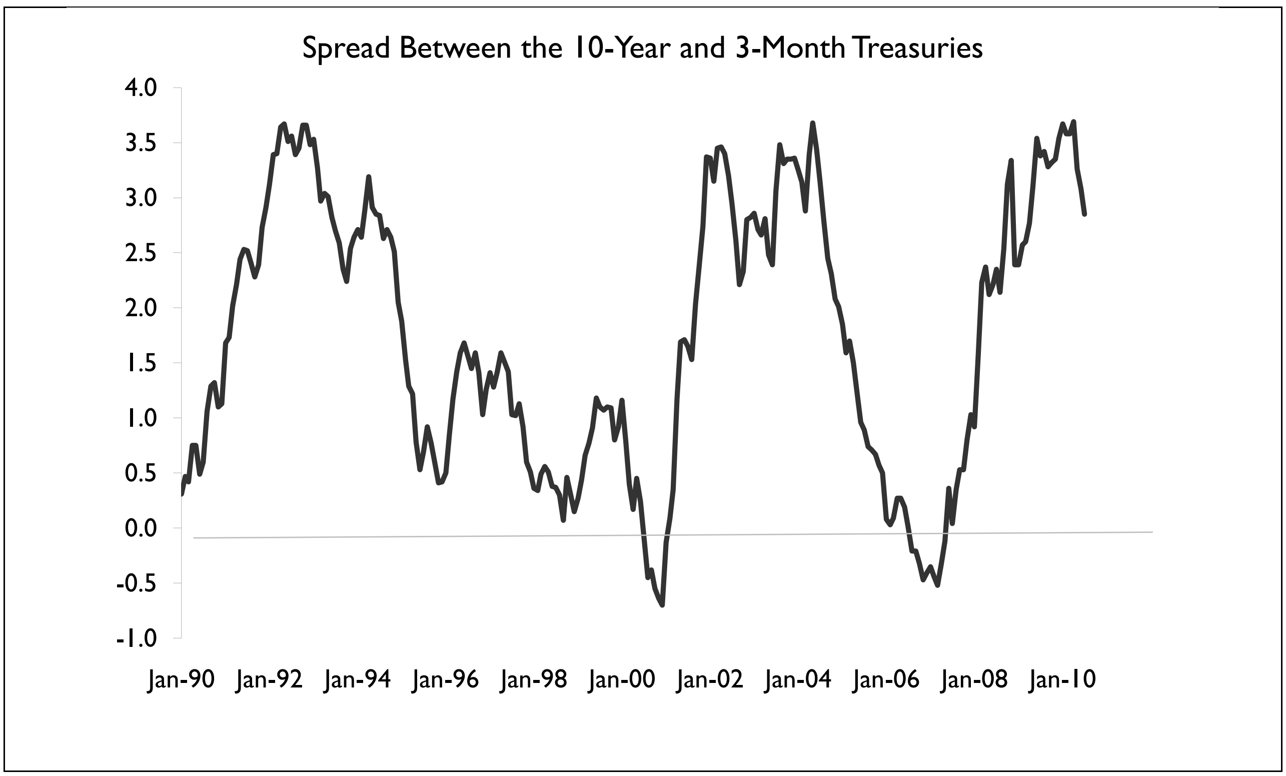

7 Rivers Employment
(WI: La Crosse, Trempealeau, Jackson, Juneau,
Monroe, Vernon, MN: Houston, Winona, IA: Allamakee)
Thousands
185.0
180.0
175.0
170.0
165.0
160.0
155.0
150.0
Jan-91
Jan-93
Jan-95
Jan-97
Jan-99
Jan-01
Jan-03
Jan-05
Jan-07
Jan-09

Interest Rates

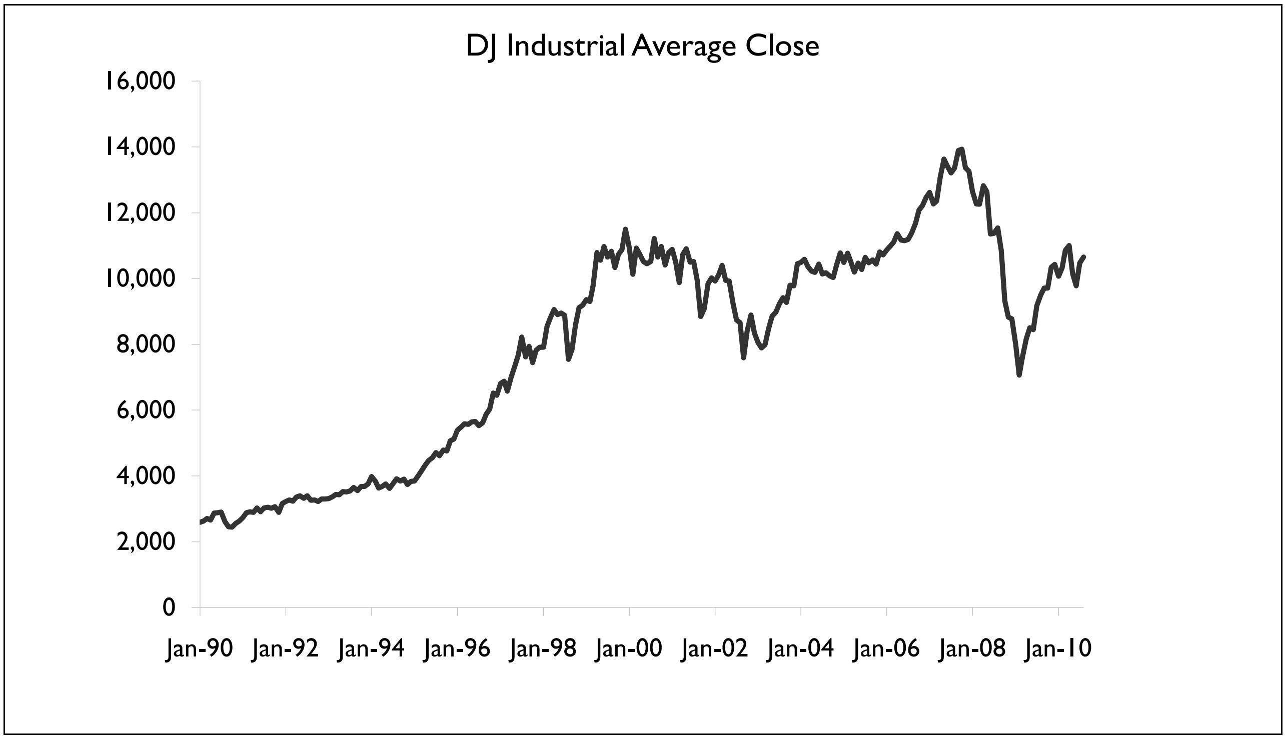


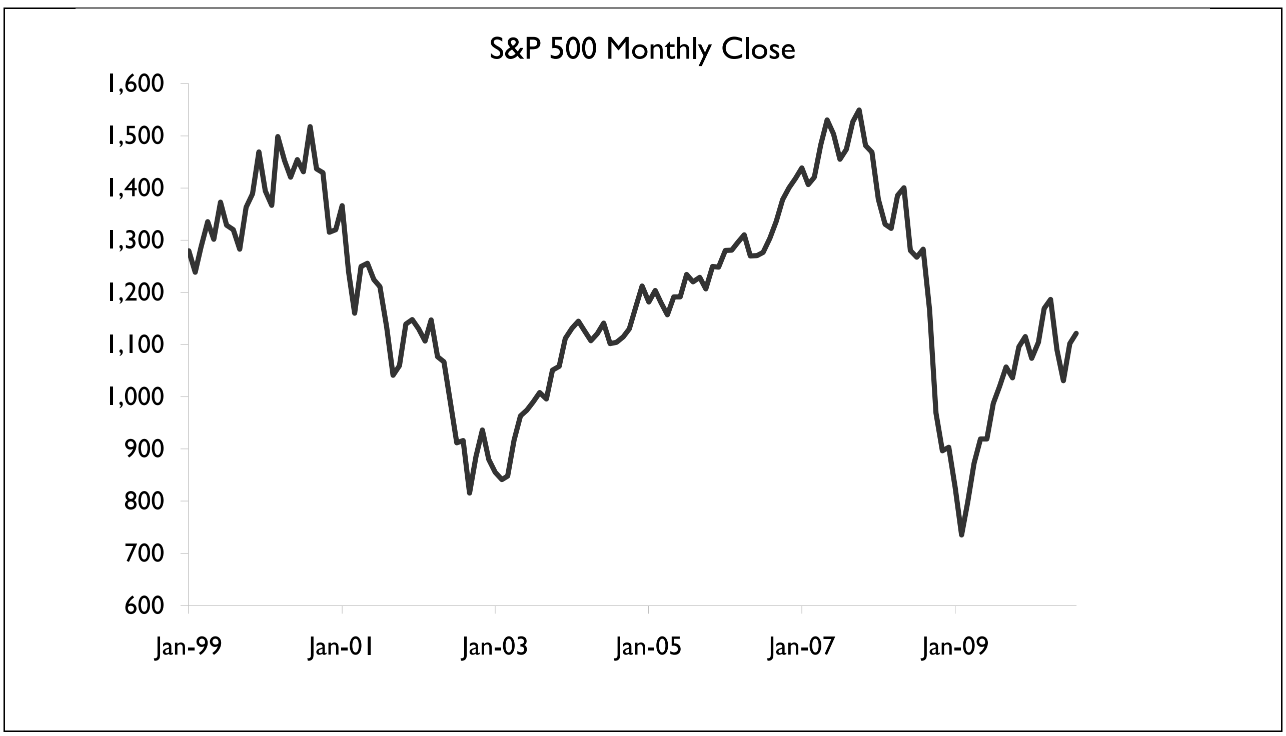


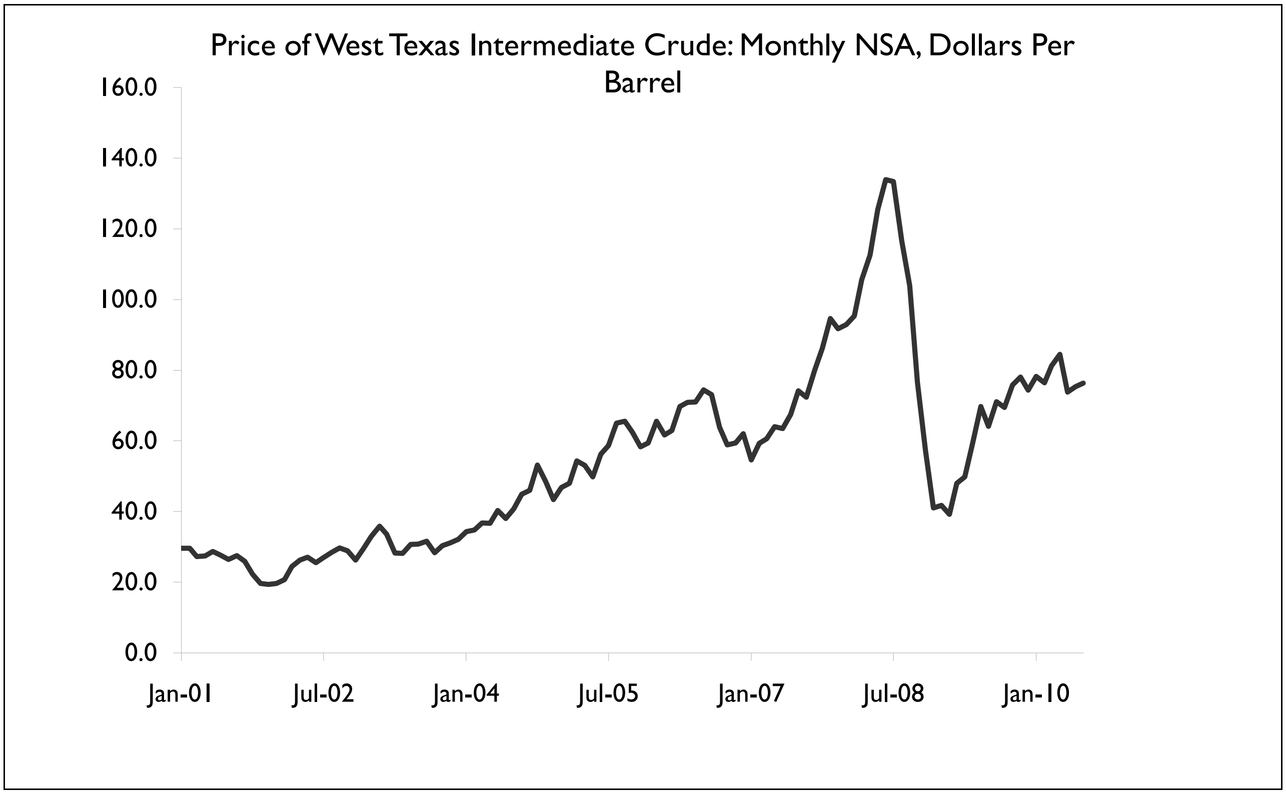

Quality Spread (30 Year Conventional Mortgage - 10 Year Constant Maturity Treasury)
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
Jan-90 Jan-92 Jan-94 Jan-96 Jan-98 Jan-00 Jan-02 Jan-04 Jan-06 Jan-08 Jan-10

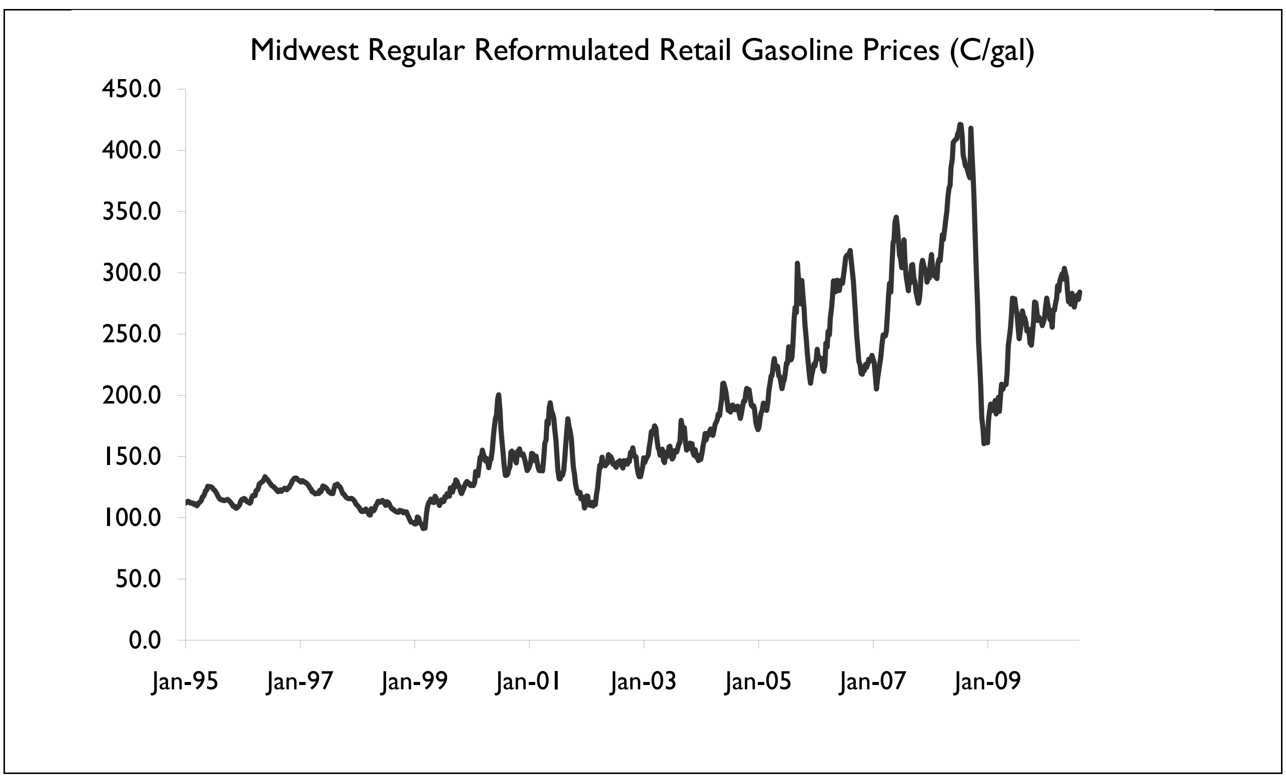

Spread Between the 10-Year and 3-Month Treasuries
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
-0.5
-1.0
Jan-90 Jan-92 Jan-94 Jan-96 Jan-98 Jan-00 Jan-02 Jan-04 Jan-06 Jan-08 Jan-10

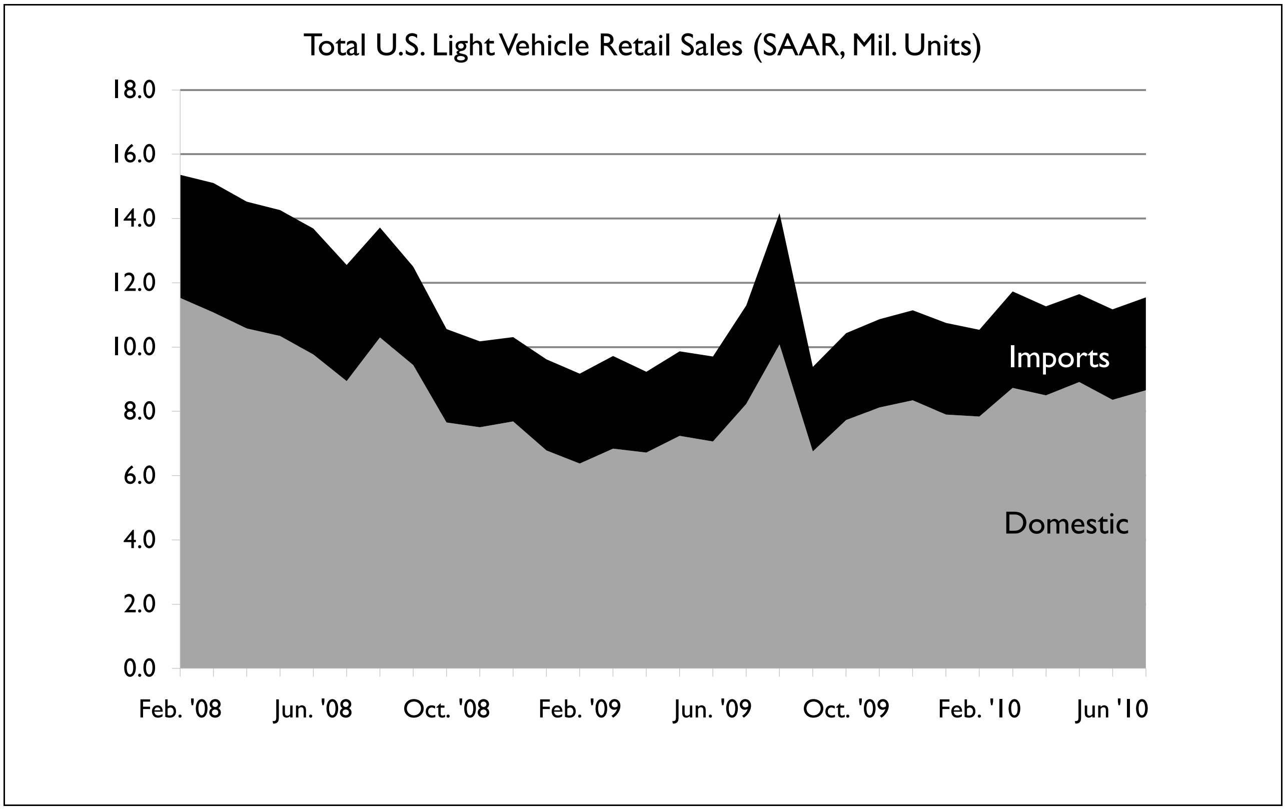
Stock Market



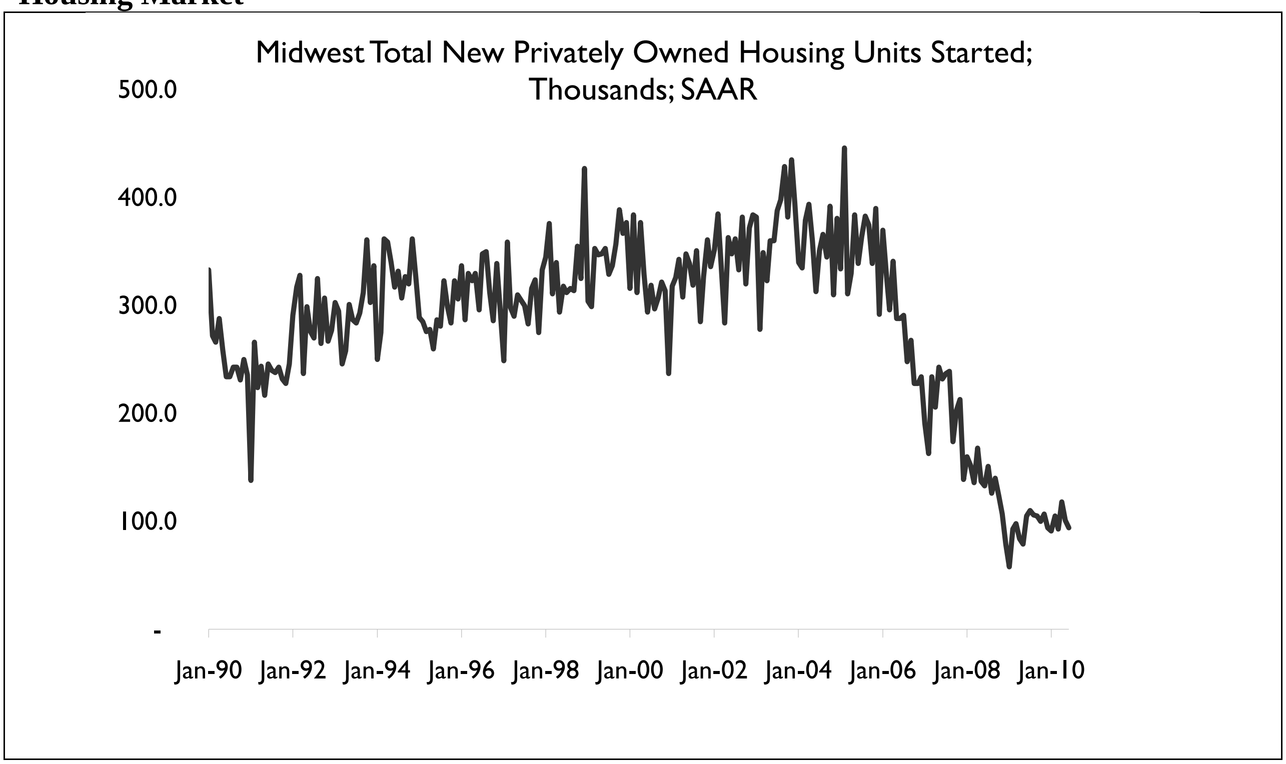


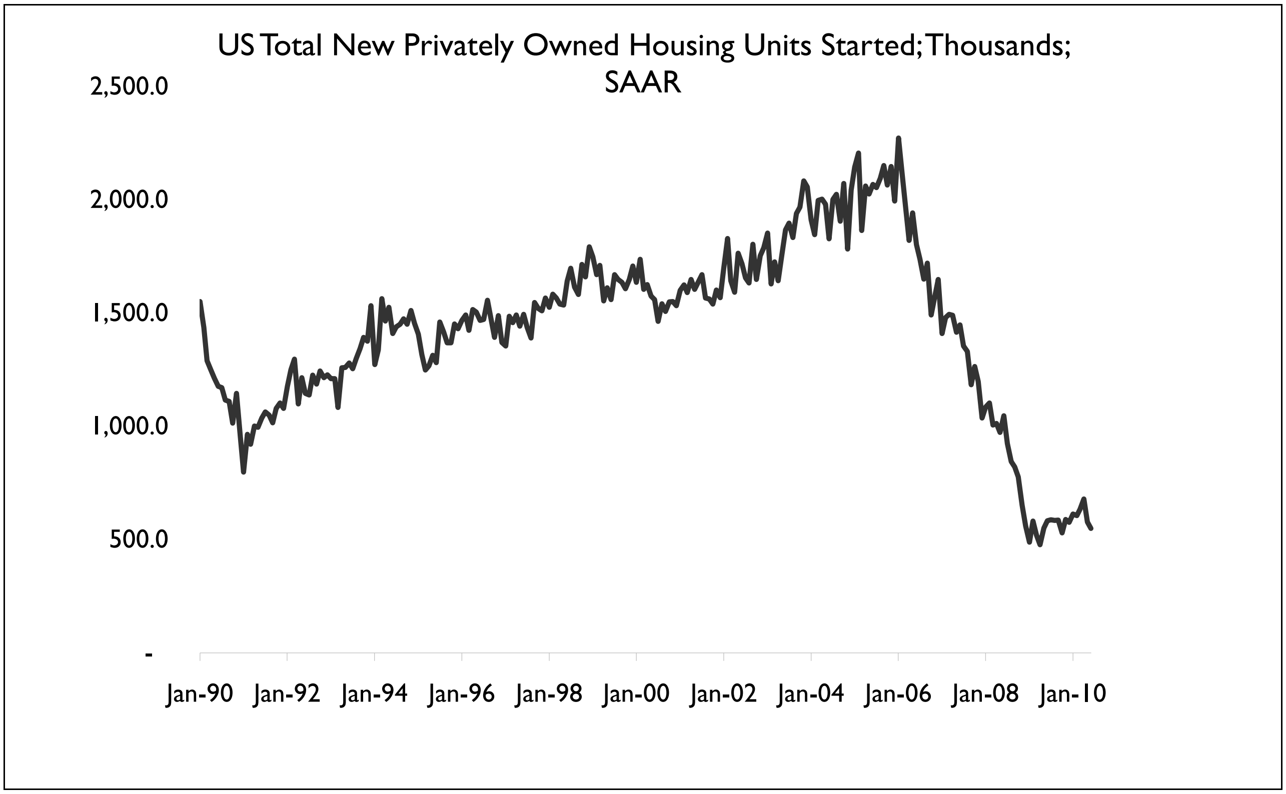

Price of West Texas Intermediate Crude: Monthly NSA, Dollars Per Barrel
160.0
140.0
120.0
100.0
80.0
60.0
40.0
20.0
0.0
Jan-01
Jul-02
Jan-04
Jul-05
Jan-07
Jul-08
Jan-10

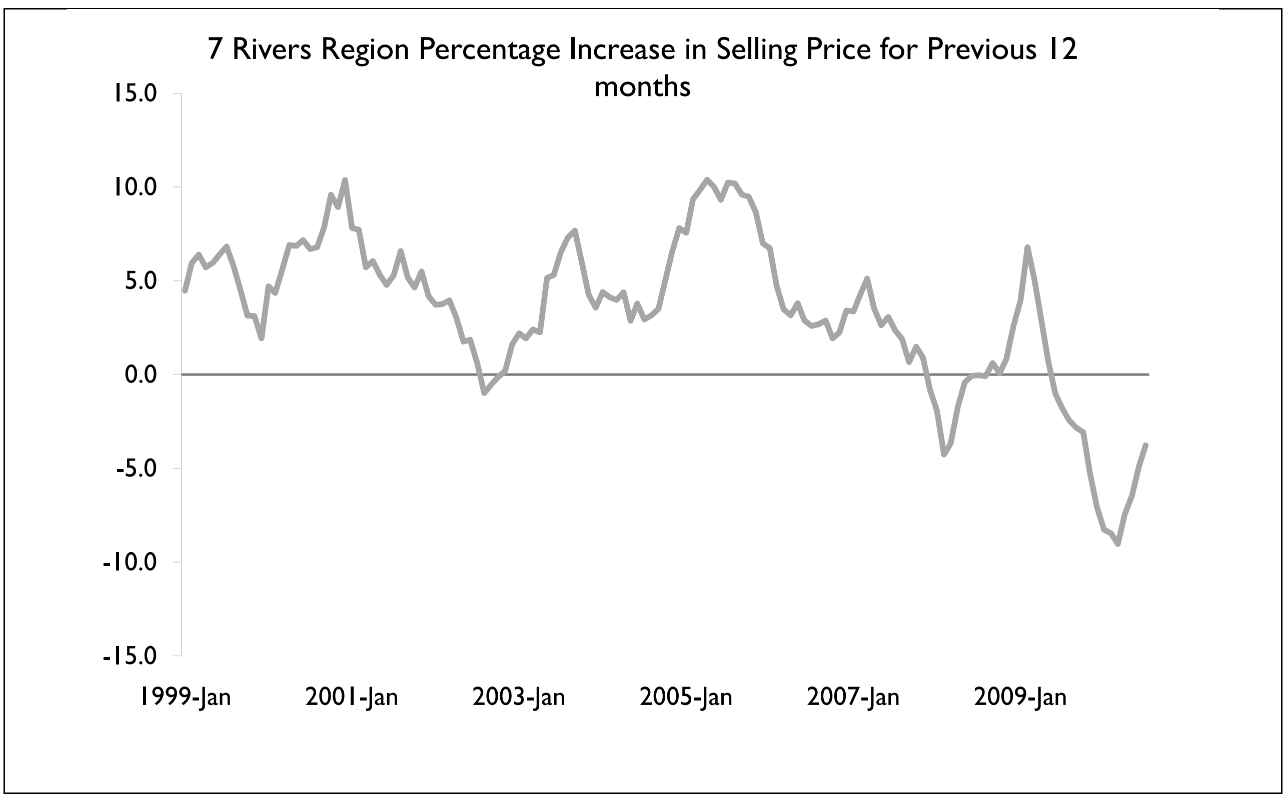

Midwest Regular Reformulated Retail Gasoline Prices (C/gal)
450.0
400.0
350.0
300.0
250.0
200.0
150.0
100.0
50.0
0.0
Jan-95
Jan-97
Jan-99
Jan-01
Jan-03
Jan-05
Jan-07
Jan-09

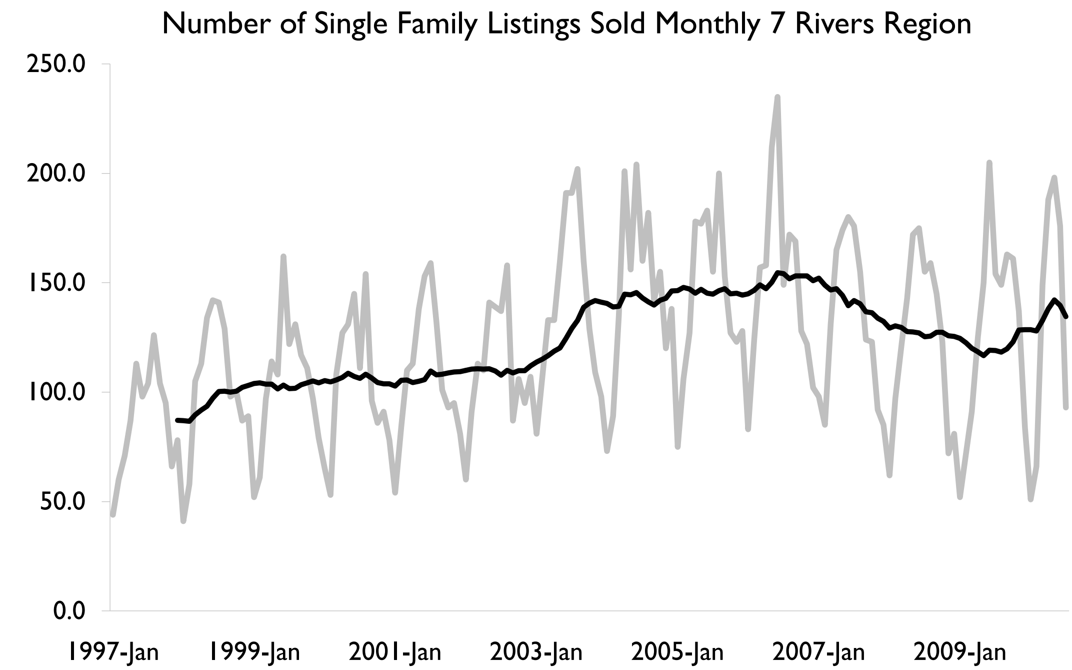


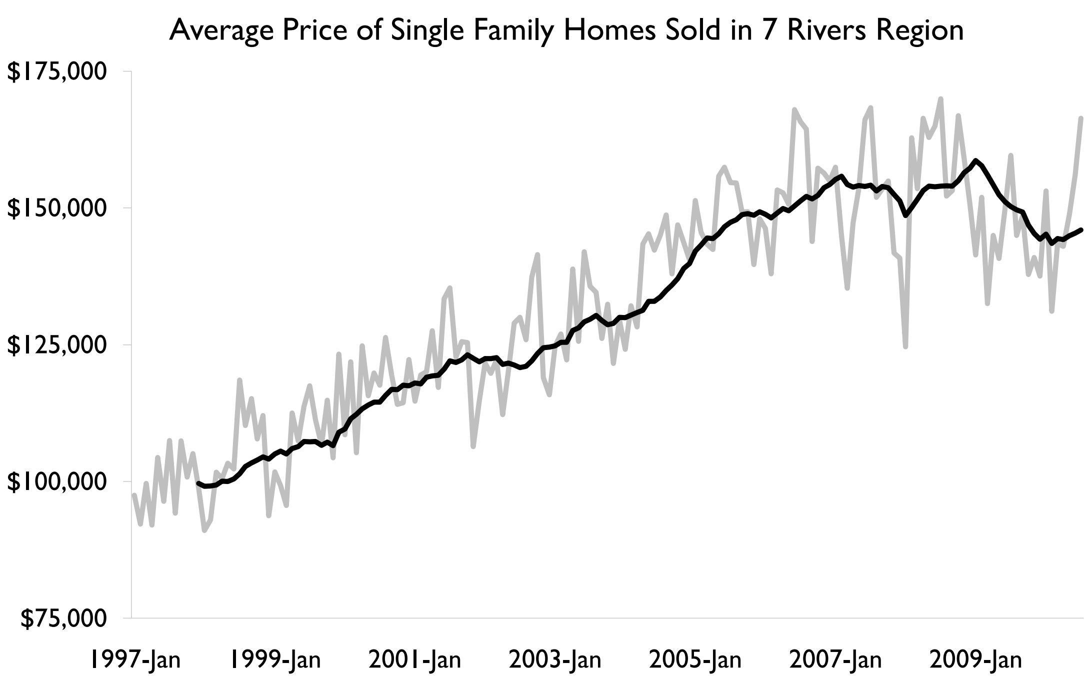
Housing Market

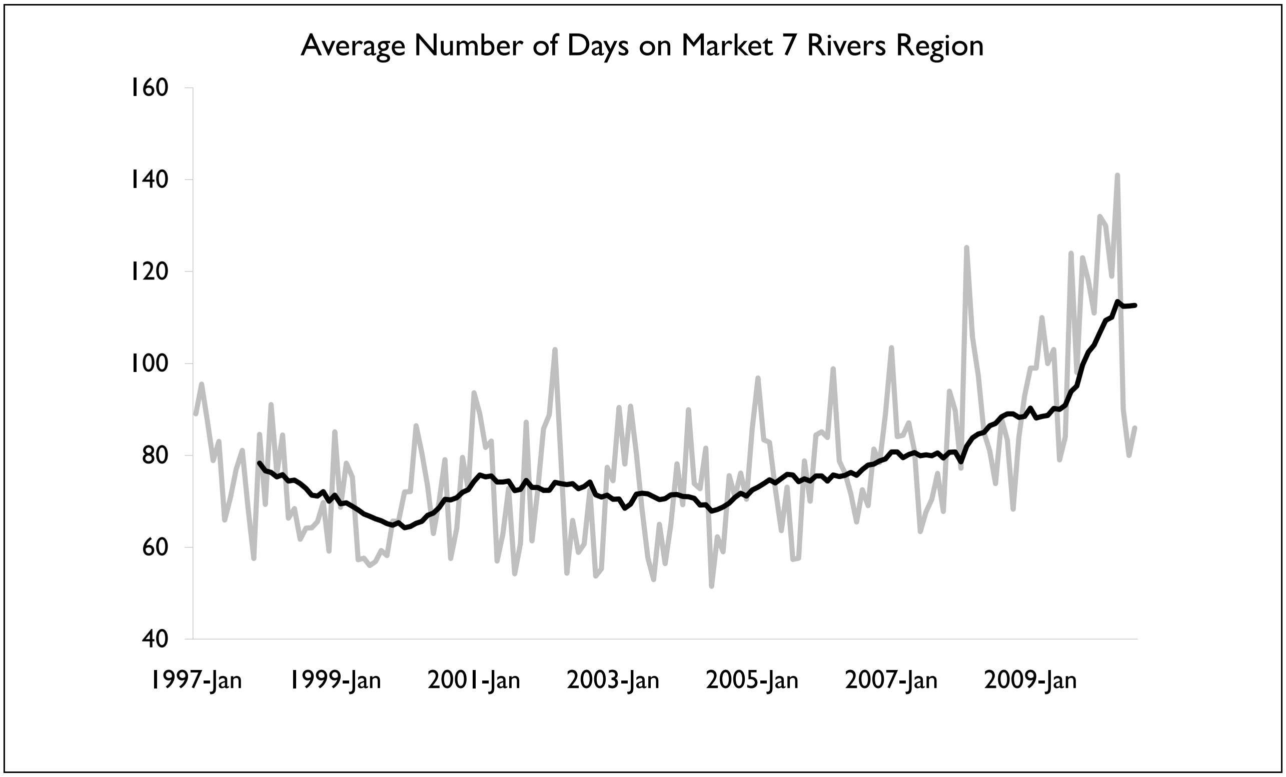


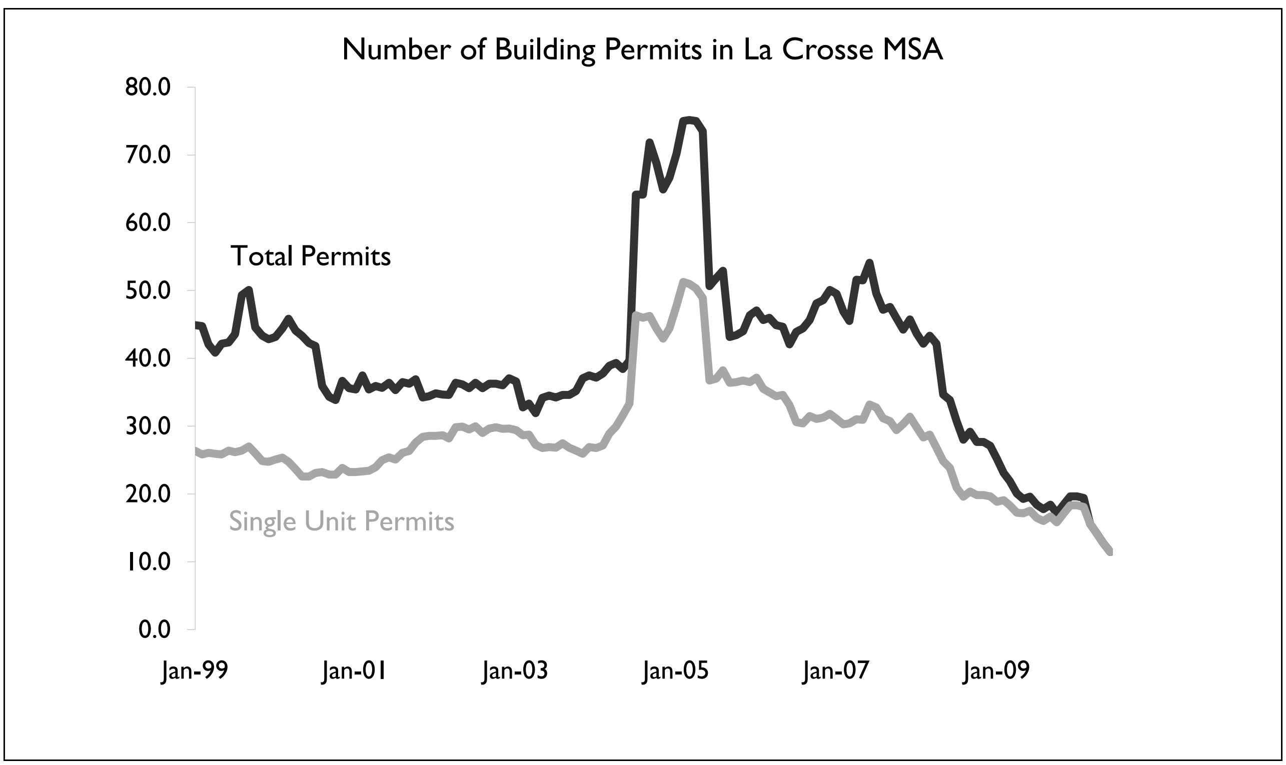

US Total New Privately Owned Housing Units Started; Thousands; SAAR
2,500.0
2,000.0
1,500.0
1,000.0
500.0
-
Jan-90
Jan-92
Jan-94
Jan-96
Jan-98
Jan-00
Jan-02
Jan-04
Jan-06
Jan-08
Jan-10


7 Rivers Region Percentage Increase in Selling Price for Previous 12 months
15.0
10.0
5.0
0.0
-5.0
-10.0
-15.0
1999-Jan
2001-Jan
2003-Jan
2005-Jan
2007-Jan
2009-Jan

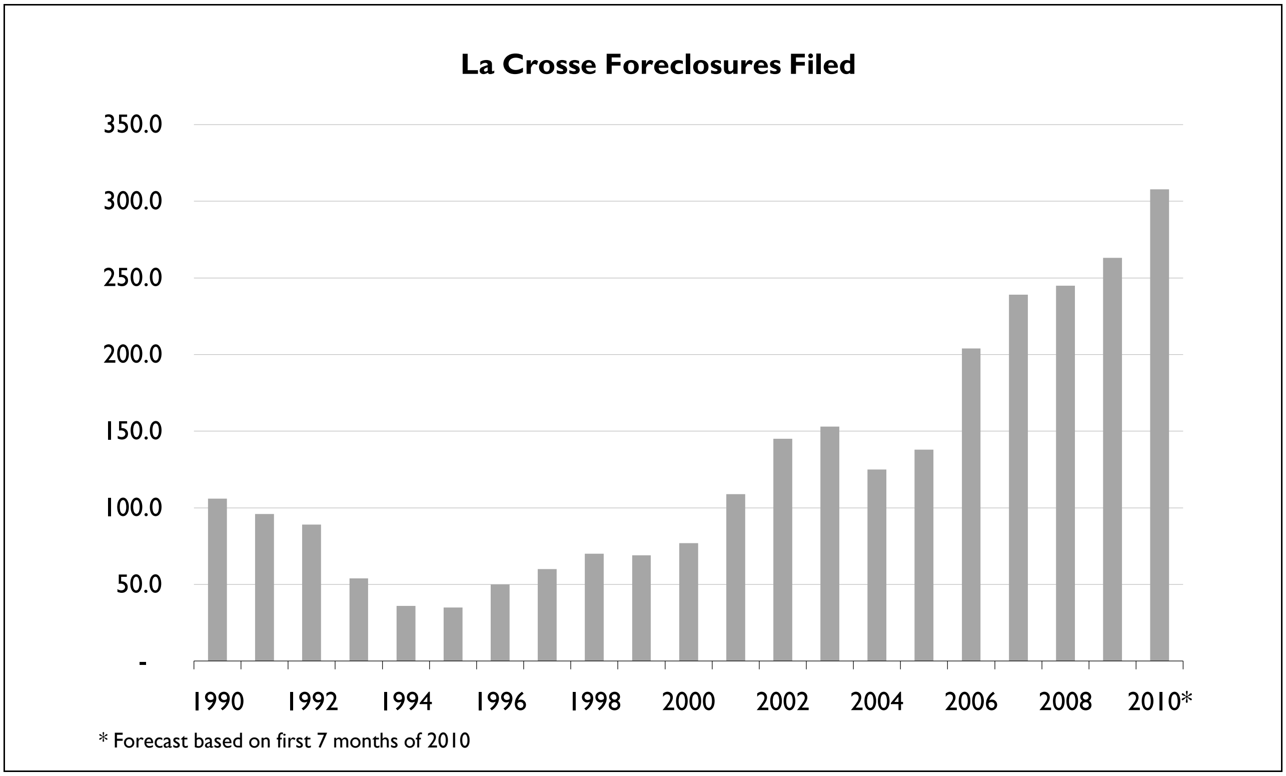

Number of Single Family Listings Sold Monthly 7 Rivers Region
250.0
200.0
150.0
100.0
50.0
0.0
1997-Jan
1999-Jan
2001-Jan
2003-Jan
2005-Jan
2007-Jan
2009-Jan


Average Price of Single Family Homes Sold in 7 Rivers Region
$175,000
$150,000
$125,000
$100,000
$75,000
1997-Jan
1999-Jan
2001-Jan
2003-Jan
2005-Jan
2007-Jan
2009-Jan

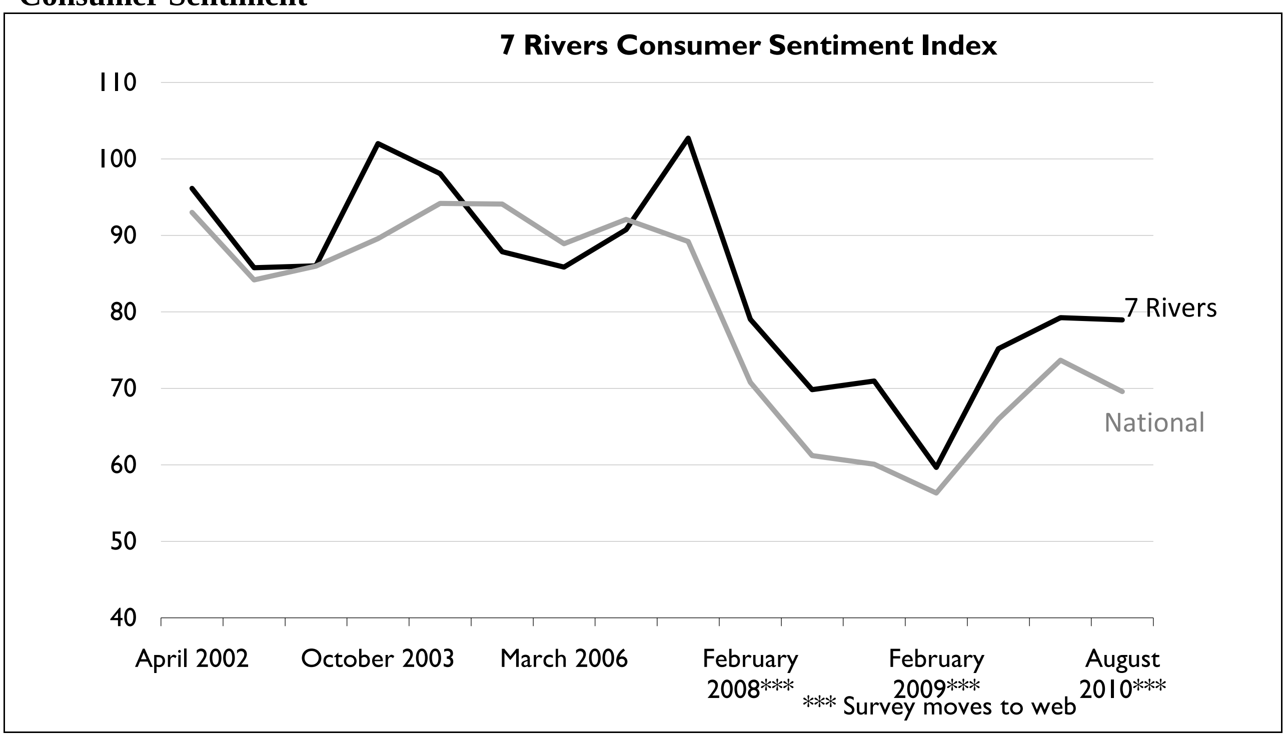

Average Number of Days on Market 7 Rivers Region
160
140
120
100
80
60
40
1997-Jan
1999-Jan
2001-Jan
2003-Jan
2005-Jan
2007-Jan
2009-Jan

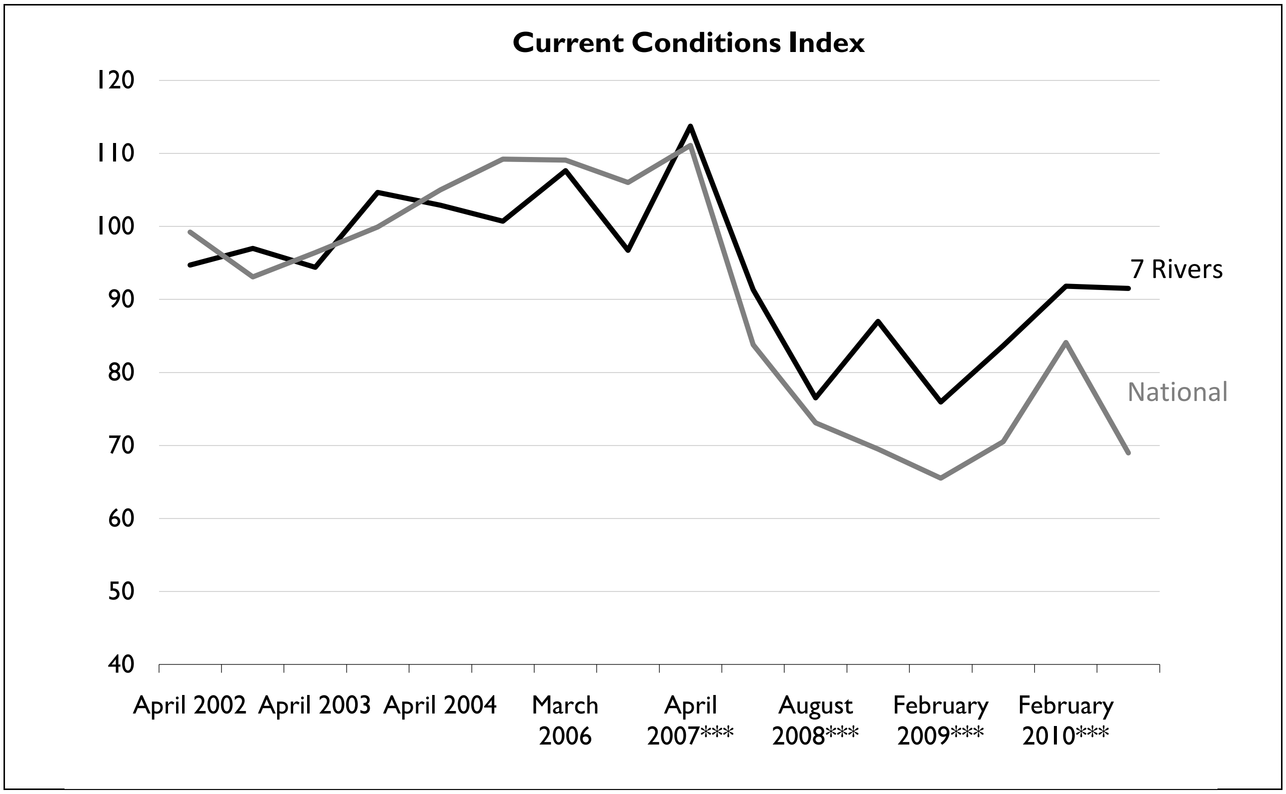

Number of Building Permits in La Crosse MSA
80.0
70.0
60.0
50.0
40.0
30.0
20.0
10.0
0.0
Total Permits
Single Unit Permits
Jan-99
Jan-01
Jan-03
Jan-05
Jan-07
Jan-09

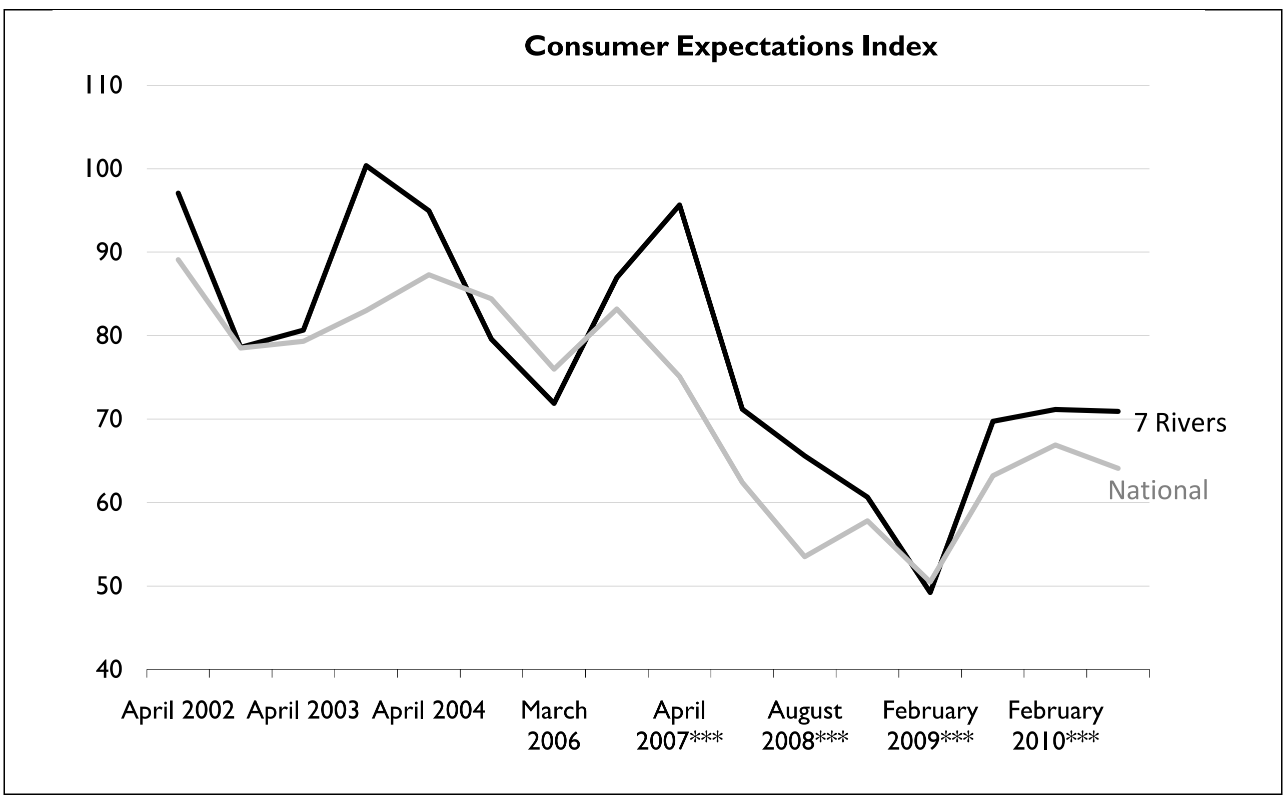
Foreclosures

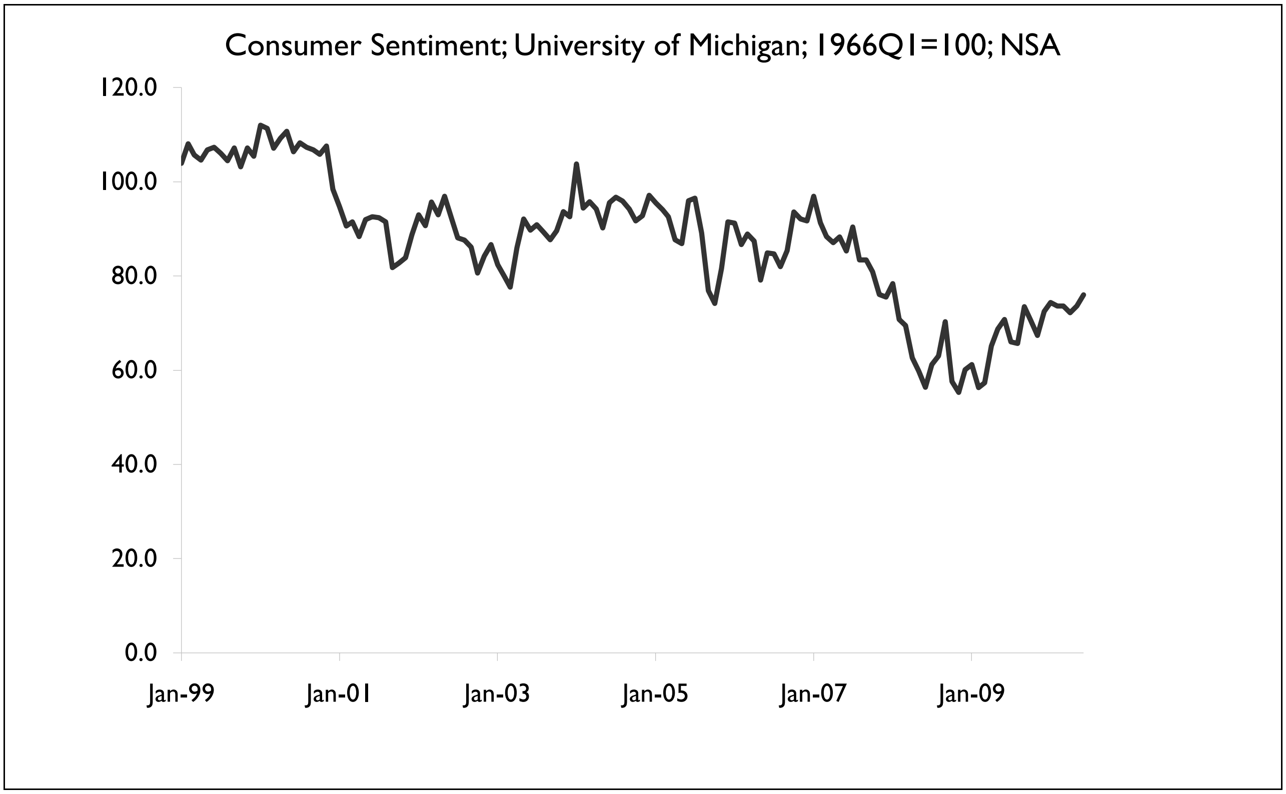


Consumer Sentiment




Current Conditions Index
120
110
100
90
80
70
60
50
40
7 Rivers
National
April 2002
April 2003
April 2004
March 2006
April 2007***
August 2008***
February 2009***
February 2010***


Consumer Expectations Index
110
100
90
80
70
60
50
40
7 Rivers
National
April 2002
April 2003
April 2004
March 2006
April 2007***
August 2008***
February 2009***
February 2010***


Consumer Sentiment; University of Michigan; 1966Q1=100; NSA
120.0
100.0
80.0
60.0
40.0
20.0
0.0
Jan-99
Jan-01
Jan-03
Jan-05
Jan-07
Jan-09

The 7 Rivers Equity Index: Is This What a Recovery Feels Like?

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

I. Introduction

On October 9, 2007, the Dow Jones Industrial Average closed at 14,164. Little did anyone surmise that three years later we would be looking at that number in astonishment and a deep desire for the "good old days." The financial crisis that began in 2007 was triggered by a liquidity shortfall in the United States banking system that many claim had its origin in an overvaluation of assets and excessively easy credit. It resulted in the collapse of large financial institutions, the bailout of banks, General Motors, and other companies by national governments, and in downturns in stock markets around the world. After the failure of Bear Sterns in April 2008, the Dow dropped to 11,000. Many analysts felt that was going to be the market bottom. However, in September 2008 Lehman Brothers went bankrupt, helping to trigger a 13 percent drop in October alone. It wasn't until March 5, 2009, that the decline came to an end with the Dow at 6,594, a 53 percent decline. Since then, we have witnessed a lurching recovery to a point where the Dow seems to be caught between 10,000 and 11,000 in early August.

Looking forward, many are forecasting limited economic growth. In fact, the lead article of the "Money and Investing" section of the August 2 *Wall Street Journal* was titled "Big Investors Fear Deflation." The Institute for Supply Management reported that the growth of global production and new orders had eased to a one year low in early August. Higher unemployment rates following the layoff of temporary census workers, an impending end to the Bush tax cuts, and questions about global policy makers' ability to take future steps to boost economic output were pushing investors into defensive portfolio positions. The *Journal* article reported that investors were fleeing consumer discretionary stocks in favor of firms making consumer staples such as health care and utilities.

What about shares in the 7 Rivers Region? Have local companies given up most of the gains of early 2010 and then plateaued, like the bigger market indexes? Where do we go from here? To gain some insight to the likely future of the local business climate, this report examines the investment prospects of firms in the 7 Rivers Equity Index. The next section of this report presents a listing of local public companies and their performance during and subsequent to the recent financial crisis. Investment returns of the 7 Rivers Equity Index are then compared to national stock market performance. Following the policy adopted when the 7 Rivers Equity Index was created in 2002, the remainder of this 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 perspective, current metrics will be compared to the values reported in the fall of 2008 (for the most recent synopsis of managerial performance within 7 Rivers Region companies, refer to the April 2010 edition of *7 Rivers Region: An Economic Update*, pp. 23-35).

II. 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 geographic location. There have been no changes in the roster of companies qualifying for membership in the 7 Rivers Equity Index, which is presented in Table 1. Eight companies are located in Wisconsin, five in Minnesota, and two in Iowa. As you can see on the bottom of Table 1, eleven companies have dropped out of the 7 Rivers Index because they were acquired by other corporations, went private, or went bankrupt.

The values to the right of each company's name are their decline over the November 2007 to February 2009 period and their recovery since that period, respectively. All but Marten Transportation and National Presto experienced a decline in stock market price over the 2007-2009 financial crisis period. Seven firms registered a decline of over 40 percent, with the price of HMN Financial dropping 91 percent. Since then, the price of HMN Financial has dropped an additional 89 percent. Two other banks, Baraboo Bancorporation and Citizens Community Bank, have experienced drops exceeding 40 percent. Non-financial local companies in general have experienced a strong recovery, with the share prices of Fastenal, Flexsteel, and Renaissance Learning being up over 60 percent. National Presto continued its winning ways with a 69 percent improvement, while Heartland Financial has bucked the trend found among other financial companies and experienced a price increase of 56 percent.

Table 1. 7 Rivers Equity Index

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

The Financial Crisis Period reaches from November, 2007 to February 2009 (16 months), while the post-financial crisis ran from March 2009 to July 2010 (17 months)

State / Company/ City/ Industry	Financial Crisis Price Change	Post-Financial Crisis Price Change
Wisconsin		
Baraboo Bancorporation (BAOB) Baraboo; Retail banking	-49%	-53%
Citizens Community Bank (CZWI) Eau Claire; Retail banking	-28%	-44%
Energy Composites Corporation (ENCC) Wisconsin Rapids; Fiberglass-based manufacturing	-24%	-34%
Marten Transportation (MRTN) Mondovi; Trucking	16%	37%
Mid-Wisconsin Financial Services (MWFS) Medford; Retail banking	-52%	- 10%
National Presto (NPK) Eau Claire; Cookware	10%	69%

Table 1. 7 Rivers Equity Index - Continued

State / Company/ City/ Industry	Financial Crisis Price Change	Post-Financial Crisis Price Change
Renaissance Learning (RLRN)	-49%	96%
Wisconsin Rapids; Educational software		
Wausau-Mosinee Paper (WPP)	-45%	23%
Mosinee; Paper products		
Minnesota		
Fastenal (FAST)	-32%	63%
Winona; Threaded fasteners		
HMN Financial (HMNF)	-91%	-89%
Spring Valley; Savings & loan		
Hormel (HRL)	-13%	35%
Austin; Pork and turkey processing		
Merchants Financial Group (MFGI)	-15%	-7%
Winona; Retail banking		
Rochester Medical (ROCM)	-33%	-7%
Stewartville; Urinary treatment products		
Iowa		
Flexsteel Industries (F LXS)	-57%	85%
Dubuque; Home furnishings		
Heartland Financial USA (HTLF)	-43%	56%
Dubuque; Retail banking		

Firms included in the 7 Rivers Equity Index that are no longer publically held	Price Change While in 7 Rivers Equity Index
Ag Services of America – acquired by Rabobank (1/2004)	-43%
Bone Care International – acquired by Genzyme Corporation (6/2005)	161%
Featherlite – acquired by Universal Trailer Holdings (10/06)	16%
First Federal Capital Corporation – acquired by Associated Banc-Corp (10/04)	127%
La Crosse Footwear – relocated to Oregon (3/2001)	-49%
Land's End – acquired by Sears (6/2002)	78%
Northland Cranberries – privatized (11/2005)	-97%
Pemstar – acquired by Benchmark Electronics (1/07)	-76%
Sheldahl – bankrupt (4/2002)	-100%
State Bank La Crosse – privatized (2/2003)	- 8%
TenderCare International – acquired by Hain Celestial (12/07)	100%

Performance of the 7 Rivers Equity Index, an equally-weighted index of regional companies, is presented in the first column of Table 2 and illustrated in Figure 1. 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 8.8 percent to 91.2, meaning a $100 investment would have lost $8.80. Over the first eight years, through December 2007, the 7 Rivers Equity Index rose 45.8 percent, to 145.8. Meanwhile, $100 invested in the Dow Jones Industrial Average would have been worth only $115.40, a $15.40 increase over seven years. Worse yet, investors in the Standard and Poor's 500 (S&P 500) companies would have experienced a 10 cent loss, seeing the value of their $100 drop to $99.90!

The performance of the 7 Rivers Equity Index was extremely good in 2008; good, that is, in comparative terms. While the Dow Jones Industrial Average dropped 33.8 percent and the S&P 500 was off a larger 38.5 percent, local shares only fell 9.8 percent. By contrast, the performance of the 7 Rivers Equity Index was relatively poor in 2009, dropping 3.0 percent, while the Dow and S&P 500 were up 18.9 percent and 23.6 percent, respectively.

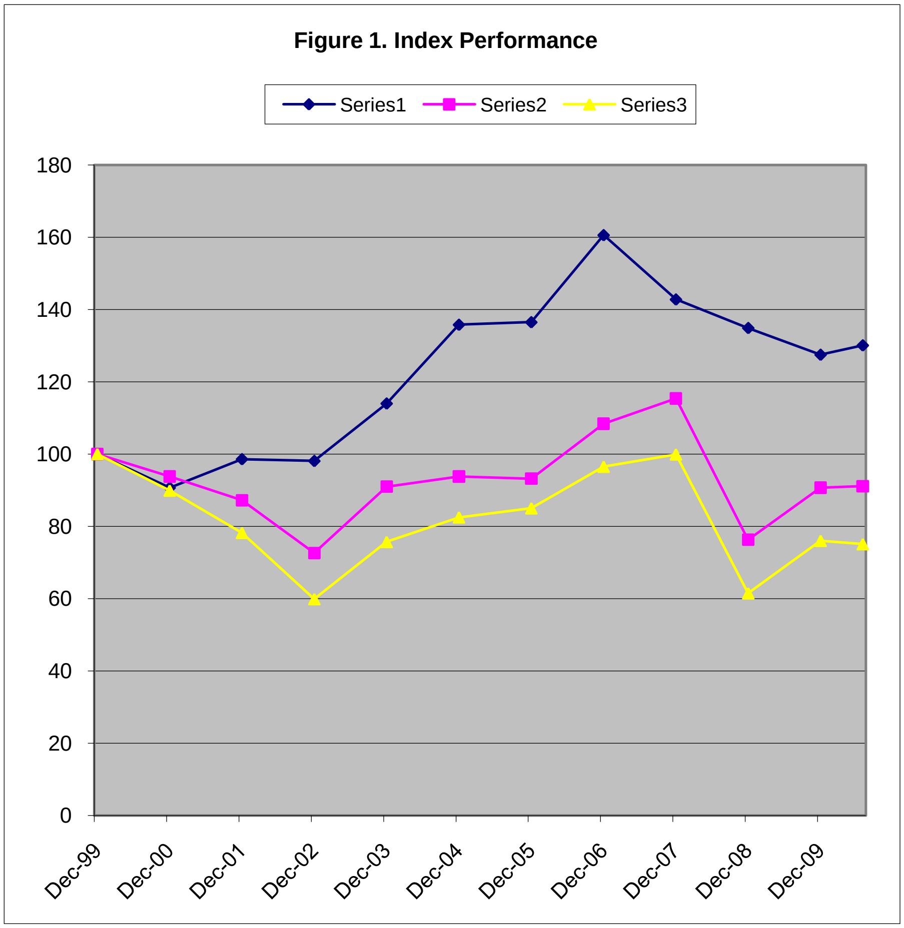
The performance of the 7 Rivers Equity Index mirrors that of national benchmarks so far in 2010. All three measures were advancing through the end of April. Local stocks, in fact had risen almost 10 percent over the first four months. Since that time, however, local shares have given up all but 2 percent of the gains held earlier in the year. The Dow was barely up for the year and the Standard & Poor's 500 had fallen into negative territory.

Table 2. Comparative Index Performance

Since 12/31/1999 Index Value of 100
(Year-to-Year Change in Parentheses Through 12/2009)
[Change since 12/2009 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	91.2	(-8.8%)	93.8	(-6.2%)	89.9	(-10.1%)
12/2001	99.3	(+8.7%)	87.2	(-7.0%)	78.2	(-13.0%)
12/2002	99.2	(-0.1%)	72.6	(-16.7%)	59.9	(-23.4%)
12/2003	115.4	(+16.3%)	91.0	(+25.3%)	75.7	(26.4%)
12/2004	136.7	(+18.4%)	93.8	(+3.1%)	82.5	(9.0%)
12/2005	137.9	(0.9%)	93.2	(-0.8%)	85.0	(3.0%)
12/2006	158.7	(15.1%)	108.4	(16.3%)	96.5	(13.5%)
12/2007	145.8	(-8.1%)	115.4	(6.5%)	99.9	(3.3%)
12/2008	131.5	(-9.8%)	76.3	(-33.8%)	61.5	(-38.5%)
12/2009	127.5	(-3.0%)	90.7	(18.9%)	76.0	(23.6%)
January 2010	129.6	[1.6%]	87.6	[-3.4%]	73.1	[-3.8%]
February 2010	134.5	[5.5%]	89.8	[-1.0%]	75.2	[-1.0%]
March 2010	137.0	[7.4%]	94.4	[4.1%]	79.6	[4.8%]
April 2010	139.8	[9.6%]	95.8	[5.6%]	80.9	[6.4%]
May 2010	133.5	[4.7%]	88.2	[-2.8%]	81.0	[6.6%]
June 2010	128.3	[0.6%]	85.0	[-6.3%]	70.3	[-7.5%]
July 2010	130.1	[2.0%]	91.1	[0.4%]	75.1	[-1.2%]

Across the entire decade and a half, local shares provided a return of 30.1 percent, while investment in the Dow would have resulted in a loss of 8.9 percent. Investment in the Standard & Poor's 500 for the entire period would have resulted in a loss of almost 25 percent. The annualized rate of returns that would generate these differences are 2.5 percent for the 7 Rivers Equity Index, -0.9 percent for the Dow, and -2.7 percent for the S&P 500 Index.



III. Local Common Stock Characteristics

Risk and Return Insights from Value Line

As shown above, local shares have recently performed slightly better than the two aggregate measures of stock market performance. Investors may be wondering whether this atypical performance is going to continue. In order to gain insight to this issue, information was obtained from Value Line Incorporated, Morningstar, and Zacks Investment Research. These firms are in the business of selling financial data. Hence, their focus is on producing accurate reports that are not necessarily biased towards the purchase of certain stocks. All information presented here is freely available at their web sites.

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 over 90 industries. 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. Table 3 exhibits individual firm rankings and measures for the ten 7 Rivers Region firms covered by Value Line. Value Line measures have been examined since 2004, allowing for the analysis of current firm rankings relative to the average of the past five years. 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 six to twelve 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. Only 20 percent of the companies analyzed fall into the extreme categories of Timeliness, Safety, and Technical Ranking; 10 percent are in Rank 1 and 10 percent are in Rank 5. Twenty percent of studied companies fall in to Rank 2 and Rank 4; the remaining 40 percent of firms fall in the center Rank 3.

As shown in the first row of Table 3, all of the 7 Rivers companies have Timeliness Rank 2 and Rank 3. The implication is that all of the local firms are expected to do better than the bottom 30 percent of companies. The downward-pointing arrow next to the "3" under Heartland Financial indicates that this company has had the most severe downsizing of ranking among all firms since 2008. Meanwhile, the upward-pointing arrow in the HMN Financial column indicates that this ranking is higher than it was two years ago. The 2010 average ranking, which is exhibited in the second column from the right, is slightly lower than the 2008 average, though both are better than the 3.0 average for the Value Line universe. At both points in time, local companies were considered more likely to perform well over the next year than average firms.

Safety Ranking is Value Line's measure of the potential risk associated with an individual stock's financial strength (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 3, Hormel and HMN Financial are considered to be in the top 10 percent of choices on the basis of investment security, while none of the 7 Rivers firms have a safety rating below 3. The upward-pointing arrow found next to the "1" value for the HMN Financial column indicates that this firm has moved up to the top rank since 2008. The absence of a downward-pointing arrow arises from the fact that none of the companies experienced a safety ranking decline since fall 2008. The 2.2 average Safety Ranking is much better than the 2008 value, suggesting that local company investment is a relatively safe choice both now (because the rank is above 3.0) and on a relative basis (compared to the 2008 average).

Technical Ranking is Value Line's predictor of a stock's short-term (three to six months) relative price change. Technical rankings are based on ten relative price trends for a particular stock over different periods in the past year. As shown in the third row of Table 3, for the first time we observe ratings less than average (i.e., "3"). Both HMN Financial and Wausau Paper have Technical ratings of 4. Though it has an average Technical ranking of "3," the downward-pointing arrow in its column implies that Marten Transportation's Technical ranking has experienced the greatest decline since 2008. Though it has the same average "3" technical ranking, the upward-pointing arrow in the Rochester Medical column indicates Rochester Medical has experienced an improved Technical ranking since 2008. The 3.1 average Technical ranking is below the "3" average, suggesting that in the near term local stocks are not expected to perform well. One possible reason for this for this anticipated poor short-term performance is the 7 Rivers Equity Index's good performance so far to date. Two years ago, stocks in the 7 Rivers Equity Index had a higher average Technical ranking, though the firms' average was not far from 3.0.

Institution Buy/Sale Ratios allow one to gauge the sentiment of professional money managers. The 1.0 value for Flexsteel and National Presto indicates that institutional investor purchases equaled sales over the past quarter. At the high end, institutional investor purchases were 70 percent higher than sales at Heartland Financial, which also enjoyed the greatest increase in institutional purchasing. By contrast, institutional purchases were only 80 percent of sales at HMN Financial, which experienced the greatest drop in analyst buying activity since 2008. Overall, the number of institutional purchases versus sales is down slightly since 2008, with 1.1 shares now being bought per share sold. Even in the midst of the financial crisis investors were 30 percent more likely to buy than sell shares of local companies, resulting in an institutional buy sale ratio of 1.3.

Price Stability, given in the fifth row of Table 3, 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 (most stability) to 5 (least stability) in increments of 5. While Hormel has the highest price stability rating among 7 Rivers firms, and firms in general, the greatest increase in price stability was experienced by Marten Transportation. Its price stability ranking jumped from 25 to 50. The most volatile local stock is HMN Financial, which dropped from a stability ranking of 70 in 2008 to only 15 in 2010. Local company share prices were less stable over the 2005-2010 period than they were over the 2003-2008 period, which is consistent with general perception that share prices have recently been more volatile.

Price Growth Persistence, exhibited in the sixth row of Table 3, is Value Line's proprietary measure of the continuity of share price increases in comparison to other stocks. It also is measured on a scale from 100 to 5, in increments of 5. With a rating of 95, Fastenal has the highest level of persistent stock price growth. Following close behind with price growth persistence readings of 90 are Marten Transportation and National Presto. The upward-pointing arrow in National Presto's column underscores that fact that its stock price growth persistence rose from 65 in 2008 to 90 in 2010. There was a slight increase in price growth persistence from 2008 to 2010.

Table 3. Common Stock Characteristics for 7 Rivers Equity Index Members

Data Provided by Value Line Investment Survey[a]

Arrows reflect direction of change for the company with the greatest 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	**2010 Average**	**2008 Average**
Timeliness Ranking	2	2	3↓	2↑	2	2	3	2	2	3	2.3	2.7
Safety Ranking	2	2	3	1↑	1	2	3	3	2	3	2.2	2.7
Technical Ranking	3	3	3	4	2	3↓	3	3	3↑	4	3.1	2.6
Institution Buy/Sale Ratio	0.8	1.0	1.7↑	0.8↓	1.1	0.9	1.0	1.2	1.5	1.1	1.1	1.3
Price Stability	70	65	55	15↓	100	50↑	70	35	40	40	54	59
Price Growth Persistence	95	25	25	40↓	80	90	90↑	10	75	20	55	52
Beta	1.1	0.55	1.05	0.75↑	0.65	0.85↓	0.95	1.15	0.70	1.25	0.9	1.0
Dividend Yield (%)	1.6	1.8	2.3↑	0.0↓	2.0	0.0	8.4	2.2	0.0	0.0	1.8	3.1
3- to 5-Year Projected Returns												
Maximum	14↓	na	na	na	18	na	22	17	na	28↑	20	24
Minimum	5	na	na	na	13	na	13	7↓	na	17↑	11	14

[a] Value Line does not cover the other firms in the 7 Rivers 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 an up arrow in the Safety row above, indicates that none of the firms had a change in this direction for the specified Value Line-reported characteristic.

Beta measures, exhibited in the seventh row of Table 3, are reported by Value Line with a regression towards the mean assumption using a proprietary model. That is, Value Line does not expect firms that exhibit a large reaction to general market performance to have the same abnormal level of sensitivity the following year. Not surprisingly, industrial concerns, Renaissance Learning, and Wausau Paper are among the most sensitive to market conditions. Meanwhile, Flexsteel (the maker of upholstered furniture for use in homes, businesses, and recreational vehicles) has the lowest sensitivity to market conditions. As one would expect given its banking function in the midst of a financial crisis, HMN Financial's beta rose the most over the past two years. By contrast, Martin Transportation's beta fell from 1.1 to 0.85 over the past two years, indicating that the company has taken steps to limit its sensitivity to market conditions. Overall, the systematic risk of local companies today is slightly less than the average of 1.0, where it was in 2008.

Dividend Yield, which is exhibited in the eighth row of Table 3, is the ratio of the dividend payments over the next twelve months divided by the current price. Six companies in the 7 Rivers Region paid dividends at a rate exceeding what local investors would receive on savings accounts, with National Presto leading the way at 8.4 percent. The 2.3 percent dividend yield from Heartland Financial represented the greatest percentage increase since 2008. By contrast, HMN Financial and Wausau Paper stopped making dividend payments. Back in 2008, HMN Financial paid a dividend yield of 6.5 percent, while Wausau Paper's dividend yield had been 4.3 percent. With these eliminations, it is not surprising that the average dividend yield among local firms has dropped by over one percent, from 3.1 percent to 1.8 percent.

Price projections, given in the last two rows of Table 3, are Value Line's estimate of the annual, compound total rate of return for the largest firms in the 7 Rivers Equity 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. Since the data being used was published in mid-2010, the forecast is for the period from July 2013 to June 2015. Unfortunately, Value Line makes these predictions only for a select group of typically larger firms.

Despite the elimination of its dividend, analysts expect a lot out of Wausau Paper's share price. The high end of the price range is 28 percent per year, which is up from 20 percent two years ago, as well as being the highest level of all companies with reports. The low end of its expected return (remember, this is all in the form of price increases) is also higher than it was in 2008 and higher than any other 7 Rivers Region firm. The largest decrease in expected maximum performance is registered by Fastenal, where the top end of the expected return range has been trimmed from 23 percent to 14 percent. The largest decrease in the lower end of the anticipated price range is Renaissance Learning's five percent drop from 12 percent in 2008 to 7 percent in 2010.

Though the sample is limited, there is no doubt about the direction of projected returns. In 2008, the average projected return ranged from 24 to 14 percent. After the financial crisis, assuming it is over, the expected returns are in the 20 to 11 percent range. Stated another way, expected returns for local companies have been shaved by about four percentage points.

Market Price-Based Insights from Morningstar

Morningstar is an investment research firm providing commentary, portfolio management tools, and detailed reports on stocks and mutual funds. One advantage of using Morningstar's price-relative data is that although Value Line's financial analysts may not review small firms, all public firms have a share price and are likely to have earnings, sales, cash flows and a book value. Data used here was accessed at www.morninstar.com. This year's report expands upon the prior study of the pricing of securities by contrasting current price relative ratios to industry levels and those in existence in 2008. Table 4 looks at share prices relative to two pieces of data found on income statements: sales and earnings. Table 5 examines current prices relative to book value and cash flow per share.

Price/Earnings Ratios

Price/Earnings ratios divide a stock's current price by the company's trailing 12-month earnings per share. In general, higher price/earnings ratios indicate a greater level of investor confidence that the firm will provide earnings growth in the future. Current company price/earnings ratios, shown in the first column of Table 4, are negative when the company reported a loss over the most recent twelve months. Six of fourteen companies had a negative price/earnings ratio.

Large negative price/earnings ratios are not necessarily bad. For instance, Rochester Medical's share price is one hundred and forty-two times the loss, suggesting the loss is relatively small. In retrospect, the largest price/earnings ratio was recorded by Heartland Financial, where its price is a whopping fifty-one times larger than Heartland's meager earnings.

For each 7 Rivers Equity Index firm, the current price/earnings ratio, industry ratio, and 2008 ratio are presented. In additional to Heartland Financial, Fastenal has a price earnings ratio higher than the industry average and the 2008 value. The 2008 value is largest in four instances, and the industry average is the highest in the other instances. It appears as though investors are less enthusiastic about local companies, though the results could also be due to higher earnings. Analysis of additional price-relative ratios will help clarify the cause for lower recent price/earnings ratios.

Price/Sales Ratios

Price/Sales ratios, exhibited in the right panel of Table 4, divide a company's current price by sales per share over the past twelve months. Price/sales ratios are commonly considered in conjunction with price/earnings ratios because even companies with negative earnings produce sales. Generally, confident investors will pay more per dollar of sales, implying they anticipate sales growth. Price/sales ratios varied from 12.6 at Energy Composites to 0.2 at Flexsteel. Energy Composites also reported the largest jump in price/sales ratio, with a 1.1 increase. The largest price/sales decline occurred at Citizens Community bank where the price/earnings ratio dropped 43 percent, from 2.3 to 1.3.

By scanning across both panels of Table 4, one can see that more local companies exhibit price/sales ratios that exceed their 2008 levels than exhibit current price/earnings ratios that exceed their 2008 levels. Nonetheless, more local firms had higher price/sales ratios two years ago. The median price/sales ratio is 33 percent lower than it was in 2008, as shown in the second last row of Table 4. One positive piece of information to be gleaned from the analysis of price/sales ratios is that the current median price/earnings level, 1.2, exceeds the S&P 500's average price/sales ratio. In 2008, local companies had a price/sales ratio that was 0.8 (2.6 – 1.8) lower. Hence, on a price/sales ratio basis, there is reason to believe in local companies.

Table 4. Income Statement Insights

Current Share Valuation Based on Earnings and Sales

Data was obtained from Morningtar on August 3, 2010 and August 10, 2008[a]

	Price/Earnings			Price/Sales		
7 Rivers Firms	Current	Current / Industry Average	2008 Value	Current	Current / Industry Average	2008 Value
Citizens Community	-5.2	140.8	38.2	1.3	2.2	2.3
Energy Composites	-12.9	33.0	-26.5	12.6	0.3	11.5
Fastenal	34.0	28.1	29.2	3.6	1.1	3.4
Flexsteel	10.4	42.0	7.7	0.2	1.0	0.2
HMN Financial	-2.0	-78.0	6.1	0.4	3.1	1.3
Heartland Financial	51.0	20.7	15.2	1.5	2.7	2.5
Hormel Foods	15.8	140.8	15.5	0.9	0.7	0.8
Marten Transport	30.9	-21.4	33.9	1.0	0.4	0.8
Merchants Financial	-4.8	140.8	Na	0.7	2.2	Na
Mid-WI Financial	-5.5	140.8	16.1	0.7	2.2	1.0
National Presto	11.1	14.7	12.0	1.5	0.5	1.1
Renaissance Learning	18.7	-44.8	42.9	3.3	1.9	3.4
Rochester Medical	-142.7	26.7	80.0	3.1	2.1	4.1
Wausau Paper	13.3	15.0	-18.3	0.3	0.6	0.3
Median	10.8	27.4	15.5	1.2	1.5	1.8
S&P 500	14.3	na	18.8	1.1	na	2.6

[a] Baraboo Bancorp is not covered by Morningstar.

Price/Book Ratios

Price/Book Value ratios, exhibited in the first set of columns of Table 5, indicate what investors are willing to pay for a company versus the amount that owners invested at the initial public

offering, through seasoned new issues, and retained earnings. Price/book value ratios are computed by dividing the current price by shareholders equity per share. Unlike the ratios presented in Table 4, shareholders equity is built up over time, providing an indication of investor sentiment relative to company success since inception. Like investment statement-based ratios, high price/book ratios indicate investor confidence in a company.

Examining the first column of Table 5, you can see that the median book value ratio of local companies is much less than the S&P 500 average. In fact, the median is only 62 percent of the national benchmark. However, six of fourteen local firms beat their industry average, with the 28.6 price/book ratio of Renaissance Learning standing out from the crowd. A majority of 7 Rivers Region firms had a higher price/book ratio in 2008. Furthermore, the median is down by about 1/7 since then. Overall, these results suggest that investors are currently less excited about the dollars they have invested in local companies. Stated another way, they are less willing to send "additional dollars after past investment."

Price/Cash Flow Ratios

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 twelve months. Price/cash flow ratios show the ability of a business to generate cash and can be an effective gauge of liquidity and solvency. These ratios are often preferred to price/earnings ratios because it is easier for managers to manipulate earnings than cash flows. As with the other price relative ratios, a large value is usually considered indicative of anticipated good performance.

The price/cash flow values foreshadow weak performance by local companies. In fact, only three local companies have price/cash flow ratios exceeding their industry average. The median price/cash flow ratio is about 75 percent of its industry average and only about slightly more than half of what it was in 2008. In fact, only Rochester Medical, with a price/cash flow ratio of 84, has a higher price/cash flow ratio than it did in 2008. Looking at the numbers one might think that Rochester Medical is doing exceedingly well. On the contrary, the large positive 2010 and negative 2008 values result from a relatively small increase and decrease in cash accounts. The only thing that can be said with confidence is that Rochester Medical is moving in the correct direction when we focus on cash management. Regarding local companies in general, the one silver lining is that the current price/cash flow ratio is above the S&P 500 index level. Unfortunately, the primary reason is not good performance by local firms but a drop in national price/earnings ratios by over 50 percent. Approximately half the decline is caused by the drop in the S&P 500 Index since July 2008, with the other half coming from growth in cash flow per share. Despite the growth in cash flow per share, investors have not responded by at least maintaining the same amount that they will pay per dollar of cash flow.

Table 5. Balance Sheet Insights

Current Share Valuation Based on Book Value and Cash Flow

Data was obtained from Morningtar on August 3, 2010 and August 10, 2008[a]

7 Rivers Firms	Price/Book Value Current	Price/Book Value Current / Industry Average	Price/Book Value 2008 Value	Price/Cash Flow Current	Price/Cash Flow Current / Industry Average	Price/Cash Flow 2008 Value
Citizens Community	0.3	1.4	1.1	5.2	5.4	67.6
Energy Composites	-114.9	1.4	0.7	-46.1	2.9	-36.4
Fastenal	5.9	2.2	28.5	28.7	10.6	31.5
Flexsteel	0.7	3.2	4.5	3.3	9.3	15.8
HMN Financial	0.3	1.7	0.4	1.1	7.7	6.7
Heartland Financial	1.2	1.1	0.2	6.8	10.8	10.4
Hormel Foods	2.5	1.4	1.5	12.5	15.1	13.8
Marten Transport	1.7	1.5	2.1	6.8	8.1	7.4
Merchants Financial	0.5	3.1	na	-6.25	5.4	na
Mid-WI Financial	0.5	1.4	1.6	2.4	5.4	3.1
National Presto	2.4	2.0	0.6	12.6	4.6	15.1
Renaissance Learning	28.6	1.6	-49.3	11.0	18.2	15.2
Rochester Medical	1.7	2.4	2.8	84.0	11.3	-90.1
Wausau Paper	1.4	1.5	2.7	3.4	3.6	7.6
Median	1.3	1.6	1.5	6.0	7.9	10.4
S&P 500	2.1	na	0.87[b]	6.3	na	12.6[b]

[a] Baraboo Bancorp is not covered by Morningstar.

Average Broker Recommendations from Zacks Investment Research

The paragraphs above present a significant amount of information regarding anticipated return, risk, and current valuations. Although the above results suggest that local companies are out of favor, resulting in lower price relatives, 7 Rivers Region firms may now actually be great buying opportunities. Also, an investor still has to decide whether or not to buy a specific company. To gain insight to this potential opportunity, 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. National Presto has the highest recommendation at 1.0; however, as shown in the next column, this rating is based on the assessment of only one analyst. More impressive is that fact that Wausau Paper's 1.5 ABR is an average of the opinions of four analysts. A key insight in favor of investment in local firms can be observed by comparing the last two numbers of the first two columns. Specifically, the ABR has fallen—remember low numbers are preferred—from 2.6 to 2.0 despite scrutiny by more analysts.

Table 6. Average Brokerage Recommendation (ABR)

Data Provided by My.Zacks.com[a]

Legend
Preferred Numbers (Range)
Low ABR (1 – 5)
High Number of ratings (0 - ∞)
High Estimated value/Current Value (0.01 - ∞)
High Industry Rank and Percentile Rank in Industry (1 – 100)

	ABR	Number of Ratings	Estimated Value / Current Price	Industry Percentile Rank	Percentile Rank in Industry
Citizens Bank	na	na	na	65	67
Energy Composites	na	na	na	20	79
Fastenal	2.07	10	1.18	66	67
Flexsteel	na	na	na	82	71
HMN Financial	na	na	na	65	46
Hormel	2.73	11	1.00	48	95
Heartland Financial	2.43	7	1.11	91	27
Marten Transport	2.0	6	1.07	38	57
National Presto	1.0	1	1.13	44	12
Rochester Medical	2.0	1	1.46	25	56
Renaissance Learning	3.0	1	na	56	92
Wausau Paper	1.5	4	1.56	58	35
2010 Median	2.04	5	1.13	57	62
2008 Median	2.6	4	1.08	40	40

[a]My.Zacks.com does not include analysis of Baraboo Bancorporation, Mid-Wisconsin Financial Services, or Merchants Financial Group.

Another important statistic provided by Zacks is an estimate of the firm's value. Division of estimated value by current stock price provides a measure of mispricing (or, being positive, investment opportunity!). Unfortunately, Zacks presents these numbers for only seven companies. Nonetheless, in all seven instances, the firm is considered to be worth more than its share price. The median ratio for the estimated value versus current price ratio is 1.13. This value means that investors believe share price is 13 percent less than the real value. In 2008, two local firms were perceived to be overpriced, which helped to lead to a 2008 median estimate of mispricing of only 8 percent. This finding is one of the strongest in favor of the purchase of 7 Rivers Region stocks.

Zacks also ranks industries and firms within industries on the basis of expected price performance over the coming year. These relative rankings run from one to 99, with the latter being assigned to industries expected to do the very worst or companies within industries expecting to do the worst. One can observe the importance of a firm's industry and position within an industry by studying Heartland Financial. Its Midwest Retail banking industry is in the worst 9 percent of the 264 industries considered by Zacks. However, the ranking for Heartland Financial in the industry itself is 12 out of 44 Midwest Retail banks, or in the top 27 percent.

Industry and within-industry rankings figures present a mixed message. Energy Composites and Rochester Medical are in industries expected to perform among the best in the coming year. Meanwhile, National Presto's within-industry ranking puts it in the top 12 percent of the household appliance industry. However, many of the industry rankings and within industry ranks are in the bottom third. Overall, the average industry rank dropped from 40 to 57 across the 2008 to 2010 period. More discouraging is the fact that the within industry rank dropped from 40 to 62. According to Zacks, local companies went from being in the highest 40 percent of companies in an industry to the lowest 40 percent.

IV. Conclusion

The past three years have been an unnerving time for shareholders. As of August 2010, we have only regained about half of the drop that arose because of the multi-faceted crisis that began in 2007. As a consequence, investors are continually asking whether prosperity or more suffering lies ahead. Fortunately for investors in 7 Rivers Region stocks, the 2007-2009 stock market decline was not as dramatic as those witnessed elsewhere. However, the subsequent recovery has not been as dramatic on the local level.

This report provides insight to anticipated performance of the fifteen 7 Rivers Region companies that are publicly held. Most of the rankings and ratings reported by Value Line suggest that the future does not look as promising as it did in 2008. Of course, when you are in a perceived valley almost everywhere you look you will be looking up! Lower institutional buying may well be a reflection of a lower dividend yield and lower projected future returns. Investors were, in general, paying more per dollar of earnings, sales, book value, and cash flows. In retrospect, we know that July 2008 prices were higher than they are today. Perhaps the lower price relatives are better. Yet, it would be hard to argue that less investor enthusiasm is a good thing. One piece of good news is that stock brokers are now rating 7 Rivers Region companies higher and believe they are more underpriced than they were in 2008. However, these same brokers consider the industry mix of local firms and their placement within industries to be worse. A belief that the abnormally good performance of publicly-held firms in the 7 Rivers Region will hold up as we enter the all-important last quarter of the year and mid-term elections has only limited support.