



MCN CAPITAL  
MANAGEMENT, LLC

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**“What the Trump market is giving us.”**

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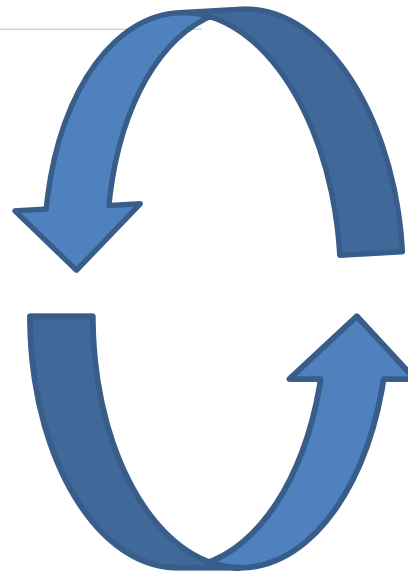
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# Short Term Consensus Momentum Flywheel



**Financial Media**

Source: Twitter



**Consensus Sell Side**



# Short Term Consensus Trump View

Tax Cuts, Deregulation, Infrastructure = “Animal Spirits”

- ◆ US GDP acceleration
- ◆ Inflation acceleration
- ◆ Tighter Fed
- ◆ Possible, but unlikely trade barriers/Wars
- ◆ Higher stock markets, Low volatility
- ◆ **Stronger dollar**



## Short Term Consensus Trump View

Tax Cuts, Deregulation, Infrastructure = “Animal Spirits”

### Consensus Trades

- ◆ Buy - banks, industrials, steel, cyclicals
- ◆ Short – retail, bonds, utilities, staples, select multinationals

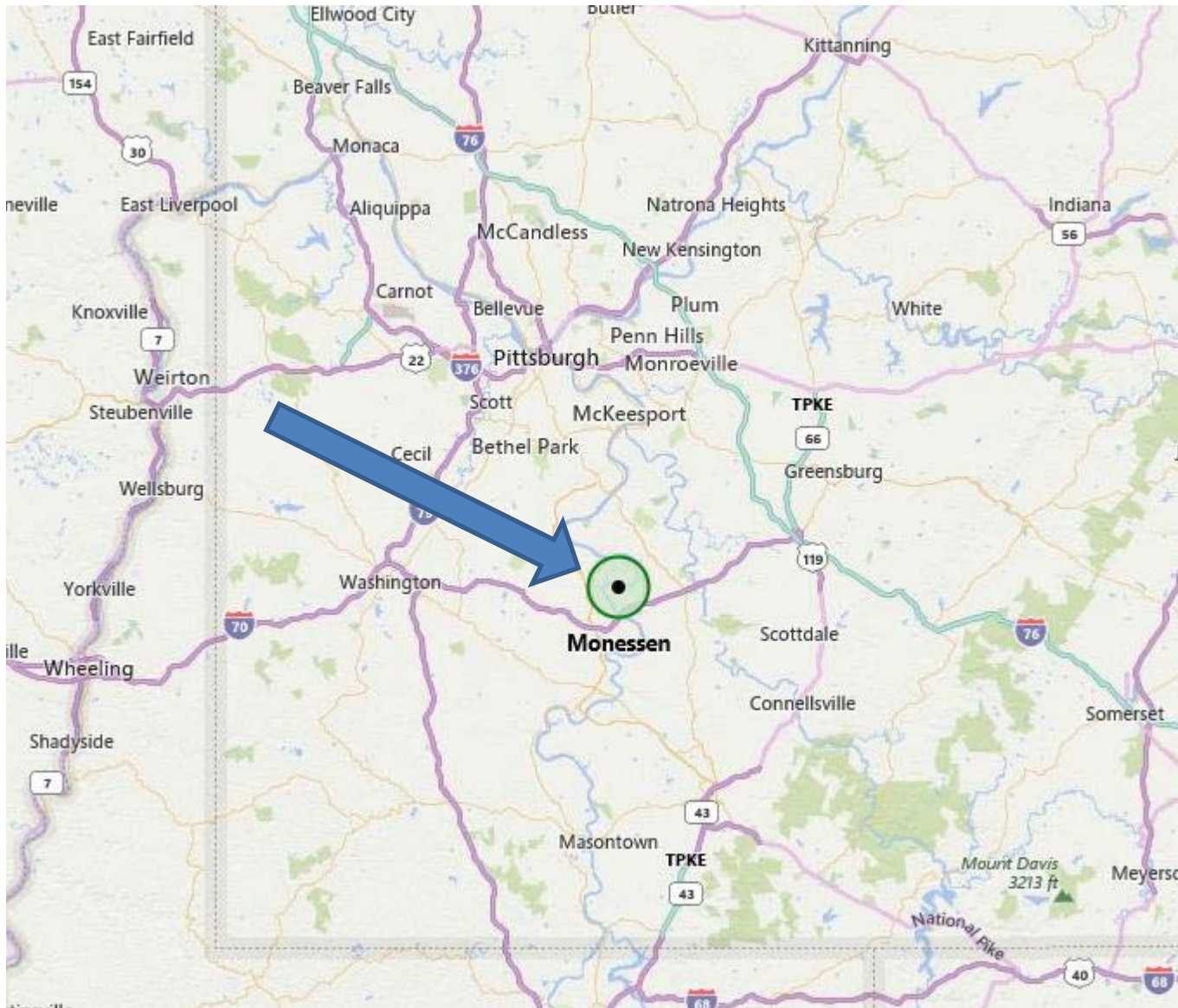
# **The Long View**

**Trump's Victory:  
Historical Blip  
or**

**Vanguard of Something Much Larger  
& Enduring?**

# Tectonic Shifts

*Monessen, PA*



# Monessen, PA - Industrial Boom Town

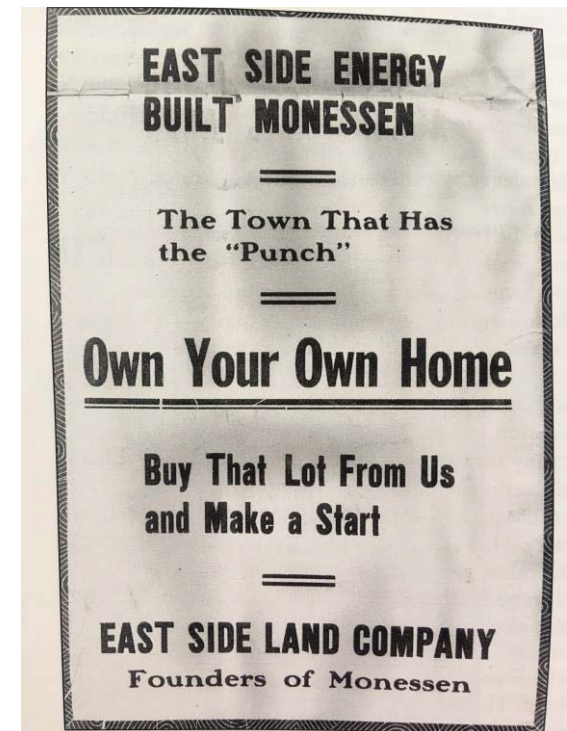
- ◆ Monessen Works





# Monessen, PA – Melting Pot

- ◆ “Essen on the Mon”
- ◆ Started from scratch
- ◆ Industrial era boom town
- ◆ Dozens of ethnic groups, churches
- ◆ 120 different ethnic grocers
- ◆ Largest Jewish population in Mon Valley



Source: "Monessen: A Typical Steel Country Town" by Cassandra Vivian (© 2002)

## Steven J. Pollock

- ◆ *Born: August 16, 1912; Father, Grandfather, steelworker*
- ◆ *153<sup>rd</sup> Airborne, central Europe – World War II*



# Democrats Owned Monessen

- ◆ Monessen, PA – Oct. 1962 – J.F.K.



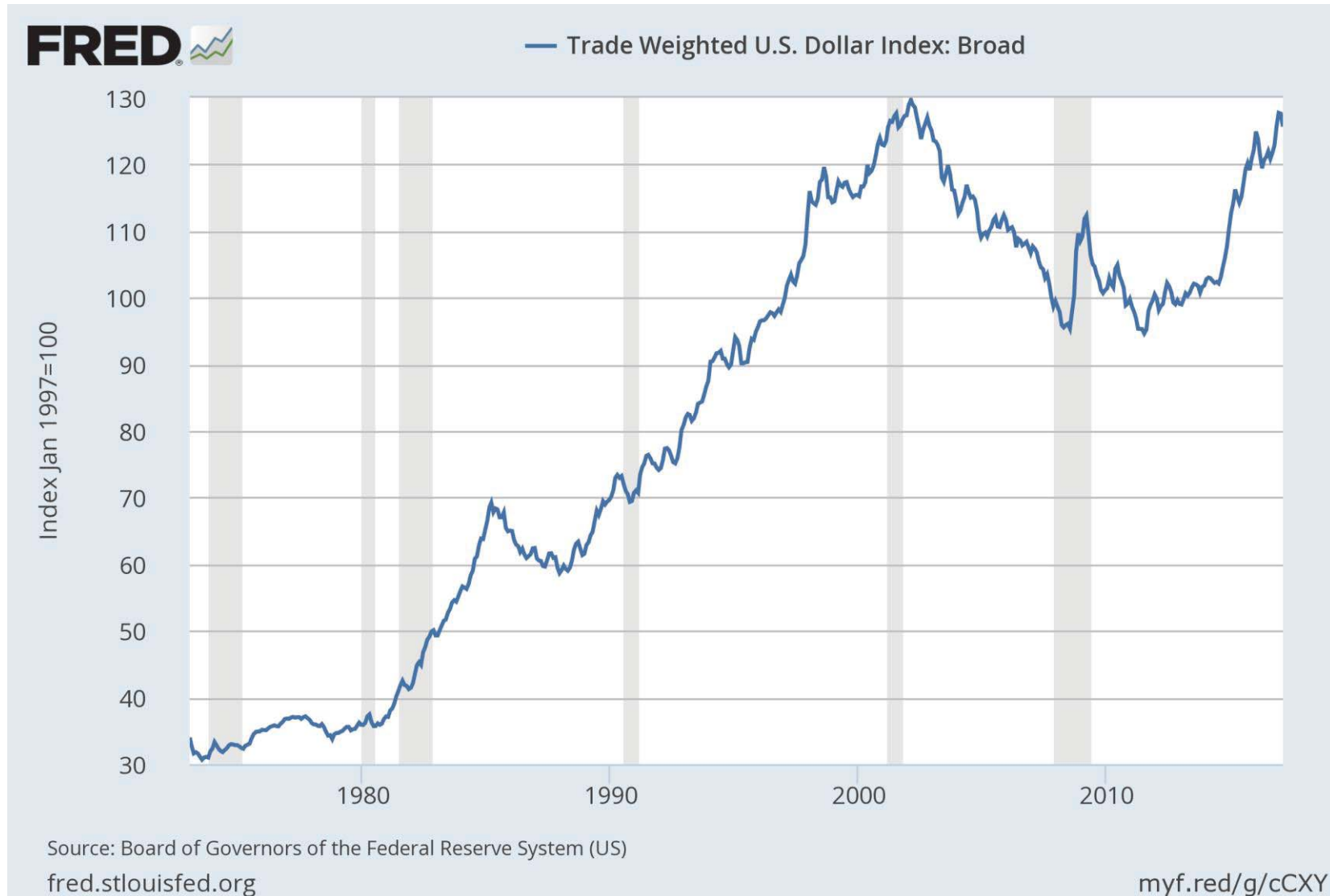
# Democrats Owned Monessen

- ◆ Monessen, PA – Oct. 1962 – J.F.K. “....jobs, jobs, jobs”





# Trade Weighted U.S. Dollar Index: Broad



**Source:** [Board of Governors of the Federal Reserve System \(US\)](#) **Release:** [G.5A Foreign Exchange Rates](#)

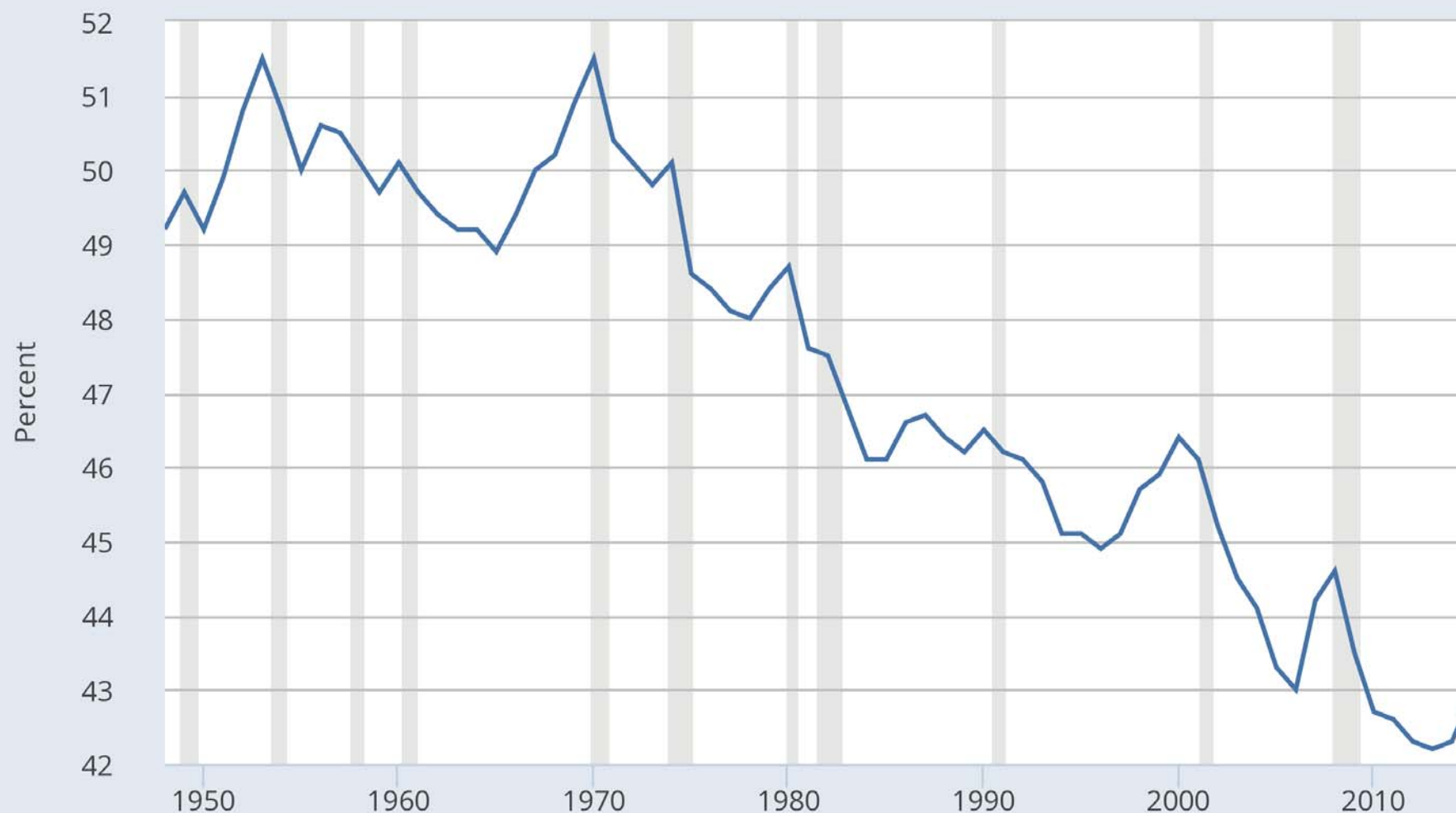
**Notes:**

Averages of daily figures. A weighted average of the foreign exchange value of the U.S. dollar against the currencies of a broad group of major U.S. trading partners. Broad currency index includes the Euro Area, Canada, Japan, Mexico, China, United Kingdom, Taiwan, Korea, Singapore, Hong Kong, Malaysia, Brazil, Switzerland, Thailand, Philippines, Australia, Indonesia, India, Israel, Saudi Arabia, Russia, Sweden, Argentina, Venezuela, Chile and Colombia. For more information about trade-weighted indexes see [http://www.federalreserve.gov/pubs/bulletin/2005/winter05\\_index.pdf](http://www.federalreserve.gov/pubs/bulletin/2005/winter05_index.pdf).

# Labor's Share of Domestic Income



— Shares of gross domestic income: Compensation of employees, paid: Wage and salary accruals: Disbursements: To persons



Source: U.S. Bureau of Economic Analysis

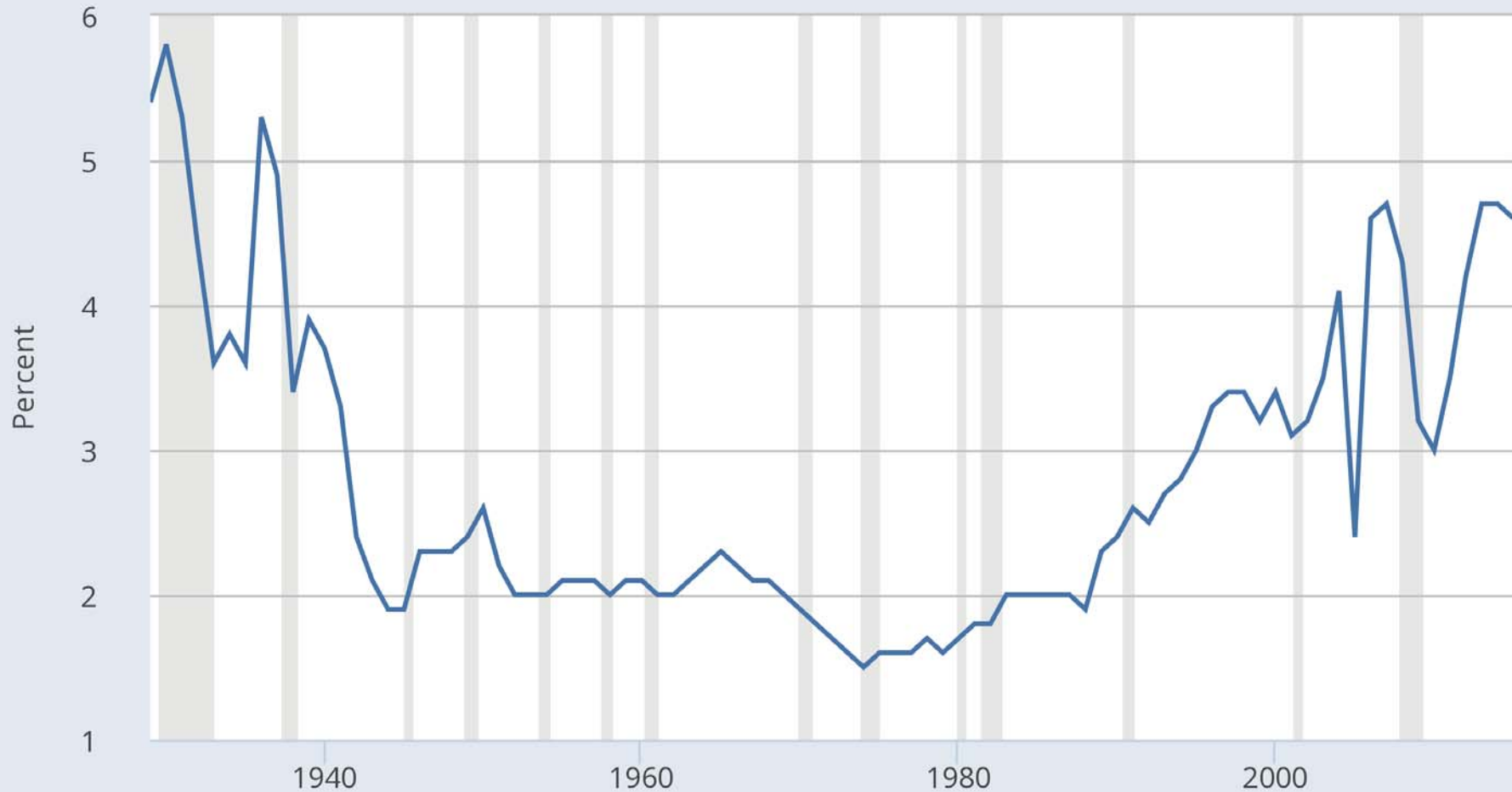
[fred.stlouisfed.org](http://fred.stlouisfed.org)

[myf.red/g/cSeH](https://myf.red/g/cSeH)

# Capital's Share of Domestic Income



— Shares of gross domestic income: Corporate profits with inventory valuation and capital consumption adjustments, domestic industries: Profits after tax with inventory valuation and capital consumption adjustments: Net dividends



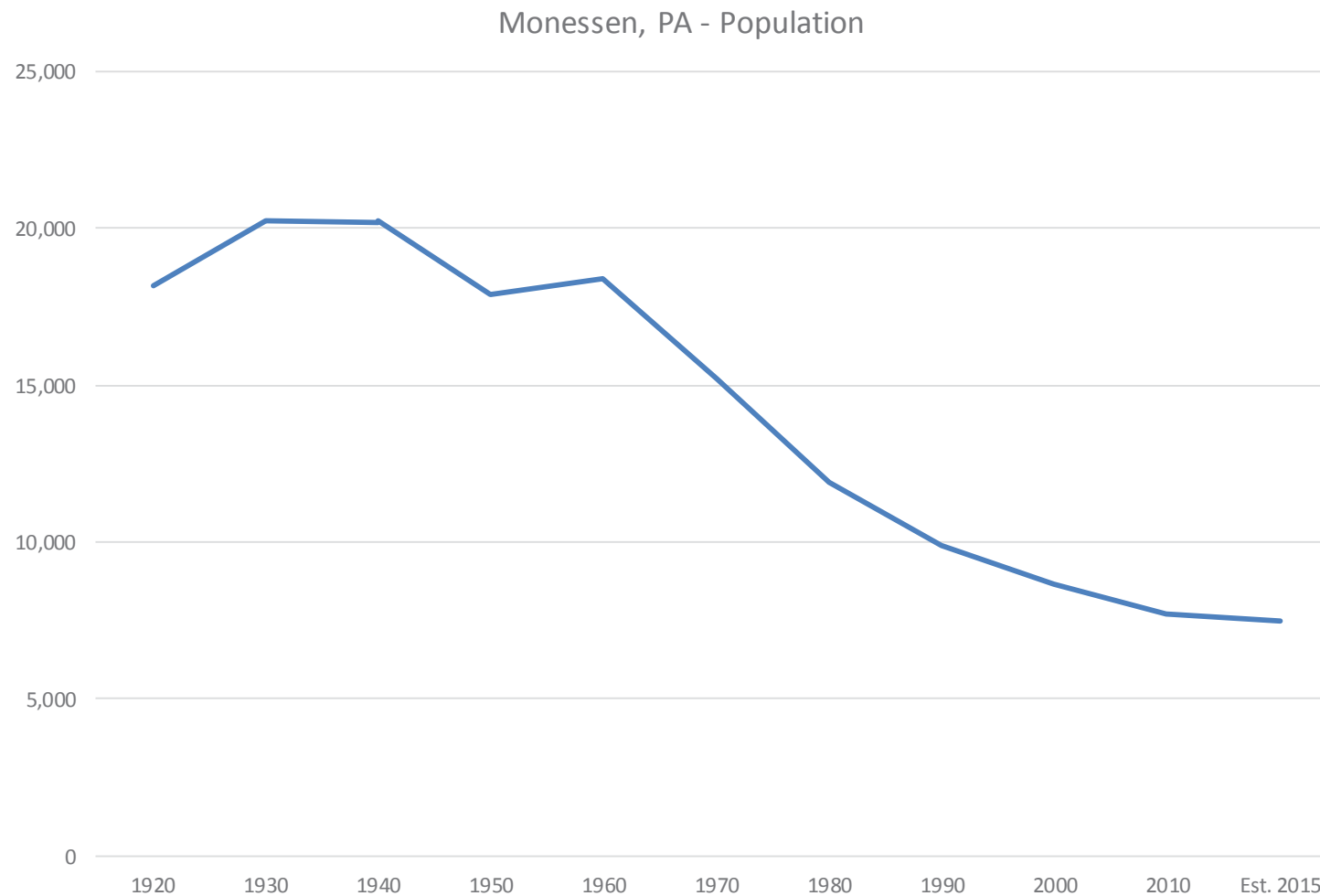
Source: U.S. Bureau of Economic Analysis

[fred.stlouisfed.org](http://fred.stlouisfed.org)

[myf.red/g/cSew](http://myf.red/g/cSew)

# Ground Zero

**Monessen was ground zero for the strong dollar and globalization bomb.**



Source: U.S. Census Bureau

## Ground Zero – “ISIS...would keep going”

*“I had four years of ‘read my lips.’ I had eight years of Clinton. I had eight years of Bush Jr. I had eight years of Obama. And what does our community look like? **It looks like Beirut. If ISIS were to come here, they would keep on going because they’d say somebody already bombed us.** And that’s the way all the communities look that had steel mills up and down the Mon Valley...”* -- Monessen Mayor, Lou Mavrakis

Source: PRI's The World – How Trump won over Pennsylvania's steel town Democrats and Tennessee's Christians...Jason Margolis



## Ground Zero – “ISIS...would keep going”





# Monessen – Zillow Listings

**Monessen PA Real Estate** 105 homes for sale.

[Homes for You](#) [Newest](#) [Cheapest](#) [More](#)

11 photos

**HOUSE FOR SALE**

**\$18,500** 2 bds • 2 ba • -- sqft

3 days on Zillow • 410 2nd St, Monessen, PA

Howard Hanna - Mid Mon-Valley - Simon Real Estate Servic...

9 photos

**HOUSE FOR SALE**

**\$19,900** 3 bds • 1 ba • -- sqft

3 days on Zillow • 329 Ontario St, Monessen, PA

Howard Hanna - Mid Mon-Valley - Simon Real Estate Servic...

1 photo

**HOUSE FOR SALE**

**\$39,900** 3 bds • 2 ba • 1,988 sqft

1 day on Zillow • 1231 McMahon Ave, Monessen, PA

Howard Hanna - Monroeville

24 photos

**HOUSE FOR SALE**

**\$109,900** 3 bds • 2 ba • -- sqft

3 days on Zillow • 340 Jo Ann Dr, Monessen, PA

1 photo

**HOUSE FOR SALE**

**\$32,900** 2 bds • 1 ba • -- sqft

1 day on Zillow • 312 6th St, Monessen, PA

Howard Hanna - Monroeville

25 photos

**HOUSE FOR SALE**

**\$112,500** 2 bds • 2 ba • 1,500 sqft

10 days on Zillow • 1222 Dennis Ave, Monessen, PA

Northwood Realty Services 201 Associates

1 photo

16 photos

Source: Zillow



INTO THE  
Nature and Causes  
OF THE  
WEALTH OF NATIONS.

By ADAM SMITH, LL. D. and F. R. S.

Formerly Professor of Moral Philosophy in the University of GLASGOW.

IN TWO VOLUMES.



# Response to GFC supercharged inequality trends

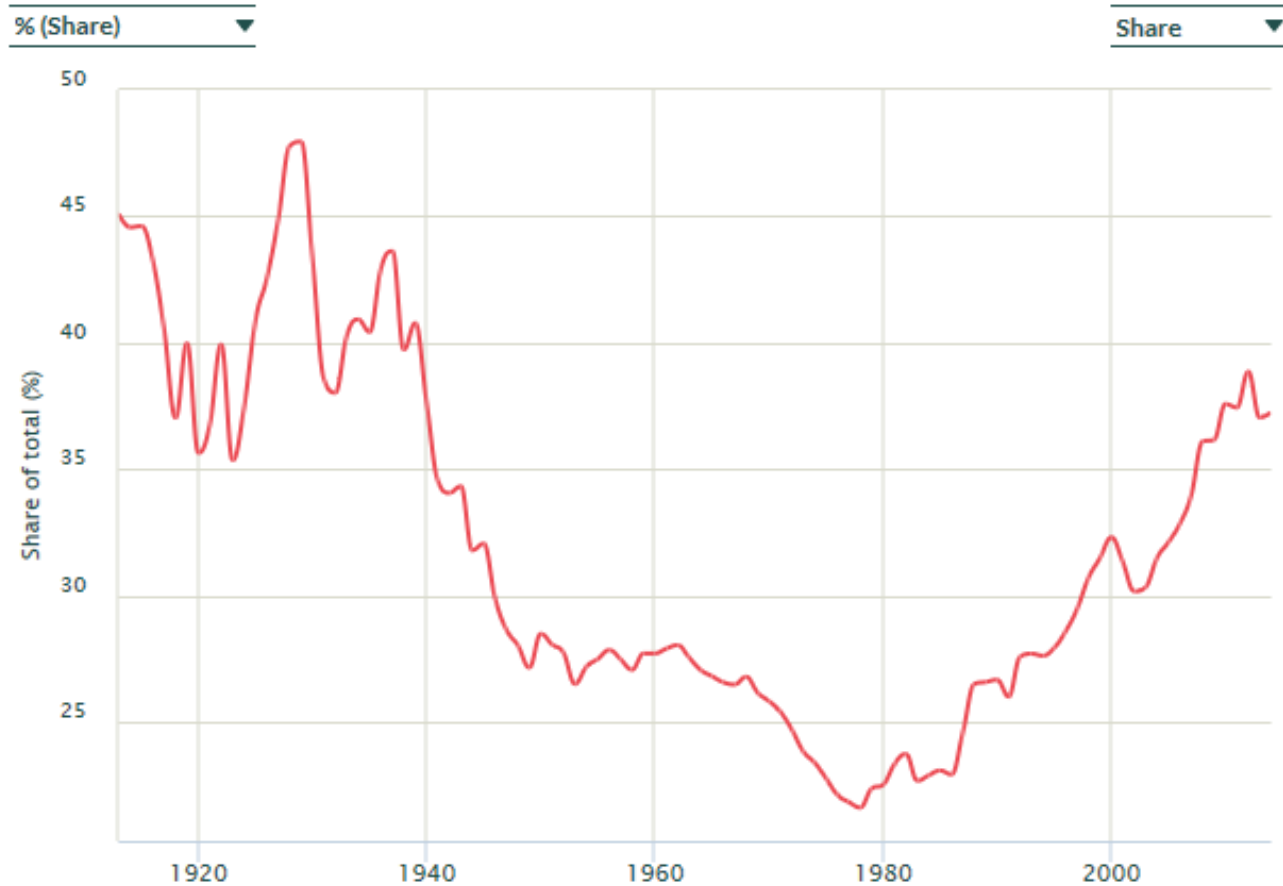


- Bailouts
- QE
- TARP



# Top 1% Wealth Share (U.S.)

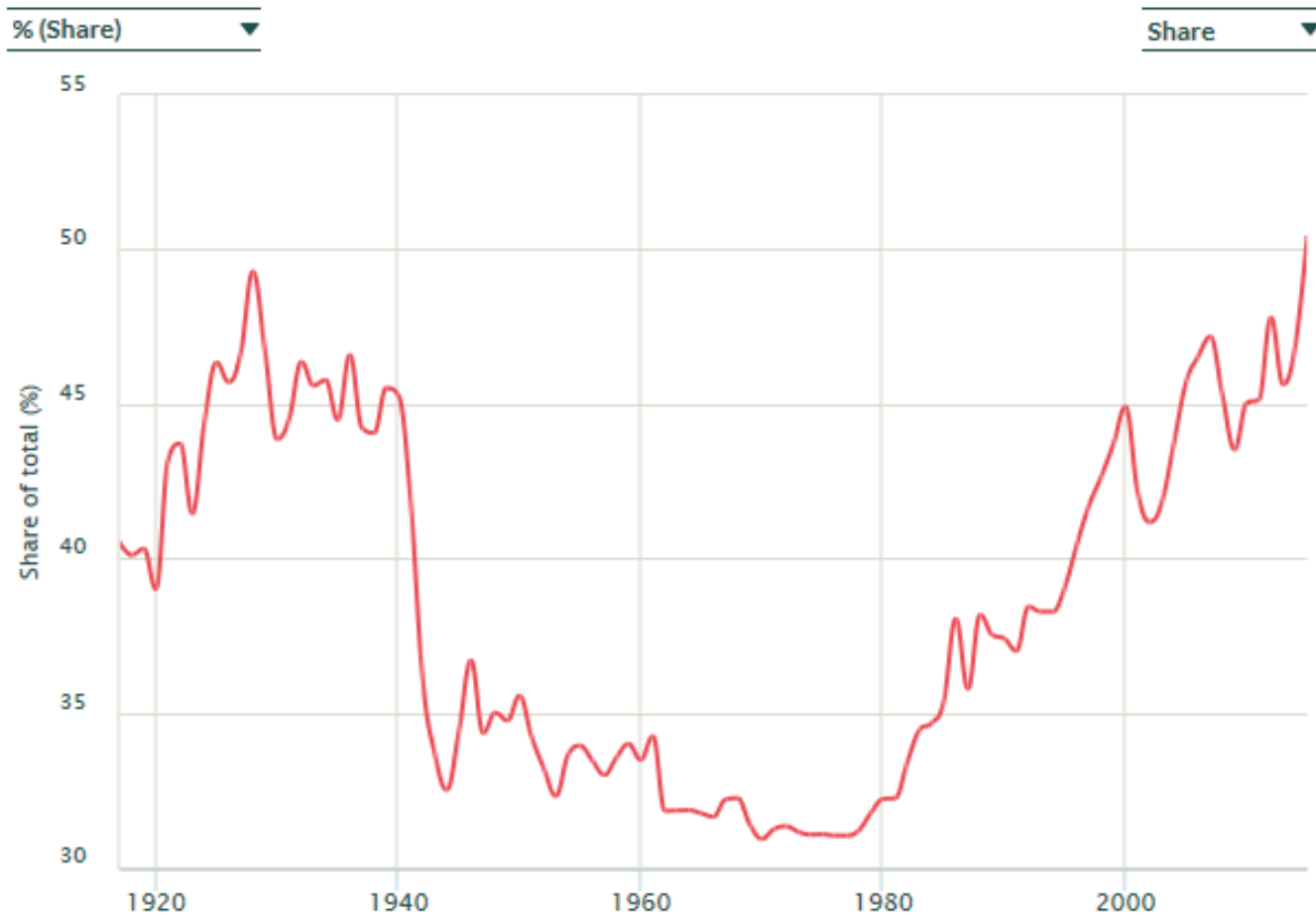
## Top 1% net personal wealth share in the USA, 1913-2014



- ◆ Sources: World Wealth and Income Database, [Piketty, Thomas; Saez, Emmanuel and Zucman, Gabriel \(2016\). Distributional National Accounts: Methods and Estimates for the United States.](#)

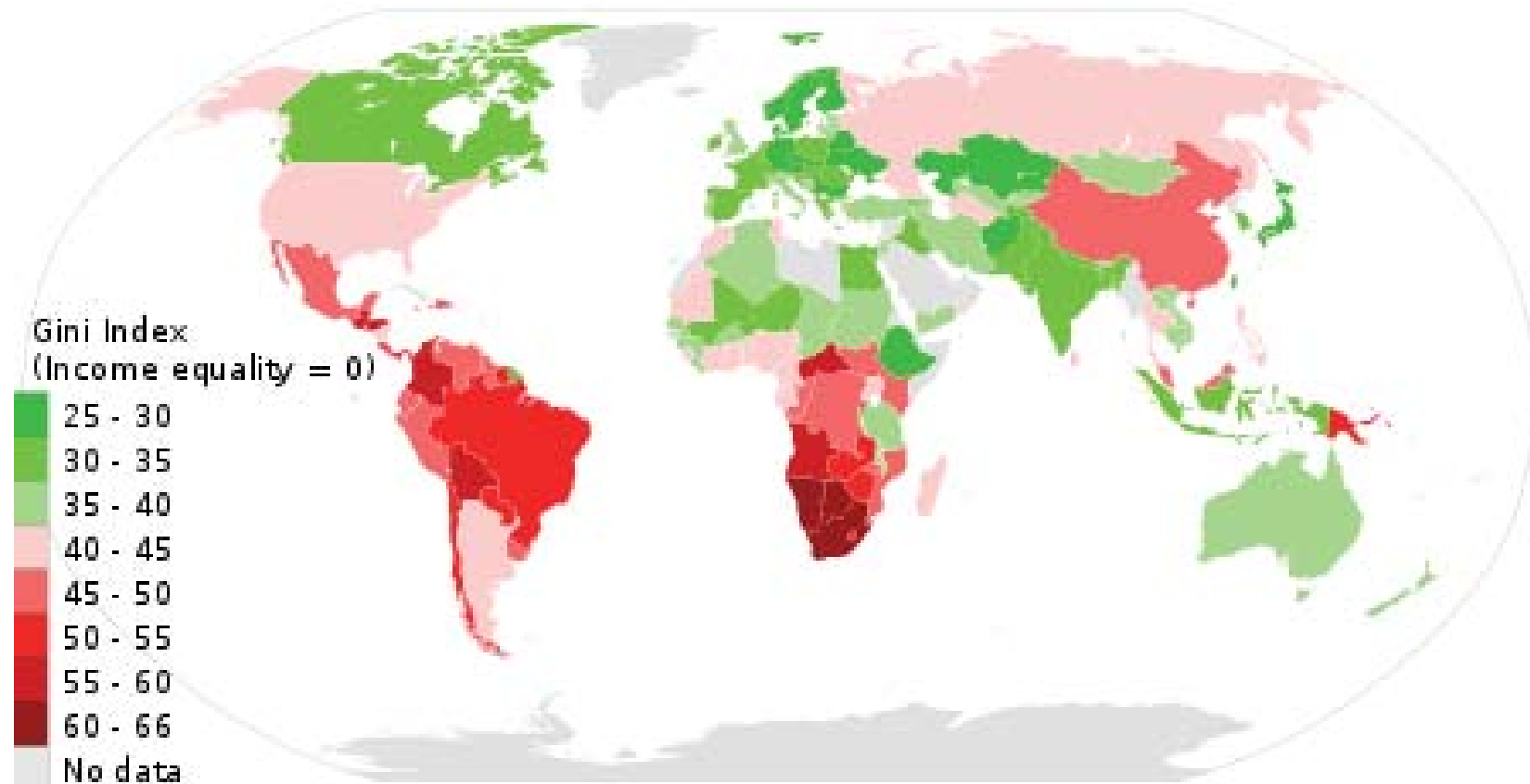
# Top 10% Income Share (U.S.)

## Top 10% fiscal income share in the USA, 1917-2015



Sources: World Wealth and Income Database: [Piketty, Thomas; Saez, Emmanuel and Zucman, Gabriel \(2016\)](#).  
Distributional National Accounts: Methods and Estimates for the United States.

# Income Inequality



Source:

Income [gini coefficient](#) map according to The World Bank (2014).<sup>[201]</sup> Higher Income Gini Index for a nation in this map implies more income inequality among its people.

# Inequality – US Moving Toward EM Nations

OECD Society at a Glance 2016 - © OECD 2016

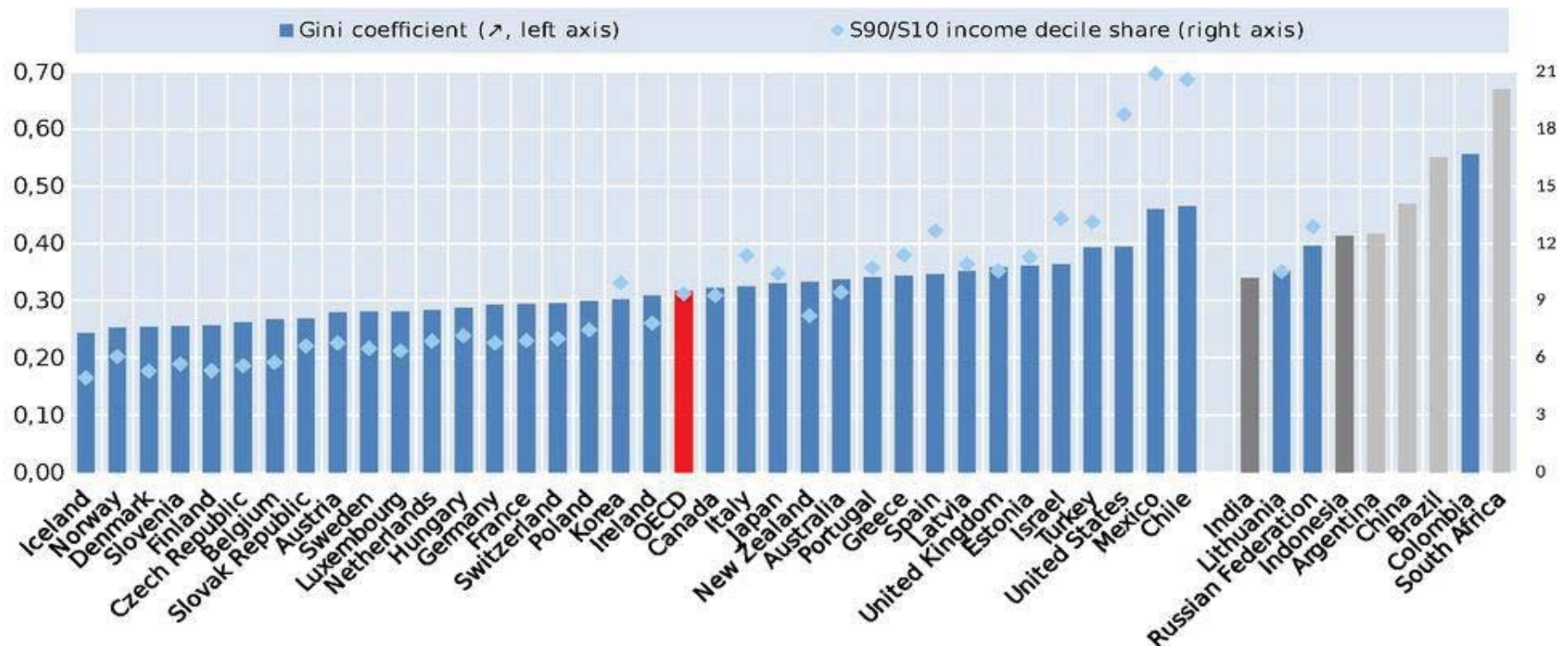
55.3. Wealth is more concentrated at the top than income

Version 1 - Last updated: 15-Jul-2016

Disclaimer: <http://oe.cd/disclaimer>

## 5.1. Large differences in levels of income inequality

Gini coefficient of household disposable income and gap between richest and poorest 10% , in 2014 (or nearest year)



## Einhorn.... “Now the ants are pissed...”



*Source: The Wall Street Journal: August 25, 2016 – “Years of Fed Missteps Fueled Disillusion With the Economy and Washington”*



# How did Trump Win?

Monessen, PA – June 2016

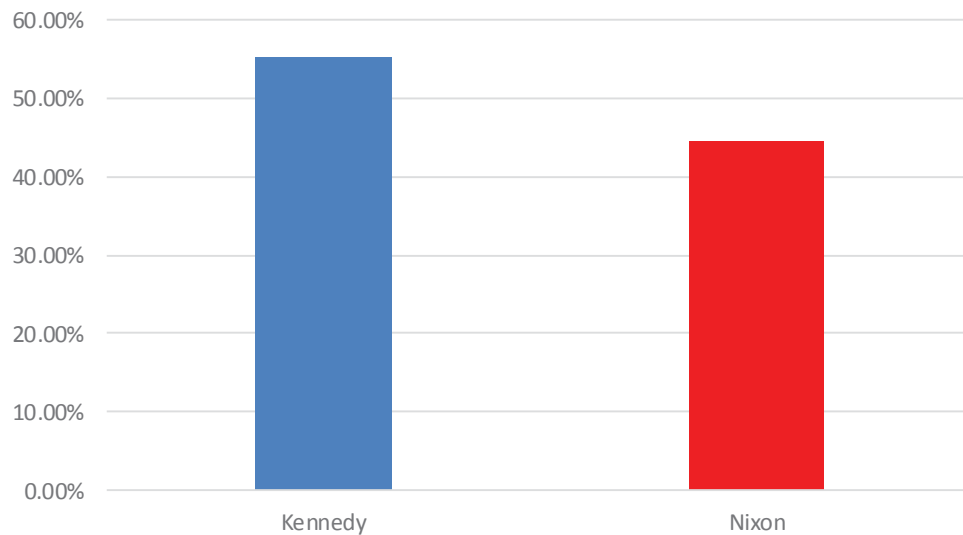
*“....globalization has wiped out our middle class”*



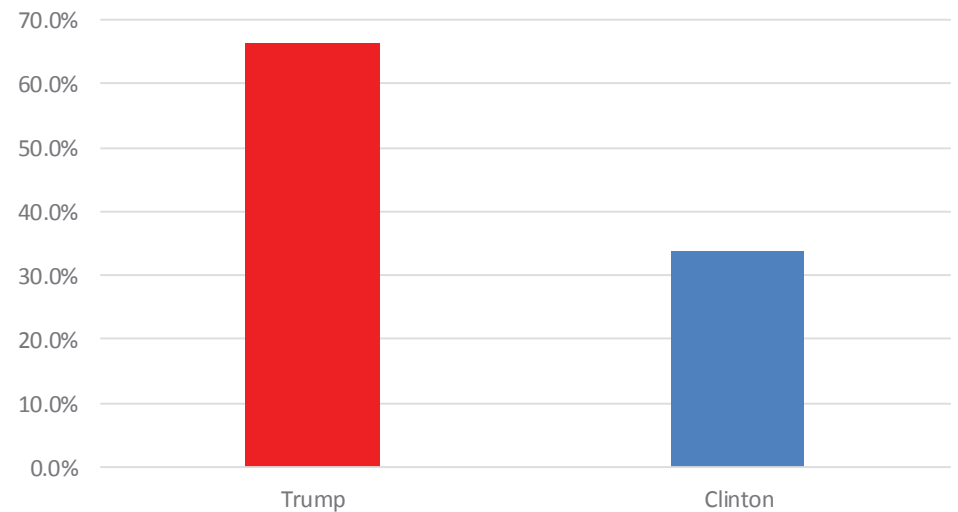
# How Did Trump Win?

## Westmoreland County, PA

### 1960 Election



### 2016 Election



Source: [uselectionatlas.org](http://uselectionatlas.org)



# Unsustainability And A Turning Point

A dangerous message: Socialism for the elite, but capitalism for everyone else is unsustainable in a democracy

Two Alternatives:

1) Democracy erodes into an aristocracy

2) **Revolution**

## Trump: Revolution - Phase 1



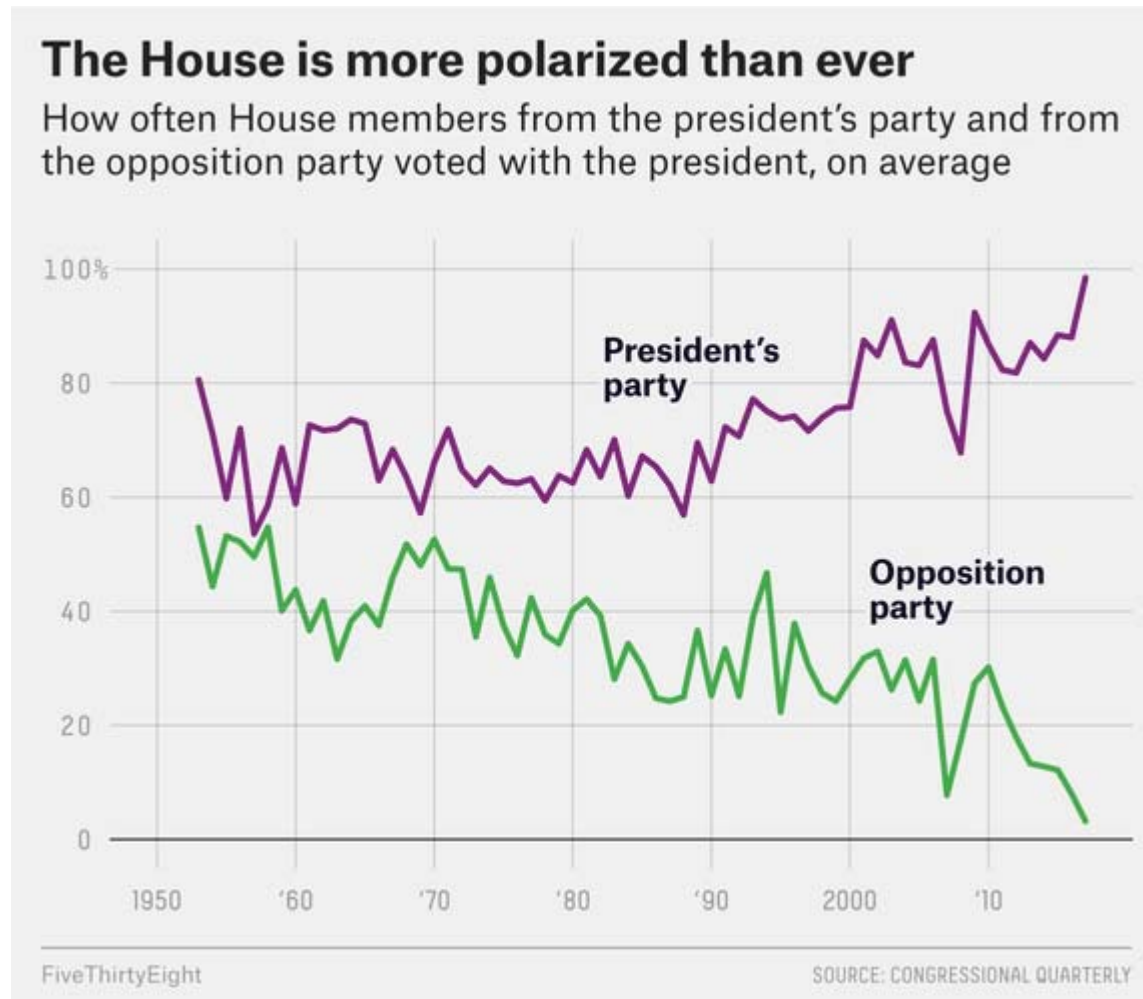
## .... Most Benign Phase for Capital

**“Donald Trump's Cabinet richest in U.S. history, historians say” ...CBS News**

**“Donald Trump’s \$14BN Cabinet”....CBS News**



## ...but Polarization Grows



**And the Left Groans...Calexit...Herbal Tea Party**

# If Trump Fails? Phase 2? 2020?



- ◆ So Much for the Tax Cuts, Dodd-Frank Repeal, Deregulation
- ◆ Radical concepts introduced... "Illegitimate Wealth"? "Great Financial Crisis bailout/QE windfall tax"?

## Phase 2 Will Be a Disaster...Then What?

*"How did you go bankrupt?" Bill asked.*

*"Two ways," Mike said. "Gradually and then suddenly."*

Ernest Hemingway's, The Sun Also Rises

**The same thing applies to revolution**

## Phase 3?

### Maximilien Robespierre – “The Incorruptible”

France - 1794



- “To punish the oppressors of humanity is clemency; to forgive them is cruelty”
- “The king must die so that the country can live”
- “Pity is treason”



# French Reign of Terror

- ◆ The Reign of Terror was not that long ago
- ◆ Just under 1% of the population of France went to the “National Razor” in Paris alone





**A Lot is riding on this guy....**



# How to Arrest the Revolution

## Proposed Solutions to Increase Jobs:

- 1) Tax Cuts
- 2) Infrastructure spending
- 3) Deregulation
- 4) Tariffs or border adjusted tax

# How Do We Pay For This?

# US Government Debt to GDP



Source: Factset



# How to Arrest the Revolution

## ◆ Proposed Solutions to Increase Jobs:

- 
- 1) Tax Cuts
  - 2) Infrastructure Spending
  - 3) Deregulation

**...Band-aids on a broken leg**

# How to Arrest the Revolution

## ◆ Proposed Solutions to Increase Jobs:



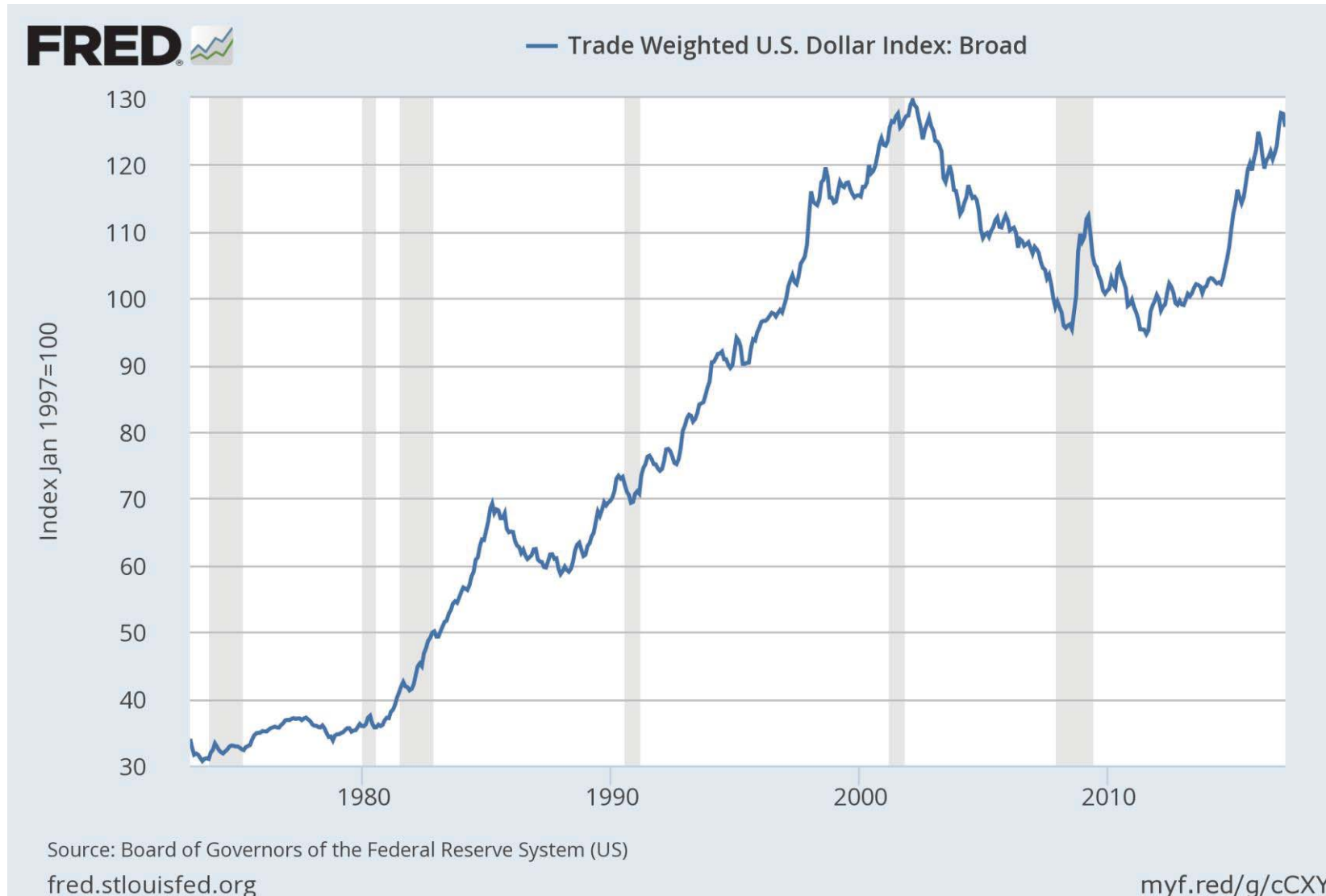
### Border Adjusted Tax:

- 1) Extremely complicated to implement
- 2) Will precipitate a trade war/face WTO rulings
- 3) Will crush retailer profitability (15.6MM jobs in retail)
- 4) Will raise prices at Walmart

**5) Will strengthen dollar**

**This Is The Problem**

# Trade Weighted U.S. Dollar Index: Broad

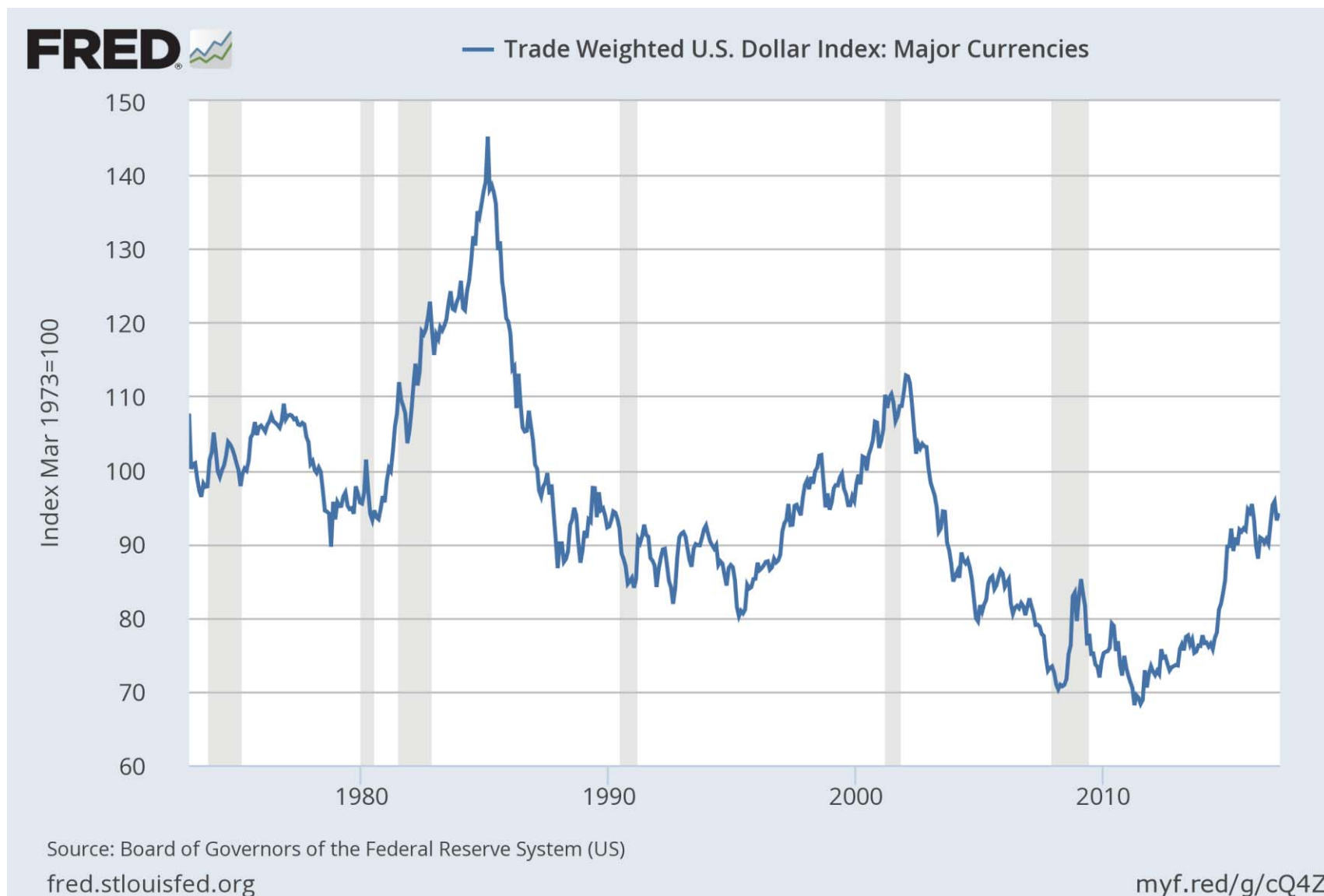


**Source:** [Board of Governors of the Federal Reserve System \(US\)](#) **Release:** [G.5A Foreign Exchange Rates](#)

**Notes:**

Averages of daily figures. A weighted average of the foreign exchange value of the U.S. dollar against the currencies of a broad group of major U.S. trading partners. Broad currency index includes the Euro Area, Canada, Japan, Mexico, China, United Kingdom, Taiwan, Korea, Singapore, Hong Kong, Malaysia, Brazil, Switzerland, Thailand, Philippines, Australia, Indonesia, India, Israel, Saudi Arabia, Russia, Sweden, Argentina, Venezuela, Chile and Colombia. For more information about trade-weighted indexes see [http://www.federalreserve.gov/pubs/bulletin/2005/winter05\\_index.pdf](http://www.federalreserve.gov/pubs/bulletin/2005/winter05_index.pdf).

# Trade Weighted U.S. Dollar Index: Major



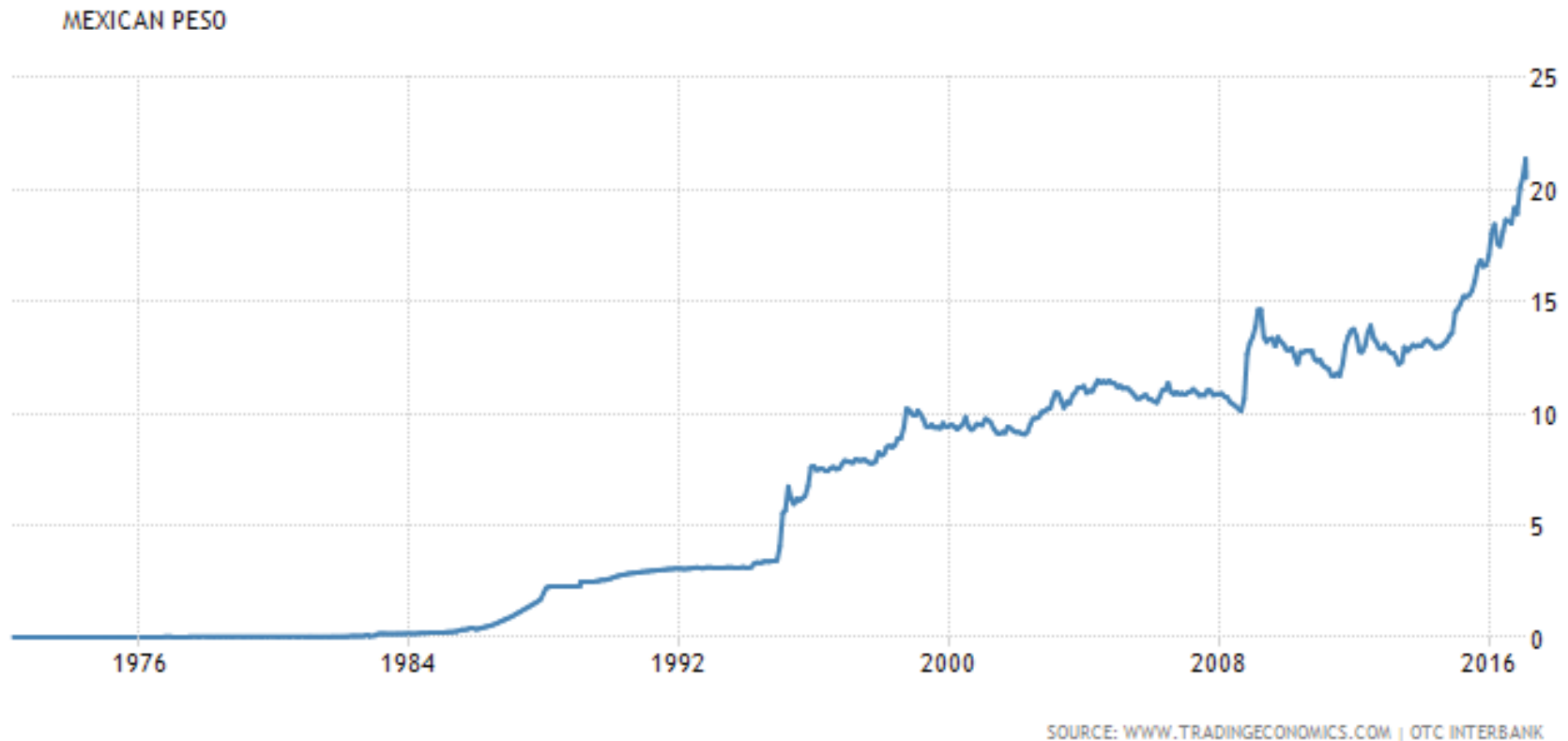
**Source:** [Board of Governors of the Federal Reserve System \(US\)](#) **Release:** [H.10 Foreign Exchange Rates](#)

**Notes:**

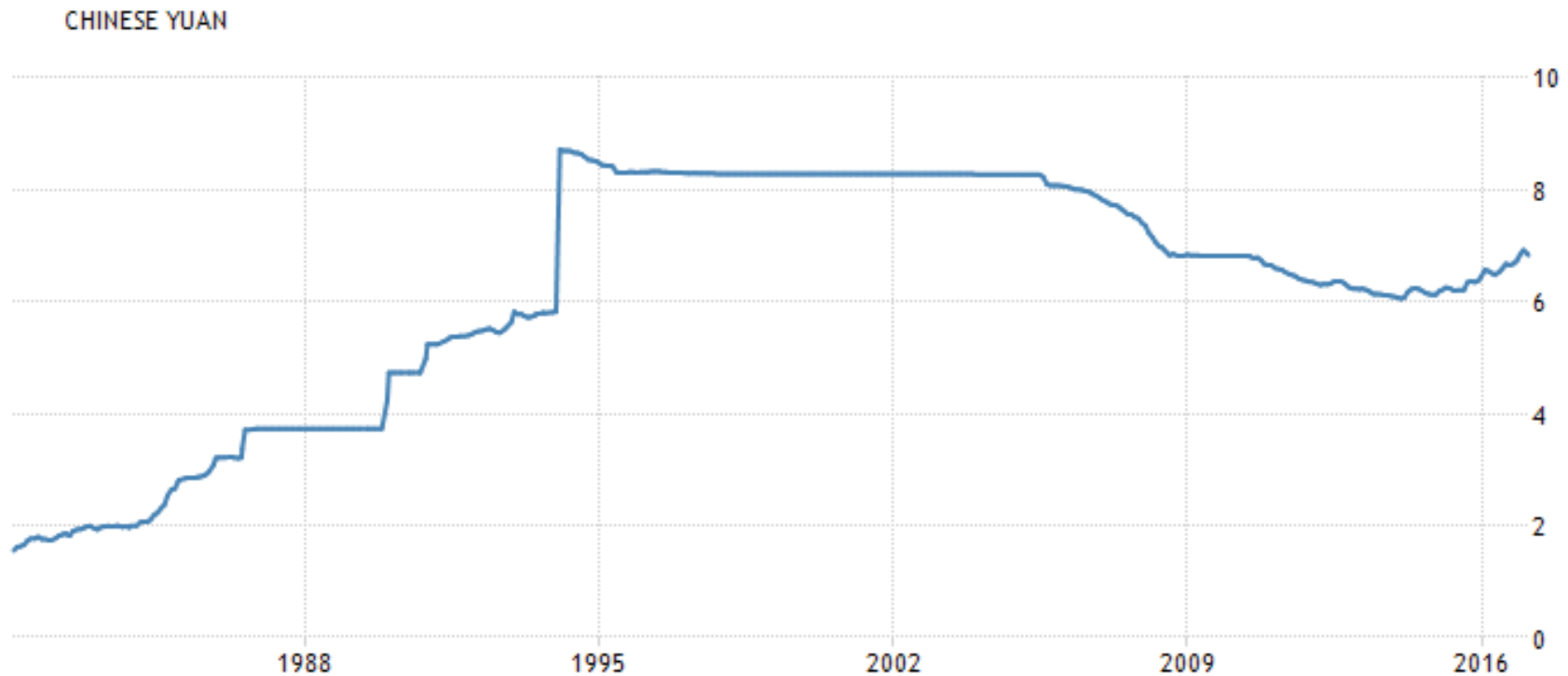
A weighted average of the foreign exchange value of the U.S. dollar against a subset of the broad index currencies that circulate widely outside the country of issue. Major currencies index includes the Euro Area, Canada, Japan, United Kingdom, Switzerland, Australia, and Sweden. For more information about trade-weighted indexes see [http://www.federalreserve.gov/pubs/bulletin/2005/winter05\\_index.pdf](http://www.federalreserve.gov/pubs/bulletin/2005/winter05_index.pdf).



# Long Term Chart – Mexican Peso

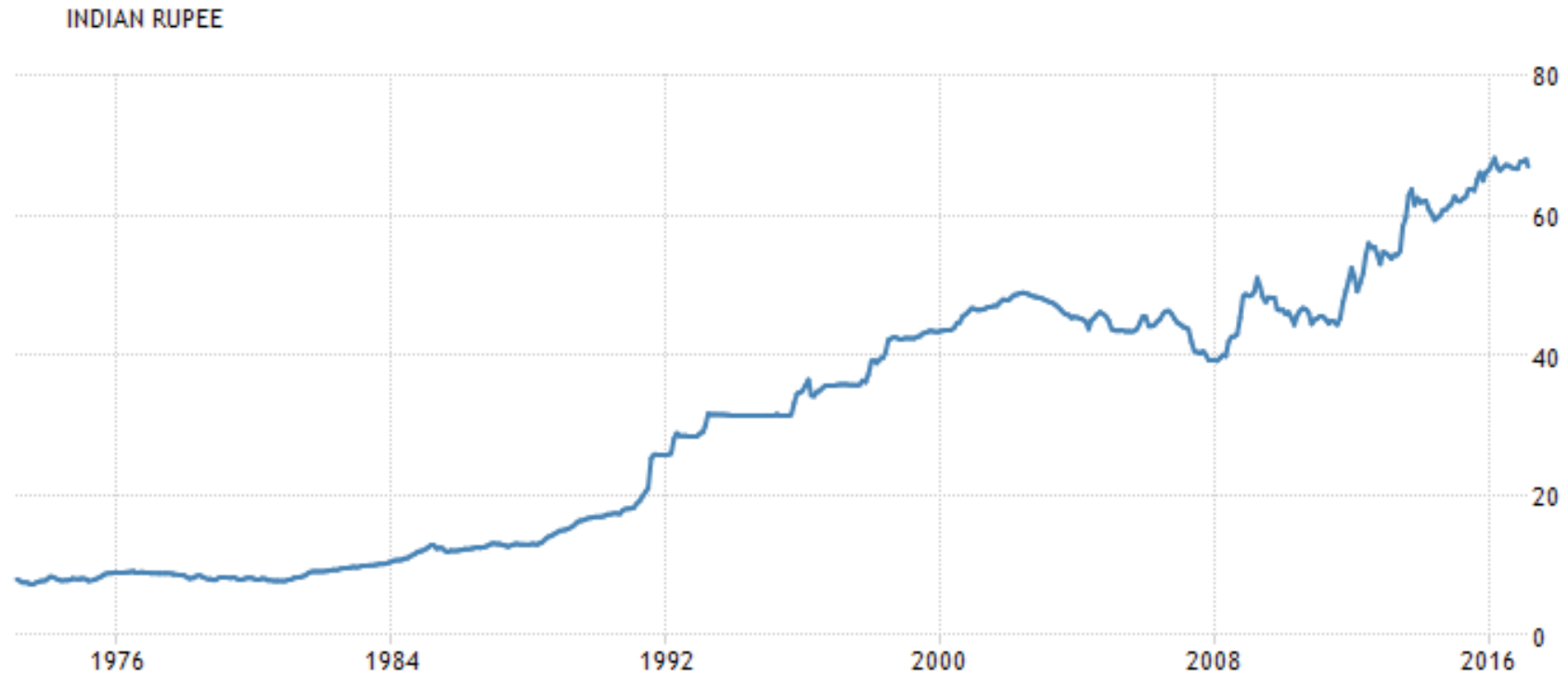


# Long Term Chart – Chinese Yuan



SOURCE: WWW.TRADINGECONOMICS.COM | OTC INTERBANK

# Long Term Chart – Indian Rupee



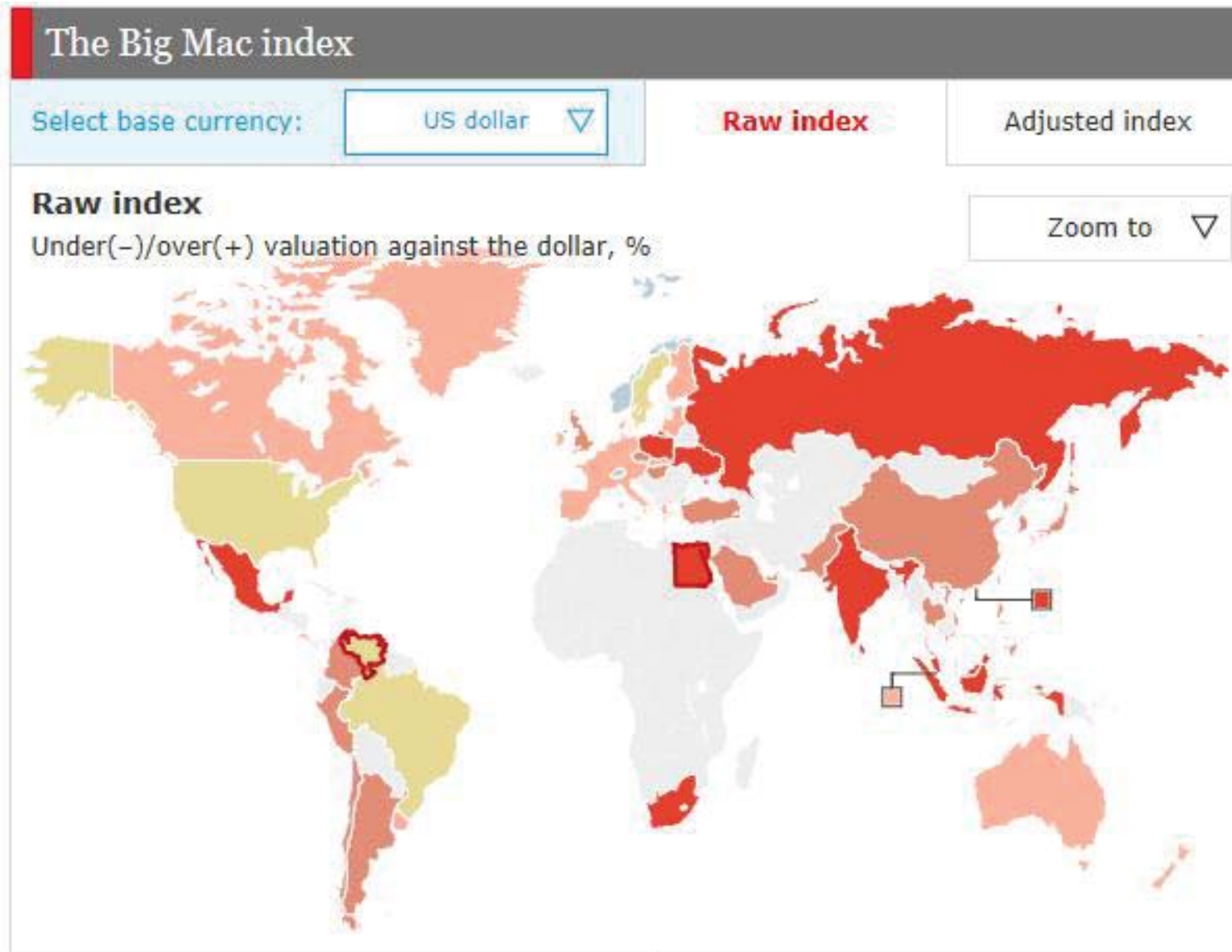
SOURCE: [WWW.TRADINGECONOMICS.COM](http://WWW.TRADINGECONOMICS.COM) | OTC INTERBANK

# Big Mac Index – EM Too Cheap



Source: Economist.com

# Big Mac Index – EM Too Cheap



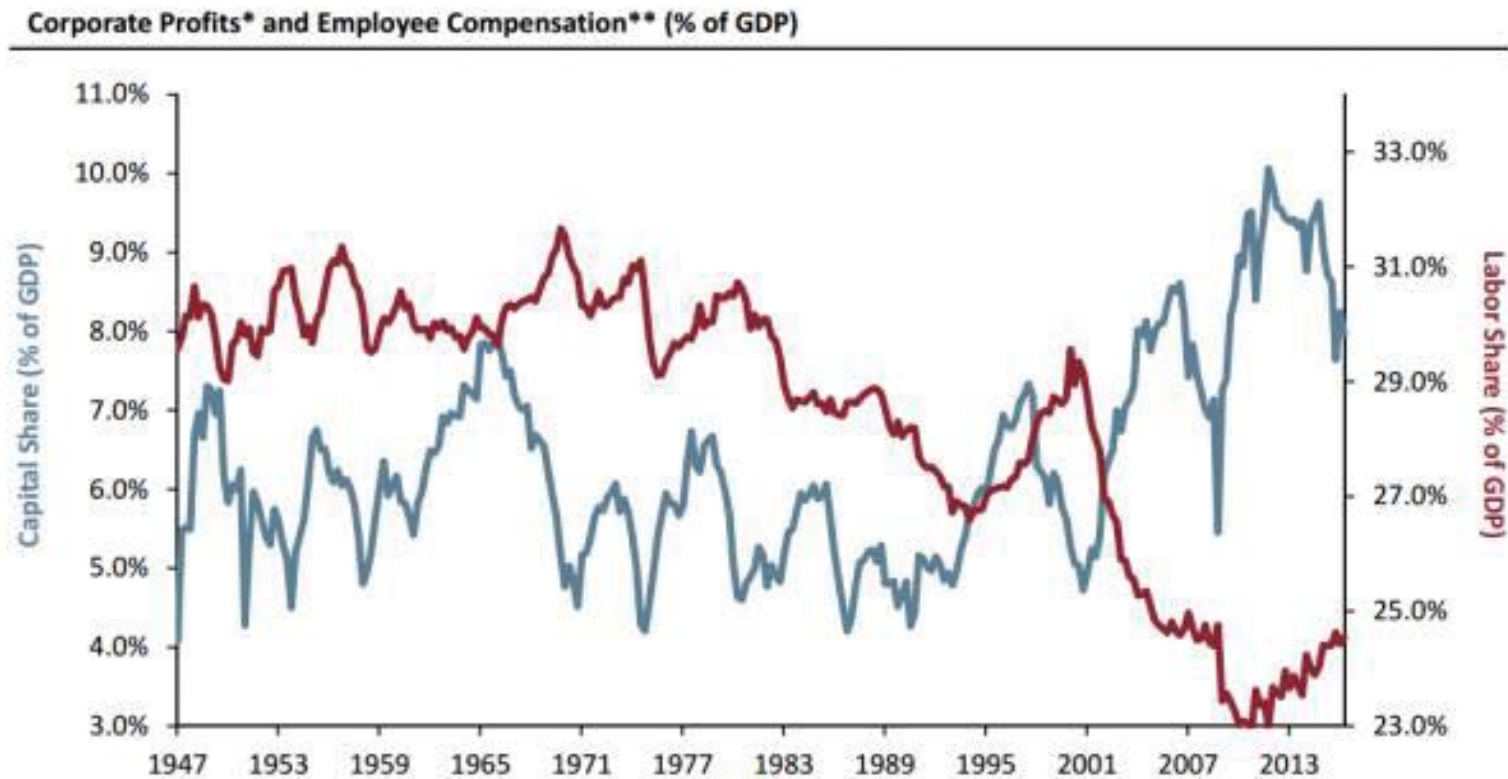
Source: Economist.com



# Weak EM Currency Pressures Global Labor

- ◆ Strong Dollar Increased Corporate Margins, Decreased Labor's Share

Exhibit 1: Capital vs. Labor



\*NIPA Corporate Profits After-Tax with IVA and CC adjustments for domestic corporations;

\*\*NIPA Nonfinancial Corporate Business Compensation of Employees (Wages and Salaries)

As of 8/31/16

Source: BEA, FRED (St. Louis Federal Reserve)

Source: GMO Quarterly Letter – 4Q16

**Status Quo No Longer Works and is  
Fueling the Unrest...**

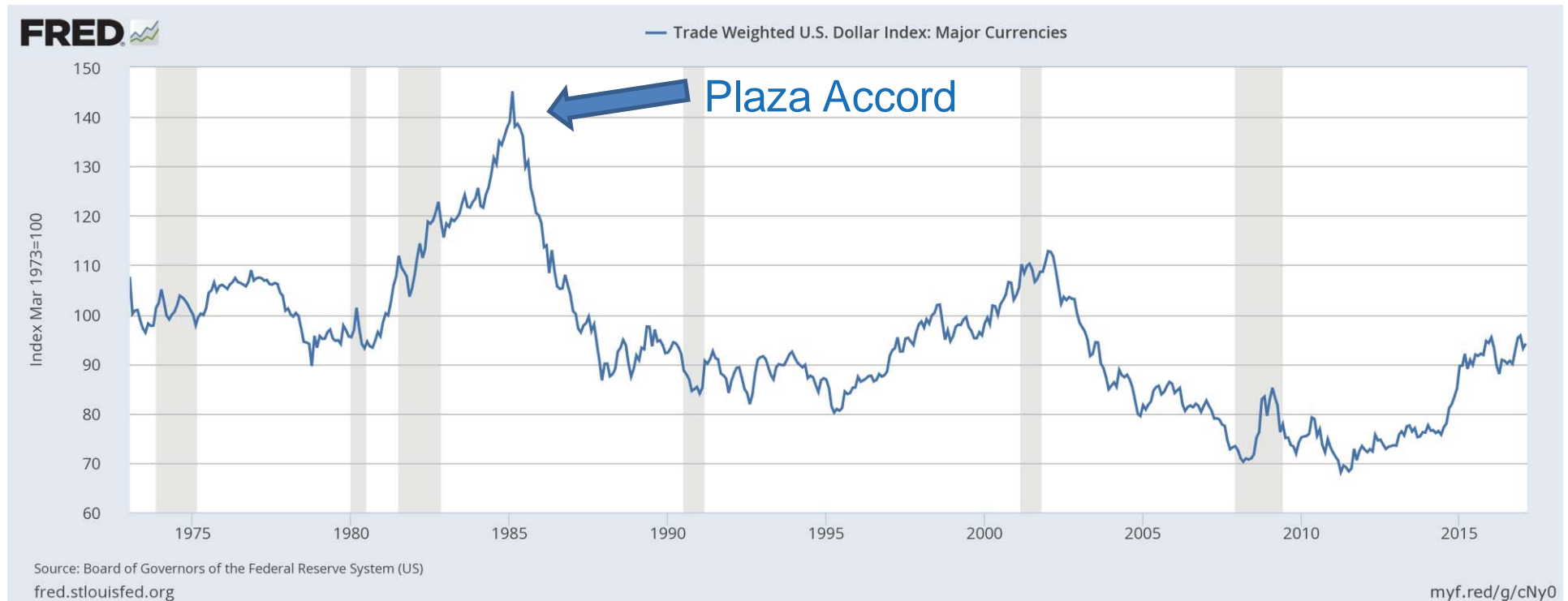
**The Dollar Must Fall vs. EM**

## Benefits of Weaker Dollar vs. EM

- ◆ Make Globalization Sustainable
- ◆ Avoid Trade Barriers/Trade Wars
- ◆ Catalyze the EM Consumer
  - Increased Spending Power
    - 1% of Mexico owns 43% of wealth
    - 45% of Mexico live in poverty
- ◆ Restore US Middle Class
- ◆ Restore Stability

# **How Does One Crush the Dollar?**

# Trade Weighted Dollar index: Major Currencies



**Source:** [Board of Governors of the Federal Reserve System \(US\)](#)

**Release:** [H.10 Foreign Exchange Rates](#)

**Notes:**

A weighted average of the foreign exchange value of the U.S. dollar against a subset of the broad index currencies that circulate widely outside the country of issue. Major currencies index includes the Euro Area, Canada, Japan, United Kingdom, Switzerland, Australia, and Sweden. For more information about trade-weighted indexes see [http://www.federalreserve.gov/pubs/bulletin/2005/winter05\\_index.pdf](http://www.federalreserve.gov/pubs/bulletin/2005/winter05_index.pdf).



# **#1 - A New Emerging Market Plaza Accord**

## #2 - Elect A Volatile President



## .....Who Proceeds to Be Volatile



# How Does One Crush the Dollar?

- ◆ Threaten to recut trade deals and initiate trade wars
- ◆ Threaten real wars
- ◆ Threaten to renegotiate US debt
- ◆ Attack judiciary/Threaten rule of law
- ◆ Travel bans
- ◆ Spend a lot with Debt/GDP near records
- ◆ Reconstitute the Federal Reserve
- ◆ Tweet about everything from ISIS to Meryl Streep
- ◆ **Basically....make the world question US leadership and the safety of assets parked in the U.S.**

## How Does One Crush the Dollar?

- ◆ Make people questions dollar hegemony
- ◆ Diminish reserve currency status?



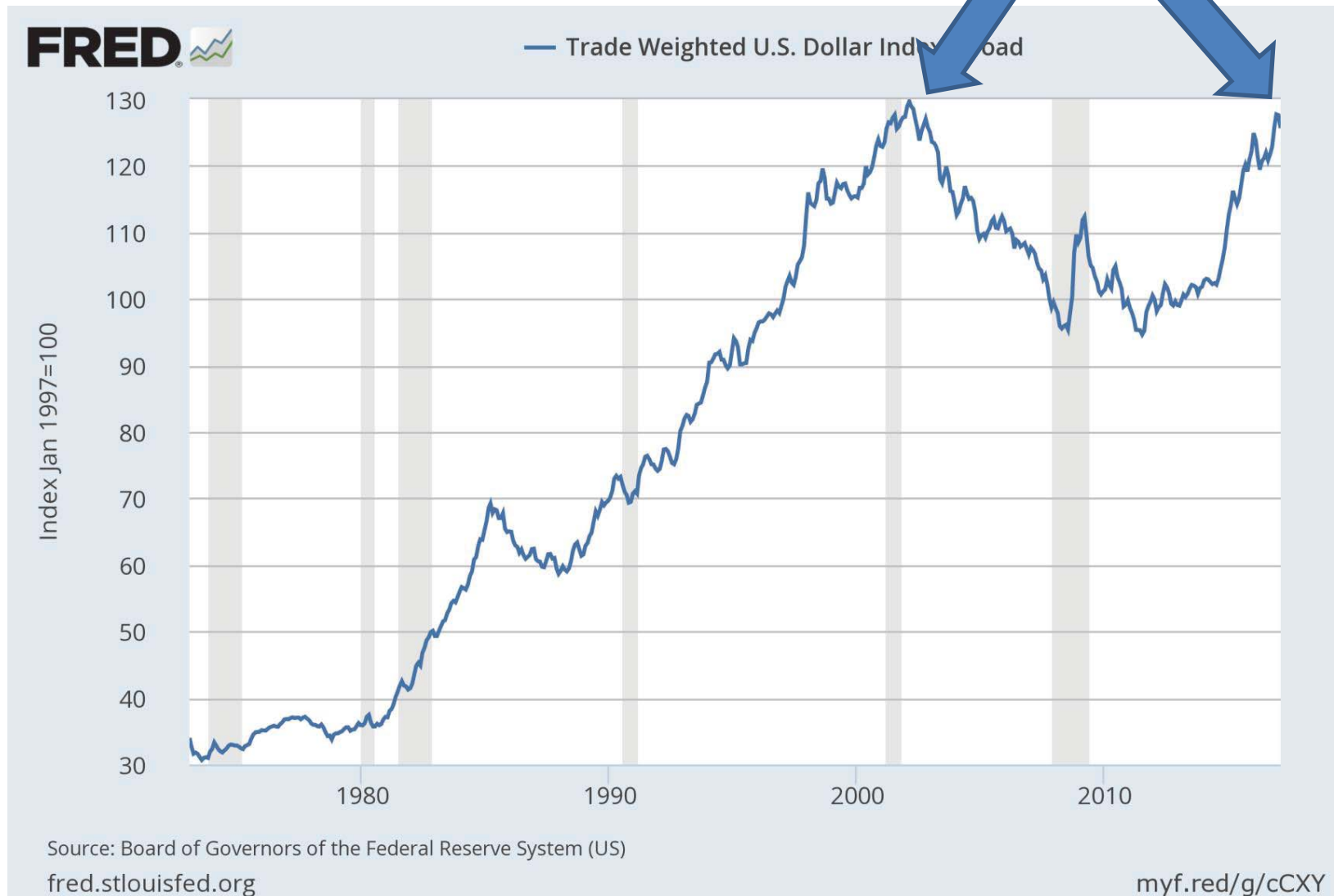
## #3 Trump Fails and Phases 2 & 3 come to pass



**Global wealth has been parked in the US for a return of capital and has been less concerned with return on capital.....Sustainable?**

# This No Longer Works

# Double Top?



# Ideas

## **Appendix & Contact Information**



# Resources

- ◆ *SEC filings*
- ◆ *Factset*
- ◆ *"Monessen: A Typical Steel Country Town" by Cassandra Vivian (© 2002)*
- ◆ <https://fred.stlouisfed.org/>
- ◆ [www.tradingeconomics.com](http://www.tradingeconomics.com)
- ◆ *Brokers: Wells Fargo, J.P. Morgan, Goldman Sachs*
- ◆ *The Economist*
- ◆ *The Wall Street Journal*
- ◆ *Twitter*
- ◆ *Bloomberg*
- ◆ *Google Maps*
- ◆ *Zillow*
- ◆ *PRI*
- ◆ *uselectionatlas.org*
- ◆ *FiveThirtyEight/Congressional Quarterly*
- ◆ *U.S. Census Bureau*
- ◆ *World Wealth and Income Database*
- ◆ [\*Piketty, Thomas; Saez, Emmanuel and Zucman, Gabriel \(2016\). Distributional National Accounts: Methods and Estimates for the United States.\*](#)
- ◆ [\*Striking it Richer: The Evolution of Top Incomes in the United States, Emmanuel Saez, 2015\*](#)
- ◆ *The World Bank*
- ◆ *OECD*
- ◆ *OxFam*
- ◆ *GMO Quarterly Letter – 4Q16*

## Bio: Mathew T. Klody, CFA



- ◆ Mathew T. Klody, CFA is the Founder and Managing Partner of MCN Capital Management LLC, a fundamental, intrinsic value oriented long/short investment partnership based in Oak Brook, IL.
- ◆ Prior to founding MCN, Mathew was the Senior Vice President and Analyst at Chicago-based Sheffield Asset Management, a long/short equity hedge fund from 2007-2012. From 2003-2007, Mathew was an investment analyst at the holding company of Alleghany Corporation (ticker "Y") covering the equity portfolio, corporate development and the reinsurance portfolio. Mr. Klody began his career as a credit analyst at the Global Corporate and Investment Bank at Bank of America.
- ◆ Mathew graduated summa cum laude from the University of Notre Dame with a degree in finance and business economics and has served as a guest lecturer to the Behavioral Finance class and the Applied Investment Management program at the Mendoza College of Business at the University of Notre Dame.
- ◆ Mr. Klody is a Chartered Financial Analyst, a member of the CFA Institute and the CFA Society of Chicago. He is a member of the Parish Council at St. Joan of Arc Church in Lisle, IL.

## Contact Information

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