

# THE WALL STREET JOURNAL.

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## What's News

### Business & Finance

Samsung said it would cancel about \$35 billion in legacy treasury shares and forgo restructuring into a holding company, surprising investors and lawmakers. **A1**

◆ Yahoo Japan's shares tumbled after it warned of a big increase in marketing costs as it struggles to compete with Amazon. **B1**

◆ KKR swung to a first-quarter profit from a year-earlier loss, aided by appreciation in its private equity and debt holdings. **B5**

◆ A United report said failures in customer service, training and technology contributed to the forcible removal of a passenger. **B2**

◆ Deutsche Bank said net income more than doubled, as it made progress winning back clients who fled over capital concerns. **B5**

◆ Ford's first-quarter net income fell 35%, but results beat Wall Street expectations. **B3**

◆ Nintendo forecast that strong sales of its Switch console will lift profit to a seven-year high. **B4**

◆ Another big investor is calling on Whole Foods to explore a sale. **B2**

◆ Kia Motors plans to invest over \$1 billion in India in an effort to gain new customers in the country. **B3**

◆ The FCC's chief proposed to roll back Obama-era rules governing how broadband providers treat traffic on their networks. **B4**

### World-Wide

◆ The Defense Department's internal watchdog opened an investigation into whether Flynn violated the law by taking payments linked to foreign governments after leaving the military. **A1**

◆ House Republicans are moving closer to agreement on a health-care bill but face the task of persuading centrists on provisions that could raise costs for people with pre-existing conditions. **A5**

◆ House lawmakers released a one-week spending bill to keep the government open while they negotiate a deal. **A5**

◆ The White House said it was no longer considering pulling out of Nafta, after business leaders and lawmakers lobbied to quash discussion of the prospect. **A5**

◆ An explosion shook Damascus in what state media said was an Israeli missile strike on a nearby military position. **A3**

◆ Two U.S. Army service members were killed and another wounded during a late-night operation in Afghanistan. **A3**

◆ The administration said it is launching an urgent push on North Korea, combining diplomatic pressure and the threat of military action. **A4**

◆ Venezuela's Maduro ordered the country's withdrawal from the OAS. **A3**

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## Russia, Japan Inch Toward Settling Territorial Dispute



ISLAND RELIEF: Russian President Vladimir Putin, left, and Japanese Prime Minister Shinzo Abe met in Moscow on Thursday. The leaders discussed joint economic projects on islands they both claim, in a move aimed at ending the long-standing territorial dispute.

## NEXT TAX ROW: TRUMP BID TO CUT POPULAR BLUE-STATE DEDUCTION

Proposal would kill an expensive break tied to state and local levies, prompting bipartisan backlash

By RICHARD RUBIN

WASHINGTON—A big tax break skewed toward Democratic-controlled blue states is the next major battleground as President Donald Trump and congressional Republicans attempt to rewrite the tax code.

The tax policy outline Mr. Trump unveiled Wednesday proposes repealing the deduction for state and local taxes, which lets individuals subtract

their home-state levies from their federal taxable income. That move was a major shift for Mr. Trump, who previously had called for capping deductions but not killing the break.

What makes the latest proposal politically divisive—and could lead to a split inside the Republican Party—is that it would shift the tax burden from low-tax states such as Texas and Florida to high-tax states such as New York and New Jersey. Blue-state Dem-

ocrats criticized the proposal, as expected, but Republicans from those states don't like it either.

Congressman Peter King (R., N.Y.), who represents part of Long Island, says he is on board with the GOP's philosophy eliminating tax breaks and cutting rates, right up to the point where it thwarts his constituents and

Please see TAXES page A6

◆ Tax-cut plan for firms spurs debate..... A5

## Pentagon Examines Payments To Flynn

BY BYRON TAU

WASHINGTON—The Defense Department's internal watchdog has opened an investigation into whether former National Security Adviser Mike Flynn violated the law by taking payments linked to foreign governments after leaving the military, according to a letter released by congressional Democrats.

## President's First 100 Days

An examination of what the Trump administration has done and where it is headed as it reaches its milestone 100th day on Saturday.

A7

The inspector general for the Defense Department told members of Congress earlier this month that the office had opened a probe into whether Mr. Flynn violated both the emoluments clause of the U.S. Constitution and military regulations by failing to obtain permission for payments from entities linked to Russia and Turkey.

Democrats on the House Oversight Committee also released documents showing that the Pentagon had warned Mr. Flynn against taking any foreign payments without first getting permission from military officials. The Pentagon said it had no record of Mr. Flynn's receiving such

Please see FLYNN page A5

## Uber Interviews Heavyweights for No. 2 Job

SAN FRANCISCO—Uber Technologies Inc., in its search for a No. 2 to Chief Executive Travis Kalanick, is interviewing candidates with track records

By Greg Bensinger,  
Betsy Morris and  
Georgia Wells

in large, established companies—a sign the ride-sharing titan is looking to temper Mr. Kalanick's idiosyncrasies in exchange for a corporate culture more typically in tune with its size and ambitions.

Mr. Kalanick built a defiantly competitive startup culture at Uber over which he reigned supreme, turning it into a global concern valued at \$68 billion but also leading to a series of missteps that in February inspired him to publicly plead: "I need leadership help."

The search for that leadership help, in the form of Uber's first chief operating officer, gives hints as to the type of executive the company seeks. Mr. Kalanick and at least two Uber directors in recent weeks have interviewed candidates such as

Thomas Staggs, the former Walt Disney Co. COO, Karenann Terrell, former chief information officer of Wal-Mart Stores Inc., and Helena Foulkes, executive vice president of CVS Health Corp., said people familiar with the candidates.

Uber is also seeking prospects with experience in fields with complicated labor and operational structures, such as airlines, said people briefed on the search. Ms. Foulkes is no longer in discussions with Uber, said a person familiar with the talks. It isn't clear who, if any-

one, is on a short list.

This is Uber's first executive search directly involving the board, said one of the people familiar with the search. Uber declined to make Mr. Kalanick available for an interview.

Uber is describing the new COO to candidates as a partner to the 40-year-old Mr. Kalanick, not merely a deputy as he has had in the past, these people said. Mr. Kalanick said last month he is looking for "a peer who can partner with me."

Mr. Kalanick wooed a No. 2  
Please see UBER page A2



Uber CEO Travis Kalanick



## Knife Scare in Britain

TERRORISM SUSPICION: British police arrested a man carrying knives near Parliament on suspicion of preparing and instigating acts of terrorism. No one was injured, police said. The arrest follows an incident in March in which a man mowed down pedestrians near Parliament. **A4**

JOHN PHILLIPS/GETTY IMAGES

## Samsung Rejects Calls to Restructure

By TIMOTHY W. MARTIN  
AND EUN-YOUNG JEONG

SEOUL—Samsung Electronics Co. surprised investors and South Korean lawmakers on Thursday by saying the conglomerate, held together by a complex web of cross-shareholdings, would cancel some \$35 billion in legacy treasury shares and forgo restructuring into a holding company.

The crown jewel of the Samsung empire decided to keep its ownership structure

amid a once-in-a-generation transfer of power, in an unexpected break from conventional methods of succession planning by South Korea's family-controlled conglomerates, known as *chaebols*, say investors and corporate-governance experts.

Treasury shares are typically repurchased stocks the company holds in reserve. In South Korea, many chaebols have built up large reservoirs of treasury shares that can

Please see PLAN page A2

## A Miracle at the World's Largest Church: Visitors

\* \* \*

Ivory Coast edifice can hold 18,000, but strife long deterred tourists

By JOE PARKINSON



French glass of 5,000 shades and flanked by a grand 272-column colonnade. The price tag on the basilica, consecrated in 1990, was never disclosed. Local estimates range from \$200 million to \$600 million.

There was just one thing the great edifice, which can accommodate 18,000 people, lacked: great flocks of visitors.

For many years, this brash imitation of the Vatican basilica in the country's remote capital did well to see a few dozen congregants on Sunday.

Cleaners and choristers regularly outnumbered the faithful, church officials and workers said. Guides conducted tours for nobody, just to practice.

Please see CHURCH page A6

## INSIDE



WSJ. MAGAZINE

CUBA LESS TRAVELED

## WORLD NEWS

# Israelis Are Living With a New Neighbor: ISIS



### MIDDLE EAST CROSSROADS

Yaroslav Trofimov

ELIAD, Golan Heights—On one side of a fence that snakes through eucalyptus-covered ridges is a swath of Syrian villages held by Islamic State. On the other, Yitzhak Ribak grows his Merlots, Cabernet Sauvignons and Syrahs.

"My grapes are just 10 meters from the border fence. Sometimes I hear the booms on the other side. Sometimes I see people on the other side. They look like shepherds, but who knows," said the Israeli winemaker.

"It's crazy."

So far, Islamic State hasn't bothered his vineyard. "I am here all alone on my tractor at night and I am not afraid."

While most attention has focused on Islamic State's shrinking but still vast territory in eastern Syria and northwestern Iraq, the extremist group has also proved surprisingly resilient in the pocket of land it controls just outside Mr. Ribak's vineyard. The area sits at the

confluence of Syria, Jordan and the Israeli-annexed Golan Heights.

Known as the Khalid bin Walid Army, the local Islamic State affiliate has rebuffed repeated offensives by the Western-backed Free Syrian Army and other moderate rebels. The porous nature of Syria's front lines and corruption within FSA ranks have allowed Islamic State personnel and weapons to infiltrate the area known as the Yarmouk Basin, said Aymenn Jawad al-Tamimi, a security analyst who follows the group.

The presence of Islamic State so close to Israeli-populated towns and villages in the Golan Heights poses an obvious threat—albeit one that so far hasn't materialized into cross-border attacks.

"The Golan is still the quietest place in the whole country," said Yoni Hirsch, chairman of the municipal council of Nov, an Israeli community of some 800 people about 2 miles from Islamic State-held areas.

"But we know what is happening across the border, and we are getting ready for what may happen," he added.

"We know that in one day with the decision of one person on the other side, our lives can change."

The Israeli government is taking no chances. Over the past three years, it has replaced the old security fence in the Golan Heights, a plateau seized from Syria in the 1967 Middle East war, with a



Yitzhak Ribak looks at Syrian villages held by Islamic State near his vineyards in the Golan Heights.

new structure some 20 feet high and equipped with modern sensors. It is also erecting a new fence further south along the border with Jordan.

"As the dangers go up, so does the fence," Mr. Hirsch said.

Islamic State, like other jihad groups, has repeatedly pledged to eliminate Israel as part of its plan to build a world-wide Islamic caliphate.

"We don't have any doubt about their ideology and their dedication to destroying Israel," said retired Israeli Brig Gen. Effie Eitam, a

former cabinet minister and a resident of Nov.

But Islamic State also has priorities and in southern Syria, the militants have focused on fighting more moderate rebels.

"They are cleverer than attacking Israel. They know Israel has an army and can launch airstrikes and they don't want to open another front line," said Free Syrian Army Maj. Issam al-Reis, a spokesman for the coalition of rebel groups known as the Southern Front. "They are not interested in killing Is-

raelis. What they are interested in is killing us."

Such an unexpectedly peaceful coexistence with Islamic State next door helps explain Israeli perceptions of the Syrian conflict. The U.S. and its European allies view Islamic State, which has carried out terrorist attacks in the West, as the principal threat.

Israeli officials, by contrast, are far more alarmed by Iran and the Lebanese Hezbollah militia. Preventing Iranian proxies from getting

close to the Golan has emerged as a key Israeli priority in the Syrian conflict.

Islamic State, also known by its Arabic acronym Daesh, "is not powerful enough to make us fear," said Ayoub Kara, the only Arab minister in the Israeli government who says he is in regular contact with various Syrian factions.

"Daesh is going to lose," he added. "There is no way it is going to be successful and by the end of the year, we won't see it in any state around here. The problem of the Middle East is the capital of extremism that is Iran."

For Mr. Ribak, who moved to Eliad in 1973 a few months before Syrian tanks attempting to recapture the Golan were stopped outside the village, the growth of Islamic State across the fence carries a clear message. Israel was lucky, he said, that its lengthy attempts at peace talks with Syria, based on trading the Golan Heights for a peace treaty, collapsed in 2010.

"If we had given the Golan to Syria then, it would have all become ISIS-land," Mr. Ribak said on a drive along the border fence. Like many people in the region, Mr. Ribak, who markets his wine under the Chateau Golan brand, said he has developed his own answer to the Middle East's intractable problems.

"I know how to solve it," he said. "Very simple. If all the people here start to drink wine, they will become happy and then there is no problem."

## UBER

*Continued from Page One*  
before, retail veteran Jeff Jones, telling him Uber was ready for a strong second-in-command, said a person familiar with Mr. Jones's tenure, Mr. Jones, hired from Target Corp. to be president of ride-sharing, soon found Mr. Kalanick unwilling to be challenged, the person said. Mr. Jones left in March after six months.

Whoever becomes COO must help steer Uber out of the biggest turmoil in its eight-year history. In rapid succession, it has faced sexual-harassment allegations, a lawsuit over allegedly stolen technology, disclosure of an app to evade regulators, a falling-out with its headquarters city over a self-driving car test and an exodus of executives.

The blows have so far been mainly to Uber's image, but the incidents are exposing it to legal challenges, threatening to slow its critical push toward self-driving vehicles and complicating its prospect of an initial public offering.

The new COO will also face problems with Uber's business model, which requires subsidies—such as sign-up bonuses and cash rewards for reaching certain driving targets—to keep its contract drivers driving. Uber said it lost \$2.8 billion last year on \$6.5 billion in revenue, not including its unprofitable China business, which it sold, and other items such as stock compensation.

Mr. Kalanick has insisted on

running Uber like a scrappy startup even though it is now a global company whose private valuation exceeds those of companies such as Ford Motor Co.

It operates in more than 70 countries with around 12,000 employees and 1.5 million contract drivers, yet it has no chief financial officer. Unlike smaller rival Lyft Inc., it has had no chief operating officer with companywide duties. Until lately, it had a spartan human-resources department, said current and former employees; it brought on its latest human-resources chief in January, six months after her predecessor left.

"There is a point when you go from an entrepreneurial fly-by-the-seat-of-your-pants startup to a professional organization that needs all the structure and bureaucracy that goes with it," said Michael Barnett, professor of management at Rutgers Business School, "and they are big enough in terms of most measures to need that."

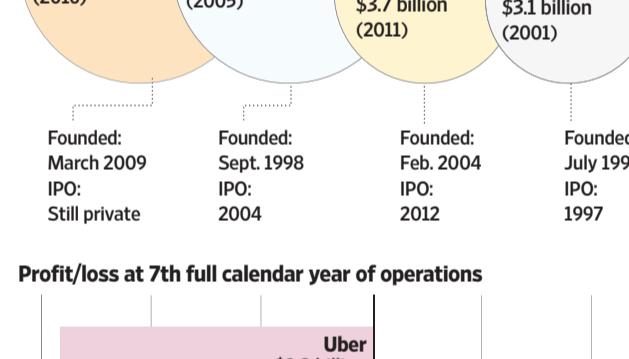
Current and former employees describe a workplace that could resemble aspects of the startup world parodied in the television series "Silicon Valley." Mr. Kalanick, they said, established a culture that pressured staff to stay late to be present when strategic conversations happened and for fear they would get reprimanded for not having a strong work ethic.

A Kalanick hallmark has been night jam sessions—"ses-ses," in Uber parlance—that could last until 2 a.m. The CEO sometimes summoned employees with little warning, causing them to delay other projects

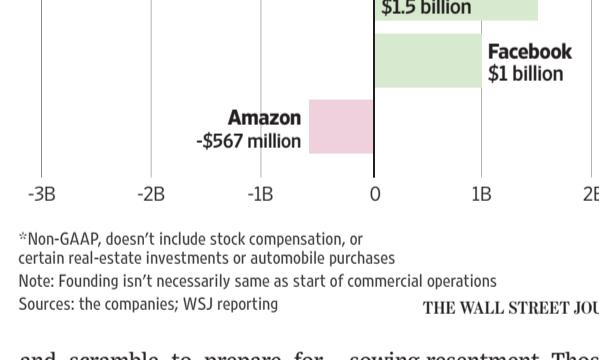
### Seven Years In

How Uber's financials after seven years compare with those of Google, Facebook and Amazon at the same age.

#### Revenue at 7th full calendar year of operations



#### Profit/loss at 7th full calendar year of operations



\*Non-GAAP, doesn't include stock compensation, or certain real-estate investments or automobile purchases

Note: Founding isn't necessarily same as start of commercial operations

Sources: the companies; WSJ reporting

THE WALL STREET JOURNAL.

and scramble to prepare for session topics such as how to capitalize on Uber's size. A topic might be debated each night for a week.

Mr. Kalanick played teams against each other, sometimes

sowing resentment. Those elements went beyond fostering competitiveness, said some of the current and former employees, leading to disorganization and infighting.

Mr. Jones, upon leaving

Uber, issued a statement that "the beliefs and approach to leadership that have guided my career are inconsistent with what I saw and experienced at Uber."

Uber shareholders continue to support Mr. Kalanick, including Shawn Carolan, managing director at venture-capital firm Menlo Ventures. "Founders bring something else to the table; they deeply feel and believe in the mission," he said. "I do believe Travis believes in the mission to the core."

The board hasn't considered replacing Mr. Kalanick, director Arianna Huffington, the media mogul, said last month, "because it hasn't come up and we don't expect it to."

Mr. Kalanick and two other early employees have majority voting control in the seven-member board. The other directors are private-equity billionaire David Bonderman, venture capitalist Bill Gurley and an official from a Saudi Arabian government investment fund.

In prior searches, the board generally left Mr. Kalanick and other executives to conduct personnel reviews, though directors have in the past recommended executives, said people familiar with the search. This time, directors Mr. Gurley and Ms. Huffington are helping interview candidates. Uber has retained executive-search firm Heidrick & Struggles International Inc.

One of the COO's tasks will be to help Uber recover from those troubles, which included its ignoring California regulator warnings by putting self-driv-

ing cars on San Francisco streets in December. Uber withdrew the cars, got proper permits, and brought some self-driving autos back to the city. In February, a former engineer accused Uber of being permissive of sexual harassment. Mr. Kalanick condemned the behavior she described and ordered an investigation.

That month, Google parent Alphabet Inc. alleged Uber conspired to steal self-driving-vehicle technology, claims Uber denied. Then a video of Mr. Kalanick yelling expletives at an Uber driver emerged, prompting him to pledge to "grow up."

In March, Uber acknowledged an initiative to elude regulators with a fake version of its app, meant to circumvent stings. It said it ended the practice.

Mr. Kalanick's reputation likely isn't making the search harder than similar hunts elsewhere, said Dora Vell, CEO of executive recruiters Vell & Associates Inc. because qualified executives usually believe they can handle a difficult leader. The firm isn't involved in Uber's search.

The bigger problem, she said, is that Uber wants someone with so many qualifications and that it has such an unusual corporate culture. "The sum total of the requirements and the culture fit will make it very hard to find one person who has everything," Ms. Vell said.

—Joann S. Lublin  
contributed to this article.

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## WORLD NEWS

# Blast Hits Military Post Near Damascus

Syrian state media report Israeli missiles targeted installation near capital's airport

A huge explosion shook Damascus in what state media said was an Israeli missile strike on a military installation near the Syrian capital's international airport.

By **Rory Jones**  
in Tel Aviv and  
**Noam Raydan** in Beirut

Israel neither confirmed nor denied it was behind Thursday's blast, in keeping with its official government policy of not commenting on some national-security issues. But Israel's transport and intelligence minister, Yisrael Katz, told Israel's Army Radio that the incident in Damascus was "entirely consistent with our policy of preventing smuggling of weapons to Hezbollah."

The explosion occurred amid escalating tensions between Israel and Iran, which together with Hezbollah, the Lebanese militia and political group, provides crucial support to Syrian President Bashar al-Assad and his regime's efforts to defeat an array of opposition rebels and militant groups, including Islamic State.

Israeli Prime Minister Benjamin Netanyahu has recently raised the alarm with Washington and other Western governments over what his government says is deepening Iranian involvement in Syria that will endure past any political settlement of the war there, now in its seventh year.

Israeli Defense Minister Avigdor Lieberman told a secu-



SAMEER AL-DOMINI/AGENCE FRANCE PRESSE/GETTY IMAGES

A photo taken in the rebel-held town of Douma shows flames believed to be coming from near Damascus International Airport Thursday.

rity conference in Moscow this week that Israel wouldn't permit any concentrations of Iranian and Hezbollah forces in the Golan Heights, along Israel's disputed border with Syria.

Thursday's blast, which hit at 3:25 a.m. local time, reverberated across Damascus and its suburbs, the U.K.-based opposition monitoring group Syrian Observatory for Human Rights said.

Citing an unnamed military source, Syria's state news agency, SANA, said "multiple rockets were launched from inside the occupied territories causing explosions and some

material damage" to a "military position southwest of the airport." There were no immediate reports of casualties.

The explosion took place several hours after at least two cargo planes originating in Tehran landed at the airport, according to the tracking site FlightRadar24.com. The aircraft were an Iranian 747 and a Syrian Ilyushin Il-76, the website said.

The Wall Street Journal couldn't determine whether the arrival of the cargo planes and the explosion at a nearby military installation were connected.

The Damascus airport

serves both civilian and military air traffic, and nearby buildings are believed to be depots for weapons and materiel, both for the war and Iranian-supplied weapons bound for Hezbollah in Lebanon. The Shiite Muslim group supplies fighters to the Assad regime.

A commander for the rebel Free Syrian Army said Iraqi and Iranian Shiite militiamen arriving in Syria to fight on the side of government forces are processed through a military-controlled area inside the airport.

SANA didn't indicate whether the missiles were launched from an aircraft or

from land. It also didn't indicate whether they were shot from Israeli airspace or from Israeli territory, or from disputed land in the Golan Heights that Israel controls.

The Israeli military has said its aircraft don't need to enter Syrian airspace to launch strikes against targets in Syrian territory.

The head of the Observatory, Rami Abdulrahman, said the strike was launched from outside Syrian territory, adding that the full details of how it was carried out were still unclear.

The pan-Arab news channel Al-Mayadeen reported it was a

missile attack launched from the Golan Heights, adding that Israeli warplanes didn't enter Syrian airspace.

In Moscow, Kremlin spokesman Dmitry Peskov criticized what it said were Thursday's Israel missile strikes, calling other countries to respect Syria's sovereignty.

"We continue to believe that all countries should refrain from any kinds of actions that lead to a heightening of tensions including in that respective region and we call for respect for the sovereignty of Syria," state news agency RIA quoted Mr. Peskov as saying.

Israeli warplanes in March carried out airstrikes inside Syria, drawing fire from Syrian government antiaircraft missile batteries in the most intense military exchange between the two countries since the start of the Syrian war.

A senior Israeli military official said this week that Israeli aircraft destroyed about 100 missiles in the attack, many of which, the official said, were due to be delivered to Hezbollah.

Israel was forced to disclose the clashes to the Israeli public because explosions had been heard and sirens sounded in the Jordan Valley after Israel's antimissile system shot down a projectile.

Along Israel's border with Lebanon, tensions have also run higher.

Hezbollah took reporters on a tour of the Lebanese side of the border to highlight what it said were Israeli defensive preparations for possible future war. Israel said it was taking precautions on its border to avoid infiltration by Hezbollah operatives.

—*Suha Ma'ayeh, Robert Wall and Thomas Grove contributed to this article.*

## U.S. Soldiers Die in Afghan Mission

Two U.S. Army service members were killed and another wounded during a late-night operation in Afghanistan, the Pentagon said on Thursday, following the death of an American soldier there this month.

By **Jessica Donati**  
in Kabul and **Ben Kesling** in Washington

The U.S. military has escalated its engagement in the country since the Trump administration took office in January, increasing airstrikes against the Taliban and Islamic State and more frequently sending out soldiers on operations with their Afghan counterparts.

Further details surrounding their deaths weren't known. An official with the international military coalition in the country said the soldiers were Army Rangers.

The two "were killed in action last night in southern Nangarhar, Afghanistan, during an operation against ISIS Khorasan," Pentagon spokesman Capt. Jeff Davis said, referring to Islamic State's affiliate in the country. "Their identities, service, and unit affiliations are being withheld pending next-of-kin notification."

The latest deaths come as the White House debates the U.S. military's request for more troops to fight resurgent Taliban and Islamic State threats in Afghanistan.

U.S. Defense Secretary Jim



An Afghan soldier this week patrolled in Nangarhar, where two U.S. soldiers were killed in an operation.

Mattis was in the capital Kabul on Monday to discuss the troop request. A number of the Afghan military's top officials, including defense minister Abdullah Habibi and army chief of staff Qadam Shah Shahim, resigned that day in the wake of the deadliest Taliban attack since 2001.

Taliban militants toting machine guns and explosives had on April 21 gained access to the Afghan army's northern headquarters, massacring at least 170 of its soldiers. The government admitted the scale of the disaster only after details were leaked to the media

over the weekend.

The Afghan government has denied allegations by critics, including coalition officials, that its military is in a state of disarray on the cusp of the Taliban's annual spring offensive—when fighting and attacks usually increase. Afghan officials called Monday's resignations part of a continuing reform program.

President Donald Trump's administration has yet to announce an official policy for Afghanistan, but Afghan officials and their coalition counterparts widely expect him to send more troops to the coun-

try, which has been at war for almost four decades.

Gen. John Nicholson, the top U.S. military commander in Afghanistan, this month took advantage of the U.S. military's greater freedom in the country to drop the U.S.'s second-largest nonnuclear weapon on Islamic State fighters in its east, the first time the munition has ever been used in combat.

Afghan officials claim the strike killed scores of fighters. But coalition officials say it may have been ineffective, as the area remains insecure and fighting continues around the site.

## Merkel Toughens Stance Ahead of Brexit Talks

BY ANTON TROIANOVSKI

BERLIN—German Chancellor Angela Merkel warned that the U.K. risked "wasted time" because some people in the country suffered illusions over how well Britain could fare in talks about the country's exit from the European Union.

"A third country—and that is what Great Britain will be—cannot and will not have the same rights, or perhaps even be better off, than a member of the European Union," Ms. Merkel said in a speech on Thursday to Germany's lower house of parliament outlining her position on Brexit. "I must unfortunately say this so clearly here because I have the feeling that some in Great Britain still have illusions



MICHAEL KAPPELER/DPA/ZUMA PRESS

about this. But this would be wasted time."

The warning—two days before a meeting of EU leaders about Brexit negotiating strategy—represented some of Ms. Merkel's toughest language to-

ward London in the 10 months since the U.K. voted to leave the EU.

Ms. Merkel emphasized that Berlin backed the Brexit positions of European Commission chief Jean-Claude Juncker. She said Brexit talks wouldn't begin in earnest until after the U.K. parliamentary election scheduled for June 8.

Ms. Merkel said her priority in the talks would be to protect German citizens directly affected by Brexit, including by securing clarity about the future rights of an estimated 100,000 Germans living in the U.K. as quickly as possible. But she said she would also seek to make sure that the remaining 27 EU countries stick together as the talks progress.

She also echoed the stance

of EU officials and capitals that there would need to be an agreement in principle on the U.K. accepting its financial obligations to the bloc—the so-called divorce bill—before the EU could start discussing a future trade agreement with the U.K.

"We will only be able to reach an agreement about the future relationship with Great Britain when all exit questions are satisfactorily resolved," Ms. Merkel said in a speech to Germany's lower house of parliament on the coming Brexit talks. "It makes no sense to negotiate the details of the future relationship in parallel without progress on the many open questions surrounding the exit—including the financial questions."

## Russia Spy Ship Sinks in Black Sea



ship was set to take the crew back to a Black Sea fleet base. Russia's Black Sea fleet ships use the narrow Turkish straits on their way to Syria, where Russia has established a naval presence off the coast of the country as part of its military support for Syrian President Bashar al-Assad.

—Thomas Grove

## WORLD NEWS

# U.S. Redoubles North Korea Push

WASHINGTON—The Trump administration said it is launching an urgent push, combining diplomatic pressure and the threat of military action to halt North Korea's advancing nuclear-weapons program.

By Ben Kesling, Felicia Schwartz, Byron Tau and Carol E. Lee

Secretary of State Rex Tillerson, one of those who spoke to senators at a classified briefing hosted by the White House on Wednesday, plans to host a special meeting of the United Nations Security Council on Friday, where he will propose international officials step up efforts to enforce economic sanctions against North Korea.

The State Department said Mr. Tillerson is considering measures such as asking other countries to shut down North Korea's embassies and other diplomatic facilities.

Meanwhile, the top U.S. military commander for Asia said in testimony before a House committee that while the U.S. was amassing naval force near the Korean Peninsula, the administration preferred a diplomatic outcome.

"We want to bring Kim Jong Un to his senses, not to



An undated photo released by Pyongyang's state news agency showed North Korean military exercises.

## South Korea Gets Lift From Exports

SEOUL—South Korea's economy is off to a strong start in 2017, growing at a faster pace than expected in the first three months on a sharp recovery in exports and construction.

Exports account for about half of South Korea's economy, Asia's fourth-largest, and global demand is picking up, improving exports throughout the region.

Gross domestic product grew a seasonally adjusted 0.9% in the first quarter from the previous three months, accelerating from that quarter's 0.5% pace, preliminary data from the Bank of Korea showed on Thursday. The latest reading—the strongest since the second quarter of last year—beat the median 0.7% forecast of economists surveyed by The Wall Street Journal.

Compared with a year earlier, GDP was up 2.7% in the first quarter, again accelerating from the fourth quarter's 2.4% and beating the economists' forecast, also 2.4%.

The latest figures indicate that the recent improvement in overall exports largely outweighed softness in private consumption. The central bank said that in the first quarter, exports grew at the fastest pace since the fourth quarter of 2015 on brisk demand for semiconductors and machinery, while construction showed strong growth following a pull-back in the preceding quarter.

The improvement in external demand is one of several signs offering hope of better times for the economy over the coming year. Among the others: Headline consumer inflation hit a near five-year high in March and consumer confidence in the economy jumped to a six-month high in April.

—Kwanwoo Jun

ing days and months.

Adm. Harris said the U.S. has multiple options for military action in North Korea, pre-emptively, if necessary, which would have devastating consequences for the regime.

But he also testified, when asked about the matter, that military action is likely to result in a North Korean strike on South Korea and U.S. troops near the border and on Seoul.

## WORLD WATCH

### UNITED KINGDOM

#### Police Arrest Man Carrying Knives

British police arrested a man carrying knives near Britain's Parliament on suspicion of preparing and instigating acts of terrorism.

No one was injured and there were no known immediate threats, London's Metropolitan Police said. The 27-year-old was in custody in a south London police station.

Intelligence officials had been tracking the man, who was deemed a threat in connection with Islamist extremism, a U.K. security official said.

A witness told the British Broadcasting Corp. that two knives, including a large bread knife, were found on the ground.

The arrest follows an incident in March in which a man in a car mowed down pedestrians on a crowded bridge outside Parliament, leaving five dead, including a police officer. The 52-year-old attacker, who also used a knife, had a clear interest in Islamist extremism, the police said.

—Jenny Gross

### JAPAN

#### BOJ Holds Rates, Says Inflation Is Lagging

The Bank of Japan pushed back against speculation about an early interest-rate increase by mixing an upbeat assessment of the economy with a further lowering of its inflation forecast and a rejection of the need to unwind its ultraeasy policy.

The BOJ's decision to leave interest rates unchanged and adjust its forecasts follows a campaign by officials at the central bank to highlight weakness in inflation, a departure from an earlier strategy of making mainly positive comments about prices to inspire optimism.

The moves indicate how uncomfortable officials have become about speculation over when the central bank will tighten policy, despite the inflation rate still hovering near zero.

—Takashi Nakamichi and Megumi Fujikawa

### EUROPEAN UNION

#### Draghi Says Risk to Economy Is Receding

Threats to the eurozone's economic recovery are diminishing, but there are few signs inflation will settle at the central bank's target, its president said.

Mario Draghi's comments in a news conference indicate policy makers aren't ready to reduce the stimulus they have been providing since 2014, despite signs growth has strengthened.

"The risks, while moving toward a more balanced configuration, are still tilted to the downside and relate predominantly to global factors," Mr. Draghi said after the central bank's decision to leave its interest rates and stimulus unchanged.

—Paul Hannon and Todd Buell

## ADVERTISEMENT

### REFORM PACKAGES LEAD TO HIGHER ECONOMIC GROWTH

President Joko Widodo has decided to further improve the business climate in Indonesia by introducing a number of deregulation packages. The implementation of these economic reform packages are considered crucial in boosting the country's competitiveness in the global economic landscape in order to achieve a higher economic growth.

To further improve the investment climate, the government has collated 141 lines of businesses in the negative investment list. All of these packages succeeded in eliminating the major impediments faced by businesses toward investment and growth. In the past, Indonesia faced tremendous challenges in expanding its economy which was caused by lengthy bureaucratic and non-transparent processes and procedures.

#### Boosting industrial competitiveness

President Joko Widodo's administration realized that openness and transparency are keys to achieve competitive excellence in the current globalization era. Deregulation processes have taken place and the government has managed to deliver 99% of the recommended policies, paving the way for the country to become a significant economic player within the region and globally.

Significant progress has been made, exemplified in the reformation of energy cost policy by lowering energy costs such as fuel and electricity. Following the initial packages, an economic reform package was introduced to implement the minimum workers wage formula in a manner that supports appropriate compensation policies in all types of businesses. This package also supports increased access to commercial loans by small businesses and SMEs.

So far, the response has been progressively positive. Using the fourth package as guidance, fourteen provincial governments have implemented the minimum wage policy i.e. Riau Islands, West Kalimantan, West Nusa Tenggara, West Sumatera, Jambi, Aceh, South Kalimantan, Banten, Gorontalo, East Nusa Tenggara, West Java, Bali, North Sumatera, and Bangka Belitung.

In support of the other four packages, the fifth package aims to help the revaluation of assets in order to provide lower tax provisions for business owners.

#### Increasing logistic efficiency

Efficiency in logistics will have a substantial impact both on the investment climate and industry competitiveness in Indonesia. In this area of reform, the government launched a deregulation package with a focus on increasing development of the Special Economic Zones (SEZ) and established 12 bonded logistics centers.

In the bonded logistics center, customs clearance processes were simplified, allowing the paperwork for both exports and imports to be processed directly. The new scheme will reduce cost and time, and ensures a smooth flow in the distribution of goods. Smooth and seamless logistics distribution is a key to support a positive growth in investments and industry.

A good example is the Bonded Logistics Center in Cikarang, West Java, which focuses on the import and storage of cotton as the raw material for manufacturing textile products. The textile industry has an overall dominance in the Cikarang Industrial Estate.

Furthermore, the government launched a 14th package which in addition to supporting e-commerce, also aims to provide better logistical services for the shipping industry. The package addresses the President's concern on seaport dwelling time - time spent in queueing for the ground handling process, including discharging of cargo. Several measures were undertaken to significantly improve the dwelling time. Now, in main seaports such as Tanjung Priok and Tanjung Perak, the dwelling time has been reduced from 6.5 days to 2.8-2.9 days. However, the President has set a target of a maximum of two days dwelling time in 2017.

#### Promoting tourism

This economic reform package aims to support a significant progress in promoting tourism. Deregulation in the negative investment list is creating opportunities in the tourist industry as a prospective investment sector by opening up 18 lines of businesses in tourism for foreign investments.

Hence, three out of the 18 Special Economic Zones were designated as tourism clusters. Infrastructure and supporting facilities were built to attract both domestic and foreign investors. Concurrently, the government launched 10 'new Bali' campaigns for top tourist destinations in Indonesia. These sites are Toba Lake

**ECONOMIC POLICY PACKAGES**  
**6 AREAS OF REFORMS**  
"We will continue to reform, to simplify our regulations, to open our economy."  
President Joko Widodo, May 2016

1 INVESTMENT 2 INDUSTRY 3 LOGISTICS 4 TOURISM 5 EXPORT 6 PURCHASING POWER

(North Sumatera), Tanjung Kelayang (Bangka Belitung), Tanjung Lesung (Banten), Kepulauan Seribu (DKI Jakarta), Borobudur Temple (Central Java), Mt. Bromo and Mt. Semeru (East Java), Labuan Bajo (East Nusa Tenggara), Mandalaika (West Nusa Tenggara), Wakatobi (Southeast Sulawesi), and Morotai (North Maluku).

In general, Indonesia's tourist industry grew by 10.30%, compared to the overall 5% growth recorded in the ASEAN region, and 4.40% globally. The tourism sector is the new spearhead to boost investment in Indonesia. The Ministry of Tourism and the Indonesian Investment Coordinating Board (BKPM) are collaborating to improve the infrastructure with the goal of attracting further investments in the tourism sector. Tourism is seen as a prime sector for domestic and foreign investors.

#### Stimulating exports

Supported by the reform and deregulation packages, export is to become one of the key components to drive the country's economic growth. In order to stimulate exports, the government issued an eleventh package providing credit incentives for businesses in the export industry.

One recent success story was the export of 150 passenger trains to Bangladesh valued at USD 72.3 million supported by Eximbank. Another example came from North Sulawesi, which exported 167 tons of coconut flour produced by a small and medium enterprise. A new center of growth is envisaged by increasing the capability of local companies and foreign investor producers in Indonesia who export their products. The impact will be a multiplier effect that would eventually stimulate growth throughout all the regions in Indonesia.

Other measures and packages introduced by the government consist of simplifying import regulation for bringing in raw material for the pharmaceutical industry. The access to a flow of raw materials will encourage the industry to produce medicines locally and eventually allow the export of medicines at competitive prices. This will enable a reduction of expensive imported medicines produced overseas while boosting revenues of non-oil and gas exports.

#### Strengthening people's purchasing power

With the rapid growth and development in the investment climate, the government takes into consideration the impact on the people's purchasing power. The ambitious development strategy has a counter effect on the purchasing power of the people caused by a widening wealth gap.

Indonesia's concerted push to create a welcoming, safe and easy-to-navigate business environment and the positive sentiment it has garnered from foreign investors thus far is a testament to the 14 packages enacted throughout 2015 and 2016. The 15th set of economic packages related to logistics will mark the introduction of the next set of economic deregulation packages.

The goal of these deregulation packages is to accelerate economic growth and secure its sustainability well into the future. Through these economic growth initiatives, the government demonstrates its fervent commitment for Indonesia to become the most stable, reformed and safe destination for foreign direct investments.

"We will continue our efforts to open the economy through reforming and simplifying our laws and regulations," said President Joko Widodo in an address to the nation in May 2016.

Six areas of reforms have been identified and incorporated within the economic packages. The changes that are set to help further stimulate the country's economy include improving the investment climate, boosting industrial competitiveness, increasing logistics efficiency, promoting tourism, stimulating exports, and strengthening people's purchasing power.

#### Improving investment climate

Enhancing a favorable investment climate is the very first priority of President Joko Widodo. On the third day following his inauguration, he paid an impromptu visit to BKPM (Indonesia Investment Coordinating Board) requesting the institution to introduce revolutionary changes within the investment administration. As a result, a one-stop solution combining convenient online services and fast three-hour investment processing time was introduced and launched by the country's Vice President, Jusuf Kalla, to provide an end-to-end investment service.

The revolutionary service reduces the time required to obtain eight licenses, namely an investment license, tax identification number (NPWP), articles of association, company registration number (TDP), import identity number (API-P), custom identity number (NIK), plan to hire expats (RPTKA), and license to employ expatriate workers (IMTA), plus one land booking. A process that usually takes up to 23 working days has been compressed to three-hours. Through continuous improvements and expansions, the service succeeded in facilitating more than USD 16 billion in investments since its inception on January 11, 2016.

The Wall Street Journal news organization was not involved in the creation of this content.

# U.S. NEWS

## Tax-Cut Plan For Firms Spurs Debate

BY LAURA SAUNDERS

President Donald Trump's plan to cut the tax rate to 15% for so-called pass-through businesses could create many opportunities—and leave plenty of room for abuse.

Advocates say lowering the tax rate for the business income of partnerships, S corporations and limited-liability companies would spur U.S. business growth and job creation.

"This is an incentive for business owners like my wife and me to reinvest in our own firms rather than pay the government," said James Jungbauer, president of Hollstadt Consulting, a firm in Mendota Heights, Minn., with 200 employees that specializes in business analysis.

Critics said the measure creates an incentive to minimize compensation as a way of avoiding higher income and payroll taxes, among other issues.

Lawrence Gibbs, a former IRS commissioner under Ronald Reagan who is now with Miller & Chevalier in Washington, said if this measure becomes law, "you will have scams coming out of the woodwork."

"Large tax-rate differentials encourage abusive tax planning," he added.

As he unveiled the measure on Wednesday, Treasury Secretary Steven Mnuchin said the administration would work

on protections to ensure that a tax cut for pass-through businesses wouldn't be abused.

The rate-cut proposal still lacks important details, but it would apply to business income from many small firms as well as large global law firms, hedge funds and Mr. Trump's own real-estate and branding businesses.

All of these firms are partnerships, S corporations and limited liability companies that "pass through" to their owners a proportional share of income, losses, and other tax items. Currently the top rate on such income is 39.6%, but Mr. Trump's proposal would cut it to 15%.

More than half of all business income is now earned by pass-through entities, which have surged in popularity in recent decades.

Of all pass-through income, more than half is earned by top-bracket taxpayers, according to estimates by the Tax Policy Center in Washington. The top brackets begin at \$470,700 for married couples filing jointly and \$418,400 for singles.

Under current law, pass-through owners have little income-tax incentive to distinguish between business income and compensation, although some have tried to minimize compensation in order to lower Medicare and Social Security taxes.

If this proposal becomes law, owners will likely try to



Treasury chief Steven Mnuchin said the administration would aim to ensure a tax cut for pass-through businesses wouldn't be abused.

reduce their compensation in order to save income taxes as well, says Troy Lewis, a certified public accountant in Draper, Utah, who advises wealthy clients. "People try to structure their affairs to achieve lower rates."

For example, say a pass-through owner has \$200,000 of net income currently taxed at the top 39.6% marginal rate. Under the proposal, the part that is compensation would be taxed at a 35% rate, and the portion that is business income would be taxed at a 15% rate.

So taking wages of \$50,000 instead of \$150,000 could save \$20,000 in income taxes, plus any additional payroll-tax savings. While there are laws defining "reasonable" compensation, they are cumbersome for

the IRS to enforce because each case is different.

It is still unclear whether the proposal would apply to self-employed workers and how much wealthy owners of hedge funds and private-equity firms would benefit, if at all.

Gregg Polksky, a tax-law professor at the University of Georgia, said the proposal wouldn't immediately affect private-equity partners because much of their income is taxed already at lower capital-gains rates. On the other hand, he said, they could restructure arrangements to benefit from the lower 15% rate.

One adviser to hedge funds, Michael Laveman of accounting firm EisnerAmper LLP, said the proposal would act as a tax cut for hedge-fund owners who share management fee in-

### Business Break

Many businesses 'pass through' income to their owners, and over half of it goes to top-bracket taxpayers. The current 39.6% top rate on such income could drop to 15% under President Trump's proposal.

Individual income-tax rate	Tax returns reporting pass-through entities	Net income	Share
0% to 15%	25.5 million	\$104.4B	10.8%
25% to 28%	11.2 million	\$330.4B	34.1%
33% to 35%	300,000	\$35.7B	3.7%
39.6%	670,000	\$499.0B	51.5%

Source: Tax Policy Center

THE WALL STREET JOURNAL.

come. Management fees, he said, are typically taxed at the current top 39.6% rate.

Mr. Laveman's own firm, also a partnership, would be among the beneficiaries. "I'm

trying not to tell my wife about the huge tax break we are about to get," he said.

—Rob Copeland  
and Mark Maremont  
contributed to this article.

## University To Acquire Kaplan

BY DOUGLAS BELKIN

Purdue University, one of the nation's largest public schools, is buying Kaplan University, a for-profit online school that enrolls 32,000.

The acquisition, announced Thursday, will result in a new public university. Purdue hopes will serve working adults.

Kaplan University, which has 15 campuses and 3,000 employees, is a unit of Graham Holdings Co., the former owner of the Washington Post.

Purdue President Mitch Daniels said the deal will be "financially positive for us."

"This is the first time a public university is coming together with an established online university," Mr. Daniels said. "I think by any definition, it's a national first."

The deal doesn't require an initial payment from Purdue, the university said. The new university created under the deal will enter into a long-term transition and support agreement, with a buyout option after year six. The agreement will also provide certain financial guarantees by Kaplan for the new university to ensure it is able to continue to meet its mission to serve adult learners.

"Nearly 150 years ago, Purdue proudly accepted the land-grant mission to expand higher education beyond the wealthy and the elites of society," Mr. Daniels said. "We cannot honor our land-grant mission in the 21st century without reaching out to the 36 million working adults, 750,000 of them in our state, who started but did not complete a college degree, and to the 56 million Americans with no college credit at all."

Purdue, based in West Lafayette, Ind., spent several years exploring whether to build out its own online school but ultimately decided it wasn't feasible. Trustees decided last summer to purchase a school, and talks to buy Kaplan started in November, said Debbie Hohlt, a school spokeswoman.

The deal underscores the changing nature of public universities which have faced steep cuts in public funding even as they are being asked to serve more adults.



White House chief economic adviser Gary Cohn attended a news conference this month.

## Trump Drops Nafta Threat

BY JACOB M. SCHLESINGER  
AND PETER NICHOLAS

WASHINGTON—The Trump administration said it was no longer considering pulling out of the North American Free Trade Agreement, following a day of intense lobbying from business leaders and lawmakers who rallied to quash internal White House discussion of the prospect.

The White House said in a statement issued late Wednesday night that President Donald Trump had called his Mexican and Canadian counterparts following widespread reports he was considering pulling out of the 23-year-old pact that stitches the three economies together.

On Thursday morning, the president wrote on Twitter: "I received calls from the Presi-

dent of Mexico and the Prime Minister of Canada asking to renegotiate Nafta rather than terminate. I agreed subject to the fact that if we do not reach a fair deal for all, we will then terminate Nafta. Relationships are good—deal very possible!"

The daylong public zigzag over trade illustrated both the confusion that often marks Trump administration policy making, as well as the battles inside his administration pitting economic nationalists against top business leaders he has tapped to run his economic team.

The former faction had been pushing for the Nafta withdrawal threat as a big hammer to force concessions from the two trading partners, while the latter has tried to temper Mr. Trump's periodic

attempts to pick fights with allies over trade.

The White House statement said that Mr. Trump spoke with Mexican President Enrique Peña Nieto and Canadian Prime Minister Justin Trudeau and that "both conversations were pleasant and productive."

Mr. Trump has vowed since taking office to renegotiate the deal that he has branded "a disaster," and the statement made clear he was sticking with that plan, albeit without the threat of pulling out of the pact altogether.

"It is an honor to deal with both President Peña Nieto and Prime Minister Trudeau," the Wednesday statement quoted Mr. Trump as saying, "and I believe that the end result will make all three countries stronger and better."

## FLYNN

Continued from page A1

Mr. Flynn, a former three-star general who retired from the military in 2014, briefly served as President Donald Trump's national security adviser before resigning after it was revealed that he misled White House officials about his contact with the Russian ambassador to the U.S.

The House Oversight Committee is looking into the circumstances of Mr. Flynn's de-

parture from the administration as part of its mandate to investigate waste, fraud and abuse within the federal government.

Mr. Flynn has told congressional officials and federal investigators he is willing to be interviewed if he is granted immunity, although it isn't clear whether the payment questions were the reason for his request.

At issue in the new probe is Mr. Flynn's post-military work, including a paid speech he gave at an event hosted by the Russian state-owned television network RT. Mr. Flynn also registered as a lobbyist for

his request.

Mr. Flynn previously headed the Defense Intelligence Agency before he was removed from that job and then later retired from the military.

## GOP Gets Closer To a Health Bill

WASHINGTON—House Republicans are moving closer to agreement on a health-care overhaul but now face the task of persuading centrists in the party to agree to provisions that could raise costs for many people with pre-existing conditions.

By Stephanie Armour,  
Kristina Peterson,  
and Michelle Hackman

The latest effort to repeal large portions of the Affordable Care Act gained significant momentum Wednesday by winning an endorsement from the conservative House Freedom Caucus, whose roughly three dozen members helped to sink an earlier version of the bill last month by withholding their support.

The House could vote on the revised bill as early as this week, aides said, potentially on Saturday, which would be President Donald Trump's 100th day in office. The timing of a vote remained fluid and will depend on whether the bill picks up enough support.

The chamber's approval of the legislation could rewrite the story of Mr. Trump's early tenure, giving the president and GOP leaders an accomplishment after the health overhaul stalled in March.

But it remains unclear

whether House leaders have enough support from centrist Republicans to secure passage. And the legislation still faces a difficult path in the Senate.

The mounting support from conservatives comes amid mixed messages about the fate of billions of dollars that insurers get to offset costs for some low-income consumers. Mr. Trump's administration told lawmakers Wednesday it would keep paying the subsidies, an aide said, after earlier threatening to withhold them.

The bill has gotten new life because of a compromise crafted by Rep. Tom MacArthur (R., N.J.), a co-chairman of a centrist-leaning coalition of lawmakers called the Tuesday Group. His amendment would let states pursue federal waivers to opt out of some of the law's insurance provisions.

The measure retains a key provision in the law requiring health insurers to sell plans to people with pre-existing medical conditions. But it would permit states to remove several protections aimed at keeping those plans affordable.

With federal waivers, states could let insurers charge higher premiums to some people with pre-existing conditions. That would apply only to people who had let their coverage lapse, a measure that aims to ensure people stay insured.

## Congress Releases Bill To Keep Government Open

BY NATALIE ANDREWS

WASHINGTON—Facing a Saturday morning deadline to avoid a government shutdown, House lawmakers have released a one-week spending bill to keep the government open while they negotiate a deal.

Government funding expires on Saturday at 12:01 a.m. The weeklong stopgap measure would give lawmakers more time to settle on a five-month spending bill that would fund the government through the rest of the fiscal year.

This continuing resolution will continue to keep the government open and operating as

normal for the next several days in order to finalize legislation to fund the federal government for the rest of the fiscal year," Rodney Frelinghuysen (R., N.J.), the House Appropriations chairman, said in a statement.

The timing of votes on the measure was unclear, but it was expected to pass. Congressional leaders have been inching toward a deal to fund the government through the rest of fiscal 2017, which ends Sept. 30, and the most contentious issues appear to have been resolved or set aside. The stopgap resolution would extend by a week health-care coverage for retired coal miners and their dependents.

## IN DEPTH

# TAXES

*Continued from Page One*  
their ability to subtract \$12,000 annual property tax bills from their federal income.

"I am a Jack Kemp Republican," he said in a recent interview. "I believe in supply-side economics. I'm all for that. But again, this has a unique hit on Long Island."

In the weeks leading up to the White House's announcement, Mr. King, New York Democrats and business groups had been urging Republican leaders in Congress to back off their proposal to repeal the deduction. Instead, the administration—in which the president and his two top economic advisers are high-income residents of blue states—chose repeal.

"I never thought I could leave New York and go to a state that had higher taxes, but I did when I moved to California," Treasury Secretary Steven Mnuchin said at a Wednesday morning briefing before justifying an end to a major break for New Yorkers and Californians. "We want to get the federal government out of the business of what's the states' business."

Republicans focused on lowering marginal tax rates have been targeting the deduction unsuccessfully for decades. They contend that it props up bloated state and local governments with support from federal taxpayers. Repealing it, they argue, could put pressure on states to limit or reduce spending and taxes.

Removing the deduction could raise more than \$1 trillion over a decade, according to independent estimates, which would help offset the cost of GOP rate cuts.

The deduction, one of the largest breaks for individuals, saves taxpayers about \$103 billion this year, according to the congressional Joint Committee on Taxation. That is \$38 billion more than the mortgage-interest deduction and \$46 billion more than the deduction for charitable contributions.

Without repealing the deduction, Republicans would have to settle for smaller tax-rate cuts, higher budget deficits or temporary tax policies. They will be constrained by congressional rules that prevent them passing a tax plan on a party-line vote in the Senate unless they refrain from increasing budget deficits beyond a decade.

Democrats mobilizing to defend the deduction are in the awkward position of standing up for a tax measure that helps some of the highest-income Americans—the same people they typically say don't pay enough in taxes. To win, they will need to transcend party politics by appealing to hometown interests. During the 1986 tax code overhaul, a coalition of business groups, state officials and blue-state Republicans protected the same tax break.

Administration officials argued this week that it isn't the federal government's job to be subsidizing states, though the federal government does redistribute income across state lines out-



ANDREW HARRER/BLOOMBERG NEWS

Senate Democratic Leader Charles Schumer says killing or scaling back the break would be 'devastating for middle-class families.'

side of the tax system.

"We also think about being fair. We're being fair," Gary Cohn, the director of Mr. Trump's National Economic Council, said at the briefing with Mr. Mnuchin. "And there are those that argue that allowing state and local taxes to be deductible is not fair because certain states are subsidizing other states, and this is a field-leveler."

At the center of the fight is New York, home of Mr. Trump, Mr. Cohn and Senate Democratic Leader Chuck Schumer, who says killing or scaling back the break would be "devastating for middle-class families in New York and elsewhere."

In New York, the deduction equals 9.1% of adjusted gross income, the highest in the nation, according to an analysis of government data by the Tax Foundation, a Washington group that favors a simpler, flatter tax system. New York residents thus face a particularly heavy state tax burden, which gets mitigated by the deduction.

The Republican tax plan is "very anti-New York in many ways," says Rep. Joseph Crowley, a Democrat from Queens. "It's going to cost more for New Yorkers. It's going to be more federal taxes for them. And that simply isn't right."

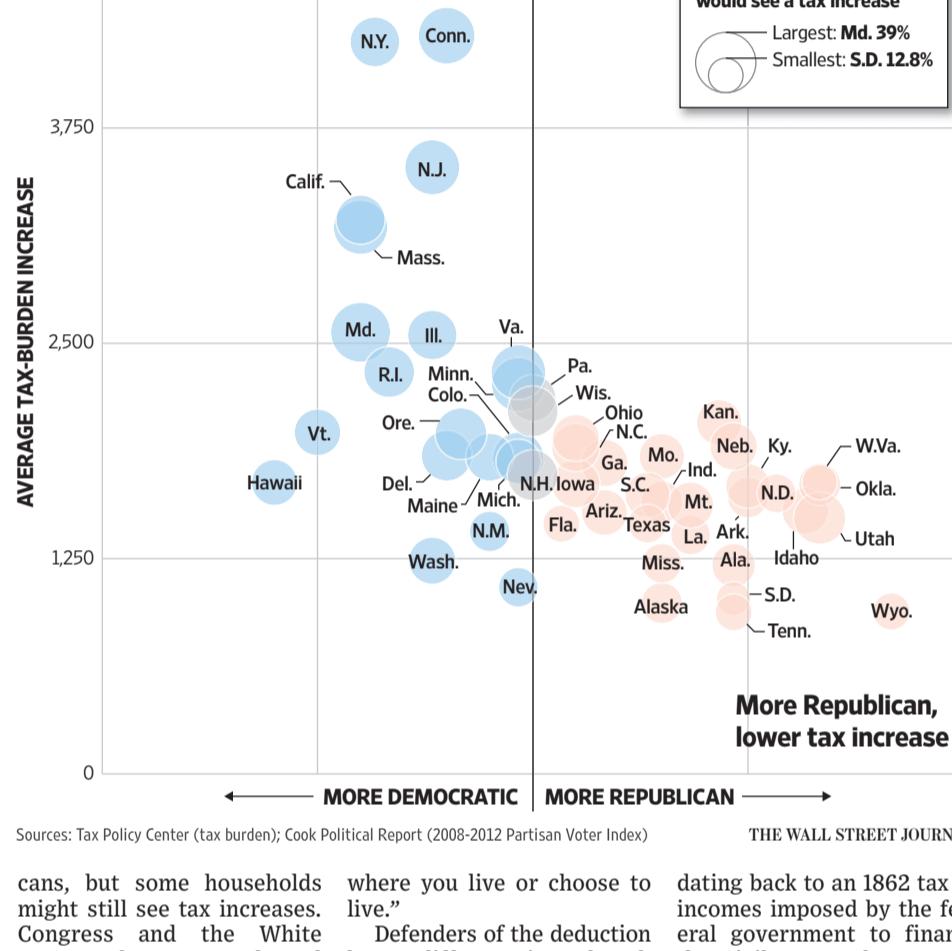
Repealing the deduction, before taking into account other changes in the GOP plan, would raise taxes on about 27% of New York households, increasing their federal bills by an average of \$4,250, says the Tax Policy Center, a joint project of the Urban Institute and Brookings Institution.

In New Jersey, 32.9% of households would see their federal taxes go up if the deduction were repealed, with an average increase of \$3,522. Similar increases would happen in Maryland, Connecticut, California and Massachusetts.

The proposed reduction of individual tax rates and repeal of the alternative minimum tax would temper those hits. High-income households subject to the alternative tax already can't take the state tax deduction. Overall, the Trump plan would mean big tax cuts for many high-income Ameri-

### Winners and Losers

Estimated effect on taxpayers, by state, of repealing the state and local tax deduction, before taking into account proposed lower tax rates and repeal of the alternative minimum tax.



Sources: Tax Policy Center (tax burden); Cook Political Report (2008-2012 Partisan Voter Index)

THE WALL STREET JOURNAL.

cans, but some households might still see tax increases. Congress and the White House haven't released enough details to make full calculations.

Rep. Kevin Brady, the Republican chairman of the House Ways and Means Committee, contends that repealing the break leads to equal treatment of residents of high-tax states and low-tax states. He hails from Texas, which doesn't have a state income tax and where individual deductions for property and sales taxes make up just 2.5% of income, near the bottom of the pack.

"It is a sort of a fresh approach to moving away from having deductions for some, usually wealthy, or those in high-tax states," he says. The goal, he says, is to make sure that "Washington doesn't reward or punish you based on

where you live or choose to live."

Defenders of the deduction have a different view. Though blue states benefit from the deduction, they contend that red states get a lion's share of federal spending on the military and government benefits for elderly and poor households.

Kathryn Wylde, chief executive officer of the Partnership for New York City, a group that represents the city's biggest businesses, says the tax break helps the broader economy by supporting an agglomeration of media, finance, accounting and professional-services jobs. She worries about a populist backlash against "clusters of very high earners in the nation's economic centers."

The state and local tax deduction is one of the oldest breaks in the U.S. income tax,

dating back to an 1862 tax on incomes imposed by the federal government to finance the Civil War. It has proven resilient, reappearing with the 1913 imposition of a federal income tax and surviving the last tax-code shake-up in 1986, when President Ronald Reagan tried to repeal it.

Democrats controlled the House in 1986, and Ways and Means Chairman Dan Rostenkowski of Illinois forged an alliance with New York Republicans.

James Baker, who was Mr. Reagan's chief of staff and then Treasury Secretary, said the deduction was the only subject that caused Mr. Rostenkowski to hang up on him.

"We had a little shouting match, and it was just one of the deductions that they were damn well determined to protect," Mr. Baker said in a recent interview. "We ended up

having to let it go."

The break is an itemized deduction. That means most households don't use it. To claim an itemized deduction, total deductions—largely for mortgage interest, charity and state and local taxes—must exceed the standard deduction of \$6,350 for individuals and \$12,700 for married couples. Mr. Trump wants to double the standard deduction, so many middle-income households might not feel the pinch of the lost break because it would be covered by the bigger standard deduction.

Just 30% of U.S. households itemize their deductions. Those who do—people who benefit from the state and local tax break—are concentrated in high-income, high-tax states. More than 90% of filers with incomes over \$200,000 claim the deduction, according to the Tax Policy Center. Overall, 38% of the deduction's value goes to California, New York and New Jersey, which have 21% of U.S. households, the center says.

The top nine states for the deduction, measured as a percentage of income, all voted for Hillary Clinton, and they have 18 senators, all Democrats. In the House, those same states have 33 Republicans, a number that exceeds the party's overall governing margin. That means they have the numbers to protect the break—if they all agree on the policy and use their leverage.

New York and New Jersey Republicans already resisted the GOP leadership's health care bill in March. Rep. Dan Donovan of Staten Island, N.Y., says losing the deduction would "crush" his constituents, and Rep. John Faso of Kinderhook, N.Y., says it would be "double taxation." Rep. Tom Reed of Corning, the lone New York Republican on the tax-writing Ways and Means Committee, says he intends to fight to protect the break.

New York, in a 2013 report by Gov. Andrew Cuomo on the "tax threat" to the state, called repeal of the deduction and other potential federal changes an "unfair double taxation scheme" that would adversely affect New York. State residents who are used to taking the tax break would have to pay the full New York tax—with a top rate of 12.7% in New York City and 8.82% for the state outside the city—on top of their federal income taxes.

For the very highest-income New York households—think Wall Street bonuses—the loss of the deduction would make the full cost of being a state resident more apparent than ever. That could increase the incentive for individuals to move away and for businesses to pick another state.

The lawmakers to watch in coming weeks are the blue-state Republicans in the House, including Rep. Chris Collins of New York, an early supporter of Mr. Trump. He said Wednesday that repeal is a "big concern" for GOP lawmakers from New York, New Jersey and California.

"Ever since our proposal first came out in January, I said I will fight to keep those deductions," he said.

—Janet Hook contributed to this article.

# CHURCH

*Continued from Page One*  
tice their language skills. Palms and shrubs began recolonizing surrounding roads. Security guards played soccer under the colonnade.

"I used to call it my house because I had it all to myself," said David N'Guesso, a guard who once spent days playing on his cellphone. "To be honest, we felt a bit sorry for the father."

"Let's just say we had a lot of time for prayer," said Father Stanislaw Skuza, a Polish priest who arrived in 1993 and is among those who administer the church.

A series of civil conflicts here ended in 2011, sparking an economic comeback powered by foreign investment and the high price of cocoa, of which Ivory Coast is the world's top producer.

As word spread that one could visit the gigantic jungle basilica in peace, pilgrim buses began arriving from Ghana and Burkina Faso. Tourists now come from China and India, and are returning in greater numbers from former colonial ruler France. Visitors

to Our Lady of Peace numbered 320,000 last year, officials said, threefold the numbers of five years ago.

"We heard about this strange place," said Chi Tsui, here from China on business with two colleagues. "It is indeed strange."

The new masses have been a jolt for church denizens accustomed to an ample supply of quiet contemplation. Priests can't preach unamplified anymore. They fire up an imported speaker system connected to cordless mics. Once-dormant Italian air coolers next to each of 7,000 seats are regularly switched on.

Mr. N'Guesso was an altar boy when Pope John Paul II consecrated the church 27 years ago. It was the capstone of then-President Félix Houphouët-Boigny's project to move the capital from the coastal trade hub of Abidjan to Yamoussoukro, his ancestral village.

One stained-glass window portrays the former president kneeling at Jesus' feet.

The church bustled with foreigners during construction, church officials said. About 1,500 artisans, led by French and Israeli contractors, worked day and night on an

edifice stretching about one-third mile from the last Doric column of the elliptical esplanade to the outermost column behind the nave.

After Mr. Houphouët-Boigny's death, tourist visits fell while refugees periodically sought protection on the church grounds as civil conflict roiled Ivory Coast. As the conflict ended, tourists did not immediately return.

"I used to walk around practicing English alone because there was no one here," said tour guide Yann Loa as Indian visitors snapped selfies

next to a stained-glass window. "Now I make in a month what I used to make in six."

Tourists include members of Ivory Coast's fast-growing middle class. Catholics make up a little less than 20% the country's population of 23.7 million, according to a U.S. Central Intelligence Agency fact book.

Ivorian teens in their newest clothes use the church to flirt and snap social-media pictures. "It's a cool place to gather after Mass and talk about our programs, our future," said student Ehui Al-

phonse, relaxing under the colonnades with friends. "We were heartbroken when no one was here."

During a recent Sunday Mass, the church welcomed around 1,000 worshipers inside. Other visitors sat along the roughly 3,000-foot marble walkway listening to prayer readings and singing hymns.

Some around the pews gaped at the 110-pound gold cross suspended from Venetian-glass chandelier.

Visitors to the roughly 300,000 square-foot complex are a fraction of the 55,000 the Vatican's basilica accommodates on peak days, according St. Peter's Archpriest, Cardinal Angelo Comastri.

"None of us expect the queues to be like the Vatican," said Bintou Dosso, a trader whose stall overlooks the basilica's giant dome, "but thank God at least some people are coming now."

The site's souvenir store sells priests' vestments and dresses emblazoned with the former president's face.

Some recent local news has been less welcome. A rogue army brigade mutinied earlier this year, driving tanks onto the streets next to the basilica;



SIA KAMBOU/AGENCE FRANCE PRESSE/GETTY IMAGES

Pilgrims outside the Our Lady of the Peace basilica in May 2016.

it withdrew after talks with the government.

Unholy controversies remain over the church's construction. Pope John Paul II, whom Ivory Coast petitioned to consecrate the basilica because of its imitation of the Vatican's holiest shrine, agreed on the condition that a hospital be built alongside and that the cupola be slightly lower than the Roman dome, Ivorian church officials said. The Vatican declined to comment.

Mr. Houphouët-Boigny complied, but the church later topped the basilica with a giant golden cross, church officials said, making it taller than the Vatican's. The hospital was eventually built.

And a controversy over the church's cost was never settled, with the president's critics charging he used state money—the Ivory Coast couldn't afford. Without revealing the final tab, Mr. Houphouët-Boigny repeatedly said the basilica was being built on his own land, financed with his own money and, upon completion, would be given to the Vatican. When asked about the financing, according to local media reports, he said it was "a deal with God."

## TRUMP'S FIRST 100 DAYS

# What Trump's Start Says About His Future



CAPITAL JOURNAL  
By Gerald F. Seib

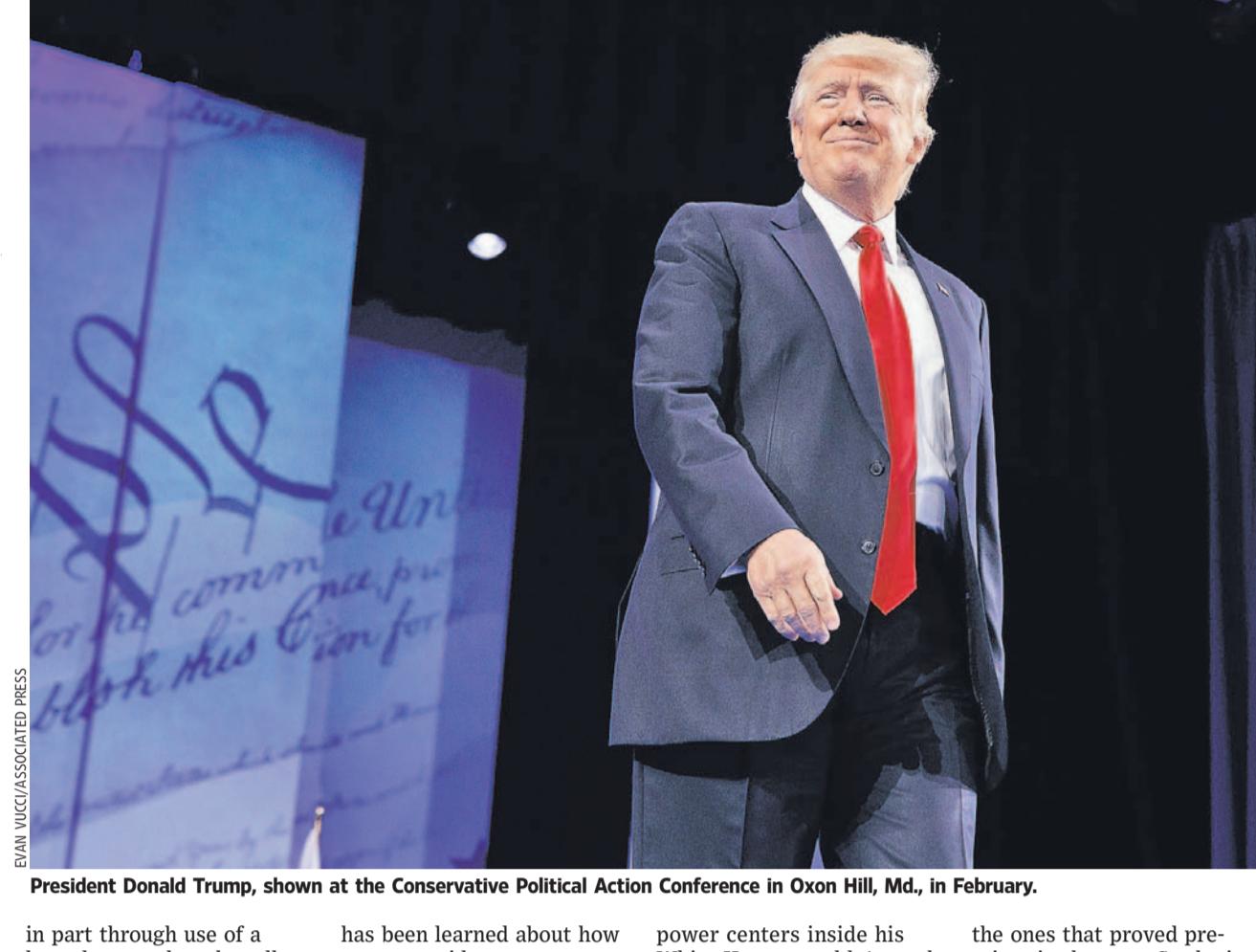
As the Trump presidency's 100-day mark arrives, here's a little secret: That opening stretch often is a rocky one for new presidents.

Bill Clinton suffered through a botched economic-stimulus package, a controversy over gays in the military and a White House travel-office scandal. George H.W. Bush made what turned out to be a disastrous pick for defense secretary.

If you reach back further, John Kennedy made a historic blunder by approving the ill-fated Bay of Pigs invasion in Cuba, a failure that continued to haunt him.

President Donald Trump's journey through 100 days has been notably messy, of course. His most important legislative effort, on health care, collapsed at the hands of members of his own party, while a travel ban on select Muslim-majority countries stalled in the courts. His national security adviser was fired in a controversy over contacts with Russian officials. He leveled an unsubstantiated accusation that his predecessor tapped his phones. He set a record for early job disapproval.

Yet he has been more effective on other fronts. With less notice, he has begun a broad rollback of regulations,



President Donald Trump, shown at the Conservative Political Action Conference in Oxon Hill, Md., in February.

in part through use of a long-dormant law that allows elimination of past regulatory directives, to the cheers of the business community. His team got a respected Supreme Court nominee through the Senate. Ditching campaign-season impulses, he launched a strike at Syria over its use of chemical weapons, and built what seems to be a solid relationship with China's president.

So the debate is on over what Mr. Trump has and hasn't done at the much-hyped 100-day milestone. But history suggests that the precise balance sheet at 100 days means less than what

has been learned about how a new president operates—and what kinds of adjustments he makes based on those opening lessons.

Ronald Reagan used his opening 100 days to build an effective legislative coalition of fellow Republicans and conservative Democrats. That coalition implemented his broad agenda in his first year—and then was useful the following year when he needed to roll back some of his signature tax cuts to shrink the deficit. He also began learning that allowing multiple, competing

power centers inside his White House wouldn't work.

Mr. Kennedy learned not to put unquestioned trust in military leaders and to put stock in his own instincts. That proved useful in guiding him through the Cuban missile crisis that came later.

Mr. Clinton learned he needed to impose more order on his personal and political world. He did, and ended up overseeing a prospering economy and largely successful presidency—although that lack of personal discipline returned to haunt him in the Monica Lewinsky affair.

Those early lessons are

the ones that proved prescient in the past. So the important question at this point may be less what did or didn't happen in Mr. Trump's first 100 days, but what we know about the new presidency—and what lessons the president might walk away with himself.

We know that Mr. Trump is a restless activist who doesn't abide by the rules, for better and for worse. His presidency will never be quiet. The risk for him now is that the volume and looseness of his running commentary will undermine his ability to communicate effectively, at home and abroad, when it's

urgent to do so.

Yet we also know he can curb his impulses, if he really wants to. He has gone stretches without indulging in his Twitter addiction. He can lean toward more of a conventional style when he wants to. He bashes the press yet also is open to it in a way few of his predecessors were.

Perhaps more important, he has allowed a cadre of more conventional advisers—Secretary of State Rex Tillerson, Defense Secretary Jim Mattis, economic adviser Gary Cohn, Treasury Secretary Steven Mnuchin—to accumulate increasing influence. Whether that continues is a key indicator for the next 100 days.

Perhaps most important, Mr. Trump is hitting the 100-day mark without a clear governing coalition. Republicans' control of the White House and both houses of Congress created an expectation that getting things done might be easy, but the early failure on the Obamacare repeal showed that he can't count on support from his party's most conservative wing.

At the same time, he hasn't managed to win meaningful Democratic support, outside of cheers for the Syria strike. The polarizing effect of his opening days has made that task tougher; Democratic National Chairman Tom Perez, in his own 100-days message, called on Democrats "to keep resisting for the next hundred, and the hundred after that, and on until Donald Trump is out of office for good."

The foremost presidential challenge for the next hundred days and beyond is to get Washington beyond the dangers of paralyzing polarization.

## A New President Takes the Reins

With an "America First" philosophy, Donald Trump points the nation toward new goals

■ Trump approval rating, weekly

JAN. 25 The Dow Jones Industrial Average hits 20000 as investors bet the new president will follow through on economic promises.



JAN. 20-21 President Trump's inauguration speech sets the tone for his early tenure by promising a new, 'America First' nationalism. A day later, millions attend protests, dubbed 'women's marches.'



FEB. 3 The new president learns about the limits of his powers as a federal judge in Seattle temporarily blocks Mr. Trump's week-old executive order on immigration and refugees.

FEB. 7 Amid heightened partisanship, education secretary nominee Betsy DeVos wins confirmation only with a tie-breaking vote from Vice President Mike Pence, a historic first for a cabinet nomination.

FEB. 13 Mike Flynn resigns after failing to fully disclose his conversations with Russian officials. Several congressional committees probe the possible role that Russia played in the 2016 elections.

MARCH 17 Mr. Trump expresses support for NATO after meeting with German Chancellor Angela Merkel but also says that many NATO allies "owe vast sums of money" for the common defense.

FEB. 28 Mr. Trump asks a joint session of Congress to set aside 'trivial fights' and work with him on health care, taxation and infrastructure. The speech draws largely positive reviews.

MARCH 20 FBI Director James Comey confirms the agency is investigating whether there was 'coordination' between people associated with Mr. Trump's campaign and the Russian government in 2016.

APRIL 6 Senate Republicans vote to end the filibuster of Supreme Court nominations, paving the way for Neil Gorsuch's confirmation and giving Trump a much-needed win.

APRIL 5 Steve Bannon is removed from the National Security Council. Officials call the move a natural evolution of the council but others in the West Wing say it reflects the shifting power dynamics in the White House.

APRIL 13 The U.S. military drops one of the largest non-nuclear bombs in its arsenal on an Islamic State complex in eastern Afghanistan.

APRIL 26 The Trump administration proposes deep tax cuts, reducing the corporate rate to 15% from 35% and making a range of changes for individuals.

Sources: Gallup (approval ratings); WSJ Market Data Group (Dow); staff reports (events)

JAN.

2016

2017

FEB.

2016

2017

MARCH

2016

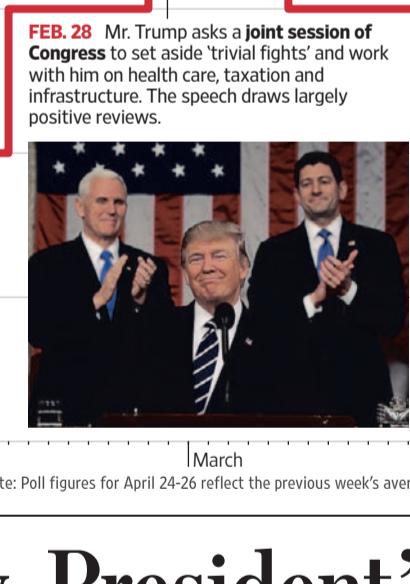
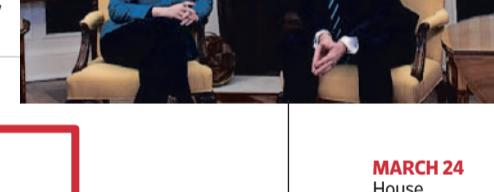
2017

APRIL

2016

2017

APRIL 7 The U.S. military launches 59 Tomahawk cruise missiles against a Syrian air base, in the wake of a suspected chemical-weapons attack. U.S. lawmakers are largely supportive.



THE WALL STREET JOURNAL.

# On Foreign Policy, President's Tone Signals New Tack

By CAROL E. LEE  
AND BEN KESLING

WASHINGTON—President Donald Trump is reorienting U.S. foreign policy away from the approach that has shaped America's role in the world for nearly a decade, by elevating military power, sowing confrontations with allies and hoping personal relationships with former adversaries can help advance his agenda.

Three months into his presidency, the shift has been more in tone than substance, and Mr. Trump largely has signaled his approach via his dealings with world leaders.

He said he offered better trade terms to China in exchange for Beijing's help confronting North Korea. White House officials credit Mr. Trump's praise for Abdel Fattah Al Sisi, Egypt's authoritarian leader, whom the Obama administration shunned, for the country's subsequent release of an imprisoned U.S. aid worker. The White House similarly hopes Mr. Trump's decision to congratulate President Recep Tayyip Erdogan of Turkey on winning a referendum to consolidate his power would pay dividends on

edged it is probing whether anyone in Mr. Trump's campaign operation colluded with Russia.

A U.S. government intelligence assessment concluded in January that Russia ran a propaganda and hacking campaign aimed at boosting Mr. Trump at the expense of his Democratic rival Hillary Clinton—something that Mr. Trump and Russia deny. The matter is now in the hands of the FBI, which is running a criminal investigation, and Congress, which aims to write authoritative reports on what occurred.

As a result, the probes have become a major story line in Washington, with a steady drumbeat of leaks, hearings and partisan bickering dominating the opening chapters of Mr. Trump's administration. On Capitol Hill, the bulk of the work is

being done by the House and Senate Intelligence Committees—though the House Oversight Committee, Senate Armed Services Committee and Senate Judiciary Committee are also looking at aspects of the purported Russian involvement.

"Once a story is out there, you have to move fast to contain it. If you don't get it over quickly, each little tidbit that gets unearthed just becomes a story in itself that will take on a life of its own and dominate the headlines for another news cycle," said Andrew Ricci, a former Democratic House staffer who is now a vice president at the public relations firm Levick. "That's what's continuing to cause serious damage to President Trump and his team."

—Byron Tau

U.S. requests to Ankara in the fight against Islamic State.

At the same time, Mr. Trump has taken a tough line with U.S. allies at the United Nations and North Atlantic Treaty Organization, saying they need to adopt reforms and increase their financial commitments. He has sparred with

Mexico over his plans to build a wall along America's southern border and with Australia over an agreement resettling refugees. On Monday, the Trump administration retaliated against Canada over a longtime trade dispute by moving to impose a 20% tariff on softwood lumber from the country.

balance, but he keeps our allies off balance, too. And it's hard for anyone to know how to really help the United States."

Mr. Trump's eagerness to flex U.S. military power and willingness to empower commanders on the ground also has set a new tone.

While his predecessor, Barack Obama, preferred diplomacy over conventional military force, Mr. Trump has launched airstrikes against the Assad regime in Syria, proposed a budget that cuts State Department programs and increases military spending, and has escalated the fight against Islamic State. He also has left most decision making on the ground in the hands of his generals.

But the approach has had drawbacks. Weeks into his presidency, a U.S. special-operations-forces raid in Yemen led to the death of a Navy SEAL, and while the White House said the raid gathered invaluable intelligence, little has been publicly released to back up those claims.

The U.S. military dropped the largest non-nuclear bomb it has ever used in combat, announced by a press release, just weeks after a string of U.S.-led coalitions

strikes in Iraq and Syria led to accusations of civilian casualties. Investigations into the allegations are under way, but the American military, which lauds its precision airstrikes, has seen its reputation tarnished, aided by Islamic State's ability to leverage social media.

"The Trump administration is essentially doing shock and awe, what we saw in the first days of the Iraq war, and shock and awe plays very well in the U.S.," said Robert Pape, a political-science professor at the University of Chicago focusing on air power and terrorism. "The problem is the effects can be fleeting, and in fact can be used later on to say the West has a double standard."

Mr. Trump promised a more aggressive military posture during the campaign, vowing to "knock the hell out of" Islamic State and hinting that he would expand strikes to include non-combatants. Yet some see the Trump approach to places like Iraq and Syria differing little from the Obama approach.

"The general assessment is not much has changed," said a European official, who called Mr. Trump's Iraq and Syria strategy "Obama-Plus."

# BOOKS

'Universities are institutions run by amateurs to train professionals.' —Derek Bok

# Schools of Mismanagement

A modern business education provides theories and metrics but no moral center

## The Golden Passport

By Duff McDonald

Harper, 657 pages, \$35

BY MATTHEW STEWART

ANTHROPOLOGISTS in the distant future will make their careers investigating the extraordinary rituals of American business education. As they sift through the wreckage of a civilization that bestowed its highest rewards on individuals trained to ignore its deepest problems, they will be lucky to have as their guidebook Duff McDonald's deliciously iconoclastic history of the Harvard Business School, "The Golden Passport."

More than a century ago, Harvard formed its Graduate School of Business in the hope that its faculty would soon figure out how to make management into a discipline and a profession. Apparently, they're still working on it.

They first tried on the "scientific management" of Frederick Winslow Taylor (1856-1915), the "efficiency expert" who wielded his stopwatch against laborers as if it were a cattle prod. After it became embarrassingly clear that Taylor's work was as scientific as the average séance, Harvard fell for the humanism of "Dr." Elton Mayo (1880-1949) and senior AT&T executive Chester Barnard (1886-1961). But the doctor's "research" was as bogus as his credentials, and the telephone boss proved to be an insufferable paternalist, convinced that he and his fellow managers ruled the world by virtue of their own moral purity.

When America's corporations floated out of World War II on an ocean of cash, the wise men of Harvard decided that management was all about creating vast, technocratic amoebas that could swallow any business in their path. When Wall Street began to eat those amoebas for lunch, they suddenly realized that management was all about maximizing shareholder value.

Along the way, the Harvard Business School has racked up some remarkable successes, as Mr. McDonald makes clear. The logistical and analytic techniques the school developed during World War II, for example, proved to be of tremendous benefit in ramping up (and ramping down) the war effort. Contrary to Silicon Valley myth, Harvard played a key role in creating the nation's thriving venture capital sector. But a giant hole remains at the center of the business school project, and it is located precisely where one would expect to find an explanation of the fundamental purpose of an education in business.

Two things may be said of the general theories of business education that populate the promiscuous intellectual history of the Harvard Business School. The first—to state baldly what Mr. McDonald wisely allows the accumulation of evidence to reveal—is that none of them are to be taken seriously. They all start and end with the belief in a magic measuring stick that will reduce the problems of human collaboration to a game of numbers. The second is that they always, always, justify the power and the glory of management. Did I mention the money?

In the first decade of its existence, Mr. McDonald shows, the Harvard Business School faced an existential dilemma. It could dedicate itself to the pursuit of knowledge. Or it could dedicate itself to the pursuit of corporate donations and consulting contracts. The choice made then set a pattern: Professors lunged for the cash and then, straightening their ties, waxed eloquent about how this was after all the noble thing to do.

The school's second dean, Wallace Donham (1877-1954), explained everything. Upon returning from Wall Street one fine day, his suitcases overflowing with joy, he announced that it was good and right that the school should stay in touch with "everyday life" and offer faculty the "opportunity for . . . personal development." HBS faculty have been following their bliss ever since, secure in the knowledge that the money will only enhance their ability to carry out their intellectual mission. When the celebrated professor and organization guru Rosabeth Moss Kanter lauded IBM in 2009 for having "achieved the seemingly impossible: high levels of business performance . . . and social good," for



**CONSULTANT CLASS** Commencement ceremonies in front of Baker Library on the Harvard Business School campus in Boston on May 29, 2014.

example, she could speak from personal experience. It seems that IBM had been good enough to put her on its payroll as a senior adviser over the preceding decades.

The comedy of dollars reached a climax around the time of peak Harvard, in 1979, when it became apparent that the most powerful man at the school was not a professor or an administrator but Marvin Bower, a 1930 graduate of HBS and head of the consulting firm McKinsey & Co. Bower was meticulous in everything, down to the cuff links he expected his associates to wear, and McKinsey happened to be the single largest consumer of HBS's well-groomed products.

At the time, HBS's fabled "case method" of instruction had come under fire from, among others, Harvard President Derek Bok. The case method, for those who don't know, is a form of open-air literary criticism focusing on third-hand stories written about, and sometimes edited by, the superhuman managers of the same sorts of corporations that help pick up the tab for business schools like HBS. Mr. Bok suspected that it was a pedagogical method masquerading as an intellectual discipline. Others would say that it's mainly a way of teaching young people to speak brilliantly on what they only dimly understand. Now it so happens that the talent for "winging it"—less polite names will come to mind—was exactly what the consultant ordered. So Bower put his perfectly polished wingtip down, and the case method stayed.

The dark void at the core of the business school enterprise became as visible as the moon blotting out the sun during the great transformation that started in the 1980s. In the preceding decades, Harvard had tirelessly preached the gospel that the corporate manager is the moral center of modern civilization. Then, right around the time that "liar's poker" became a thing in the investment banking world, the school suddenly embraced the notion that managers are just a shareholder's idea of roadkill—and that it is positively bad for shareholders to possess anything resembling a moral conscience. If there is a villain painted in a single shade of black in Mr. McDonald's version of the history, it is Michael Jensen, the economist and HBS professor who supplied the intellectual rationalizations for the leveraged buyout boom, the CEO compensation boondoggle, and the rampant financialization of the economy. In Mr. McDonald's tale, Mr. Jensen shows up "spewing out ridiculous blanket claims such as . . . 'shareholders gain when golden parachutes are adopted.'

Although the great transformation of the 1980s was a kind of intellectual 180, it was in a deeper sense a new twist on an old turn. HBS was still in the business of producing magic sticks that promised to answer every human need with a handy spreadsheet. In the more recent chapters of the history, the scariest parts are where the faculty take the spreadsheets off campus.

Michael Porter—probably the school's most famous professor and certainly among the richest—made a fortune by converting an economic theory intended to help regulators curb monopolies into a banal

salads of meaningless managementese when confronted with serious questions—like whether the school, having spent much of the past three decades operating as the human resources department of Wall Street, should take some responsibility for the bonfire of the financial system in 2008.

It would be a funnier story if it weren't for the tragic aspects of American capitalism in the 21st century, as Mr. McDonald rightly points out. American business schools, starting with Harvard, have become, in Mr. McDonald's words, "private sector madrassas." As the economic system veers toward destabilizing

management-ideology complex. Political reporters should take note of the upside of abandoning access journalism: freedom.

Freedom is fun to read. Surveying the malignantly insipid "leadership" literature, Mr. McDonald at last speaks truth to power: "Most of it is bulls—." As for the executive-compensation racket—where CEOs, egged on by their business-school cheerleaders, sit on one another's boards and hire consultants to tell themselves how much more they should be paid—that, says our righteous author, is "one of the most intricately designed circle jerks in business history." Freedom also turns out to be a bit long to read. At nearly 600 pages, it appears to have skipped a trip to the barbershop. Still, the punchy wit and refreshing blasts of pepper spray will keep you awake for the ride.

With a title like "The Golden Passport," this book may be purchased for the wrong reasons. So let's be clear that it isn't about whether a Harvard MBA is "worth it." Of course it is—"duh," as Mr. McDonald would say—assuming that the meaning of "worth" is your personal bank account. It isn't some populist rant against pointy-headed conformists posing as our entrepreneurial saviors. Mr. McDonald surely knows too many good people in the business world to suppose that the issues here have much to do with personal failings or unpleasant stereotypes. It also isn't a facile effort to lay the blame for all of society's ills on the lonely steps of a single campus in Boston. At the end of the day, the American obsession with business education is a symptom, not a cause, of its deepest problems. This is serious history, broad in its sweep and meticulous in the detail.

Which is why it would be a shame if "The Golden Passport" wound up only in the hands of the business-school crowd and even worse if it served merely as an excuse for the sages on the Charles to interview one another about their lapses, appoint yet another professor of ethics, and congratulate themselves once again on their endless capacity for moral improvement. This is really a book for the rest of us, the readers and the thinkers of the world, some of whom undoubtedly have business degrees. Either we figure out why it is we ever imagined that we needed the MBA and its magic sticks, or those future anthropologists, smiling as they shake their heads in distant pity, will do it for us.

This is a bigger, better book than

Mr. McDonald's previous efforts—more critically aware than his premature hagiography of Jamie Dimon ("Last Man Standing," 2009), more ambitious than his able but insipid history of McKinsey ("The Firm," 2013). It appears that we have Harvard itself to thank for the breakthrough: According to the author's note, HBS refused to make a single person available for a single interview. (Mr. Nohria will be rethinking that decision right about now.) Harvard's evident disdain for the search for truth, however, left Mr. McDonald free to step outside the river of self-love that is America's

Mr. Stewart is the author of, among other books, "The Management Myth."

## BOOKS

'We sleep safe in our beds because rough men stand ready in the night to visit violence on those who would do us harm.' —George Orwell

# The Point of the Spear

### Oppose Any Foe

By Mark Moyar

Basic, 402 pages, \$30

BY IAN F.W. BECKETT

**IN MAY 1980**, British television was interrupted by a live broadcast of balaclava-clad Special Air Service men storming the Iranian Embassy in London to rescue hostages taken by an Iranian separatist group. Such operations were not perhaps a surprise for the baby-boomer generation. After all, we had been brought up with celluloid heroics in which Dirk Bogarde—it was nearly always Dirk Bogarde—snatched German generals from Crete or raided Rommel's supply lines in North Africa. But for younger generations of Britons, the embassy raid had an enormous impact, spawning a new fascination with special-operations forces. Their growing mystique has led to a stream of often lamentable books with "SAS" on the cover as well as, more seriously, a misleading confidence in their superiority to conventional forces for many missions.

As Mark Moyar's "Oppose Any Foe: The Rise of America's Special Operations Forces" demonstrates, there has been a similar trend in the U.S. The various American special forces, which date from the formation of the Army First Ranger Battalion in 1942, now number 70,000 members. They have moved from being a secondary weapon to a primary weapon. Gen. Peter Schoomaker became the first special-forces officer to be Army chief of staff in 2003, and Gen. Stanley McChrystal the first special-forces officer to be given direction of an entire campaign—in Afghanistan—in 2009.

But, at best, unconventional units have offered tactical rather than strategic success. The one exception was the ousting of the Taliban from Afghanistan in support of the Northern Alliance immediately after 9/11; operations against al Qaeda in eastern Afghanistan were not as successful. There has been a litany of failures, including Operation Eagle Claw in Iran in April 1980 and Operation Gothic Serpent in Somalia in October



GETTY IMAGES

ON WATCH A U.S. Army Special Forces soldier in Afghanistan in 2002.

1993. Successive presidents, however, have fallen under the spell of special forces, although their support has often been qualified and quickly withdrawn, as was the case with President Bill Clinton after Somalia.

It is Mr. Moyar's contention that the problem has been that few incumbents of the White House have understood special forces' limitations. Special forces, he says, are best suited to counterinsurgency. He sees little likelihood of future opportunities to use special forces in the strategic role they played in Afghanistan in 2001, for example. Indeed, he argues that given the persistence of conventional threats, "the best solution at the present time would be to expand conventional forces rather than special operations forces." New roles and missions may evolve, but special forces must be properly integrated into broader strategic enterprises. Successive presidents, he writes, have made decisions about unconventional units "based on superficial and romanticized views."

Franklin Roosevelt, for example, was persuaded by his son James, a Marine captain, to push the creation of the Corps' Raiders units against the views of the Marine Corps commandant. Young Roosevelt had been captivated, in turn, by

Burma would introduce himself to potential recruits by "asking them to punch him in the stomach as hard as they could"; hard-drinking Navy SEAL Richard Marcinko; and Charlie Beckwith, first leader of the Army's Delta Force.

Few American presidents have understood how to utilize special forces. They are best suited to counterinsurgency—not conventional warfare.

the ideas of his mentor, Maj. Evans Carlson, who had observed early Maoist guerrilla tactics in China. Carlson ended up being played by Randolph Scott in 1943. (Mr. Moyar tactfully omits the name of the film—"Gung Ho!") Carlson is by no means the most flamboyant character populating Mr. Moyar's story. Special forces seem to attract mavericks, such as "Wild Bill" Donovan; Carl Eifler (who as commander of the Army's Detachment 101 in

Even John F. Kennedy, who did so much to re-establish the Green Berets in response to Khrushchev's declaration of Soviet support for "wars of national liberation" in 1961, had "little idea of the practical realities of special operations forces, the mundane details that put limits on what could actually be achieved," Mr. Moyar writes. Rapid expansion came at the expense of lowering standards. Too often, conventional forces have been robbed of their best per-

sonnel. Following a policy preference instituted by Donald Rumsfeld, Barack Obama embraced "surgical strikes" as a substitute for a real strategy, because "they enabled him to show the American public that he was combating terrorism forcefully and efficiently."

Ironically, at the same time that Mr. Obama was seduced by the supposed utility of ever-expanding special forces, the 2012 Defense Strategic Guidance eschewed building genuine counterinsurgency capability of the kind that has often shown special forces at their most effective. The Village Stability Operations in Afghanistan—part of what Mr. Moyar characterizes as "white" operations—were reminiscent of the Civilian Irregular Defense Group program in Vietnam. Like the Vietnam program, Village Stability Operations, in which Americans "rented compounds within their assigned villages, forgoing the concrete cocoons of the forward operating bases," were tactically successful to a degree but overtaken by the increasing integration of special forces into large conventional operations. In passing, it might be noted that, while Mr. Moyar has published important studies of the Phoenix Program and of the early years in Vietnam, there is relatively little discussion in "Oppose Any Foe" of the debate over the merits of special forces' involvement with the CIDG as opposed to the more conventional strike role imposed on them after 1965. J.P. Harris's recent "Vietnam's High Ground" (2016), for example, provides an altogether more comprehensive account.

Of course, Mr. Moyar aims at an overall assessment of the development of special forces and has to cover over 70 years of lessons. In so doing, he falls occasionally into the kind of narrative associated with popular history. To an extent, this arguably detracts from his analysis, but his book needs to be taken seriously by policy makers. As Mr. Moyar concludes, "for the sake of the special operations forces, their history must be published, the good as well as the bad, and it must be read."

*Mr. Beckett is a former professor of military history at the University of Kent.*

# High Drama Behind the Scenes

### High Noon

By Glenn Frankel

Bloomsbury, 377 pages, \$28

BY STEFAN KANFER

**IN AUGUST 2015**, the headline for an editorial in this newspaper read: "Gary Cooper in Europe." On a train from Amsterdam to Paris, an armed jihadi burst into a passenger car. Three young Americans happened to be aboard. The trio rose up as one, subduing the terrorist before he could fire his weapon. These men, said The Wall Street Journal's editors, represented "an admirable strain in American culture that doesn't shrink from individual acts of heroism for the larger good.... Heroism used to be celebrated in Hollywood, though it rarely is in these cynical days."

Some 63 years before, that headliner had been the lodestar of "High Noon," an austere black-and-white western told in real time. It became a surprise box-office smash, earned four Academy Awards (including one for Cooper for best actor), and a permanent place in the hearts of moviegoers world-wide.

It had not begun that way. In his wide-screen narrative, "High Noon: The Hollywood Blacklist and the Making of an American Classic," cultural historian Glenn Frankel follows the outrageous fortunes of the film and its creators. Fred Zinnemann was a Viennese émigré whose ideas of the Old West were derived from German potboilers. He had directed two promising newcomers, Marlon Brando ("The Men") and Montgomery Clift ("The Search") but was hardly a household name, even in the households of B-picture producers. The screenwriter, Carl Foreman, was better known to the cognoscenti; his credits included several distinguished features, including "Champion" and "Cyrano de Bergerac." He was also known to another group: fellow members of the Communist Party, an affiliation that was to shape the drama of "High Noon" and blight the career of its writer.

Cooper, the third pillar of this now-classic feature, was 50 when he went before the cameras. He had been a bankable actor for decades, celebrated for his performances not only on screen but in bed. He never took himself seriously in the latter role. After a hot romance with co-star Ingrid Bergman, he recalled: "Ingrid loved me more than any woman in my life loved me. The day after *Saratoga Trunk* ended, I couldn't get her on the phone." But as a performer he was polished and professional, aware that he had been a member of cinema royalty—and that age had eroded his status. As Stanley Kramer, the producer of "High Noon," put it: "Everybody felt he was old and tired."

Writer Carl Foreman ended up on the blacklist, but he didn't give the conservative Cooper any pink-stained speeches.

Not quite everybody. "Coop" believed that he was right for the role of Marshal Will Kane. So right, Mr. Frankel tells us, that he agreed to take a salary cut. He also volunteered to play without makeup, accenting the creases in his leather-saddle face. The filmmakers found the offers irresistible. With a supporting cast of reliable character actors, and a 22-year-old ingenue named Grace Kelly, filming began in the fall of 1951.

At the same time, another show got under way. The House Committee on Un-American Activities began to probe for Communist influence in Celluloid City. As a shelf of books have indicated, the congressmen pursued ink and air time as avidly as they hunted "subversives."

They did discover a handful of self-styled commissars in the film colony. Mr. Frankel quotes Stalinist screenwriter John Howard Lawson instruct-

ing neophytes: "As a writer try to get five minutes of the Communist doctrine... in every script that you write. If you can, make the message come out of the mouth of Gary Cooper or some other important star who is unaware of what he is saying."

But the scenarists were not an ovine flock. When in their early 20s, the radicals had indeed bought the Workers' Paradise myth exported from Moscow and joined the American Communist Party. Then disillusion set in. In 1939, the U.S.S.R. invaded a defenseless Finland. This outrage was followed by

infiltration, unseen since the America of the 1920s, resumed. The federal government required employees to sign a loyalty oath; the private sector followed.

Summoned before the House Un-American Activities Committee, scores of writers, directors, actors and executives made full confessions. When these were deemed insufficient to rescue their livelihoods, they furnished the identities of their fellow radicals. Others, however, declined to name names. They were finished in Hollywood. One of the refuseniks was Carl Foreman.

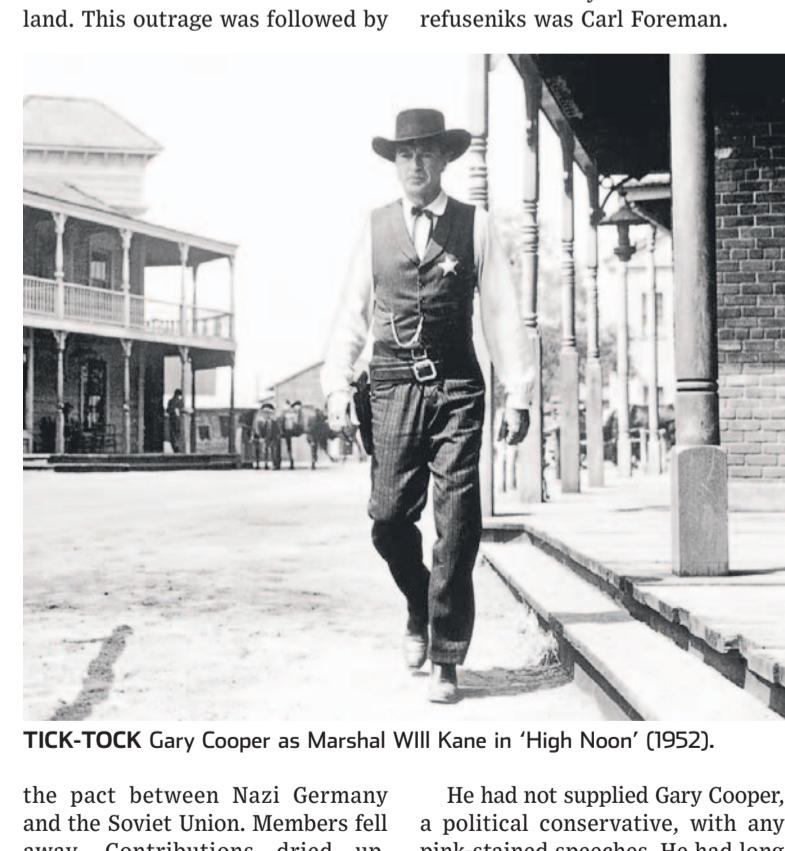
ter-day Will Kane, the imperiled lawman whose former buddies have given him their backs. After "High Noon" wrapped, Foreman left town just like the sheriff, seeking employment elsewhere.

He found it in the friendlier precincts of Britain. But if Foreman was finished with the blacklist, the blacklist wasn't finished with him. To sell scripts he used pseudonyms for the next six years. In 1956, along with Michael Wilson, another blacklisted, he wrote "The Bridge on the River Kwai." The Oscar for best screenplay adaptation went to French novelist Pierre Boulle, who didn't write or speak English.

Even this failed to satisfy the old-line Communists who attacked Foreman for ideological impurity—after all, his typewriter never stopped, so there must have been something tainted about his success. "Some perhaps were jealous of the fact," observes Mr. Frankel, that the writer "lived well in London, and that he always seemed to come out ahead financially." The words "skill" and "proficiency" had no place in the progressives' lexicon.

Carl Foreman, who died in 1984, had in fact paid a steep price for his walk on the left side. Gary Cooper was back on top; Fred Zinnemann went on to become a world-class director ("The Nun's Story," "A Man for All Seasons"). Though Foreman was eventually rehabilitated, he had lost who knows how many film projects, a Hollywood career and a marriage. In the end there was only one true workman's compensation: Like the character he created, "I discovered that I could be scared and still come through a situation. I actually was the kind of person I thought I was." The movie "High Noon," great in itself, is all the greater for the backstory Mr. Frankel tells.

*Mr. Kanfer is the author of "A Journal of the Plague Years: A Devastating Chronicle of the Era of the Blacklist." His novel "Hell Money" will be published in the fall.*



GETTY IMAGES

the pact between Nazi Germany and the Soviet Union. Members fell away. Contributions dried up. America's entry into World War II gave the remaining comrades and fellow travelers a new rationale: Weren't Russia and the U.S. allies in the fight against fascism?

The 1950s did not provide the answer they sought. By then the Soviet Union had acquired its own nuclear arsenal, Korea had turned into a surrogate battleground between Moscow and Washington, and the Cold War had gone glacial. A fear of Red

He had not supplied Gary Cooper, a political conservative, with any pink-stained speeches. He had long since torn up his Party card. That hardly mattered; colleagues drifted away, fearful of guilt by association. There were no new job offers; an industry-wide blacklist had gone into effect. In 1952, a powerful Hollywood labor leader, Mr. Frankel writes, "put out the word that anyone who worked on a movie with Carl would find himself blacklisted." As the probes wore on, the screenwriter began to see himself as a lat-

## OPINION

### REVIEW & OUTLOOK

## Trump's Tax Principles

The White House rolled out its tax principles on Tuesday, investing new energy in the first serious reform debate in 30 years. While the details are sparse and will have to be filled in by Congress, President Trump's outline resembles the supply-side principles he campaigned on and is an ambitious and necessary economic course correction that would help restore broad-based U.S. prosperity.

Many voters heard Mr. Trump's make-America-great-again slogan as a promise to raise their incomes and improve economic opportunities after a long stagnation. Eight years of 2% growth since the recession ended in 2009 is the weakest recovery in the postwar era, and the result has been rising anxiety and diminished expectations for millions of Americans.

Faster growth of 3% a year or more is possible, but it will take better policies, and tax reform is an indispensable lever. Mr. Trump's modernization would be a huge improvement on the current tax code that would give the economy a big lift, especially on the corporate side. The reform would sharply cut the business-income rate to 15% from 35%, while simplifying the code for individuals and cutting some marginal rates.

Though Mr. Trump's proposal dabbles in some politically fashionable tax redistribution, at its core it is an exercise in growth economics. The cuts would be permanent and immediate, and the rates are low enough to enhance the incentives to work and invest.

\* \* \*

The plan also fits the economic moment, because a main source of U.S. malaise is poor business investment. Spending on the likes of new factories, equipment and software is soft, which in turn has undermined the productivity gains that produce more jobs, higher wages and higher living standards. Productivity growth in the 2000s and 2010s is only about half the average of the 1980s and 1990s.

One reason for this underinvestment—even though corporations have about \$2.5 trillion parked overseas—is the uncompetitive and complex American tax system. The 35% statutory rate is the developed world's highest, and an archipelago of credits, exclusions and deductions means the tax collects only about 11% of federal revenue, or roughly a meager 2% of GDP.

Slashing the headline rate to 15% would instantly lead to a surge in capital investment. Mr. Trump would make small businesses like S corporations and other pass-throughs that now pay through the individual-tax code eligible for the 15% rate. Tax parity among all companies is a useful goal, not least because owner-operated companies are an engine of hiring and growth.

Increasing the capital stock will raise productivity. The economic literature conservatively suggests that about half of the corporate-tax burden is carried by workers in the form of lower wages. In other words, moving to 15% is a national pay raise.

Another benefit is that the Trump plan would move to a territorial tax system, where U.S. companies pay taxes on income only in countries where it is earned. Businesses are now taxed on world-wide profits (less certain credits), which is why so many have moved headquarters overseas. The White House also endorsed a one-time required tax on profits earned abroad, the rate to be determined. A single-digit rate would be best and voluntary would be better.

On the personal side, the Trump plan would make the code more efficient by collapsing the current seven brackets down to three of 10%, 25% and 35%. The White House is still debating at which income levels these rates would apply. The plan would also double the standard deduction to \$24,000, so fewer taxpayers would need to itemize.

A top marginal rate of 35% is progress over the status quo of well above 40% (including sur-

### A pro-growth outline that focuses on weak capital investment.

charges and phase-outs), though above the 33% rate that Mr. Trump proposed during the campaign. The President's economic advisers are sensitive to the "tax cuts for the rich" label, though they'll be pilloried for that no matter what they propose.

The Trump plan eliminates all deductions except for home mortgages and charitable donations. This killing spree includes political favorites like the write-off for state and local tax payments. This is a federal subsidy for high-tax New York, New Jersey, Oregon and California, but about 90% of these tax expenditures flow to taxpayers with adjusted gross income of more than \$100,000. Depending on the specifics, the affluent could pay more.

But the economic evidence is substantial that lower marginal-tax rates provide the biggest growth bang for the buck. The 1986 Reagan reform—the last major reform—cut the top rate to 28% from 50%, which sustained the 1980s boom. Growth averaged 4.8% in the six years after the 1981-82 recession and the growth effects continued to pay dividends into the 1990s. These have since dissipated as the tax code has been riddled with more and more rent-seeking dispensations.

Speaking of which, the White House affirmed new tax credits for families with children, and perhaps this is the price of fulfilling an Ivanka Trump-brand campaign promise. But such credits are expensive and do nothing for growth.

The Trump plan is silent on the House's controversial 20% border-adjusted tax, and perhaps that is more than the political bandwidth could bear. Retailers and other importers oppose a tax on imports, and the transition in practice—such as a rapidly appreciating dollar—could be rougher than economic theory suggests. But this means losing revenue of about \$1 trillion that was supposed to offset the lost revenue from tax-rate cuts. Without border adjustment, or some other tax increase or budget cuts, the Trump plan will increase the deficit.

Thus the blueprint is being assailed from both the left and the balanced-budget right. The Trump economic team acknowledges that their plan would mean less federal revenue than current law under conventional Beltway scorekeeping that assumes no increase in economic growth. But unlike in Washington, in the real world people and companies will change their behavior in response to better incentives, the economy will grow faster, and over time revenues will grow faster than without reform.

\* \* \*

We've been somewhat skeptical of Mr. Trump's economic team, but Treasury Secretary Steven Mnuchin and National Economic Council chief Gary Cohn have delivered a supply-side outline that will unleash the pent-up productive capacity of U.S. workers and businesses. Credit is also due House Speaker Paul Ryan and Ways and Means Chairman Kevin Brady, whose "Better Way" platform made tax reform a priority.

Mr. Trump's plan is an opening bid to frame negotiations in Congress, and there are plenty of bargaining chips. Perhaps the corporate rate will rise to 20%, or maybe the House will include a more modest border adjustment. Budget rules and Democratic opposition could force Republicans to limit the reform to 10 years. But better to start with a big pro-growth offer rather than pre-emptively lower aspirations. Republicans won't get another opportunity like this to reshape the tax code for a generation.

The Trump principles show the President has made growth his highest priority, and they are a rebuke to the Washington consensus that 1% or 2% growth is the best America can do. Now Mr. Trump has to show results. If anything close to his this reform can survive the political maelstrom, it will go a long way toward returning to the abundance of the 1980s and '90s.

## Springtime Out of Paris

President Trump and his advisers are debating whether to withdraw the U.S. from the Paris Climate Accords, and the issue is coming to a head. If he doesn't want to topple his own economic agenda, Mr. Trump's wisest course is to walk away from a pact that President Obama never put before the U.S. Senate.

Mr. Trump wants to revive growth and lift wages (see above), and a large part of that project is a bet on liberating U.S. energy production, notably natural gas and oil. Toward this end Mr. Trump issued an executive order in late March asking the U.S. Environmental Protection Agency to unwind Mr. Obama's Clean Power Plan.

The Obama team finalized CPP in late 2015, and the rule was immediately challenged in court by 28 states. Notable among the Obama Administration's legal defenses is that CPP is essential to fulfill the U.S. commitments to reduce carbon emissions under Paris. By the end the White House cited Paris as the legal justification for all its climate policies.

EPA Administrator Scott Pruitt is moving to repeal CPP and other Obama climate rules. Environmental groups will inevitably sue. If the U.S. remains in Paris, Mr. Pruitt will have to explain to the many Obama appointees on the federal bench that gutting CPP is a reasonable exercise of administrative power in light of the Administration's continued fealty to Paris carbon reductions. This is the sort of logical incon-

### Staying in Obama's climate accord risks Trump's energy plans.

sistency that a creative judge might seize on to justify blocking Mr. Trump's EPA rules. By staying in Paris Mr. Trump may hand opponents a sword to kill his agenda.

The left is also pointing to Section 115 of the Clean Air Act, which gives EPA a mandate to regulate emissions that "may reasonably be anticipated to endanger public health or welfare in a foreign country." The catch is that EPA can only act if there is regulatory "reciprocity" among the nations involved. Such as the Paris accords.

Mr. Obama knew he was setting these carbon political traps as he rushed to commit the U.S. to Paris. His bet was that even a future GOP President would be reluctant to endure the international criticism that would follow withdrawal. And sure enough, U.S. Secretary of State Rex Tillerson and National Economic Council director Gary Cohn are making precisely this argument for staying in Paris.

Then again, Candidate Trump promised to withdraw, and he can't possibly be vilified for Paris more than he already has for everything else. His advisers have presented a way to short-circuit the supposed four-year process for withdrawing, which involves U.S. resignation from the U.N. Framework Convention on Climate Change.

This isn't a question of science or diplomacy. For Mr. Trump, the question is whether he wants to put his economic agenda at the mercy of anticarbon warriors and federal judges.

## The Freedom Caucus And Its First 100 Days



WONDER LAND  
By Daniel Henninger

Mark Meadows is a congressman from North Carolina and the titular head of the House Freedom Caucus. Because of Mr. Meadows and the 35 or so members of his caucus, the word appearing everywhere to describe President Trump's first hundred days was "stumbling."

The relevant question surrounding this faux event is whether, as a result of the Freedom Caucus's derailment of the ObamaCare-reform bill, the Trump presidency will stumble toward its 200<sup>th</sup> or even 300<sup>th</sup> day in office.

Let us posit that the first Trump travel ban, which released armies of political furies days into the new presidency, was a self-inflicted wound. What came next was something no one in politics would inflict on themselves.

Back in 2016, Speaker Paul Ryan and the House leadership held public hearings, conducted negotiations inside the House conference and published texts of the proposed legislation to repeal and reform ObamaCare. The American Health Care Act that emerged from this process had both a political and policy purpose.

Its political purpose was to create a bill that could survive the House, survive the Senate, survive a conference and make it to Mr. Trump's desk to fulfill one of his and the party's biggest political promises.

The policy purpose was to lay a foundation on which Health and Human Services Secretary Tom Price and his SWAT team of reformers, such as Indiana Medicaid specialist Seema Verma, could help Congress clean up the rest of ObamaCare over the next two years—moving away from the 2010 law's 2,000 pages of legal babel and toward a market-based system.

With momentum from that accomplishment, the Trump White House and the Republican-controlled Congress would roll forward into the next item on the ambitious, first-year Trumpian agenda: a historic tax-reform bill to clean up the tax code and restore growth of the kind last seen in the 1980s and '90s.

From there, Congress would move on to the other pieces—infrastructure, the funding needs of the military and cleaning out the sludge in the financial system produced by Dodd-Frank.

Never forget Congress isn't a normal workplace. All this has to be done inside the confines of the congressional calendar. Anything rolled into 2018, including tax reform, was at risk of members turning toward their re-election interests and away from the president's agenda.

It was a high-risk, high-reward scenario. Its biggest risk appeared to be a Democratic Party racing rapidly leftward after Hillary Clinton's loss, pulling its members out of negotiating range.

But no. The Freedom Caucus rose to say none of these pieces of the president's

legislative agenda could move forward until it got what it wanted: elimination of ObamaCare's 10 essential health benefits.

The Freedom Caucus's dramatic stoppage of the health bill made Mr. Trump vulnerable on the issue most central to American politics over the past year, the desire for change, especially change in the economic status quo.

Control of government gave Republicans that opportunity. Instead, the Freedom Caucus broke the momentum of the young presidency and created multiple hairline fractures in the GOP's unity. Politically at-risk Republican moderates suddenly found themselves under fairness attacks from Democrats who'd been looking for something to criticize other than "Trump." This affair gave them a new point of attack, and they'll use it every day of the tax debate.

### The health-care fiasco broke the momentum of the presidency and fractured the party.

The episode created a needless wedge between the White House and House Republicans. Conservative donors also have taken to wondering privately about how their money is being used.

There have been early accomplishments—the successful Gorsuch nomination, a strong deregulatory offensive and intimations of restored U.S. leadership in the world. Still, the Freedom Caucus's health-care fiasco sits in public view of the Trump presidency's first months like, well, a smoking swamp.

There have been reports the past few days that the Freedom Caucus has worked out a compromise on health care led by moderate Reps. Tom MacArthur of New Jersey and Greg Walden of Oregon. That would be good. Friendly-fire incidents are rarely productive.

Mr. Trump doesn't lack for critics, but one difference between this presidency and his predecessor's deserves positive mention.

Barack Obama didn't listen to much of anyone other than himself. His governing style, especially in the second term was: "I know what's good for you, and I am going to impose it on you." Indeed, the Freedom Caucus was born of a rebellion against that constant imposition.

Mr. Trump listens. Has any modern president spent as much time soliciting others' views? He and his presidency are being shaped, inexorably, by all the forces of the American system. How novel.

Politics remains a partisan contact sport. A successful president needs the reasonably functioning unity of his party. That includes the errant knights of the Freedom Caucus and their enablers tilting at their opponents, rather than their own side.

## LETTERS TO THE EDITOR

### Qatar Fights Terrorism Along With the U.S.

The op-ed by Charles Wald and Michael Makovsky, "The Two Faces of Qatar, America's Dubious Middle East Ally" (April 26), alleges that Qatar supports terrorism and provides financial support to terrorist organizations. The opposite is the case. In fact, Qatar has been a leader in the fight against terrorism in the Middle East. Just last Saturday U.S. Defense Secretary Jim Mattis met with Qatar's Emir, His Highness Sheikh Tamim bin Hamad al-Thani, and reiterated "the value of Qatar's support to the counter-ISIS coalition as well as the country's role in maintaining regional stability and security."

We take this role and responsibility seriously. Qatar is a founding member of the U.S.-led coalition to defeat Islamic State, and we are proud to host the U.S. Combat Air Operations Center for the Middle East at al-Udeid Airbase.

We are working closely with the intelligence and security services of the U.S. and other nations to block any attempts by private citizens to provide financial support for terrorist organizations. We are enforcing laws that regulate fundraising by individuals and we have imposed rigorous oversight on charitable organizations that could serve as conduits for terrorist financing.

The State of Qatar does not support terrorism in any form. We believe that terrorism is antithetical to our values, our principles and our faith, and we fully support American efforts to oppose and destroy radical extremists in the Middle East and around the world.

MESHAL BIN HAMAD AL-THANI

Ambassador

Embassy of the State of Qatar

Washington

Regarding your editorial "Highway From the Endangerment Zone" (April 20): Many compelling reasons exist for revisiting the U.S. Environmental Protection Agency's endangerment finding for greenhouse gases.

Based on emails obtained through the Freedom of Information Act and other evidence, the Obama EPA may have improperly predetermined the outcome of the "endangerment finding" (EF) rule-making. This evidence reveals a disturbing practice of EPA staff working covertly with green activist groups to shape major climate regulatory efforts.

The EF was issued in the wake of the November 2009 Climategate revelations. Climategate validated suspicions that climate scientists manipulated science and tried to silence critics. Although the EF (as well as the climate hysteria amid which *Massachusetts v. EPA* (2007) was decided) relied in part on the controversial science giving rise to Climategate, the EPA refused to reopen the public comment period for the EF to explore its ramifications.

The EF is also scientifically suspect. It ignored the global-warming pause for starters. According to NASA satellite data (the most reliable temperature data), 2016 wasn't warmer than 1998, despite there being 10% more carbon dioxide and 4.5% more methane (reputed to have 20 times the warming potential of carbon dioxide) in the atmosphere. America has also experienced a hurricane drought, fewer tornadoes and declines in other extreme weather events and disasters.

The EF also relies on non-EPA scientific assessments that don't meet the standards of the Information Quality Act.

STEVE MILLOY

Potomac, Md.

Letters intended for publication should be addressed to: The Editor, 1211 Avenue of the Americas, New York, NY 10036, or emailed to wsj.ltrs@wsj.com. Please include your city and state. All letters are subject to editing, and unpublished letters can be neither acknowledged nor returned.

## OPINION

# Balancing Lost Tax Revenue the Reagan Way

By Martin Feldstein

**U**S. Treasury Secretary Steven Mnuchin calls the Trump administration's tax proposal "the largest tax reform in the history of our country." The plan would slash corporate-tax rates to 15% from 35% and roll back increases in individual rates that occurred under Presidents Clinton and Obama.

The announcement represents a first step toward a White House budget proposal that combines the president's fiscal plans with reforms to defense spending and domestic policies including ObamaCare. If such a budget is passed, it

**Gradually increasing the Social Security eligibility age can offset revenue loss from Trump's tax cuts.**

would stimulate business investment, boost productivity and improve real wages. It would also reverse the decline in military preparedness by raising defense outlays from a projected 2.6% of gross domestic product back to at least 4%.

The challenge will be to do all of this without increasing long-run fiscal problems. The U.S. government's debt has already more than doubled in the past decade, reaching upward of 75% of GDP. The U.S. Congressional Budget Office projects that the debt will grow to more than 100% of GDP in the next 15 years even without a reduction

in tax revenue or an increase in defense outlays.

Higher projected budget deficits could raise long-term interest rates, potentially triggering failures in the fragile financial markets and a serious economic downturn. The markets' current fragility reflects overpriced assets—the S&P price/earnings ratio is now 70% above its historical average—after a decade of excessively low long-term interest rates engineered by the Federal Reserve.

Republicans expect to pass their tax plan through the Senate's reconciliation process, but there are strings attached. If the bill causes deficits beyond the decadelong forecast horizon, a sunset rule kicks in and ends the tax cuts in the 10th year. To prevent this, congressional Republicans propose to balance revenue losses from the personal-tax changes by eliminating all tax deductions other than those for charitable contributions and mortgage interest. That means the new revenue would come from the one-third of taxpayers who itemize deductions, households that tend to have higher incomes, supporting Mr. Mnuchin's promise that the tax plan won't be a gift to the rich.

In addition to cutting corporate rates, President Trump proposes a similar tax cut for partnerships and other unincorporated pass-through businesses. House Republicans have also promised to allow American companies to repatriate after-tax profits earned abroad without penalty.

Preventing the business-tax cuts from increasing the budget deficit won't be easy. The corporate tax raises revenue equal to about 2%



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of GDP. Cutting the rate in half will increase the annual deficit by about 1% of GDP, or nearly \$200 billion. Faster economic growth due to increased investment would bring in some extra tax revenue, but probably only about \$50 billion a year.

Congressional Republicans propose to offset the other \$150 billion by enacting their border-adjusted tax: a 20% levy on imports combined with a 20% subsidy for exports. That should raise about \$120 billion or so a year, enough to offset most of the net cost of the corporate tax cut.

Textbook economics implies that a border-adjusted tax, or BAT, would push up the value of the dollar, reducing the price of imports by enough to offset the 20% tax. Americans would therefore see no change in the prices they pay for imported goods. The stronger dollar would also have no effect on the net prices American exporters

receive for goods sold overseas. A BAT is thus a pure revenue raiser, with the tax falling on foreign firms that export to the U.S.

But the dollar's value may not rise as much as theory implies, so American importers and retailers are lobbying against a BAT while major exporters are lobbying for it. Without the BAT, however, the corporate-rate cut would add more than \$1 trillion to the national debt during the coming decade, weakening the favorable effects of tax reform on capital formation and threatening higher interest rates.

There is no way to shrink the deficit other than by slowing the growth of Medicaid, Medicare and Social Security. Outlays for these programs are now 10.4% of GDP and projected under current law to rise to 12.9% over a decade. ObamaCare's insurance subsidies and Medicaid expansion now cost the U.S. government more than \$200 billion a year. Reform could

contribute significantly to reducing the deficit, although not by enough to balance out everything Mr. Trump is proposing.

The bipartisan Social Security legislation enacted during the Reagan administration provides a useful history lesson for how to offset deficit increases. The 1983 law raised the age of eligibility for full Social Security benefits to 67 from 65 while still allowing actuarially equivalent benefits at earlier ages. The increased age was phased in gradually and began only after a substantial delay.

In the intervening decades life expectancy at 67 has increased by three years. Repeating the Reagan reform by gradually raising the age for full benefits to 70 for those now under the age of 55 would reduce the annual cost of Social Security by about 15%, or 1% of GDP. Together with reforms of federal health-care spending, that should be enough to close the budget gap created by tax reform and increased defense outlays.

Raising the age for full Social Security benefits would also prevent the crisis in the program that is projected to occur in 2029. That's when the Social Security trust fund will be exhausted, requiring either an immediate 30% cut in benefits or a sharp tax increase. A gradual rise in the age for full benefits would be the best way to prevent that crisis as well as to reduce the projected fiscal deficit.

*Mr. Feldstein, chairman of the Council of Economic Advisers under President Reagan, is a professor at Harvard and a member of the Journal's board of contributors.*

## China's Rising Naval Power Means Trouble for India

By Harsh V. Pant

**C**hina's navy launched its second aircraft carrier this week, five years after commissioning its first. The Type 001A, China's first domestically built aircraft carrier, is likely to be operational by 2020. Beijing's uneasy neighbors watched as the People's Liberation Army Navy indulged in an elaborate ceremony to notify the wider world of its arrival as a serious naval power.

Such displays are not out of the ordinary. As a rising power, China's military advancement is to be expected. If Beijing wants to project power far beyond its shores, a blue-water navy is a prerequisite.

However, China's naval development will be seen in a different light because the country is entangled in multiple maritime disputes around its periphery. Its naval presence is also growing in the Indian Ocean and the larger Pacific.

President Xi Jinping has launched defense reforms to shift resources from land to air and sea. The Chinese defense ministry has been articulat-

ing the need for its navy to gradually shift focus from "offshore waters defense" to "open-seas protection."

Even with its growing might, China's navy remains far from a serious challenger to the formidable U.S. Navy. But regional powers now have to seriously rethink their naval options.

India faces some real dilemmas. New Delhi isn't officially allied with any power and is still struggling to reform its military, even as China's challenge to Indian interests grows by the day. At the global level, China refuses to recognize India's rise and seeks to thwart it in every forum, from the United Nations Security Council to the Nuclear Suppliers Group.

At the regional level, Beijing is taking a consistently pro-Pakistan position on issues ranging from Afghanistan to Kashmir. Bilaterally, the disputed-border issue is getting trickier. China recently renamed unilaterally six places in the Indian state of Arunachal Pradesh in apparent retaliation against the Dalai Lama's visit to India's easternmost state.

China's naval presence in the Indian Ocean region continues to grow. Chinese submarines have been making regular forays in the Indian Ocean region since December 2013 on the pretext of antipiracy

**New Delhi will need to look to the U.S. for help resisting Beijing's maritime ambitions.**

patrols. Its Maritime Silk Road initiative aims to gain a higher profile in the Indian Ocean Region, while reducing India's natural geographic advantages.

In the garb of protecting its trade and energy sea lanes, China is building partnerships with countries around the Indian Ocean periphery. From Djibouti to Hambantota in Sri Lanka to Gwadar in Pakistan, new military facilities are being constructed to project Chinese naval power.

For New Delhi, this looks like strategic encirclement at a time when there are growing concerns about Chinese intentions. Not surprisingly, India is investing to ramp up its naval power. Unlike China, India has been operating an aircraft carrier since 1961, but delays and shoddy planning continue to mar its aspirations.

India's first indigenous aircraft carrier, the 40,000-tonne INS Vikrant, was launched in 2013, but its commissioning has been delayed to 2020. It will be another decade before the second indigenous carrier, the 65,000-tonne INS Vishal, is up and running. As a result, the 44,570-tonne INS Vikramaditya will be India's only carrier for the next few years.

China's state-run Global Times newspaper took a swipe at Indian efforts recently, arguing, "New Delhi is perhaps too impatient to develop an aircraft carrier. The country is still in its initial stage of industrialization, and there will be many technical obstacles that stand in the way of a build-up of aircraft carriers." It continued, "New Delhi should per-

haps be less eager to speed up the process of building aircraft carriers in order to counter China's growing sway in the Indian Ocean, and focus more on its economy."

India will have to focus more on antiship capabilities, especially submarines and antiship missiles. But beyond platforms, India is now actively engaged in the maritime domain with likeminded countries in the region. Naval cooperation with countries like Australia, Indonesia, Japan and Vietnam is a top priority of Indian defense diplomacy.

Yet without active participation from the U.S., the regional states lack the ability to resist China's maritime ambitions. The Trump administration will have to think beyond North Korea in crafting policy on the Indo-Pacific. Otherwise, China's aircraft carrier display will be one more step toward regional maritime dominance by Beijing.

*Mr. Pant is a distinguished fellow at Observer Research Foundation, New Delhi and a professor of international relations at King's College London.*

## Why Does Alec Baldwin Hate Science?

By Robert P. Crease

**T**he month after President Trump's inauguration, a Facebook post with a lighthearted take ricocheted around the internet—including into my email inbox. Think of all the great things that have happened since the election, it said. Sales of George Orwell's "1984" have soared. Millions of Americans have learned the names of their state and federal representatives. People can now spell "emoluments."

But No. 4 on the list stuck in my craw: "Alec Baldwin is great again. Everyone's forgotten he's kind of a jerk." I haven't forgotten. Sure, I've enjoyed Mr. Baldwin's "Saturday Night Live" impersonations of the president. But 20 years ago I happened to be writing a book about the early history of Brookhaven National Laboratory on New York state's eastern Long Island.

Brookhaven is a historic institu-

tion, one of the first three U.S. national labs. Researchers at the lab have been awarded the Nobel Prize seven times. In 1997, after a small amount of radiation leaked from the lab, Mr. Baldwin helped lead a group of antinuclear activists seeking to close Brookhaven.

The lab's manager and the Energy Department should have been more diligent about supervising its activities. Yet the leak, which came from the spent-fuel pool of Brookhaven's research reactor, posed no threat to health or the environment. Lab employees, many of them experts in cancer risks and cures, were happy to keep sending their children to the lab's day-care center.

In calling for Brookhaven to be shut down, Mr. Baldwin and his allies publicized several allegations, including the false claim that its reactors were responsible for a local surge in cases of a rare childhood cancer called rhabdomyosarcoma.

Let me say a few words about facts. Scientific facts aren't scattered around the world like sticks and stones, waiting to be spotted and gathered. They are produced by an infrastructure of laboratories that earn credibility by exposing their findings to repeated checks. Surviving these checks is what makes a finding a fact. The system isn't perfect, but constant scientific scrutiny is the principal reason we can trust its conclusions (though many people, including congressmen, sometimes still don't). Apart from this scrutiny, a claim may seem believable and fit some ideological picture, but it's still only a claim, not a fact.

Back to the summer of 1997. There was no scientific evidence of an unusual surge in rhabdomyosarcoma near Brookhaven. A task force convened by Suffolk County found the disease less common there than elsewhere on Long Island and in the

rest of New York state. But don't trust me: Please check the report yourself.

Further, there's no scientific consensus about the cause of rhabdomyosarcoma. "Researchers now

**The actor plays a fine Trump, but he once used an 8-year-old cancer patient as a political prop.**

understand many of the gene changes" that can lead to the disease, says the American Cancer Society, "but it's still not clear what causes these changes."

Never mind that Mr. Baldwin and his group of activists were certain—absolutely certain—that Brookhaven was to blame. Mr. Baldwin used his

showbiz contacts to promote that claim. He brought an 8-year-old boy with the disease onto an episode of "The Montel Williams Show" that aired Jan. 9, 1998. Mr. Baldwin falsely asserted that "the rates of cancer are 200 to 300 times the national average in this area on Long Island."

The sick child was then used to deliver a powerful emotional punch. Mr. Williams gave the prompt: "Why do you think you have cancer?" The boy obediently answered: "Brookhaven Lab."

Mr. Williams promised the boy that he could star in a public-service video. Mr. Baldwin added excitedly: "You know the way this works. We'll give you your own trailer." Mr. Williams followed up: "And your agent can negotiate the fees."

Don't get me wrong, my heart bleeds for that child, and for anyone, with rhabdomyosarcoma. But effective treatment starts with using the scientific infrastructure to check and recheck findings about causes and incidences. Brookhaven, the lab Mr. Baldwin unsuccessfully tried to close, was part of this infrastructure.

True believers who want to bypass the scientific infrastructure insist that their beliefs justify their actions. But any cause with a scientific dimension must constantly check the connection between its goals and the facts. Otherwise it isn't a genuine cause but political theater. Sound public policy is built on the scientific infrastructure, not the claims of politicians or celebrities.

Sorry, I still think that anyone who promotes fake facts and accuses reputable scientific institutions of conspiracy is a jerk—no matter how well he can impersonate Donald Trump.

*Mr. Crease is a professor at Stony Brook University and the author of "Making Physics: A Biography of Brookhaven National Laboratory" (University of Chicago, 1999).*

## THE WALL STREET JOURNAL.

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## Notable & Quotable: Control

Scott Adams writing at his Dilbert.com blog, April 25:

Everyone observing politics seems to agree on two things about a president's first 100 days in office:

1. 100 days is a meaningless, arbitrary marker for a president's performance that is likely to be more misleading than useful. . . .

2. Let's treat it like it is important! Reeeeeeee!

The thing that fascinates me the most about this situation is that the so-called "pro-science" people are giving Trump low grades for his first 100 days.

Allow me to connect some dots.

In science, you don't have much

of an experiment unless you have a control case for comparison. For example, you can't know if a drug

helped with a particular disease unless you study the people who didn't take the drug at the same time as those who did.

But the pro-science people forget this concept when thinking about politics. Where is the control case for Trump's first 100 days?

Is it George Washington's first 100 days?

Is it Jimmy Carter's first 100 days?

And which prior president came to office in 2017 with identical problems and the most polarized political environment in history?

And just how long is it supposed to take to revise Obamacare? Do we compare it to the time Abe Lincoln repealed and replaced Obamacare?

Or how about the time those other presidents repealed and replaced Obamacare in the year 2017?



# BUSINESS & FINANCE

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**Yen vs. Dollar** 111.1980 ▲ 0.13%

**Hang Seng** 24698.48 ▲ 0.49%

**Gold** 1263.80 ▲ 0.13%

**WTI crude** 48.40 ▼ 2.46%

**10-Year JGB** yield 0.020%

**10-Year Treasury** yield 2.292%

## Yahoo Japan Warns of Cost Hits

Portal says it expects drop in earnings amid battle with Amazon; stock price falls 9.5%

By MAYUMI NEGISHI

TOKYO—In a sign of how **Amazon.com** Inc. is reshaping online shopping, **Yahoo Japan** Corp. shares tumbled Thursday after it warned of a big increase in marketing costs as it struggles to compete with the Seattle-based juggernaut.

**Yahoo Japan**, a joint venture between SoftBank Corp. and **Yahoo** Inc., is the country's

biggest search portal but has been squeezed in e-commerce as Amazon benefits from years of aggressive investment in Japan, including splurging on warehouses and robots to launch its Amazon Prime same-day delivery services.

Amazon's net sales in Japan, its biggest overseas market after Germany, rose more than 30% to nearly \$11 billion in 2016. Japan accounts for nearly 8% of its total sales and almost one-quarter of its international sales.

**Yahoo Japan** scrapped vendor and transaction-based fees in 2013 in a bid to woo more sellers. Its revenue from ads

on its shopping site for the business year ended in March totaled \$155 million. Bigger local rival **Rakuten** Inc.'s e-commerce sales in Japan were \$2.8 billion last year.

"We are at a critical juncture," **Yahoo Japan** President Manabu Miyasaka said after the company announced it would raise its marketing budget for this business year by 44% to \$458 million, helping squeeze profit by as much as \$270 million compared with the year just ended. "We need to be aggressive."

After the announcement, the company's share price closed down 9.5%.

**Yahoo Japan** had a reputation for double-digit profit margins through 2015, but the company is facing tapering revenue from ads and its auction site.

The earnings downgrade represents a shift in operating-profit margins, said Macquarie analyst David Gibson, who cut the stock from "outperform" to "neutral." Even analysts with "buy" recommendations say it might take time for the marketing push to make an impact in revenue.

**Yahoo Japan**'s scrapping of fees charged to vendors sent prices lower and demand higher throughout the online-

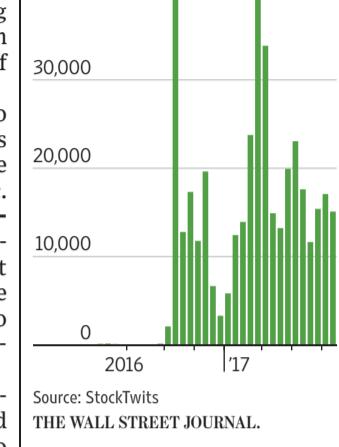
shopping sector. But the fight for consumers is also being complicated by a shortage in delivery services, the result of a tight labor market.

Another drag on **Yahoo Japan**'s stock are questions about what will happen to the shares owned by **Yahoo Inc.** after **Verizon Communications** Inc. completes its purchase of **Yahoo**'s core internet operations. That 35.6% stake in **Yahoo Japan** will fall into the hands of a holding company called Altaba.

Mr. Miyasaka said the strategic relationship that existed between **Yahoo** and **Yahoo Japan** wouldn't change.

### Buzzy Stock

Weekly messages about DryShips on StockTwits



Source: StockTwits

THE WALL STREET JOURNAL.

## Founder Scores As Firm Struggles

By SPENCER JAKAB

When stocks rose after last year's presidential election, **Dry-Ships** Inc. left the market far behind. The little-known Greek dry bulk carrier's epic one-week rally pushed its shares up by 1,500% for no apparent reason.

The rally quickly unwound after the shares were briefly suspended by Nasdaq, but the run-up appears to have made possible financial maneuvers that may earn the company's founder a huge windfall, according to calculations by The Wall Street Journal, while small investors suffered hundreds of millions of dollars in losses. Since they peaked, **DryShips**'s shares are down by 99.9%.

Registered in the Marshall Islands in the central Pacific but based in Athens, the company owns ships that carry bulk cargoes like coal. The industry has been battered by weak commodity prices and an oversupply of ships. Immediately before the share-price surge, the company announced it was suspending principal and interest payments "to preserve cash liquidity."

George Economou, **Dry-Ships**'s chairman and chief executive, founded the company in 2004 and listed it on the Nasdaq in 2005.

Mr. Economou and the company didn't respond to requests for comment on the stock or how Mr. Economou benefited from share sales. They haven't been accused of wrongdoing and there is no evidence the company or its CEO engineered the stock rally. Small-company stocks, especially ones in financial distress like **DryShips**, are often highly volatile.

The sequence of events that could earn Mr. Economou tens of millions in profits began last September. First, through transactions involving the company's debt, Mr. Economou gained voting control of **DryShips** without exposure to the common stock, according to securities filings. Filings indicate he owns just 0.01% of the company. Second, the stock price soared, attracting

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Eric Yip once worked at New Jersey's Burlington Center Mall, right, where many stores are closed. Now he has a bearish bet on U.S. malls.

FROM LEFT: BRIDGET BADORE; SERENA NG/THE WALL STREET JOURNAL

## Hedge-Fund Chief Shorts the Malls

By SERENA NG AND ESTHER FUNG

BURLINGTON, N.J.—As a youth Eric Yip spent weekends working in a small shop at the bustling **Burlington Center Mall**, where his parents sold housewares and rock band T-shirts. That has given Mr. Yip the insight to make one of the most talked-about trades on Wall Street: a "short" wagering that many malls across America are doomed.

These days, **Burlington Center** is a silent place. Of around 100 stores, only about a dozen remain open. Macy's and J.C. Penney are gone, leaving Sears as the last anchor tenant. Vacant properties surround a dry fountain whose centerpiece, a life-size bronze elephant, used to spout water onto its back.

The mall's ghostly presence has spurred a financial wager

that Mr. Yip, now a New York hedge-fund manager, is pitching to investors many times his size. Starting in late 2015, he began visiting shopping centers across the U.S. to take their vital signs. Concluding that dozens faced a fate akin to **Burlington Center's**, as internet shopping becomes more dominant, he placed a bearish bet on an obscure index linked to the performance of bonds that are backed by commercial mortgages.

So far, so good. A slice of the index, which Wall Street calls the "CMX6," has tumbled 6.3% since the start of this year, according to **IHS Markit**. The decline is good news for anyone shorting the index, or betting on it to fall.

Mr. Yip's hedge fund, **Alder Hill Management** LP, gained 8% in the first quarter of 2017,

said people familiar with its performance, fueled in part by short bets on two index slices.

Mr. Yip has been pitching his idea to other investors. Earlier this year, he circulated a 58-page report that mapped

The daring trade, potential payoff and Mr. Yip's aggressive marketing have drawn comparisons to the way a few canny traders and hedge funds bet against an index tied to subprime mortgage during the housing bubble. That wager proved lucrative when housing went into a deep swoon.

**Covrex Management** LP, **Aurelius Capital Partners** LP and **Gratia Capital** LLC have all made negative bets on the index similar to Mr. Yip's, according to people familiar with the funds. The volume of outstanding bets on the index has swelled by more than \$2 billion since Mr. Yip began shopping his trade around.

While many people are bearish on the future of malls, there is little consensus about how an investor might succeed.

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## Nokia Pegs Its Comeback to New Gadgets

By STU WOO

**Nokia** Corp., once the world's undisputed cellphone superpower, is attempting a consumer-electronics comeback. Its strategy: sell \$100 bathroom scales.

The company stopped selling personal devices in 2014, when it sold its slumping mobile-phone division to **Microsoft** Corp. Instead, it focused on making equipment for cellular towers and other infrastructure that enables modern communication.

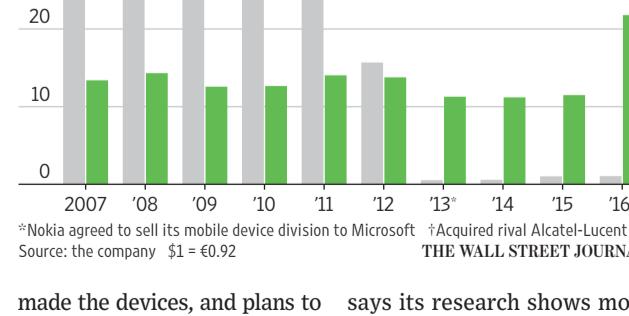
Believing its consumer brand still carries cachet, however, Nokia is jumping back into the gadgets business. It makes a virtual-reality camera for professional filmmakers and has outsourced the production of Nokia-branded phones. Its biggest in-house focus, though, is internet-connected health devices, including scales, blood-pressure monitors and forehead thermometers. It bought a French startup last year that

### Signal Change

Nokia, once a consumer-gadgets giant, now mostly makes telecom equipment.

#### Revenue

€40 billion



\*Nokia agreed to sell its mobile device division to Microsoft

†Acquired rival Alcatel-Lucent

THE WALL STREET JOURNAL

made the devices, and plans to stamp its all-caps Nokia logo on the products by this summer.

Nokia's consumer-electronics comeback, and its new bid to lead the budding market for personal digital health devices, relies on its name. It

says its research shows more than 95% of consumers worldwide know its brand.

"We've got great permission to win this category," said Rob Le Bras-Brown, chief marketing officer of Nokia's division overseeing consumer products.

"We think we're pushing against an open door here."

Skeptics abound. Relying on the Nokia name won't sell health devices in itself, said Annette Zimmermann, an analyst at research-firm **Gartner** Inc. Nokia is still well known throughout the developing world for its low-end phones. But it has lost its luster in the U.S. and wealthier countries.

"Nokia as a name has a meaning," Ms. Zimmermann said. "But it's not one that still stands for a great product or great innovation."

Nokia says it expects digital-health-device sales to grow in 2017, but didn't disclose specifics. The Nokia division comprising health-care devices, virtual-camera business and its phone-licensing business brought in €1.1 billion (\$1.2 billion) in 2016, or 4% of Nokia's total revenue. Telecom-equipment sales last year came in at €21.8 billion, or 91% of overall revenue.

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Nokia is jumping back into gadgets that include \$100 bathroom scales.

## NOKIA

Continued from the prior page

The shift is the latest for the Finnish company. It began in 1865 as a wood-pulp business, drawing its name from the Nokianvirta River on which it operated a mill. Over the next century, Nokia expanded into industries including electronics, rubber and defense. It made computers, gas masks and rain boots.

Nokia pioneered cellular technology for both phones and equipment in the 1980s. But after Apple Inc. and Samsung Electronics Co. emerged, dominating the new smartphone market, Nokia lost ground and eventually sold its mobile-phone business to Microsoft.

Chief Executive Rajeev Suri beefed up its already large telecommunications-equipment business through the 2016 acquisition of rival Alcatel-Lucent. That business is hitting headwinds. Wireless carriers largely have the infrastructure they need, and Nokia and Nordic rival Ericsson AB face new competition from Asian competitors such as China's Huawei Technologies Co.

Its foray into gadgets is relatively limited, but executives hope it may eventually provide diversification for the firm.

Nokia's approach is three-pronged. First is the Ozo, the \$40,000 virtual-reality camera it released for professional filmmakers last year. Nokia

plans to eventually release a cheaper model for hobbyists.

The second push is its outsourced mobile-phone business. Last year Microsoft, which floundered with the handset business it bought from Nokia, sold it to HMD Global Oy, which is run by former Nokia executives. Under license from Nokia, the company is selling branded smartphones and basic phones, like the well-received, soon-to-be-released revamp of the classic Nokia 3310 "candy-bar" phone.

Nokia has input in designing the phones and the boxes they are sold in. "All devices need to pass a test of Nokianess, whether it is user interface, or software, or quality standards," Mr. Suri said in an recent interview.

Anchoring the third prong is Nokia's €170 million acquisition last year of Withings, a digital-health-device startup based in the Paris suburb of Issy-les-Moulineaux. Withings makes about a dozen devices, including a \$180 fitness-tracking watch, a \$100 body-temperature thermometer, a \$200 air-quality monitor and \$100 bathroom scale. The scale can measure body fat by sending a small electric signal through the body.

The devices can be connected to a smartphone app, similar to ones offered by competitors such as Fitbit Inc. Withings also sells a premium service on the app, a \$5 add-on that provides more-detailed analysis for people using the \$100 blood-pressure monitor.

talks with Whole Foods since last year but hasn't previously gone public with its suggestions for the chain, which is adopting strategies used by traditional grocers to boost flagging sales.

Though their interests align, Neuberger and Jana aren't working together to put pressure on Whole Foods, according to people familiar with the matter. They hadn't spoken about their respective ideas to revive the company before Jana disclosed its stake, the people said.

A Whole Foods spokeswoman said the company welcomed shareholder input. "We remain committed to continuing to take actions to drive shareholder value," she said.

Another big investor is calling on Whole Foods Market Inc. to explore a sale.

Mutual-fund manager Neuberger Berman, which owns a 2.7% stake in the organic-grocery chain, sent a letter to the company's board this week urging it to "immediately engage advisers" to review options, including a sale or joint venture.

The letter, which Neuberger provided to The Wall Street Journal, comes a few weeks after activist investor Jana Partners LLC disclosed a nearly 9% stake in Whole Foods and called for a similar review. Neuberger has been in

the attention of thousands of individual investors. Third, as the rally peaked, the company began issuing stock, which would total more than \$500 million, at ever-diminishing prices. DryShips used the money to buy ships in deals that benefited Mr. Economou, who earns management fees on its vessels, according to securities filings.

The CEO cemented his control of DryShips two months before the shares took off by converting loans to the company that he owned into a new series of preferred stock that confer 100,000 votes apiece.

That stock wasn't affected by the share run-up or collapse.

The rally between Nov. 9 and Nov. 16 led the company's market value to surge from about \$5 million to about \$80 million.

A day after shares peaked,

the company embarked on a series of stock sales totaling more than \$500 million so far, according to securities filings.

Those documents show the buyer was a British Virgin Islands company called Kalani Investments, but DryShips' shareholder records don't list Kalani or any other institution,

meaning the firm in turn sold the shares to small investors.

DryShips says Kalani is independent of the company. Contact information for Kalani couldn't be obtained to request

## United Cites Many Failures

Airline's report offers details in incident in which customer was dragged from plane

By SUSAN CAREY

A new report by United Airlines has concluded that a litany of failures in customer service, training and technology contributed to the forcible removal of a paying passenger earlier this month.

In an 11-page report, **United Continental Holdings** Inc. sought to give a more complete account of the events—including previously unreported details—that led to the April 9 dragging by aviation police of Dr. David Dao from a commuter flight. It said the incident, which sparked international outrage, exposed key gaps in various areas of customer service that the company promises to address this year.

It was "a failure of epic proportions that's grown to this breach of public trust," said United's chief executive, Oscar Munoz, in an interview. "We let our policies and procedures get in the way of doing the right thing."

The comments come nearly a week after United said Mr. Munoz will no longer be taking on the chairman role next year so he can focus on the top job. "It's better for me to focus on the task at hand and continue to be the CEO," he said, adding that there wasn't a specific timeline spelled out by the board to measure success.

United said a new rule, to take effect Friday, will increase compensation to up to \$10,000 for customers willing to volunteer to take a later flight.

United said that later this year it would install an automated check-in process to

gauge a customer's interest in giving up his or her seat on an overbooked flight in exchange for compensation. The airline also said it would give more discretion to its employees to issue mileage vouchers for future flights and other compensation when bad service occurs—things that some of its rivals already do.

United said it would reduce overbookings on flights that historically haven't generated a lot of volunteers when over-sold, particularly on smaller planes and the last flights of the day to a destination. The airline will start a new program to find "creative solutions" for agents to use to help overbooked passengers,

such as turning to other airlines or even ground transportation to get customers to their destinations.

When asked if any individual employees would be held responsible, Mr. Munoz said he was taking the blame himself:



CEO Oscar Munoz referred to 'a failure of epic proportions that's grown to this breach of public trust.'

"Things happened in so many places, there was no particular breakdown I can't and shouldn't take ownership of."

United already has made some policy changes, including not calling on law enforcement to remove passengers from flights except for safety or security reasons.

The incident involved United Express Flight 3411, a 70-seat aircraft operated by subcontractor Republic Airways Holdings Inc., that was destined for Louisville, Ky., from Chicago's O'Hare International Airport. The Sunday afternoon flight had been overbooked not once but twice, according to United's report released Thursday.

Because the plane initially had one more passenger than seats, United agents asked for a volunteer to no avail, and ended up bumping one customer who hadn't yet been given a boarding pass before 70 passengers boarded Flight

3411, the report said.

After the flight boarded, United learned that four Republic crew members also needed seats because their earlier flight had been delayed by a mechanical issue.

Gate agents began seeking more volunteers, offering \$800 vouchers for future travel plus the cost of meals and hotel accommodations. No one accepted.

One couple who was involuntarily bumped left the flight in return for up to \$1,350 each in compensation, as required by the Transportation Department. The report said the agents then approached Dr. Dao and his wife, who were on their way back from California.

Dr. Dao physically resisted and was forcibly removed from the plane, dragged down the aisle on his back.

His attorneys said the doctor suffered a concussion, a broken nose and two busted teeth.

## MALLS

Continued from the prior page  
cessfully bet against them. Any downturn in commercial real-estate debt is thought unlikely to be as brutal as the housing meltdown. Most of the bonds are backed not just by malls but by a wide variety of properties.

The index Mr. Yip is betting against has a higher concentration of shopping centers than similar instruments, but still only around 40 of the roughly 1,500 loans underpinning the index's performance are mall debt. Debt of weaker malls is less than 15% of the index, according to Bank of America Merrill Lynch.

Many of the loans would have to default, and their properties be liquidated, before investors with bearish bets could collect a windfall.

"The CMBX is a very blunt tool" for betting against malls,

said Alan Todd, head of commercial mortgage research at **Bank of America** Merrill Lynch. While retailers are downsizing at a faster clip, not every mall will be similarly affected, and the time between store closures and ultimate mall failures can vary significantly, he added.

AllianceBernstein LP and Pacific Investment Management Co., or **Pimco**, have taken the opposite side of the mall-debt trade, with bullish positions on the CMBX 6, according to people familiar with their positions. "We think the negative view is overstated," said Brian Phillips, who oversees commercial real-estate investments at AllianceBernstein.

Mr. Yip, 42 years old, declined to be interviewed. He confirmed some facts about his background through a spokesman.

Born in Hong Kong to a working-class family, he moved at age 5 with his parents to a New Jersey suburb of

Philadelphia. His parents took over a shop called East in the Burlington Center Mall, selling candles, novelty items and imported goods. They closed it in the 1990s, then later opened three shops in the region, including one back in the Burlington mall. By the mid-2000s, all had closed.

Mr. Yip's hedge fund, **Alder Hill**, gained 8% in the first quarter of 2017.

## STOCK

Continued from the prior page  
the attention of thousands of individual investors. Third, as the rally peaked, the company began issuing stock, which would total more than \$500 million, at ever-diminishing prices. DryShips used the money to buy ships in deals that benefited Mr. Economou, who earns management fees on its vessels, according to securities filings.

The CEO cemented his control of DryShips two months before the shares took off by converting loans to the company that he owned into a new series of preferred stock that confer 100,000 votes apiece.

That stock wasn't affected by the share run-up or collapse.

The rally between Nov. 9 and Nov. 16 led the company's market value to surge from about \$5 million to about \$80 million.

A day after shares peaked,

the company embarked on a series of stock sales totaling more than \$500 million so far, according to securities filings.

Those documents show the buyer was a British Virgin Islands company called Kalani Investments, but DryShips' shareholder records don't list Kalani or any other institution,

meaning the firm in turn sold the shares to small investors.

DryShips says Kalani is independent of the company. Contact information for Kalani couldn't be obtained to request

Shares suspended. Next day trading resumes and \$100 million share offering announced.

Entity controlled by CEO gets control of 90% of company's debt and gets 30% of profits on ship sales.

CEO gains control of company by swapping debt for preferred shares.

1-for-15 share split

\$100M

1-for-8 share split

\$200M

1-for-4 share split

\$226M

0

Source: WSJ Market Data Group

DryShips share price

Share-purchase agreements

\$2,000

1,500

1,000

500

0

THE WALL STREET JOURNAL.

that earn him several million dollars a year, according to company filings. He also consolidated over 90% of its debt with a further provision that gives another company controlled by Mr. Economou 30% of any gains earned by the company if certain vessels are later sold.

Individual investors remain

obsessed with DryShips. Since

the mysterious surge in its

price, there have been an average of more than 17,000 mostly

&lt;p

## BUSINESS NEWS

# Ford's Profit Cools Off After Strong Run

By ADRIENNE ROBERTS  
AND CHRISTINA ROGERS

**Ford Motor** Co.'s first-quarter profit fell 35% from a year earlier amid higher costs and weaker U.S. sales, but results beat Wall Street expectations.

The No. 2 U.S. auto maker on Thursday reported profit of \$1.6 billion, down from \$2.5 billion in 2016's first period when strong demand for a newly redesigned F-150 pickup truck helped Ford post its best quarterly operating profit in history.

Adjusted earnings per share were 39 cents in the latest quarter, beating analysts' consensus of 36 cents a share. Analysts cited stronger-than-expected earnings in North America and at Ford Credit, the company's financing arm.

"The results were solid, but it was a tough comparison" to last year's first quarter, Ford Chief Financial Officer Bob Shanks said Thursday.

The Dearborn, Mich., auto maker faced headwinds at home and abroad with lower sales in China, an unfavorable exchange-rate impact in Europe because of Brexit and a tougher market in the U.S., where new-car demand is cooling after seven years of uninterrupted growth.

Mr. Shanks described the



The No. 2 U.S. auto maker faced a tough comparison with last year's first-quarter results.

just-ended quarter as likely Ford's "toughest" for this year with results expected to be flat "in aggregate" over the remaining three quarters.

First-quarter revenue rose 4% to \$39.1 billion, driven by a favorable mix of pickup trucks and sport-utility vehicles.

Ford is coming off one of its most profitable periods in history with its North American

business benefiting from two years of record sales growth for the U.S. auto industry and surging demand for its highly lucrative trucks and SUVs amid low gasoline prices.

Ford earned \$10.4 billion in operating profit last year, though results were down slightly from 2015's record of \$10.8 billion. Company executives are forecasting a leaner

profit this year, confirming on Thursday full-year operating guidance of \$9 billion.

Ford plans to cut \$3 billion in costs this year and expects profit to rebound in 2018, driven by continued strength in the U.S. pickup-truck market, the rollout of two new full-size SUVs and improving results at Ford Credit.

Ford's first-quarter adjusted

pretax profit fell 42% to \$2.2 billion, dinged by a \$295 million recall expense disclosed in March covering nearly a half-million vehicles with fire risks and faulty door latches.

Operating profit for Ford's North American business was \$2 billion, down 35% from the same period a year earlier.

Margins slipped in the first quarter to 8.3% in the company's core North American business, from a lofty 12.9% a year earlier. While transaction prices were up \$1,971 per vehicle on strong demand for Ford's heavy-duty trucks, U.S. sales fell 4% in the first quarter and market share shrank.

In Europe, Ford posted a pretax profit of \$176 million compared with \$434 million a year earlier, with exchange-rate and Brexit headwinds offsetting higher sales volumes.

In Asia Pacific, Ford recorded a \$124 million operating profit, down from \$220 million, as the auto maker contended with cooling new-car demand and the expiration of a tax subsidy on small-engine vehicles last year.

Ford's operating losses in South America continued, with the auto maker reporting \$244 million in red ink, compared with \$256 million in last year's first quarter.

## Kia Plans To Invest \$1 Billion In India

By ANANT VIJAY KALA

**NEW DELHI—Kia Motors** Corp. aims to invest more than \$1 billion in India, hoping to capture new customers in the growing market and mirror the success of its sister company **Hyundai Motor** Co.

The South Korean car maker said Thursday that it plans to invest about \$1.1 billion to build a factory for its first foray into India.

Kia will start building the facility in the southern state of Andhra Pradesh by the end of this year. It expects to start production in the second half of 2019 with a capacity to build 300,000 vehicles a year.

"It will enable us to sell cars in the world's fifth-largest market, while providing greater flexibility for our global business," Han-Woo Park, president of Kia Motors, said in a written statement.

Kia is the latest auto maker to bet big on India—Hyundai, Ford Motor Co., General Motors Co., Toyota Motor Corp. and Honda Motor Co. all are battling for a bigger share in the fast-growing market.

Maruti Suzuki India Ltd., the Indian arm of Suzuki Motor Corp., is the market's dominant competitor.

Kia is looking for new areas of growth.

Sales of Kia and Hyundai have been lackluster in China, the U.S. and other key markets. In January, Hyundai and Kia, which together form the world's fifth-largest auto maker by sales, set a combined sales target for this year of 8.25 million cars, up less than 2% from last year. That is a big change from just a few years ago, when the auto makers managed to achieve double-digit growth, aided by a weak local currency, sleek designs and clever marketing.

## BUSINESS WATCH

AIRBUS

### Plane Maker Faces Delivery Struggles

**Airbus SE** faces another year of scrambling to meet full-year delivery targets after falling behind in the first three months because of problems with an important engine supplier.

The France-based plane maker expects to build a record 720 planes this year including 200 of its new A320neo single-aisle jet. But it only delivered 26 of those A320neo airliners in the first three months, fewer than expected, Chief Financial Officer Harald Wilhelm said Thursday.

A rush to the finish line is nothing new for Airbus, the world's No. 2 plane maker behind Boeing Co. The company was forced to crank out a record number of planes in December to meet its full-year target after it fell behind earlier.

Pratt & Whitney, a unit of **United Technologies** Corp., has had to replace faulty engines, called the geared turbofan, on some A320neo planes already delivered to airline customers, which has reduced the number of turbines available for new airliners.

Airbus's closely watched earnings before interest and taxes stripping out some one-time items fell 52% to €240 million

(\$262 million). Airbus delivered 136 planes in the first three months of 2017, 11 more than a year earlier, but those included less-profitable versions.

Net profit in the first quarter rose 52%, boosted by a gain of €560 million from the divestment of Airbus's defense electronics unit.

—Robert Wall

## UNDER ARMOUR

### Sportswear Company Posts Loss; Sales Up

**Under Armour** Inc. posted its first quarterly loss as a public company, as demand cooled for

the company's sneakers and athletic apparel. Yet shares in the company were up 8.8% at \$21.41 at midday Thursday on the New York Stock Exchange.

Footwear sales at the company rose 2% to \$269.7 million for the first quarter, compared with a 64% surge a year earlier that was fueled by strong basketball sales and liquidations.

Analysts say the sportswear maker is selling many items, including footwear such as its Stephen Curry basketball shoes, at multiple retailers, a level of overlap that could depress prices and confuse shoppers.

Under Armour, which originated as an apparel maker, is re-

lying on shoe sales to help it compete more effectively with Nike Inc. and Adidas AG, which are primarily footwear-driven.

On Thursday, the company backed its 2017 guidance for revenue to rise 11% to 12%, to roughly \$5.4 billion.

Under Armour posted a first-quarter loss of \$2.3 million, or a penny a share, compared with a year-earlier profit of \$19.2 million, or four cents a share. Revenue rose 6.6% to \$1.12 billion.

Analysts polled by Thomson Reuters were looking for a loss of four cents a share on \$1.11 billion in revenue.

—Sara Germano and Anne Steele

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# Rise of the Machines

How automation and Big Data are shaping the future of the shipping industry



With the dawn of the Internet of Things and other hi-tech advancements that are disrupting traditional processes and business models, the world is being reshaped by technology – and the shipping industry is no different. Once viewed as a sector that was reluctant to embrace change, the maritime sphere is now making up for lost time with a burst of innovation that is transforming every aspect of its operations.

Amid this wave of technological disruption, there are arguably no greater drivers of change than automation and Big Data, and Singapore is at the vanguard of both. One of the companies leading the charge in the automation field is PSA Singapore, which is pioneering the use of unmanned vehicles in a number of areas.

"We have seen a lot of changes in the shipping industry, with growing consolidation and ever-larger vessels calling at our terminals," says Nelson Quek, Head of Tuas Terminals Planning and Head of Engineering at PSA Singapore. "These changes have brought with them new challenges, and we have taken this opportunity to invest and develop advanced port technologies to ensure that we are not only future-ready but also fully prepared to handle current productivity demands of our customers. Embracing new technologies also helps to strengthen our competitive advantage, and some of these solutions include automated guided vehicles [AGVs], automated rail-mounted gantry cranes [aRMGs] and unmanned aerial vehicles [UAVs]."

PSA employs 144 fully automated aRMGs at its Pasir Panjang Terminals capable of handling almost 90% of all container moves without human intervention by using an advanced suite of computers and a range of sensors and cameras, and the company plans to add 42 more in the second half of 2017. In addition, PSA is trialling eight driverless AGVs, with 22 units scheduled to be fully operational before the end of the year, while also in the pipeline are UAVs for inspecting tall cranes and an autonomous truck platooning system through which a single manned truck can lead one or more driverless container trucks between terminals.

Much of this automation will be made possible by analytics-based technologies, highlighting the growing

importance of Big Data to the maritime industry. This is an area in which ST Electronics, a global infocomm technology company has been investing to deepen its capabilities.

"The key in big data is to be able to digest data from huge data sources, bring them together to create knowledge, and from that knowledge to develop insights, and from the insights to be able to give what I call actionable intelligence for users," says David Tan Cheow Beng, Chief Technology Officer at ST Electronics.

One of the key applications of Big Data within the maritime sector, says Tan, is in vessel-traffic management systems, which can take information gathered from sensors on ships, satellites, radar and other sources, and use them to track and identify vessels, to prevent and alleviate congestion

in shipping channels, and to enhance safety and security procedures. "In capturing data," says Tan, "we are able to build up a contextual knowledge corpus of everything that moves, even outside our area of operations."

While such technology is already in use in the maritime industry to some degree, the next logical step is to extend the reach to a global scale. "The next generation must have one smart grid that can connect across different protocols, allowing maritime [professionals] to be able to operate seamlessly from different spectrums of communications," says Tan. "We can't just have a very localised operational system to deal with port operations – we must have the ability to have a global command and control system that links up to ships."

## TECHNOLOGY

# Switch Heartens Nintendo

Company says profit on the upswing as sales of just-launched game console take off

BY TAKASHI MOCHIZUKI

OSAKA, Japan—Nintendo Co. offered a rosy outlook, forecasting that strong sales of its Switch console will lift annual earnings to a seven-year high.

After a successful launch of the Switch last month, Nintendo said Thursday that it expects to sell 10 million of the handheld-hybrid game console in the current fiscal year. The Switch's unpopular predecessor, the Wii U, tallied sales of 13.6 million units since its launch in 2012.

"We have done a lot of things to raise awareness about how the Switch experience can offer something new, and I am just relieved that consumers seem to have accepted it," Nintendo Chief Executive Tatsumi Kimishima said of the console designed for use both in the living room and on the go.

The Switch posted March sales of 2.74 million units, beating the company's initial sales estimate of two million units for the month.

The scale of Switch sales in March surprised the market, analysts said, given that the launch missed the year-end holiday season, Nintendo's biggest profit-generating period.

Ace Research Institute analyst Hideki Yasuda said Nintendo's 10 million sales forecast is too cautious and that the tally could exceed 15 million units in the current fiscal year.

For the 12-month period beginning this month, Nintendo said it expects operating profit of ¥65 billion (\$585 million)



Switch consoles at their launch in Tokyo last month. March sales exceeded Nintendo's expectations.

on revenue of ¥750 billion. On Thursday, the company reported a profit of ¥29.4 billion for the year ended March 31.

The projected ¥65 billion operating profit, if realized, would be the highest since the year ended March 2011. Profit has declined in recent years because of the weak performance of the Wii U console.

Mr. Kimishima said Nintendo will be spending more this year to promote the Switch, which would restrain operating profit. Earlier this year, for example, Nintendo aired a prime-time television commercial during the Super Bowl.

Compared with game-console rivals Sony Corp. and Microsoft Corp., Nintendo has far more in-house titles featuring famous character franchises that contribute directly to its profits.

The company said it has sold 2.76 million copies of the new "Legend of Zelda" game for the Switch, creating the unusual situation of a single

piece of software outselling the console.

"It is surprising that Zelda is doing so well, but it also proved what we have been saying is right: A good game title will spur sales of the platform device," Mr. Kimishima said.

The company plans to release titles featuring its classic Mario character and an addition to its highly popular Splatoon series by the end of this year.

For the year, Nintendo expects 35 million copies of Switch games, including those from other publishers, will be sold.

During the just-ended year, Nintendo earned ¥24.3 billion from smartphone games, including "Super Mario Run" and "Fire Emblem Heroes," a game especially popular among longtime hard-core fans.

Nintendo said Mario Run downloads are nearing the 150 million mark. Fire Emblem's tally was less than one-tenth

of that figure, but Fire Emblem earned more than Mario through in-game purchases.

The company plans to release two or more smartphone games during this fiscal year, including an already announced "Animal Crossing" game.

Analysts' earnings forecasts are higher than Nintendo's projection. Macquarie Capital Securities analyst David Gibson pegs operating profit at ¥137 billion for the current fiscal year, assuming Nintendo sells more than 14.5 million Switches over the period and receives revenue contributions from Nintendo-made game software for the Switch and smartphones.

For the recent year, Nintendo recorded net profit of ¥102.6 billion, compared with analyst forecasts of ¥93.6 billion and a year-earlier ¥16.5 billion.

A ¥64.5 billion boost came from the sale of part of its stake in the Seattle Mariners operator.

# FCC Proposes Rollback of Rules

By JOHN D. MCKINNON  
AND DREW FITZGERALD

WASHINGTON—A top federal regulator proposed to roll back Obama-era rules governing how broadband providers treat traffic on their networks, touching off a fierce political fight with far-reaching implications for tech and telecommunications companies and internet users.

In a speech on Wednesday, Federal Communications Commission Chairman Ajit Pai said he is proposing to reverse a core element of the 2015 net-neutrality rules that potentially would subject internet providers to utility-style oversight. "Going forward, we cannot stick with regulations from the Great Depression meant to micromanage Ma Bell," Mr. Pai said. "Instead, we need rules that focus on growth and infrastructure investment, rules that expand high-speed internet access everywhere and give Americans more online choice, faster speeds and more innovation."

Critics said Mr. Pai's changes could damage the internet ecosystem, however, by opening the door to paid fast lanes for some services and relegating others to slower speeds. That could increase costs for some big internet companies and their customers, and hurt smaller businesses that can't afford to pay, critics added. "Consumers pay for access to the entire internet free from blocking, throttling or paid prioritization," said Michael Beckerman, president of the Internet Association, a trade group representing big online firms such as Netflix Inc., Facebook Inc. and Alphabet Inc.'s Google.

But supporters of Mr. Pai said those risks are being ex-

aggerated and ignore the realities of the current marketplace. "Far from banning all so-called 'fast lanes,' the [Obama-era] commission sanctioned a system of good fast lanes and bad fast lanes and set itself up as the arbiter," FCC Commissioner Michael O'Rielly said in remarks supporting Mr. Pai's plan.

He said the FCC's ongoing struggles to define improper paid prioritization show it is a flawed concept.

The net-neutrality rule adopted by the FCC in 2015 basically required internet providers such as cable and wireless firms to treat all traffic equally. One big aim was to prevent internet providers such as AT&T Inc. and Comcast Corp. from using their outsized leverage to disadvantage internet firms such as Netflix or Facebook.

Mr. Pai's move marks the latest in the Trump administration's sweeping efforts to reduce federal regulation.

Broadband providers on Wednesday applauded Mr. Pai's proposal. Big internet firms suggested they are opposed, but were muted in their criticism. "We support strong net neutrality rules and will continue to fight for rules that protect the open internet," a Facebook spokeswoman said.

AT&T Chief Executive Randall Stephenson said the current rules created a "stifling regulatory cloud over the internet." Some companies rushed to reassure customers that they would still abide by the spirit of the rules, even if the commission removed them. Comcast Chief Executive Brian Roberts said the company supports "modern, strong and legally enforceable net-neutrality protections."

Google had no comment.

# Verizon Takes to Road, Investing in a Self-Driving Startup

BY TIM HIGGINS

**Verizon Communications** Inc. has invested in an autonomous-vehicle tech startup best known for turning a vintage DeLorean into a self-driving car.

The startup, Renovo Auto, said the investment from Verizon's venture arm is part of a new \$10 million funding round led by **True Ventures**.

Founded in 2010, Renovo gained attention five years later when the startup and Stanford University researchers demonstrated a vintage DeLorean driven in tight, smoke-filled circles.

Now the company is seeking to create ubiquitous autono-

mous-vehicle software similar to an operating system like Microsoft Windows or Google Android that would help car manufacturers, fleet managers and others control their software and data across a group of shared vehicles.

Verizon, the largest U.S. telecom carrier, sees a place for itself among the oceans of wireless data that could flow from computer-driven cars.

"One of the biggest markets we see as we look at this ecosystem is the [automated mobility on demand] space," said Ed Ruth, a director for Verizon Ventures, in an interview from his Palo Alto, Calif., office. "There needs to be a significant amount of orchestra-

tion that goes on with the data that's being generated by all of those vehicles."

Intel Corp., which is also exploring how to manage the data, estimates a single self-driving car will generate four terabytes of data in about 90 minutes of driving, the typical amount of time a person spends in a vehicle each day. That is the equivalent of data that 3,000 people might generate on the internet by 2020, according to Intel. Today, cars generate little data.

Several car makers and tech companies are far along in developing computer systems—essentially the artificial intelligence's brain—that can handle sensing, perception and path-

planning required for autonomous travel, said Chris Heiser, Renovo's chief executive.

"Figuring out how to operationalize that and bring it across a fleet of vehicles in a consistent way, that's not something we see others taking a serious look at," he said.

While Verizon Ventures declined to say how much it contributed, the investment in Renovo follows other efforts by the data carrier to position itself in the fast-evolving transportation industry.

Last year, Verizon acquired fleet-tracking software companies Fleetmatics Group PLC and Telogis Inc. as part of a broader strategy to focus on connected cars.



A Renovo prototype in 2015. Verizon is investing in Renovo Auto.

# YUAN

*Continued from page B1*  
the amount wasn't disclosed, the founder of the three-year-old company told CNBC last week that Ofo is valued at over \$2 billion.

Its biggest competitor, **Mobike**, was declared a unicorn by its investors early this year.

And those are just two of dozens of operators flooding major cities with bikes—making them so ubiquitous in some places that they have become sources of annoyance and targets of vandalism.

To win users, the companies offer subsidies and sometimes free rides, a strategy that requires lots of cash while generating little revenue. "Don't ask me how the business model might work," says an early Mobike investor. "I don't know any longer."

Mobike says its business scale, with roughly 3.7 million bikes, and technology platform make its offering interesting to its investors. Ofo didn't respond to requests for comment.

Wu Shichun, founder of early-stage investor **Plum Ventures**, says the money lavished on bike-sharing shows the scarcity of worthy projects. Mr. Wu didn't bite, instead investing in startups that rent power banks to smartphone users in restaurants and shopping malls.



A man prepared to rent a Mobike bicycle in Beijing this week.

startups have raised sums of as much as 100 million yuan, according to data firm IT Juzi. Plum Ventures invested in one of them, Mr. Wu says, because he thinks the founding team has potential.

Investors aren't sure how all this funding will be recouped. As in the U.S., new public listings are in a slump in China. Globally, only 291 Chinese companies made initial public offerings in 2016, the smallest number since 2013, according to the pe-data.cn report. Among the 843 Chinese internet companies with investment from VC firms, there were only seven IPOs last year.

Having marquee investors provides credibility for lesser-known investors, people in the industry say.

Mobike's latest funding round, in January, drew Se-

quoia Capital China, TPG, tech giant **Tencent Holdings** and iPhone maker **Foxconn Technology Group**, according to IT Juzi, the data firm. Investors in Ofo include Russian billionaire Yuri Milner, ride-sharing company **Didi Chuxing Technology**, New York-based hedge fund Coatue Management and, now, Ant Financial.

A fundamental problem, according to Zero2IPO Chief Executive Gavin Ni, is the herd mentality propelling tech investors from one fad to another. "With so much money pouring on one place, there must be something wrong with the industry," he said in comments to Chinese media this month.

Follow Li Yuan on Twitter @LiYuan6 or write to li.yuan@wsj.com.

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China A-Share Fund Cls A CAD H OT HKG 04/26 CAD 11.82 8.2 13.1 -6.5

China A-Share Fund Cls A EUR H OT HKG 04/26 EUR 12.38 7.7 11.8 -6.6

China A-Share Fund Cls A GBP H OT HKG 04/26 GBP 12.40 7.6 13.9 -5.4

China A-Share Fund Cls A SGD H OT HKG 04/26 SGD 12.40 7.6 13.8 -5.0

China A-Share Fund Cls A NZD H OT HKG 04/26 NZD 12.24 8.1 13.4 -6.2

China A-Share Fund Cls A HKD H OT HKG 04/26 HKD 12.53 12.4 10.5 -1.1

China A-Share Fund Cls A SGD H OT HKG 04/26 SGD 12.56 8.2 13.0 -4.4

China A-Share Fund Cls A NZD H OT HKG 04/26 NZD 12.60 8.6 15.1 -4.9

China A-Share Fund Cls A NZD H OT HKG 04/26 NZD 11.24 12.9 11.2 NS

China A-Share Fund Cls A NZD H OT HKG 04/26 NZD 13.79 10.0 17.2 -3.3

China A-Share Fund Cls A USD H OT HKG 04/26 USD 12.47 12.0 11.3 -7.1

China A-Share Fund Cls A USD H OT HKG 04/26 USD 12.58 8.3 13.8 -6.1

China Greenchip-A Units AS EQ CYM 04/26 HKD 9.92 16.0 21.8 -9.4

China Greenchip-A Units AS EQ CYM 04/26 AUD 9.98 16.2 22.6 -9.9

China Greenchip-A Units AS EQ CYM 04/26 CAD 9.69 15.9 21.1 -10.7

China Greenchip-A Units AS EQ CYM 04/26 EUR 10.25 16.2 23.2 -9.0

China Greenchip-A Units AS EQ CYM 04/26 GBP 9.74 15.7 21.4 -10.4

China Greenchip-A Units AS EQ CYM 04/26 HKD 10.71 16.1 21.8 -9.5

GC HI Yield Inc-Cls A MDLS AUD H OT CYM 04/26 GBP 10.01 7.4 19.4 11.5

GC HI Yield Inc-Cls A MDLS AUD H OT CYM 04/26 GBP 9.64 7.7 20.1 12.0

GC HI Yield Inc-Cls A NZD H OT CYM 04/26 NZD 9.32 10.2 20.0 14.3

GC HI Yield Inc-Cls P USD MDLS sh OT CYM 04/26 SGD 9.26 8.2 20.9 12.4

GC HI Yield Inc-Cls P USD MDLS sh OT CYM 04/26 SGD 9.26 8.2 20.9 12.4

GC HI Yield Inc-Cls P USD MDLS sh OT CYM 04/26 SGD 10.46 7.7 20.3 12.5

## FINANCE & MARKETS

# Tax Cut Offers Upside for Lenders

By MICHAEL RAPORT  
AND TELIS DEMOS

A cut in the corporate tax rate would involve immediate pain for some big banks, namely **Citigroup** Inc. and **Bank of America** Corp., but an eventual earnings boost should more than make up for that.

A corporate tax cut from the current 35% to 15%, which the White House proposed Wednesday, would lower companies' tax bills and fatten their bottom lines.

A lower tax rate would mean banks like Citigroup and Bank of America would have to take billions of dollars in charges against earnings to write down the value of their giant piles of deferred tax assets.

These assets consist of tax credits or deductions that typically spawned from big losses, like those the banks experienced during the financial crisis. They are essentially IOUs the banks can use to defray future tax bills.

If those tax bills are reduced in the future by a rate cut, the deferred tax assets would be worth less. That could lead Citigroup to write down their value by anywhere from \$6 billion to \$12 billion, based on some figures the bank has provided and analysts' calculations and depending on the ultimate contours of a tax-rate overhaul. Bank of America's hit could be around \$4 billion.

Citigroup had \$46.7 billion of net deferred tax assets as of the end of 2016, while Bank of America had \$19.2 billion.

The hit to earnings would be a one-time event, though. The offset is that the banks "are going to make more money for life," said John McDonald, a bank analyst at Sanford C. Bernstein. "What the market does care about is earnings, and their earnings would be permanently improved."

In fact, the gain to the



**Based on Bank of America's 2016 net income and effective tax rate, it would likely recoup nearly all of its write-down within a year.**

banks' bottom lines from lower tax rates means they could potentially recoup the value of the write-downs in a year or two.

The banks "should be willing to make the trade-off," said Michelle Hanlon, an accounting professor at the Massachusetts Institute of Technology's Sloan School of Management.

Deferred tax assets are complex and it will take time to gauge how much of a write-down banks will have to take. Much of Citigroup's net deferred tax assets, for example, consist of state or foreign deductions and credits or other assets that wouldn't be affected by a cut in the federal tax rate.

John Gerspach, the bank's chief financial officer, told analysts last November that a drop to a 25% corporate tax rate could translate into a

charge of roughly \$6 billion. A reduction in the rate to 15% could raise the write-down to \$10 billion, Bernstein analysts estimated.

Changes to the overall system for levying corporate taxes could also have an impact. Currently, the U.S. taxes corporate profits no matter where in the world they are earned. But there is debate about shifting the system to a so-called territorial one, where taxes are only levied on profits generated in the U.S.

Citigroup's Mr. Gerspach has said that a move to such a system, coupled with a reduction in the tax rate to 25%, could lead the bank to take a \$12 billion write-down.

The magnitude of a write-down could also depend in part on how quickly a tax-rate reduction is put into effect. "There's a lot of moving pieces," Mr. Gerspach said,

adding that to the extent the tax rate is reduced over time, a write-down "would likely be lower."

At Bank of America, only about \$7 billion of the firm's net deferred tax assets is in the U.S. and subject to revaluation. That would lead to a write-down of around \$4 billion if the tax rate is lowered to 15%, a person familiar with the situation said.

Such write-downs wouldn't only affect profits. They would also cut into a bank's book value, or net worth. Some measures of a bank's regulatory capital could be affected, though the impact there would be limited because only a slice of the tax assets can be counted toward regulatory capital to begin with.

And any reduction could be made back fairly quickly. Based on Bank of America's 2016 net income and effective

tax rate, the firm would likely recoup nearly all of its write-down within a year through higher net income.

At Citigroup, Chief Executive Michael Corbat said on a conference call in January that while corporate tax reform could lead to a tax-asset write-down, it would "result in higher net income and improved returns."

Bernstein estimated Citigroup's 2018 earnings per share could jump by 84 cents with a 15% tax rate, and its return on tangible common equity could rise to 9.9%.

An added bonus: investors for years have questioned the value of the deferred tax assets, which has weighed on the stock's valuation. "They're not getting a lot of credit in the stock price for their DTA," Mr. McDonald said. So, a reduction in the tax rate would lift that uncertainty.

## KKR Swings to Quarterly Profit

By MATT JARZEMSKY

**KKR & Co.** swung to a first-quarter profit from a year-earlier loss, aided by appreciation in its private-equity and debt holdings.

For the period ended March 31, the New York asset manager reported earnings of \$259.3 million, or 52 cents a share, versus a year-earlier loss of \$329.9 million, or 73 cents a share.

Economic net income, a closely watched measure of performance that reflects changes in the value of the firm's investment portfolio, was \$549.9 million, or 65 cents a share, versus a year-earlier loss of \$553 million, or 65 cents a share. The latest result topped the 51-cent average estimate of analysts polled by FactSet.

Money managers are benefiting from rising equity valuations and robust debt markets that enable them to cheaply fund acquisitions and finance dividends from their portfolio companies. While that environment has made attractively valued companies harder to find, buyout firms continue to put money to work and amass large sums to invest on behalf of institutions seeking alternatives to richly priced public securities.

KKR said alternative credit and corporate buyout investments drove its improved earnings. Its private-equity portfolio grew 4.7% in the period, trailing the 6.9% gain at rival Blackstone Group LP.

KKR also benefited from investments on its balance sheet appreciating 5% and revenue at its capital-markets business more than doubling to \$121 million, far exceeding the unit's previous quarterly high of \$87.5 million.

## Deutsche Bank's Net Doubles After a Worry-Plagued 2016

By JENNY STRASBURG

**Deutsche Bank** AG made progress winning back clients who fled in response to concerns about the bank's capital buffers as it recovered from a turbulent 2016, but its first-quarter profit was muted by debt-trading revenue that lagged behind its peers.

The German lender, fresh off an \$8.5 billion capital increase, more than doubled its first-quarter net income from a year earlier, to €575 million (\$627 million), it said Thursday. The result was broadly in line with analysts' expectations.

Deutsche Bank's big fixed-income trading business, a closely watched driver of profit, posted an 11% revenue increase from the same quarter last year. The lender said interest-rate and credit trading were especially strong. But its overall results from trading bonds and currencies lagged behind performances by big U.S. investment banks that benefited more from this year's fixed-income trading boost.

Overall, Deutsche Bank showed it is stabilizing across its main businesses after a rocky 2016, when fears of big

legal settlements and the lender's thin capital buffer spooked clients. The tumult last year also raised the cost of funding Deutsche Bank's trading and client-financing businesses, eating into profit. Those costs have since been coming down, according to executives.

The bank said that hedge-fund and corporate clients seeking deal advice and other customers are returning, after some withdrew business late

**'Asset flows are returning across the bank,' said Chief Executive John Cryan.**

last year. Chief Executive John Cryan said in a statement that cost-cutting efforts—which have included closing bank branches, firing employees and axing bonuses—are paying off, and "asset flows are returning across the bank."

The bank's first-quarter revenue figure of €7.3 billion was roughly flat from a year

earlier, excluding an accounting adjustment tied to the increased value of Deutsche Bank's own debt. Including that accounting adjustment, revenue was down 9%.

In asset management, Deutsche Bank halted a year-long sequence of quarterly losses of client balances that has chiseled away at fees and other revenue in that business. Overall revenue in the retail-banking and wealth-management division increased 11% in the quarter.

Investment-banking revenue was mostly unchanged. The bank's ongoing process of cutting clients to reduce risk and expenses brought down revenue in some areas.

The first-quarter results are Deutsche Bank's first since it completed an \$8.5 billion capital increase earlier this month in conjunction with strategic changes announced in March. The fundraising, Deutsche Bank's third sale of new shares since 2013, put to rest many investors' most severe concerns about the lender's capital buffers.

◆ Heard: Deutsche Bank slogs while rivals soar..... B8

## 50 YEARS OF WORKING TOGETHER FOR THE PROSPERITY OF ASIA AND THE PACIFIC

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CHINA CONSTRUCTION BANK

### Fees, Commissions Bolster Profits

**China Construction Bank** Corp. said net profit in the first quarter rose 3% from a year earlier to 70.01 billion yuan (\$10.2 billion), buoyed by fee and commission income.

Net interest income at the bank, China's second-largest commercial lender by assets, fell by 0.9% to 106.9 billion yuan, while net fee and commission income rose by 1% to 38.8 billion yuan, the bank said.

The bank reported 184.51 billion yuan of nonperforming loans, up from 178.69 billion yuan three months earlier.

—Chuin-Wei Yap

LLOYDS BANKING GROUP

### Net Earnings Rise As U.K. Chugs Ahead

**Lloyds Banking Group** PLC said net profit increased in the first quarter as the U.K. economy continued to hold up after the Brexit vote, in the latest sign of the lender's return to health.

The U.K. retail bank said revenue increased 1% to £4.38 billion (\$5.63 billion). This fed into a jump in net profit to £766 million, compared with £405 million a year earlier, bolstered by a fall in bad loans. Operating costs declined by 1%.

The results mark another step forward for Lloyds, whose earnings have for years been

drained by costs related to issues such as the sale of insurance to customers who didn't need it, as well as a huge restructuring following its 2009 government bailout.

The bank said this month that it was putting aside £350 million in extra provisions to cover future payouts to customers over the insurance sales. The bank also put aside £100 million to compensate customers who were victims of a fraud committed at the bank more than a decade ago. Two former employees were jailed this year over the fraud.

Lloyds, which is viewed as a bellwether for the U.K. economy, said asset quality remained strong in the country.

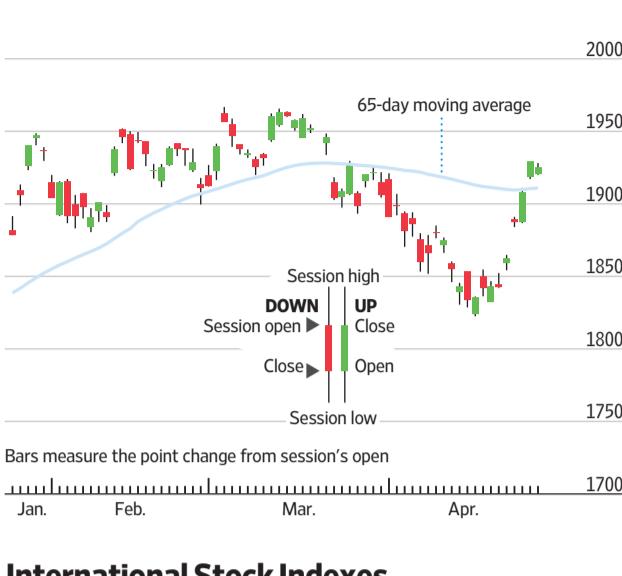
—Max Colchester

## MARKETS DIGEST

### Nikkei 225 Index

**19251.87** ▼37.56, or 0.19%

High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

Jan. Feb. Mar. Apr.

### STOXX 600 Index

**387.80** ▼0.93, or 0.24%

High, low, open and close for each trading day of the past three months.



### S&P 500 Index

**2384.98** ▼2.47, or 0.10%

High, low, open and close for each trading day of the past three months.



Data as of 12 p.m. New York time

Last Year ago

Trailing P/E ratio \* 24.39 24.11

P/E estimate \* 18.24 17.80

Dividend yield 1.98 2.17

All-time high: 2395.96, 03/01/17

\* P/E data based on as-reported earnings from Birinyi Associates Inc.

### International Stock Indexes

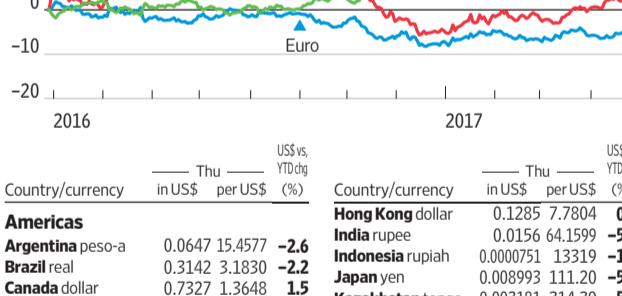
Data as of 12 p.m. New York time

Region/Country	Index	Close	Net Chg	% chg	52-Week Range	Low	Close	High	YTD % chg
<b>World</b>	<b>The Global Dow</b>	<b>2730.55</b>	-8.73	<b>-0.32</b>	2193.75	2193.75	2743.02	2743.02	8.0
	<b>MSCI EAFE</b>	<b>1835.31</b>	-3.73	<b>-0.20</b>	1471.88	1471.88	1956.39	1956.39	6.9
	<b>MSCI EM USD</b>	<b>978.14</b>	-4.39	<b>-0.45</b>	691.21	691.21	1044.05	1044.05	23.2
<b>Americas</b>	<b>DJ Americas</b>	<b>574.13</b>	-1.26	<b>-0.22</b>	480.90	480.90	577.99	577.99	6.2
Brazil	Sao Paulo Bovespa	64323.41	-538.52	<b>-0.83</b>	48066.67	48066.67	69487.58	69487.58	6.8
Canada	S&P/TSX Comp	15431.84	-217.70	<b>-1.39</b>	13535.54	13535.54	15943.09	15943.09	0.9
Mexico	IPC All-Share	49428.33	-136.83	<b>-0.28</b>	43902.25	43902.25	50147.04	50147.04	8.3
Chile	Santiago IPSA	3703.18	-30.77	<b>-0.82</b>	2998.64	2998.64	3786.05	3786.05	14.9
<b>U.S.</b>	<b>DJIA</b>	<b>20957.73</b>	-17.36	<b>-0.08</b>	17063.08	17063.08	21169.11	21169.11	6.0
	<b>Nasdaq Composite</b>	<b>6038.78</b>	13.55	<b>0.22</b>	4574.25	4574.25	6048.33	6048.33	12.2
	<b>S&amp;P 500</b>	<b>2384.98</b>	-2.47	<b>-0.10</b>	1991.68	1991.68	2400.98	2400.98	6.5
	<b>CBOE Volatility</b>	<b>11.03</b>	0.18	<b>1.66</b>	9.97	9.97	26.72	26.72	-21.4
<b>EMEA</b>	<b>Stoxx Europe 600</b>	<b>387.80</b>	-0.93	<b>-0.24</b>	308.75	308.75	388.73	388.73	7.3
	<b>Stoxx Europe 50</b>	<b>3193.12</b>	-4.53	<b>-0.14</b>	2626.52	2626.52	3199.61	3199.61	6.1
France	CAC 40	5271.70	-16.18	<b>-0.31</b>	3955.98	3955.98	5296.52	5296.52	8.4
Germany	DAX	12443.79	-29.01	<b>-0.23</b>	9214.10	9214.10	12486.29	12486.29	8.4
Israel	Tel Aviv	1405.45	-5.30	<b>-0.38</b>	1372.23	1372.23	1490.23	1490.23	-4.4
Italy	FTSE MIB	20597.34	-239.17	<b>-1.15</b>	15017.42	15017.42	20883.66	20883.66	7.1
Netherlands	AEX	521.89	-2.57	<b>-0.49</b>	409.23	409.23	526.25	526.25	8.0
Russia	RTS Index	1106.92	-12.19	<b>-1.09</b>	873.58	873.58	1196.99	1196.99	-3.9
Spain	IBEX 35	10683.90	-79.50	<b>-0.74</b>	7579.80	7579.80	10828.80	10828.80	14.2
Switzerland	Swiss Market	8844.78	14.49	<b>0.16</b>	7475.54	7475.54	8853.96	8853.96	7.6
South Africa	Johannesburg All Share	53680.69	...	<b>Closed</b>	48935.90	48935.90	54704.22	54704.22	6.0
Turkey	BIST 100	94282.48	-239.86	<b>-0.25</b>	70426.16	70426.16	95196.45	95196.45	20.7
U.K.	FTSE 100	7237.17	-51.55	<b>-0.71</b>	5788.74	5788.74	7447.00	7447.00	1.3
<b>Asia-Pacific</b>	<b>DJ Asia-Pacific TSM</b>	<b>1571.77</b>	0.60	<b>0.04</b>	1308.52	1308.52	1574.93	1574.93	10.5
Australia	<b>S&amp;P/ASX 200</b>	<b>5921.50</b>	9.50	<b>0.16</b>	5103.30	5103.30	5934.00	5934.00	4.5
China	<b>Shanghai Composite</b>	<b>3152.19</b>	11.34	<b>0.36</b>	2806.91	2806.91	3288.97	3288.97	1.6
Hong Kong	<b>Hang Seng</b>	<b>24698.48</b>	120.05	<b>0.49</b>	19694.33	19694.33	24698.48	24698.48	12.3
India	<b>S&amp;P BSE Sensex</b>	<b>30029.74</b>	-103.61	<b>-0.34</b>	25101.73	25101.73	30133.35	30133.35	12.8
Indonesia	<b>Jakarta Composite</b>	<b>5707.03</b>	-19.50	<b>-0.34</b>	4704.22	4704.22	5726.53	5726.53	7.7
Japan	<b>Nikkei Stock Avg</b>	<b>19251.87</b>	-37.56	<b>-0.19</b>	14952.02	14952.02	19633.75	19633.75	0.7
Malaysia	<b>Kuala Lumpur Composite</b>	<b>1767.92</b>	-1.00	<b>-0.06</b>	1614.90	1614.90	1768.92	1768.92	7.7
New Zealand	<b>S&amp;P/NZX 50</b>	<b>7354.61</b>	19.48	<b>0.27</b>	6664.21	6664.21	7571.11	7571.11	6.9
Pakistan	<b>KSE 100</b>	<b>49481.70</b>	-345.81	<b>-0.69</b>	34503.64	34503.64	50192.36	50192.36	3.5
Philippines	<b>PSEI</b>	<b>7661.01</b>	-65.44	<b>-0.85</b>	6563.67	6563.67	8102.30	8102.30	12.0
Singapore	<b>Straits Times</b>	<b>3171.36</b>	-2.40	<b>-0.08</b>	2729.85	2729.85	3187.51	3187.51	10.1
South Korea	<b>Kospi</b>	<b>2209.46</b>	1.62	<b>0.07</b>	1925.24	1925.24	2209.46	2209.46	9.0
Taiwan	<b>Weighted</b>	<b>9860.62</b>	4.17	<b>0.04</b>	8053.69	8053.69	9972.49	9972.49	6.6
Thailand	<b>SET</b>	<b>1566.77</b>	-0.70	<b>-0.04</b>	1381.69	1381.69	1591.00	1591.00	1.5

Source: SIX Financial Information/WSJ Market Data Group

### Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



London close on April 27

Country/currency	Thu	US\$ vs. Yen	YTD chg (%)	Country/currency	Thu	US\$ vs. Euro	YTD chg (%)
Europe				U.S.			
Bulgaria leva	0.5554	1.8006	<b>-3.1</b>	U.S. dollar	89.82	0.11	<b>0.13</b>
Croatia kuna	0.1453	6.881	<b>-4.1</b>	Euro	1.20	0.01	<b>0.01</b>
Euro zone euro	1.0876	0.9195	<b>-3.3</b>	U.K. pound	0.77	0.01	<b>0.01</b>
Czech Rep. koruna-b	0.0402	24.857	<b>-3.2</b>	Canada dollar	1.3412	0.0121	<b>0.0121</b>
Denmark krone	0.1462	6.8410	<b>-3.2</b>	China renminbi	6.5200	0.0121	<b>0.0121</b>
Hungary forint	0.003486	286.83	<b>-2.5</b>	China yuan	6.5200	0.0121	<b>0.0121</b>
Iceland krona	0.009365	106.78	<b>-5.5</b>	China yuan	6.5200	0.0121	<b>0.0121</b>
Norway							

## FINANCE & MARKETS



Natural-gas prices have soared in Australia, while exports of gas are raising worries about shortages at home. Here, a Queensland plant.

# Australia to Restrict Gas Exports

By ROBB M. STEWART

MELBOURNE—Australia's government said it would intervene in the country's natural-gas market by restricting exports in an attempt to avert a looming domestic gas shortage and cool soaring prices.

Despite criticism that fresh regulation wouldn't address the underlying issue of supply and could threaten future investment, Prime Minister Malcolm Turnbull said steps were needed to secure gas supplies for manufacturers and households that were being drained to feed massive export facilities run by global energy companies on the east coast.

"What we are doing here is taking decisive action in the national interest to protect jobs," Mr. Turnbull said.

The prime minister has faced a barrage of demands from business groups and opposition lawmakers to take a tougher stand on gas producers after average prices jumped by at least 80% in the first quarter compared with a year earlier. Last month the

operator of the country's gas and electricity markets warned of a possible shortfall in gas-power electricity generation in populous southeast states as soon as the summer of 2018-19.

Mr. Turnbull has met with executives from companies including Royal Dutch Shell PLC and local producer Santos Ltd. twice in recent weeks. He is seeking a commitment from each of them to provide more natural gas for the eastern market than they draw out, but said requirements hadn't been met. His latest move also pre-empts a report from the country's competition regulator, which last week was charged by the government with looking into how gas producers could make more gas available to local industry and other users.

The government will introduce a temporary mechanism giving it the power to impose export controls on companies when there is a shortfall in gas supply in the domestic market. If a company exports more gas than it provides domestically,

it will be ordered to limit shipments and outline steps to fill the shortfall, Mr. Turnbull said. Companies that are net contributors to the local gas market will be licensed to export based on their forecasts, he added.

The prime minister said the government remained committed to exports of liquefied natural gas, or LNG, but not at the expense of Australians. He predicted that securing more supply would pressure prices lower. "Australian demand, Australian businesses, Australian jobs and Australian families have to come first. It is ridiculous for us to be on the edge of becoming the largest LNG exporter in the world and not to have enough gas for our businesses and households," Mr. Turnbull said.

The construction of three LNG plants on Curtis Island in northeast Queensland in recent years opened the region to global gas markets, buoying what had been comparably low local prices. However, the fall in global oil prices and regional environmental concerns

has discouraged further investment in the area.

Government intervention has become essential to confirm a future for manufacturing in the country, said Paul O'Malley, managing director of BlueScope Steel Ltd., who previously warned that vast numbers of jobs would leave the country if business couldn't access affordable energy.

Restricting exports is almost unprecedented for Australia and risks worsening already tight market conditions, said Malcolm Roberts, chief executive of the Australian Petroleum Production and Exploration Association, which represents oil-and-gas companies operating in the country.

Mr. Roberts said the industry had tripled east-coast gas production, creating new supply from methane buried in onshore seams of gas that are being tapped to feed the LNG plants in Queensland.

"At a time when we need billions in new investment to create more gas supply, any intervention that creates sovereign risk is alarming," he said.

# A Hedge Fund Puts Money on 'Big Data'

By BRADLEY HOPE

Data scientists at **Coatue Management** LLC spent the past few years digging into new data sets to gain an edge in investing. Now, the firm is betting on data science itself as hedge funds across Wall Street push into "big data" analysis to find trading opportunities.

The hedge fund led a \$27 million funding round for a company called **Domino Data Lab** Inc., a San Francisco startup founded by **Bridgewater Associates** LP alumni, the companies announced Wednesday. Other investors in the round include **Bloomberg Beta**, **Zetta Venture Partners** and **Sequoia Capital**, all three of which invested in earlier rounds.

Coatue, which has \$10.5 billion of assets under management, according to a person familiar with the company, is investing in Domino through a new fund dedicated to investments in private companies.

As more hedge funds dig into growing amounts of data available that can give indications on revenues at companies ahead of quarterly announcements and hints at economic growth before government numbers are published, they are hiring more

data scientists to do more intensive analysis than hedge funds are used to doing.

For example, a firm could dip into location data collected by a mobile-phone app to find out if more people are visiting Nordstrom Inc. than in previous quarters.

The app likely only collects a small sample of overall visitors to the store, so without proper care a novice could find signals that aren't reliable for investing.

"The biggest challenge for hedge funds getting into these alternative data sets is analyzing the data," said Rado Lipus, founder of **Neudata** Ltd., which helps financial firms find new data sets to drive investments. "It's taken some firms years to get right."

Domino's software allows data scientists to run experiments and analyze data in a collaborative program, which helps analysts at Coatue Management discover new trends and hand them to portfolio managers.

Coatue is betting Domino can beat competitors such as Cloudera Inc. and **Ufora** Inc. "Data science and artificial intelligence are the most important trends in technology today," said Thomas Laffont, senior managing director at Coatue.

"But we realized in our own internal work that doing data science is very time consuming," he said.

Financial clients are a big and growing driver of Domino's business, as more investment firms delve into "alternative data," said Nick Elprin, the CEO and co-founder of Domino who previously spent seven years designing technology at Bridgewater—the largest hedge fund in the world.

Everything from credit-card receipts to satellite images of corn crops are increasingly driving Wall Street investments in a major trend that is still in an early stage, industry observers say.



STEPHEN LAW/REUTERS  
Thomas Laffont of hedge fund Coatue Management

## The Face of Real News

Jon Hilsenrath's investigation into the economic workings of America's heartland uncovered the brewing dissatisfaction that led to the election of Donald Trump.

Real journalists and real news from America's most trusted newspaper.

**WATCH HIS STORY AT WSJ.COM/JON**

#TheFaceOfRealNews

**THE WALL STREET JOURNAL.**

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## MARKETS

# Bankers Cash Out on Trump Rally

Executives of U.S. regional lenders used postelection gains as chance to sell shares

By RACHEL LOUISE ENSIGN  
AND TOM McGINTY

Investors rushed into regional and community bank stocks after the U.S. election, encouraged by higher interest rates and potential regulatory relief. Top executives and directors at banks used the rally for a different reason: to cash out.

Insiders at publicly traded commercial banks with a market value greater than \$1 billion, but excluding the largest national banks, sold about \$1.4 billion in their company stock between the election and the end of March, according to a Wall Street Journal analysis.

The sales netted executives and directors at banks like PNC Financial Services Group Inc. and U.S. Bancorp \$1 billion when taking into account the cost of exercising options.

The moves are in line with the behavior of insiders at the biggest U.S. banks, which was the subject of a Wall Street Journal article in January.

Executives at some of the country's largest banks sold about \$163.5 million worth of stock since the presidential election, more than in that same period in any year since before the financial crisis, according to an updated Wall Street Journal review of securities filings.

At the nearly 100 community banks and regional players included in the Journal's latest review, net gains from selling since the election totaled about \$7.2 million per day—nearly four times the 2016 pace before the election.

For years, bank stocks lagged behind the broader stock-market rally as low interest rates and a regulatory



Richard Davis, who retired this month as CEO of U.S. Bank, shown in 2014. He sold shares recently.

overhang from the financial crisis weighed on results. Last year started with the KBW Nasdaq Bank index falling as much as 23% by mid-February due to recession fears. During that time, insiders did very little selling, netting just \$13 million on share sales in the first two months of 2016.

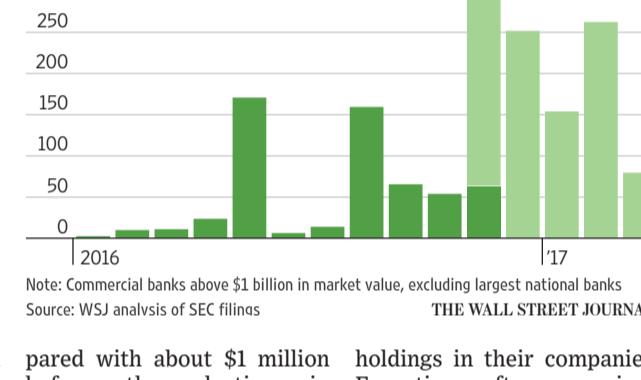
After Donald Trump's surprise election win, potential tax and regulatory relief from the new administration gave bank investors a rosier view. Interest rates also started to rise, which helps bank profits.

While bank stocks have flagged a bit in recent months, the KBW index rose by more than 22% between the election and the end of March, the period of increased insider selling.

Alex Lieblong, a director at Arkansas-based Home BancShares Inc., netted about \$25 million in sales of the bank's stock after the election, com-

### Executive Actions

Net proceeds from bank insider share sales



Note: Commercial banks above \$1 billion in market value, excluding largest national banks  
Source: WSJ analysis of SEC filings

pared with about \$1 million before the election in 2016. The 66-year-old investor said his estate planners told him that he needed "a little diversification here in case you get hit by the proverbial bus."

Bank insiders still have vast

holdings in their companies. Executives often are given shares through stock or options grants as part of compensation. Sometimes, they purchase shares on the open market or through their retirement plans. In 2016 before the

election, 255 insiders at these lenders bought \$42 million worth of stock. After the election through the end of March, the purchases amounted to \$5 million from 55 insiders.

Private-equity investors with board seats also sold. Four of them accounted for more than \$310 million of the sales, or about 22% of the total, since the election. These same investors sold \$46 million in 2016 before the election.

While it is relatively unusual for private-equity investors to have stakes in banks due to regulatory restrictions, some got involved during or shortly after the crisis.

Oaktree Capital Management LP and Thomas H. Lee Partners LP, for instance, in 2011 invested more than \$350 million in Puerto Rico-based First BanCorp Inc. as a part of a capital raise. The two private-equity investors, which declined to comment, sold about \$257 million worth of First BanCorp stock in December and February. The stock is up 62% in the past 12 months through Wednesday.

Another recent seller: U.S. Bank CEO Richard Davis, who retired from that role this month. In November and January, he sold \$73 million of stock, netting \$28 million after exercise costs. The bank said the moves were an exercise of options from 2008 and declined to comment further on Mr. Davis's behalf.

PNC CEO William Demchak, meanwhile, sold \$40 million, netting \$21 million.

Both Messrs. Demchak and Davis remain significant shareholders in their banks. The stocks have both hit record highs in 2017 after steadily recovering since the financial crisis.

Given "the rise in PNC's stock price during this time frame, I viewed it as an opportune time to exercise" stock options that were set to expire in the next two years, Mr. Demchak noted.

# Oil Drop Hinders Shares In U.S.

By AKANE OTANI  
AND RIVA GOLD

U.S. stock indexes wobbled Thursday, hit by a slide in shares of energy companies.

The Dow Jones Industrial Average was off 26 points, or 0.1%, to 20949 in midday trading. The S&P 500 fell 0.1%, and the Nasdaq

THURSDAY'S Composite gained 0.2%.

Earlier, markets across Asia ended mixed after the Bank of Japan indicated it is unlikely to move away from easy-money policies, saying inflation lagged behind an earlier forecast. Japan's Nikkei Stock Average posted losses to finish down 0.2%. Hong Kong's Hang Seng Index closed up 0.5%, and the Shanghai Composite Index added 0.4%. Australia's S&P/ASX 200 gained 0.2%.

U.S. stocks have generally climbed in recent sessions, buoyed by corporate earnings reports pointing to health in U.S. companies. While bets on tax cuts from the Trump administration helped major indexes surge after the election, many investors say future stock gains are likely to be driven by earnings, not policy bets.

Declines in energy shares Thursday weighed on the S&P 500. U.S. crude oil was down 2.3% at \$48.46 a barrel as investors weighed concerns over a surplus in petroleum products. The S&P 500's energy sector fell 1.9%.

The Stoxx Europe 600 fell 0.2%, holding steady after the European Central Bank left its policy unchanged and said rates would remain at present or lower levels well past the horizon of asset purchases.

## HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Email: heard@wsj.com

### Deutsche Bank Slogs; Rivals Soar

If Deutsche Bank has found the right balance in investment banking, it is hard to spot the benefits.

The German group failed to catch the market recovery that boosted bond trading at U.S. rivals and Credit Suisse in the first quarter, while the improvement in its revenues from work on deals and fund raising also lagged rivals.

The first quarter of 2016 was rough for investment banks globally, so the start of this year had been expected to drive a recovery.

Deutsche's rivals got it: Fixed-income trading revenues at U.S. banks were up by 24% in the first quarter of 2017 versus the year-earlier period and Credit Suisse's rose 30%, including Asia and its solutions business, where it trades interest rates and currencies. Deutsche Bank's bond trading was 11% higher.

The bank missed the rebound in U.S. mortgage-bond trading because it quit that business. Deutsche did enjoy a big rebound in leveraged loans but reports that activity in a different division to Credit Suisse, which includes it in bond trading.

Still, taking Deutsche's markets and investment banking units in total, revenues were down 4% versus the first quarter of 2016.

Part of the revenue loss is down to the perverse accounting effects of Deutsche becoming safer: A fall in its own funding costs, reflected in a much lower cost to protect its bonds against default, cut its revenues.

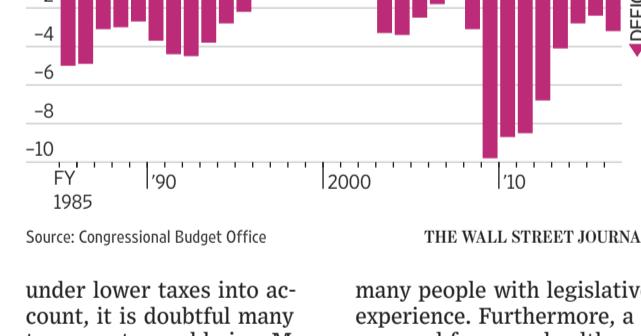
Still, Deutsche endured a sluggish quarter. Investors backed management with a capital injection this month. It looks like a long, hard slog before they will get a return on that money.

—Paul J. Davies

### Tax Cut: Don't Forget the Deficit

#### In the Red

Federal budget surplus/deficit as a share of gross domestic product



Source: Congressional Budget Office

under lower taxes into account, it is doubtful many tax experts would view Mr. Trump's plan as deficit-neutral.

A bigger budget deficit would be in the offing.

For investors trying to determine a potential tax bill's timing, scope and probability of passing, the unveiling of Mr. Trump's plan provides little clarity. Even many basic details have yet to be filled in. Mr. Trump's cabinet is understaffed and lacks

many people with legislative experience. Furthermore, a renewed focus on health-care reform may mean any move on taxes will have to wait.

But the plan does provide some insight into the contours of what an eventual tax cut might look like, even if it ends up being more modest than what Mr. Trump has proposed.

On the stock-market side, nearly everyone comes out a winner. Domestically fo-

cused companies such as retailers and construction firms, which have among the highest effective tax rates, get a nice break. And many companies that do a substantial amount of business overseas (and tend to have lower effective rates) get to bring money earned overseas back home at a lower cost.

So earnings would be higher.

The bond market would find less to love. Larger budget deficits would increase Treasury issuance. And, insofar as the plan might boost growth, it could prompt the Federal Reserve to raise rates more quickly and begin reducing the size of its Treasury holdings sooner.

The combination of more Treasurys on the market and tighter monetary policy would push long-term rates higher. That could be bad for the bond market—and cut equities' attractiveness.

There is no such thing as free lunch and no such thing as a free tax cut, either.

—Justin Lahart

### OVERHEARD

It is tough enough facing one disruptive trend, but try three. That is the slogan for Société BIC, known globally for disposable razors, lighters and ballpoint pens.

BIC's razors are causing the most pain, but not because of the fashion of men wearing beards. Rather, it is the digital disintermediation of razor sales by online purveyors. The company launched BIC Shave Club in March, but the damage is done. Last quarter, U.S. razor sales fell more than 9%.

Lighters slowed, too. Here, another shift could be coming: E-cigarettes have built-in igniters—meaning there is no need for a flame.

Meanwhile, BIC's stationery business, including pens, would seem most at risk as swiping fingers replace ink-filled instruments. Sales were off 5%.

All that said, margins remain decent. And with the stock off by a third since mid-2015, these old technologies may be worth something.

\* \* \*

Could the dollar start solving problems for U.S. multinationals instead of creating them?

Eli Lilly raised its sales outlook Tuesday, citing the recent weakening of the dollar. This comes after DuPont boosted its profitability guidance Monday for the same reason.

The extended bull market in the U.S. dollar has taken a toll on multinationals' results. The Wall Street Journal Dollar Index, which measures the dollar against a basket of foreign currencies, has risen by nearly one-third over the past five years.

That strengthening tends to harm the results of companies that transact in foreign currencies but report results in dollars. The index has dropped by about 4.5% so far this year, however, raising hopes for relief.

### Samsung Should End Its Old-Fashioned Ways

#### Cheap as Chips

Enterprise value to forward earnings before interest, taxes, depreciation and amortization

Apple	10.7
Qualcomm	8.8
TSMC	6.9
Western Digital	5.6
LG Electronics	4.7
Micron Technology	3.4
Samsung Electronics	3.2
SK Hynix	2.5

Source: S&P Global Market Intelligence

THE WALL STREET JOURNAL.

can be used to make acquisitions or to pay employees—so analysts sometimes include them in calculations.

Permanently taking them off the market will end that potential dilution. Morgan Stanley, for example, said the change will raise its earnings-per-share estimate for next year by 15%. Elliott praised it as a "bold step."

The holding company decision, though, is a disappointment. It is true that there are legal and regulatory hurdles to separating the core businesses of Samsung Electronics from its other assets, but the payoff makes them worth clearing. The loops of circular

shareholdings within the larger group—Samsung Electronics has stakes in such irrelevant assets as Samsung Heavy Industries, a shipbuilder, and Hotel Shilla—depresses the value of Samsung Electronics, which just delivered its best quarterly profit in three years.

The company said in its earnings call Thursday that it will "find a way and the timing" to unravel the shareholdings, but it offered no timeline or road map.

For Samsung, on the cutting edge in memory chips and mobile displays, it's past time to shed the archaic structure. —Jacky Wong

Before and  
after: How 5  
Comme des  
Garçons  
runway looks  
get real **W3**



# OFF DUTY



7 insider  
wine bars where  
sommeliers  
spend their  
nights off  
**W6**

EATING | DRINKING | STYLE | FASHION | DESIGN | DECORATING | ADVENTURE | TRAVEL | GEAR | GADGETS

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THE WALL STREET JOURNAL.

Friday - Sunday, April 28 - 30, 2017 | **W1**



TAKE MONDAY OFF

## Portland Of Plenty

Oregon's determinedly quirky city makes for a boredom-free long weekend—especially on two wheels



**ON THE OREGON TRAIL** Clockwise from upper left: Tony Tellin leads the tea-making process at Steven Smith Teamaker; bike-share riders pass by Powell's, one of the country's largest bookstores; a 'seafood tower' at Headwaters restaurant at the historic Heathman hotel; the newly expanded Portland Japanese Garden at Washington Park.

BY LUCY FELDMAN

**B**EFORE PORTLAND, ORE., established itself as a hipster utopia and beleaguered punch line—a land of vegan tattoos, fastidious food-truck chefs and all things crafty and pickled—visitors were already taken with its abundant natural attributes. The Willamette River divides the city, forest trails wind throughout it, and Mount Hood and the coast each sit just over an hour's drive away. A cleverly planned long weekend in Portland will tap both aspects: sampling urban obsessiveness and the abundant verdure of the Pacific Northwest.

On the city's east side is the stuff of "Portlandia"—a cluster of crafting collectives (Welding Basics, anyone?) and shops selling everything from Feminine Divine Tea to taxidermied antelopes. On the tonier west side, you'll find discerning boutiques, stately watering holes, lush gardens and forested parks. Don't miss the riverfront and its 12 bridges, many of which are pedestrian-friendly. In fact, much of the city ministers to pedestrians and cyclists, thanks to extensive public transit and bike lanes, and an enduring small-town ethos. Stand at a crosswalk and just try to wave a car past—you've initiated a stand-off of politeness. Here's our recommended three-day itinerary.

### DAY ONE // FRIDAY

**5 p.m.** Land at Portland International Airport and make note of its oddly high-profile teal carpet (know of any other airport rugs with a fervent Instagram following?) before hopping on the Metropolitan Area Express (MAX) train. It's a 40-minute ride into the city to the cheap-and-cheerful **Society Hotel**, housed in a recently reclaimed 1880s lodging house (*from \$135 a night for a private room, thesociedad-hotel.com*). For more luxurious digs, ride the MAX 10 minutes far-

ther to **Sentinel Hotel**, an elegant mash-up of two historic buildings (*from \$185 a night, sentinelhotel.com*).

**7 p.m.** Dinner time. The Portland Streetcar loops around the busiest areas of the city on both sides of the river. Hop on a blue line train (pay the \$2 fare with cash or pay through the PDX Streetcar Mobile app), grab a window seat and ride across the water to SE Grand Avenue and Hawthorne Boulevard. An 8-minute walk east brings you to **Teote Areperia**, where a La Cena Carne platter loaded with spicy,

saucy Latin-American shredded meats, beans, fried plantains and hot buttered arepas awaits. Dig in on the patio near the fire pit (*1615 SE 12th Ave., teotepdx.com*).

**9 p.m.** All that feasting calls for a little healthy movement. Walk 10 minutes to **Pips & Bounce**, a ping-pong social club. Rent a table for 30 minutes for \$15, and have yourself a volley while sipping a "Pong-tail" or an Oregon beer on tap. Friday night is Cosmic Pong—expect black lights (*833 SE Belmont St., pipsandbounce.com*).

### DAY TWO // SATURDAY

**8:30 a.m.** Start your Saturday with a jolt to-go, practically de rigueur in this caffeine-addicted city, from **Case Study Coffee Roasters** (*802 SW 10th Ave., casesstudycoffee.com*), then wander south through downtown for about 15 minutes to the **Portland Farmers' Market** at Portland State University, a year-round destination with over 140 vendors at the height of the summer season (*portlandfarmersmarket.org/our-markets*). Please turn to page **W2**

## OFF DUTY

# THREE FREEWHEELING DAYS IN PORTLAND

Continued from page W1

**9:15 a.m.** You may have noticed searing-orange bicycles racked around the city. Nike's **Biketown** bike share program allows you to rent one for \$2.50 per 30-minute ride, or \$12 for the day ([biketownpdx.com](http://biketownpdx.com)). Pick up your ride outside the Smith Memorial Student Union (between SW Mill St. and SW Harrison St.). Ride over Tilikum Crossing—the newest of Portland's bridges, accessible only to pedestrians, cyclists and mass-transit vehicles—to Clinton Street on the east side.

**10:15 a.m.** Since you'll be biking around for the balance of the day, carbo-load at **Off the Waffle**. Try the signature Liege waffle, crisply caramelized on the outside ([2601 SE Clinton St., offthewaffle.com](http://2601SEClintonSt.offthewaffle.com)).

**11:15 a.m.** Five minutes on your bike brings you to the east side's Division Street, a strip of cult coffee shops, boutiques and a slew of popular dining spots, including **Tidbit Food Farm**, a cluster of food trucks in a charmingly scruffy garden ([28th Place and Division St.](http://28thPlaceandDivisionSt.com)). Lock up your bike at one of the public racks (locks provided; press "hold" so no one else takes it). Grab another coffee—or at least snap an Instagram—at **Stumptown Coffee**'s first location, a landmark in Portland's coffee culture ([4525 SE Division St., stumptowncoffee.com](http://4525SEDivisionSt.stumptowncoffee.com)), then scope out stationery shop **Little Otsu**, catnip for paper hoarders ([3225 SE Division St., littleotsu.com](http://3225SEDivisionSt.littleotsu.com)) and nearby art gallery **Nationale** ([3360 SE Division St., nationale.us](http://3360SEDivisionSt.nationale.us)).

**1 p.m.** Once you hit 38th Avenue, cycle north about 10 blocks to Hawthorne Boulevard, one of the original meccas for the plaid-shirted and wool-beanie-topped natives. **Jackpot Records** carries a vast collection of rock, jazz, hip hop and soul vinyl ([3574 SE Hawthorne Blvd., jackpotrecords.com](http://3574SEHawthorneBlvd.jackpotrecords.com)), while quirky little **Perfume House** stocks nearly as many fragrances ([3328 SE Hawthorne Blvd., theperfumehouse.com](http://3328SEHawthorneBlvd.theperfumehouse.com)). Finally, check out **Tender Loving Empire**, both a record label and a retail shop with locally made jewelry and beauty products ([3541 SE Hawthorne Blvd., tenderlovingempire.com](http://3541SEHawthorneBlvd.tenderlovingempire.com)).

**2 p.m.** For lunch, head to **Fried Egg I'm in Love**, a rock 'n' roll-themed egg-sandwich food truck, featuring local farm eggs and sourdough bread from Portland French Bakery. Order the Yoko Ono—homemade pesto, parmesan and a sausage patty all sandwiched around an expertly fried egg—and take a seat at one of the picnic benches ([3207 SE Hawthorne Blvd., friedegglove.com](http://3207SEHawthorneBlvd.friedegglove.com)).

**3 p.m.** Follow that cheesy sandwich with a stop at nearby **Commons Brewery**, which offers 13 beers on tap; typically all but one are made on-site. Sip your way through a flight, with a view of the brewers at work ([630 SE Belmont St., commonsbrewery.com](http://630SEBelmontSt.commonsbrewery.com)).

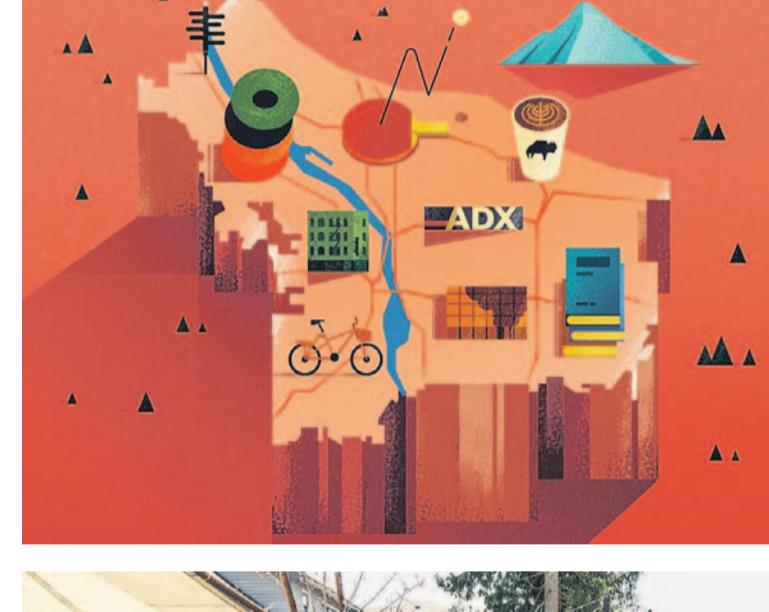
**4:30 p.m.** Hop on the bike for a five-minute ride to Stark Street, where you'll find the "vegan mini mall," featuring vegan cafe **Sweatpea Baking Co.** ([1205 SE Stark St.; sweetpeabaking.com](http://1205SEStarkSt.sweetpeabaking.com)), vegan grocery store **Food Fight!** ([1217 SE Stark St.; foodfightgrocery.com](http://1217SEStarkSt.foodfightgrocery.com)), vegan boutique **Herbivore Clothing Co.** ([1211 SE Stark St.; www.herbivoreclothing.com](http://1211SEStarkSt.www.herbivoreclothing.com)) and vegan tattoo parlor **Scapegoat Tattoo**. If you're wondering what makes a tattoo vegan: Scapegoat's inks, unlike standard ones, contain no bone char or other animal products ([1223 SE Stark St., scapegoattattoo.com](http://1223SEStarkSt.scapegoattattoo.com)).

**5 p.m.** Feeling inspired by all this local industry? Around the corner is the "maker space" Art Design Portland, aka **ADX**, a multiroom jungle of equipment, including tablesaws, torches, a laser cutter, jewelry tools and a screen-printing press. Your mission: Build and wire a one-of-a-kind Edison-bulb lamp with the help of an instructor—or dream up a project of your own. Schedule private classes in advance ([417 SE 11th Ave., adxportland.com](http://417SE11thAve.adxportland.com)).

**8 p.m.** Dinner is only a 12-minute ride away, at Pine Street Market in Old Town, on the west side, where the vendors include some of the city's most crowded-about chefs. Ditch today's bike on the rack at SW 2nd Avenue and head inside. Try **Marukin Ramen**, one of the famed Japanese chain's hot bowls, or **Pollo Bravo** for rotisserie chicken and tapas. For dessert, scoop up a



**SOAK IT ALL IN** Knot Springs spa, with its various hot and cold pools, overlooks the Willamette River.



**STUFFED TO THE GILLS** From above: Paxton Gate, a taxidermy and gift shop; Tidbit Food Farm and Garden, one of Portland's many food-truck 'pods'; Blue Star Donuts are flavored with seasonal and local ingredients.



Portland Zoo ([explorewashingtonpark.org](http://explorewashingtonpark.org)). Start at the **Portland Japanese Garden**, which recently underwent a \$33.5 million expansion featuring a new cultural village designed by renowned Japanese architect Kengo Kuma ([611 SW Kingston Ave., jpainesegarden.com](http://611SWKingstonAve.jpainesegarden.com)).

**12:45 p.m.** Just below the Japanese Garden is the **International Rose Test Garden**. Sniff around the rows of over 10,000 rose plants (and 650 varieties), and pause on a bench to take in the city views ([400 SW Kingston Ave.](http://400SWKingstonAve)).

**1:30 p.m.** A quick downhill ride drops you at **Verde Cocina en la Perla** for lunch. Return the bike at NW Flanders Street and NW 14th Avenue, a block away, before sitting down for a Mexican brunch featuring generous portions of local vegetables, handmade corn tortillas and farm-fresh eggs. Whatever you're getting, add the bacon—or, as they call it, "smoked candy" ([524 NW 14th Ave., verdecocinamarket.com](http://524NW14thAve.verdecocinamarket.com)).

**3 p.m.** Stroll around the Pearl District, a former warehouse zone turned stylish retail destination, and pop into **Hunt & Gather**, an art and

dipped cone or ice cream sundae from **Wiz Bang Bar**, a soft-serve spot from popular ice-cream maker Salt & Straw ([126 SW 2nd Ave., pinstreetpdx.com](http://126SW2ndAve.pinstreetpdx.com)).

**10 p.m.** End the night with a drink at the century-old **Jake's Famous Crawfish**, a short stroll away. Pull up a bar stool, order a nightcap and ask the bartender about the bullet holes in the wall ([401 SW 12th Ave., mccormickandschmicks.com](http://401SW12thAve.mccormickandschmicks.com)).

### DAY THREE // SUNDAY

**9:30 a.m.** Hop on the streetcar's green line and ride it up to Marshall Street and NW 23rd Avenue, the main shopping drag in the Alphabet District. Your breakfast stop is **Blue Star Donuts**, which uses seasonal local ingredients ([921 NW 23rd Ave.; bluestardonuts.com](http://921NW23rdAve.bluestardonuts.com)). A doughnut needs a friend, so head one block to **Barista** for a cup of coffee ([823 NW 23rd Ave., baristapdx.com](http://823NW23rdAve.baristapdx.com)).

**11 a.m.** When you're ready to move on, grab a new bike at the Biketown rack on 23rd Avenue and NW Kearny Street (or, if your legs need a break, order an Uber or Lyft) and head over to **Washington Park**. The 410-acre green space features multiple gardens, an arboretum and the



The Sentinel Hotel, a mash-up of a 1923 Elks Lodge and a 1902 hotel.

**Headwaters.** James Beard Award winner Vitaly Paley's fourth and newest restaurant in the city, it's embedded in the historic Heathman Hotel. Start with something fresh from the sea bar, like diver scallops served with foie gras, or smoked fish with herring schmear (recipe courtesy of Mr. Paley's grandmother). Follow with halibut en papillote or grilled octopus ([1001 SW Broadway, headwaterspdx.com](http://1001SWBroadway.headwaterspdx.com)).

**9:30 p.m.** A lazy 10-minute stroll will bring you to another of Portland's oldest restaurants, established in 1879: **Huber's Cafe**. Order a "Spanish Coffee," which comes with a fiery show—the bartender will fling and light your rum, triple sec, kahlua and coffee cocktail aflame and top it with cream and a dash of nutmeg before sliding it your way ([411 SW 3rd Ave., hubers.com](http://411SW3rdAve.hubers.com)).

### DAY FOUR // MONDAY

**9 a.m.** After two nonstop days, you've earned a little R&R. Report to the new **Knot Springs** spa first thing in the morning for a Thai massage. Plan to spend time before or after the massage in the pools, where floor-to-ceiling windows overlook the river and the city skyline (*book a week in advance*; [33 NW 3rd Ave., knotsprings.com](http://33NW3rdAve.knotsprings.com)).

**12:30 p.m.** Next up: **Steven Smith Teamaker's tasting room**. Curate your own tasting flight from a list of over 30 varieties made on-site, such as Astoria's Amaro, a combo of cascara, honeybush and other botanicals, or order a tea on tap, served chilled and slightly carbonated ([110 SE Washington St., smithstea.com](http://110SEWashingtonSt.smithstea.com)).

**1:15 p.m.** Just across the street, settle in for a cozy lunch at **Olympia Provisions**. Surround yourself with boards piled high with charcuterie and cheese, served with house-made pickles and other trimmings ([107 SE Washington St., olympiaprovissions.com](http://107SEWashingtonSt.olympiaprovissions.com)).

**2:30 p.m.** At the cavernous **Grand Marketplace**, an eight-minute walk away, drift among the vintage wares and wears, from typewriters to faux furs ([1005 SE Grand Ave., grandmarketplacepdx.com](http://1005SEGrandAve.grandmarketplacepdx.com)).

**3:30 p.m.** Pick up a new bike at SE 6th Avenue and SE Alder Street for a scenic riverside ride to Mississippi Avenue along the tree-lined esplanade. Don't miss **Paxton Gate**, a taxidermy specialty shop artfully crammed with curios, from shark eyeballs to hanging heads galore ([4204 N. Mississippi Ave., paxtongate.com](http://4204N.MississippiAve.paxtongate.com)).

**4:30 p.m.** Before heading to the airport, grab a final beer and a burger at **Ecliptic Brewing**—maybe the farro burger with pickled carrots, since you're unlikely to find one back home ([825 North Cook St., eclipticbrewing.com](http://825NorthCookSt.eclipticbrewing.com)).

DAVE LAURIDSEN FOR THE WALL STREET JOURNAL; MAP BY DAN NATURINA

## OFF DUTY

# Studio To Street

How Comme des Garçons—the focus of a new Met exhibit—translates its runway looks into clothes you can wear

BY MAYA SINGER

A FAIR QUESTION from anyone first encountering a Comme des Garçons collection: *How on earth do you wear that?* Of all the ready-to-wear runway extravaganzas that take place in Paris four times a year, the assertively avant-garde shows staged by the label's much-revered designer Rei Kawakubo are most likely to confound people inclined to think of fashion in terms of durable wardrobe staples.

And yet, Comme des Garçons—subject of the exhibition “Rei Kawakubo/Comme des Garçons: Art of the In-Between,” which opens at the Costume Institute at the Metropolitan Museum of Art on May 4—has a thriving retail business, with a highly varied coterie of dedicated fans.

Ikram Goldman, owner of the eponymous Chicago boutique, stocks everything from the brand's conceptual pieces to items from its more commercially inclined subsidiary labels. The secret, she said, is that Ms. Kawakubo's runway innovations are artfully translated into wearable clothes—a rather utilitarian uniform—before they reach stores.

This lets her achieve the quicksilver balance of art and commerce so many fashion brands seek. “That's Rei's genius as a businesswoman,” Ms. Goldman said. “She respects the uniform, but she keeps refreshing it with new details, new fabrics, new shapes, so it feels like ‘fashion.’” Ms. Kawakubo excels at tailoring staples—blazers, trousers and coats—all of which can take on the personality of a certain collection.

For longtime followers like Suzanne Golden, the brand's clothes do serve as a uniform. Ms. Golden, a spry 70-something New Yorker, discovered Ms. Kawakubo's label in the mid-90s—and never looked back. “There are themes she keeps coming back to, like the baggy pants,” she said. “That is why the clothes are so timeless.” Ms. Golden has amassed quite a Comme wardrobe, merrily mixing recent pieces with ones she's owned for years.

Still, there is also a market for some of the startling runway ensembles the Met will display. Ms. Goldman used to order one look per season just to put in her shop window, expecting to keep it for her archive. “Invariably, someone would buy it,” she said. “It became a bone of contention, for me and my sales team. You can't reorder those pieces! Now I just buy two.”

### YES PLEATS

The hefty pilgrim-collar coat over a tiered pleated dress (left), shown in the **Spring 2017** collection which Ms. Kawakubo describes as ‘Invisible Clothes,’ begot a tropical-wool frock (above) that borrowed the original's flanged silhouette and pleats. In one, you can even shoot hoops. \$2,182, *Comme des Garçons*, 212-604-9200

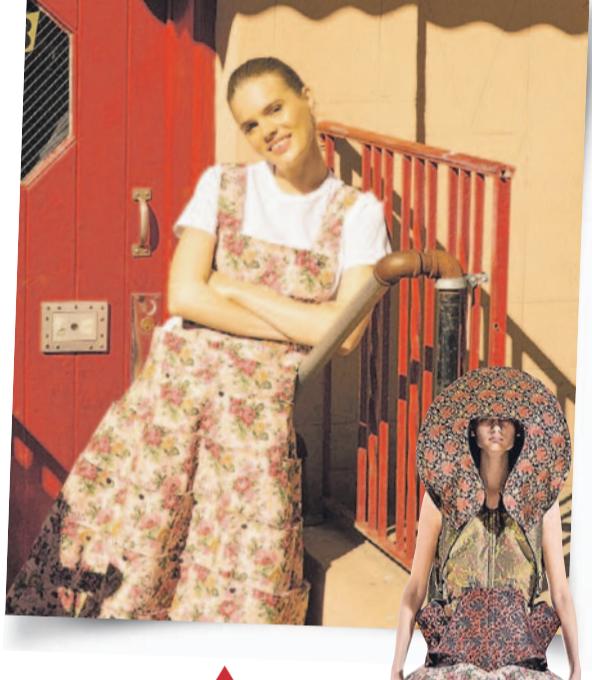
### CAGE PERFORMER

Ms. Kawakubo told Vogue she set out to not make clothes for her **Spring 2014** show. And yet, pieces like this dominatrix-y frock (right) made the leap into the real world (above). The leather pinafore simply requires an underpinning like this Comme des Garçons Play T-shirt, \$100, *Comme des Garçons*, 212-604-9200.



### SLIM, SHADED

On the **Spring 2017** runway, this garment with a Rorschach-esque print (left) looked like a dress that had been flattened and then grew matching wings. In stores, the print and a hint of the sculptural sensibility remained (above), while the wings flew away to reveal a fairly flattering shift. \$1,500, *Comme des Garçons*, 212-604-9200



### PETAL PUSHING

Ms. Kawakubo would never show florals in a conventional way. All the pretty blooms in the **Fall 2016** show were transformed into armor-like panels and shapes (right). The commercial dress (above) stayed true to that spirit, crafted from strips of stiff floral fabric snapped together with silver hardware.



### STRAPPING SPECIMEN

The label is known for imbuing wearable tailoring with a touch of concept, as seen in this blazer's crisscross straps (far left), a distillation of a cooing coat (near left) from the **Spring 2016** collection.

## WHEN EVERY COLOR IS GREEN

Seeking nail polish with fewer toxic ingredients? Your choices are growing

**FOOTLOOSE, FANCY-FREE** and freaked-out about toxic chemicals in your toenail polish: One of these feelings should never be part of your warm-weather outlook.

Nor need it be. In the past several years, polish makers have doggedly removed troublesome (carcinogenic, endocrine-disrupting) ingredients from their recipes. More than a decade ago, “3-free” formulas—devoid of dibutyl phthalate, formaldehyde and toluene—crept into the market. Next came “5-free,” which stripped out formaldehyde resin and camphor. With “8-free” formulas, ethyl tosylamide, xylene and parabens bit the dust.

Now brands such as Sundays and Côte are claiming “10-free” status for polishes without any tert-butyl hydroperoxide or animal-derived ingredients like fish scales or crushed beetles.

Now that pedicure season has arrived, many women will go from one paint job to the next, with little time off in-between. It's time to ask whether your nail polish may be harming your health. The answer isn't easy. With toxins everywhere, said New York dermatologist Dr. Melanie Grossman, teasing

out which chemicals cause the most damage can be a fool's errand. “If we're talking about cancer or endocrine problems from nail polish, it's almost impossible to prove,” she said. “People who polish their nails [might] eventually color their hair. They use a cellphone and eat food with dye in it. At what point are we assigning blame to nail polish versus anything else?”

Still, you might want to err on the side of caution. Chemical-light formulas require few sacrifices. Sundays founder Amy Ling Lin admits she's limited in terms of the colors she can produce, but the brand's 43 shades cover a fairly broad range. Those seeking neon or glitter might gripe.

In another decade, women may not even have to make the choice. Nail lacquer veteran Dineh Mohajer started tinkering with non-toxic formulas with her first brand Hard Candy. By the time she launched her latest, Smith & Cult, in 2015, she could deliver an 8-free collection out of the gate. “We want to create formulas that are as safe for customers as possible,” said Ms. Mohajer. “That's kind of a given.” —Dana Wood



GARDEN VARIETY Toxin-free polishes are no longer rarities. From left: 100% Pure Nail Polish in 'Crush,' \$12, [100percentpure.com](http://100percentpure.com); Côte Nail Polish in 'No. 20,' \$18, [coteshop.co](http://coteshop.co); Sundays Nail Polish in 'No. 2,' \$18, [dearsundays.com](http://dearsundays.com)

## OFF DUTY

# Almost No One Aboard in Vietnam

While tourist boats swarm Ha Long Bay, a nearby national park offers the same indelible scenery without the scene



DAVID CHOW FOR THE WALL STREET JOURNAL; MAP BY JASON LEE

BY HENRY WISMAYER

**T**HE ROCKY islets resolved through the haze at the bow, and the captain slowed the boat so we could take it all in. Some of the islands stood densely packed like monks in conclave, others lone and admonitory like the fins of monstrous sea creatures. As I cruised through Vietnam's Bai Tu Long National Park inventing metaphors, it struck me: This was the first time I'd been relaxed in days.

Just a week earlier, I'd been on another boat, a few miles west in Ha Long Bay, but the atmosphere there had been very different.

Don't get me wrong: Ha Long Bay, the fabled archipelago of limestone pinnacles in the Gulf of Tonkin, off Vietnam's northeast coast, is a thing of wonder, often exalted as the country's most unmissable sight. The problem lay in the circus that all the wonder had attracted. One of a dozen tourists on a three-day boat tour, I'd cruised sulkily between the outcrops, corralled along prescribed routes in an armada of junk-boats (traditional Chinese sailboats) all following the same itinerary. There were gauche light-shows at night and kayak trips, launched from offshore pontoons, by day. There were visits to floating villages that felt like human zoos drifting on cubes of polyethylene. When we went swimming a French traveler turned to me and quipped: "Ever get the feeling you're swimming in a sewer," as we dodged the litter bobbing in the water.

Yes, three days in Ha Long Bay had validated that most cynical of traveler's maxims: The trouble with beautiful places is that everyone wants to see them. Call me mean-spirited, but I've always felt that natural grandeur and crowds are incompatible. Perhaps it's my urban upbringing, but for me a holiday doesn't merit the label un-



less you can escape the crush. And now, a few days later, I had, in another bay just a few miles north.

Bai Tu Long National Park, just 5 miles up-coast from Ha Long, used to be part of a single sprawling limestone plateau. The bedrock eroded over 20 million years to create hundreds of surreal, steep-sided islands jutting from the water. Yet while its celebrated World Heritage site neighbor has been overrun by 5 million tourists a year, Bai Tu Long remains a backwater, seldom visited and little-known.

**When we stopped to swim, in water the color of jade, there were no other boats to dodge, no litter to sully the view.**

This short trip, a two-day tour arranged through local operator Ethnic Travel with just eight other travelers, had begun like Ha Long excursions, with a minibus setting out from the motorcycle-heavy throng of Hanoi's Old Quarter. But this time, when the cavalcade of minibuses turned off for the chaos

of Ha Long City's tourist wharf, ours continued north. Soon, a whole new array of sea monster shadows rose precipitously on the horizon.

The tour group debarked at the Cai Rong harbor, where lamp-shade-hatted peddlers wove among the rusted fishing vessels that jammed the quay side. Our own boat turned out to be more salubrious, with rattan furniture on the deck, a cabin roof of plaited reeds and twin-booms wrapped in orange sails. A shoeless captain wished us a nice trip, then steered us out into Bai Tu Long Bay.

The vistas, I soon discovered, offered all of Ha Long's scenery without any of the attendant noise and congestion. According to the local creation myth, a celestial dragon, sent by the supreme Jade Emperor to protect Vietnam from sea invasion, plummeted to Earth in Ha Long, then took off again from Bai Tu Long. The outcrops are the eggs she left behind. Blessed with space and quiet, I found myself dreaming up my own legends. What had looked like monsters from the distance seemed more static, more melancholy up close, like the crumbling battlements of an ancient city abandoned to a flood.

Two days cruising in Bai Tu



**SO LONG, THRONG** Clockwise from top: Cruising Vietnam's Bai Tu Long Bay, a serene alternative to congested Ha Long Bay; an onboard lunch spread; one of Ethnic Travel's junk boat excursions in Bai Tu Long.

worm popular in Chinese medicine. "Most of us have never tasted it," he said, over green tea in the incense-filled lounge. "That would be like eating money."

I spent my last night in Ha Long with a pillow clamped against my ears to block out the noise of drunken carousing from other tourist junks parked alongside. Tonight we cooked our dinner—spring rolls and rice noodles—in Mr. Sao's tranquil courtyard, and slept like a dream.

It was late afternoon the next day when we made a last stop before returning to the mainland. Our captain weighed anchor in the lee of a group of nameless islands, summits thick with vegetation, bases scoured clean by eons of tide and typhoon waves.

The full privilege of visiting Bai Tu Long struck me then. The frenetic Vietnam of 90 million people crammed onto a sliver of Asia felt a million miles away. I stepped over the rail, and dove in.

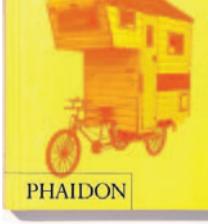


► For details on touring Bai Tu Long National Park, see [wsj.com/travel](http://wsj.com/travel).

## BOOKSHELF

### CARE TO STEP OUTSIDE?

Now that spring has legitimately arrived, three photo-driven books offer a fresh take on outdoor diversions

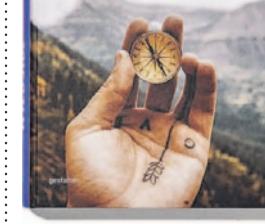


**'Mobitecture: Architecture on the Move'**

Phaidon, \$25

Tempted by the heady idea of life on the open road but find mobile homes hopelessly clichéd? Order this just-released book, by Rebecca Roke, *tout de suite*. Divided into eight chapters, including "Human," "One & Two Wheels," and "Sleds +," the book compiles hundreds of innovative movable

shelters, from zany to ingenious, cooked up by architects, engineers and other visionaries. They've reimaged tents, camper vans and, yes, even sleds. Consider, for instance, the wearable tent-cloak, which unpacks from a pair of high-top shoes, transforming its wearer into a human frame for layers of bright pink and blue waterproof fabric. Perhaps you'd prefer the "Foldavan," a lightweight camper that attaches to a bicycle, or a bikeable sauna pod that features classic wooden benches with seating for six. There's nothing clichéd about a shvitz to go.



**'Wildside: The Enchanted Life of Hunters and Gatherers'**

Gestalten, \$60

A series of essays and arresting images, this rambling tome showcases people who spend their lives and earn their livelihoods in wild places around the world. Among them: Swedish moose huntress Eva Bro-mée, who thrives in the "endless silent wilderness" near the Norwegian border, and mushroom-forager Bruno Augsburger, whose compulsion to discover the next patch has led him from Zurich to Alaska to Iceland. Some of the "hunters and gatherers," such as perfumer Hall Newbegin and cabinetmaker Morten Høeg-Larsen, are more modern nomads than traditional mountain folk. But all are devoted naturalists and wanderers and make a compelling case for spending as much time al fresco as possible, as do the many photos of sweeping landscapes and otherworldly environs.



**'Tree Houses: Fairy Tale Castles in the Air'**

Taschen, \$70

If your favorite childhood memories are of hiding out in lofty playhouses conspiring with your friends (or you still aspire to do so), Philip Jodidio's photo-heavy coffee table book will turbocharge your longing for a space among the trees. The volume includes 50 tree houses around the world, both private aeries (including one belonging to the Doors' guitarist Robby Krieger) and those open to the public. Among the most unusual and inviting: the Teahouse Tetsu on the grounds of Japan's Kiyoharu Shirakaba Museum, where you can slurp your tea eye-level with the cherry blossoms, or the Yellow Tree House Restaurant, an orb nestled in a redwood in Warkworth, New Zealand. Pining for a sleepover in the pines? Consider the Mirrorcube Tree Hotel in Sweden, which slyly blends in with its woodland surroundings by reflecting them. How's that for a proper hideout? —Lane Florsheim

## OFF DUTY

### BREAKFAST 2.0

# The Rest Is Gravy

The biscuit defines this dish, whether you opt for a topping of sausage or tomato

BY SARAH KARNASIEWICZ

COOKS ARGUE over many things, but about Southern-style buttermilk biscuits there is consensus. Flaky, light and tall as a top hat: These are the signs of an ideal specimen. The daughter of Connecticut Yankees, I'd always thought of superior biscuit-making mojo as akin to perfect pitch or noble blood—you're either born with it or not. Then I met Whitney Otawka and Ben Wheatley.

When it comes to light, flaky biscuits, overthinking, like overkneading, is best avoided.

For the last two years, Ms. Otawka and Mr. Wheatley have been the culinary director and executive chef, respectively, at the Greyfield Inn on Cumberland Island, Georgia. A gilded age "cottage" built by the Carnegie clan on an isolated 17-mile spit of land inhabited by more wild horses than humans, the white clapboard

structure is a Southern fantasy of porch swings and Spanish moss. Sunset cocktails are served from the gun room; a breakfast of biscuits and gravy arrives on fine china.

About those biscuits: I'd be content to eat instant ramen 51 weeks a year if it meant I could afford to spend the remainder at Greyfield, stuffing my maw. Thankfully, Ms. Otawka and Mr. Wheatley—who met working at Five & Ten in Athens, Georgia, and married in 2015—take hospitality seriously. After I pestered them during a recent visit, they generously agreed to tutor me in the biscuiteer's craft.

With his background in pastry, Mr. Wheatley takes the lead on biscuit prep at Greyfield. Inspiration for accompaniments is never far off. In cooler months, when shipments of locally raised pork arrive, a rib-sticking, creamy sausage gravy is the best way to stave off the chill. In the warmer months, the 1½-acre kitchen garden Ms. Otawka and her crew harvest provides plenty of fodder. A riff on the lesser-known but no-less-classic Southern tomato gravy is spiced with piquant harissa



and brightened by a few fistfuls of greens.

Hoping to recreate just a bit of that Cumberland magic at home, I peppered the couple with questions: Must I always use buttermilk? Will I need cake flour?

And where do you stand on the butter vs. lard debate? Mr. Wheatley's responses—"Yes," "No" and "Butter, I guess?"—were succinct and unlabeled. Between the lines I got the gist: When it comes to light, flaky biscuits, over-



thinking, like overkneading, is best avoided.

Indeed, the secret to his lofty biscuits turned out to be a super-simple technique: folding. Mr. Wheatley pats out and folds his dough, over and over again, until fine lay-

ers stack up; bits of ice-cold butter create pockets of steam between the layers during baking. The result? Architectural biscuits that rise up tender and golden and tall every time, and which anyone, mojo or no, can master.

### Buttermilk Biscuits

TOTAL TIME: 25 minutes SERVES: 6

Preheat oven to 400 degrees. In a mixing bowl, sift together **2 cups all-purpose flour** and **1 tablespoon baking powder**. Mix in **½ tablespoon kosher salt**. Using the wide holes on a box grater, grate **½ cup unsalted butter**, frozen, into bowl. Use your fingers to massage butter into flour mixture until the size of small

pebbles. Add **¾ cup full-fat buttermilk**, stirring with fork, until dough comes together. //

Dust work surface with **flour**. Turn dough out onto work surface and knead just until it comes together. Gently pat dough into a 1-inch-thick rectangle. Fold dough in half to make a square, then gently pat into a rectangle again. Fold in half again. Pat dough into a 6-by-9-inch rectangle about 1 inch thick. Use a sharp knife or

bench scraper to cut dough into 6 smaller rectangles. Transfer to a baking sheet. Melt **1 tablespoon butter** and brush on tops of biscuits. Bake until puffed and golden, 16–18 minutes.

### Classic Sausage Gravy

TOTAL TIME: 25 minutes SERVES: 6

In a large cast-iron skillet over medium heat, cook **1 pound pork breakfast sausage**, breaking up with a wooden spoon, until

crumbly and well-browned, about 12 minutes. //

Stir in **¼ cup all-purpose flour** and cook, stirring frequently, until pan drippings have absorbed flour, about 5 minutes. //

Gradually stir in **2½ cups half-and-half**. Let mixture come to a low simmer and cook, stirring frequently, until thick enough to coat back of spoon. Add a pinch each of **mustard powder**, **ground allspice** and **freshly ground black pepper**. To serve, spoon gravy over warm, split buttermilk biscuits.

### Spicy Tomato Gravy and Greens

TOTAL TIME: 20 minutes SERVES: 6

Heat a cast-iron skillet over medium heat. Add **2 tablespoons butter** to pan. Once melted, add **½ white onion**, finely diced, and **1 cup shiitake mushrooms**, finely diced. Cook until vegetables are soft and caramelized, about 5 minutes. Stir in **3 cloves garlic**,

**minced, 1 teaspoon chopped fresh thyme** and **2 teaspoons Harissa powder** or paste, and cook 1 minute more. Add **4 tablespoons butter**.

Once melted, add **½ cup all-purpose flour** and cook, stirring constantly, until flour has absorbed all the butter and you have a light roux, 1 minute. Slowly add **3 cups whole milk** to pan, stirring constantly to break up any lumps. Bring gravy to a simmer. //

Stir in **1 (14-ounce) can fire-roasted tomatoes**, drained, and **1 small bunch of curly kale**, stemmed and chopped. Cook until kale is tender, about 3 minutes. Season with **salt** and **freshly ground black pepper** to taste, then stir in **1 teaspoon fresh lemon juice**. Adjust seasoning as necessary. To serve, spoon over warm, split buttermilk biscuits.

—Adapted from Whitney Otawka and Ben Wheatley of Greyfield Inn, Cumberland Island, Georgia

### A LITTLE SOMETHING SWEET

## PUT THIS CAKE ON YOUR HONEY DO LIST

Moist, rich and not overly sweet, this simple Moroccan dessert gets its complex flavor straight from the beehive

**IN MOROCCO**, honey features in age-old remedies for all sorts of ailments, and in savory dishes as well as desserts. A lamb tagine may be ever so mildly sweetened with honey; fried dough will be dipped in it before being rolled in sesame seeds. But to my mind, there's no better vehicle for honey's complex sweetness than this almond-strewn Moroccan cake.

The recipe comes from Dee Rettali, pastry chef at the popular London café Fernandez & Wells, who married into a Moroccan family. One afternoon, heading south from Rabat, where they'd gone to buy honey, she and her in-laws needed a rest and a snack, so they stopped the car by the side of the road. Ms. Rettali watched as her mother-in-law poured honey into a terracotta dish and set it over a small burner she'd brought with her. Having just come from the market, she also had almonds and ingredients for a simple batter, which she poured over the honey and nuts. After cooking, she flipped the cake out of the dish and sprinkled it with orange blossom water.

If you're a camper or happen to cart around a small



pantry in your backpack, by all means try this. But the recipe at right, adapted for the oven, yields the same golden crust and moist interior.

Just don't use the bland gooey stuff found in a bear-shape bottle in the supermarket. Buckwheat or chestnut

honey will lend a pungent depth, whereas a mellow, floral Tupelo honey will murmur Van Morrison. Citrus-blossom and wildflower honeys are always crowd-pleasers. If you like a cake that's not too sweet, try spicy Tasmanian leatherwood honey.

I recently used a Scottish heather honey infused with GlenDronach single-malt whisky—decidedly not a Moroccan approach, but it did make for an irresistibly boozy cake. However inauthentic, it was my kind of medicine.

—Aleksandra Crapanzano

### Moroccan Honey Cake

This recipe makes enough batter for a large cake. If you don't have a 10-inch springform pan, don't use a smaller one. Instead, use two loaf pans or a 10- or 11-inch cast iron skillet, and slice the cake directly from the pans or skillet.

ACTIVE TIME: 20 minutes TOTAL TIME: 1½ hours SERVES: 10

<b>4½ sticks butter</b>	<b>baking powder</b>	<b>1 teaspoon orange blossom water, optional</b>
<b>2½ cups sugar</b>	<b>1 cup almond flour</b>	<b>2 cups sliced almonds, toasted</b>
<b>8 eggs</b>	<b>1 teaspoon salt</b>	
<b>3½ cups all-purpose flour</b>	<b>½ cup buttermilk</b>	
<b>2 tablespoons</b>	<b>1 cup honey</b>	

1. Preheat oven 350 degrees. Butter a 10-inch springform pan.

2. In a large mixing bowl, cream butter and sugar together until pale and light, about 7 minutes. Beat in eggs, one at a time, until thoroughly incorporated.

3. In a second mixing bowl, combine flour, baking powder, almond flour and salt. Beat in buttermilk and honey. Gently mix until thoroughly incorporated.

4. Fold dry ingredients into batter mixture. Pour in buttermilk and honey. Gently mix until thoroughly incorporated.

5. Pour batter into pan and bake until cake springs back when pressed, 45 minutes. Remove from oven. While cake is still warm and in pan, slowly drizzle with honey. (If honey is not pourable, gently heat it until it is liquid.) Allow honey to soak into cake. If using orange blossom water, sprinkle it on now. Then sprinkle on almonds and gently press them into place. Allow cake to cool in pan until ready to serve.

6. To serve, remove sides of springform pan but leave cake on pan base, as transferring cake might cause almonds to slip off. This cake is best served at room temperature or still a little warm from baking.

—Adapted from "Rustic" by Jorge Fernandez and Rich Wells

## OFF DUTY

ON WINE LETTIE TEAGUE



# The Wine Bars That Sommeliers Belly Up To

**IF YOUR JOB** included selecting, tasting and serving some of the greatest wines in the world, where would you choose to drink wine on your day off? That was the question I posed to seven top wine directors in seven cities across the country. I hoped they'd name some under-the-radar destinations where the wines were well-chosen and well-priced and the staff was knowledgeable without being uptight. The wine directors did that and more, responding with a range of great places that included restaurants with deep cellars of old bottles as well as local hole-in-the-wall favorites. Here, their top picks:

### Shelley Lindgren

Wine director and co-owner, A16 and SPQR, San Francisco, A16 Rockridge, Oakland



**RECOMMENDS**  
**High Treason**,  
443 Clement St.,  
San Francisco

"It's a little off the beaten path, in a nondescript location," said Ms. Lindgren about her favorite drinking spot. But the wines on offer are anything but nondescript. High Treason's co-owner and wine director, Michael Ireland, an alumnus of Meadowood in Napa and Quince in San Francisco, has assembled a tight list of wine, sake and beer from small producers, and the cider and Sherry selections are large. On Sommelier Mondays, starting around 6:30 p.m. and continuing late into the night, "everyone in the wine business comes by and spins records," said Ms. Lindgren. The evenings came about organically thanks to San Francisco's tight community of sommeliers, who gravitated to the bar soon after it opened last year in the Inner Richmond district. The name refers to Mr. Ireland and his partners, who relish the "treason" of forswearing their fine-dining training to open this simple wine bar.

### Maria Garcia

Wine director, République, Los Angeles



**RECOMMENDS**  
**Bar Bandini**,  
2150 West Sunset Blvd., Los Angeles

Ms. Garcia's regular wine haunt requires a 20-minute drive. "It's in Echo Park, so it's not super-close to me, but I'll make the trek," she said. The selection is very eclectic and changes fairly often; Ms. Garcia visits a couple of times a month, after work and on her day off. Bar Bandini's wine director and co-owner, Jason Piggott, insisted his list is not "purposely geeky." Instead, it's oriented to natu-



ALICE GAO (TOP); HIGH TREASON (BELOW); ILLUSTRATIONS BY MATTHEW COOK

HIT LISTS Manhattan's Compagnie des Vins Surnaturels. Below: High Treason in San Francisco.

ral wines that are typically lower in alcohol and easier to drink—"gluggable" in Mr. Piggott's terms—like Cabernet Franc from the Loire. Non-professionals and wine drinkers from outside the neighborhood should know that the bar has no phone number to call if they get lost. "What's the point?" said Mr. Piggott. "We wouldn't answer it anyway."

### Raj Vaidya

Head sommelier, Restaurant Daniel and the Dinex Group, New York



**RECOMMENDS**  
**Compagnie des Vins Surnaturels**,  
249 Centre St., New York

At this chic downtown outpost of a popular Paris wine bar, managing partner and wine director Caleb Ganzer offers plenty of "Scooby snacks for sommeliers," said Mr. Vaidya. By that he means wines that sommeliers like to drink—small-production Champagnes, Chablis, obscure wines from the Jura—and some very good food as well. "In Paris it's a natural-wine bar, but in New York Caleb has taken it to a whole different level: It's more like a restaurant," said Mr. Vaidya. He usually visits on Sundays and Monday nights, when, starting at 9:30, the bar features "mixtapes" of wines and music chosen by guest wine directors, winemakers, distributors and somme-



liers. A recent evening featuring wine-maker Larry Stone included music by Jimi Hendrix, John Coltrane and Pink Floyd, and wines from superstar producers such as Alain Voge, Simon Bize and Jean-Louis Chave.

### Andy Myers

Wine director José Andrés Think Food Group, Washington, D.C.



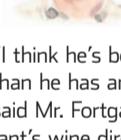
**RECOMMENDS**  
**Etto**, 1541 14th St. NW, Washington, D.C.

"I just sit at the bar and drink whatever Kat tells me to drink," said Mr. Myers of this "delightfully unassuming" spot in D.C. and its wine director, Kat Hamidi. Ms. Hamidi's list has a

very particular point of view, with a near-exclusive focus on wines from Sicily and Beaujolais. The selection includes smatterings of Lambrusco and Prosecco, too, because Ms. Hamidi considers them an ideal match for pizza, and the bar features a wood-fired oven. Quite a few customers seek Ms. Hamidi's guidance, especially if they are unfamiliar with wines such as the 2011 Cottanera Nerello Mascalese "Fatagione," a red wine from Sicily described as "brawny with some chew" on the list. There's a second wine list as well, dubbed "the Holy Trinity" because it features wines from chef/owner Peter Pastan's three favorite Italian producers: Quintarelli, Conterno and Valintini.

### Andy Fortgang

Wine director and owner, Le Pigeon, Portland, Ore.



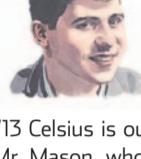
**RECOMMENDS**  
**Davenport**, 2215 East Burnside St., Portland, Ore.

"I think he's been buying more wine than he has any reason to for years," said Mr. Fortgang about this restaurant's wine director and co-owner, Kurt Heilemann. The list is full of "great gems," including many attractive options in the \$50-\$100 range that would easily cost much more elsewhere. Over the last decade, Mr. Heilemann has accumulated an inventory of

well-aged, well-priced bottles, including quite a few prize Burgundies and great Champagnes from producers like Pierre Péters and Ulysse Collin. The 2012 Ulysse Collin Blanc de Noirs Les Maillons, for instance, costs around \$90 retail but a mere \$125 on this list—a markup well under the industry standard.

### Jack Mason

Master sommelier, Pappas Bros. Steakhouse, Houston

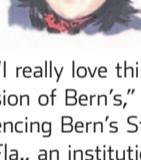


**RECOMMENDS**  
**13 Celsius**, 3000 Caroline St., Houston

"13 Celsius is our usual hangout," said Mr. Mason, who drinks and trades tips there with colleagues from the wine world. The place is a favorite in part because of the people but also because "the prices are very affordable," said Mr. Mason. He most often orders a bottle of Champagne and "a little bit of food." (The bar menu features cheeses, salads and panini.) Mr. Mason's most recent order was a bottle of Marc Hebrart Brut Rosé Champagne, at a very reasonable \$82. As for the wine bar's appeal to professionals, proprietor Michael Sammons noted that there was a "straight-up nerd factor" about some of the wines, though plenty of "regular" folk show up as well, especially for 13 Celsius's once-a-month wine classes.

### Belinda Chang

Sommelier at large, former managing partner/wine director, Maple & Ash, Chicago



**RECOMMENDS**  
**The Village**, 71 West Monroe St., Chicago

"I really love this place. It's our version of Bern's," said Ms. Chang, referencing Bern's Steakhouse in Tampa, Fla., an institution known for its well-priced older vintages. The list at the Village, an Italian restaurant celebrating its 90th anniversary this year, also runs quite large and features wines purchased decades ago and only gently marked up. "I'm not sure the sommelier, Jared [Gelband], realizes how special the cellar is," said Ms. Chang. I put this to Mr. Gelband, and the 35-year-old wine director assured me he's well aware of how lucky he is. The Village is one of three Italian Village Restaurants at the same address, each with its own bar, and its wine list currently has about 1,100 bottles, ranging from a pleasant, lesser-known Umbrian Grechetto for \$35 to a comprehensive listing of all the great Super Tuscans, including Masseto, Solaia and Sassicaia.

► Email Lettie at [wine@wsj.com](mailto:wine@wsj.com).

## SLOW FOOD FAST SATISFYING AND SEASONAL FOOD IN ABOUT 30 MINUTES

# Smoky Chicken Enchiladas

**LIKE MANY** of chef Spike Gjerde's dishes, this one began with an ingredient he was excited about. "There was this amazing guy harvesting open-pollinated corn with a team of horses," he said. "It was like, 'OK, what can we do with this?'"

He milled the corn at his Baltimore restaurant Woodberry Kitchen and made fresh tortillas. With a stash of chilies and tomatoes on hand, put up in peak season, enchiladas seemed the logical next step.

In this recipe, adapted for home cooks, he calls for layering corn tortillas, lasagna-style, with a chili-tomato sauce, shredded chicken and cheddar. Bake until the cheesy topping bubbles and browns in spots, and garnish with cilantro and scallions.

Mr. Gjerde does not demand that you mill any corn, but he recommends visiting a Mexican market to get the best, freshest tortillas. In a recipe this simple, every ingredient counts. —Kitty Greenwald

TOTAL TIME 35 minutes SERVES 4

2 dried ancho chilies, stems removed	1 (28-ounce) can crushed tomatoes	roast chicken
1/2 cup warm water	1 pinch of spicy paprika	9 ounces sharp white cheddar, grated
1 yellow onion, cut into wedges	1 teaspoon dried oregano	1 generous handful cilantro leaves
6 cloves garlic	14 corn tortillas	3 scallions, thinly sliced
Kosher salt	1 1/2 pounds shredded rotisserie, poached or	

1. Place dried chilies in a small bowl and cover with warm water. Cover bowl with a plate and let chilies rehydrate until they become pliable, about 5 minutes.

2. Set broiler to high. Season onions and garlic with a pinch of salt. Spread vegetables across a baking sheet. Broil until well charred in spots, 2-3 minutes. Remove from broiler and set aside. Set oven temperature to 425 degrees.

3. Place tomatoes, paprika, oregano, charred onions and garlic, and rehydrated chilies along with their soaking liquid in a medium saucepan over medium heat. Bring liquid to a simmer and cook until onions and chilies soften, about 7 minutes. Off heat, use a handheld blender or food processor to purée

to a thick, smooth, uniform sauce, taking care with hot liquid. Set sauce back over low heat and gently simmer to keep warm.

4. Coat bottom of a 9-by-9-inch baking dish with a thin layer of sauce. Arrange a single layer of tortillas over sauce, trimming edges to fit. Scatter a loose layer of chicken over tortillas and top with a loose layer of grated cheese. Continue layering sauce, tortillas, chicken and cheese until dish is nearly full. End with a layer of tortillas, a layer of sauce and a final layer of cheese.

5. Bake enchiladas on top rack of oven until cheese topping bubbles and browns in spots, 15-20 minutes. Garnish with cilantro and scallions and serve immediately.



FIRE AWAY Charring the onions and garlic before blending them into the sauce gives these enchiladas a delectable smoky flavor.



**The Chef**  
Spike Gjerde

### His Restaurants

Woodberry Kitchen,  
Parts & Labor,  
Bird in Hand,  
Grand Cru and  
Artifact Coffee, all  
in Baltimore; A  
Rake's Progress,  
soon to open in  
Washington, D.C.

**What He's Known For**  
Obsessively researching and championing Mid-Atlantic farmers and foodways. Unpretentious cooking rooted in superb ingredients.

## OFF DUTY

### GARDEN TOUR

# Tiers of Happiness

A level-headed designer builds up to maximize the tiny backyard of a Dublin row house—and counters dreary Irish weather with defiant cheer

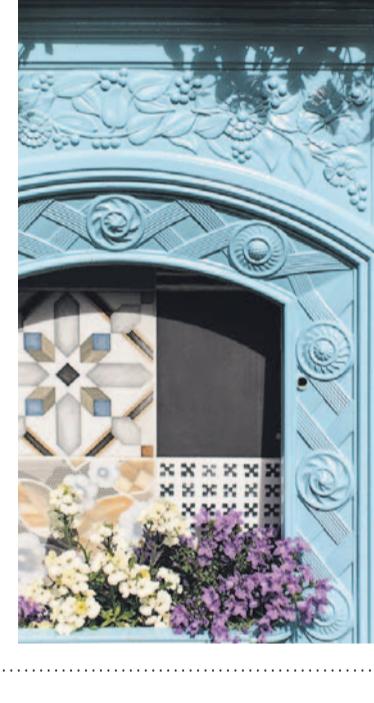
BY DEBRA JO IMMERGUT

**I**N HIS MEMOIR "Angela's Ashes," Frank McCourt noted that, while his family's hometown in Ireland gained a reputation for piety, it was actually the rain that drove the townspeople into the church, "our only dry place." Dublin designer Roisin Lafferty also knows the challenges of Ireland's "unfortunate weather," as she calls it. But the inhospitable climate hasn't discouraged her clients from wanting in on the current trend toward seamless indoor-outdoor living. She tackled this conflict when revamping a client's 1817 Georgian row house in Dublin's Ranelagh neighborhood. Her mission: transform its tiny, hemmed-in back garden into a highly functional space that would beckon even on the bleakest of days.

Ms. Lafferty developed some smart strategies for maximizing utility and beauty in the 840-square-foot plot, from carving the space into distinct multilevel zones to cleverly deploying pattern and color (not to mention mirrors). They should prove helpful for any homeowner who craves an al fresco experience but wrestles with a lack of square footage, privacy or fine-weather days. Whether you are sunning yourself amid its virtuosic tile work or gazing at its tiers through the gloom, said Ms. Lafferty, "that garden can't help but lighten your mood."

#### One Mantel, Hold the Fire

Ms. Lafferty referenced many elements of the home's interior design (also her handiwork) in the garden, unifying inside and out aesthetically and making the combined spaces appear larger. "The back of the house is all glass," she said, "so we designed the garden very much as an extension of the house, as an outdoor room." Since the home boasts multiple mantelpieces, the designer wanted one for the second-tier sitting nook at the garden's heart as well. She sourced a cast-iron Victorian piece from Dublin's Macs Salvage Yard, then had it stripped and coated with metal-friendly aqua Hammerite paint that relates to a blue-heavy interior palette. She propped the piece against a retaining wall tiled with Vives ceramic squares, another design element borrowed from indoors. "We wanted you to feel like you're in a living room, very much cocooned," noted the designer.



#### Bold in the Cold

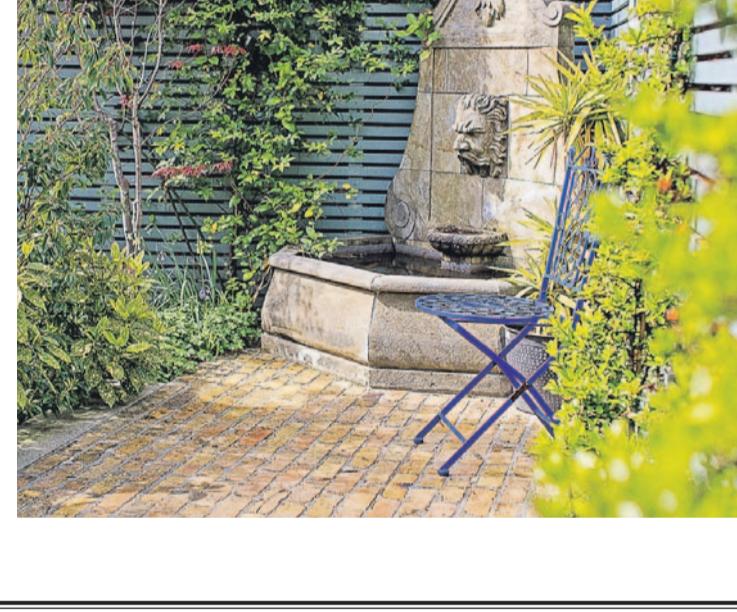
A garden that exudes visual energy even in lousy weather demands bright finishes and plantings with personality, said Ms. Lafferty. Hewing to a blue-and-green scheme, the designer cloaked the dining area in emerald Equipe Evolution InMetro subway tile, whose glistening concavities bounce light into the oft-shady spot. A custom table inlaid with azure Mainzu ceramic tiles evokes sunny Spanish afternoons. Contrasting plants, such as the white-leaved Cornus Alba and a purplish Aubrieta, crown the dining nook. Climbing the garden's rear wall, Pyracantha "Orange Glow" and "Fire Red" provide evergreen foliage and hot-hued berries. Plastic-framed IKEA mirrors add sparkle and depth, reading almost as windows, for "an Alice in Wonderland feel," the designer said.



#### Zone Poem

To add drama and a sense of spaciousness to the cramped yard of a Dublin row house, local interiors architect Roisin Lafferty borrowed a strategy from her work designing restaurants. Eateries, often subdivided into zones (bar area, booth seating), offer "a physical journey as you walk through." Here, a lower-level dining area and two tiered sitting areas were created partly via excavation, but any small space can be easily carved into zones, noted Ms. Lafferty, by using different materials to define each area. The floor-

ing surfaces give each of this garden's tiers a distinctive visual foundation: a patchwork of patterned Vives ceramic tile on the dining level, plum-colored gravel and slate for the middle tier, and mellow salvaged yellow brick, manufactured a century ago in the city's Dolphin Barn factory, for the top level. For a clean background to this complex mix, Ms. Lafferty had retaining walls sculpted from extra-white Ecocem cement and boundary walls clad in treated cedar slats painted an understated blue-green, Cuprinol's Seagrass. The horizontal strips handily support vines.



#### A Separate Peace

Angled across a corner at the space's highest level sits what Ms. Lafferty called "a surprise element": a vintage limestone fountain discovered at a local architectural salvage. The hand-carved font can't be seen from much of the garden, but it can be heard, and the cheerily murmuring water helps create a sense of sanctuary in a space that's cheek-by-jowl with neighboring properties. The landscaping on the upper tiers further screens sound, provides a bit of airy coverage and blurs the garden's rectilinear lines. Delicate trees that fit well in diminutive spaces include crimson-hued Acer Palmatum "Bloodgood" and narrow-leaved Prunus Angustifolia. A climbing rose, Rosa Banksiae "Alba," veils the boundary walls with soft foliage and snowy summer blooms.

## FRESH PICKS



### THE FABRICS Cloth Encounters

In May, F. Schumacher & Co. will relaunch—and expand—Frank Lloyd Wright's first (and only) textile collection. The line-up: six of the architect's original 1955 prints, some updated with a more contemporary color palette, plus six never-released patterns culled from his archival sketches, which the company's creative director, Dara Caponigro, said still feel "new and fresh. Good design is good design." The textiles are suitable for upholstery as well as window treatments. From about \$200 per yard, D & D Bldg., 212-759-5408 x 204

## ALL'S WRIGHT WITH THE WORLD

Frank Lloyd Wright would have turned 150 this June. Three ways to join the party

### THE EVENT

#### Tour de Force

As part of Chicago's annual Wright Plus Housewalk tour (May 20), architecture buffs get special access to four privately owned Wright-designed homes in Oak Park (including the Arthur B. Heurtley house, below). Full-fledged enthusiasts might want to opt for the Ultimate Plus Weekend Package (May 18-21), which includes tickets to an intimate 7-course dinner served inside a Wright home. \$100 for housewalk and \$2,650 for weekend pkg., [flwright.org](http://flwright.org)



### THE EXHIBIT

#### Held in High Regard

To mark the anniversary, New York's Museum of Modern Art has amassed nearly 400 works for a Wright retrospective, beginning June 12. Highlights include: a model of an East Village apartment that never came to fruition (right), restored by conservators over 450 hours; renderings of the architect's Prairie-style homes; and dining chairs from Tokyo's now-demolished Imperial Hotel. [moma.org](http://moma.org)  
—Kelly Michèle Guerotto



## OFF DUTY

RUMBLE SEAT DAN NEIL



# BMW C 650 GT: Too Powerful to Call a 'Scooter'

**IT'S FAIR TO OBSERVE** that motorcycle enthusiasts aren't very smart. If we were, we wouldn't ride motorcycles, would we?

This year, thousands of Americans will diligently research their first bike purchase, read all the road tests, compare all the features, then wobble away on a machine that will make them miserable. Too big, small, fast, heavy, too...motorcycle-y.

I have ridden the bike these soon-to-be unsatisfied consumers really want, whether they know it or not. It is the friendliest, most practical and cooperative two-wheeler that's ever showed up at my house: automatic transmission; automatic parking brake; heated seats and grips; power-adjustable windscreens; Bluetooth; lockable storage for two helmets and yet more stowage concealed in the bodywork.

Yet for all this bike's virtues as a life appliance, its design is strikingly uncompromised, virile and dramatic, a crystal-nosed bullet trailing shock waves in two-tone composite bodywork. The pride of ownership factor would be insane.

But thousands of undersatisfied bike owners will never know, because the BMW C 650 GT isn't a motorcycle at all but a scooter. An uncommonly fast, powerful, heavy and costly scooter, but a scooter nonetheless—which, in America, makes



this roundly superior transportation device culturally inferior. I would like to change that.

Yes? I see a hand in back? As per Corradino D'Ascanio's original conception for the Vespa, a scooter's defining features include a step-through frame, which makes mounting and dismounting the machine easy (even if you're Audrey Hepburn in a tight skirt); a rear-mounted engine concealed in bodywork; and full front fairing with integrated floorboards shielding feet and legs from wind and road spray.

In Postwar Europe, scooter

ers emerged as cheap, basic transportation, a role they still play around the world. But the times and mission have changed. BMW Motorrad invokes the challenges of "urban mobility." The target audience is young, upscale European commuters trying to eel their way into the business centers of Paris, London and Rome while keeping their trousers clean.

To the bones of the scooter phenotype, BMW added layers of Bavarian muscle and sinew, starting with a strong, selfless 647-cc parallel-twin cylinder engine, producing 60 hp at a fervid 7,500 rpm and a top speed over 100 mph, depending on the headwind. Ease off the right-hand twist-throttle a bit and the GT will find its happy place, cruising at 80 mph at around 5,000 rpm, sounding a rich, breathy thrum, the diamond-bladed lawn mower of the gods.

It's here, on the interstate, where you will find the GT's first surprise: superior wind protection and absence of buffeting at speed. Even on BMW's big tourer, the K 1600 GT, I have to hunch a bit to keep my helmet below the slipstream rising off the windshield. The C 650 GT's oversize, height-adjustable screen directs the lashing wind overhead. The scooter's enveloping fairing ahead and full-length floorboards below also help create a remarkable pocket of calm at the rider's

position. I do believe I could light dad's pipe in there.

BMW calls the GT—and its sister bike, the C 650 Sport—a "maxi-scooter" but at this point the nomenclature fails us, especially the naff and unserious "scooter." For all its maximal-ness, the C 650 GT presents as neither scooter nor motorcycle but a perfecting gene-splice of both, a moment of branching evolution on our way to motorcycle 2.0.

One thing it's not is budget-sensitive transportation. You could buy two fine commuter motorcycles for the price of the GT. But it is a fully vested BMW, a match in materiality, construction and design to the mainline bikes: a stiffer-than-hell tubular-steel, trellis-style frame; single-sided aluminum swing arm; beefy upside-down telescopic front forks held with twin yokes and single rear coil-over strut, yielding 4.5 inches of suspension travel front and rear; dual floating front brakes and a single disc rear; wide and sporty 17-inch tires.

Nor can it be called small—with an overall length of 87.3 inches, the GT measures within 4.3 inches of the dreadnaught K 1600 GT—or light (it's 575 pounds). And if you're thinking of lane-splitting in Los Angeles, know the GT is also broad of beam, just 3.5 narrower than the K-ship.

Is it fast? Better to say it's fast enough, plus 10%. For maximum ease of use, the GT combines an automatic trans-

mission—a belt-style CVT—and a centrifugal clutch. This arrangement, common to scooters, is essential to their step-in, twist-and-go ease.

Departing from a stop, the first quarter-turn of throttle is answered with a fairly soft, elastic response. The rising revs and pace soon marry, the torque engages and the bike surges forward nicely. Note: Tandem riders especially will appreciate the seamless acceleration compared to the snatching jerks of a conventional gearbox.

No, alas, the GT will not carry a wheelie off the line—at least, I don't think. But

The GT's design is uncompromised, virile and dramatic.

with 0-60 mph acceleration under 7 seconds, it moves out quite smartly. No apologies to make there.

To my surprise, our spiffy tester also displayed more-than-respectable handling chops—agile at low speed, overachieving in corners, feeling settled and serene at both ends, thanks to its low center of gravity and sport-tuned suspension. It leans so effortlessly it could actually use a bit more side clearance. ABS and stability control are standard.

But mainly, transcendently,

**HE SCOUTS, HE SCORES**  
The 2017 BMW C 650 GT, left, and C 650 Sport have the engineering and construction of a full-fledged motorcycle.



2017 BMW C 650 GT

**Base price** \$10,595  
**Price as tested** \$11,790  
**Powertrain** Four-stroke, DOHC, 647-cc inline two-cylinder engine, with dry-sump lubrication; centrifugal clutch and continuously variable transmission; rear-wheel drive.  
**Power/torque** 60 hp at 7,500

rpm/46 pound-feet at 6,000 rpm  
**Length/weight** 87.3 inches/575 pounds  
**Wheelbase** 62.6 inches  
**0-60 mph** under 7 seconds  
**Top speed** 112 mph  
**Fuel economy** 50 mpg, combined (est.)

the GT is more comfortable than a motorcycle. Any motorcycle. It's a matter of posture: Aboard the GT, the rider sits on the soft, molded-leather saddle with feet hip-width apart, knees bent at 90 degrees or less (the scooter has forward-position floorboards), elbows close to the body, hands low. Even more than the heated grips and seat, the GT's ergonomic comfort is what qualifies it as a long-distance machine.

Here afoot is a provocative notion: Motorcycles are uncomfortable as a matter of inherited and obsolete design (inherited from horse riding and cycling, by the way). In prototypical form, a motorcycle requires the operator to hike a leg over the central mass, straddle the engine and gas tank, legs spread, arms extended to the handlebars, knees kinked, with feet balanced on narrow pegs.

This is a posture, a pleasure, one can bear for only so long. In the first hour, sure, that Ducati Panigale between your thighs is going to feel amazing. By hour three it's going to feel like you are giving birth to it.

The BMW poses a simple, Why? Here is a machine that looks amazing, handles like a sport bike, and sits like the most coveted chair in the conference room. Maybe it isn't a motorcycle, but it isn't a scooter either.

Whatever it is, I feel smarter just riding it.

## A FETCHING NEW SPIN ON SATCHELS

Whether you're peddling to the farmers' market or an after-work affair, these chic bags will sit just as stylishly on your bike as they will on your shoulder

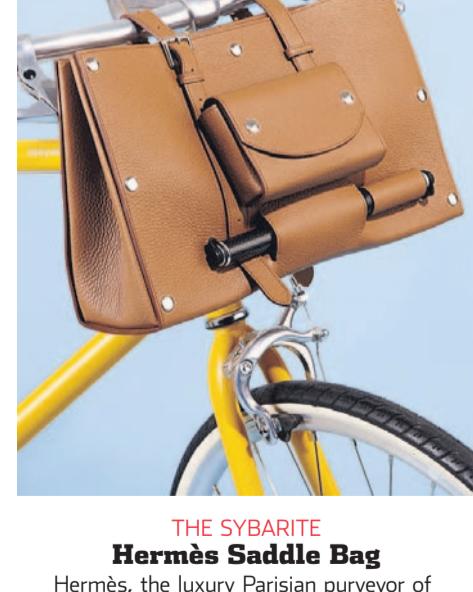


THE CLASSICIST

### Hill & Ellis Sherlock Bag

This oxblood leather option hides its universal pannier clips inside a nondescript leather enclosure that won't betray the bag's ability to hop on a bike. A clever addition: Two strips, trimmed with chrome, clip onto the side of the bag and can be positioned to display either a reflective material (for safety) or matching leather (for discretion). Waterproof, reflective rain-cover included.

\$250, [hillandellis.com](http://hillandellis.com)



THE SYBARITE

### Hermès Saddle Bag

Hermès, the luxury Parisian purveyor of all things luxury, fashioned this bike bag from the brand's signature Clemence bull calfskin. The bag offers two belted straps that can conveniently be adjusted to fit your bike or your arm. An included bike pump slips neatly into a loop on the bag's exterior. Also available: a small smartphone-size tool kit (\$950), complete with a leather-wrapped wrench.

\$4,275, [hermes.com](http://hermes.com)



THE TRANSFORMER

### Alfie Douglas Rawstock Utility Case

Handcrafted from two pieces of vegetable tanned leather, this sturdy case, which will be available this summer, is minimal yet versatile. The thick metal loops on the bag's back as well as its removable straps allow it to easily transform from a pannier into a sleek briefcase, shoulder bag or backpack. Choose from navy, black and natural leather.

\$590, [alfiedouglas.com](http://alfiedouglas.com)



THE EASY RIDER

### Brooks B3 Bag

Though best known for premium cycling saddles, Brooks England has also been making bike bags since the 19th century. A collaboration with London's Royal College of Art, this modern take is produced using the same machinery and techniques as the brand's bike saddles. Classic button-stud closure straps help secure the bag to your bike's main frame or rear rack. \$285, [brooksengland.com](http://brooksengland.com)

—Lauren Ingram

White Bisou Bike, \$695, and Matte Gold Ace Hotel Limited Bike, \$875, [tokyobike.com](http://tokyobike.com)

# MANSION

HOMES | MARKETS | PEOPLE | UPKEEP | VALUES | NEIGHBORHOODS | REDOS | SALES | FIXTURES | BROKERS

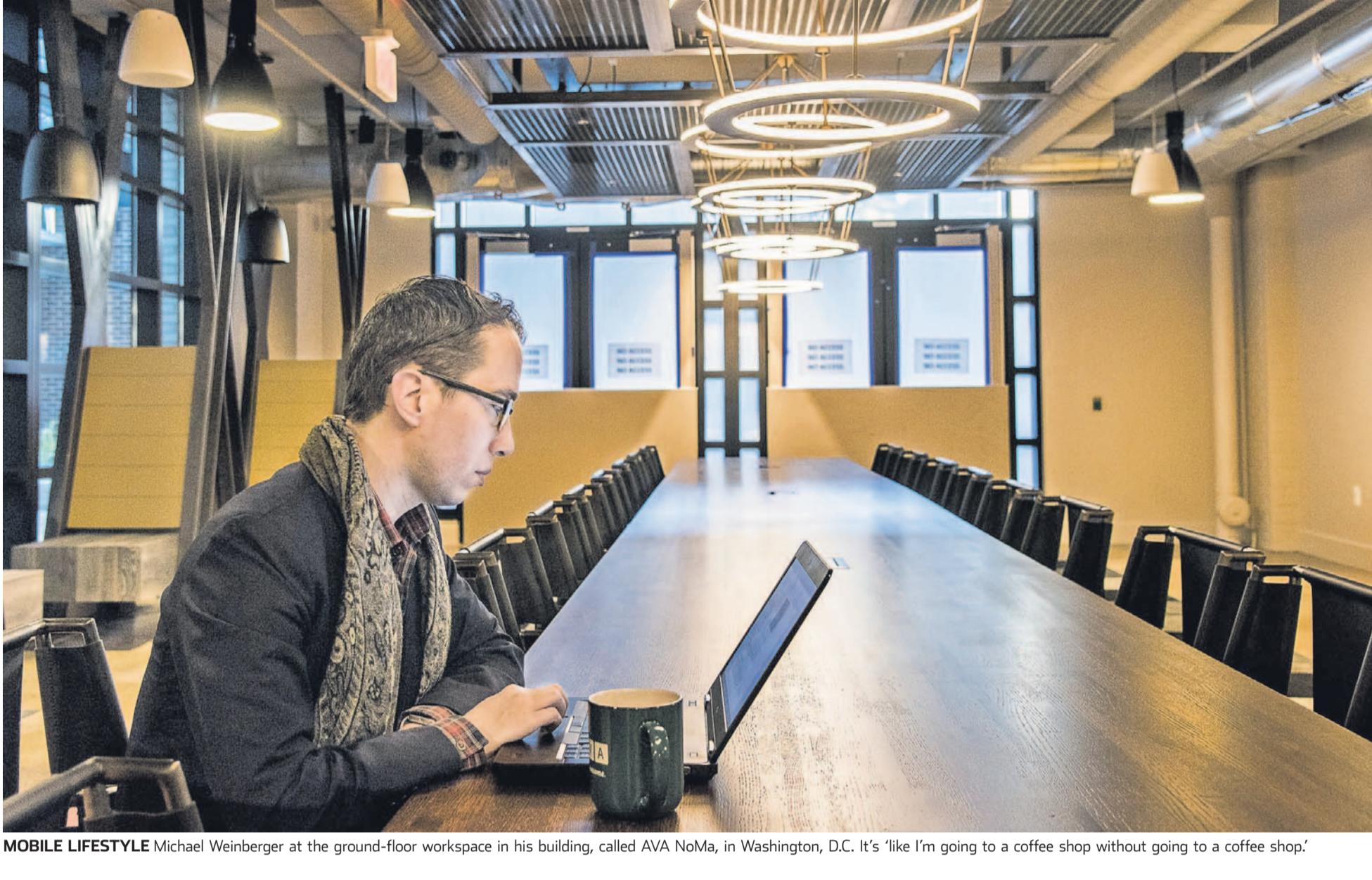
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THE WALL STREET JOURNAL.

'Wherever technology reaches its fulfillment, it transcends into architecture.'

—Ludwig Mies van der Rohe

Friday - Sunday, April 28 - 30, 2017 | W9



MOBILE LIFESTYLE Michael Weinberger at the ground-floor workspace in his building, called AVA NoMa, in Washington, D.C. It's 'like I'm going to a coffee shop without going to a coffee shop.'

## Kiss the Commute Goodbye

Residential developers welcome workers with communal office spaces equipped with Wi-Fi, 3-D printers and private spots for Skype calls; a coffee-shop vibe at home.



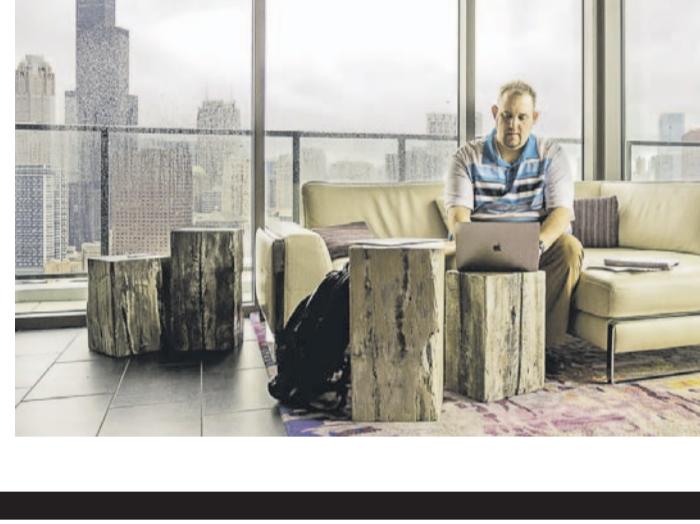
AT THE OFFICE The 40th-floor workspace at 1001 South State, a Chicago building where Joshua Bryan, far right, rents an apartment.

BY CECILIE ROHWEDDER

WHEN JOSHUA BRYAN leaves his apartment to go to work, he travels up three stories, to the 40th floor of his building in Chicago's South Loop neighborhood. There, he settles into a workspace with television screens, a kitchenette and sweeping views of Lake Michigan.

For meetings, Mr. Bryan books a first-floor conference room with teleconference equipment and interactive white boards for presentations. The building also has a fifth-floor "Makerspace," a shared office area with personal computers, a 3-D laser printer and a computerized milling machine for cutting and shaping metal or wood.

"The communal workspace is pretty much  
Please turn to page W10



## LIFE INSIDE A TIME CAPSULE

Some buyers seek out homes that are seemingly frozen in time—built and maintained in their original style, sometimes for decades. Celebrating Formica countertops, shag carpeting, popcorn ceilings and pink bathroom tile.



BY LEIGH KAMPING-CARDER

**TED THOMAS'S** childhood home in Los Angeles has barely changed since his parents built it in the late 1940s. There is the same oak paneling—fashionable at the time—on the walls. The bedrooms have the same Formica-top built-ins. The same postwar sofa, chairs and Herman Miller coffee table sit in the living room. The animation desk of his late father, Frank, a Walt Disney animator, sits untouched. Mr. Thomas's mother, Jeanette, died in 2012.

Now, Mr. Thomas, a 65-year-old producer, writer and



FROZEN In Los Angeles, the home of Ted Thomas, above left with wife Kuniko Okubo, has barely changed since the late 1940s.

director, is listing his 3,500-square-foot, four-bedroom house for \$3.228 million, betting that the home of his youth will appeal to buyers.

He could be right. Some buyers go out of their way to find time-capsule homes—intact single-owner properties, many of which boast de-

cades-old décor. Rather than being refurbished or updated, like many Midcentury Modern houses, or left to fall into disrepair, like many

fixer-uppers, these homes are meticulously maintained in their original style. Buyers say that forgoing contempo-

Please turn to page W14

### HOUSE OF THE DAY

[wsj.com/houseoftheday](http://wsj.com/houseoftheday)



United Kingdom  
A restored English mansion in Hampshire



United States  
A contemporary home in Greenwich, Conn.



United States  
A California Victorian with a waterfall

## MANSION

# YOU CAN KISS THAT COMMUTE GOODBYE

Continued from page W9

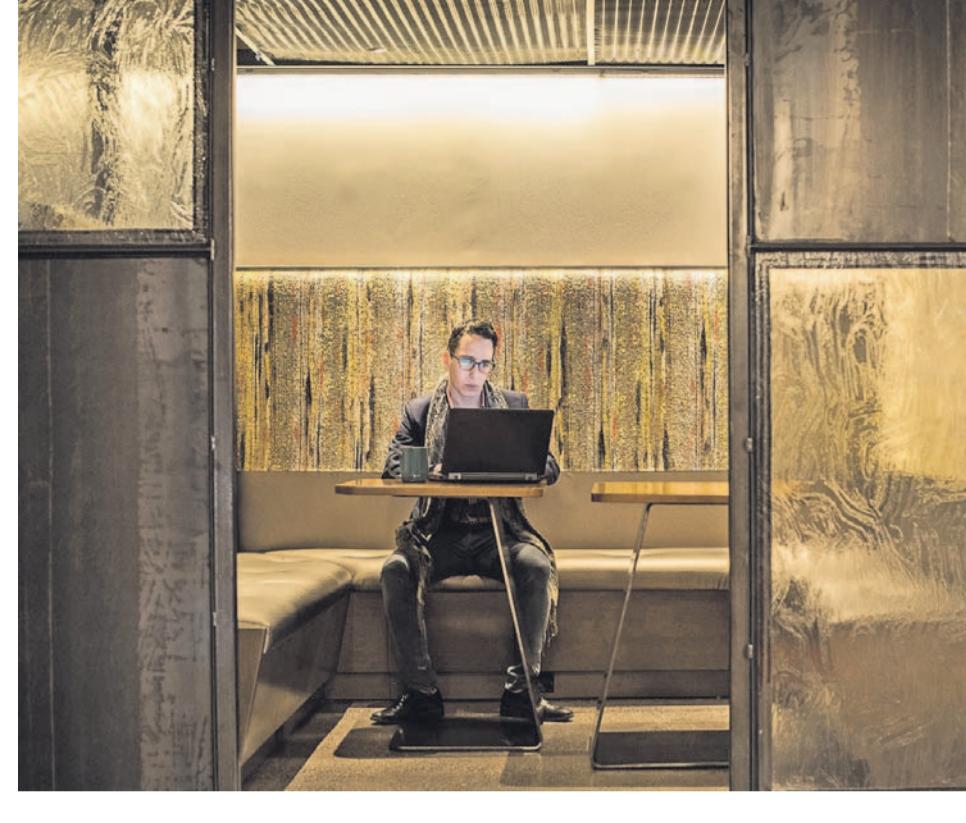
the reason I chose this building," says Mr. Bryan, who is 37 and owns the Chicago franchise of Poop 911, a company for dog-waste removal.

With his wife, Irene Rivera, a 36-year-old practitioner of alternative medicine, and cocker spaniels Gracie and Sophie, he rents a two-bedroom corner unit with floor-to-ceiling windows for \$3,705 a month. Since moving there in December, Mr. Bryan has saved \$1,500 a month in office rent he used to pay in a suburb—not counting the gas “and the years of my life sitting in Chicago traffic,” he says. Now, he likes to take work calls on a 40th-floor terrace, also equipped with TVs and Wi-Fi.

One of today's most practical amenities in residential buildings: shared office space equipped with the latest tech and communications equipment. With more Americans working from home, architects and developers are designing spaces that spare residents from conducting business at a Starbucks. At Mr. Bryan's building, 1001 South State, developer Golub & Co. hoped to build a creative, techie vibe for young professionals. The idea, says president and chief executive Michael Newman, was to differentiate the building and charge higher rents than what is typical for the neighborhood.

Developers say amenities such as communal offices and gyms also keep revenue in the building, rather than residents paying for them elsewhere.

In 2016, 15 million workers, or 10% of the American workforce, were self-employed, according to the U.S. Bureau of Labor Statistics. Along with telecommuters, consultants and others with flexible schedules, they make up a sizable market of renters and home buyers in need of living space that fits their lifestyle. For single-family houses, home builders are now conceiving floorplans with fully wired “flex space” suitable as an office area. In apartment buildings, they are installing work lounges inspired by the creative work environments of the tech world—less business center and more cyber-café—with



**MULTITASKING** Michael Weinberger, a transportation planner, uses an enclosed workstation for Skype calls and other tasks that require privacy. He leases a 650-square-foot studio for \$1,950 a month at AVA NoMa, which also offers mobile workers meeting areas and a fireplace, top and bottom right.



STEPHEN VOSS FOR THE WALL STREET JOURNAL (3)



**PROMPTIVE** Joshua Bryan's Chicago apartment building also has a kitchenette, above, and a shared office area, right, with a 3-D printer and computerized milling machine.



BOB STEFKO FOR THE WALL STREET JOURNAL (2)

big windows, hip furniture and often, free coffee.

Shared office space reflects the tastes of young Americans growing into the real-estate market. Those in their 20s and 30s are more social than their parents were, architects say, and need larger spaces for public amenities and smaller private apartments. Whether at work or play, they

note, young renters and buyers need functioning electronics, electrical outlets and Wi-Fi everywhere in a building. And even if freelancing, observers note, young adults crave the camaraderie that comes with an old-fashioned office.

“It's not just giving them a space to work in the building, but a space to interact with fellow

residents—for sharing ideas, social events and for being part of a bigger community,” says Rohit Anand, principal in the Tysons, Va., office of Irvine, Calif.-based KTGY Architecture + Planning.

Community was a draw for 31-year-old Michael Weinberger, who moved into a new KTGY-designed building in Washington, D.C., on April 12. The building, called AVA NoMa for its location in the bustling North of Massachusetts Avenue district, has an open-plan ground floor, where chill-out seating groups are adjacent to a long work table reminiscent of Apple Inc.'s Genius Bars.

Mr. Weinberger, a transportation planner with Rockville, Md.-based Foursquare ITP, works remotely two days a week and plans to use the space on those days. For meetings or Skype calls that require privacy, there are enclosed workstations with sliding doors.

“There was no other place that was going to make telework so convenient,” says Mr. Weinberger, who leases a 650-square-foot studio for \$1,950 a month. The building's open ground floor, he says, is “like I'm going to a coffee shop without going to a coffee shop.”

Mr. Weinberger also hopes to use other amenities, such as a bike-repair shop and yoga studio, now nearly ubiquitous in new buildings, along with pet spas, gyms and outdoor hot tubs. In most cases, renters don't pay extra to use the amenities.

Even luxury condo developments lure buyers with facilities for at-home work. 50 West, a new residential tower in Manhattan's Financial District, where a three-bedroom, 3,400-square-foot penthouse costs \$24.5 million, lists a “laptop bar” among the amenities on its entertainment floor.

The building, designed by Chicago-based architect Helmut Jahn, also has 15 office condominiums with a separate entrance that residents can buy separately from their apartments. Prices for the office condos range from roughly \$500,000 for a 260-square-foot space to \$1.4 million for a 740-square-foot space.

The offices, which are set to be completed in the summer, are drawing interest from foreign buyers who need workspace when in New York, says Francis Greenburger, founder and chief executive of real-estate firm Time Equities Inc., which developed the building. He predicts that the suites will also appeal to New Yorkers like himself.

“I work a lot at the office, but I have adopted a mobile lifestyle, where I work from home early in

the day and on weekends,” says Mr. Greenburger, who bought an office condo in the building to complement his main office on Fifth Avenue.

Self-employment rates are higher for older Americans than for younger workers, according to the Bureau of Labor Statistics, and new homes targeting mature buyers reflect this trend.

At Chelsea Heights, a development in Silver Spring, Md., developer EYA, based in Bethesda, Md., built townhouses with a flex space on the ground floor, which many owners use as an office.

In 2015, Michael Shulman and Jackie Judd paid \$950,000—more than they planned—for a 2,600-square-foot townhouse in Chelsea Heights. It has three bedrooms, along with flex space.

“The flexibility of the floorplan was very important to us,” says Mr. Shulman, a 60-year-old investment adviser who runs an online service called “Options Income Blueprint” from his townhome's first-floor flex space. Ms. Judd, a freelance journalist, works on the townhome's third floor, far away from her husband's frequent webinars.

“We don't get into each other's way during the day,” says Mr. Shulman. “You know that old saying: I married you for better or for worse, but not for lunch.”

Lisa Phillips Visca, a writer and script consultant in Los Angeles, works out of her three-bedroom, 2,200-square-foot condominium at Playa Vista, a planned community on the Westside of the city. At least once a day, she leaves to get air, grab coffee or lunch or shop for groceries.

With her husband, Dennis Visca, a garment-industry executive, she moved from a larger house in Pacific Palisades in January. The couple was drawn to the vibe and walkability of the neighborhood, which locals call Silicon Beach for its lively technology scene.

The Viscas, both empty nesters in their 50s, paid \$2.1 million for their condo, located in a modern brick building designed by KTGY. Mr. Visca took the unit's flex space as his home office, while his wife uses one of the bedrooms for her work, which includes directing and producing films, plays and television shows. Ms. Phillips Visca starts the day as early as 3 a.m. with coffee in her office, conveniently located on the far end of the space, away from master bedroom and living room.

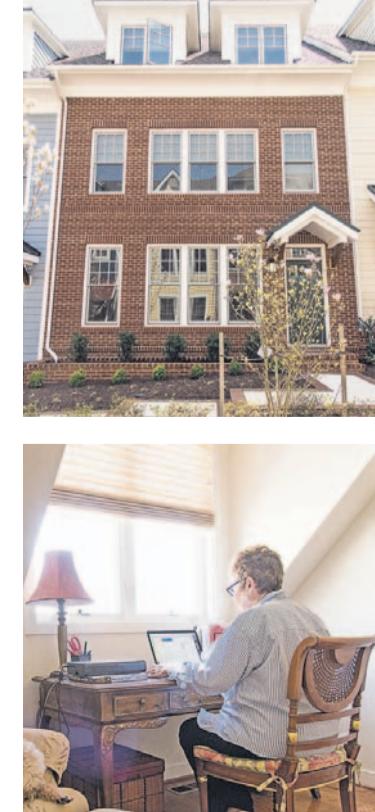
“There is perfect privacy,” she says. For a creative person working from home, she says, “the floorplan was a huge bonus.”



**LOS ANGELES** Lisa Phillips Visca, a writer and script consultant, works out of a bedroom at her home, above, while husband Dennis Visca, a garment-industry executive, works in their home's flex space.



**SILVER SPRING, MD.** Michael Shulman, an investment adviser, works from a first-floor flex space, above, and his wife, freelance journalist Jackie Judd, works from a third-floor bedroom, right, of their townhouse, above right.



**SILVER SPRING, MD.** Michael Shulman, an investment adviser, works from a first-floor flex space, above, and his wife, freelance journalist Jackie Judd, works from a third-floor bedroom, right, of their townhouse, above right.

## MANSION



DOROTHY HONG FOR THE WALL STREET JOURNAL (\$)

### BALANCE SHEET

# A Win for Minimalism

In a \$700,000 condo renovation, his desire for austere design triumphs over her fondness for clutter

BY NANCY KEATES

open space to accommodate a family.

**PHILIP HALL GREW UP** in a minimalist, modern home dotted with Danish furniture. His wife, Cristina Miller, spent her childhood in a house stuffed with antiques and knickknacks, including a giant ceramic elephant collected by her parents on a trip to India.

Mr. Hall, 39, and Ms. Miller, 38, bought the 1,979-square-foot space for \$2.3 million in 2014 in the Pell Building, a former warehouse built in 1909. The couple—he's a managing partner of a private-equity firm and she's the senior vice president for dealer relations at online retailer 1stdibs—were immediately drawn to the 11-foot high ceilings and the 24 windows on all four sides of the unit. A low-lying electrical substation across the street is protected from future development, preserving their view of the Empire State Building.

“I lean towards clutter. But Philip has helped me see the beauty in minimalism,” says Ms. Miller.

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### KEY COSTS

Demolition

**\$6,000**

Structural improvements

**\$15,000**

Millwork and specialty framing

**\$245,500**

Doors, windows

**\$52,000**

Kitchen

**\$95,000**

Louvered divider and bench

**\$18,000**

Lighting

**\$32,000**

**WIDE-OPEN SPACES** The open-plan living area, top; the kitchen abuts a louvered partition, above; Philip Hall and Cristina Miller with Celine and Sebastian, below left; and a wall panel features preserved plants.



## MANSION

HOUSE CALL | CAL RIPKEN JR.

# The 'Iron Man' Shows His Softer Side

The Hall of Fame ballplayer on his early expertise in precision landscaping, the merits of an open kitchen and the strain of house-hunting

Lately I've been thinking about moving, so I've been spending a lot of time looking at houses. When I played shortstop and third base all those years, I never had trouble with my knees. Now, climbing some of those stairs while house-hunting can go right to my kneecaps.

To stay in shape, I recently bought a mountain bike. I ride 15 to 20 miles a day on the open road. I love the freedom to go wherever I want and explore. I love that my helmet and sunglasses give me anonymity, which is rare for me in the area near my home.

I grew up in Aberdeen, Md., in a white split-level house with black shutters. Before the area was developed for houses, it had been farmland, so there were still plenty of fields around us. We had lots of space to play baseball.

My father, Cal Sr., was a professional baseball player who was employed by the Baltimore Orioles his entire career. From 1957 to 1964, he played in their minor-league system. Then he was a manager, reaching the majors in 1976 when he coached for the Orioles. In 1985, he became the team's manager.

When I was growing up in the 1960s and early '70s, baseball took my dad away from us a lot. In the summer, when my brother Fred and older sister, Ellen, and I were out of school, we joined him with my mom and our little brother Billy.

During the season, my dad was at the ballpark every single night, so we'd have our big meal in the middle of the day. When I was little, he'd ask me to carry his briefcase to the car or let me struggle with his suitcase.

Then he'd say to me, "Take care of the family while I'm gone." I knew early that it was important to do all the things he asked and to be responsible.

I remember the moment I wanted to be a ballplayer. It was in 1972, when I was 11. My dad was managing the Asheville Orioles in North Carolina, a Double-A minor-league team. At that age, I was old enough to go to the ballpark with him. I was a batboy.

At some point, the umpire behind home plate asked for five new balls, so I ran out with two in one hand and three in the other. When I returned to the dugout bench and sat down, I looked out on the field and realized that playing baseball was what I wanted to do.

At home, my dad was a drill sergeant with compassion. He was a doer, so I had to be doing things all the time. I had specific chores or I had to help him around the house. If they were new things, he'd teach me how to do them.

He had particular ways he wanted things done. For example, our property was hilly, but the



lawn's lines when mowing still had to be straight. He stressed that keeping the lawn looking crisp was important.

He also wanted the driveway edged. We didn't have an electric edger, so I had to use a string and sharpened hatchet to chop back the grass and create a razor-sharp line along the driveway.

Dad was a teacher in the minor leagues and a teacher at home. After I'd finish a task, he'd come and survey the work. If he wasn't pleased, he'd explain what he wanted done. If he was happy, he'd say, "Look how good that looks."

I soon started to take personal pride in everything I did. Which meant the results often exceeded the job I did previously. Dad always stressed the pursuit of perfection, a lesson I never forgot.

My mother, Violet, was the disciplinarian. She had four kids who were close in age, and she was often alone with us. As a result, she had to keep our minds busy. She did things like put us in bowling leagues or taught us to play cards.

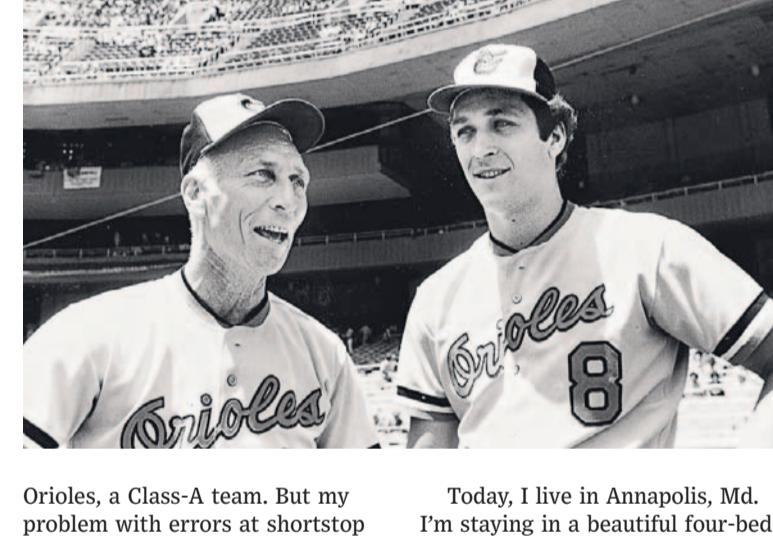
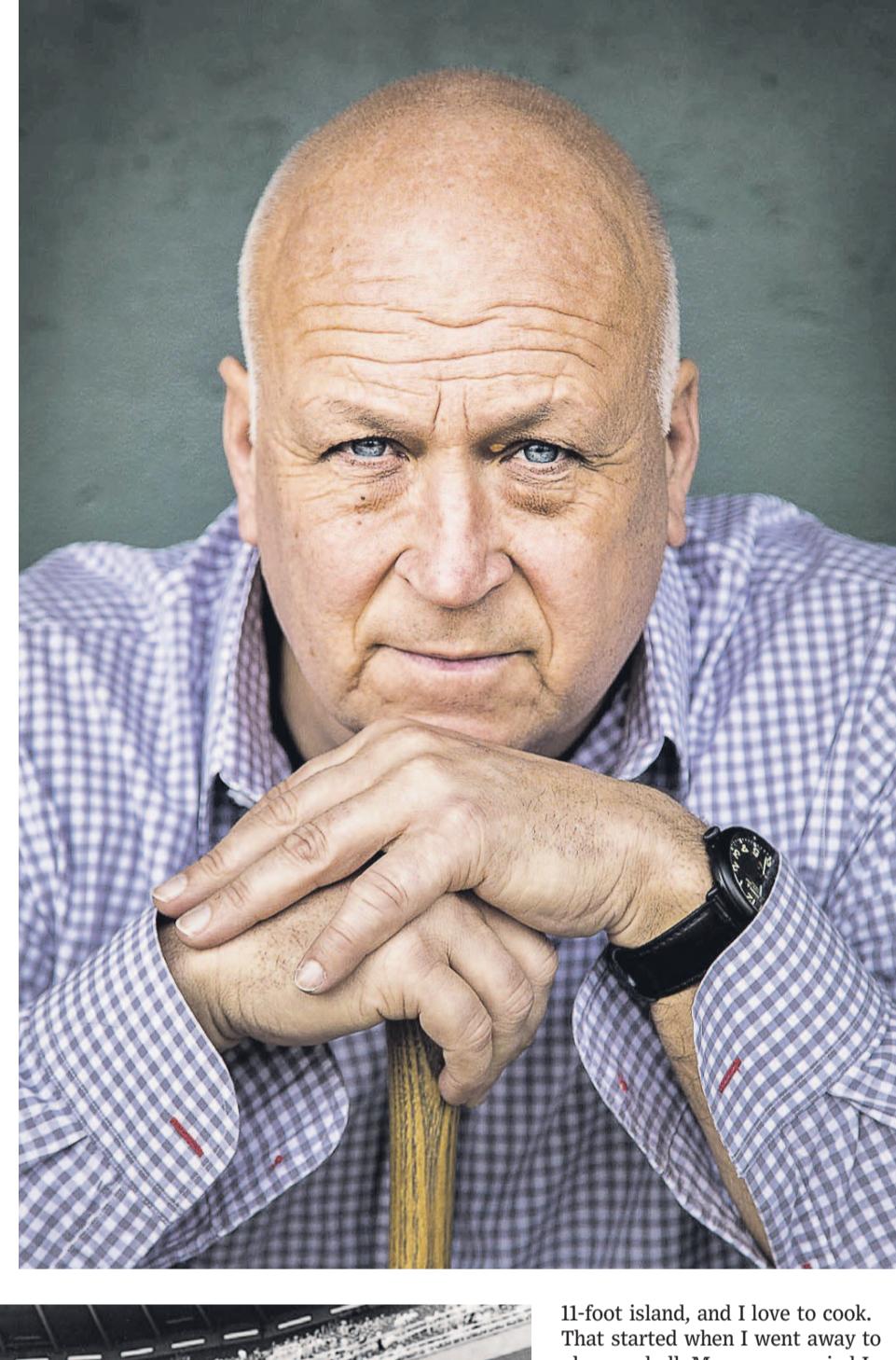
I started playing baseball in high school. When I was a junior, my father saw me play and said, "Cal, you have a chance to play pro ball." It still gives me chills thinking about that line. It motivated me to work hard.

By the end of my senior year, I was 6-foot-2. Then from 18 to 21, I grew another 2 inches. After high school, I was drafted by the Orioles and played on one of their minor-league teams.

I had been a strong player in high school, but now I was scared. Other players were stronger, and I made a ton of errors at shortstop during my first season.

In '79, I moved to the Miami

**ON DECK** Cal Ripken Jr., right, at the Ripken Experience youth-baseball facility in Aberdeen, Md.; in 1982, below, with his father, who was third-base coach for the Orioles at the time; and in 1967, above on the left, in Miami with his siblings, Fred, Ellen and Billy, and his mother, Violet.



Orioles, a Class-A team. But my problem with errors at shortstop started all over again. Lance Nichols, the manager, moved me to third base, and from then on everything clicked. I began playing for the Baltimore Orioles in 1981.

Today, I live in Annapolis, Md. I'm staying in a beautiful four-bedroom house on the water as I look for a home to buy. Out back, I have a panoramic view of the Spa Creek inlet and the city's historic district.

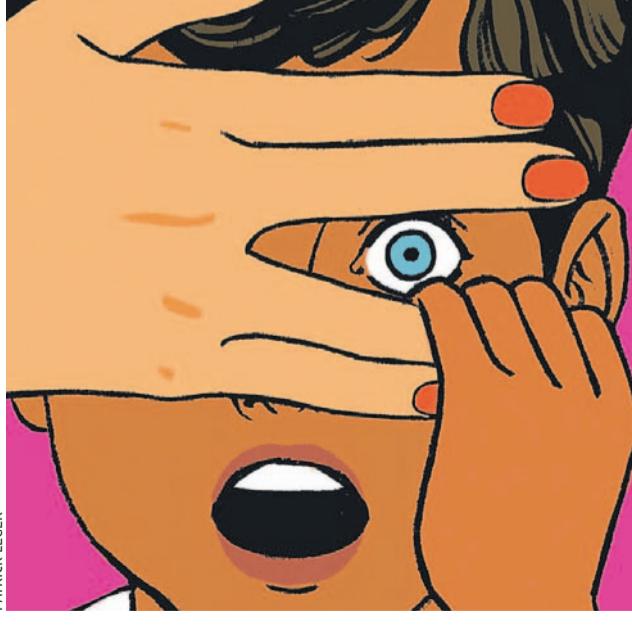
I like the open kitchen. It has an

11-foot island, and I love to cook. That started when I went away to play pro ball. My mom worried I wouldn't eat right. So she wrote out the recipes for my six favorite meals and gave them to me in a binder. The recipes served six or eight so I'd have plenty of leftovers.

When I'm in meetings at my office nearby, I often find myself distracted by the landscapers outside. If they're working, they'll catch my eye and I'll think of ways they can do the job more efficiently. I suppose that's my dad whispering in my ear. He died in 1999. I still miss him.

—As told to Marc Myers

*Cal Ripken Jr., 56, played 21 seasons for the Baltimore Orioles and holds the record for most consecutive games played—2,632. Known as the "Iron Man," he is a member of the Baseball Hall of Fame and today runs Ripken Baseball, which operates youth camps and tournaments in three cities.*



BY CANDACE JACKSON

**Q: Have you ever had a listing that was challenging or awkward to show?**

Tracy McLaughlin, luxury property specialist, Pacific Union International, Christie's International Real Estate, Marin County, Calif.:

I had a \$3.25 million listing about six years ago in Ross, Calif. The seller wrote very dark murder mysteries. The house, a Midcentury Modern home with very tall

ceilings, had great furniture and a lot of very beautiful paintings. But a few of the paintings were very disturbing, with an element of darkness, and they were overtly sexual. They were also huge—maybe 6-by-7 feet.

They might have been OK in wild party loft in New York City, but these were very edgy for a house in Ross. I suggested that the seller remove them to appeal to a broader base of buyers.

He said no, he thought they were integral to the home's

décor.

Everyone who saw the house sort of had the same

reaction like, "Oh wow." And every time I'd show the house to a family on the weekends, I'd have to warn the parents that there might be some art that's disturbing for children. Or I'd try to re-route the kids when we'd go into key rooms like, "Hey do you want to go play outside?" One time, I was not successful and I heard,

"Mommy, what's that?"

I did sell the house, even though it was not a good time in the market. It sold for \$2.95 million in 2011.

Philip Reynolds, real-es-

tate agent, Triplemint Real

Estate, New York:

I was representing buyers a couple of years ago and we were checking out a \$1.1 million listing for a co-op on Park Avenue.

My buyers were an older couple who were super-conservative types. We walked into the apartment and noticed immediately that it had blood red walls, which made the apartment seem much smaller than it was and was also just kind of shocking.

The seller had lots of pictures of his family everywhere—grandparents, kids, his wife—so many pictures that you started to learn who

was who by the end of the thing.

Then, in both the living room and the bedroom, he had these paintings of his wife that were about 3½ feet wide by 4½ feet tall—completely buck naked. There was also a nude statue of his wife.

My clients were definitely in shock and the listing agent was super stoic about it, so I decided the best way to handle it was to make light of it. I said, "So, do those come with the apartment?"

The home didn't sell and later came off the market.

—Edited from interviews

## IN THE TRENCHES

# Does Sex Sell? Properties For Sale That Bare It All

Real-estate agents describe uncomfortable experiences showing homes where the owners have furnishings that could be rated X

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## MANSION

# LIFE INSIDE A TIME CAPSULE

Continued from page W9

rary layouts and embracing some kitsch is worth it to get quality construction, distinctive design and a dose of nostalgia.

"The number of people looking for time-capsule houses [has], I'll go out on a limb and say, exploded," said Pam Kueber, who maintains an archive of time-capsule homes on her remodeling blog RetroRenovation.com. She cited a small but growing number of real-estate agents who specialize in midcentury or un-remodeled homes and an increased interest among readers for preserved details once considered tacky.

Ed Murchison, of Virginia Cook Realtors in Dallas, said that over the past five years, more young buyers have sought out Midcentury Modern homes—an area in which he specializes—and some are willing to pay a premium for the style. He said "Mad Men," the AMC television show that showcased a glamorous version of 1960s life, inspired many buyers.

After her divorce, Robin Miller didn't expect to go back in time—until her brother suggested she look at a 3,600-square-foot house seemingly frozen in the past. "As soon as I walked in the door, it was pretty amazing," said Ms. Miller, a 62-year-old bookkeeper.

The four-bedroom home had only one previous owner, who built it in the early 1960s during a construction boom in Weaverville, Calif., now a rural part of the state about a 3½-hour drive north of Sacramento. Popcorn ceilings, shag carpeting, peach bathroom tiles and baby-blue cabinets were intact.

Earlier this month, Ms. Miller paid \$232,300 for the home, which had most recently been asking \$289,500. She said she plans to leave the retro elements untouched, save for fixes like fresh carpeting and enlarging the bathrooms. "It's almost like the less you do the better because it almost distracts from the architecture that's already there," Ms. Miller said.

Many time-capsule homes date to the post-World War II housing boom, particularly in company towns where residents spent decades with the same employer, Ms. Kueber said. Today, as members of that generation downsize or pass away, their children are selling their longtime homes, many of which are located on tree-lined streets in desirable, central parts of town.

Traditionally, Americans picked a style and stuck with it, investing in entire rooms of furniture that would last for generations, said Miro Copic, a marketing professor at San Diego State University.

Today, homeowners are much more likely to be in a constant state of improving and remodeling their homes, as they look to keep up with design trends, or to add value to their homes through kitchen and bathroom upgrades. As a result, time-capsules are disappearing without being replaced by versions from later eras like the 1980s—even as demand increases. "We may be seeing the last era of true time-capsule houses in America," said Ms. Kueber.



**MIDCENTURY, NOT MODERN** The Portland, Ore., home of Sean Saul and his family. Mr. Saul, seen below right with children Fiona, 10, left, and Aidan, 15, right, fell in love with the home's perfectly preserved 1960s basement, below left.



BILL PURCELL FOR THE WALL STREET JOURNAL (3)

**WAY BACK** Robin Miller, far right, recently paid \$232,300 for this Weaverville, Calif. home. Built in the early 1960s, it comes with many original details intact, including this intercom, also far right. Ms. Miller said she plans to leave the retro elements untouched, save for enlarging the bathrooms.



RYAN ANGELI/META FOR THE WALL STREET JOURNAL (3)



COSTAL HOMES PHOTOGRAPHY (2)

**FOR SALE** Mylène Moser is asking \$4.395 million for her family's vacation home in Sarasota, Fla. A buyer will likely tear it down, the listing agent said, since rebuilding is easier than renovating on the water.

Javier Ordaz, 29, and his husband, 27-year-old Jake Lasprugato, said they are on their third retro apartment, an \$850-a-month one-bedroom in Stockton, Calif. The couple, who run an online vintage store called Atomic Living, seek out

throwback rentals where they can replace or hide non-period items.

Their current home has pink bathroom tiles and a 1940s gas range. They installed a 1951 refrigerator with copper and chrome accents and swapped out the light

fixture in the dining room for a foliage-shaped chandelier. Not coincidentally, the result resembles their grandparents' houses.

Like many fans of time-capsule homes, Mr. Ordaz and Mr. Lasprugato are motivated by nostal-

gia, as well as aesthetics and quality. The 1925 home's finishes were built to last, the appliances meant to be fixed, rather than thrown away. "That generation just tended to keep everything," Mr. Ordaz said. "They're proud of their homes."

Despite their nostalgic appeal, time-capsule homes can come with complications. They often need repairs. After decades of a single resident, they may be chockablock with knickknacks. They may also lack newer comforts like stainless-steel appliances or walk-in closets. (Proponents would counter these amenities are easy to add.)

Buyers should also assess for building-code violations and safety hazards, including lead paint, asbestos and untempered glass in windows or showers, Ms. Kueber said.

Still, renovating before listing a time-capsule home isn't always the most cost-effective strategy, according to some real-estate agents.

Mylène Moser, 73, is asking \$4.395 million for her family's vacation home in Sarasota, Fla. Her husband's parents built the four-bedroom, 3,890-square-foot home in 1974, and it still includes the Formica kitchen cabinets and candy-colored wallpaper (the appliances have been updated).

Though the home is being sold furnished, a buyer will likely tear it down and build a megamansion, since rebuilding is easier than renovating on the water, said listing agent Lynne Koy of Coldwell Banker Residential Real Estate. The asking price largely reflects the value of the land, one of the largest plots in the luxury neighborhood of Bird Key, Ms. Koy said.

Alyssa Starelli of Portland, Ore.-based Living Room Realty, who specializes in midcentury homes, counsels sellers against spending money on replacing kitschy finishes. Buyers will either do their own renovation or, increasingly, fall in love with the retro elements and want to preserve them, she said.

"Once you remodel a house out of its time period you have to perpetually remodel every 10 years to keep up with what's fashionable," Ms. Starelli said. "But if you maintain it in the period it was, it always suits the house."

One of her clients, Sean Saul, fell in love with a perfectly preserved 1960s basement in the Portland home that he purchased for \$319,000 in November.

Previously owned by a family, the three-bedroom, 2½-bathroom, 2,132-square-foot home is "all business" on the main floor, said Mr. Saul, 45. But down the stairs there is a wet bar and walls partly covered in orange shag, faux wood paneling and a board-game-patterned carpet with accompanying playing pieces.

Mr. Saul, a motion director at Drive, a boutique creative and merchandising agency, enjoyed picturing the story behind the room, which he conceded some might consider a "disaster."

"It was just captivating to imagine someone making that choice, which is a choice that, were I in that time and place, I would have made," he said.

## PRIVATE PROPERTIES

# Guns N' Roses Bassist Lists Longtime Home

Duff McKagan, the bass guitarist for the rock band Guns N' Roses, is listing his longtime home in the Sherman Oaks neighborhood of Los Angeles for \$3.85 million.

Mr. McKagan, 53, bought the Spanish-style hacienda in 2005 for \$2.975 million, according to public records.

He and his wife, model and swimsuit designer Susan Holmes McKagan, raised their two daughters there, Ms. Holmes McKagan said.

McKagan turned a former stable building into a gym. There's also a one-bedroom guesthouse where Mr. McKagan has written and recorded songs, and which Ms. Holmes McKagan also used for work. An underground wine cellar has its own entrance.

Since Mr. McKagan is sober after battling substance abuse in the 1990s, the couple mostly used the space for storage, his wife said. The family has always split their time between Los Angeles and Mr. McKagan's hometown of Seattle, his wife said. Now that their daughters are older, the couple is planning to spend more of their time in Seattle, although they have another property in Los Angeles which they plan to keep.

—Candace Taylor



FROM LEFT: FILMAGIC; MARK SINGER PHOTOGRAPHY