

THE WALL STREET JOURNAL.

DOW JONES | News Corp

MONDAY, AUGUST 21, 2017 ~ VOL. XLI NO. 248

WSJ.com

ASIA EDITION

As of 4 p.m. ET

DJIA 21674.51 ▼ 0.35% NIKKEI 19470.41 ▼ 1.18% STOXX 600 374.20 ▼ 0.71% BRENT 52.72 ▲ 3.31% GOLD 1285.70 ▼ 0.05% EURO 1.1750 ▲ 0.21% DLR \$109.27 ▼ 0.27%

What's News

World-Wide

Forces in Iraq and Lebanon have launched offensives to deprive Islamic State of its remaining sanctuaries, following attacks in Spain. A1

◆ The deadline for insurers to commit to selling plans under the ACA is pressuring Republican lawmakers to decide whether to shore up the law. A1

◆ Spanish authorities said that one man is still at large in their hunt for those responsible for the terror attacks in Spain. A4

◆ Police in Finland continued trying to reconstruct the sequence of events around a spree of stabbings deemed a terror attack that left two people dead. A4

◆ The U.S. and South Korea are bracing for escalation on the Korean Peninsula as they kick off annual military exercises that have a history of enraging Pyongyang. A3

◆ Iceland's tourism push helped save the island from a deep economic crisis, but now is straining under the weight of the millions of visitors. A2

◆ The U.S. will experience a total eclipse of the sun for the first time since 1918, drawing large crowds to small towns and cities. A7

◆ India investigated a train crash in which 23 people were killed, the fourth major accident on the world's fourth biggest rail network this year. A4

Business & Finance

◆ Investors are divided over whether the recent stock-market volatility in the U.S. is the start of a larger selloff. A1

◆ More small and midsized oil firms are forgoing shale drilling projects, opting for wells instead. A1

◆ Alipay, WeChat and other Chinese tech titans are expanding into foreign markets, battling for control of the world's largest mobile-payment markets. B1

◆ Assets under management at a DoubleLine bond fund dropped 13% from their peak last September to \$53.6 billion. B1

◆ U.S. attempts to export natural gas into Europe's energy market are facing stiff resistance from Russia. B1

◆ China announced formal measures to curb outbound investment, as the government seeks to establish firmer control over a corporate shopping spree. B5

◆ Infosys's Sikka resigned as chief executive of the Indian software and outsourcing firm. B3

◆ King Digital is testing putting ads in mobile videogames, a move analysts think could generate \$1 billion by 2019. B4

◆ Credit-card companies are booting dozens of individuals and groups associated with right-wing extremist movements off their systems. B5

CONTENTS Markets B8
Business News... B3 Markets Digest B6
Crossword... A12 Opinion A10-11
Head on Street B8 Technology B4
In Depth A6 U.S. News A7
Keywords B1 Weather A12
Life & Arts... A8-9.12 World News A2-4
China: RMB28.00; Hong Kong: HK\$23.00;
Indonesia: Rp25,000 (incl PPN);
Japan: Yen620 (incl JCT); Korea: Won4,000;
Malaysia: RM7.50; Singapore: S\$5.00 (incl GST)
KDN PP 9315/10/2012 (03275); MCI (P)
NO. 066/01/2017; SK MENPEN RI NO. 01/
SK/MENPEN/SCJ/1998 TGL 4 SEPT 1998

ISSN 0377-9920 4.12.4.8
9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

Barcelona Remembers Victims as Police Hunt for Attack Suspect



ON WATCH: An officer stands guard by Barcelona's Sagrada Família basilica before a mass to honor victims of Thursday's attacks. Police said they are closing in on the suspect whom investigators hypothesize might have driven the van that killed 13 pedestrians. A4

Investors' Optimism Wanes

Pullbacks in U.S. stocks reflect new worries: debt levels, White House rifts

By MICHAEL WURSTHORN AND CORRIE DREBUSCH

Investors are divided over whether the recent stock-market volatility is the start of a larger selloff, but many agree that the optimism that characterized the postelection rally is waning.

The historic calm that en-

veloped U.S. stocks for much of this year has been upended twice in the past two weeks. The Dow Jones Industrial Average posted its biggest decline in three months on Thursday, one week after a selloff of similar scale sent stock indexes tumbling around the world. Investors are running out of reasons to keep buying U.S. stocks, while at the same time, warning signs are accumulating, many investors, traders and analysts have said.

They point to concerns about pockets of the U.S. economy, the Federal Re-

serve's plan to raise interest rates and unwind its balance sheet, and doubts that corporate earnings can continue to grow at a solid pace.

New worries have emerged: the looming battle in Washington, D.C., over raising the debt ceiling, rifts within the White House, and President Donald Trump's deteriorating relationship with many business leaders in the wake of the Charlottesville, Va., demonstrations.

Billionaire investor Carl Icahn resigned his position as special adviser to the president on Friday, saying he

didn't want "partisan bickering" to cloud the work of the administration. In his resignation letter, Mr. Icahn made no mention of the rallies and violence in Charlottesville.

Such defections have magnified investors' doubts about the Trump administration's ability to accomplish its agenda, including the tax cuts they had anticipated would boost corporate profits. Those expectations contributed to a stock-market rally that has sent the S&P 500 up 13% since Election Day.

Please see STOCKS page A2

ISIS Holdouts Are Hit In Iraq, Lebanon

A disparate collection of forces have launched two separate offensives against Islamic State, solidifying a de facto alliance between longtime opponents Iran and the U.S. to drive the group from the last remaining territory it holds.

By Maria Abi-Habib
in Beirut and
Ali Nabhan and
Ghassan Adnan
in Baghdad

Iraqi forces early Sunday started a military operation in Tal Afar, one of Islamic State's last important strongholds in the country. The offensive unites U.S.-backed Iraqi forces with Iran-supported Shiite militias, which have for months surrounded Tal Afar waiting to move on the city.

A similar dynamic is playing out in Lebanon, where the U.S.-supported Lebanese military attacked Islamic State's last foothold in the country. Hezbollah, a Lebanese militia fighting in Syria alongside Iranian forces, hit Islamic State from the other side of Lebanon's border.

Eliminating the Sunni extremist group—whose claim of responsibility for last week's attacks in Spain suggested its continued capacity to strike abroad—is a prime objective of both the U.S. and Iran, even though Tehran and Washington are also working to undermine each other in the region.

The competing priorities,
Please see ISIS page A4

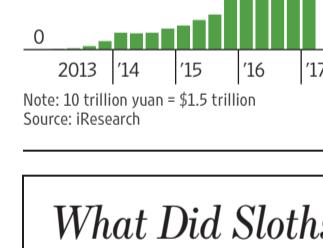
Mobile-Pay Battle Heads Overseas

China's mobile-payments market is growing fast. Major platforms Alipay and Tenpay are jousting for control. B1

Transaction volume

Quarterly data

25 trillion yuan



Note: 10 trillion yuan = \$1.5 trillion

Source: iResearch

Market share by volume

1Q for each year

100%



THE WALL STREET JOURNAL.

GOP Faces Health Deadline

By STEPHANIE ARMOUR
AND MICHELLE HACKMAN

WASHINGTON—A fast-approaching deadline for insurers to commit to selling health plans next year under the Affordable Care Act is pressuring Republican lawmakers to decide quickly whether to shore up the law and ease the path for insurers or continue efforts to roll it back.

Lawmakers returning to the Capitol from recess on Sept. 5 will have only 12 legislative days to decide whether to pass a bipartisan bill aimed at bolstering the ACA's markets

before insurers must commit to participating in the law's exchanges in 2018. At the same time, a plan from Sens. Lindsey Graham (R., S.C.) and Bill Cassidy (R., La.) that would largely topple most of the ACA is gaining traction among Republicans.

The looming deadline means that Republican lawmakers who have been bogged down for months on legislation to rework most of the ACA will have little time to decide whether to pivot and instead help bolster the current health law—or, possibly, to pursue both courses.

A bipartisan plan from Sens.

Lamar Alexander (R., Tenn.), chairman of the Senate's health committee, and Patty Murray (D., Wash.), the committee's top Democrat, would need support from senators in both parties to clear a 60-vote threshold in the Senate. Hearings are slated for the first two weeks after Congress returns.

Their proposal would likely preserve for next year billions of dollars in federal payments to insurers known as cost-sharing reduction subsidies. Insurers have said that without the payments they likely would raise premiums or

Please see HEALTH page A7

What Did Sloths Do to Earn Their Sudden Popularity? Not Much

* * *

Zoos are baffled as fans line up, even

burst into tears upon seeing the animals

By NICOLE HONG

What's the perfect source of therapy for a world that's more frantic than ever? An animal that appears to do absolutely nothing.

One freezing February morning this year, Kayla Premack, 27, arrived at Denver's Downtown Aquarium at 3:30 a.m. and

waited for hours in a sleeping bag.

Never mind the sharks, otters and turtles. She'd come to take a selfie with Aspen, a two-

toed sloth. Only the first 100

people in line that day would

get photo opportunities with

the aquarium's most popular

resident, and Ms. Premack, an

office manager, was determined

to be one of them. It didn't

matter that she already has at

least 50 photos of him. "Sloths just invoke this happiness inside of me," she said.

When MaryCharles Wolfe,

21, saw a sloth at The Houston Zoo, she lost her breath and started sobbing. "How do

you look at that and not think it's the sweetest?" she said.

"In this world with chaos and grossness everywhere, sloths don't do any wrong. They can't do anything."

Ms. Wolfe added that she wished her own lifestyle allowed her to spend 20 minutes eating a green bean.

Animal keepers have grown accustomed to people shedding tears upon seeing these slow-moving mammals, even bawling hysterically on the

ground. "They're just overcome with emotion," said LynnLee Schmidt, a curator at the Denver aquarium. "I think to myself: What do I love that much?"

Psychologists who study crying say people are wired to shed tears when they see things that seem vulnerable, like cute baby animals. Yet sloths aren't like most other creatures. They spend much of their lives hanging upside down from tree branches in the tropical rain

forest.

When MaryCharles Wolfe,

21, saw a sloth at The Houston Zoo, she lost her breath and started sobbing. "How do

you look at that and not think it's the sweetest?" she said.

"In this world with chaos and grossness everywhere, sloths don't do any wrong. They can't do anything."

Ms. Wolfe added that she wished her own lifestyle allowed her to spend 20 minutes eating a green bean.

Animal keepers have grown accustomed to people shedding tears upon seeing these slow-moving mammals, even bawling hysterically on the

ground. "They're just overcome with emotion," said LynnLee Schmidt, a curator at the Denver aquarium. "I think to myself: What do I love that much?"

Psychologists who study crying say people are wired to shed tears when they see things that seem vulnerable, like cute baby animals. Yet sloths aren't like most other creatures. They spend much of their lives hanging upside down from tree branches in the tropical rain

forest.

When MaryCharles Wolfe,

21, saw a sloth at The Houston Zoo, she lost her breath and started sobbing. "How do

you look at that and not think it's the sweetest?" she said.

"In this world with chaos and grossness everywhere, sloths don't do any wrong. They can't do anything."

Ms. Wolfe added that she wished her own lifestyle allowed her to spend 20 minutes eating a green bean.

Animal keepers have grown accustomed to people shedding tears upon seeing these slow-moving mammals, even bawling hysterically on the

ground. "They're just overcome with emotion," said LynnLee Schmidt, a curator at the Denver aquarium. "I think to myself: What do I love that much?"

Psychologists who study crying say people are wired to shed tears when they see things that seem vulnerable, like cute baby animals. Yet sloths aren't like most other creatures. They spend much of their lives hanging upside down from tree branches in the tropical rain

forest.

When MaryCharles Wolfe,

21, saw a sloth at The Houston Zoo, she lost her breath and started sobbing. "How do

you look at that and not think it's the sweetest?" she said.

"In this world with chaos and grossness everywhere, sloths don't do any wrong. They can't do anything."

Ms. Wolfe added that she wished her own lifestyle allowed her to spend 20 minutes eating a green bean.

Animal keep

WORLD NEWS

Once a Gift, Tourism Bogs Down Iceland

Nation strains under the weight of millions of visitors, a victim of its own success

BY NINA ADAM

REYKJAVIK, Iceland—Iceland's tourism push helped save the once-remote island from a deep economic crisis, but now that business is booming the North Atlantic nation is straining under the weight of the windfall.

Attracted by its spectacular volcanic landscape and easy air routes, about 2.2 million tourists are expected to flow into the country of 330,000 people this year, almost five times as many as in 2010, according to the International Monetary Fund. Tourism is now the country's biggest industry, ahead of its traditional lifeline, fishing.

The scale of the tourism explosion has caught the government unprepared, leaving infrastructure strained and outnumbered Icelanders complaining about scarce housing, rising rental prices and roadside litter.

"We wanted more tourism and we worked hard to make it happen...But this immense growth was not something that anyone could foresee," said Sigrun Brynja Einarsdottir, a top Department of Tourism official.

Tourism has been a mixed blessing for many destinations across the world. A rise in budget travel and an emerging Chinese middle class have contributed to a welcome rise in visitor spending, but also afflicted fragile locations from Bali to Venice.

Iceland has come a long way back since 2008, when its over-leveraged banking system collapsed and unemployment shot up. The local currency, the krona, has strengthened, and the economy grew by 7.2% in 2016—the fastest pace among developed economies. The government this year removed almost all of the remaining capital controls imposed in the depths of the crisis.



Visitors enjoyed the view of icebergs that calved from glaciers in Jokulsarlon, Iceland. The nation of about 330,000 expects some 2.2 million tourists this year.

The influx of tourists, a majority of them American and British, dates to the 2010 eruption of the Eyjafjallajokull volcano, which sent ash clouds across Europe and disrupted air travel.

The government responded with a marketing campaign that drew global attention to Iceland's magnificent geysers, milky blue waters and craggy moonscapes. Supported by a currency still recovering from the crisis and airlines offering free stopovers on their intercontinental routes, visitors flocked here.

For some, the tactic has worked too well. On the streets of the capital—a compact city of brightly colored houses where the tallest building until recently was the landmark 240-foot Hallgrímskirkja church—some normally placid Iceland-

ers have begun to grumble.

Once pristine sites are now crowded, and streets are clogged with rental cars. Building new hotel capacity takes time, so the country has turned to platforms like Airbnb—a trend, economists say, has helped to push up house prices. They surged 18.3% in the year through March in Iceland's capital, compared with 6.3% a year earlier, according to broker Knight Frank.

"The situation downtown is getting impossible today. Prices are up and very few apartments are available," said Kolbrun Yr Einarsdottir, who works at an artist-run museum in Reykjavik. She and her husband were kicked out of their apartment in 2014 because, she said, the owner wanted to rent it out through Airbnb.

"It was not a surprise," Ms.

Einarsdottir said. "It had been happening around us."

At least one of every eight apartments downtown was used for short-term lets during last year's high season, according to Elvar Orri Hreinsson, a research analyst at Islandsbanki, who said the ratio is probably higher now.

Airbnb says hosts in Iceland are typically people sharing spaces in their homes a handful of times a month, not full-time businesses. "Airbnb helps spread tourism benefits to local residents" by boosting their incomes, said Airbnb spokesman Bernard D'heygere.

Iceland's government recently required official registration for home sharing and business licenses for people who rent out their accommodation for more than 90 days a year or make more than about

\$18,000 in rental income.

The government has also taken measures to upgrade Iceland's roads, bridges and parking lots. Responding to outrages over bad tourist behavior, it has put more toilets and garbage cans in the countryside.

With American tourists outnumbering Icelanders, demand for embassy services—such as the replacement of lost passports—has risen sharply, according to Jill Esposito, chargé d'affaires at the U.S. Embassy in Reykjavik.

To some, it all seems worryingly familiar. The pace of growth is reminiscent of the years leading up to the financial crisis, which hit Iceland harder than most.

A supercharged economy hasn't only sparked a stronger krona and higher home prices but also spurred demand for la-

bor, driving up wages. Iceland's unemployment rate in May was 2.6%, the lowest in the developed world, according to the Organization for Economic Cooperation and Development.

Although Iceland's economy is on "a firmer footing" than the last time it grew this fast, "overheating risks are a clear and present concern," the IMF said in a recent report.

Mar Gudmundsson, governor of Iceland's central bank, said the pace of growth has become "a little bit uncomfortable," but noted the economy is "very far away from a credit-driven overheating boom."

Some slowing may already be under way. The krona's rise over the past three years has made Iceland pricier for foreign visitors—a trend, economists say, that could eventually curb visitor growth.

OIL

Continued from Page One
yette, La., is reactivating 60-year-old wells in Louisiana and Texas that were turned off in the 1980s, when the previous major oil bust dropped prices to \$10 a barrel.

It made sense to turn them back on and invest in newer artificial lift systems and other technology that can push more oil to the surface, said White Knight Chief Executive Jerry F. Wenzel.

In California, the company was able to get some old wells that were producing just five or 10 barrels a day up to 100 barrels a day by using gravel packs to keep silt and sand from building up inside flow lines. The cost of the packs: \$100,000 a well, which White Knight recouped in a few months.

White Knight also has drilled new wells in California for roughly \$800,000 each, finding that many spots were tapped extensively, but only

shallowly, last century, leaving 20 to 30 different layers that can produce crude.

"That's the real magic," Mr. Wenzel said.

He estimates that reactivating old wells costs about \$15 a barrel in direct expenses such as leasing land, lifting oil out of the ground and transporting it to market. After covering other costs including staff, debt, taxes and general overhead, these projects typically pay off and are profitable in less than a year.

Most U.S. oil still comes from conventional wells. In 2016, 4.6 million barrels, or 52% of the U.S. total, was pumped from conventional wells while 4.25 million barrels a day, or 48%, was pumped from shale wells, according to the federal Energy Information Administration.

Will McMullen, founder of Bayou City, a private-equity firm with \$1 billion to deploy, and which has backed White Knight, said with all the focus on shale in recent years, it has become a crowded space.

"And we don't know where the price of oil is going to be in 10 years," he said, arguing that it is risky to favor shale based on a hope of longer-rate returns.

Petro River Oil, a small New York-based company traded over the counter, is reprocessing old data and making new underground maps in California to find overlooked crude. It recently scoured an old prospect near Bakersfield known as Sunset Boulevard, and found several additional oily zones to tackle this summer. "We're taking new technology and going in and looking for what they missed," said Stephen Brunner, president of Petro River.

Mr. Brunner, who ran Constellation Energy Partners, a shale company that fracked in Oklahoma before **Sanchez Energy Partners** took it over in 2014, said he understands why many investors are drawn to shale: Unlike conventional drilling, there is little risk of a dry hole.

Even so, he said Petro

California Drilling

Rigs working in and around Los Angeles, Bakersfield and Fresno have tripled as more firms try to find new oil in old fields.



*For the week ended Aug. 18

Source: Baker Hughes

THE WALL STREET JOURNAL.

River's goal is to find untapped oil in old fields and get it out of the ground for roughly \$20 a barrel, allowing the company to achieve as much as a 100% return in a

year, at current prices.

Such investment looks attractive to some in light of the costs to lease shale land in places such as the Permian Basin in Texas and New Mexico, which has exceeded \$50,000 per acre.

But it is hard to generate huge-scale production picking over old fields, said Robert Clarke, an analyst with Wood Mackenzie. "For a company looking to generate a return on capital the opportunity is tremendous," Mr. Clarke said. "But it can't move the production needle for a bigger company."

Still, some big firms sense opportunity in older fields.

When Occidental Petroleum Corp. moved from California to Houston about three years ago, it spun off all its Golden State oil assets, forming California Resources Corp.

It is now the largest holder of mineral acreage in California with roughly 2.3 million net acres, since the big oil companies that once controlled most of California's oil sector, such as Chevron Corp.

and Exxon Mobil Corp., moved on to large new discoveries in Africa and the Middle East decades ago.

The spinoff was saddled with debt from Occidental operations and didn't initially spend much on new wells. But this year, it is back to work in fields that have been pumped for nearly a century.

"The company is drilling deeper and using directional drilling to reach bypassed pay dirt," said Mark Smith, chief financial officer of California Resources.

Many of its 8,800 existing wells can be retapped. Little new investment is needed, because the state already has an extensive network of pipelines and oil storage tanks.

California Resources estimates it has 700 million barrels of oil equivalent in the ground that is economic at roughly \$30 a barrel.

THE WALL STREET JOURNAL.

Dow Jones Publishing Company (Asia)
25/F, Central Plaza, 18 Harbour Road,
Hong Kong
Tel: 852 2573 7121 Fax 852 2834 5291

Andrew Dowell, Asia Editor
Troy McCullough, Senior News Editor, Asia
Darren Everson, International Editions Editor

Hugo Restall, Editorial Page Editor

Mark Rogers, Advertising Sales

Jacky Lo, Circulation Sales

Toby Doman, Communications

Simon Wan, Technology

Jonathan Wright,
Global Managing Director & Publisher

Advertising through Dow Jones Advertising Sales: Hong Kong: 852-2831 2504; Singapore: 65-6415 4300; Tokyo: 81-3 6269-2701; Frankfurt: 49 69 29725390; London: 44 207 842 9600; Paris: 33 1 40 17 17 01; New York: 1-212 659 2176.

Or email: MarkRogers@wsj.com

Printers: Hong Kong: Euron Limited, 2/F, Block 1, Tai Ping Industrial Centre, 57 Ting Kok Road, Tai Po, Hong Kong; Indonesia: PT Gramedia Pratama, Jl. Palmerah Selatan 22-28, Jakarta 10270; Japan: Mainichi Newspapers Co., Ltd., 1-1 Hitotsubashi, Chiyoda-ku, Tokyo 100-8051; Korea: JoongAng Ilbo, 100 Seosomun-ro, Jung-gu, Seoul, 100-814; Publisher/Printer: Song Pif-Ho; Malaysia: Dasa Cetak (M) Sdn Bhd, Lot 2, Jalan Sepana 15/3, Off Persiaran Selangor, Seksyen 15, 40200 Shah Alam, Selangor, ROC No: 0488855; Singapore: Singapore Press Holdings Limited, 2 Jurong Port Road S/P Print Centre Singapore 619088

Trademarks appearing herein are used under license from Dow Jones & Co.

©2017 Dow Jones & Company, All rights reserved.

USPS 337-350; ISSN 0377-9920

NEED ASSISTANCE WITH YOUR SUBSCRIPTION?

By web: <http://wsj-asia.com>

By email: service@wsj-asia.com

By phone: 001 800 322 8482; China: 400 991 1174;

India: 000 800 440 1938; Indonesia: +62 21 2970 2702; Japan: 010 779 8686; Korea: 0030 844 0063; Malaysia: 1800 804 612; New Zealand: 0800 442 434; Philippines: 1800 1441 0033; Singapore: 1800 823 2042; Taiwan: 00801 444 141; Thailand: 001800 441 8323

STOCKS

Continued from Page One

"How the market has behaved since Nov. 9 in many ways seemed like a disconnect from reality," said Kristina Hooper, global market strategist at Invesco. "Investors are starting to recognize that."

Stock declines so far have been short-lived, with many investors viewing them as an opportunity to buy into a market that has been supported by global economic growth and solid corporate earnings.

Nearly 33% of investors surveyed by the American Association of Individual Investors said they expected stock prices to fall over the next six months, the highest level since May. About 34% of investors had a bullish outlook, according to the most recent survey. More than 40% of investors had bullish outlooks for nine consecutive weeks after the election, prior surveys said.

"Two things usually happen before markets get into trouble," said Bruce Bittles, chief

investment strategist for Robert W. Baird. "Interest rates go up significantly or consumers spend more."

The Federal Reserve's annual economic symposium in Jackson Hole, Wyo., this week could provide clues about global central bankers' latest thinking. Chairwoman Janet Yellen is scheduled to speak, as well as European Central

threats between the U.S. and North Korea and terror attacks in Spain.

The Russell 2000, an index of small-capitalization U.S. stocks, and shares of transportation companies have underperformed—a sign that the broader market could be facing more declines, analysts said. The index is up 0.05% for the year, but is down 6.4% from a high hit in late July. The Dow Jones Transportation Average, a 20-stock index that tracks some of the largest U.S. airlines, railroads and trucking companies, has fallen nearly 6.7% since July 14.

According to stock-market lore, if the transports lag, it can presage broader stock declines, as these companies represent the breadth of the goods shipped across the country and are an indicator of production and consumption.

"We're going to start to see deterioration" in the now eight-year bull market, said Mike Wilson, Morgan Stanley's chief U.S. equity strategist. "Transports not acting particularly good is a very early warning sign that maybe next

Bank President Mario Draghi. Several major central banks have signaled their intention to gradually tighten monetary policy, though inflation has remained stubbornly low in places like the U.S. and the eurozone.

The recent sell-offs have coincided with some mixed corporate earnings and rising global tensions, including

CORRECTIONS & AMPLIFICATIONS

Fiat Chrysler Automobiles

was incorrectly called Ferrari Chrysler Automobiles in an Off Duty review of the Ferrari 812 Superfast in the Friday-Sunday edition.

Readers can alert The Wall Street Journal to any errors in news articles by emailing wsjcontact@wsj.com.

WORLD NEWS

Koreas Brace For Flare-up Over Drills

U.S.-South Korean war games, opposed by Pyongyang, are set to start this week

By JONATHAN CHENG

SEOUL—A new cycle of escalation on the Korean Peninsula looks set to begin this week when the U.S. and South Korea kick off annual military exercises that have a history of enraging Pyongyang.

The long-planned drills come at a delicate moment, following weeks of belligerent rhetoric between the U.S. and North Korea that stoked fears of a catastrophic outcome. In what many saw as a slight easing of tensions last week, dictator Kim Jong Un said he would hold off for now before deciding whether to carry out a threat, announced days earlier, to fire missiles toward the U.S. Pacific territory of Guam.

The 10-day drills, known as Ulchi Freedom Guardian, will test whether North Korea's apparent easing of its immediate threat to Guam proves durable—or if the de-escalation was really a backdown at all.

U.S. officials have long said the exercises are intended to ensure readiness for a possible North Korean attack. Pyongyang, though, has characterized them as preparation for an invasion.

"They are conducting provocative saber-rattling such as joint air attack drills and combined ballistic-missile drills...rendering the situation extremely tense," North Korean state media warned last week.

In the war games beginning Monday, allied forces plan to finesse their cooperation. The Pentagon said Friday that Ulchi Freedom Guardian features computer simulations of combat exercises, and would involve some 17,500 U.S. service members, including about 3,000 from outside the Korean



South Korean marines patrolling the coast of the eastern island of Ulleungdo on Saturday.

Peninsula. Major units from all of South Korea's armed forces will participate, along with forces from seven nations including Canada, Australia, New Zealand and the U.K.

The military maneuvers would be similar in scale to last year's, the office of South Korea's Joint Chiefs of Staff said Friday.

This week's exercises aren't as large as those the allies usually conduct in the spring. Still, analysts expect the North to react angrily, particularly if the U.S. deploys strategic assets such as an aircraft carrier or B-1B bombers. Pyongyang followed last year's drills by launching missiles and carrying out its fifth nuclear test.

Gen. Joe Dunford, chairman of the U.S. Joint Chiefs of Staff, last week declined to say

whether the U.S. was planning to deploy more strategic assets for this week's exercises.

The heightened stakes of any missile launch by Pyongyang were underscored last week by U.S. Defense Secretary Jim Mattis, who warned that the U.S. and its allies would try to shoot down any North Korean missile deemed to pose a threat. "In the event of a missile launch towards the territory of Japan, Guam, United States, Korea, we would take immediate, specific actions to take it down," Mr. Mattis said.

China has called for a halt to the annual military exercises in exchange for curbs on Pyongyang's nuclear and missile programs. President Xi Jinping of China—the North's neighbor, ally and largest trad-

ing partner—urged restraint during a phone call with U.S. President Donald Trump this month.

In an Aug. 14 editorial, the Global Times, a nationalistic Chinese tabloid, warned the military drills would provoke Pyongyang. "If South Korea really wants no war on the Korean Peninsula, it should try to stop this military exercise," it said.

Sen. Ed Markey (D., Mass.) is in the region to lead a congressional delegation that includes meetings with South Korea's President Moon Jae-in and stops at the China-North Korea border and the inter-Korean demilitarized zone. "We're at a stage of tensions that we have not seen for years," he said in an interview Sunday. "Tensions could flare

up again."

The top Democrat on a Senate Foreign Relations subcommittee on East Asia matters, Mr. Markey said the U.S. should consider modifying the drills in exchange for a freeze on North Korea's weapons programs.

He said he believed Mr. Trump's rhetoric led to North Korea's threat against Guam, and he called on the president to "dial back the bellicose language" during the coming exercises.

Tensions rose in recent weeks following North Korea's tests in July of its first intercontinental ballistic missiles—a significant advance in its ability to threaten the U.S. In response to the tests, the United Nations Security Council slapped new sanctions on Pyongyang.

SOUTH KOREAN MARINE CORPS/REUTERS/SHUTTERSTOCK/EUROPEAN PRESSPHOTO AGENCY

Meanwhile, Mr. Trump and North Korea traded threats that fueled concerns about an outbreak of war. Mr. Trump threatened to unleash "fire and fury" on North Korea, adding later that military options against the regime were "locked and loaded." The North, meantime, said it was developing a plan to fire four missiles toward Guam to surround the U.S. military bases there in "enveloping fire."

In some ways, the North Koreans are likely to consider actions such as the exercises as more threatening than Mr. Trump's bellicose rhetoric, said Chun Yung-woo, South Korea's former top nuclear negotiator on North Korea and founder of the Korean Peninsula Future Forum, a Seoul-based think tank. "North Korea will judge U.S. intentions on the basis of U.S. actions, not just empty words," Mr. Chun said. "Kim Jong Un doesn't believe that Trump is serious when he talks about the military option."

James Acton, co-director of the Nuclear Policy Program and a senior fellow at the Carnegie Endowment for International Peace in Washington, said Mr. Kim's decision not to carry out the attack last week may have been a way of laying the groundwork for a missile launch after the start of the U.S.-South Korean military exercises, which would give him more political cover for a launch.

Mr. Acton argues the U.S. should clearly signal to the North Koreans a willingness to scale back some of the planned exercises in exchange for a pledge to shelve a missile launch toward Guam. "North Korea, like every other country, wants to be able to justify its actions internationally, and if North Korea does fire the missiles at Guam, what it would say is: 'We gave you a fair warning,'" he said.

—Kwanwoo Jun contributed to this article.



The Navy relieved the USS Fitzgerald's top officers of command following a deadly June collision.

A Few Minutes Decided Life or Death on U.S. Ship

By PETER LANDERS

TOKYO—The water, hundreds of tons of it, started flooding in at 1:30 a.m. Thirty-five sailors were sleeping in a part of the bowels of the Navy destroyer USS Fitzgerald when there was a loud noise and a bump that threw some from their bunks. The water rose to their waists, then to their necks, then higher. There was one ladder to safety.

Their fate would be decided in a few minutes.

A report released Thursday by the U.S. Navy describes the scene after the Fitzgerald collided with a container ship in waters off Japan. Shortly after the report's release, the Navy relieved the Fitzgerald's commander of his command, citing "inadequate leadership" and an unprepared watch crew. But below decks, there were examples of heroism as the men rushed to escape.

The Fitzgerald was headed on June 17 into the Pacific Ocean from its base south of Tokyo. With the view clear and the moon helping guide the way, sailing was smooth. Except for navigation lights, the ship was dark.

Two decks below the main deck, the 35 sailors were in an

area called Berthing 2, mostly sleeping in their bunks, when the 29,000-ton container ship ACX Crystal rammed into the Fitzgerald's right side. The container ship's bulbous bow tore a gash 13 feet by 17 feet in the Fitzgerald.

Berthing 2, an area about the size of half a tennis court with bunks and a lounge, was nearly flooded within 30 to 60 seconds, as the sailors remembered it. Some yelled, "Water on deck!" or "Get out!" Some remained asleep.

For most of the sailors, the best exit was a ladder on the left side of Berthing 2, away from the gash. It led up to a hatch that exited into Berthing 1, a level above, and from there to the main deck.

The problem was getting to the ladder.

Mattresses, an exercise bicycle and lockers were among the debris floating between the bunks. With the water weighing down the ship's right side, it was tilting five to seven degrees to that side, so sailors had to wade or swim uphill to reach the ladder.

One was washed through an open door into the shower and bathroom area and had to climb over debris to get out. One said he was under a fall-

ing locker and was pushed out by Fire Controlman 1st Class Gary Leo Rehm Jr.

As the first sailors reached the ladder, the water was waist-deep. More followed, the water growing higher. One by one, they climbed up to safety, aided by two sailors—not identified in the report—who stayed behind to help. Soon the water was up to their necks.

The two helping sailors could stay below no longer. They looked around for survivors, didn't see any, and climbed the ladder up to Berthing 1.

From there, the two sailors reached into the dark waters below. They pulled one man to safety. Another sailor, pinned between lockers and the ceiling, reached for a pipe to pull himself free. He, too, was pulled to safety from beneath the surging waters, red-faced and with bloodshot eyes.

That sailor was the last of 27 to escape through the left-side ladder. A single sailor used a different escape route on the right side, gulping a few breaths in an air pocket before swimming to safety. He told investigators later he couldn't remember exactly how he did it.



Heard on the Street

Agenda-setting investment insight

Heard on the Street brings you sophisticated analysis on the economy, business and global market trends that matter most to investors. Get fresh perspectives, compelling data and concise commentary, updated throughout the day.

Sign up at WSJ.com/Heard

THE WALL STREET JOURNAL.

Read ambitiously

WORLD NEWS

Spain Hunts Imam, Driver In Rampage

Nation mourns 14 killed in Islamist vehicle attacks in Barcelona and seaside town

BY JEANNETTE NEUMANN

BARCELONA—A former imam may have radicalized a group of mainly Moroccan-born men who allegedly carried out Spain's most deadly Islamist terrorist attack in a decade, authorities said Sunday.

Police also said they are closing in on the one suspect still at large among a group of 11 other terrorists, who they believe had plans for an even bigger attack.

The cell aborted a plan to set off a series of explosions, investigators believe, when the material accidentally detonated and instead used vehicles to plow through pedestrians in back-to-back assaults, killing 13 in Barcelona and one in the seaside town of Cambrils.

The names of the victims in the assault on Las Ramblas, a crowded tourist destination, have trickled out slowly.

Government officials on Sunday identified another as 7-year-old British-Australian boy named Julian Cadman, whose mother was also struck but survived. That brings the total number of foreign victims to 10.

The person sought by police is 22-year-old Moroccan-born Younes Abouyaaqoub, according to people close to the investigation. Investigators hypothesize he might have been the driver of the van that barreled down Las Ramblas and then fled on foot.

No one was home at his house in the town of Ripoll on Saturday, and neither he nor his relatives could be located

for comment.

Islamic State claimed responsibility for the assaults via its official Amaq news agency.

Mr. Abouyaaqoub and most of the other suspects lived in Ripoll, a town at the foot of the Pyrenees not far from the French border. Police are probing whether Abdelbaki Es Satty, a former imam in the town, helped radicalize at least some of the men.

"It's one of the lines of investigation," Josep Lluís Trapero, police chief in Catalonia, the region that is home to Barcelona, said during a press conference on Sunday.

He cautioned that police were weighing other possibilities, saying the process of radicalization is often a combination of factors, with Islamist propaganda on the internet playing an important role.

Mr. Trapero said that none of the 12 suspects had previous criminal records related to terrorism, nor did Spanish intelligence flag the group as plotting potential attacks. Friends and neighbors of the suspects say the group appeared well-integrated in the local community and showed no obvious signs of radicalization.

Mr. El Satty did have a prior record, Mr. Trapero said. He also had a connection to an unidentified person implicated in a separate terrorism investigation in Spain, Mr. Trapero said, without elaborating.

In Ripoll, Nourdine el Haji, who had been living in the same apartment with the former imam for four months, described him as "a normal person."

"I last saw him on Tuesday morning. He told me he was going to Morocco." Police searched the former imam's room on Friday, Mr.



People pay their respects to the victims of Thursday's van attack in Barcelona. Islamic State claimed responsibility for the attack.

Finland Attack Has 'Ideological Motive'

Moroccan held in stabbings that killed two women

Police in Finland sought to reconstruct the sequence of events around a spree of stabbings they called a terror attack, which left two people dead and eight injured.

Authorities interrogated the prime suspect, an 18-year-old Moroccan citizen who was shot and detained by police following

Friday's knife rampage in the center of Turku, about 100 miles west of Helsinki, the National Bureau of Investigation said Sunday. The suspect, who is being treated for a gunshot wound to his leg, had previously refused to speak to police and is believed to have acted with an "ideological motive," according to Stephan Sundqvist, superintendent for the police in Finland's southwest region.

He arrived in Finland in 2016 and "has been in the asylum-seeking process," Mr. Sundqvist said. "It seems that he targeted primarily women," in

Friday's attack, he said, while the injured men were likely trying to stop the assailant.

Police said the two women stabbed to death were Finnish, while one Italian, one Swedish and one British citizen were among the wounded.

Investigators detained four other men after the rampage and said they were willing to cooperate, though their involvement in the incident "has not yet been fully established." Police issued an international arrest warrant for a sixth person who has likely left the country.

Terrorist attacks occur less frequently in the Nordic region than in other parts of Europe. The largest in recent years was in April when a man plowed a hijacked beer truck into a Stockholm shopping promenade, leaving four dead.

The Turku stabbings echoed recent attacks that were executed with improvised means and targeted random victims.

At the end of last month, a rejected asylum applicant born in the United Arab Emirates killed one person and injured six in a stabbing rampage at a supermarket in Hamburg.

—Nina Adam

El Haji said.

Ali Yassine, the president of the mosque where Mr. Es Satty had preached said the Muslim community was devastated that the former imam appeared to have been involved in the pair of attacks. "It's a crushing blow for us, because Islam is against criminals," Mr. Yassine said. "They take our name and kill for it."

Spanish authorities also

said Sunday that Mr. El Satty might have been killed in an explosion in a house where they suspect the terrorist group was building bombs. Some material that police found in that house, which is in the Spanish beach town of Alcanar, is similar to what the Islamic State typically uses, Mr. Trapero said.

Five suspects who were killed by police in Cambrils in

an attack related to the one hours earlier in Barcelona were wearing fake explosive vests, which echoes a strategy used in the recent London Bridge attack, also claimed by Islamic State. Four other suspects have been arrested.

On Sunday, police sifting through the remains of the destroyed building in Alcanar were still uncovering gas canisters.

"Today we are beginning to have much greater clarity that Alcanar was the place where [the suspects] were preparing the explosion to commit one or several attacks in the city of Barcelona," Mr. Trapero said.

—Marina Force and Donato Paolo Mancini in London and Jon Sindreu in Ripoll contributed to this article.

WORLD WATCH

ZIMBABWE

Grace Mugabe Given Diplomatic Immunity

South Africa's government granted diplomatic immunity to Zimbabwe's first lady, Grace Mugabe, who allegedly assaulted a woman who had been socializing with her sons in a Johannesburg hotel.

In a notice published in South Africa's government gazette Sunday, Foreign Minister Maite Nkoana-Mashabane said she recognized Ms. Mugabe's diplomatic immunity, "acting in the interest of the Republic of South Africa."

Ms. Mugabe returned to Zimbabwe early Sunday, along with President Robert Mugabe, who cut short appearances at a summit of the South African Development Community in Pretoria, Zimbabwean state broadcaster



Onlookers watch debris removal at the site of a train crash in India.

ZBC said. South Africa's police ministry said Wednesday that Ms. Mugabe, who rose from working as Mr. Mugabe's secretary to one of his potential successors, had sought diplomatic immunity after she allegedly

beat 20-year-old Gabriella Engels with an extension cord.

Ms. Engels says Mrs. Mugabe burst into the hotel room she was occupying with Robert Mugabe Jr. and Bellarmine Mugabe, the first couple's sons.

Ms. Engels posted a photo showing a deep gash on her forehead on Twitter, saying the injuries could endanger her modeling career, and said more than 10 of Ms. Mugabe's bodyguards witnessed the alleged assault in Johannesburg's Sandton suburb.

Representatives for Mr. and Mrs. Mugabe didn't respond to calls seeking comment.

—Gabriele Steinhauser

INDIA

Year's Fourth Major Train Crash Kills 23

India investigated a train crash in which 23 people were killed, the fourth major accident over the past year on the world's fourth biggest rail network which is grappling with chronic underinvestment and overcrowding.

The cause of the derailment about 130 km (80 miles) north of the capital New Delhi, in the state of Uttar Pradesh, was not known, said Northern Railways spokesman Neeraj Sharma.

Thirteen coaches of the train came off the tracks as it was heading to the Hindu holy city of Haridwar, police said.

The toll rose to 23 dead with at least 123 people injured.

Sharma said rescue operations had ended and a safety commissioner would launch an investigation later on Sunday.

Saturday's accident is at least the fourth major accident this year and the third in Uttar Pradesh in 2017. A crash in November in Uttar Pradesh killed 150 people.

The network is in the middle of a \$130 billion, five-year modernization.

—Reuters

TURKEY

Berlin Welcomes Release of Writer

Germany's foreign minister welcomed the release Sunday of a German writer detained in Spain on a Turkish warrant.

Turkish-born writer Dogan Akhanli, who has German citizenship, was arrested Saturday while on vacation in southern Spain.

Following a court hearing he was conditionally released but ordered to stay in Madrid while Turkey's extradition request is considered, his lawyer said.

It wasn't clear what Akhanli is accused of, but the author has written about the mass killing of Armenians in Turkey in 1915—a sensitive subject in Turkey, which rejects the widespread view that the killings constituted genocide.

—Associated Press

ISIS

Continued from Page One
for the U.S. in particular, have become a difficult balance.

"This is where the contradiction comes in, in U.S. foreign policy, fighting both ISIS and Iran," said Aymenn Jawad Al-Tamimi, a research fellow at the Middle East Forum, using an acronym for Islamic State. "The U.S. can support the armies of the region, but it won't be able to counter Iran's work with the militias of the region, both of which are important to the battle against ISIS."

Parts of these incongruous alliances are sometimes turning on each other.

In Iraq, Shiite militias have helped Baghdad's military—backed by U.S. forces on the ground—clear towns and cities of Islamic State. Yet across the border in Syria, these Iraqi militias have clashed with U.S. Special Forces and their Syrian allies, turning Syria into one of the hottest flashpoints for American-Iranian confrontation in the region. Iran, Hezbollah and many of Iraq's major Shiite militias support the Damascus government.



MOHAMED EL-SHAHED/AGENCE FRANCE PRESSE/GTY IMAGES

Tal Afar has been a show-

case for this tense tangle of friends and foes. The U.S. has pushed for Iraq's military to lead the Tal Afar assault and sideline the Iraqi Shiite militias that have encircled the town for months, but Iran has pressured Prime Minister Haider al-Abadi to include them in the battle.

Iraq's elite counterterrorism

forces—which are largely trained and equipped by the U.S.—are depleted after a grueling battle to recapture Iraq's second-largest city, Mosul. That nine-month fight wrapped up in July, but the withered ranks of Iraq's elite troops may force Baghdad to rely more on the Shiite militias in Tal Afar.

When Mr. Abadi announced

the start of the battle in the early morning hours, he was vague on what role the Shiite militias would play.

"I tell all our fighters and the Iraqi people: You're on the victorious side and the world supports you and awaits your victory," Mr. Abadi said. "The international coalition will support you."

It wasn't clear how many Islamic State fighters remain in Tal Afar, but Iraq's Defense Ministry estimates there are as many as 1,500, most of them foreigners.

Iraqi forces are bombing the militants' defensive lines as they advance toward Tal Afar, while ground fighting is taking place in areas and villages around it, according to Iraqi military officials. A small area outside the town called Al Abra Al Sageera was taken by the federal police and Shiite militias Sunday morning, they added.

In Lebanon, the offensive launched this week is a test for the army to prove it is able to clear Islamic State from the border region with Syria. While the army is leading the assault in the country's al-Qaa and Ras Baalbek areas, Hezbollah remains an important force as it is pressuring the group from the Syrian side of the border—despite repeated assurances from government officials that the military would lead the battle.

The Lebanese military denies cooperating with Hezbollah. Hezbollah frequently points to the military's weakness as a reason for its existence. Its critics accuse the

militia of undermining the military to preserve its leading role protecting the country.

"Hezbollah is taking the lead in everything, the government is powerless, even the state institutions are not able to do anything," said Samy Gemayel, a parliamentarian and head of the Kataeb party, a Christian party opposed to Hezbollah.

The U.S. has tried to strengthen the Lebanese and Iraqi militaries through equipment and training, but the governments of both countries are forced to compete with Iran's donations to their irregular forces.

With Islamic State a diminished force, U.S. officials now worry Tehran will try to establish a route from the Iranian capital through Iraq, Syria and onto Lebanon to provide military aid to proxies and allies.

In Syria, groups aligned with Iran initially focused more on the threat to Syrian President Bashar al-Assad from secular rebels. Only in the past year have Iran, Damascus and its allies joined U.S.-backed forces in trying to dismantle the group's operations in Syria.

—Leena Saidi contributed to this article.



Accelerating Global Financial Inclusion

What would you do if your only option was a loan from a high-cost lender or the sale of a household asset to pay for an unexpected expense? Access to quality, affordable financial services — especially savings — can be that safety net. Yet an estimated 2 billion people must make do with financial services that are expensive, inconvenient, insecure or unsuited to their needs. That's why *financial inclusion* — chronicled on Multipliers of Prosperity, MetLife Foundation's award-winning content hub — is the first step toward financial health for low-income people around the world.

Discover the stories behind the push for global financial inclusion.

Head to Multipliers of Prosperity to meet the people on the front lines, and learn about the innovations from Bangladesh to the Blue Ridge Mountains that are moving the needle on financial health.



For more on how we are accelerating financial inclusion around the world,

visit multipliersofprosperity.com

IN DEPTH

At Cisco, a Feud Turns Personal—and Costly

Chief executive's former protégé builds rival networking business, wins over customers; 'Don't buy from her'

BY RACHAEL KING

In a packed headquarters ballroom, Cisco Systems Inc.'s then-chief executive officer John Chambers offered a fond farewell to a star executive and friend, Jayshree Ullal. He celebrated her ability to make complicated things simple and wished her success in her next role.

He didn't expect that much success.

Within months of the 2008 party, Ms. Ullal became CEO of Arista Networks Inc., a small startup that has since snagged Cisco customers including Microsoft Corp. and Facebook Inc., and is eating into the share of the networking giant's most important business.

Mr. Chambers couldn't stand to lose sales, especially to someone he considered family and the rivalry has become personal, according to people close to both executives. Defeating Arista has become a priority for Cisco, a company more than 40 times bigger by annual revenue.

In 2013, Ms. Ullal's image appeared in an internal Cisco presentation pasted onto a bull's-eye pierced with arrows. "Arm the field, stop the bleeding and fire back," according to the presentation.

Ms. Ullal's image was pasted onto a bull's-eye pierced with arrows.

Now, the fighting is unfolding in court, where Cisco, once the world's most valuable company, has accused Arista of stealing its technology. Arista has denied the allegations, saying the Silicon Valley giant sued only because it lacked smart ideas to regain business. Each side has notched incremental wins over the past two and half years with no sign of a resolution.

By the time Mr. Chambers handed over the CEO position to Chuck Robbins in 2015, Cisco had been through its fifth consecutive year of layoffs, various restructuring and other cost cuts. It's struggling to regain the market share captured by Arista and other competitors, particularly in Cisco's crucial switching business, which links together computers on corporate networks.

Mr. Robbins said Cisco is now repositioning itself to build products with more automation and security.

"Because we see companies that get disrupted, you can disappear in a hurry in today's world," he said in a recent interview. In June, Cisco promoted a new line of automated and programmable switches. Mr. Robbins told a gathering of 28,000 partners and customers the company was on a journey "to change everything."

His predecessor, Mr. Chambers, has said he made mistakes during his tenure as CEO. Cisco, he said in court testimony, was too slow to react to a fast-changing market. He declined to be interviewed for this article, as did Ms. Ullal.

On Wednesday, Cisco reported that revenue fell for a seventh straight quarter.

This account of how a Cisco insider became one of its fiercest foes is based on interviews with current and former executives of Cisco and Arista, court testimony and records, and unpublished corporate documents and emails reviewed by The Wall Street Journal.

A Strong Team

Mr. Chambers, 67, now Cisco's executive chairman, is credited with the company's extraordinary growth phase in the 1990s, largely by buying smaller companies, including Crescendo Communications where Ms. Ullal worked.

Ms. Ullal, who rose to become one of Cisco's most valuable executives over her 15 years at the company, ran the switching division, which allows companies to shuttle data at high speeds. By the time she left, switching was Cisco's biggest business, with more than \$10 billion in annual revenue, a big reason why Cisco recovered from the dot-com bust.

Mr. Chambers and Ms. Ullal made a strong team, partly because they're both extremely competitive, according to former executives who worked with them.

Their priorities and styles sometimes clashed. Mr. Chambers, a soft-spoken West Virginian, was a managerial guru and a salesman whose gracious manner skewed more senatorial than Silicon Valley. Ms. Ullal, raised in India, was an outspoken engineering and marketing whiz who disliked rigid rules.

Ms. Ullal grew frustrated as Cisco began moving beyond its core switching and routing business into areas such as high-end videoconferencing and consumer electronics, former executives who worked with her said. About a year before she left, Mr. Chambers had created dozens of internal councils and boards, which was at odds with her command-and-control approach.

Cisco's engineering team knew Ms. Ullal's departure would be bad news, say former co-workers.

Arista was a better fit.

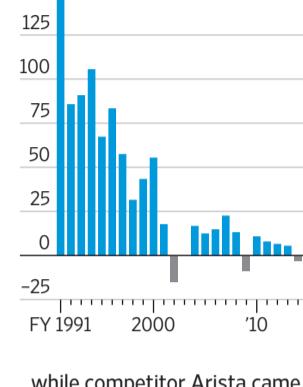
The Santa Clara, Calif., startup, founded in 2004 by former Cisco executives, was small and entrepreneurial. When Ms. Ullal joined as CEO in 2008, it had shipped its first product, an unusually fast networking switch for Wall Street trading networks. The market was worth only about \$50 million but it gave Arista a foothold.

It was also a segment of the market Cisco hadn't pri-

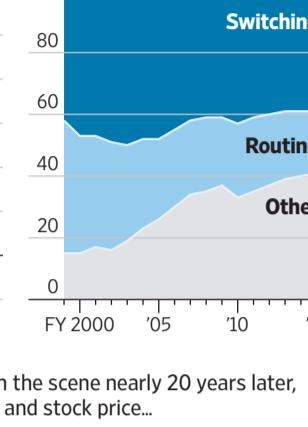
Networking Business

Cisco went public in 1990 and built itself into a giant in the markets for network switches and routers...

Cisco revenue,
change from a year earlier

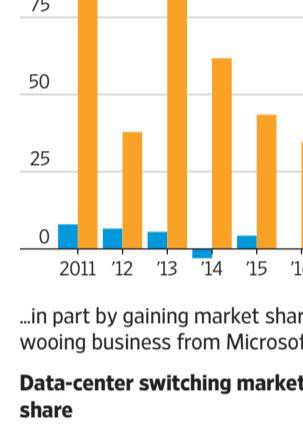


Cisco sectors



...while competitor Arista came on the scene nearly 20 years later, and quickly increased its revenue and stock price...

Revenue, change from a year earlier

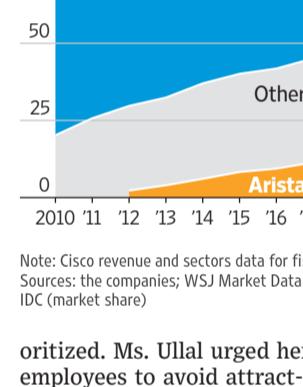


Arista stock

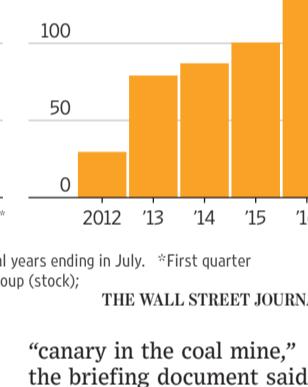


...in part by gaining market share in one of Cisco's key sectors and wooing business from Microsoft, one of Cisco's biggest clients.

Data-center switching market share



Arista's sales to Microsoft



Note: Cisco revenue and sectors data for fiscal years ending in July. *First quarter

Sources: the companies; WSJ Market Data Group (stock); IDC (market share)

THE WALL STREET JOURNAL.

new business from Cisco customers, according to former executives. Mr. Chambers also sent a 1,500-word memo to employees in April 2011 saying Cisco was too slow to make decisions and lacked discipline.

That month, the sales team created a "Tiger Team" to track Arista's every move, thwart its marketing efforts and forestall its initial public offering plan, according to internal presentations and emails.

As many as 70 salespeople and engineers participated in "war room" calls where no detail was too small.

In 2012, Mr. Chambers asked four top Cisco engineers who had created some of its past hit products to secretly start a new company to compete directly with Arista's offerings. Cisco invested \$135 million in the company, Insieme Networks, and later bought it.

Arista's technology was faster, more flexible and less expensive than Cisco's, according to customers and internal sales documents.

Facebook engineers described Cisco as "behind the curve and on target to become irrelevant" in the data center, according to a Cisco engineer's email to executives in March 2013. Facebook, now a customer of both Arista and Cisco, declined to comment.

A Cisco employee presented the slide deck with Ms. Ullal's photo on a bull's-eye a few months later, calling for "zero loss tolerance against Arista."

Other customers started complaining. An email from a customer support engineer in August 2013 to dozens of senior managers, including Mr. Robbins, the future CEO, said Morgan Stanley had lost confidence in one of the switching products "after more than 12 months of ongoing software defects, instability and a lack of needed features." The bank halted plans to use 400 Cisco switches and said it might turn to Arista.

Morgan Stanley declined to comment.

Cisco interviewed dozens of executives to understand the problem. The brutal conclusion in a September 2013 report: Cisco had good ideas and talented employees but a risk-averse culture, indecisive leaders and too big a focus on incremental products.

In November, Ms. Ullal ran into Mr. Chambers at a cocktail party in San Francisco, according to a person familiar with the encounter. The two hugged, and then Mr. Chambers joked to the former CEO of a big Cisco customer that his onetime treasured executive had become his toughest competitor. "Don't buy from her," he said.

Ms. Ullal was irritated by the exchange and told her staff that Cisco's gloves were coming off, according to the person.

Inside Cisco, a "Beat Arista" document in January

2014 warned that the impending IPO would provide the upstart the cash to strike Cisco's most profitable product lines.

"Time is now to target their top 100 accounts—slow momentum, impact revenue & market share and help drive an unsatisfactory IPO," one slide said.

About six months later, Arista had an initial public offering on the New York Stock Exchange. Its shares jumped 35% on the first day of trading, making Ms. Ullal's 7% stake worth about \$260 million, and climbed another 40% by November.

'This was so blatant'

In December 2014, Mr. Chambers approved two lawsuits against Arista with the blessing of his operating committee. He struggled with the decision. "It is hard to accuse people who are your friends—and they are still my friends—of stealing from you," Mr. Chambers said in court testimony. "But this was so blatant."

The lawsuits filed in U.S. District Court for the Northern District of California accused Arista of copying technology, infringing on 14 patents and taking copyright material.

Arista says the suits have no merit. "I'm disappointed at Cisco's tactics—this is not the Cisco I knew," Ms. Ullal told reporters at the time. She later wrote on Arista's blog that older companies are "often in denial of new technologies and market disruptions until it's too late."

Arista prevailed over Cisco in a trial late last year over copyright claims and one patent claim in one of the lawsuits. The other lawsuit is on hold pending related investigations being conducted by the International Trade Commission at Cisco's request. The ITC found that Arista infringed on three of the patents in dispute, leading it to redesign some products this year. But the company is appealing a ban by the agency on the import and sales of products in the U.S. related to two other patents.

Cisco, with a market value of \$160 billion, remains the leader in the networking business, but the much smaller Arista is chipping away at the fastest-growing part of the switching business. Arista's share of the overall data-center switching market has grown from nothing in 2010 to over 9% in 2016, while Cisco's share has fallen from about 80% to about 58%, according to research firm International Data Corp.

Mr. Chambers and Ms. Ullal didn't see each other again until last month at a wedding, according to a person familiar with the meeting. They embraced, chatted for several minutes—though not about work—and appeared in a photo together. Then they went their separate ways.

People are going bonkers for sloths, mammals slow enough to spend 20 minutes eating a green bean.

ADVA BEASLEY/THE WALL STREET JOURNAL

more," said Jon Leland, a senior director for the fundraising site Kickstarter. "Sloths have succeeded by doing less."

One of his projects, on animal meditations, asks listeners to pretend to be a creature in an audio recording. The sloth meditation follows a three-toed sloth as it reaches for an appetizing leaf—an eight-minute endeavor. It was by far the most popular with at least 4,000 downloads.

Sloths weren't always so beloved. From the Middle English word *slothw*, sloth refers to an avoidance of activity. Sometime in the early 1600s, the word became attached to the slow-moving animal, usually found in the tropical rain forests of South and Central America. Around the same time, the Christian church formally added sloth as one of the seven deadly sins, vices believed to be spiritually fatal. In the late 1700s, French biologist Georges-Louis Leclerc examined a specimen of a sloth and called it "the lowest form of existence."

Vicky Perez, a college student in San Antonio who has spent hours watching videos of sloths, has a tattoo on her lower calf of a sloth sitting on a

cloud while drinking a martini. At a local concert, a man spotted her tattoo and, she said, proceeded to show her a tattoo on his rear end of a sloth hanging from a branch. "I was just like, oh my God, this person's my soul mate," Ms. Perez said. "But I never saw him again."

Neil Parish, a legislative director with the Michigan House of Representatives, said his relationship with his girl-

friend developed early on through texting "creepy sloth memes" to each other. They recently saw a sloth for the first time at The Creature Conservancy in Ann Arbor, Mich. "We see ourselves in the sloth," Mr. Parish said. "They aren't lazy, just a little slow...and their strength is underestimated."

Kim Ellis, vice president of the Creature Conservancy, which has hundreds of ani-

mals, said 91% of visitors who request to see a specific animal ask for the sloth. The conservancy is now charging an extra \$50 for a group of four to view a baby sloth.

Brian White, an attorney in Houston, said he has fielded calls for legal advice on sloth pet ownership, which is regulated by state and city laws on exotic pets. It typically costs at least \$5,000 to buy one. Wildlife conservationists oppose people having sloths as pets.

Sloth researchers are increasingly concerned that the widespread sloth obsession will result in more poaching. Among the six species of two-toed and three-toed sloths, two are endangered. There are more than 200 sloths in American zoos and aquariums, but others are clamoring for them.

Lynn Yakubinis, an Atlanta-based animal keeper in charge of maintaining a healthy sloth population in the U.S., said 31 zoos are currently on a waitlist for a sloth, approximately double the typical demand, but she has only 14 available.

To those still waiting, Ms. Yakubinis says, "I greatly appreciate their patience."

SLOTH

Continued from Page One

forests of Central and South America. They move slowly to conserve energy and blend in with the forest to avoid jaguars, harpy eagles, and other predators. It can take them a month to digest one leaf. They typically move their bowels once a week, climbing slowly down the tree to do so, and can lose up to a third of their body weight when it happens.

Their natural expression looks like a smile, but they are solitary creatures who are often stressed at the sight of humans.

Cameos in children's movies like "Zootopia" and "Ice Age" have helped boost the sloth's popularity. A video in 2012 of actress Kristen Bell sobbing after her husband surprised her with a sloth for her birthday went viral. Some admirers say there's more to it: People have a yearning for a less frenetic lifestyle, free of smartphones and pressures to be more productive. "Sloths are the antithesis of the modern condition where you succeed by doing



U.S. NEWS

THE OUTLOOK | By Paul Hannon

Draghi to Revisit Easing Policy at Jackson Hole



The Federal Reserve's annual symposium in Jackson Hole, Wyo., every

August has become a staging ground in the past decade for central bankers to unfurl and explain complicated new policies in a financial crisis era. Usually it is the Fed itself in the spotlight, but sometimes it is others, like European Central Bank President Mario Draghi.

Mr. Draghi could become the center of attention again this week when he returns to Jackson Hole, where he is set to provide a luncheon address.

He last did so in 2014. Then, a luncheon presentation promised the use of "all the available instruments needed" to reverse a down-draft in inflation, laying the groundwork for a program of government bond purchases six years after a similar move by the U.S. Federal Reserve.

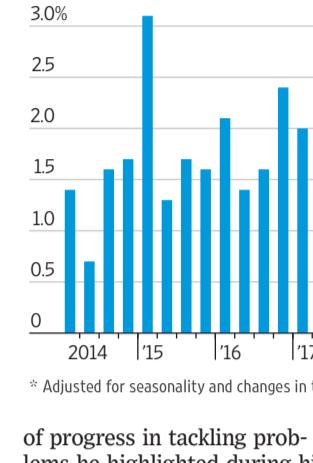
Just as Mr. Draghi set out a framework for understanding why quantitative easing, as the purchases are known, was necessary in 2014, ECB watchers think his coming appearance will give him an opportunity to review the evidence and set out the case for ending it in 2018.

What he likely sees is a set of policies that have proven favorable to growth, and signs

Signs of Progress

The eurozone's growth and inflation have picked up, and unemployment has fallen since Mario Draghi last spoke in Wyoming.

Quarterly change in inflation-adjusted GDP, at an annualized rate*



* Adjusted for seasonality and changes in the calendar year. Source: Eurostat

Consumer-price inflation, as measured by the change from a year earlier in the harmonized index



Source: Eurostat

Unemployment rate, seasonally adjusted



THE WALL STREET JOURNAL

sponse to that prospect, the euro has been appreciating against other currencies.

The ECB is likely to proceed with extreme caution, an impression underlined by minutes of its July meeting. They showed policy makers were worried about the euro's gains in anticipation of tapering, and wary of sending any signal that would lead investors to conclude that will start soon and advance quickly.

Bond purchases don't fully explain what has happened in Europe. When Mr. Draghi stood to speak three years ago, there was a glaring inconsistency in eurozone economic policy:

The ECB was providing stimulus to try to boost growth and inflation, while eurozone governments were trying to narrow their budget deficits, with exactly the opposite effect.

Mr. Draghi's speech was essentially a plea to get everyone working in the same direction, and to some degree, it succeeded. Fiscal policy has stopped working against monetary policy, and is now working with it. According to the International Monetary Fund's annual review of eurozone economic policy, government budgets will be "mildly expansionary" this year.

Yet Mr. Draghi's appeal to governments went beyond how they manage their budgets and on these fronts, the

IMF concludes, progress has been sluggish.

No amount of fiscal or monetary accommodation, Mr. Draghi said, "can compensate for the necessary structural reforms in the euro area." By that he meant that governments should overhaul laws that make it costly and complex to hire and fire workers.

The job isn't complete on the macroeconomic front either. What truly alarmed Mr. Draghi back in 2014 wasn't low inflation; it was signs that expectations of future inflation had fallen significantly.

When Mr. Draghi spoke, the measure he cited suggested bond investors expected inflation to be around the ECB's target over the medium term. That measure now points to expectations that inflation will stay below target.

Separate measures suggest expectations have risen among consumers, but not to levels that were typical before the financial crisis.

So while the central banker will likely highlight a degree of progress that would allow for a reduction in stimulus, that is also likely to be tempered with notes of caution to suggest bond purchases or other measures supporting growth won't be withdrawn very quickly. Policy normalization in Europe, as in the U.S., will proceed very slowly.

N.Y., who recently published a book about cultural perceptions of eclipses.

The Mayans, he said, equated an eclipse with "the moon, ruler of the night...telling lies to the sun about the evil things" humans do. In Hindu culture, humans "make noise" in an attempt to bring back the sun and "preserve cosmic order," he said.

Businesses, schools, governments and museums have been preparing for a bit of chaos for months. Some schools have canceled classes and several museums across the country are hosting viewing parties.

Local authorities are anticipating and prepping for traffic jams. Oregon Air and Army National Guard members and Army National Guard aircraft will be deployed in that state to help with traffic and emergencies.

Entegra Financial Corp., a community bank in Franklin, N.C., will host customers, investors and other eclipse-chasers at its headquarters in the Smoky Mountains. Bank employees will be on hand to pass out MoonPies, glow-in-the-dark tattoos and stress balls shaped like moon rocks.

The bank also has a stockpile of 10,000 pairs of eclipse glasses—which its executives hope will be enough. David Bright, the bank's chief financial officer, remembered getting a jolt when the bill for them first crossed his desk.

"I thought it was crazy—I couldn't believe we spent \$10,000 on little plastic glasses," Mr. Bright said. Now, he says: "We should have ordered more."

—Robert Lee Hotz, Christina Rexrode and Georgia Wells contributed to this article.

Final Preparation For Solar Eclipse Gets Under Way

BY DANIELA HERNANDEZ

Monday marks the end of a 99-year wait as the country experiences a total eclipse of the sun, coast to coast for the first time since 1918.

The event is drawing large crowds to small towns and cities, and is expected to become a vast, shared experience online.

"This total solar eclipse across the United States is a fundamentally unique opportunity in modern times, enabling the entire country to be engaged with modern technology and social media," said Carrie Black, an associate program director at the National Science Foundation who oversees solar research.

Roughly 200 million people live within a day's drive of the so-called path of totality—the 70-mile-wide swath cutting across 14 states from Oregon to South Carolina where the sky will go completely dark as the moon passes directly in front of the sun, according to Martin Knopp of the Federal Highway Administration at the U.S. Department of Transportation.

Nearly twice as many will be able to view at least a partial eclipse, according to National Aeronautics and Space Administration.

Skygazers are planning weddings, participating in citizen-science projects, and

flocking to festivals featuring aliens, science-themed activities and concerts to mark the celestial event.

Oregon State University in Corvallis is hosting nearly 2,000 guests in its dorms, and as many as 8,000 people for a three-day festival on campus that will include movie screenings, a replica of a Mars rover, a meteorite "petting zoo," and an eclipse-viewing party Monday morning, according to Jill Peters, OSU's eclipse event manager.

Social-media firms are planning ways to help people share the experience online. Snap Inc.'s Snapchat app will have special stickers and filters. Users will also be able to zoom in on a map to view eclipse-related dispatches from the path of totality, according to a spokesman.

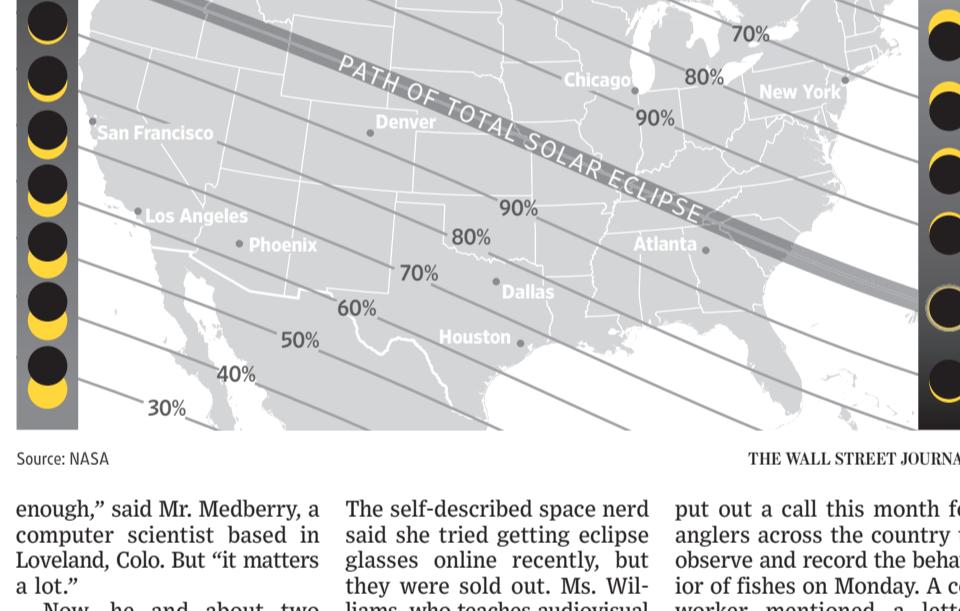
Some eclipse enthusiasts have been planning for months or even years. Others are playing catch-up and encountering booked hotels and sold-out eclipse viewing glasses.

About four months ago, when Dave Medberry told his family about his travel plans to view the total eclipse, they responded by saying a farm owned by relatives in Wyoming was already in the path of totality. He pulled out some maps to show them it was just outside the line.

"Some of them thought close enough was good

The 2017 Eclipse

If skies are clear during the Aug. 21 solar eclipse, the entire U.S. will be able to see the sun at least partially obscured. Percentage of the sun's area that will be covered by the moon during the event:



Source: NASA

enough," said Mr. Medberry, a computer scientist based in Loveland, Colo. But "it matters a lot."

Now, he and about two dozen of his family members, some of whom are flying in from the East Coast and California, are driving to Torrington, Wyo., for the event, eclipses glasses and colanders in tow. He will use the colanders as makeshift pinhole viewers to project on the ground tiny images of the moon encroaching on the sun.

Staring at the sun, even when it is partially covered, can cause vision damage, so eclipse watchers need special dark glasses or should use a pinhole viewer to project an image of the sun on another surface.

Others such as Susan Williams waited too long to plan.

The self-described space nerd said she tried getting eclipse glasses online recently, but they were sold out. Ms. Williams, who teaches audiovisual technology at Full Sail University in Florida, will take a break from class on Monday to enjoy and photograph the partial eclipse with her students. She sent them instructions on how to turn cereal boxes into pinhole projectors, she said.

Mark Miller also had to hustle at the last minute to book a car rental for his trip to Jackson, Wyo., for the eclipse. Mr. Miller, a senior vice president at Symphony Health Solutions, spent two days haggling with local car-rental providers until he found a reasonable price. He is now on the hunt for eclipse glasses.

Eric Gooding, an electrician at the University of Missouri,

put out a call this month for anglers across the country to observe and record the behavior of fishes on Monday. A co-worker mentioned a letter published in the journal *Nature* in 1906 describing fishes becoming "ravenous" as "the eclipse neared its maximum," presumably because they figured it was feeding time.

A colleague helped Mr. Gooding put together a website and a form where anglers can input data to test out the theory described in the old letter.

Today, people mostly regard eclipses as entertainment and as opportunities for scientific study, but various societies throughout history have also viewed them as ominous, according to Anthony Aveni, an archaeoastronomer at Colgate University in Hamilton,

N.Y., who recently published a book about cultural perceptions of eclipses.

The Mayans, he said, equated an eclipse with "the moon, ruler of the night...telling lies to the sun about the evil things" humans do. In Hindu culture, humans "make noise" in an attempt to bring back the sun and "preserve cosmic order," he said.

Businesses, schools, governments and museums have been preparing for a bit of chaos for months. Some schools have canceled classes and several museums across the country are hosting viewing parties.

Local authorities are anticipating and prepping for traffic jams. Oregon Air and Army National Guard members and Army National Guard aircraft will be deployed in that state to help with traffic and emergencies.

Entegra Financial Corp., a community bank in Franklin, N.C., will host customers, investors and other eclipse-chasers at its headquarters in the Smoky Mountains. Bank employees will be on hand to pass out MoonPies, glow-in-the-dark tattoos and stress balls shaped like moon rocks.

The bank also has a stockpile of 10,000 pairs of eclipse glasses—which its executives hope will be enough. David Bright, the bank's chief financial officer, remembered getting a jolt when the bill for them first crossed his desk.

"I thought it was crazy—I couldn't believe we spent \$10,000 on little plastic glasses," Mr. Bright said. Now, he says: "We should have ordered more."

—Robert Lee Hotz, Christina Rexrode and Georgia Wells contributed to this article.

HEALTH

Continued from Page One

stop participating on the ACA's individual markets. In return for guaranteeing the payments next year, any bill would likely give states more flexibility on ACA implementation, a change GOP lawmakers have sought.

The pressure on Republicans has intensified after the non-partisan Congressional Budget Office reported last week that cutting off the subsidies could spur a 20% increase in 2018 premiums for some of the exchange's most popular, midtier priced plans. President Donald Trump has threatened to halt the payments, which compensate insurers for lowering out-of-pocket costs for some low-income consumers.

During the congressional recess, support also has grown for the plan championed by

Mr. Graham, which would give states the billions of dollars spent on the ACA to create their own health-care approaches. It also would end the requirement that most people purchase insurance or pay a penalty.

Conservative lawmakers in both the House and Senate see it as the most viable path toward a repeal of the ACA.

The idea, backed also by GOP Sen. Dean Heller of Nevada, could draw other Republicans away from any plan to bolster the ACA's markets. A spokesman for Mr. Cassidy said the two bills could move on parallel tracks, with lawmakers choosing to shore up insurance markets in the short term while pursuing more sweeping changes to the law.

Some Republicans want legislation to shore up the markets and preserve the cost-sharing payments. Others, along with Mr. Trump, are ea-

ger to repeal most of the ACA. They see the subsidies as a bailout of insurers.

Concern is growing among governors, Democrats and insurance commissioners that any effort may come too late to help consumers in fragile ACA exchanges.

Though the Trump adminis-

some key federal due dates, insurers are still supposed to file their 2018 premiums by Sept. 5. However, industry officials said, the more binding deadline may be Sept. 20, when states must submit completed rates to federal officials.

Ultimately, insurers have until Sept. 27 to sign federal contracts to offer 2018 plans.

"There has to be a clear set of rules for 2018 for us to participate," said David Holmberg, chief executive of Highmark Health. "We need answers. We need to know what the playing field is and who the refs are."

Mr. Alexander said this month in a statement that if Congress doesn't act by Sept. 27, "millions of Americans with government subsidies...may find themselves with zero options for buying health insurance on the exchanges in 2018."

If they pass a bill to stabilize the markets, Republican officials could face a backlash in the 2018 elections from conservative voters who feel GOP lawmakers reneged on their pledge to repeal the ACA. Voters may also hold lawmakers accountable if nothing is done and premiums climb next year.

"The Republican base expects some results, and that's not unreasonable of them," said Doug Heye, a former dep-

uty chief of staff to then-House Majority Leader Eric Cantor (R., Va.).

Some conservative outside groups have given the bipartisan proposal to shore up the markets a chilly reception.

"They're basically bailouts to prop up Obamacare," said Andy Roth, vice president of government affairs at the conservative Club for Growth.

But there is some support for such a rescue mission in the House. Reps. Mark Meadows (R., N.C.), chairman of the conservative Freedom Caucus, and Tom MacArthur (R., N.J.), a centrist, have been collaborating on a stabilization package seen as a companion to Mr. Alexander's work in the Senate. That plan would authorize the subsidy payments in 2018 and build more flexibility into ACA waivers. Mr. Meadows is also spearheading a parallel effort to force a vote on a clean repeal of the ACA on the House floor.



Sens. Patty Murray (D, Wash.), left, and Lamar Alexander (R, Tenn.)

ANDREW HARRER/BLOOMBERG NEWS

LIFE & ARTS

BOOKS

When Memoirs Get Very Dark

A slew of books chronicle traumatic experiences and the authors' positive outcomes

BY ELLEN GAMERMAN

WHEN MAUDE JULIEN was a girl, she writes, her father locked her in a rat-infested cellar and forced her to wear a sweater with bells on it so he would know if she moved. He made her grip an electric fence for 10 minutes at a time in a test of her willpower. He insisted that she watch the slaughter of farm animals, bathe in his dirty bathwater, sleep in a freezing bedroom and hold a clear glass bowl for him to urinate in every morning.

With her parents, eye contact, laughter and touch were forbidden. Love was out of the question.

The story she tells is so harrowing that it's at first disconcerting to hear the cheerful lilt in Ms. Julien's voice when she calls on a recent morning. The French author is discussing her memoir, "The Only Girl in the World," about her devastating childhood and eventual escape from the parents who terrorized her.

The book, a bestseller in France with more than 50,000 copies sold, has been translated into 10 languages. Ms. Julien has turned down bids for the screen rights, though she is open to the idea of a movie adaptation. When the book lands in the U.S. this December, publisher Little, Brown and Co. plans a national print and radio campaign with wide outreach on social media.

The book joins a spate of current memoirs by women detailing abuse in their families and marriages. Many authors say that delving into their past brings comfort as well as nightmares. Some describe looking out at their book readings wondering if they will see a spurned family member glaring from the back row. Other authors fear physical retaliation from the subjects of their books, while their publishers take steps to guard against libel lawsuits. Though the names of the villains in these stories often are changed, it's relatively easy to identify some of them on social media.

Judy Clain, editor in chief of Little, Brown, said the publishing house bought Ms. Julien's memoir not only on the strength of the writing but because the author delivered a life-affirming message rather than allowing the shocking material to spiral into sensationalism.

"She seems to have really not



Maude Julien, now 59, says years of therapy helped her write a memoir about her harrowing upbringing.

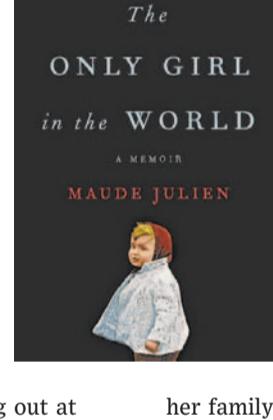
only survived but triumphed over this darkness," Ms. Clain said of Ms. Julien, now a 59-year-old psychotherapist living in Paris. "If someone can survive that and then go on and live in the world in such a grounded way, it's a wonderful way to reach people who have maybe difficult lives."

Ms. Julien names her parents in the book. Her father, who died in 1979, was a force in the family a generation before the author's birth. When Ms. Julien's mother was 6 years old, Ms. Julien's father convinced the blonde-haired girl's father, a struggling miner with many children, to give up his child. Ms. Julien's father offered to raise and educate the girl—the author's future mother—on the condition that she cut off all contact with

her family. Twenty-two years later, he married his ward with the intention of having a blonde child of his own. After Ms. Julien's birth, he moved the family to a house in northern France with a singular ambition: to turn his daughter into "a superhuman being."

Through hidden coping mechanisms that included books and an intense love of animals, Ms. Julien survived years of torment. She finally escaped at age 18 when her father allowed her to leave the house in order to enter an arranged marriage. Her life today includes a 15-year marriage to her third husband, two daughters and three grandchildren.

The author wrote the memoir in 2013, saying she felt compelled to do so after realizing that she



was asking her patients to address their pasts but had not fully confronted her own. "When someone has endured this kind of emotional, physical and mental control, they have a feeling they are wearing a cloak of shame—that was the case for me," said Ms. Julien, who as a therapist specializes in areas including mind control, emotional manipulation and trauma. "People often ask me if writing the book was therapeutic. But in fact it's thanks to years of therapy that I was able to write the book."

As part of her research, Ms. Julien returned to the house that

had served as her prison, visiting with her then-pregnant daughter. The moment she heard the front gate scrape along the gravel and the lock click into place, Ms. Julien said, she fainted. "It was terrible," she said. "All my body resisted."

After sending a copy of the memoir to her mother, Ms. Julien said she heard through a friend, Ursula Gauthier, the book's co-writer, that her mother called the work a betrayal. Attempts to reach Ms. Julien's mother were unsuccessful. Ms. Julien dedicated the book to her mother, whom she calls "the first victim of the

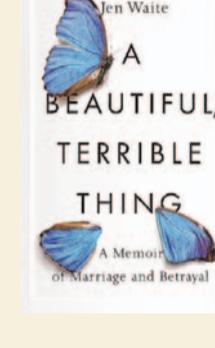
'This is My Story in My Voice'—Memoirs With Traumatic Underpinnings

A Beautiful, Terrible Thing

(July 2017*)

Jen Waite

Ms. Waite said she wrote the memoir almost in real time, as she was investigating her husband's suspected infidelity. While raising their baby alone, she researches his behavior by reading textbooks and academic articles on personality disorders, as well as talking with a therapist. She comes to believe that the man with whom she had a five-year relationship exhibited some of the nonviolent traits of a psychopath, such as lack of remorse, guilt or shame. Though she calls him by a pseudonym, she said strangers have written her saying they have figured out his identity. Her now ex-husband hasn't contacted her about the book, which she said she wrote because she needed "to figure out some truth in the situation, because it suddenly felt like the past five years were a complete lie."



exploring her decision to cut ties with her family, the 45-year-old author describes an abuse that came with an ambiguous edge. "I wasn't locked in a closet, I wasn't deprived of food, I didn't go to the hospital with broken bones, so I thought it didn't count," she said. At the same time, she recalled sustaining bruises up and down her body. "Where do you draw the line?"

How much is OK to hurt a child? You don't hit a child, no matter what."

The Book of Emma Reyes

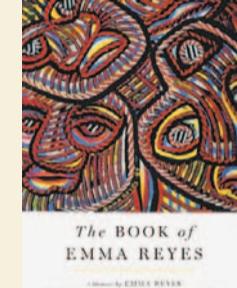
(Aug. 8, 2017)

Emma Reyes, translated with an introduction by Daniel Alarcón

The book, a translation of the 2012 memoir of Colombian artist Emma Reyes, consists of letters she wrote over 30 years. In his introduction to the memoir,

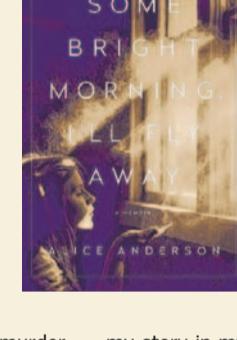
Mr. Alarcón writes that Ms. Reyes was abandoned by her mother, subjected to cruelty in a convent from which she later escaped and, after the book ends, made to witness to her newborn child's murder. Mr. Alarcón writes that Ms. Reyes, who was encouraged to pursue writing by Gabriel García Márquez, is a

storyteller whose prose is humorous, full of wonder and un-self-pitying. He writes that the artist, who died in 2003 at age 84, describes "with a poetic dispassion the sorts of trauma that would break most people."



The Book of Emma Reyes

Illustrations by EDITH REYES
Translated and with an introduction by DANIEL ALARCÓN



abuses her. "There's one true thing about a hurricane: it doesn't change people, it exposes them," she writes. While working on the book, she was recovering from traumatic brain injuries that she says resulted from domestic violence. "I had severe aphasia. Every sentence I would put an 'X' placeholder for words I could not think of," she said.

Ms. Anderson says books like hers are about the art of standing witness to one's own story. "I see women writers saying, 'This is

my story in my voice and I'm not the story you've made of me.'"

—Ellen Gamerman

*U.S. release dates

CARLOS ZAMORA (ILLUSTRATION); ALAIN SCHMIDT (ILLUSTRATION)

PLAYLIST: DEAN KOONTZ

SIMON SAYS, 'RISK IT'

Dean Koontz, 72, is the author of more than 100 books. His latest suspense thriller is "The Silent Corner" (Bantam). He spoke with Marc Myers.

Simon & Garfunkel's songs are favorites of mine, but I love Paul Simon even more as a solo artist. There's something about the boyish charm of his voice and his phrasing that make him seem like someone you knew growing up. Simon's "THE BOY IN THE BUBBLE" is one of those songs, and it had a significant impact on my early writing career.

In 1986, my wife, Gerda, and I were living in Orange, Calif. That fall I was working on revisions for "Watchers," a novel that explored the light and dark sides of technology.

I had bought Simon's "Graceland" album when it came out a couple of months earlier, and I listened to it regularly. I like listening to music when I write, provided I know the songs well. Otherwise I'm distracted.

While making revisions on "Watchers," I became stuck. I realized the sound of my language needed to be both jubilant and terrifying. It was an odd combination that I

had never tried before, but I wanted to give it a shot.

For some reason, I put on "Graceland." The very first song is "The Boy in the Bubble." It opens with Forere Motloheloa's eerie accordion, followed by sharp strikes on the drums. Then the song begins and a synthesizer seems to hum the song's melody, giving it a dark edge.

Simon's opening lyric is about a terrorist attack, yet the music is ebullient and features a dance beat. As I listened to the music, the lyric lines that caught my ear were, "These are the days of miracle and wonder" and "Don't cry, baby, don't cry / don't cry."

I thought to myself, "That's the tone I want in another genre and art form—combining dark dramatic tension and optimism." These two textures were intertwined in the song and helped me find the right voice for my revisions.

When "Watchers" came out in 1987, the book was a big success. I've never met Paul Simon, and maybe that's good. I have such a deep love for his music that I'd probably babble like an idiot.



PAUL SIMON performing in Holland, circa 1987.

LIFE & ARTS

ART REVIEW

The Muse Turned Master

A new museum celebrates sculptor Camille Claudel, who was long stuck in the shadow of her mentor and lover, Rodin

BY A.J. GOLDMANN

Nogent-sur-Seine, France

She has been portrayed on-screen by Isabelle Adjani and Juliette Binoche. There have been novels, plays, ballets and even an opera about her. Now, with the opening of the world's first museum dedicated to her work, which was inaugurated here in late May, the sculptor Camille Claudel (1864-1943), best-known as Auguste Rodin's mistress and muse, is finally getting her artistic due.

Nowadays Nogent-sur-Seine, 60 miles southeast of Paris, is known for its nuclear power plant, whose two cooling towers loom surreally over the Seine. In the 19th century, however, this quaint town played an outsize artistic role. Flaubert was a frequent guest and set his "Sentimental Education" here. In addition to Claudel, whose family lived here from 1876 to 1881, the town was home to three other master sculptors over the course of the 19th century. At 12 years old, Claudel began sculpting work in local clay. Her early models of Napoleon and Bismarck (both lost) attracted the notice of Alfred Boucher, one of France's leading sculptors, who became her first teacher. The Musée Camille Claudel, with its harmonious brick building designed by Adelfo Scarpa, is built around the Claudel house and incorporates the town's first municipal museum, which was inaugurated by Boucher in 1902.

The 250 works inside are gracefully arranged in a manner that is academic but never pedantic. Rather than take us through the phases of Claudel's life—her formal studies with Boucher in Paris, her long professional and personal relationship with Auguste Rodin, her years of solitary struggle culminating in mental illness and institutionalization—the museum provides an elegant overview of the major tropes, preoccupations and styles of French sculpture of the late 19th and early 20th centuries. Works by Nogent's other master sculptors feature prominently, along with monumental groups and interior pieces from dozens of artists ranging across 10 galleries devoted to historical and mythological themes, nudes and movement studies. A highlight here is a preparatory plaster



MUSÉE CAMILLE CLAUDEL (2)
model for Paul Richer's "Tres in Una" (c. 1903), which compares idealized women from classical antiquity, the Renaissance and the modern age, commenting on an aesthetic debate over the depiction of the female form that is strongly felt in Claudel's work. Throughout the museum's two levels, generous windows provide excellent light. The minimum of wall text is an invitation to circumambulate.

In a daring and successful coup, museum curator Cécile Betran has placed Claudel's work at the very end of the collection. The 43 sculptures on display represent half of her existing output, beginning with "Old Hélène" (1882), a portrait bust of the family housekeeper whose Boucher-like naturalism and deep pathos lend its wrinkled subject unexpected nobility. Claudel was 13 when it became her first work exhibited at the French Artists' Salon. Another early bronze,



"Young Roman" (1884), shows her 16-year-old brother Paul, the future poet and diplomat, posed as a young Caesar. The classical attitude is magnified by her clean, meticulous technique.

Heightened expressivity and tension emerge after her fateful

Claudel's 'Old Age' (c. 1890), above, and bust of Rodin (1888-89), left

meeting with Rodin. Much of her work from the late 1880s draws on the elder artist's subjects or features members of his circle. In "Abandonment" (c. 1886-1905), two lovers cling together in a suspended embrace. The man, who kneels, strains to reach the woman who bends down to receive his kiss. That work is juxtaposed with Rodin's "Eternal Spring" (1884) and "The Eternal Idol" (1889). The complex arrangements and Symbolist affinity reveal many parallels between the works. Where they differ is in their energies. In Rodin, one finds a sexual abandon that borders on the heroic, while Claudel's figures evoke a rapturous yet tender eroticism. Close by, it seems fitting to encounter Claudel's jarringly severe bust of Rodin (1888-89), which, somewhat surprisingly, was the very first item in the recent Rodin centenary exhibition at the Grand Palais in Paris. In Claudel's por-

trayal, the sense of the artist's grandeur is mixed with menace, suggesting both admiration and disdain.

Rodin was the most celebrated sculptor of his time, as well as the most influential figure in Claudel's life. While rescuing her from his long shadow, the museum knows it would be folly to write him completely out of her story. (It does not seem accidental that the museum, nearly 15 years in the making and previously scheduled to open in 2014, has finally opened its doors during the Rodin centenary.) The recently renovated Musée Rodin in Paris features a Claudel room arguing for her place in our understanding of the titan; similarly, the Rodins in Nogent relate to projects for which Claudel either assisted in the studio or consulted Rodin, including "The Burghers of Calais," whose models Claudel also depicted.

Claudel's affair with Rodin was on the rocks for most of the 1890s, with a clean break only coming in 1898. The works exhibited from this period, a time of artistic maturity mixed with increasing seclusion and intimations of mental instability, include the haunting "Old Age" (c. 1890), a frieze-like parable of desertion. It was one of several works with which Claudel tried to shake off Rodin's influence by combining dynamic composition with allegorical meaning. The torqued, twirling figures in "The Waltz" (1889-93), displayed here in no fewer than four versions, almost veer into Symbolist territory, while her "Sketches Taken From Nature" (1890s), miniature vignettes capturing quotidian scenes with fresh immediacy, show her distancing herself from old models.

At the very end of the museum towers "Perseus and the Gorgon" (c. 1897), which, at over 6 feet tall, is Claudel's sole monumental grouping. It was Claudel's only commissioned work and she helped chisel the marble herself. Even though her violent outbursts, resulting in the destruction of much of her work, and her deteriorating mental health were still years away, one senses that Claudel might already have foreseen her fate; in the mythological scene of the hero brandishing Medusa's head, Claudel gave the monster her own face.

Mr. Goldmann writes about European arts and culture.

MUSIC

THE CASE FOR KENDRICK LAMAR

BY NEIL SHAH

KENDRICK LAMAR has the most nominations of any artist, with eight nods, at the 2017 MTV Video Music Awards, which will be held on Aug. 27.

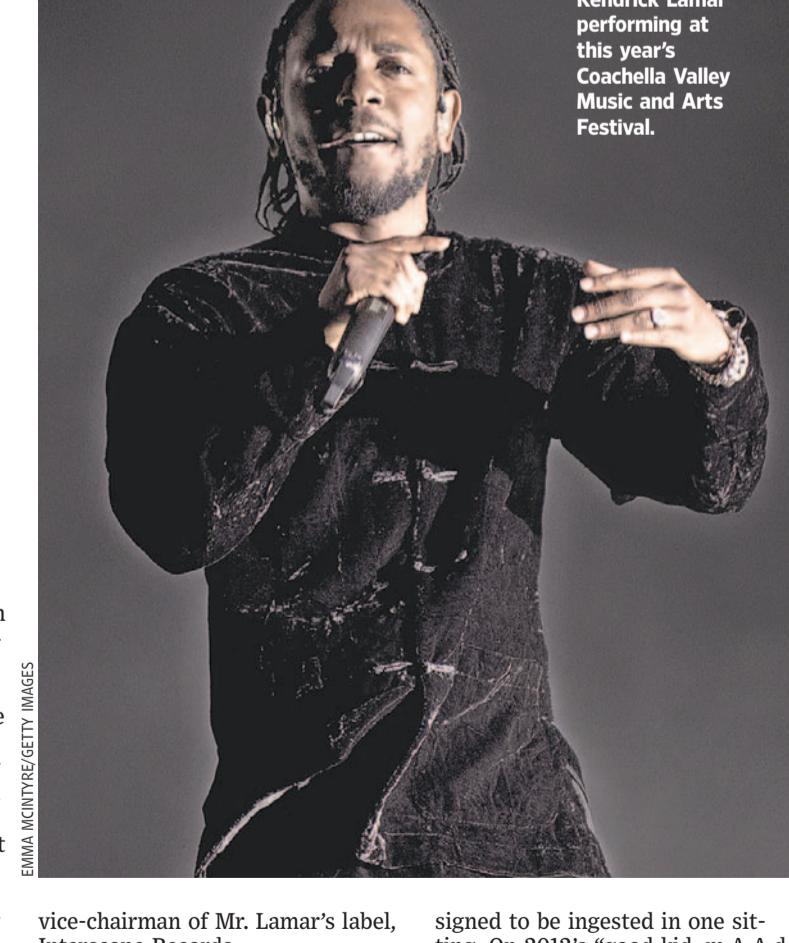
The 30-year-old L.A. rapper is having a moment, and here are five reasons music critics and industry insiders give for why.

1. His virtuosity, versatility and lyricism as a rapper rival that of hip-hop's greats.

Mr. Lamar's cerebral, jazzy, verbal flow is considered as distinctive as Michael Jackson's squeals or Robert Plant's howl. An heir to rap icons Dr. Dre, Tupac Shakur, Jay-Z, Eminem and Kanye West, Mr. Lamar developed a nasal style that is understated yet attention-getting, critics say. He toggles between different modes—gruff, high-pitched, panicked, full of braggadocio—to inhabit characters. Halfway through "u," from 2015's "To Pimp a Butterfly," for example, he plays a drunken, depressed person in a hotel room, letting his voice crack like an adolescent.

The DNA of Mr. Lamar's delivery is an intense, calculated, lucid rage. "It feels like a really powerful and intelligent expression of an ambient anger in the air in this country," says Amanda Petrusich, who contributes music criticism to the New Yorker. That Mr. Lamar raps as much as he does is noteworthy: Many younger rappers—from Young Thug and Migos to Lil Yachty, Aminé, and XXXTentacion—favor melody and quirky ad-libs to old-school lyricism. Mr. Lamar, first and foremost, is a rapper's rapper.

"We've always believed in Kendrick and his vision, and we're thrilled the rest of the world recognizes it too," says Steve Berman,



EMMA MCINTYRE/GETTY IMAGES

Kendrick Lamar performing at this year's Coachella Valley Music and Arts Festival.

vice-chairman of Mr. Lamar's label, Interscope Records.

2. He doesn't just aim for hits; he tells album-length stories.

The seven-time Grammy award winner is proof that artists in the streaming era still make albums. "Lyrical storytelling—that's why he's important," says Lyor Cohen, YouTube's global head of music and a longtime hip-hop mogul. Mr. Lamar makes concept records de-

Tupac Shakur. "DAMN." his latest record, is his most emotional, self-doubting and fragmented, critics say. On its final track, "DUCKWORTH," Mr. Lamar tells how the man who signed him to a label, Anthony "Top Dawg" Tiffith, had years earlier planned to rob the Kentucky Fried Chicken where Mr. Lamar's father worked. His dad gave Mr. Tiffith free chicken and biscuits, and the robbery never happened. Mr. Lamar—whose surname is Duckworth—notes that it could have ended in his father's death and left Mr. Lamar to grow up fatherless.

3. He's an anti-gangsta rapper: He helped repopularize realism in hip-hop, yet critiques its celebration of drugs and violence.

"To Pimp a Butterfly" uses jazz and neo-soul to update the old-fashioned funk of 1990s West Coast gangsta rap, with Snoop Dogg appearing as a guest. But Mr. Lamar is the uncomfortable one at the party—he's tempted by excess but can't help but question it. The result, experts say, is a kind of sophisticated, soul-baring gangsta rap. "I've never been violent / Until I'm with the homies," he says on "The Art of Peer Pressure," from "good kid, m.A.A.d city." "Swimming Pools (Drank)," from the same album, criticizes drinking even though it sounds like a drinking song. It isn't that Mr. Lamar believes himself a saint; he's openly wrestling with the "evil and spiritual," as he puts it on "Section.80," his first studio album, whose cover shows a gun clip and condoms next to a Bible.

4. He's a populist, a socially aware rapper focused on the struggles of the poor.

In his music, Mr. Lamar talks about how the poor can get trapped in

vicious circles. He's spoken publicly about how having a father—which many of his friends didn't have—helped him deal with emotions when he was young. Self-worth, personal responsibility, racial pride—these are among Mr. Lamar's themes.

On "To Pimp a Butterfly," he expresses a desire to give back to his Compton community. "He understands the struggle of the inner cities, and the poor communities," says TT Torrez, music director for New York hip-hop radio station HOT 97. "He doesn't try to be something he's not."

5. A commercial superstar who makes dense, challenging albums beloved by critics and underground-rap fans.

Mr. Lamar has struck a rare balance between commercial aspirations and artistic integrity, critics say. One of pop music's most sought-after guest stars, he's a radio, sales and streaming behemoth. "HUMBLE," from "DAMN.," hit No. 1 on the Billboard singles chart in May. "DAMN.," whose songs have racked up 2.1 billion on-demand streams, according to Nielsen Music; it recently returned to No. 1 on the Billboard 200 albums chart even though it was released in April. Mr. Lamar also ranks among the critical establishment's most admired artists, partly because he reinvents himself album to album and deftly communicates politically charged messages to a broad audience.

"Typically, the more mainstream you go with a rap artist, or really an artist of any genre, the music gets blander, less bold, less experimental, less adventurous," says Anthony Fantano, a music critic with a popular YouTube channel, The Needle Drop.

"Kendrick still gets those messages out, without watering what he's doing down artistically."

OPINION

REVIEW & OUTLOOK

After the Bannon Presidency

The most important fact about Stephen Bannon's resignation Friday from the White House staff is that he essentially fired himself. His departure gives President Trump a chance to revive his listing fortunes, if he draws the right lessons.

The triggering event for the dismissal was Mr. Bannon's interview with the left-wing American Prospect, in which he trashed his colleagues and undermined Mr. Trump's policy toward North Korea. After that show of insubordination, either Mr. Bannon had to go or Mr. Trump might have lost his new chief of staff, John Kelly, among others. Mr. Bannon has been telling people privately that he never expected to last even this long, so maybe he was trying to get fired to fulfill his prophecy.

Mr. Bannon will get historical credit for getting Mr. Trump elected, joining the campaign late with Kellyanne Conway and giving it more discipline and focus. At the White House, he was among the advocates for Mr. Trump's two main achievements—deregulation and Neil Gorsuch's elevation to the Supreme Court.

Yet by any measure the rest of the Bannon Presidency was a colossal failure. The former Breitbart publisher was a major source of White House dysfunction as he brought his brawling campaign style indoors. His Manichean, almost apocalyptic view of politics—us vs. them, patriots vs. “globalists,” America has only a short time to avoid self-destruction—might work in an election campaign. It isn't suitable to building a coalition to govern.

Mr. Bannon presided over some of Mr. Trump's biggest debacles, starting with the rushed and legally unvetted travel ban. That began the Presidency with a needlessly polarizing debate when the White House should have been reaching out to persuadable Democrats and wary Republicans, and it set up Mr. Trump for a legal and political defeat.

Mr. Bannon gets credit in some quarters for focusing on the white working class, but he did so in ways that too often trucked with a white version of identity politics. This has played out in destructive fashion since the Charlottesville riot as Mr. Trump catered too much to Mr. Bannon's “base” and not to the larger duty of a President to provide unifying moral leadership. Mr. Trump was elected President of the country, not the Breitbart readership.

One irony of Mr. Bannon's departure is that the same liberal press corps that portrayed him

as Darth Sidious are now relishing the prospect that he'll become an avenger outside the White House. Breitbart reported Friday that Mr. Bannon is returning to the website, presumably backed by Rebekah and Robert Mercer's money, where he can assail White House aides Gary Cohn and H.R. McMaster, Paul Ryan, Mitch McConnell, and anyone

else who favors U.S. global leadership. The press corps will silently cheer him on.

But what else is new? His allies have been doing the same for months while Mr. Bannon sat in the White House. It's hard to see how he can do any more damage outside it, assuming that is his plan, and it may not be if he still wants Mr. Trump to succeed. One problem he'll have on the outside is that millions of Trump supporters have now seen that the Bannon style of politics has failed.

Some conservative groups are lamenting his departure as a defeat for their policies in White House councils, but that is vastly overstated. There are many other conservatives remaining in the White House, including Vice President Mike Pence's staff, Mr. Cohn's policy team, chief economist Kevin Hassett and Neomi Rao at the budget office, among others.

The anti-immigration, antitrade right will also still be represented by Stephen Miller, the former Jeff Sessions aide. But Mr. Bannon's departure reduces the chances of a catastrophic pseudo-populist economic mistake, like raising tax rates or igniting a global trade war.

* * * *

The larger question is what Mr. Trump has learned from the failures of his first seven months. He seems to want less internal feuding, which is why he brought in Mr. Kelly, the former Marine general. But Mr. Trump often contributes to that feuding with his inability to stick to a decision, such as on troops in Afghanistan. Mr. Trump wants better communication, but his ill-considered tweets and unplanned riffs blow up any communication planning. He still traffics in false claims and divisive rhetoric—and that's against his allies.

Senator Bob Corker (R., Tenn.) and Newt Gingrich have both warned Mr. Trump that he needs to be far more disciplined if he wants to have any chance of success. Mr. Trump should listen because he is in greater political peril than he understands. Mr. Bannon's departure will help, but Mr. Trump will also have to heal himself.

Gao Zhisheng Disappears

The death of Nobel Laureate Liu Xiaobo in state custody last month briefly focused world attention on Chinese repression under President Xi Jinping. Now human-rights lawyer Gao Zhisheng has disappeared, perhaps into the state-security maw that presided over Mr. Liu's death.

Family members in exile in the U.S., who talk to him regularly on the phone, say Mr. Gao disappeared from his home in remote Shaanxi province earlier this month. Mr. Gao has been living under house arrest since 2014, surveilled by Chinese security forces. Local police say they don't know where he is.

Mr. Gao has been incarcerated, tortured and released several times since 2006, when he was charged for “inciting subversion” for defending such clients as Falun Gong worshippers and factory workers. Yet Mr. Gao remained un-

bowed, thanks in part to his Christian faith. He went public with gruesome details of his torture, called for the removal of the Communist Party and advocated for a democratic China.

Mr. Gao may have been detained because he recently gave an interview to a Hong

Kong magazine reiterating his political beliefs. Or the regime could be rounding up dissidents before the Party Congress this fall to avoid dissent about corruption or the lack of freedom during what is supposed to be a celebration of Mr. Xi's consolidation of power.

Human-rights lawyers like Mr. Gao have been a particular target of state suppression, perhaps because they make their case by citing the words of Chinese law that embarrass the regime's claims to legitimacy. The world should keep shining a light on these Chinese patriots, not least during the Party Congress.

Refighting the Civil War

In fewer than seven days after the recent Charlottesville violence, statuary and other symbols of the American Confederacy are disappearing. Others are being vandalized—someone in Washington on Tuesday, perhaps a Middlebury history major, even spray-painted an expletive on the memorial to Abraham Lincoln.

Standing at the center of this tumult is President Trump, who in a succession of statements and tweets has tried to make himself understood on the status of Confederate statues and the people who wish to preserve them. Suffice to say, it hasn't gone well.

The practical political lesson is that there are good reasons why U.S. Presidents and the people who work for them try to choose their words carefully when commenting on public events. Myriad political forces—some active, some dormant—sit beneath America's political life, and what a President says can put those forces powerfully, even dangerously, in motion.

Absent Mr. Trump's comments, it is doubtful that the counter-Confederate movement would have extended to the attempted renaming in Austin of Robert E. Lee Road or that New York Governor Andrew Cuomo would be demanding, as a “stand against intolerance and racism,” that the U.S. Army rename two streets at Fort Hamilton in southwest Brooklyn commemorating Lee and Stonewall Jackson.

In our view cities can properly decide whether they wish to take down Confederate symbols, many of which arose in the Jim Crow years of white supremacy in the early 20th Century. But erasing a nation's history is a bad idea. Mr. Trump is being ridiculed for suggesting that George Washington or Thomas Jefferson could

be next because they were slaveholders.

We're glad to have the clarifications on the false equivalence between Confederate generals and the Founding Fathers, but we hope these clarifiers will be around when campus demonstrators or even historians start demanding that the Founders' legacies be repudiated because they owned slaves.

“Racist” is a powerful accusation to make against anyone, but it is heard today in an ever-widening set of circumstances, not just against Confederate generals. It might be useful if more people understood the role race has played in American history, as well as that history's effort to get past discrimination based on race.

It might begin with Jefferson and Washington, who wrote the language and built the institutions of the bedrock American belief that “all men are created equal” and possess inalienable rights. Those words planted the seeds of freedom for the slaves, an idea that advanced through the awful Civil War and, not without setbacks, for a century after, culminating in the Civil Rights Act of 1965.

That is a long and difficult history of progress, one that deserves to be known in its complexity, rather than not known or forgotten. Robert E. Lee spent the rest of his life after the Civil War, notably as president of what became Washington and Lee University, trying to heal the wounds between north and south.

That's at least one legacy of Lee we can all celebrate because we can't see much purpose beyond political symbolism in reopening the Civil War 152 years later. It won't educate an inner-city child trapped in a rotten school, it won't create more economic opportunity, and it won't lead to more racial tolerance.

Once was enough,
as Robert E.
Lee understood.

America's Extremist Show Is Just Getting Started



BUSINESS WORLD
By Holman W. Jenkins, Jr.

Donald Trump failed to follow the script laid down for every president. Any outrage involving white racism or neo-Nazi activity should be responded to with an unambiguous denunciation of white racism or neo-Nazis, without qualification or distracting details. Yes, it might be good for the country if the media were a tad less rigid in enforcing such scripts, but that's not an excuse for presidential ineptitude.

For journalists, though, details and qualifications are interesting. One such qualification is how Peter Beinart, a former editor of the *New Republic*, ended his serendipitously timed article in the *Atlantic* magazine about the rise of left-wing violence. He says violent activists of left and right have become the “unlikeliest allies.”

So how did Charlottesville, Va., turn itself into a stage for their latest, and perhaps age-defining, spectacle?

The city is a Democratic town, run by a Democratic machine. Its elections are typically settled in a Democratic primary. The GOP is a nonfactor. Of the three City Council members who voted in February to remove a Robert E. Lee statue from a town park, two who thereafter faced re-election are now gone.

One chose not to run. The other lost in a landslide. The lone remaining antistatue vote, who did not face re-election, was Vice Mayor Wes Bellamy, who recently had to leave his high-school teaching job over a history of bigoted, antiwhite tweets. He is assumed to have no political future either. Notably, Mayor Mike Signer, who declared Charlottesville a “capital of resistance” shortly after Mr. Trump's inauguration, voted to keep Lee's statue.

All this might suggest the anti-statue cause was not a popular one with the town's liberal majority. The same impression is strongly supported by letters to the local paper, the *Daily Progress*.

But it was popular with a handful of activist groups. One is Showing Up for Racial Justice, a specifically white group led by a local lawyer, Pam Starsia, and her husband, Joe, son of a famous local college lacrosse coach. SURJ is avowedly modeled on “Antifa” principles—i.e., anyone judged to be a fascist or racist does not have free-speech rights. The Daily Progress features frequent accounts of members being arrested for accosting alleged white supremacists in a restaurant, on a street, at a rally, even in a city-council meeting.

White supremacists, for their part, get to play the victim—their legal demonstration was disrupted. And they are only too pleased to join the national media in misinterpreting the president's convoluted remarks as a defense of white supremacists.

Voilà. There were also many peaceful protesters in Charlottesville, but it was not their show. It was a show by and for provocateurs.

LETTERS TO THE EDITOR

Identity Politics Is the Poison of Public Life

Regarding your editorial “The Poison of Identity Politics” (Aug. 15): Did anyone consider ignoring the white supremacists instead of making them newsworthy again? I applaud President Trump for addressing the hate without mentioning the organizations and thus giving them the notoriety they seek. There were enough hate groups in Charlottesville, Va., on both the right and left. The president was talking to both sides who were expressing hateful things toward each other. The reason these groups need to bus people in from other states is because most of us wouldn't waste our time participating. The liberal press is never going to be satisfied with anything that Mr. Trump says or does, so I ignore all this. The important thing is that those who are responsible for violence against others are punished to the full extent of the law.

TERRY LARSON
Seffner, Fla.

It doesn't matter that “prominent conservatives” denounce white supremacists if the president doesn't. And he didn't. He blamed the violence on “many sides.” And there are no “examples on the left” of the violence we saw in Charlottesville. Who has been murdered at a Black Lives Matter rally?

What happened in Charlottesville was a premeditated and deliberate act of domestic terrorism, executed by America's “alt-right.” Say it out loud.

JIM LOW
Glen Ridge, N.J.

One may well wonder if the Klansmen and Neo-Nazis who came to Charlottesville might ever comprehend that they executed a self-defeating argument for white supremacy—perhaps their only redeeming accomplishment there.

The inspiration of their ostensible cause, Gen. Robert E. Lee, would have been appalled. After his Appomattox surrender, Lee held that the Almighty's judgment had prevailed. He spent the rest of his life trying to heal national divisions. These present-day louts could take a lesson.

RAYMOND J. BROWN
Londonderry, N.H.

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

Facing Up to a Nation's Checkered Past



DECLARATIONS
By Peggy Noonan

The political aspect of the president's failures last week is to reveal him as increasingly isolated. He is not without supporters, but it's down to roughly a third of the country and one senses soft around the edges. That is not a base, it's a core. A core can have an impact, but a president cannot govern if that's all he has. You need something bigger behind you to scare your foes and stiffen your friends. The nation's CEOs, feeling

Britain could teach America a lesson in loving and respecting its own history.

personal dismay and external pressure, ran for the exits. The president has further embarrassed and frustrated his party on Capitol Hill. That puts in further doubt needed legislation on such popular issues as tax reform and infrastructure, which might fare better if he were not associated with them.

Other fallout of the past week is as consequential. Donald Trump is binding himself down with thick cords of rhetorical inadequacy. People felt let down, angry and in some cases frightened by his inability to make clear moral distinctions when he addressed the events in Charlottesville, Va. There were neo-Nazis, anti-Semitic chants, white supremacists; a woman was killed and many people injured. It's not hard to figure out who and what needed to be castigated—clearly, unambiguously, immediately.

Here is a cliché but only because it is true: In times of stress and fracture, people want a president who's calm in the storm, who speaks to the nation's moral conscience, recalls first principles, evokes what unites us, honestly defines the contours of an event, and softly instructs. Mr. Trump did not do any of that. If a leader is particularly gifted he could, in a moment of historical stress, succeed in speaking to the nation's soul and moving its heart by addressing its brain. This kind of thing comes from love—of the country, our people, what we've been.

It struck me as he spoke that his speeches and statements are peculiarly loveless. The public Mr. Trump is not without sentiment and occasional sentimentality, but the deeper wells of a broader love seem not there to draw from. Seven months in, people know they can look to him for a reaction, a statement, an announcement, but not for comfort, inspiration, higher meaning.

For leadership we turn, as we always do anyway, to each other—to thinkers and respected colleagues, religious figures and neighbors. After the church shootings in Charleston, S.C., two years ago, the great and immediate moral leaders were the victims' families, whose words at the shooter's bond hearing spread throughout the country within 24 hours. "I forgive you." "We are praying for you." It was the authentic voice of American Christianity, of Wednesday night Bible study, of mercy and self-sacrifice. It quieted the soul of a nation: *We'll be OK. This is who we really are.*

Those bereaved relatives never quite got the recognition and thanks they deserved. Their love saved the day.

Which gets me, belatedly and now hurriedly, to what was meant to be the subject of this column.



America is good—does anyone even think this?—but why try to hide from that?

When you tear down statues, you tear down avenues of communication between generations. Statues teach. You walk by a statue of Robert E. Lee with your 7-year-old, and he asks who that is. You say he was a great general. When he's 8, on the same walk, you explain the Civil War. When he's 10 you explain what was at issue, and how Lee was not only on the losing side but the wrong side. This is part of how history is communicated. We're not doing it so well in our schools. It will be sad to lose another venue.

Condoleezza Rice said it well, before the current controversy. She did not agree with the impulse to tear down. "Keep your history before you," she said. Keep it in your line of sight.

And once the tearing down starts, there's no knowing where it will end. On this the president is right. Once the local statues are purged the Tear-Downers will look to Statuary Hall, and the names of military bases, and then on to the Founders, to the slave-holding Washington and Jefferson. Then, perhaps, to their words and ideas. In what way will that help us?

Edmund Burke famously said we have a duty to the past, the present and the future. In the minds of the Tear-Downers only the present is important, and only their higher morality. But they are not the first ever to recognize the truth about slavery. Hundreds of thousands of dead Union soldiers did it before them. There are statues of them, too.

Here is a better way. Leave what is, alone. Be a noble people who inspire—and build—more statues. I'd like one that honors the families of the victims in the Charleston shooting.

More statues, not fewer; more honor, not more debris. More debris is the last thing we need.

Instead of Purging Statues, Put Truth on a Pedestal

By Dave Shiflett

Richmond, Va.
I'm a descendant of a soldier who served under Gen. Robert E. Lee and a resident of the Richmond metro area, where one can take very few paces without bumping into a reminder of the Confederate past. Yet I can't work up much enthusiasm about Civil War monuments.

My lackadaisical attitude has nothing to do with race or heritage and is quite widespread. Most people are far too busy worrying about losing their house, finding a job, making payroll and wondering why their dog's tongue is turning blue to spend much time contemplating statues of guys who lost a war 152 years ago.

The recent violence in Charlottesville is deeply distressing. In this neck of the woods it's commonly held that thugs who run down people with cars should go to the crocodile pit (after a fair trial, of course). But it's hard not to cringe over the way a growing list of American locales are responding to the rise of the dead confederates.

In Baltimore, four monuments were purged Tuesday night in a scene reminiscent of the nocturnal vamoose of the Baltimore Colts to Indianapolis in 1984. (By contrast, three of the statues were parked at a wastewater treatment plant.) You didn't have to be a soldier, or even a rebel, to get the hook: A statue of Chief Justice Roger B. Taney, the Marylander who wrote the *Dred Scott* decision and served on the U.S. Supreme Court until his death in 1864, was hauled off, along with a statue dedicated to Confederate women.

Lexington, Ky., plans its own official purge, while a Confederate statue in Durham, N.C., was toppled and kicked by protesters after it bit the dust.

Where will it stop? President Trump was widely mocked for say-

ing Tuesday: "I wonder is it George Washington next week, and is it Thomas Jefferson the week after?" He didn't have to wait that long. The next day, a Chicago pastor demanded the removal of a Washington statue from a city park.

In October activists gathered outside New York's American Museum of Natural History to demand the removal of a statue of "racist" Teddy Roosevelt. The Rough Rider still stands, but Gov. Andrew Cuomo tweeted Wednesday that "Robert E. Lee and Stonewall Jackson will be removed from the [City University] hall of great Americans because New York stands against racism."

Is anyone in public life not freaking out about Confederate monuments?

Yes. Here in Richmond, once the Confederate capital, Mayor Levar Stoney is keeping his cool. He believes the rebel luminaries have important truths to teach our hysterical and misinformed era.

"Whether we like it or not, they are part of our history of this city, and removal would never wash away that stain," the mayor, who is African-American, said recently. He advocates adding "context" signage to the monuments, which will "set the historical record straight"—a record based on "a false narrative etched in stone and bronze more than 100 years ago not only to lionize the architects and defenders of slavery, but to perpetuate the tyranny and terror of Jim Crow and reassert a new era of white supremacy."

Mr. Stoney's plan won't please the rabid right or their brawling partners on the left, who imagine Lee, Jackson and Jefferson Davis as rustic versions of Hitler, Himmler and Speer. But converting chaos into what Barack Obama might call "a teachable moment" will resonate with anyone who agrees that allowing street-fighting crazies to set public policy is a bad idea.

Context contractors will be in deep clover along Monument Ave-

nue, where Stonewall Jackson (erected in 1919) is joined by Lee (1890), J.E.B. "Jeb" Stuart (1907), Davis (1907) and Matthew Fontaine Maury (1929)—plus Richmond native Arthur Ashe Jr. (1996). The ten-

A U.S. mayor has a solution for Confederate monuments: Leave them up but provide context.

nis legend's inclusion on the avenue was met with great criticism, in part because he appears to be beating a group of children over the head with his racket. Yet the Ashe placement might have been ahead of its time. "Integrating" the avenue by placing monuments to triumphant African-Americans among the defeated rebels could be highly educational.

Since we're looking for truth, we couldn't do better than a monument to abolitionist Sojourner Truth. To my mind her "Ain't I a Woman" speech is more powerful

Worthy candidates would include local heroes Maggie Walker, the first woman to charter a bank in the U.S., and dancer Bill "Bojangles" Robinson—both of whom are memorialized on a smaller scale elsewhere in the city. Martin Luther King Jr. might make a nice neighbor for Jeb Stuart, while Mr. Obama, who carried Virginia twice, could keep Stonewall Jackson in good company.

And how to answer Jefferson Davis, a vibrant bigot with a theological bent? He once said of blacks: "We recognize the fact of the inferiority stamped upon that race of men by the Creator, and from the cradle to the grave, our Government, as a civil institution, marks that inferiority."

Since we're looking for truth, we couldn't do better than a monument to abolitionist Sojourner Truth. To my mind her "Ain't I a Woman" speech is more powerful

than the Gettysburg Address: "Look at me! Look at my arm! I have plowed and planted, and gathered into barns, and no man could head me—and ain't I a woman? I could work as much and eat as much as a man, when I could get it, and bear the lash as well—and ain't I a woman? And I have borne 13 children!—and seen most all of 'em sold off into slavery, and when I cried out with a mother's grief, none but Jesus heard me! And ain't I a woman?"

Few will have any trouble deciding who the superior being truly was, or drawing wider conclusions. If Mayor Stoney's plan helps keep the lid on, he might end up in the governor's mansion. And funding should be no problem. Pitch it to Mr. Trump as an infrastructure project.

Mr. Shiflett posts his original music and writing at DaveShiflett.com.

Nuclear Power in an Age of Uncertainty

By Tim Echols

The U.S. state of Georgia's decision to continue building two new nuclear reactors—the only commercial ones now in development in the U.S.—means my state stands alone. Vermont's Yankee plant went offline in 2014, and Massachusetts' Pilgrim Station is scheduled to close in 2019. The company behind two half-finished reactors in South Carolina may abandon the project.

Georgia has been down this road before. The first two reactors at the Vogtle Electric Generating Plant near Augusta were completed in 1987 and 1989, in the aftermath of the 1979 Three Mile Island accident. What was supposed to be a \$1 billion project turned into an \$8 billion one. Still, it was a great deal for ratepayers, delivering low-cost power for decades.

Today, finishing the Vogtle plant's two new Westinghouse

AP1000 reactors is the right call—for their owners, including Southern Co., as well as for Georgia and the U.S.

Diversifying the energy supply makes sense, because no one knows what the future holds. The U.S.

It's a hedge against a low-carbon future—and much more.

could institute a carbon tax, or even regulate frackers out of a job. No matter what happens, nuclear reactors will ensure Georgia's electric rates stay competitive.

They also will keep the U.S. from forfeiting its nuclear leadership. As other states have decommissioned reactors without replacing them, the world has begun looking to nations like China and Russia. The

World Nuclear Association reports China is increasing its nuclear generation capacity 70% by 2021 and will surpass U.S. output by 2030. The only way for America to continue setting international standards for safety and security is to invest in reactors and technology.

Nuclear reactors produce isotopes needed for medical imaging and cancer treatment. A Canadian electric company, Bruce Power, recently announced a partnership to expand isotope production.

And reactor technology gives American naval vessels a distinct advantage. The U.S. has 10 aircraft carriers and dozens of nuclear-powered submarines. They can go years without refueling, but the Navy relies on a strong commercial nuclear industry to provide employment and training and to keep the supply chain humming.

I understand the angst surrounding such massive construction projects, as well as the concern over their costs. I know that Yucca Mountain, where the nuclear waste would ultimately be stored, is only now emerging from limbo. And I do value renewables like solar.

But the job of a state utility commission is to plan for the future. Georgia is pressing ahead—despite fears fanned by the 2011 tsunami in Fukushima, Japan, and despite the financial meltdown that put the reactor designer, Westinghouse, in bankruptcy this year. Against great challenges Georgia and Southern Co. persist. With vision, perseverance and God's help we will make the Vogtle reactors America's next nuclear-energy flagship.

Mr. Echols is a member of Georgia's Public Service Commission.

THE WALL STREET JOURNAL.

PUBLISHED SINCE 1889 BY DOW JONES & COMPANY

Rupert Murdoch
Executive Chairman, News Corp

Gerard Baker
Editor in Chief

Matthew J. Murray
Deputy Editor in Chief

DEPUTY MANAGING EDITORS:

Michael W. Miller, Senior Deputy;

Thorold Barker, Europe; Paul Beckett,

Washington; Andrew Dowell, Asia;

Christine Glancey, Operations;

Jennifer J. Hicks, Digital;

Neal Lipschutz, Standards: Alex Martin, News;

Shazna Nessa, Visuals; Ann Podd, Initiatives;

Matthew Rose, Enterprise;

Stephen Wisniewski, Professional News

Paul A. Gigot, Editor of the Editorial Page;

Daniel Henninger, Deputy Editor, Editorial Page

WALL STREET JOURNAL MANAGEMENT:

Suzi Watford, Marketing and Circulation;

Joseph B. Vincent, Operations;

Larry L. Hoffman, Production

EDITORIAL AND CORPORATE HEADQUARTERS:
1211 Avenue of the Americas, New York, N.Y. 10036

Telephone 1-800-DOWJONES

DOW JONES
News Corp

Robert Thomson
Chief Executive Officer, News Corp

William Lewis
Chief Executive Officer and Publisher

DOW JONES MANAGEMENT:

Mark Musgrave, Chief People Officer;

Edward Roussel, Innovation & Communications;

Anna Sedgley, Chief Operating Officer & CFO;

Katie Vanecek-Smith, President

OPERATING EXECUTIVES:

Ramin Beheshti, Product & Technology;

Jason P. Conti, General Counsel;

Frank Filippo, Print Products & Services;

Steve Grycuk, Customer Service;

Kristin Heitman, Transformation;

Nancy McNeill, Advertising & Corporate Sales;

Jonathan Wright, International

DJ Media Group;

Almar Latour, Publisher;

Kenneth Breen, Commercial

Professional Information Business;

Christopher Lloyd, Head;

Ingrid Verschuren, Deputy Head

Notable & Quotable: Susan Bro

MSNBC's Katy Tur interviewing Susan Bro, Heather Heyer's mother:

Tur: I don't want to make this about politics, but politics is so consuming this tragedy, and so consuming everything that happened in Charlottesville that day. The president went on to blame both sides again just the other day, saying there was violence on the left, there was violence on the right, and equating the two. Did you have a reaction to that?

Bro: I did not, because I'm a person who believes "have all your facts before you make a statement," and I

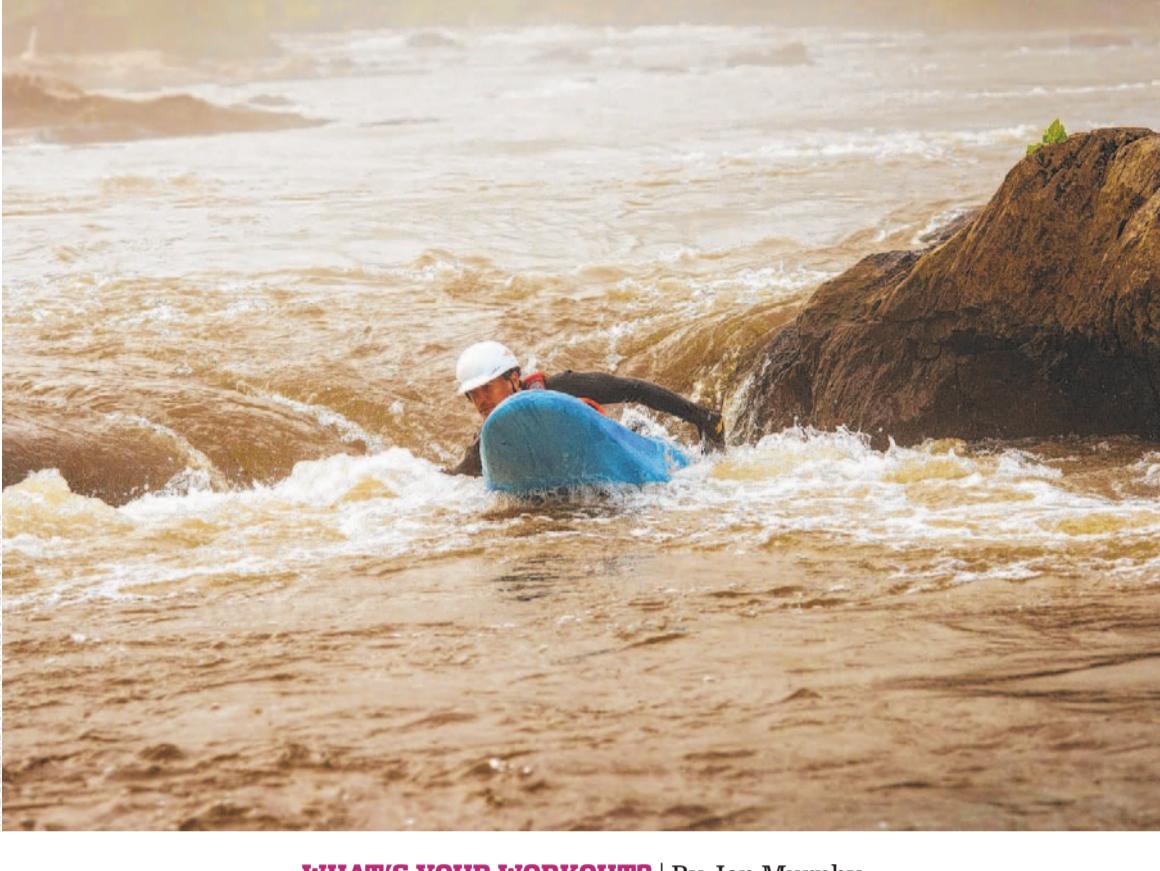
did not watch the rally. I don't know if there were non-peaceful protesters there. I don't even know what the KKK and others were doing. I saw a few sound bites of a few people fighting, but it was the same sound bite over and over. So I really don't know what the truth of the matter was.

I do know that the police indicated to me that the group Heather was in was a peaceful group. They were simply crossing the street.

They were kind of actually disbanding, and so whether there was violence on both sides or not is irrelevant.

The guy mowed my daughter down. Sorry, that's not excusable.

LIFE & ARTS



WHAT'S YOUR WORKOUT? | By Jen Murphy

A Different Way Down The River: On a Bellyak

A white-water expert swears by this mashup of kayaking and surfing

CALLAN WELDER FOUND river paddling boring until he tried shuttling through Appalachian white-water prone and headfirst, using his arms to propel him. Mr. Welder, 39, owns an acupuncture practice in Marshall, N.C., near the birthplace of Bellyaking, a sport that combines elements of kayaking and surfing.

The sport was pioneered in the early 2000s by Adam Masters when he duct taped the seating area of his kayak shut and laid belly down, bodyboarding the kayak down a river. He had so much fun he continued to evolve the design.

Mr. Welder was a good kayaker

and had tried ocean surfing with mild success. He started Bellyaking seven years ago and hasn't stepped in a kayak since. He says he loves being so close and connected to the river. "You feel like a water bug, right on the surface," he says. "People first looked at us like we were UFOs, and hard core kayakers thought we were nuts."

Today he is sponsored by Bellyak, the company that makes the boards. It was founded in nearby Asheville, N.C., in 2012. Mr. Welder paddles with a group of friends on the French Broad River. The idea of floating headfirst down a roaring river sounds scary, but Mr. Welder says Bellyaking has more

room for error than kayaking. The board is about 8 feet long and 2 feet wide and has a rubber surface inside to help riders stay on.

"It's scary to flip in a kayak," he says. "You lose your paddle, you have to roll or sometimes go to the side and drain the water." It also means worrying about a spray skirt, a watertight cloth that seals the rim of the cockpit of a kayak and fits around the torso of the passenger, plus holding on to the paddle.

His favorite section of the French Broad River is a wide, 5-mile stretch that provides many channels to navigate. "Every time I go out there's a different challenge—the water level, different

Callan Welder paddles a Bellyak down the French Broad River in North Carolina. Instead of a paddle, he wears webbed gloves to get through the water.



qigong instructor and teaches once a week at his wife's movement studio in Marshall, N.C.

A few days a week he runs the trails around his home and swims laps in a pond on his property.

The Diet

Mr. Welder eats a diet high in healthy fats and vegetables and avoids sugars and processed foods. Breakfast is eggs and greens cooked in butter, or goat's milk yogurt topped with raw honey and homemade, grain-free granola made from baked nuts and seeds. He drinks Bulletproof coffee, which contains grass-fed butter and medium chain triglyceride oil, made from processing coconut oil and palm kernel oil. He occasionally makes a smoothie of coconut milk, fresh blueberries and strawberries, avocado and turmeric powder.

The Workout

"I live on a farm, have my own business and a 3-year-old, so I'm lucky my wife gives me one day a week on the water for my sanity," he jokes. Mr. Welder says arm and shoulder strength are key to navigating down a white-water river and he relies on regular workouts to keep himself paddle-ready. He paddles three seasons a year—a typical session lasts three hours.

Mr. Welder has a workout room in his home and does push-ups, pull-ups, dips, sit-ups, biceps curls and bench presses. He played soccer in college and says the obsession with time, distance and reps during team workouts has made him less structured. "I'm not concerned about pushing my limits," he says.

"I do as much as I feel my body needs, usually 10 to 20 reps in a set. Sometimes I don't even count."

Every morning he does 30 minutes of qigong, (pronounced chee-gong), a Chinese practice based on gentle movements, meditation and breathing. He performs 18 movements six times each, which takes about 30 minutes. He is a certified

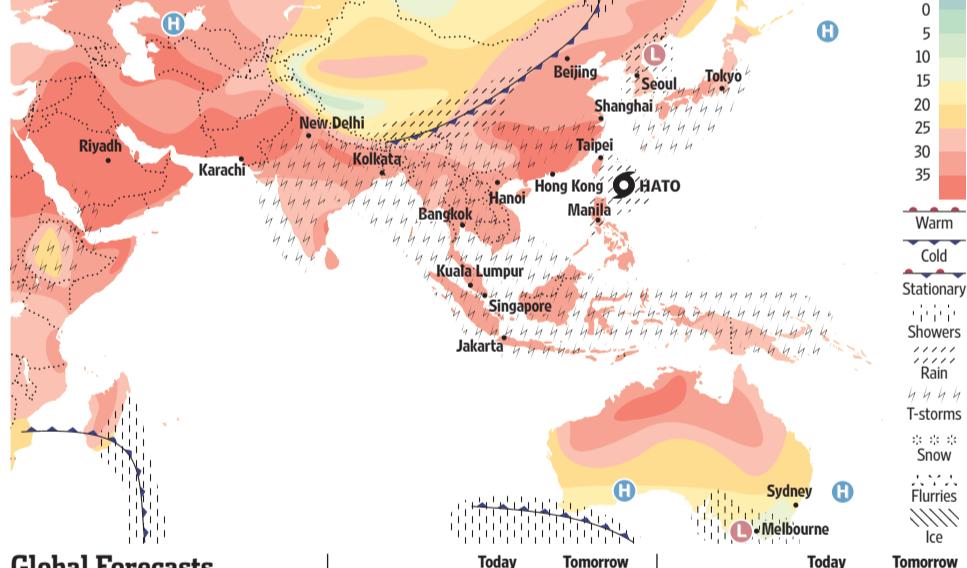
The Gear & Cost

Mr. Welder has a Bellyak Play 35, which retails for \$595. Bellyak Flow Gloves, used for paddling, cost \$40, and he always wears a life jacket and helmet. Mr. Welder wears Astral Brewer water shoes (\$100) for paddling.

"You need good foot protection," he says. "Astrals are self-draining and have sturdy rubber soles, so you don't slip on rocks."

He wears a Patagonia R1 Lite Yulex full wetsuit (\$330). "If you just wear shorts, the rubber matting pulls on your leg hair," he says. For running, he likes the grip of Salomon XA Pro 3D M+ trail sneakers (\$130).

Weather



Global Forecasts

s...sunny; pc...partly cloudy; c...cloudy; sh...showers;

t...storms; r...rain; sf...snow flurries; sn...snow; l...ice

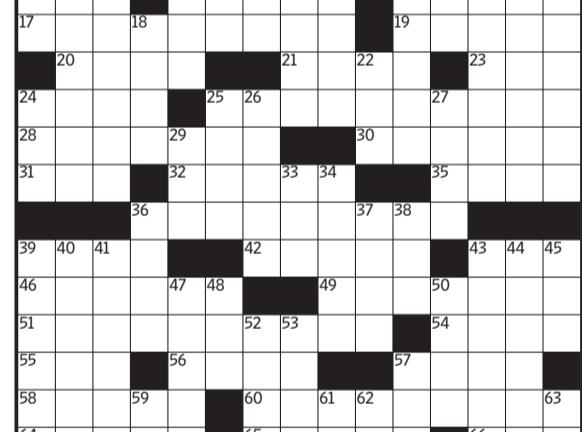
City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	20	13	pc	23	14	pc
Anchorage	15	10	sh	17	11	pc
Athens	33	24	pc	31	23	s
Atlanta	31	23	pc	32	24	t
Bahrain	47	30	s	47	30	s
Baltimore	31	22	t	33	23	pc
Bangkok	32	27	t	33	26	t
Beijing	33	23	pc	25	22	r
Berlin	19	10	pc	19	11	pc
Bogota	19	8	r	20	8	pc
Boise	32	16	s	36	20	s
Boston	30	21	s	31	23	s
Brussels	19	14	pc	23	15	pc
Buenos Aires	18	10	pc	19	13	pc
Cairo	35	25	s	35	24	s
Calgary	23	10	pc	27	11	s
Caracas	31	25	pc	31	25	pc
Charlotte	31	23	s	33	23	pc
Chicago	31	22	pc	27	15	t
Dallas	35	26	pc	36	25	s
Denver	30	14	pc	29	15	pc
Detroit	31	22	pc	27	15	t
Dubai	42	31	pc	42	32	s
Dublin	22	14	r	21	12	c
Edinburgh	18	13	r	19	14	sh
Frankfurt	22	12	pc	24	14	pc

AccuWeather.com

Shown are today's noon positions of weather systems and precipitation. Temperature bands are highs for the day.

Legend:
-15
-10
-5
0
5
10
15
20
25
30
35
Warm
Cold
Stationary
Showers
Rain
T-storms
Snow
Flurries
Ice

The WSJ Daily Crossword | Edited by Mike Shenk



LOOK SHARP! | By Howard Barkin

Across	Down
1 Frisky org.?	28 Beyond question
4 Roughly, chronologically	57 Trig function
9 Guys, slangily	58 Mount
14 Columnist Landers	Aconcagua's range
15 Manipulative people	60 "Your argument makes sense," and a feature of the ends of four Across answers
16 Taste besides sweet, sour, bitter and salty	39 As well
17 Uncommon boxing tactic	42 Dirlies
19 Plastic wrap brand	43 Furious feeling
20 In addition to	46 Shade provider at a garden party
21 Leave out	49 Roger of The Who
23 German article	51 It's left hanging on the line
24 Ready for business	54 Gushing review
25 Fragrant forest falling	55 Sotomayor's specialty

► Solve this puzzle online and discuss it at WSJ.com/Puzzles.

- 4 Salon styles
5 Suffix meaning "sorta"
6 Music's ___ Speedwagon
7 Sing like Michael Bublé
8 Sign on an information kiosk
9 Feathered cleaner
10 Thurman of "Pulp Fiction"
11 Thought maybe one could
12 Contacted via PC
13 Penance performers
18 Go for game
22 Co. abbreviation
24 Halloween mo.
25 Common pub order
26 FDR or JFK
27 Make money
29 Letters before an alias
33 ___-mo (replay type)
- 34 Swiss miss in a children's story
36 Black-plumed water bird
37 Intend
38 Night school subj. for immigrants
39 Enthusiastic praise
40 Fitness guru Jack
41 Winter wish for many kids
43 President Rouhani, for one
44 Whodunit motive, often
45 Potato feature
47 Weapon for Worf
48 Supporter's vote
50 Music's Rush or Nirvana
52 Long stories
53 Snap
57 Prepare for a bout
59 Fleecy female
61 Sphere
62 Yahtzee cube
63 Pull along

Previous Puzzle's Solution

ZERO	NE	EDA	BABE
AMOR	ALLEN	ATEM	MALA
ALLIE	DISCO	GOLF	JEAN
BILLIE	GO	TONY	KING
LINE	RA	ATE	HILL
ASDOI	HILL	FAR	T
NGO	TOE	TONY	SECOND
WARD	TOM	SUB	STOMARS
ECHO	ROSES	LUXOR	MARS
BASIE	EST	FREE	THREE
CINCINNATI	IREDS	UTNE	NIKON
BIOS	SUSA	IRAE	DARK
MYST	TRIEND		

The contest answer is JIMMY HOFFA. Three things are missing from this puzzle: the only month not appearing in the clues is JULY; the word THIRTY is missing from the single-starred answers at 1-Across ("Zero Dark Thirty") and 38-Across ("Thirty Seconds to Mars"); and the year 1975 is missing from the double-starred clues at 20-Across and 57-Across. The three missing pieces form the date July 30, 1975, which is when labor leader Jimmy Hoffa went missing.

Follow Today,
Lead Tomorrow.

Get the latest breaking stories delivered in real time—follow WSJ on Twitter, Facebook, Instagram and Snapchat.



THE WALL STREET JOURNAL.
Read ambitiously

BUSINESS & FINANCE

© 2017 Dow Jones & Company. All Rights Reserved.

THE WALL STREET JOURNAL.

Monday, August 21, 2017 | B1

Yen vs. Dollar 109.2720 ▼ 0.27%

Hang Seng 27047.57 ▼ 1.08%

Gold 1285.70 ▼ 0.05%

WTI crude 48.51 ▲ 3.02%

10-Year JGB yield 0.042%

10-Year Treasury yield 2.196%

Competition to rule the mobile-payments market moves beyond China's borders

By CHUIN-WEI YAP

A pitched battle between China's technology titans for control of the world's largest mobile-payments market is starting to ripple overseas.

The biggest combatant is **Ant Financial Services Group**, an affiliate of e-commerce giant **Alibaba Group Holding Ltd.** and the owner of China's dominant Alipay service. Alipay lets users pay for everything from haircuts to houses via codes generated on their smartphones, instead of cash or cards. It is facing off

against Tenpay, a similar service attached to **WeChat**, a popular messaging platform run by Chinese social-media firm **Tencent Holdings Ltd.**

Alipay is losing ground fast. From a near-stranglehold of 80% of China's mobile-payments market by transaction value in mid-2014, Alipay's share has steadily fallen to just above 50% at the end of June, according to data from the research firm iResearch.

Tenpay's share has risen to 40% from 7% over the same period, buoyed by WeChat, which has extended its chat functions to allow friends to split dinner tabs, square small debts and more. Chinese spend a third of the time they are on smartphones using WeChat, and that number is rising, surveys show.

Now, Ant is trying to take advantage of its edge in e-commerce and follow Chinese shoppers abroad, where there is the promise of booming Chinese tourism and new foreign users. Tencent is close behind.

Alipay had a near stranglehold within China in 2014, but has lost ground.

"It's like what happened in the 1950s when U.S. banks followed their corporate customers overseas," said Paul Schulte, founder of the fintech-focused consulting firm Schulte Research. "They are following

their tourists, and they are following their commerce."

Conceived in 2004, Alipay fueled the first explosive growth in China's online payments market, then the shift to smartphones within it. Mobile payments now account for three-quarters of such payments, up from 4% in 2012, according to iResearch data.

Alipay says it has 520 million registered users, many drawn in through Alibaba's online marketplaces.

Tenpay made its debut in 2005, and began rapidly growing in 2012 when it was opened to WeChat users. Among the app's most popular features are electronic "red packets"—token amounts of cash distributed as gifts—that users can send to friends.

WeChat counted 963 mil-

lion active users a month at the end of June. Tencent said last week that Tenpay has been able to grow its transactions so quickly in part by adding merchants via partnerships with restaurant-bookings startup Meituan-Dianping.

Alipay and Tenpay started expanding overseas in earnest two years ago, taking aim at the 120 million Chinese who travel abroad annually. They have signed partnerships with merchants in Southeast Asia and Europe, and are looking to invest in payment systems in other countries.

The domestic battle between the two companies is being replicated abroad.

Take Sun Xiaomei, a 23-year-old Chinese student living in South Korea. Her Alipay

Please see BATTLE page B2



JEFFREY GUNDLACH built a popular bond fund at DoubleLine.

Investors Cool on Gundlach Fund

By GREGORY ZUCKERMAN AND KIRSTEN GRIND

Jeffrey Gundlach built one of the most successful new bond funds ever, amassing \$61.7 billion of assets at the DoubleLine Total Return Bond Fund over just six years.

But during the past year, something else happened: Some customers began to leave. Assets under management at the fund dropped by 13% from their peak last September to \$53.6 billion as of July 31.

Investors have pulled \$8.5 billion from the fund in that period, Morningstar Inc. says, while funds in the same category took in net inflows of 7.2%. The fund has had outflows in each of the past nine months. DoubleLine said inflows in the fund for August so far are net \$230 million.

As performance has slipped and the fund has shrunk, Mr. Gundlach, 57 years old, has turned combative, taking on the media and continuing to taunt a rival. Meanwhile, some within the firm are bracing for what could be a more challenging environment.

Late last year and earlier this year, some at DoubleLine Capital's offices in downtown Los Angeles say, they were told bonuses might drop in 2017, according to people close to the matter. The firm says the guidance was aimed at creating a "pragmatic assessment" of 2017 after a big year in 2016.

Mr. Gundlach's fund's performance has been solid. But some investors say they are leaving because the fund has cooled from its previously white-hot pace.

Total Return Bond Fund topped 90% of peer funds over the past three- and five-year periods. In 2017, though, it is besting 59% of competitors, with a 3.15% gain through Aug. 17, Morningstar says.

Among those bailing out are individual investors, who helped fuel the fund's growth

Please see FUND page B2



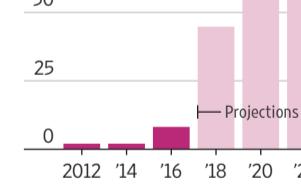
Pipes for Russia's Nord Stream 2, which will carry natural gas into Europe. Russia is countering U.S. gas exports to the Continent.

Natural-Gas Struggle Develops

By GEORGI KANTCHEV

Expanding

U.S. natural-gas export capacity



Source: International Energy Agency

THE WALL STREET JOURNAL.

Last year, Russia exported record levels of gas to Europe, helped by lower prices and falling domestic production elsewhere in Europe.

"We are tracking the situation on the global gas market and the growth of U.S. shale-gas production," Russia's energy minister, Alexander Novak, said in an interview last month. "Recently we have allocated a lot of efforts to boost our presence on the LNG market."

Many analysts still expect the U.S. exports to eat into Russia's share of the European market, which is now about one-third. The U.S. shale revolution has unlocked vast energy reserves, and the country is expected to become a net natural-gas exporter next year.

The prospect of such exports has been welcomed in Brussels, where the European Commission—the European

Union's executive arm—has sought to limit the influence of Russian energy on the Continent by imposing multiple regulations on the operation and ownership of Moscow's gas infrastructure.

Some lawmakers and officials in Washington have also talked about energy exports to Europe having a geopolitical, as well as commercial, benefit. The U.S. has long criticized what it considers to be Russian interference in Eastern Europe.

In July, President Donald Trump told representatives of a dozen European nations that the U.S. is eager to export energy supplies to them.

Poland last month became the first Eastern European country to receive U.S. LNG.

Please see GAS page B2

◆ A wrong-way bet on gas costs Goldman Sachs..... B8

Amazon Hits Parts Suppliers

By BRIAN BASKIN
AND LAURA STEVENS

Melanie Lichtfeld, owner of a Madison, Wis.-based plumbing company, used to tell customers they could wait weeks to buy their new kitchen sink from a local supplier. Now she orders the parts she needs on Amazon.com and they arrive two days later.

Ms. Lichtfeld is one of a growing number of plumbers, electricians and other contractors starting to buy industrial parts online. As part of its business-to-business marketplace offering, Amazon now sells items as diverse as light switches and hydraulic valves, and last month said it had one million customers across fields that also included health-care and office supplies.

Amazon is joining a host of online sellers shaking up the

roughly \$130 billion U.S. market for items that keep factories humming and the plumbing working. They threaten a business largely still conducted via salespeople working out of local shops and national distributors that cater to large businesses, as customers are lured away with instant comparison shopping and free delivery.

The largest industrial supplier in North America, W.W. Grainger Inc., with sales topping \$10 billion annually, said it cut prices by as much as 25% this summer after years of losing customers to cheaper online competitors. MSC Industrial Direct Co., a leading supplier to metalworkers, is printing fewer copies of a 4,500-page catalog it calls "The Big Book." The company now generates about 60% of its sales electronically, from

41% five years ago, including vending machines installed on factory floors that automatically order refills.

Online sellers' push into the market has nabbed much of the industry's sales growth, analysts say, and sparked concern about the future of traditional suppliers. Ms. Lichtfeld said Madison's local suppliers have stopped carrying many items easily found online.

While parts accounted for a sliver of Amazon's \$136 billion in sales last year, the company is a proven disrupter of industries ranging from apparel to video to cloud-data services. Like retailers before them, industrial suppliers risk getting caught in a race to the bottom on prices, where online-only sellers have an advantage because they don't maintain costly networks of branch offices and salespeople.



Shon Albaier-Meere, left, uses Amazon to buy business supplies.

"You do not need a specialty salesperson to buy cleaners or a mop," said Deane Dray, an RBC analyst.

Amazon is shaking up the traditional format for selling industrial parts by allowing distributors and manufacturers to sell products directly to

businesses on its marketplace, eliminating middlemen and often undercutting traditional local suppliers. It also offers one-click ordering and transparent pricing, features that are the norm in online retail but less common in the industry.

Please see SUPPLY page B2

INDEX TO BUSINESSES

These indexes cite notable references to most parent companies and businesspeople in today's edition. Articles on regional page inserts aren't cited in these indexes.

A	F - G	N - P
Activision Blizzard.....B4	Facebook.....B4	Nestle.....B4
Alibaba Group.....B1,B5	Foot Locker.....B8	Netflix.....B3
Alphabet.....B4,B5	Gap.....B8	Parallel Space.....B4
Amazon.com.....B8	GIC.....B5	PayPal Holdings.....B5
AMC Networks.....B3	Goldman Sachs Group B8	Q - R
American Express.....B5	I	Qualcomm.....B1
Ant Financial Services Group.....B1,B5	Idenix	Ross Stores.....B8
Aviva.....B8	Pharmaceuticals.....B3	S
B	Infosys.....B8	Samsung Electronics.....B2,B3
Bank of America.....B8	Intel.....B2,B3	Sherpa Capital.....B4
Benchmark.....B4	J	SoftBank Group.....B4
Berkshire Hathaway.....B7	J.C. Penney.....B8	T
B&G Foods.....B3	J.P. Morgan Chase.....B8	Target.....B8
D	K	Tencent Holdings.....B1,B8
Deere.....B3	Kohl's.....B8	TJX.....B8
Dick's Sporting Goods.....B7	Lenovo Group.....B3	U - V
Direxion.....B7	Macy's.....B8	Uber Technologies.....B4
Discover Financial Services.....B5	Massachusetts Mutual Life Insurance.....B5	Unity Technologies.....B4
E	Mastercard.....B5	Visa.....B5
Elliott Management...B7	Merck.....B3	W - Y
Energy Transfer Partners.....B8	Mondelez International.....B3	Wal-Mart Stores.....B8
E.W. Scripps.....B3	Mubi.....B3	Walt Disney.....B8
		Yufeng Financial Group.....B5,B8

BUSINESS & FINANCE

Samsung Hopes for Better

BY TIMOTHY W. MARTIN
AND EUN-YOUNG JEONG

SEOUL—For Samsung Electronics Co., the launch this week of a new smartphone and a court ruling for its detained de facto leader may offer closure and clarity for a company rocked by two scandals over the past year.

Samsung will unveil the Galaxy Note 8 on Wednesday in New York, releasing what it hopes will be a bounceback version of a flagship device that the South Korean firm had to recall last year.

Then, on Friday, a South Korean court will rule on bribery allegations against Samsung heir Lee Jae-yong, who has stood trial since April. The pair of crises, nonetheless, hasn't hurt Samsung's bottom line: It posted a record second-quarter net profit last month of 11.05 trillion won (\$9.9 billion) to outearn Apple Inc. for the first time in recent years.

Fueled by rapid growth in internet-connected devices, Samsung's semiconductor unit has become the world's largest chip maker by revenue, grabbing a top spot that Intel Corp. had held for nearly a quarter-century. The fate of Mr. Lee—a verdict will determine whether he can return to work—carries huge significance for the Samsung empire, which, like other South Korean conglomerates, looks to the controlling family to sign off on major strategic decisions.

A prolonged absence by Mr. Lee, the Harvard-educated grandson of Samsung's founder, would create a leadership vacuum atop the conglomerate that spans smartphones, theme parks and



The Galaxy Note 8 smartphone offers Samsung a shot at redemption after last year's device recall.

biopharmaceuticals.

A Samsung spokesman declined to comment.

Mr. Lee, 49 years old, has been in jail since February in connection with five charges centering on alleged bribes linked to South Korea's former president Park Geun-hye. Prosecutors say Mr. Lee sought greater control over Samsung, including pursuing government backing for a merger of two Samsung affiliates that would have given him that power. The prosecutors' case stems from \$37 million Samsung agreed to pay to entities linked to a close friend of Ms. Park.

Mr. Lee has denied all charges against him.

Prosecutors have recommended a 12-year sentence for Mr. Lee, the Samsung Electronics vice chairman who has effectively led the conglomerate after his father became incapacitated due to a heart attack in 2014.

Earlier this month, a key lieutenant testified Mr. Lee

wasn't involved in the payments' decision making. Still, experts said it would be difficult for Mr. Lee not to shoulder responsibility for them. If convicted, Mr. Lee is likely to face at least a five-year sentence, according to legal experts. Under South Korean law, any sentence longer than three years cannot be suspended. The ruling can be appealed, ultimately to the Supreme Court.

Mr. Lee's trial will set a new milestone for how the country's business entities interact with the government, said Park Ju-gun, head of CEO Score, a corporate analysis firm. It also will confirm the current administration's stance on questionable succession practices among conglomerate family owners amid public anger over the historically close ties between government officials and top corporate executives.

Samsung, the world's largest smartphone maker, saw its brand get bruised after last

year's Galaxy Note 7 debacle, a recall that cost it more than \$6.5 billion and led to a widespread ban on the devices being carried onto aircraft due to fears it was a fire safety hazard.

The Galaxy Note 8 offers Samsung its final chance to impress consumers ahead of the release of Apple's 10-year anniversary iPhone later this year. The Galaxy S8, Samsung's other flagship device that hit shelves in April, had 19.2 million shipments in the second quarter, outperforming its predecessor, the Galaxy S7, by 28% versus the same period a year earlier, according to market researcher Strategy Analytics.

"The S8 was the world's best-selling Android smartphone in the first half of 2017," said Neil Mawston, Strategy Analytics executive director. "The Note 8 is going to be like an S8 on steroids, accompanied by heavy marketing spend and deep retail distribution."

launched "Blue Packets," citing inspiration from WeChat.

The acid test will be whether such tactics can help Alipay or Tencent make real inroads among foreign users away from China's domestic market, which curbs competition from payment providers such as credit cards.

Daniel Lee, a 26-year-old facilities manager native to Hong Kong, said he doesn't use Alipay or Tenpay, citing worries "about security on these apps."

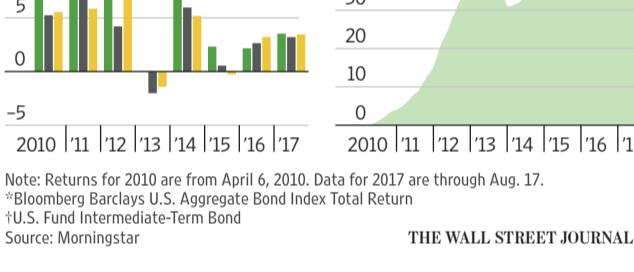
Mr. Lee's preferences? The American platform WhatsApp for messaging, and stored-value cards for purchases.

—Xiao Xiao in Beijing contributed to this article.

FUND

Not So Hot

DoubleLine's flagship bond fund no longer trounces rivals...



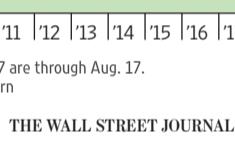
Note: Returns for 2010 are from April 6, 2010. Data for 2017 are through Aug. 17.

*Bloomberg Barclays U.S. Aggregate Bond Index Total Return

†U.S. Fund Intermediate-Term Bond

Source: Morningstar

...and assets under management at the fund have declined.



Continued from the prior page

but can be quicker than institutions to pull their funds when performance lags. Barney Rothstein, a retired orthodontist in Tucson, Ariz., withdrew \$250,000 from the fund over the past 18 months and shifted the money to individual bonds that carry similar yields but can be held to maturity, unlike a bond fund, potentially giving an investor more cushion if the market turns down. "The extra return wasn't there anymore," he said.

Analysts say success sometimes hurts funds by raising the bar for the future. Mr. Gundlach has spoken publicly about the dangers of getting too big.

The DoubleLine Flexible Income Fund, managed by Mr. Gundlach and Jeffrey Sherman, has bested 58% of rivals and has had net inflows of \$418 million in 2017, for example.

In recent media interviews, Mr. Gundlach has expressed concerns about what he called the high prices of risky assets.

Most of the Total Return Bond Fund's assets are in mortgages, in keeping with its guidelines. Mortgages scored

gains during the recovery from the 2008 financial crisis but have leveled off. The fund holds few corporate bonds, which recently have led the bond market.

Mr. Gundlach's returns at another asset manager, TCW Group Inc., gained him prominence in the early 2000s, but tensions with executives there ended with his ouster and dueling lawsuits. TCW and Mr. Gundlach ultimately settled their legal disputes. Mr. Gundlach sometimes emails TCW executives, taunting them, boasting of his performance and accusing his rival of not playing fair, people familiar with the matter said.

Those emails have continued in recent months, one of the people said. DoubleLine declined to comment.

In the spring, after Mr. Gundlach said media outlets misreported a speech he gave at a conference, he opened a Twitter account with the user-name TruthGundlach and criticized media members, including The Wall Street Journal. In June, after a Twitter user with 56 followers accused Mr. Gundlach of using public pronouncements to boost his fund, he responded by referring to his own standing on a list of industry players. "What number are you on the Bloomberg 50 Most Influential list?" Mr. Gundlach tweeted.

Mr. Gundlach declined to be interviewed. In a tweet this past Thursday, he said, "I'm not 'combative'. Never attack unprovoked. Never plant competitor hit pieces. But I am a scorpion. Attack me and I will fight back. Hard."

—Justin Baer, Ben Eisen and Daisy Maxey contributed to this article.

BATTLE

Continued from the prior page Gold Membership confers discounts for her online purchases, and she uses Alipay to pay her Korean university tuition.

Until recently, Ms. Sun rarely used Tenpay. But after some foreign friends downloaded WeChat as Tencent amped up its services there, Ms. Sun started sending red packets for fun. "Alipay is a great platform to represent China abroad," she said. "But in some ways, WeChat might be more convenient."

Ant has been fastest off the

block in expanding overseas. Chinese consumers can now use Alipay in 28 countries; TenPay is in 15.

Until May, the HighKr Lanna gun range in Thailand's city of Chiang Mai offered only Alipay for its Chinese visitors, partly because it was already embedded in Thailand's 7-Eleven convenience stores. But HighKr soon added Tenpay.

Ant says its ultimate goal is to help build a payments infrastructure abroad.

One of Ant's most high-profile pursuits is a \$1.2 billion bid for U.S. payment firm MoneyGram International Inc., now mired in regulatory review. If the deal goes through, it would give Ant a boost in its

rivalry with Tencent by introducing its technology to MoneyGram's global network of 2.4 billion bank and mobile accounts.

While Tencent has also taken stakes in overseas firms, it has shown a preference for replicating its domestic strategy. Tencent's favored weapon: red packets, which when launched in 2014 helped Tenpay gain 100 million WeChat users that year. Tencent didn't respond to requests for comment.

Red packets featured in Tencent's strategy for courting users in Hong Kong and South Africa last year. And in June, the Tencent-backed Indian platform Hike Messenger

launched "Blue Packets," citing inspiration from WeChat.

The acid test will be whether such tactics can help Alipay or Tencent make real inroads among foreign users away from China's domestic market, which curbs competition from payment providers such as credit cards.

Daniel Lee, a 26-year-old facilities manager native to Hong Kong, said he doesn't use Alipay or Tenpay, citing worries "about security on these apps."

Mr. Lee's preferences? The American platform WhatsApp for messaging, and stored-value cards for purchases.

—Xiao Xiao in Beijing contributed to this article.

GAS

Continued from the prior page

After a meeting with Mr. Trump, Polish President Andrzej Duda said he expects to sign a long-term deal for LNG supplies from the U.S. to reduce its reliance on Russian "blackmailing."

Lithuania is expecting another shipment in September.

"The arrival of U.S. gas is making Russia nervous. And they should be nervous," said Jason Bordoff, director of the Center on Global Energy Policy at Columbia University and a former energy official in the Obama administration.

The European market makes up 75% of Russia's overall gas exports, according to the U.S. Energy Information Administration. It is an essential industry for Russia, where oil and gas revenues account for more than 40% of the federal budget.

cargo coming into Europe in the past year. Over the same period, Russian gas delivered into Germany cost an average of \$4.86 per mmBtu.

A July opinion poll conducted on behalf of Winterhall, a German company involved in Russian energy projects, found that affordability was the main priority for Germans.

There are signs that Moscow is looking to make its gas exports more competitive. State-owned PAO Gazprom has in recent years been experimenting with auctions, where gas is offered to the highest bidder. That is a departure from Russia's traditional model of locking customers into long-term contracts linked to oil prices.

"Energy exports, and gas in particular, have always been Russia's lifeline and a source of influence in Europe, so they will do everything in their power to hold on to it," said Agnieszka Grigas, senior fellow at Atlantic Council, a Washington-based think tank.

Russia is building up its own LNG export capacity. A natural-gas facility on the Yamal Peninsula, just above the Arctic Circle, is scheduled to open by the end of this year.

Russia is also charging ahead with a plan to build Nord Stream 2, a Gazprom project to transport gas into Europe through a 1,200-kilometer pipeline beneath the Baltic Sea.

A bill signed by Mr. Trump in early August allows the president to impose sanctions on firms backing Nord Stream 2, though it stops short of mandating penalties.

"Unfortunately we are seeing intensifying efforts to use unilateral, unjustified sanctions by a number of countries, including the U.S., to reduce real free-market competition," said Mr. Novak, Russia's energy minister.

—Nathan Hodge contributed to this article.

SUPPLY

Continued from the prior page

trial world.

Customers "just want the Amazon buying experience at work," said Prentis Wilson, vice president of Amazon Business, which was launched in 2015.

ment agencies, are where distributors like Grainger make most of their money. Sales to these buyers are still growing, with volumes rising 1% last year and 7% this year, the company said in July. But spot purchase volumes are down 25% since the start of 2016, totaling about \$3 billion annually.

After cutting prices, Grainger is starting to win back more spot purchases and smaller customers, which it has failed to attract in recent years, said Elizabeth Ubell, the company's head of e-commerce. She said the goal isn't to beat online sellers on price, but to stay close enough that Grainger's expertise and reliable delivery can complete the sale.

Big customers, including manufacturers and govern-

ment agencies, are where distributors like Grainger make most of their money. Sales to these buyers are still growing, with volumes rising 1% last year and 7% this year, the company said in July. But spot purchase volumes are down 25% since the start of 2016, totaling about \$3 billion annually.

Some distributors have a head start compared with Amazon. Many have offered next-day delivery for essential parts for decades and are experts in fulfilling orders fast,

services like order tracking and same-day delivery.

The industry is "just not going to let

BUSINESS NEWS

Lost Windfall Sparks a Lawsuit

Two French scientists, out some \$12 million, sue Delaware over the seizure of their stock

BY VIPAL MONGA

A lawsuit before Delaware's Chancery Court could have broad implications for state finances around the country and for foreign shareholders who hold more than \$6 trillion of stock in U.S. corporations.

Two French scientists are suing the state of Delaware for seizing and selling their stock without their knowledge, depriving them of millions of dollars in gains.

French scientists Dr. Gilles Gosselin and Dr. Jean Louis Imbach allege that Delaware officials wrongfully seized their shares in **Idenix Pharmaceuticals Inc.** and sold the stock for \$1.7 million to pad the state budget in 2009.

After **Merck & Co.** acquired Idenix in 2014, the scientists learned they no longer had stock in the company and couldn't collect on a \$13.7 million windfall from the deal because Delaware officials had sold their shares five years earlier.

Unable to return the stock, officials only reimbursed the money the state received, leaving the two investors out some \$12 million.

In a court filing at the end of July, the plaintiffs called the state's actions "tortious and unconstitutional." In an earlier filing, they alleged Delaware "willfully, recklessly and negligently" failed to act as custodians of their property



CHRISTOPH BUECKELER/ASSOCIATED PRESS

Dr. Gilles Gosselin is one of the scientists alleging that shares in Idenix were wrongfully seized and sold.

and violated the U.S. Constitution's takings and due process clauses, among other claims.

Delaware officials declined to comment on the case beyond the court filings. In those, the state argued it followed its law to the letter.

The suit calls into question Delaware's execution of a law that allows it to take unclaimed assets such as dormant bank accounts, uncashed checks and securities from companies incorporated in the state. Although the owners can recover the property or its equivalent value at any time, officials can sell the property and use the proceeds for state programs if they can't find the rightful owners. Such seizures

represented more than 10% of the state's \$4 billion 2017 fiscal-year budget, ended on June 30.

More than half of all publicly traded companies in the country are incorporated in Delaware, so most U.S. companies are vulnerable to the rule.

Under the law, shareholders must show an active interest in their stock to prove they haven't abandoned it. They can do this by voting in an annual election, signing into an online brokerage account or cashing a dividend check.

If they don't establish contact for three consecutive years, the law triggers a series of events that can lead to the state taking custody of the un-

claimed shares. Under the law, companies must inform shareholders of the rules, but lawyers and securities advocates fear that foreign shareholders who don't understand them and aren't in touch with U.S. advisers could be surprised to learn they no longer hold the securities they purchased.

Delaware exploited foreign shareholders to bolster an important revenue source, said Ethan Millar, a lawyer for the plaintiffs at Alston & Bird LLP. Many foreign investors have put their holdings in long-term accounts and don't realize their investments may no longer be there.

"Most investors are buy-and-hold," he said. "This is a

rule that really hurts people."

The law is meant to ensure companies don't hold on to unclaimed goods and securities that don't belong to them, said David Gregor, the state official responsible for administering the unclaimed property law. If the state can't find the rightful owners, it should use the property for the public good, he added.

"The companies shouldn't benefit from poor bookkeeping," he said.

Although every state has a similar unclaimed property law on its books, Delaware has been the most aggressive enforcer. The state collected \$607.1 million from gross unclaimed property receipts during its fiscal year ended on June 30, making it the state's third-largest revenue source.

Stock taken into custody accounted for \$248 million of the gross total, according to the most recent state estimates, a 21% increase from 2016. The amounts collected from stock sales are naturally volatile, and some of the increase in 2017 was due to a rising stock market that boosted values, said Mr. Gregor.

Delaware isn't alone. States

around the country are targeting foreign-owned shares for extra revenue, said Jennifer Borden, a lawyer who has represented securities industry groups trying to stop state seizure programs.

Illinois, South Dakota and Tennessee

have made it easier this year for officials to seize and sell securities they deem abandoned. That is putting an undue burden on foreign shareholders to protect their investments, said Ms. Borden.

Lenovo Squeezed By Costs For Chips

BY DAN STRUMPF

HONG KONG—A supply squeeze in memory chips is hampering **Lenovo Group Ltd.**'s turnaround efforts, pushing the PC and phone maker to its first quarterly loss in nearly two years.

Lenovo Chief Executive Yang Yuqiang said the higher cost of memory chips hurt profitability across all of the company's major business lines. He said the duration of price increases—lasting in some cases more than a year—is unprecedented.

"We have never seen this situation in the past," Mr. Yang said in an interview. "Many materials costs, like memory, have increased for a couple of quarters, or even for over more than a year. That's a significant impact on the industry's profitability."

Surging demand has led to shortages and higher prices of memory chips across the electronics industry. The tighter supply has been a boost for the bottom lines of chip manufacturers like **Samsung Electronics Co.** and **Intel Corp.**, the world's top makers of semiconductors.

The higher costs have squeezed Lenovo's margins, contributing to a fiscal first-quarter loss of \$72 million, compared with a profit of \$173 million in the year-earlier period.

The tighter supply has been a boost for the bottom lines of chip manufacturers.

riod. Revenue for the quarter, which ended June 30, was little changed at \$10.01 billion.

The company has had difficulty passing the higher costs onto customers because prices for most large customers are set by long-term contracts, Mr. Yang said.

Lenovo is pursuing a turnaround plan, as it grapples with sustained slowdown in sales of personal computers—its biggest source of profit and revenue—as well as a slowing mobile-phone market. It has also been wrestling with its acquisitions of U.S. phone brand Motorola and the low-end server business from IBM, which it has struggled to make competitive.

The company this year lost the title of top global seller of personal computers, slipping to No. 2 behind HP Inc. Lenovo said its phone market share stood at 3.2%, well behind top rivals Apple Inc. and Samsung.

The company said earlier this year that it would install new management in China to better compete in the fiercely competitive, and slowing, gadgets-and-electronics business.

For its latest quarter, Lenovo reported a continued slowdown in PC and tablet sales, which fell 7% from a year earlier to 14.5 million units.

Mr. Yang said the company aims to turn around the performance of its mobile business in the second half of the fiscal year. The firm's mobile business reported an operational loss before taxes of \$129 million during the quarter.



EVERETT COLLECTION

Richard Roundtree in 'Shaft' from 1971. Some boutique sites have been carving out niche genres.

Video Streamers Skirt Netflix Fare

BY COVEY E. SON

Walt Disney Co.'s decision this month to stream its own movies and shows marks Hollywood's biggest attempt to wean itself from **Netflix Inc.** Others have been carving out niches with some success.

In the shadow of Netflix's boom, smaller video services have found select audiences who appreciate such genres as horror and anime—or themes such as British shows or automobiles—but are unsatisfied by mainstream general-entertainment sources like Netflix and Hulu.

None of these boutique sites, such as Shudder and Crunchyroll, matches Netflix's sprawling library with thousands of popular titles nor its subscriber base of 104 million, which media-measurement firm comScore says represents 75% of U.S. streaming-service viewers.

Rather, they are seeking to stand out by offering a handpicked platter of content.

"Fans feel they can go deeper in contrast to a big service, whether that's a broadcast network or a mass-

market subscription video service that's trying to have something for everyone," said Christopher Vollmer, a partner at PricewaterhouseCoopers's entertainment and media practice.

Some avoid the mainstream entirely.

MUBI Inc. offers "art house cinema"—foreign films, independent films and classics. The company shows just 30 films at any given time, with one added and one subtracted each day. The closely held company has 100,000 subscribers who pay \$4.99 a month, said MUBI director of content Daniel Kasman.

Netflix isn't a direct competitor, Mr. Kasman said, and even some of the most devout cinephiles often find themselves stumped by MUBI's selection of obscure and unknown films.

He and two other curators frequently visit film

festivals including Cannes and Sundance to scout for new material,

working directly with filmmakers and small dis-

distributors to buy streaming rights.

Mr. Kasman said he seeks movies that are important to

MUBI's audience. "It can be something that touches you, expand your mind or show you new places or new stories you've never thought of before," he said. "It might be something that makes you laugh. It might be a classic and a favorite of yours."

Then there is Brown Sugar, which bills itself as "just like Netflix, only blacker," featuring a collection of 1970s films starring black actors in lead roles, like "Shaft" and "Uptown Saturday Night."

Bounce TV, a broadcast network catering to a black audience, launched Brown Sugar in November to celebrate the era in which Hollywood started offering lead roles to black actors.

Bounce's parent company, Katz Broadcasting, which was acquired by **E.W. Scripps Co.**, didn't disclose subscriber figures for its \$3.99-a-month service.

Although Netflix is expanding in genres such as children's fare, reality TV and stand-up comedy specials, PwC's Mr. Vollmer said Netflix wasn't likely to emphasize niche fare, but rather a "something for everyone" approach.

ment demand abroad was also strong.

Deere's farm and construction machinery sales in the U.S. and Canada grew by 11% in the quarter but remain down 1% through three quarters. Elsewhere in the world, sales increased 25% in the quarter.

Overall for the quarter, Deere reported a profit of \$641.8 million, or \$1.97 a share, compared with \$488.8 million, or \$1.55 a share, a year earlier. Equipment sales rose to \$6.83 billion. Analysts had expected Deere to earn \$1.95 a share on net equipment sales of \$6.92 billion.

—Bob Tita

BUSINESS WATCH

B&G FOODS

SnackWell's Cookies Are Added to Lineup

B&G Foods Inc. has struck a deal to buy SnackWell's cookies and Back to Nature granola bars for \$162.5 million, adding to its stable of older brands that have faltered as eating habits change.

Chief Executive Bob Cantwell said acquiring SnackWell's low-fat products and Back to Nature's bars from a joint venture between Oreo maker **Mondelez International Inc.** and private-equity firm Brynwood Partners will give B&G more leverage with

natural-foods retailers.

"We'll have a bigger place at the table to talk to Whole Foods and Sprouts," he said.

About five years ago, Mondelez sold controlling interests in SnackWell's and Back to Nature to Brynwood Partners and tasked the private-equity firm with reviving SnackWell's and expanding the Back to Nature brand.

Today SnackWell's and Back to Nature generate about \$80 million in annual sales.

B&G's sales were about \$1.4 billion last year, compared with Mondelez's \$26 billion.

—Annie Gasparro

DEERE

Farm Slump Slows Company's U.S. Sales

Equipment maker **Deere & Co.** continues to face a slog in a troubled U.S. farm economy.

Deere said Friday its farm and construction equipment sales rose 17% in its fiscal third quarter ended July 31, but they fell short of expectations.

Sharply higher sales and profit from Deere's construction and forestry equipment unit helped offset lackluster farm-related sales in North America, Deere's biggest market. Equip-



Vishal Sikka was appointed chief executive of Infosys in 2014.

TECHNOLOGY

WSJ.com/Tech

Mobile-Game Developers Rethink Ads

Some coax resistant players by offering rewards in exchange for viewing ads

BY SARAH E. NEEDLEMAN

Four years after it stopped putting ads in its mobile videogames because it suspected they were too disruptive, King Digital is testing them again in a new format, a move Wall Street analysts think could generate \$1 billion in revenue for the company by 2019.

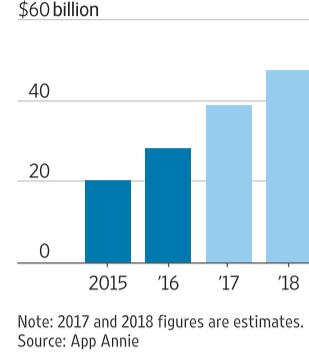
King Digital earlier this year began tests of ads from Nestlé SA, Visa Inc. and others in a handful of mobile games including "Candy Crush Soda." The reversal, which the game developer set in motion soon after Activision Blizzard Inc. acquired it in 2016, reflects new thinking about ads in the mobile-game industry.

Rather than treat ads as a toll booth players have to pass through, developers increasingly are embedding them into games as an optional experience that players can choose in exchange for rewards.

The shift in strategy has lifted the gates on a torrent of mobile-game ad revenue. This year, mobile games are on track to generate \$39.8 billion in ad revenue world-wide, up almost 90% from \$21.1 billion in 2015, according to App Annie Inc., an app data and analytics firm. It projects the number will climb to \$49 bil-

Playing the Ad Game

Global revenue from ads in mobile videogames



Note: 2017 and 2018 figures are estimates.

Source: App Annie

THE WALL STREET JOURNAL.

lion in 2018.

Game makers hope "rewarded ads" will extend the boom in mobile-game advertising and help them continue diversifying beyond players' in-app purchases. These purchases generate considerable revenue for game makers but are dependent on a minority of dedicated players who are big spenders on virtual goods.

Rewarded ads are an alternative for them. Players who engage receive in-game perks such as extra lives or virtual currency. A recent promotion from Electronic Arts Inc.'s "FIFA Mobile," for example, gave players the option to acquire free virtual characters and other items if they share an ad from Coca-Cola Co. through the soccer game's messaging system.

Dozens of brands including



Glu Mobile's 'Kim Kardashian: Hollywood' often serves advertisements after a level of play.

Ford Motor Co. and McDonald's Corp. advertise in EA's mobile games, up from just a handful five years ago, said Dave Madden, head of global brand partnerships. The company doesn't report ad revenue but it "is definitely a growth area," he said.

Mobile games are especially attractive to brands "because they're highly engaging," said Tom Goodwin, head of innovation at agency Zenith USA, a unit of Publicis Groupe SA. People are spending more time on mobile devices, and brands need ways to reach them, he said.

In the first half of 2017, 78% of the top 50 grossing games on Apple Inc.'s and Alphabet Inc.'s U.S. app stores featured ads, up from 45% a year earlier, according to analytics firm Apptopia Inc.

Still, players dislike many of the ad formats in games. Video, for example, is potentially more engaging than traditional banner ads, but it is also riskier. During a 15- or 30-second video, players have ample opportunity to close the app and open another.

Parallel Space Inc. chose not to include any ads in "Hades' Star," a game about space

exploration released in July—the Canadian startup's first. "Ads are very disruptive," said company founder Andreas Paphanasis, a former game developer with Supercell Oy, of Helsinki. "If you want a long-term relationship with players, ads don't make any sense."

That is why rewarded ads are changing so many developers' minds. Some 62% of developers said player retention increased or stabilized after they introduced video ads with rewards, according to a 2016 study from Unity Technologies Inc., whose game-creation software includes

tools for advertising.

Jamie Lynn, a 21-year-old Florida college student, says she spends about 15 minutes a day playing games like King's "Candy Crush Saga" and Supercell's "Hay Day" and tolerates ads that offer rewards. "They make me feel as though my time is more worthwhile," she said.

When Chris Akhavan arrived in 2013 at Glu Mobile Inc., publisher of games such as "Kim Kardashian: Hollywood," the chief revenue officer discovered a lot of resistance to ads at Glu Mobile. That has changed: In the second quarter, Glu had \$12.4 million in quarterly ad revenue, up from \$2.4 million in the same quarter of 2013.

The secret to making ads work, he said, is to be strategic about when they run and who sees them. Glu often serves ads after a level of play has been completed because there is a natural pause then, Mr. Akhavan said.

Analysts routinely press King on when it will move from testing to rolling out ads to all games for its 314 million monthly active users. They cite Zynga Inc., which last year generated about \$194 million from ads with roughly one-fifth as many users as King has today.

Evan Wingren, an analyst at KeyBanc Capital Markets Inc., said, "People from the investment community are looking at that, saying if Zynga does it, why can't King?"

Ex-Uber CEO Rips Investor's Suit

BY GREG BENINGER

Uber Technologies Inc.'s former chief executive fired back at a lawsuit from one of the ride-hailing firm's biggest investors, saying Benchmark Capital is conducting a personal attack that threatens to further damage the company.

In a filing to the Delaware Chancery Court late Thursday, Travis Kalanick reiterated his call for the Benchmark legal dispute to be settled in arbitration, in accordance with a board-voting agreement at the center of the case. Arbitration also would keep the deliberations private.

Benchmark, which holds one Uber board seat, alleged in a suit filed a week earlier that Mr. Kalanick defrauded Uber's board by keeping secret questionable business practices. Benchmark is seeking in its suit to oust Mr. Kalanick from the board and free up three board seats he effectively controls.

Benchmark "initiated this action as part of its public and personal attack on Travis Kalanick," Mr. Kalanick said in the filing. "Contrary to Benchmark's suggestion that its lawsuit is 'in the best interests of Uber,' every other member of the board disagrees."

A spokeswoman for Benchmark declined to comment. A spokesman for Mr. Kalanick said he had no comment beyond the filing.

The Benchmark lawsuit is the latest twist in the spiraling conflict among Uber's directors. Uber is also grappling with multiple executive vacan-



Uber's ex-CEO Travis Kalanick says he signed his resignation letter under duress from Benchmark.

cies, including its CEO position, which has been open since Benchmark pushed Mr. Kalanick to resign in June.

On one side of the tussle are directors and investors who see the suit as jeopardizing efforts to find a new CEO as soon as next month, as well as its negotiations with potential investors for a new round of funding of \$1 billion or more.

Those aligned with Benchmark argue the suit is necessary to prevent Mr. Kalanick from exerting too much influence on the day-to-day operations of the company despite his departure as CEO.

Benchmark's aggressive turn against Uber has inflamed some investors, who

resent that the venture firm is criticizing the leadership of a company that stands to deliver it a once-in-a-lifetime profit. Benchmark invested some \$27 million in Uber that is now worth about \$8.4 billion, according to one early investor.

According to people familiar with the matter, Uber has narrowed its CEO search to three people, including former General Electric Co. CEO Jeff Immelt, and is racing to find an interim chief financial officer before seeking a new independent chairman and filling other open posts.

In the filing Thursday, Mr. Kalanick argued that Benchmark had voted in favor of allowing him control of the three board seats in June

2016, along with the rest of the board, and that he had signed his resignation letter—which he said was penned by Benchmark—under duress following the unexpected death of his mother.

Two Benchmark partners, Matt Cohler and Peter Fenton, threatened a public smear campaign against Mr. Kalanick if he didn't sign the letter, which they delivered to him in June in Chicago where he had traveled to interview an executive candidate, Mr. Kalanick said in the filing Thursday.

Mr. Kalanick, 41 years old, had Benchmark remove language from the resignation letter that would otherwise have made it akin to a contract, he said in the filing.

Google Aims to Lift News Subscriptions

BY JACK NICAS

Google is working on new tools to help news organizations sell subscriptions, a move that could help ease its strained relationship with publishers.

The technology giant said it is testing changes to its "first-click-free" policy that allows access via Google search results to articles that require a subscription. Google might reduce the number of free articles users can access from three a day, said a person familiar with the plans. Google believes free sampling of articles helps sell subscriptions, the person said.

The Alphabet Inc. unit is testing tools with the New York Times and the Financial Times, such as sharing Google's data on which users are likely to buy subscriptions and using its online-payments system for subscriptions, the person said, adding that talks with publishers are continuing and the changes might not happen. Any new tools are expected to be unveiled in the next few months.

Bloomberg News earlier reported on the new tools under development.

The rise of the internet hit much of the print-news business by causing sales of ads in printed products to plummet.

Meanwhile, Google and Facebook Inc. together collect nearly half of global spending on digital ads, according to eMarketer.

As a result, publishers have had an uneasy and complicated relationship with Google and Facebook.

Publishers provide much of the quality content that fuels the tech firms' online platforms, while those platforms drive traffic to publishers' websites. News organizations have been forced to rely more on subscriptions.

Last month, the News Media Alliance—a trade group representing about 2,000 organizations, including The Wall Street Journal publisher Dow Jones—asked Congress for a limited waiver from antitrust laws. They say the

The move could help Google ease its strained relationship with news publishers.

waiver would allow them to negotiate collectively with Google and Facebook for stronger intellectual-property protections, more support for digital-subscription models and a bigger share of revenue and customer data.

Google said in a statement that it has "been engaged in conversations with publishers on how we can build and expand on the efforts that we have had for a number of years to provide even more support for subscriptions."

MIMS

Continued from page B1
ogy, generally called "structured light," sprays thousands of tiny infrared dots across a person's face or any other target.

By reading distortions in this field of dots, the camera gathers superaccurate depth information. Since the phone's camera can see infrared but humans can't, such a system could allow the phone to unlock in complete darkness.

While Apple hasn't announced any use of this technology—let alone confirmed whether it will exist inside the widely expected 10th-anniversary iPhone—the company is no stranger to infrared depth-mapping and facial recognition. It has previously been granted patents describing nearly identical processes. Apple declined to comment on any technology it might be working on.

If this technology sounds

familiar, it is a sort of shrunken-down version of the Xbox 360's Kinect motion sensor. Perhaps not coincidentally, Apple acquired an early Kinect developer, the Israeli startup PrimeSense, in 2013.

Meanwhile, Qualcomm says it plans to make its Spectra processor available for future Android phones. Previous Samsung image processors that did face recognition could be fooled by holding up a photo of someone's face to a phone's camera. Qualcomm insists that depth perception gives the added bonus of "live-ness detection." As a result, a 3-D printed mask wouldn't be able to fool the system, though the company admits identical twins might.

Teaching our phones what our faces look like will be just like teaching them our fingerprints, says Sy Choudhury, a senior director at Qualcomm responsible for security and machine-intelligence products. An image of your face is captured, rele-

vant features are extracted and the phone stores them for comparison with your face when you unlock the phone.

As with fingerprint recognition, the facial images are securely stored only on the device itself, not in the cloud. History—from Apple's battles with domestic law enforcement over unlocking iPhones to Amazon's insistence that the Alexa doesn't upload anything until it hears its wake word—suggests companies will use this privacy as a selling point.

Already, laptops use Microsoft's Windows Hello face recognition for easier unlocking; some devices are equipped with Intel's RealSense 3-D depth camera, which preceded Qualcomm's Spectra.

As technology like this gets into the mobile supply chain, it eventually trickles down to less-expensive, lower-end devices along with dedicated, highly efficient chipsets, says Joey Pritikin, founder and co-chief execu-

tive of the biometrics company Tascent.

Facial recognition is likely to come with trade-offs, but it also is expected to make higher levels of security very convenient.

Facial recognition is likely to come with trade-offs, but it also is expected to make higher levels of security very convenient.

your child, there is "Sesame Street." Qualcomm already has customers in its Spectra pipeline working on non-phone products, including internet-connected cameras, says Mr. Choudhury.

Like all new technologies, facial recognition is likely to come with trade-offs. In many contexts, a fingerprint scan may be less obtrusive. The facial algorithms can be

stymied by the presence or absence of glasses, especially sunglasses. The annoyance of having to take off your winter gloves to unlock your phone might be replaced by the annoyance of having to re-enroll your face if your facial hair changed.

Perhaps the most remarkable thing about all this facial recognition is how mundane it has the potential to become, and fast. As a security measure that requires us only to look at our device, it is easily taken for granted.

That is a good thing. Facial recognition has the potential to make higher levels of security—so-called multi-factor authentication—so convenient that we no longer engage in all the bad habits that put our finances and online lives at risk. That isn't to say these systems won't be compromised somehow, but at least for the short term, smiling at your phone every morning will be far safer than punching in the same password over and over.



QUALCOMM TECHNOLOGIES

FINANCE & MARKETS

China Puts Investment Controls in Writing

By KATE O'KEEFFE

China announced formal measures to curb outbound investment as the government seeks to establish firmer control over corporations whose international shopping spree has rattled China's currency and foreign-exchange reserves.

Chinese officials have been cracking down on what they call "irrational" overseas investment since the end of 2016, tightening controls on capital leaving China and scrutinizing some of the country's most aggressive deal makers, but the measures Friday marked the first time the cabinet has published such controls in the form of official guidance.

Government statistics indicate the crackdown has already sent China's foreign direct investment down over 40% this

year. The latest move shows that it is trying to clamp down in a more systematic way, according to analysts who track Chinese investment.

"We now know that China will not any time soon return to liberal outbound [foreign direct investment] policies," said Thilo Hanemann, an economist at New York-based Rhodium Group.

The new rules could have an outsize impact on investment in the U.S., which was the largest recipient of China's foreign direct investment flows last year, taking in \$46 billion, or triple the previous year, Rhodium said.

And the new restrictions could impair China's strategy of trying to win political points with local U.S. officials, such as governors and mayors, eager for foreign investment that can

create jobs. At the same time, the rules are unlikely to dampen U.S. officials' concerns about threats to national security, as they don't restrict Chinese investment in sensitive sectors like technology. The Committee on Foreign Investment in the U.S., known as CFIUS, has toughened its scrutiny of Chinese investment, throwing into question billions of dollars in high-profile Chinese bids to buy U.S. companies in recent months. The multiagency panel led by the U.S. Treasury can approve deals or recommend the president block them on national-security concerns.

China will restrict overseas investment in sectors such as property, hotels, cinema and sports teams, the State Council said in guidelines released on the main government website.

By contrast, Beijing wants

firms to continue buying overseas technology and supporting initiatives such as President Xi Jinping's "One Belt, One Road" project, a massive global infrastructure investment plan to establish China as the dominant world-trading power.

Officials have cracked down on what they call 'irrational' overseas investment.

China's enthusiasm for Hollywood deals has been cooling for nearly a year as capital controls took hold. Talks broke down between Metro-Goldwyn-Mayer Studios and several Chinese companies in late 2016. And

deals that would have placed Dick Clark Productions Inc. and Voltage Pictures LLC, the production company behind "The Hurt Locker," under Chinese control fell apart this year.

Chinese state scrutiny of Dalian Wanda Group Co. has raised questions in executive suites across Hollywood: The real-estate conglomerate has been the most visible Chinese player to enter the U.S. entertainment industry. Wanda owns Legendary Entertainment LLC, the production company behind "Kong: Skull Island," and AMC Entertainment Holdings Inc. AMC has said its finances aren't affected by Wanda's turmoil. A Legendary spokeswoman said the government investigation hasn't affected the company's balance sheet. "Wanda has never failed to satisfy any of its funding obligations owed to

Legendary," she said.

Chinese capital has also played a significant role in the global hotel industry, with Chinese investors pouring nearly \$8.5 billion into U.S. hotels last year, according to Real Capital Analytics Inc., up from \$2.6 billion in 2015. Amid the capital-outflow clampdown this year, China's investment in U.S. hotels has been less than \$500 million, Real Capital added.

China will restrict the establishment of equity-investment funds and any investment platforms not linked to a specific project, according to new measures jointly drafted by the country's top economic planner, Commerce Ministry, central bank and Foreign Ministry.

—Liyan Qi, Carolyn Cui, Chris Kirkham and Erich Schwartzel contributed to this article.

Audit Ills Are Cited At Broker-Dealers

By MICHAEL RAPORT

U.S. federal inspectors found problems in more than 80% of the audits of broker-dealers they reviewed last year, the government's auditing regulator said Friday, continuing a pattern of high levels of deficiencies that has persisted since such inspections began six years ago.

The Public Company Accounting Oversight Board found deficiencies in 83% of the broker-dealer audits it inspected in 2016, up from 77% in 2015, the board said in its annual report on its broker-dealer audit-inspection program. As has been the case in the past, nearly all of the audit firms conducting the audits, 97%, had deficiencies in one or more of their audits, the PCAOB said.

The findings don't mean that the broker-dealers themselves have any operational problems, just that the PCAOB believes that most of the audits that assessed them were flawed or inadequate.

The most common problem area the PCAOB found was in auditing the broker-dealers' revenue, with problems found in 66% of the audits inspected.

The report doesn't break out the results from individual audit firms or identify the broker-dealers involved in the audits the board inspected.

The PCAOB has consistently found high levels of deficiencies in broker-dealer inspections since it began the inspections in 2011.

Credit-Card Firms Act to Block Hate Groups

By PETER RUDEGEAIR AND ANNAMARIA ANDRIOTIS

Payment and credit-card companies including American Express Co., Discover Financial Services and PayPal Holdings Inc. are booting dozens of individuals and groups associated with right-wing extremist movements off their systems following violence at a white-nationalists' rally in Charlottesville, Va.

The actions, many of which were taken after finding the websites had violated the financial firms' acceptable-use policies, make it more difficult for the groups to sell merchandise or raise donations from supporters. Racial-justice organization ColorOfChange.org and others have pushed payments companies to take a more aggressive role in policing the transactions that run through their systems.

In response to recent events, PayPal has revoked access from more than 40 websites that violated those terms, according to a person familiar with the matter.

Decisions to cut off access to white-supremacy groups have also been made by technology companies. Alphabet Inc. and GoDaddy Inc. revoked the hosting support for a neo-Nazi website and Facebook Inc. and Twitter Inc. have suspended accounts affiliated with white nationalists.

An AmEx spokesman said that the company has been reviewing a list of websites of hate groups compiled by Color of Change and that it found the majority don't accept its cards. It has sent cease-and-desist letters to the sites that are using its logo and is reviewing the sites that actually accept AmEx cards. The spokesman added



Ku Klux Klan members during a march at the state house building in Columbia, S.C., in 2015.

that the company maintains "the right to terminate any merchant relationship that is harmful to our brand."

Franz Paasche, PayPal's senior vice president for corporate affairs and communications, wrote in a blog post Tuesday that the company "will always remain vigilant and committed to ensuring that our platforms are not used to perpetuate hate and violence or racial intolerance."

Discover said in a statement that "in light of recent events" the company is "terminating merchant agreements with hate groups, given the violence incited by their extremist views."

Roughly a couple dozen websites will likely be affected by Discover's move, according to a person familiar with the payments industry.

American Express, Discover and PayPal occupy two main roles in the payments industry: They issue consumer accounts that can be used to make purchases and handle the processing of payments for businesses. The second activity, known in the industry as "merchant acquiring," is what has come under more scrutiny in recent days. When opening a new merchant account, a business agrees not to engage in a range of illegal activities. Some pay-

ments firms also prohibit their customers from legal activities that may carry higher risks, such as selling money orders or traveler's checks.

Hate groups that find they aren't able to accept credit-card payments, however, can rebrand under different names, potentially allowing them to receive payments again until the acquirers terminate the relationship.

The violence in Charlottesville this month hasn't prompted big changes to payments companies' acceptable-use policies. But it has called attention to websites that could be violating those terms.

The networks through which credit-card transactions are routed, such as Visa Inc. and Mastercard Inc., say they have always taken a tough stance on hate groups that incite violence or illegal behavior. They use a mix of proprietary technology and monitoring to keep tabs on illegal activities.

Some networks and acquirers say it is hard to halt payment processing due solely to distasteful comments. Rather, one of the most common grounds for stopping payment services, according to a major acquirer, is that a group misrepresented itself when it signed up for services.

Jack Ma's Firms Buy an Insurer

By JULIE STEINBERG AND CHUIN-WEI YAP

Massachusetts Mutual Life Insurance Co. agreed to sell its Hong Kong-based operations for about \$1.7 billion to a group of Asian investors that includes two companies affiliated with Chinese billionaire Jack Ma.

The cash-and-stock deal will see MassMutual collect \$1 billion in cash and take a roughly 25% stake in Yufeng Financial Group Ltd., a Hong Kong-listed financial-services company that trades securities, sells investment products and is expanding into the growing financial technology, or fintech, sector.

Yufeng Financial, whose main backer is a private-equity firm controlled by Mr. Ma, will own about 60% of MassMutual's Hong Kong business, known as MassMutual Asia Ltd.

Seven other investors, including Ant Financial Services Group and a company backed by Singapore sovereign-wealth fund GIC Pte. Ltd., will own minority stakes in the business.

Ant Financial is an affiliate of e-commerce giant Alibaba Group Holding Ltd., where Mr. Ma is chairman and co-founder.

Yufeng Financial used to be a brokerage known as Reorient Group Ltd. before Mr. Ma's private-equity firm, Yunfeng Capital—named in part after Mr. Ma's Chinese first name Yun—bought a controlling stake in it two years ago. The MassMutual deal represents Yufeng's first major acquisition, and signals a rising ambition across Mr. Ma's



Firms affiliated with Mr. Ma will get a path to expand in fintech.

business empire to expand its global footprint.

MassMutual, based in Springfield, Mass., is one of American's oldest and largest mutual life-insurance companies. It has operated in Hong Kong and Macau since 2000, when it first acquired a life-insurance business there, according to a company spokesman.

The unit is divesting to Yufeng sells life-insurance products and manages pension and retirement savings for Hong Kong residents. MassMutual, Yunfeng and Ant Financial to work together to explore future business opportunities, the companies said. Ant operates a suite of financial services including mobile payments, insurance and credit scoring.

management services. Robo-advisory services use algorithms to direct investments and provide financial advice to customers with little human intervention.

Following the deal, Yufeng will be able to sell MassMutual's life-insurance products in this manner. Yunfeng's acquisition paves the way for a deeper foothold in global financial services for another key part of Mr. Ma's business. Ant will own 5% of MassMutual Asia. The transaction will allow MassMutual, Yunfeng and Ant Financial to continue to participate in the growing and attractive Asian markets" through the stake it will own in Yufeng.

Yufeng Financial this year launched a "robo-advisory" platform as part of its asset-

INTERNATIONAL INVESTMENT FUNDS

[Search by company, category or country at asia.wsj.com/funds]

MORNİNGSTAR®

Data as shown is for information purposes only. No offer is being made by Morningstar, Ltd. or this publication. Funds shown aren't registered with the U.S. Securities and Exchange Commission and aren't available for sale to United States citizens and/or residents except as noted. Prices are in local currencies. All performance figures are calculated using the most recent prices available.

Chartered Asset Management Pte Ltd - Tel No: 65-6835-8866

Fax No: 65-6835-8865, Website: www.cam.com.sg, Email: cam@cam.com.sg

CAM-GTF Limited OT MUS 08/11 USD 30239.95 1.7 0.9 2.6

NAV GF AT LB DATE CR NAV YTD 12-MO 2-YR

FUND NAME GF AT LB DATE CR NAV YTD 12-MO 2-YR

AS EQ HKG 08/17 USD 150.06 21.0 23.6 9.6

AS EQ HKG 08/17 USD 18.88 30.5 23.1 9.4

AS EQ HKG 08/17 AUD 15.47 29.6 8.5

AS EQ HKG 08/17 CAD 15.06 30.1 22.3 9.1

AS EQ HKG 08/17 HKD 12.94 31.4 24.2 9.5

AS EQ HKG 08/17 NZD 15.45 28.1 21.8 9.1

AS EQ HKG 08/17 CNY 12.23 17.4 17.7 NS

AS EQ HKG 08/17 GBP 12.93 34.5 27.8 NS

AS EQ HKG 08/17 HKD 10.63 10.5 NS NS

AS EQ HKG 08/17 USD 10.69 9.4 5.6 NS

WP Taiwan Fund AS EQ CYM 08/17 USD 20.06 19.8 17.0 18.7

For information about listing your funds, please contact: Freda Fung tel: +852 2504; email: freda.fung@wsj.com

Value Partners

Investing through discipline

■ Website: [www.valuepartners-group.com/Tel \(852\) 2143 0688](http://www.valuepartners-group.com/Tel (852) 2143 0688)

China A-Share Fund Cls A AUD H OT HKG 08/17 AUD 13.50 14.5 11.8 1.2

China A-Share Fund Cls A AUD I OT HKG 08/17 AUD 12.23 11.9 11.0 -1.2

China A-Share Fund Cls A CAD H OT HKG 08/17 CAD 13.7 10.4 -0.1

China A-Share Fund Cls A EUR H OT HKG 08/17 EUR 13.01 13.2 9.5 -0.5

China A-Share Fund Cls A EUR I OT HKG 08/17 EUR 12.57 9.0 9.0 NS

China A-Share Fund Cls A GBP H OT HKG 08/17 GBP 13.01 12.9 9.5 1.1

China A-Share Fund Cls A HKD H OT HKG 08/17 HKD 13.24 13.5 10.2 1.2

China A-Share Fund Cls A NZD H OT HKG 08/17 NZD 13.68 22.7 14.6 2.5

China A-Share Fund Cls A SGD H OT HKG 08/17 SGD 13.20 14.7 12.1 1.3

China A-Share Fund Cls A USD H OT HKG 08/17 USD 11.70 17.5 14.6 -2.4

China A-Share Fund Cls A RMB (CNY) OT HKG 08/17 CNY 14.60 14.2 14.2 3.7

China A-Share Fund Cls A USD I OT HKG 08/17 USD 13.55 21.7 13.7 2.2

China A-Share Fund Cls A USD H OT HKG 08/17 USD 13.24 13.9 11.0 0.5

China Greenchip-A Units AS EQ CYM 08/17 HKD 14.53 26.9 21.4 5.3

China Greenchip-A Units AUD H AS EQ CYM 08/17 AUD 10.95 27.5 22.2 5.9

China Greenchip-A Units CAD H AS EQ CYM 08/17 CAD 10.68 27.5 21.7 5.1

China Greenchip-A Units NZD H AS EQ CYM 08/17 NZD 11.21 27.1 22.2 6.4

China Greenchip-A Units USD AS EQ CYM 08/17 USD 10.64 26.4 20.9 5.1

China Greenchip-AQDls Units AS EQ CYM 08/17 HKD 11.63 26.5 21.1 5.2

GC HI Yield Inc-Cls A MDLS GBP H OT CYM 08/17 GBP 9.60 6.0 9.6 10.4

GC HI Yield Inc-Cls A MDLS AUD H OT CY

MARKETS DIGEST

Data as of Friday, August 18, 2017

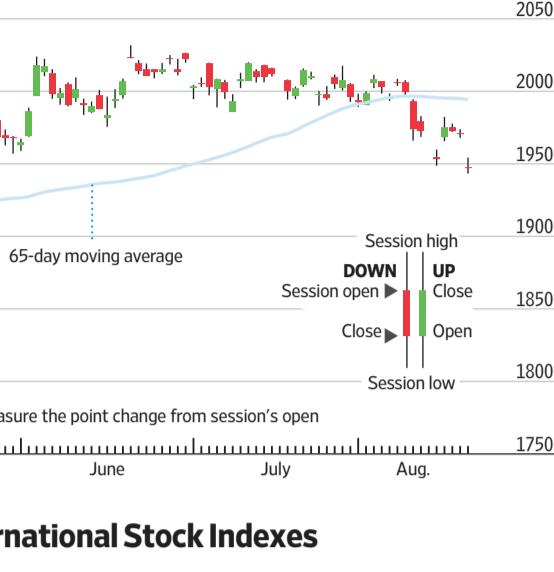
Nikkei 225 Index

19470.41 ▼232.22, or 1.18%

High, low, open and close for each trading day of the past three months.

Year-to-date
52-wk high/low
All-time high

▲1.86%
20230.41
16251.54
38915.87 12/29/89



Bars measure the point change from session's open

May June July Aug.

International Stock Indexes

Data as of 4 p.m. New York time

Region/Country	Index	Close	Net Chg	% chg	52-Week Range	Low	Close	High	YTD % chg
World	The Global Dow	2810.24	-11.80	-0.42	2390.11	●	2878.99	11.0	
	MSCI EAFE	1916.68	-9.64	-0.50	1614.17	●	1955.39	13.8	
	MSCI EM USD	1059.54	-3.79	-0.36	838.96	●	1078.53	22.9	
Americas	DJ Americas	583.63	-0.79	-0.14	503.67	●	596.96	8.0	
Brazil	Sao Paulo Bovespa	68714.66	737.86	1.09	56820.77	●	69052.03	14.1	
Canada	S&P/TSX Comp	14952.33	-81.31	-0.54	14349.10	●	15922.37	-2.2	
Mexico	IPC All-Share	51075.46	81.28	0.16	44364.17	●	51713.38	11.9	
Chile	Santiago IPSA	3887.16	3.97	0.10	3127.54	●	3905.76	20.6	
U.S.	DJIA	21674.51	-76.22	-0.35	17888.28	●	22118.42	9.7	
	Nasdaq Composite	6216.53	-5.39	-0.09	5046.37	●	6422.75	15.5	
	S&P 500	2425.55	-4.46	-0.18	2085.18	●	2480.91	8.3	
	CBOE Volatility	14.26	-1.29	-8.30	9.36	●	22.51	1.6	
EMEA	Stoxx Europe 600	374.20	-2.67	-0.71	328.80	●	396.45	3.5	
	Stoxx Europe 50	3041.78	-21.36	-0.70	2730.05	●	3276.11	1.0	
France	CAC 40	5114.15	-32.70	-0.64	4332.45	●	5432.40	5.2	
Germany	DAX	12165.19	-38.27	-0.31	10259.13	●	12888.95	6.0	
Greece	ATG	824.85	-7.21	-0.87	551.93	●	858.08	28.2	
Israel	Tel Aviv	1394.49	...	Closed	1363.50	●	1478.96	-5.2	
Italy	FTSE MIB	21814.96	26.10	0.12	16134.71	●	22048.30	13.4	
Netherlands	AEX	519.64	-4.07	-0.78	439.07	●	536.26	7.5	
Russia	RTS Index	1027.85	-6.20	-0.60	944.96	●	1195.61	-10.8	
Spain	IBEX 35	10385.70	-58.10	-0.56	8450.60	●	11135.40	11.1	
Switzerland	Swiss Market	8874.35	-71.05	-0.79	7593.20	●	9176.99	8.0	
South Africa	Johannesburg All Share	55304.23	-111.04	-0.20	48935.90	●	56163.60	9.2	
Turkey	BIST 100	107202.43	377.10	0.35	72519.85	●	109781.13	37.2	
U.K.	FTSE 100	7323.98	-63.89	-0.86	6665.63	●	7547.63	2.5	
Asia-Pacific	S&P/ASX 200	5747.10	-32.10	-0.56	5156.60	●	5956.50	1.4	
China	Shanghai Composite	3268.72	0.29	0.01	2980.43	●	3292.64	5.3	
Hong Kong	Hang Seng	27047.57	-296.65	-1.08	21574.76	●	27854.91	22.9	
India	S&P BSE Sensex	31524.68	-270.78	-0.85	25765.14	●	32575.17	18.4	
Indonesia	Jakarta Composite	5893.84	1.89	0.03	5027.70	●	5910.24	11.3	
Japan	Nikkei Stock Avg	19470.41	-232.22	-1.18	16251.54	●	20230.41	1.9	
Malaysia	Kuala Lumpur Composite	1776.22	-0.09	-0.01	1616.64	●	1792.35	8.2	
New Zealand	S&P/NZX 50	7873.55	3.49	0.04	6664.21	●	7873.55	14.4	
Philippines	PSEI	8016.73	-56.02	-0.69	6563.67	●	8072.75	17.2	
Singapore	Straits Times	3251.99	-16.89	-0.52	2787.27	●	3354.71	12.9	
South Korea	Kospi	2358.37	-3.30	-0.14	1958.38	●	2451.53	16.4	
Taiwan	Weighted	10321.33	-48.04	-0.46	8902.30	●	10579.38	11.5	
Thailand	SET	1566.53	-10.28	2.8	1406.18	●	1591.00	1.5	

Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



STOXX 600 Index

374.20 ▼2.67, or 0.71%

High, low, open and close for each trading day of the past three months.

Year-to-date
52-wk high/low
All-time high

▲1.86%
20230.41
16251.54
38915.87 12/29/89



May June July Aug.

S&P 500 Index

2425.55 ▼4.46, or 0.18%

High, low, open and close for each trading day of the past three months.

Year-to-date
52-wk high/low
All-time high

▲3.54%
396.45
328.80
414.06 4/15/15



May June July Aug.

4 p.m. New York time

Last Year ago

Trailing P/E ratio 23.49 24.85

P/E estimate * 18.69 18.60

Dividend yield 2.00 2.10

All-time high: 2480.91, 08/07/17



May June July Aug.

65-day moving average

2330 2340 2350 2360 2370 2380 2390 2400 2410 2420 2430 2440 2450 2460 2470 2480

Global government bonds

Latest, month-ago and year-ago yields and spreads over or under U.S. Treasurys on benchmark two-year and 10-year government bonds around the world. Data as of 3 p.m. ET

Country/Coupon	Maturity, in years	Yield	Latest	Spread Over Treasurys, in basis points	Previous	Month Ago	Year ago	Previous	Yield	Month ago	Year ago
2.750	Australia 2	1.807	49.3	52.2	55.4	72.9	1.823	1.906	1.434		
2.750	10	2.627	43.1	46.4	49.3	34.4	2.653	2.754	1.880		
3.000	Belgium 2	-0.552	-186.6	-185.1	-184.9	-128.9	-0.549	-0.497	-0.583		
0.800	10	0.722	-147.4	-145.0	-141.8	-141.6	0.739	0.843	0.119		
0.000	France 2	-0.473	-178.7	-177.1	-175.0	-127.4	-0.470	-0.398	-0.568		

FINANCE & MARKETS

Buffett Power Play Draws Another Rival

Warren Buffett's battle for control of a Texas power company took a turn Friday as a new mystery bidder emerged to challenge **Berkshire Hathaway Inc.'s** \$9 billion offer.

By David Benoit,
Dana Mattioli
and Nicole Friedman

The bidder is the third entity currently seeking to buy Oncor, a Texas-based power-transmission company. Mr. Buffett's bid is also being challenged by hedge fund **Elliott Management Corp.**, a big debtholder of Energy Future Holdings Corp., the bankrupt firm that owns most of Oncor.

The bidder's existence materialized in a late-scheduled hearing in bankruptcy court in Wilmington, Del., but its identity wasn't revealed. Keith Wofford, a lawyer for Elliott, identified the new contender at the hearing as "a large investment-grade utility."

The energy unit of Berkshire struck a deal to buy Oncor for \$9 billion in cash last month. The move would further cement electricity as one of the conglomerate's

largest businesses and partly satiate Mr. Buffett's desire to spend some of Berkshire's \$99.7 billion in cash on acquisitions.

But Elliott, which is run by billionaire Paul Singer, was assembling a deal of its own that it says would be worth hundreds of millions of dollars more for creditors. The details of where that bid stands are unknown.

Mr. Wofford, the Elliott lawyer, said at the hearing that on Wednesday, Energy Future called Elliott to test its reaction to a "firm bid for \$9.3 billion that has emerged."

At the time, he said, Energy Future was considering breaking from the Berkshire agreement to pursue talks with the new contender.

Energy Future lawyer Mark McKane said at the hearing on Friday that the company's board is still considering the potential deal, as well as amendments to the Berkshire deal. The board met Friday and was scheduled to meet again on Sunday, he said.

"We are still evaluating the situation, but no decisions have been made," Mr. McKane said.

Elliott has amassed the



KRIS TRIPPLAR/SIPA USA/ASSOCIATED PRESS

The third bidder for Texas-based Oncor hasn't been named.

largest position in Energy Future's debt and this week strategically bought a certain slice of notes that would ensure its ability to block a deal, people familiar with the matter said.

On Wednesday after the Elliott move, Mr. Buffett did what he usually does when confronted with tumult in his deal-making process: He stood pat.

Berkshire issued a statement that said it wouldn't be raising its bid for Oncor. Mr. Buffett, Berkshire's chairman and chief

executive, has a history of sticking to his initial offer: "I'm a 'one-price' guy," he wrote in a 2007 letter to shareholders.

Berkshire also has said it would walk away if its buyout offer isn't approved in court next week.

Now, with the emergence of a third bidder, it is possible neither Mr. Buffett nor Mr. Singer will emerge with Oncor, though Berkshire still stands to reap a paycheck if the deal is squashed. As part of the deal, it would receive a

breakup fee of \$270 million, though that fee would have to be approved by the bankruptcy court.

Berkshire has earned breakup fees from failed deals in the past, including \$175 million after it withdrew its offer to buy Constellation Energy Group Inc. in 2008.

But a \$270 million consolation prize would only add to Berkshire's swollen cash coffers, which are approaching \$100 billion. Berkshire has made some smaller investments in recent months and expanded its large stake in Apple Inc. But it hasn't done a megadeal since August 2015, when it announced its purchase of Precision Castparts Corp. for more than \$32 billion, its biggest acquisition ever.

"The question is, are we going to be able to deploy it?" Mr. Buffett said of Berkshire's cash holdings at the company's annual meeting in May. "At a point the burden of proof really shifts to us, big time. And there's no way I can come back here three years from now and tell you that we hold \$150 billion or so in cash or more, and we think we're doing some-

thing brilliant by doing it."

A new offer for Oncor would be the latest twist in the long-running saga of the fate of Energy Future, formerly known as TXU, which has been under chapter 11 bankruptcy protection since 2014. The news of the new bidder came out as Elliott was attempting to learn more about the bid in its efforts to block the Berkshire deal.

Elliott's purchase of more debt caught some Oncor customers and stakeholders who were following the case by surprise, a person familiar with the matter said.

The fight for Oncor could come to a head on Monday, as a judge is scheduled to decide whether to green light Berkshire's \$9 billion takeover offer.

Groups of major Oncor customers and other market participants have publicly supported Berkshire's bid. Late Friday, five stakeholder groups announced an agreement with Berkshire that "resolves all issues" and asked Texas regulators to approve the deal, Berkshire said in a news release.

—Peg Brickey
contributed to this article.

The Lure of Emerging-Market Debt

BY ASJYLYN LODER
AND CAROLYN CUI

Direxion, the firm behind popular exchange-traded funds that offer leveraged bets on gold-mining companies, oil prices and Chinese stocks, launched a new ETF on Thursday that seeks to triple the returns of emerging-market bonds.

The Direxion Daily Emerging Markets Bond Bull 3X ETF reaches the market amid growing investor appetite for debt from countries such as Mexico, Indonesia and Turkey. Emerging-market-debt ETFs have taken in a record \$6.7 billion since the start of the year,

pushing assets to \$23.4 billion, according to Morningstar.

The increased demand has sparked concerns about the impact the funds could have on the smaller and thinly traded market. A leveraged ETF such as Direxion's must buy \$3 of bond exposure for every \$1 invested in the fund. Emerging-market debt can be harder to buy and sell than heavily traded securities such as U.S. Treasuries or stocks.

"It's definitely something that we look at. We felt there was sufficient liquidity, taking into account that the ETF could be very popular and grow into the billions of dollars," said Sylvia Jablonski,

managing director at Direxion.

ETFs can be forced to trade during periods of market stress. ETFs own baskets of securities such as stocks and bonds but trade on an exchange just like company shares. A turnaround in investors' sentiment can trigger a sudden inrush or outflow of assets, which in turn forces the ETF to buy or liquidate the underlying securities.

"I really question the viability of a passive strategy that has intraday liquidity based on a market that's not that liquid," said Michael Conelius, who runs the \$6.6 billion T. Rowe Price Emerging Markets Bond fund.

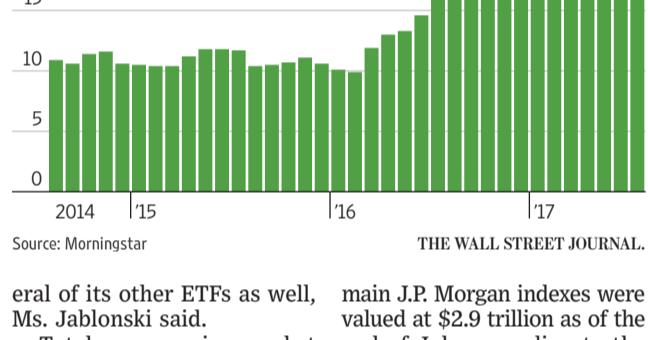
Earlier this year, a leveraged Direxion ETF was caught up in unruly trading that roiled gold-mining stocks. The Direxion Daily Junior Gold Miners Index Bull 3X ETF, which seeks to triple the daily price moves of small gold-mining companies, is part of a complex of gold-mining ETFs that swelled to \$20 billion after investor demand surged, triggering price gyrations in stocks from Sydney to Toronto.

After the problems with the gold ETFs, Direxion expanded the universe of underlying securities that its leveraged gold fund invests in, and created similar safety valves for sev-

Investors Snap Up Debt ETFs

Exchange-traded funds that invest in emerging-market debt are growing fast.

\$25 billion



Source: Morningstar

eral of its other ETFs as well, Ms. Jablonski said.

Total emerging-market bonds included in the three

main J.P. Morgan indexes were valued at \$2.9 trillion as of the end of July, according to the Wall Street bank.



Data Plus
Don't just track the markets—get live analysis up to the closing bell and beyond.

Don't Miss a Moment
Follow the biggest stories in real-time with live updates and analysis.

Save and Share
Easily share stories or save them to read later.

Ambition, Upgraded

Experience WSJ's suite of enhanced digital features.

In a fast-changing world, the Journal's digital platforms keep you moving. From apps to newsletters to real-time data and live coverage—the news and insight you need is always on with WSJ digital.

EXPERIENCE NOW AT WSJ.COM AND ON THE [WSJ APP](#).



THE WALL STREET JOURNAL.
Read ambitiously

MARKETS

Wrong-Way Bet on Gas Costs Goldman

By LIZ HOFFMAN

Goldman Sachs Group Inc. lost more than \$100 million in a wrong-way wager on regional natural-gas prices this spring, a setback that played a large role in the New York bank's subpar second-quarter trading performance.

Goldman wagered that gas prices in the Marcellus Shale in Ohio and Pennsylvania would rise with the construction of new pipelines to carry gas out of the region, people familiar with the matter said. Instead, prices there fell sharply in May and June as a key pipeline ran into problems.

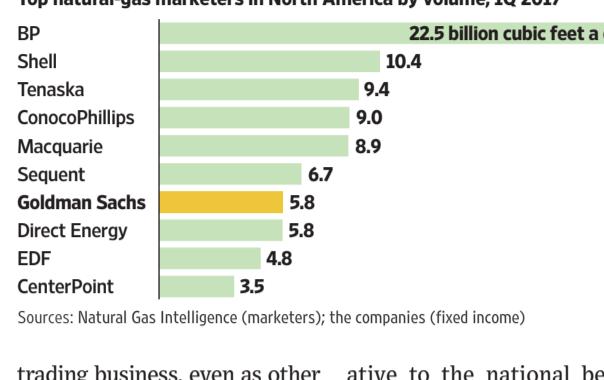
Goldman said in July that the quarter ended June 30 was the worst ever for its commodities unit, which has been one of the firm's most consistent profit centers and a training ground for many of its top executives, including Chief Executive Lloyd Blankfein.

The setback extended a broader trading slump at a company once known as Wall Street's savviest gambler. Goldman shares fell 2.6% on the day of the report despite a stronger-than-expected bottom-line profit.

The loss highlights the trade-offs Goldman made in sticking with the risky commodities-

Trading Places

Goldman Sachs is the only U.S. bank among the top gas traders in North America. The bank's market share of fixed-income trading has been declining for years.



trading business, even as other large banks retreated from the financial crisis. Trading oil, metals and other physical commodities is increasingly dominated by less-regulated companies such as Glencore PLC and Gunvor Group Ltd.

Goldman is the seventh-biggest marketer of natural gas in North America, up from 13th in 2011, according to Natural Gas Intelligence—bigger than U.S. energy giants such as Exxon Mobil Corp. and Chesapeake Energy Corp. It has been the only U.S. bank in the top 20 since 2013, when J.P. Morgan Chase & Co. left the business.

Goldman's key miscalculation last quarter was betting that natural-gas prices in the Marcellus Shale would rise relative to the national benchmark price in Louisiana known as the Henry Hub, the people familiar with the matter said. Essentially, it was a bet on the timely completion of pipelines under construction to ferry a glut of gas out of the region.

But one of those pipelines ran into trouble this spring: the 713-mile Rover, which would transport gas from the Marcellus to the Midwest and beyond. Its developer, **Energy Transfer Partners**, in February bulldozed a historic Ohio home without notifying regulators, and scrambled to finish clearing trees before the roosting season for a protected bat species. In May, federal regulators barred Energy Transfer from drilling on some segments of

the route after a series of fluid spills. The first leg of the pipeline, which had been set to come online in July, isn't expected until at least September.

Energy Transfer said it has "been working efficiently and nonstop to remediate" problems and expects to have the entire pipeline operational in January.

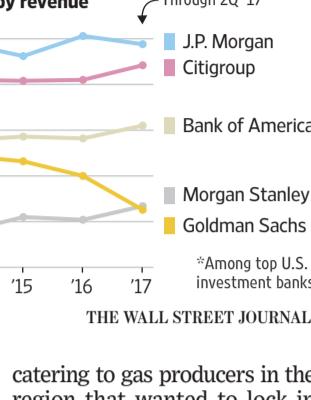
The delays in one case quadrupled the market discount on Marcellus gas prices. At one Pittsburgh-area hub, the Dominion South, the Marcellus discount rose from 29 cents per million British thermal units at the end of March to \$1.16 on June 16. Prices moved similarly for futures contracts guaranteeing fall deliveries.

Goldman was in part likely

catering to gas producers in the region that wanted to lock in steadier revenue through swaps and other contracts. Many Marcellus drillers reported big gains in the value of their derivatives portfolios in the second quarter—meaning their trading partners lost money in that period, at least on paper.

It isn't clear to what extent Goldman tried to hedge against possible losses. Hedging is an imperfect science in the best of circumstances, influenced by factors such as weather and trading volatility. It often gets harder and more expensive further into the future.

While the 2010 Volcker rule prevents banks from betting their own money on changes in asset prices, they are al-



THE WALL STREET JOURNAL.

lowed to facilitate trades for clients looking to buy or sell. Such "market-makers" play a key role, helping to keep markets fluid and avoid rapid price spirals and panic.

Whether a particular trade complies with the Volcker rule depends on many factors, including who initiated it and how long the bank intends to hold the position.

Goldman has been on the right side of large trades as well. Last year, it booked \$100 million in gains when one of its credit traders bought beaten-down corporate bonds before prices recovered.

Commodities hold a special place at Goldman. The division, which still operates as J. Aron, a coffee and metals trader that Goldman bought in 1981, gave Mr. Blankfein, President Harvey Schwartz and Chief Financial Officer R. Martin Chavez their starts at the company. J. Aron's \$10 billion in pretax profit between 2006 and 2011 accounted for 15% of Goldman's total profit over that period.

"Clients want to buy, so we sell. They want to sell, so we buy," Mr. Chavez said on a July conference call with investors. He added that Goldman "remains committed in every way to help our clients manage their commodity risk."

U.S. Drops Civil Case Connected to 'London Whale'

By REBECCA DAVIS O'BRIEN

Federal regulators said they would drop civil charges against two former **J.P. Morgan Chase & Co.** traders at the center of the 2012 "London Whale" saga, ending the last U.S. case against traders involved in a debacle that cost the New York bank more than \$6 billion.

The decision by the Securities and Exchange Commission, disclosed in a court filing Friday, follows a similar

move in July by U.S. prosecutors to abandon criminal charges against the same ex-employees, Javier Martin-Artajo and Julien Grout.

The former traders were accused of hiding the losses as they mounted inside a London outpost of J.P. Morgan. The government cases relied on a key witness, Bruno Iksil, who worked alongside Messrs. Martin-Artajo and Grout. Mr. Iksil, nicknamed the "London Whale" for his outsize bets, agreed in 2013 to testify

against his former co-workers for their then-alleged roles in hiding the losses. The one-paragraph filing Friday from the SEC doesn't disclose the reason for the SEC's dismissal.

But people familiar with the case said the move reflected concerns about Mr. Iksil, who in recent public statements and deposition testimony stated the defendants hadn't engaged in mispricing and had acted with assent from senior management. That potentially contradicted the govern-

ment's theory of the case, these people said.

The criminal case collapsed in July for similar reasons. On July 21, prosecutors in the Manhattan U.S. attorney's office said the government "no longer believes that it can rely on the testimony of Iksil in prosecuting this case" after a "review of recent writings and statements made by Iksil."

Lawyers for Messrs. Martin-Artajo and Grout welcomed the decision to drop the civil and criminal cases. "At the

end of the day there was no evidence against him that justified the charges," said Edward Little, a lawyer for Mr. Grout. Bill Leone, a lawyer for Mr. Martin-Artajo, said his client was "grateful," adding: "This was not an unfair or an unjust result."

The U.S. Attorney's Office also cited extradition challenges in its decision to drop the criminal charges: Mr. Martin-Artajo is a Spanish citizen, Mr. Grout is a French citizen, and neither appeared in the

U.S. to face the charges.

Because of the extradition issue, the SEC was allowed to move forward with civil proceedings before the criminal case against Messrs. Martin-Artajo and Grout was resolved—an unusual sequence of events that allowed for extensive discovery in the civil matter, including depositions of witnesses. It was during discovery that Mr. Iksil's changing account emerged.

—Gregory Zuckerman contributed to this article.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Email: heard@wsj.com

China Growth Pillar Shows Cracks

No Vacancy

Vacant, unsold commercial housing



buoyed by mill-capacity cuts. That is fantastic for steel producers but bad for downstream industries like construction, which buy steel.

The biggest bullish factor for Chinese construction remains intact: Massive housing inventories, which depressed construction growth for years, are still falling. Vacant, unsold housing floor space in China fell by 10 million square meters in July to the lowest since February 2014, according to data released earlier in the month. Vacant floor space is down 20% on the year.

China's housing market looks close to an inflection point. If August data show sales and investment weakening again, or the fall in inventories leveling off, sentiment on China is likely to deteriorate rapidly—a chilly end to the dog days of summer.

—Nathaniel Taplin

gagement restrictions have already put the lid on rallies in top-tier coastal markets like Beijing and Shanghai. If prices in the interior begin falling outright, or if housing investment weakens again in August, it may be time to start hedging bets on China growth plays.

Some vulnerable stocks

include mining firms and U.S. construction-equipment maker Caterpillar, which has been testing new highs this year as global growth has rebounded.

Some slowdown in the interior is to be expected. Credit has been gradually tightening in China for months. Steel prices are up,

Jack Ma Does It Again With MassMutual Bid

Insurance is supposed to be big business, especially in Asia, and everyone wants a piece of it—including **Alibaba's Jack Ma**.

Yufeng Financial Group, which Mr. Ma co-founded, is joining the likes of **Sina**—owner of China's answer to Twitter—and an investment vehicle backed by Singapore's sovereign-wealth fund in a \$1.7 billion bid for the Hong Kong and Macau businesses of **MassMutual**, one of the oldest life insurers in the U.S.

At first sight, Alibaba is following a fellow China tech giant, **Tencent** earlier this year joined with Chinese fund **Hillhouse Capital** in a Hong Kong joint venture with the U.K.'s **Aviva Life Insurance**, looking to shift away from distribution through banks and focus on digital channels.

But while MassMutual is big at home—\$20 billion in annual premiums—it is small potatoes in Hong Kong and Macau, with about 2% of Hong Kong's \$45 billion insurance market. It also has a weak policy-distribution network. As for its investments, they are mostly bonds.

Still, for Mr. Ma et al, the

deal is about getting into the insurance business without the hassle of capital regulatory commitments and a years-long wait for a license.

The Hong Kong market is crowded, especially with life insurers, which account for around 90% of all premiums, and earlier this year the city set up a more powerful independent insurance regulator that is preparing to issue rules that will raise standards—and costs.

At this point, the deal is just option value. At 1.9 times book, the bid matches the average price for Hong Kong-traded Chinese insurers, so it seems like a fair price for Mr. Ma. Hong Kong insurance behemoth **AIA** trades at 2.5 times.

In fact, it is an even better deal for Mr. Ma: While the other bidders are putting up cash, Yufeng plans to pay for its 60% stake by issuing new shares and an interest-free, single-installment U.S.-dollar note backed by a letter of credit, for around \$1 billion.

Investors seem convinced, sending Yufeng shares soaring 20% in early Hong Kong trading Friday; they ended 5.4% higher. Jack Ma strikes again.

—Anjani Trivedi

OVERHEARD

You've got to spend money to make money. But do you have to spend money to be told how to make money?

If you are an institutional investor in the European Union, then new rules will require that you pay for all of those clever research reports that bankers used to give away at no cost in order to get commissions and banking business.

This transparency will cost

Bank of America's clients up

to \$80,000 a year per user, according to Bloomberg News.

Just think how envious they will be of mom-and-pop clients of retail brokerage Merrill Lynch across the pond. The brokerage, owned by BofA, charges nothing to open a MerrillEdge account. They won't get to speak with analysts or meet company management, but clients get all of BofA's global research free. Everything really does cost more in Europe.

Shoppers Flock to Low-Price Retailers

It might seem like the most basic retail maxim, but the second quarter drilled it home for investors: Low prices matter. The only winners in an otherwise bleak U.S. retail landscape were the stores offering the lowest ones. The list of companies that posted sales growth in the quarter—including **Wal-Mart Stores, Target, TJX, Ross Stores**, and of course **Amazon.com**—share one major characteristic: low prices. Even **Gap** got a boost from 5% same-store sales growth at its inexpensive Old Navy brand. The trend is grim both for brands that have commanded premiums and for traditional retailers, especially because they all need to invest in e-commerce just to keep up.

Executives from Wal-Mart and Target said consumers responded to so-called investments in price, meaning both were willing to sacrifice profits for top-line growth. TJX and Ross, meanwhile, have a business model that allows them to sell items at a discount while also maintaining healthy margins because of their low operating costs. Ross said its operating margin climbed to 14.9% from 14.4% a year earlier, thanks to better prices and stronger-than-expected sales. The success of the low-price strategy bodes poorly for other retailers. For those where sales declined—**Macy's, Kohl's** and **J.C. Penney** among them—the quarter shows that anything short of

changing their business model might not be enough. Nowhere was this clearer than in sporting goods, where shares of **Dick's Sporting Goods** and **Foot Locker** were slammed. Dick's blamed lower-priced compe-

tition, while Foot Locker blamed the absence of exciting new styles for its 6% decline in same-store sales. Investors, who knocked down Foot Locker shares more than 25%, seem to be more concerned with a June deal where Nike agreed to sell some products on Amazon.

For retailers, the only path to sales growth appears to be through lower prices. That creates a painful choice between growth and profits and will force retailers to reduce their cost structures, even as they try to build up e-commerce.

The only retailers worth buying these days are those that can earn more while charging less.

—Miriam Gottfried