THE WALL STREET JOURNAL.

DOW JONES | News Corp — MONDAY, AUGUST 7, 2017 ~ VOL. XLI NO. 238 — WSJ.com — ASIA EDITION

As of 4 p.m. ET DJIA 22092.81 ▲ 0.30% NIKKEI 19952.33 ▼ 0.38% STOXX 600 382.53 ▲ 0.95% BRENT 52.42 ▲ 0.79% GOLD 1258.30 ▼ 0.75% EURO 1.1743 ▼ 1.07% DLR ¥110.83 ▲ 0.71%

What's News

Business & Finance

Penalties against Wall Street sank 66% in the first half compared with the same period in 2016, putting regulatory agencies on track for the lowest annual level of fines since at least 2010. **A1**

◆ **Value investing** is mired in one of its worst stretches on record, prompting concerns the investment style favored by fund managers is losing its effectiveness. **A1**

◆ **Former MetLife** unit Brighthouse begins trading Monday in a market that has seen ultralow rates for a decade. **B1**

◆ **EpiPen still accounts** for more than a quarter of sales, seven months after Mylan introduce a generic version of the allergy treatment. **B1**

◆ **Three big tobacco** firms are rolling out heat-not-burn devices they say are healthier alternatives to traditional smoking. **B1**

◆ **The new diversity** chief of Google criticized an employee's memo on gender and bias that went viral inside the company. **B4**

◆ **Google is developing** technology to let publishers create visual-oriented media content along the lines of Snapchat's news product. **B4**

◆ **Toyota's move** to build a factory in the U.S., part of a larger plan to boost output in Mexico and Canada, won praise from Trump. **B3**

◆ **Energy suppliers** are seeking to diversify into offshore-wind projects. **B3**

World-Wide

◆ **The U.S.** praised China for backing new economic sanctions against Pyongyang, but North Korea indicated that there would be no change in policy. **A1**

◆ **Southeast Asian** nations agreed with China to endorse a framework for a maritime code of conduct in the South China Sea. **A4**

◆ **Two men** facing terrorism charges in Australia were involved in an attempt to place an IED on an Etihad Airways flight. **A4**

◆ **Soldiers rebelled** against the Venezuelan government days after Maduro moved forward with plans to draft a new constitution. **A3**

◆ **Saudi Arabia** is aligning its policies with the U.A.E., spurred by the friendship between countries' crown princes. **A3**

◆ **Alabama GOP** candidates vying to fill Sessions' former Senate seat are invoking Trump's agenda. **A5**

◆ **A Republican-backed** effort to overturn a rule making it easier for consumers to sue banks is being held up in the Senate. **A5**

◆ **Rwanda's Kagame** won a landslide victory in the presidential election with almost 99% of the vote. **A3**

◆ **Security forces** in Myanmar arrested four suspected insurgents accused of human rights violations against Rohingya minority. **A4**

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U.S. Sees China Shift on Pyongyang

Beijing backs U.N. sanctions against North Korea over its weapons program

By Ben Otto

MANILA—The U.S. praised China for backing new economic sanctions by the U.N. Security Council against Pyongyang over the regime's weapons program, but North Korea indicated to its most important economic partner that there would be no change in policy.

"The fact that the Chinese were helpful and instrumental in setting up this really sweeping set of international sanctions shows they realize that this is a huge problem they face and their threat to them and their region," Susan Thornton, the U.S. State Department's acting assistant secretary for East Asian and Pacific affairs, told journalists on the sidelines of regional security meetings in the Philippines on Sunday.

U.S. Secretary of State Rex Tillerson, who is attending the forum bringing together 27 nations, including China, Russia, South Korea and North Korea, described the sanctions as "a good outcome" as he works to curb Pyongyang's nuclear-weapons program.

The Security Council on Saturday unanimously passed a resolution that would slash about $1 billion from North Korea's annual foreign revenue. Ms. Thornton called the sanctions the strongest against the regime in a generation. China and Russia, two permanent council members who had previously resisted fresh sanctions against Pyongyang, said the rogue nation's recent provocations were unacceptable.

Chinese Foreign Minister Wang Yi on Sunday met his North Korean counterpart, Ri Yong Ho, in Manila and urged Pyongyang to halt its missile tests and other actions that violate Security Council resolutions, according to the People's Daily Online, an official Chinese state media website.

"The China side pressed the North Korea side to deal calmly with the new UN Secu-

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◆ Small step forward in South China Sea talks...................... A4

Venezuela Crisis Deepens Amid Apparent Military Uprising

JUAN CARLOS HERNANDEZ/ASSOCIATED PRESS

PROTEST: Residents shout slogans against Venezuelan President Nicolás Maduro outside a military base in the central city of Valencia. Rebel soldiers appeared to have controlled parts of the base after calling on the armed forces to join their rebellion against 'tyranny.' **A3**

Penalties Plummet For U.S. Financial Industry

Wall Street regulators have imposed far lower penalties in the first six months of Donald Trump's presidency than they did during the first six months of 2016, a comparable period in the Obama administration, according to a Wall Street Journal analysis.

By Jean Eaglesham, Dave Michaels and Danny Dougherty

Lawyers who defend financial cases said a shift to a business-friendly stance at regulatory agencies in the Trump administration is one of several reasons for the decline. Other factors include delays resulting from the change in administrations and the winding down of cases from the financial crisis.

Penalties levied against firms and individuals by the Securities and Exchange Commission, the Commodity Futures Trading Commission and the Financial Industry Regulatory Authority in the first half of 2017 were down 66% compared with the first half of 2016—putting regulators on track for the lowest annual level of fines since at least 2010, the Journal found. Fines of $489 million in the first half of 2017 compared with $1.4 billion in the 2016 period.

The SEC levied some $318 million in penalties during the first half of 2017, a search of federal court documents, all publicly available records on the agency's website and data provided by Andrew N. Vollmer, a professor at the University of Virginia School of Law, showed. Last year, agency actions yielded $750 million in penalties during the same period, an agency spokesman said. The SEC declined to disclose its own tally of 2017 penalties; the agency didn't dispute that the total value of penalties fell in the first half of 2017 compared with the same

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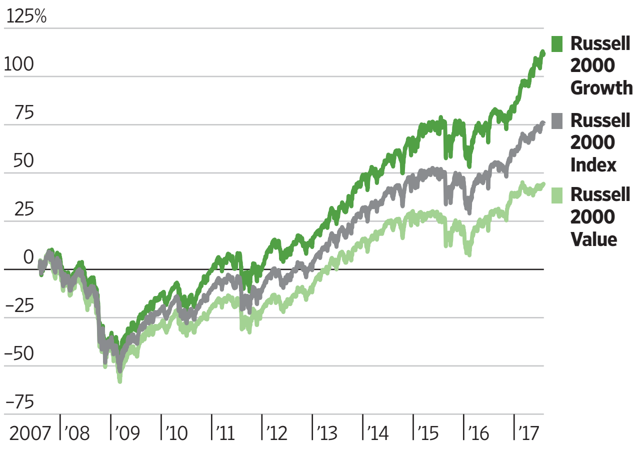
Value Investing Is in the Dumps

Growth Conquers

Index performance over the past 10 years in the U.S.*



*Through Thursday in New York
Source: FactSet
THE WALL STREET JOURNAL.

By Steven Russolillo

Value investing is mired in one of its worst stretches on record, prompting concerns that the investment style favored by generations of fund managers is losing its effectiveness.

Value stocks, those that are cheaper than many peers relative to earnings or reported net worth and are typically purchased by fund managers anticipating long-term appreciation, have significantly lagged behind their growth stock counterparts so far this year, compounding a gap that has persisted since the end of the financial crisis.

Instead, investors have gravitated toward companies with fast earnings or price growth, such as Amazon.com Inc., Netflix Inc. and Tesla Inc., and the market's price-earnings ratio has continued to rise—a trend that many value investors contend cannot continue forever.

Stocks that look cheap relative to traditional fundamental metrics such as profit or cash flow have fallen so far out of favor that Goldman Sachs in June questioned whether the markets are witnessing the death of value investing. With value investments in Europe and Asia also struggling, value funds globally are on track to post their worst performance this year relative to growth funds

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THE WEST WING'S NEW SHERIFF

Chief of Staff John Kelly is trying to bring order and discipline to a White House riven by conflict

By Michael C. Bender And Rebecca Ballhaus

WASHINGTON—In the Oval Office last week, a small group of senior officials talked with President Donald Trump about plans to take on Beijing over intellectual-property theft. When a side debate broke out between two top aides, the new White House chief of staff ordered the pair out of the room.

Return, John Kelly told them, once your differences are resolved, according to a person familiar with the exchange.

The move kept the meeting on track. It also signaled to top staff that Mr. Kelly, a retired four-star general, planned to bring new order and discipline to a West Wing that has been riven for six months with division and disorganization.

After one week, other signs of Mr. Kelly's taking the reins include the end of the unchecked flow of paperwork that crosses the Resolute Desk in the Oval Office, and a new, more formal process for meeting with the president, according to interviews with more than two dozen White House officials, the president's informal advisers, associates of Mr. Kelly, members of Congress and Capitol Hill aides.

The new rules extend to Mr. Trump's family. Son-in-law Jared Kushner and daughter Ivanka Trump, who serve as official advisers in the White House and have their own staffs, now report to Mr. Kelly instead of directly to the president, as does chief strategist Steve Bannon.

Staffers no longer loiter outside an

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Sorry, We Don't Employ Anyone Named Iron Man

* *

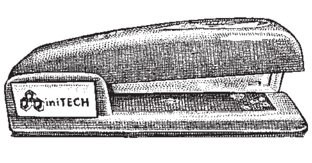
Companies that share names with fictitious ones can get into some stupefying situations

By Spencer Jakab

Rich DiBernardo thought it would be fun to name his company iniTech after the awful corporation in Mike Judge's cult classic "Office Space." Then came the TPS reports.

A prankster has faxed thousands of them, bearing the iniTech logo, all over the world over the years, with a note that they hadn't been filled in correctly. Most went to people who probably had never heard of TPS reports, a much-maligned piece of paperwork featured in the 1999 movie. Hundreds of the recipients have googled the real-life iniTech and contacted Mr. DiBernardo's nine-person engineering firm based in Clifton, N.J., asking for the faxes to stop.

Should he change the name of his 11-year-old company? No. "It was clearly the right name to use," he says. "It's been a source of laughs."



A red stapler

Employees bought Mr. DiBernardo a pair of suspenders like those of the movie's nightmare boss, Bill Lumbergh, and iniTech hands out red staplers to workers like the one used by the pyromaniacal character Milton. The company's website even used to have a fake IT contact, Michael Bolton, named after the bitter computer programmer from the film. Emails to the Bolton address went straight to Mr. DiBernardo.

Sometimes reality imitates fiction. Ben Hardt named his technology consulting firm

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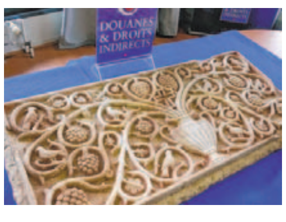

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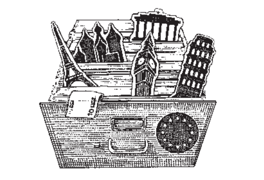


EUROPE FILE
By Simon Nixon

All major central banks now face a similar dilemma, but the challenge for the **Bank of England** is harder than most. The failure of wages to rise despite falling unemployment, a puzzle common to all advanced economies, makes it hard to know when interest-rate increases might be needed to offset inflation. But in the U.K., that assessment is made more complicated by Brexit.

Much of the world is enjoying the first synchronized upswing since the start of the global financial crisis 10 years ago, but U.K. growth is slowing. The economy expanded by 0.2% and 0.3% in the first two quarters. That is just half the rate of the buoyant eurozone, and it forced the BOE last week to cut its forecast for growth this year by 0.2 percentage points to 1.6%.

The BOE's downbeat assessment of the impact of Brexit uncertainty—and the lack of guidance on the timing of a rate increase—triggered a swift market reaction: Sterling fell 0.6%, and the gilt yield curve flattened. In the space of a few weeks—and despite inflation at 2.6%, well above the BOE's 2% target and forecast to stay above target for the rest of its three-year forecasting horizon—speculation that the BOE might be the next central bank to raise interest rates has given way to a belief it will be the last. But was the market right to react this way?

ALBERTO PEZZALI/NUR PHOTO/ZUMA PRESS

The U.K.'s central bank trimmed its forecast for growth this year by 0.2 percentage points to 1.6%.

The BOE clearly thinks not. The market is expecting two rate increases by 2020. But bank Gov. Mark Carney warned at last week's Inflation Report press conference that the BOE's rate-setting committee believes that if the economy continues to grow in line with its revised forecasts, further rate increases will be necessary. Its concern isn't just that Brexit is hitting demand as the higher inflation resulting from the 18% trade-weighted devaluation of sterling since its pre-referendum peak eats into household incomes and business uncertainty holds back investment, but that Brexit is hitting supply too. Under the BOE's latest forecast, corporate investment is expected to be 20% lower in 2020 than it was predicting before last year's vote.

To be fair, the U.K.'s supply-side challenges predate Brexit. Productivity is 18% below where the BOE might have expected it to be if it had maintained its precrisis trend. Evidence suggests, however, that Brexit is making the problem worse. Businesses are delaying building the new capacity needed to build the U.K.'s capital stock to cope with improving global conditions and boost productivity. As result, the BOE has lowered its estimate of U.K. potential growth—the rate at which it can grow without generating inflation—from around 2.5% precrisis to 1.75% now. If Brexit leads to reduced immigration and creates new obstacles to trade with the **European Union**, it could yet further lower what Mr. Carney calls the U.K.'s "speed limit."

So why did the market ignore the BOE's warnings, causing the yield curve to flatten rather than steepen?

It may be that the market has seen through the BOE's attempts to "talk hawkish and act dovish." After all, three members of the BOE's rate-setting committee voted in favor of a rate increase in July and a fourth, BOE chief economist Andrew Haldane, hinted he might soon join them. This last week, only two members voted to raise rates. That was a signal to markets that the first rate increase may in fact be further away than seemed likely a month ago.

A second reason could be that the market thinks the BOE is underestimating the Brexit hit to the economy. The BOE's own central scenario is based on the most optimistic outcome for Brexit, including a smooth transition to a new trading arrangement that preserves a large degree of access to the EU market. But Credit Suisse, for example, expects the U.K. economy to grow by only 1.5% this year, 0.2 percentage points below the BOE's revised forecast, reflecting its view that business investment and net trade will be even weaker than the BOE is predicting. Meanwhile housing market activity is slowing, new car sales have fallen for four months in a row and the BOE is putting pressure on banks to rein in riskier consumer lending.

A third reason may be that the flatness of the yield curve reflects the market's assessment of the risk that the U.K. and EU will fail to reach any negotiated exit deal. Yet a no-deal Brexit would not only do even greater damage to the U.K.'s supply side potential, it would also likely lead to further erosion in sterling, driving inflation further above target, while creating a hole in the public finances that the government probably would aim to fill with increased borrowing, raising doubts about its fiscal credibility. Under such a scenario, the BOE might have little choice but to raise rates.

As the BOE grapples with its Brexit dilemma, the market should brace itself for surprises.

VALUE

Continued from Page One

since before the financial crisis.

The struggle for value stocks over such a prolonged period contradicts the popular investment approach coined by financial analyst Benjamin Graham, known as the father of value investing, and since popularized by Warren Buffett. The billionaire investor and Berkshire Hathaway Inc. chairman has attracted a legion of followers who remain confident that value investing will never go out of style.

From the Great Depression to the U.S. tech bubble to the global financial crisis, the notion that a new paradigm would replace value investing has repeatedly occurred. Those predictions have almost always ended poorly.

While value investing appears to have lost some luster as the so-called FAANG stocks—Facebook Inc., Amazon, Apple Inc., Netflix and Google parent Alphabet Inc.—have surged in value, the most steadfast devotees to value-style investing are often the ones that benefit most in market downturns.

$116B

Amount pulled from U.S. large-cap value funds over past 10 years

The market's attraction to highflying stocks punished value investors in a similar fashion in the late 1990s during the dot-com bubble. Growth stocks beat their value peers toward the end of two major bull markets that peaked in 2000 and 2007, before large market selloffs reversed the trend, putting value stocks ahead.

Some investors today worry that the longer growth stocks are viewed as nearly invincible, the worse the likely pullback will ultimately be.

"The super-stocks that lead a bull market inevitably become priced for perfection," said Howard Marks, the co-founder of Oaktree Capital Management who correctly predicted in January 2000 that tech and internet stocks were overheated and about to fall—two months before the dot-com bubble burst. "And in many cases, the companies' perfection turns out eventually to be either illusory or ephemeral."

The attraction to growth stocks, investors and analysts say, stems from the low interest rates, slow economic growth and mild inflation that have gripped the world. Central banks have been accommodative for so long that they have skewed conventional investor wisdom, analysts say, benefiting firms that can generate growth.

In the U.S., the Russell 1000 Growth Index outperformed its value stock counterpart by 10 percentage points in the first half, the widest spread over that period since 2009. Over the past decade, the performance of U.S. growth stocks has been almost three times better than that of value stocks, contributing to what index fund giant State Street Global Advisors calls "the longest period of underperformance for value since the late 1940s."

Investors have pulled $116 billion from U.S. large-cap value funds over the past 10 years, according to Morningstar, with more than one-fourth of that outflow occurring over the past 12 months.

In Europe, the MSCI Europe Value index, which includes stocks with low valuations on metrics such as price-to-earnings and price-to-book ratios, gained 3% in the first six months of the year. The MSCI Europe Growth index gained 9% over the same period.

The trend also holds true in Asia, where an MSCI regional value index underperformed its growth counterpart by 10 percentage points in the first half.

"In this low-inflation, low-growth world we've become accustomed to, investors are chasing anything that has growth tied to it," says Kelman Li, an analyst at Bernstein Research in Hong Kong. "When that happens, value suffers."

Many of the largest stocks in Asia with low price-to-earnings ratios have been among the worst performers this year, he said. Yet since 1990, value stocks have actually outperformed growth. Mr. Li calls this phenomenon a "historical paradox" for investors in Asia and emerging markets, who typically search for growth.

For now, "every market in Asia screens as overvalued," Mr. Li said. "The bias toward growth continues."

Value fund managers have felt the pinch. The median value fund around the world lagged behind the median growth fund by 7 percentage points in the first half of the year, on pace for the worst underperformance since 2007, according to eVestment. The data and analytics firm measured actively managed value and growth funds in the U.S., Europe and Asia and found that so far this year value funds have lagged behind growth in all three regions for the first time since 2010.

To be sure, much of value's underperformance could still be cyclical. But for some who have practiced value investing throughout their careers, value stocks' time in the wilderness is starting to seem awfully long.

"This time seems very, very different," longtime value investor Jeremy Grantham, the co-founder and chief investment strategist at Boston money manager GMO, wrote in a recent quarterly letter. In a follow-up note, he added that valuations have stayed richer for far longer than historical cycles have previously dictated. "As a value manager, I wish it were not so."

CASES

Continued from Page One

term in 2016.

Kevin Callahan, the spokesman, said the SEC doesn't consider six months to be long enough to draw any lessons about the agency's effectiveness. The number of cases brought over the two periods was "relatively constant," he added.

The Trump administration is preparing to roll back some Obama-era financial regulations. Fines marched steadily higher during the previous administration, partly because of enforcement against misconduct that occurred before and during the financial crisis.

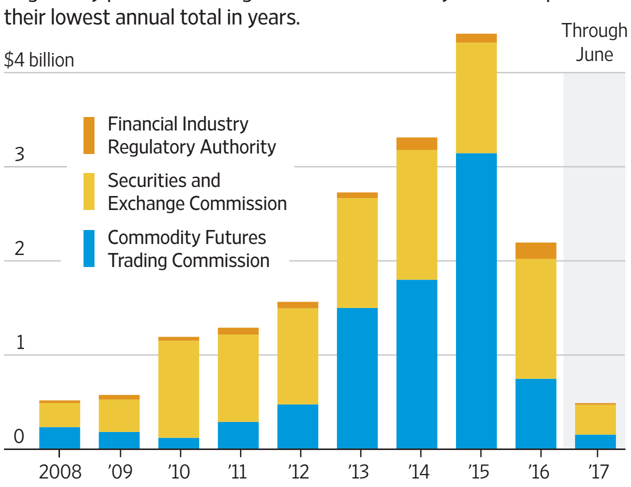
James McDonald, enforcement chief at the CFTC, said variations in penalty tallies from year to year are normal and "not an indication of any changes in our commitment to vigorously prosecute violations of our laws to preserve market integrity and protect customers." He said, "There will be no let up, no pause, and no delay in our enforcement program."

Nancy A. Condon, a Finra spokeswoman, said "vigorous enforcement is an essential part of our oversight." The nongovernmental watchdog, which oversees brokers and brokerage firms, assesses its regulatory programs "based on our ability to efficiently and effectively identify and discipline bad actors," she added, and "not on the volume of actions or overall quantity of fines."

The Trump administration brings new priorities to the SEC and CFTC, said Thomas Sporkin, a former senior SEC official and now a partner at law firm Buckley Sandler LLP. "When you move from an administration that put a heavy emphasis on regulation to a more conservative, business-friendly one, that means a change in the agenda," he said.

Easing Up

Regulatory penalties through the first half of the year are on pace for their lowest annual total in years.



Note: All data are full-year except 2017. Annual totals for the SEC and CFTC are for the fiscal years ending Sept. 30.
Source: WSJ Analysis of data from SEC, CFTC and Finra THE WALL STREET JOURNAL.

Each of the three agencies has changed its enforcement chief in the past five months, and both the SEC and CFTC have new chairmen. The SEC and CFTC have each been operating with less than the full roster of five commissioners. The CFTC had two commissioners until last week, when the Senate voted to approve two more; the SEC had two until May and now has three.

Because SEC commissioners have sometimes split along party lines on the issue of financial penalties, vacant seats make it harder for agency enforcers to bring certain kinds of cases, according to current and former officials. "With only two commissioners in place, it only takes one to prevent the staff from bringing an enforcement action," said Mark Schonfeld, a former director of the SEC's New York office and now a partner at the law firm Gibson Dunn & Crutcher LLP.

Another factor is the falloff in blockbuster, multibillion-dollar cases the SEC and CFTC have brought against Wall Street alleging crisis-era misconduct and market manipulation in recent years.

The drop in the CFTC's half-year penalties, to $154 million from $603 million, was mostly the result of two big bench-mark-rigging cases it brought in May 2016, according to the Journal's analysis.

The scarcity of big cases is reflected in SEC settlements of cases alleging accounting violations, a priority area under the last chairman. The highest accounting-related penalty in the first half of 2016—$80 million paid by biotech giant Monsanto Co.—dwarfs the highest penalty for accounting failures so far in 2017—$8.25 million paid in January by medical-device company Orthofix International NV. Orthofix admitted wrongdoing; Monsanto, a much bigger company, settled with the SEC without admitting or denying wrongdoing.

SEC Chairman Jay Clayton, who took over in May, has expressed concern about the size of corporate penalties the SEC has levied in recent years, saying they hurt shareholders and it would be better to punish guilty individuals.

Wall Street is lobbying to reduce the size of financial penalties. Organizations including the U.S. Chamber of Commerce, the Financial Services Institute and Fidelity Investments have been pushing Finra, which is funded by the industry, to ease up.

Finra, which is overseen by the SEC, is weighing a potential change to its enforcement guidelines, according to people familiar with the matter.

The watchdog imposed two fines of more than $1 million in January through June this year and didn't announce either. In the first half of 2016, Finra imposed at least five fines of more than $1 million and publicly announced each.

ECONOMIC CALENDAR

TUESDAY: Renewed tension between Washington and Beijing on trade imbalances will keep China's trade data in focus. Economists expect the country's **exports and imports** grew 10.5% and 16.4%, respectively, in July from a year earlier, moderating slightly from June's growth, but still expanding at a strong pace. That would bring China's trade surplus to $46.40 billion in July, compared with June's $42.77 billion.

WEDNESDAY: Economists expect both **consumer and industrial price inflation** in China to hold steady in July from June's level, when the readings grew 1.5% and 5.5%, respectively.

The **U.S. Labor Department** releases its preliminary second-quarter report on **productivity**. Economists surveyed by The Wall Street Journal expect productivity growth of 0.8% in the second quarter. U.S. worker productivity was flat in the first quarter, another sign of sluggishness during the expansion.

FRIDAY: The U.S. Labor Department releases the July **consumer-price index**, which was unchanged in June from the previous month. Recent softening of inflation has turned into a conundrum for the Federal Reserve, as it weighs the timing of its next interest-rate increase. Economists surveyed by The Wall Street Journal forecast CPI gained 0.2% in July.

CORRECTIONS & AMPLIFICATIONS

Standard Chartered is targeting a return on equity above 8% by an unspecified date and then will seek to get it above 10%, after having to delay targets to reach 8% by 2018 and 10% by 2020. A Business & Finance article Thursday erroneously said the target was to be above 8% by 2020.

Borja Ortega is head of Spain capital markets for real-estate-services firm JLL. An International Property article on Wednesday about Spain's property market incorrectly said that Mr. Ortega is JLL's head of capital markets.

Lucinda Loya used paint color-matched from Benjamin Moore's Seaport Blue in her daughters' TV room. An Off Duty article in the Friday-Sunday edition about the designer's Louisville, Ky., house incorrectly described the paint as Porter Paint's Seaport Blue.

A Volkswagen commercial for the Atlas SUV featured an Irish grandmother. An Off Duty article in the July 28-30 edition about the vehicle incorrectly said she was German. Also, the modular architecture of the Atlas previously was used on vehicles such as the Golf, and the mid-row bench seats are heated but not ventilated. The article incorrectly said the modular architecture was found on earlier models of the Tiguan, and it incorrectly said the seats were ventilated.

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

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Soldiers Said to Rebel in Venezuela City

A group of soldiers appeared to have risen against the Venezuelan government in the central city of Valencia, days after the government of embattled President Nicolás Maduro moved forward with controversial plans to draft a new constitution.

By ***Anatoly Kurmanaev*** *in Caracas and* ***Tibisay Romero*** *in Valencia*

Rebel soldiers appeared to have controlled parts of the Paramacay artillery base Sunday morning after issuing a video calling on the armed forces to rebel against Mr. Maduro's "tyranny."

A reporter could hear a presumed rebel officer calling out on a loudspeaker to his soldiers to gather information as units loyal to the government surrounded the base and army helicopters flew overhead.

The head of the armed forces, Remigio Ceballos, said in a message posted on Twitter the rebellion was swiftly quashed and seven people were under arrest.

But the reporter heard ongoing shooting at the base following his announcement.

Several dozen opposition supporters waving flags came to the base to support the rebellion. They were dispersed with tear gas.

Radical opposition youth groups, known as The Resistance, have blocked the highway linking Valencia, the country's third-largest city, to the capital of Caracas, about 80 miles away.

"I think this is an isolated action with little probability" of success, said a top retired Venezuelan general.

The government has played down the rebellion as a failed "terrorist" attack.

"There´s absolute normality at the rest of the country´s military units," Diosdado Cabello, a close ally of Mr. Maduro and vice president of the ruling socialist party, wrote on his Twitter account Sunday morning.

The uprising started after a group of men dressed in military fatigues released a video declaring themselves in rebellion. A man identifying himself as Capt. Juan Caguaripano said in the video that any unit refusing to join his call for rebellion would be declared a military target.

"We don't recognize the tyranny of assassin Nicolás Maduro," he said in the video.

AGENCE FRANCE-PRESSE/GETTY IMAGES

A photo from a video posted on social media shows a group of men in fatigues who declared themselves in rebellion.

Another high ranking retired Venezuelan military officer, who now lives in the U.S., said the Valencia officers who had rebelled had sent a message to the country's political and military elite about the discontent rife among the armed forces as well as Venezuela's civilian population. He said there were more than 100 officers and soldiers, before Sunday's rising, who already had been detained for their opposition to the Maduro regime.

The incident at the base follows a helicopter attack on the country's Supreme Court by a rebel police commando in June. Venezuela's military analysts and retired generals had questioned the authenticity of the police rebellion, which produced no damage or injuries.

Venezuela has been engulfed in a deepening political crisis as the government moved forward with plans to overhaul the constitution by a new all-powerful Constituent Assembly. Venezuela's opposition coalition says the assembly will be a tool to suppress dissent.

On Saturday, the assembly swiftly moved on its pledge to stamp out dissent, removing Attorney General Luisa Ortega, a dissident official who opposed Mr. Maduro's plans to overhaul the constitution.

Soldiers in riot gear cordoned off the Attorney General's Office early Saturday, denying entry to Ms. Ortega, who was overseeing probes into allegations of corruption and human-rights abuses by senior government officials. She was replaced by a close ally of the president.

Mr. Maduro´s government has arrested dozens of opposition leaders and activists in recent weeks, bringing the number of political prisoners in the country to more than 600, according to policy group Penal Forum.

The country's most popular politician, Leopoldo Lopez, was returned home Saturday night after being held a in a military prison for several days.

Intelligence police snatched Mr. Lopez, one of the government's most vocal opponents, from home early Tuesday for allegedly violating his sentencing terms. He has spent three years in jail for allegedly instigating violence and was serving the remainder of his 14-year sentence under house arrest.

In a Changing Persian Gulf, Two Royal Heirs Forge Ties

A friendship grows between Saudi Arabia's crown prince and his U.A.E. counterpart as Riyadh tilts toward its neighbor's policies

By Margherita Stancati

The heirs to the throne in Saudi Arabia and the United Arab Emirates hardly knew each other until they enjoyed a beloved Gulf pastime together—an overnight camping trip in the vast Saudi desert, accompanied by trained falcons and a small entourage.

The outing about a year and a half ago was a turning point in the burgeoning friendship between Prince Mohammed bin Salman, the son of the Saudi king, and Sheikh Mohammed bin Zayed, the Emirati crown prince, according to people familiar with the excursion.

Oil-rich and ultraconservative Saudi Arabia is increasingly aligning its policies with its smaller and more liberal and economically-diverse neighbor. And the relationship between the princes, widely known by their initials as MBS and MBZ, is being seen as central to the Saudi shift.

The Saudis are taking bolder steps to curb religious extremism at home, and toughening their stance toward Islamist groups abroad, something the U.A.E. has long advocated.

Saudi Arabia is also embracing a more aggressive foreign policy, most recently by leading efforts with the U.A.E. to impose an embargo on Qatar, another small Gulf neighbor. Qatar has supported Islamist groups such as the Muslim Brotherhood in Egypt and Hamas in the Gaza Strip and maintained ties to extremist groups, drawing the U.A.E.'s ire.

"MBS and MBZ have created this situation," Andreas Krieg, a former adviser to Qatar's government and a Gulf expert at King's College, London, said of the embargo crisis. Until recently, he said, the Saudi prince got on well with Qatar's ruling emir. "But because Qatar and the U.A.E. are 180 degrees apart from each other, Saudi Arabia had to make a choice," Mr. Krieg said.

The Saudi leadership was divided over how to handle Qatar, according to people close to the royal court. Saudi and U.A.E. officials said the decision on Qatar was made jointly. The Saudi royal court didn't respond to a request for comment.

BANDAR ALGALOUD, PRESS POOL

Mohammed bin Salman, left, with Mohammed bin Zayed

The growing alignment between Riyadh and Abu Dhabi has far-reaching implications for the region and for the U.S. The Trump administration has taken a hard line against Iran and welcomed closer cooperation with Saudi Arabia and the U.A.E. against their common rival.

At the same time, the more aggressive Saudi-U.A.E. posture poses challenges for Washington. The Trump administration is spearheading efforts to resolve their feud with Qatar, which is home to America's largest military base in the Middle East and used by aircraft involved in fighting Islamic State in Iraq and Syria.

The U.A.E. sees a stable and moderate Saudi Arabia as a top national-security priority largely because of its position as the birthplace of Islam, say people close to the Emirati leadership. Saudi Arabia and its fellow regional powerhouse Egypt influence the Muslim world far beyond their borders. "They are the two centers of gravity for Islam. If they are not moderate, we could lose Islam to more radical Islamic ideologies," said a senior Emirati official.

The Emirati leadership sees Mohammed bin Salman as the best bet to prevent instability in Saudi Arabia, say the people close to the U.A.E. leadership. Mohammed bin Salman, who is 31, ascended rapidly through the Saudi leadership after his father became king in early 2015. In June, he was named crown prince.

Mohammed bin Zayed, who is 56 and his country's effective ruler, helped orchestrate President Donald Trump's trip to Saudi Arabia in May and he and other senior Emirati officials played a key role in lobbying the new U.S. administration in favor of Mohammed bin Salman, say people familiar with the relationship.

"Mohammed bin Zayed sees in Mohammed bin Salman someone who is a modernizer and who understands the importance of Saudi Arabia in the world," said one of the people close to the Emirati leadership.

Mohammed bin Salman is spearheading an ambitious program aimed at overhauling Saudi Arabia's economy. The U.A.E. unveiled a similar plan to diversify its economy a decade ago.

—Dahlia Kholaif contributed to this article.

Cyber 'Hero' Arrest Reveals Gray Zone

By Stu Woo

LONDON—The hacking-related charges brought by the U.S. against a British computer whiz hailed for slowing the global WannaCry cyberattack in May have stunned and divided the cybersecurity community.

They also shine a spotlight on a gray area in cybersecurity, the often-hidden forums where experts trying to protect corporate and government interests interact clandestinely with suspected criminals.

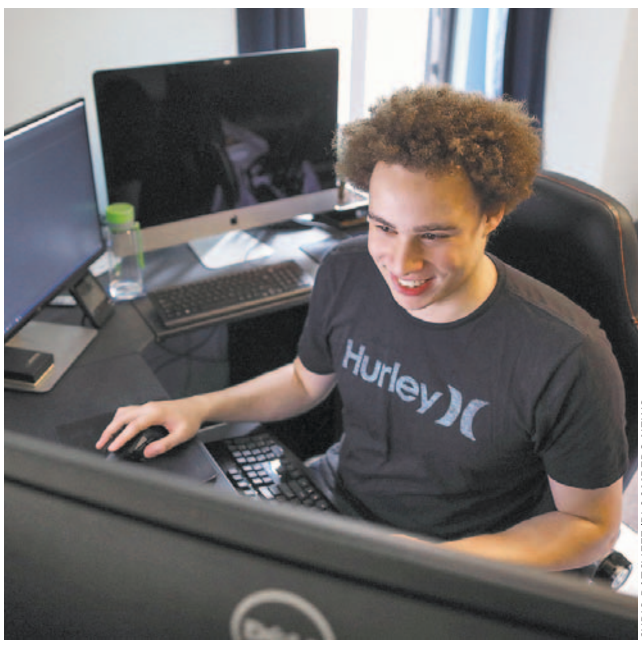
U.S. authorities said they arrested Marcus Hutchins, a 23-year-old cybersecurity researcher, in Las Vegas on Wednesday.

A federal grand jury had indicted him for his alleged role in creating and distributing in 2014 and 2015 a computer worm that captured usernames and passwords for banking websites.

Mr. Hutchins's indictment, by the U.S. court in Wisconsin's eastern district, charged him on six counts for allegedly committed between July 2014 and July 2015. It alleged that he created the password-stealing program and that an unnamed co-defendant tried to sell it on a now-defunct online black market called AlphaBay.

Mr. Hutchins was attending a cybersecurity conference when he was arrested. He was scheduled to appear at the District Court in Las Vegas on Friday. He couldn't be reached to comment, and court filings didn't list a lawyer for him.

Mr. Hutchins shot to fame less than three months ago by helping combat one of this year's highest-profile computer crimes, the WannaCry ransomware attack. It locked more than 200,000 computers at major organizations, such as FedEx Corp. and Renault SA, and demanded payments to unlock them.



CHRIS RATCLIFFE/BLOOMBERG NEWS

Briton Marcus Hutchins working from his home in England in July.

Mr. Hutchins, a southwest England resident working for Los Angeles-based **Kryptos Logic**, stumbled upon a way to stop the spread of the ransomware by registering a website name for $10.69.

He is part of a large but loosely regulated cadre of private security firms companies hire to protect against cyberattacks. Some firms said it was routine for its researchers to spend time on hacking forums to study criminals.

The actions, they said, are similar to those by undercover cops. Employees are told to only observe suspected criminals and are forbidden to engage in criminal activity to win trust.

A group of cybersecurity experts who worked closely with Mr. Hutchins "thinks it's just normal researcher activity, probably to gain cred on the forums, that the FBI is confusing with real cybercriminal activity," said Ryan Kalember, senior vice president at cybersecurity firm Proofpoint.

Others say that it isn't unknown for cybersecurity researchers to cross a line by taking more than a passive role. Jarno Niemela, principal researcher at Finnish cybersecurity firm F-Secure, said a researcher must learn how malicious software works, which means monitoring hacker forums and creating false identities to register for one.

"We observe underground forums as part of threat intelligence" but, he added, "the key word is 'observe.'" Mr. Niemela said his firm conducts background checks on employees and forbids them to do anything illegal.

David Emm, principal security researcher at Kaspersky Lab, said most skilled researchers work in the private sector. Many government agencies until recently wouldn't have had the capability to deal with cybercrime, he said.

Rwanda Strongman Sweeps 99% of Vote

By Nicholas Bariyo

KAMPALA, Uganda—Rwanda's strongman leader Paul Kagame won a landslide victory in Friday's presidential election with almost 99% of the vote, extending his 17-year rule until at least 2024 after a campaign that seemed more like a coronation than a contest.

With total votes tallied, Mr. Kagame secured some 6.65 million votes, the vast majority of total votes cast, the National Electoral Commission said Saturday.

The victory—by a margin that more closely resembles those chalked up in dictatorships than democracies—hands the 59-year-old Mr. Kagame what he has indicated will be his final term in office. But according to Rwanda's constitution, he is free to seek two further five-year terms, meaning he could retain his position until 2034.

Mr. Kagame delivered a victory speech to cheering supporters at the ruling Rwandan Patriotic Front's headquarters in the capital, Kigali, on Saturday morning. He pledged to "continue transforming Rwanda to guarantee a dignified life for every citizen," and thanked the Rwandan people "for putting trust in me once again."

The European Union, which often sends representatives to monitor African elections, had no presence during Friday's polls, but the East African Community said the vote was free, fair and without irregularities.

Mr. Kagame—a former rebel leader who is now more commonly seen at international business events—is credited with engineering Rwanda's economic transformation from the ruins of the 1994 genocide to one of the star economic performers on the continent. But critics and rights groups accuse his government of using state power to intimidate, jail and eliminate opponents through assassinations—allegations that the government rejects.

Mr. Kagame's win cements his position at the leading edge of a growing trend of self-styled strongman technocrats across Africa. From Ethiopia to Tanzania and Ivory Coast, leaders are increasingly consolidating control to spur radical economic transformation.

"The development strategy is identical to that of the late Lee Kuan Yew of Singapore," said Efosa Ojomo, a research fellow at the U.S.-based Clayton Christensen Institute for Disruptive Innovation, referencing the former prime minister who transformed the tiny Asian economy into a global hub but drew criticism from humanitarian groups.

China, Asean See Gains in Dispute Talks

BY JAKE MAXWELL WATTS

MANILA—Southeast Asian nations agreed with China on Sunday to endorse a framework for a maritime code of conduct that would govern behavior in disputed waters of the South China Sea, a small step forward in a negotiation that has lasted well over a decade.

Though not the long-discussed code itself, the framework sets out parameters for discussion of an agreement intended to bring predictability to a potential flashpoint as China increasingly asserts its military presence over the area in the face of rival claims.

The 10 countries of the Association of Southeast Asian Nations will meet with China at the end of August to discuss legalities for negotiations on the code of conduct, with formal talks beginning soon after, Philippines department of foreign affairs spokesman Robespierre Bolivar said Sunday.

The endorsement of the framework, which was tentatively agreed to in May, came during a bilateral meeting between China and Asean on the sidelines of a series of security-oriented meetings that will conclude Tuesday.

The unsticking of the framework after years of obstruction is widely seen as a concession by China, which has opposed any legally binding code on maritime engagement, stepped up naval patrols and built artificial islands to enforce its claims, equipping them with military weapons.

BULLIT MARQUEZ/ASSOCIATED PRESS

The disputed man-made Subi Reef in the South China Sea

Beijing's move to allow discussion on the code of conduct follows a resetting of ties with the Philippines under President Rodrigo Duterte, who in October—just four months after taking office—visited Beijing and declared a new friendship between the two countries.

The Philippines, which had been the most vocal Southeast Asian state to protest Beijing's claims in the South China Sea, won an international arbitration case last year that effectively invalidated China's claims. Mr. Duterte has chosen not to press the victory, instead reaching out to Beijing for investment and economic cooperation. In recent weeks Philippine officials have publicly discussed the possibility of jointly exploring contested waters for natural resources alongside China.

Southeast Asian states have long sought to persuade China to sign up to an enforceable code for the strategic waters, something Beijing has so far avoided. There is no timetable to reach a final agreement.

China has competing claims in the sea with several other countries including the Philippines, Malaysia, Vietnam and Brunei. Beijing claims almost the entire sea, which is rich in fish and natural gas. Research published recently by the Washington, D.C.-based Center for Strategic and International Studies calculates that as much as $3.4 trillion worth of trade passes through the waters each year.

China has successfully prevented the regional bloc from taking substantive coordinated action against it, lobbying smaller members to remove strong language in joint statements.

KOREA

Continued from Page One

rity Council resolution regarding North Korea, and to stop the missile tests, and even nuclear research, which violate UN Security Council resolutions and the wishes of the international community," the People's Daily Online said.

The North Korean minister restated Pyongyang's policy on the nuclear weapons issue, but indicated a "willingness to maintain communications with the China side on this point," according to Chinese state media. North Korea says it needs such weapons and maintains the right to build them to defend itself from the U.S.

The nine-page U.N. resolution steps up trade restrictions with Pyongyang by aiming to cut off a third of its $3 billion annual export revenue. It bans North Korea from trading coal, iron, lead, iron and lead ore, and seafood, and prohibits countries from hiring North Korean laborers and from entering or investing into new joint ventures with Pyongyang.

The resolution came after a monthslong drive by the U.S. to pressure nations to isolate the North Korean regime in response to an unprecedented pace of missile testing in its ambitions to become a nuclear power. Last month, North Korea fired two missiles that appeared capable of reaching the continental U.S. and Europe. Diplomats said this raised the stakes and elevated North Korea's military and nuclear threat from regional to global.

North Korea shrugs off sanctions despite Beijing's caution not to test more missiles

Before meeting with the North Korean minister in Manila, Mr. Wang said the sanctions were a necessary reaction to the launches, but urged countries to resume the negotiations known as the six-party talks, stalled since 2008. The talks included China, the U.S., South Korea, North Korea, Japan and Russia.

Mr. Wang repeated China's call for a "dual freeze," in which North Korea would halt its missile and nuclear programs in exchange for the U.S. and South Korea stopping major military exercises. The U.S. and South Korea rebuffed that proposal previously, and Ms. Thornton did so again Sunday.

The U.S. will also focus on ensuring China follows through on fully implementing the new sanctions, Ms. Thornton said, suggesting China had in the past acted initially, before "slipping back" over time. "We want to make sure China...is working actively to continue putting pressure on North Korea," she said.

Ms. Thornton also praised Saturday's "really strong" statement by the 10-member Association of Southeast Asian Nations, which hosts the annual security meetings. The countries condemned North Korea's weapons testing and called on the regime to comply with U.N. measures.

Mr. Tillerson doesn't have a scheduled meeting with North Korea's Mr. Ri, but both men are expected during the meeting of all 27 participants Monday.

The U.S. Secretary of State did meet with Russian Foreign Minister Sergei Lavrov for more than an hour late Sunday, ahead of a gala dinner. Neither official made any public comment.

—Eva Dou in Beijing contributed to this article.

BULLIT MARQUEZ/ASSOCIATED PRESS

North Korean Foreign Minister Ri Yong Ho, left, with his Chinese counterpart Wang Yi.

JOEL CARRETT/REX/SHUTTERSTOCK/EUROPEAN PRESSPHOTO AGENCY

Police cordoned off a home in Sydney. Two men were charged with planning a terrorist act.

Police Say Islamic State Behind Failed Bomb Plot

BY ROB TAYLOR

CANBERRA, Australia—Police said two men facing terrorism charges in Australia were involved in an aborted attempt to place an improvised explosive device on an Etihad Airways flight out of Sydney last month, in a plot directed by Islamic State.

The device was to be smuggled onto the July 15 flight, they said, but the plan was aborted before it reached security.

One of the men, a 49-year-old from Sydney, brought the device to the airport in a piece of luggage that he had asked his brother to take with him on the flight—without telling the brother that the bag contained explosives, Australian Federal Police Deputy Commissioner Michael Phelan told reporters Friday.

For reasons still unclear, the bag never got past the check-in counter. Instead, Mr. Phelan said, the man left the airport with the bag, and his brother continued onto the flight without it.

"This is one of the most sophisticated plots that has ever been attempted on Australian soil," Mr. Phelan said.

The details Mr. Phelan provided are the first that officials have released since four men were arrested in a series of raids in Sydney last week.

Khaled Khayat, 49, and Mahmoud Khayat, 32, have been charged with two counts of planning a terrorist act. They were refused bail and the case has been adjourned until November. Their lawyer, Michael Coroneos, told reporters outside a Sydney court that the men were "entitled to the presumption of innocence."

A third man is in custody under special counterterrorism laws, while a fourth was released without charge.

Khaled Khayat's brother remains overseas and hasn't been charged in connection with the plot because police believe he had no idea the bag contained explosives, Mr. Phelan said.

After the initial bid failed, the two men changed tactics and were in the early stages of devising a "chemical-dispersion device" designed to release highly toxic hydrogen sulfide in a crowded area, police said.

Both plots were believed to have been planned with the help of a senior Islamic State member who sent the components for the device to the men in Sydney via air cargo from Turkey.

"The explosive was a high-end explosive, high military-grade explosive," said Mr. Phelan. "With assistance from the ISIL commander, the accused assembled the IED, the components, into what we believe was a functioning IED to be placed on that flight."

Etihad had no immediate comment, but earlier this week said it was assisting Australian police and "complying fully" with enhanced security measures.

The allegation that Islamic State was able to ship explosives to Australia undetected was troubling, Mr. Phelan acknowledged. Turkish embassy officials in Canberra declined to comment on how the material may have left the country.

Australia's five-tier terrorism threat alert system has been set at "probable," the third-highest level, since September 2014. In December of that year, a gunman, later identified as Iranian immigrant Man Haron Monis, took over a central Sydney cafe and held numerous people hostage for 16 hours before police killed him to end the siege. Two hostages—the cafe's manager and a female customer—also died.

Since then, police said there have been four attacks and 13 others disrupted, including a 2016 plot to behead police during national Anzac Day veterans' parades and a separate plot the same year to attack Christmas shoppers in Melbourne.

Mr. Phelan said that planning for the attack was believed to have begun around April, when the men were put in touch with the Islamic State commander through a relative fighting for the group in Syria.

If convicted, they could face life imprisonment.

—With contributions from the Associated Press.

WORLD WATCH

EUROPE

EU Imposes Sanctions On Russian Officials

The European Union slapped sanctions on Russian officials and firms connected to the illegal transfer of gas turbines to the annexed peninsula of Crimea.

The measures, which include a travel ban and an asset freeze, were the bloc's first reaction to the Siemens case, one of the biggest known breaches of the EU's sanctions on Russia. Germany had pushed for the sanctions to be adopted.

The case involved the transfer of gas turbines to create an independent power supply for Crimea and Sevastopol. The peninsula is largely dependent on Ukrainian energy supplies, a situation the Russian government has pledged to change.

Siemens has said the turbines were supposed to have been destined for a power plant in southern Russia, not the Crimea.

"Establishing an independent power supply for Crimea and Sevastopol supports their separation from Ukraine, and undermines the territorial integrity, sovereignty and independence of Ukraine," the EU said in a statement on Friday. "Gas turbines are a substantial element in the development of new power plants."

The EU, like the U.S., has refused to accept Russia's 2014 annexation of the peninsula, which came alongside Moscow's wider intervention in Ukraine to back pro-Russian separatists.

The EU has placed targeted sanctions on more than 150 mainly Russian officials and 40 entities, imposed broad economic sanctions on Russia and banned a wide range of economic ties with firms in Crimea and Sevastopol.

—Laurence Norman

MYANMAR

Troops Arrest Rohingya Suspects

Security forces in Myanmar fired warning shots to disperse Muslim villagers while they were arresting four suspected insurgents in a western region where government troops have been accused of human rights violations against Rohingya minority, officials said Saturday.

KYODO/REUTERS

Children release paper lanterns on the Motoyasu river on the anniversary of the atomic bombing of Hiroshima on Aug. 6, 1945.

About 600 villagers surrounded troops in Rathedaung township in Rakhine state on Friday while they were searching for six men suspected of financing a "terrorist" group, said police officer Zaw Win Aung.

He said the villagers carried slingshots, sticks and machetes as they approached the troops, who responded by firing 40-50 warning shots. They managed to arrest four suspects, he said.

On Thursday, the government said that six Buddhists were killed and two other villagers are missing in Kaigyi village in Maungdaw township, also in Rakhine state.

It wasn't clear who was responsible, but Maj. Zayar of the border guard police headquarters in Maungdaw said they were searching for culprits.

The government has shut down northern Rakhine state to independent journalists, rights experts and humanitarian workers for almost nine months, except for organized media trips.

The military has launched operations in the northern part of Rakhine state since last October, when suspected Rohingya militants killed nine police officers along the border with Bangladesh.

Rights groups said that during the crackdown, more than 1,000 houses have been burned down, an unknown number of civilians killed and hundreds of Rohingya men and boys arrested. The government said that the operation had ended in February.

Last month, the U.N. human rights envoy to Myanmar, Yanghee Lee, expressed disappointment over a lack of government effort to tackle problems behind the violence between Buddhists and Muslims. She said she saw little improvement in the situation for Rohingya and that the government prevented her from visiting several areas there.

—Associated Press

Trump Looms Large in Alabama Race

BY ARIAN CAMPO-FLORES

(LEFT AND RIGHT) BRYNN ANDERSON/AP; DAVE MARTIN/AP; (MIDDLE) BILL CLARK/CONGRESSIONAL QUARTERLY/NEWSCOM/ZUMA PRESS

From left, Alabama Congressman Mo Brooks, former Alabama Chief Justice Roy Moore and State Sen. Trip Pittman are running for Senate.

NORTHPORT, Ala.—At a recent gathering here hosted by the BamaCarry gun-rights group, Republican candidates vying to fill Attorney General Jeff Sessions' former U.S. Senate seat all invoked the same person: President Donald Trump.

"I'm a fighter," said U.S. Rep. Mo Brooks. "That's one of the things Donald Trump likes about me as a congressman and a candidate."

Alabamians "are looking for a leader, a businessman" like Mr. Trump, said state Sen. Trip Pittman. "That's what I am, a businessperson."

"If we're going to make America great again, we've got to make America strong again," said former Alabama Chief Justice Roy Moore, borrowing the president's signature slogan.

In the run-up to the Aug. 15 special-election primary, the GOP candidates are sparring over who would best advance Mr. Trump's agenda and remain most loyal to him. Despite the president's tumbling approval ratings nationally, Mr. Trump, a New York businessman, remains popular in this deeply conservative state, where he won 62% of the vote in November.

"You would think that the U.S. Senate Republican primary were an episode of 'The Bachelor' where you get to marry Donald Trump," said Brent Buchanan, a GOP consultant in Alabama.

The race's three leading contenders align with different factions of the GOP. Sen. Luther Strange—a former state attorney general named to Mr. Sessions' seat by ex-Gov. Robert Bentley—is backed by Senate Majority Leader Mitch McConnell (R., Ky.), prompting some to cast him as the establishment candidate.

Mr. Brooks is part of the insurgent wing of the party as a member of the ultraconservative House Freedom Caucus. Mr. Moore, who was suspended from the Alabama Supreme Court over his defiance of the U.S. Supreme Court's decision legalizing gay marriage, has a fervent following among evangelical Christians.

If no candidate wins a majority in the primary—a likely scenario, analysts say—a runoff for the GOP candidate would take place Sept. 26, followed by the general election on Dec. 12. A Republican primary victor is widely expected to go on to capture the seat.

On the Democratic side, the candidates include former U.S. Attorney Doug Jones, who is best known for prosecuting the two remaining perpetrators in a 1963 church bombing that killed four African-American girls. Mr. Jones has been critical of Mr. Trump's policies on everything from the environment and health care, to Cuba and banning transgender individuals from the military.

The candidates have appealed to the GOP base on a range of issues, from repealing the federal health law to beefing up border security. In a campaign ad, Mr. Brooks said he would read the King James Bible in a filibuster to ensure funding to build a wall along the U.S.-Mexico border.

Candidates in the special election look to maximize the president's appeal.

A dominant theme, though, is pledging fealty to Mr. Trump. Mr. Strange's Twitter account includes posts calling Mr. Trump's election "a miracle" and promising that he is "standing with our president." The leading fundraiser of the group, Mr. Strange vows to work with the president to cut taxes and cancel trade deals.

While the candidates continue to invoke Mr. Trump, the president's public disparagement of Mr. Sessions, a revered figure in the state GOP, has led some to weigh in on the feud.

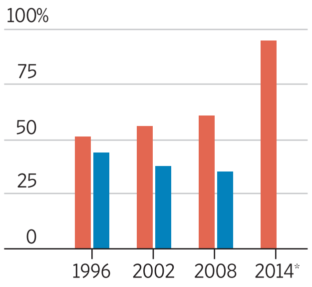
Sen. Strange said in a tweet that Mr. Sessions was "a mentor, a great friend, and a man of the utmost integrity." He said Messrs. Sessions and Trump "are trying to make America great again, and it's a privilege to work alongside both to accomplish the Trump agenda."

Mr. Brooks was more critical. In a statement, he said that if the president had reservations about Mr. Sessions, he should raise them "privately, man to man, one on one, not publicly scorn a great man like this." He also offered to withdraw from the race if his rivals concurred, to clear the way for Mr. Sessions to return to his Senate seat if Mr. Trump wants to remove him as attorney general.

Mr. Brooks has also been attacked in a recent campaign ad for critical comments he made against Mr. Trump during the presidential primary campaign. The ad was paid for by the Senate Leadership Fund, a political committee with ties to Mr. McConnell that supports Mr. Strange. "I don't think you can trust Donald Trump with anything he says," Mr. Brooks told MSNBC at the time.

Mr. Brooks said the comments were from a time when he was supporting Texas Sen. Ted Cruz, but he said he supported Mr. Trump in the general election by, among other things, cutting a $2,500 check to support a group of volunteers campaigning for the New York billionaire in Florida, a battleground state, he said.

Mr. Brooks assailed Mr. Strange for securing the Senate seat from Gov. Bentley, who resigned earlier this year over allegations of ethics violations. The attorney general's office under Mr. Strange was investigating the governor, leading Mr. Brooks to accuse Mr. Strange of leveraging the inquiry into an appointment—something Mr. Strange denies.



* Jeff Sessions ran unopposed in 2014.
Source: Ballotpedia
THE WALL STREET JOURNAL.

Though a recent poll showed Mr. Strange was the front-runner, his position as an incumbent backed by Mr. McConnell poses a challenge at a time when antiestablishment sentiment runs deep among Alabama Republicans, said Jonathan Gray, a GOP strategist in the state. "You don't want anything to do with the establishment right now," he said.

At the recent gathering in Northport, Mr. Moore said he had no plans to be a loyal soldier to Mr. McConnell. "I haven't been managed so far," he told the crowd. "I don't plan to be managed in the future."

Given his devoted base of supporters, Mr. Moore would benefit from a primary with low turnout, said Marty Connors, a former Alabama state GOP chairman. "Roy Moore has a solid 28% to 32% that will vote for him under any set of circumstances," he said. But "that's also his ceiling."

Mr. Moore disputes such a notion, noting that he won two GOP primary elections for chief justice without a runoff.

GOP's Effort to Overturn Arbitration Rule Is at Risk

BY ANDREW ACKERMAN

WASHINGTON—A Republican-backed effort to overturn a rule making it easier for consumers to sue banks has hit a snag: the Senate.

At issue is a Consumer Financial Protection Bureau rule approved in July barring fine-print requirements that consumers use arbitration to resolve disputes over financial services. The rule makes it easier for consumers to join class-action lawsuits against banks and credit-card companies. Though fiercely fought by the financial industry, it is set to go into effect in March.

BRYCE SPIVEY/PLANET PIX/ZUMA PRESS

Richard Cordray, head of the Consumer Financial Protection Bureau

CFPB Director Richard Cordray, an Obama-administration appointee, pressed ahead with the rule despite opposition from Trump administration banking officials and Republicans in Congress.

Republican lawmakers are targeting the CFPB rule with a legislative tool known as the Congressional Review Act. It allows lawmakers to overturn a newly issued regulation on an expedited schedule with a simple majority vote in Congress. The House voted 231-190 to overturn the rule in July. The Senate plans to act in September when it returns from a long recess.

However, support in the Senate is uncertain. No Democrats are likely to back the effort, and Republicans, with their slim majority, can't afford to lose more than two GOP votes. Several Republican senators have expressed reservations about voting to overturn the regulation, worried they may be portrayed as siding with banks and against consumers.

Analysts with Compass Point Research & Trading LLC and Keefe, Bruyette & Woods have put the odds of the rule remaining in place at over 50%.

Sen. Lindsey Graham (R., S.C.) in an interview said he opposed the resolution, saying arbitration is "a windfall for the companies in terms of how you settle their cheating."

"You've had banks and credit-card companies nickel-and-diming consumers, and one of the things that makes them think twice is the idea of a massive lawsuit," Mr. Graham said. "Nobody is going to get a lawyer over a $10 overcharge, but when you overcharge millions of people $10, the bank or the credit-card company makes out like a bandit" in arbitration.

Other Republicans, including Sens. Susan Collins of Maine, Lisa Murkowski of Alaska and John Kennedy of Louisiana, have said they are undecided. And Sen. John McCain (R., Ariz.) may be unavailable to vote as he undergoes treatment for brain cancer. In a recent close vote, Sens. Collins, Murkowski and McCain voted against a slimmed-down repeal of the Affordable Care Act, defeating the Republican party's effort to fulfill its promise to voters to overhaul the health law.

The stakes are high for Republicans. If they can't overturn the arbitration rule, it could energize the CFPB to complete additional regulations opposed by Republicans, such as payday-loan restrictions. That would prove a remarkable turnabout for an agency Republicans have promised to weaken but have been unable to do so despite controlling the legislative and executive branches of government. Earlier this year, Congress was unable to garner sufficient support to kill a CFPB measure affecting prepaid cards.

Backers of the effort to repeal the CFPB rule have said they are making headway in their efforts to kill the rule. "We're making good progress," Senate Banking Committee Chairman Mike Crapo (R., Idaho), who drafted the Senate version of the legislation, said in an interview.

Opponents of the rule generally say arbitration is faster and less expensive for consumers than a lawsuit. Supporters say requiring arbitration limits legal protections for consumers against corporate greed.

Most Republicans remain opposed to the arbitration rule. The GOP staff of the House Financial Services Committee on Friday recommended the panel file a contempt case against Mr. Cordray, saying the CFPB director defied the committee's subpoena for documents related to the arbitration rule.

A CFPB spokesman said the agency has worked "diligently" to comply with the committee's oversight and has produced "thousands of pages of documents thus far" related to the rule.

—Yuka Hayashi contributed to this article.

STARK INDUSTRIES

WAYNE ENTERPRISES

Jeff Stark, CEO of Stark Industries in Indiana, gets emails from strangers volunteering to be suit testers. Denise Howard, CEO of Wayne Enterprises in Houston, gets curious applicants at job fairs.

NAMES

Continued from Page One

Vandelay Industries—a reference to a famous fictitious latex products distributor from "Seinfeld." On the show, George Costanza made up the company's name and listed it as a potential employer in order to extend his jobless benefits. (George gave Jerry's home number as the company's switchboard and hilarity ensued.)

Many real-life job applicants appear to have copied George's fraudulent move by listing Vandelay as a former employer. Mr. Hardt says he has received dozens of serious calls from employers trying to verify that some job applicant he's never heard of had once worked for the company.

"Sometimes I'll say: 'Yeah, great latex salesman.'"

And then there are human resources managers who have heard of the fictional Vandelay. They call about references for actual former employees and have to be convinced that Mr. Hardt's Citrus Heights, Calif., company truly exists.

Unlike iniTech and Vandelay, some companies are oddly similar to their fictional counterparts. Stark Industries of Terre Haute, Ind., makes products for the aviation, space and defense sectors, just like the fictional company of Tony Stark in "Iron Man."

The real company doesn't secretly build rocket-powered armor with neurokinetic user-controlled morphologic nanoparticle bundles on the side, but founder Jeff Stark, who started the company in 1993, says he does get emails from strangers volunteering to be suit testers.

In Japan, Tsukuba-based Cyberdyne incorporated 20 years after that name was made famous as the designer of Skynet in "The Terminator." The Japanese company is now working on a cyborg-type robot called HAL to assist people unable to use their limbs.

Founder Yoshiyuki Sankai says that any resemblances between the company's name and the producer of the time-traveling cyborg played by Arnold Schwarzenegger in "Terminator" or the homicidal computer HAL from "2001: A Space Odyssey" are purely coincidental.

Patrick Bluth, who owns southern California home-building firm Bluth Construction, didn't think the name of the dysfunctional Southern California home builder from "Arrested Development" was a coincidence. He says his company was well-known locally, since it was founded 25 years before the fictional one in the TV show. He isn't sure which character he might be.

"I've only seen the show once, but I think I'd be the normal one."

Mr. Bluth, who gets reminded of the names' similarity "almost every day," says he once got a customer because he assumed Mr. Bluth was associated with the show. He has since decided there is no such thing as bad publicity.

Pied Piper, a Pacific Grove, Calif., firm that rates the effectiveness of car dealer networks, was founded 10 years earlier and located 90 miles to the south of the fictional technology startup of the same name in the HBO show "Silicon Valley." Founder Fran O'Hagan said he was recently "presenting to a room of purchasing managers and one of them asked if we do compression algorithms," like the company on the show.

The real company had the temerity to rate Tesla Motors dead last in a 2016 survey of dealership networks. The electric auto maker's chief executive, Elon Musk, tweeted a link to an article mentioning the company to his 10 million Twitter followers saying: "Tesla finishes last in being salesy. Good. Also, I can't believe there is a real Pied Piper."

Founders of real companies that share the names of fake ones seem to agree that it is at the very least a conversation-starter. A shared name can also be an effective recruiting tool. Denise Howard, who runs Wayne Enterprises, an industrial uniform distributor in Houston, says she gets swarmed by curious applicants at job fairs.

"We have an intern this summer who took the job so he could tell his friends he works at Wayne Enterprises."

Aside from the random phone calls asking about the weather in Gotham City or if the company is real, Ms. Howard says only one thing about the name bothers her—the nagging fear that lawyers for the owners of the Batman franchise will call her one day and ask her to change it. But the name stems from the purchase of a neighbor's existing company by her father decades ago. The neighbor's name was Wayne Davis. Batman is secretly industrialist Bruce Wayne.

What keeps Ms. Howard up at night is all part of the fun for others. Zachary Smith named his Indiana auto wholesaler Virtucon as a direct homage to the industrial empire of Dr. Evil from the Austin Powers movie franchise.

"I called it that because Cyberdyne Systems was already taken."

Mr. Smith is happy with the name, although irked by people who fail to recognize the cinematic reference in his company's title despite his hints.

"I tell people we have a factory that makes miniature models of other factories, but they don't get it."

KELLY

Continued from Page One

open Oval Office door, hoping to catch the president's eye to be waved in for a chat or the chance to pitch a new idea. That door is now closed.

Aides can't linger outside the chief of staff's office, either. White House staff waiting to see Mr. Kelly—or other senior advisers in nearby suites—are asked to remain in the lobby, where White House visitors sit on couches and can read a selection of daily newspapers.

Mr. Kelly's new process has slowed the president's use of Twitter. The chief of staff has reassured Attorney General Jeff Sessions he isn't on the verge of being fired, after sustained public criticism by the president, and he has instructed the often-feuding factions in the White House to "get their act together" before bringing an issue before the commander-in-chief.

WIN MCNAMEE/GETTY IMAGES

After taking the reins as White House chief of staff, John Kelly attended a Medal of Honor ceremony last Monday in the East Room.

"Everyone in the White House likes referring to him as 'General,'" said former U.S. House Speaker Newt Gingrich of the 67-year-old chief of staff, describing a "sense of relief" in the West Wing.

The question now is whether or for how long the new discipline can last. The president is described by friends and critics alike as reveling in chaos and enjoying public competition among his top advisers. Reince Priebus, Mr. Kelly's predecessor, and White House press secretary Sean Spicer lasted six months. Shortly after being sworn in last Monday, Mr. Kelly asked for the resignation of then-communications director Anthony Scaramucci. Mr. Trump's presidential campaign had three different leadership teams.

"The problem here is that he won't have anyone to talk to, and he'll get frustrated," said one person who regularly speaks with Mr. Trump. "I give General Kelly four months."

Tumultuous time

Mr. Kelly's success, or otherwise, will go a long way to determine whether the White House can successfully pursue its agenda, which has stalled amid a tumultuous period in Washington unlike any other recent presidency. A new survey by Quinnipiac University shows Mr. Trump's approval rating at a new low, and the president faces an intensifying special-counsel probe into alleged Russian interference in the 2016 U.S. election. Mr. Trump and his campaign have denied any collusion, and Moscow has denied meddling in the election.

Mr. Kelly, through a spokeswoman, declined requests for an interview.

"General Kelly has the full authority to carry out business," White House press secretary Sarah Huckabee Sanders said. "It's been a great first week, and there is a sense of cohesion within the staff."

There are limits to what Mr. Kelly can control, with Mr. Trump's Twitter account the most visible example. While the president tweeted less last week, on Thursday morning he criticized Congress's passage of sanctions against Russia. The message contradicted Vice President Mike Pence, who, two days earlier, said the sanctions bill showed Mr. Trump and Congress were "speaking with a unified voice."

While Mr. Kelly can direct the president's schedule, he will likely struggle to curtail Mr. Trump's penchant for picking up the phone and calling his roster of longtime friends from New York. Rudy Giuliani, former mayor of New York and a friend of Mr. Trump, said Mr. Kelly will have to strike a balance.

"It wouldn't work to try to isolate President Trump. He would rebel against that," Mr. Giuliani said. "General Kelly has to balance on the one hand an orderly process, and on the other hand an orderly process that doesn't in any way isolate the president."

A White House official said Mr. Kelly has been "very clear that he's here to manage the staff, not to manage the president." His efforts to control the information and advisers reaching the president are to ensure Mr. Trump is "being properly staffed," the official said.

Mr. Kelly grew up in Boston and served as chief of the U.S. Southern Command, the division that oversees U.S. military activities south of Mexico, including Central America, South America and the Caribbean. In that role he focused on homeland-security issues because the post involved monitoring drug trafficking and other smuggling activity south of the U.S. He also served as legislative assistant to the Marine Corps commandant, gaining experience in dealing with Congress.

He has said he hadn't met the president until Mr. Priebus, the man he ultimately replaced, called after Mr. Trump's November election victory to gauge his interest becoming the new president's secretary of Homeland Security. He took the job and soon joined Mr. Trump's inner circle, becoming one of the few cabinet secretaries who frequently dines with the president.

Staffers no longer loiter outside an open Oval Office door. That door is closed.

Mr. Trump was impressed by Mr. Kelly's presentations at DHS, at times describing him as "a killer." He is also taken, said one official, by the "presence" of his chief of staff, who stands about 6-foot-2 and tends to dominate the room. Mr. Trump had offered Mr. Kelly the chief of staff job in the spring, officials said, but Mr. Kelly declined at that time.

Mr. Trump kept Mr. Priebus on a shorter leash, expressing his irritation when his former chief of staff would hover in Oval Office meetings. At times, Mr. Trump charged him with menial tasks such as organizing small groups of reporters to glimpse the first few moments of a meeting with the president. Mr. Priebus didn't respond to requests for comment.

People who have known Mr. Kelly for years describe his style as no-nonsense. He introduces himself on phone calls and in emails to people he knows simply as "Kelly."

"If you're in a 10-minute meeting with him, he'll be quiet for the first nine minutes," listening before making a decision or a pronouncement, said one person close to him.

Soon after accepting the chief of staff position, Mr. Kelly picked up C.S. Forester's novel, "The General." The 1936 novel chronicles a British officer's rise through the ranks until finally his mediocrity catches up with him and he causes thousands of men to be unnecessarily killed. Mr. Kelly had also read it six months ago when he was given the job of Homeland Security secretary, and before taking top command posts as a Marine general—as a reminder of what to avoid as a leader.

In the first six months of the Trump administration, the president's senior aides enjoyed wide discretion on whom they could meet, what issues they could tackle and when they could bring their thoughts to the president.

That's all changed. Running one of his first senior staff meetings, Mr. Kelly laid down clear lines of authority and ordered aides to stick to their assigned areas. Discussions with senators, U.S. House members or others on Capitol Hill must be reported to the White House's legislative affairs director, Marc Short. Secretary of State Rex Tillerson, Mr. Kelly said, must know about meetings with foreign diplomats.

National Security Adviser H.R. McMaster last week removed from the National Security Council its senior director for intelligence programs, Ezra Cohen-Watnick. Mr. McMaster had sought to fire him earlier this year, but the move was blocked by the president, according to one administration official. Last week, Mr. McMaster informed Mr. Kelly before taking the step, and the new chief of staff didn't object, according to an administration official. A second official said the move was a sign Mr. Kelly had no plans to micromanage staff.

Mr. Kelly moved senior staff meetings to 8 a.m., instead of 8:45, and holds them around the long mahogany table of the Roosevelt Room. His predecessor, Mr. Priebus, held the meetings in his office, where the television was often turned on and where staff could often redirect the discussion away from the agenda.

Mr. Kelly brought some of his team to the White House, including Kirstjen Nielsen, who served as his chief of staff at DHS and advised him during his confirmation process.

"You're starting to see a different flow, a different discipline," Office of Management and Budget Director Mick Mulvaney told reporters on Thursday. Mr. Mulvaney said when he has spoken with Mr. Trump by phone this past week, the chief of staff has also been on the line.

Senior staff see the tighter order as an opportunity to press the president's agenda after months in which initiatives have stalled, including a ban on travel from six Muslim-majority countries viewed as terror risks, which is stalled in court, and a legislative push on health care, which recently collapsed in the Senate. The White House last week announced a new push on overhauling immigration, discussed trade measures to force China to crack down on intellectual-property theft and touted a new program improving veterans' access to online medical care.

Mr. Kelly also used his first days on the job to contact lawmakers including House Minority Leader Nancy Pelosi (D., Calif.) and Senate Minority Leader Chuck Schumer (D., N.Y.), with whom Mr. Trump has had rocky relationships. Congressional aides described the calls as standard introductions.

Information review

Among the clearest changes since Mr. Kelly's arrival is a more careful review of information, from statements of fact to news reports, before it goes to the president's desk, a White House official said. News articles and policy proposals will first be run through Mr. Kelly, in part to reduce the risk of erroneous material appearing on the presidential Twitter feed.

Mr. Kelly is also cracking down on what the White House official calls "paper"—unsolicited policy ideas that have made it to the president's desk, and sometimes into his public statements, without serious review by his top-level staff.

Mr. Kelly's new system is a work in progress, the White House official said. White House staffers expect final decisions about how the West Wing will run under Mr. Kelly to be set more firmly in place later this month.

The new staff chief has some time to put his plans in place. The president departed Friday for a two-week vacation at his Bedminster, N.J., golf club.

Mr. Trump is sure to see at least one issue resolved when he returns: A new air-conditioning system is set to be installed in the White House while the president is out of town.

—Ben Kesling, Ted Mann, Siobhan Hughes, Natalie Andrews and Gordon Lubold contributed to this article.

THE OUTLOOK | By Eric Morath

You're Fired! No, Wait, Please Keep Working

The Labor Department reported Friday another solid month of U.S. hiring in July. Getting less attention these days, but no less important, is how little American firms are firing.

Americans are less likely to be laid off than at any point in at least 50 years. For every 10,000 people in the workforce, 66 claimed new unemployment benefits in July, trending at the lowest point on record going back to 1967. The previous low point, 83 per 10,000, was touched in April 2000, at the height of a tech boom. Separate Labor Department data shows the rate of layoffs and other discharges as a share of total employment this year is at the lowest level on records back to 2000.

The steep fall in layoffs is mainly a result of a vastly improved labor market. It means Americans have more job security than they may realize less than a decade after dismissals spiked in the 2007-2009 recession. But other factors with more mixed implications are at play, including elevated levels of long-term unemployment, an aging workforce, a decline in manufacturing work and more risk-averse businesses, which also point to a less dynamic economy.

After nearly seven years of consistent job growth, firms are reluctant to let employees go in a tight labor market in which available workers with a recent employment history are quickly snapped up.

"It's tough to find qualified candidates—you kiss several frogs to find a prince," said David Daoust, chief executive of Minnesota marketing firm Brand Advantage Group.

His firm recently merged with a crosstown competitor. Rather than dismiss duplicative staff, he retained all 26 new employees. Some workers were retrained for new roles, and the company extended its remote-work policy to ease the burden for employees finding themselves with longer commutes.

"We couldn't afford to let those workers get away and maintain the same level of service," he said.

Demographic trends are influencing employment decisions, said Bill Ziebell, head of Arthur J. Gallagher & Co.'s employee benefits and compensation consulting practice. In the late 1990s baby boomers were in their prime working years, now they're retiring in greater numbers.

"If you have a big segment of the workforce winding down due to retirement, why would you let anyone go?" he said.

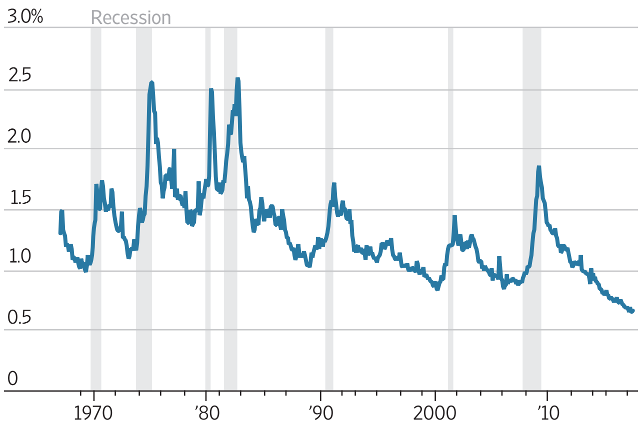
Another factor is manufacturing's diminished role in the economy. Factories regularly lay off and rehire workers to adjust production levels. But a much smaller slice of Americans work in manufacturing today than in decades past.

The current jobless rate is relatively elevated in relation to layoffs. For example, when the unemployment rate dipped to 3.4% in October 1968, about 102 per every 10,000 workers filed for unemployment benefits, well above July's rate of layoffs. That suggests less churn in the labor market, meaning a lack of economic dynamism.

Businesses appear to be taking less risk in this expansion. During the latest expansion, new businesses have accounted for a little more than 11% of all new private-sector jobs created in the U.S., according to Labor Department. During the 1990s, the figure was 15%. New businesses fail at greater rates than established firms, so fewer new companies could equate to fewer layoffs.

Layoff Trend

Average monthly rate of initial unemployment claims as a share of the U.S. labor force



Source: Labor Department

THE WALL STREET JOURNAL.

Federal Reserve researchers found in a paper this year that declining business dynamism weighs on productivity because labor and investment aren't moving toward their most productive uses. Soft productivity gains is a factor many economists see holding back wage growth and overall output.

There's another reason that unemployment is high relative to layoffs: Many unemployed Americans have been out of work for months and are sitting in the economy's sidelines. The number of Americans unemployed for 27 weeks or more was about 35% more last month than when the recession began in late 2007. By contrast, the share of the labor force unemployed for 5 weeks or less is the lowest on record back to the 1940s. That means fewer people in the market ready to hop to a new job, and more hoarding by firms of what they've got.

Separations have shifted toward workers quitting their jobs from being dismissed, said Jed Kolko, economist with job search site Indeed. This helps explain the low level of jobless claims. The unemployed typically apply for jobless benefits when they are involuntarily let go. Those who quit or are fired for cause generally can't apply. This, too, has narrowed the pool of available workers and gives firms an incentive to hold on to existing staff.

Patrick Graham, chief executive of Charlotte Works, said his agency's work is focused on those who he calls the "chronically unemployed" and those in low-wage, part-time work.

It's created a paradox in Charlotte, N.C.: a persistent level of long-term joblessness and underemployed, and businesses scrambling to find workers in a region with a 3.6% unemployment rate.

"It's a tale of two cities," Mr. Graham said. "You have people who can't find the level of employment they need to make a decent living, and yet there's a skills gap for midlevel jobs which causes employers to recruit talent from outside the area."

Black-Owned Banks' Numbers Ebb

By Sharon Nunn

Six chief executives of black-owned banks locked themselves in a New Orleans hotel room for more than a day in late 2016. Surrounded by papers, drawing boards and PowerPoints, the group strategized ways to reverse a trend 15 years in the making: the decline of their own sector.

The number of black-owned banks operating in the U.S. has been dropping steadily for the past 15 years and fell to 23 this year, the lowest level in recent history, according to the Federal Deposit Insurance Corp. That has left many African-American communities short of access to capital and traditional financial services, according to some banking experts.

"We have a crisis among black banks," said Doyle Mitchell, CEO of Washington-based Industrial Bank. "We met...to save the industry. To save ourselves."

The 2008 recession hit the black banking sector especially hard, and if the current rate of closures of about two a year, as well as the industrywide reluctance or inability to start banks, continues, black-owned banks could disappear entirely within the next eight to 12 years.

The trend is worrisome to some analysts who argue fewer banks serving low-income, minority groups could expand "financial deserts"—communities with few or no banking institutions—and increase the likelihood that black and Hispanic communities could become susceptible to redlining, a discriminatory practice that excludes poorer minority areas from financial services.

"These banks are banks that serve relatively poor neighborhoods," said Russell Kashian, an economics professor who studies black-owned banks. "There are neighborhoods that if...the black-owned bank isn't there, nobody is there."

ALYSSA SCHUKAR FOR THE WALL STREET JOURNAL

Claire Adams said Seaway Bank was instrumental in assisting residents in her South Side community.

Institutions Hit Their Peak A Century Ago

Black-owned banks arose and flourished in a period when African-Americans were kept out of other financial institutions, both overtly and through practices that effectively walled off their neighborhoods from other banks.

The sector hit a peak in the late 19th and early 20th century, a period when 57 black-owned chartered banks entered the financial system, according to a study by Lila Ammons, a Howard University Afro-American studies professor.

The establishment of black-owned banks gave rise to flourishing black business hubs in Northern and Southern cities, including some notable "Black Wall Street" communities in Richmond, Va.; Tulsa, Okla.; and Durham, N.C.

The black banking community has traditionally been tight-knit, particularly because many of the surviving black-owned banks remain in or close to the families that founded them.

Chicago's failed Seaway Bank, for example, was run by Chief Executive Officer Veranda Dickens, who took over the bank's top position after her husband, Jacoby Dickens, died in 2013. Doyle Mitchell, CEO of Washington-based Industrial Bank, runs an institution his grandfather opened in the 1930s.

—Sharon Nunn

The sector's decline spurs worry that poorer communities will lose access to capital.

Most black-owned banks typically have a few branches in one city, although one of the category's largest players, New Orleans-based Liberty Bank, has a multistate presence. Such banks comprise just a sliver of the overall U.S. financial sector, with collective assets of $5.5 billion, versus $16.3 trillion in the industry overall.

As a result, some economists question the significance of the sector's decline. "Size-wise they've been small," said Nicholas Lash, a business professor at Loyola University Chicago who studies minority banking. "So their total impact on black communities can't be very, very large."

Yet those who live in communities that have been served by black-owned banks say the impact there, both practical and psychological, is deeply felt. The most recent example is in Chicago, where Illinois state regulators in January closed Seaway Bank & Trust, determining that its financial health had so deteriorated that pumping in more money couldn't save it.

"It was like air coming out of a balloon," said Bob Fioretti, a former Chicago alderman who was previously involved in raising money to keep Seaway open. "People were deflated. Seaway was a standing icon of the community."

Seaway, formerly Chicago's largest black-owned bank, helped anchor the famed black business community on the city's South Side.

Claire Adams, a former board president of a South Side Chicago living community that was one of the first businesses to use Seaway when it opened in 1965, said she now fears that with fewer small, community banks in her part of the city, payday lenders and check-cashing institutions, which often charge exorbitant rates and fees, would be many African-Americans' only nearby banking option.

"The only thing that's left are these predatory institutions," Ms. Adams said.

In some areas of the South Side, Seaway was the first bank some African-Americans had access to, making it a symbol of black enterprise and economic development, patrons say. Many speak of the bank with admiration, often mentioning a program that allowed children to open a bank account with a small amount of money.

"I [could go to] Chase or something...but I like Seaway," said Nell Robinson, who used Seaway for more than two decades. "Seaway was here before Chase. It's a black bank [and], we have to pull our people up."

With such concerns in mind, members of the South Side's religious community raised more than $100,000 in deposits for Seaway in recent months. But the effort wasn't enough. Seaway was sold to the State Bank of Texas, then sold again to North Carolina-based Self-Help Credit Union.

A prolonged period of low interest rates and intense competition, as bigger banks slowly move into underserved areas, have combined to contribute to the black banking sector's decline, even after the recession's end. Now a practical concern in Chicago and elsewhere is that, even if bigger institutions step in, they won't be as accommodating in lending to black-owned businesses.

A survey of entrepreneurs by the U.S. Census Bureau in 2014 found that 47% of black business owners had gotten the full amount of funding requested from banks, credit unions or other financial institutions, compared with 76% of whites.

That survey also showed fear of rejection was the top reason cited by black business owners who chose not to seek needed capital at all.

"When I have an applicant that comes into my bank and comes into XYZ large bank, and they're on the edges, there are things that I can understand and appreciate about their situation that XYZ large bank won't, and that makes the difference," Mr. Mitchell, of Industrial Bank, said.

Pie Country: Texans Sweet on Cafe Treat

By Charles Passy

MARBLE FALLS, Texas—For most Texans, barbecue is the state's signature food. Others might suggest a Tex-Mex favorite—say, cheese enchiladas—as a contender.

But for the 6,300 residents of this city in Texas' bucolic Hill Country, about 48 miles northwest of Austin, it is all about the pie.

Specifically, the pie at the Blue Bonnet Cafe, a downtown fixture since 1929. At the 180-seat restaurant, it is a given that customers will order a $3.29 slice. The big question is which of the dozen-plus varieties, from apple to lemon meringue to coconut cream, they will choose.

There is also the matter of when to devour dessert: before or after the main meal, which may consist of country-style favorites like pot roast or chicken-fried steak.

"We have people come in here and eat the pie first because they're otherwise afraid they're going to get full," said John Kemper, who has owned the restaurant with his wife, Belinda, since 1981. Later on, the couple's son-in-law and daughter, Dave and Lindsay Plante, also came aboard.

It adds up to about 40,000 pies sold annually, bringing in at least $600,000, or some 15% of the restaurant's revenue, said Mr. Kemper. That is up from roughly 5% of revenue pies made up when he took over the operation.

Along with the sales, the baking brings a certain, ahem, slice of fame.

Over the years, the restaurant has been recognized with a range of honors, locally and beyond. Southern Living magazine named Blue Bonnet's German Chocolate Pie as one of the South's best. Blue Bonnet has become a pit stop for a number of famous Texans, from President George W. Bush (during his days as governor) to country-music star Willie Nelson.

Mr. Kemper, who lived in Marble Falls as a child, could hardly have imagined this when he took over the place from the previous owner as a way to satisfy a budding entrepreneurial yen. Back then, the restaurant was just getting by, Mr. Kemper said, so he decided to expand the pie menu as a way to spark interest. Business doubled almost instantly and, in his words, a "pie culture" was born.

He admits there are no great secrets to Blue Bonnet's pies, which are made largely from scratch according to traditional recipes, with a vegetable-shortening crust. The cream-based ones, for example, are indeed heavy on the heavy cream. "It really gives them a good flavor," Mr. Kemper said.

Looks are important, too: With the meringue pies, the topping is carefully shaped by the restaurant's pros to form a perfect dome. Some members of Blue Bonnet's 70-member staff have been honing their skills for more than three decades.

Though Blue Bonnet sells its concoctions only on site, to some extent it has competition across the state. Despite its beefy reputation, Texas has emerged as a pie mecca of sorts.

Royers Round Top Cafe, situated in the tiny town of Round Top about a two-hour drive to the east of Marble Falls, has become so well-known for its creative takes on the sweet treat, with such varieties as Texas Trash Pie (the ingredients include pretzels, graham crackers and coconut) and Not My Mom's Apple Pie, that it ships thousands of pies every year across the country.

Still, for Blue Bonnet's regulars, there is only one place for pie. "It's like coming to your grandma's house," said Andy Fekner, a retiree who lives in the area and visits three or four times a week, sitting at his usual spot at the counter.

CHARLES PASSY/THE WALL STREET JOURNAL

Longtime Blue Bonnet Cafe employee Maura Dominguez

LIFE & ARTS

ANTIQUITIES

The Men Who Trade ISIS Loot

The middlemen who buy and sell antiquities looted by ISIS from Syria and Iraq explain how the smuggling supply chain works

A STREAM OF plundered antiquities flowing out of Syria and Iraq to Western art collectors is dependent on men like Muhammad hajj Al-Hassan.

Mr. Al-Hassan, a 28-year-old Syrian, says he started to trade antiquities in 2015 after being contacted by a top official of Islamic State who sought his archaeological expertise to find Western buyers.

Later, he became cog in an international supply chain smuggling art looted by ISIS.

By Benoit Faucon, Georgi Kantchev, and Alistair MacDonald

ISIS demands that diggers in sites like Palmyra, Syria, above, sell all discovered items to the group at a 20% discount of their estimated market value; ISIS then resells the objects itself.

CLOCKWISE FROM TOP: REUTERS; AFP/GETTY IMAGES

ISIS's territorial grip is fading fast: Iraq has declared victory over the terrorist group in Mosul and ISIS is fighting to hold its self-proclaimed Syrian capital Raqqa—the last major city under its control. But the group's legacy of looting will linger for many years, law enforcement officials say, in much the same way that art looted by the Nazis continues to surface 70 years later. The ancient statues, jewelry and artifacts that ISIS has stolen in Syria and Iraq, are already moving underground and may not surface for decades, according to these officials and experts in the trade.

"Once looted in Syria and Iraq, objects enter a gray market shrouded in secrecy," said Michael Danti, an archeologist who directs the Boston-based Cultural Heritage Initiatives and advises the U.S. State Department on the looting of antiquities in Syria. "It's a problem that will stay with us for years to come."

Western security officials say they expect revenue from looted antiquities from Iraq and Syria to become an increasingly important source of money for ISIS if its other revenue streams, such as oil, continue to dwindle.

"ISIS is increasing pressure on this line of trafficking to compensate for the loss of petroleum revenue," a French security official said.

While it's impossible to know how much money these stolen artifacts provide to ISIS annually—estimates range from the low tens of millions by Mr. Danti to $100 million by a French security official—the income is considered noteworthy.

The Wall Street Journal interviewed Syrian art traders, recent ISIS defectors who worked in antiquities, and law enforcement officials in the U.S., France, Switzerland, and Bulgaria to piece together how the international antiquities smuggling operation works.

Their accounts describe a pattern of trafficking in which ancient objects make their way from archeological sites in Iraq and Syria, across borders with Turkey and Lebanon, to warehouses in Europe and Asia to await sale to dealers in the West.

Last month, Oklahoma City-based arts-and-crafts retailer Hobby Lobby settled claims with the U.S. government by paying a $3 million fine and surrendering artifacts believed stolen in 2010 and smuggled from Iraq. In response to the claims, which are related to allegations of trading items looted prior to the emergence of ISIS, Hobby Lobby said it will surrender the artifacts, pay the fine and adopt new procedures for buying cultural property.

ISIS hasn't commented on the trade in antiquities.

Mr. Al-Hassan and another Syrian art trader, Omar Al-Jumaa, said they agreed to speak to the Journal in person to denounce ISIS and draw attention to the group's role in the antiquities trade.

Like others involved in antiquities smuggling, Mr. Al-Hassan trades under an alias. He identified himself by his trading name, Mohamed al-Ali, in an interview for a May 2017 Wall Street Journal video about looted art.

In more recent interviews, Mr. Al-Hassan declined to say whether he is currently active in the trade. Mr. Al-Jumaa said he is currently selling looted objects.

Before the civil war, Mr. Al-Hassan said he was an English-language student who had begun studying archaeology in his spare time, inspired by a friend's father. His knowledge in that field became an asset when the rebel Free Syrian Army took control of his region of Eastern Syria in 2013 and he began regularly digging antiquities for the group.

When the territory passed into the hands of Islamic State in June 2014, Mr. Al-Hassan said he and other young men were arrested by the terror group and accused of collaborating with the FSA. Mr. Al-Hassan said he and four other men, including his neighbor, were blindfolded by a Tunisian ISIS commander and lined up in a school. Everyone in the group, except for Mr. Al-Hassan, was shot in the head, he said. Mr. Al-Hassan says he was spared when ISIS officials told him they had no proof of his connection with the FSA.

One year later, he says, he was contacted by Abu Laith Al-Dairi, the ISIS official in charge of antiquities, to sell artifacts looted by the group. "We have a lot of objects," Mr. Al-Hassan remembers Mr. Laith Al-Dairi saying over the phone. "I need you to find European buyers."

For many Syrian traders and smugglers, antiquities are one of the few ways they can earn a living. "They are destroying our history," said Mr. Al-Hassan. But "traffickers love them because they can make money."

The Journal couldn't verify some details of Messrs. Al-Hassan and Al-Jumaa's stories about their lives in Syria. But their accounts of the antiquities trade squared broadly with those of law enforcement officials. Mr. Al-Hassan, for instance, told the Journal last year about a Roman-era ring that ISIS's Mr. Al-Dairi was trying to sell. Later, in December, the U.S. Justice Department filed a civil complaint seeking the recovery of that object and other Syrian-looted artifacts from the group and named Mr. Al-Dairi as a key figure in the trade.

Islamic State seizes antiquities from Syria and Iraq by giving licenses to locals to dig for them, according to people involved in the trade. The digging operation is often overseen by the group's cadre of foreign jihadists, which the organization considers more loyal than locals.

Initially, ISIS didn't charge for the licenses but demanded loyalty from diggers and 20% of the estimated value of each object they excavated, these people say. Now, however, ISIS demands that diggers sell all discovered items to the group at a 20% discount of their estimated market value; ISIS then resells the objects itself, according to Mr. Al-Hassan. As ISIS loses territory, such rules are applied unevenly depending on the local leader, Mr. Danti said.

The illegal trade is "not just for funding the [terrorist] group itself, but for creating ways to bring funds to its subjected population, whose hearts and minds Islamic State is trying to win," Yaya Fanusie, director of the Washington-based counterterrorism think-tank Foundation for Defense of Democracies, told a U.S. congressional hearing last year.

Marble bas-relief from the Middle Euphrates valley, above, likely looted by ISIS, according to French officials. The object was seized at Paris's Roissy airport in March 2016 after arriving from North Lebanon. Left, a screenshot from a video that Muhammad hajj Al-Hassan used to find buyers for ancient bibles smuggled out of Syria. This bible dates from early Byzantine era, around the 6th century A.D., and was excavated in North Aleppo by ISIS before being put up for sale in Turkey in June 2016 for $50,000, according to Mr. Al-Hassan. The bible has yet to find to a buyer, he said.

A network of independent intermediaries buy artifacts from ISIS and carries them out of Syria and Iraq, often blending in with humanitarian convoys and refugees, Western officials and ISIS antiquity traders say. They are also hidden in exports such as cotton, fruit and vegetables.

Outside Syria and Iraq, the intermediaries then sell to middlemen such as Messrs. Al-Hassan and Al-Jumaa.

Mr. Al-Hassan said he recently sold two antique bibles looted by Islamic State from a site in Eastern Syria to a city in Southern Turkey for €10,000 ($11,000). The Russian then smuggled the bibles out of Turkey, hidden in a truck with vegetables, he said. Mr. Al-Hassan said he kept a commission of 25% and gave the rest to the trader who had brought the object to Turkey.

Other smugglers employ different ways to hide their cargo.

Mr. Al-Jumaa, said he paid $1,000 to a local Syrian woman wearing a long black robe known as an abaya to carry a bronze Roman statue across the Turkish border from Syria in her bag. The statue, of a warrior with winged helmet and a shield, had originally come from Raqqa, he said. The Turkish border police rarely check on women for religious reasons, Mr. Al-Jumaa said.

Mr. Al-Jumaa said he picked up the statue from the woman on the Turkish side of the border and drove it to a city in Turkey, where he said he is currently looking for a buyer. (Mr. Al-Jumaa said he later discovered that the object may be a reproduction made in the 1920s.)

Like Mr. Al-Hassan, Mr. Al-Jumaa has reason to hate Islamic State. He said he was jailed in 2014 after assaulting a member of the group who had refused to let him take a cousin badly burned in an air attack by the Syrian regime to Damascus for treatment. Every morning, an Islamic State jail warden put a large kitchen knife to his throat and said the group would execute him that day.

But after escaping to Turkey he said he began trading for the group. "I don't feel happy selling our history, but I need the money," said Mr. Al-Jumaa, who was a law student when the war broke out.

Despite ISIS's territorial losses, the trader says his business is doing well because so many items plundered by the group are now in circulation. Last week , he said he was set to meet four Lebanese men he had communicated with over WhatsApp who were travelling to Turkey to buy a cut emerald he said was looted by the organization in Mosul in 2014. Mr Al-Jumaa is asking $600,000 for the precious stone, he said, but negotiations with a British trader to sell for that amount failed in March.

Mr. Al-Hassan said an Iraqi-Kurdish trader on July 30 was trying to sell a 3rd-century Palmyrene limestone statue of a woman after bringing it to Istanbul. On Aug. 1, traders on the Syrian side of the border were offering an ancient Greek silver pendant and antique Hebrew coins looted in Western Syria, as they tried to smuggle them into Turkey, Mr. Al-Hassan said.

In the majority of cases, artifacts from Iraq and Syria are first smuggled into Turkey or Lebanon, European and U.S. officials say, calling those countries key smuggling hubs. From there they often pass through southeastern European countries like Bulgaria and Romania and then into Western Europe, in particular Germany and Switzerland, according to the officials.

Bulgarian police once searched a shipment of clothes from an undisclosed location and found ancient coins disguised as buttons on jackets, according to a December report written by the Organized Crime Unit of Bulgaria's Interior Ministry and seen by the Journal.

Increasingly, objects are being shipped to Southeast Asian nations, like Singapore and Thailand, before making their way back to Western Europe, Brian Daniels, a research associate at the Smithsonian Institution told the House Financial Services Committee at a hearing in June.

That's because Asian markets are less closely monitored by customs officials, European officials say. If the objects arrive in the West from Asia, that may help cover their Middle-Eastern origin as they cross borders, Western security officials say.

In March 2016, police in Paris seized stolen steles from a marble altar as it transited from Lebanon to Thailand. The artifact originated in the middle area of the Euphrates Valley, which spans Syria and Iraq and was largely controlled by ISIS at the time, French customs officials said. It was being shipped via Asia to help mask a suspected final destination in the U.S., according to French security officials familiar with the matter. French authorities tracked the sender to an address in North Lebanon but are still trying to find that person's identity, they say.

There are around 20 major art galleries and trading houses in Western European cities that offer smuggled artifacts, the Bulgarian report said, without naming them. "The trade's main target buyers are, ironically, history enthusiasts and art aficionados in the United States and Europe—representatives of the societies which ISIS has pledged to destroy," Ms. Fanusie told Congress last April.

The FBI has a $5 million reward for any information about looted materials coming into the U.S. from Syria and Iraq. No one has come forward to claim a reward, law enforcement officials say.

GIACOMO FORTUNATO FOR THE WALL STREET JOURNAL

WHAT'S YOUR WORKOUT? | By Jen Murphy

Gymnastics For a Google Executive

How Kari Clark got serious about working out after CrossFit

AFTER KARI CLARK gave birth to her second child in 2015, she decided it was time to finally master a cartwheel. "When you have a baby you have to become open to embracing new habits," she says. "I had always exercised, but suddenly I wanted to get really serious about my health."

Ms. Clark, a 39-year-old product manager for Google Accessories in New York, says despite three years of CrossFit she still couldn't do a pull-up. "I was that kid in gym class who struggled to climb to the top of the rope, who couldn't do a cartwheel," she says. "We usually avoid what we're bad at which is why I decided to try gymnastics."

Ms. Clark had noticed people at her Brooklyn gym doing handstands and ring holds and approached a trainer about lessons.

"The first time I tried to do squats on a low beam I fell on my butt 20 times," she says. "Learning movement patterns outside of your norm teaches your body to have a child's openness to new things. It's like problem solving for the body."

Gymnastics helped her gain upper body strength and she learned powerlifting techniques to strengthen her lower body and core. "In CrossFit I was always just following along," she says. "Now, I dissect my movement and technique. I video and photograph my workouts so my trainer can critique my form."

Last year, she did her first cartwheel and pull-up.

The Workout

Ms. Clark works out for one hour, six mornings a week. Once a week she meets for group movement classes with trainer Kyle Fincham at CrossFit Outbreak. Drills might include handstands, rows and dips on gymnastics rings and tai chi-inspired partner presses where she keeps hands at chest height and pushes them against the hands of a resisting partner.

Mr. Fincham gives her homework for the rest of the week. Twice a week she mixes in bent arm work, such as eccentric pull ups, where she starts at the top position of a pull up and slowly lowers herself down to hanging. Once a week she does straight arm work, like skin the cat, where she starts from a dead hang position on the rings, and pikes her legs up and over her head sending her toes toward the ground behind her. Three days a week she incorporates hand balancing like walking on her hands along the wall. Twice a week she goes to Brooklyn Athletic Club to powerlift or join a strength class. Ms. Clark weighs 135 pounds and can squat her weight and deadlift 230 pounds. "My goal is to do a double bodyweight deadlift," she says.

She weaves two, 10-minute HIIT cardio sessions into each workout, that might include battle ropes or sprints for 20 seconds on, 40 seconds off.

Every morning she meditates for one minute with her four-year-old daughter using Headspace.

The Diet

After reading Slim by Design, which touts redesigning living spaces to positively impact diet, Ms. Clark rearranged her refrigerator and cupboards, moving healthy foods front and center and making less healthy items harder to reach. "When I'm exhausted I grab the first thing I see, and now that's usually cherry tomatoes," she says. She works with a coach at nutrition consultancy, Working Against Gravity, and sets macronutrient targets for each day.

She often eats two breakfasts; a homemade muffin pre-workout and egg whites or oatmeal post. The Google offices provide complimentary meals. "I usually have a huge salad of roasted vegetables," she says. Ms. Clark's husband also tracks his food and the couple cooks most nights. Dinner is lean meat and loads of vegetables. "I probably eat three cauliflowers a week," Ms. Clark says. On Friday mornings she takes her children on doughnut crawls. "We split a doughnut at each stop and then eat healthy the rest of the day."

The Gear & Cost

Ms. Clark purchased gymnastics rings for $25 on Amazon and has two pairs. "I've used them in hotel gyms in China and parks in Barcelona," she says. She wears Adidas Adipower Weightlifting Shoes (retail $180). She pays $60 per group movement sessions at CrossFit Outbreak and her membership at Brooklyn Athletic Clubs costs $300 a month, including classes. She pays $160 a month for nutrition coaching.

The Playlist

"I listen to podcasts while I stretch between sets," she says. Favorites include the Tim Ferriss Show, Noah Kagan Presents and Happier with Gretchen Rubin.

Kari Clark, from left to right, plays catch while hanging from a bar at CrossFit Outbreak in Brooklyn, N.Y. She performs skin the cat on the rings. She power lifts and her goal is to deadlift 230 pounds.

ART REVIEW

DISCOVERING MODERNISM'S NEGLECTED SPUR

BY JAMES PANERO

New York

ALFRED H. BARR JR., the founding director of the Museum of Modern Art, once wrote that "those who love art or spiritual freedom cannot remain neutral… when one kind of art or another is dogmatically asserted to be the only funicular up Parnassus."

There are, of course, many twists and turns in the history of art, yet the line that runs up Modernist Mountain has often been mapped as a single track: Impressionism, to post-Impressionism, to Cubism, on through the many pictorial innovations of the last century. In this analogy Symbolism, an idealist route of the 1890s, may be modernism's neglected spur—and an impresario named Joséphin Péladan (1858-1918) its most colorful conductor.

"Mystical Symbolism: The Salon de la Rose+Croix in Paris, 1892-1897," an intoxicating exhibition now at New York's Solomon R. Guggenheim Museum, re-creates the short-lived exhibition series that Péladan mounted in Paris at the height of the Symbolist moment. Organized by Guggenheim senior curator Vivien Greene, the show includes 40 works that once appeared in Péladan's invitational exhibitions. The artists assembled, like the history of the Salons themselves, will be new to almost everyone, but these Salons were once a sensation, encapsulating the anxious mood of the fin-de-siècle and influencing the art of the 20th century.

Infused with spiritualist mysticism, versed in the poetry of Charles Baudelaire, and set to the soundtrack of Richard Wagner, Symbolism championed art, literature and music of many styles—all art with a capital A, with fidelity to nature subordinated to the expression of the artist's mood. In "Mystical Symbolism," the outward appearances can seem anything but modern. Artists such as Pierre Amédée Marcel-Béronneau and Ferdinand Hodler looked past what they considered the mundane observations of the Impressionists to draw on the Old Master styles of Gustave Moreau and Pierre Puvis de Chavannes.

Péladan embodied this same rear-guard sensibility. He styled himself an Assyrian "Sar," or king, and named his group Rose+Croix after the esoteric and arguably fictitious Rosicrucian Order of 17th-century origin. Through his Salons he sought work that illustrated dreams, allegory and myth "to restore in all its splendor the cult of the Ideal based on Tradition with Beauty as its means." The story of Orpheus, that original tragic artist, is a recurring theme here, and maidens abound in various stages of *déshabillé*. The exhibition is most revelatory for the many artists, from Charles Maurin to Fernand Khnopff, Jan Toorop to Alphonse Osbert, it brings to light. The dream-like lithograph by Carlos Schwabe, commissioned to promote the first Salon, is a highlight of fin-de-siécle printmaking.

The Guggenheim exhibition hinges on the personality of Péladan, and "Mystical Symbolism" includes portraits of the artistic leader. This author, critic and Catholic occultist employed his imperious bearing and forked beard to maximum effect: Especially striking is Jean Delville's messianic figure in choir dress and Alexandre Séon's priestly golden profile.

SOLOMON R. GUGGENHEIM FOUNDATION, 2017

Alphonse Osbert's 'Vision' (1892), center, in one of the galleries of 'Mystical Symbolism' at the Guggenheim

In her red-velvet-bound catalog, Ms. Greene explains how the Salon de la Rose+Croix "privileged a hermetic and numinous vein of Symbolism, which reigned during the 1890s when Christian and occult practices were often intertwined in a quest for mysticism undertaken by many who yearned for a renewed centrality of faith. The Salon aimed to transcend the mundane and material for a higher spiritual life—the movement's holy grail."

Ms. Greene's focused and illuminating exhibition, which goes on to Venice's Peggy Guggenheim Collection in the fall, continues the New York museum's commitment to exploring modernism's less trodden paths. But equally important, the museum shows respect for the art and ideas on view. With deep red walls and plush blue couches, Ms. Greene and her designers have done much to establish this exhibition as a Rosicrucian-like art-filled precinct. The addition of recorded music in the galleries, normally a distraction in museum settings, here completes the transformation of the space and signals the relevance of music to Symbolist history. Ms. Greene, in fact, selected only music performed during the original Salons—most famously, a work by Erik Satie written for the Rose+Croix.

And far from a dead end, the art of the Rose+Croix, and Symbolism in general, may lead more directly than one might assume into the art of the 20th century, especially in the development of pure abstraction. "The aesthetic quest of the R+C—to inspire through the new religion of art," argues Ms. Greene, "was carried on by Vasily Kandinsky, František Kupka, and Piet Mondrian, all of whom were weaned on Symbolism and owed their theories of painting, in varying degrees, to the esoteric beliefs of Theosophy."

So perhaps it isn't a coincidence that the exit of "Mystical Symbolism" leads directly onto the Guggenheim's magical Kandinskys and Mondrians hanging on the rotunda walls.

Mystical Symbolism: The Salon de la Rose+Croix in Paris, 1892-1897
Solomon R. Guggenheim Museum, through Oct. 4

Mr. Panero is executive editor of the New Criterion

REVIEW & OUTLOOK

Trump's Afghan Choice

The Russia election probe aside, President Trump has so far avoided any major foreign-policy mistakes. But he will commit an Obama-size blunder if he overrules the advice of his generals who want a modest surge of forces and a new strategy in Afghanistan.

He may repeat Obama's Iraq blunder by overruling his generals.

Mr. Trump had by all accounts agreed weeks ago to the Pentagon's request for an additional 3,000 to 5,000 troops plus more-aggressive use of air power and other assets. But he's having second thoughts as he indulges his isolationist instincts fanned by aide Stephen Bannon. Mr. Trump's decision will determine whether he'll repeat Mr. Obama's catastrophic 2011 withdrawal from Iraq, and it will echo among allies and adversaries for the rest of his Presidency.

* * *

Mr. Trump—like all Americans—is understandably frustrated that the Afghan war still isn't won after 16 years and 2,400 American lives lost. Barack Obama undermined his own 2009 surge of troops with a fixed exit date, and then tried to time the departure of all U.S. troops to his own White House exit.

This told the Taliban to wait the U.S. out, and the insurgents have since regained much ground they lost during the surge. Mr. Obama recognized his mistake enough to keep 8,400 troops in the country, but he limited their duties mainly to training and pursuing Islamic State enclaves. We're told there are only about a dozen F-16s in the country, and the Afghan military lacks crucial close-air support during Taliban engagements.

Mr. Trump has given his field commanders more freedom, and they can now pursue Taliban fighters. But the Afghan forces are still losing ground in much of the country and need more support. U.S. Defense Secretary Jim Mattis's plan would inject U.S. advisers with Afghan battalions to assist on the battlefield.

The U.S. could also deploy some Apache attack helicopters to blunt Taliban advances, and close-air support and air evacuation assistance would give Afghan forces a dose of confidence. They're certainly willing to fight, having lost 2,531 soldiers through May 8 this year alone, with 4,238 wounded. The U.S. has lost 10 soldiers in Afghanistan this year.

Mr. Mattis also needs a strategy for Pakistan, which provides a refuge for the Taliban and lethal Haqqani network. This may require cross-border U.S. military raids, ideally with Pakistani cooperation, but alone if necessary. Mr. Trump could help by naming an ambassador to Islamabad, and perhaps a special envoy like former General David Petraeus to all of the main regional players.

Mr. Trump is fond of saying around the White House that Afghanistan is "the graveyard of empires," which might be relevant if the U.S. were running an empire. The U.S. is there at the request of a legitimate elected government and a population that doesn't like the Taliban. A Trump troop minisurge would be a crucial political signal to the Afghan government and regional players that America isn't bugging out.

The U.S. won't be there forever, but it does need to be there long enough to prevent the country from reverting to a jihadist safe haven. The Taliban is joined by Islamic State and al Qaeda, and if America were to pull out they might depose the government in Kabul.

As a political and strategic matter, Mr. Trump would own that result as Mr. Obama did the rise of Islamic State. The pictures of Taliban marching into Kandahar and Kabul and tearing down the schools for women that the U.S. has done so much to support wouldn't be pretty. The panicked evacuations and mass killings wouldn't help the image Mr. Trump wants to project of a strong leader.

The strangest analysis of late is that Mr. Obama's 2011 withdrawal from Iraq was ultimately a success because it forced Iraqis to unite to repel Islamic State. Yes, and smokers tend to stop after they get lung cancer.

But what a fearsome price Iraq and the U.S. have paid for that abdication. Iraq lost a quarter of the country, tens of thousands were killed and major cities were turned to rubble. The U.S. had to re-engage militarily and devote four years breaking Islamic State's caliphate while even its temporary success inspired jihadist attacks around the world, including the U.S.

* * *

Mr. Trump may chafe that he has to spend more money and political capital on Afghanistan, but U.S. Presidents can't withdraw from national commitments without consequences. North Korea, Russia, China and Iran are sizing up the President in these early months to determine how much military or territorial expansion they can get away with.

Walking away from Afghanistan, or overruling his generals to satisfy the isolationism of his political base, would show that he's more like Barack Obama than he wants to admit.

How to Increase Illegal Immigration

For years immigration restrictionists have claimed that they love immigrants and merely oppose illegal entry. Apparently that was a bait and switch. President Trump's first big restrictionist bill proposes to cut legal immigration by as much as half to 500,000 people or so a year.

Cutting legal visas amid a labor shortage would hurt U.S. workers.

The President on Wednesday endorsed legislation that aims to restrict "chain" family immigration and replace employer-sponsored green cards with a point-based system. Current policy "has placed substantial pressure on American workers, taxpayers and community resources," said Mr. Trump. How shrinking the number of workers in an economy that already has a record 5.7 million job openings is a mystery he didn't bother to explain.

* * *

U.S. citizens can now sponsor immediate family members—spouses, minor children and parents—for green cards. Their siblings and children age 21 and over also receive priority, though millions are waiting in the queue due to per-country quotas. Employers can sponsor an additional 140,000 green cards a year.

Senators Tom Cotton of Arkansas and David Perdue of Georgia have introduced legislation that would eliminate the green-card preferences for parents, adult children and siblings of U.S. citizens, which in effect would reduce legal immigration by 40%. Foreigners could also apply for up to 140,000 green cards through a government admissions process that awards points based on education, language ability, age, educational attainment and job skills.

There's a case for basing immigration more on skills than extended-family ties. Minor children and parents should have priority, but siblings have no special claim on America. Cultural assimilation also matters, so an emphasis on English and other signs of potential success in America are worth accounting for.

The problem is that the bill's main purpose seems to be to slash the immigration rolls. In 2013 Mr. Cotton wrote in these pages that "we should welcome the many foreigners patiently obeying our laws and waiting overseas to immigrate legally." But under his bill the four million or so foreigners who have been waiting in the green-card line for years would have to reapply under the new system.

While the legislation is supposedly modelled on immigration systems in Australia and Canada, both of those countries are far more welcoming of foreigners. Australia admits three times as many immigrants a year than the U.S. as a share of population. Canada accepts more than twice as many, and concierges help fast-track the process for high-skilled workers.

Any point system is also arbitrary and reflects the biases of politicians—namely, Messrs. Cotton and Perdue—rather than the needs of employers. While a foreign professional degree in a scientific field is worth 10 points, a U.S. bachelor's degree in English gets six. A 26-year-old receives 10 points—five times as many points as a 46-year-old. Employers have a better idea of the skills they need than does the U.S. Labor Department bureaucracy.

Mr. Trump and the restrictionists argue the legislation will reduce the welfare rolls while protecting U.S. workers from competition. But that's another misdirection play. Legal residents who aren't citizens don't qualify for most entitlement programs, and their labor-participation rate is higher than that of U.S. citizens.

As for the argument that "low-skilled" immigrants are displacing U.S. workers, what economy are they living in? The U.S. jobless rate in July fell again to 4.3%, and employers in a myriad of industries including construction, agriculture and hospitality are facing a severe labor shortage.

The H-2A visa program for agriculture is byzantine while the caps on seasonal guest workers are far too low to satisfy employer demand. Within five days of the H-1B visa lottery opening for high-skilled workers this year, employers had submitted 199,000 applications for 60,000 positions. A shrinking labor supply means slower growth, which means fewer jobs for U.S. workers.

One bizarre counterclaim is that there must not be a labor shortage because wages aren't rising fast enough. But they are rising—2.5% in the last year. And every economist knows that employers can only raise wages as fast as productivity and profitability allow. If the cost of labor rises too much for a specific job, employers will simply cease providing the service or move production overseas. That means fewer jobs for Americans too.

* * *

The larger irony is that by restricting legal immigration Mr. Trump would increase the incentive for more foreigners to cross the border illegally or overstay their visas. The solution, as ever, is a legal immigration system that is generous with visas and flexible enough to meet the demands of a growing U.S. economy. If the White House is serious about passing something in Congress, it needs to recognize that reality.

Advice to Republicans On Health-Care Reform

BUSINESS WORLD
By Holman W. Jenkins, Jr.

Republicans are now wondering what to do about ObamaCare pending its unraveling, since they failed to enact their repeal-and-replace legislation. They failed not only because they couldn't assemble their fractious majority, but because they couldn't produce a plan that made any sense.

They wanted to preserve ObamaCare's popular guarantee of coverage for those with pre-existing conditions. They wanted to eliminate the unpopular individual mandate. Yet each Republican senator understood that this was a formula for disaster, sabotaging the very idea of insurance.

Having botched their chance to fix those things in ObamaCare that most urgently needed fixing, some Republicans are now working with Democrats to throw money at an unfixed ObamaCare, individual mandate and all.

Ugh. The things that could have been fixed, in keeping with the GOP's philosophical approach to health care, are its excessive benefit mandates that drive up the price of coverage and shift costs from Obama-favored groups to the young, healthy and nonpoor, who obviously weren't buying.

Republicans were right to oppose President Obama's version of the individual mandate, which wasn't about enforcing personal responsibility but a hidden tax-and-redistribution scheme. But in abandoning what was originally a conservative proposal, they abandoned the only realistic way of reconciling the electorate's manifest priorities, moving toward a system that is both universal (as Democrats and some Republicans want) and market-based (as Republicans and some Democrats want).

John McCain warmed many cockles with his paean to bipartisanship in his return to the Senate floor. Then he promptly sank Republican hopes of doing anything useful.

But he was being hardheaded in at least one sense: America can't prosper if every election brings potentially a 180-degree shift in its approach to health-care policy, environmental regulation, etc., by a president waving his executive-order wand.

Party rhetoric, it's true, has become more ideologically polarized in recent decades, but this can be overinterpreted. There are plenty of pro-deregulation Democrats, including all those Wall Streeters who paid to hear Hillary. A large swath of Democratic constituents favor charter schools, understanding, as a recent study shows, that public schools improve in the process.

The Obama administration took aim at occupational licensing, an element of local regulation that increasingly hinders the unemployed from relocating in search of jobs. Republicans and Democrats, on paper, agree about overhauling the corporate-income tax.

Run a straight line through certain recent presidential candidates. Bill Clinton, George W. Bush, Barack Obama, John McCain, Mitt Romney and Donald Trump all had histories that placed them at a remove from their party centers.

Mr. Obama was the most avowedly nonpartisan, postpartisan of them all in his 2008 campaign—though, after being elected, he quickly turned into Mr. "Elections Have Consequences and I Won."

Which is how we got the unworkable ObamaCare in the first place.

Making their peace with the individual mandate is the way to advance market-based solutions.

OK, the Republican Party is poorly led right now. A president or a majority leader or even Sen. McCain might have taken charge and insisted that accepting the individual mandate was the right price for wrestling back control of policy from the Democrats and moving toward a market-based solution that would be a rational advance over what we have now.

But it's also true that the GOP hasn't been getting good advice from its usual helpers. Many Republican-friendly policy shops have mutely gone along with the vilification of the individual mandate even though they know better.

So, instead, Republican lawmaking became policy making by applause meter. The individual mandate is unpopular, so it's out. The guarantee that 25-year-olds can stay on the family policy is popular so it remains even though it's exactly the kind of cost-shifting fake "benefit" that Republicans should oppose.

Leadership is required to make a fractious party produce a plan that is coherent and responsible in its particulars. Leadership is required to make party loyalists line up behind it.

That's what a party is for. That's what a leader is for. President Trump, who obviously is not suited to the job, has practically begged the congressional party to cough up somebody for this role. Many thought it would be Paul Ryan. The job is still open.

The Holy Cows That Weren't

By Tunku Varadarajan

In the past year India has been witness to numerous gruesome public murders of men suspected of eating beef or transporting ostensibly sacred cows for slaughter. A band of radicals calling themselves *gau-rakshak*, or cow-protectors, may lay claim to being the world's first terrorists in a bovine cause. Yet this intolerant movement's appeal to religion is greatly at odds with the facts.

The Hindu sage Yajnavalkya, who lived in the eighth century B.C., made a delicious observation on the flesh of the cow, rarely invoked in present times except by historians. In the "Satapatha-Brahmana"—a text that describes many of the rituals in the Vedic religion that preceded modern Hinduism—Yajnavalkya says of beef: "I, for one, eat it, provided that it is tender."

These awkward words are ignored by the Hindu extremists who wage a thuggish campaign against beef eating, as well as by their more sophisticated enablers in the Indian Parliament, who urge Indians to empathize with the wounded religious sentiments that give rise to today's vigilante violence.

The sage's affirmation occurs in a passage that speaks against the eating of beef—a practice that was widespread in India at the time—but certainly doesn't prohibit it. And as the Indian archaeologist D.R. Bhandarkar pointed out in lectures published in 1940, this particular exhortation against eating beef in the "Satapatha-Brahmana" was made "not on religious, but on utilitarian grounds." In fact, cows had been consumed in India since the arrival of the Indo-Europeans around 1800 B.C.

The "Rigveda," the first canonical Hindu text (composed between 1700 and 1500 B.C.), is replete with references to the ritual sacrifice of cattle. Indians used the meat to propitiate the gods—especially Indra, god of rain, and Agni, the fire-god.

The most ancient texts of the Hindu religion offer no evidence for a prohibition on beef-eating. One of them, the "Taittiriya-Brahmana," states, "Verily, the cow is food."

Some scriptural passages suggest that eating beef isn't a great idea, but never for reasons of bovine sanctity. Unlike in modern India, where Hindu radicals and even secular Hindus believe that all forms of cattle are sacred, the ancient beef-eating Hindus made practical distinctions. As pastoralists and farmers, they knew the value of a fertile cow. Thus bulls and sterile cows were more suitable for consumption than milch cows.

Oxen were sacrificed frequently at cremations—the corpse being covered with bovine fat to aid immolation—and as offerings for honored guests. Bhandarkar explained in his lectures that the killing of an ox "formed such an essential part of the hospitality to be shown to a distinguished guest that a compound word consisting of two words meaning 'a bull' and 'to kill' respectively was coined to denote a guest." The word is *goghnotithih*, "he for whom a bull is killed."

Lest one believe that beef was only eaten after ritual sacrifice by the Hindus of old, archaeological evidence in northern India suggests a widespread nonritual killing of cattle. Manu, the legendary first man and lawgiver, doesn't give Hindus permission to consume camel. Yet cows are acceptable.

The Indian historian D.N. Jha—whose book "The Myth of the Holy Cow" (Verso, 2004), is available in India only in bootleg form due to opposition from Hindu hard-liners—writes that animal sacrifice remained a feature of the life of the Indo-Europeans after their migration into India for several centuries, "until sedentary field agriculture became the mainstay of their livelihood."

Lawgivers began to discourage beef-eating "around the middle of the first millennium, when society began to be gradually feudalized, leading to major socio-cultural transformation." The eating of beef, he observes, came to be viewed as a sin and a source of pollution largely from the early medieval period.

This ascription of sinfulness has no ancient textual support, and many Hindus eat beef to the present day—particularly among the lower castes, who cannot afford to be fussy about their food, and in southern India, where higher educational standards make people less susceptible to the fevers of religiosity.

The holiness of the cow, to give Mr. Jha the last word, "is elusive." There isn't a cow-goddess in Hinduism, nor any cow temple in her honor anywhere in India. Calls for a ban on beef are no better than an attempt by Hindu chauvinists—who depict beef-eating as a "Muslim" practice—to impose a rigid monolithic culture on a religion that has more varieties than any other faith on earth.

Mr. Varadarajan is a fellow at Stanford University's Hoover Institution.

OPINION

Can Kelly Conquer the White House Chaos?

DECLARATIONS
By Peggy Noonan

I realized as I wrote this that I've never met a Kelly I didn't like, who wasn't admirable. There was the great journalist Michael Kelly, lost in Iraq in 2003 and mourned still by anyone with a brain: What would he be making of everything *now?* There's Gentleman Jim Kelly, formerly of Time and an award-winning journalist. Ray Kelly was one of New York's finest police commissioners. Megyn Kelly is a brave, nice woman.

> The new chief of staff has the confidence of a general and the power of the last available grown-up.

I wrote once of a small miracle in which a group of friends arrived, late and in tears, to see John Paul II celebrate Mass in New York. The doors of the cathedral were shut tight. A man in a suit saw our tears, walked over, picked up a sawhorse, and waved us through. As we ran up the steps to St. Patrick's, I turned. "What is your name?" I cried. "Detective Kelly!" he called, and disappeared into the crowd.

Grace Kelly was occasionally brilliant and always beautiful. Gene Kelly was a genius. There is the unfortunate matter of the 1930s gangster "Machine Gun Kelly," but he is more than made up for by Thomas Gunning Kelley (an extra e, but same tribe), who in 1969 led a U.S. Navy mission to save a company of Army infantrymen trapped on the banks of a canal in South Vietnam's Kien Hoa province. He deliberately drew fire to protect others, was badly wounded, waved off treatment, saved the day. He received the Medal of Honor. There are other Kellys on its long, illustrious rolls.

So Gen. John Kelly (retired), U.S. Marine Corps, veteran of Anbar province, Iraq, and new chief of staff to President Trump: onward in your Kellyness.

Everyone wonders what he'll do, what difference he'll make. He is expected to impose order and discipline, tamp down the chaos. I suspect his deepest impact may be on policy and how it's pursued, especially in the area of bipartisan outreach.

American military leaders are almost always patriotic, protective, professional, practical. They're often highly educated, with advanced degrees. Mary Boies, who for two decades has worked with the military as a leader of Business Executives for National Security, said last week: "In general, military top brass are among the most impressive people in our country."

It's true. And in a nation that loves to categorize people by profession, they can be surprising.

Generals and admirals are rarely conservative in standard or predictable ways, ways in which the term is normally understood. They've been painted as right-wing in books and movies for so long that some of that reputation still clings to them, but it's wrong.

They are not, or not necessarily, economic conservatives. Top brass are men and women who were largely educated in, and came up in, a system that is wholly taxpayer-funded. Their primary focus is that the military have what it needs to do the job. Whatever tax rates do that, do that. They aren't economists, they don't focus on Keynesian theory and supply-side thought. They're like Gen. Dwight Eisenhower, who saw the historically high tax rates of the Roosevelt-Truman era and thought fine, that's how we won World War II. He didn't seem concerned about tax rates until he'd been president for a while and started hearing about the problems of business while playing golf with CEOs.

John Kelly on Capitol Hill on May 24.

BLOOMBERG

Generals aren't romantic about war, because it's not abstract to them. Ms. Boies: "Army officers know better than anybody the limits of military hard power. Military people hate war because they've seen it and know both its limitations and its devastating effects."

In my observation generals are both the last to want to go in ("Do you understand the implications of invasion? Do you even know the facts on the ground?") and the last to want to leave ("After all this blood and sacrifice, this hard-won progress, you're pulling out because you made a promise in a speech?"). They hate hotheaded, full-of-themselves civilians who run around insisting on action. Those civilians aren't the ones who'll do the fighting, and as public allies they're not reliable.

On social issues they generally tend to be moderate to liberal. I have never to my knowledge met a high officer who was pro-life. They largely thought Don't Ask, Don't Tell a reasonable policy, but they're realists: Time moves on, salute and execute. They don't want to damage or retard their careers being on the wrong side of issues whose outcomes seem culturally inevitable. You don't die on a hill that is not central to the immediate mission.

They are, as a rule, not deeply partisan. Those who work in the Pentagon have to know how to work with both parties and negotiate their way around partisan differences. (Enlisted men in my experience are more instinctively conservative, though often in interesting ways.)

* * *

When things are working right, chiefs of staff have an impact on presidential thinking. They guide discussions toward certain, sometimes directed conclusions. They're expected to give advice, and it's expected to be grounded in knowledge and experience.

It may be easier for Mr. Kelly to impose order than people think. Sacking Anthony Scaramucci sent a message. The warring staffers around Mr. Kelly know it won't be good for them if they don't support him, at least for now. If they fight him with leaks, they're revealed as part of the problem of the past six months. If they are compliant and congenial, it will look like they weren't the problem; someone else was. Also they're tired of being part of a White House that has been famously dysfunctional. It will help their standing in the world to be part of something that works.

Similarly with Mr. Trump: If it works with Mr. Kelly, the first six months were Reince Priebus's fault; if it doesn't work, it was the president's.

Beyond that, a good guess is that Mr. Kelly won't be especially interested in partisan differences; he won't be ideological. He will guide Mr. Trump in the direction of: Solve the problem.

On tax reform, for instance, his instinct will be to figure the lay of the land and try to get to the number it takes to pass a bill with both parties. A friend who once worked with Mr. Kelly said: "He won't go 'This has to be comprehensive, historic.' He'll figure the few things both sides agree on and build out from there. You'll get a compromise. It won't solve everything, but it will be good for the country and it will get Trump on a path to somewhere, because right now he's on a path to nowhere."

Generals aren't known for a lack of self-confidence. If he goes up against Mitch McConnell it won't be big dawg versus eager puppy, it will be big dawg versus big dawg. And Mr. McConnell has already disappointed the president. Mr. Kelly hasn't.

Mr. Trump, whatever his public statements, doesn't need to be told things haven't gone well; he knows. He has nowhere else to go, and the clock's ticking.

Mr. Kelly has the power of the last available grown-up.

Another advantage: He doesn't need the job. He's trying to help, as a patriot would. But this isn't the pinnacle for him. His whole career has been pinnacles.

How the Saudis Can Promote Moderate Islam

By Max Singer

After 64 years of rule by sons of King Ibn Saud, Saudi Arabia is making a transition to a new generation of leaders. The ailing 81-year-old King Salman decreed in June that his successor would be his 31-year-old son, Mohammed bin Salman, who is already largely running the country.

The challenge of succession has been hanging over Saudi rulers for decades—ensuring that the family's amazing unity continued beyond the generation of King Ibn Saud's 50-odd sons. Yet the epochal decision to elevate young Prince Mohammed has—so far, at least—succeeded without creating apparent division.

This presents an important opportunity for long-term U.S. aid to Islamic moderates across the globe. For nearly 40 years the Saudis have conducted an extraordinarily successful program to export their version of radical Salafi Islam. They have spent some $4 billion a year on imams and mosques all over the world. This has drastically increased the size of the radical Muslim population. Visible evidence includes the notable rise in Muslim veils, burqas, beards and other conservative religious dress.

The Saudi program doesn't teach terrorism or promote terrorist organizations. But it is widely believed to have increased support for Islamists such as the Muslim Brotherhood, which believes Islam must be at war with an infidel West. Saudi funding isn't the only cause of this dangerous radicalization, but people familiar with the diverse Muslim world report that it has played a critical role.

The Saudi leadership doesn't believe that the Islamist war against the West is good for Saudi Arabia. They see the Muslim Brotherhood as their deadly enemy. So why do they spend so much money exporting Wahhabi Salafism?

First, after Iran's 1979 revolution, the Saudis worried that Shiites would dominate Islamic radicalism and felt they needed a Sunni movement to compete. Second, the Saudis' domestic political position was based on their long-term alliance with powerful Wahhabi clerics, for whom the teaching of Salafism is a religious obligation.

> Riyadh's new leaders may be amenable to modestly scaling back the country's exporting of Salafism.

Saudi exportation of Salafism, although somewhat slower and less radical of late, is one reason the Islamist war against the West could become a much more serious conflict. It is unlikely that the Trump administration could induce the Saudis to stop this program. But now that the U.S. is working with the Saudis to counterbalance the Shiite challenge from Iran, new leaders, including Crown Prince Mohammed, may be amenable to modestly scaling back the country's program of exporting Salafism. These leaders are probably at least somewhat ambivalent already about the effects of the program.

The U.S. should suggest to the Saudis that it would be in the interest of both countries for them to quietly stop paying for imams or mosques in Indonesia and India. The Muslim communities in these two countries total more than 400 million people—close to a quarter of all the Muslims in the world. So far they haven't been radicalized, and their history and culture provide significant sources of resistance to Arab radicalization. But radicals have been making inroads in both countries.

If moderate Islam succeeds in Indonesia and India, it would give reason to be confident that the Muslim world eventually will choose peace and modernization rather than extremism and conflict. These countries can stand as towering examples that Islam can move into the modern world while continuing to be loyal to its beliefs and traditions.

Most people who worry about potential radicalization in Indonesia and India would agree that there is little chance it will happen without large amounts of Saudi money. If the U.S. could convince the Saudis to keep their cash out of Indonesia and India, it would go a long way toward assuring eventual victory for moderate Islam. As Daniel Pipes, director of the Middle East Forum, has argued for many years: "Radical Islam is the problem; moderate Islam is the solution."

Mr. Singer, a founder of the Hudson Institute, is a senior fellow at the Begin-Sadat Center for Strategic Studies at Bar-Ilan University in Israel.

Reagan Cut Taxes and Revenue in America Boomed

By Phil Gramm
And Michael Solon

A great advantage of having been present when history was made is that later you can sometimes recall what actually happened. Such institutional memory is important today in assessing the 1981 Reagan tax cuts, the effects of which are now being relitigated in the debate on the Republicans' proposed tax reform. To refute claims that the Reagan tax cuts slashed federal revenue, in the words of President Reagan, "well, let's take them on a little stroll down memory lane."

In 1980, the year before Reagan became president, the U.S. Congressional Budget Office reported: "During much of the past decade, many taxpayers have found themselves paying larger fractions of their incomes to the federal government in income taxes." Double-digit inflation in the late 1970s pushed American families into ever-higher tax brackets (there were 15 at the time). This process, called "bracket creep," drove up taxes almost 50% faster than inflation, enriching the government while impoverishing workers.

Thus even though the 1970s were the postwar era's weakest decade of economic growth up to that point, federal revenue doubled between 1976 and 1981. Inflation averaged 9.7% during the economic malaise of 1977-80, while government revenue grew by an astonishing 14.8% a year, even as economic growth rates fell steadily and turned negative in 1980.

That same year the CBO estimated that inflation and bracket creep would automatically increase revenue by 2.7% of gross national product by 1985. Today, that would translate into some $500 billion a year—almost eight times as large as President Obama's 2013 tax increase.

But the CBO warned that this would push the tax burden to "an unprecedented level, constituting a significant fiscal drag on the economy." The CBO humanized the problem by reporting that with the 1980 inflation rate of 13.3%, the tax liability on families of four with incomes between $15,000 and $50,000 (equivalent to roughly $50,000 to $150,000 today) increased by an average of 23%. The poverty rate surged and average family income after inflation dropped by 8.9%. Just as the CBO predicted, the unprecedented tax burden choked off economic growth, pushing the U.S. into the double-dip recession of 1980-82.

Critics of the Reagan tax cuts today compare the 11.6% growth in federal revenue in 1980, the last year of the Carter administration, with the decline in revenue in 1983. They then declare that the Reagan tax cuts slashed federal revenue.

Conveniently missing in that comparison is that the 1980-82 recession, with 10.8% unemployment, reduced federal revenue twice as much as the Joint Committee on Taxation estimated the Reagan tax cuts would in 1982 and 15% more than its estimate for 1983.

What's more, the expectations of rising revenue during the early Reagan years were based on the assumption that inflation and bracket creep wouldn't let up. In 1981, all public and private economic forecasts predicted continued high inflation. The opposite occurred. As inflation plummeted from the CBO's projected average annual rate of 8.3% for 1982-86 to an average of 3.8%, revenue compared with projections tumbled $22 billion in 1982 and $70.4 billion in 1983 solely because of reduced inflation and bracket creep. The Joint Committee on Taxation's static cost estimate of the Reagan tax cuts was $37.6 billion in 1982 and $92.7 billion in 1983.

In other words, the collapse of inflation and bracket creep and the double-dip recession caused revenue losses more than twice as big as the projected static cost of the Reagan tax cuts.

The Reagan tax cuts were implemented in three installments, with the top marginal rate falling to 50% from 70%. When the reductions were fully in effect in 1983, the economy snapped out of the recession, and real growth averaged 4.6% for the remainder of the Reagan presidency—more than his much-maligned "rosy scenario" ever promised. In 1984, a final good-government tax provision—indexing individual brackets for inflation and thereby eliminating bracket creep—was implemented.

> The model of tax-rate cuts and deregulation can work again to restore faster growth and lift incomes.

Although indexing reduced revenue, it was overpowered by surging economic growth. Then the 1986 tax reform cut subsidies and special-interest provisions, lowered the top individual-tax rate to 28%, dropped the top corporate-tax rate to 34% from 46%, and provided additional incentives to work, save and invest.

When Reagan left office, real federal revenue was more than 19% higher than it was the day of his first inauguration. A major recession had been overcome, inflation had been broken, the tax code had been indexed to eliminate bracket creep, and the largest tax cut of the postwar era had been implemented. The Reagan tax cuts and the boom they created stand as the most successful policy initiative and recovery of the postwar era—the polar opposite of Mr. Obama's program and economy.

The Reagan tax cuts laid the foundation for a quarter-century of strong, noninflationary growth, which, despite three subsequent recessions, averaged 3.4% until the beginning of the Obama administration. And tax revenue was generated by an expanding economy rather than pilfered through bracket creep.

But it wasn't only the tax cuts, and it wasn't only Reagan. To his credit, President Carter led the most significant deregulatory effort in the postwar era, reducing the regulatory burden on truckers, railroads, airlines and telecommunications, along with the interest rates paid by financial institutions. Reagan built on this Carter legacy by eliminating price controls on domestic oil and natural gas. These actions enhanced overall economic efficiency and amplified the effects of the 1981 tax cut and the 1986 tax reform.

This history is important because it shows the power of tax cuts and deregulation—exactly the proposals being debated today. The Republican tax-reform program combines the 1981 tax cuts and the 1986 tax reform with a deregulatory effort through legislation, agency rule-making and executive action constituting the most dramatic deregulatory effort since the Carter-Reagan reforms.

Economic growth faded as Mr. Obama raised taxes and smothered the economy with unprecedented regulatory burdens. If we reverse those policies, could we not bring back the Reagan growth rates America enjoyed in the 1980s? Evidence suggests the answer is yes.

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FITNESS

Work the Abs or Fill the Gas Tank?

Fitness buffs spend less money at gas stations and more at boutiques offering specialized training classes

BY RACHEL BACHMAN

FROM TOP: ORANGETHEORY FITNESS; BRIAN HARKIN FOR THE WALL STREET JOURNAL

Fitness buffs are devoting some money once spent on gas to specialized classes, such as those at the Fhitting Room in New York City, left, and at Orangetheory Fitness studios, such as the Fort Lauderdale, Fla., one, above.

FANS OF boutique exercise studios seem to be putting some of the money they used to spend on gas into specialized fitness classes.

Boutique-fitness customers are spending slightly less on luxury items, according to a new analysis of overall spending by patrons of fitness studios. But as their spending on boutique fitness has increased, users have cut back most dramatically not at Coach or Dior, but the gas station.

That could mean two things: First, cheaper gas could be fueling spending on exercise; second, boutique fitness isn't that exclusive anymore.

Atlanta-based Cardlytics tracks trends based on credit, debit, electronic check and bill-pay spending for more than 120 million U.S. bank accounts. For this study, Cardlytics looked at people who spent money at a specialty fitness studio between December 2016 and May 2017. These cozy operations, unlike big-box gyms, offer guided exercise such as stationary-cycling sessions or barre instruction, with classes that run about $20 to $35.

In the analysis, Cardlytics traced recent spending by boutique-fitness users—without their names or personal details—back five years.

Pete Hemauer of Elgin, Ill., is a recent convert to boutique fitness. The 50-year-old manager at a manufacturing facility has belonged to a big-box gym for decades. He pays $54 a year as part of a lifetime membership.

About six months ago he took some friends' advice and tried Orangetheory Fitness, a chain of interval-training studios whose classes cost about $28 for a drop-in, depending on location. Mr. Hemauer loves the ever-changing, guided workouts, the prodding of trainers, the class regulars. He now has a $159-a-month membership and goes five days a week.

"I love the whole atmosphere of the class," he says. "It's just fun."

Membership at fitness boutiques grew 74% from 2012-2015, compared with 5% for traditional commercial gyms, according to the International Health, Racquet & Sportsclub Association.

Mr. Hemauer countered some of his increased fitness spending by trading his $5-a-day Starbucks habit for a machine that makes espresso with Starbucks pods, a setup that costs him less than $2 a day.

He's also reaping the benefits of ditching his SUV when gas prices spiked several years ago for a Ford Focus that gets 34 miles per gallon.

This year boutique-fitness devotees are dedicating an average of 1.8% of their total spending to specialized classes, Cardlytics found. Five years ago, the same group dedicated 0.15% of all spending to boutique fitness. That increase of 1.65 percentage points is more than the same group's 1.6 percentage-point increase in spending on e-commerce.

The Cardlytics findings run counter to the notion of boutique fitness as the new luxury—that fans are buying fewer designer handbags so they can pedal at SoulCycle.

Boutique-fitness users' spending on luxury items declined little and wasn't much to begin with: It dropped to 0.31% of their overall budgets from 0.43% during 2012-2017. Cardlytics defined luxury brands as places where people spend an average of $360 at a time.

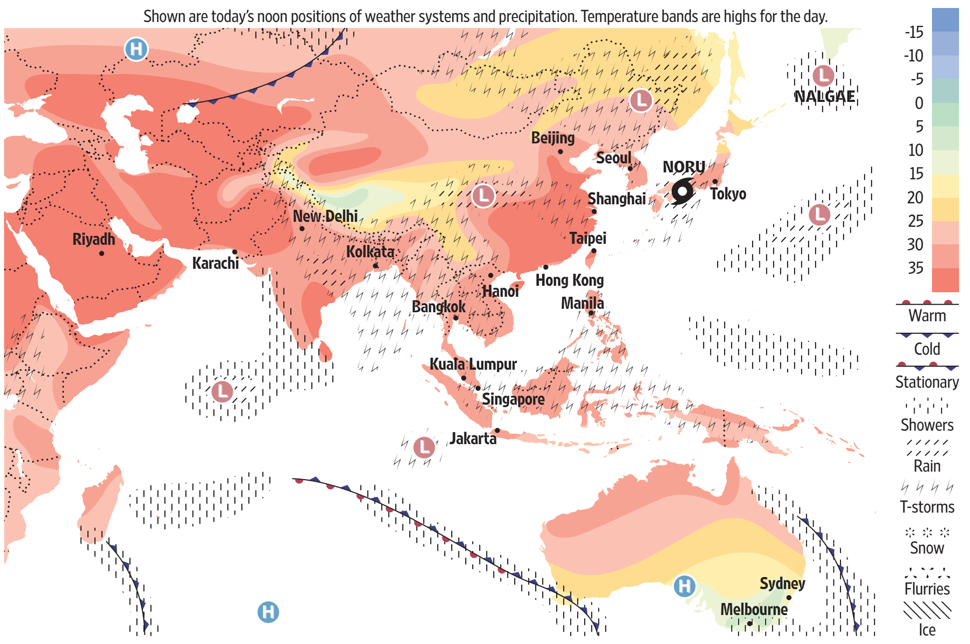
The place where spending by boutique-fitness users declined the most? Gas stations. Boutique users are spending about 2.9% of total dollars at gas stations this year, a drop of 2.7 percentage points from 2012. One reason: The price of gas has dropped by roughly $1.50 a gallon over the past five years.

"It is pricey, I got to admit. It was a tough decision," Mr. Hemauer says of his Orangetheory Fitness spending. But he has no regrets. "It's an investment in myself."

Weather

AccuWeather.com

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

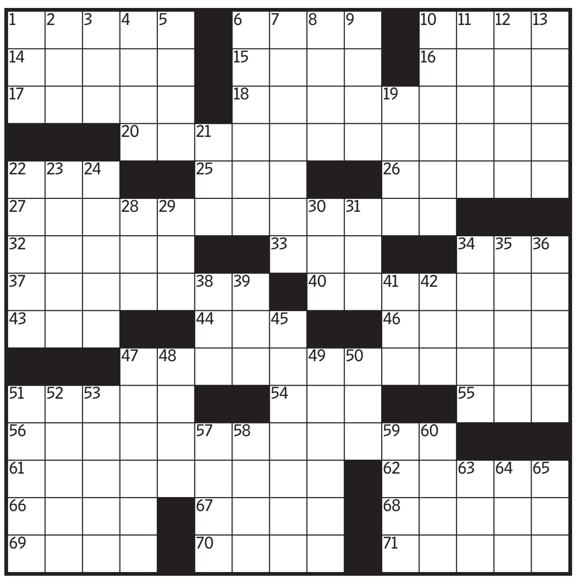


Global Forecasts

s...sunny; pc... partly cloudy; c...cloudy; sh...showers; t...t'storms; r...rain; sf...snow flurries; sn...snow; i...ice

City	Today Hi	Today Lo	Today W	Tomorrow Hi	Tomorrow Lo	Tomorrow W
Amsterdam	22	14	c	21	13	t
Anchorage	20	14	c	20	15	c
Athens	37	28	pc	37	28	pc
Atlanta	30	23	t	27	21	t
Baghdad	49	31	s	50	31	s
Baltimore	26	18	r	27	17	pc
Bangkok	33	26	t	34	26	t
Beijing	34	23	c	34	24	pc
Berlin	24	14	pc	27	17	pc
Bogota	20	8	c	21	9	c
Boise	34	19	pc	34	19	pc
Boston	24	17	r	25	16	pc
Brussels	24	14	pc	19	12	t
Buenos Aires	20	13	sh	17	6	c
Cairo	36	26	s	36	26	s
Calgary	25	12	c	21	11	t
Caracas	33	26	pc	33	27	pc
Charlotte	30	21	t	26	19	t
Chicago	24	14	pc	28	17	s
Dallas	31	23	t	29	24	t
Denver	20	13	t	24	13	pc
Detroit	25	14	sh	27	16	s
Dubai	46	36	s	45	34	s
Dublin	17	9	pc	16	10	pc
Edinburgh	17	8	sh	17	9	sh
Frankfurt	26	15	pc	23	13	r
Geneva	28	16	t	20	13	r
Hanoi	34	26	pc	35	27	pc
Havana	33	23	pc	33	23	pc
Hong Kong	34	29	t	33	29	t
Honolulu	32	24	pc	32	24	pc
Houston	32	26	t	32	25	pc
Istanbul	33	25	s	33	25	s
Jakarta	33	24	s	33	24	pc
Johannesburg	19	6	s	19	7	pc
Kansas City	25	16	pc	26	17	pc
Las Vegas	39	28	pc	40	28	s
Lima	21	15	pc	21	15	pc
London	21	13	c	18	13	r
Los Angeles	28	19	pc	29	19	pc
Madrid	36	18	pc	32	16	s
Manila	33	27	t	33	27	t
Melbourne	11	5	sh	15	9	pc
Mexico City	27	14	pc	26	13	pc
Miami	33	27	pc	33	28	sh
Milan	28	20	pc	29	19	pc
Minneapolis	27	17	pc	28	18	pc
Monterrey	36	23	pc	36	22	pc
Montreal	22	13	r	23	16	pc
Moscow	22	13	c	22	13	c
Mumbai	31	27	sh	31	27	pc
Nashville	27	20	t	28	19	pc
New Delhi	34	28	t	34	27	t
New Orleans	33	25	t	32	25	pc
New York City	23	18	r	27	17	pc
Omaha	26	16	pc	28	18	pc
Orlando	33	24	t	33	24	t
Ottawa	22	11	r	24	14	s
Paris	28	15	pc	23	13	t
Philadelphia	25	19	r	28	17	pc
Phoenix	41	28	pc	43	29	s
Pittsburgh	22	15	r	24	14	pc
Port-au-Prince	35	23	pc	35	24	pc
Portland, Ore.	35	17	pc	35	18	pc
Rio de Janeiro	25	17	s	29	20	pc
Riyadh	44	28	s	44	28	s
Rome	34	21	pc	32	22	pc
Salt Lake City	30	19	t	31	20	pc
San Diego	26	21	pc	26	21	pc
San Francisco	22	15	pc	23	15	pc
San Juan	31	25	sh	31	27	sh
Santiago	13	2	c	18	5	pc
Santo Domingo	32	23	pc	30	24	pc
Sao Paulo	24	14	s	27	18	pc
Seattle	33	17	pc	33	18	pc
Seoul	33	25	s	31	25	pc
Shanghai	38	30	t	36	27	r
Singapore	31	27	c	32	27	t
Stockholm	22	12	t	23	13	pc
Sydney	19	10	s	19	9	s
Taipei	39	28	s	38	28	pc
Tehran	37	26	s	37	26	s
Tel Aviv	32	25	s	32	25	s
Tokyo	31	26	sh	30	27	sh
Toronto	21	14	sh	25	17	s
Vancouver	25	16	s	26	17	s
Washington, D.C.	26	20	r	28	19	pc
Zurich	25	14	pc	24	13	r

The WSJ Daily Crossword | Edited by Mike Shenk



SINGIN' IN THE REIGN | By John Dunn

Across

1 Sidestep, as a question
6 Former Iranian ruler
10 Festive celebration
14 Unbending
15 Gift-wrapping need
16 "...to take arms against ___ of troubles...": Hamlet
17 In the company of
18 Tangled up
20 "King of Country"
22 Lyrical lines
25 One end of the spectrum
26 Lone Ranger's sidekick
27 "King of Swing"
32 Taper off
33 Coll. senior's test
34 Its members use clubs at clubs: Abbr.
37 With 40-Across, "King of Pop"
40 See 37-Across
43 Brief writer, in brief
44 Miss identification?
46 Squirrel away
47 "King of Rock and Roll"
51 Tequila source
54 Pizzeria order
55 Rx prescribers
56 Songwriter's compensation, or this puzzle's "Kings"?
61 Lends a helping hand
62 Brewer's ingredient
66 Do some copy desk work
67 Cry of dismay
68 Heathen
69 Hibernation spots
70 Droops
71 Upright

Down

1 Significant period
2 Enthusiasm
3 In the past
4 Quiz show sound
5 Periphery
6 Two-channel
7 Shamefaced
8 Vaulted section of a church
9 Coop residents
10 Donald Trump's youngest son
11 C.S. Lewis lion
12 "Try to ___ my way"
13 Couldn't not
19 Lead-in to boy or girl
21 Assn.
22 President with two Grammys and a Nobel Prize
23 Item on a balance sheet
24 Put into law
28 Ultimate degree
29 Thumbs-up vote
30 76ers legend, familiarly
31 ___ culpa
34 Sacred hymn
35 Like an unlucky toreador
36 Tennis stars Roddick and Murray
38 Container for a ltr.
39 Luau souvenir
41 Revolutionary Guevara
42 Bout enders, for short
45 Catching sight of
47 Tosses into the street
48 Poland's Walesa
49 Instruments with hammers
50 Divinity school subj.
51 Really excited
52 Tour leader
53 John of "The Addams Family"
57 Antique autos
58 Fed. workplace regulator
59 Kind
60 Wine buyer's concern
63 Wine buyer's concern
64 Cul-de-___
65 Explosive initials

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

Previous Puzzle's Solution

N	O	R	A		J	E	B		T	O	R	P	O	R
E	P	I	C		A	L	I		E	M	E	R	G	E
R	A	P	T	O	R	S	V	B	L	A	Z	E	R	S
F	L	A	I	R			A	O	L		A	P	E	T
			N	A	P	A	L	M	E	D				
	E	A	G	L	E	S	V	B	R	O	W	N	S	
A	T	M			L	I	E	S		R	I	A	T	A
C	H	I	C	L	E				V	A	N	D	A	L
C	I	G	N	A		D	E	C	A			E	Y	E
	C	A	N	U	C	K	S	V	S	T	A	R	S	
			D	O	N	T	S	T	O	P				
C	A	P	S		L	Y	E			L	O	N	G	U
O	R	I	O	L	E	S	V	D	O	D	G	E	R	S
B	E	L	U	G	A		E	E	L		E	R	I	E
B	A	L	L	A	D		Z	E	D		E	O	N	S

The contest answer: EAGLES should be replaced with BEARS. The answers TORPOR, VANDAL, and BALLAD are formed from the official three-letter abbreviations of a pair of theme teams (TOR = Toronto RAPTORS, POR = Portland BLAZERS, VAN = Vancouver CANUCKS, DAL = Dallas STARS, BAL = Baltimore ORIOLES, LAD = Los Angeles DODGERS). The mismatch is the symmetrically placed CHICLE; since CLE = Cleveland BROWNS, the EAGLES are the mismatched team and should be replaced with the Chicago Bears (CHI).

TECHNOLOGY: TEST LOOMS FOR FANTASY-SPORTS FIRMS DRAFTKINGS, FANDUEL B4

Yen vs. Dollar 110.8260 ▲ 0.71% | Hang Seng 27562.68 ▲ 0.12% | Gold 1258.30 ▼ 0.75% | WTI crude 49.58 ▲ 1.12% | 10-Year JGB yield 0.064% | 10-Year Treasury yield 2.269%

Hard Task for New Insurer

Brighthouse Financial must ride out low rates, lackluster demand in the U.S.

By Leslie Scism

Shares of **Brighthouse Financial**, **MetLife** Inc.'s spun-off insurance operation, will begin trading on Monday in the industry's latest response to nearly a decade of ultralow interest rates.

Brighthouse is built around MetLife's historic core business of selling life insurance to U.S. households. In recent decades, the unit grew to be one of the nation's biggest sellers of retirement-income annuities to consumers. But the extremely low rates ushered in by the global financial crisis of 2008 have hurt the profitability of these products.

The concept behind the spinoff is simple: For MetLife, the goal is a higher share valuation once the company is freed of slower-growing operations and facing less pressure from low interest rates. For Brighthouse, the hope is that by "standing on its own two feet, being smaller, more nimble," the company can perform better, said MetLife Chief Executive Steve Kandarian in an interview.

"We think MetLife has good risk management, but now Brighthouse has to function on its own," said Deep Banerjee, a credit analyst with **Standard & Poor's** Ratings Services. "How will it execute as an independent insurer?"

After the Brighthouse spinoff, roughly 40% of MetLife's business will be international life insurance, which is less affected by low rates than in the U.S. MetLife also will continue selling insurance and pension products to employers, and it is keeping an asset-management unit and some other operations.

Brighthouse must first win the confidence of independent brokerage firms, financial advisers and outside agent groups to sell its products, analysts said. In a move that reduced costs, MetLife last year sold its agent network to Massachusetts Mutual Life Insurance Co.

Brighthouse Chief Executive Eric Steigerwalt said the new company is in a good position to make sales.

"We've kept the vast majority of our distributor relationships" from the MetLife years, he said. Brighthouse also will sell annuities through MassMutual's enlarged sales force.

Mr. Steigerwalt's team is a mix of experienced MetLife managers and new hires. The company has agreements with MetLife for such things as call

Please see SPINOFF page B2

MEGAN HALEY FOR THE WALL STREET JOURNAL

Alice Bers, right, got the brand-name EpiPen for her son Michael.

How EpiPen Can Guard Against Cheaper Generics

By Jonathan D. Rockoff

Something strange happened when Alice Bers went to the pharmacy earlier this year to fill her son's EpiPen prescription: The doctor had prescribed the generic, but it would have cost her more out-of-pocket than the branded version.

So the pharmacy asked her son's doctor for a prescription for the brand-name EpiPen, and her health plan got a bill for $438.53, or $227.52 more than the generic would have cost it. Many EpiPen customers, from a range of different health plans, have wound up getting the more expensive brand.

"I couldn't believe how crazy our system is that it cost us less to get the brand name, while of course it cost our insurer more," Ms. Bers said.

The high cost of EpiPens was a red-hot controversy and target of congressional hearings last year, prompting the device's maker, **Mylan** NV, to introduce a lower-priced generic version of the emergency allergy treatment, and rivals to bring their own products to market.

But more than seven months after the introduction of the generic, the more expensive brand-name EpiPen still accounts for more than one-quarter of the market, according to Bernstein Research, even though a brand-name drug's sales usually shrink significantly after low-cost competition arrives.

One reason, according to multiple people familiar with the drug industry, is that a middleman can profit from the sale of pricier medicines, such as EpiPen. In the murky world of the U.S. drug-supply chain,

Several factors in the health-care system push some consumers to the costlier version.

higher prices can mean a bigger piece of the pie for middlemen such as pharmacy-benefit managers. There is no way to know exactly how much, however, because the amount a PBM makes is laid out in confidential contracts.

"The complexity in the system and lack of the right information available to buyers at the right time costs the country billions of dollars, unnecessarily," said

Please see EPIPEN page B2

JASON ALDEN/BLOOMBERG NEWS

American Apparel's new owners are planning the brand's online-only future even as its liquidation is under way.

Failed Retailers Are Reborn Online

By Erica E. Phillips And Stephanie Gleason

Bankrupt fashion labels are finding that there is life after liquidation—but only if resurrection happens quickly.

Investors snapped up Wet Seal, American Apparel and The Limited, betting fickle consumers who long ago stopped visiting their shops would flock to new online-only storefronts.

Companies like Onestop Internet Inc., which handles orders for dozens of websites out of a warehouse in Compton, Calif., make it easier for former brick-and-mortar chains to transition to online-only fashion labels.

Selling apparel online can be less costly, according to Onestop.

For a pair of premium jeans, for example, the cost of fulfillment operations, technology systems, shipping and free returns is less per item than brick-and-mortar costs including rent, payroll and distribution, the company says.

But a successful transition requires racing against the clock. A once-hot brand like American Apparel can fetch tens of millions of dollars in a bankruptcy auction, but its value quickly drops after stores close.

New owners must rush to line up new designers and manufacturers, and set up distribution networks geared toward shipping to homes before shoppers move on.

"There needs to be a sense of urgency," said Ramez Toubassy, president of the brands division at **Gordon Brothers Group**, a retail investor and liquidator.

Gordon Brothers purchased Wet Seal for $3 million in March, the same month that the teen retailer sold its inventory and closed the last of its stores, and is now working to restart Wet Seal's manufacturing. It aims to open an online store in the fall.

Private-equity firm Sycamore Partners in 2014 hired Newmine LLC to relaunch Coldwater Creek, a fashion brand that had closed that year but retained a following among middle-aged women. Clothes were available for sale online four months later after a "fast-paced, SWAT-team-like" effort, said Newmine Chief Executive Navjit Bhasin.

After a liquidation, "all that's left is the brand name and the customer following," Mr. Bhasin said. "If it takes 2½ years to revive, the customer is gone."

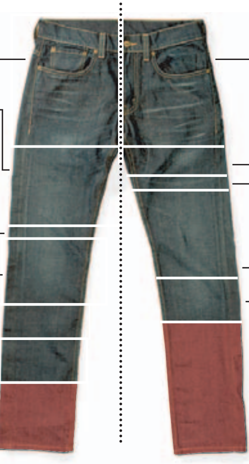
Behind the scenes, logistics experts must ensure that the brand can deliver like an e-commerce outfit. That can

Please see RETAIL page B2

A Leg Up

Companies like Onestop Internet say labels can extract more profit selling online than at physical stores from products like these jeans, which are made in Mexico, assembled in the U.S. and retail for $150.

OFFLINE	
Cost of goods sold	$45.00
Store Payroll	27.00
Freight to retail stores	4.50
Rent*	22.50
Other retail operating costs	12.00
Marketing	15.00
Profit	**$24.00** 16%



ONLINE	
Cost of goods sold	$45.00
Free Standard Shipping & Returns	10.00
Warehouse/ Fulfillment	5.00
Operating Costs (software, maintenance)	30.00
Marketing	15.00
Profit	**$45.00** 30%

*Assuming an average of $120/square feet for premium retail

Source: Onestop Internet Inc.

THE WALL STREET JOURNAL.

Big Tobacco Rolls Out New Electronic Devices

By Saabira Chaudhuri

Big Tobacco is working on its next act, as cigarette sales decline around the world and once-breakneck growth from the first wave of e-cigarettes fades.

Three of the world's biggest tobacco firms are rolling out new, electronic tobacco-heating devices they say are healthier alternatives to traditional smoking, but feel more like puffing on a real cigarette. That is a sensation many smokers complain is missing from the electronic cigarettes currently on the market.

None of the new heat-not-burn devices—which heat real tobacco instead of the nicotine concoction typical in most e-cigarettes—are available yet in the U.S., but that may be changing soon.

Last month, the Food and Drug Administration indicated it would take a friendlier approach to cigarette alternatives as a mechanism to help smokers shift to safer options.

"In just the last few years, we've seen the advent and adoption of new product categories that may be able to deliver nicotine without having to burn tobacco," said FDA Commissioner Scott Gottlieb.

Philip Morris International Ltd. is seeking FDA approval for a heat-not-burn device called IQOS. Through a partnership with Philip Morris, **Altria Group** Inc.—once part of the same company—hopes to sell IQOS under the Marlboro brand in the U.S., one of the industry's most profitable markets. It also hopes to market the product as safer than cigarettes—a health claim that must be approved by the FDA.

British American Tobacco PLC plans to apply next year for FDA approval to sell its tobacco-heating device, Glo.

Some early success overseas is raising hope among investors and analysts that the "heat-not-burn" category could give Philip Morris, BAT and others a fresh

Please see HEAT page B2

KIYOSHI OTA/BLOOMBERG NEWS

Japan Tobacco's Ploom Tech device is one of the latest alternatives.

KEYWORDS | By Christopher Mims

Electric Cars' Problem? Not Enough Chargers

It's the dawn of the age of the electric vehicle. For real, this time. Probably.

The evidence: Tesla's delivery of its first "affordable" compact sedans, the Model 3, and the road maps of more or less every other auto maker on the planet promising widely available electric cars in the next three to five years.

Within a decade, electric cars will even have sticker prices similar to their gasoline competitors, says Stephen Zoepf, executive director of the Center for Automotive Research at Stanford. Some analyses say EVs are already cost-competitive, if you factor in savings on fuel and maintenance.

Aggressive pricing and sales projections are all part of the seemingly self-fulfilling prophecy of rapid EV adoption. To hit Chief Executive Elon Musk's targets, Tesla must sell 430,000 cars by the end of 2018 and continue to sell 10,000 a week after that.

But if Tesla and its competitors succeed, they face a new problem: Where are all those cars going to plug in?

At present, electric cars represent only about 1% of cars sold in the U.S., and 0.2% of our total automobile fleet. They aren't yet taxing our electrical grid or fighting each other for the roughly 44,000 public charging stations available in the U.S. Yet, if anything like analysts' projections come to pass, they could dwarf that number.

Electric-car owners at present overwhelmingly charge at home. What public stations exist are found in parking lots and at businesses in cities and wealthy suburbs where early adopters reside. But the current charging infrastructure offers little support for a larger pool of people who have both the income and the impetus to buy EVs: city dwellers who lack garages.

"You see models that say, 'We'll sell a million EVs this year, then two, then four and so on,' but I have concerns about the practicalities of this transition," says Francis O'Sullivan, director of research for the MIT Energy Initiative.

"All things cannot be sorted before the industry starts," says Pasquale Romano, chief executive of

Please see MIMS page B4

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.

INDEX TO PEOPLE

BUSINESS & FINANCE

Prices Squeeze Generic-Drug Firms

By Joseph Walker

U.S. generic-drug prices are falling at the fastest rate in years, eating into the profits of pharmaceutical wholesalers and manufacturers alike and erasing billions of dollars of their market value in recent days.

The three largest U.S. drug wholesalers, which warehouse and distribute some $400 billion of pharmaceuticals annually, have been competing aggressively to win business among independently owned pharmacies, largely by agreeing to cut prices on generics. In turn, the wholesalers are squeezing drugmakers for better prices.

The trend has been good for the employers and government programs that ultimately pay for drugs, and for independently owned pharmacies, the mom-and-pop operators that compete with national chains. But it is taking a hard toll on wholesalers and generic-drug makers.

Shares of **Teva Pharmaceutical Industries** Ltd., the world's largest seller of generic drugs, fell 24% on Thursday in New York trading after the company's quarterly revenue and profit fell short of analysts' forecasts, driven by a 6% decline in generic product prices from the year-earlier period. The Israeli company said the pricing pressure on generics won't ease soon, and expects deflation to accelerate in the second half of the year. Teva's stock dropped an additional 13% Friday.

Through the close of regular trading this past Friday, shares of some of the largest generics companies, including Mylan NV, **Perrigo** Co. PLC, and **Endo International** PLC had declined 10% or greater since this past Monday. The firms are scheduled to report earnings this week.

AmerisourceBergen Corp., the second-largest U.S. wholesaler, said Thursday it continued to expect generic prices to decline by a range of 7% to 9% annually in its current fiscal year. The trend contributed to an 8.7% decline in operating profit in its pharmaceutical distribution unit.

The company's largest competitors, **Cardinal Health** Inc. and **McKesson** Corp., also recently reported persistent generic pricing pressure as a factor behind their declining profits.

"There's no doubt that when you have a key product category with a 9% deflation rate, that's a headwind you're getting," AmerisourceBergen CEO Steve Collis said.

Wholesalers, which make money in part by selling generic and brand-name drugs to pharmacies at a markup, have also recorded moderating profits on some branded drugs.

That is because some pharmaceutical companies are raising branded prices at a slower rate than in previous years to avoid sparking further scrutiny from lawmakers in Washington, where concern about rising drug costs runs high.

Generic drugs are cheap copies of medicines that have lost patent protection.

Prices tend to fall dramatically when a drug loses patent protection and multiple companies begin producing it. But in recent years, prices for many generics increased—sometimes dramatically—because of market disruptions that decreased competition.

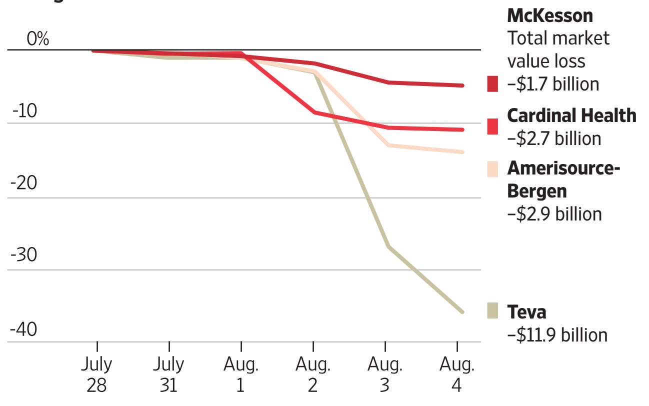
Some manufacturers stopped making certain drugs because of manufacturing and quality-control problems, and the U.S. Food and Drug Administration fell behind on approving new market entrants.

Now, the trend has reversed, and prices are falling faster than their historical averages, according to an analysis by Raymond James & Associates Inc.

Tough Week

Declining U.S. generic-drug prices helped send shares of drug wholesalers and manufacturers plummeting last week.

Change in market value



Source: FactSet THE WALL STREET JOURNAL.

HEAT

Continued from the prior page
lease on life.

For years, cigarette makers have been able to raise prices to make up for falling volumes. But executives know that can't last forever, and tobacco firms have been scrambling to come up with alternatives.

For Philip Morris, the stakes are high. Unlike BAT and **Japan Tobacco** Inc., which have rolled out an array of cigarette alternatives, Philip Morris has directed most of its efforts at IQOS, opening dedicated stores in cities like London and Tokyo to sell the device.

Makers of heat-not-burn devices claim such products are healthier than cigarettes, but to a lesser extent than e-cigarettes. The e-cigarettes currently on the market typically heat a liquid to create a nicotine-laced, inhalable vapor. Tobacco firms have rolled out their own versions, including "cigalike" products that look like old-fashioned cigarettes. So have hundreds of smaller competitors, many of which have concentrated on bigger, refillable vaporizers.

These devices have spread quickly, but once-torrid sales growth has cooled recently. In 2014, U.S. e-cigarette sales grew 130% year-over-year, according to Euromonitor International, a market-research firm. Last year, growth was 21%.

The slowdown is partly the natural consequence of a maturing market. But safety worries and regulatory hurdles, particularly in the U.S., have also curbed sales.

Another big impediment: customer satisfaction. Some users complain they aren't getting their blast of nicotine fast enough, or miss a real cigarette's "throat hit"—industry speak for what smokers say is the feeling of smoke traveling down the throat.

Philip Morris, BAT and Japan Tobacco are hoping they have solved the problem by going back to the tobacco leaf. Their devices heat—instead of burn—the ground leaf to deliver a nicotine vapor they say is safer than cigarettes. It also tastes and feels more like a real cigarette, these makers claim.

"The taste satisfaction is very important," said Philip Morris Chief Executive André Calantzopoulos. "The closer you are to this, the more chances you have to switch people."

BAT's Glo and Philip Morris's IQOS include a heating device for disposable, tobacco-packed "sticks" that look and feel like ordinary cigarettes. Japan Tobacco's Ploom Tech takes a more hybrid approach, using tobacco capsules through which vapor generated from liquid in a cartridge passes. BAT's iFuse, another hybrid device, heats a nicotine-containing liquid into an inhalable vapor, which then passes through a tobacco section.

BAT's U.S. business, Reynolds American, has for years sold Eclipse, but the product hasn't gained traction and has very limited distribution.

Philip Morris is ahead of the pack. The company sells IQOS in over 25 countries. In Japan—where e-cigarette sales are heavily restricted—IQOS has lured enough smokers since launching nationwide last summer to account for about 10% of the overall cigarette market, according to the company.

A question mark still hangs over whether the products will get the green light in the U.S., while some are skeptical about safety. A May study by Swiss researchers found that IQOS released some of the same cancer-causing chemicals found in traditional cigarettes. The authors called for more independent research to evaluate IQOS's health effects. In response, Philip Morris in June wrote a letter to officials at the three Swiss institutions questioning researchers' methodology.

—Jennifer Maloney contributed to this article.

SPINOFF

Continued from the prior page
centers and investment management.

"Over the next couple years, we will transition off of the MetLife agreements," he said.

Brighthouse also will have a large segment of "runoff" business of contracts MetLife sold and for which Brighthouse is responsible, but which aren't currently being marketed. Mostly, these are certain types of life-insurance policies.

U.S. life insurers' core business has long been under pressure. Sales of individual policies have been largely flat industrywide for nearly a decade, after falling more than 40% from the 1980s through 2008, according to industry-funded research group Limra.

Low interest rates depress the income insurers earn by investing customers' premiums until claims are paid. They also drive up the cost of hedging annuities' lifetime-income guarantees and they make it tough to turn profits on products that guarantee specified annual interest.

MetLife isn't the only company taking action as low interest rates persist: In May, the French insurer AXA SA said it is planning an initial public offering of stock in its large U.S. operations. Manulife Financial Corp. is exploring a spinoff or IPO of its Boston-based John Hancock Financial Services unit, The Wall Street Journal reported last month.

But MetLife's decision is one of the starkest yet of life insurers grappling with low rates. Bankers, analysts and consultants say that numerous other insurers are watching closely.

The spinoff is part of a "great restructuring of the global life-insurance industry," said Sean Dargan, director of life-insurance equity research at **Wells Fargo Securities**. "We expect other companies who focused on growth by selling" these same products to explore divestitures, he added.

Buyers could be newer entrants backed by private-equity firms, he said.

In the short term, volatile trading is expected for Brighthouse as many MetLife shareholders sell their new shares because they won't be paying dividends.

The actual conversion took place late Friday, when MetLife common shareholders received one share of Brighthouse common stock for 11 MetLife shares. MetLife will initially hold onto about 20% of Brighthouse. In filings, it has said will dispose of the shares "as soon as practicable and within five years."

Janney Montgomery Scott analyst Larry Greenberg expects buyers to include investors who have been successful in buying shares of other spinoffs.

"Longer term, we think shares are most appropriate for value-oriented, patient accounts, or for investors who are looking to make a macro/capital markets call" on interest rates and the stock market's direction, he said. Many annuities are more profitable when markets are rallying.

MICHAEL NAGLE/BLOOMBERG NEWS

Brighthouse is built around MetLife's historic core business.

RETAIL

Continued from the prior page
mean transforming a legacy retailer's warehouses to more nimble operations where workers can pick out individual garments and pack them for shipping, then get them delivered quickly to customers' homes.

Onestop will handle orders for BCBG Max Azria Group LLC, which filed for bankruptcy in February and this past week completed the sale of its wholesale and e-commerce operations to Global Brands Group Holding Ltd. for $23 million. Marquee Brands LLC is paying $106 million for BCBG's intellectual-property assets.

Brand owners "need to extract the value of the intellectual property, [but] they don't want to have to worry about customer service, digital marketing and web developers," said Daniel Brewster, a senior vice president at Onestop.

American Apparel's new owners are planning the brand's online-only future even as its liquidation is under way. Canadian T-shirt wholesaler **Gildan Activewear** Inc., which paid $88 million for the brand name and some manufacturing equipment, is aiming to relaunch American Apparel this summer—though the brand's website is just a landing page.

Gildan opened an office in Los Angeles, hiring a few American Apparel marketers to keep the brand on "life support," as Garry Bell, Gildan's vice president of marketing and communications, put it. The company has already revived American Apparel's wholesale business, lining up suppliers for a "Made in the USA" line and a less expensive one to be manufactured in South America.

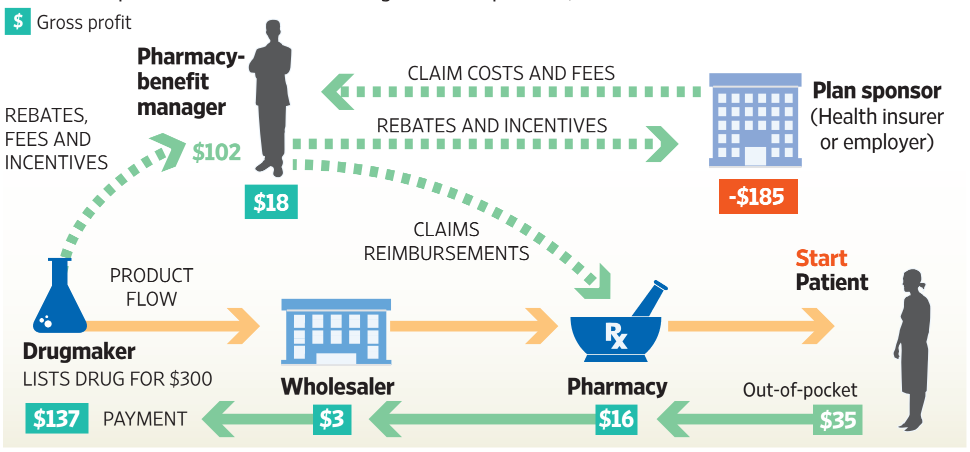
"It's really important for us to do that as quickly as we can," Mr. Bell said.

Private-equity firm Sycamore Partners, which owns Coldwater Creek, paid $27 million for Limited Stores Co. after the retailer closed all 250 of its mall-based stores, temporarily shut down its online shop and filed for bankruptcy protection in January.

A spokesman for Sycamore declined to comment, though the company said in February that it "plans to reintroduce the brand to the marketplace at a later date."

Sharing the Wealth

Here is how profits are shared from a drug with a list price of $300.



Sources: Pembroke Consulting and WSJ staff reports THE WALL STREET JOURNAL.

EPIPEN

Continued from the prior page
sarily," said Michael Rea, chief of executive of Rx Savings Solutions, which sells software to help patients and their employers choose the least-expensive medicines.

When Ms. Bers picked up an EpiPen two-pack in March, several companies beyond the drugmaker Mylan were involved in filling the prescription. These middlemen warehoused, shipped and handed over the drug. Overseeing it all was a pharmacy-benefit manager, or PBM.

Each was paid for their involvement. For a typical brand-name drug listing for $300, middlemen generally receive more than $37 in gross profit, according to Adam Fein, president of Pembroke Consulting, which advises drug companies on the drug-distribution chain. A PBM gets the biggest share, $18.

PBMs have made a business, in part, out of keeping a lid on drug costs. The firms negotiate with drug companies on behalf of employers and health insurers to secure rebates and discounts meant to lower a drug's cost. And they help design benefit plans, including lists of preferred drugs known as formularies that can steer patients toward medicines via different levels of copays.

Yet it is unclear how much in savings the PBMs pass on to their customers or keep for themselves. PBMs typically don't reveal the rebates they negotiate even to their health insurer and employer clients.

A middleman such as a pharmacy-benefit manager can profit from pricier drugs.

Drugmakers and others in the industry also say that PBMs can profit from costlier drugs because that means bigger rebates. "Their incentives align more to a higher gross price and a higher discount than to truly reducing the cost to everyone involved, so there are questions whether they are actually driving lower cost," said Howard Deutsch, who advises drugmakers on working with companies involved in the drug-supply chain at ZS Associates.

Some PBM contracts prevent pharmacists from telling patients a drug's true cost or whether an alternative might be cheaper for them, said Kevin Schulman, a Duke University professor of medicine.

Pharmacy-benefit manager Express Scripts Holding Co. says PBMs don't benefit when prices are higher. "Rebates don't raise drug prices, drug companies raise drug prices," the company said.

Several consumers, belonging to different health plans and with drug benefits administered by different PBMs, described refilling EpiPen prescriptions this year as if a generic wasn't an option.

When Erin Morrow, of Franconia, Pa., went to a local CVS pharmacy to pick up a prescription for her young son in April, she said she didn't know about the Mylan generic and the pharmacist didn't tell her one was available. Her plan paid $357.04 for the EpiPen Jr. two-pack. Later, a "health advocate" working for her employer told her that she could have gotten the generic, which would have cost her plan $81.54. Ms. Morrow said her health plan began limiting the coverage to Mylan's generic and a rival product, starting July 1.

CVS Health Corp. said it aims to make sure patients get a prescription costing them the least out-of-pocket expense, and almost 60% of its patients are using a generic alternative to EpiPen, which will save patients and health plans more than $250 million this year. CVS said its pharmacists "do not have information readily available" about how much a health plan will be charged for a prescription or an alternative.

Consumers like Ms. Bers, a lawyer from Longmeadow, Mass., say a number of factors in the complicated health-care system seem to push them to the costliest version.

Ms. Bers's drug plan—administered by the PBM Express Scripts—has no incentive to favor the cheaper generic version of EpiPen over the brand name. Her copay is the same either way—$30.

When she went to the local CVS pharmacy in March to replace a two-pack that had expired, she wanted to use a coupon from Mylan to cover the copay. But the pharmacist said she couldn't use it for the generic, she says. She says the pharmacy never told her that Mylan also offered copay help for its generic. That coupon would have covered only $25 of the $30 out-of-pocket cost for the generic, though—still incentivizing her to get the branded EpiPen.

Ex-VW Official Pleads Guilty

A former **Volkswagen** AG compliance executive pleaded guilty to criminal charges stemming from his role in the German auto maker's yearslong emissions-cheating deception.

*By **Mike Spector** in New York and **Mike Colias** in Detroit*

Oliver Schmidt, a German citizen who for several years headed Volkswagen's environment and engineering office in Auburn Hills, Mich., pleaded guilty in a Detroit federal court on Friday, admitting he helped diesel-powered vehicles evade U.S. emissions requirements.

Mr. Schmidt, 48 years old, was charged with participating in a nearly decadelong conspiracy to defraud U.S. officials and customers with vehicles that featured illegal software allowing them to dupe government emissions tests while polluting far beyond legal limits on the road. Volkswagen earlier this year pleaded guilty to criminal charges stemming from the scandal, and other individuals were also charged.

In a superseding criminal information, federal prosecutors charged Mr. Schmidt with one count of conspiracy to defraud the U.S., commit wire fraud and violate the Clean Air Act. Prosecutors also leveled a second stand-alone charge of violating the Clean Air Act.

U.S. District Judge Sean Cox accepted Mr. Schmidt's guilty plea during a hearing Friday morning and scheduled his sentencing for Dec. 6.

Under terms of a plea agreement with federal prosecutors, Mr. Schmidt faces up to seven years in prison and a fine ranging between $40,000 and $400,000. The agreement requires that he be deported from the U.S. after completing his sentence. Prosecutors dropped an additional wire fraud charge in exchange for Mr. Schmidt's plea, a court spokesman said.

VW in March pleaded guilty to criminal charges in the U.S. and has admitted to rigging nearly 600,000 diesel-powered vehicles with software designed to evade emissions testing. The company has said the software is on some 11 million vehicles globally.

The charges stem from the auto maker's yearslong emissions-cheating deception.

A Volkswagen spokesman said the auto maker continues to cooperate with U.S. Justice Department probes of individuals and declined to comment further.

In the U.S. alone, legal settlements could cost Volkswagen more than $25 billion, depending on how many vehicles the auto maker ends up repurchasing to compensate consumers.

Mr. Schmidt, dressed in a red prison jumpsuit and in shackles, admitted to the judge during Friday's hearing that he knew about Volkswagen's use of the illegal software to mislead environmental regulators. The engineer told the judge he "omitted information about how VW intentionally installed defeat devices" during August 2015 discussions with regulators who had been probing the high output of pollutants from Volkswagen vehicles. Mr. Schmidt has been behind bars in Michigan and had planned to stand trial before agreeing to plead guilty. Federal Bureau of Investigation agents arrested Mr. Schmidt in January at Miami International Airport before he boarded a flight to Germany. He will remain imprisoned while he awaits sentencing.

Mr. Schmidt is one of eight individuals charged in the U.S. in VW's emissions cheating. A former engine-development manager at Volkswagen luxury-unit Audi was charged in July. One engineer has pleaded guilty and is set to be sentenced later this month. Others charged are believed to reside in Germany and aren't likely to be extradited to the U.S. to face charges.

Offshore Wind Boosts Energy Suppliers

By Erin Ailworth

For more than three decades, **Gulf Island Fabrication** Inc. has built foundations to anchor offshore-oil platforms to the ocean floor. Now, as lower oil prices take a bite out of that business, it is trying to turn that expertise into an edge in a new business: offshore wind.

The Houston-based company—which recently built the foundations for the first U.S. offshore wind farm, near Rhode Island—is one of many oil-and-gas industry suppliers seeking to diversify into offshore wind, as 18 wind projects are proposed for the nation's waters.

Surveyors who take samples from the sea floor to find safe places for oil and natural-gas platforms are doing the same for future wind farms. Companies that furnish vessels to transport equipment and supplies to offshore drilling sites are retrofitting them to carry wind blades and other parts.

For energy-services companies, finding new revenue streams is crucial as oil and gas from onshore shale formations flood the market. Over the past three years, the number of rigs drilling for oil and gas in the U.S. Gulf of Mexico has dropped by roughly 75%, to 16 rigs on Friday from 63 in late August 2014.


SCOTT EISEN/GETTY IMAGES

The 30-megawatt Block Island wind farm in Rhode Island cost $300 million to complete.

The 30-megawatt Block Island wind farm in Rhode Island cost $300 million to complete. Many of the other projects proposed in the U.S. are larger and would require hundreds of millions to billions in investment.

The know-how needed to build offshore-wind farms is similar enough to putting up a drilling platform that conference organizer PennWell Corp. is bringing companies from the two industries together in Houston for a two-day confab starting Wednesday.

"We are one of the largest offshore foundation companies," said Roy Francis, a senior vice president of business development at Gulf Island, which employs 1,000 people. "If you look at this [wind] industry, they are calling for hundreds of foundations in the territorial waters of the U.S."

The development of a domestic supplier network is crucial to the build-out of offshore wind projects in the U.S., which are more expensive than similar projects in Europe, partly because they have to import crucial parts, such as turbine towers, from the other side of the Atlantic.

Offshore wind farms take years to complete, and all currently proposed in the U.S. are in the permitting and planning phases. Bay State Wind, a wind farm that developer **Dong Energy** A/S and New England utility **Eversource Energy** Co. are trying to build off the Massachusetts island of Martha's Vineyard, received federal approval in late June to deploy equipment to measure wave and wind speeds, for example, as it aims to deliver power in the early 2020s.

It is unlikely all 18 proposed wind farms will be built. Still, suppliers to the offshore oil-and-gas industry—suffering from diminished business because of lower oil and gas prices—are "all looking for new business," said Randall Luthi, president of the National Ocean Industries Association, a trade group.

The launch of the Block Island wind farm off Rhode Island last December, which involved several companies with long histories in oil and gas, has heightened interest.

Keystone Engineering Inc., a Louisiana-based company, designed the farm's foundations. **Montco Offshore** Inc., also of Louisiana, provided vessels and crews to help install those foundations and transport turbine parts to the site. "My Gulf of Mexico crew loved the idea of leaving the oil patch to go do something different," said Joseph Orgeron, chief technology officer at Montco.

Chris van Beek, president of Deepwater Wind, the developer of the Block Island wind farm, worked in the offshore oil-and-gas industry for 30 years. He said he welcomes the skills its suppliers bring.

Toyota's Venture in the U.S. With Mazda Has Wider Goals

By Chester Dawson And Sean McLain

TOKYO—**Toyota Motor** Corp.'s move to build a new factory in the U.S. won immediate praise from President Donald Trump, but it is just one facet of a larger plan that also involves boosting production of trucks and SUVs in Mexico and Canada.

The company's decision to open a $1.6 billion Corolla sedan plant with **Mazda Motor** Corp. elicited a positive tweet from Mr. Trump, who had pressured Toyota earlier this year to drop plans for making that model in Mexico.

The Japanese auto maker is betting a new production line in the U.S. offers bigger benefits long term. First, the plant frees up Toyota's capacity to boost output of high-margin sport-utility vehicles made in Canada and pickup trucks made in Mexico. It also positions the car maker to make a push in the fast-growing market for small crossovers that use the same underlying architecture as the Corolla.

It is a sign that Toyota President Akio Toyoda is bullish on in the U.S. market, where he sees continued growth at a time when the industry is bracing for a downturn.

Earlier this decade, Mr. Toyoda worried about overcapacity amid a global slump and put a moratorium on new factories. The company also sought to lower its U.S. profile after it drew Washington's wrath over reports of unintended acceleration in its vehicles.

A new administration has changed the political calculus and global demand for vehicles has recovered from the 2008-09 slump. U.S. sales set a record last year, propelled by strong demand for crossovers, SUVs and pickup trucks.

Toyota has relied heavily on sales of sedans, which have slumped in recent years and now account for less than half of all vehicles sold. Its U.S. market share has dropped from 16.2% in 2007, when it last announced plans for a new factory in Mississippi, to 14% currently.

But that may change as the company ramps up assembly of its most popular vehicles, such as RAV4 and Highlander SUVs.

"You'll start to see the pendulum swing their way" as Toyota lifts output of those vehicles, said Joe Langley, an industry analyst at IHS Markit Ltd. "There's a staggering amount of RAV4s or Highlanders they could grow [sales of] if they just had the capacity to do it," he said.

Mr. Toyoda lifted his self-imposed freeze on capacity two years ago by announcing new plants in China and Mexico. The Mexican factory was the subject of Mr. Trump's scorn in January, when the company reacted by rebuffing the criticism and saying it would move ahead as planned.

Toyota now says it will reverse course by building a new U.S. plant for the Corolla. Mr. Toyoda denies Mr. Trump's comments affected that decision, but within hours of Friday's announcement, Mr. Trump tweeted: "A great investment in American manufacturing!"

Canada and Mexico also have reason to cheer. The company will stop making Corollas in Canada in favor of pumping out RAV4 SUVs, Toyota's top-selling vehicle in the U.S., and is reworking the factory in Guanajuato, Mexico, to nearly double production of Tacoma pickups in North America to 400,000 vehicles a year.

With the Mexico plant switch, "the production of pickups will be enhanced greatly," Mr. Toyoda said.

Toyota said it plans to open the new U.S. factory with Mazda by 2021, with the location yet to be decided. Eventually, the plant will be able to produce 300,000 vehicles a year and employ 4,000 people, it said. Half of those vehicles will be a new Mazda crossover.

U.S. demand for vehicles has weakened, and industry experts now expect sales to continue to drift lower even as capacity remains elevated—especially at American companies such as **General Motors** Co.

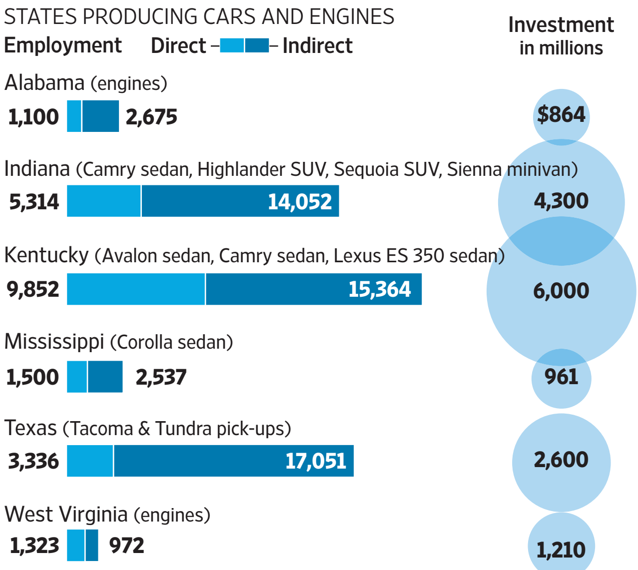
The new production line will have the flexibility to produce other vehicles on the Corolla platform—potentially including the new CH-R that is mostly imported to the U.S. from a plant in Turkey—should sedan sales continue to decline. That vehicle is aimed at a growing market for compact crossovers.

Additional models built off that architecture could include an electrified vehicle such as hybrid engine or fully electric vehicles, said Tetsuya Otake, a senior managing officer at Toyota.

—Dudley Althaus contributed to this article.

Shifting Gears

Toyota has invested nearly $16 billion in auto and engine plants in the U.S.



Note: As of Dec. 2015
Source: the company
THE WALL STREET JOURNAL.

Fantasy Sports Confronts Reality

DraftKings, FanDuel face test of whether daily model is viable; bids for casual players

By Chris Kirkham

NICOLAUS CZARNECKI/ZUMA PRESS

A DraftKings ad in Boston in 2015. DraftKings and rival FanDuel dropped a plan to merge last year.

After scrapping plans to merge, rivals **DraftKings** Inc. and **FanDuel** Inc. must now separately determine whether daily fantasy sports is a viable business—and one that can sustain two major competitors, at that.

The coming National Football League season presents an important test for the once highflying startups, which are working to court casual players—not just pros—amid scrutiny over whether their games constitute illegal gambling.

The U.S.-based websites allow players to assemble virtual teams and compete for cash based on gameday statistics. But they face a fundamental challenge: preventing new customers from being discouraged by a small group of highly skilled, high-frequency professional players who rake in much of the winnings.

DraftKings and FanDuel dominated television airwaves during a marketing blitz in 2015 and appeared headed toward initial public offerings of stock. Backed by prominent investors and professional sports leagues, they clinched billion-dollar valuations.

Since then, analysts have cut industry growth projections over uncertainty about the legal status of daily fantasy sports and concerns about subdued player interest. The rivals said in 2016 that they would merge, but abandoned those plans last month after they faced opposition from antitrust regulators. Several smaller competitors have folded over the past year.

Research firm Eilers & Krejcik Gaming projects the industry will generate about $500 million in revenue by 2020, down from previous forecasts of about $1.8 billion two years ago. Revenue represents about 10% of industry entry fees, which the research group expects will reach $4.8 billion by 2020. Estimated revenue last year was $350 million.

The regulatory challenges have diminished in recent months. More than a dozen states, including New York and Massachusetts, have enacted laws explicitly allowing daily fantasy sports. But the legal landscape in large states including California, Florida and Texas remains uncertain.

A more pressing challenge for the companies is their business model. Daily fantasy players make deposits to play, the companies take a cut and those deposits are distributed to the eventual winners as prizes that range from less than a dollar to $1 million. But to maintain growth, the companies must attract and retain new players while also encouraging the cash flow from high-volume competitors.

The problem, analysts say, is that a few professional players account for the bulk of activity—and of winnings—on the sites, making it unattractive for casual players to come back. "It's just a pure value decision for the customer," said Chris Grove, managing director at Eilers & Krejcik Gaming. "If you went to a movie and paid 20 bucks and it lasted 15 minutes, you might decide not to go to that movie theater again."

The research group has estimated that 1% of players account for 60% of all entry fees for competitions on major daily fantasy-sports sites; a similarly disproportionate share of the winnings go to a small cadre of players, other research has shown.

As part of a settlement agreement last year with New York state Attorney General Eric Schneiderman, DraftKings and FanDuel agreed to disclose on their websites the percentage of the winnings taken in by top tiers of players. The top 1% took in 42% of winnings at DraftKings and 46% of winnings at FanDuel over the past six months, according to their websites.

DraftKings and FanDuel said in interviews that they have developed products over the past year designed to appeal to casual players. Both companies say those players are winning more frequently. For instance, DraftKings' "Leagues" and FanDuel's "Friends Mode" allow groups to create private contests only open to those who are invited.

"That's going to be a very dominant and popular way for people to play going forward," said DraftKings Chief Executive Jason Robins. "We need to create a product integrated with social media, and ultimately make it really easy and fun to play with your friends."

FanDuel Chief Executive Nigel Eccles said his company has seen a significant increase in users who are playing with friends: Only about 5% of players were playing in social leagues in 2015, and now the share is above 50%. He said the company aims to appeal to both high-volume players and friends looking for an alternative to their season-long fantasy sports leagues. He added that the revamped products allow new users to enter contests that are "more in line with their skill level."

DraftKings recently announced several changes limiting where and how often high-volume players can compete. Other new products at both companies create tournaments exclusively for players who have entered 50 or fewer contests on the sites, effectively protecting newcomers from more experienced opponents.

Google Is Taking Aim at Snapchat

By Amol Sharma And Jack Marshall

Google is developing technology to let publishers create visual-oriented media content along the lines of Snapchat's Discover, according to people familiar with the situation, upping the ante in a race among tech giants to dominate news dissemination on smartphones.

Alphabet Inc.'s Google has been in discussions with several publishers, including **Vox Media**, CNN, Mic, the Washington Post and **Time** Inc., to participate in the project, which is dubbed "Stamp," the people say. It could be announced as early as this week, one of the people said.

Google is building the service around its "AMP" mobile webpages, which are designed to load faster than regular webpages. The "St" in Stamp stands for "stories."

Participating publishers would run stories that could be several swipeable slides encompassing text, photos and video, just as on **Snap** Inc.'s Snapchat, the people familiar with the situation say.

"Ever since the beginning of AMP we've constantly collaborated with publishers, and are working on many new features," said a Google spokeswoman, who provided no further details.

Google is stepping up its efforts in a busy area of the digital-media landscape. In addition to Snapchat, Facebook Inc. has its Instant Articles platform, which carries content from a variety of big-name publishers, while Apple Inc. has the Apple News app.

Publishers are trying to figure out how best to allocate their resources as the means to deliver news and information constantly evolve.

Producing and formatting content for different digital platforms can be costly, they say, but optimizing for Google is a priority because of the company's ability to widely distribute content.

One of the main attractions of Google's service is that it would be tied into the company's search product, giving publishers a big built-in audience for Stamp stories.

The Stamp versions of stories could be surfaced in Google search results, or within other Google products, people familiar with the program said, as AMP pages are currently.

The introduction of Stamp articles may be another pressure point for Snap.

Also, the stories could be surfaced on publishers' own sites, a model that is different from Snapchat, in which stories are hosted by Snapchat itself and are only available via the app.

Details of the financial arrangements between Google and publishers, including how they would split any ad revenue, weren't clear.

The type of advertising that might be featured in Stamp articles is still being figured out, people familiar with the program said.

The introduction of Stamp articles may be another pressure point for Snap, which has faced questions about its ability to continue to stand out in a crowded social-media market. Google is only the latest technology behemoth to adopt features similar to Snap's. Facebook and its Instagram platform have been imitating many of the younger company's features over the past year.

While Facebook and Snap are pushing publishers to post content directly to their apps, Google is instead developing tools designed to encourage publishers to invest in their mobile web properties. The move is consistent with Google's focus on the open web, from which the company currently generates the majority of its ad revenues.

BUSINESS WATCH

ONLINE CONTENT

Indonesia Prods Google and Twitter

Alphabet Inc.'s Google and **Twitter** Inc. agreed to better police controversial online content including posts by extremists after Indonesia threatened to shut down social-media and messaging apps if they failed to stop users from spreading such content.

Google will work with several Indonesian nongovernmental organizations, which will flag offensive videos on Google's video-sharing service YouTube, Information Technology Minister Rudiantara said.

Mr. Rudiantara said the system, which is expected to be fully functional in the next two to three months, will be focused on stemming radicalism in the world's largest Muslim-majority country. Indonesian authorities have become concerned with domestic extremist groups' use of social media to spread propaganda from organizations such as Islamic State.

The new initiative will also target posts seen as fueling religious divisions and those deemed to promote the use of illegal narcotics.

—*I Made Sentana*

NISSAN

Mississippi Workers Vote Against Union

Workers at a **Nissan** assembly plant in Mississippi have voted against forming a union, adding to decades of futility by United Auto Workers organizers at foreign-owned auto plants in the American South.

Representatives of Nissan Motor Co. and the UAW said late Friday that 2,244 workers, or 62%, voted against the UAW, while 1,307, or 38%, favored the union.

Company spokeswoman Parul Bajaj said employees' voice has been heard.

The UAW has never fully organized an international auto maker in the traditionally anti-union South, although it did persuade some maintenance workers to join at a Volkswagen AG plant in Tennessee. The UAW's lack of influence among southern auto workers has reduced its bargaining power when Detroit auto makers lose market share and close plants. After pouring resources into the organizing drive at Nissan, this loss could leave UAW leaders with tough decisions.

—*Associated Press*

Google Diversity Chief Slams Memo

By Jack Nicas

NOAM GALAI/GETTY IMAGES FOR TECHCRUNCH

Danielle Brown said diversity and inclusion are part of Google's culture.

Google's new diversity chief criticized the contents of an employee's memo that went viral inside the company for suggesting Google has fewer female engineers because men are better suited for the job.

Danielle Brown, Google's vice president for diversity and inclusion, sent a letter to employees Saturday saying the employee's memo "advanced incorrect assumptions about gender" and is "not a viewpoint that I or this company endorses, promotes or encourages," according to a copy of the statement published by Motherboard, which earlier reported on the employee's memo.

The Google employee argued company initiatives to increase diversity discriminate against some employees, and that a liberal bias among executives and many employees makes it difficult to discuss the issue at Google, a unit of **Alphabet** Inc., according to a copy of the memo published by Gizmodo.

Some Google employees denounced the memo on Twitter, and Motherboard reported it was being shared widely among staff. That backlash drew a response from Ms. Brown, who joined Google in late June.

"Given the heated debate we've seen over the past few days, I feel compelled to say a few words," she said in the statement. "Diversity and inclusion are a fundamental part of our values and the culture."

Google didn't respond to a request for comment.

The controversy over the memo comes as the tech industry struggles with gender and diversity issues. Many tech companies have admitted a majority of their employees are white or Asian men, particularly in technical and leadership roles. Some tech companies and investors have faced a string of sexual-harassment scandals over the past year.

For its part, Google is pushing back against a Labor Department investigation into its pay practices that spilled into court recently.

The Labor Department in January sued Google for more compensation data as part of a routine audit into the company's pay practices, a probe that is possible because Google provides advertising and cloud services to the federal government. Last month a judge ruled Google had to turn over a narrower set of data than what the department sought, saying that the request was too broad and invaded Google employees' privacy.

During the case, a Labor Department official testified investigators found evidence that Google systematically pays women less than men.

Google has denied the accusations, saying its internal analyses have shown no pay gap among Alphabet's nearly 76,000 employees. The Labor Department hasn't formally charged Google with any wrongdoing.

MIMS

Continued from page B1

ChargePoint, which controls the largest U.S. network of charging stations.

Charging infrastructure is adequate to meet current demand, and there is no reason to believe it won't continue to scale in line with future demand, he argues. ChargePoint makes and sells charging stations to businesses, individuals and governments, charging monthly to maintain the stations and accepting payments for the electricity they provide.

ChargePoint was part of an initiative in Los Angeles to put charging stations in existing lampposts, says Matt Petersen, until recently L.A.'s chief sustainability officer. (The city has installed 82 so far.)

That makes sense because a good chunk of a new charging station's cost—which can hit $5,000—is installing it and wiring it up, ChargePoint's Mr. Romano says.

German firm Ubitricity is pioneering relatively low-cost, low-power plugs that go directly into lampposts, and can be accessed with an internet-connected "smart" power cable that handles all metering and billing.

Kieran Fitsall, head of service improvement and transformation for the Westminster City Council of central London, says it has installed 20 Ubitricity plugs in street lamps. The plan is to increase that to 100 by March 2018.

One of Ubitricity's advantages is the plugs don't require the council to designate EV-only parking spots, which are unpopular with people who don't drive them, Mr. Fitsall says. Ubitricity has no U.S. presence but is seeking investment to expand, says company co-founder Knut Hechtfischer.

While these efforts may show where the technology is headed, it isn't clear that it is rolling out at anywhere close to the pace auto makers anticipate they will sell vehicles.

The biggest challenge for those building out charging infrastructure is that no one can predict the demand for charging as EVs become commonplace, says MIT's Dr. O'Sullivan. In fact, he calls some of the behavioral factors needed to make such predictions "exceptionally opaque." These include the time of day people will choose to charge, how responsive they will be to price incentives on electricity designed to encourage them to charge at the "right" time, and how often they'll use "superchargers" versus lower-power outlets for overnight charging.

This brings us to another looming issue: America's often-overtaxed power grids won't be able to handle a large influx of new demand without careful management. This generally won't be a problem if cars charge at night, when the power grid is underused. But as EVs proliferate, drivers who can't charge them at home will want to charge them at work, during the day. They'll also seek superchargers, which typically are installed along highways and designed for fast charging and long-distance travel.

"Superchargers are enormous power draws," says Jesse Jenkins, a researcher at the MIT Energy Initiative. "Chargers in parking garages or superchargers at rest stops are not a solution for charging EVs en masse unless we are OK with significant costs to upgrade distribution grids."

Even the regular charger found in homes and businesses could present a costly problem when cars charge during demand peaks. Anything that increases peak demand could increase the cost of electricity for everyone, says Stanford's Dr. Zoepf.

If Elon Musk and his competitors succeed at selling as many electric vehicles as they project, keeping them all full of electricity will be a long, hugely expensive and potentially contentious undertaking. It could also be quite lucrative for the people who figure it out.

DANIA MAXWELL/BLOOMBERG NEWS

The public charging stations that exist are found in parking lots and at businesses in cities where early adopters reside.

Are U.S. Stocks Too High? It Depends

These three P/E measures suggest that they are. So why hasn't it mattered?

BY JEFF BROWN

U.S. STOCKS have set record after record this year, pleasing investors who might have expected a postelection slump. But have prices soared to levels that are too risky?

Just as a 50-degree day is cool in August and warm in January, share prices can look high or low depending on the frame of reference. Still, by almost any standard, share prices are indeed high today—sobering for anyone with a serious stake in the market. Consider the three most popular measures: trailing price-to-earnings ratio, forward P/E ratio and cyclically adjusted P/E ratio.

"Each of the measures is currently higher than its long-term average, prompting many market analysts to predict an impending market decline," says Brandon Thomas, co-founder and chief investment officer at Envestnet, a Chicago-based research and advice provider for financial advisers.

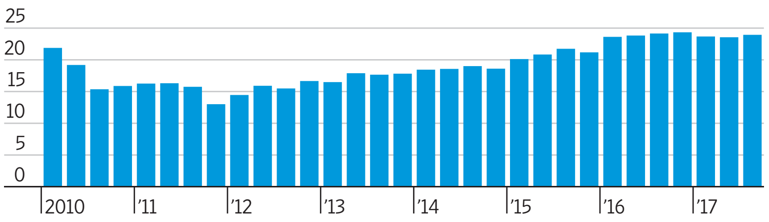
Yet some experts make a case that stocks are *not* overpriced by important measures and will continue to rise. What's an investor to do?

Here's a look at what the top barometers are showing—and why stocks continue to defy them—along with the pros' arguments about what comes next.

DAVIDE BONAZZI

Looking Rich?

The S&P 500's price/earnings ratio, based on as-reported earnings, quarterly



Source: S&P Dow Jones Indices

THE WALL STREET JOURNAL.

◆ **Trailing P/E Ratio:** The classic P/E looks at the current price divided by the company's total earnings for the past 12 months.

Today, the P/E for the stocks in the S&P 500 index is about 24, meaning investors pay $24 for every $1 in corporate earnings. That's quite high compared with the historical average of about 15 or 16, but not so high compared with some periods of crisis in the past—more than 40 around the dot-com bubble and above 100 after the financial crisis broke. To return to average, prices would have to tumble or earnings skyrocket.

Some experts note, however, that it isn't unusual, or particularly risky, for the P/E to be somewhat higher than average when interest rates and inflation are unusually low. If you'll earn only a tad over 2% on a 10-year Treasury note, paying $50 for every $1 in interest income, why not pay 24 times earnings on a stock? That would be a 4% earnings yield (earnings divided by price). Also, a low earnings yield is easier to stomach if little will be lost to inflation.

Andrew Kleis, co-founder of Insight Wealth Group, a wealth-management firm in West Des Moines, Iowa, says that "in times of incredibly low interest rates, like today and the last several years, investors put their money into the equities markets because they believe that is their best opportunity for risk-adjusted returns. That drives up P/E ratios. It's happened before, and it's happening again."

◆ **Forward P/E:** For another look, many experts use a P/E based on projected or forecast earnings, usually from company estimates and a consensus among analysts. Because many analysts are predicting earnings will grow in the near and medium term, this view produces a P/E a little less frightening—currently about 19 for the S&P 500, close to its long-term average.

Jim Tierney, chief investment officer for concentrated U.S. growth equities at AllianceBernstein asset management in New York, says "forward earnings are what we care about the most," and notes that Wall Street analysts expect healthy earnings gains, producing a forward P/E just shy of 19 this year and close to 17 in 2018. "A bit elevated, but not excessive in a world where the 10-year Treasury as at 2.37%."

Earnings estimates sometimes have a bit of wishful thinking, and experts say many analysts currently assume earnings will be boosted by a big Republican corporate-tax cut.

◆ **CAPE:** Robert Shiller, the Yale economist known for his book "Irrational Exuberance," which warned of price bubbles in stocks and housing, devised a different approach to reduce distortions from short-term factors. His "cyclically adjusted price-to-earnings ratio," or CAPE, divides the S&P 500's current level by the average of 10 years of earnings adjusted for inflation.

That produces a frightening figure—a P/E around 30, matching the level on Black Tuesday in 1929, and nearly double the long-term average of about 17 (but still below the peak of nearly 45 in 2000).

While CAPE is less volatile than the other two P/E gauges, some experts caution that it can be misleading at times. Right now, the 10-year earnings average is dragged down by the poor results during the financial crisis, pushing the CAPE ratio up.

Steve Violin, senior vice president and portfolio manager, F.L. Putnam Investment Management in Wellesley, Mass., prefers a CAPE using a five-year earnings average instead of 10. "A five-year CAPE ratio tends to be reasonably stable by avoiding estimates and smoothing out annual fluctuation," he says. It's currently at 23.6, compared with about 18 over the long term.

How long will this last?

The important point today is that all the most popular barometers say share prices are high. Mr. Violin notes, though, that valuation measures are only part of the picture.

"Stock prices are at record highs for a reason," says Mr. Thomas, "Many analysts are forecasting an acceleration in earnings growth as a result of an expected tax cut."

Of course, things can go wrong. With the turmoil in Washington, for example, tax cuts are far from guaranteed.

Mr. Brown is a writer in Livingston, Mont. He can be reached at reports@wsj.com.

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SPOTLIGHT | ISHARES MSCI UNITED KINGDOM

A U.K. FUND IS RECOVERING FROM BREXIT

The **iShares MSCI United Kingdom** ETF (EWU) is enjoying renewed popularity. But much like the country it focuses on, it has encountered some turbulence over the past year or so, with the uncertainties surrounding the U.K.'s pending exit from the European Union weighing on investors.

EWU is a $2.82 billion market-weighted fund, comprising mainly large U.K. companies. Like the British economy, it tilts toward finance, energy and consumer staples, with HSBC Holdings PLC, British American Tobacco PLC and Royal Dutch Shell PLC among its top five holdings.

The fund had net inflows of about $575 million in the first seven months of this year, with a total return of 12.53%. However, its performance since the Brexit referendum a year ago hasn't always been as positive, says Tushar Yadava, an iShares investment strategist at BlackRock Inc., the issuer of iShares funds. The fall in the value of sterling prompted investors to favor the currency-hedged version of EWU, **iShares Currency Hedged MSCI United Kingdom** ETF (HEWU).

"People wanted to keep a U.K. exposure, but to take the sterling view out of it," Mr. Yadava says. Between the referendum and the end of last year, a net $44.7 million flowed out of EWU, which returned 6.91% over that period.

But this year, the tables have turned. Sterling has stabilized, drawing investors back into EWU.

The fund has benefited from strength in U.K. financials, Mr. Yadava says. But he warns there is uncertainty over Brexit's impact on international business.

—Gerrard Cowan

MARKETS DIGEST

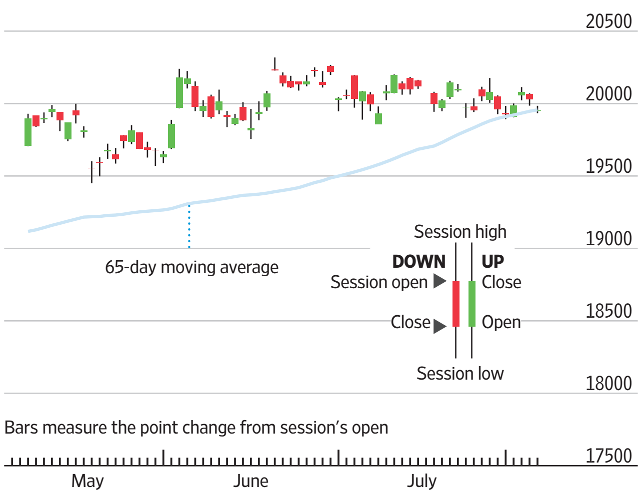
Data as of Friday, August 4, 2017

Nikkei 225 Index

19952.33 ▼76.93, or 0.38%

High, low, open and close for each trading day of the past three months.

Year-to-date	▲4.38%	
52-wk high/low	20230.41	16251.54
All-time high	38915.87	12/29/89



STOXX 600 Index

382.53 ▲3.60, or 0.95%

High, low, open and close for each trading day of the past three months.

Year-to-date	▲5.84%	
52-wk high/low	396.45	328.80
All-time high	414.06	4/15/15

S&P 500 Index

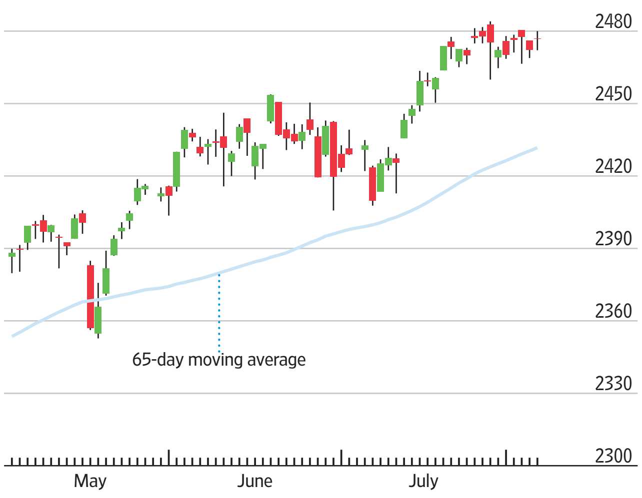
4 p.m. New York time

2476.83 ▲4.67, or 0.19%

High, low, open and close for each trading day of the past three months.

	Last	Year ago
Trailing P/E ratio	23.90	24.68
P/E estimate *	18.95	18.56
Dividend yield	1.97	2.10
All-time high:	2477.83, 07/26/17	

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.



International Stock Indexes

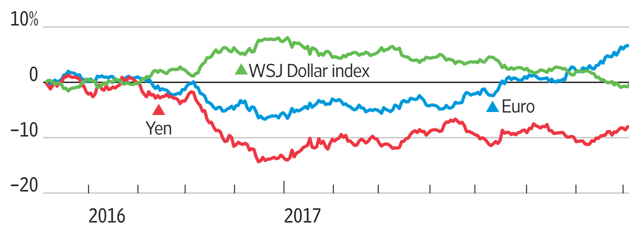
Data as of 4 p.m. New York time

Region/Country	Index	Latest Close	Latest NetChg	Latest % chg	52-Week Range Low	52-Week Range High	YTD % chg
World	**The Global Dow**	2870.04	0.50	0.02	2390.11	2870.04	13.4
	MSCI EAFE	1947.62	–7.77	–0.40	1612.29	1955.61	15.7
	MSCI EM USD	1067.26	3.19	0.30	838.96	1071.07	23.8
Americas	**DJ Americas**	595.89	1.03	0.17	503.67	596.96	10.3
Brazil	**Sao Paulo Bovespa**	66897.99	120.85	0.18	56820.77	69052.03	11.1
Canada	**S&P/TSX Comp**	15257.97	66.01	0.43	14349.10	15922.37	–0.2
Mexico	**IPC All-Share**	51328.29	35.22	0.07	44364.17	51713.38	12.5
Chile	**Santiago IPSA**	3879.67	23.97	0.62	3127.54	3879.67	20.4
U.S.	**DJIA**	22092.81	66.71	0.30	17888.28	22092.81	11.8
	Nasdaq Composite	6351.56	11.22	0.18	5046.37	6422.75	18.0
	S&P 500	2476.83	4.67	0.19	2085.18	2477.83	10.6
	CBOE Volatility	10.03	–0.41	–3.93	9.36	22.51	–28.6
EMEA	**Stoxx Europe 600**	382.53	3.60	0.95	328.80	396.45	5.8
	Stoxx Europe 50	3122.32	30.31	0.98	2730.05	3276.11	3.7
France	**CAC 40**	5203.44	72.95	1.42	4332.45	5432.40	7.0
Germany	**DAX**	12297.72	143.00	1.18	10259.13	12888.95	7.1
Greece	**ATG**	829.50	3.70	0.45	551.93	858.08	28.9
Israel	**Tel Aviv**	1417.24	...	Closed	1378.66	1478.96	–3.6
Italy	**FTSE MIB**	21935.79	142.07	0.65	16134.71	21935.79	14.0
Netherlands	**AEX**	529.09	3.52	0.67	439.07	536.26	9.5
Russia	**RTS Index**	1026.73	–2.68	–0.26	935.46	1195.61	–10.9
Spain	**IBEX 35**	10658.40	109.30	1.04	8450.60	11135.40	14.0
Switzerland	**Swiss Market**	9176.99	40.38	0.44	7593.20	9176.99	11.6
South Africa	**Johannesburg All Share**	55944.83	259.82	0.47	48935.90	55944.83	10.4
Turkey	**BIST 100**	108545.31	1391.53	1.30	72519.85	108545.31	38.9
U.K.	**FTSE 100**	7511.71	36.94	0.49	6665.63	7547.63	5.2
Asia-Pacific							
Australia	**S&P/ASX 200**	5720.60	–14.50	–0.25	5156.60	5956.50	1.0
China	**Shanghai Composite**	3262.08	–10.85	–0.33	2976.70	3292.64	5.1
Hong Kong	**Hang Seng**	27562.68	31.67	0.12	21574.76	27607.38	25.3
India	**S&P BSE Sensex**	32325.41	87.53	0.27	25765.14	32575.17	21.4
Indonesia	**Jakarta Composite**	5777.48	–3.09	–0.05	5027.70	5910.24	9.1
Japan	**Nikkei Stock Avg**	19952.33	–76.93	–0.38	16251.54	20230.41	4.4
Malaysia	**Kuala Lumpur Composite**	1774.53	2.63	0.15	1616.64	1792.35	8.1
New Zealand	**S&P/NZX 50**	7746.12	–7.63	–0.10	6664.21	7753.75	12.6
Philippines	**PSEi**	7932.82	56.16	0.71	6563.67	8071.47	16.0
Singapore	**Straits Times**	3326.52	–16.40	–0.49	2787.27	3354.71	15.5
South Korea	**Kospi**	2395.45	8.60	0.36	1958.38	2451.53	18.2
Taiwan	**Weighted**	10506.56	36.68	0.35	8902.30	10519.27	13.5
Thailand	**SET**	1578.26	0.01	0.00	1406.18	1591.00	2.3

Currencies

London close on Aug. 4

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



Country/currency	Fri in US$	Fri per US$	US$ vs, YTD chg (%)
Americas			
Argentina peso-a	0.0566	17.6648	**11.3**
Brazil real	0.3207	3.1183	**–4.2**
Canada dollar	0.7908	1.2646	**–5.9**
Chile peso	0.001539	649.90	**–3.0**
Colombia peso	0.0003360	2976.31	**–0.9**
Ecuador US dollar-f	1	1	**unch**
Mexico peso-a	0.0560	17.8707	**–13.8**
Peru sol	0.3086	3.2403	**–3.4**
Uruguay peso-e	0.0353	28.350	**–3.4**
Venezuela bolivar	0.099511	10.05	**0.5**
Asia-Pacific			
Australia dollar	0.7920	1.2626	**–9.1**
China yuan	0.1486	6.7290	**–3.1**
Hong Kong dollar	0.1279	7.8195	**0.8**
India rupee	0.0157	63.6500	**–6.3**
Indonesia rupiah	0.0000751	13316	**–1.5**
Japan yen	0.009023	110.83	**–5.3**
Kazakhstan tenge	0.003011	332.14	**–0.5**
Macau pataca	0.1247	8.0211	**1.3**
Malaysia ringgit-c	0.2337	4.2785	**–4.6**
New Zealand dollar	0.7411	1.3493	**–6.6**
Pakistan rupee	0.0095	105.350	**0.9**
Philippines peso	0.0199	50.342	**1.5**
Singapore dollar	0.7348	1.3609	**–6.0**
South Korea won	0.0008856	1129.23	**–6.5**
Sri Lanka rupee	0.0065176	153.43	**3.4**
Taiwan dollar	0.03313	30.183	**–7.0**
Thailand baht	0.03004	33.290	**–7.0**
Europe			
Bulgaria lev	0.6009	1.6641	**–10.5**
Croatia kuna	0.1586	6.305	**–12.1**
Euro zone euro	1.1743	0.8516	**–10.4**
Czech Rep. koruna-b	0.0450	22.243	**–13.4**
Denmark krone	0.1578	6.3359	**–10.4**
Hungary forint	0.003855	259.37	**–11.9**
Iceland krona	0.009489	105.39	**–6.7**
Norway krone	0.1255	7.9657	**–7.9**
Poland zloty	0.2767	3.6135	**–13.7**
Russia ruble-d	0.01670	59.891	**–2.2**
Sweden krona	0.1224	8.1711	**–10.3**
Switzerland franc	1.0282	0.9726	**–4.5**
Turkey lira	0.2830	3.5338	**0.3**
Ukraine hryvnia	0.0387	25.8350	**–4.6**
U.K. pound	1.3029	0.7675	**–5.2**
Middle East/Africa			
Bahrain dinar	2.6515	0.3772	**–0.01**
Egypt pound-a	0.0562	17.7795	**–1.9**
Israel shekel	0.2753	3.6328	**–5.6**
Kuwait dinar	3.3133	0.3018	**–1.2**
Oman sul rial	2.5967	0.3851	**0.04**
Qatar rial	0.2744	3.645	**0.1**
Saudi Arabia riyal	0.2666	3.7504	**–0.01**
South Africa rand	0.0744	13.4465	**–1.8**

	Close	Net Chg	% Chg	YTD % Chg
WSJ Dollar Index	86.42	0.56	0.65	**–7.01**

Sources: Tullett Prebon, WSJ Market Data Group

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

Coupon	Country/ Maturity, in years	Yield	Spread Over Treasurys, in basis points: Latest	Previous	Month Ago	Year ago	Yield: Previous	Month ago	Year ago
2.750	**Australia** 2	**1.785**	43.0	44.8	27.2	84.1	**1.791**	1.686	1.488
2.750	10	**2.631**	36.4	45.2	22.7	45.0	**2.675**	2.575	1.953
3.000	**Belgium** 2	**-0.529**	-188.4	-188.8	-190.4	-124.5	**-0.545**	-0.490	-0.598
0.800	10	**0.765**	-150.2	-148.1	-153.1	-135.7	**0.742**	0.817	0.145
0.000	**France** 2	**-0.473**	-182.8	-183.7	-181.6	-119.1	**-0.494**	-0.402	-0.544
1.000	10	**0.758**	-150.9	-150.2	-152.5	-137.4	**0.722**	0.824	0.129
0.000	**Germany** 2	**-0.682**	-203.7	-202.0	-203.5	-125.5	**-0.677**	-0.620	-0.608
0.500	10	**0.471**	-179.7	-177.1	-187.1	-159.7	**0.453**	0.477	-0.094
0.050	**Italy** 2	**-0.015**	-137.0	-138.5	-173.6	-73.8	**-0.042**	-0.322	-0.091
2.200	10	**2.021**	-24.7	-23.5	-23.8	-35.7	**1.988**	2.110	1.146
0.100	**Japan** 2	**-0.113**	-146.8	-145.8	-153.9	-82.3	**-0.115**	-0.125	-0.176
0.100	10	**0.064**	-220.4	-215.3	-226.6	-157.9	**0.070**	0.082	-0.076
4.000	**Netherlands** 2	**-0.635**	-199.0	-199.7	-200.5	-123.9	**-0.654**	-0.591	-0.592
0.750	10	**0.592**	-167.6	-165.2	-168.4	-149.8	**0.571**	0.664	0.005
4.750	**Portugal** 2	**0.034**	-132.1	-128.7	-137.6	-24.7	**0.056**	0.038	0.400
4.125	10	**2.843**	57.5	60.0	60.2	135.0	**2.823**	2.950	2.853
2.750	**Spain** 2	**-0.326**	-168.1	-169.4	-166.2	-82.1	**-0.351**	-0.248	-0.174
1.500	10	**1.466**	-80.2	-78.2	-82.6	-48.7	**1.441**	1.522	1.016
4.250	**Sweden** 2	**-0.666**	-202.1	-204.2	-210.0	-130.3	**-0.699**	-0.686	-0.656
1.000	10	**0.687**	-158.1	-156.1	-173.8	-138.1	**0.663**	0.611	0.122
1.750	**U.K.** 2	**0.255**	-110.0	-112.1	-108.1	-53.0	**0.222**	0.333	0.117
4.250	10	**1.177**	-109.1	-107.2	-109.9	-85.5	**1.151**	1.249	0.647
1.375	**U.S.** 2	**1.355**	...	...	...	...	**1.343**	1.414	0.647
2.375	10	**2.268**	...	...	...	...	**2.223**	2.348	1.503

Commodities

Prices of futures contracts with the most open interest — 4 p.m. New York time

EXCHANGE LEGEND: CBOT: Chicago Board of Trade; **CME:** Chicago Mercantile Exchange; **ICE-US:** ICE Futures U.S.; **MDEX:** Bursa Malaysia Derivatives Berhad; **TCE:** Tokyo Commodity Exchange; **COMEX:** Commodity Exchange; **LME:** London Metal Exchange; **NYMEX:** New York Mercantile Exchange; **ICE-EU:** ICE Futures Europe. *Data as of 8/3/2017

Commodity	Exchange	Last price	One-Day Change Net	One-Day Change Percentage	Year high	Year low
Corn (cents/bu.)	CBOT	381.50	3.75	0.99%	417.25	374.00
Soybeans (cents/bu.)	CBOT	957.00	-3.50	-0.36%	1,047.00	907.00
Wheat (cents/bu.)	CBOT	455.50	-2.25	-0.49	574.50	430.75
Live cattle (cents/lb.)	CME	113.850	-0.975	-0.85	122.850	99.125
Cocoa ($/ton)	ICE-US	2,037	-49	-2.35	2,301	1,794
Coffee (cents/lb.)	ICE-US	140.25	0.05	0.04	163.75	115.50
Sugar (cents/lb.)	ICE-US	14.15	-0.16	-1.12	20.50	12.74
Cotton (cents/lb.)	ICE-US	70.60	0.44	0.63	75.72	66.15
Robusta coffee ($/ton)	ICE-EU	2132.00	-12.00	-0.56	2,286.00	1,885.00
Copper ($/lb.)	COMEX	2.8855	0.0075	0.26	2.9200	2.4850
Gold ($/troy oz.)	COMEX	1264.60	-9.80	-0.77	1,307.00	1,160.80
Silver ($/troy oz.)	COMEX	16.255	-0.375	-2.25	18.780	14.340
Aluminum ($/mt)*	LME	1,916.00	-9.50	-0.49	1,972.00	1,688.50
Tin ($/mt)*	LME	20,605.00	105.00	0.51	21,225.00	18,760.00
Copper ($/mt)*	LME	6,318.00	-3.50	-0.06	6,400.00	5,491.00
Lead ($/mt)*	LME	2,365.00	25.00	1.07	2,445.00	2,022.00
Zinc ($/mt)*	LME	2,813.50	47.50	1.72	2,958.50	2,450.50
Nickel ($/mt)*	LME	10,310.00	65.00	0.63	11,095.00	8,780.00
Rubber (Y.01/ton)	TCE	206.80	4.90	2.43	n.a.	n.a.
Palm oil (MYR/mt)	MDEX	2606.00	2.00	0.08	2705.00	2376.00
Crude oil ($/bbl.)	NYMEX	49.48	0.45	0.92	58.36	42.29
NY Harbor ULSD ($/gal.)	NYMEX	1.6463	0.0074	0.45	1.8065	1.3703
RBOB gasoline ($/gal.)	NYMEX	1.6424	0.0105	0.64	1.8366	1.3805
Natural gas ($/mmBtu)	NYMEX	2.780	-0.020	-0.71	3.5490	2.7530
Brent crude ($/bbl.)	ICE-EU	52.33	0.32	0.62	60.13	44.88
Gas oil ($/ton)	ICE-EU	486.50	-5.50	-1.12	532.25	405.50

Sources: SIX Financial Information; WSJ Market Data Group

Cross rates

London close on Aug 4

	USD	GBP	CHF	JPY	HKD	EUR	CDN	AUD
Australia	1.2626	1.6452	1.2985	0.0114	0.1615	1.4827	0.9986	...
Canada	1.2646	1.6475	1.3004	0.0114	0.1617	1.4847	...	1.0013
Euro	0.8516	1.1095	0.8756	0.0077	0.1089	...	0.6735	0.6744
Hong Kong	7.8195	10.1872	8.0406	0.0706	...	9.1812	6.1836	6.1922
Japan	110.8260	144.3800	113.9600	...	14.1730	130.1300	87.6400	87.7700
Switzerland	0.9726	1.2671	...	0.0088	0.1244	1.1421	0.7690	0.7702
U.K.	0.7675	...	0.7892	0.0069	0.0981	0.9013	0.6068	0.6078
U.S.	...	1.3029	1.0282	0.0090	0.1279	1.1743	0.7908	0.7920

Source: Tullett Prebon

Key Rates

	Latest	52 wks ago
Libor		
One month	**1.22889%**	0.50390%
Three month	**1.31194**	0.79235
Six month	**1.44944**	1.16070
One year	**1.72289**	1.47510
Euro Libor		
One month	**-0.40143%**	-0.37000%
Three month	**-0.37271**	-0.31571
Six month	**-0.30043**	-0.19443
One year	**-0.19043**	-0.06929
Euribor		
One month	**-0.37200%**	-0.37000%
Three month	**-0.32900**	-0.29800
Six month	**-0.27100**	-0.18500
One year	**-0.15100**	-0.04700
Yen Libor		
One month	**-0.03521%**	-0.06371%
Three month	**-0.01750**	-0.02150
Six month	**0.00929**	0.00771
One year	**0.11271**	0.08743
	Offer	Bid
Eurodollars		
One month	**1.3300%**	1.2300%
Three month	**1.3900**	1.2900
Six month	**1.5000**	1.4000
One year	**1.8200**	1.7200
	Latest	52 wks ago
Prime rates		
U.S.	**4.25%**	3.50%
Canada	**2.95**	2.70
Japan	**1.475**	1.475
Hong Kong	**5.00**	5.00
Policy rates		
ECB	**0.00%**	0.00%
Britain	**0.25**	0.25
Switzerland	**0.50**	0.50
Australia	**1.50**	1.50
U.S. discount	**1.75**	1.00
Fed-funds target	**1.00-1.25**	0.25-0.50
Call money	**3.00**	2.25
Overnight repurchase rates		
U.S.	**1.02%**	0.52%
Euro zone	**n.a.**	n.a.

Sources: WSJ Market Data Group, SIX Financial Information, Tullett

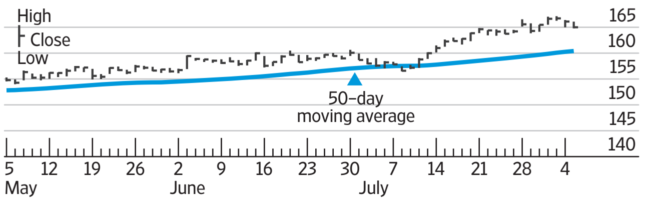
Top Stock Listings

4 p.m. New York time

Cur	Stock	Sym	Last	% Chg	YTD% Chg
Asia Titans					
HK$	AIAGroup	1299	60.95	-0.89	39.31
¥	AstellasPharma	4503	1403.00	-0.25	-13.58
AU$	AustNZBk	ANZ	29.49	-0.30	-3.06
AU$	BHP	BHP	25.72	0.31	2.63
HK$	BankofChina	3988	3.95	...	14.83
HK$	CKHutchison	0001	105.10	-3.13	19.57
HK$	CNOOC	0883	8.70	-0.46	-10.31
AU$	CSL	CSL	128.14	0.90	27.62
¥	Canon	7751	3853.00	-0.57	16.93
¥	CentralJapanRwy	9022	17865	-1.11	-7.10
HK$	ChinaConstructnBk	0939	6.60	0.15	10.55
HK$	ChinaLifeInsurance	2628	24.90	-0.99	23.27
HK$	ChinaMobile	0941	83.35	-0.42	1.40
HK$	ChinaPetro&Chem	0386	5.90	...	7.27
AU$	CmwlthBkAust	CBA	80.72	-3.87	-2.05
¥	EastJapanRailway	9020	10430	0.19	3.27
¥	Fanuc	6954	22565	-0.55	13.88
¥	Hitachi	6501	738.80	-0.65	16.90
TW$	Hon Hai Precisn	2317	119.50	0.42	41.92
¥	HondaMotor	7267	3125.00	-1.88	-8.49
KRW	HyundaiMtr	005380	150000	1.01	2.74
HK$	Ind&Comml	1398	5.63	0.18	21.08
¥	JapanTobacco	2914	3802.00	-0.91	-1.09
¥	KDDI	9433	2998.00	-0.23	1.30
¥	Mitsubishi	8058	2564.50	1.14	2.99
¥	MitsubishiElectric	6503	1729.50	-0.97	6.14
¥	MitsubishiUFJFin	8306	709.20	-0.51	-1.53
¥	Mitsui	8031	1665.50	1.09	3.64
¥	Mizuho Fin	8411	193.70	-0.36	-7.67
¥	NTTDoCoMo	9437	2595.00	-0.19	-2.55
AU$	NatAustBnk	NAB	29.93	0.20	-2.41
¥	NipponTeleg	9432	5435.00	0.02	10.65
¥	NissanMotor	7201	1085.50	-0.50	-7.66
¥	Panasonic	6752	1504.00	-0.53	26.44
HK$	PingAnInsofChina	2318	58.85	-0.34	51.68
$	RelianceIndsGDR	RIGD	50.50	-1.37	60.06
KRW	SamsungElectronics	005930	2385000	-0.17	32.35
¥	Seven&I Hldgs	3382	4503.00	0.54	1.12
¥	SoftBankGroup	9984	8813.00	-0.32	13.50
¥	Sony	6758	4434.00	0.34	35.39
¥	Sumitomo Mitsui	8316	4254.00	-0.56	-4.62
HK$	SunHngKaiPrp	0016	123.50	1.06	26.02
TW$	TaiwanSemiMfg	2330	213.00	-0.23	17.36
¥	TakedaPharm	4502	5974.00	0.40	23.56
HK$	TencentHoldings	0700	311.40	0.91	64.15
¥	TokioMarineHldg	8766	4699.00	-0.42	-2.02
¥	ToyotaMtr	7203	6216.00	-0.14	-9.62
AU$	Wesfarmers	WES	40.71	0.57	-3.39
AU$	WestpacBanking	WBC	31.54	-0.54	-3.25
AU$	Woolworths	WOW	27.00	0.11	12.03
Stoxx 50					
CHF	ABB	ABBN	22.75	-0.04	5.91
€	ASMLHolding	ASML	129.85	1.21	21.75
€	AXA	CS	25.47	1.05	6.19
€	AirLiquide	AI	105.95	1.63	0.28
€	Allianz	ALV	185.80	1.25	18.34
€	AB InBev	ABI	102.15	0.89	1.59
£	AstraZeneca	AZN	4534.00	-0.61	2.17
€	BASF	BAS	82.11	1.87	-7.02
€	BNP Paribas	BNP	68.12	1.34	12.50
£	BT Group	BT.A	316.75	0.91	-13.67
€	BancoBilVizAr	BBVA	7.83	0.20	23.36
€	BancoSantander	SAN	5.82	0.99	17.26
£	Barclays	BARC	210.35	0.89	-5.86
€	Bayer	BAYN	107.00	0.71	7.94
£	BP	BP.	463.30	0.59	-9.09
£	BritishAmTob	BATS	5057.00	1.06	9.42
€	Daimler	DAI	60.53	1.27	-14.41
€	DeutscheTelekom	DTE	15.75	1.25	-2.74
£	Diageo	DGE	2503.00	1.89	18.63
€	ENI	ENI	13.55	0.37	-12.41
£	GlaxoSmithKline	GSK	1534.00	0.39	-1.79
£	Glencore	GLEN	337.80	0.79	21.80
£	HSBC Hldgs	HSBA	769.00	1.02	17.07
€	INGGroep	INGA	15.70	1.75	17.43
£	ImperialBrands	IMB	3308.00	0.08	-6.62
€	IntesaSanpaolo	ISP	2.92	0.69	20.36
€	LVMHMoetHennessy	MC	221.90	1.32	22.33
£	LloydsBankingGroup	LLOY	66.81	0.45	6.88
€	LOreal	OR	176.55	0.83	1.82
£	NationalGrid	NG.	955.00	-0.31	-8.01
CHF	Nestle	NESN	83.25	0.79	13.96
CHF	Novartis	NOVN	82.60	0.30	11.47
DKK	NovoNordiskB	NOVO-B	266.20	-0.37	4.52
£	Prudential	PRU	1866.00	0.57	14.65
£	ReckittBenckiser	RB.	7507.00	0.68	9.02
£	RioTinto	RIO	3546.00	1.71	12.27
CHF	RocheHldgctf	ROG	248.00	0.45	6.62
£	RoyDtchShell A	RDSA	2183.00	0.34	-2.65
€	SAP	SAP	91.44	0.98	10.42
€	Sanofi	SAN	81.61	1.48	6.12
€	SchneiderElectric	SU	68.80	2.12	4.07
€	Siemens	SIE	111.55	-0.84	-4.49
€	Telefonica	TEF	9.71	2.29	10.06
€	Total	FP	43.92	0.80	-8.04
CHF	UBSGroup	UBSG	17.06	0.71	6.96
€	Unilever	UNA	49.49	0.87	26.52
£	Unilever	ULVR	4357.00	0.74	32.33
€	Vinci	DG	77.05	1.97	19.09
£	VodafoneGroup	VOD	225.00	0.45	12.58
CHF	ZurichInsurance	ZURN	297.20	-0.47	5.99
DJIA					
$	AmericanExpress	AXP	85.97	0.50	16.05
$	Apple	AAPL	156.39	0.53	35.03
$	Boeing	BA	237.71	-0.23	52.69
$	Caterpillar	CAT	114.35	0.70	23.30
$	Chevron	CVX	110.11	0.62	-6.45
$	CiscoSystems	CSCO	31.80	0.76	5.23
$	Coca-Cola	KO	45.50	-0.37	9.74
$	Disney	DIS	107.69	-1.31	3.33
$	DuPont	DD	82.01	0.84	11.73
$	ExxonMobil	XOM	80.21	-0.35	-11.13
$	GeneralElec	GE	25.78	0.08	-18.42
$	GoldmanSachs	GS	229.79	2.59	-4.03
$	HomeDepot	HD	152.75	1.30	13.92
$	Intel	INTC	36.30	-0.52	0.08
$	IBM	IBM	145.16	0.15	-12.55
$	JPMorganChase	JPM	93.66	1.25	8.54
$	J&J	JNJ	133.18	-0.13	15.60
$	McDonalds	MCD	153.82	-0.58	26.37
$	Merck	MRK	63.10	-0.66	7.19
$	Microsoft	MSFT	72.68	0.73	16.96
$	Nike	NKE	59.76	-0.63	17.57
$	Pfizer	PFE	33.64	0.63	3.57
$	Procter&Gamble	PG	90.67	-0.21	7.84
$	3M	MMM	207.65	0.01	16.28
$	Travelers	TRV	129.69	0.10	5.94
$	UnitedTech	UTX	121.49	0.32	10.83
$	UnitedHealth	UNH	194.88	0.06	21.77
$	Visa	V	100.89	0.30	29.31
$	Verizon	VZ	48.91	0.62	-8.37
$	Wal-Mart	WMT	80.48	-0.48	16.44

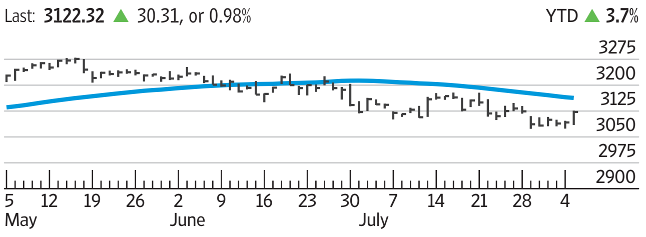
Asia Titans 50

Last: **165.00** ▼1.10, or 0.66% — YTD ▲17.0%



Stoxx 50

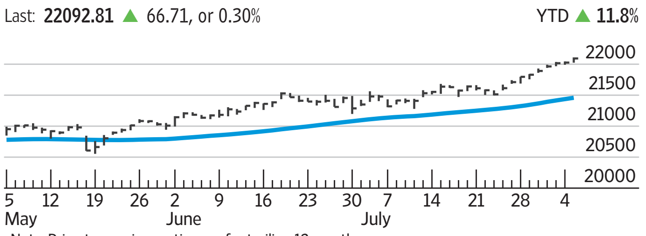
Last: **3122.32** ▲30.31, or 0.98% — YTD ▲3.7%



Dow Jones Industrial Average

P/E: 20

Last: **22092.81** ▲66.71, or 0.30% — YTD ▲11.8%



Note: Price-to-earnings ratios are for trailing 12 months
Sources: WSJ Market Data Group; Birinyi Associates

New Fund To Trade In Metals Is Slated To Launch

By Stephanie Yang

Even as some heavyweights leave the world of commodities trading, one fund sees opportunity in trying to spot inefficiencies in the market.

Arion Investment Management, based in London, in October plans to launch its first commodities hedge fund to trade base and precious metals. The Raptor Commodities Fund would be focused on arbitrage trading, or taking advantage of mispriced and diverging values within metals markets. Started by Gerardo Tarricone, who previously worked at **Morgan Stanley**, the Raptor fund comes at a time when many commodity traders are struggling.

A gauge that tracks aggregate returns at major commodity hedge funds—the Bridge Alternatives Commodity Hedge Fund equally-weighted index—has fallen 4.9% through June. Last month, **Goldman Sachs Group** Inc. reported its worst-ever quarter for commodities trading.

Arion hopes that as large banks exit from commodities, smaller entrants can succeed.

But Arion, an investment firm founded in January 2016, is hoping that as large banks and hedge funds leave the space, smaller entrants will be able to take advantage of mismatches between futures contracts in metals like copper.

"Banks, institutions, market makers are leaving the space. What they are doing is drawing liquidity and risk taking," said James Purdie, head of investor relations at Arion. "We're in a position to take advantage of that side of it."

Much of the difficulties funds have faced this year stemmed from falling energy prices. Oil prices defied many analysts' and investors' expectations and slumped into bear market in June. Low oil prices tend to weigh on investor interest in commodities broadly.

"Right now if you're looking to start up, it's far more difficult than five or six years ago," said Ryan Duncan, managing partner at Bridge Alternatives, a boutique advisory and brokerage firm. "In general the performance hasn't been there to warrant a broad interest in the commodity hedge fund space" in 2017.

Many funds that have launched over the past few years are managing smaller amounts of money than the billion-dollar hedge funds that operated during the commodity boom, Mr. Duncan said.

Now, "some investors are wary that when you get to a certain size, you're forced to have a position in the commodity market," he said.

In the past year, some metals traders have benefited from gains in copper and other base metals, as growth expectations for China have stabilized. Copper prices rallied after the U.S. election in November and surged to two-year highs in July.

The Raptor Commodities Fund would look for some directional trades but would mainly engage in trying to profit from differences between market contracts, such as betting that prices for the Comex copper futures contract and the London Metal Exchange contract would eventually converge.

"It's still an extremely difficult place to be like a stock picker" and try to predict where commodity prices are headed, Mr. Purdie said. "We're not doing that, and we don't aim to do that."

The fund has $10 million in committed funds and aims to keep assets under management under $500 million. Mr. Purdie said the firm sees advantages to staying small and plans to expand into trading other commodities in the next 12 to 18 months.

Trader Keeps His Foot on the Gas

Bill Perkins thrives on risky bets and monster trades; 'he's like the last cowboy'

By Timothy Puko

MARIEKE VAN DER VELDEN FOR THE WALL STREET JOURNAL

Commodities trader Bill Perkins searches for events that could cause extreme price movements.

Bill Perkins, a natural-gas trader who loves making big bets and flaunting his extravagant lifestyle, isn't for everyone.

His Instagram account is famous for photos of his Caribbean-based yacht full of bikini-clad women. His half-million-dollar novelty bets with friends have been tabloid fodder. He is writing a book about how best to spend all your money before you die.

For many investors, though, his fund's erratic performance is the bigger turnoff. Mr. Perkins's **Skylar Capital Management** LP nearly went under after the value of its flagship fund fell by half in 2013. It bounced back, doubling and tripling its money in the two years after that, a person familiar with the returns said.

Like him or not, many in the business agree on one thing: Swashbuckling commodities traders like Mr. Perkins are a dying breed.

"He's like the last cowboy," said John D'Agostino, a board member with several funds and former executive at the New York Mercantile Exchange.

Commodity hedge funds tracked by eVestment peaked at 343 in 2013 and fell to about 200 this year. Many investors today want firms that use computer programs to trade—which runs counter to Mr. Perkins's approach. He still believes his own analysis, and instincts honed over 25 years, will produce a few whopper trades while computers grind out small gains.

"You cannot pay me enough to sit in front of a screen and throw away my life," the 48-year-old trader said in a recent interview.

Many highfliers from when commodities and hedge funds were hot during the oil-and-gas boom have closed or wound down much of their business in recent years, including **SandRidge Capital** LP, Roaring Fork Advisors and AAA Capital Management Advisors.

Some traders complain that declining investor interest in commodities, after years of plummeting prices, and heightened regulation have made it harder to turn a profit. Others point to a more conservative investor base: Large public pension funds and other institutions have become the biggest investors in commodity funds, yet tend to shy away from the sort of volatile performance that is common in the gas market, said Ernest Scalamandre, managing member at AC Investment Management LLC, which manages investments in commodities and commodity hedge funds.

"They have to turn around and justify it to their boards and their constituents," Mr. Scalamandre said.

Pension officials may not want to explain to trustees why their fund manager's antics were written up in the gossip pages. That is an issue for Mr. Perkins, who once bet a friend that he couldn't cycle from Las Vegas to Los Angeles in 48 hours. Mr. Perkins lost $600,000 on that wager and was featured in tabloids.

Mr. Perkins began his career fetching sandwiches for Nymex traders in New York and drove limousines at night for extra cash.

"I thought you could make a million dollars a year or so. I didn't think there was a ceiling," he said of his early years on the floor. "At the time, I thought, 'This is easy. I can do this better than that guy.'"

The exchange was starting to trade gas and Mr. Perkins was convinced it was the fuel of the future. In 2002, he was hired in Houston by John Arnold, a former Enron Corp. trader who founded hedge fund **Centaurus Advisors** LLC after the energy company's bankruptcy.

Mr. Arnold said Mr. Perkins was "a very successful trader."

"Bill is the most creative person I know," Mr. Arnold said. "Of every 20 ideas he proposed, 15 would be ridiculous, four would be clever but not viable, and one would be genius."

At Skylar, based in the U.S. Virgin Islands, Mr. Perkins searches for events that could cause extreme price movements. One of his most successful trades has been betting based on gas storage. When storage levels approached record highs in October 2015, indicating ample supply, the futures market lost 18% in six sessions.

Skylar had placed bearish wagers that helped the fund gain nearly 60% that month alone, one of the most successful in the firm's history, Mr. Perkins said.

Mr. Perkins uses borrowed money in an effort to boost returns, common in commodities. He targets 40% gains every year, about double what he estimates his peers target.

Throughout 2013, his firm kept betting that extreme cold in the U.S. couldn't last. But it did for months. Skylar's losses in November and December 2013 brought the fund down 55% for the year, according to Skylar documents obtained by The Wall Street Journal.

The fund unloaded some of its riskier positions. Mr. Perkins's bet that gas prices would fall powered his fund to a nearly 230% return in 2015 during a record-warm start to winter. Skylar's assets are now back over $100 million, according to the firm.

"My overall philosophy is to try to take as much risk as I can stand and then add a little bit more," Mr. Perkins said. "If I'm going to go ride this roller coaster, I don't want to ride the kiddie coaster. I want to ride the big ride."

FINANCE WATCH

WELLS FARGO

Bank Is at Risk Of More Sanctions

Wells Fargo & Co. is expected to face further regulatory sanctions over improperly charging customers for auto insurance, people familiar with the matter said.

Bank executives are in touch with officials from the Office of the Comptroller of the Currency over the problems, which Wells Fargo has said affected as many as 570,000 auto-loan customers. The bank said it is in the process of issuing customer refunds totaling around $80 million.

That comes on the heels of last fall's sales-practices scandal at Wells Fargo. This involved bank employees opening as many as 2.1 million accounts without customers' knowledge. As a result of that, Wells Fargo entered into a $185 million settlement with the OCC and others.

The OCC is considering taking further action in light of the insurance revelations, the people familiar with the matter said. It isn't clear what form that could take, but the OCC has broad power to restrict acquisitions and other banking activities.

The OCC became aware of the insurance issue when Wells Fargo executives identified and reported it to them last summer. Wells Fargo said in July that customers' auto-loan contracts require them to maintain collateral-protection insurance on behalf of the lender throughout the term of the loan. Wells Fargo bought that insurance from a vendor on a customer's behalf if there was no evidence the customer already had the insurance, the bank said. That insurance protects against the loss or damage to a vehicle serving as collateral to secure a loan. A result was that customers may have been charged premiums even if they had their own insurance.

—*Emily Glazer, Ryan Tracy*

BERKSHIRE HATHAWAY

Earnings Fall by 15%

Warren Buffett's **Berkshire Hathaway** Inc. reported a 15% decline in second-quarter profits, dragged down by lower investment gains and a loss in its insurance-underwriting segment.

Berkshire reported second-quarter net earnings of $4.26 billion, or $2,592 a Class A equivalent share, compared with $5 billion, or $3,042 a share, a year earlier. Operating earnings, which exclude some investment results, fell to $4.12 billion, or $2,505 a Class A share, from $4.61 billion, or $2,803 a Class A share, a year earlier.

Meanwhile, the operating profit of its insurance underwriting business swung to a $22 million loss from a profit of $337 million a year earlier.

The conglomerate runs a large insurance operation as well as railroad, utilities, industrial manufacturers and retailers. Its holdings include such names as Dairy Queen, Duracell, Fruit of the Loom and Geico.

The insurance business, the engine that has fueled Berkshire's expansion, remains at the core of its moneymaking machine, bringing in billions of dollars of "float," upfront premiums paid by customers that Berkshire invests for its own gain.

Berkshire reported about $143 million in investment gains in the latest period, down from the $394 million reported in the year-ago period when results were boosted in part by its stake in Kraft Heinz Co.

—*Maria Armental, Nicole Friedman*

RICHARD B. LEVINE/NEWSCOM/ZUMA PRESS

Wells Fargo's latest trouble centers on its auto-lending business.

PROSPER MARKETPLACE

Online Lender Weighs Selling Stake

Prosper Marketplace Inc. is in talks to sell a roughly 10% stake to a Chinese conglomerate in a deal that could reduce the online lender's valuation by more than two-thirds, people familiar with the matter said late last week.

Executives from Linca Industrial (Fujian) Group Co., Ltd. reached out to Prosper in recent weeks to discuss the possibility of purchasing shares in the privately held firm, the people said.

Under the terms of the proposed transaction, Linca would invest $50 million in Prosper at a valuation of about $550 million. No deal has been finalized, however, and there was no guarantee the parties would come to an agreement, the people said.

In early 2015, Prosper raised about $165 million in a financing round led by Credit Suisse Group AG's Next Investors, which valued the company at $1.9 billion.

A year later, Prosper was rocked by a diminished appetite for its loans among money managers, which led to falling revenues, layoffs and executive departures. In March, the company reported a loss for 2016 of $118.7 million, compared with a loss of $26 million for 2015.

Some terms of the potential deal were previously reported by The Information.

—*Peter Rudegeair, Chuin-Wei Yap*

Aramco, PetroChina Discuss A Deal

By Julie Steinberg And Summer Said

State-owned oil giant **Saudi Arabian Oil** Co. is in talks to invest billions of dollars in a Chinese state-owned oil refinery, according to people familiar with the matter.

The deal, which could be valued at as much as $2 billion, would give Saudi Aramco, as it is known, a stake of more than 30% in a 260,000-barrels-a-day plant owned by **PetroChina** Co. in China's Yunnan province, the people said.

PetroChina is a unit of state-owned **China National Petroleum** Corp. Saudi Arabia could supply some of the refinery's crude-oil needs, one of the people said. Aramco might also buy some of PetroChina's retail assets, the person said.

If the talks succeed, they would finally bring to fruition plans that Aramco and PetroChina have been discussing for several years, the people said.

Aramco and PetroChina originally signed a memorandum of understanding to supply oil to the Yunnan refinery in exchange for an equity stake in 2011, but the deal never got off the ground.

Saudi Arabia has been trying for years to strengthen its ties with China on energy and, more recently, investments. The kingdom, which is a top oil supplier to China, has sought to build refineries in tandem with Chinese companies.

Aramco and **China Petroleum & Chemical** Corp., better known as Sinopec, last year inaugurated a joint-venture refinery with a capacity of 400,000 barrels a day on the Red Sea coast of Saudi Arabia.

Recently, bridge-building between the two countries has accelerated as Saudi Arabia seeks to boost its sales of oil to China, as well as to gather investors for a proposed listing of part of Aramco.

That initial public offering of shares, which has been billed as the biggest ever, could take place in 2018 and raise as much as $100 billion. The Saudis are hoping that Chinese companies and funds will take major stakes in the IPO, according to people familiar with discussions.

HNA Charity Won't Accept Funds for Now

By Anjani Trivedi And Julie Steinberg

The Chinese conglomerate **HNA Group** Co. has deepened the uncertainties around the New York foundation that is its biggest shareholder by changing its reason for not registering yet with the state.

The Hainan Cihang Charity Foundation, a Manhattan-based nonprofit that is slated to hold nearly 30% of HNA Group's shares, was waiting for tax-exempt status before registering with the New York Attorney General's Charities Bureau, people familiar with the matter recently told The Wall Street Journal.

On Thursday, however, lawyers representing the foundation said it "has not and does not intend to solicit charitable contributions in New York State, and therefore Executive Law registration is not required," in a letter viewed by the Journal that was responding to a query from the New York Attorney General's Charities Bureau.

People familiar with the matter had told the Journal that the foundation does eventually intend to accept outside contributions. To allow for that possibility, the foundation filed an amendment to its articles of incorporation in May, according to a document reviewed by the Journal.

An HNA spokesman said Friday the foundation didn't have plans to solicit outside contributions "while it is in the early stage of its organization and operation."

The latest information adds to questions swirling around HNA—one of China's most ambitious overseas investors, known for pursuing big stakes in the Hilton Worldwide Holdings Inc. hotel chain, Deutsche Bank AG and an investment firm owned by former White House communications director Anthony Scaramucci.

HNA unveiled a new shareholding structure, including its New York foundation, last month. The foundation is in the process of receiving shares pledged and committed to it by HNA, and has yet to receive tax-exempt status.

The foundation told the Attorney General's office it received its first assets in March, according to the letter.

Even if HNA doesn't solicit funds in New York state, under a separate law it is required to register within six months of receiving its first assets. The letter said it intended to do so.

—*Cezary Podkul contributed to this article*

MARKETS

THE DAILY SHOT | By Lev Borodovsky and Ira Iosebashvili

The Infrastructure Rally Crumbles

Construction shares soared after Donald Trump's election victory on expectations of infrastructure stimulus, but many of the stocks have been drifting lower since. With details of Trump's rebuilding plan slow to materialize and impasses in other areas of his agenda, confidence seems to be waning that federal funding for big projects will make it through Congress.

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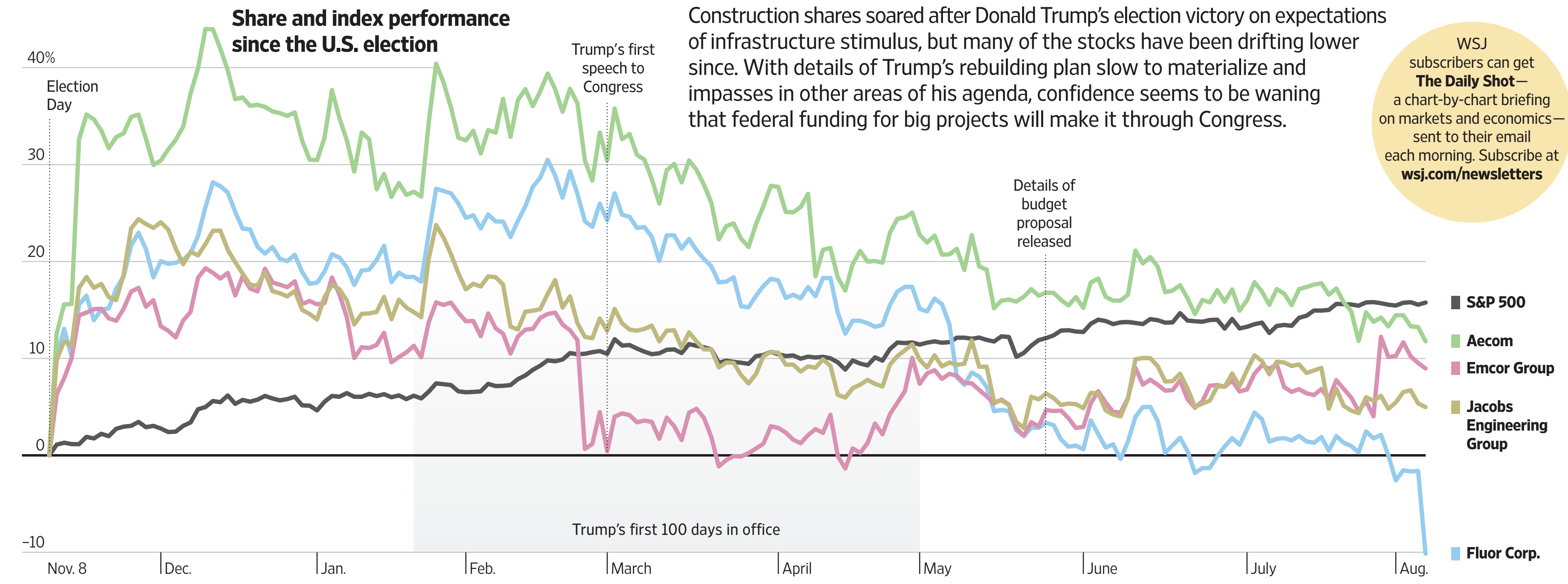
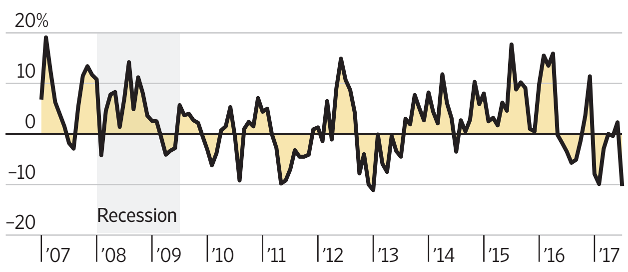
Share and index performance since the U.S. election



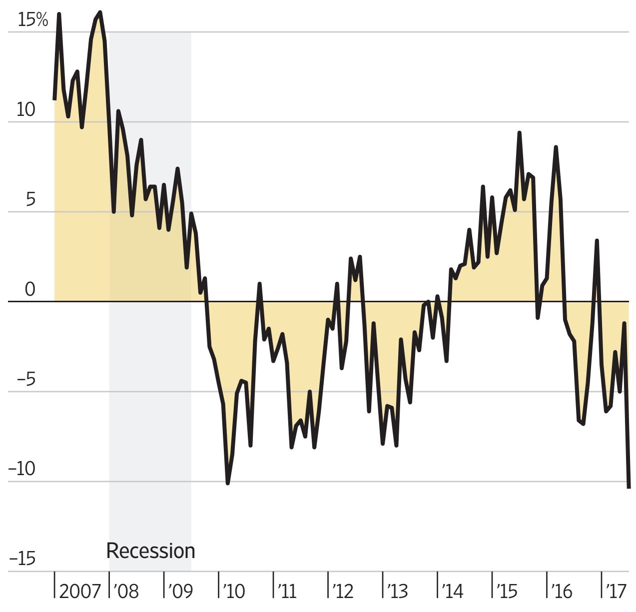
Total public construction spending
Percentage change from a year earlier

U.S. nonresidential construction spending is experiencing its worst decline in years, adding to the problem of America's crumbling infrastructure, with many facilities around the country aging beyond their intended lifetimes.

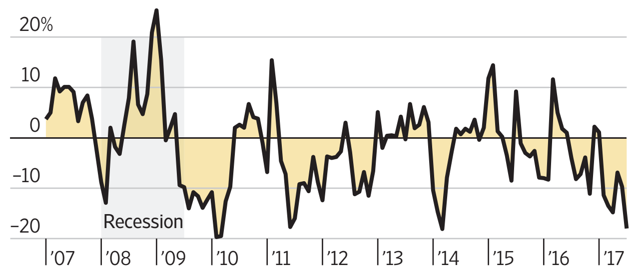
HIGHWAYS AND STREETS



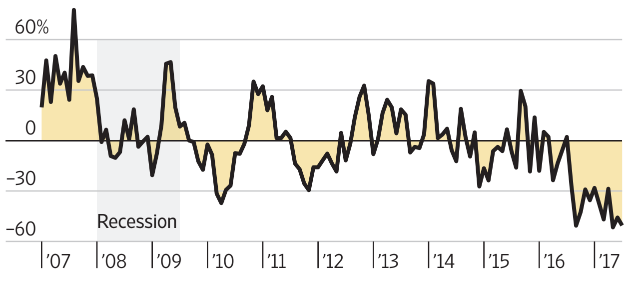
ALL PUBLIC NONRESIDENTIAL CONSTRUCTION



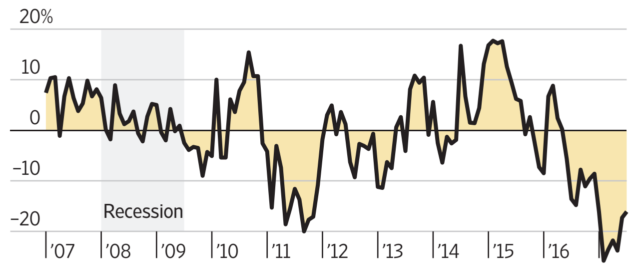
WATER SUPPLY



POWER AND ELECTRIC GRID



SEWAGE AND WASTE DISPOSAL



Sources: FactSet (stocks, S&P 500); U.S. Census Bureau via Federal Reserve Bank of St. Louis (spending)

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HEARD ON THE STREET

Email: heard@wsj.com FINANCIAL ANALYSIS & COMMENTARY WSJ.com/Heard

Costly Gains for Japan Car Firms

For the first time in nearly a decade, Japan's auto makers have overtaken Detroit's Big Three in the U.S., their largest market.

Investors should be concerned about what's fueling them.

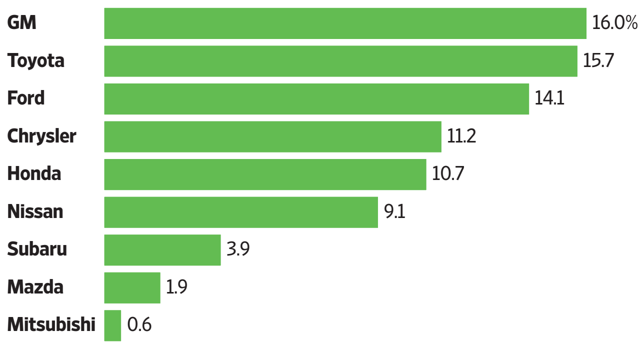
The Japanese car manufacturers managed this feat last month, data last week showed. U.S. car sales were off 7% from a year earlier, but the fall came mostly from **General Motors**, **Ford Motor** and **Fiat Chrysler Automobiles**. Japan's car makers, including **Toyota Motor**, **Honda Motor**, **Nissan Motor**, **Mazda Motor** and **Subaru**, picked up market share, benefitting by offering more enticements for customers.

Toyota, for instance, is now close to a first-place tie with GM. Each company holds almost 16% of the U.S. car market.

It comes at a cost, though. Toyota on Friday posted a 46% drop in fiscal first-quarter operating income in North America—its largest market, good for more than 700,000 cars a quarter—despite 8,000 more cars sold. The reason: higher marketing expenses.

In theory, picking up slack from U.S. car makers as they struggle to clear inventory is opportunistic behavior. On average, U.S. car makers' inventories exceed 100 days' sales, nearly double their Japanese rivals' 55 days, though that is 10 days above the Japanese makers' historical average.

Lion's Share
U.S. car market share



Source: Nomura

THE WALL STREET JOURNAL.

Overall, inventories are the largest since 2009 by this measure.

To keep moving merchandise, everyone in the sector is offering big incentives, as generous as cash back plus 0% financing for six years. The average for all makers in July was about $3,640 a car, up more than $200 from a year earlier. Toyota's and Nissan's incentives, however, rose by twice that and Mazda's by almost three times.

At the same time they dangle big incentives, Detroit's Big Three are cutting fleet sales, which may improve margins, but the gains come at the cost of revenue. Toyota benefited from jumps of 25% to 31% in sales of its sport-utility vehicle models in July, but the slow-moving Corollas and Priuses are piling up.

Other makers are getting their numbers up by pushing leases, which accounted for a third of new-car sales in the first half, but with used-car prices dropping, residual-value losses are likely to accumulate.

All of these tactics are expensive propositions and have diminishing returns on investment.

In short, there are speed bumps ahead. With share prices for Japanese makers at 9.6 times forward earnings—compared with an average 6.1 for U.S. counterparts—it looks like investors are giving them far too much credit.

—Anjani Trivedi

OVERHEARD

"Science is the poetry of reality," Richard Dawkins once wrote.

Author **Mary Soon Lee** has set out to prove his point.

She has written a haiku for each element on the periodic table, which are published on the Science magazine website.

She wrote the first couple of entries impulsively, before aiming to complete the entire table.

The entries should delight scientists and investors alike.

Take lithium, element No. 3 on the periodic table: "Lighter than water, empower my phone, my car. Banish depression."

Even grander is her lyric on carbon. "Show-stealing diva, throw yourself at anyone, decked out in diamonds."

Frustrated commodities investors might take solace in the precious-metals entries. "Treacherous treasure, avarice tarnishing us, photos claiming souls," reads the haiku for silver, whose spot price is down 20% from a year ago.

Yet Another Squeeze Hits Drugmakers

Big pharma's hepatitis C price war is getting tougher.

AbbVie said Thursday it has received Food and Drug Administration approval to sell its next-generation hepatitis C drug, Mavyret. AbbVie said that up to 95% of hepatitis C patients in the U.S. will be eligible to take Mavyret. The drug will cost $26,400 for a standard course of treatment before rebates and discounts. That is well below the list price of older drugs from AbbVie, **Merck** & Co. and **Gilead Sciences**. Most treatments on the market require 12 weeks of treatment, but AbbVie expects most patients will be able to finish treatment with Mavyret in eight weeks.

It's unclear what discounts AbbVie will offer payers to entice them to use the drug and how those discounts will compare with rivals'. Cheaper competition won't affect existing prices until current contracts expire.

But all three companies traded flat to lower on Friday, and for good reason. Mavyret's arrival figures to eventually depress profitability across the board for these drugs. That is bad for Gilead, in particular. Hepatitis C drugs accounted for 40% of total sales in the second quarter, compared with 3% and 5% for AbbVie and Merck, respectively.

For Gilead, hepatitis C sales have been falling since 2015, and shares are down about 40% from the peak. Yet second-quarter earnings were a bright spot, as sales fell slower than expected. The stock is up about 14% from a recent low in June.

Still, the arrival of more competition means that rally has likely run out of steam.

—Charley Grant

What U.S. Wage Growth Means for Corporate Earnings

The U.S. economy has reached a turning point: If companies don't start paying employees more soon, consumer spending may slow. But the alternative—faster wage growth—would raise companies' costs.

Either way, it is hard to remain optimistic about where corporate profits are heading.

July was another good month for hiring, with the Labor Department reporting that the U.S. added 209,000 jobs, and the unemployment rate slipped to 4.3%. Yet wage growth remains uninspired, with average hourly earnings up just 2.5% from their year-ago level, about the level it has been at all year. The strong jobs number is further evidence that wages will rise, as most economists believe. But they have been believing that for a while now.

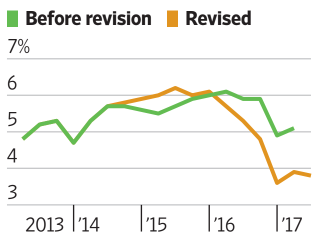
Without solid wage increases, Americans are maintaining their spending by saving far less than previously thought. The most recent gross domestic product report showed that the personal saving rate—money saved as a share of after-tax income—came to just 3.8% in the second quarter, while the first-quarter saving rate was revised to 3.9% from 5.1%. Up until a year ago, the rate was hovering between 5% and 6%.

The saving rate isn't quite as low as it got during the housing bubble, and its drop doesn't appear to stem from increasing indebtedness, points out **J.P. Morgan Chase** economist Michael Feroli.

That doesn't mean it isn't worrisome. Consumer spending has been almost the only driver of the economy over the past year, but it appears consumers are reaching their limit unless incomes increase faster.

More jobs numbers like Friday's will help, but the declining saving rate shows that jobs growth only goes so far. Without wage growth, U.S. companies may struggle to increase sales.

So Much for Frugality
Personal saving rate in U.S.



Source: Commerce Department

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The alternative is that employers, responding to a tighter labor market, start paying employees more, giving them the wherewithal to spend more.

That would increase labor costs and, with companies struggling to find new ways to increase their productivity, likely would put additional pressure on profit margins.

The worst scenario for profits is that wages go up but that people put their raises in the bank until their saving rate returns to levels that prevailed until about a year ago.

That might actually count as a welcome long-term development for the economy, but for corporate bottom lines, not so much.

—Justin Lahart