

# THE WALL STREET JOURNAL.

DOW JONES | News Corp \*\*\*\*\*

WEDNESDAY, AUGUST 1, 2018 ~ VOL. CCLXXII NO. 26

WSJ.com

★★★★ \$4.00

DJIA 25415.19 ▲ 108.36 0.4% NASDAQ 7671.79 ▲ 0.5% STOXX 600 391.61 ▲ 0.2% 10-YR. TREAS. ▲ 3/32, yield 2.964% OIL \$68.76 ▼ \$1.37 GOLD \$1,223.70 ▲ \$2.40 EURO \$1.1691 YEN 111.87

## What's News

### Business & Finance

**A**pple delivered its best-ever revenue for what is typically its weakest quarter, as demand for high-price iPhones remained resilient and services such as app-store sales swelled to a record. **A1**

◆ **P&G** said it was raising prices on some of its biggest brands, a strategy shift after posting another quarter of lackluster revenue growth. **B1**

◆ **U.S. workers received** their biggest pay increases in nearly a decade over the 12 months through June. **A3**

◆ **Third Point has built** a stake of more than \$300 million in Campbell Soup, adding to pressure on the company as it seeks a turnaround. **B1**

◆ **U.S. stocks rose**, helped by a tech bounce and strong earnings among industrials. The Dow gained 108.36 points to 25415.19. **B13**

◆ **CBS alleged** that Shari Redstone pushed to remove a director after he recorded a meeting with her father to document his condition. **B1**

◆ **BP said profit jumped**, as higher oil prices helped the company push its ambitious growth plans. **B3**

◆ **Brookfield struck** a deal to purchase real-estate developer Forest City for about \$6.77 billion. **B6**

◆ **A Justice Department unit** wants to reopen a chapter 11 case to investigate whether conflicts at McKinsey tainted its work as an adviser. **A3**

◆ **Arconic is looking to sell** the unit that made the aluminum panels involved in a deadly 2017 apartment-building fire in London. **B2**

### World-Wide

◆ **White House chief of staff Kelly** said he had accepted President Trump's request to stay in his job through the 2020 election, according to officials. **A1**

◆ **Facebook found** and removed a new group of accounts engaged in coordinated political agitation and misinformation efforts, as midterm elections loom. **A1**

◆ **Pence put the blame** for 2016 election interference squarely on Russia and pledged stepped-up efforts to deter such meddling. **A7**

◆ **Some administration** advisers are urging Trump to raise the stakes in the trade standoff with China by sharply increasing the level of proposed tariffs. **A1**

◆ **Trump assailed** the Koch brothers after their network said it wouldn't financially back the GOP candidate for a North Dakota Senate seat. **A4**

◆ **The Treasury Department** recommended that regulators adopt changes that would aid the fintech industry. **A2**

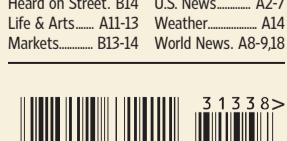
◆ **A federal judge issued** a temporary restraining order to block blueprints for 3-D-printed guns from being distributed online. **A7**

◆ **Manafort's lawyer** told jurors the ex-Trump campaign chairman was innocent of tax and bank-fraud charges. **A4**

◆ **Malaysia is probing** whether Najib's government used China-sourced funds to help pay IMF debts. **A8**

◆ **Iran dismissed Trump's** offer to meet, as pressure grows on Rouhani to take a harder line with the U.S. **A18**

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White House Chief of Staff John Kelly, leaving the Oval Office on Tuesday, agreed to stay in his post through the 2020 election.

## Trump Asks Kelly to Stay

By Rebecca Ballhaus, Byron Tau and Peter Nicholas

his next chief of staff, considering Nick Ayers, who serves as chief of staff to Vice President Mike Pence, and Mick Mulvaney, who heads the Office of Management and Budget and serves as acting director of the Consumer Financial Protection Bureau.

Mr. Kelly had been widely expected to leave the White House this summer. He told staff his decision to stay put on Monday, which marked his first anniversary in the role.

The president in recent months has consulted with advisers about whom to tap as

nouncement, according to people familiar with the matter.

A White House official cautioned that while the plan is for Mr. Kelly to remain in his post through 2020, unforeseen circumstances could cause that to change.

If he does stay until then, Mr. Kelly would be among the longest-serving White House chiefs of staff in history. Andy Card, who served under former President George W. Bush, remained in his post for a little over five years. The longest-serving chief of staff is John

Steelman, who spent six years in the job under President Harry Truman.

Such longevity for Mr. Kelly's tenure would serve as a counterpoint to the rapid turnover the Trump administration has seen in its first 18 months. His predecessor as chief of staff, Reince Priebus, lasted half a year. In the past

Please turn to page A4

◆ Congress makes headway on government funding..... A4

◆ President slams Kochs over GOP candidate..... A4

## Facebook Deletes Suspect Accounts

By ROBERT MCMILLAN AND DEEPA SEETHARAMAN

Facebook Inc. said it discovered a new group of accounts that engaged in coordinated political agitation and misinformation efforts ahead of November's midterm elections, an echo of Russian activities on the platform during the 2016 U.S. presidential campaign.

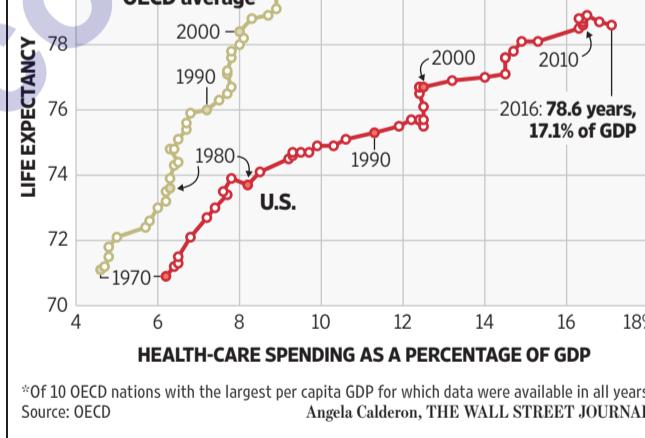
The social-media giant on Tuesday said it removed 32 pages and accounts from its main service and Instagram photo-sharing app that were created between March 2017 and May of this year. The pages and accounts—which include such names as “Aztlan Warriors,” “Black Elevation” and “Resisters,” and largely targeted causes on the left—collectively created more than 9,500 posts and were followed by more than 290,000 other Facebook accounts. The accounts also promoted 30 real-world events.

The revelation shows Facebook continues to struggle with preventing misuse of its platform despite waves of criticism and the company's repeated pledges to address the problem. In a conference call, Facebook executives credited some of the measures they have taken over the last year with helping detect the new crop of bogus accounts, but acknowledged that they identified them only two weeks ago, about 15 months after the accounts started buying ads.

The disclosure also raises the specter of ongoing interference in U.S. politics just over three months ahead of the midterm elections—and Please turn to page A9

## Diagnosing Health Care's Hidden Costs

The U.S. doesn't use more health care overall than other countries, but it spends more for it—and has worse results. Why? Prices are hidden in insurance deals and hospital consolidation pushes up costs, while consumers with insurance have little incentive to know underlying numbers. A story in charts, **A6**



\*Of 10 OECD nations with the largest per capita GDP for which data were available in all years  
Source: OECD  
Angela Calderon, THE WALL STREET JOURNAL.

## Ready, Aim, Hire a Coach: Parents Enlist 'Fortnite' Tutors

Mom and dad don't mind the hot game's violence—they want their children to win

By SARAH E. NEEDLEMAN

Ally Hicks fretted over her 10-year-old son playing the hugely popular shoot-em-up videogame “Fortnite.”

It wasn't the violence or the amount of time she was worried about. It was the result. He wasn't winning.

So she hired him a coach. For about \$50, Ms. Hicks purchased four hours of online lessons from a player she found through



That's how to do it

a freelance labor website.

For many children, “Fortnite” has become a social proving ground. More than 125 million people play it world-wide, according to its maker, mostly in a free mode pitting 100 combatants against each other until one person or team is left standing.

Winning bestows the kind of bragging rights that used to be reserved for the local Little League baseball champ. Just like eager dugout dads opening their wallets for pitching lessons, videogame parents are more than willing to pay for their offspring to gain an edge.

“There's pressure not to just play it but to be really good at it,” said Ms. Hicks, a project manager from Winchester, England. “You can

Please turn to page A7

## Apple's iPhones Power Results

Demand stays strong even as global market contracts; app-store sales reach a record

BY TRIPP MICKLE

Apple Inc. delivered its best-ever revenue for what is typically its weakest quarter, as demand for high-price iPhones remained resilient and services such as app-store sales swelled to a record.

The results for Apple's fiscal third quarter show how the iPhone maker is finding ways to grow amid a contracting global smartphone market that is roiling its rivals.

“We're expanding our reach into emerging markets and seeing strong double-digit growth in revenue, and we're making great progress toward our goal of significantly expanding our services business,” Chief Executive Tim Cook said during a call with analysts.

Though iPhone sales usually weaken in the spring and summer as anticipation builds for new devices expected in September, Apple finance chief Luca Maestri said demand has remained consistent, particularly for the iPhone X, 8 and 8 Plus.

Shares of Apple, up 28% over the past year, rose 3.7% to \$197.33 in after-hours trading. With a market value above \$950 billion if after Please turn to page A2

◆ Heard: Apple needs revenue lift to continue..... B14

◆ Samsung may have misdialed in \$1,000 smartphone era... B2

Please turn to page A2

## Advisers Urge Raising China Tariffs to 25%

By BOB DAVIS AND LINGLING WEI

As Washington and Beijing struggle to break a trade impasse, some administration advisers are urging President Trump to raise the stakes with a sharp increase in the level of tariffs proposed for \$200 billion in Chinese imports targeted for punitive measures.

Trump administration advisers are debating measures that might bring Chinese negotiators to the table. Some are pushing the president to apply tariffs as high as 25% on \$200 billion of Chinese imports, up from an original proposal for 10%.

The White House won't make a final decision until at least late August on those tar-

iffs, which are likely to target consumer goods and food as well as machinery components.

Advisers are justifying the steeper tariffs, in part, to make up for the rapid depreciation of the yuan in recent months. Since May 30, the yuan has fallen 6% against the dollar.

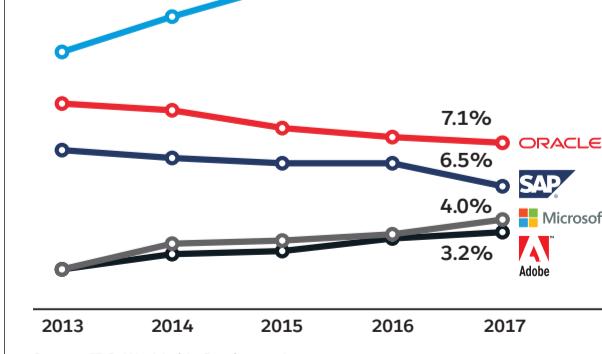
“Once you go down the road of using tariffs to disrupt the Chinese, you have to say 25% Please turn to page A9

## Growth Deals A Good Hand

U.S. powers ahead, boosting Washington as it jockeys with rivals over trade..... A9

## Salesforce. #1 CRM.

Ranked #1 for CRM Applications based on IDC 2017 Market Share Revenue Worldwide.



Source: IDC, Worldwide Semiannual Software Tracker, April 2018.



[salesforce.com/number1CRM](http://salesforce.com/number1CRM)

CRM Applications market includes the following IDC-defined functional markets: Sales, Customer Service, Contact Center, and Marketing Applications. © 2018 salesforce.com, Inc. All rights reserved. salesforce.com is a registered trademark of salesforce.com, Inc., as are other names and marks.

## U.S. NEWS

# Treasury Examines Fintech Startup Rules

By RYAN TRACY

WASHINGTON—The Trump administration embraced an emerging corner of the financial sector, telling companies that offer new ways to bank and invest that the federal government wants to help them grow.

The Treasury Department in a report recommended that regulators adopt changes it said would better support such financial companies.

The report recommended a "sandbox" giving regulatory

relief to startups; encouraged the federal consumer regulator to rescind its rule governing payday lending; pushed for a fresh look at rules governing financial-technology investments by banks; and endorsed an effort by nonbank lenders like **LendingClub** Corp. to ease the resale of loans.

The regulator of federally chartered banks also said it would start accepting applications from fintech firms "effective immediately," opening the door for those firms to re-

ceive charters that allow them to operate without acquiring licenses in every state.

Many of the Treasury's roughly 80 recommendations require additional action from regulators or Congress.

Industry reaction to the report was broadly positive from banks, payment companies, online lenders and others.

Brian Knight, a senior research fellow at George Mason University who has argued that current U.S. rules for fintechs are inefficient, said the regula-

tory regime described in the report toed a middle ground. "It increases competitiveness of fintechs, to the extent they are disadvantaged under the current environment, but in other areas [it] will help banks," he said.

Some recommendations, including the payday-lending section, drew criticism from consumer-advocacy groups.

Aaron Klein, a former Obama Treasury official now at the Brookings Institution think tank, said part of the report amounted to a "decision to po-

liticize a document that could have been broadly embraced."

The Treasury report is the last in a four-part series setting out the Trump administration's financial-regulatory agenda, following reports on banks and credit unions, capital markets and asset management and insurance.

Senior Treasury officials said that after meeting with industry groups, regulators, advocacy groups and other experts, they concluded the U.S. needs a simpler rulebook for

financial startups.

"We must keep pace with industry changes and encourage financial ingenuity to foster the nation's vibrant financial-services and technology sectors," Treasury Secretary Steven Mnuchin said in a statement.

The report said fintech firms should be able to have a "single process" to get permits for experimenting without violating U.S. rules—a so-called sandbox. The process should be one that "coordinates and expedites regulatory relief," it said.

## New Blazes Threaten California

By JIM CARLTON

SAN FRANCISCO—New wildfires and more evacuations hit California, with nearly 20,000 homes under threat and 44,000 residents forced to evacuate mostly in the hardest-hit northern part of the Golden State.

In all, 15 major blazes were being fought Tuesday by an army of 12,300 firefighters, as a combination of hot weather and drought-ravaged vegetation continued to fuel an unusually active fire season in the nation's most populous state.

Posing the biggest threat to communities is the Mendocino Complex, a 74,408-acre inferno formed by the Ranch and River fires that prompted mandatory evacuations in Mendocino and Lake Counties north of Santa Rosa.

Both counties encompass the Mendocino National Forest and a mountainous region filled with tinder-dry trees and brush and which has been the scene of multiple, devastating wildfires in recent years.

Hot, gusty winds, which can rapidly spread blowing embers hampered crews. The inferno destroyed seven homes as of midday Tuesday and threatened 10,200 more, according to the California Department of Forestry and Fire Protection, or Cal Fire.

The Carr Fire near Redding, meanwhile, grew to 110,154 acres after racing through that city and nearby towns last week, destroying at least 884 homes and killing at least six people, including a 70-year-old woman and her two young great-grandchildren. While the fire was more than one-fourth contained on Tuesday and no longer an imminent threat to Redding, residents of the city of 92,000 struggled to recover.

About 300 miles to the south, crews reported progress building containment lines around the 57,846-acre Ferguson Fire.



A crew kept an eye on advancing wildfire in Lakeport, Calif. Firefighters fought 15 major blazes.

MARIO JOSE SANCHEZ/ASSOCIATED PRESS

chief executive at Windward Capital Management Co., a Los Angeles-based firm with more than \$750 million under management that counts Apple among its largest holdings. "They've created this device vehicle to push entertainment and data through, and it's almost like having a cash register and waiting for sales."

Apple's report Tuesday capped a string of strong earnings from U.S. technology giants **Amazon.com** Inc., Google parent **Alphabet** Inc. and **Microsoft** Corp., which continue to post robust results in the face of increasing scrutiny from regulators over their influence on business and society. **Facebook** Inc. remained the outlier, with its shares suffering the biggest-ever one-day loss last week after it warned of slowing growth amid new regulatory pressures and public scrutiny of its privacy practices.

Still, Mr. Cook said he is optimistic "this will get sorted out because there's an inescapable mutuality between the U.S. and China."

Apple also faces criticism from Chinese state-controlled media, which has turned up attacks on Apple over the past week, with at least five state supported outlets including Xinhua criticizing the tech giant's iMessage service for failing to do more to block spam messages. CCTV jumped in

Apple hasn't been affected by any U.S. tariffs on imports from China to date, but Mr. Cook said the company is evaluating the planned tariffs for potential business impact. He said Apple will provide public comment after it has had a chance to evaluate the potential tariffs.

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Tuesday, saying Apple's app store allows illegal gambling apps.

Apple's sales continue to grow in Greater China, rising 19% to \$9.55 billion. But new numbers from market researcher Strategy Analytics found that **Huawei Technologies** Co. of China has overtaken Apple for the first time as the world's second-largest smartphone maker, with 54 million devices shipped in the June quarter.

Apple's chief rival, **Samsung Electronics** Co., remains the largest smartphone vendor, but has struggled lately. The South Korean company, which also has raised smartphone prices to nearly \$1,000, reported a big decline in mobile-phone profit on Tuesday as consumers hold

on to devices longer and balk at higher prices. Its market share in China has declined as homegrown rivals such as Huawei increase sales.

Apple signaled it expects to sustain strong iPhone sales in the current quarter with a forecast for total revenue of between \$60 billion and \$62 billion, which would represent a healthy 14% to 18% increase from a year earlier. Analysts say the likely jump reflects a small boost from the following three new devices Apple is expected to release in September: an update to the \$999 iPhone X; the company's first oversize phone with an organic light-emitting diode display; and a 6.1-inch liquid-crystal-display phone with facial-recognition technology.

Judge Brian Marshall also gave Mr. Burke 27 months of probation, fined him more than \$3,000 and ordered him to perform 100 hours of community service.

—Associated Press

## Apple's Revenue Climbs

*Continued from Page One*  
hours gains extend to Wednesday's trading day, Apple is on the cusp of becoming the first \$1 trillion U.S. company.

Apple's move to raise iPhone prices continued to pay off in the period, with sales of the company's flagship product rising 20% to \$29.91 billion even as shipments rose less than 1% to 41.3 million. The company's services business reported record revenue of \$9.55 billion, a 31% increase from a year earlier, strengthening the case that Apple is in the midst of a transformation from a device-driven business into one increasingly reliant on sales of subscriptions and software.

Revenue growth accelerated for the seventh straight quarter, jumping 17% to \$53.27 billion in the latest period, above Wall Street expectations and near the high end of its own guidance. Profit rose 32% to \$11.52 billion, or \$2.34 a share, also above analysts' consensus estimates.

"The larger business plan is on track," said Robert Nichols,

Apple's chief executive at Windward Capital Management Co., a Los Angeles-based firm with more than \$750 million under management that counts Apple among its largest holdings. "They've created this device vehicle to push entertainment and data through, and it's almost like having a cash register and waiting for sales."

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—Associated Press

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## U.S. WATCH

## FLOOD INSURANCE

### Senate Votes, 86-12, To Extend Program

The Senate voted to extend for four months the program that provides flood insurance for nearly five million homeowners and business owners.

The bill's passage by an 86-12 vote averts a scenario in which people living in coastal communities would have been unable to renew their flood insurance policies or purchase new ones during the peak of hurricane season.

The House overwhelmingly passed the bill last week. President Trump signed the bill into law Tuesday just hours before the program was set to expire.

The National Flood Insurance Program owes more than \$20 billion to the federal treasury, and that is after Congress last year provided a \$16 billion bailout to ensure the program could continue paying claims from people hard hit by Hurricane Harvey.

The program offers the only flood insurance available to most Americans. Homeowners who live in areas that have a 1% chance of being inundated by floodwaters in any given year must purchase flood insurance as a condition of having a federally backed mortgage.

—Associated Press

## PENNSYLVANIA

### Fraternity Member Avoids Jail in Death

A Penn State University fraternity member who plied a pledge with vodka the night he was fatally injured in a series of falls avoided jail time on Tuesday when a judge sentenced him to three months of house arrest.

Ryan Burke, the first fraternity brother sentenced in the case, apologized to the parents of Tim Piazza, who died in February 2017 after a night of drinking and hazing in the Beta Theta Pi house.

Mr. Burke said he was "truly sorry" and accepted responsibility for his role in the events that led to Mr. Piazza's death from severe head and abdominal injuries he suffered the night he accepted a pledge bid.

Judge Brian Marshall also gave Mr. Burke 27 months of probation, fined him more than \$3,000 and ordered him to perform 100 hours of community service.

—Associated Press

## WASHINGTON STATE

### Final Plan is Reached On Nuclear Cleanup

A portion of the vast Washington state site where the U.S. government created much of the plutonium for the nation's nuclear arsenal will be scrubbed free of radiation and other pollution under a final plan reached by the U.S. Department of Energy and federal and state regulators.

The plan announced Monday would spend \$200 million to finish the cleanup of nearly 8 square miles of the 586-square-mile Hanford Nuclear Reservation, where plutonium was made for nuclear weapons during World War II and the Cold War. The land involved in the plan contains three of Hanford's nine plutonium reactors.

—Associated Press

## DELAWARE

### Inmates Charged in Riot on Hunger Strike

More than a dozen Delaware inmates charged in a fatal prison riot last year are staging a hunger strike.

Department of Correction officials confirmed Tuesday that 14 inmates housed at Sussex Correctional Institute in Georgetown began refusing meals at breakfast Monday.

A DOC spokesman said all 14 inmates were involved in the February 2017 riot at James T. Vaughn Correctional Center in Smyrna, during which a prison guard was killed and three other staffers taken hostage.

—Associated Press

## NEW YORK

### Twin Red Pandas Born in Upstate Zoo

Officials at a New York state zoo announced the birth of twin red pandas, an endangered species found in Asia.

The male cubs were born at the Rosamond Gifford Zoo in Syracuse on June 21. Zookeepers have named them Loofah and Doofah after characters in "The Land Before Time" animated dinosaur film series.

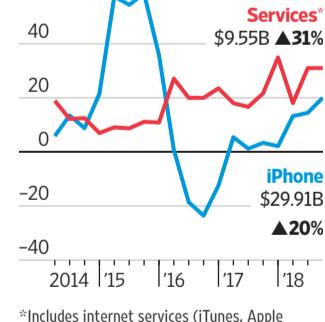
The cubs were born to the zoo's breeding pair of red pandas, mother Tabei and father Ketu.

—Associated Press

## Streaming Service

Apple's services business has become one of its biggest growth engines.

## Change from previous year



Source: the company

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(USPS 664-880) (Eastern Edition ISSN 0099-9660)

(Central Edition ISSN 1092-0935) (Western Edition ISSN 0193-2241)

Editorial and publication headquarters: 1211 Avenue of the Americas, New York, NY 10036

Published daily except Sundays and general legal holidays.

Periodicals postage paid at New York, NY, and other mailing offices.

Postmaster: Send address changes to The Wall Street Journal, 200 Burnett Rd., Chicago, IL 60620.

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## U.S. NEWS

# Congress Makes Headway on Funding

By KRISTINA PETERSON

WASHINGTON—President Trump's repeated threats to shut down the federal government have obscured an unusual development: Lawmakers are making surprisingly swift progress funding it.

The Senate is expected this week to pass a package of four spending bills with bipartisan support, on top of a trio passed in late June. The House, meanwhile, has been passing more partisan spending bills at its own brisk clip.

While lawmakers will have to hash out their differences, they still are far closer to funding most of the government for the next fiscal year than they typically are at this point—two full months before current funding expires Oct. 1.

That is why Mr. Trump's recent flurry of tweets threatening to shut the government over immigration legislation

has frustrated lawmakers seeking to avoid a showdown roughly a month before November's midterm elections.

"There's never a good reason to shut government down, particularly when we're making great progress on the appropriations bills," said Sen. Susan Collins (R., Maine), who sits on the Senate Appropriations Committee.

Leaders from both parties have been working to avoid gridlock that often forces lawmakers to cram up to a dozen spending bills into one massive package, known as an omnibus, that typically passes just before the deadline. Presented with a sweeping \$1.3 trillion package in March, Mr. Trump threatened to veto it, although he ultimately signed the bill.

"The president had set out a goal that he would never sign an omnibus bill again and we're working very hard to make sure that never hap-



'There's never a good reason to shut government down, particularly when we're making great progress on the appropriations bills,' said Sen. Susan Collins (R., Maine).

pens,' Ms. Collins said.

On Tuesday, Mr. Trump tweeted, "A Government Shutdown is a very small price to pay for a safe and Prosperous America," reiterating his warnings from Sunday and Monday.

At a campaign-style rally

der wall funding until after the midterm elections, an administration official said Monday.

House Republican leaders in June attempted to pass immigration legislation that met Mr. Trump's demands, but failed to gain enough support. A series of immigration bills failed in the Senate this year.

Meanwhile, the House and Senate have been steadily passing spending bills in an effort to avoid a deadline-driven, year-end partisan spending fight that typically brings Congress just to the brink of a government shutdown.

The homeland security bill that includes border-wall funding, however, isn't expected to come up before November.

"It is particularly inappropriate and disruptive for the president to be issuing shutdown threats when we are in the middle of one of the first genuinely constructive, bipartisan appropriations processes

I've seen in eight years," said Sen. Chris Coons (D., Del.), also on the appropriations panel.

One reason for this year's more conciliatory approach is that lawmakers already have agreed to the overall spending level for fiscal year 2019 as part of the two-year budget deal they struck in February. Still, that hasn't always been sufficient in the past to prevent skirmishes over how the money should be divvied up.

House and Senate lawmakers still have disputes to resolve to reconcile their differing versions of the bills. In the House, where spending bills can pass with a simple majority, Republicans tucked in more controversial policy measures, known as "riders." But in the Senate, both sides abstained from seeking political victories, lawmakers said.

—Natalie Andrews and Siobhan Hughes contributed to this article.



A courtroom sketch of Paul Manafort, center, during Tuesday's trial opening in a federal court in Virginia.

## Manafort Fraud Case Is Laid Out

By ARUNA VISWANATHA AND DEL QUENTIN WILBER

ALEXANDRIA, Va.—Paul Manafort's lawyer told jurors that the former Trump campaign chairman was innocent of tax and bank-fraud charges but had made the mistake of trusting his business associate, bookkeeper and accountants, as the closely watched criminal trial got under way Tuesday.

"This case is about taxes and trust...and Mr. Manafort placing his trust in the wrong person—Rick Gates," Mr. Manafort's lawyer Thomas Zehnle told the jury. Mr.

Manafort was charged last year by special counsel Robert Mueller, and Mr. Gates, Mr. Manafort's longtime deputy, pleaded guilty earlier this year to conspiracy and is cooperating with Mr. Mueller's team in the wide-ranging probe, including by testifying during what is expected to be a three-week trial.

This is the first trial by prosecutors for Mr. Mueller, who is investigating Russian interference in the 2016 election and possible coordination with Trump associates. The charges against Mr. Manafort, however, predate the Trump campaign and aren't related to

Russia's electoral activities.

Prosecutors described Mr. Manafort as orchestrating a wide-ranging scheme to hide some of the \$60 million in income he received from political consulting in Ukraine between 2010 and 2014. They said he moved it through shell companies in Cyprus and spent the "secret income" to bankroll an "extravagant lifestyle" that included luxury real estate, tailored suits and a \$15,000 custom jacket "made from an ostrich."

Mr. Manafort "placed himself and his money over the law," Assistant U.S. Attorney Uzo Asonye said.

In response, Mr. Zehnle said the accounts in Cyprus were set up only at the request of his clients; that Mr. Manafort had reported \$27 million in income to the U.S. government from the years at issue; and that Mr. Manafort believed his employees had access to all of his financial records and were handling them appropriately.

The jury was seated earlier Tuesday after prosecutors from the special counsel's office and lawyers for Mr. Manafort rejected about 20 potential jurors. That left a jury of 12 and four alternates, who were sworn Tuesday afternoon.

Mr. Trump won North Da-

kota by 36 percentage points in 2016, and Republicans see Ms. Heitkamp's seat as one of their most promising pickup opportunities in November.

"We support policies that help all people improve their lives. We look forward to working with anyone to do so," James Davis, a spokesman for the Koch network, said in response to the tweets.

The Trump administration has levied tariffs on steel and aluminum imports, hitting some of America's closest allies, and has imposed tariffs on \$34 billion of Chinese imports. The Kochs and many traditional pro-business Republicans oppose tariffs, fearing an increase in the cost of industrial supplies and retaliatory tariffs.

If Mr. Cramer "doesn't step up to lead, that makes it hard to support him," said Tim Phillips, president of Americans for Prosperity, a nonprofit founded by the Koch brothers. Mr. Cramer said in a statement that he respects the Koch network decision.

Mr. Trump hasn't attended the Koch conferences. Those gatherings are typically a draw for Republican candidates, and Vice President Mike Pence has been a regular attendee.

During the 2016 campaign, Mr. Trump blasted his GOP opponents as "puppets" of donors such as the Kochs. Since Mr. Trump has been president, there hasn't been much public discord between the White House and the Kochs, with their network, for example, spending millions on a public-relations campaign to highlight last year's tax law.

was open to a meeting with Iranian President Hassan Rouhani—a proposal for which White House advisers said there had been no internal planning.

Mr. Kelly, a 68-year-old retired Marine general, came into the job with a mandate to impose discipline in a West Wing where many aides had easy access to the president. But in recent months, Mr. Kelly's grip has loosened. Some senior aides now report directly to the president, a departure from earlier practice in which Mr. Kelly was the principal gatekeeper.

The more relaxed protocols have also helped ease Mr. Kelly's relationship with White House advisers Jared Kushner and Ivanka Trump, the president's son-in-law and daughter. The pair for much of Mr. Kelly's tenure bristled at his efforts to curtail access to the president and routinely sought to undercut him to Mr. Trump, according to people familiar with the conversations. While it isn't clear that those tensions have resolved, they appear to have calmed in recent months. A White House spokesman didn't immediately respond to a request for comment on the relationship.

Mr. Kelly had told colleagues in recent months that he didn't intend to stay in the role beyond one year.

Tensions between the president and Mr. Kelly appear to have eased in recent months since a rough patch earlier this year, when Mr. Trump

In recent months, others Mr. Trump was considering for the role have seen their chances fade.

Mr. Ayers was drawn into a campaign-finance scandal surrounding Eric Greitens, who resigned in May as Missouri governor. Mr. Greitens' 2016 campaign had hired Mr. Ayers's political-consulting firm.

A complaint filed with the Missouri Ethics Commission by a Republican state lawmaker in July named Mr. Ayers as among the advisers to Mr. Greitens who allegedly helped funnel donations through a nonprofit that would conceal the donor's identity. A spokeswoman for Mr. Pence's office declined to comment Tuesday but has previously disputed the allegations, saying Mr. Ayers had "meticulously" followed campaign-finance laws. Representatives for Mr. Greitens have disputed the allegations of wrongdoing.

Several of Mr. Mulvaney's associates, meanwhile, had approached Mr. Trump about installing the budget director as chief of staff. That lobbying appeared to backfire with the president, these people said. A person close to Mr. Mulvaney said the budget chief hadn't asked supporters to lobby the president on his behalf.

Mr. Mulvaney's press secretary said: "Director Mulvaney serves at the pleasure of the president and is focused on his two full-time jobs."

—Michael C. Bender contributed to this article.

## Trump Asks Kelly To Stay

*Continued from Page One* six months alone, Mr. Trump has seen the exit of communications director Hope Hicks, Secretary of State Rex Tillerson and national security adviser John Bolton, as well as other top officials.

In recent months, Mr. Trump has installed several advisers who are seen as more closely aligned with his worldview and with whom he shares a better relationship. They include Secretary of State Mike Pompeo, who spearheaded talks with North Korea, and national security adviser John Bolton, who arranged the recent meeting with Russian President Vladimir Putin. Mr. Trump also tapped Bill Shine, a former Fox News executive, as deputy chief of staff for communications.

Top-level departures from the administration have slowed in recent months, and people close to the president say the personnel changes have emboldened him to act more swiftly on his instincts. In the past week, Mr. Trump has threatened a government shutdown over border security, agreed to resolve a trade dispute with the European Union days after calling the bloc a "foe," and declared he

Chief of Staff John Kelly is staying for the 2020 election.

privately criticized his chief of staff for the handling of domestic-assault accusations against former staff secretary Rob Porter, who resigned in February after graphic photos emerged of the alleged abuse.

Mr. Kelly had initially defended Mr. Porter, vouching for his integrity.

The president has offered conflicting views in recent months on how long he saw Mr. Kelly staying in the job. After The Wall Street Journal reported in June that Mr. Trump was consulting with advisers on successors to Mr. Kelly, a White House spokeswoman called the report "fake news" and said that according to Mr. Kelly, "this was news to him."

Mr. Trump, asked later that day whether Mr. Kelly was leaving the White House, replied: "That I don't know."

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BRIAN SNYDER/REUTERS

## We make prescription opioids. And we want to limit their use.

For more than 25 years, Purdue Pharma has developed opioid medications. While opioid analgesics may help patients with acute and chronic pain when other treatment options are inadequate, earlier this year we decided that our sales representatives will no longer promote opioids to prescribers.

We are acutely aware of the public health risk opioid analgesics can create. And we are deeply concerned about the toll the opioid crisis is having on individuals and communities across the nation, and as a company now led by a physician, we believe the country needs a new approach to prescribing opioids.

This approach includes supporting patient access to multi-modal pharmacologic and non-pharmacologic treatment options; ensuring opioids are only used when alternative treatment options are inadequate; and adopting public policies aimed at reducing addiction, abuse, diversion, and overdose related to opioids.

To help limit a patient's unnecessary exposure to opioids and reduce the number of unused opioids that might end up in the wrong hands, we support initiatives to limit initial opioid prescriptions to no more than seven days.

To help reduce prescription drug abuse and diversion, we advocate that prescribers and pharmacists consult state Prescription Drug Monitoring Program (PDMP) databases before writing or dispensing any opioid prescription. Studies suggest that PDMPs can help reduce the number of prescriptions written for opioids and that PDMP use is associated with a reduction in pain medications received for nonmedical use from multiple doctors.<sup>1,2</sup>

To support communities that have been affected by the crisis, we've provided funding to the National Sheriffs' Association to help law enforcement distribute the overdose rescue drug naloxone. In addition, we're helping to bring prescription abuse prevention education to high school students across the country.

America's opioid crisis is the result of multiple factors. We believe that all stakeholders — healthcare leaders, drug manufacturers, policymakers, and public health officials — need to come together to drive meaningful solutions forward. While no single intervention alone will solve this crisis, partnerships, determination, and innovative approaches are steps in the right direction.



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<sup>1</sup>Bao Y, Pan Y, Taylor A. Prescription drug monitoring programs are associated with sustained reductions in opioid prescribing by physicians. *Health Affairs* [Project Hope]. 35(2016)1045–1051. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5336205/>.

<sup>2</sup>Ali MM, Dowd W, Classen T. Prescription drug monitoring programs, nonmedical use of prescription drugs, and heroin use: evidence from the National Survey of Drug Use and Health. *Addictive Behaviors*. 69(2017)65–77.

## U.S. NEWS

# Why We Spend So Much on Health Care

By Joseph Walker

Graphics by Angela Calderon

The U.S. will soon spend close to 20% of its GDP on health—significantly more than the percentage spent by major Organization for Economic Cooperation and Development nations.

What is driving costs so high? As this series of charts shows, Americans aren't

buying more health care overall than other countries. But what they are buying is increasingly expensive. Among the reasons is the troubling fact that few people in health care, from consumers to doctors to hospitals to insurers, know the true cost of what they are buying and selling.

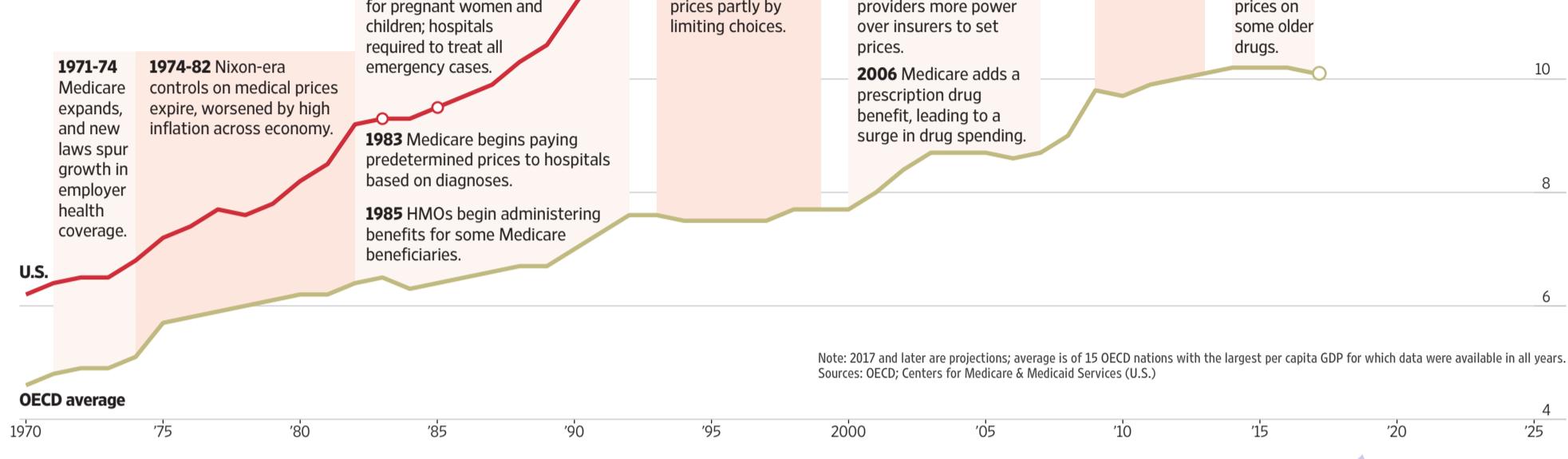
In some cases, costs are largely secret. Providers,

manufacturers and middlemen operate in an opaque market that can mask their role and their cut of the revenue. Mergers give some players more heft to enlarge their piece of the pie.

Consumers, meanwhile, buoyed by insurance plans and tax breaks, have little idea how much they are really spending and little incentive to know underlying costs.



## How health expenditures grew as a percentage of GDP



Despite the higher spending, the U.S. fares worse than the OECD on most major measures of health, and the pace of improvement by other nations has been faster.

Note: Average is of 15 OECD nations with the largest per capita GDP for which data were available in all years.  
Source: OECD

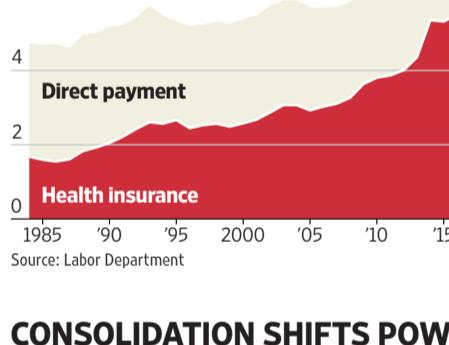


## HIDDEN PRICES

A big part of the problem in analyzing health spending is the opacity of the industry.

The bulk of consumers' health spending now goes to paying for insurance, a shift from when patients paid directly for health services. Since insurers negotiate prices with providers, it is hard for individuals to judge health costs.

### Percentage of consumer expenditures devoted to health care



Source: Labor Department

Contributions to employer-sponsored health coverage aren't taxed, which makes it less expensive for companies to pay workers with health benefits than wages. Generous benefits lead to higher spending, according to many economists, because employees can consume as much health care as they want without having to pay significantly more out of their own pockets.

The tax benefit is the country's biggest single income-tax break.

### Projected revenue losses due to federal income-tax breaks, top 10 categories, in billions, 2017-21

Employer contributions for health care	\$854.10
Dividends, long-term capital gains	\$648.90
Contributions to 401(k) plans	\$624.10
Credit for children, dependents	\$526.20
Pension contributions	\$469.60
Corporate profits earned abroad	\$404.20
Earned income tax credit	\$363.20
Accelerated depreciation of equipment	\$266.10
Health insurance through exchanges	\$231.40
Mortgage interest deduction	\$216.60

Source: Joint Committee on Taxation

The prices of many medicines are hidden because pharmacy-benefit managers—the companies that administer drug benefits for employers and health insurers—negotiate confidential discounts and rebates with drugmakers.

AbbVie Inc., the maker of Humira, an immunosuppressive, discounted the price for insurers, PBMs and other purchasers by about 16% from its advertised price in 2016—a big jump from a decade earlier. It isn't known how much of those discounts are passed to employers and consumers, and how much is pocketed by insurers and PBMs as profit.

### Price for monthly Humira treatment

Advertised price	3Q 2004 \$1,385
Price paid*	\$3,431 (84% of advertised price)

\*Doesn't include the impact of Medicaid rebates  
Note: Data are adjusted for inflation; for Humira 40mg/0.8ml kit  
Sources: Centers for Medicare & Medicaid Services; Truven Health Analytics/IBM Watson Health

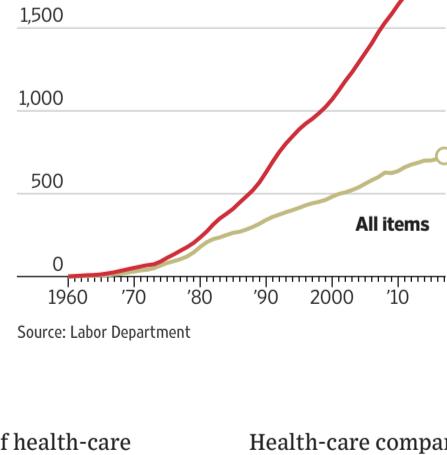
## CONSOLIDATION SHIFTS POWER

One reason prices are rising: Hospitals are becoming more consolidated and are using their market clout to negotiate higher prices from insurers.

Consolidation contributes to the overall increase in health costs, research suggests. Hospitals with a monopoly in a geographic market charge more for procedures than those in markets with four or more competing hospitals, according to researchers.

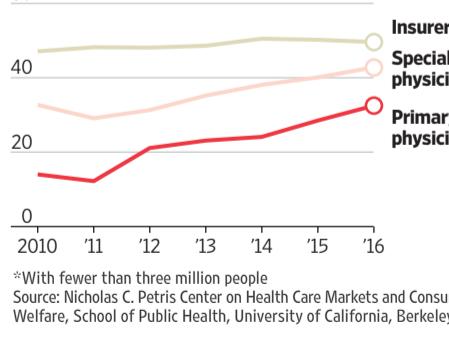
Prices for medical care started rising significantly faster than overall inflation in the mid-1960s. Prices have been the driver, not the amount of care, for the increase in U.S. spending compared with other countries, according to many economists.

### Consumer-price index, change since 1960



Source: Labor Department

### Percentage of population in metropolitan areas\* with high market concentrations



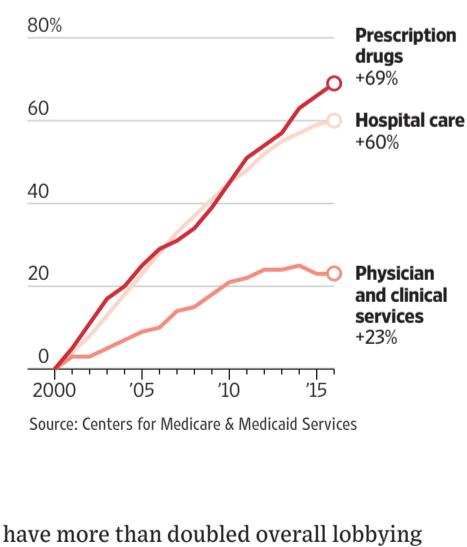
\*With fewer than three million people  
Source: Nicholas C. Petris Center on Health Care Markets and Consumer Welfare, School of Public Health, University of California, Berkeley



Source: Forthcoming paper by Zack Cooper, Stuart Craig, Martin Gaynor, and John Van Reenen in the Quarterly Journal of Economics

Drug prices have risen the most of the three largest components of health spending since 2000, followed by hospital care and physician services.

### Price growth since 2000



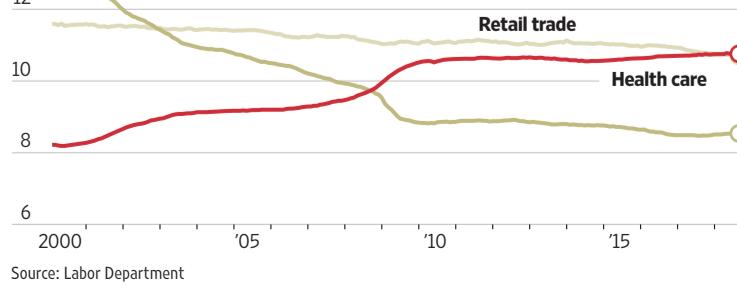
Source: Centers for Medicare & Medicaid Services

## BIGGER STAKE IN THE SYSTEM

Health care has become a larger part of the economy, creating powerful constituencies resistant to changing the way the system operates.

The health-care industry overtook the retail sector as the nation's largest employer in December, giving local economies and their workers a stake in the industry's growth.

### Percentage of total employment, by industry



Source: Labor Department

The revenues of health-care companies represented nearly 16% of the total revenues of firms in the S&P 500 last year, up from about 4% in 1984.

### Percentage of S&P 500 revenues reported by health-care companies

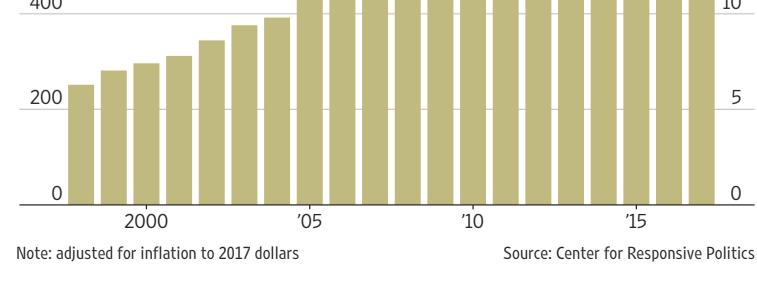


Source: WSJ analysis of S&P Global Market Intelligence data

Health-care companies have more than doubled overall lobbying spending since 1998, and have become a bigger percentage of total lobbying by industries.

—Tom McGinty and Melanie Evans contributed to this article.

### Lobbying spending by health-care industry



Source: Center for Responsive Politics

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## U.S. NEWS

# Pence Points at Russia for 2016 Election Meddling

BY DUSTIN VOLZ

Vice President Mike Pence put the blame for 2016 election interference squarely on Russia and pledged that the Trump administration would step up efforts to deter cyberattacks against U.S. democracy.

"While other nations possessed the capability, Russia meddled in our 2016 election," Mr. Pence said Tuesday in his first significant speech about cybersecurity. "That is the unambiguous judgment of our intelligence community, and as the president said, we 'accept the intelligence community's

accepted the finding of Russia's culpability.

Special counsel Robert Mueller is investigating potential collusion between Russia and the Trump campaign during the 2016 presidential election, as well as possible obstruction of justice. Mr. Trump has denied any wrongdoing by his campaign and called the probe a "witch hunt." Moscow has denied any interference.

The summit was an attempt by the Trump administration to project a united front on prioritizing cybersecurity as a top national security concern, amid criticism from lawmakers in both parties that it hasn't developed a coherent cybersecurity strategy, particularly on safeguarding the 2018 midterms from hacking or other forms of Russian interference.

The Department of Homeland Security, which hosted the summit, announced on Tuesday the creation of a new center aimed at guarding the nation's banks, energy companies and other industries from major cyberattacks that could cripple critical infrastructure.

In unveiling the new center, DHS Secretary Kirstjen Nielsen said cyberattacks now pose a greater threat to the country than physical ones. DHS was founded 15 years ago to prevent another 9/11-style attack, Ms. Nielsen said, but "today I believe the next major attack is more likely to reach us online than on an airplane."

"Let me be clear: Our intelligence community had it right," Ms. Nielsen said. "It was the Russians. It was directed from the highest levels. And we cannot and will not allow it to happen again."

Neither Mr. Pence nor Ms. Nielsen referenced the conclusion of U.S. intelligence agencies that Russia interfered in 2016 to help Mr. Trump.

conclusion.'

Mr. Pence's remarks, delivered at a government-hosted cybersecurity summit in New York, amounted to the White House's strongest condemnation of Russia's election interference to date. Their directness stood in contrast to mixed messages from President Trump in recent weeks, in which he has at times played down the role of Moscow in election interference and suggested others could be to blame, while also saying he



Euan Robertson hired a coach to help his sons Andrew and Alexander improve at the videogame 'Fortnite.'

they enjoy," Euan Robertson said of his sons Alexander, 10, and Andrew, 12. He hired them a "Fortnite" coach in June, who can stay as long as the children keep up their grades.

Mr. Robertson, an insurance professional in Arzier-Le Muids, Switzerland, is perfectly fine with his children gaming. "There isn't any inherent risk," he said. "They're not going to break a leg playing video games."

Dale Federighi, a software engineer in San Jose, Calif., signed himself up for "Fortnite" lessons a few weeks ago so he could play alongside his sons, Joel, 6, and Elliot, 11. In this case, his children wanted no



A 2013 photo of a plastic gun made on a 3-D printer. A White House spokesman on Tuesday said plastic guns are banned by federal law.

## Judge Blocks 3-D Gun Posts

BY ZUSHA ELINSON  
AND PETER NICHOLAS

A federal judge in Washington state issued a temporary restraining order Tuesday to block blueprints for 3-D-printed guns from being distributed online.

The ruling came in response to legal action Monday by eight states seeking to block a pro-gun group, Defense Distributed, from posting the files.

"The proliferation of these firearms will have many of the negative impacts on a state level that the federal government once feared on the international stage" if an injunction isn't issued, U.S. District Judge Robert S. Lasnik wrote in a seven-page ruling.

The judge set a hearing for Aug. 10 to decide whether to issue a preliminary injunction.

"I am thankful and relieved Judge Lasnik put a nationwide stop to the Trump Administration's dangerous decision to allow downloadable, 3-D-printed ghost guns to be distributed on-

line," said Bob Ferguson, Washington state's attorney general, who sued on behalf of the other states.

The suit attacked a recent settlement between Defense Distributed and the State Department that allowed the blueprints to be posted online. Cody Wilson, who runs Defense Distributed, said in a text message he was "taking the files down," and he pulled his website offline. A spokeswoman for the State Department declined to comment.

Amid growing concern about the prospect of guns being manufactured at home, President Trump voiced skepticism about 3-D-printed plastic firearms, writing on Twitter that the practice "doesn't seem to make much sense!"

Mr. Trump said he had talked to the National Rifle Association about such firearms, though he didn't give details about steps he might take to block such production or sales.

White House spokesman Hogan Gidley said later that plastic

guns were banned by federal law and that the administration would "continue to look at all options available to us to do what is necessary to protect Americans while also supporting the First and Second Amendments."

In a statement, Chris W. Cox, executive director of the NRA Institute for Legislative Action, pointed to a 1988 law banning plastic guns and said "anti-gun politicians and members of the media have wrongly claimed that 3-D printing technology will allow for the production and widespread proliferation of undetectable plastic firearms."

The Justice Department declined to comment. Federal law generally permits individuals who aren't otherwise barred from owning firearms to make them for their own personal use.

The State Department had included the design files on a list of munitions subject to export controls, barring their distribution. But the department in June reversed its position and

allowed the files to be posted, prompting an outcry from gun-control groups and Democratic lawmakers who say the files will enable individuals to avoid background checks by using 3-D printers to make guns at home.

On Tuesday, Democratic senators attempted to introduce legislation that would prohibit publishing a digital file that programs a 3-D printer to manufacture a firearm. Sen. Mike Lee (R., Utah), blocked the measure, arguing it violated constitutional free-speech protections.

Some firearms experts played down the danger of these guns, saying most 3-D printers use materials that aren't strong enough to produce a reliable firearm.

"You can 3-D print a pistol that will fire a few rounds through the barrel—after that it'll just break," said Rick Vasquez, a firearms consultant and former official at the Bureau of Alcohol, Tobacco, Firearms and Explosives.

—Natalie Andrews contributed to this article.

## Parents Hire Game Coaches

*Continued from Page One*  
imagine what that was like for him at school."

Rob hopes his friends don't find out how he upped his game. "They'll probably think I'm cheating or something," he said. "That's how 10-year-old kids work."

Until recently, people seeking help with videogames almost exclusively were adult hobbyists and older teenagers aspiring to go professional, according to businesses that contract with coaches.

Nick Mennen was happy to pay \$20 an hour for his 12-year-old son, Noble, to take "Fortnite" lessons. The dad is already dreaming of a scholarship—or at least some tournament money. ("Fortnite" creator Epic Games Inc. recently pledged \$100 million in tournament prizes.)

Noble used to win "Fortnite" infrequently before he began taking about six hours of lessons a month. "Now he'll throw down 10 to 20 wins," said Mr. Mennen, a software developer in Cedar Park, Texas.

The success has made Noble competitive with his dad. "I should be the one charging him," Noble said.

Coaches can be found on social media or through contracting sites such as Gamer Sensei and Bidvine, which said it has hired out more than 1,400 "Fortnite" coaches since early March. Some coaches can't believe parents want to sign up their children for lessons.

"It's really surreal to me," said Logan Werner, an 18-year-old "Fortnite" coach in Roy, Utah, who plays the combat game on a professional team called Gankstars. "My dad would have never paid for me to take videogame lessons."

Hiring a "Fortnite" coach for a child is no different than enlisting an expert to help a child excel at basketball or chess, parents say. Some sit in on lessons to make sure coaches are professional and that their children, well, level up.

"I want them to excel at what

they enjoy," Euan Robertson said of his sons Alexander, 10, and Andrew, 12. He hired them a "Fortnite" coach in June, who can stay as long as the children keep up their grades.

Mr. Robertson, an insurance professional in Arzier-Le Muids, Switzerland, is perfectly fine with his children gaming. "There isn't any inherent risk," he said. "They're not going to break a leg playing video games."

Dale Federighi, a software engineer in San Jose, Calif., signed himself up for "Fortnite" lessons a few weeks ago so he could play alongside his sons, Joel, 6, and Elliot, 11. In this case, his children wanted no

part of the coaching. "They dissed it," he said. "They're both very stubborn."

"I felt like taking lessons was over the edge," said Elliot. Now, he's reconsidering. "I don't want my dad to be better than me."

Each Sunday night, JD Giles and his 10-year-old son, Blake, look forward to their "Fortnite" lesson with a coach they know as "Convertible." Mr. Giles initially sought lessons for Blake as a birthday gift. Then he got hooked.

"Our skills were nowhere near where we needed them to be," said the sales executive from Cumming, Ga.

He has spent \$45 on three one-hour sessions and has com-

mited to at least three more for himself and Blake. The investment is already paying off.

"Within one week, I actually got a solo win," Mr. Giles said. "The other dads I play with congratulated me. I earned a little credibility with my son and his friends—and my wife and daughter made fun of me."

Mr. Giles' 13-year-old daughter, Morgan, says "it's kind of cool but weird at the same time." She dislikes how her dad screams with delight whenever he wins a match. "It's annoying."

Paul Rakovich's 7- and 9-

year-old sons grew suspicious when their dad suddenly became a lot better at "Fortnite." Mr. Rakovich, of suburban Denver, coped to getting an online coach. Now all three take lessons separately.

"My oldest is better than me,

no doubt about it, and I wanted at a minimum to hang at his level," Mr. Rakovich said.

Some parents set a low bar for success.

"Not dying in the first two

minutes would be nice," said Adrian Luff of San Marcos, Texas.

He gets it when his sons, ages 7, 9 and 11, grow frustrated with "Fortnite." He gets that way, too, and thinks his lousy track record is doubly embarrassing since he works at Amazon.com Inc.'s Twitch, a live-streaming service where top "Fortnite" gamers show off their chops.

The three boys, all of whom have had "Fortnite" coaching, have won matches. Mr. Luff has not. He says that's OK because he clings to the hope that at least one of his sons will go pro. "They can fund my retirement," he said.

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He has spent \$45 on three

## WORLD NEWS

# Malaysia Eyes China Funds in 1MDB Probe

Officials suspect \$700 million, meant for big projects, was diverted to help pay debts

By TOM WRIGHT  
AND BRADLEY HOPE

KUALA LUMPUR, Malaysia—Officials here are investigating whether the government of former Prime Minister Najib Razak used funds from a China-backed infrastructure program to help pay debts owed by the state investment fund at the center of one of the world's biggest graft probes.

Prime Minister Mahathir Mohamad in July froze over \$20 billion in Malaysian infrastructure projects that are part of China's One Belt, One Road initiative, saying the contract values appeared to be inflated, in what he called a sign of possible corruption.

Now, Mr. Mahathir's government suspects cash intended for the projects was diverted through offshore shell companies and used to pay nearly \$700 million of debt owed by 1Malaysia Development Bhd., or 1MDB, according to two government officials involved in reviewing the projects.

Malaysians associated with the Najib government, working with representatives of Chinese companies, appear to have arranged the diversion of funds, the officials said.

"Chinese companies may be involved in round tripping of major infrastructure projects in Malaysia that siphons off funds from these projects to help 1MDB," Malaysia's new Finance Minister Lim Guan Eng told The Wall Street Journal. China's foreign ministry didn't respond to a request to comment.



**China's Foreign Minister Wang Yi, left, talked with his Malaysian counterpart Saifuddin Abdullah on Tuesday in Putrajaya, among discussions that a Malaysian official said were aimed at restructuring terms of Chinese loans. Prime Minister Mahathir Mohamad, below, has moved to investigate what went on at troubled state investment fund 1MDB under his predecessor Najib Razak.**

Mr. Mahathir took office in May after pledging to voters to clean up the government, and has since moved quickly to restart investigations into what went on at 1MDB under his predecessor. Mr. Najib has denied any wrongdoing by himself or 1MDB, and an investigation by his attorney general cleared him. His representative didn't respond to requests for additional comment for this article.

Malaysia, which is on the hook to repay billions of dollars to Chinese banks that financed the projects, is demanding that Beijing agree to restructure the terms, the two officials said. On Tuesday, Chinese Foreign Minister Wang Yi visited Kuala Lumpur, Malaysia's capital, the latest in a diplomatic flurry aimed at working out a compromise, according to one of the officials.

In mid-July, Daim Zainuddin, an ally of Mr. Mahathir who is leading investigations into the matter, laid out Malaysia's concerns about the loans in a meeting with China's Premier Li Keqiang in Beijing, according to a Malaysian official who was present. Mr. Mahathir is scheduled to meet President Xi Jinping in Beijing in August.

Malaysian officials are focusing on a \$2.5 billion agreement signed in November 2016 in which state-owned China

Petroleum Pipeline Bureau, a subsidiary of China National Petroleum Corp., would build a series of petrochemical and gas pipelines on Malaysia's main peninsula and in the state of Sabah on Borneo island.

Malaysia's Finance Ministry said it had paid China Petroleum over \$2 billion, drawing largely on loans from Export-Import Bank of China.

The Malaysian government suspects money from the project was used to pay debts for 1MDB, which is being investigated for graft in several countries including the U.S., the two Malaysian officials said.

The officials said their suspicions are based largely on the timing of the transactions ahead of a loan due date and the involvement of key suspects in the 1MDB scandal.

A spokesman for the China Petroleum Pipeline Bureau said that money it received for Ma-

laysian pipelines was used for the project only. Export-Import Bank of China didn't respond to requests to comment.

A former Malaysian official who worked in the prime minister's office said Malaysian financier Jho Low played a central role in negotiating the pipeline deal and other Malaysia-China infrastructure projects. Mr. Low has denied wrongdoing; his representatives didn't respond to requests for additional comment for this article.

U.S. and Malaysian officials believe Mr. Low organized a scheme to take at least \$4.5 billion from the 1MDB fund between 2009 and 2015. Malaysia has issued an arrest warrant for Mr. Low, who is living in China and Thailand, according to people aware of his movements.

Mr. Najib was arrested in July on money-laundering charges related to 1MDB. He pleaded not guilty; he views the charges as politically motivated, a spokesman said.

The transactions now under scrutiny occurred when the 1MDB fund was in dire straits last year. Despite building up over \$10 billion in debt, it had few assets. It also had a looming repayment of \$1.2 billion to an Abu Dhabi sovereign-wealth fund, which had provided an emergency short-term loan to 1MDB in 2015.

In May 2017, Mr. Low met Mr. Najib on the sidelines of a Belt and Road forum in Beijing to discuss infrastructure projects involving China, according to the former Malaysian official who worked in the prime minister's office. By that time, China's export bank had begun to provide funds to China Petroleum Pipeline Bureau for the Malaysia project, according

to the two current Malaysian officials.

The two officials suspect some of the \$2 billion meant for the China Petroleum Pipeline Bureau likely went instead into a series of shells before landing at a Cayman Islands-based company called Silk Road Southeast Asia Real Estate Ltd. The company's sole beneficial owner is listed as a Middle Eastern investor, the officials said; they believe he is an associate of Mr. Low. Investigators haven't been able to locate the investor.

In August last year, Silk Road paid the equivalent of almost \$700 million to take over a Malaysian Finance Ministry company whose only holding was 234 acres of land that had belonged to 1MDB, Malaysia's Finance Ministry under the current government has said. The price was around twice what 1MDB had spent on the acquisition four years earlier, records show.

The ministry, which previously was controlled by Mr. Najib and had taken over 1MDB as it ran into trouble, used proceeds of the sale to pay 1MDB's debt to the Abu Dhabi fund, International Petroleum Investment Co. Ltd., or IPIC, the ministry now says.

The nearly \$700 million moved to a bank account at Industrial & Commercial Bank of China Ltd. in Malaysia held by the Finance Ministry, which then sent the money to IPIC's account with the same bank in Abu Dhabi, the official said. IPIC has confirmed it received the money, but declined to comment further.

Silk Road never took formal ownership of the Finance Ministry company that owned the land. 1MDB still has debt of around \$8 billion.

## Beijing Tracking Muslims Making Mecca Pilgrimage

By EVA DOU

BEIJING—China's close watch over its Islamic minority is being extended abroad, as Muslims from some Chinese regions make the Hajj pilgrimage wearing state-issued tracking devices.

The state-run China Islamic Association published photos of Chinese Muslims at the Beijing airport departing for Mecca in Saudi Arabia in recent days wearing customized "smart cards" on blue lanyards around their necks. The devices, which include a GPS tracker and personal data, are designed to ensure the wearer's safety, according to the association.

Human-rights activists say contend the tracking devices are another example of China's extraordinary efforts to monitor its Muslim minority using modern surveillance tools.

"This is yet-another way of persecuting Muslims for practicing their religion, by suggesting that they require to be

monitored rather like criminal suspects or persons serving a suspended prison sentence," said Eva Pils, a China human-rights expert at King's College London.

China has detained hundreds of thousands of Muslim Uighurs in "political re-education" centers and other facilities in its northwest, according to a statement from the U.S. State Department last week. China legal expert Jerome Cohen says the detentions are possibly the largest outside the criminal process in China since the Maoist "anti-rightist" campaign of the 1950s.

China's United Front Work Department, which oversees religious regulation, and its Ministry of Public Security didn't respond to requests to comment Tuesday. China has previously said its restrictive policies for Muslims were needed to fight terrorism.

The state-run Global Times highlighted usage of the Mecca tracking devices Tues-



**Chinese Muslim men during prayers in June marking the end of the Islamic holy month of Ramadan.**

day, saying they were being used by fewer than a third of the 11,500 Chinese Muslims making the pilgrimage. Pilgrims from the Xinjiang region, which has been a center of Muslim unrest, aren't wearing the devices this year, the newspaper said.

"They are piloting and trial-

ing it, likely with an eye on expanding it," said Adrian Zenz, a lecturer at the European School of Culture and Theology who studies China's policies for Muslims and Tibetans.

Mr. Zenz added that while authorities are interested in monitoring the pilgrims, there could be legitimate reasons for

the tracking given past stampedes and other problems during the Hajj. In the 2015 pilgrimage, a mass stampede in Mecca killed more than 750 pilgrims, with more than 900 others injured.

The China Islamic Association didn't respond to a request to comment Tuesday. In

an online posting when the system was announced last year, the association said the Chaojin Tong (Hajj Communication) devices were jointly designed by China's State Administration for Religious Affairs and the association to "ensure the safe travel of Hajj participants overseas."

## WORLD WATCH

## MEXICO

### No Deaths in Plane Crash, Airline Says

An Aeromexico airliner crashed during takeoff in the northern Mexican state of Durango, causing a number of injuries but no deaths, the airline and authorities said.

Aeromexico said Flight 2431, an Embraer 190 plane with 97 passengers and four crew members aboard, was heading from Durango City to Mexico City.

It wasn't immediately known what caused the crash, which was followed by a fire. The aircraft came to rest within the airport grounds, close to the end of the runway.

There were conflicting reports about the number of injured. The Durango state health ministry said 18 people were taken to a hospital, while the Durango Red Cross said its paramedics had transported 27 people to hospitals.

—Anthony Harrup

## VENEZUELA

### Power Outage Strikes Caracas

The lights went out across much of Venezuela's capital for several hours on Tuesday, forcing subway riders to make their way on foot, while shutting down restaurants and businesses.

The outage that began mid-morning struck much of Caracas as well as parts of neighboring Miranda and Vargas states, officials said. It was due to a downed power main in a remote national park, Communication Minister Jorge Rodriguez said on state TV.

He added that crews had trouble reaching the damaged lines, and heavy rains further complicated repairs.

Mr. Rodriguez said power was being restored.

Widespread power outages are rare in Caracas, the seat of government and the nation's largest city.

—Associated Press



**Rescuers carried a climber evacuated from Mount Rinjani.**

## INDONESIA

### Tourists Trapped on Volcano Evacuated

Hundreds of tourists stranded on a volcano on the Indonesian island of Lombok by an earthquake that triggered landslides were making their way off the mountain shaken but mostly un-

harmed, an official said.

More than 250 people walked to a relief post in Sembalun village while rescuers reached hundreds more near Mount Rinjani's crater lake, a military official said.

The 6.4 earthquake Sunday killed 16 people, including an Indonesian student who was among the climbers.

—Associated Press

## TURKEY

### Court Rejects Appeal By American Pastor

A Turkish court rejected an appeal to end the house arrest of an American pastor at the center of a diplomatic row between NATO allies Turkey and the U.S., Turkey's state-run news agency reported.

The court in Izmir also declined to lift a travel ban that prevents Andrew Brunson, 50 years old, from leaving Turkey, ruling there was no change in the "strong criminal suspicion" against him, Anadolu reported.

Mr. Brunson, who has lived in Turkey for more than two decades, was arrested in 2016 on espionage and terrorism-related charges. He had been jailed until he was released to home detention on July 25.

The evangelical Christian pastor denies any wrongdoing. He faces a prison sentence of up to 35 years, if he is convicted on both counts.

President Trump demanded Mr. Brunson's release and announced possible sanctions last week against Turkey for its treatment of him. Turkey refused to back down and called on the U.S. to respect its judicial process.

Mr. Brunson's lawyer, Ismail Cem Halavurt, who filed the requests the court rejected, couldn't be reached to comment.

Mr. Brunson, who is originally from Black Mountain, N.C., led the Izmir Resurrection Church in Turkey.

He was detained in the aftermath of a failed 2016 coup for allegedly supporting outlawed Kurdish rebels and the network led by U.S.-based Muslim cleric Fethullah Gulen. Turkey blames Mr. Gulen for the unrest, but the cleric denies involvement in the coup attempt.

The next hearing in Mr. Brunson's trial is scheduled for Oct. 12.

—Associated Press

## WORLD NEWS

# Expansion Gives U.S. Edge in Trade Fights

By JOSH ZUMBRUN

The U.S. and China, meanwhile, are making little progress in behind-the-scenes efforts to restart formal trade talks.

"I would expect to see this divergence in economic growth between the U.S. and others continue the rest of 2018," said Bernard Baumohl, chief global economist of the Economic Outlook Group, though he cautioned that the U.S. would likely slow as well by 2019, especially as the boost from last year's tax cuts begins to fade.

The first round of U.S. tariffs has begun to reverberate globally, and the economic effects are likely to become more ap-

"Factors with a longer shelf life seem to have brought eurozone GDP growth down to a lower cruising speed for the moment."

The difference between U.S. and European growth in the second quarter was the widest since 2014's second half, when Europe faced Greece's debt crisis. Business optimism in Europe has waned, but trade is just one factor. Stock markets have faced turbulence from uncertainty over Britain's plans to leave the bloc next year, and from a new Italian government that has been skeptical of the euro. In a sign of stumbling optimism, Germany's DAX stock index is down 0.9% this year, compared with a 5.4% rise by the U.S.-based S&P 500 index.

Analysts cautioned that some of the U.S. strength in recent months might be a temporary result of companies positioning themselves in response to tariff threats. U.S. GDP growth was boosted in the second quarter by a burst of exports, particularly soybeans, as trade partners moved to book purchases before retaliatory tariffs from China take effect.

"What happened in the second quarter was the rush by exporters to ship goods before the tariffs take their punishing toll," said Mr. Baumohl.

Europe, on the other hand, experienced a slowdown in exports, which economists attributed in part to uncertainty over trading relationships with the U.S. and U.K.

A similar story played out in Mexico, where economic output contracted in the second quarter after a robust first quarter, according to data from Mexico's National Statistics Institute released Tuesday.

## U.S. wages grew in the second quarter at their fastest pace in nearly a decade.

parent if they remain in place—and as other countries retaliate. But for many U.S. trading partners, the tariffs may be just one of many challenges they face.

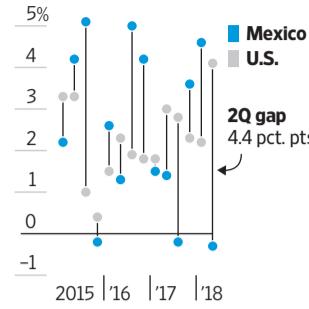
The eurozone entered 2018 on a high, having racked up its most rapid expansion in a decade during 2017. But growth slowed sharply in the first three months of this year, a setback that policy makers and many economists initially attributed to unusually cold weather and labor strikes in Germany and France. The failure of the economy to rebound in the second quarter shows other forces may be at work.

"It seems like excuses are running out," said Bert Colijn, an economist at ING Bank.

## Growth Gap

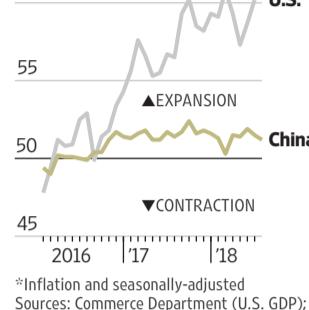
U.S. economic gains have outpaced those of some of its major trading partners...

**Gross domestic product, annualized change from previous quarter\***



...while U.S. manufacturing grows faster than China's...

**Manufacturing purchasing managers' index**



\*Inflation and seasonally-adjusted

Sources: Commerce Department (U.S. GDP); National Institute of Statistics (Mexico GDP); Eurostat (eurozone GDP); Statistics Canada (Canada GDP); Institute for Supply Management via Haver Analytics (U.S. PMI); China's National Bureau of Statistics via CEIC Data (China PMI); Tullett Prebon Information (currency)

THE WALL STREET JOURNAL.

economy.

China's official manufacturing purchasing managers index fell to a five-month low of 51.2 from June's 51.5, data released by the National Bureau of Statistics showed Tuesday. The reading was slightly below economists' expectations, though still above the 50 mark that is a demarcation of contracting activity. A subindex measuring production dropped to 53.0 from 53.6, while the new-orders index fell to 52.3 from 53.2.

China's growth rates have been slowly declining for years, not just because of recent trade-related changes, as the government attempts to shift away from credit-fueled and export-led growth toward more

domestic consumption.

It remains unclear how long the U.S. can maintain strong performance when so much of the world has stuttered. American growth has been energized by tax cuts and government spending increases.

"Difficult to say the divergence will be brief, because in the short term fiscal policy will be clearly in favor of the U.S.," said Marco Valli, head of macro research at UniCredit Bank in Milan. "That said, when the fiscal boost ebbs, it's very unlikely the U.S. could meaningfully decouple" from the rest of the world and maintain higher growth rates.

—Anthony Harrup and Paul Hannon contributed to this article.

## Advisers Urge 25% Tariff

Continued from Page One  
compared to 10%," said Derek Scissors, a China expert at the American Enterprise Institute who advises the administration on trade.

The U.S. has already imposed 25% tariffs on \$34 billion worth of Chinese imports and is on schedule to levy similar tariffs on an additional \$16 billion of goods, probably this week or next.

The additional \$200 billion would be the next step, should the U.S. make good on Mr. Trump's threat to ratchet up pressure and, if needed, impose tariffs on all \$505 billion in goods China ships to the U.S. should negotiations fail to reach a favorable outcome.

The debate over tariff levels comes as Washington has yet to make meaningful progress in settling its market-rattling trade dispute with Beijing. Treasury Secretary Steven Mnuchin and Chinese envoy Liu He and their staffs continue to talk about a possible meeting, said officials in both capitals, but the talks remain at a very preliminary stage.

Both sides argue that it is up to the other to make the first move after several preliminary Chinese offers, mainly involving the purchase of more U.S. goods, were rejected by Mr. Trump as inadequate.

The two sides have agreed that their initial offers weren't a solid base for further negotiations, according to a senior



A wind-turbine factory in China. The U.S. alleges China presses U.S. firms to hand over technology and uses unfair trade practices.

member of the U.S. business community tracking the discussions. Those included the Chinese offering mainly to buy U.S. goods, and the U.S. demanding that China essentially scrap the industrial policy that turned it into an economic powerhouse, the senior executive said.

"They are discarding useless ideas and rhetoric," the executive said. "They are figuring out what could be on an agenda and what could be a solution."

Mr. Mnuchin said at Group of 20 meeting last week in Buenos Aires that he and members of the Chinese delegation engaged in "chitchat."

Longtime China hands have

been urging a resumption of talks and been working with Washington and Beijing to get the discussions started. They include former Treasury Secretary Hank Paulson, who was Mr. Mnuchin's boss at Goldman Sachs Group Inc., and Blackstone Group LP Chief Executive Stephen Schwarzman, said people familiar with the efforts.

The administration believes it strengthened its hand last week with a tentative trade accord with the European Union. The two sides agreed to use the World Trade Organization to deal with intellectual-property theft, government pressure on companies to transfer technology and the operation

of state-owned industries—all code words for alleged trade infractions by Beijing.

With the agreement, China is "in a very difficult position," Lawrence Kudlow, director of the National Economic Council, said Sunday on CBS. "China is, I think, being isolated."

Whatever gains the U.S. might have made with Europe, however, haven't eased the trade fight with Beijing. The U.S. alleges that China presses U.S. companies to hand over valuable technology and uses unfair trade practices to produce an enormous trade surplus with the U.S.

The Trump administration remains deeply divided over

how best to deal with the Chinese, and the two main factions are moving in different directions. China trade hawks, led by U.S. Trade Representative Robert Lighthizer, believe China will make concessions only if it feels the brunt of heavy tariffs, said U.S. officials.

Trade doves, led by Messrs. Mnuchin and Kudlow, have been looking for a solution short of massive tariffs, fearful that those levies, plus Chinese retaliatory tariffs on American goods, could slow U.S. growth and tank financial markets. Mr. Mnuchin and Mr. Liu have continued to discuss U.S.-China relations, but some of those conversations have gone poorly.

## Beijing Feels Pinch Of Fight With U.S.

BEIJING—China's leadership pledged to ensure economic stability as its trade fight with the U.S. started to pinch growth, signaling a bigger stimulus could be on the horizon.

A Tuesday meeting of the Politburo highlighted the external challenges faced by the world's second-largest economy. Without specifically mentioning the trade conflict with the U.S., a statement issued after the meeting by state media made clear the dispute is a big threat to growth and stability, trumping issues such as debt control.

The meeting came as official data showed Tuesday that China's business activities faltered in July—the first official data to reflect the impact of U.S. tariffs—adding to signs that trade tensions have started to dent growth.

The statement called for pro-growth measures such as greater government spending on highways, rail lines and other infrastructure projects and keeping liquidity conditions "reasonable and adequate."

Official surveys of factories and service providers pointed to sluggish domestic demand. Companies that had been frontloading shipments to stay ahead of higher tariffs may have slowed production and investment, economists say.

—Lingling Wei

## Facebook Deletes Accounts

Continued from Page One

five months after special counsel Robert Mueller secured indictments against a group of Russians for using Facebook and other social-media platforms to sow discord in the U.S. around the 2016 campaign. Those accounts, orchestrated by a Russian group called the Internet Research Agency, agitated over politically divisive issues and bought more than 3,000 ads.

"Security isn't a problem you ever completely solve," Facebook Chief Executive Mark Zuckerberg said in a post. "We face sophisticated and well-funded adversaries, including nation states, that are always evolving and trying new attacks. But we're learning and improving quickly too, and we're investing heavily to keep people safe."

Facebook last week said efforts to clean up its platform—the company is doubling the number of people tasked with policing content—and to better protect users' privacy have contributed to slowing growth. That sent its shares down about 19% in a single day, erasing \$119.1 billion in market value. Facebook shares

closed up nearly 1% Tuesday at \$172.58.

Executives on Tuesday said Facebook doesn't have enough evidence to assign responsibility for the latest bogus accounts. They said the creators took great care to cover their tracks, using virtual private networks and internet phone services and routing ad purchases through third parties.

Facebook has informed lawmakers, other tech companies, and government agencies including the Federal Bureau of Investigation. The FBI declined comment.

Several lawmakers pointed the finger at Russia.

The new activity is "further evidence that the Kremlin continues to exploit platforms like

Facebook to sow division and spread disinformation," said Sen. Mark Warner (D., Va.), who credited Facebook for coming forward.

Republican Sen. Richard Burr of North Carolina, who heads the Senate Intelligence Committee, also credited the company. "I am glad to see that Facebook is taking a much-needed step toward limiting the use of their platform by foreign influence campaigns," he said. "The Russians want a weak America."

Russia has denied that it attempted to interfere in the 2016 election. A spokesman for the Russian Embassy in Washington didn't respond to a request for comment Tuesday.

Facebook said that there was evidence connecting the accounts to the previous Russian activity, including that a known IRA account holder was a co-administrator of one of the newly deleted pages for seven minutes. But there were also differences. For example, the IRA accounts sometimes appeared to connect with Facebook directly from computers based in Russia, whereas that was not the case with the new accounts, Facebook said.

The latest behavior "correlates heavily with behavior we saw from IRA accounts in 2014 to 2017," said Graham Brookie, director of the Atlantic Council's Digital Forensic Research Lab, which examined some of

the Facebook pages before they were taken down.

The banned accounts—which included 17 profiles and eight pages from the platform's main app, along with seven Instagram accounts—ran 150 ads costing approximately \$11,000 between April 2017 and June of this year.

As with the IRA accounts, some in the new batch orchestrated events involving real people.

In all, they organized or promoted about 30 events, dating back to May 2017, one of which attracted the interest of 4,700 Facebook accounts, with 1,400 saying that they attend.

—Byron Tau contributed to this article.

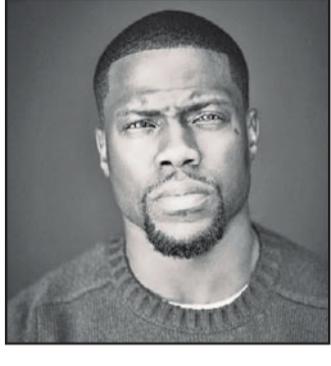
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## TECH'S MOST AMBITIOUS MINDS MEET LUXURY'S LEADING VOICES



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# GREATER NEW YORK

## Cuomo Holds Lead Over Nixon, Poll Says

The governor is ahead by 31 points among likely Democratic voters in third-term bid

BY LARA KORTE

Six weeks ahead of New York's Democratic primaries, Gov. Andrew Cuomo maintains a large lead over rival Cynthia Nixon, according to a new poll released Tuesday.

A recent survey of likely Democratic voters by Siena College Research Institute shows Mr. Cuomo ahead of Ms. Nixon by 31 points, a smaller margin than his lead of 47 points in March among registered Democrats. The two-term governor is showing strong favorability among black voters and in downstate suburbs, leading Ms. Nixon by 56 and 58 points, respectively.

A majority of Mr. Cuomo's

Democratic supporters say they would be voting in favor of him on Sept. 13 rather than in opposition to Ms. Nixon, according to the poll. However, 60% of Nixon voters say they would be voting more against Mr. Cuomo than for her.

"Nixon has the anti-Cuomo Democrats, but she'll need to expand on that to make this race competitive," said Siena College pollster Steven Greenberg.

Ms. Nixon's campaign cast doubt on the accuracy of the poll Tuesday, saying it doesn't capture progressive women voters who are "consistently outperforming expectations in Democratic primaries."

"Polls clearly aren't capturing the kind of Democrats who have been turning out to vote in recent primaries," said Nixon spokeswoman Lauren Hitt. "This isn't your father's electorate. It's much younger."

The poll surveyed 630 likely New York Democratic primary



Cynthia Nixon and Andrew Cuomo will face off in a Sept. 13 primary.

voters from July 22 to 26. The overall margin of error is plus or minus 3.9 percentage points. "If they don't think it's a representative example, let them show their internal polling and see what that looks like," Mr. Greenberg said.

When asked about the poll at a news conference Tuesday, Mr. Cuomo said the numbers reflect his promise to deliver results for the people of New York. "I'm doing my job," he said. "I hope the people in the state appreciate it to the ex-

tent the poll says they do."

Ms. Nixon, who hopes to position herself as a progressive alternative to the governor, has touted her campaign as a grass-roots movement, with a stream of small donations. On Monday, the national grass-roots group Indivisible announced its endorsement of Ms. Nixon.

Mr. Cuomo, meanwhile, has been garnering the support of several Democratic groups. As of Monday, every Democratic county executive has endorsed the governor for another term, along with the New York State Democratic Party, Hillary Clinton and New York City Council Speaker Corey Johnson.

According to the poll, most voters who favored Ms. Nixon said she would be better on all the issues, although a quarter said Mr. Cuomo would be better on infrastructure. Similarly, a quarter of Cuomo supporters said Ms. Nixon would be better on corruption and progressive

policies than the governor.

"Both younger voters and liberals, despite favoring Mr. Cuomo in the horse race, say Ms. Nixon is better on three of the five issues: corruption, progressive policies and public education," Mr. Greenberg said.

Challengers to Mr. Cuomo on the left and right have seized upon recent court cases to make broad claims about his administration's integrity.

In March, a former Cuomo aide and longtime family friend was convicted of bribery and fraud in a federal corruption case. And in July, a former public-university president and executives from two upstate New York developers were convicted after a trial in which federal prosecutors alleged the men rigged bids for state contracts worth hundreds of millions of dollars.

Mr. Cuomo, who is running for a third term, hasn't been accused of any wrongdoing.

### Busting a Move, With a View



RIVER DANCE: Members of the Alice Gosti Company rehearsed Tuesday for this weekend's INSITU 2018 festival on the Queens waterfront.

## Hospital to Close Natural Birthing Center

BY MELANIE GRAYCE WEST

For more than two decades, pregnant New Yorkers who desired a natural birth environment with access to medical interventions have flocked to the only full-service hospital where that type of experience was a cab ride away: Mount Sinai West on Manhattan's West Side.

That option will be gone after December.

Mount Sinai West said in a statement that the birthing room space would now be used for an expanded neonatal intensive-care unit "and to enhance postpartum services." A spokeswoman for Mount Sinai said the number of patients at the hospital has increased and the birthing center was underused.

The closure, first reported by West Side Rag, has sent shock waves through the city's tightly knit community of midwives, doulas and maternal-health advocates. Mount Si-

nai's birth center, they say, was the only middle-ground option between a home birth and a hospital birth.

It will force women "to have a very medicalized style of care for a healthy, low-risk pregnancy," said Nan Strauss, the director of policy and advocacy for the nonprofit Every

bearing Center, a stand-alone facility in Greenwich Village with a birth center, closed completely in 2003.

Birthing centers don't use many of the services of a hospital and so don't generate as much revenue as the labor and delivery floors. However, a good birth experience can build long-term customers from mothers who may later choose the health system for follow-up care, experts said.

Brooklyn Birthing Center in the Midwood neighborhood continues to serve pregnant women. New York-Presbyterian Lower Manhattan Hospital opened a two-room luxury birthing center in 2015 that is still in operation, but is underused, according to a half-dozen midwives, doulas and people familiar with its operations.

Meanwhile, births that take place outside of hospitals in New York have risen to 1.3% in 2016 from 0.8% in 2007, ac-

cording to the most-recent data from the Centers for Disease Control and Prevention.

The birthing center rooms at Mount Sinai haven't been updated much since they opened in the mid-1990s, retaining a "1980s bed-and-breakfast" vibe, according to doula Mary Esther Malloy, who had two of her three children at the center.

But what it lacks in elegance, said Ms. Malloy and others, it made up for in freedom and privacy. Women could labor however they desired without interruptions or monitors. The understanding at the center was that women wouldn't be regularly offered pain relief or other interventions. And in the event of an emergency, they could use the hospital's full labor and delivery facilities just a floor away.

Mount Sinai said that "our commitment to women who choose a natural childbirth experience is undeterred."

## White Nationalists Rally in Liberal New York City

BY CORINNE RAMEY

A white-nationalist group held demonstrations in New York City over the weekend, with several dozen protesters making a rare appearance in the unfriendly territory of liberal Manhattan.

The group, Identity Europa, staged a protest in Fort Tryon Park in northern Manhattan on Saturday afternoon. Photos show a large white-and-teal banner reading "STOP THE INVASION. END IMMIGRATION" that was hung over a big stone archway. It faced the Hudson River and the Henry Hudson Parkway, the heavily trafficked thoroughfare that runs along Manhattan's West Side.

Members also staged a protest in front of the Mexican Consulate in Manhattan. Photos show members holding letters that spelled out "BUILD THE WALL."

Identity Europa released photos of the Fort Tryon event, which showed young, white men holding American flags and flags with a triangle symbol used by the group. The men in the photos wore hats and sunglasses and couldn't be identified. One protester wore a red "Make America Great Again" cap.

A spokesman for Identity Europa said the group is a "growing movement of European Americans engaged in peaceful activism and political networking in order to restore America."

"We do not permit advocacy of supremacy, illegal activity, or violence in our movement," the spokesman said in an email. The Saturday protest was a "very brief flash demo" that occurred at about 1 p.m., he said.

The Southern Poverty Law Center, a nonprofit that monitors extremist groups, classifies Identity Europa as a hate group. The group is at the forefront of the "alt-right's" effort to recruit white, college men and transform them into the fashionable new face of white nationalism," according to the Law Center.

It says the group helped plan the "Unite the Right" rally in Charlottesville, Va., last summer, which resulted in violent clashes between white nationalists and their opponents, ultimately leaving one woman dead and many people injured.

The Anti-Defamation League, a Jewish nonprofit that fights anti-Semitism, classifies Identity Europa as a white-supremacist group. The group's banner in Fort Tryon Park is part of a trend among white-supremacist groups, which began last summer, to hang banners in visible places, according to the league.

While Identity Europa doesn't appear to explicitly embrace the Trump administration, it has praised some of its policies, including efforts to restrict immigration.

"Trump has given us an opportunity to transform the GOP from a vehicle for Conservatism Inc. to one for Nation-

*The Identity Europa protests drew the ire of local officials and community members.*

alism, and it's up to us to seize the opportunity," one group leader wrote on the group's site of his experience attending this year's Conservative Political Action Conference.

A White House spokeswoman didn't respond to a request for comment.

On Tuesday evening, elected officials and dozens of community members held a vigil in the park, near where the group had unfurled the banner. People held up homemade signs reading "Disarm hate" and "the alt-right is very wrong."

"We're not going to mention them," said Rep. Adriano Espaillat, a Democrat who represents parts of northern Manhattan and the Bronx. "We're not going to dignify them."

## Triple-Murder Suicide Motivated by Custody Battle: NYPD

BY GERALD PORTER JR.  
AND ZOLAN KANNO-YOUNGS

A 39-year-old man killed his wife, ex-wife and his young son before turning the gun on himself in Queens, New York Police Department Chief of Detectives Dermot Shea said on Tuesday.

Police found the four bodies with gunshot wounds in a first-floor apartment in a home on 30th Drive in Astoria at about 8:53 p.m. on Monday, police said.

James Shields, who carried out the triple murder-suicide, was motivated by a bitter custody battle involving his son, 6-year-old Giacomo

James Shields, Chief Shea said at a news conference.

The boy was the son of Mr. Shields and his 47-year-old ex-wife, Linda Olthof, he said.

"Financial and custody seems to be the primary reasons behind this tragic incident," Chief Shea said.

Police didn't identify Mr. Shields's wife on Tuesday.

Officers recovered two Glock pistols at the scene and seven fully loaded magazines on Mr. Shields's person, police said. Mr. Shields had permits for the firearms, they said.

It is unclear what Mr. Shields intended to do with the extra rounds. "What those

rounds were meant for may never be known," Chief Shea said.

Police confirmed that Mr. Shields shot himself. They said they believe Ms. Olthof had custody of the child, and that she had a visitation agreement with Mr. Shields.

Police were called to the residence in December after a verbal dispute was reported, Chief Shea said. It is unclear whether the woman at the residence was Mr. Shields's wife or ex-wife.

Before Monday, police recorded three murders in the precinct covering Astoria, compared with two during the same period last year.



Police officers guarded a Queens home where there was a shooting with multiple fatalities.

## GREATER NEW YORK

## GREATER NEW YORK WATCH

## REAL ESTATE

**Carlyle Group to Move To One Vanderbilt**

Carlyle Group, a global asset manager, has cut a deal to move its New York offices to One Vanderbilt, the new office tower rising across the street from Grand Central Terminal.

Carlyle will take three floors, about 94,000 square feet, in the tower, which is scheduled to be completed in 2020 at a height of 77 floors, or 1,401 feet. Developer SL Green Realty Corp. is expecting construction to hit 55 floors by the end of this year.

One Vanderbilt is the largest office tower currently being built in Midtown and is being closely watched as a gauge of the health of New York's traditional office sector.

—Peter Grant

## NYPD

**Officer Who Tackled Tennis Star Testifies**

The New York City police officer who tackled retired tennis player James Blake in a mistaken arrest outside a Manhattan hotel in 2015 says he and his family have been getting death threats.

Officer James Frascatore made the remarks during his second departmental trial connected to the incident. He had testified Tuesday that he was just following orders.

Officer Frascatore had been penalized 10 vacation days in his first departmental trial last fall, but the police commissioner instead docked him five days. Mr. Blake says the punishment was too light.

The second trial was initiated by allegations that Officer Frascatore participated in the investigation and leaked a longer video-tape of the incident to the media.

Officer Frascatore's lawyer says the NYPD overreacted to the incident. Prosecutors maintain he broke departmental rules.

—Associated Press

To some, sunglasses are a fashion accessory...

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The sun rises and sets at peak travel periods, during the early morning and afternoon rush hours and many drivers find themselves temporarily blinded while driving directly into the glare of the sun. Deadly accidents are regularly caused by such blinding glare with danger arising from reflected light off another vehicle, the pavement, or even from waxed and oily windshields that can make matters worse.

Sometimes it does take a rocket scientist.

A NASA rocket scientist. Some ordinary sunglasses can obscure your vision by exposing your eyes to harmful UV rays, blue light, and reflective glare. They can also darken useful vision-enhancing light. But now, independent research conducted by scientists from NASA's Jet Propulsion Laboratory has brought forth ground-breaking technology to help protect human eyesight from the harmful effects of solar radiation light. This superior lens technology was first discovered when NASA scientists looked to nature for a means to superior eye protection—specifically, by studying the eyes of eagles, known for their extreme visual acuity. This discovery resulted in what is now known as Eagle Eyes®.

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## METRO MONEY

| By Anne Kadet

**'Little Haiti' Makes a Big Impression**

Soon after New York City officially designated a section of Brooklyn "Little Haiti," I set off

on my bicycle to explore the new attraction. I pedaled and pedaled, and searched and searched. But I couldn't find it.

The problem? Little Haiti feels as big as Haiti itself. Roughly bound by Prospect Park to the north and Brooklyn College to the south, it's 320 square blocks.

Then there's the fact that while this stretch of Flatbush has plenty of Haitians, it's actually home to immigrants from all over the West Indies. I spotted Nio's Trinidad Roti Shop, J&L Dominican Barbershop and the Caribbean Vision Center, but nothing referring to Haiti.

The real issue, of course, was that I didn't know what to look for. Finally, after I asked around, state Assemblymember Rodneyse Bichotte, one of several community leaders behind the June 28 designation, offered a mini tour of Little Haiti.

We started at her office on Flatbush Avenue. I asked why Little Haiti is so huge. "I say, it should have been bigger!" said Ms. Bichotte, a 45-year-old Democrat whose parents moved to Brooklyn from Haiti in the 1960s.

"Some people said, 'Why does Haiti need to have its own thing?'" she said. "The thing is, everybody can have their own thing."

But in her view, Haitians especially need to stake a claim because even in Brooklyn, they're isolated. While most Caribbeans hail from English- or Spanish-speaking countries, she says, Haitians speak French-based Haitian Creole. "When you hear on CNN that we're the poorest of the poor and all we do is Voodoo, no one wants to as-



Restaurant owner Jensen Desrosiers, second from left, spends time with friends at Tonel Restaurant & Lounge in Flatbush.

sociate with you," she added.

According to the Migration Policy Institute, there are about 160,000 Haitian immigrants living in the New York metropolitan area. They've been migrating in a steady stream since the late 1950s, often to escape political oppression and economic hardship.

**O**ut on Flatbush Avenue, Ms. Bichotte pointed out Haitian passersby, including a woman wearing what she deemed a typical outfit—a long, stiff denim skirt, white button-front blouse and sensible black loafers. Haitians dress conservatively, she said. "But when we have weddings, we're decked out."

We stopped in a restaurant serving fried dishes known as fritays and bouyon, a popular soup. "They make it with goat head," Ms. Bichotte said.

At the Grace A Toi Seigneur Variety Store, owner Flavie Josaphat was selling

sine. "Jamaican and Haitian are similar, but the meat, we clean it more. That's why it's healthier," he said.

At two variety shops, however, I got the fisheye and was asked to leave. I later learned that some older Haitians assume outsiders are government inspectors—or worse. "Usually Haitians are not bad hosts. They're very welcoming," says Jensen Desrosiers, the Haitian owner of Tonel Restaurant and Lounge, which doubles as a community gathering spot.

Ms. Bichotte says there are plans for a Little Haiti film festival, a Taste of Little Haiti food fair and Little Haiti Restaurant Week.

"We've been working hard in New York City since the '60s," Mr. Desrosiers says. "With gentrification, if we don't make a mark now, we won't have anything to show for it."

anne.kadet@wsj.com

Studies by the National Highway Traffic Safety Administration (NHTSA) show that most (74%) of the crashes occurred on clear, sunny days



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# LIFE & ARTS



## LIFE &amp; STYLE

## Before Dinner, Meet Your Meat

BY ANNE MARIE CHAKER

**THE MENU** at chef José Andrés's Bazaar Meat in Las Vegas notes that its Vaca Vieja steak is made from a "hand-selected working cow." The beef comes from a meat company called Mindful Meats, where, on the cow's "final day," employees "look each cow in the eye and say 'thank you' as they load onto the trailer," its website explains.

Welcome to the final frontier in the discussion about transparency in food: meat. Consumers are demanding to know more about where their meat comes from, but food marketers say it's more complicated and emotional to discuss the sourcing of animals than, say, turnips or salad greens. The challenge for restaurants and food providers is to give information without turning stomachs.

Fifty-eight percent of consumers say they are more concerned about the treatment of animals raised for food than they were a few years ago, according to a 2017 survey by market-research firm Packaged Facts based in Rockville, Md. As a result, language on packaging and menus is describing meat in more detail than ever before, linking food on the plate more directly to the animal and its provenance.

SunFed Ranch's packages of meatballs describe a "deep and genuine regard for our cattle." Pamphlets at Hunter's Head Tavern in Upper-ville, Va., explain that "conventional veal calves are slaughtered at about 5 weeks of age," unlike theirs, raised 3 miles away at Ayrshire Farm, which are "grown out to 8-9 months." Fish producers are providing more detail, too: Pole & Line Tuna says its canned albacore tuna can be traced to the vessel and captain that caught the fish.

The National Cattlemen's Beef Association, the industry trade group famous for its 'Beef. It's What's For Dinner' ads of the 1990s, is "rethinking how we talk to consumers about beef," says Alisa Harrison, a senior vice president. Today, the group's website features interviews with ranchers on topics like sustainability and land stewardship: "It's this inner passion to just want to take care of these cows and this land," says one rancher. Underneath the profile is a recipe for buf-



Top: Butcher Nate Singer shows off pork cuts. Above, the Vaca Vieja steak at Bazaar Meat in Las Vegas comes from Mindful Meats. On the cow's 'final day,' employees 'look each cow in the eye and say 'thank you' as they load onto the trailer,' the website says.

falo-style beef tacos.

It's a fine line between transparency and oversharing. At Blackbelly Restaurant in Boulder, Colo., servers are coached to let customers take the lead in discussing the provenance of the meat, says chef and owner Hosea Rosenberg.

On a typical evening, about one-third of customers will want to order without much discussion, says Mr. Rosenberg. Another third is interested in more specifics—like cuts of meat, or particular breeds of animals—before their eyes glaze over, he says. The last third is interested in even more details, such as types of grasses or grains the

cow was fed, what it weighed, and what farm it was from. Sometimes they ask if it had a name. ("We named it Dinner," he says).

One recent night, diner Kirstin Johnson asked butcher Nate Singer for more information about her meat. While sawing through the front of the 340-pound Berkshire pig at a demonstration table, Mr. Singer told her the animal was fed a diet of alfalfa and local cereals on a farm 12 miles away. "We go into as much granularity as the customer wants to hear," Mr. Rosenberg says. Sometimes servers must tell customers they can't get the cut of steak they requested, because the restaurant is committed to using only one cow at a time.

Sara Otepka, a 41-year-old investment fund manager, purchases a quarter steer once a year directly from a ranch in Idaho. She and her husband, Matt, pay about \$400 for steaks and ground beef that feed the family of four for a year. She says she refrains from eating meat at restaurants or even friends' dinner parties because she feels less confident about how the animals were fed and treated. "It's easier to say 'I'm a vegetarian,'" she says. She has met with the family that owns the ranch to learn how they raise animals on open grassland.

Her husband has fewer reservations about the meat when he eats

out. "I'm a meat eater and I know what that means," Mr. Otepka says. "Someone is going to die and I'm going to eat them." Referring to the cable show that once featured a now-famous sketch involving a couple grilling their waitress about the chicken, he notes: "I don't go all 'Portlandia.'"

Some fast-food establishments are also explaining more. Wendy's hamburger chain has run TV ads noting that their meat comes from U.S. producers rather than overseas. "Now, 'where's the beef' means something different," says a voice-over in one commercial.

Randy Golding, a retired chemical engineer in Cedar City, Utah, orders steaks, chicken and ground beef every three months from Firefly Farms in North Stonington, Conn. He says he has spoken directly with the farm manager, Duigan Tillman-Brown, for at least an hour, asking questions such as how the animals were treated ("They have names. They have personalities," says Mr. Tillman-Brown) to how they are slaughtered (a quick shot to the head with a steel bolt). Mr. Tillman-Brown recalls the phone call, and several follow-ups.

Mr. Golding says those details help him and his wife, Lisa, feel better about eating meat. "We'd rather pay more and have that comfort level," he says. "It's really delicious food."

## INFLUENCERS

## NEIL GAIMAN'S 'SANDMAN' IS BACK

BY MICHAEL RAPORT

**EVEN A DREAM** King doesn't always want to dream his dreams alone.

Neil Gaiman, the 57-year-old author of "American Gods" and other novels, is returning to one of his earliest triumphs, "The Sandman." The ambitious, literate 1988-96 comic-book series about the Lord of Dreams and his problems is still regarded as an artistic high point for comics. Mr. Gaiman used fantasy and horror to explore eternal themes like loss, fate, and the nature of imagination.

Now, 30 years after the original series began, Mr. Gaiman is overseeing "The Sandman Universe" for

**The Dreamweaver**

**Name:** Neil Gaiman

**What he does:** Author of fantasy novels, books for young readers, and comic books.

**How he got there:** Began as a journalist before he made his mark in comics with 'The Sandman,' and branched out to books like 'American Gods' and 'Coraline.'

**His big break:** 'The Sandman,' though it didn't seem so initially. He

figured the series was so unusual the publisher would cancel it early. "People say to me, 'How did they let you get away with that stuff?'" Mostly because they kind of liked what I was doing, and nobody had ever done that stuff before, so there weren't any rules against doing it.'

**His obsession:** Stage magic and illusion. 'Anything that gives people miracles, even small, poor, shoddy miracles, is to be admired.'

and Sebastian Fiumara) and "Books of Magic" (by Kat Howard and Tom Fowler).

The Wall Street Journal recently spoke with Mr. Gaiman about the Sandman Universe and the secrets of fruitful collaboration. Edited excerpts:

**You and other creators have revisited "Sandman" in the past. Why do this project now?**

Because the time is right. The 30th anniversary of "Sandman" begins in December-ish, which is a strange and glorious thing to think that something can go that long. The people at Vertigo and I were talking anyway about bringing it back. It might just be fun to basically kick off from the same premise and see where that takes us.

**DC says you're "curating" these series. What does that mean? Are you the main creative force or is it just sort of "Neil Gaiman Presents"?**

It's probably somewhere in between, and it changes depending on how much course correction I think is needed. A lot of the time, when things are going well, my role is to go, "Hey, this is great." When a script comes in or a drawn comic comes in, and I go, "Ah, this isn't working for me," then it's much more of a matter of saying, "I love it, but I think you might need to come up with something

**Mr. Gaiman, right, is plotting the first story in the 'Sandman' followup.**

else." Or it can be one of the writers calling up and saying, "I thought this thing was going to work, and I don't think it is working. Let's just talk about it," and I am very, very happy to.

**Why these particular writers and artists? How were they chosen?**

Two of them were old friends and two weren't. I talked to DC Vertigo about what we were looking for and the feeling of each thing, and said, "Go out and find me some writers." And they came back with Kat Howard. I've loved her fiction, she's done some glorious novels and sent me great short stories, and I was like "Oh, you're really good."

Nalo Hopkinson—again, DC Vertigo went out and found her, and I was absolutely thrilled and overjoyed. I've known Nalo for what feels like and probably is 20 years or so. Dan and Si were new to me. Dan had a way with mythology, Si's storytelling was cocky and filled with ideas and willing to



sort of charge things head-on.

**What do you think the secret is to making a collaboration work, especially a shared universe like this?**

For me the key to any collaboration is, you have to figure out, when you have a disagreement, who cares most. Because the person who cares most probably is going to have to win.

When you're making art, there's not a right and a wrong. There are different right ways of doing something that lead you to different alternatives. But what you can figure out pretty quickly is, for who is this a thing that would be nice to fix, and for who is this a hill they are ready to die on. And so for me any collaboration is about just trying to always listen to that.

**A Step Above**

Global Animal Partnership, an animal welfare nonprofit, has a rating system requiring regular inspections for farms to meet certification levels.\*

**Step 1:** No Cages, No Crates, No Crowding

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Animals are kept in small groups, always on pasture. For an even higher level of this rating, the animals must live their entire lives on the farm, to minimize stress.

\* Requirements may vary depending on animal species.

Source: Global Animal Partnership

## LIFE &amp; ARTS

MY RIDE | By A.J. Baime

# A Paralyzed Veteran Gets Back on His Bike

**Richard Neider, 39, a U.S. Army veteran from Phoenix, on his modified 2018 Indian Scout Bobber, as told to A.J. Baime.**

I got into motorcycles when I was 7. I started on a minibike with a lawn mower engine. In 2005, I was injured while serving in Operation Iraqi Freedom. My injury progressed and in 2011, I stopped riding because I could no longer hold up a bike. In January 2013, I lost my ability to walk. Anywhere I had to go, I had to ask someone to take me.

Last year, at the Sturgis Motorcycle Rally in South Dakota, the Veterans Charity Ride [a charity that helps wounded veterans with "motorcycle therapy" and other programs] got me on a modified Indian motorcycle with a mentor. I rode in a sidecar. After, I talked with my wife, Kerry, and we started saving some money so we could build our own bike.

On Feb. 23, I picked up an Indian Scout Bobber. An Arizona dealership called Double D's Performance sold me the bike at cost. Through Veterans Charity Ride, a lot of people started donating parts, and a guy named John Meade at Azzkikr Customs [a custom-motorcycle builder and repair shop] near where I live began to build my bike. On July 3, I rode the Indian for the first time.

The handlebars are big and sturdy, so I can wheel up in my chair, pull myself onto the bike with the handlebars, then fold up my chair. There's a wheelchair mount on the back of the sidecar, and special footboards that keep my feet in place. Everything from a parking brake to a modified clutch system is built so that I can operate the bike with my hands alone.

The first time I rode the bike, I had this flood of emotion, what I call "wind therapy." Not only was I able to go to that spot I used to go in my mind that helps me get through everything, I was able to be independent again. I could go where I wanted without asking for help.

This past weekend, I left Arizona with 19 other riders for a roughly 1,700-mile journey through Colorado and Utah to the Sturgis rally. Last year, a mentor showed me that I could ride again. This year, I will be a mentor, and I will get to show someone else that they too can get back out there.

Contact A.J. Baime at [Facebook.com/ajbaime](http://Facebook.com/ajbaime).

♦ Watch a video of Richard Neider unveiling his motorcycle at [WSJ.com](http://WSJ.com).

**Richard Neider, an Army veteran and paraplegic, thought he would never ride again. But with his new Indian Scout Bobber motorcycle, complete with a wheelchair mount on the sidecar, he proved himself wrong.**



The motorcycle's gear shifter, right, is shaped like a grenade. Nearly everything Mr. Neider needs to control this motorcycle is mounted on the handlebars, below.



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BY NISHANT MOHAN

**MOVIEPASS** plans to raise prices and make users wait longer to see first-run films as part of the subscription service's plan to raise cash and avoid insolvency.

The standard subscription price for MoviePass will increase to \$14.95 a month from \$9.95 within the next 30 days, said MoviePass's majority owner, New York-based **Helios & Matheson Analytics Inc.**, on Tuesday.

It also said last weekend's cancellation of service for Tom Cruise's "Mission: Impossible — Fallout" during that film's debut wouldn't be a one-time event.

The company plans to limit the availability of blockbuster movies opening on more than 1,000 screens during the first two weeks.

Friday, Helios & Matheson said it took out a short-term loan to pay merchant and fulfillment processors, which shut off service for Mov-

iePass, preventing many customers from getting tickets.

Though MoviePass on Friday afternoon indicated normal service had returned, customers using the MoviePass app were, for much of Monday, unable to see showtimes for any movie at all theaters except for the e-ticketing theaters with which the company has special deals.

MoviePass, which has more than 3 million members, lost \$98.3 million on \$48.6 million of revenue in the quarter ended March 31.

Helios & Matheson in May raised doubts about its ability to operate over the next year based on the company's current financial conditions and future cash flows.

It later revealed plans to raise \$1.2 billion from debt and equity offerings to fuel growth plans for MoviePass and other ventures.

In July, MoviePass rolled out "surge pricing" for certain blockbuster films by adding fees to the standard subscription price.

Even in MoviePass's bid for subscriber growth, competing services are vying to gain share.

**AMC Entertainment Holdings Inc.**, the largest U.S. cinema chain, said Tuesday that it had more than 175,000 members just five weeks after the launch of its movie-subscription service.

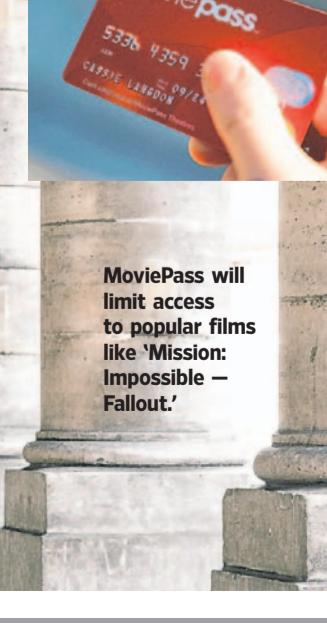
The offering lets customers see up to three movies a week for \$19.95 a month at any of its U.S. theaters, including booking shows in advance.

The company set a goal of getting 500,000 sign-ups by June 2019 and 1 million by 2020.

MoviePass said its service was responsible for about 6% of total box office sales in the first half of 2018.

Shares in Helios & Matheson fell 38% to 50 cents in Tuesday trading.

The latest plunge comes after the company implemented a 1-for-250 reverse stock split last week.



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MoviePass will limit access to popular films like 'Mission: Impossible — Fallout.'

## LIFE &amp; ARTS



## MUSEUM REVIEW

# No Joke: A Comedy Museum

The highly interactive National Comedy Center explores the history and craft of humor

BY EDWARD ROTHSTEIN

Jamestown, N.Y.

**GEORGE CARLIN** filed his joke ideas in Ziploc bags, images of which we see on a touch screen, each carefully labeled: Euphemisms, Death, Religion. Rodney Dangerfield carried his around in a satchel, the pages packed with block print and second thoughts; he took the bag along to his final heart surgery, along with a stack of jokes, two pens and paper—perhaps preparing to claim heavenly respect if the time came. Joan Rivers didn't worry; she typed up ripostes to hecklers: "Come up and see me some time," reads one entry. "I'll open a gas jet."

Such are the offerings—along with Harpo Marx's trench coat, Charlie Chaplin's cane, the "Seinfeld" "puffy shirt" and Phyllis Diller's puffier dress—that come upon us in just the first gallery of the terrific National Comedy Center, opening today in this town (population 30,000) about a half-hour drive from the Chautauqua Institution and 80 miles from Buffalo.

This place is run by the same organization overseeing the stodgy, humorless Lucille Ball Desi Arnaz Museum a few blocks away—an institution that pays tribute to this town's most famous native daughter with cultic fan-worship. But the Comedy Center is something com-

pletely different.

In an exhibit about late-night television, we learn that in 1950 when NBC was experimenting with 11 p.m. programming in New York, the only way it could get a studio audience was by wrangling loiterers from the nearby bus station. The Comedy Center will not have to resort to anything similar. This should become a destination museum—there is nothing similar I know of anywhere—at which you can spend a few hours or all day, getting lost amid clips, digital displays, memorabilia and comedy karaoke (about which, more later).

It took seven years of work by its executive director, Journey Gunderson, its designers and consultants. More than \$50 million (from federal, state and private donors) has been used to repurpose and unite a factory and a classic train station, construct almost 40,000 square feet of exhibits, and create a waterfront park. Festivities today begin five days of programming featuring Amy Schumer, Lily Tomlin, Dan Aykroyd, Laraine Newman, Lucie Arnaz, Fran Drescher, Alan Zweibel, Lewis Black, W. Kamau Bell, Judy Gold, Hari Kondabolu, Tom Cotter, Dulcé Sloan and Pete Lee—a gathering of the clan spanning generations and styles in an expanded version of the annual Lucille Ball Comedy Festival that began here in 1991.

The museum merits such cele-

bration. On entering, you are given a radio-frequency identification bracelet that you "program" by selecting your favorite comics, television shows and movies on touch screens. The ambition (not yet fully realized on my visit) is for a Pandora-like experience. Do you like insult? Improv? Satire? Silliness? Robert Klein or Amy Schumer?

Trevor Noah or Ricky Gervais? Sarah Silverman or Andrew Dice Clay? Jack Paar? Redd Foxx? The Golden Girls? I chose just about everything—not to test the software, but to sample the range.

The galleries include some text panels—one recounts comedy's history from the Ancient Greeks to contemporary podcasts—but this is

really a multimedia museum. In "The Stand Up Lounge" are comedy-club style tables at which ID bracelets are swiped; the software "reads the room" and a mock-brick wall comes to life with video of a custom-chosen comic. Another gallery asks you to identify comedy "moguls"—like Elaine May or John Cleese—through a series of hints. An interactive table lets you sample film and television scripts. Internet comedy is surveyed.

Exhibits that will lure the youngest—at heart and otherwise—include a bench with a hidden whoopee cushion and a cartoon kiosk in which you trace Charles M. Schulz's Charlie Brown. And a "Ham It Up" exhibit celebrates "funny faces": for a brief moment, your own joins the wall's display.

Downstairs, in a Village-dive setting, is the "Blue Room," in which Lenny Bruce, race, sex and Carlin's seven dirty words hold sway.

And the brave can perform. In one tech-laden station, two visitors are pitted against each other reading jokes, competing for smiles. In another room, equipped with a bar, you can perform a comic's script on a stage. (Ms. Gunderson channeled Steven Wright on my visit: "I went to a museum where they had all the heads and arms...from the statues that are in all the other museums.")

There is much else too, including an electronic wall that displays the networks of connections between varied comedians. And you can place plastic props on an electronic table—a frying pan, an anvil, a toupee—and see them appearing in action from a century of farce. But there are also things missed. Though the center is "national" it would have been good to sample other national styles of humor. There might have been a more coherent structure in some galleries, a more comfortable way of listening to radio broadcasts, and—despite the riches—longer texts and performances.

Nevertheless, here we are immersed in comedy as practice and as craft. And if a good joke typically disrupts expectations, toys with tastes, and brings unusual pleasure, the National Comedy Museum is a very good joke.

Mr. Rothstein is the Journal's Critic at Large.



Marmaduke paraphernalia, above, and a Joan Rivers display, top, at the National Comedy Center

## OPERA REVIEW

# 'THE DEMON': OBSESSION AND SEDUCTION

BY HEIDI WALESON

**ANNANDALE-ON-HUDSON, N.Y.** **ANTON RUBINSTEIN'S** "The Demon" (1871) is great fun, and the Bard Summerscape production, with its all-Russian cast conducted by Leon Botstein, which opened on Friday, captured its rather mad obsessiveness. Based on a poem by Mikhail Lermontov, "The Demon" is the tale of a rebellious immortal, cast out of heaven and condemned to spend eternity alone, who falls in love with a human princess and wreaks havoc to get her. The original story is a fairy tale; as staged at Bard by Thaddeus Strassberger, it was an allegory about the suppression of female desire.

The music is colorful in the manner of Tchaikovsky (who was Rubinstein's student), but the opera's dramaturgy is awkward. We hear the Demon's declaration in the prologue; then, for several hours, we get only hints of his obsession as he works his way into the mind of Tamara, who is about to be married to a prince. The Demon has the prince killed on the way to the wedding, and the entire second act is a lengthy party scene, its celebrations cut short by the news of the bridegroom's demise, and then



STEPHANIE BERGER

Iakov Strizhak, Olga Tolkmits and Andrey Valentii (front row) with the cast of 'The Demon'

extended with repetitive lamentations. Finally, in Act III, the protagonists meet: The Demon seduces the hapless princess in the cloister where she has taken refuge. She kisses him and dies.

Efim Zavalny was underpowered as the Demon, more lyrical than

ferocious, though he looked smolderingly Byronic in his long black coat and open-collared shirt (Kaye Voyce did the costumes). As Tamara, Olga Tolkmits's fire-siren soprano should have scared him off. The most elegant singer was tenor Alexandre Nesterenko, the fiancé,

regrettably killed off in Act I. Bass Andrey Valentii was stolid as Tamara's father. The well-schooled Bard Festival Chorale sang their Russian choruses with verve, and the Pesvebi Georgian Dancers, choreographed by Shorona Barbakadze, performed some alluring

folk dances during the would-be wedding scene.

Mr. Strassberger staged the whole opera as Tamara's hallucination: She gets dispatched to the convent during the prelude, so a line of nuns' cells (the set was by Paul Tate dePoo III) was trundled on and offstage to make space for scenes that take place elsewhere, and the whole stage picture was framed by a series of round arches. While the cells were onstage, the Demon stomped around on their roof, surrounded by a forest of lighted candles, which was eerie and effective. Different settings and weather events were ingeniously created using projections and video by Greg Emetaz; I particularly liked the religious art and demon paintings on the arches.

The hallucination concept worked best in the seduction scene—the part that actually does happen in the convent. It also has the most erotic music, and it was clear that the other novices were feeling those primal urges as well. Although Mr. Strassberger's intention for the ending wasn't clear—a body gets put in a grave, Tamara shovels dirt on it, so who or what is dead?—it didn't really matter.

Ms. Waleson writes about opera for the Journal.

## SPORTS

## BASKETBALL

## The NBA's Contracting Contracts

BY BEN COHEN

**A YEAR AGO**, Isaiah Thomas dreamed of signing a five-year contract this summer that would pay him almost \$180 million, more than he'd banked in his entire NBA career. He recently signed a one-year, \$2.1 million deal instead—the least amount of money any team could have paid him. He went from a maximum contract to a minimum contract.

He's an extreme but unfortunate example of the curious economy in today's NBA.

The sheer monetary value of a player is no longer determined by his ability. Not entirely, anyway. The annual salary of any NBA player is more of a reflection than ever of *when* that player happened to be a free agent.

Thomas was one of the most valuable players in the NBA around this time last year. The only problem was that he wasn't paid like one.

This guard the size of a normal human being, who went from the last pick of his draft to fifth in the 2017 voting for MVP, was still under contract with the Boston Celtics on a below-market deal when he emerged as a star and the league's most inspiring story. His discount salary was even more of an eye-popping bargain once the NBA's salary cap exploded in 2016 because of a huge infusion of television money.

Thomas watched as players who weren't nearly as good as him made a whole lot more money than him, and he made it known that he wanted his share of the cash flying around the league. His goal was a five-year maximum contract worth almost \$180 million that would've paid more in the first year than he'd banked in his entire career. "They better bring out the Brinks truck," he liked to say.

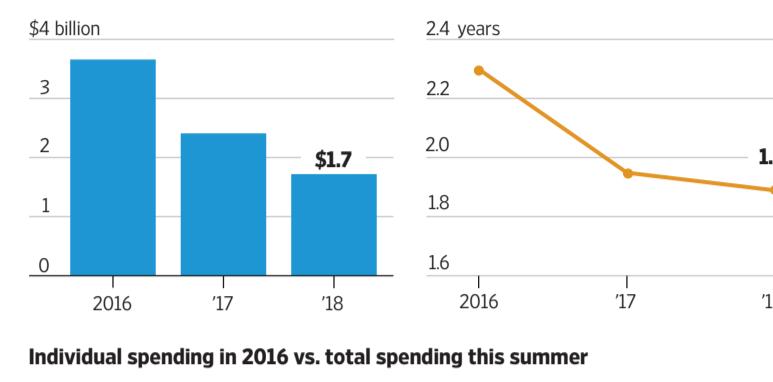
There were no armored vehicles of cash waiting for Thomas when he became a free agent this summer. After suffering a debilitating hip injury in the 2017 playoffs, he struggled to get healthy as he was traded last season to the Cleveland Cavaliers and then the Los Angeles Lakers. Thomas had the worst season of his career at precisely the worst time.

But for all the explanations about why the market for his talents was soft before he signed with the Denver Nuggets—his age, his height, his injury—what really cost Thomas was another variable in contract negotiations beyond his control. There simply wasn't enough money for him.

The financial squeeze was the driving force behind NBA free agency. To understand how the pool of money for players went dry, it helps to look back at the summer of 2016, when free agency turned

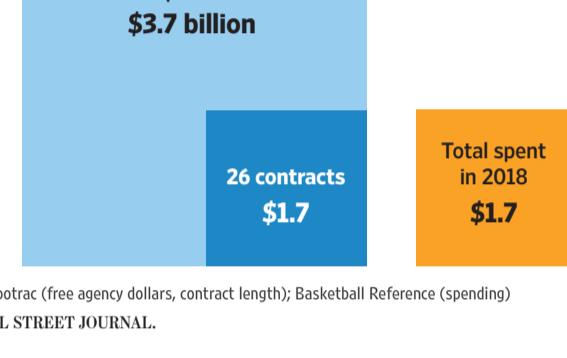
## Cap Crunch

Spending on NBA free agents, as well as the average contract length, has declined since the summer of 2016.



## Individual spending in 2016 vs. total spending this summer

In 2016, 26 players were given contracts nearly equal to the total spend this summer. None of those players have been All-Stars since then.



Sources: Spotrac (free agency dollars, contract length); Basketball Reference (spending)

THE WALL STREET JOURNAL

into a spending bonanza with lasting effects that are still being felt today. NBA teams were richer than ever after a one-time spike in the salary cap, and they splurged as much of that money as they could as quickly as they could. They signed almost 150 free agents to contracts worth more than \$3.6 billion, according to Spotrac.

It was the single greatest time in the history of mankind to be unusually tall and incredibly athletic.

But the market cooled last year and remained icy this year. The total spend of NBA teams in free agency dropped to about \$2.4 billion last year and roughly \$1.7 billion this year.

The majority of this year's free agents signed deals early to grab whatever money was available before it disappeared. They had no choice but to take lower salaries and fewer years of financial security on average. More than half of this year's free agents signed one-year deals, a sharp increase from 37% two years ago, when the cost of doing business meant committing to players for the long term.

Anyone who's plowed through the league's collective-bargaining agreement could have anticipated this crunch and predicted this off-season of discontent, in which teams didn't have cap space and players couldn't get paid as much

as they'd come to expect.

From the moment the NBA tripled its media revenue with its national television contract, 2016 free agency had the makings of an unprecedented market. The average expansion of the salary cap per year in the previous decade had been 3.6%. But in 2016, it skyrocketed by 34.5%, an increase from \$70 million to \$94 million in one year alone.

The league proposed a solution to prevent that becoming a problem: incorporating all that money instead of suddenly.

The idea was for the salary cap in the first years of the television deal to not reflect the full amount of revenue allotted to players. The players' union still would've received the rest of their 51% share, but it wouldn't have factored into how much teams were permitted to spend. In other words: The spike would have been smoothed. But the union rejected the proposal, and its officials have consistently said they are offended by the very idea of artificially lowering their earning potential.

The result was a one-time anomaly with consequences that have reshaped the competitive landscape of the league.

The league's fear was that one class of free agents would be paid more based solely on timing and



Isaiah Thomas recently signed with Denver for the veteran's minimum.

that teams already loaded with talent would have a unique opportunity to add more. That's exactly what happened.

The first deals on July 1, 2016 set the market, and suddenly a middling player like Timofey Mozgov found himself to be worth \$64 million over four years, a bigger contract than the reigning unanimous most valuable player Stephen Curry's. In addition to Mozgov, the Lakers signed Luol Deng to a four-year, \$72 million deal and Jordan Clarkson on a four-year, \$50 million contract. Mozgov, Deng and Clarkson combined for 5.3 win shares in their collective time with the Lakers. There were NBA players last year on minimum deals who had more win shares all by themselves.

The Golden State Warriors, meanwhile, turned their pile of money into Kevin Durant. But it was more common for teams to commit spectacular amounts of money to unspectacular players. Even some of the most rational NBA front offices acted irrationally as the clock struck midnight. There were 26 players that summer who signed contracts worth a collective \$1.7 billion—almost exactly the total haul of this year's class of 88 players. Not a single one of them has sniffed an All-Star Game since then.

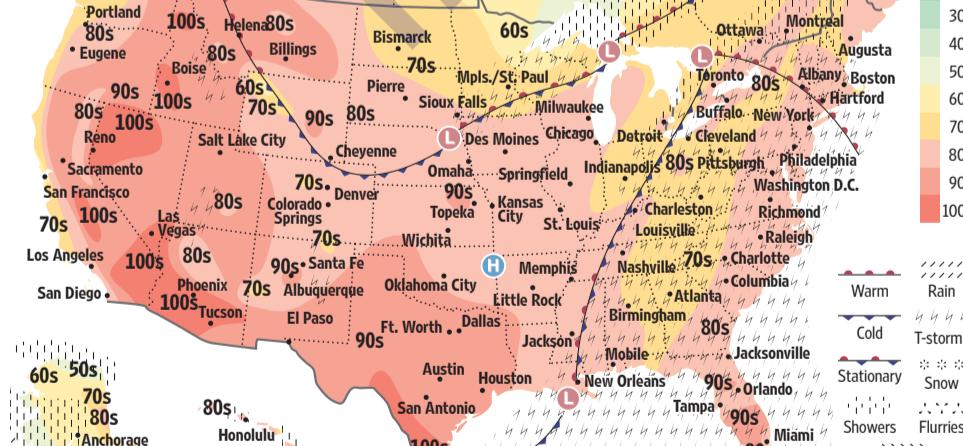
The two summers after that one atypical summer have been fairly typical. The salary cap inched to \$99 million and now \$102 million—5% and 3% growth—but teams couldn't lavish huge riches on free agents after their unchecked spending of 2016. It didn't help that some of the few teams with ample room were not particularly interested in winning immediately and used their flexibility to absorb other teams' past mistakes and collect draft picks as their reward.

But there was one type of player who still got paid. The broader changes to the game incentivized teams to spend on players who can play multiple positions in much the same way there used to be a premium on behemoths who could at least pretend to guard Shaquille O'Neal. In frugal times, when they had to be thrifitier than usual, they decided they'd rather pay for wings like Trevor Ariza than bigs or small guards.

Thomas suffered as much as anyone from the limited cap space in the post-2016 environment. He used this summer to put himself in position to be a free agent next summer.

That's when some of the distressing contracts begin to come off the books—and NBA teams get to spend freely again.

## Weather



## U.S. Forecasts

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

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

**Today** Hi Lo W **Tomorrow** Hi Lo W

**City** Hi Lo W **Today** Hi Lo W **Tomorrow** Hi Lo W

Anchorage 66 55 c 63 55 sh

Atlanta 78 68 t 77 69 t

Austin 97 69 s 97 70 pc

Baltimore 88 74 t 88 73 t

Boise 102 69 s 96 62 s

Boston 83 76 pc 91 77 pc

Burlington 85 69 t 87 70 pc

Charlotte 83 72 t 82 71 t

Chicago 85 65 pc 86 67 t

Cleveland 79 68 t 82 68 t

Dallas 93 69 s 95 72 pc

Denver 85 60 t 93 66 pc

Detroit 81 64 c 85 66 pc

Honolulu 89 78 pc 89 77 pc

Houston 95 74 pc 94 74 s

Indianapolis 77 63 pc 84 66 s

Kansas City 86 64 s 90 66 s

Las Vegas 107 86 s 105 84 t

Little Rock 86 63 s 88 66 s

Los Angeles 89 69 pc 86 68 s

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Milwaukee 84 64 pc 76 62 t

Minneapolis 77 54 t 77 65 pc

Nashville 82 69 pc 84 69 t

New Orleans 85 74 c 88 75 t

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Bangkok 90 79 sh 89 79 sh

Beijing 97 80 s 96 78 s

Berlin 91 70 t 86 67 t

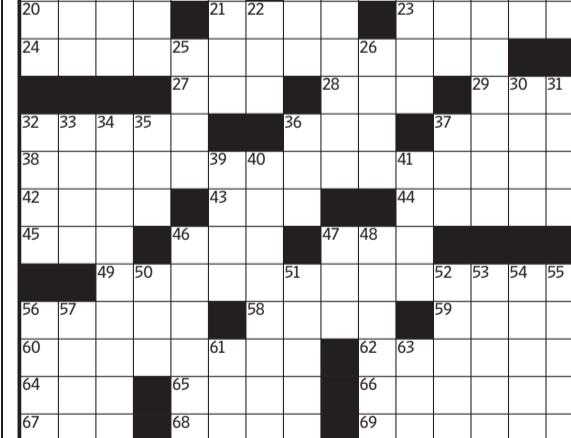
Brussels 82 60 pc 86 61 pc

Buenos Aires 53 34 s 54 42 s

Dubai 104 91 s 106 91 s

Zurich 66 56 sh 71 57 sh

## The WSJ Daily Crossword | Edited by Mike Shenk



## MANIMALS | By David Alfred Bywaters

Across	27	pro nobis	49	Fish trying to lose that embarrassing reddish tinge?
1	Brush alternative	28	Morse click	
7	Inconsiderate fellow	29	Gaping mouth	
11	Item with a supporting role	32	Offered as clarification	56 Popular scooter
14	Place for playing	36	Solder component	58 George W. Bush's CIA head Porter
15	Port on the Arabian Peninsula	37	Identify	59 Desire
42	Ridge	38	Ape who's mastered the art of the deal?	60 "Softest clothing wooly bright," to William Blake?
45	Angles	46	Fordo modesty	62 Cheers
49	Makes pricier, in a way	47	Cardi B's field	64 St. crosser
50	49	51	44 Mete out	65 Toy for spring
56	57	58	45 Govt. agency concerned with dangerous things	66 Evian, for one
60	61	62	23 Kerосene lamp parts	67 Domestic refuge
64	65	66	46 From Russ., before 1991	68 Toy for winter
66	67	68	47 Vengeful spirit feared by furriers?	69 Bejeweled toppers
68	69	70	48 More, in Mexico	70
69	70	71	71 Lean on, in a way	72
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## OPINION

## CBS Scandal Is Neatly Timed

BUSINESS WORLD  
By Holman W. Jenkins, Jr.

When he was trying to sell the CBS fall lineup to advertisers back in 2005, boss Leslie Moonves starred in a promotional video based on the boxing movie "Million Dollar Baby." He was seen punching out NBC's then-leading draw, a certain Donald Trump, star of "The Apprentice."

No hard feelings. Ten years later Mr. Moonves couldn't say whether he liked Mr. Trump for president, but he certainly liked what his campaign was doing for ad sales and viewership. "The money's rolling in and this is fun," he said.

An axiom applies as much to business as to politics: Personnel is policy. Unfortunately, a corollary also applies: There can be no policy until personnel disputes are settled. The sexual misconduct allegations that threaten pre-emptively to take the otherwise excellent Mr. Moonves out of the picture arrive at a convenient moment for CBS shareholders.

Mr. Moonves has been a great executive, but then Kevin Spacey was a great actor, Charlie Rose was a great interviewer, Matt Lauer was a great morning-show host. The world has hardly stopped turning because of their absence.

We've seen it enough times: In companies, things happen

that wouldn't happen under any likely alternative CEO. Mr. Moonves might be a tad more indispensable now, however, if the sexual allegations against him had not landed in the New Yorker magazine last week just as he was engaged in a power struggle with his controlling shareholder, Shari Redstone.

This apparently culminating showdown began after Ms. Redstone urged a merger between CBS and its former partner, Viacom, of which Ms. Redstone is also the controlling shareholder. The idea is not a terrible one for two companies otherwise left out of the panicked reshuffling of TV assets as the industry adapts to streaming. But in the nature of things, and unrelated to any rumors about Mr. Moonves's alleged misdeeds that were then already circulating, such a deal could not be suggested without triggering the neuralgic issue of Ms. Redstone's voting control, inherited from her incapacitated mogul father, Sumner Redstone.

Whatever you think of voting-rights lockups, Ms. Redstone's is written into both companies' bylaws, and Mr. Moonves took the job knowing the lay of the land. A court seems likely to find improper his attempt to use Ms. Redstone's supposedly conflicted backing of a Viacom merger, plus his own threat to quit as CEO, to pressure his board into a maneuver to strip Ms. Redstone of her special rights.

CBS probably is not sellable to Comcast or Disney, both of which already own broadcast networks, with their lingering, antediluvian significance in the minds of politicians and regulators. Though Facebook could use some non-Facebook content properties on which to serve ads to Facebook users, Mark Zuckerberg is in the doghouse

probably will not end well for Mr. Moonves, in which case it would likely have required a heroic effort to patch things up and preserve him in his job anyway.

All this comes amid great uncertainty about how fast the traditional ad- and cable-supported model of linear TV will fade, and how quickly the streaming alternative will develop. How many subscription streaming services will

**Leslie Moonves is a great executive, but nothing good comes from sticking around.**

consumers be willing to sustain? Will ad-supported be a model that consumers prefer for some kinds of fare? Will stand-alone streaming (i.e., Netflix) remain predominant given the apparent appetite in the marketplace to use video as a sweetener to support other businesses, such as Amazon's retail empire, or AT&T's wireless empire, or Google's ad business, or Apple's device business?

CBS probably is not sellable to Comcast or Disney, both of which already own broadcast networks, with their lingering, antediluvian significance in the minds of politicians and regulators. Though Facebook could use some non-Facebook content properties on which to serve ads to Facebook users, Mark Zuckerberg is in the doghouse

with investors right now. He probably would find it an opportune moment to give the impression that he's extending his hand into a new industry.

None of these objections apply to Amazon's Jeff Bezos, and we can think of reasons CBS-Viacom might be useful to Amazon. Viacom owns the original "Star Trek" episodes. Analysts also speculate that Amazon wants marquee sports rights for its Prime streaming business. If so, it would still need help from a conventional distributor to deliver big-time, live sports events to a much larger natural audiences than streaming can satisfy at this stage.

Mr. Bezos is running not only Amazon, but Whole Foods, the Washington Post and his space company, Blue Origin. Plus it's unclear just how deep Amazon wants to get into video production, or what it intends for its nascent advertising business, which CBS and Viacom could potentially be useful for. We wouldn't bet on him being a buyer. Of course, there are telecom carriers like Charter and Verizon that might eye CBS in a belated, me-too attempt at a content strategy. Yet all these deals would be more likely to happen once a CBS-Viacom reunion is sorted out.

Which is all the more reason for Mr. Moonves to get out of the picture quickly if that's the best way for the companies to make sure their assets live long and prosper in the digital age.

One's Past," published in May by the London-based think tank Demos, found that 63% of British citizens think life was better when they were growing up, compared with only 21% who believe it is better now. Seventy-one percent feel that their communities have lost cohesion and that immigration has exacerbated communal divisions. In France, 61% of citizens report that they don't feel at home in the present, and 65% say they increasingly are inspired by the values of the past.

**Change is inevitable, but policy makers should think about how to make it easier.**

But there is a difference between being inspired by or even longing for the past and expecting a literal restoration. As Sophie Gaston of Demos explains in the report, there is a large share of citizens whose nostalgia "does not compel them to return to the past, but simply to reject further change." They are "unwilling to embrace further upheaval," she concludes.

In the real world, of course, change will not come to a halt. But policy makers can—and should—do much more to slow the pace of change and to mitigate its effects. For example, both the government and

private companies should take responsibility for the workforce disruptions and legal controversies that inevitably will be brought on by the rise of artificial intelligence. To reduce fears of declining community cohesion, immigration policy should prioritize economic contribution and help promote linguistic and civic integration. Whenever possible, reformers pressing for change on contested cultural issues should aim to use the gradual, inclusive process of legislation rather than quick, unaccountable judicial action. And where national political systems permit, reformers should respect federalism by seeking progress in regions where majorities already embrace it, without imposing their views on others who may be resistant or merely slow to change.

The changes that have caused much of the Western public to lose confidence in society can't be solved by evocative appeals to the past. Only a compelling and credible vision of a better future can address our challenges and restore public faith. This is the proposition on which France's Emmanuel Macron has wagered his political career. No major political party in either Germany or Britain has yet dared to follow his lead. But one thing is clear: The first American party to seize this message will dominate the next generation of U.S. politics.

## OPINION

## REVIEW &amp; OUTLOOK

## Those 'Bad' Koch Brothers

**N**ow that Kim Jong Un is his fast friend, President Trump has decided to pick a fight with some truly nefarious operators—the successful American businessmen and political donors Charles and David Koch. At least Mr. Trump and MSNBC now have something in common.

Mr. Trump tweeted Tuesday that the two free-market evangelists "have become a total joke in real Republican circles, are against Strong Borders and Powerful Trade. I never sought their support because I don't need their money or bad ideas." The President's former and once-again political strategist Steve Bannon piled on with a threat to Republicans on CNBC that if "you take Koch money, it's going to be toxic. We are going to let people know that if you take Koch money there's a punishment."

Congratulations to the Kochs. They're receiving such thermonuclear attention because they've decided not to bow to Mr. Trump on trade, immigration and other issues that the brothers and their political network count as crucial to economic liberty. Unlike many Republican candidates for office, they can afford to take a position independent of Mr. Trump. And they have the money and passion to have some influence. This is good for the country and the Republican Party.

Mr. Trump overreacted as ever to reports of what can only be described as the mildest criticism from Charles Koch at a weekend gathering of Koch allies and operatives in Colorado. (David Koch recently retired.) Some on the scene criticized Mr. Trump's trade agenda, although Charles Koch noted that the "divisiveness" coming from Washington began "long before Trump became President."

Mr. Trump may also still be sore that the Koch network was neutral in the 2016 presidential campaign, though it did help elect GOP majorities in the House and Senate. But he and Mr. Bannon seem especially peeved that this year these donors aren't supporting Republicans who have turned protectionist on trade and nativist on immigration, or who support more government spending.

In particular, they've been reluctant to support Kevin Cramer, a Trump favorite running for Senate in North Dakota. They've said nice things instead about Democratic incumbent Heidi Heitkamp, who is running as a free trader opposed to the Trump tariffs that have punished the Farm Belt. They're also cool on Lou

Their ideas are the reason for the governing success Trump has had.

Barletta, a Trumpian Republican running for Senate in Pennsylvania.

Mr. Trump wants to remake the GOP in his pol icy image, and he's having considerable success in primaries. The GOP rank-and-file like what Mr. Trump has accomplished, and so his tweets and endorsements carry weight.

The problem comes in general elections when some of those Trumpian candidates have lost among a larger electorate. Recall that Roy Moore cost Republicans a Senate seat in Alabama, and Trump-endorsed Senate candidate Corey Stewart is a likely loser in Virginia in November. We'll see how well the Bannon strategy of making the election a referendum on Donald Trump works this year.

As for those "bad ideas" the Kochs have, they're the reason for whatever governing success Mr. Trump has had so far. Pro-growth cuts in tax rates, deregulation and originalist judges have been the most successful parts of the Trump agenda. And they were Koch beliefs when Mr. Trump was still donating to Bill and Hillary Clinton. The President gets credit for winning the election and making the policies happen, but the Kochs also gave his agenda major support over the last two years.

Contrast that success to Mr. Trump's immigration agenda, which has gone nowhere in Congress; his ill-thought border enforcement that ended up in the debacle of family separation; and the tariff assault that has so far raised costs for U.S. consumers and producers without any compensating trade opening. Whose ideas are the "bad" ones?

The GOP coalition is big and fractious, and it needs a robust debate unless it wants to become small and monolithic. The GOP has been a free-trade party for decades because trade has promoted prosperity for the most people most of the time. Pro-trade stalwarts shouldn't roll over simply because Mr. Trump has resurrected some economic nostrums from the Hoover Presidency.

Republicans who disagree with Mr. Trump need the donor and political support to do so. And the Kochs and other donors are right not to reflexively endorse Republicans who think they can trash pro-growth economic policies and still count on donations from the success of those policies.

As for Mr. Trump, he ought to understand his real political opponents aren't the Kochs. They're the Democrats who claim to support him on trade but are aching to impeach him.

## A Modern Business Lesson

**N**ew York Governor Andrew Cuomo has come to the rescue of the child whose lemonade stand was shut down by his state's Health Department. Sort of. He's volunteered to pay the \$30 license fee if it turns out the boy really does need a permit.

What a sad commentary on our time. Seven-year-old Brendan Mulvaney was selling lemonade at his home in Ballston Spa, N.Y., last Friday when he was shut down by a woman identifying herself as a state health inspector. She said he needed a permit.

Brendan's home is across the street from the Saratoga County Fair, and the Health Department was sicced on him by lemonade vendors there. They didn't like a competitor selling lemonade for 75 cents a glass when they charge \$7—though theirs is fresh-squeezed and Brendan's is from a mix.

When the news broke that another American kid showing initiative had been shut down by bureaucrats, the Health Department apologized.

## China Won't Be a Trade Pushover

**T**he bad economic numbers keep coming from China. Second-quarter GDP growth slowed to 6.7%, due in part to a record low increase in fixed-asset investment. On Tuesday the manufacturing purchasing managers' index, a leading indicator, hit a five-month low, and on Monday the yuan fell to a 13-month low against the U.S. dollar. Chinese stocks have lost one-fifth of their value since January and are near a two-year low.

All these lows have caused some in Washington to conclude that Beijing is losing the trade war. With the grim statistics, the thinking goes, Chinese leaders will have to make concessions and cut a deal quickly.

Not so fast. China's biggest economic headwinds are due to government policies designed to stabilize the financial system. In the last week policy makers have signaled they will relax those measures and use both fiscal and monetary stimulus to rev up growth. While that may cause more problems in the long run, Beijing won't be forced to its economic knees by American tariffs.

Alarmed by the rapid buildup of corporate debt, China's regulators embarked on a deleveraging campaign two years ago. And it yielded results; corporate debt as a percentage of GDP fell slightly last year.

But as the economy slowed over recent months, Beijing began to reopen the money taps. The central bank promised liquidity to banks to expand credit, and last week it offered \$74 billion in medium-term financing. The authorities also encouraged companies to issue bonds and eased restrictions on borrowing by local governments for public works. Tax cuts are in the works for corporations and individuals.

Beijing still has plenty of tools to keep its economy growing.

Looser monetary policy has contributed to the yuan's weakness. But Beijing will be wary about allowing the currency to decline much further lest it encourage capital flight. China's leaders are firm believers in exchange-rate stability, which has been a pillar of the country's fast growth.

As for share prices, the equity market has never been an accurate barometer of China's real economy. Most shares are issued by state-owned companies. Individual investors dominate trading and treat the stock market as a casino.

China's leaders are concerned about a trade war with the U.S., but they are hardly panicked. The Politburo Standing Committee, China's most powerful body, released a communique Tuesday that called for more stimulus. But it also said that deleveraging will continue. Contrast this with the government's blowout stimulus after the 2008 global crisis when fiscal and monetary measures totaled 15% of GDP.

Beijing's official growth target is still a healthy 6.5%, in line with the economy's potential as it climbs the ranks of middle-income countries. Domestic demand is becoming more important than exports as an economic engine. It's possible that the trade war will prod policy makers to undertake more aggressive reforms to hasten this transition.

The Trump Administration shouldn't assume that Beijing will buckle under the strain of tariffs. Despite debt problems and slowing growth, Chinese leaders still have plenty of options to keep the economy expanding. The smart U.S. strategy would be to work with allies to negotiate new trade rules with China rather than engage in mutually damaging tariffs.

## LETTERS TO THE EDITOR

## Looming Caregiver Shortage Is Old-Age Peril

"U.S. Is Running Out of Caregivers" (page one, July 21) highlights an emerging national and family crisis: How will our nation deal with the needs of the elderly population?

With fewer family members able to help their elderly parents, many of the elderly hope to live their final days in assisted-living facilities, which are being built all over the country. These assisted-living facilities are beautiful, with numerous amenities, delicious meals, activities and health-related services. The problem: They are very expensive. In my own county, it's difficult to find an assisted-living facility that costs less than \$7,000 a month for basic services.

The U.S. needs to care for the elderly in a humane manner. We need affordable assisted-living facilities without the bells and whistles that can provide dignified, caring and compassionate care without wiping out families' savings.

PAUL FEINER  
Greenburgh, N.Y.

My husband and I have coped with four frail parents in their 90s who resisted leaving their homes. We can tell you that the need for supervision, safety and help with the activities of daily living doesn't end when an in-home caregiver's shift ends. At

ANN SAIBENI  
Sacramento, Calif.

I drive two hours each way weekly to care for my 95-year-old dad. While I do recoup expenses such as food and gas, there is no way to recoup the emotional toll it takes on my life in general. I realize that the point of your article is to call attention to the growing problem of caregiver shortages, but it let me know that I am not alone. I have the same feelings of heartbreak for my dad that other caregivers experience.

CASSANDRA WEATHERFORD  
Greensboro, N.C.

## In Defense of the Anti-Defamation League

Liel Leibovitz unsurprisingly chooses to paint the Anti-Defamation League and its CEO Jonathan Greenblatt as partisan ("Is Brett Kavanaugh Bad for the Jews?", op-ed, July 24). Mr. Liebovitz draws selectively from our record of speaking out on issues that are directly connected to our mandate of fighting anti-Semitism and securing justice and fair treatment for all.

As he notes, the ADL is addressing the significant rise of anti-Semitism, including emboldened rhetoric and action by neo-Nazis, white supremacists or members of the self-described alt-right movement. However, he chooses to ignore our continuing, active efforts to confront anti-Semitism from people such as Louis Farrakhan and those who curry favor with him, the BDS movement and self-professed "progressives" who refuse to recognize the Jewish people's right to self-determination or who single out Israel for demonization. We have also strongly criticized Linda Sarsour's positions on Israel and voiced concern about anti-Semitism on campus. Our positions reflect longstanding values that have motivated the ADL for decades. That we, at times, anger conservatives like Mr. Liebovitz, and liberals, too many to name, is a sign that the ADL is staying true to its mission.

Calling for strong questioning of a Supreme Court nominee is entirely consistent with what the ADL always has done. We believe special scrutiny is required for the current nominee because some of his known views conflict with ADL policies—formulated long before Mr. Greenblatt became the ADL's CEO. It also is impor-

tant because this is a historic moment and an appointment that could shape the Supreme Court for decades to come.

Regardless of the source, the ADL has spoken out against anti-Semitism for more than 100 years, and we will continue to do so.

ROBERT G. SUGARMAN  
Former National Chair  
Anti-Defamation League  
New York

While Mr. Greenblatt has moved the ADL further to the left, that shift was already well under way during the tenure of the organization's prior president, Abe Foxman. During the '90s, the ADL became actively hostile toward Evangelical Christianity as seen in many of its publications such as "The Religious Right: The Assault on Tolerance and Pluralism in America" (1994). This notorious polemic, for which the ADL eventually was forced to apologize, excoriated leaders like Pat Robertson, James Dobson, Jerry Falwell Sr. and Phyllis Schlafly.

Mr. Leibovitz writes that the ADL should "realize that the threats to Jews these days come as fiercely from the left as they do from the right." That is not entirely accurate. Anti-Semitism on the right is from the fringe, while anti-Jewish and anti-Israel bigotry from the left increasingly represents the position held by rising stars in Democratic politics who are seldom denounced by the establishment.

RABBI DANIEL LAPIN  
President, American Alliance of Jews  
and Christians  
Mercer Island, Wash.

## Surely This Russian Hacking Is Frightening

"Russia Hacks Its Way Into U.S. Utilities" (U.S. News, July 24) should send a chilling alarm throughout this country. Make no mistake. This isn't about politics. This is about acts of war—cyberwar. Some readers may remember the 1959 film "The Mouse That Roared," based on Leonard Wibberley's novel of the same title. In it the U.S. is attacked and defeated by a minuscule country simply because America doesn't realize it has been attacked until it is too late.

Unfortunately, we have a long history of being caught by surprise. From Pearl Harbor to Sputnik, too often our action is a reaction. President John F. Kennedy didn't stand for the Soviet Union planting its missiles in Cuba in 1962. Yet we seem surprisingly passive about potentially devastating hack attacks of our country's key computer systems by Russia. I hope and pray we have the cyber equivalent of a Manhattan Project to deal with it.

BARRY ARNOW  
Edison, N.J.

sources, but it seems to have studied the Central Intelligence Agency's playbook on Chile from nearly half a century ago.

With a Marxist-oriented government installed in Chile, the CIA was allegedly instrumental in overthrowing the Allende government, including by providing resources for a strike fund to Chilean truckers who walked off their jobs as a result of their opposition to the Allende reforms. The truckers' absence from the roads crippled Chile's transportation system and economy.

Paralysis or damage to the U.S. energy, communications, transportation, financial or health-care infrastructure through cyberwarfare would bring life to a standstill in the U.S. Is anyone in Washington thinking about this?

PROF. IRA SOHN  
Montclair State University  
Montclair, N.J.

Pepper ...  
And Salt

THE WALL STREET JOURNAL



"And in your honor, we're going to permanently seal your cubicle."

## CORRECTION

Tom Cruise was injured while filming "Mission: Impossible—Fallout" but not during a helicopter scene in the Himalayas. A July 27 review of the film misstated the scene in which the actor was hurt.

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## OPINION

# There's Too Much Virtue in Politics

By Joseph Epstein

**G**eorge Orwell wrote a letter in 1938 to the poet Stephen Spender, in which he in effect registered his regret at having finally met Spender. The reasons for this might amuse. Before their encounter, Orwell reports, he had disdained Spender as a "parlour Bolshevik because *a*. your verse, what I had read of it, did not mean very much to me, *b*. I looked upon you as a sort of fashionable successful person, also a Communist or Communist sympathiser, & I have been very hostile to the C.P. since about 1935, & *c*. because not having met you I could regard you as a type & also an abstraction."

Orwell adds that "when you meet anyone in the flesh you realise immediately that he is a human being and not a sort of caricature embodying certain ideas." As a result, "I shall

**Our self-image is now so bound up in ideology that any disagreement feels like a personal attack.**

never again be able to show any intellectual brutality towards him, even when I feel that I ought to." The same, by implication, now applied to Spender. Partly for this reason, Orwell avers, "I don't mix much in literary circles."

I have been thinking of this letter in connection with contemporary politics. Would Donald Trump's many enemies think differently of him if they met him? Would he think differently of them? The answer to both questions, I strongly suspect, is *Nope*. Each party sees in the other the devil. Mr. Trump is the savior of the country, confronting an utterly



GRANT ROBERTSON

corrupt establishment. His critics view themselves as brave defenders of democracy, facing down a neofascist. The two sides are not altogether unhappy with what they see, for their separate views fortify each in their own righteousness.

American politics have never before felt so divisive, and the chances of this soon changing appear slim. The tone of political discourse slips lower and lower. Donald Trump seems unable to refer to an adversary, current or former, without adding an epithet: Crooked Hillary, Crazy Joe Biden, Cryin' Chuck Schumer, et alia. What these people and his other opponents must call Mr. Trump in private cannot be printed in a family newspaper.

If there are any peacemakers among either the Democrats or the Republicans, they have yet to appear. If anything, the two sides seem to be pulling wider apart. Bernie Sanders, Elizabeth Warren, Alexandria Ocasio-Cortez are pushing the Democrats further left, even as the Freedom Caucus would like the Republicans to

move rightward. By no means in the middle, Mr. Trump defies right-left categories. Instead he seems to be running a giant corporation of his own imagining, one with a navy and a nuclear arsenal.

"All right we are two nations," the novelist John Dos Passos wrote after the Sacco-Vanzetti trial, which divided the country in 1927. Today, with all the arguments between the pro-lifers and pro-choicers, the gun controllers and Second Amendment advocates, the "Build the Wall" crowd and the "Abolish ICE" protesters, issues that split families and friends, one wants to say to Dos Passos, "John, you ain't seen nothing then."

Donald Trump didn't bring this about; he merely exacerbated it. His victory in 2016 is symbolic of how divisive American politics have become—so divisive that nearly half of the country's voters were willing to roll the dice and select a politically unproven, not especially attractive man to lead the nation. Is there, one wonders, anything capable of bringing the country back together,

apart from a major terrorist or foreign attack?

When politics isn't a quest for personal gain or power, it's a clash of virtues. Look behind a person's political views and you will discover his idealized picture of himself. The liberal sees his virtue in speaking up for the underdog, hungering for social justice, showing a spirit of empathy. The conservative finds his virtue in advocating liberty and maximal freedom as most likely to induce achievement, prosperity, and, most important, strong character. In reality, many liberals may be pig-selfish, and many conservatives may have the character of a hyena, but let that pass.

The main point is that in declaring my politics I am declaring my virtue, so when you oppose my politics you oppose my highest view of myself. This explains why political arguments so quickly get to the shouting stage. If you disagree with me about a candidate or policy, you are in effect telling me that I am (pick one) selfish, naive, insensitive, foolish. Disagree with my politics, and you offend, insult, attack me personally.

Which brings us back to George Orwell. As so often, he was on to a deep truth: Once you meet a person in the flesh, you realize he isn't a "caricature embodying certain ideas." Nor, I would add, is he exclusively a liberal or a conservative, a Democrat or a Republican. Instead he is someone who, rather like you, probably came to his politics not by reason but through a strange, quite possibly unexplainable combination of happenstance. This realization may not heal all wounds or reunite the country, but, damn it, it's a start.

*Mr. Epstein is author of "The Ideal of Culture and Other Essays" (Axios Press, 2018) and the forthcoming "Charm: The Elusive Enchantment" (Lyons Press), to be published in October.*

# What Are the FBI and CIA Hiding?

By Thomas J. Baker

**D**id the Central Intelligence Agency lead the Federal Bureau of Investigation down a rabbit hole in the counterintelligence investigation of Donald Trump's 2016 presidential campaign?

Although the FBI's case officially began July 31, 2016, there had been investigative activity before that date. John Brennan's CIA might have directed activity in Britain, which could be a problem because of long-standing agreements that the U.S. will not conduct intelligence operations there. It would explain why the FBI continues to stonewall Congress as to the inquiry's origin.

Further, what we know about the case's origin does not meet the threshold required by the attorney general guidelines for opening a counterintelligence case. That standard requires "predicate information," or "articulable facts."

**The agency might have led the bureau down a rabbit hole in the 2016 Trump counterintelligence probe.**

From what has been made public, all that passes for predicate information in this matter originated in Britain. Stefan Halper, an American who ran the Centre of International Studies at Cambridge, had been a CIA source in the past. Recent press reports describe him as an FBI informant. Joseph Mifsud, another U.K.-based academic with ties to Western intelligence, met with Trump campaign aide George Papadopoulos on April 26, 2016. Mr. Mifsud reportedly mentioned "dirt" on Hillary Clinton. Then, on May 10, Mr. Papadopoulos met with Australian Ambassador Alexander Downer in London, to whom he relayed the claim about "dirt" on Mrs. Clinton.

Peter Strzok, the FBI's deputy assistant director, went to London Aug. 2, 2016, two days after the case was opened, ostensibly to interview Mr. Downer about his conversation with Mr. Papadopoulos. But what about the earlier investigative activity? The FBI would not usually maintain an informant in England. It is far likelier that in the spring of 2016 Mr. Halper was providing information to British intelligence or directly to the CIA, where Mr. Brennan was already pushing the collusion narrative.

James Clapper, the former director of national intelligence, has acknowledged that "intelligence agencies" were looking into the collusion allegations in spring 2016. The *Guardian*, a British newspaper, reported that British intelligence had been suspicious about contacts between associates of Mr. Trump's campaign and possible Russian agents. That prompted Robert Hannigan, then head of Britain's Government Communications Headquarters, to pass information to Mr. Brennan. With only these suspicions, Mr. Brennan pressured the FBI into launching its counterintelligence probe.

The FBI lacked any real predicate. But in the post-9/11 world, a referral from the CIA would cause some in the FBI to believe they had to act—particularly as the agency's information originated with America's closest ally. Shortly after the case opened that summer, Mr. Brennan gave a briefing to then-Senate Minority Leader Harry Reid, telling him that the CIA had referred the matter to the FBI—an obvious effort to pressure the bureau to get moving on the collusion case.

As the FBI's investigation progressed, it would use a surveillance warrant against Carter Page, a former member of Mr. Trump's campaign, who had been in contact with Mr. Halper. A dossier prepared for the Clinton campaign by Christopher Steele, formerly of Britain's MI6, was used to obtain the warrant.

The existence of the investigation was withheld from the congressional "gang of eight" because of its "sensitivity," former FBI Director James Comey later said. The FBI continues to withhold the full details of the origin story from Congress. Their rationale is the "protection of sources," as the origin lies with our best international partner.

Although Mr. Brennan has exposed himself as a biased actor, the CIA has escaped criticism for using only thinly sourced information from British intelligence to snooker the FBI. Most damaging is the possibility that the CIA violated agreements with Britain by spying there rather than asking MI5 or MI6 to do so. And that may be what is really being withheld from Congress.

*Mr. Baker is a retired FBI special agent and legal attaché.*

# Does the Constitution Mandate Minimum Wage Hikes?



Did you know that the Constitution may prohibit states from setting uniform minimum-wage policies? Me neither.

But a federal appeals court ruled last week in favor of a group of plaintiffs challenging Alabama's Minimum Wage Act. According to the court, the plaintiffs have "a plausible claim" that the law "had the purpose and effect of discriminating against Birmingham's black citizens, in violation of the Equal Protection Clause of the Fourteenth Amendment."

The case dates to 2016, when the Birmingham City Council enacted an ordinance that raised the city's hourly minimum wage to \$10.10 from the federal minimum of \$7.25—a nearly 40% increase. A day after the law took effect, Republican Gov. Robert Bentley signed the Minimum Wage Act, which nullified the increase and mandated a single minimum wage throughout the state. Black fast-food workers sued, joined by black lawmakers and the NAACP, but a district court dismissed the case. The plaintiffs appealed, and last week's decision by the 11th U.S. Court of Appeals returns the case to a lower court to consider the discrimination claims.

As ever, backers of the wage hike pitch it as an antipoverty measure. Birmingham's City Council president said opponents are "keeping their boots on the necks of people in desperate need of financial relief" and that people "cannot pull themselves up by the bootstraps if they can't afford to buy boots."

Yet evidence that minimum-wage increases reduce overall poverty is slim, as the nation's leading economists have recognized for decades. "Minimum wage laws are about as clear a case as one can find of a measure the effects of which are precisely the opposite of those intended," wrote Milton Friedman in

his 1962 book, "Capitalism and Freedom." "In fact, insofar as minimum wage laws have any effect at all, their effect is clearly to increase poverty."

Increasing the cost of hiring someone reduces the number of people who would otherwise be hired. You don't help the poor by pricing them out of the labor market. Nor are you improving the situation of people in minimum-wage jobs if they see their hours reduced because the cost of employing them has increased. Some parts of the U.S. are learning these lessons the hard way.

In 2015, Seattle became the first major city to pass an ordinance that would increase its minimum wage incrementally to \$15 per hour by 2021. The following year, the University of Washington published an analysis of the Seattle law's effects on low-income workers and concluded that the pay increases had been "offset by modest reductions in employment and hours, thereby limiting the extent to which higher wages directly translated into higher average earnings."

The appellate court ruling last week noted that Birmingham is 72% black, while opposition to the city ordinance in the state Legislature was led by "a white representative from Alabama's least diverse area, with the

help of fifty-two other white sponsors." But should we assume that opponents of mandated wage hikes are motivated by racial bias? And is the skin color of a bill's author relevant to determining its constitutionality? Last year, Catherine Pugh, the black mayor of majority-black Baltimore,

**A misguided court ruling ignores the history of labor laws intended to keep blacks from working.**

vetoed a minimum-wage increase on the grounds that low-income workers would suffer most as jobs and tax revenue fled the city. State lawmakers in Alabama have made similar arguments.

Historically, it has been the proponents of wage mandates, not free-market advocates, who exhibit animus toward blacks. At the urging of labor unions, Congress passed

black members, Congress passed several laws in the 1930s aimed at preventing blacks from competing by working for less than the union wage. These included the Davis-Bacon Act, the Fair Labor Standards Act and the Wagner Act.

Modern-day proponents of minimum-wage laws may not be driven by the same biases, but the results are not all that different. Increasing the price of labor results in a labor surplus—in other words, unemployment. Blacks are often hardest hit.

The appellate court is correct to note that there is a racial component to the minimum-wage debate in the U.S. But in distorting economics and rewriting history, the Alabama plaintiffs are not doing the black underclass any favors.

# Send Us Your Young, Your Educated

By Edward P. Lazear

**T**he U.S. is in the enviable position of having an excess supply of potential immigrants. Only about 1 in 5 who apply for green cards in any year are awarded resident status. This means that America can, to a large extent, choose which immigrants it wants. Whom should it choose?

Business formation is key to economic growth, and my analysis of Census Bureau data from 2011-15 shows that immigrants are about 20% more likely than native-born

Americans to found new companies. Yet immigrants are not monolithic. If America's only goal were to maximize immigrant entrepreneurship, it would adopt a welcoming but selective policy, with criteria based on education, age and country of origin.

First, an immigrant college graduate is 38% likelier to found a business than an immigrant high-school graduate. Even among the entrepreneurs, the highly educated are likelier to be successful. Immigrant entrepreneurs with only high-school educations report average annual earnings less than half those of entrepreneurs with college educations or more.

Second, although educating immigrant children carries a cost, those who arrive when young are likelier to found businesses than those who come as adults. An immigrant who arrives before turning 20 is 34% likelier to start a company than one who arrives after 35.

Immigrant entrepreneurship also varies significantly by country of origin. The most entrepreneurial immigrants come from Israel, Iran, Syria, Lebanon and Greece. More than 9% of the immigrants from these countries founded an incorporated business, a proportion that is more than three times that of native-born Americans.

Interestingly, these countries are not necessarily the most entrepreneurial themselves. Despite a few large and well-known Israeli companies, Israel ranks 65th of 73 countries in entrepreneurship rate.

What does seem to matter is the rate of entry to America. Immigrants from countries that are underrepresented among the U.S. immigrant population have rates of entrepreneurship about 60% higher than those from overrepresented countries. When the U.S. admits only a few immigrants from a particular country, those few tend to be high achievers.

The differences in rates of business formation hold even for immigrants who arrived as babies. Evidence from the economics literature suggests that entrepreneurial parents create a family environment, act as an example, or provide their children with skills necessary to found a company. For the U.S., then, admitting entrepreneurial immigrants is a twofer: The adults start businesses, and often their kids do too.

These patterns imply that the U.S. can import entrepreneurship, but only if it acts strategically. To maximize it, the strategy should be straightforward: Let in the young and educated, and rebalance immigration policy so that it no longer favors a few origin countries above most others. America has been given the gift of choice. Why not choose intelligently?

*Mr. Lazear, who was chairman of the President's Council of Economic Advisors from 2006-09, is a professor at Stanford University's Graduate School of Business and a Hoover Institution fellow.*

# THE WALL STREET JOURNAL.

PUBLISHED SINCE 1889 BY DOW JONES &amp; COMPANY

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## WORLD NEWS

# Iran Dismisses Trump's Offer to Meet

Domestic pressure on Iranian President Hassan Rouhani to take a more hard-line stance toward the U.S. after Washington's withdrawal from the nuclear deal gives him little leeway to accept President Trump's offer to meet.

*By Asa Fitch in Dubai  
and Aresu Egbali in  
Tehran*

Mr. Trump on Monday suggested that a meeting between the two leaders could take place with no preconditions, just a week after trading threats with the Iranian president.

But anger among Iranians has swelled against the Trump administration since it pulled out in May from the 2015 deal, an Obama-era pact that gave Tehran relief from international sanctions in exchange for curbs on its nuclear program.

Ali Motahari, the deputy speaker of Iran's parliament, said that now that the U.S. has withdrawn Iranian engagement could be interpreted as a sign of weakness.

"Today, negotiations with the U.S. bring humiliation," he said Tuesday according to the

official Islamic Republic News Agency. "For now, it's not appropriate to talk with the U.S."

The withdrawal is reverberating through Iran's political system, damaging moderates and reformists who championed the diplomacy and saw relief from sanctions as the ticket to economic prosperity. Hard-line opponents of engagement with the West, in turn, have gained stature from Mr. Trump's move, which validated their argument that the U.S. can't be trusted.

Mr. Trump's brusque tone hasn't endeared him to Iranian officials, either. "As long as the Americans bring up negotiations with a forceful attitude, there will be no negotiations," Heshmatollah Falahatpisheh, chairman of Iran's national security and foreign policy commission, said Tuesday, according to the semiofficial Iranian Students' News Agency.

Mr. Falahatpisheh said it was productive to have a back-channel of communication with the U.S., but added that the Trump administration's threats didn't make such diplomacy practical for now.

Mr. Rouhani, a moderate in Iranian politics, has himself



President Hassan Rouhani is under pressure to harden his U.S. stance.

moved toward hard-line, anti-U.S. rhetoric as domestic pressure has grown, both from stinging critiques and an economy spinning out of control. In early July, he threatened to disrupt oil shipments through the Strait of Hormuz if new U.S. sanctions cut off its oil sales, which have already begun to decline as the U.S. pres-

sures allies to reduce purchases.

Mr. Trump responded with an all-caps tweet on July 22 threatening Iran with "consequences the likes of which few throughout history have ever suffered before." A round of new U.S. sanctions are set to be imposed on Iran early next week.

Mr. Rouhani's office couldn't be reached to comment.

Secretary of State Mike Pompeo suggested on CNBC on Monday that there were preconditions to a meeting. The top U.S. diplomat had released 12 demands for talks with Iran in May, after Mr. Trump's withdrawal from the nuclear deal.

"Why would the Iranians negotiate with an administration that is internally inconsistent?" said Ali Vaez, the director of the Iran Project at the International Crisis Group. "Should they believe Pompeo's 12 preconditions or the president's unconditional proposition?"

Iran's leaders are facing rampant unemployment, high inflation and a currency weakening at a historic pace. It took about 112,000 rials to buy one U.S. dollar on Tuesday, nearly double what it cost when Mr. Trump withdrew from the nuclear deal.

Mr. Trump sought talks with Iranian officials at the United Nations General Assembly last year, but Iran rebuffed the advances, Mr. Rouhani's chief of staff said in July. Bahram Ghasemi, a

spokesman for Iran's Foreign Ministry, said Tuesday that talks required a level of even-handedness not found in Mr. Trump's words or deeds.

"The Islamic Republic's logic is dialogue and interaction, which needs reciprocal respect and adherence to international commitments," he said, according to IRNA. "Sanctions and threats are the opposite of dialogue."

Mr. Trump appeared to be modeling a meeting with Mr. Rouhani—and the rhetoric around it—after his glitzy Singapore summit with North Korean dictator Kim Jong Un in June. Mr. Trump called that meeting a major success, but critics said it hadn't produced any real concessions.

Iran is less isolated than North Korea and less amenable to a media spectacle that doesn't restore the benefits Iran lost.

Iranian Foreign Minister Javad Zarif tweeted Tuesday that the nuclear deal had been working, and that the U.S. had only itself to blame for exiting it. "Threats, sanctions & PR stunts won't work," he said. "Try respect: for Iranians & for int'l commitments."

## ISIS Says It Killed Foreign Cyclists in Tajikistan

BY THOMAS GROVE

Islamic State claimed responsibility for a weekend attack on a group of foreign cyclists in rural Tajikistan that left four dead, including two U.S. citizens.

In a video released Tuesday by research group SITE Intelligence, Islamic State shows five men, speaking in Russian, that it identifies as the attackers who rammed seven cyclists on a remote road southeast of the capital, Dushanbe. In an earlier statement late Monday, the extremist group said the attackers stabbed the downed cyclists with knives.

The attack was the first against Western tourists in Tajikistan, which is nestled between Afghanistan and other former Soviet Central Asian republics. The country has long been eyed as a potential foothold for Islamic State, which has carried out attacks in Afghanistan not far from the two countries' 800-mile border.

The men, seated next to a black Islamic State flag, pledged allegiance to the group's leader Abu Bakr al-Baghdadi and said they were prepared to die.

It was unclear when the video was recorded.

Tajik authorities say they tracked down the men and their car, following the attack, killing several of them who resisted and detaining others.

The group of cyclists from countries including the Netherlands, Sweden, France and the U.S. had left Dushanbe over the weekend when they were attacked about 40 miles outside the capital. Four were killed and two were injured and hospitalized. One was unharmed.

A Russia-led security alliance, which Tajikistan belongs to, has promised to prepare plans for a rapid-reaction force that could work to counter radicalism in the country, which endured a five-year civil war between former Soviet authorities and a loose coalition of democratic and Islamist movements following the fall of the Soviet Union.

The Tajikistan government has accused the Islamic Renaissance Party, once a political party with members in parliament until it was banned in 2015, of organizing the attack.

Government officials often play up the threat of Islamist violence to justify its heavy-handed policies toward religious movements in the country, which are viewed as a threat to the government.

## Attacks in Afghanistan Leave at Least 26 Dead



A car bombing and assault on a government building in the Afghan city of Jalalabad killed at least 15 people. Security forces killed the two gunmen. A bus bombing in western Afghanistan left 11 dead. No one claimed responsibility. More than 1,600 civilians have been killed this year in attacks through June, the U.N. says.

## Pakistan's Debt to China Sparks U.S. Concern

BY SAEED SHAH  
AND BILL SPINDLE

Pakistan's growing debt to China is emerging as a point of contention with the U.S., with Islamabad rejecting Washington's concerns Tuesday as the South Asian nation's incoming leaders prepare to possibly seek an international financial bailout in the coming weeks.

"First and foremost it is totally wrong to link IMF package with CPEC. It is affirmed that Pakistan Government is fully committed to undertake and complete CPEC projects in their totality," Pakistan's Ministry of Finance said in response to Mr. Pompeo. "Third parties cannot weaken our collective resolve to make CPEC a success story."

U.S. Secretary of State Mike Pompeo was asked on Monday about the issue of Chinese loans to Pakistan as part of China's "Belt and Road" infrastructure program, if Pakistan approaches the International Monetary Fund for a bailout. The U.S. is the largest shareholder and contributor to the IMF, a multilateral international organization that lends money to governments to help them manage financial difficulties.

"There's no rationale for IMF tax dollars—and associated with that, American dollars that are part of the IMF funding—for those to go to bail out Chinese bondholders or—or China itself," Mr. Pompeo said in an interview on CNBC.

IMF funds generally go directly to a country's central bank for use in managing foreign exchange shortfalls and stabilizing government finances.

China has a \$62 billion infrastructure building program for Pakistan, known as the China Pakistan Economic Corridor, of which some \$19 billion, mostly in roads and power plants, is under way or

completed. The projects are either financed by loans from China or, in the case of power stations, an obligation to buy the electricity produced for the next 30 years at a price that covers the financing of the plants and a return on the investment.

"First and foremost it is totally wrong to link IMF package with CPEC. It is affirmed that Pakistan Government is fully committed to undertake and complete CPEC projects in their totality," Pakistan's Ministry of Finance said in response to Mr. Pompeo. "Third parties cannot weaken our collective resolve to make CPEC a success story."

Mr. Pompeo's comments came after he delivered a major speech to the U.S. Chamber of Commerce that touted the U.S.'s commitment to invest heavily in Asia through U.S.

Pakistani and Chinese officials have long suspected the U.S. of trying to undermine CPEC and other Belt and Road projects, which seek to extend Beijing's influence through economic ties. Pakistan was a close U.S. ally, but it is increasingly reliant on China. While the U.S. has said it supports the Chinese program in Pakistan, it has also warned of "debt trap diplomacy" from the Belt and Road initiative more broadly.

Mr. Pompeo's comments came after he delivered a major speech to the U.S. Chamber of Commerce that touted the U.S.'s commitment to invest heavily in Asia through U.S.

companies as an answer to Belt and Road.

Mr. Pompeo stressed that U.S. investment would generate commercially profitable returns both for U.S. companies and the countries they invest in, compared with what he said were Chinese projects skewed toward benefiting China.

Coming off an election last week won by political outsider Imran Khan, who is expected to be sworn in as prime minister within a few weeks, Pakistan faces a growing fiscal and balance-of-payments crisis and will almost certainly need a bailout from one or more countries and international fi-

nancial institutions. The country has received more than a dozen past bailouts from the IMF.

A senior Pakistani official recently told The Wall Street Journal that the country needed an \$8 billion to \$10 billion bailout, adding that there are "few options" other than the IMF.

The Chinese projects are providing some much-needed infrastructure for Pakistan, particularly power plants that have helped ease shortages and allowed manufacturers to grow production. But Pakistan has to repay the Chinese loans, the details of which haven't been made public.

When the new Pakistani government is formed, tackling the fiscal problems will be its first priority, according to economists and politicians. Asad Umar, a lawmaker who is expected to become finance minister, has said the government will likely need a bailout.

Possible sources of emergency funds include not only the IMF, but also Saudi Arabia, which has helped Pakistan in past crises, and China, either in conjunction with the IMF or not. The Chinese ambassador met Mr. Khan on Monday.

"We will be evaluating all our options. At this stage we have not even decided to go to the IMF," Mr. Umar said, after Mr. Pompeo's comments.

Chinese officials said that if Pakistan chose to seek an IMF bailout, those discussions wouldn't involve China.

—Jeremy Page in Beijing contributed to this article.



Imran Khan at a polling station in Islamabad last week. He will soon be sworn in as prime minister.

# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

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S&amp;P 2816.29 ▲ 0.49%

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## P&G Shifts Strategy, Raises Prices

Pampers will cost 4% more, while prices of Bounty, Charmin and Puffs will rise by 5%

BY SHARON TERLEP

**Procter & Gamble** Co. said it was raising prices on some of its biggest brands, a strategy shift after the consumer-products giant reported another quarter of lackluster revenue growth.

After more than a year of trying to combat weak demand with lower prices on staples like Tide detergent and Gillette razors, executives said Tuesday the company was

changing course. P&G said it would increase prices on its Pampers brand in North America by 4% on average and by 5% on its Bounty, Charmin and Puffs brands.

The increases go into effect later this year or in early 2019. As the biggest player, P&G tends to drive industrywide pricing moves.

P&G is just the latest big U.S. company raising prices amid a strong U.S. economy and healthy consumer spending. But unlike some manufacturers or food brands such as Coca-Cola Co., P&G didn't highlight tariffs or trade disruptions for its shift. Rather, executives pointed to market dynamics.

Commodity costs have been on the rise since last year, though consumer-products companies continued to discount due to weak demand, increased competition and pressure from retailers to lower prices. That dynamic slowed sales and reduced margins. P&G executives said they were optimistic stronger demand, coupled with improved products and savvier marketing, would result in shoppers willing to pay higher prices.

The cost will come through a combination of straightforward price increases, a shift toward more premium products, a reduction in coupons and smaller packages.

U.S. households' incomes

and spending both rose at a solid rate in June, the Commerce Department reported Tuesday, indicating consumers have the capacity to drive gains in economic output. Low unemployment, rising wages and consumer spending this spring helped propel overall economic output to grow at a 4.1% annual rate in the second quarter.

That is giving P&G and some of its rivals an opportunity to try to increase prices after resorting to discounts to stoke demand when their premium strategy faltered during the 2008 recession.

The company's finance chief, Jon Moeller, said the price increases would "restore

structural economics," and could reverberate through the industry as competitors respond. He said other goods beyond those named could see increases.

"Pricing does introduce uncertainty and will impact demand and volume," he said in a conference call Tuesday morning with reporters.

Despite the larger than usual increases, P&G still forecast modest revenue growth in the current fiscal year, which began July 1. P&G said it expects organic sales to rise between 2% and 3% for the year,

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◆ Heard: P&G washout may run for another cycle..... B14

## Activist Buys Big Stake in Campbell

BY CARA LOMBARDO

Activist investor **Third Point** LLC has built a stake of more than \$300 million in **Campbell Soup** Co., according to a person familiar with the matter, adding to pressure on the soup maker as it seeks to turn around its business and reverse a sharp stock-price decline.

While it isn't clear exactly how big the stake is in dollar terms, it amounts to more than 2.5% of Campbell's stock. Third Point had filed for antitrust clearance, people familiar with the matter said, which is necessary if the firm wants to increase its stake and get involved with business decisions at Campbell. A 30-day waiting period ended earlier this week without the government objecting.

Third Point founder Daniel Loeb, who like other activists frequently pushes companies he invests in to sell all or part of themselves, has spoken with Campbell's interim chief executive, Keith McLoughlin, about possible courses of action, the people said. It isn't clear what Third Point's plans for the stake are or whether it plans to go public with them.

Campbell said that it maintains an open dialogue with its shareholders. The company expects to discuss the results of a strategic review of its businesses it is conducting in late August, around when it is slated to report quarterly earnings. The strategic review is being led by consultants at **Deloitte** LLP with help from deal-advisory firm **Centerview Partners**, one of the people said.

Campbell is at a pivotal moment in its 150-year history as its namesake canned soups and other heavily processed foods have fallen out of favor with consumers and attempts to pivot to fresher offerings such as Bolthouse Farms juices have stumbled.

Former Chief Executive Denise Morrison stepped down abruptly in May after a seven-year run and the company said it would review its product portfolio, which could involve selling or spinning off brands or divisions or distributing resources differently. Company officials have said all options are on the table, stoking speculation of a full sale to a rival or private-equity group.

Crucial to the outcome of the strategic review is a group of insider shareholders, including the Campbell Trust and three descendants of the company's founder who are also board members. Together, this group owns about 42% of Campbell's shares, according to FactSet.

These arrangements are increasingly unpopular with investors. Parent companies have often listed subsidiaries to raise cash while retaining some control, said Ryoko Ueda, a governance researcher in London at **Mizuho International**

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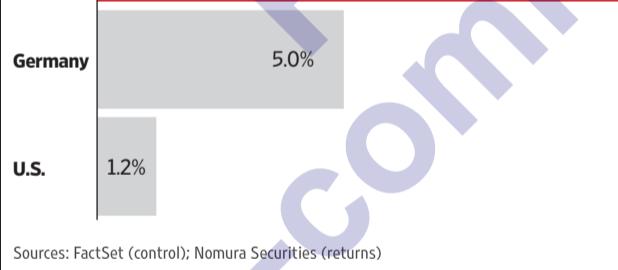


TOMOHIRO OHSUMI/BLOOMBERG NEWS

### Low Return

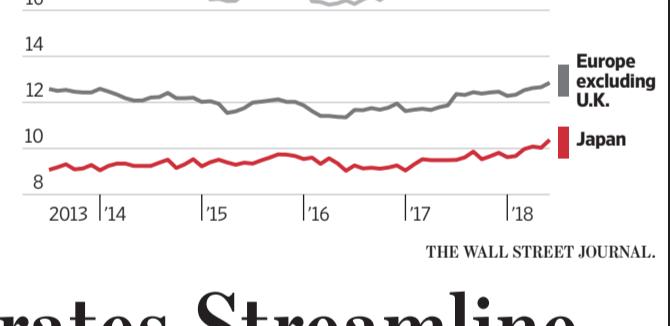
Profitability at companies in Japan, where many firms are controlled by other listed groups, is lower than in other developed nations.

Share of listed companies that are at least 33.4% owned by a peer



Sources: FactSet (control); Nomura Securities (returns)

### Return on equity, MSCI World constituents



THE WALL STREET JOURNAL.

## Japan's Conglomerates Streamline

BY KOSAKU NARIOKA

TOKYO—Time may be running short for the Japanese conglomerate.

Growing pressure to improve returns and corporate governance is straining the decades-old ownership ties that bind many public companies together in the world's third-largest economy. That is creating openings for foreign investors, with private-equity firms such as **KKR** & Co. Inc. buying out corporate subsidiaries, and hedge funds like **Elliott Management** Corp. betting on cur-

rent or future takeover targets.

The change is part of a broader push by Prime Minister Shinzo Abe's government. It wants a greater focus on shareholder returns—not traditionally a high priority for Japanese executives—as it has steered public pension funds into investing more in stocks. The Abe administration also wants to see management made more accountable to boards and shareholders.

Henry Kravis, co-founder of KKR, has likened the shift under way to the U.S. in the 1980s, when lumbering con-

glomerates started to fall out of fashion. In some cases, the more focused companies that replaced them were owned by private-equity firms and more indebted.

Many Japanese corporations across different industries belong to interlinked groups known as *keiretsu*, often with shareholdings in one another, but the sharpest scrutiny is falling on listed companies that are effectively controlled by other publicly traded peers.

This includes both subsidiaries, where a parent company has more than half the voting

shares, and affiliates whose largest shareholder yields a stake of 33.4% or more. In Japan, 11% of public companies are at least 33.4% owned by another enterprise. That compares with 1.2% in the U.S. and 5.0% in Germany, according to FactSet.

These arrangements are increasingly unpopular with investors. Parent companies have often listed subsidiaries to raise cash while retaining some control, said Ryoko Ueda, a governance researcher in London at **Mizuho International**

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## Commercial Property M&A Booms



HOT TIME: Brookfield Asset Management, helping fuel the deals market, agreed to pay \$6.77 billion for Forest City, a REIT that owns holdings in big-city markets like New York's 42nd Street. B6

## Tape of Ailing Mogul Is Issue In CBS-Redstone Legal Fight

BY JOE FLINT AND KEACH HAGEY

**CBS** Corp. alleged that its vice chairman, Shari Redstone, pushed to remove a board member earlier this year after he recorded a meeting with her father, CBS Chairman Emeritus Sumner Redstone, to document his medical condition.

The claim came in a court filing Tuesday as part of CBS's legal battle for control of the broadcaster with the Redstone family's **National Amusements** Inc., a holding company that has a nearly 80% voting stake.

CBS asked a Delaware judge to allow Mr. Redstone to be deposed in the case or otherwise nullify testimony on his behalf. Mr. Redstone's health has declined so significantly that he cannot speak much beyond grunts, and he has been at the center of years of litigation over his mental capacity, though he hasn't been deemed incapacitated.

Arnold Kopelson, a CBS director and longtime friend of Mr. Redstone, recorded his visit with the 95-year-old media mogul in January to, in his words, "memorialize Mr. Redstone's physical state," according to the filing. CBS said the

video shows that Mr. Redstone is "incapable of communicating his views on this case."

"The seriousness of Mr. Redstone's medical condition should not entitle [National Amusements] to offer 'self-serving testimony' about Mr. Redstone's or National Amusements' intentions that CBS wouldn't be able to prove or disprove," CBS said in its filing.

A National Amusements spokeswoman alleged that Mr. Kopelson's video was recorded secretly in Mr. Redstone's home, in violation of California law, and said the holding company did raise concerns

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## P&G Opts To Raise Its Prices

Continued from page B1 compared with 1% in the year just ended. Organic sales omit factors such as acquisitions, divestitures and currency fluctuations.

P&G has let retailers know about those increases, a P&G spokesman said. The company may raise prices on other products, and cut others. Luvs diapers, for instance, will get cheaper.

Executives at rival Colgate-Palmolive Co. have also promised higher prices. On an earnings call Friday, Colgate executives said they were increasing prices in emerging and developed markets in the second half of the year in response to the rising cost of raw materials.

Executives cautioned that increases would be modest given the heavy discounting in the consumer-staples sector.

"Given the current promotional activity, we may not see competitors follow immediately, and we intend to remain rational, but we also understand the need to protect our market shares," Colgate's Chief Executive Ian Cook said on the call.

Household goods appear to be getting slightly more expensive. Pricing for the top 50 U.S. household and personal-care products rose 2.2% in the four-week period ended July 14, according to Nielsen data provided by Wells Fargo.

U.S. inflation is gradually on the rise. The Commerce Department said Tuesday the price index for personal-consumption expenditures, the Federal Reserve's preferred inflation measure, was up 2.2% in June from a year earlier and rose 0.1% from May. That marked the fourth month in a row the gauge has matched or exceeded the Fed's 2% year-

over-year target.

Separately, the Labor Department said the employment-cost index, a measure of wages and benefits for civilian workers, increased 2.8% in the year to June, which marked the strongest gain since the third quarter of 2008. That signals historically low unemployment is putting upward pressure on companies' labor costs.

P&G, which added activist investor Nelson Peltz to its board earlier this year after a contested proxy vote, has been under pressure to show that it can win back shoppers who have turned to lower-cost and upstart brands, or cut back purchasing altogether.

The company will likely succeed in pushing up prices, but the bump may be short lived, SunTrust analyst William Chappell said. If others don't follow suit, or if shoppers cut back purchases, P&G will likely have to rely on promotions to win back sales. "I think most investors expect that to happen, but it's too early to tell," he said.

In the fourth quarter, which ended June 30, profit at P&G fell 15% to \$1.89 billion, or 72 cents a share.

Total revenue rose 3% to \$16.5 billion, boosted by currency swings.

The company said organic sales rose 1%, as lower prices in four of its five major product segments offset volume gains. P&G said prices overall fell 2% during the quarter. In its fabric and home care business and its grooming division, price drops were a bit steeper, falling 3%.

In the company's grooming segment—which includes products like Gillette razors—organic sales dropped 3%. Organic sales rose 7% in the beauty division, which includes hair-care products, and 2% in fabric and home care.

P&G Chief Executive David Taylor said sales remain too weak. "I am confident that interventions are working," he said in a call with analysts.

## Betting on the Brand

After years of discounting, P&G is betting a strong economy will allow it to push through price increases on some of its biggest brands.

## U.S. consumer-price index, change from a year earlier\*



\*City average, all urban consumers, not seasonally adjusted

Source: Labor Department

## BUSINESS & FINANCE

# Samsung's Mobile Earnings Slide

By TIMOTHY W. MARTIN

SEOUL—Samsung Electronics Co. might have misdialed on the \$1,000 smartphone era.

Fewer buyers than expected have shelled out top dollar for Samsung's new flagship device, the Galaxy S9, whose high-end versions approach the \$1,000 mark. The consumer rebuke, plus heavier marketing expenses, caused second-quarter mobile-unit profit to drop by roughly one-third from a year earlier.

The poor sales prompted a Samsung handset executive to make a rare acknowledgment that the world's largest smartphone maker might have been too cautious in adding bells and whistles to its handsets, as rivals pushed forward with more cutting-edge hardware.

The company's focus on delivering more surefire features "may have resulted in a conservative approach to adopting new technologies," said Lee Kyeong-tae, vice president of Samsung's mobile-communications business, on the company's earnings call on Tuesday.

Mr. Lee also acknowledged that rising price tags were "drawing market resistance."

Samsung is absorbing the



Some versions of the Galaxy S9 smartphone, foreground, carry price tags approaching \$1,000.

largest blow from a smartphone industry that is struggling with a historic sales slump.

Prices can't rise much more, if at all, and Samsung is

losing ground to less-costly Chinese competitors wooing more budget-conscious users, from Europe to India, with feature-rich devices.

The smartphone industry

suffered its first decline in shipments last year. They fell 0.3% from 2016, according to IDC, a market researcher. Sales are projected to drop again this year.

The leaner times are prompting some industry shifts. During the April-to-June period, Huawei Technologies Co. is expected to have surpassed Apple Inc. as the world's second-largest smartphone maker, the first time the Chinese company has done so on a quarterly basis, according to IHS Markit projections. Samsung remains No. 1.

Huawei said Tuesday its unaudited first-half revenue across the company rose 15% from a year earlier, with an operating margin of 14%.

Apple said Tuesday that its revenue rose 17% in the company's latest quarter, while its profit increased 32%.

Though robust memory-chip sales elevated Samsung's overall results, the company said Tuesday that mobile operating profit fell to 2.67 trillion won (\$2.39 billion) for the quarter ended June 30, down 34% from 4.06 trillion won a year earlier. The unit's revenue fell 20%.

—Tripp Mickle contributed to this article.

## Videogame Business Drives Sony Profit

By TAKASHI MOCHIZUKI

TOKYO—Sony Corp. reported another strong quarter of earnings, buoyed by stable sales of electronics hardware, strength in its PlayStation videogame business and demand for smartphone camera components.

Sony's fiscal first-quarter earnings were also lifted by the sale of part of its stake in Spoo-

tify Technology SA.

Sony posted record operating profit for its March-ended fiscal year, and chief executive, Kenichiro Yoshida has said the company would focus on keeping up the pace.

For the April-June period, the Japanese electronics and entertainment conglomerate reported net profit of ¥226.4 billion (\$2.04 billion) on ¥1.95 trillion (\$17.55 billion) in reve-

nue, compared with net profit of ¥80.9 billion on ¥1.86 trillion in revenue in the same quarter last year. Its operating profit rose to ¥195 billion from ¥157.6 billion.

During the quarter, all Sony units, except movies and smartphones, recorded operating profit, with the PlayStation business posting the highest, at ¥83.5 billion. Its semiconductor unit also reported strong sales,



Panels with combustible polyethylene cores made by Arconic were used on the exterior of the Grenfell Tower in London.

## Arconic Puts Panel Maker Up for Sale

By BOB TITA

AND AUSTEN HUFFORD

Arconic Inc. said it is looking to sell the business that made the aluminum panels involved in the deadly June 2017 Grenfell Tower fire in London.

Arconic said its building and construction products unit no longer fits with its emphasis on high-value aluminum components for the aerospace industry and auto makers.

The possible sale comes during a strategic review of the company's business units and as it faces takeover approaches from at least two private-equity groups, according to people familiar with the matter, in what would be one of the biggest recent leveraged buyouts.

Blackstone Group LP and Carlyle Group LP made a joint

approach to the aerospace-parts maker, while Apollo Global Management LLC also expressed interest, the people said. Arconic stock is up 24% since The Wall Street Journal reported the private equity interest, including 4% Tuesday.

Chief Executive Chip Blankenship declined to comment on the approaches. "We're not going to comment on the rumors out in the press," Mr. Blankenship told analysts during a conference call Tuesday.

Arconic makes aluminum and titanium parts for the aerospace, automotive, building and energy industries. It was separated from what is now Alcoa Corp. in 2016 in a move to create a company with higher-value products and less exposure to what was then a slumping aluminum market.

On Tuesday, the company reported second-quarter results that topped analysts' expectations, despite a \$20 million hit to profit from rising aluminum costs. Arconic said, however, it expects the impact of aluminum costs on profit to be about \$130 million greater this year than in 2017. It detailed price swings of more than \$700 a metric ton between the high and the low price of aluminum during the quarter.

## BUSINESS NEWS

## Honda Gets A Boost From Its Motorcycles

BY SEAN MCCLAIN

TOKYO—Like other auto makers, **Honda Motor Co.** is getting hit by higher costs resulting from U.S. metals tariffs. But helping ease the pain for the Japanese company are its two-wheelers.

Sales of Honda's motorcycle models, which are doing well in Asia, rose 14% and drove up earnings in the latest quarter, the company said Tuesday.

The bulk of its motorcycles are sold in poorer nations, often for less than \$1,000. But they are profitable. Honda's operating margin for its motorcycle business was 16.6% for the June-ended fiscal first quarter, compared with 5.3% for its car business.

In India, Honda's biggest motorcycle market, sales grew by 28% in June.

Honda said Tuesday that its auto plant in Celaya, Mexico, was damaged by floodwaters and wouldn't resume production until mid-November. The factory produces the Fit sub-compact and the HR-V small sport-utility vehicle.

An even bigger hit—an estimated ¥75 billion (\$675 million)—will come from rising raw-material costs, Honda said. Prices for steel and aluminum have risen sharply, particularly in the U.S. as a result of tariffs imposed by the Trump administration. That makes foreign steel more expensive and allows domestic producers to raise prices, boosting costs at Honda's production facilities in the U.S.

Honda also produces more than 200,000 vehicles in Mexico. Seiji Kuraishi, Honda's chief operating officer, said the "biggest impact" from trade conflicts would come if there were changes to the North American Free Trade Agreement, which allows Honda to export freely to the U.S. from Mexico.

# Oil Prices Propel BP's Resurgence

Energy producer's quarterly profit soars; Deepwater disaster remains financial drag

BY SARAH KENT

LONDON—**BP PLC** on Tuesday said second-quarter profit jumped, as higher oil prices helped the company push its ambitious growth plans.

The London-based energy producer said its replacement-cost profit—a metric analogous to the net income that U.S. oil companies report—tripled from last year's second quarter to \$1.8 billion.

After years of cost-cutting and financial restructuring when crude prices slumped, BP and other big oil companies are benefiting from a recovery in the market. Oil prices are up more than 10% since the start of the year, leading to higher profit and cash flow for producers.

Brent crude prices averaged nearly \$75 a barrel from April to June, compared with an average of roughly \$50 a barrel in the same three months last year.

BP's production in the first half rose 3% from a year earlier, delivering on a strategy to



Oil prices are up more than 10% since the start of the year. A BP oil-field facility in Wyoming.

return to its former size by the early 2020s. "I can't remember when it has looked this good," BP Chief Executive Bob Dudley said.

Last week, the company announced a \$10.5 billion deal to acquire some of the hottest assets in U.S. shale country.

The acquisition marked BP's biggest in nearly 20 years and signaled the company's growing confidence. At the same time, it said it would increase its dividend for the second quarter by 2.5%.

BP is on track with its plan to restore growth following

### Back to Black

BP's profit\* is benefiting from higher oil prices.



\*Replacement-cost profit  
Source: the company

requires the company to make annual payments of around \$1 billion through the end of the next decade. Payments in 2018 are expected to total just over \$3 billion after tax.

BP caps off a mixed earnings season for the world's biggest oil companies. The likes of Exxon Mobil Corp., Chevron Corp. and Royal Dutch Shell PLC all posted sharply higher profit, but for the most part failed to impress investors who had expected even bigger windfalls.

## Pfizer to Raise R&D Spending and Expedite Drugs

BY NISHANT MOHAN AND JONATHAN D. ROCKOFF

**Pfizer Inc.** plans to increase research and development spending and focus on smaller deals in a bid to accelerate the delivery of potential blockbuster treatments to market.

"We now believe we are getting close to a growth period," Pfizer Chief Executive Ian Read said in an interview.

The New York City-based drugmaker on Tuesday raised projections for R&D spending to between \$7.7 billion and \$8.1 billion, up from \$7.4 billion to

\$7.9 billion, as it seeks to bring several cancer, pain and other drugs in the later stages of development to the market.

Pfizer announced the R&D spending adjustment while reporting that its second-quarter revenue rose 4% to \$13.47 billion, with currency movements providing much of the lift. Its net income grew to \$3.87 billion, or 65 cents a share, from \$3.07 billion, or 51 cents a share.

Pfizer is now doubling down on its own R&D efforts, after looking to do a big deal in the past few years. The company

expects 25 to 30 drugs from its pipeline to be approved through 2022, including as many as 15 with the potential to ring up \$1 billion in yearly sales.

Citing that potential, Mr. Read told analysts the company wasn't interested in a big deal any longer. A bid to buy AstraZeneca PLC in 2014 and a subsequent attempt to merge with Allergan both failed.

"I don't believe we need such a deal to drive the growth of the company. We'd be better off focusing on developing our pipeline," Mr. Read said during

an earnings call. He said the company will look at smaller deals that would add to Pfizer's product offerings, perhaps for a gene therapy.

Mr. Read also said it would likely help drug companies like Pfizer if the Trump administration goes through with plans to eliminate the rebates they pay to drug-benefit managers.

After facing criticism from President Trump over prices, Pfizer said in July it would defer planned increases on more than 40 drugs while the administration implements its plans for tackling drug prices.

In the latest quarter, Pfizer's results were boosted by the performance of key brands, such as the blood thinner Eliquis, Ibrance breast-cancer pills and rheumatoid-arthritis therapy Xeljanz. Pfizer also got a \$377 million revenue lift from a stronger dollar.

Yet Pfizer expects foreign exchange to turn into a headwind, and it lowered its revenue target for the year to between \$53 billion and \$55 billion. Pfizer shares, which have gained 16% over the past year, rose 3.5% to \$39.93 on Tuesday.

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# THE PROPERTY REPORT

## Brookfield Will Acquire REIT

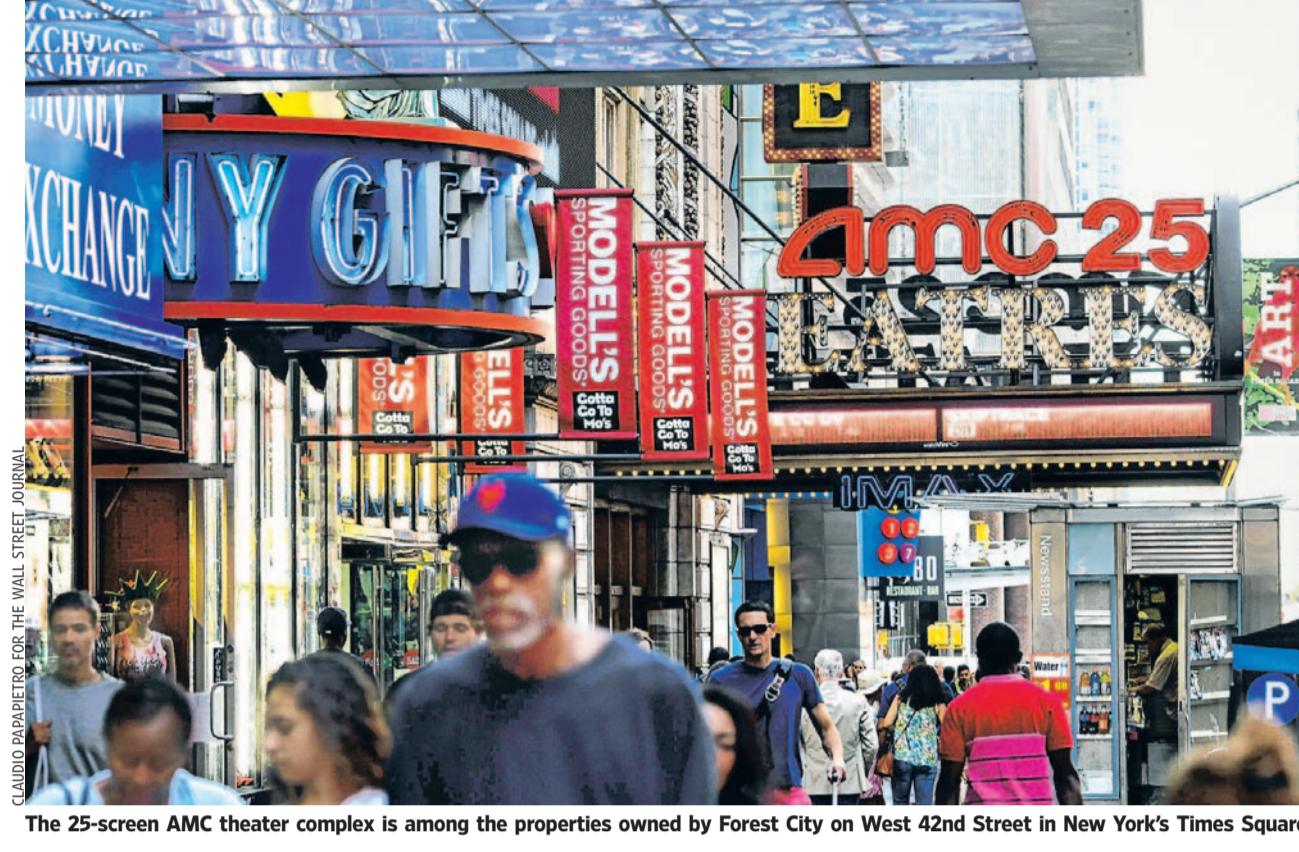
Company will buy Forest City for about \$6.77 billion; bid earlier this year was rejected

By PETER GRANT  
AND AISHA AL-MUSLIM

**Brookfield Asset Management Inc.** has agreed to buy real-estate developer Forest City Realty Trust Inc. for about \$6.77 billion in a deal that further fuels this year's mergers-and-acquisitions boom in the commercial property sector.

Toronto-based Brookfield, one of the world's biggest commercial real-estate owners, will pay \$25.35 a share for Cleveland-based Forest City, which owns 18,500 apartments and over 10 million square feet of office, retail and life-sciences space. The price represents a 26.6% premium from Forest City's closing price on June 15, before media reports revealed that Brookfield was in talks to acquire the company. The deal puts an \$11.4 billion valuation on Forest City, which includes debt.

Brookfield, which has \$155 billion of real-estate assets under management, has had its eye on Forest City for a long time, Brian Kingston, chief executive of Brookfield Property Group, said in an interview. Forest City, a real-estate investment trust, has properties in some of the top cities in the U.S., including New York and San Francisco, as well as a pipeline of development projects that Brookfield is eager to



The 25-screen AMC theater complex is among the properties owned by Forest City on West 42nd Street in New York's Times Square.

take over, he said.

Many of the projects are "transit oriented" and mixed use with apartments, retail and office, Mr. Kingston said. "It's exactly in our sweet spot."

Brookfield was in talks with Forest City earlier this year, but its bid of \$25 a share was rejected. Besides being 35 cents a share higher, the new bid also eliminates some of the contingencies that Brookfield originally wanted, according to Sheila McGrath, an

analyst with Evercore ISI.

The deal marks the latest example of an acquisition in the REIT sector this year. The real-estate companies have become targets because their shares are trading at a discount to the value of the properties they own. Other deals have included the planned acquisition of student-housing developer **Education Realty Trust Inc.** by Greystar Real Estate Partners; and **Blackstone Group LP's** plans to buy **Gramercy Property Trust.**

"We haven't seen this level of takeout probabilities since 2006," said Cedrik Lachance, an analyst with Green Street Advisors. "It's just a matter of time before we see more deals."

Forest City was founded in 1920 and has been controlled throughout most of its history by Cleveland's Ratner family. In recent years, though, dissident shareholders have been putting pressure on the company to make changes in its structure, balance sheet and

management. Affiliates of two of the dissident shareholders have voiced their support of the Brookfield deal. Affiliates of **Starboard Value LP** and **Scopia Capital Management LP**, which own a total of about 14% of Forest City's shares outstanding, have entered into agreements to vote their shares in favor of the transaction, according to a press release by the two companies.

A spokesman for Forest City declined to comment further.

## Chinese Investors Pile Into Local Property Sector

By PETER GRANT

Chinese investors have been buying commercial property domestically at the fastest rate ever as new institutions and funds join the market and traditional players focus more on their home shores in response to government-imposed capital controls on offshore investment.

Domestic buyers purchased a record \$564.9 billion worth of office buildings, shopping centers, development sites and other commercial property in China last year, according to real-estate data firm Real Capital Analytics. By comparison, domestic buyers did \$395.8 billion in such deals in 2016, the firm said. The majority of the deals each year involved development sites.

Domestic investors pulled back slightly in the early part of this year as Beijing began raising concerns about debt and financial risk. But the government has eased that pressure lately to stimulate a softening economy and soothe market worries over escalating trade tensions with the U.S.

"There is obviously more domestic capital chasing transactions in China," said Rush Desai, chief executive of the Asia and Pacific region for Allianz Real Estate, the real-estate investment unit of Allianz SE, the Munich-based fi-

nancial-services firm.

The sharp increase in investment by Chinese investors is helping turn the Chinese real-estate market into one of the largest in the world. Including acquisitions by Hong Kong firms and other foreign investors, there was a total of \$633.4 billion in deals last year, up from \$456.2 billion in 2016, Real Capital said.

At the same time, the surge in domestic activity is driving up prices, making the market trickier for foreign investors to compete in. Some have moved to the sidelines. Others are still very much in the game but are fine-tuning their investment strategies.

Chicago-based **LaSalle Investment Management Inc.**, which has about \$60 billion in real-estate assets under management, in April acquired Shanghai International Plaza, a mixed-use tower with 24 stories of office space on a six-story retail podium, for an undisclosed price. LaSalle is planning to make the investment work partly by converting some of the retail space into more desirable office space.

LaSalle is confident it can do this because it has more than a decade of experience investing in the country, said Claire Tang, the firm's head of acquisitions for China. "We are foreign capital, but our

team has local expertise," she said.

The Chinese real-estate market is young compared with that of the U.S. and Eu-

tropes to appeal to institutional investors.

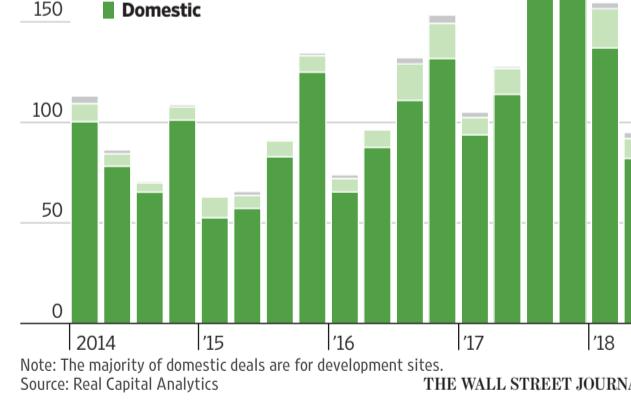
Chinese domestic investors used to be mostly individuals and family offices. But in recent years, more institutional players like insurance companies and homegrown private-equity firms have become more active.

"There's a local saying that the Chinese real-estate industry has come into the second round," said Megan Hu, managing director of World Union Investment, a Shanghai-based firm that currently has about six billion yuan (\$880 million) under management.

Ms. Hu's firm was formed in 2014 as the investment arm of Shenzhen-based World Union, one of China's largest real-estate services firms, which specializes mostly in residential property. Most recently, it acquired Cross Tower, a 24-floor office building in Shanghai, for 2.7 billion yuan.

### Domestic Dominance

Investment into China's property market



team has local expertise," she said.

The Chinese real-estate market is young compared with that of the U.S. and Eu-

rope. Until the development surge of the past two decades, major markets didn't have enough buildings with the design quality or leasing struc-

tures to appeal to institutional investors.

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## China Invests to Make Its Warehouses Smarter

By DOMINIQUE FONG

SHANGHAI—China's e-commerce giants are starting to build a new crop of smart warehouses that can keep up with the surging growth of the world's largest online retail sales market.

But that trend promises to add enormous costs to warehouse development. Modern robot and conveyor-belt systems require a multitude of upgrades not found in traditional warehouses like higher ceilings, more air conditioning, the amount of mezzanine space and other infrastructure.

GLP, China's largest owner of warehouse and distribution space, began offering tenants financing for smart upgrades and expansion two years ago,

the company said. Other warehouse landlords may soon feel pressure to follow suit, market participants say.

In May, GLP created a private-equity fund to invest 10 billion yuan (\$1.5 billion) in robotics, automation and big-data sectors that could complement its logistics real-estate business. It is "not sufficient to focus just on the facility itself," says Victor Mok, co-president of real estate at GLP China. "Our focus is to build a logistics ecosystem which considers every aspect of the supply chain, not just warehouse space."

To be sure, smart warehouses still make up just a sliver of the Chinese market.

Both foreign and domestic investors are carefully watch-

ing the smart-warehouse trend because the logistics property market is one of the fastest-growing sectors in the Chinese commercial real-estate industry. Last year, investors ac-

quired \$4.4 billion worth of warehouses and distribution centers, up from \$3.2 billion in 2016, according to data firm Real Capital Analytics.

China isn't as far along as U.S. and European markets in

shifting to smart warehouses because labor costs are cheaper there, reducing the benefit of automation. But as leading industrial landlords begin to make the transition, the topic of who is going to pay for it is coming up more, market participants say.

Chinese e-commerce giants, such as **JD.com Inc.**, **Suning.com Group Co.** and **Alibaba Group Holding Ltd.**, are now making big investments into the smart-warehouse real-estate sector as they look for an edge over rivals to deliver packages faster. In October, for example, JD.com began operating its first fully automated warehouse it owns in Shanghai.

For now, China is a landlords' market, making it easier

for them to fend off requests from tenants to put up money to upgrade smart warehouses. Vacancy rates are at a record low, analysts say.

Still, landlords may want to invest in smart warehouses to increase chances of approvals from local governments, as Beijing positions China as a global leader in artificial intelligence and other high-tech development.

Also, some market participants say expectations are changing rapidly. "We're definitely entering an era where it's no longer, 'Come and lease my building,'" said Stuart Ross, head of Chinese industrial property for JLL. "It also has to have high-level tech."

—Peter Grant

contributed to this article.

## China's Web Giants Rush to Buy Stores

By ESTHER FUNG

The biggest online retailers in China are buying, building and refurbishing big portfolios of convenience stores, supermarkets and department stores, embracing a much more expansive bricks-and-mortar strategy than their U.S. counterparts.

Some of the leading e-commerce companies in the U.S. are opening or acquiring physical stores, but at a more modest pace. **Amazon.com Inc.** has opened 69 pop-up stores and 16 bookstores, and last year acquired Whole Foods, with its more than 460 grocery stores.

In China, e-commerce giants **Alibaba Group Holding Ltd** and **JD.com Inc.** own or have signed sales and data deals with thousands of convenience stores, supermarkets and department stores.

Alibaba last year acquired retail property owner **Intime Retail (Group) Co.**, which has 32 department stores and 30 shopping malls in China. It has been acquiring stakes in retailers such as consumer-electronics seller **Suning Commerce Group** and home-improvement chain **Beijing Easyhome Investment Holdings Group Co.**

To expand its grocery business in China, Alibaba now operates 57 Hema supermarkets, a high-end chain. It also has purchased interests in grocery-store and hypermarket operators **Lianhua Supermarket Holdings** and **Sun Art Retail Group**, which operate thousands of stores between them.

"In retail, we're anticipating changing consumer behavior and the increasing expectations of quality and convenience, whether these consumers shop online or in offline stores," said Joseph Tsai, executive vice chairman of Alibaba, during the company's earnings call in May.

JD.com, China's largest online and offline retailer by revenue, has opened thousands of convenience stores in the past two years and has partnered with convenience-store operators such as FamilyMart, 7-Eleven and Lawson. The company, whose investors include **Alphabet Inc.'s Google**, **Walmart Inc.** and **Tencent Holdings Ltd.**, is also investing heavily in its own grocery chain, 7Fresh.

## Buffett Bets On Former Sears Tracts

By NICOLE FRIEDMAN

Warren Buffett's **Berkshire Hathaway Inc.** agreed to loan up to \$2 billion to **Seritage Growth Properties**, a real-estate investment trust created by **Sears Holding Corp.**

Seritage said it already used part of the loan to repay an outstanding mortgage loan and unsecured term loan. Sears spun off more than 200 of its top properties and joint venture interests to Seritage in 2015. Seritage then leased back many of the properties to Sears.

Mr. Buffett's conglomerate, which owns businesses spanning from railroads to jewelry companies, has been searching for profitable ways to spend its more than \$100 billion in cash. Berkshire has a history of lending to companies in exchange for favorable terms.

Mr. Buffett personally owned 5.7% of Seritage as of mid-March. He made the investment in 2015. It is rare for Mr. Buffett to invest in stocks besides Berkshire using his personal money. He said in 2016 that he chose Seritage because its business doesn't conflict with any of Berkshire's companies and it was too small in 2015 for Berkshire to invest in it.

The new loan to Seritage is separated into two parts. One of Berkshire's insurance units gave Seritage an initial loan of \$1.6 billion at a fixed 7% rate, and Seritage can borrow an additional \$400 million until mid-2023.

Seritage is due to report second-quarter earnings on Thursday after the close.

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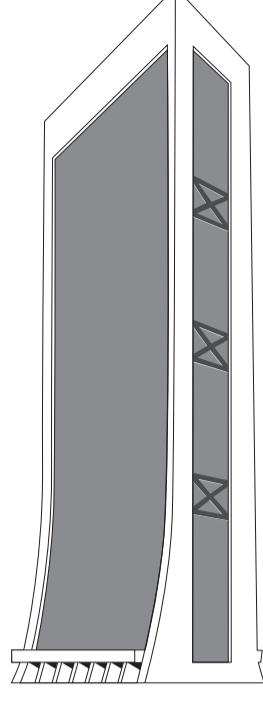
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**BUSINESS NEWS**

Redstone is in control of his empire. The company points to one filing in May in which National Amusements said Mr. Moonves was upset control had "migrated" from Mr. Redstone to his daughter and more recent filings that suggest "Mr. Redstone has the power to control NAI, and thus ultimately control CBS."

A person close to National Amusements said CBS was misinterpreting a line of its May filing that it has since clarified, noting that control never migrated to Ms. Redstone. The board of National Amusements has always had the power to vote the controlling CBS and Viacom stakes, the person said.

Earlier this year, The Wall Street Journal reported that in 2016, partly in response to questions about Mr. Redstone's mental capacity, National Amusements updated its bylaws to make clear that Mr. Redstone was simply one vote among seven on National Amusements board, despite owning 80% of the holding company's voting shares. It also expanded the list of officers who would sign off on board decisions from just the chief executive, who is Mr. Redstone, to include the president, who is Ms. Redstone.

Mr. Redstone retained the power to replace all National Amusements board members.

CBS says Shari Redstone pushed to remove a board member.

DREW ANGERER/GETTY IMAGES

rectors opposed a push by Ms. Redstone, National Amusements' president, to merge CBS with sister company **Viacom Inc.**

The CBS filing is the latest in a series of volleys in the dispute. National Amusements this week alleged in its own filing that CBS executives have deleted "highly relevant documents" in the case through the use of Tiger Text, a messaging app that erases messages after a period. National Amusements asked the court for de-

vices in which the app was used to be impounded so potential evidence can be recovered.

CBS said in a statement that "Tiger Text was implemented by CBS's Information Security Group for cybersecurity reasons following the Sony hack, and was not developed or used for any nefarious or sinister communications as some have alleged."

CBS alleges that National Amusements has been shifting its story about whether Mr.

July 31, 2018

**Borrowing Benchmarks** | [WSJ.com/bonds](http://WSJ.com/bonds)**Money Rates**

Key annual interest rates paid to borrow or lend money in U.S. and international markets. Rates below are a guide to general levels but don't always represent actual transactions.

Inflation		Latest	Week ago	—52-WEEK—	Latest	Week ago	—52-WEEK—	Latest	Week ago	—52-WEEK—
		June index level	Chg From (%) May '18 June '17		Japan	1.475	1.475	1.475	1.475	1.475
<b>U.S. consumer price index</b>		251.989	0.16	2.9	2.000	1.970	2.000	1.970	1.970	0.940
All items		257.697	0.09	2.3	0.50	0.50	0.50	0.50	0.50	0.50
Core					0.50	0.50	0.50	0.50	0.50	0.25
<b>International rates</b>					1.50	1.50	1.50	1.50	1.50	1.50
		Latest	Week ago	—52-Week—	U.S.	1.96	1.96	2.18	1.01	
						1.96	1.96	2.18	1.01	
<b>Prime rates</b>										
<b>U.S.</b>	5.00	5.00	5.00	4.25	2.50	2.50	2.50	2.50	2.50	2.50
Canada	3.70	3.70	3.70	2.95						

**U.S. government rates**

Discount

2.50 2.50 2.50 1.75

Federal funds

Effective rate 1.9300 1.9300 1.9500 1.0700  
High 2.1500 2.1500 2.1500 1.3125  
Low 1.8500 1.8700 1.9100 0.9800  
Bid 1.8800 1.8800 1.9200 1.0600  
Offer 1.9100 1.9100 2.1500 1.0700

Overnight repurchase

U.S. 1.96 1.96 2.18 1.01

Call money

3.75 3.75 3.75 3.00

Commercial paper (AA financial)

90 days 2.12 2.11 2.31 1.14

**Treasury bill auction**

4 weeks 1.910 1.880 1.910 0.940

13 weeks 2.000 1.970 2.000 1.000

26 weeks 2.160 2.140 2.160 1.115

**Secondary market****Fannie Mae**

30-year mortgage yields

30 days 4.228 4.229 4.344 3.253

60 days 4.253 4.254 4.371 3.281

**Euro interbank offered rate (Euribor)</**

## MARKETS DIGEST

## EQUITIES

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Trailing P/E ratio 23.06 19.93  
P/E estimate \* 16.59 18.42  
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Bars measure the point change from session's open

Apr. May June July

\*Weekly P/E data based on as-reported earnings from Birinvi Associates Inc.

## S&amp;P 500 Index

**2816.29** ▲13.69, or 0.49%  
High, low, open and close for each trading day of the past three months.

Trailing P/E ratio \* 24.13 23.94  
P/E estimate \* 17.65 18.94  
Dividend yield 1.82 1.97  
All-time high 2872.87, 01/26/18



Bars measure the point change from session's open

Apr. May June July

\*Weekly P/E data based on as-reported earnings from Birinvi Associates Inc.

## Nasdaq Composite Index

**7671.79** ▲41.78, or 0.55%  
High, low, open and close for each trading day of the past three months.

Trailing P/E ratio \* 26.11 25.75  
P/E estimate \* 21.43 21.45  
Dividend yield 0.96 1.10  
All-time high: 7932.24, 07/25/18



Bars measure the point change from session's open

Apr. May June July

\*Weekly P/E data based on as-reported earnings from Birinvi Associates Inc.

## Major U.S. Stock-Market Indexes

	High	Low	Latest Close	Net chg	% chg	High	52-Week Low	% chg	YTD % chg	3-yr. ann.
	Dow Jones	Industrial Average	Transportation Avg	Utility Average	Total Stock Market	Barron's 400	Nasdaq Composite	Nasdaq 100	PHLX® Gold/Silver	PHLX® Oil Service
<b>Dow Jones</b>	25490.98	25345.21	<b>25415.19</b>	108.36	<span style="background-color: #00A000; color: white;">0.43</span>	26616.71	21674.51	<b>15.7</b>	2.8	<b>12.8</b>
Industrial Average	11143.57	10962.55	<b>11077.10</b>	143.57	<span style="background-color: #00A000; color: white;">1.31</span>	11373.38	9021.12	<b>21.1</b>	4.4	<b>9.7</b>
Transportation Avg	725.17	717.70	<b>724.24</b>	7.22	<span style="background-color: #00A000; color: white;">1.01</span>	774.47	647.90	<b>-0.6</b>	0.1	<b>7.4</b>
Utility Average	29314.35	29120.73	<b>29230.11</b>	167.08	<span style="background-color: #00A000; color: white;">0.57</span>	29630.47	25030.26	<b>14.0</b>	5.6	<b>10.0</b>
Total Stock Market	754.69	746.36	<b>752.90</b>	6.54	<span style="background-color: #00A000; color: white;">0.88</span>	761.84	629.56	<b>14.8</b>	5.9	<b>10.1</b>
Barron's 400	7272.96	7179.41	<b>7231.98</b>	38.88	<span style="background-color: #00A000; color: white;">0.54</span>	7508.59	5786.54	<b>22.7</b>	13.1	<b>16.4</b>

## Nasdaq Stock Market

Nasdaq Composite	7709.49	7614.84	<b>7671.79</b>	41.78	<span style="background-color: #00A000; color: white;">0.55</span>	7932.24	6213.13	<b>20.6</b>	11.1	<b>14.4</b>
Nasdaq 100	7272.96	7179.41	<b>7231.98</b>	38.88	<span style="background-color: #00A000; color: white;">0.54</span>	7508.59	5786.54	<b>22.7</b>	13.1	<b>16.4</b>

S&P	500 Index	2824.46	2808.06	<b>2816.29</b>	13.69	<span style="background-color: #00A000; color: white;">0.49</span>	2872.87	2425.55	<b>13.7</b>	5.3	<b>10.2</b>
MidCap 400	1989.85	1969.24	<b>1984.49</b>	18.08	<span style="background-color: #00A000; color: white;">0.92</span>	2009.15	1691.67	<b>12.5</b>	4.4	<b>9.7</b>	
SmallCap 600	1051.93	1037.72	<b>1048.88</b>	12.32	<span style="background-color: #00A000; color: white;">1.19</span>	1059.77	817.25	<b>21.1</b>	12.0	<b>13.8</b>	

## Other Indexes

Russell 2000	1675.65	1653.57	<b>1670.80</b>	17.67	<span style="background-color: #00A000; color: white;">1.07</span>	1706.99	1356.90	<b>17.0</b>	8.8	<b>10.5</b>
NYSE Composite	12989.46	12903.43	<b>12963.28</b>	59.85	<span style="background-color: #00A000; color: white;">0.46</span>	13637.02	11699.83	<b>8.0</b>	1.2	<b>6.0</b>
Value Line	581.19	575.28	<b>580.22</b>	4.94	<span style="background-color: #00A000; color: white;">0.86</span>	589.69	503.24	<b>9.8</b>	3.2	<b>5.7</b>
NYSE Arca Biotech	5052.31	4985.46	<b>5023.58</b>	57.53	<span style="background-color: #00A000; color: white;">1.16</span>	5132.77	3787.17	<b>29.0</b>	19.0	<b>5.6</b>
NYSE Arca Pharma	568.93	563.67	<b>568.36</b>	5.11	<span style="background-color: #00A000; color: white;">0.91</span>	593.12	514.66	<b>7.1</b>	4.3	<b>-2.0</b>
KBW Bank	110.04	108.72	<b>108.94</b>	-0.74	<span style="background-color: #FF0000; color: white;">-0.68</span>	116.52	89.71	<b>12.5</b>	2.1	<b>11.6</b>
PHLX® Gold/Silver	77.80	76.61	<b>77.30</b>	0.61	<span style="background-color: #00A000; color: white;">0.80</span>	93.26	76.42	<b>-9.6</b>	-9.4	<b>17.6</b>
PHLX® Oil Service	152.51	149.70	<b>151.19</b>	-1.00	<span style="background-color: #FF0000; color: white;">-0.66</span>	170.18	117.79	<b>13.5</b>	1.1	<b>-5.6</b>
PHLX® Semiconductor	1386.07	1364.83	<b>1367.47</b>	8.91	<span style="background-color: #00A000; color: white;">0.66</span>	1449.90	1060.02	<b>25.3</b>	9.1	<b>28.4</b>
Cboe Volatility	14.12	12.81	<b>12.83</b>	-1.43	<span style="background-color: #FF0000; color: white;">-10.03</span>	37.32	9.14	<b>27.2</b>	16.2	<b>1.9</b>

\$ Nasdaq PHLX

Sources: SIX Financial Information; Dow Jones Market Data

## Late Trading

Most-active and biggest movers among NYSE, NYSE Arca, NYSE Amer. and Nasdaq issues from 4 p.m. to 6:30 p.m. ET as reported by electronic trading services, securities dealers and regional exchanges. Minimum share price of \$2 and minimum after-hours volume of 50,000 shares.

## Most-active issues in late trading

Company	Symbol	Volume (000)	Last	Net chg	% chg	After Hours	High	Low
SPDR S&P 500	SPY	10,584.4	281.92	0.59	<span style="background-color: #00A000; color: white;">0.21</span>	282.30	279.82	
Apple	AAPL	7,547.4	197.83	7.54	<span style="background-color: #00A000; color: white;">3.96</span>	197.83	189.86	
Invesco QQQ Trust I	QQQ	4,582.0	177.34	0.89	<span style="background-color: #00A000; color: white;">0.50</span>	177.69	176.10	
Twitter	TWTR	4,091.2	32.08	0.21	<span style="background-color: #00A000; color: white;">0.66</span>	32.08	31.38	
General Motors	GM	3,159.0	37.91	...	<span style="background-color: #00A000; color: white;">unch.</span>	37.98	37.67	
CYS Investments	CYS	2,736.8	7.31	...	<span style="background-color: #00A000; color: white;">unch.</span>	7.43	7.31	
Altria Group	MO	2,641.4	58.69	0.01	<span style="background-color: #00A000; color: white;">0.02</span>	58.84	58.45	
Bank of America	BAC	2,569.8	30.91	0.03	<span style="background-color: #00A000; color: white;">0.10</span>	31.31	30.87	

## COMMODITIES

WSJ.com/commodities

## Futures Contracts

## Metal &amp; Petroleum Futures

	Contract						Open interest
	Open	High	Low	Settle	Chg	Interest	
<b>Copper-High (CMX)</b> -25,000 lbs.; \$ per lb.							
Aug	2.7820	2.8225	2.7690	<b>2.8190</b>	0.040	3,054	
Sept	2.7950	2.8415	2.7690	<b>2.8315</b>	0.0395	161,363	
<b>Gold (CMX)</b> -100 troy oz.; \$ per troy oz.							
Aug	1220.40	1228.10	1213.00	<b>1223.70</b>	2.40	4,759	
Oct	1224.90	1232.60	1217.60	<b>1228.50</b>	2.10	54,460	
Dec	1230.50	1237.80	1222.60	<b>1233.60</b>	2.10	337,501	
<b>Feb'19</b>	1237.10	1242.80	1229.30	<b>1239.30</b>	2.20	29,109	
Jun	1248.20	1250.00	1241.60	<b>1250.90</b>	2.20	6,447	
Dec	1268.10	1270.00	1260.00	<b>1270.10</b>	2.10	3,748	
<b>Palladium (NYM)</b> -50 troy oz.; \$ per troy oz.							
Sept	923.80	934.30	919.80	<b>931.90</b>	9.40	18,609	
Dec	921.80	929.50	917.60	<b>928.60</b>	9.00	3,267	
<b>March'19</b>	923.00	923.00	860.00	<b>923.00</b>	8.60	132	
<b>Platinum (NYM)</b> -50 troy oz.; \$ per troy oz.							
Sept	840.70	840.70	840.50	<b>843.80</b>	14.30	17	
Oct	831.40	847.00	827.00	<b>845.80</b>	14.30	76,331	
<b>Silver (CMX)</b> -5,000 troy oz.; \$ per troy oz.							
Aug	15.555	15.555	15.520	<b>15.550</b>	0.025	652	
Sept	15.510	15.635	15.380	<b>15.559</b>	0.022	155,913	
<b>Crude Oil, Light Sweet (NYM)</b> -1,000 bbls.; \$ per bbl.							
Sept	70.09	70.22	68.05	<b>68.17</b>	-1.37	431,396	
Oct	68.84	68.95	66.97	<b>67.63</b>	-1.32	246,544	
<b>Jan'19</b>	67.72	67.76	66.06	<b>67.71</b>	-1.11	168,885	
Jun	65.82	65.93	64.60	<b>65.07</b>	-0.95	162,744	
Dec	64.00	64.15	63.02	<b>63.35</b>	-0.85	213,235	
<b>NY Harbor Usld (NYM)</b> -42,000 gal.; \$ per gal.							
Aug	2.1727	2.1727	2.1277	<b>2.1319</b>	-0.0391	4,144	
Sept	2.1790	2.1820	2.1261	<b>2.1374</b>	-0.0391	132,500	
<b>Gasoline-NY RBOB (NYM)</b> -42,000 gal.; \$ per gal.							
Aug	2.1607	2.1607	2.1174	<b>2.1291</b>	-0.0312	5,489	
Sept	2.1135	2.1166	2.0728	<b>2.0805</b>	-0.0327	161,331	
<b>Natural Gas (NYM)</b> -10,000 MMBtu; \$ per MMBtu.							
Sept	2.8000	2.831	2.772	<b>2.782</b>	-0.015	294,933	
Oct	2.821	2.847	2.790	<b>2.798</b>	-0.019	161,095	
Nov	2.871	2.894	2.834	<b>2.843</b>	-0.023	137,558	
<b>Jan'19</b>	3.062	3.083	3.029	<b>3.038</b>	-0.019	157,417	

## Contract

Open High hilo Low Settle Chg interest

March 2.928 2.945 2.894 **2.905** -0.020 131,947April 2.634 2.646 2.608 **2.616** -0.019 136,816

## Agriculture Futures

Corn (CBT)-5,000 bu.; cents per bu.

Sept 367.00 374.25 366.25 **372.25** 5.00 568,583Dec 381.25 388.50 380.25 **386.50** 5.25 808,631

Oats (CBT)-5,000 bu.; cents per bu.

Sept 232.25 237.75 232.25 **235.75** 3.00 1,620Dec 242.50 246.00 242.00 **245.75** 3.00 3,378

Soybeans (CBT)-5,000 bu.; cents per bu.

Aug 875.50 880.00 873.00 **893.75** 28.75 10,869Nov 891.00 922.25 888.75 **919.00** 28.00 435,233

Soybean Meal (CBT)-100 tons; \$ per ton.

Aug 334.40 342.60 333.30 **341.20** 7.30 7,396Dec 333.70 343.20 332.80 **341.40** 7.70 203,538

Soybean Oil (CBT)-60,000 lbs.; cents per lb.

Aug 28.35 28.81 28.32 **28.73** .42 5,307Dec 28.90 29.39 28.86 **29.30** .45 251,232

Rough Rice (CBT)-2,000 cwt.; \$ per cwt.

Sept 119.93 120.50 118.50 **119.50** -4.00 6,794Nov 119.50 119.80 119.00 **119.50** -4.00 1,529

Wheat (CBT)-5,000 bu.; cents per bu.

Sept 545.50 565.00 540.50 **553.75** 7.25 181,736Dec 565.00 584.50 560.75 **573.25** 6.75 171,188

Wheat (KCI)-5,000 bu.; cents per bu.

Sept 547.00 564.25 542.75 **556.50** 8.75 115,837Dec 574.75 591.00 570.00 **584.25** 9.50 99,662

Wheat (MPLS)-5,000 bu.; cents per bu.

Sept 599.50 614.50 598.00 **606.25** 5.25 26,382Dec 612.50 629.00 612.50 **622.75** 7.25 21,887

Cattle-Feeder (CME)-50,000 lbs.; cents per lb.

Aug 151.325 151.100 148.875 **149.325** -2.175 11,044Sept 151.275 151.425 148.875 **149.575** -1.75 15,446

Cattle-Live (CME)-40,000 lbs.; cents per lb.

Aug 108.225 108.500 107.550 **107.675** -.750 39,188Oct 109.625 110.150 **108.800** **109.300** -.500 125,724

Hogs-Lean (CME)-40,000 lbs.; cents per lb.

Aug 62.675 62.700 **60.875** **61.125** -2.175 23,091Oct 50.975 51.550 **50.125** **50.725** -.500 118,530

Lumber (CME)-110,000 bd ft.; \$ per 1,000 bd ft.

Sept 446.90 459.30 440.30 **455.40** 9.90 3,919

## Contract

Open High hilo Low Settle Chg interest

Nov 415.30 433.40 415.00 **430.40** 11.60 758**Milk (CME)**-200,000 lbs.; cents per lb.July 14.12 14.13 14.12 **14.12** ... 3,644Aug 14.90 14.90 14.75 **14.76** -.18 4,916**Cocoa (ICE-US)**-10 metric tons; \$ per ton.Sept 2,240 2,257 2,152 **2,170** -.69 72,613Dec 2,281 2,295 2,203 **2,220** -.55 75,699**Coffee (ICE-US)**-37,500 lbs.; cents per lb.Sept 111.40 111.80 109.55 **109.90** -.150 154,280Oct 114.70 115.00 112.80 **113.10** -.150 90,859**Sugar-World (ICE-US)**-112,000 lbs.; cents per lb.Oct 10.83 10.85 **10.45** **10.55** -.27 534,198March'19 11.77 11.77 **11.38** **11.48** -.26 290,561**Sugar-Domestic (ICE-US)**-112,000 lbs.; cents per lb.Sept 11.40 11.50 11.05 **11.15** -.150 10,000**British Pound (CME)**-\$62,500; \$ per £Aug 1,3137 1,3166 1,3136 **1,3132** -.0011 554Sept 1,3157 1,3200 1,3115 **1,3150** -.0011 178,154**Swiss Franc (CME)**-\$CHF 125,000; \$ per CHFSept 1,0158 1,0174 1,0133 **1,0140** -.0023 92,69

## BIGGEST 1,000 STOCKS

**How to Read the Stock Tables**

The following explanations apply to NYSE, NYSE Arca, NYSE American and Nasdaq Stock Market listed securities. Prices are composite quotations that include primary market trades as well as trades reported by Nasdaq BX (formerly Boston), Nasdaq Stock Exchange, Cboe, NYSE National and Nasdaq ISE. The list comprises the 1,000 largest companies based on market capitalization.

**Underlined quotations** are those stocks with large changes in volume compared with the issue's average trading volume.

**Boldfaced quotations** highlight those issues whose price changed by 5% or more if their previous closing price was \$2 or higher.

Wall Street Journal stock tables reflect composite regular trading as of 4 p.m. and changes in the closing prices from 4 p.m. the previous day.

Tuesday, July 31, 2018

Net Stock Sym Close Chg

A B C

ABB ABB 23.02 0.18

ADT ADT 9.01 0.23

AES AES 13.36 0.06

Aflac AGNC 45.64 0.21

AGNC Inv AGNC 19.47 -0.14

ANGI Homesvcs ANGI 15.71 0.22

Ansys ANSS 168.88 0.38

ASML ASML 214.00 -0.50

AT&T T 31.97 -0.03

AbbottLabs ABT 65.54 0.37

AbbVie ABBV 92.33 0.78

Abiomed ABMD 354.53 -1.89

Accenture ACN 159.33 -0.09

ActivationBliz ATVI 73.42 0.67

AdobeSystems ADM 244.68 2.36

AdvanceAuto AAP 141.23 0.55

AdvMicroDevices AMD 8.33 -1.09

Aegon AEG 0.65 0.12

AerCap AER 56.13 0.13

Aetna AET 188.39 -1.27

AffiliatedMtrs AMG 160.01 1.29

AgilentTechs AEE 66.44 1.41

AigcnoEagle AEM 41.88 -0.06

AirProducts APPD 164.17 2.94

AkamaiTech AKAM 75.62 -0.03

AlaskaAir ALK 62.83 0.45

Albermarle ALB 94.20 1.78

Alcoa AA 43.27 0.69

AlexandriaREst ARE 127.44 4.62

AlexionPharm ALXN 132.96 1.45

Alibaba BABY 187.23 2.41

AlignTech ALGN 356.65 8.07

Alkermes AKR 43.87 -0.09

Alleghany Y 629.27 0.60

Allergan AGN 81.54 0.61

AllianceData ADS 224.88 -0.20

AlliantEnergy LNT 42.97 0.66

Allstate ALL 95.13 0.52

AllyFinancial ALW 26.76 -0.46

AlnylamPharm ALNY 95.00 -1.81

Alphabet C GOOG 1217.26 -2.48

Alphabet A GOOGL 1272.27 -2.82

Altiba AABA 73.45 1.06

AlticeUSA ATUS 17.13 0.78

Altria MO 58.68 0.23

AlumofChina ACH 11.54 0.04

Amazon.com AMZN 17774.44 -1.78

Ambev ABEV 5.14 -0.11

Amdocs DOX 67.58 0.06

Amoco UHAL 377.09 5.87

Ameren AEE 6.20 0.64

AmericaMovil AMX 17.11 -0.06

AmericaMovil A AMOV 17.03 -0.03

AmerAirlines AAL 39.54 0.57

AEP AEP 17.14 0.74

AmerExpress AXP 99.52 -1.33

AmericanFin ADF 112.69 0.87

AmHomes4Rent AMH 22.14 0.19

AIG AIG 55.21 0.27

AmerTowerREIT AMT 148.24 5.52

AmerWaterWorks AWK 88.25 0.68

Ampriser AMR 6.14 0.83

AnadarkoPetrol APC 73.15 -0.56

AnalogDevices ADI 39.14 0.83

Apple AAPL 190.29 0.38

AppiMaterials AMG 48.63 0.72

Apptgroup APTV 102.43 0.27

Apтив APTV 98.07 5.57

AquaAmerica WTR 36.94 0.40

Aramark ARMK 40.21 0.47

ArcelorMittal MT 31.85 0.38

ArcherDaniels AGCL 30.56 0.22

Arconic ARCN 21.69 0.83

AristaNetworks ANET 25.73 2.13

ArrowElec ARW 75.84 0.92

AspenTech ASPN 95.79 0.78

AstraZeneca AZN 39.13 0.64

AthenaHealth ATHN 150.71 3.38

Athene ATHN 45.87 0.52

Atmel ATM 21.48 1.31

AutoZone AZO 70.53 0.70

Avalonbay AVI 176.85 4.68

Avangrid AGG 50.06 0.64

Apartmtnv APGN 42.65 0.88

ApolloGlbMgmt APO 35.50 0.60

Apple AAPL 190.29 0.38

AppiMaterials AMG 48.63 0.72

Apptgroup APTV 102.43 0.27

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AristaNetworks ANET 25.73 2.13

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AspenTech ASPN 95.79 0.78

AstraZeneca AZN 39.13 0.64

AthenaHealth ATHN 150.71 3.38

Athene ATHN 45.87 0.52

Atmel ATM 21.48 1.31

Avalonbay AVI 176.85 4.68

Avangrid AGG 50.06 0.64

Apartmtnv APGN 42.65 0.88

ApolloGlbMgmt APO 35.50 0.60

Apple AAPL 190.29 0.38

AppiMaterials AMG 48.63 0.72

Apptgroup APTV 102.43 0.27

Apтив APTV 98.07 5.57

AquaAmerica WTR 36.94 0.40

Aramark ARMK 40.21 0.47

ArcelorMittal MT 31.85 0.38

ArcherDaniels AGCL 30.56 0.22

Arconic ARCN 21.69 0.83

AristaNetworks ANET 25.73 2.13

ArrowElec ARW 75.84 0.92

AspenTech ASPN 95.79 0.78

AstraZeneca AZN 39.13 0.64

AthenaHealth ATHN 150.71 3.38

Athene ATHN 45.87 0.52

Atmel ATM 21.48 1.31

Avalonbay AVI 176.85

## BUSINESS &amp; FINANCE

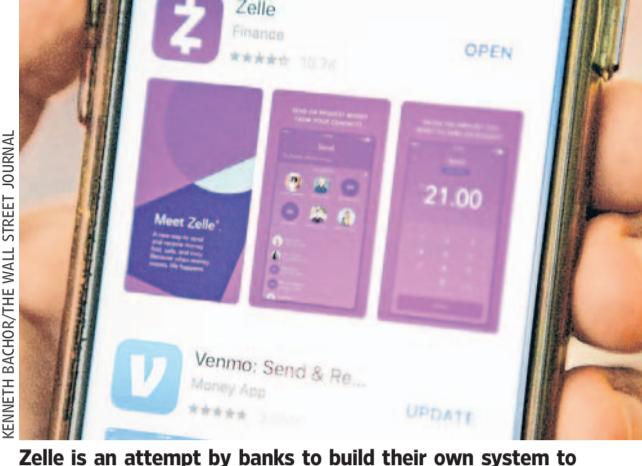
# Bank Cash-Transfer Service Trails Rivals

By CHRISTINA REXRODE  
AND PETER RUDEGEAIR

Zelle, the money-transfer service owned by the largest U.S. banks, says it "changes the way money moves." But it has struggled to distinguish itself from competitors it is trying to fend off.

Since Zelle's launch in June 2017, bank executives have touted the speed, security, convenience and breadth of its network, part of their campaign to deflect popular rivals like **PayPal Holdings Inc.**'s Venmo and **Square Inc.**'s Cash App. With Zelle, users can send and receive funds in minutes from their bank's smartphone app without handing over their banking account information to a third party.

A year in, Zelle's reviews are mixed. Usage is up, but most banks haven't signed on, meaning many consumers can't use it without downloading a separate app. It also fell short of its goal to have 33 banks on the network by its



Zelle is an attempt by banks to build their own system to compete against fintech startups.

first anniversary, and behind the scenes, it runs on plumbing that is more than 40 years old.

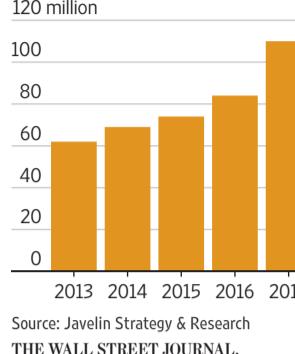
Zelle's rocky debut shows the challenges of trying to make alterations to an industry often slow to change and still weighed down by old infrastructure.

The stakes are high for the

banks, which are trying to find their place in a world moving rapidly toward digital payments. Zelle represents one of banking's biggest attempts to build its own systems to compete against financial-technology startups and prevent customers from roaming to other firms for their financial needs.

## Send Me the Money

U.S. consumers who have used a digital person-to-person payment system



Source: Javelin Strategy &amp; Research

THE WALL STREET JOURNAL.

ous quarter. PayPal recorded about \$33 billion of person-to-person payments in that same period, up 10%. That included \$14 billion from Venmo and \$19 billion from PayPal's namesake app and Xoom, its international remittance service.

Lou Anne Alexander, group president for payments at Early Warning Services LLC, the bank-owned company that operates Zelle, said she eventually wants every U.S. financial institution to be on the network. So far, 24 are, with about 120 set to join. Those 24 represent about half of U.S. deposits but 0.2% of the country's 11,000-plus banks and credit unions. Unlike other payments services, two customers can use Zelle only if at least one of them is on an network institution.

Todd Clark, chief executive of CO-OP Financial Services, a payments and technology company serving credit unions, said the bulk of his 3,000-plus credit unions are

interested in Zelle, though only about 50 are in discussions with CO-OP to implement it. Many of CO-OP's credit unions are already on a CO-OP money-transfer service called RealPay.

The biggest banks launched Zelle with much fanfare—a star of the musical “Hamilton” touted the app in a prime-time commercial—but it was more a reincarnation of an older network than a new one.

In 2011, Bank of America Corp., JPMorgan Chase & Co. and Wells Fargo & Co. launched a service called clearXchange that let their consumers send money among themselves, but it failed to achieve mass appeal.

The banks relaunched the service as Zelle in 2017, with more banks and a new, unified brand, but the basics were the same: Users can send money using a cellphone number or email address, without knowing the other person's bank account number or even their bank.

# Hedge Funds Run By Einhorn Post Further Declines

By GREGORY ZUCKERMAN  
AND RACHAEL LEVY

Hedge-fund manager David Einhorn told clients Tuesday his funds declined again in the second quarter and attributed the firm's recent struggles to larger market forces harming investors who avoid expensive shares.

In a letter to clients, the billionaire who runs **Greenlight Capital Inc.** said his funds have fallen 18.3% this year through June, after a 5.3% loss in the second quarter.

“Over the past three years, our results have been far worse than we could have imagined, and it's been a bull market to boot,” Mr. Einhorn wrote. “Right now the market is telling us we are wrong, wrong, wrong about nearly everything.”

In recent weeks, some current and former clients have

attributed Greenlight's difficulties to his unconventional ways—sticking to inexpensive “value” stocks, for example, and keeping clients at a distance—which he hasn't changed.

In his letter, Mr. Einhorn said “getting older, changing lifestyles, and an unwillingness to adapt to new market environments” didn't explain Greenlight's troubles.

“We have been accused of being stubborn, but one person's stubbornness is another person's discipline,” Mr. Einhorn wrote.

He pointed to a market environment that has been hard on value investors, citing data showing how that strategy has underperformed for over a year, but said that would change at some point.

“We just can't say when,” he wrote. “Looking forward from today we think this portfolio makes a lot of sense,” he



Some clients attribute Greenlight's troubles to David Einhorn's unconventional investing strategies.

said.

Mr. Einhorn said his firm had made a number of “obvious” mistakes in recent years, such as sticking with SunEdison Inc., which filed for bank-

ruptcy in 2016.

The losses could have been worse, he said. Between January and April, Greenlight exited its bearish short position on **Netflix Inc.**, which subse-

quently rose further.

He said he passed on buying **Amazon.com Inc.** “We didn't get it then and, truthfully, we don't really get it now,” Mr. Einhorn wrote.

# Morgan Stanley, BofA Back Startup

By LIZ HOFFMAN

**Goldman Sachs Group Inc.** has Simon, an online platform that sells complex investment products to mom-and-pop investors. **Bank of America Corp.** and **Morgan Stanley** are throwing their weight behind Luma.

The two firms are backing a new company, **Luma Financial Technologies**, to connect retail brokers seeking market-linked certificates of deposit, structured notes and other products to the banks that issue them.

Bank of America and Morgan Stanley will invest in Luma and sell their own products to its clients. Luma's software and its chief executive, Tim Bonacci, come from Navian Capital, a wholesaler of structured products since 2011.

Mr. Bonacci declined to comment on the financial terms, as did a spokesman for Morgan Stanley. A representative for Bank of America couldn't be reached for comment.

Structured notes are custom-built by banks out of options and other derivatives. Investors pay an upfront sum—helping banks to fund their operations—and receive a future payout based on the performance of another asset, such as the S&P 500 or oil prices.

The new venture will compete directly with Goldman's platform, which launched in 2015 and sells notes through broker networks such as Raymond James Financial Inc. and LPL Financial Holdings Inc.

The goal of Luma, Simon and a handful of startups is to replace expensive human sales forces and lay cheaper digital pipes to the retail investors who buy structured notes.

Mr. Bonacci compared these digital middlemen to clearing firms and stock exchanges, with the field winning over time.

“I don't think there will be 10. I don't think there will be one,” Mr. Bonacci said in an interview. “We're one of those leaders today and I think the opportunity to grow the market and our share in it are significant.”

## Noteworthy

U.S. issuance of structured notes in 2017, in billions

Barclays	\$8.4
JPMorgan	7.4
Goldman Sachs	5.9
Credit Suisse	5.0
Morgan Stanley	5.0
HSBC	4.7
UBS	3.3
Bank of America	2.7

Source: mtn-i  
THE WALL STREET JOURNAL.

# NYSE Watchdog Says Floor Broker Took Payoff

By ALEXANDER OSIPOVICH

An alleged kickback scheme at the New York Stock Exchange has revived old questions about whether the Big Board's floor traders are lining their pockets at the expense of investors.

The NYSE's regulatory arm has accused Kevin Lodewick, a floor broker, of accepting about \$2,000 over 11 months from an employee of an unnamed brokerage firm for steering that firm millions of dollars of customer orders.

The unnamed firm also paid for Mr. Lodewick to visit a private island in the Bahamas owned by one of its executives, according to a July 2 complaint filed by NYSE Regulation, the exchange's in-house watchdog.

Mr. Lodewick didn't respond to requests to comment. People who answered the phone at his current firm, NYSE floor brokerage Peter Mancuso & Co., repeatedly hung up on a reporter. Some people familiar with Mr. Lodewick's behavior say the exchange is hitting him with trumped-up charges based on petty-cash transactions between him and a friend.

The payments ranged from



Kevin Lodewick is accused of accepting about \$2,000 for steering millions of dollars of customer orders to an unnamed firm.

\$10 to \$125 and were sent over the mobile-payment service Venmo between March 2017 and early February, the complaint says. Even such small payments can be considered a rule violation by the Big Board because brokers are required to try to get clients the best possible execution on their orders.

The alleged payments raise

questions about whether Mr. Lodewick fulfilled his best-execution duties, said Jamie Selway, a former managing director at brokerage Investment Technology Group Inc.

Mr. Lodewick was employed at Quattro M Securities, one of the larger brokerages on the NYSE trading floor, during the time when NYSE Regulation alleges he was taking the kickbacks. Firms such as Quattro

execute orders to buy and sell stocks on behalf of clients, typically financial institutions.

This scheme was conducted in complete disregard of the interests of Quattro's customers,” the complaint states.

Quattro Chief Executive Officer and President Eugene Mauro said the firm was “not permitted to comment on pending matters.”

The owner of the firm where Mr. Lodewick went to work next, Peter Mancuso, suspended the broker after receiving inquiries from The Wall Street Journal. “Kevin Lodewick will not be working at Mancuso until the allegations have been resolved,” Mr. Mancuso said. He declined to answer other questions.

NYSE Regulation wants to have Mr. Lodewick permanently barred from the floor.

The unnamed brokerage in the complaint is SpeedRoute, a New York-based firm that sells trading technology to other brokers, people familiar with the matter said.

SpeedRoute is aware of an investigation being conducted by NYSE Regulation that involves one of our employees,” the company said in an email.

SpeedRoute has placed the employee on administrative leave and is cooperating with the NYSE's investigation, it said.

People familiar with the matter identified the employee as Zachary Wilezol, a salesman who promoted the firm's technology among NYSE floor brokers. Sean Casey, a lawyer for Mr. Wilezol, declined to comment.

One person familiar with Messrs. Lodewick and Wilezol said NYSE Regulation was inflating the importance of the Venmo payments, which he characterized as two friends reimbursing each other for expenses incurred while partying. “They're young guys. They go out three nights a week,” this person said.

NYSE Regulation cites Mr. Lodewick's text messages as evidence that the payments were kickbacks.

On Jan. 11, the employee of the unnamed firm “transferred \$20 to Lodewick along with the message ‘Let's go-stop this odd lot shit,’ to mock Lodewick for the small size of Lodewick's trades that day,” the complaint says. The term “odd lot” refers to trades of less than 100 shares.

Alpine Electronics Inc., a Tokyo maker of car stereos and navigation systems, said last year parent **Alps Electric Co.** would take full control of the company through a share swap. As of July 27, U.S. activist Elliott had built a 7.3% stake in Alpine. It hasn't made any public demands.

Without the spur of any deal announcement, Singapore-based activist **Effissimo Capital Management Pte. Ltd.** has taken sizable stakes in subsidiaries of Nissan Motor and Nippon Steel & Sumitomo Metal Corp. Effissimo declined to comment on its investments.

# Japanese Companies Streamline

Continued from page B1

PLC. The setup can create conflicts of interests, with the senior company directing the junior to act in ways that benefit the parent's own shareholders.

A revision to the corporate governance code published by the Tokyo stock exchange in June said companies should

disclose their policies of reducing listed share holdings. The revision primarily targets cross-shareholdings by business partners, but also puts parent-subsidiary listings in the spotlight, analysts say.

For many Japanese managers, conglomerate structures have meant extra security. The parent gets exposure to a different business, which helps hedge against a downturn in its core line of work, while the subsidiary has a backer it can rely on if it runs into trouble. This is part of a broader belief in the value of corporate diversity. Even a representative for

Hitachi, which has streamlined extensively, says having different businesses has allowed it to survive for a long period.

Still, the upshot of recent changes could be more instances of parent companies either doing away with their control—or taking full ownership of the subsidiary. “In the next year or two...you're going to see a lot of changes,” said Stephen Givens, a lawyer in Tokyo who advises foreign investors and Japanese companies.

Now, more investors are looking to get involved and, in some cases, are pushing for changes. One way they can

## MARKETS

# Treasurys Gain on BOJ and Inflation

By DANIEL KRUGER

U.S. government bonds rose Tuesday after the Bank of Japan made only slight adjustments to its regime of easy monetary policy and a key measure of inflation declined.

The yield on the benchmark 10-year Treasury note fell to 2.964%, from 2.975% Monday. The yield rose 0.116 percentage point during July, increasing for a second consecutive month. Yields rise as bond prices fall.

**CREDIT MARKETS** Yields fell Tuesday after the

Bank of Japan surprised some investors and analysts who had forecast the central bank might reduce some of its long-running stimulative measures.

Officials said Tuesday they will lift the ceiling on where they intend to hold 10-year Japanese government-bond yields to 0.2%, and that they would continue monthly bond purchases. That is a positive sign for U.S. government debt because it signals continued investor demand for higher yielding securities, and yields in the U.S. are among the highest in the developed world.

"The Bank of Japan was positive for bond markets," said Mark Holman, CEO of Twenty-Four Asset Management.

Yields remained lower after the Commerce Department said Tuesday that personal-consumption expenditures, the Federal Reserve's preferred inflation measure, rose 0.1% in June from a month earlier and was up 2.2% from a year earlier. The annual gain matched May's increase.

The Fed concludes a two-day meeting Wednesday and is expected to hold interest rates steady in a range between 1.75% and 2%. It has raised them two times this year.

**AUCTION RESULTS**

Here are the results of Tuesday's Treasury auction. All bids are awarded at a single price at the market-clearing yield. Rates are determined by the difference between that price and the face value.

**FOUR-WEEK BILLS**

Applications	\$175,395,368,500
Accepted bids	\$65,000,383,500
"noncompetitively	\$872,227,900
"foreign noncompetitively	\$0
Auction price (rate)	99.851444 (1.910%)
Coupon equivalent	1.93%
Bids at clearing yield accepted	20.69%
Cusip number	912796PW3

The bills, dated Aug. 2, 2018, mature on Aug. 30, 2018.

# Lumber Liquidators Plunges 21%

By ALLISON PRANG AND ROBERT BARBA

Shares of Lumber Liquidators Holdings Inc. fell 21% Tuesday as higher transportation expenses, promotions and costs from phased-out products overshadowed higher-than-expected revenue in the latest quarter.

On an adjusted basis, the company's second-quarter gross margin was 35%, down from 35.5% a year earlier, and that half-percentage point decline was a major point of discussion during the company's earnings call with analysts Tuesday.

One of the factors in the margin decline relates to Lumber Liquidators bringing more engineered flooring options, such as vinyl, instead of solid wood to its stores. The recent quarter included a charge related to changing its inventory levels to reflect the shift, said finance chief Marty Agard.

The move toward engineered products also affected transportation costs, Chief Executive Dennis Knowles said during the call.

Executives said the second quarter's margin is typically hurt by higher promotion costs, such as those incurred during the company's April sales event.

Overall, Lumber Liquidators reported a loss of \$1.5 million, or 5 cents a share, down from a profit of \$4.5 million, or 16 cents a share, a year earlier.

Revenue rose 7.6% to \$283.5 million. Analysts had expected \$280.7 million. Comparable-store sales climbed 4.7%, mainly due to higher average sales. Analysts polled by Consensus Metrix were expecting same-store sales to rise 2.8%.

# Bank of Japan Helps Bonds Rally

The central bank vowed to keep borrowing costs at rock-bottom levels

By MIKE BIRD

In the rest of the world, a 0.06 percentage point move in bond yields might not make headlines. In Japan, it is the biggest move in years.

Government bonds rallied on Tuesday after the **Bank of Japan** tweaked its ultra-easy monetary policy. The central bank introduced "forward guidance," vowing to keep borrowing costs at rock-bottom. That dispelled fears it could tighten policy to appease critics in Japan's powerful financial industry.

Prices for 10-year bonds rose, sending yields, which move in the opposite direction, down from about 0.11% to as low as roughly 0.05%. That was the biggest move lower in

what has been a quiescent market since the BOJ first unveiled "yield-curve control" in September 2016.

Gov. Haruhiko Kuroda later said the BOJ would nevertheless allow a wider trading window for 10-year debt. Until Tuesday, the BOJ would intervene to keep yields between minus 0.1% and 0.1%. That range will double: from minus 0.2% to 0.2%.

Together, the two moves try to square a circle: how to maintain a functioning bond market, while still combating persistently sluggish inflation. In June, securities firms, asset managers and banks complained the market had dried up, warning it "would be unable to respond to investors' needs when interest rates start to fluctuate, causing confusion," according to the minutes of a BOJ bond market group meeting.

However, keeping yields low means banks will still struggle to generate profits

from their ordinary lending business.

"The Bank of Japan does now stand alone amongst the major central banks in persisting with an aggressively accommodative policy," said Paul Donovan, chief economist at UBS Wealth Management. "It's keeping its collective foot on the liquidity accelerator."

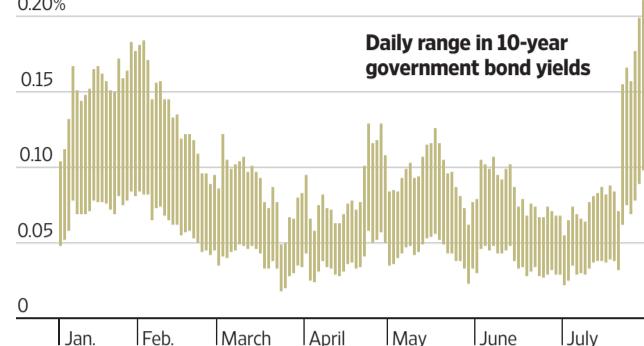
Despite the immediate drop in yields, some analysts expect they will rebound, testing the BOJ's new flexibility. In the past week, it was forced to offer to buy unlimited amounts of bonds at yields of 0.1% and 0.11%.

"There may be a point where the market will challenge the boundary in the near future," said Japanese bond strategists at JPMorgan Chase.

Just last week, government bond prices tumbled in Japan—amid reports that suggested BOJ would change its interest-rate targets. The accompanying uptick in yields has since largely been reversed.

## Standing Out

Intraday moves in the Japanese bond market have shrunk, making Tuesday's drop one of the largest moves in years.



Sources: Tradeweb via Thomson Reuters (yield difference); FactSet (bond yields)

# Stocks Jump as Earnings Reports Sparkle

By ALLISON PRANG AND BEN ST. CLAIR

U.S. stocks climbed, helped by strong earnings reports in the industrials sector, while technology stocks started to bounce back after a three-session downturn.

The Dow Jones Industrial Average added 108.36 points, or 0.4%, to **TUESDAY'S MARKETS** 25415.19. The S&P 500 gained 13.69 points, or 0.5%, to 2816.29 and the tech-heavy Nasdaq Composite rose 41.78 points, or 0.5%, to 7671.79.

The industrial sector of the S&P rose 2.1%, the most of the index's 11 sectors, with July marking its best month since November 2016. Investors cheered earnings reports from defense company **Harris** and water-technology firm **Xylem**, both of which led the sector. Shares of every company in the group, with the exception of **Equifax**, climbed.

Most of the S&P 500's sectors gained, with shares of real-estate firms, utilities and health-care companies all up by at least 1%. All the sectors in the index finished higher for July, the first time that has happened since November 2017, according to WSJ's Market Data Group.

Stock futures got a bump minutes before the market opened from a Bloomberg News report that the U.S. and China would resume trade discussions. The potential talks haven't been firmed up, but it was agreed they needed to happen, Bloomberg reported, citing people familiar with the matter.

Ernesto Ramos, head of equities for BMO Global Asset Management, called Tuesday's moves a "relief rally" regarding trade, adding that he



An Amazon fulfillment center. In July, shares of the company rose 4.6%, despite declines by some of the industry's top names.

thinks the market's gains have been limited by concerns surrounding trade and tariffs.

Technology shares also rose, a day after a closely watched index of big tech stocks fell into correction territory, hurt by disappointing earnings reports and concerns about growth. The NYSE FANG+ Index—which includes **Facebook**, **Amazon**, **Netflix** and seven other stocks—slipped more than 10% from its June 20 record through Monday. The index edged up 0.3% Tuesday.

Despite declines by some of the industry's top names, shares of Amazon rose 4.6% in July, while Apple gained 2.8% and **Alphabet** rose 8.7%.

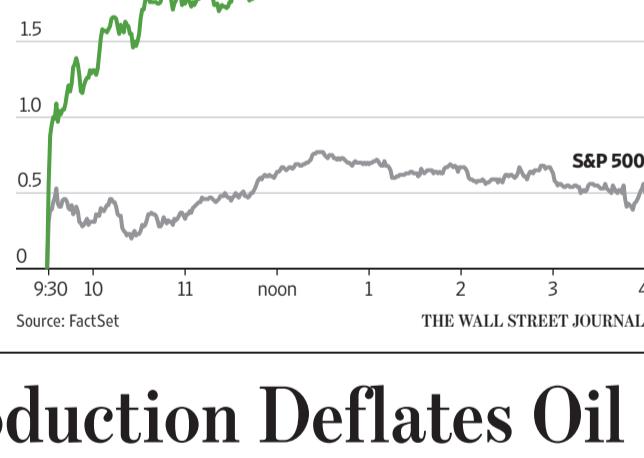
"My view is that they're

not homogeneous," Jordan Sriharan, senior portfolio manager at Thomas Miller Investment, said of the tech giants. While social media companies rely on user content to sell advertisements, Apple's technology product sales and Amazon's retail and cloud computing businesses can grow independently, he said. "It's a different model that I think is a lot more sustainable and robust," Mr. Sriharan said.

Elsewhere, the Stoxx Europe 600 rose 0.2%. Early Wednesday, Japan's Nikkei Stock Average was up 0.6% and the Shanghai Composite Index and Hong Kong's Hang Seng Index were both up 0.3%.

## Industrial Strength

Shares of industrial companies in the S&P 500 climbed Tuesday, buoyed by strong earnings reports and easing trade tensions.



Source: FactSet

THE WALL STREET JOURNAL.

# Dollar Turns Higher After Inflation Report

By ORLA McCAFFREY

The dollar snapped a two-day losing streak Tuesday after June inflation data fell in line with expectations on the first day of the Federal Reserve's policy meeting.

The WSJ Dollar Index, which measures the U.S. currency against a basket of 16 others, added 0.2% to 88.29.

The dollar gained after the Commerce Department said the Fed's preferred gauge of inflation, the price index for personal-consumption expenditures, rose 0.1% in June and 2.2% from a year earlier.

In late New York trading, the dollar was up 0.7% against the yen at ¥111.87, less than a day after Japan's central bank stuck to its easy-money policies.

The yen "is under pressure following the introduction of forward guidance from the Bank of Japan, disappointing those anticipating substantive changes to the yield-curve control policy," said Shaun Osborne, chief currency strategist at Scotiabank.

The dollar had fallen earlier after the BOJ's decision, which

struck many investors as dovish, and a round of mixed economic data from the European Union. The euro firmed to a one-week high against the U.S. currency before turning down to post a 0.1% loss at \$1.1691 late in New York.

The dollar also gained against a broad range of emerging-market currencies, rising 0.9% against the South African rand and 0.8% against the Brazilian real.

Japan's policy meeting kicked off a week of similar gatherings. Traders will be paying close attention to the Fed's postmeeting statement Wednesday for signals on the path of interest-rate increases, as higher rates tend to attract investors to a currency.

"Markets will be looking for any clues in the bank's language that could indicate a bias toward a potentially more rapid pace of rate hikes in the future," Omer Eisner, chief market analyst at Commonwealth Foreign Exchange, wrote in a note Tuesday.

The U.S. currency fell for the fourth time in five sessions Monday in anticipation of the central-bank meetings and economic data this week.

# OPEC Production Deflates Oil

By CHRISTOPHER ALESSI

Oil prices declined Tuesday as rising output from OPEC and Russia outweighed signs of declining U.S. oil inventories and production.

## COMMODITIES

L i g h t , sweet crude for September delivery fell 2% to \$68.76 a barrel on the New York Mercantile Exchange.

Brent crude, the global benchmark, shed 1.1% to \$74.25 a barrel.

Remarks by President Trump that he would be willing to meet with Iranian Presi-

dent Hassan Rouhani may have also put pressure on oil prices, Commerzbank said. Oil prices were boosted throughout the spring amid expectations of less Iranian oil following the reimposition of U.S. economic sanctions on Tehran.

Prices had closed higher Monday, as risks to supply—including in Iran and Venezuela—offset concerns about growing production.

Investors are awaiting potentially price-supportive data Wednesday morning from the Energy Information Administration on weekly changes to U.S. inventories of crude oil.

The EIA released a monthly report Tuesday on U.S. oil production that showed output declined to 10.4 million barrels a day in May compared with 10.5 million in April. The report contrasted with weekly data on oil production that had shown May output was closer to 10.7 million barrels a day.

The monthly report is considered more reliable, so this could bullish indicate U.S. production isn't surging in 2018 as much as expected.

On the bearish side, Mr. Varga said, the Organization of the Petroleum Exporting Countries' plans to continue to ramp up production with producing allies like Russia.

—Dan Molinski contributed to this article.



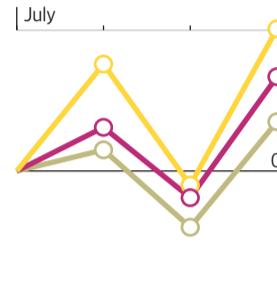
The EIA says May U.S. oil output fell to 10.4 million barrels a day.

ANDREW RUDAKOV/BLOOMBERG NEWS

## MARKETS

# U.S. Stocks Prove Resilient With Big Gains in July

The Dow Jones Industrial Average and S&P 500 notched in July their biggest monthly gains since January, as a strong corporate earnings season helped offset trade tensions and an end-of-month slide in popular technology stocks



**July 6**  
The U.S. and China each slap levies on \$34 billion of the other's exports

**July 11**  
Stocks fall after the Trump administration says it is considering 10% tariffs on an added \$200 billion in Chinese goods

**July 17**  
Chairman of the Fed Jerome Powell tells Congress stable inflation should keep the central bank on track to gradually raise short-term interest rates

**July 20**  
White House comments on monetary policy send the dollar and government bond prices sliding

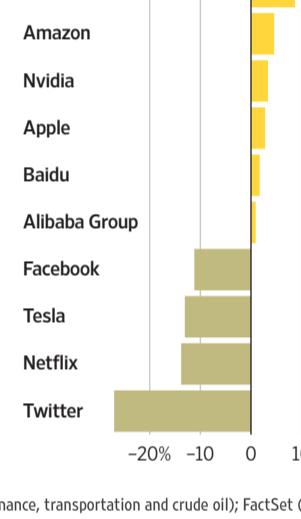
**July 25**  
President Trump secures some concessions from the EU to avoid an escalation in trade tensions; Nasdaq Composite closes at a record

**July 26**  
Facebook suffers the U.S. stock market's biggest-ever single-day decline in market value

**July 30**  
A popular stock index of global technology giants, the NYSE FANG+ Index, falls into correction territory

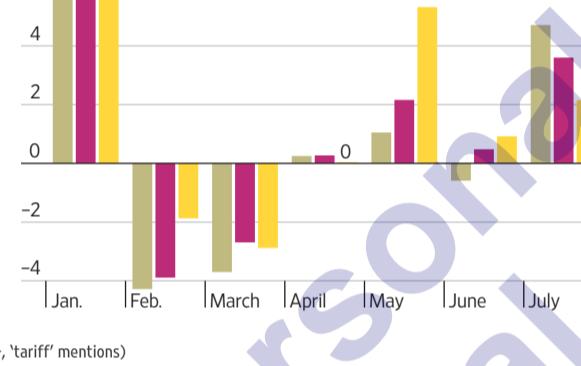
Investors have started to distinguish between some of this year's most popular technology stocks after a series of disappointing earnings reports from Netflix, Facebook and Twitter. Many investors have grown increasingly wary of companies in the social-media space, some of which have run into issues with slowing user growth and controversy over their handling of misinformation. Other companies, including Google parent Alphabet, Amazon.com and Apple, have continued to post robust earnings and revenue growth.

## Change over July of the 10 FANG+ stocks



Major indexes were largely resilient in July, despite historic stumbles by some of the technology giants that have powered their gains this year. The Dow industrials and S&P 500 posted their biggest gains in six months in July, helping to reassure investors that the nine-year stock-market rally has the breadth to continue its run.

## Monthly performance of major U.S. indexes



## Number of S&P 500 companies mentioning 'tariff' on 2Q earnings calls by sector

Industrials	24
Financials	11
Discretionary	9
Technology	8
Health Care	6

Consumers are starting to get hit by higher prices for goods ranging from recreational vehicles to soda and beer as a result of recent tariffs on aluminum and steel. The impact of the tariffs has been one of the most widely discussed topics by U.S. companies on their earnings calls.

Transportation stocks surged in July as crude-oil prices tumbled on concerns about rising production from OPEC and Russia. U.S. crude suffered its biggest one-month net and percentage decline in two years, while transport stocks also got a boost from easing trade tensions.

**Daily performance**

Dow Jones Transportation Average

Date	Dow Jones Transportation Average	Crude oil
July 1	0	0
July 31	4	-8

Graphic by Kiersten Schmidt/THE WALL STREET JOURNAL.

## HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

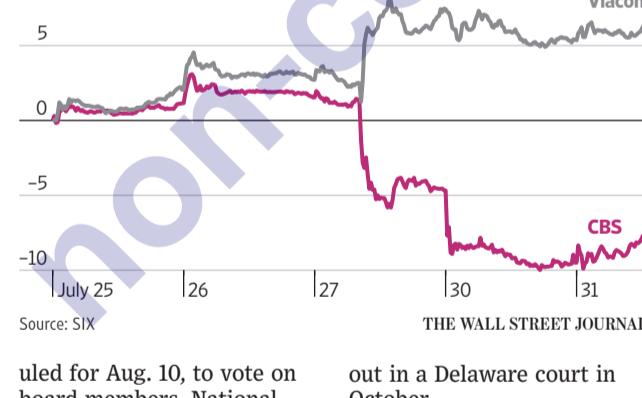
WSJ.com/Heard

Email: [heard@wsj.com](mailto:heard@wsj.com)

# CBS-Viacom Looks More Likely

## Network News

Share performance



uled for Aug. 10, to vote on board members. National Amusements holds 80% of the voting power in the company. Ms. Redstone was unlikely to have voted for the majority of CBS directors.

In May, CBS board members tried to dilute her voting power. Ms. Redstone preempted the move by changing CBS's bylaws to require approval of a supermajority of directors for such an action. That battle will play

out in a Delaware court in October.

The board's extraordinary action against a controlling shareholder and its delay in investigating Mr. Moonves are connected. Backing Mr. Moonves when they knew he was vulnerable now seems like an error. The directors also insinuated that Ms. Redstone may have brought the scandal to light. Ms. Redstone has rejected that as "false and self-serving."

If she votes them out, she will have a better chance of making the CBS-Viacom merger happen. CBS's stock fell 6% when the allegations hit on Friday, its biggest one-day decline since 2011. By contrast, Viacom's rose 5% on merger speculation.

This is now the second time the shareholder meeting has been postponed; it was previously scheduled for May 18. The board can't defer it indefinitely.

Once Ms. Redstone has the chance to sack directors who backed Mr. Moonves in resisting the merger it may be possible to restart talks. Given the timing of the rumors, it is hard to believe that she is behind the allegations against him. The allegations have made things difficult for her, too, damaging the stock and CBS's reputation, and likely costing her the man she wanted to run the combined entity. Yet this turn of events has also shifted the odds in her favor. She will have to find someone else to run the combined company. —Elizabeth Winkler

## OVERHEARD

**McDonald's** has made a pretty penny off the Big Mac.

This week, in a promotion honoring the iconic sandwich's 50th anniversary, the company will be giving U.S. customers a MacCoin if they buy a Big Mac. While no red-hot cryptocurrency—it is a physical coin—it can later be exchanged for another Big Mac.

The sandwich has been something of an economic barometer since the Economist magazine started using its price to determine the fair value of currencies globally back in 1986.

As a hard asset, the Big Mac itself has been no slouch either.

The Pennsylvania franchisee who came up with the burger began selling it for 45 cents a half-century ago which, in today's money, is \$3.66.

Good luck finding a Big Mac that cheaply in the U.S.—you would have to travel to Nicaragua, Qatar or Peru.

# Apple Needs Revenue Lift To Continue

Fortunately for Apple Inc., deep-pocketed smartphone buyers don't appear to have gone on summer break. The world's most valuable company is betting they will stick around.

Apple said Tuesday that iPhone revenues jumped 20% year over year to \$29.9 billion for its fiscal third quarter ended June 30. That is particularly notable given that unit sales rose less than 1% to 41.3 million during that time. Credit is due to the latest batch of iPhones Apple launched last fall at higher prices. The iPhone X starts at \$1,000, helping bring the iPhone's average selling price up nearly 20% year over year to about \$724 in what is typically a sleepy quarter for the company's smartphone business.

Apple needs this to be more than a blip. The company projected a jump of 16% to 19% in total revenues year over year for the September quarter after accounting for an adjustment to last year's service revenue. Prior to Tuesday's results, analysts were projecting a 13% rise.

Apple typically launches its new phones late in the quarter. Encouragingly, the company has missed the midpoint of its quarterly sales forecast only twice in the past six years.

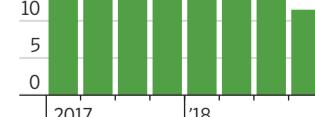
Apple has other things going for it, mostly in the form of a services business that has been growing at a 30% year-over-year clip recently. But the iPhone still drives more than half of the business and analysts widely expect smartphone unit sales to remain flat over the next three years. Apple's growth prospects depend on its ability to keep iPhone customers paying up for a long while.

—Dan Gallagher

# Procter & Gamble's Washout May Run for Another Cycle

## Close Shave

Procter & Gamble net earnings margin from continuing operations



Note: Fiscal year ends in June

Source: S&P Capital IQ

THE WALL STREET JOURNAL.

the effects of mergers and currency fluctuations, rose just 1% from a year earlier in the quarter through June, less than the 2% that analysts anticipated.

The company pointed to strong growth in its beauty segment. Pricing there was stable from a year earlier. But prices fell in every other category, including fabric and baby care.

At the same time, higher input costs for paper and pulp, petrochemicals and freight are pressuring the bottom line. The company's net margin from continuing operations fell to 11.5% from 13.7% a year earlier. That is the lowest quarterly margin in six years, according to S&P Global Market Intelligence.

P&G argues that it is turning a corner in pricing. Though many of the company's products are posi-

tioned at the high end of their categories, several price "interventions" over the past year have gotten them within reasonable range of their competitors, Chief Executive David Taylor said on a conference call.

The company also announced it will push through a 4% price increase for Pampers diapers and a 5% increase for Bounty paper towels and Charmin toilet paper in response to higher raw-materials costs. But analysts were skeptical the company can make these increases stick in such a competitive environment. In toothpaste, for example, P&G already reversed a price increase initiated

ated last year.

The company forecast an acceleration in organic sales growth for the current fiscal year, which runs through June 2019, to a range of 2% to 3%. This projection lacks credibility. The company initially projected 2%-to-3% organic sales growth in the fiscal year through June 2018 yet delivered just 1%.

P&G shares are down 12% this year, and now trade at 18.2 times forward earnings, compared with 19.7 times over the past five years, according to FactSet. Despite this, the shares are no bargain until the company shows pricing and sales are firming up.

—Aaron Back