

# THE WALL STREET JOURNAL.

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## What's News

### Business & Finance

**B**illionaire investor Thiel is relocating to Los Angeles and scaling back his involvement in tech, marking a rupture between Silicon Valley and its most prominent conservative. **A1**

◆ **Airbus and Boeing** are cashing in on record demand for new planes. Airbus shares rose over 10% after the firm reported higher cash flow. **A1**

◆ **The SEC rejected** the sale of the Chicago Stock Exchange to a group that would have included Chinese investors. **B1**

◆ **Avis's largest investor**, investment fund SRS, launched a fight to shake up the car-rental company's board. **B1**

◆ **Stocks extended** their rebound in a broad rally. The Dow advanced 306.88 points, or 1.2%, to 25200.37. **B1**

◆ **U.S. producer prices** rose in January, the latest sign of building inflation pressure in the economy. **A2**

◆ **Abe's government** nominated Kuroda to a second five-year term as chief of the Bank of Japan. **A9**

◆ **The FCC inspector general** has agreed to probe actions by federal regulators that might benefit Sinclair in its efforts to buy Tribune Media. **B4**

◆ **Thomson Reuters's board** pressed ahead on plans to sell a piece of the business despite its chairman's concerns. **B1**

◆ **U.S. Bancorp was fined** \$613 million for what authorities called shoddy controls against money laundering. **B2**

◆ **Nestlé's sales growth** last year was the slowest in decades, held back by sluggish demand in the U.S. **B3**

### World-Wide

◆ **The Florida teen** accused of the mass killing at a high school had alarmed authorities, neighbors and classmates. He was charged with 17 counts of murder. **A1, A6-7**

◆ **The Senate failed** to break its impasse over immigration after a DACA measure backed by Trump and a bipartisan plan he opposed came up short. **A1**

◆ **Some Republicans** back efforts to shore up the ACA amid fears rising premiums may cost them votes. **A4**

◆ **The U.S. and Turkey** are holding talks to bridge differences over their operations in northern Syria. **A9**

◆ **The VA chief said** he would reimburse the U.S. for costs associated with a Europe trip and that he won't resign. **A4**

◆ **Bannon drew** bipartisan ire on Capitol Hill by refusing to answer a range of questions from a House panel. **A5**

◆ **The White House blamed** Russia for a massive cyberattack last year that crippled networks world-wide. **A5**

◆ **South Africa swore** in Ramaphosa as president following Zuma's announcement that he would resign. **A8**

◆ **Ethiopia's premier** is stepping down, a surprise move that appeared designed to quell unrest. **A8**

◆ **This season's flu vaccine** is slightly less effective overall than earlier estimates, the CDC said. **A3**

◆ **U.S. motor-vehicle deaths** remained near decade-high levels in 2017, even with cars having more safety gear. **A3**

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Mourners listened as names of victims of the school shooting were read out at a vigil Thursday in Parkland, Fla.

## Shooter Showed Warning Signs

Nikolas Cruz, who long alarmed many people in town, admits he was Florida school gunman

PARKLAND, Fla.—The teenager accused of killing 17 people at a Florida high school had alarmed authorities, neighbors and classmates, who recounted such behavior as obsessing over weapons, shooting small animals with a pellet gun and harassing neighbors' pets.

Nikolas Cruz admitted on Thursday to being the gunman who entered the campus armed with an AR-15-style semiautomatic rifle and shot students

whom he saw in the hallways and on the school grounds, according to a complaint affidavit released late Thursday.

The Federal Bureau of Investigation said it fielded a tip last September that a YouTube commenter with the same name as Mr. Cruz made an alarming claim: "I'm going to be a professional school shooter." The FBI investigated, but it didn't link the comment to Mr. Cruz.

The 19-year-old former student, who had been expelled from the school, also may have stalked one of the girls he killed, said a senior law-enforcement official.

"He had a very strange look in his eyes all the time. He has

By Jon Kamp,  
Scott Calvert, Arian  
Campo Flores  
and Joseph De Avila

a cold, cold stare," said Malcolm Roxburgh, a former neighbor.

On Wednesday afternoon, Mr. Cruz took an Uber car to his former high school just before classes were dismissed, Broward County Sheriff Scott Israel said.

He entered a school building with a legally purchased Smith & Wesson M&P 15 in a soft black bag. He readied his rifle and opened fire into five classrooms, the sheriff said. He killed 17 in the school and nearby, while

wounding more than a dozen.

The teen left behind a trail of worrying signs that in hindsight seem to have gone unheeded. Concerned neighbors called the police, classmates said he was obsessed with guns, and campus security considered him troubled.

"Something was off with him," said Brody Speno, 19, who went to elementary and middle school with Mr. Cruz.

On Thursday, Attorney Gen-

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◆ A troubled teen fascinated by guns..... A6

◆ Coach, student volunteers fall victim to attack..... A7

◆ President says school safety is priority..... A7

## Markets Extend Their Rebound

Stocks notched their biggest five-day percentage increase since December 2011. **B11**

Dow Jones Industrial Average



Source: WSJ Market Data Group  
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## Valley Has No Room for Conservative

Billionaire investor Peter Thiel is relocating his home and personal investment firms to Los Angeles from San Francisco and scaling back his involvement in the tech industry,

By Douglas MacMillan,  
Keach Hagey  
and Deepa  
Seetharaman

people familiar with his thinking said, marking a rupture between Silicon Valley and its most prominent conservative.

Mr. Thiel has also discussed with people close to him the possibility of resigning from the board of Facebook Inc., the people familiar with his thinking said. His relationship with

the social-networking company—where he has been a director since 2005, the year after its founding—came under strain after a dispute with a fellow director over Mr. Thiel's support for Donald Trump's presidential campaign and a related confrontation over boardroom leaks with Chief Executive Mark Zuckerberg last summer, the people said.

However, Mr. Thiel feels he can still help the company and is likely to remain on the board at least for now, one of the people said.

Mr. Thiel's plans are part of a broad move by the venture capitalist, who has ties to dozens of top startups, to reduce his direct role in the Silicon

Valley tech industry that he helped to shape, the people said. Mr. Thiel has grown more disaffected by what he sees as the intolerant, left-leaning politics of the San Francisco Bay

Area, and increasingly pessimistic about the prospects for tech businesses amid greater risk of regulation, they said.

As a result, after spending

Please see THIEL page A10

Investor and Trump backer Peter Thiel is moving to Los Angeles.

JACKY NAEGELEN/REUTERS

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Please see THIEL page A10

## Can You Have Too Many Cup Holders? Car Firms Try to Find Out

Auto engineers design bigger, better drink receptacles; a fake Big Gulp for inspiration

By CHESTER DAWSON

A growing body of evidence suggests we are approaching peak cup holder.

At Fiat Chrysler Automobiles NV's design studios in Turin, Italy, a fake Big Gulp cup, sculpted by a 3-D printer, aims to show designers the importance of making cup holders for that beloved U.S.-convenience-store beverage size.

Germany's Fischer Automotive Systems GmbH has designed spring-loaded compensation flaps that work inside holders to secure a whole range of cup varieties.

In Japan, Subaru Corp. engi-

neers study extra-large coffee and soda cups a U.S. colleague collected at McDonald's, Starbucks and 7-Eleven stores. He shipped them over to ensure the crucial role of multiple big holders was understood in a country where drink sizes are smaller.

"The Big Gulp kind of freaked them out," says Peter Tenn, the product-planning team member who procured the specimens.

Success in the U.S. car market depends on satisfying consumers' exacting demands. Right now, few things are more in demand than cup holders—lots of them, big ones, in many

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## INSIDE



### BOBSLED, NO EXPERIENCE NEEDED

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Investor and Trump backer Peter Thiel is moving to Los Angeles.

JACKY NAEGELEN/REUTERS

### U.S., TURKEY MEET TO EASE TENSIONS

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## U.S. NEWS

## Inflation Gauge Increases

BY ERIC MORATH

WASHINGTON—U.S. producer prices rose in January, the latest sign of building inflation pressure in the economy.

The producer-price index, a measure of the prices businesses charge for their goods and services, rose a seasonally adjusted 0.4% in January from a month earlier, the Labor Department said Thursday. From a year earlier, producer prices advanced 2.7% last month.

The report is the latest showing that inflation is building after a long period of small price increases.

Wednesday's consumer-price-index report showed prices rising 0.5% in January, and they were up 0.349% when excluding food and energy, the strongest one-month increase since March 2005. Separately, nominal hourly wages in January rose at the best rate from a year earlier since the recession ended in mid-2009.

"Inflation pressures are finally building in earnest," said Stephen Stanley, chief economist at Amherst Pierpont Securities. "I do not fear runaway inflation, but we are going to plow right through 2% this year."

## Cost of Business

Producer-price index for final demand, change from a year earlier



Source: Labor Department

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The Federal Reserve's preferred inflation measure, the Commerce Department's personal-consumption-expenditures price index, has undershot the central bank's 2% target for annual inflation in 66 of the past 68 months. But the producer-price data, which highlighted rising medical costs last month, suggest the January PCE index may advance more strongly when released on March 1. The PCE index is more weighted toward health care than the consumer-price index. Stronger inflation could

cause the Federal Reserve to consider picking up the pace of short-term rate increases. The Fed's next policy meeting is March 20-21. Officials in December penciled in three interest-rate increases for this year.

The producer-price report tends to be a less reliable measure of inflation, but economists track the index for early signs of where consumer prices—the main gauge of inflation—are headed. The producer-price gauge captures changes in what firms charge consumers, other businesses

and government entities for their products.

Producers prices were flat in December, revised data showed. Before that month, prices had risen steadily in the second half of last year.

January's price increase was fairly broad-based.

Excluding food, energy and the volatile trade-services category, prices also rose 0.4%. That was largest monthly advance since April 2017. From a year earlier, so-called core prices increased 2.5%, the largest annual increase on records back to 2014. Thursday's report showed energy prices rising 3.4% in January from a month earlier, led by increases in jet fuel and gasoline.

Separately, U.S. industries cut output for the first time since last summer in January, suggesting key sectors of the economy remain subdued.

Industrial production—a measure of everything made by factories, mines and utilities—fell 0.1% from a month earlier, the Federal Reserve said. Utility production picked up last month, largely reflecting cold weather. That gain was offset by flat manufacturing output and a drop in mining production.

## Overheating Economy Not a Worry, Cohn Says

BY NICK TIMIRAO AND RICHARD RUBIN

the Fed, have struggled in recent years to generate more inflation.

Investors have been on alert for signs the dynamic could change now that the unemployment rate has fallen to a 17-year low. Prices rose more than expected last month, according to two reports released by the Labor Department on Wednesday and Thursday. Wednesday's report on the consumer price index pushed bond yields to their highest level in four years.

Mr. Cohn played down any concerns reflected by markets on Thursday. "We know how to deal with inflation. We don't know how to deal with deflation in this country," he said.



Economic adviser Gary Cohn

CHRIS KLEPONIS/ZUMA PRESS

## SENATE

Continued from Page One

early as Friday whether it will take up the issue. Some Republicans say these court rulings mean lawmakers have more time to continue negotiations.

Some senators suggested Thursday they might be able to craft a narrow measure extending DACA for several years and adding money for border security, which they hope to tuck into a spending bill expected to pass next month. The government's current funding expires after March 23.

Sen. Jeff Flake (R., Ariz.), who voted for the bipartisan plan, said he planned to immediately file legislation to extend the DACA program for three years and provide three years of border-security funding for a total of \$7.9 billion.

Sen. Marco Rubio (R., Fla.), who had worked on the bipartisan plan but ultimately voted against it, said he was crafting a measure that would provide DACA participants with permits subject to renewal every two years, along with some border-security measures.

"I still believe we're going to get something done this year," Mr. Rubio said, pointing to the number of Republicans who voted Thursday to support a path to citizenship for the Dreamers, a feature of both the bipartisan plan and the Trump proposal.

But a short-term extension likely wouldn't provide a path to citizenship, leaving the young immigrants with less certainty than many lawmakers and advocacy groups had hoped. Moreover, Mr. Trump has said

he doesn't want a short-term deal.

"Today, the Senate reached for a bipartisan deal, and President Trump made sure it did not happen," said Frank Sharry, executive director of America's Voice, an immigrants' rights group.

Mr. Trump and lawmakers tangled over what policy components must be included. The president has said legal protections for the Dreamers must be paired with tighter border security, including funding for a wall, as well as curbs to the family-based migration system

and an end to the diversity visa lottery, which admits 50,000 people chosen at random from countries that are underrepresented.

The bipartisan measure, hashed out by a coalition of centrist senators over weeks, would have provided a 10-to-12-year path to citizenship for 1.8 million Dreamers, according to their estimates. Critics have said the pool would be larger.

The bill's sponsors sought to bar Dreamers from sponsoring their parents from citizenship. A Homeland Security Department official said the provision

that would have blocked Dreamers from sponsoring a parent who "knowingly assisted" his or her child in entering the U.S. illegally would have been impossible to administer.

The bipartisan bill wouldn't have significantly cut legal immigration, aside from a provision that would block legal permanent residents from petitioning the government for visas for unmarried adult children until the residents themselves become citizens. That affects about 26,000 people each year, lawmakers said.

Senators said Wednesday

their proposal would preserve the diversity visa lottery program. It garnered 54 votes, including eight Republicans, with 45 opposed, but was short of the 60 votes needed to proceed. Three Democrats opposed it.

Mr. Trump had sought more dramatic cuts to legal immigration by restricting the ability of American citizens and permanent residents to sponsor relatives for green cards.

A bill reflecting his requests failed Thursday, with 39 votes in favor, and 60 against, including 14 Republicans.

The administration said

Thursday that the bipartisan measure fell short of what Mr. Trump had spelled out and that he would likely veto it if it passed.

Democrats and some of the Republicans involved in crafting the bipartisan proposal said Mr. Trump's opposition helped sink it Thursday.

"All these veto threats and bombastic rhetoric coming out of the White House against 18 or 20 senators that are trying to solve the problem is not helpful," said Sen. Lindsey Graham (R., S.C.), who supported the bipartisan bill.

"If the president had simply stayed on the side, I think this easily would have got 60 votes," said Sen. Chris Coons (D., Del.), who also backed the bipartisan measure.

The White House late Thursday blamed Democrats for the stalemate and the failure of the Trump plan.

"Today, the Schumer Democrats in the Senate demonstrated again that they are not serious about DACA, they are not serious about immigration reform, and they are not serious about homeland security," White House press secretary Sarah Sanders said in a statement.

Lawmakers in both chambers left Washington Thursday evening for a week of recess aligned with the Presidents Day holiday. House GOP leaders have been talking with Republicans about bringing up a more conservative immigration bill from House Judiciary Committee Chairman Bob Goodlatte (R., Va.), but it faces opposition from more centrist Republicans.

—Natalie Andrews and Janet Hook contributed to this article.



Sen. Michael Bennet (D, Colo.), left, and Sen. Cory Gardner (R, Colo.), center, in Washington on Thursday. The Senate rejected a number of proposals on immigration legislation, leaving in question the fate of young undocumented immigrants protected from deportation.

## PLANES

Continued from Page One

tively low fuel prices due to cheaper oil, boosting returns and giving them the financial flexibility to refresh their fleets. Overall airline profits for 2018 are projected to rise about 11% over last year, IATA forecasts.

Boeing, the world's biggest plane maker, and No. 2 Airbus have order backlog that stretch out for years. That has forced both companies to revamp supply chains and manufacturing processes to cope. Both have fumbled in the recent past with shortages of components including seats, toilets and even engines. But they have largely met delivery targets and have succeeded, so far, in turning their big order books into cash.

Airbus delivered a record 718 planes in 2017. The Toulouse-based company said Thursday it had €2.95 billion (\$3.68 billion) in free cash flow last year, excluding items such as acquisitions, divestitures and customer financing. It had targeted about €1.4 billion, on par with the year-earlier period.

Airbus also said it plans to boost its dividend by 11%.

Looking ahead, Airbus fore-

cast adjusted earnings this year would rise 20% and said cash generation should be similar to 2017.

To meet future demand, Airbus said it is raising output to around 800 airliners this year. Boeing last month said it planned to lift its production to between 810 and 815 planes this year, up from 763 last year.

Airbus had already announced plans to boost output of its single-aisle jets to 60 a month next year from around 50 in 2017. Chief Executive Tom Enders said Thursday that demand possibly could support more than 70 planes a month.

Airbus has been struggling with the supply of engines on

its popular A320neo plane, which has slowed deliveries.

Last week, Airbus said problems with one of the engines, made by United Technologies Corp. unit Pratt & Whitney, were delaying plane production, and on Thursday it warned engine problems could jeopardize jet delivery goals for this year.

Delivery of Pratt-powered A320neo planes won't resume until the supplier has a fix ready, which Airbus expects in April.

Rival engine supplier CFM International, a joint venture between General Electric Co. and France's Safran SA, also has been behind schedule on delivering equipment.

Mr. Enders said suppliers' ability to support Airbus's increased output would largely dictate whether the company this year decides to raise output of some plane models beyond current commitments.

**Passenger growth has surpassed industry expectations for several years.**

Airbus said yearly net profit rose sharply to €2.87 billion, compared with €995 million in 2016, when earnings

were hurt by foreign-exchange effects and plane program charges. Airbus's operating earnings, which strip out some one-time items, totaled €4.25 billion, compared with €3.96 billion a year earlier.

The company reported €66.8 billion in sales, little changed from a year earlier. Higher revenue from commercial airliners was offset by weakness in the helicopter business and defense and space.

Airbus said it took a €1.3 billion charge on its long-troubled A400M military transport program. That raised to more than €8 billion the combined charges the company has taken on the plane, which has

been beset by delays and technical problems.

Airbus is also wrestling with other issues. The company faces regulatory probes in multiple jurisdictions, including a widening review in the U.S. about the improper use of middlemen to win contracts.

It is also in the middle of a shift in senior management. Mr. Enders won't seek an extension of his contract beyond April 2019, leaving him just over a year to find a successor. Meantime, Chief Operating Officer Fabrice Brégier, who runs the commercial plane division that delivers most of Airbus's revenue and profit, departs this month.

## CORRECTIONS &amp; AMPLIFICATIONS

**Under current U.S. law**, legal permanent residents can sponsor spouses, minor children and unmarried sons or daughters of any age for green cards. In some editions Thursday, a U.S. News article about an immigration proposal incorrectly said they can also sponsor their parents.

**ETFMG Prime Cyber Security ETF** is listed on NYSE

Arca, a Technology & Media article on Thursday about exchange-traded funds that invest in companies focused on tackling data-security threats incorrectly said it is offered on Cboe Global Markets Inc.

**In a hypothetical example** of a person refinancing an existing mortgage of \$800,000 for \$900,000, with the addi-

tional \$100,000 taken as cash, the National Association of Realtors said that the person could deduct interest on only \$800,000 of the refinancing. In a Journal Report article on Wednesday about mortgage-interest deductions after the federal tax overhaul, the NAR incorrectly said that none of the interest on the \$900,000 refinancing would be deductible.

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## U.S. NEWS

# Flu Vaccine Less Effective Than Expected

BY SARAH TOY

This season's flu vaccine is slightly less effective overall than earlier estimates but still reduces a person's chance of contracting the flu by a little over a third, according to the latest numbers from the Centers for Disease Control and Prevention.

Getting a flu shot this season reduces a person's risk of coming down with the flu and needing to see the doctor by 36%. Earlier this year, the CDC estimated it would be 40%.

That doesn't seem high, especially when compared with vaccines for other infectious diseases, William Schaffner, an infectious-disease specialist and professor of preventive medicine at Vanderbilt University School of Medicine in Nashville, Tenn., said of the vaccine.

"But you will have some

protection, which is better than nothing. And even if you do get sick, you'll be less likely to have complications and get hospitalized," he said.

The main illness-causing strain of flu this season is the influenza A strain H3N2, known for its severity, according to the CDC, but both the A and B strains have proved serious and even deadly in past weeks.

In a good year, a flu vaccine's effectiveness is about 60% overall. It was 40% last season and 48% in 2015-16. In 2014-15, which was also dominated by H3N2, it was just 19%.

When it comes to H3N2 specifically, the vaccine this season is only 25% effective, according to the new CDC estimates. The CDC earlier estimated it would be about 30% against H3N2.

Last season's vaccine didn't do much better, reduc-

ing the risk of contracting H3N2 and needing to see the doctor by 32%.

"Traditionally, we have had trouble developing an effective H3N2 vaccine," said Dr. Schaffner.

The CDC's findings show better vaccine effectiveness

**Getting a flu shot reduces a person's risk of coming down with the flu by 36%.**

against H3N2 than was previously reported by Canadian and Australian researchers. In October, Australian researchers reported a 10% vaccine effectiveness against the strain. Canadian scientists reported 17% earlier this month.

One theory for the flu vaccine's low effectiveness against H3N2 has to do with how it is made. Most vaccines are made from viruses grown in chicken eggs. The viruses must adapt to grow in the egg, introducing changes that may contribute to mismatches between the vaccine and circulating virus strains.

This season's vaccine provides slightly better protection against other strains of the influenza virus, according to the CDC data, which was drawn from five surveillance sites across the country. It is 67% effective against H1N1, the other influenza A virus in circulation, and 42% effective against the influenza B viruses.

Influenza B cases tend to rise during the second half of the flu season. In a way, that could be a good thing, said Paul Sax, an infectious-disease specialist

and clinical director of the Division of Infectious Diseases at Brigham and Women's Hospital in Boston. "With flu B on the rise, the vaccine is potentially more effective for the remainder of the season," he said.

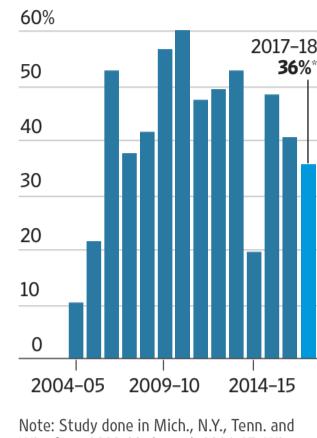
Children seem to draw the most benefit from the flu vaccine—kids between 6 months and 8 years old who got the flu shot were 59% less likely to get the flu and see the doctor than those who didn't, according to the CDC's estimates. The agency said on Thursday that of the 63 children who have died from the flu or related complications this season, three out of four weren't vaccinated.

This flu season has been especially harsh, with high rates of hospitalizations and doctors' visits. Schools have had to close because of widespread absenteeism among students and staff.

## Ups and Downs

The efficacy of the flu vaccine varies from season to season.

### Adjusted vaccine effectiveness



Note: Study done in Mich., N.Y., Tenn., and Wis. from 2008-09 through 2016-17; Wis. only from 2004-05 through 2007-08.  
\*estimate

Source: Centers for Disease Control and Prevention

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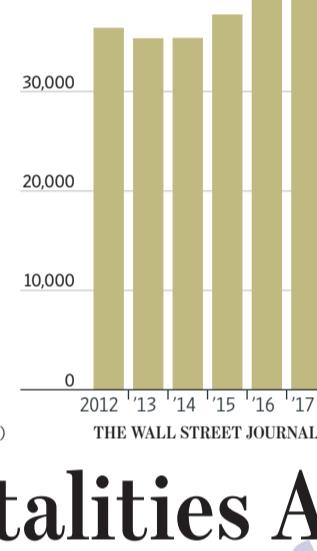
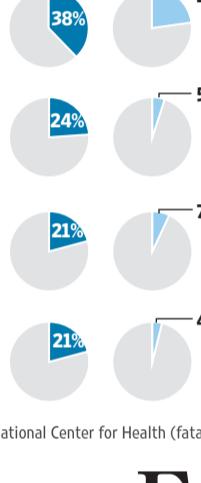
## Traffic Trouble

America's cars are getting smarter but roads aren't any safer.

### Number of U.S. vehicles sold with selected safety feature, by model year

2017 model year	6.8 million
2015	4.1
Automatic braking	4.2
Blind spot alert	0.9
Adaptive cruise control	3.7
Lane Keep Assist (LKA)	3.6
	0.6

Sources: WardsAuto.com (sales); National Safety Council, National Center for Health (fatalities)



Traffic-related deaths hit 40,100 last year, breaking 40,000 for a second year, partly driven by a surge in driver distraction and other factors; shown, a fatal crash in Albuquerque, N.M. in January.

# U.S. Roadway Fatalities Are Still Near 10-Year High

BY ADRIENNE ROBERTS

U.S. motor-vehicle deaths remained near decade-high levels in 2017, an indication U.S. roadways aren't getting any safer, even as auto makers equip cars with more safety gear and many other developed countries make notable strides in reducing highway fatalities.

The National Safety Council said Thursday traffic-related fatalities hit 40,100 last year, the second year in a row the 40,000 mark was surpassed.

Motor-vehicle deaths had steadily declined in the decade leading to 2016. But a surge in driver distraction, increased miles driven and other factors have driven the closely watched number up at an alarming rate.

The data, which differs

from figures set to be released later this year by the National Highway Traffic Safety Administration, comes as cars themselves appear to be getting safer. More than 20% of the 17.5 million vehicles produced for the 2017 model year were equipped with so-called Advanced Driver Assistance Systems, or ADAS, a suite of technology that includes adaptive cruise control, lane-keeping steering aids and autonomous braking that helps avoid collisions, according to WardsAuto.com.

Just two years ago, fewer than 8% of vehicles were equipped with those features, WardsAuto.com says.

Auto makers, seeking to boost safety ratings or grab a competitive advantage, also are building more vehicles with more semiautonomous

driving features as standard equipment. And the price of optional ADAS packages has been declining.

Safer cars don't necessarily result in safer roads, though.

The National Safety Council, an Itasca, Ill.-based nonprofit, estimates traffic deaths declined less than 1% in 2017 following a surprising 6% spike in 2016. Deborah Hersman, NSC's chief executive, said alcohol and high speeds play a role in many fatal crashes, and half of deaths involve a driver or passenger who isn't wearing a seat belt. "The same things that have been killing us for decades are still killing us," Ms. Hersman said. Vulnerable road users, such as pedestrians, motorcyclists and young drivers, saw a disproportionate increase in fatalities last year, she said.

Many automotive executives have recently pointed to the role of drivers' increased use of smartphones in making roads less safe.

While analysts and government agencies have trouble tracking the specific impact that in-cabin distractions play in rising fatality rates, car companies are increasingly adding features such as better voice commands and blue-tooth connectivity aimed at encouraging drivers to put their hands on the wheel and keep their eyes on the road.

NHTSA recently reported more than 37,000 people died in vehicle crashes in the U.S. in 2016, up 5.6% from a year earlier.

The NSC's fatality numbers are higher because the organization counts deaths that don't take place on public

roadways, such as a rollover incident in a driveway or a crash in a parking lot; and it includes deaths occurring within a year of an accident.

Lawmakers Wednesday invoked the opioid crisis and legalization of marijuana in certain states at a congressional hearing that looked in part at the role of drugs in impaired driving and traffic fatalities.

One lawmaker cited a study finding drugs are present more than alcohol in known test results of fatally-injured drivers.

NHTSA in March will launch a campaign against drug-impaired driving, which it has identified as key to reducing traffic fatalities.

"We know that many people switch between use of alcohol and illicit drugs, or consume them together, and we need to

consider both," Heidi King, the agency's de facto chief, said during the hearing before a House panel.

The figures are troubling when stacked against trends in other countries, including Japan, Germany and the U.K.—nations that have been cutting road-fatality rates at a brisker pace than in the U.S.

As of 2015, the last year for which data from the Organization for Economic Cooperation and Development is available, there were 109 traffic fatalities per 1 million people in the U.S., compared with Germany's 29 per million and the U.K.'s 44. A University of Michigan report published earlier this week estimated 1.3% of all U.S. deaths in 2015 were traffic related.

—John D. Stoll and Mike Spector contributed to this article.



CRAIG HUDSON/ASSOCIATED PRESS  
Public-school teachers and staffers packed the Capitol building in Charleston, W.Va., this month to call for salary increases.

# Walkouts May Affect 32,000 Students

BY KRIS MAHER

Schools in at least six West Virginia counties said they would cancel classes Friday, as teachers at those schools plan to walk out over pay and benefits.

The school closings would affect 32,000 students, according to figures from the state Education Department.

The labor tension comes as public-school teachers in St. Paul, Minn., averted a strike this week over pay and other issues, and as teachers in Pittsburgh who have been

without a contract since June are threatening to strike.

The West Virginia House of Delegates passed a bill this week that would give the state's 15,000 teachers a 2% raise this year and a 1% raise in each of the next three years. The state Senate had passed a measure that would give teachers a 1% increase in each of the next five years.

West Virginia's two major teachers unions said the pay raises would be wiped out by higher benefits costs. The unions also argue that proposals in the Republican-led legis-

lature would deprive them of automatic dues collection and strip teachers of some seniority rights.

Dale Lee, president of the West Virginia Education Association, said the state's teachers haven't had a pay increase since 2014.

"There's more anger right now than I've seen in a long time," he said.

Republican House Speaker Tim Armstead said the House plan "represents a responsible path forward to provide our teachers and state employees an ongoing pay raise without

promising more than our state budget can afford."

Gov. Jim Justice, who switched his party affiliation from Democrat to Republican last year, has said the state would freeze benefits costs increases for teachers for 17 months. A spokesman for the governor didn't respond to requests to comment.

Starting teachers in West Virginia earn \$32,435 a year on average, and the average teacher salary is \$44,701, according to Mr. Lee of the West Virginia Education Association.

## ON THE OTHER HAND

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## U.S. NEWS

# Republicans Try a Patch for ACA

Some lawmakers back reinsurance efforts amid fears rising costs will hurt re-election

BY STEPHANIE ARMOUR

Republicans opposed to the Affordable Care Act are showing interest in proposals to shore up the health law and lower premiums, driven partly by their concerns that escalating insurance costs may hurt them in the midterm elections.

State and federal GOP lawmakers are backing or considering reinsurance proposals that aim to curb premiums by offsetting insurers' costlier claims. That stance is a reversal from last year, when Republicans almost uniformly opposed measures to aid the health law they tried to repeal.

In Wisconsin, Gov. Scott Walker faces re-election in a state where a Democrat recently won a special legislative election in a previously Republican district. The Republican governor, a vocal critic of the ACA, has proposed a \$200 million reinsurance program, following the lead of states such as Alaska, Hawaii and Oregon.

Mr. Walker presented his plan as a way to mitigate the ACA's failures. "We are creating Wisconsin-specific solutions to address the broken promises of the Affordable Care Act," Mr. Walker said. "Where Washington has failed to act, Wisconsin will lead."

The midterm and the Wisconsin gubernatorial elections are in November.

Until recently, Republicans generally rejected the notion that the ACA could be fixed, saying it needed to be uprooted. Some GOP state legislators in Washington and Colorado are backing reinsurance proposals sponsored by Democrats.

Congress, many Republicans are also warming to a reinsurance measure. Some want one to be part of an omnibus spending package next month,



Wisconsin Gov. Scott Walker, a vocal ACA critic, has proposed a \$200 million reinsurance program.

providing billions in reinsurance. Health and Human Services Secretary Alex Azar said during a budget hearing Wednesday that the agency is eager to work with states to lower premiums, citing Alaska's reinsurance program.

"We continue to look for state partners that want to be innovative," he said.

More House conservatives also back reinsurance, although some say they don't want to do anything that would be a bailout of insurers. Ms. Collins has said she has a commitment from Senate Majority Leader Mitch McConnell (R., Ky.) to bring her bill to the Senate floor.

This push is facing resistance from conservative groups who say Republicans shouldn't strengthen a law they are trying to dismantle.

"Shame on Republican supporters especially," said Andy Roth, vice president of government affairs at the Club for Growth. "They shouldn't demand repeal for eight years and then suddenly decide it's wise to bail out the very program they claim to detest."

Other proposals, including one from Sens. Patty Murray (D., Wash.) and Lamar Alexander (R., Tenn.), would temporarily restore certain federal payments to insurers. Those payments covered consumer subsidies that insurers must provide under the ACA.

President Donald Trump ended the payments in October, saying they were illegal because the money hadn't been appropriated by Congress.

That decision paradoxically lowered costs for many people who get federal tax credits to offset high premiums. But the value of the credits is tied to premiums, so in many cases the higher premiums meant larger tax credits.

Democrats are now concerned that legislation restoring the payments could cause higher prices for those people, so they want additional measures in any such bill.

## VA Chief Vows to Pay Trip Expenses

BY PETER NICHOLAS

WASHINGTON—Veterans Affairs Secretary David Shulkin said on Thursday that he would reimburse the U.S. government for costs associated with a trip to Europe that was the subject of a critical internal-watchdog report, and added that he wouldn't resign.

Dr. Shulkin told reporters he would cover his wife's travel costs for the trip last summer to Copenhagen and London and make a payment to the U.S. Treasury equal to the cost of tickets to the Wimbledon tennis tournament.

"Everybody is concerned," he said after appearing at a House hearing. "Everybody knows how much work we have to do in the VA."

The report by the Veterans Affairs Department's inspector general, released Wednesday, said Dr. Shulkin misspent taxpayer money and improperly accepted the Wimbledon tickets on the trip in July.

The report also said that Dr. Shulkin's chief of staff altered an email to gain official approval for the secretary's wife to take part in the trip as an "invitational traveler," which enabled her expenses to be covered by the government. The report recommended Dr. Shulkin reimburse the government for the \$4,312 paid to cover his wife's travel costs and contribute to the Treasury the cost of the tennis tickets.

Dr. Shulkin, in testimony Thursday before the House Veterans Affairs Committee hearing, said he believed the trip was essential, but that the "optics of this were not good."

"It's not the optics that are not good," responded Rep. Mike Coffman of Colorado, a Republican member of the committee. "It's the facts that are not good."

### Azar Calls Idaho Plans 'Cry for Help'

low ACA requirements. Democrats have been pressing the agency to block the move as a violation of existing law.

The dispute has put the new HHS secretary in the political crosshairs, caught between an administration that is seeking to dismantle the ACA and Democrats who insist the health law must continue to be enforced.

Mr. Azar said the decision last month by the Idaho Department of Insurance to let insurers offer consumer plans that could charge higher premium rates to people with pre-existing conditions was a sign that too many people can't afford coverage under the ACA.

Blue Cross of Idaho said it filed late Tuesday with the state to begin marketing five products under the new rules.

"What we're seeing here is a cry for help," Mr. Azar said. Idaho officials have said they made the change to provide lower-cost options for consumers because of increases in ACA plan premiums.

More than a dozen patient groups on Wednesday sent a letter to Mr. Azar urging him to clarify that the Idaho decision would violate numerous requirements of the health law. They said it would hurt patients by eroding protections.

The White House is taking a wait-and-see approach to a contentious decision by Idaho regulators to allow the sale of health-insurance plans that don't comply with the Affordable Care Act, a top official said Thursday.

Health and Human Services Secretary Alex Azar told the Senate Finance Committee he doesn't yet know if Idaho's insurance regulator will approve a plan by Blue Cross of Idaho to sell insurance that doesn't fol-

remain bitterly divided over health care, are finding some common ground as costs climb.

Premiums for a popular midprice plan on the ACA exchanges rose by an average of 34% this year, according to the health consulting firm Avalere. In some states, the increase is far higher.

Higher premiums can prompt younger, healthier people to drop coverage.

Those people are needed to offset the costs of older and sicker consumers, and their departure can boost premiums for those less-healthy people who stay in.

A bipartisan proposal by Reps. Ryan Costello (R., Pa.) and Collin Peterson (D., Minn.), and another from Sens. Susan Collins (R., Maine) and Bill Nelson (D., Fla.), would shore up the ACA markets by

lowering costs for many people who get federal tax credits to offset high premiums. But the value of the credits is tied to premiums, so in many cases the higher premiums meant larger tax credits.

Democrats are now concerned that legislation restoring the payments could cause higher prices for those people, so they want additional measures in any such bill.



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## U.S. NEWS

# Attorney General Faces Multiple Battles

Sessions calls senator's bill a 'grave error.' In response, senator says he is 'really irritated.'

BY ARUNA VISWANATHA  
AND DEL QUENTIN WILBER

Attorney General Jeff Sessions is fighting on multiple fronts, embroiled in disputes with Republican lawmakers on at least three issues while his Justice Department remains at odds with the White House on others.

On Thursday, Sen. Chuck Grassley (R., Iowa), who runs the Senate Judiciary Committee with oversight of the Justice Department, launched into a strong critique of Mr. Sessions in response to a letter from the attorney general that described legislation championed by the senator as a "grave error."

"He is now attorney general and is charged with executing the laws that Congress passes, not interfering with the legislative process," Mr. Grassley said. "I'm really irritated that he would send that letter," said Mr. Grassley, his voice rising as he departed from prepared remarks.

That dispute erupted as Mr. Sessions was fighting with other Republican senators on issues ranging from immigration to marijuana. Mr. Sessions served in the Senate as a Republican representing Alabama for two decades before joining



Attorney General Jeff Sessions has tangled with his former colleagues in the Senate on many issues, including sentencing and marijuana.

SEBASTIAN SLABBER/SHUTTERSTOCK/GETTY IMAGES

President Donald Trump's administration.

Last month, Mr. Sessions' Justice Department criticized House Republicans over the release of a memo about alleged abuses in the process for obtaining surveillance warrants, saying their plan to release the memo without his department's review was "extraordinarily reckless."

Sens. Grassley and Lindsey

Graham (R., S.C.) also questioned whether that surveillance had been handled properly.

A spokeswoman for Mr. Sessions declined to comment.

Robert Raben, a senior department official in the Democratic administration of former President Bill Clinton, said Mr. Sessions' comments criticizing Mr. Grassley's bill, as the senator was seeking to build sup-

port, were surprisingly harsh.

"This goes well beyond what is necessary to modify or slow down legislation," Mr. Raben said. "There were 75 other ways to do this short of going to Mach 10."

Separately, on Thursday morning, Mr. Sessions used a speech before county sheriffs to criticize another bipartisan legislative effort, an immigration plan introduced by Sens. Mike

Rounds (R., S.D.) and Angus King (I., Maine), which failed to get the necessary 60 Senate votes late in the day.

"I've seen these proposals before, and I know what this means," said Mr. Sessions, echoing the president's position.

"This is open borders and mass amnesty and the opposite of what the American people support."

Some experts said these

fights could cost Mr. Sessions allies in the Senate at a time when he has few friends in the administration. Mr. Trump, a Republican, has been displeased with Mr. Sessions since the attorney general recused himself last March from overseeing the federal investigation into Russia's alleged meddling in the 2016 presidential election.

The fight over sentencing legislation—the issue that sparked Mr. Grassley's comments on Thursday—is one of the most personal. Mr. Grassley has spent years pushing changes to the criminal-justice system, producing legislation to cut mandatory minimum sentences for nonviolent offenders and establish programs to help reduce recidivism.

Mr. Sessions, for his part, has spent his tenure at the Justice Department confronting rising overdose deaths and a violent crime rate that has trended upward in some cities, focusing his efforts on providing law enforcement more tools. Mr. Grassley's legislation could have "potentially dire consequences" in countering those efforts, Mr. Sessions wrote in his letter to Congress.

This dispute also reflects a growing division among conservatives on criminal-justice issues. Some have become more open to rethinking sentencing laws in the wake of the opioid epidemic, while others have adhered to a longstanding tough-on-crime approach that includes lengthy prison terms.

## Bannon Reticent With Lawmakers

BY BYRON TAU

**WASHINGTON**—Former White House adviser Steve Bannon drew bipartisan ire on Capitol Hill on Thursday by refusing to answer a range of questions from the House Intelligence Committee, with lawmakers vowing to take more drastic steps to compel his testimony.

Mr. Bannon, a onetime confidant of President Donald Trump who has since become estranged from him, appeared under subpoena before the committee as part of its continuing investigation into alleged Russian interference in the 2016 U.S. presidential election.

During his roughly three-hour appearance, Mr. Bannon said he was willing to address only 25 prewritten questions about his time in government and the transition between administrations. Congressional subpoenas are mandatory summonses to answer questions.

Mr. Bannon has also been subpoenaed in the criminal investigation into Russia's election meddling by special counsel Robert Mueller's office and spoke to his investigators over two days this week, a person



Steve Bannon appeared at a House hearing on Russian meddling.

familiar with the matter said.

Both Republicans and Democrats on the panel condemned his refusal to speak more broadly. Committee members said they would consider a number of steps, including a possible criminal referral to the Justice Department or a civil lawsuit in federal court, to compel him to answer.

"There were 25 questions that the White House authorized him to answer," said Rep. Mike Conaway, a Texas Republican running the panel's Russia investigation. "He answered each of those. He wouldn't go beyond those

questions in any of his answers. And that's frustrating. We have further steps to take, and we'll be taking them."

Mr. Conaway said he would be discussing the matter of Mr. Bannon's testimony further with House Speaker Paul Ryan (R., Wis.) and others to determine the next steps.

At issue in Mr. Bannon's refusal to answer questions is the doctrine of executive privilege, or the right of a presidential administration to shield some internal deliberations from outside scrutiny in the interest of promoting candid advice to the president.

The White House sent a letter to the panel in advance of Thursday's hearing outlining some of its concerns about Mr. Bannon's testimony, according to people familiar with the matter. But Mr. Bannon refused to answer questions on other topics beyond his time in the White House, according to the panel's top Democrat.

"The breadth of that claim of executive privilege is breathtaking and insupportable, and indeed at times it was laughable," said Rep. Adam Schiff (D., Calif.).

Mr. Bannon refused to "answer questions about conversations he had after he left the administration and with people who played no role in the administration, had never been in the administration," Mr. Schiff said.

"There is no plausible

claim of privilege that could apply to those circumstances."

The appearance was Mr. Bannon's second before the intelligence committee. In January, he spent about 10 hours with the panel, with much of the time in negotiations over his testimony. Mr. Bannon didn't respond to reporters' questions on Capitol Hill on Thursday.

## Russia Is Blamed for Massive Cyberattack

BY NANCY A. YOUSSEF

The White House on Thursday blamed Russia for a massive cyberattack last year that crippled computer networks at multinational firms worldwide, vowing the hack would be met with "international consequences."

A White House statement on the cyberattack came a day after the U.K. formally blamed Russia. The Russian Embassy in Washington didn't immediately respond to a request for comment.

An administration official wouldn't say what the consequences might be or whether the U.S. would act alone or with other nations.

"We do mean there are other countries that are just as concerned about this attack and are weighing the appropriate response," the official said. "As the president says, he does not like to telegraph or preview his actions."

The White House statement is the latest accusation of Russian involvement in cyberattacks. On Tuesday, U.S. intelli-

gence officials testified before a Senate committee that the Kremlin wants to interfere in the 2018 American midterm elections.

But the criticism from the White House also comes after President Donald Trump's reluctance to blame Moscow for interference in the 2016 U.S. presidential election, despite conclusions of Russian meddling by U.S. intelligence agencies.

The Petya cyberattack last year caused "billions of dollars in damage across Europe, Asia, and the Americas," the White House said, representing the most destructive and costly hack ever. The attack also has been called NotPetya.

The Central Intelligence Agency declined to comment Wednesday evening on the U.K.'s decision to blame Russia for the attack. U.S. defense and intelligence officials appeared to be caught off guard Thursday by the White House statement, saying they couldn't provide additional details.

—Robert McMillan contributed to this article.

## Holiday Update

The Wall Street Journal will not be printed on Monday, February 19, in observance of Presidents' Day.



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## THE FLORIDA SCHOOL SHOOTING

## A Community in Mourning



Clockwise from top left: Students gather for a vigil at Pine Trails Park in Parkland, Fla., for victims of the shooting; mourners comfort each other at a prayer vigil at Parkridge Church; students hug each other after a vigil at the Parkland Baptist Church; and local officials at a press conference Thursday at Marjory Stoneman Douglas High School, where the shooting occurred Wednesday.

CLOCKWISE FROM TOP LEFT: MARK WILSON/GETTY IMAGES; GIORGIO VIEIRA/EPIC/SHUTTERSTOCK; GERALD HERBERT/ASSOCIATED PRESS; MONICA MCGIVERN/XINHUA/ZUMA PRESS

## Teen Fascinated by Guns

Suspect struggled to control his behavior; fights at school and run-ins with neighbors

BY SCOTT CALVERT  
AND KATE KING

A neighbor said he shot at chickens with a pellet gun and turned his dog on potbelly pigs. A former teacher said school administrators seemed worried in late 2016 about him bringing a backpack to class. A relative said he had emotional issues and had recently lost his mother.

A portrait is emerging of 19-year-old Nikolas Cruz, the suspect in Wednesday's high-school massacre in South Florida, as a troubled young man who struggled to control his behavior. He had been expelled from the school, Marjory Stoneman Douglas High School, officials said.

Mr. Cruz was charged with 17 counts of premeditated murder in the shooting that also wounded more than a dozen others.

Math teacher Jim Gard taught Mr. Cruz in late 2016 and recalls receiving a cryptic email about him from school administrators.

"I remember having an email: 'If he comes into your class with a backpack, let us know,'" he said. "I can remember writing back, 'Why?' They just said, let us know. They weren't telling me anything."

A representative for Broward County schools couldn't be reached to comment.

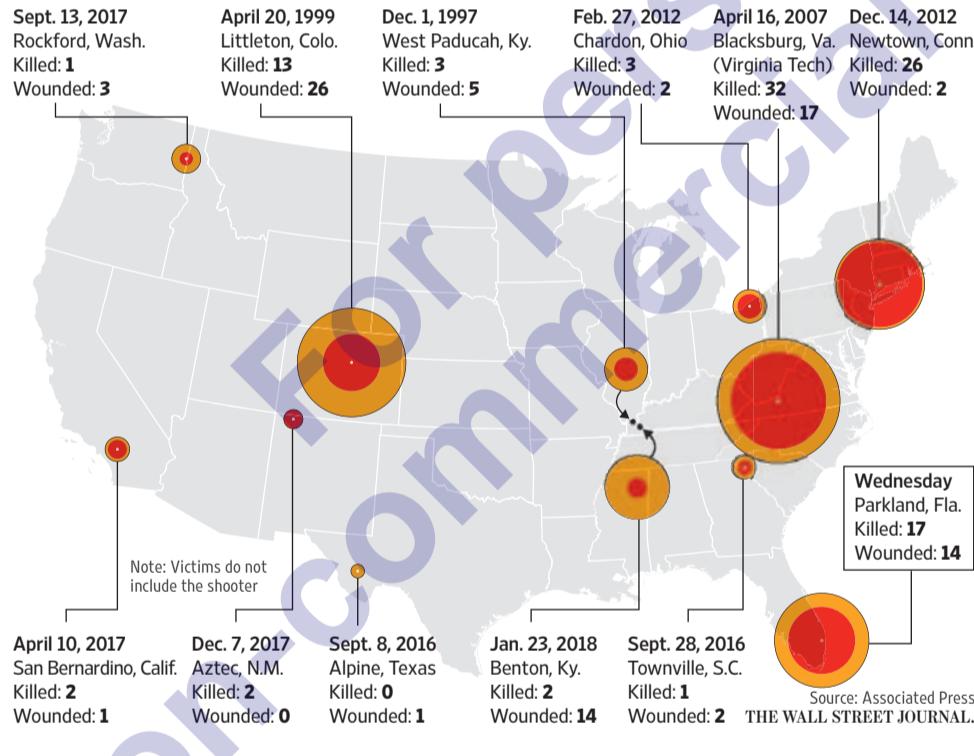
Mr. Gard recalled Mr. Cruz as a quiet and reserved student who didn't cause any disruptions.

He said Mr. Cruz left little impression on him and thinks he was gone from the school by early 2017. "When he was in class, he did work; he was an average kid," he said.

*'He was a shy person and also, people that he opened up to, he kind of scared.'*

## Killing in the Classroom

A look at some recent U.S. school shootings and some of the deadliest of years past:



Nikolas Cruz, 19, has been charged with 17 counts of murder.

this."

Malcolm Roxburgh, a former neighbor in Parkland, Fla., said the Cruz family lived three doors from his home for many years in a neighborhood of low-slung homes set on large lots studded with palm trees. The Cruz family moved last year, he said.

Neighbors had frequent run-ins with Mr. Cruz during his teenage years, he said. Mr. Roxburgh said there were repeated signs of trouble at the Cruz home. "The police knew all about him. They came to that house maybe 30 or 40 times, as far as I know, to straighten out problems," he said.

A spokesman for the Broward Sheriff's Office said he couldn't immediately confirm whether the police had been called to Mr. Cruz's house. He added that the sheriff is currently compiling information.

Mr. Roxburgh said another

but said he was on medication. He and his younger brother were adopted as young children and grew up with a stay-at-home mother who was "very doting, an excellent mother."

"I know that she was concerned about him not coming straight home, and things like that," Ms. Kumbatovich said. "A couple of times she found he was out after his curfew. But nothing that I thought would lead to something like

"Everyone thought it an empty threat," Mr. Elias said.

He and Mr. Cruz were both in the Army Junior Reserve Officer Training Corps, with Mr. Elias serving as Mr. Cruz's executive officer for about a month in 2016.

"He would come in with

## AR-15 Type Rifles Are Fast, Deadly And Very Popular

BY ZUSHA ELINSON

The gunman who killed 17 people at a Florida High School on Wednesday used an AR-15 model rifle, a style of gun that has become more commonly used in mass shootings in the past decade.

The AR-15 is a semiautomatic rifle that allows the user to fire rapidly and use high-capacity magazines.

Four out of the five deadliest mass shooting in modern U.S. history have taken place since 2012 and all four of those shooters used AR-15 model rifles in their attacks, including Stephen Paddock in Las Vegas and Adam Lanza in Newtown, Conn.

The AR-15 model rifle is among the most popular firearms today, according to the National Shooting Sports Foundation, the firearms industry trade association. Gun owners like them because they are easily customized and can be used for hunting or target practice, the association said.

Some Democratic lawmakers and gun-control groups want to ban or restrict AR-15 model rifles, calling them weapons of war.

Overall, AR-15 rifles have been used in 17 active-shooter attacks since 2000, less than 10%, according to researchers at Texas State University.

On Thursday afternoon, fed-



AR-15 type rifles fire rapidly.

eral agents with the Bureau of Alcohol, Tobacco, Firearms and Explosives questioned officials with Sunrise Tactical Supply for more than five hours, lawyers for the business said. The gun shop's sale of the rifle to Nikolas Cruz, who has been charged with 17 counts premeditated murder, was fully compliant with state and federal gun laws, they said.

The owners are "completely shocked and horrified that anything like this would happen," said Douglas Rudman, a lawyer for the Morrison family, which owns the shop.

"There was nothing about this transaction that raised any sort of suspicion in the minds of the owners or the employees of Sunrise Tactical."

## A Call From a Child: One Parent's Story

Security expert Joel Leffler was on a business trip in Dallas when he got a call from his son, a 16-year-old junior at Marjory Stoneman Douglas High School in South Florida.

"He called me as he was running out of the school," Mr. Leffler said. "He was panicking, freaking out, he heard like eight gunshots, he was very scared."

His son said the shots seemed to be coming from the ninth-grade building, where his 14-year-old sister was. Mr. Leffler said he had to talk his son out of going to find his sister.

Mr. Leffler reached his daughter on the phone briefly. "She was whispering, hiding, then the phone went dead, because she didn't want anyone to hear her," he said. "And for the next 35 minutes before I heard from her, it was pretty terrifying."

When he finally heard from her, she told him her teacher had been shot and killed.

"She's 14 years old and she had to see multiple dead bodies," he said. "It's something that you hear about all the time, and you never think it will happen to you."

Mr. Leffler canceled the rest of his trip and flew home late Wednesday.

"I've done a lot of things in my life, and this is the most terrifying thing I've experienced," he said.

Mr. Leffler said his daughter doesn't want to return to the school and immediately asked to go to private school. Mr. Leffler said he was considering it, not because she would be safer there, but because it would be a different environment. At the very least, he said, he expects to keep her at home this week.

"Whatever makes my daughter have peace of mind," he said. "She's going to need time." —Valerie Bauerlein

neighbor kept potbelly pigs and said Mr. Cruz "used to put his dog in there to try and attack the pigs."

He said Mr. Cruz also used a pellet gun to shoot at chickens kept by a neighbor. Mr. Cruz, confronted by a neighbor, retaliated by throwing an egg at the neighbor's pickup truck, he said.

Another time, he said, Mr. Cruz slammed his backpack into the car of Mr. Roxburgh's daughter after she had scolded him for some misbehavior. Mr. Roxburgh said she called the police, who stationed officers at the bus stop where the incident occurred for a couple of days.

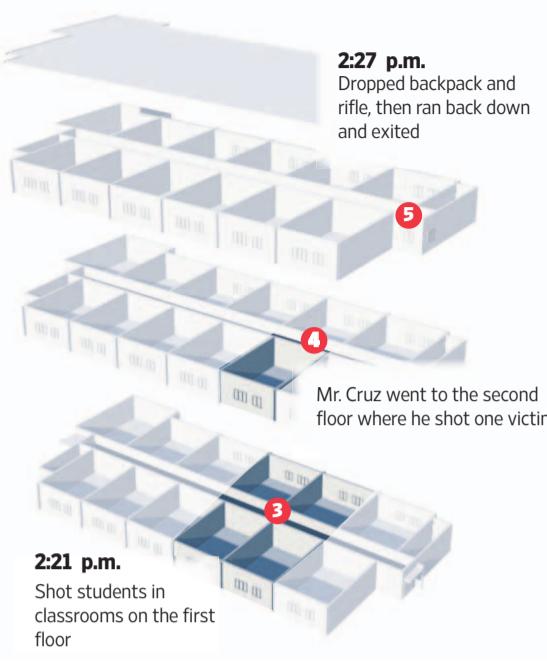
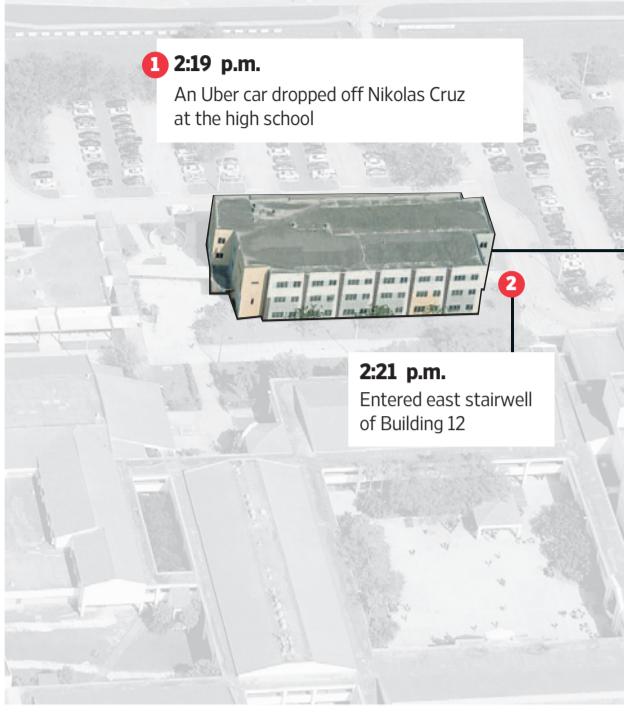
When Mr. Cruz and his family moved away last year, "we were all very relieved on this street that they had gone," Mr. Roxburgh said.

—Lisa Schwartz  
and Jim Oberman  
contributed to this article.

## THE FLORIDA SCHOOL SHOOTING

## The Path of the Gunman

Wednesday's afternoon of horror at Marjory Stoneman Douglas High School



Sources: Broward County Sheriff's Office, Broward County Geographic Information Systems, Broward County Public Schools, OpenStreetMap. Photo: Pictometry

THE WALL STREET JOURNAL.

## Coach, Student Volunteers Fall Victim

By CAMERON MCWHIRTER  
AND VALERIE BAUERLEIN

Aaron Feis, a beloved football coach at Marjory Stoneman Douglas High School and a school guard, was likely preparing for school dismissal Wednesday when a gunman came onto the grounds.

Former student Tony Elias, 19, said Mr. Feis oversaw senior dismissal at the Florida school and would wave to the students from his post at the parking-lot gate. "He was always a jokester, always trying to get a laugh," he said. "He was always filled with joy for helping kids and being there with them."

Mr. Feis, 37 years old, leaves behind a wife and an 8-year-old daughter, said Raymond Feis, his 85-year-old grandfather, who lives on Long Island, near New York City.

"I watched him grow up. He was always saying, 'What can I do for you grandpa? No, no, sit down, I'll do that.' He was that kind of person," Mr. Feis said.



From left, football coach Aaron Feis and students Jaime Guttenberg and Gina Montalto.

ASSOCIATED PRESS

REUTERS

SHAWN MALONE REEDER SHERLOCK VIA ASSOCIATED PRESS

Johanna Feis described her brother as "a very big protector."

The school's football team, the Eagles, posted on its Twitter account that Mr. Feis died shielding students from the gunman. Mr. Feis was one of two staff members who re-

sponded immediately when the shooting started, according to Broward County Public Schools Superintendent Ron Runcie. Both died.

"Unfortunately, those two heroes gave their lives for those events," Mr. Runcie said.

Mr. Feis was among the 17

people killed Wednesday when a gunman opened fire at the school in Parkland, Fla. The suspect, a former student who was expelled, has been charged with 17 counts of pre-meditated murder.

Alyssa Alhadeff, 15, also was killed Wednesday. She

was an avid soccer player and hardworking student, her uncle David Alhadeff, 45, said Thursday.

Ms. Alhadeff thrived at the school since her family moved to Florida from New Jersey about five years ago, her uncle said. She loved playing sports and writing, he said.

"She was very caring, very social, a typical girl," he said. "She played sports after school and then studied at home."

After the shooting, the family anxiously sought to find Alyssa, but she wasn't among released students. Officials contacted them about 1:30 a.m. Thursday, to tell them she had been killed, Mr. Alhadeff said.

The family had never worried about her safety, because they lived in a nice neighborhood and sent her to "what they thought was one of the best schools in Florida," her uncle said.

Jeb Niewood, president of the Friendship Initiative, said two of the victims—Jaime

Guttenberg and Gina Montalto—volunteered at his center, where they spent time weekly reading, playing music and doing yoga with children with special needs.

"Jaime was a very small girl, around 5 feet tall, but she was 5 feet of heart," said Mr. Niewood. Gina had an inherent ability to connect with kids of all ages and abilities, he said.

Both girls had volunteered with the Friendship Initiative for more than a year, he said, dedicating time each weekend for months at a time.

"The kids learn how to socialize, and our student volunteers learn lessons in humanity," he said. "They form friendships, and that's the way we want to change the world."

"That's what both Jaime and Gina believed in, that you can change the world through love and friendship," he said. "The only answer to evil is through love and understanding, and that's what these girls believed in," he said.

—Kate King contributed to this article.

## President: School Safety Is Priority

By MICHAEL C. BENDER  
AND JULIE BYKOWICZ

**WASHINGTON**—President Donald Trump said he planned to convene a meeting of the nation's governors and state attorneys general in which he would make school safety "our top priority," in the wake of a school shooting in Florida that left 17 people dead.

The president made no reference to gun laws during a six-minute speech at the White House. Instead, his speech aimed to console those shaken by the latest mass shooting in the U.S. and vowed to "tackle the difficult issue of mental health."

children, "especially those who feel lost, alone, confused or even scared," Mr. Trump said youngsters should turn to family, teachers, law enforcement or faith leaders for help.

"Answer hate with love, answer cruelty with kindness," he said. "We must also work together to create a culture in our country that embraces the dignity of life, that creates deep and meaningful human connections and that turns classmates and colleagues into friends and neighbors."

The shooting at the Florida school comes about four months after 58 were shot dead outside a Las Vegas casino, and three months after 26 people were shot dead inside a south Texas church.

Mr. Trump traveled to Las Vegas after that shooting, meeting with victims, doctors and first-responders. Officials didn't have details Thursday on his visit to Parkland, about 40 miles south of the president's resort in Palm Beach.

He had been scheduled to visit Florida on Friday to promote his infrastructure plan in Orlando and spend the weekend at his resort, but the White House canceled Mr. Trump's Orlando trip on Thursday. His re-election campaign also said Thursday that it would postpone a political rally that had been planned for Wednesday in Ambridge, Pa.

Mass shootings have become alarmingly frequent in recent years, both at schools and other locations, fueling a debate over what the federal government should do to prevent future incidents. Many Democrats have pushed for tighter regulations, such as expanded background checks for gun purchases. Opponents of tighter gun laws said they wouldn't prevent such shootings and would unfairly limit citizens' Second Amendment rights.

"It is not enough to simply take actions that make us feel like we are making a difference—we must actually make that difference," Mr. Trump, a Republican, said on Thursday in his first public comments since the shooting a day earlier.

Mr. Trump said he planned to visit Parkland, Fla., home to Marjory Stoneman Douglas High School, where Nikolas Cruz, 19 years old, allegedly opened fire, killing 17 people and wounding 14 more. Mr. Trump described the school as a "scene of terrible violence, hatred and evil."

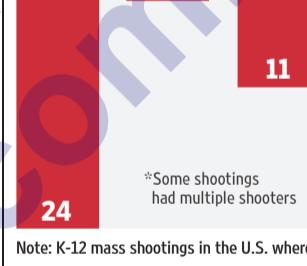
Directly addressing U.S.

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## Stats on School Shootings

Shooter's relation to school\*

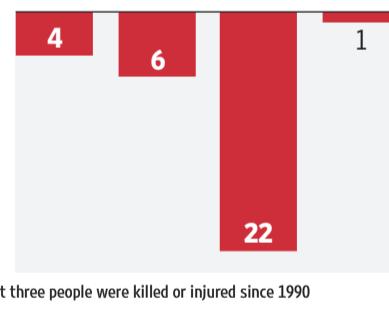
Student      Former student      Other



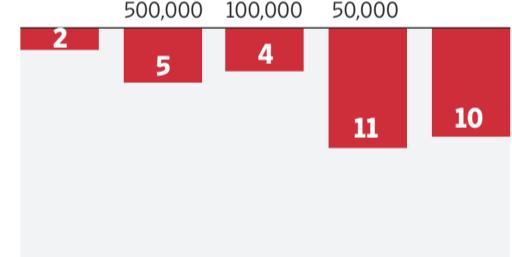
\*Some shootings had multiple shooters

Note: K-12 mass shootings in the U.S. where at least three people were killed or injured since 1990

Shootings, by type of school



## Shootings, by city population



Source: WSJ analysis of police and court documents; staff reports

## ATTACK

*Continued from Page One*  
eral Jeff Sessions said this looked like yet another attack preceded by signals.

"Perhaps we haven't been effective enough in intervening immediately to deal with that," Mr. Sessions said, speaking to a sheriffs association in Washington, D.C.

Authorities can't arrest everyone they believe is dangerous, but "we can and we must do better," he said.

Other officials, such as President Donald Trump and Florida Gov. Rick Scott, announced plans to redouble efforts to try to stop school violence. They didn't speak about gun control, and focused more on mental health.

"It is not enough to simply take actions that make us feel like we are making a difference—we must actually make that difference," Mr. Trump said, addressing the nation from the White House.

Broward County Public Schools Superintendent Robert Runcie did put the focus on weapons. "Now is the time for this country to have a real conversation on sensible gun-control laws," he said. "Our students are asking for that conversation."

Mr. Cruz made his first appearance in court Thursday afternoon for a bond hearing, shuffling in shackles and wearing an orange outfit. He looked subdued and spoke only briefly, answering "Yes, ma'am," when asked to confirm his identity.

Judge Kim Mollica informed Mr. Cruz that he faced 17 counts of pre-meditated murder and ordered him held without bond. His attorney, Assistant Public Defender Melisa McNeill, said she would defer any arguments until subsequent court proceedings.

After the proceeding, Gordon Weekes, chief assistant public defender in Broward County and part of Mr. Cruz's legal team, described him as "deeply disturbed, emotionally broken," and said he is on suicide watch. "He fell between the cracks," the attorney said.

The defense is gathering Mr. Cruz's mental-health history and will explore his brain development and the possibility he had autism, according to Mr. Weekes.

Also on Thursday, a white supremacist group, Republic of Florida, told the Anti-Defamation League that Mr. Cruz was affiliated with the group, according to an ADL spokesman. The Republic of Florida didn't return calls for comment.

Meanwhile, Ben Bennight, 36, a bail bondsman in Mississippi, said he contacted the FBI after seeing the comment from "nikolas cruz" on one of his YouTube posts. Mr. Bennight, who said he creates videos about his business, didn't recall what video received the disturbing comment.

FBI agents visited Mr. Bennight at the time and returned Wednesday, he confirmed in an interview. He said he felt the agency took the issue seriously. One agent told him the FBI was limited in how it could respond because it

wasn't a direct threat, Mr. Bennight said.

Robert Lasky, special agent in charge of the FBI's Miami field office, said the FBI "conducted database reviews, checks, but was unable to further identify the person who actually made the comment."

None of that investigation led them to Mr. Cruz, who had developed a reputation in his upscale Parkland neighborhood as a socially awkward menace known to steal the mail of his neighbors, run through the yards of others and hurt animals, neighbors and classmates said.

Former Douglas high-school

Ms. Guarino said she believes Nikolas Cruz tried three times to kill her dog by feeding it a poisonous toad. The first time it happened, she said, the look on Mr. Cruz's face "was wild. He was excited and happy this was happening."

The Cruz children's late mother, Lynda Cruz, said she locked the refrigerator and kitchen pantry to keep the boys from eating all of the food, recalled Ms. Guarino.

Mr. Cruz's mother died of a respiratory illness in late October, according to his aunt, Barbara Kumbatovich. Mr. Cruz moved out of the neighborhood and had been living with family friends since.

After the shooting Wednesday, Mr. Cruz exited from the high school's Building 12 and ran toward tennis courts on campus. He turned to head south, crossed some fields and ran west along with other fleeing students, apparently seeking to mix in with the group, the sheriff said.

The alleged gunman went to a Walmart, bought a drink at a Subway and then left on foot, according to Sheriff Israel. He went to a McDonald's, where he sat for a short period of time, before setting out again on foot. It was 3:01 p.m.

At 3:41 p.m., Mr. Cruz was detained in nearby Coral Springs by officers from the Coconut Creek Police Department, and taken into custody without incident.

—Lisa Schwartz, Jim Oberman, Kate King, Zolan Kanno-Youngs, and Dan Frosch contributed to this article.



President Donald Trump

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student Kyle Ramos, who knew Mr. Cruz from the Army Junior Reserve Officer Training Corps, said Mr. Cruz liked to get up early, around 6 a.m., and try to kill squirrels outside his house by shooting them with a pellet gun.

"I kind of brushed it off, because I don't know how to respond to that," Mr. Ramos said. He said Mr. Cruz had a "one-track mind" focused on firearms and knives, and frequently spoke of the military.

Joelle Guarino, who lived near the Cruz family, said her two sons often played with the Cruz boys, Nikolas and Zachary, from a young age.

## WORLD NEWS

# South Africa's New Chief Looks to Mop Up

Ramaphosa, stepping in after Zuma resigns, hopes to lift economy, regain trust of voters

By GABRIELE STEINHAUSER

CAPE TOWN—The departure of South African President Jacob Zuma leaves his successor a year to convince voters the ruling African National Congress can shed the corruption scandals that have battered the party and change the sense among many poor and black people that it has failed on its promise to deliver racial equality.

Once Nelson Mandela's heir apparent before becoming one of South Africa's richest black men, Cyril Ramaphosa was sworn in as president on Thursday, following Mr. Zuma's announcement on Wednesday that he was stepping down after nine years at the helm of Africa's most developed economy.

Mr. Zuma—who spent 10 years in prison alongside Mr. Mandela—had been stalked by allegations of corruption since before he took office in 2009. He has denied any wrongdoing.

The events that led to his departure following an order from his own party to relin-



Cyril Ramaphosa, who was sworn in as president on Thursday

quish power were set in motion in December, when Mr. Ramaphosa became head of the ANC after promising to restore financial discipline and boost economic growth.

South Africa's currency, the rand, has rallied since Mr. Ramaphosa's ascent to the party leadership and many lenders and the South African Reserve Bank have increased their growth forecasts for the coming years. Some business leaders say they are seeing some

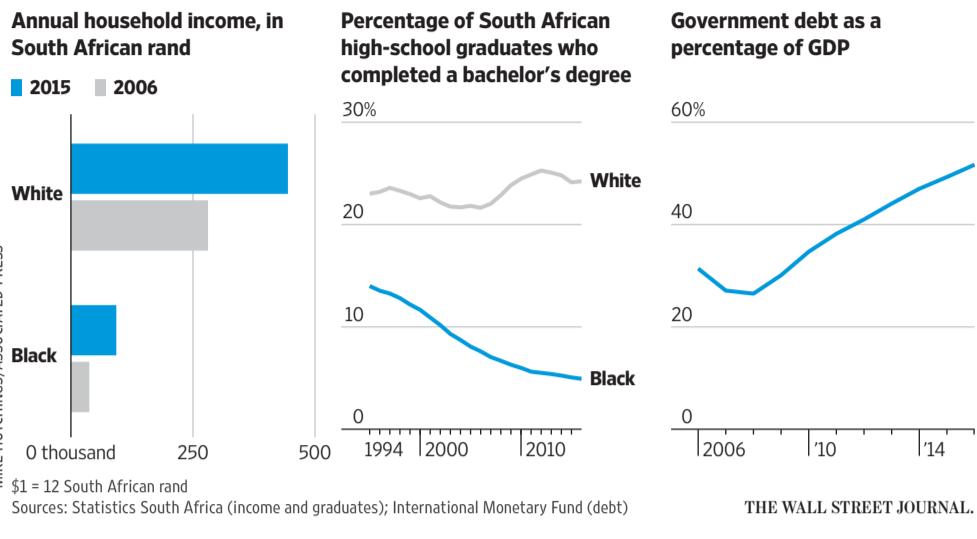
positive signs, such as engagement with industry on a controversial new mining law.

"That hasn't happened in the last 10 years," said Neal Froneman, chief executive of Sibanye Gold Ltd., South Africa's biggest gold producer.

Others question whether Mr. Ramaphosa, who has been serving as Mr. Zuma's deputy, will be able to push through unpopular overhauls demanded by the business community, including making it

## Stunted Development

More than 20 years after the end of apartheid, South Africa's black majority still lags behind its white population on key measures. Meanwhile, as the economy struggles, government debt is on the rise.



Sources: Statistics South Africa (income and graduates); International Monetary Fund (debt)

THE WALL STREET JOURNAL.

easier to fire workers.

Mr. Ramaphosa is expected to seek a full term in national elections in 2019, when the party risks losing its absolute majority in Parliament for the first time since Mr. Mandela was elected in 1994.

On Feb. 21, the government has to present a new budget and explain to ratings firms how it will cut its deficit, currently targeted for 4.3% of gross domestic product, and stop its debt from breaking

past 60% of GDP.

Moody's Investors Service, the one such firm that still rates South Africa's debt as "investment grade," estimates that the higher-education plan will cost around 1% of GDP and potentially much more in the future.

Mr. Ramaphosa is widely seen as more economically liberal than Mr. Zuma, yet the 65-year-old's policy agenda remains vague. He has pledged to create a million new jobs, to ease 26.7% unemployment, and

lift economic growth to 3% this year, from an estimated 0.9% in 2017, and to 5% by 2023.

He is also under pressure from his own party to redistribute wealth from the white minority to the black majority. In addition to free higher education, the ANC is calling for the expropriation of land without compensation—a practice that many South Africans associate with the brutal land invasions that displaced white farmers in neighboring Zimbabwe.

## Ethiopia Prime Minister Quits to Calm Unrest

Ethiopia's prime minister submitted his resignation, a surprise move that appeared

By Matina Stevis-Gridneff in Johannesburg and Yohannes Anberbir in Addis Ababa, Ethiopia

to be designed to quell simmering unrest in a key U.S. and European Union ally.

Foreign and state factories, farms and other facilities have been attacked in riots, creating

anxiety about continued expansion in one of the world's fastest-growing economies.

Hailemariam Desalegn's resignation would mark the first change in leadership in the one-party state that wasn't precipitated by revolution or death of a leader, suggesting the government is making concessions after facing deep disaffection by some of the country's biggest ethnic groups.

Mr. Desalegn has faced a tide of discontent from the massive Oromo ethnic group,

the country's biggest, which has been economically marginalized and has faced a crackdown by the government. Violent unrest has gripped Ethiopia on and off in the past two years, and other groups share the Oromos' anger.

The 53-year-old Mr. Desalegn said on Thursday that he was stepping down as head of the ruling party and as premier in order to facilitate overhauls, which would include opening space for the opposition.

Ethiopia, the biggest troop

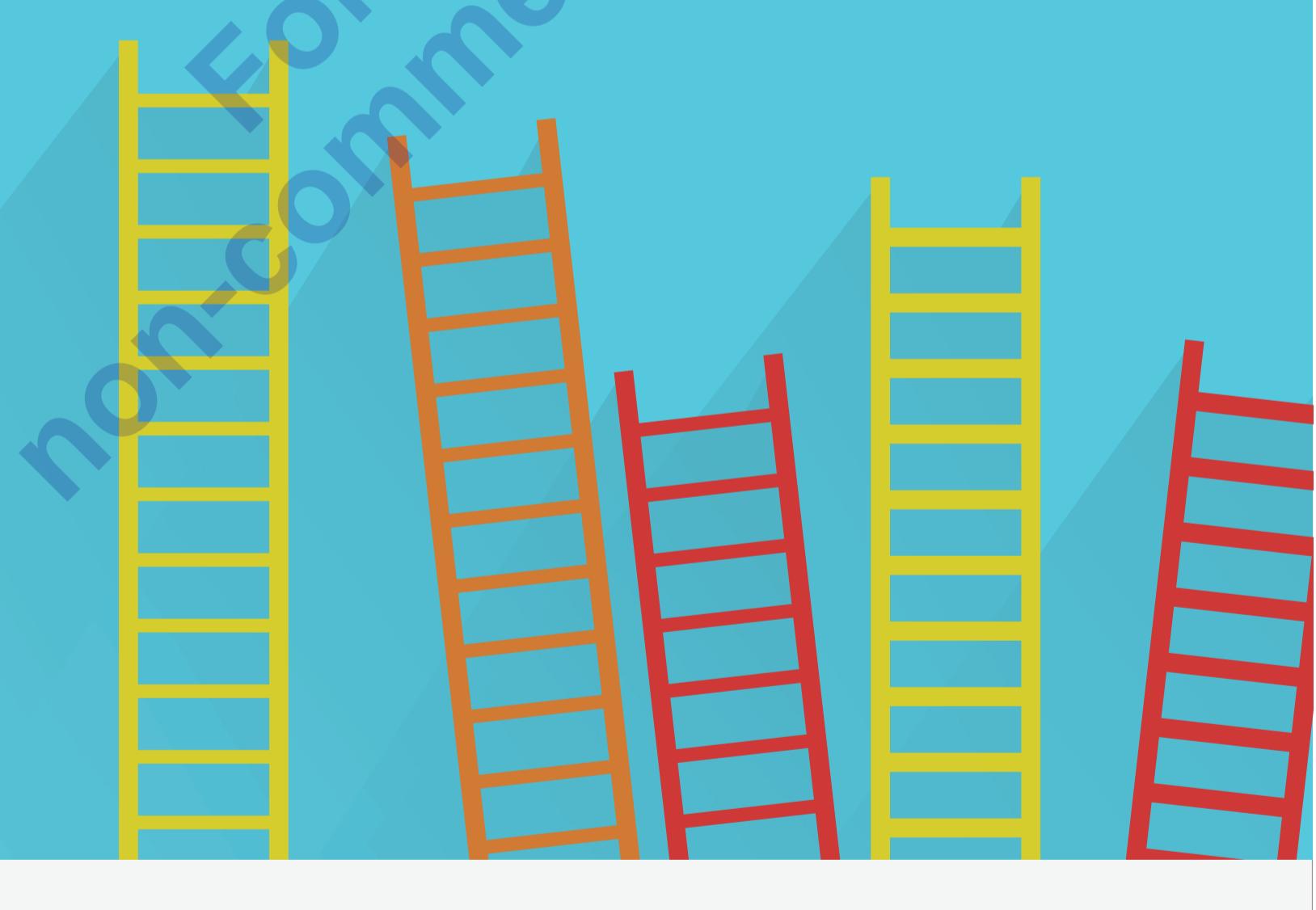
contributor in the fight against terrorist group al-Shabaab in Somalia, is a key ally in the U.S. war on terror and a strategic partner in the EU's attempt to manage migration, as well as being a hub for humanitarian aid distribution in the region.

The Ethiopian People's Revolutionary Democratic Front, the ruling coalition of four regional parties, will need to elect a new leader for itself and for the country. Mr. Desalegn said he would remain prime minister until a successor was selected.



THOMAS NEGER/REUTERS

Ethiopians celebrated the release of an opposition leader Wednesday.



## The Hidden Status Battles That Can Roil the Workplace.

Learn how to prevent conflict that may arise from seemingly benign workplace promotions and rewards.

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## WORLD NEWS

# Tillerson Slams Hezbollah On Syria

By FELICIA SCHWARTZ

**BEIRUT**—Secretary of State Rex Tillerson said Hezbollah's actions threaten Lebanon and the region's security, a day after he faced criticism for saying the U.S. should acknowledge the group as part of the political landscape.

"Hezbollah's presence in Syria has only perpetuated the bloodshed, increased the displacement of innocent people and propped up the barbaric [Bashar al-]Assad regime," Mr. Tillerson said in a news conference with Lebanese Prime Minister Saad Hariri, whose coalition government includes the group.

Those comments come a day after Mr. Tillerson was swiftly criticized for saying the U.S. has to "acknowledge the reality" that Hezbollah is part of the political landscape in Lebanon.

Critics said his views raised Hezbollah's standing. Mr. Tillerson's comments on Wednesday hewed to the assessment of U.S. diplomats of conditions in Lebanon.

But the Trump administration's tough talk on Iran since taking office invited rebukes from those who want to see the U.S. further crack down on Tehran. Officials have said Mr. Tillerson wasn't suggesting he backs Hezbollah's role in the country, but was providing a realistic assessment of the situation in Lebanon.

# U.S., Turkey Meet to Avert Crisis

The U.S. and Turkey are attempting to bridge differences over their operations in northern Syria, holding a battery of meetings this week to defuse tensions between the North Atlantic Treaty Organization allies.

By Julian E. Barnes in Brussels and Felicia Schwartz in Ankara

Secretary of State Rex Tillerson met Turkey's President Recep Tayyip Erdogan on Thursday evening in Ankara, and Defense Secretary Jim Mattis met twice this week with his Turkish counterpart, in Rome and Brussels.

Mr. Tillerson met for 3½ hours with Mr. Erdogan, with no other U.S. representatives in the meeting and Turkish Foreign Minister Mevlut Cavusoglu serving as a translator, officials said. A State Department spokesman traveling with Mr. Tillerson said the talks were productive and that the chief diplomats would meet again Friday.

"We're still working," Mr. Tillerson told reporters after the lengthy session with Mr. Erdogan.

Turkish officials said only that Mr. Tillerson and Mr. Erdogan spoke in detail about the conflicts in Syria and Iraq, as well as their broader fight against terrorism, according to officials with Mr. Erdogan's office.

Relations between Ankara and Washington are growing increasingly strained over Turkey's offensive against the Kurdish-held enclave of Afrin in northern Syria.



Turkish-backed Free Syrian Army fighters rode a bus in the town of al-Rai, Syria, on Wednesday.

people and support a peaceful resolution to the conflict in Syria that would bring great benefits not only for Syria, but also for Lebanon and other neighboring countries," he said.

The U.S. has urged Turkey to focus on the fight against Islamic State, an implicit criticism of Ankara's strategy in Syria as tensions run high between the NATO allies.

Turkey, which is fighting a homegrown Kurdish separatist movement, is concerned about the spillover of a Syrian Kurdish buildup of territory along its border. But the U.S. believes the Turkish military offensive is drawing U.S.-allied Kurdish fighters away from the fight against the remnants of Islamic State.

In a statement Thursday, the Pentagon said Mr. Mattis had acknowledged to Turkish Defense Minister Nurettin Canikli "the legitimate threats" to Turkey. But he warned that a resurgent Islamic State could pose a threat to all NATO allies.

Turkish officials said their key demand is to move the main Syrian Kurdish militia, known as YPG east of the Euphrates River and that it was up to U.S. negotiators to lay out a detailed plan of how to do that.

Mr. Tillerson said in Beirut on Thursday, ahead of his stop in Ankara, that the U.S. and Turkey share the same "endpoint objectives."

"We have some differences about tactically how to achieve the objectives. But our objectives are to defeat ISIS, to defeat terrorism, to reduce violence and protect

ways that we can work together to solve some of these problems," Gen. Scaparrotti said.

On Thursday, Mr. Mattis

## Turkey's push on the Kurdish-held Afrin enclave in Syria has increased strains.

acknowledged the divisions between the two sides in northern Syria, but stressed there was common ground.

"It is probably the most

complex security situation, fighting situation I have seen in over four decades of dealing with fights," Mr. Mattis said. "We are finding common ground. And there are areas of uncommon ground, where sometimes war just gives you bad alternatives to choose from."

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"We have some differences about tactically how to achieve the objectives. But our objectives are to defeat ISIS, to defeat terrorism, to reduce violence and protect

him, the Manbij operation is possible."

Russia and the U.S., too, are eyeing each other from opposing sides of a Syrian front line as Washington seeks to protect its area of influence, the part of Syria largely east of the Euphrates that YPG and its Arab allies have liberated from Islamic State with American help.

President Bashar al-Assad's regime wants to reclaim those territories, and on Feb. 7 sent a battalion-size column to seize a critical gas plant near Deir Ez-zour, east of the Euphrates.

While Russia's official military didn't take part in that offensive, hundreds of Russians employed by a private military contractor did.

**M**any of these men previously fought in Russia's "hybrid war" in eastern Ukraine in 2014-15, and it is an open secret that these mercenaries train at official Russian military bases and that their operations are intimately connected to Russia's military and intelligence establishment.

Moscow denies official links with these "volunteers."

# Internationalized Conflict Grows Even More Dangerous



## MIDDLE EAST CROSSROADS

By Yaroslav Trofimov

attack American troops embedded with these Kurdish forces, prompting a counterwarning of an American military response.

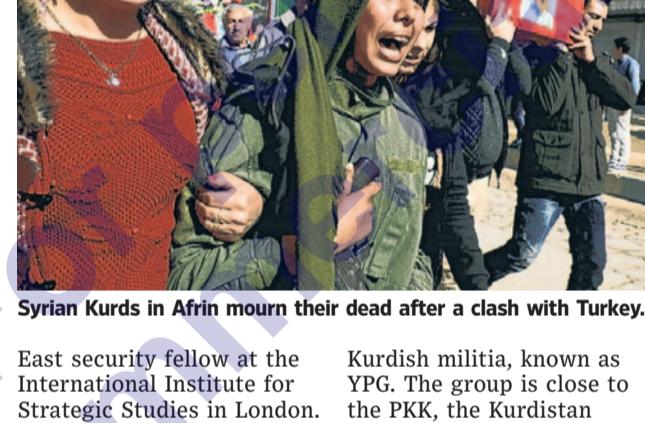
Russia, meanwhile, stood by and didn't use the vaunted S-400 air-defense system it had deployed to Syria as Israeli bombing raids wiped out as much as half of Syria's own air-defense capabilities.

Moscow also remained determinedly silent over the Russian deaths in U.S. strikes, the first time a large number of armed Russian citizens were killed by the U.S. military since 1920.

**L**e't see...Russia also lost a military jet (to a missile fired by Syrian rebels who cooperate with Turkey), as did Israel (to a Syrian regime missile), while Turkey had a helicopter shot down (by a Kurdish missile).

If you've lost track, welcome to the messy patchwork of foreign-power entanglements that Syria has become as its seven-year war enters a new—and more dangerous phase.

"What's happening in Syria is a multidimensional conflict at this point," said Emile Hokayem, Middle



Syrian Kurds in Afrin mourn their dead after a clash with Turkey.

East security fellow at the International Institute for Strategic Studies in London. "It's become a fully regionalized conflict, and all the Syrian parties today act as a proxy for someone else."

With so many actors ramping up involvement in Syria through fleeting alliances of convenience, the potential has grown for a disastrous miscalculation—and for the conflict to expand dramatically and beyond Syria's borders, even though nobody seems to want it to.

The most obvious flashpoint is the U.S. relationship with Turkey, whose leaders are inflamed by U.S. support for the main Syrian

Kurdish militia, known as YPG. The group is close to the PKK, the Kurdistan Workers' Party, an organization that both Ankara and Washington consider terrorist, and that has waged war on the Turkish state since the 1990s. (U.S. officials distinguish between YPG and PKK.)

**A**s Turkish officials make clear in increasingly virulent statements, they are no longer prepared to tolerate American funding and support for their country's enemy. Their immediate target: American forces advising the YPG that are deployed to the northern

him, the Manbij operation is possible."

Turkish President Recep Tayyip Erdogan, speaking to parliament this week after American generals made a high-profile visit to Manbij and warned against any Turkish offensive, pledged to seize the town anyway.

"It's quite clear that those who say they will respond aggressively if we strike have never had an Ottoman slap," he thundered.

It might seem unthinkable that Turkish troops would strike American forces embedded with the YPG. Yet as body bags keep coming home from battles with YPG in Syria's Afrin enclave, the level of anti-American rhetoric in Turkey has turned so high that rational calculations may no longer matter.

"Erdogan backed himself in by talking about going to Manbij so many times, it would be very hard for him to walk it back. If he doesn't deliver, he will look weak," said Gonul Tol, head of the Turkish center at the Middle East Institute in Washington. "If the U.S. cannot offer anything to

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## WORLD WATCH

## JAPAN

## Kuroda Is Nominated To New Term at BOJ

Prime Minister Shinzo Abe's government on Friday nominated Bank of Japan Gov. Haruhiko Kuroda to a new five-year term, a move that indicates monetary conditions will be kept ultraloose for now.

Mr. Kuroda, 73 years old, will face new challenges in his next term after recent turbulence in global stock markets and a sharp rise in the yen since the beginning of 2018, which threatens the profits of Japanese exporters.

In parliamentary testimony over the past two weeks, Mr. Kuroda repeatedly said the central bank would continue pursuing "powerful easing." He also said it was too early to talk about a potential exit from that policy.

The nomination is expected to receive the approval of Parliament, since Mr. Abe's coalition controls a majority of both chambers.

Mr. Kuroda, in office since 2013, was handpicked by Mr. Abe as the linchpin of a plan to reinvigorate Japan's economy.

—Megumi Fujikawa

## PHILIPPINES

## Kuwait to Return Slain Worker's Body

The remains of a slain Filipino found in a freezer in Kuwait will be repatriated on Friday, Philippine officials said, after the killing prompted President Rodrigo Duterte to ban his countrymen from working in the wealthy Gulf nation.

Mr. Duterte declared the ban earlier this week and said he would bring thousands of Filipinos home. He said Kuwait had done too little to protect workers and that a Filipino is "no slave to anyone, anywhere." The Philippines estimates that 250,000 of its citizens are employed in Kuwait.

Mr. Duterte didn't say how long the ban would remain in effect. It applies to future and pending applications to work in Kuwait, rather than people already employed there.

The body of Joanna Daniela Demafelis was found in a home freezer with marks indicating strangulation and possibly torture.

—Jake Maxwell Watts



DAY IN COURT: In Jakarta, police escort Aman Abdurrahman to hear his indictment on charges of masterminding a series of terrorist attacks in Indonesia, including a gun and bomb assault in the capital in 2016 in which eight people were killed.

BEAWIHARTA/REUTERS

## WORLD NEWS

# Thais Love Chinese Tourism—to a Point

The upside is a cash windfall; the downsides include traffic, crowds and concerns about overdevelopment

By TREFOR MOSS

**PHUKET**, Thailand—This resort island is facing a challenge other vacation spots around the world may soon confront: how to cope when the Chinese tourists come.

Thailand is now the top foreign destination for Chinese travelers, and an estimated 400,000 of them will visit the country around the time of the Lunar New Year holiday that began Thursday, according to the Association of Thai Travel Agents.

Phuket, famed for both scenic beaches and bargain shopping, was already busy with Chinese tourists last week. Ranai Pier, a departure point to offshore islets, looked more like the Shanghai subway at rush hour as Chinese tourists jostled for deck space on one of the revving speedboats below.

At a duty-free mall, Luo Yang and his wife trawled for deals. "Everything is so cheap!" said Mr. Luo, here with a tour group from the Chinese city of Chongqing.

The upside for Thailand is a windfall of Chinese cash. But the downsides are mounting: roads snarled with traffic, picturesque spots teeming with people, and new hotels and holiday condos sprouting, adding further to the sense of overdevelopment.

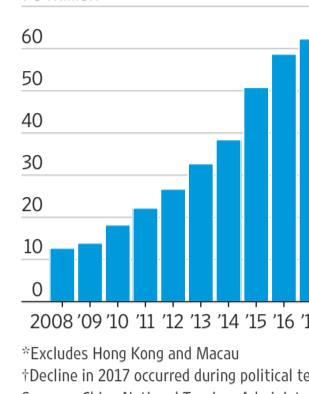
Now even some of tourism's cheerleaders are warning that Phuket is close to a breaking point.

"It can't just keep going up like this," said Bhum-

## China Hits the Road

With rising incomes, more Chinese are traveling.

### Outbound Chinese tourists\*



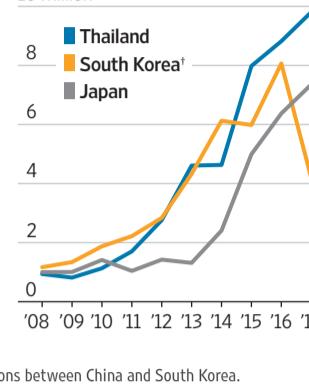
\*Excludes Hong Kong and Macau

†Decline in 2017 occurred during political tensions between China and South Korea.

Sources: China National Tourism Administration; United Nations World Tourism Organization; Thailand Ministry of Tourism & Sports; Japan National Tourism Organization

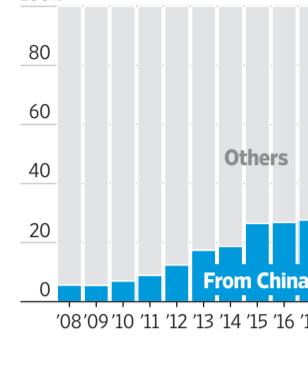
Thailand is the top destination, followed by Japan and South Korea.

### Top destinations



More than one quarter of all visitors to Thailand are from China.

### Share of visitors to Thailand



Thailand is now the top foreign destination for Chinese travelers.

TREFOR MOSS/THE WALL STREET JOURNAL  
seen its popularity with Chinese tourists decline: eight million visited in 2016, but that number halved last year as Beijing—locked in a political row with Seoul—blocked tour groups from coming, causing agony in the Korean tourism sector.

In Thailand, Chinese visits declined briefly in 2016 after a barrage of social-media posts by Thais alleging boorish behavior by Chinese tour groups and as Thai authorities sought to reduce zero-spend trips. But that was followed by a charm offensive by the Thai government, which quickly reversed the trend.

China's National Tourism Administration has conceded that its citizens sometimes behave poorly abroad, with line-cutting and littering among their infractions. Still, the money spent by Chinese tourists has "contributed socially to the welfare" of neighboring countries like Thailand, Xu Jing, the U.N. World Tourism Organization's Asia-Pacific director and a Chinese national, told Chinese state media last year.

Hawkers selling noodles and beer at Phuket's night markets have learned to holler in Mandarin at Chinese passersby. And at the crocodile show the bandanna-wearing impresario no longer shouts "hello" before thrusting his head into the creature's jaws.

These days, it's "ni hao."

ful at capturing that growth. Ten million Chinese vacationed in Thailand in 2017, up from one million in 2010 and triple the number from any other nation. Thai authorities expect 11 million this year.

While most agree the benefits outweigh the disadvantages, tourism workers in Phuket complain that the Chinese travel on the cheap in "zero-spend" tour groups—paying everything to a China-based tour operator upfront and then spending a pittance in Phuket itself. The big retail outlets are an exception, with tourists spending freely. Many of these stores are Chinese-owned, however, and funnel the money back to China.

Some tour groups even

bring their own sightseeing guides, inciting a protest in December by the local contingent. Thai authorities have arrested about 200 unlicensed Chinese guides in Phuket alone over the past couple of years, but their numbers keep growing as Chinese tourism explodes, said Phuket tour guide Wanarisa Watt, who took part in the recent protests.

"It's not right. There has to be a limit," said Ms. Wanarisa, who wants the government to cap tour-group numbers.

Visitor numbers continue to climb, however, and many worry what might happen if Chinese tourists were to stop coming. South Korea has

seen its popularity with Chinese tourists decline: eight million visited in 2016, but that number halved last year as Beijing—locked in a political row with Seoul—blocked tour groups from coming, causing agony in the Korean tourism sector.

In Thailand, Chinese visits declined briefly in 2016 after a barrage of social-media posts by Thais alleging boorish behavior by Chinese tour groups and as Thai authorities sought to reduce zero-spend trips. But that was followed by a charm offensive by the Thai government, which quickly reversed the trend.

China's National Tourism Administration has conceded that its citizens sometimes

## FROM PAGE ONE

# HOLDER

Continued from Page One

shapes and sizes.

Subaru appears to be the champ in numbers. Its Ascent SUV, seating up to eight, sports 19 holders, at least 2.375 per passenger. "I wouldn't say 19 cup holders as a target was ever stated upfront," says Ken Lin, Subaru of America's product-management director. "But we understood that customers may have more than one soda or one bottle."

That narrowly beat Volkswagen AG's new Atlas midsize SUV, with 17. VW spokeswoman Jeannine Girinav says that "we believe 17 cup holders satisfy the needs of the vehicle's passengers, and then some."

There can never be enough, says Christa Ellis, an Indiana mother of four and blogger, who says she cares less about engine displacement than cup holders. "The cup holders are helpful for organizing the van in ways that don't even involve drinks," she says, noting they are a perfect place to hold playthings. "Fries also sit nicely in the extra cup holders."

She recently tweeted praise for the 13 holders in her 2013 Chrysler Town & Country mini-



'Not many people realize how much engineering and technology there is in a cup holder,' says an auto-industry executive.

The growing popularity of large thermoses and supersize tumblers such as the 30-ounce Yeti Rambler is prompting auto makers to introduce more-voluminous holders.

The cup-holder arms race has entered a new phase of innovation for companies such as Fischer, which specializes in upmarket holders. "Not many people realize how much engineering

drive-through windows in mind. "They didn't have cup holders on purpose, but we acquiesced," says Fiat Chrysler's Mr. Gilles, a Viper owner. "Our owners admitted that they, too, like them."

In countries such as Germany, trips tend to be shorter and some Autobahn enthusiasts frown on in-vehicle beverage consumption. "For years, Mercedes was convinced we should teach Americans to drink their coffee at home," says Daimler AG Chief Executive Dieter Zetsche. "Obviously, that didn't work out so well."

Superluxury sports-car cockpits are among holdouts. "There is a difference between an Atlas and a Bugatti," says Matthias Erb, the VW brand's chief engineering officer in North America.

But then there's the new Urus SUV, the first Lamborghini to feature multiple cup holders, including carbon-fiber-swathed receptacles in the center console. "A cup holder means paying attention to customers," says Stefano Domenicali, CEO of VW's Lamborghini brand.

While the race to offer better cup holders is still rolling, the one for sheer numbers and size may be slowing, says Fiat Chrysler's Mr. Gilles. "There's only so much bladder capacity."

Late last summer, the Facebook CEO confronted Messrs. Thiel and Hastings over whether they had leaked Mr. Hastings's email to the press, people familiar with the matter said. In a phone conversation, Mr. Zuckerberg discussed with Mr. Thiel whether he should remain on the board.

Mr. Hastings offered to resign if his disagreement with Mr. Thiel was a distraction, and Mr. Zuckerberg said no, according to someone familiar with the matter.

While Mr. Thiel has remained a director, in November he sold 73%, or almost \$30 million, of his remaining stake in Facebook, according to securities filings.

Mr. Thiel has courted controversy unrelated to his politics. He secretly financed wrestler Hulk Hogan's lawsuit against online publisher Gawker Media, which resulted in a \$32 million judgment that ultimately forced the company out of business. He later said the move was motivated by a Gawker story in 2007 that identified Mr. Thiel as gay, which he said violated his privacy.

Speaking at the Republican National Convention in 2016, Mr. Thiel said, "I am proud to be gay."

# THIEL

Continued from Page One

most of the past four decades in the Bay Area, the 50-year-old plans to permanently move into the 7,000-square-foot home overlooking the Sunset Strip that he bought six years ago, a person familiar with the matter said. He also will move Thiel Capital and Thiel Foundation, two firms that oversee his investments, into new Los Angeles headquarters this year, the person said.

Mr. Thiel has long stood out in Silicon Valley for his vocal libertarianism, but he drew heavy criticism from many tech-industry peers—including fellow Facebook board member Reed Hastings, chief executive of Netflix Inc.—when he backed Mr. Trump's presidential campaign and later served as an adviser on his White House transition team.

Mr. Thiel has recently said tech culture has become increasingly intolerant of conservative political views since Mr. Trump's election, an attitude he has said is intellectually and politically fraught. "Silicon Valley is a one-party state," Mr. Thiel said last month at a debate about tech

and politics at Stanford University. "That's when you get in trouble politically in our society, when you're all in one side."

His concerns are echoed by other conservatives in tech who say they feel alienated by the industry's broad embrace of liberal values. A majority of the tech workers who responded to a recent survey by Lincoln Network, an advocacy group for conservatives and libertarians in the tech sector, described the cultural norms of their workplace as liberal. More than one-third of workers who identified themselves as conservative said the clash between their views and those of colleagues kept them from doing their best work.

Mr. Thiel has bucked Silicon Valley conventions since his days as a Stanford University student in the 1980s, when he helped start a student newspaper to promote conservative views. He co-founded PayPal in 1998 and placed an early bet on Elon Musk's rocket startup, Space Exploration Technologies Inc., in 2008. He also has backed more unusual initiatives such as an institute that advocates creating ocean-based cities outside the reach of governments.

His involvement with Face-

book has been among Mr. Thiel's biggest triumphs. He made the first outside investment in the fledgling social network, paying \$500,000 for a 10% stake in 2004. Today, Facebook is valued at over \$500 billion and used by more than two billion people a month. Mr. Thiel has made more than \$1 billion from the investment.

Mr. Thiel also has been an emissary for Facebook to its large population of right-leaning users. In May 2016, after media reports that curators of

Facebook's "trending topics" feature suppressed news about conservative events and from conservative sources, he helped Facebook convene a closed-door meeting to smooth things over with a group of prominent conservatives.

Mr. Thiel's support for Mr. Trump that year drew criticism within Facebook, ranging from rank-and-file workers commenting on employee message boards to Mr. Hastings. In a 2016 email to Mr. Thiel, Mr. Hastings called his support of Mr. Trump "catastrophically



PayPal founders Peter Thiel, left, and Elon Musk at the company's Palo Alto, Calif., offices in 2000.

PAUL SAKAMOTO/ASSOCIATED PRESS

bad judgment" and questioned his fitness to remain on the board, according to a copy of the message reviewed by The Wall Street Journal. The contents of the email were reported last year by the New York Times.

Mr. Zuckerberg publicly defended the criticism of Mr. Thiel, saying in March 2017 that demands for his removal were "crazy" and that "ideological diversity" had become a necessary component of general diversity in the workplace and boardroom.

# GREATER NEW YORK

## Sergeant Acquitted in Killing of Mentally Ill Woman

Judge rules burden of proof wasn't met to convict Sgt. Barry of murder, other charges

BY ZOLAN KANNO-YOUNGS

A Bronx judge on Thursday acquitted a police sergeant who fatally shot a 66-year-old mentally ill woman who allegedly tried to hit him in the head with a baseball bat.

New York Police Department Sgt. Hugh Barry faced murder in the second degree, criminally negligent homicide and manslaughter charges for shooting Deborah Danner, a paranoid schizophrenic, in her Bronx apartment in October 2016.

Judge Robert Neary, who took less than a day to reach his decision, said the prosecution failed to prove beyond reasonable doubt that Sgt. Barry wasn't justified in shooting Ms. Danner.

"The prosecution's evidence has failed to meet that burden

of proof," Judge Neary said after the more than two-week long trial.

Sgt. Barry remained seated and didn't visibly react as the verdict was read.

The shooting of Ms. Danner sparked criticism of how the NYPD responds to emergencies involving the mentally ill. The day after the incident, NYPD Commissioner James O'Neill called the shooting a failure, and Mayor Bill de Blasio said it was "tragic and unacceptable."

It also came at a time of heightened tension between police and minority communities after various police killings of civilians.

"Of course, it's tragic for the Danner family," Sgt. Barry's lawyer, Andrew Quinn, said outside the courthouse. "But the issue here isn't if death is tragic. The issue here is should Sgt. Barry be blamed, and the answer is no."

Mr. O'Neill said in a statement Thursday that the court decision doesn't "make the loss of Deborah Danner's life

any less tragic."

"Every day, officers respond to very difficult situations. It's not an easy job. But we, as a department and as individuals, must be accountable for our actions," the NYPD commissioner said.

The mayor's office didn't respond to requests for comment.

"We are disappointed but we accept his decision," Bronx District Attorney Darcel Clark said of Judge Neary. "I believe the death of Deborah Danner illustrates the larger issue of how we need changes in the way we address people with mental-health issues."

Sgt. Barry was the supervising officer who responded to a call at Ms. Danner's apartment building for a violent "emotionally disturbed person" after a security guard reported that she was screaming in the hallway of her Castle Hill apartment.

Earlier this week, Sgt. Barry testified that upon entering Ms. Danner's apartment, he saw her in her bedroom with



NYPD Sgt. Hugh Barry and Deborah Danner, who lived in the Bronx.

scissors and persuaded her to drop them and come outside to speak to medics.

Sgt. Barry said Ms. Danner then retreated into her bedroom, grabbed a bat and attempted to swing it at his head. Mr. Quinn argued his client was justified in the shooting because Ms. Danner threatened his life.

The Bronx District Attorney accused the sergeant, who also

was armed with a stun gun, of escalating the situation with Ms. Danner, ignoring his training and causing her death.

Ms. Danner's cousin, Wallace Cooke Jr., who worked as a police officer in the 1980s, said if Ms. Danner were white she would still be alive, and used the verdict to criticize departments across the country for killings of black civilians.

"Police departments allow this to happen," Mr. Cooke said. "To have this going on today is unacceptable."

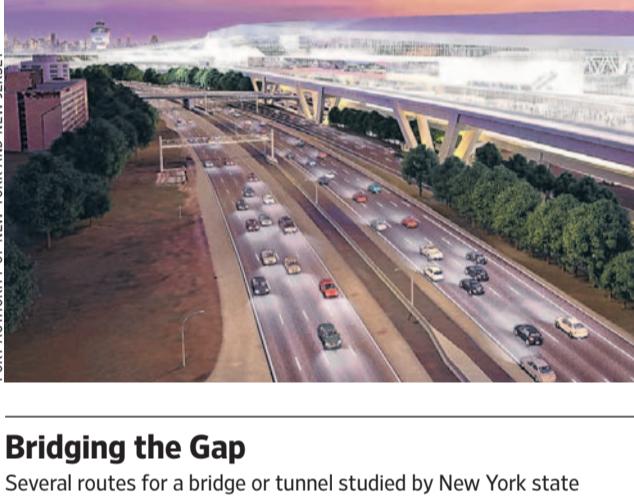
Wanda Perez-Maldonado, the lead prosecutor in the case, sought to raise doubts about how much danger Sgt. Barry faced. Under cross examination of the defendant, she pressed how much progress Ms. Danner made when she swung the 32-inch bat. Sgt. Barry said she was "mid-swing" when he shot her twice.

Ed Mullins, president of the Sergeants Benevolent Association, criticized the level of training the NYPD gives its officers when responding to incidents involving the mentally ill, calling it "liability training."

Sgt. Barry currently is suspended with pay from the NYPD. His case likely will move to an internal-disciplinary trial in police headquarters, where the worst punishment he could receive is the loss of his job. It is unclear when that trial will begin.

## Other Major Infrastructure Projects the Cuomo Administration Has Pushed

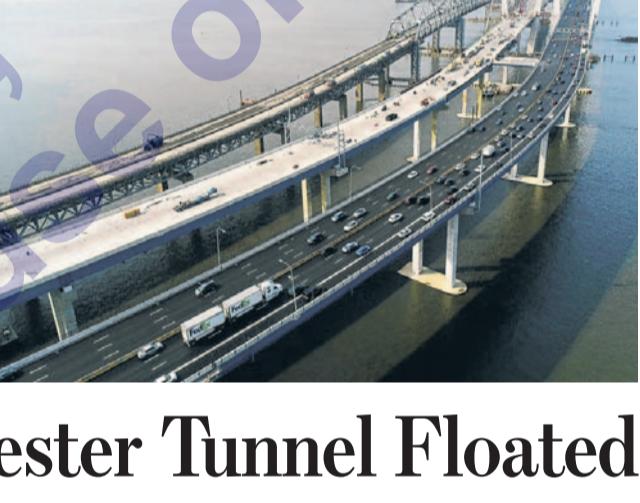
### \$8 Billion LaGuardia Airport



### \$900 Million Kosciuszko Bridge

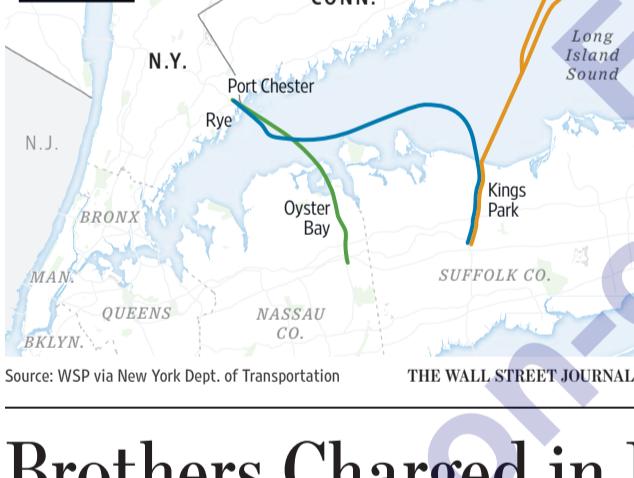


### \$4 Billion Tappan Zee Bridge



#### Bridging the Gap

Several routes for a bridge or tunnel studied by New York state



Source: WSP via New York Dept. of Transportation

## Long Island-Westchester Tunnel Floated

BY JOSEPH DE AVILA

New York Gov. Andrew Cuomo, champion of a \$100 billion infrastructure plan, wants the state to build even more.

The Democratic governor is calling for a bridge or tunnel to be constructed across Long Island Sound, connecting Suffolk and Nassau counties with Westchester County. A recent feasibility study concluded a tunnel could cost as much as \$55 billion, which would make it one of the costliest infrastructure projects in the U.S.

The Cuomo administration began soliciting interest in January to build and finance

the project. Submissions are due in April.

"In terms of thinking big and projects that can be transformative for the region, this can be one of the biggest," said Kevin Law, president of the Long Island Association, an economic- and business-advocacy group. He said it would open up Westchester's talent pool to Long Island employers and vice versa.

A new crossing could trim Long Island-to-Westchester commutes to under an hour from over 90 minutes, according to the state's feasibility study.

It could also be the most

expensive project from a governor who called for \$100 billion of other investment in New York's airports, mass

Guardia Airport, a \$4 billion replacement of the Tappan Zee Bridge, a \$1.6 billion commuter train hall in Manhattan, and a \$900 million replacement of the Kosciuszko Bridge.

Already, the proposal has run into criticism from local elected officials and mass-transit advocates who want the state focused on subway and rail projects, particularly a new \$13 billion rail tunnel under the Hudson River linking New Jersey with New York Penn Station. "We have serious concerns about adding a new, auto-only piece of infrastructure to the region," said

Please see CUOMO page A10B

## Brothers Charged in Bomb-Making Case

BY ZOLAN KANNO-YOUNGS

Two Bronx brothers, including one former teacher, were arrested on Thursday for allegedly paying students from a Harlem high school to help them construct bombs in their apartment, according to authorities.

From October 2017 to January of this year, Christian Toro and his brother Tyler allegedly paid at least two students approximately \$50 an hour to visit the brothers' apartment, break apart fireworks and store the powder in containers, according to the complaint from the U.S. Attorney for the

Southern District of New York. Police searched their home Thursday and found bomb-making materials, including 20 pounds of iron oxide, 5 pounds of aluminum powder and a bag containing metal spheres, according to the complaint.

"We don't know at this point in the investigation, other than the criminal charges related to the explosives, the full breadth of what these materials mean," said John Miller, New York Police Department deputy commissioner of intelligence and counterterrorism.

Lawyers for the brothers didn't immediately respond to requests for comment. Both of

them pleaded not guilty in court on Thursday, according to Geoffrey Berman, the U.S. attorney for the Southern District. The Toro brothers were charged with manufacturing a destructive device, and Christian Toro was additionally charged with distributing explosive materials to a minor.

Neither of the brothers were on the police's radar before the investigation, Mr. Miller said.

Ironically, a bomb threat to the Harlem school—where Mr. Toro was employed—led the police to cracking the case. A student called in a fake bomb threat to the school in early December, and police began

questioning teachers and students. Shortly thereafter, Mr. Toro resigned, according to the complaint. Tyler then returned Mr. Toro's work laptop to the Harlem school, according to the complaint.

When a technical specialist at the charter school found a copy of the "Explosives Book" on the computer, police went to interview Mr. Toro, according to the complaint.

Police then interviewed multiple students at the school who said Mr. Toro and his brother had allegedly been paying at least two students to build the bombs, according to the complaint.

## All-Male Policy Group Adds Female Lawmaker

BY MIKE VILENSKY

A female legislator will join the all-male group hashing out the state's new policy on sexual harassment.

Senate Minority Leader Andrea Stewart-Cousins will join in negotiations expected to take place during the next couple of months.

"I can't amplify enough how important it is to have the perspective of women in that conversation," she said in an interview Thursday.

Gov. Andrew Cuomo's office didn't elaborate on her involvement, or how big a role the Democrat who has repre-

sented Yonkers since 2006 will play. "Leader Stewart-Cousins will be included in negotiations on the sexual-harassment

bill, as well as a wide range of other issues," a Cuomo spokeswoman said.

Each year, the governor and three legislative majority lead-

ers typically work out the budget and major policies in closed-door talks. Of the four men in the group, one, Sen. Jeffrey Klein, a Democrat, is under state investigation for sexual harassment. Another, Mr. Cuomo, is being sued for allegedly ignoring complaints that ex-aide Sam Hoyt sexually harassed Lisa Marie Cater, a former state employee.

Mr. Klein has denied kissing Erica Vladimer, the former staffer. Mr. Klein "stands ready to turn into law the governor's comprehensive policy agenda to combat sexual harassment," which includes establishing uniform-reporting standards

for state agencies and ending taxpayer settlements for sexual harassment, the senator's spokeswoman said.

Mr. Cuomo's office has said the state investigated Ms. Cater's claims, but she was uncooperative. Mr. Hoyt has acknowledged a relationship but denied assault.

The other two members of the group are Assembly Speaker Carl Heastie, a Bronx Democrat, and Senate Majority Leader John Flanagan, a Long Island Republican. Ms. Stewart-Cousins has been gaining support in her push to be included in the talks, with backing from figures including U.S. Sen. Kirsten Gillibrand, a Democrat.

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## GREATER NEW YORK

## Emergency Declaration at NYCHA Eyed

BY MARA GAY

New York Gov. Andrew Cuomo is considering declaring a state of emergency at the New York City Housing Authority over what his counsel called "intolerable" conditions in public housing.

The measure would come after more than 320,000 people have been left without heat or hot water this winter and following months of revelations that the housing authority didn't conduct lead paint inspections as required by federal rules and city law for four years.

"The danger posed by lead paint combined with possible mold and heating issues is a threat to public health," Alphonso David, counsel to the governor, said in a statement Thursday. He said a state declaration of emergency could help expedite contractor repairs to fix the housing authority's aging boilers.

About 400,000 New Yorkers live in the city's public housing, which is run by the city with a mix of federal, city and state funds. An agency spokeswoman referred requests for comment to City Hall.

A spokeswoman for Mayor Bill de Blasio said declaring a state of emergency isn't necessary. "The only 'state intervention' NYCHA needs is more funding for critical systems like boilers, roofs and elevators," said spokeswoman Olivia LaPeyrolerie.

## District Tests a LinkedIn for Kids

BY LESLIE BRODY

HARRINGTON PARK, N.J.—In this affluent northern New Jersey suburb, many students don't wait until high school to document their credentials for college applications.

The district is testing a new digital platform called trovit—as in treasure trove—to let students as young as sixth-graders post their accomplishments and highlight their passions in an online résumé. Eighth-graders have uploaded videos of themselves singing, playing the ukulele and solving a Rubik's Cube puzzle in just over a minute.

Fans say the platform is a helpful record-keeping device with privacy controls, and a way to showcase a more vivid, holistic view of a student beyond grade-point averages and test scores. It seeks to capitalize on a shift at some colleges, where admissions officers are looking for broader ways to see students' talents.

To some parents, apps like trovit appear to push self-promotion and admissions anxiety down to ever-younger ages. "On the one hand, it's great to see these kids are taking pride in things they participated in, but I worry about how much deeper this is going to go," said Michelle Ottomanelli, a mother of three. "My son was a spelling-bee winner in the third grade. Does he have to put that on his résumé?"

Trovit works much like LinkedIn. Students can invite friends, parents and other



Matthew Lindley, an eighth-grader, showed classmates his profile on digital platform trovit.

adults to see their "troves," or share information more publicly with coaches, admissions officers and potential employers. One of the company's slogans is "Toot your own horn."

Trovit's founder and CEO, Torrance Robinson, said his tool encourages self-direction. A Brooklyn father of two—a seventh-grader and a 10th-grader who have trovit accounts—he sees it as helping students, not adding stress. "There is a huge amount of

pressure already, when you can walk into a preschool in New York City and they talk about their graduates getting into Harvard," he said.

Adam Fried, superintendent of Harrington Park School District, said he sees the platform as a way to help students explore their own interests instead of following conventional paths to success. He envisions trovit helping devoted bird-watchers, for example, connect with each other online and

perhaps eventually in person.

His students in grades six through eight set up trovit accounts this past fall. Classmates can see each others' profiles and comment on them. Teachers monitor the site and phone app to prevent bullying. The company says it has strong parental controls for children under 14.

The district is one of 10 testing the platform at no charge, mostly in the New York City area.

## GREATER NEW YORK WATCH

METROPOLITAN OPERA

## New Music Director To Begin Job Early

Yannick Nézet-Séguin, the conductor slated to become the Metropolitan Opera's new music director starting in the 2020-21 season, instead will assume his duties this fall, the company announced Thursday.

Mr. Nézet-Séguin, 42 years old, originally was tapped for a designate position during the 2018-19 and 2019-20 seasons.

The announcement follows the news earlier this season that the Met was cutting ties with James Levine, its former music director of four decades, following accusations of sexual misconduct. Mr. Levine has called the allegations unfounded.

—Charles Passy

NJ TRANSIT

## Additional Railcars Will Enter Service

NJ Transit is returning 20 passenger railcars to service and leasing another 20 from Maryland to ease car shortages and overcrowding, Gov. Phil Murphy said Thursday at the rail station in Trenton.

Other changes announced by the Democratic governor included outsourcing repairs through March to accelerate maintenance, and picking up the pace of hiring.

—Associated Press

## CUOMO

*Continued from the prior page*  
Tom Wright, president of the Regional Plan Association, an urban-planning group.

Amy Allen, vice president of the Westchester County Association, a business-advocacy group, said the project could benefit her county and Long Island. She cautioned that the state must evaluate which trans-

portation improvements would benefit New York the most.

A Department of Transportation official said the state will be examining all transportation options and is focused on finding ways to upgrade New York's existing infrastructure.

"Improving and expanding our transportation infrastructure is essential to moving New York forward," Mr. Cuomo said in a statement. A Long Island Sound tunnel is "an ambitious project that would reduce traffic

on the impossibly congested Long Island Expressway, improve connectivity, and help ensure the region's future economic competitiveness."

An 18-mile tunnel connecting Oyster Bay to Rye could cost between \$32 billion and \$55 billion, depending on the number of lanes, according to the state's feasibility study. A bridge covering that expanse could cost about \$8.5 billion while a bridge or tunnel from Kings Park, N.Y., to Bridgeport, Conn., could run

between \$13 billion to \$23 billion, according to the study.

The idea of a bridge or tunnel crossing the Long Island Sound has been floated before with no results amid local opposition. In the 1930s, U.S. Sen. Royal Copeland of New York proposed the construction of an 18-mile bridge from Orient Point, N.Y., to Connecticut or Rhode Island. Robert Moses, New York's onetime urban-planning czar, in the 1960s wanted a bridge connecting Oyster Bay,

N.Y., to Westchester.

Eight decades after a bridge across the Long Island Sound was originally proposed, politicians on Long Island's North Shore still don't like the idea.

"It doesn't belong here," said Joseph Saladino, the Republican superintendent of the town of Oyster Bay. "It will adversely affect air quality, the environment and greatly change the character of our suburban community."

Some Westchester officials

are also wary.

"The tunnel is not a realistic, cost-conscious project," said Westchester County Executive George Latimer, a Democrat.

Officials with the Cuomo administration said this proposal marks the start of a conversation between the state and the communities in Westchester and Long Island. If the project advances, there will be outreach to residents and elected officials, and their input will be part of the process, they said.

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A Peking duck is sliced tableside at DaDong. Below, the dish topped with caviar at Hakkasan.

STEVE REMICH FOR THE WALL STREET JOURNAL (2)

## Peking Duck, Elevated

Chefs try to outdo one another in refining the classic dish

BY CHARLES PASSY

At the two-month-old Midtown Chinese restaurant DaDong, the Peking duck comes with a pedigree.

The birds for the dish are sourced from a specialty farm in Indiana and raised so they have just the right amount of fat without being "excessively greasy," according to executive chef Andy Xu.

Then, they are cooked in an oven created exclusively for the restaurant. Finally, the ducks are sliced table-side, as thinly and carefully as possible.

The price diners pay for this pursuit of Peking perfection? A whopping \$98 for a full duck, or more than twice the going rate at less fanciful Chinese restaurants.

DaDong, which is part of a growing China-based chain, isn't alone in attempting to take this culinary classic to greater gourmet heights. A wave of high-end Asian restaurants in New York City, generally located outside the Chinatown districts, is reinventing a favorite that purists might be inclined to say



needed little in the way of improvement.

Peking duck has been around in China since the 14th century by some accounts. In its traditional form, the dish is a roasted duck served with thin pancakes and accompaniments such as cucumbers, scallions and sweet-bean sauce. Essentially, diners create their own "wrap," with the duck's skin, prized for its crispiness, becoming the key filling.

The dish, which generally is shared by at least two diners, spread to the West and became a staple at Chinese restaurants in New York City and beyond. Former Secretary of State Henry Kissinger counted himself a fan. So did the late New York City

Mayor Ed Koch.

Almost all Chinese restaurants are anticipating at least a momentary uptick in Peking duck orders during the Lunar New Year festivities that begin on Friday.

With the new-school approach to Peking duck, tradition gets a twist. And in the hypercompetitive world of New York City chefs and restaurateurs, a degree of one-upmanship comes into play.

It can be all about where your bird is sourced. Forget DaDong and its Indiana-bred ducks, says Stratis Morfogen, owner of Jade Sixty, a new Asian restaurant on East 60th Street. He prefers the ones he found from a farm in Minnesota—he likes their "dense" meat and "very light" amount of fat—after engaging in what might be dubbed a wild-duck chase.

At Decoy, a Chinese restaurant in Manhattan's West Village, the meat gets a last-minute boost with a splash of house-made duck consommé reduction and a sprinkle of freshly ground sea salt.

"This is the kind of careful good cooking that a fine French chef would do," said Ed Schoenfeld, Decoy's managing partner.

Photo By: Peggy Sirota

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# LIFE & ARTS

FILM REVIEW | By Joe Morgenstern

## 'Loveless': At World's End

A boy runs away from home after discovering his parents' plans for divorce, and for him

**AMONG THE UNIVERSAL** verities noted by "Loveless" is the world-wide idiocy of talk radio. This austere and magnificent film by Andrey Zvyagintsev—his 2014 "Leviathan" was a masterpiece—is set in Leningrad, where a talk-show babbler says an already depressed public has grown more so because of a prediction, based on a ninth-century Mayan calendar, that the world is about to end. The government has denied the rumor, but it might just as well be true for 12-year-old Alexey. Unloved, unwanted and an only child, the boy has just discovered from an overheard conversation that his parents are ending their poisonous marriage and plan to ship him off to an orphanage. Shortly thereafter, Alexey runs away from home, and "Loveless" becomes a detective story about the citywide search to find him. Beyond that, though, Mr. Zvyagintsev's fifth feature is a portrait of a loveless society in which prosperous Russians look a lot like anxious, joyless narcissists closer to home.

Some of the hallmarks are familiar: exercise as therapy, real estate as religion, an inordinate attachment to smartphones. ("Dream of having a tooth pulled out," one woman confides to her voice-memo app. "What does it mean?" Another woman raises her phone in a restaurant to toast "love and selfies.") In a local twist, family values are held in high, if hollow, regard by corporations, which expect their employees to be married and, preferably,

equipped with children. Alexey's father, a craven wretch named Boris (Aleksey Rozin), fears that he'll lose his well-paying job in corporate sales if his boss discovers that he's not only getting divorced but shedding custody of his son. That prospect is a source of sheer delight for his wife, and Alexey's embittered mother, Zhenya (a chilling performance by Maryana Spivak), who only wishes Boris ill. (She also wishes Alexey had never been born.)

"Loveless," as you might possibly guess from the title, is not heartwarming, and doesn't mean to be. Apart from poor, sweet Alexey—plus a genuine hero I'll describe in a moment—there isn't a likable person in sight, although the lovers taken by Boris and Zhenya deserve better than what they've got. One could accuse Mr. Zvyagintsev and his script collaborator Oleg Negin of loading the dice, but they don't mean to be fair. (To be fair about the film, not everyone is gladness-impaired. Happy children ride sleds on a snowy hill near Alexey's apartment.) The filmmakers' purpose is social portraiture with a psychodynamic context. We come to understand where the poison in the couple's life has come from. And a shocking display of emotional determinism suggests that these two people will continue to poison new relationships and the children created from them, having learned nothing from their present anguish.

What, then, of Alexey, and those searching for him? The pri-



SONY PICTURES CLASSICS (2)

mary searchers do not include his parents, who turn to the police once they realize, ever so slowly, that their son has failed to come home from school. The cops aren't helpful either. "Looks like a standard runaway," a detective intones in a basso-profoundo voice, barely feigning interest. The best hope for solving the case lies with private, selfless enterprise—a network of volunteers that may seem to be a contrivance, given its prominence in the narrative, but one that exists in reality and, according to the director, has been remarkably successful in its many quests. The movie's hero is the network's director, Ivan, who is played by Aleksey Fateev. Tac-



turn and outwardly impassive, Ivan is the only one who truly wants to find the boy and bring him back to safety.

"Loveless" is Russia's Oscar entry for best foreign-language film,

Maryana Spivak and Matvey Novikov, above; Matvey as Alexey, left

just as "Leviathan" was; that's notable, if not readily explicable, because both films clearly take place in the Putin present, and both are pitiless in their dissection of contemporary Russian life. In "Leviathan," set in the nation's northwestern coast, moral and political corruption is as pervasive as the punishing cold. In "Loveless," selfishness is an imperative, soullessness is a way of life. As a social observer, Mr. Zvyagintsev takes no prisoners. As an artist, he has few peers. Watch his new film and you may feel that you're seeing the end of the world in preview.



AHRON R. FOSTER

Mark Addy and Johnny Flynn in Martin McDonagh's 'Hangmen'

THEATER REVIEW | By Terry Teachout

## A COMEDY AS BLACK AS SIN

**TALK ABOUT LUCKY:** "Hangmen," Martin McDonagh's latest play, has opened off Broadway at the Atlantic Theater Company at the same moment that "Three Billboards Outside Ebbing, Missouri," his latest film, is stirring up heated Oscar talk. But unlike "Three Billboards," which is peppered with grotesque humor but whose tone is not essentially comic, "Hangmen" is a galvanizingly black farce about a subject—capital punishment—that few view as a laughing matter. Such is Mr. McDonagh's way: He is never more serious than when playing the clown, and "Hangmen" is a deadly serious play that is also (forgive me) chokingly funny. In this respect it recalls Joe Orton's "Entertaining Mr. Sloane," the difference being that Orton's first audiences were far more shockable. Back in 1965, "Sloane" closed on Broadway after just 13 performances. "Hangmen," by contrast, is selling out every show, and I expect it would continue to do so were this glitteringly well-staged version, a remount of the play's 2015 London premiere, to move uptown to a Broadway house—as it absolutely should.

Like much of Mr. McDonagh's other work, "Three Billboards" very much included, "Hangmen" is both a snapshot of provincial life at its most claustrophobic and a secular

parable about the corrupting effects of vengefulness on the human soul. It takes place immediately before and after capital punishment for murder was initially suspended in Britain in 1965. The prologue, in which we laugh unwillingly but uncontrollably as we watch Hennessy (Gilles Geary) being dragged to the gallows, protesting his innocence every inch of the way, introduces us to Harry (Mark Addy), the eponymous central character of "Hangmen." Prior to 1965, England's executioners were part-time freelancers paid by the neck, and Harry makes the bulk of his living running a pub in Lancashire, over which he lives with Alice (Sally Rogers), his amiable wife, and Shirley (Gaby French), his desperately shy daughter.

A self-satisfied blowhard, Harry has no doubts about the moral propriety of the grisly manner in which he ekes out his income as a publican. "You're hanging an innocent man! I never even met the girl!" Hennessy shrieks, to which Harry blandly replies, "That's all just the whys and wherefores. That's nowt to do with me." Such is the impenetrable armor with which he shields himself from second thoughts, and it serves him well enough until the day that Mooney (Johnny Flynn), a nasty piece of work from London, drops by his pub, makes

Please see THEATER page A12



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Sonequa Martin-Green,  
SU2C Ambassador

Photo Credit: Matt Sayles  
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## LIFE &amp; ARTS

TELEVISION REVIEW | By John Anderson

## Only '90s Teens Will Remember



Jahi Di'Allo Winston and Peyton Kennedy

SCOTT PATRICK GREEN/NETFLIX

**A TITLE LIKE** "Everything Sucks!" just sort of hangs out there like a piñata, begging for someone to finally say "Yes! It does!" and follow through with the critical equivalent of a baseball bat. That would be grossly unfair, of course, even if the show's flaws do deserve exclamation points. What does work is awesome.

Awesome is kind of a '90s word and "Everything Sucks!" is a '90s show, with '90s music, no smartphones, and only an infant internet. ("Why would someone put it on the web if it isn't true?" a character asks, quite hilariously.) Set in and around the Oregon 'burb of Boring circa 1996, the show's 10 half-hour episodes aspire to a "Freaks and Geeks"-ish marriage of a fleeting cultural moment and the timeless anguish of adolescence—even though Boring High ("Home of the Beavers") is no better or worse than any other institution of alleged learning as lampooned in movie after movie after TV show after movie. The portrayal, basically, is of a Darwinian mosh pit, into which young people with little in common besides puberty have to learn to surf or crash. Or else be eaten, figuratively, by other members of their species. Salvation is to be found in the previously untapped virtues of one's nascent character.

The principal character in "Everything Sucks!" is freshman Luke O'Neil (Jahi Di'Allo Winston). He and his fellow dweebs, McQuaid and Tyler (Rio Mangini, Quinn Liebling), immediately join the A.V. club, because, well, they're nerds. This makes them natural enemies of the theater club, whose dramatic personae are perhaps the most suckish aspect of "Everything Sucks!" With nary a jock in sight to squelch their public flamboyance, the oh-so-impassioned Oliver (Elijah Stevenson) and his fellow thespian Emaline (Sydney Sweeney) roam the halls, launching into er-

satz Shakespeare, passionate clinches, and the tormenting of dorks; Emaline, breasts bursting out of her tank top, should be consigned immediately to remedial Health Class. This is probably not exactly the high school familiar to most readers, but the show's creators, Ben York Jones and Michael Mohan, would have been high-school age in 1996, so they probably know. Rather than using therapy, they're channeling their experience into a five-hour TV series.

This particular series has its peculiarities, among them the blinkered perspective shared by Luke and his high-school principal, Ken Messner (Patch Darragh), neither of whom can see what is evident

to everyone else: that Ken's daughter, Kate (Peyton Kennedy), is gay. The lanky, likable, apprehensive Kate is not quite clear about herself, as it happens, and her awakening is easily the best part of the story, maybe even its redemption. Ms. Kennedy, by doing very little, creates a convincingly familiar and enormously touching portrayal of a kid at a sexual crossroads. To the smitten Luke, Kate is "all that and a bag of chips," to lift from the Clinton-era lexicon; Dad is so dense he thinks he has to explain to his daughter what "dyke" means, even after it's spray-painted on her locker.

While sexual orientation and personal identity are major plot de-

vices here, race is not. It's not even mentioned. This is admirable, on the one hand, and perplexing on the other, especially considering how vicious the characters can be toward perceived differences, i.e. vulnerabilities among the herd. This was clearly a choice, although it does have one scratching one's head, wondering if real-life Boring, Ore., or anywhere else, would really be so colorblind, and not just in 1996.

Ken is widowed and lonely. Enter Luke's mom, flight attendant Sherry (Claudine Mboligikpelani Nako), who from what we can tell has been abandoned by her husband, Leroy (Zachary Ray Sherman), and is rearing Luke to be a commendable lad, if not one with

a sense of sexual nuance. Leroy does make appearances, courtesy of a box of videotapes he's left behind, and which Luke starts going through, watching Dad, selfie-style, reflect on life and art; they start to win over the son, the budding filmmaker and techie. As a narrative device, it's novel but seems like an afterthought. Maybe the show's creators lost their enthusiasm. Likely the reverse will happen with viewers and "Everything Sucks!" but that's mostly due to Ms. Kennedy and the show's creators, who—unlike Kate's father—have something of a clue.

**Everything Sucks!**  
Friday, Netflix

AARON R. FOSLER  
David Lansbury, Gilles Geary (seated) and Billy Carter

## THEATER

Continued from page A11

a few pointed remarks about the man whom we saw him hang, and chats up Shirley, after which things go from bad to worse to unimaginably horrible.

Not since Robert Mitchum slithered onto the screen in "Cape Fear" has there been a villain (if that's what he is) quite so charismatically repellent as Mooney. Mr. Flynn, who created the role in 2015, brings him to life in a way that is properly hideous without resorting to lazy caricature. Ms. Rogers and Reece Shearsmith, who plays Harry's Uriah-Heepish former assistant, also appeared in the original production of "Hangmen," and their performances here are no less bold

and vibrant. Mr. Addy, who is new to the show and whom TV viewers will recall from "Game of Thrones," oozes with odious gusto. Everyone else in the cast is new, too, though you'd never guess it, which is a tribute both to the high quality of their acting and to the rich characterfulness of Matthew Dunster's staging. This is, so far as I know, his U.S. debut, and it's a sensational one. As for Anna Fleischle, the set and costume designer, she has contrived with neat resourcefulness to fit three different interiors, each one precisely and satisfactorily evocative, onto the smallish stage of the Atlantic Theater.

"Hangmen," like "Three Billboards," scrupulously avoids in-your-face point-making, demanding instead that the audience connect the dots without prompt-

ing and insisting on a moral ambiguity that will doubtless discomfit viewers who prefer always to know exactly who's wearing the black hat and who the white. That's the idea: Mr. McDonagh wants you to think, and it is his genius to do so by first making you laugh yourself silly. "Hangmen" succeeds triumphantly on both counts.

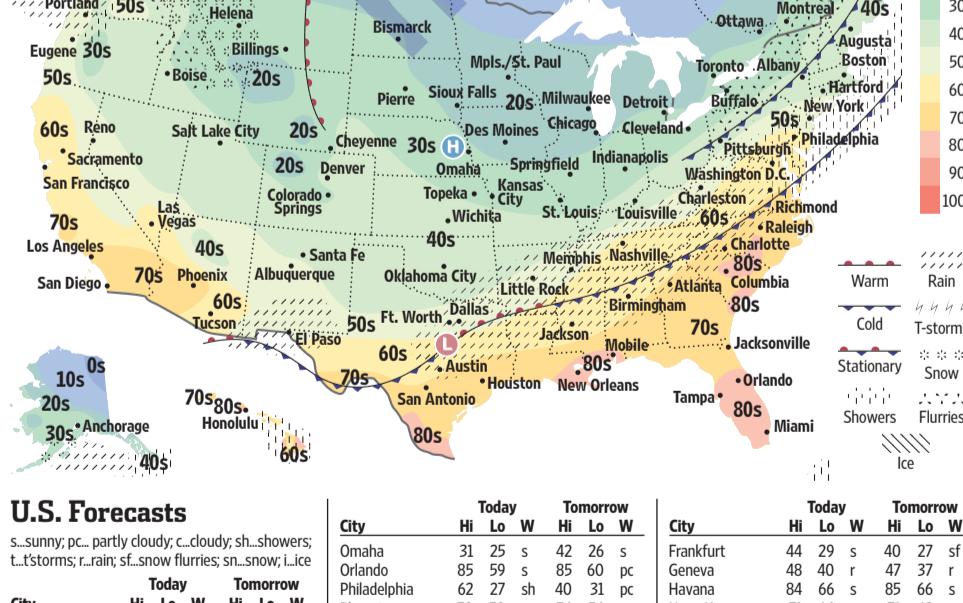
## Hangmen

Atlantic Theater Company, Linda Gross Theater, 336 W. 20th St. (\$90 and up, depending on availability), 866-811-4111, closes March 7

**Mr. Teachout** is the Journal's drama critic. His staging of "Satchmo at the Waldorf" begins previews at Houston's Alley Theatre on Feb. 24. Write to him at [tteachout@wsj.com](mailto:tteachout@wsj.com).

## Weather

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



## 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 Today Hi Lo W

City Hi Lo W Today Hi Lo W

## PYEONGCHANG 2018



Sam McGuffie, inset, is competing in Pyeongchang in the four-man bobsled. He was a football player who took up this sport about three years ago.

T-B: JOHANN GRODER, ALEX PANTLING (GETTY IMAGES)

## BOBSLED

## The Athlete's Second Shot

Bobsled wouldn't be bobsled without competitors willing to try an Olympic sport they barely know

BY BRIAN COSTA

*Pyeongchang, South Korea*  
**THE FIRST TIME** Sam McGuffie got into a bobsled, he wanted to puke. He'd been through the rigors of college football, after a high school highlight film made him an internet sensation. He'd even experienced an NFL training camp. The bobsled run in Lake Placid, N.Y., brought a different kind of violence.

"It's like jumping in a garbage can and rolling down the stairs for a minute straight," he said.

Three months later, McGuffie was on the U.S. national team. Three years later, he is one of 12

members of the U.S. men's bobsled team, the latest proof of one of the defining virtues of the sport: You don't need to be a bobsledder to become an Olympic bobsledder.

McGuffie, 28, is the latest in a long list of notable athletes from other sports to represent the U.S. in bobsled, which began with training heats on Thursday. Lolo Jones and Lauryn Williams were Olympic track stars who re-emerged as Olympic bobsledders in 2014. Jamie Greubel Poser, a defending bronze medalist in the two-woman race, was a record-setting college heptathlete.

"It wasn't even on my radar that I could be an Olympian," Poser said, "because the things I watched

were things like figure skating and gymnastics—things you had to do your entire life to have a shot."

The list goes as far back as Herschel Walker, the former NFL running back who made the U.S. bobsled team in 1992, and isn't unique to the U.S. A former Olympic sprinter led Nigeria into these Winter Games, part of the first African team to compete in Olympic bobsleds.

Individually, these athletes can come off as something of a novelty act, like the retired sports greats who appear on "Dancing With the Stars," or Tim Tebow putting on a New York Mets jersey. In the larger pool of Olympic athletes, many of whom have been obse-

sively honing their skills since early childhood, they are outliers.

Except in bobsled, they aren't an exception. They are the lifeblood of the sport, which depends on the Olympics as a magnet for talent.

"The general message we want to get across is, 'You might not have realized it, but you've been training for bobsled for most of your athletic career,'" said Darrin Steele, chief executive of USA Bobsled and Skeleton. "If it's something you're interested in, we could make you an Olympian in a couple of years."

Steele makes recruiting trips to the U.S. track and field trials, where he pitches also-rans on bobsled as an alternate path to the

Olympics. Powerful, fast-twitch athletes enter the sport with about 90% of the training they need for it, he said. The rest can be taught.

The evidence backs up his argument. According to Olympic historian Bill Mallon, there are only 143 athletes who have competed in both the summer and winter Olympics. Of those, 64, or 45%, competed in bobsled in the Winter Games, easily the most of any winter sport.

That partly reflects the importance of the push-start in bobsled—teams push the sled and jump in—which combines with gravity and ice to propel sleds to speeds above 90 mph. "It's all about that power and speed at the start," said defending bronze medalist Aja Evans, who took up bobsled after falling short at the 2008 track and field trials in shot put.

But the ease with which sprinters, running backs and the like can transition into the sport also reveals something else about bobsled: It is devoid of the sort of youth pipeline that churns out wunderkinds in many other Winter Olympic sports.

There are only two bobsled tracks in the U.S. The one in Lake Placid was built for the 1932 Olympics. The other one, near Park City, Utah, opened in 1997 ahead of the 2002 Games held there.

Virtually no one becomes a competitive bobsledder until after high school at the earliest. Even Steele, who competed for the U.S. in the 1998 and 2002 Olympics, took up the sport only after falling short at the 1996 U.S. decathlon trials. "It wasn't love at first sight," he said.

Recent Winter Games have been successful for the U.S. teams, which took home four bobsled medals in 2014, more than any other country. But those performances may be more a testament to America's superiority in other sports than in this one.

Elana Meyers Taylor, a former college softball star who has won medals in bobsled at each of the past two Winter Games, found her sledgemate, Lauren Gibbs, through a mutual friend when Gibbs was working in a corporate sales job in Denver in 2014. Their friend saw Gibbs working out at the gym—she can deadlift 425 pounds—and mentioned bobsled. Gibbs had never even heard of it.

The first bobsled race Gibbs ever saw was the first one she competed in later that year. She and Taylor are among the medal favorites this year.

McGuffie was a coveted high school football recruit, played running back at Michigan and Rice and appeared in two preseason games for the Oakland Raiders in 2013. He picked up bobsled only after his NFL hopes had fizzled in 2015, at the suggestion of his former track coach at Rice. "People say, 'Whatever happened to McGuffie?'" he said. "Now someone will chime in, 'He's doing bobsled.'"

## SPORTS MEDIA | By Jason Gay

## WHAT IT MEANS TO TELL AN OLYMPIC STORY



*Pyeongchang, South Korea*

I had to see the phenomenon for myself—Pita Taufatofua, the improbable Tongan double Olympian, Rio taekwondo-turned-Pyeongchang cross-country skier, shirtless flag bearer and unrivaled dreamboat heartthrob of The Wall Street Journal sports section.

I'll assume you've read a thing or two about Pita. His journey from oil-lathered obscurity to international feel-good athlete has been endearingly followed across multiple continents by my Journal colleagues Ben Cohen and Josh Robinson. Cohen and Robinson are the Woodward and Bernstein of Pita, culling hard facts from the caricature. I can't wait to see who plays them in the inevitable film.

Alas, Pita now belongs to the world. That became clear upon Taufatofua's arrival in South Korea, where he was swarmed by the international press. It was even clearer Wednesday, when Taufatofua spoke to a news conference hall usually reserved for gold-medal heavy hitters, like Lindsey Vonn.

This is the part where I remind you that, until a year or so ago, Pita had never skied. By his own admission, he is not very good at it. It is very possible he finishes last in his race, which happens Friday.

It doesn't matter. Pita's a star. He's handsome, telegenic and speaks in the kind of dramatic quotes that sound crafted by a PR handler. And yet Pita doesn't have a PR handler. His coach runs a home-decoration business.

Here's Pita on his Olympic journey: "They've seen the oil, they've seen the guy waving the flag, but there was a lot of struggle."

Here's Pita on going shirtless in the cold: "If my ancestors can sail across the Pacific Ocean for 1,000



sidered a friend—uncomfortable. I have grown and changed as a person, as we all grow and change, and am proud of who I am today."

It could not have been a more inelegant landing for one of the most chronicled Olympians ever. Accustomed to easy adoration, it took several tries for White to get it even close to right. The anger has hardly ebbed. Zawaideh's attorney, Lawrence Bohm, issued a statement condemning White's "gossip" remark.

"No woman wants to be called a 'gossip' or a liar by the harasser," Bohm said. "Minimizing sexual harassment maximizes the harm to Ms. Zawaideh. Hopefully, before our country declares someone 'the best of the U.S.', there will be investigation and due diligence."

White, who competes in only one event, is done at these Games, but there will invariably be more questions as he returns home. If he expects another public coronation or easy media lap, he will be disappointed. These are different times, long overdue.

Pita Taufatofua, on the other hand, is just getting started. He's not going to win a thing. He may even not finish before the lights turn off. It's possible he skis into a tree. (Don't ski into a tree, Pita!) He's the new story here at these Olympics, and sometimes, a new story is enough.

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Reporting live from the Winter Games in Pyeongchang. Get the smartest insights delivered to your inbox.

years, then I can walk through an opening ceremony without a shirt on for 25 minutes."

Here's Pita on his goal for Friday: "Finish before the lights turn off. Don't ski into a tree."

I mean, come on. Taufatofua is a walking Bud Greenspan documentary—a living embodiment what the Olympics think they are (a triumph of international spirit) as opposed to what they actually are (a wildly imperfect, oft-corrupted mega-spectacle). It's no wonder Taufatofua's got a fan in International Olympic Committee president Thomas Bach, who—according to Pita's Instagram—pledged this week to help rebuild sports facilities in Tonga, which was just devastated by a cyclone.

It's always tricky business, elevating athletes we hardly know—

or anyone, for that matter. The media's tendency is to sand off any edges, burnish a myth. Taufatofua's saying the right things, however—and his story, as Cohen and Robinson thoroughly reported from Rio to Austria to Pyeongchang, is genuinely astonishing.

What a contrast it was soon afterward, when much of the same media descended on a news conference for Shaun White, the snowboarding superstar who earlier in the day had won the men's half-pipe competition. It was White's third gold medal in the sport, and he sealed it with a riveting final run in which he defied gravity and re-established himself, at 31, as his sport's defining athlete.

But now the mood was different. Reports had been recirculating about a settlement White had

made in 2017 with a former drummer in his band, Lena Zawaideh, who'd sued him for sexual harassment. America is amid a reckoning over sexual misconduct, and in the afterglow of White's victory, the question was unavoidable: Was the media complicit in airbrushing another icon?

After some easy, early chitchat about his victory, a reporter from ABC News asked White about the lawsuit. White stiff-armed the question, flicking it away as "gossip." That was a mistake. White tried to reboot hours later on the "Today" show, apologizing for using the word "gossip" and describing himself as a "changed person." Later, there was a new statement: "I regret my behavior many years ago and am sorry that I made anyone—particularly someone I con-

## PYEONGCHANG 2018



Norwegian fans rejoice, above. Below, Alpine skiers Kjetil Jansrud, left, and Aksel Lund Svindal show their medals.

## THE MEDAL RACE

## The Saga of Super Thor-sday

The story behind the Norwegian Olympic team's historic six-medal day

BY SARA GERMANO

JEONGSEON, South Korea—On the sixth day of these Olympic Games, the clouds parted, the winds abated, the skis sailed and so began the Norwegian conquest.

Gold and silver in the men's downhill. Silver in the women's giant slalom. Gold and bronze in the women's 10-kilometer free cross-country. Gold in men's 20-kilometer individual biathlon. In a single day, Norwegian Olympians amassed six medals, thrashing their way to the top of the medal charts and setting their flag atop new heights.

All told, Norway's performance on Thursday ranks among the most memorable by one nation in one day at an Olympics. The U.S. also had six on Feb. 17 of the 2010 Vancouver Games. At the London Summer Games in 2012, the host nation of Great Britain won three golds in track and field in the span of hours, an occasion so memorable it is still referred to as Super Saturday.

For Norway, Feb. 15 was Super Thor-sday.

Across Pyeongchang, fans dressed in Viking helmets and blazers adorned with the Norwegian flag toasted cups of beer, rang cowbells, sang songs and shouted in support of their countrymen.

"It's huge," said Ragnhild Caldwell, originally of Eidsvoll, Norway, but who now resides in Breckenridge, Colo. She and her husband were in attendance to watch the historic gold and silver in the men's downhill. "It's the biggest thing ever."

The day began at the Jeongseon Alpine Centre, where just before noon Aksel Lund Svindal became the first Norwegian man to win the men's downhill, as his compatriot Kjetil Jansrud nabbed silver just 0.12 second behind. It was the first one-two finish for any nation in 30 years, and added the only missing men's Alpine gold medal from the Norwegian Olympic war chest.

"When you cross the finish line and you see that you've had a good race and you're in the medals or even for the gold, you don't think too much about the history books," said Svindal, who at 35 is also the oldest man to ever win Alpine gold at the Olympics. "It's emotional."



## Medal Count

COUNTRY	G	S	B	TOTAL
Norway	6	7	4	17
Germany	9	2	4	15
Canada	4	5	4	13
Neth.	5	5	2	12
U.S.	5	1	2	8
Japan	0	4	3	7
France	3	1	2	6
Sweden	3	2	0	5
Italy	1	1	3	5
OAR*	0	1	4	5

\*Olympic Athletes from Russia

Updated: 6:30 p.m. ET

FOR THE LATEST COUNT GO TO [WSJ.com/Olympics](http://WSJ.com/Olympics)

On hand to witness the race was Crown Prince Haakon of Norway, who was outfitted with an earpiece to listen in on Norwegian coaches' discussions during the race, according to a person familiar with the matter. As he offered his congratulations to Svindal and Jansrud, another Norwegian continued the medal spree across the Taebaek Mountains.

In the women's giant slalom at Yongpyong Alpine Centre, 25-year-old Ragnhild Mowinckel became the second Norwegian woman ever and the first since 1936 to win an Alpine medal, taking silver behind noted non-Norwegian Mikaela Shiffrin. For a nation better known for its cross-country skiers and biathletes, Mowinckel solidified Norway's best two hours in Alpine skiing at an Olympics.

"So many emotions, I can't really—I'm kind of speechless," she said. "The guys set it off today with first and second, which was awesome, and joining their company for me is insane. I'm really happy and very excited. It's cool to do that on a day like this."



Pae Min Ju, 31, was born and raised in Japan as part of the island nation's ethnic Korean minority. She and some 40 others (right) turned up on Wednesday to cheer North Korea's figure-skating pair, Ryom Tae Ok and Kim Ju Sik. She welled up with emotion after the North Koreans skated a clean short program.

Pae, who has lived in Tokyo her whole life, is a descendant of Koreans who were forcefully brought to Japan during Tokyo's colonization of Korea between 1910 and 1945.

Many of these roughly 500,000 ethnic Koreans, mostly third- and fourth-generation descendants, pledge their allegiance to North Korea.

Security guards called out her group several times before and during the competition for waving North Korean flags. Five security personnel approached the group at one point and later placed a staff member next to the group to discourage the group

Eight hours ahead of Oslo, the Norwegian media in Pyeongchang scrambled to document the morning's good news. "As you slept," read one headline on the website of the newspaper *Aftenposten*, Svindal "moved the limits of what is possible for a Norwegian." Two photographers from the newspaper edited race photos from their laptops while riding in one of the dozens of buses linking competition venues at these Games.

"We're winning too many medals, we can't cover them all," one quipped.

Meanwhile, just before the women's 10-kilometer free cross-country race kicked off in Alpensia Olympic Park, Ragnhild Haga and Marit Bjørgen watched their countrymen Svindal and Jansrud collect their plush Soohorang dolls at the downhill victory ceremony. Their result powered Haga and Bjørgen to gold and a tie for bronze, respectively, in the race.

"Every medal is an inspiration for us, including the boys," said Bjørgen, who adds to her silver in the skiathlon at these Games for 12 medals at the Winter Olympics. "It's a good atmosphere and for sure it's inspiring everyone."

Though Haga won her first ever Olympic race, she was only the second Ragnhild to medal for Norway on Thursday.

"It is wild. When [Mowinckel] won silver, we decided that today is Ragnhild-day," she said.

But Norway wasn't finished. After day turned to night, biathlon phenom Johannes Thingnes Bø took gold in the men's 20-kilometer individual event, after race favorite Martin Fourcade of France missed two shots on the final standing shooting stage. The 24-year-old Bø was reduced to tears after realizing he'd won gold, his first Olympic medal and the first biathlon gold for Norway in Pyeongchang.

Thursday's results catapulted Norway to the top spot on the overall medal table, with 17 medals to Germany's 15. Deutschland still leads the overall golds with nine, followed by Norway with six.

The Scandinavian country is expected to be in tight contention with the U.S. for most overall medals at these Games, according to The Wall Street Journal's projections.

## SPEEDSKATING

## A SOUTH KOREAN STAR RECLAIMS HER OLYMPICS

BY JOSHUA ROBINSON  
AND EUN-YOUNG JEONG

GANGNEUNG, South Korea—The host nation started these Olympics widely projected to take home around six gold medals. Whether the South Korean team gets there depends almost entirely on one woman: a 21-year-old short-track speedskater named Shim Suk-hee.

Few outside Korea know the name, but she is without a doubt the biggest star in the squad. And over the course of three nights in the coming week, skating here in her hometown of Gangneung, she could make or break the host's Olympics. If she were American, she would already command Mikaela Shiffrin-levels of global attention.

Except her entire Olympics was nearly derailed a month ago when she was allegedly struck by one of her coaches. The coach has since been dismissed, but Shim is still shaken. Asked about it here, she was visibly upset by the question.

"That was a hard time, but I tried to focus on the Olympics," she said through a translator. "I don't want to have any regrets."

South Korea media used the incident to revisit the often toxic culture in the coaching ranks of its favorite winter sport. Twenty-one of South Korea's 26 Winter Games medals have come in short-track speedskating since its introduction to the program in 1992. That success is the product of a famously strict sporting culture.

In the 1990s, Korean coaches used to put the squad through brutal drills of nine laps at greater than race speed three or four times a session, according to Wilf O'Reilly, a former British speedskater who trained with the Koreans and now serves as a director of the Netherlands national program. Anyone who failed to keep up could be made to spend the rest of the session standing at center ice staring at their skates.

"They didn't used to show emotion," O'Reilly added.

People who watch the team today say that the culture has relaxed somewhat in recent years. But Shim's experience suggests there's more room for change. Online, many South Koreans criticized the team's "old way" of doing things, alluding to previous incidents of athletes being assaulted by their coaches.

The most well-known case here involves Viktor An, a South Korean-born short-track skater who switched allegiance to Russia before the 2014 Games. It was widely

alleged that he had been beaten for hours after he refused a senior athlete's request to manipulate race results. An has not commented publicly on the allegations since.

As for Shim, the incident occurred on Jan. 16, less than four weeks from the Games' Opening Ceremony. The Korean Skating Union did everything it could to prevent the news leaking out as Shim left the team's practices. Her absence was noticed when South Korea's President Moon Jae-in made a visit to the short-track skating training center that same week to encourage athletes ahead of the Games.

Local media identified the coach as a man in his late 30s with the last name Cho, but the skating

A major name in her country's biggest sport recovers from an alleged assault by a coach.

union has not confirmed his name. Shim returned to the facility and resumed her training three days later after the coach was suspended from his role. A subsequent investigation by a committee from the country's Ministry of Culture, Sports and Tourism resulted in Cho's permanent expulsion. The committee didn't provide further details.

Intensely private, Shim has refused to give any details on what happened. She has been focused on these Games since falling short of her own high expectations four years ago.

Shim won gold in the relay as a 17-year-old in Sochi, but settled for silver and bronze in her two individual events. After that, she changed the last four digits of her phone number to 2018. Now she is expected to lead South Korea's medal chase in the 1,500 meters on Saturday, the 1,000 meters Thursday and by anchoring the 3,000-meter relay squad in between on Tuesday.

Shim's management agency, Galaxia SM Co., couldn't be reached for comment.

"It is important for athletes to perform at the Winter Games in good conditions and atmosphere and overcome the incident," Kim Sun-tae, the head of the South Korea short-track program, told the Yonhap News Agency. "We wish to apologize for disappointing many people who love short-track speedskating."



Shim Suk-hee skates in the 3,000-meter short-track relay.



## A Flag That Doesn't Fly With South Korea

It's not just the Dear Leader's cheerleaders who are waving the North Korean flag or cheering the country's athletes at the Pyeongchang Olympics.

Nationals of other countries have also been waving the distinctive red, white and blue of the North Korean flag—regardless of skeptical glances from onlookers and murky laws that limit or prohibit such displays.

North Korea is one of the world's most isolated countries, but it has a small and robust coterie of well-wishers all around the world—some of whom have descended upon this ski resort town just 50 miles south of the demilitarized zone that divides the Korean Peninsula.

Pae, who has lived in Tokyo her whole life, is a descendant of Koreans who were forcefully brought to Japan during Tokyo's colonization of Korea between 1910 and 1945.

Many of these roughly 500,000 ethnic Koreans, mostly third- and fourth-generation descendants, pledge their allegiance to North Korea.

Security guards called out her group several times before and during the competition for waving North Korean flags. Five security personnel approached the group at one point and later placed a staff member next to the group to discourage the group

from waving the flags again.

The North Korean flag is not typically seen in South Korea, where any overt signs of support for the Pyongyang regime are explicitly outlawed. Exceptions are made for internationally sanctioned sports events such as the Olympics. By law, South Koreans are forbidden from possessing North Korea's flag. In an interview with The Wall Street Journal last week, Koh Yong-jin, a lawmaker and a member of the National Assembly's Special Committee on the Pyeongchang Winter Olympics, said that items praising North Korea's regime were subject to the same rules as

during non-Olympic times.

A spokeswoman for South Korea's Ministry of Unification said there is no law that prevents foreigners from possessing North Korean flags. But she said that the ministry "recommends" foreigners exercise special caution with the North Korean flag, due to "safety concerns" tied to South Korean sentiments toward the rival flag.

—Eun-Young Jeong and Jonathan Cheng

## Israel's Skating Hotbed? Hackensack, Of Course

Almost every member of Israel's figure-skating team at the Olympics lives in the same place, and it's nowhere near the Dead Sea. It's Hackensack, N.J.

The suburban New York town is home to skating's most fledgling dynasty, where members use

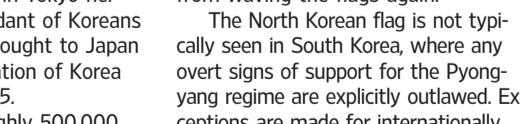
the local rink as a base and the federation president's daughter as a coach. They don't merely practice together. Many live together in a group house.

Their arrangement seems to be working. This was Israel's breakthrough Olympic year as it qualified for the Pyeongchang team event and put two men in the singles skating event, as well as qualifying an ice dance couple and pair.

You don't have to be born Israeli to skate for Israel. Alexei Bychenko of Ukraine (left) retired eight years ago. His coach called him, knowing he had Jews in his family, and suggested an unorthodox avenue for a comeback.

Bychenko will perform a fast-paced short program in the men's competition on Friday. The music accompanying his program: "Hava Nagila." But Israeli figure skating doesn't require culturally resonant music. Daniel Samohin, the U.S.-based, Tel Aviv-born son of Russian émigrés, will compete in the men's event to "It's a Man's Man's World" by Seal.

—Louise Radnofsky



Ryom Tae Ok and Kim Ju Sik, the North Korean figure-skating pair, have been waving the North Korean flag at the Pyeongchang 2018 Winter Olympics. They have been cheered on by fans from Japan, who are descendants of ethnic Koreans.

## OPINION

## Tax Reform and IRS Resistance



POTOMAC WATCH  
By Kimberley A. Strassel

reformer's face a new challenge: Navigating the IRS swamp.

It's a little-known fact that for 35 years the Internal Revenue Service has exempted itself from the most basic regulatory oversight. When the Labor Department or the Small Business Administration create "major" or "significant" rules or guidance, they are required to submit them for centralized review. That ensures regulations are consistent with the law and with White House priorities and that they've been analyzed for costs, benefits and flexibility.

But in 1983, the Treasury Department signed a memorandum with the Office of Management and Budget that largely exempted the IRS from submitting its rules to White House review via OIRA, the Office of Information and Regulatory Affairs. The memo still stands today. In the face of congressional attempts at oversight, the IRS issued a 1996 opinion claiming that tax statutes are in and of themselves responsible for any costs or inflexibility—that the IRS's rules are, by definition, pure distillation of law.

Tax regulations (like all regulations) have exploded in recent decades, and of course IRS bureaucrats impose their own policy judgments. The IRS has in recent years unilaterally decided when and how to enforce ObamaCare tax provisions, often dependent on political winds. In 2016 it proposed a rule to force more business owners to pay estate and gift taxes via a complicated new reading of the law.

And the IRS is already playing games with the GOP tax reform. Just a week after passage, the IRS rushed out guidance declaring that most taxpayers couldn't deduct prepaid 2018 property taxes on their 2017 returns to claim that benefit before the new law kicks in. The IRS decided this with no input from the White House or other agencies. IRS bureaucrats—many of them implacably opposed to his White House and bitter over recent congressional oversight—will have plenty of opportunity to cause trouble with its interpretations of a complicated tax reform.

Even as the IRS has become more emboldened, it's ignored growing oversight demands. Senate Finance Committee Chairman Orrin Hatch in 2016 sent a letter to Treasury Secretary Jacob Lew to object to punitive new IRS debt-equity regulations and to insist the IRS start complying with the Administrative Procedures Act, the Congressional Review Act, the Regulatory Flexibility Act and the like. Nothing changed.

But the tax reform has provided new urgency. President Trump in April issued an executive order noting that too many tax regulations in recent years had "increased tax burdens, impeded economic growth, and saddled American businesses with onerous fines, complicated forms and frustration." He ordered OMB and OIRA to start looking at IRS

to political pressure.

This last argument is as baseless as it is underhanded, because it seems designed to prod the anti-Trump media into making Nixon comparisons. OIRA and Congress aren't asking to review audits or enforcement actions against people or businesses (which would violate privacy laws). They are simply demanding that Treasury and IRS submit broadly applicable regulations to the same scrutiny as is applied to other agencies—to ensure that rules are truly necessary, consistent with the relevant statutes, and no broader or costlier than necessary. That kind of review would help ensure a robust tax law that stands a greater test of time. And it is basic to the Trump promises of good governance.

The swamp is rarely drained, for the simple reason that it takes rare and extraordinary governance. It requires leaders who are willing to offend institutions and top advisers, expose internal abuse, and willingly surrender unjustifiable powers. Today's Justice Department and Federal Bureau of Investigation are examples of what happens when those leaders follow the far more common route of succumbing to the natives.

Mr. Mnuchin's Treasury can make the successful rollout and implementation of the Trump tax reform a priority, or it can roll to an IRS bureaucracy. That ought to be an easy call.

*Write to kim@wsj.com.*

### Getting it through Congress was the easy part. Now come the regulations.

rules. And Sens. Ron Johnson and James Lankford—both of the Committee on Homeland Security and Government Affairs—have recently written both to the IRS, demanding it explain its continuing impudence, and to OIRA Administrator Neomi Rao, recommending she tear up that 1983 memo and subject the IRS to regulatory review.

What's standing in the way? Remarkable pushback from Secretary Steve Mnuchin's Treasury. The department is inexplicably backing IRS lawlessness with a string of excuses that range from claiming that reviews will take up too much time, to the position that none of the department's hundreds of economists are up to performing cost-benefit analysis, to the argument that centralized White House review amounts

to regulatory review.

*Write to kim@wsj.com.*

## What I Learned From Michael Novak

HOUSES OF WORSHIP  
By Robert A. Sirico

I first read Michael Novak's groundbreaking work "The Spirit of Democratic Capitalism" when it was published in 1982, before I entered seminary at the Catholic University of America. The book's dialogue between economics and theology made a deep impression on me, as it did thousands of others. I wrote the author and asked if we might meet once I arrived in Washington. Thus began a friendship that lasted until Novak's death last year.

The first anniversary of his passing, Feb. 17, comes at a difficult time. Americans face an uncertain economy and deadlocked government. A vocal critic of capitalism leads the Catholic Church. Young people are showing a strange attraction to socialism, as are many Christians who might have been expected to sustain Novak's philosophy of virtuous capitalism. The U.S. lacks leaders who combine prudence and moral vision.

I was intrigued to find a theologian who was familiar with writers like Friedrich Hayek. I sought his mentorship as I began my theological studies at a time when much of the academy was enamored with Marxist "liberation theology." I even suggested that Novak squarely address that movement, which he did in another book, "Will It Liberate? Questions About Liberation Theology" (1986).

Even though we were from different generations, I soon found many parallels in our intellectual and religious trajectories. We had both identified as men of the left in early life. Over time we moved from advocating some form of democratic socialism to supporting the free economy. We spent decades defending free-market democracy as the system that best reflected the truth about man.

Novak's philosophical and theological formation prepared him well. He had entered seminary at 14 and completed his formation, but he withdrew before being ordained. He became a Vatican correspondent after earning degrees in theology, history and philosophy from Harvard and the Pontifical Gregorian University.

Novak began his public career in Rome during the Second Vatican Council, and he wrote in proximity to the events and debates of the time. As the church worked to define human values such as freedom and conscience, Novak argued that theories of life should be grounded in perceptible truths. He believed this perspective to be best expressed in what he called the most "American" of the council's documents, "Dignitatis Humanae," a treatment on religious liberty and the rights of conscience.

While his appreciation for the church's traditions deepened over time, he also believed Catholics needed to

engage with outsiders. I believe most of his friends and intellectual colleagues were non-Catholics.

For an American Catholic of Novak's age, ethnicity and class, the Democratic Party was the natural place to call home. But his politics began to shift in the 1970s and '80s. More than anything, the issue that alienated Catholics from the Democratic Party was the latter's increasing embrace of abortion after *Roe v. Wade*.

### His thoughts on faith and economics also had an influence on Pope John Paul II.

Novak told me his political change was not an abrupt conversion. Rather, it came as a series of small conclusions based on his reading of economists like Hayek, Adam Smith and Ludwig von Mises. He was always looking for solutions to poverty that avoided utopian dead ends. The result was that Novak projected his interior debate about markets and morality into a national, and even international, conversation within religious and secular circles.

The often hostile reaction from his erstwhile colleagues on the left struck me as more emotional than rational. Whatever else Novak was in his writings, "thin" does not describe the scope and complexity of his

thought. He eschewed anger, but expressed a pleading tone in his responses to critiques, which he took as invitations to refine his arguments. His courteous demeanor was key to his persuasiveness.

People often ask me about Novak's impact on the thinking of Pope John Paul II. Anyone reading the Polish pontiff and Novak in parallel quickly recognizes that Novak's engagement with Smith, Hayek, Mises and Israel Kirzner would have strongly resonated with John Paul, who was deeply interested in the workings of human choice and creative action. The pope was familiar with Novak's thought, especially "The Spirit."

Through that and other writings, Novak's ideas shaped important sections of John Paul's 1991 encyclical, "Centesimus Annus."

The loss of a mentor is difficult—but a legacy is a precious inheritance. Recalling those decades, I am grateful for Michael Novak's example of intellectual curiosity and engagement in intense yet civilized debate. Likewise for his model of diligent work, and for helping me see the critical distinction between a person and an individual. And I will never forget the artistry of his well-made Manhattans and the joy of many memorable dinners with comrades in arms.

*Father Sirico is president of the Acton Institute in Grand Rapids, Mich.*

## Kosovo Is Europe's Little Miracle

By Hashim Thaci

Pristina, Kosovo After a decade as an independent republic, Kosovo has plenty of reasons to celebrate. But as we take stock of the achievements and challenges our nation faces, we need to remember the bleak starting point and the subsequent path Kosovo took to achieve statehood.

I was still a student when Serbian strongman Slobodan Milosevic started a succession of wars in Slovenia, Croatia and Bosnia. He sought to consolidate what he called "Greater Serbia," and forcefully imposed an apartheid regime on Kosovo's Albanians.

Kosovar Albanians tried peaceful resistance during the early 1990s, but rationality did not prevail. That's why we had to begin fighting for our freedom and hoping that those who believed in Western values would support us. Our hunting rifles were no match

for Serbian military and police. Our spirit and values were strong, but that meant little without direct involvement of the international community. Kosovo was saved by those who felt a responsibility to protect civilians from another Balkan genocide.

### Ten years after our independence, there's amazing progress.

From the moment the North Atlantic Treaty Organization liberated Kosovo in 1999, it was clear a new nation would be born. The Republic of Kosovo became the youngest state in Europe on Feb. 17, 2008.

Those who read our declaration of independence realize that nothing in our state-building effort was unilateral. The negotiations led by Nobel laureate President Martti Ahtisaari were deep and exhaustive.

Challenges remain. I led the dialogue with Serbia that produced the historic Brussels Agreement in 2013, which opened a new era for peace and cooperation between two countries, after a century of hostilities. I remain committed to work toward a new final deal that will mark the full normalization of relations between Kosovo and Serbia.

The EU has missed the story somewhat. In its recently approved enlargement strategy, Kosovo barely gets mentioned, supposedly because of Spanish concerns about separatism. Yet our friends in Madrid know that Spain had no Slobodan Milosevic, and Kosovo is not Catalonia. EU talks of joint trade zones and other technical issues miss the point. Of course we must meet EU conditions on the environment, economy and rule of law. But we're well on the way.

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*Mr. Thaci is president of Kosovo.*

BOOKSHELF | By Philip Delves Broughton

## Spreadsheets As a Work of Art

### Business for Bohemians

By Tom Hodgkinson  
(Overlook, 242 pages, \$22.95)

In 1993, Tom Hodgkinson founded the Idler magazine in London. It didn't argue for pure sloth. More for less frantic wheel-spinning. He felt that the cult of compression, busyness and industry merited a counter-cult, one of ease, slowness and thought. Rather than pounding away at the gym, try a long walk. Instead of gulping down a sandwich at your desk, take some time over lunch to chew and ponder.

It was a nice conceit. But over time, as the magazine grew in popularity, and Mr. Hodgkinson opened a bookstore and cafe and began hosting events, he found that even a small business with a few employees was beyond him. As he tells it, he went from being a leisurely writer to a poor sap trying to meet payroll, pay taxes and handle unreliable employees. In public he was a bohemian, tweaking the corporate classes and preaching the virtues of enjoying life by not doing too much. But behind the scenes he was scratching out a living in the lower reaches of the creative class, racked by self-doubt and financial anxiety.

His aim had been that of Robert Louis Stevenson: "to enrich the world with things of beauty and have a fairly good time myself while doing so." "Business for Bohemians: Live Well, Make Money" is both a cautionary tale and guidebook to how he, sort of, got there.

If you want freedom," Mr. Hodgkinson says, "then you have to take responsibility." For him, that meant learning subjects and habits that his bohemian self considered beneath him, such as "opening the boring post and dealing with it." The book has an easy didactic style, starting with how to write a business plan and moving on to composing spreadsheets, pricing products and services, putting together mailing lists, dealing with enemies and, finally, discovering the "joys of quitting."

Mr. Hodgkinson's experiences are relentlessly unglamorous. There are no mergers or acquisitions here, no stock-market flotations or boardroom ax-fighting. Joy comes from discovering Google Docs, which makes sharing information much simpler than before, and from watching how a single changed input can cause a serene flutter of numbers in a spreadsheet. Mr. Hodgkinson finds that proper bookkeeping goes a long way toward his understanding the inflows and outflows of his business. He realizes that "the good thing about high prices is that you can always reduce them, or have a sale" and that, above all else, taxes must be paid.

In a chapter on selling, Mr. Hodgkinson writes that bohemians often make excellent salespeople because they believe in what they're doing. But still you have to overcome the humiliations. The people would come into the Idler store, say how much they admired the idea and the magazine, and then leave without buying anything. "You need to be bold," advises Mr. Hodgkinson. "You also need to try lots of things and be stoic when some of them fail. You can't really know why some things work and some things don't."

One man's journey from leisurely writer to poor sap trying to meet payroll, pay taxes and handle unreliable employees.

"Everyone laughed," he writes, when he decided to publish a short book on "old-school grammar" by a Latin teacher. He felt that the book fitted the Idler mission of learning for learning's sake rather than for some purely utilitarian reason. Random House liked the idea, published a commercial edition and sold 50,000 copies.

There is plenty of good, practical advice here. Emails to customers should be "warm" and "chatty," opening the channels of communication, not badgering them to buy. Done properly, they work. And if you use a service like MailChimp, you can see in real time if people are opening and reading or simply discarding what you send them. In his own, one-man way, Mr. Hodgkinson is a demon data cruncher.

In the chapter "How to Choose Who You Work With," he takes on the gnarliest problem of all: other people. "Employing people is tricky. You want to avoid being a bastardly boss, but the stress of starting up can be overwhelming, and you may take it out on your helpers. You begin to realize why there are thousands of books about management out there: it is a very difficult thing to do."

It takes him too long to realize the essential truth of what Felix Dennis, a British publisher, once said: "Find the talent. Hire the talent. Pay the talent." Instead, Mr. Hodgkinson hires "anyone who happened to be hanging around at the time and was fairly nice." Often his friends' children. They don't care about the business or all the suffering that Mr. Hodgkinson and his wife endure to meet payroll. In fact, they feel underpaid. They drink the wine bought for events and hang out in the storeroom instead of serving customers.

The worst was an out-of-work actor called Tarquin, who came to the Idler having been fired from his previous job as a janitor in a cafe. "Tarquin turned out to be a bit of a bad egg. In fact, I sacked him myself a few months later because he was out of control on drugs. He'd come and do a shift straight from a bender and would lose his temper with me."

At the beginning, the utter misery of running his own business and making so little money drives Mr. Hodgkinson to long, teary walks along the coast of Exmoor, near his home in the southwest of England. Something has to change. And it does with the discovery that there is a science and craft to running a business. Just as a bohemian carpenter, poet or chef must learn the foundations of his art, so a bohemian businessperson cannot succeed by just winging it. There is virtue in discipline. And if you can bring that discipline to an idea as attractive as the Idler, people will invest in you. It's not a billion-dollar ending but, in its way, even more rewarding.

*Mr. Delves Broughton is the author of "The Art of the Sale: Learning From the Masters About the Business of Life."*

### Coming in BOOKS this weekend

John Marshall: The forgotten Founding Father • A

diplomat who dined with Stalin • The explorer who

shaped American diets • Islam and the European

Enlightenment • Sam Sacks on new fiction • & more

## OPINION

## REVIEW &amp; OUTLOOK

## President Miller's Immigration Veto

**P**resident Trump may need a refresher course in deal-making after the Senate on Thursday rejected his take-it-or-leave-it offer on immigration. He could start by recalling who's President, and stop giving adviser Stephen Miller a policy veto.

The Senate considered four amendments Thursday, and all failed to reach the 60 vote threshold to open debate. But the bill backed by Mr. Trump did the worst with a mere 39 votes. The amendment with the best chance of passing was a bipartisan effort negotiated by Susan Collins (Maine) and Mike Rounds (South Dakota) that had the support of eight Republicans and seven Democrats. It included the President's biggest priorities as well as concessions from both parties, but it fell six votes short of 60 after the White House issued a veto threat.

In a bizarre mid-morning statement, the administration warned that the bipartisan amendment "would drastically change our national immigration policy for the worse by weakening border security and undercutting existing immigration law" and "would undermine the safety and security of American families and impede economic growth for American workers."

Did anyone tell Mr. Trump what's in that amendment? It legalizes as many as 1.8 million Dreamer immigrant adults who were brought here illegally as children on Mr. Trump's terms. But it also goes a long way to meeting the President's other priorities. That includes authorizing \$25 billion over 10 years for Mr. Trump's wall on the Mexico-U.S. border. That's a huge political victory on one of his main campaign promises.

The spending would be \$2.5 billion in the first year, but that's probably more than the Department of Homeland Security could spend amid lawsuits by property owners and other legal hoops. The amendment even included a requirement for a 60-vote Senate supermajority to block the annual wall appropriation.

The White House statement also complained that the bipartisan effort would prioritize enforcement against illegal immigrants convicted of a crime or those who pose a security threat. But that's what Mr. Trump campaigned for— deporting criminal aliens like the one in San Francisco who killed Kate Steinle.

## Peter Thiel's Warning to the Valley

**T**he news that billionaire investor Peter Thiel is decamping to Los Angeles to escape the stifling political conformity of Silicon Valley won't shatter the republic, but pillars of the Valley would be wise to heed its warning. One reason the maestros of tech are becoming political targets is because they are seen as partisan and disdainful of middle America.

"Silicon Valley is a one-party state," Mr. Thiel said last month during a debate at Stanford University. "That's when you get in trouble politically in our society, when you're all in one side." He's right.

Once such Valley icons as Intel and Hewlett-

Homeland Security also griped at this language, but agents would still retain authority to detain non-criminal undocumented individuals.

This would nonetheless be a waste of resources since there aren't enough beds in jails to house them. Adding them to the immigration court backlog means it could take longer to deport criminals.

The bipartisan bill even bowed to Mr. Trump on his priority of reducing "chain migration." It barred Dreamers from sponsoring parents for immigration, and it barred permanent U.S. residents from sponsoring unmarried adult children. What is it about this "winning" that Mr. Trump can't accept?

Our sources say Mr. Trump is listening to Mr. Miller, who has told the President that this is his only chance to get his entire immigration agenda enacted. Unlike Mr. Trump, Mr. Miller wants this to include a major reduction in legal immigration that is a priority of the GOP's restrictionist wing.

But if Mr. Trump insists on this strategy, he'll end up with nothing. The Cotton-Perdue bill to cut legal immigration in half that the President endorsed last year at Mr. Miller's urging went nowhere in the Senate, even among Republicans. By demanding too much, Mr. Trump will get an embarrassing political defeat.

Whatever happened to the "art of the deal"? If Mr. Trump isn't happy with everything in the Collins-Rounds bill, why not engage and negotiate? Instead he let the White House issue veto threats that scared some Republicans into voting no but produced failure.

Mr. Trump can recover from Thursday's defeat, but he'll need to be the President who told Members of Congress in January that if they strike a deal that gives him the wall in return for Dreamer legalization he'll "take the heat." The restrictionist minority on the right erupted, and Mr. Miller persuaded him to demand more.

Well, the Collins-Rounds bill gives him more. No President can expect to get everything in a single immigration bill, especially not after so many years of bipartisan mistrust. Mr. Trump issued the order repealing a safe harbor for the Dreamers, and he'll rightly get the political blame if he now blocks a sensible compromise to save them from deportation to countries they barely know.

Packard were seen as nonpolitical. But the titans of recent vintage—Google, Facebook and others—are rightly seen as thoroughly allied with the political and cultural left. Google's purging of conservative James Damore was something of a watershed of public recognition of this reality, and a declaration by a Facebook board member like Mr. Thiel is further affirmation of this bias.

Americans who once thought of Silicon Valley as a jewel of U.S. innovation are likely to turn against these companies if they see them as relentless political enemies. Mr. Thiel is giving his tech friends good advice.

## Responding to Parkland

**A**dd 19-year-old Nikolas Cruz to the list of disturbed young men who have committed mass murder against other young men and women in their communities. A partial list of these awful incidents includes Chris Harper-Mercer at Oregon's Umpqua Community College; Adam Lanza at Sandy Hook school; James Holmes in Aurora, Colo.; Jared Lee Loughner in Tucson; and Cho Seung-Hui, who killed 32 people at Virginia Tech in 2007.

All these events have two things in common: guns and mental illness. From that fact flows the demand, every time, that we "do something." Saying it, however, is not the same as doing something that would in fact mitigate this recurrent carnage. Doing something in our system inevitably means putting in motion an array of actors toward this goal—elected or appointed public officials, the police, the medical community and not least parents.

Guns first. When a Parkland happens, the liberal half of America's politics puts forth the same two-word solution: gun control. There is a simple causality to this argument—fewer guns, fewer murders. Always left out is evidence it would work.

Gun-control laws—for example, to regulate bump stocks, AR-15s or ammunition magazines—foundered because advocates have never offered credible evidence they would deter mass shootings. Because gun proponents believe, not without reason, that the left's ultimate goal is confiscation, the political prospects for a gun control solution have been and will remain about zero.

On Thursday the gun-control side pointed to President Trump's signing of a bill last year revoking an Obama rule requiring the Social Security Administration to forward to the National Instant Criminal Background Check System the names of disability recipients who need a third party to help them manage their benefits because of a mental impairment. But this overly broad Obama rule was opposed by the American Civil Liberties Union and National Rifle Association.

That dispute nonetheless points to another part of the do-something demand: the violently mentally ill. Let us stipulate that a necessary line should separate the large population of people

## The one solution that works is shooting back at shooters.

getting treatment for emotional or mental illnesses and those whose mental disturbance has brought them to the brink of doing significant physical violence.

Unlike gun control, medicine has ample evidence that appropriate medication or treatment can stabilize the violently mentally ill. The National Institute of Mental Health collects data on evidence-based approaches involving drugs, intense psychiatric treatment and intervention.

The argument here involves questions over what levels of therapeutic coercion should be permitted. For example, should courts be able to require the severely mentally ill to take treatment to avoid commitment to a hospital? With appropriate legal protections, we think the answer is yes. Advocates for this idea often include the patients' distraught families.

For years, though, some mental-health activists and lawyers, with allies inside the federal bureaucracies, have fought the idea of involuntary institutionalization for violent patients who refuse treatment. Their approach clearly isn't working. Treatment requirements, by the way, don't need a federal law. States can enact civil-commitment laws if they wish.

There is also an interim solution against murderous assailants: shoot back. There is evidence it works.

Last November in Texas, a rifle instructor, with an AR-15, shot a suspect about to open fire on a church full of people. The shooter dropped his weapon and fled. In 2015 a security officer shot and killed two gunmen about to carry out an ISIS-inspired attack in Garland, Texas. The armed security guard at Marjory Stoneman Douglas High in Parkland didn't get a chance to engage Nikolas Cruz, but fewer might have died if he had. Institutions such as schools probably must train and arm someone to provide self-defense in a world with so many threats.

There is one other possibility, suggested by President Trump in his Parkland statement Thursday: "Create a culture in our country that embraces the dignity of life." The thought sounds self-evident. But on the available evidence, the idea of dignity in life looks more than ever to be in need of restoration.

## Trump will never get a victory if he won't 'take the heat.'

## OPINION

## LETTERS TO THE EDITOR

## Why Is Anybody Cheering for Kim Yo Jong?

Your editorial "The Pyongyang Olympics" (Feb. 12), which claims "the one leader that behaved with dignity this weekend is Mr. Pence," is a slap in the face of South Korea's President Moon Jae-In. America doesn't face the same risk with North Korea as South Korea does. The prospect of a land war between them is much greater than a nuclear one. If North Korea is attempting to drive a wedge between America and South Korea, it is President Trump's fault with his on-again, off-again stance with North Korea, especially with his tweets undercutting Secretary of State Rex Tillerson.

Now we learn that on his return, Vice President Mike Pence told a reporter that the U.S. is open to negotiations with North Korea with no pre-conditions. Mr. Pence should have acted in a more dignified manner and at least have stood during the entrance by the combined North and South delegation.

CHARLES KELLER  
Naples, Fla.

The Western media have regretted being fooled by many tyrants in the past. In the early 1930s Ukrainian peasants were "hungry but not starving" under Stalin and the Red Cross reported that the Nazi concentration camp Theresienstadt was "a model ghetto." I'm especially worried the media will regret their accolades for North Korea, just as they did for Hitler's 1936 Olympics. Three years later, he started World War II. Will those covering the Olympics in South Korea soon wonder how they missed Kim Jong Un's plans for something similar?

PETER ALLAN  
Santa Rosa, Calif.

I find it amazing that American citizens with supposedly high-quality journalist credentials go absolutely nuts over Kim Yo Jong, a leader of a torture state as well as the "army of beauties." To quote President Trump: "Sad."

CARL BROADHURST  
Fayetteville, N.C.

## Free Speech, Poland's Law and the Holocaust

In an otherwise brilliant piece ("Poland Seeks to Censor History," op-ed, Feb. 6), Alan Dershowitz suggests that Germans chose to build death camps in occupied Poland because they couldn't have killed Jews "without the active assistance of many Poles . . . incited by generations of anti-Semitic church sermons." The Germans' "localization" choice had nothing to do with anti-Semitism but with the geographical distribution of Jews living in Europe. Poland, with three million (six times more than in Germany), had the largest Jewish population in Europe.

Moreover, in countries located in proximity to Auschwitz there were 2.8 million Jews living in European Soviet republics and about 1.5 million in Czechoslovakia, Hungary and Romania. Together, they accounted for 77% of 9.5 million of Jews living in Europe in 1933. Hence demographics, or rather logistics alone, was bound to overshadow all other considerations in the choice of location of death camps.

As for intensity of anti-Semitism, let me note that had this assistance been so "active," there would have been no need for laws declaring death for entire families for giving any help to Jews. Poland was the only German-occupied territory with the death penalty for aiding Jews. The irony is that Mr. Dershowitz's excellent op-ed would be now censored in Poland, and my comments censored in Israel if the

Knesset goes ahead with the law criminalizing minimization of Polish collaboration in the Holocaust.

BARTLOMIEJ KAMINSKI  
St. Augustine, Fla.

We should reconsider Holocaust tourism to countries like Poland that support some aspects of Holocaust denial. Poland's passage of a bill making it a crime to allege that Poland had a role in the Holocaust echoes the crimes that allowed the Nazis to rise to power, i.e., the elimination of freedom of speech and the use of propaganda by extremists. There are other options for people to visit camps in countries like Germany that take responsibility for Holocaust education.

Poland has benefited from a surge in Holocaust tourism with a 40% increase in 2015 over the prior year's record 1.5 million visitors. The March of the Living, now marking its 30th anniversary, organizes tours for thousands of teenagers from more than 50 countries to Poland. Poland is the country most visited because the largest number of camps were in Poland and it had the most Jews in prewar Europe.

Why support a country that denies the role of some of its citizens in the Holocaust? How will the language of tour guides and scholars need to change and distort history to comply with the law?

LINDA GERSTEL  
New York

## Tulane's 41% Student Sexual-Assault Rate

Regarding your editorial ("Distorted Campus Assault Math," Feb. 9): Tulane University is making a strong, comprehensive and credible effort to understand the nature and range of the sexual-assault problem on its campus. Tulane used a respected survey developed by outside experts to query its student body and isn't shying away from the findings. The university should be applauded, not gratuitously criticized.

Sexual violence on campus is a significant issue that all colleges and universities are very anxious to address, and one-size-fits-all federal survey is guaranteed to fail. What works for a large public university with tens of thousands of students won't work for a private, faith-based institution or a commuter college that doesn't have dormitories.

TERRY W. HARTLE  
American Council on Education  
Washington

Perhaps we should take the alarmists at their word. After all, Tulane's 41% sexual-assault rate understates the real rate, based as it is on a survey of all classes. A survey of frosh to seniors reflects an average of two years or less exposure to this risky environment. Over a full four years the cumulative rate would certainly exceed 50%, and

possibly be as high as 80%. The only question is whether this alarming statistic requires the immediate closure of Tulane or whether it is sufficient to merely mandate the inclusion in all recruiting materials of a warning that female students face a 50%-plus risk of sexual assault if they stay long enough to earn a degree. Education Secretary Betsy DeVos should require the emergency assessment of all colleges that receive federal funds on the same basis. The threat to the physical and mental health of our college students is staggering.

Inflating the issue by counting boorish comments and noncriminal drunken actions regretted when sober trivializes the matter and distracts from finding meaningful solutions. College is supposed to help young adults transition to adulthood. Students need to learn how to deal with unwanted attention, discomfiting comments and contrary opinions. Asking them to learn to avoid becoming a victim is not the same as blaming the victim.

JEFF SOURBEER  
Belleair, Fla.

You report that "forty-one percent of Tulane's undergraduate women have been sexually assaulted since arriving on campus." What parent in their right mind would send their daughter to such a place?

CHARLIE POLITI  
Peoria, Ariz.

## Pepper ... And Salt

THE WALL STREET JOURNAL



DOUGLAS SACKS  
Wethersfield, Conn.

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## OPINION

# Schools Need Active-Shooter Drills

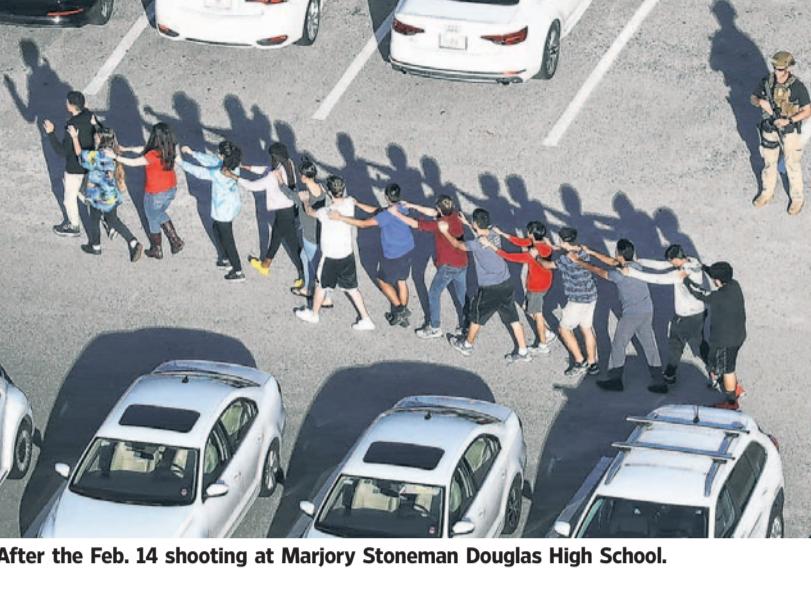
By John G. Iannarelli

**H**ardly any American schools hold active-shooter drills, but almost all of them hold regular fire drills. It's been 50 years since fire was a real threat to safety in America's schools. It's time to rethink those priorities.

The Federal Bureau of Investigation defines an active shooter as a person "actively engaged in killing or attempting to kill people in a confined and populated area." Because schools don't rehearse their responses to these situations, students and teachers are typically unsure what to do during incidents such as Wednesday's mass shooting at Marjory Stoneman Douglas High School in Parkland, Fla. Most often, school districts forgo active-shooter drills because they don't want to scare their students.

**Most deaths occur during the first five minutes. Preparing teachers and students would save lives.**

It is an unfortunate reality that these horrific acts will continue to produce the same tragic results unless schools take precautions. In the aftermath of each mass shooting, Americans fiercely debate the extent and proper application of our Second Amendment rights. But gun ownership is a complicated and politically fraught issue. While that debate proceeds, we should do everything possible to prepare our children and



After the Feb. 14 shooting at Marjory Stoneman Douglas High School.

their teachers to protect themselves. Florida's shooting underscores the need for immediate action.

Most of the deaths in active-shooter scenarios occur during the first five minutes of the incident. Even when armed police officers are present in the school, as was the case in Parkland, the killing is usually over before police are able to intervene. The actions of students and teachers during those first five minutes can make the difference between life and death.

In the event of a fire, most kids know to get out of the school building quickly and in an orderly fashion. In an active-shooter situation they need to be prepared to do more, including barricading themselves in a classroom until help arrives. In a worst-case scenario, they need to be prepared to fight back.

The prevailing approach is called "run, hide, fight." No teacher enjoys

the thought of teaching students how to break classroom windows, but it may be the only route to safety in active-shooter situations. Good hiding places keep students away from the attacker and also provide them a way out when the danger has moved on. And when it comes to fighting, witnesses should do whatever it takes to evade danger. It's not their responsibility to subdue or disarm the attacker. Students and teachers must study and drill these concepts at least as often as they participate in fire drills.

Almost every high-school student in America has a cellphone. On Wednesday, many witnesses texted their parents asking them to call the police. This was the right thing to do. Dialing 911 themselves could have attracted the shooter to the sound of their voices, with deadly consequences. We need to impress upon our tech-savvy young people

that time is critical in active-shooter situations. Students and teachers shouldn't waste precious minutes. They must find a way to contact law enforcement immediately when lives are in danger.

Likewise, sharing pictures and videos on social media during situations like the one in Parkland can help law enforcement see exactly what is happening, what students are doing, and where the attacker is located. Students need to know how important it is that they give emergency personnel as much information as possible with which to work.

Every cop or FBI agent would much rather prevent a deadly incident than stop one already under way. Teachers, students and administrators need to speak up when they see something suspicious. After many recent mass shootings and terrorist attacks, several people have stepped forward to say that they had suspected the perpetrator was planning an attack. Ordinary citizens need to get better at identifying people like the alleged Florida shooter before they carry out their deadly plans.

Until that day comes, however, Americans need to do the best with the available tools. We cannot keep waiting around for something to change. Through regular active-shooter drills, schools can equip their students with the skills to react quickly and safely to frightening situations. It might frighten them at first, but they'll get used to it, just like they're used to fire drills.

*Mr. Iannarelli is a retired FBI special agent executive. His books include "How to Spot a Terrorist Before It's Too Late" and "Why Teens Fail and What to Fix."*

# Antifa Rages Against Google's Dissident

By Andy Ngo

Portland, Ore.

**I** belong to Freethinkers of Portland State University, a skeptic student group. On Saturday we're hosting a panel on diversity featuring James Damore, the Google employee who was fired last July for writing a memo expressing heterodox views about sex disparities in the company's workforce.

We expected controversy. But we also got danger. The left-wing newspaper Willamette Week published an article with a false and inflammatory headline: "Tech Bro Fired from Google for Saying Women Are Biologically Unfit to Be Engineers Will Speak at PSU Next Month." The subheadline inaccurately attributed to Mr. Damore the view that "women can't do math."

## James Damore is coming to Portland State, and 'intersectionalists' are issuing threats.

Campus activists called us misogynists, white supremacists, neo-Nazis. A person claiming to work for campus audiovisual services tweeted that he could break into our event through a back entrance and "literally turn the whole building off." There were threats of violence. A Facebook user—it's not clear if he's connected to PSU—suggested he'd throw "active grenades" at Mr. Damore onstage. Campus police took these threats seriously enough that they denied our request for a larger venue, despite overwhelming interest.

PDX Women in Tech, a local activist group, proclaimed itself "disheartened and appalled" that we were "engaging in discourse without an opposing viewpoint." If they'd asked us, they'd have known we invited every tenured and tenure-track professor from the women's studies department and were rebuffed. Meantime, the administration and student government have organized three counterevents to challenge "the notion that women do not generate ideas"—something Mr. Damore has never claimed. Opponents also attempted to deny our event an audience by hoarding the free tickets and not using them.

I used to be an evangelical Christian but became disillusioned with conservative organized religion because of its zealous and hostility to free thought. When I enrolled at PSU, in one of America's most secular cities, I thought I was entering a world of open-minded and thoughtful young adults. Instead I encountered a new kind of fundamentalism, many of whose adherents claim to disavow religion.

In 2016, the Freethinkers organized a screening of "Islam's Non-Believers," a British documentary about Muslim apostates. I naively thought the nonreligious ethos on campus would draw many students who agreed with the film's message of freedom of belief. I was wrong. Flyers for the film were torn down across campus, and in our display case, a message was plastered across the glass: "Atheist Islamophobia is NOT OKAY."

Last year we invited the American Enterprise Institute's Christina Hoff Sommers, YouTube host Dave Rubin, and PSU philosophy professor Peter Boghossian to speak about open inquiry and free speech on campus. The local Antifa gang incited dozens of students and other activists to disrupt our event, which they described as a "fascist safe space." The event went off with only minimal disruption thanks to a heavy presence of campus police, bodyguards and private security.

Freethinkers of Portland State find ourselves confronted with a new secular religion, called "intersectionality." This doctrine conceives of human beings in terms of a good-and-evil binary of "oppressed" and "oppressor," reducing individuals to a collection of group identities rated within a hierarchy of marginalization.

Intersectionality's true believers tend to be far less tolerant than traditional religious believers with their sophisticated apologetics. To intersectionalists, skepticism is an existential threat. To question their beliefs, I've been told, constitutes "debating someone's right to exist."

The title of our event is "We Need to Talk About Diversity." The proof is that our adversaries are so determined to shut us down.

*Mr. Ngo is a graduate student in political science.*

# The European Union's Democracy Deficit

  
**POLITICAL ECONOMICS**  
By Joseph C. Sternberg

Brussels this week considered a new answer to a question that has long vexed the European Union: Who exactly runs this thing? In classic EU fashion, it boils down to a choice between "anyone and everyone" and

"someone and no one."

European leaders seem to have concluded that 2018 will be the year they fix the EU—or else. French President Emmanuel Macron and European Commission President Jean-Claude Juncker primed the pump last year with a series of major speeches on the bloc's future, focusing on the need for greater economic integration and democratic accountability.

German Chancellor Angela Merkel now appears ready to commit to a larger budget contribution to Brussels and perhaps bigger fiscal transfers from rich member states to poor ones.

It's a pity the EU is going down this road. The bloc would fare better if it did less. In particular, leaders would have been wiser to let the euro function as a metaphorical gold standard that could eject unsustainable members, rather than as a fiat hell in which Germans must tolerate a monetary policy suitable for France—and write checks to Greeks, who must never be allowed to leave the shared currency.

The EU's political ills today arise principally from hasty decisions nearly a decade ago to transform the euro into a bailout union. That created a need for political accountability. European leaders built the bailout kind of EU. So they need to figure out how to govern it in a way that will dissuade voters everywhere from incinerating the whole edifice, as Brits have tried to do with Brexit.

Which brings confused European voters to the process called *Spitzenkandidaten*—German for "leading candidates."

Europe's central problem for decades has been that no one is in charge. Formally the EU is supposed

## To make the bureaucracy more accountable, leaders in Brussels consider a plan for a quasi-president.

a veto on most EU activities. The exception is appointing, every five years, the president of the bureaucratic Commission.

The Parliament isn't much more effective as a vector of democracy. Every five years, Europe's confused masses vote in low-turnout elections for candidates they barely recognize to represent them in a European Parliament whose workings barely seem to affect them.

Because of the relative weakness of the two democratic wings, the Brussels bureaucracy is immensely powerful, with the ability to propose new regulations, negotiate trade deals, and enforce antitrust laws. It's also an enormous and confusing make-work machine for each of the 28 commissioners, one per member state.

It can't go on like this. National governments already have outsourced to the EU responsibilities such as monetary policy and border security, hallmarks of sovereignty that call out for more direct accountability. Any plan for further political or economic integration will trigger a Euroskeptic crackup if it isn't matched by some mechanism for voters to sway decisions in Brussels.

Enter Mr. Juncker, with what amounts to the best bad idea for cleaning up this mess—the "someone and no one" approach. In a new set of proposals this week, he suggests creating a quasi-presidential role that would merge some of the authority of the heads of state and of the bureaucratic Commission. The job would be filled by the preferred politician—the Spitzenkandidat—of whichever agglomeration of vaguely

similar national parties wins the most seats in European Parliament elections.

The virtue of this approach is to lend the EU's least democratic but most energetic wing, the Commission, a greater sense of accountability. That's the "someone."

The flaw is that voters still don't know who any of these people are or what they stand for. That's the "no one." Genuine accountability would await the development of pan-European parties with name recognition and political heft. It isn't a trivial problem. Europe may well enter a limbo in which voters have yet to figure out how to control a single leader more powerful than any the EU has seen to date.

Still, what alternative does the EU have? National leaders who discern some otherwise obscure reason to shift their own responsibilities to Brussels eventually will have to hand Brussels a democratic legitimacy to match. They can have a muscular EU or they can have greater national control over EU institutions. Since they have in practice chosen the former, it's now time to start the countdown to an EU presidency of some sort. For better or worse.

# Did My Mom Have 'White Privilege'?

By Angela Rocco DeCarlo

**A**t the age of 14, my lovely mother went to work in a Chicago factory sewing ladies' coats. It was 1918. She was a brilliant girl but couldn't go to school because her family needed the income. Whenever I hear people rile about "white privilege," I often wonder if they have my mother in mind.

Twelve million European immigrants passed through Ellis Island between 1892 and 1954. Today, it's estimated that 40% of the U.S. population is descended from these pioneers.

My mother arrived with her parents, Christopher and Angela Serritella, in 1911. Like many immigrants of the era, they were so thrilled to be in beautiful America that they did

whatever they thought proper to be good citizens. Grandfather Donato DiCarlo didn't mind at all when an immigration official suggested Dan DeCarlo would sound more American. They happily learned English too.

## She arrived from Italy in 1911 and then at age 14 went to work in a factory sewing ladies' coats.

My family came from Ricigliano, where practically everyone was named Serritella or related to someone who was. The town was inland from the beautiful seaside resort of Sorrento. It took monumental determination for people from Ricigliano to take the train to Naples for the Atlantic crossing, not knowing what they would find on the other side.

Many experienced discrimination, especially if their complexions were dark. During World War II thousands of American citizens with Italian names were rounded up and whisked away to detention areas.

We don't hear much about this anymore. Italians are not good complainers. Metropolitan Opera star Ezio Pinza was arrested and held for three months.

As a child I lived on Chicago's South Monitor Avenue, across the street from Sam Giancana. We children didn't really know who he was until years later. In 2013 New York's Metropolitan Opera staged a production of Verdi's "Rigoletto" with a Frank Sinatra character as the libertine duke. During an intermission

interview, one of the duke's courtiers was introduced as Sam Giancana. I was the only one in the theater who laughed.

Not all Italians were opera stars. Some took to the dark side. The interesting thing about the Italian-American gangsters of old was they actually had a sense of loyalty and honor. They loved America. When my maternal grandmother, Christina Rocco, saw a kid with a gun on Cabrini Street, she didn't hesitate to take it away from him. And nothing happened to her or her 10 children.

Last year there were more than 500 murders in Chicago, but the city officials seem to have no interest in stopping the slaughter.

Instead they spend their energy dreaming up ways to protect illegal aliens from being deported.

The legal immigrants who came through Ellis Island had to have medical exams and a clean criminal background, not to mention a job and a sponsor. This guaranteed the new arrival wouldn't be a burden on the country or its citizens. And they weren't. Ellis Island's immigrants received nothing from taxpayers. Not a cent. That's why my teenage mother worked in a factory instead of going to school.

For decades, Italian-Americans were stigmatized as gangsters. In "Key Largo," Edward G. Robinson played the cigar-chomping mob boss Johnny Rocco to perfection. All my relatives went to see it, including my uncle. His name was Johnny Rocco too.

*Mrs. DeCarlo formerly covered culture, travel and entertainment for the Chicago Tribune, Las Vegas Review-Journal and Disney Magazine.*

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## WORLD NEWS

# Leftist Tries New Path in Mexican Race

López Obrador benefits from outsider image to lead presidential polls, as U.S. watches closely

BY JUAN MONTES

MEXICO CITY—Andrés Manuel López Obrador, a nationalist who built his career blocking oil wells and railing against the political elite, is trying a third time to win the Mexican presidency.

The 64-year-old leftist candidate is leading in the polls ahead of the July 1 election after trying to reinvent himself with a new party, unlikely allies and as a champion of national unity who doesn't threaten Mexico's traditional economic powers.

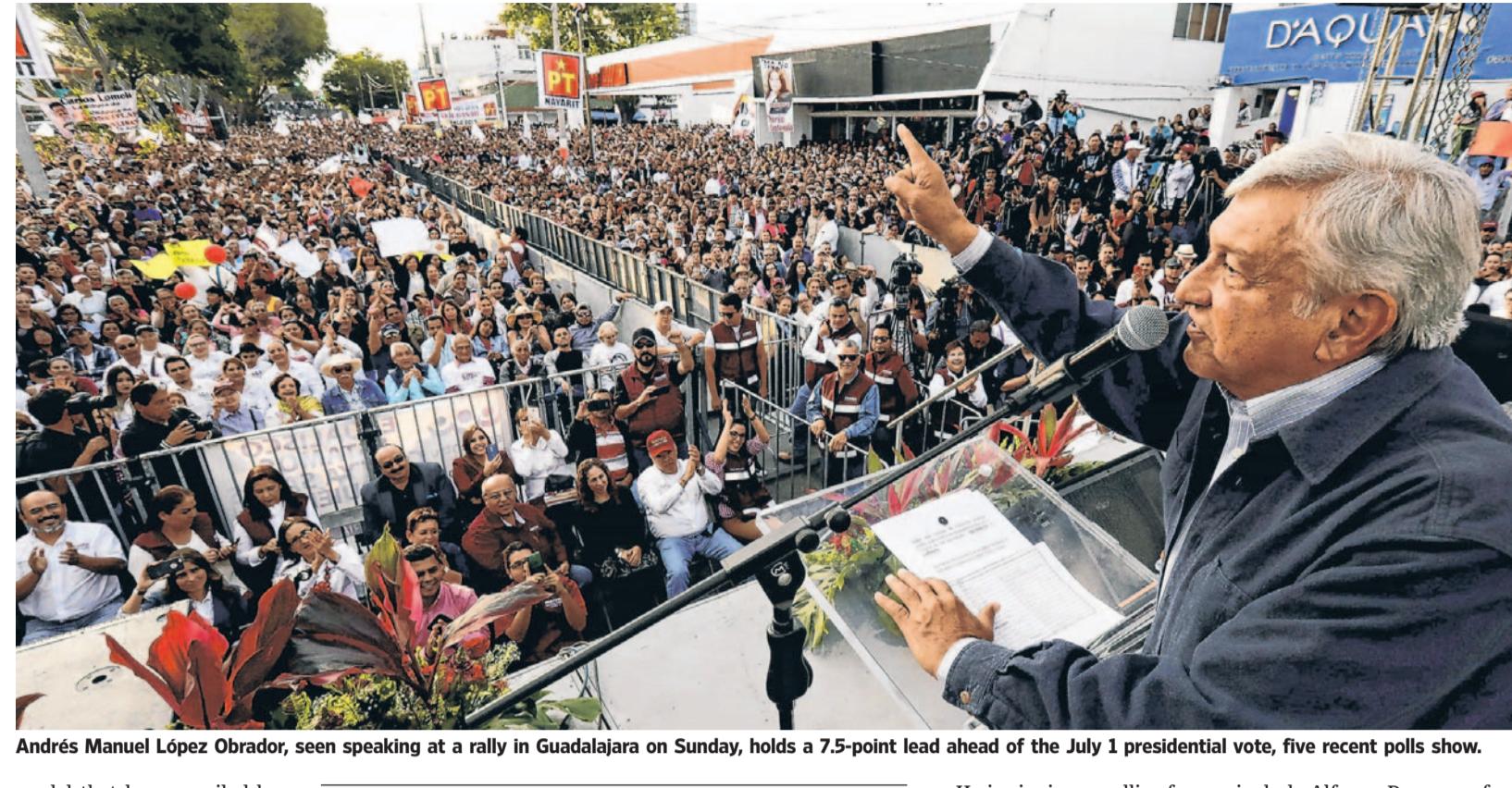
Although once a member of the ruling party and a Mexico City mayor, Mr. López Obrador is benefitting from an outsider image at a time when Mexicans are weary of the violence, corruption and a slowing economy that have hurt the ruling party's popularity.

The stakes for the U.S. are substantial.

Mr. López Obrador has supported the North American Free Trade Agreement but has warned that the current renegotiations between the U.S., Canada and Mexico should be suspended until after Mexico's election. As president, he said he would renegotiate any deal that harms Mexico's interests.

He also has vexed U.S. and other investors by promising to freeze the recent opening of Mexico's oil industry to private investment while he reviews the 91 exploration and production contracts the government has awarded over the past three years for any signs of graft.

Although Mr. López Obrador says he would keep balanced budget deficits and respect the central bank's autonomy, his victory would signal a new economic and social model for Mexico. He proposes fostering growth with more government spending, import-substitution policies and higher salaries—shifting from the export-based



Andrés Manuel López Obrador, seen speaking at a rally in Guadalajara on Sunday, holds a 7.5-point lead ahead of the July 1 presidential vote, five recent polls show.

model that has prevailed here during the past 35 years. Mr. López Obrador says he wants to boost spending on new oil refineries, education and jobs programs for unemployed youth.

Above all, he pledges to fight corruption.

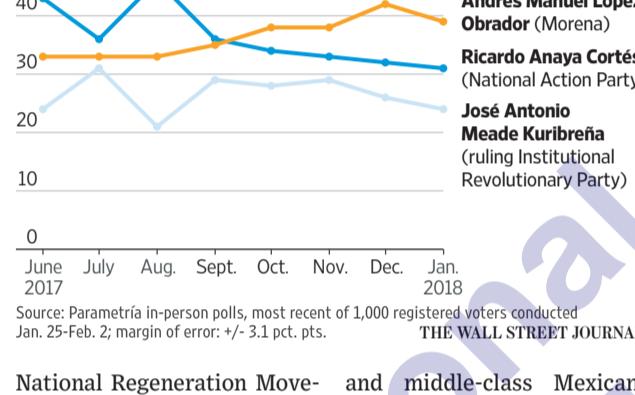
The politician says this is his final try for the nation's highest office. Five recent polls show him with an average lead of 7.5 points over his nearest rival, Ricardo Anaya, the candidate of a right-left coalition led by the conservative National Action Party, also known as PAN. Former Finance Minister José Antonio Meade, the candidate of the ruling Institutional Revolutionary Party, or PRI, is third.

But many Mexicans still view Mr. López Obrador as a hot-headed populist, in part for the disruptive weeks-long street protests he led in Mexico City after narrowly losing the 2006 election—which he had led in the polls—and charging fraud. After his second try, in 2012, he formed the

## Election Battle

Andrés Manuel López Obrador is leading in the polls ahead of Mexico's July presidential vote after trying to reinvent himself with unlikely allies and a pragmatic image.

### Support for coalition led by...



Source: Parametría in-person polls, most recent of 1,000 registered voters conducted Jan. 25-Feb. 2; margin of error: +/- 3.1 pct. pts.

THE WALL STREET JOURNAL.

National Regeneration Movement, or Morena, which means brown-skinned in Spanish.

Now, Mr. López Obrador's strategy aims to expand his political base, said Tatiana Clouthier, his campaign manager. Women, young people

and middle-class Mexicans who are still wary of him are top campaign targets, she said.

"López Obrador has learned from his previous campaigns. To win, we need everybody, be it Catholic, evangelical, poor or rich," Ms. Clouthier said.

He is signing up allies from unlikely quarters, including an upstart group of Christian evangelicals who founded a party in 2014. In part because of the growing presence of evangelicals in Mexico, the right-wing Social Encounter party won 1.3 million votes in the 2015 midterm elections, with eight of its candidates elected to the lower house of Congress.

While Mr. López Obrador, who describes himself as a Christian, has said that abortion and gay marriage aren't a priority for Mexico, many party members are far more socially liberal. And as recently as June, Mr. López Obrador said Social Encounter was part of a corrupt political system.

"López Obrador is aware that he is vulnerable and that if he doesn't widen his coalition of voters he could be defeated again," said Gerardo Esquivel, a political analyst at El Colegio de Mexico university.

Others who have jumped to Mr. López Obrador's campaign

include Alfonso Durazo, a former high-ranking PRI official and spokesman of former conservative President Vicente Fox and Gabriela Cuevas, a PAN senator who called Mr. López Obrador a "criminal" in 2005. She now says she "misjudged" him.

"López Obrador is building bridges. That's positive," said Esteban Moctezuma, a former senior PRI member and likely member of a López Obrador cabinet.

Others aren't convinced the politician has changed his combative style. In a recent opinion column, political analyst Jesús Silva-Herzog said Mr. López Obrador's new alliances smacked of opportunism.

Mr. López Obrador criticized Mr. Silva-Herzog on Twitter, implying the writer was a "stooge" of the "mafia in power."

"He seems to be as intolerant as ever," said Mr. Silva-Herzog.

Mr. López Obrador later apologized.

# France's Jobless Rate Hits 8-Year Low

BY WILLIAM HOROBIN

PARIS—France's unemployment rate fell to its lowest level since 2009 at the end of last year, a sign the eurozone's economic recovery is broadening to areas that have long been stagnant.

The unemployment rate in France—the eurozone's second-largest economy—fell to 8.9% at the end of 2017 from 9.6% three months earlier, national statistics agency Insee said Thursday.

Employment has also improved recently in other eurozone economies whose job markets had for years struggled to recover from the currency bloc's debt crisis. In Italy, unemployment fell to 10.8% at the end of 2017, the first time it has been below 11% since 2012. Spanish unemployment stood at 16.6% at the end of 2017, down from a crisis-high of 27% in 2013.

Eurozone employment is benefiting from the strongest economic expansion in more than a decade. In 2017, growth in gross domestic product jumped to 2.5% from 1.9% as businesses stepped up investment and exports rose. Recent surveys of business confidence indicate the economy and job market are in even better health at the start of 2018.

In France, the unemployment rate declined for all age categories and for both women and men at the end of the year. The rate of long-term unemployment fell to 3.6% from 4.2%, Insee said.

"The very strong unemployment data reinforces our view that the French labor market has turned a corner for good," said Christian Schulz, European economist at Citi.

French President Emmanuel Macron is betting he can boost employment in the long run by making labor laws more flexible. Some labor unions say the new laws are more likely to push up unemployment.

# Colombia Blames Venezuelans in Bombings

BY KEJAL VYAS  
AND JUAN FORERO

BOGOTÁ, Colombia—Colombia's government said that some of the deadly bombings recently carried out by the country's last guerrilla group were planned in Venezuela, Colombia's increasingly lawless neighbor, and that Venezuelans have participated in them.

Investigators have found numerous Venezuelan nationals involved in the planning and execution of attacks committed by the National Liberation Army, or ELN, Colombian Defense Minister Luis Carlos Villegas told reporters on Thursday, including one on Jan. 27 in the northern city of Barranquilla that killed six police officers and injured 41

others.

"The National Liberation Army is planning and executing attacks in Colombian territory from Venezuelan territory," Mr. Villegas said, adding he had relayed his concern to his Venezuelan counterpart in a phone call late Wednesday. "We were able to verify that Colombian and Venezuelan members of the ELN committed armed and terrorist acts against the people."

The allegations pointed to concerns among Colombian officials that desperate Venezuelans fleeing their country's economic meltdown are being targeted for recruitment in Colombia by armed groups, including the ELN.

"The number of Venezuelans who have participated in

these actions of the ELN is growing," the defense minister said. He cited two Venezuelans killed Sunday trying to plant a bomb alongside a highway, another accused of killing a po-

Bogotá suspects its lawless neighbor of playing a role in recent deadly attacks.

liceman and two others gunned down by the military in recent weeks. All, he said, were ELN fighters.

Mr. Villegas said he would soon meet with his Venezuelan counterpart, Vladimir Padrino,

at the border to address the situation even as relations between the two countries fray. Bogotá has joined the U.S. in calling for the international isolation of Venezuelan President Nicolás Maduro's authoritarian government.

Venezuela's Defense Ministry didn't immediately respond to a request for comment about Mr. Villegas's allegations. In a televised news conference, Mr. Maduro confirmed that the two defense ministers would meet but didn't go into details. He also said he welcomed the Colombian government's recent deployment of troops to the border to control the massive daily flow of Venezuelans into Colombia.

Officials in Venezuela's left-

ist government have long denied Colombian guerrillas were welcomed in their country. But starting in 2008, Colombia's government and the U.S. released secret rebel communications that showed the Venezuelan government had a close relationship with the Revolutionary Armed Forces of Colombia, or FARC, whose commanders were warmly received in Caracas, sometimes in summits broadcast on Venezuelan state television.

Colombian intelligence officials and experts on the conflict say the ELN has a similar arrangement, with its units inhabiting camps inside Venezuela.

"Now, they have a country where they aren't attacked, where they are protected," said a Venezuelan official.

# Hopes and Strains Endure in U.S.-Europe Partnership

BY LAURENCE NORMAN

When trans-Atlantic tensions are high, the Munich Security Conference is a stage where they spill into the open.

At the annual event in 2003, arguments over the Iraq war came to a head when an emotional German Foreign Minister Joschka Fischer confronted U.S. Defense Secretary Donald Rumsfeld to insist he wasn't convinced by the American case for removing Saddam Hussein.

In 2015, months after Russia's annexation of Crimea, Sen. John McCain criticized German Chancellor Angela Merkel for refusing to send defensive arms to Ukraine, saying that supplies of "blankets and meals" weren't enough. "Blankets don't do well against Russian tanks," he said.

Ahead of this year's conference, which starts Friday, strains have emerged between the U.S. and Europe on matters including trade, climate change, Middle East peace and the Iranian nuclear deal.

Relations have been undermined, European diplomats



Presidents Emmanuel Macron of France and Donald Trump.

say, by confrontational statements by President Donald Trump, often on Twitter, and the absence of some key U.S. diplomats from a number of unfilled posts.

Old tensions with Washington over European military spending have sharpened under Mr. Trump, who says

members of the North Atlantic Treaty Organization should be investing more on defense.

Yet, over a year into the Trump administration, there is tentative confidence among many European diplomats that the core trans-Atlantic security partnership is holding.

"The style of the president

has surprised a lot of people but...when I see how NATO discussions are going to reform the command structures...it demonstrates the stability of democratic institutions," said Marc Otte, a former top European Union diplomat who heads Brussels' Egmont Institute think tank.

Unquestionably, there has been discomfort among some European leaders with the new president's policies. In May, after a tense trip by Mr. Trump to NATO where he failed to explicitly back the alliance's collective security guarantee, Germany's Ms. Merkel said the days when Europe could rely on the U.S. were "over to a certain extent."

Yet in some areas, trans-Atlantic cooperation has remained the norm. The Europeans have backed Washington's pressure campaign against North Korea, worked with the U.S. against Islamic State, and welcomed the Trump administration's occasional assertiveness against the Bashar al-Assad regime in Syria.

U.S. policy toward Russia has hardened over the past year. Far from seeing a Moscow-Washington rapprochement undercut Europe, EU

diplomats found themselves siding last summer with the White House to lobby Congress to tone down new sanctions against Moscow that could have hit European firms.

NATO, once dismissed by Mr. Trump as obsolete, looks steadier. The alliance has absorbed some of Washington's demands and Mr. Trump and his top officials have now spelled out clearly that an attack on one ally remains an attack on all.

Most European countries have responded with increased military spending, although only half of the alliance is expected to meet the goal of 2% of economic output by 2024.

That returns the Trump administration to a more-traditional dilemma over Europe, said Jan Techau, director of the Europe program at the German Marshall Fund of the United States. "You really want to push very hard that your allies do more on defense and aren't free-riding," he said. "But if you press them too hard, you lose your credibility as a superpower protector and signal to the Russians, the Chinese and everybody else that your security guarantees are vulnerable."

"The very strong unemployment data reinforces our view that the French labor market has turned a corner for good," said Christian Schulz, European economist at Citi.

French President Emmanuel Macron is betting he can boost employment in the long run by making labor laws more flexible. Some labor unions say the new laws are more likely to push up unemployment.

# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Friday, February 16, 2018 | B1

**S&P** 2731.20 ▲ 1.21%**S&P FIN** ▲ 0.62%**S&P IT** ▲ 1.90%**DJ TRANS** ▲ 0.71%**WSJ \$IDX** ▼ 0.51%**LIBOR 3M** 1.873**NIKKEI (Midday)** 21699.71 ▲ 1.09%See more at [WSJMarkets.com](http://WSJMarkets.com)

## Avis Investor Seeks Board Overhaul

SRS wants total of five directors at car-rental firm; two companies have long been at odds

BY DAVID BENOIT

The largest investor in **Avis Budget Group** Inc. is launching a fight to shake up the rental-car company's board, a ratcheting up of several years of tension between the two.

**SRS Investment Management** LLC, a roughly \$5 billion New York investment fund, said

it would seek a total of five seats on the board, including two members it named to the 12-person board in a 2016 pact.

SRS controls 14.7% of the voting shares of Avis and an additional 16% in derivatives.

Last month, Avis Budget implemented a "poison pill" to block SRS from exceeding 15% of voting stock after the company and SRS failed to reach a new agreement to avoid a proxy fight. Avis said it was concerned SRS would be able to obtain "effective control" without paying a premium and had been insisting on a veto

over board and management changes.

SRS, which isn't normally an activist investor, said it made reasonable requests about the changes and its ownership level, but it wasn't willing to sign a three-year agreement to not fight.

The fund first disclosed its position in 2010 and has spent the past two years negotiating agreements with the company to try to drive change. The investor has already said the company should take steps to boost its stock and explore strategic alternatives, includ-

ing a sales process.

In a statement, Avis said it has delivered "superior" results for investors and defended the board. It said SRS has been supportive of management and the current strategic plans.

Avis has been seeking to refresh its board and has already hired a search firm, and it offered SRS a third director and a say in changes. The Parsippany, N.J., car-rental firm also has implied it is open to a possible transaction by raising concerns about SRS's potential influence on any such deal,

saying the company wants to ensure its ability to pursue "all strategic actions."

SRS believes the board needs fresh blood and should do more to hold management accountable, particularly for missing profit-margin targets, though the fund hasn't called for management change, according to people familiar with the fund. It has concerns about long tenures and close relationships on the board.

The fund is nominating one new SRS employee and two new independent directors, in *Please see AVIS page B2*

## SEC Blocks Sale of Exchange To Chinese

BY DAVE MICHAELS

WASHINGTON—The Securities and Exchange Commission on Thursday rejected the sale of the Chicago Stock Exchange to a group that would have included Chinese investors, capping a two-year battle over a deal that sparked political opposition in Congress.

The SEC's commissioners voted against the transaction six months after the agency's staff recommended approving the sale.

The decision is a rare move by the SEC to choose who isn't allowed to control a U.S. stock exchange, even one that handles less than 1% of trading volume.

Critics of the sale, including lawmakers from both parties, said letting a Chinese company take a major stake in a U.S. stock exchange would create a backdoor for the Chinese government to influence American financial infrastructure.

The Chicago company repeatedly said the Chinese government wasn't involved in the deal, but a political fight

*The group wanted to reinvent the venue as a bridge between U.S. and Chinese markets.*

erupted that prompted two of the initial Chinese investors to withdraw from the group in October.

A spokesman for the exchange declined to comment. Under U.S. law, the exchange's parent company, **CHX Holdings** Inc., could appeal the SEC's decision in federal appellate court.

The group of investors who sought to buy the exchange had wanted to reinvent the struggling venue as a bridge between U.S. and Chinese markets, and a Western listings outpost for Chinese firms.

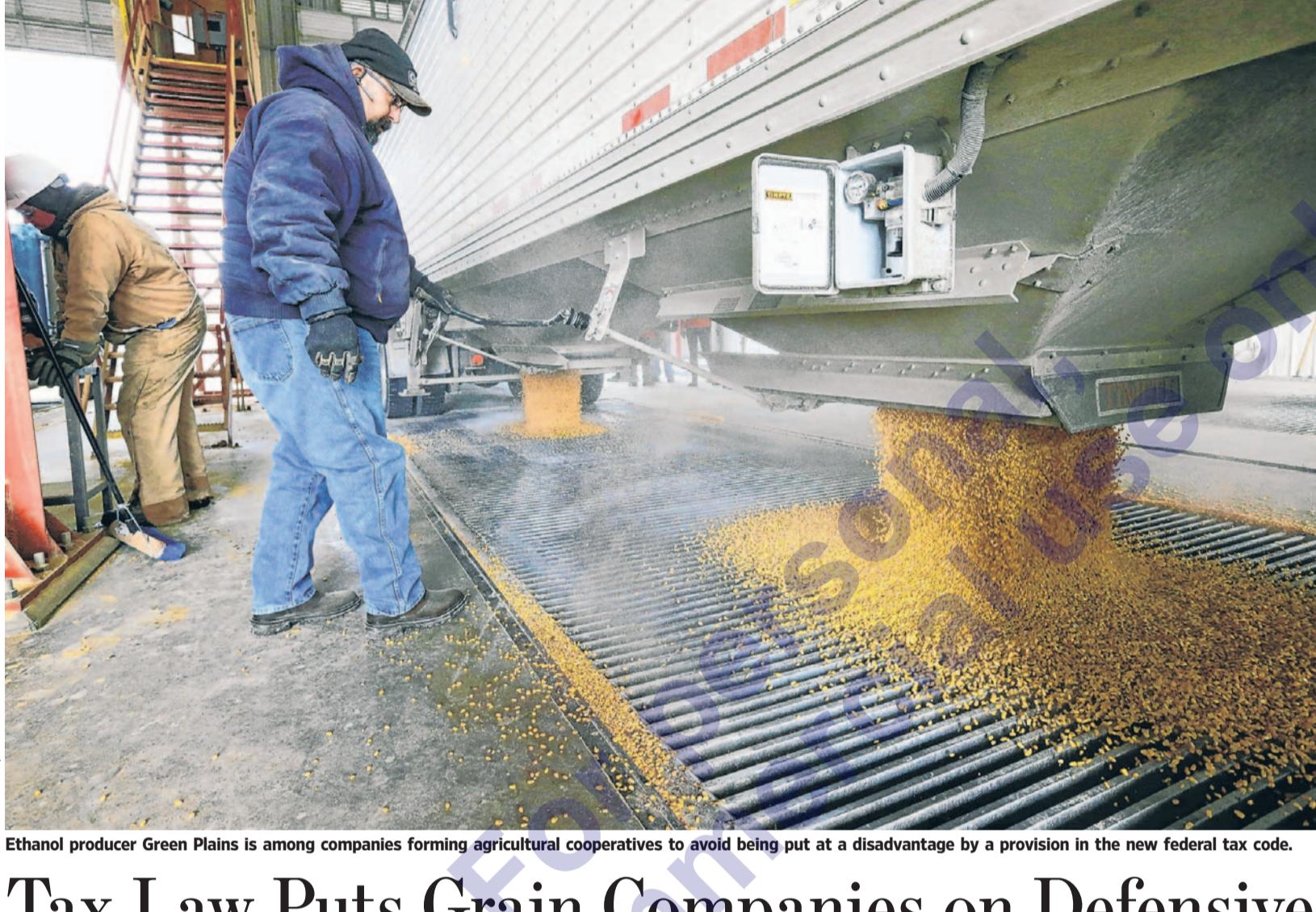
In an order rejecting the deal, the SEC said the exchange hadn't met the burden of proof to show it could stick to rules that limit the control of any one stockholder over an exchange. A father-and-son duo who proposed owning a piece of the exchange—the father from China and the son based in the U.S.—had agreed to limit their combined voting power to follow those rules.

The SEC also said it couldn't count on having access to the records of exchange owners based in China, if it needed to obtain them.

The lead investor in the deal, **Chongqing Casin Enterprise Group** Co., would have owned 20% of the exchange's parent company. Chongqing Casin is controlled by Shengju Lu, whose son Jay Lu would have owned a 19.5% stake in the company.

Two other China-based firms, **Chongqing Jintian Industrial** Co. and **Chongqing Longshang Decoration** Co., had agreed to invest about \$8 million as part of a consortium that offered \$20 million to purchase the exchange, rising to \$25 million if the exchange hit future revenue targets. The firms' managers dropped out in the fall due to political criticism of the deal in Congress and the slow approval process at the SEC, people familiar with the matter said.

Their withdrawal left Casin Group as the only China-based investor in the group. Proposed U.S. investors included Raptor Group, the family office of former hedge-fund manager Jim Pallotta; and Anthony Saliba, a current board member of CHX Holdings who runs an options-trading and technology firm, Matrix Holding Group.



Ethanol producer Green Plains is among companies forming agricultural cooperatives to avoid being put at a disadvantage by a provision in the new federal tax code.

## Tax Law Puts Grain Companies on Defensive

BY JACOB BUNGE  
AND RICHARD RUBIN

Some agricultural companies are revamping operations to avoid being stung by the new U.S. tax law.

**Green Plains** Inc., the world's second-largest ethanol producer by capacity, registered part of its business as a cooperative in January after studying the new tax law. "We jumped on this right away as a backup plan," said Todd Becker, chief executive of the Omaha-based company, which buys more than 2,000 truck-

loads of corn every day. **Scoular** Co., another major grain company based in Omaha, is also forming a cooperative in response to the law, a spokeswoman said.

In Turon, Kan., Colten Katz said he has filled out the paperwork to set up a cooperative for his grain business, Turon Mill & Elevator Inc. If he doesn't act, Mr. Katz said, local farmers will sell to nearby co-ops instead of to him, potentially bankrupting a company that has been in business since 1892.

"We've been through depressions and dust bowls, but we'll be brought down by government legislation," said Mr. Katz, a partner at Turon. "They will fix it, or we will start a co-op."

Commodity giants like **Archer Daniels Midland** Co., **Bunge** Ltd. and **Cargill** Inc. have also pushed lawmakers to alter the law. "We're not going to sit idle," Juan Luciano, ADM's chief executive, told investors last week.

Soren Schroder, CEO of **Bunge**, said in an interview his

company could set up its own cooperative or form partnerships with existing cooperatives, though he said he was "very confident" Congress would act.

Lawmakers, including the provision's authors, say they are working to change it, but they haven't reached a deal yet. Sen. Orrin Hatch, chairman of the Senate Finance Committee, said Wednesday he was committed to "develop a solution to this issue that does not choose winners and

*Please see TAX page B2*

## Deal Sows Discord at Thomson Reuters

BY JACQUIE McNISH  
AND DAVID WIGHTON

TORONTO—The board of **Thomson Reuters** Corp. recently pressed ahead with plans to sell a piece of its business to **Blackstone Group** LP for \$17 billion despite its chairman's concerns that directors had failed to seek a higher price or consider other potential buyers, people close to the deal said.

David Thomson, who is board chairman and grandson of Roy Thomson, the founder of the family empire, began airing his objections to other directors after the board started to review Blackstone's offer in November, but most of them disagreed, the people said.

He was also overruled by executives of **Woodbridge** Co., the private Toronto-based holding company

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### INSIDE



#### AMERICANS LOSE TASTE FOR NESTLE

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#### U.S. BANCORP MUST PAY \$613 MILLION

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### HEARD ON THE STREET | By Paul J. Davies

## Sharp Rise of Private Assets Is Built Upon Mountain of Debt



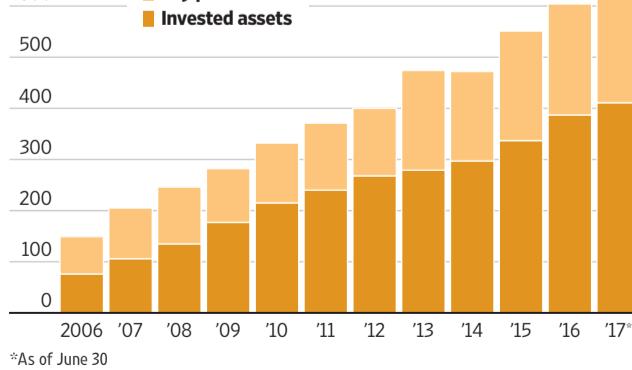
In the world of private deal making, the biggest borrower in town is becoming one of the biggest lenders, too. With so much money chasing buyout opportunities, big and risky deals seem the likely outcome.

A major change in financial markets in recent years is that private-equity firms have increasingly got into lending to buyouts—and often to their own deals. Their credit businesses are adding to the huge growth in specialist private debt funds and retail money that has taken place in loan markets since the crisis. The flood of money into credit has driven down borrowing costs and cleared out traditional lender protections known as covenants on many loans.

It is also starting to lift debt multiples on newer deals. **Blackstone Group**'s

#### Credit Approval

Assets under management in global private-credit funds



\*As of June 30

Source: Preqin

THE WALL STREET JOURNAL.

recent deal for a controlling stake in **Thomson Reuters**'s financial-information arm includes debt valued at about 7.5 times earnings before interest, tax, depreciation and amortization. That is approaching precrisis levels.

The growth of debt opera-

tions at firms like **Blackstone**, **KKR** and **Apollo Global Management** is an important part of their expansion. They can manage loans in private-credit funds, special vehicles known as collateralized loan obliga-

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felt the deal was in the best interest of both the family and minority shareholders, one person close to the deal said.

Mr. Clark, Mr. Binet and Messrs. Thomson didn't respond to requests for comment. Thomson Reuters and Blackstone declined to comment.

David Thomson ultimately voted for the sale, announced two weeks ago, along with his brother Peter, after it was clear a majority of directors supported it, according to people close to the deal. Blackstone's offer for the Thomson Reuters stake is structured as a binding deal that remains subject to review only by regulators, people close to the deal said.

No shareholder approval is required and any competing bidder would have to make an offer for all of Thomson Reuters that would significantly raise the price, the people said.

Frank Allen, executive director of FAIR Canada, an investor-rights group, said it was "far better to put a transaction to a market test" than rely on a fairness opinion. **Guggenheim Securities LLC**, which advised Thomson Reuters on the sale, also provided a fairness opinion that the price was reasonable, according to the people close to the deal.

It is disappointing in terms of a major transaction of this scale and complexity that there is no disclosure by Thomson Reuters regarding the process that the board followed in negotiating, deliberating and taking advice prior to approving the transaction," he said.

Thomson Reuters competes in some businesses with Dow Jones & Co., a unit of News Corp and publisher of The Wall Street Journal and Dow Jones Newswires.

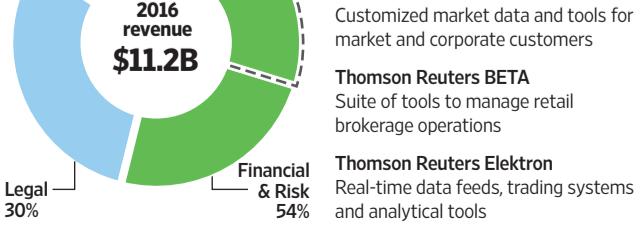
David Thomson has had difficult relations with some of the Thomson Reuters directors in recent years, according to people close to the company. Tensions boiled over last summer when Mr. Smith threatened to resign over what he said was Mr. Thomson's "meddling" in the company. The board backed Mr. Smith, and Mr. Thomson signed a letter pledging not to interfere in the company's management, one of the people said.

But a majority of directors of Thomson Reuters ultimately lined up behind Messrs. Smith, Binet and Clark because they

## Here's the Deal

Blackstone is buying the majority of a core Thomson Reuters business.

### Thomson Reuters revenue by segment



Sources: the company, staff reports

Continued from the prior page

losers and is fair to everyone involved."

A spokeswoman for Cargill

said the Minnesota-based agri-

culture conglomerate "will

continue planning for ways to

remain competitive in the

U.S. market" under the new

tax law, though Cargill hopes

for Congress to resolve the

matter.

A traditional cooperative helps farmers leverage their combined scale to sell crops and purchase supplies at better prices. Some grain companies say there is nothing preventing them from establishing their own cooperatives, staffed by their employees but overseen by a board that includes farmer-members. Farmers could join for a fee that they would likely earn back when the coopera-

## BUSINESS & FINANCE



BRENDAN McDERMID/REUTERS

Race-car driver Scott Tucker was convicted of fraud last year related to a scheme to launder money.

## U.S. Bancorp Is Charged, Fined in Laundering Case

BY CHRISTINA REXRODE

**U.S. Bancorp** was fined \$613 million for what regulators and prosecutors said were shoddy anti-money-laundering controls, a rare regulatory setback for a bank that emerged from the financial crisis relatively unscathed.

The U.S. attorney's office in Manhattan on Thursday also announced criminal charges against the bank that eventually could be dismissed. The Manhattan U.S. attorney, Geoffrey Berman, said the bank's poor controls had allowed a former customer, race-car driver Scott Tucker, to launder money from an illegal payday-lending scheme. Mr. Tucker was convicted of fraud last year.

Banks are required to have controls to prevent their systems from being used for illegal purposes and to report suspicious activity to the government. The government said that U.S. Bank had operated its program "on the cheap" with inadequate staffing and resources, which caused it to miss red flags of some of its customers' activities, including Mr. Tucker.

Minneapolis-based U.S. Bank is the largest among midsize U.S. banks and one of the largest banks in the country. It has cultivated a reputation for a cautious, plain-van-

### Penalty Box

U.S. Bancorp will pay \$613 million to settle government probes

Justice Department	\$453 million
Office of the Comptroller of the Currency	\$75 million
Financial Crimes Enforcement Network	\$70 million
Federal Reserve	\$15 million

Sources: The agencies

THE WALL STREET JOURNAL

bank is still subject to a 2015 consent order by the Office of the Comptroller of the Currency, which flagged the bank for anti-money-laundering deficiencies, and the Federal Reserve issued a similar consent order on Thursday. The OCC order puts constraints on U.S. Bank buying other banks.

Also, the bank's agreement with the Justice Department includes a deferred-prosecution agreement, which requires it to submit to further monitoring. In exchange, the government could in two years seek to dismiss the charges. The bank has already been revamping its money-laundering programs since the OCC's consent order, by hiring staff, upgrading systems and installing a new leadership team.

"We regret and have accepted responsibility for the past deficiencies in our [anti-money-laundering] program," said U.S. Bancorp Chief Executive Andy Cecere, in a statement. A longtime U.S. Bank executive, he became CEO last year.

The bank agreed to a statement of facts about its conduct.

In all, the bank announced settlements or agreements with the Justice Department, OCC, Fed and the U.S. Treasury's Financial Crimes Enforcement Network.

ride-hailing companies like Uber Technologies Inc. and Lyft Inc. has climbed. Last year, Google parent company Alphabet Inc. said it was hiring Avis to store and service its self-driving cars, saying it chose Avis for its broad geographic presence and its experience quickly fixing and cleaning rental cars. Avis operates its namesake brands as well as the subscription-based Zipcar program.

SRS said Avis is a unique asset that could survive in the changing world, but that it needs more technology skills on the board.

While Avis stock has slid, it has still outperformed Hertz, which is down 80% in the past three years and been dealing with its own activist situation. Billionaire Carl Icahn has amassed 35% of Hertz and several board seats, but the stock has continued to drop. Mr. Icahn has also invested in Lyft and several auto-parts companies, such as buying the Pep Boys chain, in an elaborate bet on the future of car ownership being increasingly shared.

Some companies that buy and process farmers' crops. As spring planting season nears, many farmers will begin making advance sales of this year's harvest, and the tax treatment of those sales could become a big factor as farmers continue to struggle against low grain prices.

"The urgent objective for all involved is ensuring that America's farmers and ranchers reap the benefits of pro-growth tax reform and that balanced competition in the marketplace is restored," said Lauren Aronson, a spokeswoman for the House Ways and Means Committee.

Sen. John Thune (R., S.D.) is aware of the significant unintended effects of the law on grain markets and is trying to find a "reasonable" solution, an aide said. Mr. Thune, who represents a major farming state, was involved in crafting the provision and has been discussing a fix.

## TAX

Continued from the prior page

tive returned profits to members, these companies say.

An industrywide shift toward the cooperative model could allow more farmers to lower their taxable income to zero and cost the U.S. government significant tax revenue.

Farmers with positive income reported \$13.5 billion of profits in 2015, though most farm tax returns show net losses,

according to the Internal Revenue Service.

The provision in the new tax law was designed to ensure that farm cooperatives benefit from a new deduction for pass-through businesses, and was added days before the tax bill was signed in December. Under the new tax law, farmers can deduct up to 20% of their gross sales to cooperatives, versus 20% of their net income from other sales. Selling to cooperatives would translate to a much larger deduction for many farmers, accountants say.

While some U.S. cooperatives initially hailed the provision, they now are helping craft a new version.

The National Council of Farmer Cooperatives is working with the National Grain and Feed Association, which represents both independent grain companies and cooperatives, on a new proposal that will ensure farmers' taxes won't go up and won't create a new, unintended imbalance in the marketplace," a spokesman for the cooperative group said.

Lawmakers and farm lobbyists couldn't agree on a fix before the federal budget bill was signed Feb. 9, and now are targeting

## BUSINESS NEWS

## Streaming Fuels CBS Increase In Sales

BY JOE FLINT  
AND IMANI MOISE

CBS Corp.'s revenue rose 11% in the fourth quarter as the media company pulled in more money from pay-TV distributors, content licensing and its own direct-to-consumer streaming services.

The content gains were more than enough to overcome a slight decline in ad revenue from the same period a year ago, particularly strong due to the 2016 presidential election.

CBS's two direct-to-consumer services—CBS All Access and Showtime OTT—have reached nearly five million customers and are on target for eight million in 2020, CBS Chief Executive Leslie Moonves said on a call with analysts.

While Mr. Moonves expressed optimism for CBS's future, a potential combination with **Viacom** Inc. is back on the table. This month, the boards of both companies formed committees to evaluate a potential merger at the urging of their controlling shareholder. Both CBS and Viacom are controlled by **National Amusements** Inc., the holding company of Sumner Redstone and his daughter, Shari Redstone.

CBS declined to discuss Viacom on its earning call.

CBS said Thursday that its fourth-quarter results were hurt by a \$129 million charge related to the recently enacted tax overhaul. Overall, CBS's quarterly loss narrowed to \$41 million, or 10 cents a share, compared with a loss of \$113 million, or 26 cents a share, a year earlier. On an adjusted basis, per-share profit was \$1.20, up from \$1.11.

Revenue rose 11% to \$3.92 billion. Analysts polled by Thomson Reuters had forecast earnings of \$1.14 a share on sales of \$3.7 billion.



Limited-edition Perrier cans designed by Andy Warhol displayed at a plant in France. The food maker's annual earnings fell 16%.

## Halliburton Says Rail Delays Take Toll

BY CHRISTOPHER M. MATTHEWS

**Halliburton** Co. warned on Thursday that its first-quarter earnings would take a hit due to delayed deliveries of a key ingredient used to hydraulically fracture shale wells: sand.

Chris Weber, Halliburton's chief financial officer, said at an investor conference that the oil-field services company expects an earnings impact of 10 cents a share from delays by a Canadian rail company that would slow sand delivery.

Oil-field services companies like Halliburton pump millions of pounds of sand in each shale well to help producers prop open rocks cracked during hydraulic fracturing, or fracking. That action lets oil and gas seep out.

Any delays in sand delivery could slow the uptick in production in oil-rich regions like Texas' Permian basin.

Fracking companies have traditionally brought sand from mines in the Midwest by rail to shale sites across the country, from Texas to North Dakota.

The Canadian National Railway Co. said in January that severe cold conditions in its Canadian and U.S. Midwest rail network would cause it to run shorter trains in those regions, reducing capacity.

Investment bank Evercore ISI said it expects Halliburton will buy sand on the spot market from new, local suppliers in Texas but that it won't be enough to make up for the shortfall.

Mr. Weber said that despite the delays, Halliburton is still on track for normalized margins of around 20% in North America in 2018, following years of steep pricing cuts in the industry due to low oil prices.

## Nestlé Fails U.S. Taste Test

Sales growth slows on slack demand as food maker turns to healthier fare

BY BRIAN BLACKSTONE  
AND SAABIRA CHAUDHURI

Sluggish U.S. demand held **Nestlé** SA to its slowest sales growth in decades last year, underscoring the challenge facing the Swiss company as it tries to recast itself as a nimble provider of healthy food and drinks.

The results for 2017, which missed analyst estimates despite a raft of measures to jump-start growth, ratcheted up pressure on Chief Executive Mark Schneider. The former health-care executive has faced calls from activist Daniel Loeb to raise shareholder returns since soon after he took the reins at Nestlé at the start of last year.

In the U.S., Nestlé's its largest market, the Nescafe,

Purina and Perrier owner has struggled to woo shoppers or raise prices despite an improving economy.

Since Mr. Loeb took a \$3.5 billion stake in the world's biggest packaged-foods maker, Mr. Schneider has moved to sell Nestlé's U.S. confectionery business, set a formal margin target and begin remaking about 10% of its portfolio. The company has made a string of acquisitions of high-growth businesses, including Blue Bottle coffee, vitamins maker Atrium Innovations and meal-delivery service Freshly. It also launched a big share-buyback program.

Despite such efforts, results for 2017 were disappointing. Organic growth, which strips out the effects of currency changes, acquisitions and divestments, measured 2.4%. That was below last year's pace of 3.2% and the weakest since at least the mid-1990s when Nestlé started tracking that indicator. Analysts had expected 2.6% growth.

Sales were weak at the end of 2017 when the global economy seemed to be perking up,

sparking fears about Nestlé's prospects for the new year.

Nestlé shares fell 2.1% on Thursday in Switzerland.

Nestlé's total sales were 89.8 billion Swiss francs (\$96.9 billion), up 0.4% from 2016 and roughly in line with analyst estimates. Net profit was 7.2 billion francs, down nearly 16% and well below expectations.

The results could pressure Nestlé to take more dramatic steps to improve performance. Mr. Loeb, who runs the hedge fund **Third Point** LLC, has called for Nestlé to sell its 23.29% stake in L'Oréal SA, saying the money could be used to buy back shares.

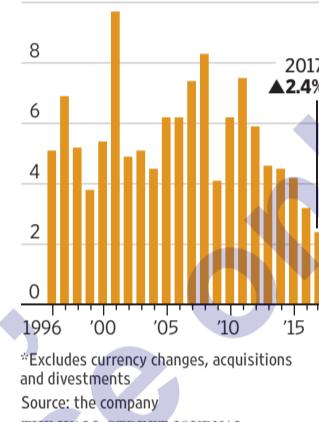
On Thursday, Nestlé said it remains committed to L'Oréal although it won't increase its stake. It is considering selling its Gerber Life Insurance business, which it inherited as part of its acquisition of Gerber from Novartis in 2007. The unit had sales of 840 million francs last year.

In an interview, Mr. Schneider said he thinks steps Nestlé is taking to increase sales—including making careful acqui-

### Fading Fast

Nestlé's sales have weakened in recent years as the company struggles to keep pace with changing consumer tastes.

#### Organic sales growth\*



\*Excludes currency changes, acquisitions and divestments

Source: the company

THE WALL STREET JOURNAL.

sitions and restructuring its skin-health business—will pay off over time. He said consumer sentiment in the U.S. appears to be improving and that inflation is picking up, both factors that could help Nestlé this year.

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## TECHNOLOGY

WSJ.com/Tech

# Publishers React Guardedly to Ad Blocker

Some sites removed intrusive formats, such as pop-ups, prior to Google's launch

BY BENJAMIN MULLIN

Publishers are greeting the launch of Google's ad blocker with a mixture of relief and unease, pleased that it is purging intrusive ads but worried over the internet giant's power to quickly overhaul the industry.

On Thursday, Google Chrome, the world's most popular web browser, began flagging advertising formats that fail to meet standards adopted by the Coalition for Better Ads, a group of advertising, tech and publishing companies, including Google, a unit of Alphabet Inc.

"I think getting those bad ads out of the ecosystem is better for the rest of us who are doing these things well, but it's worth discussing that one company has that much power over the internet and what gets monetized," said Neil Vogel, the chief executive of Dotdash, a digital publisher with sites about topics such as

health and wellness, home improvements and travel.

Sites with unacceptable ad formats—annoying ads like pop-ups, auto-playing video ads with sound and flashing animated ads—will receive a warning that they are in violation of the standards. If they haven't fixed the problem within 30 days, all of their ads—including ads that are compliant—will be blocked by the browser. That would be a blow for publishers, many of which rely on ad revenue.

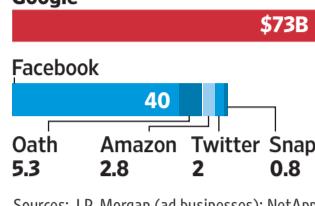
Last April, news of Google's planned ad blocker was met with apprehension from publishers, who worried that the technology would torpedo their ad-supported websites and services. Many of those fears have been assuaged. Several publishers were warned months in advance that their ads were in violation of the standards and have brought them up to snuff, including the Chicago Tribune, the Los Angeles Times, The Wrap and In Touch Weekly.

Less than 1% of the web's most-visited sites are set to have their ads blocked, Google said.

"We are committed to joining with publishers to improve the user experience online and

## Outsize Presence

Google's global online ad business is bigger than the next five biggest companies combined...



Sources: J.P. Morgan (ad businesses); NetApplications.com (browsers) \*2017, excludes China

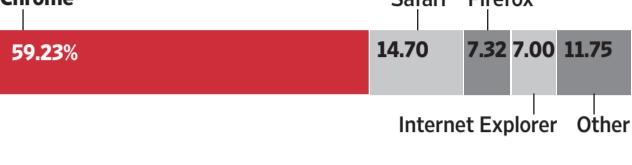
are encouraged by the hundreds of sites who have stopped using intrusive ads in the past few months," a Google spokeswoman said. "Our hope is that Chrome won't have to filter ads at all."

The decision to curtail junk ads is partly a defensive one for both Google and publishers. Third-party ad blockers are exploding, with as many as 615 million devices world-wide using them, according to some estimates.

Many publishers expressed optimism that eliminating annoying ads will reduce the need for third-party ad blockers, raise ad quality and boost the viability of digital advertising.

..While the Chrome browser is four times as popular as the nearest competitor.

Browser share for mobile and desktop, world-wide, January 2018



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we also felt we were wandering around in the dark a little bit and wondering why these things weren't okay."

While many publishers dislike intrusive ads, some advertisers like them, said Harry Kargman, chief executive at the mobile ad firm Kargo. Ads that take over the entirety of users' screens before other content has loaded, known as prestitial ads, are almost always viewed in their entirety by consumers. Prestitial ads with countdowns are banned under the new standards.

Because of the split in the industry, Google is uniquely positioned to address concerns over web advertising.

"Who serves the most ads?" said Jason Kint, chief executive of the trade group Digital Content Next. "Who has admitted to paying for the most popular ad block software? Where do most people search for and install ad block software? The answer to every question is Google. Of course, this makes the industry uncomfortable. The silver lining is that Google is also in the best position to fix their mess."

—Douglas MacMillan contributed to this article.

came aware that the entertainment site was in violation of ad standards developed by the coalition, said Alan Citron, the site's general manager.

Executives noticed a decline in the volume of readers the site was getting from search engines, and a consultant said ad clutter was partially to blame.

The site brought its ads up to the recommended standards, and the search traffic ultimately returned. Mr. Citron applauded the give-and-take between Google and publishers but noted that communication hasn't always been this clear.

"We felt good about doing it because it does create a better experience," he said. "But

## FCC Faces Inquiry on Media Ownership Rules

BY JOHN D. MCKINNON AND KEACH HAGEY

WASHINGTON—A federal inspector general has agreed to investigate actions by federal regulators that might benefit **Sinclair Broadcast Group** Inc. in its efforts to buy **Tribune Media** Co., according to a congressman who requested the probe.

The probe could further complicate the government's review of the \$3.9 billion Sinclair-Tribune deal, which has already run into delays over questions about how the merged company will comply with legal limits on local-station ownership.

Reps. Frank Pallone of New Jersey, the top Democrat on the House Commerce Committee, and Elijah Cummings of Maryland, the top Democrat on the House Oversight Committee, wrote to the inspector general of the Federal Communications Commission in November, requesting the investigation.

The lawmakers say they are concerned that FCC Chairman Ajit Pai might have improperly colluded with Sinclair by timing rule changes on media ownership to help smooth the way for its takeover of Tribune. Among those changes, the lawmakers say, were an alteration in the formula used to calculate market share, and an easing of limits on the number

of local stations that can be owned by the same group.

Mr. Pai's office said the charge of favoritism is "absurd," particularly given the agency's recent proposed \$13 million fine against Sinclair.

The inspector general's office didn't respond to requests for comment.

Sinclair's general counsel, Barry Faber, didn't respond to a request for comment. Sinclair has called the deal a transformational one that would make it into a leading national media platform.

The Wall Street Journal reported in December that Justice Department antitrust officials believed the Sinclair-Tribune deal raised competition concerns in some markets but signaled they were willing to approve the deal if the companies sold off about a dozen stations. Those generally were in markets where the combined company would own two of the top four stations.

The FCC eased that limit last year, although it didn't go as far as broadcasters wanted, and still would require a waiver for common ownership of two top-four stations in a single market. The government and Sinclair haven't yet reached an agreement.

The probe was first reported by the New York Times.

—Brent Kendall contributed to this article.



Public-safety officials have pressured tech giants such as Google and Apple to make their rich location data available to 911 operators.

## Google Tests Updated 911 System

BY RYAN KNUTSON

Google quietly ran a test of new technology to make it easier for 911 operators to locate cellphone callers, and 911 centers that participated said the results were promising.

The nation's existing 911 system, which turns 50 this month, has struggled with the explosion of cellphones. The vast majority of 911 calls these days are made using a cellphone, but the location of the caller is hard to pinpoint.

Federal regulators estimate shaving a minute off response times could save as many as 10,000 lives each year.

Google's test covered tens of thousands of 911 calls in several states during December and January. For a random sample of 911 callers using an Android smartphone, the devices' location data were sent directly to 911 call takers.

Normally, wireless carriers are responsible for delivering

location information, but the estimated location is usually less accurate than the blue dot consumers see on apps like Google Maps.

Public-safety officials have pressured tech giants like **Alphabet** Inc.'s Google and **Apple** Inc. to make their rich location data available to 911.

Google conducted its trial with two companies that have connections into 911 centers, **West Corp.** and a startup called **RapidsOS**. RapidsOS said its portion of the trial involved about 50 911 centers covering some 2.4 million people in Texas, Tennessee and Florida. Location data in more than 80% of the 911 calls using Google's technology were more accurate than the carrier data in the first 30 seconds of a call, according to RapidsOS.

Google's data provided an average location estimate radius of 121 feet, RapidsOS said, while carrier data averaged 522 feet. Carrier data

also took longer to reach 911 centers, the company said.

The companies and West Corp. are expected to discuss the trials at a 911 industry conference this week. West declined to comment.

911 directors that participated in the trial said the technology is a major improvement.

"There was a big difference," said Jennifer Estes, 911 director in Tennessee's Loudon County, about 30 miles southwest of Knoxville.

In one instance, dispatchers were able to send help to a caller who didn't speak English, Ms. Estes said. Without the accurate data, "we would have had to keep working with her to figure out where she was," she added. "In an emergency, obviously, seconds save lives."

Bob Finney III, director of communications for the Collier County Sheriff's Office in south Florida, said the pilot helped solve a different problem: People who are so flustered during an emergency that they inadvertently tell 911 operators the wrong location.

"We can validate what the caller is saying," Mr. Finney said. "We've never been able to do that because it's never been good enough."

The trial wasn't without hiccups. Emergency calls during the trial were supposed to include data from both wireless carriers and Google, but about 50,000 calls failed to include the carrier data, Google said. The glitch was identified by **AT&T** Inc., which was unaware the trial was going on, people familiar with the matter said, and Google modified its pilot after the problem was discovered.

Google's location technology is active in 14 countries, primarily in Europe. Google has said it hopes to deploy the technology across the U.S. this year. Apple, which has said it would activate similar technology in other countries, declined to comment about its plans for the U.S.

## BUSINESS WATCH

### BANYAN BIOMARKERS

#### FDA Clears Test For Concussions

The Food and Drug Administration has approved the first blood test to evaluate concussions, otherwise known as mild traumatic brain injuries, in patients after accidents, military wounds, sports collisions and other causes.

The test from **Banyan Biomarkers** Inc. could be useful in diagnosing brain injuries that lead to an estimated 2.5 million emergency-room visits each year.

Patients with likely head injuries are typically evaluated with cognitive assessments followed by a CT scan to look for damaged brain tissue.

The diagnostic tool measures proteins released from the brain within 12 hours of a head injury. The FDA said levels of these blood proteins can help predict which patients are likely to have intracranial lesions.

—Thomas M. Burton

### SEARS HOLDINGS

#### Tax Law Expected To Provide a Boost

**Sears Holdings** Corp. said in a regulatory filing Thursday that comparable-store sales fell 15.6% in its latest quarter, but that it expects recent U.S. tax-law changes to help it post a profit.

The company said comparable sales at Kmart stores fell 12.2%. At Sears Domestic stores, they fell 18.1%.

Sears Holdings expects revenue to be \$4.4 billion in the fourth quarter ended Feb. 3, a drop from the \$6.1 billion in revenue generated in the same quarter a year ago.

The company expects profit to be between \$140 million and \$240 million. Because of the new tax law, the company expects a benefit somewhere between \$445 million and \$495 million. A year ago, the company lost \$607 million.

—Allison Prang

### ROCHE HOLDING

#### Drugmaker to Buy Rest of Flatiron

Pharmaceutical firm **Roche Holding** AG has agreed to buy the shares it doesn't already own of **Flatiron Health** Inc., an oncology software company, for \$1.9 billion, the companies said.

Switzerland-based Roche said the deal is part of an effort to accelerate its development and delivery of medicines for cancer patients. Roche already owns 12.6% of New York City-based Flatiron Health, which was launched in 2012. The deal is expected to close in the first half of 2018.

—Aisha Al-Muslim



Sears expects a fourth-quarter profit after tax-law changes.

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## BUSINESS NEWS

# Program to Aid Manufacturers Faces Cut

Trump budget would eliminate \$125 million in funding to support small businesses

BY ANDREW TANGEL

President Donald Trump's proposed budget calls for eliminating federal funding of a program to support small manufacturers that officials say created or protected more than 100,000 jobs in the last fiscal year alone.

The proposed \$125 million cut would slash budgets for 51 local offices affiliated with the Manufacturing Extension Partnership for fiscal 2019.

Local officials involved with the program worry the elimination of federal funding would imperil their work assisting smaller manufacturers with business planning, employee training and cybersecurity protection.

"If we lose our federal funding, we close our doors—it's that simple," Scott Broughton, director of the Advantage Kentucky Alliance, said this week between visits to manufacturers in the Hazard, Ky., area.

About half of the not-for-profit group's \$1.2 million

budget this year is expected to come from client fees, Mr. Broughton said.

The Trump administration says the program, founded in 1988, was intended to eventually operate without federal subsidies. Funding requires local matching money, such as from state governments or from fees from manufacturing clients.

U.S. Commerce Secretary Wilbur Ross said the president's budget prioritizes national defense, economic growth and fiscal responsibility, and noted his department wants to maintain funding for a separate program aimed at manufacturing research and development.

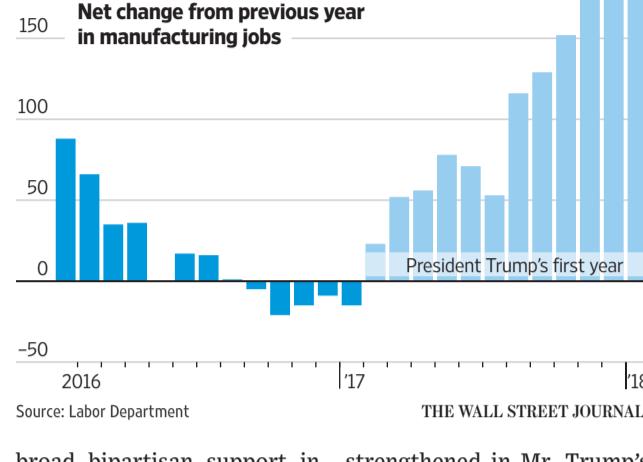
"With President Trump in charge, there has been no better time to build things right here in America, and things will only get better from here," Mr. Ross said in a statement Wednesday. "The president's policies, from tax cuts, to deregulation, to trade, are reviving American manufacturing across our nation."

The cut to the manufacturing extension program might not last in the president's budget proposal. A former Commerce Department official said the program has typically had

## Hiring More Hands

While manufacturing jobs were added during President Trump's first year in office, his proposed budget calls for cutting federal funding to a program that supports small- and medium-size manufacturers.

200 thousand jobs



Source: Labor Department

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broad bipartisan support in Congress.

U.S. Sen. Richard Shelby (R., Ala.), for example, has supported full funding for the program as an appropriations subcommittee chairman, a spokesman said, adding: "It is not likely that he will support the president's proposal to end federal funding for the program."

U.S. manufacturing has

strengthened in Mr. Trump's presidency. As companies boosted sales and output, workers benefited as well: Manufacturers added 186,000 jobs from January 2017 to January 2018, compared with a loss of 15,000 jobs in the year before Mr. Trump took office, according to government data.

Manufacturers credit local extension offices with providing them advice and services



The extension program enjoys considerable support on Capitol Hill.

TY WRIGHT/BLOOMBERG NEWS

they couldn't afford from the private sector.

"In my experience [the extension program] has been tremendously beneficial to local manufacturers, and generally speaking the administration has seemed to be very much pro-business and very much pro-manufacturing," said David VanVoorhis, chief executive of **Precision Molded Plastics** Inc., a Los Angeles-

area maker of parts for aerospace, medical and other industries.

Mr. VanVoorhis said his firm might not have survived the recession between 2007 and 2009 without free training from California's extension office that helped him improve quality, boost efficiency and lower prices.

—Bob Tita contributed to this article.

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## Trucking Rates Ease Up for Now

BY JENNIFER SMITH

Manufacturers and retailers are enjoying a breather from soaring trucking costs, but many shippers say lingering problems in booking big rigs point to more turmoil ahead.

Rates on the spot market, where companies book last-minute transportation, have come down from record highs hit last month amid a nationwide shortage of available trucks. Shippers have postponed deliveries that aren't urgent or are moving more cargo by rail, reducing pressure on trucking fleets struggling to hire drivers.

But many shippers and trucking companies warn that the lull may not last, for a number of reasons. The strong economy is boosting freight demand. Produce distributors typically hire more trucks starting this month to move crops from Mexico and Southern states to grocery stores around the country. Full enforcement begins in April for a new federal safety rule that requires truckers to electronically log hours behind the wheel, potentially removing some big rigs from the road.

Last week, the average spot rate for the most common type of big rig was \$2.17 per mile, down from \$2.26 in January, though still up a third from a year ago, according to online freight marketplace DAT Solu-



Many shippers expect transportation costs to pick up again as the U.S. economy hums along.

tions LLC. Capacity remains tight, with demand measuring at about seven loads per available truck for the week ending Feb. 10, compared with 2.4 loads per truck in the same period in 2017, according to DAT.

**Heartland Express** Inc., a large trucking company based in North Liberty, Iowa, has been turning down an average 10,000 loads a week from shippers like **Walmart** Inc. and Lowe's Cos. The turndown rate was about 500 loads a week at the start of 2017.

"We'd love to haul them but we don't have any drivers," Heartland Chief Executive Michael Gerdin said. Carriers often have trouble recruiting drivers, particularly for long-

haul trucking where drivers might spend weeks out on the road. And the tight labor market has compounded the problem, with some drivers leaving for construction or energy jobs that pay better or offer more time at home.

Higher freight costs are weighing on corporate profits and raising prices for consumers. On Thursday, wholesaler **US Foods Holding** Corp. said the shortage of available trucks hurt its fourth-quarter profits, and it will attempt to pass along those costs to its restaurant and food-service customers in the coming months. Last week, **Tyson Foods** Inc. said rising freight costs will help push meat prices higher at the

supermarket.

Tight capacity is giving trucking firms the upper hand in negotiations over long-term freight contracts. Contract rates are expected to rise as much as 10% in 2018. Some of the increases will go toward raising drivers' pay and recruiting new operators, analysts say.

Some shippers are moving freight over to rail, benefiting carriers that offer intermodal service to manage transportation on both road and rail. The number of truck trailers moved by rail in January rose 10% from a year earlier, according to the Association of American Railroads.

—Heather Haddon contributed to this article.

## Amtrak Pushes Safety Plan

BY TED MANN

WASHINGTON — **Amtrak** threatened to suspend operations on some tracks it uses outside the Northeast Corridor if the track owners don't meet a year-end federal deadline to install crash-prevention systems.

In testimony before a House subcommittee hearing on delays in installing the systems, Amtrak Chief Executive Richard Anderson said Thursday that the railroad will meet the December deadline to have so-called positive train control, or PTC, operating on the tracks and trains it owns.

Other railroads are expected to seek extensions of the federal deadline until as late as 2020, including freight operations whose rails Amtrak uses outside the Northeast and passenger systems that share parts of the Northeast Corridor with Amtrak.

In some of those cases, Mr. Anderson said, Amtrak will suspend train operations over sections of track controlled by railroads that don't meet the federal deadline.

"We have a question about whether we're going to operate at all" in those territories, he said, "and I doubt we will."

The railroad didn't specify which routes might be affected.

Amtrak owns and operates most of the Northeast Corridor, where PTC is already installed

and running. It also owns some other stretches of its national networks, including in Michigan. But on longer rural routes, Amtrak runs over tracks owned by an assortment of entities.

Amtrak will negotiate with Federal Railroad Administration officials and some commuter systems about how to handle train traffic that won't have the system running on their locomotives by the 2018 deadline, Mr. Anderson said.

*The railroad may suspend use of some tracks that fail to install the new system.*

"It is going to be very difficult for us to allow anybody to operate on railroad we host without PTC," he told the House Transportation and Infrastructure subcommittee.

Some major commuter railroads that run over Amtrak-owned rails, including NJ Transit, are expected to seek extensions of the 2018 deadline. Asked in late January whether New Jersey could meet the deadline, the state transportation commissioner said: "Nobody can say that right now."

The federal government mandated in 2008 that all passenger railroads and large

freight railroads have PTC in operation by the end of 2015. PTC systems use signals embedded along tracks and on board trains to continuously monitor the speed and location of all trains on a network, empowering computer systems to automatically slow or stop a train to prevent an accident.

In 2015, freight and passenger railroads secured an extension of the federal deadline to the end of 2018, with provision for extensions through as late as December 2020. But safety advocates, including the National Transportation Safety Board, say the failure to put the systems into operation ensures that train crashes caused by human error will continue.

Two recent deadly Amtrak crashes—an over-speed derailment in Washington state and the collision of an Amtrak train and a parked freight train in South Carolina—would have been prevented by PTC, the NTSB says.

In his testimony, Mr. Anderson said that many railroads whose tracks Amtrak uses outside the Northeast were expected to seek extensions from the FRA. "The question we must ask ourselves is whether we continue to operate over such routes until PTC is turned on," he said. "And if so, what additional safety protections are appropriate to reduce risks?"

—Paul Berger contributed to this article.

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	Contract						Open interest
	Open	High	Low	Settle	Chg	Open	
Copper-High (CMX)-25,000 lbs.; \$ per lb.	3.2195	3.2395	3.2150	3.2390	0.0105	.781	
Feb							
May	3.2535	3.2675	3.2310	3.2645	0.0105	.87191	
Gold (CMX)-100 troy oz.; \$ per troy oz.	1352.00	1355.90	1349.70	1352.10	-3.40	1.140	
April	1353.00	1359.80	1350.80	1355.30	-2.70	368,487	
June	1357.80	1365.00	1356.30	1360.70	-2.40	82,729	
Aug	1363.20	1369.50	1361.80	1366.10	-2.10	23,586	
Oct	1370.50	1373.00	1369.50	1371.50	-2.00	5,760	
Dec	1377.60	1381.40	1373.00	1377.30	-1.90	34,835	
Palladium (NYM)-50 troy oz.; \$ per troy oz.	996.30	1015.65	996.05	1006.65	9.35	18,187	
March							
June	993.50	1012.00	993.05	1003.70	9.50	9,938	
Sept	1001.00	1001.00	1001.00	997.70	9.45	522	
Platinum (NYM)-50 troy oz.; \$ per troy oz.	998.60	1009.70	996.50	1001.00	2.00	77,758	
Silver (CMX)-5,000 troy oz.; \$ per troy oz.	16.830	16.950	16.605	16.796	-0.082	87,303	
Feb							
March	16.777	16.777	-0.081	254			
Crude Oil, Light Sweet (NYM)-1,000 bbls.; \$ per bbl.	60.71	61.64	59.72	61.34	0.74	117,676	
April	60.55	61.46	59.59	61.17	0.66	481,127	
May	60.33	61.16	59.32	60.78	1.55	253,677	
June	59.92	60.77	58.93	60.28	0.36	277,977	
July	59.45	60.24	58.49	59.73	0.25	156,336	
Dec	57.29	57.93	56.22	57.27	0.02	240,707	
NY Harbor UlSD (NYM)-42,000 gal.; \$ per gal.	1.8870	1.9039	1.8549	1.8916	.0072	74,764	
April	1.8853	1.9021	1.8541	1.8886	.0063	111,280	
Gasoline-NY RBOB (NYM)-42,000 gal.; \$ per gal.	1.7128	1.7431	1.6991	1.7358	.0228	69,721	
March							
April	1.8955	1.9219	1.8788	1.9143	.0183	129,722	
Natural Gas (NYM)-10,000 MMBtu's; \$ per MMBtu.	2.613	2.623	2.530	2.580	-0.07	127,197	
April	2.646	2.661	2.580	2.620	-0.010	268,098	
May	2.671	2.685	2.610	2.651	-0.020	201,959	
June	2.709	2.721	2.650	2.689	-0.007	78,005	
July	2.752	2.759	2.695	2.732	-0.007	97,982	
Oct	2.758	2.760	2.705	2.743	-0.007	115,122	

## Agriculture Futures

	Contract						Open interest
	Open	High	Low	Settle	Chg	Open	
Corn (CBT)-5,000 bu.; cents per bu.	367.00	368.75	365.50	367.75	.50	461,346	
March							
May	374.25	376.00	373.00	375.50	.75	490,736	
Oats (CBT)-5,000 bu.; cents per bu.	266.25	269.00	264.00	268.50	2.75	1,616	
March							
May	266.50	271.00	265.50	270.50	4.00	3,885	
Soybeans (CBT)-5,000 bu.; cents per bu.	1016.50	1024.75	1015.50	1024.25	7.00	205,167	
March							
May	1027.00	1035.50	1026.25	1035.00	7.25	250,227	
Soybean Meal (CBT)-100 tons; \$ per ton.	369.30	374.90	368.00	373.70	3.80	98,350	
March							
May	370.90	376.00	370.30	375.50	3.70	189,440	
Soybean Oil (CBT)-60,000 lbs.; cents per lb.	31.80	31.97	31.60	31.70	-.10	110,034	
March							
May	32.10	32.18	31.80	31.90	-.11	203,804	
Rough Rice (CBT)-2,000 cwt.; \$ per cwt.	120.00	122.00	119.95	119.50	-.30	5,201	
March							
May	124.50	124.50	121.80	121.80	-.30	3,063	
Wheat (CBT)-5,000 bu.; cents per bu.	455.75	463.50	452.25	461.75	6.00	127,431	
March							
May	469.25	476.75	465.50	475.25	6.00	181,428	
Wheat (KC)-5,000 bu.; cents per bu.	469.75	480.25	468.25	478.00	8.25	61,726	
March							
May	485.00	494.75	483.00	493.00	8.50	108,261	
Wheat (MPLS)-5,000 bu.; cents per bu.	601.00	610.00	600.50	608.50	8.25	20,579	
March							
May	613.00	620.25	612.50	618.75	6.25	21,719	
Cattle-Feeder (CME)-50,000 lbs.; cents per lb.	148.275	150.125	147.975	149.825	1.650	20,601	
March							
April	150.650	152.425	150.450	152.300	1.875	13,982	
Cattle-Live (CME)-40,000 lbs.; cents per lb.	127.875	129.425	127.525	129.275	1.625	13,376	
March							
April	125.450	127.425	125.250	127.250	2.025	148,233	
Hogs-Lean (CME)-40,000 lbs.; cents per lb.	70.725	71.250	69.625	69.725	-.925	94,286	
March							
April	70.725	71.250	69.625	69.725	-.925	94,286	
Lumber (CME)-11,000 bd.ft.; \$ per 1,000 bd.ft.	504.30	509.20	500.00	500.70	.10	4,486	
March							
May	497.00	505.00	495.00	496.60	1.50	2,548	
Milk (CME)-200,000 lbs.; cents per lb.	13.46	13.49	13.45	13.46	-.02	3,241	
Feb							
March	14.08	14.25	13.97	14.04	.07	4,788	

## Interest Rate Futures

	Contract						Open interest
	Open	High	hilo	Low	Settle	Chg	
Cocoa (ICE-US)-10 metric tons; \$ per ton.	2,098	2,139	2,077	2,137	82	.963	
March							
May	2,108	2,144	2,094	2,134	50	132,010	
Coffee (ICE-US)-37,500 lbs.; cents per lb.	122.70	123.40	121.45	121.75	-.105	23,126	
March							
May	125.10	125.70	123.80	124.15	-.95	123,656	
Sugar (World) (ICE-US)-112,000 lbs.; cents per lb.	13.48	13.76					

## BIGGEST 1,000 STOCKS

WSJ.com/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), Chicago 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.

Thursday, February 15, 2018

Stock	Net Sym Close Chg	Stock	Net Sym Close Chg
A B C			
ABB ABB 25.47 0.60		Biogen BIIB 299.38 1.30	
AES AES 10.52 0.25		Danaher DHR 97.47 1.37	
Aflac AFL 88.41 0.77		Darden DR 97.69 2.08	
AGNC Inv AGNC 19.25 0.38		DaVita DVA 73.84 -0.91	
ANGI Homesvc ANGI 13.84 -0.35		DE DE 166.81 1.31	
Ansys ANSS 162.41 4.71		DeltaTechs DMT 69.03 -0.84	
ASML ASML 194.90 3.56		DeltaTechs DAL 52.95 0.75	
AT&T T 37.00 0.59		Deere DE 48.05 0.75	
AbbottLabs ABT 59.50 1.22		DevonEnergy DVN 34.74 -0.21	
AbbVie ABBV 114.90 1.82		Diageo DEO 140.36 1.82	
Abiomed ABMD 261.04 5.57		DR Horton DHI 45.11 -0.31	
Accenture ACN 16.01 1.27		EastmanChem DEB 16.11 -0.19	
ActvisionBliz ATVI 71.99 2.34		EdisonEquity DPE 10.25 0.04	
AcityBrands AYI 153.49 1.82		EdisonEquity DPE 10.25 0.04	
Adient ADNT 63.44 -0.24		EdisonEquity DPE 10.25 0.04	
AdobeSystems ADO 202.97 5.84		EdisonEquity DPE 10.25 0.04	
AdvanceAuto AAB 108.78 -0.24		EdisonEquity DPE 10.25 0.04	
AdvMicroDevices AMD 12.19 -0.01		EdisonEquity DPE 10.25 0.04	
AdvSemEngg AEG 6.89 0.07		EdisonEquity DPE 10.25 0.04	
Aegon AEG 6.91 0.15		EdisonEquity DPE 10.25 0.04	
AerCap AER 5.19 -0.70		EdisonEquity DPE 10.25 0.04	
Aetna AET 177.17 0.40		EdisonEquity DPE 10.25 0.04	
AffiliatedMtrs AMG 190.29 0.84		EdisonEquity DPE 10.25 0.04	
AgilentTechs AJ 72.02 2.32		EdisonEquity DPE 10.25 0.04	
AgnicoEagle AEM 45.10 -0.39		EdisonEquity DPE 10.25 0.04	
AirProducts APD 163.60 2.33		EdisonEquity DPE 10.25 0.04	
AkamatiTech AKAM 67.40 0.53		EdisonEquity DPE 10.25 0.04	
AlaskaAir ALK 66.17 -0.59		EdisonEquity DPE 10.25 0.04	
Albermarle ALB 16.91 2.89		EdisonEquity DPE 10.25 0.04	
Alcos AA 47.57 -0.97		EdisonEquity DPE 10.25 0.04	
AlexandriaRest ALR 12.74 1.68		EdisonEquity DPE 10.25 0.04	
AlexionPharm ALXN 12.27 -0.49		EdisonEquity DPE 10.25 0.04	
Alibaba BABA 187.45 0.69		EdisonEquity DPE 10.25 0.04	
Alintech ALGN 257.63 4.43		EdisonEquity DPE 10.25 0.04	
Alkermes ALKS 63.75 4.46		EdisonEquity DPE 10.25 0.04	
Alleghany Y 58.95 1.49		EdisonEquity DPE 10.25 0.04	
Allegion ALLE 82.22 2.29		EdisonEquity DPE 10.25 0.04	
Allergan AGN 164.47 -2.16		EdisonEquity DPE 10.25 0.04	
AllianceData ADD 40.65 -9.40		EdisonEquity DPE 10.25 0.04	
AlliantEnergy LNT 39.05 0.94		EdisonEquity DPE 10.25 0.04	
AllisonTransm ALSN 40.38 -1.87		EdisonEquity DPE 10.25 0.04	
Allstate ALL 94.52 -0.51		EdisonEquity DPE 10.25 0.04	
AllyFinancial ALY 28.73 0.24		EdisonEquity DPE 10.25 0.04	
AlynlamPharm ALN 121.74 1.76		EdisonEquity DPE 10.25 0.04	
Alphabe A GOOGL 101.86 13.66		EdisonEquity DPE 10.25 0.04	
Alphabe A GOOG 108.92 19.82		EdisonEquity DPE 10.25 0.04	
Altaba AABA 74.41 0.74		EdisonEquity DPE 10.25 0.04	
AlticeUSA ATUS 20.29 0.29		EdisonEquity DPE 10.25 0.04	
Altis MO 65.32 0.14		EdisonEquity DPE 10.25 0.04	
AlumofChina ACH 15.80 0.30		EdisonEquity DPE 10.25 0.04	
Amazon.com AMZN 1461.76 10.71		EdisonEquity DPE 10.25 0.04	
Ambev ABEV 6.88 0.01		EdisonEquity DPE 10.25 0.04	
Amdocs DOX 66.81 0.89		EdisonEquity DPE 10.25 0.04	
Americo UHAL 349.33 6.17		EdisonEquity DPE 10.25 0.04	
Ameren AEE 56.26 1.58		EdisonEquity DPE 10.25 0.04	
AmericaMovil AMV 19.36 0.76		EdisonEquity DPE 10.25 0.04	
AlibabaB BABA 187.45 0.69		EdisonEquity DPE 10.25 0.04	
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AlibabaB BABA 187.45 0.69		EdisonEquity DPE 10.25 0.04	
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Alkermes ALKS 63.75 4.46		EdisonEquity DPE 10.25 0.04	
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Altaba AABA 74.41 0.74		EdisonEquity DPE 10.25 0.04	
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## BANKING &amp; FINANCE

# Chinese Banks Push Back Against Beijing

New rules seek to curb practice of moving loans off their books, a tactic seen as risky

BY CHAO DENG  
AND LINGLING WEI

BEIJING—Chinese regulators and commercial banks are butting heads over new rules Beijing is rolling out to tackle off-the-books lending that is compounding China's debt woes.

The regulations on asset management, expected to be adopted in coming months, increase the capital financial institutions must set aside and thereby aim to untangle the relationship between banks and nonbank lenders known as shadow banks that the government sees as laden with risk.

Particularly targeted are practices banks use to move loans off their books by re-packaging them as investments. Banks transfer the loans—mostly corporate and local government borrowings—to brokerages and other types of shadow lenders, which then peddle the rebounded investments to investors. Such maneuvers accounted for \$3.5 trillion in off-balance-sheet lending as of last year.

Regulators have called such tactics a pressing financial risk and pointed to midsize lender **China Guangfa Bank** as exhibit A. Guangfa was hit with a 722 million yuan (\$113.7 million) fine last year, the

## Squeeze Play

Chinese banks are easing back on selling high-yielding investment products ahead of a tightening of the rules.

### Outstanding amount of bank wealth-management products



THE WALL STREET JOURNAL.

largest ever by the banking regulator, over its handling of several billion yuan in loans to an electronics maker. When the company couldn't pay, Guangfa worked with shadow banks to turn the bad loans into high-yielding investments and then sell them to investors.

When the regulations go into force, banks will likely have to roll back lending or raise new money to bolster their capital cushions, hurting profits and possibly growth in the world's second-largest economy.

Unhappy at the prospect, banks are pushing back. Ten lenders, among them **China Merchants Bank** Co. and **China Citic Bank** Corp., argued in a position paper in

late November that was leaked to local media—and which was reviewed by The Wall Street Journal—that forcing banks to unwind these investment products could touch off volatility, unintended defaults and even bank runs, as customers rush to redeem investments.

They are asking for a reprieve from the 1½-year timetable regulators have set for full compliance and want it extended to three years, a period during which many of the off-balance-sheet investment products will expire.

"The regulator wants to break a cycle," said Nicholas Zhu, an analyst at Moody's Investors Service.

The new rules are seen by the government and analysts as an important instrument



Shanghai Pudong Development Bank was fined for using some products to hide bad debt.

IMAGINECHINA/ZUMA PRESS

for reducing debt levels that have climbed to an estimated more than 260% of the economy by the end of 2017. Banks set aside little or no provision for off-the-book lending, analysts said.

Beijing's strategy appears to be working. New loans issued by banks in January swelled 43% from a year earlier, while overall credit growth stalled, a shift economists and analysts attributed to banks bringing loans back on the books.

The squeeze is supposed to crimp offerings of wealth-management products, which became popular in the corporate borrowing binges of the past decade. These borrowings were bundled together and sold by banks to investors

with offers of high yields and often guaranteed returns and then resold to shadow banks.

The outstanding amount of these products stood at 29.5 trillion yuan as of the end of 2017, according to the latest official data. About 75% of them don't have returns guaranteed by banks and are held off balance sheet, according to analysts. Moody's Mr. Zhu estimates that the banks might end up having to wind down about five trillion yuan from their investment portfolios.

In the case of Guangfa Bank, regulators found that as **Cosun Group** couldn't repay its yuan loans, the bank issued guarantees on investments stuffed with the bad loan so many outside firms could sell them to individual investors.

When Cosun didn't repay, the firms turned to Guangfa only to find the guarantee paperwork was fake, the regulators said. The new rules make it harder for banks and shadow banks to coordinate lending.

**Shanghai Pudong Development Bank** Co., one of the lenders that issued the position paper, got hit this month with a 462 million yuan fine after regulators determined a single branch used its wealth-management and other businesses to cover up bad debt.

Shanghai Pudong said it is "deeply guilty" about the case, which exposed "loopholes and deficiencies" in internal controls. Guangfa declined to comment.

—Grace Zhu contributed to this article.

# GOP Senators Pan Plan for Futures User Fees

BY GABRIEL T. RUBIN

WASHINGTON—Senate Republicans criticized the Trump administration's proposal to impose fees on the futures industry to fund the top U.S. derivatives regulator, which has requested a bigger budget.

User fees have also been opposed by the industry and the leaders of the regulator, the Commodity Futures Trading Commission, meaning the plan stands little chance of becoming reality.

By floating the idea of funding the CFTC partly with user fees, the Trump administration has acknowledged the regulator's plea for more funds, but without shifting money from elsewhere in the government's budget to the CFTC.

The impasse suggests the agency could see its funding remain flat for a fifth consecutive year, though Republicans at a Senate hearing on Thursday showed some willingness to consider higher funding levels for the CFTC, citing its need for funds to support more data analysis and market surveillance.

User fees are "a tax on farmers and ranchers who depend on you to make sure their risk-management strategy is protected," Senate Agriculture Committee Chairman Pat Roberts (R., Kan.) told CFTC Chairman J. Christopher Giancarlo at the hearing.

This year's White House budget includes those additional funds, but relies on industry levies to produce them.



ANDREW HARRER/BLOOMBERG NEWS

The CFTC's Mr. Giancarlo says Congress will decide where money for the agency comes from.

"I very much oppose user fees," said Sen. John Boozman

(R., Ark.), though he seemed sympathetic to Mr. Giancarlo's request for more funding. "I think I can speak for the Appropriations Committee," he added. "We're trying to address that."

Mr. Giancarlo has long opposed fees on individual derivatives trades, which he has said can hurt market liquidity by making trading less appealing. The fees proposed by the White House target other ac-

tivities, including registering products and reimbursing regulators for examinations and supervision—but these would likely be passed on to investors and end users in the form of higher fees to participate on futures exchanges.

CME Group Inc., which runs the U.S.'s largest futures exchange, opposes using fees to fund the CFTC.

Not wanting to get stuck in the middle between the White

House and Congress, Mr. Giancarlo demurred Thursday when asked about the administration's budget.

"My position is the agency needs \$281.5 million, and Congress will decide where that money comes from," he told reporters after the hearing.

Republicans' new openness to consider higher funding for the agency comes in the wake of a two-year budget agreement last week, which didn't directly address CFTC funding.

It also comes as Congress has taken an interest in financial regulators' approach to cryptocurrency regulation, exploring whether more resources might be necessary for the CFTC to keep up with rapid developments in the opaque and unregulated spot markets.

Mr. Giancarlo pushed back on senators who suggested that the CFTC might be the appropriate agency to regulate underlying cryptocurrency spot exchanges.

The CFTC has labeled bitcoin a commodity, but as with other commodities, the agency mostly lacks jurisdiction over the primary market: It regulates corn futures contracts but not the buying and selling of corn itself, for instance.

"We are not an agency that traditionally regulates spot exchanges," he said. "It would be a very significant change for us."

Still, Mr. Giancarlo said that the decision to leave underlying cryptocurrency markets unregulated was a "policy choice we're going to have to face in the months and years to come."

# HEARD

Continued from page B1  
tions, or CLOs, and listed business development companies, or BDCs.

Private-credit funds run by major specialists like **Alcentra Capital** or **Hayfin Capital Management**, as well as the big private-equity firms, had nearly \$650 billion in assets under management globally as of June, three times more than in 2007, according to research firm Prequin. Retail loan funds manage about \$100 billion. CLOs and BDCs add billions more.

Investors like loans because they have floating interest rates, unlike bonds, which have fixed rates. That means loan investors don't lose out when interest rates rise. But that can be bad for borrowers, who are hit by higher debt costs, especially if rates rise sharply.

Private equity's involvement in private debt can make things awkward if a company gets into trouble and a firm's credit and equity teams are on opposite sides of a workout. Industry executives say their credit funds are never the lead lender to their own companies.

That should allow their credit funds to take a back seat to the biggest lenders in any talks and avoid conflicts of interest. But their investors may still end up unhappy with the outcome.

Apollo will buy the debt of companies it owns if they get into trouble, but uses the same fund that holds the equity. That avoids internal conflicts, but can provoke fights with others. Its ultimately profitable restructuring of **Realogy Holdings**, a U.S. real-estate broker, for example, involved legal battles with other lenders.

Other firms invest separately. Blackstone's credit funds don't lend to its deals, but its CLOs can buy the loans of its companies. **Carlyle Group** allows its credit funds to take about 10% of its portfolio companies' debt, while KKR allows up to 30%. The firms say their credit funds aren't forced to buy debt if they don't like the terms, nor do they influence the pricing to make the debt more advantageous for their equity funds.

The big firms' private credit businesses are clearly adding to the volume of money chasing deals. As the market heats up, this approach means they risk losing on the credit and equity side after the next buyout bubble.

# Regulator Targets Firms With Dual-Class Shares

BY DAVE MICHAELS

About 16% of companies that have gone public on U.S. exchanges since 2013 had at least two classes of stock, according to data provider Dealogic.

Many technology companies have structured their initial public offerings with dual-class stock in recent years to give founders a viselike grip on the business. **Snap Inc.**, for instance, gave new shareholders no voting rights whatsoever when it went public last year.

The founders of the Snapchat parent, Evan Spiegel and Robert Murphy, control the company through class C shares that give them 10 votes per share. The stock loses its super-voting power only nine months after their deaths, according to Snap's corporate charter.

Class B shares held by Facebook founder Mark Zuckerberg, which grant him 10 votes per share, convert to common, one-vote shares three years after his death or—under more complex circumstances—if he

resigns, according to Facebook's corporate charter.

Such outsize voting power gives controlling shareholders dominance over all decisions, ranging from the election of directors to whether to sell the company someday.

**News Corp.**, the owner of

*An SEC commissioner says the share structure should be phased out after a period of time.*

The Wall Street Journal's parent, Dow Jones & Co., has two classes of shares, which allow Rupert Murdoch and his family to maintain greater influence over the media company.

An investor backlash against Snap's deal prompted the keepers of the S&P 500 to say they would block newcom-

ers with multiple classes of stock from joining their flagship index. Barring those companies from prominent indexes could reduce demand for their stock from increasingly popular index funds.

Dual-class stock may benefit investors early in a company's life, when the visionary who launched it needs freedom to build the business without outside pressure from stockholders, said Mr. Jackson, who didn't call for banning the practice outright. But that benefit wanes over time, he said.

His staff's analysis showed that firms with never-ending dual-class stock trade at a discount to ones that retire the structure later in the company's life.

The solution isn't banning companies with dual-class stock from the major indexes, as S&P did, Mr. Jackson said. That would hurt Main Street investors who invest through passive funds and stand to

miss out on those companies' growth, he said.

Instead, his first speech since joining the SEC stated, U.S. stock exchanges should force companies to retire their dual-class share structure after a period of time.

He declined to say how quickly that should happen, saying other critics have proposed ideas.

"By giving investors more say in the governance of their companies, we can help protect them from managers who would misuse dual-class to extract value rather than build it," he said.

Exchanges, while regulated by the SEC, don't have to follow the recommendations of a single commissioner.

Democratic SEC Commissioner Kara Stein also criticized dual-class shares in a speech this week, saying they disrupt the relationship that should exist between companies and shareholders.

## MARKETS

# Treasurys Rise After Price Data Calm Fears

BY DANIEL KRUGER

U.S. government bonds advanced on Thursday, pulling yields back from multiyear highs.

The yield on the benchmark 10-year

**CREDIT MARKETS** U.S. Treasury note fell to

2.893%, from

2.913% on

Wednesday, which marked its highest close since Jan. 9, 2014. Yields fall as bond prices rise.

The 10-year Treasury yield reached as high as 2.941% in European trading, according to Tradeweb, before investors bought bonds following a report that showed wholesale prices rose in January.

The producer-price index, a measure of the prices businesses charge for their goods and services, rose a seasonally adjusted 0.4% in January from a month earlier, the Labor Department said Thursday.

Producer prices advanced 2.7% last month from a year earlier.

Inflation poses a threat to the value of government bonds because it chips away at the purchasing power of their fixed payments and can spur the Federal Reserve to raise interest rates. But some analysts said the data, which came a day after the consumer-price index rose more than analysts expected, suggested inflation was picking up at a manageable pace and yields have climbed high enough to attract buyers.

"There isn't fear in the market yet that we're going to have a big spike in inflation," said Larry Milstein, head of government and agency trading at R.W. Pressprich & Co.

Though recent signs show price pressure is mounting, the Fed's preferred inflation measure, the Commerce Department's personal-consumption expenditures price index, has undershot the central bank's 2% target for annual inflation in 66 of the past 68 months.

## AUCTION RESULTS

Here are the results of Thursday's Treasury auction. All bids are awarded at a single price to the market-clearing yield. Rates are determined by the difference between that price and the face value.

## 30-YEAR TIPS

Applications \$17,853,359,600

Accepted bids \$8,706,576,400

\*noncompetitively \$23,681,800

Auction price (rate) 99.895379

(1.003%)

Interest rate 1.000%

Bids at clearing yield accepted 42.76%

Cusip number 912810585

The Treasury inflation-protected securities, dated Feb. 28, 2018, mature on Feb. 15, 2048.

# Oil Advances After Paring Early Losses

BY ALISON SIDER  
AND CHRISTOPHER ALESSI

U.S. oil prices reversed losses to settle at a one-week high, boosted by a softer dollar and signals that OPEC is committed to cutting supplies even as U.S. production surges.

Prices for U.S. crude gained 74 cents, or 1.2%, to settle at \$61.34 a barrel on the New York Mercantile Exchange on Thursday. Brent, the global benchmark, edged down 3 cents, to \$64.33 a barrel on ICE Futures Europe.

Both benchmarks are still below the three-year highs they hit in January amid market jitters over rising U.S. inventories and production. But U.S. prices are up more than 3.6% over the past two days.

"We may have defined the bottom end of the trading range on the correction," said Michael Hiley, head of over-the-counter energy trading at LPS Futures LLC. "It gives the long [investors] more comfort to build their position back," he said.

Saudi Arabia's energy minister said Wednesday that the Organization of the Petroleum Exporting Countries was committed to maintaining curbs on crude production through the end of this year. Still, signs of mounting U.S. shale output have wiped away most of oil's gains this year and weighed on prices earlier Thursday.

# Dow Jumps 1.2%, Extending Rally

Stocks tally biggest five-day percentage rises since 2011; 10 of 11 S&P sectors gain

BY GEORGI KANTCHEV  
AND CORRIE DRIEBUSCH

U.S. stocks extended their rebound Thursday in a broad rally as 10 of the S&P 500's 11 sectors recorded gains.

The S&P 500 and the Dow Jones Industrial Average have rallied for

**THURSDAY'S MARKETS** five consecutive sessions since falling

last week into correction territory—a 10% drop from their Jan. 26 highs. The indexes have notched their largest five-day percentage increases since December 2011, up 5.8% and 5.6%, respectively, over that period.

Many investors and analysts have pointed to strengthening fundamentals—such as corporate earnings and economic growth—as reasons for the rebound. But they also express concerns about stocks racing back to record highs.

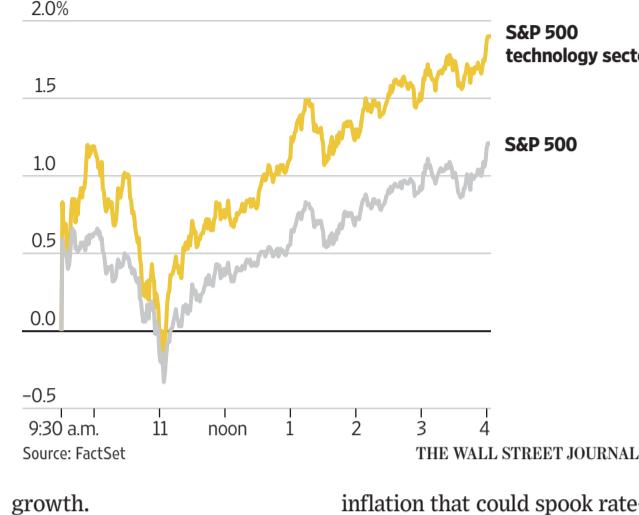
"The market needed a moment to rebalance, adjust its risk, but one thing I don't want to see is an immediate chase higher," said Yousef Abbasi, market strategist at JonesTrading.

The Dow Jones Industrial Average rose 306.88 points, or 1.2%, to 25200.37. The S&P 500 added 32.57 points, or 1.2%, to 2731.20, and the Nasdaq Composite gained 112.81 points, or 1.6%, to 7256.43.

Among the best performers were large tech companies, a group that led the stock-market rally last year as investors poured money into firms that reliably posted strong earnings

## Tech Leads the Way

The technology sector was among the best performers in the S&P 500 on Thursday, rising 1.9%.



growth.

**Cisco Systems** added \$1.99, or 4.7%, to \$44.08 after strong quarterly earnings, and **Apple** gained 5.62, or 3.4%, to 172.99. Together, the two companies added more than 50 points to the Dow industrials. The S&P 500 tech sector rose 1.9%, putting its year-to-date climb at 5.7%.

Tech's increases remain far above the broader index's 2.2% rise in 2018, a gain that was only retraced in recent trading sessions after sharp declines in early February.

The only S&P 500 sector falling Thursday was energy, which was under pressure from volatile crude-oil prices. U.S.-traded crude oil for March delivery fell in early trading, though it ended the day up 1.2% at \$61.34.

Despite the broad gains, some analysts and strategists said they favor a slightly slower-paced retraction. There are still risks to the economy, JonesTrading's Mr. Abbasi said, such as a quick surge in

gold-mining companies.

Data on Thursday offered new signs inflation is firming, with U.S. producer prices rising in January. That followed consumer-price data on Wednesday, which came in above expectations.

The global stock swoon earlier this month was prompted by concerns that the era of low inflation is ending and related fears that the Federal Reserve will pick up the pace of interest-rate increases in 2018. Treasury yields climbed to four-year highs, and the Dow industrials and S&P 500 slumped into correction territory last week.

In recent sessions, however, some analysts have argued that inflation won't be too swift to jolt the stock market and corporate earnings.

"We've endured low inflation for so long that people get easily excited," said Jorge Garayo, head of inflation strategy at Société Générale. "But growth is strong, and actually we're just going to a still low

inflation that could spook ratesensitive assets, such as bonds, high-yielding utility stocks or real-estate investment trusts. As a result, one thing he said he is encouraging is hedging against "runaway inflation," such as by buying baskets of

## U.S. Government Schedules Sales of \$258 Billion in Debt

number: 912796PV5.

Also, \$28 billion in two-year notes, dated Feb. 28, 2018, maturing Feb. 29, 2020. Cusip number: 9128284A5.

Noncompetitive tenders for the 13- and 26-week bills must be received by 11 a.m. EST Tuesday and competitive tenders by 11:30 a.m.

For the four-week bills and two-year notes, the deadlines are noon and 1 p.m. Tuesday, respectively.

◆ **Tuesday:** \$55 billion in four-week bills, a reopening of an issue first sold on Sept. 21, 2017, maturing March 22, 2018. Cusip number: 912796NX3.

Also, \$51 billion in 13-week bills, a reopening of an issue first sold on May 25, 2017, maturing May 24, 2018. Cusip number: 912796MB2.

Also, \$45 billion in 26-week bills, dated Feb. 22, 2018, maturing Aug. 23, 2018. Cusip number: 9128283T5.

Also, \$35 billion in five-year notes, dated Feb. 28, 2018, maturing Feb. 28, 2023. Cusip number: 9128284A5.

Noncompetitive tenders for the floating-rate notes must be received by 11 a.m. Wednesday and competitive tenders are due by 11:30 a.m.

For the five-year notes, the deadlines are noon and 1 p.m. Wednesday, respectively.

◆ **Thursday:** \$29 billion in seven-year notes, dated Feb. 28, 2018, maturing Feb. 28, 2025. Cusip number: 9128283Z1.

Noncompetitive tenders for the notes must be received by noon Thursday and competitive tenders by 1 p.m.



Growth stocks like Tencent, which has joined with Lego to promote online safety, have outperformed value shares, which some say are poised to shine.

# A Value Proposition for Value Over Growth

BY STEVEN RUSSOLILLO

A little volatility might be what value stocks need to get their mojo back.

Such stocks, which tend to have slow but steady earnings growth and cheap valuations, vastly underperformed their pricier growth counterparts globally last year, compounding a gap that has persisted since the end of the financial crisis. Just think of the surging shares in sectors such as tech, led by the likes of Facebook Inc. and **Tencent Holdings** Ltd., compared with relative underperformers such as utilities stocks.

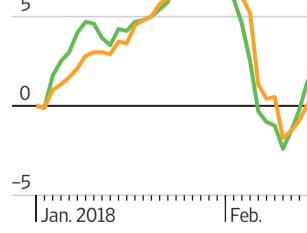
Last summer, Goldman Sachs Group Inc. even questioned whether the markets were witnessing the death of value investing.

But if the recent market swoon world-wide is any indication, value stocks could be poised for a comeback, according to an analysis by Morgan Stanley.

Value stocks have historically tended to outperform growth in high-volatility envi-

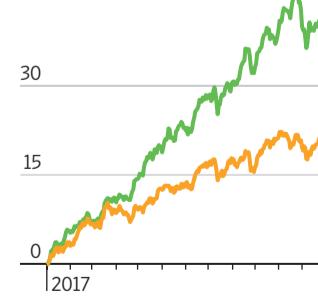
## Out of Favor

Value stocks in Asia have lagged behind growth shares even as volatility has risen this year.\*



\*Benchmarks are MSCI EM Asia Value Index and MSCI EM Asia Growth Index. Source: FactSet

Growth stocks beat value in Asia last year.\*



Growth stocks have beaten value stocks in the U.S. since the start of 2017.<sup>†</sup>



<sup>†</sup>Benchmarks are Russell 1000 Growth Index and Russell 1000 Value Index. Source: FactSet

ronments, as investors seek what are perceived as safer and steadier stocks.

Morgan Stanley defines high volatility as being when the Cboe Volatility Index, or VIX, rises over 30. The VIX surged 116% on Feb. 5, its biggest one-day gain ever, finishing that day at 37.3, its highest since August 2015. On Thursday, the VIX fell 0.7% to 19.13, near its long-term average.

We find high-volatility regimes tend to favor a rotation into value,\* says Steven Ye, a quantitative analyst at Morgan Stanley in Hong Kong. In previous instances when the VIX rose to what he called extreme levels, as in 1987, 1998, 2008, 2010 and 2015, it has tended to remain elevated for several months.

"We find high-volatility regimes tend to favor a rotation into value," says Steven Ye, a quantitative analyst at Morgan Stanley in Hong Kong. In previous instances when the VIX rose to what he called extreme levels, as in 1987, 1998, 2008, 2010 and 2015, it has tended to remain elevated for several months.

Morgan Stanley's positive call on value stocks hasn't

fully come to fruition, although the gap between the performance of value and growth stocks appears to be narrowing.

In Asia, an index of value stocks provided by MSCI Inc. is roughly unchanged in 2018, compared with a 1.4% gain for a rival growth-stocks index. Last year, growth stocks outperformed value in Asia by 20 percentage points.

A similar trend holds true in the U.S. The Russell 1000 Growth Index is up 2.7% this year, compared with a 1.1% drop for its value counterpart. Growth stocks rose 28% last year, compared with an 11% increase for value stocks.

Moreover, markets have calmed in recent days. Most Asian stock indexes rose Thursday after strong overnight gains in the U.S. and Europe. That comes after several indexes around the world, including Japan's Nikkei Stock Average, Hong Kong's Hang Seng Index and the S&P 500 in the U.S. all fell into correction territory last week, down at least 10% from a recent high.

## MARKETS

# Risks Seen as Stocks Move in Tandem

Individual companies' potential gets lost in one-sided shifts for all S&P 500 sectors

By AKANE OTANI

Shares of everything from manufacturers to banks to oil-production companies are rebounding together after tumbling in unison earlier this month, a phenomenon that could lead to more turbulence ahead.

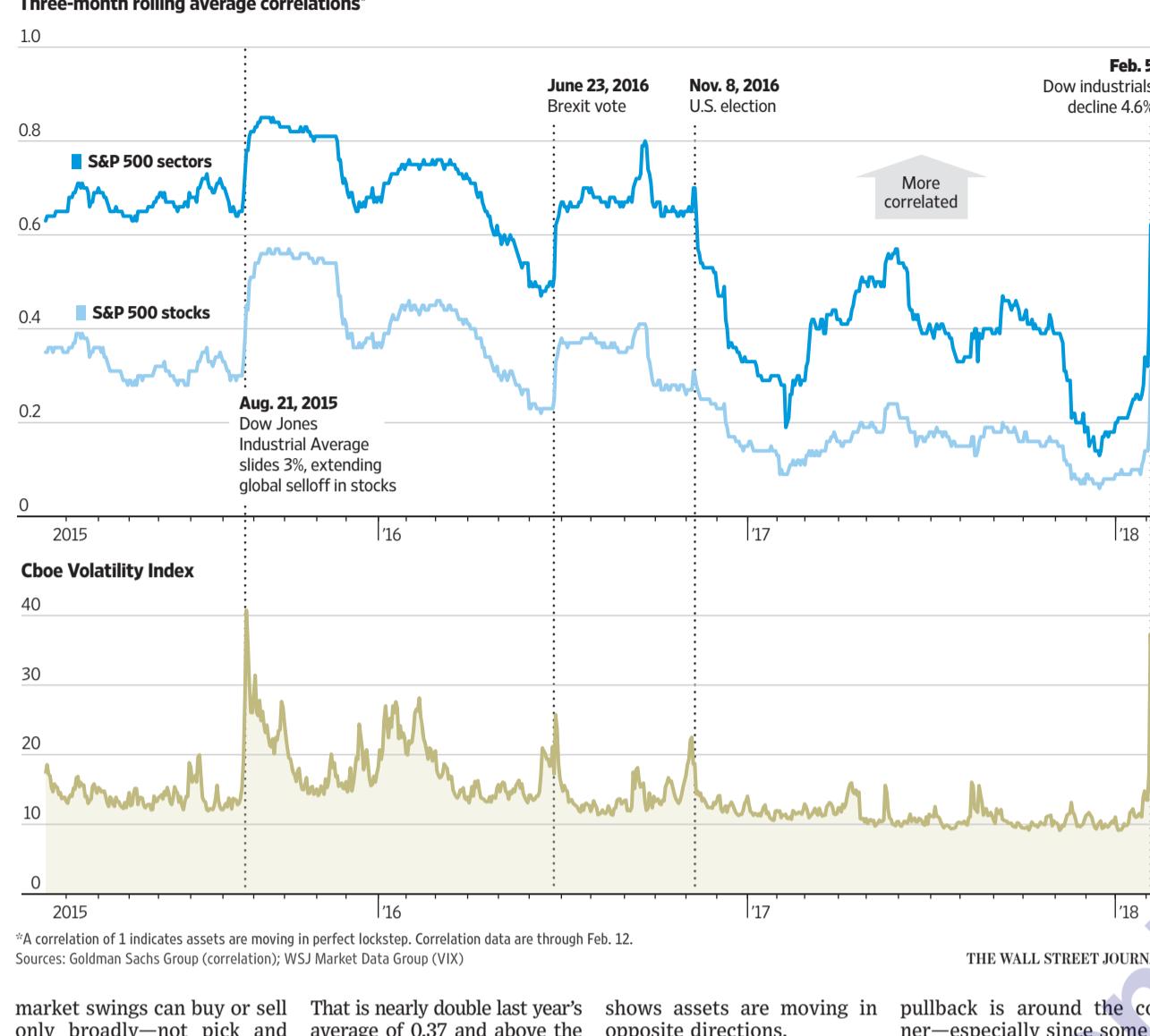
Correlations among the S&P 500's 11 sectors, a measure of how different stock groups move in relation to one another, spiked as the index last week suffered its first correction in two years and increased further when stocks began bouncing back from those lows. They recently hit the highest level since the U.S. presidential election in 2016, according to a Goldman Sachs Group analysis.

In other words: S&P 500 sectors are moving together more than they have in quite some time. For some investors, that raises red flags.

Rising correlations can create more violent downturns when stocks do fall, as factors such as individual companies' earnings potential or financial track records tend to become less important than the broader fears driving selling in the stock market.

"People end up throwing the good out with the bad," especially if they are primarily invested in the stock market through broad exchange-traded funds tracking major indexes, said Art Hogan, chief market strategist at investment bank B. Riley FBR.

The popularity of ETFs in recent years has likely helped pull correlations higher, Mr. Hogan added, as investors in index-tracking funds who want to increase or decrease their exposure to stocks during



\*A correlation of 1 indicates assets are moving in perfect lockstep. Correlation data are through Feb. 12.

Sources: Goldman Sachs Group (correlation); WSJ Market Data Group (VIX)

market swings can buy or sell only broadly—not pick and choose shares.

"What we saw was when the stock market is selling off, it didn't matter what your business does or what sector you fall in—you were for sale because you were part of the S&P 500," Mr. Hogan said.

The three-month rolling correlation between S&P 500 sectors rose to 0.73 Monday, Goldman Sachs's data show, up from 0.72 on Feb. 8, the day the index fell into correction territory—a 10% drop from its Jan. 26 high.

That is nearly double last year's average of 0.37 and above the 2016 average of 0.64.

In two recent instances when stocks fell sharply—in January 2016 and in August 2015—the S&P 500's sectors carried an average three-month rolling correlation of 0.72 and 0.70, respectively, according to Goldman Sachs data.

A correlation of 1 signals that assets are moving in perfect lockstep, while a correlation of 0 suggests no relationship between asset movements and a correlation of negative 1

shows assets are moving in opposite directions.

Stocks have rebounded with a vengeance since tumbling when bond yields shot to multi-year highs and a number of volatility-tied bets collapsed.

The S&P 500 has climbed 5.8% over the past five sessions, rising every day since falling into a correction.

Some investors say the rebound makes sense, given that the outlook for global growth remains positive. But others say the pace of the gains has made them wary that another

pullback is around the corner—especially since some of the concerns that pressured shares at the start of the month have persisted.

The yield on the 10-year U.S. Treasury note climbed to a four-year high Wednesday, after data showed consumer prices—one gauge of inflation—rising more than expected in January. And a measure of producer prices Thursday also rose, adding to recent signs that inflationary pressures are picking up.

The pattern of broad selling

has led to one-sided moves in the stock market this month—even among sectors that are thought to benefit from rising bond yields.

For instance, shares of banks, whose net-interest margins—a key measure of lending profitability—are boosted by higher interest rates, have fallen with the broader market, with the S&P 500 financial sector down 2.5% for the month. The S&P 500 is down 3.3% for February. Meanwhile, energy, telecommunications services, industrials, consumer staples, health care, utilities, materials and real-estate shares in the S&P 500 have all lost more than 3% in February.

But in the past week, as the broader market has regained its footing, so have stocks across all industries, with all 11 S&P 500 sectors headed for weekly gains.

The one-sided movements have made it difficult for investors to pick and choose any winners in the stock market, said Andrew Thrasher, portfolio manager for Indiana-based asset-management firm Financial Enhancement Group.

Some analysts say stocks should begin to move more independently again as the market stabilizes. Data still suggest global growth is accelerating and U.S. corporate earnings are solid, two factors that investors say should push stocks higher.

The global economy is expected to grow 3.9% a year in 2018 and 2019, which would mark the fastest pace of growth since 2011, according to forecasts from the International Monetary Fund.

"I think most investors recognize by now that last week's correction was largely driven by technical factors, not due to changes in the fundamental backdrop. If that holds, I would expect correlation to continue to normalize going forward," said Mandy Xu, equity derivatives strategist at Credit Suisse.

## HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

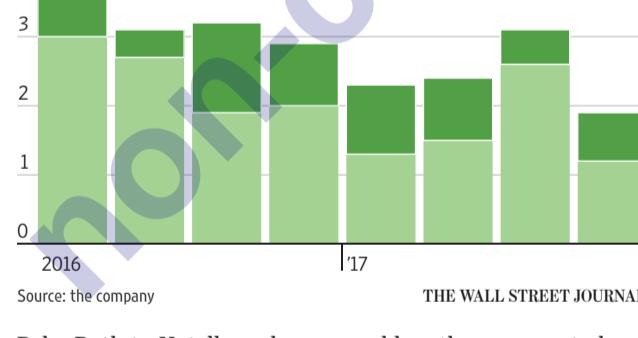
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### Nestlé's Fortunes Are Melting Away

#### Unhealthy

Nestlé's quarterly sales growth excluding currency and portfolio changes



month launched a new Ben & Jerry's brand that apes Halo Top's trademark approach to displaying calorie count. Despite its well-advertised emphasis on health and wellness, Nestlé may be behind the curve here.

U.S. ice cream is an extreme example of what is happening in food and drink markets across the world: New brands are seizing share. Nestlé's most visible response has been to buy a few of them, but this is a Band-Aid for a deep gash.

Chief Executive Mark Schneider grasps the challenge. But making one of the world's largest and most global companies more responsive and entrepreneurial is a tall order. The shares fell 2.1% Thursday.

Investors are right to contain their hopes.

—Stephen Wilmot

### Airbus Flies Investors Into the Cash Cloud

It sure is nice when your plane comes in early. For Airbus shareholders, it is something that could in theory happen more often.

Airbus results published Thursday restored some faith in the airplane maker and its ability to become a cash-flow machine, though it remains well behind rival Boeing in that regard. Airbus's measure of free cash flow, closely watched by investors, was more than €6.2 billion (\$7.72 billion) in the fourth quarter, handily beating analysts' expectations. It boosted its dividend and gave a bullish outlook for the current year. The stock rose 10%.

The results reinforce that the company, with more than 7,000 planes on back order, is mostly an execution story. So long as it churns out planes with increasing frequency, while picking up efficiency gains along the way, more cash will follow. Management said it aims to deliver about 800 commercial airplanes in 2018, up from 718 last year.

Helping matters along, Airbus isn't in the midst of developing any new planes. Research and development costs are down nearly 20% in the past two years. Its last new airplane model, the long-haul A350, is well along its product cycle without major hiccups.

There are clear overhangs on Airbus. Chief Executive Tom Enders is meant to step down next year, and there is natural anxiety over whether the successor will be the best person for the job or someone who is politically palatable to Airbus's French and German government shareholders. A new sales chief was recently installed.

The military transporter A400 project continues to generate write-downs. And investigations into past sales practices could result in hefty fines down the road, the company has warned.

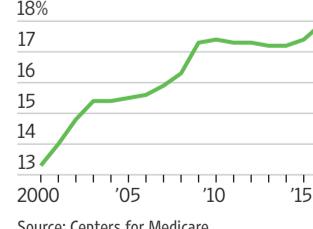
Even if some of these generate bumps down the road, it won't matter much as long as planes roll out the door and cash rolls in.

—Alex Frangos

### Health-Care Deals They Can't Refuse

#### Inclined to Rise

Health expenditures in the U.S. as a share of gross domestic product



tiny of ever-higher spending, raises serious questions about the sustainability of competitive moats in the industry.

Those changes won't happen overnight; health care is a tightly regulated, opaque industry, which makes disrupting high-margin businesses tricky. But a good manager should be preparing for that long-term threat to

day. That dynamic has industry executives looking for deals to maintain their competitive advantage.

The Journal reported Monday that Walgreens Boots Alliance is in early-stage talks to combine with distributor Amerisource-Bergen. Walgreens' pharmaceutical rival, CVS Health, has agreed to purchase health insurer Aetna in a deal valued at \$69 billion. Insurer UnitedHealth Group, meanwhile, has purchased surgical care centers and medical practices, with an apparent aim to reduce hospital spending. For their part, several large nonprofit hospital systems have moved to start their own nonprofit generic-drug company.

Pharmaceutical companies haven't joined the vertical integration trend, but they hardly are sitting on their

hands. Drug companies Sanofi and Celgene each have started the year off with two large biotech purchases, and Bristol-Myers Squibb said it would pay nearly \$2 billion upfront for a cancer drug collaboration with Nektar Therapeutics.

Asset prices are thus trending higher. Health-care transactions this year sport an average enterprise value of 17 times earnings before interest, taxes, depreciation and amortization, according to data provider Dealogic, up from 15 times last year.

Some companies are bound to overpay for assets in this environment while others enter into tie-ups that are doomed to fail. Given the industrywide scramble, though, the real risk might be doing nothing. That applies to buyers and sellers alike.

—Charley Grant

#### OVERHEARD

What's old is new again, even on the stock market.

People date themselves when they talk about developing actual rolls of film to see their snapshots. They might be even older if they reminisce about playing videogames at a shopping mall arcade that required tokens.

Two companies that saw their heydays decades ago from now-antiquated products have embraced one of today's hottest new technologies: blockchain. Atari, the one-time king of videogames, is the latest. The company's Paris-listed stock rose as much as 111%

between Feb. 4 and Thursday. The company says it is investing in a "crypto platform" that will use its own digital currency, the "Atari Token." It can be used to—you guessed it—play videogames.

Maybe they learned from another fallen giant, **Eastman Kodak**. The former leader in photography that went bankrupt in 2012 saw its shares surge by over 340% over six days in January when it announced the launch of Kodak-Coin, a "photo-centric cryptocurrency." The technology would be used to track ownership of photographs.



HOMES | MARKETS | PEOPLE | UPKEEP | VALUES | NEIGHBORHOODS | REDOS | SALES | FIXTURES | BROKERS

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THE WALL STREET JOURNAL.

Friday, February 16, 2018 | M1

DEUC WU

High-Rise Living

# Tokyo's Growing Yen For High-Rise Apartments

While traditional Japanese buyers shy away from over-the-top opulence, younger couples, tech founders and foreign buyers want luxury amenities.



JÉRÉMIE SOUTÈVRAUT FOR THE WALL STREET JOURNAL (3); MORI BUILDING CO. (MOTOAZABU)



**NEW HEIGHTS** Prices in Tokyo's most exclusive neighborhoods are rising, as more buyers want to be near good shopping and dining. Top, a view of Tokyo from Roppongi, where moneyed expats come to play. Above, left to right, a boutique shop in the Aoyama neighborhood; the 29-story Motoazabu Hills residential building in the Azabu neighborhood; and a line outside a popular restaurant in Akasaka.

BY SURYATAPA BHATTACHARYA

**IN TOKYO**—both in the old days and today—the closer a home is to the emperor's Imperial Palace, the higher the status of its owner.

Three of the capital's most exclusive neighborhoods, Azabu, Aoyama and Akasaka, popu-

larly known as the three As, are located just south of the palace. Here, luxury residential towers that cater to the city's elite now sit where feudal lords once had their lavish villas.

Among Tokyo's 23 municipalities or wards, Minato ward—where the three As are located—saw the biggest jump in residential land prices last year. Japan's land ministry pegged the average

price of land there at the equivalent of \$1,420 a square foot, up 11.5% from the previous year. The priciest land in the ward, in the heart of Akasaka near the U.S. Embassy, was valued at \$3,100 a square foot, up more than 50% over five years.

Penthouses in towers located in the three As and the neighboring Roppongi district can sell

Please turn to page M4

## WELCOME TO THE APOCALYPSE

INSIDE

As skyscrapers reach new heights, developers turn to testing labs to ensure buildings can withstand forces of nature.



**WIND AND WATER** An aircraft engine blasts a rack of water nozzles to test the strength of a building facade mocked up at the Construction Research Laboratory in Miami.

BY KATHERINE CLARKE

ON AN ORDINARY day, George Dotzler may deal with wind speeds equivalent to a Category 5 hurricane, torrential rains akin to a monsoon and seismic shifts that feel like an earthquake. Rounding out the day could involve a heat wave and an arctic blast.

Mr. Dotzler, 58, is the director of operations for the Construction Research Laboratory, where builders, developers and architects go to test the durability and stability of glass building facades, called curtain walls. Located at what looks like an abandoned airfield in Miami, the lab has 38 sealed test cham-

bers and all the equipment to replicate the forces of nature.

"It's like 'Mad Max' here," he said, referencing the 1979 movie's dystopian landscape.

With skyscrapers sprouting up around the world, demand for structural testing is strong. Big-name architects are increasingly designing towers with quirky shapes, and developers must go to greater lengths to ensure that the unusual curves and crannies can withstand even the harshest conditions. While some testing is required by municipal law, most developers are going the extra mile, since they Please turn to page M6



**PENTHOUSE**

Pricey penthouses put on the market M3



**LOFTY VIEWS**

Skyscraper architect Adrian Smith M12



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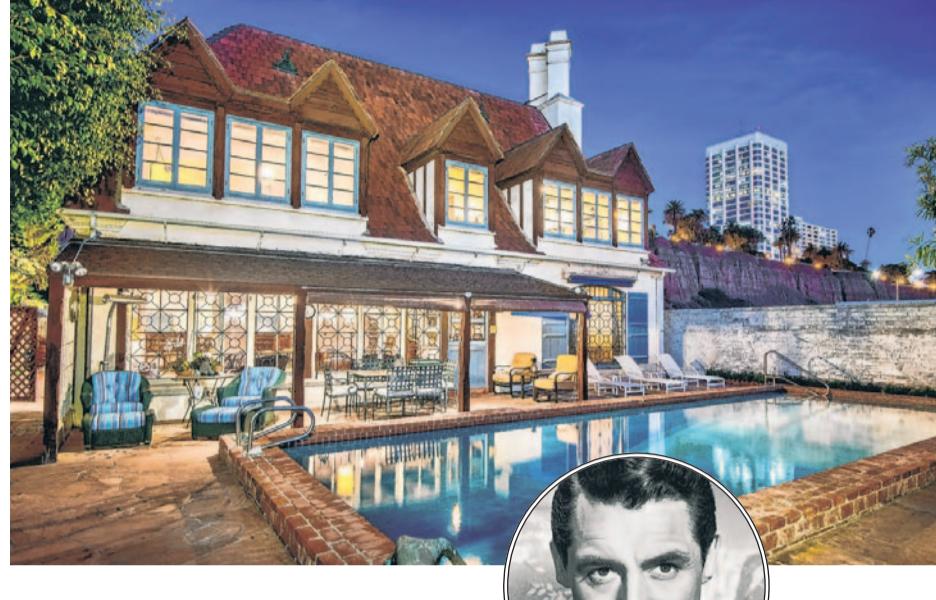
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CLOCKWISE FROM TOP LEFT: ADAM LATHAN; DBOX; EVAN JOSEPH; JOEL GUY; GETTY IMAGES (GRANT)

## MANSION

## PRIVATE PROPERTIES

## Cary Grant's Onetime Beach Home Lists



A Santa Monica, Calif., beach house with ties to Hollywood's Golden Age is coming on the market for almost \$12 million.

At that time, Santa Monica was a magnet for celebrities. In 1929, the house was built for silent-film actress Norma Talmadge, according to the original floor plans. In the 1930s it was co-owned by Randolph Scott, who starred in many Westerns, and his friend Cary Grant, who continued to live there during the years he was married to Woolworth heiress Barbara Hutton. The prior owners are described in a letter by Brian Aherne, a well-known British actor in the 1930s to the 1950s who owned the home from the 1940s until the 1970s.

The letter also states that when Mr. Grant married Ms. Hutton in 1942, she moved into the home as well. It says that during the war, Ms. Hutton transformed the dining room to replicate the Parisian restaurant Maxim's.

The current owner, Jennifer Diener, said her husband Royce was given the letter when he purchased the home from Mr. Aherne in 1979.

The 5,530-square-foot, six-bedroom French Normandy-style house has a private gate into a courtyard. A master-bedroom suite has a private office, two bathrooms and views of the ocean, and downstairs, there is a wine cellar and an

eat-in kitchen. The layout of the property has largely remained unchanged since it was built, Ms. Diener said. The home is flanked on either side by large parking lots.

Mr. Diener, who died last year, was formerly the president and CEO of American Medical International, a health-care company, his wife said. Ms. Diener, 72, said she is selling the property because it is time for a change. "I feel 38 years on the beach is enough for me right now, so I'm downsizing to a more manageable home," she said.

Jade Mills of Coldwell Banker Global Luxury has the listing. —Katherine Clarke

## HAWAII COMPOUND LISTS FOR \$35 MILLION



A venture capitalist is selling his compound on Kauai's North Shore for \$35 million.

Located in Kilauea on roughly 18 acres, the property sits on a bluff and has views of Secret Beach, the ocean, Kilauea Lighthouse and the mountains. The four-bedroom, roughly 5,400-square-foot main house has a media room that opens to an outdoor swimming pool. There is a

four-bedroom guesthouse as well as a roughly 3,300-square-foot "entertainment pavilion," pictured above right.

There is also a house on the property for staff and a detached gym.

Outside there is a walking path to Secret Beach, which is good for swimming and surfing most of the year, said owner Walter Kortschak.

Mr. Kortschak, 58, is a for-

mer managing partner of Summit Partners, a private equity and venture-capital firm, and now serves as executive chairman of venture-capital firm SignalFire. When he and his wife, Marcia, first bought their Kauai property in 2001, they lived primarily in Palo Alto, Calif. But Mr. Kortschak said he now frequently works remotely and has turned Kauai into his primary home.

Mr. Kortschak said he paid about \$12 million to assemble the property through multiple transactions over the years. He said he and his wife are listing the compound because they plan to build a home on their other Kauai property, a ranch about 2 miles away.

The listing agent is Neal Norman of Hawaii Life Real Estate Brokers. In May, Mr. Norman listed a home on the same beach for \$70 million.

—Candace Taylor



## BRUCE WILLIS DOWNSIZES MANHATTAN CONDO

Weeks after finding a buyer for their sprawling Central Park West apartment, actor Bruce Willis and his wife, Emma, are downsizing to a smaller Manhattan home.

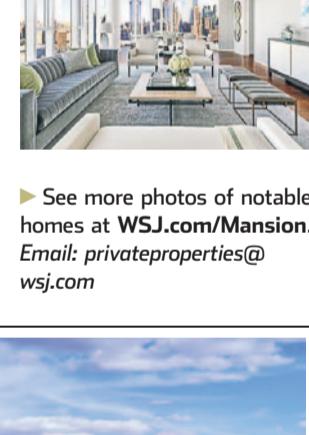
The couple has gone into contract for a four-bedroom, roughly 3,000-square-foot apartment at One West End, according to the listing agents. The last asking price on the unit was \$7.9 million, according to one of the listing agents, John Gomes of Douglas Elliman. The couple's roughly 6,000-square-foot Central Park West apartment, last asking \$17.75 million, went into contract last month.

Mr. Gomes said the couple was attracted to the building's amenities. Seen in a rendering here, it was developed by Elad Group and Silverstein Properties. Mr. Gomes said the Willises also loved the unit's kitchen, which has a dedicated pastry-making area and a built-in coffee-machine system.

The family owns a home in Bedford Hills, N.Y., which they bought for \$9 million in 2014, public records show. Their new home just off Manhattan's West Side Highway makes the commute to Bedford Hills easier, Mr. Gomes said. The couple couldn't be immediately reached for comment.

Ann Cutbill Lenane of Douglas Elliman represented the Willises. Mr. Gomes worked with colleague Fredrik Eklund from the Eklund|Gomes Team at Elliman.

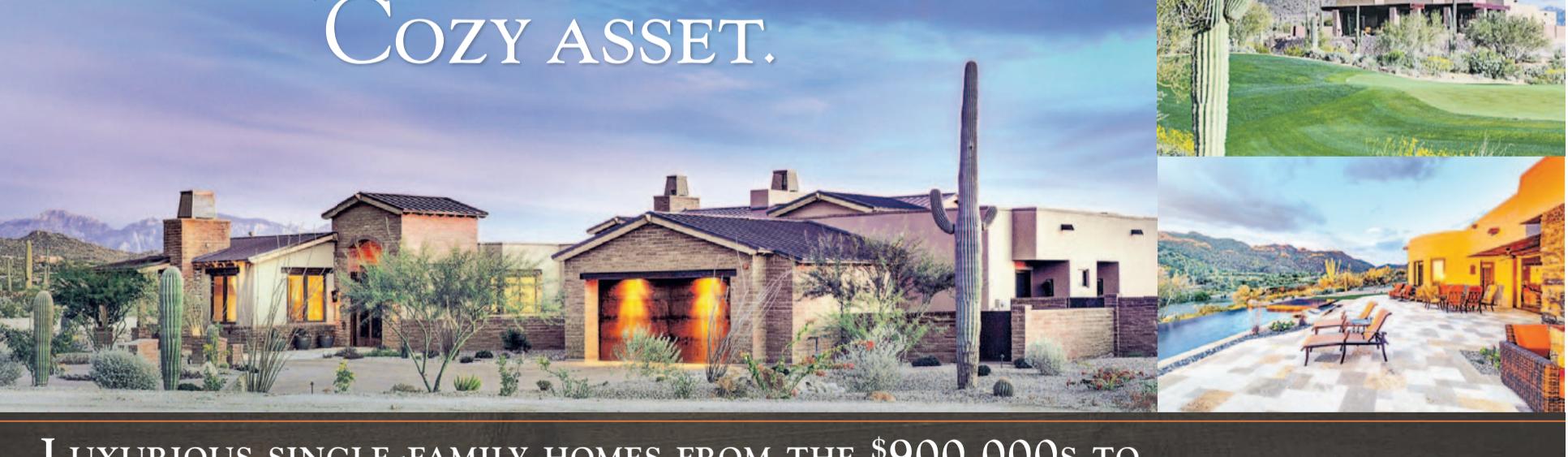
—Katherine Clarke



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## THE HIGH AND MIGHTY

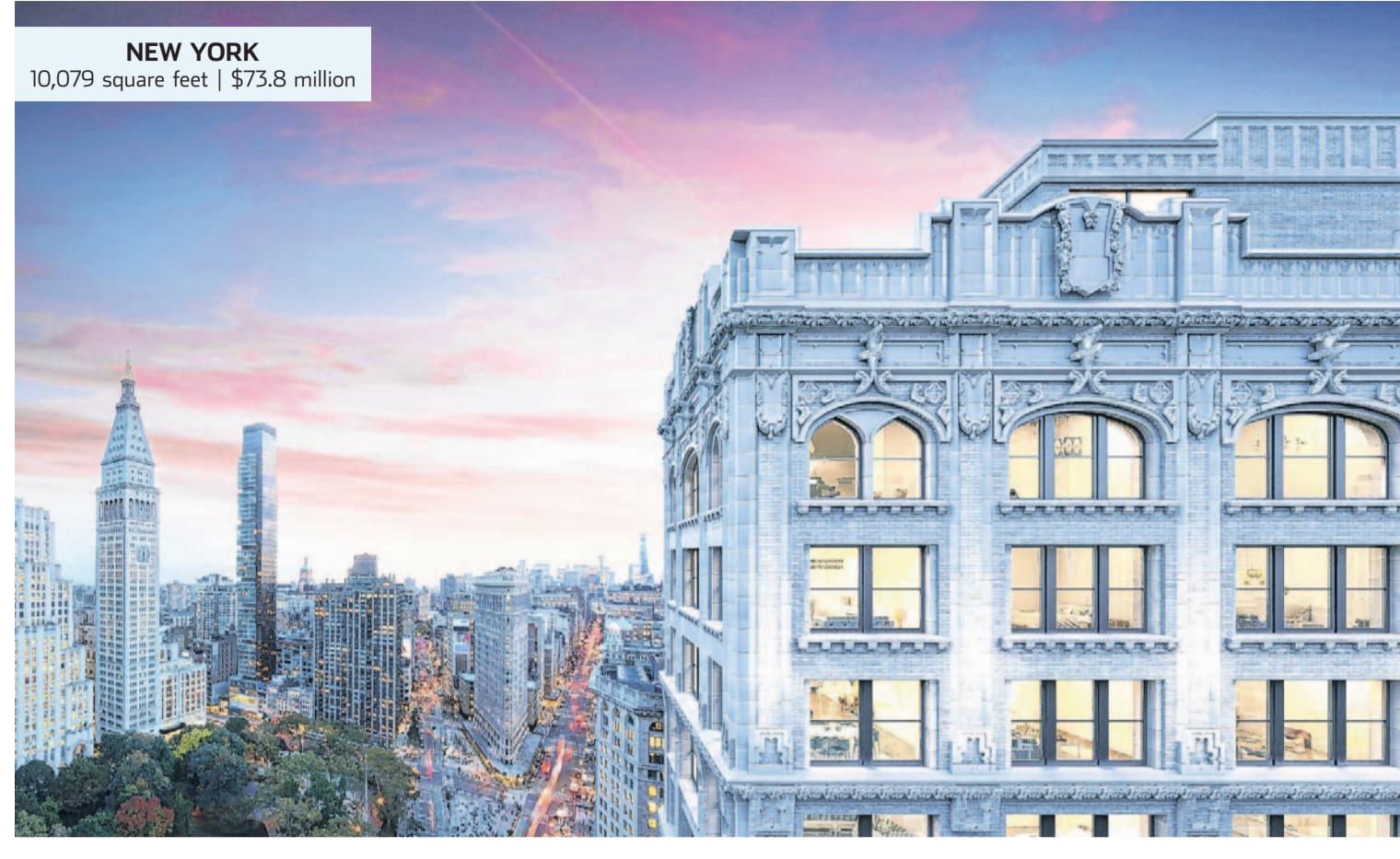
A look at some of the priciest penthouses for sale in New York, San Francisco and Miami; one unit 'bikini ready'

**SOME FOLKS SIMPLY** prefer the view from the top, making penthouses the priciest commodity in residential real estate. But the availability of sky-scraping apartments varies substantially across the U.S. based on construction levels, zoning for high-rises and the strength of the luxury market.

Penthouse buyers should be prepared to dig deeper into their pockets than other purchasers. In Manhattan for instance, the average penthouse apartment is asking about \$2,707 per square foot, significantly above the \$1,809 per square foot recorded for Manhattan apartments as a whole, according to listings website Realtor.com.

Read on for a closer look at some of the priciest penthouse units available for sale in key markets across the country.

—Katherine Clarke

**212 Fifth Avenue**

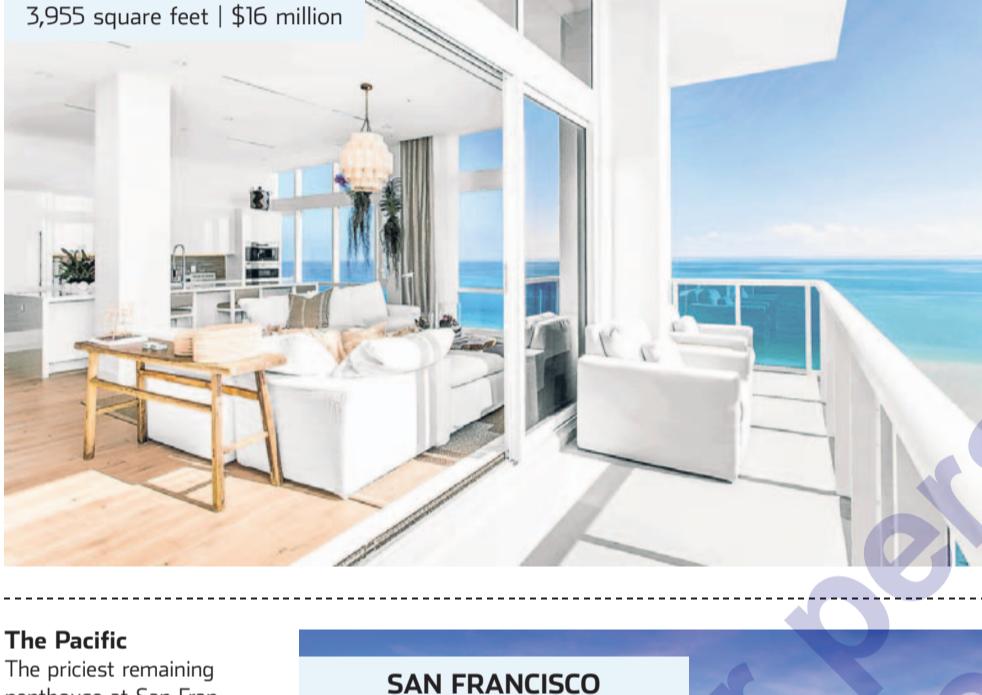
This so-called crown penthouse tops a neo-Gothic early skyscraper in Manhattan's NoMad district, just north of Madison Square Park. The building, originally used for manufac-

turing, was converted to condominiums last year by developers Madison Equities, Thor Equities and Building and Land Technology. The 10-room residence spans three floors, with more than 5,700 square feet of pri-

vate terraces with views of the Flatiron building and the World Trade Center. Nikki Field of Sotheby's International Realty, the listing agent, said she's seeing many of the building's buyers coming locally from Up-

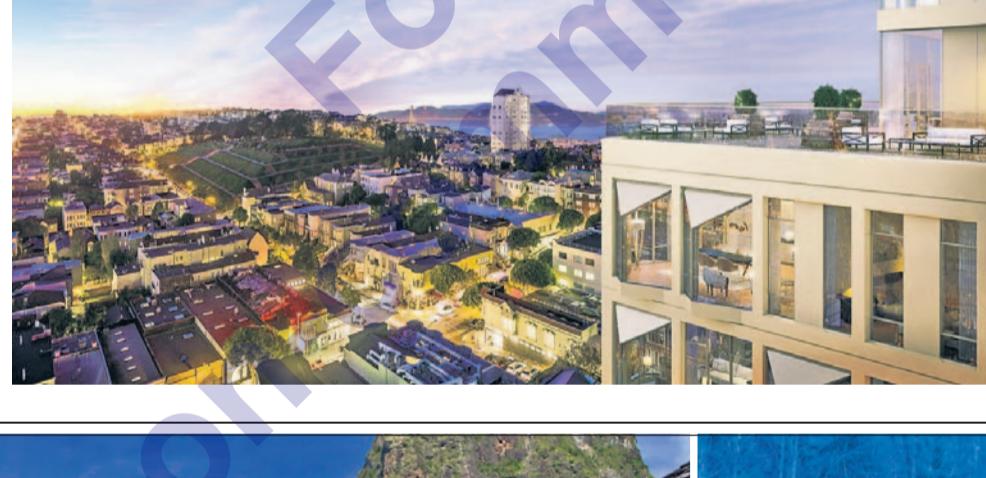
town Manhattan. The unit, seen in a rendering here, is one of the priciest penthouses available for sale in Manhattan; an apartment at super-tall condominium 432 Park Avenue is asking \$82 million.

**MIAMI**  
3,955 square feet | \$16 million

**The Pacific**

The priciest remaining penthouse at San Francisco's Pacific building is being marketed as a "shell," meaning that a buyer can customize the space to their own preferences, said Arden Hearing, managing director of Trumark Urban, the developer. The unit, seen in a rendering here, has a wraparound terrace that overlooks the Golden Gate Bridge. Mr. Hearing said the nine-story project is the only new construction building in the tony Pacific Heights neighborhood.

**SAN FRANCISCO**  
3,128 square feet | \$13.85 million

**1 Hotel & Homes South Beach**

One of the selling points of this penthouse is that it comes with access to the amenities of the 1 Hotel downstairs, including its private beach, four swimming pools, room service and complimentary Tesla car service within a short distance of the property, according to Camille Douglas of the LeFrak Organization, the developer. The apartment itself, a rare duplex, has balconies on both levels with panoramic views of the ocean. The unit also comes furnished, or as a spokesperson for the developer puts it, "bikini ready."

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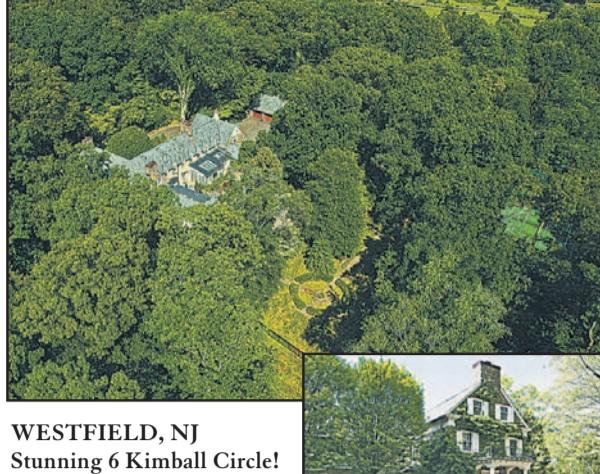
(Featured Left) Constructed on the edge of a hillside bordering a forest reserve, this six-bedroom, six-bathroom oasis is situated in a very small, selective area that affords guests panoramic views of the Caribbean Sea and stunning sunsets.

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*Continued from page M1*  
for as much as ¥3 billion, or  
\$27 million, real-estate  
agents say.

Presidents of Japanese companies, lawyers, doctors and executives who work for foreign securities companies are among clients seeking such properties, according to Satoshi Watanabe, property manager with Mitsubishi Jisho Residence Co., a real-estate developer owned by Mitsubishi Estate Co.

Usually properties worth \$10 million or more aren't offered for sale on the open market because the buyers want to remain anonymous. Instead, homes are quietly sold to a select and small database of buyers that real-estate agents have curated over years. Similarly, property sale prices and the identity of the buyers aren't disclosed in public records.

One of the Japan's priciest apartments since the bubble economy of the late 1980s sold to an unnamed buyer in 2015, according to Zoe Ward, director of Japan Property Central KK, a real-estate agency. The 2,186-square-foot penthouse, located in a 44-story building called Park



**HOT SPOT** Motoazabu Hills, a Mori Building development, is popular among foreign buyers because it's near shops, restaurants and international embassies. Top, a living room in Motoazabu Hills.

Court Akasaka Hinokicho The Tower, sold for \$13.6 million while the building was still in the planning stages, according to the developer, Mitsui Fudosan Residential Co.

With sweeping views of the city and located next to a park with an ice-skating rink in winter, the building, designed by Japanese architect Kengo Kuma, is set to be completed this month.

Luxury high-rise residential properties in Tokyo are generally priced lower than their counterparts in London, Hong Kong or New York because domestic buyers, who are the main drivers of the market in Tokyo, are more

restrained in their definition of luxury. There is little demand for splashy interiors, or a gym or a swimming pool in the building. Multiple bathrooms are usually only found in a penthouse.

"In the Japanese culture, even if you are wealthy, having too much—it is a bit of a negative status symbol," said Adam German, head of marketing and vice president of Housing Japan, a real-estate agency.

Times and tastes are changing, however. In previous generations, the eldest son inheriting a family business would typically have lived with his parents, taken care of the house and inher-

ited it, said Yukiko Takano, who works in the Tokyo office of List Sotheby's International Realty. Today, younger buyers prefer a bigger, more modern master bedroom, she said.

Technology entrepreneurs and other domestic buyers in their 40s and 50s often resemble foreign buyers more closely than their Japanese elders, Ms. Takano said.

"They have a different way of buying and living. They don't want a gigantic house but a good area," surrounded by the latest in food and fashion, Ms. Takano said.

Foreign buyers make up only a tiny slice of the market, even though laws in

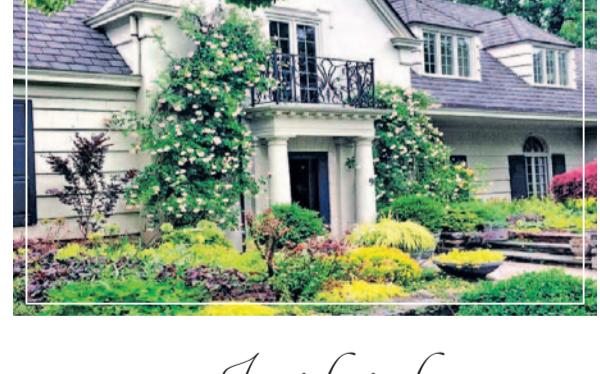
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## HIGH-RISE LIVING



**CITYSCAPE** Toranomon Hills, a 52-story building with a wedge-shaped top, sits on the left side of the vista above. The building has shops, offices and a hotel. Nine floors are dedicated to apartments, and residents have access to housekeeping and room service from the hotel. Above right, an apartment in Toranomon Hills features sweeping views of Tokyo's business district.



**FOODIE FRIENDLY** Among the 12 restaurants in Tokyo with the coveted three-star Michelin rating, three are located in the Azabu neighborhood, above. Below, a sidewalk shop that sells grilled meat and rice cakes, known as mochi.



**HIGH LIFE** Park Court Akasaka Hinokicho The Tower, where an apartment recently sold for \$13.6 million.

Japan don't restrict foreign ownership. International buyers often come from Singapore, Hong Kong or elsewhere in Asia, said Toshiyuki Sanada, an architect and deputy general manager for Mori Building Co. specializing in luxury residential properties for overseas buyers.

Compared with New York and Hong Kong, building heights tend to be lower, owing to zoning restrictions and the expense of earthquake-proofing an especially tall tower. Residential towers typically top out at around 60 stories, and the new ones have backup food, water and power systems in case of earthquakes.

One building popular among foreign residents is the 29-story Motoazabu Hills, a Mori Building development that towers over the Azabu neighborhood. Boulevards with Michelin-star restaurants and Japanese- and international-brand boutiques sit on streets lined with cherry trees that burst into clouds of pink in the spring and ginkgo trees that display bright yellow leaves in the fall.

It is also close to embassies and Roppongi, where moneyed expats come to play. Some of the newer buildings that Mori is developing are designed to include as many as five bedrooms with

en suite bathrooms—rare in Japan. A 54-story Mori tower under development in Minato ward near its Toranomon Hills building is set to have some apartments larger than 5,000 square feet.

Demand from foreign buyers is growing, Mr. Sanada said, especially with a weaker yen in the past year, allowing for a more attractive exchange rate to currencies like the Hong Kong dollar that are pegged to the U.S. dollar.

Mr. Sanada is also optimistic that exposure from the 2020 Summer Olympics in Tokyo will attract interest from foreign buyers.

—Chieko Tsuneoka  
contributed to this article

## Dogs of Mansion



To honor the Year of the Dog, go to [WSJ.com/Realestate](http://WSJ.com/Realestate) to see pooches featured in these pages.

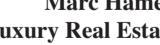
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## HIGH-RISE LIVING

## TEST LABS

*Continued from page M1*

can't afford to start mending ruptures and leaks once their buildings are up. Only three or four facilities in the U.S. have experience testing super-tall structures, Mr. Dotzler estimated.

In recent years, the company has been testing 53W53, a 1,050-foot-tall tower designed by architect Jean Nouvel that is under construction adjacent to the Museum of Modern Art in midtown Manhattan. Scheduled for completion in 2019, the 82-story building will have 145 luxury condominiums. The developers—a partnership between Houston-based Hines, Singapore-based Pontiac Land Group and Goldman Sachs—decided on a tapered structure with criss-cross structural framing on the exterior.

"Everything in this curtain wall is bespoke, custom-made for this building," said David Penick, managing director at Hines. "Every piece of aluminum. Nothing is off the shelf."

The developers had 6,000 panels of triple-paned glass custom-made by German manufacturer Interpane. Some were incorporated into two mock-ups, which typically include the trickiest, most vulnerable elements of the building, such as the corners, joints and vents, what Mr. Dotzler calls a "Frankenstein arrangement."

"It's like a doctor wanting to test a human being by putting together a mock-up with one ear, one nose and one elbow," he said.

The mock-up went through a litany of tests. In one of the chambers, both inward and outward pressure was exerted on the glass as part of a water-infiltration test to see how much the design could sustain without cracking or leaking. The pressure was equivalent to about 77.5 mph winds.

Later, a Pratt & Whitney R-2800 aircraft engine with 13-foot propellers was positioned in front of the mock-up. Mr. Dotzler turned on the water spray rack and cranked up the speed of the generator to simulate a dynamic wind



**AT THE LAB** George Dotzler, above, director of operations. Right, a mock-up with odd angles and corners. Below, a panel for a wind generator.

**WEAR AND TEAR**

A faux facade after testing, and aircraft engines, far right, that simulate hurricane-force winds.



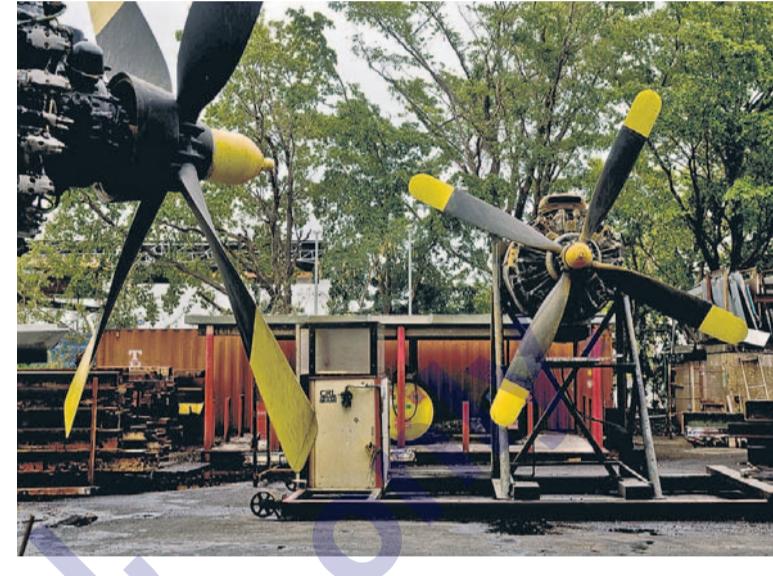
load—an effect that's similar to a hurricane. Researchers then attached a hydraulics system to the structure of the building and shoved segments right and left in an attempt to determine whether they'd be secure in case of an earthquake or wind drift.

Some of the pressures exerted on these facades far exceed what is likely to occur naturally, Mr.

Dotzler said. "If the facade survives these loads, it's been well-designed and is sufficiently strong," he said.

The testing took several weeks and cost about \$150,000, Mr. Dotzler said. No major changes to the facade were made as a result.

National Certified Testing Laboratories, based in York, Pa., tested a mock-up of an 88-story luxury



condo tower scheduled for completion next year in downtown Manhattan. The building, called 125 Greenwich Street, was designed by Rafael Viñoly and features rounded corners.

Steven Della Salla, a managing partner at Bizzi & Partners Development, said his company paid about \$210,000 to create the mock-up of 125 Greenwich Street,

and another \$163,000 for the tests themselves.

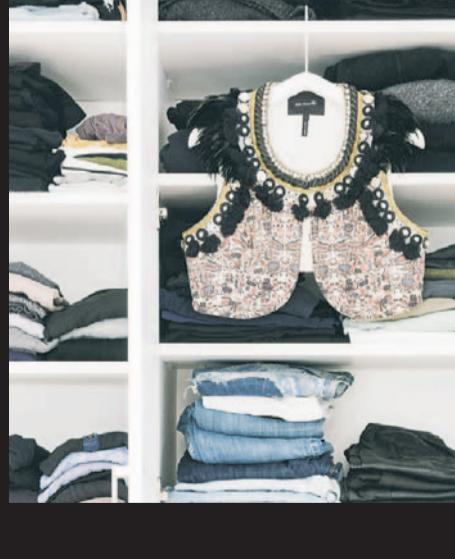
Mr. Dotzler said his company also is popular with Hollywood filmmakers, who like to shoot the facility's post-apocalyptic aesthetic.

"We've hosted a couple of episodes of 'Graceland' and 'Burn Notice,'" he said. "But we try to have them only after hours or on weekends."

SCOTT MCINTYRE FOR THE WALL STREET JOURNAL (5)

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## BIDDING WARS PUT ON AUTOPILOT

In red-hot real-estate markets, some buyers use escalation clauses to automatically increase their offers; but the strategy has risks



**FOR HOME BUYERS**  
locked in a heated bidding war, there is one weapon

that may help ensure victory: an escalation clause.

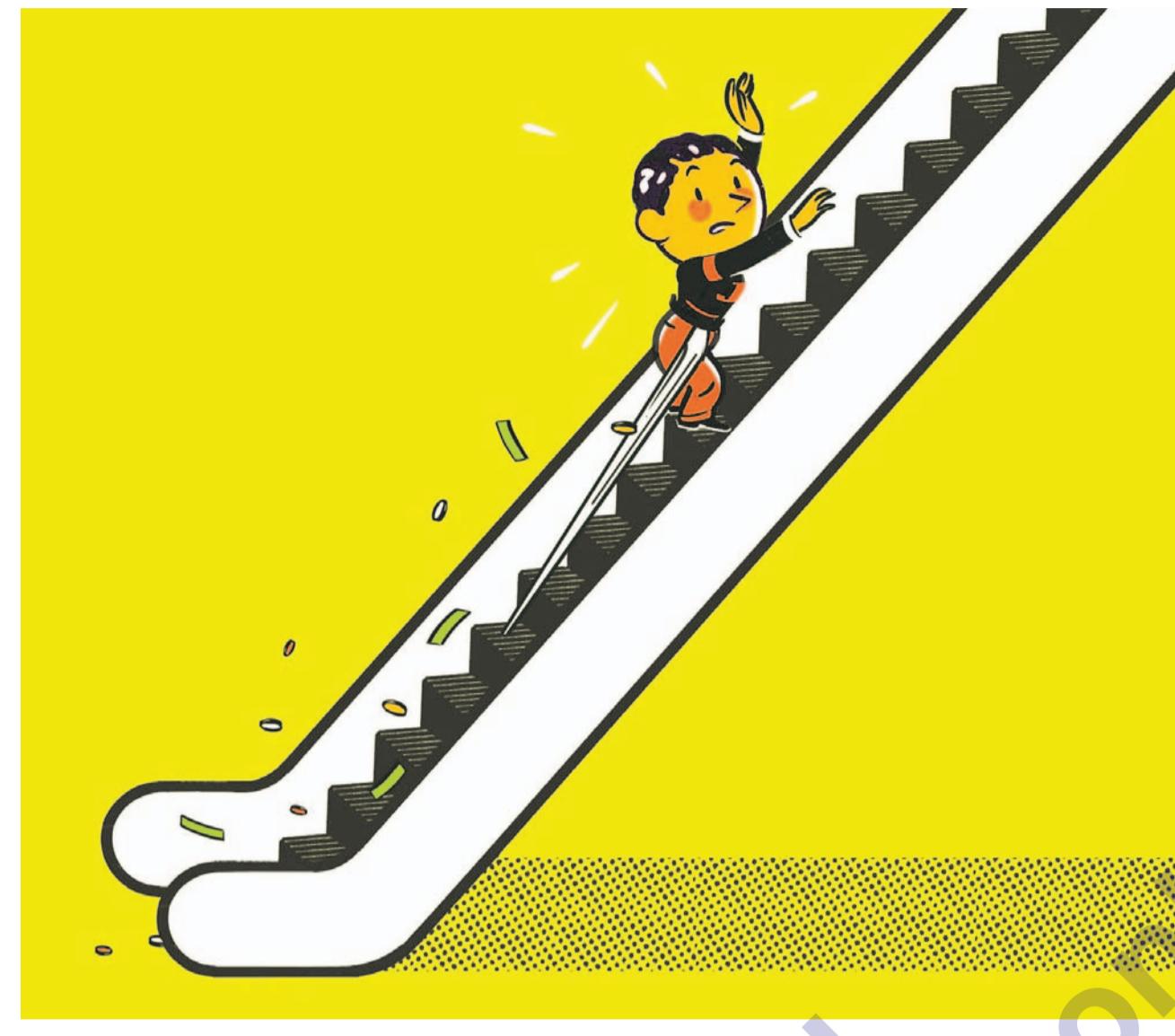
It's an addendum to a real-estate contract, typically when the offer is made, in which a prospective buyer says, "I will pay X dollars for this house, but if another buyer submits a verifiable bid that's higher, I will raise my offer in increments of Y dollars to a maximum price of Z."

These clauses are particularly useful in a competitive real-estate market where homes typically get multiple bids. If a bidding war erupts on a home, the escalation clause will automatically raise the buyer's offer on the house by the predetermined increment, up to the maximum amount the buyer authorizes. It eliminates the back and forth of offer and counteroffer and helps the buyer avoid paying too much for a house by getting caught up in the frenzy of a bidding war. But they can be risky for buyers who use them.

"A buyer can think of an escalation clause as a 'have your cake and eat it, too' clause," says David Reiss, a Brooklyn Law School professor who specializes in real estate. "But in real estate, as with cake, it is hard to have it all."

One concern is that the buyer is tipping his hand to the seller by using an escalation clause, Prof. Reiss says.

By indicating the maximum amount he will pay for the house, a buyer is revealing



are commonly seen in competitive markets like San Francisco and Seattle, they are less common at the top end of the market. "They're not really happening at the ultrahigh end because the X amount—the increment—has got to be pretty significant," says Billy Rose, president and co-founder of the Agency, a brokerage in Beverly Hills. "If you're talking about a \$15 million house, the X amount needs to be substantial enough to be material. A \$2,000 increment is not going to make a difference."

Here are some things to consider if you're thinking of using an escalation clause.

- Be aware of the mortgage.** If an escalation clause is invoked, buyers may need additional cash on hand for a larger down payment. The escalated price can also affect the type of mortgages available to the buyer—as well as the appraisal, which may not match the escalated price.

- Feel out the seller first.** "Some agents and sellers do not react favorably to escalation clauses because they think they are unfair," says Michael Nourmand, president of Nourmand & Associates, a brokerage in Los Angeles. "You should know their position before blindly using this strategy." Otherwise, the seller may not consider your offer.

- Get it in writing.** Buyers should specify the type of documentation the seller must provide before the escalation clause kicks in. For example, the escalation clause could specify that the seller must provide a copy of the highest offer received.

important information—that he's willing to pay more. For example: Seller lists the house for \$1 million. The buyer bids \$950,000 with an escalation up to \$975,000. The seller can counteroffer at \$975,000, knowing that the buyer can both afford it at that price and is willing to pay it.

"Sellers get more money than they ever thought they

would have," says Carrie De-Buys, a real-estate agent with Realogics Sotheby's Realty in Seattle. In her market, it isn't uncommon for a seller to receive "10, 15 or 20 offers on a property."

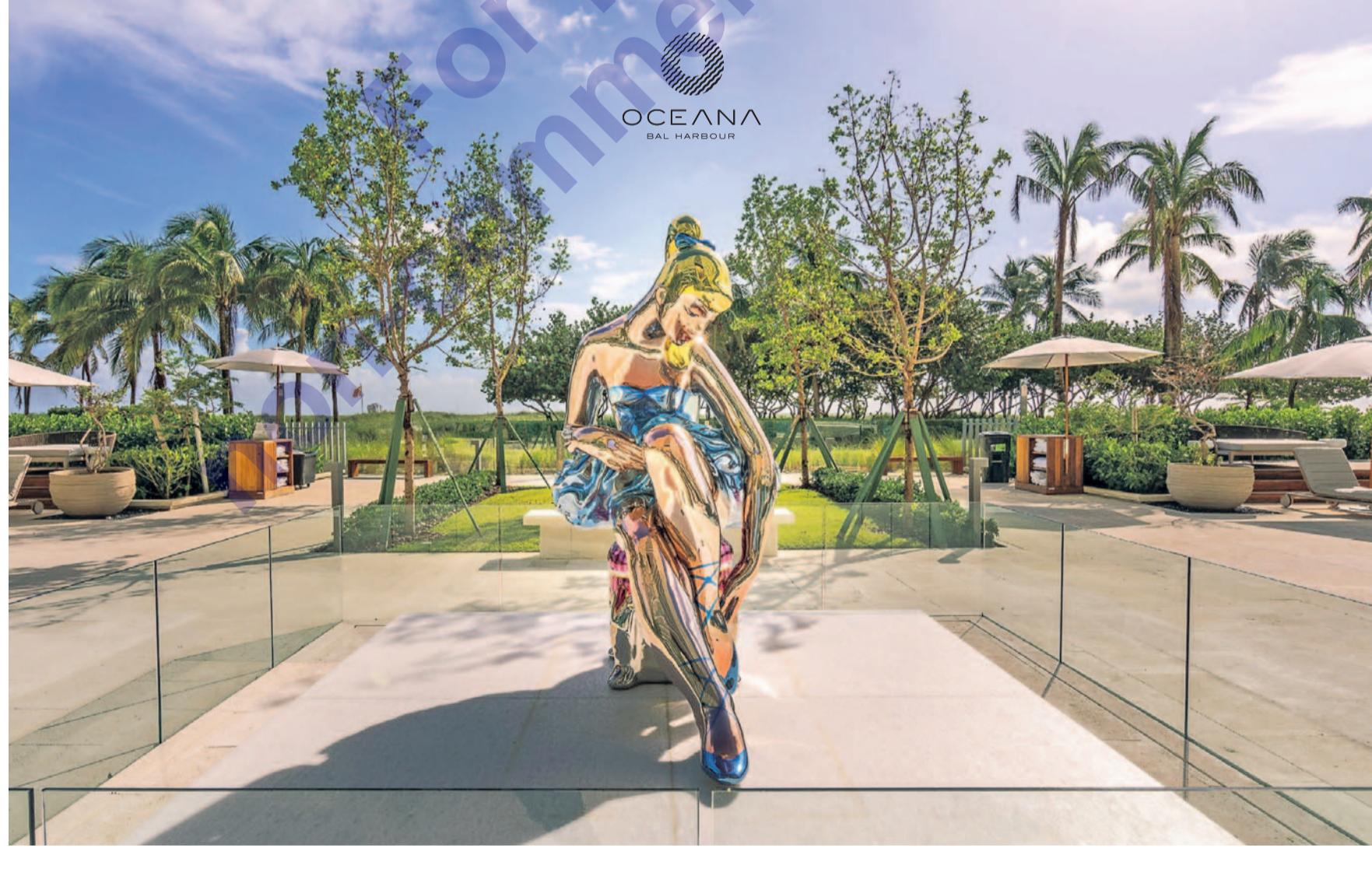
On the flip side, an escalation clause may not be in the seller's best interest, explains Prof. Reiss.

Say a house is listed for

\$1 million, and there are three bidders. Buyer A offers \$950,000. Buyer B offers \$975,000 with an escalation clause that could go up to \$1 million in \$5,000 increments. Buyer C offers \$980,000. In this scenario, the seller would get \$985,000 from Buyer B after the initial offer escalates over Buyer C's offer. But, had the seller not

relied on the escalation clause and instead asked the bidders for their best and final offer, he might have sold the house for \$1 million. "We know that the buyer was willing and able to go up that high," Mr. Reiss says. "Thus, the seller is likely getting \$15,000 less in the escalation-clause scenario."

While escalation clauses



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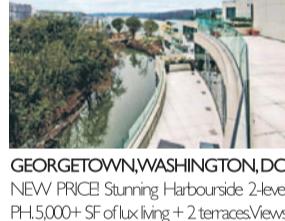
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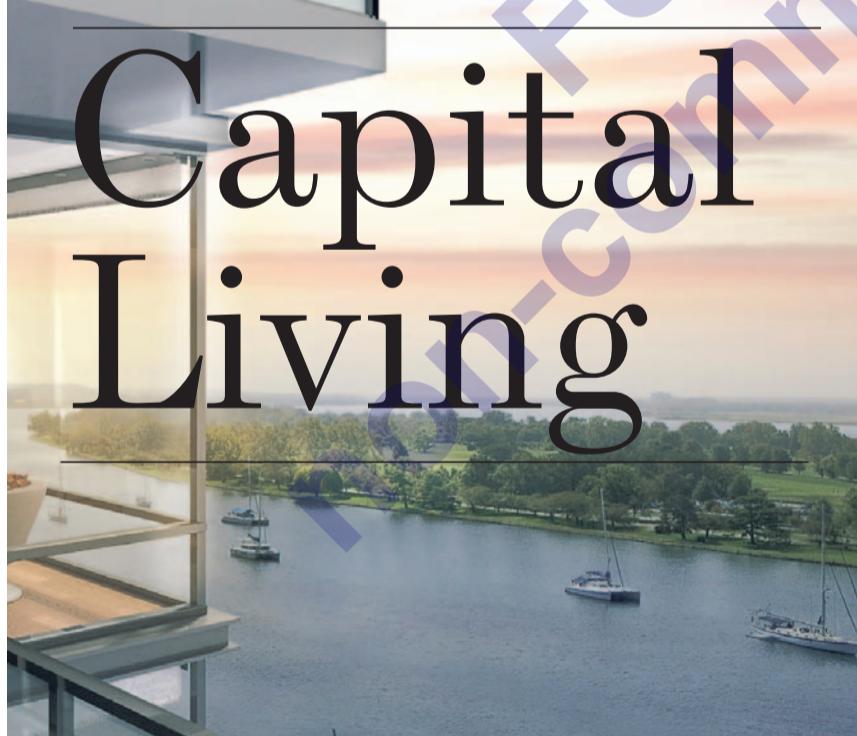
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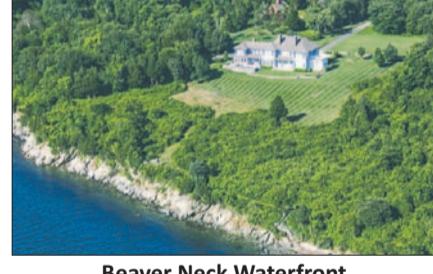
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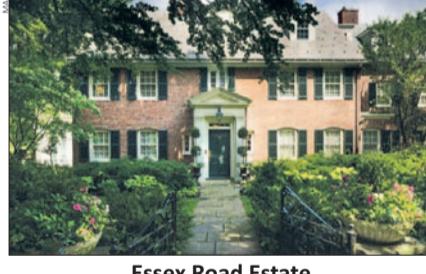
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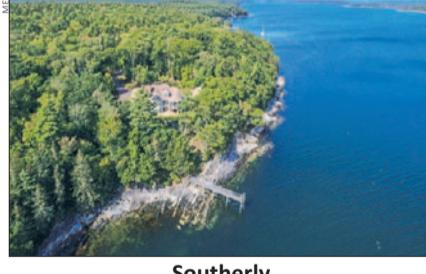
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# An Architect Stands Tall

The designer of super-tall residential towers drew a 40-story building as a teen; today, three homes near Chicago

**One of my first memories was getting lost. I was 4 or 5 and we lived in San Clemente, Calif. My parents dropped me off at a friend's house, and when we were done playing, I marched out the door and started walking home. Fortunately, friends of my parents spotted me.**

I remember being concerned about not knowing where I was, but I wasn't scared. I viewed the experience more as an adventure, which is how I look at designing super-tall buildings today. It's an adventure.

I was born in Chicago and we lived in nearby Evanston. My father, Alfred, was an executive at the Montgomery Ward department store. He was a manager in charge of finding new locations for the chain.

In his travels, he discovered a small coastal town called San Clemente that he thought would be a good location for us to live. So when I was 3½, we moved there. He opened his own store in town and called it Adrian's, after me.

My mother, Hazel, worked there as a salesperson in the women's department. As a teen, I swept floors, cleaned toilets and stocked shelves. During the holidays I sold men's clothes, and during school breaks I'd go on buying trips with my parents.

We first lived in a community of white-stucco houses with red-tile roofs. Ole Hanson, San Clemente's founder, had planned the community in the 1920s. The homes were custom-built for their occupants.



Our third house in town was a beautiful Spanish Colonial Revival designed by Paul Revere Williams in 1928. The two-story, 4,800-square-foot house had five bedrooms and maid's quarters. It sat at the highest point in San Clemente.

Looking west, the land draped down several miles to the Pacific. The views were spectacular, like living in a high floor of a tall tower, but better because there were trees in the foreground.

We had a big circular driveway and there was another drive running through a covered passage to the courtyard and garage in the back, where there were gardens, a chicken coop and beehives.

My two older brothers and I had our own rooms. My brother Bob was 16 years older than me. At the time, he was married and had a daughter five years younger than me. He had finished college and was a doctor interning at a hospital, so he lived with his family in our house.

My favorite sport was baseball. I was a pitcher and shortstop from age 8 through high school. My dad was the coach of my Little League and American Legion teams.

I first became interested in ar-

chitecture during a mechanical-drawing class in high school. While learning perspective, I drew my first building: a 40-story high-rise tower. I also excelled in math.

At home, I liked going through magazines, tearing out and saving pictures of modern and neoclassical buildings. At some point, my mother suggested I should consider becoming an architect.

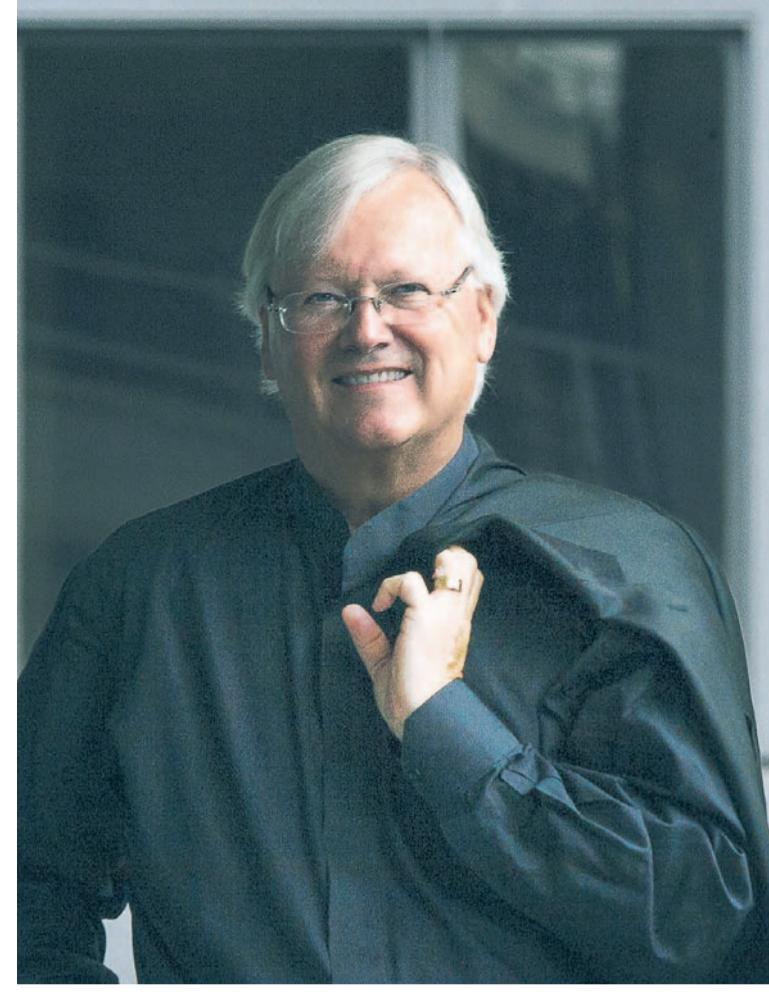
At the end of my freshman year at Texas A&M, my parents took me to Los Angeles on a buying trip. As they placed orders with the wholesaler, I struck up a conversation with Eric, the accountant. He turned out to be the father of Bruce Graham's wife.

Graham was a famous architect at Skidmore, Owings & Merrill and would later design some of Chicago's tallest buildings, including the iconic Sears Tower. Eric gave me Graham's number. After college, I applied for a job at SOM and was hired.

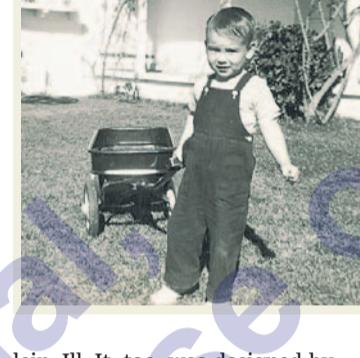
Today, my wife, Nancy, and I have two homes in Lake Forest, Ill. The one we spend most of our time in is a 100-year-old white Colonial built in 1912. It's modeled after George Washington's Mount Vernon and has a parklike setting on 6 acres.

The other is an 85-year-old house designed by David Adler. This house is an important landmark in Lake Forest in need of repair and restoration. We purchased it seven months ago and are bringing it back to life.

We also have a house in Mund-



**HIGH MINDED** Adrian Smith in his Chicago firm in 2012, and below, as a toddler at his family home in San Clemente, Calif. Far left, a rendering of the tower in Jeddah, Saudi Arabia, set to be the world's tallest building.



Not one of our homes is in a tall building. Nancy is from Iowa and prefers to live close to the ground. But my offices are in the penthouse of a Chicago tower, so I get my share of inspiring views.

Working with customers at my father's store gave me a strong work ethic. I also learned a great deal about sales. Even architects of tall buildings have to sell their designs to clients.

—As told to Marc Myers

**Adrian Smith, 73, is founder of Chicago's Adrian Smith + Gordon Gill Architecture. The firm has designed the world's tallest building in Jeddah, Saudi Arabia, and the world's tallest residential building in New York, Central Park Tower. Both are due in 2020.**



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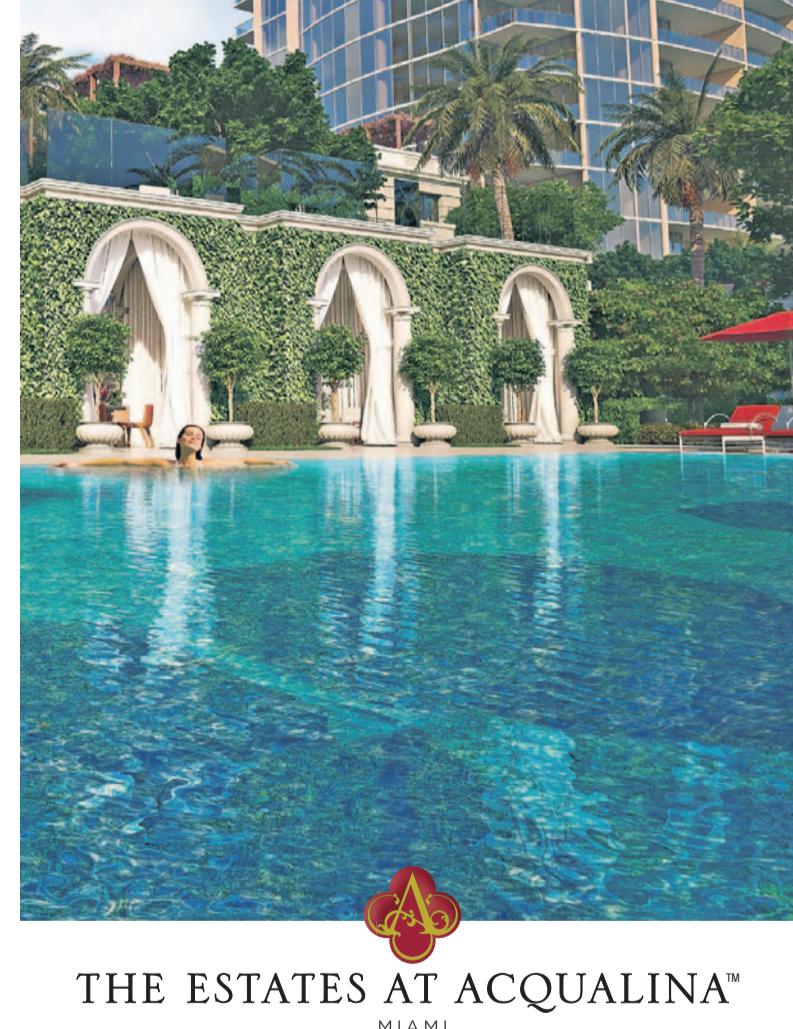
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