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THE WALL STREET JOURNAL.

DOW JONES | News Corp *****

TUESDAY, FEBRUARY 27, 2018 ~ VOL. CCLXXI NO. 47

WSJ.com

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DJIA 25709.27 ▲ 399.28 1.6%

NASDAQ 7421.46 ▲ 1.1%

STOXX 600 383.06 ▲ 0.5%

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EURO \$1.2319 YEN 106.94

What's News

Business & Finance

Fidelity is weighing an overhaul of its stock-picking unit, including scrapping its star-manager system, following allegations of sexual misconduct. **A1**

◆ **The Dow and S&P 500** rallied, led by financial and tech shares. The industrials climbed 399.28 points, or 1.6%, to 25709.27. **B1**

◆ **Microchip Technology** is in advanced talks to buy Microsemi in what would be the latest in a wave of deals sweeping the semiconductor industry. **B1**

◆ **GE is overhauling** its board as the conglomerate attempts to restructure under its new CEO. **B1**

◆ **Qualcomm said** it saw progress in deal talks with Broadcom but that price remains a sticking point. **B2**

◆ **New-home sales** fell 7.8% in January after declining in December. Analysts blamed the weather. **A2**

◆ **Weinstein plans** to file for bankruptcy after talks to sell the studio ended. **B3**

◆ **The justices** are set to hear arguments on whether emails stored overseas are subject to U.S. warrants. **B4**

◆ **UPS is suing** the EU for \$2.15 billion over the bloc's veto of the delivery firm's planned deal with TNT. **B6**

World-Wide

◆ **The Supreme court** declined to take up an appeal by the Trump administration that sought a quick end to the DACA program. **A1**

◆ **The justices agreed** to consider whether an inmate with no memory of his crime can be executed. **A6**

◆ **Xi is putting** a trusted ally in charge of a wide swath of China's economy as more power shifts to the president's inner circle. **A1**

◆ **South Korea's president** called on the U.S. to ease preconditions for talks with Pyongyang, amid a thaw in inter-Korean relations. **A8**

◆ **Russia said** it wasn't ready to implement a U.N.-backed cease-fire in Syria, even as the EU and U.S. demanded an immediate truce. **A9**

◆ **A background-checks bill** ran into hurdles in the Senate, raising doubts about new gun legislation after the Florida school shooting. **A4**

◆ **The ex-deputy** accused of failing to respond to the shooting said he thought the shots were outside. **A4**

◆ **An appeals court ruled** that gay employees are allowed to sue their employers for discrimination under federal civil-rights law. **A3**

◆ **Residents of South Sudan** are at risk of extreme hunger as the country tries to contain a four-year war. **A8**

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Amid Dispute, One of Jerusalem's Holiest Sites Is Closed



ACCESS DENIED: A worshiper prayed outside the Church of the Holy Sepulchre in Jerusalem on Monday. Christian leaders closed the church amid a dispute with Israeli authorities, underscoring tensions over a U.S. decision to recognize Jerusalem as Israel's capital. **A9**

Fidelity Rethinks Star Managers

Harassment complaints prompt mutual-fund giant to consider more team-based approach

By SARAH KROUSE
AND KIRSTEN GRIND

Fidelity Investments, the mutual-fund giant synonymous with the star stock picker, is now considering abandoning the investment process that made its managers famous, according to people familiar with

the situation.

The changes under consideration at privately held Fidelity are the result of an outside consultant's review since late last year of behavior within the stock-picking unit, and follow reports by The Wall Street Journal of claims of sexual harassment and other misconduct there.

If enacted, the changes would mark a major overhaul of Fidelity's lucrative stock-picking business, which executives have been loath to disrupt. They could mark the end

of an era that created such star stock pickers as Peter Lynch and William Danoff, who helped the firm's assets under management swell to \$2.4 trillion and make the Johnson family that founded Fidelity billionaires.

In recent weeks, Fidelity's senior management, including Chief Executive Abigail Johnson, has held internal discussions about changes aimed at rehabilitating the culture of its high-profile stock unit in Boston, according to people familiar with the meetings. The

changes under consideration include scrapping Fidelity's longtime approach of using junior analysts to support a lead fund manager.

Ms. Johnson, the granddaughter of Fidelity's founder, also has led meetings on ways to improve the treatment of women in the asset-management business.

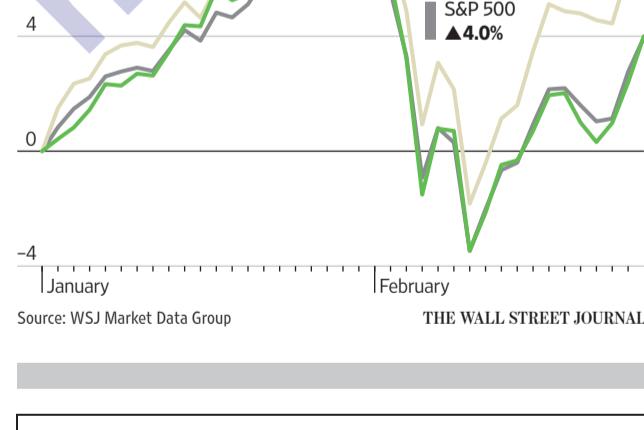
A Fidelity spokesman, Vincent Loporchio, said the firm has formed "advisory teams" comprising senior executives and staff members from its as

Please see FUND page A2

Stock Market Bounces Back

Major U.S. indexes climbed for the third straight day Monday, as stocks continued to recoup their February losses. **B1**

Index performance, year to date



World's Biggest Tech Investor Befuddles With His Bets

By PHRED DVORAK AND MAYUMI NEGISHI

Tech magnate Masayoshi Son often befuddles people in his industry with the large sums he is willing to pay for stakes in companies. That includes his directors.

Shigenobu Nagamori says he objected when Mr. Son, chief executive of SoftBank Group Corp., told his board in 2016 he wanted to pay \$32 billion for Arm Holdings PLC. The U.K. chip-design firm was worth a 10th of that, Mr. Nagamori, then a SoftBank outside director, says he told Mr. Son.

Mr. Son paid it anyway. And he continued a buying spree, picking up stakes in dozens

more companies, many of them "unicorns"—startups that have grown to valuations over \$1 billion—such as Uber Technologies Inc. and WeWork Cos. In some of those deals, too, he had to argue with directors and advisers who thought he was paying too much.

Investors want to understand just how Mr. Son goes about deciding on his billions of dollars of bets, among the largest in the tech industry, which he does through SoftBank and affiliated investment funds. Current and former SoftBank directors, executives, investing partners and others who know Mr. Son give a glimpse into how he works. It appears some

Please see INVEST page A10

How Pundits Never Get It Wrong: Call a 40% Chance

* * *

Forecasting tactic covers all outcomes; it's a 'distinct possibility'

By ROLFE WINKLER
AND JUSTIN LAHART

What are the chances that readers will make it to the end of this article? About 40%.

If you do make it, that prediction will look smart. If you don't, well, we said the odds were against it.

Such is the nature of the 40% rule, a favorite forecasting tactic of Wall Street analysts and other prognosticators trying to make a bold call without being too bold.

Former British Prime Minister Tony Blair said last month there's a 40% chance that Brexit will be reversed; Citigroup Inc. analyst Jim Suva wrote that there's a 40% chance Apple Inc.

buys Netflix Inc.; and Nomura Holdings Inc. economist Lewis Alexander said there's a 40% chance Nafta gets ripped up.

The nice thing about 40% is that you never have to say you were wrong, says Peter Tchir, a market strategist at Academy

Securities. Say you predict the Dow Jones Industrial Average has a 40% chance of hitting 30000 before year-end.

"Get it right and you can say

'See, I was telling everyone it could happen,'" he says. "Get it

wrong and you can weasel your

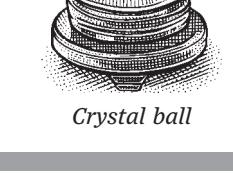
way out: 'I didn't say it was

likely, I just said it was a strong

possibility.'

With a 24-hour news cycle, outlets from cable channels to newspapers are always looking for an expert to weigh in. If they offer an audacious estimate that will get clicks, all the better. The trend has boosted the industry of analysts and talking heads who predict everything from elections to cor-

Please see CHANCE page A10



Crystal ball

Trusted Xi Ally Set to Guide China Economy

By LINGLING WEI

BEIJING—In his first term, President Xi Jinping took control of China's economy. In the second, he is putting in charge a trusted ally he has known since middle school.

Proposed constitutional changes, made public Sunday, that would allow Mr. Xi to stay in power indefinitely would also shift more influence to his inner circle. Few are more central than Mr. Xi's behind-the-scenes economic steward,

Liu He, who will be named vice premier in charge of a wide swath of the economy—the financial system and the industrial sector—at the annual meeting of China's legis-

lature that starts next week, according to officials involved in policy-making.

Mr. Liu's broad remit will include oversight of regulators including the central bank.

"He will be the superregulator," said a senior official close to the leadership.

But first, Mr. Liu is going to Washington. Part of his mission on the trip, which starts Tuesday, is to get the Trump administration to restart trade talks with Beijing, according to people familiar with the matter.

At home, Mr. Liu, 66 years old, will face the challenge of shaking up the country's financial sector while keeping

Please see CHINA page A8

U.S. NEWS

Weather Blamed for Big Decline in New-Home Sales

BY SHARON NUNN

WASHINGTON—Two months of steep declines in sales of new homes across the U.S. haven't persuaded many economists that the housing market is turning lower.

Purchases of newly built single-family homes—a relatively narrow slice of all U.S. home sales—fell 7.8% in January after dropping 7.6% in December, according to data released Monday by the Commerce Department.

Purchases have declined for four of the past six months.

The January drop bucked the 4.0% growth economists surveyed by The Wall Street Journal had expected.

Analysts are pointing to

weather and the volatile nature of the new-home sales data to explain away what could be seen as an emerging downturn in the housing market.

"If the drop in January were related primarily to economic factors, it is likely that all regions would have experienced declines," Nationwide chief economist David Berson said.

Instead, the declines were concentrated in the Northeast and South. Winter weather, particularly in Southern states, might have kept prospective buyers from the search, some economists said.

Regardless of the weather's impact on home buyers, the numbers themselves tend to be unreliable in the short term.

New-home-sales data pro-

duced by the Commerce Department are highly volatile, with large statistical margins of error, and subject to extensive revisions months after initial data are released.

"The national and all four regional sales estimates were statistically insignificant," said Patrick Newport, IHS Markit executive director for U.S. economics.

Given the large margins of error, he noted, it is uncertain whether there was even an increase or decrease for the month.

Still, there are reasons to be on the watch for softness in sales data.

Last year's tax overhaul made it more expensive to live in some high-cost areas, includ-

ing the Northeast, and to take out big mortgages.

Mortgage rates have moved higher rapidly since the beginning of 2018, making purchasing a home more expensive.

Moreover, housing inventory has been tight, driving up home prices and pricing some potential buyers out of the market. In January, sales of previously owned homes, which represent the bulk of the U.S. market, experienced their sharpest year-over-year drop in more than three years.

But inventory might be turning. In January, at the current sales pace, new-home supply reached 6.1 months, the highest level since the middle of 2014. That could ease upward pressure on prices.

New-Home Sales Are Down as Supply Is Up

New single-family-home sales have declined four times in the past six months, while the number of months in inventory is growing.

New-home sales*

750 thousand



*Seasonally adjusted annual rate

Sources: Census Bureau (sales); Commerce Department via St. Louis Fed (supply)

New-home supply

15 months



THE WALL STREET JOURNAL.

Suspect in Four Detroit Slayings Kills Himself in Ohio



RAMPAGE: Two women embrace Monday at a Detroit gas station where a man is suspected of killing the mother of his child and two others earlier in the day. A fourth victim, a cousin of the suspect, was fatally shot about a mile away. The suspect, George Anthony Davis Jr., 27, died after shooting himself while fleeing officers in Ohio, authorities said.

FUND

Continued from Page One set-management business. "The fact that the advisory teams were established and are meeting is not an indication that any decisions have been or will be made," he said.

Stock picking has been under pressure in recent years as investors have poured money into low-cost index-tracking funds. The star-manager system helped fuel careers of top fund managers, but it also created a system in which portfolio managers wielded outsized power over analysts, more than a dozen current and former employees said.

Fidelity is now considering a team-based approach used by mutual-fund firms such as rival Wellington Management that gives analysts and senior managers more-comparable footing in choosing securities, the people familiar with the talks said. Fidelity may also do away with a controversial compensation system.

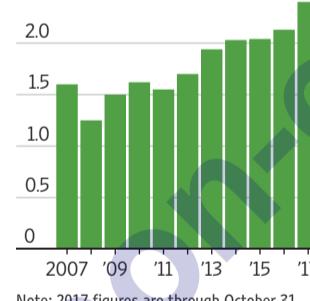
The possible changes are part of a reckoning under way inside the equity division, which for years dealt quietly with accusations of sexual harassment and other misconduct.

In October, the Journal reported that Fidelity fired one of its most prominent fund managers, Gavin Baker, for allegedly sexually harassing a junior female employee, according to the woman's lawyer and people familiar with the matter. A spokesman for Mr. Baker said he "strenuously" denied any "supposed" allegations of sexual harassment. Fidelity also has forced out several other portfolio managers following complaints of sexual harassment and other abusive behavior.

Fidelity's Mr. Loporchio said, "We have a strong culture, built on integrity, respect and always doing what is in the best interest of our associates and clients, and the actions of a few, which we do not condone, are by no means

Green Machine

Assets under management at Fidelity Investments



representative of who we are as a firm."

The former and current Fidelity employees said two main issues have contributed to incidents of bad behavior inside the money-management unit. One is the existing compensation system, in which managers vote on analysts' performance, which in turn affects those individuals' pay. That system at times has played out like a popularity contest, where junior analysts have felt pressure to curry favor with managers and have feared a backlash for disagreeing with their investment ideas, the current and former employees said.

Several instances of alleged misconduct identified by the Journal haven't been previously reported.

Harry Lange, manager of Fidelity's well-known Magellan Fund from 2005 to 2011, was known for making inappropriate comments to colleagues, several former employees said. At one point, an executive warned him about keeping pornography in the office, a person familiar with the matter said.

During a work trip to Japan with co-workers late in his tenure, a routine airport check revealed sex toys in Mr. Lange's suitcase, according to several people familiar with the incident. In response, Fidelity executives launched an internal investigation into his behavior at the firm, these people said.

Mr. Lange was forced to leave the fund later that year, in part because of its poor performance, the Journal reported at the time. Mr. Lange went on to become part-owner of Hedonism II, a clothing-optimal resort in Jamaica, ac-

cording to a 2013 press release. Mr. Lange didn't respond to requests for comment.

In 2014, Ms. Johnson and other senior executives learned that police in Boston had contacted Fidelity about an analyst who had been arrested a block from the firm's headquarters near the city's South Station, where he met an undercover officer disguised as a prostitute, according to a police report and people familiar with the incident.

Police said the analyst, Miles Betro, 36, had been having sexually graphic conversations online, including one

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U.S. WATCH

TRUMP ORGANIZATION

No Details Released On Donated Profits

President Donald Trump's company last week donated its 2017 profits from foreign governments to the U.S. Treasury, the company said Monday, but declined to give any details on the size of its contribution or how it determined that number.

Before taking office last year, Mr. Trump said his companies would abide by "severe restrictions on new deals" and that the profits from any foreign government payments would be donated to the Treasury.

Ethics experts criticized the company's lack of transparency about the donation and raised concerns that while Mr. Trump retains ownership of his companies, he reaps the benefits of foreign payments.

"No matter the size of the check they write, it doesn't change the fact that foreign interests are spending money to line the president's pocket," said Adam Smith, communications director at the transparency advocacy organization Every Voice.

Since the president's inauguration last year, the Trump International Hotel in Washington has hosted a series of foreign visitors.

—Rebecca Ballhaus

CHICAGO

O'Hare Expansion May Cost \$8.5 Billion

Chicago officials and major airlines including United and American are in final stages of negotiating an \$8.5 billion expansion of Chicago's O'Hare airport, the country's third busiest airport by passenger traffic, according to people familiar with the discussions.

The modernization plan, which will include adding dozens of new gates, rebuilding the international terminal and renovating three terminals, will take eight years and represents the largest revamp of O'Hare in its 73-year history. The expansion will be funded entirely through higher fees from airlines and rents from concessionaires, borrowing against future airline fees to pay for construction.

City and aviation officials are hoping to leverage the ending of a 35-year lease between O'Hare and the airport's major airlines.

—Shibani Mahtani

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U.S. NEWS

Court Rules for Gay Workers

Appeals finding says civil-rights law gives employees right to sue over sexual orientation

BY NICOLE HONG

A federal appeals court in New York City ruled that gay employees are allowed to sue their employers for discrimination under federal civil-rights law, a significant ruling on an issue that has split courts across the country and could be headed for the Supreme Court.

The decision on Monday by the Second U.S. Circuit Court of Appeals follows a similar ruling in April 2017 by appeals judges in Chicago. After a federal appeals court in Atlanta ruled the opposite way last year, the plaintiffs in that case appealed to the Supreme Court, which declined the petition.

The divided rulings make it more likely the Supreme Court will take up the issue.

The case focuses on a 2010 lawsuit brought by Donald



Donald Zarda in 2006

MELISSA ZARDA/ASSOCIATED PRESS

Zarda, a gay skydiving instructor who alleged he was fired by his employer after a customer complained about Mr. Zarda's disclosure of his sexual orientation during a jump with a female skydiver. Mr. Zarda died in 2015.

One of Mr. Zarda's claims was that his employer had violated Title VII of the Civil Rights Act of 1964, which prohibits employment discrimination based on "race, color, religion, sex, or national origin."

The question that has divided courts is whether the law's prohibition on sex dis-

crimination in the workplace also covers sexual-orientation discrimination.

A lower court originally dismissed Mr. Zarda's case, and the Second Circuit rejected his appeal, finding a distinction between sex and sexual orientation. The full panel of Second Circuit judges then agreed, in a rare move, to review the issue.

In the 10-3 ruling, the Second Circuit appeals court said sexual-orientation discrimination is a form of sex discrimination, writing that "sexual orientation is defined by one's sex in relation to the sex of those to whom one is attracted, making it impossible for an employer to discriminate on the basis of sexual orientation without taking sex into account."

Gay-rights groups cheered the ruling, saying it builds momentum to their longstanding push to protect gay employees from discrimination in the workplace.

Saul Zabell, a lawyer for the company that fired Mr. Zarda, said the judges "exceeded their judicial mandate" and "chose to

ignore the facts of the underlying matter." But he also said there was a dire need for this change in the law and praised the judges "for curing this glaring legislative gap in fundamental human rights."

The oral argument in the case was unusual because two government agencies took opposite sides of the issue. The Equal Employment Opportunity Commission, the agency responsible for enforcing Title VII, said sexual orientation discrimination was covered, while the Justice Department said it was not.

A spokeswoman for the Justice Department didn't have an immediate comment. Victoria Lipnic, who was appointed by President Donald Trump last year to be acting chair of the EEOC, said in a statement: "This is a generous view of the law of employment protections, and a needed one."

In his dissent, Judge Gerard Lynch, a Barack Obama appointee, said it should fall to Congress, not the courts, to expand Title VII protections.

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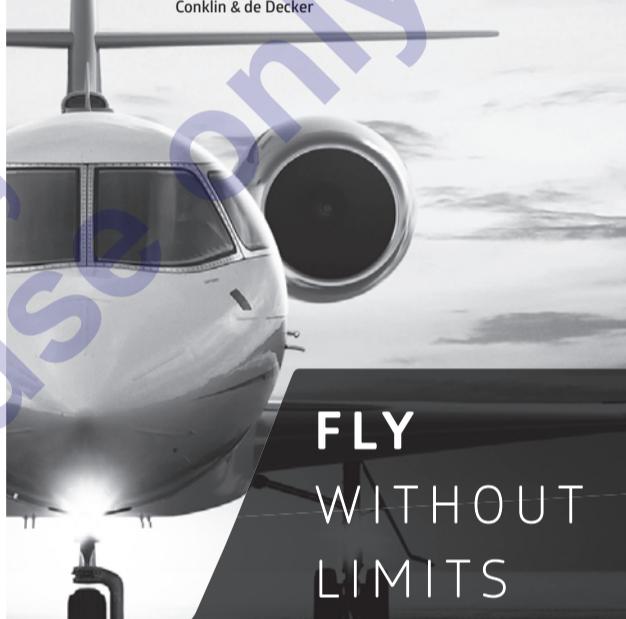


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The Ohio River rose above 60 feet at Cincinnati for the first time since 1997. Above, the area around the Bengals football stadium.

Cincinnati Braces for More Rain

BY KRIS MAHER

Days after the Ohio River inundated greater Cincinnati, the river remained at a moderate flood stage Monday, and officials warned residents that coming rain would keep floodwaters elevated through the end of the week.

Last week, storms soaked much of the central U.S., from Louisiana to Michigan. The death toll from flooding and tornadoes rose to at least five by Sunday, according to the Associated Press.

In Cincinnati, heavy rains over five days pushed the river to about 60.5 feet over the weekend. The river hadn't risen above 60 feet since 1997. Flood stage at this part of the river is 52 feet, and it remained above 59 feet on Monday.

A total of 4½ inches of rain fell at the airport in Cincinnati, and more rain was forecast for Wednesday and Thursday.

"We're still seeing another

Overflowing

Though the water has receded in many areas since last week, flooding remains a threat in much of the Midwest.

Gauges recording flooding as of Monday: • Minor • Moderate • Major



round of rain in the region," said Myron Padgett, a meteorologist with the National Weather Service. "It's going to slow down the fall of the river."

Flood warnings remained in effect in Hamilton County, which includes Cincinnati, and

neighboring Clermont County, and safety officials warned residents to steer clear of floodwaters.

New Richmond, a village of about 2,500 people east of Cincinnati, was up to 50% under water this weekend, according to city officials. The flooding prompted the Red Cross to open a shelter for people forced from their homes.

Two tornadoes touched down to the southeast of Cincinnati. But Mr. Padgett of the weather service said the damage was mostly limited to downed trees and power lines.

Nick Crossley, director of the Hamilton County Emergency Management and Homeland Security Agency, said residents would be able to begin assessing the damage after the coming rain finally allowed the river to subside.

"As the water recedes, we'll know the full extent of the damage," he said. "I would not say we're out of the woods yet."

U.S. to Investigate Michigan State

BY MICHELLE HACKMAN

WASHINGTON—Education Secretary Betsy DeVos announced a broad investigation into Michigan State University's handling of reports of sexual violence by Larry Nassar, the former USA Gymnastics doctor and an athletic trainer at the school.

The investigation, by the Department of Education's Office for Civil Rights, will look at whether the university mishan-

dled or failed to adequately respond to complaints of unwanted sexual contact by Dr. Nassar, in violation of Title IX, which prohibits gender discrimination at schools and colleges.

The department opened a Title IX investigation at the school in July, but a department spokeswoman said that was focused on one specific complaint, and this probe will be far broader.

"We expect MSU's full and complete disclosure about its actions to protect students from sexual assault," Mrs. DeVos said Monday in a statement announcing the action.

The university received a Title IX complaint about Dr. Nassar's conduct in 2014, but the university cleared him of wrongdoing and allowed him to continue seeing patients. Dr. Nassar continued his medical work until mid-2016, when more victims came forward.

Department investigators will look into how university officials handled that Title IX complaint and any others they may have received. A spokesman for Michigan State didn't return a request to comment.

The department's decision to open a proactive probe comes in contrast to its broader approach to civil-rights enforcement. Under Mrs. DeVos's leadership, the department has cut its civil-rights staff and reversed an Obama administration practice of broadening individual complaints to look for systemic civil-rights violations.



Dr. Larry Nassar was sentenced to prison in January after more than 150 women and girls said he sexually abused them.

The Michigan State investigation comes a month after the department opened a separate probe into Michigan State's compliance with the Clery Act, a federal law requiring schools to track and report crimes committed on campus.

A Clery investigation into Pennsylvania State University led the school to pay a \$2.4 million fine in part due to its handling of former assistant football coach Jerry Sandusky's child abuse.

Dr. Nassar was sentenced in January to 40 to 175 years in prison after more than 150 women and girls said he had sexually abused them.

Following his conviction, the school's president, Lou Anna K. Simon, and its athletic director, Mark Hollis, both resigned.

In the wake of Dr. Nassar's televised sentencing, a variety of lawmakers and congressional committees have taken an interest in the institutions that employed him, including Michigan State University, USA Gymnastics and the U.S. Olympic Committee.



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U.S. NEWS

Trump's Task: Bridge Cultural Divide on Guns

**CAPITAL JOURNAL**

By Gerald F. Seib

The Florida school shooting has revealed not so much a national disagreement over guns or school violence, but rather an enormous cultural divide, of which guns are only the most obvious part.

And who is in position to bridge that divide? President Donald Trump. He has been known more for dividing than uniting, so whether he'll play this role or not remains to be seen.

But the opportunity is there. It's an opportunity available more to a national leader trusted by gun owners and their organization, the National Rifle Association, than to one mistrusted by them. Perhaps this isn't exactly a Nixon-to-China moment, but it's close. The president will have his opening this week, when he is expected to meet with governors and lawmakers on gun issues.

The searing national debate since a suspect gunned down 17 students and teachers with an AR-15-style rifle is notable not because people on different sides disagree. That's normal in American democracy. What's striking is that people on opposing sides of this broader cultural chasm often can't even conceive of how people on the other side can



MICHELE EVE SANDBERG/AGENCE FRANCE PRESSE/GTY IMAGES

A gun seller shows off an AR-15 rifle during preparations for a gun show in Miami days after the Parkland, Fla., school shooting this month.

hold their positions.

Rarely has that been more clear than in aftermath of the disturbing speech delivered last week by Wayne LaPierre, the NRA's chief executive, at the Conservative Political Action Conference. It was a speech framed almost entirely around the idea that gun owners are opposed by "them"—loosely defined as intellectuals, Democrats and the news media.

These elites "don't care, not one whit, about America's school system and schoolchildren," Mr. LaPierre declared. Instead, he charged, they want

to take advantage of the Florida school tragedy to take away the right to bear arms.

Taking away guns, he said, is simply the opening of a campaign to take away all individual freedoms: "Their goal is to eliminate the Second Amendment and our firearms freedoms, so they can eradicate all individual freedoms." This threat is real, he argued, in part because the Democratic Party—whose presidential candidate won the votes of nearly 66 million Americans in 2016—now is "infested with saboteurs" who "don't believe in our freedom."

Mr. LaPierre's outlandish

rhetoric distracts from an important underlying reality: His basic argument—that the right to own guns is fundamental to other American freedoms—is one with which many gun owners agree. In fact, a Pew Research Center poll last year found that three-quarters of gun owners considered the right to own a gun an "essential" right.

In contrast, many Americans on the other side can't comprehend how fellow citizens could see it that way. To them, the right that is at stake is something more fundamental, the right to life, also enshrined in the Constitution.

This is a considerable gap, but hardly the only one in an America increasingly split between rural and urban, red states and blue states, North and South. A Wall Street Journal/NBC News poll last year found this cultural gap both pervasive and growing.

The splits happen to be most visible along party lines. Asked whether they were concerned the government might go too far in restricting gun ownership or, conversely, that government wouldn't do enough to regulate firearms, 77% of Republicans said they worried the government would go too far. By contrast,

71% of Democrats said they worried the government wouldn't go far enough.

It isn't just guns. Democrats are eight times as likely as Republicans to favor action on climate change. Nor is it just a partisan divide. Two-thirds of urban dwellers said they felt comfortable overall with societal changes that have made the U.S. more diverse. Meanwhile, just 38% of rural Americans felt that way.

One task of political leaders is to try to bridge such divides. But there hasn't been much of that lately—and it's hard in the aftermath of a 2016 election in which many Americans don't merely disagree with those who voted for the candidate they opposed for president, but can't even imagine how they could cast such a vote.

This is the problem, but also the opportunity, for Mr. Trump. In this environment, it's easier for a leader with credibility with NRA supporters to move the system toward action on guns—stiffer background checks, age restrictions on sales, bans on equipment that effectively turns rifles into machine guns.

In a White House meeting with families of gun victims, Mr. Trump ably directed the conversation toward broadly acceptable items on registration and age limits. Then, the next day, he delivered a red-meat speech to CPAC that focused more on arming teachers and seemed designed to move away from consensus. Was he reassuring gun owners before making moves they won't like, or simply reassuring them? We'll know more this week.

Background-Checks Bill Hits Snags

BY KRISTINA PETERSON
AND MICHAEL C. BENDER

WASHINGTON—Legislation designed to improve background checks for gun purchases ran into new hurdles, raising doubts about lawmakers' ability to act in the wake of the Florida school shooting.

The background-checks bill, sponsored by Sen. John Cornyn (R., Texas), would encourage states and federal agencies, including the military, to submit criminal-conviction records to the National Instant Criminal Background Check System, or NICS. That step has broad bipartisan support.

But some Democrats worried Monday that GOP lawmakers would seek to address the recent public outcry over gun violence by passing the Cornyn bill but no other gun-control legislation, and suggested they might withhold support. On the other side, some Republicans voiced concerns over how people flagged in the strengthened system could appeal.

President Donald Trump has kept the pressure on lawmakers to change the nation's gun laws after the school shooting in Parkland, Fla., this month. He has floated a number of possible measures, including improved background checks, banning devices known as "bump stocks" and further restricting gun purchases based on age and mental illness.

Mr. Cornyn told reporters that he still saw his bill as the most likely common ground on Capitol Hill, where lawmakers have struggled for years to pass any significant legislation connected to guns.



President Donald Trump speaking about gun violence with the nation's governors on Monday.

"To me that's the most obvious place to start," Mr. Cornyn said of his "Fix NICS" bill, which he introduced after the failure to prevent the gunman in a Texas shooting in November from purchasing weapons, despite his history of domestic abuse.

"I'm for doing what's achievable. If they want to get bogged down again and do nothing, to me that's unacceptable," said Mr. Cornyn.

Federal law requires agencies to submit to the background-check system records relevant to whether someone

should be allowed to buy a firearm, such as criminal convictions. At the state level, compliance is voluntary unless mandated by state law or federal funding requirements.

Democrats don't object to

the legislation itself, but said on its own, it wouldn't do enough to reduce gun violence.

"If all Congress does in response to the Parkland shooting is to pass 'Fix NICS,' we won't have done our job," said Senate Minority Leader Chuck Schumer (D., N.Y.).

Some Democratic lawmakers are unlikely to initially support passage of the Cornyn bill if GOP leaders aren't willing to bring other gun-related legislation to the Senate floor, aides said. Others made clear they wouldn't block the bill in an effort to push for more.

"My view is every step is important," said Sen. Richard Blumenthal (D., Conn.). "If it comes on the floor, I'll vote for it."

The Cornyn bill also faces resistance from some conservatives, including GOP Sens.

Mike Lee of Utah and Rand Paul of Kentucky, who have said they are concerned about how individuals flagged under the background check system would be able to appeal.

The Cornyn bill passed the House in December, but there it was paired with legislation that would enable gun owners who legally carry concealed firearms in one state to carry them in the other 49 states—a major expansion of gun rights.

Conservative House Republicans are expected to protest any move to separate the two bills, but many centrist GOP lawmakers in competitive congressional districts have urged House Speaker Paul Ryan (R., Wis.) to bring the bill up on its own. House GOP leaders are looking to the Senate to take the next step, aides said.

More Schools Seek Shooting Defenses

BY TAWNELL D. HOBBES

like secure command centers for a few people while others hold dozens or hundreds of students. The rooms are typically fortified, including with steel, and have intricate locking systems.

The rooms usually have communication systems and security monitors and often double as severe-weather shelters and learning areas.

"We have six of those safe rooms. What a great thing to have in your back pocket," said Ron Whipkey, acting superintendent in Atoka Public Schools in Atoka, Okla. The rooms overall cost \$400,000 and together hold several hundred people.

In the Colonial School District in Delaware, Gunning Bedford Middle School has 121 bulletproof whiteboards that teachers can use as shields, and the district's Pleasantville Elementary has 19. Delaware state Sen. Nicole Poore (D., New Castle) helped start a pilot program in 2014 to put the whiteboards in the schools.

The Northside Independent School District in San Antonio has a May bond measure that would pay for improvements including bullet-resistant security lobbies in 44 elementary schools and in its police department at a cost of \$10 million.

Miami-Dade County Public Schools in Florida and other local entities wrote state lawmakers last week asking for \$30 million for safety initiatives, including hiring 100 additional school-based law-enforcement officers and evaluating classrooms for bulletproof glass.

Ex-Deputy Says He Believed Gunfire Was Outside Florida School

BY JON KAMP

The former sheriff's deputy accused of failing to respond to this month's deadly high-school shooting defended himself on Monday, saying he believed shots were being fired outside the building where a gunman was actually firing away inside.

The allegations that Scot Peterson was a coward and that his performance, under the circumstances, failed to meet the standards of police officers are patently untrue," said Joseph DiRuzzo, the attorney for Mr. Peterson, who was assigned to the Parkland, Fla., high school

where 17 people were killed this month. He said Mr. Peterson properly took up position outside the building.

Broward County Sheriff Scott Israel—himself criticized for how his department handled the shooting response and warnings about the accused gunman—called out Mr. Peterson during a press conference last week for waiting outside and not going into the building. He said Mr. Peterson quit after being suspended without pay.

Speaking Thursday, Sheriff Israel said there was video, which hasn't been released, showing Mr. Peterson outside

the school building for "upwards of four minutes." He should have "addressed the killer, killed the killer," the sheriff said.

In response to the two-page statement from Mr. Peterson's attorney, the sheriff's office said it can't discuss details of the case due to an active internal-affairs investigation.

"I understand my name is on the door, I understand I am responsible for the successes and failures in this agency," Sheriff Israel said in an interview on Sunday. "The deputy received the training, had the tools, he understood the tactics, he had

the ability to enter and do what he had to do."

Authorities have accused 19-year-old Nikolas Cruz, a former student at Marjory Stoneman Douglas High School, with carrying out one of the nation's deadliest school shootings.

Mr. Peterson has drawn sharp criticism for not charging into the school building during the shooting.

Mr. DiRuzzo said his client is looking forward to cooperating with an investigation by the Florida Department of Law Enforcement, which Republican Gov. Rick Scott ordered to investigate the response to the

Parkland shooting.

In Mr. DiRuzzo's statement, Mr. Peterson said the first call he received that day was about firecrackers, and not gunfire, in the area of a building where the gunman was shooting.

Mr. Peterson said he responded to the firecracker call with the school's security specialist.

In comments included in his attorney's statement, Mr. Peterson said upon arriving, he "heard gunshots but believed that those gunshots were originating from outside of any of the buildings on the school campus." He then took up a

tactical position between two other buildings, consistent with his training for handling outdoor gunfire, and initiated a lockdown for the entire campus, the statement said.

Mr. Peterson said he told the first officers arriving on the scene, from the Coral Springs Police Department, about the supposed outdoor gunfire, and a radio transmission about a gunshot victim near the football field bolstered his belief that shots were being fired outside the school, according to the statement.

—Zusha Elinson contributed to this article.

Special Advertising Feature

THE RETURN OF LIFETIME INCOME

A time-tested strategy offers hope amid today's looming retirement crisis

Imagine living to be 200 years old.

According to some futurists, somewhere out there today is a child under the age of 10 who will be the first person to achieve this milestone. Advances in medicine, healthier lifestyles and better nutrition mean that life expectancies we once thought of as science fiction may soon become science fact.

Though living to 200 isn't right around the corner, most of us are living longer.

In fact, once you reach 50, odds are you will live into your 80s and beyond. And at least a quarter of 65-year-old married couples will have one spouse who lives to at least 97. Living longer brings many exciting possibilities and opportunities, but there's a flip side to this good news: Many have not saved enough for what could be a 20- to 30-year retirement. And *millions* of us face the prospect of completely outliving our savings or having to dramatically curtail our lifestyles. Do we rein in our expectations of having enough retirement income to live comfortably – free of worry – or do we find the means to make that dream a reality? There is a potential solution, but first, let's look at what brought us to this place.

Why Are So Many Americans Unprepared for Retirement?

To start, the way most of us fund retirement has shifted. Few workers have access to employer-backed pensions, which traditionally provided a steady, predictable "paycheck" throughout retirement. Instead, more people are self-funding their retirement through 401(k)s – if they have access to them – or other savings, and many just simply can't save enough. And even if they are "on track" with their savings, the 2008 financial crisis serves as a stark reminder of what can happen to your stock portfolio "nest egg" if you happen to retire in a down market.

Is There a Gap in Your Retirement Plan?

The math of saving for and, equally important, *living in* retirement has drastically changed. As we're called upon to "self-fund" most of our living expenses for retirement, it's critical that we look at ways to create reliable, steady income.

Financial experts tell us that we'll need an income of around 70 percent of what we had pre-retirement to maintain that lifestyle. Social Security – the safety net most Americans depend on – only replaces an average of 42 percent of our previous income. So savings from employer-sponsored plans and all other sources will have to cover the rest. But what if it doesn't?

In short, there could be a gap between the money we'll have and the money we'll need once we retire. How can we bridge that gap when savings and Social Security aren't enough?

The Annuity Strategy

Similar to how Medigap fills the void in your health care costs by covering what Medicare won't, adding an annuity to your plan can provide lifetime income, helping to fill the gap when Social Security, 401(k)s and other investments fall short.

Annuities enable us to invest some of our savings today to guarantee a payout for a set number of years or even the rest of our lifetime. Essentially, we pay today for the promise of steady income tomorrow. The flexibility of the annuity means we can either pay with a lump sum or create a payment plan that, over time, allows us to pursue our future income goals.

As part of a comprehensive retirement plan, annuities can be a powerful way to bridge the money gap in retirement.

Strategic Benefits for Protection and Growth

There are numerous annuity options you can choose that can be customized to meet your needs. For example, some annuities start paying a lifetime income stream immediately, while others allow that income stream to be deferred to a time in the future. And with the purchase of a lifetime income benefit, an annuity is the *only* investment that can provide a steady stream of lifetime income unaffected by market downturns. In fact, that income even has the potential to keep growing.

Sound too good to be true? It's important to remember that unlike any other investment product, annuities were created by insurance companies, which have the unique ability to offer features and add-on options that help protect us against outliving our savings or having to drastically change our lifestyle in retirement.

Uncomplicating the Complicated

Annuities have been available for a long time, and it's true that they can be complicated to understand and even challenging for advisors to sell in today's regulatory environment. But that should never be a reason for investors or advisors to forgo consideration of something so critical as guaranteed lifetime income.

That's why Jackson®, America's No. 1 provider of annuities, is leading the charge to bring these important products back to the mainstream of the retirement-planning conversation. We are working to simplify options, clarify policy language and work with regulators to make annuities easy to understand and more accessible to all.

Talk to a Financial Consultant

Just like every other investment tool, annuities have both benefits and liabilities and aren't meant for everyone. But what *is* right for everyone is having income they can count on for the rest of their lives. Investors should start by working with a financial consultant to create a comprehensive, personalized financial plan and determine if annuities make sense for their own goals and life priorities.

Lifetime Income Shouldn't Be a Dream

At Jackson, we believe that creating protected lifetime income is imperative if people are to manage their way through the looming retirement crisis and enjoy their longevity. Annuities can help strengthen the economic fabric of America and are a time-tested strategy many can use to help achieve their vision of the future.

Because everyone deserves to live the life they want and the opportunity to pursue financial freedom.



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Optional benefits are available for an extra charge in addition to the ongoing fees and expenses of the annuity.

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U.S. NEWS

Democrats Seek California Gains

As demographics shift in Orange County, party hopes for opportunity to retake the House

BY ALEJANDRO LAZO

NEWPORT BEACH, Calif.—Until recently, an upscale resort in Orange County, Calif., may have seemed an unlikely place for a boisterous gathering of 700 Democrats looking to unseat a longtime Republican congressman.

But Democrats say this wealthy suburban county south of Los Angeles is in the midst of a political transformation that could help them take back the U.S. House of Representatives.

Two of the county's four congressional Republicans, Darrell Issa and Ed Royce, said in January they would retire, leaving lesser-known Republicans to joust for their seats. More than a dozen Democrats also have entered those races.

In addition, several well-funded Democratic contenders have lined up to take on Orange County Republican incumbents Mimi Walters and Dana Rohrabacher.

Grass-roots activists have been promoting the tagline "Orange is the new blue," while regular protests have become common at Republican district offices. Behind the Democrats' hopes is a demographic shift in Orange County.

The percentage of whites in the county fell to 44.13% in 2010 from 78.1% in 1980 while, over the same period, the total Latino population increased to 33.7% from 14.8%, according to U.S. Census Bureau data compiled by California Target Book.

The growth in Orange County's Latino population reflects the state overall, as the number of Latinos in California



Incumbent Republican Reps. Mimi Walters and Dana Rohrabacher are facing challenges from well-funded Democratic contenders.

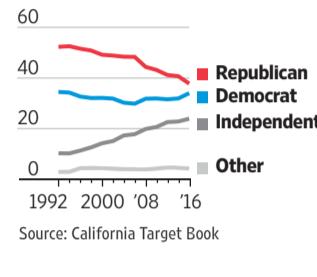


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Changing Tides

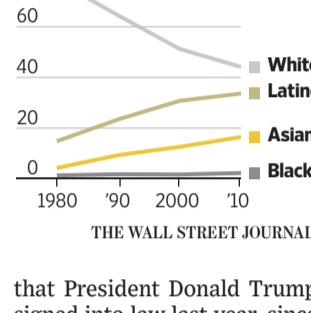
In Orange County, Calif., Republican registration has fallen since 1992 as the area's racial diversity has risen.

Party registrations



Source: California Target Book

Orange County diversity



THE WALL STREET JOURNAL.

passed the number of whites as of June 2014, according to 2010 Census Bureau data.

Sweeping the region's races remains a tall test for Democrats, however. To win all four districts, voters that don't typically show up in nonpresidential years would have to turn out, or some Republicans would have to turn their backs on their party, experts said.

One potential motivator for some Orange County Republicans to vote against their party could be the tax overhaul

Mr. Rohrabacher said Saturday that Democrats may be overconfident, as they are "re-

that President Donald Trump signed into law last year, since the bill increases taxes on some high-earning Californians and residents of other high-tax states. Mr. Issa and Mr. Rohrabacher both voted against the measure, while Ms. Walters and Mr. Royce voted for it.

Jim Brulte, chairman of the California Republican Party, said the GOP will "hold all four" seats.

Mr. Rohrabacher said Saturday that Democrats may be overconfident, as they are "re-

lying on the news media to judge voter inclination."

Orange County Republicans are traditional "Romney-McCain-Bush Republicans," meaning they are motivated by core GOP issues, including fiscal conservatism, said Dan Schnur, a politics professor at the University of Southern California who worked on Sen. John McCain's 2000 presidential campaign.

Over the last two decades, Republicans in the county have seen their registration advantage over Democrats fall by more than 15 percentage points, to 3.8% in 2016 from 18.9% in 1996, according to voter-registration data compiled by California Target Book. Over that same period, voters registered as independent have increased to 23.4% from 11.3%, the data said.

At the gathering this year at the Newport Dunes Waterfront Resort, Annie Wright, chairwoman of the Aliso Niguel Democratic Club, fired up the crowd of 700 by saying "Two down, two to go," a reference to the retirements of Messrs. Royce and Issa and the races for Mr. Rohrabacher and Ms. Walters's seats.

"We are active, we are vocal and we are going to flip Orange County," Ms. Wright said before a debate of eight congressional candidates vying to take on Mr. Rohrabacher. Such a crowded field could work against Democrats, however.

California sends the top two primary-vote-getters to the general election, regardless of party, and one obstacle for Democrats may be the sheer number of candidates battling for the same slice of voters.

Jack Pandol, a spokesman for the National Republican Congressional Committee, said Ms. Walters and Mr. Rohrabacher are "well-funded, well-known, well-liked incumbents."

Court to Consider Death-Penalty Case

BY JESS BRAVIN

WASHINGTON—The Supreme Court agreed Monday to consider whether the Constitution forbids executing an Alabama inmate who has no memory of the murder he committed after a series of strokes left him with vascular dementia.

Vernon Madison was slated to die Jan. 25, but the Supreme Court stepped in that day to block his execution while weighing whether to hear his claim. Three conservative justices—Clarence Thomas, Samuel Alito and Neil Gorsuch—opposed granting the stay of execution last month, but Monday's order noted no dissents.

Mr. Madison, 67 years old, was convicted of the 1985 killing of Mobile, Ala., police Cpl. Julius Schulte, who had responded to a domestic dispute between Mr. Madison and his ex-girlfriend.

Mr. Madison's "mind and body are failing; he suffers from encephalomalacia (dead brain tissue), small vessel ischemia, speaks in a dysarthric or slurred manner, is legally blind, can no longer walk independently, and has urinary incontinence as a consequence of damage to his brain," the inmate's Supreme Court petition says.

In 1985, the Supreme Court found that executing the insane violated the Eighth Amendment prohibition of cruel and unusual punishments. The practice had been disfavored for centuries of English and American law, Justice Thurgood Marshall wrote, for there was little "retributive value" in "executing a person who has no comprehension of why he has been

singled out and stripped of his fundamental right to life."

While Mr. Madison doesn't claim insanity, his petition argues there is no practical difference when one suffers similar cognitive impairment through dementia.

The Alabama attorney general contended that Mr. Madison had ample opportunity to raise his claims in the earlier proceedings. Besides, the state said, memory loss doesn't raise the same concerns as insanity.

"The idea that the inability to recall an event precludes a rational understanding of that event, or its consequences, is absurd," the state said.

The case likely will be heard in the Supreme Court's next term, which begins Oct. 1.

Separately Monday, the high court denied relief to two Florida inmates on death row, over the objections of three liberal justices.

The two, convicted of separate murders, were sentenced under Florida procedures that subsequently were struck down by the Supreme Court because jury votes for the death penalty were considered advisory rather than binding on the trial judge.

The inmates contended that their sentencing arguments would have been different had jurors known they bore ultimate responsibility for the defendants' fate.

The jury instructions "repeatedly emphasized the non-binding, advisory nature of the jurors' role and that the judge was the ultimate decision-maker," Justice Sonia Sotomayor wrote in dissent, joined by Justice Ruth Bader Ginsburg. Justice Stephen Breyer dissented separately.

Justices Ponder Union Fee Arguments

BY JESS BRAVIN

WASHINGTON—The power of public-sector unions hung in jeopardy Monday after Supreme Court arguments put front and center the raw politics behind a dispute over pay-roll deductions that support collective bargaining.

Justice Anthony Kennedy ticked off an agenda that he suggested public-sector unions bring when they bargain with state and local government: "for a greater size workforce, against privatization, against merit promotion, for teacher tenure, for higher wages, for massive government, for increasing bonded indebtedness, for increasing taxes."

"If you do not prevail in this case, the unions will have less political influence: Yes or no?" he demanded of David Frederick, a lawyer representing the American Federation of State, County and Municipal Employees.

"Yes, they will have less political influence," Mr. Frederick said.

"Isn't that the end of this case?" Justice Kennedy said.

That reference to the political impact suggested the high stakes in the case, which arose when an Illinois state employee, Mark Janus, objected to a \$45 monthly payroll deduction for a union collective-bargaining fee.

Justice Sonia Sotomayor expressed comparable passion for organized labor's cause.

"You're basically arguing to do away with unions," she told William Messenger, an attorney for the National Right to Work Legal Defense Foundation who represents Mr. Janus.

Mr. Messenger didn't respond directly, but he had come before the court to urge that a 1977 decision that bolstered public-sector unions be overruled. That precedent, *Abdo v. Detroit Board of Education*, upheld agency fees, which employees within a bargaining unit can be forced to pay a union even if they would rather not.

Such charges, which cover collective-bargaining costs but not electioneering or other supplemental activities, have been authorized by more than 20 states and appear in thousands of employment contracts.



People rallied in support of the DACA program at the Lutheran Church of the Reformation near the Capitol in Washington this month.

Separation of Mom, Child Sparks Suit

LOS ANGELES—The American Civil Liberties Union is suing the Trump administration over the government's moves to separate some asylum-seeking immigrant parents from their children.

The organization filed a lawsuit in federal court in San Diego on Monday on behalf of a woman from the Democratic Republic of Congo identified as "Ms. L." that seeks to reunite her with her daughter.

The ACLU alleged in the suit that Ms. L. and her 7-year-old daughter applied for asylum at a border crossing near San Diego on Nov. 1. The woman, the suit said, was interviewed by an

woman for House Speaker Paul Ryan (R., Wis.).

For their part, Democrats have been frustrated by GOP demands on immigration, and some may want to wait to see if they gain power in Congress after the midterm elections.

"Democrats no longer have the incentive to meet the president's demands on DACA when they feel a different Congress may be around the corner to resolve this," said Leon Fresco, an immigration attorney and former adviser to Senate Minority Leader Chuck Schumer (D., N.Y.).

asylum officer and passed what is known as the "credible fear bar" and was found to have a "significant possibility of ultimately receiving asylum."

The two were separated after about four days, with the girl taken to a government child-care facility in Illinois and the mother jailed in the Otay Mesa Detention Center in San Diego, according to the suit.

Officials with the U.S. Department of Homeland Security, including former Secretary John Kelly, have said the agency is considering splitting all immigrant parents and their children if they are caught crossing the border illegally, to deter migrant families from trying to sneak into the country.

DHS didn't respond to a request to comment Monday.

Trump administration offi-

cials have said a final decision about whether to split immigrants and their children at the border hasn't been made, but some children are separated if a parent has a serious criminal history or there are concerns about the child's safety.

Lee Gelernt, deputy director of the ACLU's Immigrants' Rights Project, said his client, Ms. L., hasn't been told of any such concerns.

"She does not know why her daughter was taken," Mr. Gelernt said.

The ACLU lawsuit is likely the first in a series of actions that will attempt to force the government to stop separating illegal immigrant parents from their children, Mr. Gelernt said.

"We are not going to stop with just this action," he said.

—Alicia A. Caldwell

expect to prevail."

DACA was created by the Obama administration in 2012. Under the program's terms, participants must have arrived in the U.S. under the age of 16 and they must meet a variety of other conditions, including being a student or graduate, and having no significant criminal record. Roughly 800,000 young people have participated in the program since its inception, and about 690,000 are currently enrolled.

In September, Attorney General Jeff Sessions, a lead-

ing opponent of illegal immigration, announced an end to the program, calling it an unconstitutional exercise of power by Mr. Obama without authorization by Congress.

That move effectively threw the issue to Congress, but lawmakers remain at an impasse on how and whether to authorize new measures to protect DACA recipients. Several immigration proposals failed on the Senate floor this month.

Meanwhile, judges in San Francisco and New York ruled legal challengers were likely to prevail in their arguments that the Trump administration acted arbitrarily and abused its discretion. The judges said presidents can change policy but must do so in a more reasoned and deliberate way. And they said Mr. Sessions wasn't correct that DACA was an unlawful action by Mr. Obama.

Monday's court action means that current and former DACA participants will be able to request renewals of their DACA permits. Applications from people who had never participated in the program before won't be considered, even if they meet the criteria.

The Justice Department had sought high-court review of the San Francisco case. That case will now follow the normal routine and be reviewed by the Ninth U.S. Circuit Court of Appeals, where briefing already is under way. A decision is expected later this year.

Such charges, which cover collective-bargaining costs but not electioneering or other supplemental activities, have been authorized by more than 20 states and appear in thousands of employment contracts.

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ValueWalk's analysis included the Barron's Top 10 (+22.9%), the S&P 500 (+19.4%), Zack's Top 10 (+15.5%), a Top 5 from CNN Money (+15.1%), a Top 5 from Motley Fool (-3.9%), a Top 10 from MSN experts (+14.6%), and a Top 7 from Forbes (+8.8%).

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WORLD NEWS

Seoul Presses U.S. on Talks With North

Moon's request to ease terms for a dialogue comes amid a thaw in inter-Korean relations

By JONATHAN CHENG

SEOUL—South Korea's president called on the U.S. to ease preconditions for talks with North Korea, as his government sought to extend an Olympics-driven rapprochement with Pyongyang and head off any new flare-up in tensions.

In a meeting Monday with a Chinese envoy, President Moon Jae-in said "the U.S. needed to lower the threshold for dialogue," according to a presidential spokesman. Mr. Moon also said North Korea should "indicate a willingness to give up its nuclear programs."

The U.S. has long said it is only willing to sit down for serious negotiations with North Korea if it is to discuss denuclearization. The North has said its nuclear arsenal isn't up for discussion and that it is only willing to meet the U.S. to certify its nuclear status.

"Neither side has shown any willingness to budge from their opening position. They've interpreted it as a sign of weakness if they do," said Daniel Sneider, a visiting scholar and lecturer in East Asian Studies at Stanford University.

The nascent thaw between the two Koreas—following a year of advances by the North in its nuclear-weapons programs—has stirred tensions between Washington and Seoul



YONHAP/REUTERS/STOCK

North Korean members of the inter-Korean women's ice hockey team bid a tearful farewell Monday to their South Korean companions.

as the allies try to present a common front in dealing with Pyongyang.

Senior U.S. officials have regarded an outreach to the South by the North ahead of the Olympics as a propaganda ploy to drive a wedge between Seoul and Washington and have pushed ahead with a policy of "maximum pressure" to isolate Pyongyang.

During the Olympics, Mr. Moon used his position as host to try to get the U.S. and North Korea talking.

At the Opening Ceremony, he sought to create the chance for an encounter between Vice President Mike Pence and a North Korean delegation that included the ceremonial head of state and the sister of leader Kim Jong Un.

At the Closing Ceremony on Sunday, Mr. Moon shared a VIP box with visiting delegations that included U.S. presidential adviser Ivanka Trump and North Korean official Kim Yong Chol. On both occasions, the White House said that no words, nor handshakes, were exchanged between the sides.

The U.S. said a planned meeting between Mr. Pence

and Kim Jong Un's sister was canceled by the North Koreans.

In recent weeks, there has been evidence of a tactical shift in Washington, with senior administration officials insisting less on a commitment from Pyongyang to denuclearization as a precondition for any talks between the two adversaries.

But the outreach efforts re-

ceived a blow Tuesday when Joseph Yun, the top U.S. diplomat on North Korea issues, said that he plans to retire this week. Mr. Yun confirmed the news, first reported by CNN, in an email but didn't respond to a request for comment on the reasons for his decision to leave.

A statement from State Department spokeswoman Heather Nauert said the decision to retire was for "personal reasons."

"We are sorry to see him retire, but our diplomatic efforts regarding North Korea will continue based on our maximum pressure campaign to isolate the DPRK until it agrees to begin credible talks toward a denuclearized Korean peninsula," Ms. Nauert said.

The North Koreans had also signaled a new apparent willingness to talk with the U.S.—despite continued rhetoric from their state media about not wanting to sit down with Washington.

On Sunday, Kim Yong Chol said in an hourlong meeting with Mr. Moon that the North was "fully willing" to talk with Washington, according to the South Korean presidential office. On Monday, over lunch with South Korean officials, Mr. Kim said that "the door to dialogue with the U.S. was open," the office said.

The White House said Sunday it wasn't convinced that Mr. Kim's remarks expressing a willingness to talk to the U.S. would be followed up with action.

—Andrew Jeong contributed to this article.

Hunger Woes Grow in War-Torn South Sudan

By NICHOLAS BARIYO

At least two-thirds of the residents of oil-rich South Sudan are at risk of extreme hunger as the country tries to contain a devastating four-year conflict, aid agencies and the government said.

Some 5.3 million people, almost half the population, struggled to find enough food in January, as aid agencies brace to help a record number of people in need this year, a report released by the United Nations and South Sudanese government on Monday said.

Two-thirds of the population will need food aid this year, the report added, hurt by the lean crop season from May to July.

Roughly the size of France,

South Sudan in 2011 declared independence from Sudan, in a deal backed by the U.S. and other Western governments that allowed it to take around 75% of the oil fields.

But the conflict, which began in 2013, has killed tens of thousands of people and splintered the nation along ethnic lines, pitting fighters loyal to President Salva Kiir's Dinka community against Nuer tribesmen of his former deputy, Riek Machar.

The violence has alarmed South Sudan's international partners. The U.S., which has spent some \$10 billion to support the government since 2011, has signaled it could scale back its financial assistance to increase pressure on Mr. Kiir's government to end the conflict.

"The situation is extremely fragile, and we are close to seeing another famine," said Serge Tissot, representative for the U.N.'s food and agricultural agency in South Sudan. "The projections are stark. If we ignore them, we'll be faced with a growing tragedy."

The prospect of famine comes after a dry season in which South Sudan in early 2017 declared famine in two counties. Weeks of robust aid deliveries helped avert the crisis, prompting aid agencies to lift the famine declaration in June. Aid agencies in Monday's report said the numbers of people facing food insecurity are up 40% from year-earlier levels.

The hunger is one aspect of a humanitarian emergency that

has uprooted nearly five million people since the conflict began, creating the region's worst refugee crisis since the 1994 genocide in Rwanda, aid officials said. Oil production has been slashed by more than 50%. Hyperinflation has aggravated the food crisis, driving food prices to record levels in South Sudan and putting staples out of reach for most of the population.

South Sudan's humanitarian minister, Mar Nyot, said the government "continues to strongly pursue a peaceful resolution of the conflict" in the hopes of weaning its citizens from overreliance on humanitarian aid. Peace talks continue in neighboring Ethiopia. There was no immediate response from the rebel side.

Corbyn Backs a Customs Union

By JENNY GROSS

LONDON—British opposition Labour Party leader Jeremy Corbyn said he backed the U.K.'s membership in a customs union with the European Union when Britain leaves the bloc, hoping to engineer a parliamentary defeat over Brexit for Prime Minister Theresa May.

Mr. Corbyn's position on the customs union, which enables tariff-free trade within it and sets common external tariffs on goods coming from outside, is designed to secure the backing of pro-EU members of Parliament in Mrs. May's own Conservative Party.

Mrs. May has said the U.K. will leave the EU customs union to preserve the flexibility to strike free-trade deals on its own with fast-growing economies outside the bloc. But with a thin working parliamentary majority, she could lose a House of Commons vote on the issue, expected in May, if enough pro-EU lawmakers in her party defy her.

Mrs. May is trying to balance demands of pro-EU lawmakers within her party who want the U.K. to retain strong links to the EU and a powerful faction of euroskeptics who want the U.K. to enjoy full autonomy to negotiate trade agreements, set regulations and make immigration policy.

On Friday, Mrs. May will deliver a speech expected to provide more detail on how she will reconcile these positions in a way that stands a chance of securing an agreement in negotiations with the EU.

The Labour Party has long been divided over the EU, with left-wing supporters viewing it as a defender of big business and others as an organization that supports workers' and consumers' rights.

In his speech in Coventry, England, on Monday, Mr. Corbyn said the U.K. would continue to embrace some EU regulations and agencies, but reiterated his reservations about EU state-aid rules that aim to ensure governments don't give unfair advantages to certain companies through tax benefits or subsidies.

The European Commission, the EU's executive body, had no comment on Mr. Corbyn's proposals.

CHINA

Continued from Page One
Beijing's pledge to invite in more foreign capital.

At stake is the long-term health of the Chinese economy. Mr. Xi has set a goal of having financial risks under control within three years.

Mr. Liu's team drafted much of the 2018 economic blueprint that officially made "Xi Thought" the guiding principle for running China's economy. The policy solutions Mr. Liu has come up with in recent years have been centered on stabilizing the economy as Mr. Xi embarked on an aggressive assault on corruption to bolster the party's authority.

As Mr. Xi focuses on strengthening the party, Mr. Liu will have room to focus on putting the economy on a sounder footing in the long term, according to officials and government advisers.

As a Communist Party loyalist, Mr. Liu is likely to push forward with gradual market-oriented changes within the state-led model, as opposed to drastic shifts that could prove destabilizing and hurt the party.

He will face resistance from Chinese financial institutions that are pushing back at efforts to curtail risky lending and investment practices that add to the nation's debt burdens.

Mr. Liu has long been seen as a voice for market-based policies. He pushed to emphasize the market's role in the sweeping vision of China's development over the coming decades that Mr. Xi laid out in October, according to the officials close to policy making.

They said he also champi-



JASON LEE/REUTERS

Liu He's broad remit will include the oversight of regulators.

oned wording in a speech the leader delivered late last year that affirmed state firms' status in the economy but also raised pressure on them to make money.

When some U.S. business representatives met Mr. Liu in Beijing in January, the Americans asked why China hasn't made more progress implementing market reforms such as revamping the state sector.

During the 90-minute meeting, Mr. Liu, who studied at Harvard's Kennedy School of Government in the 1990s and is fluent in English, told them that he understands the importance of the private sector in creating the vast majority of jobs in China and said state firms must be held more accountable—but he didn't suggest a major overhaul, the participants noted.

"He's not an apologist for China's economic policy," said

Myron Brilliant, the U.S. Chamber of Commerce's executive vice president who was at the meeting with Mr. Liu. "He implied that 'We're on the path to more market reforms, even if it's not at a pace Americans would like to see.'

Mr. Liu has long been heard as a voice in Beijing for market-based policies.

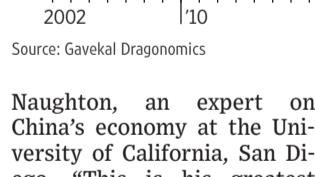
Mr. Liu also peppered them with questions about who was running President Donald Trump's economic policy, according to the participants.

"Ultimately Liu He is dependent on his ability to keep Xi Jinping on board with his policy proposals," said Barry

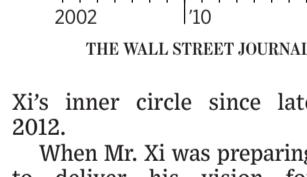
State of Affairs

Chinese state firms make less money and are deeper in debt than their private counterparts.

Average return on assets for industrial firms



Liability-to-equity ratio



Source: Gavekal Dragonomics

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Naughton, an expert on China's economy at the University of California, San Diego. "This is his greatest strength but also his biggest limitation."

Before this year, Mr. Liu rarely spoke in public, but recently he has become more visible. In January, Mr. Xi sent him as his envoy to the World Economic Forum in Davos. He told the gathering of global business and political elites that China's reform measures would exceed their expectations.

Mr. Xi's circle of power is also expected to include Wang Qishan, who has run Mr. Xi's anticorruption campaign and helped him sideline rivals. Mr. Wang is slated to be the nation's next vice president with a prominent role in handling the relationship with the U.S., The Wall Street Journal reported in January.

An important source of Mr. Liu's power is his longtime connection to Mr. Xi. The two men have known each other since both attended Beijing's Middle School 101 in the 1960s. Mr. Liu has been in Mr.

Xi's inner circle since late 2012.

When Mr. Xi was preparing to deliver his vision for China's development at the October Communist Party conclave, Mr. Liu, seeing the need to inject more market discipline into state companies, proposed to tweak the goal of state-sector reform: "State capital"—rather than "state companies"—should become "stronger, better and bigger."

It was a one-word change in a 30,000-word report, but a meaningful one, signaling that state firms, while key to the economy, must also improve their returns like any commercial entities.

The proposed change caused strong pushback from the guardians of the state interest, including the State-owned Assets Supervision and Administration Commission, according to the officials with knowledge of the process. But Mr. Liu prevailed.

In Mr. Xi's October report, the new mission for state firms is "the most controversial" part, one of the officials said.

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The European Commission, the EU's executive body, had no comment on Mr. Corbyn's proposals.

WORLD NEWS

Catholics Ponder Married Clergy to Fill Amazon Gap

In the remote Brazilian town of Tabatinga, João Souza da Silva helped construct the Roman Catholic church where he got married 31 years ago, a wedding that officially ended his boyhood dream of becoming a priest.

By Luciana Magalhaes in Tabatinga, Brazil, and Francis X. Rocca in Vatican City

He may get a second chance, as Catholic leaders in the vast Amazon basin consider whether the church should let married men become priests in certain cases. The issue is likely to be discussed at a gathering of bishops Pope Francis has called for next year about the church in the Amazon.

The Vatican is contending with a shortage of clergy to serve isolated communities in the region, as well as a growing challenge from evangelical Protestantism, which allows married ministers. Pope Francis has said the "door is always open" to married priests, though recent predecessors have rejected the idea.

Mr. da Silva, a 53-year-old teacher and father of three, said the change would make it easier to serve people in communities around the Amazon, some of which priests visit only two or three times a year.

"We are missing a lot here. We have not been able to reach everyone," said Mr. da Silva, who is already training to be a deacon, which would allow him to officiate at marriage ceremonies, baptisms and funeral rites. "Maybe this would inspire more people to want to be priests."

Around the world, the ratio of Catholics to priests has risen sharply in recent decades, to 3,100-to-1 in 2015 from 1,900-to-1 in 1980, according to Vatican statistics. It is especially high in South America—7,100-to-1.

The diocese of Alto Solimões, which is based in Tabatinga, has only 15 priests to serve about 121,000 Catholics spread over an area the size of Greece, according to diocese figures. Paved roads are rare, leaving many communities accessible only by infrequent boat service.

"Many in our community wait for a priest and if the priest doesn't come, they don't go to the church," said Idelfonso Pedrosa Guedes, a married father of six in Banaúna, a fishing village of roughly 600 people about two hours by boat from Tabatinga.

Mr. Guedes, who is also training to become a deacon, said he leads worship services and offers religious instruction to Catholics in his community. The former leader of his local tribe of indigenous people said his neighbors call him "Padre."

Permanent deacons—those who aren't preparing to become priests—are typically married men, and they have taken up the slack in many parts of the world. But deacons can't celebrate Mass or hear confessions, essential limitations in a church where the sacraments, especially the Eucharist, are of central importance.

"There are communities here that do not receive the Eucharist during an entire year," said Bishop Adolfo Zon Pereira of Alto Solimões.

Proponents of allowing married men to serve as priests under certain circumstances support ordaining so-called *viri probati*—Latin for "proven men"—who are community leaders.

Ordaining *viri probati* could help resolve a "sacramental emergency" the church is experiencing due to a lack of priests in remote areas such as the Amazon, Cardinal Beniamino Stella, the Vatican's top official for clergy, said in a January interview with an Italian journalist.

But more-conservative voices caution that opening the priesthood to married men would undermine the traditional identity of Catholic priests as representatives of the celibate Christ.

The Rev. Gary Selin, author of a book on the theology of clerical celibacy, argues that ordaining married men would be a "quick fix" that would ignore the underlying causes of the priest shortage, which include inadequate recruitment efforts and "rampant materialism in our society."

Catholic doctrine doesn't require priestly celibacy, which is a discipline that has



Parishioners at a church in São Paulo de Olivença, Brazil, above. Below, João Souza da Silva and his wife, Valdecerina, in Tabatinga.



changed over time. Married priests were common in early Christianity, though they were expected to abstain from sexual relations after ordination and weren't permitted to remarry if widowed. But by the

16th century, celibacy became the rule in the Latin Church.

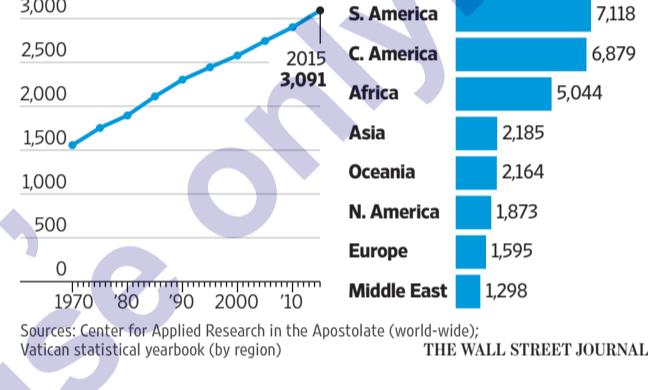
Today, fewer than 2% of the world's Catholic priests are married, most of them clergy in the two dozen Eastern Catholic Churches, which are

Outpaced

The Catholic population has been growing faster than the number of priests, and the ratio is particularly high in the Caribbean and South America.

Catholics per priest

World-wide



By region, 2015

Caribbean	7,529
S. America	7,118
C. America	6,879
Africa	5,044
Asia	2,185
Oceania	2,164
N. America	1,873
Europe	1,595
Middle East	1,298

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in communion with Rome but follow the Orthodox practice and allow for married priests.

Since the 1980s, the Catholic Church has also ordained some married Protestant clergy, almost all of them Anglicans who have converted to Catholicism. Even today, widowed priests and deacons aren't allowed to remarry.

Pope Francis has quietly eased the rules for married clergy among Eastern Catholics and former Anglicans.

When the pope announced last year that he would call a synod of bishops in October

2019 focused on the Amazon region, he highlighted ecological concerns and the predicament of indigenous peoples; he didn't mention married priests.

Even if the synod supports the ordination of married men, the final decision will lie with the pope, and any change would likely be limited to the Amazon region, at least initially.

Mr. da Silva said that if the church allowed married men to be ordained as priests, he would likely pursue that possibility. "I think it's important that we offer what the people expect from us," he said.

Russia Says It Isn't Ready to Implement Syria Truce

Russia said it wasn't prepared to implement a ceasefire in Syria endorsed by the U.N. Security Council, even as European and U.S. officials demanded an immediate end to the fighting.

By Laurence Norman in Brussels and Thomas Grove in Moscow

In a news conference Monday, Foreign Minister Sergei Lavrov said there would be no quick end to the attacks on Eastern Ghouta near Damascus or in Idlib province as Moscow supported the Syrian government's bombing raids there, adding that all sides must first agree on how to implement the cease-fire so it "would be complete and full scale across all of Syria."



Patients received treatment at a makeshift clinic after a suspected chemical attack in Eastern Ghouta.

fighting. EU governments played a key role in pushing for the weekend's Syria resolution.

"As combat is still ongoing and since the UNSC Resolution calls for a ceasefire without delay, we call on you, as the three guarantors of the Astana process, take all necessary steps to ensure that the fighting stops, that the Syrian people are protected, and finally that urgent humanitarian access and necessary medical evacuations are taking place," she wrote in a text seen by The Wall Street Journal.

Russia, Iran and Turkey convened the Astana talks, where they proposed a plan for de-escalation zones in Syria, including in Eastern Ghouta. The talks, which included the Syrian government and some armed opposition groups, began last year as Moscow looked for new ways to draw down the conflict without committing to Western demands for a transition away from the Assad regime.

On Monday, Syrian government troops launched a

ground offensive in addition to its bombing raids on the rebel-held eastern Damascus suburb. Opposition activists said the violence killed 10 people, bringing the total number of civilians dead in clashes around the region since Feb. 19 to close to 600, according to the Unified Relief Office in Eastern Ghouta, a local group overseeing the humanitarian response.

The nationwide cease-fire, which is meant to last for 30 days, makes an exemption for the fight against Islamic State, Nusra Front and al Qaeda. Russia has extended that exemption to Damascus' fighting with Ahrar al-Sham and Jaish al-Islam, linking them to Nusra Front.

The cease-fire "in no way affects those actions which the Syrian government is carrying out with the support of the Russian Federation against all terrorist groups...and those who cooperate with them," Mr. Lavrov said.

—Felicia Schwartz contributed to this article.

WORLD WATCH

YEMEN

Security Council Extends Embargo

The U.N. Security Council extended an arms embargo on Yemen, but only after the U.S. and its allies failed to get support for a resolution that called for action against Iran for allegedly violating that embargo.

Russia said the measure citing Iran, which was proposed by the U.K., was "politically charged" and uncorroborated. After Moscow vetoed that resolution on Monday, it submitted another without mention of Iran, which

the council adopted.

Yemen's three-year war between the Saudi Arabia-led coalition supporting the government and Houthi rebels has created the world's worse humanitarian crisis, according to the U.N., which estimates seven million people are on the brink of starvation.

A recent U.N. report laid considerable blame on Iran, which it said was in violation of the arms embargo on Yemen for failing to stop the supply of Iranian made missiles and drones to the Houthis.

Iran has denied allegations that it arms the Houthis.

—Farnaz Fassihi

ISRAEL

Jerusalem Church Is Closed in Protest

Christian leaders barred access to one of Jerusalem's holiest sites in a dispute with Israeli authorities that underscores lingering tensions over a U.S. decision to recognize the city as Israel's capital.

Palestinian officials were deeply frustrated by the December decision as they want the eastern part of Jerusalem, where the Church of the Holy Sepulchre is located, to be the capital of a future Palestinian state.

—Rory Jones



COLD PLAY: People in front of the Colosseum in Rome threw snowballs as temperatures plunged in the region on Monday.

ANGELA CARCON/EP/AGENCE FRANCE PRESSE/GTY IMAGES

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IN DEPTH

INVEST

Continued from Page One
times methodical, sometimes haphazard.

They describe a man who sometimes makes gut-instinct decisions in businesses he knows little about—such as the time he spent about 30 minutes deciding he wanted to invest \$200 million in a startup that grows vegetables indoors. Other times, he compiles an elaborate analysis, inundating his directors with hundreds of pages of documents to help explain an investment target.

To strike quickly, he sometimes commits to investments before getting approval from his fund's investment committee, some of these people say. And he often spars with his executives and board members over his proposals until they are convinced or acquiesce.

"I've opposed almost all of Mr. Son's proposed investments," says SoftBank director Tadashi Yanai, president of Fast Retailing Co., operator of Uniqlo clothing stores. Instead of acting like a speculative investor, he says, Mr. Son should focus on "real business." Mr. Yanai has publicly said his role is to tell Mr. Son things that are painful to hear. He and Mr. Nagamori have publicly praised Mr. Son's vision and drive, saying they support him despite reservations on investments.

Understanding the 60-year-old Mr. Son matters because of his outsized impact. SoftBank, his Tokyo-based tech-investment-and-telecom firm, has led investments totaling about \$145 billion in companies since 1995, according to deal tracker Dealogic, including \$22 billion to buy U.S. mobile carrier Sprint. He wields the world's biggest technology fund, the \$92 billion Vision Fund, and a \$6 billion affiliate, brandishing investments that often make him a company's biggest shareholder.

Last year, he spent around \$37 billion on more than 40 companies, according to Dealogic. Among them was Uber, on which SoftBank spent about \$8 billion for a roughly 15% share.

Many in tech finance believe his investments help keep startup valuations high. "We all thought the unicorn stuff was going to start slowing down," says Tim Connors, founder of the Silicon Valley venture-capital firm PivotNorth Capital. "Then along comes SoftBank and lobs another \$90 billion into what many people thought was already an overheated market."

His money makes waves beyond tech. SoftBank is in talks to buy into reinsurance giant Swiss Re AG in a deal that could be valued at \$10 billion or more, The Wall Street Journal reported this month.



TOMOHIRO OSAKI/BLOOMBERG NEWS

SoftBank CEO Masayoshi Son sometimes clashes with his own directors and advisers over the sums he wants to pay for stakes in companies.

to take big stakes in a coalition of companies driving technological change that will help the group sustain growth for "300 years." He told reporters this month because the Vision Fund invests in unicorns and companies that are No. 1 in their markets, he expects "extremely high growth" from them.

Arm CEO Simon Segars, a SoftBank director, says Mr. Son's investments often are in companies that collect large amounts of data on how people live, work or move. "I can look at the majority of those investments that have been made and say, look, the data angle is this."

A Japanese of Korean descent, Mr. Son attended the University of California, Berkeley, and in 1981 founded SoftBank as a software distributor. He led its investments in more than 1,300 companies, sometimes on gut instinct. He often recounts deciding to put \$20 million in a fledgling Chinese e-commerce firm named Alibaba in 2000 because of the "sparkle" in CEO Jack Ma's eyes—a stake now valued at about \$120 billion.

'History has shown that he's been right more often than he's been wrong.'

He survived a close call in the dot-com bust after 1999, when many startups he bought into went bust and SoftBank lost 99% of its value. He recovered, moving into broadband and mobile phones. SoftBank is now Japan's No. 7 company in revenue, according to S&P Global Market Intelligence.

Venture investor David Chao says it took Mr. Son just around half an hour in a 2017 meeting to decide to back Plenty, a startup that grows vegetables indoors. Mr. Son was skeptical before the meeting, says Mr. Chao, an early Plenty investor. He gave Mr. Chao and Plenty CEO Matt Barnard 15 minutes to make their case at Mr. Son's Woodside, Calif., residence.

Mr. Chao says he brought a 7-foot growing wall—the vegetables are produced on them—cutting off lettuce and mustard greens for Mr. Son to try. Mr. Son quizzed Mr. Barnard and listened to his plan for indoor farms in the U.S. Soon, Mr. Son

Big Spender

SoftBank and its huge tech funds have invested about \$145 billion in companies since 1995.

Top 10 deals

Date announced	Company (country)	Description	SoftBank's investment*
July 18, 2016	Arm (U.K.)	Chip designer	\$31.8 billion
Oct. 15, 2012	Sprint (U.S.)	Mobile carrier	\$21.6
March 17, 2006	Vodafone Japan	Mobile carrier	\$17.2
Dec. 28, 2017	Uber (U.S.)	Ride-hailing	\$8.4
April 28, 2017	Didi Chuxing (China)	Ride-hailing	\$5.5
Aug. 24, 2017	WeWork (U.S.)	Shared-office rental	\$4.4
Dec. 21, 2017	Didi Chuxing (China)	Ride-hailing	\$4.0
Nov. 9, 2010	BB Mobile (Japan)*		\$3.7
Feb. 14, 2017	Fortress Investment (U.S.)	Alternative investments	\$3.3
Aug. 9, 2017	Flipkart (India)	E-commerce	\$2.4

*Excludes debt †Part of the Vodafone Japan purchase Note: As of Feb. 22, 2018

Source: Dealogic

was lecturing him to think bigger, suggesting the company expand abroad. "The next thing you know, it's like: 'How much do you need and let's get this deal done,'" says Mr. Chao, general partner of DCM Ventures, in which SoftBank has a minority investment. "He doesn't let capital be a constraint." Four months later, Mr. Son invested around \$200 million—twice what Plenty had asked for, Mr. Chao said.

A Plenty spokesman declined to make Mr. Barnard available for comment. Mr. Son has publicly praised Plenty for using artificial intelligence and "Internet of Things" technology—featuring networks of sensors and computing chips.

Mr. Son's willingness to make quick bets surprised CEO Eugene Izhikevich of San Diego artificial-intelligence company Brain, which is developing self-driving technology. In May, Mr. Son asked how much it would take to speed Brain's rollout, Mr. Izhikevich says. Within two months, SoftBank had invested \$114 million through the Vision Fund.

"Something I thought would take 10 to 15 years," he says, "now I can achieve three to five times faster."

Often, Mr. Son roughs out deal terms on his own, leaving little for SoftBank and Vision Fund deal teams to do, people familiar with the investments say.

He launched the Vision Fund in 2017, with funds from SoftBank and investors such as Saudi Arabia's Public Investment Fund. The fund has its own investment committee, including Mr. Son, that approves deals. Some of its biggest deals are also brought before SoftBank's board.

The line between SoftBank and the Vision Fund isn't always clear. SoftBank units advise and manage the fund. SoftBank must offer deals of \$100 million or more to the Vision Fund.

Mr. Son sometimes agrees to deals first and passes them to the investment committee for approval later, say people familiar with the process.

In some deals, SoftBank executives and directors have told Mr. Son they thought he was overpaying, say people with knowledge of those conversations. In 2015, Mr. Son wanted to buy Arm, which designs chips for products ranging from smartphones to networked cars. Several SoftBank executives told him SoftBank didn't have the financial strength to buy Arm, persuading him to raise cash by selling some holdings first, people familiar with

rectors challenge him, says Mr. Nagamori, CEO of precision-motor maker Nidec Corp., who says he resigned in September because it consumed too much time. "If you want to lodge a proper challenge" to Mr. Son, he says, "you need to really study up—it takes a tremendous amount of time."

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Goliath

SoftBank's Vision Fund is the world's biggest pool of tech-investment capital.

Top funds

SoftBank Vision Fund	SoftBank Group (Venture capital)	\$91.7 billion
Apollo Investment Fund IX	Apollo Investment (Buyouts/corporate finance)	24.7
Blackstone Capital Partners V	Blackstone Group (Buyouts/corporate finance)	21.7
GS Capital Partners VI	Goldman Sachs (Buyouts/corporate finance)	20.3
GS Mezzanine Partners V	Goldman Sachs (Private debt)	20.0
New Enterprise Associates 16	New Enterprise Associates (Private debt)	3.4

Note: As of Feb. 22, 2018 Source: VentureSource

Top venture-capital funds

SoftBank Vision Fund	SoftBank Group	\$91.7 billion
Delta Fund	SoftBank Group	6.0
Regional Growth Fund	Merseyside Special Investment Fund	5.0
Insight Venture Partners X	Insight Venture Partners	3.6
New Enterprise Associates 16	New Enterprise Associates	3.4

Note: As of Feb. 22, 2018 Source: VentureSource

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the discussions say. "It was like pulling teeth," one says.

By mid-2016, Mr. Son had raised the money and tracked down Arm's chairman on a yacht in the Mediterranean to propose the deal, says Mr. Segars, Arm's CEO, who was present.

Mr. Son's projections to support his \$32 billion bid included a prediction that Arm-designed networked chips would dominate the market, which Mr. Nagamori says he considered too optimistic. "I said, 'Some competitor is bound to emerge, so you can't pay such a high price.'" He eventually relented, although he says he remains unpersuaded about the valuation.

"From the outside, some of the moves are riskier moves than most companies would take," says Mr. Segars. "But history has shown that he's been right more often than he's been wrong."

At a 2017 shareholder meeting, Mr. Son said it was natural for directors to have different opinions and dissent was a sign of healthy management.

Price concerns also emerged during Mr. Son's WeWork approach. The company, which rents out shared office spaces, was pitched to SoftBank executives in early 2015. It was valued at around \$5 billion then, estimates Dow Jones VentureSource, which tracks venture-capital data.

SoftBank's investment head at the time dismissed the pitch because he didn't see WeWork as a tech company and worried it was too expensive, especially given SoftBank's weak finances at the time, say people familiar with the discussion.

In January 2016, with WeWork's valuation at \$10 billion, Mr. Son met CEO Adam Neumann and was intrigued by his vision of how work would evolve, says WeWork Japan CEO Chris Hill. Mr. Son told Mr. Neumann he was moving too slowly, and he responded that WeWork needed "fuel," Mr. Hill says. WeWork declined to make Mr. Neumann available for comment.

A year later, Mr. Son was considering investing more than \$1 billion, the Journal reported. Most SoftBank directors were opposed, telling him they didn't understand why SoftBank should invest in what they viewed as essentially a real-estate company, say people familiar with the discussions. Some SoftBank executives thought WeWork's valuation, then \$17 billion, was excessive, says one.

Mr. Son prevailed, leading SoftBank and the Vision Fund to invest \$4.4 billion in WeWork in 2017, boosting its valuation to around \$20 billion.

"Mr. Son has his own ideas," says a SoftBank executive who says he sees his job as telling the CEO his qualms while also supporting him.

In January, the Vision Fund put \$300 million in dog-walking app Wag Labs Inc. During a press conference, he called it "Uber for dogs."

It also invested €460 million (\$562.7 million) in German online used-car dealer Auto1 Group. Mr. Son urged it to take more money than it had planned and "think bigger," says Matt Krana, managing partner of tech-investment fund Princeville Global, which introduced Auto1 to SoftBank a few months ago. Auto1 declined to comment.

"Anyone can be optimistic," says Mr. Krana. "Masa really makes enormous bets on his beliefs."

gan Stanley's chief economist. "A warning of a looming forecast change, a rising risk assessment, a way to cover your rear—or a combination of all three," Mr. Roach said that by stamping a 40% probability on a possible outlier he could call clients' attention to shifting winds without changing his underlying forecast.

A nonrigorous examination of Mr. Roach's past forecasts showed he put a 40% chance on two recession predictions in 2002 and 2004, and then another recession projection in 2010. All of those he got wrong, or rather, got right, since he said the odds were against.

The 40% rule can be useful for all manner of punditry. British boxer Anthony Joshua speculated in 2015 that underdog Tyson Fury had a 40% shot to beat heavily favored champ Vladimir Klitschko. Mr. Fury won, and now wants to fight Mr. Joshua. A spokesman for Mr. Joshua didn't respond when asked what chance the boxer would give himself against Mr. Fury.

By the way, if you made it this far, we always predicted you might.

CHANCE

Continued from Page One

porate earnings.

A whiff can ding a forecaster's reputation.

Nate Silver became America's most famous election forecaster when he called all 50 states correctly in the 2012 presidential election. Four years later he was criticized for repeatedly projecting that Donald Trump stood no chance in the Republican primary and for his final projection that gave Hillary Clinton a 71% chance of victory.

Mr. Silver says he deserves some criticism for his primary projections, but not his general election forecast, which he called "highly informative and useful" since others gave Mr. Trump a smaller chance.

To protect their reputations, pundits hedge. They may not provide a date by which a forecast will occur. They often "cluster" forecasts together with other analysts around a "consensus" figure so that everyone will probably be the same amount of wrong.

Citigroup's Mr. Suva forgot

to hedge. He put a 40% chance on Apple buying Netflix, but also a 25% chance Apple buys Walt Disney Co., a 10% chance each it buys one of three video-game makers, and a 5% chance it buys Tesla Inc. That sums to 100%, implying it is mathematically certain Apple buys one of them.

A Citigroup spokeswoman said Mr. Suva doesn't believe a deal for one of those companies is guaranteed. She said the forecast was really a conditional probability, contingent on Apple using its huge cash pile for what she called a "mega deal," which she said Mr. Suva actually views as less likely than a large stock buyback. The conditional probability wasn't specified in Mr. Suva's research note.

Pundits and gurus master the art of going out on a limb without going out on limb," says Philip Tetlock, a professor at the University of Pennsylvania.

Britain's Tony Blair said last month there's a 40% chance that Brexit will be reversed.

That he takes pride in sticking his neck out, as with his latest call that Bitcoin is the biggest bubble in history and will go to zero.

"I would not rule out that I've committed the sin of the 40% rule," said Prof. Roubini. "Everybody has done so."

"There's an aspect of infotainment" that Wall Street forecasters always keep in mind, says John Kilduff, portfolio manager at commodities hedge fund Again Capital. In September 2015 Mr. Kilduff told CNBC viewers that crude oil had a 40% shot at falling to \$20 per barrel. Then at \$45, oil followed its downward trend before bottoming at \$30.

"You're always riding the hero-shithead roller coaster," says Mr. Kilduff

GREATER NEW YORK

Behind \$500 Million Opioids Suit

City says most costs of epidemic borne by public-health system; 1,075 deaths in 2016

BY CORINNE RAMEY

Mayor Bill de Blasio offered few specifics when he said New York City litigation would seek about \$500 million from opioid manufacturers and distributors to recover costs associated with abuse of the drugs.

The breakdown of that half billion offers a window into how the opioid epidemic has taxed the city, with most of it borne by its financially strapped public-health system.

The city also has shouldered costs related to addiction treatment and law enforcement. Its costs cover services associated with emergency-room visits—45,000 in 2017 for opioid patients—and public-health campaigns as well as distributing naloxone, a medical antidote to overdoses.

The lawsuit follows hundreds of similar actions taken by cities, counties and states. While the opioid epidemic hasn't hit New York City as



An overdose rescue kit from a class on how to use naloxone.

hard as some regions, about 1,075 people in the city died from an opioid-related overdose in 2016, up from 753 the previous year and 392 in 2010, according to city data.

Deputy Mayor for Health and Human Services Herminia Palacio described the \$500 million figure as a conservative estimate of the city's annual opioid-related costs.

"I say conservative because it's really an estimate of things that we can quickly get our arms around," Dr. Palacio said.

City officials say that \$450 million of the \$500 million fell on NYC Health+Hospitals, the public health system.

The \$500 million doesn't include costs like lost wages or economic productivity, which are included in some researchers' financial estimates of the epidemic. The city's calculations also don't reflect costs incurred by hospitals and health-care providers that aren't part of the public system.

In the Northwell Health system, the number of patients in

Adding Up the Tab

Inpatient & Emergency Department Care: \$355 million

Primary & Specialty Care: \$20 million

Behavioral Health & Chemical Dependency Care: \$75 million

HealingNYC: \$38 million

Correctional Health: \$9 million

places say they have taken measures to combat the opioid epidemic and that litigation isn't an effective solution. An AmerisourceBergen Corp. spokesman said the distributor halts suspicious orders and reports to the U.S. Drug Enforcement Administration the quantity, type, and receiving pharmacy of all orders it distributes.

A spokeswoman for McKesson Corp., also a distributor, said it works hard to make sure opioids don't end up in the wrong hands and noted the company doesn't initiate prescriptions. "We only distribute in response to orders that pharmacies submit; we have no means of driving demand beyond what is ordered," the spokeswoman added.

An Ohio State University study last year placed the annual total cost of the epidemic in that state at \$6.8 billion to \$8.8 billion, a figure that includes lost economic productivity of those who died from overdoses. This month, health-research firm Altarum estimated the cost of the U.S.'s epidemic to be more than \$1 trillion from 2001 to 2017, which also includes lost wages.

Legislators Divided on Shooting Response

BY JOSEPH DE AVILA AND MIKE VILENSKY

New York state lawmakers have split along party lines in their responses to the deadly Florida school shooting, with Democrats calling for tighter gun laws and Republicans focusing on improving schools' security.

Republicans back legislation to provide enhanced scanner technology that can detect firearms in schools, as well as another proposal to station police officers at every New York City school.

Democrats, meanwhile, are rallying behind a bill that would allow judges to order the removal of an individual's firearms if the person is considered a threat to himself or others.

Family members or local law enforcement could request such a protection order under the proposal.

"A bill like this is intended to address those high-profile shooting situations as well as routine gun violence," said state Sen. Brian Kavanagh, a Democrat and a lead sponsor of the bill.

The Democratic-controlled state Assembly last year passed a version of a protection order bill by an 84-52 margin, but it stalled in the GOP-controlled state Senate.

Lawmakers around the

After the 2012 Sandy Hook shooting, New York lawmakers passed new gun restrictions.

country are looking to take action after the mass shooting at Marjory Stoneman Douglas High School in Parkland, Fla., that killed 17 students and adults. People close to the accused gunman had raised concerns about his potential for violence, though his guns weren't taken away from him.

After the 2012 Sandy Hook Elementary School shooting in Newtown, Conn., Democrats led by Gov. Andrew Cuomo were able to reach a deal with Republicans to pass a package of gun restrictions called the SAFE Act. GOP cooperation on new legislation restricting access to firearms in response to the Parkland massacre appears less likely this time because Republican lawmakers have turned their focus on school security.

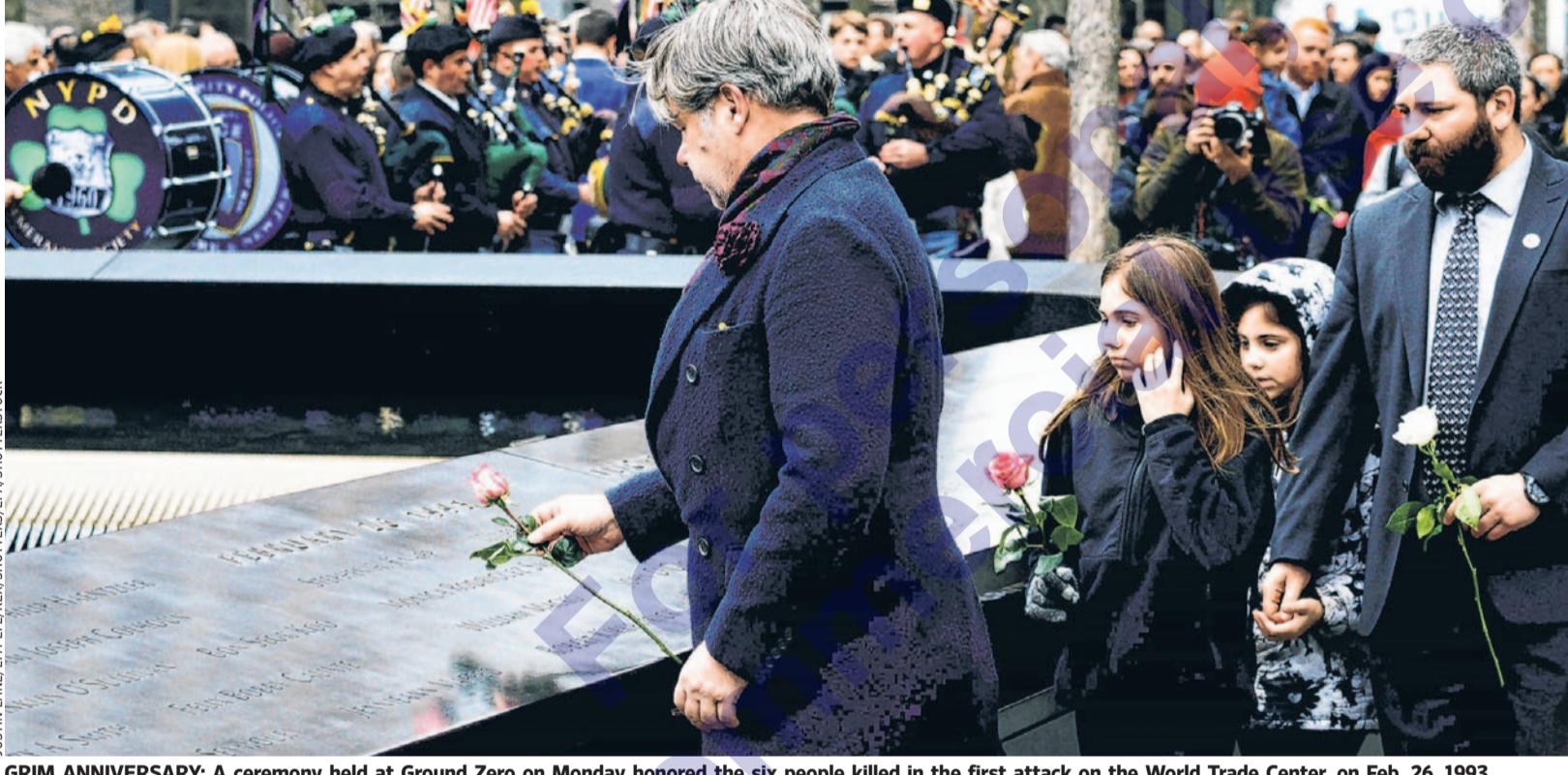
The SAFE act, which included a ban on assault-style weapons and new background check requirements, has proved unpopular in upstate New York.

Syracuse state Sen. John DeFrancisco, the front-runner for the Republican gubernatorial nomination this year, "strongly supports additional state money for hardening New York school facilities with armed guards," according to his campaign spokesman, William O'Reilly.

Mr. DeFrancisco has called for repealing parts of the SAFE Act. Many of his colleagues have won upstate legislative races running against the law and further gun restrictions.

A spokesman for the Senate Republican majority didn't comment on the Democratic legislation.

Victims of World Trade Center Bombing Remembered 25 Years Later



GRIM ANNIVERSARY: A ceremony held at Ground Zero on Monday honored the six people killed in the first attack on the World Trade Center, on Feb. 26, 1993. 'America was not ready for what visited them that day. And for that, I say, I'm sorry,' Port Authority of New York and New Jersey Chairman Kevin O'Toole said.

New Jersey Bill Would Let Inmates Vote

BY KATE KING

New Jersey lawmakers are proposing a bill that would make the state the third in the country to allow prisoners the right to vote.

The bill would let people who are incarcerated, on parole and under probation supervision vote, a change supporters say is critical to addressing racial disparities in New Jersey's criminal-justice system. Under current law, New Jersey residents can't vote if they are incarcerated or on parole or probation. About 94,000 people currently fall into these categories, according to state officials.

Shavonda Sumter, a state assemblywoman from Paterson, said black residents make up a disproportionate share of the state's prison population—and stripping them of their

voting rights violates constitutional protections that say people can't be prevented from voting based on their race.

"We do not want to mix the punishment of actually serving time in prison for a crime you've committed with stripping away these fundamental human rights," said Ms. Sumter, a Democrat.

New Jersey has the country's largest racial disparity in incarceration rates, according to the Sentencing Project, a group that advocates for criminal justice reforms. About 60% of the state's prison population is black compared with about 15% of the general population.

State Sen. Gerald Cardinale, a Republican, said he worried that incarcerated people could become a powerful voting bloc that would roll back criminal punishments if given the right to vote.



People who are incarcerated or on parole or probation can't vote.

rights. "The punishment should always fit the crime," he said.

A spokesman for Gov. Phil Murphy didn't comment specifically on the proposed bill, but said the Democratic governor supports "legislation that expands access to the ballot."

Vermont and Maine are the only states where criminal convictions don't affect voting rights, according to a November report by the National Conference of State Legislatures.

In Florida, people with felony records can only have their voting rights restored by a clemency board. A November ballot measure will ask Florida voters whether to automatically restore voting rights to people convicted of crimes after they complete their sentences, except for people convicted of murder or sexual offenses.

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GREATER NEW YORK

A Charge Against Percoco Is Tossed

By MIKE VILENSKY

The federal judge presiding over a corruption case against a former top aide to Gov. Andrew Cuomo on Monday dismissed one of the charges ahead of closing arguments.

The dismissed charge alleged Joseph Percoco extorted an upstate New York development company by using his official power to obtain payments from the developer. There are still several charges pending against Mr. Percoco and developers, who have denied any wrongdoing.

U.S. District Judge Valerie Caproni had expressed skepticism about the extortion charge because Mr. Percoco was working for Mr. Cuomo's campaign during the time the charge covered. Prosecutors had argued he still maintained his official influence even as he was a campaign official rather than a government official.

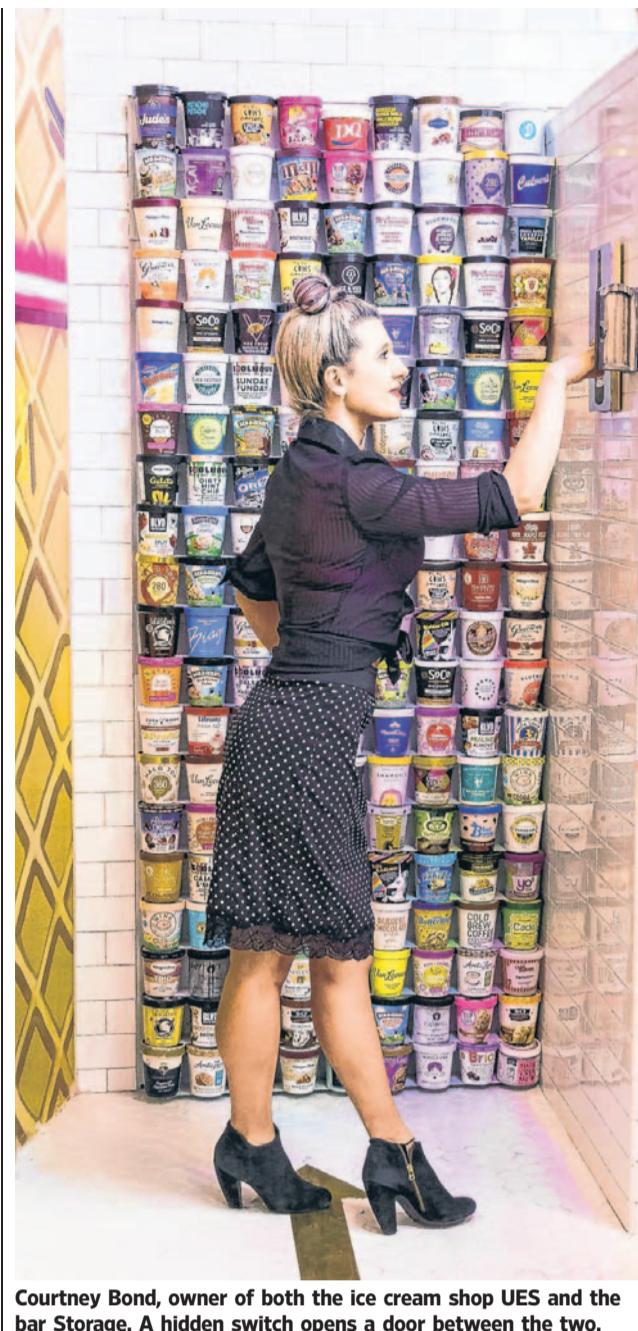
The charge concerned a relatively small sum of alleged bribery proceeds, but its dismissal represents a setback for prosecutors.

The majority of the alleged bribes in the case, however—nearly \$300,000 in payments—are the result of a separate alleged scheme in which an energy executive received government favors for his company as a result of a “low-show job” he arranged for Mr. Percoco’s wife. That executive, Peter Galbraith Kelly Jr., is also a co-defendant with Mr. Percoco.

On Monday, the defense team finished presenting its evidence and Mr. Percoco told the judge he wouldn’t testify in his own defense.

Mr. Cuomo, a Democrat, isn’t on trial or accused of wrongdoing. He has repeatedly declined to comment on the case.

—Erica Orden contributed to this article.



Courtney Bond, owner of both the ice cream shop UES and the bar Storage. A hidden switch opens a door between the two.

Ice Cream by Day, Cocktails by Night

By JEANETTE SETTEMbre

The scoop at this Manhattan ice cream shop is knowing there's a speakeasy in the back.

A bright pink neon ice-cream cone lures stroller moms and the pint-size crowd to UES on Second Avenue between 88th and 89th streets to enjoy a variety of flavors including salted caramel and cookie dough. But come 5 p.m., people in the know start making their way toward the back of the shop where there's a wall festooned with ice-cream cartons.

Ask the doorman if you can help out in the storage room and you will be directed to a hidden switch on the wall that opens a door. From there, a velvet rope barrier leads to a dimly lighted drinking den filled with black leather banquets, gilded columns, chandeliers and a waitstaff decked out in red silk bow ties.

A dress code is strictly enforced—no T-shirts, jeans or sneakers allowed—at the bar called Storage. The menu features \$15-and-up cocktails named for the neighborhood such as Tea at the Carlyle, or rhubarb-infused gin, aperol, sour cherry and blackcurrant curd, matcha tea and tonic.

Other sips include the Community Board 8, made with whiskey, amaro, spicy jalapeño jam and blood-orange ice cream, and the Dogs And Bears In Carl Schurz, a scotch, wheatgrass juice, seaweed syrup and pear cider combination.

Tesla lived and experimented with radio waves. At the radio-themed speakeasy, a drink called Radio Waves is made with tequila, mescal, Rhum agricole, Thai chili and cucumber.

Ryan McKenzie, who owns both businesses, said 80% of his revenue comes from the bar and 20% from the coffee shop.

In the Chelsea neighborhood, meanwhile, Bathtub Gin surreptitiously is tucked inside Stone Street Coffee. The small bar offers gin-based cocktails and small plates. Owner Dave Oz said 5% of his revenue comes from the coffee shop and 95% from Bathtub Gin.

“What makes it interesting is the businesses in the front that are still revenue-generating tools that attract a different kind of customer,” said Art Sutley, publisher of Bar Business Magazine, a trade journal. “It plays into the real speakeasy experience.”

While the Prohibition-inspired trend is nearly as old as bars, there’s still the thrill of the spectacle that keeps New Yorkers coming back for more.

“We’re in an Instagram world where people want to take pictures and say that they’re at something secret,” Mr. Sutley said.

To get to the bar, ask the doorman if you can help out in the storage room.

GREATER NEW YORK WATCH

COUNTERTERRORISM

Penn Station to Get Bomb-Detection Units

Suicide vest-detection technology is coming to New York City's Penn Station. U.S. Sen. Chuck Schumer (D., N.Y.) said Monday that the federal Transportation Security Administration will start testing the screen-

ing equipment on Tuesday.

Mr. Schumer pushed for the technology to be tested in New York City after a Bangladeshi immigrant injured himself setting off a crude pipe bomb strapped to his chest in December. The machines, mounted on tripods, screen people at a distance without slowing them down. Several versions are being evaluated.

—Associated Press

ENVIRONMENT

Lawmakers Target Plastic Shopping Bags

Two Democratic state lawmakers from Manhattan on Monday called for a statewide ban on the ubiquitous plastic shopping bag and a fee on paper bags as a way to encourage renewable alternatives and crack down on

one of the greatest sources of environmental pollution.

New Yorkers use 23 billion plastic bags each year, according to the findings of a state panel formed to study their effects on the environment.

The legislation proposed by Sens. Liz Krueger and Brad Hoylman would prohibit their use as shopping bags—though plastic food carryout bags and smaller

plastic bags used to store produce or meat would be excluded.

It would be up to retailers to set the fee on paper bags, though the bill would set a minimum of 10 cents and a maximum of a quarter.

The bill is likely to run into the same bipartisan opposition that doomed New York City's plan to impose a bag ban last year.

—Associated Press

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LIFE & ARTS

ART

New Signs of Art-Market Confidence

London auctions this week feature works that have never been to auction before, as collectors appear more willing to sell pieces

BY KELLY CROW

ART COLLECTORS appear to be entering their Confident Period.

Reassured by a string of strong prices paid last year for high-end art—like that \$450 million Leonardo da Vinci—collectors seem increasingly willing to pry their masterpieces off their walls and put them on the auction block. Half the offerings in Christie's Tuesday sale of impressionist and modern art in London have never been to auction before, a sign that sellers expect to reap tidy profits selling pieces they've held on to for years, or even decades.

Christie's auction kicks off a two-week sale series across London's chief auction houses, including Sotheby's and Phillips, that will collectively gauge global demand and reset price levels for dozens of the world's top artists. Overall, the three houses expect to sell at least \$772 million worth of impressionist, modern and contemporary art combined, roughly on par with a similar, \$786 million series held a year ago but up 25% from a \$620 million series in 2016.

"It takes a few strong seasons before people feel secure about our market," said Christie's expert Conor Jordan, "but the drip-by-drip effect is starting to help us now."

Even so, all three houses are anchoring their sales to the same tried-and-true mainstay: Pablo Picasso. On Wednesday, Sotheby's plans to ask at least \$50 million for Picasso's 1937 portrait of one of his mistresses, "Woman in Beret and Checkered Dress (Marie-Thérèse Walter)." Sotheby's will also try to sell the artist's "Matador" portrait from 1970 for at least \$19.5 million. Christie's will aim to get at least \$16.8 million for Picasso's blue-hue "Musketeer and Sitting Nude" from 1967, and Phillips's March 8 sale will include the artist's "Sleeper" portrait of Ms. Walter from 1932. Its estimate: \$16.8 million or more.

Picasso's household-name status especially appeals to new collectors from Asia, where Christie's said it now derives a third of its buyers for these sales.

Major sellers from the U.S. include tennis player John McEnroe, who is selling Mark Bradford's 2007 abstract, "Helter Skelter I," at Phillips for at least \$8.4 million. Television executive Blake Byrne is selling Marlene Dumas's 2006 portrait of a long-bearded "Pilgrim" for at least \$2 million, also at Phillips.

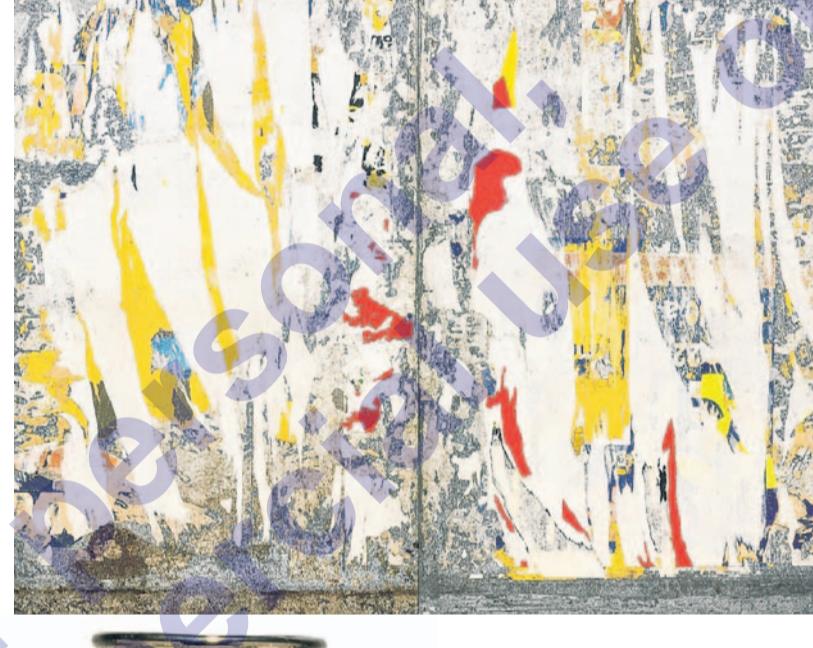
A few sellers are also seeking to ride the art market's wave up by auctioning off pieces they bought recently—a strategy some deal-



Clockwise from top: Kristin Baker's 'The Raft of Perseus' (2006); 'Sheet Metal' (1976), by Raymond Hains; Grayson Perry's 1996 'Oiks, Tarts, Wierdoes and Contemporary Art'; 'Woman in Beret and Checkered Dress (Marie-Thérèse Walter)' (1937), by Pablo Picasso.



CLOCKWISE FROM TOP: CHRISTIE'S IMAGES LTD.; PHILLIPS; SOTHEBY'S (2)



ers deride as flipping art but others call savvy investing. Case in point: Peter Doig's "The Architect's Home in the Ravine," a 1991 scene of a woodsy house that is making its third auction appearance in a decade, having first resold at Sotheby's for \$3.6 million in 2007 and again at Christie's for \$11.9 million in 2013. Now, Sotheby's will try to sell it once more for at least \$19.3 million.

Sotheby's expert Alex Branczik said "Doig isn't a flip artist," but he added that three other pieces by the painter have topped \$20 million in the past year.

For its part, Christie's will ask at least \$22 million for Andy Warhol's "Six Self Por-



traits," a set of candy-colored images of the pop artist sprouting a silvery wig that last sold at Sotheby's four years ago for \$30.1 million—a seeming loss unless feverish bidders push it higher still.

Expect auction houses to leverage the cheery mood to stage comebacks for potentially overlooked artists and position a few new breakout stars by the time the sales end March 9. Here, a few works to watch:

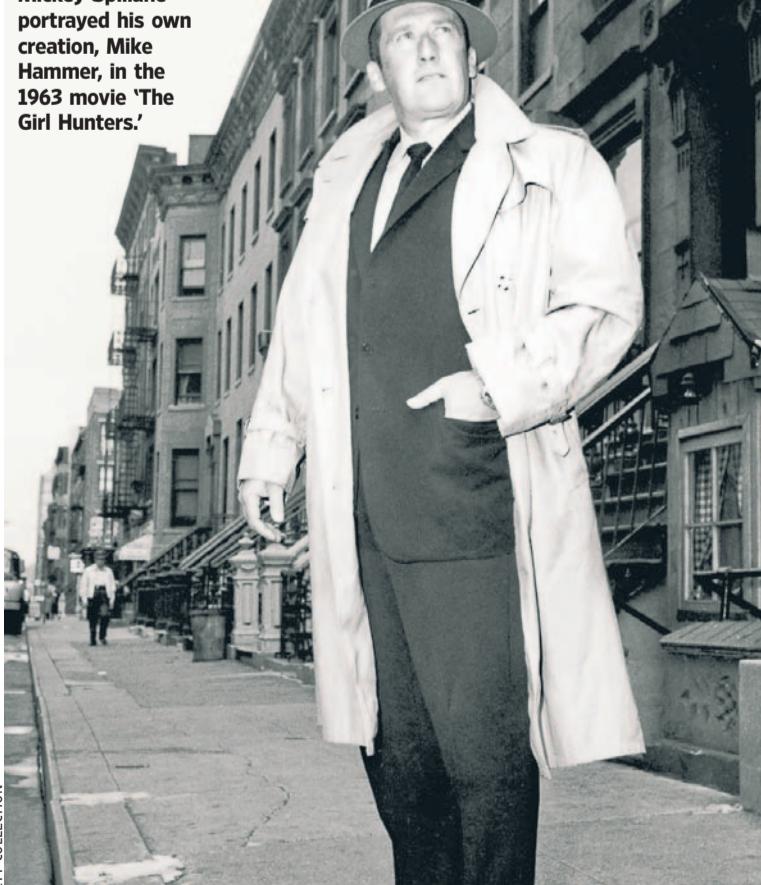
Christie's
FRESH FACE: Auction houses scored big a few years ago by championing the lushly cryptic paintings of Romanian artist Adrian Ghenie.

house is asking at least \$8.3 million.

Phillips
FRESH FACE: French artist Raymond Hains died in 2005, but his installation of rakes and paintings piled into shopping carts looked new when it was included in the main show of last summer's Venice Biennale, turning a new generation of collectors on to his art. Phillips is testing demand now by offering a torn-poster work from 1976, "Sheet Metal," for at least \$209,400.

SECOND LOOK: Jack Whitten, an Alabama-born artist who died last month in Queens, N.Y., lived long enough to see the beginnings of a curatorial—and commercial—revival for his art, particularly his "Black Monoliths" series that honored African-American heroes. Three months ago, Sotheby's sold one of his works for \$855,000, tripling its high estimate. Now, Phillips is asking at least \$279,200 for Whitten's 1995 mosaic-grid-like nod to a blind saxophonist he admired, "Bright Moments: For R.R. Kirk."

Mickey Spillane portrayed his own creation, Mike Hammer, in the 1963 movie 'The Girl Hunters.'



EVERETT COLLECTION

BOOKS

AFTER A WRITER'S DEATH, THE WORK KEEPS COMING

BY THOMAS VINCIGUERRA

MICKEY SPILLANE was never adored by critics. He famously said that his own father called his work "crud." For the mystery novelist, none of it mattered.

"I don't have fans," he said in a 1981 People magazine interview. "I have customers. I'm a writer. I give 'em what they wanna read."

He died in 2006 at 88, but his work hasn't stopped. In the past 12 years, his estate has released nearly 20 of his unpublished and previously uncompleted novels and short stories, some as graphic novels and audio plays, many of them featuring the hard-boiled private eye he created, Mike Hammer.

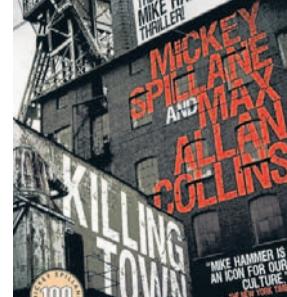
"Killing Town," begun in 1946 and hailed as Spillane's first but previously unpublished novel, is due out in April. "The Last Stand," believed to be his final completed

work, is expected next month along with another unpublished work, "A Bullet for Satisfaction," around his 100th birthday on March 9.

This afterlife is due largely to a longtime fan and fellow novelist, Max Allan Collins. Named a 2017 Grand Master by the Mystery Writers of America, Mr. Collins as a teenager pelted his favorite author with admiring (and unanswered) letters.

In 1973, when Mr. Collins published his first book, "Bait Money," Spillane finally responded by welcoming him to the ranks of the pros. They met in person in 1981, at a mystery writers' convention.

"We were very different," said



Mr. Collins, 69, from his home in Muscatine, Iowa. "I'm a Democrat. He was to the right of Attila the Hun."

A friendship nonetheless ensued, and Spillane designated Mr. Collins as his literary executor.

"Give everything to Max," he told his wife, Jane, Mr. Collins recalled. "He'll know what to do."

Ever since Spillane's death, Mr. Collins has been sorting, assessing, editing and often completing the thousands of pages that Spillane kept in plastic storage tubs at his house in Murrells Inlet, S.C.

"I've been doing this since 2006, and I still have a full file drawer of material," Mr. Collins said.

Please see SPILLANE page A13

LIFE & ARTS

MUSEUMS

Vatican Treasures Head to Met

Museum's sweeping exhibition will explore the 'complex and magnificent relationship' between Catholicism and fashion

BY JOHN HOOPER

Rome

IN HIS 1972 MOVIE 'Roma,' Italian director Federico Fellini imagined a Vatican fashion show, with models strutting, cycling and even roller-skating down the catwalk to present the latest in improbable ecclesiastical apparel.

An exhibition opening May 10 at the Metropolitan Museum of Art in New York and previewed here Feb. 26, looks at the sumptuous reality behind Fellini's bizarre sequence—and one that at times isn't far from the director's fantasy. "Heavenly Bodies: Fashion and the Catholic Imagination" is the largest show the Met has ever staged, consisting of almost 200 works. Forty of them are from the pontifical sacristy, many priceless and never before displayed. They include several papal tiaras—the triple-layered crowns popes wore until the 1960s.

The show aims to explore what the Met's deputy director, Carrie Rebora Barratt, called the "complex and magnificent relationship" between Catholicism and fashion. The exhibition will take up 25 galleries spread between the Met Fifth Avenue and the Met Cloisters in northern Manhattan.

"We want it to be like a pilgrimage," said the curator, Andrew Bolton. Visitors can enter the exhibit wherever they like. But ideally, Mr. Bolton said, they would follow a route starting at the museum's Anna Wintour Costume Center, where the papal treasures will be on view. The Vatican stipulated that those works be displayed separately from the rest of the show.

To prepare the exhibit, Mr. Bolton and his colleagues made eight visits to the Vatican. "Every time we went, we went more and more into the inner sanctum," he recalled. "Leading off the Sistine chapel, you've got this little door like in Alice in Wonderland. Within it, there is a series of rooms that lead on to each other. I think that the more that they trusted us, or became interested in the exhibition, the more doors were opened—literally—until we went into the final room where all the papal tiaras and rings and clasps and jewelry were stored."

Mr. Bolton guesses that the most valuable piece in the show is a tiara given by Queen Isabel II of Spain to Pope Pius IX in the 19th century. "It has 19,000 precious stones, of which 18,000 are diamonds," he said.

From the Costume Center, visitors will be able to continue to galleries in which religious works from the Met's collection will be juxtaposed with clothes. A shimm-



FROM LEFT: DOLCE & GABBANA/THE METROPOLITAN MUSEUM OF ART; COLLECTION OF THE OFFICE OF LITURGICAL CELEBRATIONS OF THE SUPREME PONTIFF, PAPAL SACRISTY, VATICAN CITY/THE METROPOLITAN MUSEUM OF ART

mering Versace evening dress with a cross running from the neckline to the hem will be matched with an 11th-century processional cross; a Valentino gown with a lavish Garden of Eden motif echoes the cover of a 17th-century bible.

"We always knew that the influence [of Catholicism on fashion] was there," Anna Wintour, Vogue's editor-in-chief, said at the preview

in Rome. "But it was only when Andrew started to look at it that he realized how far it went. I know I was surprised."

Many of the greatest couturiers from France, Italy and Spain have Catholic backgrounds. Cristóbal Balenciaga considered entering the priesthood and remained deeply religious throughout his life.

What is less known is that some



The show includes a Dolce and Gabbana wedding ensemble inspired by a gilded statue atop Milan's cathedral and a jeweled tiara worn by Pope Pius IX.

designers have worked for the Catholic Church. On display will be Yves Saint Laurent's statuary vestments for a Madonna in a Paris church and Jean-Charles de Castelbajac's chasuble for Pope Saint John Paul II, made for the 1997 Catholic World Youth Day.

The title of the show borrows from "The Catholic Imagination," a book published in 2000 by Andrew Greeley a Catholic priest, novelist and sociologist. Greeley wrote that his co-religionists lived in an enchanted world "of statues and holy water, stained glass and votive candles, saints and religious medals, rosary beads and holy pictures." It isn't hard to see how that panoply infiltrated the subconscious of creative people, including fashion designers.

"I think there is a connection between being Catholic and creative," said Mr. Bolton who himself was educated by Jesuits. Those who pursue his suggested route will find a more austere face of Catholicism in the Met Cloisters where the aim is to illustrate the

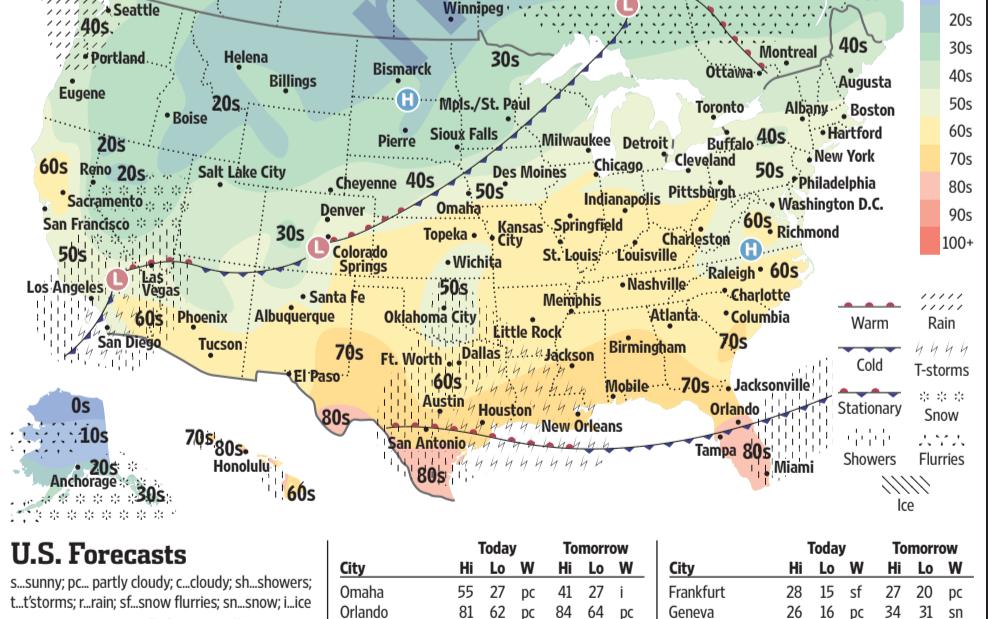
effect of monasticism on designers. The last display visitors will see as they depart will nevertheless be an opulent one: a gold wedding ensemble by Dolce and Gabbana inspired by the Madonnina, the gilded statue of the Virgin Mary atop the cathedral of Italy's fashion capital, Milan.

That points to the most remarkable aspect of the exhibition: It is being staged during the pontificate of the ascetic Francis. The lush fabrics, precious gems and metals; the dresses that only billionaires and celebrities can afford seem a long way from the Church of the Poor that Pope Francis espouses.

"I think that this is an element that also has to be considered," said the Vatican representative at the preview, Cardinal Gianfranco Ravasi. "Certainly, fashion is also excess ... luxury. This is undoubtedly a factor to be judged from a moral and religious standpoint."

Does the pope even know about the show? "He must know," Mr. Bolton said. He made a face and added: "I hope he does."

Weather



U.S. Forecasts

S=sunny; pc=partly cloudy; c=cloudy; sh=showers; t=tstorms; r=rain; sf=snow flurries; sn=snow; l=ice

Today Hi Lo W Tomorrow Hi Lo W

City

Hi Lo W

W

Hi

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LIFE & ARTS

BY JULIE V. IOVINE

New York

FEW SUBJECTS dampen even can-do spirits more quickly than how to help those who, because of joblessness, low income, age, physical or mental handicaps, addiction or other stumbling blocks, have been unable to find a decent place to live.

"Social Housing: New European Projects," a new exhibition at the Center for Architecture here (through May 19), is surprisingly upbeat. With uncomplicated drawings, models and photographs, this compact exhibit features 25 projects from eight countries that tackle the issue thoughtfully, cost-effectively, even cleverly. These dwellings are a far cry from the colossal concrete slabs arrayed in fortress-like blocks erected in the 1960s and '70s and so ubiquitous both in America and in Europe. The projects shown here are now under construction or were built over the past 10 years, some literally atop the dynamited rubble of those detested dinosaurs.

The size of these projects often seems modest, too modest perhaps to be transferable to big American cities with their oversized needs (the consequence of decades of not building housing). Many are only about five to 10 stories, providing homes for dozens, not hundreds or thousands, of people.

In inner-city Liverpool, for instance, Granby Four Streets comprises only 10 rowhouses that local residents reclaimed from a government demolition plan. Supported by a local nonprofit investor, they put the Victorian-era houses into a community land trust. Five of the apartments are rented out at affordable rates; the rest are being sold at controlled prices. The once-derelict houses were fixed up by Assemble, a collective of young artists and designers who also make and sell furniture, tiles and textiles with profits plowed back into further renovations. In 2015, Granby Four Streets won the prestigious Turner Prize for visual arts, the first time it has ever been awarded to a work of architecture.

Though the projects may seem on the small side, they are loaded with innovative responses and ideas well worth consideration by American housing planners and builders. So-called refurbishment is one of the most compelling, and it doesn't mean just replacing the boilers or removing lead paint.

It's a more radical rethink when demolition is not practical and residents cannot be moved. Refurbishment might include adding glassed extensions to older apartment towers—winter-gardens if you will—as at the



FROM LEFT: KARAKUSEVIC CARSON ARCHITECTS; FREDERIC DRUIT ARCHITECTURE

widely acclaimed Tour Bois-le-Prêtre in Paris, completed by Lacaton & Vassal + Druot architects in 2011. On the outskirts of Rotterdam, two of four Bauhaus-brutal concrete slabs were transformed when big architects added human-scaled brick bases. Dedicated to older occupants, these two buildings at Knikflats—the other two are for immigrants—were also renovated to include a ground-floor medical center. What stands out is an attention to details applied for maximum impact—as simple as a brick pattern or an additional door—making for housing that looks appealingly livable, not merely utilitarian.

The London borough of Hackney is the site of an urban housing regeneration that

EXHIBITION REVIEW

Trying to Turn Housing Projects Into Homes



Tour Bois-le-Prêtre in Paris, by Lacaton & Vassal + Druot, above; London's Nightingale Estate, by Karakusevic Carson Architects

connections, through streets, mixed uses, higher density and integrating residents with a range of incomes make more sense. If much of it sounds obvious, the financing and cost-control mechanisms seem more radical, and probably do work primarily on smaller projects. They include architects acting as developers, community financial management and, in the U.K., "private sales" in which residents buy a portion of the home and rent the rest from a local authority or nonprofit. Cutting out middlemen seems to be an especially effective way to control costs, even when that means the community or architect acts in place of a developer.

The solutions featured here are not all foreign to U.S. housing experts. In New York's South Bronx, Via Verde, a mixed-income development with 222 residences, 40,000 square feet of roof gardens, street-level stores and an on-site clinic is considered a resounding success. The rich stew of grants, loans and tax credits that made the \$98.8 million project possible, however, have been hard to replicate elsewhere.

What is most memorable about "Social Housing: New European Projects" is the sheer variety of responses in terms of shapes and scale, mixed incomes, community involvement, and financial mechanisms that should put to rest the failed assertion that one size must fit all when it comes to feasible housing. Whether enclosing balconies to turn drafty unused space into winter-garden extensions or adding more doors to avoid scary interminable hallways, the willingness to be flexible, case by case, shows that instead of being overwhelming and dispiriting, the subject of housing can be positively exciting.

Social Housing: New European Projects
Center for Architecture, through May 19

Ms. Iovine reviews architecture for the Journal.

RON GALELLA, LTD./WIREIMAGE/GTY IMAGES
Max Allan Collins, actress Majel Barrett-Roddenberry and Mr. Spillane in 1995.

SPILLANE

Continued from page A11
said. "He called me his wastebasket."

Spillane's posthumous sales can only be estimated because of the variety of formats in which they are available in the U.S. and overseas, said Katharine Carroll, U.S. publicity director for Titan Books and Hard Case Crime, the publishers of "Killing Town," "The Last Stand" and "Bullet for Satisfaction." "I would conservatively guess the numbers sold are clearly at least in the hundreds of thousands," she said.

"Every generation rediscovered Mickey," said Jim Traylor, Mr. Collins' collaborator on two book-length studies of Spillane and a biography that is in the works. "In the early 2000s I gave my daughter a copy of 'I, the Jury' and she disappeared to the beach until she finished. And she's not a great reader."

Spillane's enduring popularity is largely a matter of simplicity, Mr. Traylor said. "It's not very highbrow, but it's very real. It's very Old Testament. It's eye for an eye, tooth for a tooth."

Ms. Carroll declined to say

were paying the estate for the titles. Ms. Spillane also declined to discuss what her late husband's work was bringing in.

"He would have a fit about that," she said. "There are years I've made an awful lot of money and other years where I haven't."

Working from notes, memos and scraps, Mr. Collins attempts to emulate his idol's voice in bringing his plots to fruition. "I don't write like Mickey," he said,

I don't have fans. I have customers. I'm a writer. I give 'em what they wanna read.'

but there are things I learned from reading him at 13 years old."

Part of the challenge is emulating Spillane's evolution as a writer. Initially, Mr. Collins said, Spillane was "completely out of control" in his depictions of sex and violence. In "The Big Kill" (1951), he wrote, "I took my own damn time about kicking him in the face. He smashed into the door and lay there bubbling. So I kicked him again and he

stopped bubbling."

In the early 1950s, Spillane became a Jehovah's Witness and didn't publish any books for 10 years. When he returned to work, his prose was unchanged. "I could bury the ax in his belly," he wrote in "The Girl Hunters" (1962). "That would be fun, all right. Stick it right in the middle of his skull and it would look a lot better."

Eventually, said Mr. Collins, Spillane made the leap from "brilliant primitive" to "polished professional" and ratcheted down the rhetoric.

"On more than one occasion, I've looked at these manuscripts and I can see that at page 100 he stops after a sex scene. I can see him saying to himself, 'I better not do this.' And I say, 'Where is Mickey's head at right now?' I have to look at these manuscripts like an archaeologist. I try my best to date when he wrote a particular fragment," Mr. Collins said.

Ms. Spillane, who still lives in the Murrells Inlet house she shared with her husband, recalled that he would leap out of bed in the middle of the night to scrawl ideas on Post-it Notes.

"He always told me he was going to live forever," she said. "And now I know what he meant."

Paul Karakusevic, a curator of the exhibition, calls a revolution. Five of six concrete towers at the Nightingale Estate, a typical postwar project gone bad, were demolished around 2000. They were replaced with low-rise apartments and a completely overhauled master plan by a group of architects led by Karakusevic Carson Architects. Principles at work include reinstating pass-through streets and encouraging commercial and community uses of ground-floor spaces. Three new parks have been carefully planned for specific uses to make sure the expansive grounds are enjoyed, not avoided.

Where once the big idea was to warehouse people in "new towns" on the outskirts of the city, today public-transit con-

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SPORTS

MLB

Baseball's New Tactic: Trying to Win

BY JARED DIAMOND

With so many teams tanking, some now see an opening to compete

IN THE WAKE OF their worst season in more than three decades, the San Francisco Giants made a radical decision this winter: They tried to get better. Not in five years. Not in three years. Right now—investing nearly \$120 million in their roster in a bid to return to the playoffs.

"It went against the grain," newly acquired outfielder Andrew McCutchen said.

Welcome to baseball in 2018, where organizations deserve credit not for winning the World Series, but merely for putting forth a reasonable amount of effort in an attempt to simply make the playoffs.

No fewer than a third of major-league teams seem to be participating in a controversial rebuilding strategy known as tanking—the practice of stripping the payroll to the bones and purposely enduring dismal seasons to save money and compile top draft picks for the future.

MLB commissioner Rob Manfred naturally disagrees with that characterization, saying that "it is not always transparent to outside observers what the plan is for winning and what the timetable is for winning." Still, even Seattle Mariners general manager Jerry Dipoto admitted last month that "you could argue you're going to compete with more clubs to get the No. 1 pick in the draft than you would to win the World Series."

It doesn't require much sophisticated analysis to understand why teams use this approach: It can work. The last two World Series champions, the Chicago Cubs and Houston Astros, both earned their rings after undergoing full-blown teardowns. From 2011 through 2013, the Astros averaged 108 losses, the Cubs 96. Both now appear set for sustained success.

"Our system is upside-down, because we never, ever want to reward non-competitiveness," agent Scott Boras said. "It is a cancer. It damages the brand of baseball."

But across the league, some teams say they see value in bucking the trend, believing that perhaps the number of teams following in the



Cubs' and Astros' footsteps has reached saturation. Not every organization gunning for a coveted top draft selection will get it; somebody will end up with pick No. 10, greatly diminishing tanking's efficacy.

Instead, these teams, like the Giants, took advantage of a buyers' market, convinced that adding, not subtracting, would improve the franchise's long-term health. In this environment, Giants general manager Bobby Evans said, "getting really bad doesn't guarantee winning."

"There are costs to getting really bad," he said. "It can cost you some very good players that are in their primes and ready to compete now. It can cost you fans who say, 'If you're not going to compete now, I'll see you when you're ready to compete.' It's not a golden ticket."

After slogging through 98 losses in 2017, the Giants looked like a candidate to join the fray. Their miserable record could have been viewed as a sign that it was time to start over and move on from the aging, expensive core that won three titles from 2010 through 2014.

The Giants chose the opposite path. First, they traded for third baseman Evan Longoria, the best player in the history of the Tampa Bay Rays. Then they added McCutchen, the 2013 National League MVP with the Pittsburgh Pirates. They did this because of what Evans described as a charge from ownership to pursue winning every year—"going the other way" has never been an option, he said.

Sure, it forced the Giants to part with prospects and cash, leaving them with one of the sport's highest payrolls. It also thrust them back into playoff contention.

"It makes me happy I'm not a part of those other organizations that are so quick to quote-unquote tear it down," said Giants catcher Buster Posey, a five-time All-Star. "It would be tough to feel like you're not being backed by your boss to be competitive as possible."

The Milwaukee Brewers learned last year that "tanking" doesn't always go as planned. They considered 2017 the second year of what they thought would be an ex-



In moves that defied the tanking trend, the Giants acquired Andrew McCutchen, left, and the Padres added Eric Hosmer.

tended rebuild. Then they went out and defied expectation by finishing with 86 victories, remaining in playoff contention until the penultimate day of the season.

The spate of teams that mostly sat out the off-season allowed the Brewers to expedite the process. They signed outfielder Lorenzo Cain to a budget-friendly five-year, \$80 million contract, cheaper than what some statistical projections suggested he was worth. Then they benefited from the Miami Marlins' much-discussed fire-sale, acquiring Christian Yelich, one of the most talented young outfielders in the sport.

"I don't want to say they abandoned their plan," Milwaukee third baseman Travis Shaw said. "But they sped it up."

The largest deal of the winter came from an unlikely source: Even though they've posted a losing record in seven straight seasons, the San Diego Padres ponied up for first baseman Eric Hosmer, giving him an eight-year, \$144 million deal. This despite the fact that, unlike the Brewers, the Pa-

dres probably aren't equipped to rise to contention quite yet.

That puts Padres GM A.J. Preller at odds with some of his peers, who refuse to spend until enough prospects have graduated to the majors to realistically vie for the postseason. Preller acknowledged that some fans say, "well, there's no value in winning 78 games or winning 79 games," up from 71 a year ago.

Preller doesn't necessarily subscribe to that way of thinking. He believes committing to Hosmer gives the Padres credibility and excitement for fans in the short term, and will serve as a vital asset in the near future when they take the next step. Hosmer's presence, Boras said, ensures that "no one in San Diego, regardless of the outcome win-loss, will say they're not building to be a championship-caliber team."

To Preller, there is value in that, even in an era where conventional wisdom says that to be good, you first have to get very, very bad.

"I'm not faulting that. It's hard enough to do that," he said. "But I don't think it has to be that way."

NCAA BASKETBALL | By Jason Gay

SECRET CASH ISN'T AN NCAA SCANDAL. AMATEURISM IS.



College basketball is not on the level. Pull me to the fainting couch and cover my forehead with a cold towel!

Look, I don't want to sound like I'm pooh-poohing the revelations in the recent Yahoo Sports exclusive, which exposed fascinating financial details from the FBI's investigation into the college game's not-so-shadowy underworld—who's getting paid, how it's done, how extensive it is. Nor would I pooh-pooh ESPN's report that government wiretaps allegedly caught Arizona coach Sean Miller discussing a \$100,000 payment to secure a player. This good reporting on the government's case is an important look under the hood, long overdue.

But shock isn't a solution here. People around the game have long known the score—and it's been indicative in their reactions to these stories, which have basically been: Yeah, buddy, what do you think is going on here?

"It's a horrible time for the game, but the game has begged, it's been on its knees begging for change for years," said Duke coach Mike Krzyzewski, who saw one of his own players, Wendell Carter Jr., connected to agent "runner" Christian Dawkins—a key figure in the FBI's wide-ranging bribery case—in the Yahoo report. Carter's mother is alleged to have gotten a lunch from Dawkins.

Lunch! Bring back the fainting couch! (Krzyzewski said Carter's mother told him she didn't even eat at the lunch; Duke contacted the NCAA and determined Carter had no eligibility issues and could continue to play.)

Why is the FBI patrolling NCAA compliance, anyway?

If you put college basketball on a pedestal, I'm sorry. Turns out recruiting pitches may involve more than academic scholarships. Turns out that for some institutions—and be careful about pointing a finger from your high horse, because your school could be next!—it might take, you know, the same thing it takes to land a coach: cash.

'No one cares about a music scholarship student getting paid to play gigs.'

A pretty rinky-dink amount of cash, as it turns out. ESPN's story on the FBI wiretaps alleges that Arizona's Miller and Dawkins discussed a payment for incoming freshman Deandre Ayton. The payment? \$100,000. (Miller, now benched as Arizona's coach, said he's "confident that I will be vindicated.") An attorney hired by the university called allegations Ayton or his family received money or benefits "false and unfounded," stating that Ayton "has abided by all applicable rules and regulations."

I can't even imagine what my college roommates and I would have done with \$100,000, after we threw a week-long keg party and all bought new snowmobiles. But a hundred grand for a great recruit is laughably small change, when you consider the overall college basketball economy, in which a guy like Sean Miller makes \$2.6 million per season and the NCAA takes in a billion dollars each year from its television partners for the privilege of showing March Madness.



Sean Miller didn't coach Arizona's last game amid the FBI's investigation into corruption in college basketball.

College basketball—and college football—are not the sepia-toned postcards of nostalgia from generations past. They're a multibillion-dollar market economy in which almost everyone benefits, and only one valve—to the players—is shut off, because of some creaky, indefensible adherence to amateurism. Of course some money finds its way to the players. That's what the details of this case show. Not a scandal. A market.

Don't look for the NCAA to acknowledge this, however. "These allegations, if true, point to systematic failures that must be fixed and fixed now if we want college sports in America. Simply put, people who engage in this kind of behavior have no place in college sports," NCAA president Mark Emmert said in a statement that deserved a laughing donkey noise at the end of it.

You and I know where this is going. Sometime down the road, we're going to wind up with a compensation system for the two mega-revenue college sports.

Maybe it's a completely free market, which would terrify everyone but the super-booster programs. More likely, it's a structured stipend system—each player gets X—or an escrow payment that's due upon graduation. It will likely end up in court, with schools/conferences seeking exemptions from Title IX requirements. It's going to be tricky to figure out—but tricky's not an excuse to ignore.

In the shorter term, I like the proposals to eliminate the amateurism requirement—allow a college athlete in any sport (not just football or basketball) to accept sponsor dollars, outside jobs, agents, any side income they can get. The Olympics did this long ago, and somehow survived. I also think we'll see, in basketball, the NBA stepping up and widening its developmental league—junking the dreadful one-and-done policy, lowering its age minimum, but simultaneously creating a more attractive alternative to the college game. If a player still opts to go to college, he'll need to

stay on at least a couple of seasons.

If you still think the scholarship is sufficient payment for an athlete in a high-revenue sport, ask yourself this question: There are all kinds of scholarships—academic, artistic, etc. Why are athletic scholarship recipients the only ones held to an amateurism standard? As the Hamilton Place Strategies founder and former U.S. treasury official Tony Fratto succinctly put it on Twitter: "No one cares about a music scholarship student getting paid to play gigs."

That's sort of a phony question; we all know why it's like this. The empowered in college sports have benefited enormously. It's been a hell of a ride! Mostly everyone's been able to roll in it—why do the hard work of revising the system?

But these are different days. We're in an information-abundant era, where truth—yes, good, old-fashioned truth!—eventually outs. Everyone now knows too much—and good for college sports. Change is coming.

L-R: BEN MARGOT/ASSOCIATED PRESS; ALEX TRAUTWIG/MLB/GETTY IMAGES

CHRISTIAN PETERSEN/GETTY IMAGES

OPINION

Our Childish Gun Debate



"Do you want to do nothing? Do you want to do nothing? Do you want to just do nothing? Just leave it the way it is?"

The words belong to Gerardo Rivera.

He emoted them Thursday on the Fox News Channel during a live broadcast of Sean Hannity's show from the Conservative Political Action Conference. In a perfect encapsulation of what the gun debate has become, Mr. Rivera was yelling at the crowd for booing his assertion that the National Rifle Association needed to back raising to 21

When Marco Rubio is likened to shooter Nikolas Cruz, we're not being serious.

the age for purchasing an assault weapon—even though he'd just admitted "it won't solve the problem."

Still, the mini-drama on "Hannity" was nothing compared with the Two Minutes Hate on CNN the evening before. At a CNN-sponsored town hall held in Broward County, Fla.—home to Marjory Stoneman Douglas High School, where the latest school shooting occurred—the NRA's Dana Loesch was greeted with shouts of "murderer" as she tried to argue her point of view.

The rest of the broadcast

was just as elevated. A high-school junior who survived the shooting said that when he looks at Florida Sen. Marco Rubio it's hard not to see shooter Nikolas Cruz. A freshman said she wanted to ask the NRA: "Was the blood of my classmates and my teachers worth your blood money?" Meanwhile, Sheriff Scott Israel pointed fingers at everyone but himself—this of course before America learned that as many as four of his deputies opted to stay safely outside the school rather than go inside to engage the killer.

In short, the public debate about how Congress ought to respond to this latest mass shooting is guided by two broad principles. Dubious on their own, they are even more wittless when combined. The first is the idea that the most important thing is to "do something." The second is that we ought to look to high-schoolers for the answer.

As goes CNN so goes the nation. The high-schoolers who survived Mr. Cruz's Valentine's Day massacre are taking to Twitter, TV and Tallahassee statehouse rallies to pressure politicians to "do something." In response, some on the right, entirely missing the point, have accused them of being "actors" or "scripted" by the news media.

These teens do not need to be scripted. Their youth and earnestness makes it all but impossible for any adult to advance a counterargument without looking indifferent to the horror these kids have been through. If you don't agree with what they want, they seem to suggest, you're OK with mass shootings—as



Jake Tapper and Sen. Marco Rubio during CNN's town hall.

Mr. Rubio and Ms. Loesch found out the hard way.

Quick show of hands for those with children: How many of you look to your teens for political wisdom, whether it's the daughter obsessing over her Snapchat streaks or the son who would spend his day eating Doritos and binge-gaming "Grand Theft Auto" if you let him?

This in no way diminishes the barbarity of what happened to the Parkland students. It is, however, to insist on the obvious: As terrible as their experiences were, the attack gives them no special insight into the complex array of public policies that might have prevented the slaughter.

Ditto for the "do nothing" accusation. Is it really so unreasonable to insist that those pushing specific legislation or regulations provide evidence that the something they want done will in fact produce the results they claim?

Even keeping the focus solely on school shootings, the challenge here is daunting: how to pick out potential

school shooters from the thousands of young men who post ugly things on social media, have no fathers, or have an unhealthy fascination with guns—especially if they have no criminal records and haven't been diagnosed as mentally ill. Are we confident government has the Solomonic wisdom to sort through the 8.4 million boys in high school and identify the ones who would shoot up a school?

Surely the facts invite skepticism. The FBI call center didn't forward a January warning to its local Miami office. Sheriff Israel's deputies answered nearly two dozen calls regarding Mr. Cruz before his rampage, and then hid outside the school when he went active. Some callers said they thought this kid would be a school shooter. Will a new law fix this?

It's not just conservatives who have doubts. In an October 2016 article in GQ, the Guardian's full-time gun-politics reporter conceded she was "shocked by how little evidence there was behind some of the most prominent gun control policies." The year before, right after the San Bernardino killings, the Washington Post fact checker backed Mr. Rubio's claim that gun laws would not have prevented any of the major shootings the nation had seen in recent years.

Maybe there are "common sense" gun restrictions that could do some good. But that would first require an honest debate. Instead, ours holds up teenagers on national TV who tell us they can't distinguish between Marco Rubio and Nikolas Cruz.

Write to mcgurn@wsj.com.

BOOKSHELF | By Jeff Baker

Support Any Friend

Operation Chaos

By Matthew Sweet
(Holt, 349 pages, \$30)

On April 23, 1968, six American servicemen jumped from a Japanese fishing boat onto a Soviet coast-guard vessel in the Sea of Japan. Deserters from the Vietnam War, they had been smuggled out of Japan onto the boat by Japanese antiwar activists. Once in the U.S.S.R., they were aided by the KGB, which took them on a propaganda tour of the Soviet Union that included a visit with Yuri Andropov and starring roles in a TV program in which one of them, a cook who had never been in combat, told outrageous lies about American atrocities.

Their eventual destination was Sweden, where the future prime minister, Olof Palme, had just marched through the streets of Stockholm arm in arm with the North Vietnamese ambassador to Moscow. American deserters and draft resisters were welcomed as heroes:

About 1,000 passed through Sweden from 1967 to 1973, admittedly a trickle compared with the estimated 60,000 who moved to Canada to avoid the war.

Some settled in Sweden and remain there today. Others struggled with the winters and returned to the U.S. to face prosecution or court-martial. A few became enmeshed in the internal politics of

the American Deserters Committee, "a group of radical exiles who sowed so much discord that many Swedes suspected they were a CIA front," as Matthew Sweet writes in "Operation Chaos: The Vietnam Deserters Who Fought the CIA, the Brainwashers, and Themselves."

It wasn't only the Swedes who were suspicious. Two of the six Americans who arrived through Japan and the Soviet Union got into a fistfight before they got to Sweden—one wanted to acquire and burn an American flag, another strongly objected. The backgrounds and education levels of those who chose not to serve in Vietnam were as diverse as those who did. The difference was that the deserters were on the run and much more paranoid.

"All deserters believed all other deserters were CIA," Clancy Sigal, a novelist who ran a safe house in London for those who wanted to escape the war, tells Mr. Sweet. "You could take that as a given. What they felt for each other was a curious mixture of brotherhood and mistrust."

It's the mistrust that interests Mr. Sweet, a host on BBC radio and the author of anecdote-driven books about Victorian England and early British cinema. "Operation Chaos," he confesses, is not the book he set out to write. His "grand historical survey of the act of desertion from the Second World War to the present day" morphed into a narrative that goes deep into the hothouse politics of the American Deserters Committee before taking a sharp turn into the bizarre machinations of Lyndon LaRouche.

U.S. deserters from the Vietnam War were welcomed in Sweden by a band of radical expatriates riven by fear of CIA infiltration.

A through-line exists but is hard to follow, even with Mr. Sweet explaining each detour. The American Deserters Committee started in 1968 as a political organization that helped newcomers acclimate to life in Sweden. Its leaders, Bill Jones and Michael Vale, were revolutionaries intent on overthrowing capitalism, and they purged those who wouldn't toe the Maoist line. Mr. Vale, a translator who did not serve in the military, imposed his will through a psychological technique called ego-stripping. "He degrades you," a deserter tells Mr. Sweet. "Tells you that you're worth nothing. Unless you do what he says. When all the defenses are down, he imposes."

By 1970, the committee was down to its ego-stripped true believers. Only one of the six men who jumped from boat to boat had anything to do with it after the first few days. Another continued on to North Korea and is rumored to be an army officer there. Another returned to the U.S., informed on everyone in Sweden, rejoined the Navy, deserted again and went back to Sweden, where he attempted to rob a bank using a water pistol and was disarmed by a teenage girl. Still another, the atrocity fabricator, turned himself in and was convicted of desertion.

A desperate Mr. Vale went looking for allies on the extreme left. He found what he believed were kindred spirits in a rowdy U.S.-based group led by a charismatic firebrand who called himself Lyn Marcus. Mr. Vale decided to join forces, a move he immediately regretted. Too late. Lyn Marcus was in fact LaRouche, described by Mr. Sweet as "a management consultant from New Hampshire who . . . wants you to know that Britain started the Vietnam War, that the Beatles were created as an instrument of psychological warfare, and that he is the only man who can save . . . everyone from the genocidal ambitions of Her Majesty Queen Elizabeth II."

That description suggests a roguish charm that is nowhere in LaRouche's writings or his actions. Mr. Vale soon fell out, but some of his followers supported LaRouche through decades of nonsense. Some of them wrote for publications controlled by LaRouche that referred to Palme as "a raging beast, an ax killer, the Devil's devil." An assassin shot Palme in the back as he left a Stockholm theater in 1986. Members of a LaRouche-backed political party were questioned; the crime remains unsolved.

The book's title is taken from a CIA program that illegally targeted the Black Panther Party and other organizations. There is evidence that the CIA did have operatives in the American Deserters Committee, surveilling its members and subverting its activities. Mr. Sweet identifies a possible informant but doesn't quite come up with the proof.

What he does do is tie together a strange story that continues to limp along 50 years after it began. LaRouche, now 95, served five years in prison for fraud and tax evasion. His name appears in the Steele Dossier, which alleges that the Kremlin indirectly paid for his followers to visit Moscow. Mr. Jones remains the editor of a LaRouche magazine and recently asked a question at a White House press briefing. Clifford G. Gaddy, an American Deserters Committee member who wrote for LaRouche publications in Sweden, is a former fellow at the Brookings Institution and the co-author of a book on Vladimir Putin; the other author, Fiona Hill, is a foreign-policy adviser to President Trump.

Mr. Baker is a writer in Portland, Ore.



President Trump's free-wheeling speech Friday to the Conservative Political Action Conference won't displace the Gettysburg Address in the pantheon of presidential rhetoric. But anyone concerned about the future of American foreign policy, and trade policy in particular, should take it seriously.

Once again, Mr. Trump demonstrated the skills and the arguments that enabled him to steal voters away from the Republican politicians and intellectuals who thought they owned the party's base. Whatever the ultimate fate of the Trump administration, the president's speech showed why his controversial ideas about trade are likely to remain politically influential.

"Under my administration, the era of economic surrender is over," Mr. Trump told the crowd. "We're renegotiating trade deals that are so bad, whether it's Nafta, or whether it's World Trade Organization, which created China. . . . China has been like a rocket ship ever since. And now, last year, we had almost a \$500 billion trade deficit with China. We can't have that." It's easy to

underestimate the political potency of this line of attack.

China's 2001 admission to the WTO, Mr. Trump claims, gave it the opportunity to grow into a superpower capable of rivaling the U.S. In the 1990s, the bipartisan pro-China camp argued that giving Beijing permanent most-favored-nation status would accelerate its democratization and integration into the liberal world system. Skeptics, including one Donald J. Trump, were dismissed as protectionists and fools. It was, after all, the end of history. The world was flat, and all nations were marching together toward a peaceful and liberal future.

But China didn't follow the plan. Instead of becoming a "responsible stakeholder" in the international order, Beijing has used its new economic might to launch a revisionist drive against American power and primacy that could define world politics for decades. To Mr. Trump, but not just to him, this looks like a massive failure by the American foreign-policy elite. Not only does it seem to justify shifting toward a more protectionist trade policy, it reinforces the idea at the heart of Trumpism: that the Washington establishment is as incompetent as it is arrogant and condescending. Whether the subject is trade, crime, "fake news,"

immigration, national defense or transgender service in the military, Mr. Trump seeks to depict the experts and professionals as contemptuous of Americans in flyover states, lost to common sense, and hopelessly inept.

China's rise supports this narrative, which is why the president is unlikely to let the subject drop. He may have more success in shifting the discussion on trade within the Republican Party than many

The president may be shifting the discussion more than GOP elites think is possible.

GOP power brokers think is possible. The Jacksonian populism that propelled Mr. Trump to victory in 2016 has a long history of being hostile to foreign competition and suspicion of free trade.

For all its political appeal, though, protectionism remains a dangerous drug. It could disrupt America's alliances even as it drags down economic growth in the U.S. and abroad. It is a recipe for producing a larger, more intrusive and more corrupt government. Mr. Trump's most consequential trade decision to date, withdrawing the U.S.

from the Trans-Pacific Partnership, damaged American relationships in Asia while giving China a significant diplomatic opening.

At the same time, China's refusal to limit its ambitions is a serious challenge to the assumptions behind the trade policies of the last generation. Countries like China and Russia have weaponized investment and trade to advance their revisionist agendas. The U.S. and its allies cannot simply ignore the extent to which this has disrupted Western economic assumptions. As a result, the task of defending liberal international trade is about to become more complex. The benefits of free trade are as real, and as important, as ever. But more than in the 1990s, national-security concerns must be taken into account as policy makers craft trade and investment policy.

Developing a 21st-century trade agenda for the U.S. is likely to be a long and contentious process. The danger today is that the friends of free trade will misjudge the political energy behind the neo-protectionist revival. Populists don't offer answers to complex problems like this one, and the nostrums they propose are often misguided. But the questions raised by Mr. Trump and his supporters cannot be safely ignored.

He lamented in another student submission that a ballot cast by an unintellectual, uneducated citizen received the same weight as one cast by a voter who had studied the issues and was able to distinguish among the candidates. He worried that uninformed voters would be manipulated by corrupt political machines or flattered by demagogues. Today's political scene would have given him ample cause for anxiety.

Mr. Felzenberg is author of "A Man and His Presidents: The Political Odyssey of William F. Buckley Jr." He teaches at the University of Pennsylvania's Annenberg School of Communications.

Not quite. He disliked the liberal elite mostly because it was liberal.

By the time he scoffed at the Harvard faculty, Buckley had already waged two celebrated battles against the prevailing liberal establishment—Yale's curriculum and the State Department's failure to take internal security seriously. Populism became the means through which he took each institution to task.

With insular academic departments prone to conformity rather than diversity of thought, Buckley would have university trustees, themselves

accountable to alumni, reassert their authority to hire and fire faculty. If federal bureaucracies proved slow to ferret out security risks, Buckley would have Congress, the branch of government closest to the people, exercise oversight.

But in both instances, Buckley's ultimate goal was to build a conservative elite—he called them "tablet keepers"—that would police the movement he founded, and if necessary purge it of bigots, anti-Semites, racists and kooks. One of his most notable campaigns was waged against the John Birch Society's Robert Welch, who held that much of the U.S. government, from President Eisenhower down, took orders from Moscow. Another was against race-baiting "welfare populists," such as Govs. Ross Barnett of Mississippi and George Wallace of Alabama, who cynically cloaked themselves in "states rights" and other conservative tenets.

As a child, Buckley learned

to fear mobs by watching newsreels that depicted enthusiastic crowds cheering on foreign dictators at rallies. "They did not appear to have been coerced," he wrote in a paper when he was a boarding school student.

What he does do is tie together a strange story that continues to limp along 50 years after it began. LaRouche, now 95, served five years in prison for fraud and tax evasion. His name appears in the Steele Dossier, which alleges that the Kremlin indirectly paid for his followers to visit Moscow. Mr. Jones remains the editor of a LaRouche magazine and recently asked a question at a White House press briefing.

Clifford G. Gaddy, an American Deserters Committee member who wrote for LaRouche publications in Sweden, is a former fellow at the Brookings Institution and the co-author of a book on Vladimir Putin; the other author, Fiona Hill, is a foreign-policy adviser to President Trump.

Mr. Baker is a writer in Portland, Ore.

OPINION

REVIEW & OUTLOOK

Microsoft's Legal Cloud Cover

Technology firms seem to be clashing more with law enforcement, though their interests needn't be irreconcilable. On Tuesday the Supreme Court will consider if U.S. internet providers can subvert federal law and public safety.

At issue in *Microsoft v. U.S.* is whether warrants issued under the 1986 Stored Communications Act apply to records stored on the cloud. The law allows the government to obtain records from a U.S. internet provider if there is probable cause of a crime. A special Section 2703 warrant functions like a subpoena since law enforcement doesn't directly seize records from servers.

In 2013 the U.S. government sought such a warrant for contents associated with an MSN.com email account believed to include evidence of narcotics trafficking. A federal magistrate issued a warrant covering "information associated with" the account "stored at premises owned, maintained, controlled, or operated by Microsoft Corporation."

While Microsoft agreed to disclose records stored on its U.S. servers, it refused to turn over content on its "cloud" servers in Dublin, Ireland. The Redmond, Wash.-based company, which was held in civil contempt, says the law doesn't authorize extraterritorial warrants. It's right on this point, but wrong on everything else.

In *Morrison* (2010) and *RJR Nabisco, Inc.* (2016), the Supreme Court developed a two-step analysis to determine if a law applies overseas. First, courts must ask whether a law includes a "clear, affirmative indication that [the statutory provision] applies extraterritorially." If not, the statute is presumed not to be extraterritorial.

But then courts must assess whether a case primarily "involves a domestic application of the statute" by looking at its "focus." As the Court held in *Nabisco*, "If the conduct relevant to the statute's focus occurred in the United States, then the case involves a permissible domestic application even if other conduct occurred abroad."

This second part is key in the Microsoft case. There's no disputing that the Stored Communications Act doesn't expressly apply to foreign parties. The government could not compel an internet provider based in France to hand over a French citizen's emails. But as the judge who issued the warrant observed, the government's

application of the law "does not criminalize conduct taking place in a foreign country" and doesn't deploy U.S. cops overseas.

Employees at Microsoft headquarters could obtain records stored on foreign servers with a few keystrokes. Internet providers typically decide where to store data to maximize efficiency. Google cuts up emails into "shards," which can move between countries within seconds without human intervention. U.S. internet users aren't entitled to know where in the cloud their records are stored, let alone to recourse under U.S. law if a company moves them.

A federal district judge held that the Microsoft warrant wasn't extraterritorial since the disclosure of records to the government occurs in the U.S. But a Second Circuit Court of Appeals panel disagreed in 2016, and tech companies have since resisted warrants for data stored overseas. While the circuit refused to hear the case en banc, Judges José Cabranes, Dennis Jacobs, Reena Raggi and Christopher Droney wrote an incisive dissent on the far-reaching implications of the panel's rogue ruling, which conflicts with every other district and magistrate decision.

The panel "has substantially burdened the government's legitimate law enforcement efforts; created a roadmap for the facilitation of criminal activity; and impeded programs to protect the national security of the United States and its allies," the judges explained.

Tech firms argue that a Court decision upholding the government's authority to compel disclosure of data overseas would cause international friction due to conflicting legal regimes on data privacy. But more than a dozen countries including Australia, France, Ireland, Canada and the U.K. assert this authority. The U.S. would be an outlier.

They also argue that Congress is better situated to resolve the complicated issues of cloud computing that were never envisioned three decades ago. Senators Orrin Hatch and Chris Coons have introduced legislation to modernize the Stored Communications Act and clarify legal obligations for internet providers.

But pending legislation shouldn't obviate a judicial decision on a black-and-white legal question critical to public safety. Letting a flawed ruling stand would lead to more needless failures in law enforcement.

The Dreamers Deferred

The Supreme Court declined Monday to wade into the fight over Dreamers, the young adults who came to America illegally as children, and on the legal merits the restraint is sensible. The downside is political: Congress may now miss another chance to relieve toxic immigration politics.

Two district court judges have issued a nationwide preliminary injunction on the Trump Administration's plan to end President Obama's Deferred Action for Children Arrivals (DACA) program, now in the Ninth Circuit Court of Appeals. The Justice Department in a rare move asked the Supreme Court to take the cases ahead of appellate rulings.

The Justices said no, though the Administration can appeal after the normal circuit protocol. The Court added with some sharpness that it is "assumed that the Court of Appeals will proceed expeditiously to decide this case," and let's hope it does.

The Trump Administration has a strong legal case. Even President Obama said he lacked the authority to issue work permits before he entered the "I've got a pen and I've got a phone" imperial phase of his Presidency. He then justified DACA as prosecutorial discretion, which is typically a judgment call for individual cases,

not for issuing work permits to entire classes of people.

The practical effect of the Court's deferral is that DACA permits will continue to be renewed for now, despite President Trump's March deadline for when legal protections would begin to expire. This will be a welcome if temporary relief to tens of thousands of young adults who came out of the shadows in good faith, only to now have to fear deportation to a foreign country they do not know.

The unhappy irony is that Congress may never pass a permanent solution without the threat of a time limit. The legal fight is likely to drag into 2019. The Senate this month tried and failed to pass a measure to help Dreamers amid opposition from restrictionists on the right and the anti-Trump "resistance." Both would rather use the issue to clobber each other politically, and now they will do that through the midterms.

The GOP would be wise to continue to try to compromise to defuse this issue for 2018 and preclude a protracted legal fight. Congress rightly objected to President Obama usurping its authority on immigration, and it'd be no less lamentable if Members now ceded the legislature's constitutional authority over immigration to the judiciary.

California's Democratic Tea Party

Democrats are having their Tea Party moment, if that isn't unfair to the Tea Party. The Democratic Party is moving sharply left in response to President Trump, as activists look to purge politicians they don't think are partisan or progressive enough.

The latest evidence arrived Saturday at the California Democratic Party convention, which refused to endorse five-term Senator Dianne Feinstein for re-election. The 84-year-old center-left stalwart received only 37% of the endorsement ballots, compared to 54% for Kevin de León, the 51-year-old state Senate leader who is breaking protocol to challenge an incumbent in a primary. Candidates need 60% to win an official party endorsement, but the snub of the incumbent was a victory for the challenger.

"I'm running for the United States Senate because the days of Democrats biding our time, biting our tongue, and triangulating at the margins are over," Mr. de León told the delegates, hitting Ms. Feinstein for saying once that Mr. Trump deserved some "patience."

Mr. de León is massaging every progressiveogenous zone, endorsing single-payer health care and immediate legalization for Dreamer immigrants without any restrictions or compromise with Republicans. He criticized Ms. Feinstein for using undocumented immigrants—

don't call them "illegal"—as "bargaining chips" with Mr. Trump. He's also hitting Senator Feinstein for voting for the Iraq War way back in 2002, supporting school vouchers for poor children in Washington, D.C., and for continuing to support antiterror surveillance.

The leftward mood of Democrats was also on display in other California races, as 56% preferred insurance commissioner Dave Jones for Attorney General to 42% for incumbent Xavier Becerra. Mr. Jones was one of the first state Democrats to endorse single-payer.

Notably too, former Los Angeles Mayor Antonio Villaraigosa won only 9% of the Democratic vote for Governor, trailing three others. Lieutenant Governor Gavin Newsom led with 39%. Mr. Newsom has also moved left in office and favors single-payer, while Mr. Villaraigosa is out of favor with the public unions that dominate the party after he supported charter schools and education reform.

Ms. Feinstein is leading in the polls and has raised far more money than Mr. de León, but he can't be counted out in a low-turnout race. His challenge has already had an impact on Washington, as Ms. Feinstein moves left to deflect his attacks. California Democrats are the party's leftward vanguard, and where they go the presidential candidates in 2020 will follow.

Dianne Feinstein and Antonio Villaraigosa aren't left enough.

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

LETTERS TO THE EDITOR**One Man's Entitlement Is Another's Lifeline**

Regarding John F. Cogan's "Why America Is Going Broke" (op-ed, Feb. 22): Why does every solution to our budget problem revolve around cutting Social Security and Medicare payments? Contrary to Mr. Cogan's assertions, these aren't entitlements. Rather, for boomers, these are benefits paid for through a lifetime of non-optimal payroll deductions.

President Trump is correct. These should be the last option considered, not the first. For many seniors, these are their only means of survival. To even consider cutting them is unconscionable until the real entitlement programs, most of which are rife with fraud and abuse, are addressed.

CHUCK McGEE

Moultonborough, N.H.

Can we agree that Mr. Cogan's "presidential leadership" solution to "restraining the growth of entitlement spending" may not come in time to avoid the demise of the dollar as the world's reserve currency, Venezuela-style hyperinflation or a financial crisis like Greece's?

Switzerland faced the same problem of excessive government spending driving unsustainable deficit spending. It solved it in 2001

with a constitutional amendment called a "debt break." This limited the growth in spending to the growth in average revenues adjusted for population and inflation over the business cycle. As a result, Switzerland has been paying down its debt, has the lowest borrowing cost of any country in the world and passed the U.S. in GDP per capita to be No. 1 among the 100 largest countries.

A Swiss-style "spending growth

limit" constitutional amendment could be drafted by 34 states and ratified by 38 states in less than two years. When six more states pass the required amendment application, an amendment-drafting conference of states would be called to start the process. It will take decades to slowly work our way out of this mess. But what choice do we have?

DAVID BIDDULPH
New Smyrna Beach, Fla.

Mr. Cogan correctly identifies the entitlement programs as the primary cause of our nation's pending financial crisis. However, he and others fail to point out that the design of Social Security was deeply flawed from the outset. It was designed as a Ponzi scheme in which current workers' payroll taxes are used to fund retired workers' benefits. If the payroll taxes of the current retirees had been segregated and invested (much like a 401(k)) rather than being spent by the federal government along the way, we wouldn't be in this mess. A private investment fund run like our Social Security program would be illegal and unethical. There is a reason Bernie Madoff is in jail for the rest of his life.

DAVID MAHONEY
Summit, N.J.

My suggested additions are to chart our total debt including the burden of unfunded liabilities of entitlements, and to add financing by printing more money, Venezuela style, in addition to crushing levels of taxation and more debt.

LEWIS HAMILTON
Boca Grande, Fla.

China Bullies Our Companies Because It Can

Michael Auslin is right to point out in "China Humiliates Another Western Company" (op-ed, Feb. 21) that "engagement is a two-way street," yet there is no sign that the People's Republic of China (PRC) is willing to accommodate this basic truth. Clearly, all these years of engagement have not worked. Beijing is increasingly using its economic leverage to coerce Western companies into kowtowing to its directives, even at the expense of democratic principles.

It is bad enough that these companies fail to question whether China's so-called sovereignty and territorial integrity are Beijing's to define, but they go the extra mile and apologize to the authoritarian government using terminology that is suspiciously similar to what the propaganda department of the PRC government uses.

Taiwan is not now, nor has it ever been, part of the PRC. This simple fact, however, doesn't seem to matter when companies want to make nice with the Chinese communists. It is the same with the Dalai Lama. Even an innocuous inspirational quote

from the widely revered spiritual leader—on a website banned in China no less—can cause such great offense that Mercedes-Benz feels the need to show subservience to the authorities in Beijing.

China's imperialistic behavior is prompting Western corporations to subordinate themselves and impose self-censorship, not unlike what the Chinese are doing on Western campuses. Lamenting the erosion of democracy and freedom of expression is not enough. It is time to show some backbone.

BRIAN SU
Taipei Economic and Cultural Office
New York

Regarding Mr. Auslin's call for Western companies to resist compromising their values to maintain favor with China and access to its markets, one may ask: Why? After all, if Pope Francis is going to let China select bishops for the Holy See, then why not let it also dictate policy to the Fortune 500?

BRIAN DALEY
Chicago

The profit motive is moral, beneficial and self-sustaining only within and between free-market democratic societies. When free-market capitalism meets an authoritarian state-led system, it stands no chance. Western companies will continue pursuing profit in any setting, adjusting to whatever rules are applied to them. That is why Boeing is happily selling jet fighters to the U.S. government and is just as happily selling its commercial jets to Iran.

During the Cold War the profit motive ran into a barrier set by Western governments. After we let the Chinese and the Russians into the tent of free-market capitalism, the game changed. While the Western companies pursue the profit motive, the Chinese and Russian governments are using it in pursuit of their hegemonic ambitions. You can't blame the Western companies. That's a role for government. Until there is more recognition of the problem and a resolve to fix it, we will continue selling the hangman's rope to authoritarian communist China.

JAGO BLITSHTEYN
Eugene, Ore.

Saul Alinsky Is the Cause Of Our Political Divisions

Regarding Mike Gecan's "Better Call Saul: The U.S. Needs Radicalism, Not Extremism" (op-ed, Feb. 17): To understand President Obama and Hillary Clinton, one must understand Saul Alinsky. At the top of a short presidential resume in 2008, then-Sen. Barack Obama touted himself a "community organizer," a construct of Saul Alinsky. In 1969 Hillary Clinton wrote a fawning senior thesis on Alinsky. In Alinsky's 1971 book "Rules for Radicals," in the chapter titled "Tactics," he divides the electorate into demographic groups (today's identity politics) and says the organizer must "rub raw the resentments of the people." This cynical tactic may win elections but serves as a poison pill for our national cohesion.

Enter Mr. Gecan to offer Alinsky as the cultural solution to the problem he helped create.

JOHN NOREN

Greenbrae, Calif.

Alinsky organized people around the propositions of victimhood, resistance, disrespect for others, intimidation and violence. Popular, democratic governance is a product of mutual respect, unity, shared goals and civil liberties, not divide and conquer.

RICHARD LA MOTTE

Valencia, Calif.

Saul Alinsky is no model for American politics. For a truly radical and constructive thinker, try John Locke.

MARISA MANLEY

Westport, Conn.

Pepper ... And Salt

THE WALL STREET JOURNAL



"Well, of course the directors are into the weeds. We manufacture herbicides."

OPINION

Government Spending Discourages Work

By Edward Lazear

The budget deal President Trump signed earlier this month will send federal spending and the deficit skyrocketing. On top of this spending explosion, the administration now plans to add a \$500 billion infrastructure bill. Over the past century, comparatively low federal taxes and Americans' long working hours have kept the U.S. economy growing. Politicians can always provide a rationale for increased spending. But over time high spending necessitates high taxes, and high taxes reduce work and restrain growth.

The French and Italians pay higher taxes and put in 30% fewer hours per person than Americans.

Economic trends in developed nations consistently show that low taxes and hard work are linked to robust growth. The U.S. is the least taxed of the Group of Seven countries, with a tax haul amounting to 25% of gross domestic product. Americans also work harder than their G-7 peers, with the exception of Canadians, with whom they are roughly tied. These factors have helped the U.S. and Canada lead the G-7 in growth since 2010.

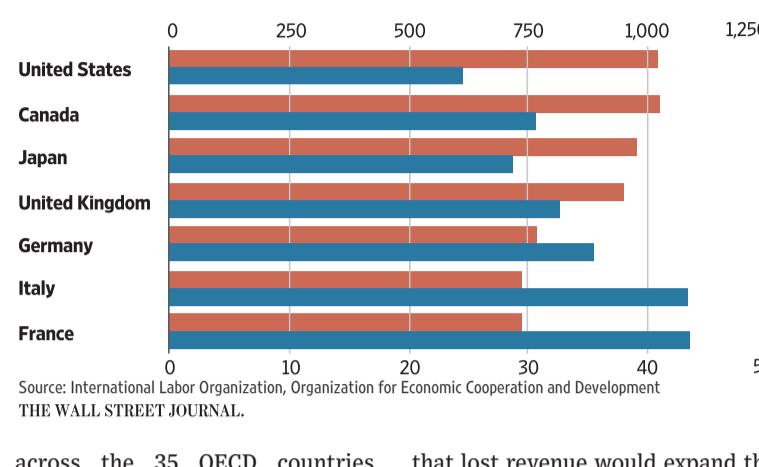
European countries trail the U.S. in working hard and controlling taxes, and their economies have lagged in comparison. France has a tax-to-GDP ratio of about 44%, and in Italy it's 43%. The French and Italians work almost 30% fewer hours per person than Americans. Notably, the French economy has flatlined since 2010 while Italy's has contracted.

These patterns are not a coincidence: High taxes discourage work and capital formation. Data from the Organization for Economic Cooperation and Development suggests that a 1% increase in a nation's tax rate is associated with a 1.4% decrease in hours worked per person in the working-age population. U.S. data dating to the 1970s also shows that higher taxes cause workers to limit their hours, reducing economic output.

With this trend in mind, it is easy to pin blame for a depressed economy on taxes and call it a day. But taxes are ultimately dictated by spending. Countries can borrow to finance short-run spending, but they must eventually levy taxes to repay the loans. Whether a government raises taxes now or later to pay for expenditures is a minor consideration compared with its decision to spend in the first place. Some spending is desirable, but even programs that we agree are useful must be financed, which requires higher taxes.

Evidence supports the rule. Tax and spending rates correlate highly

A Burden on Industry



Source: International Labor Organization, Organization for Economic Cooperation and Development

THE WALL STREET JOURNAL.

will eventually disappear as future generations raise the revenue for today's unfunded programs.

To the extent that government spending goes to programs such as welfare that directly discourage work, it has an additional growth-reducing effect. When fewer people work, those who do must be taxed even more to cover public expenses. These heightened taxes on labor discourage work in turn, pushing more potential workers toward government support. Funding welfare concentrates ever higher taxes on ever fewer workers and companies, which further reduces growth.

Without aggressive cuts, U.S. federal spending will continue to soar. The Congressional Budget Office projects that annual spending as a percentage of GDP will be 7 points higher in 2038-47 than today. If so, the U.S. will have to increase taxes by roughly half to close the gap between revenues and outlays. The recent history of developed countries suggests that going down that path would discourage work, depress growth and lower living standards for future generations. Policy makers should bear this in mind with every extra dollar they spend.

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

across the 35 OECD countries. Higher spending goes hand in hand with higher taxes, higher deficits, fewer worked hours and less growth. The international comparisons suggest that a 4% increase in spending is associated with a decrease of roughly 0.5 percentage point in the average annual growth rate.

Furthermore, it is spending—rather than the deficit—that correlates with sluggish growth. Evidence suggests that once spending is determined, it is of secondary importance whether that spending is paid for now in current taxes or later through borrowing and subsequent taxation.

Critics of the recent U.S. federal tax reform fretted over the amount

that lost revenue would expand the deficit. But recent OECD averages suggest that there is no correlation between deficits and growth at a given level of spending. Deficits often coincide with low growth because deficit increases are usually caused by heightened spending, not reduced taxes. Raising taxes, or keeping them high without lowering spending, stifles growth. But the converse is also true: Lowering taxes without lowering spending also has little direct effect on growth. The recent tax legislation spurs growth by reducing inefficient forms of taxation, such as taxes on capital that have pernicious effects on the economy. But without commensurate spending reductions, that growth

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Keep credit scores independent and reliable.

Dear Lenders, Policymakers and Consumer Advocates,

THE CHOICE The Federal Housing Finance Agency is considering alternative credit scores for conforming mortgages. Here's the problem: the only other score under consideration is owned by the major credit bureaus.

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BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

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Embattled GE Reshapes Board

Overhaul comes as CEO Flannery takes steps to restructure, simplify the company

BY THOMAS GRYTA
AND JOANN S. LUBLIN

General Electric Co. will overhaul its board, removing several of the struggling conglomerate's longest-serving members and nominating three outsiders, including an accounting expert and former top executives from American Airlines and industrial conglomerate Danaher Corp.

The board changes come as GE attempts to restructure under new Chief Executive and Chairman John Flannery, who has slashed the company's dividend and financial projections in recent months while pledging to shed at least \$20 billion in assets.

Mr. Flannery says he wants to simplify the company and is considering bigger moves, including separating the core divisions—health care, aviation and power—into what would amount to a breakup of the industrial giant.

GE's stock dropped 45% in 2017, even as the broader market hit new highs. The company ended the year with a new management team along with the intention to shrink the board to 12 from 18 directors.

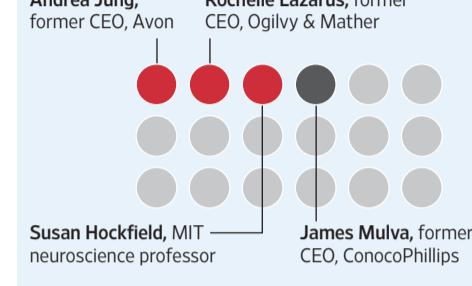
The new board candidates are H. Lawrence Culp, 54 years old, the former CEO of Danaher, Thomas Horton, 56, for-

Changing of the Guard

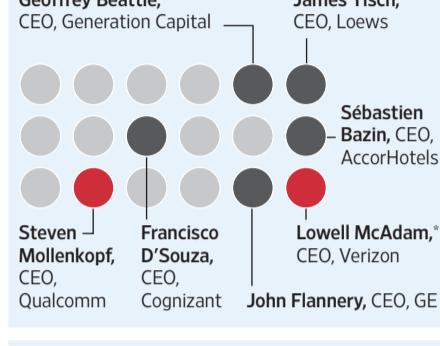
The GE board, with 18 directors, had been larger than the average S&P 500 board. It will shrink to 12 in April.

● Retiring board member

Three of the four members who had been on 10 or more years will leave.



Several current CEOs will stay.



The new members



H. Lawrence Culp,
former CEO of Danaher

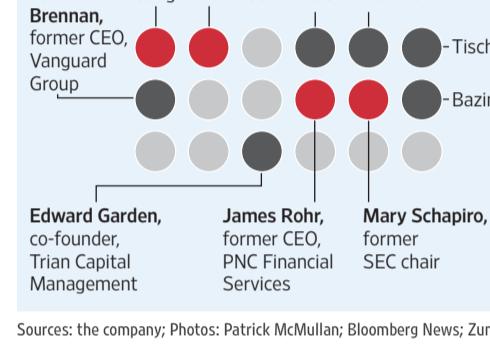


Thomas Horton,
former CEO of
American Airlines

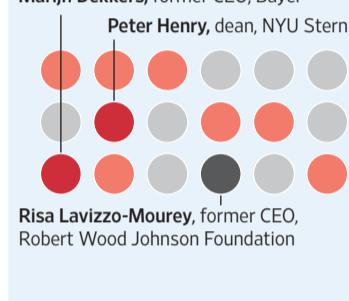


Leslie Seidman,
former chair, Financial
Accounting Standards Board

Four directors on two (or more) other boards will retire.



These two men are also retiring and only one woman is staying.



Risa Lavizzo-Mourey, former CEO, Robert Wood Johnson Foundation

*McAdam resigned on Dec. 8, 2017.

Sources: the company; Photos: Patrick McMullan; Bloomberg News; Zuma Press

Sources: the company; Photos: Patrick McMullan; Bloomberg News; Zuma Press

mer head of American Airlines, and Leslie Seidman, 55, former chairman of the Financial Accounting Standards Board. The board changes will be voted on by shareholders at GE's annual meeting in April.

Eight directors are retiring from the board in the reshuffling, while lead director John Brennan, former head of mutual-fund giant Vanguard Group, will step down next year after being on the board since 2012.

The board changes will bring a drop in gender diversity to the board as half of the exiting directors are women, meaning two of the 12 members, or 17%, are female at a time when institutional investors are pressur-

ing companies to move away from overrepresentation by men. Women held 22% of S&P 500 board seats in 2017, according to an analysis by executive search firm Spencer Stuart.

Please see GE page B2

THE WALL STREET JOURNAL.

In Anbang Rescue, Too Big To Fail

BY JAMES T. AREDDY

SHANGHAI—A Chinese government takeover of Anbang Insurance Group Co. throws a lifeline to its policyholders, support denied to clients of some lesser-known financial firms when those companies hit turbulence before ultimately collapsing.

The China Insurance Regulatory Commission said Friday that a team of financial regulators would manage Anbang for at least a year. It justified the action in a public notice: "to protect the legitimate rights and interests of consumers and safeguard public interests."

Known abroad for bold acquisitions such as New York City's Waldorf Astoria Hotel, the unlisted Beijing-based firm owes its war chest to legions of individuals who lent it money when they became policyholders.

Over the weekend, some of them deluged online forums in China to debate the fallout from government action on themselves, the stock market and the financial industry.

If Anbang "went bankrupt and was unable to repay investors, the impact will be significant not only for the moment, but also in the future," one wrote under a pen name on Baidu Tieba, a popular forum, saying any collapse would spark "chaos." Others planned to bail on Anbang by redeeming policies early.

Their tone echoed the online chatter that spilled over into sporadic protests in recent years after the meltdown of smaller financial firms, including credit-guarantee companies and peer-to-peer lenders. Like Anbang, many rode a wave in internet-enabled finance known as fintech to tantalize consumers with high-yielding investments that could outperform bank accounts, real estate and the stock market.

Cash crunches at a string of Please see ANBANG page B2

Railroads Clean Up CEO's Tracks

BY DAVID GEORGE-COSH
AND PAUL ZIOBRO

TORONTO—Two big railroads are reaching out to customers put off by the initiatives of the late Hunter Harrison, a hard-nosed turnaround expert who led both companies during a five-decade career.

Canadian Pacific Railway Ltd. is using a charm offensive to woo back customers, a key part of its strategy after Mr. Harrison stepped down in January 2017. The railroad veteran went on to run Jacksonville, Fla.-based CSX Corp., which is also undertaking an apology tour after suffering widespread disruption from implementing his turnaround strategy.

"I get on an airplane, go to someone's office with my hat in my hand and say, 'I'm sorry about last year, we screwed up and we didn't do a really good job for you,'" CSX Chief Executive Jim Foote said in an inter-



The late Hunter Harrison implemented 'precision railroading' at both Canadian Pacific Railway and CSX.

view last month.

Mr. Harrison, who died in December at the age of 73 after a brief leave from CSX, was best-known for revolutionizing the industry with his "precision railroading" strategy, used to

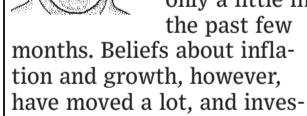
reshape four of North America's major railroads during his career. The strategy aims to cut costs in part by having the railroad dictate deadlines for customers' cargo, instead of having railroads beholden to

customers' schedules.

Mr. Harrison's efforts are still widely applauded for transforming the railroads he ran, improving profit and boosting share price. During Please see RAIL page B2

STREETWISE | By James Mackintosh

A Crowd Around the Bond Story



The reality of inflation and growth has shifted only a little in the past few months. Beliefs about inflation and growth, however, have moved a lot, and investors hoping they will rise fast could be in trouble if reality doesn't catch up soon.

This is most obvious in the bond market. Last summer, gloom about the prospects for inflation prevailed, with hedge funds having more bets on bond yields falling than rising. No longer. The narrative has shifted, and fast money has shifted with it, making some of the biggest bets ever on yields rising.

The risk for investors is that the move from worrying about deflation to worrying about inflation won't happen smoothly. In other words, reality might once again disappoint the market. Yes, bond yields should go up—over time. But they have soared this year, to the point that the fall in bond prices, which

Deflation Fears Wane

Worries about deflation priced into options markets are at a postcrisis low.

Probability of average inflation over five years: ■ Above 3% ■ Below 1%



go down when yields go up, is as quick as it has been only four other times since the end of the recession in 2009. Each of those times prices fell too fast and popped back up.

"Cyclically, everyone's very excited," said Chris Watling, founder of consulting firm Longview Economics.

"Every asset allocator you talk to seems to be short the 10-year Treasury."

Many of the biggest recent swings in bond yields have come when investors were crowded into wrong-way bets. In April 2010, futures traders had what was then a record bet on rising yields, reflecting a consensus that the economy was in a normal postrecession rebound. Suffice to say it wasn't, and those bets were quickly reversed. The same happened Please see STREET page B10

INSIDE



TRUCK DIVISION PULLS ITS WEIGHT AT GM

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HEDGE FUNDS FEAST ON VOLATILITY

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Banks, Tech Push Stocks to Big Day

BY RIVA GOLD
AND AKANE OTANI

Financial and technology shares led a broad market rally, lifting the S&P 500 and Dow Jones Industrial Average to their third consecutive session of gains.

Stocks began the day in positive territory, then climbed steadily higher, with the Dow at one point up more than 420 points, and all but one of the S&P 500's 11 sectors rising.

The day's moves helped stocks further recoup their February losses, which had pulled major indexes into correction territory, or down more than 10% from the all-time highs they reached the previous month.

The Dow is just 3.4% below its record close on Jan. 26, while the S&P 500 is down 3.2% and the Nasdaq Composite is off 1.1%.

One factor helping stocks recover: a stream of corporate-earnings results suggesting that U.S. firms are on strong footing. A record 78% of S&P 500 companies have so far beaten analysts' revenue estimates for the fourth quarter of 2017, and overall earnings growth is nearly 15%, which would make it the best quarter since 2011, according to FactSet.

"If interest rates are going up because inflation is a little higher, because the economy is stronger, because earnings are better...these are all positive things," said Dan Miller, director of equities at GW&K Investment Management.

The Dow closed 399.28 points, or 1.6%, higher at 25709.27. The S&P 500 added 32.30 points, or 1.2%, to 2779.60, and the Nasdaq Composite gained 84.07, or 1.1%, to 7421.46.

Technology stocks led Monday's gains. HP shares rose \$1.33, or 6%, to \$23.46, after JPMorgan raised its rating for the stock to "overweight" from "neutral," while Qualcomm added 3.66, or 5.8%, to 66.98 after the chip giant said it was getting closer to negotiating a takeover deal by Broadcom.

Financial shares rallied, with Goldman Sachs up 1.7%.

Class B shares of Berkshire Hathaway—which posted a nearly \$45 billion annual profit, thanks in part to the new tax legislation—jumped 7.86, or 3.9%, to 210.62.

In early Asian trading Tuesday, Japanese stocks extended their rally, with the Nikkei 225 index up 1.39% at midday.

Microchip Nears Deal For Rival

BY DANA CIMILLUCA
AND DANA MATTIOLI

Microchip Technology Inc. is in advanced talks to buy Microsemi Corp., according to people familiar with the matter, in what would be the latest in a wave of deals sweeping the semiconductor industry.

The chip makers are nearing a deal that would value Microsemi roughly in the mid-\$60s per share, according to one of the people—not much above the company's current stock price, which ran up on reports of a possible sale.

A deal could be struck this week, though there is no guarantee there will be one, and the two sides still have significant issues to agree on, this person said.

Should there be a deal, it would be significant: Microsemi has a market valuation of more than \$7.5 billion. On Monday, the company's shares closed at \$64.24, up 3.1%.

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BUSINESS & FINANCE

Qualcomm Warms to Broadcom

By TED GREENWALD

Qualcomm Inc. appeared to take a cooperative turn in its talks with **Broadcom** Ltd., saying the two sides made progress toward a deal during a recent sit-down and that price could remain one of the few sticking points.

But a revised merger proposal put forth Monday by Qualcomm proposed significant concessions from Broadcom on the terms of a breakup fee and possible divestitures.

While the proposed changes don't include a "hell or high water" clause—a commitment to bow to regulators to get a deal done—they included a pledge the combined company would divest itself, should regulators require it, of Qualcomm's flagship Snapdragon chip business.

The Snapdragon chips are a staple in many Android phones and accounted for about 60% of Qualcomm's chip sales last year, according to Bernstein Research analyst Stacy Rasgon. Another possible divestiture mentioned in the revised proposals was Broadcom's radio-filters business, which likely

makes up more than half of its wireless revenue, Mr. Rasgon said.

In a letter, Qualcomm said it emerged from a Friday meeting with Broadcom executives—the second such session in as many weeks—believing the two sides made headway in negotiating what would be the largest-ever technology deal. The meetings came after months of Qualcomm holding Broadcom's \$117 billion hostile takeover at bay.

The size of the breakup fee and other features of the revised merger proposal also remain in contention. Broadcom has offered an \$8 billion fee. Qualcomm, though, called for a fee amounting to 9% of the enterprise value of the deal, should one be reached. Mr. Rasgon said based on current financials and offer price, that would amount to \$13.5 billion.

With a week to go before a March 6 meeting where shareholders will vote on a slate of Broadcom-nominated directors, Qualcomm is under pressure to show it is looking out for its shareholders by negotiating in good faith.

The investor-advisory services Glass Lewis & Co. and In-



Qualcomm's Paul Jacobs

stitutional Shareholder Services Inc. recently criticized Qualcomm for failing to engage fully in negotiations with Broadcom, recommending investors elect at least some of Broadcom's nominees.

In the letter, Qualcomm Chairman Paul Jacobs wrote that Broadcom previously had agreed to take steps to manage the risk that the deal wouldn't pass regulatory approvals.

But he said Broadcom held to its most recent offer of \$79 a share as its "best and final" proposal, assuming Qualcomm buys automotive chip specialist

NXP Semiconductors NV at the latest price it offered.

Even Broadcom's prior bid of \$82 a share, which it lowered after Qualcomm raised its own offer to acquire NXP, "materially undervalues" Qualcomm, Mr. Jacobs wrote.

Qualcomm shares rose 5.8% to \$66.98—though they still remain well below even the reduced \$79-a-share offer from Broadcom. Shares of Broadcom fell slightly to \$252.95.

Investors' worries that the deal would be stopped by regulators or that Broadcom won't raise its offer are weighing on Qualcomm's stock price, Mr. Rasgon said.

Broadcom in a statement Monday reiterated its interest in "genuine engagement," but said it didn't believe Qualcomm's revised proposal was intended to lead promptly to a deal. "Qualcomm has only feigned engagement," Broadcom's statement said.

In a follow-up statement, Qualcomm said Broadcom was trying to create "a false impression about Qualcomm's level of engagement."

—Cara Lombardo contributed to this article.

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RAIL

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Mr. Harrison's 4½ years of leading CP, he cut the workforce to 11,700 from about 19,500, parked about 500 locomotives, sidelined 12,500 railcars and shut down rail yards in several of company's U.S. and Canadian hubs. The railroad's share price more than doubled during that period.

CSX shares added about \$10 billion in market value in January 2017 after he joined the company to pursue a turnaround. Shareholders also voted overwhelmingly to grant him \$84 million to reimburse him for compensation he gave up in switching railroads.

"In the longer term, the shippers are better served by a more efficient railroad than they would have been if that efficiency drive wasn't put in place," RBC Capital Markets transportation analyst Walter Spracklin said.

But while the changes Mr. Harrison implemented made him a darling of Wall Street, they also upset some customers.

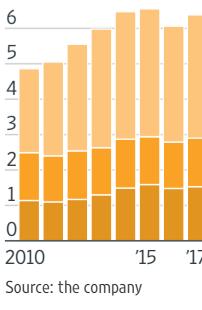
At CP, Mr. Harrison initially confused customers by demanding that trains be loaded seven days a week despite periods of low traffic, a feature of precision railroading. "There were several bumps in the road," said Dan Mack, vice president of transportation and terminal operations at CHS Inc., an agricultural company that uses the railroad.

Mr. Harrison's approach was partly responsible for CP losing some key shipping contracts to bigger rival Canadian National Railway Co. That pushed CP's 2016 revenue down 7% to C\$6.2 billion (US\$4.91 billion) despite improving its operating ratio, a measure of efficiency.

Rolling Along

Canadian Pacific Railway's results improved during Keith Creel's first year as CEO.

Canadian Pacific freight revenue



Source: the company

Mr. Harrison's family members didn't respond to messages requesting comment.

To buck further declines, CP Chief Executive Keith Creel, who took over from Mr. Harrison, is looking to create a more solicitous company. He is crisscrossing the U.S. and Canada to meet customers in person and holds regular town halls to smooth relations with workers. In a strong Canadian economy, CP's revenue in Mr. Creel's first year as CEO improved by 5% to C\$6.5 billion.

"When you take the time to listen, it allowed us to connect in a way that we haven't in a long time given the changes that we drove [in the past five years]," Mr. Creel said in a recent interview.

In January, about a year after Mr. Creel took over, CP held a special meeting for 16 customers. The event kicked off with a lavish dinner in a refurbished business car at the railroad's Calgary headquarters. In sessions the next day, CP executives heard about past shortcomings, including calls to customer representatives that went straight to voice mail, according to some customers who attended the meetings.

At CSX, the task of mending relations with customers has fallen to Mr. Foote, who assumed the CEO position after Mr. Harrison died. An experienced railroad marketer, Mr. Foote has tried to mollify shippers in face-to-face meetings. Last week, he attended a conference of shippers where in a keynote address he spoke of "charting a new course" for the railroad operator.

Soon after becoming CEO, Mr. Foote also met with Maryland's congressional delegation about CSX's plan to back out of the expansion of a tunnel into the Baltimore ports. It is now reconsidering project.

ANBANG

Continued from the prior page

deposit-taking firms two years ago in Shanghai showed how quickly trouble erupts. At one, a bankruptcy specialist needed protection from a phalanx of police to address angry depositors. Investors in another blocked escalators and sang the national anthem in the fancy mall where it was based.

Anbang is huge, if not regarded by analysts as a systemic risk. Its website claims about \$310 billion in assets and counts 35 million customers, including those of affiliate insurers in other parts of Asia and in Europe. S&P Global Inc. ranked Anbang third in size last year among Chinese insurers, with a 9% market share by policies written.

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Meanwhile, authorities have taken few steps to protect investors in some firms, such as a little-known Shanghai seafood and car-parts trading firm that a few years ago adopted the name Excel Assets and offered deposit services.

Excel Assets, which couldn't be reached, had boasted of managing \$1.8 billion but disappeared with little notice. At one point, according to unverified documents posted online, it expressed hope it would find new investors to repay its 7,000 clients more than \$10 million over five years, telling them some proceeds would be

The government takeover appears to minimize the basic risk of a cash squeeze at Anbang if demand for its insurance falls off or it can't get good deals disposing assets.

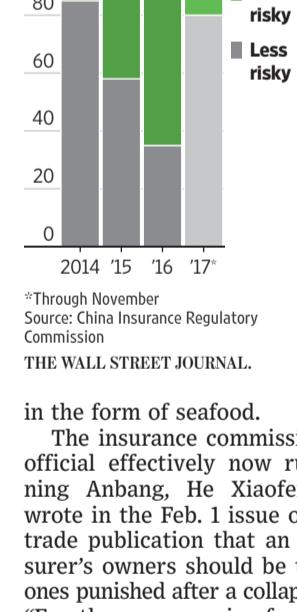
An Anbang spokesman said Monday that the company fully supports the regulatory takeover and expressed its confidence in the interim management committee overseeing the business. "All the operations and business remain stable," the spokesman said, adding that Anbang remains "continually committed to the overseas subsidiaries and investments."

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Turnabout

Anbang's revenue from products that regulators consider more risky dropped sharply last year after the insurer faced scrutiny.



*Through November
Source: China Insurance Regulatory Commission

THE WALL STREET JOURNAL.

penniless."

Anbang's emergence as a too-big-to-fail company began less than five years ago as financial firms took to the internet to court individual investors. Anbang's founding chairman, Wu Xiaohui, seized the opportunity to build a brand among white-collar workers both hungry for yield and risk averse.

Anbang enlisted banks to help it sell a product called universal life, which is more like a short-term, high-yield certificate of deposit than a life-insurance policy. Those funds gave Anbang ammunition to hunt for acquisitions.

It isn't publicly known how much Anbang owes its policyholders. Anbang sold over \$47 billion of insurance that regulators categorize as "risky" such as universal life from 2014 to 2016, or about 40% more than traditional insurance, which tends to have a longer life, according to calculations by The Wall Street Journal using government tallies.

Those figures reversed last year, with basic insurance accounting for 80% of new revenue, following government pressure to let them go bankrupt and leave the shareholders

GE

Continued from the prior page

A GE spokeswoman said the board is committed to bringing different backgrounds and perspectives into the boardroom and plans to "use future refreshment opportunities to enhance that diversity."

During the reshuffling process, Mr. Brennan collected feedback from major share owners. GE said it cast a wide net, considering more than 100 candidates and focusing on about a dozen individuals.

Factors in the selection included operational oversight,

including the continuing portfolio review, deal making and the dividend policy.

"In addition, the board has been focused on reviewing its own internal procedures to ensure that it has time to address and discuss the most salient issues facing the company," the spokeswoman said Monday.

The board shakeout shows the depths of the problems that developed on the board's watch. Several directors discussed in November whether the entire board should be fired, according to people familiar with the meeting.

The changes remove many

long-term associates of former CEO Jeff Immelt and will leave a board with five members who weren't on the board a year ago, including Mr. Flannery and Ed Garden, a co-founder of activist investor Trian Fund Management. Last October, GE named Mr. Garden, whose firm invested \$2.5 billion in GE in 2015, to the board.

Ms. Seidman will be joining

S&P 500 over the same period.

After Mr. Culp's retirement, the company moved to spin out its industrial businesses into a separately traded company called Fortive Corp. Danaher still owns a portfolio of about 20 companies focused on science and health-care markets.

Mr. Horton became CEO of American Airlines on the day it filed for bankruptcy in 2011, eventually leading the company through a merger with US Airways.

In his time at the helm, he navigated an attempt by the Justice Department to block the merger and left equity owners in the rare position of retaining a large stake in the new company, American Airlines Group Inc., after bankruptcy.</

BUSINESS NEWS

Weinstein Plans to File for Chapter 11

BY JONATHAN RANDLES

Weinstein Co. said it would file for bankruptcy protection after the studio founded by Harvey Weinstein ended talks to sell the company to a group led by businesswoman Maria Contreras-Sweet.

The decision comes two weeks after New York Attorney General Eric Schneiderman filed a suit against the studio alleging sexual harassment and civil-rights violations. The studio had been close to a deal with Ms. Contreras-Sweet's group before the suit was filed and parties continued to discuss a deal after the action was taken. The studio said in an email that it would prepare a bankruptcy filing "in the coming days."

Weinstein Co.'s board said in a separate letter addressed to Ms. Contreras-Sweet and billionaire Ron Burkle, who was backing the deal, that the most recent terms of a sale proposal they provided weren't viable. A draft from Ms. Contreras-Sweet and Mr. Burkle was incomplete and didn't include interim funding needed to pay employees, and would have saddled the company with additional liabilities, the letter said.

The board had worked with advisers to present an agreement for Mr. Schneiderman's approval, the letter said.

Ms. Contreras-Sweet and Mr. Burkle couldn't be reached to comment.

The studio has searched for a buyer that could keep the company out of bankruptcy as lawsuits have piled up. The deal from Ms. Contreras-Sweet's group was the only known offer that wouldn't have required Weinstein Co. to file for chapter 11.

—Ben Fritz and Peg Brickley contributed to this article.

GM Truck Unit Carries Big Load

Pickups and SUVs will help auto maker fund development of driverless, electric cars

BY MIKE COLIAS

General Motors Co.'s executives considered cutting the GMC truck division ahead of the company's bankruptcy, as they sought to scale back the sprawling Detroit auto maker. GM's decision to keep the brand is paying off a decade later as pricey pickups and sport-utility vehicles displace luxury sedans as America's rolling status symbol.

As Chief Executive Mary Barra pushes forward with her strategy to exit some major markets, including Europe, the relatively unsung GMC unit has become a disproportionate contributor to the company's income, money that will fund the development of driverless and electric cars.

GMC pulled in about \$24 billion in revenue last year, according to a Wall Street Journal estimate, or 16% of GM's global revenue and roughly equal to that of **Porsche** AG. The unit doesn't attract the same headlines that corporate siblings Chevrolet and Cadillac get, and the brand lacks the luxury cachet of **Toyota Motor** Corp.'s Lexus or **Volkswagen** AG's Audi. But because it mostly sells pickup trucks and premium SUVs with extras such as chrome grilles, GMC delivers more profit per sale than most other brands in the global car business.

The success of GMC helps General Motors take advantage of a growing premium automobile market at the same time Cadillac continues to trail luxury rivals. While Cadillac's Escalade sport-utility vehicle is an unrivaled success, the brand's sales lag behind **BMW** AG, Mercedes-Benz and other makers of luxury crossover SUVs and performance sedans.

GM plans to unveil a new pickup truck Thursday in De-



A GMC Sierra pickup on display at the 2017 Detroit auto show. GMC pulled in about 16% of General Motors' global revenue last year.

troit that could further sweeten GMC's contribution. The revamped Sierra large pickup truck, long seen as a near-identical twin with the Chevy Silverado, is expected to carry a number of exclusive features, including an optional carbon-fiber pickup bed.

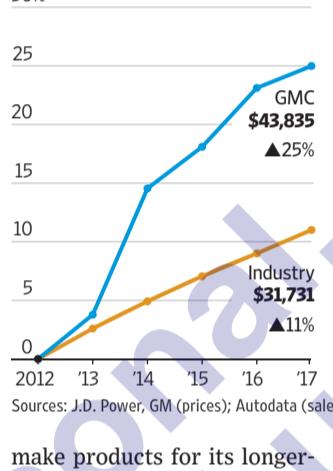
Unlike **Ford Motor** Co. and **Fiat Chrysler Automobiles** NV, which sell one version of a full-size truck (the F-150 and Ram, respectively), GM's two-pronged approach is designed to capture a broader swath of buyers. More than 2.4 million large pickup trucks were sold last year, 14% of overall U.S. sales—up from 11.4% in 2012. Having more offerings could boost appeal among buyers who include workaday contractors and well-heeled ranchers. GMC customers "love getting their hands dirty, but they're very wealthy," said Duncan Aldred, the GM executive in charge of the brand.

The profits from GMC's hulking trucks are helping GM

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GMC's average sale price is higher and growing faster than the industry's average sale price, and the brand is selling more for GM.

Change in average U.S. sale price since 2012



make products for its longer-range bets on electric and autonomous vehicles. The company is boosting spending on AV development by two-thirds this year to \$1 billion. It plans

GMC vehicle sales as a share of GM's total U.S. sales



The company, which made \$12.8 billion in operating profit in 2017, won't disclose its electric-vehicle investment, though it is likely substantial. Analysts expect the sum to be a few billion dollars a year over the next decade, with plans for 20 new models powered solely by batteries or fuel cells within five years.

The average GMC sells for \$44,000, representing a 25% increase from 2012, a \$13,000 premium over the industry average and 36% higher than Chevrolet's average selling price across all models.

GMC's success is a bragging point for a company once derided for having a bunch of barely differentiated brands. Even today, six of GMC's seven models are mechanically identical to a Chevy, distinguished by different exterior designs and slight variations in the cabin. The next-generation Sierra is expected to take the distinctions further with a more-luxurious interior.

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TECHNOLOGY

Apple's Cook Plays Along in China

CEO throws himself into appearances in a market that can be tough for Western firms

By YOKO KUBOTA

BEIJING—Apple Inc. Chief Executive Tim Cook will co-chair the Chinese government's showcase global business forum next month, underscoring his increasingly high profile here as Apple and other companies wrestle with tough new government demands on cybersecurity.

In helping lead the China Development Forum in March, Mr. Cook would be making his fifth appearance at a news-making event in China in little over a year. The development forum is a sought-after venue for the world's business elite due to the rare access it offers to senior members of the Chinese government.

It comes as Apple faces myriad challenges in China, including loss of market share to domestic smartphone makers and new government demands on its operations. This week, Apple as required will begin shifting customer iCloud data to servers on the Chinese mainland, where experts say it will be more vulnerable to government seizure.

Apple is far from the only company to make concessions to China. But its choices are especially vexing because it brands itself globally as an enterprise that tests convention, said Tim Calkins, a professor of marketing at Northwestern University's Kellogg School of Management.

"Apple, for many years, has embraced the idea 'think dif-



Tim Cook said 'nothing ever changes from the sideline' in defense of his involvement in China.

ferent,'" Mr. Calkins said. "And yet it's become clear that in China you can't think too different."

Mr. Cook defended the company's moves in China, including its decision to remove nearly 700 apps that allow people to bypass internet restrictions. He said Apple needs to engage with governments around the world even when it disagrees with them. "Nothing ever changes from the sideline," he said at a business conference in Guangzhou in December.

Apple had no comment on Monday.

Western companies have grown accustomed to making concessions to China's authoritar-

itarian government, including censoring content and setting up joint manufacturing ventures with state-backed Chinese enterprises, in return for access to a massive consumer market.

Michael Auslin, a fellow at Stanford University's Hoover Institution, contends that Apple's China stance fosters the false impression that Chinese and Western business systems are similar. It also cuts against the grain of companies such as Apple, he said, since tech firms have succeeded in an environment where information is openly shared—which is contrary to China's authoritarianism.

While many Apple users in

China have no complaints, some are troubled by the dual standards for China and the rest of the world.

For Apple, China is critical not just as a market, but as a manufacturing center. Most of its iPhones and other products are assembled in China through local partners.

In recent years, it has also faced increasingly tough competition from Chinese smartphone makers. Apple went from China's third-best selling smartphone brand in 2015, with a 13% share, to fifth in 2017, with a 9% share, according to research firm Canalys.

In addition, in 2016 Apple was forced to shut down its iBooks and iTunes Movies ser-

vices.

Apple has acted in the past year to shore up its position, including naming a China-born executive to a newly created role to oversee operations in the country.

Dozens of other business luminaries will be attending, including Boeing Co. Chief Executive Dennis Muilenburg, BlackRock Inc. Chief Executive Larry Fink, GlaxoSmithKline Chief Executive Emma Walmsley and billionaire investor Peter Thiel, according to a release by the state-founded China Development Research Foundation on Monday.

The forum's local chairman hasn't yet been announced, but customarily it is the minister of China's State Council Development Research Center.

Mr. Cook, who inherited the helm at Apple from the late Steve Jobs in 2011, has paid increasing attention to China in recent years.

Mr. Cook attended the China Development Forum in March 2017, speaking on globalization. In October, he was back for an advisory board meeting of Tsinghua University's School of Economics and Management in Beijing, in which he and others met Chinese President Xi Jinping.

In December, he spoke at a conference in Wuzhen hosted by the Chinese government's cyber-censorship arm. Mr. Cook's participation drew fire from conservative China critics in the U.S., but Chinese state media applauded his remarks affirming the need to abide by the laws of host countries.

—Tripp Mickle
in San Francisco
and Xiao Xiao in Beijing
contributed to this article.

FCC Chief Urges Path To Foster 5G Service

By JOHN D. MCKINNON

WASHINGTON—The nation's top telecommunications regulator on Monday laid out his plan for accelerating the development of 5G wireless service in the U.S. through market-oriented approaches.

Federal Communications Commission Chairman Ajit Pai, in a speech to the Mobile World Congress in Barcelona, said he would aim to auction two chunks of the airwaves for next-generation wireless service this fall, as the U.S. seeks to win an emerging global race to roll out the technology.

To carry out his plan, Mr. Pai said, the agency needs congress to remove a bureaucratic barrier that could hinder the planned fall auctions. He has said big banks are no longer willing to hold pre-auction payments from carriers because of capitalization requirements. So the FCC is seeking a change to allow the Treasury Department to hold the prepayments.

Congress must act by May 13 for the fall auctions to occur on schedule, Mr. Pai said.

Competition to develop next-generation service is crucial because 5G is expected to support large new markets, including autonomous vehicles.

CHIPS

Continued from page B1

The deal would be priced at about \$10 a share above where Microsemi traded before it surfaced last month that the company was in play.

Microsemi, based in Aliso Viejo, Calif., makes chips for the aerospace, communications, data center and industrial sectors, according to its website.

In 2016, the company bought PMC-Sierra Inc. In a sign of the deal frenzy in the industry that continues, PMC-Sierra had been looking to sell itself to Skyworks Solutions Inc. but terminated the deal after Skyworks refused to sweeten its offer.

Chandler, Ariz.-based Microchip has a market value of more than \$20 billion.

The talks come when the entire semiconductor sector stands to be reshaped. It had record amounts of deal volume in 2015 as companies jockeyed for position in the burgeoning market for connected cars and other internet-of-things devices, rather than personal computers and other technologies that are in decline.

Justices to Hear Microsoft Case on Email Storage

BY BRENT KENDALL
AND NICOLE HONG

WASHINGTON—Technology companies will square off with law enforcement on Tuesday as the Supreme Court hears arguments on whether emails and other customer data stored overseas are subject to U.S. search warrants.

The case is one of several legal battles on law-enforcement access to private online data, and it requires the justices to interpret a law that Congress wrote before email and cloud computing were part of everyday life.

A federal appeals court, in a 2016 case involving Microsoft Corp., handed a blow to prosecutors by ruling that such warrants can't be enforced on U.S. providers if the data is stored exclusively on foreign servers. That is the decision the Supreme Court is reviewing.

The case highlights broader tensions between tech titans, which view protecting user privacy as a priority, and authorities who believe privacy concerns should take a back seat to public safety in certain circumstances.

The Justice Department and state attorneys general say the lower-court ruling has hampered investigations into an array of crimes, from narcotics trafficking to arson to child pornography. Emails and electronic evidence are now critical to virtually every criminal investigation, they say.

Microsoft, Alphabet Inc.'s Google and other technology companies say the Justice Department's position would leave them stuck between U.S. law enforcement and their obligation to abide by privacy laws in foreign jurisdictions. The companies also say the case could threaten American dominance

in the \$250 billion cloud-computing industry, because foreign clients won't use U.S. firms if their data isn't protected.

Foreign governments also have weighed in, urging the Supreme Court not to interpret U.S. law in a way that intrudes on their sovereignty.

"This may be a case in which the Supreme Court has no truly satisfying outcome available to it, in part because it is being asked to interpret a 1986 law that is not a good fit for the kind of large-scale, cross-border data-storage practices of today," said David Newman, a lawyer with Morrison & Foerster LLP who closely follows privacy and data-security issues.

The law at issue is the Stored Communications Act, passed more than 30 years ago to provide privacy protections for electronic records.

The Justice Department applied for a warrant requiring

Microsoft to turn over email information from an account allegedly tied to illegal drug activity in the U.S. A magistrate judge issued the warrant after finding the government had est-

U.S. law enforcement seeks access to data on foreign servers when probing crimes.

ablished probable cause that the account was connected to narcotics trafficking.

Microsoft handed over some account data that was stored in the U.S. but said it shouldn't have to hand over the emails, which were stored on a server in Ireland. The company said the government has never suggested that the account holder

is a citizen or resident of the U.S.

The Second U.S. Circuit Court of Appeals sided with Microsoft, ruling the 1986 law didn't apply beyond U.S. territory.

Microsoft said in its Supreme Court brief that the materials targeted for government seizure are covered by Irish and European Union law. That means the U.S. is seeking to assert the 1986 law beyond domestic borders, which isn't allowed, the company argued.

Microsoft conceded that U.S. law is outdated but said that was an issue for lawmakers, not judges, to address.

The Justice Department said it isn't seeking to apply the U.S. law extraterritorially. It noted the government sought disclosure in the U.S., where officials at Microsoft's headquarters in Redmond, Wash., have ready access to files stored abroad.

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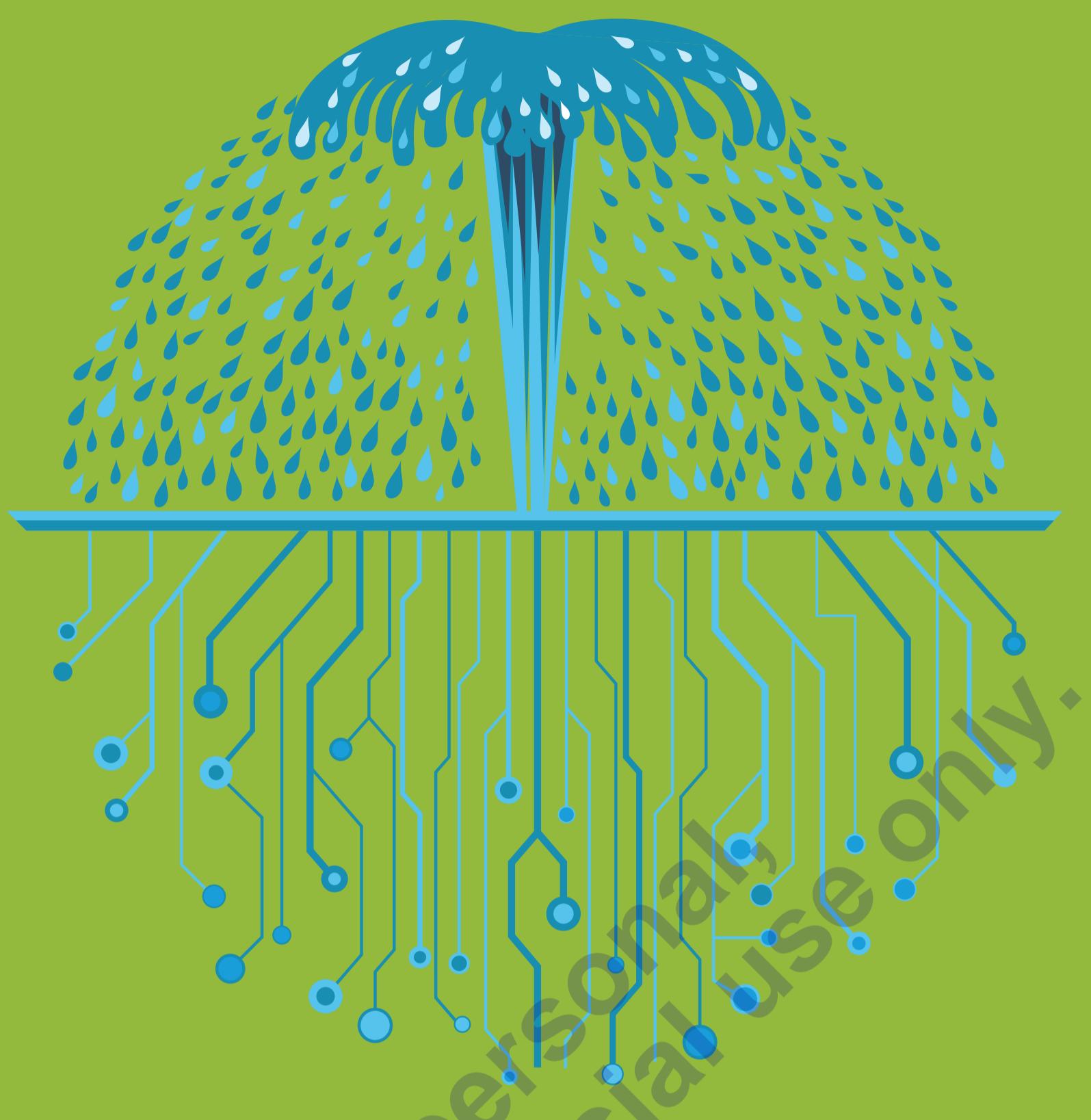
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Source: "Cost of Data Center Outages," Ponemon Institute, January 2016.

BUSINESS NEWS



Dutch parcel-delivery company TNT had agreed to be purchased by UPS before the EU's competition agency vetoed the move in 2013.

UPS Sues Over TNT Deal

Shipping company wants \$2.15 billion from Europe's antitrust regulator

By NATALIA DROZDIAK

BRUSSELS—United Parcel Service Inc. is suing the European Union's antitrust watchdog for €1.74 billion (\$2.15 billion) plus interest over its veto of UPS's merger with TNT Express NV, a move that could prove fruitful at a time when the bloc's top courts increasingly scrutinize the competition cop's decisions.

Indeed, an EU court last year overturned the European Commission's rejection of the planned \$7 billion acquisition of the Dutch parcel-delivery company in January 2013, citing procedural missteps.

Atlanta-based UPS is seeking compensation for the commission's decision, which the

shipping company says prevented it from "materializing the benefits associated with that proposed transaction," according to court documents published Monday.

The commission will defend itself in court, an EU spokesman said. The regulator was already appealing the judgment against its veto of the TNT deal.

In the past, the EU's two top courts rarely annulled decisions by the antitrust regulator, which built a fearsome reputation over the past two decades through a series of high-profile cases against America's biggest companies, including General Electric Co., Microsoft Corp., Apple Inc. and Alphabet Inc.'s Google. But recent court rulings have put the commission on the defensive.

In September, the EU's highest court backed Intel Corp.'s appeal of €1.06 billion antitrust fine levied by the commission in 2009, referring the

case back to a lower court.

The actions by the two Luxembourg-based EU courts are welcomed by companies and lawyers, who complain that checks and balances in the bloc's system are too weak. They cite the antitrust watchdog's autonomy and its power to act as the prosecutor, judge and jury in competition cases.

"There is a feeling among the companies and competition practitioners that the courts have been rather lenient to the commission and therefore, it's either better to settle or to forget about appealing," said Assimakis Komninos, a Brussels-based partner at global law firm White & Case. "There have been a couple of cases, which shows a bit [of] movement on the side of the court, but look at where we are coming from."

After UPS called off its deal for TNT due to the commission's opposition, logistics rival FedEx Corp. stepped in, ac-

quiring the business in 2016 for €4.4 billion.

The EU blocked the UPS-TNT deal on concerns the overnight-parcel-delivery market would effectively become a duopoly between a combined UPS-TNT business and DHL, a unit of Deutsche Post AG. The regulator also worried that other parcel-delivery companies, including FedEx, could be shut out of the market.

UPS continues to defend the deal.

"We feel strongly that the proposed acquisition would have constituted a good deal for logistics customers," said Gregg Svengen, a spokesman for UPS. "The compensation being sought corresponds to what we believe, through objective assessments verified by expert third parties, to be the value of the opportunity wrongly prohibited by the European Commission."

—Paul Zilobro contributed to this article.

Liberty Media Seeks Deal With iHeart

By SOMA BISWAS

ter bankruptcy, with the leading player in satellite radio.

"This is one of the leading visionaries of the tech and media industry coming and saying I have a plan for this company," said Lance Vitana, an analyst at Cowen.

News of Liberty's proposal, disclosed Monday by a group of iHeart lenders and bondholders, comes as a 30-day grace period among the company and its creditors is set to expire.

The clock began ticking for iHeartMedia on Feb. 1 after it

missed an interest payment to bondholders.

Formerly known as Clear Channel Communications, iHeart has been in talks with its largest creditors for months about restructuring more than \$15 billion in debt at the company's radio business.

The debt is a legacy of a \$26.7 billion buyout by private-equity firms Thomas H. Lee and Bain Capital. The 2008 buyout came on the eve of the financial crisis just as markets seized up and adver-

tising rates cratered.

Mr. Vitana, the analyst, said iHeartMedia's radio business and Liberty-controlled SiriusXM radio could provide a boost to each other's offerings.

The two companies will no longer have to bid against each other for big-name talent such as Rush Limbaugh and Howard Stern or for the right to air NFL games. Liberty could also promote the subscription-only Sirius offerings on its free broadcast channels, he said.

Johnnie Walker for decades marketed its Scotch mainly to men. A 1988 ad for the Scotch brand reads: "He loves my mind. And he drinks Johnnie Walker." The caption was incongruously accompanied by a

Johnnie Walker Maker Wants Women to Try Jane

By SAABIRA CHAUDHURI

Diageo PLC plans to roll out a female-branded version of its Johnnie Walker Scotch brand, the latest move by the liquor giant to woo female drinkers.

Diageo, the world's biggest spirits maker, on Monday said Jane Walker, a limited-edition version of Johnnie Walker Black Label, will go on sale starting next month. The company, which also owns Smirnoff vodka and Bulleit bourbon, has revamped the iconic Johnnie Walker logo for the first time in over a century to show a woman in boots midstride, tipping her hat.

The marketing stunt comes on the heels of a Diageo campaign called #LoveScotch, which has splashed pictures of young women drinking Scotch together across billboards, social media and magazines in dozens of countries.

"We realized we should be successfully and actively marketing to women," said Diageo's chief marketing officer, Syl Saller, in an interview with The Wall Street Journal last year. "That's been really positive for us, particularly in categories that would have been considered more masculine, like Scotch."



Diageo PLC plans to roll out Jane Walker.

To develop its Haig Club whisky brand, Diageo in 2014 teamed up with David Beckham after research showed the footballer appealed to both men and women. A recent TV ad for Haig Club, narrated by a woman, rattles off the rules dictating how whisky should be drunk, including that "whisky is a man's drink." The accompanying images show both men and women drinking whisky.

Diageo a few years ago began using Christina Hendricks—who played secretary Joan in the TV show "Mad Men"—as its Johnnie Walker ambassador. The company has also taken a more grassroots approach, joining with groups like Women Who Whiskey—which describes itself as an experimental whiskey club for women—to sponsor whiskey and food pairings for brands like Bulleit bourbon.

Julia Ritz Toffoli, who founded Women Who Whiskey in New York in 2011, has worked with other whiskey makers like William Grant & Sons Distillers Ltd. and Brown-Forman Corp. on similar events. "They're really trying to include women in their programming," she said.

The alcohol industry's new focus on women isn't uncontroversial. Public-health researchers and campaigners point to physiological differences that make women more vulnerable to harm from alcohol consumption than men.

BUSINESS WATCH

AT&T

FTC Wins Ruling To Pursue Web Suit

A federal appeals court on Monday ruled that the Federal Trade Commission can move forward with its lawsuit alleging AT&T Inc. misled wireless subscribers by reducing data speeds for several million customers who thought they had purchased unlimited plans.

The ruling by the Ninth U.S. Circuit Court of Appeals is a notable win for the FTC because it restores the agency's regulatory authority over large internet service providers.

FTC Acting Chairman Maureen Ohlhausen said the ruling "ensures that the FTC can and will continue to play its vital role in safeguarding consumer interests including privacy protection, as well as stopping anticompetitive market behavior."

An AT&T spokesman said, "Today's decision on jurisdiction does not address the merits of the case. We are reviewing the opinion and continue to believe we ultimately will prevail."

—Brent Kendall

MYLAN

Patent Board to Hear Restasis Challenge

The U.S. Patent Trial and Appeal Board will hear Mylan NV's challenge of patents on dry-eye treatment Restasis as the company works to bring a generic version to market.

The board on Friday denied a motion from the St. Regis Mo-



Chef Spike Mendelsohn with a George Foreman grill, one of Spectrum Brands' consumer products.

hawk Tribe to terminate the patent challenge. The Indian tribe, based in upstate New York, bought the patents for Restasis last year from Allergan PLC, which sold the patents to the tribe with the idea that because the tribe is a sovereign government, it wouldn't be subject to patent-office review.

The tribe had asked that challenges from pharmaceutical companies Akorn Inc., Mylan and Teva Pharmaceuticals Industries Ltd. be dropped. Restasis generated \$1.47 billion of revenue for Allergan last year.

"The PTAB's ruling reinforces our belief that Allergan's maneuvers to engage the St. Regis Mohawk Tribe for patent protection were a sham," Mylan Chief Executive Heather Bresch said in prepared remarks.

The agreement with Allergan entitled the tribe to a \$13.75 million initial payment and \$15 million in annual royalties, starting this year, until the Restasis patents expire or are no longer valid. Allergan retains the rest of the revenue from Restasis, the company's second-biggest seller after Botox.

—Allison Prang

SPECTRUM BRANDS HOLDINGS

Company to Combine With Top Holder HRG

Spectrum Brands Holdings Inc. will combine with its largest shareholder, HRG Group Inc., in a deal the consumer-products company says will widen its shareholder base and improve its governance.

The move will also wind down HRG, a publicly traded holding company that owns about 59% of Spectrum, which is its principal holding. Spectrum Brands products include Kwikset locks, George Foreman grills and Hot Shot bug sprays.

Under terms of the deal, HRG shareholders will receive the same number of shares they currently hold, subject to certain adjustments to account for HRG's net debt and transaction costs, plus a \$200 million upward adjustment. This bonus, Spectrum said, recognizes that the deal transforms Spectrum into an independent public company with no controlling shareholder and certain favorable tax attributes.

The transaction is subject to shareholder approval.

—Cara Lombardo

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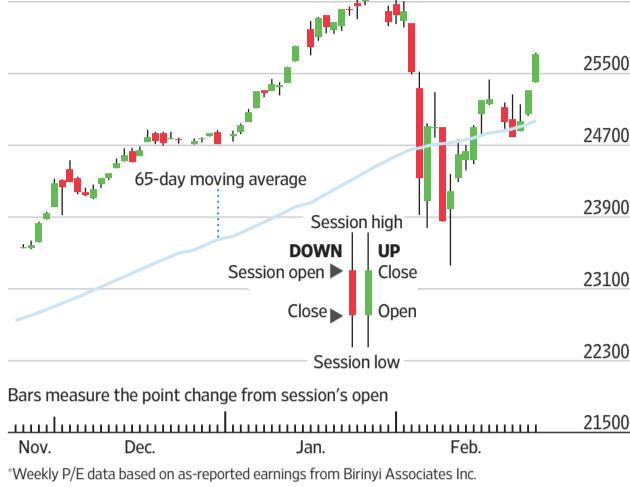
MARKETS DIGEST

EQUITIES

Dow Jones Industrial Average

25709.27 ▲ 399.28, or 1.58%
 High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 26.90 21.19
 P/E estimate * 17.02 17.81
 Dividend yield 2.06 2.33
 All-time high 26616.71, 01/26/18



*Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

S&P 500 Index

2779.60 ▲ 32.30, or 1.18%
 High, low, open and close for each trading day of the past three months.

Trailing P/E ratio * 25.49 24.80
 P/E estimate * 17.49 18.22
 Dividend yield 1.89 2.00
 All-time high: 2872.87, 01/26/18



Nasdaq Composite Index

7421.46 ▲ 84.07, or 1.15%
 High, low, open and close for each trading day of the past three months.

Trailing P/E ratio * 26.75 25.35
 P/E estimate * 20.15 20.05
 Dividend yield 1.01 1.15
 All-time high: 7505.77, 01/26/18



Bars measure the point change from session's open

Nov. Dec. Jan. Feb.

21500 22300 23100 23900 24700 25500 26300

*Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

Major U.S. Stock-Market Indexes

Dow Jones	High	Low	Latest	Close	Net chg	% chg	High	52-Week Low	% chg	YTD % chg	3-yr. ann.
	25732.80	25398.56	25709.27	399.28	▲ 1.58	26616.71	20404.49	23.4	4.0	12.2	
Industrial Average	25732.80	25398.56	25709.27	399.28	▲ 1.58	26616.71	20404.49	23.4	4.0	12.2	
Transportation Avg	10795.93	10605.99	10769.84	190.94	▲ 1.80	11373.38	8783.74	13.7	1.5	5.8	
Utility Average	689.77	682.13	683.73	-2.03	-0.30	774.47	647.90	-1.8	-5.5	4.8	
Total Stock Market	28676.29	28401.57	28664.17	304.13	▲ 1.07	29630.47	24125.20	16.4	3.6	9.2	
Barron's 400	729.47	721.85	728.81	5.13	▲ 0.71	757.37	610.89	15.7	2.5	8.9	

Nasdaq Stock Market

Nasdaq Composite	7421.85	7360.25	7421.46	84.07	▲ 1.15	7505.77	5793.83	26.6	7.5	14.2	
Nasdaq 100	6989.36	6927.46	6989.10	92.50	▲ 1.34	7022.97	5330.31	30.7	9.3	16.1	

S&P

500 Index	2780.64	2753.78	2779.60	32.30	▲ 1.18	2872.87	2328.95	17.3	4.0	9.6	
MidCap 400	1915.82	1897.41	1914.93	10.70	▲ 0.56	1995.23	1681.04	9.5	0.8	8.2	
SmallCap 600	953.78	942.79	952.76	6.21	▲ 0.66	979.57	815.62	10.8	1.8	10.2	

Other Indexes

Russell 2000	1560.74	1544.99	1559.33	10.15	▲ 0.65	1610.71	1345.24	10.8	1.6	8.0	
NYSE Composite	13005.51	12881.98	12999.62	115.51	▲ 0.90	13637.02	11324.53	12.5	1.5	5.5	
Value Line	564.62	559.11	564.18	3.83	▲ 0.68	589.69	503.24	7.2	0.3	3.1	
NYSE Arca Biotech	4735.30	4676.57	4724.35	28.49	▲ 0.61	4939.86	3449.61	34.5	11.9	6.5	
NYSE Arca Pharma	555.61	549.25	555.00	6.20	▲ 1.13	593.12	498.46	8.1	1.8	-0.8	
KBW Bank	115.33	113.81	115.30	1.07	▲ 0.94	116.52	88.02	19.6	8.0	16.7	
PHLX® Gold/Silver	81.54	80.78	81.27	0.74	▲ 0.92	93.26	76.42	-3.8	-4.7	2.3	
PHLX® Oil Service	142.05	139.23	141.10	-0.11	-0.08	180.81	117.79	-20.5	-5.7	-10.6	
PHLX® Semiconductor	1380.27	1359.19	1380.27	29.18	▲ 2.16	1392.86	960.01	40.5	10.2	24.4	
Cboe Volatility	16.94	15.80	15.80	-0.69	-4.18	37.32	9.14	30.7	43.1	4.3	

\$ Nasdaq PHLX

Sources: SIX Financial Information; WSJ Market Data Group

Late Trading

Most-active and biggest movers among NYSE, NYSE Arca, NYSE Amer. and Nasdaq issues from 4 p.m. to 6:30 p.m. ET as reported by electronic trading services, securities dealers and regional exchanges. Minimum share price of \$2 and minimum after-hours volume of 5,000 shares.

Most-active issues in late trading

Company	Symbol	Volume (000)	Last	Net chg	After Hours % chg	High	Low
SPDR S&P 500	SPY	12,156.7	278.29	0.39	0.14	278.54	274.66
Bank of America	BAC	4,716.7	32.44	0.02	0.06	32.45	32.00
Fitbit	FIT	4,377.0	4.90	-0.64	-11.55	5.67	4.54
iShares MSCI Emg Markets	EEM	4,040.1	50.18	...	unch.	50.22	49.65
Intel	INTC	2,868.7	49.11	...	unch.	49.16	48.43
Akorn	AKRX	2,846.8	19.25	-11.03	-36.43	30.31	17.80
CenturyLink	CTL	2,802.2	18.52	0.11	0.60	18.52	18.26
Oracle	ORCL	2,662.8	51.16	-0.01	-0.02	51.24	50.35

Percentage gainers...

Pegasystems	PEGA	124.5	62.05	5.30	9.34	62.25	55.14
Tile Shop Holdings	TTS	243.4	5.65	0.45	8.65	5.70	5.20
PDC Energy	PDCE	11.7	57.75	3.05	5.58	57.75	54.50
Palo Alto Networks	PANW	478.4	178.35	9.03	5.33	182.18	168.32
LendingClub	LC	576.4	3.37	0.10	3.06	3.37	3.27

...And losers

Akorn	AKRX	2,846.8	19.25	-11.03	-

COMMODITIES

WSJ.com/commodities

Futures Contracts

Metal & Petroleum Futures

	Contract		Open	High	Low	Settle	Chg	Open interest
	Open	High	hi	lo	Low	Settle	Chg	Open interest
Copper-High (CMX) -25,000 lbs.; \$ per lb								
Feb 3,2035 3,2045 3,1955	3,1960	-0.025	332					
May 3,2310 3,2565 3,2135	3,2245	-0.0085	117,590					
Gold (CMX) -100 troy oz.; \$ per troy oz.								
Feb 1335.00 1340.50 1334.70	1330.70	2.50	1,084					
April 1330.40 1342.90 1328.00	1322.80	2.50	353,593					
June 1335.00 1348.10 1334.40	1338.40	2.60	90,295					
Aug 1348.10 1352.70 1343.70	1344.30	2.80	25,679					
Oct 1346.30 1357.80 1351.70	1350.10	3.00	5,420					
Dec 1352.00 1365.40 1351.70	1356.30	3.20	36,807					
Palladium (NYM) -50 troy oz.; \$ per troy oz.								
Feb 998.00	998.80	3.00	1					
April 998.20 1010.00 996.00	1001.80	3.00	76,666					
Silver (CMX) -5,000 troy oz.; \$ per troy oz.								
Feb 16,500	16,542	0.066	21					
May 16,500 16,785 16,500	16,622	0.073	118,204					
Crude Oil, Light Sweet (NYM) -1,000 bbls.; \$ per bbl								
April 63.59 64.24 63.06	63.91	0.36	498,650					
May 63.45 64.07 62.91	63.77	0.36	260,209					
June 63.14 63.75 62.60	63.45	0.35	280,332					
July 62.67 63.27 62.16	63.00	0.33	139,689					
Dec'19 56.00 56.56 55.75	56.55	0.48	116,283					
NY Harbor ULSD (NYM) -42,000 gal.; \$ per gal.								
March 1,9739 1,9943 1,9598	1,9859	0.0165	32,136					
April 1,9760 1,9967 1,9621	1,9875	0.0149	124,678					
Gasoline-NY RBOB (NYM) -42,000 gal.; \$ per gal.								
March 1,8109 1,8341 1,8025	1,8267	0.0182	39,914					
April 1,9903 2,0122 1,9810	2,0028	0.0132	135,031					
Natural Gas (NYM) -10,000 MMBtu; \$ per MMBtu								
March 2,650 2,680 2,586	2,639	0.014	27,467					
April 2,687 2,723 2,642	2,686	0.029	316,610					
May 2,713 2,747 2,673	2,711	0.025	197,691					
June 2,744 2,778 2,707	2,743	0.024	82,520					
July 2,787 2,818 2,748	2,783	0.023	97,852					
Oct 2,800 2,828 2,760	2,796	0.023	117,406					

Agriculture Futures

	Contract	Open	High	hi	lo	Low	Settle	Chg	Open interest
Corn (CBT) -5,000 bu.; cents per bu.									
March 366.50 370.00	366.50	2.25	277,409						
May 374.75 378.75	374.75	2.75	604,048						
Oats (CBT) -5,000 bu.; cents per bu.									
March 261.50 263.00	260.25	2.50	624						
May 262.00 268.00	262.00	2.60	4,453						
Soybeans (CBT) -5,000 bu.; cents per bu.									
March 1039.50 1047.75	1034.00	2.00	125,919						
May 1054.00 1059.50	1045.75	1.50	329,601						
Soybean Meal (CBT) -100 tons; \$ per ton.									
March 377.10 382.80	377.20	1.70	52,008						
May 380.30 385.70	379.80	2.00	219,770						
Soybean Oil (CBT) -60,000 lbs.; cents per lb.									
March 32.36 32.72	32.36	0.26	50,746						
May 32.56 32.96	32.56	0.30	230,941						
Rough Rice (CBT) -2,000 cwt.; \$ per cwt.									
March 119.50 120.00	118.00	-7.50	3,595						
May 122.00 122.80	120.50	-10.50	4,580						
Wheat (CBT) -5,000 bu.; cents per bu.									
March 458.50 464.00	455.75	459.50	7.25	69,093					
May 469.75 476.75	467.75	8.50	209,320						
Wheat (KCO) -5,000 bu.; cents per bu.									
March 472.50 481.75	472.25	477.50	8.75	28,550					
May 488.00 497.75	487.75	9.75	124,974						
Wheat (MPLS) -5,000 bu.; cents per bu.									
March 601.00 604.00	592.50	596.00	-4.75	9,741					
May 613.25 617.00	609.00	609.75	-3.50	29,240					
Cattle-Feeder (CME) -50,000 lbs.; cents per lb.									
March 145,475 146,600	144,750	145,550	-450	17,016					
April 147,725 148,925	147,100	147,950	-550	16,256					
Cattle-Live (CME) -40,000 lbs.; cents per lb.									
Feb 127,775 129,725	126,650	127,400	-600	3,668					
April 124,000 124,750	123,550	124,000	-850	143,087					
Hogs-Lean (CME) -40,000 lbs.; cents per lb.									
April 71,150 71,950	69,900	69,950	-1,425	90,442					
June 82,700 83,875	82,150	82,300	-725	48,244					
Lumber (CME) -10,000 bd ft., \$ per 1,000 bd.									
March 530.50 530.50	522.60	523.00	-380	2,333					
May 517.90 517.90	513.60	515.10	-30	4,086					

Commodities

Contract

Open

High

hi

lo

Low

Settle

Chg

Open interest

Milk (CME)-200,000 lbs.; cents per lb.

Feb 13.44 13.44

March 13.88 14.00

Cocoa (ICE-US)-10 metric tons; \$ per ton.

March 2,204 2,228

May 2,202 2,220

Coffee (ICE-US)-37,500 lbs.; cents per lb.

March 119.50 121.05

May 121.55 122.70

Sugar-World (ICE-US)-11,000 lbs.; cents per lb.

March 13.62 13.77

BIGGEST 1,000 STOCKS

WSJ.com/stocks

How to Read the Stock Tables
 The following explanations apply to the 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. and the previous day.

Monday, February 26, 2018

Net

Stock Sym Close Chg

A B C

ABB ABB 10.45 -0.04

AES AES 40.76 1.19

Aflac AFL 90.76 1.19

AGNC Inv AGNC 18.98 0.94

ANGI Homesys ANG 15.02 0.22

Ansys ANSS 161.67 0.78

ASML ASML 200.84 4.02

ATT&T T 37.46 0.74

AbbottLabs Abbott 60.53 0.82

AbbVie ABV 121.54 2.79

Abbimed ABMD 273.18 4.73

Accenture ACN 164.74 1.70

ActionvisionBlz ATVI 73.16 1.09

AcuityBrands AVI 148.49 1.93

Adient ADNT 63.90 0.60

AdobeSystems ADBS 212.13 2.41

AdvantageAuto AAP 114.85 -1.47

AdvMacrosAms ADM 12.42 -0.25

AdvSemEring ASX 6.91

Aegon AEG 6.96 0.02

AerCap AER 51.53 0.66

Aetna AET 175.70 2.50

AffiliatedMtrs AMG 194.86 4.85

AigTechs AMT 70.58 -0.12

AigonicEagle AEM 40.44 -0.24

AigonicMacro AEMC 33.34 -0.24

Airbus A320neo A320NEO 85.00 0.00

AirProducts APPD 165.44 1.17

AlkamTech AKAM 68.60 1.24

AlaskaAir ALK 66.15 1.09

Albemarle ALB 110.10 -8.65

Alcoa AA 46.66 -0.02

AmericaMtns AMT 194.86 4.85

Aigentechs AMT 70.58 -0.12

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AigonicEagle AEM 40.44 -0.24

AigonicMacro AEMC 33.34 -0.24

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BANKING & FINANCE

Hedge Funds Feast on Choppy Markets

Volatility's return is a welcome development for investors that profit on price swings

BY LAURENCE FLETCHER

For years, hedge funds have been able to blame their lackluster performance on central-bank interference in markets. As expansionary monetary policy programs wind down, a turbulent start to 2018 has provided the kind of conditions some of these funds have been craving.

Among funds in the black this year are several that lost money in 2017. These include funds run by New York-based Caxton Associates as well as Graham Capital Management and Tudor Investment Corp., both based in Greenwich, Conn.

Many of the funds that have done particularly well are so-called macro funds which invest across a range of assets and try to profit from vigorous price moves.

These funds have found it especially difficult to cope with asset prices that have been closely correlated with one another as central banks have intervened in markets over the past decade.

The vast amounts of central-bank stimulus have pushed up asset prices and made markets less volatile. Macro hedge funds have often contended this has made life tougher for them, with fewer large price moves to trade. Assets moving higher in unison also are a headache for funds that like to trade one asset against another.

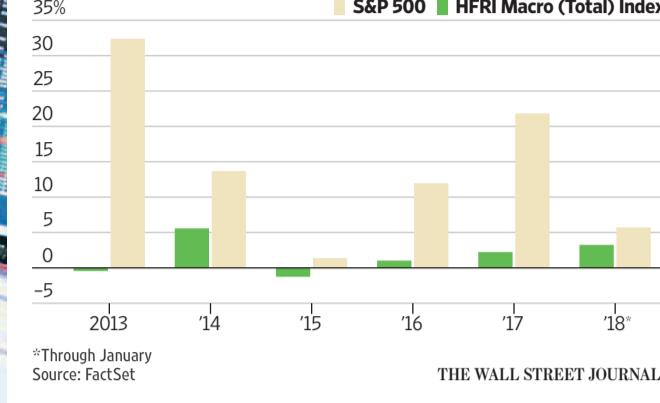


This month's selloff in stocks is hitting hedge funds less than more traditional investors.

Better Days Ahead?

Some macro hedge funds are starting to post better returns after years of underperformance.

Total return, change from a year earlier



*Through January

Source: FactSet

THE WALL STREET JOURNAL.

month, reviewed by The Wall Street Journal.

A new fund at Caxton run by Mr. Law has gained 8.3% this year through Feb. 16, one of the biggest hedge-fund gains of 2018, an investor said.

Caxton's main Global fund, which lost 13.3% last year as Treasury yields moved lower for much of 2017, is up 5.4% this year through Feb. 16, the investor said. The S&P 500 rose 2.2% over that period while hedge funds on average gained 1.4%, according to data group HFR.

Caxton has profited this year from the rise in bond yields and the fall in the dollar, the investor said.

"We believe that the altered environment will create opportunities," wrote Mr. Law in the investor letter. If the change in market conditions continues it will likely lead to a rising yield curve and higher volatility, he wrote.

In the wake of this month's increase in volatility, Sandy

Rattray, chief investment officer at Man Group and co-inventor of the Cboe Volatility Index (VIX), said "it certainly feels as though the long period of low volatility may well have come to an end."

Kenneth Tropin's Graham Capital Management, which runs \$17 billion in assets, has gained 8.8% through Feb. 16 in its Global Investment Fund Discretionary Enhanced Vol fund, said a person familiar with the matter. Its Absolute Return Fund has gained 6.3%.

Tudor Investment, founded by Paul Tudor Jones, has returned 5% in its Global fund through Feb. 16.

All three funds posted losses last year.

However, not all funds have ridden this month's market turmoil so well. Computer-driven hedge funds, which have profited from long-running trends in markets, have suffered large losses this month as many of those trends have reversed.

At SEC, Small Steps in Regulatory Revamp

BY TATYANA SHUMSKY

Jay Clayton, President Donald Trump's pick to lead the Securities and Exchange Commission, can point to a series of small, targeted actions aimed at easing the regulatory burden for companies nearly 10 months into his tenure.

The SEC's incremental progress stands in contrast to the early days of the Trump administration, which were punctuated by a swift succession of executive orders aimed squarely at deregulation. One order told regulators that any new rule would require the elimination of two old rules, while another called on the Treasury Department and Congress to roll back the Dodd-Frank financial-overhaul law.

However, those early announcements have yielded modest impact in the realm of financial regulation. The most ambitious effort to revoke and replace the Dodd-Frank law—Rep. Jeb Hensarling's (R., Texas) Financial Choice Act—passed the House in June but failed to clear the Senate.

The SEC has signaled more gradual action aimed at streamlining regulations for



Jay Clayton wants to modernize rules and keep investor safeguards.

the coming year.

"Modernizing the rules without in any way taking away investor protection is the best thing that we can do," Mr. Clayton told CFO Journal on the sidelines of the Practicing Law Institute's SEC Speaks conference in Washington on Friday. The agency is looking at all rules to see what could be pruned back, the SEC chairman said.

In making changes, the SEC is limited by its mission to enforce securities law and protect investors, current and for-

mer SEC commissioners say.

Moreover, only Congress can revoke statutes such as Dodd-Frank and the Sarbanes-Oxley corporate-governance law, which many business groups say raise the cost of compliance.

Still, the SEC has some flexibility around its interpretation of statutes and the rules the agency writes and enforces under the law.

That has allowed Mr. Clayton and his newly installed team to give companies limited relief and reduce friction

in select areas, particularly surrounding access to capital markets.

Such efforts include allowing all companies to secretly file initial-public-offering paperwork.

The SEC also allowed companies to exclude financial information from draft registration statements if they reasonably expect it would be stale by the time the securities become public. This eliminated the need to prepare financials that would never be seen by the public.

The agency also gave companies relief through guidance, including for how to implement the new executive-pay ratio rule. The new guidelines allow companies to determine their own method for calculating the ratio, rather than prescribing a standard approach.

"The fact that there has been any sort of deregulation or burden easing is remarkable, given what we'd suffered the prior eight years," said Daniel Gallagher, a Republican former SEC commissioner.

The SEC is considering a proposal to raise the cap on the definition of a smaller reporting company to those with a float of less than \$250 mil-

lion, up from \$75 million currently. Such a move would reduce disclosure requirements and compliance costs for those companies.

The regulator also plans to revisit rules that require issuers of guaranteed securities to provide details about the guarantor in their financial statements. It will also review rules around the disclosures an acquirer is expected to provide about a target and update guidance for risk-factor disclosures.

While those efforts began under the previous administration, "they're not done and they need to get done," said Hester Peirce, a Republican SEC commissioner, speaking on the sidelines of the conference.

Mr. Clayton's tenure at the agency is more likely to be marked by a reticence to make new rules, rather than a significant rollback of existing ones, said Harvey Pitt, a Republican former SEC chairman.

"The start of deregulation is not overloading things with new regulation," Mr. Pitt said. He pointed to the SEC's approach to regulating cryptocurrencies as one example.

Both Sides In AmEx Case Grilled By Justices

BY BRENT KENDALL

WASHINGTON—American Express Co.'s card rules for merchants prompted strong reactions at the Supreme Court Monday, as the justices considered whether to revive a government antitrust lawsuit challenging the company's approach.

At issue is an AmEx policy that says retailers and other businesses that accept AmEx cards are prohibited from providing incentives that encourage customers to pay with cards on other networks like Visa or Mastercard that charge lower fees.

During an hourlong oral argument, Justices Sonia Sotomayor and Neil Gorsuch dominated questions from the bench and offered starkly different views of the case.

Justice Sotomayor told an AmEx lawyer that the company's rules undermined "the essence of competition" and deprived consumers the option of receiving discounts for alternative forms of payment.

Justice Gorsuch, for his part, pressed an attorney for Ohio, one of 11 states that brought the challenge to the AmEx rules to the high court. He suggested AmEx, which has a smaller market share than Visa and Mastercard, doesn't have the market power necessary to impose anticompetitive terms. He also said AmEx card rewards provided notable benefits to consumers.

The outcome of the case wasn't clear, because a majority of justices didn't signal their views and both sides received tough questions from the court.

AmEx lawyer Evan Chesler said the fees that merchants pay the company fuel benefits for consumers.

"Every reward, every seat on a plane to Aruba, every ticket to a Billy Joel concert, every cash-back reward that's given is a price discount to the consumer," he said.

Ohio State Solicitor Eric Murphy said AmEx's rules "raised the prices that all four credit-card companies charge merchants."

The Supreme Court's review comes after a federal appeals court in 2016 ruled for AmEx and threw out the government's case.

STREET

Continued from page B1
at the end of 2016, when postelection excitement about rising yields led to a record bet, but again proved wildly overdone.

The opposite happened in May 2013 and last summer, when investors had some of their biggest postcrisis bets using futures and options on bond yields falling. In both cases, 10-year yields subsequently jumped by close to a percentage point. This month the net bet on rising 10-year Treasury yields reached the second biggest, behind only the rise after the election, while the number of futures-only bets on rising yields hit a record.

This isn't to say that the new consensus is wrong. Global economic growth brings with it a tighter jobs market and more demand, which ought to be inflationary. The worry is that it doesn't arrive quickly enough to confirm investors in their new belief and disappointment sets in. Leveraged funds with large positions would then look exposed, something that often

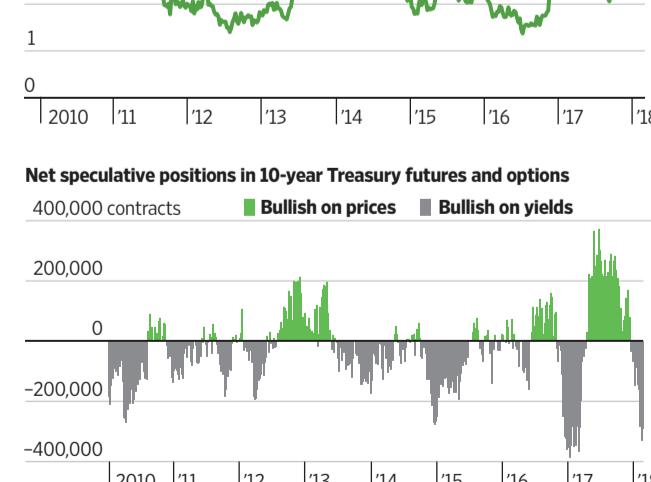
prompts them to close out their bets and push down bond yields. With tens of billions of dollars of outstanding bets against bond futures, such a rush to cover short positions could have a big effect.

The new market story is of synchronized global growth, tighter monetary policy and higher wages and inflation. The short-term issue isn't so much whether it is right or wrong, but whether everyone yet believes in it. If there are more investors out there who haven't been converted, then economic data supporting the story could push up bond yields further still. If everyone and his dog is already betting on growth and inflation, then the very same data might disappoint those hoping for more.

In Europe, there are already signs of disappointment. Economic data have been coming in below forecasts, pushing Citigroup Inc.'s measure of "economic surprise" negative for the first time since September 2016. Again, this suggests not that the eurozone is in trouble, but merely that economists upgraded their

Betting Against Bonds

Yields have soared this year, and futures and options positioning shows near-record bets on 10-year Treasury yields moving higher.



about how long it would take to implement tax cuts and infrastructure spending.

A repeat is possible. Fund manager sentiment toward bonds is very negative, but not as negative as it was after the election or during the 2013 taper tantrum. Bond yields have risen fast, but not as fast as they did after the election. Bets on inflation over the next five years being above 3%—derived from inflation options—are still below where they stood after the election, too. All these measures could run further, and hedge funds and others could pile on even bigger bets on rising yields.

Yet, the balance of risks has shifted. Wage growth that would have been a positive surprise last summer would today be a damp squib for investors who are expecting a continuation of last month's firework. U.S. Treasuries may still look unattractive at a 10-year yield of just under 2.9%, but remember that it has only been above 3% for two days since July 2011. The market is adopting a new narrative, but it would be normal to have plot twists as the story works out.

forecasts too enthusiastically.

Now, I'm a natural contrarian and may again be overestimating how far the story has to run. After the U.S. election I thought it was right that bond yields should rise, but

that they had gone up far too quickly given the uncertainties about Donald Trump's policies. I was too early, and 10-year Treasury yields rose another 0.3 percentage point—a fall of almost 3% in price—before the market began to share my concerns.

MARKETS

Treasurys Climb As Juicy Yields Lure Investors

BY DANIEL KRUGER

U.S. government-bond prices strengthened, as yields near multiyear highs attracted investors.

The yield on the 10-year Treasury note fell for a third consecutive day, settling at 2.862% from 2.871% Friday. Yields fall as bond prices rise.

This year's rapid rise has prompted speculation that the

CREDIT MARKETS 10-year yield is headed above 3%

for the first time since 2013. The

10-year yield closed at a four-year high of 2.943% on Feb. 21, up from 2.409% at the end of 2017. Some analysts said that level has been enough to attract investors, pausing the selling.

"Every asset class in fixed income looks expensive right now, except for plain old Treasurys," said Kathy Jones, chief fixed-income strategist at the Schwab Center for Financial Research. "It may take a while to pass the 3% mark because yields have come up so fast."

Bond yields have climbed this year following the passage of tax cuts that will reduce the top corporate rate and lower payments for many individuals. Investors and analysts have forecast that the cuts will boost economic growth, and they are looking for signs of higher inflation.

Economic growth can pull investors out of bonds and into riskier assets. 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.

Investors on Monday were looking ahead to several events later this week that could offer clues on the pace of interest-rate increases or the strength of economic expansion.

Fed Chairman Jerome Powell will address Congress on Tuesday for the first time since taking the helm at the central bank. Investors have been looking for any hint the Fed might pick up the pace of interest-rate increases, though officials haven't indicated such a shift in recent interviews and public speeches.

Investors will also see the Commerce Department's first revision to its estimate for economic growth in the fourth quarter. The consensus forecast is for a 2.5% increase, down from the initial reading, which was 2.6%.

AUCTION RESULTS

Here are the results of Monday's Treasury auctions. All bids are awarded at a single price at the market-clearing yield. Rates are determined by the difference between that price and the face value.

	13-Week	26-Week
Applications	\$144,963,333,700	\$138,485,606,900
Accepted bids	\$51,000,273,700	\$45,000,056,900
* noncomp	\$679,406,700	\$589,356,200
* foreign noncomp	\$213,000,000	\$300,000,000
Auction price (rate)	99.584181 (1.645%) (1.830%)	99.074833
Coupon equivalent	1.67%	1.97%
Bids at clearing yield accepted	19.08%	46.34%
Cusip number	912796PH6	912796PW3

Both issues are dated March 1, 2018. The 13-week bills mature on May 31, 2018; the 26-week bills mature on Aug. 30, 2018.



MICHAEL BUCHER/THE WALL STREET JOURNAL

Macy's is expected to report quarterly earnings on Tuesday. Many retailers had their best holiday-shopping season in years.

Retailers Crank Up for Results

Investors buckle up as big store chains get ready to report for the holiday quarter

BY BEN EISEN

America's biggest retail companies are due for another round of turbocharged volatility this week.

A number of name-brand apparel makers and department stores are set to announce financial results for the fourth quarter, a period that includes the all-important holiday season. Macy's Inc. drops its results on Tuesday. Lowe's Cos., TJX Cos. and L Brands Inc. all release results on Wednesday. And Kohl's Corp. and Nordstrom Inc. come on Thursday.

It's a tough time for brick-

and-mortar retailers as they struggle to keep up with Amazon.com Inc. and other e-commerce behemoths, which continue to grab market share. Many traditional retailers have closed scores of stores in recent years.

But it hasn't been all bad for these companies, which have sometimes fallen victim to the overly broad narrative that brick-and-mortar retail is dead.

These firms are coming off the best holiday-shopping season in years, which prompted some to say same-store sales, an industry metric, rose over that stretch.

Commerce Department data on retail sales showed a strong end of 2017, though a weaker start to 2018.

Sharp declines in many retail stocks have drawn bargain-hunting investors. Solid

Rocky Retail



Source: FactSet

THE WALL STREET JOURNAL

sectors.

Take Macy's, for example. Its stock jumped nearly 11% during one session in November after the department-store chain reported third-quarter profit that topped Wall Street expectations. It was the best one-day performance for the stock since the summer of 2016.

But the stock tanked 10% the day of second-quarter earnings and shed 17% after first-quarter results. The postearnings trading sessions represented the three biggest one-day moves of the past 12 months.

For the November-to-January period, the most recent quarter, analysts project Macy's had adjusted per share earnings of \$2.67, which would be up from \$2.02 in the year-earlier period, according to research firm FactSet.

Oil Trades at Highest in Three Weeks

BY ALISON SIDER AND CHRISTOPHER ALESSI

Oil prices rose to three-week highs on the back of halted production at a Libyan oil field, an unexpected drop in U.S. crude stockpiles and signs that OPEC's commitment to cutting output hasn't wavered.

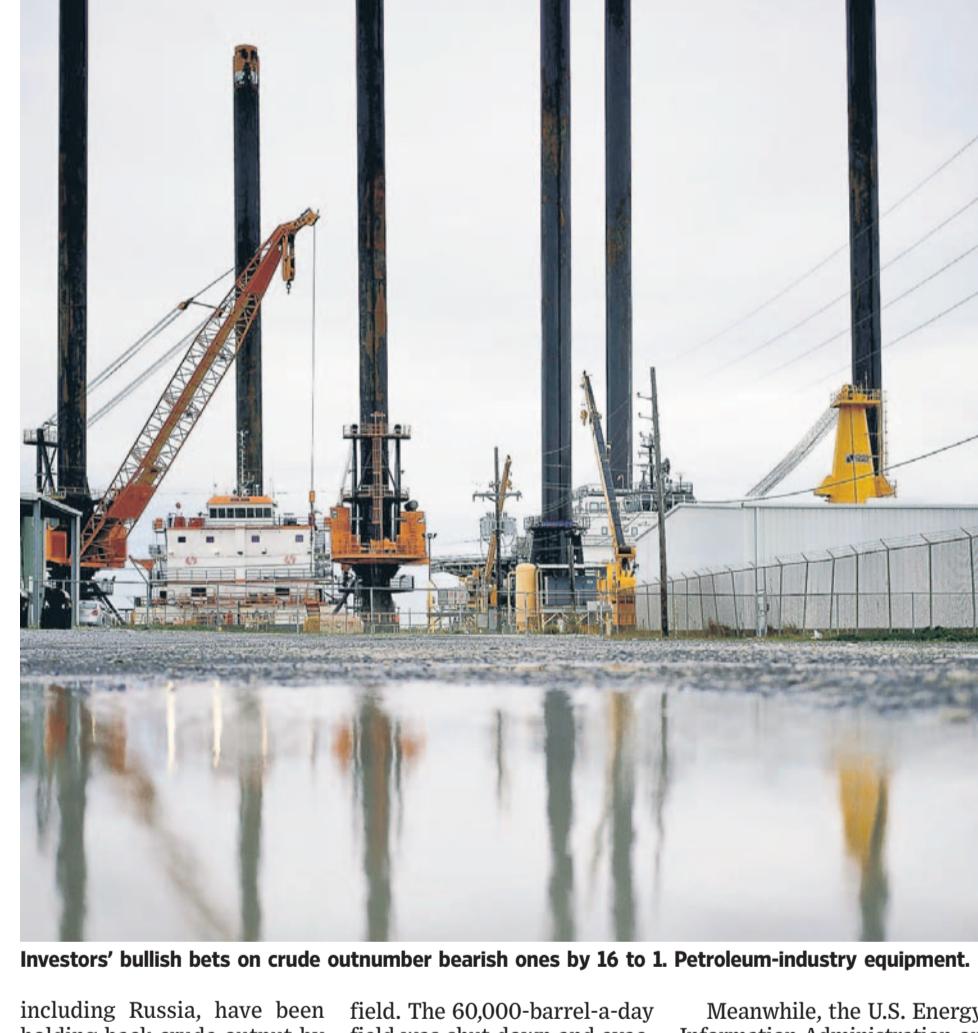
U.S. crude futures settled up 36 cents, or 0.6%, at \$63.91 a barrel on the New York Mercantile Exchange. Brent, the global benchmark, rose 19 cents, or 0.3%, to \$67.50 a barrel on ICE Futures Europe.

Prices have been gaining ground recently, climbing to their highest levels since Feb. 5 after a more-than-12% selloff at the start of the month amid fears of

COMMODITIES surging U.S. shale production. Investors have remained optimistic: Bullish bets by hedge funds and other money managers outnumber bearish ones by 16 to 1, according to the most recent data from the Commodity Futures Trading Commission.

Recent comments by Saudi Arabia's oil minister, Khalid al-Falih, indicating that Saudi Arabia remains committed to cutting output through the end of the year have helped bolster prices. "Al-Falih's comments reinforced some of the bullish sentiment in the market," said Andy Lebow, senior partner at Commodity Research Group.

Oil prices have been hemmed in by the competing forces of cutbacks by the Organization of the Petroleum Exporting Countries on one side and resurgent U.S. output on the other. OPEC and 10 producers outside the oil cartel,



Investors' bullish bets on crude outnumber bearish ones by 16 to 1. Petroleum-industry equipment.

including Russia, have been holding back crude output by 1.8 million barrels a day since the start of last year. Their agreement is scheduled to last through the end of 2018.

Also supporting prices, Libya's National Oil Co. on Friday declared force majeure on exports from the el-Feel oil

field. The 60,000-barrel-a-day field was shut down and evacuated following a violent protest by a unit of local guards. "Given the ongoing political situation in the country, production levels may remain volatile," Jan Edelmann, a commodities analyst at HSH Nordbank AG.

Meanwhile, the U.S. Energy Information Administration on Thursday said the amount of crude oil in storage fell by 1.6 million barrels in the week ended Feb. 16. The surprise decline followed weeks of crude inventory builds in the U.S. that, along with rising production, had weighed on prices.

MetLife Pension-Benefits Executive to Retire

BY LESLIE SCISM

A senior MetLife Inc. executive in charge of a unit that failed to pay 13,500 retirees their pension benefits is leaving the company, according to an internal memo reviewed by The Wall Street Journal.

Executive Vice President Robin Lenna will retire as of March 1 after 14 years at

MetLife, according to the memo. She was head of MetLife's Retirement & Income Solutions unit, which oversees a "pension-risk-transfer" business in which the insurer assumes responsibility for some or all payments due participants in private-sector pension plans.

The memo doesn't attribute her departure to the pension-

records mistake, which prompted MetLife to delay the release of its fourth-quarter earnings. Federal securities and state regulators have inquired about the mix-up.

Ms. Lenna and a MetLife spokesman declined to comment. MetLife has attributed the missing pension payments to inadequate efforts to con-

tact people about filing for the benefits. MetLife has said it dispatched just two letters to would-be pension recipients, rather than employing aggressive search techniques.

The retirees affected represent about 2% of a pool of 600,000 people that MetLife is responsible for paying. Some retirees are owed money from as far back as the 1990s.



Kingworld Medicines' herbal remedy is catching on in the U.S.

Cough-Syrup Maker's Shares Become Viral

BY ESE ERHIERIENE

Shares of Hong Kong-listed pharmaceutical distributor Kingworld Medicines Group Ltd. soared as much as 55% Monday.

The company describes its dark syrupy cough remedy, Nin Jiom Pei Pa Koa, as an "herbal dietary supplement with honey and loquat."

The stock price "went up a lot on the cough syrup," said Walden Shing, director of equity research at Haitong International Research Ltd. in Hong Kong.

Mr. Shing, a native of Hong Kong and a regular user of the product, said he and many of his peers have been "brainwashed" to believe it works. "It tastes all right and it helps

a bit," he said. Together with Chinese pharma giant Guangdong Minglin Pharmaceutical Co., Kingworld is one of two main distributors of the herbal cough remedy said to have been used in one form or other since the Qing empire, China's last imperial dynasty.

Known as Nin Jiom, it recently developed a fan base in the U.S., which is going through one of its worst flu seasons in years. Actor Matthew Modine recently gave the product an endorsement after taking it while he was ill.

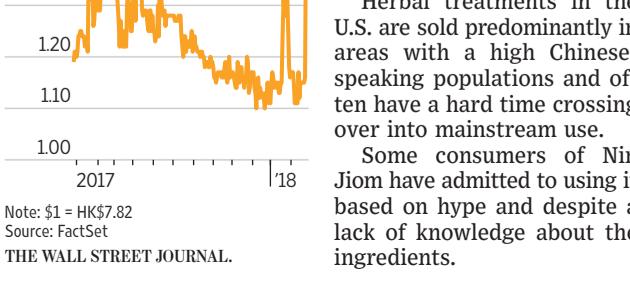
The product used to be sold only in a glass bottle but has become more sophisticated and diversified into different forms, including sachets and lozenges, Mr. Shing said. The syrup retails at \$14 on Amazon, while the candy form can be bought for around \$6.

In Hong Kong, the syrup costs around 40 Hong Kong dollars (\$5). And some users have been paying around \$70 to third parties.

The company's net earnings reflect a profit rising interest in its products: Profit was up 50% to 47 million yuan (\$7.5 million) in the 12 months to December 2016, while revenue climbed 48% to 1.05 billion yuan, according to data from S&P Capital IQ.

Herbal treatments in the U.S. are sold predominantly in areas with a high Chinese-speaking population and often have a hard time crossing over into mainstream use.

Some consumers of Nin Jiom have admitted to using it based on hype and despite a lack of knowledge about the ingredients.



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MARKETS

Global Growth Fuels Commodities Rally

BY AMRITH RAMKUMAR

A major commodities index posted its 10th straight session of gains on Monday, another sign that investors have shrugged off recent market volatility and are diving back into risky assets.

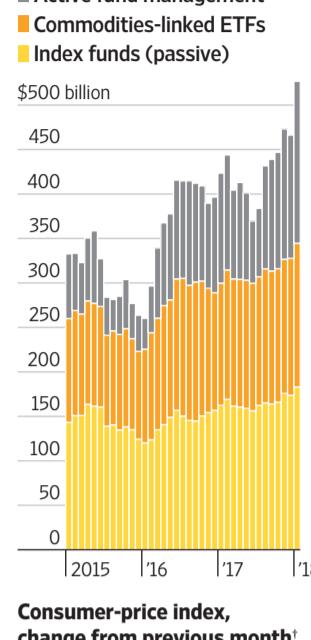
The S&P GSCI Index, which tracks the prices of 24 commodities, has been moving in tandem with global stock markets since last summer as money managers look to capitalize on accelerating global economic growth. The index has risen 5.9% from its Feb. 9 low, with some of the most actively traded raw materials such as oil and copper rebounding following drops alongside stocks earlier this month.

Those and other commodities benefit from stronger economic growth because they serve as building blocks for everything from houses and office buildings to automobiles and smartphones. Higher levels of industrial activity, low unemployment and bustling shipping routes tend to buoy demand for petroleum and other raw materials, further supporting commodities prices.

With the global economy projected by the International Monetary Fund to grow at its fastest pace since 2011 this year and next year, some investors think a commodities rally that began last summer will continue. As is the case with stocks, some analysts think the fundamentals for investing in raw materials outweigh possible concerns about higher interest rates.

"This is one of the strongest macro backdrops I've seen for investing," said Mike Mulaney, director of global market research for fund manager Boston Partners, whose firm has increased positions in energy and materials stocks. "That lends itself to overweighting some of these commodity-based sectors."

Commodities assets under management, monthly

Consumer-price index, change from previous month¹¹Front-month contracts²Seasonally adjusted data³Index of 24 commodities prices

Sources: Citigroup (assets); WSJ Market Data Group (commodities prices); Federal Reserve (CPI); FactSet (indexes)

Commodities prices, change from last summer²Indexes, change from last summer³

Many investors use raw materials to protect against a surge in consumer prices because they think commodities can hold their value better than other assets. Price increases in commodities also typically contribute to higher inflation as it becomes more expensive for companies to produce goods.

Several large companies, including Ford Motor Co. and Procter & Gamble Co., have already blamed weaker profits or darker outlooks on higher commodities prices. Although persistently low inflation has puzzled economists for years, recent U.S. employment data showed wages notching their biggest increase since 2009.

Even with their recent gains, prices are still way off their peaks.

Doug Cohen, managing partner of portfolio management at Athena Capital Advisors, said the firm has increased its clients' positions in gold and Treasury-inflation protected securities.

"I actually do think this time it's real," he said of inflation rising.

Fresh money has been pouring back into commodities funds world-wide: Assets under management reached roughly \$530 billion in January, up 13% from the previous month and their highest level in four years, Citigroup estimates show. A JPMorgan Chase analysis showed the largest January inflow of open interest into commodities over the past decade.

"The environment for investing in commodities is the best since 2004-2008," Goldman Sachs analysts said in a note to clients earlier this month.

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Unlike stocks, commodities are still relatively cheap. Oil is still off 56% from its 2008 highs, while gold and copper are off 30% and 31%, respectively, from their records set in 2011.

In recent months, stocks around the world and raw materials have traded together, and the recent bounce back for commodities has come as the S&P 500 has recovered 68% of the losses that sent it into correction territory on Feb. 8.

That makes the rally look vulnerable to investors' appetite for risk and the direction of the stock market, some analysts say.

Some analysts think that riskier investments are likely to weaken as central banks around the world unwind years of accommodative monetary policy. Higher interest rates can make commodities less attractive compared with yield-bearing assets such as Treasurys because raw materi-

als pay their holders nothing. The yield on the benchmark 10-year U.S. Treasury note has risen to four-year highs and is approaching 3%. It closed at 2.862% Monday.

Others think an economic slowdown in China, the world's largest materials consumer, and supply factors continue to loom over the market.

John LaForge, head of real asset strategy for the Wells Fargo Investment Institute, said he thinks commodities

have been too dependent on temporary factors—such as protests in Iran and labor strikes at mines in Chile and Peru—that have pinched output. Commodities prices are still way off their peaks, and even with recently rising prices, he doesn't expect that trend to reverse.

"There's still just too much supply," Mr. LaForge said.

Other analysts said signs that inflation is picking up should favor commodities.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

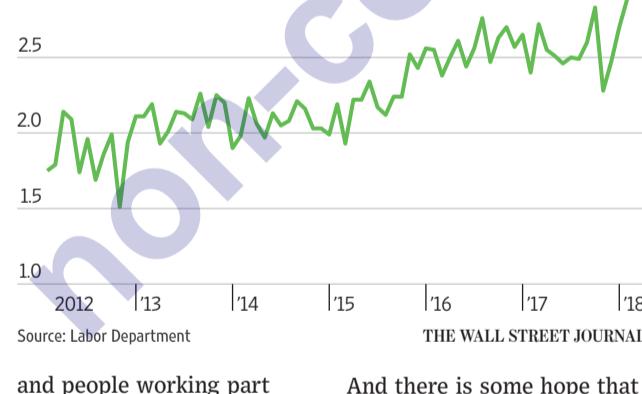
WSJ.com/Heard

Email: heard@wsj.com

Another Danger of Rising Wages

Pay Pop

Average hourly earnings, change from a year earlier



and people working part time involuntarily—have tightened.

A rising wage-growth environment seems like it should trigger a higher inflation environment, but that isn't necessarily so.

One way wages could rise without inflation running hotter is if productivity picks up. This would be a good thing: The more productive the economy is, the better off everybody can be.

And there is some hope that productivity growth, which has been woefully weak, kicks in as companies step up capital spending to combat rising labor costs. The problem is that investment in productivity won't translate into productivity gains for a while.

The other way wages can rise without inflation picking up is if companies eat their rising labor costs—a scenario investors probably wouldn't

like. Profit margins are near historic highs and are expected to go higher as a result of the tax cut, but more of that money than investors expect could be going to paychecks instead of earnings.

That wouldn't be surprising. Inflation has been so low for so long, consumers have become conditioned to it, making it hard for companies to raise prices without losing customers. Compounding the problem, the competition for customers is becoming unusually intense. Players like Amazon.com, which has routinely sacrificed profits for higher sales, are targeting new markets, making incumbents even more reluctant to push prices higher.

This might work out fine for everyone if low inflation kept the Fed from tightening aggressively. But with wages rising, the Fed will at least keep to its current path of rate increases. The result would be lower profit margins and higher rates—not exactly the stuff of investor dreams.

—Justin Lahart

OVERHEARD

"Lower Days Ahead," a novel by Patrick Reames, won't be winning any literary awards or landing on a best-seller list, but it surely ranks high in terms of profitability per word. The 60-page book of gibberish created through Amazon.com's Createspace self-publishing platform retailed for \$555. Unlike traditionally published books, Mr. Reames would have received as royalties most of its surprisingly good sales, if only he had written it.

The book and many others like it appear to be part of a scam, says technology writer Brian Krebs.

Using stolen Social Security numbers and credit cards, or perhaps gift cards purchased for cash, the high-royalty sales offer a way to get cash immediately into a bank account via Amazon.

The apparent theft or money-laundering is a headache for the unwitting authors but pure profit for Amazon.

While the dollar value of the scam is unknown, the sequel for Amazon may be "Lower Sales Ahead."

Toys 'R' Us Leaves Void For Rivals

Retail stocks are riding a wave of unexpected optimism after a strong holiday season. For many, there will be a windfall from the tax cut as well.

The better environment is unlikely to be a game changer for businesses that are badly suffering, but those that have been smart about navigating the industry's challenges will get a meaningful boost.

They also will have the potential to pick up new business from their battered rivals.

Last week, The Wall Street Journal reported that bankrupt toy retailer Toys "R" Us would close 200 stores in addition to the 180 that are already slated to close.

The biggest beneficiaries of this are likely to be Amazon.com, Walmart, and Target.

A surprise beneficiary could be Best Buy. Analysts expect the electronics chain to ramp up sales of increasingly popular robotic and other electronic toys.

Battered department stores such as Bon-Ton Stores and Sears Holdings are another opportunity for their healthier competitors. Bon-Ton has said it would close 47 stores in early 2018, potentially benefiting Kohl's, whose stores are in the same neighborhoods. Sears is closing nearly 100 of its 1,100 stores.

For the winners in bricks-and-mortar retail, these store closings offer another opportunity to grab market share and fight back against Amazon.

And after Amazon's phenomenal fourth-quarter earnings, they need all opportunities they can get.

—Elizabeth Winkler

Beijing Could Recruit Help to Clean Up Anbang's Mess

Big Investor

Anbang's equity investments

China Merchants Bank \$13.5 billion

China Minsheng Bank 8.9

China State Construction Engineering 4.7

China Vanke 2.7

Gemdale Corp. 1.9

Sino-Ocean Group 1.6

Sources: FactSet, exchange filings

expanded rapidly by selling universal-life policies—short-term, high-yielding investment products disguised as insurance—but then last year regulators clamped down.

With a big bunch of policies likely maturing this year, according to Credit Suisse, and the proceeds from the sales invested in longer-term assets, a squeeze was imminent. Anbang had no way to replace the funding.

The takeover makes clear that the company's assets can't cover its liabilities. Worse still, many of its assets aren't very liquid: They include insurers in Belgium and South Korea and New York's Waldorf Astoria hotel, currently in the throes of a major renovation.

More worrisome are Anbang's domestic assets, which crisscross the country's financial and property

sectors. Anbang owns at least 200 billion yuan of listed-company shares, including nearly 20% of China Minsheng Bank and more than 10% of China Merchants Bank, a 30% stake in property developer Sino-Ocean Group and 20% stake in developer Gemdale. Beijing's control of Anbang could prevent a fire sale.

With the backing of Beijing, state-owned banks could help paper over the mess with loans to Anbang. But private companies also could be obliged to help.

China's insurance regulator said it intends to keep Anbang out of government hands by introducing private

capital.

Technology giants Alibaba and Tencent Holdings, which have plenty of cash, profitable core businesses and easy access to offshore funds, are candidates to step in. They recently bought assets from Wanda, another company whose aggressive expansion caught regulators' attention.

Helping the government clean up Anbang could win Brownie points for Alibaba and Tencent, which are eager to extend their financial-services reach beyond mobile payments, which they dominate. But that leaves their own shareholders holding the broom.

—Jacky Wong