

THE WALL STREET JOURNAL.

DOW JONES | News Corp *****

TUESDAY, FEBRUARY 13, 2018 ~ VOL. CCLXXI NO. 36

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DJIA 24601.27 ▲ 410.37 1.7% NASDAQ 6981.96 ▲ 1.6% STOXX 600 372.93 ▲ 1.2% 10-YR. TREAS. ▼ 8/32, yield 2.857% OIL \$59.29 ▲ \$0.09 GOLD \$1,324.20 ▲ \$11.10 EURO \$1.2293 YEN 108.65

What's News

Business & Finance

U.S. stocks advanced for a second consecutive session as commodity prices stabilized. The Dow climbed 410.37 points, or 1.7%, to end at 24601.27. **A1**

◆ **Walgreens has made a takeover approach to drug distributor Amerisource**, a move that could help boost the chain's profitability. **A1**

◆ **A CME flaw** that can help high-speed traders at the expense of ordinary investors is said to have resurfaced. **B1**

◆ **General Dynamics said it agreed to buy CSRA for \$6.8 billion** as part of the defense contractor's expansion in government IT services. **B1**

◆ **A new tax provision** could throw off the comparison of a firm's earnings to cash flow, a traditional way of assessing earnings quality. **B1**

◆ **Icahn wants to kill Xerox's deal to cede control to Fujifilm**, opening up what could be a protracted fight. **B3**

◆ **Wynn Resorts' board hired a law firm with deep ties to the company to investigate allegations against Steve Wynn.** **B6**

◆ **Steven Cohen's investment firm was accused in a lawsuit by a female employee of being a sexist work environment.** **B6**

◆ **Fox offered to bolster the editorial independence of Sky's news operations**, aiming to ease approval of its bid. **B5**

◆ **The White House proposed levying fees on derivatives users to bolster the CFTC's budget.** **B10**

◆ **Oracle plans to quadruple its number of data centers as it tries to challenge Amazon's cloud-infrastructure lead.** **B4**

World-Wide

◆ **Administration officials signaled a readiness to hold preliminary talks with North Korea**, in a shift from last year's U.S. position. **A1**

◆ **Many South Koreans remain skeptical about recent outreach by Pyongyang.** **A8**

◆ **Trump unveiled a \$4.4 trillion budget plan** that projects a deficit next year nearly double what his proposal estimated last year. **A2**

◆ **The administration released an infrastructure plan** that seeks to replace traditional programs with an incentives system for states and cities. **A4**

◆ **The president said he plans to announce a "reciprocal tax"** on some trading partners that he said are taking advantage of the U.S. **A4**

◆ **The Senate launched a freewheeling immigration debate**, with no bipartisan agreement in sight. **A4**

◆ **South Africa's ANC was headed for a clash with Zuma**, who has refused demands by the ruling party that he relinquish power. **A6**

◆ **Iran is holding an American-Iranian businessman as part of an expanding domestic crackdown on dissent.** **A7**

◆ **Scientists reported the discovery of new antibiotics** that in tests wiped out many infections, including some drug-resistant bacteria. **A3**

◆ **The administration said it is proposing to roll back an Obama-era rule aimed at cutting methane emissions.** **A4**

◆ **Liberia's ex-president won a \$5 million award for African leaders who relinquish power after a vote.** **A6**

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American Flips to Halfpipe Heights for Gold at Pyeongchang



BIG BOARD: Chloe Kim, a Southern California 17-year-old, won gold in the women's halfpipe snowboarding on Tuesday. It was the third consecutive day in which an American won gold in snowboarding, following Red Gerard and Jamie Anderson in the slopestyle contests. **A13-14**

U.S. Shifts Korea Approach

Administration, in line with South, signals willingness for early talks with Pyongyang

Trump administration officials have shifted their tactical approach to North Korea after internal deliberations in recent weeks, senior officials said, closing ranks with Seoul and signaling a readiness to hold preliminary talks with Pyongyang.

The new emphasis on what some experts call "talks about talks" is a change from last

year, when the U.S. insisted North Korea commit itself to denuclearization before negotiations could commence.

On Monday, Secretary of State Rex Tillerson gave one of the clearest indications yet of the evolution in U.S. thinking.

"We really need to have some discussions that precede any formal negotiations to determine whether the parties are in fact ready to engage in something meaningful," Mr. Tillerson said during a visit to Cairo.

His comment followed a visit by Vice President Mike Pence to the Winter Olympics in South Korea during which

By Michael R. Gordon
in Washington
and Felicia Schwartz
in Cairo

Mr. Pence met with South Korean President Moon Jae-in, saying later that the two were in agreement on the approach to North Korea. A senior official said Mr. Pence made clear to Mr. Moon that if he met with the North Koreans, Mr. Pence's private message about denuclearization would mirror his public message.

None of this means that the White House has dropped its

campaign of "maximum pressure" on North Korea, officials emphasized.

The U.S. is still pushing to strengthen international sanctions while keeping its military options open until Pyongyang engages in serious negotiations to denuclearize the Korean Peninsula while refraining from nuclear and missile tests, they said.

Nor is there any indication
Please see KOREA page A8

◆ Gerald F. Seib: New formula is pressure plus diplomacy..... A8

◆ Some South Koreans wary of North's outreach..... A8

Walgreens Weighs Amerisource Deal

New Prescription

Walgreens Boots Alliance shares



Sources: WSJ Market Data Group; SEC filings; staff reports; people familiar with the matter

2018
Walgreens has early-stake buyout
talks with AmerisourceBergen Corp;
unclear if deal will happen

2017
Walgreens strikes
deal to buy 2,000
Rite Aid stores

2016
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2015
Walgreens Boots
Alliance is formed

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U.S. NEWS

President Proposes \$4.4 Trillion Budget

By KATE DAVIDSON

President Donald Trump released Monday a \$4.4 trillion budget proposal that would boost spending for the military and border security, cut many domestic programs and projects deficits through the next decade.

The blueprint underscores what has become clear in recent months: that the budget austerity Republicans pursued in 2011 has ended. GOP lawmakers and Mr. Trump are now pursuing fiscal policies that tolerate wider deficits in a bid to ramp up economic growth.

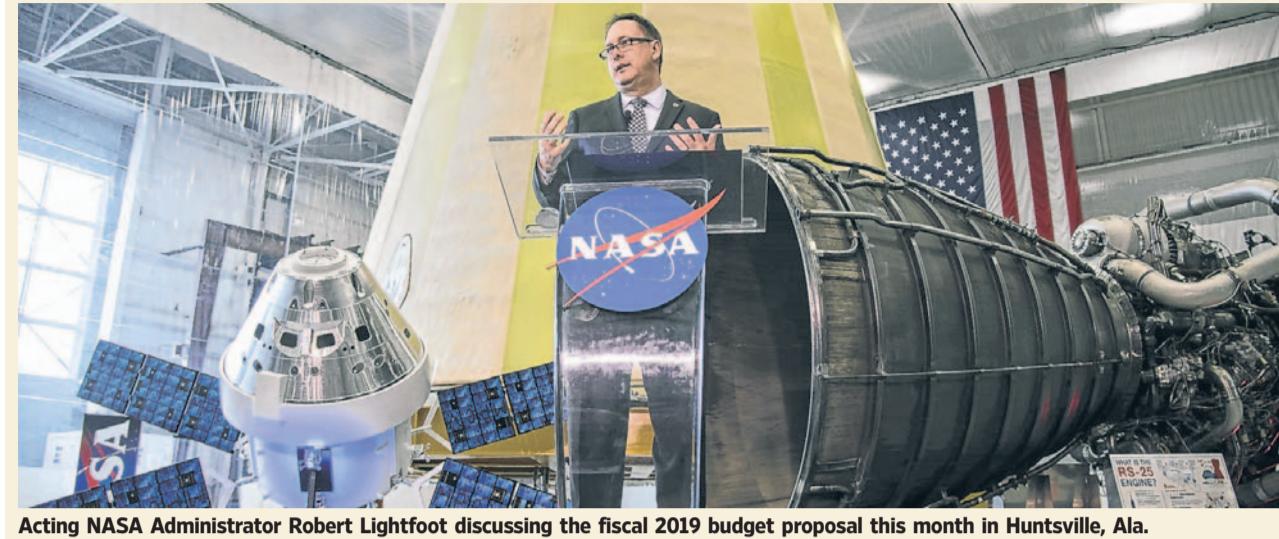
Mick Mulvaney, director of the Office of Management and Budget, said that the proposal shows Mr. Trump has—for now—given up on balancing the budget over the next decade. But he said he hoped it would send the message, "We do not have to have trillion-dollar deficits forever."

The GOP president's proposed budget, an annual document that outlines the priorities of the administration, doesn't balance over a decade in large part because, even with slightly stronger economic growth, it projects the government will collect less federal revenue than it forecast last year. That is because of the \$1.5 trillion tax cut enacted in December.

One result is the document projects a budget deficit next year that is nearly double what his proposal estimated last year.

Those figures don't take into account a two-year budget agreement Congress struck last week that would increase federal spending by \$300 billion. Independent analysts said the deal could boost federal deficits above \$1 trillion next year.

"Today's budget represents a



Acting NASA Administrator Robert Lightfoot discussing the fiscal 2019 budget proposal this month in Huntsville, Ala.

NASA Budget Calls For Private Funds

The White House is seeking to jump-start human space exploration with seed money for public-private missions orbiting the Earth and the moon, but U.S. astronauts aren't projected to return to the lunar surface until at least the mid-2020s.

NASA's proposed \$19.9 billion budget—a roughly 3% increase from current spending—reflects President Donald Trump's previously announced desire to enhance the use of commercial

technologies and corporate partnerships aimed at eventually establishing U.S. pre-eminence "around and on the moon."

But after the initial budget bump, overall National Aeronautics and Space Administration spending is expected to recede and plateau at today's levels starting in 2020. New funding would come primarily from ending the roughly \$3 billion in annual U.S. support for the international space station by 2025.

The spending plan, which prompted sharp criticism from industry and congressional supporters of the space station even before its official release

Monday, also calls for in-space robotic manufacturing followed by large-scale human outposts on the moon.

The proposal in many ways maintains NASA priorities—including more than \$3 billion annually to continue developing the agency's own deep-space capsule and rocket systems—but it sets a new direction by "drawing two important lines in the sand," according to Mark Albrecht, an ex-Lockheed Martin Corp. executive who was a top Republican White House space adviser in the early 1990s.

Mr. Albrecht, who also has advised the Trump administra-

tion, said officials assume flat NASA budgets for the foreseeable future, requiring the agency "to cut or reduce current activities in order to fund new activities."

The ultimate goal remains sending astronauts to Mars by the 2030s. Yet the latest budget documents shift greater emphasis to creating sustainable private ventures serving research, exploration and commercial goals in regions surrounding the moon. "The private sector has to lead the way," William Gerstenmaier, NASA's top human-exploration official, said last week.

—Andy Pasztor

dramatically worse outlook than what was released just last May," said Michael Peterson, the president of the Peter G. Peterson Foundation, a non-partisan group that advocates for deficit reduction, referring to the president's budget proposal last year.

Mr. Trump's latest budget assumes the economy can grow

at a much stronger pace than independent forecasters expect. It projects the economy will grow about 3% annually over the coming decade, with output rising 3.2% next year before declining to 3% in 2021 and 2.8% by 2026.

Federal Reserve officials, by contrast, estimate the economy will grow about 2.5% this year,

2.1% in 2019 and 1.8% over the long run.

The budget forecasts lower inflation and government borrowing costs over the next decade than private forecasters project, a combination that allows the administration to show smaller deficits in the latter half of its 10-year budget forecast.

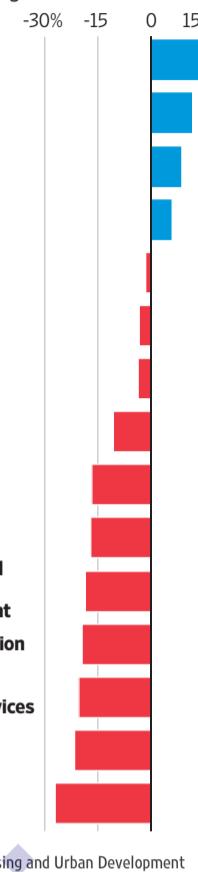
In his budget last year, Mr.

Trump called for cutting \$4.5 trillion to programs including food stamps, disability benefits, welfare and student loans, which he said would help balance the budget. The new budget includes much of the same.

Mr. Mulvaney said he warned last year that the White House wouldn't be able to balance its budget if Congress

Wider Gap

President Trump's proposed change in funding for 2019 by department compared with 2017 enacted budget:



Note: The Housing and Urban Development figure does not include offsetting receipts

Source: The White House

THE WALL STREET JOURNAL.

didn't implement some of the administration's proposed changes.

"And we didn't," Mr. Mulvaney said.

Congressional scorekeepers estimate the new tax law will increase the deficit by \$1 trillion over a decade when accounting for its estimated effects on growth and revenue collections.

Ode to Abe, Delivered in a Birthday Bash



FACE OF HISTORY: A week before Presidents Day, a Lincoln impersonator joined a parade in Philadelphia marking the 16th president's birthday. Abraham Lincoln was born Feb. 12, 1809.

RALLY

Continued from Page One

bound—coming off the back of a steep pullback and several large intraday swings—with a degree of skepticism. "But we're not in the clear yet."

The Friday-Monday rebound handed the S&P 500 and Dow their biggest two-day percentage gains since June 2016, shortly after markets bounced back from the U.K.'s surprise vote to leave the European Union.

Commodities that had slid over the past two weeks reversed course on Monday. U.S.

crude oil ended the day higher, rising 0.2% to \$59.29 a barrel, following its largest one-week percentage decline in more than two years.

And a measure of expected swings in the U.S. stock market, the Cboe Volatility Index, headed lower again. It had rocketed higher in its biggest weekly advance since August 2015.

The Dow jumped 410.37 points to 24601.27 on Monday, nearly erasing its losses for the year.

The S&P 500 rose 36.45 points to 2656.00 and the Nasdaq Composite climbed 107.47 points, or 1.6%, to 6981.96. The gains followed a rally that

lifted shares in South Korea and China to their biggest one-day advance since January.

Some investors and analysts had attributed last week's sharp declines across stocks and commodities to investors fleeing assets they thought had run up too quickly after a strong January.

In just the first month of the year, the S&P 500 had pierced levels that some analysts had predicted it wouldn't cross until the end of 2018.

Meanwhile, U.S. crude approached \$70 a barrel for the first time in more than three years and gold contracts posted their largest three-month gain since March.

In another sign of the exuberance for stocks in January, mutual funds and exchange-traded funds that track equities posted their biggest monthly inflows ever, according to data firm EPFR Global.

Last week's losses, then, struck some investors as a return to more justifiable prices, rather than the beginning of a prolonged selloff.

"I think this is a healthy squeezing out of some over-optimism," said James Norman, head of equity strategy at QS Investors.

Investors say they are also encouraged by data suggesting global growth will continue to accelerate in 2018, and by re-

ports pointing to another strong quarter of corporate earnings growth in the U.S.

"A lot of us have been saying 'don't panic' to clients, and it's incredibly appropriate," said Matthew Forester, chief investment officer at BNY Mellon's Lockwood Advisors.

"There's a lot of fundamental reasons why things continue to look good."

Even though 10-year Treasury yields are at a four-year high, some investors remain skeptical that inflation is accelerating at a pace that would push the Federal Reserve to raise short-term interest rates more times in 2018 than it has signaled.

Wednesday's consumer-price data will be telling in this regard. Some analysts said strong wage growth in January pressured U.S. bonds, so further inflationary signs could lead to more unease.

Others remain wary, though, saying the scale of the stock market's moves in recent sessions left them uneasy. Monday's trading session marked the first time since June 2016 that the S&P 500 and Dow rose at least 1% on two consecutive days.

Stocks were higher in Asia early Tuesday. At midday in Tokyo, the Nikkei 225 was up 1.3%. Hong Kong's Hang Seng Index was up 2.2%.

CORRECTIONS & AMPLIFICATIONS

The Cboe Volatility Index, or VIX, known as the "fear gauge" for the U.S. stock market, hit its highest intraday level since 2015 on Feb. 6. A Markets article on Thursday about Wednesday's trading incorrectly said it was the highest level since 2009.

The Cboe Volatility Index rose sharply on Feb. 5. A Page One article on Saturday about U.S. stocks closing out their most turbulent week in years incorrectly said the index declined sharply.

A Hershey's milk chocolate bar contains 31% cacao. An essay in Saturday's Review section about the health benefits of chocolate incorrectly said that the percentage is 11%.

Late in New York on Wednesday, the Venezuela strong bolivar traded at 24987.5001 per U.S. dollar, or \$0.00004 to the bolivar; the year-to-date change for the dollar was 241515.4%. The table of foreign-exchange rates published in Thursday's Markets Digest incorrectly listed

10.2087 strong bolivars per dollar, or \$0.097956 to the bolivar, and a year-to-date change for the dollar of -1.3%.

Over the past 32 quarters, Alphabet Inc. has averaged revenue growth of 23%, when adjusting for currency movements. A Page One article on Feb. 2 about tech giants' financial results incorrectly said Alphabet had 32 consecutive quarters of revenue growth of at least 20%.

On Jan. 26, Western Cana-

dian Select blend oil was priced at a discount of around \$28 per barrel to West Texas Intermediate oil. A chart with a Markets article on Jan. 29 about Canadian oil producers was incorrectly labeled in billion dollars per barrel.

A photo caption with a Wealth Management report article on Monday about collecting loose change incorrectly identified the author's most lucrative year. It was 2003, with \$135.65 found, not 2013.

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U.S. NEWS

New Antibiotics Unearthed

Scientists discover in a soil sample a new group of drugs that can kill resistant bugs

BY ROBERT LEE HOTZ

In a bag of backyard dirt, scientists have discovered a powerful new group of antibiotics they say can wipe out many infections in lab and animal tests, including some microbes that are resistant to most traditional antibiotics.

Researchers at Rockefeller University in New York reported the discovery of the new antibiotics, called malacidins, on Monday in the journal *Nature Microbiology*.

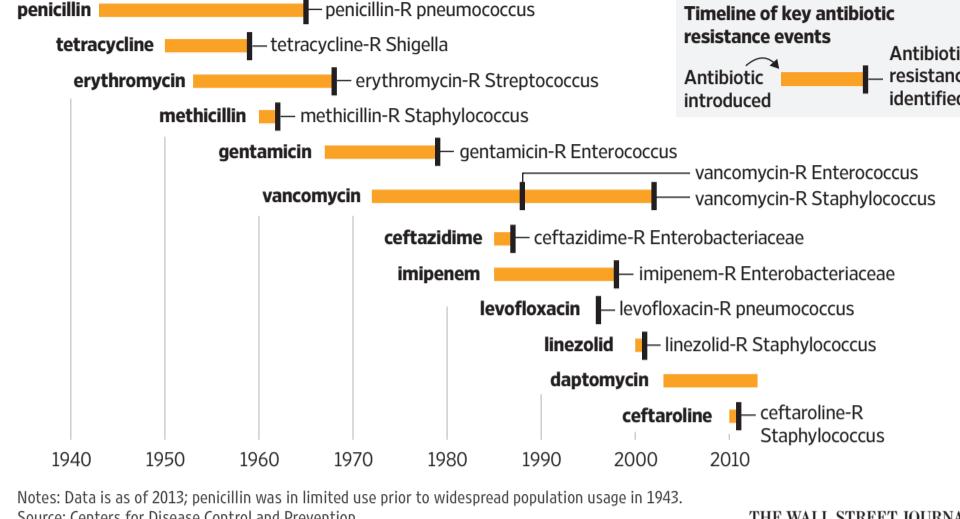
It is the latest in a series of promising antibiotics found through innovative genetic sequencing techniques that allow researchers to screen thousands of soil bacteria that previously couldn't be grown or studied in the laboratory. To identify the new compounds, the Rockefeller researchers sifted through genetic material culled from 1,500 soil samples.

"We extract DNA directly out of soil samples," said biochemist Sean Brady at Rockefeller's Laboratory for Genetically Encoded Small Molecules, a senior author on the new study. "We put it into a bug we can grow easily in the laboratory and see if it can make new molecules—the basis of new antibiotics."

The new compounds appear to interfere with the ability of infectious bacteria to build cell walls—a function so basic to

The Rise of Resistance

Overuse of antibiotics in people and animals is leading to drug-resistant infections that help cause an estimated 2 million illnesses and 23,000 deaths a year in the U.S. alone, public health officials say.



Notes: Data is as of 2013; penicillin was in limited use prior to widespread population usage in 1943.

Source: Centers for Disease Control and Prevention

cellular life that it seems unlikely that the microbes could evolve a way to resist it. In lab tests, bacteria were exposed to the experimental antibiotics for 21 days without developing resistance, the scientists said.

So far, the new compounds also appear safe and effective in mice, but there are no plans yet to submit them for human testing. "It is early days for these compounds," Dr. Brady said.

The discovery of antibiotics in the early 20th century transformed modern medicine, but many of them gradually became ineffective as bacteria evolved defenses, often by acquiring protective genes from other, more-resistant microorganisms.

In the U.S. alone, at least two million illnesses and

23,000 deaths can be attributed each year to antibiotic-resistant bacteria, according to the U.S. Centers for Disease Control and Prevention. Worldwide, deaths due to untreatable infections are predicted to rise 10-fold by 2050.

In the quest for new antibiotics, researchers such as Dr. Brady and others are deploying advanced genomics, synthetic-biology tools and a variety of other innovative ways to explore a vast natural reservoir of bacteria that are notoriously difficult to isolate and study—the "dark matter" of microbiology.

In May, researchers led by chemist Dale Boger at the Scripps Research Institute in San Diego created a more-potent version of vancomycin—considered an antibiotic of last resort for the most intractable infections. In a soil sample from Italy, researchers at Rutgers University in June unearthed a powerful new antibiotic called pseudouridimycin. Neither, though, is ready for clinical trials.

To broaden their search for new therapeutic compounds, Dr. Brady and his Rockefeller colleagues set up an online citizen science project called "Drugs from Dirt" that solicits soil donations from around the world. The sandy soil that yielded the new malacidin antibiotics was shipped by relatives from the Southwestern U.S. "I think my parents sent it to me," Dr. Brady said.

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Wisconsin cities like Milwaukee, above, and Madison, the state capital, are using social-media campaigns to attract younger workers.

Wisconsin Tries to Poach Neighbors

BY SHAYNDI RAICE

Beer. Cheese. The Packers. That's what many people think of when they hear "Wisconsin." But the state wants to add a new word to the list: jobs.

The Badger State has an abundance of job openings, but not enough workers to fill them. Now, elected officials and businesses are hoping to woo residents from nearby states by pitching a low cost of living, short commute times and what they say is a high quality of life.

"It's great to have more people working in Wisconsin than ever before, but it creates a challenge," said Tricia Braun, chief operating officer for the Wisconsin Economic Development Corp. "We just essentially need more people."

The worker shortage comes as the state is about to get even more jobs. Taiwan's **Foxconn Technology Group** is investing \$10 billion in a 20-million square-foot campus in southeastern Wisconsin that will make liquid-crystal-display screens like the ones used in smartphones, car dashboards and televisions. The facility is expected to employ as many as 13,000 workers.

In January, the economic-development group announced a \$1 million ad campaign trying to persuade Chicago millennials to move north to Wisconsin. Republican Gov. Scott Walker has proposed a broader ad campaign across Midwestern cities that would cost an additional \$6.8 million. It is expected to pass the Republican state Legislature this legislative session by March.

Like the rest of the Midwest,

Ads in Chicago Pitch Milwaukee's Charms

Ads in Chicago that are appearing on trains, in health clubs and on YouTube focus on Wisconsin's quality of life and affordability.

One compares a cramped studio apartment in Chicago to less expensive and more spacious lofts in Milwaukee, about 90 miles to the north. Another shows Chicago residents eating cheap, packaged ramen noodles as opposed to Madison resi-

dents eating freshly prepared ramen at a trendy restaurant.

Jo Eisenhart, the chief people officer at Milwaukee-based financial-services firm Northwestern Mutual, said that when recruiting young professionals from other cities, she has to highlight the city's amenities.

"The increasing thing that younger people are looking for is, 'Tell me about how my life outside of work is going to be,'" she said.

One ad in Chicago shows exhausted train riders spending an hour commuting versus a

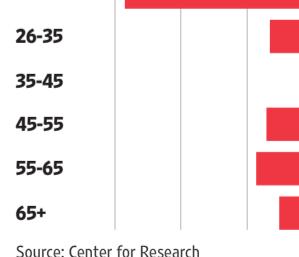
quick drive on a Wisconsin highway. The extra time allows Wisconsin professionals to spend more time with their kids playing ball, having drinks with friends, or kayaking on a lake, the ad argues.

That pitch didn't resonate with Patrick Grimaldi, a 26-year-old lawyer who lives in the Uptown neighborhood of Chicago and saw the ad while riding the L's Brown Line.

"One of the things I like about this city is that I don't have to have a car," said Mr. Grimaldi. "I don't want to sit in my car. That sounds terrible."

Shrinking Numbers

Wisconsin saw a net decrease in population in every age group between 2015 and 2016.



Source: Center for Research on the Wisconsin Economy

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Wisconsin after they graduate.

"We think we can show people that you can have a better quality of life, make on net the same amount of money and there's multiple job opportunities here," said Zach Brandon, president of the Greater Madison Chamber of Commerce. His group created ads that member businesses can embed on their websites for prospective employees.

Some Wisconsin Democrats have argued that the governor should be spending state funds investing in education, public transportation or parks, instead of ad campaigns. Some have also criticized the governor for offering \$3 billion in tax incentives to Foxconn, money they say would be better spent on public services.

"The idea that \$6.8 million outreach to millennials is going to be effective or more effective than just making the types of investments that people want to see, I think is silly," said Gordon Hintz, the state assembly minority leader.



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U.S. NEWS

Trump Plans Levy on Some Trade Partners

'Reciprocal tax' would be aimed at countries president says take advantage of the U.S.

BY MICHAEL C. BENDER

WASHINGTON—President Donald Trump said he planned to announce as soon as this week what he called a "reciprocal tax" on trade, aimed at countries that he said are taking advantage of the U.S.

Mr. Trump's blueprint for the tax surprised some of his top aides, who warned that no formal plans have been prepared. Mr. Trump's comments came Monday during a meeting in the White House with mayors and governors to discuss overhauling the nation's roads and bridges.

"We are going to charge countries outside of our country—countries that take advantage of the United States," Mr. Trump said. "Some of

them are so-called allies, but they're not allies on trade."

As a result, he said, "we're going to be doing very much a reciprocal tax, and you'll be hearing about that during the week and the coming months."

After the meeting, one senior administration official said Mr. Trump was considering responding in-kind to countries that put tariffs on American-made products. "The reciprocal tax is, simply, what you do to us, we'll do to you," the official said. "It's nothing formal right now."

Mr. Trump has promised to rewrite the nation's trade deals, which he views as outdated and detrimental to the U.S. economy. He promised new tariffs during the 2016 presidential campaign, and has talked before about a reciprocal tax, but without much detail.

Mr. Trump repeatedly mentioned the reciprocal tax during his infrastructure meeting, saying that his predecessors



Donald Trump spoke about the tax during a meeting to unveil his infrastructure plan on Monday.

were too "lazy" to rework trade policies after World War II and the Korean War.

"After World War II, we helped Germany, and we

helped all countries. You had the Korean War, we helped South Korea. We helped everybody, and nobody changed," Mr. Trump said,

adding that these countries are now "very wealthy" and "could pay us back."

"The reason nothing happened is that, No. 1, no imagi-

nation. No. 2, the people that were in my office, and in other offices, were lazy. But we're not going to be letting it go, because it's truly affected our country."

The administration has since April 2017 been studying the possibility of new tariffs on steel and aluminum imports in the name of national security. The White House faces an April deadline to make a decision, and Mr. Trump is scheduled to meet with lawmakers Tuesday to discuss the issue.

The administration is also reviewing Chinese trade practices—particularly allegations that Beijing forces U.S. companies to transfer proprietary intellectual property to Chinese competitors—with an eye to wide-ranging tariffs and other penalties. The deadline for that probe is August, but officials have said they would like to reach a conclusion much sooner.

—Jacob M. Schlesinger contributed to this article.

History by Brushstroke



PRESIDENTIAL PAINT: At a ceremony Monday to unveil portraits of former President Barack Obama and his wife, Michelle Obama, the nation's 44th president joked that artist Kehinde Wiley cheerfully ignored almost all of his artistic suggestions. 'I tried to negotiate smaller ears and struck out on that,' Mr. Obama said.

Immigration Talks Begin, No Deal in Sight

BY LAURA MECKLER AND SIOBHAN HUGHES

WASHINGTON—The Senate launched a rare and freewheeling immigration debate on Monday, with no bipartisan deal in sight and no clarity as to whether any proposal will win enough support to pass.

Senators in both parties said members might need to see their favored ideas defeated before they can seriously consider a bipartisan solution. But it was unclear how many proposals will be considered or what they will be.

The session began Monday with conservative Republicans voicing support for a package that includes Presi-

dent Donald Trump's priorities but has no Democratic support. Democrats said they were considering putting forward the Dream Act—which would offer a path to citizenship for young immigrants brought to the U.S. illegally as children—without any of the conservative enforcement priorities.

Several Democrats said they were still actively hunting for a bipartisan deal.

The debate is expected to involve, at minimum, the fate of so-called Dreamers, border security, the legal rights of people apprehended, the ability of Americans to sponsor their family members for green cards and the future of the diversity lottery, which awards

green cards to people from underrepresented countries.

"It's like threading a needle," said Minority Leader Chuck Schumer (D., N.Y.).



Sen. Chuck Schumer

It was unclear how long debate would stretch, though Sen. John Cornyn, the No. 2 Republican, said he wanted it wrapped up this week.

Congress is working against a March 5 deadline. In September, Mr. Trump ended the Obama-era Deferred Action for Childhood Arrivals program, or DACA, which offers work permits and protections from deportation for young people who arrived in the U.S. by 2007 and meet other requirements. The president stopped accepting new applications and said that starting March 5, the administration will no longer renew existing ones.

That decision was put on hold by a federal court, and

the Homeland Security Department was ordered to continue renewing DACA permits.

Majority Leader Mitch McConnell (R., Ky.) made good on his promise to begin debate not with legislation that he favors, but with a neutral, blank platform that all senators will have the opportunity to amend. People in both parties appeared excited by the opportunity for a real debate on the floor—a battle of ideas where the outcome is unknown.

Senate leaders in both par-

ties implored their colleagues to focus on finding a solution that can become law, and not just try to "make a point." But they remained divided over what the solution is.

The American Petroleum Institute, an industry lobby group that has previously said the rule wasn't needed, cheered the bureau's announcement. Several Republican members of Congress who also supported the bureau's move, said the Obama rule, if left in place, would have discouraged new development from the energy industry, hurting the economy in several Western states.

Environmentalists rejected that claim and decried the decision, pointing out that several companies had already moved on their own to start cutting methane emissions.

—Timothy Puko

POLITICS

No, There Isn't a New 'Trump' Magazine

A tweet by one of Donald Trump's adult sons touting the newest edition of a publication called "Trump" with the hashtag "HotOffThePress" has resulted in several news stories suggesting the president's family was launching a new magazine.

There is only one problem: Eric Trump's tweet wasn't about a real magazine at all, just an in-house publication touting Trump properties around the world.

A statement from the Trump Organization called the publication a promotional piece developed for its owners, members and guests.

Last year's inaugural version of the glossy publication featured the GOP president's golf club in Ireland on the cover.

Time magazine, the British newspaper the Guardian and HuffPost were among those writing stories about the new magazine, noting the failure of Mr. Trump's previous titles "Trump Style" and "Trump World."

—Associated Press

Infrastructure Proposal Puts the Onus on States

BY TED MANN

The Trump administration released a long-awaited infrastructure plan that seeks to replace traditional federal public-works programs with a new system of incentives intended to prod state and local governments to raise their own funds for physical improvements.

The administration says \$100 billion in incentives over 10 years could yield more than \$1 trillion in total investment in roads, bridges, rails and water systems, adding that Washington should provide assistance of no more than 20% of a new project's cost. The plan would shift the responsibility for funding major new public works from the federal

government to cities and states. Still, it wasn't clear Monday where the government would find the \$200 billion in direct federal spending outlined in the plan.

The administration has challenged Congress to find the federal share of the money—a \$200 billion challenge made all the more difficult when President Donald Trump signed a two-year budget agreement last week.

Mr. Trump could face resistance from Republicans leery of adding to the deficit, as well as moderate Republicans and Democrats who successfully blocked his proposals for deep cuts in transportation and infrastructure grant programs that he introduced in his first budget proposal last year.

Wider deficits resulting

from tax cuts and last week's spending bill make Mr. Trump's infrastructure-funding push an "absolute long shot," said Andy Laperriere, a policy analyst at the research firm Cornerstone Macro.

"House Republicans will not go along with an infrastructure bill that adds to the deficit. This will meet fierce resistance," he said.

White House officials have said that their budget proposal includes sufficient cuts to free up the \$20 billion a year needed to fund the program. And advisers have consistently stayed neutral on calls—including from business groups like the U.S. Chamber of Commerce—to raise the federal gas tax for the first time since the early 1990s to fund a major in-

frastructure program.

Tax increases are viewed skeptically on Capitol Hill, especially in the wake of a \$1.5 trillion tax-cut package and entering an election year. And Mr. Trump may struggle to get members of Congress to approve deep cuts in existing spending.

Mr. Trump's budget, if enacted, would slash existing infrastructure programs, potentially imperiling major projects whose sponsors intended to tap them for construction funds in the coming months. For instance, the administration proposes to save more than \$1.4 billion by eliminating the Federal Transit Administration's New Starts program, though it would permit projects that already have signed agreements

to be funded through those grants to proceed.

Eliminating New Starts would complicate efforts to develop funding plans for major projects like a proposed new tunnel under the Hudson River between New Jersey and New York City, one of the biggest priorities of political leaders in both states.

In Los Angeles, city officials warn that they soon must finalize a \$1.3 billion New Starts grant to begin construction on the third phase of the expansion of the Metro's Purple Line—an expansion that is needed to be in place before the city hosts the 2028 Summer Olympics.

—Nick Timiraos, Kristina Peterson and David Harrison contributed to this article.

U.S. NEWS

Opioid Makers Gave To Advocacy Groups

BY JEANNE WHALEN

Five manufacturers of opioid painkillers gave nearly \$9 million between 2012 and 2017 to patient advocacy groups and other nonprofits that have a history of promoting opioid use, according to a probe by the top-ranking Democrat on the Senate Homeland Security and Governmental Affairs Committee.

Those same firms gave more than \$1.6 million to doctors and other individuals affiliated with the groups between 2013 and the present, according to a probe conducted by Sen. Claire McCaskill's office.

"The fact that these same manufacturers provided millions of dollars to the groups... suggests, at the very least, a direct link between corporate donations and the advancement of opioids-friendly messaging," said the report, published by Sen. McCaskill's office, which is investigating various aspects of the opioid-addiction crisis.

The nonprofit groups, which include patient-advocacy organizations and professional societies for doctors who treat pain, said they aim to improve pain treatment, and denied corporate influence on their work.

Sen. McCaskill of Missouri said she planned to draft legislation requiring greater disclosure of drug-company funding

Depomed Inc., which sold the opioid Nucynta until late last year, and Johnson & Johnson, which sells the opioid Duragesic. Mylan NV, which sells generic opioid painkillers, contributed the least—\$20,250—over the six-year period.

Purdue said it supports organizations that are interested in helping patients get appropriate care. Insys said its charitable contributions are patient focused, but that it is scaling them back to focus investment on research and development. Johnson & Johnson said it couldn't comment because it hadn't seen a copy of the report. Depomed said it has a strong compliance program in place overseeing its marketing, advertising and corporate sponsorship activities.

Mylan said it made very limited payments to one organization as part of its participation in the group's annual conferences, and added: "Lumping Mylan in with this group of companies is not only highly irresponsible, but also highlights more of a political agenda rather than finding real solutions to the opioids crisis."

According to the report, many of the nonprofit groups criticized the Centers for Disease Control and Prevention's efforts to draft guidelines aimed at limiting opioid prescribing for chronic pain.

As the CDC was developing the guidelines in 2015, several of the pain groups cited in the report argued the CDC "failed to disclose the names, affiliations and conflicts of interest of the individuals who participated in the construction of these guidelines," according to the report.

The Washington Legal Foundation, a nonprofit group that received \$500,000 from Purdue over the six-year period covered by the probe, said the CDC had developed the guidelines in an "overly secretive manner," and called "into question the viability of the entire enterprise," the report said. The foundation, which describes itself as advocating for a "limited and accountable government," didn't respond to a request for comment. The CDC didn't respond to a request for comment on the assertions by the nonprofits.

of such groups. "The public has a right to know. Doctors have a right to know what is behind these organizations, who is paying the bills," she said in an interview.

More than 80% of the \$8.9 million in drug-company payments to the groups came from two firms—Purdue Pharma LP, which sells the painkiller OxyContin, and Insys Therapeutics Inc., seller of the painkiller Subsys, according to the report. Most of the rest came from De-



Nick and Stephanie Jamieson are searching for a new day-care option for their son, Chase, in their hometown of Ludington, Mich.

ADAM BIRD FOR THE WALL STREET JOURNAL

Firms Push for Better Child Care

BY JENNIFER LEVITZ

Stephanie Jamieson, a 37-year-old working mother, is losing her child-care provider later this year and fears that a dearth of options could impinge on her ability to keep working.

In Ludington, Mich., the lakeside city of 8,000 where Ms. Jamieson lives with her husband, a title examiner, and 3-year-old son, local day-care centers have long wait lists. "It's frustrating not knowing if I'm going to find something in time," she said.

Her boss is fretting, too. John Wilson, chief executive officer of Western Land Services, doesn't want to lose Ms. Jamieson, manager of the title division there. He has swung in action, joining a group of Michigan business leaders to push for state legislative action to improve child care.

"With this labor shortage, businesses are having to dig deeper into their employees' lives to figure out what's holding them back," Mr. Wilson said, "when in the past, they didn't have to think about it."

Historically low unemployment is forcing headway on an issue that has been around since women entered the workforce: child care. Businesses in-

Rising Costs

Change in the cost of care for young children and overall consumer prices since the recession ended



Note: Seasonally adjusted

Source: Labor Department

THE WALL STREET JOURNAL.

is as obvious as the fact that the snow is frozen: Make it easier for parents to get quality, affordable child care."

In Washington, Congress early Friday passed a budget deal that when written into detailed spending legislation in the coming weeks would add \$5.8 billion over two years to a federal program that helps states provide child care to low-income families.

Robert Varnedoe, president of Lee Container, a Georgia-based plastic container company, said retaining workers at its Iowa manufacturing operation has grown "extremely hard."

The Iowa plant's 200-plus workers skew female and young. Mr. Varnedoe said company officials wondered: "What would make a lady not come to work? Well, No. 1, she is sick or her kids are sick, or someone who is babysitting didn't show up."

So, a Lee affiliate bought a former school building, partnered with a day-care provider to staff it and late last year opened a child-care center. "We did it out of necessity," Mr. Varnedoe said. "We've just got to get creative."

Nearly one in three families spend 20% or more of their household income on child

care, prompting some parents to leave the workforce entirely, according to Care.com, a resource for families seeking caregivers.

In New Hampshire, Republican Gov. Chris Sununu considers expanding full-day kindergarten a priority. Beyond benefiting children educationally, he said, it will help the workforce in the Granite State, where the 2.6% unemployment rate in December tied for second lowest in the nation.

There is "huge business case" for full-day kindergarten, Mr. Sununu said in an interview. As he talks to out-of-state companies about moving to New Hampshire, he said, executives and employees mention that expanded kindergarten isn't offered everywhere in the state.

"We were kind of standing out like a sore thumb," Mr. Sununu said.

New Hampshire has recently authorized using gambling revenue to help towns fund longer kindergarten programs.

Full-day kindergarten is mandatory only in about 13 states, according to the Education Commission of the States, a research organization. Many other states, like New Hampshire, offer it but with caveats, such as tuition or required approval at the local level.

DEAL

Payments from drug companies to nonprofits from 2012 to 2017

Payments from drug companies to nonprofits from 2012 to 2017

Continued from Page One

WORLD NEWS

Pressure Builds for Zuma to Step Down

South Africa's ruling party considers ways to hasten beleaguered president's exit

By GABRIELE STEINHAUSER

JOHANNESBURG—South Africa's African National Congress was headed for a clash with President Jacob Zuma, who has refused demands by the ruling party that he relinquish power.

Pressure on Mr. Zuma, who spent 10 years in prison alongside Nelson Mandela for his efforts to defeat apartheid, to step down has escalated since December, when his ex-wife and favored candidate lost the vote to become the new leader of the African National Congress. Senior ANC members have openly said that they want Mr. Zuma to leave so the party has time before next year's national elections to try to restore its image, which has been marred by multiple allegations of corruption against Mr. Zuma, his family and some of his closest allies. He has denied wrongdoing.

On Sunday, Deputy President Cyril Ramaphosa, who won the December vote and is widely expected to succeed Mr. Zuma



Opposition party leaders spoke in Cape Town on Monday. Jacob Zuma, right, is under intense pressure to resign from the presidency.



SUMAYAH HSHEH/REUTERS

as president, promised that the question would be resolved at a meeting of the ANC's National Executive Committee on Monday. The meeting concluded around 3 a.m. local time Tuesday—13 hours after it started—with no official word on its outcome. The party said it would hold a news conference on the decisions taken by the committee, known by its acronym NEC, at noon.

Local media reported that the committee resolved to remove Mr. Zuma from office. Representatives for the presi-

dent and the ANC didn't respond to requests for comment.

Under the ANC's internal rules, the NEC has the right to recall its own office bearers, but in practice depends on their willingness to follow its orders. Under South Africa's constitution, the president can be removed through a vote of no-confidence in Parliament, where the ANC holds the absolute majority required to do so, or impeachment. Parliamentary speaker Baleka Mbete has already scheduled a vote of no confidence for Feb. 22,

following a request from opposition parties, although that date could be moved up.

Voting its own president out of office would be a risky move for the ANC, which has been tumbling in the polls. Mr. Ramaphosa's victory for the party leadership was narrow and such an open, and likely humiliating, confrontation with a sitting president threatens to alienate his supporters.

The party already lost South Africa's major cities, including Johannesburg and Pretoria, in 2016 local elections and risks

slipping below 50% in next year's general elections.

Mr. Ramaphosa is under pressure to assert his control over Africa's most developed economy, which has been suffering from low growth and high unemployment. He won the contest for heading the ANC with a promise to boost create jobs and root out corruption. On Monday, opposition parties called for Parliament to be dissolved and early elections to be scheduled.

Mr. Zuma has ducked multiple challenges to his leader-

ship. Since taking office in 2009 he has survived eight no-confidence votes, each time saved by a thinning majority of ANC lawmakers.

Yet the past year has been bruising for the 75-year-old. In April, after Mr. Zuma fired a popular finance minister and other cabinet members, hundreds of thousands of South Africans took to the streets to demand his exit.

Soon after, local media began publishing a trove of leaked emails and other documents that showed how the Guptas, a controversial business family with ties to one of Mr. Zuma's sons, had allegedly gained outsize influence over government decisions and rich government contracts. The Guptas, Mr. Zuma and his son have all denied wrongdoing.

In December, South Africa's highest court ruled that Parliament had failed to hold Mr. Zuma accountable for a previous finding that he had violated the constitution when he refused to return taxpayer money used to renovate his private residence. He has since repaid the funds.

The court ordered Parliament to clarify its rules governing impeachment proceedings, which could be used to remove the president.

Liberia's Ex-President Wins Leadership Prize

By NICHOLAS BARIYO

Former Liberian President Ellen Johnson Sirleaf garnered a \$5 million award for African leaders who relinquish power after elections, becoming the first winner after several years where no one was deemed worthy of the prize.

The committee for the Mo Ibrahim award praised Ms. Sirleaf, who steered Liberia from the ruins of a devastating 14-year civil war and stepped down in January after serving two six-year terms.

Sudanese-born billionaire Mohammed Ibrahim launched the award in 2007 to promote democratic transfers of power on the continent.

"Ellen Johnson Sirleaf took the helm of Liberia when it was completely destroyed by civil war and led a process of reconciliation that focused on building a nation and its democratic institution," said Salim Ahmed Salim, head of the prize committee.

It is yet another triumph for the 80-year-old, who won a Nobel Peace Prize in

2011 and is Africa's first elected female head of state.

Ms. Sirleaf's award comes as the contest between political systems in Africa has become more intense than at any moment since the Cold War, when U.S.- and Soviet-backed regimes faced off across swaths of the continent.

Leaders from countries including Rwanda, Uganda and the Republic of Congo are increasingly voiding constitutional legal limits to cling to power.

The Harvard University-educated Ms. Sirleaf handed

power to former soccer star George Weah in January, bringing to an end an election campaign that was marred by delays and lawsuits.

During her presidency, Ms. Sirleaf oversaw the regeneration of Liberia's economy: Gross domestic product rose to \$2.1 billion in 2016 from \$550 million in 2005, according to the World Bank.

Her administration wasn't without controversy: Many ordinary Liberians complained of poor social services and widespread corruption.



Ellen Johnson Sirleaf, pictured in January, was awarded \$5 million.

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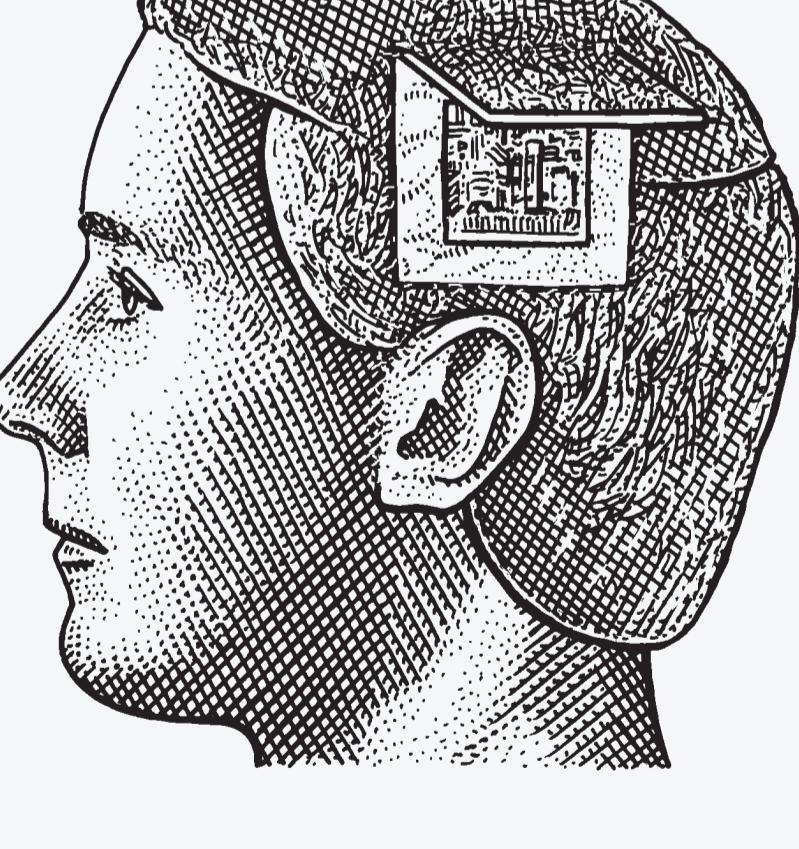
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WORLD NEWS

American Held in Iran Crackdown

BY DION NISSENBAUM

WASHINGTON—Iran is holding an American-Iranian businessman as part of an expanding domestic crackdown on dissent, adding to challenges for the U.S. in its efforts to isolate Tehran.

Morad Tahbaz was one of at least nine environmental activists detained late last month in Iran as security forces worked to quash an unexpectedly broad protest movement, his family and human-rights activ-

ing a Canadian-American environmentalist—have died recently under suspicious circumstances.

That has raised concerns about the health and safety of Mr. Tahbaz and others being held in Iran.

"It's extremely worrying considering that they are incommunicado in detention and no one has reliable news about their health and safety," said Hadi Ghaemi, executive director of the Center for Human Rights in Iran, a New York-based human-rights group.

Even before the latest arrests, the Trump administration had tried unsuccessfully to jump-start secret talks with Tehran over prisoners being held by Iran and Iranians serving prison time in the U.S.

Now, the arrest of Mr. Tahbaz and the death reported over the weekend of Kavous Seyed Emami, a Canadian-Iranian environmentalist and professor, are likely to create new challenges for the Trump administration.

The State Department said Monday that it was trying to confirm Mr. Tahbaz's arrest.

WORLD WATCH

RUSSIA

Officials Seek Clues to Cause of Plane Crash

Hundreds of emergency workers searched a vast field near Moscow on Monday for remains of the 71 victims from the crash of a Russian airliner, and experts began deciphering the jet's two flight recorders.

Investigators quickly ruled out a terrorist attack in Sunday's crash of the An-148 regional jet, which came several minutes after it took off from Moscow's Domodedovo airport. All 65 passengers and the crew of six were killed.

—Associated Press

AMERICAN SAMOA

Damage Tallyed From Tropical Storm Gita

Officials in Pago Pago began a full assessment Monday of damage caused by tropical storm Gita over the weekend.

Lt. Gov. Lemanu Peleti Mauga said the storm caused widespread damage to homes and infrastructure. No injuries or deaths were reported.

Power was slowly being restored after the late Friday storm. About 60% of the island's residents had power restored by Sunday, while 80% had water back by the same time.

—Associated Press



President Abdel Fattah Al Sisi has stressed infrastructure initiatives, like this Port Said greenhouse, as he campaigns for re-election.

Egypt's Sisi Touts Projects

BY JARED MALSIN

CAIRO—For decades Egypt's presidents, like the pharaohs before them, have used vast infrastructure projects to inspire a sense of national achievement and economic might. But no modern leader has claimed to launch so many in so short a time as current President Abdel Fattah Al Sisi, however meager their actual impact.

Since the former general came to power following a military coup in 2013, he has decreed the expansion of Egypt's Suez Canal, ordered a second capital city be built next to Cairo, and initiated a scheme to reclaim more than a million acres of empty desert land. In December, he approved a deal with a Russian state-owned firm to build a \$21 billion nuclear plant.

Ahead of an election in March, Mr. Sisi is now again touting his role in launching massive military-led projects. When he launched his re-election campaign last month, he

said the government had completed 11,000 "national projects" in his brief tenure. That number proved hyperbolic, but even the president's landmark infrastructure initiatives have done little to defuse the economic discontent that was a key source of political upheaval seven years ago during the Arab Spring.

"This is not investment money. This is political money," said Robert Springborg, an expert on Egypt at King's College, London.

Mr. Sisi's embrace of big but dubious projects won't cost him the election—Egypt's security forces have jailed or otherwise sidelined his only credible opponents. But even officials involved in the initiatives say they are designed to create the appearance, rather than the reality, of an economic recovery following the turmoil of Egypt's 2011 uprising that ended three decades of rule by President Hosni Mubarak.

Mr. Sisi's government unveiled the \$8 billion "New Suez Canal" in 2015, hailing it

as a symbol of national rebirth and Egypt's "gift to the world." In a lavish ceremony on the banks of the channel, jet fighters roared past rows of visiting dignitaries alongside the channel now expanded to allow two-way traffic and vastly reduce wait times.

The project's dividends haven't matched the hype. In

\$8B

Amount Egypt spent on expanding the Suez Canal

2015, the chairman of the Suez Canal Authority, Adm. Mohab Mamish, said the expansion would more than double revenue from the channel, from about \$5 billion a year then to more than \$13 billion by 2023.

Today, income from the canal remains largely unchanged from 2015 levels.

The president's other signa-

ture project, a new administrative capital, is mired in delays. A Chinese company backed out of a \$3 billion construction deal over price disagreements. Officials from the project didn't respond to a message seeking comment. The general public remains barred from the site that was supposed to be a catalyst for economic growth and an ultra-modern answer to Cairo's overcrowded streets. Nothing has yet come of the desert-reclamation project or the nuclear plant, which would be Egypt's first.

In an assessment published last month, the International Monetary Fund said Egypt's economy was turning around, citing improving growth and moderating inflation as "welcome signs of stabilization." But it attributed no great role in that to the enlarged canal. The report projected that dues from the canal would actually decline as a percentage of gross domestic product over the next four years, from 2.2% this year to 1.9% by 2022.

Jackie Robinson "Breaking the Color Barrier" Original Professional Baseball Contracts

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WORLD NEWS

South Koreans Wary of North's Outreach

Glow of the Games enlivens mood for diplomacy, but many see overture as a ruse

BY JONATHAN CHENG
AND ANDREW JEONG

PYEONGCHANG, South Korea—North Korea has mounted a charm offensive at the Olympic Games.

But many in the South aren't going for it.

"I think the North has fooled us enough," said Kim Ara, a cake-shop owner in Seoul.

South Korean President Moon Jae-in hasn't accepted a recent invitation to Pyongyang, saying he hoped to first create the right environment for talks.

For Mr. Moon, spurning Pyongyang's olive branch could risk an uptick in military activity after the Paralympics end in March—though visiting the North without making any meaningful progress on nuclear issues could further strain the alliance with the U.S.

Opinion polls on the eve of the Games showed a decline in approval ratings for Mr. Moon, the first sustained slip since he took office in May. Respondents who disapproved of the president in a Gallup Korea poll taken Feb. 6-8 indicated concern over his handling of North Korea's participation in the Olympics and his decision to form a joint women's ice hockey team with the North.

South Korea's Ministry of Unification addressed public skepticism on Sunday, acknowledging "significant criticism and concerns both do-



South Koreans protesting a planned performance by North Korean musicians held the national flag during a rally in Seoul on Sunday.

mestically and internationally" about North Korea's participation in the Olympics and apologizing for its "insufficient" communication.

"About 80% in me is an optimist, while about 20% is a pessimist," said Song Myeong-son, who runs a clothing shop in Seoul. "I think the young North Korean leadership will be different from their predecessors."

On Monday, during a second straight drubbing for the unified inter-Korean women's ice-hockey team, the mood in the arena was jubilant as dozens of North Korean cheer-

leaders led the crowd in chants of "We are one," and got the wave rolling around the stands during the intermission.

During a concert by a North Korean musical ensemble in Seoul attended by North Korean leader Kim Jong Un's younger sister, Kim Yo Jong, and Mr. Moon on Sunday, a member of one of the South's biggest pop groups appeared on stage, holding hands with the North Koreans as they sang "Our Wish is Unification."

On Saturday in Seoul, Ms. Kim invited Mr. Moon to talks in Pyongyang as soon as possi-

ble for what would be only the third inter-Korean summit and the first since 2007.

"What is certain is that peace comes from talks, and that if we want peace, we can't oppose talks," Choo Mi-ae, the leader of Mr. Moon's ruling party, said Monday.

Lee Jong-Seok, a former South Korean unification minister, said in an interview that the North's outreach offered a chance for Seoul to have a "candid" meeting with Mr. Kim.

Yet Pyongyang's olive branch is prompting skepticism about how much any dia-

logue with the nuclear-armed regime might accomplish.

"Don't get fooled again," the center-right Joongang Ilbo, one of the country's biggest newspapers, wrote in its lead editorial on Monday.

The main stumbling block: Pyongyang hasn't demonstrated a willingness to discuss its nuclear-weapons program, whose advances in the past year have drawn increasingly stringent sanctions. The U.S., Seoul's ally, has insisted that any resolution must begin with a demonstrated willingness from Pyongyang to denuclearize.

Neighbors Have Joined in Sporadic Engagement Efforts

February 2014 Talks between the two Koreas commence, and some families separated between North and South by the 1950-53 Korean War meet in North Korea.

October North Korean delegation comes to Incheon, South Korea, during 2014 Asian Games, and takes part in senior-level meetings that fail to yield results.

December South Korea sends a senior delegation to commemorate anniversary of death of Kim Jong Un's father, former dictator Kim Jong Il.

October 2015 The most recent family reunions are held.

July 2017 After President Moon Jae-in is elected with a pro-engagement platform, Seoul proposes talks between military officials and between Red Cross officials. The North doesn't respond.

Feb. 9, 2018 Delegations from the two Koreas walk together under a unified flag at the Opening Ceremony of the Winter Olympic Games in Pyeongchang, South Korea.

Feb. 10 Kim Yo Jong, Mr. Kim's younger sister, invites Mr. Moon to talks in Pyongyang, for what would be only the third inter-Korean summit and the first since 2007.

South Korea and North Korea took part in an opening procession at the Games together and fielded a unified women's ice hockey team.

Mr. Kim's sister attended the Games, met with Mr. Moon and delivered an invitation for a North-South meeting in Pyongyang.

After meeting with Mr. Moon, Mr. Pence insisted the two countries were like-minded and that while there may be preliminary talks with North Korea, neither side would relax pressure on Pyongyang until the country's leadership indicated it was prepared to give up its nuclear weapons. But there were no high-level contacts between Mr. Pence and any North Korean representatives.

Still, Mr. Tillerson is keeping the door ajar.

"We've said for some time it's really up to the North Koreans to decide when they're ready to engage with us in a sincere way, a meaningful way," he said during his Cairo visit. "We'll just have to wait and see."

KOREA

Continued from Page One
that Pyongyang is prepared to open either informal or formal talks with the U.S.

Meanwhile, the prospect of a summit is deepening divisions in Seoul between those who see Pyongyang's overtures to the South at the Games as a ruse and those who regard accepting its invitation for high-level talks as the only way to sustain a reduction in tensions.

The Trump administration's diplomatic strategy regarding North Korea has changed in several steps.

In early October, President Donald Trump cast doubt on the State Department's efforts.

A day after Mr. Tillerson said in Beijing that American officials were trying to gauge if North Korea wanted to talk, Mr. Trump wrote in a tweet that the secretary of state was "wasting his time trying to negotiate with Little Rocket Man."

"Save your energy Rex," Mr.

Trump wrote, adding, "we'll do what has to be done!"

The White House also appeared to undercut Mr. Tillerson two months later, when the secretary of state told an event at the Atlantic Council that American officials were willing to meet with North Korean representatives "without preconditions."

"Let's just meet. And we can talk about the weather if you want," Mr. Tillerson said at the time. "We can talk about whether it's going to be a square table or a round table if that's what you're excited about. But can we at least sit down and see each other face to face."

That night, the White House issued a statement that asserted that "the president's views on North Korea have not changed."

Confronted by the White House statement, Mr. Tillerson appeared to walk back his own position three days later, telling the United Nations Security Council that "a sustained cessation of North Korea's threatening behavior must occur before talks can begin" and that "North Korea must earn its way back to the table."

That was before Kim Jong Un, the North Korean leader, suggested in a New Year's address that his nation's athletes might participate in the Winter Olympics and before South Korea responded the next day with a proposal for inter-Korean talks on that matter.

The South made that offer without consulting with the Trump administration, under-

scoring the challenges the U.S. and South Korea face in maintaining a united front.

The question of how best to manage relations with Seoul were front and center when Mr. Pence prepared for his recent trip to the Games in Pyeongchang. Messrs. Pence and Tillerson met with Mr. Trump before the vice president left for Asia. Messrs. Pence and Tillerson also spoke at least twice when the secretary of state was traveling in

South America.

What followed was another step in the administration's diplomatic approach.

Some U.S. officials said the administration was mindful that shunning all contact with the North might add to strain with the Moon government, upset public opinion in South Korea and play into the hands of Pyongyang, which has portrayed Washington as focused on a military solution.

Before Mr. Pence led a U.S. delegation to the Winter Olympics in South Korea, administration officials indicated that the vice president was potentially open to high-level contacts at the Games, if an outreach was made and the conditions were right.

The idea was that if any meeting occurred, it wouldn't be held in front of television cameras and the vice president would use the opportunity to deliver a firm message that a pressure campaign would continue until the North agreed to negotiate about de-nuclearization.

South Korea and North Korea took part in an opening procession at the Games together and fielded a unified women's ice hockey team.

Mr. Kim's sister attended the Games, met with Mr. Moon and delivered an invitation for a North-South meeting in Pyongyang.

After meeting with Mr. Moon, Mr. Pence insisted the two countries were like-minded and that while there may be preliminary talks with North Korea, neither side would relax pressure on Pyongyang until the country's leadership indicated it was prepared to give up its nuclear weapons. But there were no high-level contacts between Mr. Pence and any North Korean representatives.

Still, Mr. Tillerson is keeping the door ajar.

"We've said for some time it's really up to the North Koreans to decide when they're ready to engage with us in a sincere way, a meaningful way," he said during his Cairo visit. "We'll just have to wait and see."

New Formula: Pressure Plus Diplomacy



CAPITAL JOURNAL

By Gerald F. Seib

Can "maximum pressure" and new diplomacy exist side-by-side on the Korean Peninsula? We're about to find out.

That is the upshot of two weeks of maneuvering by North and South Korea before and during the Winter Olympics the South is hosting. The Trump administration will be

wary of this new phase in Korean brinkmanship—but not as opposed as some think.

South Korea opened the door for the North to participate in the Olympics. The North walked through. North Korea has opened the door for South Korean President Moon Jae-in to travel north to visit Pyongyang. He hasn't yet walked through that door, but it will be hard for him to say no. He has wanted dialogue with the North since taking office last year, and two of his predecessors accepted similar invitations.

So where does that

leave the U.S. and Trump administration efforts, largely successful so far, to exert maximum economic and diplomatic pressure on the North to step back from its nuclear and missile adventurism?

Despite the frequent bellicose sounds from President Donald Trump, he and his team actually aren't opposed to talking to Pyongyang, as Vice President Mike Pence signaled to the Washington Post. Rather, the administration is mostly opposed to rewarding Kim Jong Un with either sanctions relief or acceptance of its status as a nuclear power as a reward for simply letting diplomacy begin.

U.S. officials think that has been the longtime pattern of engagement with North Korea: It pushes ahead militarily, pauses, talks, reaps some economic rewards from the outside world, consolidates its gains, then resumes. The point of talking, in the U.S. view, has to be stepping back from nuclear activity first, offering any economic relief second, not the other way around.

In any case, an entirely new phase in this drama has begun. To understand how Washington will view it, it's useful first to understand where it thinks the broader standoff with North Korea stands.

Pyongyang has made startling advances in nuclear and

missile development in the past year, but it still hasn't reached the point where it has a reliable system for delivering nuclear warheads over a long distance. It isn't clear, for example, that the North Koreans have developed a re-entry vehicle that could carry a nuclear weapon from a ballistic missile down toward earth without breaking up, or heat shields that could effectively protect a weapon as it hurtles downward. It isn't clear whether the

Trump and his team actually aren't opposed to talking to Pyongyang.

North Koreans could integrate all the elements of warhead, missile and re-entry vehicle.

The North Koreans are working on all those problems, but to resolve them they need to do more testing. The U.S. will know when that happens. Thus, there is some time before the North has what it can consider a reliable nuclear threat to the continental U.S.

At the same time, the U.S. intelligence community has no confidence that Kim Jong Un will ever accept the goal of American policy and give up his nuclear-weapons program. So why talk at all?

Well, several reasons. First, there is no way to know for sure what the North Koreans are willing to give up without testing their intentions.

Meanwhile, diplomacy might slow the North's nuclear program, buying some time. Moreover, a willingness to negotiate is necessary to keep international unity intact behind sanctions.

That's particularly crucial for China. If Washington hopes Beijing ultimately will step in and use its economic clout to stop Pyongyang—the ultimate hope—the Trump administration has to show both that it is willing to use military force and that all diplomatic options have been exhausted. Willingness to try diplomacy is equally crucial to avoid a rift with South Korea.

So, if diplomacy gets rolling, three questions are key:

◆ Will South Korea still agree to hold joint military exercises with the U.S., delayed because of the Olympics? Hopes of keeping up pressure will be undermined if not.

◆ Will North Korea resume nuclear and missile tests even as talks begin? Testing will be seen as the ultimate sign of bad faith.

◆ Will diplomacy between the Koreas lead to direct conversations between North Korea and the U.S.? If diplomacy is serious, everybody knows it has to lead to negotiations between the two key players.

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of

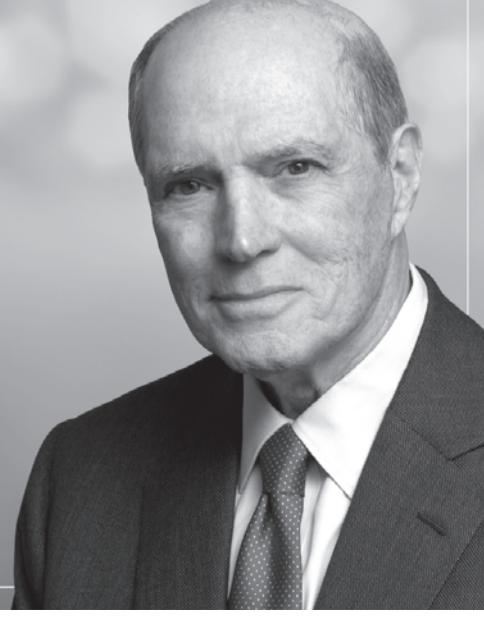
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GREATER NEW YORK

Pooches on Parade at the Westminster Dog Show



READY FOR THEIR CLOSE-UP: American Eskimo dogs strutted their stuff Monday at the 142nd Westminster Kennel Club Dog Show in Manhattan. Nearly 3,000 canines are competing, with the Best in Show to be named on Tuesday night at Madison Square Garden.

Agency to Vote on Stewart Expansion

BY PAUL BERGER

The Port Authority of New York and New Jersey will meet this week to vote on a \$30 million expansion of Stewart International Airport, a project aimed at increasing international arrivals at the facility 60 miles north of New York City.

Passenger numbers at the airport, nestled in the mountains near Newburgh, rose more than 60% last year to almost 450,000 people, fueled by an increase in budget flights to Europe, according to the Port Authority.

The expansion proposal includes a new dedicated arrivals area, known as a federal inspection station, for international passengers. Currently, the airport lacks a dedicated area to process overseas passengers. So when trans-Atlantic flights land, airport staff pull out an accordion wall and isolate the arrivals hall and baggage claim section of the

terminal.

Meanwhile, domestic passengers must pick up luggage at their airline's ticket counter.

"It makes us look pretty unprofessional," said Louis Heimbach, chairman of the Stewart Airport Commission, an advisory body. "And it just isn't tenable in the long run to con-

Passenger numbers rose nearly 60% last year, fueled by budget flights to Europe.

tinuing operating the way it is."

Commissioners of the Port Authority, which owns the airport, will vote on the proposal at a board meeting Thursday.

They will also vote on a controversial proposal to rename the facility.

"A permanent new federal

inspection station at Stewart Airport will build on its recent success and support its potential to grow flight activity and passenger volume," a Port Authority spokesman said Monday. "It will further provide an inviting gateway to the Mid-Hudson Valley region, New York City and the metropolitan area."

The Port Authority previously approved a project to build a new federal inspection facility at Stewart in 2011. But that plan was shelved as passenger numbers failed to recover after two now-defunct low-cost domestic carriers, Skybus Airlines Inc. and Air-Tran Airways Inc., ceased operations at Stewart.

Between 2011 and 2016, arriving and departing passengers fell 33% to 275,000 passengers, according to the Port Authority.

Last year's surge in passengers was driven by Norwegian Air Shuttle ASA. In June, the budget carrier launched direct

routes to destinations in Northern Europe including Scotland and Ireland.

During the seven months through the end of last year, the airline carried 141,000 passengers to and from Stewart, according to the Port Authority, accounting for almost a third of the airport's total.

This year, a spokeswoman for the airline said, Norwegian will reduce its flights to Edinburgh to four days a week, while increasing its service to Dublin to two flights a day.

In December, Gov. Andrew Cuomo suggested renaming the facility New York International Airport at Stewart Field, which he said would better reflect its proximity to the city.

But the proposal drew opposition from the Stewart family, which donated the land for the airport during the 1930s. In response, Mr. Cuomo said he is open to suggestions and will leave it to the Port Authority and the airport to decide.

Mayor Vows To Enhance Voting Security

BY MARA GAY

New York City Mayor Bill de Blasio plans to spend \$500,000 this year to protect the city's election system from hackers—a step he says is necessary as investigations continue into Russian interference in the 2016 presidential election.

Overhauling the agency would require changes in state law. The agency, which has a \$143 million annual budget, is funded by city tax dollars.

Kristen Clarke, president and executive director of the Lawyers' Committee for Civil Rights Under Law, a national civil-rights nonprofit based in Washington, D.C., said New York state should implement early voting and other reforms to make casting ballots easier and more reliable.

"Few things are more important than protecting our elections from those seeking to undermine our democracy," Mr. de Blasio said in a statement. "As the cyber skills of adversaries abroad and troublemakers at home develop, so too must the defensive protocols in place to keep our elections fair."

The mayor, a Democrat, is expected to unveil the proposal at his annual State of the City address Tuesday evening in Brooklyn.

The city's Board of Elections has long been plagued by problems. For years, voters have complained of long lines, broken machines and frequent changes in poll sites. In 2016, ahead of the primaries, the board wrongfully purged 117,000 Democratic voters from its rolls. Two board officials were suspended.



The mayor plans to unveil his election-security proposal on Tuesday.

City Councilman Violated Anti-Harassment Policy

BY MARA GAY

New York City Councilman Andy King violated the City Council's anti-harassment and discrimination policy when he repeatedly held the hand of a staffer and told her to smile, the body's standards and ethics committee said Monday.

Mr. King also told the staffer he wanted to see her in a "beautiful gown," and asked for her personal phone number, according to a complaint read aloud by committee officials earlier this month.

Members of the ethics committee said Mr. King, a Bronx Democrat, denied violating City Council policy, but had agreed to participate in sensitivity and ethics training within 30 days.

A spokeswoman for Mr. King didn't immediately respond to a request for comment.



Andy King said he will participate in sensitivity and ethics training.

The ethics committee met behind closed doors for more than two hours on Monday, interviewing Mr. King and deliberating on what action, if any, should be taken against the lawmaker.

When they finished, Steven Matteo, chairman of the Standards and Ethics Committee and a Staten Island Republi-

can, read aloud a brief public statement sanctioning Mr. King, who has been in office since 2013.

"The committee takes allegations of misconduct extremely seriously and is committed to ensuring the appropriate consequences when matters are substantiated," Mr. Matteo said.

NYPD Agrees to Take Steps To Return Seized Items Faster

BY CORINNE RAMEY AND ZOLAN KANNO-YOUNGS

A new legal agreement requiring the New York Police Department to change how it handles property seized during arrests likely will hasten the return of cellphones, cash and other items.

The move is the result of a settlement, approved by a judge Monday, of a federal lawsuit claiming the NYPD unconstitutional keeps money and other property long after a case is resolved. New York City and the NYPD didn't admit wrongdoing.

"Each year thousands of New Yorkers lose their cash, phones, and other personal property because of the City's unlawful policy and practice," said the lawsuit's complaint, which was filed by public-defender group the Bronx Defenders and private firm Boies Schiller Flexner LLP.

In the settlement, the NYPD agreed to follow formal procedures for returning personal

property, and to train its staff and conduct audits. The Bronx district attorney's office, which wasn't named in the suit, voluntarily joined the settlement and agreed to follow the procedures.

The suit claims that reclaiming this property is a persistent problem. In an informal survey, about half of Bronx Defenders clients didn't get a voucher, or receipt, for their property when they were arraigned, said Niji Jain, the lead Bronx Defenders attorney on the case. In fiscal year 2015, the NYPD made some \$7 million in revenue from unclaimed cash and sale of property, a city budget document said.

Even if charges are dropped, getting seized property back is no easy task, Ms. Jain said. Those who were arrested, had charges dropped and attempted to reclaim their property routinely were referred back and forth between the district attorney's office and the police department, she said.

One of the plaintiffs, Victor Encarnacion, a 37-year-old truck driver, was arrested for drug possession-and-sale charges in 2014 and had his iPhone seized as evidence. A judge dismissed the charges and he and his lawyers made repeated attempts to get his property back, the suit said.

When he went to the NYPD property clerk, the clerk said Mr. Encarnacion would need a district-attorney release form. The lawsuit claims Mr. Encarnacion was denied the release "without any justification."

Mr. Encarnacion retrieved his phone after the suit was filed in 2016. A spokeswoman for the Bronx district attorney's office declined to comment. "The settlement recognizes the significant improvements made by the Bronx DA and the NYPD to ensure accountability, proper vouchering and timely responses to requests for property," a New York City Law Department spokesman said.

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GREATER NEW YORK

Willem Dafoe Recalls Roots In New York

BY BARBARA CHAI

Willem Dafoe travels and works abroad for most of the year, but the actor has considered New York a home base ever since he first arrived on the scene in 1976.

A founding member of the experimental-theater company the Wooster Group, he stayed with the Manhattan-based group for more than 25 years.

"I could get sentimental, but I also coldly recognize that those were my formative years," says Mr. Dafoe, 62 years old.

The actor, who is nominated for a best supporting actor Oscar for his turn as a low-budget motel manager in Sean Baker's "The Florida Project," spoke with The Wall Street Journal about his start in theater in New York.

Here is an edited transcript.

Is there a space in New York that was one of your introductions to acting?

When I came to New York, I fully intended to be a com-

mercial theater actor, but I found myself going downtown to places like the Kitchen or Collective for Living Cinema. Needing those people, [being] turned on by those people.

Really, when I went to the Wooster Group and I saw the work there, I was sold. I just hung around there and insinuated myself into the fabric of the company because what they were doing excited me.

Is New York theater as experimental as it was back then?

When I came to the city there were a lot of groups that were really scruffy, artists that wanted to make work that would find factory spaces and convert them into performance spaces. It was a very exciting time.

I think those days are over, partly thanks to real estate. That world still exists, but it's gotten more sophisticated. I started seeing even when I was at the Wooster Group, there would be people coming to intern with us that actually studied the Wooster Group in



Willem Dafoe is nominated for a best supporting actor Oscar for his role in 'The Florida Project,' above. A founding member of the Wooster Group, Mr. Dafoe, at left in photo below, appeared in the theater company's 1979 production of 'Point Judith' (an epilog).

school.

We used to do theater pieces and work that we thought was going to be the last thing that we were going to do. We didn't think of ourselves as an institution or a company.

But with time, the ones that did survive have become companies and institutions. I think people study them, and there's this sense that you can have a career in the avant-garde.

Was filming "The Florida Project" similar to working in the Wooster Group?

Yes, for several reasons. Your resources are very lim-

ited. You're filming real things with things that you're inventing. You're also working with a wide range of experience and people.

The cast is intergenerational. You've got people that have never performed next to people that have been performing for many years. You have people that are really living the life of the story we're talking about and they're participating in the production. So there's almost a neorealist approach, and there are parallels to what we did in the Wooster Group.

Barbara Chai is arts and culture editor at MarketWatch.



FROM TOP: A24; NANCY CAMPBELL

GREATER NEW YORK WATCH

TRUMP FAMILY

White Powder Mailed To Donald Jr.'s Home

President Donald Trump's daughter-in-law was taken to a hospital on Monday morning after opening a letter containing a "white powder substance" at her Manhattan home, according to a New York City police official.

Vanessa Trump, the 40-year-old wife of Donald Trump Jr., wasn't injured and was taken to

the hospital as a precaution, the police official said. The powder was tested and it wasn't found to be hazardous, police said.

Ms. Trump opened the letter, which was addressed to Donald Trump Jr., at her Sutton Place home on East 54th Street, the official said. She and two other people, who weren't identified, were then taken to a local hospital by ambulance, the official said.

It wasn't clear what the substance was, the official said.

The White House referred a re-

quest for comment to the Secret Service, which said it was investigating with New York City law enforcement and couldn't comment on an active investigation.

Donald Trump Jr. said in a tweet that his wife and children were "safe and unharmed after the incredibly scary situation."

"Truly disgusting that certain individuals choose to express their opposing views with such disturbing behavior," he said.

—Zolan Kanno-Youngs and Rebecca Ballhaus

IN THE COURTS

Graffiti Artists Are Awarded \$6.7 Million

Judge awarded \$6.7 million Monday to graffiti artists who sued after dozens of spray paintings were destroyed on the walls of dilapidated warehouse buildings torn down to make room for high-rise luxury residences.

U.S. District Judge Frederic Block in Brooklyn said 45 of the 49 paintings were recognized

works of art "wrongfully and willfully destroyed" by a remorseless landlord.

Twenty-one aerosol artists had sued the owner of a Long Island City, Queens, site known as 5Pointz under the Visual Rights Act, a 1990 federal law that protects artists' rights even if someone else owns the physical artwork. Their graffiti was painted over in 2013, and the buildings were torn down a year later.

Before they vanished, the graffiti artworks became a tourist

attraction, drawing thousands of spectators daily, the judge noted.

Jerry Wolkoff, who owned the buildings, had conceded he allowed the spray-paint artists to use the buildings as a canvas for decades but said they always knew they would be torn down someday. His lawyer didn't immediately respond to a message seeking comment.

The artists had once hoped to buy the properties, before their value soared to over \$200 million.

—Associated Press

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AMAZING THINGS ARE HAPPENING HERE

IN DEPTH

FOODS

Continued from Page One
been shuttered and sold. The cost-cutting project is now wrapping up, giving Kraft Heinz Co. the highest operating profit margin among its peers in the U.S. food industry.

That success, however, has unveiled a new, tougher challenge, one that is outside 3G's traditional area of expertise. Kraft Heinz commands a smaller share of a shrinking overall market for processed meats, hit by consumers' desire for fresher, more natural foods. And while 3G is expert at taking over iconic American brands and squeezing out costs, it is less known for building sales—especially for a product out of sync with consumer tastes.

Wall Street is now anxious to see whether Kraft Heinz's management—most of whom come from 3G—can also set up the company to expand sales. Some say a more-certain move would be another blockbuster acquisition to start registering growth through cost cuts. Kraft Heinz shares hit a two-year low last week, and are down 21% over the past year, a period when the S&P 500 index rose 13%.

3G leaped to prominence in recent years by making a string of splashy acquisitions. It is the largest shareholder in Restaurant Brands International, which owns the Burger King and Tim Hortons chains. Profits and revenue there are up, and shares have doubled since the company was formed in December 2014. 3G's founders honed their strategy of cost cuts and acquisitions through mergers that created global brewing giant Anheuser-Busch InBev.

3G said the Kraft Davenport facility is at the center of its plans to prove it doesn't just slash expenses, but that it also invests in brands.

Production moved 10 miles up Interstate 280 to a new, \$225 million plant, where the first cold cuts rolled off the assembly line in June. The facility is the first U.S. plant 3G built from the ground up since the firm entered the food business with its acquisition of H.J. Heinz five years ago.

Gone are the elevators. Instead, conveyor belts whisk "stick meat"—macerated proteins stuffed into 6-foot-long casings—through processing rooms. New machines can handle 15,000-pound batches. Robotic arms pick up trays and place them in room-size ovens. Automated slicers deliver perfect 9-ounce portions that drop into plastic containers.

When it hits full capacity in a few weeks, the plant will be able to churn out 2.8 million pounds of sliced meat a week, about 17% more than the old factory, while employing 500 fewer people.

"We look at pretty much any opportunity we have to drive efficiency," said Troy Shannan, Kraft Heinz's head of North America supply chain. "And we use the savings from those efficiencies to reinvest in our brands and our businesses and back into our supply chain."

The process for mass-producing cold cuts is virtually



Workers check Oscar Mayer sliced ham as it is packaged at Kraft Heinz's newly built plant in Davenport, Iowa.

identical whether it is for "Black Forest Ham" or "Natural Mesquite Smoked Turkey Breast." Raw meat arrives at the new plant by the truckload—each carrying up to 22 one-ton containers. Inside, deboned chunks of ham or turkey breast are dumped into macerators, which grind up the meat while 500 needles inject flavorings, preservatives and brine. This paste-like goo, known as "batter," is fed into a chilled, vacuum-sealed tumbler resembling a stainless steel cement mixer.

The tumblers—a proprietary design developed with a third-party manufacturer—can massage meat at varying speeds and keep it cool. They reduce the curing process, a method of preserving meat, to between two and eight hours. At the old plant, meat could require up to two days to cure in mixers that resembled lottery-ball pickers.

The meat cooks and cools in a water tank instead of by the traditional system of being sprayed with hot water, speeding up the process by reducing the number of times cranes are needed to move the logs. Spices and artificial flavors infused into the casing give the meat a smoky or spicy flavor.

Changing the open-floor plan of the old plant to one with separated work rooms means less downtime from sanitizing the lines. In the slicing room, cooked stick meat enters one end of a carving machine and emerges in identical sets of cold cuts that drop into containers, which have been folded into shape seconds before from plastic sheets. Sensors in the conveyor belt weigh each portion, automatically pushing away extra slices.

A pair of workers wearing gloves, hairnets and safety goggles check each container and gently press the meat into place before a machine seals the pack in plastic film and applies a label.

"You're dealing with a lot more aggressive company than you were before," said Jerry Messer, who worked at the old factory in Davenport from 1967 to 1985 and is president of the union representing Kraft Heinz's employees and others in the industry. "They pay a lot of attention to waste...You gotta put a request



in for everything you need, and you gotta justify it."

The factory used to keep extra parts in stock for repairs, but 3G likes to keep inventory low to save money, he said.

Mike Cole, a former director of transportation at Kraft who left the company in 2014, before the 3G acquisition, said Kraft's previous management tended to make changes in "baby steps," with executives wary of instituting mass layoffs or shutting major factories. "When you're a new company coming in...you can put a bullet into anything," he said.

In the broader overhaul of nationwide production, the company used computer modeling to analyze where it

sourced ingredients, where it needed to ship finished products, and the cost and availability of labor and other resources. The model spit out ideal locations for factories and warehouses.

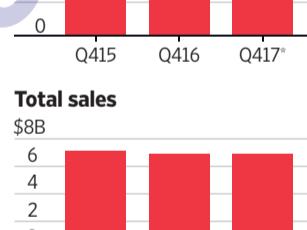
Product lines were grouped more logically. The bologna line in the old Davenport plant was shifted to join the chopped ham line in Kirksville, Mo., which uses similar ingredients and processing techniques. Bologna output has fallen for years, since demand has dropped from its heyday in the 1970s and 1980s.

"A lot of times products are basically...shoehorned into a factory," said Mr. Shanahan, the supply-chain chief. "It's not always an optimized design of how things should work."

Meat Market

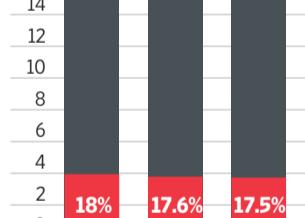
Kraft Heinz has improved its earnings per share, but overall sales have ticked lower, and its share of a shrinking processed-meat market is getting smaller.

Earnings per share



Sources: FactSet (margin, sales); Euromonitor (processed meat sales, market share)

Kraft Heinz share of overall U.S. processed-meat sales



THE WALL STREET JOURNAL.

the organizers of the first World Championship. "We just don't do hurdles and obstacles, for obvious reasons."

Back-runners, who usually make occasional glances forward, risk toppling into potholes or crashing into sidewalks or lampposts. Some runners have been known to tie sponges to the backs of their heads to cushion potential falls. Others race with forward-facing partners who act as lookouts. All must brave bemused looks from passersby.

On his first backward Comrades in 2015, Mr. Chinomwe tripped over a passed-out runner, sending him crashing into a water station near kilometer 84. Bleeding from his right elbow and in pain, he got up and finished the rest of the race. "That wasn't going to stop me," he says. "I was so far."

Kat Clewley, a regional YMCA manager in Ontario, Canada, who won Gold at the 2016 Retrorunning World Championships in the 800 meter, 5 kilometer, 10 kilometer and half-marathon, says her mother wanted her to wear a bicycle helmet for protection. But the 38-year-old ultramarathoner says that as a

former soccer goalie she knew how to rush backward—and how to fall.

Ms. Clewley made the switch while out for a (forward) jog with her dog a few years ago. Vanilla, a Giant Schnauzer, was slowing down in the summer heat, and to keep an eye on her, Ms. Clewley started running in reverse. "I realized it was fun. I could still run, but I could keep her pace," she recalls.

One of Ms. Clewley's fellow racers at the world championship was Aaron Yoder, track and cross-country coach at Bethany College in Lindsborg, Kan. The 32-year-old won Gold for the 800 meter, 1,500 meter, 5,000 meter and the 4 x 400 meter relay, where his team set a world record.

Just a year earlier, Mr. Yoder was a frustrated medium-distance runner, who was trying, but failing, to break the 4-minute mile. Grousing at doctors' orders after an injury never to run again, Mr. Yoder decided to switch around his morning routine—literally. "That day I ran 4 miles backward," he recalls.

Intrigued, Mr. Yoder went online to check world records in reverse racing. "I thought I could break the mile world re-

cord," he says. A few weeks later, on Nov. 23, 2015, he did just that, as a friend filmed him becoming the first runner to crack the 6-minute backward mile.

His time—5 minutes 54.25 seconds—secured Mr. Yoder a spot in the Guinness Book of World Records and the success that had eluded him during nearly three decades of

forward running.

"If all you had to do is turn it around and get everything you wanted, why wouldn't you do that?" says Mr. Yoder.

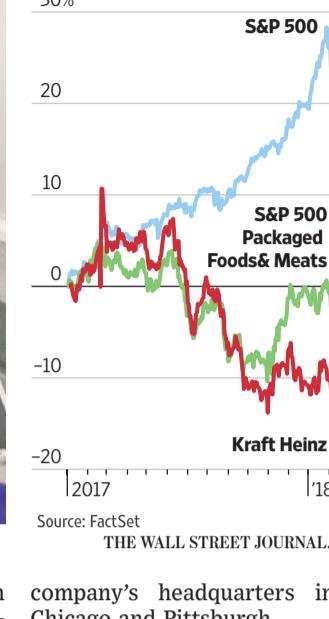
Backward record-chasing runs back more than a century. The 1887 New York Clipper Annual, a self-proclaimed chronicle of "records of fastest time and best performance in all departments of sport," lists



A backward runner at the Dublin Marathon last year. Other events cater to reverse runners, including the 'retro' world championship.

Market Slump

Kraft Heinz shares have underperformed the packaged-foods index and the overall market in the past year.



Source: FactSet

THE WALL STREET JOURNAL.

company's headquarters in Chicago and Pittsburgh.

Alexia Howard, an industry analyst at Sanford C. Bernstein, said now that Kraft Heinz's cost-cutting is largely complete, it needs another deal. "The hope is that they will manage to find something with a growth profile" to buy in the next few months, she said.

Still, Kraft Heinz is grappling with a problem that can't be solved by increasing efficiency: U.S. sales of cold cuts and other processed meats slipped to \$21.3 billion last year, from \$21.9 billion in 2015. Oscar Mayer's market share dropped to 17.5% from 18% five years ago, according to Euromonitor.

Natural and organic brands, as well as small labels buying from local farms, have nibbled away at sales. "Consumers are looking for something they think is handmade or looks handmade," said Chris Fuller, a consultant to meat processors.

Kraft Heinz executives said even if the overall market is shrinking, there are profits to be made by cutting out costs. But they acknowledge that they have to generate sales growth.

The Davenport plant is producing a new line of antibiotic-free meat, with restyled packaging and marketing to play up the natural ingredients. It also makes higher-end "carving board" turkey breast that isn't made from stick meat. The company said it is culling low-selling items to focus on innovation and marketing for brands with the most potential.

Kraft Heinz's profitability has soared since the merger, with analysts expecting a key margin metric to rise to 31% of sales in the latest quarter, compared with 23% when Kraft Heinz reported its first earnings as a combined company in 2015.

At its earnings report on Friday, the company is expected to report an 8% rise in earnings per share for the year, with sales down 0.7% to \$26.3 billion, according to FactSet. Its meat business, including Oscar Mayer, makes up about 20% of its U.S. revenue.

Kraft Heinz said its savings from the merger will soon reach \$1.7 billion in annual spending—more than it initially planned—through supply-chain savings and from reducing overhead at the

CEO Bernard Hees said the firm goes beyond cost-cutting and invests in brands.

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Kraft Heinz Chief Executive Bernard Hees, who is also a partner at 3G, said the company doesn't need another acquisition to succeed in the packaged-food business. He said the firm goes beyond cost-cutting and is investing in its brands.

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LIFE & ARTS



FOOD

The Home Farm Comes Inside

BY ANNE MARIE CHAKER

DON BELAND IS converting his five-bedroom suburban home in Holly Springs, N.C., into a farm—indoors.

In the kitchen he has set up shelves that hold 12 trays of tomato seedlings, arugula, spinach and microgreens. In about two weeks, the tomato plants will move into the dining room, where Mr. Beland will replant them into a 7-foot high soilless growing system he is building. Near a window, jalapeño and habanero pepper seeds germinate in a 3-foot wide miniature greenhouse.

The house is typically aglow with purple LED lights that can be seen from the street. "My wife worries about what people think," Mr. Beland says.

Restaurants tout tomatoes grown on site and supermarket placards designate produce from nearby farms. But homeowners like Mr. Beland may be the ultimate locavores. They are reoutfitting their homes to grow the freshest produce possible—even in winter.

The \$2 billion vegetable gardening industry is finding new ways to get indoors as well as out. Hydroponics, a soil-free way of growing plants, appeals to homeowners who like the idea of gardening but would rather avoid the dirt, especially indoors. Scotts Miracle-Gro Co. now either owns or has a majority stake in three home hydroponics brands including AeroGarden, which are devices that look like salad-growing space ships.

In hydroponics, plants are grown in water and a medium such as pebbles and may be oxygenated through air pumps or frequent drainage. Plants get their nutrients from mineral solutions added to the water instead of through soil, and homeowners add lighting systems that mimic the sun's rays. Successful gardeners get fresh veggies grown indoors, even when it's cold outside. Down-sides can include bright lights at odd hours, noisy hums and chunky-looking contraptions, and those considering more elaborate setups



might need to be wary of homeowner-association rules.

The number of households growing vegetables hydroponically has doubled in the last year, says Mike Sutler, senior vice president and general manager of the gardens division for Scotts Miracle-Gro. Indoor hydroponic gardening is particularly popular among consumers in their 20s and 30s. "It's a millennial sport," he says.

"It's a hobby you can happen to eat," says Andy Calhoun, a 40-year-old information technology specialist in Cumming, Ga. He has outfitted his dining room with \$1,800 worth of hydroponic growing equipment including nine sleek metal and plastic AeroGardens, some with touch-screen displays. "I'm going for the not-house-full-of-plastic-buckets look." He is growing eight kinds of herbs, cherry tomatoes, jalapeños and Romaine lettuce.

"It's a luxury," says Daimon Beecroft, a 37-year-old electrician in Edmonton, Alberta. "If we're eating



a salad I know we've always got tomatoes downstairs." Mr. Beecroft has converted a living room bar into a seed-starting operation with three AeroGardens on top. "Neither my wife or I drink anyway," he says. Using plastic sheeting and lumber, he has also made an area next to the bar into a hydroponic growing tent for lemons and exotic cucumbers. He calls the setup his bargin-nial sport.

There have been drawbacks, for instance when Mr. Beecroft had to travel in December. Lapses in maintenance caused plants to die. The seeds now on the bar are a

new batch, sown a week ago.

"My wife wasn't as into watering," he says.

In North Carolina, Mr. Beland's wife can sympathize. "In six months my house was overtaken by his operation," says Gerrie Beland, a human resources manager at a biotechnology company who initiated her husband's hobby by giving him a 2-foot-wide salad-growing dome for the kitchen countertop for his birthday a year ago. Within six

weeks, there was an illuminated grow tent in the living room holding a hydroponics setup with air pumps, buckets and timers where Mr. Beland grew peppers, tomato and basil plants. In mid-December, he took it down in preparation for an even bigger one in the coming weeks and has already ordered parts.

"I went into my bedroom one night and there were pots everywhere," she says. "The plants grow fast and he's forced to find space." A coat closet has become a storage shed for buckets, timers, nutrient solutions and plastic sheeting.

"I'd like to have that closet

FROM TOP: A TRIO OF NANOFARM HYDROPONIC GROWERS COST \$380 EACH; ANDY CALHOUN'S AEROGARDENS, IN HIS DINING ROOM; DON AND GERRIE BELAND HARVEST LETTUCE.

back," Ms. Beland says.

Some kitchen appliance showrooms sell hydroponic equipment for a kitchen vibe that's more mod than mad scientist. Urban Cultivator is a mini-fridge like appliance which uses multi-spectrum grow lights and a watering schedule set on a timer, and sells for about \$2,500. (The maker was bought in October by Aurora Cannabis Inc., which cultivates and sells Canadian medical marijuana.)

Urban Cultivator's co-founder Tarren Wolfe has long been manufacturing commercial-grade hydroponic units for cannabis dispensaries in California and elsewhere.

"Chefs were coming in to get cannabis and would say, 'hey can you grow microgreens in there?'" he recalls. "It made sense. Everybody eats. Not everybody consumes cannabis."

Tower Garden, manufactured by Collierville, Tenn.-based supplements company JuicePlus+ Co., is a 5-foot-tall column that can hold at least 20 plants. The hydroponic system costs \$525 and comes with seeds, equipment and plant food. For another \$70, a customer can stack on another 15 inches.

Sarah Hosaki, a salon owner in Markham, Ontario, uses it to grow bok choy, Swiss chard, and kale in her dining room. "We have snow outside and I have a tower of vegetables in my apartment," she says.

Some homeowners have their hydroponic operations connected to fish tanks—a system also known as aquaponics, where fish waste supplies nutrients to water that nourishes the plants.

It isn't your typical goldfish bowl. Charles Baughman, a retired postal worker in Hershey, Pa., has two vegetable-growing beds connected to a 120-gallon fish tank in his basement filled with 25 tilapia fish. Mr. Baughman is growing lettuces, kale, spinach and two tomato plants under the glow of multi-spectrum LED lights.

FILM REVIEW | By Joe Morgenstern

'PANTHER': AN EPIC TO POUNCE ON



Chadwick Boseman as T'Challa/Black Panther

HERE ARE THREE REASONS, in descending order of obviousness, why Ryan Coogler's "Black Panther" is a singular movie event.

This action spectacular from Marvel Studios is the first megabudget blockbuster-for-sure with a black superhero and a mostly black cast. The action meets or exceeds most standards for the genre, and plays out in exceptionally stylish settings. The movie has a beating heart, and a big one; it's not just sincere, but that rarest of birds in the jungle of mainstream entertainment, a heartfelt epic.

And here's why the importance of Mr. Coogler's film, which he and Joe Robert Cole adapted from the Marvel Comics canon, transcends all of those reasons. At its center is a genial—as in stroke-of-genius—idea, one that draws from decades-old comic-book myth yet speaks to our moment with mordant wit and startling pertinence.

The fate of a peerlessly powerful nation—no, guess again—hangs in the balance as rival forces battle over using that power for good or ill. The nation in question, a small East African kingdom called Wakanda, is believed by the rest of the world to be woe-



fully impoverished—the sort of place that one real-life world leader recently referenced with scorn. But Wakanda's poverty is an elaborate façade that the kingdom has maintained over the centuries. Don't ask how—comics aren't bound by practicalities—but why is easy to explain. The nation has hidden itself from its neighbors in order to secure its borders and maintain a blessed way of life that involves space-age technology, space ships and steady-state prosperity, all of which is based on Wakanda being the planet's only source of Vibranium, a surpassingly precious metal of extraterrestrial origin.

In short, heaven on earth. Or, as the movie tells us, the El Dorado that explorers mistakenly sought on other continents. But uneasy lies the kingdom that's riven by a fight for its crown.

The quasi-Shakespearean claimants are a charming good guy with superpowers and a superabundance of self-doubt—that's Chadwick Boseman's T'Challa/Black Panther—and Erik Killmonger, an unflinchingly unprincipled black-ops soldier played by Michael B. Jordan. T'Challa's claim is the legitimate one. He's returning to Wakanda after living abroad—as a member

Please see PANTHER page A12

LIFE & ARTS

YOUR HEALTH | By Sumathi Reddy

New Findings on Ovarian Cancer

The cancer may originate in the fallopian tubes, researchers say, suggesting new strategies to prevent and treat a lethal disease

A GROWING BODY of evidence suggests that ovarian cancer begins in the fallopian tubes and not the ovaries, giving researchers hope for developing better strategies to prevent and detect the deadly cancer.

Among women with cancer, ovarian cancer is the fifth-leading cause of death, killing 14,000 American women a year. With no real way to screen for it, it usually isn't diagnosed until it has spread and is in the later stages.

Two studies published last fall in the journal Nature Communications focused on high-grade serous ovarian cancer, the most common and serious type.

Douglas Levine, director of gynecologic oncology at the Perlmutter Cancer Center at NYU Langone Health in New York City, with co-researchers examined precursor lesions, which are an abundance of abnormal cells, and the genetic profiles of tumors from 96 women with ovarian cancer.

They then took collections of tissue from a separate group of healthy women and looked at their

"Technically it's fallopian tube cancer even though we're not going to change the name," Dr. Levine says.

fallopian tubes, ovaries and the lining inside the abdomen. They developed molecular bar codes, or "signatures," to see which tissue the cancerous cells were more genetically similar to.

The finding: in almost every case, the cancerous cells were most similar to the fallopian tube tissue.

"Ovarian cancer really comes from the fallopian tube," says Dr. Levine. "Technically it's fallopian tube cancer even though we're not going to change the name."

About 15% to 20% of ovarian cancers are inherited. Women who test positive for genetic mutations in the BRCA1 and BRCA2 genes have an increased risk of developing ovarian cancer.

For such women, because there is no way to screen for ovarian cancer doctors usually recommend preventive surgery between ages 35 and 40, when a woman has decided to have no more children or 10 years before the earliest ovarian cancer death in her family. The surgery entails removing the ovaries and fallopian tubes, resulting in premature menopause.

Given that the average age of menopause is 52, going through it 12 or more years early can significantly reduce a women's quality of life, experts say.

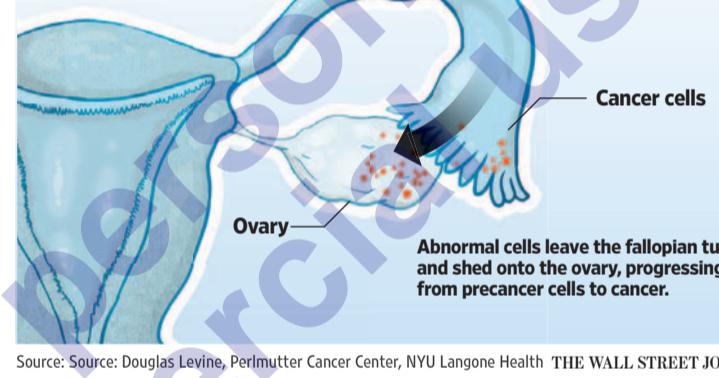
Dr. Levine is part of a clinical trial led by researchers from MD Anderson Cancer Center in Houston



SCIENCE PHOTO LIBRARY

A Cancer's Origins

Researchers compared ovarian cancer tumors with tissue from healthy women's fallopian tubes, ovaries and abdominal lining and found the cancer cells were most similar to the fallopian tube tissue.



Source: Douglas Levine, Perlmutter Cancer Center, NYU Langone Health THE WALL STREET JOURNAL.

Genetic analysis of patients with risk of ovarian cancer involves DNA sequencing and family history.

which the lesions arose.

They estimate that seven years elapsed between development of the early fallopian tube lesions and ovarian cancer. Then, within a year, the cancer quickly spread. "If we can catch these lesions early, we can intervene before the cancer metastasizes," Dr. Velculescu said.

The researchers are trying to confirm their findings on a larger scale and see if women with other subtypes of ovarian cancer show the same pattern, Dr. Velculescu said.

Britton Trabert, an investigator in the metabolic epidemiology branch of the National Cancer Institute, part of the National Institutes of Health, said evidence of the fallopian-tube origin of ovarian cancer is compelling but hasn't been "reproduced universally," for all kinds of ovarian cancer in all kinds of women.

"It's definitely looking in that direction, but in terms of going to the next step and saying you can remove the tubes and not the ovaries, I think that's a stretch," Dr. Trabert said.

"It's a great hypothesis that will help us understand a lot" about the origins of ovarian cancer, she added. "But I don't think it's going to explain everything."

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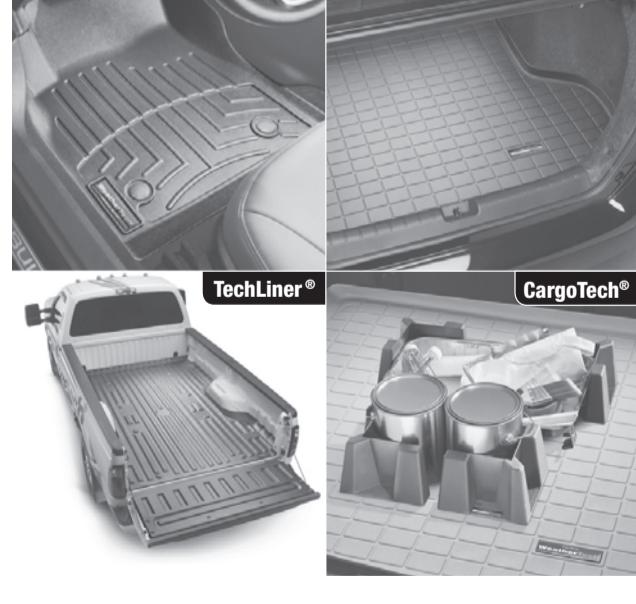
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LIFE & ARTS

BOOKS

New Biography Challenges a Royal Love Story

BY ELLEN GAMERMAN

WALLIS SIMPSON is buried on the grounds of Windsor Castle in England, next to Edward VIII, the king who abdicated the throne to be with her.

But their seemingly towering romance—he threw it all away for her!—crumbles in the hands of biographer Andrew Morton. "She lies next to a man she came to despise," he writes, "buried in a land owned by a family she hated and in a country she loathed."

Mr. Morton's book out on Tuesday, "Wallis in Love: The Untold Life of the Duchess of Windsor, the Woman Who Changed the Monarchy," upends accepted wisdom about this couple, describing a relationship based on mutual exploitation. Mrs. Simpson pursues Edward in hopes of becoming queen, not realizing the havoc her two divorces will wreak on her quest. Edward dreads becoming king and finds a solution in his adoration of this American woman, whose past disqualifies him from the royal job.

Two days before their wedding in 1937, Mr. Morton writes, Mrs. Simpson met with the man she really loved, Herman Livingston Rogers. Mr. Morton describes her seemingly offer to have Rogers's baby and pass it off as Edward's. His evidence for this claim is based on brief notes about the matter by Mrs. Simpson's onetime ghostwriter, Cleveland Amory.

"It was a story of bitterness, disappointment and ultimately failure," Mr. Morton said during an interview from Pasadena, Calif., where he lives when he isn't in London.

Mr. Morton argues that the king's 1936 abdication was, in the end, a one-sided decision. Edward's marriage to Mrs. Simpson was forbidden due to her two divorces and living ex-husbands, but his abandonment of the throne to be with her was far from a given.

"The man who ostensibly loved her was making decisions about her future without any kind of sensible conversation," Mr. Morton said in the interview. Not long after the abdication, Edward is described singing in a bathtub. Mrs. Simpson, however, is portrayed getting snubbed by British and American elites and exiled to a semi-royal life.

As a married couple, they became the Duke and Duchess of Windsor, though Mrs. Simpson was never granted permission to be addressed as "Her Royal High-



Wallis Simpson and Edward VIII after their 1937 wedding.

ness."

Mr. Morton, 64 years old, whose books include the 1992 royal tell-all "Diana: Her True Story," spent two years researching Mrs. Simpson, scouring diaries, unpublished notes from interviews and other materials from her friends and associates. He plans to release a book on Prince Harry's fiancée Meghan Markle this spring.

The Nazi sympathies of Edward and Mrs. Simpson—made vivid in the Netflix series "The Crown"—are sprinkled in the book. At one point, Hitler plays matchmaker for the single Edward, dispatching an envoy to find him a German princess, Mr. Morton writes.

Later, Edward and Mrs. Simpson share tea with the dictator. "I have never thought Hitler was such a bad chap," the duke says, according to Mr. Morton, who quotes Mrs. Simpson calling Hitler's eyes "unblinking, magnetic, burning with a peculiar fire."

Mrs. Simpson emerges in the book as a domineering woman focused on breaking into the aristocracy when she meets Edward in 1931. She could be fun, with a sly sense of humor, Mr. Morton writes, and Edward seemed to like

being bossed around by her. The author sees symbolism in a late-night scene when Mrs. Simpson spins Edward around the royal grounds in a baby carriage.

Edward moons over Mrs. Simpson, calling four or five times a day to profess his love in an era when insistent suitors couldn't be sent to voice mail. While on a boat tour, he writes her a bagpipe song. Edward was just as ardent with previous girlfriends, Mr. Morton writes. Mrs. Simpson's replies, however, were singular: In one note, she rebukes him for not serving more green vegetables to guests.

Mr. Morton's work has long been controversial, and his biographies of Tom Cruise and other celebrities have been challenged over their accuracy. Yet in "Wallis in Love," he quashes some of the more salacious rumors about the duchess, including speculation that Edward was hooked by his future wife's seductive powers.

He found no evidence that Mrs. Simpson was trained in Hong Kong's brothels, a popular Simpson myth. In the book, she tells a friend that she never slept with either of her previous husbands.

Edward and Mrs. Simpson remained together until Edward's death in 1972. Edward took his last breath in the arms of his nurse, Mr. Morton writes. Mrs. Simpson, he adds, was asleep in another room.



Danai Gurira and Florence Kasumba, above, and Michael B. Jordan, below

PANTHER

Continued from page A10

of the Avengers—to occupy the throne left vacant by the death of his father. Killmonger's claim is the sensational one, since Mr. Jordan makes Erik a bad guy of boundless energy.

His performance is a delight, but that should come as no surprise after his remarkable starring roles in Mr. Coogler's previous films, "Fruitvale Station" (as Oscar Grant, the black, unarmed 22-year-old who was fatally shot by a white transit cop at a BART station in Oakland, Calif.) and "Creed" (as Adonis Johnson, the illegitimate son of Rocky Balboa's nemesis Apollo Creed).

Both sides of the Wakanda conflict summon strong support. Erik, who wants to use Vibranium to conquer the world, relies on the gleefully odious arms dealer Ulisses Klaue (Andy Serkis). T'Challa turns to women, nurturing women, starting with Nakia (a radiant performance by Lupita Nyong'o), an operative of the Dora Milaje, Wakanda's special-forces team made entirely of women—and what formidable women they are. In a movie that's not only politically but dramatically correct, the screen is filled with fearless females hurling Vibranium spears.

(Ruth E. Carter designed the spectacular costumes. The production was designed by Hannah Beachler. Rachel Morrison was the cinematographer.)

Let's also hear it for the life of the mind, because the show is sporadically stolen by Letitia Wright as T'Challa's younger sister, Shuri, who serves as the movie's counterpart to James Bond's Q. Shuri is supposed to be the smartest woman in the world, and this quartiermistress certainly knows her cutting-edge gizmos, gadgets and weaponry. But Ms. Wright knows the superpower of vivacity, and the screen comes alive with a special grace whenever she is on it.

"Black Panther" isn't flawless.

Satisfying as the physical action may be on the whole, it's repetitive at times, and occasionally ponderous, with digital effects of highly variable quality. An elaborate detour to South Korea comes to little or nothing in a chase-ad-dled payoff. Mr. Coogler surely intended certain scenes to be taken with a whiff of irony—those that evoke the jungle drums and tribal rites and waterfalls of old movies like "King Kong"—but they're sometimes afflicted by the silliness they mean to tease.

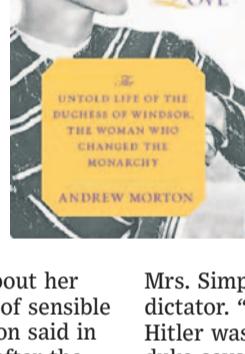
All the same, Mr. Coogler's film (and it is his film, notwithstanding its scale and cost) has the chutzpah, if I may appropriate a Wakandan locution, to present itself as a parable for our time, and the skill to pull it off, although skill, which implies expertise or precise calculation, doesn't fully explain this success. What

Ryan Coogler and his colleagues have done is opt for earnestness, of all things, an approach that can be disastrous when it goes wrong, and potent when it goes right, as it does here.

"Black Panther"

means exactly what it says, which is that wealthy, powerful nations—apart from Wakanda, no names are named—have the freedom to make choices: to look inward in self-imposed isolation, as Wakanda did for most of its history; to impose their power on others (Erik Killmonger and his ilk want to sell arms to make Wakanda great again); or to use their moral strength in conjunction with all their other assets to help heal the community of nations.

It's not spoiling anything to tell you where King T'Challa comes down. In a coda at an international conference in Vienna, he makes an impassioned case for altruism on a global scale. "We must find a way to look after one another as if we were one single tribe," he says. Cooler heads must have warned Mr. Coogler against such a guileless outpouring of good will; thank goodness they didn't prevail. The king's speech, like much of the film that precedes it, is simply and purely stirring.



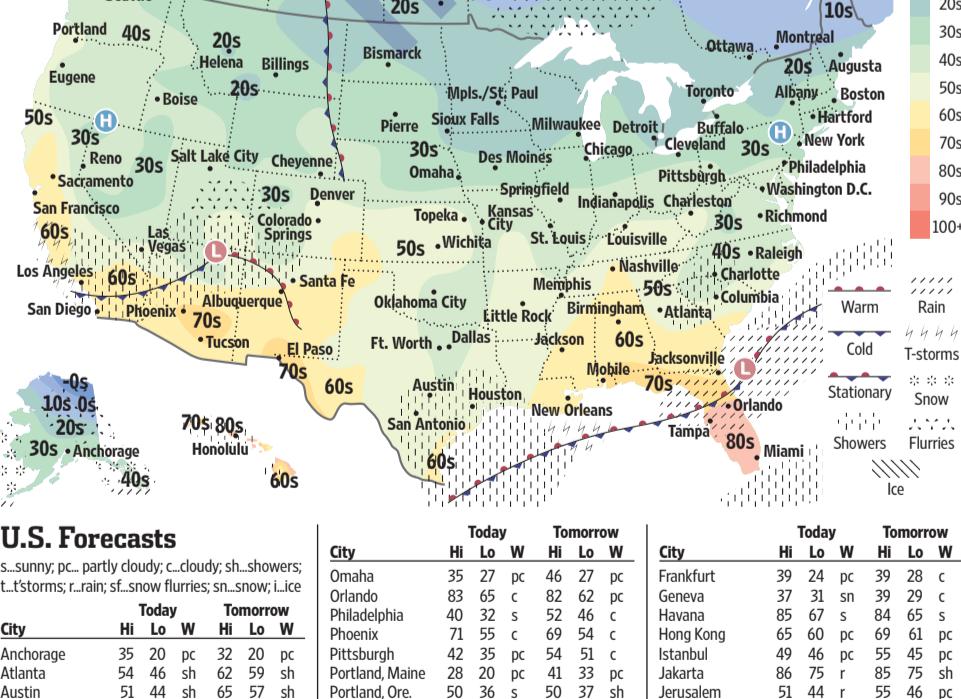
ANDREW MORTON



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Weather



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

Today Hi Lo W Tomorrow Hi Lo W

City Anchorage 35 20 pc 32 20 pc

Atlanta 54 46 sh 62 59 sh

Austin 51 44 sh 65 57 sh

Baltimore 40 31 pc 52 46 c

Boise 46 32 s 44 28 r

Boston 32 27 s 47 39 pc

Burlington 25 20 pc 41 37 c

Charlotte 49 36 c 59 56 c

Chicago 30 25 pc 43 34 pc

Cleveland 39 30 pc 50 47 c

Dallas 48 41 sh 66 59 sh

Denver 51 32 s 58 27 pc

Detroit 27 20 pc 41 35 c

Honolulu 81 69 c 79 67 sh

Houston 56 52 sh 76 64 sh

Indianapolis 41 33 pc 51 50 sh

Kansas City 47 36 pc 62 50 pc

Las Vegas 59 47 c 63 43 pc

Little Rock 50 42 pc 60 56 sh

Los Angeles 64 50 c 67 50 pc

Miami 84 72 pc 84 71 pc

Milwaukee 31 25 pc 43 32 pc

Minneapolis 28 22 pc 42 24 pc

Nashville 61 52 c 64 61 r

New Orleans 66 62 sh 76 65 c

New York City 36 31 s 48 44 c

Oklahoma City 49 40 pc 68 54 pc

Portland 40 31 r 44 35 s

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Athens 59 50 p 59 47 r

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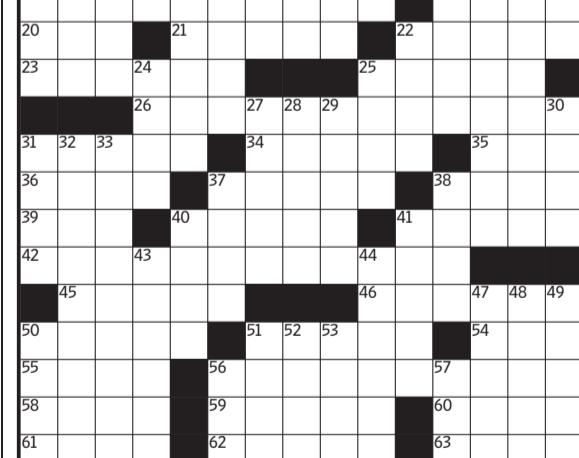
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Dublin 41 34 pc 51 34 r

Edinburgh 40 31 r 44 35 s

The WSJ Daily Crossword | Edited by Mike Shenk



FOUR ACES | By Ethan Cooper

- | Across | Down |
|--------------------------------------------|------------------------------------------------|
| 1 She turned | 22 1930s bombers |
| 23 Like some tension | 41 "Fargo" brothers |
| 25 Jury's determination | 42 Do a great job as a glassware manufacturer? |
| 5 Senior | 45 Do-mi-so, for one |
| 10 Surrounded by | 46 Prescription indication |
| 14 Pitcher Cobb | 31 Origami need |
| 15 Popular thing for seniors to play | 50 Compress |
| 16 Leafy stimulant | 51 Some Vegas entertainment |
| 17 Do a great job as a U.S. Mint employee? | 54 Used the trough |
| 19 Alternative to Gouda | 55 Reduced amount |
| 20 School hallway prohibition, for short | 56 Do a great job as an attack dog? |
| 21 Checks the weight of, in a way | 58 Price for a hand |
| | 59 Declare invalid |
| | 60 Alternative to Camembert |
| | 61 VA doctor's specialty |

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

- | | |
|-----------------------------------------|-----------------------------------------|
| 62 Davis of "Dangerous" | 28 Six-time All-Star Rusty |
| 63 Proof you have a lot | 29 "Mack the Knife" composer |
| Down | 30 Opposite of "avec" |
| 1 Angelic instruments | 31 Juicy fruit |
| 2 Skillfully dodge | 32 Share |
| 3 "Take a chill pill!" | 33 They're often flaky |
| 4 Body spray brand | 37 Clumsy landing |
| 5 Card game that's also a complaint | 38 Throw away |
| 6 Bakery buy | 40 Senator Orrin Hatch's state |
| 7 Terse warning | 41 Early spring bloomers |
| 8 Cardiologists' readings, for short | 43 Laid one on, so to speak |
| 9 Bakery buy | 44 Fit for consumption |
| 10 Like vinegar | 47 Blazing |
| 11 Developer's showcase | 48 "Friend Like Me" singer in "Aladdin" |
| 12 It's too much to deal with right now | 49 Moved cautiously |
| 13 Hydroelectric projects | 50 Response to an insult, maybe |
| 18 Committee head | 51 Filly feature |
| 22 Camel remnant | 52 "No Sunshine" |
| 24 Luau instruments | 53 Surfeit |
| 25 Main idea | 56 Apprehend |
| 27 QB Jared Goff, for one | 57 "Check this time slot later" |



Previous Puzzle's Solution

KOREA ALABRAH WET
GROAN PAYBIA AXE
BEERY PRESSKITS
SCISSORS SKILL
OHGEE UNITE CAT
TOGA TRIOS BACH
SOY REAPS SCHACH
HEELSKIRT TICED
MUTUAL BELIEF
ATALL MAGE TIDES
DISK SALOON CROAK
ACT TRESS HENRI

PYEONGCHANG 2018

BY BEN COHEN

Pyeongchang, South Korea
MICHAELA SHIFFRIN was only a teenager when she faced a decision that would change her life forever. She had to choose where she wanted to ski. And her choices were the two places she called home: Vail and Vermont.

Shiffrin was born in Colorado, moved to New Hampshire and trained in Vermont before moving back in middle school to what may be the best place on the planet for a skier. And the person who today may be the best skier on the planet didn't want to be there. Her parents knew she needed to get back to the Northeast.

She enrolled at the Burke Mountain Academy, a boarding school in Vermont for ski racers, where the snow was so bad that it was basically ice. But what's miserable for most skiers was magical for Shiffrin. This is where she became the most dominant skier alive.

"It's perfect conditions," said Bug Pech, Shiffrin's high-school roommate, "because it's horrible conditions."

That contradiction is one reason she may leave Pyeongchang considered the greatest of all-time in her sport.

The first of Shiffrin's potential five races here on Wednesday—the beginning of what could be an epic run the likes of which the Winter Olympics have never seen—happens to be her best event. Shiffrin has won every world-championship slalom race since 2013. She won the Olympic slalom race in 2014 for her first gold medal. She won so many slalom events last season that she won her sport's overall World Cup title. She wins at such an extraordinary rate that it only makes sense there's an unusual explanation for how she skis: where she skied.

"You grow up in the East, and you know how to ski on ice," said Erik Schlopy, a Burke alumnus who skied in three Olympics. "There's no better training ground than Vermont because it's icy."

Anyone who has skied both sides of the United States would say the mountains out West are bigger and better in almost every way. The powder in destination resorts like Vail is the soft, pillow-y stuff of skiing paradise. But for ski racers, that's a problem. They want the consistency of hard snow, and they'll go anywhere to feel the power of their sharp turns.

Shiffrin didn't have to go very far. The conditions in Vermont were almost identical to the conditions she would one day encounter across Europe. "The World Cup runs are pure ice," Schlopy said. "It's basically a slab of marble that's a mile long."

The idea is to reward technical

Conditions were brutal, which made them ideal preparation for her career



Mikaela Shiffrin competed in November at a World Cup event in Killington, Vt.

CHARLES KRUPA/ASSOCIATED PRESS

precision, and no skier is as technically precise as Shiffrin, in part because she's familiar with snow that's injected with water to feel less like snow. "That happens naturally in the East," said Griffin Brown, her classmate at Burke.

It's almost impossible to say whether Shiffrin is more the prod-

uct of nature or nurture because the truth is that she's both. The daughter of ski racers, Shiffrin was born in Colorado, where kids click into skis as soon as they can walk, and her family moved to New Hampshire when she was eight. She soon embraced the benefits of being in the Northeast.

Shiffrin began whizzing down the small local hill, and once she enrolled at Burke Mountain Academy in eighth grade, she used its short course and quick lift to get lots and lots and lots of practice.

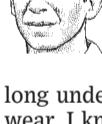
"Her advantage was the efficiency of the training," said Kirk Dwyer, her youth coach at Burke.

She wouldn't have come to Pyeongchang—where she could win three and maybe even an unprecedented four gold medals—more than a week in advance if she didn't. She can train anywhere she wants. She's on the road so much, in fact, that it doesn't matter where Shiffrin calls home.

Which is why she no longer lives in Vermont. Shiffrin now lives near Vail.

JASON GAY

GREETINGS FROM TOMORROW IN PYEONGCHANG



Greetings from the 2018 Winter Olympics, where, you'll be reassured to know your rugged correspondent is typing while wearing long underwear over long underwear. I know you're all eager for my clumsy cultural generalizations—so let's get right to them!

1. It's cold here, y'all. Not cold—cold—the first couple of days were mild enough for rum cocktails—but it's turned frigid and windy enough to cancel Alpine skiing, make me walk backwards on the sidewalk and remind everyone that Sochi 2014 and Vancouver 2010 were basically beach volleyball tournaments. Thankfully, your rugged correspondent braved the Super Bowl earlier this month in Minneapolis, which was a Jedi training camp for freezing your behind off. Minnesota: You toughened me into human Gore-Tex! I haven't had to do long underwear

over long underwear over long underwear yet, but I have a zillion heating packets and I'm traveling everywhere with BACKUP MITTENS.

2. Backup Mittens is a great name for your family's second cat. Well, we had Mittens, but a coyote got him, so this is...

3. Underrated sports accomplishment: Being the first Team USA member to win gold, as Colorado snowboarder Red Gerard did Sunday. I think First Gold's the best medal: There's tons of attention, NBC dips you in prime time rainbow sauce, Wheaties sends you flirty messages, and you can basically goof off the rest of the Games. Or tear up the town. "If we're not in jail," Red's brother Brendon Gerard told the Washington Post, "then something didn't go right."

Hey, Red's just 17! He's got another event! Everybody knows 17-year-old kids have no interest in going out and...oh, never mind. Yikes.

4. Short-track speedskating has haughtily declared itself the "It" sport at these Games, and will likely prove to be, owing to the regional fan base, but "It" status has been temporarily hijacked by figure skating, which has minted new American fame comets in Adam Rippon and Mirai Nagasu. Four years ago, Rippon and Nagasu sat on the couch together and sad-ate In-N-Out burgers as they watched their teammates compete in Sochi. (Correction: There's no such thing as sad-eating In-N-Out.) Nagasu even pulled off a triple axel—the first American woman to do it in the Olympics. You know how hard it is to do a triple axel? Think of that the next time you lose it when Phil Mickelson shimmies and chips out of a bunker.

5. Everyone's making a big deal about music with lyrics debuting in figure skating, but the taste has been pretty conventional: Coldplay, "Moulin Rouge!" Celine Dion, Beyoncé. When does someone skate to Merle Haggard? Cash? Screamin' Jay Hawkins? Iggy Pop? The Chipmunks? If someone skates to The Chipmunks' cover of "My Sharona" I will buy them a Kia. Or steal it, with help from Red Gerard's family.

6. There's always a have-to-have-it souvenir at the Olympics, and this year, it's a pair of Stan Smith-style Pyeongchang 2018 sneakers, which may not be appropriate footwear for trudging through the slush at biathlon, but are handsome and nicely priced at KRW 50,000 (\$46). Get them while they're hot—or before the Adidas lawyers pounce!

7. There are a bunch of robots hovering around the premises—it looks like Journal tech nerd Joanna Stern's living room—but, as far as I can tell, all these Olympic



Mirai Nagasu, left, became the first U.S. woman to land a triple axel at the Olympics. A robot vacuum cleaner, above, approaches an Olympic volunteer.

robots can do is sing, tell you the weather and vacuum. Thankfully, they do not seem capable of writing a third-rate sports column, but my Journal bosses have their fingers crossed for Tokyo 2020.

8. Double-underline this: The interplay between South and North Korea is the story of these Games thus far. Slopestyle is cool and all, but it's been riveting to watch the reaction locally to the presence of North Korean athletes and Kim Yo Jong, the sister of North Korean leader Kim Jong Un. The other day, local TV endlessly replayed a loop of Kim's departure from her hotel—out of the hotel, into the car, out of the hotel, into the car—as if they were breaking down Buccaneers pass coverage. Now there's fierce backlash—admonishments that a fawning media is airbrushing a dictatorial regime, and allowing North Korea to swipe the spotlight from the host. Meanwhile, my editor, Jim Chairusmi, was mistaken by other media for a North Korean journalist. Jim is Thai and from New Jersey.

9. I have no idea what is hap-

pening with the Cleveland Cavaliers, but please: no spoilers.

10. There is a 14-hour time difference between Pyeongchang and my home base in New York, and it does turn the world slightly upside down. Whatever you're watching at home on NBC in your Boba Fett jammies is happening the next morning here, and it feels as if I'm skipping ahead chapters in a book. My kids think that "Daddy lives in tomorrow," and they're not technically wrong. At these Winter Olympics, Daddy does live in tomorrow—until, of course, he's replaced by a robot.

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Reporting live from the Winter Games in Pyeongchang.

Get the smartest insights delivered to your inbox.

PYEONGCHANG 2018

SNOWBOARD

Chloe Kim Flips to Halfpipe Gold

Kim affirms her place as the most dominant female halfpipe artist

BY BRIAN COSTA
AND RACHEL BACHMAN

BONGPYEONG, South Korea—The next great American Olympian has officially arrived.

Chloe Kim, a 17-year-old snowboarder from Southern California, affirmed her place as the world's most dominant female halfpipe artist by winning gold in that event in a runaway on Tuesday. It was the third consecutive day in which an American won gold in snowboarding, following Red Gerard and Jamie Anderson in the slopestyle contests.

The halfpipe final included three runs by each of the 12 contenders, with only their best score counting. Last up in the order, Kim delivered a dazzling first run to earn a score of 93.75 out of a possible 100. If her opening statement could be put into words, it was, "Try topping that." No one else did.

Though Kim stumbled a bit in her second run, falling down at one point for a measly 41.50, it didn't matter. How worried was she about her score holding up? While her competitors were making their final runs, Kim went on Twitter.

She wrote, "Wish I finished my breakfast sandwich but my stubborn self decided not to and now I'm getting hungry." By the time Kim began her final run, she had already clinched the gold. But that didn't stop her from outdoing herself.

Instead of taking a leisurely victory lap, Kim put an exclamation mark on her effort with a near-perfect final run to earn her winning score of 98.25.

Behind silver medalist Liu Jiayu of China, American Arielle Gold



CAMERON SPENCER/GETTY IMAGES

Chloe Kim of the U.S. won the gold medal in women's halfpipe on Tuesday. Liu Jiayu of China took silver while Arielle Gold of the U.S. won bronze.

won bronze. Gold, 21, previously qualified for the 2014 Olympics but missed the competition with a shoulder injury.

Kim's dominance has been a long time in the making.

Early each morning before elementary school at La Palma Christian School in Orange County, Calif., Kim would climb onto a trampoline in her nearby yard and practice jumps and flips.

"I mean, every morning," recalled Karen Bland, La Palma's director of school. "We would walk over and yell, 'Good morning, Chloe!'"

A mere decade later, Kim arrived here as the gold-medal fa-

vorite. She was performing not only for Team USA but in South Korea, where her parents are from and where she still has a grandmother, aunts and cousins.

In the hours leading up to Tuesday's final, a Korean television station gave her the kind of extensive coverage usually reserved for home athletes. It aired an interview with her, showed her getting her board prepared and had analysts discussing her at length, almost to the complete exclusion of her competitors.

Though the stands at Phoenix Snow Park were not entirely filled, there was broad support for Kim from both Americans and Koreans

in attendance. Some held signs that read, "Go Chloe Kim!"

"It's so cool being here," Kim told reporters last week. "Competing in my first Olympics in the country where my parents came from is pretty insane. I'm feeling nothing but excitement. It should be a fun ride."

Kim was 13 years old during the 2014 Olympics—too young to compete under international rules. But she was already becoming a force in her sport.

At the 2016 U.S. Grand Prix, at age 15, she became the first woman to land back-to-back 1080s, three-revolution spins, and scored a rare perfect 100. Kim has won

four gold medals at the Winter X Games, including one in January.

"I feel like I'm scared a lot of the time, when I'm dropping in," Kim said of the potential dangers of the 22-foot-high halfpipe. She says she thinks, "This could happen, that could happen."

But her social-media streams show a young woman comfortable in her ability.

"Could be down for some ice cream rn," Kim tweeted Tuesday afternoon local time. When a follower tweeted at her, "Aren't you competing right now?" She replied, "yes."

It was the halfpipe's qualifying rounds.

NORTH KOREA

WEAPONS OF MASS DISTRACTION

BY JOSHUA ROBINSON AND EUN-YOUNG JEONG

GANGNEUNG, South Korea—The diplomatic efforts between the two Koreas at the Pyeongchang Olympics so far have included a visit from Kim Jong Un's sister, bilateral meetings and the decision to field a single squad of athletes under the flag of a unified Korea.

Those instruments of statecraft, however, were conspicuously lacking in choreographed chants and speedy wardrobe changes. For that, North Korea has fallen back on its favorite weapon of mass distraction: cheerleader diplomacy.

Already among the most polarizing attractions of these Winter Games, a squad of more than 100 young women in matching red tracksuits made its Olympic debut on Saturday night, putting on an unannounced display in the stands during short-track speedskating. The 12,000 fans inside the Gangneung Ice Arena couldn't help but watch. "They're super awesome," 17-year-old American speedskating star Maame Biney said of the cheerleaders. "They have really beautiful voices."



KIM KYUNG-HOON/REUTERS

North Korean cheerleaders wave flags at the Opening Ceremony of the Pyeongchang Games.

are certainly held in high esteem by authorities: Kim Jong Un's wife was a cheerleader in the mid-2000s.

The 229 women make up the largest group of the 492-strong North Korean delegation here, according to Seoul's Ministry of Unification. The women are believed to come from elite families living in Pyongyang, North Korea's capital city. As for their backgrounds, experts said, the women are most likely to be students from arts and performing schools. Their estimated ages are between their late teens and early 20s.

Nam Sung-wook, a professor at Korea University's Department of

Unification and Diplomacy in Seoul, says the cheering is a cunning strategy remote-controlled by Pyongyang to weaken South Korea's ties with the U.S. and loosen sanctions against North Korea.

"They're trying to appeal to people's emotions," says Nam, pointing to how the cheering squads' chants and songs have so far revolved around the theme of "national cooperation."

If emotional reactions are what they were after, then they succeeded. At least inside the Olympic venues. The team cheered unequivocally for skaters from both sides of the 38th parallel. Their song

repertoire included nostalgia-evoking tunes such as "My Hometown" and "Our Wish Is Unification," which most Koreans learned as kids. Knowing those songs is one of the few things the cheerleaders and South Korean fans would have had in common.

The cheerleaders' first widely reported international engagement was the 2002 Asian Games in Busan. They did not have a happy return. A 2007 human rights report by the U.S. State Department noted that 21 of the women were "imprisoned in the Daeheung prison camp, reportedly for discussing what they had seen."

SPEEDSKATING

THE U.S. JINX CONTINUES

BY JOSHUA ROBINSON

GANGNEUNG, South Korea—The American speedskating medal drought was supposed to end on Monday night.

The issue that skaters blamed for their shutout in Sochi four years ago—allegedly defective Under Armour suits—had been solved. The lessons had been learned. And now the U.S. had Heather Bergsma heading into the 1,500 meters as the 2017 world champion over that distance.

It was all going according to plan until the second half of Bergsma's race. After setting out at gold-medal pace, her form went to pieces in a catastrophic final lap. Over the course of just 300 meters, she lost nearly three seconds and had to settle for an eighth-place finish. Her American teammate, Brittany Bowe, despite

a strong World Cup season, finished fifth. It remains eight years since the U.S. last sniffed an Olympic speedskating podium.

"It was a good start—OK start for me," Bergsma said, while fighting back tears. The rest of her race, she added, was "kind of a blur."

More clear-eyed was the Dutch machine Ireen Wust, who won the fifth Olympic gold of her career.

Miho Takagi of Japan took silver

while Marrit Leenstra of the Netherlands earned the bronze.

If Bergsma's collapse four years ago could be explained away by the host of factors that torpedoed the entire U.S. speedskating squad in Sochi, from improper preparation to uncomfortable skinsuits, finding a similar explanation this time around is more challenging. The conditions for success between the Sochi Games and Pyeongchang were all there. Bergsma moved to the Mecca of long-track speedskat-

ing, the Netherlands, in 2015 to live and train with her husband, the Dutch skater Jorrit Bergsma. Since then, she has existed as an honorary Dutch woman in the midst of the most dominant speedskaters in the world near the city of Heerenveen. She competes for a full-time professional team, meaning she doesn't have to worry about funding. She trains at the famous Thialf Ice Arena, home to a

400-meter indoor oval. And like all the top Dutch skaters, she cycles constantly. The decline of American speedskating and stars like Bergsma on the women's side or Shani Davis on the men's side, has left more medals for the Netherlands to sweep up like breadcrumbs. Through three events, the Dutch have claimed six of a possible nine total medals and every single gold.



Jamie Anderson of the U.S. won gold in slopestyle.

Medal Count

| COUNTRY | G | S | B | TOTAL |
|------------|---|---|---|-------|
| Norway | 2 | 4 | 3 | 9 |
| Germany | 4 | 1 | 2 | 7 |
| Neth. | 3 | 2 | 2 | 7 |
| Canada | 2 | 4 | 1 | 7 |
| U.S. | 3 | 1 | 2 | 6 |
| France | 2 | 0 | 1 | 3 |
| Japan | 0 | 1 | 2 | 3 |
| OAR* | 0 | 1 | 2 | 3 |
| Sweden | 1 | 1 | 0 | 2 |
| Czech Rep. | 0 | 1 | 1 | 2 |

*Olympic Athletes from Russia

Updated: 10 p.m. ET

FOR THE LATEST COUNT GO TO WSJ.com/Olympics

MIKE EGERTON/ZUMA PRESS



Heather Bergsma, left, during her disappointing 1,500-meter race on Monday.

VADIM GHIRDJA/ASSOCIATED PRESS

OPINION

How Not to Fix the FBI

MAIN STREET
By William McGurn

Rep. Devin Nunes has rendered the public an extraordinary service. Almost single-handedly, the chairman of the House Intelligence Committee has pried loose from an obstructionist Justice Department documents revealing how the Federal Bureau of Investigation used Clinton campaign research to justify a warrant to spy on Carter Page, a one-time Trump campaign associate. So why are Republicans now threatening to undermine all this good work by calling for a special counsel?

In the past few days, the calls for a special counsel to look into the FBI and Justice Department have grown louder. Sens. Chuck Grassley and Lindsey Graham want one. So do Reps. Bob Goodlatte, Mark Meadows, Jim Jordan and others. Attorney General Jeff Sessions is thinking about it. Meanwhile, President Trump's deputy press secretary has told reporters that the president's lawyers want one too.

It's a tempting proposition. Republicans are plagued by a special counsel whose mere existence calls into question the legitimacy of the last election. Why shouldn't they inflict the same menace on Mr. Trump's opponents? The answer is that a special counsel

is not only unnecessary but counterproductive.

Right now, two big questions hang over our public life: how the Russians interfered in the 2016 presidential elections, and whether the Justice Department and FBI let Hillary Clinton off the hook in the investigation into her private email server even as they politicized counterintelligence operations to undermine team Trump.

Republicans who think a special counsel is the right way to pursue answers ought to take a hard look at the Robert Mueller investigation. Mr. Mueller has indicted a few folks since being named special counsel last May. But he's produced scant evidence of collusion between the Trump campaign and Russia, and no one knows what he's really found because it's all secret.

What makes anyone think a new special counsel would be any different? Once appointed, the curtain would drop. Congress would be asked to stand down, on the grounds that it must not do anything that might interfere with a criminal investigation.

This prosecutorial approach turns the Constitution on its head. In our system of self-government, the American people, acting through their elected representatives, are given oversight of what their politicians and government have been up to. For the most part, accountability is meant to come via the ballot box—not a grand jury.

A better way forward would

be for Mr. Sessions to appoint a U.S. attorney to investigate abuses of power within the Justice Department and FBI. Rather than destroying these organizations, the goal of the investigation would be to restore their credibility by identifying any abuses of power and removing the responsible individuals. Although the threat of a grand jury would

parameters and a time frame to ensure the effort did not drag on and on. Mr. Wray, for his part, would have to show cooperation that doesn't require the threat of a congressional contempt citation.

The man or woman appointed to lead the investigation, Mr. McCarthy says, "has to be someone who is looking to hold people accountable while preserving Justice and the FBI as the essential institutions they are, and who is looking to have this wrapped up in short order, not an empire builder à la Mueller."

Mr. McCarthy believes that although there are other possible investigators, it would be best to use FBI agents. Of course, these agents would have to lack any connection to the subjects of their investigation, and they would need a guarantee that their careers would not suffer. But using FBI agents to root out the bad apples, says Mr. McCarthy, could elicit more cooperation from a bureau that might otherwise see itself as under siege from people who wanted the institution destroyed.

If handled properly, such an investigation could bring many benefits. The public would get a full accounting of the dossier saga. Those responsible for any abuses would be removed. And the American people would see that our system of government is capable of identifying abuse and correcting it—without resorting to the constitutional aberration known as the special counsel.

Write to mcgurn@wsj.com.

A second special counsel would only undermine the good work of Congress.

likely be necessary to concentrate the minds of certain officials who might not be inclined to cooperate, the goal would be to hold individuals accountable, not to tar whole institutions.

Andrew McCarthy, a former assistant U.S. attorney for the Southern District of New York, says that such an investigation would require the unequivocal support of three principal players: President Trump, Attorney General Sessions and FBI Director Christopher Wray. Each would have to show a commitment that has so far been lacking.

Mr. Trump would need to overcome his administration's reluctance to use its declassification powers to make public crucial material. Mr. Sessions would have to provide the designated U.S. attorney not only with support but clear

to follow up with real concessions. Moon Jae-in was too smart and too cautious to take the bait. Rather than accepting the invitation to Pyongyang, he urged the Kim regime to talk directly with the U.S.

By the time the buzzer sounded, it was Mr. Moon who had won the diplomatic gold medal, while Ms. Kim went home empty-handed. Mr. Moon got a political boost from Ms. Kim's visit and the appearance of a thaw between the Koreas, but he avoided the backlash from appearing naive or overeager. He also reminded the Americans that South Korea cannot be taken for granted; without Seoul's support, the Trump administration's North Korea policy is unsustainable.

That matters, since North Korea has become the centerpiece of President Trump's emerging foreign policy. By assembling the most severe and comprehensive sanctions ever levied against the reclusive state, while threatening military action, the U.S. hopes to force North Korea to the nuclear bargaining table.

This has been Mr. Trump's most effective diplomatic and political effort to date. The administration has moved B-1 bombers and F-35 fighters to the Korean Peninsula during annual military exercises. It has reached out diplomatically to countries ranging from China to Indonesia. It has coordinated

Even so, it is far from clear that any sanctions, however draconian, can force the North Korean regime to give up the nuclear weapons that represent not just the Kim dynasty's greatest achievement but the key to its long-term survival.

Widespread famine in the 1990s killed up to three million people, out of a total population of 23 million. Yet that neither loosened the regime's grip on power nor persuaded it to change course. A government that is willing to watch its people die en masse from starvation is an unpromising target for economic pressure.

The sister of North Korea's dictator was a media sensation—but a diplomatic failure.

Yet the military option is hardly appetizing. Past presidents rejected the idea of war against a nonnuclear North Korea; attacking now that it has dozens of nuclear weapons is even less attractive. In the event of war, North Korea could devastate Seoul or Tokyo. China could intervene, widening the conflict. The risks are extraordinary and to some degree incalculable. If South Korea believed that the U.S. was poised to launch a war, President Moon might move quickly to try to keep his country out of it. From Seoul's point of view, its alliance with the U.S. is intended to prevent a war with Pyongyang, not to provoke one.

All this is to say that the effort to denuclearize North Korea is an uphill climb. That does not mean the effort is futile or should not be made.

Sometimes diplomacy is about taking a series of small steps without having the summit in view. As you trek patiently upward, new paths appear—and new choices have to be made.

An important aspect of this kind of slow diplomatic slog is the need to keep America's allies united. The Winter Olympics kerfuffle should remind the White House that maintaining coordinated policies with Mr. Moon will be vital in the months and years to come. Kim Yo Jong and her big brother will be watching.

Mr. O'Toole quotes an op-ed of Mr. Eagleton's from 2007: "For almost the first time in two centuries, there is no eminent British poet, playwright or novelist prepared to question the foundations of the western way of life." In the piece, Mr. Eagleton waxes nostalgic about the 1930s. You know, the good old days, when writers sang the praises of Lenin and Stalin.

Did McNamara perform distinguished service? Many Americans would say no. Is Mr. Eagleton a distinguished thinker? Some writers and critics would say no. In politics and the liberal arts a consensus about who is distinguished is rare—and if there is a consensus the adjective distinguished is superfluous. Perhaps we should only use distinguished to honor exceptional men and women in the military.

Mr. Miller's latest book is *"Walking New York: Reflections of American Writers from Walt Whitman to Teju Cole"* (Fordham, 2014).

Many universities call a

distinguished senator from . . ." But it seems redundant to call a highly accomplished person distinguished. No one refers to "the distinguished scientist Albert Einstein."

The word is also alive and well mainly in the military and the academy. Each branch of the U.S. armed forces has medals for distinguished service. The Navy's Distinguished

When the word is actually appropriate, there's no need for it.

Service Medal "is bestowed upon members of the Navy or Marine Corps who distinguish themselves by exceptionally meritorious service." Only the U.S. Army has a Distinguished Service Medal that may be awarded to civilians, "with the express approval of the President in each case." Robert McNamara received one soon after resigning as secretary of defense in 1968.

Many universities call a

highly regarded professor a "distinguished professor." According to Tufts, the title is "an honor reserved for senior faculty members who have made exceptional contributions to their disciplines, their students and the university as teachers and scholars who exemplify the best of Tufts."

Mr. Eagleton currently holds the title of distinguished professor of English literature at Lancaster University. He has taught at leading universities around the world, but is his writing distinguished?

Some literary figures, including the critic Denis Donoghue,

would say no. Three decades ago Mr. Donoghue wrote about Mr. Eagleton's book, "Literary Theory: An Introduction," in the *New York Review of Books*. According to Mr. Donoghue, Mr. Eagleton transforms great novelists into unwitting victims of sociopolitical forces whose value is merely symptomatic."

Mr. O'Toole probably labeled Mr. Eagleton distinguished in part because he relishes his attacks on capitalism.

BOOKSHELF | By Diane Cole

Time Does Not Heal All Wounds

In Full Flight

By John Heminway
(Knopf, 316 pages, \$27.95)

Few life stories are as confounding as that of Anne Spoerry (1918–99), a physician whose tale of unconscionable evil and quest for expiation spanned several decades and two continents.

In Kenya, where the Swiss-French expatriate made her home starting in the late 1940s, Spoerry was revered as "Mama Daktari," an indefatigable "mother doctor" and the first female member of the Flying Doctors service of the African Medical and Research Foundation (the nongovernmental organization now known as Amref Health Africa). For more than 30 years, she piloted her small plane across thousands of miles to remote areas of the country, in order to provide medical care to an estimated 1 million patients. By the time of her death, her reputation as an altruist extraordinaire had spread throughout the world via numerous admiring articles and honors.

Then her pre-Africa life came to light. At the end of Spoerry's life, a nephew found in one of her safes a cache of personal papers that revealed a closely guarded secret. She once had been known as "Dr. Claude," a notoriously brutal *kapo* during her time as an inmate at Ravensbrück, a women-only Nazi concentration camp. A post-World War II

French court found her guilty of "anti-French and anti-patriotic behavior" in 1946. The following year she was arrested in Switzerland, having been charged with torture by the Central Registry of War Criminals and Security Suspects. Her father bailed her out of jail, but the possibility of further trials and imprisonment loomed, and with the help of her family's connections, she fled to Africa. "In Full Flight: A Story of Africa and Atonement" is the attempt by one of Spoerry's many friends to make sense of her stunning, opposing personae.

John Heminway, a winner of two Emmys, first met and interviewed Spoerry in Kenya in 1980, when he was working in Africa as a journalist and filmmaker. He was curious about Spoerry's past but was rebuffed when he asked her about it. Nonetheless, Spoerry let him accompany her as she flew from one rural village to another on her medical rounds—treating and operating on many of Kenya's poorest inhabitants and vaccinating them against polio and smallpox. Mr. Heminway wrote often about these journeys, and an expanded version of one of these profiles appeared in his book "No Man's Land" (1983). But throughout the 20 years that Mr. Heminway continued both to write about and socialize with Spoerry, he was never able to persuade her to open up about her life before she became Mama Daktari. On that, she remained silent and inscrutable.

Born in France to a well-to-do Swiss Calvinist family, Spoerry spent much of her early years at idyllic family estates and was educated at an elite English boarding school. But her parents were emotionally distant and rigid, Mr. Heminway tells us, and she apparently had few friends or close relationships, with the exception of her adored older brother, François. By the late 1930s, both siblings had moved to Paris, where he studied architecture and she pursued medicine. Then, in June 1940, France fell to Germany.

A woman's heroic work as a doctor in Africa takes on a different significance when her past deeds in a Nazi concentration camp are revealed.

By the end of 1942, Anne had joined her brother as a member of the Resistance. For more than four months she helped secure safe houses for British operatives who had been smuggled into France, delivered messages to other agents in the movement and opened her own apartment to a British spy equipped with a short-wave radio transmitter. After some members of her cell were arrested, Spoerry managed an escape for her British charge but was herself apprehended and soon transported to Ravensbrück.

There she was assigned to a makeshift infirmary for women suffering from tuberculosis and mental illness. Although Spoerry had not yet completed medical school, she became the close associate—and possibly the lover—of the infirmary's vicious leader, a Swiss woman named Carmen Mory. Survivors who were there later testified to witnessing, among other things, Spoerry administering lethal injections to inmates at Mory's command; Spoerry assisting Mory, called by many the Black Angel, in the torture of other inmates; and Spoerry participating in discussions about which prisoners to condemn to death transports. Mory had "bewitched" her, Spoerry would claim. But Mory's protection also meant she received extra food rations and escaped the gas chamber. Did a desperate fear of death turn Spoerry's moral compass upside down?

That she felt shame is evident in her avoidance of the topic throughout her time in Africa. In her new life, Spoerry worked assiduously to keep the details of her past private, and for the most part she succeeded. Yet she preserved many of the documents that laid out her guilt as a collaborator and perpetrator—just as she kept detailed logs of missions flown, villages visited and patients ministered to as a doctor. Spoerry's refusal to retire, despite her failing health, suggests a hope that the accumulated weight of her good deeds would shift the final judgment of posterity in her favor.

When Mr. Heminway first wrote about Spoerry's past in an article for the *Financial Times* in 2010, her friends and admirers were dumbfounded by the staggering revelations. For this book, Mr. Heminway has doggedly researched Spoerry's story, uncovering her own writings, retrieving trial records and interviewing figures from different chapters of her life—including several of the Holocaust survivors from Ravensbrück who had testified against her.

"In Full Flight" strives for objectivity, but Mr. Heminway also tempers his account of his friend's life with affection and understanding—perhaps too much so. One senses that he is trying to make peace with his own failure to uncover the enormity of her secret while she was still alive. The full trajectory of Anne Spoerry's life provokes questions about the human capacity for iniquity and compassion, and about the possibility for rehabilitation and forgiveness. It also makes for a narrative as riveting as it is disquieting.

Ms. Cole is the author of the memoir "After Great Pain: A New Life Emerges."

By Stephen Miller

In a recent issue of the *New York Review of Books*, Finian O'Toole, an Irish literary journalist, writes of "the distinguished Marxist critic Terry Eagleton." How does one determine who is "distinguished"? In my view you can't be distinguished if you are a Marxist critic, because Marxism is an ossified way of thinking. Perhaps Mr. O'Toole means that Mr. Eagleton, the author of more than 40 books, is distinguished because he is a well-known intellectual in Great Britain.

"Distinguished" is rather ambiguous. One dictionary defines it as "conspicuous excellence or eminence." Another says it means "famous, renowned, celebrated." But surely no one would call Kim Kardashian distinguished.

When was the last time you heard the word distinguished? Usage of the word has steadily declined since 1800, according to Google's online dictionary. Sometimes a senator will say "I yield the floor to the

distinguished senator from . . ." But it seems redundant to call a highly accomplished person distinguished. No one refers to "the distinguished scientist Albert Einstein."

The word is also alive and well mainly in the military and the academy. Each branch of the U.S. armed forces has medals for distinguished service. The Navy's Distinguished

When the word is actually appropriate, there's no need for it.

Service Medal "is bestowed upon members of the Navy or Marine Corps who distinguish themselves by exceptionally meritorious service." Only the U.S. Army has a Distinguished Service Medal that may be awarded to civilians, "with the express approval of the President in each case." Robert McNamara received one soon after resigning as secretary of defense in 1968.

Many universities call a

highly regarded professor a "distinguished professor." According to Tufts, the title is "an honor reserved for senior faculty members who have made exceptional contributions to their disciplines, their students and the university as teachers and scholars who exemplify the best of Tufts."

Mr. Eagleton currently holds the title of distinguished professor of English literature at Lancaster University. He has taught at leading universities around the world, but is his writing distinguished?

Some literary figures, including the critic Denis Donoghue,

would say no. Three decades ago Mr. Donoghue wrote about Mr. Eagleton's book, "Literary Theory: An Introduction," in the *New York Review of Books*. According to Mr. Donoghue, Mr. Eagleton transforms great novelists into unwitting victims of sociopolitical forces whose value is merely symptomatic."

Mr. O'Toole probably labeled Mr. Eagleton distinguished in part because he relishes his attacks on capitalism.

Did McNamara perform distinguished service? Many Americans would say no. Is Mr. Eagleton a distinguished thinker? Some writers and critics would say no. In politics and the liberal arts a consensus about who is distinguished is rare—and if there is a consensus the adjective distinguished is superfluous.

Perhaps we should only use distinguished to honor exceptional men and women in the military.

Mr. O'Toole quotes an op-ed of Mr. Eagleton's from 2007: "For almost the first time in two centuries, there is no eminent British poet, playwright or novelist prepared to question the foundations of the western way of life." In the piece, Mr. Eagleton waxes nostalgic about the 1930s. You know, the good old days, when writers sang the praises of Lenin and Stalin.

Did McNamara perform distinguished service? Many Americans would say no. Is Mr. Eagleton a distinguished thinker? Some writers and critics would say no. In politics and the liberal arts a consensus about who is distinguished is rare—and if there is a consensus the adjective distinguished is superfluous.

Perhaps we should only use distinguished to honor exceptional men and women in the military.

Mr. Miller's latest book is *"Walking New York: Reflections of American Writers from Walt Whitman to Teju Cole"* (Fordham, 2014).

Many universities call a

OPINION

REVIEW & OUTLOOK

Trump's Big Public Works Dig

The White House on Monday unveiled its plan to raise \$1.5 trillion in capital for public works. This will cause sticker shock among Republicans, but the President's innovative regulatory reforms deserve debate and may even garner some Democratic support.

President Trump is proposing to spend \$200 billion in federal funds to leverage \$1.3 trillion in state, local and private investment in public works. This bid is probably dead on arrival since Republicans have little appetite for more spending after blowing the budget sequestration caps last week.

Many bridges and airports need a face-lift, though claims of crumbling roads are overwrought and often politically motivated. One problem is that public works like other discretionary programs are being squeezed by entitlements, which constitute nearly two-thirds of federal spending. But even while politicians in Washington gripe that we—always the royal "we"—don't spend enough on public works, they consistently prioritize *other* discretionary programs.

Consider: Of the \$787 billion stimulus in 2009, only about \$60 billion financed public works. Most was spent on safety-net programs and other progressive causes. More Hurricane Sandy recovery money went to "community development" than repairing train tunnels.

Many projects that do receive federal funding aren't national priorities, such as California's bullet train. That's because the government typically awards "competitive" grants to politically favored projects rather than those that would produce the biggest economic benefits. The Obama Administration rigged cost-benefit analysis to reward projects that would promote public housing and reduce carbon emissions.

Mr. Trump's plan includes \$100 billion in "incentives" to spur state and private investment; \$50 billion for rural projects; \$30 billion in revolving federal credit and capital funds; and \$20 billion for "bold and innovative projects" that may not attract private investment "because of the project's unique characteristics." By any other name, this is a national infrastructure bank synonymous with cronyism.

State and local governments have shown they're willing to finance worthwhile projects. According to the Pew Charitable Trusts, more than half of states have raised gas taxes over the past five years to pay for public works. Many innovative projects have no trouble attracting private investment. Consider the Cadiz pipeline, which aims to move 16.3 billion gallons of groundwater each year from the Mojave Desert

Permitting and other reforms are a major policy breakthrough.

to Southern California. Or the new desalination plant in Carlsbad, Calif.

Mr. Trump and Congress should instead focus new federal funding on national or regional priorities such as improving port security and repairing the Hudson River train tunnels, which would benefit most of the Northeast. Congress could

also shift from categorical and competitive grants to block grants that give governors flexibility. This would also make state and local politicians more accountable for their spending. Let California Gov. Jerry Brown choose between spending billions more on his bullet train in the Central Valley or improving commuter rail in the Bay Area.

The real earth-moving parts of Mr. Trump's plan are the regulatory reforms, some of which will need to be fleshed out. The President wants to establish "one agency, one decision" for environmental reviews that would avoid regulatory hop-scotch. Good idea. Mr. Trump also suggests reducing environmental reviews to two years that can now drag out for a decade. Even many Democrats would like to expedite their favorite projects that have been grounded due to the discovery of a tiger salamander or other endangered species.

Another idea with merit is delegating environmental review and permitting decisions to states. California has been assigned these responsibilities under agreements with the Federal Highway Administration, as have Texas, Florida and Ohio. According to Gov. Brown, California has reduced the approval process from the "notice of intent to final environmental impact statement" on highway projects on average by 10 years.

Tucked into the plan is modest flexibility on Buy America requirements and Davis-Bacon, which requires contractors on federal projects to pay workers prevailing wages set by unions. These raise construction costs. While this flexibility is commendable, Mr. Trump's plan will also require tens of thousands of more workers. The Associated General Contractors of America reported last month that 78% of contractors had a hard time hiring. Apprenticeships can make up some of the shortage, but the government will need to increase H-2B visas to avoid delays or exorbitant project costs.

Democrats are ripping the President's plan, and no doubt many think they can get more money if they win control of Congress in November. But they shouldn't be so sure. President Trump deserves credit for opening a debate in Congress about why merely spending more on public works won't help the public.

Jeffrey Bell

One secret to the political success of American conservatism in the 1970s and 1980s was an ability to unify its social right and supply-side economic factions. A leading proponent of that fusionism was Jeffrey Bell, who died Saturday at age 74.

Bell was best known for his stunning upset of incumbent New Jersey Senator Clifford Case in a Republican primary in 1978. Though he later lost to Bill Bradley, Bell ran on Congressman Jack Kemp's tax-cutting agenda and was a harbinger of the Reagan era. He worked in the Reagan Administration and later played a significant role as a public intellectual with particular insight into American conservative populism.

His 1992 book, "Populism and Elitism: Politics in the Age of Equality," chronicled the forces that would propel the Newt Gingrich Republicans to take Congress in 1994. His 2012 book, "The Case for Polarized Politics: Why America Needs Social Conservatism," was also prescient in predicting that a GOP candidate could win the White House by taking Upper

The supply-side populist was prescient about American politics.

Midwest states that are more socially than economically conservative.

Bell promoted a cheerful populism in the Reagan and Kemp mode, and he long believed that socially conservative Hispanics were a natural GOP constituency. "Background doesn't matter," he once said, "if you are articulating views that are populist,

which I define as optimism about people and their ability to make their own decisions, as opposed to letting elites do it for them."

He supported immigration, consistent with his Roman Catholic faith and a belief in human capital to build a great nation. His populism also paradoxically led to his life-long belief in hard money, including the gold standard, as essential to economic prosperity and a protector of middle-class savings.

Bell, who sometimes wrote for these pages, took another stab at electoral politics in 2014 by running against Cory Booker for the Senate from New Jersey. He lost, but his ideas over a lifetime were more influential in shaping American politics than are nearly all Senators.

The Deficit Problem in a Chart

The White House released the President's \$4.4 trillion budget request for fiscal 2019 on Monday, and talk about an afterthought. Congress just passed a two-year budget outline that super-

cedes nearly everything Mr. Trump is proposing.

Congress still must work out the details in spending bills, and perhaps appropriators will grab a Trump request or two, which include everything from a border wall to cuts to food stamps to a plan for spinning off air-traffic control. The President also wants \$200 billion in infrastructure spending (see above) over 10 years, though this seems politically unlikely now that the GOP has shovelled \$20 billion on public works for two years and annual deficits may exceed \$1 trillion.

The most important thing to understand about the U.S. budget, Donald Trump or no, is illustrated by the nearby chart. Even with Mr.

Trump's modest increases, defense barely rises as a share of federal outlays. In 1989 when the Berlin Wall fell, defense was 26.5% of outlays. In 2019 it will be 15.6%.

Meantime, look at "payments for individuals," which encompass such income transfers as Medicare, Medicaid, Social Security and food stamps, among other things. This category was 47.7% of outlays in 1989 and has steadily climbed to reach an estimated 69.2% in 2019.

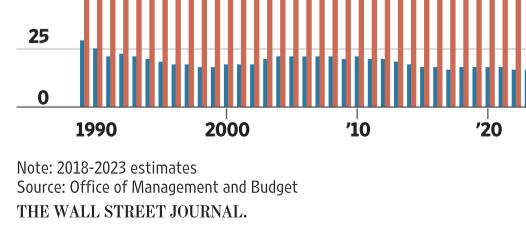
Net interest on the federal debt soaks up another 7.4% of outlays for 2018, and that will rise with interest rates. But as long as Donald Trump and Democrats refuse to reform entitlements, whining about debt and deficits is phony. Defense

hawks like John McCain have a compelling case that troops have been denied adequate resources to defend the country, and the giant sucking sound in the federal fisc isn't defense. It's the relentless rise of income transfers.

Entitlements vs. Defense

Payments for defense and to individuals as a percentage of federal outlays, 1989-2023

National defense ■ Payments for individuals



Note: 2018-2023 estimates
Source: Office of Management and Budget

THE WALL STREET JOURNAL.

LETTERS TO THE EDITOR

Levy's Wrong. Turkey Is Helping Syrian Kurds

Bernard-Henri Levy bases his defamatory piece on the oft-repeated falsehood that the PYD-YPG, the Syrian branch of the PKK, represents all Syrian Kurds ("Stand Up To Erdogan's Brutality," op-ed, Feb. 8). This is first and foremost an insult to the 300,000 Syrian Kurds who fled to Turkey to escape PYD-YPG atrocities.

Mr. Levy tries to whitewash the PYD-YPG in a shameful attempt to portray it as the savior of the West, while ignoring the assassinations, persecutions and ethnic cleansing it has perpetrated in all the Syrian lands it has occupied. The PYD-YPG abuses have been well-documented by independent human-rights organization such as Amnesty International and Human Rights Watch.

Operation Olive Branch is not targeting the Kurds. On the contrary, Turkey aims at clearing Afrin from the terrorist usurpers and returning the land to its rightful owners: the Syrian people, including the vast majority of Syrian Kurds who do not share the murderous ideology of the PYD-YPG.

Turkey will never let any piece of land, anywhere along its borders, to be used as a staging ground for terror attacks against its citizens. Long before military operations began, the

PYD-YPG was taking advantage of Afrin's mountainous terrain to target civilians and military assets inside Turkey, as well as in adjacent Syrian territories.

Turkey was also the first country to launch a successful ground offensive against Daesh/ISIS in Syria through Operation Euphrates Shield (OES) and suffered horrific reprisal terror attacks at home. Today, areas liberated through OES have become a rare haven of stability and prosperity within Syria. Syrians have been flocking back to their homes. Turkey aims to replicate this success story in Afrin.

Not a single Syrian Kurd has dared to return to the areas currently held by the PYD-YPG. The Syrian lands grabbed by this terrorist organization are in ruins and their demographics altered. Allowing and encouraging a terrorist organization to steal even more land in Syria, all the while turning a blind eye to the atrocities against original inhabitants, will only perpetuate the root causes that led to the emergence of Daesh/ISIS in the first place.

SERDAR KILIÇ
Ambassador of
the Republic of Turkey
Washington

Longer, Heavier Trucks Are a Serious Hazard

The public should urge their lawmakers to oppose efforts by FedEx and UPS to increase the national twin-trailer standard to 33 feet from 28 feet per trailer (Letters, Feb. 6). Granting this corporate giveaway will permit longer trucks on our roads, which will erode safety and adversely affect our nation's infrastructure.

My own experience informs my serious concerns with making trucks even longer. In August 2010, my wife, Susan, was killed and my sons, Peter and Matthew (who is now permanently disabled), were injured in a crash after a truck driver operating a triple tractor-trailer fell asleep and crashed into the back of their vehicle.

Unfortunately, crashes in which a truck rear ends a passenger vehicle have skyrocketed, increasing 82% from 2009 to 2015, as calculated by the Truck Safety Coalition. Introducing trucks that require an additional 22

feet to brake will exacerbate this trend.

According to the U.S. Department of Transportation's Comprehensive Truck Size and Weight Study, any reduction in truck-vehicle miles traveled would be wiped out within one year by increases and shifts in freight transportation. The study also found that permitting double 33s would incur a one-time cost of \$1.1 billion to strengthen and replace more than 2,000 bridges. This finding dispels the claim that the "trucking industry foots the bill."

Instead of demanding longer trucks that require a greater distance to stop, companies should look to technologies, such as automatic emergency braking, speed limiters and underride protections to enhance safety, protect our infrastructure and improve their bottom lines.

ED SLATTERY
Lutherville, Md.

Of Leprechauns and Other College Symbols

William McGurn's defense of Notre Dame's leprechaun logo ("Are Leprechauns Racist?", Main Street, Feb. 6) brings to mind the scalping of Dartmouth's Indian symbol and wah-hoo-wah war cry four decades ago by those concerned that Native Americans would be offended. The campaign to cleanse Dartmouth of unintended insensitivity toward descendants of those for whom the college was founded was instigated by a faculty import from the Southwest who asserted that wah-hoo-wah was an expression of such indescribable indecency as to be untranslatable into English. Never mind that a graduate of 1921, an Oglala Sioux, countered that in his language it meant "snow-oh-snow," a seemingly appropriate chant for a New Hampshire-based institution. But the symbol (and war cry) was ditched, and ever since the best substitute Dartmouth has been able to come up with is "The Big Green." If

the Irish leprechaun is abandoned, will Notre Dame athletics come to be known as "Another Big Green"?

EVERETT E. BRIGGS
Hilton Head Island, S.C.

When is the U.S. military going to stop insulting Native Americans by naming its killing war machines after them, e.g., Apache and Kiowa helicopters? And why is PETA deafly silent about animals being cruelly stigmatized as team mascots? Imagine the shame horses must feel being identified with the Denver Broncos. How much Super Bowl money are actual eagles going to receive?

STEPHEN BORKOWSKI
Pittsburg, Texas

Perils of Patrons Progressing To the Perpetration of Art

Regarding Eric Gibson's "An Art Patron's Forgotten Creativity" (Life & Arts, Feb. 5): Perhaps it wasn't the 1913 Armory Show that buried the artistic success of sculptor Gertrude Vanderbilt Whitney, nor her being a woman "in those days." Ever since then our society has tacitly assumed and accepted that a rich person doing art is just a dilettante. A wealthy artist often has two choices to make: either use money to buy artistic recognition, or to remain passive

contemplating one's artistic efforts being ignored by the hypocritical art world of the time. There may be some exceptions, but as a rule all other explanations remain within the level of oneiric excuses obscuring society's intellectual failure.

SAÚL BALAGURA
Houston

EDWARD MARYNIAK
Scottsdale, Ariz.

Maybe It's His Performance

Regarding your editorial "Wells Fargo's Political Penalty" (Feb. 7): Wells Fargo has gotten off lightly. A bank that systematically cheats and steals from its customers should be put out of business.

J. MATTHEW MCGLONE
Towson, Md.

Former Federal Reserve Chairwoman Janet Yellen's behavior is a vivid reminder that her removal from the Fed is completely warranted.

What a cowardly way for her to leave office. She did the Obama administration's bidding right up to the end.

EDWARD MARYNIAK
Scottsdale, Ariz.

Pepper ... And Salt

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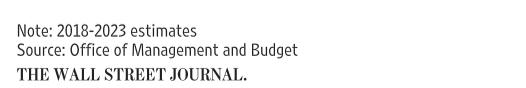


"Do you have any experience with arbitrary deadlines and unrealistic expectations?"

Entitlements vs. Defense

Payments for defense and to individuals as a percentage of federal outlays, 1989-2023

National defense ■ Payments for individuals



Note: 2018-2023 estimates
Source: Office of Management and Budget

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Review & Outlook

Trump's Big Public Works Dig

Permitting and other reforms are a major policy breakthrough.

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OPINION

Why the Center-Left Became Immoderate

By Shadi Hamid

Democracy dies when one side loses respect for electoral outcomes and comes to consider the other illegitimate. Recent U.S. presidents, at least since Bill Clinton, have faced a degree of implacable opposition from the further reaches of the opposing party. But of late the problem seems to have intensified—and disrespect for democratic outcomes has become particularly acute on the center-left.

In polarized times, those without a clear guiding ideology become the most vicious partisans.

That may sound odd. We generally assume the political “middle” to be more reasonable and rational—and less partisan. Ideologues are the ones less amenable to compromise. But although centrists are by definition skeptical of ideology, that does not make them any less prone to partisanship.

In polarized times, political competition comes to resemble tribal warfare. Everyone is under pressure to close ranks and boost morale. Lacking an animating vision beyond expert-led incrementalism, center-left politicians and pundits have few options to rally the Democratic base other than by attacking adversaries and heightening partisan divides. The other option—laying out an alternative that differs from what Hillary Clinton or even President Obama

offered—requires ideological conviction.

That would explain why Rep. Adam Schiff—previously “known as a milquetoast moderate,” according to the *New Yorker*—has emerged as one of the most outspoken figures in the Russian collusion investigation. Before being appointed to succeed Mrs. Clinton in the Senate, Kirsten Gillibrand was an upstate New York representative who belonged to the Blue Dog Coalition. Her 2013 *New Yorker* profile was titled “Strong Vanilla”—and she now boasts the upper chamber’s most anti-Trump voting record.

Many Democrats are unwilling to accept that Mrs. Clinton actually lost to Donald Trump. Those who find her standard center-left technocratic worldview congenial are disinclined to accept ideological explanations, so they look for scapegoats: Russia, James Comey, even the voters who supported Donald Trump. Mrs. Clinton herself pre-emptively offered the last explanation in September 2016, when she consigned half of Trump supporters to “the basket of deplorables”—“they are irredeemable, but thankfully they are not America.” As 2020 approaches, Democrats run the risk of repeating that mistake, taking for granted, as Mrs. Clinton did, that Mr. Trump’s unique flaws will be sufficient to ensure his defeat.

Contrast the centrists with leftist standard-bearers like Sens. Bernie Sanders and Elizabeth Warren. They’re no fans of Mr. Trump, but they haven’t been at the forefront



of calls for impeachment or intensifying the Russia investigation. Instead, they have focused their efforts on broadening the Democratic Party’s base with a more inclusive populism that takes seriously the systemic causes of inequality. Both have resisted the urge to write off Mr. Trump’s supporters, and Mr. Sanders in particular has made outreach to Republicans a major part of his postelection message. Mr. Sanders seems instinctively uncomfortable with identity politics, a Democratic preference that makes it harder to reach out to Trump voters since identities are more fixed than interests or ideas.

The mainstream media generally share a center-left worldview. Most reporters aren’t Marxists or even Sandernistas, and anti-Trump alarmism—what some scholars have called “tyrannophobia”—has become a consistent theme. The idea of a Trump dictatorship may be compelling, but that doesn’t make it right, particularly when it distorts how one perceives actual tyranny. Consider the weekend’s fawning Olympic coverage of Kim Yo Jong, sister of North Korea’s Kim Jong Un. “Despite Mike Pence’s sabotage, North Korea’s ‘charm offensive’ appears to be working,” reads a Sunday tweet from ThinkProgress—an affiliate of the

Center for American Progress, founded by Mrs. Clinton’s 2016 campaign manager.

People want something to believe in, but in the absence of a strong ideological sensibility among Democrats, partisanship and alarmism offer ready recourse. Having an enemy is a powerful motivator, and hating Mr. Trump is entertaining to boot. Politics might otherwise return to boring discussions on how to improve health care or education, why we need more experts, or why facts are important.

The relationship between partisanship and ideology may be changing in unexpected ways. Yesterday’s centrists have become some of today’s most intense partisans. There’s nothing wrong with partisanship per se, but it’s a problem when the parties view each other as enemies and existential threats. Centrism may seem

an obvious solution, but too little ideology can be as dangerous as too much.

Does this mean we need more ideologues? The word sounds like an insult, connoting inflexibility and narrow-mindedness. But politicians who are committed to a set of ideas also tend to have less to prove. They don’t need to play to the base; they can lead the base. Congress—and the country—could use more of them.

Mr. Hamid is a senior fellow at the Brookings Institution and author of “Islamic Exceptionalism: How the Struggle Over Islam is Reshaping the World.”

The High Cost of ‘Affordable Housing’ Mandates

By Paul Kupiec
And Edward Pinto

As housing prices recover from the Great Recession, municipalities across America are considering laws that will raise the cost of homeownership. The Wall Street Journal reports that cities like Philadelphia, Detroit and Atlanta are requiring developers to set aside some portion of their new units to sell or rent at below-market prices to low-income households. Like many progressive promises, this is a fool’s errand. These laws will reduce the cost of housing for targeted political groups if they increase the cost of housing for everyone else.

The concept, called “inclusionary zoning,” has been implemented by 886 communities, nearly 90% of which are in California, Massachusetts and New Jersey. While the intent of these laws is to increase the supply of affordable housing, history shows they increase the cost of housing and limit the supply of new affordable units.

Consider a project plan to produce 100 identical new housing units with development outlays for land, materials, zoning site preparation and other costs of \$23.75 million. Including a 5% return for the developer, the project costs \$25 million. Without government involvement, the market price for each housing unit will be \$250,000. The successful sale of 100 units at this price would cover all out-of-pocket development costs and earn the developer a competitive profit.

What happens if the municipality requires the developer to sell 10% of these new units at below-market prices? Laws are rarely so specific, but assume that the municipality caps the price on affordable units at \$125,000. The law doesn’t change the cost of building. It merely changes the price the developer can legally charge for some of its new housing units. The total cost of \$25 million must now be spread over 10 units, each with a maximum legal price of \$125,000, and 90 units priced to cover the remaining cost. Each of the 90 “market price”

units must sell for \$263,889 for the developer to cover costs.

Policy makers may view inclusionary zoning as a free lunch, but requiring developers to sell or rent 10% of their housing units at below-market prices to “qualified households” means charging above-market prices

Inclusionary zoning laws create a vicious circle of higher prices and reduced demand.

to everyone else. The affordable-housing requirement increases the median house price in the development by 5.5%.

The impact on nonsubsidized home prices can be even more counterproductive. Inclusionary zoning laws impose significant costs on developers, which are forced to find buyers with the necessary qualifications and financing to purchase the

subsidized units. If the potential pool of nonsubsidized qualified home buyers falls short of 90 households when new units are priced at \$263,889, the developer won’t undertake the project. In that case the overall supply of houses will be smaller as new developments are abandoned, putting additional pressure on the prices of existing homes.

The example is simplistic, but the historical record bears out its common-sense predictions. A 2004 study by the Reason Foundation found that inclusionary zoning laws led to less affordable housing in the San Francisco Bay area. The total production of new housing units declined, and the production of new affordable-housing units declined precipitously. The drop in new home construction also coincided with significant price increases for resales and new “market price” units.

Studies by both the Cato Institute and the Brookings Institution show that housing is more affordable where there are fewer land-use restrictions. If zoning, building codes, fees and

inclusionary zoning laws raise development costs, housing will be expensive. Many zoning codes place restrictions on unit density, parking capacity, the size of dwelling units, landscaping and countless other factors that drive up building costs and price many households out of the market.

Rather than promise the impossible—making housing affordable by decree—municipal governments should embrace practical solutions. They should adopt land-use and building code regulations that reduce development costs. They should expedite approval processes, lower impact fees and taxes, and reduce other unnecessary regulations. Only by adopting measures that trim development costs can municipal governments stimulate the production of new housing that is more affordable for everyone.

Mr. Kupiec is a resident scholar at the American Enterprise Institute. Mr. Pinto is a co-director of AEI’s Center on Housing Markets and Housing Risk.

Congress Flirts With Disaster on Bank Leverage Ratios

By Sheila Bair

The stock market’s recent volatility is a reminder that financial conditions can change quickly. Whether periods of stress turn into severe economic downturns depends in large part on whether the nation’s major banks are sufficiently capitalized to weather the market’s ups and downs.

Regulators have worked hard to increase bank capital levels since the 2008 financial crisis, when major U.S. banks collapsed under the weight of their own debt obligations.

It is alarming that several senators are now considering legislation that would weaken a key constraint against excessive leverage.

The Economic Growth, Regulatory Relief and Consumer Protection Act is a bipartisan bill that contains many good provisions to help community and regional banks. But one provision, Section 402, would shortsightedly enable banks to increase their reliance

on debt. It is a technical change, but it needs to be understood, as it could undermine an important guarantor of financial stability and recreate part of the dangerous pre-crisis status quo.

In setting capital requirements prior to the financial crisis, regulators erroneously judged certain assets—such as mortgage securities, derivatives and European sovereign debt—as having little if any risk. Banks piled into these assets because regulators let them leverage returns with borrowed money.

Because their judgments about risk had been so wrong, regulators after the financial crisis have made greater use of capital standards that don’t rely on government risk assumptions. For big banks, the most important of these is the “supplemental leverage ratio,” which requires big banks to fund themselves with at least 5% common equity, effectively limiting their reliance on debt to 95%.

Section 402 would weaken this modest constraint on leverage by

excluding central-bank deposits from this debt-to-equity ratio. This includes deposits not only at the Federal Reserve but also at central banks in countries not always viewed as paragons of stability, such as Turkey and Greece.

Big banks keep a lot of money on deposit with central banks, so removing those deposits from the leverage calculation could lead to capital reductions approaching 30% at some banks. The bill intends to limit these capital reductions to “custodian” banks, usually understood to mean specialized banks that safeguard customer assets. But the bill’s definition of “custodian” bank is so broad that any big bank might qualify.

The stated purpose of the Senate bill is to realign incentives in the financial sector to support economic growth. But Section 402 will not encourage banks to make business and consumer loans; it will simply encourage them to park money with central banks so they can take on

more leverage. In fact, with this provision, they can take clients’ near-zero-interest-rate deposits and place them in their entirety at the Fed, where they will earn a 1.5% return—an effortless way to make a profit that will become more attractive as the Fed raises rates later this year.

Legislators who want to weaken capital standards must have forgotten the lessons of the 2008 crisis.

One possible argument for Section 402 is that the new incentive to invest will help expand central banks’ balance sheets, strengthening their ability to fight economic crises. Late last year, the Basel Committee, an international regulatory forum that includes central-bank supervisors, expressed some sympathy for removing

central-bank deposits from the leverage ratio, but only temporarily and amid exceptional macroeconomic circumstances. Even assuming quantitative easing is a worthwhile strategy, however, this legislation is not necessary to facilitate it. The Fed already has the power to ease capital requirements temporarily to support its market interventions.

Of all the Basel Committee member countries, only the Brexit-challenged U.K. has taken the step of removing central-bank deposits from its leverage calculation. Notably, it also increased its leverage ratio to mitigate the reduction in capital levels, something the Senate bill does not do.

Why does Congress think it is wise to designate particular banking activities as low- or no-risk when expert financial regulators failed so spectacularly in this exercise prior to the crisis? The virtue of the existing leverage calculation is that it does not reflect government judgments about risk. Central-bank deposits might appear to be low-risk today, but other items could be added to the list tomorrow. The Treasury wants U.S. government securities removed from the leverage ratio, notwithstanding their significant interest rate risk. What’s next? Housing agency debt? How about triple-A-rated corporate bonds? Section 402 will create an uneven playing field by giving big systemic banks a special capital break not applicable to community and regional institutions.

Government judgments favoring one financial activity over another inevitably distort and weaken markets. It would be the height of irresponsibility for Congress to loosen capital requirements now, when big banks need to prepare for rough times that may lie ahead. Capital buffers should be built up, not chipped away.

Ms. Bair was chairman of the Federal Deposit Insurance Corp from 2006-11 and is currently founding chair of the Systemic Risk Council.

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Notable & Quotable: Bell

From “Social Issues and the Santorum Surge,” a *Journal Weekend* Interview with Jeffrey Bell, Feb. 18, 2012. Bell died Saturday at 74. A related editorial appears nearby:

Mr. Bell sees social issues as the path to a GOP majority in 2012. They account for the George W. Bush-era red-blue divide, which Mr. Bell says endures—and, he adds, red has the advantage: “There was one state in 2000 that Bush carried that I would say was socially left of center, and that was New Hampshire,” the only state that flipped to John Kerry four years later. “By 2004, every state—all 31 states that Bush carried—were socially conservative states.” Those states now have 292 electoral votes, with 270 sufficient for a majority.

By contrast, not all the Kerry states are socially liberal. “The swing vote in the Midwest is socially conservative and less conservative economically,” Mr. Bell says, so that “social conservatism is more likely to be helpful than economic conservatism.”

Among states that last voted Republican in 1988 or earlier, he classifies two, Michigan and Pennsylvania, as socially conservative, and two more, Minnesota and Wisconsin, as “mildly” so. That adds up to 35 states, with 348 electoral votes, in which social conservatism is an advantage. A socially liberal Republican nominee might win more votes in California and New York . . . but his prospects of carrying either would still be minuscule.

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CME Defect Aids Speedy Traders

Flaw in data feed, a problem 5 years ago, returns to exchange, giving leg up to some

BY ALEXANDER OSIPOVICH

Five years ago, the world's largest exchange operator vowed to fix a flaw in its systems that allowed high-speed traders to infer the direction of the futures market a fraction of a second before everyone else.

Now, the defect is back at **CME Group** Inc., traders say. Some allege it is yielding rich profits for ultrafast firms at the expense of ordinary investors. The problem arises from the

two ways that CME distributes information about a trade. One is the private confirmation messages that the exchange sends to the buyer and seller in each transaction. The other is the public data feed that reports trades to everyone active at CME, a Chicago exchange where an average of 19 million contracts changed hands daily in January.

Sometimes, a firm will receive the private confirmation of its trade just before it is reported over CME's data feed. During that delay—called a “latency”—an ultrafast firm can deduce that the market is about to move up or down and quickly buy or sell to profit from that information, traders say.

A CME spokeswoman said the firm had “dramatically decreased the latency between public market data and private trade confirmations” since 2013, when the issue was reported on in *The Wall Street Journal*. But she acknowledged that private confirmations were still arriving first in some cases.

“Every market participant will experience some degree of variability,” she said in a statement. “In some instances, they may receive confirmations before the public market data feed and other times they will receive them after.”

CME is constantly working to improve its systems, she said.

The revelation that the flaw is still embedded in CME's sys-

tems could lead to renewed scrutiny of the exchange operator. In 2014, during the uproar over high-frequency trading sparked by Michael Lewis's book *Flash Boys*, CME Chief Executive Terrence Duffy was questioned about the issue on Capitol Hill.

Critics of high-frequency trading say exchanges like CME don't have much incentive to fix such issues because their biggest customers are the ultrafast traders who benefit from them.

The delays to CME's public data feed are measured in microseconds, or millions of a second, and by all accounts are much smaller than they were five years ago. Still, the flaw can yield hundreds of millions

of dollars in profit a year to traders, according to Quantlab Financial LLC, an electronic trading firm.

Data from Quantlab's trading in 10-year Treasury futures—a popular interest-rate contract—suggest that CME quickly fixed the latency problem in 2013, but for reasons that are unclear, it crept back into the exchange's systems two years ago. By December, the median private-over-public advantage that Quantlab saw was around 100 microseconds. In about 10% of the firm's trades, the delay was well over 2,000 microseconds.

Such latencies can vary widely. Still, people at several other high-speed trading firms

Please see *CME* page B2

General Dynamics In Major IT Deal

BY DOUG CAMERON AND CARA LOMBARDO

General Dynamics Corp. said it agreed to buy **CSRA** Inc. for \$6.8 billion as part of the defense contractor's expansion in government information-technology services.

The maker of Abrams tanks and Gulfstream business jets would double its annual IT services sales to become one of the largest providers to the Pentagon and agencies such as the Central Intelligence Agency and the Department of Health and Human Services.

Government departments are going through a major refresh of IT systems, including switching more services to the cloud and boosting cybersecurity. That has triggered a round of deals among providers seeking greater scale to handle ever-larger projects as the government bundles contracts to secure savings.

Other big providers include **Leidos** Inc., which bought the IT arm of **Lockheed Martin** Corp. to create an industry leader with annual sales of \$10.1 billion, and **Booz Allen Hamilton Holding** Corp.

CSRA has annual sales of almost \$5 billion, with some of the highest margins in the sector. The company, formed two years ago when **Computer Sciences** Corp. merged its federal arm with **SRA International** Inc., has joined with the web-services arm of **Amazon.com** Inc. to provide government with cloud services.

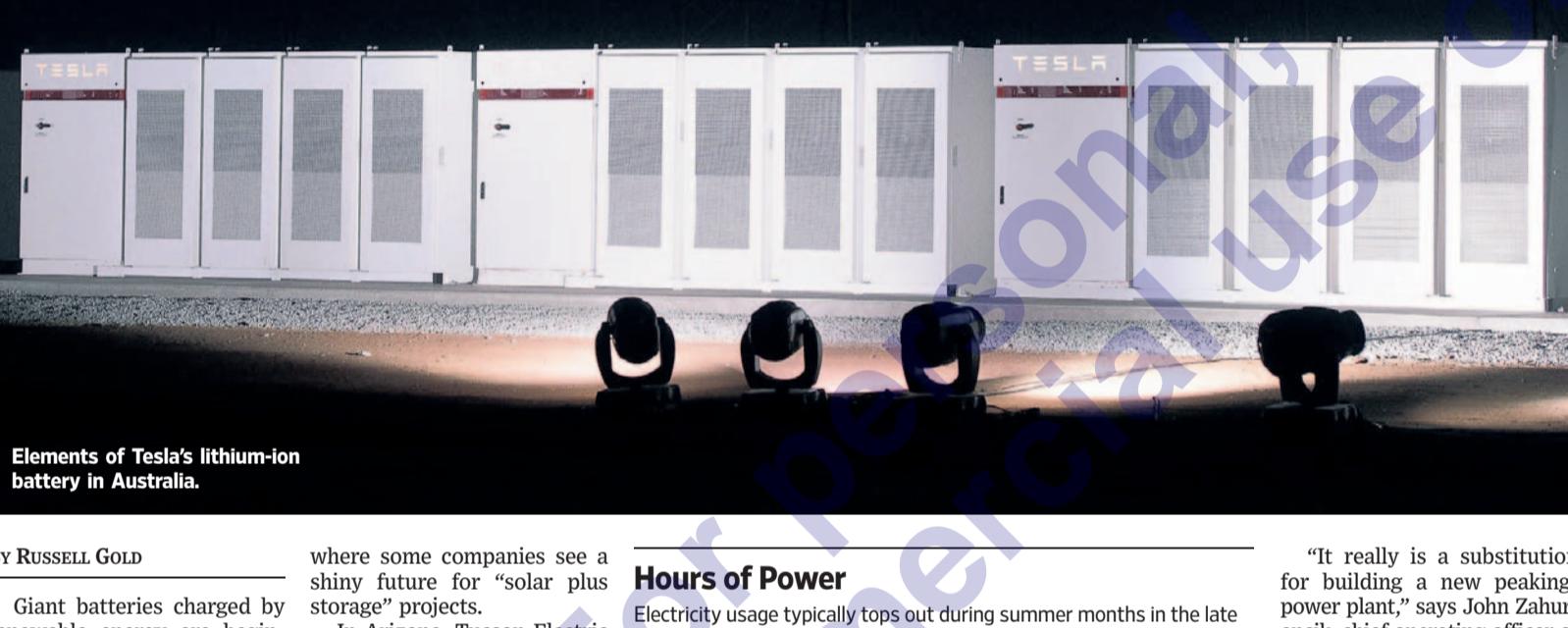
General Dynamics said that **CSRA** would expand its access to intelligence agencies, and that rising federal defense spending outlined by the White House on Monday would reduce pricing pressure on providers that forced many smaller players to combine.

Falls Church, Va.-based **General Dynamics** has lagged behind the broader increase in defense stock prices, in part because sales of business jets have remained flat.

General Dynamics is offering \$40.75 a share for **CSRA**, a 32% premium to its close on Friday. The stock closed up 31% at \$40.39 on Monday. Including the assumption of \$2.8 billion of **CSRA**'s debt, the deal has a value of \$9.6 billion.

General Dynamics shares fell 1.2% Monday on concerns about it doubling down on IT as other contractors have cut exposure. Most defense stocks rose after the release of the Pentagon's 2019 budget request.

Sun + Batteries = Peak Power

CARLA GOTTMAN/BLOOMBERG NEWS
Elements of Tesla's lithium-ion battery in Australia.

BY RUSSELL GOLD

Giant batteries charged by renewable energy are beginning to nibble away at a large market: The power plants that generate extra surges of electricity during peak hours.

Known as peakers, the natural-gas-fired plants are expensive to run, and typically are called into service only when demand rises and regular supplies are insufficient. That makes them vulnerable to inroads from lithium-ion batteries, which have fallen in price in recent years, and are emerging as a competitive alternative for providing extra jolts of electricity.

Numerous batteries—resembling small windowless warehouses—are under construction or consideration in the U.S., especially in the Southwest,

where some companies see a shiny future for “solar plus storage” projects.

In Arizona, Tucson Electric Power is building a 100-megawatt solar facility and a 30-megawatt battery array. The project, being developed by **NextEra Energy** Inc., would allow Tucson Electric to store inexpensive solar generation in the morning, when power demand is low, and deploy it in the heat of the afternoon. The company hasn't disclosed costs.

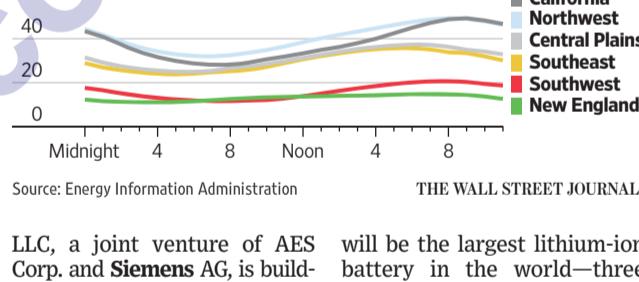
Jim Robo, **NextEra's** chief executive, told investors late last year that the batteries can provide power “for a lower cost than the operating cost of traditional inefficient generation resources.”

A battery array three times the size of the Tucson project is being developed in Long Beach, Calif. Fluence Energy

Hours of Power

Electricity usage typically tops out during summer months in the late afternoon and early evening. During these hours, peaking power plants are often fired up to meet demand.

Average hourly energy usage by region for Aug. 25-26, 2017



Source: Energy Information Administration

LLC, a joint venture of **AES** Corp. and **Siemens** AG, is building a battery that could power 60,000 Southern California homes for up to four hours. It

will be the largest lithium-ion battery in the world—three times larger than a battery built last year by **Tesla** Inc. in Australia.

“It really is a substitution for building a new peaking-power plant,” says John Zahurancik, chief operating officer of **Fluence**. “Instead of living next to a smoke stack, you will live near what looks like a big-box store and is filled with racks and rows of batteries.”

The new way of providing peak-time power poses a threat to manufacturers of power turbines, such as **Siemens** and **General Electric** Co., both of which announced large-scale layoffs in those businesses last year.

Because large battery arrays are still costly, their use on power grids remains limited to niche areas. But if batteries prove their value and reliability, they could play a larger role on the power grid in the future by storing more of the electricity

Please see *GRID* page B2

HEARD ON THE STREET | By Elizabeth Winkler

This Furniture Stock Isn't Built for Comfort

When **Amazon.com** even nods in the direction of an industry, businesses tremble and investors flee.

At **Wayfair** Inc., the biggest online furniture merchant, investors did the opposite.

The company's shares are up 115% in the past year, valuing it at \$8 billion. Since its founding in 2002, Wayfair has mastered the art of selling and delivering furniture online, a logistical challenge, but it hasn't figured out how to do it profitably. Now new competition, high marketing costs, low customer retention and its need to keep raising cash loom as risks to Wayfair's future.

Much of its success in undercutting traditional players with faster and cheaper shipping options is due to its investment in its own in-house logistics network. “We were less enamored of its furniture

business than its logistics strategy,” says Brendon Osten of **Venator Capital Management**, which has 5% of its portfolio in Wayfair. “It's an interesting strategic advantage.”

That advantage may not survive new competition. Amazon has built warehouses to handle furniture, which it says is one of its fastest-growing categories. It also has partnered with local furniture stores and launched two furniture brands. **Walmart** and **Target** also have made investments that could help them launch furniture efforts. Meanwhile, traditional furniture retailers are stepping up online sales. Around half of sales for retailers **RH** and **Williams-Sonoma** are now online.

More important, even though it sold \$4.3 billion worth of furniture in the past four quarters, Wayfair needs to spend aggressively on advertising to bring in

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INSIDE



STEVEN COHEN'S FIRM FACES SEX BIAS SUIT

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OPEC RAISES OUTLOOK FOR OIL SUPPLY

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Tax Law Hinders Profit Gauge

BY MICHAEL RAPORT

The new U.S. tax law could throw a monkey wrench into a method many analysts and investors use to gauge the strength of companies' earnings.

A provision of the tax overhaul enacted in December assesses a one-time levy on companies' accumulated earnings from outside the U.S. But while the tax is typically charged to 2017 earnings, companies have the option of stretching the actual tax payment over the next eight years, interest free.

That decision, which companies need to make this year, could throw off the comparison of a company's earnings to its cash flow, a traditional way of assessing earnings quality.

Investors like to see a company's earnings fully backed by the cash its operations are generating. It demonstrates the company has the money to pay shareholder dividends and invest in its own future. But stretching out payments of the “transition tax” on foreign earnings will muddy that comparison, accounting specialists say.

Many companies, including **Microsoft** Corp. and **Johnson & Johnson**, have already made the

choice to stretch out the tax bill. That meant their 2017 earnings were reduced, but the year's cash flow wasn't, making it appear earnings were more fully backed by cash flow.

Then, for the next several years, the companies' cash flow will take a hit, while earnings aren't affected, making it appear earnings are less backed by cash flow than they really are.

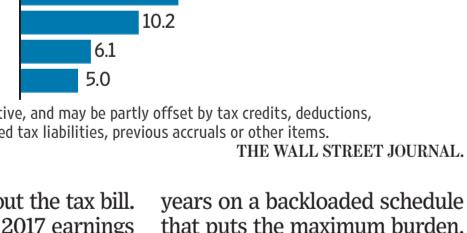
Microsoft says it will pay a transition tax of \$17.8 billion. That amount was assessed against last year's earnings, but cash flow wasn't affected. However, starting this year, it will be. Under the law, companies can make payments over eight

years on a backloaded schedule that puts the maximum burden, 25% of the total, in year eight.

For Microsoft, that will cut as much as \$4.45 billion off the company's yearly operating cash flow, which would be a significant portion of the \$39.5 billion operating cash flow Microsoft posted in its most recent fiscal year that ended last June. A Microsoft spokesman declined to comment.

The disconnect between earnings and cash flow will force analysts and investors to do some reverse-engineering of company numbers to make sure they are comparing apples with

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Note: Amounts are tentative, and may be partly offset by tax credits, deductions, remeasurement of deferred tax liabilities, previous accruals or other items.
Source: The companies

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that wind and solar farms intermittently generate for use when needed.

Peaking plants usually run only a few hours a day to provide extra power when demand is at its highest level. They typically run on natural gas, and burned about \$1.1 billion of the fuel in 2016, according to federal data.

The federal government estimates that a new gas-fired peaking plant could generate electricity for about \$87 for a megawatt hour, including the cost of building the plant and buying fuel. By comparison, **Xcel Energy** Inc.'s Colorado subsidiary recently ran an open solicitation and received 87 bids for solar-plus-storage projects at a median price of \$36 per megawatt hour, one of the lowest such bids to date.

"I could see in 10 to 15 years where you have 30% of what is traditionally a peaker market served by storage," said Ben Fowke, chief executive of Xcel Energy, a Minnesota-based energy.

Batteries have been used on power grids for several years, but mainly to provide brief pulses of electricity to stabilize the voltage and frequency, sometimes as short as a few seconds. On the PJM Interconnection, a giant power grid that serves parts of 13 states from Pennsylvania to Illinois, batteries provide about a quarter of such regulation services.

The batteries now being proposed and built are much larger, and meant to provide more sizable loads of electricity for four hours or more, said Anissa Dehamma, an associate director at Navigant, a power-consulting company.

In Arizona, corporation commissioner Andy Tobin, a Republican, has proposed a three-gigawatt mandate by 2030. He argues that investing in battery storage makes business sense for the sun-rich state. "The writing is on the wall," he said.

Wayfair's weak brand loyalty may be tied to its lack of stores—there is still value in sitting on a sofa before buying. That would help it fight off Amazon but may leave it vulnerable as traditional furniture retailers gear up for e-commerce.

Wayfair's biggest risk is its need to raise cash to offset its losses. It has sold stock twice in the past two years, followed by a convertible-bond offering in September. (The company reports full-year earnings later this month.)

For the first three quarters of 2017, free cash flow was negative \$114.7 million—about the same as the first three quarters of 2016. At the end of the third quarter, Wayfair had \$610 million in cash and short-term investments.

DAVID GRAY/REUTERS

The power project featuring Tesla batteries opened in December.

BUSINESS & FINANCE

CME

Continued from the prior page confirmed they regularly saw similar delays in other CME markets, including futures tied to the S&P 500 and crude oil. One of the people said his firm often saw delays of more than 200 microseconds in oil futures.

"This creates a special club of firms that benefit from the information asymmetry," said John Michael Huth, chief operating officer of Houston-based Quantlab.

There are various ways to potentially exploit the flaw. Typically, such strategies involve what are called canary orders—small buy or sell orders, for one or two contracts, used to detect large trades that could move the market.

For instance, if oil futures can be bought for \$60.01 and sold for \$60, a trader could place a small order to buy at \$60, which would join a queue of similar buy orders at CME. If the trader gets a message saying his or her buy order was filled, that could signal that a large seller is at work and the price is about to tick down to \$59.99. The trader could quickly sell at \$60 to take advantage of the expected move.

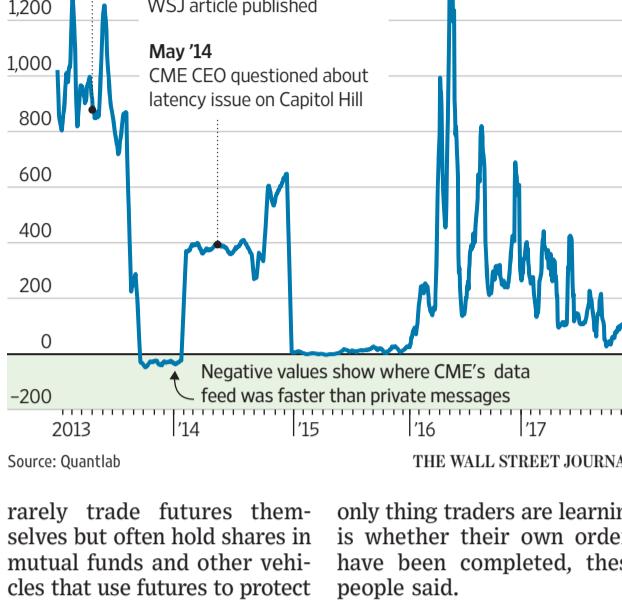
Alternatively, a canary-order strategy could be used in markets that closely track CME's futures, such as the SPDR S&P 500 Trust, the popular exchange-traded fund best known by its ticker, SPY. If a trader detects that CME's S&P 500 futures are about to tick up, he or she could quickly buy SPY before others learn about the futures move.

Mr. Huth said such practices harm ordinary investors, who

Latency Loophole

After The Wall Street Journal revealed the lags in CME's public data feed in 2013, they went away. But two years ago they came back, traders say.

Median delay in reporting of Quantlab's trades in 10-year Treasury futures



rarely trade futures themselves but often hold shares in mutual funds and other vehicles that use futures to protect against market volatility. He acknowledged that Quantlab could exploit the CME defect itself but had decided to publicize its concerns instead.

"We are trying to effect change so that markets are on a level playing field," he said.

Other traders rejected the idea that investors were being harmed. Instead, they said the main impact of CME's flaw was that it provided an edge to a few large, sophisticated high-speed traders at the expense of smaller rivals.

Still others suggested that it was appropriate for CME to notify traders that their orders had been filled before notifying the public. After all, the

only thing traders are learning is whether their own orders have been completed, these people said.

"Reasonable people can disagree about whether it's more 'fair' for trade information to be sent on the public data feed before or after traders receive their fill confirmations," said Kipp Rogers, a former trader who is now a blogger and researcher.

Other exchanges have grappled with the same issue. Eurex, the derivatives arm of Deutsche Boerse AG, said its public feed now beats its private confirmation messages 99.9% of the time. Private messages were generally faster before 2012, when the German exchange overhauled its systems and prioritized the public feed, said Randolph Roth, a Eurex board member.



JOSEPH PHILSON FOR THE WALL STREET JOURNAL

HEARD

Continued from the prior page customers. Its total advertising spending for that period was \$500 million.

A recent study by marketing professors Daniel McCarthy of Emory University and Peter Fader of the University of Pennsylvania's Wharton School found that Wayfair spends about \$69 to acquire each new customer, but earns only \$59 back from each acquisition.

Using a method of valuing publicly traded retailers that focuses on customer retention, Professors McCarthy and Fader conclude that Wayfair is overvalued by 84%.

Wayfair's weak brand loyalty may be tied to its lack of stores—there is still value in sitting on a sofa before buying. That would help it fight off Amazon but may leave it vulnerable as traditional furniture retailers gear up for e-commerce.

Wayfair's biggest risk is its need to raise cash to offset its losses. It has sold stock twice in the past two years, followed by a convertible-bond offering in September. (The company reports full-year earnings later this month.)

For the first three quarters of 2017, free cash flow was negative \$114.7 million—about the same as the first three quarters of 2016. At the end of the third quarter, Wayfair had \$610 million in cash and short-term investments.

The stock-market sell-off makes Wayfair more vulnerable. "The problem is when the market goes down and there are businesses with good economics as alternatives," says Dan McMurtrie, managing partner of investment firm Tyro Partners, who has shorted the stock in the past.

The company's poor economics have made it one of the most shorted stocks in the internet retail sector, with 18% of available shares sold short. Those betting against Wayfair thought they had a winner last November, when shares fell 20% following a widening in net loss.

Investors sent the shares down 20%, but they soared soon after, more than wiping away the losses.

Wayfair's best bet, and the biggest risk to short sellers, is that it will be ac-

quired. As the company's valuation climbs, though, it will become more expensive to buy Wayfair than to clone it. The company's investors should pray that someone makes that economic mistake.

And some companies are also realizing gains from deferred tax liabilities, which take less of a bite for a company now that the U.S. has lowered its corporate tax rate.

It is also likely that companies' earnings and cash flow will both rise by the time the bulk of the transition-tax payments become payable. J&J is scheduled to pay about \$10 billion over the next eight years, implying a maximum yearly payment of \$2.5 billion that would take a slice from the \$21.6 billion it reported in operating cash flow for the 12 months ended Oct. 1.

A J&J spokesman said the company thinks an increase in its cash flow because of the lower tax rate will help offset the tax payment by the time it is due.

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BUSINESS NEWS

Axovant Overhauls Leadership; Stock Falls

BY IMANI MOISE

Axovant Sciences Ltd. made sweeping changes to its top ranks Monday as the company struggles to regain its footing after abandoning its banner Alzheimer's drug.

Shares plunged 20% to \$1.54 Monday and are down 88% from a year ago.

Chief Executive David Hung resigned after 10 months in that role but will continue to serve as a scientific adviser, the company said.

Dr. Hung, who joined the company shortly after selling biotech firm Medivation to **Pfizer** Inc. for \$14 billion, will be succeeded by Pavan Cheruvu.

The biotechnology company's chief operating officer and three board members also resigned.

The leadership changes came one month after the company decided to end development of its top drug, in-tepliridine—a decision that wiped out half of its market value. Failure of the drug, which analysts had expected to generate \$2 billion in annual revenue, also narrowed its pipeline.

Earlier this year, Axovant reported positive results for its other drug in phase 2 development, but the company's stock may suggest that investors have grown more skeptical about the experimental drugs in its portfolio.

Axovant was founded in 2014 and in 2015, raised \$315 million in an initial public stock offering. Axovant reported a net loss of \$196.3 million, or \$1.83 a share, for the nine months ended Dec. 31, compared with a loss of \$128.1 million, or \$1.29 a share, in the prior-year period. It has yet to generate revenue from the sale of products.

GM to Close South Korean Plant

Auto maker to seek cuts at other factories in the country as it downsizes globally

BY MIKE COLIAS



SEONGJOO CHO/BLOOMBERG NEWS

General Motors Co. is sending a tough message to thousands of South Korean workers during the Winter Olympics in Pyeongchang, saying it will close a Korean factory in May and pressure union officials for additional cost cuts to stem losses.

The move is the latest step in a global downsizing implemented by Chief Executive Mary Barra, who has closed, shrunk or sold unprofitable business units in India, Russia, Western Europe and Southeast Asia. The largest U.S. auto maker is becoming more dependent on Chinese operations, where it now sells far more vehicles than in any other nation.

The company, once the dominant player in the international auto industry, has gotten significantly smaller under Ms. Barra. GM is now No. 4 in vehicle sales behind Volkswagen AG, Toyota Motor Corp. and the alliance of Nis-

san Motor Co. and Renault SA. The decision to close a plant in the coastal city of Gunsan will trim unused factory space and lead to a charge of \$850 million. The move, announced early Tuesday by GM Korea, affects 2,000 workers at an operation that accounted for only about 7% of the 520,000 vehicles produced by GM Korea last year. GM has three other factories

in South Korea, which has long been one of the Detroit auto giant's core units because of its export business and other engineering operations it acquired when it took over the remnants of Daewoo's bankrupt automotive company 16 years ago. The auto maker said it is committed to keeping Korean operations, but the factory closure is a "first step" in a broader restructuring.

GM has weathered several years of turbulent relations with a union that represents most of the auto maker's 16,000 Korean factory workers. Plants in South Korea produce cars mostly for export to dozens of countries—including Buick sport-utility vehicles sent to U.S. dealerships.

The auto maker said it would work with the union and

South Korean officials to restructure the business, signaling it could demand labor concessions and public incentives to help shrink operating costs.

GM President Dan Ammann said in an interview the auto maker has laid out its position to the union and government officials but declined to discuss specifics. He said GM Korea's factories are too costly to operate profitably.

"We've made clear we need to have a business that's sustainably profitable in order for that business to attract further investment," Mr. Ammann said. He said retaining a presence in the country is the "preferred scenario."

South Korea's government said it regretted GM's "unilateral" decision to close the plant, despite both sides holding recent talks.

"In consideration of the impact it will have on jobs and the local economy, talks with GM on normalizing the GM Korea operations will continue," said the statement, released following a meeting between Vice Finance Minister Ko Hyo-kyon and other officials in Seoul to discuss the GM announcement.

—Kwanwoo Jun contributed to this article.

Icahn Declares Opposition to Xerox Merger

BY DAVID BENOIT

Carl Icahn wants to kill **Xerox** Corp.'s deal to cede control to **Fujifilm Holdings** Corp., opening up what could be a protracted fight over the future of the American company.

The printer-and-copier pioneer said on Jan. 31 that it had struck a deal to combine itself with a joint venture it has run with Fujifilm for more than 50 years and give the Japanese company a 50.1% stake in the new entity.

Mr. Icahn, the famed activist investor, has teamed up with fellow billionaire Darwin Deason, and on Monday, in

their first public comment on the deal, they said they plan to vote against it. Together, the two control 15.2% of the stock, a significant obstacle for a merger that requires Xerox shareholder approval.

The pair criticized management and the proposed payment to Xerox holders—which includes a \$2.5 billion dividend equal to one-third of Xerox's market value before The Wall Street Journal first reported on deal talks last month.

Before the deal was announced, the two had demanded Xerox find a replacement for Chief Executive Jeff Jacobson, but he would stay

on to run the new company.

"To put it simply, the current board of directors has overseen the systematic destruction of Xerox, and, unless we do something, this latest Fuji scheme will be the company's final death knell," Messrs. Icahn and Deason wrote to shareholders Monday. "We urge you—our fellow shareholders—do not let Fuji steal this company from us."

Xerox has billed the deal as its best option in a slumping print industry because it will pair with a Fuji team that has successfully shifted into new technologies. The proposal calls for cutting \$1.7 billion in

costs. And it would give Xerox more of a say in a venture that has hindered Xerox's innovation given the U.S. company's lack of control in Asia.

"The transaction provides shareholders with the opportunity to benefit from ownership in a combined company that has enhanced growth prospects and a stronger financial profile to support future value creation, as well as an immediate substantial dividend payment," Xerox said Monday. It said the deal was the best course after a monthslong review of options.

Messrs. Icahn and Deason wrote a six-page letter that sought to undermine the credibility of the Xerox board and its navigating of the joint-venture contract. The two investors said an accounting scandal at **Fuji Xerox** last year may have been an opening for Xerox to get out of that contract—an avenue they would use to kill the deal.

The investors had been evaluating their next steps after the Fujifilm deal was announced, the Journal had reported. Mr. Icahn sold some Xerox stock last year, raising questions about what the pair would do.

Xerox shares rose 1.2% to \$29.95 on Monday.

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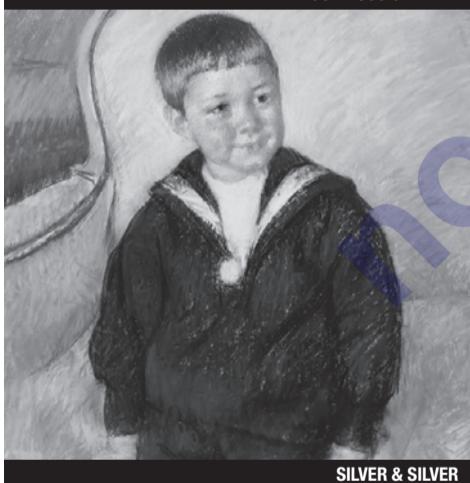
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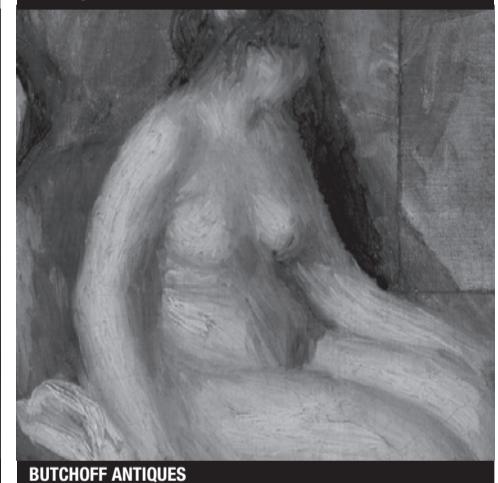
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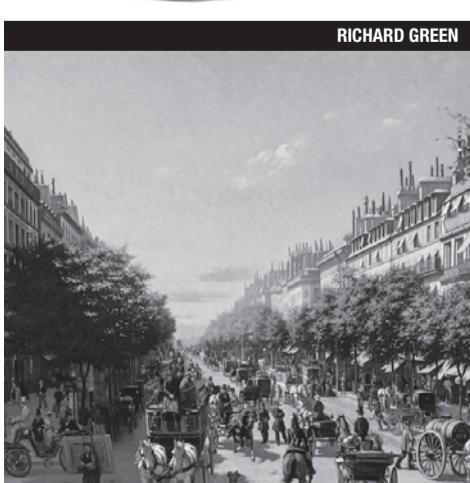
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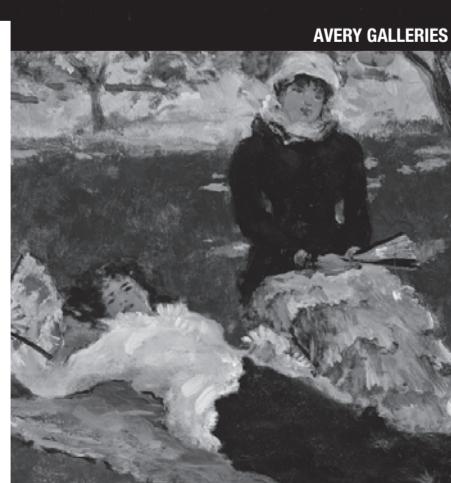
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BUSINESS NEWS

Sales Chief At Snap Moves On

BY GEORGIA WELLS AND LARA O'REILLY

Snap Inc. said its head of sales, Jeff Lucas, left the social-media company less than two years after joining from Viacom Inc.

Mr. Lucas was considered to be instrumental in Snap's early advertising strategy of wooing brands to buy premium ads on Snapchat, similar to the way they buy ads from television networks. More recently, Snap has been focusing on selling its ads through an automated auction process, a method used by Facebook Inc. and Alphabet Inc.'s Google.

Mr. Lucas said in a memo to Snap employees that he is leaving the company to pursue a new challenge, according to a person who viewed the memo. His last day was Monday.

Cheddar, a news video service, earlier reported news of Mr. Lucas's departure.

People familiar with Snap's advertising sales said the automated ad sales strategy, which chief strategist Imran Khan leads, has been gaining more traction recently. Mr. Khan has focused more on getting masses of buyers to spend money through the automated tools, while Mr. Lucas had championed a strategy that emphasized selling large, premium advertising packages to brands in exclusive partnerships.

Snap's sales force struggled at times to close the large deals because marketers sought more data to show their advertising budgets would pay off, and such data was easier to get with the automated ad sales, these people said. Chief Executive Evan Spiegel told analysts last week that during the latest quarter more than 90% of Snap's ad impressions came via messages purchased using the automated tools.

Fox Tries to Clear Way for Sky Bid

U.K. regulators receive proposal to ensure independence of news division at pay-TV firm

BY STU WOO AND BEN DUMMETT

LONDON—**21st Century Fox Inc.** offered to bolster the editorial independence of **Sky PLC**'s news operations to meet concerns of British regulators and ease approval of its \$16 billion bid for the portion of the pay TV giant it doesn't already own.

The offer is the latest move in what has become an important sideshow to the separate, \$52 billion bid by **Walt Disney Co.** for a big chunk of Fox assets, including its 39% stake in Sky. The two deals aren't technically connected, but Disney views Sky as an important component of its deal and a key to its plans to expand its international footprint.

Disney has said that should Fox fail to consolidate ownership of the British pay-TV company, it could make its own bid for the rest of Sky after it completed its Fox purchase. Disney's price for Fox, however, wouldn't be affected either way, since Fox plans to use cash and debt rather than shares to fund the deal.

Amid signs Fox was getting closer to appeasing regulators, some hedge funds have been increasing their stakes in Sky. On Monday, Sky shares finished up 0.8% at £10.56 (\$14.86) in London. The offer price is £10.75.

Sky this week is also involved in an auction to retain rights to broadcast English Premier League soccer games. If it can clinch the deal—and not spend a fortune doing so—that could boost shares.

Another possible support for Sky's share price: Either Fox or **Comcast Inc.** could come in with a higher bid, investors said. Comcast is contemplating reviving its own bid for Fox assets, according



Sky has broadcast rights for the Premier League, and its shares could get an added boost if it wins an auction to retain them.

to people familiar with the matter. Apart from considering bidding for much of the same Fox assets as Disney, these people said, Comcast is also open to going after specific pieces, including Fox's Sky stake.

Fox shares rose 1.9% to \$36.40 on Monday in New York, a day after The Wall Street Journal reported the new Comcast interest.

If the Fox-Sky deal wins government approval in London, Fox would still need 75% of Sky's non-Fox shareholders to approve the deal. At least one prominent British investor, hedge-fund manager Crispin Odey, has called for a higher offer price from Fox following the Disney bid.

Elliott Management Corp., a U.S. hedge fund, has almost doubled its Sky stake since late January, to nearly 2%. Apart from investing in companies and advocating for strategic shifts, Elliott has also bought into acquisition targets and then pushed for a higher offer price. Elliott has declined to comment on its holding.

In December 2016 Fox proposed buying out the 61% of shares in Sky it doesn't al-

ready own and has since faced a series of regulatory hurdles here. The most recent came last month, when antitrust regulators said in preliminary recommendations that Fox's full ownership of Sky, and its Sky News business, would give the family of Rupert Murdoch too much influence in British media.

Fox's predecessor, News Corp., abandoned a bid to buy Sky in 2011 amid revelations that a newspaper it owned hacked into the phones of politicians and crime victims. The company apologized, closed the implicated newspaper and spun off its other newspapers into a new company that took the News Corp. name.

The Murdoch family controls a 39% voting interest in both 21st Century Fox and **News Corp.**, which publishes major British newspapers, including the Sun, the Times of London and the Sunday Times. News Corp. also owns The Wall Street Journal.

Fox has argued that online news sites and social media have diluted the influence of newspapers and television channels.

Last month, British regula-

Betting on a Deal

Sky shares are edging closer to Fox's offer of £10.75 a share made in late 2016.

Sky share price in London



Source: WSJ Market Data Group £1 = \$1.38

THE WALL STREET JOURNAL.

dent board, initially comprising two existing independent directors on Sky's board and a third member, with senior editorial or journalistic experience, nominated by Sky's existing independent directors.

A Fox committee of independent directors would nominate subsequent members, who would have to be approved by Britain's culture secretary.

These conditions would end should Disney complete its deal with Fox.

It is unclear whether the offer goes far enough to quell regulators' concerns about the Murdochs' influence. Britain's Competition and Markets Authority, the regulator that raised its concerns last month, said it wasn't yet convinced of the effectiveness of monitoring and enforcing a structure that would ensure Sky's independence.

The antitrust regulators plan to review responses to its preliminary recommendations and are scheduled to deliver final recommendations in May to the U.K. culture secretary, who can decide to approve the deal outright, approve it with conditions or reject it.

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BUSINESS NEWS

Wynn Resorts Hires Law Firm

Gibson Dunn, which has longstanding ties to casino company, will conduct probe

Days after canceling an outside law firm's investigation into alleged sexual misconduct involving former Chairman and Chief Executive Steve

*By Chris Kirkham,
Alexandra Berzon
and Kate O'Keeffe*

Wynn, a special committee of the **Wynn Resorts** Ltd. board has given that assignment to a new law firm with longstanding connections to the casino company.

The committee said Mon-

day it hired **Gibson, Dunn & Crutcher** LLP to investigate allegations against Mr. Wynn and to conduct an "expanded and comprehensive review" of the company's internal policies to ensure "a safe and respectful workplace for all employees."

Gibson Dunn has deep ties to Wynn Resorts. Wynn's general counsel, Kim Sinatra, was a partner at the firm, and Nevada court records list one of Gibson Dunn's partners as an active attorney representing Wynn board members and executives in the company's current litigation with ousted board members Kazuo Okada and Elaine Wynn. The firm has also represented Wynn in Securities and Exchange Commission and Department of Justice matters as well as in

business deals.

The Wynn Resorts board last week said it had cut ties with another law firm, O'Melveny & Myers LLP, that it hired Feb. 2 to investigate the allegations against Mr. Wynn. The firm had said it would be setting up a telephone hotline and Web portal for current and former Wynn employees to provide information about alleged sexual misconduct involving Mr. Wynn.

O'Melveny & Myers referred requests for comment to the company.

Representatives of Wynn Resorts and its board couldn't immediately be reached for comment about the investigation.

Mr. Wynn said he was stepping down last week amid what he called "an avalanche"

of bad publicity following a Wall Street Journal article that detailed alleged behavior that together would amount to a decadeslong pattern of sexual harassment and other sexual misconduct. Mr. Wynn said that the notion he would assault a woman was "preposterous." Wynn Resorts said it is committed to maintaining a safe and respectful culture, requires annual antiharassment training for all and offers an anonymous hotline.

The Wynn Resorts board has long been criticized for corporate-governance weaknesses and close ties to Mr. Wynn. The board on Monday also announced it would begin a process to add additional members to "strengthen the composition, skills and experience of the board."

Cohen Business Accused of Bias

By ROB COPELAND

A female employee at Steven A. Cohen's private investment firm filed a discrimination lawsuit Monday, alleging unfair pay practices and a pervasively sexist work environment.

Lauren Bonner, an internal recruiter at Mr. Cohen's **Point72 Asset Management**, accused the firm of paying her as much as two-thirds less than her male counterparts. Ms. Bonner was slated to earn \$450,000 last year, including a bonus, according to the lawsuit filed in federal court in Manhattan.

Ms. Bonner also alleged a string of day-to-day offenses suffered while working at Point72, including being forced to gather several times in a room where Point72's president, Douglas Haynes, had allegedly written "PUSSY" on a whiteboard. Separately, Ms. Bonner alleged that another top Point72 executive, who wasn't named as a defendant in the lawsuit, said there were "no girls allowed" in certain meetings.

The lawsuit asks for unspecified damages and a jury trial.

A spokesman for Point72 and Mr. Cohen said in a statement: "The firm emphatically denies these allegations and will defend itself in a more appropriate venue than the media. We stand by our record of hiring and developing women."

Mr. Haynes, who was himself named a defendant in the lawsuit, didn't respond to a request for comment.

The lawsuit comes at a crucial time for Mr. Cohen.

A little over four years after his prior firm, SAC Capital Advisors, pleaded guilty to crimi-

nal insider trading, Mr. Cohen's representatives have recently been in discussions with potential investors about raising a new multibillion-dollar hedge fund, according to people close to the firm.

The fund would represent his comeback after the firm shed staff and prestige in the wake of the guilty plea. As part of the plea, Mr. Cohen was barred from managing outside money until 2018. Point72 instead manages roughly \$11 billion of Mr. Cohen's personal fortune.

Ms. Bonner's lawsuit alleges that the firm acted harshly toward its female employees—when it hired them at all.

A spokesman for Point72 said the firm emphatically denies the allegations.

Out of 125 portfolio managers at Point72, only one is a woman, the lawsuit says. Firmwide, some 21% of new hires last year were female, with most hired into relatively junior roles, the lawsuit says.

The lawsuit alleged that the paucity of female staff is explained by employees who were "routinely denied promotions and regularly forced out after male executives accuse them of being 'too emotional,' 'too sensitive.'" Others aren't hired because male executives say their "wives would not let them," according to the lawsuit.

The Point72 spokesman said: "Our female investment professional workforce exceeds published industry averages."

Driverless-Auto Bill Stalls

By JOHN D. MCKINNON

WASHINGTON—Legislation to remove regulatory obstacles to the development of self-driving vehicles is running into problems in the Senate, dimming prospects for the quick passage that many had expected.

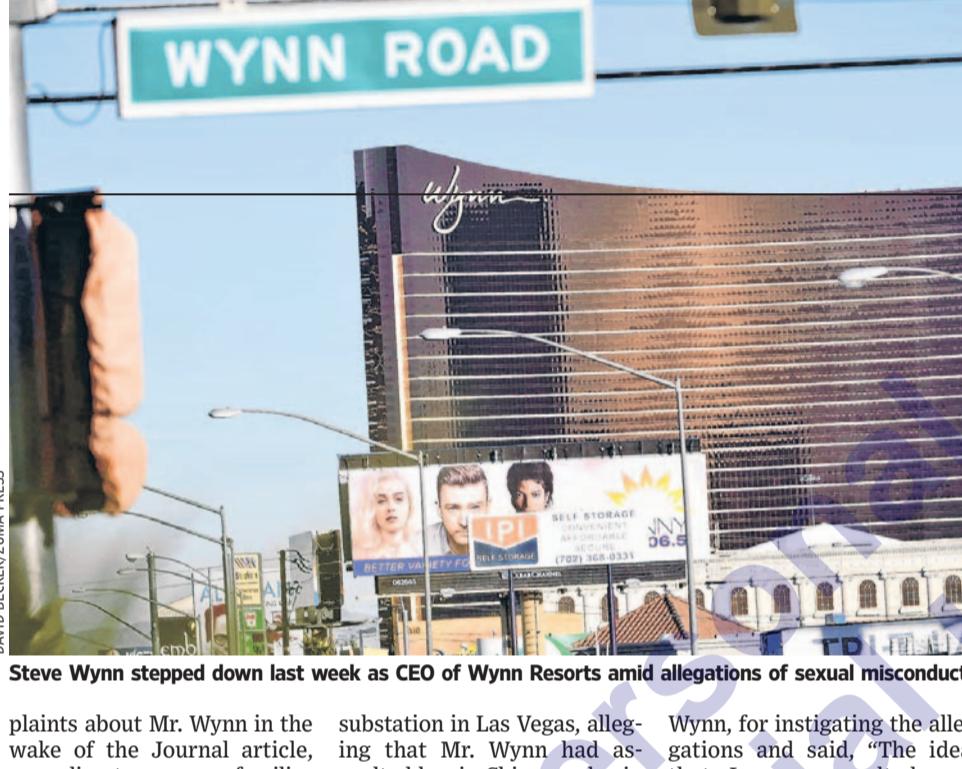
The bill, known as AV Start, would let developers test and even market the vehicles long before detailed federal safety regulations are adopted—a process expected to take many years. The bill would also block states from adopting their own more stringent safety regulations.

The political problems are surprising, given the bill's easy approval, on a voice vote, in the Senate Commerce Committee in

October. The full House overwhelmingly passed a similar measure in September.

Autonomous-vehicle developers and their allies in Congress say the legislation is necessary to head off a growing patchwork of state regulations that complicate the rollout of self-driving cars. Supporters of the federal bill also fear a lengthy delay in the federal bill could even give a boost to autonomous-vehicle development in other countries.

Already, the delay is providing a window of opportunity for critics of the legislation, who are stepping up efforts to block it. They contend new data from makers of self-driving cars in California underscore their concern that the bill jeopardizes consumer safety.



Steve Wynn stepped down last week as CEO of Wynn Resorts amid allegations of sexual misconduct.

plaints about Mr. Wynn in the wake of the Journal article, according to a person familiar with the matter, is coordinating with the regulator.

A spokesman for the department said in a Monday statement that it has received two sexual-assault complaints against Mr. Wynn since the Journal investigation was published.

One woman made a report from St. Louis, alleging that Mr. Wynn sexually assaulted her in Las Vegas in the 1970s, according to the police department spokesman, Larry Hadfield.

He declined to elaborate and added that Las Vegas police took a courtesy report and will forward the information to Chicago authorities.

Mr. Wynn stepped down last week as chairman and chief executive of Wynn Resorts, citing "an avalanche of negative publicity" in the wake of the Journal investigation.

Dozens of people the Journal interviewed who have worked at Mr. Wynn's casinos told of behavior that cumulatively would amount to a decadeslong pattern of sexual misconduct by Mr. Wynn, including pressuring employees to perform sex acts.

Mr. Wynn has blamed his ex-wife, Elaine

substation in Las Vegas, alleging that Mr. Wynn had assaulted her in Chicago, also in the 1970s, the spokesman said. He declined to elaborate and added that Las Vegas police took a courtesy report and will forward the information to Chicago authorities.

Mr. Wynn stepped down last week as chairman and chief executive of Wynn Resorts, citing "an avalanche of negative publicity" in the wake of the Journal investigation.

Dozens of people the Journal interviewed who have worked at Mr. Wynn's casinos told of behavior that cumulatively would amount to a decadeslong pattern of sexual misconduct by Mr. Wynn, including pressuring employees to perform sex acts.

Mr. Wynn has blamed his ex-wife, Elaine

Wynn, for instigating the allegations and said, "The idea that I ever assaulted any woman is preposterous."

Ms. Wynn has consistently declined to speak to the Journal. An attorney for Ms. Wynn has said the notion she instigated the Journal's article "is just not true." The Wynns remain embroiled in long-running litigation over restrictions on her right to sell her 9% stake in Wynn Resorts.

Gambling regulators in Nevada and Massachusetts, where Wynn Resorts is building a \$2.4 billion casino, have opened investigations since the Journal first reported the allegations, and both have said they would continue those probes despite Mr. Wynn's resignation last week. Mr. Wynn still has a 12% stake in Wynn Resorts.

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Nov. Dec. Jan. Feb. 6300

65-day moving average

Major U.S. Stock-Market Indexes

| | Dow Jones | | Latest | | 52-Week | | YTD | | % chg | |
|--------------------|-----------|----------|-----------------|---------|----------------------------------------------------------------------|----------|----------|-------------|-------|-------------|
| | High | Low | Close | Net chg | % chg | High | Low | % chg | YTD | 3-yr. ann. |
| Industrial Average | 24765.16 | 24290.48 | 24601.27 | 410.37 | ▲ 1.70 | 26616.71 | 20404.49 | 20.5 | -0.5 | 11.0 |
| Transportation Avg | 10368.37 | 10119.06 | 10301.28 | 164.67 | ▲ 1.62 | 11373.38 | 8783.74 | 8.7 | -2.9 | 4.6 |
| Utility Average | 670.54 | 657.41 | 666.98 | 5.95 | ▲ 0.90 | 774.47 | 647.90 | -0.7 | -7.8 | 3.4 |
| Total Stock Market | 27575.85 | 27055.17 | 27410.14 | 361.10 | ▲ 1.33 | 29630.47 | 24125.20 | 13.2 | -1.0 | 8.0 |
| Barron's 400 | 703.77 | 690.27 | 699.99 | 7.20 | ▲ 1.04 | 757.37 | 610.89 | 12.7 | -1.5 | 8.1 |

Nasdaq Stock Market

| | | | | | | | | | | |
|------------------|---------|---------|----------------|--------|----------------------------------------------------------------------|---------|---------|-------------|-----|-------------|
| Nasdaq Composite | 7023.62 | 6879.69 | 6981.96 | 107.47 | ▲ 1.56 | 7505.77 | 5763.96 | 21.1 | 1.1 | 12.9 |
| Nasdaq 100 | 6565.28 | 6424.30 | 6523.85 | 111.17 | ▲ 1.73 | 7022.97 | 5256.82 | 24.1 | 2.0 | 14.5 |

S&P

| | | | | | | | | | | |
|--------------|---------|---------|----------------|-------|----------------------------------------------------------------------|---------|---------|-------------|------|------------|
| 500 Index | 2672.61 | 2622.45 | 2656.00 | 36.45 | ▲ 1.39 | 2872.87 | 2328.25 | 14.1 | -0.7 | 8.3 |
| MidCap 400 | 1848.71 | 1813.83 | 1839.15 | 18.22 | ▲ 1.00 | 1995.23 | 1681.04 | 6.6 | -3.2 | 7.2 |
| SmallCap 600 | 915.67 | 894.72 | 911.31 | 8.51 | ▲ 0.94 | 979.57 | 815.62 | 7.0 | -2.7 | 9.1 |

Other Indexes

| | | | | | | | | | | |
|---------------------|----------|----------|-----------------|--------|------------------------------------------------------------------------|----------|----------|--------------|-------|--------------|
| Russell 2000 | 1498.11 | 1466.88 | 1490.98 | 13.15 | ▲ 0.89 | 1610.71 | 1345.24 | 7.1 | -2.9 | 7.0 |
| NYSE Composite | 12627.41 | 12416.91 | 12560.12 | 154.30 | ▲ 1.24 | 13637.02 | 11324.53 | 9.8 | -1.9 | 4.5 |
| Value Line | 546.59 | 536.42 | 543.81 | 6.04 | ▲ 1.12 | 589.69 | 503.24 | 3.9 | -3.3 | 2.2 |
| NYSE Arca Biotech | 4548.42 | 4436.81 | 4509.38 | 85.00 | ▲ 1.92 | 4939.86 | 3363.20 | 34.1 | 6.8 | 7.0 |
| NYSE Arca Pharma | 536.66 | 527.45 | 533.13 | 4.63 | ▲ 0.88 | 593.12 | 494.20 | 7.9 | -2.2 | -1.2 |
| KBW Bank | 110.77 | 108.24 | 109.55 | 1.37 | ▲ 1.26 | 116.52 | 88.02 | 16.3 | 2.7 | 14.8 |
| PHLX® Gold/Silver | 81.64 | 78.81 | 81.08 | 2.73 | ▲ 3.49 | 94.51 | 76.42 | -14.2 | -4.9 | 2.0 |
| PHLX® Oil Service | 139.08 | 135.66 | 137.75 | 2.95 | ▲ 2.18 | 182.73 | 117.79 | -23.7 | -7.9 | -11.5 |
| PHLX® Semiconductor | 1287.15 | 1259.64 | 1279.14 | 23.33 | ▲ 1.86 | 1392.86 | 960.01 | 32.5 | 2.1 | 22.2 |
| Cboe Volatility | 29.70 | 24.42 | 25.61 | -3.45 | ▲ -11.87 | 37.32 | 9.14 | 131.3 | 132.0 | 18.6 |

\$ 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 |
|---------------------------|--------|--------------|-------|---------|---------------------------------------------------------------------|-------|-------|
| VanEck Vectors Gold Miner | GDX | 8,022.2 | 21.90 | -0.07 | -0.32 | 22.01 | 21.90 |
| Bank of America | BAC | 4,967.6 | 31.13 | 0.01 | 0.03 | 31.30 | 30.91 |
| SPDR Ptf Interim Corp Bd | SPIB | 4,616.5 | 33.68 | 0.01 | 0.02 | 33.68 | 33.66 |
| VanEck Vectors Jr Gold | GDXJ | 4,500.9 | 31.65 | -0.04 | -0.13 | 31.70 | 31.62 |
| General Electric | GE | 4,473.5 | 14.83 | 0.01 | 0.07 | 14.90 | 14.78 |
| CalAtlantic Group | CAA | 3,710.7 | 53.00 | -0.12 | -0.23 | 53.43 | 53.00 |
| First Data CIA | FDC | 3,604.3 | 16.32 | ... | unch. | 16.37 | 16.25 |
| Boyd Gaming | BYD | 3,509.7 | 35.23 | ... | unch. | 35.58 | 35.13 |

Percentage gainers...

| | | | | | | | |
|----------------------|------|---------|-------|------|---------------------------------------------------------------------|-------|-------|
| Kadmon Holdings | KDMN | 486.0 | 5.85 | 1.01 | 20.87 | 6.81 | 4.84 |
| Vipshop Holdings ADR | VIPS | 1,160.2 | 18.10 | 1.71 | 10.43 | 18.48 | 16.08 |
| Greenhill | | | | | | | |

COMMODITIES

WSJ.com/commodities

Futures Contracts

Metal & Petroleum Futures

| | Contract | Open | High | hi | lo | Low | Settle | Chg | Open |
|---------------------------------------------------------------|----------|---------|---------|---------|--------|---------|---------|-----|----------|
| | | Open | High | hi | lo | Low | Settle | Chg | interest |
| Copper-High (CMX) -25,000 lbs.; \$ per lb. | | | | | | | | | |
| Feb | 3,0450 | 3,0765 | 3,0450 | 3,0775 | 0,0530 | 826 | | | |
| March | 3,0500 | 3,0970 | 3,0425 | 3,0865 | 0,0530 | 101,538 | | | |
| Gold (CMX) -100 troy oz.; \$ per troy oz. | | | | | | | | | |
| Feb | 1,2380 | 1,2350 | 1,2318 | 1,2340 | 20 | 1,199 | | | |
| April | 1,31710 | 1,3300 | 1,31630 | 1,32640 | 10 | 10,70 | 353,850 | | |
| June | 1,32200 | 1,3350 | 1,32190 | 1,33150 | 10 | 10,60 | 76,842 | | |
| Aug | 1,32730 | 1,33950 | 1,32730 | 1,33630 | 10 | 10,50 | 25,965 | | |
| Oct | 1,33800 | 1,34320 | 1,33800 | 1,34190 | 10 | 10,50 | 5,060 | | |
| Dec | 1,34010 | 1,34960 | 1,34010 | 1,34740 | 10 | 10,40 | 36,303 | | |
| Palladium (NYM) -50 troy oz.; \$ per troy oz. | | | | | | | | | |
| March | 971,50 | 985,35 | 971,50 | 976,15 | 22,108 | | | | |
| June | 970,45 | 981,50 | 968,80 | 972,95 | 13,65 | 7,270 | | | |
| Platinum (NYM) -50 troy oz.; \$ per troy oz. | | | | | | | | | |
| Feb | 969,40 | 976,00 | 969,80 | 972,80 | 11,30 | 1 | | | |
| April | 969,40 | 976,00 | 969,70 | 972,80 | 11,30 | 78,850 | | | |
| Silver (CMX) -5,000 troy oz.; \$ per troy oz. | | | | | | | | | |
| Feb | 16,375 | 16,375 | 16,345 | 16,548 | 0,432 | 157 | | | |
| March | 16,295 | 16,580 | 16,280 | 16,570 | 0,431 | 96,405 | | | |
| Crude Oil, Light Sweet (NYM) -1,000 bbls.; \$ per bbl. | | | | | | | | | |
| March | 59,41 | 60,83 | 59,10 | 59,29 | 0,09 | 267,646 | | | |
| April | 59,20 | 60,61 | 58,77 | 59,08 | 0,09 | 387,388 | | | |
| May | 58,86 | 60,26 | 58,55 | 58,73 | 0,06 | 208,439 | | | |
| June | 58,50 | 59,69 | 58,20 | 58,35 | 0,03 | 286,027 | | | |
| July | 58,21 | 59,33 | 57,80 | 57,92 | 0,02 | 152,666 | | | |
| Dec | 55,87 | 56,93 | 55,66 | 55,83 | 0,03 | 241,161 | | | |
| NY Harbor ULSD (NYM) -42,000 gal.; \$ per gal. | | | | | | | | | |
| March | 1,8534 | 1,8919 | 1,8367 | 1,8389 | -0,162 | 101,315 | | | |
| April | 1,8501 | 1,8885 | 1,8347 | 1,8364 | -0,146 | 99,150 | | | |
| Gasoline-NY RBOB (NYM) -42,000 gal.; \$ per gal. | | | | | | | | | |
| March | 1,7079 | 1,7392 | 1,6743 | 1,6785 | -0,217 | 96,560 | | | |
| April | 1,8840 | 1,9172 | 1,8586 | 1,8624 | -0,164 | 113,596 | | | |
| Natural Gas (NYM) -10,000 MMBtu; \$ per MMBtu. | | | | | | | | | |
| March | 2,584 | 2,607 | 2,538 | 2,552 | -0,032 | 213,053 | | | |
| April | 2,606 | 2,625 | 2,565 | 2,579 | -0,018 | 213,012 | | | |
| May | 2,638 | 2,655 | 2,600 | 2,612 | -0,015 | 188,943 | | | |
| June | 2,678 | 2,693 | 2,638 | 2,651 | -0,014 | 74,098 | | | |
| July | 2,718 | 2,737 | 2,680 | 2,696 | -0,013 | 100,367 | | | |
| Oct | 2,734 | 2,750 | 2,696 | 2,712 | -0,013 | 119,860 | | | |

Contract

Open High hilo Low Settle Chg Open interest

Agriculture Futures

Corn (CBT)-5,000 bu.; cents per bu.

March 365,00 367,00 364,25 367,00 5,00 529,368

Oats (CBT)-5,000 bu.; cents per bu.

March 268,00 275,75 267,00 275,00 8,50 1,992

Soybeans (CBT)-5,000 bu.; cents per bu.

March 995,50 1,004,25 989,00 1,001,75 18,75 238,494

Soybean Meal (CBT)-100 tons; \$ per ton.

March 349,80 358,20 349,10 357,80 14,00 122,393

Soybean Oil (CBT)-60,000 lbs.; cents per lb.

March 32,15 32,36 31,81 31,85 -11 137,444

Rough Rice (CBT)-2,000 cwt.; \$ per cwt.

March 122,00 124,00 121,99 123,00 6,50 5,608

Wheat (CBT)-5,000 bu.; cents per bu.

March 452,00 465,00 451,50 464,00 15,00 167,238

Wheat (KCO)-5,000 bu.; cents per bu.

March 467,25 479,25 466,50 477,50 12,00 77,752

Wheat (MPLS)-5,000 bu.; cents per bu.

March 607,50 611,25 606,25 610,00 6,50 23,732

Hogs-Lean (CME)-40,000 lbs.; cents per lb.

March 73,00 73,400 73,050 73,075 -100 9,298

Lumber (CME)-10,000 bd ft.; \$ per 1,000 bd ft.

March 482,80 492,00 481,80 492,75 12,25 93,733

Cattle-Feeder (CME)-50,000 lbs.; cents per lb.

March 146,000 148,650 145,525 147,675 1,475 22,984

Cattle-Live (CME)-40,000 lbs.; cents per lb.

March 126,525 127,250 126,125 127,125 6,00 16,601

Food

Beef,carcass equiv.index choice 1-3,600-900 lbs.u

192,28 select 1-3,600-900 lbs.u

Broilers, National comp wghtd-u.w

0,9063 Butter,AA Chicago

Cheddar cheese,bбл,Chicago

136,00 Cheddar cheese,blk,Chicago

Milk,Nonfat dry,Chicago lb.

73,50 Cocoa,Ivory Coast-w

Coffee,Brazilian,Comp

1,237,42 Coffee,Colombian,NY

Eggs,large white,Chicago-u

1,529,00 Flour,hard winter KC

Hams,17-20 lbs,Mid-US fob-u

0,60 Hogs,Iowa-No. Minnesota-u

Pork bellies,12-14 lb MidUS-U

0,8699 Pork loins,13-19 lb MidUS-U

Steers,Tex-Oka,Choice-u

126,00 Steers,feeder,Oklahoma-u

167,25 Steel,HRC USA,FOB Midwest Mill-s

Food

Grains and Feeds

Barley,top-quality Mnpls-u

n.a. Bran,wheat middlings,KC-u

Corn,No.2 yellow,Cent IL-bp,u

3,4500 Corn gluten feed,Midwest-u.w

Oats,No.2,milling,Mnpls-u

3,0250 Oats,No.2,milling,Mnpls-u

Rice,Long Grain Milled, No. 2 AR-u.w

25,50 Sorghum,(Milo) No.2 Gulf-u

8,5188

Fats and Oils

Corn oil,crude wet/dry mill-u.w

30,2000 Grease,choice white,Chicago-h

Lard,Chicago-u

n.a. Soybean oil,crude,Cent IL-u

Tallow,bleach,Chicago-h

0,2500 Tallow,edible,Chicago-u

Food

Commercial paper (AA financial)

90 days 1,72 1,70 1,72 0,72

Libor

One month 1,58750 1,58007 1,58750 0,77000

2,750 10 2,858 1,25 2,854

Treasury bill auction

4 weeks 1,480 1,440 1,480 0,400

13 weeks 1,570 1,500 1,570 0,515

26 weeks 1,785 1,650 1,785 0,645

Secondary market

BIGGEST 1,000 STOCKS

WSJ.com/stocks

How to Read the Stock Tables

The following explanations apply to NYSE, NYSE Arca, NYSE American and Nasdaq Stock Market listed securities. Prices are composite quotations that include primary market trades as well as trades reported by Nasdaq BX (formerly Boston), Chicago Stock Exchange, Cboe, NYSE National and Nasdaq ISE. The list comprises the 1,000 largest companies based on market capitalization.

Underlined quotations are those stocks with large changes in volume compared with the issue's average trading volume.

Boldfaced quotations highlight those issues whose price changed by 5% or more if their previous closing price was \$2 or higher.

Wall Street Journal stock tables reflect composite regular trading as of 4 p.m. and changes in the closing prices from 4 p.m. and the previous day.

Monday, February 12, 2018

Net Stock Sym Close Chg Net Stock Sym Close Chg

A B C

ABB ABB 24.60 0.30 AES AES 10.27 0.09 Alflac AFLP 85.13 0.36 AGNC Inv! AGNC 18.86 0.28 ANGI Homesvc ANGI 13.62 0.31 Ansys ANSS 153.74 3.33 ASML ASM! 186.34 3.67 AT&T T 36.37 0.32 AbbottLabs ABT 57.43 0.21 AbbVie ABV 111.93 0.63 Abiomed ABMD 233.72 4.34 Accenture ACN 149.95 1.11 ActivisionBlz ATVI 68.32 1.24 AcuityBrands AVY 150.49 3.44 Adient ADNT 63.91 3.21 AdobeSystems ADBE 192.13 2.16 AdvanceAuto AAP 109.44 0.34 AdmRicDevices AMD 116.63 0.29 AdvSemiEngg ASX 6.73 0.09 Aegon AEG 6.55 0.10 AerCap AER 51.85 0.95 Aetna AET 177.38 0.99 AffiliatedMtrs AMG 181.19 0.95 AllegiantAircr ALG 68.43 1.45 AgnicoreEagle AEM 44.05 1.29 AirProducts APP 159.60 1.59 AkamaiTech AKAM 64.93 0.80 AlaskaAir ALK 66.01 1.29 Albermarle ALB 111.59 3.87 Alcoa AA 44.65 0.73 AlexanderReEst ARE 119.06 1.04 AlejixonPharm ALXN 1154.6 6.83 Alibaba BABA 177.44 0.77 AlignTech ALGN 233.13 3.76 Alkermes ALKS 55.36 1.47 Allegany YH 5745.50 1.44 Allegion ALLE 79.75 1.26 Allergan ALGN 162.46 0.31 AllianceData ADS 245.26 7.69 AlliancEnergy LNT 38.49 0.06 AllisonTrans ASN 41.67 0.02 Allstate ALL 90.73 0.16 AlyFinanical APP 28.07 0.50 AlnylmPharm ALNY 117.30 1.38 Alphabet C GOOG 105194.14 16.11 Altaba ABA 71.10 0.62 AlticeUSA ATUS 19.63 0.42 Altria MO 65.39 1.32 AlumofChina ACH 14.93 0.91 Amazon.com AMZN 138623 46.63 Ambv ABEV 6.68 0.14 Amdocs DOX 65.33 0.18 Amerco UHAL 354.03 1.44 Ameren AEE 55.07 0.35 AmericaMovil AMV 17.82 0.12 AmericaMovil AMX 17.79 0.09 AmerAirlines AAIR 50.09 1.73 AEP AEP 64.80 0.08 AmerExpress AXP 94.70 2.98 AmericanFinl AFN 109.36 3.26 AIG AIG 59.61 0.61 AmerTowerReIT AMT 163.03 2.18 AmerWaterWorks AWK 77.92 0.02 Ameriprise AMP 155.90 2.03 AmericaSourceBrg ABC 89.45 0.26 Ametek AME 74.00 1.70 Amgen AMGN 174.87 1.41 Amphenol APP 91.44 2.88 Apache APP 31.81 0.88 Apartmtlnv AIV 39.27 0.07 ApplGblMgmt APOL 33.02 0.69 ApplGblMgmt APOL 33.02 0.69 Apple AAPL 162.73 6.30 ApplMaterials AMAT 49.50 1.42 AppT Aptiv 91.44 2.88 ArcoNtel ARNT 163.23 0.18 ArcoWaterWks AWK 77.92 0.02 Ameriprise AMP 155.90 2.03 AmericaSourceBrg ABC 89.45 0.26 Ametek AME 74.00 1.70 Amgen 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BANKING & FINANCE

Market Appears to Take a Detour

Is it 1998 or 2007?

Last week's stock-market dive has triggered a search for parallels: Was it like the stock drops of 1987 and 1998, frightening but of little


**ANALYSIS
BY GREG IP**
 lasting economic consequence? Or was it more like 2007 when several failed hedge funds and subprime lenders were the tip of an iceberg that sank the entire economy?

So far, the right analogies appear to be 1987 or 1998, both cases when some market players were clobbered but, unlike in 2007, had few linkages to the real economy.

In 1987, as now, there were fears of a weak dollar, rising bond yields and inflation just as a new Federal Reserve chairman, in that case Alan Greenspan, was determined to prove his credentials. Congress was mulling a tax change to discourage leveraged corporate buyouts, a big driver of that year's bull market. But these were merely catalysts. The driver of the Oct. 19, 1987, crash was "portfolio insurance," a strategy that effectively forced big investors to sell into a falling market.

In 1998, Russia's debt default was the catalyst that forced Long Term Capital Management, a massive hedge fund, to suffer large losses. As it liquidated positions, the Dow Jones Industrial Average dove 19% and other market prices went haywire.

By contrast, in 2007 the failure of hedge funds operated by Bear Stearns Cos. and steep losses on subprime loans such as at **HSBC Holdings** PLC turned out to be symptoms, not the cause, of the problem: trillions of dollars of shoddily underwritten mortgages backed by soon-to-collapse housing prices.

The latest selloff was triggered by worries that central banks would respond to stirrings of inflation with more



Traders worked on the floor of the New York Stock Exchange in June 1998, the day after a steep market drop.

rapid interest-rate increases. That, however, was merely the spark. The fuel was a market belief, implemented in complex trades, that a period of low market volatility would persist.

The late economist Hyman Minsky once said that stability is destabilizing: Long periods of calm encourage risk-taking that aggravates the eventual bust. For the same reason, stocks and bond prices went in opposite directions, meaning the two are negatively correlated and thus naturally hedge each other.

Investors devised strategies to exploit this, such as betting that the VIX, a barometer of market volatility derived from options prices, would stay low. As those bets increased, they in turn damped volatility further. Also in play were "risk-parity" trades that use borrowed money to take larger positions in stocks and bonds as volatility drops.

Once volatility rose and stock and bond prices be-

came positively correlated, though, those strategies sustained steep reversals, and as they closed out positions or reduced borrowing, volatility spiked further.

Like in 1987 and 1998, these moves are self-reinforcing: As positions are liquidated, they force prices to levels that inflict losses on other players, forcing them to liquidate. Such selling eventually burns itself out, though it's impossible to predict when.

In 1987 and 1998, this sort of forced selling was just a temporary detour for the economy. This could be a repeat.

"I hope I'm not just convincing myself that this has nothing to do with fundamentals," said one nervous fund manager. "But I still think that's the case."

Even if the inflation scare is overdone, events have clearly shifted the bond market's mood. Bond prices have been sky-high. Now, bond investors worry that low unemployment, higher oil

prices, a lower dollar, and protectionism could shift inflation higher. That, along with U.S. budget deficits topping \$1 trillion and central banks shrinking their bond holdings, would push bond yields down and yields up.

Monetary policy is also a question mark. "We had a strong sense of what [former

The latest selloff has analogies to cases in which the market reversed itself.

Fed chief Janet Yellen was going to do," one hedge-fund manager said. "We don't know what Jerome Powell is going to do."

Although Mr. Powell hasn't addressed the market turmoil since being sworn in as chairman last week, his colleagues have played it down, even welcomed it.

As investors reassess the

risk of inflation and higher interest rates, bond yields and volatility could grind higher, which would depress stock valuations even if profits are fine. And eventually, market moves don't just reflect the economy; they can also drive the economy.

The turmoil in 1987, 1998 and 2007-08 inflicted damaging losses on market participants that required intervention by the Fed.

Postcrisis overhauls have strengthened the financial system but volatility may expose weak links. When the dot-com bubble burst in 2000, that sapped spending by wealthy stockholders and tech companies who could no longer issue bonds and shares.

"What if we get a tightening in financial conditions because of this forced deleveraging that spills into auto loans and subprime and housing?" one manager warned. "It's classic late cycle, but each time is different. That's what I'm worried about. This needs to burn itself out, fast."

British prosecutors last summer charged the former chief executive of Barclays with fraud and illegal payments along with three other former executives. It is the first time a chief executive of a major British bank faces criminal charges for actions taken during the financial crisis.

A date for the trial is expected to be set soon.

◆ Heard: Barclays can cope with new charge. B12

Fees for Futures Industry Proposed

By GABRIEL T. RUBIN

WASHINGTON—The White House proposed levying fees on derivatives users to bolster the Commodity Futures Trading Commission's 2019 budget, an idea that may be dead on arrival because of industry opposition. Moreover, leaders at the CFTC also are opposed to the funding idea.

The Trump administration's fiscal 2019 budget calls for keeping the CFTC's budget appropriations flat at \$250 million but would add an additional \$31.5 million in funding from a fee on some firms that participate in derivatives markets. The CFTC currently lacks the authority to collect such fees—unlike its larger market-regulator counterpart, the Securities and Exchange Commission—and would require Congress to change its funding rules.

Monday's budget proposal is a compromise with CFTC Chairman J. Christopher Giancarlo, a Trump-appointed Republican, who has been lobbying for additional funding but has publicly opposed fees on derivatives transactions. At a House Appropriations Committee hearing last year, he argued that market participants must already pay transaction fees to self-regulatory organizations and that additional costs could have a negative impact on liquidity.

"As the chairman has long maintained, a budget of \$281.5 million will allow the Commission to effectively accomplish its mission, by providing increased resources for economic analysis, examinations of clearinghouses, cybersecurity, fintech, and enforcement," said CFTC spokeswoman Erica Richardson.

The fees would be assessed on derivatives users for activities such as product registration and reimbursing regulators for examinations and supervision.

CFTC discussions with the White House kept new fees out of the administration's 2018 budget request, say people familiar with the matter. But disagreements over the proper level of funding for the agency led the CFTC to submit its own budget request to Congress, alongside the White House's request to keep the agency at \$250 million for the fourth straight year.

Industry giants such as **CME Group** Inc. have long opposed CFTC user fees. As the dominant futures exchange, CME has raised its own internal user fees several times in recent years, but has pushed back on proposals to fund the CFTC with similar levies.

The 700-employee CFTC has repeatedly pressed for more funding, citing its expanded responsibilities from the 2010 Dodd-Frank Act.

Barclays Charged Over 2008 Fundraising

By MAX COLCHESTER

struggled amid the financial crisis in 2008. The British prosecutors had said the funds were then plowed back into Barclays to recapitalize it. Barclays has previously denied the allegations.

Those initial charges were made against the bank's holding company. The new charge is significant as the operating company, Barclays Bank PLC, holds the lender's banking licenses. Regulators must deem the subsidiary to be "fit and proper" to keep those licenses.

Last summer, U.K. authorities charged Barclays over a \$3 billion loan it made to Middle Eastern investors as the bank

In a statement, Barclays said it would defend itself against the charges. The bank added that it doesn't expect there to be any impact on its "ability to serve" customers. The bank hasn't said whether it would plead guilty.

Other European banks including **BNP Paribas** SA and **Credit Suisse Group** AG in the past have pleaded guilty to criminal charges without any lasting impact. Credit Suisse's settlement with U.S. authorities for aiding tax evasion didn't result in it losing any licenses. BNP Paribas was banned for a year from dollar

clearing after pleading guilty to dealing with sanctioned countries. However, in the U.K., no major bank has recently been found guilty of a criminal charge, so the outcome of such a decision is unclear.

The SFO case has sucked in a cadre of former Barclays executives who helped structure the deal at the height of the crisis which allowed the British bank to avoid being bailed out by taxpayers. The SFO has spent years probing how Barclays managed to woo Qatari investors to pump funds into the struggling bank—in particular,

what the purpose was of £322 million (\$445 million) in "advisory services" that bank paid to Qatari investors.

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A date for the trial is expected to be set soon.

◆ Heard: Barclays can cope with new charge. B12

FINANCE WATCH



U.S. state. The stamp is now valued at up to \$750,000.

The bond manager has donated tens of millions of dollars, in part from the proceeds of other stamp sales. He also gave more than \$10 million to the National Post Museum for its William H. Gross Stamp Gallery.

—Justin Baer

ANT FINANCIAL New Funding Round Aims for \$5 Billion

Chinese technology company **Ant Financial Services Group** is aiming to raise as much as \$5 billion in a new funding round, according to people familiar with the matter, a move that would bolster the company's financial position as it weighs an initial public offering.The Hangzhou-based firm, an affiliate of e-commerce company **Alibaba Group Holding** Inc., is in talks to pick advisers for the new equity placement, the people said. Ant's last fundraising round was in April 2016, when it secured \$4.5 billion from a slate of investors, including sovereign-wealth fund China Investment Corp. and private-equity firm Primavera Capital Group, as well as large Chinese state-owned banks and insurers. The deal valued Ant then at about \$60 billion.

The coming round, first re-

ported by Reuters, is likely to kick off in one or two months and could value the company at about \$100 billion, analysts say, though the people familiar with the fundraising said the specific valuation isn't clear.

—Chuin-Wei Yap,
Julie Steinberg

EQUIFAX

Information Security Chief Joins Firm

Equifax Inc. said it hired a new chief information security officer to help with the company's overhaul of its security in the wake of its massive breach last year.Equifax said Monday that it hired Jamil Farshchi, as its new information security chief. Mr. Farshchi will be responsible for transforming the company's information security. He held that post at **Home Depot** Inc. and similar roles in information security at **Time Warner** Inc. and **Visa** Inc. He will report to the company's interim chief executive, Paulino do Rego Barros Jr.

Equifax in September disclosed that it had been breached and that personal information for 145.5 million Americans had been compromised. Soon after, several executives, including the CEO, retired.

—AnnaMaria Andriots

A sample of Bill Gross's rare-stamp collection. An initial sale is expected to bring over \$9.1 million.

Bank said the bank "cooperated extensively with the SEC's investigation and took appropriate disciplinary action, including termination in some instances."

—Dave Michaels

COLLECTIBLES

Bill Gross to Sell His Rare Stamps

Bill Gross, the legendary bond manager, is parting with one of

his most-prized investments: His collection of rare U.S. stamps.

Mr. Gross, who co-founded Pacific Investment Management Co. and served as the firm's investment chief until his 2014 departure, plans to sell the collection through a series of auctions. The first sale, which includes many of Mr. Gross's most valuable stamps, is set for September, according to Siegel Auction Galleries.

Scott Trepel, Siegel's president, expects that initial sale to

raise more than \$9.1 million, breaking the record—also held by Mr. Gross—as the biggest single-day stamp auction. He had sold his British collection for that price in 2007.

Among the most prized: a block of 24-cent stamps from 1869 that features an inverted image at their center, that is valued at \$750,000 to \$1 million, and the 2-cent "Blue Hawaiian Missionary" stamp—issued in 1851, before Hawaii became a

U.S. state. The stamp is now valued at up to \$750,000.

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—Chuin-Wei Yap,
Julie Steinberg

MARKETS

OPEC Boosts Its Forecast for Oil Supply

Report says most output will come from U.S. shale but global demand will increase

BY CHRISTOPHER ALESSI

LONDON—Booming U.S. shale production forced OPEC to raise its crude-supply forecast for this year, but it said strengthening global demand would continue to help eat up the excess surplus.

In its monthly oil-market report, the Organization of the Petroleum Exporting Countries said supply from producers outside the group should increase by 1.4 million barrels a day this year. Almost all of it comes from the U.S., where growth is expected to be 1.3 million barrels a day.

The report came after an oil-market selloff last week when traders became concerned that burgeoning U.S. production could again flood the market. U.S.-traded crude oil lost 9.5% last week, while Brent crude, the global benchmark, fell 8.4%.

On Monday, West Texas Intermediate gained 0.2%, to



U.S. crude production, mainly driven by shale producers, has continued to put a cap on oil prices.

Recast

Forecast 2018 change in supply from a year earlier, millions of barrels a day

| U.S. | 1.30 mbd |
|------------|----------|
| Canada | 0.25 |
| Brazil | 0.20 |
| U.K. | 0.11 |
| Kazakhstan | 0.09 |
| Colombia | -0.04 |
| Norway | -0.08 |
| Mexico | -0.12 |
| China | -0.12 |
| Russia | -0.19 |

Source: OPEC

THE WALL STREET JOURNAL

"healthy economic conditions globally and a relatively steady product price environment," OPEC said in the report. "This close linkage between economic growth and oil demand is foreseen to continue, at least for the short term," the report said.

At the same time as demand rises, an OPEC-led plan, since the start of last year, has held back crude output by about 1.8 million barrels a day through the end of 2018.

But relentless U.S. production, mainly driven by shale producers, has continued to put a cap on prices, analysts

say.

U.S. crude output topped 10 million barrels a day in November for the first time since 1970, according to data released last month by the U.S. Energy Information Administration.

Meanwhile, the International Energy Agency said in its monthly oil market report last month that U.S. crude output should surpass that of Saudi Arabia this year, while rivaling Russia, the world's two biggest producers of crude.

The IEA is slated to release its oil-market report for January on Tuesday.

U.S. stockpiles of crude oil also have started to build again following weeks of decline. OPEC has looked to crude inventory levels in the U.S. and other developed countries as a measure of how quickly the supply overhang is clearing.

OPEC said commercial oil inventories in the Organization for Economic Cooperation and Development—a group of industrialized, oil-consuming nations including the U.S.—fell by 22.9 million barrels in December, to stand at 2.888 million barrels a day, or 109 million barrels above OPEC's target of the latest five-year average.

Treasurys Weaken As Stocks Rebound

BY AKANE OTANI
AND DANIEL KRUGER

U.S. government-bond prices resumed their slide Monday, falling as major stock indexes from Europe to Asia rebounded from a global rout.

The yield on the 10-year Treasury note rose to 2.857%—its highest closing level since Jan. 22, 2014—compared with 2.829% Friday. Yields rise as bond prices fall.

Demand for bonds weakened as gains in stocks led investors to take on more risk, investors said. In addition to gains in stocks, prices for commodities such as oil—which tends to rise as economic activity picks up—also improved.

"It's mostly the fact that the stock market has picked up," said Donald Ellenthaler, head of multiasset strategies at Federated Investments. "Money's coming out" of short-term Treasurys as investors are regaining their comfort with stocks.

Government bonds have come under pressure in recent weeks as fears that a faster-than-expected pickup in inflation could spur central banks to accelerate the pace of interest rate increases helped send global stocks tumbling.

Bond yields also rose after a series of Treasury Department auctions were met by lukewarm demand and investors expressed concerns that a U.S. spending plan could significantly widen the budget deficit, increasing the supply of government bonds in the market.

After Labor Department data showed a faster-than-forecast pickup in wages in January, bond investors will be looking for more new signs of inflation in Wednesday's release of the consumer-price index.

Economists surveyed by The Wall Street Journal expect the CPI, which measures changes in what Americans pay for everything from milk to airline fares, to rise by 1.9% in January from the year-earlier period.

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 AND 26-WEEK BILLS

| | 13-Week | 26-Week |
|---------------------------------|------------------|-------------------|
| Accepted bids | \$48,001,400,300 | \$115,213,225,300 |
| * noncom. | \$692,653,900 | \$623,325,300 |
| * foreign noncom. | \$485,000,000 | \$280,000,000 |
| Auction price (rate) | 99.003139 | 99.097583 |
| Coupon equivalent | 1.570% | 1.785% |
| Bids at clearing yield accepted | 89.03% | 22.84% |
| Cusip number | 912796P68 | 912796NQ8 |

Both issues are dated Feb. 15, 2018. The 13-week bills mature on May 17, 2018; the 26-week bills mature on Aug. 16, 2018.

Chinese Investors Rant on U.S. Embassy Site

BY JAMES T. AREDDY

SHANGHAI—Frustrated investors in China are howling about recent stock-market losses on the social-media accounts of foreign embassies, in one case turning a greeting by U.S. Ambassador Terry Branstad for the coming Year of the Dog into a platform to protest.

Messages posted by the U.S. Embassy to its official account on the Chinese social-media service Weibo have attracted thousands of stock-related comments in recent days. Posts included items about the Winter Olympics and a video Lunar New Year greeting from Mr. Branstad and his wife, in which he speaks Chinese and pets a basset hound.

The embassy said in a statement Monday that it registered more than 10,000 comments about stocks pinned to its messages on Weibo, none of which had to do with the market. It said it deleted some of the nasty ones, which violated the embassy's terms of use.

Tough talk about stocks has also flooded onto the Weibo accounts of the U.K. Embassy and the United Nations, which didn't respond to requests for comment.

The comments largely took aim at Chinese authorities following last week's nearly 10% drop in the Shanghai Composite Index, and they continued Monday despite the market's rebound of 0.8%. Many bitingly used phrases out of government propaganda, including President Xi Jinping's declaration of a "new era," and suggested censorship elsewhere made them turn to foreigners.

"Is it what you call socialism in the new era? Now in-



Comments about stock losses were pinned to the embassy's Weibo account. U.S. Ambassador Terry Branstad, background center right.

vestors don't have anywhere to go to complain and have to resort to the U.S. Embassy's Weibo," said one message that received hundreds of likes on the U.S. Embassy account. "So pathetic!"

Weibo appeared to disable the comment function on some of the posts published on the foreign-run feeds, including the U.S. Embassy's, which has more than 1.2 million followers. Weibo Corp. didn't respond to a request for comment.

China's investors have protested about stock declines repeatedly since trading began nearly three decades ago.

Last week's declines in the

Many believe that the government ultimately controls the markets, a sentiment reinforced after a group of state-backed investors and funds stepped in to stabilize trading after a meltdown in mid-2015.

"Seeking foreign ambassadors to intervene in China's stock market is kind of ridiculous and immature behavior," said Shen Meng, who runs Beijing-based investment bank Chanson & Co. "Many Chinese investors have been spoiled by the false belief that the state will step in to prevent big losses in the market."

Last week's declines in the

U.S., where the Dow Jones Industrial Average suffered its two worst days ever in point terms, appeared to spark China's selloff, and some of the posted commentary took aim at the U.S.

Most of the social-media ire was directed at the Chinese government, including the China Securities Regulatory Commission and its chairman, Liu Shiyu. He sometimes was identified by the number 641, which in Chinese is a homonym for his name. A typical comment: "Liu Shiyu manipulated the stock market. Has anyone seen U.S. investors calling the names of the U.S.

securities regulator?"

In his brief video posted to Weibo, Mr. Branstad used a phrase in Chinese along with a translation—"chun jie kuai-le, best wishes for a happy new year"—as he petted a saggy-eared hound named Tequila that is owned by an embassy employee.

"Please, Mr. Ambassador, while walking the dog, pay attention to the Chinese stock market," ran one comment. "Please, Mr. Ambassador, have a chat with 641," a reference to securities chief Mr. Liu.

—Liyan Qi in Beijing and Stella Yifan Xie in Shanghai contributed to this article.

Market Turmoil Hits Funds Linked to Volatility

BY ASJYLYN LODER
AND DAVE MICHAELS

The recent implosion of two exchange-traded products is renewing questions about the impact of rapidly growing passive funds on the markets they are meant to track.

While exchange-traded funds have lowered the cost of investing and given individuals access to strategies once reserved for hedge funds and multibillion-dollar pensions, the \$5 trillion global industry has ventured into complex strategies, sometimes with disastrous results.

The latest example came on the evening of Feb. 5, as ETFs that bet against Wall Street's fear gauge lost more than 80% of their value. The strategy has been a popular moneymaker in recent years as stocks marched steadily higher, keeping the Cboe Volatility Index, known as the VIX, at near-record lows.

That calm was shattered when the S&P 500 plummeted 4.1%, erasing nearly \$1 trillion in market capitalization. The VIX

surged, triggering steep losses in ETPs that had bet that the VIX would fall.

The next morning, Japanese securities firm Nomura Holdings Inc. and Swiss bank Credit Suisse Group AG said they would close two ETPs, the Nomura S&P 500 VIX Inverse ETN and the VelocityShares Daily Inverse VIX Short Term ETN, respectively. U.S. exchanges temporarily halted trading in similar ETPs.

The Securities and Exchange Commission has started examining the market mayhem, calling Credit Suisse on Feb. 6 and questioning the bank about its ETP, according to people familiar with the matter.

Regulatory officials asked about how the investment's performance is calculated and whether retail investors were shareholders, one of the people said. The bank, which said it would shut down the ETP on Feb. 21, declined to comment.

Early indications are that the short-volatility products performed exactly as they were de-

signed to amid Monday's market swings, but that is little comfort to investors who watched their money vanish.

Nick Ravo, a 62-year-old investor in Edmonds, Wash., said he had been betting against volatility for nearly two years and it has been largely profitable. He owned the Credit Suisse product in his retirement account on Feb. 5 and watched as the product lost nearly all of its value overnight.

Regulators have raised questions before about whether VIX exchange-traded products are suitable for retail investors. Wells Fargo & Co. agreed in October to pay more than \$3.4 million to settle claims that it sold volatility-linked ETPs to customers who didn't understand them.

The Financial Industry Regulatory Authority said Wells Fargo made the products available to retail customers without restriction from 2009 to 2012, and some clients "incurred significant losses."

"You will see more pressure

Blow-Up

Bets against Wall Street's fear gauge were nearly wiped out last week after stocks plunged.

VelocityShares Daily Inverse VIX Short Term ETN

\$150



Source: FactSet

THE WALL STREET JOURNAL

on clearer and cleaner disclosure of complex products, and more scrutiny on firms about how they train their representatives to responsibly sell them," said Michael Osnato, a former senior enforcement official at the SEC now in private practice at Simp-

son Thacher & Bartlett LLP. The big ETF firms moved quickly to distance themselves from the products that founded last week. BlackRock Inc., the largest U.S. ETF firm by assets, published a blog post Wednesday from Martin Small, head of the firm's U.S. iShares ETF business, warning investors not to confuse its funds with the complicated products that were nearly wiped out Monday night.

"As the recent market volatility made clear, there's a big difference between plain-vanilla ETFs and leveraged products making big bets with big risks," Mr. Small wrote.

In recent years, investors and analysts have blamed ETFs for roiling markets for oil, gold-mining companies and high-yield debt. Last year, a flood of cash into a triple-leveraged ETF triggered price gyrations in gold stocks from Toronto to Sydney. In September 2016, the Bank of Japan curbed its purchases of ETFs pegged to the Nikkei 225 index after its buying distorted prices.

MARKETS

Stock Valuations Get More Appealing

Last week's selloff eases some concerns shares are expensive by historical standards

By JON SINDREU

For investors who have complained about the stock market being too expensive, last week's sudden rout has something good to offer.

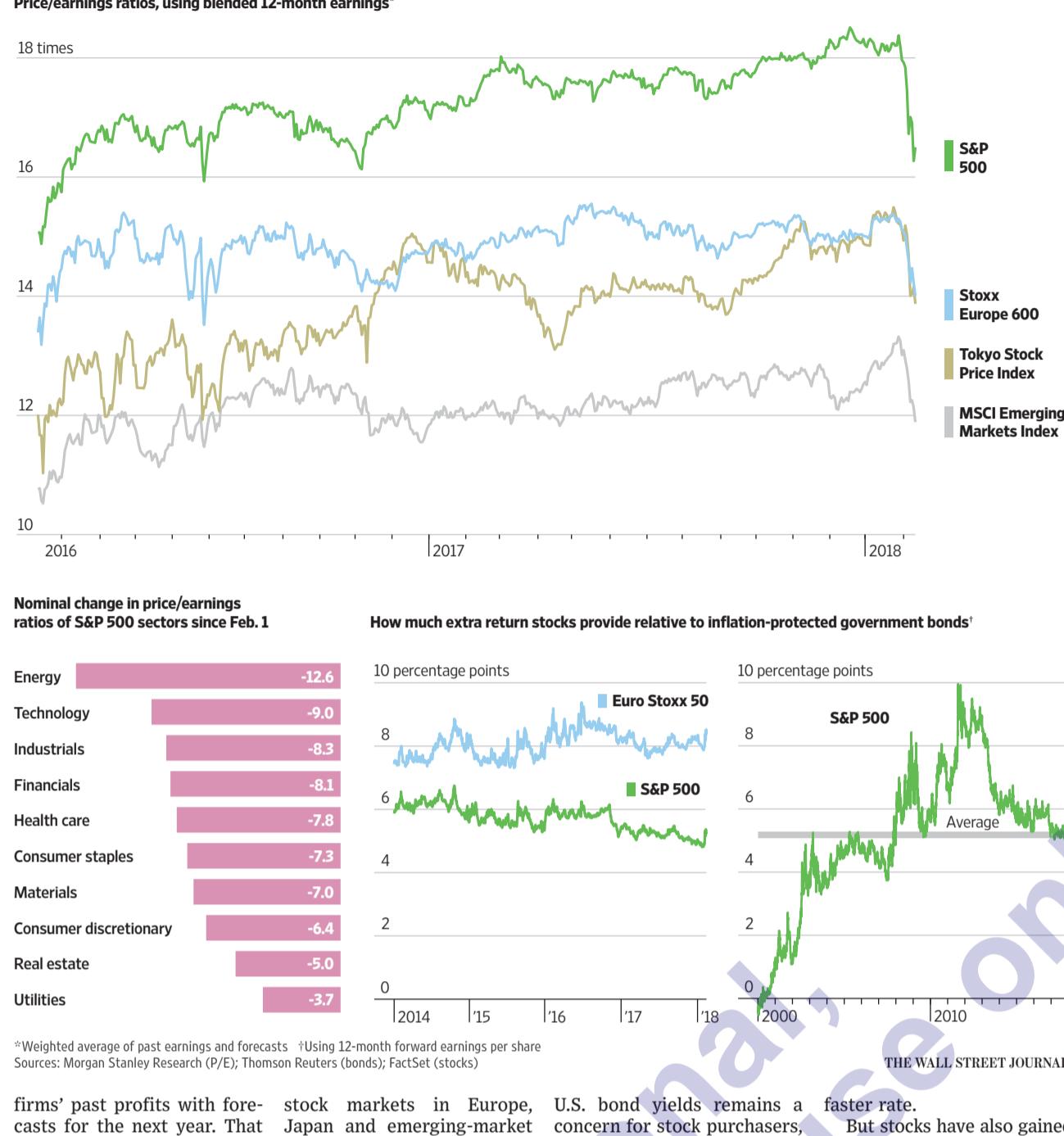
Major U.S. indexes ended the week Friday more than 5% lower, marking their worst loss in more than two years, despite a growing global economy and optimism about corporate profitability. Analysts blame the stock selloff on a series of misfired bets on low volatility and on higher bond yields, which make stocks less attractive compared with low-risk government paper.

This was troublesome, analysts and investors said, because the stock market's price/earnings ratio—how many times stocks trade above the earnings they are expected to generate over the next year—was high by historical standards. This means that, even as analysts expected corporations to continue delivering strong earnings, their shares looked expensive.

"We have written many times about our concerns on valuations on both bond and equity markets," said Paul Flood, multiasset portfolio manager at Newton Investment Management. "Many investors had started to view markets priced to perfection as the only likely path forward."

Last week's sharp correction, which didn't alter analysts' optimistic view about the economy and corporate earnings, could alleviate some of those concerns.

Companies in the S&P 500 are trading at 16.5 times their earnings, according to Morgan Stanley data, which blend



*Weighted average of past earnings and forecasts †Using 12-month forward earnings per share

Sources: Morgan Stanley Research (P/E); Thomson Reuters (bonds); FactSet (stocks)

firms' past profits with forecasts for the next year. That compares with the index trading at 18.1 times those earnings two weeks ago, and it is much closer to the S&P 500's 10-year average of about 15.

Price/earnings ratios for

stock markets in Europe, Japan and emerging-market economies have fallen by almost as much as in the U.S., even though they all traded at cheaper levels to start with.

Even with the lower valuations, the prospect of rising

U.S. bond yields remains a concern for stock purchasers, particularly those who believe inflation is set to go up by more than previously expected. Higher inflation could prompt central banks to tighten monetary policy at a faster rate.

But stocks have also gained some small amount of ground on government debt. Another valuation measure for the S&P 500, which calculates the extra compensation that investors receive for buying stocks

rather than inflation-linked U.S. government bonds, has now climbed above its long-term average going back to 2000.

The U.S. selloff was also across most corporate sectors, further evidence that the declines were triggered by prior bets that volatility would remain low as investors scrambled to cover their losses, some analysts say. That meant investors were less discriminate and that companies that could benefit from the recent rise in bond yields, such as banks, were sold along with the rest.

Investors who are waiting to "buy the dip" can often allow corrections to run their course, instead of stepping in immediately, in order to scoop up even bigger bargains. But after closing higher on Friday, global stock markets had another positive day on Monday, suggesting that some money managers were already ready to buy these cheaper stocks.

"Time to pick stocks," equity strategists at Morgan Stanley told clients in a research note on Monday. "We have advocated patience in buying this dip," they said, adding that current measures of stock valuation were now attractive enough for "disciplined buyers."

Many investors point out that stock markets have usually recovered quite well from sudden selloffs that happened after a period of market optimism. A classic example is Black Monday in 1987, when the Dow Jones Industrial Average had its worst single day on record—it plunged 22.6%—but afterward enjoyed years of rallies.

"If history is any guide, most bull markets end because we are going into recession, not because of an overvalued market," said Chris Zaccarelli, chief investment officer at Independent Advisor Alliance LLC.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

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Middlemen Eyed in Drug Prices

Big Fish

Market values of large pharmacy-benefit managers

UnitedHealth Group

\$217 billion

CVS Health

\$71 billion

Express Scripts Holding

\$41 billion

Source: FactSet

THE WALL STREET JOURNAL.

Express Scripts Holding, and UnitedHealth Group— control 66% of the market, according to researchers at the University of Southern California. That "allows them to exercise undue market power against manufacturers and against the health plans and beneficiaries they are supposed to be representing, thus generating outsized profits for themselves."

The council says creating more competition in the industry would lower prices for consumers. Instead, the industry is consolidating further, most recently with CVS's \$69 billion deal for health insurer **Aetna**.

The White House's concerns aren't likely to turn into action soon, unless antitrust authorities decide to block the CVS-Aetna deal. But it does tell investors where the White House is looking for savings. That isn't a development that their shareholders should welcome. —Charley Grant

OVERHEARD

This biotech experiment didn't go so well: **Axovant Sciences** announced CEO and director **David Hung** has resigned from the company after just 10 months.

Those 10 months were something Axovant shareholders would like to forget. Investors were thrilled when Mr. Hung joined the company, shortly after he orchestrated the sale of biotech Medivation to **Pfizer**. Axovant shares jumped 22% that day.

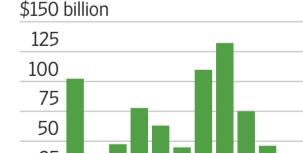
That was the last good news investors would receive for quite a while, though. Highly anticipated clinical trials in Alzheimer's disease and other neurological disorders fell well short of success. Including Monday's sharp decline, shares have shed more than 80% of their value in those 10 months.

Biotech is, of course, risky. That is especially true when the bull case for a stock revolves around a résumé, no matter how impressive.

The Next Big Telecom Deal Could Be Brewing in Europe

Deal Drought

Value of telecom deals in Europe



*Year to date

smaller Eastern European markets, but not U.K.-based Virgin Media, which accounts for two-fifths of Liberty profits.

The deal could still be worth \$31 billion, estimates Credit Suisse. In a sort of appetizer, Liberty agreed to sell its Austrian unit, UPC, to

Deutsche Telekom for roughly \$2.4 billion in December.

Investors have been waiting for a tie-up between Europe's largest mobile carrier and its largest cable group for years. Annual cost savings could be \$1.8 billion for a full merger, estimates New Street Research.

That said, previous hopes have been frustrated. In June 2015, Vodafone held talks with Liberty over an "exchange of selected assets." Three months later, the talks broke down.

The acquisition now under discussion should be easier to negotiate than the asset swap. Yet it also requires Vodafone to find more cash, implying uncomfortably high leverage or a rights issue.

Not including the U.K. assets is another problem, as this is where analysts see the bulk of potential savings. Ideally, Vodafone would raise cash for its acquisitions by selling its U.K. arm to Liberty—hence an asset swap.

But Vodafone U.K. has had a tough couple of years, so Liberty may be playing hardball on price.

The U.K. situation underlines that Liberty holds the trump cards in the European mergers game for the simple reason that there are more mobile networks than fixed ones. That gives most cable owners better pricing power with consumers and better negotiating power with partners.

Investors' reaction to the talks so far has been muted.

Liberty's highly leveraged stock jumped almost 6% on the news last week, only to give up the gains—and some—in the recent market correction.

Mobile operators have paid close to 11 times earnings before interest, taxes, depreciation and amortization, on average, for control of European cable networks. **Charter Communications**, John Malone's U.S. cable company, trades above 10 times.

Adjusting for minority stakes, Liberty changes hands at just eight times. Unless the latest bout of market volatility jinxes Europe's resurgent animal spirits, that discount looks set to close.

—Stephen Wilmot

Barclays was slapped with another fraud charge by U.K. investigators Monday, following last summer's charges against the company and former executives, including its former chief executive. Luckily for Barclays investors, this new element sounds more serious than it probably is.

The charges relate to Barclays' £12 billion (\$16.67 billion) emergency fundraising during the financial crisis of 2008, with the most serious element being that the bank in effect lent its Qatari investors \$3 billion that they used to buy shares in the bank. Barclays denies the charges and intends to fight them in court.

Monday's additional charge was brought against Barclays's operating company, which holds the lender's banking license. Last summer's charges were against the holding company.

The new charge, in theory at least, puts the bank's entire existence at risk: If it is found guilty, its license could be revoked. However, there are reasons to doubt whether the bank's license is really under threat. Barclays is the U.K.'s second-biggest bank by assets. The potential for chaos and disruption for its customers and the wider financial system caused by taking its license is significant, to say the least.

The other factor is that criminal convictions against banks no longer seem like existential threats. Several have now pleaded guilty to various charges since 2014.

Barclays shares weren't hurt by Monday's news. But losing the case would cost the bank dearly in fines and executives would likely lose their jobs over the choice to fight.

—Paul J. Davies

As investors speculated about a great American "game of phones" last year, deal activity in the European industry reached its lowest ebb in more than a decade. This year could be different: This month, mobile giant **Vodafone** said it was in "early-stage discussions" to acquire "certain overlapping continental European assets owned by **Liberty Global**."

The careful wording implies Liberty's cable businesses in Germany and

France are involved. Vodafone's

share price has been