

# THE WALL STREET JOURNAL.

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

THURSDAY, JANUARY 25, 2018 ~ VOL. CCLXXI NO. 20

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## What's News

### Business & Finance

**G**e said the SEC has opened a probe into its accounting practices, a new challenge to the company's turnaround efforts. A1

◆ The Trump administration signaled it preferred a weaker U.S. dollar, setting off reverberations in markets around the world. A1

◆ European leaders at the World Economic Forum sounded the alarm over the future of globalism. A16

◆ LG told retailers it plans to raise prices on washers and dryers following Trump's approval of steep tariffs. B1

◆ The EU hit Qualcomm with a \$1.23 billion anti-trust fine for payments the chip firm made to Apple. B3

◆ Existing-home sales fell in December, but 2017 was still the best year for the housing market in over a decade. A2

◆ Ford reported disappointing fourth-quarter results and reiterated a bleak outlook for 2018. B6

◆ A U.S. truck shortage is forcing thousands of companies to make tough choices about their shipments. B1

◆ The Teamsters called for UPS to ban delivery drones and driverless vehicles, as contract talks kicked off. B6

◆ Hedge funds that rode the cryptocurrency wave have turned cautious. B12

◆ The Dow edged up 41.31 points to 26252.12, as concerns about trade tensions weighed on the index. B13

◆ Alphabet is launching a unit that will sell cybersecurity services to other firms. B4

### World-Wide

◆ Trump said he was willing to testify under oath in Mueller's probe into Russia's election interference, "subject to my lawyers." A1

◆ The president for the first time said publicly that he supported a pathway to citizenship for the young immigrants known as Dreamers. A4

◆ Several mayors pulled out of a meeting with Trump over a move to pressure sanctuary cities to comply with immigration demands. A4

◆ The Senate confirmed Alex Azar, a critic of the ACA, to be Health and Human Services secretary. A3

◆ The former doctor for the U.S. women's gymnastics team was sentenced to up to 175 years in prison on sexual-abuse charges. A3

◆ The U.S. pressed China to expel North Korean agents helping finance Pyongyang's weapons programs. A5

◆ Trump urged Turkey to pull back from its offensive against Kurdish forces in northwestern Syria. A7

◆ Brazil's da Silva lost an appeal of his corruption conviction, clouding his bid to run for president. A16

◆ Chinese scientists cloned two monkeys by transplanting donor cells into eggs, a world-wide first. A5

◆ The GAO has launched a probe into fake comments on proposed regulations at various federal agencies. A3

◆ Militants struck a charity in Afghanistan, leaving three people dead. Islamic State claimed responsibility. A6

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## 175-Year Sentence for Doctor Who Abused U.S. Gymnasts



JUDGMENT DAY: Prosecutor Angela Povilaitis gestures toward former USA Gymnastics doctor Larry Nassar at his sentencing in Michigan. He received 40 to 175 years in prison following the testimony of 150 women, several of whom were in court Wednesday. A3

## Trump Is Willing to Testify

Interview with Mueller would be under oath, president says; lawyers working out details

By PETER NICHOLAS

WASHINGTON—President Donald Trump said Wednesday he was willing to testify under oath in special counsel Robert Mueller's investigation into Russia's interference in the 2016 election, the latest twist in a probe that he has repeatedly denounced as a "witch hunt."

Mr. Trump's statement was more emphatic than his answer to the same question at a news conference two weeks

ago, when he said of a possible appearance before Mr. Mueller, "we'll see what happens," though he also noted Wednesday that any decision is "subject to my lawyers."

Mr. Trump spoke with reporters as he prepared to leave for Davos, Switzerland, where he will attend a global economic conference popular among politicians, journalists and well-heeled business leaders.

Before leaving town, he also told reporters that he favored a path to citizenship for undocumented immigrants, known as Dreamers, who were brought to the U.S. illegally when they were young.

"We're going to morph into it—it's going to happen," Mr.

Trump said.

Both positions laid out by Mr. Trump—his willingness to testify and to offer citizenship to Dreamers—could reshape the political landscape when he returns from Switzerland.

Conservative allies in Congress oppose a path to citizenship for people living in the U.S. illegally. As a result, Mr. Trump's statement could put him at odds with his political base though it may also inject new momentum into negotiations in Congress, particularly among a bipartisan group of senators looking for a deal on immigration. The White House

has said that any deal would also require significant new provisions on border security, including a lengthening of the southern border barrier.

Testifying before Mr. Mueller, meantime, could show Mr. Trump being forthright and transparent but could also expose him to legal risks and some members of his legal team question whether it is advisable.

In recent weeks, his attorneys have privately discussed various alternatives to a personal appearance on Mr. Trump's part, with some warning it could set a precedent that weakens the executive branch.

Mr. Trump's remarks seemed to surprise White

Please see PROBE page A4

◆ Heard on the Street: GE's bad news shows ugly truth..... B14  
◆ KPMG case shines light on audit quality..... B1

## Charity Targeted in Afghan Attack



AID UNDER FIRE: Police engaged in a 10-hour gunbattle with suspected Islamic State militants in Jalalabad after an attack on the office of Save the Children, an international charity, left three dead. A6

## A GOP Veteran's Midterm Challenge

New Jersey race is a barometer for 2018

By JANET HOOK

MORRISTOWN, N.J.—A ficus tree sits in a corner of the Morris County Democratic headquarters as a symbol of a top party priority in the 2018 midterm elections—unseating one of the U.S. House's most powerful Republicans, Appropriations Committee Chairman Rodney Frelinghuysen.

The plant is a homage to liberal filmmaker Michael Moore, who once ran a write-in campaign for a ficus against the New Jersey congressman to highlight the absence of competition against

entrenched incumbents. Mr. Frelinghuysen's was a safe district, in which Democrats had never put up a well-funded opponent.

Now Mr. Frelinghuysen, 71, is facing the first serious challenge of his 23-year congressional career, a race that stands as a barometer of the GOP's 2018 headwinds. Even once-secure Republicans at the pinnacle of congressional power appear at risk.

Mr. Frelinghuysen has drawn a field of opponents who say he has grown remote and out of step with his dis-

Please see GOP page A8

## The New Dating No-No: Asking for a Last Name

\* \* \* \* \*  
In age of meeting via smartphone apps, some things become too awkward to ask

By NICOLE HONG

One warm summer night, Dana Musharbash was sitting along the Chicago River with a man she had been dating for more than three months. As they talked about the future, sipping blue Tiki drinks, he popped the question:

"What's your last name?"

Ms. Musharbash, 21 years old, was surprised he hadn't already figured it out. Soon after meeting him on the dating app Tinder, she discovered his last name through his Snapchat screen name. But his question meant things were getting serious.

"He now knew me as a whole person," she said.

As online dating has proliferated, so too have an array of norms that might seem bizarre—or downright counterproductive—to generations who didn't rely on their phones as a way to meet people. Among them: a reluctance to ask for surnames until the relationship has progressed to a more serious level.

Asking for a last name "is definitely a modern social cue" that trust is building in a relationship, said Denny Dowty, a 26-year-old in Kansas City, Kan. "It's the 21st-century equivalent of leaving a calling card."

Many millennials say asking directly for a last name on a first date feels awkward, and signals too obviously they in-

Please see DATING page A6

## World's First "Self-Driving" Database

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## U.S. NEWS

CAPITAL ACCOUNT | By Greg Ip

## Pro-Business Populists Flummox Davos Man



Davos man feels conflicted.

The global business elites swarming this year's World Economic Forum are reveling in the best economy in years and an epic bull market.

Yet their joy seems oddly muted, checked by anxiety over spreading populism and nationalism, sky-high asset prices, and slow-burning ills such as inequality and climate change.

Part of this anxiety is legitimate: Stock prices really are priced for perfection.

Part of this is an affect: The World Economic Forum likes to dwell on mankind's most profound challenges, and sometimes it overthinks. Among the potential shocks a WEF report warns of are "AI-piloted drone ships [that] wipe out a large proportion of global fish stocks."

And part of this is because Davos men and women are grappling with a type of politician they haven't seen before: the pro-business populist.

This isn't a contradiction in terms. Populists typically don't define themselves according to economic issues of the left or right, but cultural

questions such as national identity and sovereignty. They oppose free trade, immigration, multiculturalism and multilateral arrangements like the euro, all things Davos man (a euphemism for global business elites credited to the late political scientist Samuel Huntington) fervently believes in.

**P**opulist policies are generally not good for growth; some, in the long run, can be disastrous. Yet a populist can more than offset those negatives by also pursuing a conventional pro-business agenda. That combination defines the two leaders bookending Davos this year: Indian Prime Minister Narendra Modi and U.S. President Donald Trump.

The similarities aren't superficially obvious. Mr. Modi opened the conference with a keynote speech that, like Chinese President Xi Jinping a year earlier, took a veiled shot at Mr. Trump: "Protectionism and its forces are rearing their heads." The audience ate it up.

But Mr. Modi's defense of globalization, like Mr. Xi's, is disingenuous. India, like China, is highly protectionist. It took more trade-harmful actions than any other major country save the U.S. between

## What, Me Worry?

Political uncertainty is still elevated but global stock markets aren't bothered.

## Global policy uncertainty index



Sources: Economic Policy Uncertainty (Uncertainty); SIX Financial (Dow Jones)

## Dow Jones Global index



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2008 and last June, according to Global Trade Alert, a trade monitoring group. It has regularly stymied the rest of the world's efforts to deepen international trade pacts.

Mr. Modi's version of populist nationalism long predates Mr. Trump's. Since leading the Bharatiya Janata Party to power in 2014, he has sought to "shift the definition of Indian national identity from the inclusive liberal one established by Mahatma Gandhi and Jawaharlal Nehru to one based on Hinduism," the polit-

ical scientist Francis Fukuyama notes in an essay commissioned by Credit Suisse for Davos. Like Mr. Trump and Mr. Xi, he has built support by "attacking the existing elite, although they themselves are very much part of that elite."

Yet the attention to their nationalist rhetoric masks the more consequential impact of their economic policies. Mr. Modi is, in fits and starts, tackling India's chronically inefficient and burdensome public services, such as by unifying the sales tax and

simplifying how to open and close a business or settle a commercial dispute. The International Monetary Fund projects Indian growth at 7.4% this year, faster than any major economy, including China.

Meanwhile, while Mr. Trump has left or threatened to leave multilateral trade pacts, stepped up trade enforcement and raised barriers to immigration, yet these matter less to business than his rollback of regulations covering a host of activities from greenhouse-gas emissions and internet transmission to overtime pay and bank lending. At a lunch in Davos organized by The Wall Street Journal, Roger Crandall, chairman and chief executive of Massachusetts Mutual Life Insurance Co., enthused, "The change in the regulatory environment in the U.S. is the greatest we've seen in 30 years." Pharmaceutical executives credit the Food and Drug Administration with helping to get new drugs to market faster.

Mr. Trump's tax cut has been panned for increasing the deficit and favoring the rich and corporations. Yet whatever its flaws, it is unambiguously pro-growth: It pares back distortionary tax breaks and lowers tax rates to incen-

tivize work and investment, precisely what economists have prescribed for years.

**W**hat will the ultimate economic consequences be? Eventually the boost from reduced tax and regulations will peter out, and the drag from higher trade barriers and less immigration will show. Yet the most important determinant is monetary policy. Historically populists promised favors to their constituents, then forced central banks to finance the resulting deficits by printing money. Venezuela today is a prime example.

Both Mr. Trump and Mr. Modi have so far resisted the temptation. Though they jettisoned highly regarded central bankers, they replaced them with known faces likely to follow much the same policy. Inflation in the U.S. has for years been too low, which explains both low interest rates and high asset prices. Nothing would vindicate Davos anxiety more than the inflation genie escaping the bottle. Right now, though, that's nowhere to be seen—suggesting this pro-business populist moment has a ways to run.

◆ European leaders warn of risks to globalism..... A16

## Shared Grief After Kentucky School Shooting



MOURNING THE DEAD: Students and community members in Paducah, Ky., remember victims of Tuesday's shooting at nearby Marshall County High School, where two teenagers were killed and 18 injured. A 15-year-old boy has been charged in the attack.

## STROKE TREATMENT

## Broader Use of Clot Removal Is Urged

The American Stroke Association issued new stroke-treatment guidelines Wednesday that will extend to up to 24 hours the time in which stroke patients can be treated with a clot-removal procedure that lessens disability.

Previous guidance was that the thrombectomy could be used up to six hours after a stroke. Researchers said the stroke association is changing its recommendations based on two studies, including one study written by Stanford University and others that was presented Wednesday in Los Angeles.

In that most recent research, doctors found that carefully selected stroke patients can have significantly better outcomes if they get a procedure, within six to 16 hours after their stroke.

The 38-center study was sponsored by the National Institutes of Health.

In the thrombectomy procedure, a catheter is routed through a patient's artery to the brain, and then the clot is removed by a small mechanical device called a stent-retriever.

—Thomas M. Burton

## EDUCATION

## College Endowments Soar on Stock Rally

College endowments grew by more than 12% last year, thanks to a global stock-market rally

and private-equity gains.

But long-term returns aren't as buoyant, and the amount of money schools are pulling from their endowment funds continues to grow faster than inflation. Adding to finance chiefs' worries, some of the nation's colleges and universities are bracing for a new tax on their endowments.

A report released Thursday by Commonfund, a nonprofit asset manager, and the National Association of College and University Business Officers found that the 809 schools that reported results had average one-year net returns of 12.2% in the fiscal year that ended June 30, compared with a loss of 19% the prior year.

Ten-year average returns, which many schools rely on for setting future funding models, slid to 4.6% from 5%, as the strong fiscal 2007 figure dropped out of the trailing—and otherwise volatile—decade.

—Melissa Korn

## NEVADA

## Construction, Travel Sectors Fuel Boom

Sustained U.S. economic growth is finally rebuilding a state once at the core of the real-estate crisis.

Nevada, which lost jobs in the last year of the recession at twice the rate of the U.S., had the fastest employment growth in 2017. Construction jobs are now driving much of the Nevada's recent upswing, as tourism and business travel grows

nationwide and the state's housing market recovers.

The construction industry's job growth in Nevada was 12.8% over the year, compared with 3.8% across the U.S.

Nevada's housing market, where prices had dropped by about 50% between early 2008 and late 2011, appears to be healing along with the nation's, fueling the state's construction boom. The median home value in Nevada hit \$258,000 in December 2017, up from a low of \$122,000 seen in the aftermath of the recession, according to Zillow.

Casino revenue and convention attendance, both proxies for tourism in the state, are showing signs of life. Gaming revenue has slowly crept up since the recession, hitting \$9.7 billion in 2016, up from \$8.8 billion in 2008.

—Sharon Nunn

## OPIOID CRISIS

## Report Warns of Drugs Sent by Mail

A U.S. Senate report raises fresh concerns about how easy it is to buy illicit, mail-order opioids from China, a source federal authorities say has fueled a nationwide addiction crisis claiming tens of thousands of lives.

Investigators for the Senate's Permanent Subcommittee on Investigations posed as would-be online buyers, entering terms like "fentanyl for sale" into Google and wound up exchanging messages with six websites, according to the report. The investigators used payment information to track more than 500 U.S.-linked transactions from these sites, at least five of which they believe are based in China.

—Jon Kamp

## CORRECTIONS &amp; AMPLIFICATIONS

**Kay Koplovitz** is a director at CA Technologies. An article about women in the workplace in Tuesday's World Economic Forum Outlook 2018 section incorrectly called her a former director at CA.

**A chart of S&P 500 performance during various presidents' first years of terms in office**, which appeared in Friday's U.S. News section, illus-

trated the percentage changes in the index for one year beginning Inauguration Day. The chart failed to make clear that the percentage changes weren't for the calendar years listed with each president's name. The charts for jobs created and real GDP showed percentage changes for each president's first year in office. The charts failed to list the time frame.

Readers can alert The Wall Street Journal to any errors in news articles by emailing [wsjcontact@wsj.com](mailto:wsjcontact@wsj.com) or by calling 888-410-2667.

## Home Sales Post Best Year Since '06

BY SARAH CHANEY

Sales of previously owned U.S. homes slowed in December, but 2017 was still the best year for the hot housing market since the mid-2000s boom.

Existing-home sales fell 3.6% in December from the prior month to a seasonally adjusted annual rate of 5.57 million, the National Association of Realtors said Wednesday.

For 2017 as a whole, though, sales increased 1.1% to 5.51 million, the best year for sales since 2006's 6.48 million.

Home sales grew in November to the strongest pace in more than a decade, buoyed in part by solid economic growth. Economists said part of the sales gain could reflect catch-up after sale closings were knocked off course by late-summer hurricanes. December could have marked a reversal of some of that bounceback.

"The promising news is that existing home sales are up over the last year despite chronically low inventory," said Cheryl Young, senior economist at Trulia. "There is a lot of pent-up demand [and] still a significant amount of people looking to buy homes despite really low inventory."

At the current sales pace, the stock of homes on the market would be gone in 3.2 months, which the NAR says is the lowest inventory since it began tracking these data in 1999.

Edie Butler, a North Carolina-based Realtor with Keller Williams, said the supply of homes available for sale in the Charlotte market started decreasing after peaking in October 2010 at more than 50,000. This month, there were 29,800 homes for sale, she said.

"At this time last year, we were in a seller's market," Ms. Butler said. "This year...we're in an even tighter seller's market."

Several factors are converging to buttress home buying. The national unemployment

rate in December was 4.1%, holding at a 17-year low. Gauges of household confidence remain elevated. Borrowing costs remain low by historical standards; the average interest rate on a 30-year fixed-rate mortgage in December was 3.95%, according to Freddie Mac.

Still, the limited inventory on the market is driving up home prices at a rapid pace, potentially blocking some would-be buyers. The median sale price for an existing home in December was \$246,800, up 5.8% from a year earlier.

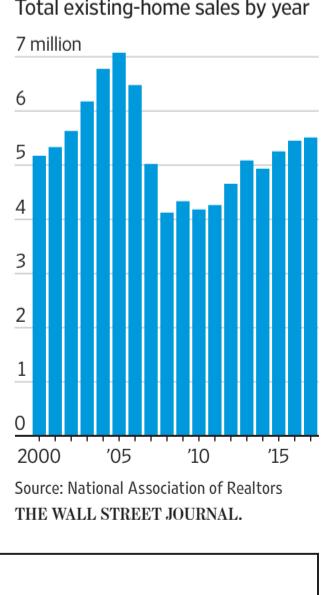
Changes in the tax law passed in December limited deductibility of the most expensive mortgages and made it pricier to live in states with high property taxes. Some of the monthly sales pullback could be attributed to hesitancy on the part of potential home buyers in more expensive states, Trulia's Ms. Young said.

Purchases of previously owned homes account for the bulk of homebuying activity in the U.S.

**News Corp.**, owner of The Wall Street Journal, also operates Realtor.com under license from the National Association of Realtors.

## Steady Sales

Total existing-home sales by year



Source: National Association of Realtors

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## U.S. NEWS

# New Health Secretary Is Confirmed

Affordable Care Act critic Azar to run HHS; most Democrats in Senate oppose pick

By STEPHANIE ARMOUR

The Senate confirmed President Donald Trump's nomination of Alex Azar to serve as Health and Human Services secretary, approving a former George W. Bush official who has criticized the Affordable Care Act to lead the agency that implements the law.

The vote Wednesday was 55-43, largely along party lines, with many Democrats opposing Mr. Azar to express displeasure with his positions or with the Trump administration's broader health-care agenda.

Mr. Azar will succeed Tom Price, who resigned in September amid questions over his use of private and military jets. Mr. Azar is returning to an agency where he previously served as deputy secretary before a stint in the pharmaceutical industry.

Republicans praised Mr. Azar as a detail-oriented lawyer familiar with the workings of government and the health industry. Mr. Trump nominated Mr. Azar in November, saying in a tweet that "he will be a star for better health care and lower drug prices!"

Democrats, noting that Mr. Azar recently headed an affilia-

ate of Eli Lilly & Co., warned he would do little to bring down drug prices and would undermine the ACA.

Mr. Azar will likely be a central player in the administration's efforts to roll back the ACA and reshape the U.S. health-care landscape. He has called for limited federal involvement in health policy and supported changes to Medicaid that would limit future spending on the program.

He has deep knowledge of regulatory processes and helped implement the Bush administration's Medicare Part D prescription-drug program.

Republicans also said Mr. Azar would be a strong leader in the campaign against opioid addiction.

Senate Majority Leader Mitch McConnell said Wednesday that the nominee had "discussed his intention to confront head-on the opioid crisis that is hurting so many families across the country, including in my home state of Kentucky."

Mr. Azar, Mr. McConnell added, "made clear that he will place an important priority on prevention, education and enforcement to halt the advance of this scourge."

Sen. Patty Murray of Washington, the top Democrat on the Senate Health Committee, decried Mr. Trump's "health-care sabotage" and what she called Mr. Azar's "extreme and out-of-touch views" on abortion.



Alex Azar, shown at a Senate hearing earlier in January, has said he supports lowering drug prices.

MICHAEL REYNOLDS/EPA/SHUTTERSTOCK

"Unfortunately, Mr. Azar is the latest in a string of ideologically driven health-care appointees from President Trump," Ms. Murray said.

Mr. Azar has said in congressional testimony that he believes the department must take regulatory steps to lower drug prices. He has supported changes to the ACA, including a Trump administration rule giving employers wide latitude to avoid providing birth-control coverage to employees.

—Kristina Peterson contributed to this article.

## Medicaid Suit Filed

Advocacy groups sued the Trump administration to block work requirements and other changes to Kentucky's Medicaid program, setting up a legal battle that could help define the limits of the conservative push to revamp the program in about a dozen states.

The lawsuit, filed in federal district court in Washington, seeks class-action status on behalf of 15 plaintiffs who assert

that the changes, approved by the Trump administration, are illegal and go beyond the administration's authority.

Republican Kentucky Gov. Matt Bevin pushed the changes. He also has issued an executive order saying Kentucky's Medicaid expansion under the Affordable Care Act will end if courts strike down any changes. About 400,000 Kentuckians received coverage under the expansion.

Defendants include the Department of Health and Human Services and Seema Verma, the

administrator of the Centers for Medicare and Medicaid Services.

"We are calling on the federal court to step in and stop the Trump administration from...stripping Kentuckians of vital health care," said Jane Perkins, legal director of the National Health Law Program. Her organization filed the lawsuit along with the Kentucky Equal Justice Center and the Southern Poverty Law Center.

The HHS and the governor's office didn't comment.

—Stephanie Armour

# 'I Just Signed Your Death Warrant'

BY REBECCA DAVIS O'BRIEN AND LOUISE RADNOFSKY

A Michigan judge sentenced Larry Nassar, the former doctor for the U.S. women's national gymnastics team, to up to 175 years in prison on sexual-abuse charges.

The sentence on Wednesday followed a week of emotional testimony by more than 150 women, including decorated Olympians Aly Raisman and McKayla Maroney, who accused him of abusing them under the guise of medical treatment.

Wednesday night, the case prompted the resignation of the president of Michigan State University, where Dr.

Nassar had worked for more than two decades. In announcing her departure, Lou Anna K. Simon said: "As president, it is only natural that I am the focus of this anger."

The court hearings, broadcast on live television, have prompted widespread outcry over a scandal that has simmered for more than 18 months.

In a packed courtroom Wednesday, Judge Rosemarie Aquilina castigated Dr. Nassar for what she said was a failure to accept his guilt. "I just signed your death warrant," she said. Addressing the girls and young women, she said:

"You are no longer victims, you are survivors."

Dr. Nassar, 54 years old, pleaded guilty in November to seven counts of first-degree criminal sexual assault in Ingham County, Mich. The sentence imposed on Wednesday has a minimum of 40 years and a maximum of 175 years.

He still faces sentencing in Eaton County on three other counts. In December, he was sentenced to 60 years in federal prison on child-pornography and obstruction charges.

U.S. Olympic Committee President Scott Blackmun said Wednesday that the organization was launching an investigation "to examine how an abuse of this proportion could have gone undetected for so

long." Mr. Blackmun said the culture of the sport needed to be changed, and threatened to decertify USA Gymnastics if the governing body didn't make governance changes.

USA Gymnastics said: "We agree with the USOC's statement that the interests of our athletes and clubs, and their sport, may be better served by moving forward with meaningful change within our organization, rather than decertification."

Wednesday, Dr. Nassar said that "there are no words to express how sorry I am." He added: "I will carry your words with me for the rest of my life."

—Douglas Belkin contributed to this article.



After days of emotional testimony by more than 150 women, a Michigan judge on Wednesday sentenced ex-USA Gymnastics doctor Larry Nassar to up to 175 years on sexual-abuse charges.

## State Debates Cancer Labels for Coffee

By SARA RANDAZZO

LOS ANGELES—A California court case could turn every cup of coffee here into a jolt of reality on the risks of cancer.

Under a state law, cancer warnings already follow Californians when they enter the lobby of apartment buildings, drive into parking garages and sit down at restaurants. They also pop up on products including kitty litter, ceramic plates and black licorice.

Now, a state judge in Los Angeles is expected to rule in the coming months whether coffee should be labeled as carcinogenic under the three-decade old law, which is meant to warn Californians of potential harms.

"They should just put the label inside my door so I see it when I leave the apartment in the morning," said doctoral student Steve Haring, who moved to Northern California from Virginia in August. "It's literally everywhere."

Coffee is on the hot seat because of the presence of acrylamide, a flavorless chemical produced during the roasting process. Acrylamide is one of more than 900 chemicals on a list of those known to the state to cause cancer, birth defects or other reproductive harm. Businesses must warn about the presence of any of the chemicals under the law, known as Proposition 65.

The chemical, used for industrial processes like making paper and dyes, is also created during the cooking process for many baked and fried foods, including potato chips and french fries.

After losing a first phase of the case a few years ago, the coffee companies made their final defense in a bench trial in the fall, arguing the level of acrylamide in coffee should be considered safe under a limited exception to Proposition 65 for chemicals produced by cooking necessary to make food palatable.

David Kessler, former head of the U.S. Food and Drug Administration, testified for the defense that coffee is a "staple of the American diet," with known health benefits, that should be regulated carefully.

An expert for the plaintiffs argued that technology can reduce acrylamide levels in coffee while still keeping an acceptable flavor.

A few defendants have bowed out, including 7-Eleven, which agreed last year to pay \$900,000 and put up the warning in its stores. Others, including Starbucks, have posted Proposition 65 signs near the cream and sugar station in response to the litigation but could be forced to display them more prominently or directly on coffee products—and pay hefty fines.

The cancer warnings have proliferated in California since 1986, when voters approved the Safe Drinking Water and Toxic Enforcement Act to keep unsafe chemicals out of the water supply and warn residents of the presence of danger elsewhere. The measure passed with 63% of the vote.



A California court will decide whether coffee should be labeled as carcinogenic under a law meant to warn of unsafe chemicals.

ARI PERLSTEIN/GETTY IMAGES FOR LAVAZZA

## Fake Public Comments On New Rules Probed

By JAMES V. GRIMALDI

The Government Accountability Office has launched an investigation into fake comments and stolen identities used to comment on proposed federal regulations at various U.S. agencies.

The new investigation comes in the wake of a recent report by The Wall Street Journal finding thousands of fake comments on federal dockets at several federal agencies. The Journal tracked down nearly 7,800 people who said comments posted on federal dockets in their names were fakes.

News of the investigation by the GAO, the independent watchdog arm of Congress, came on Tuesday from the Twitter account of the House Energy and Commerce Committee, whose Democrats had requested an investigation. The committee tweeted an image of a Jan. 9 letter from the GAO agreeing to the probe.

The accompanying tweet said, "GAO has accepted 10 Democrats' request for an investigation of the pervasiveness of fraudulent comments made during a federal rule-making process."

The investigation of fraud and misuse of identities during the rule-making should begin in about five months, said Chuck Young, spokesman for the GAO. That investigation is in addition to a review of the Federal Communications Commission's information-security controls following a reported cyberattack on the FCC's com-

menting system, Mr. Young said.

Reports last year of fraudulent comments on the FCC docket prompted the Journal to investigate the phenomenon there and at other federal agencies. After sending surveys to nearly one million people—predominantly from the FCC docket—the Journal found

**Watchdog acts after a request by House Democrats and a recent WSJ report.**

a much wider problem than previously reported.

Most of the fakes were found on the docket of the FCC's repeal of an Obama-era rule known as net neutrality. Others were found on sites of the Consumer Financial Protection Bureau, Federal Energy Regulatory Commission, Securities and Exchange Commission and Department of Labor.

Before the Journal report, Rep. Frank Pallone Jr. (D., N.J.) had asked several agencies to investigate the fake comments as criminal acts. It is a federal felony to knowingly make false, fictitious or fraudulent statements to a U.S. agency. Mr. Pallone declined to comment on Wednesday.

Mr. Pallone, the top Democrat on the commerce panel, joined nine other Democrats to write a letter in December asking for the GAO investigation.

## U.S. NEWS

# Trump Backs Citizens Path for Dreamers

'Tell them not to worry,' president says, in notable public shift on the issue

President Donald Trump for the first time said publicly that he supported a pathway to citizenship for young, undocumented immigrants brought to the country by their parents, moving a step closer to a bipartisan group seeking a way around an immigration-policy impasse but taking a position at odds

*By Siobhan Hughes,  
Kristina Peterson  
and Louise Radnofsky*

with some conservatives.

"We're going to morph into it—it's going to happen," Mr. Trump told reporters at the White House. "It's a nice thing to have the incentive after a period of years, being able to become a citizen."

Mr. Trump cited a time frame of 10 to 12 years for the young immigrants, dubbed Dreamers, to become citizens. Mr. Trump last September ended an Obama-era policy known as Deferred Action for Childhood Arrivals, or DACA, that shielded Dreamers from deportation. He gave Congress until March 5 to write the policy into law.

"Tell them not to worry," Mr. Trump said about whether the young immigrants should be concerned that they will be deported if Congress misses a March 5 deadline.

He also indicated he could push back the deadline if Congress hasn't reached a deal. "I might do that," Mr. Trump said. "I'm not guaranteeing it."

The comments marked the latest in a series of shifting statements by Mr. Trump on immigration policy, and they prompted immediate reaction on Capitol Hill. Democrats and Republicans who had worked on a plan to provide a pathway to citizenship for the Dreamers reacted with enthusiasm, but conservatives were infuriated.

"Even legalizing the DACA recipients is amnesty because they're granting them a pardon for their immigration-law violations," said Rep. Steve King (R., Iowa.) "To couple it with the reward of citizenship for their crimes—it's problematic," said Mr. King.



President Donald Trump addresses U.S. mayors at the White House Wednesday. Several mayors decided not to attend the meeting over immigration issues.

CHIP SOMODEVILLA/GATETWEEK IMAGES

## Sanctuary Cities Fight Heats Up

Several prominent mayors pulled out of a meeting Wednesday with President Donald Trump in response to a move by the Justice Department to pressure sanctuary cities to comply with federal immigration demands.

The protest came after the Justice Department sent letters on Wednesday to 23 state and local governments in which it

threatened to subpoena them for documents proving they are cooperating with immigration officials, a requirement to keep some federal grants. The threat marked the latest effort by Mr. Trump's administration to pressure sanctuary cities, which don't fully assist federal authorities seeking to remove illegal immigrants.

Mayors Bill de Blasio of New York City, Mitch Landrieu of New Orleans and Michael Hancock of Denver, all Democrats, skipped the meeting. They were joined in the boycott by mayors of smaller

towns, including Republican Elizabeth Kautz of Burnsville, Minn., according to the U.S. Conference of Mayors, headed by Mr. Landrieu.

Mr. Hancock said he declined to meet with Mr. Trump because of what he called new "threats and fearmongering." He said Denver complies with federal law and called the threat of a subpoena a "destructive ploy by the Trump administration's lawyers to politicize a routine exchange of information."

The White House held the meeting, which had been called

to discuss infrastructure, the opioid epidemic and the economy. "The mayors who choose to boycott this event have put the needs of criminal, illegal immigrants over law-abiding America," Mr. Trump said in addressing the dozens of mayors who attended the gathering.

In his tweet announcing that he wouldn't attend the meeting, Mr. de Blasio cited what he called the administration's "racist assault on our immigrant communities."

*—Alicia A. Caldwel, Louise Radnofsky*

will release a framework for a deal next week. Negotiators must tackle the complicated and contentious question of what enforcement measures and changes to the legal immigration system will be included with the Dreamer protections.

*—Laura Meckler contributed to this article*

## PROBE

*Continued from Page One*

House aides and the president's attorneys alike. Mr. Trump wasn't scheduled to field questions from the press before his departure.

Ty Cobb, the White House lawyer handling the Russia probe, said after Mr. Trump's remarks that "while Mr. Trump was speaking hurriedly before departing for Davos, he emphasized that he remains committed to continued complete cooperation with [the

special counsel's office] and was looking forward to speaking with Mr. Mueller."

Mr. Cobb said the arrangements for an interview with Mr. Mueller "were being worked out between Mr. Mueller's team and the President's personal lawyers."

Mr. Trump said that his testimony before Mr. Mueller could come as early as the next two or three weeks. Mr. Trump's lawyers may view that timetable as aggressive, as they want to prepare him carefully. In addition to Russian meddling, Mr. Mueller is investigating whether there

was collusion between the Trump campaign and Russia, and whether Mr. Trump sought to obstruct the probe. Mr. Trump has said there was no collusion and denied any effort to obstruct justice.

Mr. Trump's attorneys have been considering whether Mr. Trump should take questions from Mr. Mueller, according to a person familiar with the matter. They have debated whether Mr. Trump should answer questions from Mr. Mueller in writing, have Mr. Trump appear before Mr. Mueller in person, or perhaps a combination of the two, the person

said. Another possibility Mr. Trump's attorneys have been considering is letting Mr. Trump sit for certain topics, but not others.

Mr. Mueller is investigating whether any members of Mr. Trump's team worked with Russia in what the U.S. intelligence community has said was a wide-ranging effort by the Kremlin to meddle in the 2016 U.S. election, which Moscow has denied. Mr. Mueller's team also is examining whether the president obstructed justice by firing James Comey in May as director of the Federal Bureau of Investigation, while

the agency's Russia investigation was under way.

"There's no collusion whatsoever, there's no obstruction whatsoever, and I'm looking forward to it," Mr. Trump said Wednesday.

At his news conference earlier in the month, Mr. Trump sounded far less effusive. He suggested that his testimony might not even be necessary. "When they have no collusion and nobody's found any collusion at any level, it seems unlikely that you'd even have an interview," he said.

Mr. Trump has previously said his campaign didn't work

with Russia and has called investigations into possible collusion a hoax.

Several people in Mr. Trump's orbit have admitted to having had contact with Russians during the campaign.

The special counsel has interviewed dozens of top White House officials and campaign aides, including the president's son-in-law and senior adviser, Jared Kushner, and former chief of staff Reince Priebus. Lawyers for Mr. Trump have anticipated for months that Mr. Mueller may want to interview their client as part of his probe.

## GE

*Continued from Page One*

John Inch, an analyst at Deutsche Bank.

GE's finance chief, Jamie Miller, who disclosed the probe on an earnings call with investors Wednesday, said the company is cooperating with the SEC. She said the probe was in "very early stages." In an interview, Ms. Miller said she has been conducting a "deep review" of GE finances and that she hasn't seen indications of accounting problems.

The disclosure came after GE reported declines in fourth-quarter revenue and profit. Shares of GE had rallied as much as 5% in premarket trading, but surrendered those gains after the SEC probe was announced. Shares have tumbled 45% over the past 12 months.

Ms. Miller played down the specter of additional unexpected charges at GE, noting that she is "pretty well through" her review of the company's balance sheet. She said she continues to review GE's financial processes, systems and past decisions.

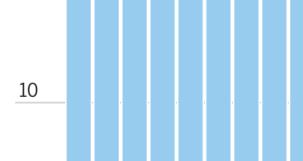
GE's accounting has long been a subject of scrutiny. The company regularly beat Wall Street's estimates under former CEO Jack Welch. The precision with which it did so, though, led critics to question the results.

### Counting Contracts

GE's contract assets are from long-term service and equipment deals, mostly in its power and aviation units.

GE contract assets, quarterly

\$30 billion



Source: the company

THE WALL STREET JOURNAL



The SEC is investigating how GE recognized revenue from long-term service contracts for projects like jet-engine maintenance. The company's accounting has long been a subject of scrutiny.

prompting the company's move in November to cut the investor payout by half.

GE has a growing portfolio of "contract assets" coming mostly from its core power and aviation businesses. These are assets based on revenues GE books on multiyear contracts before it has the cash in hand, for things such as servicing power plants and building complex equipment like gas-power systems. The company has said it would eventually realize all the cash related to those contracts.

Under former CEO Jeff Immelt, the company wound down much of its lending business in the wake of the financial crisis and made big acquisitions to expand its power and oil businesses. But the industrial units struggled in recent years to generate enough cash to pay the company's dividend.

GE's contract assets on its

balance sheet were \$28.9 billion at the end of December, down slightly from September but up \$3.7 billion from a year ago. A spokesperson said about \$15.2 billion of the balance is from long-term service agreements, with the remainder related to equipment contracts. The service contracts are generally 10 to 30 years long.

The level of contract assets relies in part on GE's own estimates and assumptions about how much profit it will reap from those contracts, and analysts have said they have little visibility into those estimates.

In the first nine months of 2017, earnings stemming from the increase in contract assets amounted to \$1.93 billion, according to GE, more than half the company's pretax earnings from continuing operations.

Last week, GE surprised investors when it disclosed it would book a \$6.2 billion charge in its fourth quarter related to its insurance operations and needed to set aside \$15 billion over seven years to bolster insurance reserves at its GE Capital unit.

Mr. Flannery, who took over last summer and slashed GE's

financial projections, has promised to simplify the company's business. Last week, he put the possibility on the table of breaking apart the company.

"There will be a GE in the future, but it will look different than it does today," Mr. Flannery said Wednesday. "We have a long way to go but the mission is clear."

GE already is exploring ways to shed its majority stake in Baker Hughes, which includes GE's former oil business, as well as sell its century-old Lighting business. The company also is looking to sell its Transportation unit, which builds locomotives, according to people familiar with the matter.

On Wednesday, the company said it is working on more than 20 deals to rearrange its portfolio. It aims to shed \$20 billion in assets. It expects to cut costs by more than \$2 billion in 2018.

The latest results show continued woes in GE's Power business, where revenue fell 15% and profit tumbled 88% from a year ago.

For the fourth quarter, GE reported a loss of \$9.64 billion, or \$1.13 a share, down from a profit of \$3.67 billion, or 39 cents a share, last year. The results were weighed down by the insurance-related charge as well as costs tied to U.S. tax overhaul. Revenue fell 5.1% from a year ago to \$31.4 billion.

*—Michael Rapoport contributed to this article.*

## WORLD NEWS

# Beijing Is Pressed on Ally's Agents

**U.S. urges China to expel North Koreans who help to finance weapons programs**

The Trump administration's top sanctions envoy pressed China in high-level meetings this week to deliver on commitments to expel North Korean agents helping finance Pyongyang's nuclear-weapons and missile programs.

*By Ian Talley in Washington and Jeremy Page in Beijing*

Sigal Mandelker, Treasury under secretary for Terrorism and Financial Intelligence, urged Chinese officials in Beijing to comply with obligations under United Nations sanctions to oust what the U.S. calls North Korean "financial facilitators."

On the heels of those meetings, the U.S. on Wednesday imposed sanctions on 16 North Korean agents accused of operating largely in China, but also in Russia, as representatives of North Korea's banned banks and weapons programs. That blacklist added to the more than two dozen previously identified by the Treasury, 15 of whom are also on a separate U.N. list.

Ms. Mandelker said she stressed in her meetings with top Chinese officials "the importance of expelling those individuals" and suggested that failure to act could make Chinese banks targets for future sanctions.

"We believe that every day that a financial facilitator continues to reside here in China, or frankly in any country, is another day that their banks are put at risk because, again, these are individuals who are skilled at manipulating the financial system," she said in an interview.

It is unclear how many, if any, agents have been ousted



Presidents Donald Trump and Xi Jinping in Beijing in November. The U.S. sanctions chief has taken aim at 'financial facilitators.'

by China, and Ms. Mandelker declined to say how many North Koreans she asked be expelled. China's Foreign Ministry didn't immediately respond to a request for comment, nor did the country's embassy in Washington. The Chinese government has repeatedly said it strictly enforces U.N. resolutions, though it opposes unilateral U.S. sanctions. The Russian embassy in Washington didn't immediately respond to a request for comment.

China is North Korea's biggest trade partner, aid donor and investor, and getting Beijing to curtail, if not cut, those ties is central to the Trump administration's strategy for stopping Pyongyang's nuclear and missile programs.

How far the U.S. can per-

## Possible Sanctions Breach Seen at Sea

TOKYO—Japan said it spotted a North Korean oil tanker appearing to take on cargo in international waters in the East China Sea in a possible violation of United Nations sanctions, a rare case of Tokyo making public information about its monitoring of North

suead Beijing to go is uncertain, given that Chinese leaders, while irritated with Pyongyang, don't want to destabilize a neighbor and want to limit any economic fallout from sanctions in Chinese border areas.

Korean trade.

In the early hours of Jan. 20, a Japanese military plane observed the North Korean tanker Rye Song Gang 1 alongside the Dominican-registered tanker Yuk Tung in the East China Sea, Japan's foreign ministry said Wednesday.

Japan said it would report its findings to a U.N. panel that monitors the implementation of sanctions on North Korea.

—Alastair Gale

As North Korean banks have fallen under U.N. sanctions, Pyongyang has increasingly turned to Chinese banks to route foreign-currency payments, according to analysts. According to U.S. and U.N. investigators, North Korean

agents have set up scores of accounts with Chinese banks, often using shell companies, and even embedded representatives from banned banks in Chinese financial institutions.

U.S. officials, including Ms. Mandelker, have acknowledged Beijing's cooperation in negotiating U.N. resolutions and in tightening sanctions against North Korea. "At the same time, we've made clear where we're dissatisfied," she said, signaling the U.S. could escalate its actions against Chinese institutions.

Treasury actions Wednesday also targeted two Chinese companies it said have been exporting goods to North Korea, including transactions with a subsidiary of a North Korean firm involved with Pyongyang's missile program.



Zhong Zhong and Hua Hua, the first monkey clones, at the Chinese Academy of Sciences in Shanghai.

# China Clones Two Monkeys, Breaching a Genetic Barrier

BY ROBERT LEE HOTZ

In a world-wide first, Chinese scientists cloned two monkeys by transplanting donor cells into eggs, they said on Wednesday, a feat that could lead to genetically engineered primates for drug testing, gene editing and brain research.

The cloned macaque monkeys are the latest application of a test-tube technique called somatic cell nuclear transfer pioneered 20 years ago with the creation of the cloned sheep named Dolly. It has been used to clone 23 species from rodeo bulls to polo ponies and pet cats. But the ability to clone primates eluded scientists until the project was made public Wednesday in the journal Cell.

"For the cloning of a primate species, including humans, the technical barrier is now broken," said senior author Qiang Sun, director of the Nonhuman Primate Research Facility at the Chinese Academy of Sciences Institute of Neuroscience in Shanghai, in an interview. "In principle it could be used in humans, but there is no intention for us to apply this method to humans."

The Chinese bioengineers

made the two female monkeys by surgically replacing the nucleus of an egg with fetal donor tissue and then using special chemicals designed to trigger genes required for embryo development. The monkeys appear to be healthy and developing normally, the scientists said.

Two others, made at the same time using adult donor cells instead of fetal tissue,

**China sees primates as the best subjects to test treatment of human diseases.**

died within hours of birth, said the scientists, who couldn't explain why. The failure is significant because adult cells are easier to obtain for cloning than cells from aborted monkey fetuses.

The cloning project reflects China's growing attention to primate research at a time when funding for primate studies has declined in Europe and the U.S. due to budget constraints, tighter regulations and growing reserva-

tions about the morality of animal research.

China sees primate research as the best way to find treatments or cures for a variety of brain diseases and disorders, and many Western scientists agree. But many Americans and Europeans think that using animals for medical research or drug testing is cruel.

China singled out the creation of primate disease models as a national goal in 2011.

The number of businesses

there breeding macaque monkeys—a mainstay of biomedical research—tripled between 2004 and 2013 to 34 from 10,

according to data published in Nature.

"China has definitely taken the ball and run with it," said primate reproductive biologist Catherine VandeVoort at the California National Primate Research Center, who wasn't involved in the project.

Once they are available in larger numbers, cloned monkeys would be ideal as test subjects in many conventional medical studies because they are genetically identical. "You can treat one of them with a drug and leave the other one as a control. Then the only difference between them is the treatment," Dr. VandeVoort said.

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## WORLD WATCH

## AFGHANISTAN

**Attack on Charity Office Kills Three**

Suspected Islamic State militants set off a suicide car bomb and then stormed a local office of Save the Children in eastern Afghanistan, triggering a nearly 10-hour gunbattle with security forces that left three people dead and 25 others wounded, officials said.

As Afghan soldiers and police fought to regain control of Save the Children's compound in Jalalabad, capital of Nangarhar province, the international charity suspended its operations and closed its offices across Afghanistan.

The dead included one civilian and two guards. Save the Children said all were staff members.

Islamic State claimed responsibility for the assault, the latest to target a humanitarian aid group in Afghanistan. The assertion couldn't be independently confirmed. Both Islamic State and its rival, the Taliban, operate in Nangarhar, which borders Pakistan.

In a statement on social media, Islamic State's local affiliate, Islamic State-Khorasan Province, incorrectly identified Save the Children as a United Nations organization and claimed, falsely, that it had killed more than 100 people in Wednesday's raid.

The government hasn't commented on who it thinks is responsible for the attack.

"We remain committed to resuming our operations and life-saving work as quickly as possible, as soon as we can be assured that it is safe to do so," Save the Children said.

The attack came days after Taliban fighters raided an international hotel in Kabul, killing at least 22 people, mostly foreigners. The top U.S. military commander in the region said Wednesday four Americans were among the dead.

In October, the International Committee of the Red Cross said it was drastically reducing its presence following attacks in 2017 that killed seven of its staff.

—Habib Khan Totakhil

## VATICAN CITY

**Pope Decries Spread Of 'Fake News'**

Pope Francis denounced the spread of "fake news" as the divisive work of the devil and called on journalists to serve as "protectors of news" by practicing accuracy and fairness, which he called essential to promoting world peace.

The pope's remarks came in his annual message for the Catholic Church's World Day of Social Communications, May 13. It was the first papal document on the subject of "fake news."

Defining fake news as "disinformation online or in the traditional media," Pope Francis wrote that it commonly exploits "stereotypes and common social prejudices" and thrives in "homogeneous digital environments" such as social networks where it is unchallenged by other sources. Fake news can serve political or economic interests, the pope wrote.

—Francis X. Rocca

## EUROPEAN UNION

**Income Gap Widens Between Old, Young**

Austerity measures undertaken by governments in the wake of the global financial crisis and high rates of long-term unemployment have widened the gap in incomes between the old and the young across Europe, according to the International Monetary Fund.

While the incomes of working-age Europeans have stagnated since the crisis, those of the elderly have risen by 10%, the fund said in a report.

The fund's economists warned that the widening gap could make Europe more politically fractured.

The widening gap is in part due to measures designed to protect or boost pension payments while other social-protection programs were cut in an effort to halt a sharp rise in government borrowing.

—Paul Hannon

## WORLD NEWS

**Unrest Returns to Tunisia**

BY JARED MALSIN  
AND HASSAN MORAJEA

**SAKET SIDI YOUSSEF**, Tunisia—More than seven years ago, a Tunisian fruit vendor set himself on fire and set in motion a wave of revolution that ousted authoritarian leaders across the Arab world and helped trigger three civil wars.

Now increasing numbers of young Tunisians are again taking to the streets, protesting rising prices and a new government budget that increased taxes on basic goods. The protests reflect deep public frustration over the country's economic woes, and activists say at least some people were compelled to take part after hearing about the suicide of an unemployed repairman.

The 2011 uprising sparked the Arab Spring and resulted in broader freedom of expression and democratic elections in Tunisia. But the revolution hasn't produced prosperity or dismantled the police state set up under former President Zine El Abidine Ben Ali, who was ousted in the rebellion.

The repairman, Radwan Abbasi, lived in a tiny concrete home with his mother in this town near the Algerian border. He had searched for work for years, and came home angry on Jan. 5 after visiting a local employment office, his mother said. The next morning, he rose at dawn, bought bread and made coffee, and was later found hung from a tree at an intersection near his home, his mother and neighbors said.

The day he died, large crowds in his hometown set up a tent in the road and blocked the border crossing with Algeria, remaining there for days.

The next week, raucous demonstrations against a new government budget erupted in at least 10 cities and towns. Nearly 800 people were arrested, and

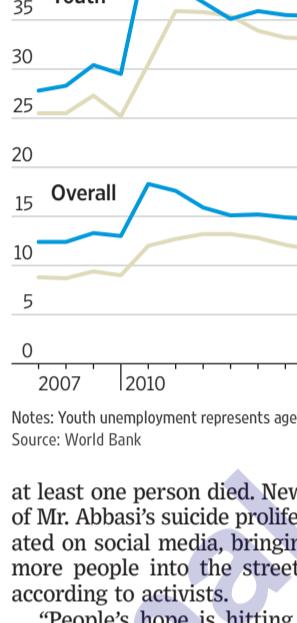


MOHAMED MESSARA/EP/SHUTTERSTOCK

A protest against austerity measures this month in Tunis.

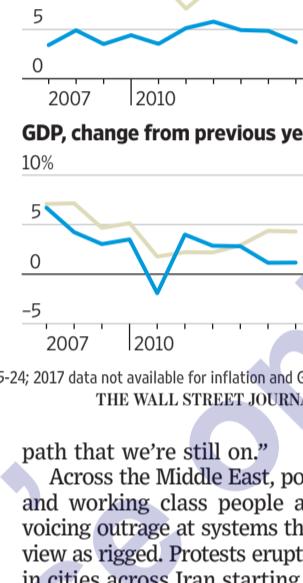
**Economic Struggles**

Unemployment is higher and the gross domestic product has recently been growing more slowly in Tunisia than in Egypt, another country that saw widespread Arab Spring protests in 2011.

**Unemployment**

Notes: Youth unemployment represents ages 15-24; 2017 data not available for inflation and GDP

Source: World Bank

**Inflation, change from previous year**

GDP, change from previous year

THE WALL STREET JOURNAL.

at least one person died. News of Mr. Abbasi's suicide proliferated on social media, bringing more people into the streets, according to activists.

"People's hope is hitting a wall," said Hashem Sghairi, an anticorruption activist in Tunis, the capital. "Revolt is a path, a

path that we're still on."

Across the Middle East, poor and working class people are voicing outrage at systems they view as rigged. Protests erupted in cities across Iran starting in late December, triggered at least in part by a proposed budget that included cuts in a pop-

ular cash assistance program.

In Tunisia, youth unemployment is running at more than 35%, according to the International Labor Organization, up from 29% in 2010.

The new budget that went into effect on Jan. 1 raised taxes on products ranging from gasoline to mobile phone recharge cards to fruits and vegetables, which officials have said was needed to balance the government's books. The moves are consistent with an approach urged by the International Monetary Fund, which extended Tunisia a \$2.9 billion loan in 2016.

Chronic unemployment is contributing to deep feelings of distress, particularly among young people.

In Saket Sidi Youssef, Mr. Abbasi spent his days caring for his 74-year-old mother and earning cash by repairing neighbors' wiring and electronics.

Mr. Abbasi, who was 29, kept a three-ring binder with his application letters for various jobs, along with a résumé and his diploma from a technical institute. In his spare time, he sat in cafes and talked with friends, who said they rarely drank coffee because they couldn't afford it.

When he was turned away at an employment office on Jan. 5, Mr. Abbasi was so angry that an official there called the police, who handcuffed him before letting him go, his mother and his relatives said. His mother, Fatima, said he came home in a foul mood.

"He lost hope," she said.

His death served as a catalyst for protests, according to activists. "He really helped raise the numbers of protesters," said Ziad al-Muhtithi, a leading activist in Tunis with a movement called "What Are We Waiting For?"—a phrase that is also a main slogan of the recent protests.

## FROM PAGE ONE

**DOLLAR**

*Continued from Page One*  
take to lower the country's \$500 billion trade deficit, a long-stated policy goal.

A weaker dollar makes U.S. goods cheaper to foreign markets, and can especially be seen as a boost for multinationals that derive a large portion of their income from outside the country. The risk of a weaker dollar is that it could undermine confidence in a wide swath of U.S. assets, including the U.S. Treasury market.

"All eyes will be on President Trump in Davos to see if he can quell this anti-dollar sentiment, or if he fuels the flames," said analysts at High Frequency Economics in a research note Wednesday.

Shortly after Mr. Mnuchin's remarks, the prices for metals and emerging-market assets rallied, as did currencies from the Japanese yen and euro to the Brazilian real. The dollar also lost 1.67% versus the pound, its largest one-day percentage decline against the British currency since April 2017. The strengthening dollar also halted the rally in European and Japanese stocks,

whose companies may be less competitive with U.S. firms selling cheaper goods.

"They've departed from a traditional dollar policy where the Treasury Department would usually avoid commenting on the currency's value," said Viraj Patel, foreign exchange strategist at ING Bank. "They see an interest in terms of their America First policy in seeing a weaker dollar."

In a press briefing later Wednesday, White House press secretary Sarah Sanders described the dollar as "very stable" while reiterating that the administration believes currencies should float freely.

Government sensitivity to any comments that could upset the U.S. currency's value goes back to the mid-1990s, when a dollar slump led to a coordinated effort by global central banks to buy dollars in a bid to support the currency.

Then-U.S. Treasury Secretary Robert Rubin, a former currency trader himself, also sought to shore up the dollar by repeatedly saying that a strong dollar was "in our national interest."

The strong-dollar mantra helped quell fears among foreign investors who worried the currency's relentless rout would eat into their returns



Treasury Secretary Steven Mnuchin's comments Wednesday sent the value of the dollar lower.

when translated back into their home currency, analysts said.

Mr. Rubin's attempts to talk up the dollar didn't immediately rescue the currency, which foundered for much of 1995 before rallying the next year. But the "strong dollar" mentality stuck. Every U.S. administration since then had publicly espoused it until Mr. Trump's election.

The Trump administration's

stance and trade issues aren't the only reasons the dollar has been reeling. The decline is partly driven by a growing belief that major central banks will shift away from their ultra-easy monetary policies in 2018.

While analysts expect the U.S. Federal Reserve to raise interest rates this year, the change in outlook for its global peers has become a more powerful force in cur-

rency markets. Some central banks, like the Bank of Canada and Bank of England, have started raising rates. That's giving investors more options as they seek higher returns on their investments.

"It's no longer only the U.S. raising by itself," said Kisoo Park, a global bond manager at Manulife Asset Management in Hong Kong.

The market has become so convinced that central banks will tighten policy in 2018 that policy makers' more-cautious words are often ignored. The yen strengthened against the dollar Wednesday, even after Bank of Japan Gov. Haruhiko Kuroda took pains a day earlier to clamp down on speculation that the bank would lift rates this year.

Some are now questioning just how quickly they will tighten and are looking for some additional clarity when the European Central Bank meets on Thursday.

Even more curious to some currency analysts, the dollar's decline has occurred despite a surge in U.S. Treasury yields—the benchmark 10-year Treasury yield this week hit 2.663%, the highest since April 2014, though it recently pulled back to 2.658%.

That is an unusual trend.

Higher U.S. government bond yields typically make the dollar more appealing to investors, especially as global interest rates remain low. And yet, the dollar index is on track for its worst monthly performance since July.

"I've been watching FX for 10 years, and it's never happened before on this scale," said Gareth Berry, a foreign exchange and rates strategist at Macquarie Bank in Singapore, pointing to the divergence between Treasury yields and the dollar.

Others are eyeing the widening budget deficit—and the potential that it could widen even further because of recent tax cuts—and worrying about the rising cost of funding such a gap as interest rates move higher. Any undermining of confidence in the ability of the U.S. to pay its debts—however slight—could add to the pressure.

But many agreed that Mr. Mnuchin's comments intensified the dollar's declines on Wednesday.

"It may be global growth that's causing the dollar to weaken, but the administration is happy to champion the drop," said Mr. Patel at ING.

—Ira Josebashvili contributed to this article.

*Continued from Page One*  
tend to scour the internet for biographical information. Others say that downloading a date's entire digital footprint—armed with the full name—can stop a relationship from developing organically.

"The less I know, the better," said Brendan Krick, 25, a comedian in Philadelphia. "Everyone is so lame on the internet." Just seeing that a woman liked "a bunch of bands that suck" on her Facebook page could be a deal breaker, he said.

Dating apps have grappled with how much information to reveal about a user without sacrificing safety. Tinder and Bumble, another service, typically show only first names. OkCupid recently revised its policy to require people to use their first names instead of made-up usernames such as "DaddyzPrincess29."

The League, another app, generally requires users to show their first name, last ini-

tial, educational background and current employer, saying "you'll never have to wonder if that Harvard hottie is too good to be true." Users can pay extra to hide their employer, or customize in other ways.

Nicole Ellison, a University of Michigan professor who has studied online dating, said finding out last names can shatter the carefully curated image presented through an app, potentially revealing what people are actually like.

"Once you have the last name, that unlocks this whole new universe of information," said Prof. Ellison. "You can go to their social media sites, Google the person, look up criminal histories."

Thanks to sites such as LinkedIn and Facebook, an amateur sleuth can often figure out last names with just a first name and the person's alma mater or place of work.

When that doesn't work, there are other tactics, such as taking a peek at an Uber account name or credit card after a date, or asking to exchange social media handles.

Hayden Moll, a freshman at Missouri State University, swiped left on Tinder recently on the profile for a woman named Claudia; even though he meant to swipe right to show his interest. Undeterred by the mistake, Mr. Moll saw they attended the same school and proceeded to email 42 different Claudias at Missouri State hoping to find her.

"If Tinder provided last names this would be much easier," he wrote in the email.

Claudia Alley, the one he was looking for, shared Mr. Moll's email on Twitter, which went viral with almost 30,000 retweets.

## WORLD NEWS

# Egypt Leader Faces Unfamiliar Challenges

Men with ties to the military are trying to take on the president in the March election

BY JARED MALSIN

CAIRO—Abdel Fattah Al Sisi, who rode a nationalist wave to the Egyptian presidency after leading a coup against the civilian government, is suppressing challenges to his re-election from an unexpected source: members of the military establishment from which he emerged.

A series of men with links to the military have tried to take on the president in the March 26-28 vote, signaling what opponents say is the erosion of a bedrock of support for the former armed forces chief.

On Wednesday, Mr. Sisi officially declared his candidacy to the national election commission, making him the first—and currently the only person—to do so.

Three would-be challengers with military credentials have been detained or put on trial. Two civilian contenders have dropped out after saying the system was unfair.

Sami Anan, the military's former chief of staff, was arrested Tuesday in his car, days after he announced he intended to run. The arrest



Mr. Sisi formally declared his candidacy for president Wednesday. Workers carry his election documents.

NADER NABEEL/EPA/SHUTTERSTOCK

came as the armed forces leadership accused him of incitement against the military and of forging documents.

Mr. Anan's campaign said Wednesday his whereabouts was unknown, describing him as "disappeared." The military prosecutor's office issued a gag order banning news coverage of the investigation.

The state's swift response to Mr. Anan's intended candidacy reflected the sensitivity of challenges from within the military, although it isn't clear how widespread discontent

with the president may be.

"Without a doubt he still has control of the military," said Andrew Miller, a former U.S. official who coordinated policy on Egypt at the National Security Council. "That doesn't mean there is uniform support for him, particularly at the ranks of the military below the most senior levels."

Mr. Sisi's office didn't respond to a request to comment.

Much of the discontent with the president stems from a sluggish economy. Mr. Sisi has

cut subsidies, floated the cur-

rency, and slashed the budget in cooperation with a \$12 billion loan program from the International Monetary Fund.

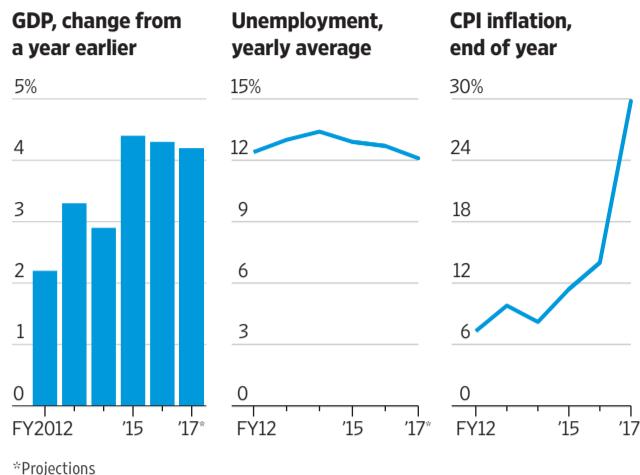
The IMF said Tuesday that Egypt is in the middle of a "macroeconomic turnaround," but living standards for most Egyptians haven't improved.

Youth unemployment is higher than 33% according to the International Labor Organization. Inflation is running at more than 30%, an IMF report released Tuesday estimated.

Meanwhile, a series of attacks by Islamic State have

## Tough Times

Egypt's economy is getting better, but joblessness is still high and inflation has soared.



THE WALL STREET JOURNAL.

Mr. Sisi came to power less than a year after a 2013 military coup against the Islamist President Mohammed Morsi.

Even after the crackdown, the arrest of a senior reserve general like Mr. Anan has struck observers as unusual.

"I thought this would never happen," said Mohamed Anwar Sadat, a former lawmaker and the nephew of the late president with the same name, in reference to Mr. Anan's detention. Last week Mr. Sadat said he wouldn't run for president, citing unfair conditions.

## U.S. Steps Up Efforts to End Turkey's Kurdish Offensive in Syria

The Trump administration is pressing Turkey and U.S.-backed Kurdish forces to pull back from a deepening mili-

tary conflict in Syria, warning Ankara not to target its Kurdish partners and telling the fighters not to join the battle against Turkey.

President Donald Trump

made the case directly to President Recep Tayyip Erdogan in a call on Wednesday, in which the two men discussed Turkey's offensive against Kurdish forces in northwestern Syria.

The president "urged Turkey to de-escalate, limit its military actions, and avoid civilian casualties," a White House statement said. "He urged Turkey to exercise caution and avoid any actions that might risk conflict between Turkish and American forces."

Before speaking with Mr. Trump, Mr. Erdogan publicly threatened to expand Turkey's military campaign toward the strategic Syrian town of Manbij, where U.S. Special Forces helped Kurdish-led fighters oust Islamic State in 2016. U.S. officials said they have made it clear to Turkey that an attack on Manbij is unacceptable.

"We've been pretty clear that there will be consequences if they move toward Manbij," one senior U.S. offi-

Turkey. Washington provided Kurdish forces, known as the YPG, with U.S.-made weapons. "If they are using U.S.-provided weapons for anything other than fighting ISIS we would certainly look at that very seriously," the U.S. official said.

The Turkish president's office took issue with the White House version of the call. A Turkish official said Mr. Trump urged Mr. Erdogan to limit the scope of the military campaign and stay away from

Manbij, but that the U.S. president never expressed "concerns" about the fighting.

The Turkish offensive has created a new flashpoint in a corner of Syria that had been relatively quiet. The fighting intensified on Wednesday, with Turkish tanks helping Syrian fighters battle Kurdish forces. At least 30 civilians have been killed since Turkey launched its campaign on Saturday, according to the Syrian Observatory for Human Rights.

MAKE BREAKFAST  
HAPPEN  
SO KIDS  
CAN BE  
HUNGRY  
FOR  
MORE

Photo By: Peggy Sirota



I was one of our nation's hungry kids growing up. Today, 1 in 6 children in America struggle with hunger. But when they get breakfast, their days are bigger and brighter. Learning, attention, memory and mood improve. Together, we have the power to get breakfast to kids in your neighborhood — let's make it happen. Go to [hungeris.org](http://hungeris.org) and lend your time or your voice.

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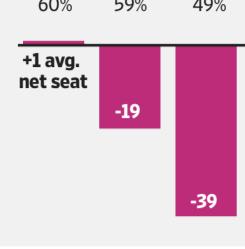
## IN DEPTH

## The Midterm Landscape

The party that holds the White House has lost House seats in 18 of the last 20 midterm elections. Here are signs to watch for clues to this year's outcome.

**Approval rating**  
Voters often see midterms as a referendum on the president. From 1962–2014, job approval under 50% often correlated with big losses in the House.

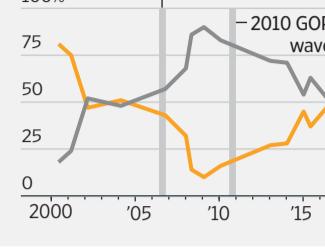
President Donald Trump's approval rating  
**39%**



**Congressional ballot**  
Pollsters often ask which party should control Congress. For Democrats, only a big lead on this question has signaled a coming wave election, as turnout trends and district lines tend to favor the GOP.

Year	Net change	Congressional party preference*
1994	52	GOP+4
2010	63	GOP+2
2006	31	Dem.+10
2008	21	Dem.+14
2018	TBD	Dem.+6

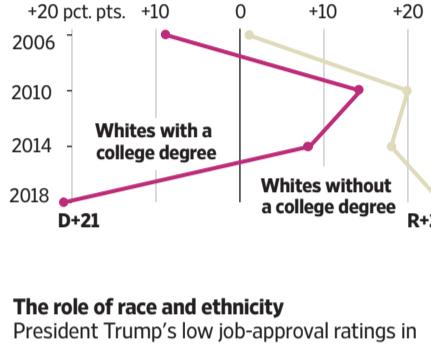
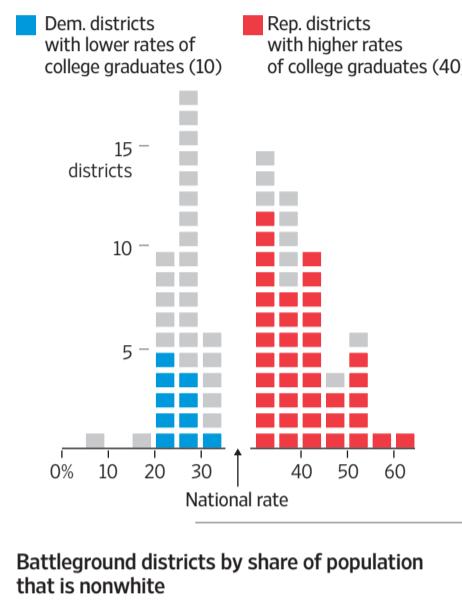
**Economic satisfaction**  
Satisfaction with the economy is at a 17-year high, which could help the party in power.



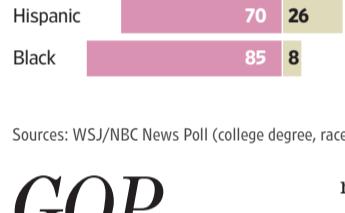
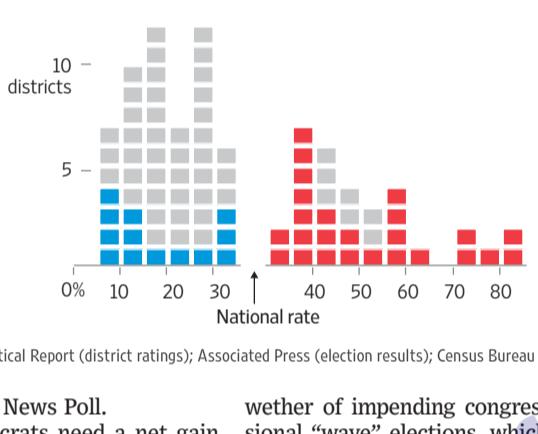
### Breaking down this year's battleground districts

The midterm elections are likely to leave an overwhelming majority of the 435 House districts with the same party now representing them. But races in 80 or so districts will be competitive, analysts say. Here are some of the forces that are pushing some districts into toss-up or competitive status.

**The education divide**  
There is a growing gap between Americans with bachelor's degrees and those without, especially among non-Hispanic whites, creating a challenge for GOP candidates in high-education suburban districts. Democrats could face headwinds in rural or manufacturing-heavy areas, where bachelor's degrees are less common.



**The role of race and ethnicity**  
President Trump's low job-approval ratings in districts with large shares of Hispanic or African-American voters could be a challenge for Republican candidates there. Democrats in largely rural districts with little ethnic or racial diversity could face the converse problem.



Sources: WSJ/NBC News Poll (college degree, race); Cook Political Report (district ratings); Associated Press (election results); Census Bureau (bachelor's, nonwhite); Brookings Institution (party split)

## GOP

Continued from Page One

district. His leading Democratic opponent, who raised more money than he in one quarter last fall, is Mikie Sherrill, a former Navy helicopter pilot, former prosecutor, political novice and mother of four.

Mr. Frelinghuysen has taken heat at home for voting to repeal the Affordable Care Act and from Republicans in Washington for voting against their tax-cut bill. He has faced weekly protests at his district office, organized by a liberal group called NJ 11th for Change to draw attention to his decision not to hold open town-hall meetings.

"I voted for him all these years, but never again," said Lee Karosen, a former Republican and lawyer from Cedar Knolls, who was among more than 100 people who showed up in pouring rain this month for the first anniversary of the "Fridays without Frelinghuysen" town-hall protest.

Mr. Frelinghuysen's supporters say he has been attentive to constituents in community forums other than town halls, and local GOP officials say they are confident he will win. Mr. Frelinghuysen didn't respond to requests for an interview.

Mike DuHaime, a veteran GOP strategist advising Mr. Frelinghuysen and acting as his campaign spokesman, said the unusually strong challenge facing such a powerful congressman was a tribute in part to how much the Trump presidency has energized Democrats.

"It's a moderate Republican suburban district, but now there is intensity among Democrats that hasn't existed since 2006," Mr. DuHaime said. "I am confident Rodney is going to win...But everybody here understands we are going to face the most competitive race in a long time."

Typically, the first midterm after a presidential election is seen as a referendum on the Oval Office occupant. Democrats lost House control two years after the elections of presidents Bill Clinton and Barack Obama. Republicans are bracing for a similar fate.

"I see a historical trend cutting against us," House Speaker Paul Ryan (R., Wis.) said in a year-end Wall Street Journal interview. House and Senate Republicans worry they will be dragged down by President Donald Trump's historically low approval rating, which was 39% in January's Wall Street Jour-

nal/NBC News Poll.

Democrats need a net gain of 24 House seats to win a majority. Some of their own seats are vulnerable and, with more than nine months before election day, no one knows how political winds might change in this volatile era.

Mr. Frelinghuysen, as appropriations chairman, is at the center of this month's battle over keeping the government open, immigration policy and federal spending. Some Democrats worry their party will be blamed for last weekend's government shutdown, but they are hoping that, as in past shutdown fights, voters forget about it by Election Day.

Working against Democrats is an improving economy, for which many voters give the president credit. The Republican National Committee has more money than its Democratic counterpart. Gerrymandering of House districts in many key places favors Republican incumbents.

But Democratic enthusiasm is running high. A record number of Democrats have filed to run for Congress, and voter turnout in 2017's off-year and special elections was up almost everywhere. In Virginia, Democrat Ralph Northam won the governor's mansion, and the party nearly broke the GOP majority in the statehouse, foiled only by a coin toss that determined the winner in a tied House district.

In other state legislative special elections last year, Democrats flipped 15 seats from red to blue. Three state seats went the other way. When public opinion surveys ask which party should control Congress, Democrats are favored by an average of 78 percentage points, according to Real Clear Politics. Democrats' top targets are the 23 House districts now held by Republicans but which Hillary Clinton won in 2016.

### Once-solid district

Democrats also need to pick up some districts Mr. Trump won. That means their path to a House majority runs through suburban communities where the GOP is struggling to hold college-educated, affluent voters—congressional districts such as Mr. Frelinghuysen's, west of New York City, the 11th district of New Jersey.

A once-solid GOP district, it went to Mr. Trump by less than a percentage point. A Democrat prevailed in the New Jersey gubernatorial race last fall, an election that's historically a bell-

wether of impending congressional "wave" elections, which break decidedly for one party.

The Democratic Party's optimism also stems from a surge in House Republicans not seeking re-election. So far, 31 Republicans are leaving the House, compared with 14 Democrats. Those GOP departures are the most from a majority party since 1994, when 28 Democrats quit before an anti-incumbent-wave election that gave Republicans control of the House for the first time in 40 years.

Many of this year's retirees have been House committee chairmen serving their last year in the role because of term limits imposed by the GOP, choosing to leave rather than continue without a gavel.

**Wave elections**

Mr. Frelinghuysen isn't facing that prospect. He started as appropriations chairman in 2017. His challenge at home points to another common feature of wave elections—senior members caught unaware or not accustomed to fighting tough races.

The 1994 GOP wave ousted Democratic congressional titans such as Ways and Means Chairman Dan Rostenkowski of Illinois and House Speaker Tom Foley of Washington. GOP strategists say they are more worried about incumbents who have never faced a tough re-election than about battle-tested Republicans who have had to fight to hold on to swing districts.

"Half of the Republicans in this Congress have never seen a wind in their faces," said for-

mer New York Rep. Tom Reynolds, one of several former GOP campaign-committee chairs invited recently to address House Republicans privately about political perils. "This is a wind-in-your-face election."

Mr. Frelinghuysen's prospects were downgraded to a "toss-up" by the nonpartisan Cook Political Report in November after a third-quarter fundraising report showed he raised just over \$150,000, compared with Ms. Sherrill's \$442,000.

**Half of the Republicans in this Congress have never seen a wind in their faces.'**

Local party officials say the congressman has a deep reservoir of goodwill in the district because it benefits from his clout on Capitol Hill, where he has fought for funding for the Gateway Tunnel under the Hudson River, money for military installations and disaster assistance after superstorm Sandy.

"Rodney is going to be elected in a landslide; I know that is not a popular position," said Laura Ali, spokeswoman for the Morris County GOP.

Stan Gorski, a Republican who said he is a Trump supporter, said he thought the congressman's vote against the tax bill showed "backbone."

"We applaud him standing up to the flak he got for voting against the tax bill," said Mr. Gorski. He disputed claims that

Mr. Frelinghuysen isn't accessible to his constituents, noting that he had seen him at a local political event a few days earlier.

Mr. Frelinghuysen is from a storied New Jersey political family. His father, Peter, held the House seat from 1953 to 1975. Ancestors served as U.S. senators.

Since his 1994 election, Mr. Frelinghuysen has never won less than 58% of the vote. Democrats chose not to invest in challenges against him.

When Mr. Moore in 2000 made an episode of his television show "The Awful Truth" about running a focus group against him, he said: "We think it's time to point out to the Frelinghuysen family that we live in a democracy, not a dynasty."

Mr. Frelinghuysen has a reputation, as did his father, as a centrist Republican. But as he rose in the GOP hierarchy, he faced pressure to stick with party leadership on issues sometimes at odds with his moderate district.

He voted for legislation to repeal and replace Obamacare after opposing an earlier version. He voted against the GOP tax cut, which many policy analysts believe would penalize New Jersey, after voting for the budget bill that launched the tax debate.

Some congressional Republicans were so angry about his tax-bill opposition they called for him to be stripped of his committee chairmanship. Back home, some erstwhile supporters were so disappointed in his health-care vote they are backing his Democratic opponent.

"A lot of Republicans are fed up and won't show up," said

Finn Wentworth, a real-estate magnate who donated more than \$20,000 to Mr. Frelinghuysen's candidacy over the years, Federal Election Commission records show. Fed up with the congressman's move to the right and support for Trump policies, Mr. Wentworth said, he quit the GOP last year and is backing Ms. Sherrill.

Candidates running for Mr. Frelinghuysen's seat include Tamara Harris, a divorce and family counselor and Democratic donor, and Marvin Hewitt, a former-Democrat-turned-independent-turned-Republican running a long-shot GOP-primary bid.

The Democratic Congressional Campaign Committee has thrown its weight behind Ms. Sherrill, whose military and law-enforcement background makes for a résumé Republican adversaries concede is formidable.

Ms. Ali of the Morris County GOP said Ms. Sherrill will come under attack because she lacks governing experience and lives outside the district.

Democrats believe that political newcomers make for appealing candidates in today's antiestablishment environment.

Ms. Sherrill, who lives in nearby Montclair, said she plans to move inside the district in coming months.

She has attended some of the weekly protests at Mr. Frelinghuysen's office and says she is amazed activists have stuck with it for a year. "I applaud all of you for holding the line," she told the recent crowd huddled in a parking garage to stay dry.

As she tries to win over Republicans and people who think it important to keep Mr. Frelinghuysen as appropriations chairman, Ms. Sherrill argues that Republican health and tax policies will hurt the district. "As long as the chairman of the Appropriations Committee is a Republican, he or she is not helpful to New Jersey," she said in an interview.

Mr. Frelinghuysen also is swimming across powerful currents in his changing party. The GOP move to the right over the last quarter century has made it harder for Republicans to survive in the Northeast. In New Jersey, only one Republican, Rep. Chris Smith, holds a seat considered safe.

"The 11th district is a perfect match for Rodney Frelinghuysen but a terrible match for Donald Trump," said Ross Baker, a Rutgers University political analyst and longtime New Jersey resident. Mr. Trump, he said, "is just not their kind of Republican."



Republican Rodney Frelinghuysen is facing the first serious challenge of his 23-year congressional career.

ALEX EDELMAN/ZUMA PRESS

# GREATER NEW YORK

## Restaurateur Admitted Bribery Former Officials

Harendra Singh pleaded guilty in 2016 to trading gifts for public-loan guarantees

BY JOSEPH DE AVILA  
AND CORINNE RAMEY

A Long Island restaurateur and longtime donor to Mayor Bill de Blasio secretly pleaded guilty in 2016 to attempting to bribe an unidentified New York City official, according to newly unsealed court records.

Harendra Singh pleaded guilty in a federal court on Long Island to attempting to bribe an unidentified New York City politician referred to in court documents released by the U.S. District

Court for the Eastern District of New York as "Official #2."

Mr. Singh was an early donor to Mr. de Blasio, according to campaign-finance records. The Oct. 12, 2013, date of a fundraiser mentioned in the document matches that of an event Mr. Singh held for Mr. de Blasio's mayoral campaign. That fundraiser previously was reported by The Wall Street Journal.

"The allegations against this administration were never proven because they are not true," a spokesman for Mr. de Blasio said Wednesday. "They are old news that's been widely reported and reviewed extensively by federal prosecutors before they closed their investigation."

During the same court pro-

ceeding, Mr. Singh also pleaded guilty to bribing former Nassau County Executive Edward Mangano and former Oyster Bay Town Supervisor John Venditto.

Mr. Singh pleaded guilty to giving gifts, such as cash, travel perks and limo services, to the Long Island officials in exchange for public guarantees for loans totaling about \$20 million and county contracts to provide food service for some county agencies.

In total, Mr. Singh pleaded guilty to eight counts, including conspiracy to commit bribery and obstructing and impeding the administration of Internal Revenue Service laws.

A lawyer representing Mr. Singh, who is awaiting sentencing, didn't respond to a

request for comment.

Kevin J. Keating, an attorney for Mr. Mangano, and Marc Agnifilo, who represents Mr. Venditto, said their clients

comment.

Mr. Singh's guilty plea emerges nearly a year after Mr. de Blasio was cleared of wrongdoing by federal and state prosecutors in inquiries related to his fundraising.

The mayor, who was re-elected in November, has said he and his staff have followed the law. His office previously has said the city acted appropriately in its dealings with Mr. Singh.

Citing people familiar with a probe, the Journal previously reported that in 2015, Mr. de Blasio's office was involved in negotiations between Mr. Singh and a city agency after Mr. Singh complained about the agency and its treatment of Water's Edge—his now-defunct restaurant that once was a popu-

lar Long Island City spot for political fundraisers, weddings and other affairs. The restaurant closed in 2015.

Mr. Singh had been a de Blasio donor stretching back to 2010 when the mayor was the New York City public advocate. Water's Edge was the site of at least two fundraisers for Mr. de Blasio in March 2011 and October 2013, which the Journal previously reported.

Mr. Singh also bundled more than \$10,000 from donors for Mr. de Blasio's 2013 mayoral race, according to campaign-finance records.

After taking office in 2014, Mr. de Blasio appointed Mr. Singh to a number of committees.

—Mike Vilensky contributed to this article.



Harendra Singh also pleaded guilty to trying to bribe an unidentified NYC official.

## Long Island's Salvadorans Face Hard Choices

BY JOSEPH DE AVILA |

HEMPSTEAD, N.Y.—Crisanto Andrade, a Salvadoran who has lived on Long Island for nearly two decades, sees two bad choices in his future.

With his protected immigration status ending in September 2019, Mr. Andrade must decide between returning to El Salvador, where wages are low and violent gangs run rampant, and staying illegally in the U.S.

"What I make in a week here, I can't make in a month over there," Mr. Andrade said. In El Salvador, he added, "you need permission from the gangs to visit family members in other neighborhoods.... It's a disgrace."

The 45-year-old groundskeeper, who lives with his 20-year-old son in Uniondale, is among the 14,700 Salvadorans on Long Island enrolled in a U.S. humanitarian program known as Temporary Protected Status, or TPS.

Salvadorans are the largest group of TPS holders and have been allowed to live and work in the U.S. since 2001, when a pair of earthquakes destroyed parts of their country.

Earlier this month, the Trump administration announced it would end Salvadorans' protected status, saying the disruption to living conditions caused by the earthquakes no longer exists. The Department of Homeland Security said it would give Salvadorans in the program 18 months to prepare to leave the country or apply for some other immigration status allowing them to stay.

The change in policy "underscores the temporary nature of TPS, and reminds us that it was never intended to be used as a tool to sidestep the legal immigration process," said Dan Stein, president of the Federation for American Immigration Reform, a lobbying group that favors lower levels of immigration.

For Mr. Andrade and the 260,000 Salvadorans protected by the program in the U.S., the move has led to upended lives and future plans.

"Most will stay without papers," said Walter Barrientos who works with a local chapter of Make the Road New York, an advocacy group that provides legal services to immigrants. "It's not really an option for them to go back."

It has also raised concerns in the U.S. communities they call home.

According to an analysis by the Suffolk County Department of Economic Development and



*'We deserve better treatment and dignity.'*

**Crisanto Andrade, 45, on the end of program that shielded some Salvadorans from deportation.**



*'If she goes back, she has nothing over there. Her whole life is here.'*

**Cesar Claros, 28, about the tough decision facing his mother, Dora Diaz**



*'That's really their only option.'*

**Jose Bonilla, 47, about whether his brothers, nephews and cousins will stay illegally in the U.S.**

Planning, the removal of protected Salvadorans from Long Island would result in an annual loss of \$800 million in household spending in the region, a reduction of \$1.4 billion in economic output and the potential loss of 13,500 jobs.

Ending the program "could ultimately result in a massive

economic hit to Long Island," Suffolk County Executive Steve Bellone and Nassau County Executive Laura Curra wrote in a recent letter to Long Island's congressional delegation.

Dora Diaz fled El Salvador's civil war in 1986 and currently has protected status. She fears that if she returns she would

become a target of gangs.

El Salvador is the home base for MS-13, a transnational gang that has made the country one of the deadliest in the world.

While the gang has spread all the way to Long Island, its influence here pales in comparison to El Salvador.

The homicide rate in El Salvador in 2016 was 81 per 100,000 inhabitants, compared with 5 per 100,000 residents for the U.S.

"Whatever little money you have, they take it from you," said Ms. Diaz, 49, who said she has no family in El Salvador. She plans to apply for a family-based immigrant visa, in the hope that she will be approved before the September 2019 deadline.

Jose Bonilla, 47, from Hempstead has two brothers, three nephews and three cousins in the program who live on Long Island. He said they would likely stay in the U.S. illegally.

"That's really their only option," Mr. Bonilla said. If the gangs in El Salvador "see that you have small businesses to support your family, they will make you pay 'rent.' And if you don't give them what you want, they can kill you."

Mr. Andrade, from Uniondale, also plans to stay, even though he isn't eligible for the family-based immigrant visa (none of his relatives are U.S. citizens). His wife and four of his children still live in El Salvador, and he needs to make money to support them.

"We deserve better treatment and dignity," said Mr. Andrade.

## Subway Station Upgrades Delayed

BY PAUL BERGER

Plans to renovate eight subway stations were postponed Wednesday because of a dispute between New York City and New York state over subway funding and spending priorities.

Metropolitan Transportation Authority commissioners delayed a vote at their monthly board meeting on construction contracts totaling more than \$200 million, following objections raised by MTA members representing New York City Mayor Bill de Blasio.

The contracts were to renovate two stations in the Bronx and six in Manhattan, including two stations at 34th Street-Penn Station serving the 1, 2, 3 and the A, C, E lines.

The renovations are part of an almost \$1 billion initiative launched in 2016 by Gov. Andrew Cuomo to repair and modernize 32 stations. The enhancements include new entrances, platform repairs and upgrades such as artwork and LED lighting.

City representatives on the MTA board question how the stations were chosen. They say the city wasn't consulted on the issue and that needier stations were overlooked. They also criticized the MTA for failing to address accessibility issues for people with disabilities.

MTA Chairman Joe Lhota, speaking after the meeting, called the station initiative a "pilot" plan. He said that some less well-used stations were chosen because they could be closed for months at a time while renovations are carried out. He noted that accessibility issues are addressed in other MTA subway station enhancement projects.

Board members postponed the vote until February to give to the MTA's new subway chief, Andy Byford, time to consult with city officials and, possibly, to amend stations targeted in the program.

City representatives didn't oppose the station enhancement initiative when it was included in an amended five-year spending plan last May.

Since then, commuter anger has risen over deteriorating subway service and a dispute has broken out between the state and the city over short- and long-term funding plans for the subway and buses.

OYSTER PERPETUAL  
LADY-DATEJUST 28



ROLEX

TOURNAU

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TimeMachine 57th and Madison Ave

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Madison Ave and 53rd

Walt Whitman Shops Roosevelt Field

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## GREATER NEW YORK

# Long-Simmering Battle Over School Ends Up in Court

Developer, seeking to build a dorm, sues city

By JOSH BARBANEL

Developer Gregg Singer wants to turn a century-old public school building he owns in Manhattan's East Village into a dormitory. The community wants the building back.

After a 20-year fight, Mr. Singer filed suit Wednesday in federal court alleging he has been illegally blocked by a "conspiracy" of local elected officials in New York City, a preservation group and a hedge-fund manager who lives next door to the school.

The suit cites emails alleging that the opponents worked together to block building permits for the project. "This is a case of seller's remorse as much as it is a case about a vindictive political plot aimed at improperly reclaiming property legally sold by New York City," the suit said.

The claims are "ludicrous," said Andrew Berman, executive director of the Greenwich Village Society for Historic Preservation, who was named in the suit. "The reason why he hasn't been able to get a permit for the last five or 10 years is because he hasn't filed one that is actually legal."

The hedge-fund manager, Aaron Sosnick, didn't respond to requests for comment. Mr. Sosnick is chairman and manager of A.R.T. Advisors LLC with \$3.7 billion under management, according to a recent federal filing.

The dispute has left the classic school building on East Ninth Street near Tompkins Square Park a vacant shell—its limestone and terracotta details hidden behind a

graffiti-covered plywood wall. Mr. Singer's plan would restore the 1906 building and create a 535-bed dorm with three outdoor gardens to serve students at local colleges.

He purchased the five-story building at a 1998 auction that closed in 1999 for \$3.15 million, and says he has spent more than \$60 million, including \$35 million in interest costs and various demolition and architect expenses.

Opponents want to turn the property into a community center to undo a wrong they said the city committed when it initially auctioned the building. This past October, a few weeks before the mayoral election, Mayor Bill de Blasio told a crowd at a community meeting that the sale was a mistake and that the city wants to re-acquire the building.

Mr. Singer said that under pressure from city council members during the last two decades, the Department of Buildings repeatedly has changed the rules, stalled approvals and applied conditions other developers don't have to meet. "We don't care what the rules are," he said. "Just tell us what the rules are."

Emails, he said, show that various interest groups worked together to pressure the mayor's office to delay the department's decisions involving his dorm plans.

In a statement, the Buildings Department said it had acted properly in twice denying the developer's application for a permit last year because he "failed to submit sufficient proof that the building would be used as a student dormitory."

Opponents of the project said they want to prevent



Gregg Singer wants to turn the former public school, now sitting unused in the East Village, into a dormitory, in a rendering below.



Mr. Singer from what they viewed as an illegal use of the building, suggesting that the dorm plan was a trick to convert the building into conventional apartments.

In bidding for the property, Mr. Singer stepped into a political war in the East Village. After the school closed in 1977, the building was converted into a cultural center by a community group aligned with opponents of the local councilman at the time, Antonio Pagán, who supported the property

sale. Protests erupted and lawsuits were filed in an effort to block the sale.

On the day of the auction at One Police Plaza, demonstrators released 10,000 live one-inch crickets to try to disrupt the sale.

Susan Howard, who has organized and demonstrated against the project for two decades, said Mr. Singer knew what he was getting into by buying the building. "I can't give him any sympathy because he stuck his foot in it," she said.

## Dorm Application Has Long History

In 2004, developer Gregg Singer submitted an application to the New York City Department of Buildings to add 19 floors to a defunct East Village public school that would preserve much of the existing five-story structure.

The plan was rejected by the city, which said the developer had failed to provide a lease showing a relationship with a college. The state Court of Appeals in 2008 upheld that decision, saying the requirement was "prudent" because Mr. Singer was seeking to erect a 19-story building that he might not be able to legally use.

Now, Mr. Singer wants to create a dormitory within the existing school footprint. The building permit was approved in 2014 and later halted following complaints by then-city council member Rosie Mendez, asking the city to conduct another re-

view of a proposed lease agreement. It was renewed and stopped again after a major tenant, Cooper Union, canceled its lease, the suit said.

Last year, Adelphi University signed a 10-year lease for two floors of the building, Mr. Singer said. The buildings department application wasn't acted on for eight months, and eventually was denied.

In its rejection, the buildings department questioned whether Adelphi actually would have control of the two floors, and whether the school, which received a state charter as a college in 1896, qualified as a college. It cited a discrepancy in the paperwork of the privately owned building that houses Adelphi's Manhattan Center. The school is based on Long Island.

The city said the building was listed only as an "Adult Trade School" rather than a college or university. In response, Mr. Singer's lawyers said the objection was either "blatant confusion or purposeful misrepresentation," documents show.

## GREATER NEW YORK WATCH

## MENENDEZ RETRIAL

## Judge Throws Out Some Charges in Case

A judge on Wednesday dismissed some of the charges facing U.S. Sen. Bob Menendez, an unusual legal move that may shorten his coming retrial.

U.S. District Judge William Walls acquitted Mr. Menendez, a New Jersey Democrat, and Salomon Melgen, his co-defendant, of some bribery charges and one count of honest-services fraud. Both men, who have pleaded not guilty, still face conspiracy and other bribery charges.

Judge Walls said he denied the defendants' request to dismiss other counts. Mr. Menendez, who had faced 12 counts, will now face eight.

Mr. Menendez's lawyer, Abbe Lowell, praised the decision. "A jury rejected the government's facts and theory of bribery, and now the trial judge has rejected a critical legal theory on which the case was brought," he said. "The decision of the DOJ to retry the case makes even less sense than it did last week and we hope it would be reconsidered."

The Justice Department is reviewing the order and considering its next steps, a spokeswoman said.

—Corinne Ramey

## REAL ESTATE

## Kushners Drop Search For Chinese Investors

The family real-estate company once run by Jared Kushner is no longer seeking \$150 million from Chinese investors for a New Jersey building project after months of criticism that the company was playing up its White House ties to raise the money.

A person familiar with the fundraising effort said this week that the company has stopped trying to raise money from wealthy Chinese to help pay for One Journal Square, a planned 66-story residential, retail and office complex in Jersey City.

Ethics experts blasted the Kushner Cos. last May after Mr. Kushner's sister, Nicole Kushner Meyer, mentioned her brother at a presentation to prospective investors in Shanghai. The presentation included a photo of Donald Trump, and Chinese ads included vague promises that the project had "government support" and was "founded by celebrity developers." The company denied it was seeking to benefit from its White House ties.

Mr. Kushner, Mr. Trump's son-in-law, resigned as CEO of Kushner Cos. last year to become a senior adviser to the president.

—Associated Press

## NEW YORK

## State Settles Lawsuit Over Choking Death

New York state will pay \$2.25 million to settle a lawsuit filed after a disabled man choked to death in a state-run group home while an aide allegedly texted her boyfriend from the bathroom.

Eddie Velasquez's death in 2014 came one day after he choked on sliced turkey he took from the kitchen of an Ithaca group home. The 48-year-old man, who couldn't speak and was born with developmental disabilities, was considered a choking risk and wasn't to be allowed in the kitchen or near food without supervision.

The Associated Press obtained a state investigator's confidential report that found the aide who was supposed to be watching him sent or received 137 text messages and talked on her personal phone more than 10 times.

Denise DeCarlo, a spokeswoman for the Office for People with Developmental Disabilities, the agency that oversees the Ithaca group home, said one aide was suspended for six months and another was fined \$5,000 following an investigation. Both individuals were allowed to return to their jobs. Attempts to contact the aides were unsuccessful.

—Associated Press

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GOODBYE YELLOW BRICK ROAD: Elton John said Wednesday in New York that his coming, three-year world tour will be his last. The 70-year-old pop star said he wanted to spend time with his family.

# LIFE & ARTS



BEYOND THE RUNWAY

## Are Ankle Boots Worth Trying?

BY RAY A. SMITH

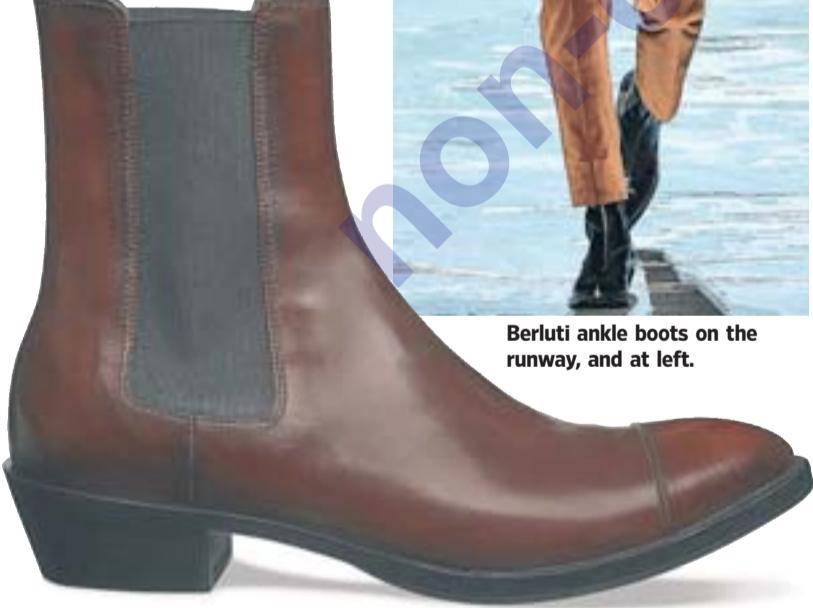
**DESIGNERS** and retailers are touting Chelsea boots for men, but they can be a tough style to pull off. Here's a look at what's driving this trend—and the risks and rewards of jumping in.

**Where You've Seen Them:** Designer Raf Simons helped spur interest in ankle boots when he featured a Western-styled version in his debut runway show for Calvin Klein last February. Timothée Chalamet, nominated for a best actor Academy Award in "Call Me By Your Name" and singer Harry Styles are among stars recently sporting ankle boots. Macy's called Chelsea boots its No. 1

**Top, Kevin Boone, a New York client of stylist Julie Rath of Rath & Co., shows ways to wear the Chelsea boot.**



Berluti ankle boots on the runway, and at left.



men's shoe trend for fall 2017.

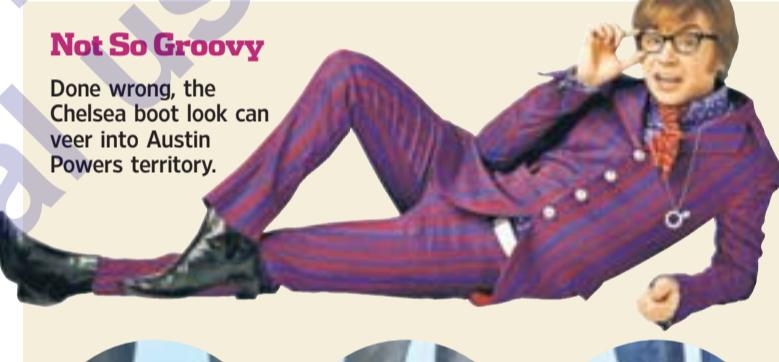
**What's Their Story:** In the late 1830s, English shoemaker Joseph Sparkes Hall made the first patented slip-on ankle boot with elastic gussets on the sides, according to the Victoria and Albert Museum in London, and presented the boots to Queen Victoria. In the 1960s, a variation now known as Chelsea boots took off with scenesters who hung around the famed King's Road in London's Chelsea—an epicenter of mod fashion—and artists including the Beatles and the Rolling Stones helped make them cool.

**Why Your Concern Is Justified:** The average guy may find these boots hard to pull off. Remember the ribbing then-presidential contender Marco Rubio got for wearing a pair in 2016? Some fear the look will read "trying too hard." Done right, you're a modern Beatle. Not, and you veer into retro Tom Jones or, gasp, Austin Powers territory. If you're going to try ankle boots, you'd better make plans to visit a tailor. Getting the pant length right is crucial to getting ankle boots to look good, especially when it comes to dress pants. You also will need to stock up on over-the-calf socks.

**Why They're Worth Trying:** When you need footwear that has the sleekness of a dress shoe but stands up to winter weather, ankle boots deliver.

### Not So Groovy

Done wrong, the Chelsea boot look can veer into Austin Powers territory.



Beware the common pitfall of pants getting caught inside the boot.



Stock up on over-the-calf socks to avoid flashing bare skin.



Dressy ankle boots look out of place with your most casual faded jeans.

The alternative, rugged snow boots, are more appropriate for climbing a mountain than the corporate ladder. Plus, "wearing dress shoes day in and day out can get boring," says Julie Rath, founder and CEO of men's style consulting firm Rath & Co.

**So, How Do I Wear Them?** For ankle-boot beginners, look for a smooth leather or suede in a crisp style without elaborate detailing, says Ms. Rath. (If suede feels too casual to wear with a suit, just stick with leather.) Go with a low heel and a standard toe rather than more edgy styles. Ankle boots with rubber or cleat soles are best suited for casual outfits.

Pay attention to pant length and width to avoid pants getting

caught in the boot. The trick "is to go quite a bit shorter on the pant leg than you normally would so you can see that it's a boot and not just a laceless shoe," says Hollywood fashion stylist Ilaria Urbinati, who has recently put clients Tom Hiddleston and Joel Edgerton in suits with ankle boots by Christian Louboutin.

One trick to avoid getting pants stuck in a boot, Ms. Rath says: "Have your pants cut about a half inch longer in back than front." Sid Mashburn, founder of the Atlanta-based men's retailer of the same name, advises being mindful and adjusting pants legs when necessary. "It just happens," he says.

*Write to Ray A. Smith at ray.smith@wsj.com*

**THE MIDDLE SEAT** | By Scott McCartney

## WHY FLYING HAS NEVER BEEN SAFER

**LAST YEAR WAS THE SAFEST** year ever for air travel, with zero passenger airline fatal accidents on jets world-wide. There hasn't been a fatal crash at a major U.S. passenger airline since 2009.

Good luck or good work? Safety experts say both. (And no, they don't attribute this to Trump administration policies.)

We're not so far removed from the days of a dozen fatal accidents world-wide and 700 to 1,000 deaths every year. The improvement marks the culmination of three decades of methodical improvements, commercial aviation experts say. But recent advances to aircraft and airports, stiffer regulations and corporate changes at airlines

and leasing companies are the top factors behind these results.

"It's just stunning," says William Voss, a safety consultant and former official at the Federal Aviation Administration and other major aviation groups. "I hope that we can sustain it, but that's hard to do."

Flying was considered one of the safest modes of transportation in the 1950s. The odds of an accident were about one in 50,000. Now the chance of dying in an airline crash is about one in 50 million, says Paul Hayes, director of air safety at London-based Flight Ascend Consultancy.

What's perhaps most remarkable: Accident  
Please see SAFETY page A11



Safety systems built into the cockpits of the newest generation of planes can automatically handle emergency situations and keep pilots out of trouble.

## LIFE &amp; ARTS

## FASHION

# Gap Bets Big on Rap Producer Metro Boomin

The hit maker and performers such as SZA star in ads as the retailer seeks to refresh its image

BY RAY A. SMITH

**GAP IS TRYING** to recapture the zeitgeist the way the clothing chain did in its '90s heyday, this time with a marketing push featuring a new single by a cutting-edge rap producer.

The ad campaign, which will debut on TV during Sunday's Grammy Awards, includes a song created by Metro Boomin, the hit-making artist reshaping the sound of pop music. Gap plans to release the song, a contemporary take on the Thompson Twins's '80s smash "Hold Me Now," on music-streaming services this week. The song will play in the television ad. Metro Boomin is the campaign's music director and appears in the ad, alongside SZA, the R&B artist nominated for five Grammys, as well as young stars of music, film, TV, YouTube and social media from around the world.

Metro Boomin says it was important to be part of a campaign that connects with consumers in a modern way. Also, "it was a different challenge for me to do something new and create music for a campaign," he adds.

In recent years, apparel retailers have worked to attract consumers increasingly favoring travel or dining out over shopping. At the same time, brands have sought creative ways to engage customers. Gap joins a number of fashion brands enlisting hot hip-hop and R&B acts to make original material in hopes of boosting brand awareness and enticing shoppers. The collaborations also signal that musicians and fans are less troubled than previous generations by the notion of selling out.

Rap star Drake debuted a song at a Louis Vuitton men's runway show in Paris last year that was released the following day on streaming services including Apple Music and Tidal. Calvin Klein tapped artists including Solange and A\$AP Rocky to star in a multi-media campaign that included videos for its jeans and underwear lines. Also last year, Calvin Klein worked with alternative music group the xx on a video for one of its songs, in which the performers wore clothes from Calvin Klein's higher-end collections.

"As marketers we have to real-

ize that where people consume brand content has changed," says Craig Brommers, Gap's chief marketing officer. "The exciting thing about the campaign is that we'll be able to reach people through a variety of mediums. We have to go where the customer is going."

The combination of a star and the promise of new music can stir buzz. However, a risk is that consumers may be interested in a brand's entertainment and social media—but not motivated to buy its products.

"It's not proven that social engagement leads to sales," says Michael Jais, chief executive and founder of technology and data analytics firm Launchmetrics. "A limited percentage" of people who engage with a brand on social media go on to purchase its products, he says.

"Consumers don't trust ads, and are savvy enough to know that an 'endorsement' probably means that a celebrity got paid," says Jonah Berger, a professor of marketing at the University of Pennsylvania's Wharton School.

At the same time, they are paying less attention to traditional media channels. Original content and storytelling are "less likely to be seen as an explicit persuasion attempt so they trust it more," says Mr. Berger, who is the author of "Contagious: Why Things Catch On."

The strategy also can backfire, he warns: "A terrible song can damage brand equity more than it helps."

In the 1990s, Gap became popular with its mix of sleek basics like T-shirts, sweaters and turtlenecks, preppy oxford shirts, jeans and logo-emblazoned sportswear. The mass-casual retailer had spirited TV ads to match: a campaign with people swing-dancing in khaki pants was a hit.

Robert Passikoff, president and founder of Brand Keys, puts out an annual index of apparel brands that consumers say they visit repeatedly. From the late 1990s to



2002, Gap was at the top or near the top of the list, Mr. Passikoff says, "but that hasn't been the case for a long time."

After the early 2000s, Gap lost its way, opening too many stores and failing to keep up with fashion trends and changing consumer tastes. The U.S. arrival of fast-fashion rivals like H&M and Zara, and specialists in basics like Uniqlo, stole Gap's market share. J. Crew eclipsed Gap as fashion's mainstream darling. In addition, the overall apparel industry took a drubbing as sales and mall visits tumbled.

Gap's parent company, San Francisco-based Gap Inc., named company veteran Art Peck CEO in 2014. Before Mr. Peck's appointment, same-store sales had fallen every quarter of fiscal 2014. The declines followed increases for several periods beginning with the first fiscal quarter of 2012, largely after Gap seized on the colored-jeans trend. Quarterly same-store

nana Republic and Gap stores over the next three years, while opening more Old Navy and Athleta sports-clothing stores. Gap got rid of its creative director and did away with the position altogether in early 2015.

Last February, the company finally saw its first quarterly increase in sales at stores open at least a year since Mr. Peck officially took over. This month, the company reported that same-store



Metro Boomin, above, and SZA, left, in the Gap Logo Remix ad campaign. The retailer is collaborating with artists, as Louis Vuitton did at a Paris fashion show last year, below.

FROM TOP: DOUGLAS SEAGRS/GAP LOGO REMIX (2); GETTY IMAGES

sales rose at its Gap and Old Navy stores during the holiday season.

According to Kantar Media, Gap Inc. spent about \$122.1 million on advertising, excluding social media, for all its brands from January 2017 through September, the most recent figures available.

The Gap brand rose to ninth place among 19 apparel brands in Brand Keys' customer loyalty engagement index for 2017, up from 14th place in 2016.

would likely be more common among men with long beards than those with tightly groomed ones, but if you are outside in a wintry mix of rain and snow, "a frozen beard of any length would outweigh the benefits of keeping the skin warm."

**Your Beard, Your Barrier**  
A well-groomed beard can have other positive effects on men. "Facial hair can protect your skin from wind, which is chilling," says Dr. Rossi. "And hair definitely prevents the penetration of the sun." Beard hair has a natural SPF, he says, and is usually darker than skin or scalp hair. "As far as heat-trapping goes, hair density is more important than color. But for sun protection, dark hair is better," he says.

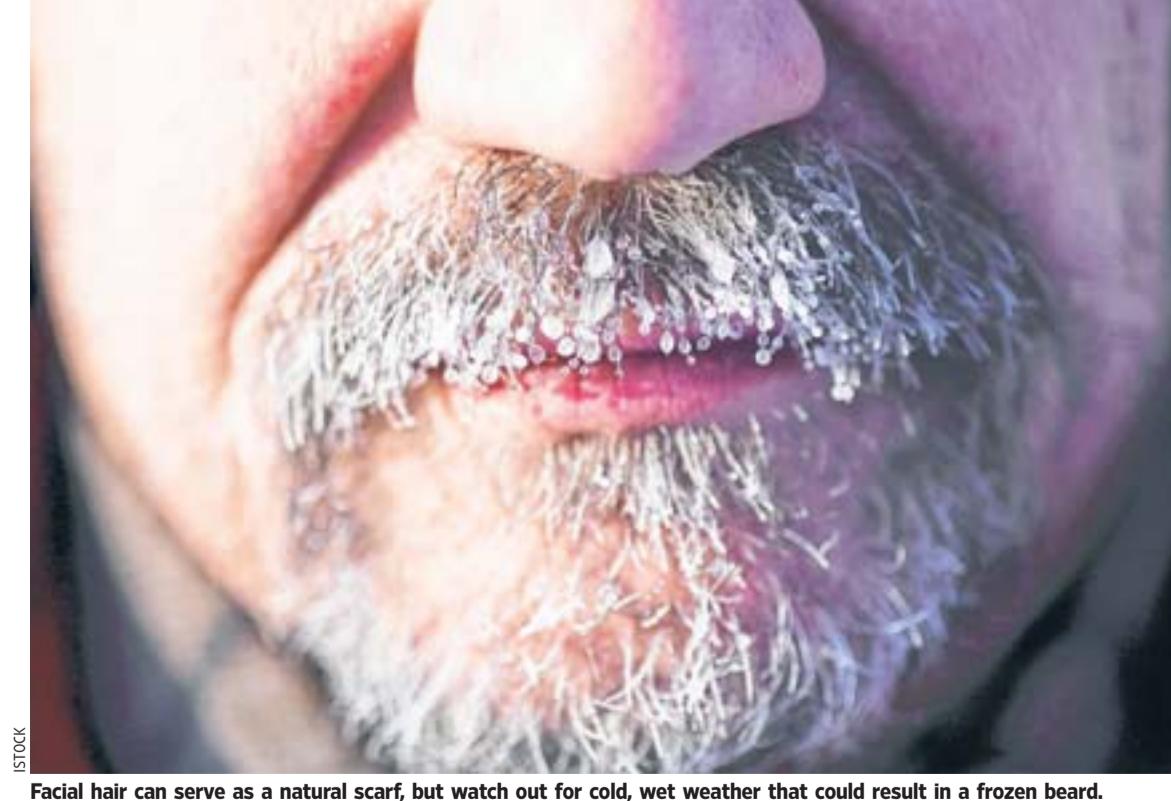
Like eyelashes or nose hairs, "a beard can also act as a barrier against bacteria, catching it before it can enter the mouth or nostrils," he says, though he is yet to see studies to prove this.

**Grooming 101**  
Dr. Rossi says he sees more patients with questions about beard maintenance. He tells men to wash their beards regularly to kill bacteria and invest in a nice pair of beard trimmers "with a designated length setting," as well as a beard comb. For men with curly hair, he advises shaving in one direction, going with the grain. "When you shave against the grain, it creates a sharp edge that the hair can grow back into, causing ingrown hairs," the dermatologist says.

He also recommends slathering on beard oil daily. "Because facial hair is coarser and curlier than other body hair, a beard oil will keep it soft and prevent hairs from curling back into the skin, creating ingrown hairs," he says. An added bonus in winter: oil acts as a humectant, "trapping even more heat on the skin," he says.

BURNING QUESTION | By Heidi Mitchell

## DOES FACIAL HAIR KEEP YOU WARMER?



Facial hair can serve as a natural scarf, but watch out for cold, wet weather that could result in a frozen beard.

When we get cold, tiny muscles in the skin contract, causing the hair on the body to stand up. "Those standing-up hairs trap air and heat onto your skin," says Dr. Rossi. This happens on the face, as well as on the body. A 1988 European study showed that, among

bearded men exposed to heat, those with bald scalps produce more than twice as much sweat as those with hairy scalps, which implies that beards trap heat, says Dr. Rossi. Another study in China in 2012 found that, among 100 participants, upper lips with hair

were on average 1 degree warmer than hairless cheeks. This may explain why many men grow beards in winter and shave more regularly in summer.

The downside is that when a beard gets wet in the cold, it could freeze. Dr. Rossi believes this

### A Faster Cycle

Facial hair is coarser than scalp hair and grows on a different cycle than that on the head, says Dr. Rossi, who has published research on hair and cosmetics. The anagen phase is when hair grows; the catagen phase is when it is resting; and the telogen phase is when hair falls out of the follicles.

"The anagen period is shorter in beards, which is why it grows fast," says the New York-based dermatologist. "Then it has a longer telogen period, so the hair stays in place longer." Most men's anagen phase for facial hair is too short to allow for a long, flowing beard, and many also suffer from bald patches caused by alopecia, leaving them with uneven beards. Dr. Rossi says dermatologists haven't studied the phenomenon enough, but most believe the ability to grow a thick, long beard is genetic and consistent throughout the seasons.

### The Heat Trap

Historically, men who worked outdoors grew out their beards, says Dr. Rossi, which led many to assume facial hair kept them warm. "Hair exists to help us regulate body temperature, so that makes sense," he says.

When we get cold, tiny muscles in the skin contract, causing the hair on the body to stand up. "Those standing-up hairs trap air and heat onto your skin," says Dr. Rossi. This happens on the face, as well as on the body. A 1988 European study showed that, among

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is the case.

## LIFE &amp; ARTS

## ART REVIEW

# A Soaring, Feathered Tribute

After seeing a work by Cubist Juan Gris, Joseph Cornell created 21 works over 13 years celebrating that bellwether picture

BY PETER PLAGENS

New York

**IT WASN'T UNCOMMON** for the poetic and pioneer assemblagist Joseph Cornell (1903-1972) to create a work of art—or at least give it a title—in homage to a famous artist from history. But after seeing "The Man at the Café," a 1914 painting by the Cubist Juan Gris (1887-1927), at a New York gallery in 1953, Cornell embarked on his largest tribute to a fellow artist, creating 21 works over the next 13 years celebrating that bellwether picture.

The medium-size painting—part of a gift of Cubist works given to the Metropolitan Museum of Art in 2013 by Leonard Lauder—is now on its own wall between two windows at the Met. It presides over a dozen of Cornell's iconic, delicately weathered, glass-front boxes (each just under two feet high, a foot across and four inches deep) austerely encased in four large vitrines. This lovely exhibition, "Birds of a Feather: Joseph Cornell's Homage to Juan Gris"—the leitmotif throughout is a white-crested cockatoo, and Cornell and Gris, you see, were both neat-and-clean artists who loved dropping clues—is the first of a planned series of "dossiers" showing emanating from Mr. Lauder's eponymous Research Center for Modern Art at the museum.

Cornell didn't have it easy growing up. His younger brother, Robert, had cerebral palsy, and when the artist was 14 his father died of leukemia. Although his father's former employer enabled Cornell to attend Phillips Andover Academy in Massachusetts, he left, shy and homesick, without a diploma and started working to help care for his mother and brother.

Helen Cornell managed to buy a house on Utopia Parkway in Queens that eventually became the famous home and basement studio for her hordophobic son, who nevertheless thought of himself as a "voyageur" of the mind. The artist did hang out, though, in the art world and was on conversational terms with the likes of Marcel Duchamp and Robert Motherwell. By the time he started his homages to Gris, Cornell was a fully established artist with exhibitions at top-flight galleries.

Cornell wrote in his diary that the man in Gris's picture was "covered almost completely by his reading matter." In response, he coated many of the back planes of the inside of his boxes with fragments of old French texts he got from booksellers on the street. The image of a white-crested cockatoo, lifted from an 1884 book, "Parrots

in Captivity," appears repeatedly in the boxes, and comes from the artist's fascination with birds (a 1949 show was called "Aviary," and he once made a film of a woman watching pigeons in a park). He also loved the way a crisp black shape suggesting a bird's shadow could simultaneously refer to the black shadows in the Gris painting.

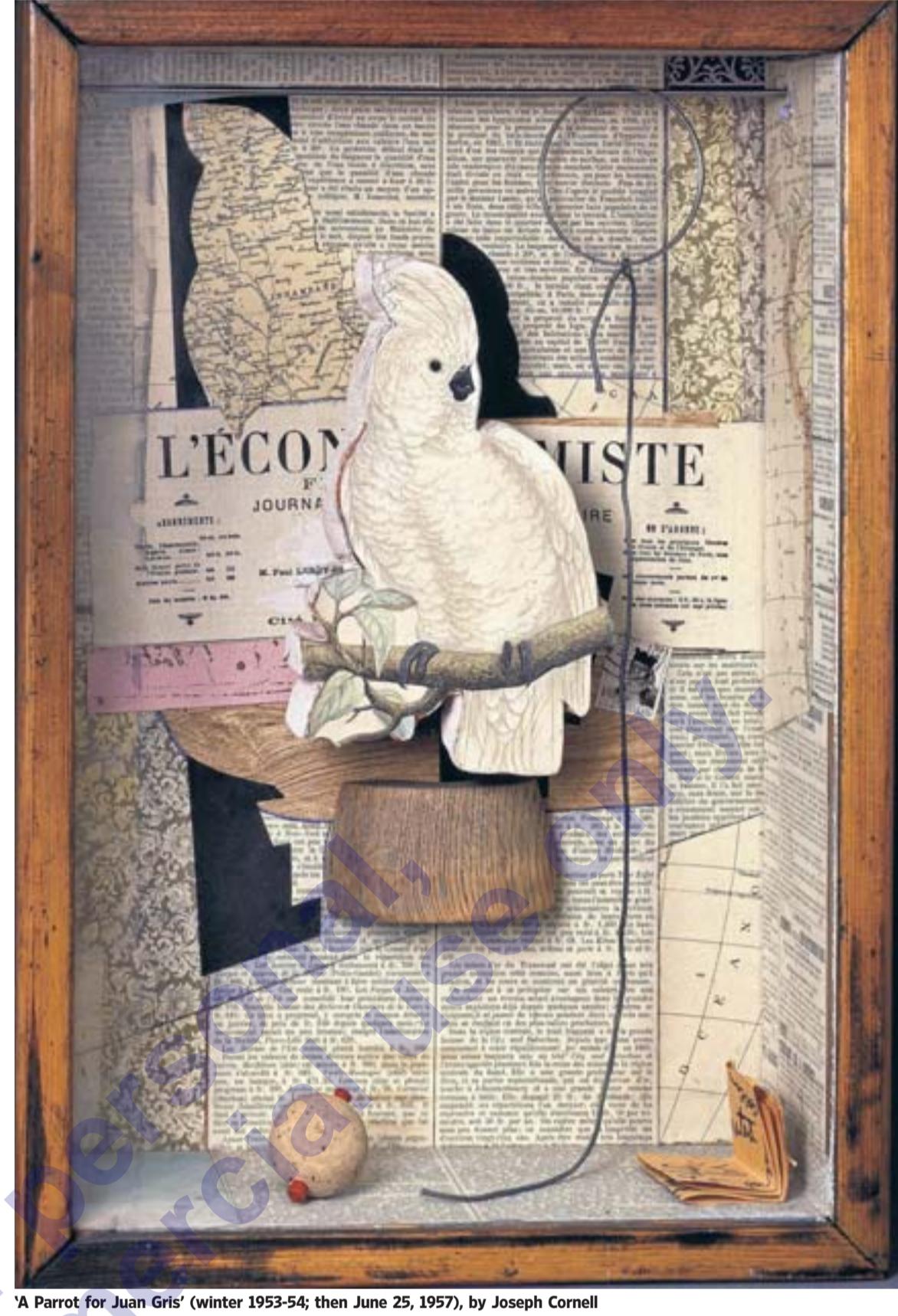
Half the boxes in the exhibition were tentatively finished in 1954, after which Cornell apparently took a hiatus from the project. In 1959, inspired by the publication of John Golding's foundational book on Cubism and a Gris retrospective at the Museum of Modern Art the year before, he returned to it.

My favorite box (they're all gorgeous in an antiquarian, philatelic way) is "Grand Hôtel Bon Port" (1959-60), a crackling departure from Cornell's trademark quietude. The cockatoo is absent, seemingly dissolved into clouds in a light-blue sky, and announces its presence only by a thin black vertical

A series of assemblages filled with clues that can lead viewers on connect-the-dots journeys

shadow and a cork "perch" where its feet ought to be. The pasted fonts for Grand Hôtel Bon Port and the newspaper Le Soir (a play on a snippet of Le Matin in Gris's picture) are headline-bold. Three rolls of postage stamps punctuate the top of the composition, and a block of dark-blue ocean and a row of white finishing nails anchor the bottom. A vertical chunk of pink accentuates the bird's shadow and gives the work a chromatic boost.

What do all these boxes mean, other than providing a way for Cornell to celebrate a kindred spirit and for the curator, Mary Clare McKinley, to produce a catalog that's as much crime-scene dot-connecting as it is aesthetic analysis? (For example, the catalog tells us that "A Serenade for Juan Gris, Romantic Hotel," 1953-60, contains a clipping about the Hôtel de la Ville, which is near the La Scala opera house in Milan, at which a past star soprano, Julia Grisi—a name similar to Juan Gris's—appeared.) Perhaps the best appreciation of Cornell's work came from the poet and art critic John Ashberry more than a half-century ago: "Cornell's boxes embody the substance of dreams so powerfully that it seems that these are eminently palpable bits of wood,



'A Parrot for Juan Gris' (winter 1953-54; then June 25, 1957), by Joseph Cornell

cloth, glass and metal must vanish the next moment, as when the atmosphere of a dream becomes so intensely realistic that you know you are about to wake up."

Amid the Met's current blockbusters (Michelangelo drawings, a

David Hockney retrospective), "Birds of a Feather" offers a major "minor" exhibition. It's solidly researched, impeccably installed and—most important—beautiful in its parts as well as its whole. Break from the crowd's flow and don't miss it.

**Birds of a Feather: Joseph Cornell's Homage to Juan Gris**  
The Met Fifth Avenue, through April 15

**Mr. Plagens is an artist and writer in New York.**

## SAFETY

Continued from page A9  
rates in developing countries are dropping along with highly regulated, wealthy aviation markets.

Investigators caution that this year, or any other, could turn out to be far more deadly. That's where luck comes in. A safety net can protect against human error, but it can't eliminate all mistakes. Mr. Hayes says the 2017 results may give people a false sense of safety. Last year saw several near misses.

One that still troubles investigators: An Air Canada jet lined up to land on a taxiway in San Francisco rather than a runway, putting it on course for four planes waiting to takeoff. The jet came within 60 feet of the line of planes, the National Transportation Safety Board's preliminary report showed.

Today's airplanes not only don't break as often, they also have safety nets built in that override pilot error, much like cars that brake automatically to avoid collisions, safety experts say.

Big business also deserves some credit for reducing accidents. Major banks and large aircraft-leasing companies now make new planes available to airlines in less-developed countries at affordable prices. That squeezes out small leasing companies renting old, poorly maintained aircraft to startup airlines.

To safeguard their investment, big leasing companies and banks require top-notch maintenance on planes, and monitor how airlines use them. That's created an important check against cutting corners.

"You have a revolution in the business side," Mr. Voss says. Leasing companies and multinational airline groups "have aligned the interests of big money to support safety, rather than undermine it."

Mr. Voss also credits global alli-

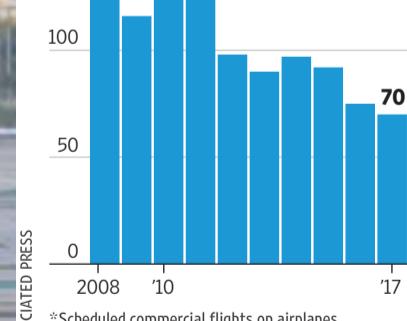


Airports have been installing ground radar systems that warn controllers when one plane crosses into the path of a landing or departing aircraft, enhancing safety and reducing runway incursions.

### Accidents Happen Less

The number of accidents\* on commercial flights has declined worldwide.

150 accidents



\*Scheduled commercial flights on airplanes above 5.7 metric tons

Source: International Civil Aviation Organization

THE WALL STREET JOURNAL.

made advanced landing equipment one of its top recommendations.

"Pilots tell us it's a game-changer," says Mark Millam, vice president, technical, at Flight Safety Foundation.

Mr. Voss worries about a shortage of manpower ahead—not enough young pilots and mechanics in the pipeline. "That makes everything else, as good as it is, a question of whether it's going to be sustainable or not," he says.

Another worry: Reliance on protective systems and automation has eroded some hand-flying skills for pilots. Some airlines have stepped up recurrent training.

Safety officials are also very wary of human sabotage and attacks. "If you're talking about an event that causes many deaths in U.S. aviation, I'd bet the next one will be caused by something deliberate rather than accidental," MIT's Mr. Barnett says. "I worry about the forces of evil, not the forces of nature and innocent mistakes."

ances and code-sharing partnerships, where one airline puts its own flight number on another carrier's flight and sells the other airline's seats to customers. Regulators require airlines to verify safety measures on partner airlines. That's forced small airlines to step up their maintenance, training and procedures to pass inspection by big partners.

Some experts credit the European Union's published "blacklist" of airlines considered unsafe for publicly pressuring carriers into improvements. The EU started publishing the list in 2006.

In addition, the International Air Transport Association began offering safety audits to airlines in 2003, and then made membership in the trade association contingent on passing a safety audit. More

than 400 airlines are now in IATA's safety-audit registry.

Here are a few other key changes in aviation that have made flying safer for passengers:

#### Safety nets built into aircraft.

Engine failure during takeoff used to be extremely dangerous. Now

planes can compensate and adjust automatically. Protective systems

also can quickly respond when

planes encounter wind shear, a

sudden change in direction of wind

that can make a plane sink.

#### Runway status lights and ground radar.

New systems and attention to the hazard have re-

duced runway incursions by about

90%, according to Arnold Barnett,

a Massachusetts Institute of Tech-

nology statistics professor and avia-

tion safety expert. Better warning

lights at intersections of taxiways

and runways have kept pilots from accidentally crossing in the path of planes taking off or landing.

Ground radar systems warn air-traffic controllers when a plane is about to cross in the path of another, too. Installation is expand-

ing. A runway monitoring system in Boston alerted controllers ear-

lier this month when a United 737

entered a safety area as a JetBlue

flight was close to landing.

Mr. Barnett thinks runway sys-

tems may be the biggest safety en-

hancement of the past few years.

#### Landing guidance systems.

Measuring the plane's speed, alti-

tude, weight and runway condi-

tions, these systems warn pilots

when they won't be able to stop

on the runway. The Flight Safety

Foundation did a study of landing

decision-making in March and

# SPORTS

**MLB**

## JONES, GUERRERO, THOME TOP HALL OF FAME CLASS

BY JARED DIAMOND

**FIRST-TIME** candidate Chipper Jones sailed into the Hall of Fame on Wednesday, appearing on more than 97% of the 422 ballots cast by eligible members of the Baseball Writers' Association of America. He'll be joined by Vladimir Guerrero (92.9%), Jim Thome (89.8%) and Trevor Hoffman, who sneaked in at 79.9% after finishing five votes shy of the necessary 75% last year.

Jones, a third baseman who spent all 19 seasons of his career with the Atlanta Braves, won the National League Most Valuable Player award in 1999 and made eight All-Star appearances. He retired with a .303 lifetime batting average, 468 home runs and an on-base-plus-slugging percentage of .930.

Born Larry Wayne Jones Jr., after his father, Jones earned the nickname "Chipper" because his family viewed him as a "chip off the old block." The moniker stuck for life. Fans of his biggest rival, the New York Mets, would frequently taunt him with chants of "Larry" when he came to town. Jones responded by naming one of his sons Shea, a tribute to the Mets' former home, the road stadium in which he hit more homers than any other.

Guerrero played his first eight seasons with the Montreal Expos before signing with the Anaheim Angels in 2004 and winning MVP in his first season. Known for his rocket-powered throwing arm in right field and his uncanny ability to consistently hit pitches well outside the strike zone, Guerrero hit .318 with 449 home runs. In one famous instance from a game in 2009, Guerrero blooped a single into left field—on a pitch that bounced before reaching the plate.

Thome, a burly first baseman who played the majority of his ca-

reer with the Cleveland Indians, blasted 612 home runs, the eighth-most in history. He reached 40 homers six times, including 52 in 2002, and surpassed 100 RBIs in nine seasons. Thome's 1,747 walks rank seventh all-time, which contributed to his .402 on-base percentage.

Before every pitch, Thome would point his bat out toward the pitcher, a timing mechanism modeled after Roy Hobbs, Robert Redford's character in "The Natural." Thome picked up the habit in the minor leagues at the recommendation of manager Charlie Manuel.

The Cincinnati Reds initially drafted Hoffman as a shortstop, his position in college at Arizona. But after he struggled to hit, the Reds converted him into a pitcher—a decision that made him a Hall-of-Famer. Hoffman arrived on the San Diego Padres in 1993 and quickly emerged into one of the best closers ever.

Despite a below-average fastball for much of his career, Hoffman relied on an elite changeup to record 601 saves, including 552 with the Padres. That ranks second all-time behind only Mariano Rivera, the legendary New York Yankees reliever who will first appear on the Hall ballot next year.

Besides the four who made the Hall, another player came tantalizingly close: Seattle Mariners designated hitter Edgar Martinez, who received 70.4% of the vote, up from 58.6% in 2017.

Martinez will return for his 10th and final year on the ballot in 2019; every player ever to cross the 70% barrier eventually made the Hall.

Meanwhile, Roger Clemens and Barry Bonds, two all-time greats whose candidacies have been tarnished by their suspected use of performance-enhancing drugs, saw little improvement from last year. They finished at 57.3% and 56.4%, respectively.

**Chipper Jones** spent all 19 seasons of his career with the Braves.

Tiger Woods hits a shot during the ProAm of the Farmers Insurance Open golf tournament at Torrey Pines on Wednesday.



ORLANDO RAMIREZ/REUTERS

**GOLF**

## Tiger Woods's Big Test

BY BRIAN COSTA

**NEVER IN THE** history of the sport has one golfer owned a course the way that Tiger Woods has owned Torrey Pines. The oceanfront, 36-hole course north of San Diego has been the site of eight of his 79 PGA Tour wins. It was the site of his last major championship, the 2008 U.S. Open. Even before he turned professional, Woods won his sixth Junior World title at Torrey Pines at the age of 15.

But with Woods making his 2018 debut there at this week's Farmers Insurance Open, it's not clear how much comfort his old stomping ground still has to offer him. For all the nostalgia his appearance brings, and for all his knowledge of the course, it's not the easiest place for a 42-year-old coming off years of serious back problems to thrive.

The South Course at Torrey Pines plays to a length of 7,698 yards, the longest on the PGA Tour. Woods, who once could out-drive nearly anyone, is far removed from being a bomber off the tee, at least relative to his peers.

The rough is also notoriously unforgiving. Hacking balls out of the thick stuff isn't exactly therapeutic for a fragile back.

The cool morning weather is no help, either. It was during a fog delay at Torrey Pines three years ago that Woods felt his back stiffen—his glutes "deactivated," he would say later—and ended up withdrawing from the tournament. The temperature is expected to be in the upper 50s when Woods tees off at 10:40

a.m. local time Thursday alongside Patrick Reed and Charley Hoffman.

The combination of a tough course and a full field makes the tournament a big leap from the warm, cozy, 18-player event where Woods returned in December. That much was evident a year ago, when after a similarly upbeat return at his tournament in the Bahamas, Woods missed the cut at Torrey Pines. He finished 4-over after two rounds.

"Now you come to a proper tournament, a proper golf course, serious rough and different weather conditions as well," said CBS analyst and six-time major champion Nick Faldo. "All those sorts of things will be, for me, part of the test to see what Tiger's got."

Faldo pointed to Woods's tendencies in his prime. He was never especially accurate when it came to hitting the fairway off the tee, yet he was often among the leaders in greens in regulation. Driving the ball into the rough at a place like Torrey Pines, for instance,

wouldn't stop him from getting on the green with his next shot. "I'll be fascinated to see if he can still do that," Faldo said.

It's not that Woods is doomed to stumble again this year. To the contrary, he is by all accounts far healthier, with his game in far better shape as a result, than he was last year at this time. It wouldn't be a total shock to see him in contention over the weekend.

But the degree to which Torrey Pines still suits him raises a larger question he will need to determine as he goes about setting up his

schedule: Which courses make the most sense for him to play or not play at this stage of his career?

That hasn't been a question at all in a long time. In his prime, Woods epitomized the phrase "horses for courses," the idea that certain golfers are especially well suited for certain courses.

Though he proved he could win just about anywhere, 42 of his 79 PGA Tour wins (53%) have come on just seven courses. Twenty-four of those wins, or 30%, have come at Torrey Pines, Bay Hill in Orlando and Firestone in Akron, Ohio. As a result, Woods's schedule was always fairly predictable, even as he sometimes delayed confirming where he would play.

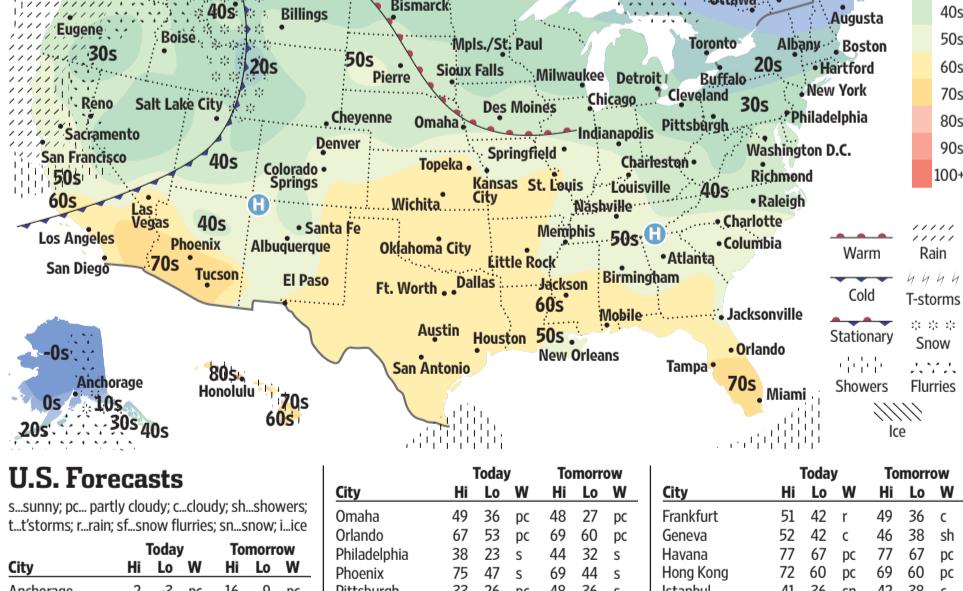
For now, he has announced only one more scheduled stop in 2018: the Genesis Open at Riviera in February, which is hosted by his charitable foundation. But the bigger question remains what kind of golfer Woods is, after barely playing at all in recent years.

"I think everyone is intrigued to see" how Woods fares, Rory McIlroy told reporters in Dubai on Wednesday. "Even scrolling through Instagram this morning and seeing some of the clips from yesterday, seeing how he's swinging, seeing how he's moving, I think everyone wants to see how he gets on."

After a fusion surgery last year that left him with a more stable but less flexible back, Woods is only beginning to learn how and to what extent he will need to reinvent his swing for the body he has now. "I'm winging this," he said last month.


**Weather**

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


**U.S. Forecasts**

s...sunny; pc...partly cloudy; c...cloudy; sh...showers; sn...snow; l...ice;

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

20s 30s 40s 50s 60s 70s 80s 90s

Today Hi Lo W Tomorrow Hi Lo W

City Anchorage 2 -3 pc 16 9 pc

Atlanta 57 34 s 58 44 pc

Austin 65 47 pc 67 56 sh

Baltimore 40 22 s 48 32 s

Boise 45 31 c 42 29 sf

Boston 29 18 s 32 28 s

Burlington 17 3 pc 23 22 pc

Charlotte 53 29 s 36 pc

Chicago 43 34 pc 53 40 pc

Cleveland 38 31 pc 52 42 pc

Dallas 67 49 s 63 58 pc

Denver 56 24 pc 43 20 c

Detroit 37 28 pc 47 41 pc

Houston 64 49 pc 66 56 c

Indianapolis 46 33 s 54 42 pc

Kansas City 59 43 s 58 31 pc

Las Vegas 63 38 pc 60 36 pc

Little Rock 61 33 s 54 49 c

Los Angeles 63 47 pc 66 46 s

Miami 74 66 pc 73 69 c

Milwaukee 39 33 pc 49 35 s

Minneapolis 36 32 c 44 27 c

Nashville 56 33 s 60 46 s

New Orleans 59 46 s 67 57 c

New York City 34 23 s 39 32 s

Oklahoma City 62 43 s 62 41 pc

**International**

Today Hi Lo W Tomorrow Hi Lo W

City Amsterdam 49 38 sh 51 35 c

Athens 50 39 pc 51 39 s

Baghdad 72 50 s 66 44 s

Bangkok 90 75 pc 91 78 pc

Beijing 25 4 s 27 10 s

Berlin 50 41 r 46 38 c

Brussels 49 39 pc 47 35 s

Buenos Aires 76 64 pc 82 67 s

Dubai 75 59 pc 78 62 pc

Dublin 46 34 sh 45 40 pc

Edinburgh 45 31 c 42 34 pc

Zurich 51 35 c 45 37 sh

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### The WSJ Daily Crossword | Edited by Mike Shenk



**FINALISTS** | By Ethan Erickson

- |  |                                      |                                      |
|--|--------------------------------------|--------------------------------------|
| <b>Across</b>                          | 24 In need of reconstructive surgery | 42 Stout string player?              |
| 1 Pack of plotters                     | 45 49ers coach Shanahan              | 46 Gets the word out?                |
| 6 Are crawling                         | 26 Quiet performance                 | 29 Panda Picasso?                    |
| 10 Wild in St. Paul, e.g.              | 33 Banana oil feature                | 47 According to                      |
| 14 Leonardo's love                     | 34 Meldable trumps in pinochle       | 49 Sentence ender, at times          |
| 15 Ice queen voiced by 27-Down         | 35 Fr. holy woman                    | 51 Rondeau trio                      |
| 17 Member of a cruise ship band?       | 36 Popcorn Factory buys              | 55 Letter after Delta                |
| 19 Eon makeup                          | 37 Settings for rugs                 | 56 Help while changing a flat?       |
| 20 Like the Tasmanian wolf             | 38 In but a twinkling                | 59 Huntsman in "The Flying Dutchman" |
| 21 Edit                                | 39 Onetime green card org.           | 60 StubHub's owner                   |
| 23 Org. that checks what isn't checked | 41 Flying Clouds, e.g.               | 61 Stocking stuffer                  |

► Solve this puzzle online and discuss it at [WSJ.com/Puzzles](http://WSJ.com/Puzzles).

63 Casse--brainteaser

64 Letter after November

65 Pave the way for

66 One might make counter revolutions

67 Grammatical concern

68 Visa alternative, briefly

69 Junk, say

70 Ruling parties

71 Isn't upright

72 Class ordeal

73 Samuel's mentor, in the Bible

74 Serpentine letter

75 Mathematical arrays

76 One might get thrown from a horse

77 Site of sites

78 It opened outside Paris in 1992

79 Wing-shaped

80 Isle east of the Little Minch

81 97.5% of a penny

82 Aussie runners

83 Tiki bar orders

84 James of "Gunsmoke"

85 Prime minister in Tokyo

## OPINION

## Republicans and Dreamers

WONDER LAND  
By Daniel Henninger

The White House and Republicans in Congress have been taking a victory lap—albeit one as small as a hamster wheel—because the Democrats blinked on forcing an immigration vote into the government-shutdown drama. Well, the Lord works in mysterious ways, and perhaps He is giving the Republican Party a last chance not to consign itself to the dustbin of history over the infernal immigration issue. President Trump, no doubt in consultation with Him, abruptly announced late Wednesday he'd be willing to let the Dreamers "morph into" citizenship. Smart move, a divine inspiration.

"DACA," incredibly, has become a household word, meaning that most people who vote have developed an informed opinion about the 800,000 or so Dreamers covered by the Obama-era order.

Public support for letting the Dreamers off the deportation hook sits between 70% and 80%. When polling numbers hit that level, the politics of an issue are usually over. Except, as always for Republicans, if the subject is immigration. Rarely has a political party fallen so deeply in love with a ball and chain.

Despite the Republicans' victory on the shutdown, one strong impression emerged from the weeklong debate. The Republicans conceded ownership of the Dreamers themselves to the Democrats. The realities of

Republican politics require that the Dreamers sit in the back of the bus, while the GOP's deputy sheriffs up front elevate the wall, E-Verify, sanctuary cities, exit-entry biometrics, etc.

Running alongside, the media had embarked on telling the sad story of maybe all 800,000 Dreamers, with videos of 30-year U.S. residents torn from sobbing families at the airport. Many of these family members, of course, by now are American citizens.

The publicity the shutdown fight gave the Dreamers may be altering the immigration issue. After this, the Trump 2016 election could turn out to be the peak for viable anti-immigration politics in most states.

President Trump has been on all sides of the Dreamer debate, including expressing sympathy during the campaign. But his tweets this week ran in one direction, accusing the Democrats of supporting "illegal immigrants." In effect, Mr. Trump handed over the Dreamers to the Democrats. Until he took them back Wednesday evening.

Republicans in Congress should take "so be it" for an answer and move on. As a bloodless proposition, the Republicans and Mr. Trump were setting themselves up for long-term political losses.

For about a decade, the *political* argument on the right for severe immigration restrictions has been that Republicans can stiff Hispanic voters and get away with it at the ballot box. That argument is eroding. It's not going to be possible in coming election cycles to overwhelm this issue with talk.

Mr. Trump complains routinely that he doesn't get

enough credit for defeating Hillary Clinton and the Democrats. He's right. But let us avoid the fallacy of allowing time's passage to turn the win into something bigger than it actually was. For the purposes of the imminent Washington battle over the Dreamers, consider two realities: Mr. Trump carried Florida, and its 29 electoral votes, by 1.2% of the nine million votes cast. He won Texas' 38 electoral votes with 52.4%. No Republican since Bob Dole has carried Texas by a smaller margin.

### The GOP's last chance to get past the immigration issue?

About 25% of Florida's population is Hispanic, and Pew estimates that between 2006 and 2016, Hispanics accounted for 88% of the growth in the state's registered Democrats.

The state estimates that nearly 300,000 U.S. citizens from Puerto Rico fled to Florida after Hurricane Maria. Some will stay, register and vote. You cannot, like King Canute, simply order this wave back to Puerto Rico.

Since 2010 the Hispanic population of Texas has increased in all but 11 of its 254 counties. Historically Republicans there have won 40% to 45% of the Hispanic vote, largely because Texans figured out immigrant assimilation a long time ago.

Political demographers project that after the 2020 census, Florida and Texas could gain two to three electoral votes. Those aren't battleground

states. They'll be Armageddon states. Other states that may gain one electoral vote after 2020 include Arizona and Colorado, also with growing Hispanic populations.

If Florida turns as reliably blue as California and New York, Republicans, starting with Donald Trump, may never win another presidential election. A Republican candidate would have to run the electoral table across the Midwest. But states that may lose one of their electoral votes include Pennsylvania, Ohio, Michigan, West Virginia and Minnesota.

If the Democrats nominate Joe Biden, their current frontrunner in opinion polls, the "Scranton Scrapper" would likely take back at least one of Mr. Trump's tipping states: Pennsylvania, Michigan or Wisconsin. Meanwhile, Mr. Trump got only 27% of the Asian vote.

Loading up the party's future on this issue makes no sense. Hispanic Americans, until now, haven't automatically been Democratic voters. But if Republicans let their messaging in the next two months of high-visibility negotiating turn them into the anti-Dreamer party, they could hand over enough immigration-sensitive votes in swing states and congressional districts to lose elections—and Supreme Court nominations—for a long time.

In his GOP intervention Wednesday, Mr. Trump said: "I think it's a nice thing to have the incentive of, after a period of years, being able to become a citizen." The White House has it right on this one: He makes the call.

*Write henninger@wsj.com.*

BOOKSHELF | By Jason Willick

## Playing For Keeps

## How Democracies Die

By Steven Levitsky and Daniel Ziblatt (Crown, 312 pages, \$26)

**T**hink of democratic politics as a pickup basketball game. "To ensure future rounds of the game," write Harvard political scientists Steven Levitsky and Daniel Ziblatt, "players must refrain from either incapacitating the other team or antagonizing them to such a degree, that they refuse to play again tomorrow." If one team comes to play intending to wipe out its opponent, players will cheat and foul in an escalating cycle sure to end with blood on the court.

This unconstrained style has been the norm in politics in most countries for most of history. Competitors for political power are naturally inclined to play for keeps, using every tool at their disposal to force rivals to their knees. Peaceable competition—where opposing parties play by the rules and recognize the legitimacy of each others' wins and losses—

requires an accumulation of trust and goodwill that only takes place under specific circumstances.

In "How Democracies Die," Messrs. Levitsky and Ziblatt investigate the way these conditions can be lost: How do the invisible rules of constitutional democracy evaporate in places where they once seemed secure, bringing orderly competition to an end? Much of the book treats this question informatively by offering historical portraits of democratic dissolution, focusing especially on pre-World War II Europe and postwar Latin America.

In polarized societies, the authors note, brinkmanship by one party tends to prompt a retaliatory response by the opposition, which in turn leads to even more hard-line tactics. Under certain circumstances, the process can snowball until rivals view one another as illegitimate, opening the door to measures that entrench power in a single party and make competition impossible. The book lists several mechanisms for this: "capture the referees" (such as by packing courts); "sideline at least some of the other side's star players" (by prosecuting political opponents); and "rewrite the rules of the game" (by changing campaign-finance laws).

Democratic dissolution is usually a reciprocal process—a staring contest between two mistrustful factions making increasingly maximalist demands. Spain's young democracy collapsed in the 1930s, the authors note, because the right perceived the new republican government to be under the influence of "bolshvezing foreign agents," even as the left perceived conservatives to be "monarchist or fascist counter-revolutionaries." With these mutually reinforcing perceptions, the stakes grew too high for the norms of "mutual toleration and institutional forbearance" to survive.

## Two liberal political scientists offer an unintentionally clarifying lesson in how democratic polities unravel.

In the 1940s, in Argentina, President Juan Perón faced off against an opposition bent on "obstruction and provocation" which called for seizing power from him by extra-constitutional means. Besieged, Perón accelerated his efforts to consolidate power and ultimately became a tyrant. In the 1970s, Chile's democracy likewise perished amid a showdown between two factions—but in that case it was the opposition party that, in 1973, ultimately liquidated the Salvador Allende government and opened the door to Augusto Pinochet. Another case of democratic collapse in Latin America, incidentally, was set off when Ecuador's legislature threw out president Abdalá Bucaram in 1997 on sham charges of "mental incapacity."

The key lesson to take from these examples is that it is poisonous in a democracy to treat rivals as "treasonous, subversive, or otherwise beyond the pale." This kind of approach produces an institutional death match that explodes rule-based politics. It's unfortunate, then, that Messrs. Levitsky and Ziblatt proceed to do just that when it comes to one of America's major parties.

According to the authors, for example, Sen. Ted Cruz of Texas helped lay the groundwork for authoritarianism when he said that President Barack Obama's use of executive power was a "threat to the rule of law"; by contrast, they present similar Democratic pronouncements about President Donald Trump as heroic. GOP exercises in "constitutional hardball," such as holding open a Supreme Court seat for nine months before an election, are portrayed as profoundly damaging to democracy. While Democrats are chided for some hardball tactics, other gambits like attempting to filibuster Neil Gorsuch's nomination to the Supreme Court are deemed unworthy of mention. The authors dismiss the years of investigations into Clinton administration scandals as conspiracy-mongering; investigations into Trump, on the other hand, are crucial exercises in democratic accountability.

So dire is the current situation that, Messrs. Levitsky and Ziblatt say, the Republican Party may need to be "refounded." They cite the formation of the German center-right party out of the ashes of Nazism as an example to follow.

The chief purpose of this book, however, is to alert the public about the unique threat President Trump ostensibly poses to democracy. The authors observe, rightly, that he admires strength and often seems to wish that he could act like one. The authors provide a "litmus test" for proto-authoritarians, and suggest that Mr. Trump fulfills numerous criteria, including a willingness to "reject the Constitution" and a tendency to "baselessly describe . . . partisan rivals as criminals." But look closer at their list, and you'll see it also includes such items as "denial of the legitimacy of political opponents" and a brazen willingness to "suggest . . . rivals are foreign agents." These certainly seem to apply to members of the anti-Trump "resistance," whom the authors present as protectors of democracy. The opposition, too, is participating in the process of democratic norm violation.

The authors argue, with good evidence, that democracies aren't destroyed because of the impulses of a single man; they are, instead, degraded in the course of a partisan tit-for-tat dynamic that degrades norms over time until one side sees an opening to deliver the death blow. Donald Trump is not a dictator. But it's impossible to read "How Democracies Die" without worrying that our collective decay of democratic norms may open the door to one down the line—perhaps even one of an entirely different ideological persuasion.

*Mr. Willick is an assistant editorial features editor at the Journal.*

## The Aftermath of Schumer's Shutdown

By Karl Rove

**T**he swiftness with which events erupt in Washington and then disappear is enough to raise doubts about Einstein's theory that nothing moves faster than the speed of light. Senate Minority Leader Chuck Schumer ought to hope his latest gambit vanishes quickly, too.

On behalf of a seemingly united Democratic Party, Mr. Schumer threatened to shut down the government unless Congress passed a fix for Dreamers, undocumented immigrants brought here as children. Three days later, Mr. Schumer caved.

Democrats were in fact neither united nor in possession of a strategy to back up the threat. Now the anger among progressives at Mr. Schumer for giving in may boost left-wingers in House primaries, making it more difficult for Democrats to win swing districts in November.

Mr. Schumer should have remembered that, at least in the short run, whoever causes a shutdown loses. In 2013 Republican Sen. Ted Cruz convinced the GOP House it could defund ObamaCare. Republicans took the blame for the subsequent shutdown, since it was obvious to the media and voters that they lacked any strategy to force Democrats' hand. Mr. Cruz yielded, and the GOP's numbers tanked.

## Whoever closes the government loses, at least in the short run. Ask Ted Cruz.

made support for the shutdown a principal campaign issue. Then as now, most voters don't think there's ever a good reason to shut down Washington, even if they agree with the policy it is supposed to achieve.

A Jan. 19 Harvard/Harris poll found 58% of voters opposed "Democrats voting to shut the government down" over work permits for Dreamers. CNN's Jan. 18 survey found 56% of adults believed "approving a budget agreement that would avoid a government shutdown" was more important than "passing legislation to maintain the program which allows immigrants brought to the U.S. illegally as children to remain in the U.S." This is why nine of the 10 Democratic senators up for reelection in states President Trump won in 2016 voted to reopen the government.

In the Harvard poll, only 20% of voters thought they would get a tax cut in 2018, while 30% said they wouldn't and 50% didn't know. Yet 65% believed taxes should be

lowered. Maybe the talk in the past month of bonuses and raises is why the Democrats' advantage on the generic 2018 ballot has narrowed from 13 points just before Christmas to 7.8 points now. That gap could close further when the new withholding rules go into effect in February, directly increasing millions of workers' paychecks.

In the summer of 2017, according to a Washington Post/ABC poll, a majority of adults said that rather than "standing for something," the Democratic Party "just stands against President Trump." It's hard to believe much has changed in the past six months. This suggests Democrats would benefit from finally developing an agenda—something very difficult for a party so obsessed with opposing Mr. Trump that it often seems unable to think straight.

Monday's vote to reopen the government temporarily ended the confrontation and postponed the reckoning. When short-term funding runs out Feb. 8, both parties have an interest in settling the budget and acting on immigration. Voters are sick to death of this mess.

*Mr. Rove helped organize the political-action committee American Crossroads and is the author of "The Triumph of William McKinley" (Simon & Schuster, 2015).*

## Stop Politicizing the Courts

By Allysa Finley

**B**efore this year's Australian Open, the 26-year-old American Tennis Sandgren ranked 97th in the world and had never won a Grand Slam match. On Monday he defeated fifth seed Dominic Thiem in five sets and became the first American man since 2010 to reach the quarterfinals.

The Tennessee native lost Wednesday, after taking a much worse pounding from journalists. When one reporter learned he was a Trump supporter, others started digging. Poring over his Twitter account, reporters found that he followed people who'd attended alt-right rallies. A November 2016 tweet appeared sympathetic to an anti-Hillary Clinton conspiracy theory. He had also called Serena Williams' cursing an opponent "disgusting"—deemed a racist microaggression.

But Mr. Sandgren never tried to politicize tennis, and he also followed celebrities like actor Hugh Jackman and the band Metallica.

During his postmatch press conference Monday, Mr. Sandgren vehemently denounced the alt-right and acknowledged that some of his

Journalists hound an American tennis player over his tweets.

fake-news tweets were ill-informed. "I think it's crazy to assume that, to say, 'Well he's following X person so he believes all the things that this person believes,'" he said. "That's not how information works."

By Tuesday morning, he had deleted all of his tweets since June 2016, no doubt concerned about his ability to score endorsement and

sponsorship deals. But his opponents persisted. An ESPN interviewer lobbed questions about his deleted tweets.

The off-court onslaught may have contributed to his mental fatigue during his quarterfinal match. In the press conference after his loss, he went on offense with a statement blasting reporters for distorting the truth "to create sensationalist coverage."

"You seek to put people in these little boxes so that you can order the world in your already assumed preconceived ideas," he said. "You strip away any individuality for the sake of demonizing by way of the collective. With a handful of follows and some likes on Twitter, my fate has been sealed in your minds."

He continued: "You would rather perpetuate propaganda machines instead of researching information from a host of angles and perspectives while being willing to learn, change, and grow. You dehumanize

with pen and paper and turn neighbor against neighbor. . . . It is my firm belief that the highest value must be placed on the virtue of each individual, regardless of gender, race, religion or sexual orientation."

Maybe the lack of drama on court nowadays drives the press to histrionics off court.

Earlier in the tournament a reporter asked Nick Kyrgios—an Australian player who shares an agent with Colin Kaepernick—to opine on the quarterback's "not being signed by an American football team this season." Mr. Kyrgios rejoined: "We're at the Australian Open, man." Mr. Sandgren's hazing is just another example of the media's herd mentality and politicization of sports journalism. Can't people enjoy a tennis match without ideological interference?

*Ms. Finley is a member of the Journal's editorial board.*

## OPINION

## REVIEW &amp; OUTLOOK

## Making the Dollar Weak Again

The Trump Administration contains dueling economic impulses good and bad, and this week we've seen the bad. First President Trump imposes tariffs on solar cells and washing machines, and a day later Treasury Secretary Steven Mnuchin decides to talk down the dollar.

"A weaker dollar is good for trade," Mr. Mnuchin said from Davos, Switzerland on Wednesday, and the greenback promptly tumbled to a three-year low against a basket of other currencies. The one-two punch of protectionism and devaluation also sparked a rally in gold to its highest level since August 2016.

What a spectacle: The man whose signature is on the greenback tells the world he wants its value to be lower so the U.S. can beggar its neighbors on trade. Mr. Trump has also said he favors a weak currency, and the buck has fallen some 8% in his first year.

Someone ought to tell these fellows the history of strong- and weak-dollar presidencies. The weak include Jimmy Carter, Richard Nixon and George W. Bush. The strong include Ronald Reagan and Bill Clinton. Perhaps Mr. Mnuchin aims to follow Michael Blumenthal, who held the Treasury job in the Carter Administration. His weak-dollar lobbying, along with an easy money policy at the Federal Reserve, led to a collapse of the dollar of more than 20% between January 1977 and October 1978 that fed higher inflation and elected Reagan.

Britain has repeated the experiment since it voted to exit the European Union in June 2016 and the central bank responded to economic

weakness by cutting interest rates and more quantitative easing. By October the pound had reached a 31-year low. Inflation rose and wages stagnated, contributing to the Tory election embarrassment last year.

## Mnuchin and Trump want to reduce U.S. purchasing power.

A weak dollar makes the U.S. worse off because Americans don't live in an economic bubble. They buy from abroad because other countries make things Americans want or need. U.S. manufacturers import components to produce value-added goods like machinery and aircraft that are exported. Dollar devaluation makes those imports more expensive, which undermines competitiveness vis-a-vis foreign rivals. Commodities like oil and copper are traded in dollars so a weak dollar requires more of them. This is good for dictators in places like Venezuela. For Americans, not so much.

Devaluation can make the trade deficit look better for a time and there is often a short-term gain for corporate income statements. But it's ultimately a fool's game because the underlying terms of trade don't change. Companies and prices adjust and, in David Ricardo's classic formulation, one bottle of wine still equals 10 loaves of bread.

Mr. Mnuchin's comments are all the more baffling because he and the Administration should be riding high. The U.S. is growing faster than it has in 12 years as deregulation and tax reform boost business and consumer confidence. Capital that was sidelined during the Obama years is being put to work. Unemployment is at historic lows. Why mess it up by imitating the economic policy of Argentina?

## A Biofuels Bankruptcy

The East Coast's biggest refinery filed for Chapter 11 bankruptcy protection on Sunday, and Philadelphia Energy Solutions puts the blame with the federal government's biofuels policies. The refinery's workers are justified in asking why the Trump Administration failed to spare them when it had the chance last fall.

For more than a decade, the Environmental Protection Agency has used compliance credits, which are created when fuel is blended, to enforce ethanol quotas. But independent refiners like Philadelphia Energy Solutions specialize in manufacturing fuel, not blending it, so the federal government requires them to buy credits to meet the mandate.

In 2017 meeting this regulatory burden cost Philadelphia Energy Solutions more than twice as much as payroll and about 1.5 times more than its average annual capital expenditures. Since 2012 the refinery has spent \$832 million on credits. "The whole reason we're filing for Chapter 11 is that this is a massive expense," said CEO Gregory Gatta.

No sympathy from Bob Dinneen, chief executive of the Renewable Fuels Association. He said in a statement this week that Philadelphia Energy Solutions should have simply gotten into the blending business, but "it chose a different

course, slavishly pursuing a change in the law that fit its flawed business model."

Mr. Dinneen and his members are the beneficiaries of the regulatory status quo. The government subsidizes biofuels and compels consumers to buy them. Refiners, on the other hand, are subject to the demands of bureaucrats and the market. Purchasing credits keeps the feds at bay, but it wastes cash that could otherwise be put to productive use.

With Scott Pruitt at the helm, the EPA contemplated reforming its renewable fuel standards. But after pressure from the ethanol lobby and corn-state politicians, the Trump Administration announced in October that it would leave bad enough alone.

That decision baffled Ryan O'Callaghan, president of United Steelworkers Local 10-1, which represents hundreds of Philadelphia Energy Solutions workers. "We thought President Trump was going to protect manufacturing jobs, and that's what a refinery does," he said. The renewable fuel standards are "like a lead weight around the company," he added, and "we want the President to live up to his word."

This week's bankruptcy filing imperils the refinery and Mr. Trump's blue-collar support in Pennsylvania.

## The renewable fuel standards suffocate a Philadelphia refiner.

## Testing Trump in Syria

The U.S. and its allies have all but defeated the Islamic State in Syria, but the Trump Administration is in danger of squandering the strategic gains. Witness the unfolding fiasco there, with invading Turkish forces battering America's Kurdish allies and threatening an area close to U.S. troops. This is what comes of muscular talk without the will or strategy to enforce it.

President Trump spoke by phone to Turkish President Recep Tayyip Erdogan on Wednesday, and it must have been tense. Mr. Erdogan's troops are pounding Kurdish positions in northern Syria, and on Wednesday he threatened to attack the city of Manbij, where U.S. forces are based. Mr. Erdogan is vowing to clear the Kurds out of those enclaves, and the danger is that U.S. and Turkish soldiers, two NATO allies, could soon clash.

Mr. Erdogan claims to be furious at U.S. media reports that the Pentagon plans to train a 30,000-troop Kurdish-led force in northeast Syria that he claims is aligned with the terrorist Kurdish PKK. The U.S. has tried to soothe Mr. Erdogan that the Kurdish border force would pose no threat.

But Secretary of State Rex Tillerson confirmed in a speech last week that the U.S. does plan to keep some military force in Syria for the foreseeable future. The goal is to support the Kurds and Sunni Arabs who fought with us against ISIS, block Iran from dominating post-ISIS Syria, and retain some leverage in talks to end the Syrian civil war. U.S. forces would turn the Syrian Democratic Forces (SDF), including Kurds and Arabs, into a "stabilizing" force.

The idea has merit. The U.S.-backed Kurdish People's Protection Units in Syria, known as the YPG, fought valiantly to defeat the Islamic State and deserve training and protection until they can protect themselves. So do local Arab groups who fought alongside the SDF.

Turkey would also benefit from a stable border zone supervised by U.S.-backed forces. Ankara has accepted millions of refugees during the Syrian civil war and doesn't need more. A Kurdish safe zone, rich with energy resources,

could also create goodwill between Ankara and the Kurds.

The question is whether the Trump Administration is prepared to do what it takes to execute such a policy. That would mean explaining to Mr. Erdogan, at the highest military and diplomatic level, how this can serve Turkey's interests in a more stable Syria. This seems to have been a diplomatic afterthought for team Trump.

It would also mean dropping illusions about Russia's malign influence. Messrs. Trump and Tillerson seem to believe that Russia wants to broker an end to the war—and it does, but only on its terms. If America's Kurdish and Sunni allies control no territory in Syria, the U.S. might as well be Guatemala in the peace talks.

Speaking of malign, Russia continues to provide political cover for chemical-weapons use in Syria, almost certainly by Bashar Assad's forces. Another chlorine gas attack occurred Monday in the rebel stronghold of East Ghouta.

Russia dismissed the reports, which is convenient because late last year it blocked an extension for the U.N. group investigating such claims. Russia is also supporting Mr. Erdogan's military campaign against the Kurds, the better to embarrass the U.S. for not being able to defend its allies.

All of this is setting up Mr. Trump for an Obama-sized strategic embarrassment. The President showed resolve in punishing Assad for his chemical attack last year and by stepping up the military campaign against Islamic State. That signaled to the region's bad actors that the days of American retreat might be over.

But now that the U.S. and Kurds have done the dirty work, Russia, Syria, Turkey and al Qaeda want to push the U.S. out. If they succeed, Mr. Trump will pay a price in lost credibility on par with Mr. Obama's failure to enforce his famous red line on chemical weapons. The White House has to show the diplomatic and military will to sustain a safe zone in Syria, or tell our allies they're on their own so they can make their accommodations with the bullies of Ankara, Tehran and Moscow.

## Turkey, Russia and Iran want to push the U.S. and its allies out.

## LETTERS TO THE EDITOR

## Immigration Offers the U.S. No Free Lunch

Though I usually agree with many of Neel Kashkari's ideas, his thoughts on boosting economic expansion through encouraging mass population or immigration growth miss the mark ("Immigration Is Practically a Free Lunch for America," op-ed, Jan. 19).

Our critical focus should really be on how to attain per capita economic growth, not simply mass population growth or higher gross GDP variables. Only productivity growth can achieve this objective. If we strive, as Mr. Kashkari says, to simply bring in more people, but the average U.S. citizen does not personally gain from that growth, it is a Faustian bargain and likely will place excessive strains on our already overburdened infrastructure and systems.

Everyone must agree that there will come a point where neither the earth nor the U.S. can support the addition of one more person without calamity. Will that be next year or in 200 years? No one can say. We should achieve higher GDP growth by focusing on productivity and per capita growth rather than just population growth and meet this challenge on our own terms. Current population trends show that the vast majorities of our immigrant populations already end up in overcrowded cities and, unlike the 1880s when we were an underpopulated country, today we have less ability to deal with overcrowding, which results in crime, pollution, traffic and water shortages.

Every species in history that has experienced this kind of exponential population growth, whether lemmings or locusts, has suffered mass annihilation because of the inability to control their populations. The answer to improving the human condition isn't necessarily more humans, and the answer for improving U.S. economic growth isn't simply more people.

We need smart immigration that is beneficial to Americans, and the key to smart immigration policies is to rigorously screen for immigrants that are accretive to America. Therefore,

future immigration policies should be colorblind but based on an objective criteria of merit. Newcomers should have high education, a history of achievement, capital to invest in our economy and the ability to assimilate with American values. Almost all organizations endeavor to hire on the principle of finding the best person who can make the best contribution. The fact that we can't seem to do this as a country boggles the mind.

FRANK R. BERLAGE  
CEO/Managing Director  
Multilateral Partners  
Global Advisory Group L.L.C.  
La Jolla, Calif.

The real crux of the matter in the current debate about immigration is: Does the U.S. get to decide who will be allowed to immigrate or will we essentially have open borders? Other nations have systems for determining which immigrants can make a meaningful contribution and who won't become a public burden.

We can have the same system without granting amnesty to the millions who have given themselves permission to enter the U.S. unlawfully.

STEPHEN WEEKS  
Houston

What Mr. Kashkari fails to account for in the economic-growth equation is that while immigrants like myself have historically contributed to economic growth because they were encouraged to, the opposite is true today. Immigrants coming to America in the first 200 years had no choice but to work or starve. Immigrants haven't changed; this nation has with its "free" services, and until the system changes, President Trump's wall is needed as an economic guardian.

ELI LITMAN  
Las Vegas

Mr. Kashkari omits the word "legal" in his article.

B.J. KHALIFAH  
Grosse Pointe Park, Mich.

## (Ear)Marks of Death for the Republican Party

Rep. Mark Walker is correct ("GOP Maps a Road to Nowhere in November," op-ed, Jan. 16). If Senate and House Republicans allow for the resumption of earmarks, they will be turned out of Congress and spend many years in the political wilderness. As a Senate staffer who worked for over two decades in that chamber, dealing with earmarks was a royal pain. They were a large distraction in the appropriations process, drove up spending and in more cases than not were out of sync with federal programming. Earmarks were wants, not needs.

In Sen. Jesse Helms's office, where I worked, we asked every requester to go to a private-sector financial institution first because they would be dealing with a lot fewer people and they would, in many, many cases, get

their funds faster if there was financial and economic justification. We asked them do you really want to go through a process where your funding committee would have 535 House and Senate members, plus staff. Private-sector funding is always the best place to go.

Additionally, House and Senate appropriation committees always got first dibs, and if your member wasn't on the committee, he or she would get the leftovers. Constituent groups would hire expensive lobbyists to help them secure an earmark, and their overhead costs would be greater in some instances than the amount they sought.

I hope Senate and House Republicans will follow Rep. Walker's advice.

WAYNE RONALD BOYLES III  
Alexandria, Va.

## Stanford White's Buildings Are Still Inspiring

Harold Schechter's otherwise informative review of Simon Baatz's "The Girl on the Velvet Swing" (Books, Jan. 13) concludes with the politically correct observation that the new book, a retelling of the Stanford White-Evelyn Nesbit-Harry K. Thaw entanglement, is likely "[i]n our post-Weinstein present . . . to leave readers, particularly New Yorkers, with complicated feelings about beloved landmarks like the Washington Square Arch, knowing that the artist who created them was a sexual predator with pedophilic tastes."

Mr. Schechter's characterization

notwithstanding, this New York native has no complicated feelings whatsoever in his admiration for the work of the supreme architectural genius of the American Gilded Age. Are "Tristan und Isolde" or "The Ring" operas any less magnificent because their creator was a rabid anti-Semite? Is the Rev. Dr. Martin Luther King Jr. any less a saint because he is a documented plagiarizer and philanderer?

The human, especially the exceptional specimen, is a complex, often contradictory and ambivalent creature.

HOWARD CHARLES YOUNG  
New York

## Those Dead, White Males Still Influence Us

In "Studying Western Civilization in the South Bronx" (Cross Country, Jan. 13), Jillian Kay Melchior reports the now well-known objection to learning in these courses only about "dead white dudes" in the Western canon. What is consistently lost in this discussion is the reason for studying this subject in the first place.

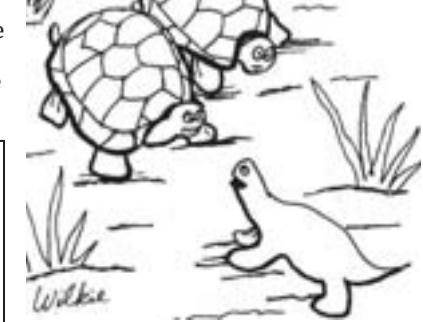
If one were to construct a course on American presidents, the ones studied would include those who had the greatest impact, served during challenging times, or made difficult decisions that are still felt by us today. The course wouldn't select one president from a northern state and one from a southern state, one who was right-handed and one who was left-handed, one who was tall and one who was short, to ensure representation of all demographics. Most people can name the presidents who had the

greatest impact on our history. There is a reason we study Lincoln and FDR but not Taft or Harding, even though Taft was the heaviest president and Harding had the largest shoe size. That's why we continue to study William Shakespeare and not Chinua Achebe.

SAM L. TEICHMAN  
Oakland, Calif.

## Pepper ... And Salt

THE WALL STREET JOURNAL



"It was time to downsize."

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## OPINION

# 'Collusion,' Then and Now

By Ted Van Dyk

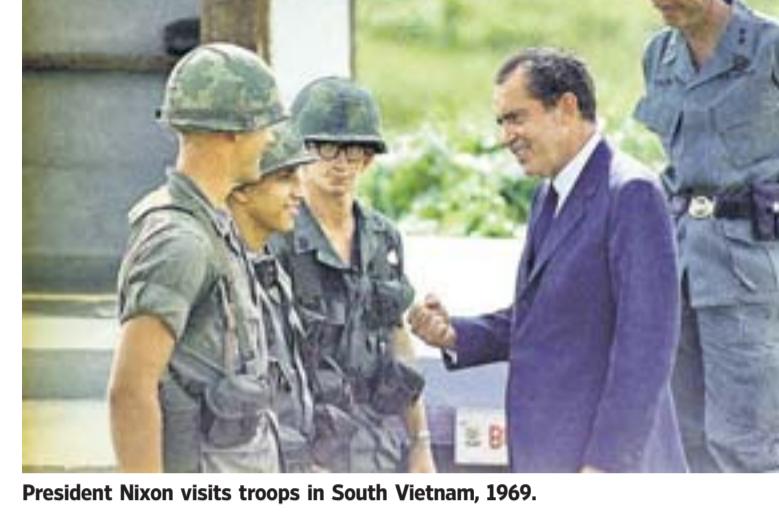
**T**ear him for his bad verses!" the crowd roars in Shakespeare's "Julius Caesar," mistaking the poet Cinna for a conspirator. There are myriad reasons to be angry with President Trump's performance. Based on the publicly available evidence, however, the least of them is "collusion" with Russia to influence the 2016 election. The media and even congressional investigators seem to misunderstand how presidential campaigns and transition teams interact with foreign governments.

Real collusion took place in October 1968, when Republican nominee Richard Nixon directed Anna Chennault, his campaign co-chairman and a longstanding Asia hawk, to intervene with the South Vietnamese government to stop peace negotiations

**The Trump-Russia conspiracists simply don't understand how political campaigns work.**

with North Vietnam. Ms. Chennault urged Saigon to boycott the talks because Nixon would continue to support the South Vietnamese war effort, whereas his Democratic opponent, Vice President Hubert Humphrey, had said he'd end the war in 1969.

The White House learned of the initiative through intelligence intercepts. President Lyndon B. Johnson convened his national-security advisers to determine his response. Principally on the advice of Defense Secretary Clark Clifford, he decided to do nothing. Humphrey did not denounce the Nixon intervention publicly, presuming Nixon would call it a last-minute election lie. He did, however, issue a strong statement two days



ASSOCIATED PRESS

President Nixon visits troops in South Vietnam, 1969.

before the election stating that if the South Vietnamese government refused to come to the table, he would negotiate a peace without them. Nixon won narrowly, and the war continued.

The collusion became public early in 1969, but Nixon paid no price. Critics discussed invoking the Logan Act of 1799, which prohibits diplomacy by private citizens. But Logan Act violations are almost never prosecuted, and Nixon, as president, could easily have avoided its application.

In 1996 President Clinton received millions in re-election campaign contributions from an Indonesian consortium and from Asian-American fundraisers thought to be receiving the money from Chinese intelligence agencies. The fundraisers were prosecuted for campaign-finance violations, but nothing happened to Mr. Clinton. There was, in any case, no apparent policy payoff for the campaign money.

There seems little doubt that before Mr. Trump ran for office, he and his associates, possibly including family members, had business dealings with Russians and other offshore players. We know that 2016 campaign figures, some important and some

marginal, were in contact with Russians during the campaign year. But did they receive campaign money or collude with the Russian government to influence the outcome? Were policy favors promised? Did the candidate direct them to have the meetings or know about them?

I was Humphrey's assistant in 1968 and served in senior policy and political roles in several subsequent Democratic presidential campaigns. I often met with foreign ambassadors and other representatives, mainly to clarify my candidate's campaign positions. No money or favors ever were sought, offered or received from their governments. At times, however, campaign advisers or would-be appointees embarrassed the campaigns by undertaking foreign contacts on their own—most often to enhance their own importance and exposure.

And there was the occasion in 1972 when Pierre Salinger, who'd served as JFK's press secretary, contacted North Vietnamese peace negotiators in Paris without candidate George McGovern's authorization. A marginal Trump adviser, George Papadopoulos, might well have gotten the Trump campaign into trouble in a similar way.

Presidential campaigns generally consist of the candidate, a handful of close advisers and staff, and a small army of organizers, advance people, media consultants, and others. They're thrown together temporarily in a quasi-wartime environment. There is always a certain amount of chaos—and occasional individual misconduct.

Early in the 1964 presidential campaign, President Johnson was embarrassed by the arrest of his chief of staff, Walter Jenkins, for disorderly conduct in a YMCA restroom. Johnson responded by ordering FBI investigations of all campaign staff. It fell to me to administer the clearances of Humphrey's vice-presidential campaign staff, mainly Washington attorneys and regulars. I sent a memo to all suggesting that anyone not wishing FBI vetting should simply resign. To my surprise, some 20% quit.

The Trump campaign and transition were characterized by high personnel turnover and glitches generated by an ignorant and inexperienced candidate and senior staff. The Trump White House and cabinet, especially in national-security roles, have shown greater professionalism. But Mr. Trump and his closest associates, a year later, remain less at home in the White House than any modern president and his team.

Mr. Trump has been guilty of many "bad verses," in Shakespeare's phrase, but none thus far that have reflected any collusion with Russia. Perhaps such collusion will be proved at the end of the special counsel and congressional committee inquiries. But until that happens, critics would be well served to muffle public cries for impeachment. This polarized country needs evidence that due process and the rule of law still prevail.

*Mr. Van Dyk was active in Democratic national policy and politics for 40 years. He is author of "Heroes, Hacks and Fools" (University of Washington Press, 2007).*

## The Case For Tactical U.S. Nukes

By Matthew Kroenig

**T**he Trump administration's Nuclear Posture Review isn't yet public, but it is already under political fire. After a draft of the document leaked last week, critics were horrified that it proposed the U.S. build "new" nuclear weapons. Some even suggested that a push to expand America's nuclear capabilities is of a piece with President Trump's reckless personality that risks getting us all killed in a nuclear war.

These criticisms are misguided. America's nuclear weapons have underwritten international peace and stability for more than 70 years. As the world enters a second nuclear age, the U.S. needs to strengthen its posture accordingly to protect itself and its allies.

**'It's best not to mess with us,' Putin has said. 'Russia is one of the leading nuclear powers.'**

North Korea is the nuclear threat in the news, but Russia may pose an even bigger strategic challenge. As Moscow has turned aggressive, intervening in Ukraine and Syria, its strategy has come to rely more heavily on nuclear weapons. In the event of a major war with the North Atlantic Treaty Organization, even one that Russia starts, its plans call for "de-escalatory" nuclear strikes. That is, Vladimir Putin would order limited nuclear attacks early, so as to frighten the U.S. into ending the conflict on terms favorable to Moscow.

Russia backs this strategy with thousands of tactical nuclear weapons designed for battlefield use. Many have yields under one kiloton, or less than a tenth of the Hiroshima bomb. They include esoteric munitions like nuclear torpedoes and depth charges. Moscow is also building a ground-launched cruise missile that violates the 1987 Intermediate-Range Nuclear Forces Treaty.

Imagine this scenario: Much like it did in Ukraine, Russia invades Estonia. The U.S. comes to the defense of its NATO ally, but as American troops flow forward, Russia uses a tactical nuclear weapon on a U.S. carrier group in the Baltic Sea, killing a few thousand. If you were president, how would you respond?

The strategy is meant to force a choice, as Henry Kissinger put it decades ago, between "suicide and surrender." The U.S., which lacks commensurate tactical nuclear weapons, could retaliate with one of its big ballistic missiles or strategic bombers, risking a full-scale nuclear exchange and a global holocaust. Or the U.S. could back down, losing the war and shredding the credibility of its defense commitments.

Even if this scenario never materializes, Moscow can use a threat of limited nuclear war to coerce NATO. "It's best not to mess with us," Mr. Putin said at the height of the crisis over Ukraine. "Russia is one of the leading nuclear powers."

The way out of this "suicide or surrender" dilemma is for the U.S. to have its own strategy for limited nuclear strikes. Mr. Putin must know that using one or two low-yield weapons is not a path to victory but a way to guarantee that one, two or three such weapons will be coming right back at him. The point is not to fight a limited nuclear war, but the opposite: to deter Mr. Putin from going down this path in the first place.

Unfortunately, the U.S. lacks the tactical nuclear weapons needed to make this strategy credible. Unlike Russia, America dismantled most of them at the end of the Cold War. A couple of hundred gravity bombs remain, but they would need to be delivered by aircraft that have little chance of penetrating Russia's sophisticated air defenses.

What the U.S. needs is other options: low-yield nuclear cruise missiles or ballistic missiles that can be launched by submarines. This is exactly what the draft Nuclear Posture Review calls for.

Since Russia already has similar capabilities and more, building these systems would hardly start an arms race. Besides, the U.S. had submarine-launched nuclear cruise missiles as recently as 2010, when President Obama retired them.

It would be nice if the U.S. could dismantle its nuclear arsenal altogether. But as long as the world is filled with aggressive nuclear-armed adversaries, America needs to maintain a potent deterrence.

*Mr. Kroenig, a professor of government at Georgetown and a senior fellow at the Atlantic Council, is author of "The Logic of American Nuclear Strategy," out Feb. 22 from Oxford University Press.*

## Can Zimbabwe Rise From Mugabe's Ruins?

By Craig J. Richardson

**Z**imbabwe, once the jewel of Africa, may be regaining some of its luster. Though it's easy to be cynical about regime change in Africa, President Emmerson Mnangagwa, sworn in Nov. 24, appears to mean business.

It's been a long time coming. For decades Zimbabwe's people suffered through miserable privation. Former President Robert Mugabe, who ruled from 1980 until he was deposed last year, treated the country's assets like he was at an all-you-can-eat buffet. Particularly after 2000, as he worked to retain power, government kleptocrats carved up one industry after another.

The government seized roughly 4,000 large commercial farms, mostly owned by whites, causing \$5.3 billion of wealth to evaporate. Some farms were given to political cronies who knew little about agriculture and, rather than work the land, sold the equipment and irrigation pipes for scrap. Ripple effects spread, hitting auxiliary ag businesses and bank activity, along with tax revenue.

A 2008 "indigenization" law required all foreign-owned companies to sell at least 51% of their shares to native Zimbabweans, creating great uncertainty for foreign investors. The government dramatically raised mining fees. The cost to register a new platinum mine soared from \$300 (in U.S. dollars) to \$2.5 million in 2012.

All this economic mismanagement created a budget hole, which the government tried to fill by printing money. Hyperinflation peaked at 90 sextillion percent a year, according to economist Steve Hanke. Zimbabwe's reserve notes—including a Z\$100 trillion bill—were soon selling on eBay as gag gifts. The government adopted the U.S. dollar in 2009, but that alone could hardly lure back business investment.

Now Zimbabwe seems poised to

move in a different direction. One indication is the 2018 national budget statement, presented to Parliament Dec. 7 by P.A. Chinamasa, the minister of finance and economic development. In sharp and precise language, it outlines a plan to eliminate government bloat, cut taxes and fees, and move toward a freer economy.

**After nearly four decades of corruption and brutality, the new president seems serious about reform.**

The document says all vacant government posts will be frozen, staff who are older than 65 will be pushed to retire, and the number of ministries will be cut from 27 to 21. It pledges that state enterprises will be reformed, privatized or closed, and transparent accounting procedures imposed. Farmers on government land with uncertain property rights are to be issued 99-year leases to assure them of continued occupancy.

Mr. Mnangagwa also appears serious about the rule of law. Last month, in a stunning reversal of Mr. Mugabe's land reform, the government ordered

that Robert Smart, a white tobacco farmer who had been evicted at gunpoint in June, be given his property back. "Smart and others were victims of racial discrimination, greed and abuse of power," a presidential adviser told South Africa's News24. "Their farms were acquired outside the parameters of the law." Squatters without proof of ownership have been warned to vacate.

The new government intends to amend the "indigenization" law to confine the 51% local ownership requirement to businesses extracting diamonds and platinum. Hopes are high for increased tourism, with upgrades planned for facilities at World Heritage sites such as Victoria Falls, as well as the international airport.

This is all good news, but let me humbly suggest to Mr. Mnangagwa three additional steps:

First, fix the broken traffic signals and streetlights across the capital city of Harare, and repaint the faded lane markers. This may seem small, but it will rebuild trust in rule of law, like when New York City cleaned graffiti off its subway cars in the crime-ridden 1980s. A daily reminder that rules matter can help change the ethos of a city.

Second, invite a delegation from business-friendly Rwanda to explain

the secrets of its success. Since the genocide in 1994, Rwanda has made an astonishing economic turnaround. Starting a business there now takes only four days, according to the World Bank, compared with 61 days in Zimbabwe. Statistics from Rwanda's government show that foreign direct investment steadily rose, from \$67 million in 2008 to \$380 million in 2015. If Rwanda can do it, surely so can Zimbabwe.

Third, work on transforming the 99-year leases for government farmland into freehold titles, to be held in perpetuity by all farmers, black and white. Invite those who lost their land under Mr. Mugabe to come back and share in Zimbabwe's economic progress. Work on a scheme to compensate them that shows a long-term commitment to property rights, which are the bedrock of all economic development.

Zimbabwe appears to be turning a corner, but it will take time. Let's hope Mr. Mnangagwa's government stays on the right track.

*Mr. Richardson, a professor of economics at Winston-Salem State University in North Carolina, is author of "The Collapse of Zimbabwe in the Wake of 2000-2004 Land Reforms" (Mellen Press, 2004).*

## A Simple Plan for Parental Leave

By Kristin A. Shapiro

And Andrew G. Biggs

**T**he U.S. is the only industrialized nation without a law guaranteeing workers paid parental leave. The idea has broad public support, but how to pay for it? One idea is to mandate that employers fund it, but economists find employers offset the cost by reducing wages for female employees. Workers could save, but the average first-time mother is 26,

so most young households have neither the time nor the resources to follow this approach.

What if the government could affordably provide paid parental leave to every worker in the U.S.? Our proposal is simple: Offer new parents the opportunity to collect early Social Security benefits for a period—say, 12 weeks—after the arrival of their child. To offset the cost, parents would agree to delay collecting Social Security retirement benefits, probably for only about six weeks.

Consider an average woman, who enters the workforce at 21 and has her first child at 26. At 25 she would have a salary of about \$31,100, according to Social Security Administration data. Using the same formula used to calculate Social Security disability benefits, she would be eligible for a Social Security parental-leave benefit of \$1,175 a month, equal to 45% of her earnings at 25. That amount is comparable to the paid leave provided by many other countries. Because of Social Security's progressive benefit formula, lower-income workers would receive a higher benefit relative to their earnings.

We estimate that to make the Social Security program financially whole, a parent who claimed 12 weeks of benefits would need to delay claiming retirement benefits by only around six weeks. The cost is low because parental-leave benefits claimed

early in life would be low relative to retirement benefits claimed later, as earnings typically rise considerably from one's 20s to one's early 60s. The average-wage worker who'd collect \$1,175 a month at 26 would be entitled, by our estimate, to a monthly retirement benefit of \$2,923 in inflation-adjusted dollars. While we would welcome a more precise calculation by Social Security's actuaries, we think the federal government could provide Social Security parental-leave benefits without endangering either Social Security's already precarious finances or the income security of future retirees.

Nor would we need to expand the federal bureaucracy to administer this program. The Social Security Administration already has individuals' earnings data and can process applications and payments online.

Paid parental leave can be provided on an affordable, self-financing basis by allowing new parents to claim early Social Security benefits, paid for by delaying benefits once they reach retirement age. This idea should be considered as Congress turns to entitlement reform. It's a fiscally responsible opportunity to help parents and children.

*Ms. Shapiro is a Washington lawyer. Mr. Biggs is a resident scholar at the American Enterprise Institute and former principal deputy commissioner of the Social Security Administration.*

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## WORLD NEWS

# 'Lula' Loses Appeal on Graft Conviction

Former Brazilian president's comeback prospects dim as a court upholds verdict

BY LUCIANA MAGALHÃES  
AND SAMANTHA PEARSON

PORTO ALEGRE, Brazil—Leftist icon Luiz Inácio Lula da Silva lost a much-awaited appeal on Wednesday to overturn a corruption conviction against him, a ruling that clouds his bid to run for president in an October election that polls show he would win.

Mr. da Silva denied the charges and his lawyers vowed to "use all legal methods possible" to appeal the decision, including taking their battle to Brazil's top courts in an unprecedented scenario that has prompted widespread debate among legal experts.

Tens of thousands of the former president's supporters descended on this city in southern Brazil, where the court ruled that "Lula"—as the former metalworker is universally known—accepted a beachfront apartment as a bribe in a vast corruption scandal that has gripped South America.

His Workers' Party showed no signs of giving up its impassioned fight to keep Mr. da Silva in the presidential race, calling the ruling late Wednesday "the beginning of a long journey that—thanks to the will of the people—will return Comrade Lula to the Presidency."



Luiz Inácio Lula da Silva greeted supporters at the ABC Metalworkers' Union in São Bernardo do Campo, São Paulo state, Wednesday.

FERNANDO BIZERRA/JEPA/SHUTTERSTOCK

Addressing crowds of supporters in downtown São Paulo on Wednesday night, Mr. da Silva compared himself to the late South African leader Nelson Mandela, who "was sent to prison and then came back and became president."

In São Paulo's more upscale neighborhoods, small groups of Brazilians took to the streets to celebrate Mr. da Silva's defeat and set off fireworks, while the stock market

rallied 3.7% on hopes that the ruling would crush his chances of a comeback.

Authorities in Porto Alegre earlier shut government buildings, positioned patrol boats and closed the airspace above the court to prepare for any violence in the ruling's wake. But heavy rain initially kept people off the streets.

"What Lula needs now is lawyers, not supporters," said Congressman Nilson Leitão,

from the rival PSDB party.

Mr. da Silva had been on a whirlwind campaign the past few months, presenting himself as the savior of a country that has been mired in recession and one corruption scandal after another. He has even posted videos of himself working out in the gym in an apparent effort to counter concerns about his health after surviving throat cancer.

"I'm 72 years old, but I

have the energy of a 30-year-old and the desire of a 20-year-old to come back and conquer," he told ecstatic crowds in Porto Alegre's downtown on Tuesday.

By Wednesday, though, the future turned dire for Mr. da Silva. The unanimous decision from the court's three-judge panel was the worst possible outcome for the former president, who had governed from 2003 to 2010 and was con-

# European Leaders Warn of Risks to Globalism

BY WILLIAM HOROBIN  
AND STACY MEICHTRY

President Donald Trump's "America First" agenda loomed over the World Economic Forum in Davos on Wednesday as European leaders sounded the alarm over the future of globalism and the system of international trade that underpins it.

Speaking a day before Mr. Trump was due to arrive at the Swiss Alpine resort, leaders of Europe's largest economies warned globalization was failing to deliver its promise of prosperity at home.

**WORLD ECONOMIC FORUM** Delivering a keynote address, French President Emmanuel Macron said societies are breaking apart even as technology and trade knit countries closer together.

"Let us not be naive. Today, globalization is going through a major crisis and this global challenge requires a global effort," Mr. Macron said.

The leaders were divided, however, on how to respond to Mr. Trump's approach. Some, like Mr. Macron, tried to chart a middle course, acknowledging a need to tend to national interests as well as global ones. German Chancellor Angela Merkel offered sharper criticism.

"We should...look for multilateral solutions and not unilat-



Angela Merkel, shown with Argentine President Mauricio Macri, sharply criticized unilateral policies.

ARGENTINE PRESIDENCY/REUTERS

eral ones as they would ultimately promote isolation and protectionism," she said.

The leaders' remarks came against the backdrop of Mr. Trump's recent decision to slap tariffs on imports of solar panels and washing machines he

says are harming American manufacturers. Mr. Trump has withdrawn from the Trans-Pacific Partnership trade agreement, and said he would pull the U.S. out of the 195-nation Paris climate accord.

"It is totally legitimate and

understandable for political leaders to defend their own citizens, companies and economy. I respect that. But obviously there is a limit," Italian Prime Minister Paolo Gentiloni said.

European leaders are grappling with the repercussions of

Mr. Trump's tax overhaul, which has encouraged some companies to repatriate funds held overseas and focus investment in the U.S. Many business leaders gathered in Davos praised Mr. Trump for contributing to a strengthening of the global economic recovery.

In an apparent reference to the Trump administration's tax changes, Mr. Macron warned of a "race to the bottom."

But he also said the best way for countries to respond to rising nationalism was to focus on reform at home, touting changes his government has made to France's rigid labor market. The French leader has also cut payroll and wealth taxes and pledged to reduce corporate tax in coming years.

That pro-business makeover helped make Mr. Macron a darling of the Davos gathering.

Mr. Macron's speech centered on a call for "a new global contract" of cooperation between businesses and governments, but he offered scant details on the shape of such an agreement. Instead, the leader stuck to dire warnings.

"If I don't give a new meaning to this globalization...in five, 10 or 15, years it is the nationalists who propose exiting this system who will win. And that will be true in every country," Mr. Macron said.

—Giovanni Legorano contributed to this article.

# Chief Economist At World Bank Quits

BY JOSH ZUMBRUN

World Bank Chief Economist Paul Romer resigned Wednesday, two weeks after apologizing to the nation of Chile for the way it was treated in one of the institution's flagship reports on business competitiveness.

World Bank President Jim Yong Kim announced the departure in a memo posted on the international development organization's intranet and viewed by The Wall Street Journal.

The departure follows a Journal article two weeks ago in which Mr. Romer raised concerns about the extent to which repeated changes to the methodology of the World Bank's "Doing Business" report had hurt Chile's rankings over several years.

Mr. Romer had expressed concern about the potential for political motivations in the shifting rankings, and numbers subsequently published on his blog showed that Chile's ranking had slid sharply due to methodology changes for the first three years of Michelle Bachelet's presidency.

Chile's ranking changed almost entirely because of the way the World Bank had altered its methodology, and not because of changes in Chile's business environment relative to that of other nations.

Not all World Bank officials shared Mr. Romer's concerns. Chief Executive Officer Kristalina Georgieva said in a letter to Chile's finance minister last week that Mr. Romer's comments were "unfortunate," and she wrote, "we do not have any evidence to support the notion that the methodology is skewed to disfavor Chile or that any of the changes in the methodology were conducted for any other than technical reasons."

In a follow-up blog post, Mr. Romer said that he hadn't seen any sign of manipulation" and "I'm sorry that in my attempt at promoting clarity, I myself was not clear."

The World Bank has said there will be an independent external audit of the report.

"Aside from obvious questions raised by Paul Romer's resignation, serious concerns remain around the 'Doing Business' report," said Nadia Daar, head of Oxfam International's Washington office.

Mr. Romer couldn't be reached to comment. The World Bank didn't elaborate on the statement.

# U.S. Insists It Seeks Partnerships, Not Isolation

BY KATE DAVIDSON

Three senior U.S. officials in Davos stressed America's commitment to partnerships with other nations one day before President Donald Trump's arrival in the Alpine resort, but they defended the administration's "America First" economic policy centered on U.S. national interests.

"We are beginning a comeback that we have not had in quite some time," House Majority Leader Kevin McCarthy (R., Calif.) said at a panel discussion at the World Economic Forum moderated by The Wall Street Journal's editor in chief, Gerard Baker. "Our economic growth brings so much more, not just to America but to the world. And we are free and willing to share that."

Mr. McCarthy, alongside Homeland Security Secretary Kirstjen Nielsen and Secretary of Transportation Elaine Chao, said the U.S. is still a global economic and security leader, and dismissed the suggestion the country is turning its back on the rest of the world with protectionist trade policies or



From left, Ms. Chao, Mr. McCarthy and Ms. Nielsen in Davos.

more restrictive immigration.

"We're all here to make it clear that 'America First'...is not America alone," Ms. Nielsen said. "We're here to partner."

The remarks come a day before Mr. Trump is scheduled to arrive in Davos with a large contingent of American officials, putting him at the center of a gathering that represents the free-trade global order that the president has repeatedly attacked.

He is expected in a Friday speech to reiterate "that a prosperous America benefits the world" but that free and

open trade is contingent on countries being held accountable to the rules, National Economic Council director Gary Cohn said Tuesday.

Ms. Chao said the forum "should feel very flattered" that the president has chosen Davos to explain his policies, adding: "For those that don't want to listen to him, they can leave."

Mr. McCarthy also argued the president's approach doesn't amount to protectionism but rather to "fair trade," and said "it's only right" that the North American Free Trade Agreement should be

## Top China Aide Vows More Market Access

President Xi Jinping's top economic deputy pledged to ease foreign companies' access to China's services and manufacturing sectors, sustaining a defense by Beijing that it upholds international trade and global economic integration.

modified. The latest round of Nafta negotiations takes place this week between the U.S., Mexico and Canada.

Asked whether he supported new tariffs the administration announced this week on imports of solar panels and washing machines, Mr. McCarthy said he was less concerned about potential short-term price increases for his constituents than whether such moves could help protect American jobs over the next decade.

"You have to raise the temperature, just as others have done in the past," he said.

"We'll open wider to the world across the board," said Liu He, who was elevated to the powerful 25-member Politburo amid the Communist Party's leadership shuffle in the fall.

The message from Mr. Liu comes as the U.S. and Europe are dialing up pressure on China to open its market wider amid increased trade and investment imbalances.

—Lingling Wei

Ms. Nielsen defended the administration's approach to strengthening border security and immigration policies, which she said "isn't about limiting legal immigration."

Reports about the president's vulgar remark about immigrants from some African countries have "falsely claimed" the conversation was about certain countries, she said.

"It's not about the country. We're trying to talk about the individual," she said. "Is the individual a threat? I don't want them to come to the United States."

# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

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## KPMG Case Shines Light on Audit Quality

SEC expressed concern about Big Four firm's reports at a 2016 meeting with top brass

By MICHAEL RAPORT

In February 2016, the Securities and Exchange Commission summoned top executives from KPMG LLP to a meeting in Washington, D.C. The reason: The regulator was "frustrated" with poor inspection results for the firm, and this resulted in concerns about the quality of its audits of public companies.

The indictment earlier this week of former KPMG partners and employees sheds light on the regulatory process for accounting firms and a revolving door with the agencies involved. But it was also a reminder of continuing concerns about the quality of the audits done by the biggest accounting firms, especially since the bulk of large public companies are audited by just four of them.

The meeting with the SEC was disclosed in the indictment and a related SEC lawsuit against the former KPMG case. "It really does sort of compromise the entire system."

At the meeting, SEC staffers "expressed significant concerns about the firm's audit quality and questioned whether KPMG was adequately addressing these issues," according to the SEC lawsuit.

KPMG executives at the meeting "acknowledged the audit quality issues," the indictment said.

"I think it raises a lot of questions," Gaylen Hansen, a former chairman of the National Association of State Boards of Accountancy, said of the most recent KPMG case. "It really does sort of compromise the entire system."

KPMG said Monday that it had promptly notified regulators of leaks after they were discovered and fully cooperated with the investigation into them. The firm said it has taken "remedial actions to assure that such conduct cannot happen again."

SEC Chairman Jay Clayton said Monday that he didn't believe the alleged scheme compromised the reliability of KPMG's audits.

Investors rely on audit reports that vouch for the accuracy of a company's financial figures. The Public Company Accounting Oversight Board

was created to oversee the firms issuing these reports in the wake of accounting scandals at Enron Corp. and WorldCom Inc. in the early 2000s.

And while the big audit firms profess their commitment to audit quality, "significant corporate financial reporting issues continue to erupt on a regular basis," said Jim Peterson, a lawyer and author of "Count Down: The Past, Present and Uncertain Future of the Big Four Accounting Firms."

High-profile cases keep emerging in which significant issues or fraud get past an auditor—as shown by a recent

court decision that PricewaterhouseCoopers LLP was negligent in the fraud that brought down Colonial Bank, or KPMG's failure to flag the sales-practices scandal at Wells Fargo & Co. KPMG said it was "confident" that its audits of Wells Fargo "were appropriately planned and performed" and noted that an investigation of the sales-practice matter by the bank's outside directors didn't contain any criticism of KPMG.

There are only four giant audit firms left—the result of a series of mergers in the 1980s. Please see KPMG page B2

## When #MeToo at Work Becomes Catch-22

By JOANN S. LUBLIN

A number of high-profile men have recently lost powerful positions over their alleged sexual misconduct. But for female victims of harassment, speaking up often is just as career damaging.

Managerial women who report such abuse can struggle to regain their professional momentum. To escape toxic work environments, they frequently quit or exit entire industries, and some choose different professions, according to interviews with lawyers and women who have experienced sexual harassment at work. When women resign due to sexual harassment, their earnings tend to stall or decline, an academic study published last year found.

A hotel-industry veteran says she left the business in 2016 after male bosses at two hotels sexually harassed her within five years.

"I didn't like how powerful men mistreated me and saleswomen," this marketing executive recalls. She is now a sales

Please see HARASS page B7

### Facing and Fixing Harassment

Workplace sexual harassment is highly prevalent...

People who say they've been the direct victim of sexual harassment at work:



People who say they've witnessed sexual harassment in the workplace:



...but some people are uncomfortable reporting it.

People who say they wouldn't feel comfortable reporting sexual harassment:



Source: American Management Association survey of 3,247 executives, managers and professionals, Dec. 2017

For women who don't report, the reasons vary\* ...

I didn't want to create a fuss, look like a troublemaker or get a bad reputation

52%

Reporting it doesn't result in any action

34%

\*Women could respond with more than one answer on this question.

Feelings of shame or shared blame

19%

Fear of retribution

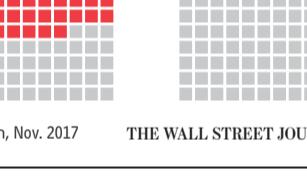
28%

...and a sizable number of women aren't hopeful that press coverage will change things.

Do you think the increased media attention on sexual harassment will help reduce the number of incidents?

Yes 43%

No 29%



Source: Fairygodboss survey of 502 women, Nov. 2017

THE WALL STREET JOURNAL.

## Tax Break Creates Haven for Patents

By SAM SCHECHNER

U.S. companies rich in intellectual property are looking at a new tax-friendly regime: the U.S.

A provision in the newly revised U.S. tax code slashes the income tax companies pay on royalties from the overseas use of intellectual property or so-called intangible assets, such as licenses and patents.

The new tax break, for what is dubbed foreign-derived intangible income, effectively reduces tax on foreign income from goods and services produced in the U.S. using patents and other intellectual property to 13.125% until the end of

## 13.125%

New tax rate on foreign-derived intangible income

2025, after which the rate rises to 16.4%.

Previously, royalties paid to a unit in the U.S. would have been taxed similarly to other U.S. income, for which the top corporate tax rate was 35%. The new headline corporate rate is 21%.

The deduction is meant to induce companies with large U.S. operations and significant foreign income from patent royalties to base more of those assets in the U.S. Such companies, especially in the technology and pharmaceutical sectors, often hold foreign rights for their intellectual property in a company based in a low-tax country.

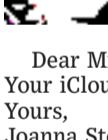
The new U.S. deduction comes as Ireland is set to phase out, by the end of 2020, the most storied version of this maneuver, the Double Irish—which has been used by large companies including Facebook Inc., Google parent Alphabet Inc. and drugmaker Allergan PLC.

The Double Irish is a structure that allows companies to reduce taxable income by setting up two entities: an Irish-

Please see TAXES page B2

## Unpacking Apple's Storage

By JOANNA STERN

 Every night, I compose the following letter to Apple CEO Tim Cook:

Dear Mr. Cook,  
Your iCloud storage is full.

Yours,

Joanna Stern

I never send it because I'm not as unsympathetic as Apple, which by my count blasts out millions of annoying out-of-iCloud-storage alerts a day. Hey look! You got one just now.

I call them iCloud ransom notes. Don't pay Apple for storage and the threats will persist and all your data will be unsafe. Pay and the messages will end. Plus, you'll get some... iCloud. Whatever that is.

Apple is pretty matter-of-fact about it: "We notify our customers when they need more storage to continue to keep their information safely backed up in iCloud," a spokesman said.

Yet after the holiday iPhone buying season, I began to realize that many of even the most tech-savvy people in my life don't quite understand how iCloud works.

So I decided to tackle the messy, many-tendriled storage system. What do we need to understand? What does Apple need to start doing better?

### What is iCloud?

If your photos, videos, contacts and more are backed up to iCloud, they're safe and accessible from any

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## LG to Lift Price in Fast Reply to Tariff

By ANDREW TANGEL

**LG Electronics** Inc. has told retailers it plans to raise prices on its laundry appliances following President Donald Trump's approval this week of steep tariffs on imported washing machines.

"As a result of the trade situation, we will be initiating pricing actions, which will be sent under separate cover shortly," Thomas Yoon, an executive at the South Korean manufacturer, told retailers in a memo dated Wednesday and reviewed by The Wall Street Journal.

Industry experts say they expect LG to raise published retail prices on at least some of its washer and dryer models by about \$50. Washers and dryers, each costing hundreds of dollars, are often sold in pairs.

An LG spokesman confirmed Mr. Yoon had sent the memo but declined to delve into the expected price increases or their timing. "The penalties were more severe than recommended" by U.S. trade regulators "and we're making some adjustments," the spokesman said, adding that LG aims to minimize the

SEONGJUN CHO/BLOOMBERG NEWS



Industry experts expect LG's retail prices on at least some appliances to rise by about \$50.

impact on consumers.

Phil Hannon, vice president at **Abt Electronics**, an appliance retailer in Glenview, Ill., said he doesn't expect the price increases to have a significant effect, saying consumers' appliance choices are driven more by function and innovation. "People will pay for the features they want."

In the fourth quarter, LG ac-

counted for 18% of U.S. retail sales of washers as measured in dollars, according to TraQline market data provided by research firm Stevenson Co.

**LG** and **Samsung Electronics** Co., another South Korean appliance supplier, say they have won over American consumers with their product innovation and designs. A Samsung representative didn't

respond to a request for comment on Wednesday.

For imports of large residential washing machines, the Trump administration is imposing 20% tariffs on the first 1.2 million units annually, then 50% on those imported after that. It is also putting in place a 50% tariff on imported washer parts. The protections phase down over three years.

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## Truck Shortage Delivers Blow

By JENNIFER SMITH

A nationwide truck shortage is forcing thousands of shippers into a tough choice: postpone all but the most important deliveries, or pay dearly to jump to the front of the line.

**Michelin North America** Inc. cut its daily shipments of synthetic rubber from one plant by a fifth earlier this month and is at times paying double its usual price for temperature-controlled trucks, said Eric Stuch, a logistics manager at the tire maker. Meal-kit service **HelloFresh** SE recently enlisted one of its

produce suppliers to help move shipments to an airport.

Several factors have converged to overwhelm the trucking market. Freight volumes in December hit near-record levels for that time of year, on the back of a strengthening economy. Retailers are replenishing stocks after one of the strongest holiday sales seasons in recent years. Manufacturers are also shipping more cargo; in December, industrial production had the largest year-over-year gain since 2010, according to the Federal Reserve.

What's more, bad weather and a new federal safety rule

that took effect in December have crimped the supply of available trucks. Diesel prices are near a three-year high, adding to transportation costs.

In the spot market, where shippers hire trucks on short notice, about 10 loads were waiting to be moved for every available truck in the week ending Jan. 20, compared with three in the same week last year, according to online freight marketplace DAT Solutions LLC.

Spot-market prices for dry vans, the most common big rig, are up over 20% year-over-year. Analysts expect long-term con-

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## KPMG

Continued from the prior page and '90s and the collapse of Arthur Andersen after its involvement in the Enron scandal.

Together, the Big Four audit nearly all the companies in the S&P 500. If authorities were to pursue any of the remaining firms over serious audit failures or other wrongdoing, in theory, that could shrink the Big Four to the Big Three. There wouldn't be enough firms to audit the world's major public companies, Mr. Peterson said. "This is a model that's teetering on the knife-edge."

By some measures, audit quality has improved in recent years—inspectors with the PCAOB are finding fewer deficient audits. Together, 28% of Big Four audits were deemed deficient in 2015, down from 35% in 2014. For 2016, minus the KPMG inspection results, which have yet to be released, 23% of PwC, Deloitte LLP, and Ernst & Young LLP audits were deemed deficient.

This week's KPMG case calls into question both the regulators' oversight of the firms and their own work. In the case, four former partners and employees and a former PCAOB employee face criminal and SEC charges alleging the firm got an improper advance look at which of its audits the PCAOB was planning to review in its annual inspection. A sixth

person has pleaded guilty to similar charges. Attorneys for the other defendants either disputed the charges or couldn't be reached for comment.

According to the charges, KPMG partners actively recruited PCAOB employees to join the firm and solicited information from them about the regulator's plans for its inspections of KPMG. At the time, KPMG was anxious to improve its inspection results.

The percentage of KPMG audits inspected by the PCAOB and found to be defective had risen to 54% in 2014 from 22% in 2010. Advance word of which audits the regulator would review would have helped KPMG better prepare for the inspection.

After learning of the leaks, the PCAOB adjusted its inspection procedures and "reselected" the audits it would inspect in its latest inspection of KPMG, a PCAOB spokeswoman said.

The regulator also decided after learning of the KPMG leaks to require that senior inspections staff can't seek employment with a firm they are involved with inspecting for a year after they stop being involved with its inspections.

Still, auditing specialists and regulators said the KPMG case had caused great damage. "It's obviously extraordinarily disturbing and an extraordinarily important case to have brought," said Mary Jo White, a former SEC chairman.

—Dave Michaels contributed to this article.

billions of euros in royalty fees for the use of Google's intellectual property to a unit in the Netherlands that then pays nearly all those fees to an Irish company that is managed in Bermuda, where there is no corporate income tax, according to corporate filings in the Netherlands and Ireland. In 2016, Google's Dutch entity reported paying nearly €16 billion (\$19.7 billion) to that unit, filings show.

Spokesmen for Google and Facebook declined to comment. Both companies previously have said they pay all taxes that they owe. An Allergan spokesman said the company is committed to investing both in the U.S. and its operations in Ireland.

In recent years, pressure from countries in Europe and the Organization for Economic Cooperation and Development, a group of rich nations, has led to an update of tax rules that generally requires companies to keep their intellectual property in places where they have substantial operations. That has led countries, including

## BUSINESS & FINANCE

# Firm Found Guilty of Tech Theft

BY ERIN AILWORTH

A federal jury found a Chinese wind-turbine maker guilty of stealing technology from a former U.S. supplier, in what was viewed as a test case for looming intellectual property battles between the two countries.

Federal prosecutors alleged that **Sinovel Wind Group** Co. stole trade secrets from **American Superconductor** Corp., an Ayer, Mass.-based company that once counted Sinovel as its biggest customer.

Sinovel executives wooed a disgruntled American Superconductor employee into providing them with proprietary source code for software that controls wind turbines by proffering him money, prosecutors alleged in federal court in Madison, Wis.

The employee, who had been stationed in Europe, pleaded guilty before an Austrian court in late 2011 and served time in prison. Sinovel disputed allegations that company leadership had done any-



JESSICA RINALDI/THE BOSTON GLOBE/GETTY IMAGES

**Sinovel Wind** stole technology from U.S. supplier, a jury has said.

thing improper.

Following an 11-day trial, the Wisconsin jury on Wednesday convicted Sinovel on all three counts, including theft of trade secrets and wire fraud, according to a spokeswoman for the U.S. District Attorney's Office in the Western District of Wisconsin. Sentencing is set for June 4.

The Sinovel indictment alleged that the theft cost

American Superconductor more than \$800 million.

Federal officials previously said Sinovel could be fined a multiple of that loss, as much as \$4.8 billion.

The verdict comes amid trade tension between the U.S. and China, and just months after the Trump administration moved to take a harder line on intellectual-property theft by China. The U.S. has vowed to

take action against an array of Chinese goods and investments to combat pressure from China on U.S. companies to turn over valuable intellectual property.

Shares of American Superconductor, now known as AMSC, closed up more than 12% at \$5.70 a share.

"Given the current American administration, this is fuel for their fire to start bringing accountability per China's actions," AMSC Chief Executive Daniel McGahn said in an interview. "China certainly has to take notice to how the West perceives this case." The company is pursuing legal action against Sinovel in China. Neither Sinovel nor its attorneys immediately responded to requests for comment.

James Pooley, a former president of the American Intellectual Property Law Association, said the turbine-maker's conviction in the U.S. comes as no surprise, especially given the attention to intellectual-property theft by the Trump administration.



Current federal rules require auto makers to cut emissions so vehicles sold average more than 50 miles a gallon by 2025.

## California, U.S. Officials Discuss Emissions

BY MIKE SPECTOR

California regulators and Trump administration officials met to discuss for the first time the prospect of changes to vehicle-emissions rules, a significant step in complex negotiations aimed at preventing a legal battle over future environmental regulations on cars and trucks.

Mary Nichols, head of the California agency that sets tailpipe-emissions rules that are followed by many other states, traveled to Washington Monday to meet with U.S. officials about the regulations, said people familiar with the matter.

Current federal rules, set during the Obama administration, require auto makers to cut emissions enough so vehicles sold average more than 50 miles a gallon by 2025, a contributing factor to car companies now investing billions of dollars in developing electric vehicles that don't

burn fossil fuels.

President Donald Trump last year charged federal regulators with revisiting the regulations in response to increased purchases of heavier and less-efficient pickup trucks and sport-utility vehicles. That move triggered concern at Ms. Nichols's California Air Resources Board, which favors strict emissions standards, including higher sales of electric cars.

In a coffee shop near the White House, Trump administration officials broached whether California is open to easing future emissions and mileage goals, the people said, an approach state leaders have openly resisted for nearly a year. California officials were noncommittal but agreed to continue discussions and exchange technical analyses ahead of an April deadline for the Environmental Protection Agency to decide whether regulations covering 2022-2025 should be revised.

California officials have pre-

viously vowed to fight changes to the emissions standards and decried the Trump administration's decision to reopen a review of them. The state's rules align with current stringent federal regulations. Attorneys general in states across the U.S. that follow California's

President Trump tasked regulators with revisiting emissions rules.

standards have pledged to take the Trump administration to court if federal targets are weakened.

"California believes the consistent state and federal standards are helpful in encouraging car manufacturers to invest in advanced technologies that are needed to meet our air and climate standards,"

said Stanley Young, a CARB spokesman. "We will stay at the table to assure that we maintain standards that are achievable and appropriate."

Administration officials haven't yet determined whether standards should be changed, and the discussion with California focused partly on whether the state would be amenable to modifications depending on the outcome of government analyses, the people said.

The EPA hopes to share tentative conclusions from their analysis with California officials soon as part of the talks, with a goal of keeping the state on board with consistent nationwide regulations, one of the people said.

The Trump administration met last year with auto-industry representatives who contend future standards currently on the books are too difficult to meet amid cheap gasoline, which has resulted in soaring sales of trucks that now eclipse 60% of the market.

## TAXES

Continued from the prior page and '90s and the collapse of Arthur Andersen after its involvement in the Enron scandal.

Together, the Big Four audit nearly all the companies in the S&P 500. If authorities were to pursue any of the remaining firms over serious audit failures or other wrongdoing, in theory, that could shrink the Big Four to the Big Three. There wouldn't be enough firms to audit the world's major public companies, Mr. Peterson said. "This is a model that's teetering on the knife-edge."

By some measures, audit quality has improved in recent years—inspectors with the PCAOB are finding fewer deficient audits. Together, 28% of Big Four audits were deemed deficient in 2015, down from 35% in 2014. For 2016, minus the KPMG inspection results, which have yet to be released, 23% of PwC, Deloitte LLP, and Ernst & Young LLP audits were deemed deficient.

This week's KPMG case calls into question both the regulators' oversight of the firms and their own work. In the case, four former partners and employees and a former PCAOB employee face criminal and SEC charges alleging the firm got an improper advance look at which of its audits the PCAOB was planning to review in its annual inspection. A sixth

### Taxing the Intellect

A shake-up in global tax treaties and laws is forcing companies to rethink where they house intellectual property (IP)—and pay royalties. Here are some top places they are considering:

#### Corporate income-tax rates, by country

**Ireland**  
12.5%

**IP tax break:** Companies can deduct the cost to acquire a variety of IP assets and amortize them to offset profits.

**Luxembourg**  
18%

Some income from software and IP is 80% tax exempt if Luxembourg unit funded research and development.

**U.K.**  
19%

Some income from patents or patented products derived from U.K. activities is taxable at 10%.

**U.S.**  
21%

**IP tax break:** New provision effectively taxes 'foreign derived intangible income' at 13.125%, rising to 16.4% in 2025.

**Netherlands**  
25%

Qualifying income allocated to an 'innovation box' is taxed at 7%.

**Malta**  
35%

Refunds available for five-sevenths of corporate tax on royalty income.

\*15% for companies with taxable profit under €25,000 †20% for income under €200,000

Sources: the governments (corporate tax rates); PwC, Deloitte, KPMG, Dutch government (IP tax breaks)

THE WALL STREET JOURNAL.

your consideration, absolutely," said Anna Scally, the head of the tech and media practice in Ireland for accounting firm KPMG.

She added that firms are currently crunching numbers to find the best alternative locales that comply with tax rules. "It's not a slam dunk," Ms. Scally said of the U.S. "But it is an option."

Many countries have updated their tax codes to comply with the new tax rules—and in hopes of drawing multinational companies to their shores.

Among the options for companies are locales such as Malta, which despite a high headline corporate tax rate, gives significant tax breaks, including for royalties, and has a tax treaty with Ireland that would allow an Irish-registered company to be managed there after 2020, similar to the Double Irish, according to tax advisers.

Many countries have updated their tax codes to comply with the new tax

## BUSINESS NEWS

# AT&T Stirs the Pot On Net Neutrality

BY JOHN D. MCKINNON

**AT&T** Inc., whose broadband internet services stand to benefit from the recent repeal of net-neutrality rules, is calling on Congress to clarify the law to eliminate uncertainty for the industry while also imposing new rules on tech titans such as Google and **Facebook** Inc.

The move is part of the continuing maneuvering by the two camps and their allies in Washington and in state capitals for position and political cover in a number of policy fights, the biggest of which is over net neutrality, the principle that all internet traffic be treated equally.

The GOP-run Federal Com-

tion that it would accept including neutrality language in new legislation appeared to be an effort to deflect attacks over the rollback of the rules.

Democrats and advocates of the net-neutrality rules are expected to make an issue of the GOP action in the fall's midterm elections, seeing it as a cause that voters, particularly young people, care about. Democrats are pursuing a long-shot effort to short-circuit the FCC's order on Capitol Hill.

There are also expected to be protracted court fights over the issue.

Mr. Stephenson cited the current state of confusion over internet rules of the road, after years of conflicting decisions by federal regulators as well as federal courts. Pointing to the potential for major new uses for the internet such as self-driving cars, Mr. Stephenson added that "without predictable rules for how the internet works, it will be difficult to meet the demands of these new technology advances."

But AT&T's new proposal—particularly its suggestion for new consumer-privacy standards that Silicon Valley has resisted—also represents an escalation of the policy and political battles between the providers and the internet companies. Those battles have become more prominent in recent months, as the internet companies have faced increasing political pressure under the Trump administration.

Internet companies such as Google long benefited from relatively lenient government rules aimed at fostering the online economy—and, the net-neutrality action notwithstanding, they have managed to stave off regulations they oppose in areas such as privacy. Last year, for example, they thwarted an effort by Rep. Marsha Blackburn (R., Tenn.) to impose new privacy standards on both themselves and the internet-service providers.

On one level, AT&T's sugges-

# Qualcomm Takes Hit in EU

The European Union again flexed its legal muscle against a U.S. tech giant by hitting **Qualcomm** Inc. with a €997 million (\$1.23 billion) antitrust fine on Wednesday for payments it made to **Apple** Inc. for the device maker's exclusive use of Qualcomm chips.

EU antitrust chief Margrethe Vestager said Qualcomm had

By Natalia Drozdiak  
in Brussels  
and Ted Greenwald  
in San Francisco

abused its dominant position by paying billions of dollars to Apple from 2011 to 2016 on the condition it wouldn't buy from rivals, hindering competition in the market for so-called baseband chips, which connect smartphones and tablets to cellular networks. The illegal payments were made directly rather than through discounts, the EU said.

"These payments were not just reductions in price—they were made on the condition that Apple would exclusively use Qualcomm's baseband chipsets in all its iPhones and iPads," Ms. Vestager said. "This meant that no rival could effectively challenge Qualcomm in this market, no matter how good their products were."

Qualcomm, the world's largest supplier of baseband chips, said it "strongly disagrees with the decision" and would appeal to the EU's second-highest court. The company would still have to comply with the EU's decision during an appeal, though would have the option of transferring a bank guarantee.

Qualcomm joins other U.S. tech giants that have felt the heat from the EU's antitrust authorities in recent years. The commission last summer fined Alphabet Inc.'s Google €2.42 billion for abusing its dominance with its shopping service and in 2016 ordered Apple to return €13 billion in allegedly unpaid taxes to Ireland. The companies are appealing those decisions.

"This is a huge fine by any



The EU's Margrethe Vestager said the company abused its position.

OLIVIER HOSLET/EPA/SHUTTERSTOCK

standards and shows that Commissioner Vestager is starting 2018 very aggressively," Assimakis Komninos, a Brussels-based partner at global law firm White & Case, said of the Qualcomm fine.

The decision has no repercussions for Apple because the accusations don't point to the existence of a cartel.

The EU's move Wednesday, which is the culmination of a probe opened in 2015, fits into a broader strategy to boost and improve digital markets across the bloc's 28 member states. As part of that project, the European Commission, the bloc's executive, has pursued strict privacy legislation, antitrust investigations and other rules that would rein in the behavior

of large U.S. tech companies.

The Qualcomm fine follows a decision last week by the EU regulator to clear the company's acquisition of **NXP Semiconductors** NV but only under strict conditions. A separate EU antitrust investigation is continuing over whether Qualcomm sold baseband chips below cost to force a competitor, Icera Inc., out of the market.

Wednesday's decision pertains to an agreement Qualcomm signed with Apple in 2011, under which the chip maker committed to pay the iPhone maker on the condition it would use only Qualcomm's chips in its devices. Two years later, the contract was extended until the end of 2016. The EU declined to say how much Qual-

## Reining in U.S. Tech

Qualcomm is the latest tech giant to feel heat from the EU's antitrust regulator.



Aug. 30, 2016

Ordered to pay allegedly unpaid taxes to Ireland



June 27, 2017

Fined for favoring its own online shopping service



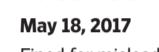
Jan. 24, 2018

Fined over its marketing of its smartphone chips



Oct. 4, 2017

Ordered to pay allegedly unpaid taxes to Luxembourg



May 18, 2017

Fined for misleading regulators in the WhatsApp merger review

Note: €1 = \$1.24

Sources: EU; staff reports

THE WALL STREET JOURNAL.

paid Apple.

The company entered into the contract with Apple as a way to protect investments it had to make to produce an unguaranteed amount of chips that met Apple's specific standards, Qualcomm general counsel Don Rosenberg said in an interview.

"Apple always likes to have its own particular version, so we have to make an enormous investment in producing what they want," Mr. Rosenberg said of the payments to Apple. "We want to make sure that we're protecting ourselves so that we will recover that investment."

An Apple spokesman declined to comment.

—Tripp Mickle contributed to this article.

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## TECHNOLOGY

WSJ.com/Tech

# Apple to Improve 911 Calling

By RYAN KNUTSON

It will soon be easier for emergency responders in some countries to locate people who call for help using an iPhone.

**Apple Inc.** said Wednesday that a coming update to the company's iPhone software would support a feature called Advanced Mobile Location, or AML. That technology, which is active in nine countries, sends precise smartphone location data directly to emergency-call takers.

The technology isn't yet available in the U.S., and might not be for some time. That is because U.S. wireless carriers are focused on other options for getting the accurate smartphone data to emergency-call takers.

Historically, emergency responders rely on location information provided by wireless carriers, using cellphone towers and GPS. But those estimates are less accurate than estimates produced by Apple and **Alphabet Inc.'s Google**, which tap into data on devices as well as Wi-Fi hot spots. The smartphone giants have improved location tracking for commercial purposes such as mapping apps and targeted advertising.

Carrier location estimates are often hundreds of meters wide, while smartphone estimates are about a dozen meters wide, especially in dense areas.

AML technology was developed by the U.K. telecommunications company **BT Group PLC** and Google. It was launched in 2016 on Android smartphones.

The nine countries where the AML technology is active are Austria, Belgium, Estonia, Finland, Iceland, Ireland, Lithuania, New Zealand and the U.K.



Katerra assembles prefabricated walls and fixtures. It attracted \$865 million in funding from investors led by SoftBank's Vision Fund.

MARK SKALNY

# SoftBank Makes Construction Bet

By ELIOT BROWN

**SoftBank Group Corp.** is putting its massive \$93 billion tech-investment fund to work in construction.

The Japanese conglomerate's Vision Fund is leading a group of investors with an \$865 million bet on **Katerra Inc.**, a three-year-old Silicon Valley startup that aims to change how housing and commercial buildings are constructed by using an assembly-line-like system to control every aspect of design and production.

Founded by the former chief executive of electronics manufacturer Flextronics, Katerra handles everything from design to construction, while building prefabricated walls and fixtures in factories.

The Menlo Park, Calif., startup calls itself a "technology company," emphasizing software aimed at making the process more efficient. A main

innovation appears to be a business model that puts architects and construction workers on the same payroll.

The deal, which values Katerra above \$3 billion, marks the latest investment by the Vision Fund in ground rarely tread upon by tech investors.

The fund, anchored by a \$45 billion commitment from Saudi Arabia, was initially described by SoftBank as a vehicle to invest in technologies of the future such as robotics and artificial intelligence. But since its launch last year, the fund has also invested in companies trying to upend old-line industries, such as WeWork Cos., a co-working office manager, and Plenty Inc., an indoor-farming company.

SoftBank executives have said they want to be at the forefront of technology shifts in myriad industries, and they have shown a willingness to invest at lofty tech valuations for promising startups.

Katerra, with over \$1 billion in funding raised since its founding in 2015, is among the fastest startups to command a multibillion-dollar valuation.

The company is growing rapidly. It has 1,300 employees and plans to have 3,000 by year-end, said Michael Marks,

But it now has 15 new clients, Mr. Marks said. He said Katerra's biggest appeal is saving developers time, which can yield better financial returns on projects that typically involve high-interest loans.

By year-end, "we think we can build from foundation to the keys in 30 days," he said. "That's typically a year today."

Still, Katerra and others trying to shake up the construction industry face challenges. Construction codes vary not just between states, but between towns. Construction unions have been apprehensive about such startups. Buildings above five or six stories require more complex engineering that has stymied some modular developers.

Other investors in Katerra include Khosla Ventures, iPhone manufacturer Foxconn Technology Group and the Canadian Pension Plan Investment Board.

### Startup Katerra uses assembly-line system in bid to transform housing industry.

its chairman and co-founder, and the CEO of Flextronics. The company didn't discuss exact revenue but said it has had \$1.3 billion in bookings since it started.

Katerra's initial projects almost all involved Wolff Co., a real-estate developer led by another Katerra co-founder.



These messages can be avoided.

your multiple devices, it still lacks some of the basics you get with Google Drive or Dropbox. For instance, on iCloud.com you can't upload a folder of files from your desktop.

Backing up photos, of course, remains a necessity.

### Nope, not paying

Suppose you've bought a phone for \$700 and don't want to give Apple any more money. How do you survive with just 5GB and make the ransom notes cease? First, try to clear room. Delete backups of your old devices by going to iCloud > Manage Storage > Backup.

If that isn't enough, turn off iCloud backup altogether (iCloud > iCloud Backup). You can still manually back up your iPhone by syncing to iTunes—even via Wi-Fi.

Backing up photos, of course, remains a necessity. For that, I recommend Google Photos, since it offers unlimited cloud storage for photos and videos. Photos with resolution over 16 megapixels will be downsized, but you can use

Google's included 15GB of storage to keep those higher-resolution shots.

I find the transition process to be cleanest on a computer. Pull all the photos you have from your phone—plus any photos that may live in your iCloud storage—into the Photos app on your Mac, then go to File > Export. On Windows, use the iCloud for Windows app.

Go to Google Photos, then either drag all your photos to it, or use the uploader tool. Back on your iPhone or iPad, in the iCloud settings, turn off iCloud Photo Library and download the Google Photos app.

I leave you here with a moral challenge: Every time a storage-full message makes you mad, take to social media and urge Apple to give us 20GB free. Or just pay Apple the damn dollar.

WSJ.com/Tech

# STERN

*Continued from page B1*  
other Apple device—and most web browsers—by just logging in. For a quick overview of what you actually have stored, log into [icloud.com](http://icloud.com) with your Apple ID and poke around.

Here's the big catch, though: Apple offers only 5 gigabytes of free iCloud storage space. That's like offering a Siberian tiger a Tic Tac for dinner. With the amount of photos and videos we take today, it's not enough. For a company with about \$270 billion in the bank, I'd expect it to meet or beat Google's 15GB of free cloud storage.

If you do need more, Apple charges you: \$1 a month for 50GB, \$3 for 200GB, \$10 for 2 terabytes.

Go to your iPhone Set-

tings, tap your name up top, then tap iCloud. Chances are the bar graph you see is dominated by two big chunks:

Backups. When your device is on Wi-Fi, locked and charging, iCloud automatically backs up all the data—messages, settings, your homescreen layout, app data and more.

Photos. The Photos app has a clever trick: It uploads shots as soon as you take them. This iCloud Photo Library setting is on by default; if you turn it off, photos and videos are included in backups.

### Fine, I'll pay

If you decide pay Apple every month, you've got to pick a plan. The new iCloud storage family sharing is incentive to pay for the 200GB or 2TB plans. Since last fall's

iOS 11 release, you can share those buckets of storage with up to five family members.

Next you need to fine-tune the way photos are handled.

On your iPhone, go to Settings, then scroll down and tap Photos. If you are worried about running out of space on your iPhone itself, select "Optimize iPhone Storage." This ensures that full-resolution photos and videos are stored in iCloud.

You may find you have leftover space in the cloud. This is where iCloud Drive comes into play. You can dump random files into it through the iCloud web interface, or—on a Mac with the latest OS—sync your Desktop and Documents files.

On iPads and iPhones, there's a new Files app, which is, confusingly, another door to iCloud Drive.

While you can use iCloud Drive to sync files across

your multiple devices, it still lacks some of the basics you get with Google Drive or Dropbox. For instance, on iCloud.com you can't upload a folder of files from your desktop.

Backing up photos, of course, remains a necessity.

For that, I recommend Google Photos, since it offers unlimited cloud storage for photos and videos. Photos with resolution over 16 megapixels will be downsized, but you can use

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A minuscule bot shortens and lengthens like an inchworm to walk and curls like a caterpillar to roll.

A minuscule bot shortens and lengthens like an inchworm to walk and curls like a caterpillar to roll.

A minuscule bot shortens and lengthens like an inchworm to walk and curls like a caterpillar to roll.

# Tiny Medical Robots Evolve

By SARAH TOY

Scientists have developed a tiny robot that can walk, roll, jump, swim and even transport minuscule cargo, in a step toward eventually putting robots to work inside the human body.

The robot, a rectangular sheet approximately four millimeters long and one millimeter wide, is made of silicone rubber and embedded with magnetic particles. The researchers, who described their work on Wednesday in the journal *Nature*, maneuvered the bot with an external magnetic control.

The robot shortens and lengthens itself like an inchworm to walk and curls onto itself like a caterpillar to roll. Along with swimming, the robot can skim the surface of water much like a beetle larva. To pick up cargo, the robot curls over the object and grips it with both ends before rolling away to its target destination.

Researchers have been working on tiny soft robots for years with the hopes of one

day using them in medical settings to deliver drugs to target tissues or to help with minimally invasive surgery. However, most of these robots have limited mobility and are unable to navigate effectively through more than one medium.

This new robot is more adaptable, its creators say. "There are both solid and liquid environments in the human body," said Metin Sitti, director of the Physical Intelligence Department at the Max Planck Institute for Intelligent Systems in Stuttgart, Germany, and the paper's senior author.

"Our robot works with both."

Dr. Sitti and his team tested the robot in a synthetic silicone rubber stomach filled with water and found it was able to travel across both the synthetic tissue and fluid-filled parts. They also placed the robot inside a piece of chicken meat and found they could guide and visualize it using ultrasound imaging, which Dr. Sitti said would be important for future medical applications.

There are several limita-

tions the robot needs to overcome before it can be used inside of a person.

The magnetic particles inside the robot have the potential to cause an adverse immune reaction in human tissue, researchers said. Dr. Sitti's team hopes to develop a version that is both compatible with human tissue and biodegradable.

"The challenge in this area is getting them to work in vivo, inside organisms," said Bradley Nelson, professor of robotics and intelligent systems at Swiss technical university ETH Zurich, who also researches and develops small-scale soft robots and wasn't involved in the project.

And at 4-by-1-millimeters, the little robot is still much too large. Dr. Sitti hopes to get the width down to less than 8 micrometers, the approximate diameter of a human capillary.

Dr. Sitti says his team will next test the robot in animals, and clinical usage might be possible in seven or eight years.

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## Special Advertising Feature

# Franchising To Thrive In 2018

Experts say 2018 should be a very good year for the industry, but all sectors will not grow equally

By Julie Bennett

"I'm feeling very optimistic," says Greg Helwig, CEO of 200-unit Kiddie Academy Educational Child Care in Abingdon, Md. "In 2017 our franchise community surpassed system-wide revenue goals and we awarded the highest number of new franchise agreements we've ever had. That momentum should carry over into 2018."

Robert Cresanti, president and CEO of the International Franchise Association (IFA) trade group in Washington, says he's heard nothing but "positive feelings" from members. "The new tax law provides a big tailwind for small business," he adds.

Besides cutting corporate taxes, the tax law passed last month provides relief for franchisees who run their businesses as S corporations and pay taxes as individuals, says Matt Haller, the IFA's senior vice president of government relations and public affairs. "Knowing they can deduct some of that 'pass through' income is giving franchisees more of an appetite to reinvest in their businesses," Mr. Haller says.

**NEW FRANCHISEES**

Doug Wong, of Atlanta, senior director of global franchise development for Denny's in Spartanburg, S.C., says he thinks the new tax code will also attract "people on the

BURGERFi



Full- and quick-service restaurants are utilizing third-party delivery services.

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Greg Helwig of Kiddie Academy.

Lending markets are so open to new franchisees that "a lot of lenders are coming to us with attractive terms," says Mr. Helwig. Kiddie Academy franchisee Eric Ng, who opened his first school in an Austin suburb in 2015, says, "borrowing money for the second school I opened last fall was so easy that I'm already looking for a location for a third one."

According to the Franchise Business Economic Outlook for 2018, prepared for the IFA by economic analysis and forecasting firm IHS Markit Economics, headquartered

in London, the number of franchised businesses in the U.S. should increase by 13,306 units in 2018, to 758,577. Franchise employment growth should increase 3.6%, almost double the 1.5% rate predicted for the general economy.

**GROWTH PROSPECTS**

But all franchise sectors will not grow equally and the new tax code is partially to blame. In a recent report, the National Association of REALTORS (NAR), a trade group based in Chicago, says that the country now has a low inventory of new homes for sale and the new tax bill's reduction of mortgage interest and property tax deductions "has greatly reduced incentives for home ownership. There will be no tax differential between renting and owning for more than 90% of taxpayers," the NAR says.

This will impact franchise categories that inspect or sell houses, and franchise businesses that install carpets, floors, window treatments and

custom closets in new houses. The Outlook also predicts slow growth for franchise sectors that serve the automotive aftermarket—selling and installing tires, mufflers and other accessories—due, in part, to consumers buying so many new cars.

**"THE NEW TAX LAW PROVIDES A BIG TAILWIND FOR SMALL BUSINESS."**

Wages are rising and consumers are using some of that money to pamper themselves at franchised salons or massage parlors, or to entertain or educate their children. Franchises that provide personal services will grow nicely this year, the Outlook predicts.

Rising wages have a downside, says the IFA's Matt Haller, because, as unemployment falls, "the labor market tightens and franchisees have to compete for workers." The situation is especially dire for franchising's largest segment, quick-service

restaurants, where sales have been flat for over a year.

**FOOD DELIVERY**

To boost sales and attract more young adults who crave convenience, both QSRs and full-service restaurants are utilizing third-party services to deliver food. Of the non-pizza QSR deliveries, about 25% are via third-party services, and for full-service restaurants about 30%, says Warren Sholcheck, senior vice president, industry relations-food service at market research firm NPD Group, Inc., in Rosemont, Ill.

Because third-party delivery services offer meals from a broad variety of restaurants that charge a service fee for each delivery, Mr. Sholcheck says, they work best in larger urban areas and provide a greater benefit to smaller chains, by introducing their food to a wider audience.

Corey Winograd, CEO of BurgerFi, in North Palm Beach, Fla., says, "Our delivery program is so successful that it's available in 80 of our 104 units now, and that number is increasing weekly."

So far, Denny's has rolled out delivery in about a quarter of its 1,557 restaurants and once customers try it, they return, says Mr. Wong. "We deliver 24/7. How else can you and your gaming friends get pancakes delivered at 3 a.m.?"

*Julie Bennett is a freelance writer and author specializing in franchising.*

*The Wall Street Journal news organization was not involved in the creation of this content*

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\*Based upon average sales for 3 hubs and 7 spokes as reported in the FDD Dated 3/9/17. The hub average is based upon 4 hub locations 2 of which exceeded the reported average gross sales of hubs \$896,326.\*\* The spoke average is based upon 5 locations 2 of which exceeded the average of \$629,704. The numbers are based upon past national experience and not an actual 10 store operation.



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## BUSINESS NEWS

# Ford Struggles to Improve Profit Margins

By MIKE COLIAS

On his first day on the job, Ford Motor Co. Chief Executive Jim Hackett compared fixing the auto giant's problems to a Rubik's Cube. Nine months later, he is still trying to solve the puzzle.

Ford on Wednesday reported disappointing fourth-quarter results and reiterated a bleak outlook for 2018. As Mr. Hackett scrambles to catch up to General Motors Co. and

other rivals on electric and driverless cars, the pressure on the company's finances is evidence the new CEO is facing challenges on many fronts.

Mr. Hackett, a longtime office-furniture executive, has begun cutting expenses in core areas including engineering and marketing. In recent months, executives have signaled plans to exit poorly performing segments, including a potential retreat from sedans and compact cars, while rerouting

billions of investment into high-profit trucks and sport-utility vehicles.

The outlook for 2018, however, shows Mr. Hackett is also dealing with factors outside of his direct control. Higher prices for steel, aluminum and other commodities, unfavorable currency movements and rising interest rates will pressure margins at both the company's automotive division and its lucrative finance arm.

Ford's global profit margin

of 5% on the core auto business last year is in the bottom tier of major auto companies and well below the 9% operating margin GM reported through the first three quarters of 2017.

On Wednesday, Ford Chief Financial Officer Bob Shanks said the auto maker needs to do a better job managing the business to weather swings in raw-material costs and exchange rates. He said the company's profit margin "should be 8% or more," which is Ford's

longer-range target.

"One of the reasons why perhaps you're not hearing as much from others about [commodity prices] is because they're fitter," Mr. Shanks said.

Mr. Hackett has outlined a corporate "fitness" plan that aims to cut \$14 billion in cumulative costs through 2022. He wants to simplify key areas of the business, from the way vehicles are engineered and built to the number of model combinations available at dealers.

Overall, Ford swung to a profit in the fourth quarter, but its operating income fell 19% from a year earlier to \$1.7 billion. On that basis, earnings per share were 39 cents, lower than the 42-cent average forecast of Wall Street analysts. Revenue rose 7% to \$41.3 billion, surpassing analysts' expectations of about \$37 billion.

Ford expects its operating income to decline to \$1.45 to \$1.70 a share in 2018, from \$1.78 last year.

## Toys 'R' Us Plans to Close 182 Stores



The retailer, which also operates the Babies 'R' Us chain and filed for bankruptcy last fall, plans to shut about 20% of its U.S. outlets.

## TRUCKS

*Continued from page B1*  
tract rates that shippers negotiate with carriers to rise by between 5% and 8% this year.

Beer and wine company Constellation Brands Inc. and food makers Campbell Soup Co. and J.M. Smucker Co. have all cited rising freight costs in recent earnings calls.

"Literally every possible thing that could be going against a shipper is happening right now," said Michael Redisch, a principal at Chicago-based freight broker Atomic Transport LLC.

Trucking fleets are adding capacity, but it can take months or even years to catch up with demand. Meanwhile, they are pickier about which manufacturers and retailers they work with. Shippers sometimes find it hard to persuade truckers to

pick up cargo at warehouses known for bottlenecks.

Mr. Stuch, the Michelin logistics manager, said the company "hit a wall in December" when some regular carriers wouldn't haul its cargo because of wait times at a few plants.

Michelin pushed employees to speed up receiving and is prioritizing shipments needed to keep production running over less-essential freight. Orders are spread out to avoid overloading carriers at the end of the week.

The company can only do so much, particularly when it needs a temperature-controlled truck to keep the synthetic rubber from freezing. For those trucks, loads outstrip available big rigs by a ratio of about 15 to 1, according to DAT. In Louisville, Ky., Michelin is paying \$2,600 on the spot market for some of those trucks, roughly twice its long-term contract rates. Some nonrefrigerated

loads are being shifted to rail.

A new federal safety rule in December requiring drivers to track hours behind the wheel with electronic logging devices, or ELDs, has exacerbated the problem. Prices shot up for some routes that now might take two days instead of one because of stricter timekeeping.

January is typically a quiet month for freight. But in the month's first three weeks, national average spot truckload rates were higher than during 2017's peak season, DAT says.

Extreme weather has made trucks even harder to come by.

During the "bomb cyclone" that closed roads and ports along the Atlantic seaboard this month, trucks were in such short supply that HelloFresh ended up asking one of its produce suppliers to help truck shipments from its Newark, N.J., warehouse to FedEx Corp.'s nearby regional air hub.

"We were unable to find trucks," said Brett Banchek, the company's vice president of supply chain for the U.S. "It was like trying to get a cab at LaGuardia."

Lynch Logistics Inc., a Bangor, Me., trucking and logistics firm that hauls cargo for retailers and paper goods makers, is "turning down freight on a daily basis," said Dana Burleigh, vice president of operations.

Former customers are calling looking for capacity, and some Canadian companies are offering to pay round-trip prices instead of the usual one-way rates if Lynch sends trucks their way, Mr. Burleigh said. The company has raised driver pay, costs it will eventually pass on to shippers.

Analysts expect capacity to become scarcer in April, when produce shipments pick up and full enforcement of the ELD rule kicks in. Vehicles without the devices may be removed from the road.

## Teamsters Tell UPS: No Delivery Drones Or Driverless Trucks

By PAUL ZIOBRO

The Teamsters union wants to prohibit United Parcel Service Inc. from using drones and driverless vehicles to deliver packages.

That was one of the labor union's initial demands as it kicked off high-stakes contract talks with UPS this week. The Teamsters also want the parcel giant to eliminate late-night deliveries and add an additional 10,000 workers to the ranks, among other things.

The two sides are taking up what is one of the largest collective bargaining agreements in the U.S., covering around 260,000 UPS employees. The International Brotherhood of Teamsters' National Negotiating Committee this week submitted to UPS an 83-page document updating the current contract, which expires in July.

Both sides declined to comment on the specifics of the proposal.

UPS spokesman Steve Gaut said the company is focused on negotiating a contract that provides it the flexibility required "to remain a highly competitive provider of reliable service," especially as smaller and new delivery businesses encroach on its turf.

The talks will take place amid an industry landscape



The collective bargaining covers around 260,000 UPS employees.

## EARNINGS WATCH

### COMCAST

#### Cable Giant Tops Expectations

Comcast Corp. increased revenue and profit beyond Wall Street's expectations, as the addition of broadband customers and growth at the NBCUniversal media unit helped offset a third straight quarter of television subscriber losses.

The cable juggernaut posted a \$12.7 billion benefit largely related to the tax overhaul.

For the fourth quarter, NBCUniversal's revenue rose 3.9% to \$8.78 billion, with gains at the theme parks, cable channels and broadcast network making up for declines at the film studio.

In all for the quarter, Comcast's net income rose to almost \$15 billion, or \$3.17 a share, largely because of the tax benefit. A year earlier, Comcast earned \$2.3 billion, or 48 cents a share. On an adjusted basis, earnings per share came in at 49 cents. Revenue rose 4.2% to \$21.9 billion. Analysts polled by Thomson Reuters projected adjusted earnings of 47 cents a share on \$21.8 billion in revenue.

—Austen Hufford



Visitors on a Harry Potter ride at Universal Studios Hollywood.

The diversified industrial group has about \$8 billion in overseas cash, and plans to bring back an additional \$2 billion over the next two years as it continues the expansion of its aerospace business.

Chief Executive Greg Hayes said the company still planned to close the \$23 billion Rockwell Collins deal by midyear, despite some pushback from peers such as Boeing Co. that have expressed concern about the enlarged company's negotiating clout.

The company reported a quarterly profit of \$397 million, compared with \$1 billion a year earlier. Per-share earnings fell to 50 cents from \$1.26, mainly because

of tax-related charges. It expects to make a cumulative net cash payment of \$1.5 billion through 2026 related to the new tax law.

—Doug Cameron

### NOVARTIS

#### New Drugs Counter Generic Competitors

Novartis AG said Wednesday that its fourth-quarter pretax profit increased on higher income from associated companies and strong sales of newer drugs, helping offset the negative impact of generics.

The Swiss pharmaceuticals company reported fourth-quarter

pretax profit of \$1.98 billion, compared with \$936 million during the same period a year earlier. Revenue increased 4.8% to \$12.92 billion, Novartis said.

Analysts surveyed by FactSet had expected pretax profit for the quarter of \$1.88 billion and sales of \$12.79 billion.

—Sonia Amaral Rohter

### WHIRLPOOL

#### Cost Cuts Are Likely To Improve Margins

Whirlpool Corp. told investors Wednesday that cost cuts combined with changes to global product pricing and selection will lead to a "significant" improvement in margins in 2018.

The company is in the spotlight this week after President Donald Trump put steep tariffs on imports of solar panels and washing machines, potentially giving a boost to Whirlpool. For the year, Whirlpool now expects adjusted earnings per share of \$14.50 to \$15.50. Wall Street analysts expect \$15.52.

Whirlpool also reported a one-time, noncash charge of about \$420 million related to the new tax law.

The company reported a fourth-quarter net loss of \$268 million, or \$3.69 a share, compared with a net profit of \$180 million, or \$2.36 a share, a year earlier. On an adjusted basis, earnings per share were \$4.10.

Revenue rose 0.8% to \$5.7 billion. Analysts polled by Thomson Reuters had expected adjusted earnings per share of \$3.99 and revenue of \$5.84 billion.

—Austen Hufford

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## MANAGEMENT

## HARASS

*Continued from page B1*  
director for an operator of senior residences. With mostly women running those properties, "I haven't had any sexual harassment since I switched industries," she says.

Harassment pervades the workplace. About 51% of female executives, managers and professionals say they have been sexually harassed on the job—and the same proportion has witnessed it, according to a December survey of 3,247 women and men by the American Management Association.

But many people also say they wouldn't feel comfortable reporting sexual harassment.

"Sexual harassment is such a profound assault to a woman's sense of dignity," says Debra Katz, a civil-rights lawyer at Katz, Marshall & Banks LLP who represents victims. In particular, "their self-esteem has been shattered," says Cathi Sitzman, a trauma psychologist in Washington, D.C. She occasionally treats harassed female managers for years.

Many women arrange a confidential settlement with their employer, which means they risk losing money if they break the agreement, according to plaintiffs' attorneys. But concealing their mistreatment complicates job hunts. Some shift professional focus and locale—a dual move that lawyer Amanda Blaurock says she made "to have power over my life again."

A confidential exit package can help victimized women find employment again through severance pay, outplacement counseling, executive coaching and a mutually agreed positive reference. Ms. Katz says she pushes for extensive aid by reminding em-



CHET STRANGE FOR THE WALL STREET JOURNAL

**Amanda Blaurock was forced to leave a law firm after she told it how a partner sexually harassed her.**

ployers, "You made this person lose their career."

Another lawyer with clients who have experienced sexual harassment insists that a positive reference offer logical explanations for a top performer's departure. "We ask for very specific talking points," and pick a senior executive to deliver the message, says Wendi S. Lazar, a partner at Outten & Golden LLP.

Yet companies don't always keep their written promises—as the marketing executive discovered. She says that a Midwest hotel agreed to recommend her after she quit in 2010 because her supervisor, its general manager, attempted to assault her and made sexually explicit remarks.

The single mother says she fruitlessly pursued a fresh hotel management post for six

months while holding three part-time jobs. One involved selling deli meat. She earned a fraction of her previous \$130,000 salary.

Worried that her prior employer was disparaging her,

**Many women arrange a confidential settlement. This can complicate job hunts.**

she retained reference checkers Allison & Taylor Inc. Her old boss told the firm that he disliked her job performance.

Threatened with litigation, the hotel wrote a glowing recommendation for its former sales and marketing director.

She soon landed the identical position at another Midwest hotel. In 2015, however, she says its new general manager grabbed her buttocks and similarly mistreated several female colleagues. She twice reported his offensive conduct. "I was disillusioned," she says. "I changed careers."

Ms. Blaurock used a different approach to recover from harassment. Nearly a decade ago, she took a senior role at a big international law firm in Washington. A powerful partner assured her she was headed for a partnership and gave her a laudatory initial performance review.

But "under the guise of business meetings, this partner would consistently pressure me into spending hours after work with him," Ms. Blaurock says. After she refused to go

out with him on Valentine's Day, he criticized her performance during her next review.

She says she realized she would never advance to partner. Ms. Blaurock remembers feeling so upset that she cried. "I thought my life and my career were over."

A car accident days later disabled her for months. Before resuming work, Ms. Blaurock informed her law firm about the partner's sexual harassment and requested a transfer to a different Washington office. Instead, she adds, "they forced me out the next day." Ms. Katz negotiated her confidential settlement.

Ms. Blaurock moved to Los Angeles. She avoided applying to large law firms because "I didn't want to go back to firms where there was institutionalized sexual harassment." She joined a small law firm, sold real estate, launched a nonprofit group for refugees and this year started a solo practice.

Harassed female managers who sue former employers usually face the highest career hurdles. That happened to Teresa Wilson decades ago. She filed suit against Forklift Systems Inc., an equipment-rental company in Nashville, Tenn. Her boss's constant off-color comments included the suggestion that she attract new business by promising sexual favors, she alleged in her lawsuit.

A 1993 U.S. Supreme Court decision on her case said victims of sexual harassment needn't prove extreme distress to prevail, making it easier for women to win such litigation.

Ms. Wilson's business aspirations failed, however. She sought work for three years, but couldn't even land interviews for secretarial spots, she remembers. She finally became a nurse and now loves caring for patients.

## Stanford M.B.A. Aid Policy Reviewed

BY KELSEY GEE

Stanford University's Graduate School of Business commissioned an external review of financial-aid policies after being criticized by some students for lack of transparency in aid awards and for giving women and domestic M.B.A. candidates preferential treatment.

In a Wednesday email to students and staff reviewed by The Wall Street Journal, assistant dean of admissions Kirsten Moss said the school also was creating a full-time position for an officer to oversee any changes to aid policies. Meanwhile, prospective members of the M.B.A. class of 2020, who started receiving admissions offers in December, will be awarded assistance "solely on the basis of financial need," according to the email.

For years, Stanford's M.B.A. program said financial assistance was determined solely by a student's calculated financial need and that it didn't give merit scholarships. That policy came under scrutiny last fall, when a data breach exposed around 10 years of financial-aid decisions. Analyzing that data, an M.B.A. student compiled a report showing students with nearly identical financial situations often receive "vastly different" awards and that, on average, women received more aid than men and domestic students were favored over international ones.

## Mutual Funds | WSJ.com/fundresearch

## Explanatory Notes

Data provided by LIPPER

Top 250 mutual-funds listings based on total net assets for Nasdaq-listed share classes. NAV is net asset value. Percentage performance figures are total returns, assuming reinvestment of all distributions and after subtracting annual expenses. Figures don't reflect sales charges ("loads") or redemption fees. NET CHG is change in NAV from previous trading day. YTD%RET is year-to-date return. f=Previous day's quotation. p=Distribution costs apply. 12b-1 r=Redemption charge may apply. t=Footnotes p and r apply. NA=Not available due to incomplete price, performance or cost data. NE=Not released by Lipper; data under review. NN=Fund not tracked. NS=Fund didn't exist at start of period.

Wednesday, January 24, 2018

Fund	Net NAV	YTD Chg %	YTD % Ret	Fund	Net NAV	YTD Chg %	YTD % Ret	Fund	Net NAV	YTD Chg %	YTD % Ret	Fund	Net NAV	YTD Chg %	YTD % Ret	Fund	Net NAV	YTD Chg %	YTD % Ret	Fund	Net NAV	YTD Chg %	YTD % Ret
American Century Inv	118.61	-0.92	8.0	TotRetBd	10.55	-0.02	-0.9	R2025	18.32	+0.01	4.2	TotBdAdml	10.63	-0.02	-1.0	SelValu r	32.99	+0.05	5.5	BallInst	35.83	-0.05	3.2
Ultra	47.06	-0.15	8.4	TotRetBd	10.55	-0.02	-0.9	R2030	27.14	+0.02	4.7	TotBdAdml	27.89	-0.02	-2.4	STAR	21.32	+0.04	6.2				
American Funds Cl A	24.52	-0.02	4.7	TotBdPlan	9.93	-0.01	-0.9	R2035	19.94	+0.01	5.1	TotBdAdmlxdr	32.61	+0.12	6.8	STLGrade	10.59	-0.02	-0.2	DevMktlslnxlnst	23.95	-0.07	6.2
AmcAp p	33.83	+0.03	7.4	TotBdRetail	18.21	-0.08	9.5	MFS Funds Class I	43.08	+0.18	5.6	TotBdPlan	28.73	+0.02	5.5	TgtRe2015	15.68	-0.02	2.3	Extndrl	88.80	-0.40	4.8
AMutlIA p	42.65	+0.01	4.5	EmgMktVa	34.08	+0.26	9.2	MFS Funds Instl	39.33	+0.05	5.4	TotBdPlan	15.30	+0.04	6.2	TgtRe2020	32.36	-0.02	3.1	Growthlnst	77.59	-0.25	7.2
BalA p	28.12	-0.08	3.6	ExtMktDlnc	24.98	+0.19	7.6	TotBdPlan	11.48	+0.03	7.4	TotBdPlan	43.62	+0.06	5.3	TgtRe2025	19.18	-0.02	3.7	InPrSeln	10.35	-0.01	0.8
BondA p	12.77	-0.01	0.8	IntlCoreEq	15.49	+0.06	6.5	TotBdPlan	10.56	-0.01	-0.6	TotBdPlan	27.99	+0.06	5.4	TgtRe2030	35.05	+0.01	4.2	InstIdx	258.60	-0.14	6.2
CapIBA p	64.73	+0.05	3.0	IntlVal	22.09	+0.10	7.8	TotBdPlan	26.95	-0.01	5.9	TotBdPlan	40.56	-0.33	8.9	TgtRe2035	21.66	-0.02	4.2	InstPlus	258.62	-0.14	6.2
CapWGrA	54.32	+0.09	6.3	IntSmCo	22.59	+0.13	6.2	TotBdPlan	33.45	-0.01	5.2	TotBdPlan	14.85	+0.04	6.8	TgtRe2040	37.67	+0.02	5.3	InstTStPlus	63.02	-0.08	6.0
EupacA p	59.94	-0.02	6.6	IntSmVa	24.35	+0.16	6.0	TotBdPlan	30.95	-0.01	6.6	TotBdPlan	18.75	+0.09	7.5	TgtRe2045	38.23	+0.02	5.6	MidCpStPl	44.56	-0.03	5.3
FdmInvA p	66.32	-0.05	6.6	IntSmEq	24.12	-0.05	5.9	TotBdPlan	11.46	-0.01	-0.1	TotBdPlan	43.62	+0.06	5.4	TgtRe2050	38.23	+0.02	5.6	MidCpStPl	219.77	-0.14	5.3
GwthA p	55.53	+0.03	8.1	IntlCoreEq	22.79	-0.04	5.7	TotBdPlan	20.92	-0.10	6.0	TotBdPlan	14.44	-0.02	-0.8	Vanguard Fds	27.99	+0.06	5.4	SmCapInst	73.94	-0.30	4.5
Hl TrA p	10.44	-0.01	1.0	IntlVal	22.09	+0.10	7.8	TotBdPlan	10.56	-0.01	-0.6	TotBdPlan	17.11	-0.01	-0.7	Vanguard Fds	13.76	-0.01	1.5	SmCapInst	231.41	-0.88	4.5
ICAA p	42.73	+0.05	5.8	US Small	37.45	-0.21	4.2	TotBdPlan	12.91	-0.01	-0.8	TotBdPlan	10.83	-0.01	-0.2	Vanguard Fds	10.83	-0.01	-0.2	SmCapInst	10.59	-0.02	-0.2
IncoA p	24.16	-0.01	3.4	US TgdVal	26.04	-0.15	5.9	TotBdPlan	17.21	+0.01	3.9	TotBdPlan	21.36	+0.05	3.6	Vanguard Fds	27.23	-0.01	1.0	STLGrade	10.63	-0.02	-1.0
N PerA p	46.49	-0.08	7.7	USLsgVa	41.55	+0.08	6.2	TotBdPlan	17.19	+0.01	3.9	TotBdPlan	21.52	+0.06	6.7	Vanguard Fds	21.56	-0.01	-1.0	InstBdlnxlnst	10.60	-0.01	-1.0
NEcoA p	48.12	+0.01	7.8	Dodge & Cox	12.92	+0.29	4.7	TotBdPlan	19.00	+0.02	7.1	TotBdPlan	20.17	-0.02	-0.8	Vanguard Fds	24.48	-0.01	3.7	InstBdlnxlnst	10.60	-0.01	-1.0
NwWrldA	71.14	+0.28	6.3	Freedom 2040	11.20	+0.29	4.7	TotBdPlan	10.17	-0.02	8.1	TotBdPlan	11.71	-0.01	-0.8	Vanguard Fds	26.15	-0.01	4.2	InstBdlnxlnst	10.60	-0.01	-1.0
SmCpA p	59.25	+0.05	6.2	Freedom 2040 K	11.35	+0.01	6.0	TotBdPlan	10.17	-0.02	8.1	TotBdPlan	11.71	-0.01	-0.8	Vanguard Fds	26.15						

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Ramin Beheshti Dow Jones & Company	Kfir Godrich BlackRock Inc.	Vincent Melvin Arrow Electronics, Inc.	Samir Shah Fortune Brands Home & Security Inc.
Otto Berkes CA Technologies	Suren Gupta Allstate Insurance Company	Todd Miner Yelp	Mark Sims The Scotts Miracle-Gro Company
Michael Brown ExxonMobil Global Services Company	Zack Hicks Toyota Motor North America, Inc.	Shamim Mohammad CarMax, Inc.	Sukhvinder Singh Host Hotels & Resorts, Inc.
Don Callahan Citigroup Inc.	Dave Hoag Options Clearing Corporation	Gregory Morrison Cox Enterprises Inc.	Manish Sinha Ansys Inc.
Vince Campisi United Technologies Corporation	Arthur Hu Lenovo Group Ltd	Thomas Murphy University of Pennsylvania	Balaji Srinivasan Masco Corporation
Paul Chapman Box Inc.	Bask Iyer Dell Technologies & VMware	Jonah Myerberg Desktop Metal	Julie St. John Capital Group Companies
Paul Cheesbrough 21st Century Fox	Sheila Jordan Symantec Corporation	Leslie Ottolenghi Caesars Entertainment Corp.	Adam Stanley Cushman & Wakefield
Mike Chinn S&P Global, Inc.	Carol Juel Synchrony Financial	Bill Owen JDA Software	Cynthia Stoddard Adobe Systems
Jack Clare Dunkin' Brands Group Inc.	Kumud Kalia Akamai Technologies Inc.	Tom Pageler Neustar	Brad Strock PayPal
David Colville Nestlé Waters North America	Deepak Kaul Zebra Technologies	Andy Palan Intarcia Therapeutics, Inc.	Luis Suarez H.I.G. Capital
David Cooper Wex Inc.	Tom Keiser Zendesk	Mike Parisi Illinois Tool Works Inc.	Andy Swenson UPC Insurance
Heather Cox USAA	Mike Kelly Red Hat Inc.	Tom Peck AECOM Technology Corporation	Graeme Thompson Informatica
Mark Cyphert Protective Life Corporation	Bob King ITT Corporation	Warren Perlman Ceridian	Andrew Timm PTC
John Dancy CSRA Inc.	Joseph Kochansky BlackRock Inc.	Fletcher Previn IBM	Atticus Tysen Intuit Inc.
Richard Daniels Kaiser Foundation Health Plan	Kalyan Kumar HCL Technologies Limited	Larry Quinlan Deloitte	Raja Ukil Wipro Ltd
Julia Davis Aflac Incorporated	Elena Kvochko Barclays Bank Plc	Brad Rable Stewart Information Services Corporation	Hector Roldan Vargas Banco de Credito e Inversiones SA
Samir Desai Equinox	Praniti Lakhwara Apttus Corporation	Becky Raichur MrOwl	Vic Verma International Flavors & Fragrances Inc.
Guillermo Diaz, Jr. Cisco Systems, Inc.	Madelyn Lankton The Travelers Companies, Inc.	Ashwin Rangan ICANN	Rob Waddell Apex Systems
Amy Doherty AARP	Todd Lant Blackbaud Inc.	Hasmukh Ranjan Synopsys, Inc.	Edward Wagoner Jones Lang LaSalle Inc.
Ann Dozier Southern Glazer's Wine & Spirits	Jane Lemerand Snap-on Incorporated	Julie Ray Fannie Mae	Philip Wiser Hearst Corporation
Dana Drysdale SJW Group	Jim Lott GTCR	Mike Rodgers Pilot Flying J	Sigal Zarmi PwC
John Engates Rackspace	Ralph Loura Rodan & Fields, LLC	Mark Roellig Massachusetts Mutual Life Insurance Company	

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## MARKETS DIGEST

## EQUITIES

## Dow Jones Industrial Average

**26252.12** ▲ 41.31, or 0.16%  
 High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open  
 Current divisor 0.14523396877348

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

## S&amp;P 500 Index

**2837.54** ▼ 1.59, or 0.06%  
 High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open  
 Session high 26300  
 Session open ▶ Close  
 Close ▶ Open  
 Session low 23900  
 65-day moving average 22300

Oct. Nov. Dec. Jan.  
 21500 2400

## Nasdaq Composite Index

**7415.06** ▼ 45.23, or 0.61%  
 High, low, open and close for each trading day of the past three months.



Oct. Nov. Dec. Jan.  
 6400 6600 6800 7000 7200 7400

## Major U.S. Stock-Market Indexes

	Latest			52-Week			YTD		
	High	Low	Close	Net chg	% chg	High	Low	% chg	3-yr. ann.
<b>Dow Jones</b>									
Industrial Average	26392.80	26106.94	<b>26252.12</b>	41.31	<span style="color: green;">0.16</span>	26252.12	19864.09	<b>30.8</b>	6.2 <b>14.4</b>
Transportation Avg	11256.94	11093.04	<b>11184.40</b>	-160.15	<span style="color: red;">-1.41</span>	11373.38	8783.74	<b>18.7</b>	5.4 <b>8.5</b>
Utility Average	691.33	685.91	<b>687.00</b>	-4.81	<span style="color: red;">-0.70</span>	774.47	655.38	<b>4.8</b>	-5.0 <b>2.4</b>
Total Stock Market	29471.38	29177.22	<b>29302.24</b>	-36.26	<span style="color: red;">-0.12</span>	29338.50	23699.03	<b>22.5</b>	5.9 <b>11.1</b>
Barron's 400	758.92	749.98	<b>753.03</b>	-3.71	<span style="color: red;">-0.49</span>	756.74	606.11	<b>22.0</b>	5.9 <b>12.0</b>
<b>Nasdaq Stock Market</b>									
Nasdaq Composite	7486.32	7376.75	<b>7415.06</b>	-45.23	<span style="color: red;">-0.61</span>	7460.29	5613.71	<b>31.1</b>	7.4 <b>15.9</b>
Nasdaq 100	6992.91	6880.68	<b>6919.35</b>	-44.11	<span style="color: red;">-0.63</span>	6963.46	5116.77	<b>34.3</b>	8.2 <b>17.4</b>
<b>S&amp;P</b>									
500 Index	2852.97	2824.81	<b>2837.54</b>	-1.59	<span style="color: red;">-0.06</span>	2839.13	2278.87	<b>23.5</b>	6.1 <b>11.4</b>
MidCap 400	2001.48	1980.80	<b>1987.74</b>	-6.14	<span style="color: red;">-0.31</span>	1993.88	1681.04	<b>16.2</b>	4.6 <b>10.9</b>
SmallCap 600	982.18	970.47	<b>972.96</b>	-6.23	<span style="color: red;">-0.64</span>	979.19	815.62	<b>14.9</b>	3.9 <b>12.5</b>

## Other Indexes

Russell 2000	1615.52	1595.94	<b>1599.61</b>	-11.09	<span style="color: red;">-0.69</span>	1610.71	1345.24	<b>15.7</b>	4.2 <b>10.4</b>
NYSE Composite	13556.38	13452.75	<b>13507.66</b>	33.55	<span style="color: green;">0.25</span>	13507.66	11205.24	<b>19.1</b>	5.5 <b>7.8</b>
Value Line	590.40	584.61	<b>586.63</b>	-1.53	<span style="color: red;">-0.26</span>	588.16	503.24	<b>12.8</b>	4.3 <b>5.8</b>
NYSE Arca Biotech	4895.30	4789.08	<b>4835.90</b>	-25.72	<span style="color: red;">-0.53</span>	4861.62	3134.03	<b>52.8</b>	14.5 <b>9.4</b>
NYSE Arca Pharma	575.79	571.45	<b>573.33</b>	3.45	<span style="color: green;">0.61</span>	574.47	470.36	<b>21.1</b>	5.2 <b>1.4</b>
KBW Bank	116.52	115.32	<b>116.15</b>	0.64	<span style="color: green;">0.56</span>	116.15	88.02	<b>24.9</b>	8.8 <b>19.2</b>
PHLX® Gold/Silver	92.94	90.49	<b>92.08</b>	2.18	<span style="color: green;">2.42</span>	96.72	76.42	<b>1.9</b>	8.0 <b>5.5</b>
PHLX® Oil Service	165.87	162.38	<b>163.17</b>	-2.32	<span style="color: red;">-1.40</span>	191.34	117.79	<b>-14.7</b>	9.1 <b>-5.5</b>
PHLX® Semiconductor	1383.72	1351.73	<b>1360.68</b>	-32.18	<span style="color: red;">-2.31</span>	1392.86	944.28	<b>42.3</b>	8.6 <b>26.0</b>
Cboe Volatility	12.19	10.89	<b>11.47</b>	0.37	<span style="color: green;">3.33</span>	16.04	9.14	<b>6.1</b>	3.9 <b>-11.7</b>

\$ Nasdaq PHLX

Sources: SIX Financial Information; WSJ Market Data Group

## Late Trading

Most-active and biggest movers among NYSE, NYSE Arca, NYSE Amer. and Nasdaq issues from 4 p.m. to 6:30 p.m. ET as reported by electronic trading services, securities dealers and regional exchanges. Minimum share price of \$2 and minimum after-hours volume of 5,000 shares.

## Most-active issues in late trading

Company	Symbol	Volume (000)	Last	Net chg	After Hours % chg	High	Low
SPDR S&P 500	SPY	24,267.8	283.03	-0.15	<span style="color: red;">-0.05</span>	284.05	282.96
Bank of America	BAC	13,859.3	32.12	0.03	<span style="color: green;">0.09</span>	32.14	32.06
Merck	MRK	3,727.2	61.18	...	<span style="color: red;">unch.</span>	61.36	61.18
Wells Fargo	WFC	3,648.5	65.48	...	<span style="color: red;">unch.</span>	65.67	65.09
FirstEnergy	FE	3,639.9	31.10	...	<span style="color: red;">unch.</span>	31.18	31.10
AU Optronics ADR	AUO	3,620.1	4.99	...	<span style="color: red;">unch.</span>	5.00	4.98
Regions Financial	RF	3,464.1	19.43	...	<span style="color: red;">unch.</span>	19.45	19.43
Apple	AAPL	3,425.6	173.99	-0.23	<span style="color: red;">-0.13</span>	174.97	173.85

## Percentage gainers...

Varian Medical Sys	VAR	209.7	127.90	14.85	<b>13.14</b>	127.90	113.05
AngioDynamics	ANGO	9.2	17.95	1.43	<b>8.66</b>	18.00	16.52
Dolby Labs A	DLB	13.8	69.81	5.40	<b>8.38</b>	72.50	64.26
Altryx CIA	AYX	20.1	29.50	1.67	<b>6.00</b>	29.99	27.82
8x8	EHT	12.9	16.55	0.90	<b>5.75</b>	16.55	15.65
<b>...And losers</b>							
Celestica Inc	CLS	27.3	10.07	-0.96	<span style="color: red;">-8.70</span>	11.06	10.00
Comstock Resources	CRK	10.0	9.06	-0.65	<span style="color: red;">-6.69</span>	9.71	8.80
Briggs Stratton	BGG	11.6	25.90	-1.29	<span style="color: red;">-4.74</span>	27.84	25.00
Collegium Pharmaceutical	COLL	12.0	23.84	-1.08	<span style="color: red;">-4.33</span>	24.92	23.67
Rocket Pharmaceuticals	RKCT	5.4	15.30	-0.60	<span style="color: red;">-3.78</span>	15.90	15.30

\* Volumes of 100,000 shares or more are rounded to the nearest thousand

## Trading Diary

## COMMODITIES

WSJ.com/commodities

## Futures Contracts

## Metal &amp; Petroleum Futures

	Contract	Open	High	Low	Settle	Chg	Open interest
Copper-High (CMX)-25,000 lbs.; \$ per lb.	3.2085	3.190	3.1530	3.1140	3.2285	0.1175	149,793
Jan 3.1530 3.2135 3.1530 3.2085 0.1190 286							
March 3.1185 3.2425 3.1140 3.2285 0.1175 149,793							
Gold (CMX)-100 troy oz.; \$ per troy oz.	1357.20	1357.20	1357.20	1355.90	20.20	26	
Feb 1341.40 1361.60 ▲ 1339.10 1356.30 19.60 201,744							
April 1346.50 1368.60 ▲ 1344.10 1361.40 19.70 257,912							
June 1350.90 1370.90 ▲ 1349.30 1366.60 19.70 60,195							
Aug 1356.10 1377.00 ▲ 1359.50 1372.20 19.90 21,694							
Dec 1368.00 1387.00 ▲ 1366.60 1383.60 20.40 27,805							
Palladium (NYM)-50 troy oz.; \$ per troy oz.	1109.00	22.10	3				
Jan 1087.65 1108.15 1087.55 1106.35 22.10 34,730							
June 1082.40 1100.50 1082.40 1099.55 22.35 3,186							
Sept 1090.65 1090.65 ▲ 1086.25 1094.40 22.35 312							
Platinum (NYM)-50 troy oz.; \$ per troy oz.	1013.30	8.00	5				
April 1012.50 1028.00 ▲ 1009.10 1015.80 8.00 84,686							
Silver (CMX)-5,000 troy oz.; \$ per troy oz.	17.425	0.570	12				
Jan 17.040 17.625 ▲ 16.985 17.489 0.576 138,719							
Crude Oil, Light Sweet (NYM)-1,000 bbls.; \$ per barrel	64.42	66.05	▲ 64.34	65.61	1.14	632,941	
April 64.25 65.79 ▲ 64.18 65.36 1.05 219,593							
May 64.01 65.45 ▲ 63.95 65.03 0.94 175,237							
June 63.68 65.02 ▲ 63.65 64.61 0.82 302,145							
Dec 61.34 61.87 ▲ 60.92 61.63 0.33 250,265							
Dec'19 57.31 57.38 56.81 57.28 -0.11 110,177							
NY Harbor USLD (NYM)-42,000 gal.; \$ per gal.	2.0849	2.1116	▲ 2.0738	2.1023	0.020	56,008	
Feb 2.0849 2.1157 ▲ 2.0711 2.1061 0.020 56,008							
Gasoline-NY RBOB (NYM)-42,000 gal.; \$ per gal.	98.2275	98.2275	98.2125	98.2125	-0.0175	170,273	
Feb 97.9550 97.9600 97.9400 97.9450 -0.0150 1,377,634							
March 97.7050 97.7100 97.6750 97.6800 -0.0200 1,761,484							
April 97.4450 97.4550 97.4000 97.4050 -0.0250 1,556,178							

## Agriculture Futures

	Contract	Open	High	Low	Settle	Chg	Open interest
Corn (CBT)-5,000 bu.; cents per bu.	351.25	357.00 ▲ 349.75	356.50	5.25	809,734		
May 359.50 365.25 ▲ 358.25 364.75 5.00 280,756							
Oats (CBT)-5,000 bu.; cents per bu.	270.75	278.75 ▲ 270.00	275.50	5.50	3,759		
May 264.25 269.75 ▲ 263.25 266.00 3.75 2,141							
Soybeans (CBT)-5,000 bu.; cents per bu.	985.75	994.75 ▲ 980.25	992.25	6.00	356,380		
May 997.00 1006.25 ▲ 992.00 1003.75 6.00 185,884							
Natural Gas (NYM)-10,000 MMBtu; \$ per MMBtu	3.541	3.624	3.404	3.509	.065	68,799	
March 3.090 3.132 ▲ 3.024 3.080 .041 375,624							
April 2.879 2.890 2.836 2.876 .027 177,304							
May 2.852 2.868 2.817 2.859 .022 162,325							
July 2.921 2.938 2.891 2.930 .018 86,948							
Oct 2.900 2.930 ▲ 2.882 2.923 .022 107,592							

## Macro &amp; Market Economics

## Watching the Gauges: U.S. Supply and Demand

Inventories, imports and demand for the week ended January 19. Current figures are in thousands of barrels or thousands of gallons per day, except natural-gas figures, which are in billions of cubic feet. Natural-gas import Natural-gas import and demand data are available monthly only.

## Inventories, 000s barrels

	Current	Expected change	Previous week	Year ago	4-week avg	5-year avg	
Crude oil and petroleum prod	1,203,013	...	1,206,1342	1,213	1,200	10,290	
Crude oil							
excluding SPR	411,583	-1,900	413,488	417	428	8,041	
Gasoline	244,040	...	241,253	239	244	575	
Finished gasoline	24,019	2,500	25,29	25	37	8	
Reformulated	46	...	0	0	0	0	
Conventional	23,973	...	25,29	25	37	8	
Blend. components	220,021	...	216,225	214	208	567	
Natural gas (bcf)	2,584	...	3	3	3	...	
Kerosene-type							
jet fuel	40,851	...	41,44	41	40	97	
Distillates	139,840	-2,000	139,169	140	142	251	
Heating oil	10,592	...	9,14	10	16	36	
Diesel	129,248	...	130,155	131	125	202	
Residual fuel oil	32,413	...	32,41	31	38	270	
Other oils	256,494	...	259,256	261	229	871	
Net crude, petroleum products, incl. SPR	1,867,467	...	1,870,2037	1,878	1,894	4,077	

## Imports, 000s barrels per day

	Current	Expected change	Previous week	Year ago	4-week avg	5-year avg	
Total petroleum product	20,636	...	20,809	18,639	20,508	18,852	
Finished motor gasoline	8,697	...	8,668	8,039	8,707	8,392	
Kerosene-type							
jet fuel	1,631	...	1,833	1,460	1,737	1,451	
Distillates	3,847	...	4,738	3,645	3,957	3,716	
Residual fuel oil	330	...	155	268	289	257	
Propane/propylene	1,770	...	1,543	1,384	1,724	...	
Other oils	4,362	...	3,871	3,842	4,094	...	

## Weekly Demand, 000s barrels per day

	Current	Expected change	Previous week	Year ago	4-week avg	5-year avg	
Total petroleum product	20,636	...	20,809	18,639	20,508	18,852	
Refined motor gasoline	8,697	...	8,668	8,039	8,707	8,392	
Kerosene-type							
jet fuel	1,631	...	1,833	1,460	1,737	1,451	
Distillates	3,847	...	4,738	3,645	3,957	3,716	
Residual fuel oil	330	...	155	268	289	257	
Propane/prop							

## BIGGEST 1,000 STOCKS

How to Read the Stock Tables			
The following explanations apply to NYSE, NYSE Arca, NYSE American and Nasdaq Stock Market listed securities. Prices are composite quotations that include primary market trades as well as trades reported by Nasdaq BX (formerly Boston), Chicago Stock Exchange, Cboe, NYSE National and Nasdaq ISE. The list comprises the 1,000 largest companies based on market capitalization.		<b>Footnotes:</b>	
Underlined quotations are those stocks with large changes in volume compared with the issue's average trading volume.		I-New 52-week high. II-New 52-week low. d-Dividends lost in the most recent four quarters. FD-FIRST day of trading. h-Does not meet continued listing standards. If-Late filing q-Temporary exemption from Nasdaq requirements. t-NYSE bankruptcy. v-Trading halted on primary market. w-In bankruptcy or receivership or being reorganized under the Bankruptcy Code, or securities assumed by such companies.	
<b>Boldfaced quotations</b> highlight those issues whose price changed by 5% or more if their previous closing price was \$2 or higher.			

Wall Street Journal stock tables reflect composite regular trading as of 4 p.m. and changes in the closing prices from 4 p.m. the previous day.

Wednesday, January 24, 2018

Net Stock Sym Close Chg

Stock Sym Close Chg

A B C

D E F

G H I

J K L

M N O P Q

R S T U V W X Y Z

Stock Sym Close Chg

## BANKING &amp; FINANCE

# Brokerage Revamp Rewards Banks

**Morgan Stanley,**  
Merrill results show  
strong fee income,  
defections leveling off

By LISA BEILFUSS

Wall Street's efforts to reinvent the traditional brokerage business are starting to pay off.

The latest financial results from **Morgan Stanley** and **Bank of America Corp.'s** Merrill Lynch, showing strength in fee-based revenue and a plateau in broker defections, represent some of the early rewards of the strategic transformation these firms have undertaken in the years since the financial crisis.

Faced with chastened investors, stricter regulations and increased competition from cheap automated advisers and brokers-turned-independent advisers, these traditional brokerages have tried to transform themselves into businesses that are more profitable, more attractive to younger investors and have a bigger share of clients' assets and debt.

"There's a misconception that these are old-school businesses," said Steven Chubak, an analyst at Nomura Instinet. "The reality is that these guys are investing in technology and changing their [businesses] so it's a higher quality...than the legacy brokerage business."

As part of their evolution, the traditional brokerage firms have revamped how they recruit and pay their ranks while working to recast stockbrokers as full-service financial advis-

## Back in Business

After losing advisers and assets to registered investment advisers and other rivals in recent years, traditional Wall Street brokerages like Morgan Stanley and Merrill Lynch are making progress in stanching the outflows.

### Market share by assets

■ Brokers  
■ Registered investment advisers

Year	Brokers (%)	Registered investment advisers (%)
2006	~58	~18
2011	~55	~20
2016	~50	~22

### Number of financial advisers

■ Bank of America's global wealth business\*  
■ Morgan Stanley

Year	Bank of America's global wealth business*	Morgan Stanley
2010	~15,000	~18,000
2011	~16,000	~17,000
2012	~17,000	~16,000
2013	~16,000	~15,000
2014	~15,000	~16,000
2015	~16,000	~15,000
2016	~17,000	~16,000
2017	~18,000	~17,000

### Net flows into fee accounts

■ Bank of America's global wealth business\*  
■ Morgan Stanley

Quarter	Bank of America's global wealth business*	Morgan Stanley
2016 1Q	~5	~2
2016 2Q	~10	~10
2016 3Q	~10	~12
2016 4Q	~15	~14
2017 1Q	~25	~18
2017 2Q	~22	~19
2017 3Q	~18	~15
2017 4Q	~18	~20

\*Bank of America's Global Wealth & Investment Management business includes Merrill Lynch

Sources: Cerulli Associates (market share); the companies (flows, advisers)

ers who can help with everything from investing to borrowing to saving for retirement.

The fourth-quarter results highlight the business transformations under way. At Morgan Stanley, 44% of client assets—or \$1.05 trillion—now generate steady fees. That share has continued to climb as advisers usher clients into more-lucrative fee-based accounts, as opposed to brokerage accounts that pay trading commissions. In the fourth quarter, Morgan Stanley advisers put \$20.9 billion into fee-based accounts, up 22% from a year earlier.

While flows into fee accounts at Merrill Lynch slipped from a year earlier, such accounts now represent 39%, or \$1.08 trillion, of total client balances. Analysts say the share of firms' fee-generating assets will continue to grow, potentially making up the majority of client assets. Adding in the impact of rising markets

and interest rates makes firms' assets on the fee side all the more profitable.

For the fee—which at roughly 1% of assets is for some clients more expensive than paying per trade—firms are pitching advisers charged with monitoring and consulting on clients' full financial picture, and these advisers are capturing more of clients' wealth. One way has been through lending: Merrill Lynch ended the year with record loan balances, and Morgan Stanley said loans to wealth-management clients continued a yearslong streak of double-digit increases.

"These businesses are attractive, big earners," Nomura's Mr. Chubak said.

Challenges remain, observers say, particularly from the competitive threat posed by booming independent advisory firms, "robo" advisers and discount brokerages that are attracting some Wall Street ad-

visers and clientele with more pay, cheaper prices and broader fiduciary care. Uncertainty surrounding the fiduciary rule, a new retirement-savings regulation requiring advisers handling retirement accounts to work in clients' best interest, is a wild card that is accelerating business

**Traditional brokerage firms have revamped how they recruit and pay their ranks.**

shifts and could test the traditional brokerages over the long term.

At the same time, climbing markets have given Wall Street brokerages the room to try to reinvent themselves. Rising assets levels have made relatively higher advisory fees pal-

atable to clients while generating bigger profits for firms to help finance investments in technology and adviser retention.

The firms' efforts to reinvent themselves rely on their ability to retain their current ranks, boost productivity and groom a new generation of financial advisers. Analysts and executives say brokerages are investing in training programs designed to develop homegrown advisers while eliminating costly bonuses firms had historically offered to lure experienced brokers, and their clients, from competitors.

Bank of America finance chief Paul Donofrio said 3% growth in adviser head count, to 17,000, during the fourth quarter was due to investments in the firm's training program.

Late last year, the firm announced changes to its 2018 pay program that directed more money to the lower tier of brokers.

# Custody Banks Acquire Glamour

By JUSTIN BAER

Wall Street's less glamorous players are suddenly among the hottest financial stocks.

Shares of custody banks **State Street Corp.** and **Northern Trust Corp.** hit all-time closing highs this week, and a recent climb by **Bank of New York Mellon Corp.** shares put its record within striking distance.

The three companies have outperformed the S&P 500's 25% rise over the past year. Two of them also beat the KBW Nasdaq Bank Index's 29% rise; the third nearly matched it.

The custody banks are benefiting from a market rally that is lifting assets they manage and fees they charge for back-office services to corporate and investment-management clients.

They also say they are attracting business. BNY Mellon and State Street both pulled in net new client money in the fourth quarter.

Many investors passed over these banks in early 2017 in favor of financial stocks viewed as more direct beneficiaries of any U.S. tax overhaul, said UBS analyst Brennan Hawken.

The most recent evidence of a turnaround came Wednesday as Northern Trust reported fourth-quarter net income, excluding certain charges, of \$1.32 a share, according to Credit Suisse Group AG analysts. On that basis, the firm earned \$1.11 a share a year earlier. Assets under custody totaled \$8.05 trillion at year-end, up 20% from a year earlier, while assets under management rose 23% to \$1.2 trillion.

Earlier this week, State Street reported a fourth-quarter profit of \$1.83 a share, excluding charges associated with the U.S. tax overhaul, up 24% from a year earlier. State Street closed 2017 with a record \$33.1 trillion in assets under custody and administration; assets at its money-management arm rose to \$2.8 trillion.

BNY Mellon last week reported a profit of 91 cents a share, excluding gains from the tax measure and certain charges. Assets under custody jumped to a record \$33.3 trillion, while assets under management also hit a new high, at \$1.9 trillion.

# Private Equity to Get Boost

By MIRIAM GOTTFRIED

The private-equity industry is set to get a shot in the arm from the tax overhaul, a new analysis shows.

Though the new tax law contains provisions that are inimical to private-equity firms' interests, the positives more than outweigh the negatives, according to private-equity investor and advisory firm **Hamilton Lane Inc.**

The values of profitable private-equity-owned U.S. companies should climb between 3% and 17% on average as the law moves to lower the corporate tax rate to 21% from 35% and to give companies the ability to deduct capital spending upfront.

Those two provisions are expected to trump the higher cost of debt that will result from the legislation, Hamilton Lane found.

The tax overhaul limits the interest payments a company can deduct to 30% of earnings before interest, taxes, depreciation and amortization, or Ebitda, which is a problem because private-equity firms use substantial amounts of debt to make acquisitions.

That will change to a more restrictive 30% of earnings before interest and taxes in 2022.

Buyout firms have worried about the impact of the cap on companies they own. But it now looks like those fears may have been overblown.

Private equity "is very much a big winner out of the reform," said Brian Gildea, a Hamilton Lane managing director.

# Hedge Funds Tap the Brakes on Bitcoin

By GREGOR STUART HUNTER AND LAURENCE FLETCHER

Hedge funds that rode the wave as cryptocurrencies surged last year have turned cautious, the latest sign of doubt among investors that the red-hot rise of bitcoin and its ilk can be sustained.

Bitcoin's rise of more than 13-fold in 2017 helped fuel a stellar year for the still-small number of hedge funds dedicated to cryptocurrency investing. An index of about 17 cryptocurrency hedge funds from data provider HFR Inc. rose almost 3,000% in 2017, light-years ahead of the 8.7% average return across the global hedge-fund industry.

Several crypto-focused funds now say it is time for a break.

"You need to sit down and put a towel on your head and have a think about things," said Lee Robinson, founder of Monaco-based hedge-fund firm **Altana Wealth**, whose \$45 million cryptocurrency fund returned roughly 1,500% last year.

Mr. Robinson said he became concerned when the time taken for the price of cryptocurrencies to double was halving late last year, a sign the market was overheated.

He said the fund is now positioned to profit from price falls on stocks associated with bitcoin and blockchain technology, and cut back its bet on rising cryptocurrency prices. Blockchain is the technology that underpins bitcoin and other cryptocurrencies and records transactions on a public ledger.

The change of heart among investors like Mr. Robinson has coincided with other factors now buffeting bitcoin's fortunes. Financial regulators have become concerned about the bubbly prices of cryptocurrencies and their association with illegal activity, particularly in Asia, where much



Buying bitcoins at La Maison du Bitcoin in Paris. Some have turned cautious on the currency as its roller-coaster ride continues.

### Masters of Blockchain

#### Performance in 2017

3,000%

2,000%

1,000%

0%

2017

Cryptocurrency hedge funds

Bitcoin

Sources: HFR (hedge funds); Thomson Reuters (bitcoin)

THE WALL STREET JOURNAL.

on Dec. 16. It started 2017 at \$892.

Few cryptocurrency funds have established much of a track record, and many private banks have been reluctant to offer them to clients, said Mohammad Hassan, head of hedge-fund research at Euromoney Pte. Ltd. in Singapore.

Most cryptocurrency funds use a simple strategy of buying cryptocurrencies and selling them after they appreciate, he said.

"What they're doing is pure market timing," he said. "For me, the question is, why would anybody pay 20% fees for this?"

But professional fund managers are interested, as the launch of bitcoin futures markets in the U.S. late last year gave investors concerned about those markets' highly

speculative nature some confidence they are becoming more mainstream. They have also made it easier to bet on falling—not just rising—prices.

Now, some money managers are leaving lucrative positions on Wall Street and other financial centers to set up funds.

Lewis Fellas, a former portfolio manager at Harvard Management Co., which manages the university's endowment, left Boston in 2016 to set up **Bletchley Park Asset Management**, based in Hong Kong.

The fund returned 106% last year, basing its investing decisions on technical analysis of cryptocurrency markets and by comparing digital currencies to social networking companies like **Facebook Inc.** and **Twitter Inc.**, which it believes share similar characteristics.

The fund returned 106% last year, basing its investing decisions on technical analysis of cryptocurrency markets and by comparing digital currencies to social networking companies like **Facebook Inc.** and **Twitter Inc.**, which it believes share similar characteristics.

Still, some funds remain bullish. California-based **Pantera Capital** wrote in a note to clients last month that bitcoin could rise to \$50,000 by 2019 and to a "fair value" of \$500,000 in the next 10 years.

But Mr. Fellas said he has turned cautious on cryptocurrencies this year, and is currently 50% invested, down from 90% in December.

"We felt the market was looking pretty stretched across most coins," he said.

Data from the Commodity Futures Trading Commission show that hedge funds overall entered 2018 with bets bitcoin prices would fall, known as short positions. Those short bets outweighed those wagering it would rise by a factor of four. As of Jan. 16, such short positions still outnumbered those taking the opposite bet, the data show.

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By ASJYLYN LODER

In the absence of bitcoin exchange-traded funds, investors are snapping up the next best thing.

Investors have poured almost \$180 million combined into two week-old ETFs that buy companies that have invested in blockchain, the technology behind the cryptocurrency. They are the first such ETFs to launch and have capi-

talized on the demand for investments pegged to digital currencies. U.S. regulators have resisted other efforts to create bitcoin-linked products.

Through Tuesday, the Amplify ETF is up 6.4% since its inception net of fees, while the Reality Shares fund is up 3%. The S&P 500 has risen 2.3% in those five trading sessions through Tuesday.

## MARKETS

# Unease Over Trade Keeps Lid on Stocks

Blue chips inch up after U.S. remarks at Davos raise worries about protectionist stance

By MICHAEL WURSTHORN AND RIVA GOLD

The Dow Jones Industrial Average edged slightly higher, as concerns of a pickup in trade tensions weighed on the index.

The blue-chip index rose as much as 182 points in early trading, but later fell after U.S. Commerce Secretary Wilbur Ross, while speaking in Davos, Switzerland, accused Beijing of practicing protectionism under the guise of free trade. The Dow recovered from the de-

cline later **WEDNESDAY'S MARKETS** in the day to close at a record.

The comments followed remarks by Treasury Secretary Steven Mnuchin in Davos that the Trump administration supports bilateral trade agreements and that a weaker dollar is good for trade.

The ICE U.S. Dollar Index fell below 90 for the first time since December 2014 after Mr. Mnuchin's remarks and finished at 89.2, down 1% on the day.

"It seems like the government is moving toward a more protectionist policy," said Larry Peruzzi, managing director of international equity trading at Mischler Financial. "Firms that would be hurt the most would be our exporters, and [technology] is one of our biggest exports."

The Dow industrials rose



**The S&P tech sector fell 0.9%, making it the index's worst-performing group. Apple dropped 1.6%**

41.31 points, or 0.2%, to 2625.12. The S&P 500 declined 1.59 points, or less than 0.1%, to 2837.54, while the Nasdaq Composite Index slipped 45.23 points, or 0.6%, to 7415.06, its biggest decline this year.

The technology sector in the S&P 500 fell 0.9%, making it the index's worst-performing group. Chip maker **Intel** fell 55 cents, or 1.2%, at \$45.51, while **Apple** shed 2.82, or 1.6%, to 174.22.

Changes to trade policy, such as the tariffs the Trump administration announced this week on imported solar panels and washing machines, could make certain goods more expensive, lead to an uptick in inflation and force the Federal Reserve to alter its glide path for interest rates, analysts said. For many investors, rising inflation is one of the biggest threats to the long-running rally.

## Strategists Trail Climbing Market

The year is less than a month old and already the stock market has put in almost a full year's worth of gains.

The S&P 500 has climbed 6.1% this year to close at 2837.54 on Wednesday.

That is near the average year-end target among Wall Street strategists of about 2850 from around the turn of

the year. And it is far above the lowest of the 20 targets, **HSBC Holdings PLC**'s prediction of 2650.

Some analysts are revising their targets higher. Bank of America Merrill Lynch upped its end-of-2018 target to 3000 from 2800 this week, saying in a research note that "sentiment may be most relevant" for stocks this year.

It isn't unheard of for stocks to blow past their year-end targets before the year is out, especially when earnings

"Maybe that causes the Fed to move rates too quickly and that could ultimately lead to a mild recession," said Timothy Chubbs, chief investment officer of Unvest Wealth Management.

Company earnings announcements also contributed to some of the biggest individual stock moves.

are increasing briskly and the economy is kicking into a higher gear. In 2017, the S&P 500 passed the average year-end target at the beginning of March.

But the speed of the rally this year has raised some concerns that stocks are vulnerable to a sudden reversal. The recent surge further increases "the risk of a significant correction," said Adam Slater, lead economist at Oxford Economics, in a note to clients.

—Ben Eisen

**Navient** gained 1.07, or 8%, to 14.51, after the student-loan servicer swung to a net loss due to a write-down of deferred tax assets. Excluding the write-down, Navient reported a profit slightly ahead of analysts' projections.

Elsewhere, Mr. Mnuchin's comments on the dollar contributed to modest pullbacks of shares in Europe and Japan.

A weaker dollar tends to be a boon for S&P 500 multinationals, with companies in the index generating roughly 30% of revenue outside the U.S., according to research firm FactSet. But the currency's slide isn't helpful for their overseas counterparts, whose revenue is worth less when translated back into stronger local currencies.

The Stoxx Europe 600 fell 0.5%, snapping a four-session win streak. Japan's Nikkei Stock Average declined 0.8% and was down a further 0.9% at midday Thursday.

due to report earnings Thursday also slipped, including **Southwest Airlines** and **American Airlines Group**.

In earnings news, **W.W. Grainger** added 42.52, or 19%, to 271.97, after the distributor of cleaning supplies, safety gear and other items reported a better-than-expected profit.

## LeEco Unit Plunges By Maximum Limit As Trading Resumes

Shares for the online-video unit of cash-strapped Chinese technology conglomerate **LeEco Holdings** traded for the first time in nine months Wednesday—and fell the 10% maximum daily limit.

Potentially, weeks of such declines loom.

Last April, **Leshi Internet Information & Technology Corp.** asked for a trading halt as it flagged a possible asset restructuring. But a 9.8 billion yuan (\$1.53 billion) acquisition of LeEco film assets ultimately didn't happen, clearing the way for stock trading to resume.

But, thanks to the rules governing China's equities market, it could be some time before it is clear at what price investors think Leshi shares should trade.

To prevent volatility and protect investors from deep losses, China limits daily stock moves to no more than 10% above or below the prior trading day's closing level. First-day moves for initial public offerings are capped at 44%. Taiwan also has a 10% limit but many other countries largely allow individual stocks to move as the market sees fit.

Limiting daily moves delays the time it takes for a stock's price to fully reflect the latest developments.

According to Wind Information Co., consensus on the stock's fair-value estimate is 3.91 yuan (61 cents). Leshi finished Wednesday at 13.80 yuan, its lowest level in about three years. The amount of shares that changed hands—2.4 million—was a small cry from the 50 million-plus regularly seen during trading days before last year's trading halt.

Some market participants say it is time for Chinese regulators to consider removing the 10% limit because investors have matured. They argue the limit may also actually fuel speculative sentiment. Some newly public companies last summer saw their shares log 10% gains each day for several weeks.

As of Wednesday, Leshi had the seventh-largest market cap among companies listed on Shenzhen's ChiNext startup board, at \$8.6 billion. But analysts said it isn't expected to have a broader market impact.

Still, "to see any stock falling by 10% on many days in a

row will inevitably cause some psychological pressure," said Shen Meng, president of Beijing-based investment bank Chanson & Co. The limit "was first set up to prevent small investors from big fluctuations." But they aren't needed any longer, he said. "You can't treat investors as children forever."

Leshi was dropped from major Shenzhen stock indexes at the start of January and price declines have long been anticipated. Still, employees at some brokerage firms said the Shenzhen Stock Exchange sent a notice Wednesday instructing brokers to "appease and deal with" investors in preparation for Leshi's trading resumption.

For its part, the ChiNext Price Index jumped 2.6% Wednesday, far outpacing gains in other Chinese benchmarks, to notch its biggest daily increase since August. It had lately been lagging behind, as the mainland market favored Chinese large caps—but the index closed at its highest level in six weeks. Analysts suspect state-backed funds fueled the gain by scooping up heavyweight stocks.

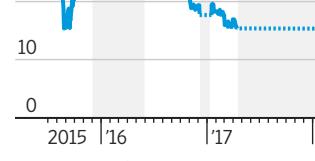
LeEco Holdings founder Jia Yueteng—whose company's businesses include smartphones and electric cars—was once dubbed China's Steve Jobs. He admitted last year that the company expanded too quickly and was facing a cash crunch.

Chinese courts have frozen more than 1.2 billion yuan of assets owned by Mr. Jia, his wife and several LeEco units over missed interest payments to a bank.

—Yifan Xie

### In Deep Water

Leshi Internet Information & Technology's share price



Note: 10 yuan = \$1.57

Source: Wind Info

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**After United outlined plans to add routes and beef up domestic hubs, its share price fell more than 11% on Wednesday**

## United's Expansion Hits Airline Shares

By SUSAN CAREY

Airline shares tumbled on Wednesday as investors fretted that **United Continental Holdings Inc.**'s expansion plans threatened profit margins and could spark a price war if other carriers follow suit.

United shares plunged more than 11% a day after the No. 3 U.S. airline outlined plans to add routes and beef up domestic hubs. Shares of four airlines due to report earnings on Thursday, **American Airlines Group Inc.**, **Southwest Airlines Co.**, **Alaska Air Group Inc.** and **JetBlue Airways Corp.**, all slipped as well, as did shares in **Delta Air Lines Inc.** and **Spirit Airlines Inc.**

"There's no way to sugarcoat the capacity additions," JPMorgan Chase analyst Jamie

Baker said of United's plans to add as much domestic capacity by 2020 as discounter Spirit operates today overall. "Couldn't United have bolstered its hubs by severing one?"

Evercore Analyst Duane Pfennigwerth said United failed to convince investors that the capacity boost will generate enough passenger and revenue growth to reverse six quarters of declining profit margins. "Investors are still expected to take it on faith," he said.

Investors don't like go-go capacity expansion because they fear it will spark accelerated growth by other carriers, which can result in more seats than demand and lead to price wars.

"United's capacity outlook is likely to be met with aggressive competitive re-

sponses," said Cowen & Co. analyst Helane Becker.

American, the biggest U.S. carrier, added just 1% to its capacity in 2017 compared with the prior year, but its shares tumbled 6% on Wednesday.

Shares of Southwest, Alaska Air and JetBlue all fell a day before their earnings reports, though investors don't expect any of them to expand capacity as aggressively as United.

Delta, the first carrier to report fourth-quarter results, said it expects to add 3% to its capacity in the current quarter. Its shares fell 5.2% Wednesday.

United President Scott Kirby on Tuesday stressed the need to boost its network and catch up with rivals after shrinking service over the past five years. He said United in particular needs to bolster its

midcontinent hubs in Chicago, Houston and Denver, where profit margins are 10 points lower than at American and Delta hubs.

"We're not trying to reinvent the wheel here," he said. "In fact, this is a well-worn playbook."

In a statement Wednesday, United said it is "very confident in the strategy we set out, which we believe will drive sustainably higher margins and profits. We are fully focused on executing our plans in 2018 and beyond."

The share turmoil recalled a 12% one-day decline in October when United irritated investors by offering little clarity on its progress in efforts to cut costs and raise revenue. The Chicago-based company disclosed better-than-expected fourth-quarter results on Tuesday.

## U.S. Government Bonds Drop Again

By AKANE OTANI

U.S. government-bond prices fell Wednesday, sending yields climbing again as the Dow Jones Industrial Average notched a fresh record.

The yield on the benchmark 10-year U.S. Treasury note settled at 2.654%, compared with 2.622% Tuesday.

The yield on the 10-year note, which rises as bond prices fall, has advanced in five of the past six trading days, after settling at the highest level in more than three years earlier in the week.

Expectations that an uptick

in global economic activity will continue in 2018 have helped send U.S. stocks to records in recent sessions while weighing on prices of government bonds, which tend to do well when investors are uncertain about the economic outlook.

"The data has been pretty good, and the market is starting to believe the [Federal Reserve] will actually be able to hike [interest rates] three times this year, so on a short-term basis we're seeing that confluence of factors play out," said Lisa Hornby, fixed-income portfolio manager at Schroders Investment Management.

Federal-funds futures, used

by traders to place bets on the path of interest rates, on Wednesday afternoon showed a roughly 58% chance that the Fed will raise short-term rates at least three times this year, up from 40% one month ago.

Growing expectations of multiple rate increases have pulled up rates on shorter-term bonds, which tend to be more sensitive to shifts in interest rates. The yield on the two-year Treasury note settled at 2.084%, up from 2.042% Tuesday, notching a 52-week high.

The Treasury Department sold \$34 billion of five-year notes and \$15 billion in two-year floating-rate securities, part of \$103 billion of notes it planned to auction this week.

### AUCTION RESULTS

Here are the results of Wednesday'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.

#### TWO-YEAR FRNs

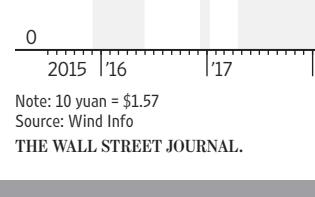
Applications	\$52,851,269,800
Accepted bids	\$17,204,781,800
"noncompetitively"	\$20,292,100
"foreign noncompetitively"	0.00%
Bids at clearing yield accepted	97.3%
Cusip number	912828375

The floating-rate notes, dated Jan. 31, 2018, mature on Jan. 31, 2020.

#### FIVE-YEAR NOTES

Applications	\$89,435,339,500
Accepted bids	\$38,997,034,500
"noncompetitively"	\$48,762,800
"foreign noncompetitively"	0.00%
Auction price (rate)	99.72321
Interest rate	(2.434%)
Bids at clearing yield accepted	53.0%
Cusip number	912828372

The notes, dated Jan. 31, 2018, mature on Jan. 31, 2023.



Note: 10 yuan = \$1.57

Source: Wind Info

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## MARKETS

# Stocks' Rising Tide Buoys Junk Bonds

BY SAM GOLDFARB  
AND BEN EISEN

The extra yield that investors demand to hold junk-rated corporate bonds has shrunk to its lowest level in more than a decade, marking another milestone in the U.S. economy's recovery from the financial crisis.

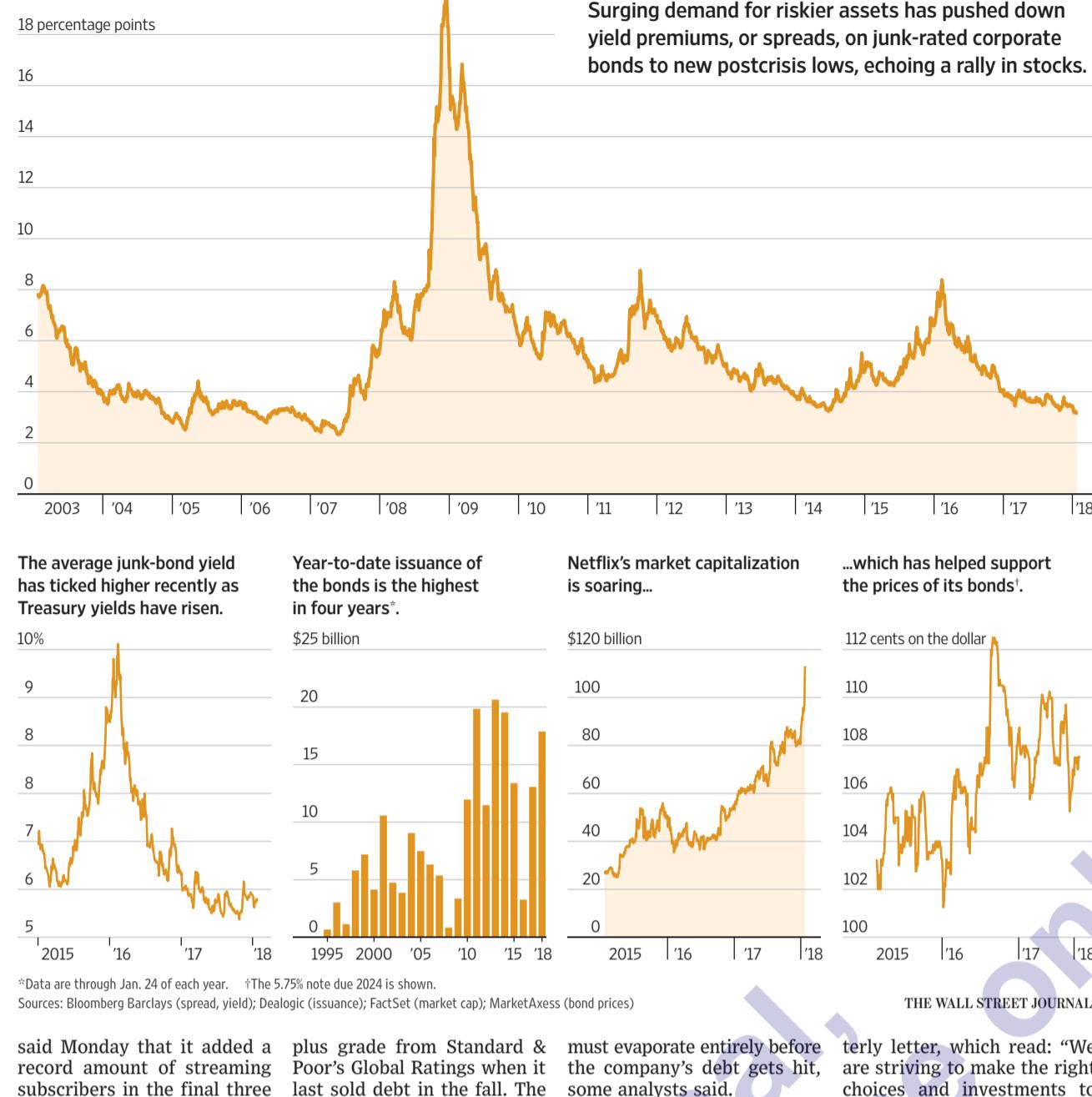
The average gap in yield between junk-rated corporate bonds and U.S. Treasurys, adjusted for the option that companies have to redeem bonds earlier than their maturity date, hit 3.16 percentage points on Monday, its lowest level since July 2007, according to Bloomberg Barclays data. It settled Tuesday at 3.17 percentage points.

Low yield premiums, or spreads, show that investors are demanding less compensation to bet on chancier companies. It is a sign that investors believe the economic expansion will continue at a robust enough pace for these companies to make good on their debt, a view that has also been pushing stock prices to record highs.

In certain cases, stocks and bonds have been able to feed off each other, with lofty market capitalizations supporting debt prices, which in turn lead to low borrowing rates and a benign environment for equities, analysts said. While such a dynamic can be a boon to businesses and investors, it is raising some concerns that it could exacerbate selling in a downturn.

"On some level, it's a rising tide," said Matt Freund, co-chief investment officer and head of fixed-income strategies at Calamos Investments. "To the degree that equity valuations fill in or swell underneath the debt," that is generally good for bond prices, he added.

In a recent example, Netflix Inc.'s market value blew past \$100 billion for the first time on Tuesday, after the company



\*Data are through Jan. 24 of each year. †The 5.75% note due 2024 is shown.

Sources: Bloomberg Barclays (spread, yield); Dealogic (issuance); FactSet (market cap); MarketAxess (bond prices)

said Monday that it added a record amount of streaming subscribers in the final three months of year, despite price increases. The company's stock has shot up more than 80% in the past month, riding a wave of investor excitement about rapidly growing companies with technology focuses.

Netflix is a also junk-rated company that received a B-

plus grade from Standard & Poor's Global Ratings when it last sold debt in the fall. The company had negative free cash flow of \$2 billion last year, a burn rate that it expects to widen this year as the company continues to invest in its business.

Still, Netflix's high market value helps bolster that debt because equity value typically

must evaporate entirely before the company's debt gets hit, some analysts said.

"Even if the Netflix story deteriorates fundamentally, that creates a lot of headroom before Netflix is under stress," said Lindsay Gibbons, a senior analyst at CreditSights.

That isn't lost on Netflix executives, who referenced the layer of security in their quar-

terly letter, which read: "We are striving to make the right choices and investments to grow the value of the firm, and that is what also ultimately secures our debt. High yield has rarely seen an equity cushion so thick."

Netflix's recently issued 4.875% notes due 2028 traded Wednesday afternoon at 99.25 cents on the dollar, up from

98.25 cents at the end of last year, according to MarketAxess. The company said in its letter that it anticipates "continuing to raise capital in the high-yield market."

With its negative free cash flow and ambitious growth plans, Netflix is somewhat unusual for a junk-rated business. Many debt investors, moreover, are hesitant to place too much weight on a company's market capitalization because it could evaporate quickly in a bear market.

Unlike stocks, there is a limit to how much corporate bonds can rally. Though yields fall when bond prices rise, analysts said investors will always demand some extra payment above prevailing Treasury yields to be compensated for the risk that companies will default.

The recent plunge in spreads has raised concerns that investors aren't being paid enough for the risks they are taking on and that the market could be ripe for a reversal when economic conditions change or major stock indexes decline. Still, many high-yield investors say they aren't too concerned at the moment, largely because there are no clear signs of a recession on the horizon.

The U.S. speculative-grade default rate was 3.3% in December, according to Moody's Investors Service, down from 5.8% at the start of 2017. As of the third quarter, the average earnings of junk-rated companies before interest, taxes, depreciation and amortization outstripped interest costs by 3.5 times, the largest amount in nearly three years, according to BofA Merrill Lynch Global Research.

With the economy in good shape, "spreads are clearly tight with regard to the historical range," but they "are tight for a reason," said Patrick Flynn, portfolio manager at Neuberger Berman.

## HEARD ON THE STREET

FINANCIAL ANALYSIS &amp; COMMENTARY

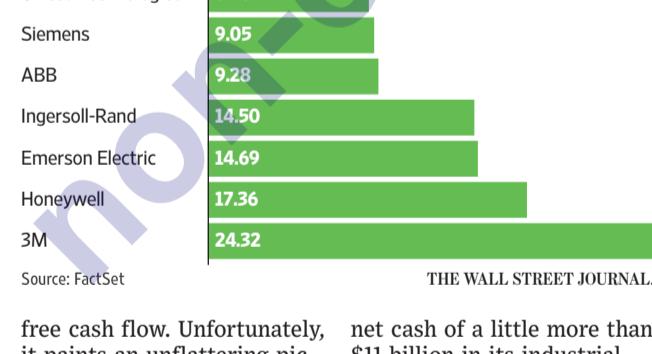
WSJ.com/Heard

Email: [heard@wsj.com](mailto:heard@wsj.com)

# GE's Bad News Shows Ugly Truth

### Industrial Waste

Return on invested capital, 2016



free cash flow. Unfortunately, it paints an unflattering picture. Even after its shares fell 44% in the past year, and even using 2016 financial figures from before the recent collapse in earnings in its power unit, a comparison with industrial competitors hardly suggests a screaming bargain. GE's ratio of enterprise value to free cash flow is 31% dearer than the median of eight peers.

GE ended the year with

net cash of a little more than \$11 billion in its industrial units. Cutting its dividend in half will preserve a little

more than \$4 billion this year, but suspending dividends from its GE Capital unit for the foreseeable future as it plugs its insurance hole will offset those savings. And while GE sees its cash balance excluding

62.5%-owned Baker Hughes climbing to about \$15 billion by the end of 2018, that in-

cludes an anticipated \$4 billion to \$5 billion in proceeds from disposals. In other words, the actual business of selling and servicing stuff probably won't generate any net cash this year.

In addition to the uncertainty about how much contract assets flattered past earnings, even cash flow may have been boosted. GE Capital often buys receivables from its industrial units so cash is received more promptly. As the finance business conserves cash to make statutory insurance contributions, that could create a short-term hiccup. GE Capital also may be less willing to underwrite riskier deals for industrial equipment, sapping revenue.

It says something about GE that horrific earnings and an SEC probe knocked only 3% off the share price.

Wednesday's news could have been worse. It speaks volumes that bargain hunters have avoided this wounded blue chip. There clearly was a lot less there than met the eye. —Spencer Jakab

### OVERHEARD

**Capital One Financial** has learned a lesson about guidance: Don't give it.

The company hadn't typically forecast the level of defaults in its credit-card portfolio. But it did for 2017, initially saying it expects the charge-off rate on domestic cards to be in the "low 4%" range.

That turned out to be too low. As delinquencies and defaults crept up, Capital One said that its charge-offs would be in the "mid-4%" range, then the "high 4% to around 5%" range.

In the end Capital One got it right, but just barely. The net charge-off rate on domestic cards for the full year of 2017 came to 4.99%, according to results released Tuesday evening.

In a conference call, Capital One executives suggested the default rate could drift up for a while before stabilizing or coming down in the second half of the year. But, lesson learned, the company isn't providing any more specific guidance.

### United Risks Sparking A Price War

When the going gets good, it can be tough to avoid overconfidence. Investors fear **United Continental Holdings** could be making exactly that mistake.

Late Tuesday, United reported fourth-quarter earnings that topped analyst estimates, but by Wednesday morning nobody was paying attention to that.

Instead, the focus was on the airline's plan to increase available seat miles, a measure of capacity, by 4% to 6% a year over the next three years, compared with 3.5% last year and 1.4% in 2016.

That raised concerns United risks expanding too quickly and then having to cut ticket prices sharply to fill seats.

United's stock nose-dived by more than 11% on Wednesday. Shares of other airlines also fell sharply on worries that United's growth plan would prompt them to respond in kind in an effort to protect their market share.

The environment airlines are operating in is unusually strong. The U.S. economy is doing well, as are most other economies around the world. Airlines have shown unusual discipline on costs since the financial crisis, and that has translated into strong profit growth. Domestic carriers also count as some of the biggest beneficiaries of recently enacted tax cuts.

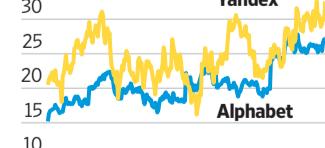
It is easy to tell a story in which more people take to the skies as global standards of living rise and corporate travel budgets expand. Companies can tell themselves those kinds of stories when times are good. After so many years of feast, though, airlines risk forgetting all about famine.

—Justin Lahart

# Investors Pile Into the Only Listed Ride-Hailing Company

### Other Bets

Price/earnings ratios



public transport.

Yandex is unique because its shares are publicly traded. It also is Russia's largest tech company thanks to a search engine that competes fiercely with Google.

Yandex's financial results bear witness to the money being poured into ride-hailing. Third-quarter revenue in the taxi business, at around \$20 million, was dwarfed by a roughly \$56 million loss before interest, taxes, depreciation and amortization. The company has been essentially paying customers to keep ahead of an expanding Uber.

In theory, those losses should shrink. The two companies called a truce in July, agreeing to merge their Russian operations into a joint venture majority-owned by Yandex.

Once the deal closes, likely this quarter, the com-

bined operation will control roughly four-fifths of the country's online taxi market, giving it a network rivals will struggle to replicate. Ulyana Lenvalskaya, an analyst at UBS, expects the business to break even in 2019.

The Uber truce and an antitrust victory against Google in Russia pushed Yandex stock up 63% last year. The big question this year may be how fast the ride-hailing unit can recover.

Advertising from the search business accounts for more than 90% of Yandex sales, but the losses in ride hailing are so extreme that shrinking them is a key swing factor for profit.

growth—and hence valuation. On 32 times expected earnings, according to FactSet, Yandex shares are more expensive than Google owner **Alphabet's** 27 times; strip out the losses in ride-hailing and it is the other way round.

The bet on driverless taxis is far in the future and subject to huge technical uncertainty. For now, then, Yandex may be less a play on ride hailing's disruptive potential and more a bet that the Yandex-Uber deal can bring order to the battered Russian taxi market—and quickly. There is uncertainty here, too, but at least the technology exists. —Stephen Wilmot