

# THE WALL STREET JOURNAL.

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## What's News

### Business & Finance

**IBM** reported higher revenue for the first time in 23 quarters and signaled continued growth into 2018, as the firm pursues a turnaround. **B1**

◆ **Venezuela's oil output** is collapsing at a quickening pace, deepening the nation's crises and boosting chances it will default on its debts. **A1**

◆ **The 10-year Treasury's** yield topped 2.6%, spurred by investors' growing confidence in the global economy. **B1**

◆ **Stocks eased** as rising yields hurt real estate and utility shares. The Dow fell 97.84 points to 26017.81. **B11**

◆ **China's economic growth** accelerated in 2017, data showed, but there are signs momentum is fading. **A9**

◆ **Amazon unveiled** a short-list of 20 areas for its second headquarters, kicking off the competition's next phase. **B1**

◆ **A number of companies** plan to use tax savings to boost their contributions to employees' 401(k) plans. **B1**

◆ **Morgan Stanley's profit** rose 14%, excluding a tax charge, highlighting CEO Gorman's overhaul efforts. **B10**

◆ **AmEx posted** its first quarterly loss since 1992, taking a hit from tax changes. **B10**

◆ **Home-security firm ADT's** initial public offering priced sharply below its expected range. **B10**

◆ **ICE is launching** a service to bring bitcoin data to hedge funds and other professional trading firms. **B10**

◆ **Four major hospital systems** are planning to launch a nonprofit company to produce generic drugs. **B6**

### World-Wide

◆ **The threat** of a partial government shutdown intensified as senators signaled opposition to a short-term spending bill that was passed by the House. **A1**

◆ **Intelligence gathered** by U.S. officials provides what they say is detailed evidence Chinese ships violated sanctions against North Korea. **A1**

◆ **Congress is probing** the Obama administration's use of research by an ex-British spy to justify surveillance of a Trump associate. **A3**

◆ **The Senate voted** to re-authorize FISA, a law that permits a wide range of electronic surveillance. **A3**

◆ **Global temperatures** simmered at near-record levels last year, even as the world cooled slightly with the waning of an El Niño event. **A3**

◆ **A Trump lawyer** set up a Delaware firm to pay an ex-adult-film star \$130,000 to not discuss an alleged sexual encounter with Trump. **A2**

◆ **The Trump administration** is accelerating efforts to move the U.S. Embassy in Israel to Jerusalem and plans to open the new mission in 2019. **A9**

◆ **The U.S. is backtracking** on plans for a 30,000-person border force in Syria after the proposal triggered new tensions with Turkey. **A8**

◆ **The Supreme Court** delayed a lower-court order directing North Carolina lawmakers to redraw congressional districts. **A2**

◆ **France and the U.K.** agreed to deepen ties on defense and security. **A10**

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## U.S. NEWS

## Trump Lawyer Used Private Firm to Pay Porn Star

By JOE PALAZZOLO  
AND MICHAEL ROTHFIELD

President Donald Trump's lawyer used a private Delaware company to pay a former adult-film star \$130,000 for her agreeing to not publicly discuss an alleged sexual encounter with Mr. Trump, according to corporate records and people familiar with the matter.

The lawyer, Michael Cohen, established Essential Consultants LLC, on Oct. 17, 2016, just before the 2016 presidential election, corporate documents show. Mr. Cohen, who is based in New York, then used a bank

account linked to the entity to send the payment to the client-trust account of a lawyer representing the woman, Stephanie Clifford, one of the people said.

Mr. Cohen's decision to establish the company in Delaware offered him privacy and simplicity, hallmarks of a state that has attracted more than one million business entities. Unlike some states, Delaware doesn't require companies to publicly disclose the names of their managers.

Mr. Cohen's connection to Essential Consultants LLC isn't readily apparent in online searches of Delaware companies. However, on its forma-

tion documents, which were reviewed by The Wall Street Journal, Mr. Cohen listed himself as the "authorized person" for the company, rather than hiring a lawyer or an agent to serve in that role, which some company owners do to further obscure their identities.

To further mask the identities of the people involved in the agreement, the parties used pseudonyms, with Ms. Clifford identified as "Peggy Peterson," according to a person familiar with the matter. Part of the draft settlement pact was published by Slate.

The Journal reported on Fri-

day that Mr. Cohen arranged to pay Ms. Clifford, who starred in adult films under the name Stormy Daniels, in October 2016, after negotiating a non-disclosure agreement with her lawyer, Keith Davidson, according to people familiar with the deal. Ms. Clifford privately has told people she had a sexual encounter with Mr. Trump after meeting him at a July 2006 golf tournament, people familiar with the matter said.

In emails to the Journal last week, Mr. Cohen didn't address the payment but said of the alleged encounter that "President Trump once again vehemently

denies any such occurrence as has" Ms. Clifford. He also declined to discuss Essential Consultants, and asked the Journal to "cease wasting my time."

Mr. Cohen and his lawyer didn't respond to emails Thursday seeking comment.

The Journal previously reported that Ms. Clifford had been in talks with ABC's "Good Morning America" in the fall of 2016 about an appearance to discuss Mr. Trump, according to people familiar with the matter.

Mr. Cohen last week sent the Journal a statement by email signed by "Stormy Daniels" denying that she had a "sexual

and/or romantic affair" with Mr. Trump or "received hush money from Donald Trump." Ms. Clifford didn't respond to a request for comment Thursday and didn't respond to emails seeking comment last week.

A White House official last week also denied any sexual encounter took place and declined to comment on any agreement. The White House didn't respond to a request for comment on Thursday.

Mr. Davidson referred the Journal to his previous statement: "Attorney-client privilege prohibits me from commenting on my clients' legal matters."

## High Court Hits Pause On Voting-Map Ruling

By BRENT KENDALL

**WASHINGTON**—The Supreme Court on Thursday postponed the effect of a lower-court ruling that found Republicans in North Carolina unlawfully gerrymandered the state's congressional districts to maximize their partisan advantage.

The justices, in a brief written order, granted an emergency request by North Carolina legislative leaders to stay the lower court ruling for now, a move that means state lawmakers won't have to redraw the congressional lines immediately. A three-judge federal court in Greensboro had ordered the legislature to draw new district lines by Jan. 24.

The North Carolina court ordered the new congressional map after concluding the state's GOP majority committed several constitutional violations with its 2016 redistricting plan.

That redistricting produced a 10-3 advantage for Republicans in the state's congressio-

nal delegation, though the statewide vote was split closely between Republicans and Democrats.

The North Carolina case comes as the Supreme Court already is considering two major cases that could set standards for how much partisanship is too much in redistricting. The justices' eventual rulings, expected by the end of June, are sure to have a direct impact on the North Carolina litigation.

North Carolina lawmakers in their emergency appeal to the Supreme Court said "it makes no sense whatsoever" to force the state to immediately draw a new congressional map before the Supreme Court issues its rulings on the other redistricting cases.

The lawmakers said their 2016 map was lawful.

Challengers to the state map, including state Democrats and the activist group Common Cause, had urged the Supreme Court to allow the ruling against North Carolina to take effect immediately.

## U.S. WATCH

## ECONOMY

## New-Home Building Declines Sharply

The number of housing units that began construction fell sharply at the end of 2017 but still capped a solid year of new single-family-home construction that could soon relieve rising prices.

Housing starts fell 8.2% in December from a month earlier to a seasonally adjusted annual rate of 1.19 million, the Commerce Department said on Thursday. Residential permits, which can signal how much construction is queued up, also fell, dropping 0.1% to an annual pace of 1.3 million last month.

Republicans say the tax mirrors a levy on private foundations and puts colleges on notice that Congress is watching how they use funds subsidized with charitable deductions and tax exemptions.

"One thing that we should probably expect to see is for colleges and universities to act more like other taxpayers," said Brian Galle, a tax law professor at Georgetown University.

With the \$500,000 figure fixed, more schools are expected to be included in future years. Hamilton College, in Clinton, N.Y., where the endowment just hit \$1 billion, is likely to just surpass the per-student threshold, the school says. That will trigger a tax bill of about \$500,000, out of a \$180 million annual budget.

The tax includes no brackets, making it an all-or-nothing proposition for schools on the cusp. That could push colleges like Hamilton, with about 1,865 students, to consider increasing enrollment to stay under that \$500,000 threshold.

The most logical thing is to look at enrollment," said Karen Leach, Hamilton's vice president for administration and finance. "But there's other things to consider. I don't have any housing to put them in."

Meanwhile, schools that meet the \$500,000-per-student endowment threshold but have fewer than 500 students will be penalized if they add too many students.

Principia College, a liberal arts college in Elsah, Ill., has about 440 students this year, and President Jonathan Palmer said hitting 500 students would trigger a tax of between \$500,000 and \$600,000.

"As we get closer to that 500 number," he said, "it's a challenge to say, 'Is that student worth \$600,000?'

Until the IRS and the Treasury Department provide guidance, it remains uncertain which investment assets will be taxed. The agencies are expected to define the "assets which are used directly in carrying out the institution's exempt purpose," which the law exempts from being used to calculate endowment size.

"We would argue that

there's nothing that we generate that's not used to carry out the institution's educational purposes," said Stephen Briggs, president of Berry College in Georgia, which expects to pay the tax in the near future.

Even if schools can't stay out of the tax, they will have incentives to minimize their annual investment income and thus their tax bill. That could mean waiting to realize gains, harvesting losses and engaging in other behavior that tax-exempt institutions don't always concern themselves with.

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"The goal is pretty simple: It encourages colleges to use their major endowments to lower the cost of education," said Rep. Kevin Brady (R., Texas), chairman of the House

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With the

## U.S. NEWS

# Congress Probes Use Of Dossier

Research by ex-British spy was part of request to monitor Trump policy adviser

BY BYRON TAU  
AND DEL QUENTIN WILBER

WASHINGTON—Congress is probing the Obama administration's decision to use research by an ex-British spy to justify, in part, surveillance of an associate of Donald Trump, as Republican scrutiny rises of law-enforcement actions during 2016 presidential campaign.

In the final days of the campaign, the Justice Department used information from Christopher Steele, a former British intelligence official, as part of its request for a secret court order to monitor Carter Page,

a foreign-policy adviser to Mr. Trump, and his ties to Russia, people familiar with the matter say.

At the time, Mr. Steele was working for a research firm that was being paid by the Democratic Party and Hillary Clinton's presidential campaign. He produced a 35-page dossier of salacious and unverified allegations involving Mr. Trump that the president has dismissed as false.

Republican lawmakers want to know how Mr. Steele's information came to be used in a secretive and sensitive surveillance probe. They are also trying to determine when, and if, the FBI learned that the Democratic Party was financing Mr. Steele's work through the opposition research firm Fusion GPS—which could raise concerns about whether the sur-



Christopher Steele, a former MI6 agent shown in London last year, compiled a dossier on Donald Trump during the 2016 campaign.

veillance was politically motivated. No evidence has emerged that the surveillance was improper.

Democrats say the focus on

the research firm and the dossier is a distraction from what they say should be Congress's central question: Russia's involvement in the 2016 U.S. presidential election.

In recent weeks, the Steele matter has become a key question for multiple congressional committees with jurisdiction over law enforcement and intelligence.

The use of information from Mr. Steele, an independent contractor being paid by a private research firm, in an application to the surveillance court is highly unusual, say current and former U.S. officials familiar with the matter. Typically, FISA warrants are based on extensive documentation and confidential informants that intelligence agencies or law-enforcement officials have deemed to be reliable over the course of years.

Mr. Steele had worked with the FBI previously on other in-

vestigations. The bureau had paid Mr. Steele, for example, for information he helped gather during a federal probe into alleged corruption at FIFA, the world soccer organization, according to a person familiar with the arrangement.

The government didn't put any of the memos that make up the dossier itself into its surveillance application, people familiar with the matter said.

Russia denies any role in trying to sway the U.S. vote. Glenn Simpson, president of Fusion GPS and a former Wall Street Journal reporter, testified before Congress that he didn't tell Mr. Steele who was paying for the research nor how to conduct his research.

Mr. Steele, through an attorney, declined to comment for this article.

The surveillance permission was granted by the Foreign Intelligence Surveillance Court, a secret entity that oversees and reviews classified surveillance warrants against suspected spies in the U.S.

Officials had sought to sur-

veil Mr. Page over what the FBI believed were suspicious contacts with Russia. He hasn't been accused of any wrongdoing.

Mr. Page decried the "baseless, politically-motivated investigation" against him and said it had cost him dearly in reputation, money and time.

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Mr. Steele, through an attorney, declined to comment for this article.

CNN first reported in April that Mr. Steele's research was used in part to justify surveillance of Mr. Page, but Congress has been briefed in recent weeks on new details about how the surveillance was used.

## Senate Votes to Extend Spying Law

WASHINGTON—The Senate voted to reauthorize for six years a key surveillance law, sending a bill that permits a wide range of electronic spying to President Donald Trump for his approval.

With the bill's passage, Congress rejected an attempt by a coalition of conservative Republicans, civil libertarians and liberal Democrats to enact new privacy protections for Americans caught up in U.S. surveillance. The House passed the bill Jan. 11; Mr. Trump is expected to sign it.

The measure's passage on a

65-to-34 vote Thursday ended more than a month of debate in Congress about the future of the surveillance law, called the FISA Amendments Act. Section 702 of the act underpins a wide range of electronic collection against foreign targets overseas. The law was set to expire Friday after last congressional action.

Disclosures in 2013 by former government intelligence contractor Edward Snowden of the scope of U.S. intelligence collection has given momentum to a vocal, bipartisan group of lawmakers who sought better privacy protections for Americans and more restrictions on U.S. intelligence collection.

In 2015, a bipartisan coalition

forced major changes on a different expiring surveillance law, curbing the collection of millions of Americans' phone records in the first significant retrenchment of government spying powers since the 9/11 attacks.

Lawmakers were hoping to force similar changes on the FISA renewal but fell short.

Their primary demand was a strong warrant requirement to search already-collected data for information on Americans that was swept up in overseas collection. The measure that passed has a more limited warrant requirement that applies only to the FBI under certain circumstances.

—Byron Tau

## A Rough Flu Season



INSIDE THE ER: Nurse Christine Bauer treats Joshua Lagade as his girlfriend looks on at Palomar Medical Center in Escondido, Calif.

## 2017 Among Warmest Years on Record

BY ROBERT LEE HOTZ

Global temperatures simmered at near-record levels in 2017, even as the world cooled slightly with the waning of a powerful El Nino event that had driven recent warming to levels unprecedented in modern times, federal climate experts said Thursday.

In an annual report, scientists at the National Aeronautics and Space Administration and the National Oceanic and Atmospheric Administration, which independently track the rise and fall of world temperatures for the federal government, ranked last year as among the three warmest since systematic record-keeping began in 1880.

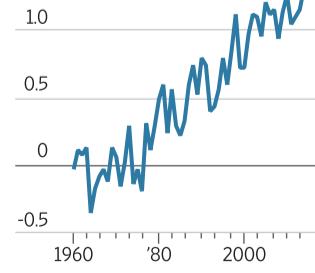
NASA researchers ranked 2017 as the second-warmest year since 1880, while NOAA scientists ranked it as the third-warmest. Both analyses show that the five warmest years on record all occurred since 2010.

"Despite colder-than-average temperatures in any one part of

### Some Like It Hot

Annual temperature deviation from the 1951-1980 mean

2.0 degrees Fahrenheit



Source: NASA

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the world, temperatures over the planet as a whole continue the rapid warming trend we've seen over the last 40 years," said Gavin Schmidt, director of NASA's Goddard Institute for Space Studies in New York, which conducted the space agency's analysis.

By NASA's calculation, globally averaged temperatures in 2017 were 1.62 degrees Fahrenheit (0.90 degrees Celsius) warmer than the 1951 to 1980 mean, second only to global temperatures in 2016. In the NOAA analysis, the average temperature across global land and ocean surfaces was 1.51°F (0.84°C) above the 20th century norm.

The agency teams essentially cross-check other's findings, using different collections of readings from thousands of weather stations and different mathematical methods.

Their calculations are in line with other independent assessments of the year's global warming trend. Preliminary reports by the Japan Meteorological Agency and the World Meteorological Organization, as well as satellite-temperature data maintained by researchers at the University of Alabama at Huntsville, all suggest that 2017 was the second- or third-warmest on record.

"There are, of course, year-to-year and decade-to-decade

natural fluctuations brought about by variability in the sun, volcanic eruptions and natural oscillations such as El Nino," said atmosphere scientist Kerry Emanuel at the Massachusetts Institute of Technology, who studies climate change's effects on hurricanes. "But the long-term trend is unmistakable."

Roger Pielke Sr. at the Cooperative Institute for Research in Environmental Sciences in Boulder, Colo., said that the basic methodology used in the rankings is "flawed" because it relies solely on surface temperatures and doesn't take into consideration other measures, such as deep ocean heat, that affect global climate.

All told, 17 of the 18 warmest years on record have occurred since 2000. The trend has been driven in large part by land-use changes, including cutting down forests and paving over natural surfaces, and rising emissions of greenhouse gases, including carbon dioxide from the burning of fossil fuels and methane from livestock production.

## Women Prepare To March Again

BY JENNIFER LEVITZ

Katherine Siemionko is organizing a mass demonstration in New York City on Saturday, something the former Goldman Sachs Group Inc. banker has done only once before, for the Women's March last year that drew more than 400,000 participants.

Over the past year, Ms. Siemionko left her Wall Street job and became a full-time organizer for women's issues, motivated by her success coordinating one of the biggest protests among the hundreds that took place last January over the election of Donald Trump.

"I had never even organized a birthday party," said Ms. Siemionko, 34 years old.

More than 250 anniversary events are planned around the U.S. this weekend, from rallies in Chicago and Los Angeles to smaller marches in places including Montpelier, Vt., Tulsa, Okla., and Bakersfield, Calif.

In Las Vegas, some of the coordinators behind last year's flagship women's march in Washington, D.C., are holding "Power to the Polls," an event bashed as the launch of a na-

tional voter-registration drive targeting swing states in this year's elections.

Organizers of events around the country say they expect the national outpouring of stories about sexual harassment and assault to spur more women to get involved.

Dana Fisher, a University of Maryland professor of sociology who has studied the women's march, said the anniversary is unlikely to be a repeat of last year's "sea of pink." Rather than travel to big cities, many women are expected to participate in events locally and at the state level, she said. The diffuse nature of the events and decentralized organization indicates grass-roots involvement, "which is something you really need to make social change, particularly around the local elections," Ms. Fisher said.

Future success of the movement will likely be defined by wins in the 2018 midterm elections, but potential obstacles include "overconfidence" and not reaching a broad enough audience of voters, said Ron Formisano, a professor emeritus of history at the University of Kentucky.



Katherine Siemionko is organizing a demonstration in New York.

## TRUMP'S FIRST YEAR



## CAPITAL JOURNAL

By Gerald F. Seib

On the second day of the new year, President Donald Trump uncorked a remarkable string of 16 tweets directly from his personal account. In them, he criticized

Pakistan, threatened to take American aid away from the Palestinians, claimed personal credit for a year without commercial-aviation deaths, attacked the news media and proclaimed he has a bigger "Nuclear Button" than does the leader of North Korea.

Every aspect of that Twitter chain—from the platform used, to the tone deployed, to the sensitive foreign-policy ground covered in public—marks a departure from past presidential behavior. In short, that chain is a pretty good illustration of the way Mr. Trump has changed both the presidency and what Americans have come to expect of it.

In the year since he took the oath of office, Mr. Trump has shown that he simply isn't bound by what had been seen as the previous conventions of the role he is playing.

Other presidents have sought to avoid or tamp down controversy; he is as likely to stir up or make a beeline toward controversy, seeing it as a tool in effecting change. Past presidents have



Donald Trump's outsider status has helped him with his presidential style but could mean others won't be able to do the job the same way.

tended to speak off-the-cuff sparingly and carefully; Mr. Trump does it every day on a social-media platform never before deployed this way. Past presidents strained to show consistency in all they said and advocated, fearful that changing positions would open them to charges they were feckless or unprincipled.

**M**r. Trump shifts positions frequently and effortlessly—at one point standing on several sides of a tense immigration debate during a single televised discussion—and boasts that keeping foes guessing that way is an asset. "I'm a very flexible person," he said in a recent interview with The Wall Street Journal. He added: "I don't know what

the word permanent means."

William Daley, who served as a cabinet secretary and White House chief of staff for Barack Obama, says simply: "He's fundamentally changed how people, not just here but around the world, view the presidency."

In substantive terms, if a populist is defined as someone who challenges the country's established elites and their views in the name of "the people," Mr. Trump is the most populist president in modern times. That has scrambled the conventional wisdom on trade and produced unusual presidential pressure on companies and chief executive officers as they make decisions about their firms' capital investment and hiring plans.

"He's now changed the argument in Washington, which for the last 70 years was: Build a global world order based on uneven trade deals, create global economic interdependence and rising middle classes around the world, [and that] will keep the world at peace," says Anthony Scaramucci, a Trump backer who served briefly as White House communications director.

"The U.S. will be a benevolent superpower to a world at peace and our economy will grow. That was the paradigm. Trump wants to do all that, but even out the trade deals—make the trade deals more fair—because he believes that will benefit the American worker and the middle class."

More than most recent presidents, he acts more like

a chief executive officer of the government than its chief operating officer. Rather than present his own detailed policy proposals, he has relied on fellow Republicans in Congress to work out the details of a health plan, a tax cut and an immigration overhaul, preferring to position himself instead as a leader who retains the flexibility to close the deal rather than one who seeks to determine its precise contours.

It remains unclear how effective this new presidential style is. It has produced a historic tax cut and a broad loosening of government regulation—both of which are helping fuel a stock-market boom—as well as a significant change in the kinds of judges sitting on federal courts.

CAROLYN KASTER/ASSOCIATED PRESS

Yet the president failed to lead the way to a new health-care system or build broad support for his views on immigration, and his dealings with allies remain controversial.

**E**ven some of the president's backers admit they feel worn down by the feel of unending turmoil. Despite Mr. Trump's efforts to govern as almost a political independent, his polarizing style has helped prevent him from getting significant Democratic support for his initiatives, which could doom his hopes of obtaining a broad agreement on rebuilding America's infrastructure.

It's also unclear whether the changes Mr. Trump has brought to the presidency are permanent or are unique to him as a man who, unlike any of his presidential predecessors, arrived with no prior experience in public office or the military. That status as a genuine outsider may help him pull off his style of governing but also may mean others couldn't do the job quite this way.

"The difference between Trump and other people is a level of authenticity that other people lack," says Sean Spicer, who was Mr. Trump's first White House press secretary. "You can love or hate what he does, but all of it is authentic."

He adds, though: "Anybody who believes they are going to follow in his footsteps is sorely mistaken."

## MORE ONLINE



For additional insights on Trump's first year as president, go to [wsj.com](http://wsj.com)

## Up Close and Personal: What It's Like to Meet Trump

BY PETER NICHOLAS  
AND REBECCA BALLHAUS

President Donald Trump has received huge public exposure in his first year through blanket TV coverage, speeches and tweets. But what is he like in person?

The Wall Street Journal spoke with more than 50 people who met with him in the Oval Office, on Air Force One and at Mar-a-Lago in the past year. Here are their insights:

## Be prepared for a change of topic...

In a session on his infrastructure plan, Mr. Trump detoured into part of the road network that has bugged him: guardrails. "It's put together with these screws, right?" he told cabinet members and business executives. "I always think if I ever went into that sucker I'd be afraid that it opens and you get speared." He continued: "I want to hire whoever their salesman is....That is the worst crap."

## ...especially if it involves old enemies and old friends...

In an April meeting focused on bolstering business, Mr. Trump repeatedly interrupted his speech to jab at the news media or to call out executives in the audience, many longtime buddies. "Trump reads his audience and responds to that," said Kathy Wylde, president of the Partnership for New York City, an association of executives that organized the White House event.

## ...and expect him to be blunt...

Meeting last spring with representatives of veterans' groups and Veterans Affairs Secretary David Shulkin, Mr. Trump criticized the slow pace of terminating federal employ-



ees. "You just need to start firing people," he told Mr. Shulkin. "Let them sue us."

## ...to the point of abruptness.

Mr. Trump abruptly stood up before a March meeting had finished with five chairmen of congressional committees and Vice President Mike Pence. "I have to go do some work in the Oval Office," he told them, according to one of the chairmen. "But if you need me, I'll be in there."

\* \* \*

## He can be persuaded to change his mind...

Mr. Trump was annoyed with Congress last summer for passing legislation imposing new Russian sanctions. He told aides he was inclined to veto the bill because he wanted better relations with Russia. Aides told him Congress would override the veto, making him look weak. Mr. Trump yielded. A White House official said the president never gave serious consideration to not signing

the bill, but was frustrated at Congress for inserting itself into a foreign-policy matter.

## ...especially if it is tactfully done...

Around the same time, Mr. Trump had an idea about how to counter the nuclear threat posed by North Korea: If the U.S. stopped joint military exercises with the South Koreans, it could help moderate Kim Jong Un's behavior. Defense Secretary Jim Mattis used an approach that aides say can work: "He says, 'Your instincts are absolutely correct,' and then gets him [the president] to do the exact opposite of what his instincts say," said one person close to the White House. Mr. Trump dropped the idea, although he has ordered aides to give the exercises a low profile.

## ...and he can take frankness.

Democratic Rep. Elijah Cummings from Baltimore took Mr. Trump to task for his depiction

of African-American neighborhoods as destitute and crime-ridden. "Most black people are doing pretty good. We have people struggling to make ends meet, but that's insulting," Mr. Cummings told him. "Probably nobody has ever told you that."

"You're right," Mr. Trump responded, "nobody has ever told me that." Mr. Cummings later, however, wound up disillusioned, saying, "I don't think it made any difference."

## Sometimes delaying works best...

To convince Mr. Trump to change course, White House aides sometimes stall, hoping he'll forget what he wanted done and move on to something else.

## ...but he can also get exasperated...

People who overheard a phone conversation between the president and Secretary of State Rex Tillerson recall Mr. Trump saying, "Rex, Rex, Rex,

## ...even if the seating arrangement is tricky.

Unlike past presidents, who often sat on couches with Oval Office visitors, Mr. Trump sits behind his desk, raising the question for guests: Can they put their papers on the Resolute Desk? "At one point, I set my papers on the table, and then I thought, maybe that's not the best form," said former Rep. Jason Chaffetz. "So I picked them back up again and set them back on my lap."

## He can be courteous with Republicans...

When Rep. Steve Scalise (R., La.) visited the Oval Office after his return in September from a near-fatal shooting, Mr. Trump made sure he sat in the chair normally reserved for visiting heads of state.

## ...and Democrats...

Mr. Trump spent months courting Sen. Joe Manchin (D., W.Va.), at one point introducing the senator to an assistant

and instructing her: "When Joe calls, you make sure to give me the message."

## ...and isn't beyond using chocolate to win someone over.

Mr. Trump invited Rep. James Comer (R., Ky.) to fly with him after a rally in Louisville. On board, the president asked him whether he had any children. Three, Mr. Comer said. Mr. Trump handed him three Air Force One-branded boxes of M&Ms: "Tell them they're from me."

## But he has a short fuse...

Backstage at the National Prayer Breakfast in February, when Sen. Chris Coons (D., Del.) told Mr. Trump several religious organizations in his state opposed the White House's travel ban, the president snapped: "Nobody told me you were going to be a nasty man."

## ...and sorry can be the hardest word.

Weeks after Mr. Trump's election victory, the incoming president and his advisers were considering how to handle China being upset by a phone call he held with Taiwan's leader. The question of an apology was broached. "Never, ever apologize," Mr. Trump said.

## And finally...

Mick Mulvaney, the president's budget director and frequent golf companion at the Trump course in northern Virginia, said Mr. Trump will point out arcane features during the rounds, noting "which trees have died and which greens are struggling with what fungus."

—Gordon Lubold  
and Michael C. Bender  
contributed to this article.

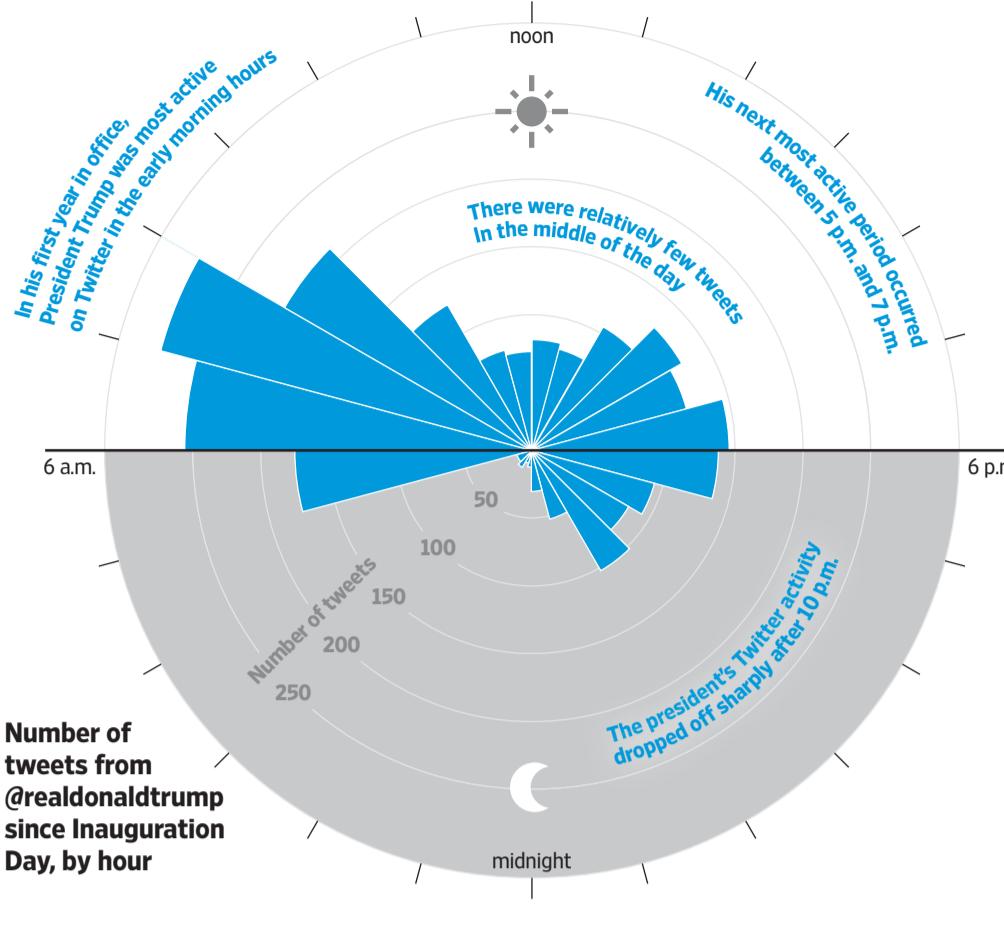
## Comparing Presidents' First Year in Office

	Appointments filled*		Average net approval rating	Bills signed into law	Trips abroad	News conferences		Executive orders
	Confirmed	Nominated				Solo	Joint	
Trump*	241	136	-18 pct. pts.	108	4	1	21	57
Obama	452	238	+23	125	10	5	22	39
G.W. Bush	493	248	+44	133	5	4	15	56
Clinton	471	162	+8	210	3	11		59
G.H.W. Bush	405	73	+49	240	7	20	12	33
Reagan	N/A		+28	157	4	7		53

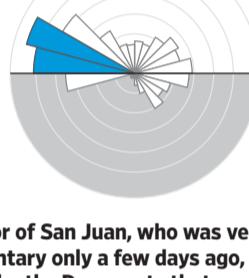
Sources: Partnership for Public Service (positions); Gallup (approval); GovTrack.us (laws, EOs); American Presidency Project, U. of Calif. Santa Barbara (news conferences); State Department (trips)

\*Through Thursday †Counts for presidential appointments where Senate confirmation is needed

## TRUMP'S FIRST YEAR

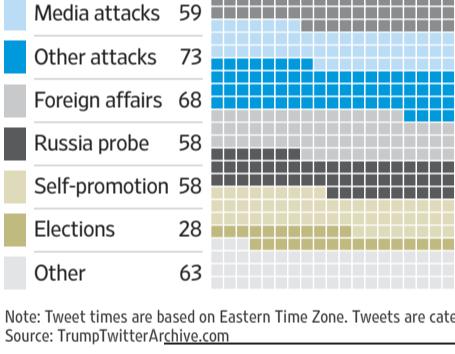
**The early show: 6-8 a.m.**

Nearly a quarter of Mr. Trump's tweets occurred in the early morning hours. About 20% of those were policy related, but one in four targeted the media and individuals.



**'The Mayor of San Juan, who was very complimentary only a few days ago, has now been told by the Democrats that you must be nasty to Trump.'**

—Sept. 30, 6:19 a.m.



Note: Tweet times are based on Eastern Time Zone. Tweets are categorized by their primary substantive content.

Source: [TrumpTwitterArchive.com](http://TrumpTwitterArchive.com)

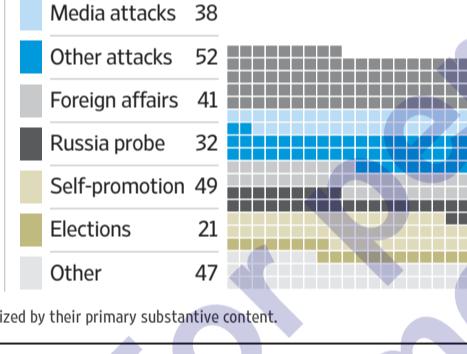
**Before and after: 5-6, 8-9 a.m.**

Mr. Trump was nearly as active on Twitter in the two hours flanking his most prolific hours. Those tweets broke down roughly along the same lines, with many barbs aimed at the press.

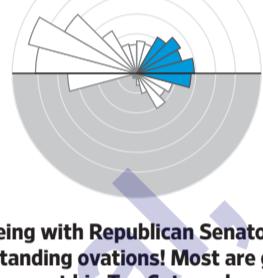


**'The public is learning (even more so) how dishonest the Fake News is. They totally misrepresent what I say about hate bigotry etc. Shame!'**

—Aug. 17, 5:32 a.m.

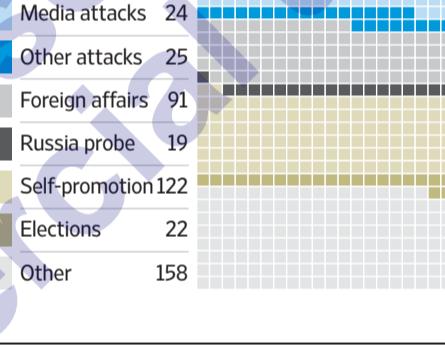
**Afternoon delight: 2-7 p.m.**

The president's afternoon and early evening tweets showed a shift in focus, with about one in five touting his accomplishments or promoting public appearances.



**'So nice being with Republican Senators today. Multiple standing ovations! Most are great people who want big Tax Cuts and success for U.S.'**

—Oct. 24, 5:20 p.m.

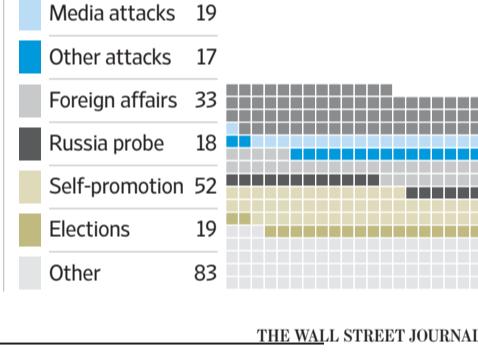
**Evening shade: 7-11 p.m.**

Mr. Trump's Twitter activity dropped off in the evening and was more varied in topic, though policy-focused tweets still led the pack, with about one in four promoting his agenda.



**'The Republican House members are working hard (and late) toward the Massive Tax Cuts that they know you deserve. These will be biggest ever!'**

—Oct. 31, 8:22 p.m.



THE WALL STREET JOURNAL

## Trump Flips Script On Foreign Policy

BY FELICIA SCHWARTZ

In May, a blue and white 747 emblazoned with the presidential seal cruised over Saudi Arabia and Jordan before entering Israeli airspace, making a short but historic journey from Riyadh to Tel Aviv.

That flight, carrying President Donald Trump on his first foreign trip, was remarkable not just because it was the first direct presidential flight between Saudi Arabia and Israel. It also was a potent symbol to the world that Mr. Trump had his own ideas

**The president has his own ideas about America's best friends and enemies.**

about America's best friends and enemies.

Gone were the days of visiting Mexico and Canada first—something every president since Ronald Reagan (and nearly all of his predecessors) have elected to do. To the contrary, Mr. Trump has soured both of those relationships, repeatedly threatening to withdraw from the North American Free Trade Agreement and even telling The Wall Street Journal last week that he would use negotiations on the pact to pay for a controversial wall on the U.S.-Mexico border.

In a bid to correct what he views as the faults of his predecessor Barack Obama's foreign policy, Mr. Trump has shuffled the deck of American relationships, elevating Gulf Arab leaders, alienating Europeans and eschewing some of the tough talk typically reserved for the heads of China

and Russia, diplomats, former officials and analysts said.

A White House official, however, noted that Mr. Trump has formed improbable friendships with Canada's Prime Minister Justin Trudeau and French President Emmanuel Macron. "They don't look like Trump types," the official said.

Since taking office last year, Mr. Trump has forged close bonds with Israel's Prime Minister Benjamin Netanyahu, Saudi Arabia's Prince Mohammed bin Salman, Egyptian President Abdel Fattah Al Sisi and Philippine President Rodrigo Duterte, all of whom had particularly frosty relationships with Mr. Obama. He also withdrew from the 12-nation Trans-Pacific Partnership accord that Mr. Obama championed and pared back the former president's opening to Cuba.

The White House official said Mr. Trump is "very carrot and stick" in his relationships, and usually offers blunt assessments of how he can help allies as well as what his concerns are.

He has refrained from criticizing Russian President Vladimir Putin and has touted his relationship with Chinese President Xi Jinping. He even suggested to the Journal, in remarks later disputed by the White House, that he has a good relationship with North Korean leader Kim Jong Un.

Mr. Trump last week scrapped a planned visit to London, capital of America's historically closest ally, after U.K. leaders criticized him for retweeting videos posted by a far-right British group and as activists prepared protests against his visit. The American leader said he canceled the trip because he didn't want to back the opening of the new U.S. Embassy there.

## Businesses Applaud New Policies

BY TED MANN

**WASHINGTON**—The tax overhaul that President Donald Trump signed into law last month capped a year in which his initiatives on taxes, regulation—and many of his public pronouncements on the economy—have been broadly welcomed by business.

It hasn't all been smooth sailing for the president most closely aligned with business interests in decades: He was roundly criticized for his remarks about a deadly white supremacist rally in Charlottesville, Va., last August.

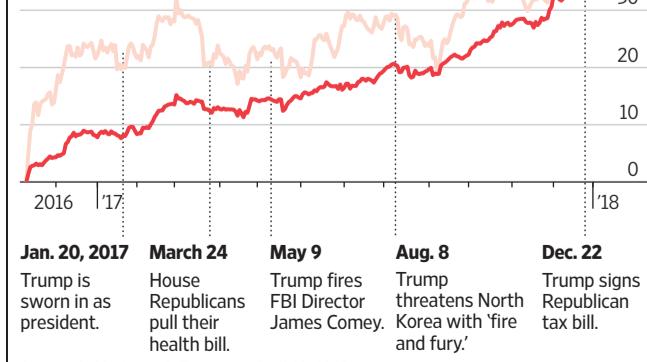
After that, several CEOs resigned in protest from his business advisory councils, although administration officials say they had largely fizzled out by then. In pure policy terms, however, business groups and executives say the \$1.5 trillion of corporate-focused tax changes and the bevy of completed and proposed rule changes aimed at cutting regulatory burdens on business have made 2017 a net success for business.

Shares of banks and industrial companies climbed as investors bet on the White House pushing looser regulations and lower tax rates.

**Index performance since Trump was elected**

■ KBW Nasdaq Bank Index

■ Dow Jones Industrial Average



U.S. stock markets soared to records during the first year, benefiting from a mix of pro-business policies, steady corporate earnings and a rebound in global economic growth. The Dow Jones Industrial Average recently topped 26,000 for the first time, and the Nasdaq Composite burst through 7,000 for a record.

"If Hillary [Clinton] had been elected, we would have had more regulation and higher taxes," said Byron Wien, an executive at Blackstone Group L.P., on a recent investor call. "Trump was elected; we have less regulation and lower taxes."

Heading into his second year, the president faces some significant decisions that could create tension with business on issues executives care about, such as trade, immigration and health care.

Some of this was captured by Chamber of Commerce President Tom Donohue in his annual address on the state of business. He urged the president not to pull out of the North American Free Trade

Agreement, to preserve temporary residency for some 200,000 workers the administration wants to deport and to avoid a confrontation with North Korea. Mr. Donohue also offered support to embattled tech firms who have come under new scrutiny.

Trade presents some particularly difficult decisions. Nafta, and the president's threat to pull the U.S. out of it, remains a concern both for U.S. companies that have grown up around the free trade it brought to the continent, and farmers who have taken advantage of markets in Mexico and Canada that the pact has opened for their exports.

China brings its own set of challenges. Many multinational companies and ardent free-traders have grown frustrated, along with Mr. Trump, with what they see as Beijing's backsliding on market-opening promises in recent years.

Still, the companies are nervous about how his administration will ramp up pressure on Beijing. Business leaders are also eager for the

Trump administration to make good on a push to refurbish the nation's infrastructure, which has raised expectations for companies across the economy, especially in heavy machinery and construction services. But an almost certain fight looms over how to pay for it, conspiring with election-year pressures to make it that much more difficult.

Other promises from the administration and allies in Congress—like an effort to rein in entitlement programs—are viewed with even more skepticism as the time before midterm congressional elections dwindles.

Business advocates are hoping to channel the administration's energies in the coming year, as Mr. Trump hopes to pivot to infrastructure and entitlement changes.

"Business is determined to be a voice of reason and a bridge between sides," Mr. Donohue said. "We're determined to help, and when necessary, correct our government as it does the nation's business."

**S&P 500 first-year performance**

Roosevelt (1933)

Roosevelt\* (1945)

Obama (2009)

Clinton (1997)

Obama (2013)

Trump (2017)

Reagan (1985)

Bush (1989)

Truman (1949)

Kennedy (1961)

Clinton (1993)

Johnson (1965)

Bush (2005)

Democrat

Republican

**Change in jobs created**

Trump 1.3%

Obama -3.2

G.W. Bush -1.3

Clinton 2.3

G.H.W. Bush 1.6

Reagan -0.2

Eisenhower (1953)

Eisenhower (1957)

Hoover (1929)

Nixon (1969)

Carter (1977)

Reagan (1981)

Roosevelt (1941)

Bush (2001)

Nixon (1973)

Roosevelt (1937)

THE WALL STREET JOURNAL

## U.S. NEWS

# Trump Aims to Boost GOP Candidate

Democrats hope for upset in district that president easily won in the 2016 election

BY REID J. EPSTEIN  
AND MICHAEL C. BENDER

CORAOPOLIS, Pa.—President Donald Trump, cabinet officials and other Washington Republicans are scrambling to fend off a Democratic upset in a congressional special election, this one in a southwestern Pennsylvania district that Mr. Trump carried by 20 percentage points in 2016.

The Democrats, in contrast, have yet to invest significant resources in the race.

Mr. Trump traveled to the district Thursday to buoy the campaign of Rick Saccone, the party's nominee to succeed Rep. Tim Murphy, a married, conservative Republican who resigned in October after it was revealed that he had encouraged a woman with whom he had had an affair to have an abortion.

The White House said Mr. Trump's visit wasn't a campaign event, but rather a chance for him to promote the tax-cut legislation that Congress passed last month.

Still, Mr. Saccone attended the event, and he joined the president on stage at the end. "Rick is a great guy," Mr. Trump told reporters at H&K Equipment Co., a business near Pittsburgh. "I'll be back for Rick."

The trip came two days after a Democrat won a special election for a largely rural Wisconsin state Senate district that Mr. Trump also carried by 20 points—a result Wisconsin Gov. Scott Walker called "a wake-up call for Republicans."

The Wisconsin election fol-



People listened Thursday as President Trump spoke after a tour of H&K Equipment Co. in Coraopolis, Pa. The White House said the visit was to promote its tax overhaul.

lows a pattern of Democratic pickups—and other near misses—during the Trump era.

Mr. Saccone, a two-term state representative, faces Conor Lamb, a 33-year-old Marine veteran who worked as a federal prosecutor in Pittsburgh before resigning in October to mount his campaign.

The special election is March 13, and the winner will be up for re-election in November. Both Mr. Saccone and Mr. Lamb were unavailable for comment.

While Mr. Lamb has tapped

into national Democratic enthusiasm, Mr. Saccone has been a tepid fundraiser. He had raised just over \$200,000 by the end of December—\$70,000 of which he accumulated last year during an eight-month bid for the U.S. Senate, according to people familiar with his campaign finances.

Mr. Lamb, meanwhile, raised more than \$500,000 by the end of 2017. He has collected more than \$100,000 in the past week—after news broke of Mr. Trump's visit, according to people familiar

with the campaign's finances.

The latest internal polling conducted by both Democrats and Republicans shows the race within 5 percentage points.

"It will at least be competitive," said Charlie Gerow, a veteran Pennsylvania GOP operative.

The district, which has 70,000 more registered Democrats than Republicans, includes many of the types of voters who have moved away from national and local Democratic candidates.

Private polling viewed by White House officials showed Mr. Trump with a net positive approval rating in the district and Mr. Saccone winning suburban white women, young voters and college-educated voters, said Bill Stepien, the White House's political director.

"For all those that are saying that these demographics are supposedly running away from the president, this is a bellwether, swing district. I'm not seeing it," he said.

Washington Democrats, who have approached the race

with caution, say the district isn't on the list of 91 that the Democratic Congressional Campaign Committee considers competitive in 2018.

Mr. Lamb has also aimed to keep his public distance from Washington Democrats. He said he wouldn't vote to keep Nancy Pelosi as the House Democratic leader, and as a Roman Catholic he has said he personally opposes abortion, although he wouldn't seek to change the law. He also has campaigned at a gun show.

## WASHINGTON WIRE

### FEDERAL RESERVE

#### Williams Considered For Vice Chairman

The White House is considering San Francisco Fed President John Williams as a candidate for vice chairman of the Federal Reserve Board in Washington, according to people familiar with the matter.

Mr. Williams succeeded Fed Chairwoman Janet Yellen as the San Francisco Fed leader in 2011 after Ms. Yellen was tapped by President Barack Obama in 2010 to be the Fed's vice chairwoman.

Mr. Williams would fit the Trump administration's interest in filling the post with someone who is a widely respected expert in monetary economics.

Mr. Williams joined the San Francisco Fed in 2002 and previously served as a senior economist for the Fed board in Washington. A spokesman for Mr. Williams declined to comment.

The White House has interviewed several other economists for the position, and it isn't clear whether there is a front-runner or when a nominee will be named.

—Nick Timiraos

### CONSUMER PROTECTION

#### Acting Chief Forgoes Funding Request

The acting director of the Consumer Financial Protection Bureau is requesting no money to fund the bureau for the current quarter, saying it can tap reserves in a move that will "serve to reduce the federal deficit."

Mick Mulvaney, the White House budget director who serves as the CFPB's interim chief, told the Federal Reserve that the bureau's projected expenses of \$145 million for the January-March quarter will be covered by a reserve fund it keeps with the Fed, which totaled \$177 million at the beginning of the fiscal year in October.

"The bureau is requesting \$0," Mr. Mulvaney wrote in a letter to Fed Chairwoman Janet Yellen.

The CFPB receives funds from the Fed based on requests from its director and isn't subject to budgetary oversight by Congress.

Rep. Carolyn Maloney (D, N.Y.), a senior member of the House Financial Services Committee, said Mr. Mulvaney's budget decision amounted to an effort to "defund and defang" the CFPB.

—Yuka Hayashi

## VOTE

*Continued from Page One*

"We want to move forward. We want to get something done."

If a deal doesn't emerge by 12:01 a.m. Saturday, the government would partially shut down.

Congressional leaders, unable to resolve differences over an array of policy fights that are tied to spending, already have passed three interim funding bills this fiscal year, including two in December. Now, some members of both parties are growing weary of such short-term extensions, for varying reasons.

Republican defense hawks want a deal that raises spending caps on the Pentagon. On the Democratic side, lawmakers say they want more stability in programs such as the Children's Health Insurance Program and more money for areas affected by natural disasters, and also hope to capitalize on leverage to get a broader immigration deal.

The upshot is that while stopgap measures have helped lawmakers kick tougher fights down the road, more lawmakers seem ready to engage in the battle.

Rep. Mark Meadows (R, N.C.), chairman of the House Freedom Caucus, a group of the most conservative House members, said he reached a deal with House Speaker Paul Ryan on Thursday to later vote on "provisions that have to do with our military readiness." Shortly after that, the caucus announced support for the bill.

House Democrats, for their part, held firm in opposing the spending bill unless other priorities were resolved.

"This is like giving you a bowl of doggy doo, put a cherry on top and call it a chocolate sundae," House Minority Leader Nancy Pelosi (D, Calif.) said earlier Thursday.

Immediately after the House passed the short-term bill, GOP leaders sought to direct any blame for a shutdown on Senate Democrats, whose votes are needed in that chamber.

"Whether there is a government shutdown or not is entirely up to them," Mr. Ryan told reporters.

A partial shutdown would mean federal workers who are deemed nonessential would be furloughed, many federal contracts with businesses would be suspended and government services that support private firms would be halted. Other functions, such as law enforcement, air-travel security and Social Security payments, would continue.

SHAWN THEN/EPA/SHUTTERSTOCK



Chairman of the Freedom Caucus Mark Meadows, left, and Rep. Jim Jordan (R., Ohio) responded to questions on Thursday.

### Trump Wants Limits On Asylum Seekers

WASHINGTON—In high-stakes negotiations over immigration, the Trump administration is pushing for policy changes that limit the rights of asylum seekers and unaccompanied children who cross the U.S. border, as well as for more money for the president's promised border wall.

Democrats oppose all of these elements, but with the clock ticking toward a possible government shutdown, people in both parties said that talks Thursday had a more positive tone than in recent days.

Lawmakers and the White House are hunting for a bipartisan accord that would extend legal status to young undocumented immigrants brought to the U.S. as children, as well as increase border security and make other changes to immigration law.

Without such a deal in place, a sufficient number of Senate Democrats plan to oppose a short-term spending bill, which would prompt a shutdown. Current funding for the government expires at 12:01 a.m. Saturday.

Democrats support a bipartisan proposal unveiled this week by Sen. Lindsey Graham (R, S.C.) and Senate Minority Whip Dick Durbin (D, Ill.) and others. But President Donald Trump and other Republicans have rejected it, and instead support talks under way by the No. 2 leaders in each party in each chamber of Congress.

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ment immigrants brought to the U.S. as children, as well as increase border security and make other changes to immigration law. Without such a deal in place, a sufficient number of Senate Democrats plan to oppose a short-term spending bill, which would prompt a shutdown. Current funding for the government expires at 12:01 a.m. Saturday.

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Some Democrats believe that group was put together to slow-walk the process, not to

reach agreement. The group met again on Thursday with White House chief of staff John Kelly, Homeland Security Secretary Kirstjen Nielsen and others, and lawmakers and several aides said there was a positive tone to the session.

"Good progress," said Sen. John Cornyn (R, Texas), the No. 2 Republican in the Senate. The group also includes Mr. Durbin and Reps. Kevin McCarthy (R, Calif.) and Steny Hoyer (D, Md.).

Aides in both parties said that one of the administration's top priorities appears to be expanding the definition of "border security" to include policy changes. Both sides agree border security will form part of a deal that includes protections for the young undocumented immigrants, known as "Dreamers."

—Laura Meckler

states that Mr. Trump won in 2016 are facing particular pressure to avoid a shutdown. While many say they are undecided, so far only Sen. Joe Manchin of West Virginia has said he would support the stopgap measure.

But more Democrats, even those who backed the short-term spending bill in December, were opposing the House bill. Virginia Sens. Mark Warner and Tim Kaine, who represent a large number of federal employees whose jobs could be disrupted if the government partially shuts down, voiced opposition.

The House bill "punts budget discussions until mid-February," Messrs. Kaine and Warner said in a joint statement. They added that they would back a very short-term bill that would extend funding for a few days while Congress addresses other issues.

In the Senate, Republicans Lindsey Graham of South Carolina and Rand Paul of Kentucky have all opposed the stopgap bill. Sen. John McCain (R, Ariz.) is absent due to brain cancer, so GOP leaders would need at least 12 Democratic votes.

Republican Sen. Mike Lee of Utah voted against the last continuing resolution to extend funding and generally opposes such stopgap measures. He has declined to voice his support for this bill.

Senate Republicans said Majority Leader Mitch McConnell made clear Thursday that he didn't favor a one- or two-day spending patch.

President Donald Trump injected uncertainty into the debate early Thursday when he appeared to criticize House GOP leaders' decision to include a six-year reauthorization of the Children's Health Insurance Program, known as CHIP, in the one-month spending bill. Funding for that program, which covers about nine million low-income children, ended last September.

"CHIP should be part of a long term solution, not a 30 Day, or short term, extension!" Mr. Trump tweeted.

Mr. Ryan said he had spoken

to Mr. Trump Thursday and that the president supported the spending bill, which the White House later confirmed.

Immigration has become part of the fight since Mr. Trump in September ended an Obama-era program shielding so-called Dreamers, immigrants brought to the U.S. as children, from deportation. He gave Congress until March to negotiate a replacement to the Deferred Action for Childhood Arrivals program, or DACA, and some Democrats, knowing their votes are needed for spending bills, have been pushing to reach a broader

immigration agreement that protects such Dreamers.

Talks over immigration continued Thursday night, as the Trump administration pushed for policy changes that would limit the rights of asylum seekers and unaccompanied children who cross the U.S. border, as well as for more money for the president's promised border wall. While Democrats oppose all these elements, people in both parties suggested the shutdown threat was an incentive to negotiate.

Senate Democrats who are up for re-election this year in

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## WORLD NEWS

## U.S. Trims Plan for a Syria Border Force

Turkish objections prompt officials to scale back goal of a 30,000-person team

By DION NISSENBAUM

The U.S. military is swiftly backtracking from plans to build a 30,000-person border force in Syria after the proposal triggered a new diplomatic showdown with Turkey.

After earlier heralding the idea as a pillar of the Trump administration's new Syrian strategy, U.S. officials on Thursday said the plan was poorly conceived and won't proceed as previously outlined by the military.

The rapid reversal was a sign of the divisions in the Trump administration over how to move forward with its Syria strategy as the fight against Islamic State draws down.

"It's unfortunate that the entire situation has been misrepresented, misdescribed, some people misspoke," Secretary of State Rex Tillerson told reporters late Wednesday night as he flew back to Washington after unveiling the administration's new Syria policy in California. "We are not creating a border security force at all."

Despite the U.S. reversal, Turkish leaders said they remain skeptical of Washington's Syria strategy. Turkish Foreign Minister Mevlut Cavusoglu said Mr. Tillerson's comments were insufficient and that Turkey would wait to see whether



**Turkish military trucks transported armored vehicles to reinforce the border units in southern Hatay province, near the Syrian border, on Thursday.**

the U.S. continues training in Syria for Kurdish fighters that Ankara views as terrorists.

"The formation of a terrorist army along our border with Syria would cause irreversible damage to our ties with the U.S.," Mr. Cavusoglu said in an interview on CNN Turk.

The new standoff was triggered by a lengthy U.S. military statement released last weekend that outlined plans to recruit and train 30,000 Syrian fighters to be part of a new group it called the Border Security Force. The U.S. military command battling Islamic State said the first 230 recruits

are being trained, with plans to eventually create a force of 30,000 to patrol Syria's borders with Turkey and Iraq.

Turkey immediately denounced the plan as a betrayal. President Recep Tayyip Erdogan threatened to "strangle" the border force "before it's even born."

Turkey stepped up plans for a new military offensive against a separate group of Kurdish forces in Syria, a move U.S. officials said could disrupt American-led efforts to wipe out remaining Islamic State strongholds in the region.

Turkey views the U.S.'s

Kurdish allies in Syria as an offshoot of the Kurdistan Workers' Party, or PKK, which has used suicide attacks and car bombs to try to secure more rights in Turkey. The U.S. and Turkey classify the PKK as a terrorist group, but the U.S. treats the Syrian Kurds—known as the YPG—as a distinct force.

The U.S. has tried to address Turkey's concerns by limiting its direct military support to the Kurdish fighters. In November, President Donald Trump told Mr. Erdogan that he was planning to stop arming the Kurds in Syria. But this

week's announcement made it clear that the U.S. plans to keep working with them.

The military statement caught U.S. officials in Washington by surprise. Mr. Tillerson and the Pentagon both issued statements on Wednesday distancing them from the military plan.

U.S. officials conceded on Thursday that the rollout had been botched. "This was handled badly," a U.S. official said.

While the U.S. is backing away from the idea of creating a new border force, it is proceeding with plans to train Syrian forces to protect the borders.

U.S. officials said the primary goal is to ensure that Islamic State fighters aren't able to sneak across the Syria-Iran border.

The fact that the U.S. still plans to keep training and arming the Syrian Kurds doesn't sit well with Ankara, which is laying the groundwork for a military operation against Kurdish fighters in northwestern Syria who are aligned with the YPG.

The Syrian regime warned on Thursday that it would shoot down any Turkish jets carrying out strikes inside the country.

## In Lebanon's Election, Hopes for Fresh Faces

**MIDDLE EAST CROSSROADS**  
By Yaroslav Trofimov

**BEIRUT**—After years of delays, Lebanon is gearing up for its first national election since 2009—a vote that will test the strength of traditional leaders who have represented the country's fractious communities for decades.

Nobody expects the parliamentary election scheduled for May 6, a rare democratic exercise in the Arab world, to dramatically upset the balance of power. The main traditional parties that thrive on identity politics, be they Christian, Sunni Muslim, Shiite Muslim or Druze, are just too entrenched. All are represented in the current government and all operate vast patronage machines.

But a new electoral law, which introduced a form of proportional representation,

"This is the first time in the history of Lebanon that the government signs off on an election law that is against its own interests," said Prime Minister Saad Hariri, a Sunni Muslim politician whose father Rafiq served multiple terms as prime minister before he was assassinated in 2005. "It will introduce new blood in parliament and I think this is something that is positive. It's going to be interesting times."

A motley alliance of reformist and nonsectarian groups calling for an end to corruption and better governance did remarkably well in Lebanon's municipal elections in 2016, capitalizing on anger over government failures to provide basic services such as garbage collection or reliable electricity. It's a feat the reformers hope to repeat come May.

Mr. Hariri's Future movement is likely to be one of the main losers as the new electoral law encourages the fragmentation of political forces. The one group likely to remain relatively unaffected is Hezbollah, a Shiite



**Prime Minister Hariri greeted supporters in Beirut in November.**

militia backed by Iran that operates a ministate in southern Lebanon and exercises overall control over major government decisions, election experts say.

Hezbollah's role used to be a major issue in previous Lebanese elections, fought between the pro-Saudi and pro-Western "March 14" alliance led by Mr. Hariri and the "March 8" grouping of Hezbollah, other Shiite groups and the Christian party of Lebanon's current President Michel Aoun.

Those divisions, however,

have softened over the past year as Hezbollah benefited from regime victories in the Syrian civil war. Meanwhile, Mr. Hariri—to the dismay of Saudi Arabia—adopted a more conciliatory line to the group, which both Washington and Riyadh consider terrorist. Mr. Hariri said in a recent interview that he is open to Hezbollah continuing to participate in the government after the election.

The balance of power in the region as a whole is influencing the behavior of some political parties in Leb-

anon," said Samir Geagea, a former warlord and chief of the Lebanese Forces, the main Christian component of the March 14 alliance. "They see that Iran has influence in Syria, in Iraq, to some extent in Yemen. Some say: If this is so, why oppose Hezbollah in Lebanon savagely now?"

Barring major surprises, Mr. Hariri is universally expected to stay on as prime minister in an inclusive government, even if his party loses several seats. The real question is how much opposition will emerge in parliament to challenge the country's power-sharing arrangements and the widespread corruption that critics say it engenders.

"The youths today don't recognize themselves in this confessional system of government," said Lina Hamdan, a civil-society activist who is considering a run for a parliament seat in Beirut. "What we are trying to do is to bet on the strength of the young people and on their desire for change."

If reformists from outside the main sectarian parties are elected as members of parliament, "they would act as normal MPs act in a normal country," added Ayman Mhanna, another civil-society activist. "That, in itself, is a major change in Lebanon."

## Chile's Rank In Business Is Challenged

By JOSH ZUMBRUN

Chile's rank among the world's economies for business competitiveness would have been little changed in recent years if not for a series of methodology changes that potentially skewed the order, according to a new analysis by World Bank chief economist Paul Romer.

Chile's rank in the World Bank's "Doing Business" report dropped 23 places, from 34th to 57th, in the report between 2013 and 2016. Had it not been for methodology changes its rank would have dropped only slightly, from 46th to 48th during that time, according to the estimates published by Mr. Romer on his website this week.

Mr. Romer said last week he would recalculate the numbers and couldn't defend "the integrity" of the process used to produce the official numbers. The World Bank changed its methodology in ways that knocked Chile down during the administration of socialist Michelle Bachelet, according to Mr. Romer's reckoning, and in prior years, during the administration of conservative Sebastián Piñera, changes pushed Chile up the list.

## OIL

**Continued from Page One** among the young and elderly, while health officials report a resurgence of illnesses ranging from malaria to diphtheria. Meanwhile social stability is fraying. At least four people died during outbreaks of looting in recent weeks.

The government is resorting to barter—seeking to trade diamonds and other valuables—in an effort to bring in sorely needed supplies as President Nicolás Maduro prepares for elections this year.

This week, the state oil company's new chief, National Guard Gen. Manuel Quevedo, blamed the production downturn on sabotage and terrorist attacks by the opposition. He didn't offer any evidence. He said output was stabilizing and would grow to 2.5 million barrels a day this year.

Many analysts, however, expect Venezuela's production will continue falling. By this year's end, output could drop to 1.3 million barrels a day, according to Francisco Monaldi, a Venezuelan energy expert at Rice University.

## Taking a Plunge

Oil-dependent Venezuela's crude output plummets after years of mismanagement and underinvestment, heightening risks of a debt default and humanitarian crisis.

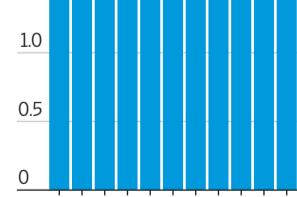


\*Includes Natural gas liquids. †Petroleos de Venezuela SA figures.

Sources: International Energy Agency (share); OPEC (production); Torino Capital (exports)

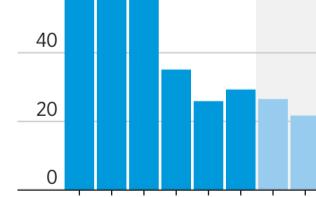
## Crude oil production†, 2017

2.5 million barrels a day



## Oil exports

\$100 billion



Estimate

lyst at brokerage Raymond James.

The large output drop means Venezuela is the only major oil producer not to benefit from rising crude prices. A weighted average of Venezuela's oil prices rose 25% last year on the back of stronger global demand and shrinking inventories. But this windfall was wiped out by the nation's lower output and the rising cost of imported petroleum products such as naphtha needed to transport Venezuela's heavy crude.

Brokerage Torino Capital forecasts the value of Venezuelan oil exports will fall about \$3 billion this year to \$26.5 billion. In 2012, the country took in \$93 billion from oil sales abroad.

Roughly 1.3 million barrels a day goes to the domestic market or is pledged in prepaid supply and debt deals with allies Russia, China and Cuba, according to Rice University's Mr. Monaldi. That leaves precious little to sell in the open market. Exports to the U.S., Venezuela's top cash-paying customer, fell 20% in 2017 to 593,000 barrels a day, according to BMI Research.

Venezuela's decline benefits OPEC peers who have been able

to raise their own output without violating the cartel's agreement to reduce production. OPEC's overall output edged higher by 42,000 barrels a day in December from the previous month.

A full-blown default on Venezuelan debts—the country has been struggling to pay interest and principal on its \$60 billion in foreign borrowing—could put more oil sales at risk. PdVSA and the central government are in default on more than \$700 million of bond payments. The state oil company hasn't made any interest payments for a month, raising fears that creditors could start seizing oil shipments as compensation.

Last week, a tanker carrying Venezuelan crude was detained in the Caribbean island of Curaçao at the request of an unidentified group of investors seeking \$30 million in back payments from Venezuela, according to diplomats familiar with the matter.

"If Venezuela's oil shipments become a target, that would be the worst possible scenario for the country's oil industry," said Artyom Tchen, an Oslo-based oil analyst at consultancy Rystad Energy.

at state-run PdVSA by Mr. Maduro that has paralyzed the oil giant. Seventy senior managers have been jailed on graft allegations in the past three months. Generals with no industry experience have been named to run the business.

U.S. sanctions also hurt, scaring off some of the remaining investors.

Multinational companies that have partnerships with PdVSA

in southern Venezuela, home of the world's biggest oil reserves in the Orinoco Oil Belt, have cut spending to a minimum because of overdue bills, red tape and high taxes, say oil industry executives.

"International operators have essentially zero appetite for putting any additional investment dollars into Venezuela under current conditions," said Pavel Molchanov, an ana-



## WORLD NEWS

# SPD Set to Define Merkel's Path

**Vote on coalition with German chancellor's party could extend her tenure or cut it short**

BY ANDREA THOMAS

**BERLIN**—The future of Europe's longest-serving leader still in office will be shaped Sunday by a fractious political party that has lost half of its voters and used up six leaders in the past 15 years.

Four months after Germany's center-left Social Democrats scored their worst post-war result in a general election, 600 of the party's delegates will meet to decide whether to forge a ruling alliance with Angela Merkel's conservatives and usher in the German chancellor's fourth term in office.

A "yes" vote would kick-start detailed coalition negotiations between the two partners. A "no" vote would almost certainly lead to snap

elections, tip Europe's largest economy into renewed political uncertainty, and could even spell the end of Ms. Merkel's long political career.

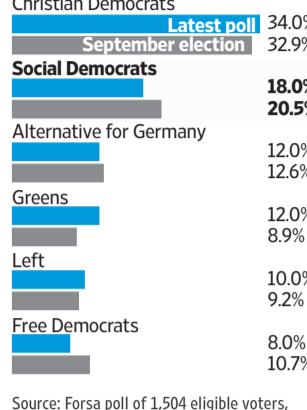
Sunday's vote is an extreme example of how the weakening of the moderate left across Europe is scrambling the Continent's politics. Without any other party in parliament with which to forge an alliance, Ms. Merkel would be left with a difficult choice between forming an unstable minority government or seeking fresh elections.

Few observers dare to predict the outcome of the vote. The entire leadership behind chairman Martin Schulz is calling for a "yes." Left-leaning midlevel functionaries, the party's youth organizations, some regional grandes and local chapters want to reject the alliance.

"The issue is dividing the party," said Carsten Schneider, the SPD's parliamentary secretary and a supporter of a new coalition. "Both sides are gen-

## Little Left

Support for Germany's Social Democrats is falling.



Source: Forsa poll of 1,504 eligible voters, latest conducted Jan. 15-17; margin of error: +/- 3 p.c. pts.

THE WALL STREET JOURNAL

uiinely concerned about the party's survival."

Opponents of a coalition with Ms. Merkel say the Social Democrats need a cleansing spell in opposition and a period of reflection about what

they really stand for. Besides, they argue, the SPD has already governed twice with the conservatives since 2005 and both times came out weakened.

"We could never stand out as SPD in a coalition with the conservatives," said Hilde Mattheis, a lawmaker and member of the party's left wing. Such an alliance, she said, would only strengthen "right-wing fringes."

Kevin Kühnert, leader of the party's national youth organization and the most-vocal opponent of a coalition, said on Thursday that entering yet another grand pact would "crush the SPD in the long-term....Let us exit this vicious circle, accept the pain and expand our horizon by re-founding the party."

Proponents of the coalition point to some 60 items in the preliminary coalition agreement between the SPD and Ms. Merkel's CDU that were directly inspired by the SPD's platform—including some €46

billion (\$56 billion) in extra spending on social benefits, tax cuts targeted at low-income earners, a new immigration policy and backing for further European integration.

They also note that the party's ratings have continued to fall since last year's electoral debacle and that another election could leave it on the verge of political obscurity or having to collaborate with Ms. Merkel anyway, but from an even weaker position.

"Sunday's party convention is all about the SPD's survival," said Andrea Römmel, professor of political science at Berlin's Hertie School of Governance.

A Forsa public-opinion poll for broadcasters RTL and N-TV published on Thursday showed the SPD with 18% of respondents' support, 2.5 points below its disastrous election result. By contrast, it credited the CDU with 34%, historically a weak result but still an improvement over its electoral result.

# France, U.K. To Enhance Defense Ties

BY WILLIAM HOROBIN AND JENNY GROSS

**LONDON**—France and the U.K. agreed to deepen cooperation on defense and security, including managing migrant flows to Britain, as the two countries seek to reinforce their relations before the U.K. leaves the European Union.

At the Royal Military Academy Sandhurst on Thursday, French President Emmanuel Macron and British Prime Minister Theresa May pledged to maintain their cooperation even as the U.K.'s looming departure from the EU risks unraveling some aspects of Britain's partnership with European countries.

"We have agreed that U.K.-France cooperation remains critical to European defense and that together we will continue to play a full role to improve the security of the Continent," Mrs. May said.

# EU Confronts Deep Divisions Over Legal Standards

Brussels officials worry bloc's newer members show faint regard for the rule of law; 'Western Europeans feel betrayed'

The European Union is locked in increasingly bitter battles with its newer members over their adherence to democratic standards of law, a clash of cultures that EU officials say poses a long-term threat to the union.

By Valentina Pop  
in Brussels  
and Daniel Michaels  
in Sofia, Bulgaria

Hungary has drawn EU ire for legislation targeting universities and nongovernmental organizations. Slovenia and Croatia can't settle their border. Poland and Romania have moved ahead with efforts to curtail the independence of their judiciaries.

The EU's eastward expansion during the previous decade was meant to lift Europe's less-developed countries out of economic and political stagnation after decades under communism. While these nations have raised their standards, EU officials worry about their commitment to core principles such as the separation of powers and rule of law.

"At the heart of Europe is an idea, born out of the ashes of two suicidal wars, based on our values," said European Commission First Vice President Frans Timmermans. He said, "the law and equality before the law" realize that ideal, while undermining the rule of law "is putting at jeopardy the very core of what



Supporters of Hungary's political opposition during an antigovernment protest in Budapest in May.

holds us together."

Hungary was the first to clash with Brussels over what EU officials saw as Prime Minister Viktor Orbán's increasing authoritarianism.

After his Fidesz party in 2010 won a parliamentary supermajority that permitted constitutional changes, he forced judges into early retirement and exerted Fidesz control over media, the central bank and the data protection authority. The EU responded

with infringement proceedings, and the government reversed some of the measures.

Budapest has also faced EU criticism for legislation that would allow it to shut down foreign-funded universities and target NGOs critical of the government.

In Poland, the ruling Law and Justice party in December fired more than a third of the judges on the Supreme Court, and the government has refused to obey the decisions of

the country's constitutional tribunal, prompting the European Commission to trigger a sanctions procedure that could strip Poland of its voting rights in the union.

Poland's new prime minister, Mateusz Morawiecki said he could understand the EU position but was committed to purging Communist-era officials, including judges, from the country's institutions.

The cloud of legal uncertainty that now covers these

states worries officials in Brussels, who say a union built upon a common understanding of legal and democratic principles could be at risk of collapsing if members begin to ignore its rules.

"Western Europeans feel betrayed by Eastern Europeans," a senior EU official said.

Romania and Bulgaria recently have drawn similar rebukes from the EU.

The European Commission in November said neither had progressed sufficiently in fighting corruption and ensuring independence of their legal systems to end a decade of special monitoring by the EU.

Romania's ruling Social Democratic Party in December introduced legislation to curb the independence of Romanian judges and prosecutors, saying the move was needed to ensure their accountability for mistrials.

Bulgaria began its first six-month presidency of the bloc this month clouded by questions about its own standards.

"There is a corruption problem in Bulgaria, just as there is elsewhere," European Commission President Jean-Claude Juncker, the EU's top executive, said in the capital, Sofia, adding the government "has made significant progress over recent years against corruption."

Bulgarian Deputy Prime Minister Ekaterina Zaharieva acknowledged the issue while noting the country was bringing its legal system up to EU

standards. "We want to fight corruption," she said.

EU officials' concerns about rule of law aren't limited to the union's eastern periphery.

In Malta, the car-bomb assassination in October of journalist Daphne Caruana Galizia has refocused attention on the island's legal standards.

Ms. Caruana Galizia had written about alleged kickbacks received by the wife of Maltese Prime Minister Joseph Muscat and several of his ministers. They deny the allegations. Mr. Muscat condemned the assassination and promised to bring the perpetrators to justice. Three men charged in December with the murder deny the accusations.

The European Parliament late last year requested a "rule of law dialogue" with Malta. It also asked the commission to verify Maltese compliance with anti-money-laundering rules and bank regulations.

A delegation of parliamentarians, in a report released this month, voiced concern to Mr. Muscat about "the unclear separation of powers, which has been the source for the perceived lack of independence of the judiciary and the police," and what it called a lack of efforts to combat corruption and money laundering.

Mr. Muscat's spokesman rejected the report, saying it drew "gratuitous conclusions" based on "wrong facts and allegations which are irresponsible."

# U.S. Data Case Stirs Concerns in Europe

BY NATALIA DROZDIAK

**BRUSSELS**—European lawmakers and companies worry that a lawsuit the U.S. government has brought to the Supreme Court could clash with European Union law, trapping tech companies between complying with U.S. data requests and strict EU data-privacy rules.

The case, set to be heard next month, stems from a dispute between the Justice Department and Microsoft Corp. over access to emails stored

on a server in Ireland. Industry officials say it highlights the stark differences between the U.S. and Europe over views on online privacy and the extent of government access to users' data.

The U.S. government in 2013 obtained a search warrant requiring Microsoft to hand over email information as part of an investigation into a customer who allegedly was using the account to conduct criminal drug activity.

Microsoft complied with part of the order but rebuffed the request to turn over the email messages, which were stored abroad, arguing that U.S. search warrants don't reach data stored outside domestic borders. Microsoft argues that complying with the warrant would have meant the company could have run afoul

of EU privacy rules.

At issue in the court case are broader questions about who should govern global internet companies, and how. In particular, cloud computing companies, such as Microsoft or Amazon.com Inc., can move data among different servers around the world.

Microsoft says it stores users' data in the region where a user resides and customers should be in control of their data.

The U.S. argues that its warrant required Microsoft to hand over the information because it can be accessed in the U.S. with the click of a computer mouse, and lack of access to that data could pose significant barriers to ongoing investigations.

"Hundreds if not thousands of investigations of crimes—ranging from terrorism, to child pornography, to fraud—are being or will be hampered by the government's inability to obtain electronic evidence," the Justice Department said in a court brief.

A U.S. government win in the case could hand U.S. companies operating in Europe an expensive dilemma: either comply with U.S. data requests or risk breaching EU data privacy rules.

European companies with business operations in the U.S. also fear they could receive similar requests from American authorities sent to their headquarters abroad.

"This untenable position would throw a wrench into the countless routine business ar-

rangements that comprise today's highly interdependent commercial world," the largest trade organizations from Germany, Ireland, Poland and France said in a joint filing to the court.

Foreign governments can access evidence in Europe for criminal investigations, but the preferred method under EU law is to go directly through member states, as part of what is known as a Mutual Legal Assistance Treaty. That approach will be enshrined in the bloc's new data protection regulation, to enter into force in May. The new rules threaten fines as high as 4% of a firm's global revenue for failure to comply.

Washington's position seems to fly in the face of EU sovereignty, some European officials and legal experts said.

"This can clearly escalate to being a conflict of law and international relations," said Jan Philipp Albrecht, a Green Party member of the European Parliament and a staunch privacy advocate. "The question [is] if the EU can expect that their own laws apply to their own territory and market or is the U.S. trying to put that into question?"

Companies, governments and institutions in Europe and elsewhere have submitted third-party briefs to the court ahead of the hearing, which is set for Feb. 27. A decision is expected by June.

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Microsoft and the U.S. are in a dispute over emails stored in Ireland.

ANDREW JONES/GETTY IMAGES

## IN DEPTH

## CHINA

*Continued from Page One*

corporate records and shipping databases shows that the six vessels identified by the U.S. are owned or managed by Chinese companies or firms that are registered in Hong Kong and have shareholders who are Chinese nationals and have used addresses in mainland China.

In December, the U.S. asked the sanctions committee to formally designate the six ships as sanctions violators. China resisted that request but allowed four other vessels with no apparent links to Chinese companies to be blacklisted. The names of the four blacklisted ships were announced by the U.N., but the other six weren't.

China's foreign ministry said Beijing abides fully with Security Council resolutions and deals with violations in accordance with the law. "Any measure taken by the Security Council should be based upon conclusive evidence and facts," the ministry told the Journal in a written statement. The foreign ministry didn't respond to questions about the six Chinese-owned or -operated cargo ships dropped from the blacklist.

The Chinese delegation to the U.N. provided the committee with no formal explanation of why China was willing to allow some ships to go on the list but not others. Some U.S. officials believe the goal was to avoid the embarrassment of ships with Chinese ties being found in breach of sanctions.

Chinese officials have investigated at least four of the six vessels, and several shipowners and managers were questioned by officials from China's state-security and foreign ministries, as well as local customs and maritime agencies, according to some of the people questioned.

At least one cargo-ship manager has been detained as part of a criminal investigation, said the manager's son, a lawyer and the ship's owner. They said the manager's detention is likely due to involvement in trade with North Korea.

The ship's manager hasn't been formally charged with wrongdoing, the lawyer said. China's foreign ministry and customs agency didn't respond to questions about the matter.

Declassified intelligence re-

ports, photos and maps shared with the U.N. by American officials asserted multiple instances of Chinese ships violating Security Council resolutions banning North Korean coal exports and ship-to-ship transfers of refined petroleum bound for North Korea. The Journal reviewed much of that evidence.

The U.S. said the Chinese-owned Glory Hope 1 was violating the U.N.'s complete ban on North Korean coal exports within days after it was passed in August.

The vessel crossed the Yellow Sea near North Korea under a Panamanian flag, entered North Korea's Taedong River and then turned into the port of Songnim, according to information presented to the U.N.

While approaching North Korean waters, the Glory Hope 1 turned off its Automatic Identification System, or AIS, a transmission device that discloses a ship's position to other ships, satellites and land-based tracking systems. Turning off AIS can increase the risk of collision at sea, though international maritime guidelines say ship captains may do so in case of pirates but must turn the device back on as soon as the danger passes. A shipowner or operator could give an instruction to shut off the device and would likely know if it had been, shipping and sanctions experts said.

"When AIS is off in a vast sea, you are basically invisible," said Ioannis Sgouras, a veteran Greek captain of crude-oil carriers. "You can still be picked up by other ships on radar if you are in range, but they can't tell the ship's name, cargo or destination."

U.S. intelligence officials used satellite photos to monitor the Glory Hope 1 as it took on a load of North Korean coal Aug. 7. The ship then proceeded toward the coast of China, with its AIS turned off.

Just as switching off the AIS beacon can disguise a ship's movements, a vessel can advertise its location by switching on the transmission device, much like turning on a flashlight in a darkened room. Both techniques were essential for the Glory Hope 1, according to the analysis submitted by the U.S.

The ship's crew activated the AIS device as the Glory Hope 1 approached the Chinese port of Lianyungang on Aug. 15. Instead of entering the port, the vessel



"loitered" offshore, information provided to the U.N. shows.

The U.S. suggested the stop was meant to make it look as if the Glory Hope 1 had gone there to take on Chinese cargo. For more than a week, the ship hugged the Chinese coast until it approached Cam Pha, Vietnam, where its tracker was turned off again. A satellite photo provided to the sanctions committee shows the ship anchored and being unloaded Aug. 26 near the Vietnamese port.

The Glory Hope 1 is owned by a Chinese company and operated by Hong Kong-registered Glory Hope Trade Co., shipping databases and corporate records reviewed by the Journal show. Glory Hope Trade's two shareholders are Chinese nationals with addresses in the eastern Chinese city of Nantong.

One of the shareholders, Lu Yuliang, has been detained by local authorities since late August, according to the vessel's owner and Mr. Lu's son, Lyu Cong. Mr. Lu hasn't appeared in court, his son said.

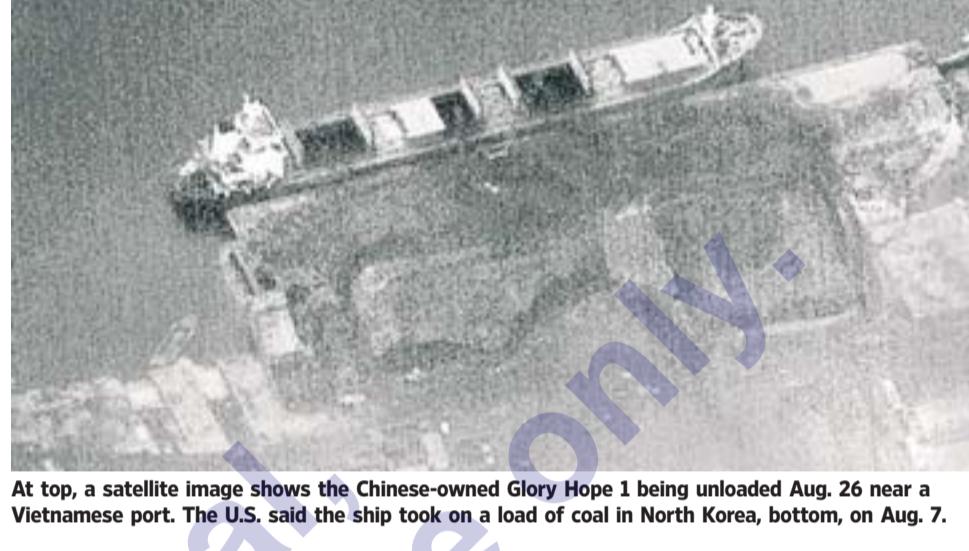
"I think it is the coal from North Korea," said Mr. Lyu, who called his father a scapegoat. A spokesman for the provincial government said authorities weren't aware of the case and haven't found any alleged sanctions violations. The ship's other shareholder couldn't be reached.

North Korea needs hard currency to sustain its military machine, maintain a privileged lifestyle for its elite and other forms of financial aid. U.S. officials say the regime's revenue sources include cybercrime, remittances from workers abroad and illicit exports of North Korean anthracite coal, some of the purest in Asia.

"For many years, coal has been the center of gravity for North Korea's revenue generation," Marshall S. Billingslea, the assistant Treasury secretary for terrorist financing, told a House committee in September.

A cargo ship of the Glory Hope 1's size typically could carry as much as 5,500 tons of coal, which could be worth \$1.5 million at market rates. North Korean coal almost certainly would have been sold at a discount. Ships that dare to transport illicit coal would likely get paid a substantial premium.

On Aug. 31, the Chinese-owned vessel Kai Xiang picked up its load of coal at Nampo, North Korea, with its tracking beacon off, according to the de-



At top, a satellite image shows the Chinese-owned Glory Hope 1 being unloaded Aug. 26 near a Vietnamese port. The U.S. said the ship took on a load of coal in North Korea, bottom, on Aug. 7.

classified intelligence provided to the U.N. sanctions committee.

The ship then proceeded toward the Chinese coast and activated its AIS system on Sept. 4.

Two days later, the Kai Xiang stopped in Hong Kong and then went to Cam Pha, where American satellite photos show the ship being unloaded in anchorage at the Vietnamese port.

A senior executive at a Chinese contractor that handled safety management for the Kai Xiang said the same ship also

classified intelligence provided to the U.N. sanctions committee.

The ship didn't enter the port. After two days, the Xin Sheng Hai turned off its beacon and proceeded to the North Korean port of Nampo, where it was photographed Aug. 31 taking on coal, the U.S. said. The coal was delivered to Vietnam in late September.

The vessel's owner said it didn't take part in illicit trade with North Korea. Russian officials at the U.N. and in Washington didn't respond to requests for comment. Vietnam's embassy in Washington referred questions to the foreign ministry, which didn't respond.

Another cargo ship, the Yu Yuan, was loaded with coal at Wonsan, North Korea, on Aug. 12 and then loitered outside the Russian port of Nakhodka for six days without making a delivery there, according to the U.S. A Sept. 5 photo shows the Yu Yuan delivering its coal to the port of Kholmsk on Russia's Sakhalin Island.

The details were part of the ammunition used by American officials to seek the blacklisting of 10 ships by the U.N.

Six of the 10 ships were registered with mainland Chinese or Hong Kong ownership, including the Glory Hope 1, Kai Xiang, Xin Sheng Hai and Yu Yuan. U.S. officials said the remaining two, the Lighthouse Winmore and Sam Jong 2, made a ship-to-ship transfer in October of refined petroleum bound for North Korea. Transfers to North Korean-flagged vessels such as the Sam Jong 2 were banned in September.

Formally designating the ships as sanctions violators would require all U.N. members

to ban the ships from entering their ports.

China, a permanent member of the Security Council, had voted in favor of a series of sanctions resolutions last year to punish North Korea for tests of nuclear weapons or missile-based delivery systems.

In December, though, China twice delayed its response to the sanctions committee and then asked for removal of the six Chinese-owned or -operated vessels from the proposed blacklist, according to diplomats familiar with China's communications. The committee includes all 15 Security Council members and operates by consensus, so China essentially has veto power over its decisions.

American officials say the smuggling problems seem to be getting worse. South Korean authorities impounded in late December the Koti, a Panamanian-flagged vessel accused of transporting oil to North Korea. That ship wasn't among the 10 on the U.S.'s proposed blacklist.

Photos taken by the U.S. show the ship transferring oil in the East China Sea to the North Korean tanker Kum Un San 3.

The tanker has sought to hide its identity by painting over its name and displaying a false name on its stern, according to the U.S.'s analysis.

Shipping databases show the vessel is linked to companies in Hong Kong. The companies couldn't be reached. China's foreign ministry said the Koti docked at a Chinese port Dec. 18 and then left empty.

—James T. Areddy, Chuning Zhang and Costas Paris contributed to this article.

## Shipment Tracking

The Glory Hope 1, a Chinese-owned cargo ship, used a series of maneuvers to conceal coal it picked up in North Korea and delivered to Vietnam after the United Nations banned all North Korean exports of coal, according to the U.S. government.



**1 Aug. 7**

After being loaded with coal, the Glory Hope 1 departs Songnim, North Korea, with its identification system turned off.

**2 Aug. 13**

The ship turns on its tracking device near the Chinese port of Lianyungang but doesn't enter.

**3 Aug. 15**

The ship continues south along the Chinese coast to Cam Pha, Vietnam, where it delivers the coal Aug. 26 near the port.

Source: U.S. analysis submitted to the United Nations

THE WALL STREET JOURNAL.

## LINGO

*Continued from Page One* years old. The public-health consultant started language class this month.

Luxembourgish, also known as Luxembourgish, sounds like a mashup of German and French. The word for fork, *forschtett*, resembles the same word, *fourchette*, in French.

Knife, or *messer*, matches its German counterpart. Some words—say, *baangschesser*, which means coward—stack consonants. Others, such as *beaardechten*—meaning, to deal with—are awash in vowels.

The mix of German and French provides some cover for clever beginners. "If you're not that sure, you sort of say something that sounds in between," joked Clive Cherry, a 56-year-old Brit, who works in finance.

Mr. Cherry hopes to take the *sproochentest* this year and continue living in Luxembourg after Brexit. He enjoys

pistol shooting in his free time and dreams one day of joining Luxembourg's Olympic team.

If nothing else, he said, "I think I've been accepted a lot more since I started learning Luxembourgish," and added new Facebook friends.

Foreigners account for nearly half of Luxembourg's population of 590,667, and about 6,000 Brits live there. The number of expatriates has grown in recent years as technology giants Amazon.com Inc. and Microsoft Corp. have expanded there, along with large banks and money managers.

Brexit "pulled the rug out from under my feet and my family's feet in terms of that freedom of mobility," said Matt Neale, 38, who works for an e-commerce company. He plans to take the *sproochentest* and apply for citizenship in 2019, once he has lived in the country for five years.

Luxembourgish is more complex than many Romance languages, say language students. It is also more difficult

to learn because there is nowhere else where it is widely spoken.

The language is "of little to no use anywhere else," said Nick Parkes, a U.K. native who works on governance and administration within the fund management industry.

Even in Luxembourg, fluency isn't required in daily life. French, German and Luxembourgish are all recognized languages, used in varying degrees throughout government and in court.

Luxembourg is the second-largest market in the world for investment funds by assets, yet business is largely conducted in English, Mr. Parkes said.

Karen Tomasi, a 51-year-old Guernsey native, struggled to learn Luxembourgish when she moved to the country in 2001. "It's like German about 500 years ago," the office manager said. "I found it quite frustrating."

Now, Ms. Tomasi plans to apply for citizenship once she is eligible under the 20-year rule, sparing her the pain of

completing the *sproochentest*. The test includes a conversation with a moderator, as well as listening to a recording and translating what was said.

Before Brexit, Ms. Tomasi bought an apartment across the Luxembourg border in Germany and planned to move there. She changed her mind after the U.K.'s surprise decision. Ms. Tomasi will now remain living in Luxembourg,

she said, and pursue her citizenship there.

Many of the more than 1 million Brits who live in continental Europe are seeking dual citizenship in some of the other 27 EU countries.

Luxembourg is a less obvious choice, except for those who have lived there several years.

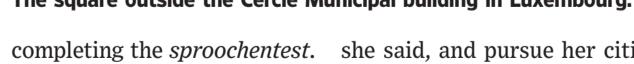
The number of British citizens registered for the

*sproochentest* has risen sharply, according to the *Institut National des Langues*, which administers it: 108 British citizens took the exam in 2017, up from an annual average of just 18 over the eight years prior to the Brexit vote.

Another 49 people have registered to take the test this year, with exam slots through July now filled. There are typically 1,600 spots for the *sproochentest* each year, said Karin Pundel, director of the *Institut National des Langues*, but that number is expected to grow by more than 30% to meet demand.

Luxembourgers have even made a bit of room in their umlaut-heavy lingo for the occasional Britishism, Mr. Neale noted. *Tipptopp* is used for "cool."

Brits cramming for the *sproochentest* can always turn to children's books to practice their comprehension, including such familiar fare as "*Den Harry Potter an Den Alchimistesteine*," the Luxembourgish translation of "Harry Potter and the Philosopher's Stone."



The square outside the Cercle Municipal building in Luxembourg.

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# GREATER NEW YORK

## JFK Vows Better Response After Storm

Port Authority says it will boost coordination with terminals, airlines; 'frustrating situation'

BY PAUL BERGER

The agency that operates John F. Kennedy International Airport announced steps Thursday to prevent a repeat of chaotic scenes following a recent winter storm.

Rick Cotton, the executive director of the Port Authority of New York and New Jersey, called the airport's system for coping with storms and deal-

managing the volume of aircraft arriving at the airport and provide better communication for passengers.

He added that terminal operators, which usually assist only client airlines, will be forced to provide assistance to neighbors as part of a "mutual aid framework."

The storm struck on Jan. 4, a Thursday. Many international flights took off for the airport that day based on assurances from the Port Authority that the airport would be open that evening. Instead, the airport remained closed until the following day because snow- and ice-removal operations struggled amid gusting winds and white-out conditions.

Some flights diverted to other North American airports or returned to their origin.

The following day, the airport failed to cope with an influx of flights, including aircraft that had been diverted the day before.

Some planes sat on the tarmac for up to seven hours before their passengers could be unloaded.

Disruptions continued into the weekend as hundreds of inbound and outbound flights were delayed or canceled, stranding thousands of passengers.

On Sunday, Jan. 7, a water main break in a terminal flooded an arrivals hall, stalling operations there for hours.

Compounding matters, many arriving passengers



ANDREW KELLY/REUTERS

were separated from their luggage for days or longer. Port Authority Aviation Director Huntley Lawrence said Thursday that a couple of hundred bags are still waiting to be reunited with their owners.

Mr. Cotton said the Port

Authority has asked terminal operators, airlines and baggage-handling companies to develop contingency plans for storms.

At his side was former U.S. Transportation Secretary Ray LaHood, whom the Port Au-

thority hired to conduct an investigation into the events and to provide recommendations. His report is expected in the coming months.

Mr. LaHood said he has already received emails from people who want help finding

their luggage.

"I know this is a very, very frustrating situation," he said.

The Federal Aviation Administration has opened its own investigation into the Port Authority's snow- and ice-removal plan.

**6**

Number of terminals at JFK run by airlines or private operators

ing with passengers and luggage "antiquated" and "broken."

Although the Port Authority operates the airport, its six terminals are operated by airlines or by private terminal operators.

In the wake of the storm, Mr. Cotton said the Port Authority has set up a new emergency operations center that will coordinate between the agency, airport terminals and airlines before, during and after a storm.

The center will also help

## Tale of Two Cities Vying to Be Amazon's Second Home

A world leader in finance and media, New York City increasingly has been attracting tech firms

BY JOSEPH DE AVILA AND KEIKO MORRIS

Don't count New York City politicians among officials surprised to make the shortlist for Amazon.com Inc.'s second headquarters. In a tweet, Mayor Bill de Blasio said: "No city in the world has the talent New York City can offer."

"New York continues to attract top companies from all over the world," said Howard Zemsky, commissioner of Empire State Development, the state's economic-development arm. "We look forward to building on this incredible momentum."

While New York is best known as the center of financial markets and the media industry, its tech sector has grown in recent years. Technology companies such as Google parent Alphabet Inc., Facebook Inc. and Twitter Inc. have expanded in the city. Cornell University invested in a new engineering presence, opening its first permanent campus on Roosevelt Island last year.

Alicia Glen, the city's deputy mayor for housing and economic development, said it is a misconception to think New York doesn't have enough engineers to support a new employer such as Amazon. "We are really going to put that falsehood to bed," she said.

The prospect of hosting Amazon's second headquarters—New York City is among 20 finalists—underscores the need for improving infrastructure such as transportation and continuing to expand workforce training and education and affordable housing, said business advocates and real-estate executives.

"I think we need to show Amazon that we are serious about infrastructure," said Bill Rudin, chairman of the Real Estate Board of New York, an industry group, and chief-executive of Rudin Management Co.

The city is pitching Amazon locations in Midtown West, Long Island City in Queens, Brooklyn Tech Triangle and lower Manhattan.

New York City isn't offering tax credits to bring Amazon to town. But Gov. Andrew Cuomo's administration has said it would assist Amazon with an undisclosed amount of tax incentives.

**NEWARK**



**MIDTOWN WEST**



**LOWER MANHATTAN**

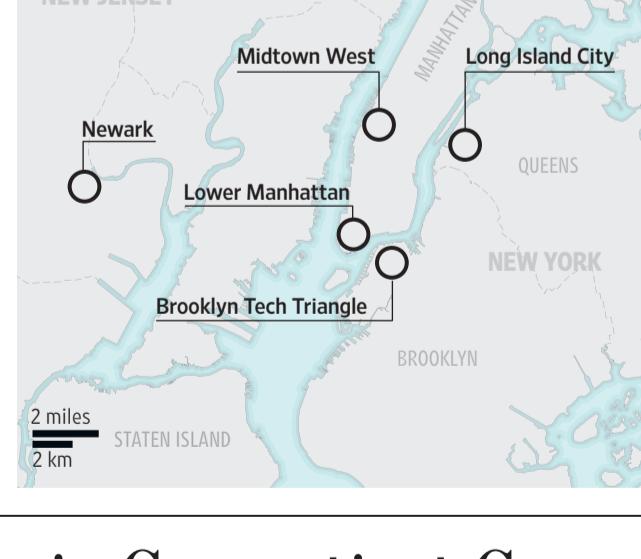


**LONG ISLAND CITY**



**Out for Delivery**

Locations in the New York area Amazon is still considering.



**BROOKLYN TECH TRIANGLE**



For Newark's mayor, making the shortlist affirms revitalization of city that struggled after industry left

BY KATE KING

NEWARK—New Jersey's largest city landed on the shortlist for Amazon.com Inc.'s second headquarters, a distinction local officials said reflected its revitalization but may also be tied to a \$7 billion incentive package.

Mayor Ras Baraka said he believes Amazon took notice of the city's proximity to an international airport and the East Coast's busiest seaport as well as its robust fiber-optic network and large pool of college students and other potential workers.

Newark "is not a bus stop, it is a destination and people are beginning to see it as a destination," Mr. Baraka said Thursday.

Newark, which has struggled economically since manufacturing jobs began leaving the city after World War II, has attracted investment from both real-estate developers and corporations in recent years. But the city continues to be plagued by poverty and violent crime.

Just days before he left office, former Gov. Chris Christie, a Republican, signed legislation that would offer up to \$5 billion in tax incentives over 20 years in exchange for Amazon creating as many as 50,000 new jobs over time.

Newark, a city of more than 280,000 in the state's northern Essex County, has offered up to \$2 billion in tax abatements and wage-tax waivers, but Mr. Baraka said the incentives would come with a condition that the company make a significant commitment to hiring city residents.

"The win for us is to get Newark residents hired, to get them trained, to get them employed, to raise our economy, to get people walking and moving around our city, to increase our population," he said.

Newark has about \$3.1 billion of development projects in the pipeline with about 1 million square feet of commercial space, 620,000 square feet of retail and 2.2 million square feet of industrial space, according to the city.

Compared with New York City, Newark is a "value proposition," said Jonathan Cortell, vice president of development at L+M Development Partners Inc., which is involved in a number of Newark redevelopment projects.

## Metro Areas in Connecticut Come Up Short

BY JOSEPH DE AVILA AND KATE KING

Connecticut was the odd one out in the tri-state region Thursday, with New York City and Newark both making the shortlist of 20 cities that Amazon selected as possible locations for its second headquarters.

Gov. Dannel Malloy's administration pitched Stamford and Greater Hartford as potential sites for Amazon, but they fell short of Amazon's criteria of metro areas with more than 1 million people.

"We received positive feed-

back from Amazon officials, but at the end of the day did not have a large enough metropolitan area for this particular proposal," Mr. Malloy said.

New York City—with 8.5 million people in the city alone—made the shortlist, but a handful of other hopeful cities in the state were left out. Among those not selected were Buffalo and Rochester; Syracuse, Utica and the Mohawk Valley; and the Albany region.

"I am disappointed to learn that Buffalo isn't in the next round to be Amazon's HQ2," Buffalo Mayor Byron Brown said in a tweet. "With nearly

\$7 billion in economic development activity underway, our momentum and our growth will continue." Buffalo has about 250,000 residents and 1.1 million in the metro area.

Amazon received more than 200 pitches from U.S. cities eager to attract the online retailer, which promised as many as 50,000 jobs over 10 to 15 years, and \$5 billion of capital investment during the initial 15 to 17 years of the project.

In New Jersey, the southern city of Camden also submitted a proposal but didn't make the cut. Local officials found a silver lining in their loss, saying they

were heartened that nearby Philadelphia had been chosen.

Camden Mayor Frank Moran said the city was "throwing all our support" behind Philadelphia, which is located just across the Delaware River, even though another New Jersey city, Newark, also made the shortlist.

"The city will see a tremendous benefit if our region makes the final cut," Mr. Moran said in a written statement. "If [Amazon CEO Jeff] Mr. Bezos decides to locate in Philadelphia, Camden, South Jersey and the Pennsylvania suburbs will be flooded with billions of dollars in economic development."

Compared with New York City, Newark is a "value proposition," said Jonathan Cortell, vice president of development at L+M Development Partners Inc., which is involved in a number of Newark redevelopment projects.

## GREATER NEW YORK

## GREATER NEW YORK WATCH

NEW YORK STATE

**Cuomo Bill Seeks To End Tax Loophole**

Gov. Andrew Cuomo on Thursday introduced a bill to close the carried-interest loophole, a feature of the federal tax system benefiting private-equity managers that has come under scrutiny.

Carried interest refers to the part of a fund manager's income that comes from taking a percentage of clients' investment gains. It is treated as capital gains, and taxed at a lower federal rate than ordinary income.

Under Mr. Cuomo's proposal, a 17% state fee on carried interest would offset the federal tax break. The governor's office said it would recoup \$100 million annually in public money the state loses.

The bill is unlikely to become law. It would take effect only if Connecticut, New Jersey, Massachusetts and Pennsylvania enacted the same legislation, Mr. Cuomo's office said. That regional approach might prevent an exodus of fund managers from New York, but there is no indication the other states are planning to pass similar legislation soon.

In New York, a spokesman for the Assembly's Democratic majority said it is reviewing the plan. A spokesman for the Republican Senate majority didn't comment.

—Mike Vilensky

CONNECTICUT

**Town Says Ice Floes In River Pose Threat**

A Connecticut town is asking the governor to declare a state of emergency because the river that runs through the community has become jammed with massive chunks of ice.

Haddam First Selectwoman Lizz Milardo signed a proclamation saying the ice jams flowing down the Connecticut River poses a "danger to life and property." The U.S. Coast Guard sent cutters down the river to try to break up the ice Thursday.

—Associated Press

Diners are paying up to \$14 for a cup of the childhood treat—and sometimes that's without marshmallows

BY CHARLES PASSY

Gotham Bar and Grill is celebrated for its fancy fare, from *foie gras* to Dover sole. Starting this weekend, the Michelin-starred restaurant will spotlight a childhood treat: hot chocolate.

The Manhattan restaurant will offer a \$14 cup of steaming cocoa made with a chocolate sourced from Costa Rica. "It's not like your Swiss Miss mix with hot water," said Gotham Bar pastry chef Ron Paprocki, who came up with the new menu item.

Gotham Bar and Grill is in good company. Dozens of restaurants, bakeries and

chocolate shops throughout New York City are offering gourmet versions of hot chocolate. And they say they are seeing strong demand.

While most establishments aren't charging as much as Gotham, the \$4 to \$9 cup of hot chocolate has become a fact of New York City life.

At Tetsu, the new Tribeca restaurant from sushi chef Masa Takayama of Masa fame, the \$8 hot chocolate is flavored with spices, including cardamom, cloves and star anise, and topped with a "toasted rice" whipped cream. Customers can add a shot of exotic booze—chili-pepper liqueur, anyone?—for \$4-\$6.

Cronut creator Dominique Ansel is getting in on the act. At his eponymous bakery in Soho, he offers the \$7 Blossoming Hot Chocolate. The name refers to the flower-shaped marshmallow that "opens" after the drink is served.

The vegan crowd isn't being ignored either. For example, Ladurée, a French-based bakery with two locations in Manhattan, is rolling out a \$6 hot chocolate made with hazelnut milk as a vegan alternative to cow's milk. The



**A barista whipped up a marocchino, a hot chocolate and coffee hybrid, at Zibetto Espresso Bar.**

Blossoming Hot Chocolate, bottom left, and hot chocolate and a house-made marshmallow, right.



offering is part of a citywide promotion, organized by the chocolate maker Valrhona, in which 10 bakeries and chocolatiers will be offering specialty hot-chocolate drinks from Saturday until Feb. 4.

Of course, hot chocolate has been around in one form or another for centuries, with roots dating to Aztec and Mayan periods. Eventually, it spread to Europe and then the U.S.

By most accounts, the cur-

rent New York City craze for gourmet hot chocolate was sparked by City Bakery, a fixture in the Union Square area that began offering a high-end version of the beverage when it opened in the early '90s, at the then seemingly outrageous price of \$2.50 a cup. "It was a scandal at the time," recalled owner Maury Rubin.

But Mr. Rubin's dark and decadent version, which now runs \$5.50, plus \$2 for an optional marshmallow, soon

found its fans. He now offers the drink year-round, as do many other hot-chocolate purveyors.

Restaurant-industry insiders and observers say the hot-chocolate trend speaks to a growing fascination with retro comfort foods done with a contemporary nod: Think artisanal mac 'n' cheese. It also dovetails with the gourmet-coffee movement that shows no signs of stopping.

"If we can have fine cof-

**City Bakery to Open A Detroit Location**

City Bakery is expanding to a second U.S. city—Detroit.

The New York bakery, known for its hot chocolate, will open a location in Detroit's historic Fisher Building next week. It is the first time the Manhattan establishment, which has been a fixture in the Union Square area for 27 years, has looked elsewhere in the U.S., though it operates seven locations in Japan.

City Bakery owner Maury Rubin said he became interested in Detroit as he learned about the recent efforts to revive the economically troubled city. In just the past year, Detroit has welcomed a new arena and a light-rail line.

This is "a singular moment for Detroit and that, for me, is compelling," said Mr. Rubin, who likened the expansion to his opening the original City Bakery in Union Square long before the area became popular.

The Detroit City Bakery will be located in the Fisher Building, an art deco treasure.

Mr. Rubin declined to specify the financial terms of his lease or the construction costs, but noted the space includes a large food-prep area that would allow him to expand throughout Detroit.

fee, then why not have fine hot chocolate?" asked Bret Thorn, senior food editor with Nation's Restaurant News, a trade publication.

Coffee shops also are joining in the trend. A case in point: Zibetto Espresso Bar, an Italian-inspired establishment with three Manhattan locations, offers a coffee-chocolate hybrid drink called a marocchino, along with a more traditional hot chocolate, both priced at \$4 a cup.

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**THE WALL STREET JOURNAL.**

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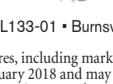
While the Silver Maple Leaf still displays the same immortal symbol of Canada that it did 30 years ago, a few changes have been made along the way. Radial lines were added to the design's background, and laser technology was used to add a micro-engraved, textured maple leaf, complete with a tiny number "18" visible under magnification.

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# LIFE & ARTS

**THEATER REVIEW**

By Terry Teachout

## Fears Behind The Laughter

*New York*

**PAUL OSBORN'S** "Morning's at Seven," the story of four sisters on the near shore of old age whose lives haven't worked out the way they planned, is a great American play that ought to be far better known than it is—though the fact that it's still known at all is surprising enough.

The original 1939 Broadway production of "Morning's at Seven" closed after just 44 performances. But the play continued to be performed from time to time, first on radio and then on TV, and in 1980 it received a Broadway revival that ran for 16 months, introducing a new generation to Osborn, who by then was remembered solely for his adaptations (he wrote the screenplays for "East of Eden" and "South Pacific"). Two decades later, Lincoln Center Theater brought "Morning's at Seven" back to Broadway again, this time in an all-star version featuring Frances Sternhagen, Estelle Parsons and Christopher Lloyd that received rave reviews.

The combined effect of these productions, however, wasn't as lasting as it should have been, and while "Morning's at Seven" is still mounted on occasion by amateurs and small regional troupes, I'd never had the opportunity to see it, much less review it, until People's Light's revival opened last weekend in suburban Philadelphia. It was worth the trip: This staging, performed by a sterling cast drawn from the company's resident ensemble and directed with all-encompassing sensitivity by Abigail Adams, the company's artistic director, is distinguished in every way.

Part of what makes "Morning's at Seven" so good—and so tricky to stage—is that it's not what it seems to be. At first glance it plays like an old-fashioned farce about an ingrown small-town family whose members have spent a lifetime coddling their quaint and comfy crotchets. But it soon becomes clear that the eccentricities of the four Gibbs sisters (Alda Corsetti, Carla Belver, Janis Dardaris and Marcia Saunders) and their three spouses (Peter DeLaurier, Stephen Novelli and Graham Smith), far from being benign, are in fact the outward manifestations of their shared fear that they've wasted their lives. And while "Morning's at Seven" is full of laughs, many of the best jokes turn out on closer inspection to be cries of pain and doubt. Imagine "You Can't Take It With You" rewritten by Edward Albee and you'll get an inkling of what Osborn is up to when one of his characters says, "I'm caught! I'm not where I should be at all! There's some other place in life where I should be!"

The secret to making a play like "Morning's at Seven" work is to perform  
Please see THEATER page A13



Peter DeLaurier, Marcia Saunders and Janis Dardaris in 'Morning's at Seven'



WARNER BROS. (2)

**FILM REVIEW** | By Joe Morgenstern

## '12 Strong': Fiery Heroism, Pale Reflection

**THE QUESTION** that keeps posing itself in "12 Strong" is why now? Why, almost two decades later, are we watching a by-the-numbers war drama about a U.S. Special Forces covert mission in Afghanistan during the weeks following 9/11? One could argue that there's never a wrong time for stories of valor under fire, and this thunderous adaptation of the Doug Stanton book "Horse Soldiers" is a retelling of exemplary courage in extraordinary circumstances. Yet the numbers don't add up; the movie lacks a discernible attitude toward those desperate days in America's history. Unconcerned with context or tonal nuance, it frames itself as an action thriller with a signature moment that could have been lifted from an old western—Chris Hemsworth, as the team leader, Capt. Mitch Nelson, riding into battle against the Taliban on horseback, a new breed of American cowboy showing the way for a posse of Afghan militiamen galloping behind him.

This isn't an invention. Shortly after the Twin Towers fell, CIA operatives and several 12-man Special Forces teams did in fact scramble to be the first boots on the ground in Afghanistan, and the team commanded by Mitch Nelson (a pseudonym used in the book and retained in the film) did use horses to traverse Afghanistan's mountainous terrain—they had no choice, since that's how their Afghan allies traveled and fought. Then they captured a key objective by launching an old-fashioned, brilliantly successful cavalry charge against a numerically superior enemy with a formidable array of modern weaponry.

The story starts slowly, with several of its 130 minutes devoted to Nelson and his chief warrant officer, Hal Spencer (Michael Shannon), jumping through bureaucratic hoops before they and their team can say their goodbyes to wives and families—ritual moments that could have been lifted from countless World War II dramas—and finally go off to Afghanistan. Once they arrive, the film, which was adapted by Ted Tally and Peter Craig, is full of interesting information about preparations for combat. Elite American troops are eager to fight, but must



A scene from '12 Strong,' above, and Chris Hemsworth at center as the team leader, Capt. Mitch Nelson, top

scrounge for basic equipment like tents, thermal underwear and GPS units before they go into combat. They lack language skills, and any useful sense of the rivalries that endanger their alliance with local warlords.

Navid Negahban, who played the al Qaeda leader Abu Nazir on "Homeland," is excellent as Gen. Dostum, a relatively liberal leader of the Northern Alliance who serves as the movie's resident philosopher. "Your mission will fail," he tells Nelson at one point, "because you fear death." (Wrong on both counts, as it turns out.) "This is Afghanistan," he intones at another, "the graveyard of many empires." (Hard to argue with that one.)

Mr. Hemsworth is appealing too—Thor as an American (even though the actor is Australian) who is as resourceful as he is quiet. Yet members of Nelson's team are written sketchily; except for Mr. Shannon's Spencer and Michael Peña's Sgt. First Class Diller, they're mainly a Clean Dozen of striking faces. And once the narrative hits its stride, "12 Strong" pummels us with repetitive action (the auditorium shakes every time Nelson calls in smart bombs from B-52s in the stratosphere), ear-splitting music and barely intelligible dialogue.

The producer, Jerry Bruckheimer, is an old hand at war pictures: He made the cold but accomplished "Black Hawk Down" and the superheated but accomplished "Pearl Harbor." Here he's working with a first-time feature director, Nicolai Fuglsig, whose strengths are more pictorial—the film, which was shot by Rasmus Videbaek, looks impressive—than organizational. It's hard to know, in the heat of battle, which forces are where, and how, exactly, the sorely outnumbered Afghans, supported by the Special Forces, manage to rout the Taliban. Details that might be telling are overlooked. When a gravely wounded soldier is finally lifted aboard a medevac helicopter, we get one last glimpse of him as the chopper takes off, but no one is attending to his wound.

The hardest thing to know about "12 Strong" is what to feel about it. Some of the heroics are stirring, however familiar their depiction may be; the men on screen are modeled on real-life heroes who went through a valley of hell for their country and came out the other end. But standard-brand celebration with Hollywood tropes doesn't give us an emotional or historical fix on their achievement, an all-too-rare victory during a moment of fleeting hope in a grindingly intractable war.

**TELEVISION REVIEW** | By John Anderson

## HUNTING A KILLER IN THE GILDED AGE

**A SENSATION** even before it appeared in 1994, "The Alienist"—Caleb Carr's macabre tale of serial killing in Gilded Age New York—is one of the several novels of the past few decades that have screamed "big screen!" without ever quite getting there. "A Confederacy of Dunces," "Geek Love," "Bel Canto" (coming soon!). All have one thing in common: A standard movie treatment would have ripped the soul out of their stories.

The kind of long-form televised drama that's omnipresent now is how "The Alienist" was meant to be presented, if at all, a certain sweep being necessary to frame the baroque elements of the tale: the ritualized slaughter of boy prostitutes; the complicity/corruption of the 1896 New York City Po-

lice Department; the Tammany-era taint on city politics; the frustrated efforts of reform-minded Police Commissioner Teddy Roosevelt. Likewise, the marginalized people who serve as the story's central characters: Dr. Laszlo Kreizler (Daniel Brühl), the pioneering "alienist" aka criminal psychologist; Sara Howard (Dakota Fanning), aspiring sleuth and the first woman employee of the NYPD; John Moore (Luke Evans), the newspaper illustrator and Roosevelt confidant who served as the book's narrator; and the far-sighted forensic investigators Lueius and Marcus Isaacson (Matthew Shear, Douglas Smith), who introduce fingerprinting and elaborate postmortems into a hide-bound, anti-Semitic police force.

The pace is breathless, the music propulsive, the dialogue delivered almost pugnaciously—why is everyone leading with his or her chin? But there's also sufficient breadth to give the show depth.

That said, "The Alienist" as presented on TNT—in 10 parts, which after this weekend will air Monday nights—has its own problems, among them a less-than-tactile, almost offhanded, presumably under-budgeted re-creation of 1890s Manhattan. "Gangs of New York" it is not; "The Age of Innocence" it certainly is not. Save for a doctored shot of Fifth Avenue above Washington Square Park, or the unfinished architecture of the Williamsburg Bridge—atop of which is found the savaged body of trans-

Please see ALIENIST page A13



TURNER ENTERTAINMENT

Daniel Brühl and Luke Evans in 'The Alienist'

## LIFE &amp; ARTS



Christian Bale and Adam Beach, left; Rosamund Pike and Mr. Bale, below

FILM REVIEW | By Joe Morgenstern

## 'Hostiles': Savagery And Redemption

A war-hardened soldier escorts a dying Cheyenne chief to his ancestral lands

**THE BEGINNING** of "Hostiles" is dark in its external aspect and darker still as a spiritual landscape. The time is 1892, when the Indian wars have started to wind down, and the place is a U.S. Cavalry fort in New Mexico, where scores of American Indian prisoners languish in cages. If that's not appalling enough, two soldiers reminisce at length about "the good days" of the conflict, when savagery was a way of life and one of the men, Capt. Joe Blocker—a remarkable portrayal by Christian Bale—may have taken more scalps than any of his enemies did. Scott Cooper's fourth feature, which goes into national distribution next week, is most powerfully about what violence does to the soul: Joe is almost dead to the world, and to himself. Not quite, though. This harshly beautiful film is equally about his regeneration during the course of a journey that amounts to a parable of humanity trying to climb out of the pit of endless slaughter and retribution.

What precipitates the trip is a goodwill gesture from Washington. One of the prisoners, a Cheyenne chief named Yellow Hawk (Wes Studi, superb as always), is terminally ill with cancer, and President Benjamin Harrison wants him and his family escorted back to their ancestral lands in Montana before the old man dies. When Joe is chosen to lead the escort party, he refuses at first; far from dancing with wolves, the veteran Indian fighter would be riding with mortal enemies. But Joe is a soldier who has always obeyed orders to kill, so he comes around to obeying this one too, especially since he's about to retire and his pen-

sion is on the line. "Hostiles" expands its emotional horizons when the escort party crosses paths with Rosalie Quaid, a woman who's been driven to the brink of madness by an Indian attack on her family; she's played by Rosamund Pike, who finally has a role worthy of her gifts. (Physical beauty can be limiting for movie actresses.) Mr. Cooper's screenplay, which he



adapted from a manuscript by Donald E. Stewart, is nothing if not ambitious, with echoes of classic westerns including "The Searchers"—most specifically in an inspired variation on a single shot at the end.

The pace is deliberate, though it's punctuated by shocking spasms of violence, and the radiant cinematography, by Masanobu Takayanagi, does full justice to magnificent vistas along the way. (I can say that because I saw the film as it was meant to be seen at the Telluride Film Festival last fall. When I revisited it last weekend at an AMC multiplex in Santa Monica, the projection was so disgracefully dim that you might have thought the theater hadn't

paid its electricity bill. Poor projection is one more reason why increasing numbers of people are staying home and watching movies on their brilliant flat-panel TVs—even movies like this one that beg to be seen on big screens.)

The screenplay sometimes lapses into sermonizing, whether earnest ("Our treatment of the Native Americans cannot be forgiven," a soldier tells one of the escort party's Cheyenne charges) or sardonic ("Before long we'll be giving them their land back," says Ben Foster's murderous Sgt. Charles Wills,) a prisoner himself being escorted back to civilization and the gallows). But the sermons are mercifully few and far between, and they aren't needed in any case, for the dehumanizing rage on both sides of the racial divide is dramatized powerfully, and transmuted movingly, as the mostly white Americans—one soldier is black—and the American Indians make their way north along the Continental Divide.

Starting with a vision of the American West as a land ruled by brute force, "Hostiles" holds out the possibility of healing—of the aggrieved coming to see that their enemies have souls and consciences, just as they do; of unthinkable alliances being forged, if only temporarily, for the common good. (Distinctions are drawn between the Cheyenne, who have certainly done their share of killing, and other tribes that cling more fiercely to savage ways; Yellow Hawk says the Comanches are "not of sound mind.") It's played out fully on the taut face of Joe Blocker, a man who confronts the brute he's become, only to discover that his insides haven't died after all.

## THEATER

Continued from page A12

it without the slightest trace of self-consciously comic exaggeration, letting the laughs come naturally instead of forcing them on the audience like cards in a trick. That's just what Ms. Adams and her actors have done: Everyone in the cast, sisters and husbands alike, is fully immersed in the hurtful reality that the Gibsons have finally started to face, and when we smile at their often-absurd responses to that reality, it is out of sympathy. Yes "Morning's at Seven" is, after all, a comedy, not a tragedy, meaning that Osborn lets all of his characters off gently at play's end, but we know—as they do—that things didn't have to turn out nearly so well for any of them.

"Morning's at Seven" is being performed in the smaller of People's Light's two houses, a 160-seat black-box theater that puts you so close to the stage that you can all but smell what's cooking in the sisters' kitchens. The seven older members of the nine-person cast are company veterans who have (in Ms. Adams's words) "played each other's wives, husbands, parents,

brothers, sisters, in-laws, children, friends, neighbors, colleagues and enemies over decades." Not surprisingly, they have no trouble suggesting a real-life family, which adds immeasurably to the production's air of quiet believability. So, too, albeit in a different way, does Luke Cantarella's "Picnic"-like set, in which the side-by-side back porches and backyards of two of the homes are portrayed in a not-quite-naturalistic manner, with storybook colors and realistic detail placed in subtly opposed juxtaposition.

People's Light's previous productions had impressed me greatly, but the company has done itself with "Morning's at Seven." It's one of the finest productions of an American play that I've ever reviewed, in New York or anywhere else.

**Morning's at Seven**

People's Light, Steinbright Stage, 39 Conestoga Rd., Malvern, Pa. (\$39 and up, depending on availability), 610-644-3500, closes Feb. 4

**Mr. Teachout** is the Journal's drama critic. "Satchmo at the Waldorf," his first play, opens at Houston's Alley Theatre on Feb. 24. Write to him at [teachout@wsj.com](mailto:teachout@wsj.com).



Graham Smith and Carla Belver in 'Morning's at Seven'

## ALIENIST

Continued from page A12

vestite prostitute Georgio "Gloria" Santorelli, 13—there's very little that transports the viewer visually to the novel's very specific time and place. And that was something the less-than-lyrical Mr. Carr did right: Even in '94, as I stayed up till 2 a.m. each night thinking, "This writing is tripe," my inner New York-o-phile was in a chokehold.

"The Alienist" series, which Mr. Carr helped adapt, could slap a similar grip on TNT audiences, partly because it stays so busy: The anxious tumult of the streets, the squalid chaos of the Italian slums, the repellence of the Bellevue madhouse and a permeating sense of anger propel the series to a satisfying level of intrigue and perspiration. The dialogue is frequently dull, when



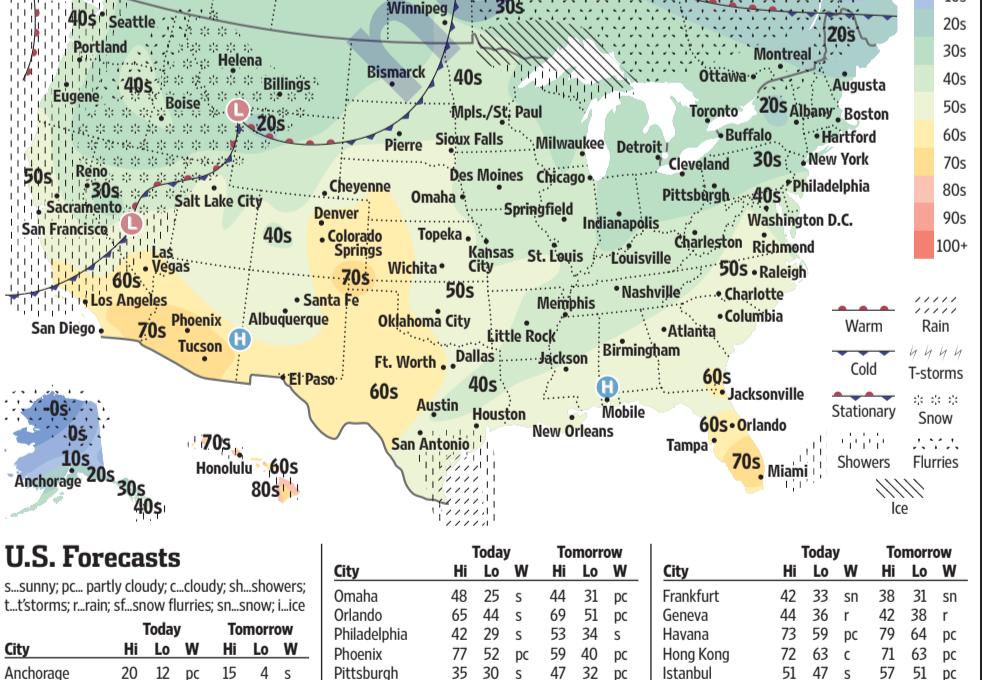
Dakota Fanning

not being very deliberately decorated with archaic slang. The acting is mixed—Mr. Bruhl is wonderfully intense, Ms. Fanning stiff and Mr. Evans still, perhaps, awaiting his moment (only two episodes were made available for review). As Roosevelt, Brian Geraghty gives an unorthodox performance, his Teddy so self-conscious about his privilege that it straitjackets him among the Irish cops and brothel owners. It's they who represent the real power in a city motivated by unbridled free enterprise, lucrative anarchy and a stratified class structure in which the fate of lost immigrant boys is largely beneath the notice of the well-to-do. One of the charms of the original "Alienist" was a sense of indignation. This version does justice to that.

**The Alienist**

Begins Sunday, 9 p.m., TNT

## Weather



## U.S. Forecasts

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

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

Today Hi Lo W Tomorrow Hi Lo W

City Hi Lo W Hi Lo W

Anchorage 20 12 pc 15 4 s

Atlanta 50 30 s 56 34 pc

Austin 48 40 sh 71 53 c

Baltimore 46 26 s 54 32 s

Boise 45 27 pc 43 26 pc

Boston 35 28 pc 50 32 pc

Burlington 32 26 c 42 30 pc

Charlotte 50 21 s 54 28 s

Chicago 40 30 pc 43 34 pc

Cleveland 37 33 s 42 35 pc

Dallas 59 46 s 72 54 pc

Denver 64 33 pc 54 24 pc

Detroit 36 31 pc 40 32 pc

Honolulu 84 71 s 84 71 pc

Houston 54 51 c 70 59 pc

Indianapolis 36 26 s 45 35 pc

Kansas City 46 33 s 51 42 c

Las Vegas 68 46 c 54 36 pc

Little Rock 48 35 pc 51 47 sh

Los Angeles 62 45 c 61 43 pc

Miami 70 61 pc 75 66 pc

Milwaukee 40 29 pc 42 32 pc

Minneapolis 41 25 pc 40 29 c

Nashville 45 32 s 46 40 pc

New Orleans 54 43 c 63 51 pc

New York City 38 32 s 50 34 s

Oklahoma City 55 39 pc 65 46 s

Today Hi Lo W Tomorrow Hi Lo W

City Hi Lo W Hi Lo W

Ansterdam 42 36 sh 42 34 sh

Athens 59 48 s 62 51 sh

Baghdad 66 41 pc 61 40 s

Bangkok 93 76 s 92 77 pc

Beijing 46 20 s 42 18 pc

Berlin 37 30 sn 36 29 sn

Brussels 42 34 pc 41 33 sh

Buenos Aires 90 66 s 89 70 c

Dublin 75 57 s 76 62 s

Edinburgh 41 32 c 42 38 r

Falkirk 38 26 c 37 26 pc

## AccuWeather

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## The WSJ Daily Crossword | Edited by Mike Shenk



## MARKING TIME | By Matt Gaffney

The answer to this week's contest crossword is a star from one of the five theme movies.

**Across**

- 1 No and Oz, e.g.
- 4 Play with Che
- 9 Kitchen goof
- 14 Cars leader
- 15 Hall of Hall & Oates
- 25 Roughly
- 29 Tags and badges, often
- 30 Scandalous book
- 32 Harness the wind
- 35 Keep smiling
- 37 Publicity info
- 48 Card with a letter
- 50 \*2008 film nominated for Best Picture
- 55 X, to Xenophon
- 56 How people dress for an ugly sweater party
- 59 \*1986 comedy that takes place in the village of Santo Poco

**Down**

- 2 Go (for)
- 3 \*2006 rom-com that takes place in Chicago
- 7 Spend time before the mirror
- 8 Powerful beer
- 9 By marriage
- 10 Spirited person
- 11 Neighbor of B.C.
- 12 Loop at a luau
- 13 It makes people hallucinate
- 19 "That'd be nice"
- 21 Govt. security
- 24 180
- 26 A little too enthusiastic
- 27 Cast holder

**Puzzle Contest**

**Previous Puzzle's Solution**

FALCON AGISM VAT

EGGON TONKA OLE

SUBWAY TOKEN DVR

SETS DOWN LILKIM

HALO REAGANS

HOPETO FATCAT

OXIDE AUTOS OOH

BEGS MAJOR ANNE

ONE CUMIN PRICE

OPUSES PIECED

LENGTHS TATA

ALTAIR SEASCAPE

MOOCOPERTONED

APE LOHAN ODDLY

RED EMITS PESTS

## SPORTS

## NFL PLAYOFFS

# How the Vikings Raided the Scrap Heap

The 'Minneapolis Miracle' was improbable. But a high-functioning offense built off overlooked talent is even more unlikely.

BY ANDREW BEATON

**LAST SUNDAY'S** "Minneapolis Miracle" was inexplicable and magical because of the improbable steps that had to unfold over 10 seconds and 61 yards. The throw, the catch, the missed tackle and the run—all of them flew in the face of both basic football logic and decades of Minnesota Vikings postseason misery that said the desperation heave would fail miserably.

But something else made one of the unlikeliest plays in NFL history even unlikelier: the players who made it happen should have never been there in the first place.

Quarterback Case Keenum was an undrafted journeyman who was expected to be the team's backup—or third-stringer. Wide receiver Stefon Diggs was a fifth-round pick who gets paid less than four other wide receivers on his own team. They were never supposed to be stars on a Super Bowl contender.

Except in Minnesota, they're the norm. While the team's vaunted defense is loaded with blue-chip talent, the offense is a high-functioning collection of misfits that were either overlooked or cast off by other teams. It's what makes the Vikings, who play the Philadelphia Eagles on Sunday in the NFC Championship game, a team that's as improbable in its construction as the play that catapulted them this far.

The teams that are still playing football this time of year inevitably become case studies for every team that isn't. Rivals dissect the players the winners draft, who they sign and their schemes. Everyone wants to know the grand plans that underpin the teams that can win it all.

The Vikings offer a different lesson: a master class in winning when that plan goes up in flames. The key offensive players who will be tasked with beating the Eagles were plucked off the scrap heap.

The team started four undrafted players on offense in last week's divisional round thriller against the Saints. In the common draft era, since 1967, only four Super Bowl winning teams have done that, according to Stats LLC. And none of those four teams trotted out an undrafted quarterback. (The only Super Bowl winner with that distinction is Kurt Warner.)

"Any time you can get a free agent, an undrafted free agent, a



CLOCKWISE FROM TOP LEFT: MARK J. REBILAS/REUTERS; GRANT HALVERSON, SCOTT CUNNINGHAM (GETTY IMAGES)

young guy, to come in and make your club, it adds basically extra draft picks," Vikings coach Mike Zimmer said before the season.

One way to understand the Vikings' makeup is by looking at who's not contributing. The Vikings traded their first round pick in the 2017 draft for quarterback Sam Bradford, who is also the team's highest-paid player. He spent most of the season injured and backed up Keenum in the Divisional Round win against the Saints. They used their second round pick on running back Dalvin Cook. He's out for the season.

In 2016, they drafted wide receiver Laquon Treadwell in the first round. He played sparingly this season and caught 20 passes—and none against the Saints. In 2014, they spent a first-round pick on quarterback Teddy Bridgewater, whose injury prompted the trade for Bradford. He wasn't active last week.

The normal consequence for such a litany of mishaps at the skill positions would be a dreadful record. But the Vikings went 13-3. Players who were supposed to be backups, and the backups' backups, didn't just keep the team afloat.

Clockwise from top left: Vikings quarterback Case Keenum; receiver Adam Thielen; receiver Stefon Diggs.

They became stars in their own right and propelled the team further than anyone thought possible.

Keenum wasn't taken in the draft despite setting an NCAA record for most career passing yards at Houston, where he was seen as a product of a spread offense that produced gaudy statistics, not NFL quarterbacks. He bounced around between the Rams and Texans before winding up in Minnesota before this season on a cheap deal. After stepping in for Bradford, he finished the season with 22 touchdowns and a 98.3 passer rating.

And Keenum isn't even the most impressive undrafted player on the Vikings. Wide receiver Adam Thielen, who was so unnoticed he played college ball at Div. II-level Minnesota State Mankato, racked up 1,276 yards, fifth most in the league and was second-team All-Pro. He lines up across the field from Diggs, a fifth-round pick, with Latavius Murray, a bargain-bin free-agent signing, replacing Cook as the starting running back. Starting offensive linemen Mike Remmers and Rashod Hill also suffered through their drafts with no team choosing to call their names.

These four players—Keenum, Thielen, Diggs and Murray—have a combined cap hit of \$9.3 million this season. For some perspective:

That's cheaper than 106 individual players across the league, according to spotrac.com. Which means the average team has three to four players who make more than Minnesota's four most important offensive players.

The Vikings want to try to keep this going for the future, too. While none of these players are in their first years out of college, general manager Rick Spielman explained before the season that he spent more on undrafted free agents than in prior years. "We were very aggressive," Spielman said in April.

And what's just as important as the production Minnesota gets from these players is the financial flexibility it gives the rest of the roster. The Vikings can afford to have the defense that gave up the fewest points in the NFL because of how cheap its skill position players on offense are. Cornerback Xavier Rhodes, defensive end Everson Griffen, and free safety Harrison Smith are three of the best, and priciest, players at their positions.

"The Vikings have all the pieces they need to succeed," said Zack Moore, salary cap expert from overthecap.com, "and it's because of those low costs."

According to Moore's research, the Vikings have spent 40.1% of their salary cap on their offense. Only two Super Bowl winners in the salary cap era have spent a lower percentage of money on that side of the ball.

## GYMNASICS | By Jason Gay

# HEARTBREAK AND RAGE IN U.S. GYMNASTICS

Simone Biles is one of the most electrifying athletes on the planet. Now 20, Biles has made a case as the greatest gymnast ever—a transformative talent who has pushed the boundaries of her sport, collecting virtually every honor it can bestow, including four gold medals at the 2016 Summer Olympics in Rio.

To watch Biles compete at her gravity-defying best is to witness more than athletic craft and achievement. Her talent is incandescent, almost euphoric—the kind that makes even a casual observer slack-jawed and giddy.

Simone Biles is joy.

This week, however, Biles became the latest athlete to add her name to the sickeningly-long list of women who say they were sexually abused by Larry Nassar, a former sports medicine doctor for USA Gymnastics and Michigan State University. Already sentenced to 60 years in prison on child pornography charges, Nassar pleaded guilty last fall to multiple counts of sexual assault, and awaits sentencing on those charges.

"Most of you know me as a happy, giggly and energetic girl," Biles wrote in a public statement released on social media. "But lately...I've felt a bit broken and the more I try to shut off the voice in my head the louder it screams. I am not afraid to tell my story anymore."

Biles joins Olympians like Aly Raisman, McKayla Maroney, and Gabby Douglas in telling her story—the medal-winners just a handful of the women who have chosen to come forward, some of them very early, long before the leadership around them was prepared to listen. The number of women who have accused Nassar with abuse—and the list includes Michigan residents and Michigan State athletes in many

other sports—is approaching 150.

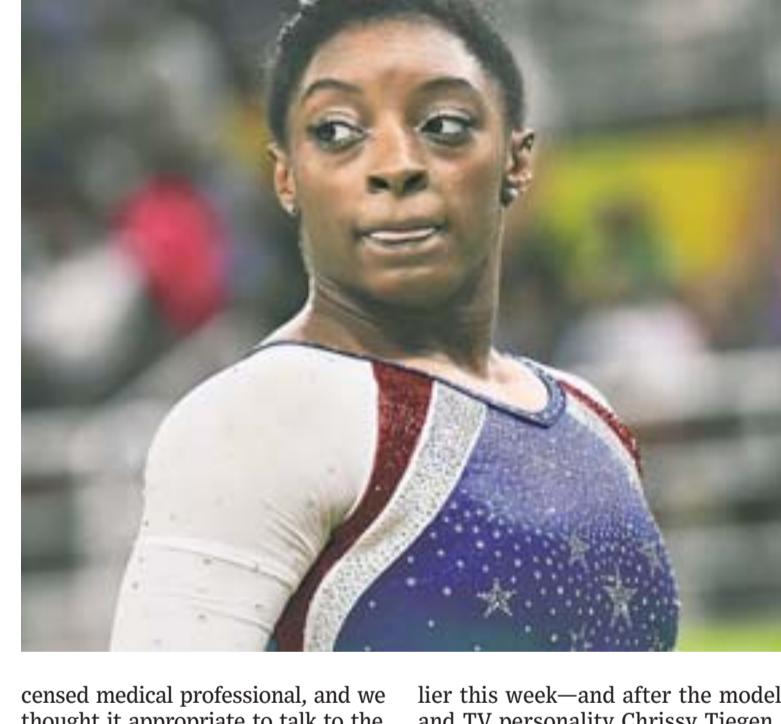
This week, there's been extraordinary testimony in a Michigan courtroom, as many of these women—perhaps not household names, but critically important voices in bringing Nassar to justice—have chosen to make statements at Nassar's sentencing hearing on the sexual assault charges. Their accounts offer a crushing account of a predator who molested young women under the guise of "medicine" and "treatment," taking advantage of his status within the organizations in which he worked.

Survivor Kyle Stephens, who said Nassar—a former friend of her family—began abusing her when she was 6, began this week's testimony with a riveting message.

"Little girls don't stay little forever," Stephens said, as Nassar sat a few feet away. "They grow into strong women that return to destroy your world."

The case against Nassar is profoundly disturbing. But it's compounded by the accusers' belief they were repeatedly failed by institutions they trusted. The Detroit News reported Jan. 18 that allegations of sexual misconduct by Nassar "reached at least 14 MSU representatives in the two decades before his arrest." One hundred and forty people have joined in a lawsuit against the university, which has argued that it is not liable under state law, and that the lawsuit should be dismissed.

Meanwhile, reporting by the Journal's Louise Radnofsky and Rebecca Davis O'Brien has revealed troubling patterns of unpreparedness and timidity—not to mention long silences—in USAG's response. In one case, USAG waited more than a month to report an accusation against Nassar to law enforcement. "This was a highly unusual set of circumstances that involved a li-



Simone Biles

EMMANUEL DUNAND/AF/GETTY IMAGES

censed medical professional, and we thought it appropriate to talk to the athletes first, before contacting law enforcement," the organization told the Journal in February 2017. Nine months passed after that contact before the Federal Bureau of Investigation opened a federal probe, people familiar with the investigation told Radnofsky and O'Brien.

More recently, Radnofsky and O'Brien reported that Maroney and USA Gymnastics agreed to a \$1.25 million settlement in December 2016 which required Maroney to keep the accusations against Nassar confidential. The settlement's existence was revealed in December when Maroney sued the U.S. Olympic Committee and Michigan State for negligence and sexual harassment, among other claims. A spokesperson for the USOC told Radnofsky and O'Brien it had not been aware of the settlement; MSU declined to comment.

USAG was also named as a defendant in Maroney's lawsuit, as Maroney argued the settlement's non-disclosure and non-disparagement clauses were illegal. But ear-

lier this week—and after the model and TV personality Chrissy Teigen publicly pledged to pay any fine Maroney faced for speaking out—USAG announced it would not seek any penalty for Maroney doing so.

On Thursday, a statement from Maroney was read at Nassar's hearing. "He was not a doctor. He was a child molester," Maroney said. "He left scars on my psyche that will never go away."

The whole ordeal is simultaneously heartbreaking and enraging. These are talented women who dedicated their lives to a sport, sacrificing childhoods and adolescences in pursuit of dreams that required them to give themselves over to a structured program. You would think in return for this dedication, they would feel protected.

They do not feel they were protected.

"You know [USA Gymnastics'] biggest priority from the beginning, and still today, is their reputation, the medals they win and the money they make off of us," Aly Raisman said in an interview with ESPN's "Outside the Lines." "I don't think

that they care. If they cared, then the second they realized that I was abused, they would have reached out, asked if I needed therapy, asked if I was OK, asked what they could have done and they would have—they would have made a big change.

"Instead, they allowed Larry to continue to work on little girls in Michigan and molest gymnasts for a very long time...I don't know how they sleep at night."

Organizational changes have taken place—USAG president Steve Penny resigned last March, calling the abuse cases "heartbreaking" and stating that his departure was in the best interests of the organization. USA Gymnastics hired an internal investigator, who criticized the organization's board and internal culture. Board chairman Paul Parilla said then that the organization offered its "deepest regrets to any athlete who suffered abuse or mistreatment" and was "determined to do better," but it hasn't stopped Raisman's and other calls for the board's resignations.

A thorough accounting is in order. Every element of this case, every rung of leadership—in the gymnastics world, at MSU—needs to be aggressively examined, under the brightest of lights. Athletes' voices should be allowed to lead the way.

Biles, in her note, expressed disgust that training camps continued at Karolyi Ranch in Texas, an isolated outpost where Nassar abused gymnasts.

Late Thursday afternoon, USA Gymnastics' new president, Kerry Perry, announced the organization would terminate its agreement with the ranch.

Much has been revealed in recent months about sexual harassment and abuse, and a culture conditioned to ignore or diminish the voices who speak against it. What happened to Simone Biles—and every survivor here—is both a crime and a tragic reminder of this moral abandonment. In competition, these women were majestic to watch, their performances stirring to the soul—but when they truly needed support, too many eyes looked away. Too few were willing to listen. They have made their voices clear: No more.

## OPINION

## Mick Mulvaney's Makeover



A year into the Trump presidency, one thing is predictable. The nation will daily be treated to an explosion of controversy over headlines that are as overwrought as they are fleeting. Say, the Great Trump Cholesterol Debate.

Meanwhile, the administration has spent the year engaging in the most systematic overhaul of government since Reagan, with consequences that could reverberate for a generation. Nowhere is the disconnect between short-term flimflam and long-term change more evident than in Mick Mulvaney's refurbishment of the Consumer Financial Protection Bureau.

The overhaul is poignant because it strikes at the center of the Obama regulatory machine. Congress created the CFPB in 2010 as part of the Dodd-Frank law and envisioned it as a superregulator. Its director is imbued with unparalleled power to harass, fine and regulate financial-service companies. Congress can't tell it no, because its funding doesn't come from congressional appropriations. And under the statute, the director can't be fired save for gross mismanagement, making it free of executive control. Government power, absolute, unchecked, and punitive—the stuff of Elizabeth Warren's dreams.

## New York's Bid to Control Religious Schools

**HOUSES OF WORSHIP** Even ardent opponents of school choice accept that parents have the right to send their children to private schools. That may soon change in New York state, where education officials are preparing new guidelines to impose strict regulations on the instruction that religious and other private schools provide, while empowering local school districts to shutter those schools if they fail to meet state standards. The plan is not only ill-advised, it may end up costing the state billions in annual school aid to nonpublic schools.

Parents have had a legally recognized constitutional right to guide their children's education for nearly a century. The Supreme Court's 1925 decision in *Pierce v. Society of Sisters* established that children are "not mere creatures of the state" and that parents have the right to choose "schools where their children will receive appropriate mental and religious training." Almost 50 years later, in *Wisconsin v. Yoder*, the court reaffirmed these rights, recognizing the "fundamental interest of parents, as contrasted with that of the State, to guide the religious future and education of their children."

The trade-off has always been that parents, not the state, must foot the bill for private education. In New York the government saves billions annually because parents choose

to send their children to religious or private schools. New York's Jewish and Catholic schools alone educate 330,000 children, nearly 200,000 of whom attend New York City parochial schools.

Only a fraction of these savings finds its way back to New York's nonpublic schools and students. Students are entitled to about \$100 a year in loaned textbooks as well as library and computer materials. Private schools receive the equivalent of a few hundred dollars a student as reimbursement for providing certain mandated services. By contrast, New York City spends about \$20,000 per public-school student and more than \$14,000 per charter-school student.

Charter schools, which are public schools, also get either free facilities or additional facilities funding.

In 1972, New York enacted a law to help pay for "secular educational services for pupils in nonpublic schools." But the Supreme Court struck it down the following year, claiming it violated the First Amendment and would lead to excessive governmental involvement with religion. A kind of détente has reigned since; New Yorkers can choose where their children go to school, and the state can neither fund private and religious schools nor meddle in their affairs. The state Education Department requires nonpublic schools to provide instruction that is "substantially equivalent" to that of

nearby public schools. The standard has worked well, inviting neither controversy nor legal challenges.

The new guidelines will upset the status quo by imposing additional instructional requirements and giving local school districts the power to shut down parochial and private schools deemed not to be "substantially equivalent."

## Local public districts would have the power to shut down private institutions.

Local officials will even gain the authority to initiate Family Court proceedings against parents whose children are enrolled in schools that don't measure up.

Even worse, while current guidelines kick in only after "serious concerns" have been established about the instruction at a nonpublic school, the new regulations will mandate regular inspections of the offerings at private and parochial schools. State officers will review curriculum and instructional materials, sit in on classes, and interview teachers.

These new regulations signal the convergence of the nanny state and the secular state. The result will be a government with no inclination to defer to parental choice or acknowledge the religious values

of enough to cover the bureau's second-quarter budget, and signed off by noting: "The men and women at the Bureau are proud to do their part to be responsible stewards of taxpayer dollars."

Thursday also brought the CFPB's announcement that it is moving to dismiss a lawsuit against four California tribal lenders, and which wrongly asserted the CFPB had the authority to enforce state law. This suggests that a new and improved CFPB intends to review its sweeping docket, retreat from legally questionable cases, and stick to its knitting.

Critics will decry all this as "gutting" the bureau or selling out to big money—rather than the necessary and right adjustment it is. Every government entity should begin from the belief that it exists to help all Americans—in this case, consumers of financial services and companies looking for guidance on how to interact with them. Agencies should be conscientious with taxpayer money. They should approach power with humility and exercise it with caution. They should follow the law and be accountable to elected officials.

Americans have lost faith in government and regulation not because all government and regulation is bad, but because government is inept and abuses its powers. If the Trump cabinet has made a dent in that problem, it has been a year well spent.

*Write to kim@wsj.com.*

that lead families to parochial schools.

But New York can't have it both ways. If providing reimbursement for secular educational instruction at nonpublic schools amounts to an entanglement of church and state, then so does a regime in which the state mandates, inspects and approves those schools' curricula. And if a private school teaches a state-approved curriculum using state-loaned textbooks, administers state-mandated tests, and passes state-required "substantial equivalence" inspection, shouldn't the state pay for what the school teaches?

A back-of-the-envelope calculation using the charter-school reimbursement rate of \$14,000 per student suggests that New York City's Jewish and Catholic schools could be entitled to up to \$2.8 billion annually in state school aid. That doesn't even account for other city private schools or parochial-school students in other parts of the state.

Albany bureaucrats are expected to issue the new guidelines in February. Before they do, they might want to consult their colleagues in the state Budget Division, who may soon have to write some very large checks.

*Mr. Schick is a partner at Dentons, an international law firm. He previously served in New York state government as a deputy attorney general and as president of the Empire State Development Corp.*

**BOOKSHELF** | By Edward Kosner

## Hunting The Acid Man

## The Most Dangerous Man in America

By Bill Minutaglio and Steven L. Davis  
(Twelve, 384 pages, \$30)

**I**t's fashionable these days to proclaim the Trump era the weirdest interlude in modern American history. But it's almost an Augustan Age compared with the first few years of Richard Nixon's presidency. For those too old or too young to recall that period in the early 1970s, nearly a half-century ago, here's a cheat-sheet:

Nixon was carpet-bombing Hanoi, secretly invading Cambodia, covertly recording White House conversations, compiling a list of enemies (including Sen. Ted Kennedy, Barbra Streisand and Jets quarterback Joe Namath) and masterminding the Watergate break-in and coverup. The radical Weathermen were blowing up banks, Army recruiting stations and a toilet in the U.S. Capitol. The thuggishly photogenic Black Panthers were ambushing white cops and running day-care centers, and a former Harvard psychology professor named Timothy Leary, the apostle of LSD, was being hunted by Nixon, who called him "the most dangerous man in America."

Leary is one of those oddball Americans who enjoy their evanescent moments of fame and then linger on in memory as prophet or charlatan. But

in his time, Leary was a stoned icon to artists and poets, hippie trippers, sybaritic socialites and revolutionary bomb-throwers. "Turn on, tune in, drop out," was his mantra, and he drove Nixon crazy. Already plotting his reelection as a law-and-order crusader, the president craved Leary's scalp.

This was a problem, because in 1970, Leary, sentenced to 10 years after cops found two marijuana butts in his car ashtray, had escaped from a minimum-security compound in California by shinnying along a cable. The saga of his fugitive odyssey and the government's desperate manhunt is told in "The Most Dangerous Man in America," by Bill Minutaglio and Steven L. Davis. It's a rollicking tale that brings to life the antic atmosphere of America in the "Me Decade."

A rich band of hippie drug smugglers called the Brotherhood of Eternal Love allied with the Weathermen to hustle Leary and his wife, Rosemary, in disguise to Algiers, where fugitive Eldridge Cleaver and a Black Panther posse had been ensconced in an elegant "embassy." It was the beginning of a 28-month adventure that took Leary to Vienna, Swiss ski resorts, Beirut and, finally, Afghanistan, where he was cornered and bundled onto a flight back to California.

"The Most Dangerous Man in America" is written in the present tense like a thriller. Scenes inside solitary-confinement cells, squalid dope and love nests, and the Black Panther "embassy" are described in pointillist detail: "He steps out of the car, but Rosemary refuses to join him as he darts through the rain toward the embassy. She is smoking, looking very worried, and the weather is adding to her gloom." Readers

**Timothy Leary's escape from jail took him to Afghanistan, Algeria, Switzerland—and back to a cell in California, next to Charles Manson's.**

may wonder how the writers managed to reconstruct these 45-year-old episodes, especially since their protagonist was tripping nonstop. In an authors' note, Messrs. Minutaglio and Davis assure readers that every scene, thought and conversation in the book is based on exhaustive research, though they provide no footnotes to show what came from where. One of their earlier books won a PEN nonfiction research prize, so we'll have to take their word for it.

Leary had proclaimed a Declaration of Revolution ("Listen, comrades: The liberation war has just begun . . .") to get the radicals to help him escape America. But he and the Panthers were a mismatch from the start, although they shared an appreciation of the hashish always on offer at the embassy. Leary generally played the obsequious stooge to Cleaver's macho revolutionary, absorbing diatribes from the author of "Soul on Ice," the only man to appear at the same time on America's best-seller lists and on the FBI's most-wanted list. But Cleaver finally lost patience and had the Learys locked into dingy hotel rooms, fugitive prisoners of the fugitives.

Leary was able to escape to Switzerland, where he came under the wing of a mysterious character rumored to be a fabulously rich arms merchant. Leary and his new British girlfriend lived luxuriously in Lausanne, went to a party with Andy Warhol in St. Moritz, and met the inventor of LSD, who chastised him for touting it to the young. They became chums anyway. Leary managed to write a book that the arms dealer peddled to a publisher for \$250,000. He barely got to enjoy any of the money before he went back to prison, where his next-door cellmate was Charles Manson.

It's hard to find anything to admire about Leary. The man who urged the murder of Nixon and bragged that he'd done "more than anyone else in history to destroy the minds of a lot of white middle-class kids" pleaded LSD derangement at his trial. Convicted, he turned fink and testified against all his old comrades. In prison, his IQ tested at 143, with no sign of degeneration from all those drugs. Later, he entered the witness-protection program, wrote books, had cameos in movies, became a talk-show fixture and lectured to standing ovations. He died at 75 of prostate cancer in 1996, and 7 grams of his ashes were, appropriately enough, rocketed into space.

Cleaver also shared a prison with Leary, became a born-again Christian, converted to Mormonism and turned into a conservative Republican. He was arrested for burglary and twice for cocaine possession before he died at 62 in 1998.

After his pardon by Gerald Ford, Richard Nixon spent 20 years trying to rehabilitate his reputation. He wrote nine books and offered his wisdom about world affairs to anyone who would listen, before his death at 81 in 1994.

It's a toss-up whether Leary or Nixon was the more dangerous man in America in their time, but they plainly deserved each other.

*Mr. Kosner was the editor of Newsweek, New York, Esquire and the New York Daily News.*

## Coming in BOOKS this weekend

Wizards of growth, prophets of doom • Lenin, Wilson and 1917 • Anatomy of a genocide • The story of Buffalo Bill and Sitting Bull • The birth of hippie cuisine • Marcel Proust writes letters to his neighbors • & much more

## Eventually the President Will Have to Talk

By Sai Prakash and John Yoo

**A**s investigations continue into alleged Russian election meddling, potential witnesses are clamping up. Former White House aide Steve Bannon this week refused to answer questions from the House Intelligence Committee. President Trump has flip-flopped on whether he will talk to special counsel Robert Mueller.

Confidants may have urged Mr. Trump to invoke executive privilege—the president's constitutional right to keep conversations and documents secret—to frustrate both congressional and criminal investigations. While this privilege protects deliberations about national security and diplomacy, it cannot shield Mr. Trump from criminal probes. Ultimately, he would lose any conflict with Mr. Mueller over secrecy.

Presidents have long claimed a right to withhold

their confidential talks from Congress and the courts. It began with Thomas Jefferson, who ordered the prosecution of his former vice president, Aaron Burr, for raising a rebellion in Louisiana. Burr claimed Jefferson had blessed his plans

**Executive privilege can't be applied in a criminal probe.**

and sought military reports to prove his innocence. Chief Justice John Marshall, sitting as the trial judge, subpoenaed the president.

Jefferson ultimately gave up

some documents, but he considered ignoring Marshall outright, because the Constitution gives each branch the right "to protect itself from enterprises of force attempted on them by the others."

In *U.S. v. Nixon* (1974), which rooted executive privilege in

the separation of powers, the Supreme Court suggested that all three branches had a right to confidentiality. Chief Justice Warren Burger wrote that the president's authority as commander in chief and chief executive might establish an absolute privilege "to protect military, diplomatic, or sensitive national security secrets." But the justices agreed their duty to ensure a fair trial of the Watergate burglars, who hoped President Nixon's White House tapes would prove their innocence, outweighed his right to confidential talks.

The Supreme Court has never ruled on executive privilege against congressional investigations. Indeed, the judiciary may never decide. In *Nixon v. U.S.* (1993), involving a different Nixon, the justices held that matters of impeachment are "political questions" reserved to Congress, not the courts. Similarly, they could leave fights over executive information to the politicians,

who can use spending cuts, oversight hearings and refusal to confirm nominees to get information from the executive. Still, delay benefits the president because he has the information Congress seeks.

But the Watergate ruling makes clear that criminal investigations trump executive privilege. Mr. Mueller can seek a court subpoena that would compel Mr. Bannon, the president and his associates to turn over documents or even to testify under oath. If Mr. Trump then wished to prevent the questions, he would have to fire Mr. Mueller. But no matter who replaced him as special counsel, the White House would eventually have to talk.

*Mr. Prakash is a law professor at the University of Virginia and a senior fellow at the Miller Center. Mr. Yoo is a law professor at the University of California, Berkeley and a visiting scholar at the American Enterprise Institute.*

## OPINION

## REVIEW &amp; OUTLOOK

## The Wisconsin Gerrymander Lesson

**D**emocrats are crowing after winning a Wisconsin state Senate seat that Republicans have held for 17 years in a special election on Tuesday, and well they should. But what you won't hear is that this victory refutes their legal case at the Supreme Court for letting judges overturn partisan gerrymanders.

Democratic school board member Patty Schachtner defeated Republican state assemblyman Adam Jarchow by 11 points in a northwestern rural Senate district that Republican Sheila Harsdorf had represented since 2001. The voter swing was huge given that Ms. Harsdorf won by 26 points in 2016 and Donald Trump carried the district by 17. Turnout was about 75% lower than during November legislative elections, but conservative groups ran ads to bolster Mr. Jarchow.

Democrats say the victory could augur a wave election in November, and Republicans are right to be worried as voters sour on Mr. Trump's tempestuous behavior. But we hope the Justices on the Supreme Court are paying attention because this Democratic rout contravenes the complaints Democrats made at the High Court last fall that Republicans have drawn legislative districts with such exactitude that Democrats can't win.

In *Gill v. Whitford*, Wisconsin Democrats argued that partisan gerrymanders resulted in the GOP winning a disproportionate number of legislative seats relative to their statewide vote and thus prevented them from translating their votes into representation. They claim this violates equal protection under the Fourteenth Amendment and the First Amendment right to association.

But unlike gerrymandering by race, partisanship is neither a defined nor inherent identity. Politics can change on an individual and district-wide level from election to election. Democrats offered political-science mumbo-jumbo called the "efficiency gap" to supposedly prove

### Republicans lost an election. Democrats lost a High Court argument.

discrimination. Under this model, any votes that don't contribute to a candidate victory in a legislative race are deemed "wasted." But Wisconsin's results refute this since many of Ms. Schachtner's 12,000 voters would have been considered wasted during prior Republican routs. A map's efficiency gap will vary by election, so any standard would be arbitrary.

Democrats want the Justices to overturn the Wisconsin map, and their media allies have been lobbying Anthony Kennedy, the Court's swing vote who has said that political gerrymanders may merit judicial review. It isn't clear where he'll come down, and last month the High Court accepted a political gerrymander challenge brought by Maryland Republicans. A liberal three-judge panel also trolled the Justices by striking down North Carolina's Congressional map this month.

The Maryland challenge is narrower than the other two since the plaintiffs are contesting a gerrymander in a single district and don't ask the High Court to adopt a legal standard. But the claims are equally as dubious since Democratic Congressman John Delaney in 2014 nearly lost the district, which Republican Gov. Larry Hogan won.

Democrats didn't mind gerrymanders that helped them keep power in the House for 40 years before 1994, but now they want courts to help them overturn maps that help Republicans. The legal threat in *Gill v. Whitford* is that the Justices will make judges the arbiters of legislative redistricting that usurps the political branches and injects courts even deeper into partisan politics. This is anathema to the Constitution's separation of powers.

The real solution is to win elections, as Democrats showed on Tuesday and may continue in November. Winning state legislative majorities would put them in a better position to redraw maps after 2020. You can bet they'd be as partisan as Republicans.

## Transparency for Fusion and the FBI

**T**he chance that Americans will learn what really happened between the FBI and Fusion GPS is growing with Thursday's vote by the House Intelligence Committee to give every House Member access to key information. Soon the House should move to declassify all documents in the case that don't jeopardize intelligence sources and methods so the public can get the complete story.

Intelligence Chairman Devin Nunes also moved Thursday to release to the public his committee's interview with Fusion GPS co-founder Glenn Simpson. Every Democrat joined Republicans in voting for that public disclosure. Yet every Democrat voted against letting the rest of the House see a memo that will list the facts about the FBI's use of FISA warrants to surveil members of the Trump campaign in 2016. Strange. What are Democrats afraid of?

Ranking Democrat Adam Schiff has been a loud voice for accountability regarding the Trump-Russia probe, but his outrage evaporates regarding the role that Fusion GPS and its Democratic financiers may have played in persuading the FBI to seek a warrant to eavesdrop on American civilians. What were the FBI's reasons and the evidence it used to seek such an extraordinary writ?

All of this is relevant to the House's recent vote to extend Section 702 that allows law enforcement to monitor foreigners. Mr. Nunes provided two closed briefings to Republicans last week as they prepared to renew Section 702,

### Democrats vote to keep documents secret but Congress will see them.

and he assured Members that he'd seen no evidence that government had abused 702 powers. But he also said he had seen evidence that law enforcement misused powers involving the surveillance of U.S. citizens as part of the FBI's investigation into the Trump campaign.

Thus the vote to let all Members see a memo describing relevant classified documents at intelligence agencies. The Constitution and Congress impose strict rules on government surveillance of U.S. citizens, and the FISA court relies on the integrity of law enforcement when granting warrants. If a senior Member of the House is attesting to abuse, all of Congress should see the evidence before deciding how to respond.

FBI sources are telling the media that this will endanger national security. But all Members have top-secret clearance and can view any classified information that the House Intelligence Committee grants access to. They must adhere to nondisclosure agreements and are subject to the same criminal penalties for leaking classified information as FBI officials. Recall that former director James Comey leaked by his own admission.

Once the Members have a chance to see the details, the full House can also move to declassify as much as possible and "read in" the American people. The FBI played an extraordinary and troubling role in the 2016 election, and access to the facts of what happened shouldn't be limited to FBI leakers, their media protectors and partisans in Congress.

## Tax Reform's Apple Dividend

**T**he public's perception of the Republican tax reform is improving, and it's easy to see why. An announcement from Apple this week is the latest and largest example that reform is working as supporters promised, not least in bringing back capital to the United States.

Apple said Wednesday that it will pay \$38 billion in taxes on the \$250 billion or so in cash the company holds overseas; that's a lot of money for Social Security checks and food stamps. Apple also said it would invest or spend on purchases some \$350 billion in the U.S. over five years and add 20,000 jobs.

Apple's windfall for the U.S. Treasury is the result of the reform bill's 15.5% "deemed" tax rate on profits previously earned overseas whether or not they are returned to the U.S. The old system featured a one-two punch of taxation abroad and then again at home at a punishing 35% rate if the money was repatriated.

Apple had no plans to return the money to the U.S. under that regime, and ditto for many other companies that together have some \$2.5 trillion abroad. Republicans broke this logjam by lowering the top rate and creating a permanent system that taxes income where it's earned. Now Apple can put this cash to whatever the company deems the highest use, without arbitrage from tax policy.

Reform critics said these distortions didn't matter because Apple could borrow at home and that the GOP tax bill would only encourage more investment overseas. Not for Apple. Now

### \$38 billion in taxes finances a lot of Social Security checks.

the same naysayers are mumbling that this investment would have happened anyway, but Apple's decision shows that tax rates matter.

The more dishonest critics are saying Apple received a tax "cut" by bringing the money back at a lower rate, which is some crack economic theory. The reality is that Republicans unlocked \$38 billion for the Treasury that otherwise might have been \$0.

By the way, some of the benefit is flowing into wages. Apple also announced a \$2,500 employee bonus in the form of restricted stock. The longer-run benefit to workers is that investment makes labor more productive, which will make wages grow over time. Yet Democrats are still claiming that shareholders will be the sole beneficiaries of tax reform and workers will get crumbs. Who you gonna believe: Chuck Schumer or your own eyes?

President Obama could have made all of this happen, but he refused to negotiate seriously with a GOP Congress. Companies continued to self-deport from the U.S. through corporate inversions and financial engineering that erodes the tax base. Democrats in Congress made the same calculation last year, and now not one can share in reform's political dividends.

The political winners here are the GOP Congress and President Trump, who couldn't resist taking a victory lap on Twitter this week. But once in a while his boasts are true. The biggest winners are U.S. companies, workers and the American economy.

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## LETTERS TO THE EDITOR

### Victimhood Is Becoming a Less Effective Tool

Shelby Steele's brilliant exegesis on the harm that occurs when people persist in self-defined victimhood after it has become obsolete is nowhere more obvious than in academia ("Black Protest Has Lost Its Power," op-ed, Jan. 13). Words such as "diversity" and "inclusiveness" have become dog whistles to censor diversity of opinion. Yes, the murder by blacks of blacks and the rare but still shocking unjustified shooting of a black man by a white policeman are terrible, but engaging in fact-based analysis of these challenges is all but drowned out by a reflexive fallback to facile charges of racism and white supremacy. Critical analysis, fact-driven dialogue and real progress on race matters have all become casualties in academia's social-justice crusades.

**TOM O'HARE**  
Charlestown, R.I.

Count me among the millions who have been put off by the NFL sideline protests. I disagree with Mr. Steele's hypothesis that this has nothing to do with any sense that protest, black or otherwise, has generally lost its power since the civil-rights protests of the 1950s and '60s. It has everything to do with the fact that the civil-rights protesters had absolute moral authority and unquestionable standing. Spoiled athletes who willfully torpedo their employers' business interests just because they can't spend two minutes honoring a country that has made them ungodly rich at a young age just for playing a game have neither of those things.

**BART COHEN**  
Villanova, Pa.

Mr. Steele states that there was "no real sacrifice, no risk and no achievement" for kneeling NFL players. Try explaining that assessment to Colin Kaepernick, who essentially lost his job worth millions of dollars by being blackballed specifically because of his protest. Salim Akil is quoted in the New York Times as saying, "I have been stopped by the police quite a few times, but my anger

**JOSEPH LAGO**  
Mountain View, Calif.

"When the thrust changes from desegregation to integration . . . one of his [the black person's] chief responsibilities is to prepare himself to live in an integrated society . . . must be able to face up honestly to our own shortcomings . . . We seek integration based on mutual respect" (Martin Luther King Jr., 1965).

"On our part Negro citizens must redouble their efforts to educate and train themselves for the new responsibilities which equal opportunities require of them. They must march not only to the picket lines but to the libraries: they must prepare themselves for the stiffening competition of a no-holds-barred marketplace. They must make a special effort to eradicate the disorganization which has afflicted the lives of so many families. They must overcome not only subtle barriers of discrimination but their own shortcomings as individuals, and must make the effort incumbent on any pioneer group to move on higher emotional, spiritual and educational levels" (Whitney Young Jr., National Urban League, 1964).

**GENE DATTEL**  
Lakeville, Conn.

### The College Endowment Tax Is a Bad Proposal

Regarding "Tax on College Endowments Sparks a Spat" (U.S. News, Jan. 3): Sen. Mitch McConnell's attempt to exempt Berea College, which resides in his home state, from the endowment excise tax provides proof positive that this tax has nothing to do with sound economic policy. Rather, it is the punishment of colleges and universities perceived as the liberal elites.

Raising \$1.8 billion over 10 years will have a minuscule effect on the federal budget; however, it will have a significant negative impact on these colleges—and the students who attend them. Increasing access to higher education is a critical problem of our times. This tax will make that problem harder to solve.

These 30 institutions produce cutting-edge research and the future leaders of our country. Further, they are among those that offer the most generous financial-aid packages. For example, at Smith College 60% of

students receive need-based aid from the college, totaling almost \$66 million.

American higher education is the envy of the world and a key to American exceptionalism. Both sides of the aisle need to recognize this.

**KATHLEEN McCARTNEY**  
President  
Smith College  
Northampton, Mass.

### Congress: Let the Tribes Choose Their Own Future

As a member of the Rosebud Sioux Tribe, as part of our health board and as the Coalition of Large Tribes' legislative-affairs director, I'd like to respond to "Nominee's Credentials Questioned" (U.S. News, Jan. 6) about President Trump's nominee for the director of Indian Health Services, Robert Weaver.

Tribes are supporting Mr. Weaver. Could it be because he built his own business to be a multimillion-dollar one? Sure, that's one reason. To my knowledge, current IHS leadership has wildly mismanaged, not created, multimillion-dollar enterprises.

The most important reasons the tribes support Mr. Weaver are that he met with tribal leaders and he visited with friends and families who lost loved ones during the IHS travails. Mr. Weaver has promised open and honest consultations with tribes concerning health care. He is one of us and like us has used the IHS as a health-care provider.

I urge Congress to honor the multiple requests of tribes adversely affected by the IHS and let us choose our future. Give Mr. Weaver a hearing and appoint him our next Indian Health Service Director.

**O.J. SEMANS SR.**  
Rosebud Sioux Indian Reservation  
Mission, S.D.

### Pepper ... And Salt

THE WALL STREET JOURNAL



"Maybe that was a family movie—if your family is a bunch of violent sociopaths."

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**ROBERT BLOCK**  
Pleasanton, Calif.

## OPINION

# The Perfect Candidate for Therapist in Chief

**By Joseph Epstein**

In a cynical reading, the best definition of democracy is rule by the people most skilled at pandering for votes. Those who do it best, in the conservative philosopher Michael Oakeshott's memorable phrase, are able to manufacture "curable grievances." The cure they promise, naturally, is to be found in electing them to office.

Qualifications have of late had less and less to do with electoral politics. A strong argument can be made that the past three presidents of the United States—George W. Bush, Barack Obama and Donald Trump—

**At a time when actual qualifications no longer seem to matter, President Oprah is entirely plausible.**

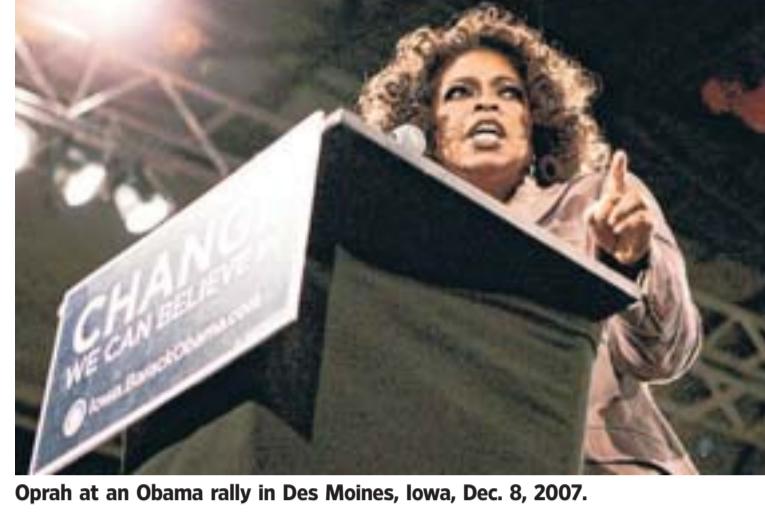
brought no special knowledge or skills to the office. The one person who seemed most qualified in 2016 by experience in domestic and foreign policy, Hillary Clinton, lost chiefly because she was unable to do a decent imitation of a pleasing person. Henceforth in presidential elections, our cynical reader might conclude, let us do away with all talk about qualifications for office, and turn instead to the ability to win votes through the promise of curing false grievances.

Which brings us to Oprah Winfrey and the talk of her possibly running for president in 2020. Oprah has of course achieved astonishing fame. She is among that small circle of women (Hillary, Cher, Madonna, Beyoncé) known by their first names alone. How—or, better yet, why—has she been able to reach the fame, and with it the wealth and influence, she has achieved?

In contemporary America, one can be a great artist, an astounding athlete, a genius scientist, but absent frequent appearances on television, fame is not likely to result—at least not the kind of fame that gets one recognized by strangers in public places.

Leaving a Chicago Cubs game some years ago with George Will, who was then on ABC's Sunday morning television talk show, I was much impressed by how many people, utter strangers, recognized and called out to him. I also occasionally used to go to dinner with Saul Bellow, who was rarely recognized by anyone. I once introduced Bellow to a nonliterary acquaintance, who asked him if he was related to Charlie Bellow, a locally well-known criminal attorney. The difference is that George Will was in those days regularly on television; Saul Bellow, who had won a Nobel Prize and was often acclaimed as the great novelist of the age, almost never was.

Oprah was on TV five days a week for more than 27 years (1984–2011). Her audience was preponderantly female, among whom her attraction



Oprah at an Obama rally in Des Moines, Iowa, Dec. 8, 2007.

greater purpose than richness of living in and for itself.

Did Oprah grasp this cultural shift early and go with it, so to say, on her television show? Or, more likely, did she truly believe in its values and therefore successfully convey them? There's no way to know. What is fairly certain, though, is that Oprah could have risen to her stratospheric renown only in a therapeutic age—an age in which repression is illness, confession the cure, with impulse satisfaction, self-esteem and personal happiness the paramount goals. If the triumphant therapeutic culture has a national therapist, Oprah Winfrey, surely, is it.

Oprah's position as the nation's pre-eminent if unlicensed therapist is what gave her the authority to make that obviously carefully rehearsed stem-winding speech at the Golden Globes about an end to the harassing of women. Directly after that speech, the talk of Oprah running for president began. Is there anything to the chatter? Only Oprah knows, but at a time when actual qualifications no longer seem to count heavily in presidential politics, her possible candidacy doesn't seem in the least fantastic. "Hope Rah in 2020, Oprah for President." I'm afraid I can see that bumper sticker now.

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

was nearly universal. Although black, she did not unduly play the race card; in her feminism, she wasn't militant. She acted occasionally in a movie, but she didn't sing, dance or do stand-up comedy. What Oprah chiefly did was establish herself as a good listener, and, through interviews with authors, quick-cure physicians, exercise gurus and nutritionists, she became a broker of other people's problems.

Early in her career, Oprah made known that her own life was problem-ridden. She recounted having been sexually abused as a child. She had a perennial weight problem. Yes, she may have had first-name fame, she may have had a few billion in the bank, she may have had, through the agency of her vast audience, the power to confer fame and fortune on others, but she was still like you or me. Oprah was, in a markedly therapeutic age, "a survivor."

How this therapeutic age came about was chronicled as long ago as 1966 in a book of impressive insight called "The Triumph of the Therapeutic" by the social scientist Philip Rieff. The book is too complex to be easily summarized, but its main argument is conveyed in its final sentence: "That a sense of well-being has become the end, rather than a by-product of striving after some superior communal end, announces a fundamental change of focus in the entire cast of our culture." The shift has been to a culture that has no

## Immigration Is Practically a Free Lunch for America

**By Neel Kashkari**

As Congress and the Trump administration debate immigration reforms with important legal and social implications, they must not lose sight of an overarching truth: Robust immigration levels are vital to growing the American economy.

Legislators of both parties, policy makers and families all want faster economic growth because it produces more resources to fund national priorities and raise living standards. But growth since the end of the Great Recession has been frustratingly slow, averaging only 2.2% net of inflation, down from 3.6% on average from 1960 to 2000.

Republicans hope the new tax cuts will lead the economy to grow faster. But while stimulus plans can indeed produce growth at least temporarily, they usually do so by increasing the deficit. Can't policy makers achieve faster growth without further ballooning our national debt? Yes—and increasing immigration levels is the most reliable way to do so.

Long-term economic growth comes from two sources: productivity growth and population growth. Productivity growth means the same number of workers are able to produce more goods and services. Increased productivity comes from better education (equipping workers with better skills) and technology development (giving workers more sophisticated tools). Productivity growth has been very low during this recovery, averaging only 1.1% per year, down from 2.1% from 1960 to 2000.

We can't predict whether productivity growth is going to return to prior levels on its own. Congress could decide to spend more on education or basic research to boost productivity, but it takes years for such investments to translate into a more productive economy. That doesn't mean they aren't worth making, but the payoffs are highly uncertain.

Population growth drives economic growth because a larger population means more workers to produce things and more consumers to buy things. But as is true in most other advanced economies, Americans are having fewer children. The U.S. working-age population has stagnated over the past decade.

Using public policy to increase the nation's fertility rate is not easy. Congress could try to create economic incentives for families to have

more children by offering tax credits and free child care, but both would be expensive and take years to move the needle on population growth. The surest way to increase the working-age population is through immigration.

Immigration has boosted U.S. economic growth throughout history and can continue to do so if the country remains committed to openness and opportunity. Some immigration opponents fear immigrants will compete with native-born Americans for jobs, but the bulk of economic research shows immigration has led to faster overall growth and a better standard of living for everyone.

There is a global competition for talent among countries to lure workers, including highly skilled workers to develop new technologies and lower-skilled workers to support agriculture. This is a competition America has won resoundingly decade after decade. My parents, who immigrated from India, and my wife, who immigrated from the Philippines, are examples. They came to finish their education but stayed because of America's welcoming culture and strong job prospects. Given the choice of immigrating here or to virtually any other country, the majority of immigrants would choose the U.S.

Immigrant inflows to the U.S. are relatively low by postwar standards. If Congress and the administration can deliver reforms that boost legal

immigration by one million people a year and tailor the policy to prioritize workers who meet the needs of our economy, the Minneapolis Fed estimates growth would increase by at least 0.5 percentage point a year under the most conservative assumptions, with no corresponding increase in the deficit. This would close almost half of the growth gap between our postrecession recovery and the late-20th-century norm. And if some of those immigrants or their children turned out to be the next Steve Jobs or Elon Musk, we might solve our productivity woes, too.

Immigration is as close to a free lunch as there is for America. Our welcoming culture provides us an unfair competitive advantage most countries would love to have. Let's use that advantage to win the immigration competition and accelerate growth. We'd be crazy not to.

*Mr. Kashkari is the president and CEO of the Federal Reserve Bank of Minneapolis and participant in the Federal Open Market Committee.*

## Does the Endangered Species Act Protect Pro-Life Democrats?

**By Matthew Hennessey**

Abortion seems to scramble everything. Why does the left, which prides itself on compassion for the weak and unprivileged, favor unrestricted abortion? Who is weaker or less privileged than an unwanted baby? Why does the right, which stands for liberty and small government, want to limit or even outlaw abortion? What's more intrusive than telling a woman what she can do with her body?

The issue is moral, but the problem is semantic. Left and right use different words to describe the same act. Progressives call it women's health care; conservatives call it killing a baby. That's not the type of thing you agree to disagree about.

With partisans talking past each other, the political battle over abortion has devolved into stalemate. A Marist/Knights of Columbus poll released this week found that 51% of Americans consider themselves pro-choice, 44% pro-life and 4% unsure. Fifty-one percent may be enough to win an election, but 45 years after Roe v. Wade, it's far from a national consensus.

This weekend each side will argue its case on the streets of Washington. On Friday, pro-life campaigners will proceed up Constitution Avenue to the Supreme Court as part of the 45th annual March for Life. They will wave banners attacking Planned Parenthood. President Trump will address them via live video feed. The next day the National Mall will overflow with attendees of the second annual Women's March on Washington. Their signs will laud Planned Parenthood and mock Mr. Trump as an enemy of women.

Don't expect many minds to change.

Kristen Day attended both events in 2017 but plans to skip Saturday's Women's March. Ms. Day, executive director of Democrats for Life America, says she was shouted down last year for carrying a sign bearing her organization's slogan, "Pro-life for the whole life." Democrats for Life supports paid parental leave and Medicare for all, but Ms. Day's sign made one woman so angry that the police had to step in.

"It was a bad experience. I was quite shaken after that," Ms. Day says. "If it were really about women's

empowerment, they would have allowed women like me to participate or even help organize it."

New Wave Feminists, another organization with heterodox views, was booted as an official partner of the Women's March last year when activists objected to sharing the stage with a group that describes itself as "anti-war, anti-death penalty, anti-torture"—and "anti-abortion."

"Nope, you cannot be anti-choice and feminist," tweeted Salon.com writer Amanda Marcotte. "Forcing birth on unwilling women is a misogynist act."

The March for Life tends to be more welcoming, though passions there run high, too. "I've lost friends on the pro-life side because we supported ObamaCare," Ms. Day says. "I've had people tell me it's not possible for Democrats to be pro-life."

These positions have hardened since the early 1990s. Pro-choice Republicans were once in fairly robust supply. Now the internal dynamics of the GOP require any pro-choice politician who wants a future on the national scene either to flip-flop à la

Donald Trump or jump ship like Florida Rep. Charlie Crist.

The situation is much the same for pro-life Democrats. When Sen. Bernie Sanders endorsed Heath Mello for mayor of Omaha, Neb., last year, progressives had a conniption. Mr. Mello's pro-life voting record in the

**Kristen Day marches for life and for ObamaCare, and there aren't many like her in politics anymore.**

Nebraska Legislature was a deal-breaker. Tom Perez, chairman of the Democratic National Committee, declared that in the future the national party would support only candidates who positively affirm the right to abortion.

Ms. Day counts three current Democratic representatives who are openly pro-life: Dan Lipinski of Illinois, Collin Peterson of Minnesota and Henry Cuellar of Texas. She says there are an equal number in the

Senate: Joe Donnelly of Indiana, Bob Casey of Pennsylvania and Joe Manchin of West Virginia.

That's a far cry from the mid-1990s, when Ms. Day signed on as a legislative assistant in the Washington office of Rep. Jim Barcia, a five-term pro-life Democrat from Michigan. In those days, she says, there were 40 to 50 pro-life Democratic lawmakers. Some of it can be chalked up to redistricting. Mr. Barcia didn't seek re-election in 2002 after the Republican-controlled Michigan Legislature drew him into a district with another Democrat. But much of it is the result of increased polarization—the stalemate growing staler.

Still, Ms. Day is optimistic that the Democratic Party will eventually reopen to pro-life candidates. "I want my party back," she says. "There are a lot of Democrats in the middle of the country who want a big tent, who don't want abortion to be a litmus test. We shouldn't have to choose between the baby and the mother."

*Mr. Hennessey is an associate editorial features editor at the Journal.*

## THE WALL STREET JOURNAL.

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## Notable & Quotable: Italy's Political Genius

From Joseph C. Sternberg's *Political Economics* column, WSJ.com, Jan. 18:

It's possible that Italy will lack leadership altogether after its March 4 election. The right-wing coalition led by former Prime Minister Silvio Berlusconi—who can't run for office himself owing to a felony conviction(!)—is roughly tied in opinion polls with the populist 5 Star Movement, founded by comedian Beppe Grillo. Neither party may achieve enough of a plurality to form a governing coalition, while the ruling center-left Democratic Party falls further behind in the polls. . . .

For all the razzing Italy gets for political chaos, it's not substantially different from Europe's more respectable democracies. Weak governments

are becoming the norm. Recently "re-elected" leaders in Britain, the Netherlands and probably Germany grasp at power from much-diminished electoral positions. The re-elected deserves the scare quotes because those prime ministers have seen their parliamentary margins shrink. They're just better than the Italians at pretending otherwise. . . .

It's hard to see how making a false show of strong government helps. There's evidence that it makes things worse. In the extreme, you end up with Greece, where electoral laws give governments bigger parliamentary majorities than they deserve, allowing strong governments with weak mandates to wreak havoc on the economy.

In the less extreme, you get Germany. Germans were governed for

four years by a grand coalition of center-right and center-left designed to mask Chancellor Angela Merkel's failure to assemble a genuine majority coalition in that country's 2013 vote. . . .

The Italian genius is to be honest about what voters are and aren't doing. They will probably withhold their mandate from a political class that seems ill-equipped to grapple with Italy's many problems. Maybe Italians know they can't really afford such a policy-making time out, but perhaps they also intuit that they can't afford to allow any of the current lackluster contenders to pretend they enjoy a stronger mandate than they do. It may not be an entirely wise approach, but there's at least more wisdom there than meets the eye.

ADVERTISEMENT

# Wine Guide 2018

## *Seven Things Every Wine Lover Needs to Know*

Which countries and regions should wine fans have on their radar for the coming year? Which styles and grape varieties are hot right now? With a little expert advice, you can drink very well in 2018.

### 1 Bordeaux's 2015s are as good as the critics say.

A near-perfect growing season saw Bordeaux's famed Cabernet-Merlot reds reach unusual levels of richness. Critics raved. Collectors pounced. Vintages like this don't come along that often. And the best news? You don't need to spend \$100s to take advantage: the sun shone just as kindly on small, family-owned estates as it

*"Bordeaux lovers will certainly want to have some 2015s in their cellars."*

— JANCIS ROBINSON, MASTER OF WINE

did on the icons like Château Lafite. WSJwine recommends Château Labatut's gold-medal-winning 2015 Cuvée Prestige Bordeaux Supérieur.

### 2 Napa has a serious Cabernet rival.

Paso Robles, California, has long had a reputation for world-class Rhône-style wines. Today, it's the region's Cabernets that "compete with top-drawer bottlings from Napa," says leading critic Josh Raynolds, and "pricing is often downright reasonable."



WSJwine recommends République Cabernet Sauvignon 2015, awarded 96 Points and a Double Gold medal at the San Francisco International Wine Competition.

### 3 There's more to Argentina than just Malbec.

Malbec steals the limelight, but Argentina's adventurous winemakers are crafting beautiful Chardonnay, first-class Cabernet Sauvignon and a whole range of other wines worth exploring. WSJwine recommends The Waxed Bat Cabernet Malbec Reserve 2016, awarded 95 Points and a Platinum Best-in-Show trophy at the Decanter World Wine Awards.



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### 4 Sicily is Italy's hottest region in every sense.

This beautiful, rugged island has more land planted to vine than any other Italian region — and while the story used to be about quantity, today it's very

*"Sicily is the most exciting region in Italy today."*

— THE WINE ADVOCATE

much about quality. WSJwine recommends Di Prima Syrah 2015, awarded 90 Points at the Decanter World Wine Awards.

### 5 Go off the beaten track in Spain.

Hidden away in the southeast of Spain lies the old-vine paradise of Jumilla. The specialty here is Monastrell — the same grape that's the power behind the famed French reds of Châteauneuf-du-Pape. Back in Jumilla, they've been

*"Jumilla gets my vote as the most under-rated wine region in Europe."*

— TIM ATKIN, MASTER OF WINE

quietly growing it for 5,000 years and crafting full-flavored wines of remarkable value. WSJwine recommends Camino de Seda 2016, a Monastrell with three gold medals.

### 6 There's nothing petite about Petite Sirah.

For years, this deep, dark, thick-skinned grape was reserved for adding color and flavor to blends. Now, a growing band of winemakers are taming the beast and producing 100% pure Petite Sirahs. These still-rare wines offer big red (and BBQ) fans a blast of ripe blueberry, chocolate, and spice flavor. The best come from California and Australia (where the grape often goes by the name of Durif). WSJwine recommends Caravan Petite Sirah 2016, a double-gold-medal-winning Australian classic.

Now you have the knowledge, it's time to taste the wines — and save \$156 as your introduction to the WSJwine Discovery Club.

### 7 Always have the next big thing in your glass.

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# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Friday, January 19, 2018 | B1

**Visa and others put windfall to work in improving employees' retirement plans**

BY ANNE TERGESEN

A growing number of companies plan to use some of the savings they expect to realize from the tax overhaul to boost their contributions to employees' 401(k) retirement-savings accounts.

About a dozen companies, including Visa Inc. and Nationwide Mutual Insurance Co., have announced plans to raise the payments they make to match employee contribu-

tions to 401(k) accounts. Others have said they would make a one-time contribution to employees' retirement plans.

**AutoNation** Inc., which said it expects a tax-savings profit boost of as much as \$100 million in 2018, is the latest company to say it would bolster retirement-plan contributions.

The dealership group said Wednesday it plans to immediately raise its 401(k) matching contributions to 50% of the first 4% of pay an employee contributes, up from 50% of the first 2% of pay.

"We felt that enhancing benefits would be a continuous opportunity for employees and continue to drive high employee retention," spokesman

Marc Cannon said.

The change in the tax law, which cut the U.S. corporate tax rate to 21% from 35%, is the latest in a series of factors that are motivating companies to raise their 401(k) contributions.

The average company contribution to a 401(k) plan rose to an estimated 4.7% of employee salaries in 2016 from 3.9% in 2015, according to mutual-fund company Vanguard Group.

Meanwhile, U.S. employers spent \$139 billion in 2016 on 401(k) contributions, up from \$108 billion in 2010, according to BrightScope Inc., which tracks retirement plans.

Data from 401(k) record-

keeper Ascensus Inc. shows that the percentage of employers who made a contribution to their employees' 401(k) plans had risen to 81% in 2016 from 53% in 2013.

A 401(k) is an employer-sponsored plan that allows employees to contribute a portion of their gross salary to a savings plan. That money typically isn't taxed until it is withdrawn, and participants generally pick from a list of investment options.

Amid a tight labor market, employers are spending more on 401(k) matches to attract and retain talent, 401(k) consultants say. In addition, as some companies jettison pension plans, many are raising

401(k) contributions out of concern that employees aren't saving enough for retirement.

"Companies realize they want to have a workforce that's prepared for retirement so people will leave their jobs and allow younger people to come up through the ranks," said Brooks Herman, head of data and research at BrightScope.

As a rising share of employers adopt automatic enrollment—which puts workers into 401(k) plans and lets them opt out rather than requiring them to sign up on their own—more people are participating in retirement plans, driving up the amount employ-

Please see 401(K) page B2

## Recent Ascent

Yield on the benchmark 10-year Treasury note



Source: Ryan ALM  
THE WALL STREET JOURNAL.

## Treasury Yield Hits 3-Year High

BY SAM GOLDFARB

A continued slide in U.S. government-bond prices pushed the yield on the 10-year Treasury note above 2.6% Thursday to its highest closing level in more than three years,

**CREDIT MARKETS** a fresh milestone spurred by investors' growing confidence in the global economy.

Yields, which rise when bond prices fall, have climbed steadily this year after being held in check for much of 2017 by a variety of factors, including soft inflation.

While stocks have set record after record, the recent rise in Treasury yields has been one of this year's most notable developments in the financial markets, signaling a potential shift in perspective among investors after years of assuming that a slow-growth, low-inflation environment was destined to remain in place for the foreseeable future. Tepid economic growth and muted inflation tend to be good for Treasurys because inflation erodes the fixed payments of the government bonds.

Even as they have reflected investors' pessimism, low Treasury yields have offered support for the economy, reducing borrowing costs for businesses and consumers. They have also helped boost stocks by making them look more attractive to yield-seeking investors while spurring record bond issuance by U.S. companies. A sustained rise in yields could eventually dent growth and drag down share prices.

Selling in the bond market  
Please see BONDS page B2

## IBM Breaks Its Prolonged Revenue Slump

BY TED GREENWALD

**International Business Machines** Corp. reported higher revenue for the first time in 23 quarters and signaled continued growth into 2018, giving Chief Executive Ginni Rometty breathing space as she tries to turn around the century-old tech giant.

Fourth-quarter revenue rose 3.6% to \$22.54 billion. The last time IBM had revenue growth from the prior year was the first quarter of 2012, Ms. Rometty's first as chief.

Several factors drove growth in the latest quarter: Sales of industrial-strength computers—which the company typically refreshes every few years—rose 32% to \$3.33 billion, while cloud-computing revenue climbed 30% to \$5.5 billion. Also, currency exchange rates have been working in IBM's favor lately, accounting for 3 percentage points of the quarter's revenue growth after years of being a headwind.

IBM said it took a \$5.5 billion charge related to the new U.S. tax law, helping to push it into the red for the period. Its tax rate, excluding the charge but including certain one-time benefits, was 6%.

In all, the company reported a fourth-quarter loss of \$1.05 billion, or \$1.14 a share, compared with profit of \$4.5 billion, or \$4.72 a share, a year earlier.

The loss stemmed partly from a deep erosion in profits in IBM's services business, showing IBM still has work to do. Pretax profit margins in the two services segments that manage large companies' software and hardware needs sank 35% and 23%, respectively, from a year ago. In its conference call with analysts, IBM described high investments



IBM technology lights a dress on display at a mobile conference in Barcelona last year. The company is working to shift from older, shrinking businesses, such as selling and maintaining hardware in customers' own facilities, to newer ones that promise rapid growth.

and "large contract dynamics" in those businesses.

Since becoming CEO, Ms. Rometty has struggled to shift IBM from older, shrinking businesses, such as selling and maintaining equipment in customers' own facilities, to newer ones that promise rapid growth.

She has staked out a position in helping large corporate customers integrate their traditional operations with cloud computing, and has focused on buoy areas such as artificial intelligence and the Internet-based ledger technology

known as blockchain.

But growth has been elusive, as even high-profile initiatives—such as IBM's Watson AI, a collection of cloud tools as well as apps for industries including medicine and finance—haven't delivered a clear financial boost.

Even some of Ms. Rometty's biggest fans have lost patience. IBM's largest and arguably most prominent shareholder—Warren Buffett's Berkshire Hathaway Inc., which invested more than \$10 billion for a 5.4% stake in 2011—sold more than half its

holdings last year. Berkshire held about 37 million shares as of Sept. 30.

Shares of the 106-year-old tech company dropped 3.1% in after-hours trading after finishing Thursday's regular session with a marginal gain at \$169.12. The price stands roughly where it did a year ago, while the S&P 500 index has risen more than 23%.

While achieving quarterly growth is noteworthy, IBM is working toward what it sees as a more significant milestone: getting more than half its revenue from so-called strategic

imperatives—mostly newer technologies such as AI that customers can access in the cloud.

Revenue from strategic imperatives made up 49% of the total in the quarter, edging toward the point at which sales of the higher-growth offerings will outweigh the rest of IBM, heralding faster growth overall.

In an interview, James Kavanaugh, IBM's new finance chief, said the company is "ahead of track" in working toward its goal of hitting an annual revenue rate of \$40 billion.

Please see IBM page B4

STREETWISE | By James Mackintosh

## The Market Is on a Roll But It's Not All Trump

What if Hillary Clinton had won? A year on from the inauguration of Donald Trump as president, Democrats are, if anything, more upset than they were then. Investors, not so much. So, where would markets be if Mrs. Clinton, not Mr. Trump, were in charge of the presidential Twitter account?

A few things are clear. There wouldn't have been a huge corporate tax cut. Small-business confidence, based on hopes of less red tape, wouldn't have leaped to the highest since Ronald Reagan's first term as president. Banks wouldn't be expecting an easy ride from regulators. And there would be a lot less fiery rhetoric from the White House.

But let's look at the details. Many of the market-moving changes since the U.S. presidential election would have been just the

same. Most important among them: The global economic rebound started before voters picked Mr. Trump and would surely have continued. That rebound has driven up stocks and bond yields worldwide, and the U.S. is only in the middle of the performance table. From the day before the election, Italy, France, Germany and emerging markets have beaten U.S. stocks in dollar terms, including dividends.

Finding the cause of any given price move in a market with millions of participants is an imprecise art, and it is easy to confirm your beliefs. After all, Quinnipiac University polling shows 65% of Republicans strongly approve of the way Mr. Trump is handling the presidency, while 86% of Democrats strongly disapprove. Every fact is seen through partisan glasses.

Yet, even die-hard Clin-

## INSIDE



### FICKLE PUBLIC BEDEVELS STREAMING

MEDIA, B3



### NYSE'S PARENT FINDS WAY TO PLAY BITCOIN

CURRENCIES, B10

## And the Amazon Finalists Are...

BY LAURA STEVENS

And then there were 20.

**Amazon.com** Inc. unveiled a shortlist of metropolitan areas for its planned second headquarters, kicking off the next phase of what has emerged as one of the fiercest competitions for corporate investment in decades and a showcase for the tech giant's growing clout on the American business landscape.

The finalists, chosen from among 238 places that applied in October, included New York, Boston and Chicago, all big cities with convenient access to airports, robust tech talent and sufficient mass transportation.

Three metropolitan Washington, D.C., sites—including the city itself—made the cut, while Toronto was the only non-U.S. city on the list. Some surprise candidates included Columbus, Ohio, and Indianapolis.

Amazon, which plans to decide on a city this year, said it expects to create as many as 50,000 jobs paying an average of \$100,000 or more and generate more than \$5 billion in investments over nearly two decades.

The promise of those bene-

### Choosing Sites

Amazon has selected 20 cities as a potential home for a second headquarters.



Source: the company

fits has triggered a bidding war among applicants as cities and regions across North America have offered big incentives and quirky proposals to try to attract the online retail giant.

The 20 contenders announced Thursday are expected to jockey on everything from office location to billions of dollars in tax incentives to lure Amazon. Already, some governments have been reconsidering problematic legislation or working to fix mass-transit problems to better position themselves

for a win. Mayors and governors used the shortlist as an opportunity to trumpet their region's virtues and to proclaim their cities as the next U.S. tech capital. Miami Mayor Francis Suarez touted the city's diversity and lack of state income tax. "I am convinced Amazon would benefit from Miami's business-friendly environment and all that our city has to offer, from our world-class airport and seaport to our magnificent

Please see AMAZON page B2

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## BONDS

*Continued from the prior page* in recent days has been particularly noteworthy because it has happened as Congress has moved closer to a government shutdown, a development that might normally be expected to drive investors from riskier assets to the relative safety of Treasurys.

Treasurys have come under pressure because "inflation is picking up a little bit domestically, global growth is rising, central banks are removing liquidity" and recently passed tax legislation is causing U.S. companies to repatriate foreign earnings, said Daniel Mul-

*Climbing inflation projections have lifted expectations for Fed interest-rate rises.*

holland, head of U.S. Treasury trading at Crédit Agricole.

The yield on the 10-year Treasury note settled at 2.61% Thursday, its highest close since September 2014, up from 2.57% Wednesday. Its previous 52-week closing high of 2.60% was set last March.

Several analysts said that one factor weighing on bond prices Thursday was a report that China's economy expanded at a rate of 6.9% last year. That was higher than markets had expected and the country's first growth acceleration in seven years.

It was also the latest in a run of encouraging economic news that has helped change investors' outlook. In Japan, long-moribund inflation has shown signs of life, with the core consumer-price index rising 0.9% in November from a year earlier, up from 0.1% at the start of the year. In Europe, data released last week showed Germany's economy expanded 2.2% last year, its fastest pace in six years.

Improving economic conditions in Japan and Europe matter for U.S. investors because that increases the chances central banks in those regions will move more quickly to end post-

crisis stimulus policies that have played a large role in dragging down bond yields globally.

Meanwhile, U.S. consumer-price-index data released last Friday showed a larger-than-expected jump in critical areas, reinforcing investors' expectations for rising inflation.

Given synchronized global growth and the impact of the tax cuts, "we think we're going to see wage growth finally, and to the extent we have wage growth, that will put some upward pressure on inflation numbers," said Jim Brilliant, portfolio manager at Century Management Investment Advisors.

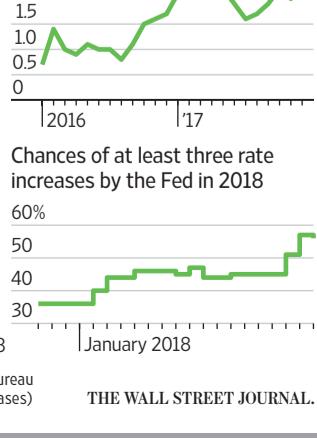
Concerns about rising inflation were illustrated Thursday as an auction of 10-year Treasury inflation-protected securities drew unexpectedly large demand. That helped boost a market-based indicator of annual inflation expectations over the next 10 years to 2.082% on Thursday afternoon, up from 2.049% Wednesday, according to Tradeweb.

Rising inflation projections have lifted expectations for Federal Reserve interest-rate increases, delivering a particularly heavy blow to shorter-term Treasurys. Federal-funds futures, used by investors to place bets on the Fed's rate-policy outlook, showed late Thursday a 56% chance that the central bank will raise rates at least three times this year, up from 32% a month ago, according to CME Group data.

The 10-year yield is still quite low by historical standards, and some analysts don't anticipate much further selling in the bond market. Despite the recent uptick in consumer prices, some important inflation gauges remain below the Fed's 2% annual target. U.S. government-bond yields are also much higher than those in most of Europe and Japan, and rising yields inevitably attract buyers both at home and abroad.

Indicating the continued appetite for U.S. fixed-income assets, a broad category of U.S. taxable-bond funds experienced a net inflow of \$10.4 billion in the week ended Jan. 10, the largest weekly inflow since February 2015, according to Thomson Reuters Lipper.

*—Daniel Kruger contributed to this article.*



**Fresh Perspective**

10-year break-even inflation rate

Year	Rate (%)
2016	1.0
2017	1.8
2018	2.2

Chances of at least three rate increases by the Fed in 2018

Year	Chances (%)
2016	30
2017	40
2018	60

Sources: Thomson Reuters (break-even); U.S. Bureau of Labor Statistics (CPI); CME Group (rate increases)

## BUSINESS & FINANCE

# Cities on Shortlist Plot Next Steps

By WSJ STAFF

Just as Amazon.com Inc. was publicly announcing the 20 finalists for its second headquarters Thursday morning, Boston's economic-development chief, John Barros, heard his cellphone buzz.

"We would like to move Boston forward in the process so we can continue to learn more about your community, your talent, and potential real estate options," emailed Holly Sullivan, the Amazon executive running the selection process, at 9:04 a.m., shortly after the company released the shortlist. "Please email me back with available times for a call so we can discuss next steps."

"We're excited to learn how

this thing proceeds," Mr. Barros said in an interview.

City officials across the country were having similar mornings. Many mayors took to Twitter to welcome their city's selection.

In Atlanta, Mayor Keisha Lance Bottoms was asked at a press conference about affordable-housing developments in the city if Amazon sets up its second headquarters there. Home prices have risen in recent years as more people and businesses have moved to the city.

Whether or not Amazon chooses Atlanta, Mayor Bottoms said, she plans to work to secure more affordable housing. "Our companies are worried about it," she said. "It's top of

mind for so many people." The city, she said, plans to work closely with state officials to make sure Atlanta is as attractive as it can be to Amazon and other companies, taking steps that could include an expansion of the area's mass-transit system.

In Chicago, a coalition of city leaders and over 100 business executives, including Oscar Munoz, chief executive of United Airlines, and billionaire businesswoman Penny Pritzker, is part of Chicago's committee to recruit Amazon. The committee also includes Sen. Dick Durbin (D., Ill.), Illinois Gov. Bruce Rauner, the president of the Cook County Board and the four legislative leaders of the Illinois General Assembly in a rare

show of political unity.

Indianapolis assembled a team of 300 people for its first-round bid, said Maureen Krauss, chief economic development officer at the Indy Chamber, which led the city's bid.

"When you looked at what the customer was looking for and you look at the assets we have in the region, we felt that there was a really strong connection there," Ms. Krauss said. "We are waiting for specifics from the customer and to see what we can deliver next."

In Miami, the mayor said in a statement, "There are many advantages to doing business in Miami, especially since we are one of only three cities that were selected that has no state income tax."

## AMAZON

*Continued from the prior page* weather," he said in a statement. Newark's mayor, Ras Baraka, said the city is "not the armpit of the East Coast" or a bus stop, but "an incredible and beautiful" destination.

Amazon's team narrowed the list using preannounced criteria that included a metro area with more than one million people, a stable and business-friendly environment, a location where it can attract and keep tech talent and communities that think big when it comes to locations and real estate.

But it has kept the details of its process closely guarded. Paramount to Amazon is that the city has enough tech talent to fill thousands of jobs, according to people familiar with the matter.

The quality of the proposal also factored into Thursday's selections, one of the people added, helping to elevate some of the dark-horse candidates.

A wild card in the selection process may be incentives,

something that could help Amazon recoup its hefty spending on the new site.

Newark and its state of New Jersey, for example, pitched a potential \$7 billion in tax incentives.

Looming over Amazon's decision is a tense political environment nationwide. The company hasn't said whether a city's political leanings could influence the ultimate selection,

but the company is bound to draw increased scrutiny from government leaders no matter where it lands.

Its current hometown of Seattle skews heavily liberal, as does much of the overall tech workforce.

Technology giants face more

concerns about their increasing dominance in certain industries.

President Donald Trump has

called out Amazon on Twitter over issues including state taxes



**Finalists include big cities like New York, with access to airports, robust talent and mass transit.**

fluence the ultimate selection, but the company is bound to draw increased scrutiny from government leaders no matter where it lands.

Its current hometown of Seattle skews heavily liberal, as does much of the overall tech workforce.

Technology giants face more

concerns about their increasing dominance in certain industries.

President Donald Trump has

called out Amazon on Twitter over issues including state taxes

and shipping with the U.S. Postal Service.

Amazon founder and Chief Executive Jeff Bezos recently stepped up his political involvement, last week donating \$33 million to scholarships for undocumented immigrant high-school graduates. He also was one of the first chief executives in tech to join legal action opposing Mr. Trump's travel-ban order last year.

Those moves have prompted

site-selection experts to speculate Mr. Bezos may choose a location where an influx of workers could help promote political change.

The company expects to build or acquire 500,000-plus square feet of office space to open the first phase of its project as soon as next year, according to its request for proposals.

*—Cameron McWhirter and Valerie Bauerlein contributed to this article.*

## STREET

*Continued from the prior page* tonites are hard-pressed to argue that stocks would be higher if Mrs. Clinton sat in the Oval Office. Lady Lynn Forester de Rothschild, who runs one of the Rothschild family investment companies, E.L. Rothschild LLC, hosted fundraisers for her friend and was distraught when she lost the election, but accepts that investors have welcomed Mr. Trump's policies.

"The market's definitely liking what Trump is doing," she says. "For now."

Mrs. Clinton wouldn't have focused on tax cuts and deregulation. The corporate tax cuts will boost earnings by about a 10th, supporting stock prices and boosting returns from U.S. investments.

Gains from deregulation are hard to quantify but should help small businesses and banks the most.

Immediately after the election, investors priced in much of the Trump agenda, with smaller companies, banks and companies that pay a lot of tax far outperforming the wider market for a few months. Yet, much of it didn't last.

From the election to Wednesday's close, the Russell 2000 index of smaller companies and the S&P

## TECHNOLOGY

# EU Clears Qualcomm Takeover Of NXP

BY NATALIA DROZDIK

**BRUSSELS**—Qualcomm Inc. said it won antitrust approval in the European Union and South Korea for its \$39 billion acquisition of **NXP Semiconductors NV** after agreeing to a package of measures to assuage regulators' competition concerns.

The approvals move Qualcomm closer to completing its acquisition of Netherlands-based NXP, a deal that would make it one of the top suppliers of chips used in cars at a time when auto makers are increasingly embracing digital technology. The deal, which was announced in October 2016, won U.S. approval the following April.

The clearances Thursday come as Qualcomm fends off an unsolicited bid from **Broadcom Ltd.** An enlarged Qualcomm

**\$39B**

Value of Qualcomm's offer for rival chip maker NXP

that folds in NXP could make it more challenging for Broadcom to acquire the San Diego-based company, given that that prospect has already stirred speculation about antitrust obstacles.

To address the EU's competition concerns, Qualcomm among other things agreed to ensure its own baseband chipset and NXP's near-field communications and secure-element products would continue to function with those of competitors for eight years. The baseband chips allow smartphones to connect to cellular networks while near-field-communications and secure-element chips enable short-range connectivity, which is used for mobile payments.

So-called standard essential patents are those deemed crucial to compliance with an industry standard, such as 3G wireless communication, and must be licensed on what is known as a fair, reasonable and nondiscriminatory basis.

China is the last regulator to review the deal. Even if approved by China, it could face an uphill battle with NXP investors.

NXP's stock price has exceeded Qualcomm's \$110-a-share offer since the summer, and holders had tendered only 1.7% of outstanding common shares as of Jan. 12, when Qualcomm last extended its offer.

—Ted Greenwald

contributed to this article.

**CHINA CIRCUIT** | By Li Yuan

# Silicon Valley's Appeal Starts to Slip

Last week, a group of Chinese startup founders and investors made a pilgrimage to Silicon Valley. They toured a Tesla assembly line, complained to senior Apple executives about its slow app-reviewing process in China, and brunched on baked eggs and avocado at Russian billionaire investor Yuri Milner's mansion.

Silicon Valley has loomed large in China's tech world in the past two decades. China's internet industry started by copying Silicon Valley technologies and business models. That's why there's the Google of China (**Baidu**), the Uber of China (**Didi Chuxing Technology**) and the Groupon of China (**Meituan-Dianping**). Some of the biggest Chinese internet companies, such as e-commerce giant **Alibaba Group Holding**, were funded by Silicon Valley money.

So the trip to Silicon Valley is something of a rite for ambitious Chinese startups and investors looking for inspiration in global technology's mecca of innovation.

But for most of the 18 entrepreneurs and investors, and especially for those in their 20s and 30s, the visit largely failed to impress. To many in the group, Northern California's low-rise buildings looked shabbier than the glitz skyscrapers in Beijing and Shenzhen. They can't believe Americans still use credit cards and cash while they use mobile payment for almost everything back home. Office buildings don't use facial recognition to gain entry.

As China's internet companies have become more



Chinese entrepreneurs and investors at Facebook's Menlo Park, Calif., campus during last week's trip.

the talent to go head-to-head with the U.S. in the next important tech frontier: artificial intelligence.

Still, Mr. Lee thinks Chinese tech entrepreneurs have much to learn and should be less focused on financial results and on going public. He tried to expose the group to the more creative side of Silicon Valley, arranging for them to listen to futuristic ideas at Singularity University. Think tank co-founder Peter Diamandis wowed the group with his asteroid-mining venture, Planetary Resources, in which Sinovation Ventures is an investor.

They were wowed again when meeting with two startup founders funded by **Coatue Management**, a hedge fund. One of the founders, a serial entrepreneur working on an artificial-intelligence chip startup, told the group that his firm has spent \$30 million in two years on research and development and won't have a product until later this year.

While the few older 40-somethings in the group admired Silicon Valley's idealism, the younger ones were less impressed. They said that moonshot ideas and long development times don't work in China because investors are less patient and copycats are so rife that businesses have to get products to market superfast.

"China is like a startup. The U.S. is like a big corporation," says Mr. Ding, whose company is developing an app to improve video-watching. "China runs very fast, tweaking along the way. The U.S. runs at a steady pace, doing a lot of research and development. It's hard to tell who will win in the end."

competitive and confident, Silicon Valley's allure is fading. "The age that Silicon Valley serves as the teacher and China follows step by step is becoming the past, at an accelerating pace," Li Gen, founder of online media startup QbitAI in Beijing, wrote about the trip on his company's official WeChat social-media account.

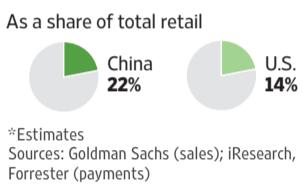
That feeling was reinforced throughout their trip. Mr. Milner, an early Facebook investor who has also backed big Chinese startups, told his brunch guests that China leads the world in mobile payments, e-commerce and online services.

At several meetings, presentations included slides showing the volumes of China's online meal delivery and mobile payments are many times that of the volumes in the U.S. Their slides also said e-commerce makes up more than 20% of China's retail revenue while making

## Fast Money

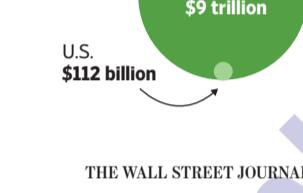
China leads the world in e-commerce and mobile payments—far surpassing the U.S., the world's largest economy.

### E-commerce sales, 2017\*



\*Estimates  
Sources: Goldman Sachs (sales); iResearch, Forrester (payments)

### Mobile-payment transactions, 2016



THE WALL STREET JOURNAL

up less than 15% in the U.S.

"I've read about this before from the media and wasn't sure if it's for real," says Ding Jichang, founder and chief executive of **Mobiuspace**, a mobile app developer. "Now I know we're not self-delusional."

That Chinese entrepreneurs had to travel to the U.S. for a shot of confidence about their tech prowess isn't so strange. China blocks

Facebook, Google's search engine and some other U.S. internet services while Chinese companies are hitting barriers in the U.S. too. As a result, the biggest companies in the two markets rarely compete head-to-head.

Last week's tour was put together by Kai-Fu Lee, CEO of Beijing-based venture firm **Sinovation Ventures** and former head of Google China. Mr. Lee believes China has

# Hack of Saudi Plant Targeted Safety System

By ROBERT McMILLAN

Hackers who attacked a petrochemical plant in Saudi Arabia last year gained control over a safety shut-off system that is critical in defending against catastrophic events, according to security researchers shedding light on what they describe as a new type of cyberattack.

Security firms first disclosed the attack last month, but now the company that makes the emergency shut-off system, **Schneider Electric SE**, has analyzed code used in the attack and determined its purpose.

The 2017 attack represents a new phase in the increasingly worrisome attacks on control-system computers used to manage factory floors, chemical plants and utilities. The best-known such attack,

called Stuxnet, discovered in July 2010, manipulated the industrial-control systems that run nuclear centrifuges, and programmed the machines to destroy themselves.

Stuxnet was a joint effort by the U.S. and Israeli government designed to disrupt Iran's nuclear program. The Triton code's objective isn't clear, but it appeared to be a work in progress, according to the security firms that analyzed it.

The Triton code targets safety-instrumented systems, a type of machine different from the industrial controllers targeted by Stuxnet. These systems act as one of the last lines of defense when plant

floors face dangerous situations that could lead to explosions or spills.

"This is really the first breach of that safety protection layer," said Marty Edwards, managing director with Automation Federation, a trade group for industrial-systems professionals.

Once attackers have perfected a Triton-type attack, the "logical next step" would be to combine it with a Stuxnet-type attack in order to disrupt a plant and its safety back-up systems, said Rob Lee, chief executive of the cybersecurity firm Dragos Inc.

The Triton attackers were able to reprogram a 16-year-old version of a Schneider

product, known as a Tricon TMR, after gaining access to an engineering workstation, according to the cybersecurity firm **FireEye Inc.**, which was hired to investigate the hack.

Schneider and FireEye declined to name the victim of the attack. The attack occurred in Saudi Arabia, according to Mr. Lee. Representatives from the Saudi Arabian consulate in the U.S. didn't respond to a request to comment.

Schneider learned of the incident Aug. 4, when a customer in the petrochemical industry called to report one of the company's systems had "tripped," prompting a plant shutdown, Mr. Kling said.



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**IBM**

Continued from page B1  
million for strategic imperatives by the end of this year.

"That gives us the confidence to say we're going to grow revenue overall in 2018," he said.

Jim Lebenthal, a portfolio manager at HPM Partners LLC, said there is evidence of Ms. Rometty's progress. He shed IBM in 2015 after "a lot of disappointments" but recently added the company to his stable of 20 stocks. He is betting IBM's newfound revenue growth is sustainable and that strategic imperatives will grow to more than 50% of sales in 2018.

When Ms. Rometty took the CEO reins from Samuel Palmisano in January 2012, revenue started slipping almost immediately and the threat of cloud computing to IBM's traditional businesses became evident. Ms. Rometty purchased cloud-computing platform SoftLayer Technologies Inc. the following year and committed to developing Watson into a flagship offering.

By 2014, it was clear IBM had diverged from Mr. Palmisano's financial road map for \$20 in profit per share by 2015. Ms. Rometty set aside that goal, reorganized the company around her strategic imperatives and redirected about \$4 billion away from stock repurchases toward priorities such as Watson and the cloud, according to UBS AG an-

alyst Steven Milunovich.

IBM's challenges now include holding on to its large customers as cloud leaders such as Amazon.com Inc., Microsoft Corp. and Alphabet Inc.'s Google beckon.

"Strategic imperative revenue may cross over the core franchises later this year," Mr. Milunovich said, "but there are a lot of industry trends working against a large incumbent like IBM."

Hardware revenue rose 32%, driven by sales of mainframe computers—on IBM's conference call with analysts, former finance chief Martin Schroeter,

**IBM's challenges include holding on to large customers as cloud leaders beckon.**

who has moved to a different position, called mainframes "an enduring and growing franchise"—which accounted for nearly 15% of total revenue in the quarter.

Those sales are critical, as they drive related sales of support services, software, storage and financing that historically have made up roughly 40% of IBM's operating profit, according to analyst Toni Sacconaghi of Bernstein Research. They also can cement long-term customer relationships that drive recurring revenue such as software subscriptions, he said.

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## BUSINESS NEWS

# Hospitals to Make, Sell Generic Drugs

By MELANIE EVANS

Four major U.S. hospital systems are planning to launch a nonprofit company to produce generic drugs, in what they called a bid to fix a market where soaring prices and shortages have hampered medical care.

The nonprofit systems—Intermountain Healthcare, Ascension, SSM Health and Trinity Health—said their firm will seek Food and Drug Administration approval to

manufacture and market generic drugs.

The company may seek its own FDA approvals or buy FDA approvals from other companies, according to Utah-based Intermountain. It will likely contract with existing manufacturers to produce the drugs.

The hospitals said they would prioritize production of generic drugs for which the market lacks competition, though they declined to specify which drugs they would

produce first.

"We have no designs on being a major pharmaceutical power," Intermountain President and Chief Executive Marc Harrison said.

"This is a very specific problem we're seeking to solve with a very specific solution," he added.

The new company will "provide an alternative to sole-sourced, overpriced, in-short-supply medications," Dr. Harrison said.

Prices for some generic

drugs have soared where competition is scarce.

A lack of manufacturing capacity has also caused shortages of some vital generic drugs in recent years, including painkillers, cancer drugs and saline.

The problem has complicated hospitals' efforts to control rapidly rising drug spending.

The new nonprofit would set its own prices, a complicated and potentially fraught exercise in an environment

where drug pricing is under intense scrutiny.

The new company will "understand our production costs really well" and won't have to return equity to shareholders, as investor-owned companies do, said Dan Liljenquist, vice president of the enterprise initiative office at Intermountain.

Generic drugs account for 85% of drugs administered in Intermountain's hospitals and outpatient clinics, he said. They account for one-third of

the cost, he added.

Hundreds of hospitals owned by Intermountain and its partners will be possible customers for the new drug company, but it will be open to others, Mr. Liljenquist said. "The power of this idea is we very much intend to make a market for these drugs."

The FDA has said in recent months that it would seek to review drugs for marketing approval more rapidly, in an apparent effort to address high prices.

## Drug's Price Rises To \$65,250 a Year

By JOSEPH WALKER

PTC Therapeutics Inc. this month increased the U.S. list price of its muscular-dystrophy treatment by about 9%, to more than \$65,000 annually for a common dosage.

The price increase again puts a spotlight on Emflaza, a decades-old steroid drug.

Many U.S. patients had been paying \$1,200 or less annually to import the drug from Europe before the Food and Drug Administration last year approved it for U.S. sale as a treatment for Duchenne muscular dystrophy. The genetic disease affects as many as 12,000 Americans, most of whom are boys.

The company that originally won FDA approval to sell Emflaza in the U.S., Marathon Pharmaceuticals LLC, caused an uproar last year over its plan to charge \$89,000 annually per patient. U.S. families that had been importing the drug worried they would no longer be able to afford it, and lawmakers launched investigations into whether Marathon's research costs justified the price.

PTC, based in South Plainfield, N.J., bought the drug from Marathon and began selling it in May at a list price of

about \$59,700 annually for a boy weighing about 55 pounds, according to data from Truven Health Analytics, a unit of International Business Machines Corp.'s Watson Health that publishes list prices submitted by drugmakers.

The dosage varies according to a patient's weight.

The price increase, which went into effect Jan. 1, brings the annual cost up to \$65,250 for a boy of the same weight, according to Truven data.

PTC raised Emflaza's price to help finance research and development and the costs of providing free medicine to needy patients, said Jane Baj, a PTC spokeswoman. The drug's list price doesn't take into account discounts that PTC provides to insurers and patients, she said.

About 1,500 U.S. patients were using the drug as of November, Ms. Baj said, adding that the company ensures that patients pay little to no money out of their own pocket for the drug.

Last week, PTC said it expected annual sales of Emflaza to be between \$90 million and \$110 million in 2018, compared with analysts' estimates of \$58 million, according to Credit Suisse.

## Airbus Superjumbo Wins an Extended Lease on Life



SATISH KUMAR/REUTERS

**Emirates Airline** on Thursday announced a \$16 billion deal for as many as 36 more Airbus SE A380 superjumbos, extending a lifeline to the European plane manufacturer's struggling flagship program.

Emirates is the biggest customer for the double-decker A380, and without further orders from the airline an end to the plane's production loomed.

The two sides were close to signing an agreement in Novem-

ber at the Dubai Air Show, where the A380 shown here was exhibited, but Emirates walked away from negotiations demanding Airbus demonstrate a firmer commitment to the program.

"This new order underscores Airbus's commitment to produce the A380 at least for another 10 years," Airbus sales chief John Leahy said Thursday.

On Monday, Mr. Leahy had warned that without a deal with Emirates, "there is no choice but

to shut down the program."

Sheikh Ahmed bin Saeed Al Maktoum, Emirates's chief executive, said the order would "provide stability to the A380 production line." Some of the new planes will be used to replace A380s now in service, he said.

The order brings the Dubai-based carrier's commitment to the A380—the world's largest jetliner—to as many as 178 planes. The tally includes 101 currently in service. Including all its options

on the aircraft, Emirates accounts for more than half of all A380s on order, highlighting the program's dependence on the airline.

Even with the deal, the plane maker based in Toulouse, France, is reducing output of the A380 amid otherwise slack demand. Airbus delivered 15 A380s last year and plans to hand over only 12 this year. The company currently loses money on every A380 it produces.

—Robert Wall

## ADVERTISEMENT

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### BANKRUPTCIES

### BANKRUPTCIES

### BANKRUPTCIES

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**NOTICE OF (I) CONDITIONAL APPROVAL OF DISCLOSURE STATEMENT; (II) HEARING TO CONSIDER FINAL APPROVAL OF DISCLOSURE STATEMENT AND CONFIRMATION OF PLAN; AND (III) PROCEDURES AND DEADLINES FOR VOTING ON THE PLAN AND OBJECTING TO APPROVAL OF THE DISCLOSURE STATEMENT OR CONFIRMATION OF THE PLAN**

PLEASE TAKE NOTICE OF the following:

**Conditional Approval of Disclosure Statement.** By order dated January 16, 2018 (ECF No. 48) (the "Bankruptcy Order"), the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") conditionally approved the Disclosure Statement Joint Chapter 11 Plan of Lehman Brothers U.K. Holdings (Delaware) Inc. and Lehman Pass-Through Securities Inc., dated January 12, 2018 (as may be amended, modified or supplemented, the "Disclosure Statement") filed by Lehman Brothers U.K. Holdings (Delaware) Inc. and Lehman Pass-Through Securities Inc., dated January 12, 2018 (ECF No. 43) (as may be amended or supplemented, the "Plan"), attached as Exhibit A to the Disclosure Statement.

**Combined Hearing.** A hearing ("the Combined Hearing") to consider final approval of the Disclosure Statement and confirmation of the Plan will be held on March 7, 2018 at 10:00 a.m. (Eastern Time) before the Honorable Shelley C. Chapman, United States Bankruptcy Judge, in Courtroom 623 of the United States Bankruptcy Court for the Southern District of New York, One Bowling Green, New York, New York 10004. The Combined Hearing may be continued from time to time without further notice other than the announcement that the Debtors at the Combined Hearing or any continued hearing or as indicated in any notice of agenda of matters scheduled for hearing prior to, during, or as part of the Combined Hearing, without further notice to interested parties.

**Emitters in Interest Not Entitled to Vote.** Claims in Class 1 (Other Priority Claims), Class 2 (Other Secured Claims), and Class 4 (General Unsecured Claims) are Unimpeded. Holders of such Claims are conclusively presumed to accept the Plan, are not entitled to vote on the Plan, and will not receive ballots. IF YOU DO NOT RECEIVE A BALLOT, YOU ARE CONCLUSIVELY PRESUMED TO ACCEPT THE PLAN AND ARE NOT ENTITLED TO VOTE TO ACCEPT OR REJECT THE PLAN.

**Voting Deadline.** All votes to accept or reject the Plan must be actually received by Epic Bankruptcy Solutions, LLC, the Debtors' voting agent (the "Voting Agent") by no later than January 23, 2018 at 4:00 p.m. (Eastern Time) (the "Voting Deadline"). Failure to follow the voting instructions included with a ballot may disqualify such ballot and such vote.

**Objections to Approval of the Disclosure Statement or Confirmation of the Plan.** Objections, if any, to approval of the Disclosure Statement or confirmation of the Plan must:

(a) Be in writing;

(b) State the name and address of the objecting party and the amount and nature of the claim or interest of such party;

(c) Comply with Bankruptcy Rules and the Local Rules of the Bankruptcy Court;

(d) State with particularity the basis and nature of any objection to approval of the Disclosure Statement or confirmation of the Plan;

(e) Be filed with the Bankruptcy Court either (i) electronically or (ii) conventionally, as noted below:

(i) Electronic Filing: the filer must be an attorney in possession of passwords and logins to both PACER and the Bankruptcy Court's Electronic Case Filing System; electronic filing must be in accordance with General Order M-399 (which can be found at <http://nysb.uscourts.gov/>); or

(ii) Conventional Filing: the filer must send the response or objection by mail, courier, or messenger to the Bankruptcy Court's clerk at the following address: United States Bankruptcy Court, One Bowling Green, New York, NY 10004; the hard copy of the response or objection should be accompanied by a CD-ROM containing the response or objection in text-searchable portable document format (PDF); and

(f) Be filed in the Bankruptcy Court Chambers with a separate hard copy of the response or objection or text-searchable portable document format (PDF); and

12, 2018 at 4:00 p.m. (Eastern Time) on the following parties: (i) The Office of the United States Trustee for Region 2; (ii) the holders of the unsecured claims against each of the Debtors listed on the schedules of assets and liabilities and statements of financial affairs filed concurrently therewith; (iii) Brookfield LUK Holdings LLC, c/o Brookfield Asset Management Inc., Brookfield Place, 181 Bay Street, Ste 300, Toronto, Ontario M5J 2T3 (Att: A.J. Silber); (iv) Brookfield LPTS100 LLC, 277 Park Avenue, Ste 300, Toronto, Ontario M5J 2T3 (Att: A.J. Silber); (v) Kirkland & Ellis LLP, as counsel to LUK Buyer and LPTS100 Buyer, 601 Lexington Avenue, New York, NY 10020 (Att: Christopher Marcus, P.C. and Annelyse S. Gibbons, Esq.); (vi) the Internal Revenue Service; (vii) the United States Attorney's Office for the Southern District of New York; (viii) Cliftonb, N.A.; (ix) 11 Wall Street, New York, NY 10043; and (x) Lehman Brothers Holdings Inc., 277 Park Avenue, 46th Floor, New York, New York 10127.

**IF ANY OBJECTION TO APPROVAL OF THE DISCLOSURE STATEMENT OR CONFIRMATION OF THE PLAN IS NOT FILED AND SERVED STRICTLY AS PRESCRIBED HEREIN, THE OBJECTING PARTY MAY BE BARRED FROM OBJECTING TO APPROVAL OF THE DISCLOSURE STATEMENT OR CONFIRMATION OF THE PLAN AND MAY NOT HEAR THE CASE AT THE COMBINED HEARING. THE DEBTORS MAY NOT SEEK RELIEF IN THE CASE AT THE COMBINED HEARING.**

**Execution Contracts and Unexpired Leases.** As of and subject to the occurrence of the Effective Date, all executed contracts and unexpired leases identified on either Debtor's Schedule G, Execution Contracts and Unexpired Leases (as may be amended) or the Schedule of Assumed Executory Contracts and Unexpired Leases shall be deemed assumed unless such contract or lease previously expired or terminated pursuant to its own terms or by agreement of the parties thereto. The Debtors have determined that the Cure Amount applicable to each assumed executory contract and unexpired lease is zero dollars (\$0.00). All other executed contracts and unexpired leases will be deemed rejected in accordance with the provisions and requirements of section 365 of the Bankruptcy Code.

**Releases, Exculpation, and Injunctions.** Article X of the Plan contains release, exculpation, and injunction provisions, including third-party releases. If the Plan is confirmed by the Bankruptcy Court, these provisions will (with limited exceptions) be binding on all holders of a claim or interest, regardless of whether such claim or interest is impaired and whether the holder of such claim or interest voted to accept the Plan. You are advised to consider the Plan carefully because your rights may be affected.

**Additional Information.** Any party in interest wishing to obtain information about the solicitation of notices of objection to approval of the Disclosure Statement or confirmation of the Plan should contact the Voting Agent, (i) by telephone at (646) 207-6432 (during business hours) and (ii) by email to [tabulation@epicsystems.com](mailto:tabulation@epicsystems.com) with a reference to "Lehman UK" in the subject line, or (iii) by email to [lehmankit@nysb.uscourts.gov](mailto:lehmankit@nysb.uscourts.gov). A PACER (<http://www.pacer.psc.uscourts.gov>) and LEISURE (<http://nysb.uscourts.gov>) account is required to access documents on the Bankruptcy Court's website (<http://nysb.uscourts.gov>). EPIQ BANKRUPTCY SOLUTIONS, LLC IS NOT AUTHORIZED TO, AND WILL NOT, PROVIDE LEGAL ADVICE.

Dated: January 16, 2018, New York, New York 10153, Telephone: (212) 310-8000, Facsimile: (212) 310-8007, Garrett A. Fail, Attorneys for Debtors and Debtors in Possession

The Debtors in these chapter 11 cases, together with the last four digits of each Debtor's federal tax identification number, are Lehman Brothers U.K. Holdings (Delaware) Inc. (5453) and Lehman Pass-Through Securities Inc. (6210). The Debtors' mailing address is 277 Park Avenue, 46th Floor, New York, New York 10127.

\*Capitalized terms used but not defined herein have the meanings ascribed to such terms in the Plan.

## Peugeot Maps Out Return to U.S.

By JOHN D. STOLL

**DETROIT**—Peugeot SA is using its purchase of General Motors Co.'s German unit to begin laying the engineering groundwork for a global product lineup that meets U.S. standards, a key step in the French car company's effort to enter the profitable U.S. market after a several-decade hiatus.

The company is also not ruling out pursuing a partnership with Fiat Chrysler Automobiles NV to jump-start its North America ambitions—though recent comments from Fiat Chrysler's management appear to make such a marriage unlikely.

In a round-table discussion Thursday, Peugeot Chief Executive Carlos Tavares said the company is sticking to a 10-year timetable for entering the U.S. by 2026. He noted an important step has been taken by centralizing the product-development part of that plan

in Rüsselsheim, Germany, the home of Opel AG, which GM sold to Peugeot last year.

Automotive standards for everything from emissions to exterior elements vary from market to market. Europe's divergent standards, in fact, was a factor in GM's decision to leave that market after racking up more than \$10 billion in losses in recent decades.

Several regional auto makers, including China's Guangzhou Automobile Group Co., have signaled interest in the U.S. at this week's Detroit auto show. However, they face considerable challenges in entering the market, including heavy exposure to product litigation and catching up with American car-buying tastes, such as an increasing appetite for roomy pickups and SUVs.

Peugeot's more than \$2 billion deal for Opel helped Mr. Tavares to amass 17% market share in Europe and add the scale necessary to drive down costs and pay for future tech-

nology ventures, including driverless cars and electrified vehicles.

Mr. Tavares said Thursday the auto maker can't shy away from the already-crowded U.S. market if it wants to address the risk of remaining a regional player. But it won't be easy: There are hundreds of vehicle models available from dozens of brands, many of which have dealer networks that require big amounts of capital to fill out inventory for the showroom and keep buildings fresh.

One avenue available to auto makers like Peugeot is linking up with an established U.S. player. Fiat Chrysler Chief Executive Sergio Marchionne has been vocal in recent years about the U.S.-Italian company's need for a partner, but Mr. Marchionne's recent comments about Peugeot not being a good prospect as reason to doubt the two companies could join hands.

## Borrowing Benchmarks | [WSJ.com/bonds](http://WSJ.com/bonds)

### Money Rates

Key annual interest rates paid to borrow or lend money in U.S. and international markets. Rates below are a guide to general levels but don't always represent actual transactions.

		Dec. Index	Chg From (%)	Week Ago	—52-

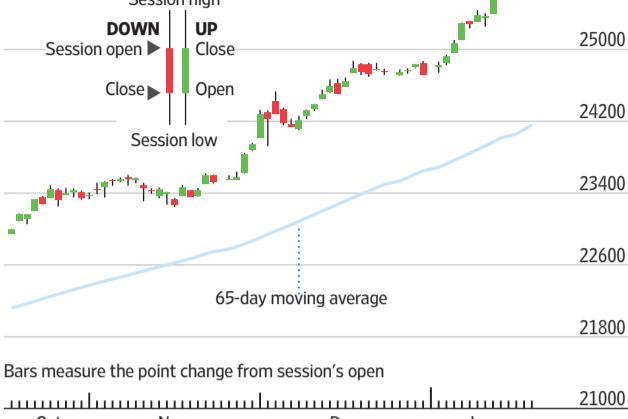
## MARKETS DIGEST

## EQUITIES

## Dow Jones Industrial Average

**26017.81** ▼97.84, or 0.37%  
High, low, open and close for each trading day of the past three months.

Current divisor 0.14523396877348



Bars measure the point change from session's open  
Oct. Nov. Dec. Jan. 21,000

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

## S&amp;P 500 Index

**2798.03** ▼4.53, or 0.16%  
High, low, open and close for each trading day of the past three months.

All-time high 26115.65, 01/17/18



Oct. Nov. Dec. Jan. 23,500  
65-day moving average

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

## Nasdaq Composite Index

**7296.05** ▼2.23, or 0.03%  
High, low, open and close for each trading day of the past three months.

All-time high 7298.28, 01/17/18



Oct. Nov. Dec. Jan. 6,100  
65-day moving average

## Major U.S. Stock-Market Indexes

	High	Low	Latest Close	Net chg	% chg	High	52-Week Low	% chg	YTD % chg	3-yr. ann.
	Dow Jones	Industrial Average	Transportation Avg	Utility Average	Total Stock Market	Barron's 400	S&P 500 Index	MidCap 400	SmallCap 600	
Industrial Average	26153.42	25947.32	<b>26017.81</b>	-97.84	-0.37	26115.65	19732.40	<b>31.9</b>	5.3	<b>14.1</b>
Transportation Avg	11328.49	11239.67	<b>11262.86</b>	4.39	<b>0.04</b>	11373.38	8783.74	<b>22.9</b>	6.1	<b>8.7</b>
Utility Average	688.33	680.72	<b>683.90</b>	-3.77	<b>-0.55</b>	774.47	654.98	<b>4.0</b>	-5.5	<b>2.2</b>
Total Stock Market	28962.93	28831.31	<b>28878.55</b>	-59.53	<b>-0.21</b>	28938.07	23526.88	<b>22.7</b>	4.4	<b>11.2</b>
Barron's 400	746.46	742.38	<b>743.22</b>	-2.72	<b>-0.36</b>	745.95	600.24	<b>23.8</b>	4.5	<b>12.1</b>

## Nasdaq Stock Market

Nasdaq Composite	7313.89	7276.11	<b>7296.05</b>	-2.23	<b>-0.03</b>	7298.28	5540.08	<b>31.7</b>	5.7	<b>16.3</b>
Nasdaq 100	6826.79	6784.72	<b>6811.38</b>	1.09	<b>0.02</b>	6811.38	5051.17	<b>34.8</b>	6.5	<b>18.0</b>

## S&amp;P

500 Index	2805.83	2792.56	<b>2798.03</b>	-4.53	<b>-0.16</b>	2802.56	2263.69	<b>23.6</b>	4.7	<b>11.5</b>
MidCap 400	1966.45	1957.28	<b>1958.30</b>	-7.63	<b>-0.39</b>	1965.97	1667.44	<b>17.4</b>	3.0	<b>11.0</b>
SmallCap 600	968.89	961.00	<b>961.81</b>	-7.50	<b>-0.77</b>	969.31	815.62	<b>16.7</b>	2.7	<b>12.3</b>

## Other Indexes

Russell 2000	1586.31	1576.41	<b>1576.73</b>	-9.93	<b>-0.63</b>	1591.97	1345.24	<b>17.2</b>	2.7	<b>10.2</b>
NYSE Composite	13353.14	13299.93	<b>13315.91</b>	-36.48	<b>-0.27</b>	13352.39	11148.85	<b>19.4</b>	4.0	<b>7.7</b>
Value Line	581.43	578.48	<b>578.80</b>	-2.63	<b>-0.45</b>	582.93	503.24	<b>13.9</b>	2.9	<b>5.8</b>
NYSE Arca Biotech	4498.73	4447.47	<b>4480.28</b>	-10.16	<b>-0.23</b>	4490.44	3134.03	<b>40.3</b>	6.1	<b>7.3</b>
NYSE Arca Pharma	569.53	566.27	<b>568.91</b>	-1.81	<b>-0.32</b>	570.71	469.13	<b>19.1</b>	4.4	<b>0.9</b>
KBW Bank	113.56	112.58	<b>112.75</b>	-0.43	<b>-0.38</b>	113.18	88.02	<b>25.3</b>	5.7	<b>18.7</b>
PHLX® Gold/Silver	89.50	87.41	<b>87.57</b>	-1.55	<b>-1.74</b>	96.72	76.42	<b>0.1</b>	2.7	<b>3.3</b>
PHLX® Oil Service	161.38	158.43	<b>158.54</b>	-2.94	<b>-1.82</b>	191.34	117.79	<b>-14.8</b>	6.0	<b>-6.1</b>
PHLX® Semiconductor	1377.17	1362.50	<b>1370.56</b>	6.27	<b>0.46</b>	1370.56	918.03	<b>49.3</b>	9.4	<b>27.3</b>
Cboe Volatility	12.40	11.62	<b>12.22</b>	0.31	<b>2.60</b>	16.04	9.14	<b>-4.4</b>	10.7	<b>-16.4</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 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	13,081.7	279.05	-0.09	<b>-0.03</b>	279.60	278.53
Pandora Media	P	6,038.3	4.50	0.01	<b>0.22</b>	4.52	4.48
Ford Motor	F	5,621.3	12.06	-0.01	<b>-0.08</b>	12.09	12.03
General Electric	GE	4,965.3	16.78	0.01	<b>0.06</b>	17.40	16.50
Freeport-McMoRan	FCX	4,961.8	19.33	-0.07	<b>-0.36</b>	19.60	19.33
Van Eck Vectors Gold Miner	GDX	4,705.8	23.64	0.03	<b>0.13</b>	23.64	23.58
Kinder Morgan	KMI	4,466.1	18.99	-0.02	<b>-0.11</b>	19.08	18.95
Intel	INTC	4,066.4	44.44	-0.04	<b>-0.09</b>	44.58	44.24

## Percentage gainers...

Osisko Gold Royalties	OR	38.9	12.70	0.98	<b>8.36</b>	12.70	11.72
Mellanox Techs	MLNX	93.0	69.75	4.65	<b>7.14</b>	71.50	65.05
Blue Apron Cl A	APRN	9.9	3.40	0.20	<b>6.25</b>	3.40	3.20
Applied Optoelectronics	AAOI	116.8	34.82	2.03	<b>6.19</b>	35.20	32.79
Embraer ADR	ERJ	6.8	25.50	1.00	<b>4.08</b>	25.50	24.50
...And losers							
Matson Inc.	MATX	6.4	29.00	-1.61	<b>-5.26</b>	30.61	29.00
Atlassian Cl A	TEAM	74.2	53.00	-2.60	<b>-4.68</b>	57.30	52.50
GDS Holdings ADR	GDS	20.9	23.10	-0.8			

## COMMODITIES

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## Futures Contracts

## Metal &amp; Petroleum Futures

	Contract					Open	High	Low	Settle	Chg	Open interest
	Open	High	Low	Settle	Chg	Open					
<b>Copper-High (CMX)</b> -25,000 lbs.; \$ per lb.	3.1800	3.1800	3.1800	3.1770	0.0105	1,338					
Jan	3.1800	3.1800	3.1800	3.1770	0.0105	1,338					
March	3.1920	3.2160	3.1840	3.1990	0.0100	150,098					
<b>Gold (CMX)</b> -100 troy oz.; \$ per troy oz.	128.90	128.90	128.60	126.00	-12.00	46					
Jan	128.90	128.90	128.60	126.00	-12.00	46					
Feb	1327.40	1333.30	1324.30	1327.20	-12.00	312,806					
April	1332.20	1338.00	1329.10	1332.00	-12.00	164,221					
June	1337.40	1342.80	1334.20	1337.00	-12.10	53,613					
Aug	1340.00	1347.10	1340.00	1342.20	-12.10	20,161					
Dec	1355.00	1357.40	1351.50	1352.90	-12.30	28,199					
<b>Palladium (NYM)</b> -50 troy oz.; \$ per troy oz.	1059.95	1064.00	1059.95	1064.00	-1.05	3					
Jan	1059.95	1064.00	1059.95	1064.00	-1.05	3					
March	1109.10	1111.70	1091.35	1093.30	-16.40	36,004					
Jun	1103.55	1103.65	1084.45	1085.70	-15.95	2,836					
<b>Platinum (NYM)</b> -50 troy oz.; \$ per troy oz.	1004.50	1004.50	1004.50	1005.00	-1.20	38					
April	1003.50	1012.30	1001.00	1007.20	-3.70	80,734					
<b>Silver (CMX)</b> -5,000 troy oz.; \$ per troy oz.	17.000	17.010	16.960	16.893	-0.212	69					
March	16.990	17.140	16.915	16.954	-0.212	139,496					
<b>Crude Oil, Light Sweet (NYM)</b> -1,000 bbls.; \$ per bbl.	64.07	64.35	63.47	63.95	-0.02	111,986					
Feb	64.00	64.28	63.44	63.89	-0.03	605,822					
April	63.95	64.10	63.27	63.71	-0.03	198,629					
May	63.58	63.84	63.07	63.49	-0.03	154,230					
June	63.28	63.53	62.79	63.20	-0.01	308,973					
Dec	60.86	61.06	60.48	60.86	-0.04	242,658					
<b>NY Harbor USLD (NYM)</b> -42,000 gal.; \$ per gal.	2.0720	2.0737	2.0441	2.0617	-0.074	91,226					
March	2.0657	2.0680	2.0405	2.0586	-0.045	138,190					
<b>Gasoline-NY RBOB (NYM)</b> -42,000 gal.; \$ per gal.	1.8718	1.8859	1.8522	1.8835	-0.0251	70,330					
March	1.8794	1.8896	1.8604	1.8877	-0.0186	143,640					
<b>Natural Gas (NYM)</b> -10,000 MMBtu-\$ per MMBtu.	3.251	3.260	3.070	3.189	-0.043	144,331					
March	3.029	3.070	2.905	2.988	-0.036	358,142					
April	2.821	2.833	2.748	2.810	-0.004	182,454					
May	2.815	2.815	2.744	2.802	-0.002	156,527					
July	2.873	2.881	2.818	2.876	-0.006	75,887					
Oct	2.867	2.873	2.817	2.866	-0.004	103,202					

## Agriculture Futures

	Corn (CBT)-5,000 bu.; cents per bu.					Oats (CBT)-5,000 bu.; cents per bu.					Soybeans (CBT)-5,000 bu.; cents per bu.					Natural Gas (NYM)-10,000 MMBtu-\$ per MMBtu.					Gasoline-NY RBOB (NYM)-42,000 gal.; \$ per gal.					Wheat (CBT)-5,000 bu.; cents per bu.					Soybean Oil (CBT)-60,000 lbs.; cents per lb.					Soybean Oil (CBT)-60,000 lbs.; cents per lb.					Wheat (KCB)-5,000 bu.; cents per bu.					Rough Rice (CBT)-2,000 cwt.; \$ per cwt.					Crude Oil (CBT)-5,000 bu.; cents per bu.					Wheat (CBT)-5,000 bu.; cents per bu.					Soybean Meal (CBT)-100 tons; \$ per ton.					Soybean Meal (CBT)-100 tons; \$ per ton.					Soybean Oil (CBT)-60,000 lbs.; cents per lb.					Soybean Oil (CBT)-60,000 lbs.; cents per lb.					Wheat (KCB)-5,000 bu.; cents per bu.					Rough Rice (CBT)-2,000 cwt.; \$ per cwt.					Crude Oil (CBT)-5,000 bu.; cents per bu.					Wheat (CBT)-5,000 bu.; cents per bu.					Soybean Meal (CBT)-10 tons; \$ per ton.					Soybean Meal (CBT)-10 tons; \$ per ton.					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## BANKING &amp; FINANCE

# ICE Joins the Rush Into Bitcoin

By ALEXANDER OSIPOVICH

The owner of the New York Stock Exchange is launching a service to bring bitcoin data to hedge funds and other professional trading firms, the latest sign that the once fringe market for cryptocurrencies is being taken seriously by Wall Street.

**Intercontinental Exchange Inc.**, or ICE, said Thursday that it would join with startup **Blockstream Inc.** to launch a data feed that would pull information from more than 15 cryptocurrency exchanges around the world and deliver it to financial firms.

Due to go live by March, the feed would transmit information over ICE's high-speed data network in the same digital format used in electronic stocks trading, helping it fit seamlessly into the systems favored by big banks, high-speed traders and asset managers.

The move could help draw more financial heavyweights into the risky, rapidly evolving world of bitcoin. Invented less than a decade ago, the digital currency was long a niche product favored by libertarians and software geeks. But an extraordinary price run-up last year helped put it on Wall Street's radar. Late Thursday, bitcoin was trading at \$11,540.59, down 42% from its record of \$19,783.21 in December, according to research site CoinDesk.

Lynn Martin, president of



The bourse plans to launch a data feed that will include more than 15 cryptocurrency exchanges.

ICE Data Services, said ICE launched the new feed in response to heavy demand from clients.

"We're receiving a lot of requests for information for anything that would provide transparency into this market," Ms. Martin said. She declined to discuss which firms were expected to be the heaviest users of the new service.

ICE's plan would represent a big step forward from the way many bitcoin investors now monitor prices and trading activity. Reflecting its hacker roots, the cryptocurrency community relies heavily on various websites that

often have a homegrown feel and don't necessarily identify their creators or announce when they make changes.

Last week, a move by the popular website coinmarketcap.com to remove data from some South Korean exchanges briefly caused chaos in the crypto markets, erasing tens of billions of dollars from many of the biggest digital currencies over a 24-hour period. The website didn't respond to a request for comment.

ICE isn't the first big-data player to wade into the crypto markets. Financial-information companies **Bloomberg LP** and

**Thomson Reuters Corp.** broadcast the prices of major digital currencies on their widely used terminals. MoneyNet, a lower-cost data vendor used by more than 1,000 banks, brokers and investment firms, expanded its coverage of cryptocurrencies this week to include data on hundreds of digital coins.

But ICE's new service, called the Cryptocurrency Data Feed, aims to go beyond those offerings by providing more detailed data that could be used by high-frequency traders and quantitative hedge funds to power trading strategies.

## SEC Hands Setback To Bitcoin ETFs

Wall Street's top regulator on Thursday all but shut the door to approving exchange-traded funds that hold bitcoin and other cryptocurrencies, questioning whether the products could comply with rules meant to protect mom-and-pop investors.

The Securities and Exchange Commission outlined its views in a letter to two Wall Street trade groups whose members envision the profits that could flow from selling exposure to bitcoin through popular investment vehicles such as ETFs and mutual funds. The SEC questioned how bitcoin's volatility and potential illiquidity would fit with funds that must calculate a fair market price for their portfolio at the end of every trading day and allow investors to easily cash out.

"Until the questions identified above can be addressed satisfactorily, we do not believe that it is appropriate for fund sponsors to initiate registration of funds that intend to invest substantially in cryptocurrency and related products," the SEC's director of investment management, Dalia Blass, wrote in the letter made public Thursday.

—Dave Michaels  
and Asjlyn Loder

# Dimon's Pay Rose By 5.4% In 2017

By EMILY GLAZER

**JPMorgan Chase & Co.** Chief Executive James Dimon received a compensation package valued at \$29.5 million in 2017, up 5.4%—or \$1.5 million—from 2016, according to a Thursday securities filing.

The chairman and chief executive's pay package includes \$23 million in performance-related restricted stock and \$5 million in cash. His base salary is unchanged at \$1.5 million, according to the filing. The total compensation is up from his 2016 pay package of \$28 million but shy of his record compensation of \$30 million in 2007.

Mr. Dimon's pay package is closely watched across Wall Street because he runs the nation's largest bank and is the first to have his year-end compensation disclosed among the six largest U.S. banks. Last year, Mr. Dimon made several million dollars more than the next highest-paid CEOs in that group.

This is the third year Mr.



James Dimon's raise was based partly on strong performance across businesses.

Dimon is being paid in performance share units, a type of restricted stock that has requirements on how long it must be held and has the possibility of being worth nothing based on the performance of Mr. Dimon and the bank.

JPMorgan's board based Mr. Dimon's total pay award for last year on strong performance across businesses, risk management, customer focus and leadership, according to the filing.

The bank's stock gained about 22% in 2017, though much of the increase came alongside a broader sector gain related to the tax overhaul.

The board also cited JPMorgan's 2017 profit of \$24.4 billion, its return on tangible common equity of 12% and shareholder returns including dividends and repurchases of \$22.3 billion.

But the bank's return on equity, a broader-brush measure based on reported profit, was 11%, stripping out any impact from the new tax law.

## ADT Prices Well Below Range

By MAUREEN FARRELL AND MIRIAM GOTTFRIED

Home-security company **ADT Inc.**'s initial public offering priced sharply below its expected range on Thursday, a setback for what is likely to be one of the biggest IPOs of the year.

The IPO priced at \$14 a share, compared with the company's original target of \$17 to \$19, indicating that even as markets continue to hit records, investors are willing to be discerning in choosing whether to buy into new offerings.

ADT is expected to start trading as a public company Friday on the New York Stock Exchange under the symbol ADT, a quick turn back to public ownership after private-equity firm **Apollo Global Management LLC** bought it less than two years ago.

ADT's pricing and debut will be closely monitored by other buyout firms, who, bankers say, are contemplating

existing investments through public offerings.

Even with the lackluster pricing, Apollo more than doubled the money it invested, according to a person familiar with the deal.

Potential investors said they were concerned about the company's ability to retain customers and attract new ones amid competition.

The company said in its regulatory filing that it has been losing customers but has stemmed some of those losses. Still, investors said they were concerned that the company didn't disclose figures that would help them better understand the potential trajectory of the business, including numbers on customer churn and the cost of acquiring customers.

At the \$14 price point, ADT raised roughly \$1.6 billion, valuing the company at nearly \$10.6 billion, not including about \$10 billion in debt, according to regulatory filings.

That is below the roughly \$2

billion the company would have raised at the midpoint of its expected range.

In addition to ADT, Brazilian payment processor **PagSeguro Digital Ltd.** is also planning to debut next week and raise \$1.75 billion at the midpoint of its pricing range, according to filings.

\$14

ADT's IPO priced here, compared with a prior target of \$17 to \$19.

The two large offerings come as the IPO market is off to a busy start in 2018. Before this year, only 14 companies had raised more than \$1 billion in U.S.-listed IPOs since the beginning of 2015, according to Dealogic.

For ADT, an IPO has come fairly quickly. Only 13% of private-equity exits during 2016

were turned around in under three years; that percentage has been steadily shrinking from a recent peak of roughly 80% in 2001, according to data from private-equity advisory and investment firm Hamilton Lane Inc.

The success of the IPO in the longer term is critical for Apollo's return on its investment as the private-equity firm will continue to hold the majority of its shares after the offering.

ADT's IPO could alter the expectations of some private-equity firms on what valuations they could achieve for their portfolio companies in taking them public. Despite records in the stock market, many firms have in recent years chosen to sell companies rather than go through the IPO process because of the risk that there will be a market downturn before they have a chance to unload their remaining shares.

—Corrie Driebusch contributed to this article.

## Morgan Stanley Chief Gorman's Overhaul Pays Off

By LIZ HOFFMAN

**Morgan Stanley** reported fourth-quarter results that highlighted the fruits of Chief Executive James Gorman's efforts to make the firm a simpler and steadier earner.

Quarterly profit rose 14%, excluding a tax charge, as the firm's retail brokers and investment bankers compensated for a decline in trading that has been widely felt across Wall Street.

The firm said Thursday that it earned 84 cents a share on revenue of \$9.5 billion, which was up 5% from a year earlier. Analysts had expected 77 cents a share, excluding the impact of a one-time \$990 million charge related to the new tax law. Net income of \$1.7 billion beat analyst expectations.

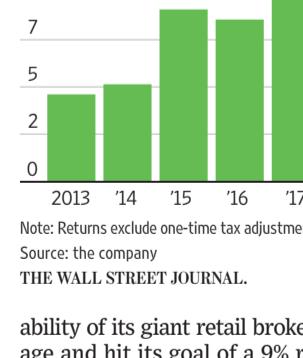
Including the tax charge, which was lower than Morgan Stanley had indicated, the firm earned \$686 million, or 29 cents a share.

Morgan Stanley, the smallest of the big six U.S. banks, was the last to report earnings for a quarter that was muddied by tax charges and marked by continued gloom for trading operations and strength in consumer and investment banking.

Eight years into his tenure, Mr. Gorman has achieved most of the numerical targets he set out in early 2016. Morgan Stanley has cut more than \$1 billion in fixed expenses, cleaned up trouble spots like fixed-income trading, improved the profit-

### Happier Returns

Morgan Stanley has been improving its return on equity, a measure of profitability, and set a new target of 10% to 13%.



ability of its giant retail brokerage and hit its goal of a 9% return on equity.

Mr. Gorman's next challenge is to boost that return—which measures how well a company invests shareholders' money—into the low teens. This is a level that investors typically demand given the risk that comes with owning bank stocks.

On Thursday, Mr. Gorman set a new goal of a 10% to 13% return on equity, without specifying a time frame. A lower tax rate will help, as will the roll-off in 2019 of some expensive contracts with brokers who joined in the acquisition of Smith Barney.

Future gains will likely be tougher than those achieved to date, as Mr. Gorman has al-

ready pulled obvious levers such as cutting expenses and reducing risky trading assets.

What is more, Morgan Stanley's wealth-management and investment-banking businesses are riding a bull stock market that likely won't last forever.

Quarterly revenue in fixed-income trading, which Morgan Stanley sharply cut two years ago after repeated blunders, fell 45% in the quarter. Peers reported declines of between 14% and 50% in that business as few market catalysts spurred clients to trade.

"Very, very quiet," Chief Financial Officer Jonathan Pru-

zan said of the quarter. He said he was "cautiously optimistic" that the backdrop would improve.

Morgan Stanley held its ground in stock trading, where it is Wall Street's leader. Revenues rose 2% in that business.

One area of weakness:

Merger-advisory revenue fell 6%, widening the deficit between it and Goldman Sachs Group Inc., which on Wednesday posted a 9% rise in that business to cement its role as Wall Street's top M&A shop.

More than \$1.1 billion in trailing-year revenue now separates them, the widest gap in two years.

Morgan Stanley's X-Factor, though, is increasingly its giant retail brokerage, which oversees \$2.4 trillion for some 3.5 million households. That unit's revenue rose 10%, while lower expenses lifted its profit margin—once in the high single digits—1 percentage point to 26%. Mr. Gorman set a new upper goal of 28%.

Broker attrition and hiring, which are both expensive, have fallen, Mr. Pruzan said.

Morgan Stanley shares rose 0.9% to \$55.84 on Thursday.

◆ Investors count on lower bank taxes..... B12



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◆ Investors count on lower bank taxes..... B12

## MARKETS

# Utilities, Property Stocks Decline

BY MICHAEL WURSTHORN AND RIVA GOLD

Major U.S. indexes slipped, as weakening U.S. government-bond prices weighed on yield-sensitive sectors such as real-estate companies and utilities.

The rally that sent stocks to records this year paused a day after the Dow Jones Industrial Average closed above 26,000 for the first time.

The potential for a government shutdown this weekend has also been putting pressure on stocks, analysts said.

"We'd see a pullback in risk," said Holly MacDonald, chief investment strategist at Bessemer Trust, who added that a shutdown could cause investors to sell assets that have soared in the past year, such as technology stocks.

"But it's unlikely to alter the underlying economic trajectory for the U.S.," she added. A shutdown "would be a tactical buying opportunity."

The Dow Jones Industrial Average fell 97.84 points, or 0.4%, to 26,017.81—its biggest decline since Dec. 29. The S&P 500 slipped 4.53 points, or 0.2%, to 2798.03. The Nasdaq Composite shed 2.23 points, or less than 0.1%, to 7296.05.

Shares of utility companies and real-estate firms in the S&P 500 fell 0.6% and 1%, respectively, putting them among the index's biggest laggards.

Industrial stocks also struggled. General Electric shares shed 58 cents, or 3.3%, to \$16.77, extending the stock's decline this week to 11% since saying it was examining spinning off its biggest businesses.

Boeing fell 10.85, or 3.1%, to 340.16, shaving roughly 75 points from the Dow index.

Bank stocks were mixed after several released fourth-quarter earnings reports. Bank of New York Mellon fell 2.54, or 4.4%, to 55.35 after the bank reported a higher profit, due in part to a benefit from the new tax law, amid a decline in revenue. Morgan Stanley rose 49 cents, or 0.9%, to 55.84 after saying its retail brokers and investment bankers helped offset lower trading revenue and pushed up profit.

The Shanghai Composite Index rose 0.9% to close at its highest since December 2015, and the Hang Seng rose 0.4% to another record. Early Friday the Shanghai index was up 0.6% and the Hang Seng was flat. At midday Friday, Japan's Nikkei was up 0.3%.

## Treasury Auctions

The Treasury Department will auction \$193 billion in securities next week, comprising \$145 billion in new debt and \$48 billion in previously sold debt. Details (all with minimum denominations of \$100):

♦ Monday: \$48 billion in 13-week bills, a reopening of an issue first sold on April 27, 2017, maturing April 26, 2018. Cusip number: 912796LX5.

Also, \$42 billion in 26-week bills, dated Jan. 25, 2018, maturing July 26, 2018. Cusip number: 912796PR4.

Noncompetitive tenders for both issues must be received by 11 a.m. EST Monday and competitive tenders by 11:30 a.m.

♦ Tuesday: \$26 billion in two-year notes, dated Jan. 31, 2018, maturing Jan. 31, 2020. Cusip number: 912828357. Non-competitive tenders must be received by noon Tuesday; competitive tenders, by 1 p.m.

♦ Wednesday: \$15 billion in two-year floating-rate notes, dated Jan. 31, 2018, maturing Jan. 31, 2020. Cusip number: 9128283T5. Also, \$34 billion in five-year notes, dated Jan. 31, 2018, maturing Jan. 31, 2023. Cusip number: 9128283U2.

Noncompetitive tenders for the floating-rate notes must be received by 11 a.m. Wednesday; competitive tenders, by 11:30 a.m. For the five-year notes, the deadlines are noon and 1 p.m., respectively.

♦ Thursday: \$28 billion in seven-year notes, dated Jan. 31, 2018, maturing Jan. 31, 2025. Cusip number: 9128283V0. Non-competitive tenders must be received by noon Thursday; competitive tenders, by 1 p.m.

# Diesel Cloud Hangs Over Crude

Concerns are building that a run-up in prices could reverse and put pressure on oil

By CHRISTOPHER ALESSI

LONDON—Robust demand for diesel has helped fuel the oil rally since the end of August, but its popularity could now hinder crude's further ascent.

**COMMODITIES** The booming global economy has been driving demand for diesel and other distillate oil products, including fuel for trucks, jets and ships. More recently, cold temperatures in the U.S. boosted the need for heating oil.

World demand for diesel rose to more than 28 million barrels a day in 2017, up from 27.5 million barrels a day in 2016, according to the International Energy Agency.

The price of diesel has soared about 30% since August, when hurricane damage to U.S. Gulf ports kicked off the fuel's comeback. Meanwhile, the price of Brent crude, the global benchmark, has gained by a similar percentage and is hovering near a three-year high of \$70 a barrel.

But as the price of diesel has increased, refiners have rushed out more product, and speculative investors have jumped in. That has raised concerns that diesel's price could weaken, putting pressure on crude, from which it is refined.

The oil rally can "by and large be traced back to the distillate markets," said Sabine Schels, head of commodities research at Bank of America Merrill Lynch. She said crude prices would struggle to move higher "with refiners in max distillate mode" and net speculative bets on rising prices at records.

On Thursday, diesel for February delivery dropped 0.4%, to \$2.0617 a gallon on the New York Mercantile Exchange. Brent crude for March delivery fell 0.1%, to \$69.31 a gallon, on ICE Futures Europe.

Oil refiners responded to price gains by betting big on

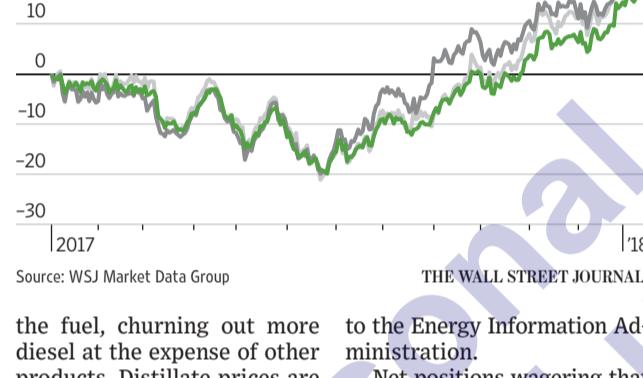


CARLOS GARCIA RAWLINS/REUTERS

Prices for diesel have climbed about 30% since August, and refiners have ramped up production at the expense of other products.

## Energy Burst

Strong demand for diesel has helped boost crude oil.



Source: WSJ Market Data Group

the fuel, churning out more diesel at the expense of other products. Distillate prices are more than \$10 a barrel higher than gasoline, for which demand has weakened following the peak summer driving season in the U.S.

In the U.S., weekly net production of distillate fuel oil hit 5.5 million barrels a day in the last week of 2017, compared with 4.5 million barrels at the start of September, according

out much quicker than other buyers when its price begins to fall.

"If diesel comes off the boil, crude would also come off the boil," said Stephen George, chief economist at KBC Advanced Technologies.

Oil-market observers mainly agree that falling diesel prices will at least halt crude's upward march in the short-to-mid term. But many other factors have contributed to gains in crude prices and could temper a diesel-led reversal.

Crude has been boosted by a deal by the Organization of the Petroleum Exporting Countries and 10 other big oil producers, including Russia, to hold back crude production by nearly 2%. First struck in late 2016, the deal will carry through the end of this year.

Worries that geopolitical tensions in Iran and Saudi Arabia could eventually disrupt supply have also supported crude prices.

While refined products initially led the rebalancing of oil markets, crude is now "marching to its own tune,"

said James McCullagh, an oil products analyst at consulting firm Energy Aspects, citing investor appetite for oil on the back of the OPEC cuts and geopolitics.

Until this summer, the price of diesel had languished for several years, even as oil was starting to climb. The prices of Brent and West Texas Intermediate, the U.S. benchmark, have doubled since the height of the oil glut in early 2016.

Diesel was out of favor for much of that time. Relatively warm winters consigned many barrels to storage, while Volkswagen AG's 2015 admission that it had rigged millions of diesel cars to cheat environmental regulators hit the fuel's popularity in Europe. The case ultimately revealed diesel engines as far bigger polluters than originally thought.

But increasing industrial activity spurred greater appetite for diesel, helping to drain inventories in the U.S. and Europe throughout 2017 and tying crude's fortunes with the fuel, said KBC's Mr. George.

# Rising Malaysian Ringgit Draws Investors

By SAUMYA VAISHAMPAYAN

The Malaysian ringgit is up 13% against the dollar in the past 12 months and is outperforming several other emerging-market currencies, but some investors are betting that the ringgit is still undervalued.

The currency has already jumped 2.7% against the dollar this month. In recent action, one dollar bought 3.96 ringgit. Its gains over the past year have been even higher than other surging Asian currencies like the South Korean won, new Taiwan dollar and Thai baht.

One commonly used measure suggests the ringgit's rise has power to add. The currency's nominal effective exchange rate, which reflects its value against currencies of several trading partners, is still below both its 5- and 10-year averages, according to the Bank for International Settlements. That suggests the ringgit remains inexpensive by historical standards.

In turn, some investors reckon the ringgit has more room to rise than the likes of the won and baht, which already look expensive compared with their long-term averages.

"When I look across the universe of currencies we invest in, the ringgit is still one of the cheapest, even with the recent appreciation we've seen," said Stuart Ritson, head of Asian rates and FX at Aviva Investors in Singapore.

Mr. Ritson said he expects the broader emerging-market currency rally to continue largely because of the U.S. dollar's weakness, but he is more hopeful for big gains from undervalued currencies like the ringgit. His bet on a stronger ringgit, expressed through his holdings of short-dated local currency Malaysian government bonds, is one of the big-



A Malaysian bakery. The country's central bank appears comfortable with the ringgit's advance.

## Dollar Hits Lowest Level Since 2015

The U.S. dollar fell as Congress appeared no closer to resolving a budget impasse that could lead to a government shutdown.

The WSJ Dollar Index, which tracks the currency against a basket of 16 others, dropped 0.3%, to 84.42, the lowest closing level since May 2015. The dollar fell broadly, with declines of 0.4% against the euro, 0.5% against the British pound and 0.2% against the Japanese yen.

The government's current

funding expires at 12:01 a.m. EST Saturday, and Congress and President Donald Trump are trying to negotiate a stopgap spending bill, the third such measure since December for the fiscal year, which started Oct. 1.

The risk of a shutdown "is optically bad" for the dollar, said Shahab Jalinoos, global head of currency strategy at Credit Suisse Group AG.

The decline followed Wednesday's gains in the dollar spurred by Apple Inc.'s announcement that it would make a one-time tax payment of \$38 billion to repatriate overseas cash holdings and ramp up its spending in the

about the currency's strength from bank officials.

Mr. Garg anticipates the ringgit to strengthen to at least 3.90 per dollar in the next few months. "Long ringgit is still one of our top calls," he said.

Analysts at Capital Economics expect Bank Negara Malaysia will raise interest rates at

its meeting this month, which typically bolsters a currency as it makes the country's assets appealing to yield-seeking investors. A recent steady decline in portfolio flows has helped the ringgit as well. Foreign investors bought both Malaysian stocks and bonds in December after months of selling, according to Australia & New

U.S. The company said the move was the result of recent changes to U.S. tax law, under which companies can pay a one-time tax of 15.5% on overseas cash holdings repatriated to the U.S.

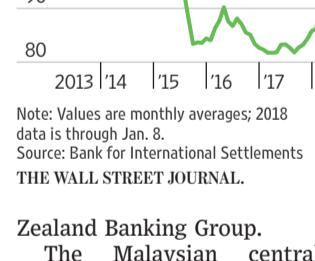
Decisions by other companies to pursue similar plans will also help bolster the dollar, though they are unlikely to alter the trend of a weakening U.S. currency, Mr. Jalinoos said.

U.S. companies bringing home overseas profits create a demand for the dollar as those companies exchange other currencies for the greenback to make tax payments and use the funds within the U.S.

—Daniel Kruger

## Cheap Cash

The ringgit's nominal effective exchange rate remains below long-term averages, implying the currency is undervalued.



Note: Values are monthly averages; 2018 data is through Jan. 8.

Source: Bank for International Settlements

THE WALL STREET JOURNAL.

Zealand Banking Group.

The Malaysian central bank's relaxed approach stands out in Asia, which was home to several big currency winners last year.

A South Korean official recently said the country will take steps "sternly" if moves in the won are one-sided, according to Bloomberg News.

China's central bank said last week that it was up to banks to adjust the countercyclical factor that helps determine the dollar's reference rate against the yuan, which many analysts have interpreted as a signal that the central bank wants to stem further yuan strength.

"Malaysia is quite rare in the region in the sense that most other central banks don't want a stronger currency, and have been active in the market to smooth the appreciation," said Aviva Investors' Mr. Ritson.

## AUCTION RESULTS

Here are the results of Thursday's Treasury auction. All bids are awarded at a single price at the market-clearing yield. Rates are determined by the difference between that price and the face value.

### 10-YEAR TIPS

Applications	\$36,848,173,600
Accepted bids	\$14,910,648,600
Noncompetitive	\$55,305,700
Auction price (rate)	99.536480 (0.548%)
Interest rate	0.500%
Bids at clearing yield accepted	91.10%
Cusip number	9128283R9

The Treasury inflation-protected securities, dated Jan. 31, 2018, mature on Jan. 15, 2028.

## MARKETS

# Investors Are Banking on Reduced Taxes

Optimism that lenders' stocks will rise further is fueled by forecasts of lower effective rates

By MICHAEL RAPORT

Now that big banks have finished reporting fourth-quarter earnings filled with noise from the new tax law, how much do they expect to actually pay in taxes going forward? A lot less than in the past.

That is just what investors were hoping to hear. In response, they have kept already buoyant big-bank stocks inching upward.

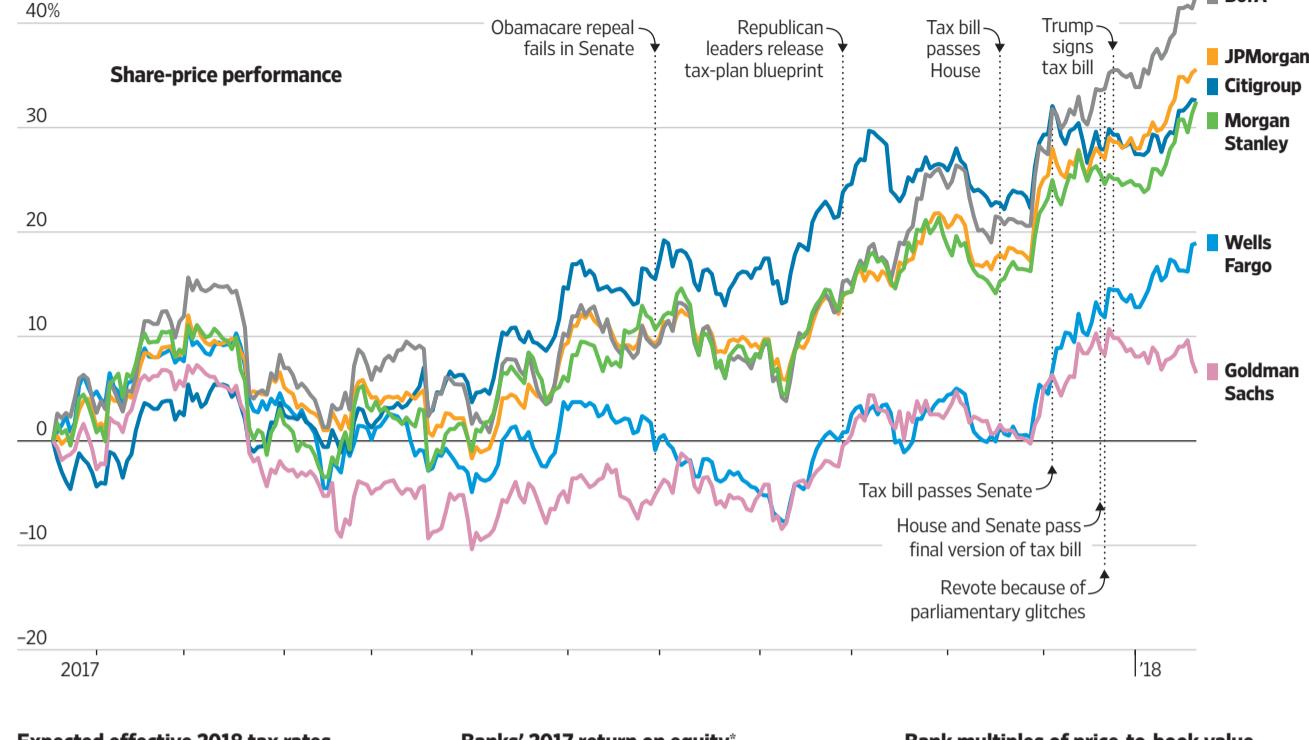
While some firms will pay higher rates than others, a number of big banks indicated they expect their effective tax rates would decline sharply to around 19% or 20% in 2018, as the corporate tax rate gets reduced. **JPMorgan Chase & Co.** and **Wells Fargo & Co.** both said their tax rates would be around that level.

That is significant because financial companies have tended to pay taxes at higher rates than big companies in other industries, since so much of their business is centered in the U.S. Furthermore, some of the big banks, such as **Goldman Sachs Group Inc.**, **Bank of America Corp.** and **Morgan Stanley**, explicitly said they expect lighter tax bills to boost their earnings performance.

That is keeping investors optimistic despite some big short-term hits in fourth-quarter earnings that were related to the tax law.

Banks took charges as high as \$22 billion, at **Citigroup Inc.**, to reduce the value of their deferred-tax assets and account for a one-time tax on foreign earnings. Bank of America's charge was \$2.9 billion; Goldman, \$4.4 billion. On the other side, Wells Fargo had a gain of \$3.35 billion, largely because the tax-rate reduction made its

big-bank stocks have gotten a boost in recent months as the prospects for a tax-code overhaul began to brighten in September.



Expected effective 2018 tax rates versus effective 2016 rates

	2018	2016
Citigroup	25%	30%
Goldman Sachs	24	28
Morgan Stanley	22	31
BofA	20	29
JPMorgan	19	28
Wells Fargo	19	31

Banks' 2017 return on equity\*

Wells Fargo	11.4%
JPMorgan	11.0
Goldman Sachs	10.8
Morgan Stanley	9.4
BofA	7.9
Citigroup	6.5

Bank multiples of price-to-book value, change from a year earlier

BofA	45%
Citigroup	40
JPMorgan	29
Morgan Stanley	26
Wells Fargo	14
Goldman Sachs	2

\*Figures for all banks' return on equity, except Wells Fargo, exclude the impact of changes in the tax law.

Sources: FactSet (share performance, price-to-book value); the companies (tax rates, return on equity)

†Expects a range of 22%-25%

deferred-tax liabilities—taxes it owed—less onerous.

Investors looked through this noise, though, because it will give way to greater earnings power down the road as the corporate tax rate falls to 21% from 35%.

Financial shares surged in the wake of President Donald

Trump's election. They founders in mid-2017, as the new administration's legislative agenda stumbled. But in September, prospects for a tax-code overhaul brightened, and that marked a renewed upward turn for bank stocks.

Now that investors have a sense of how much banks' tax

bills may fall, they are more confident about their earnings power going forward.

Bank of America said it expects its tax rate to be about 20% absent unusual items, compared with an expectation before the tax law was passed of about 29% for 2018. Its effective rate in 2016 was nearly

29%. (Banks said 2017 rates are skewed by one-time gains and losses related to the tax law.)

Assuming all of the benefits go to the bottom line, that would mean a boost of more than 1.5 percentage points to Bank of America's return on tangible common equity and more than 0.1 percentage point

on its return on average assets, Chief Executive Brian Moynihan said on the bank's earnings call.

Morgan Stanley said it expects an effective tax rate of 22% to 25% in 2018, though it will have quarter-to-quarter volatility, compared with a nearly 31% rate in 2016. With more than two-thirds of the firm's pretax income coming from the U.S., "we expect to see a meaningful reduction in our effective corporate tax rate," said CEO James Gorman on an earnings call Thursday.

Goldman, meanwhile, expects the lower tax rate to have "a direct effect" in driving earnings growth and return on equity, Chief Financial Officer Martin Chavez said on a conference call Tuesday. Goldman expects its effective tax rate to decline to about 24% as a result of the new tax law, from a 2016 rate of 28.2%.

The prospect of higher returns on equity also has helped keep bank valuations inching higher. Price-to-book-value multiples for all the big banks, save Goldman, have risen over the past year. Bank of America and Citigroup were the primary gainers, rising 45% and 40%, respectively.

Citi has gotten a double boost in this regard. Even though it expects to have a higher rate than other big banks, its bottom line should still rise. And the bank slashed its deferred-tax assets by \$19 billion. That lowers its book value, helping to boost its multiple.

But that isn't just a numbers game. Many investors were giving Citi scant credit for the value of its deferred-tax assets and adjusting their own view of its multiple accordingly. Now, its multiple is more reflective of the bank's balance sheet—and this week Citi's market valuation climbed above its book value for the first time since September 2008.

—Christina Rexrode contributed to this article.

## HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Email: [heard@wsj.com](mailto:heard@wsj.com)

# GE Needs to Take a Longer View

## Neutron Bomb

Total shareholder return



Source: FactSet

it badly. GE's trailing price/earnings ratio the day Mr. Welch said he would retire was nearly 44 times, up from less than 9 times when he started two decades earlier. It is now clear that Mr. Welch had taken pains to make GE's earnings per share consistent, and consistently pleasing to analysts, by bending accounting rules.

Though reportedly uncomfortable with the outsize role of GE Capital, Mr. Immelt did

little to pare back an operation that was so profitable in the years leading up to the financial crisis. By 2008 it was some 42% of revenue. Seven years later, after the business imperiled the entire company and saddled it with new postcrisis rules, Mr. Immelt decided to sharply cut it back to shed those shackles and to boost GE's valuation to match its purely industrial peers. Those assets included credit cards and real estate.

Shareholders applauded, sending GE's shares up by nearly 11% that day, but they have shed nearly 40% of their value since then in a roaring bull market. That is despite some \$25 billion in net share repurchases since late 2015.

While it is premature to judge what sort of captain Mr. Flannery, a 30-year GE veteran, will make, his emphasis on slashing costs and the embarrassing halving of GE's dividend are signs of a better mind-set. Hints of a corporate fire sale aren't, though, and he should resist pressure for short-term results.

Analysts suggest GE's sum-of-the-parts is below its market value. The company sprang a new leak this week when details of a big hole in legacy insurance operations emerged.

Unless the problem is worse than management is letting on, though, Mr. Flannery may be better off batten down the hatches and saying damn to the stock market's torpedoes.

—Spencer Jakab

## OVERHEARD

It is rare that a link to a suicide-prevention hotline goes viral on social media—particularly when it isn't in response to anyone having taken their lives or even attempting to do so.

But then the second-most upvoted post of all time on a cryptocurrency subreddit came during a crash in the value of alternative currencies.

Welcome to bitcoinfreude: the glee that those people investing in boring old stocks, bonds or real estate feel when seeing fools and their virtual money parted.

Unlike the crash in real-estate or technology stocks, the number of investors that have suffered a serious blow to their net worth in recent days is relatively tiny, and so are the violins playing for them.

Other than not being very nice, glee at bitcoin millionaires losing it all could be short-lived if prices bounce back to new highs, as they have after so many previous crashes.

## Discount the D.C. Standoff At Your Peril

The economy would have no problem weathering a temporary government shutdown. That doesn't mean investors should be complacent about one.

With congressional Republican leaders struggling to round up the support they need for a stopgap funding bill and Democrats preparing to withhold support unless it provides protections for Dreamers, the chances of a shutdown are rising. If a deal doesn't emerge by Friday,

government workers who are deemed nonessential will be furloughed, many federal contracts with businesses will be suspended and government services that support private firms will be halted.

It would be a drag on the economy as federal workers spend less and many government-dependent businesses, such as defense contractors, slow or stop operations. The two-week shutdown in October 2013 shaved about half a percentage point off fourth-quarter economic growth that year, according to separate estimates from JPMorgan Chase and Moody's Analytics. Even so, the economy kept chugging along, as it did during two shutdowns in the mid-1990s. And the stock market hardly faltered, with the S&P 500 ending the year at a record.

Still, a shutdown hardly augurs well for policy this year. The government will run out of cash to pay its bills if its borrowing limit isn't raised next month, setting the stage for another debt-ceiling fight.

Last year's tax cut and regulatory rollbacks had investors celebrating the news coming out of Washington. This year will be different.

—Justin Lahart

# Don't Focus Too Much on China's Smooth Growth Signal

## Signal and Noise

China activity index\*  
Commodity price index (9/2008=10)  
Official GDP\*

Source: Thomson Reuters; CEIC  
\*Presented as change from a year earlier.  
Activity index derived from freight volumes, credit growth and employment PMIs.

more-reliable data—such as freight volumes, lending, real-estate investment, and purchasing managers' employment data—and they all tell a remarkably similar story: China experienced a

sharp slowdown in late 2014 followed by a rapid rebound starting in early 2016 and gaining pace for most of last year.

The question is, what happens next?

Most of the reliable indicators tied to industry show growth peaking in mid or late 2017, and now trending gradually down. Since income growth tends to follow corporate profits in China, it is a good bet consumption will initially hold up in 2018, helping offset the slowdown in investment.

There are two big near-term risks: The first is a rise in trade tensions. Exports

matter less to China than they used to, but they were key to its hitting the sweet spot—rising growth and falling indebtedness—last year.

A hard knock from across the Pacific would make that hard to repeat—and damage income growth too—tempting Chinese leaders to ramp up lending again. Commodities would benefit, but China's long-term prospects would dim.

The second risk is that credit stops flowing. Despite all the deleveraging talk, the annual rate of broad credit growth in China was still a healthy 13% in December, down only a bit from its

recent peak of 17% in April 2016.

Regulatory actions in January suggest the next target in the campaign against leverage could be a type of shadow financing called "entrusted" company-to-company loans, which would put businesses in a tough spot.

Everything went right for Chinese growth in 2017. A disaster this year looks unlikely, but slower credit growth and rising trade tensions could test the current near-euphoric sentiment—and certain asset classes like commodities and bubbly industrial equities.

—Nathaniel Taplin

A daughter recalls  
Muhammad Ali's  
gentle side

MS



# MANSION

Bargain: something you can't use at  
a price you can't resist.'

—Franklin P. Jones

HOMES | MARKETS | PEOPLE | UPKEEP | VALUES | NEIGHBORHOODS | REDOS | SALES | FIXTURES | BROKERS

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THE WALL STREET JOURNAL.

Friday, January 19, 2018 | M1

## The Midcentury Modern Cult

Architectural connoisseurs pay a premium to own a home designed by a modernist master. The look features glass walls and open floor plans—but little room for clutter.



Signature looks: Living areas are open plan but compact, with sleek lines



Interiors with built-in elements



Glass walls dissolve indoor-outdoor boundaries

**LEAN LUXURY** Artists Lari Pittman and Roy Dowell bought a 1953 glass house that architect Richard Neutra designed for his secretary Dorothy Serulnic, above. They bought the 1,382-square-foot home from Ms. Serulnic in 1998 for \$470,000 and have preserved its original features. It sits on a 5.5-acre hillside lot, below, in La Crescenta, Calif.

BY AMY GAMERMAN

**ARCHITECT REJA BAKH** specializes in international mega projects, such as the cultural center and hotel complex he is designing in Beijing. But the project that has captured his imagination involves a tiny glass and stucco house in New Canaan, Conn., built in 1953. Known as the Alice Ball House, the home was designed by Philip Johnson—an icon of Midcentury Modern architecture.

"I looked at the house and said, 'I must have this,'" said Mr. Bakh, 49 years old, who paid \$2.3 million for the 1,500-square-foot rectilinear house in 2015. "We're not building onto or doing anything to the original house—it would be like buying the Mona Lisa and taking a magic marker to it."

Midcentury Modern architecture—a catch-all term that encompasses a wide range of styles, from Bauhaus-inspired glass houses to the California ranch home—has gained cultish popularity in recent decades.

Please turn to page M12



JOE SCHMELZER FOR THE WALL STREET JOURNAL (4)

## WANT THE HOUSE? WRITE A LETTER

In a bidding war, penning a note to the seller can dramatically boost a buyer's odds of success.

BY LEIGH KAMPING-CARDER

**CASH MAY BE KING**, but words are pretty powerful, too: One of the most effective ways to win a bidding war is to write the seller a letter.

All-cash offers nearly doubled a buyer's chances of trumping others, while waiving a financing contingency—effectively agreeing to forfeit the deposit if a buyer can't get a mortgage—boosted a buyer's odds by 57.9%, according to new data. Surprisingly, penning a cover letter came in a close third, increasing a buyer's odds by 52.2%. The numbers are more dramatic in the priciest 10% of the market: All-cash offers were 437.8% more likely to succeed, while cover letters increased a luxury buyer's chances by 75.7%.

The data are based on about 14,000 offers in 2016 and 2017 that involved competing bids and were written by agents at Redfin, a Seattle-based real-estate brokerage. Although the luxury market has slowed nationally, bidding wars are still common in some areas. In



December, 45% of Redfin offers faced competition, up from 43% a year earlier.

The numbers underscore the emotions at play. Perfectly rational sellers should choose

the highest bid. But often offers that minimize downside risk, like one that doesn't tie the sale to securing a mortgage, are more attractive than offers that maximize upside—

like a higher offer that requires a loan, said Ravi Dhar, director of the Center for Customer Insights at the Yale School of Management.

Underlying this is an eco-

nomic theory known as loss aversion, which states that "losing hurts almost twice as much as winning," Mr. Dhar said. "If you found \$10 in the street, you'll be happy; but if you lose \$5, it hurts even more." To avoid the pain of losing out on a deal, sellers often choose the sure thing—even if it means accepting less money.

That explains the power of an all-cash offer. It signals that a deal is more likely to close, and quickly. "Today's seller is tomorrow's buyer," said Nela Richardson, Redfin's chief economist. "When inventory is tight you need a sure thing on the transaction." High-end sellers, who tend to be less price sensitive, might be even more willing to accept lower prices in exchange for the added security of a cash bid, especially if the offer is above the property's appraised value. And luxury buyers—including a larger percentage of foreign investors—are less likely to rely on financing in the first place.

In addition to flattering a seller's ego—or assuring him or her the home will be cared for—a letter can also

Please turn to page M8



**BRUCE WILLIS**  
Actor's co-op listed  
for \$17.75 million M2



**BOOMING BUDAPEST**  
A mix of medieval  
and modern M3



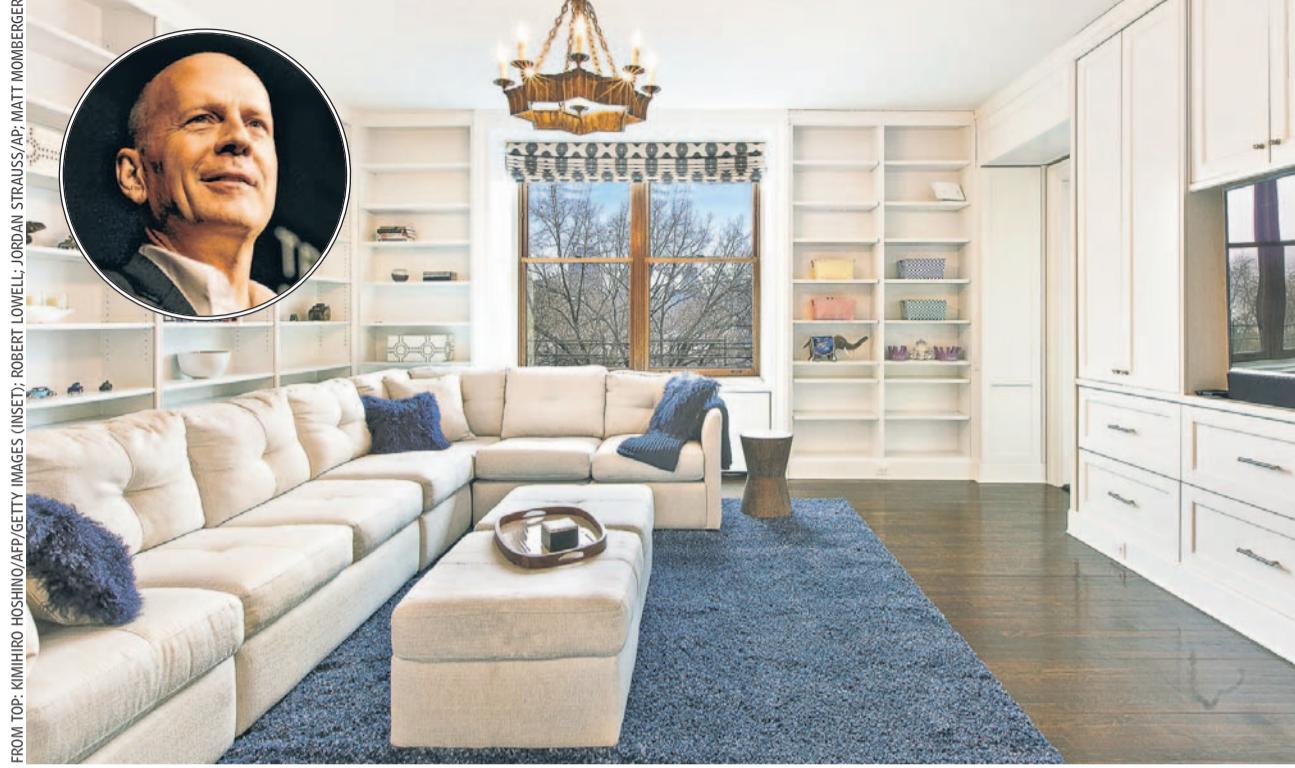
**OUT OF POCKET**  
Deciding on the best  
down payment M7

## MANSION

## PRIVATE PROPERTIES

## Bruce Willis Lists Central Park West Home

FROM TOP: KIMIHIRO HOSHINO/AFP/GETTY IMAGES (INSET); ROBERT LOVELL; JORDAN STRAUSS/AP; MATT MOMBURGER



Actor Bruce Willis and his wife, Emma, are putting their sprawling Central Park West apartment on the market for \$17.75 million

The couple purchased the apartment, which is in a pre-war co-op building at 271 Central Park West, from Milwaukee Bucks basketball-team owner

Wesley Edens and his wife, Lynn, for \$16.995 million in 2015, New York City property records show.

The roughly 6,000-square-

Park views from almost every room, according to listing agent Ann Cutbill Lenane of Douglas Elliman.

Ms. Lenane said the Willises, who have two children together, are selling because they're not spending enough time there. "It's time to scale back," she said. Mr. Willis and his wife own another home in New York, in Bedford Hills in Westchester County, which they bought for \$9 million in 2014, public records show. The 8,000-square-foot home is within driving distance of the city, according to its original listing. It has views across the Croton Reservoir to the Highlands of the Hudson.

Mr. Willis also has three children from his previous marriage to actress Demi Moore.

While the family is giving their apartment up for now and leaving the area, Mr. Willis said he would continue to love the neighborhood. "I'll always be an Upper West Side guy. I've been living up here on and off since the '70s," Mr. Willis said in a statement.

—Katherine Clarke



## FOR SALE: SAP CEO'S FLORIDA HOME FOR \$17.75 MILLION

Bill McDermott, chief executive of German business software company SAP, is selling a Florida home previously owned by country singer Alan Jackson for \$17.75 million.

Measuring about 9,600 square feet, the five-bedroom house sits on 1.2 acres spanning the island from the ocean to the Intracoastal Waterway.

Mr. McDermott said he bought the Jupiter Island home from Mr. Jackson in 2012 for \$10.45 million, plus an additional amount for its contents. Mr. McDermott said the house remains almost exactly as it was when Mr. Jackson lived there, down to two white cars that were "color-coordinated to match the garage." Mr. McDermott said he is willing to sell the home's contents—maybe even the guitar that Mr. Jackson signed for him. The furnishings aren't included in the asking price.

Mr. McDermott said he is selling because his job requires "a pretty intense travel schedule" and he doesn't get to spend much time at the house. Although he considers this house to be his primary home, "my life is spent at 39,000 feet," said Mr. McDermott, 56.

The listing agent is Joanne Wagner Hughes of Fenton & Lang. —*Candace Taylor*

## WHOOPY GOLDBERG ASKS \$8.795 MILLION IN LOS ANGELES

Whoopi Goldberg is putting her pink Pacific Palisades home on the market for \$8.795 million.

According to property records, the actress paid \$2.55 million in 1993 for the California home using her real name, Caryn Johnson.

With a pink exterior, the house is located in the Riviera section of Pacific Palisades, an upscale neighborhood on the Westside of Los Angeles.

Originally built in 1933, the Art Deco-style house retains many of its original details, such as black-and-white marble checkerboard floors in the entry hall and fluted bathroom vanities, according to the listing with David Mossler of Douglas Elliman Real Estate. It measures about 7,000 square feet, with five bedrooms plus a separate guesthouse.

The roughly half-acre property, which overlooks a can-



yon, includes a swimming pool and three-car garage.

Ms. Goldberg, 62, could not be reached for comment. The "Ghost" actress is a host on the television talk show "The View."

—*Candace Taylor*

## ONETIME ESTATE OF CHER AND EDDIE MURPHY GETS REDUCED

A Los Angeles estate that counts Hollywood stars Cher and Eddie Murphy among its previous occupants lowered its asking price nearly 19% to \$69 million from \$85 million.

The gated estate in the Beverly Hills Post Office area first came on the market in June 2016 but hasn't yet found a buyer, according to listing agent Aaron Kirman of Pacific Union. "We've come really close to finding a buyer. We've had multiple offers from foreign buyers, but none of them came through," Mr. Kirman said. "We're really ready to sell, and we think this is a good price."

The 13.4-acre estate com-

prises a partially renovated, 20,000-square-foot main house with 11 bedrooms and 17 bathrooms, as well as a four-bedroom Moroccan-themed guesthouse, an equestrian fa-

cility, a swimming pool and a tennis court. Cher's bed still resides in the guesthouse, Mr. Kirman said.

The pop star owned the home in the 1980s and sold it

to comedian Mr. Murphy in 1988, property records show. The current owner is Vicki Walters, wife of late real-estate developer Raul Walters, Mr. Kirman said.

The Walterses bought several surrounding parcels to include hiking and riding trails, Mr. Kirman said. Following Mr. Walters's death in 2009, Mrs. Walters decided not to complete construction of the main house, he said. She wasn't available for comment.

—*Katherine Clarke*

► See more photos of notable homes at [WSJ.com/Mansion](http://WSJ.com/Mansion). Email: [privateproperties@wsj.com](mailto:privateproperties@wsj.com)

 HOULIHAN LAWRENCE

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## MANSION

FOREIGN CORRESPONDENT

# Budapest Steps Back Into Luxury Living

Buyers are returning to the Hungarian capital to restore once-grand homes; multifamily to penthouse



STEFAN FUERTBAUER FOR THE WALL STREET JOURNAL (5)

**BUDAPEST'S FINEST** Hungary's Parliament building, on left, overlooks the Danube from Pest, the same side of the city where Americans Joe and Stacy Borocz created a penthouse, below.

BY J.S. MARCUS

**IN ITS HEYDAY** before World War I, Budapest created a template for residential luxury: ornate palaces, voluminous villas and palatial apartments.

Now, luxury living is making a comeback in the Hungarian capital, as an influx of international buyers, led by Hungarians returning home from abroad, are helping fuel a real-estate boom. Falling mortgage rates are adding to the incentive.

Budapest has one of the world's top-performing residential markets, with home prices rising more than 60% between 2012 and 2017, and jumping 16% from June 2016 to June 2017 alone, according to analysis by Knight Frank, the U.K.-based real-estate agency. The city outshines other high-performing European capitals, such as Amsterdam and Oslo, in terms of home-sale prices.

Budapest, sitting astride the Danube River, has two

distinct halves: hilly Buda and flat, urbane Pest.

Traditionally separate cities, they were officially joined in the 1870s. Locals, however, still refer to them separately, and homeowners seem to have distinct loyalties.

Both sides of the capital, now divided into 23 districts, still bear scars from various conflicts. Decades of shoddy Communist-era construction turn even upscale areas into checkerboards of grandeur and dinginess.

Buda, on the west bank, is considered the more exclusive half of the city. Its villas dot the rising slopes of a low mountain range, the Buda Hills. The homes, which line winding roads, offer green views, secluded lots and a low-key pace that belies the city's population of about 1.8 million.

These days, Buda's luxury homes are concentrated in a handful of neighborhoods in the city's second district. In Rózsadomb, an 8,600-square-foot, six-bedroom,

five-bathroom 1920s mansion is listed for 850 million forints, or about \$3.37 million. The white-columned house is on a 1/3-acre lot.

Higher up in the Buda Hills, Csaba Kaposvári, a retired antiques dealer, and his wife, Edit Tóth, 55, a jewelry designer, are selling their 5,000-square-foot mansion for \$1.64 million. The couple built the six-bedroom home in 1996 in a style that recalls neo-Baroque villas of the early 20th century.

Mr. Kaposvári, 66, a Budapest native, says he spent about \$396,000 on the project. "We needed the right place for our furniture, paintings, and rugs," he says.

The house—on a tree-lined, quarter-acre lot—has a double-height ceiling in the living room, and a lower-level spa with a spacious conservatory garden overlooking an indoor pool.

Now that their two children, from previous marriages, are adults, the couple is ready to downsize. They want to remain in Buda with their pets: a Vizsla, a breed of Hungarian hunting dog, and a Dachshund.

On the east bank, Pest is still strongly defined by its rapid development in the 19th century. Belle Époque apartment blocks and office buildings line broad, bustling boulevards.

High-end apartments are concentrated in the fifth district, home to many of the city's luxury hotels, main shopping areas and new Michelin-star restaurants.

The sixth district—around Andrassy Avenue, an imposing shopping boulevard—also has once-grand apartments now being upgraded.

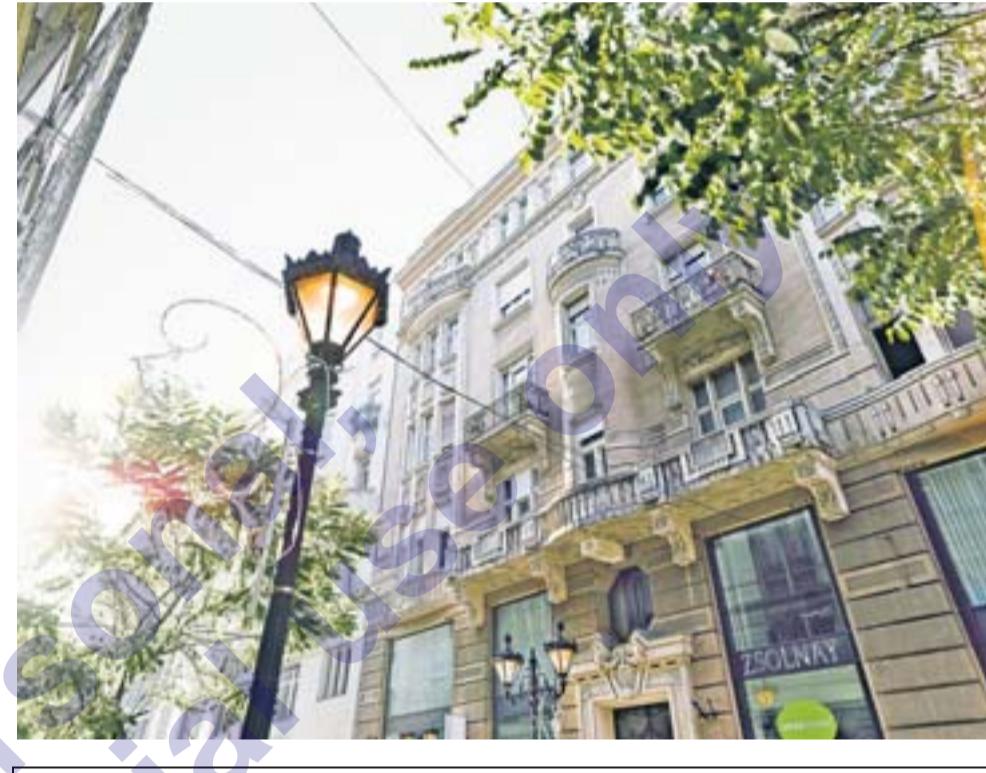
In 2013, Joe and Stacy Borocz—an American couple who spend part of each year in Hungary—bought a derelict, 2,200-square-foot space on the top floor of a 1910 fifth-district building.

Divided into two communal apartments under communism, it was so shabby "you could not spend the night here," says Mr. Borocz, a 63-year-old Budapest native who left Hungary as a teenager and then lived outside of Detroit.

After a career in marketing, Mr. Borocz returned to Hungary in 2005, serving as CEO of a local professional soccer team. He and his wife now own an Atlanta-area furniture company, etúHome, with manufacturing facilities in Hungary.

The couple—working with Indesign, a Budapest studio specializing in luxury makeovers—created a two-bedroom, two-bathroom penthouse in the space. It features an open-plan kitchen and living area with a large island for cooking and entertaining. They paid about \$337,000 for the unit, then spent \$158,000 on the makeover.

They are loyal to Pest. "The life of the city is right here," says Mr. Borocz.

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**GRAND AGAIN**  
Csaba Kaposvári and his wife, Edit Tóth, have listed their 5,000-square-foot mansion in Buda for \$1.64 million. Below, a 200-year-old French table in the Borocz home.



They are loyal to Pest. "The life of the city is right here," says Mr. Borocz.

## MANSION

## THE MARKET

## Luxury Runs Hot and Cold in Europe

A 2018 forecast for high-end real estate in five global capitals: Lisbon, Paris, London, Dublin and Berlin

BY RUTH BLOOMFIELD

**BUYERS LOOKING TO** invest in European real estate this year may have trouble keeping up with the continent's changing fortunes.

Rapidly shifting global events, from political stalemate in Germany to uncertainty over Brexit in the U.K., the Catalonian separatist movement in Spain and upcoming elections in Italy, make it hard to know where is a safe, let alone advantageous, place to buy.

Here's a forecast of the luxury markets in five global capitals for the coming year.

**Lisbon: Hip and hot**

In 2012, the government began offering residence permits to non-European nationals, stimulating an influx of investors and buyers who were attracted to its relatively low taxes and interest rates. As a result, prices rose 35% between 2012 and 2016, according to Confidencial Imobiliario, which analyzes the country's property market.

Meanwhile, Portugal's Office for National Statistics reported that the average price in the municipality of Lisbon was \$253 per square foot in June 2017—a 15% increase over the same month in 2016.

The central districts of Santo António and Misericórdia achieved the highest prices, namely \$375 per square foot and \$369 per square foot, respectively, representing year-over-year growth of 46% and 38%, said



RICARDO JUNQUEIRA FOR THE WALL STREET JOURNAL (LISBON); DANIELLA ZALCMAN FOR THE WALL STREET JOURNAL (LONDON)

Julian Walker, director of InternationalPropertyFor-Sale.com. But he points out that Lisbon still offers value for money.

"While this growth is significant, prices are low compared to prime real-estate quarters of other major European capitals."

**Paris: A reversal of fortunes**

After a long, steep downturn, real estate in the French capital has finally got its joie de vivre back.

The political landscape under President Emmanuel Macron, along with low interest rates, have helped reverse prices' downward trajectory. The average price of a Parisian apartment is \$1,042 per square foot, up 5.5% compared with a year ago, according to the latest LPI-SeLoger price monitor, published in November.

Prices are up in all 20 arrondissements of the city.

Paris led the Knight Frank prime global residential forecast for 2018—an unthinkable scenario just three or four years ago—with price increases forecast at 9%. "The French capital is back on the radar of global investors, in particular, those from the U.S., the Middle East and Europe," said Kate Everitt-Allen, head of international residential research.

**London: A glimmer of hope**

The best that can be said about prime central London right now is that prices fell more slowly in 2017 than they did in 2016.

Between September 2017 and September 2016 prices fell 5.2%, according to Savills, the real-estate brokerage and research firm. Between September 2015 and September 2016, they fell by 6.8%.

Still, some top-notch properties continue to trade at strong prices.

Last year, Aylesford International sold a \$62 million house on the prestigious Carlton House Terrace, close to Buckingham Palace, to an overseas buyer, despite the fact that it needs a full renovation.

Looking forward, Savills, the real-estate brokerage and research firm, forecasts a sedate recovery over the next five years as people become accustomed to higher levels of Stamp Duty taxes, and political uncertainties around Brexit are slowly resolved.

In 2018, the company believes prices will flatline, but growth will return in 2019 at 2%. Over the next five years it forecasts com-



CAPITAL REAL ESTATE Clockwise from left, street scenes from Lisbon, London and Dublin. Rapidly shifting global events are creating ripples in the European luxury market.

pound growth of 20%. "The market will adjust to the new tax environment," said Lucian Cook, director of residential research at Savills.

**Dublin: The Celtic tiger roars**

It has been a triumphant year for the Irish capital, with average prices up 11.6% between October 2016 and October 2017, according to the Central Statistics Office, which monitors national price growth.

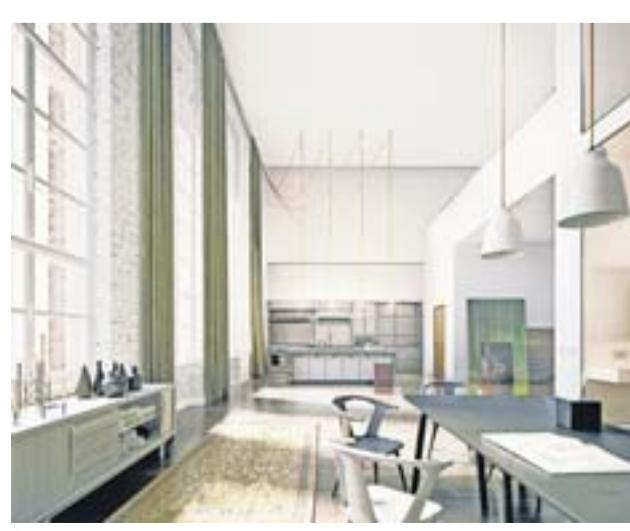
But although Dublin prices have risen 86% since the depths of the recession, they remain 22% below peak values of 2007.

At the top end of the market, price growth has been significant, but sober, said Simon Ensor, chairman of estate agent Sherry Fitzgerald Residential.

In Ballsbridge, Dublin's most affluent suburb, he estimates that prices have risen by 10% year over year for property priced at \$1.2 million or less. For homes priced between \$1.2 million and \$2.4 million, they are up between 5% and 7%. And for homes in the \$3 million-plus bracket, values are up 3% to 5%.

Price increases in Ballsbridge have been driven by its shortage of stock. And experts concur that there is still room for price increases this year and beyond—although their scale may be reined in as tougher mortgage-lending rules introduced by the Central Bank of Ireland kick in.

In 2018, "I don't see a huge push on prices but there will be some modest growth," Mr. Ensor said.



\$4.84 MILLION A five-bedroom, 4,300-square-foot apartment, rendering above, is for sale in Berlin's Mitte neighborhood.

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Mariah Mills, 631.477.0013, c.631.965.2557  
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**Old Westbury, NY**  
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Ellen Zipes, 516.626.7600, c.516.817.7300



**Port Washington, NY – Manhasset Bay Estates**  
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Elizabeth Masone, 516.627.4440 ext.394  
c.917.375.0095



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## MANSION

HOUSE CALL | LAILA ALI

# A Gentle Dad Inspires A Future Fighter

Growing up with 'the Greatest' included handing out \$100 bills on the streets of L.A.; today, a kitchen redo

**When I was little, my father, Muhammad Ali, liked to interview my sister and me with a tape recorder. He'd hold out a microphone and ask us questions. Now, I cherish those tapes. Listening back, I hear his gentle "dad voice," away from all the media attention.**

I was born in Miami in 1977, but within a month we moved to the Hancock Park section of Los Angeles. We lived in a beautiful, three-story, 14,000-square-foot white mansion. There were always a lot of entertainers at our house. We had a guard at the gate, but if you said you were coming to see my dad, he would let you in without much of a fuss.

On an average day, my dad would drive to parts of L.A. in his Rolls-Royce convertible handing out \$100 bills to homeless people. Riding with him was exhilarating. My sister, Hana, and I should have been sitting, with our seat belts on. Instead, we'd kneel on the back seat, feeling the wind in our hair.

My mom, Veronica, was into everything that's beautiful, and she still is. She said that before I was born, she picked the most beautiful Arabic name she could find for me. I don't have a middle name because she couldn't find one pretty enough.

When I was young, my father tried to pressure me into converting to Islam. I rejected that. It was too confining for me. My dad was disappointed and angry, but he respected the fighter in me.

My best friend lived a mile away. We'd go back and forth by bike, but we usually spent most of



our time over there. It was more like a regular home.

When I was 8, in 1986, my parents divorced. It didn't bother me that much. We weren't torn apart as a family. Hana was more affected. She was daddy's girl. They had a close relationship.

We remained in Hancock Park, but moved into a smaller, 5,000-square-foot house on a half-acre of land. Mom had exquisite taste and decorated my room in light blue and pink, with antique furniture. I was very neat and organized.

After the move, my relationship with my mom and sister changed a lot. We didn't grow closer. At that age, you think you know everything, and mom wasn't the type to be a disciplinarian. I did my own thing, which is when I started cooking for myself. I



learned that things got done the way you wanted them to when you did them yourself.

In 1991, when I was 14, my mom remarried and we moved to Malibu. I wasn't happy being pulled away from our neighborhood and friends. At school, no one picked on me. I was always tough. As early as third grade, I'd protect kids who couldn't protect themselves. So I spent a lot of time in



DRIVE AND CONFIDENCE Laila Ali, above, at her Los Angeles home. At left, Muhammad Ali with daughters Laila, left, and Hana in 1978. Below, a pro fight in 2000.

the principal's office.

I was always in a hurry to grow up. I didn't like high school. I wanted to be independent. I moved out when I was 18 and started a manicure salon. I had the drive and confidence.

During this period, I began boxing and turned pro in 1999. Boxing taught me that hard work and discipline pay off. When you have purpose and a strategic plan, you wind up with what you want.

Today, my husband, Curtis, and I live with our two children in the Calabasas section of Los Angeles. We have a nice-size house.

I love the kitchen, which connects to the family room. I'm renovating the space now for a new look and functionality—lighter tones and a larger center island.

When my father and I talked in

private, he never said he was scared about fighting or the friction of the times. But I know that he was. Everyone has fear. What he was about was focus. Just move forward and face your fears.

I didn't get a lot of my father's belongings when he passed. Hana wound up with them because she asked. I do have some locks of his hair. My sister cut them during one of his haircuts. Most people are unaware that my dad's hair was really soft and silky, and always smelled so good.

—As told to Marc Myers

*Laila Ali, 40, is a former professional boxer who retired in 2007 as an undefeated world champion. She is the author of the cookbook "Food for Life," due out Jan. 23 (St. Martins).*



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## MANSION

## ELEMENTS

## GARAGE DOORS DO DOUBLE DUTY

No longer just a portal to parked cars, these glassy walls open to let in the light (and the bugs)

Why open a window or a sliding glass door when just pushing a button will make the whole wall disappear?

More architects and home builders are using garage doors in unusual places to achieve an airy effect. The look is sleek, and the doors don't take up floor space.

There are downsides, however.

*—Nancy Keates*

When the doors are open, interiors are vulnerable to the elements—including insects—unless solar shades or screens have been installed.

Here's a look at some homes where the garage doors got away from the garage. Prices are for the doors and do not include installation.



FROM TOP: ERIC LAIGNEL/WEST CHIN ARCHITECTS & INTERIOR DESIGNERS (2); ANICE HOACHLANDER (VA.)



JEFF HEATLEY (SAG HARBOR); LUCAS HENNING (WASH.)

**COOL POOL**

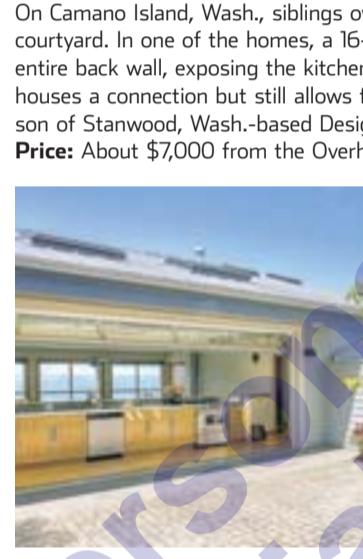
Architect Frank Greenwald used a garage door instead of a wall in a modern addition he designed for his Sag Harbor, N.Y., home. The 16-by-16-foot door opens up to the yard and swimming pool, blurring the line between inside and outside. "It is very impressive," he says. "Everyone who sees it thinks it's very cool."

**Price:** About \$20,000 from Arm-R-Lite

**HANGAR HANGOUT**

This 24-by-14-foot door is the type used in airplane hangars, says New York-based architect West Chin. He had it installed in the great room of a 6,000-square-foot beach house he designed for a client in Long Beach, N.Y. To control insects, there's a remote-controlled, floor-to-ceiling screen. Because the door weighs about 6 tons—roughly the same as two small cars—installation required steel tubing, along with the counterweights and steel supports.

**Price:** \$75,000 from Renlita

**NEIGHBORLY**

On Camano Island, Wash., siblings own two homes that are divided by a courtyard. In one of the homes, a 16-by-8-foot garage door spans the entire back wall, exposing the kitchen to the courtyard. "It gives the two houses a connection but still allows for privacy," says architect Dan Nelson of Stanwood, Wash.-based Designs Northwest Architects.

**Price:** About \$7,000 from the Overhead Door Co.

**SWIM CINEMA**

In McLean, Va., a garage door was installed in the home's pool house, which also has a rear-projection screen. When the door is open, people are able to watch movies from the pool, says architect Randall Mars.

**Price:** \$4,000 from Bryce Parker Co.



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## MANSION

JUMBO JUNGLE | ROBYN A. FRIEDMAN

## UP IN THE AIR OVER DOWN PAYMENTS

Home buyers have to decide how much money to put down amid uncertainties about long-term interest rates and the new tax law

 Picking the right house is just one of the big decisions you'll face when buying property. Deciding on the down payment is another. Low inventory in some national markets continues to pressure potential buyers into making bigger down payments to gain a competitive edge. But the possibility of rate increases in the coming year and new rules on mortgage-interest deductions may also affect how much buyers put down.

"A lot of people are trying to come to grips with the new tax changes and how they're going to affect mortgages," says Jack McCabe, a housing-industry analyst in Deerfield Beach, Fla. "It will have more effect on the upper end of the market when it comes to down payments and possibly the sales pace as well."

The median down payment for financed home-purchases in the third quarter of 2017 was a record \$20,000, or 7.6% of the median sales price of \$263,000, according to Irvine, Calif.-based housing-research firm Attom Data Solutions. That is up from 7.1% in the previous quarter and from 6.1% in the third quarter of 2016.

Down payments are even higher on purchases of luxury homes. In the third quarter of 2017, the median down payment on a financed home-purchase over \$1 million was \$385,500, or 28.2% of the median sales price.

"If you want to play in the high-end market, you have to be able to pony up a bigger



down payment," says Daren Blomquist, Attom senior vice president.

With the inventory of homes relatively low in many markets, buyers are doing whatever it takes to compete. "That means that in many purchase situations there are multiple offers, and the buyers who have the bigger down payment are more likely to win out," Mr. Blomquist says.

What's in store for 2018 remains unclear. The Fed raised interest rates last month—the third time in 2017—citing an improving economy and labor market.

Lawrence Yun, chief economist and senior vice president of research at the National Association of Realtors, a real-estate trade group, is forecasting at least three more short-term rate increases this year.

He expects 30-year fixed-rate mortgage rates to rise to 4.5% by the fourth quarter of 2018—and 4.8% by the end of 2019.

Also uncertain is how changes in tax policy will affect home buying, especially at the luxury end. Under the new rules, only the interest on mortgage debt up to \$750,000 is deductible—down from the \$1 million cap in current law.

For now, not all jumbo-mortgage lenders require large down payments. At BBMC Mortgage in Chicago,

the lending division of Bridgewater Bank Group, qualified borrowers could put down as little as 5% on a jumbo mortgage up to \$650,000, according to Todd Jones, the firm's president.

For loans up to \$1 million, programs are available that allow 10% down. For jumbos topping \$2 million, "there's a big jump where you need 30% down," he says.

Other lenders, such as Quicken Loans in Detroit, are still requiring down payments of 15% to 20%. "Most clients put down more, not because they have to, but because they have the wherewithal to do it," says Bill Banfield, Quicken's executive vice president of capital markets.

Here are a few things to consider when determining the amount of your down payment.

- **Jumbo limits changed.** Conforming-loan limits on mortgages purchased by Fannie Mae and Freddie Mac have increased. For 2018, in most of the U.S., mortgages of up to \$453,100 are eligible for purchase by Fannie and Freddie, up from \$424,100 in 2017.

In high-cost areas, such as San Francisco and New York City, the conforming-loan limit is now \$679,650, an increase from \$636,150.

So, a loan that was a jumbo last year may now be conforming in 2018, a matter that may affect mortgage rates and terms.

- **Long-term impact.** If you're applying for a jumbo with a low down payment, remember that it might come with a higher interest rate. Mr. Jones, of BBMC, says that a borrower might save three-eighths to a half of a percentage point on the interest rate by putting 30% down rather than 10%.

- **Use seasoned funds.** To avoid lender concerns about where your down payment came from, make sure your funds are "seasoned." Seasoned funds are readily sourced and typically have been held in your bank account for at least 60 days. That avoids lender concerns about whether your down payment has been borrowed.

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COMPASS

## MANSION

# WANT A HOUSE? WRITE A LETTER

Continued from page M1

signal that the buyer is serious, which translates into a willingness to follow through even if hurdles come up in the sales process. In this way, the letter is another tool to increase the seller's confidence. Mr. Dhar likened the exchange to a hospital that requires doctors to wear clean shoes. It is a tangible way of convincing patients of something intangible, in this case the quality of the medical care.

**Winning Ways**

Percentage of offers that included a strategy designed to make the potential buyer's bid more competitive

**Client Letter**

**40.4%** Potential buyer writes to the sellers in hopes of persuading them to accept an offer

**Escalation clause**

**24.8%** An arrangement that automatically increases a buyer's bid if a competing buyer bids higher

**Inspection contingency waived**

**24.1%** Potential buyer can't cancel or renegotiate the contract based on the results of a home inspection

**Financing contingency waived**

**16.0%** Potential buyer's offer is not dependent on his or her ability to obtain financing

**Preinspection**

Potential buyer commissions inspection before making an offer

**All cash**

**6.9%** Potential buyer agrees to make purchase without third-party financing

Source: Redfin

Compass agent Amanda Sharp recently worked with a couple who won a bidding war for a three-bedroom house in San Francisco listed for \$2.395 million. Her buyers wrote a letter describing their two-year hunt for a home in the Noe Valley neighborhood, and praising the home's architecture and an adjacent playground. "You want to convey that you're a person behind this contract," Ms. Sharp said.

The sellers, a family with teenage children, accepted the couple's \$2.56 million bid over two similarly priced offers, one of which was all cash from an investor. "In this case, emotion won over my clients," said Compass's Lamisse Droubi, the listing agent.

Some bidding-war tactics will fail to improve buyers' chances because they are too commonplace in competitive markets. Waiving a buyer's right to revise or break off a deal if a property fails a home inspection, for example, offered no significant boost, according to the data. "Waiving contingencies is something that almost is mandated by how scarce the inventory is, how competitive the market is, and how wealthy most buyers and sellers are," Redfin's Ms. Richardson said.

Conversely, certain tactics are simply not used in some markets. None of the offers in Austin and San Francisco used escalation clauses—an agreement to beat the highest offer by a certain amount—but 71.7% of Seattle bidders used them. While an escalation clause might work in some cities, in other places they might put off a seller or agent unfamiliar with this tactic.

Alexander Joo used several strategies in November when he beat out half a dozen offers for his Seattle house.

Mr. Joo, 32, recently moved back from California for a job at a 3D-printer startup. He fell in love with an airy, cedar-shingled four-bedroom built into a hillside. He and his agent, Kyle Moss of Redfin, put together an offer waiving financing



**WHY US** A couple won a bidding war over this San Francisco home by writing a letter. It described their two-year hunt for a home in the Noe Valley neighborhood, and praised the home's architecture and an adjacent playground.



**IN THIS TOGETHER** Alexander Joo, above left, won a bidding war for this Seattle house, above right. He wrote a letter describing how he wanted to be part of the community and vowed to maintain the house, rather than tear it down.

and inspection contingencies. Mr. Joo pledged to pay \$10,000 more than the highest offer that the seller would otherwise accept. (The home was asking \$735,000.) He also produced a \$50,000 deposit, about twice the usual amount. "I understood that I would either have to make compromises or take some risks," Mr. Joo said.

Mr. Joo learned that the seller

was an active local volunteer and had custom-built the home years earlier. In a letter, Mr. Joo described how he wanted to be part of the community and maintain the house, rather than tear it down. In the end, he paid \$822,500 for the property, beating out a higher offer contingent on a home inspection.

Mr. Moss said he advises about half of his buyers—in cases when

they have sympathetic stories, or when the owners are selling for a reason other than price—to write cover letters. (He likely wouldn't advise an investor planning to rent out the home to write to the seller.) He attributed Mr. Joo's success to convincing the seller she could rely on him to close. "Confidence will save you money every time," Mr. Moss said.

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Agent: Sarah Kanne, TTR Sotheby's International Realty



**\$23 million**

Dallas

Six bedrooms, seven full bathrooms, four half-baths

This 1964 11,387-square-foot house, designed by Johnson in the Preston Hollow neighborhood, was restored and renovated between 2000 and 2008. The 6.45-acre property includes a media house, swimming pool and tennis courts.

Agent: Faisal Halum, Briggs Freeman Sotheby's International Realty



**\$1.55 million**

Manhattan

One bedroom, one bathroom

This co-op apartment is on the third floor of the 1979 Philip Johnson-designed postmodernist building known as 1001 Fifth. The living room features a built-in dining banquette and the kitchen has gray-lacquered cabinetry and yellow-onyx countertops.

Agent: Frances Katzen, Douglas Elliman

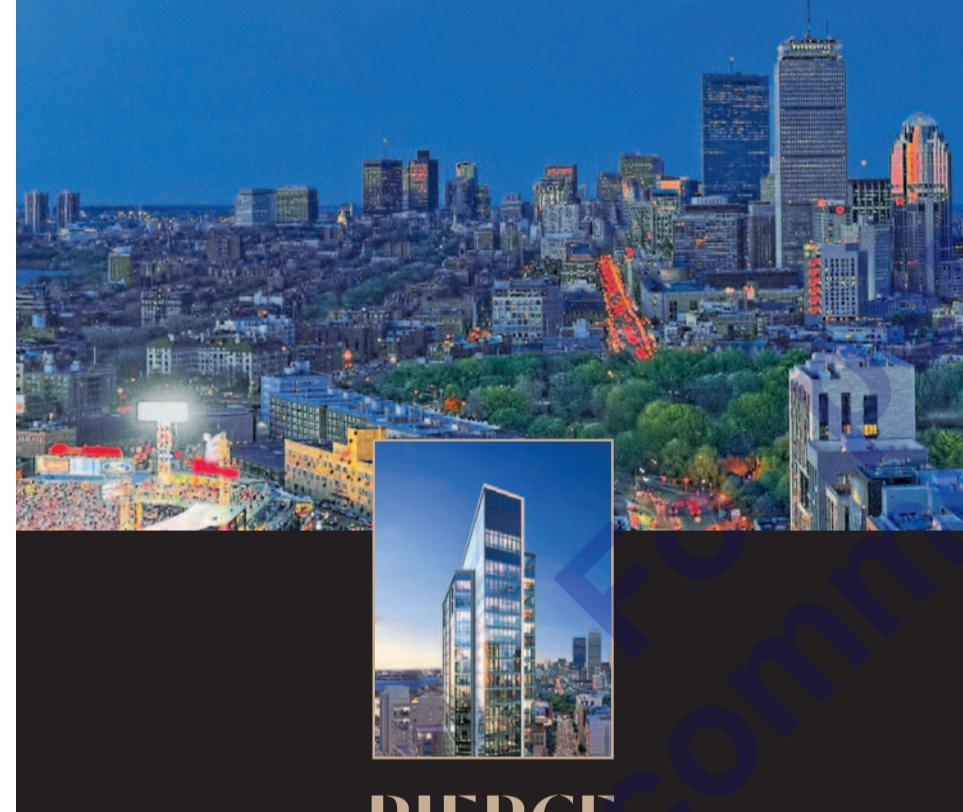
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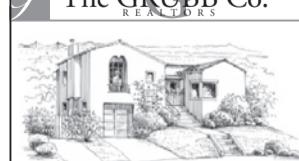
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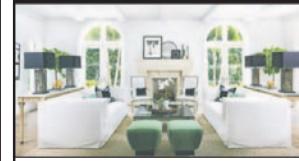
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## MANSION

## THE MIDCENTURY MODERN CULT



Continued from page M1

For devotees, the classic Atomic Age house—picture a compact geometric design, an open-plan living space and a lot of glass—is as much an art object as a place to call home. But with their modest square footage, outdated kitchens and often idiosyncratic layout, classic Midcentury Modern homes can be a challenge to actually live in. Homeowners face a dilemma: How to modernize a modernist house without diluting its distinctive features? And where are they going to put all their stuff?

"It's a more reserved, more streamlined way to live. It's great for someone who is very neat, very organized," said Hilary Lewis, chief curator of the Glass House—Philip Johnson's former home in New Canaan—which opened as a museum in 2007. "A lot of people find it a little too restrictive; they want to have nooks and crannies in their home where they can pile up stuff."

Mr. Bakh, who lives in New York City with his wife and their twin infant sons, has no plans to live in the Ball House. Instead, he is designing a contemporary glass house nearly 10 times its size at an estimated cost of \$3 million, which will be tucked behind it on the woodsy 2.2-acre site. The Ball House, which the family uses as a weekend retreat for now, ultimately will become their art gallery.

Architectural connoisseurs such as Mr. Bakh have been drawn in increasing numbers to New Canaan—a wealthy suburb distinguished by its trove of modernist houses designed by a group of Bauhaus-inspired architects dubbed the Harvard Five, who settled there in the 1940s and '50s.

"In the 1980s, you couldn't give them away. There would be regular families living in these houses," said John Hersam, a real-estate broker with William Pitt Sotheby's International Realty in New Canaan, noting that dozens of the midcentury homes were torn down in the '80s and early '90s to make way for new construction. "The ownership has really changed. It's really more a luxury market."

Mr. Hersam and his colleague Inger Stringfellow are the listing agents for Mr. Johnson's Wiley House. Built in 1952, it features a cantilevered glass cube with a double-height central living area, set atop a fieldstone base with four small bedrooms. The house, which last sold in 1994 for \$990,000, is on the market for \$12 million.

"It's a really significant, internationally known property," Ms. Stringfellow said.

Nationwide, the West Coast has the largest inventory of Midcentury Modern homes, according to data compiled by Realtor.com. (News Corp, owner of The Wall Street Journal, also owns Realtor.com.)

Listings of homes for sale that mentioned Midcentury Modern as a selling point were most prevalent in California, Washington and Oregon in 2017, and they were priced at a premium. In Seattle, for example, Midcentury Modern houses were 44% more expensive than comparable homes.

"It's become so trendy in L.A., a lot of art-world people want Midcentury Modern," said Barry Sloane, who heads a department specializing in architecturally significant properties for Sotheby's International Realty in Beverly Hills.

Nevertheless, an undiluted modernist aesthetic poses certain challenges in the current luxury market, as Mr. Sloane discovered when he was the listing agent for a house designed by Richard Neutra, a leading modernist.

"One of the biggest problems was the kitchen. Neutra was never very strong on kitchens. It had linoleum counters, very basic," Mr. Sloane said. "No one wanted to be



The Cliff May home has its original mistlite glass panels, which divide rooms while diffusing light



Period-correct diagonal concrete slabs were added



They opened up the kitchen and installed an island

**RESTORED AND LIGHTLY REDESIGNED** Krysta Lin and Matt Leaver, with their children Kinzie and Wesley, in their 1953 Cliff May Ranch House in Long Beach, Calif. The couple spent four years on the makeover of the 1,421-square-foot home. Top left, a pair of scissor chairs designed by Folke Ohlsson.



A rendering of the planned Wall House



A floating fireplace in the Alice Ball House

FROM TOP: BAKH DESIGN (RENDERING); JULIE BIDWELL FOR THE WALL STREET JOURNAL (2)

**TWO HOMES** Architect Reja Bakh and a rendering, top, of the \$3 million home he plans to build for his family in New Canaan, Ct. The home will sit behind the Alice Ball House, a 1953 Philip Johnson home Mr. Bakh bought for \$2.3 million.

the philistine that would come along and rip that out."

Artists Lari Pittman and Roy Dowell own a 1953 glass house that Mr. Neutra designed for his secretary Dorothy Serulnic in 1954. The 1,382-square-foot house, which the couple bought from Ms. Serulnic in 1998 for \$470,000, features many distinctive Neutra elements, such as mitered glass walls that dissolve boundaries between indoor space and the landscape, and inventive built-in furniture.

"It's the type of house that requires you to be conscientious

about how you physically deal with it," said Mr. Pittman, a painter and professor at UCLA, noting Mr. Neutra's use of "humble materials" such as birch plywood and Formica.

Rather than remodel or upgrade the Neutra after living in it for more than a decade, the couple built a second house on the property—a seven-sided contemporary with an interior courtyard designed by Michael Maltzan—for \$2.5 million in 2009. "We quickly realized that to preserve the house and honor the house it would be best to move out of it," said Mr. Pittman, who now uses the Neutra

as a guesthouse.

The couple, who want to be closer to their L.A. studios, have listed the compound with its two homes for \$4.5 million. Due to their efforts, the Neutra was designated a historic-cultural monument in 2006, safeguarding it against developers who might want to tear it down and preventing future owners from significantly altering its exterior.

"The house is set up for a person who is inclined to a certain connoisseurship of architecture," Mr. Pittman said. "If you want a screening room and six bedrooms, you shouldn't buy a Neutra."

Matt Leaver and Krysta Lin spent four years restoring their 1953 Cliff May ranch house in Long Beach, Calif., which they bought in 2007 for \$645,000. A developer, Mr. May widely is credited with inventing the ranch house, a single-story home that mixes elements of the Spanish hacienda and the western ranch with modernist floor-to-ceiling glass.

"It's pretty ideal in terms of indoor-outdoor living, which is nice for California," said Ms. Lin, a 40-year-old mother of two who designs children's clothing for her own label, Youth Independent Party.

The family's 1,421-square-foot "Californian" is part of Mr. May's Lakewood Rancho Estates development of about 700 tract homes, built 1953-54. Many of the home's hallmark features were intact, from its Douglas fir post-and-beams and redwood siding, to the mistlite panels of obscure glass used throughout as room dividers.

"A lot of those homes underwent some pretty bad additions with second stories being put on," said Nate Cole, a real-estate broker whose Unique California Property firm specializes in homes by modernist architects.

He recently sold a sleekly renovated Californian in Rancho Estates for \$920,000. "One block away," outside the May development, "a similar sized house would be probably \$675,000 to \$725,000," he said.

Consulting old magazines, sales brochures and photographs, Mr. Leaver, a 44-year-old graphic designer, had doors and windows fabricated to match the originals, stripped decades of paint from the birch woodwork, and replaced the shingle roof with a period-correct rock roof.

In one concession to the 21st century, the couple opened up the narrow galley kitchen, removing a pony wall that divided it from the living room and replacing it with a large island. "Women are not behind the kitchen wall anymore," Ms. Lin said.

But living with all that glass, transparency and openness means that the couple is engaged in a constant battle with clutter. As Christmas approached, Ms. Lin told her daughter to expect just one gift from Santa.

"It was a watch," she said.