

THE WALL STREET JOURNAL.

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What's News

Business & Finance

GE is considering breaking itself apart. The firm said it would book a \$6.2 billion charge and needed to set aside \$15 billion to bolster insurance reserves. **A1**

◆ YouTube is ordering workers to review thousands of hours of its most popular content and setting new limits on which videos can run ads. **A1**

◆ Citigroup posted a record \$18.3 billion quarterly loss due to a tax-law related charge, but executives voiced optimism about future profits. **B1**

◆ Celgene is in talks to buy Juno, days after unveiling another deal to bolster its portfolio of blood-cancer drugs. **B1**

◆ State attorneys general and internet activists filed legal challenges to the rollback of net-neutrality rules. **B1**

◆ Italy's Ferrero agreed to pay \$2.8 billion for Nestlé's U.S. chocolate business. **B1**

◆ Bitcoin's price sank by as much as 25% amid concerns about tighter regulation. **B13**

◆ The Dow topped 26000 in intraday trading but gave up gains, closing 10.33 points lower at 25792.86. **B13**

◆ BlackRock's CEO told corporate chiefs to prepare for his firm to become a more assertive shareholder. **B12**

◆ GM will book a \$7 billion write-down stemming from the tax-overhaul bill. **B2**

◆ Chevron said it plans to return staff to Iraqi Kurdistan and resume drilling there. **B3**

◆ A U.S. judge signaled he would approve a settlement reached by Allergan, Pershing Square and Valeant. **B12**

World-Wide

◆ Bannon refused to answer some questions during an appearance before the House intelligence panel despite being subpoenaed while he was giving testimony. **A4**

◆ Senators worked to salvage a bipartisan plan to protect "Dreamers" as the divide grew over an immigration deal seen as key to avoiding a government shutdown. **A4**

◆ Trump is in excellent health and scored a perfect result on a cognitive assessment, the White House physician said. **A4**

◆ An ex-CIA officer suspected of providing information that helped China identify U.S. informants was arrested. **A8**

◆ Two Navy commanders whose ships were in deadly collisions last year will face negligent homicide charges. **A3**

◆ Greek lawmakers approved new measures to satisfy creditors, moving Athens closer to a bailout exit. **A6**

◆ The U.S. will withhold at least \$65 million from the U.N. agency for Palestinian refugees, officials said. **A8**

◆ Venezuelan forces killed an ex-actor and members of his dissident group in a shootout, officials said. **A9**

◆ Pope Francis expressed "pain and shame" at clerical abuse of children as he began a three-day tour of Chile. **A9**

◆ Japanese police said they recovered seven bodies from a wooden boat that likely came from North Korea. **A8**

◆ A winter storm created hazardous road conditions in the Southern U.S. as it headed toward the East Coast.

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WEDNESDAY, JANUARY 17, 2018 ~ VOL. CCLXXI NO. 13

GE Puts a Breakup on the Table

Insurance charge adds to deepening troubles; 'No chance' company will opt to do nothing

By THOMAS GRYTA

General Electric Co. is considering breaking itself apart, a dramatic move that would mark the end of one of the oldest and largest U.S. conglomerates.

The 125-year-old business, which was once the most valuable U.S. company and still employs about 300,000 people, sells everything from airplane engines to hospital incubators. But in the past year the com-

pany that came to embody America's industrial power has fallen on hard times, prompting it to change CEOs, sell assets and slash its dividend.

Despite those moves, GE has struggled to reassure shareholders that it has addressed its problems, especially in a climate where activist investors are pressuring businesses from Alcoa Inc. to Xerox Corp. to streamline their operations.

GE shares, down 40% in the past year, fell 2.9% more Tuesday after the company disclosed it would book a \$6.2 billion charge in its fourth quarter related to its insurance operations and needed to set aside \$15 billion over seven

years to bolster insurance reserves at its GE Capital unit.

John Flannery, who took over as chief executive last summer, said the Boston company is evaluating carving out its major divisions into separately traded units. In recent years, GE has jettisoned operations including home appliances and much of its once-massive lending arm.

"We need to continue to move with purpose to reshape GE," Mr. Flannery said on a conference call, promising to update investors in the spring.

A breakup would come just a few months after Mr. Flannery unveiled his plan to turn around the struggling giant by

focusing on its three core units: aviation, power and health care.

In November, the long-time GE executive said he would divest \$20 billion in assets, though he stopped short of the dramatic structural changes he disclosed Tuesday.

People close to GE said the move to break up the company is an evolution of Mr. Flannery's strategy as he has considered GE's options, and wasn't prompted by the recent insurance problems.

The first steps to splitting up the company—likely to re-

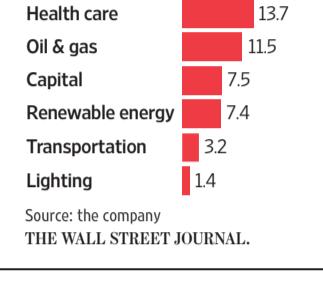
Please see GE page A2

◆ Heard on the Street: Is GE worse off than it appears?... B14

Carving Up a Giant

GE is considering breaking itself apart. Here's a look at the conglomerate.

Revenue of major industrial units, first nine months of 2017



Source: the company
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Bannon Refuses to Answer House Committee's Questions



BUTTONED UP: Steve Bannon, former adviser to President Donald Trump, arrives at a House Intelligence Committee closed-door meeting Tuesday. Despite a subpoena from the panel, he declined to answer some questions, citing a request from the White House. **A4**

YouTube Scrutinizes Videos To Mollify Advertisers

By JACK NICAS

YouTube is ordering workers to review thousands of hours of its most popular content and setting new limits on which videos can run ads, its latest moves to ease advertisers' worries that their brands are showing up alongside offensive or controversial videos.

YouTube said Tuesday that human reviewers would watch every second of video in its curated lineup of top content, dubbed Google Preferred, which brands pay a premium to advertise on.

Human reviewers also will have to approve new videos uploaded by Google Preferred channels before the videos can begin running the premium ads.

YouTube, a unit of Alphabet Inc.'s Google, says Google Preferred includes among the most popular 5% of channels, as determined by their likes, comments and shares, among other factors. The company didn't say how many hours of content that entails.

But YouTube has said since 2015 that users upload 400 hours of video to the site a minute, or 65 years of footage a day, meaning reviewing even a small slice of that total would likely require at least tens of thousands of hours.

The company expects to have the full review completed by the end of March, then continue to review new videos as they are posted.

YouTube is also raising the bar for channels that want to carry ads. Channels must now have accumulated at least 4,000 hours of watch time in the past 12 months and 1,000 Please see ADS page A8

The Antitrust Case Against America's Technology Behemoths

Amazon, Google and Facebook are as dominant as Ma Bell once was. Are consumers harmed?

By GREG IP

Standard Oil Co. and American Telephone and Telegraph Co. were the technological titans of their day, commanding more than 80% of their markets.

Today's tech giants are just as dominant: In the U.S., Alphabet Inc.'s Google drives 89% of internet search; 95% of young adults on the internet use a Facebook Inc. product; and Amazon.com Inc. now accounts for 75% of electronic book sales. Those firms that aren't monopolists are duopolists: Google and Facebook absorbed 63% of

online ad spending last year; Google and Apple Inc. provide 99% of mobile phone operating systems; while Apple and Microsoft Corp. supply 95% of desktop operating systems.

A growing number of critics think these tech giants need to be broken up or regulated as Standard Oil and AT&T once were. Their alleged sins run the gamut from disseminating fake news and fostering addiction to laying waste to small towns' shopping districts. But antitrust regulators have a narrow test: Does their size leave consumers worse off?

By that standard, there isn't a clear case for going after big tech—at least for now. They are driving down prices and rolling out new and often improved products and services every week.

That may not be true in the future: If market dominance means fewer competitors and less innovation, consumers will be worse off than if those companies had been restrained. "The impact on innovation can be the most important competitive effect" in an antitrust case, says Fiona Scott Morton, a Yale University economist who served in the Please see GIANTS page A10

There Is One Place on Earth Where Everyone Still Loves Kmart

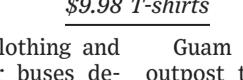
The booming Guam store is sheltered by an ocean from the turmoil in retail

By LUCY CRAYMER

The Kmart store in Guam is located 6,000 miles west of California in the Pacific Ocean, well past the easy reach of Target, Wal-Mart or Amazon Prime.

The store, open 24 hours a day, also seems beyond the reach of time itself. Inside, it feels more like 1980, when Kmart ruled the big-box retail market.

Americans living in the U.S. territory prowl the aisles for food, clothing and housewares. Tour buses deliver Korean and Japanese tourists who scoop up popular sellers such as Easy Cheese spray and Tums antacid tablets. The Little Caesars pizza outlet has a line. "I ❤️ Guam K-Mart" tees are \$9.98.



\$9.98 T-shirts

Please see KMArt page A10

Guam Kmart, by far the chain's busiest store, is protected by an expanse of ocean from a consumer market that's largely shunned such stores, prospering on a retail version of the Galapagos.

"People come by and take photos, selfies out in front," said Mike Fleissner, the store manager. On Instagram, shoppers pose with Kmart's red shopping carts and displays of brightly colored bottles of laundry detergent.

Guam is the closest U.S. outpost to Asia, making its Kmart a mecca for tourists seeking an authentic American shopping experience. About 1.5 million tourists visit Guam yearly, according to a spokeswoman for Macy's, which has

While China has seen brief property downturns before, the high debt levels that fueled the boom make this slump a particular risk for the economy: A

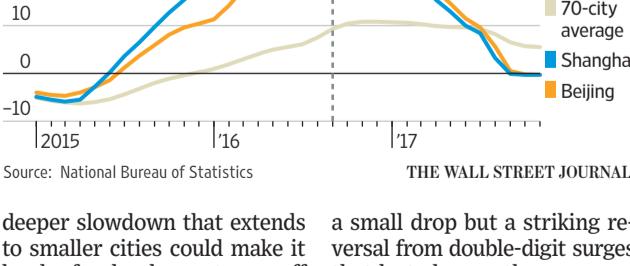
deeper slowdown that extends to smaller cities could make it harder for developers to pay off a mountain of debt due this year and erode confidence in a sector vital to economic growth.

Home prices fell 0.3% in November from a year earlier in Beijing and Shanghai, the most recent official data show. It was

Please see CHINA page A6

limits on buying and selling have smothered home prices in some of China's biggest markets.

Home prices, change from a year earlier



Source: National Bureau of Statistics

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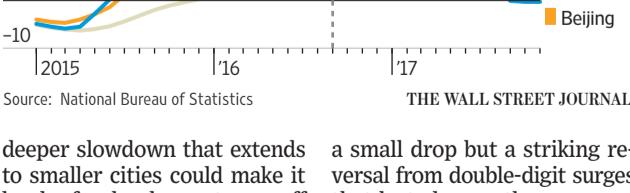
China Housing Market Cools As Beijing Tries to Curb Risk

By DOMINIQUE FONG

Stalled

Limits on buying and selling have smothered home prices in some of China's biggest markets.

Home prices, change from a year earlier



Source: National Bureau of Statistics

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a small drop but a striking reversal from double-digit surges that lasted more than a year.

Prices of advertised new Shanghai homes decreased 8% from October through mid-December, according to Brandon Emmerich at Granite Peak Advisory, a New York research firm that analyzed more than

Please see CHINA page A6

U.S. NEWS



Nearly 100 women and girls will testify or have their statements read during sentencing this week in Lansing, Mich., for Larry Nassar, a former physician for USA Gymnastics and Michigan State University who has pleaded guilty to sexual-assault charges.

U.S. WATCH

MICHIGAN

Gymnasts' Doctor Faces His Victims

One after one, gymnasts and other victims of a former sports doctor stepped forward in a Michigan courtroom Tuesday to recount the sexual abuse and emotional trauma Larry Nassar inflicted on them as children.

Nearly 100 women and girls, planned to speak or have their statements read during a four-day hearing. Many of them cried as they told their stories. The judge consoled the victims. He said they shouldn't blame themselves and the system failed them.

Mr. Nassar has pleaded guilty to molesting females with his hands at his office, his home and a gymnastics club, often while their parents were in the room. He worked for USA Gymnastics, which trains Olympians.

In a tweet, Olympic gold medalist Simone Biles on Monday said she was among the athletes sexually abused by him. Another gold medalist, Aly Raisman, tweeted Monday that she would not attend the sentencing "because it is too traumatic for me."

—Associated Press

CALIFORNIA

Children's Treatment Is Called Torture

The mother of 13 malnourished children and young adults who were held in filthy conditions, some chained to furniture, was "perplexed" when deputies arrived at the family's Southern California home, a sheriff's official said Tuesday.

The deputies had been summoned by a 17-year-old daughter who jumped out a window at the home in Perris, about 70 miles southeast of Los Angeles, and called 911.

Riverside County sheriff's Capt. Greg Fellows said the investigation has so far found no indication of sexual abuse but that the conditions amounted to torture.

"The conditions were horrific," he said.

The children, ages 2 to 29, are all believed to be the biological offspring of Anna Turpin, 49 years old and David Allen Turpin, 57, authorities said.

The teen who escaped was so small that deputies initially thought she was 10 years old, Capt. Fellows said.

—Associated Press

GE

Continued from Page One
sult in a smaller company and not the end of GE—are expected by spring, said one person close to the decision making. Multiple people close to GE warned that pensions and GE's debt structure could make separating the divisions difficult, but that such problems can be addressed.

"There is no chance that the company just decides to do nothing," said one of the people.

GE spent decades building itself up, creating a financial-services arm that rivaled the biggest banks and a media empire that included NBC. But since the financial crisis last decade the company has shrunk its operations to focus on its core industrial divisions. It also made ill-timed bets on the oil and coal businesses that have depressed recent results.

After years of underperformance, GE shares tumbled last year—erasing more than \$100 billion in market value—following the company's disclosure that it was struggling to generate enough cash to fund its dividend.

Investors including activist Trian Fund Management have pushed GE to cut costs and revamp its operations. Last year, executives blamed overcapacity in its big power business, which makes turbines used in power plants around the world, for a shortfall in profits and



GE's John Flannery has said he wants to focus on three core units: aviation, power and health care.

cash flow. In December, GE said it would cut 12,000 jobs in the unit.

On Tuesday, as Mr. Flannery revealed new problems in GE's insurance business, he said the latest thinking on the company's structure was part of his continuing review of the portfolio. For decades, GE had argued that its different units benefit from centralized research and global sales teams and a management culture that is consistent throughout the company.

"The real core approach here is to make sure that these

businesses can flourish in the decades ahead and that they have the right capital structures and investment resources to do that," he told analysts.

He pointed to the spinoff of GE's credit-card business into Synchrony Financial and the merger of the GE Oil & Gas division into separately traded Baker Hughes as examples of moves that could work for other parts of the company. GE is now exploring a sale of its majority stake in Baker Hughes.

U.S. businesses, large and small, have been under pressure from investors to streamline their operations or carve them up. Firms including aluminum pioneer Alcoa Corp., chemical giant DowDuPont Inc., Xerox Corp. and Hewlett-Packard have moved in recent years to pull themselves apart.

Honeywell International Inc. and United Technologies Corp., rivals to GE, are both exploring revampings. Another industrial conglomerate, Tyco International Inc., broke itself into

several companies a decade ago, under the guidance of a Trian ally.

"GE is a relic of a bygone era," said Robert Salomon, a management professor at New York University's Stern School of Business. Mr. Salomon said former GE CEO Jack Welch's status as "darling of Wall Street" in the 1990s allowed his pursuit of diversification to work when the same approach failed for many other managers and conglomerates.

The conglomerate concept—that companies from different industries can be managed together in an efficient way and help offset their disparate economic cycles—doesn't add a lot of shareholder value, Mr. Salomon said.

Over the past decade, former CEO Jeff Immelt worked to shift the focus back to the company's industrial operations, but ultimately didn't do enough, he added.

The charge disclosed Tuesday follows a reassessment of the conglomerate's remaining insurance business. GE discovered last year that its reinsurance coverage was operating at a deficit, prompting the company to review all of its assumptions, according to a person familiar with the matter.

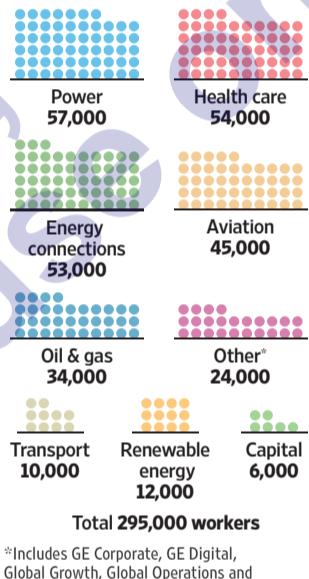
Reinsurance is an arrangement in which an insurer takes responsibility for paying claims on policies that another insurer sold to businesses or individuals.

Although GE hasn't sold re-

Division of Labor

GE's global workforce by business unit at start of 2017.

Global workforce



*Includes GE Corporate, GE Digital, Global Growth, Global Operations and Global Research

Note: Beginning in the third quarter of 2017, Lighting and Energy Connections are part of the Power segment

Source: the company

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insurance since 2006, it and primary insurers are now reckoning with old long-term-care policies that were underpriced and are creating deep shortfalls as policyholders age.

The upshot is that the GE Capital unit, which had been paying dividends in recent years to the parent company, won't pay dividends to GE for the foreseeable future. GE had suspended the GE Capital dividend last year and slashed its payout to shareholders by half.

Mr. Flannery has been working to streamline the once far-reaching GE Capital and focus it on providing financing for GE's industrial operations, such as jet engines and MRI machines. He expressed frustration at the review's results while saying the actions would restore GE Capital ratios to appropriate levels.

"A charge of this magnitude from a legacy insurance portfolio in run-off for more than a decade is deeply disappointing," he said.

Wall Street was braced for the insurance charge, which GE had said would exceed \$3 billion.

The company is slated to report its fourth-quarter financial results next week.

—Joann S. Lublin, Leslie Scism and David Benoit contributed to this article.

Insurance Industry Struggles To Shake A Bad Bet

BY LESLIE SCISM

General Electric Co.'s looming \$6.2 billion charge in its **GE Capital** unit is one of the biggest yet in a corner of the insurance industry that has reeled from pricing miscalculations made decades ago. About 7.3 million of the policies are in consumers' hands, some with generous lifetime benefits.

Although GE sold much of its financial-services operations after the 2008 financial crisis, it kept on its books responsibility for billions of dollars of coverage for long-term-care policies that had been sold by other insurers to consumers. Those policies—about 300,000 of them—promise to pay for nursing homes and other care for individuals.

Insurers have taken \$10.5 billion in pretax charges against their earnings in recent years to boost reserves for future claims, according to analysts at investment bank Evercore ISI.

Many insurers thought long-term care policies were the perfect product.

Genworth Financial Inc., which was spun off from GE in 2004, has tallied losses from its older long-term-care policies of \$2.5 billion since 2006.

Long-term-care insurance took off in the early 1990s. The policies had strong appeal to older people, and many insurers thought they had the perfect product to profit from people's concerns about becoming unable to care for themselves and outliving their savings.

In general, the policies pay for nursing homes, assisted-living facilities or health-care aides in people's private residences. Such care generally isn't paid by the Medicare health-insurance program for older people, while the state-federal Medicaid program is for the poor.

But by the mid-2000s, many insurers were rapidly ratcheting back the benefits, concluding they had badly miscalculated how many people would file claims and how long they would draw benefits before dying, among other things.

GE disclosed Tuesday that in addition to booking the charge in its fourth quarter, it would have to set aside \$15 billion over seven years to bolster insurance reserves at GE Capital.

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GOT A TIP FOR US?

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Martin Luther King Jr. would have been 89 years old on Monday. In some editions Tuesday, a Page One photo caption incorrectly said he would have been 88.

New Zealand's Aro Ha Wellness Retreat is a 40-minute drive from Queenstown. An Off Duty article on Saturday about wellness resorts misidentified the town as Queensland.

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

CORRECTIONS & AMPLIFICATIONS

Danica Patrick, who is no longer racing full time, will compete in two auto races in 2018, in February and in May. A Review article about Ms. Patrick on Jan. 6 incorrectly said both races will be in the spring. Also, there are currently no full-time female drivers in Nascar's top series. The article incorrectly said there would be no full-time female drivers after Ms. Patrick finished her last two races.

U.S. NEWS

Pay Soars for Elite N.Y. Schools' Chiefs

Some of the heads earn more than college presidents; cost of living, fundraising cited

BY LESLIE BRODY

Compensation for the heads of some elite private K-12 schools in New York City is nearing \$1 million.

Much in the city's private school world can seem beyond the norm: the tuition and fees (topping \$50,000 a year), the kindergarten application process (interviews for 4-year-olds), the facilities (climbing walls). And so too executive compensation that exceeds the pay of many college presidents.

Pay packages often include deferred compensation and perks such as housing, housekeeping, social club dues and free tuition for heads' children.

Chiefs of New York City schools earn far more than the national average, because of the high cost of living, ambitious fundraising duties, competition for talent, relatively large enrollments and other factors, according to the National Association of Independent Schools.

The median base salary for heads of the city's private schools is \$493,478 this academic year among 44 city schools in a survey by the association. That compares with \$275,000 nationwide. The group says the city's pay for heads grew faster as well: Its median salary jumped 70% in a decade, compared with 45% nationwide.

At least nine heads of private K-12 schools in New York City earned total yearly packages topping \$800,000, according to 2015 federal tax forms, the most recent year available.

Trinity School head John Allman received total compensation of \$1.1 million, according to 2015 tax forms. Mr. Allman declined to comment. He made headlines in September for his letter to parents calling

for a deeper school culture of public service rather than entitlement, to avoid being "just a very, very, very expensive finishing school" for its roughly 1,000 students.

By contrast, New York City Schools Chancellor Carmen Farina earns a salary of roughly \$235,000 for overseeing 1.1 million children. A city Education Department spokesman said the average salary for principals is about \$155,000.

Alice Blank, whose daughter attended both a public and private school in Manhattan, questioned the wide gap between their leaders' salaries. "I would hope the principals who worked diligently on behalf of their communities would be paid something comparable," she said. "How different are the skills and experiences required?"

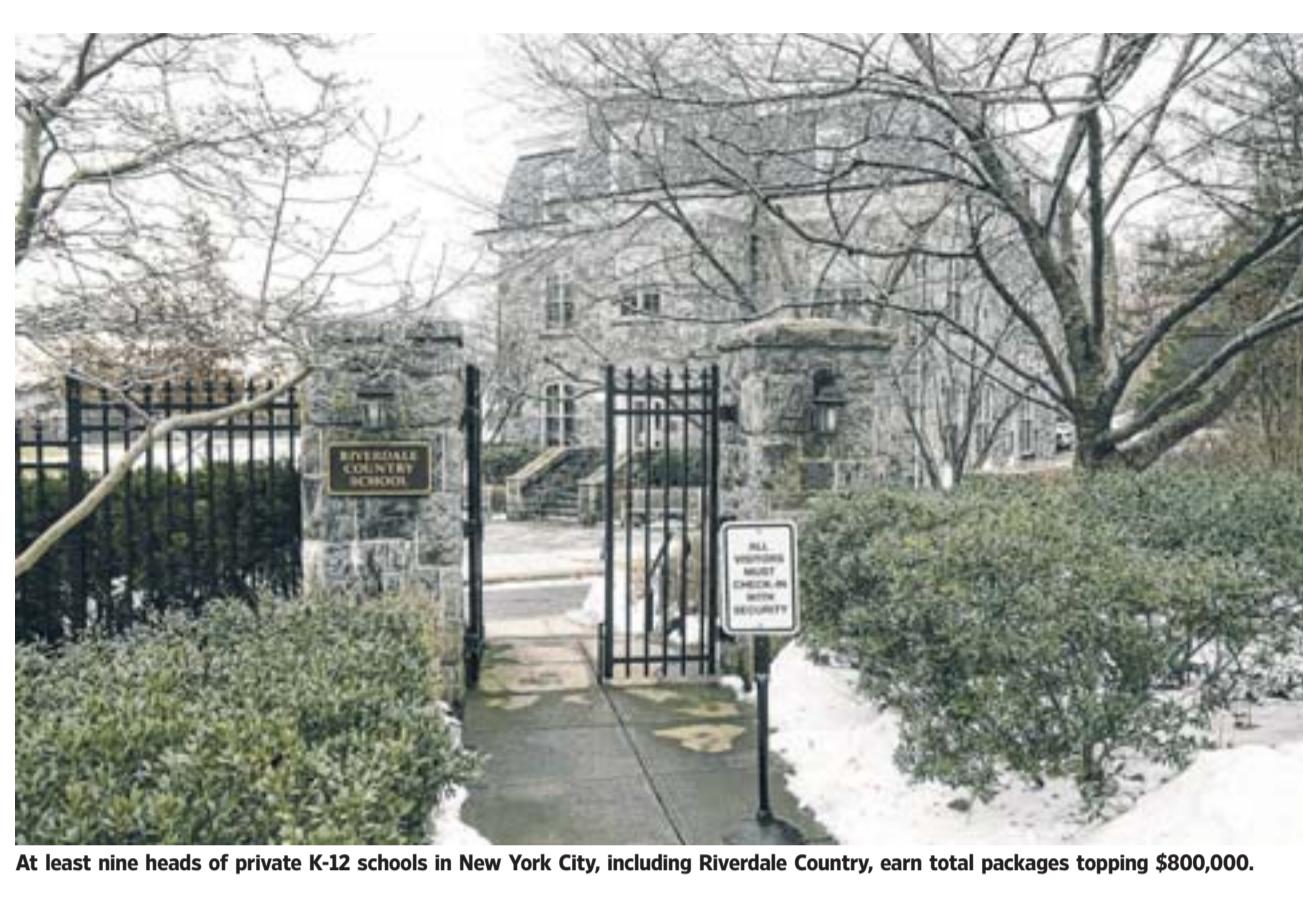
Nonprofits have long faced political pressure to rein in executive pay. The Republican tax bill signed last month created a 21% tax on nonprofits, imposed on compensation exceeding \$1 million earned by any of their five highest-paid employees.

School trustees, who set leaders' compensation, say a premium should be paid for excellence.

Nonprofit schools, under longstanding federal guidelines, must document that pay for their officers is "reasonable" compared with programs of similar size, mission and location. That means consumers can be confident that heads aren't overpaid relative to the market, said George Davison, head of Grace Church School in Manhattan. His total compensation was \$598,410, according to 2015 tax forms.

Parents can "say I'm not worth half that, and that's their opinion, but they know I'm benchmarked" against peers, he said. "Probably heads of schools, in terms of the value they bring in, are net income generators because of our extremely important role in fundraising."

Heads often oversee com-



At least nine heads of private K-12 schools in New York City, including Riverdale Country, earn total packages topping \$800,000.

Top of the Class

Leaders of private K-12 schools in New York City earn far more on average than peers nationwide. Here's a sampling of heads' 2015 pay:

Trinity School

John Allman
Base pay: \$780,528
Total compensation: \$1.1 million

Riverdale Country School

Dominic Randolph
Base pay: \$752,776
Total compensation: \$974,644

Horace Mann School

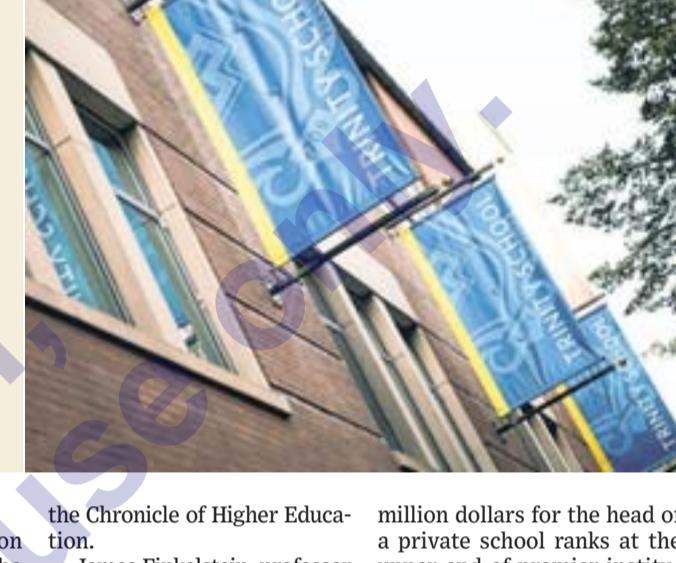
Thomas Kelly
Base pay: \$835,497
Total compensation: \$880,242

Packer Collegiate Institute

Bruce Dennis
Base pay: \$658,390
Total compensation: \$876,133

Nightingale-Bamford School

Paul Burke
Base pay: \$580,346
Total compensation: \$846,890
Note: Total pay can include bonuses, deferred compensation, housing, cleaning services, tuition for their children and other perks.
Source: Schools' 2015 tax forms, the latest year available



plex construction projects while handling curriculum changes, personnel issues and new challenges like cyberbullying. "It's 6 a.m. to 10 p.m. easily," said Mark Lauria, executive director of the New York State Association of Inde-

pendent Schools.

The average compensation of private-college leaders who served a whole year in 2015 was \$570,000, including bonuses and benefits, but not deferred compensation, according to the yearly analysis by

the Chronicle of Higher Education.

James Finkelstein, professor emeritus in the Schar School of Policy and Government at George Mason University, who studies such wages, says total pay over three-quarters of a

million dollars for the head of a private school ranks at the upper end of premier institutions in higher education. "That's a large amount of money to pay an individual who is running a relatively modest enterprise."

Arpaio Returns to Political Arena

BY ALEJANDRO LAZO

PHOENIX—Joe Arpaio, a polarizing national figure for his hard line on immigration, was voted out of office after nearly 24 years as Maricopa County sheriff. He was convicted of disobeying a court order to stop the immigration raids that helped make him famous.

Now, at 85 years old, Mr. Arpaio is back—and aiming for higher office. President Donald Trump pardoned Mr. Arpaio, leaving him free to run to succeed retiring Republican Sen. Jeff Flake.

"I am rising from the dead," Mr. Arpaio said Saturday, at a GOP county party meeting here, where he arrived carrying a stack of biographical fliers and a half-dozen campaign signs that read "We Need Sheriff Joe in D.C."

A recent poll by ABC 15 Arizona and OH Predictive Insights shows Mr. Arpaio in a statistical tie with the GOP favorite, Rep. Martha McSally.

Mr. Arpaio's tough approach to immigration drew hundreds of lawsuits and a Justice Department investigation, which concluded that his office had engaged in systemic racial profiling. It also won him admiration in the state for standing up to the federal government, which many believed wasn't doing enough to stop illegal immigration.

Mr. Arpaio's run could prove a test of whether the political atmosphere in the state has shifted since he was at the center of the national immigration debate.

The state's law, SB 1070, allowed local police to enforce immigration law, and was partially invalidated by the U.S. Supreme Court.

A poll taken in November of Arizona residents by the North American Research Partnership, a nonprofit that studies the border and promotes cross-border trade, found that 58% of people surveyed in Arizona opposed more laws to deport illegal immigrants. The poll also found that about 68% of respondents opposed Mr. Trump's proposed border wall.

Maricopa County's new sheriff, Paul Penzone, has



Former Sheriff Joe Arpaio, shown last week, was recently pardoned by President Donald Trump.

taken steps to distance himself from Mr. Arpaio. GOP Gov. Doug Ducey has largely avoided immigration during his first term, focusing on education and the economy.

Mr. Arpaio faces two younger, female challengers in the primary, Ms. McSally, 51, an Air Force veteran, and Kelli Ward, 48, a former state senator endorsed by former White House strategist Steve Bannon.

In khakis and a sweater, Mr. Arpaio on Saturday looked much like any other retiree in this state known for its snowbirds. He attracted some supporters looking to snap photos and shake his hand. A few ardent fans were high-school students.

"He cracks down hard on crime and illegal immigration," said Luke Mosiman, 17, of Mesa, who is chairman of a local chapter of teenage Republicans. "He'll get illegal immigrants out, and he'll work well with Trump."

Mr. Trump has made stopping illegal immigration a priority of his administration and promised to build a wall along the Mexican border.

Arrests of immigrants trying to cross the border illegally dropped during Mr.

Trump's first year in office to the lowest level since 1971. In fiscal year 2017, fewer than 40,000 people were arrested at the Border Patrol's Tucson sector, once one of the busiest stretches along the Mexican border.

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U.S. NEWS

Bannon Refuses to Answer Queries

Lawmakers probing Russians, 2016 vote spend over 10 hours with ex-Trump adviser

BY BYRON TAU

WASHINGTON—Steve Bannon, a once-close confidant who is now estranged from President Donald Trump, refused on Tuesday to answer some questions from Congress despite being subpoenaed while he was giving testimony.

Mr. Bannon spent more than 10 hours meeting behind closed doors with the House Intelligence Committee, with much of the time taken up by negotiations over his testimony as part of the congressional probe into Russian meddling during the 2016 U.S. presidential election.

Mr. Bannon told lawmakers that he was willing to answer questions but that he had been asked by the White House not to disclose details about his time in the administration and the presidential transition between administrations.

Though his appearance before the House committee was at first voluntary, he was issued a mandatory subpoena by the committee in the middle of the meeting to force him to testify. Even after being issued the subpoena, Mr. Bannon remained unwilling to answer some of the questions, citing a request from White House attorneys, Republican and Democratic lawmakers emerging from the meeting told reporters.

"This was effectively a gag order by the White House preventing this witness from answering almost any question concerning his time in the transition or the administration and many questions even after he left the administration," said Rep. Adam Schiff (D., Calif.), the top Democrat on the panel.



President Donald Trump and Steve Bannon in January 2017. Mr. Bannon says the White House asked him not to answer certain questions.

Separately, the New York Times reported that Mr. Bannon had been subpoenaed by special counsel Robert Mueller as part of a criminal investigation.

The congressional probe is being conducted for the purposes of public accountability, while Mr. Mueller's probe concerns whether any laws were broken during the 2016 campaign.

Mr. Bannon's attorney didn't respond to requests for comment.

Mr. Bannon is the latest witness to refuse to offer testimony in the congressional investigation. Mr. Trump's son Donald Trump Jr. refused to testify about private conversations he had with his father and attorneys for both men.

Other witnesses have invoked their constitutional right against self-incrimination.

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

Though Mr. Bannon didn't explicitly invoke the privilege, his attorney told members of Congress that the White House had requested that Mr. Bannon decline to answer questions to preserve a potential executive-privilege claim in the future, according to lawmakers.

Asked whether the White House had restricted some of

Mr. Bannon's testimony, White House press secretary Sarah Sanders said "there's a process" in place ahead of committee appearances. "We are also going to maintain some of the executive privileges that have been in place for decades and need to be maintained," she said.

The standoff sets up a showdown between Congress and the White House over future witnesses in the Russia investigation. Other current and former Trump aides are scheduled to testify this week, including White House communications director Hope Hicks and deputy White House chief of staff Rick Dearborn, according to people familiar with the matter. It wasn't clear whether the White House would also invoke privileges to preclude their testimony.

Congress could go to court to try to enforce its subpoena and test whether the White House claims of executive privilege have merit. Courts have, in the past, forced administrations to comply with some demands from Congress and law enforcement.

But the dispute is first likely to be the subject of negotiations between the White House and Congress. "The subpoena stays in effect," said Rep. Mike Conaway, a Texas Republican who is leading the House Russia investigation.

—Michael C. Bender and Aruna Viswanatha contributed to this article.

Trump's Health Gets the All-Clear

BY LOUISE RADNOFSKY

WASHINGTON—President Donald Trump is in excellent health and scored a perfect result on a cognitive assessment, the White House physician said Tuesday in revealing results from a recent examination.

Based on the results, the 71-year-old president is "very healthy and will remain so for the duration of his presidency," said Ronny Jackson, who previously served as a physician to President Barack Obama.

Dr. Jackson said he encouraged Mr. Trump to lose weight by exercising and modifying his diet. The president, who is 6 feet 3 inches tall, weighs 239 pounds, which means he is overweight, according to a Centers for Disease Control and Prevention calculator.

Mr. Trump had his first annual routine physical as president on Friday, and it took about four hours, Dr. Jackson said. Dr. Jackson also said Mr. Trump had strong cardiac health, which he attributed to avoiding alcohol and tobacco, as well as "incredible genes."

"He doesn't have a dedicated, defined exercise program...so that's what I'm working on," he said.

Dr. Jackson said there was no clinical guideline suggesting he should administer an extensive cognitive assessment but "the president asked me to do it." His request for the assessment came after critics' speculation about his mental health. The test, the Montreal Cognitive Assessment, yielded a perfect score of 30 out of 30, he said.

Dr. Jackson said the president doesn't sleep much, typically four or five hours a night. He said Mr. Trump doesn't have dentures and that an incident in which the president appeared to slur his words was likely because of dry mouth as a result of taking the decongestant Sudafed. Dr. Jackson said he would like to see Mr. Trump lose 10 to 15 pounds as "a reasonable goal."

Vital Signs: A Trump Snapshot

Height: 6 feet 3 inches

Weight: 239 pounds

Blood pressure: 122/74

Resting heart rate: 68 beats a minute, with no murmurs or other abnormal sounds

Cognitive test: 30 out of 30

Medications: Crestor for cholesterol; aspirin; Propecia for hair loss; a multivitamin; Soolantra Cream as needed for rosacea

Dreamers Deal in Peril, Shutdown Looms

BY LAURA MECKLER
AND KRISTINA PETERSON

WASHINGTON—Senators worked Tuesday to salvage a bipartisan plan to protect "Dreamers"—young undocumented immigrants brought to the U.S. by their parents—as the divide grew over an immigration deal seen as key to avoiding a government shutdown this weekend.

The White House complicated the negotiations by insisting that Congress allocate billions more for President Donald Trump's promised border wall with Mexico.

Without a spending agreement by 12:01 a.m. Saturday, the government will partially shut

down operations. Many Senate Democrats were noncommittal Tuesday over whether they would allow a shutdown in an election year in which control of the Senate is in play.

Republicans were already preparing to accuse Democrats of shutting services because they didn't get an immigration deal. But Democrats said Mr. Trump's dismissal of "shithole countries" in Africa in a closed meeting last week with lawmakers positioned him as the person who upset the negotiations.

The immigration issue is growing more urgent as the calendar ticks toward March 5, the date Mr. Trump set for the Deferred Action for Childhood Arrivals program, or DACA, to end

officially. Mr. Trump killed the Obama-era program in September and urged Congress to negotiate a replacement.

On Tuesday, Sen. Lindsey Graham (R., S.C.), an architect

The immigration issue is growing more urgent as a March 5 deadline approaches.

of the bipartisan Senate immigration plan, quizzed Homeland Security Secretary Kirstjen Nielsen on whether she understood that Republicans weren't going

to get everything they want in a compromise deal. And he complained the seeming transformation of Mr. Trump from the deal-making optimist on display at a bipartisan discussion a week ago.

"I don't know where that guy went. I want him back," he said.

Ms. Nielsen was at the meeting in which Mr. Trump reportedly made the vulgar remark, but said at Tuesday's hearing she couldn't recall it. That drew attacks from incredulous Democrats.

"Your silence and amnesia is complicity," Sen. Cory Booker (D., N.J.) shouted in response.

Sen. Dick Durbin (D., Ill.),

Mr. Graham's negotiating partner, said that the text of the bill will be available Wednesday, and that he is hoping for a preliminary Senate vote to gauge support "as quickly as possible."

Republicans, seeking to separate the immigration and spending issues, were in less of a hurry. Marc Short, the White House director of legislative affairs, said it was unrealistic to expect an immigration deal to coalesce this week.

"We're optimistic that we'll get a deal. I think this week would be fairly herculean," he told reporters as he left an immigration meeting on Capitol Hill.

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WORLD NEWS

Greece Inches Closer to a Bailout Exit

After years of turmoil, Athens is hoping for clean break from lending program

By NEKTARIA STAMOULI

ATHENS—For Greece, there is finally light at the end of the tunnel.

After nearly eight years of economic and political turmoil, the country is within striking distance of freeing itself from a bailout regime that has been traumatic for its citizens and has badly strained the eurozone.

With both Athens and other European capitals eager to put the Greek drama behind them, an exit from the bailout program at its expiration in August is looking likely.

"The [European] crisis ends where it first appeared, where it started—in the south," Prime Minister Alexis Tsipras said at a meeting this month of Southern Europe leaders. "It ends substantially and symbolically where it started with the exit of Greece from the [bailout regime] in August 2018."

But the next months will determine whether Athens wins a much-desired clean exit from the regime, or whether any post-bailout program comes with politically sensitive strings attached to prevent a replay of the last decade's sovereign-debt crisis.

Late Monday, Greek parliamentarians approved the latest package of reforms, including new bankruptcy procedures and limits on unions' ability to stage strikes, that were demanded by creditors to release the next tranche of bailout



Prime Minister Alexis Tsipras spoke Monday before Parliament approved a new package of overhauls. The measure, which includes curbs on unions, sparked protests in Athens.



FROM LEFT: PETROS GIANNAKOURIS/ASSOCIATED PRESS; NIKLAS GEORGIOU/ZUMA

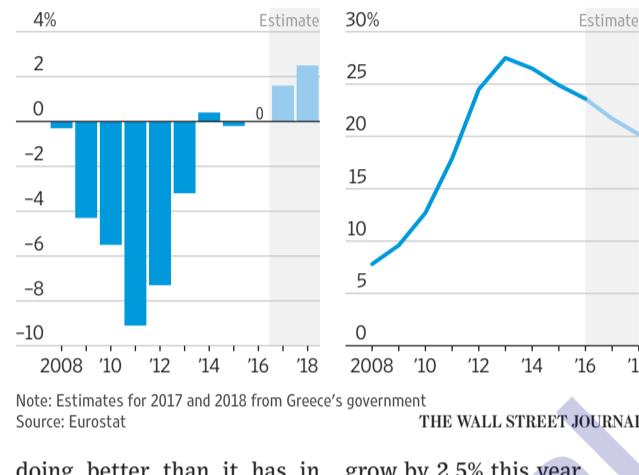
funds—expected to be between €6 billion (\$7.36 billion) and €7 billion. The swift passage clears the way for talks over the final reforms Athens must enact to prepare its economy and public finances to do without the lifeline from European and international creditors.

The Tsipras government is looking to lift its waning popularity by presiding over an unconditional break with the bailout era. An end to the saga also would further bolster the confidence of Europe, which is enjoying its best economic health in years, and free policy makers to focus on other problems, including the U.K.'s exit from the European Union.

Athens meanwhile is also hoping for a post-bailout boost. Tight budgets demanded by creditors—and a noncompetitive economy—have kept Greece from benefiting fully from the broad upturn, although its economy is

Return to Growth

Greece's economy begins to turn up as it hopes to exit its bailout regime.



Note: Estimates for 2017 and 2018 from Greece's government

Source: Eurostat

doing better than it has in years. It returned to growth last year after nearly a decade of recession, and according to official estimates it could

ever. First, the Tsipras government must push through a heavy agenda of privatizations, something it has been reluctant to do. Greek banks—which are burdened with around €100 billion of bad loans—will undergo stress tests that could force them to raise fresh capital.

Greece also will need to do more to build the appetite of international investors for its bond issues. Conditions appear auspicious; last summer, its first international bond issue in three years met with strong demand, and in recent weeks yields on its 10-year benchmark bond fell to their lowest levels in a decade.

With a buffer from the remaining bailout tranches and some fresh cash Athens plans to draw from international markets before August, Greece should be able to meet its financing needs without support from creditors, invest-

ment bankers, the government and its creditors say.

Nonetheless, Bank of Greece Governor Yannis Stournaras has said that the country would need a precautionary credit line from Europeans after August to maintain investor confidence.

Fears that Greece could return to its profligate ways mean European and international creditors could insist on Athens agreeing to maintain very tight control over its budget for a number of years to come and hold the line on reforms aimed at fixing its sclerotic economy.

"The key issue is to prevent Athens from backtracking once the program is over, especially on the fiscal, labor market and public administration fronts," said Wolfgang Piccoli of Teneo Intelligence, in a note.

Such conditions could be attached to any relief on the country's €319 billion debt load.

Battle Stations: U.S. and Beijing Prepare for Trade Clash



matched this time: America has never faced off in a trade skirmish with an opponent of China's size, industrial capabilities and global ambitions.

Japan was a U.S. ally, China increasingly a rival. That raises the risk of tit-for-tat escalation, especially since support for Beijing is crumbling across the U.S., including the business community, traditionally a strong advocate for China trade.

In this brewing battle fueled by protectionists in both camps (Mr. Trump's "America First" finds its counterpart in President Xi Jinping's "China Dream"), each side has an exaggerated sense of its own advantages.

"A trade war is coming because of ideological zealotry and absolutely contradictory estimates of who has more leverage," says Scott Kennedy, an expert on Chinese industrial policy at the Washington-based Center for Strategic and International Studies.

Global markets seem unprepared for what could turn into a clash of the titans. Beyond North Korea's nuclear threat, a U.S.-China trade war is the biggest potential economic spoiler of 2018.

Once under way, the effects of a trade war would be felt well beyond the combatants



President Xi Jinping welcomed President Donald Trump at a ceremony in Beijing in November.

the Japanese market was largely closed to U.S. corporations in the 1980s while China's is relatively open; these companies, highly dependent on China sales, would become hostages in a conflict.

While the White House scrambles to assemble a strategy—Mr. Trump's hands are tied by Congress—China has a detailed plan for a trade war, and total flexibility to carry it out. A switch to Airbus purchases is one obvious move. Diversifying soybean supplies another.

COUNT ON CHINESE RETALIATORY actions being targeted—state by state, congressional district by congressional district—to inflict the maximum U.S. job losses, and single out those politicians most eager for trade action.

Derek Scissors, a trade expert at the American Enterprise Institute, argues that the major U.S. advantage is that China is far more dependent on trade for its financial health.

"A shorter, smaller-scale trade conflict favors China due to its comparative agility," he says. "The more serious it gets, the worse China would fare because it's badly outmatched monetarily."

A bruising and protracted war of attrition is looming.

CHINA

Continued from Page One

20,000 daily listings from Anjuke, a Chinese property-listing platform.

Slight home-price drops have been recorded in other megacities including tech hub Shenzhen, and some cities around Shanghai, such as Wuxi and Hangzhou.

Chinese families have taken on bigger and riskier loans to buy apartments as homes or investments. Price drops could leave some owners owing more than they can sell their homes for, just as new restrictions in many cities make it harder to unload a property. To ease the pressure, the government is encouraging the growth of a rental market.

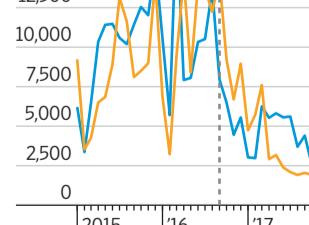
Because megacities attract migrants, they are likely to sustain price drops at current levels, said Xingdong Chen, chief China economist of BNP Paribas. "If prices decrease 20%, that would be big trouble."

Chill Pill

Since late 2016, housing-market restrictions in China have halted a feverish boom and nearly frozen sales in Beijing and Shanghai.

New home sales

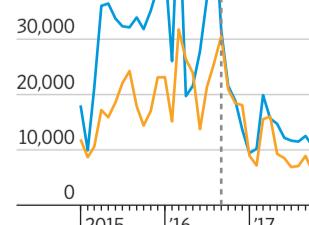
■ Shanghai ■ Beijing



Source: E-house China R&D Institute

Existing home sales

■ Shanghai ■ Beijing



Source: E-house China R&D Institute

Low single digits isn't an issue."

In parts of China with few restrictions, the housing market is still going strong. Growth in total Chinese real-estate investment held steady in November at 7.5% from the year before.

A greater threat to economic growth would be if prices fall in small cities that aren't attract-

ing a population influx, according to Mr. Chen. If prices drop, "who can they sell those homes to?" he said.

Uncertainty about property prices is one of the downsides to China's economic prospects this year, the World Bank said in its December 2017 economic update on the country.

Stricter lending limits cut new mortgage debt each month toward the end of 2017; before

Though China's Housing Ministry has said that property controls won't be relaxed, the dangers of the downturn are lessened by the government's ability to reboot demand by lifting restrictions—and Beijing has held off on introducing an anticipated property tax that could curb speculation but damp prices.

China also doesn't have the sort of risky financial products that crashed the American housing market and infected the global economy a decade ago.

But a slowdown can have a wide impact. China's property market accounts for a significant share of economic growth—as much as a third, according to Moody's Investors Service—sending ripples outward into the global economy.

The property boom stoked imports of housing materials, cars, appliances and other products.

UBS called Chinese property one of the major engines of global growth in 2017.

Stricter lending limits cut new mortgage debt each month toward the end of 2017; before

that, mortgages made up as much as three-fourths of new loans in some months.

But many households have taken on riskier debt, such as short-term consumer loans, to make down payments—a practice technically not allowed.

Luo Chuanyun, a 29-year-old liquor distributor, bought an apartment on Beijing's northern edge for \$150,000 in late 2016, when prices were climbing by more than 20% a year. The purchase led to mortgage payments of about \$15,000 a year on an income of a little over \$18,000.

Mr. Luo said his real-estate agent told him that to find a buyer for his apartment now he would need to sell for half of what he paid.

In some areas on Beijing's outskirts, prices have fallen by double-digit percentages. In March, the main street in the town of Yanjiagou was lined with busy property agencies. Buyers who couldn't pass Beijing residence requirements or afford its prices flocked there, pushing up prices in a town without much of an economy of its own.

Since then, homebuying limits helped push prices down more than 30%. "For Rent" signs now adorn the windows of abandoned brokerages.

"You came at the wrong time," said Guo Bubin, a property agent at Xing Yue Estate in Yanjiagou, sweeping out his arm. "During the busiest time the whole street was filled with property agencies."

Back then, closing 10 sales each day was normal for Mr. Guo's office. Now, he said, he is lucky to handle 10 a month.

"There are people who bought multiple homes who are now trying to sell one to pay off the mortgage on another," said Ran Yunjie, a property agent. One of his clients bought an apartment last year for about \$230,000. To find a buyer now, the client would have to drop the price by 60%, Mr. Ran said.

He said he receives many calls from potential buyers barred from buying by property controls. "We have to turn them away," he said.

—Lin Zhu

contributed to this article.



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HONDA

WORLD NEWS

U.S. to Cut Funds for Palestinians

BY FELICIA SCHWARTZ

VANCOUVER, British Columbia—The U.S. will withhold at least \$65 million from the United Nations agency for Palestinian refugees, U.S. officials said Tuesday, making good on a threat by President Donald Trump.

The move follows deliberations among national-security aides to Mr. Trump, who complained in a Jan. 2 Twitter message that the U.S. pays Palestinians hundreds of millions of dollars a year but receives “no appreciation or respect in return.”

The U.S. is the largest donor to the U.N. Relief and Works Agency, or Unrwa, contributing \$368 million last year to an overall budget of \$1.24 billion. Its first installment for 2018 was supposed to be \$125 million, State Department officials said, but the U.S. will provide only \$60 million.

The State Department said Tuesday that the U.S. wants to see a “fundamental re-examination of Unrwa, both in the way it operates and the way it is funded.” State Department spokeswoman Heather Nauert



Workers at a center in Khan Yunis, in Gaza, carry bags of flour to distribute to Palestinian families.

he said. “It is providing vital services to the Palestinian refugee population.”

Mr. Guterres said he “strongly hoped” the U.S. would find a way to fully fund the organization because in addition to a humanitarian crisis, a funding shortage would destabilize the region.

Unrwa runs schools and clinics in refugee camps in occupied Palestinian territories of the West Bank as well as in Jordan, Syria and Lebanon, where millions of Palestinians have lived since being displaced in 1967.

U.S. officials called on other countries to step up their contributions, particularly those who haven’t yet supported the organization, and said the funds that are being provided by the U.S. would keep schools and health systems operating.

“Without the funds we are providing today, Unrwa operations were at risk of running out of funds and closing down. The funds provided by the United States will prevent that from happening for the immediate future,” a State Department official said.

—Farnaz Fassihi contributed to this article.

Ex-CIA Officer Arrested in China Case

BY DEL QUENTIN WILBER

A former Central Intelligence Agency officer was arrested Monday on charges of unlawfully retaining classified information, and U.S. officials familiar with the matter said he was suspected of providing information that helped the Chinese government identify U.S. informants in that country.

Jerry Chun Shing Lee, 53 years old, who worked for the CIA from 1994 to 2007, was arrested after arriving at John F. Kennedy International Airport in New York, the Justice Department said Tuesday. Charged with unlawful retention of national defense information in federal court in Alexandria, Va., he faces a maximum penalty of 10 years in prison.

Mr. Lee was ordered held Tuesday after a brief appearance before a federal judge in Brooklyn, N.Y.

The CIA declined to comment. The Justice Department released few details about the case, but U.S. officials said Mr. Lee is suspected of playing a key role in helping China identify U.S. assets after he left the CIA. A representative for Mr. Lee couldn’t be reached for comment.

Mr. Lee began working for the CIA as a case officer in 1994, court papers say, maintaining a top-secret clearance and signing numerous nondisclosure agreements.

Starting around 2010, American informants were systematically killed in what the U.S. officials described as a razing of the U.S. intelligence network in China, sparking a wide-ranging mole hunt, the officials said. Mr. Lee’s alleged role in the dismantling of the network was first reported by the New York Times.

WORLD WATCH

JAPAN

Bodies Found in Boat Likely North Korean

Police said they recovered seven bodies from a wooden boat that likely came from North Korea, adding to a fast-rising toll from that country’s primitive fishing vessels.

The boat was found washed up on Jan. 10 and the bodies inside were recovered on Monday, along with a badge depicting North Korea’s former leaders and a cigarette pack with Korean writing, Hiroshi Abe, police spokesman in the coastal city of Kanazawa, said on Tuesday.

The number of North Korean fishing vessels found on Japa-

nese shores or in waters nearby surged late last year, coinciding with a push by North Korean propaganda for fishermen to meet annual seafood quotas.

Japan’s coast guard said it handled 104 cases of suspected North Korean vessels found adrift or aground in 2017, the highest since records began in 2013 and an increase from 66 cases in 2016.

—Chieko Tsuneoka

JAPAN

Foreigner Visits Hit A Record Last Year

The number of foreign visitors to the country rose 19% to nearly 29 million in 2017 to set

a record on the road to the government’s target of 40 million by 2020, when Tokyo hosts the Summer Olympics.

Spending by visitors rose 18% to ¥4.4 trillion (\$40 billion), the official Japan National Tourism Organization said.

Tourists have transformed the face of the nation’s cities, crowding into popular destinations such as the Ginza shopping area in Tokyo, temples in the ancient capital of Kyoto and ski areas during the winter. About three-quarters come from Japan’s major East Asian neighbors—China, South Korea, Hong Kong and Taiwan. American visitor numbers rose 11% last year to 1.24 million, about 4% of the total.

—Peter Landers

FROM PAGE ONE



Popular creator Logan Paul was pulled from Google Preferred after posting an objectionable video.

ADS

Continued from Page One
subscribers, compared with the threshold of 10,000 cumulative views that YouTube set last year. YouTube said a “significant” number of channels would be affected but declined to provide more details. The company said nearly all affected channels now make less than \$100 a year in ad revenue.

The moves come after a series of scandals involving ads from prominent brands displayed alongside racist or other objectionable content.

The steps show YouTube is yielding to advertisers’ demands for more oversight on videos it sells as ad space, despite the fact that such policies are likely to upset its network of video creators, who are crucial to the site’s reach and popularity.

YouTube has long touted YouTube to advertisers as a better alternative to television, with unprecedented scale and diversity of content. But those traits have also made the site difficult to police. Human reviewers could never watch all of YouTube’s content, while software often

doesn’t understand what could be offensive.

As a result, news organizations and advertisers over the past year have discovered YouTube running their ads before extremist, racist and hateful videos. Many top brands pulled spending from the site in response, prompting the company to adopt stricter ad policies, hire more human reviewers and give brands more control over where their ads appear.

YouTube has faced other controversies over some of its

YouTuber has faced controversies over some of its most popular stars.

most popular stars. YouTube last year expelled from its Google Preferred program the most popular creator on its platform, Felix Kjellberg, also known as PewDiePie, after The Wall Street Journal reported on anti-Semitic jokes and Nazi imagery in some of his videos. Mr. Kjellberg later apologized for some of the jokes and said the Journal

took some out of context.

This month, YouTube pulled another popular creator, Logan Paul, from Google Preferred after he posted a video that included footage of a person who had apparently committed suicide in Japan. Mr. Paul apologized for the video and deleted it. YouTube said in a tweet, “Suicide is not a joke, nor should it ever be a driving force for views.”

YouTube on Tuesday said it is improving those controls to give advertisers more data over how changes in ad placement affect their reach.

Last month, the company said it plans to have more than 10,000 people reviewing content by the end of this year, though it declined to say how many people it has in that role today.

Reviewing content manually has become increasingly important at tech companies that sell advertising alongside user-generated content, including YouTube, Facebook Inc. and Twitter Inc.

Those companies often outsource that work to contractors, who typically review thousands of posts a day, many of them disturbing. YouTube said its reviewers are a mix of employees and contractors.

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WORLD NEWS

Pope Voices Shame at Clerical Abuse

On tour, Francis rues 'irreparable damage' to children, meets some Chilean victims

BY PAUL KIERNAN
AND RYAN DUBE

SANTIAGO, Chile—Pope Francis kicked off a tour of Chile by speaking out forcefully Tuesday against sexual abuse by Catholic clergy in a country where trust in the Church has declined precipitously in the wake of a pedophilia scandal.

"Here, I feel bound to express my pain and shame at the irreparable damage caused to children by ministers of the church," the pope said in an early morning address before President Michelle Bachelet and high Catholic clergy in the Moneda presidential palace. "I am one with my brother bishops, for it is right to ask for forgiveness and make every effort to support the victims, even as we commit ourselves to ensuring that such things do not happen again."

He was understood to be referring to the case of Fernando Karadima, a high-profile Chilean priest convicted by the Vatican in 2011 of having sexually abused children in the 1980s and '90s.

The words were some of the pope's strongest yet on an issue that has fanned public anger and dented the Church's



VICTOR R. CAIVANO/ASSOCIATED PRESS

Authorities tackled a man during a protest against the pontiff Tuesday in Santiago, where Pope Francis had a meeting with bishops.

credibility here. Chileans' trust in the Church has fallen from 61% before accusations against Father Karadima became public in 2010 to 30% last year, according to a survey by local pollster Latinobarómetro.

Critics spoke out after Pope Francis' statement, saying it wasn't enough. For years, Fa-

ther Karadima's victims and some Catholic clergy have called for the resignation or removal of Bishop Juan Barros, whom Pope Francis appointed to the diocese of Osorno despite allegations that he covered up the abuse.

"Words are very important, but if they are not accompa-

nied by action, they are just empty and have no meaning at all," said José Murillo, one of Father Karadima's victims, in a telephone interview. "He has the power to change this and the message the world is waiting for is in that direction, not in the direction of forgiveness or shame."

Vatican spokesman Greg Burke said Tuesday the pope met for about half an hour after lunch with "a small group" of clerical sexual-abuse victims in Santiago. Mr. Murillo and another victim, Juan Carlos Cruz, said they weren't invited to that meeting. Bishop Barros has said he

didn't know about the abuse, and Father Karadima has denied the allegations. A criminal case filed against the priest in 2010 was thrown out of court after a judge ruled the statute of limitations had expired.

Bishop Barros was spotted along with other members of the clergy at the pontiff's morning Mass Tuesday in front of thousands of Chileans.

"It embarrasses a lot of people who are there," said Felipe Berrios, a Jesuit priest, of the bishop's presence there. "It embarrasses me because it contradicts everything the pope said at the Moneda," Father Berrios said in an interview with local television station Chilevisión. "Karadima represents the Church of classism, of arrogance, of abuses of power...and [Barros] was his close secretary for many years," he said.

After the Mass, Bishop Barros told reporters that "many lies have been told about me," and reiterated that he never witnessed abuse by Father Karadima, local newspaper La Tercera reported.

Some here have turned to violent protests against the Church. Vandals have defaced several churches in recent days, spray-painting words like "pedophilia" on their facades and burning two buildings on Monday near the city of Temuco, which the pontiff plans to visit on Wednesday, according to Radio Cooperativa, a local news outlet.

Venezuelan Forces Kill Ex-Actor Who Urged Rebellion

BY KEJAL VYAS

Venezuelan special forces killed a former B-movie actor and members of his dissident group in a shootout after they called for an armed uprising, officials said Tuesday, as rights groups called the confrontation an execution.

Oscar Pérez, who rose to fame in June after the govern-

ment said he hijacked a helicopter and lobbed grenades over two Caracas government buildings, was one of seven militants killed Monday, Interior Minister Néstor Reverol said in a televised speech. The deaths weren't confirmed until Mr. Reverol's speech.

In response, Venezuelan rights advocates accused special forces of using excessive

force and not letting the rebels surrender. In dramatic videos he posted on Instagram before his final moments, Mr. Pérez, with a bloodied face, pleaded with authorities to let his group surrender, as gunfire drowned out his voice.

"This is the greatest evi-

dence that the government of President Nicolás Maduro is

genocidal and a violator of hu-

man rights," said Luisa Ortega, a former attorney general who broke ranks with Caracas last year and is now lobbying to prosecute Venezuelan officials at the International Criminal Court. "The world could see in real time how this guy wanted to surrender and manifested his will to turn himself in."

Venezuelan police laid siege to the group's holdout in the

rural outskirts of the capital using automatic rifles and grenade launchers in an operation that killed two officers and seriously injured eight more, Mr. Reverol said. Authorities detained and are interrogating five members of Mr. Pérez's band of dissidents, he said.

"This terrorist gang has now been dismantled," Mr. Reverol said.

A pilot and former stunt specialist for police propaganda films, the 36-year-old Mr. Pérez had been a fugitive since he defected from the force in June. In hiding, he continued posting videos on social media calling on his countrymen to rebel against Mr. Maduro's authoritarian government, sparking a nationwide manhunt.

Poll Expects Rates To Rise in Canada

BY PAUL VIEIRA

OTTAWA—Bank of Canada watchers are in agreement: The central bank will raise its benchmark interest rate Wednesday because the employment data have been too strong to overlook.

The Bank of Canada's expected move comes even as the uncertain fate of the North American Free Trade Agreement hovers over the economy. To date, fear about the possible dissolution of Nafta has yet to show up in the economic indicators, or in the central bank's own survey of firms.

Economists surveyed from 10 of the 11 primary dealers of Canadian government securities told The Wall Street Journal they expected the Bank of Canada to raise its benchmark rate by a quarter-percentage point, to 1.25% from 1%, making it the first Group of Seven central bank to raise interest rates in 2018.

The last time the Bank of Canada policy rate was near this high was in early 2009, when it sat at 1.5% before then-governor Mark Carney cut it by a half-percentage point in response to the financial crisis and global recession.

The 11th primary dealer, HSBC Canada, didn't participate in the survey.

The economists surveyed

said employment growth has been exceptional, with the jobless rate falling to a four-decade low of 5.7% and 2017 marking the best year for job creation since 2002. Nearly 200,000 net new jobs were created in the final quarter of 2017, or the most robust rate of quarterly growth since the start of the decade.

Analysts say the recent string of positive employment gains and strength in wage increases have worked to undermine a view from the Bank of

Economists surveyed pointed to exceptional employment growth over the past year.

Canada Gov. Stephen Poloz that slack, or unused capacity, remains in the labor market.

"The bank will find it hard to look through the strength in the data—from blockbuster job gains, new lows in labor slack, and improvement in core inflation," said Brittany Baumann, strategist at TD Securities.

Besides job growth, inflation has also perked up, with the annual rate crossing the 2% threshold in November for only the second time in three years.



DAVID KAWA/BLOOMBERG NEWS

The Bank of Canada's Carolyn Wilkins, with Gov. Stephen Poloz.

William Blair is pleased to announce that the following colleagues have been invited to become partners

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Investment Management

Steve Tole
Investment Banking

Stephen Weeks
Investment Management

January 2018

William Blair

IN DEPTH

GIANTS

Continued from Page One
Justice Department's antitrust division under Barack Obama.

Google which has spent the past eight years in the sights of European and American antitrust authorities, is hardly a price gouger. Most of its products are free to consumers and the price advertisers pay Google per click has fallen by a third the past three years. The company remains an innovation powerhouse, investing in new products such as its voice-activated assistant Google Home.

Key differences

Yet Google's monopoly means some features and prices that competitors offered never made it in front of customers. Yelp Inc., which in 2004 began aggregating detailed information and user reviews of local services, such as restaurants and stores, claims Google altered its search results to hurt Yelp and help its own competing service. While Yelp survived, it has retreated from Europe, and several similar local search services have faded.

"Forty percent of Google search is local," says Luther Lowe, the company's head of public policy. "There should be hundreds of Yelps. There's not. No one is pitching investors to build a service that relies on discovery through Facebook or Google to grow, because venture capitalists think it's a poor bet."

There are key differences between today's tech giants and monopolists of previous eras. Standard Oil and AT&T used trusts, regulations and patents to keep out or co-opt competitors. They were respected but unloved. By contrast, Google and Facebook give away their main product, while Amazon undercuts traditional retailers so aggressively it may be holding down inflation.

None enjoys a government-sanctioned monopoly; all invest prodigiously in new products. Alphabet plows 16% of revenue back into research and development; for Facebook it's 21%—ratios far higher than other companies. All are among the public's most loved brands, according to polls by Morning Consult.

Yet there are also important parallels. The monopolies of old and of today were built on proprietary technology and physical networks that drove down costs while locking in customers, erecting formidable barriers to entry. Just as Standard Oil and AT&T were once critical to the nation's economic infrastructure, today's tech giants are gatekeepers to the internet economy. If they're imposing a cost, it may not be what customers pay but the products they never see.

In its youth Standard Oil was as revered for its technological and commercial brilliance as any big tech company today. John D. Rockefeller began with a single refinery in Cleveland in 1863 and over the next few decades acquired other, weaker refineries. Those that wouldn't sell, he underpriced and drove out of business. By 1904, companies controlled by Standard Oil produced 87% of refined oil output, according to Mike Scherer, a retired Harvard economist who has written extensively on antitrust.

This wasn't superficially bad for consumers. The price

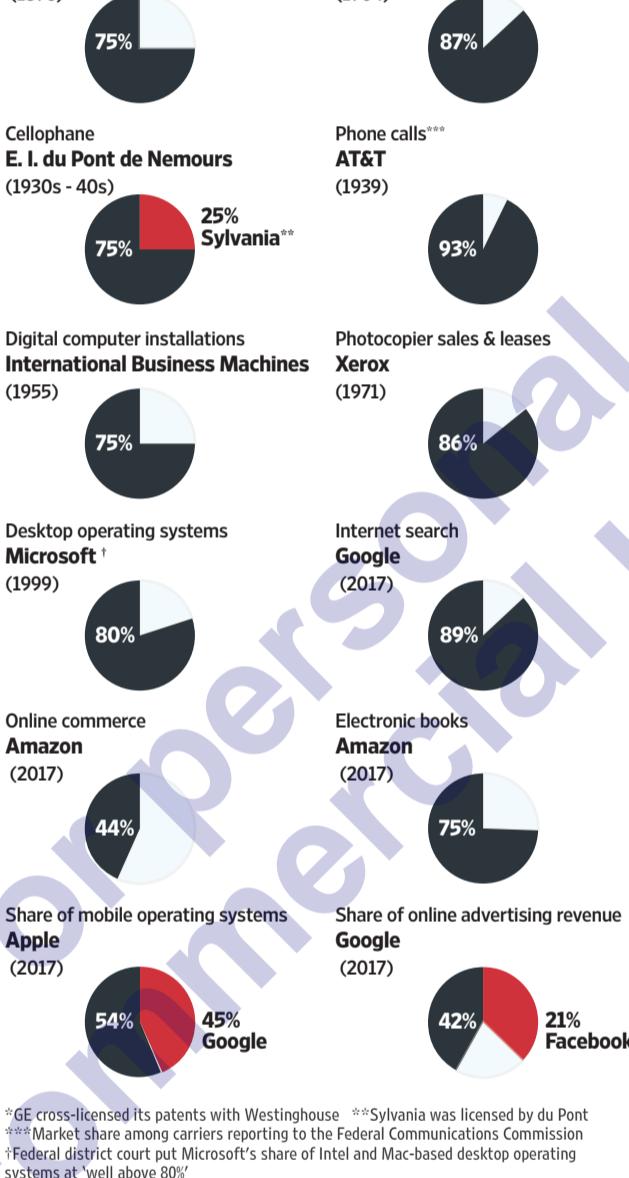


Google, Facebook and Amazon all boast overwhelming shares of some markets on their own, and Apple arguably qualifies as a duopolist.

DAMIEN MEYER/AGENCE FRANCE PRESSE/GETTY IMAGES

A Century of Techopoly

Today's tech companies enjoy market shares similar to monopolies of earlier eras.



*GE cross-licensed its patents with Westinghouse **Sylvania was licensed by du Pont

***Market share among carriers reporting to the Federal Communications Commission

†Federal district court put Microsoft's share of Intel and Mac-based desktop operating systems at "well above 80%"

Sources: Michael Scherer, Harvard University; Federal district court; StatCounter; eMarketer; Global Web Index; Codex Group.

THE WALL STREET JOURNAL

competitors against Google.

But when Google launched its own comparison business, Google Shopping, those sites found themselves dropping deeper into Google's search results. They accused Google of changing its algorithm to favor its own results. The company responded that its algorithm was designed to give customers the results they want. "If consumers don't like the answer that Google Search provides, they can switch to another search engine with just one click," Executive Chairman Eric Schmidt told Congress in 2011.

At that same hearing Jeffrey Katz, then the chief executive of Nextag, responded, "That is like saying move to Panama if you don't like the tax rate in America. It's a fake choice because no one has Google's scope or capabilities and consumers won't, don't, and in fact can't jump."

In 2013 the U.S. Federal Trade Commission concluded that even if Google had hurt competitors, it was to serve consumers better, and declined to bring a case. Since then, comparison sites such as Nextag have largely faded.

European model

Last year the European Commission went in the other direction and fined the company \$2.9 billion and ordered it to change its search results.

The different outcomes hinge in part on different approaches. European regulators are more likely to see a shrinking pool of competitors as inherently bad for both competition and consumers. American regulators are more open to the possibility that it could be natural and benign.

In new industries, smaller players are frequently bought up or vanquished by deeper-pocketed, more-innovative rivals. Google's general counsel, Kent Walker, wrote in response to the European Commission decision that even as smaller sites have retreated, Amazon has grown to become a huge player in comparison shopping.

But a platform that confers monopoly in one market can be leveraged to dominate another. Facebook's existing user base enabled it to become the world's largest photo-sharing site through its purchase of Instagram in 2012 and the largest instant-messaging provider through its purchase of WhatsApp.

"There should be hundreds of Yelps," a company official says. "There's not."

The company says size makes it possible to deliver millions of items free of shipping charges to isolated communities with little retail presence. Amazon makes that network available to third-party merchants who pay a 15% commission and, typically, a \$3 pick-pack-and-ship fee, says Greg Mercer, founder of Jungle Scout Inc. which advises third-party merchants how to sell on Amazon. "We have tons of examples of small entrepreneurial-type people who are really good at creating new inventions but have no idea how to distribute to the masses," he says. "They create products and Amazon can take care of the rest."

The probability of regulatory action—for now—looks low, largely because U.S. regulators have a relatively high bar to clear: Do consumers suffer?

"We think consumer welfare is the right standard," Bruce Hoffman, the FTC's acting director of the bureau of competition, recently told a panel on antitrust law and innovation. "We have tried other standards. They were dismal failures."

Still, Ms. Scott Morton notes, "the consumer welfare standard covers today and tomorrow," and the potential loss of innovation is something both the law and the courts can and have weighed in an antitrust case.

nize Guam as a destination because it's neither a sovereign state nor an American state.

Target shipped to Mongolia and the tiny Pacific nation of Kiribati but not Guam. After a recent query from The Wall Street Journal, a representative of the retailer said a system "glitch" was fixed, adding Guam to the list of approved shipping destinations.

Internet sales make up around 4.5% of Guam's retail sales compared with 12% across the U.S., according to Euromonitor International, an estimate that excludes motor vehicle sales, food services and wholesale industries.

Rodrigo Verano-Torres, of Detroit, visited the Guam Kmart last year and said he had to leave because of the crowds. "The sheer volume of people there, especially during the day, kind of raised my anxiety level," he said.

—Suzanne Kapner and Min Sun Lee contributed to this article.

KMAR

Continued from Page One

a department store on the island that also benefits from the visitors, she said.

North Korea's threats last summer to attack the U.S. territory dented tourism a bit, except from South Korea. The number of visitors from the country jumped 25% in past months. Among them was Kim Myeong-jun and his wife.

The couple recently took the 4½ hour trip from Seoul to Guam for a holiday that included Kmart visits. Their shopping list had teething rings and baby blankets. When in Guam, he said, "Kmart shopping is a must."

Korean and Japanese-language websites and blogs give tips for shopping at Guam Kmart, including an explanation of discount coupons.

Guam's 100,000 square-foot Kmart is somewhat of a uni-

corn for Kmart's parent Sears Holdings Corp. and its owner Edward S. Lampert, the 55-year-old financier who through his hedge fund, ESL Investments Inc. is Sears's largest shareholder, with a 54% stake. Mr. Lampert declined to comment.

Kmart opened its 2000th store in 1981 and now has roughly a quarter of that. The company last week said it would close another 64.

In much of the U.S., Kmart is seen as a down-market, old-fashioned brand, said Neil Saunders, managing director at GlobalData Retail, a research and consulting firm.

The store in Guam, he said, "never had that sort of status."

The company doesn't disclose sales for individual stores, but a former executive said the two-decade-old Guam Kmart produces slightly more than \$100 million in annual sales—about three times the revenue of the next-highest grossing store. The average

Kmart store had sales of \$9 million, according to retail consultancy eMarketer, down 20% since 2012.

Not bad for a locale with just 162,000 residents, along with another 7,000 or so on two U.S. military bases.

Nicole Winkler hadn't shopped at Kmart for years until she moved from Port Townsend, Wash., to Guam in 2016 for her husband's naval posting. "It's like the cheapest area to buy stuff," she said, "and you tend to be able to find everything you need in a one-stop shop."

Ms. Winkler had stopped by for shampoo and left with two camping chairs.

While visiting Guam last year, Marie Henson, of Fairhope, Ala., headed to Kmart for cold medicine. The crowds surprised her. "I don't go too much to the Kmart at home because basically they've closed," she said, but in Guam, "people were loading the carts down."

Gilbert Grimm returned home to Munsville, N.Y., last week from a Guam holiday and brought back a store T-shirt.

"The local Kmarts in this area of New York have all shut down," he said. "I remember Kmart from when I was a little kid back in the early '60s so it was a nice souvenir to have."

Guam residents don't get free shipping from Amazon Prime. Amazon purchases take

around 12 days to reach the western Pacific island. The online giant won't ship items longer than 9 feet or heavier than 70 pounds. A \$14.95 board game can cost nearly as much to deliver.

The difficulty of getting items to Guam is popular conversation. "Lots of stores just don't ship to Guam," said Jeff Perez-Damian. She said some online retailers don't recog-



The Kmart store in Guam is located 6,000 miles west of California in the Pacific Ocean and operates 24 hours a day.

MARIE HENSON

GREATER NEW YORK

N.J. Governor Pledges Progressive Agenda

Murphy says he will resist policies on immigration, drilling and tax-code overhaul

BY KATE KING

TRENTON, N.J.—Phil Murphy was sworn in Tuesday as the 56th governor of New Jersey, pledging to advance progressive policies while building a “stronger and fairer” economy for the state’s 9 million residents.

“New Jersey was once renowned for big ideas and can be again,” Mr. Murphy said in his inaugural address.

Mr. Murphy, a Democrat and political novice, replaces former Gov. Chris Christie, a Republican who spent eight years in office and was prevented by term limits from running for re-election. Democrats are now firmly in command in Trenton, with the party also controlling both houses of the state legislature.

The new governor inherits a financially strained state budget and troubled transit system. A large, unfunded public-pension liability has dragged down the credit-rating on New Jersey’s general-obligation bonds in recent years and will likely hamper the new administration’s efforts to spend on other priorities. NJTransit, meanwhile, has been plagued by breakdowns and delays in recent years.

Mr. Murphy didn’t address public pensions or NJTransit in



New Jersey Gov. Phil Murphy, right, stands with Lt. Gov. Sheila Oliver on Tuesday after their inauguration ceremony in Trenton.

his speech Tuesday and rarely mentioned New Jersey’s property taxes, which are among the highest in the nation. He instead asked the legislature to send him bills that raise the minimum wage to \$15 an hour, require equal pay for women, give workers paid sick leave, strengthen gun control and revamp the state’s voting laws. He called for laws that “reaf-

firm our support” for women’s health programs and Planned Parenthood.

“A stronger and fairer New Jersey creates tools for small businesses and women-, veteran- and minority-owned businesses to thrive, instead of delivering massive tax breaks to a handful of select and connected big corporations that frankly don’t need them in the first

place,” he said.

Mr. Murphy also criticized Republican President Donald Trump, saying New Jersey would welcome all immigrants, including those from Haiti and Africa. Mr. Trump was criticized last week for asking during a meeting with lawmakers why America should admit immigrants from places such as Haiti and certain countries in

Africa.

The new governor said he would resist Mr. Trump’s policies on immigration, offshore drilling and the new federal tax code, which will hit high-tax states like New Jersey particularly hard. “We must reject the president’s dark belief of an America in decline and in carnage,” Mr. Murphy said.

Sheila Oliver also was sworn

Cuomo Urges Tweaks to Tax Code

BY MIKE VILENSKY

New York Gov. Andrew Cuomo urged state lawmakers Tuesday to work with him to make changes to the state’s tax code this year in response to the recently passed tax overhaul in Washington.

The Democratic governor, in a budget address in Albany before the state Legislature, proposed replacing part of the state’s income tax on individuals with an equivalent payroll tax on employers.

“This shift, while dramatic, would thwart what the federal government was trying to do,” said Mr. Cuomo, who seeks election to a third term this fall.

The intention is to offset a cap on how much in state and local taxes New York residents can deduct from their federal taxes, a limit put into place under the new Republican-backed tax law.

Under the new federal law, businesses can still deduct payroll taxes from their federal income taxes, so Mr. Cuomo’s idea offers a way to preserve the benefits of deductibility by shifting the deduction from individuals to their employers.

The announcement had been anticipated since Mr. Cuomo mentioned it earlier this month, and more details are expected this week. Mr. Cuomo announced the proposal at the top of the budget presentation Tuesday, signaling he is placing a priority on the issue.

He also said another plan was under consideration that

Governor’s Approval Ratings Improve

New York Gov. Andrew Cuomo is heading into his 2018 re-election campaign with a strong approval rating, according to a poll released Tuesday.

Mr. Cuomo, a Democrat, has a 62% favorability rating in New York, according to the Siena College poll, a 10-point improvement over the same poll last year, and 76% favorability among Democrats, the highest marks since his first term.

Mr. Cuomo, a Democrat, scored his highest approval marks in the Siena College poll since his first term, Siena pollsters said.

Among Democrats, the governor has a 76% approval rating, according to the poll. The poll found the governor was more popular than some other prominent state politicians.

New York City Mayor Bill de Blasio has a 44% overall fa-

vorability number and 61% approval among Democrats. New York Sen. Kirsten Gillibrand, a Democrat also up for re-election this year, has a 51% overall favorability rating in New York, according to the poll, and 62% approval among Democrats in the state.

Both Mr. Cuomo and Ms. Gillibrand are seen as potential challengers in 2020 to Republican President Donald Trump, another native New Yorker.

Mr. Trump maintains low ratings in his home state, with only 32% of New Yorkers polled saying they have a favorable opinion of him. He fares better among New York Republicans, with 67% of those polled saying they have a favorable opinion of the president.

Mr. Cuomo’s numbers Tuesday show a bounce since his 52% favorability rating in a Siena poll from November. His approval ratings slipped throughout 2017 amid a rash of problems on New York City subways.

chairman of the House Ways and Means Committee, through which all federal tax-law changes generally flow.

Mr. Cuomo pointed Tuesday to other fiscal challenges for the state, most notably a \$4 billion budget deficit. He pledged to close the gap through what he called “revenue raisers”—effectively new taxes and fees—on health insurers, opioid manufacturers and online sales. He said his proposed budget would keep state spending growth under 2%.

Overall, Mr. Cuomo proposed a budget that totals \$168 billion, with spending in major areas flat or seeing only modest increases. The State Assembly Speaker and Senate co-leaders will negotiate the plan with the governor. The budget is due April 1.

Education, which is frequently a contentious element of the budget, would see a 3% spending jump under Mr. Cuomo’s proposal. That is less than activists had sought and is expected to cause friction.

As in year’s past, Mr. Cuomo is mixing social-policy ideas into the budget negotiations. Among them is a plan to impanel the state health department to study the effects of legalizing recreational marijuana, a measure long sought by liberal activists but of which Mr. Cuomo has been wary.

“This is a hotly debated topic...and it would be nice to have some facts,” he said.

Delaware River Threatens Communities With Flooding

By SETH WEINIG/ASSOCIATED PRESS



ICE JAM: A bridge that spans the partially frozen Delaware River in Trenton, N.J., Tuesday. The ice caused a rise in the river level.

in Tuesday as Mr. Murphy’s lieutenant governor. Ms. Oliver, a former assemblywoman from Essex County, will be the state’s second lieutenant governor since the position was created through a 2005 ballot referendum.

Mr. Murphy has appointed Ms. Oliver to serve as commissioner of the state’s Department of Community Affairs, which oversees local government management and finance, the recovery from superstorm Sandy, housing and community development.

Ms. Oliver, who was the first African-American woman to serve as speaker of New Jersey’s Assembly, noted that she was being sworn in as the first woman of color elected to a statewide office just one day after Martin Luther King Jr. Day. “I recognize that while these moments are historic, we make history not in the moment but in what we do with it,” she said after taking the oath of office.

New Jersey’s first lieutenant governor, Kim Guadagno, attended Tuesday’s ceremony, as did Mr. Christie. Mr. Murphy defeated Ms. Guadagno, a Republican, in the November election.

In his first official act as governor, Mr. Murphy signed an executive order that prohibits state employers from asking applicants about their salary history when they apply for state jobs. He said the measure represented the first step toward statewide equal-pay legislation, which was previously vetoed by Mr. Christie.



A conference on the legacy of 1968 will be part of the festival.

Carnegie Hall Sees A Future in the ’60s

BY CHARLES PASSY

This season, Carnegie Hall is turning back the clock a half-century. But its goal is actually to find an audience for the future.

The hall is presenting a two-month festival called “The ’60s” that looks at the pivotal decade through a series of not just concerts but also lectures, films and dance and theatrical events. Participating artists and groups include singer-songwriter David Crosby, the Dance Theatre of Harlem and the Kronos Quartet.

While Carnegie oversees the festival, which kicked off this past weekend and runs through March 24, many of the programs take place outside the hall at institutions running the gamut from the New-York Historical Society to the New York University School of Law.

It is part of a continuing strategy to reach out to new audiences and expand the hall’s imprint citywide. The ’60s festival is actually Carnegie’s 10th interdisciplinary multivenue festival. Previous ones have looked at Leonard Bernstein’s storied career and the city of Berlin’s artistic life, among other subjects.

The range of themes has become an especial point of pride for the hall. “Every single festival is different from every other festival,” said Clive Gillinson, Carnegie’s executive and artistic director.

The festivals aren’t low-budget affairs. Each one costs between \$2 million to \$4 million to produce. Carnegie

doesn’t pay to produce the events at venues outside the hall.

Carnegie said the festivals generate solid combined annual sales of 10,000 to 20,000 tickets for the hall’s own programs. But just as important, said Mr. Gillinson, is that up to 40% of attendees in a given year are first-time Carnegie ticket buyers, which he offers as proof that the festival is tapping new audiences.

Outside institutions that participate say they benefit as well, noting that the Carnegie imprimatur results in exposure beyond their regular circle of patrons—and by extension, greater demand.

The concert venue is hoping to tap new customers with a themed festival.

“The release of the festival brochure led to many, many frantic calls to me begging for tickets,” said Louise Mirrer, president and chief executive officer of the New-York Historical Society, which hosted a talk last week with filmmaker Ken Burns about the Vietnam War as part of the festival’s prelaunch activities.

Carnegie Hall isn’t alone in looking outside its physical space when offering festival programming. Lincoln Center has similarly joined with other New York institutions on its White Light Festival.

GREATER NEW YORK

METRO MONEY | By Anne Kadet

Snow Can Be an Inconvenience—or a Bonanza

A For most of us, a winter storm means a rough commute or cozy snow day at home. But for folks in the digging-out business, it's a bit of a cash bonanza.

"I call it manna. It's manna from heaven," says Barnabas Shakur.

Mr. Shakur is the founder of Foot Soldiers, a growing outfit that specializes in shoveling out the townhouses and brownstones of Central Brooklyn. His clients, who contract upfront for guaranteed service, pay \$100 for snowfalls of up to 6 inches, plus \$20 for each additional 2 inches of snow.

After the big storm earlier this month, 150 clients paid about \$160 each to have Mr. Shakur's crews shovel their sidewalks, stoop and front patio.

It's a hefty sum, says Mr. Shakur, who was born in Trinidad and grew up in the Bedford-Stuyvesant neighborhood of Brooklyn, where his business is based. But that is the price of reliability.

The day of the storm, he had his 30-man crew gathered in his storefront office by noon, on the clock and



Calvin Blair, who works on a Foot Soldiers snow-removal crew, salted the outside of a brownstone.

ready to go. Unfortunately, the snow didn't stop until 5 p.m. The delay cost him \$2,500.

Once the skies cleared, his troops fanned out in small crews, each equipped with a driver and navigator; everybody shovels.

A crew can clear 20 fronts in a single shift. They double

park in front of the home and typically finish the job in 10 minutes. "We don't play when we get to the property," says Mr. Shakur.

Client Sara Nichols, a teacher and single mom, says she is on a strict budget but willing to splurge on snow removal for her Bed-Stuy townhouse.

"I hate shoveling snow," she says. "But it is also knowing I'm being responsible, and I'm concerned about liability."

"Snow removal is about liability," says Mr. Shakur, who documents each job with a photo.

Another incentive: The city issues fines of \$100 to \$350 to property owners who don't

shovel their walks in a timely manner. Inspectors issued about 12,000 violations last year and 988 so far in 2018.

Mr. Shakur's business model has evolved. Foot Soldiers started as a nonprofit employing teens trooping house-to-house on foot. But the routes took too long to complete, and customers complained of poor service, he says.

Now he hires young adults. They command higher rates—\$15 to \$20 an hour.

Mr. Shakur's business model isn't the only sidewalk-shoveling solution, of course.

In Glendale, Queens, John Merritt, owner of junk-removal service **J&M Cleanouts**, launched his shoveling service to provide more work for employees during winter months, when business drops 50%.

"There is only so much we can do, as far as a bunch of men who are not college educated," he says.

Mr. Merritt offers unlimited shoveling, all winter long, for a single upfront fee. This year, his 24 subscribers paid between \$1,000 and \$3,000 for a season pass, depending on factors such as frontage.

Last-minute jobs can be

especially lucrative. After the Jan. 4 storm, Mr. Merritt got 800 calls from hapless homeowners as far away as Boston begging for service. "Everyone has a story," he says. "Everyone's wrist is broken. Everyone's hip is broken."

One customer in China requested a post-storm clearing for a townhouse in Sunny-side, Queens. The price for stoop, sidewalk and driveway: \$300.

You still find children going door-to-door offering to shovel for \$20, of course. And every winter, Craigslist gets a flurry of ads from newly minted opportunists: "I don't have a shovel but if you do and really don't want to do it yourself give me a call \$25 for steps and walkway."

The city, meanwhile, says that following recent snows, it paid about 600 temporary laborers \$15 an hour to clear bus stops, hydrants and crosswalks.

When it really雪s, it seems, there is plenty of business to go round. Mr. Shakur, who plans to expand citywide, says there is room for all types. "It's the open market of snow," he says. "It's the wild wild West!"

anne.kadet@wsj.com

State to Assess Racial Impact in Crime-Law Changes

BY CORINNE RAMEY

Changes to criminal-justice laws in New Jersey now require an analysis of their impact on racial and ethnic minorities, making the state among only a handful in the nation to do so.

A bill mandating the analyses, which outgoing Republican Gov. Chris Christie signed Monday, requires the state's Office of Legislative Services to prepare so-called racial-impact statements for policy changes that

affect pretrial detention, sentencing and parole.

The legislation notes that criminal-justice policies, "while neutral on their face, often adversely affect minority communities." It says these consequences could be better addressed before changes because once laws are made it is difficult to reverse them.

New Jersey has the largest disparity between white and black incarceration rates in the country, according to the Sen-

tencing Project, a nonprofit that advocates reducing the prison population. The state's prison population is 61% black, 22% white and 16% Hispanic, data show. The state's general population is 14% black, 69% white and 18% Hispanic, according to census data.

Iowa, Connecticut and Oregon require racial-impact statements, said Nicole D. Porter, director of advocacy at the Sentencing Project. While such analyses aren't binding, they do

impact policy-making, she said.

In Iowa, lawmakers scuttled legislation that would increase penalties for cocaine offenses after a racial-impact statement showed the policy would disproportionately affect blacks, she said. Also in Iowa, a racial-impact statement found additional prison penalties for gun crimes would disproportionately affect blacks but lawmakers chose to adopt the measure, she said.

Proponents say racial-impact statements provide information

to lawmakers that can help make the criminal-justice system fairer. "This will help New Jersey make smarter, more informed decisions and address our atrocious racial disparities so we can actually create a system that is fair and has the aim of tackling and ending mass incarceration," said Dianna Houenou, policy counsel at American Civil Liberties Union of New Jersey.

Critics say lawmakers shouldn't take race into account.

Heather Mac Donald, a fellow at the conservative think tank the Manhattan Institute, pointed to statistics that show blacks committed homicides at a rate almost eight times that of whites from 1980 to 2008. Blacks were also disproportionately likely to be victims of homicides. "Given the elevated rates of both black victimization and black crime commission, racially neutral criminal justice practices and laws will inevitably have disparate impact on blacks," she said.

Minority Performers Land More Roles on Broadway

BY CHARLES PASSY

New York City's theater community has made strides over the past decade in increasing opportunities for minority actors, according to a report released this week.

The report, prepared by the Asian American Performers Action Coalition, said minorities made up 35% of the casts of new shows on Broadway and at prominent nonprofit theaters in the 2015-16 season. That is a marked increase from a decade earlier, when the figure was 15%.

"There's a move toward representing all people on New York City stages," said coalition steering-committee member Pun Bandhu.

To a great extent, the surge is because of a handful of shows with a large minor-

ity representation, such as the musicals "Hamilton" and the now-closed Gloria Estefan-inspired "On Your Feet!"

The coalition hasn't released the results for 2016-2017, but Mr. Bandhu said the percentage is likely

The surge is because of a handful of shows with a large minority representation.

to decline since the season had fewer minority-dominated shows.

Mr. Bandhu also said producers of plays aren't paying as much heed to racial diversity, and all-white casts for dramas and comedies are

quite common across New York stages.

That could be changing. "The Play That Goes Wrong," which has been running on Broadway for 10 months, has three African-American actors in its current cast.

And Keegan-Michael Key, a biracial actor known for his work on television, is one of the stars of Steve Martin's new Broadway comedy, "Meteor Shower."

Stephen Kopel, casting director for "The Play That Goes Wrong," says today's audiences have a colorblind approach, so producers shouldn't hesitate to follow suit.

"I have never heard a complaint," he said of his decision to cast "Play" with minority actors. "If anything, it's been the opposite reaction."

GREATER NEW YORK WATCH

CORRUPTION CASE

Government Cleared To Retry Ex-Speaker

The U.S. Supreme Court on Tuesday cleared the way for a retrial of former New York Assembly Speaker Sheldon Silver.

The high court declined to take up the case. That lets a retrial tentatively set for April to proceed.

The 73-year-old Democrat was sentenced to 12 years in prison after his conviction on public corruption charges in late 2015. But the 2nd U.S. Circuit Court of Appeals overturned that conviction last year, returning the case to the trial court.

Mr. Silver's lawyers, Steven Molo and Joel Cohen, said they were disappointed the Supreme Court did not consider the case. "We intend to move forward and obtain a great result for our client," they said.

Prosecutors declined to comment on Tuesday. The government had opposed Mr. Silver's request for a high-court review.

—Associated Press

TERRORIST ATTACK

Judge Asked to Give Bomber Life Sentence

Prosecutors are urging a judge to impose a life sentence on a New Jersey man who injured 30 people in a Manhattan bombing and then promoted his terrorist ideology to other prisoners.

The prosecutors say the Afghanistan-born Ahmad Khan Rahimi deserves the mandatory life sentence required by his October conviction on terrorism-related charges. The government made its arguments in papers Tuesday in Manhattan federal court.

The bombing in the Chelsea section of Manhattan in September 2016 came hours after Mr. Rahimi set off a pipe bomb along a charity race in Seaside Heights, New Jersey. Mr. Rahimi was arrested two days later in a shootout with police.

Prosecutors say Mr. Rahimi is proud of what he did, scornful of the American justice system and remains dedicated to his terrorist ideology.

—Associated Press

YALE LAWSUIT

Yale Settles Lawsuit With Former Student

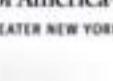
Yale University has settled a lawsuit by a former student who says he was wrongly and unfairly expelled over a false sexual assault allegation in 2012.

Court documents show a federal judge in Hartford signed off on the settlement last week. Terms were undisclosed, but a Yale spokesman says it did not include any payment to the former student and no change in the discipline.

The student is identified only as John Doe in court documents. He says another student falsely accused him of sexual assault after they had consensual sex in 2012.

The settlement comes after criticism of how Yale handles sexual misconduct cases. Former Yale basketball team captain Jack Montague is suing the Ivy League school over his 2016 expulsion for what he calls false sexual misconduct allegations.

—Associated Press



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LIFE & ARTS

MUSIC

Hip-Hop's Generation Gap: 'Emo' vs. 'Dad' Rap

As the music genre has become a commercial juggernaut, some worry about a cultural divide between younger and older artists



BY NEIL SHAH

RAP HAS BECOME the most-consumed music in America, according to industry data, but with its growth comes a new concern: a widening generation gap.

Just as rock 'n' roll splintered in the 1970s when punk arrived, a beef between some young hip-hop artists and "dad rappers" is dividing fans. Some music insiders worry that the schism will hurt the unity of the hip-hop community when its music is at its cultural and commercial peak by splitting fans into opposing camps.

"Hip-hop is a culture, and all cultures, without exception, have traditions and norms," says Tuma Basa, Spotify's global head of hip-hop. "It can stop being a culture if some of its traditions and heritage is not—forget about acknowledged—even known."

On one side are upstarts whose raw, genre-hopping music has been labeled "emo rap." On the other are elder statesmen like Jay-Z, who cater to older fans in a youth-obsessed genre. Bridging the divide? Thirty-something stars like Kendrick Lamar and Nicki Minaj.

Below are five things to know about rap's generation gap.

Hip-Hop's New Wave Emerges

Rappers like Future and Migos, whose mumbling delivery drew both attention and criticism a few years ago, have achieved mainstream success. The new generation—particularly those in Florida's underground scene and on the streaming platform SoundCloud—dive even more from traditional styles.

They meld hip-hop with diary-like lyrics, lo-fi production values and indie-rock influences, evoking "emo," the angst-ridden rock genre popular in the early 2000s. The gloomy lyrics and unpolished attack of acts like XXX-Tentacion and Lil Uzi Vert, who racked up 3.5 billion on-demand streams last year, according to Nielsen Music, seem like a natural progression from Atlanta

heavyweights like Future, says cultural critic Hanif Abdurraqib. "It feels like it's going to stick around."

Rap's Growth, Technology Fuel the Divide

Back in the 1990s, rock music expanded by absorbing elements of rap, spawning groups like Rage Against the Machine and Korn. Now the reverse is happening: Rap is incorporating rock, having already annexed R&B and pop music.

"Every genre that used to exist in music, exists in hip-hop," says David

Jacobs, a music-industry lawyer.

Streaming services and social media are also fueling this expansion. Up-and-coming rappers used to rely heavily on the sponsorship, or "cosign," of veteran rappers. (Dr. Dre's Aftermath Entertainment label in 1998 signed Eminem, for example.) Today, artists like Ski Mask The Slump God can amass an audience on their own.

Fledgling hip-hop acts were previously dependent on traditional

gatekeepers to help them get their music out, says Steven Victor, executive vice president and head of A&R at Def Jam Recordings, who signed Ski Mask to Victor Worldwide, his personal label, a joint venture with Universal Music Group. "With the internet and streaming, it doesn't matter."

Upstarts Give Their Elders the Finger

Hip-hop has experienced many divisive moments over the decades,

but today's young rappers are making headlines by taunting the establishment.

In 2016, Lil Yachty, now 20, told the website Pitchfork that the legendary rapper Biggie Smalls, aka the Notorious B.I.G., was "overrated." (He later apologized.) Lil Pump, a 17-year-old Florida rapper, has a song titled "F***k J. Cole," referring to the thirty-something rapper. J. Cole's representative didn't respond to a request for comment.

Atlanta's 21 Savage, 25, has criticized older "O.G. rappers" for scapegoating the new generation. "They say we make drug-user music," he wrote in November. "Like making drug-selling music is better."

Experts say young rappers are simply "trolling" their elders for fun or publicity. But Mr. Abdurraqib says he is worried about the potential damage to the hip-hop community's sense of history and lineage. Doves of rock fans have listened to Led Zeppelin over the decades. What if teen rap artists and fans aren't curious about Biggie?

If rap's generations go their own ways and disregard each other's music, as some observers fear, that could also dent album and concert-ticket sales.

In rock, for example, nostalgia is a moneymaker. The five highest-grossing concert tours in history have occurred in roughly the last decade: U2, the Rolling Stones, Coldplay, Guns N' Roses and Roger Waters, according to Billboard. Hip-hop's nostalgia business—"classic rap"—remains a relative laggard.

'Dad Rappers' Figure Out Their Fanbase

After stumbling for years, stars like Jay-Z are winning over critics with more mature music. On "4:44," his 13th studio album, he grapples with infidelity and parenthood, while doling out financial tips.

Other critically acclaimed "dad rappers" include Killer Mike, A Tribe Called Quest, Pusha T and E-40. They "have figured out who their audience is," says Kim Osorio, former editor in chief of hip-hop magazine the Source, "and are catering to that."

Stars Attempt to Build Bridges

Hip-hop is firing on all cylinders despite its generational tensions, as evidenced by this year's Grammy Awards nominations.

Jay-Z, 48, and Mr. Lamar, 30, are competing for Album of the Year. Female MCs Cardi B, 25, and Rapsody, 34, are vying for key rap awards, along with 26-year-old Tyler, the Creator and Migos, whose three members are all in their 20s. Lil Uzi Vert, 23, scored a nod for Best New Artist. The winners will be named Jan. 28.

Some of the biggest stars in hip-hop are consciously attempting to build bridges. Mr. Lamar has encouraged younger rappers not to diss veterans, while publicly supporting XXXTentacion's music on Twitter.

When he hosted "Saturday Night Live" in November, Chance the Rapper, 24, performed in a sketch called "Rap History" that featured out-of-touch aging rappers and a superficial young artist named "Lil Doo Doo."

Unity makes good business sense, Jay-Z says on his new song, "Family Feud."

"We all lose when the family feuds," he raps. "What's better than one billionaire? Two."

ILLUSTRATION BY ROBERT NEUBECKER

WORK AND FAMILY | By Sue Shellenbarger

HOW TECH EXECS MONITOR THEIR TEENS ONLINE

WHILE INVESTOR protests about smartphones' harmful social effects began making headlines only recently, Silicon Valley parents have struggled with the issue for a long time.

Tech executives with children share many of the same concerns other parents have about tweens' and teens' social-media use—that it will disrupt sleep, homework or face-to-face socializing, or expose their children to bullies or predators.

Those who are experts on the internet and information security also wonder: What hidden security threats lurk in the latest social-media app? Which of many possible paths might hackers take to invade their children's privacy?

The routes tech-savvy executives choose to protect their tweens and teens online vary, from close monitoring to guiding them in managing the hazards themselves.

Teaching Decision-Making

Steven Aldrich foresees his 16-year-old son Jackson constantly surrounded by apps and devices



designed to grab his attention.

Mr. Aldrich, chief product officer at GoDaddy Inc., a Scottsdale, Ariz., provider of internet domains and websites to businesses,

and his wife, Allison, shun the parental-control apps and filters with which some parents control their children's internet and social-media use. "No amount of moni-

toring is going to teach responsibility or judgment," Mr. Aldrich says. "The kids have to learn to live in a world where that's the reality." Instead, he and his wife "fo-

cus on, how do we create an environment where Jackson has the chance to learn judgment, by participating in setting limits and creating boundaries for himself."

They started early, letting Jackson decide as a child, with parental coaching, how much candy to eat from the pantry. This has evolved to teaching him to finish a homework assignment before checking social media. Mrs. Aldrich sometimes asks Jackson to let her know when he takes breaks from homework, Jackson says, making him aware of whether he's diverting his attention too often.

They're helping him learn time management, such as scheduling homework, sports practice, dinner and sleep in advance so that social media doesn't crowd them out.

He and his wife also encourage Jackson to think about everything he posts as part of his permanent personal brand, Mr. Aldrich says, asking him: "Think about what you might have chosen if you'd gotten a tattoo when you were 3? What if you got a Barney tattoo, and now

Please see ONLINE page A12

LIFE & ARTS

ANDRINA MERETTA FOR THE WALL STREET JOURNAL
MY RIDE | By A.J. Baime

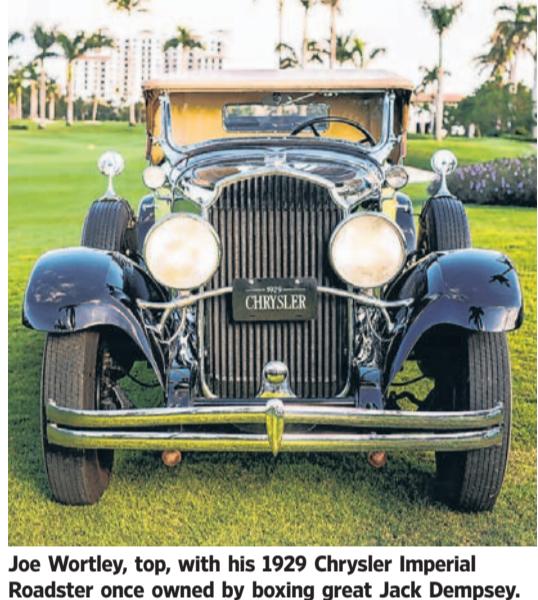
An Exemplary Emblem Of the Roaring '20s

Joe Wortley, 75, a semi-retired entrepreneur and C.P.A. from Boca Raton, Fla., on his 1929 Jack Dempsey Chrysler Imperial Roadster, as told to A.J. Baime.

I am a collector of things that may seem odd to some, but they have meaning to me. I own an Apollo 13 mock-up that was used in the Tom Hanks movie "Apollo 13," a 19th-century pipe organ that is bigger than a car and a nearly full-scale re-creation of Charles Lindbergh's Spirit of St. Louis airplane. My most noteworthy car is a Chrysler that once belonged to Jack Dempsey, the world heavyweight boxing champion for much of the 1920s.

I bought the car in 2001 from the late Tom Lester, founder of the Lester Tire Co. who was also a master car restorer. After he restored the vehicle in the 1970s, it won a first-place award at a Classic Car Club of America national competition.

Mr. Lester told me that the car had belonged to Mr. Dempsey. A friend of mine who worked at Chrysler confirmed this fact and sent me a photo he said showed the boxer picking up the car at the



Joe Wortley, top, with his 1929 Chrysler Imperial Roadster once owned by boxing great Jack Dempsey.

Chrysler factory. A quick Google search turns up this same photo. (The car was all black at the time.)

People today don't realize how revered the sports stars of the 1920s were. Babe Ruth, the tennis player Bill Tilden, Mr. Dempsey—these people were unbelievably famous.

The vehicle is interesting for other reasons as well. It was built

at a time when Chrysler was still run by its founder—Walter Chrysler—and it is a 1929 model, which means it is emblematic of Roaring 1920s extravagance, right before the stock market crashed. The Imperial was Chrysler's high-end vehicle, the company's answer to Cadillac and Lincoln.

As was custom with some high-end cars at the time, the car company would build the mechanical vehicle and a "coach builder" would construct the body, which meant that many of these car bodies were hand-built and unique. My car's body was made by a company called Locke, which also made bodies for Rolls-Royce.

The car has its original six-cylinder engine, just over 5.0-liters. I like to drive it around town. It can be hard to steer (there is no power steering) and parking a car like this in Boca Raton can be quite a project. But the car always draws a crowd, just like Jack Dempsey did back in the day.

—Contact A.J. Baime at Facebook.com/ajbaime.

ONLINE

Continued from page A11
you're in middle school? Would you want to be walking around with a Barney tattoo?"

They've used examples from Snapchat of mistakes other teens made in oversharing, and asked Jackson to imagine how the sender felt afterward.

Jackson, who uses Snapchat and Instagram and also has a YouTube channel of his own about video-games and soccer, says he has learned to ask himself before posting anything to consider how it might affect his image. "Would I want the principal, a future employer, my teachers to see this?" he says. "Once you post something, it will be out there forever."



self-esteem?" And I have to be quiet and listen. It's an ongoing struggle."

She also requires her daughters to get permission before downloading apps. "Sometimes they'll send me an app that is just ridiculous. My older daughter asked for a celebrity app, with a lot of pictures of body parts," Ms. Dennedy says. "I asked her, 'Write me a memo about what this will do to improve your life, and then we'll have a conversation.' She wrote the memo, tongue-in-cheek, with a lot of eye-rolling, saying, 'I like the Kardashians because they annoy my mom.' She still didn't get the app."

Monitoring Closely

Eight-year-old Jack Arkin's online activity so far is limited to watching children's videos on YouTube and sending email. But his father, Brad, who is chief security officer for Adobe, the San

Jose, Calif., cloud-software company, has already begun shaping his attitude toward social media.

Mr. Arkin and his wife, Carolyn, closely monitor everything Jack does online. They restrict screen time for Jack to 30 to 60 minutes on most days.

They read Jack's emails over his shoulder and stream his children's videos on the family TV, setting YouTube on restricted mode and keeping an eye on content.

Jack will probably get his first phone next year, but it will be an old-fashioned flip phone, so he and his parents can call or send texts while he's walking to and from school.

Mr. Arkin doesn't plan to rely on parental controls when Jack, and his two younger brothers, ages 6 and 3, eventually get smartphones. "At my day job as a security guy, I know that software controls can be circumvented by determined adversaries," he says. Instead, "I try to teach my kids to understand the tech concepts behind what they're doing."

"I'm doing my best," Mr. Arkin says, "to make my kids savvy but not over-fearful."

Michelle Dennedy, top, works for Cisco Systems and Steven Aldrich, above, for GoDaddy.



She checks privacy settings every six months on all the apps she and her daughters use on their smartphones. If social media distracts them from homework, "the Wi-Fi goes off and the books come out," Ms. Dennedy says.

She teaches them how marketers use free apps to get personal information.

She refrains from making judgments about teens' social-media habits. "Apparently if you don't respond with a selfie fast enough, people get upset. I respect their culture. I can't just say, 'That's dumb, these people are ridiculous,' and walk away," Ms. Dennedy says. Instead, she asks, "What is this doing to your

FROM TOP: CISCO; GODADDY

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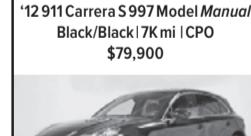
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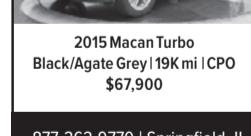
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LIFE & ARTS

CULTURAL COMMENTARY

Two Ellington Anniversaries

BY JOHN EDWARD HASSE

DUKE ELLINGTON (1899-1974) was always pushing against conventions and limits, creating an enormous, innovative and nonpareil body of compositions and recordings that still hold wonders for the listener. He treated his band's rehearsals as a musical laboratory, experimenting with new harmonies, timbres and instrumental voicings. Like a magisterial chef, he alchemized his ingredients—the signature styles of his musicians—into a whole that was greater than the sum of its parts.

Ellington hated being pigeonholed as strictly a jazz musician. He was, in fact, in a phrase he favored, "beyond category." Over his astonishingly productive 50-year career leading the Duke Ellington Orchestra, he composed songs, short instrumentals, multi-movement suites, scores for ballets and motion pictures, and Broadway-bound musicals. He was mostly known as a miniaturist for his three-minute evergreens such as "Mood Indigo," "Sophisticated Lady," and "Satin Doll." But his lesser-known, large-scale works provided him the canvases to tell bigger stories, inspired by, among other topics, African-American history and his reverence for God. Those themes inform two of his landmark works whose jubilees occur this month.

Seventy-five years ago, he made a much-publicized debut at Carnegie Hall, enlarging his place in the soundscape beyond ballrooms, nightclubs and theater stages. The highlight of that concert on Jan. 23, 1943, was his 45-minute magnum opus "Black, Brown, and Beige: A Tone Parallel to the History of the Negro in America." "BB&B," which finally came out on disc in 1977, evidenced the composer's profound pride in African-American history and his intent to express "an authentic record of my race written by a member of it."

With little experience writing



FROM LEFT: CARNEGIE HALL ARCHIVES; BETTMANN ARCHIVE/GETTY IMAGES

long forms, Ellington struggled with continuity, transitions and the ending, yet "BB&B" is a seminal work. Its three movements—"Black," "Brown," and "Beige"—move from the Revolutionary War period to the mid-20th century. Its most memorable sections are "The Blues" (sung by Betty Roche), "Emancipation Celebration" and "Come Sunday." One of Ellington's most ravishing melodies, the ethereal, devotional "Come Sunday" is played luminously on the recording by alto saxophonist Johnny Hodges,

who wrings from each phrase every nuance of tender and reverential feeling, drawing instant, awed applause from the audience.

Ellington kept his spirituality largely to himself, but in the 1960s, facing the illness and death of long-time collaborator Billy Strayhorn and thus his own mortality, he began writing "Sacred Concerts." The first had its premiere in 1965 at San Francisco's Grace Cathedral. The "Second Sacred Concert" had its debut at New York's Cathedral of St. John the Divine on Jan. 19, 1968,



A poster advertising Duke Ellington's 1943 Carnegie Hall debut, left; Ellington conducts his 'Sacred Concert' at the Cathedral of St. John the Divine, above.

to an audience of 6,000 and was soon recorded for release later that year.

"I regard this concert," Ellington wrote in 1973, "as the most important thing I have ever done," and he paid for its subsequent recording. Though marred by his sincere but inelegant lyrics—"Freedom, Freedom must be won / 'Cause Freedom's even good fun"—the work was generally very well received; Down Beat magazine gave the recording "all the stars in God's heaven." Ellington presented it across the U.S. and Europe.

Freedom is a major theme; the movement "It's Freedom" explores the word in different pitches and languages. In free rhythm, then bossa nova rhythm, "Heaven" is sung by the magnificent Swedish coloratura soprano Alice Babs, whose angelic, clear voice could soar into the highest spires of any cathedral. Beginning sparely and building in volume, "Almighty God" spotlights bass, clarinet and Babs's voice. Cootie Williams "talks" and growls his trumpet masterfully through "The Shepherd (Who Watches Over the Night Flock)." "T.G.T.T. (Too Good to Title)" has Ellington atypically playing a dulcet electric piano, accompanying Babs in a wordless vocal, with a melody that goes up and down, from earth to heaven, and ends in

the Celestial City. The concert culminates in "Praise God and Dance," with words drawn from Psalm 150.

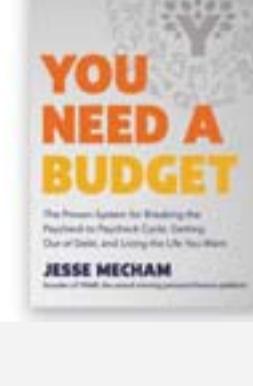
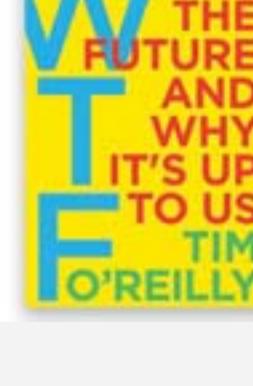
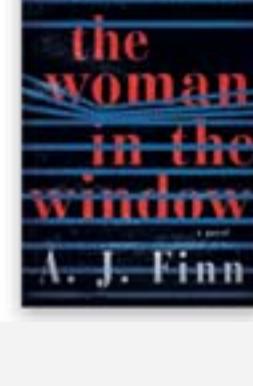
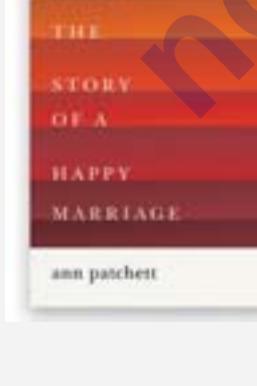
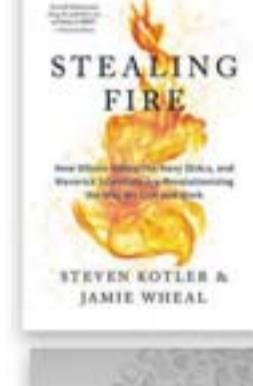
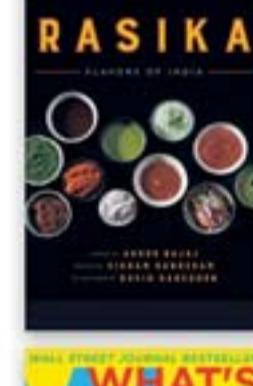
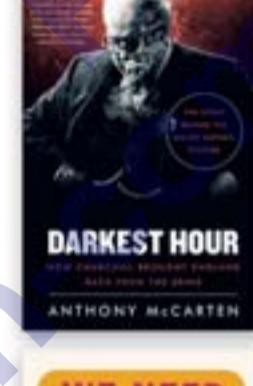
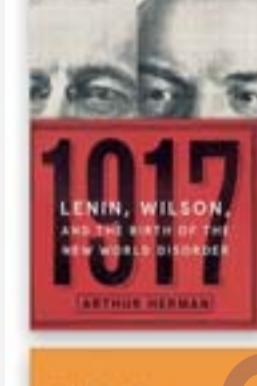
Both "BB&B" and the "Second Sacred Concert" have taken their places not only as milestones in Ellington's artistic career, but as classics of American music. The premiere performance of "BB&B" is included in "The Duke Ellington Carnegie Hall Concerts, January 1943" (Prestige). Ellington's 1958 streamlined "BB&B" with the eminent gospel singer Mahalia Jackson is on Columbia, while a 1965 version of "BB&B" highlights is on "The Private Collection, Volume Ten" (Saja).

Prestige issued Ellington's "Second Sacred Concert." Parts of it are widely performed in the U.S. and abroad.

On April 26-28, the Jazz at Lincoln Center Orchestra, led by Wynton Marsalis, will perform "BB&B." Also this spring, Jazz Lines Publications will issue a complete edition, over 200 pages long, of "BB&B," which should stimulate performances in the U.S. and abroad. The public can hope to hear these remarkable works presented more often in the future.

Mr. Hasse, curator emeritus of American music at the Smithsonian Institution, is author of "Beyond Category: The Life and Genius of Duke Ellington" (Da Capo).

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SPORTS

MLB

A TEAM BUILT TO WIN...IN 2012

BY JARED DIAMOND

FRESH OFF their worst season in more than three decades, the San Francisco Giants have taken a novel approach this winter to building a roster capable of returning to the playoffs: They've assembled a legitimate super team—from six years ago.

The Giants on Monday traded for outfielder Andrew McCutchen, a five-time All-Star, former National League MVP and one of baseball's best all-around players with the Pittsburgh Pirates from 2012 through 2015. But after posting a .926 OPS over that span, the 31-year-old McCutchen has seen his production fall off of late, with his OPS dropping to .807 over the past two seasons.

McCutchen's arrival comes about three weeks after the Giants acquired third baseman Evan Longoria, the face of the Tampa Bay Rays for the past 10 years. Like McCutchen, Longoria was once an elite slugger, finishing in the top 10 of MVP voting in 2010, 2011 and 2013. But unfortunately for the Giants, they're not getting that Longoria. They're getting the 32-year-old Longoria who hit .261 with a .737 OPS in 2017.

Longoria and McCutchen join a roster filled with players that would be much more attractive pieces if the 2018 Giants had access to a functioning time machine.

Outfielder Hunter Pence hit .314 with 22 home runs and an .871 OPS in 2011...but hit just .260 with 13 homers and a .701 OPS last season. Pitcher Jeff Samardzija was an All-Star in 2014...but he posted a 4.42 ERA and led the NL losses a year ago. Then there's Pablo Sandoval, Kung Fu Panda himself, who was an All-Star in 2011 and 2012, but has hit a dismal .215 in just 82 games since 2016.

Of course, all of this could work out great. Maybe Longoria will be invigorated to escape Tropicana Field or McCutchen will discover the Fountain of Youth. After going 64-98 last season, the Giants really can't do any worse.

JUSTIN BERL/GETTY IMAGES
Andrew McCutchen

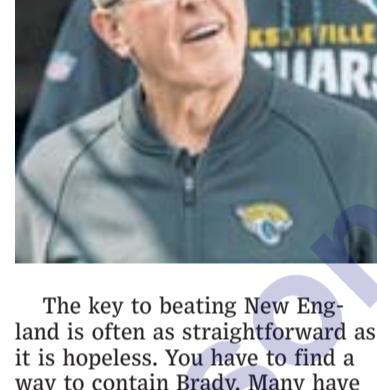
Above, Jaguars defensive end Calais Campbell led the team with 14.5 sacks this season. Below, Tom Coughlin is the team's executive vice president.

NFL

Why the Jaguars Are a Giant Threat

Jacksonville is built like the team that stymied New England twice in the Super Bowl: the Giants

BY ANDREW BEATON



FOR ALL THE New England Patriots' success, there is one team that historically terrified the defending Super Bowl champions this time of year. They pressured Tom Brady. They controlled the ball and shortened the game. They relied on discipline that matched New England's robotic expertise.

That team was the New York Giants, which used this blueprint to beat the Patriots in two Super Bowls. Which is why the Patriots should be frightened this weekend: Their opponent in Sunday's AFC Championship game is basically the Giants, except in helmets featuring a snarling cat and funny black and teal uniforms.

"Here," said Jaguars safety Barry Church, "we have the same type of formula."

Until last weekend, most signs pointed to another Patriots-Steelers showdown in the AFC Championship. But Pittsburgh has had its chances against New England and let them slip away.

Meanwhile, the Jaguars, the team that upset the Steelers last weekend, may also be the team with a better chance at upsetting the Patriots. Few expected the Jaguars to reach the postseason in the first place, or make it this far once they did. But that doesn't mean Jacksonville is yet another doormat for New England to stomp en route to the Super Bowl. That's because the Jaguars are built in the mold of the team that bewildered the world that's usually infallible.

The key to beating New England is often as straightforward as it is hopeless. You have to find a way to contain Brady. Many have tried. Most have failed. Except the Giants, who kept the Patriots' offense to 14 and 17 points in two Super Bowl meetings.

The Jaguars are the one team in the NFL this year uniquely capable of making Brady's afternoon hellish. They relentlessly pressure the quarterback without sending extra blitzers. They have the best pass defense in the league. They can play an extended game of keepaway with a bruising running game that eats away at the clock. backscreen

And they also have Tom Coughlin, whose crimson face still haunts New Englanders. The former head coach for the Jaguars and Giants was brought back to Jacksonville before this season as the team's executive vice president. His fingerprints are all over this team that prides itself on hard-nosed football sans much glitz or glam.

He's also the rare coach who owns Bill Belichick: Coughlin is 5-2 in their seven matchups.

Jacksonville's hopes boil down to a simple truth. There are two traditional ways to win the Super Bowl: You can have one of the best quarterbacks. Or you can be great at terrorizing the other team's quarterback. The Jaguars are the latter.

There are basic numbers that show how good Jacksonville's defense was this season: It gave up the fewest passing yards per game, the second fewest points and produced the second most turnovers.

But what makes the unit particularly nefarious for an opposing quarterback is how it attacks. The Jaguars had 55 sacks this season—the second most in the NFL—despite blitzing the fourth-least often. No team pressured the quarterback on a higher percentage of passes, according to Stats LLC.

This is precisely what neutralized Brady against the Giants. New York didn't need to blitz, either. It had pass rushers like Osi Umenyiora, Justin Tuck and Jason Pierre-Paul who could menace Brady without additional help. That meant they could leave almost everyone else in pass coverage without sacrificing pressure on the quarterback.

The same depth on the line has turned Jacksonville into a nightmare for opposing offenses all year. They had the most productive tandem of pass rushers in the league this season. There were 10 players with at least 12 sacks this season. The Jaguars had two of them: Calais Campbell and Yannick Ngakoue.

This imposing front is even more intimidating when you realize who plays behind them: Two of the best cornerbacks around. Jalen Ramsey and A.J. Bouye led a secondary that held opposing quarterbacks to the NFL's lowest completion percentage (56.8%) and passer rating (68.5).

"There's nothing that they don't do well," said Patriots offensive coordinator Josh McDaniels.

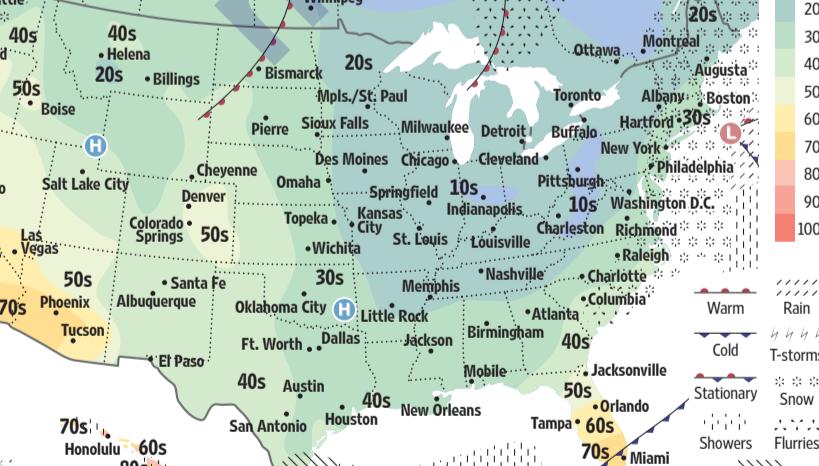
And as crazy as it might sound, the old Giants and current Jaguars' offenses aren't wildly different. Blake Bortles may not be Eli Manning, but both are erratic passers who can combine head-scratching plays with huge downfield passes in the space of a single drive.

There's also the Coughlin effect. While Doug Marrone is the team's coach, Coughlin spent the last win over Pittsburgh scribbling notes and grunting comments to fellow Jacksonville executives in the press box. He surely has notebooks full on the Patriots: He's the only coach to beat Bill Belichick in the Super Bowl. He did it as coach of the Giants twice.

Even though Coughlin looks on from afar on game days, players say the Coughlin effect can be felt throughout the building. They say his notorious emphasis on discipline has become deeply ingrained in the DNA of a team that transformed from one of the NFL's worst teams into one of the final four still standing.

"He just changed the whole culture around here," Church said. "This is a job and you're going to treat it like a job. That's what we needed."

Weather



U.S. Forecasts

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

t=tstorms; r=rain; sf=snow flurries; sn=snow; l=ice

Today Hi Lo W Today Hi Lo W

City Hi Lo W Hi Lo W

Alaska Anchorage 40 20 c 24 15 pc

Atlanta Atlanta 31 20 s 43 25 s

Austin Austin 39 19 s 46 34 pc

Baltimore Baltimore 30 16 sf 40 23 s

Boise Boise 50 40 c 53 34 sh

Boston Boston 35 22 sn 32 22 pc

Burlington Burlington 26 12 pc 29 20 c

Charlotte Charlotte 35 17 sn 46 21 s

Chicago Chicago 21 16 s 32 24 s

Cleveland Cleveland 23 16 c 31 24 s

Dallas Dallas 35 21 s 50 33 s

Denver Denver 50 26 s 60 35 pc

Detroit Detroit 27 17 pc 31 24 s

Honolulu Honolulu 81 72 pc 83 72 pc

Houston Houston 38 23 pc 44 35 pc

Indianapolis Indianapolis 19 13 pc 30 20 s

Kansas City Kansas City 26 16 s 40 28 s

Las Vegas Las Vegas 65 46 pc 65 49 pc

Little Rock Little Rock 29 17 s 42 25 s

Los Angeles Los Angeles 78 56 pc 73 54 pc

Miami Miami 76 49 pc 67 55 pc

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New Orleans New Orleans 37 25 s 45 30 pc

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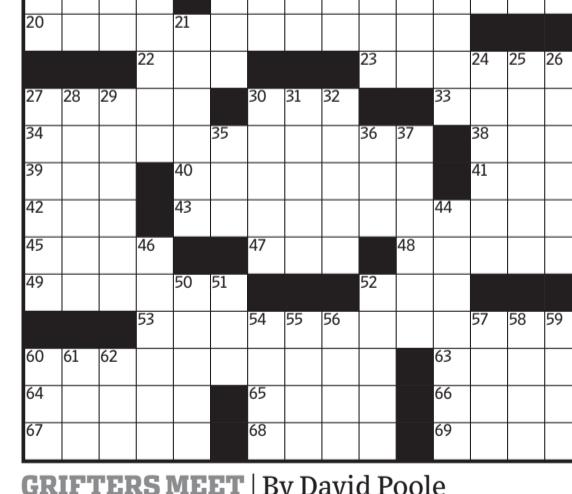
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Dublin Dublin 43 37 sn 42 32 sh

Zurich Zurich 40 31 pc 39 30 sn

The WSJ Daily Crossword | Edited by Mike Shenk



GRIFTERS MEET | By David Poole

Across

1 Wrapped garment

5 Projector part

9 Makeup of the Kentucky Derby winner's blanket

14 Dubai dignitary

15 Golden Rule preposition

16 Don't do the rite thing?

17 Twitter's blue bird, e.g.

18 Nebula matter

20 British philosopher who said "knowledge is power" itself is power

22 Like some 1960s fashion

23 More absurd

27 Bible book between Jonah and Nahum

49 Arrive at logically

52 Heath and Jake's "Brokeback Mountain" director

53 Linking words, or, parsed differently, configuration found four times in this puzzle

55 Driver's license indication

57 Ross with a needle

60 Sharp quality

66 Schedule opening

67 Fork over the koi

68 Pub facilities

69 Addition column

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

Previous Puzzle's Solution



OPINION

Of Furries and Fascism

BUSINESS WORLD
By Holman W. Jenkins, Jr.

Do I read James Damore's lawsuit. Get past the absurdity of his framing his grievance in terms of identity politics—he's a victim of Google's failure to honor "viewpoint diversity." Apparently under California law this is a legitimate claim.

Last year's firing episode at first seemed a case of Google clumsily suppressing dissent over race and gender policies adopted after the company's workforce was found to be overwhelmingly white and male. Now it seems like something else.

If the postings and emails cited in Mr. Damore's lawsuit are a reliable indication, founders Sergey Brin and Larry Page have lost control of the culture. Google's leaders may even be a little afraid of their employees.

Mr. Damore's firing last year by CEO Sundar Pichai certainly rang of panic at the time. Google explicitly invites freewheeling discussion and provides internal forums for it. Mr. Damore did not, in his famous memo, object to Google's diversity goals. His ruminations on biology may be jejune, but unwelcome facts are still facts. Witness the work of David Lubinski at Vanderbilt, which goes a long way toward explaining the recruiting frustrations of many a tech and engineering-based

company. Prof. Lubinski and colleagues find that women who are gifted in math and science tend to be broadly gifted, and consequently have lots of opportunities in a wide range of fields, whereas men with math talents tend to be narrowly gifted, and all end up in math-science-engineering fields.

Google lets politics in the door and discovers it only breeds intolerance.

Not that Mr. Damore's lawsuit, in which he is joined by another recently fired male engineer, turns on the validity of his Darwinian musings. In the postings and emails he quotes, colleagues spew hate at Mr. Damore, apparently without consequence.

We see them giving each other employee-awarded "peer bonuses," supported by Google's "Recognition Team," for denouncing him. We see Google employees explicitly reject talking to, listening to or working with colleagues whose politics they don't share.

We see them proposing blacklists. One paints as incapable of coming up with anything "creative or innovative" any meeting consisting of "40-something white men," and Google HR approves the sentiment. An employee asks if "men" were changed to "women," would

the post still be approved? No response.

Another posting calls on Googlers to decline to participate in industry panels alongside "cheesy white males."

One Googler who says he refuses to "tolerate" broad categories of people (e.g., Trump voters) might seem regrettable, especially after it turns out he's German and lives in Switzerland. When it becomes a competition, a cultural disease is at work. Incipient here is a world that people in Google's home state are already familiar with. It's the world of California's maximum-security prison system, where inmates survive only by kneeling to one identity-based gang or another.

If there is a lesson here for other companies—and don't take this the wrong way—it's the value, broadly, of "don't ask, don't tell."

To work together on software, people don't need a company-supplied forum to discuss their politics, their sexual interests, their cultural antipathies. Offering it seems pointlessly divisive.

Perhaps the most symbolically disturbed posting is one demanding that control of Google be wrested from the "horde of racist and sexist people we've already hired."

To be white and male is not to be sexist and racist. The statement "I don't want to be denied an opportunity because of my gender and race" is as valid for a white male as it is for a black, gay, female or furry. (Yes, Google's internal discussion board includes consideration

of the "furry" lifestyle, which involves dressing up in animal costumes.)

Some predict Google will quickly settle to avoid discovery of more emails and postings, including from top management. What seems worse, from a public-relations perspective, is a culture inverately hostile to the liberal principle "I may disagree with what you say but defend your right to say it." This can't be good in a business whose mission is to organize the world's information.

Messrs. Brin, Page and Pichai likely feel a tad helpless. The U.S. legal system imposes a need to be race-aware, gender-aware, etc.—to require quotas in all but name, since quotas are illegal. Google simultaneously faces lawsuits and regulatory investigations directed at its alleged short-changing of women on pay and promotions.

Its internal mood may also partly be a victim of self-esteem run amok. It's a wonder many Googlers don't worship Donald Trump—he also can't tolerate to be disagreed with. A good, old-fashioned Presbyterian horror of self-righteousness, once a feature of American life, is nowhere to be seen.

Part of growing up is learning to live with your emotions; today's shortcut is to believe whatever your feelings are, they're justified. Humanity never met a dictator or demagogue who said, "I'm a bad person. I want to do bad things." The worst among us always feel justified.

BOOKSHELF | By Edward Glaeser

In Search Of Durable Cities

Uneasy Peace

By Patrick Sharkey
(Norton, 244 pages, \$26.95)

As 2017 came to a close, early projections indicated that America's overall murder rate for the year was poised to fall, ending a two-year upward trend in American homicide. Among the country's largest 30 cities, however, the results were roughly split between cities like New York, where the murder rate fell, and places such as Baltimore, where the number increased.

Patrick Sharkey's insightful and engaging "Uneasy Peace: The Great Crime Decline, the Renewal of City Life, and the Next War on Violence" helps us take stock of the past 50 years of crime in America. Mr. Sharkey is a sociologist at New York University and provides an excellent introduction to

America's up-and-down urban-violence roller-coaster ride. Most important, he offers an antidote to those who think that the police are more the problem than the solution. He urges a middle way for fighting violence, combining neighborhood self-regulation with more effective, more socially astute policing.

The book asks three questions. Why has crime declined so much since the 1990s? How big were the benefits from that decline? How should we reform crime fighting in the shadow of mass incarceration, the Black Lives Matter movement and the high murder rates in cities like Chicago and Detroit?

Crime waves and their reduction can be roughly attributed to two causes: the presence of easy targets; and the supply of crime-prone individuals, such as the "super-predators" made famous by John Dilulio. Mr. Sharkey wisely emphasizes changes in the costs and difficulties of crime rather than any fundamental changes in human nature.

He is respectful toward the hypothesis of John Donohue and Steven Levitt that more abortions led to less crime, but thinks that the "impact was likely small in magnitude." He similarly eschews other hypotheses that emphasize changes in the number of crime-prone individuals, except for the rise of mass incarceration: "The impact of imprisonment on crime," he writes, "is largely the result of incapacitation, the removal of potential offenders from the streets." Mr. Levitt drew a similar conclusion in his work on prisons during the 1990s.

Instead, Mr. Sharkey emphasizes the importance of changes in the costs of committing crime—i.e., the increase or decrease in the number of easy targets. He reminds readers of the work of Lawrence Cohen and Marcus Felson, who theorized that, as women left their homes in the 1960s, they made both themselves and their houses more vulnerable. In Mr. Sharkey's view, much of the progress against crime since the 1990s has occurred because "opportunities for criminal activity began to shrink" as "streets that had been abandoned for decades were taken over by police officers, security guards, and community groups." Crime stops when noncriminals dominate the urban space.

We have jailed too many young men. There are too many instances of bad policing. How can we create a future with less crime and fewer inmates?

In recent years, the victories over crime have been derided. Some liberals now see police misbehavior as a worse scourge than street criminals. The second section of Mr. Sharkey's book shows the error of this view. He estimates that "an African American boy born at the end of the crime wave could expect to live, on average, about three-quarters of a year longer due purely to the drop in homicides," which is "roughly equivalent to the impact of eliminating obesity altogether."

Saving lives is the greatest benefit of the war against crime, but safety also makes it easier for students to concentrate on work and escape poverty. Mr. Sharkey shows that "children do substantially worse on standard tests of cognitive skills . . . when there has been a homicide near their home" and that "children who reached their teenage years at a time when the level of violence had subsided were substantially more likely to move upward in the income distribution by early adulthood." A safe city means a place where the rich and the poor can interact without fear and where "parents feel more comfortable allowing their children to walk home from a park or a community center after school."

But while Mr. Sharkey compellingly illustrates the benefits of a reduction in crime, he views the country's current situation as an "uneasy peace." We have incarcerated too many young men. There are too many instances of police abuse. Some cities, like Chicago, have seen crime rates surge again.

The final section of Mr. Sharkey's book focuses on creating a better future, with less crime and fewer inmates. He would like to see a "durable urban policy" to fight poverty but realistically is "not optimistic about the prospects for a large-scale federal agenda to address urban inequality." He is more hopeful about "a multi-level, multisector agenda to fortify urban neighborhoods and confront violence."

Mr. Sharkey is certainly right that crime fighting is deeply social. Good policing works with neighborhoods, not against them, and leverages the "eyes on the street" that are everywhere in dense cities. As police reform moves forward, Mr. Sharkey's book offers a sensible, pragmatic approach that avoids the liberals' hot antipolice rhetoric and the conservatives' knee-jerk defense of every police action. This involves less imprisonment and more neighborhood policing. It requires police officers to treat ordinary citizens with respect, not only because citizens pay for their salaries but also because strong community relations make for effective policing.

Since the 1990s, America's cities have seen a reduction in crime, but it has come at the terrible price of years lost to the prison system. Mr. Sharkey is right that the time has come to figure out how to lower that price.

Mr. Glaeser is a professor of economics at Harvard, a senior fellow at the Manhattan Institute and the author of "Triumph of the City."

Trump and the Decline of Democracy

POLITICS & IDEAS
By William A. Galston

Many Americans worry about our democracy, and some fear for its survival. I believe we will emerge from these dark times with our institutions intact, and with a renewed commitment to the principles and norms that made us—until very recently—a symbol of hope around the world. I am confident the American people will ultimately reject a president whose public and private statements imply that he rejects the premise of our founding document, that all men are created equal.

There is evidence to support my confidence in the American people's common sense. In a recent Quinnipiac survey, only 34% say President Trump is honest, compared with 63% who do not. Only 38% think he cares about average Americans, and 32% think he shares their values.

Fifty-nine percent deny he has good leadership skills. Only 28% consider him level-headed, the same as the percentage who believe he has accomplished more than most presidents during his first year in office.

Not surprisingly, 56% of Americans give his first-year performance a grade of D or F. They do not regard his performance as an accident or bad luck: 57% say he is unfit to serve as president. Based on

the past week alone, it is hard to disagree. This is why I expect the people to punish the party that stands mute as he degrades the office he holds.

While American democracy suffers from many ills, its immune system is strong enough to repel the virus and heal the body politic. Other countries may not be as fortunate. Freedom House's annual report on political rights and civil liberties, paints a picture of democracy in crisis. For the 12th consecutive year, countries that suffered democratic setbacks outnumbered those that saw advances. Between 1987 and 2007, the share of countries rated "unfree" fell from 31% to 22%. In the past decade, the trend has reversed: 25% of countries now rate as unfree.

Freedom House's country-by-country analysis does little to dispel the gloom. Russia, which seemed to be moving toward democracy two decades ago, has slipped back into authoritarianism and is working to subvert democracy in Europe and the U.S. Economic advances in China have not produced middle-class demands for democratization; in fact, the country has moved in the opposite direction, capped by Xi Jinping's relentless drive for centralized control.

Turkey, once the exemplar of Islamic democracy, has joined the ranks of unfree nations. The Arab Spring left dictators and chaos in its wake, and Tunisia, once its brightest

hope, is slipping backward. Venezuela, once a stable democracy, has moved from majoritarian populism to bankruptcy and near civil war. Myanmar, whose democratic opening was led by a winner of the Nobel Peace Prize, has resorted to ethnic cleansing.

Nowhere have democratic hopes been more cruelly dashed than in the heart of Europe. After the fall of the Berlin Wall and the collapse of the

Soviet Union, a wave of democratization swept the Continent. Membership in the European Union was expected to add material support to the reformers' ideals. The age-old vision of a Europe "whole and free" seemed within reach.

Today, Hungary and Poland are openly challenging the institutions that safeguard political freedom and civil liberties. Populist movements have seized on the refugee crisis to restore the legitimacy of ethno-nationalism, the mortal enemy of civic pluralism.

With democracy on the defensive, America is missing in action. Freedom House notes "the accelerating withdrawal of the United States from its historical commitment to promoting and supporting democracy."

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OPINION

REVIEW & OUTLOOK

The Tax-Reform Stock Rally

Equity markets took a mild breather on Tuesday afternoon after another morning rally, pausing on what has been a remarkable runup so far in 2018, following eye-popping gains since Election Day in 2016 and throughout 2017. The latest gains look like a tax-reform rally, though it will pay to be mindful that markets inevitably correct, often hard.

We've been hosting an op-ed debate on stock prices, and last week financial consultant Donald Luskin made his case for the running of the bulls as expected corporate earnings are adjusted upward due to tax reform. Harvard economist Martin Feldstein makes the case for caution nearby, arguing that equity prices are fated to fall as the Federal Reserve reverses its long period of asset purchases and low interest rates, and inflation makes a comeback. Both men could be right, depending on your investment time frame.

The bullish case is based on expectations of capitalized profits, which have risen smartly with the cut in corporate tax rates. The higher after-tax returns flow into higher asset values, all else being equal. The surprise is that stocks have kept rising this year, with the S&P 500 up some 4%. This suggests that many investors underestimated the possibility of pro-growth tax reform passing last year, and now they are catching up to the implications.

The harder question is whether rising stocks are also a harbinger of faster growth in the real economy. Business sentiment, from the Business Roundtable to the National Federation of Independent Business, is as bullish as we can recall. Business Roundtable chief Jamie Dimon, also CEO of J.P. Morgan, captured the mood last week when he said "animal spirits" have been unleashed.

He cited tax reform and "proper smart regulation," while the global economy is also growing in sync for a change. With investors willing to take more risks, emerging markets are seeing capital inflows as are Japan and Europe. This

Animal spirits are unleashed, but watch the Fed's great unwinding.

greater appetite may explain why the U.S. dollar has been relatively weak despite signs of better U.S. policy and faster growth. Maybe investors feel a reduced need to park money in the safety of dollar assets or Treasurys.

But don't forget Mr. Feldstein's warning about the Fed and its great monetary unwinding. Former Fed Chairman Ben Bernanke justified quantitative easing (QE) as a tool to drive investors into riskier assets, including stocks, which would create a "wealth effect" to spur the real economy. He succeeded on asset prices but failed on growth, which didn't accelerate until better tax and regulatory policies arrived. But if QE lifted stocks as it expanded, will the reverse happen as it unwinds?

It's certainly possible, and students of financial history know that sooner or later rising interest rates will weigh on stock prices. This is another way of saying that the biggest threat to growth and financial markets—Donald Trump's trade agenda or a Speaker Pelosi aside—may be the Federal Reserve as it reverses Mr. Bernanke's experiment. Mr. Bernanke has already taken a half dozen victory laps, but they'll have been premature if the unwinding leads to asset selloffs that create financial disruption and a recession.

All of which underscores the importance and timing of the GOP tax reform. The current expansion is already historically long, if also historically weak, and it has needed a second wind. Businesses have had plenty of capital, at home and abroad, but they had been reluctant to deploy it given the uncertainty of how and when the Obama regulators and taxers might strike next. Donald Trump's deregulators have removed the fear of arbitrary political punishment, and now tax reform is raising the expectations of returns on investment.

This is the cause for economic optimism, and bullish equities, but keep in mind that we've never lived through a monetary-policy reversal like the one that is coming.

A Very Bad Bargain

On Tuesday at the American Enterprise Institute in Washington, Education Secretary Betsy DeVos kicked off the New Year by calling for a rethink of the federal approach to education that has failed over both Republican and Democratic administrations. Sounds good. But to her list of questions that never even get asked, we'd add: Does collective bargaining by teachers help or hurt students?

Two Cornell academics—Michael Lovenheim, an associate professor of policy analysis and management, and Alexander Willén, a doctoral student—have recently completed a study that tries to answer it. In "A Bad Bargain: How teacher collective bargaining affects students' employment and earnings later in life," the professors conclude: "We find strong evidence that teacher collective bargaining has a negative effect on students' earnings as adults." Given that 34 states since 1959 have mandated collective bargaining with teachers and only seven prohibit it, the finding is also a call to reform.

The study compares outcomes for students in states that mandate collective bargaining before and after the collective-bargaining requirement was imposed to outcomes for students

A Cornell study says students suffer from collective bargaining.

over the same period in states that did not require collective bargaining. It also adjusted for the share of the student's state birth cohort that is black, Hispanic, white and male.

Students who spent all 12 years of their elementary and secondary education in schools with mandatory collective bargaining earned \$795 less per year as adults than their peers who weren't in such schools. They also worked on average a half hour less per week, were 0.9% less likely to be employed, and were in occupations requiring lower skills. The authors found that these add up to a large overall loss of \$196 billion per year for students educated in the 34 states with mandated collective bargaining.

All of this bolsters the accumulating evidence that collective bargaining may be profitable for the teachers and staff of public schools, but the price is being paid by the students. One solution is reforms like Governor Scott Walker's in Wisconsin that diminish the power of collective bargaining in education. If that's too hard politically, the alternative are charter schools or vouchers that give parents the option of avoiding the damage to their children from collective bargaining.

The Swampland Republicans

Texas, Florida and especially Puerto Rico are rebuilding after last year's hurricanes, and for once Washington's response includes more than a cash infusion. The House recently passed improvements to a flood insurance program that is under water financially, and the question is whether this progress will be stopped by parochial Senate Republicans.

The budget deal that passed Congress in December extended through Jan. 19 the National Flood Insurance Program that guarantees more than \$1 trillion across five million policies. Last fall Congress voted to forgive \$16 billion of the flood program's more than \$24 billion in debt. The program does not collect in premiums what it must pay in claims and runs a \$1.4 billion annual shortfall.

Much of this is due to insuring properties that are inundated again and again. Fewer than 2% of the program's policies are "repetitive loss" structures, but these money pits account for nearly a quarter of claims paid. Many of the risky properties receive explicit discounts, which encourages folks to live in flood-prone areas.

The House passed a reauthorization of the program that aims to correct some of this dysfunction, 237-189, and 15 Democrats voted yes while 14 Republicans voted no. This can be explained in part by geography: Several of the GOP defectors were from coastal outposts like Florida.

These bills are sensible compromises that any Republican should support. They require the program to raise collections for a reserve fund so in theory it doesn't have to raid Treasury after the next hurricane. The bills would also improve flood mapping. One move essentially says: Certain properties that receive a discount and flood again will see premiums rise

GOP Senators balk at even modest fixes in federal flood insurance.

over time toward market rates—if these owners decline to use government money to mitigate flood risks. This won't affect the overwhelming majority of policy holders.

Another important measure allows private insurers more leeway to sell flood insurance. The complaints that private competitors will pick off the least risky properties and sink the flood program are exaggerated: Insurers make money with diversified portfolios.

Yet even these modest improvements face storm winds in the Senate. The biggest obstacle is the Louisiana delegation, and no wonder: The Pelican State has claimed \$13 billion more in payouts than what policy holders have paid in premiums, and the state is home to thousands of repeat flood offenders. Louisiana politicians assume that Congress will always bail out the program, and so far they've been right.

But Louisiana Senators Bill Cassidy and John Kennedy are not the only trouble spots. Another could be Florida Senator Marco Rubio, who teamed up with Senator Elizabeth Warren (D., Cape Cod) on a flood insurance idea that would suspend interest payments on the program's debt. Then there's Mike Rounds of South Dakota's floodplains. Both Messrs. Kennedy and Rounds are on the Senate Banking Committee that oversees the flood program and needs every GOP vote to advance legislation.

The larger question is why government underwrites flood insurance when consumers privately insure against car accidents, fires and other events that damage property. Congress will spend tens of billions in hurricane relief, and no doubt it's needed. But if Republicans can't impose even the most modest changes to a drowning federal program, one wonders what the point of a majority is.

LETTERS TO THE EDITOR**Law Clerks Earn Their Keep, Speed Process**

Glenn Harlan Reynolds is wrong to propose abolishing federal judicial clerkships ("Why Do Federal Judges Need Clerks, Anyway?", op-ed, Jan. 8). There is no epidemic of sexual harassment by federal judges. Even so, no one says eliminating all workplace subordinates is an effective countermeasure. More odd, the professor claims the Supreme Court's work load (80 cases per year) is too light to justify four clerks per justice, so he proposes "eliminating law clerks for the lower federal courts." Per 2016 figures from the U.S. Courts Administrative Office, there are 640 pending cases per district judgeship. Each has only two clerks. Clerks play an indispensable role helping process vast numbers of cases fairly and efficiently, especially in the lower courts. Instead of dramatically slowing down the courts, let's address harassment the old-fashioned way—by punishing wrongdoers.

ANDREW R. McGAAN

Chicago

Mr. Reynolds's position ignores that for many young lawyers, myself included, clerkships provide an invaluable learning experience, opening the curtain on how judges evaluate and decide cases, and the opportunity for mentorship—something sorely needed in the legal profession. Nearly a decade ago, I was lucky enough to clerk for Judge Colleen McMahon. The benefits I received from my time

in her chambers far outweighed those she received from me, an inexperienced attorney with a single year of practice under my belt. Judge McMahon taught me how to write precisely and persuasively, eagerly engaged me and my co-clerk in discussions of thorny legal problems and has served as my champion and supporter since.

Mr. Reynolds's idea that judges can simply do all the work themselves, I believe, vastly underestimates the workflow of most chambers. Delays in resolution of cases remains an issue even in the current system, and the elimination of clerks could only add to this problem.

LEIGH McMULLAN ABRAMSON
New York

Mr. Reynolds's suggestion that more federal judges can be appointed is naive. It reflects the kind of thinking that led me to reject the selection of law school academics to hear my cases because they live in a coddled, secure world, not the real world. His further suggestion that Supreme Court justices "do their own work again" is simply insulting and without a factual basis. His approach reminds me of another law school educator who taught constitutional law and whose executive orders, many of questionable constitutionality, are now being rejected.

IRA DROGIN
Brooklyn, N.Y.

JOSEPH A. MORRIS
Chicago

Mr. Morris was chief of staff and general counsel of the U.S. Information Agency in the Reagan administration.

When President Reagan condemned the "evil empire" in the 1980s, he was much derided at home. Only later did we learn how welcome and how important his words were to refuseniks in the U.S.S.R., members of Solidarity in Poland and freedom-lovers elsewhere.

As with President Reagan, the despots will use President Trump's statements as proof that popular uprisings

Fired for Exposing a Colleague's Misbehavior

Regarding your editorial "Busting Illusions About Iran" (Jan. 3): President Trump is rightly doing what President Obama failed to do regarding popular protests against the Iranian regime: giving the protesters his timely acknowledgment and blessing.

His words let the people of Iran know that the outside world is aware of them, their ideas and their bravery.

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As with President Reagan, the despots will use President Trump's statements as proof that popular uprisings

like would never be labeled "shaming" or "harassment." And I certainly questioned her "values" which are shamefully too prevalent on college campuses. That was why the incident mattered.

The claim that I linked to her "contact information" is flatly false. I linked to her toxic feminist blog post of Sept. 20, 2014 titled "Yes All Men . . . Contribute to the Prevalence of Rape." Possibly people dug around on her blog and found her email address, or simply used Marquette's standard formula.

Mr. Lovell claims I should have fought a quiet internal battle for redress. Of course bureaucrats want misconduct in their organizations handled quietly and internally. But journalists are under no obligation to accommodate them.

Mr. Lovell notes that a faculty panel recommended that I be suspended. But academic freedom for conservative faculty is pretty precarious in the hands of other faculty. Further, the faculty panel did not suggest I should render a Stalinist apology to get my job back. That was Mr. Lovell.

JOHN MCADAMS
Milwaukee

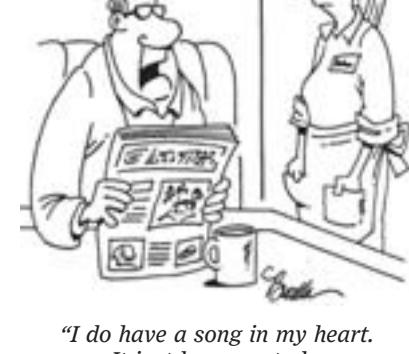
Replace the Old Tax Law, Don't Try to Fix the Squeaks

Regarding "Tax Law's Effect Fuels Farm Outcry" (U.S. News, Jan. 10): You can't fix a squeaky floorboard by pounding more nails into it year after year. At some point, you need to rip it up and replace it.

BUD CONLIN
Old Saybrook, Conn.

Pepper ... And Salt

THE WALL STREET JOURNAL



"I do have a song in my heart.
It just happens to be
a song everybody hates."

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

OPINION

Stocks Are Headed for a Fall

By Martin Feldstein

Year after year, the stock market has roared ahead, driven by the Federal Reserve's excessively easy monetary policy. The result is a fragile financial situation—and potentially a steep drop somewhere up ahead.

To deal with the Great Recession, the Fed cut interest rates to a historic low. The short-term federal-funds rate hit 0.15% in January 2009 and stayed there until the end of 2015. In a strategy aimed at reducing long-term rates, the Fed under then-Chairman Ben Bernanke promised to keep short-term rates close to zero until the economy fully recovered. The Fed also began buying long-term bonds and mortgage-backed securities, more than quintupling its balance sheet from nearly \$900 billion in 2008 to \$4.4 trillion now.

The Fed is playing catch-up. As interest rates and inflation rise, asset prices will revert to earlier norms.

Mr. Bernanke explained that this "unconventional" monetary policy was designed to encourage an asset-substitution effect. Investors would shift out of bonds and into equities and real estate. The resulting rise in household wealth would push up consumer spending and strengthen the economic recovery.

The strategy eventually worked as Mr. Bernanke had predicted. The value of equities owned by households increased 47% between 2011 and 2013, and overall household net

ISTOCK/GETTY IMAGES



worth rose nearly \$10 trillion in 2013 alone. The S&P 500 stock index gained more than 200% in the seven years from 2009 to the month before the 2016 election. By now the total increase is more than 300%.

Stock prices rose much faster than profits did. The price/earnings ratio for the S&P 500 is now 26.8, higher than at any time in the 100 years before 1998 and 70% above its historical average. Although some of the market's recent surge reflects improved expectations since the 2016 election, the P/E ratio just before the election was already 49% higher than its historical average.

The high price of stocks reflects the very low returns available on fixed-income securities. Though the federal-funds rate has been raised since 2015, its real value is still negative. The 2.5% yield on 10-year Treasury bonds approximately equals expected inflation over the next decade, implying a real yield of zero. Historically the real yield on 10-year Treasuries was about 2%.

When interest rates rise back to normal levels, share prices are also likely to revert to previous norms.

If the P/E ratio declines to its historical average, the implied fall in the market would reduce the value of household equities held directly and through mutual funds by \$10 trillion. If every dollar of decline in household wealth reduces annual consumer spending by 4 cents, as experience suggests, spending would fall by \$400 billion, or more than 2% of gross domestic product. The drop in equity prices would also raise the cost of equity capital, reducing business investment and further depressing GDP.

What about interest rates on bonds? I see four different reasons for a coming increase.

First, the Fed is raising the short-term rate and will continue to do so at least until its favored inflation measure, the price of personal consumption expenditures or PCE, moves from its current 1.8% to the stated target of 2%. Higher short rates will cause long rates to rise even if the slope of the yield curve does not increase.

Second, the Fed is cutting its balance sheet by reducing its holdings of Treasury bonds, pushing up the interest rate needed to get the

market to absorb the greater supply of securities.

Third, the federal government's deficit of 3.5% of GDP means Washington will borrow some \$700 billion this year. The Congressional Budget Office forecasts that the deficit will grow to more than 5% of GDP over the next decade under current law. That would push America's debt-to-GDP ratio from 77% now to 97% in 2027. This is probably too optimistic. Spending on defense and discretionary programs is shrinking as a share of GDP, and the need to reverse this trend means the deficits and debt will be even greater than current law suggests. Buyers of this increased U.S. debt will require a higher interest rate.

Fourth, easy monetary policy has produced an overly tight labor market that is beginning to push up inflation. The consumer price index rose 2.1% over the past 12 months, and there is an increased risk that at some point inflation will shoot upward. The expectation of rapid inflation will cause long-term rates to rise even before faster inflation occurs.

In short, an excessively easy monetary policy has led to overvalued equities and a precarious financial situation. The Fed should have started raising the fed-funds rate several years ago, reducing the incentive for investors to reach for yield and drive up equity prices. Since it didn't do so, the Fed now faces the difficult challenge of trying simultaneously to contain inflation and reduce the excess asset prices—without pushing the economy into recession.

Mr. Feldstein, chairman of the Council of Economic Advisers under President Reagan, is a professor at Harvard and a member of the Journal's board of contributors.

Does It Take A Shrink To Evaluate Trump?

By Sally Satel

One of my fellow Yale psychiatrists thinks President Trump ought to have his head examined—by force if necessary. Bandy X. Lee is calling for an "emergency evaluation" of Mr. Trump's mental state. "In an emergency, neither consent nor confidentiality requirements hold," she told Vox. "Safety comes first. What we do in the case of danger is we contain the person, we remove them from access to weapons."

Is she serious? Democratic members of Congress seem to think so. In early December, she spent two days on Capitol Hill privately briefing a dozen of them about Mr. Trump's

The traits that alarm some are baseline features, not signs of a disease process.

purported dangerousness. "He's going to unravel," she told Politico, in summing up her message to lawmakers. "Trump is going to get worse and will become uncontrollable with the pressures of the presidency." Reps. Rosa DeLauro of Connecticut and Jamie Raskin of Maryland plan to host her at future events.

I wish Dr. Lee would stop making House calls. Her actions risk discrediting our profession.

Dr. Lee is editor of a book, published in October, titled "The Dangerous Case of Donald Trump: 27 Psychiatrists and Mental Health Experts Assess a President." It grew out of an April conference on the "duty to warn." That legal term of art originated with a 1976 California Supreme Court ruling, which found that mental-health professionals are obliged to breach confidentiality when a patient poses an impending danger of bodily harm to others.

Since neither Dr. Lee nor any of her contributors have treated Mr. Trump, the duty to warn does not apply here, except in some metaphorical sense. In calling Mr. Trump dangerous, Dr. Lee is expressing a view that millions of Americans share—and millions reject—and claiming that her expertise as a psychiatrist lends it added authority. Does it?

Under the American Psychiatric Association's "Goldwater rule," it is unethical for a psychiatrist to comment on a public figure's mental health without examining him and obtaining permission for the disclosure. But that doesn't stop us from forming opinions. Psychiatrists, like all members of the public, can learn a great deal about the president's behavioral patterns and temperament from news coverage and interviews, tweets, biographies and testimonials of those who know him.

Many of my colleagues say privately they believe Mr. Trump probably has a narcissistic personality disorder. If so, he likely wouldn't be the first. A 2013 study in Psychological Science ranked the 42 past presidents on measures of "grandiose narcissism" and found that Lyndon B. Johnson scored highest, followed closely by Theodore Roosevelt and Andrew Jackson.

Mental health and the capacity to serve as president—or to do any job—are different. Historians believe Abraham Lincoln suffered from clinical depression, and they also rank him one of the greatest presidents. Nor is psychological health a guarantee of fitness.

Importantly, Mr. Trump's grandiosity, impulsivity and short attention span were already evident during the campaign and earlier; they are baseline features. Had his personality undergone rapid deterioration, there would be reason to suspect a disease process at work. If that process affected his ability to govern, the cabinet and Congress would likely ask psychiatrists and neurologists for a diagnosis, treatment options and prognosis in the course of invoking the 25th Amendment to deprive him of his powers temporarily. But ultimately that is a political process, not a medical one.

Psychiatrists would be alarmed if mental illness were considered an unconditional bar to public service. They should also worry when their colleagues promote stereotypes that equate mental illness with dangerousness. Most mentally ill people are not violent. Whatever one thinks of Mr. Trump, his actions and words are on display for all to see. The public doesn't need experts to interpret them.

The actions of Dr. Lee and her colleagues politicize psychiatry, and in doing so squander the profession's authority and goodwill.

Dr. Satel is a resident scholar at the American Enterprise Institute, and a lecturer in psychiatry at Yale.

Iran's Regime Probably Won't Die Quietly

By Ray Takeyh

The popular uprisings in Iran make it a sure bet that the Islamic Republic's government will eventually collapse. That possibility in a nuclear Iran should have many in Washington losing sleep. What will happen to Iran's centrifuges, enriched uranium, warhead designs and ballistic-missile technologies if the mullahs are toppled? What will happen to Iran's scientists who are suddenly unemployed? Western governments should prepare.

The Islamic Republic was never the island of stability its Western enablers made it out to be. In the early 1980s, vengeful mullahs purged liberals and secularists who had naively joined Islamists to overthrow the shah. This produced a generation of young Iranians highly skeptical of their clerical elders. Students rebelled in 1999, the middle class in 2009. Last month tens of thousands of working-class Iranians finally decided they'd had enough.

These demonstrations must have been particularly unsettling for the clerical oligarchs, because the lower classes were supposed to be the mainstay of their power. For decades, the

Islamic Republic has sought to tether this class to clerical rule by expanding the welfare state. Yet that welfare state is jeopardized by corruption and foreign adventures. Corrupt men of God are always more galling than crooked monarchs and army officers.

The Islamic Republic is no ordinary dictatorship heading toward the dust bin of history. In 2015 it was effectively granted a license by the U.S. and the other world powers to expand its nuclear program. The deal has not impeded Iran's efforts to modernize its nuclear apparatus. Under the watchful eye of Ali Akbar Salehi, the MIT-educated head of Iran's atomic program, Iran continues to enrich uranium, develop advanced centrifuges, test ballistic missiles, and train engineers. The regime, which has continuously lied about its ambition to acquire nuclear weapons, is determined to build an industrial-sized uranium-enrichment infrastructure equipped with cutting-edge technology and manned by a capable cadre of scientists.

Thanks to the nuclear deal, Iran could be the first country to undergo a violent revolution while in possession of an extensive nuclear network. The world has been lucky that the two nuclear states that collapsed did

so peacefully. At the Cold War's end Mikhail Gorbachev managed to liquidate the Soviet Union while safeguarding its atomic apparatus. In South Africa, the apartheid regime dismantled and destroyed its nuclear capability before handing over power to the majority.

Thanks to Obama's deal, it could become the first nuclear power to undergo a violent revolution.

Iran's mullahs won't go as quietly as Russia's commissars and South Africa's racists. These are men who claim to know the mind of God and have no compunction about shedding blood. The Islamic Republic will surely experience a prolonged period of internal strife, nationwide violence and ethnic separation as it unwinds its theocratic experiment. In such circumstances, the command-and-control structure of the Iranian nuclear program may break down. Its enriched uranium and advanced centrifuges could go missing. And Iran's enterprising scientists may

find lucrative employment in unsavory places like North Korea and Pakistan.

The Trump administration should move to restrain Iran's nuclear appetite and prepare to pick up the pieces of a collapsed regime. There is no alternative but to revisit the nuclear deal's permissive provisions—a task that will require not just delicate alliance management but the imposition of crippling sanctions on Iran's ruling class. Through such a campaign of pressure, the U.S. might succeed in fixing the nuclear deal's many debilitating flaws. The focus should be on impeding Iran's research and development efforts, which are quickly transforming a clunky nuclear infrastructure into state-of-the-art facilities.

Washington should also try to lure Iran's scientists to defect with promises of asylum. And the Pentagon should develop a means for safeguarding Iran's growing stock of nuclear material in a time of internal disorder. The safest way to prevent Iran's nuclear plants and resources from being dispersed is to prevent their enlargement today.

Mr. Takeyh is a senior fellow at the Council on Foreign Relations.

By Siri Fiske

For many gifted students, the school day is a snooze-fest. Seven in 10 public school teachers agree that "too often, the brightest students are bored and under-challenged in school," according to a 2008 study from the Thomas B. Fordham Institute.

The problem? Most schools force teachers to adhere to a single lesson plan designed for the median student. When teachers deviate from their lesson plans, it is usually to make content more accessible for students who are underperforming. Gifted students complete their assignments easily and wait for additional stimulation that never comes.

A Better Way to Teach the Gifted—and Everyone Else

By Siri Fiske

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The problem? Most schools force teachers to adhere to a single lesson plan designed for the median student. When teachers deviate from their lesson plans, it is usually to make content more accessible for students who are underperforming. Gifted students complete their assignments easily and wait for additional stimulation that never comes.

This educational failing is widespread. Between 11% and 30% of the nation's kindergarten through eighth-grade students perform at least one level above their grade in math, according to a recent study from the Johns Hopkins School of Education. Between 20% and 40% are at least a level ahead in reading. The share of students who far exceed their grade levels is particularly startling. As many as 10% of fourth-graders read and write at an eighth-grade level.

Some schools have found a solution: "mastery-based education," which lets kids move on to new material once they've mastered particular content, rather than when they've sat at a certain desk for a certain number of days.

Consider Middle School 442 in Brooklyn, N.Y. Rather than employing a conventional A-F grading scale, the school asks kids within the same classroom to prove they have mastered 37 skills in both math and English. If gifted students master adding and

Let students proceed at their own pace, and reward them for learning, not time at a desk.

subtracting decimals, they move on to analyze unit rate. If they master story elements, they move on to critical analysis. Teachers accommodate different skill levels by having students complete different worksheets, online lessons or in-class discussions.

Iowa's Muscatine Community School District conducted an experiment with this approach. During the 2012-13 school year, some students were randomly assigned to mastery-based classes and others to traditional ones. Nearly 100% of students in the mastery-based classes learned and retained the lessons. In the traditional classes, 1 in 3 students failed to grasp the coursework fully. In Ohio, the state board of education's "credit flex" program "focuses on performance, not counting seats and hours." The program offers high school credit to students, whatever their grade level, when they display mastery of class content. Students can prove mastery via their coursework, test performance or even an internship. The idea is that students should be able to advance based on what

they know, not how many years they have been grinding away.

Mastery-based education can improve performance for all students, not just gifted ones. In 2013, fewer than 10% of students at Brooklyn's M.S. 442 were proficient in math and 10% in English. After a slow but steady switch to mastery-based learning, those numbers jumped to 26% and 29%, respectively.

This flexible approach is especially well-suited for a new crop of schools called "micro-schools." Micro-schools are defined by smaller class sizes, tech education and personalized teaching. At the Mysa schools I direct in the District of Columbia and Bethesda, Md., every student receives a "Mysa Menu" at the start of the week. The menu outlines personal goals in every academic subject for students to complete at their own pace.

Our system produces better outcomes for many students than the traditional K-12 model. We recently found that a seventh-grade boy was performing at a fifth-grade level in math but at a ninth-grade level in English. Once we adjusted his curriculum to match his personal strengths and weaknesses, he immediately became noticeably more confident and engaged.

Though mastery-based reforms have been implemented in states from Alaska to New Hampshire, personalized education models are still relatively rare. That's a shame. Schools can teach typical students without stifling America's brightest young minds.

Ms. Fiske is founder and head of Mysa School in Bethesda, Md.

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BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Wednesday, January 17, 2018 | B1

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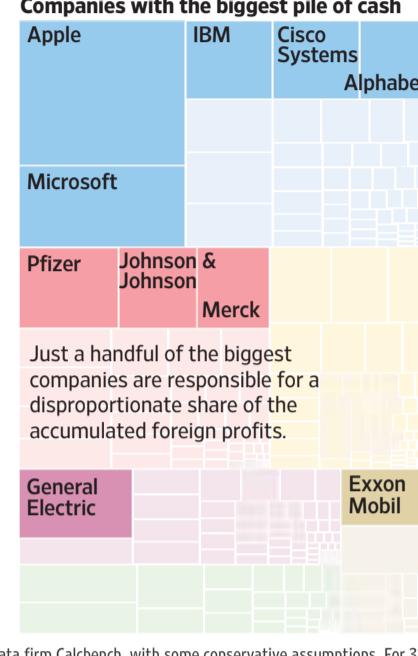
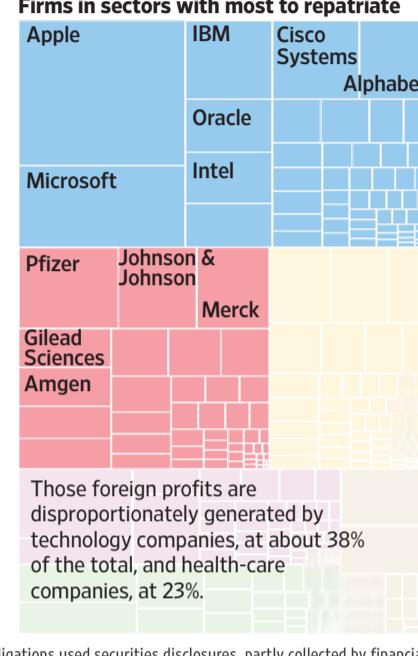
Corporate Cash: Bringing It All Back Home

By Theo Francis and Yaryna Serkez

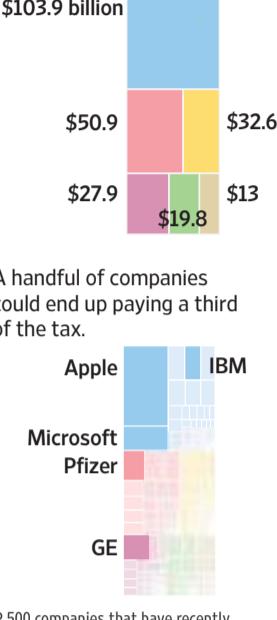
Who Has Money Overseas? 311 companies in a Wall Street Journal analysis reported more than **\$2.5 trillion** in unremitting foreign profits at the end of their most recent fiscal years. The U.S. government expects \$339 billion in taxes from repatriated profits over a decade from all companies.

By sector

\$978 billion Tech	\$582.9 Health Care	\$378.3 Consumer	\$321.2 Industrials	\$157.8 Energy	\$233.2 Finance
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How Much Will They Pay?
The 311 companies could pay nearly **\$250 billion** in taxes.



A handful of companies could end up paying a third of the tax.

Celgene Conducts Deal Talks With Juno

Celgene Corp. is in talks to buy biotechnology company Juno Therapeutics Inc., just days after announc-

By Jonathan D. Rockoff, Dana Cimilluca and Dana Mattioli

ing another major deal to bolster its portfolio of blood-cancer drugs.

The talks could produce a deal in the coming weeks, assuming they don't fall apart, people familiar with the matter said. Terms of the possible deal couldn't be learned. Juno had a market value of about \$5.5 billion as of Tuesday afternoon.

A deal would come on the heels of Celgene's agreement just over a week ago to buy closely held **Impact Biomedicines**. Celgene is to pay \$1.1 billion upfront and could make billions of dollars of additional payments if Impact hits certain milestones.

Celgene, based in Summit, N.J., is one of the biggest U.S. biotech companies. It is known for its blood-cancer drugs, notably top-selling product Revlimid, but has been trying to diversify its portfolio before Revlimid loses patent protection in the U.S.

Seattle-based Juno would further boost Celgene in the market for drugs treating multiple myeloma and other blood cancers, a market that Celgene helped establish.

Juno is among the companies pioneering a new kind of cancer treatment, known as CAR-T, that takes a patient's own immune cells, modifies them and then sets them loose to hunt down and attack tumors.

So far, two CAR-T treatments, short for chimeric antigen receptor T-cell, are being sold. One is from **Novartis AG** and the other is from **Gilead Sciences Inc.**, which paid more than \$10 billion for Kite Pharma Inc. and its CAR-T technology.

Doctors hail the drugs as a promising new option for some of the most advanced, hard-to-treat cancers, and analysts expect the newly available therapies will ring up billions of dollars in sales.

But the manufacturing and shipping of the drugs is costly and complex, and it is unclear whether their use will be limited to cancers affecting the production of blood cells like myeloma and leukemia or whether they can extend to solid tumors, such as in breast and lung cancer.

Citi Takes \$22 Billion Tax-Law Hit

Quarterly earnings are erased but stock rises as investors expect measure to be boon

By CHRISTINA REXRODE

The tax law wiped out **Citigroup** Inc.'s fourth-quarter earnings and then some, with the bank taking a \$22 billion charge that caused it to post a loss of \$18.3 billion—its big-

gest loss ever for a single quarter.

Investors looked past the immediate results to the near-term future, when they expect the tax law will boost earnings for Citigroup and other banks. Shares rose 0.4% to \$77.11 on a day when the market was down.

Citigroup Chief Executive Michael Corbat and Chief Financial Officer John Gerspach were upbeat in calls with analysts and reporters, saying the tax changes will bolster their

future profits and buoy their clients, echoing the sentiment last week of JPMorgan Chase & Co. CEO James Dimon.

Specifically, Citigroup increased one of its key profitability goals in response to the tax changes and said it was still on track to return capital to shareholders according to a plan it laid out in July.

Underneath the \$22 billion tax charge, Citigroup turned in results that beat analysts' expectations with higher reve-

nue, more lending and flat expenses.

Without the tax charge, the bank would have made \$1.28 a share, beating the \$1.19 expected by analysts polled by Thomson Reuters. With the tax charge, the loss amounted to \$7.15 a share for the fourth quarter alone and wiped out nearly six quarters of profit.

Mr. Gerspach brushed off the tax-related loss as a temporary bump in the road. "It's something we think we can

quickly overcome and it's not a headwind that causes us to alter any of our existing plans," Mr. Gerspach said. The short-term pain, he said, is "a pretty good trade-off."

Until now, the biggest quarterly loss at Citigroup was in the depths of the financial crisis at the end of 2008. But that loss had a different tone: The bank

Please see **CITI** page B2

◆ Heard: Citigroup won't miss that \$22 billion..... B14

Italian Confectioner in Sweet Deal With Nestlé

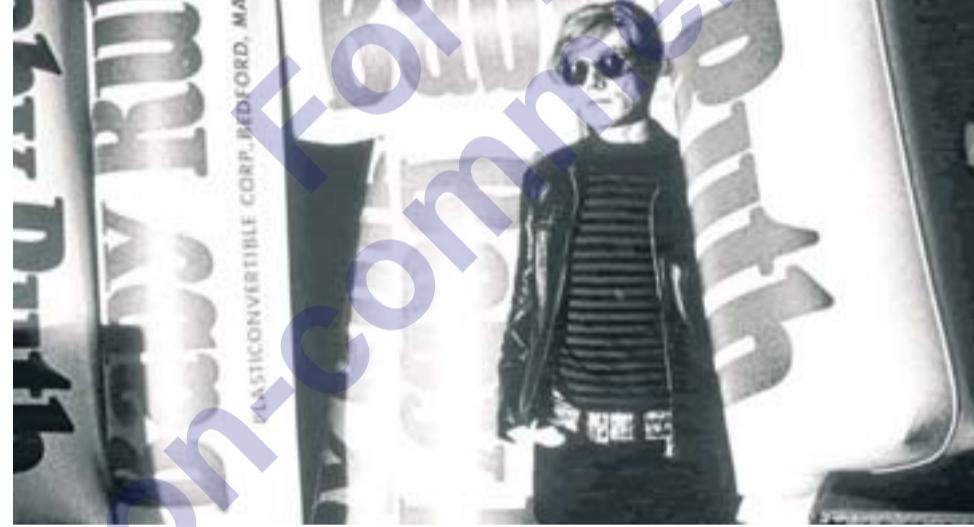
How do you say "Butterfinger" in Italian? Americans may soon find out.

By Eric Sylvers, Saabira Chaudhuri and Annie Gasparro

Italian candy maker **Ferrero International** SA muscled further into the North America market, agreeing to pay \$2.8 billion to buy **Nestlé** SA's U.S. chocolate business that includes the Butterfinger and Baby Ruth brands.

Ferrero beat out **Hershey** Co. as Nestlé, based in Switzerland, carried out a months-long sales process that also drew interest from several private-equity firms.

Adding the Nestlé business, which had about \$900 million in sales in 2016, will make family-owned Ferrero the third-biggest chocolate seller in the U.S. It is Ferrero's third sweets acquisition in the country in less than a year, as the Italian maker of Ferrero



American artist Andy Warhol with noted American candy brand that Nestlé plans to sell to Ferrero.

minority stake in KIND LLC, which makes fruit-and-nut bars. Hershey said last month it would buy SkinnyPop popcorn owner Amplify Snack Brands Inc. in its largest deal to date, valued at \$1.6 billion.

But industry analysts say Americans' sweet tooth can still generate growth for confectioneries that invest in innovation and marketing. That is what Ferrero will be counting on. It has a strong record of innovating and recently released Tic Tac gum, a twist on the mint that has been around for decades.

Ferrero, founded in the small northern Italian town of Alba, is already the world's No. 4 confectionery by market share and had about \$12 billion in revenue in 2016.

The acquisition follows Ferrero's purchase last year of Lemonheads maker Ferrara Candy Co. for about \$1.3 billion, and the much smaller Fannie May Confections for

Please see **NESTLE** page B2

Rocher chocolates and Nutella spread bets billions of dollars on an industry that many companies are turning away from after a slowdown.

Candy is struggling to compete with healthier snacks

such as nuts and granola bars, losing shopper dollars and shelf space. While Hershey bid against Ferrero for the Nestlé assets, the U.S. company is also diversifying beyond sweets—as is its biggest do-

mestic competitor, Mars Inc.

Last year, M&M's maker Mars, the world's largest pet-food manufacturer, purchased a veterinary clinic and dog day-care operator VCA Inc. for \$7.7 billion. It also bought a

Please see **NESTLE** page B2

Internet Rule Rollback Faces Legal Challenge

By JOHN D. MCKINNON

WASHINGTON—State attorneys general and internet activists filed legal challenges to the Federal Communications Commission's recent rollback of Obama-era internet regulations. Republicans on the FCC also have criticized many of the Obama-era rules as government overreach.

New York Attorney General Eric Schneiderman and more than 20 other officials filed their combined petition in the U.S. Court of Appeals for the D.C. Circuit.

The appeal alleges the FCC's December rollback of so-called net-neutrality rules was "arbitrary and capricious" and failed to justify the abrupt turnaround, given the government's longstanding support for the policy, according to a news release.

The challenge also says the new FCC order improperly pre-empted state and local efforts to impose net-neutrality rules on internet service providers.

The FCC didn't immediately comment on the suits. FCC Chairman Ajit Pai, a Republican, has argued that the Obama-era net-neutrality rules were hurting investment in broadband infrastructure. Republicans on the FCC also have criticized many of the Obama-era rules as government overreach.

The open-internet rules require internet service providers such as **Comcast** Corp., **AT&T** Inc. and **Verizon Communications** Inc. to treat all traffic equally. The rules were strongly supported by internet companies such as **Facebook** Inc. and **Alphabet** Inc.'s **Google** unit.

"The repeal of net neutrality would turn internet service providers into gatekeepers—allowing them to put profits over consumers while controlling what we see, what we do, and what we say online," Mr. Schneiderman said in a written statement.

The challenge also says the new FCC order improperly pre-empted state and local efforts to impose net-neutrality rules on internet service providers.

Please see **FCC** page B4

INSIDE

SELF-STORAGE RUNS OUT OF ROOM TO GROW

PROPERTY REPORT, B6



BLACKROCK PROMISES MORE ACTIVISM

INVESTING, B12

It's All About Better Batteries

By JOANNA STERN



LAS VEAS—Ooh, an adorable robot puppy! Two hours until he plays dead—for real.

A cordless hair dryer! Hope you have short hair; it only lasts 14 minutes.

A foldable electric scooter! When you forget the midweek charge, remember that hitchhiking can be dangerous.

Some people saw the future at the annual CES tech trade show. I saw more batteries we will have to charge.

The biggest complaint people have about their smartphone? Battery life.

For some it's even worse: a battery that slows down their phone.

You can blame our increased use of these gadgets, or you can blame the lithium-ion batteries themselves. But neither reality will change soon.

The rechargeable batter-

ies—found in everything from your telephone to your Tesla—don't charge all that fast, hold less power as they age and, yes, can catch fire.

While batteries seem to be evolving at a slower clip than other technologies, I'm encouraged by products and concepts I saw on display last week that address some of our biggest power problems.

Please see **STERN** page B4

Real Wireless Charging

If you want to use your phone while it charges, you are tethered to a wall like a dog on a leash. And it is even worse if you are using a wireless charging mat. What if, though, charging worked more like Wi-Fi? What if your phone received power while you were sitting on the couch scrolling

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FCC

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Attorneys general from California, Connecticut, Delaware, Hawaii, Illinois, Iowa, Kentucky, Maine, Maryland, Massachusetts, Minnesota, Mississippi, New Mexico, North Carolina, Oregon, Pennsylvania, Rhode Island, Vermont, Virginia, Washington and the District of Columbia joined in the challenge.

The new FCC order would reinstate the authority of the Federal Trade Commission to regulate internet service providers. The Obama-era rules effectively stripped away the FTC's authority over internet providers by declaring them to be common carriers.

A number of internet activist groups filed similar challenges on Tuesday. Mozilla

Corp., the maker of open-source Firefox, filed its petition in federal court in Washington, D.C., as did the Open Technology Institute, a part of the New America Foundation.

Another group, Free Press, filed a petition challenging the FCC rollback in the U.S. Circuit Court of Appeals for the First Circuit, in Massachusetts.

Much of the early legal maneuvering in the challenges will focus on attempting to influence which federal circuit court of appeals will ultimately handle the appeal, according to people familiar with the process.

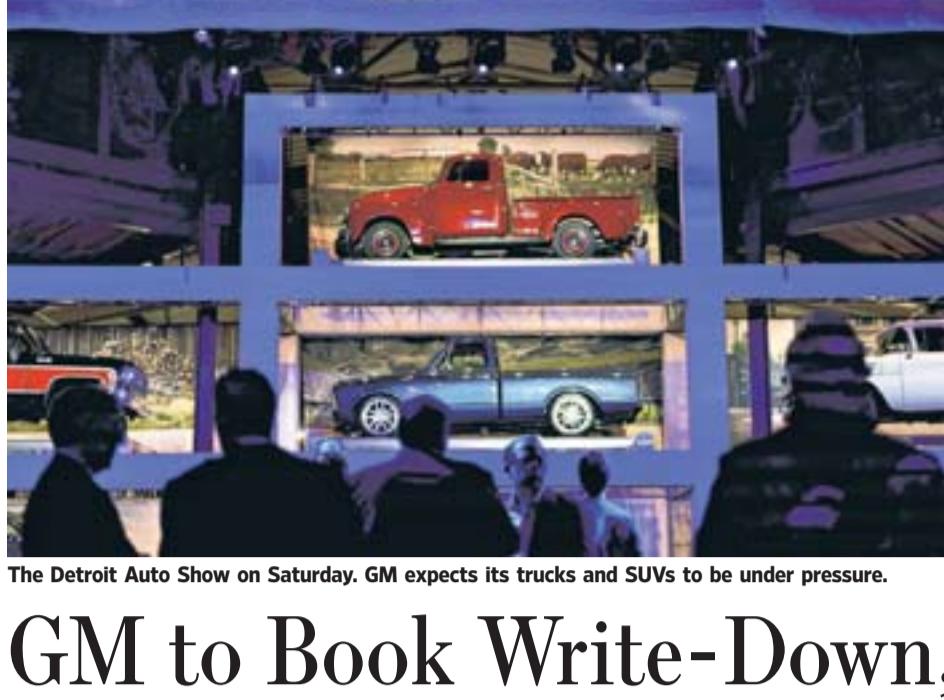
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lately for lack of focus, with a brand portfolio that includes products as diverse as vitamins, bottled water, pizza and ice cream.

Nestlé, which gets only about 3% of its U.S. sales from sweets, insists it is committed to confectionery outside the U.S., although the business isn't among Chief Executive Mark Schneider's top priorities. Globally, more than 80% of Nestlé's confectionery business is made up of local brands, a model that differs from many of Nestlé's other big businesses. Nestlé has been launching more high-end chocolate, hoping to chase sales growth as overall chocolate volumes decline. Performance so far has remained sluggish.

Vevey-based Nestlé, which has long tried to position itself as a health-food company, has faced criticism from investors

BUSINESS & FINANCE



ANDREW HARRER/BLOOMBERG NEWS

The Detroit Auto Show on Saturday. GM expects its trucks and SUVs to be under pressure.

GM to Book Write-Down, But Outlook Is Brighter

By MIKE COLIAS

General Motors Co. will book a \$7 billion write-down stemming from the tax-overhaul bill passed last month, though executives said broader benefits of the tax changes could help the company as it aims to maintain profitability levels amid a slowdown in the U.S. car market.

GM, which reports fourth-quarter results Feb. 6, said Tuesday that 2017 pretax earnings are likely to be "at the high end" of its previous forecast of \$6 to \$6.50 per share. In October, the nation's largest auto maker said it expected to finish in the middle of that range. Wall Street analysts expect earnings of \$6.29 on average, according to FactSet.

GM said it expects similar results in 2018 amid continued strength in its two biggest regions—North America and China—and a recovery in smaller markets including South America.

The company added that it expects "further earnings acceleration" in 2019. Shares in GM rose 12 cents to \$44.19 on the New York Stock Exchange.

GM said it would take a \$7 billion noncash write-down to reflect the loss in value of tax-deferred assets held on its balance sheet. GM said the value of those credits against future taxes declined because of the reduction in the corporate tax rate to 21% from 35%.

Several companies in recent weeks have disclosed large write-downs stemming from devalued tax-deferred assets.

GM finance chief Chuck Stevens said the noncash charge won't affect the amount GM spends to pay taxes each year. He said the tax overhaul will boost consumers' disposable income, helping to offset any increases in the low interest rates that have aided car sales.

Continued stout demand for pickup trucks and sport-utility vehicles, which carry higher profit margins, has

fueled the bulk of GM's profit growth in recent years.

The company's performance in China, its largest market by sales, has remained resilient, with sales outpacing the broader industry.

Some challenges in those parts of the business are likely to be offset by a rebound in areas that had been trouble spots, GM said in a presentation ahead of an investor conference. It expects improvement overseas, including South America, where GM has strong market share.

Among the obstacles, GM expects pricing pressure to weigh on results in the U.S. and China this year.

Production of its most important products, full-size pickup trucks and SUVs, also will be under pressure, GM said, as the changeover to an all-new truck platform will lead to some factory downtime, cutting output by about 70,000 trucks, or nearly 10%, compared with 2017.

CITI

Continued from the prior page
lost \$17.3 billion as it took huge write-downs on subprime mortgage securities and bad loans.

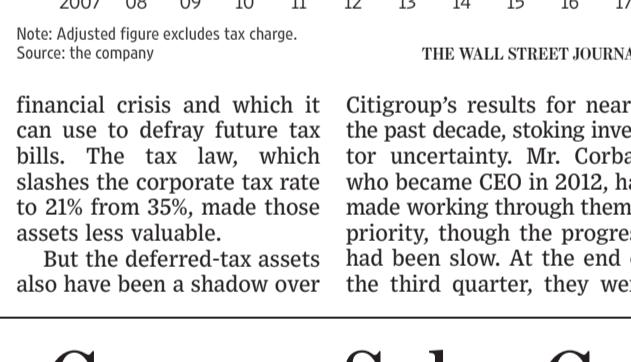
This time, the New York bank's loss comes from an accounting maneuver forced by a favorable piece of legislation in Washington. Citigroup already had warned Wall Street about the looming loss, saying last month that it expected to take a hit of about \$20 billion to profit this quarter.

The quarterly loss also is something of a cleansing for Citigroup. The main reason for the tax charge is that the new tax law forced the bank to write down the value of its huge pile of deferred-tax assets.

Those assets are essentially past losses that Citigroup racked up during the

Long Climb

Citigroup's annual net income



Note: Adjusted figure excludes tax charge.

Source: the company

THE WALL STREET JOURNAL.

financial crisis and which it can use to defray future tax bills. The tax law, which slashes the corporate tax rate to 21% from 35%, made those assets less valuable.

But the deferred-tax assets also have been a shadow over

Citigroup's results for nearly the past decade, stoking investor uncertainty. Mr. Corbat, who became CEO in 2012, has made working through them a priority, though the progress had been slow. At the end of the third quarter, they were

about \$45 billion, compared with a peak of about \$55 billion. Mr. Gerspach said Tuesday that he expected the amount would fall to about \$23 billion.

About \$3 billion of the \$22 billion charge came from the newly enacted, one-time charge on U.S. companies' overseas earnings. Citigroup is more focused on overseas markets than some of its peers.

Equities-trading revenue fell 23%. The bank said it could lose as much as \$370 million on a single client. JPMorgan confirmed last week that it had suffered a loss as high as \$273 million on a margin loan to Steinhoff International Holdings NV, a South African retail company dealing with an accounting scandal. Mr. Gerspach declined to comment in response to repeated questions about whether the Citigroup loss also came from Steinhoff.

Amazon's Grocery Sales Get a Lift

By HEATHER HADDON

Whole Foods' brand items like bacon, coconut water and frozen blueberries helped **Amazon.com** Inc. gobble up more U.S. grocery sales last year.

Products carrying the natural foods chain's brand helped push sales at Amazon's online grocery-delivery service, AmazonFresh, up 35% to \$135 million in the last four months of 2017 over the previous four months, according to data analytics firm One Click Retail. Amazon bought Whole Foods last summer.

Top selling items included organic baby spinach, shredded Parmesan cheese, organic riced cauliflower, unsalted butter and smokehouse bacon, the analysis found.

Amazon is building out its grocery delivery service to capture more of an increasingly competitive market.

Amazon sold an estimated \$11 million of Whole Foods' 365 Everyday Value natural and organic products last year, small compared with the private-label sales of its supermarket competitors. Kroger Co.'s natural and organic brands are nearing \$2 billion in sales a year, while **Albertsons Cos.** said this month that its organic line does \$1 billion in annual sales.

Food analysts said Whole Foods products are helping AmazonFresh compete with

online grocers. "It...may be bringing new people into AmazonFresh," said Jim Hertel, senior vice president at consultancy Inmar Willard Bishop Analytics. "That would be a real positive."

Blair Reeves, a 36-year-old software product manager in Manhattan, doesn't shop at Whole Foods stores but has regularly bought the chain's 365 Everyday Value brand of products since they began appearing on AmazonFresh.

Online grocery sales ac-

count for less than 3% of the roughly \$800 billion grocery market. Analysts expect that share will grow into the double digits in the next five years. Amazon sold nearly \$2 billion in groceries in the U.S. last year, according to One Click, which analyzes patterns in e-commerce transactions.

Just \$350 million of that was through the AmazonFresh service, where shoppers tend to purchase perishable produce and meat, according to One Click. The remainder was

delivered through Amazon's standard platform as well as its Pantry and superfast Amazon Prime Now service, where shoppers tend to purchase bulky foodstuffs. Amazon is selling Whole Foods products on those platforms, too. Rising grocery sales on Prime Now proves the worth of selling Whole Foods products there, Morgan Stanley said in a recent report.

Whole Foods and Amazon spokeswoman declined to comment.

THE WALL STREET JOURNAL.



Candy is struggling to compete with healthier snacks.

NESTLE

Continued from the prior page

\$115 million. Ferrero's new strategy of pursuing acquisition-led growth, especially in the U.S., has been led by Executive Chairman Giovanni Ferrero, the founder's grandson who in 2011 took sole charge of the company.

In addition to the acquisitions, Mr. Ferrero has sought to promote organic growth with new products, including the recently introduced cookie version of its Kinder Surprise egg that is sold in Europe but not in the U.S.

Vevey-based Nestlé, which has long tried to position itself as a health-food company, has faced criticism from investors

for lack of focus, with a brand portfolio that includes products as diverse as vitamins, bottled water, pizza and ice cream.

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Continued stout demand for pickup trucks and sport-utility vehicles, which carry higher profit margins, has

BUSINESS NEWS

Chevron to Re-Enter Iraq's Kurdish Area

Plan to resume drilling suggests easing of tensions between Baghdad and region

BY BOENOT FAUCON

LONDON—Chevron Corp. said on Tuesday it plans to return staff to Iraqi Kurdistan and resume drilling there, a sign that tensions between Baghdad and the semiautonomous area's government are easing.

Chevron suspended drilling in Iraqi Kurdistan in October after Iraqi forces moved into Kirkuk, routing Kurdish forces that had effectively annexed the city and its oil fields, which lie outside the region's formal boundaries. The move by the Iraqi government came after the Kurds held a referendum on independence from Baghdad, including Kirkuk and other disputed territories.

Hostilities have begun to ease, though there are still political tensions.

A delegation from Baghdad visited the Kurdish region this week for the first time since the referendum and met with officials there including the



REUTERS

Chevron has held drilling rights granted by the Kurdistan Regional Government since 2012.

heads of its two international airports. But Kurdistan's ruling party has said it will boycott May elections in disputed areas retaken by Iraqi forces.

A Chevron spokeswoman said the U.S. company would restart drilling on an Iraqi Kurdish block "in the near future."

"We are taking all necessary

steps to remobilize people and equipment to ensure we are well prepared to resume operations" in the region, she said.

Chevron, which had yet to produce oil in the area, has held the rights to drill in several blocks controlled by the Kurdistan Regional Government since 2012. The company made

the agreements over the objections of Baghdad.

The Kurdistan Regional Government didn't respond to a request for comment. An Iraqi oil ministry spokesman said he had no information on Chevron's plans.

—Isabel Coles in Baghdad contributed to this article.

BP Adds \$1.7 Billion To Cover Costs of Deepwater Horizon

LONDON—BP PLC's bill for the Deepwater Horizon disaster keeps getting bigger.

The British oil giant said Tuesday it would take a \$1.7 billion charge to its fourth-quarter earnings because of settlement claims related to the 2010 Gulf of Mexico blowout. The explosion killed 11 people and unleashed the worst offshore oil spill in American history.

The charge adds to a disaster bill that BP last estimated at over \$63 billion, a toll that continues to mount since the company's \$20 billion settlement with the U.S. government in 2015. That agreement marked the biggest environmental-damages settlement in U.S. history, but didn't deal with claims for economic losses related to the oil spill.

BP said a separate U.S. court-supervised settlement program—which deals with such losses for Gulf residents

and businesses, and is the source of the latest charge—is nearing its close.

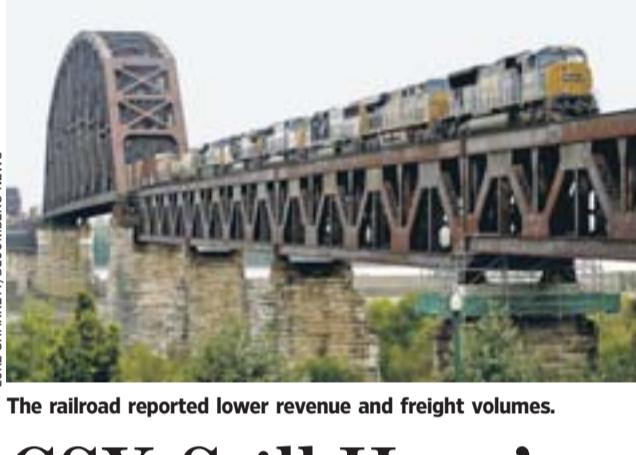
An overall profit for the fourth quarter is under threat because the company has already announced a \$1.5 billion accounting charge related to the U.S. tax overhaul. BP will publish the quarter's results on Feb. 6.

BP remains handicapped by its Gulf of Mexico liabilities even as the oil industry returns to profitability as crude prices recover from the slump dating back to 2014.

BP is contending with nearly 400,000 claims from Gulf Mexico residents and businesses. The exact value of the company's liability within the program remains unknown. In the fourth quarter, the court awarded a significantly higher amount per claimant than in the previous 12 months. That, combined with a ruling in May that included more cases in the process, forced BP to take the fourth-quarter charge.

The company said the charge is fully manageable within its financial framework.

—Sarah Kent



The railroad reported lower revenue and freight volumes.

CSX Still Hasn't Won Back Shippers

BY PAUL ZIOBRO

CSX Corp. still has work to do to win back shippers following last year's service disruptions that occurred after a massive overhaul of the railroad network under its prior chief executive.

James Foote, who took over as CEO last month after the death of the railroad turnaround specialist Hunter Harrison, said CSX is starting to win back some of that business but still has to prove to some shippers that its railroad network is more reliable.

On Tuesday, CSX reported lower revenue and freight volumes for its fourth quarter compared with a year earlier. The Jacksonville, Fla., company also said it would continue to cut costs by eliminating an additional 2,000 positions this year.

Mr. Foote said he has paid visits to customers. "I get on an airplane, go to someone's office with my hat in my hand and say, 'I'm sorry about last year, we screwed up and we didn't do a really good job for you,'" Mr. Foote said in an interview Tues-

day. But he tells them, "We're getting it fixed and it's going to run like a railroad you haven't seen before."

The executive is taking over the unfinished work of Mr. Harrison, who spent about eight months last year reshaping how CSX is run by idling hundreds of locomotives, closing rail yards and implementing a new schedule. The quick implementation caused widespread delays and disruption along the network.

Mr. Foote said he agreed with the changes made by Mr. Harrison, with whom he worked previously on the turnaround of Canadian National Railway Co., and said the aggressive timeline to implement the changes caused problems.

Most of the disruptive changes are done, and CSX is now focused on running the railroad in accordance with the new framework and winning back customers, the new CEO said.

CSX anticipates only slight revenue growth in 2018, as it expects to win over more customers toward the second half of the year.

UnitedHealth Boosts 2018 Profit Forecast

BY ANNA WILDE MATHEWS

UnitedHealth Group Inc. said the federal tax overhaul will increase its 2018 earnings by roughly 16%, as it invests part of the windfall in technology and data initiatives.

The health-care company also beat analysts' expectations for its fourth-quarter earnings, but investors are likely to focus even more closely on the first concrete preview of the tax law's impact on the managed-care industry. UnitedHealth said the overhaul would likely boost its cash flow by about \$1.7 billion this year. The company also said it thought benefits of the tax overhaul would be sustainable over time.

UnitedHealth raised its 2018 earnings outlook to between \$11.65 and \$11.95 a share, from \$10 to \$10.30 previously; the new forecast amounts to a range of \$11.48 billion to \$11.78 billion.

UnitedHealth's fourth-quarter earnings were fueled by growth in its UnitedHealthcare health-

insurance and its Optum health-services businesses. Earnings during the quarter were \$3.62 billion, or \$3.65 a share, more than double the \$1.68 billion, or \$1.74 a share, in the year-earlier period. Adjusted earnings were \$2.59 a share compared with \$2.11 a share a year ago. Analysts polled by Thomson Reuters were expecting adjusted per share earnings of \$2.51.

UnitedHealth's 2017 earnings of \$10.72 a share were also helped by the new tax law. Because of a net deferred tax liability, the company had a noncash benefit of \$1.22 a share.

Though the managed-care industry has been widely expected to benefit from the tax overhaul, some have warned that part of the windfall might be whittled away by regulatory requirements and price competition among other factors.

—Allison Prang contributed to this article.

♦ Heard on the Street: Insurers and the tax-cut windfall....B14



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Subject :- Hybrid Annuity Mode, Package No.PN-42: Upgradation of Roads Under Public Works Circle, Kolhapur
1. The Government of Maharashtra had entrusted to the Authority the development, Maintenance and Management of State Highways of State of Maharashtra. The Authority had resolved to augment the existing roads in the State of Maharashtra by improvement thereof (The "Project") on "Hybrid Annuity" basis, and has decided to carry out the bidding process of selection of a private entity as the Bidder to whom the Project may be awarded. Brief particulars of the Project are as follows:

Sr. No.	Hybrid Annuity Mode Package No	Name Of work	Length (in km)	Estimated Project Cost (Rs.in Crores)
1	PN-42	Improvements to SH-143 to Vizor - Nimgaon - Pilli - Ltkai - Dighnchi - Atapdi - Shetfale - Kole - Ghatnadre - Kavathermankal - Belanki - Miraj - Arjunwad - Narsobachiwadi - Herwad to state Border Road, SH - 153, Km 41/100 to 81/900 & Km 96/100 to 195/600 Dist. Sangali (Part II - Salgare to Herwad Km 135/500 to Km 195/910)	58.07	192.03

2. All information of e-tendering is available on the following websites/Notice Board
i) <http://www.mahapwd.com> (Informatory Notice)
ii) <http://mahatenders.gov.in>
3. The complete bid document can be viewed / downloaded from e-procurement portal from 15.01.2018 to 30.01.2018 (upto 17.45 Hrs. IST). Bid must be submitted online only.
4. The e-procurement portal is given below.
<http://mahatenders.gov.in>

5. E-tender Schedule is as given below.

Sr.No	Event Description	Date
1.	Invitation of RFP(NIT) (Download Period of online e-tender)	15.01.2018 at 10.00 Hrs. to 30.01.2018 at 17.45 Hrs.
2	Last date for receiving queries for Pre-Bid	23.01.2018 upto 11.00 Hrs.
3	Pre-Bid Meeting	23.01.2018 at 12.00 Hrs. in the office of the Chief Engineer, Public Works Region, Pune.
4	Authority response to queries for pre-bid Meeting.	27.01.2018
5	Bid Lock	31.01.2018 at 17.45 Hrs.
6.	Physical submission of Bid Security / POA etc (as per clause 2.11.2 of RFP)	At any of the following places within 72 Hrs. after Bid Lock at office of the 1) Chief Engineer, Public Works Region, Pune. 2) Superintending Engineer, Public Works Circle, Kolhapur. 3) Executive Engineer, Public Work Division, Miraj
7.	Opening of Technical Bids	On dt. 05.02.2018 from 11.30 Hrs. in the office of the Superintending Engineer, Public Works Circle, Kolhapur. (Maharashtra)
8.	Declaration of Eligible/Qualified Bidders	08.02.2018
9.	Opening of Financial Bids	08.02.2018 from 11.30 Hrs. to 17.55 Hrs.

6. Note:-

a) Bid submitted through any other mode shall not be entertained. However, Bid Security, proof of online payment of cost of bid document, Power of Attorney and Joint Bidding Agreement etc. as specified in Clause 2.11.2 of the RFP shall be submitted physically by the Bidder on or Before 03.02.2018 (at 17.45 IST). Please note that the Public Works Department reserves the right to accept or reject all or any of the Bids without assigning any reason whatsoever.

b) Other terms and Conditions are detailed in online e-tender form. Right to reject any or all online bid of work, without assigning any reason thereof, is reserved with department.

Devendra Shantaram Jadhav
Executive Engineer,
Public Works Division, Miraj

D.G.I.P.R. 2017/ 2018 / 397

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Workers in Spain handle a fiber-optic cable. Facebook and Microsoft are teaming up to run an undersea cable from Virginia to Spain.

Google's Ocean Expansion

Search-engine operator builds up its network of undersea cables in bid to spur cloud computing

By DREW FITZGERALD

Google is expanding its sprawling network of undersea cables to plug into new regions around the world, in a bid to speed up its cloud-computing business and catch up to rivals Microsoft Corp. and Amazon.com Inc.

The search-engine operator has plans to build three new underwater fiber-optic cables lining ocean areas from the Pacific to the North Sea, extending its private data network to regions competitors haven't touched with similar projects.

The cables, expected to be finished in 2019, are designed to speed the transfer of data and reroute users to servers around the globe if a region

fails or gets overloaded.

Google said the investments could cost hundreds of millions of dollars but are worth the expense to get a better shot at the multibillion-dollar cloud-computing market.

"I would prefer not to have to be in the cable-building consortium business," said Ben Treynor, vice president of Google's cloud platform, but when the company looked at ways to push its cloud business past new frontiers such as Australia and South America, "there weren't a lot of great options."

Google parent Alphabet Inc. owns a massive network of fiber-optic cables and data centers built up over the past decade. Mr. Treynor said the infrastructure already adds up to the world's biggest private network, handling roughly 25% of the world's internet traffic, and helps Google control its data-intensive software without relying on telecommunications companies.

The projects would bring the number of subsea cables Google has helped build to 11 after a decade of nonstop construction. Its engineers rely on all those conduits to refresh search results, move video files and serve cloud-computing customers who do business in different parts of the globe.

Google is third in cloud-computing revenue behind Amazon and Microsoft in the race to win big customers, which run everything from shopping websites to government databases on the tech giants' computer servers.

Billions of dollars of annual revenue are at stake as corporations move their information-technology operations to more flexible cloud systems.

Google has teamed up with other firms, including domestic telephone operators and Facebook Inc., to build its subsea cables. But it is breaking precedent with its longest, fully private long-distance ca-

ble, which will stretch 6,200 miles from Los Angeles to Chile, where the company finished a data center in 2015.

"This is, I believe, the largest single pipe into Chile," Mr. Treynor said of the Curie cable, named after the French scientist Marie Curie.

The company is planning to share capacity with Facebook on a planned 4,500-mile cable from the East Coast of the U.S. to Denmark, with a pit stop in Ireland. The Havfrue line, Danish for "mermaid," will give the company more bandwidth across the Atlantic Ocean.

A planned 2,400-mile cable called HK-G, running from Hong Kong to Guam, will hook up with other cable systems linking Australia, East Asia and North America.

Google's new cables will help link five new regions for cloud customers in Montreal, the Netherlands, Los Angeles, Finland and Hong Kong.

—Jack Nicas contributed to this article.

STERN

Continued from page B1 through Instagram?

A handful of companies are working on it. While the underlying technology is different, the premise is similar. A transmitter placed somewhere in your house wirelessly sends power to receivers embedded in everything from smartphones to thermostats.

I got a look at Ossia Inc.'s Cota wireless power technology in Las Vegas last week. In one demo, a giant transmitter installed in a wall lighted up a lightbulb about 6 feet away. That same transmitter also powered special AA batteries, which powered a little LED light. Ossia says its technology can reach up to 30 feet right now, depending on transmitter size and the environment.

This premise is the absolute dream—if it doesn't fry our brains. A competing technology, Energous Corp.'s WattUp, was certified by the Federal Communications Commission in December for charging up to 3 feet. Both Ossia and Energous say that their technology has been tested for safety.

The biggest obstacle right now seems to be getting the gadget makers to buy in to the technology—the concern being that it simply isn't ready for prime time or that there isn't yet an agreed-upon standard. Both companies say they are in talks with top electronics makers.

Energous Chief Executive Stephen Rizzone said he expects to see consumer products with WattUp technology that can charge within its 3-foot range before year-end. One potential product: a computer monitor with the transmitter built into the



The Romeo Saber battery pack, the size of a water bottle, can charge a laptop.

screen frame that can charge a mouse and keyboard.

My take? I've been incredibly excited about the whole idea... for at least four years. (I saw a wireless-power demo at CES 2015.) It is going to be years before this technology is in our most-used gadgets. **Apple**, for instance, only just caught up with mat-based charging.

Energy-Conscious Devices

Batteries may not be getting better, but our devices are getting smarter about using every little drop of power.

Huawei Technologies' Mate 10 Pro smartphone, making its U.S. debut next month, has an artificial-intelligence mobile chipset and a mega 4,000 milliamp-hour battery. (By comparison, Samsung's Galaxy S8 has a 3,000-mAH battery, while the iPhone X has a 2,716-mAH battery.) The Huawei phone's Kirin 970 AI chip is said to learn your usage behaviors and then optimize power allocation. For instance, it knows when the phone needs to provide your precise location (turn-by-turn directions) or a general location (weather) to save

power. I haven't tested the Mate 10 Pro, but other reviewers say the phone really does have superb battery life.

Lenovo's Miix 630 tablet-laptop claims 20 hours of continuous battery life, and thanks its processor for the improved efficiency. Instead of a full-powered Intel Core processor, the Windows 10 hybrid device runs on a Qualcomm Snapdragon 835 processor, the same one inside many popular Android phones. **Microsoft** and Qualcomm have been working together to optimize Windows for lower-powered processors—specifically for the added benefit of prolonged battery life.

My take? I believe improved processors that manage power better, along with more intelligent software, will provide the greatest leap in battery life in the coming years. So much of our gadgets' power is still used when we don't need it.

Better Backup Batteries

In the here and now, when that battery hits the dire 3% range, you're still going to need a backup battery. Good news: Smaller power bricks and cases are getting bigger

batteries.

Yes, one of the most exciting things I saw at CES was a protective laptop sleeve with a built-in battery. The \$200 Incase Connected Power Sleeve, made by **Incase Designs** Corp., can fully recharge a MacBook Pro with its big 14,000-mAH battery. It has a USB-C port and cord and a regular USB port so you can charge laptop and phone at the same time.

If you don't have a MacBook Pro, or just don't want your battery buried in a case, there is the \$300 Saber by Romeo Power Technology. The company, which also makes electric-car

Ericsson Flags \$1.77 Billion Write-Down

By STU WOO

Ericsson AB's costly turnaround continues.

The Swedish telecommunications-equipment maker said it expects to write down another 14.2 billion Swedish kronor (\$1.77 billion) in assets, as it struggles to retool itself in the face of slowing sales and nimble Chinese rivals. It is the latest in a series of charges amounting to more than \$5 billion over the past two years.

Over that period, Ericsson has replaced its chief executive and chairman, shed thousands of jobs and racked up quarterly losses. It has also tussled with an activist investor, who ultimately won a role picking board members.

Ericsson attributed about half of the \$1.77 billion charge to the lower value of its digital-services unit, which helps mobile carriers manage customer accounts. Most of the other half stemmed from a collection of assets related to services provided to TV broadcasters.

Ericsson said most of the assets affected were acquired 10 or more years ago and have "limited relevance" for its current business focus. The non-cash charges would be booked for last year's final quarter.

Long among the world's dominant telecom-equipment



The Swedish company once led the industry in market share. An Ericsson facility in Estonia in 2015.

suppliers, Ericsson and rival **Nokia** Corp. have been humbled by the rise of Chinese competitors, especially **Huawei Technologies** Co. Huawei is now the world's biggest seller of the networking gear at the center of modern mobile communications—even though it hasn't made much headway in U.S.

Since 2012, Ericsson has

fallen from first to third place in the \$126 billion market for telecommunications equipment and software, according to IHS Markit Ltd. In 2016, Huawei led with a 20.4% market share. Nokia acquired competitor Alcatel-Lucent to leap into second place, with 14%. Ericsson had 12.5%, while China's fast-rising **ZTE** Corp. had 9.2%.

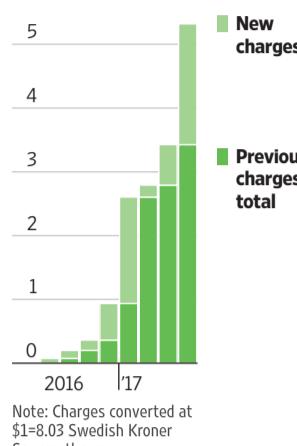
Ericsson has reported four straight quarters of losses, and it and Nokia have said 2018 would be challenging as well amid an industrywide spending lull. Mobile carriers largely have all the equipment they need for the current generation of wireless technology, 4G, and aren't expected to shell out for the next generation, 5G, until 2019 at earliest.

Another Hit

Ericsson has taken a series of write-downs and other provisions as it struggles with a turnaround.

Running total of charges

\$6 billion



Note: Charges converted at \$1=8.03 Swedish Kroner

Source: the company

THE WALL STREET JOURNAL.

grades, a sum that Accenture projects at \$275 billion over seven years in the U.S. alone.

But the challenge, European and U.S. telecommunications executives have said, is Huawei offers a broader range of products, often at lower prices.

"We're not going to beat them on costs, to be honest. There's no chance. They have both scale and lower production costs," Ericsson Chief Executive Börje Ekholm said in a November interview. "We need to beat them on innovation."

Last year, Cevian Capital, one of Europe's biggest activist investors, took a stake of more than 5% in Ericsson and criticized the makeup of the company's board. Ericsson's chairman stepped down, and Cevian co-founder Christer Gardell joined the Ericsson committee that nominated board members. In a November interview, Mr. Gardell said he supported the current CEO and his strategy, but added that "the pace of change could improve."

Ericsson said the recent cut to the corporate tax rate required a revaluation of its U.S. deferred tax assets.

Such assets, essentially tax credits, are worth less at the lower tax rate. Ericsson said estimated impact will be a non-cash charge of about 1 billion kronor.

Maersk and IBM Aim to Apply Blockchain to Trade

By IMANI MOISE
AND DOMINIC CHOPPINGShipping giant **A.P. Moller-Maersk** is the latest company to climb aboard blockchain technology.Maersk, which owns the world's biggest container operator, said Tuesday that it will enter a joint venture with **International Business Machines** Corp. to use blockchain to create a more efficient and secure platform for organizing global trade.

The companies, which began collaborating on the technology in 2016, said the platform could be used to streamline operations for the entire global shipping ecosystem.

Large companies such as **DowDuPont** Inc. already have tested the platform.

The impetus came from the amount of paperwork now needed to process and track the shipping of goods.

Maersk said the cost of documentation to process and

administer many of the goods shipped each year can amount to as much as one-fifth of the physical transportation costs.

The companies said blockchain, the technology behind increasingly popular cryptocurrencies such as bitcoin, is ideal for organizing large networks with different partners like the shipping industry, which transports more than \$4 trillion worth of goods a year.

"The potential from offer-

ing a neutral, open digital platform for safe and easy ways of exchanging information is huge, and all players across the supply chain stand to benefit," said Vincent Clerc, chief commercial officer at Maersk and future chairman of the new joint venture.

Other corporations, including General Motors Co. and Procter & Gamble Co., have expressed interest in the platform and are exploring its use to streamline supply chains and customs clearance.

Customs authorities in Singapore and Peru also are exploring collaborating with the platform to facilitate trade flows and enhance supply-chain security.

The move comes as Maersk and IBM work to reinvent themselves.

IBM, the 106-year-old technology giant, has been looking to new lines of business including blockchain as sales slow for its legacy hardware and software businesses.

Maersk is aiming to become

a global supply-chain major like **United Parcel Service** Inc. and FedEx Corp. by integrating its transport and logistics units and spinning off its oil business.

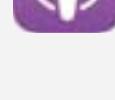
The new company will be based in the New York metropolitan area and led by Michael White, the former president of Maersk Line in North America.

Solutions from the joint venture are expected to become available within six months of regulatory clearance.

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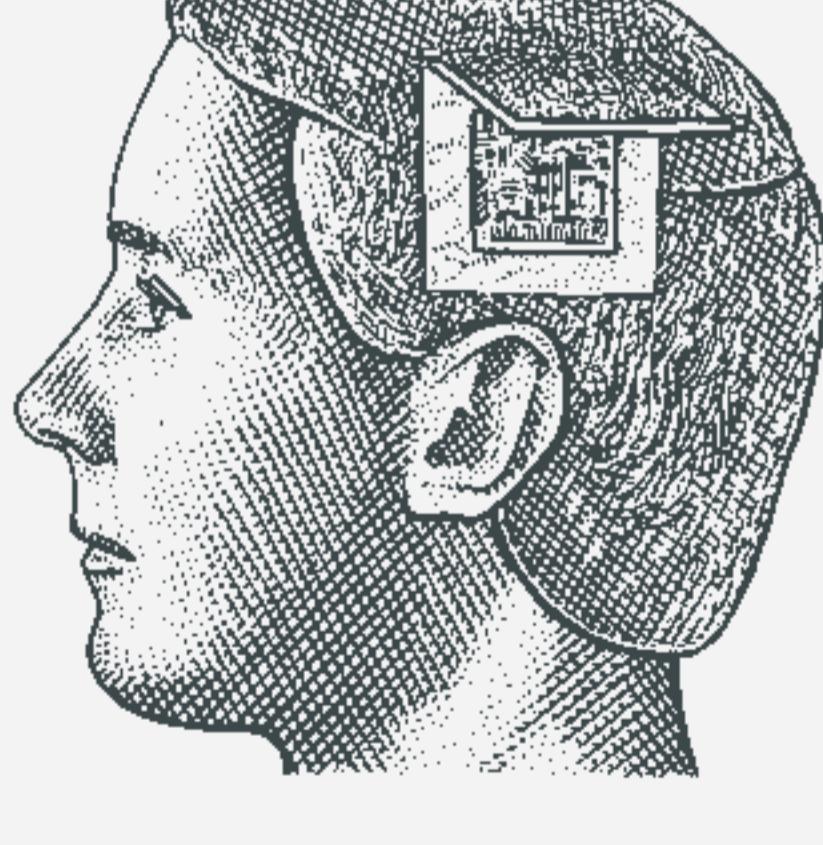
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Outlook Darkens for Self-Storage

Growth is slowing as new supply floods markets and concerns rise about demand

By PETER GRANT

The party is coming to an end in the self-storage business.

For most of the current economic expansion, the sector has been beating all other major commercial property types in earnings growth and stock performance. Real-estate investment trusts like **Life Storage Inc.**, **Extra Space Storage Inc.** and **Public Storage** had been able to push through stratospheric rent increases thanks partly to the scant supply of new developments.

But now growth is slowing as markets are getting flooded with new supply. Earnings are still increasing, but no longer at the double-digit-percentage rates many companies enjoyed between 2010 and 2015.

Stock valuations, meanwhile, are falling back to earth. Self-storage companies are trading at a 2% discount to the estimated market value of the properties they own, compared with an average 16% premium over the past five years, according to Green Street Advisors.

Self-storage company executives point out that the business remains prosperous and continues to hold its own against other property types. The only major REIT sector trading more favorably is industrial, which is trading at a 4% premium to asset value. Malls and office REITs are trading at discounts of 13% and 9%, respectively, Green Street says.

"When you have five or six blowout years and you get back to normal, it just looks slow," said David Rogers, chief



A Public Storage facility in Florida. The sector is trading at a 2% discount to the properties they own.

executive of Buffalo-based Life Storage, which has 700 facilities in 28 states.

But the supply pipeline is expected to stay flat for some time. "We are seeing few signs of a slowdown in new projects," said Baird Equity Research in a report published in late November.

Demographic trends, meanwhile, raise concerns about the strength of future demand. Aging baby boomers can be expected to absorb a lot of new supply as they leave large houses for smaller apartments.

But household formation has generally been slow in the U.S. economy. Also, urban-living millennials have tended to accumulate less stuff than their parents up until now.

"When you live in urban settings, you live small," Mr. Rogers said.

Mr. Rogers and others said they see signs millennials are beginning to form families,

move to the suburbs and accumulate patio furniture, pool toys and the other items that ultimately seem destined for self-storage. "We missed a five-to-six-year period, but we're catching up," Mr. Rogers said.

The self-storage business generally has enjoyed strong growth over the years thanks to the love affair between Americans and their stuff. Once people rent out a unit they become a captive audience for rent increases.

"This is why it's such a great property type," said R.J. Milligan, a Baird analyst.

"Say you're paying \$100 a month and they increase your rent \$5, which in commercial real estate is a significant increase. You're not going to move your stuff on a Saturday to a place that's charging \$95."

The biggest self-storage companies have adopted a wide range of new technologies such as data analytics and

search-engine optimization to find and keep customers. "Our ability to outperform the mom-and-pop [self-storage facilities] has gotten bigger and bigger," said Joseph Margolis, chief executive of Extra Space Storage, a Salt Lake City-based REIT that operates more than 1,500 properties.

Profits also have been plentiful for self-storage operators for most of the recovery from the 2008 crash because new supply has been limited. Roughly 2,000 self-storage facilities were developed annually between 2000 and 2009, Mr. Margolis estimated. That declined to a few hundred a year in the years after the downturn, he said.

But development has increased significantly. The Census Bureau reported that in November the annualized rate of new construction in the sector was about \$4.6 billion on a seasonally adjusted basis.

That's more than double the level of November 2016 and more than triple the level of November 2015.

Private-equity firms in the business include **Brookfield Asset Management Inc.** and **Carlyle Group LP TPG**, another private-equity firm that had been active in self-storage, sold its business in 2016 for \$1.3 billion to the REIT that later changed its name to Life Storage.

The new capital that has flowed into the sector has kept private market values of individual properties high, especially those that are well-leased. High-quality self-storage operations are more than 90% occupied in most markets at near-record rent levels.

But there is doubt that the market will be able to sustain such high levels with the new supply being added. Green Street is projecting that net operating income growth for the self-storage sector will be below the broader REIT industry.

"That typically hasn't happened historically," said Ryan Burke, a Green Street analyst. "It speaks to the fact that self-storage as a business is in uncharted territory over the near term."

PLOTS & PLOYS

STARBUCKS

Simon Settles Suit On Teavana Closures

Simon Property Group Inc. and **Starbucks Corp.** have reached a settlement over a lawsuit by the mall owner that had sought to prevent Starbucks from closing Teavana stores in its shopping centers.

In November, an Indiana judge ordered the coffee chain to halt the closing of Teavana stores in 77 retail locations owned by Simon. Starbucks filed an appeal.

"We've reached an agreement with Simon to settle our dispute," said a Starbucks spokeswoman. "We are thankful to our customers who have enjoyed Teavana tea at these specialty retail locations and will continue to emphasize Teavana tea in new and different ways at Starbucks."

Simon didn't respond to requests for comment.

—Esther Fung

LIFE SCIENCES INDUSTRY

Demand Increases For Laboratory Space

The booming life-sciences industry is causing a scramble for laboratory space in real-estate markets across the U.S., lifting rents even as construction accelerates.

The bulk of venture capital and funding from the National Institutes of Health for research has gone to Massachusetts and California. That has resulted in lower vacancy, sharply higher rents and more construction in the Boston-Cambridge, San Francisco-San Jose Bay and San Diego areas, according to a study by consulting firm CBRE.

One of the hottest markets is in Cambridge, where the average asking rent for laboratory space surged more than 50% in the past three years.

—Esther Fung

Everything Must Go, Except the Stores

By ESTHER FUNG

Shoppers might be seeing more signs for liquidation sales, but that doesn't mean the stores are closing for good. Sometimes the events can be effective negotiation tools.

Of 17 retailers with more than 100 stores each that filed for bankruptcy in 2017, only Limited Stores Co., Wet Seal LLC., Vanity Shop and HH-Gregg Inc. closed their entire fleet of stores for good. Others managed to keep some stores open after winning rent concessions from landlords.

Outdoor-gear retailer Gander Mountain, which filed for bankruptcy protection in March and closed all 160 of its stores, was bought out by **Camping World Inc.** in bankruptcy proceedings. Camping World on Jan. 4 said it plans

surprise because they often get sales data from their tenants and have their own watch list of retailers that might struggle with rent payments.

"Landlords aren't typically in the mood of saying 'yeah we'd accept lower rent,' but they are starting to get more flexible because of vacancies in the mall," said Deb Rieger-Paganis, a managing director at global consulting firm AlixPartners LLP.

Landlords typically take a financial hit when a tenant files for bankruptcy, especially at shopping centers that don't have a wait list of new tenants looking for space. While landlords can't stop a bankrupt tenant from rejecting a lease, both parties can negotiate new lease terms subject to approval from bankruptcy court, especially if retailers are still keen on locations that are profitable or potentially profitable.

The goal of all landlords is to keep their shopping centers full to support customer traffic, said John Abernathy, president of Blackwater Resources, a private real-estate investment and development firm that owns shopping centers.

Many leases come with co-tenancy clauses, which force landlords to reduce rents if anchor tenants or a certain number of tenants leave the shopping center. As a result, some landlords would allow rent reductions, which could help retailers in their debt restructuring and enable them to keep some stores open.

Payless ShoeSource Inc., which had more than 4,000 locations in North America before filing for bankruptcy protection in April, initially sought court approval to close nearly 800 stores. The foot-wear chain ended up closing around 673 stores during the bankruptcy proceedings.

Teen retailer rue21 Inc. and children's retailer Gymboree Corp. also eventually closed only a portion of their stores during their respective bankruptcy proceedings.

Even RadioShack, which filed for bankruptcy for the second time in March when it had around 1,500 stores, saw some of them converted.



A Houston neighborhood after Hurricane Harvey. Apartment rents and occupancy are expected to increase in the next five years.

In Houston, Apartments Rebound

By PETER GRANT

The Houston rental apartment market is bouncing back after years of pain caused by overbuilding and the weak energy sector.

Apartments rents and occupancy are expected to increase strongly in the next five years thanks partly to stronger job growth.

The Federal Reserve Bank of Dallas this month projected that Texas's economy would expand 3% in 2018, compared with 2.5% in 2017, partly due to a rise in oil prices.

Meanwhile, the new-property supply spigot has been turned off. Building permits in November have fallen to less than 1% of total inventory, compared with more than 4% in late 2015, according to Green Street Advisors, a real-estate research firm.

Investors have begun to notice the change, boosting the shares of companies that are big owners of Houston apartments.

Even RadioShack, which filed for bankruptcy for the second time in March when it had around 1,500 stores, saw some of them converted.

Camden Property Trust, which owns about 9,000 units in the area, outperformed its peers in 2017.

In a new outlook report, Green Street is projecting the Houston apartment market will expand at the fastest pace over the next five years of any of the top 50 markets the firm analyzes.

Last year, when Green Street published its outlook, Houston was No. 20 on the list, according to Joi Mar, an analyst with the firm.

"Demand is OK, but there's no new supply coming in," Ms. Mar said. "That's why we're feeling good."

The Houston apartment market got a short-term boost after Hurricane Harvey hit in August and tens of thousands of residents were forced to find new places to live while they repaired the damage to their homes.

Almost overnight, Camden's occupancy soared to 98.5% from 93% before the storm hit, said Richard Campo, Camden's

chief executive. Camden's occupancy has slipped down to 96.5% as homeowners have fixed up places and moved back.

But rents have remained strong thanks to job growth and the decline in new supply, Mr. Campo said.

Camden's average rents are now \$1,450 a month, compared with \$1,370 in August.

"What Harvey did was improve the market one year before it was going to improve naturally," Mr. Campo said.

Houston-area developers and their lenders are able to slam on the brakes faster than those in other markets, like San Francisco and New York, where land costs are higher and the public approval process takes longer and is more complicated.

In those other markets, developers are inclined to begin even when market warnings are flashing.

In Houston, it is easier and less expensive to wait. Mr. Campo said he decided to

shelve a 21-story development in late 2015 because of poor market conditions. "I put the building permits on ice and I waited," he said.

More recently, as demand and supply trends improved, Camden began moving forward with the project, which is now expected to be completed in 2020.

"There's not going to be another new project around me for miles," Mr. Campo said.

The Green Street apartment-outlook report predicts occupancy and rental growth in the sector should remain near inflation from 2019 to 2022.

The apartment segment will outpace growth in the retail and office sectors but underperform industrial real estate, the report says.

The report points out that new supply coupled with slowing job growth decreased the pricing power of landlords in 2017, and "both of these conditions appear poised to continue in '18."

BUSINESS NEWS

Nissan Expects to Build U.S. Plant

By SEAN MCCLAIN

DETROIT—Nissan Motor Co.'s chief executive said the company believes it will need to build a new plant in the U.S. in four or five years, when the car maker would be ready for another push to expand.

Normally, that plant would be built in any of the Nafta countries, "but in the current situation we are more inclined to invest in the U.S.," said Hiroto Saikawa, Nissan's chief executive, at the Detroit auto show.

President Donald Trump has pressured Japanese auto makers to build factories in the U.S. Last year, Mr. Trump tweeted "no way" to **Toyota Motor** Corp.'s plans to import Corollas to the U.S. from an under-construction plant in Guanajuato, Mexico.

Last week, Toyota and **Mazda Motor** Corp. said they would build a \$1.6 billion plant in Huntsville, Ala. Toyota's

plant in Guanajuato will produce Tacoma pickup trucks, while the Alabama plant will focus on passenger cars.

Nissan's plan comes as it eases off the U.S. market after years of expansion. Sales have grown to around 1.5 million units, from one million units in 2011. That growth helped Nissan exceed its target for U.S. market share, but it came at the expense of profit goals.

"Now it is time for us to improve quality of sales, rather than stretching volume. We have been hit with a deterioration of profitability from the U.S.," Mr. Saikawa said.

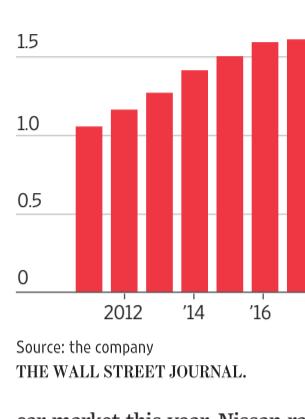
Nissan has become increasingly reliant on the U.S. North America once accounted for 30% of Nissan's profits. "Now 50% is dependent on the U.S.," said Jose Munoz, Nissan's

chief performance officer.

The company is paying the price for being overly optimistic in its predictions for the U.S.

Lead Foot

Nissan's annual U.S. sales have grown by more than 50% since 2011.



Source: the company
THE WALL STREET JOURNAL.

car market this year. Nissan ran its plants at full tilt only to be hit by a sharp slowdown in car buying over the summer.

The company's hopes to trim

incentive spending and refresh its aging passenger car lineup over the next few years to shore up its U.S. business. Carlos Ghosn, who heads the alliance between Nissan, **Renault SA** and **Mitsubishi Motors** Corp., aims to hit a combined sales target of 14 million in 2022 for the three companies.

Mr. Saikawa isn't quite sure how they're going to get there just yet. "We still need to brush up our plan. We are almost halfway finished with this sustainable growth plan," he said.

On China, Nissan leadership is more sanguine. The company sells about the same number of vehicles there as it does in the U.S., but it plans to ramp up sales by an additional 1 million—even at the expense of profitability.

"We are strategically aggressive [in China], because now is time for us to secure the battlefield for the future," Mr. Saikawa said.

Ford Projects Lower Operating Profit

By JOHN D. STOLL

between \$1.45 and \$1.70 a share.

The company also sees earnings of the Ford Credit lending arm decreasing this year due to higher interest rates. Prices of metals, such as steel and aluminum, also are hitting the company particularly hard.

The results and outlook cap Chief Executive Jim Hackett's initial months at Ford's helm. Mr. Hackett, hired to succeed longtime Ford executive Mark Fields, has been charged with cutting costs, sharpening the auto maker's approach to future technology and revitalizing the corporate culture.

At this week's Detroit auto show, Ford rolled out new components of Mr. Hackett's plan. Executives committed to boost spending on electrified vehicles to \$11 billion in the years spanning 2015 to 2022.

New Highs and Lows | WSJ.com/newhighs

The following explanations apply to the New York Stock Exchange, NYSE Arca, NYSE American and Nasdaq Stock Market stocks that hit a new 52-week intraday high or low in the latest session. % CHG-Daily percentage change from the previous trading session.

Tuesday, January 16, 2018

Stock		52-Wk % Sym Hi/Lo Chg		Stock		52-Wk % Sym Hi/Lo Chg		Stock		52-Wk % Sym Hi/Lo Chg		Stock		52-Wk % Sym Hi/Lo Chg		Stock		52-Wk % Sym Hi/Lo Chg		Stock		52-Wk % Sym Hi/Lo Chg			
Highs		American	AMP	183.90	-0.2	Bco SantChile	BSA	34.54	-0.8	CVR Energy	CVR	37.90	-2.1	Corning	GLW	34.79	-0.7	EagleMaterials	EXP	122.49	-0.6	Hologic	HOLX	38.33	-0.2
ABB	ABB	28.27	-0.1	AmericaBancorp	ABC	53.85	-0.6	BancoSancti	SAN	7.24	0.1	BankCorp34	BEX	15.25	-0.2	BankSouth	BKS	34.95	-0.6	BankofAmWtb	BACWS	3.15	4.9		
AECOM	ACM	39.51	-0.5	Ametek	AME	75.62	-0.4	BankSouth	BEX	34.95	-0.6	BankCorp34	BEX	15.25	-0.2	BankSouth	BKS	34.95	-0.6	BankofAmWtb	BACWS	3.15	4.9		
AG Mortgage Pfld	MTHFA	25.02	-0.2	AnaptysBio	ANAL	116.67	-2.1	BankofAmWtb	BACWS	19.80	0.1	BankofAmWtb	BACWS	19.80	-0.1	BankofAmWtb	BACWS	19.80	0.1	BankofAmWtb	BACWS	19.80	0.1		
ASML	ASML	188.50	-0.4	Andeavor	ANDY	119.95	-0.2	BankofAmerica	BAC	31.70	0.2	BankofAmerica	BAC	31.70	-0.2	BankofMontreal	BMO	82.99	0.6	BankofMontreal	BMO	82.99	0.6		
Aaxis	AIRAX	63.18	-0.4	Anterix	ANTX	243.81	-0.8	BankofMontreal	BMO	82.99	0.6	Anterix	ANTX	243.81	-0.8	BankofMontreal	BMO	82.99	0.6	Anterix	ANTX	243.81	-0.8		
AbbVie	ABV	103.00	-2.1	AnthemUn	ANTH	59.15	-0.8	BankNY Mellon	BK	58.99	-1.9	CapitalOne	COF	106.47	-1.0	CapitalOne	COF	106.47	-1.0	CapitalOne	COF	106.47	-1.0		
Abomed	ABMD	219.11	-1.4	AppliGenPharma	ALRN	46.55	-0.2	AppliGenPharma	ALRN	46.55	-0.2	AppliGenPharma	ALRN	46.55	-0.2	AppliGenPharma	ALRN	46.55	-0.2	AppliGenPharma	ALRN	46.55	-0.2		
AcceleronPharma	ALRN	20.92	-6.8	Apple	APPL	179.39	-0.2	Appleton	APTIV	94.02	-0.4														
Acomint	ATVI	20.92	-6.8	AutoMed	AMEH	29.91	-0.3	BayBancorp	BYBK	125.42	0.1														
ActivationBlitz	ATVI	21.18	-2.3	Astronics	ATRO	49.45	-0.9	BectonDickinson	BDX	321.05	0.2														
Allegion	GOLV	21.64	-2.9	AptosBiosci	APTO	2.94	12.9	BethHawthn	BH	214.03	0.1														
Altschuler	ADMT	10.22	-1.3	Atarabiotherap	ATRA	2.90	-2.5	Bio-Logix	BIGG	21.82	-4.2														
AltronSystems	ATDN	4.55	-1.0	Arakam	ARMK	44.30	-0.2	BestBuy	BBY	74.11	-1.2														
Arconic	ARCN	10.39	-1.1	Biologics	BIOT	11.17	-0.2	Biologics	BIOT	11.17	-0.2	Biologics	BIOT	11.17	-0.2	Biologics	BIOT	11.17	-0.2	Biologics	BIOT	11.17	-0.2		
Arctech	ARCR	57.47	-0.6	AshburyAutomotive	ABG	76.40	-3.1	Biotech	BIO	12.40	-0.2														
Alimentech	ALMT	40.65	-3.7	AscendisPharma	ASND	48.92	-0.2	BlackKnight	BKI	51.00	14	BoiseCascade	BCC	43.10	-1.2	BoiseCascade	BCC	43.10	-1.2	BoiseCascade	BCC	43.10	-1.2		
AltraMidMotors	AMC	17.41	-2.0	Autobro	ALV	17.15	-0.3	Autobro	ALV	17.15	-0.3	Autobro	ALV	17.15	-0.3	Autobro	ALV	17.15	-0.3	Autobro	ALV	17.15	-0.3		
Alvista	APD	17.14	-2.0	Automed	AMEH	29.91	-0.3	BayBancorp	BYBK	125.42	0.1														
Altair	ALTR	30.95	-0.7	Atmosphere	ATRA	30.90	-2.5	Bio-Logix	BIGG	21.82	-4.2														
Altria	ATVI	10.39	-0.8	Attralife	ATRA	30.90	-2.5	Bio-Logix	BIGG	21.82	-4.2														
Altria	ATVI	10.39	-0.8	Attralife	ATRA	30.90	-2.5	Bio-Logix	BIGG	21.82	-4.2														
Altria	ATVI	10.39	-0.8	Attralife	ATRA	30.90	-2.5	Bio-Logix	BIGG	21.82	-4.2	Bio-Logix	BIGG	21.82	-4.2	Bio-Logix	BIGG								

MUTUAL FUNDS

Mutual Funds | WSJ.com/fundresearch

Explanatory Notes

Data provided by LIPPER

Top 250 mutual-funds listings based on total net assets for Nasdaq-published share classes. NAV is net asset value. Percentage performance figures are total returns, assuming reinvestment of all distributions and after subtracting annual expenses. Figures don't reflect sales charges ("loads") or redemption fees. NET CHG is change in NAV from previous trading day. YTD%RET is year-to-date return. f-Previous day's quotation. p-Distribution costs apply. 12b-1: r-Redemption charge may apply. t-Footnotes p and r apply. NA-Not available due to incomplete price, performance or cost data. NE-Not released by Lipper; data under review. NN-Fund not tracked. NS-Fund didn't exist at start of period.

Fund	Net NAV	YTD Chg %	Net NAV	YTD Chg %	Net NAV	YTD Chg %	Net NAV	YTD Chg %	Net NAV	YTD Chg %	Net NAV	YTD Chg %	Net NAV	YTD Chg %	Net NAV	YTD Chg %	Net NAV	YTD Chg %		
Fidelity			Puritan				IncomeFd		S&P Sel		NA		NA		TotBdAdm		10.70 +0.01	-0.4 TgtRetInve		
500DlxInst	97.11 -0.34	3.9	SrsEmrgMkt	22.50 +0.01	5.1	JPMorgan R Class		TIA/CREF Funds							TotIntBdIdxAdm		21.66 +0.02	-0.2 TotIntBdIdxInv		
500DlxInstPrem	97.11 -0.34	3.9	SrsGroCoRetail	17.47 -0.17	5.1	CoreBond	11.55 +0.01	-0.3	IncomeFd		NA		EqdInst		20.37 -0.10	3.7			10.83 +0.01	-0.2
500DlxPrem	97.11 -0.34	3.9	SrsIntlGrw	16.78 +0.04	3.9	Lazard Instl		PIMCO Funds Instl							TotIntlAdmIdx		31.88 +0.03	4.5 Wellsl		
ExtMktdPrem	63.64 -0.63	2.6	SrsIntlVal	11.28 -0.01	5.5	ErgMktEq	20.64 +0.07	3.1	IncomeFd		NA		TotStAdm		69.17 -0.32	3.7 Weltnl				
IntlIdxPrem	45.19 +0.10	4.7	TotalBond	10.61		Loonis Sayles Fds		Tweedy Browne Fds						TxMinr		15.03 +0.01	4.3 Wldsrll			
			LSBndl	13.92		First Eagle Funds		GblVal						ValAdm		42.79 -0.15	3.3 VANGUARD INDEX FDS			
			Lord Abbott A			IncomeP		500Aadm						WdsrlAdm		69.98 -0.25	4.2 500			
			SlsDurIncmA p			BlChip	102.29 -0.38	6.2	BlAdm					WelltnAdm		24.54 -0.12	2.6 ExtdInstP			
			Lord Abbott F			CapApp	28.89 -0.02	2.2	CAITAdm					WellsAdm		65.69 -0.03	0.6 SmValAdm			
			SlsDurIncm NA			Eqln	34.58 -0.12	3.7	CapOpAdm					WndrsAdm		81.97 -0.41	3.8 TotBd2			
			Metropolitan West			EqlnIndex	74.51 -0.26	5.3	ESADM					TotBd2		10.66 +0.01	0.5 TotIntl			
			TotRtBd	10.61		Growth	65.97 -0.17	5.3	EqlnCap					TotSt		19.06 +0.02	4.5			
			HelSci			ExplnAdm	79.92 -0.27	5.5	ExplnAdm					DivdGro		27.45 -0.04	3.4 HiltCarr			
			InstlCapG			InstlStk	19.39 -0.09	6.1	ExplnAdm					VANGUARD INSTL FDS		213.35 -1.26	3.8 Ballnst			
			IntlStk			IntlValEq	15.81 -0.02	3.4	GrwthAdm					VANGUARD INSTL FDS		35.42 -0.09	2.0 DevMktInstl			
			IntlValEq			IntlValEq	75.64 -0.29	4.9	IntlValEq					DevMktInstl		15.06 +0.02	4.4			
			MCapGro			IntlValEq	90.53 -0.51	4.0	HlthCareAdm					DevMktInstl		23.53 +0.02	4.3			
			MCapGro			MCapGro	31.26 -0.28	2.8	HYCorAdm					ExtdInst		86.93 -0.86	2.6			
			MCapVal			MCapVal	5.94 -0.05	0.5	IntlVal					GrwthAdm		75.64 -0.29	4.5			
			N Horiz			IntlVal	47.44 -0.49	3.6	IntlProAdm					IntlProAdm		10.38 +0.02	0.5 InPrSeln			
			N Inc			IntlVal	9.45 -0.05	3.9	IntlGrAdm					IntlGrAdm		252.99 -0.89	3.9			
			OverS F r			IntlVal	101.74 -0.08	6.4	MuHyaAdm					STAR		27.55 -0.05	2.8 STIGrade			
			R2020			IntlVal	23.07 -0.03	2.4	MultiAdm					TotBdInstl		10.70 +0.01	0.4			
			R2025			IntlVal	10.55 +0.04	0.8	MultiAdm					TotBdInstl		10.66 +0.01	0.5			
			R2030			IntlVal	21.72 -1.64	3.0	MultiSeries					TotBdInstl		10.60 -0.01	0.2			
			R2035			IntlVal	9.55 -0.54	5.3	MorgAdm					TotBdInstl		10.70 +0.01	0.4			
			R2040			IntlVal	11.38 +0.01	0.4	MultiSeries					TotBdInstl		10.66 -0.01	0.5			
			ZTS			IntlVal	38.51 -0.13	3.2	MuHyaAdm					TotBdInstl		10.66 -0.01	0.5			
			ZTS			IntlVal	14.08 +0.00	0.3	MultiSeries					TotBdInstl		10.66 -0.01	0.5			
			ZTS			IntlVal	11.61 +0.00	0.4	PRIMECAP Odyssey Fds					TotBdInstl		10.70 +0.01	0.4			
			ZTS			IntlVal	32.02 -0.02	2.0	PrmcP Adm					TotBdInstl		12.47 +0.11	4.5			
			ZTS			IntlVal	34.55 -0.04	2.7	PrmcP Adm					TotBdInstl		12.47 +0.11	4.5			
			ZTS			IntlVal	11.88 -0.02	0.2	ReitAdm					TotBdInstl		12.47 +0.11	4.5			
			ZTS			IntlVal	23.02 -0.03	2.0	ReitAdm					TotBdInstl		12.47 +0.11	4.5			
			ZTS			IntlVal	34.55 -0.04	2.7	ReitAdm					TotBdInstl		12.47 +0.11	4.5			
			ZTS			IntlVal	10.89 -0.02	0.2	ReitAdm					TotBdInstl		12.47 +0.11	4.5			
			ZTS			IntlVal	23.02 -0.03	2.0	ReitAdm					TotBdInstl		12.47 +0.11	4.5			
			ZTS			IntlVal	34.55 -0.04	2.7	ReitAdm					TotBdInstl		12.47 +0.11	4.5			
			ZTS			IntlVal	10.89 -0.02	0.2	ReitAdm					TotBdInstl		12.47 +0.11	4.5			
			ZTS			IntlVal	23.02 -0.03	2.0	ReitAdm					TotBdInstl		12.47 +0.11	4.5			
			ZTS			IntlVal	34.55 -0.04	2.7	ReitAdm					TotBdInstl		12.47 +0.11	4.5			
			ZTS			IntlVal	10.89 -0.02	0.2	ReitAdm					TotBdInstl		12.47 +0.11	4.5			
			ZTS			IntlVal	23.02 -0.03	2.0	ReitAdm					TotBdInstl		12.47 +0.11	4.5			
			ZTS			IntlVal	34.55 -0.04	2.7	ReitAdm					TotBdInstl		12.47 +0.11	4.5			
			ZTS			IntlVal	10.89 -0.02	0.2	ReitAdm					TotBdInstl		12.47 +0.11	4.5			
			ZTS			IntlVal	23.02 -0.03	2.0	ReitAdm					TotBdInstl		12.47 +0.11	4.5			
			ZTS			IntlVal	34.55 -0.04	2.7	ReitAdm					TotBdInstl		12.47 +0.11	4.5			
			ZTS			IntlVal	10.89 -0.02	0.2	ReitAdm					TotBdInstl		12.47 +0.11	4.5			
			ZTS			IntlVal	23.02 -0.03	2.0	ReitAdm					TotBdInstl		12.47 +0.11	4.5			
			ZTS			IntlVal	34.55 -0.04	2.7	ReitAdm					TotBdInstl		12.47 +0.11	4.5			
			ZTS			IntlVal	10.89 -0.02	0.2	ReitAdm					TotBdInstl		12.47 +0.11	4.5			

BIGGEST 1,000 STOCKS

How to Read the Stock Tables

The following explanations apply to NYSE, NYSE Arca, NYSE American and Nasdaq Stock Market listed securities. Prices are composite quotations that include primary market trades as well as trades reported by Nasdaq BX (formerly Boston), Chicago Stock Exchange, Cboe, NYSE National and Nasdaq ISE.

The list comprises the 1,000 largest companies based on market capitalization.

Underlined quotations are those stocks with large changes in volume compared with the issue's average trading volume.

Boldfaced quotations highlight those issues whose price changed by 5% or more if their previous closing price was \$2 or higher.

Wall Street Journal stock tables reflect composite regular trading as of 4 p.m. and changes in the closing prices from 4 p.m. the previous day.

Tuesday, January 16, 2018

Net Stock Sym Close Chg

Stock Sym Close Chg

Net Stock Sym Close Chg

<p

MARKETS DIGEST

EQUITIES

Dow Jones Industrial Average

25792.86 ▼10.33, or 0.04%
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

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

S&P 500 Index

2776.42 ▼9.82, or 0.35%
High, low, open and close for each trading day of the past three months.



Trailing P/E ratio 23.44 21.44
P/E estimate * 20.36 18.62
Dividend yield 2.03 2.41
All-time high 25803.19, 01/12/18

Last Year ago

Nasdaq Composite Index

7223.69 ▼37.38, or 0.51%
High, low, open and close for each trading day of the past three months.



Trailing P/E ratio *27.83 25.05
P/E estimate * 21.00 18.88
Dividend yield 1.01 1.20
All-time high: 7261.06, 01/12/18

Last Year ago

65-day moving average

Oct. Nov. Dec. Jan.

21000 21800 22600 23400 24200 25000 25800

65-day moving average

21000 21800 22600 23400 24200 25000 25800

Oct. Nov. Dec. Jan.

21000 21800 22600 23400 24200 25000 25800

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BANKING & FINANCE

Allergan Pact Advances

BY DAVID BENOIT

AND JONATHAN D. ROCKOFF

A federal judge signaled he would approve a \$290 million settlement reached by **Pershing Square Capital Management**, Valeant Pharmaceuticals International Inc. and the shareholders of Allergan PLC who had alleged the two firms improperly profited from their failed attempt to buy the maker of Botox.

In a hearing Tuesday, the judge also said he intended to publicly issue a final version of a tentative opinion he had privately issued last month that rejected two key legal arguments Pershing Square and Valeant had made. The judge said he wanted his order to become part of legal case law, according to people familiar with the hearing.

The settlement was reached last month to end a suit that

threatened the profits of Valeant and Pershing Square founder and CEO William Ackman on their lucrative Allergan partnership, which earned them collectively about \$2.6 billion, though they failed to buy the company.

The hedge fund and the pharmaceutical company tried to buy Allergan for more than \$50 billion in early 2014. The hedge fund took a 9.7% stake in Allergan to try to win enough support for the deal. But the bid failed when Actavis PLC swept in with a \$66 billion offer for Allergan.

The sides reached an agreement to settle last month, with Pershing Square set to pay \$193.75 million and Valeant to pay \$96.25 million.

Earlier this month, the judge said he had questions about the agreement and called a hearing for Tuesday,

raising questions about whether he might reject it. At the hearing, the judge said the agreement was "fair to the parties" and canceled the planned trial date for next month.

\$290M

Value of proposed settlement over Allergan acquisition bid

interests and would allow them to put the suit behind them.

The plaintiffs, led by the State Teachers Retirement System of Ohio and the Iowa Public Employees' Retirement System, sold Allergan shares as Pershing Square was buying. They contend that Pershing Square and Valeant profited from inside information.

The suit had hinged on the rules that govern tender offers for stock. It is illegal for someone who has taken "substantial steps" toward launching a tender offer to tip off another party.

Pershing Square and Valeant say they partnered, so Pershing Square couldn't have been trading on another party's information and that they originally decided against a tender offer, so they couldn't have taken steps toward one. They later launched one.



Laurence Fink says he wants companies to better articulate long-term plans and how their organizations contribute to society.

BlackRock's Fink Pledges to Intensify Shareholder Activism

BY SARAH KROUSE

rate governance efforts.

The three largest index-fund providers owned 18.5% of the S&P 500 at the end of the third quarter, compared with 14.7% five years earlier, according to research by Lazard Ltd.

BlackRock plans over the next three years to double the size of the team that engages with companies in which the firm's funds invest, to more than 60 people, he said.

Michelle Edkins, the executive who leads those efforts, will now report to Barbara Novick, a co-founder of BlackRock who leads its government relations and public policy work. "As the objectives of investment stewardship and public policy often intersect,"

"The growth of indexing demands that we now take this...to a new level."

Mr. Fink told employees in a memo Tuesday, Ms. Novick will lead both groups, though they will operate separately.

In the annual letter, Mr. Fink reiterated his call for companies to articulate long-term strategic plans and said board members should be able to describe how they oversee those efforts.

This year, for example, he said companies should tell shareholders how changes to the U.S. tax law will affect long-term plans.

Corporate strategies should cover financial metrics, he wrote, but to achieve those "you must also understand the societal impact of your business, as well as the ways that broad structural trends—from slow wage growth to rising automation to climate change—affect your potential for growth."

"The growth of indexing demands that we now take this function to a new level," Mr. Fink wrote of the firm's corpo-

HNA Trade Halt May Last a Month

BY YIFAN XIE

It isn't uncommon for publicly listed companies to halt trading in their shares for a few hours or a day before a major announcement. But a month?

A Shanghai-listed subsidiary of Chinese conglomerate **HNA Group** Co. this week said trading in its shares could be suspended for up to a month because its largest shareholder is planning a "major asset restructuring," according to a stock-exchange filing. The trading halt in shares of the company called **Tianjin Tianhai Investment** began on Jan. 12.

Shares in a few other HNA-

linked companies, including its large commercial airline division **Hainan Airlines Holding** Co., also have been suspended from trading pending an announcement. One halt, for a Shenzhen-listed department-store operator, has been in place since Nov. 28.

HNA, an airlines-to-hotels group that until last year was aggressively scooping up stakes in companies all over the world, has been trying to raise cash in recent months to service around \$100 billion in outstanding debt, of which about one-quarter is coming due this year. Its units have issued short-term bonds and borrowed more money against stakes they own in companies in Hong Kong, the U.S. and Europe.

Details of what a major restructuring could involve have been scant. The group has a sprawling network of subsidiaries and affiliates whose combined assets hit \$178 billion by this past June.

A division called HNA Technology Group owns around one-fifth of Shanghai-listed Tianjin Tianhai, a company with a roughly \$2.8 billion market capitalization, according to Wind Information Co. The listed firm owns California-based technology company Ingram Micro Inc., for which HNA paid \$6 billion in 2016. With 220 billion yuan (\$34 billion) in total assets, HNA Technology Group has more

than a dozen units. They include IT outsourcing firm Pacteria Technology International, which it bought from private-equity firm **Blackstone Group** for \$675 million in 2016, and a cloud computing firm called eKing Technology.

China's securities regulator in recent years has sought to discourage companies from halting trading in their shares for long periods. Prior to late 2015, some firms suspended stock trading for as long as three months before announcing deals. Current rules generally require listed firms planning restructurings to lift trading halts within a month or detail their plans by then.



An aircraft-cleaning robot at HNA Technology's space at a tech fair in China last year. The company owns one-fifth of Tianjin Tianhai.

Foreign Firms Embrace 'Yankee Bonds'

BY BEN EISEN

Foreign companies have recently been smitten with the U.S. corporate bond market.

Firms outside the U.S., excluding financial institutions, sold \$338.2 billion in "Yankee bonds" in 2017, according to data provider Dealogic. Such bonds are typically issued in the U.S. by foreign companies and denominated in dollars. Last year trailed only 2013 in terms of total issuance, and Yankee bonds have made up an increasing share of total U.S. debt offerings recently.

The rise in Yankee bonds has been more pronounced among banks. Financial institutions, including **UBS Group AG**, **Sumitomo Mitsui Finan-**

cial Group Inc. and **Banco Santander SA**, collectively issued a record \$293.5 billion of such bonds last year, according to Dealogic. Such issuance is off to a fast start in 2018 as well.

The moves are indicative of a number of trends that have propelled corporate bond issuance recently, even after years of a red-hot market. Investors are demanding smaller premiums over Treasurys to own corporate bonds, making it more attractive for companies to sell Yankee bonds.

Yankee bonds have gained more widespread appeal in recent years. Transparency increased after the Financial Industry Regulatory Authority began tracking the trading on

the bonds alongside other forms of corporate debt in 2014, bankers say. That has helped Yankee bonds to trade closer in line with comparable debt issued by U.S. companies, some say.

"One thing we've certainly done over the last year or so is we've become more comfortable with some of the European banks," said Mike Collins, senior portfolio manager at PGIM Fixed Income. He said his firm has bought more Yankee bonds issued by European banks for clients who want U.S.-denominated debt.

Financial institutions, which issue large amounts of debt to fund operations, typically sell bonds into many markets and make decisions

about which market to use based on a variety of factors, including funding costs and the need to diversify issuance. Recently, those factors have been favoring issuance of Yankee bonds, bankers say.

One factor that has helped make dollar funding more attractive in some cases has been volatility in the market for swapping funding between currencies.

At the end of last year, the cost of obtaining dollar funding using other currencies significantly increased. That has made it cheaper for some companies to raise funding in the U.S. bond market at particular maturities and swap it back to euros and other currencies.

Swiss Banker Opposes Sovereign Money Plan

BY BRIAN BLACKSTONE

fore its implementation."

Under the Sovereign Money Initiative, due to be voted on in a public referendum later this year, bank deposits would be converted into central-bank money issued by the SNB much like bank notes and coins are. This would make it harder for commercial banks to extend long-term loans to households and businesses on their own.

"Banks would ultimately be payment agents for the SNB. Any loans they granted would have to be financed through sav-

ings deposits, debt certificates or equity," Mr. Jordan said.

Supporters of the idea think this would limit the risk of speculative bubbles and costly bank bailouts. But Mr. Jordan said the proposal would put too much of an onus on the SNB to decide how much money should be lent out in the economy.

"Such centralization is not desirable. The smooth functioning of the economy would be hampered by political interference, false incentives and a

lack of competition in banking," he said. It would also lead to higher financing costs, he said, particularly for households and small businesses.

The Sovereign Money plan—which received enough signatures to put it on a referendum ballot—is opposed by Switzerland's federal council and parliament. Under the country's political system, referendums are binding. A date for the referendum hasn't been set, but it is expected to occur later this year.

CFPB to Review Rule On Payday Lending

BY YUKA HAYASHI

WASHINGTON—The Trump administration's acting head of the Consumer Financial Protection Bureau plans to reconsider federal restrictions on high-interest payday loans, a step that could lead to the easing of a rule opposed by the industry and some Republicans.

The rule, completed last year when the bureau was still under Obama-era leadership, clamped down on small, short-term consumer loans that can have interest rates as high as 400%. Among other things, it would require lenders to limit loan rollovers and assess whether borrowers can repay the short-term loans.

The CFPB completed the rule in November, days before White House budget chief Mick Mulvaney, a critic of the agency appointed by President Donald Trump as CFPB acting director, succeeded former director Richard Cordray. As a South Carolina congressman, he opposed the CFPB's regulatory efforts on several fronts, including payday lending.

Payday lenders have said the rule would upset the industry.

"The bureau's rule was crafted on a predetermined,

partisan agenda," said Dennis Shaul, chief executive of the Community Financial Services Association of America, a payday-lending trade group.

He said any changes to the rule must "achieve the delicate balance of preserving consumers' access to credit while enhancing consumer protections."

Mr. Shaul's group has considered suing the CFPB over the rule.

The rule became effective Tuesday and requires compliance with most provisions in August 2019. The process for making significant changes to it is lengthy, essentially involving the same multistep process used to create it.

Mr. Mulvaney's move is the most significant in the Trump administration's effort to overhaul the CFPB. The bureau was created under the Obama administration after the financial crisis.

The CFPB also said it may push back the April 2018 deadline for payday lenders to register with a loan database related to the regulations.

"This decision to undermine it is bad for consumers," Sen. Mark Warner (D., Va.) said in a tweet. Some other financial industry sectors, including banks, credit unions and installment lenders, have welcomed the rule.

MARKETS

Bitcoin Sinks as More Regulation Looms

Price falls below \$11,000 for first time since last month amid crackdown in Asia

By MIKE BIRD
AND GREGOR STUART HUNTER

The price of bitcoin plunged by as much as 25% on Tuesday amid concerns about tighter regulation, with the volatile virtual currency dropping below **CURRENCIES** \$11,000 for the first time since early December.

By 6:30 p.m. in New York, bitcoin traded at \$11,023, according to data provided by Coindesk.com—down 44% from its peak of \$19,783 last month.

Bitcoin prices surged to records late last year as traders prepared for the launch of futures contracts on **Cboe Global Markets** and **CME Group**. Contracts trading on the Cboe are scheduled to expire Wednesday for the first time since they launched, a process that can lead to more volatile trading.

The spot contract expiring Wednesday was slightly below the spot price of bitcoin. Futures trading at a lower price than their underlying asset—

known as backwardation—can be a bearish sign for an asset. Spot and futures prices tend to converge as the expiration date arrives.

Tuesday's fall also followed attempts by various governments to tighten control over cryptocurrency trading, such as in South Korea, where the assets are popular. Last week Chinese authorities ordered some large bitcoin-mining operations to close.

"This has clearly rattled investors. And understandably so," said Kerrie Walsh, assistant economist at Capital Economics. "The more widespread bitcoin becomes, the more likely it is that stricter regulations will be enforced."

People's Bank of China Vice Gov. Pan Gongsheng in an internal memo also has suggested a ban on centralized trading of cryptocurrencies, Reuters news agency reported Tuesday.

"Any scheme that reduces the anonymity of bitcoin transactions could strip away much of the cryptocurrency's appeal," Ms. Walsh added.

However, volumes in bitcoin futures have continued to rise, according to Cboe, with open interest in January futures declining by less than 7% from their highs and activity in February and March futures rising.

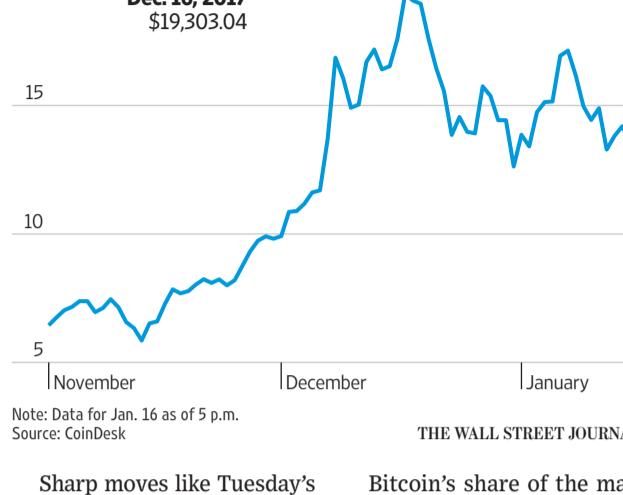
Other cryptocurrencies also tumbled Tuesday, with ether, the second-largest by market share after bitcoin, falling as much as 23%.

Other rival currencies, including ripple and bitcoin cash, fell by about 18% and 10%, respectively, at their lowest points, according to data from CryptoCompare.

Losing Steam

Bitcoin is down around 40% since its high on Dec. 16.

\$20 thousand



Note: Data for Jan. 16 as of 5 p.m.

Source: CoinDesk

Sharp moves like Tuesday's fall aren't unusual for bitcoin, with the currency dropping as much as 30% between Dec. 16 and Dec. 22 and falling by as much as 25% in mid-November.

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Bitcoin's share of the market for virtual currencies has declined, boosting "altcoins" such as ethereum, ripple and litecoin.

"Bitcoin's market share continues to drop, with a potentially unlimited number of other cryptocurrencies available, increasing the risk of a price collapse," said Mark Haefele, UBS Wealth Management's global chief investment officer.

Not all analysts and investors see a grim future for cryptocurrencies.

The rapid rise of transac-

Malware Allegation Targets Pyongyang

SEOUL—A new hacking offensive against cryptocurrency investors uses malware similar to that deployed in North Korea's attack on **Sony Pictures Entertainment** and its WannaCry ransomware assault, cybersecurity researchers said, providing further evidence of Pyongyang's involvement in crypto heists.

U.S. cybersecurity firm **Recorded Future** in a report on Tuesday identified the Lazarus group—a hacking operation with links to the North Korean regime—as behind the malware campaign, which began targeting users of a South Korean exchange in the late fall and may still be active. It isn't known how successful the hackers were or how much was stolen.

The allegation comes amid signs Pyongyang has been mining and hacking bitcoin as it seeks new revenue sources to

help fund its weapons program amid tightening sanctions.

In December, South Korean authorities launched an investigation into the hacking of Yobit, a Seoul-based bitcoin exchange, with preliminary results finding signs that North Korea was behind the attack, people familiar with the situation said.

"This is a continuation of their broader interest in cryptocurrency as a funding stream," Priscilla Moriuchi, director of strategic-threat development at Recorded Future and a former head of the National Security Agency's East Asia and Pacific cyberthreats office, said in an interview.

North Korea has denied involvement in hacking attacks.

Ms. Moriuchi said the offensive that began in late 2017 more closely resembled previous confirmed North Korean cases with respect to the coding, techniques and targets—giving her team a high level of certainty about its genesis.

—Jonathan Cheng

ster Business School.

"When people have dumped bitcoin they might well have come back in, but people who have put in a hundred or two hundred bucks are dissuaded because those fees are too high," Mr. Coker said.

U.S. Coal Exports Get a Boost From Japan

By TIMOTHY PUOKO

One of the country's biggest coal companies has a deal to send nearly one-quarter of its exports to Japan, the latest boost from **COMMODITIES** Asian markets that have been helping U.S. coal miners recover from one of their bleakest eras.

Cloud Peak Energy Inc., a Wyoming company that mines the Powder River Basin in the western U.S., will start supplying a power plant in Fukushima prefecture late next year in a deal scheduled to rise to as much as one million tons annually by 2021. That equates to 22% of the company's current exports.

Cloud Peak didn't disclose financial terms. The buyer is **JERA Trading Pte. Ltd.**, a Singapore trading house that is supplying coal for a power-plant project led by Mitsubishi companies and **Tokyo Electric Power Co.**

Cloud Peak's deal comes from Japan's plans for dozens of new coal-fired plants to replace nuclear power in response to the Fukushima Daiichi nuclear disaster in 2011. Nuclear power's slow return from that disaster is one of several diverse factors that have helped the Asian market surge and renew optimism for the coal industry world-wide.

But despite the new customer, the deal doesn't necessarily signal big growth for Cloud Peak or U.S. mining



Cloud Peak Energy's Spring Creek Mine in Montana. The mining company exported about 4.5 million tons of coal last year.

companies broadly. Power companies keep closing the power plants that burn this coal in the U.S., shrinking the domestic market. New international buyers might be essential just to prevent falling sales in the years to come.

"We have to wait and see exactly how it turns out," Colin Marshall, Cloud Peak's chief executive, said in an interview. "The reality is, in the U.S. we're not expecting any significant growth."

Asian markets have been central to global coal's rebound from a historic low dur-

ing the past 18 months. A series of disruptions from some of its biggest suppliers coupled with a resurgent global economy have more than doubled the benchmark price for the coal used in power plants in two years, according to S&P Global Platts. China re-emerged as an importer, especially for U.S. producers, which are some of the most sensitive to changing demand worldwide because of how far they are from many buyers.

U.S. exports rose sharply about a year ago and surged again late last year to 10 mil-

lion short tons a month, double the exports from early 2016, according to data from Energy Ventures Analysis in Arlington, Va. Exports to Asia account for about one-third of that and three times as much as they did two years ago.

Cloud Peak exported about 4.5 million tons in 2017—all from its Spring Creek Mine in Montana—up ninefold from the previous year.

The export surge is shoring up an industry that is just emerging from a slate of bankruptcies. The country's largest publicly traded coal miners—

except for Cloud Peak—all reorganized, and billions of investment got erased as share prices plummeted. Cloud Peak has a market capitalization of just \$400 million, and the company's shares are still down 75% from their recent peak in 2014 despite being among the sector's best performers of the past year.

Export markets led to the recent downturn after miners loaded up on debt to grow. Their flood of new output hit just as a shaky global economy cooled demand for the coal used to make steel.

Treasurys Strengthen A Little

By AKANE OTANI

U.S. government bond prices swung before edging higher following the holiday-extended weekend.

The yield on the benchmark 10-year U.S. Treasury note settled at 2.544% on Tuesday, compared with 2.551% Friday.

The yield on the 10-year note, which falls as bond prices rise, hit an intraday high around midday before retreating with U.S. stock indexes to end the day lower.

The muted moves came at the start of a week in which investors will get a look at data on housing starts and jobless claims, as well as comments from multiple Federal Reserve officials.

Meanwhile, the yield on the two-year U.S. Treasury note extended its advance from last week.

The yield on the two-year U.S. Treasury note, which traders consider to be especially sensitive to expectations for interest-rate increases from the Fed, settled Friday above 2% for the first time since September 2008. The yield on the two-year note settled Tuesday at 2.018%, compared with 2.001% Friday.

Shorter-term bonds have come under pressure lately as investors have increasingly bet on the Fed raising rates multiple times this year.

Federal-funds futures, used by investors to place bets on the central bank's rate-policy outlook, on Tuesday showed a 50% chance that the Fed will raise rates at least three times this year, up from 33% a month ago, according to data provider CME Group.

Yields on longer-term bonds also have ticked higher since the start of the year, pressured by expectations for rising inflation rates. Inflation can pressure bonds by chipping away at the value of their fixed returns.

AUCTION RESULTS

Here are the results of Tuesday's Treasury auctions. All bids are awarded at a single price at the market-clearing yield. Rates are determined by the difference between that price and the face value.

13-WEEK AND 26-WEEK BILLS

	13-Week	26-Week
Applications	\$151,225,510,300	\$133,475,359,500
Accepted bids	\$48,000,844,000	\$42,000,889,500
"noncomp"	\$676,009,000	\$700,514,500
* foreign noncomp	\$221,000,000	\$400,000,000
Auction price (rate)	99.639528	99.191111
(1.430%)	(1.600%)	
Coupon equivalent	1.455%	1.635%
Bids at clearing yield accepted	94.79%	37.40%
Cusip number	912796PB9	912796MK2

Both issues are dated Jan. 18, 2018. The 13-week bills mature on April 19, 2018; the 26-week bills mature on July 19, 2018.

FOUR-WEEK BILLS

	134,674,100,300	26-Week
Applications	\$151,225,510,300	\$133,475,359,500
Accepted bids	\$45,000,040,300	\$555,733,600
"noncompetitively"	\$676,009,000	\$700,514,500
* foreign noncompetitively	\$221,000,000	\$400,000,000
Auction price (rate)	99.899278	(1.29%)
Coupon equivalent	1.314%	
Bids at clearing yield accepted	94.78%	47.48%
Cusip number	912796N54	

The bills, dated Jan. 18, 2018, mature on Feb. 15, 2018.

Stocks Retreat After Dow Goes Above 26000

Rare Air

The Dow Jones Industrial Average crossed 26000 for the first time Tuesday before sinking to post a slight decline for the day.

26100



Source: WSJ Market Data Group

panies declined.

The blue-chip index crossed the latest 1,000-point milestone soon after the opening bell and rose as much as 283 points, but it later turned lower. Still, the Dow's march toward 26000 has been fast. It closed above 25000 seven trading sessions ago, heading toward the fastest leap to a new 1,000-point mark in its 120-year history.

The historic rise builds on the Dow's 25% gain last year and its seemingly unstoppable climb to start 2018. The rally began in late 2016 as a bet on infrastructure spending, deregulation and tax cuts, but spent much of 2017 continuing on the back of strong corporate-earnings growth.

Some money managers said

they expect major U.S. indexes to resume their climb as more companies report fourth-quarter earnings. S&P 500 companies are projected to increase earnings by a double-digit percentage, and several investors said they are focusing most on what executives say they expect for 2018, particularly following the passage of the Republican tax overhaul.

The Dow industrials closed down 10.33 points, or less

than 0.1%, at 25792.86, while the S&P 500 declined 9.82 points, or 0.4%, to 2776.42. The Nasdaq Composite fell 37.38 points, or 0.5%, to 7223.69.

Even after the declines, the Dow and the S&P 500 are enjoying their best start to a year since 2003, while the Nasdaq is up the most since 2012.

Shares of energy companies were among the biggest decliners in the S&P 500 on Tuesday, giving up some of their recent gains. The sector has been a major contributor to the latest leg of the rally, as oil prices reached three-year highs in recent sessions and analysts expect those companies to report significant earnings growth.

Chemical companies also trailed, including fertilizer producer **Mosaic**, which fell \$1.54, or 5.7%, to \$25.68.

General Electric shed 55 cents, or 2.9%, to 18.21 after the industrial conglomerate disclosed a \$6.2 billion charge related to its insurance business.

Supporting the blue-chip index, **UnitedHealth Group** rose 4.26, or 1.9%, to 232.90

after the health insurer beat analyst estimates and raised its guidance.

Merck, another Dow component, added 3.41, or 5.8%, to 62.07 after the drugmaker said a combination of its Keytruda treatment with chemotherapy extended survival of patients with lung cancer.

While some investors continue to harbor concerns about whether valuations are stretched, several say they have been hard pressed to find signs the long-running rally is reaching its end.

MARKETS

Higher Crude Price Still Faces Threats

Analysts are watching Mideast developments, demand, OPEC, bulls and shale producers

By GEORGI KANTCHEV

Oil prices are trading near three-year highs, but many analysts say the rally may have gone too far, too fast. With Brent crude, the global benchmark, settling above \$70 a barrel on Monday, fresh risks are surfacing for an industry that is still reeling from a long downturn.

Geopolitics

The rally is being driven partly by tensions in the Middle East that could disrupt oil supply. The Trump administration vowed Friday to pull out of the landmark 2015 Iran nuclear accord, unless there are substantial changes to it, and impose new sanctions on Tehran. The decision has implications for Iran's oil exports at a time when the country has been hit by antigovernment protests.

Investors are also nervously watching developments within Saudi Arabia's ruling family, following a wide-ranging crackdown on corruption in the world's largest oil producer. But some analysts believe these geopolitical tensions will subside and oil prices will lose their immediate support.

"An escalation [in Saudi Arabia or Iran], in which also oil production would be hit, seems unlikely because of strong mutual economic interests," said Hans Van Cleef, energy economist at ABN Amro.

Demand for Crude

Strong demand for crude, driven by a rare spurt of synchronized global growth, has also fueled the recent rally.

New risks are emerging for oil prices, which have continued to push higher in recent months.

Crude prices are trading near their highest level in more than three years.

Brent crude-oil futures price



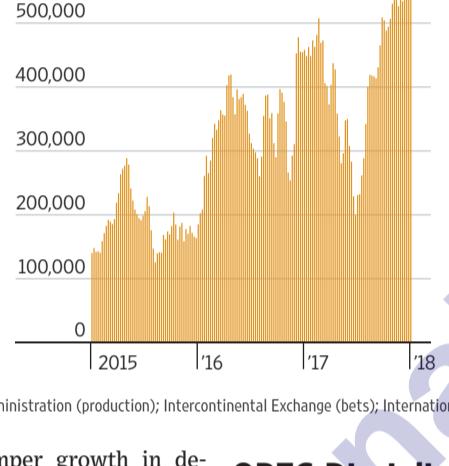
U.S. oil production has kept increasing with rising prices.

U.S. crude-oil output, weekly



Bullish bets on crude-oil have hit a record.

Net bullish bets on Brent crude oil, weekly



OPEC last year limited its output in a bid to raise prices.

OPEC crude-oil production, monthly



Sources: WSJ Market Data Group (Brent); Energy Information Administration (production); Intercontinental Exchange (bets); International Energy Agency (OPEC) THE WALL STREET JOURNAL.

Global oil consumption rose by 1.5 million barrels a day in 2017, higher than the historical average, and is expected to grow by 1.3 million barrels a day this year, according to the International Energy Agency.

But the rising cost of oil

could temper growth in demand, particularly at the pump.

"U.S. motorists being faced with rising fuel costs could trigger a slowdown in demand," said Ole Hansen, head of commodity strategy at Saxo Bank.

OPEC Discipline

The oil price really began to reverse a long period of decline when the Organization of the Petroleum Exporting Countries and other big producers such as Russia began to

talk about, and then implement, cuts to production. But higher prices could cause that coalition to collapse as producers cash in on higher prices with higher output.

Some OPEC members, such as Saudi Arabia, the world's

biggest oil exporter, are concerned with the idea of losing market share to U.S. producers.

"Higher revenues mean more money flowing into the public purse in the short term, yet OPEC risks losing market shares to U.S. shale oil producers in the medium to long term," according to Commerzbank.

U.S. Drillers

More-expensive crude has been a boon for nimble U.S. shale producers, which are quick to add capacity when prices rise. West Texas Intermediate, the U.S. price gauge, is trading above \$60 a barrel, a level typically associated with rising output. The number of active oil rigs increased by 10 last week to a four-month high of 752, according to oil-field services company Baker Hughes.

Last week, the U.S. Energy Information Administration raised its forecast for U.S. production in 2018 to an average of 10.3 million barrels a day, a record and some 300,000 barrels a day higher than what it was forecasting last month. It is also 11% higher than 2017's estimated average of 9.3 million barrels a day.

"The higher the prices go, the harder shale producers pump," said Tamas Varga, oil analyst at brokerage PVM.

Market Speculators

As sentiment on oil has turned positive, hedge funds and other speculative investors have amassed a record number of long positions—bullish bets on oil. If sentiment sours, these investors could quickly unwind their positions, driving prices down.

"The rally may have gone too far too fast, and with current long positions being excessive, a temporary downward correction seems possible," said ABN Amro's Mr. Van Cleef.

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GE Could Be Worse Off Than It Appears

Penny Wise

General Electric shares fell sharply on Tuesday when the company disclosed a large loss and management mulled the possibility of breaking up the sprawling conglomerate.

Share price



and cash flow in some recent years. Then there is the fact that a big chunk of GE's industrial receivables is held by GE Capital and the industrial company has guaranteed much of the debt from when GE Capital was a far larger operation.

Investors were conspicuously slow to make a bet on a possible bargain in GE's shares in November and December despite the fact that they were 70% cheaper than their high near the beginning of the century, when Jack Welch was running things. More recently, though, the notion that new

Chief Executive John Flannery had kitchen-sunk GE's financial situation had begun

to gain traction and the stock was up 7.5% year-to-date before Tuesday's tumble.

While the situation seems to be a far cry from the crisis the company faced in 2008, when it was effectively bailed out by the federal government as it propped up the commercial paper market, a bigger cash cushion would reassure investors that the company can handle deep problems today. Mr. Flannery did little to disabuse the market of that notion amid talk of a breakup on Tuesday.

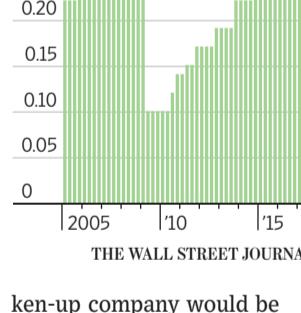
What GE's units might be worth is an open question, though. A sum-of-the-parts analysis conducted by Cowen analyst Gautam Khanna in November suggested the bro-

ken-up company would be worth about \$13 a share—well below the current \$18.

That valuation included GE's large, unfunded pension liability and "dis-synergies" given shared branding and technology. With Tuesday's announcement, that valuation would be even lower.

One recently rumored source of cash is GE's oil-field-services subsidiary, which merged with Baker Hughes last year. GE owns a roughly 62.5% stake in the publicly traded entity, and any purchase or sale will be complicated, requiring the approval of an independent committee. Furthermore, because the oil-field-services business has been seen as on

Quarterly dividend



the chopping block since Mr. Flannery's shocking guidance cut in November, its shares have been under pressure, lagging behind peers. The same discount might apply to almost any unit.

All of this is happening during an economic boom when GE's tax rate has been cut. If GE's problems become acute, any postmortem may conclude that Mr. Flannery missed an opportunity in November by slashing the dividend in half instead of eliminating it. Just the second cut to the conglomerate's payout since the Great Depression—the first being in the aftermath of the financial crisis when GE really did face an existential crisis—it serves to preserve some \$4 billion in cash.

To put that into perspective, though, GE Capital paid about that amount to the parent company in dividends last year, and that has now been suspended.

GE always has the option of eliminating the dividend completely, but the cumulative psychological fallout would have been far less had it done so in one fell swoop back in November. After Tuesday's alarming revelation, it would savage confidence in the company at a time when many are wondering what other problems might lurk.

—Justin Lahart and Spencer Jakab

Citigroup Can Take This Hit

Citigroup posted one of its largest quarterly losses ever on Tuesday thanks to a \$22 billion write-down related to tax reform. Its shares promptly rose.

No, this isn't opposite day. As for most banks, the new tax laws will strongly benefit Citigroup in the long run. Meanwhile, the write-down will do only negligible damage to Citigroup's balance-sheet strength and may even boost its investment image.

The \$22 billion is mostly due to changes in the value of deferred-tax assets—credits against future tax bills, many left over from the financial crisis.

For the most part they don't contribute toward Citigroup's regulatory capital—what regulators look at when deciding how much they will allow in buybacks and dividends.

Yet, because they add to the bank's total equity, Citigroup's deferred-tax assets have historically made its return on equity—a key gauge of bank profitability—look lower than peers.

Citigroup management's current 2018 target is for a 10% return on common tangible equity, excluding certain deferred-tax assets. Going forward, the company will likely restate its targets to be just in terms of return on tangible common equity.

Since Citigroup will be paying a much lower tax rate from now on, management predicted its return on tangible common equity will rise by more than 2 percentage points by 2020. In 2017 it was 8.1%.

Losing tens of billions of dollars is rarely cause for celebration, but that looks to be the case for Citigroup.

—Aaron Back

UnitedHealth's Tax-Cut Windfall Is a Good Sign for Health Insurers

Tax cuts lived up to the hype for health insurers.

Industry bellwether UnitedHealth reported better-than-expected fourth-quarter revenue of \$52.06 billion and raised its adjusted earnings outlook Tuesday in light of the tax overhaul.

UnitedHealth now expects adjusted earnings of \$12.30 to \$12.60 a share in 2018. In

December, before the tax bill was signed into law, the company had said it expected between \$10.55 and \$10.85 a share.

U.S. health insurers should be among the biggest beneficiaries of the lower corporate tax rate. Unlike most large public companies, the sector books the vast majority of profits in the U.S. The

market rally since the tax changes passed, however, raised the risk of a "buy the rumor, sell the news" situation.

But the 17% bump to UnitedHealth's forecast this year easily topped analyst expectations. That bodes well for other large insurers, such as Anthem, Cigna and Humana.

That isn't to say the investment outlook is perfect. The company's share of premium revenue spent on claims ticked higher in the fourth quarter and its stock is trading at nearly 19 times forward earnings, a high multiple for an insurer based on market history.

But investors should keep in mind that UnitedHealth

has developed a reputation for conservative guidance. Adjusted earnings have topped quarterly analyst estimates seven times in a row and in 14 of the past 17 quarters, according to FactSet.

If 2018 brings continued strong performance, that earnings multiple may not look so expensive after all.

—Charley Grant