

THE WALL STREET JOURNAL.

DOW JONES | News Corp *****

THURSDAY, JANUARY 18, 2018 ~ VOL. CCLXXI NO. 14

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What's News

Business & Finance

Apple said it would pay a one-time tax of \$38 billion on its overseas cash holdings and ramp up its spending in the U.S. A1

◆ **Goldman's debt-trading revenue** slid 50% last quarter. The firm posted a \$1.93 billion loss, as results were muddied by the new tax law. A1

◆ **Bank of America's profit** fell 48% due to a tax-law charge, but executives said the 2018 outlook is bright. B10

◆ **The Dow closed** above 26000 for the first time, rising 322.79 points to 26115.65, amid a shift in sentiment by once-wary investors. B1, B12

◆ **Shari Redstone** is advocating for new members on CBS's board as she renews her push for the company to merge with Viacom. B1

◆ **Bitcoin prices** fell below \$10,000, a month after the cryptocurrency hit a high of nearly \$20,000. B11

◆ **The SEC dealt** a blow to the NYSE and Nasdaq, approving a plan by Cboe to loosen their grip on crucial 4 p.m. closing auctions. B11

◆ **The FTC is investigating** whether Broadcom engaged in anticompetitive tactics in customer negotiations. B4

◆ **U.S. industrial production** jumped in December as cold weather lifted heating demand and utility output. A5

◆ **Rolls-Royce said** it may sell its commercial-marine business and pointed to other streamlining steps. B2

◆ **Verizon and the NBA** reached a deal that extends ties beyond streaming games and into content creation. B3

World-Wide

◆ **The partisan crossfire** in Congress intensified and talks on an immigration deal made little headway as a potential government shutdown loomed. A1, A2

◆ **Bannon plans** to cooperate fully with Mueller's Russia inquiry, a person close to the former Trump chief strategist said. A3

◆ **North and South Korea** reached an accord for their athletes to march together under one flag at next month's Winter Olympics. A6

◆ **EPA chief Pruitt plans** to speed efforts to remake the agency, including a repeal of power-plant emissions rules and faster permit reviews. A4

◆ **HHS plans** new exemptions for health-care providers who object to abortions and other procedures. A3

◆ **FEMA is refusing** some of Puerto Rico's requests for loan assistance, citing the territory's "higher than expected" cash holdings. A5

◆ **The U.S. will shift** its focus in Syria from countering Islamic State to reducing Iran's influence there, Tillerson said. A7

◆ **Turkey threatened** to attack Kurdish areas of northern Syria, angered by a U.S. plan to turn Kurdish fighters into a border force. A7

◆ **Saudi Arabia pledged** to inject \$2 billion into Yemen's central bank to stabilize the nation's currency. A7

◆ **An ex-CIA officer** accused of retaining classified information was suspended from his job at Christie's. A6

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THURSDAY, JANUARY 18, 2018 ~ VOL. CCLXXI NO. 14

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Move to March Together at Olympics Breaks the Ice for Two Koreas



FAST TRACK: South Korean President Moon Jae-in, left, met Wednesday with the country's short-track skaters. Athletes from the North and South will march together under a single flag at the Winter Olympics, a deal that adds to strains between Washington and Seoul. A6

Goldman's Trading Falters

Hit by tax charge and fixed-income falloff, bank reports \$1.93 billion quarterly loss

By LIZ HOFFMAN

Debt traders at Goldman Sachs Group Inc. stumbled badly in the last quarter of 2017, generating just \$1 billion of revenue. Back in 2009, they brought in that much every 10 days.

Reporting its fourth-quarter results Wednesday, Goldman

said debt-trading revenue fell 50%—the worst three-month showing since 2008 and the latest in a nearly unbroken chain of quarterly declines in the business.

The numbers reflect problems not unique to Goldman, whose struggles have been acute, but also a wider malaise that has settled over Wall Street's securities operations, once the source of fat profits.

The trouble isn't rogue traders or big bets gone bad, but shrinking demand from investors who, with little conviction about how to play the markets,

simply sit it out or opt for cheap, off-the-shelf investment products, such as index funds.

Meanwhile, new regulations have cast banks as mere tolltakers, and more transparent and accessible data have eroded the informational edge that once gave them pricing power over their clients.

The biggest quakes have hit banks' fixed-income divisions, diverse operations that trade

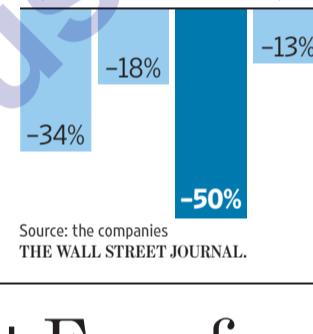
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◆ Heard on the Street: Tax wobble is a buying opportunity..... B12

◆ Charge stings BofA profit... B10

In a Fix

Fourth-quarter declines in fixed-income revenue



Source: the companies
THE WALL STREET JOURNAL.

Apple Set To Pay Big Tax Bill, Touts U.S. Spending

BY TRIPP MICKLE

Apple Inc. said it would pay a one-time tax of \$38 billion on its overseas cash holdings and ramp up spending in the U.S., as it seeks to emphasize its contributions to the American economy after years of taking criticism for outsourcing manufacturing to China.

The world's most valuable publicly listed company laid out its plans Wednesday in a statement that was full of big-dollar figures, though it said that much of the money reflected Apple's current pace of spending.

Apple said it would invest \$30 billion in capital spending in the U.S. over five years that would create more than 20,000 jobs. The total includes a new campus, which initially will house technical support for customers, and \$10 billion toward data centers across the country. It also will expand from \$1 billion to \$5 billion a fund it established last year for investing in advanced manufacturing in the U.S.

Apple's \$38 billion tax commitment is the largest such sum announced in response to the major overhaul of the U.S. tax code that President Donald Trump signed into law late last year. That law included an incentive for U.S. companies to bring home offshore holdings, with companies required to pay a one-time tax of 15.5% on

Please see APPLE page A4

◆ Tax overhaul to drive savings, buybacks at companies..... B1

Dow Blows Past New Milestone

The Dow industrials on Wednesday sprinted to a new 1,000-point benchmark in a record eight trading days. The surge was fed by previously wary individual investors now hungry for stocks. B1

Dow Jones Industrial Average



U.S. NEWS

CAPITAL ACCOUNT | By Greg Ip

Kinship Emerges as Immigration Flashpoint



A foreigner who immigrates to the U.S. doesn't just get a shot at a better life. That person also in effect gets a voucher with which to share the prospect of a future in the U.S. with relatives.

That is the essence of family reunification, the channel by which most immigrants have come to the U.S. since the 1960s. It is a source of growing dissatisfaction with the immigration system.

Chain migration, as critics refer to successive rounds of family-based admissions, tilts the immigrant pool away from young, skilled workers best equipped to prosper and assimilate. It is a key reason so many reformers envy Australia and Canada, two countries that accept more than twice as many migrants per capita as the U.S. while allocating a smaller share of those slots to family members.

Lately, the case against family-based migration has taken a strident turn. Immigration restrictionists, including President Donald Trump, portray it as a conduit for terrorism and crime. It is a charge built on flimsy evidence that evokes

the xenophobia of a century ago.

In 1924, Congress imposed quotas on immigrants according to national origin to halt the influx of Southern and Eastern Europeans that nativists considered racially inferior, a threat to native-born workers and riddled with communist sympathizers.

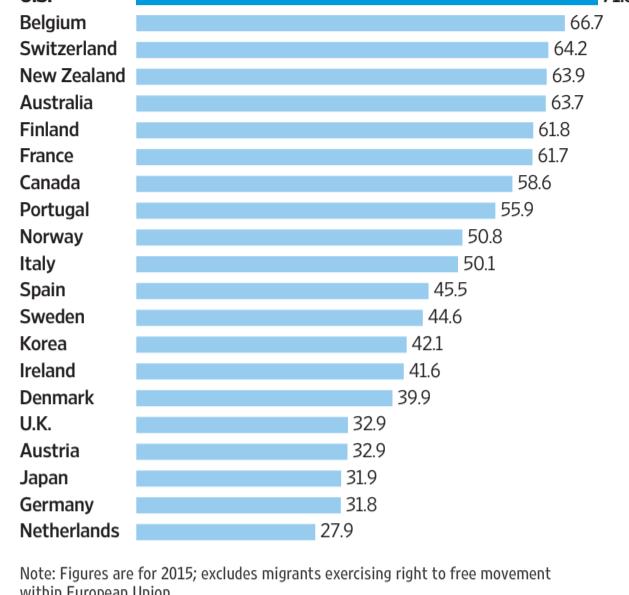
By the 1960s the national origins system had become a source of shame. Determined to extend civil rights to immigration, then-President Lyndon Johnson said in 1964, "A nation that was built by the immigrants of all lands can ask those who now seek admission: 'What can you do for our country?' But we should not be asking: 'In what country were you born?'"

The Immigration Act of 1965 replaced national origin with criteria based on skill and family ties. The definition of family was expanded, from spouses and small children to include adult children, siblings and parents.

This was actually a concession to nativists. Most of the foreign born at the time came from Europe and they were expected to sponsor the most family members. But most European-born people were too old to have many relatives to sponsor. Instead, as

The Ties That Bind

Family-based migrants in the U.S. represent a higher share of total immigration as compared with most other countries.



Note: Figures are for 2015; excludes migrants exercising right to free movement within European Union
Source: OECD

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Marta Tienda, a demographer at Princeton University, has documented, the provision's effect was first felt when Asian workers who came under employment visas then sponsored their parents.

Ms. Tienda found that sponsorship of parents tended to raise the average age of

these immigrants. A report by the Organization for Economic Cooperation and Development notes family-based immigrants were on average less educated, less fluent in English and less likely to be employed than employment-based immigrants, though employment rose with time.

The U.S. has long admitted immigrants for non-economic reasons, for instance to give shelter to victims of persecution and war and to reunite divided families. The policy is driven in part by a simple belief that immigrants—no matter the reason for moving—possess a fierce determination to improve their lives, which makes all of the country stronger.

In a legal sense, family migrants don't displace skilled migrants since all are subject to different caps. Since 2007, family-based admissions have fluctuated around 800,000 a year and employment-based around 150,000. But in a political sense, family migrants do displace skilled migrants. Every country has a finite appetite for immigrants and the more that inflow is filled by family migrants, the less the appetite for refugees or skilled workers.

This leads to the elements of a compromise: narrow the criteria for family migration, as restrictionists want, while expanding the number of skilled migrants as liberalizers have urged. While the total pool could remain around one million, the nation's aging native-born workforce easily justifies a far larger

intake. Extended family could still come, but under stricter criteria.

Yet many restrictionists want to end chain migration to reduce, not maintain or expand, overall immigration.

Mr. Trump has already signaled that his opposition to chain migration isn't about economics. This week his administration released a report that attributed 73% of 549 terrorist acts convicted in U.S. courts between the 2001 attack at the World Trade Center and 2016, to the foreign born, many family migrants.

The methodology seems crafted to accentuate the threat: it excluded domestic acts of terrorism (such as by white supremacists) and included acts carried out on foreign soil.

The actual number of deaths in the U.S. attributable to foreign-born terrorists since 2002 is 34, according to Alex Nowrasteh of the Cato Institute, meaning you were 1,641 times as likely to be killed in a garden-variety homicide.

When an entire class of the foreign born is vilified on such dubious grounds, it severs the debate from hardened economic and public policy considerations, and puts reasoned agreement even further out of reach.

Republicans Offer Health-Care Shift

By STEPHANIE ARMOUR

Republicans are hoping to land support for a short-term spending bill by delaying some Affordable Care Act taxes and renewing funding for the Children's Health Insurance Program, a gamble that shows the continuing resonance of health-care issues in the national political debate.

House GOP leaders, seeking to soften Democratic opposition to the spending bill, have included six years of renewed funding for CHIP, which Democrats urgently want. At the same time, they have inserted a repeal of ACA taxes on medical devices, generous employer plans and health insurance, likely to please conservatives.

But some Democrats deride the CHIP funding as a ploy to get votes, suggesting it won't be enough to win their backing. And it remains unclear whether the bipartisan support for delaying ACA taxes will be enough to budge votes.

The spending bill, like most

GOP

Continued from Page One
senators up for re-election in states won by President Donald Trump are reluctant to shutter the government as collateral damage in the fight over immigration policy.

But already some Senate Democrats who voted for the last short-term spending bill said they would oppose this one, absent an immigration deal, including both Democrats from New Mexico.

CHIP, which provides health coverage to about nine million low-income children, is supported by Republicans and Democrats, but the parties have been at odds over whether its funding must be made up by spending cuts elsewhere.

A recent report from the nonpartisan Congressional Budget Office, however, said renewing CHIP would actually decrease the federal budget by \$6 billion through 2027, because the government wouldn't have to pay as much on Medicaid and other programs.

Democrats and Republicans have previously supported delays of ACA taxes. But the tax on employer insurance plans is already postponed until 2020, which reduces for some the urgency of a further delay.



Activists in New York pressed Wednesday for a bill protecting Dreamers without security measures.

always has a reason not to do DACA?"

Mr. Durbin predicted that all 49 Senate Democrats would support the plan.

"My gut is that it wouldn't pass," said Sen. John Kennedy (R., La.), who said he didn't support the bill because it wasn't comprehensive enough.

Mr. Trump, in an interview with Reuters Wednesday, said the bill was "horrible" on border security and "very, very weak" on changes needed to the legal immigration system. "It's the opposite of what I campaigned for," he told the news agency in an interview.

Mr. Trump also told Reuters that a government shutdown "could happen" by the end of the week.

The president certainly doesn't want a shutdown, and

if one happens I think you only have one place to look, and that's to the Democrats," White House press secretary Sarah Huckabee Sanders said, urging lawmakers to get on board with the short-term spending bill.

The Durbin-Graham bill would legalize the Dreamers, with a 10-to-12-year path to citizenship, and provide about \$2.7 billion in funding for border security and operations. It would end the diversity visa lottery, which randomly awards 50,000 green cards to would-be immigrants from underrepresented countries, and would impose a modest limit on green-card holders to sponsor adult children for immigration to the U.S.

Mr. Durbin said separate negotiations that began last week among the second-highest congressional leaders weren't close to an agreement. Republicans, he said, are seeking far broader changes under the mantle of "border security" than Democrats are willing to concede.

"The problem of course is border security is so generic that they interpret it to mean changes in asylum-seeker policy. We thought it was about the border and the border being strong," Mr. Durbin said. "We can't fix the entire immigration system in a matter of hours."

Conservatives who want any DACA deal to come with robust enforcement measures have been trying to define "border security" to include policies that affect people detained at the border, as well as infrastructure and personnel.

Senate Majority Whip John Cornyn (R., Texas) also gave a downbeat assessment after the deputies met with top White House officials Wednesday.

"What's frustrating to me is we all want to get to yes, but there've been all these diversions and distractions," he said.

The spending bill faces more immediate hurdles in the House, where many Republicans are frustrated that Con-

gress has funded the government through stopgap spending bills since October without giving the military more money and flexibility.

The chairman of the House Freedom Caucus bloc, Rep. Mark Meadows (R., N.C.), said that the opposition from many in his group of three dozen conservatives could derail the monthlong spending bill, known as a continuing resolution, or CR.

GOP lawmakers and aides said the group was seeking a vote on the House floor on a far more conservative proposal from GOP Reps. Bob Goodlatte of Virginia, Raul Labrador of Idaho, Michael McCaul of Texas and Martha McSally of Arizona that extends well beyond the four topics that Mr. Trump and lawmakers agreed

Lawmakers are weighing competing visions on Dreamers and border security.

to negotiate on last week.

The Goodlatte bill would provide \$30 billion to build a wall along the Mexico border and tighten border security, crack down on so-called sanctuary cities, and require employers to use E-Verify. It would provide Dreamers three years of renewable legal status but not green cards or a path to citizenship.

Many conservatives have started urging GOP leaders to bring the Goodlatte immigration bill up for a vote, but GOP aides believe it could fail, diminishing House Republicans' leverage in negotiations.

The Goodlatte bill goes much further than Democrats want on wall funding and other provisions, meaning even if it passes the House it would face almost certain failure in the Senate.

—Natalie Andrews and Michael C. Bender contributed to this article.

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CORRECTIONS & AMPLIFICATIONS

Facebook Inc.'s share of online advertising revenue in 2017 was 21%, **Google's share** was 42%, and others shared the remaining 37%. A pie chart with a Page One article Wednesday about technology giants incorrectly labeled Facebook's 21% on the larger slice that represented the 37% share.

General Motors Co.'s Chevy Blazer SUV was last sold in 2005. A graphic with a Business News article Saturday about auto makers reviving retired nameplates incorrectly implied the model was last sold in 1994.

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THE WALL STREET JOURNAL

(USPS 664-980) (Eastern Edition ISSN 0099-9660)
(Central Edition ISSN 1092-0935) (Western Edition ISSN 0193-2241)

Editorial and publication headquarters: 1211 Avenue of the Americas, New York, NY 10036

Published daily except Sundays and general legal holidays.

Periodicals postage paid at New York, NY, and other mailing offices.

Postmaster: Send address changes to The Wall Street Journal, 200 Burnett Rd, Chicago, IL 60610.

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U.S. NEWS

Bannon To 'Tell All' to Mueller

BY PETER NICHOLAS
AND BYRON TAU

WASHINGTON—The White House has “zero anxiety” about the prospect of former senior adviser Steve Bannon testifying to the special counsel overseeing the Russia investigation, an administration official said Wednesday.

Mr. Bannon, who was President Donald Trump’s chief strategist until his ouster last August, plans to cooperate fully with special counsel Robert Mueller’s inquiry into Russia’s alleged interference in the 2016 election and won’t claim his dealings in the White House were protected under executive privilege, a person close to him said.

It isn’t clear what specifically Mr. Bannon knows. In his roles during the campaign and later at the White House, Mr. Bannon took part in any number of confidential conversations with Mr. Trump and his inner circle.

Mr. Bannon will “tell all to Mueller,” the person close to Mr. Bannon said.

In a marathon appearance Tuesday before the House Intelligence Committee, Mr. Bannon declined to answer some questions from lawmakers in their separate probe into Russia’s role in the election. He told them 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.

But Mr. Bannon isn’t planning to hold back when he fields questions from Mr. Mueller’s team because executive privilege doesn’t cover these sorts of interviews, the person close to him said.

“Mueller is a much meaner hombre than Congress, and Bannon has no problem telling him anything he wants to know about,” the person said.

Mr. Bannon’s stance, the person said, is that no executive privilege exists within the executive branch, given that Mr. Mueller, appointed by the Justice Department, “is part of the executive branch.” Executive privilege applies between branches of government, the person said.

Peter Carr, a spokesman for Mr. Mueller, declined to comment on the subpoena of Mr. Bannon or on a potential interview with him.

Moscow has denied any meddling in the U.S. election. Mr. Trump has denied any collusion between his campaign and Moscow.



Amazon.com Inc., which is based in Seattle, above, is holding a contest to choose a location for its second headquarters. There are many contenders for the prize.

DANIEL BERMAN/BLOOMBERG NEWS

Cities Upgrade to Woo Amazon

Prospect of 50,000 full-time jobs at second headquarters drives needed fixes

Poor public transit

Georgia lawmakers in the current legislative session, in response to the Amazon contest, are considering providing state funding for public transit improvements. For decades, the Metropolitan Atlanta Rapid Transit Authority has received little or no state funding.

Affordable housing

Austin’s popularity has come with a price: rising housing costs and a housing market struggling to meet the needs of a growing city. According to the Austin Board of Realtors, the median price for single-family homes in the Austin-Round Rock area jumped 48% in the past five years to \$296,500 in November 2017. Last year, the Texas city council adopted Austin’s first Strategic Housing Blueprint, with a goal of creating 60,000 affordable housing units over the next decade for households earning \$60,000 or less.

Creaky subways

Boston’s two oldest subway-car fleets are slated for replacement in the coming years. In its proposal to Amazon, the city suggested the company’s

arrival could also revive a long-shelved project to link two subway lines, which would speed travel between a proposed headquarters site and Amazon’s current offices in Cambridge, Mass.

Legislative gridlock

The Illinois Legislature is prone to political gridlock and is saddled with fiscal problems—it took the state more than two years to agree on a budget. But state legislators and city officials have promised to work together and say they are all on the same page in trying to woo Amazon to Chicago.

Traffic

Dallas has some of the worst traffic among the nation’s most congested cities, with the fifth-most traffic hot spots, according to INRIX, a company that tracks transportation trends. The Dallas-Fort Worth area has invested \$15 billion in infrastructure and transit projects over the past decade, according to information provided by the Dallas Regional Chamber. The region, which already has the longest commuter light-rail system in the nation, according to the chamber, is also looking to further expand its passenger rail lines.

Unreliable transportation

Newark is located near an international airport and is a short train ride from Manhattan. But NJ Transit is prone to breakdowns and delays. The state’s newly sworn-in governor, Phil Murphy, a Democrat, has pledged to boost funding and overhaul the management and operations of NJ Transit.

High real-estate costs

New York state offered to assist Amazon with the development of office space and has offered tax credits tied to job creation. New York City has proposed four business districts that would be suitable. Those districts are Midtown West, Long Island City in Queens, Brooklyn Tech Triangle and lower Manhattan.

Poor public schools

In November, Mayor Jim Kenney said he planned to bring the Philadelphia School District back under local control, which officials said is aimed at improving outcomes and giving more confidence to potential employers.

Limited airport service

Operations at Pittsburgh International Airport declined after US Airways ended hub operations there in 2004, and at one point the airport had direct service to only 37 cities. But local officials say the airport is on the upswing thanks to a planned renovation and right-sizing project and now offers direct flights to 73 cities. In November, Alaska Airlines said it would fly nonstop between Pittsburgh and Seattle, home to Amazon.

Traffic congestion

D.C. officials say the city is becoming less car-dependent. More than a third of city residents don’t have a car, the second-highest proportion of any major U.S. city, according to officials, and a quarter of residents get around by foot, train, bike or bus. The city is pushing for Maryland and Virginia to dedicate funding streams to the extensive but problem-plagued Metro subway system.

—Dan Frosch, Scott Calvert, Joseph De Avila, Shibani Mahtani, Jon Kamp, Cameron McWhirter, Kate King and Laura Stevens contributed to this article.

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JUSTIN MERRIMAN FOR THE WALL STREET JOURNAL

Case Pits Client’s Wishes Against Lawyer’s Tactics

BY JESS BRAVIN

WASHINGTON—Supreme Court justices expressed little doubt Wednesday that a murder defendant asserting his innocence is entitled to a lawyer who won’t tell jurors his client is guilty.

That is what Robert McCoy’s lawyer did in a Bossier Parish, La., court in 2008. The Louisiana Supreme Court found that was “a reasonable trial strategy,” despite the conviction and death sentence that quickly followed, since “overwhelming” evidence of Mr. McCoy’s guilt left few options beyond begging for mercy.

To the federal justices, however, the hopelessness of Mr. McCoy’s case was beside the point.

If “the client has said: ‘Don’t do this,’ how could it not be a violation of the Sixth Amendment to do it?” Justice Sonia Sotomayor asked the Louisiana solicitor general, Elizabeth Murrill, referring to the constitutional provision affording criminal defendants “assistance of counsel.”

“Can we even call it ‘assistance of counsel?’ Is that what it is when a lawyer overrides that person’s wishes?” asked Justice Neil Gorsuch.

“We would agree that in most cases the rules of profes-

sional conduct would dictate that a lawyer follow the directives of his client,” Ms. Murrill said. But in a capital case, she argued, “counsel sometimes might be required to override his client on a trial strategy when the strategy that the client wants counsel to pursue is a futile charade.”

Mr. McCoy, 44 years old, was charged with murdering the mother, stepfather and son of his estranged wife, Yolanda Colston, who herself was under police protection

A lawyer pointed to evidence that ‘my client committed three murders.’

after he had threatened her at knife point.

A police officer saw Mr. McCoy’s vehicle driving away from the crime scene, and after the driver fled officers found ammunition matching those used by the killer in the vehicle. Mr. McCoy was apprehended in Idaho after hitching a ride in an 18-wheel truck; a gun that experts identified as the murder weapon was found behind his seat.

This and other evidence persuaded Mr. McCoy’s lawyer, Larry English, that his client was guilty. He believed a plea bargain was Mr. McCoy’s only chance to avoid the death chamber.

But Mr. McCoy insisted he was innocent, contending he had been framed by police who planted evidence. Mr. McCoy’s strategy included calling then-Sen. David Vitter (R., La.) as a witness, since, he claimed, the senator “knows everything that goes on with me.” The judge rejected the subpoena.

Despite Mr. McCoy’s not-guilty plea, Mr. English said in his opening statement that “evidence is overwhelming” that “my client committed three murders.”

The underlying tension in the case comes from constitutional principles at cross-purposes. While defendants are entitled to a competent defense, they also are guaranteed the personal autonomy to oversee the conduct of a trial where they alone will face the consequences.

Justice Stephen Breyer summed up the conundrum. “A large percentage of the people that insist on representing themselves, particularly in death cases, are going to walk right into the death chamber,” he said. “That’s the problem.”

Religious Exemption For Health Providers

BY STEPHANIE ARMOUR
AND LOUISE RADNOFSKY

The Trump administration is planning new exemptions for health-care practitioners with moral or religious objections to performing procedures such as gender-reassignment surgery and abortions.

The Department of Health and Human Services sent the proposal on Friday to the White House for review, said a person on Capitol Hill familiar with the matter. The HHS will also establish a division of “conscience and religious freedom protections” within its Office for Civil Rights, people familiar with the matter said.

President Donald Trump might tout the changes when he addresses the March for Life on the National Mall by satellite on Friday, the White House said.

Abortion-rights groups criticized the move. “For the past year, the Trump-Pence administration has been working to infringe on our freedoms and taking away the rights of people of color, LGBTQ people and women,” said Dana Singiser, vice president of public policy and government affairs at Planned Parenthood.

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U.S. NEWS

Pruitt to Step Up Efforts to Remake EPA

Climate-science critic wants faster permits, a repeal of rules on power-plant emissions

BY ELI STOKOLS
AND TIMOTHY PUKO

WASHINGTON—Environmental Protection Agency chief Scott Pruitt plans to use his second year on the job to accelerate efforts to remake the agency, saying he wants to speed its permitting processes and transform a culture he says is bureaucratic.

In an interview with The Wall Street Journal, Mr. Pruitt outlined the changes he is looking to make in year two: repealing and rewriting Obama-era rules for power-plant emissions, speeding up the EPA's permit review process, implementing weekly performance assessments across the agency, and fostering a public debate about climate change.

Mr. Pruitt has long questioned the scientific consensus that human activities are a significant factor in rising global temperatures and severe weather, and pose a potential existential threat to life on Earth in decades to come.

Discussing his plans for the year, Mr. Pruitt emphasized the importance of moving quickly. "There's tremendous opportunity to show really significant results to the American people in a really short time frame," Mr. Pruitt said.

In his first year on the job, the former Oklahoma attorney general swiftly repealed several of former President Barack Obama's signature policies and encouraged President Donald Trump to pursue a withdrawal from the Paris climate agreement. Mr. Trump announced his intention to exit from the agreement in June.



KEVIN LAMARQUE/REUTERS

EPA Administrator Scott Pruitt, shown this month in Washington, played down reports he hopes to become attorney general.

Staffers Exit Amid Mounting Criticism

Some of Scott Pruitt's policies, and his criticism of the Environmental Protection Agency as bureaucratic and hidebound, have turned off career employees, including many scientists.

With about 700 staffers de-

parting last year, the agency's work force is about 4.1% smaller than it was at the end of 2016, putting it among executive departments and agencies with the biggest declines, according to data from the Office of Personnel Management.

"At the same time [Mr. Pruitt] is making these comments, he's basically doing everything he can to gut the

agency of quality personnel," said John O'Grady, president of the American Federation of Government Employees Council 238, which represents EPA workers.

"They are basically going to break government and then somehow declare victory," Mr. O'Grady said.

Mr. O'Grady pointed to Mr. Pruitt's sometimes antagonistic

position toward agency scientists, saying it will be difficult for the EPA to finish research, write policies and grant permits more quickly if the staff and resources keep shrinking. The Trump administration has threatened budget cuts, and the departures have brought staff to about 14,000 workers, the lowest point in more than 30 years.

Mr. Pruitt said he inherited an agency that employs hundreds of scientists and nevertheless contracts out some of its research.

"Everything the agency does is to protect public health and the public from future risks," said Gina McCarthy, a former EPA administrator during the Obama administration. "You

don't stop smoking because it kills you when you smoke the cigarette; it's because it kills you later. It's the same argument with climate change. You take action today to protect health today and in the future."

Ms. McCarthy, who now teaches at the Harvard School of Public Health, said Mr. Pruitt's statement that the effects of climate change won't be felt for decades "rings extremely hollow" after a year in which the federal government spent \$306 billion responding to extreme weather events. "Anyone suggesting that climate change isn't happening or damaging us today is not keeping their eyes open," she said.

The EPA chief also said in the interview that he believes the agency exceeded its legal mandate under Mr. Obama in creating new rules for power plants in the name of slowing the pace of climate change. "This agency for years has speculated about harm that may be happening 100 years from now as opposed to what's right in their own backyard," Mr. Pruitt said.

In 2018, he said he plans to focus on cleaning up toxic sites in the Superfund program and with what he calls "the war on lead."

"I really believe that we can eradicate lead from our drinking supply within a decade. We just have to get serious about it," Mr. Pruitt said. "We haven't been focused and urgent about the things that matter and can impact people's health today, and we need to do that."

Asked if his urgency has anything to do with future plans to leave, Mr. Pruitt played down a recent report by Politico suggesting he is angling to succeed Attorney General Jeff Sessions, but he didn't fully rule anything out. "I thoroughly, thoroughly enjoy what I'm doing," he said. "What does it say in Scripture? 'Whatever your hand finds to do, do it with all your might.' And that's what I'm doing."

Bob Dole Receives Congressional Gold Medal for Decades of Service

TRUE GRIT: Former Senate Majority Leader Bob Dole with his wife, Elizabeth Dole, as he was honored Wednesday with Congress's highest civilian honor, the Congressional Gold Medal, for his World War II service and decades of work in Washington. President Donald Trump saluted Mr. Dole, 94 years old, as 'a patriot' and gave tribute to Mr. Dole's struggle as a veteran who worked his way back from a grievous shoulder wound he suffered in Italy. 'He knows about grit,' Mr. Trump said.

—Associated Press



APPLE

Continued from Page One overseas profits held in cash and other liquid assets.

U.S. companies have long pushed for such a change to enable them to repatriate overseas cash without what they considered an excessive tax hit. Apple on Wednesday cited the tax changes as the reason for its \$38 billion payment. It didn't say how much of its \$252.3 billion in overseas cash holdings it plans to bring home, though it will be the vast majority, Chief Executive Tim Cook told ABC News in an interview.

All told, Apple said it would directly contribute \$350 billion to the U.S. economy over the next five years, with the bulk—about \$55 billion this year, for example—coming from ongoing spending on parts and services from U.S. suppliers. That number also includes the federal tax payment and capital spending.

Mr. Cook touted the plans as building on Apple's support for the U.S. economy. "We have a deep sense of responsibility to give back to our country and the people who help make our success possible," he said in a statement.

The company said in November that it had earmarked \$36 billion to cover deferred taxes on that money, assuming that it would eventually pay

U.S. taxes on a portion of it by bringing it home.

Mr. Trump praised Apple's announcement on Twitter, saying his policies allowed the tech giant "to bring massive amounts of money back to the United States." He added, "Huge win for American workers and the USA!"

Apple didn't provide historical comparisons for some of the figures it gave Wednesday. The company previously said it planned \$16 billion in capital expenditures world-wide in the fiscal year that ends this September, up from \$14.9 billion the previous year. However, Apple doesn't break out its spending in the U.S., making it difficult to gauge how much of the \$30 billion over five years it announced Wednesday is new.

Toni Sacconaghi, an analyst with Sanford C. Bernstein & Co., said Apple's plans are in line with Trump administration goals, but it isn't clear how many of the commitments are new. And he said the company could deliver on those commitments with existing cash flow—without needing to tap cash holdings.

"It's a nice number and puts a foot forward in line with where the administration wants to go with adding jobs and building in the U.S.," he said. But "it's not clear these investments were impacted in any way by tax reform."

Apple has faced criticism over the past decade for overseas manufacturing of its iPhones, of which it has sold more than one billion, rather than making them domestically. Mr. Trump during the presidential campaign blasted the company for outsourcing. He later called on Apple to build a factory in the U.S. and last year said Mr. Cook promised to build three plants in the U.S. Apple also has been the

poster child for parking overseas profits offshore, and U.S. lawmakers and others have claimed the company sought to avoid U.S. and international taxes—a criticism Apple has strongly rejected.

Apple has responded over the past year by pointing to its spending on procurement in the U.S. and to the size of the so-called app economy spawned by the iPhone, which the company says has created more than 1.6 million U.S. jobs.

The tax overhaul's one-time levy on overseas cash is often referred to as a repatriation tax, although it applies

whether companies leave their foreign profits overseas or bring them to the U.S. It is intended as a transition from the previous tax system, under which the U.S. taxed all worldwide profits of an American company except those kept overseas, to the new system, in which the U.S. won't tax most foreign profits at all. Companies may choose to pay the one-time tax over eight years.

The \$38 billion in taxes Apple owes reflects its growth in the decade since Congress last reduced taxes on overseas holdings. In 2006, Apple recorded a tax charge of \$51 million as it repatriated \$1.6 billion in cash held overseas for the fiscal year.

A tax obligation of \$38 billion would work out to about 15% of the S&P 500's total obligation under the repatriation tax, based on figures from the Journal analysis and a separate analysis by Zion Research Group. Altogether, the Joint Tax Committee estimated last month, the tax should raise about \$339 billion over 10 years from all companies—meaning Apple could account for 11% of the total.

Apple also told employees Wednesday it is issuing each of them a bonus of \$2,500 in restricted stock, according to a person familiar with the matter.

—Theo Francis, Richard Rubin and Natalia Drozdik contributed to this article.

—Reid J. Epstein

Patty Schachtnan's victory marks the 34th state legislative seat Democrats have seized from Republicans since Mr. Trump, a Republican, became president last year, according to the Democratic Legislative Campaign Committee.

WASHINGTON WIRE

IMMIGRATION

Former Envoys Speak Out on Africa Remark

Former U.S. ambassadors to 48 African nations have urged President Donald Trump to reassess his views on Africa and its citizens after he was reported to have referred to nations there as "shithole countries."

In a letter to the GOP president on Tuesday, 78 former envoys said the U.S. is "safer, healthier, more prosperous and better equipped to solve problems that confront all of humanity when we work with, listen to and learn from our African partners."

Michelle Gavin, a former ambassador to Botswana, and Johnnie Carson, a former ambassador to Uganda, Zimbabwe and Kenya, organized the letter.

The White House disputes that Mr. Trump used the offensive term.

Secretary of State Rex Tillerson said Tuesday that the U.S. has positive ties to African countries.

"I think those leaders know that the United States wants that relationship to continue to be strong," he said.

—Felicia Schwartz

WISCONSIN

Local Race Prompts GOP 'Wake-Up Call'

Democrats won Tuesday a special election for a Wisconsin state Senate seat in a district that President Donald Trump carried by 17 percentage points in the 2016 election, a victory that GOP leaders cautioned is another warning about potential losses in the coming congressional midterms.

Wisconsin Gov. Scott Walker, a Republican seeking a third term this November, called the result "a wake-up call for Republicans in Wisconsin," while Democrats hailed it as evidence of a budding wave for the party heading into November's elections.

Patty Schachtnan's victory marks the 34th state legislative seat Democrats have seized from Republicans since Mr. Trump, a Republican, became president last year, according to the Democratic Legislative Campaign Committee.

—Reid J. Epstein

SENATE

GOP Senator to Block Trade Nominees

A GOP senator with concerns about President Donald Trump's trade policy said he would block two of the president's nominees, saying the administration hasn't been responsive to his concerns on the issue.

Sen. Tim Scott, a South Carolina Republican, said at a Senate Finance Committee hearing Wednesday that he would hold up nominees for two deputy U.S. trade representative posts because the head of the trade office, Robert Lighthizer, hadn't returned a call or answered a trade-related question.

Aides to Messrs. Scott and Lighthizer said the two met later in the day, but Mr. Scott wasn't ready to let the nominees go forward, saying he still had questions.

"I had a chance to address those issues, but that does not necessarily mean that I have a crystal-clear picture of how those issues will be impacted through the negotiations," said Mr. Scott, referring to talks about the North American Free Trade Agreement.

A spokeswoman for Mr. Lighthizer said, "Apparently, there was a communications breakdown in our office and Ambassador Lighthizer did not know Sen. Scott had requested a call."

—William Mauldin

FED CHAIR NOMINEE

Panel Votes Again To Advance Powell

The Senate Banking Committee on Wednesday voted for the second time to advance the nomination of Jerome Powell to be the next chairman of the Federal Reserve.

The move paves the way for a full vote on the Senate floor, where Mr. Powell is expected to receive broad bipartisan support. If confirmed, he would succeed Chairwoman Janet Yellen when her four-year term expires Feb. 3.

Wednesday's vote was largely a formality. The panel had voted 22-1 to approve Mr. Powell's nomination on Dec. 5, but had to take up the nomination again after the Senate ended its 2017 session without voting to confirm him.

—Kate Davidson

U.S. NEWS

Puerto Rico Is Stymied In Bid for U.S. Loans

By ANDREW SCURRIA

The U.S. government is refusing some of Puerto Rico's requests for federal loan assistance, citing the U.S. territory's "higher than expected" cash holdings since a devastating hurricane struck four months ago.

The Federal Emergency Management Agency said on Jan. 9 that Puerto Rico appears to have too much money at its disposal to qualify for taxpayer-funded disaster loans and can only borrow federal dollars if its cash position falls below a certain level. Puerto Rico has "consistently" had upwards of \$1.5 billion in the bank following Hurricane Maria, according to a FEMA decision letter reviewed by The Wall Street Journal.

Gov. Ricardo Rosselló's advisers have asked FEMA to reconsider its decision, saying in a Wednesday letter reviewed by the Journal that Puerto Rico's water and power utilities are facing deficits far in excess of the island government's available cash.

Congress authorized up to \$4.9 billion in emergency loans to Puerto Rico, the U.S. Virgin Islands and hurricane-ravaged parts of Texas and Florida.

Puerto Rico's loan applications were complicated by its December disclosure that it had identified \$6.9 billion in funds in various government bank accounts. Some of that money is restricted or tied up in lawsuits with bondholders.

Puerto Rico said in Wednesday's letter to FEMA that the cash disclosures didn't paint an accurate picture, or should not be construed as indicative, of governmental liquidity for unrestricted general use."

Cold Weather Lifts U.S. Output

Industrial production rose 0.9% last month as utilities got a boost from a frigid stretch

By SARAH CHANEY

WASHINGTON—U.S. industrial production rose sharply in December, boosted by gains in utilities output as cold weather swept across the nation and increased demand for heating.

Industrial production—a measure of output at factories, mines and utilities—rose a seasonally adjusted 0.9% in December from the prior month, the Federal Reserve said Wednesday.

November industrial production was revised to a 0.1% decline from an originally reported gain of 0.2%.

From a year earlier, industrial production rose 3.6% in December, the largest annual gain since 2010. In the fourth quarter as a whole, industrial production jumped 8.2% at an annual rate "after being held down in the third quarter by Hurricanes Harvey and Irma," the Fed said.



Industrial production was up 3.6% last month from a year earlier, the best annual gain since 2010.

"This is a story about the cold weather and the rebound in oil production in the wake of higher prices," said Ian Shepherdson, chief economist at Pantheon Macroeconomics, in a note to clients. "With oil production likely to keep rising, production should start 2018 strongly."

Wednesday's report showed output in the volatile mining sector increased 1.6%

in December, which the Fed said was mainly because of a gain in oil and gas extraction. The mining index was up 11.5% from a year earlier.

Utility output grew 5.6% from the prior month, "as the record-breaking cold weather in the Northeast boosted electricity and gas demand," said Michael Pearce, senior U.S. economist at Capital Economics, in a note to clients.

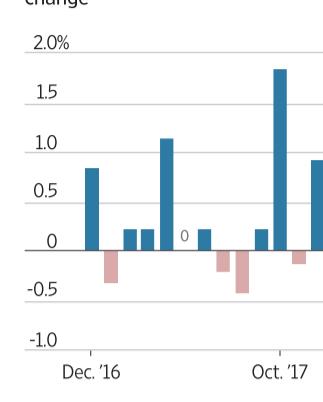
Manufacturing output, the biggest component of industrial production, edged up 0.1% in December. The December increase shows a pullback in growth from October and November, when output grew 1.5% and 0.3%, respectively.

Capacity use, a measure of slack in the industrial economy, increased 0.7 percentage point to 77.9% in December.

The longer-term trend in

Gaining Steam

Industrial production, monthly change



Note: Industrial Production Index, seasonally adjusted, monthly change
Source: Federal Reserve Bank of St. Louis

THE WALL STREET JOURNAL

manufacturing has illustrated a pickup in the sector over the past year because of a weaker dollar, more stable oil prices and global economic growth.

The U.S. factory sector posted one of its best months of the economic expansion in December as sales hit a 14-year high, the Institute for Supply Management said earlier this month.

Top Energy Lobbyist Plans to Step Aside

By BRODY MULLINS

WASHINGTON—The top lobbyist for the U.S. oil and gas industry is stepping down after 10 years on the job.

Jack Gerard, president and chief executive of the American Petroleum Institute, sent an email to his staff on Wednesday saying he had decided not to seek another five-year contract with the nation's largest trade association for the oil and gas industry.

The move "was not an easy decision," he wrote, calling the job "among the most fulfilling professional experiences I have had."

The association represents

energy giants including Exxon Mobil Corp., BP PLC's BP America Inc., Shell Oil Co., Chevron Corp. and hundreds of others.

Mr. Gerard led the industry during a tumultuous decade that saw swings in crude-oil prices from a low of \$15 a barrel to more than \$100 a barrel.

He oversaw the industry's efforts in Washington during the fallout from the 2010 BP oil spill in the Gulf of Mexico, the emergence of shale production and the debate over the energy sector's impact on climate change.

Mr. Gerard helped engineer some significant victories on

Capitol Hill, including approval of long-sought legislation to allow companies to export crude oil.

His departure, slated for August, sets off a scramble for one of Washington's plum lobbying posts.

Mr. Gerard made \$6.3 million in total compensation in 2015, according to tax forms, and \$13.3 million in 2013.

He oversaw a budget of more than \$200 million in 2015 and interacted daily with some of America's top chief executives, including Exxon Mobil CEO Rex Tillerson until Mr. Tillerson took over as U.S. secretary of state last year.

Mr. Gerard has been one of the most prominent lobbyists in Washington for more than a decade. He is known as a fixer of trade associations and industries.

Before taking over the oil-industry lobby, Mr. Gerard helped turn around trade groups for the chemical industry and the mining sector.

Since he started with the American Petroleum Institute in 2008, its membership has grown by nearly 50%.

Mr. Gerard expanded the association's international work and opened offices around the globe.

To help advance the industry's legislative agenda, he

created a grass-roots network of 45 million voters whose jobs depended on the oil industry.

Born in Idaho, Mr. Gerard moved to Washington for school and worked as an aide on Capitol Hill before becoming a lobbyist.

He raised thousands of dollars for Republican candidates for office, including his fellow Mormon, Mitt Romney, for the latter's 2012 presidential campaign.

In an interview, Mr. Gerard, who turned 60 last month, said the oil and gas industry is "at the top of our game" and it is time to look "for the next challenge in life."

BANKS

Continued from Page One everything from sovereign debt to precious metals to products tied to global interest rates.

Fixed-income revenue last year at the four biggest U.S. trading banks—Goldman, JP Morgan Chase & Co., Citigroup and Bank of America Corp.—fell between 6% and 30% from 2016, and remains orders of magnitude below the peak years of the pre-financial-crisis boom.

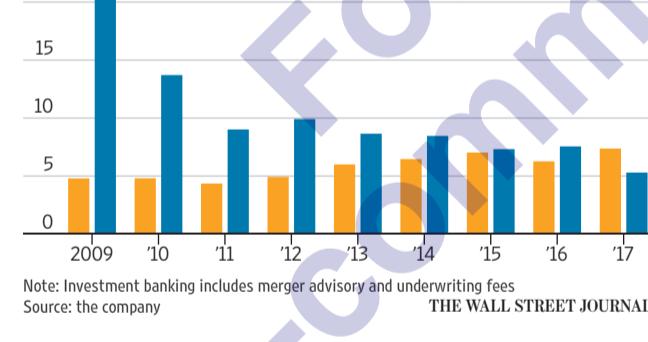
Goldman's trading decline sent the company's stock down 1.8% Wednesday and ratcheted up pressure on Chief Executive Lloyd Blankfein to fix the business that vaulted him to the top of the firm. Mr. Blankfein, a former gold salesman, rose through Goldman's fixed-income trading division before being named CEO.

For 2017 as a whole, Goldman's revenue from its fixed-income business of \$5.3 billion was little more than a fifth of what it was in 2009.

And, for the first time on record, Goldman's investment bankers, who broker mergers and underwrite securities offerings, outearned the firm's fixed-income traders.

Bankers Trade Up

Investment-banking and fixed-income trading revenue at Goldman Sachs



Note: Investment banking includes merger advisory and underwriting fees
Source: the company

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revenue from hedge funds, whose trading business is lucrative but runs hot and cold, and too little on companies and large asset managers, which have more predictable, simpler needs.

"We absolutely acknowledge that the business footprint and mix we have is a consequence of choices that we made over time," Chief Financial Officer Martin Chavez said on an analyst call Wednesday. "We know that we need to do better." He said it would take "an order of months" to see changes produce new profits.

Yet some tweaks, such as a

time charge wiped out the company's entire quarterly profit, producing its first loss since 2011 of \$1.93 billion. Without the charge, Goldman's net income would have exceeded analyst expectations.

But Goldman disappointed investors by saying it would dial back its stock-buyback plans to plow earnings instead into areas where it thinks it can grow.

Those include steadier businesses such as consumer banking and money management.

Both gained ground in 2017, helping to boost Goldman's full-year revenue 5%, the best showing among big banks so far. Asset management added \$42 billion in long-term money at a time when investors are fleeing actively managed funds, and Goldman's fledgling consumer-lending effort wrote \$2 billion in fresh loans. But those efforts will take years to fill the roughly \$15 billion revenue hole opened by Goldman's trading woes—if they ever do.

For the lack of noticeable progress in Goldman's trading turnaround, another firmwide effort is bearing fruit. A few years ago, executives decided to make a play for debt-underwriting business. That business historically has been dominated by big commercial banks, which can write large checks and tap trillions of dollars in low-cost deposits to fund them.

Debt-underwriting revenue hit a record \$2.5 billion for the year and in the fourth quarter surpassed that of JPMorgan, Bank of America and Citigroup. Goldman has made inroads on the back of its merger bankers, who are more often offering debt, in addition to advice, when putting together deals.

2015 reorganization of the firm's corporate sales force, have been in place for longer, with little to show.

"It just seems like progress should have been a lot faster than it's been," Mike Mayo, a Wells Fargo analyst, said Wednesday.

The most recent poor quarter is likely to intensify calls for more dramatic changes, including a shake-up of its broader trading division's leadership. That idea has gained steam among top Goldman executives in recent months, according to people familiar with the discussions.

Overall, Goldman's quarterly earnings, like those of other big banks, were muddied by the new tax law. A \$4.4 billion one-

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WORLD NEWS

Koreas Strike Accord on Olympic Unity

Seoul and Pyongyang to march under one flag at ceremony; U.S. keeps pressure on the North

By ANDREW JEONG
AND JONATHAN CHENG

SEOUL—Athletes from North and South Korea will march together under a single flag at the Winter Olympics next month, the South said Wednesday—part of a sweeping agreement on the Games that marks Seoul's most ardent and public embrace of its nuclear-armed rival in a decade.

The accord comes after a year of rising tensions and exchanges of bellicose rhetoric between Washington and Pyongyang, as North Korea tested a nuclear weapon and ballistic missiles capable of hitting the U.S.

The agreement could also strain relations between Seoul and its American allies. Just hours before the deal, U.S. Secretary of State Rex Tillerson called for a more coordinated and powerful international campaign of sanctions and pressure to isolate North Korea, an effort that contrasts with the celebratory nature of a rapprochement at the Winter Olympics.

The Trump administration supported the talks between Seoul and Pyongyang that led to the accord, and it hasn't objected to North Korea's participation in the Games. But U.S. officials also warn that North Korea can't be trusted.

"We see this as an opportunity for the regime to see the value of ending its international isolation by denuclearization," White House press secretary Sarah Huckabee Sanders said.

President Donald Trump and his administration have alternated between hurling insults at North Korea and hinting at a possible U.S. thaw. Mr. Tillerson, meeting with more than a dozen



North Korean delegation head Jon Jong Su crossing the border in the truce village of Panmunjom to meet with South Korean counterparts. Below, athletes from both countries marched behind a unification banner in 2002 at the Asian Games in Busan, South Korea.

other countries in Vancouver on Tuesday in an effort to tighten sanctions, declined to say whether Mr. Trump has spoken to his North Korean counterpart, Kim Jong Un. Mr. Trump last week also declined to comment on whether he has spoken with the North Korean leader.

South Korea's top official at Wednesday's talks, Chun Hae-sung, told reporters the South remains committed to the U.S.-led policy of global sanctions against North Korea. At the same time, he added, Seoul would pursue efforts to persuade the North to participate in denuclearization talks.

The symbolism of the agreement—especially the two nations' plans to march together, united, in the opening ceremony under a so-called unification banner—is powerful. South



Korea's government is, in essence, offering some diplomatic cover to Pyongyang amid the North's standoff with the Trump administration.

In a stark reversal from a few weeks ago, when U.S. and South Korean officials warned

the North could seek to disrupt the Olympics, Seoul and Pyongyang agreed that hundreds of North Korean athletes, cheerleaders and officials could visit for the Games.

The two countries' women's ice hockey teams will unite to

form a joint Korean squad. South Korea said it would also send athletes and performers north of the demilitarized zone for training at a North Korean ski resort and a cultural event at a scenic mountain retreat.

The North issued a statement confirming the agreement, which was struck after a day of talks at the truce village of Panmunjom in the demilitarized zone that has divided the Korean Peninsula since the war in the 1950s.

South Korean President Moon Jae-in, who took power last year, has called for more engagement and cooperation with Pyongyang, an approach that President Trump has called "appeasement." Mr. Trump has said Seoul's policy of "giving billions of dollars & getting nothing" didn't work.

FROM TOP: YONHAP/REUTERS; YONHAP/APASSOCIATED PRESS

There had been widespread fears that North Korea would skip the Games and instead try to menace the Olympic hosts, as it did in the run-up to the 1988 Summer Olympics in Seoul. In that instance, a North Korean agent blew up a South Korean passenger aircraft months before the opening ceremony, killing more than a hundred people.

Just seven weeks ago, North Korea tested its most powerful missile ever, a brand-new ICBM that the North's leader boasted was capable of reaching any part of the continental U.S.

But a Korean rapprochement began abruptly earlier this month, when the North's Mr. Kim used his annual New Year's address to send well wishes to South Korea in its preparation for the February Olympics, and signaled his willingness to send a delegation to Pyeongchang.

The South's Mr. Moon, who had extended several unanswered invitations to meet with Mr. Kim, quickly responded by proposing inter-Korean talks, which led to three rounds of talks and, ultimately, Wednesday's deal.

The two Koreas will meet with the International Olympic Committee on Saturday in Lausanne, Switzerland, to seek a formal exception for the North to compete in the Olympics. The only North Koreans to qualify for the Games were a pair of figure skaters who, after qualifying, didn't register in time for Pyeongchang.

One topic missing from the inter-Korean dialogue so far: any real discussion about North Korea's nuclear program, the greatest concern to the U.S. and many of its Western allies. While South Korea has raised the issue at least twice during the three rounds of talks, North Korea has balked at discussing the subject.

—Michael C. Bender
in Washington and Felicia Schwartz in Vancouver contributed to this article.

Christie's Suspends Accused Ex-CIA Agent

BY NATASHA KHAN

A former Central Intelligence Agency officer arrested on charges of unlawfully retaining classified information has been suspended by Christie's as its head of security in Hong Kong.

The auction house on Wednesday said it had suspended an unnamed employee pending a criminal investigation. A person familiar with the situation told the The Wall Street Journal that the employee was Jerry Chun Shing

Lee, who was arrested on Monday after arriving at John F. Kennedy International Airport in New York. Mr. Lee, 53 years old, faces a maximum penalty of 10 years in prison. U.S. officials have said he was suspected of providing information that helped the Chinese government identify U.S. informants.

Mr. Lee was a manager of a team providing oversight and advice on employee and property protection, a person familiar with the situation said.

A lawyer for Mr. Lee declined to comment.

Air Quality Improves in Beijing

BY TE-PING CHEN

BEIJING—China's notoriously smoggy capital is experiencing a marked reduction in air pollution after an aggressive government campaign to curb smokestack industries and shift away from coal heating.

By several measures, Beijing is experiencing its best air quality in at least five winters, the season when the air is usually the most noxious from coal burned for heat. Data from the Chinese government and the U.S. Embassy in Beijing show a sharp decline in levels of PM_{2.5} pollutants, fine particles that are hazardous to human health. Cold fronts and strong winds have helped clear the air, too.

The city's often smog-weary residents are noticing the difference. "He can play outside more now," said Zhang Li, 36, gesturing as her 5-year-old son zoomed a toy truck around outside the small convenience store she runs in southern Beijing. "I don't have to worry so much."

The shift shows what an autocratic government can do to overcome resistance from businesses and other local interests that stymied past efforts to meet a goal deemed critical. President Xi Jinping told the ruling Communist Party in October that a fundamental challenge they face is meeting "the people's ever-growing needs for a better life," including a better environment. China's development has been "unbalanced," said Mr. Xi, who called for a more-sustainable model of growth.

Officials across a swath of northern China in and around Beijing have raced in recent months to meet pollution-reduction targets set in 2013. Though the nation's smog levels dropped in 2014 and 2015 as China sought to reduce coal use, stimulus spending spurred a bump in pollution in China's north during the first three quarters of last year, prompting steeper cuts to meet targets.

Factories in highly polluting industries, including steel, aluminum and cement, were ordered to cut production. An

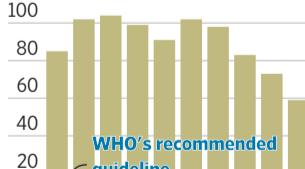


Chinese President Xi Jinping made reducing pollution a priority and enforcement has been intense.

Capital Cleanup

Pollution levels have dropped in Beijing.

Annual average concentration of fine particles (PM_{2.5})



WHO's recommended guideline

Source: U.S. State Department

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Public & Environmental Affairs. "This is the result of five years of intensive, massive action."

Previous efforts to tame pollution have often run aground on resistance from local officials who fear lost jobs and revenue from factory shutdowns. This time, the pollution-reduction campaign dovetailed with another leadership goal: to eliminate the excess production capacity in the steel and coal industries that weighed on economic growth and on the banks that lent heavily to the sectors in recent years.

In Hebei, the heavy-industrial province that surrounds Beijing, crude steel production dropped 13% year-to-year in November, according to data from Wind Information Co., with smaller producers taking the hardest hit.

Stepped-up inspections and punishments for violating pollution regulations added to the pressure. In the 28 northern cities at the heart of the winter antismog campaign, about 62,000 factories were penalized from April through November, according to the environment ministry, as the government intensified its efforts.

Xiao Xiao and Liyan Qi contributed to this article.

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WORLD NEWS

Tillerson: U.S. To Shift Focus In Syria to Iran

BY ALEXA CORSE

STANFORD, Calif.—The U.S. will turn its focus in Syria to moving to reduce Iranian influence there, Secretary of State Rex Tillerson said in a policy speech that marked a shift in U.S. strategy in Syria away from Islamic State.

Mr. Tillerson on Wednesday said the U.S. would reinvigorate diplomatic efforts and maintain U.S. troops in Syria for the foreseeable future as part of a new focus on countering Iran, as well as pursuing overall political stability in the country.

The Trump administration wants to be engaged in Syria as the threat from Iran rises and Islamic State recedes, he said.

"Iran has dramatically strengthened its presence in Syria by deploying Iranian Revolutionary Guard troops, supporting Lebanese Hezbollah and importing proxy forces from Iraq, Afghanistan, Pakistan and elsewhere," Mr. Tillerson said.

He accused Iran of spending billions to prop up Syrian President Bashar al-Assad and wage proxy wars—complaints that were voiced in Iranian protests across the country this month.

Mr. Tillerson made the remarks at an event hosted by the Hoover Institution and the Freeman Spogli Institute for International Studies at Stanford University.

Mr. Tillerson arrived in California one day after a meeting in Vancouver, British Columbia, with senior officials from 20 countries to discuss strengthening the implementation of sanctions against North Korea.

Until now, the Trump administration's focus in Syria has been on countering the Islamic State extremist group. However, there have been discussions about setting a new focus on Iran in Syria and

growing expectations that the U.S. wouldn't withdraw military forces even after Islamic State lost ground.

Mr. Tillerson's remarks are among the most explicit to date that set reducing Tehran's influence in Syria as a policy goal. The shift is part of a broader effort by the Trump administration to counter what it views as Iran's malign influence in the Middle East, an effort President Donald Trump announced in a speech last year.

Last week, Mr. Trump threatened to walk away from the landmark nuclear accord between six world powers and Iran if Europe doesn't agree to additional measures on Iran's ballistic-missile program and inspections.

Officials at Iran's United Nations office didn't respond to a request to comment.

In all, Mr. Tillerson outlined "five key end states" that the Trump administration is seeking in Syria: preventing new threats from Islamic State and al Qaeda; supporting a U.N.-led process to transition away from the leadership of Mr. Assad; reducing Iran's influence in Syria; creating conditions so that Syrian refugees can safely and voluntarily return to their country; and ensuring that Syria is free of weapons of mass destruction.

The U.S. will pursue "stabilization initiatives in liberated areas," such as clearing unexploded land mines planted by Islamic State and helping reopen hospitals and schools, Mr. Tillerson said. However, he said the U.S. won't aid reconstruction in territory controlled by Mr. Assad's regime.

That stance is likely to put the U.S. at odds with Russia, a key supporter of Mr. Assad's.

—*Felicia Schwartz in Vancouver, British Columbia, contributed to this article.*



A Turkish tank arrived at a base in the town of Reyhanli near Turkey's southern border with Syria on Wednesday.

OSMAN ORSAL/REUTERS

U.S. Border Plan Irks Turkey

A U.S. plan to turn its Syrian Kurdish allies into a semiprofessional border force is stoking new tensions with NATO ally Turkey, which threatened Wednesday to attack Kurdish areas of northern Syria.

*By Sune Engel
Rasmussen in Beirut
and Nancy A. Youssef
and Dion Nissenbaum
in Washington*

Turkey is massing troops on its southern border with Syria and has said it would launch full-scale attacks on the Kurdish force there that helped the U.S. beat back Islamic State.

President Recep Tayyip Erdogan, referring to Kurdish fighters, said on Tuesday that Turkey would soon "destroy all terror nests one by one in Syria," beginning with two northern cities, Afrin and Manbij. The Turkish National Security Council renewed the threat of an imminent attack on Wednesday.

Secretary of State Rex Tillerson met in Vancouver with

Turkish Foreign Minister Mevlut Cavusoglu, and the two men discussed the developments, according to U.S. officials. "We're definitely urging restraint," one senior U.S. official said Wednesday.

U.S. support for the main Syrian Kurdish militia, the YPG, has been a source of tension with Turkey. Turkey considers the YPG to be an offshoot of the Kurdistan Workers' Party, or PKK, which is classified as a terrorist group by both Ankara and Washington.

The U.S. has repeatedly tried to address Turkey's concerns. President Donald Trump said in November that he would stop sending weapons to Kurdish fighters in Syria, earning praise from the Turkish government.

On Sunday, the U.S.-led military coalition battling ISIS issued a statement trumpeting the creation of the 30,000-strong "Border Security Force." But the announcement, which triggered Turkish denunciations, caught officials in Washington off guard. On Wednesday, U.S. officials said the

coalition's declaration was misguided—and the Pentagon issued a statement trying to calm Turkish fears.

"This is not a new 'army' or conventional 'border guard' force," the Pentagon said.

"We are keenly aware of the security concerns of Turkey, our coalition partner and NATO ally," the statement said.

'We're definitely urging restraint,' a U.S. official said after talks with Turkey.

U.S. Defense and State Department officials said the planned border force is meant to prevent a resurgence of Islamic State in the area. Mr. Erdogan accused the U.S. of forming a "terror army."

Afrin and Manbij—the towns Mr. Erdogan said would be targeted—are in the area where the U.S. plans to train the bor-

der force, and the U.S. military said Tuesday that it isn't backing the YPG in Afrin. The U.S., however, has deployed special forces in Manbij to support Kurdish operations.

"If they go into Manbij that definitely escalates this even more," a U.S. official said.

Mr. Tillerson on Wednesday unveiled the Trump administration's new Syria policy, which includes a commitment to keep U.S. forces in the country indefinitely and plans to devote significant resources to get schools, hospitals, power plants and other services back in working order. "We invite Turkey's close cooperation in achieving a new future for Syria that ensures security for Syria's neighbors," he said in a speech in California.

Aaron Stein, a senior fellow at the Atlantic Council in Washington, said, "The U.S. has made clear that it does not intend to leave Syria and that it intended to protect the SDF. This is what Turkey is really upset about."

—*Nazih Osseiran in Beirut contributed to this article.*

Saudis Pledge \$2 Billion To Stabilize Yemen Economy

Saudi Arabia on Wednesday said it would inject \$2 billion into Yemen's central bank to stabilize the nation's currency, as international criticism grew over the kingdom's role in a war that has killed thousands and ravaged the economy.

By Asa Fitch in Dubai and Saleh al-Batati in Aden, Yemen

The cash deposit, ordered by Saudi King Salman, follows a sharp fall in Yemen's currency against the U.S. dollar in recent days. That has raised the cost of crucial goods as more than eight million people—more than a quarter of the population—risk starvation, aid agencies say.

The currency's fall, combined with soaring inflation that the International Monetary Fund projects to be 29.5% this year, are adding to the economic woes. The war has halted most oil production and exports needed to drive growth and fund government services.

Saudi Arabia is leading a military coalition trying to defeat Iran-allied Houthi rebels who control the capital, San'a, after they drove the internationally recognized government of President Abed Rabbo

U.N. Seeks Funds For Palestinians After U.S. Cutbacks

TEL AVIV—The United Nations called on countries to bolster funding to Palestinian refugees, warning of a collapse in health-care and education services, after the White House withheld more than half of its pledged financial aid to a key institution that supports the displaced people.

The U.S. move increases pressure on Palestinian leaders, who have accused President

Mansour Hadi to the southern port city of Aden.

For nearly three years, the Houthis have held out against an onslaught of airstrikes and ground forces in a conflict that the United Nations says has killed more than 10,000 people and sparked a humanitarian crisis. The Houthis control San'a and most of the north, while the Saudi coalition and its Yemeni allies control southern and eastern territories.

A group of 17 aid agencies on Tuesday criticized the coalition for restricting sea cargo to

Donald Trump of aligning with Israel and are now seeking a strategy to achieve statehood after diplomatic setbacks.

On Tuesday, the U.S. said it would give \$60 million to the U.N. Relief and Works Agency after previously agreeing to deliver \$125 million in its first installment this year. The cut followed complaints by Mr. Trump that the U.S. pays Palestinians millions of dollars a year but receives no "respect" in return.

The U.S. is the largest donor to Unrwa, contributing \$368 million last year to an international budget of \$1.24 billion.

—Rory Jones

Yemen despite the kingdom's agreement to allow speedy delivery of commercial supplies through the Houthi-controlled Hodeida port on Yemen's Red Sea coast. Coalition restrictions had led to severe shortages of food and fuel, they said.

The Saudi deposit should help the Yemeni government stave off a currency collapse and soothe increasing local angst for now. "As the value of the rial goes up, the living conditions of Yemeni citizens will change for the better," the Saudi government said.

CERTAINTY

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Refugees from fighting between the Saudi-led coalition and rebels at a camp in Yemen's Hajjah province

THE WALL STREET JOURNAL. HEALTH FORUM

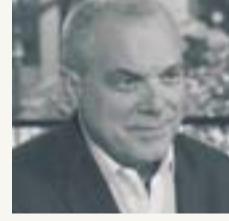
May 22, 2018 | Four Seasons Hotel | Washington, D.C.

How innovation is revolutionizing the business of health

This spring, the editors of The Wall Street Journal will convene influential business leaders, policy makers and experts from across the health and health-care industries to focus on the innovations transforming this critical sector of the economy. These participants will join an audience of senior executives and entrepreneurs, including those from the worlds of finance, science and regulation.

Through highly interactive interviews, the editors will cover issues of key importance in 2018, from the technologies and advanced analytics changing the study of the human genome to new business models affecting health care.

SPEAKERS



Mark T. Bertolini
Chairman and CEO,
Aetna Inc.



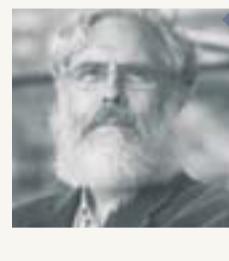
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Healthcare System



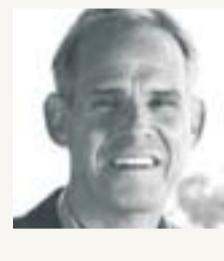
Gail K. Boudreaux
President and CEO,
Anthem, Inc.



**Rear Adm. Anne Schuchat,
M.D.**
Principal Deputy Director,
Centers for Disease Control
and Prevention



George M. Church, Ph.D.
Professor of Genetics,
Harvard Medical School
Director,
PersonalGenomes.org



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Daphne Zohar
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Thomas McLellan, Ph.D.
Co-Founder and Scientific Director
(1992-2015),
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Deputy Director and Senior Scientist
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WORLD NEWS

Egypt, Ethiopia Wrangle Over Nile Dam

Cairo says Addis Ababa's hydroelectric project will leave it with too little water

The world's longest river, a lifeline for hundreds of millions of people, is also fast becoming a fault line.

By Matina Stevis-Gridneff in Nairobi, Kenya, and Dahlia Kholaili in Arab al Raml, Egypt

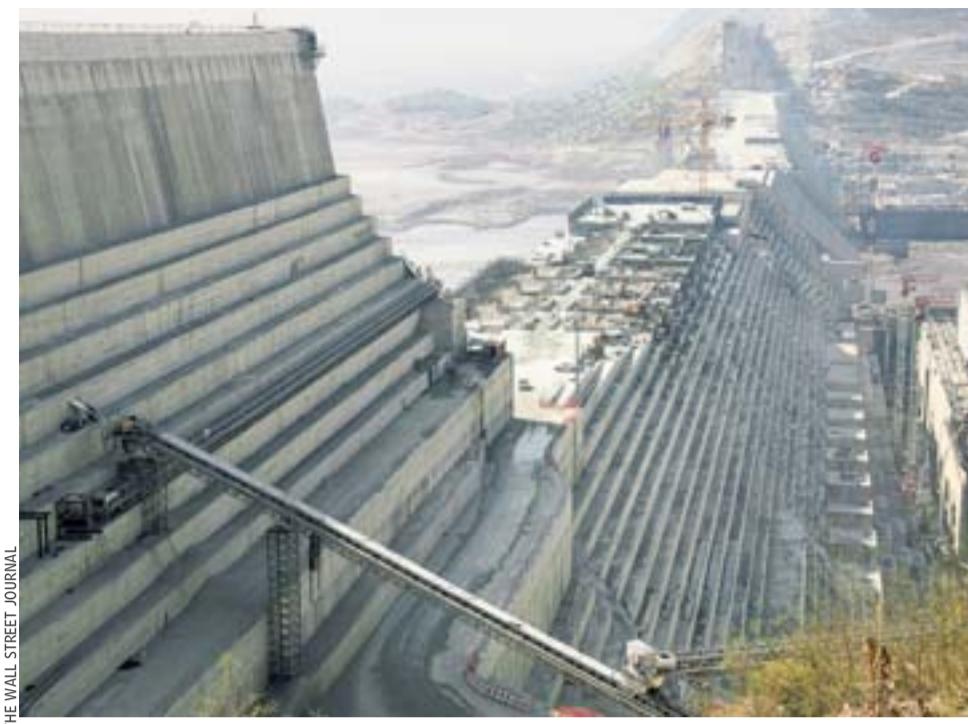
Ethiopia's ambitious \$4.2 billion hydroelectric dam project on the Nile River's main tributary is raising tensions with Egypt over how to share the essential resource, and exposing the rivalry between Cairo and an ascendant Addis Ababa for regional power.

The main point of contention is Ethiopia's plan to fill the Grand Ethiopian Renaissance Dam's 74-billion-cubic-meter reservoir within three years of the dam's planned completion in 2019—a pace that downstream Egypt argues will leave water levels in its floodplain dangerously low.

"Egypt cannot live without the Nile," Mohamed Abdel-Ati, Egypt's minister of irrigation and water resources, said last month. "Egypt understands Ethiopia's right to development but Ethiopia has to prove, practically, that the dam won't harm Egypt."

Ethiopia is counting on the dam to power a hydroelectric plant meant to support its fast-growing economy, and promoting the dam project as a return to imperial-era glory after an era of deep poverty. Ethiopia's economy grew 9% last year, one of the fastest paces in the world, according to the International Monetary Fund.

"Ethiopia has not been using this river for development of its own because we lacked the financing," Ethiopian Prime Minister Hailemariam Desalegn said last year. "Now we are capable of investing on our own."



FROM TOP: GIOIA FORSTER/DPA/ZUMA PRESS; ROGER ANIS FOR THE WALL STREET JOURNAL



About 8,500 laborers are working nonstop to finish the barrier, above, by 2019. Egypt argues the proposed three-year filling of the reservoir behind it would leave water levels in the floodplain dangerously low. 'Egypt cannot live without the Nile,' said Mohamed Abdel-Ati, the country's minister of irrigation and water resources. Left, a woman beside a crop in the agricultural land of the Nile delta north of Cairo.

Downstream

Egypt is building a hydroelectric dam on the Nile River's main tributary, and Egypt worries that plans for filling the reservoir will leave water levels in its floodplain dangerously low.



*When completed

Sources: Food and Agriculture Organization of the United Nations (agricultural land); Ethiopian government (dam)

THE WALL STREET JOURNAL.

and united those who share it. The river is the key source of water for Egypt, whose population of about 96 million is squeezed mostly along its banks.

Construction on the dam began in April 2011, when Egypt was in the throes of the Arab Spring. Some 8,500 laborers work in three shifts, 24 hours a day, 7 days a week.

The dam is being built 8 miles from the border with Sudan, which lies between Egypt and Ethiopia and also needs the Nile for irrigation. Sudan has made efforts to mediate between Egypt and Ethiopia, and says it is neutral in the standoff.

But the dispute has rekindled suspicion between Khartoum and Cairo, which have long had strained relations over a range of issues. Earlier this month, Sudan recalled its ambassador to Egypt indefinitely and lodged a complaint with the U.N. over an unrelated border issue.

Ethiopia has got a right to use its available resources for the good of its people, without endangering the water security of both Sudan and Egypt," Sudan's Foreign Minister Ibrahim Ghandour said. "We don't know what the fuss is about."

Egypt has rights to the majority of the Nile's water under a colonial-era agreement. Ethiopia, which was cut out of that deal, protests that 86% of the Nile's main tributary, the Blue Nile, flows through its territory.

Ethiopia says the speed at which the reservoir is filled could be adjusted to take into account its probable impact but hasn't given details. It says it is consulting with Egypt and Sudan.

WORLD WATCH



SWEET FREEDOM: As Ethiopia's government freed several hundred detained politicians Wednesday, supporters of Merera Gudina, an opposition leader, celebrated his release from prison in Addis Ababa.

ROMANIA

New Prime Minister Is Third in a Year

Romania's president named a new prime minister on Wednesday, the country's third in a year, as the ruling party tries to survive a sweeping anticorruption movement. Viorica Dancila, a member of the European Union parliament, will lead the country of 20 million if the legislature approves her nomination, as is expected. The 54-year-old will be the first female prime minister of Romania, where governing has all but come to a halt amid thousands of corruption cases against elected officials.

Ms. Dancila's ruling Social Democratic Party has been trying to use its majority in parliament to pass anticorruption legislation. The party's powerful leader, Liviu Dragnea, is on trial for setting up an organized criminal group to embezzle public funds—charges he denies.

In recent months, the SDP has proposed legislation that would allow elected officials, including Mr. Dragnea, to retroactively avoid criminal prosecution for low-level corruption. Hundreds of thousands protested the proposed laws last year, the largest demonstrations in Romania since the 1989 fall of Communism.

—Drew Hinshaw

CANADA

Rates Rise, and Bank Warns of Nafta Risk

The Bank of Canada said a strong economy prompted another increase in its main interest rate, the third in seven months, but said it would move gradually on further increases given the uncertain fate of the North American Free Trade Agreement.

The increase was widely anticipated, according to a survey of economists by The Wall Street Journal, after Canada's unemployment rate fell to a historically low level of 5.7% and annual inflation rose above the central bank's 2% target in November.

The bank said its outlook is expected to "warrant higher interest rates over time," as labor-market conditions continue to shine and inflation is close to its 2% target. Yet it signaled current rate levels could be required for some time to address a number of factors—among them the drag on business investment and export growth from uncertainty surrounding Nafta.

Bank of Canada Gov. Stephen Poloz said Wednesday's quarter-percentage-point increase, to 1.25%, "validates what we see" in the economy. Nafta, however, "is a very big unknown for us," Mr. Poloz said.

—Paul Vieira

EUROZONE

Authority Criticizes ECB's Secrecy

For the second day, a European authority has criticized the propriety of European Central Bank practices, potentially strengthening the hand of those who say the central bank is too secret about its activities and too cozy with those it supervises.

On Wednesday the European Ombudsman, an investigator of maladministration in European Union institutions, said ECB President Mario Draghi should suspend his membership in an elite group of global financial officials known as the G30.

An ECB representative said the central bank had "taken note of the Ombudsman's recommendation and will respond in due course." In a response to the Ombudsman last year, the ECB said that given its own safeguards to prevent the divulging of sensitive information, it felt Mr. Draghi's membership in the G30 was appropriate. The G30 is a small, private group of financiers and academics.

The report comes one day after the European Court of Auditors said the central bank wasn't sufficiently forthcoming with information about its bank supervisory practices in a recent audit.

—Todd Buell



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IN DEPTH

RATES

Continued from Page One

To make their budget work, she has taken on a part-time landscaping job. The couple has delayed home maintenance, travels less and sometimes rents out their house. "We feel like we are out on a limb here, and these policies are supposed to be our safety net," she says.

A CNA spokesman says the insurer understands rate increases "can be challenging," but "it is important for us to take appropriate actions to ensure we can fulfill our obligations to our policyholders."

Only a dozen or so insurers still sell the coverage, down from more than 100. General Electric Co. said Tuesday it would take a pretax charge of \$9.5 billion, mostly because of long-term-care policies sold in the 1980s and 1990s. Since 2007, other companies have taken \$10.5 billion in pretax earnings charges to boost reserves for future claims, according to analysts at investment bank Evercore ISI.

The perfect product

When sales of long-term-care insurance were ramping up in the 1980s and 1990s, companies thought they had found the perfect product for middle-class families—and that's how they pitched it.

The annual premium was designed to hold steady until a claim was filed and premiums then halted, though the rates weren't guaranteed. Many policies paid out benefits for life.

Families flocked to what seemed like affordable peace of mind that would save them from draining their savings, leaning on children or enrolling in the federal-state Medicaid program for the poor.

Long-term care often costs more than \$100,000 a year a person, financial advisers say. The nationwide total exceeds \$200 billion, according to analysts at LTCG.

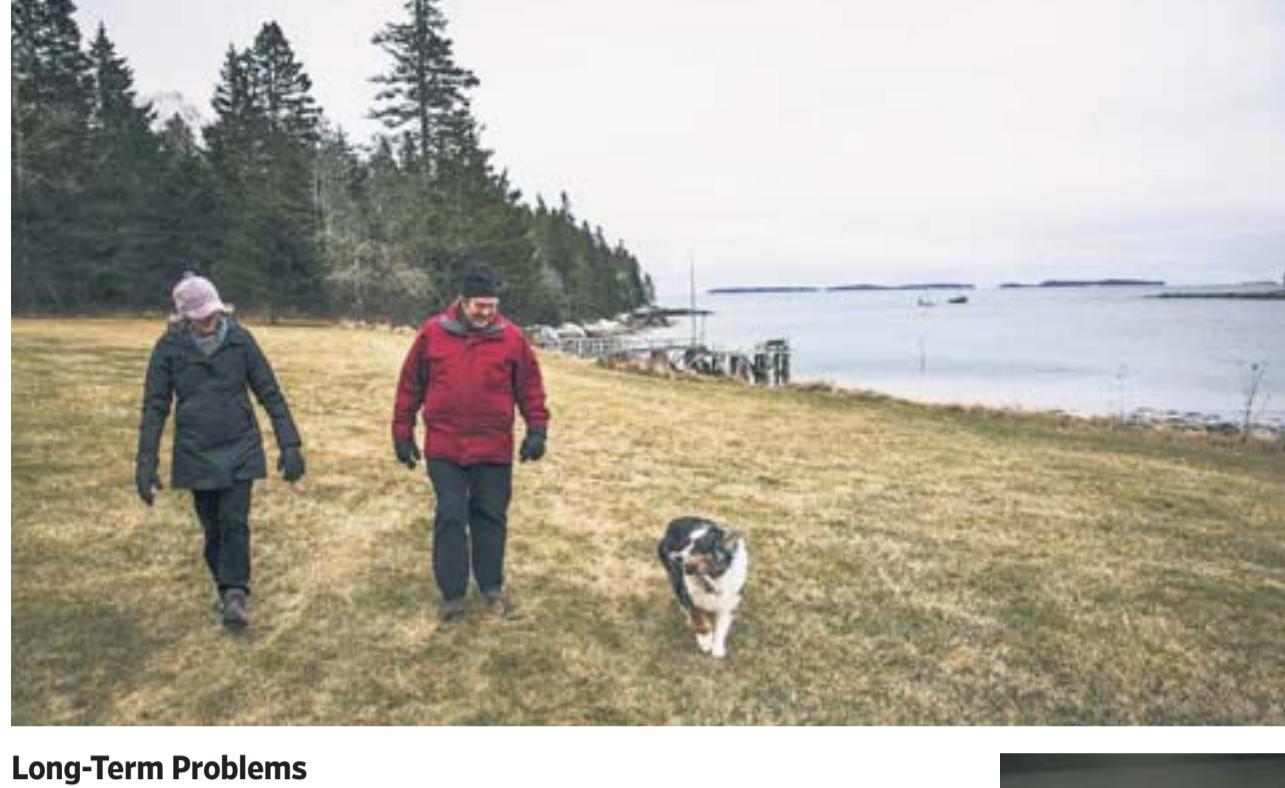
Almost every insurer in the business badly underestimated how many claims would be filed and how long people would draw payments before dying. People are living and keeping their policies much longer than expected.

After the financial crisis hit, nine years of ultralow interest rates left insurers with far lower investment returns than needed to pay those claims.

Insurers barreled into the business even though actuaries didn't have a long record of data to draw on when setting prices. Some executives now say marketing policies on a "level premium" basis also left insurers with a disastrously slim margin of error.

"We never should have done it, and the regulators never should have allowed it," Thomas McInerney, president and chief executive of Genworth Financial Inc. since 2013, says of the pricing strategy. "That's crazy."

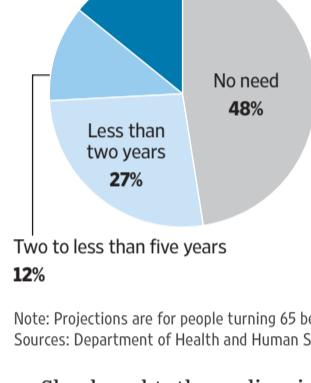
Long-term-care coverage often feels like a godsend to people already drawing benefits. "I would be destitute. I don't even know if I would be alive," says Ailene Adkins, 69. She has an autoimmune disorder and resides in an assisted-living facility in northern Virginia at the expense of Manulife Financial Corp.'s John Hancock unit.



Long-Term Problems

More than half of U.S. adults at least 65 years old are projected to need nursing-home or other care services...

Length of care needed*



Note: Projections are for people turning 65 between 2015 and 2019. *Doesn't add to 100% due to rounding

Sources: Department of Health and Human Services (length, cost of care); LifePlans and Limra (sales)

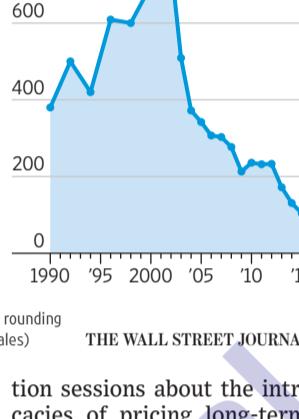
...and the cost of care is steep for those who need it...

Projected spending on needed care



...so millions of Americans have bought long-term-care coverage.

Number of individual policies sold, by year



THE WALL STREET JOURNAL.



SARAH RICE FOR THE WALL STREET JOURNAL

The annual cost of David and Sally Wylie's long-term-care insurance has jumped more than 90% in the past two years to \$4,831. The surge is straining the couple's budget.

might also have carefully looked after their health and diet, enhancing the chances they would live long.

The business's dire condition also is a consequence of lower interest rates, especially since 2008. Many insurers assumed annual earnings of about 7% on premiums, which are invested until needed to pay claims. The net yield for U.S. life insurers' overall portfolios is down more than 20% since 2007 and was an estimated 4.6% last year, according to A.M. Best Co.

To overcome such miscalculations, Genworth's Mr. McInerney says he spends half his time talking to state regulators in efforts to win approval for rate increases on about 800,000 older policies. Genworth has 1.2 million long-term-care insurance policies.

"The state capital buildings are all beautiful in their own way," he says about his visits. In the majority of states so far, cumulative premium increases have ranged from 50% to 150%, and more are needed, according to Genworth.

Credit Suisse analysts tallied more than 4,500 rate-increase requests nationwide from 2009 to early 2017 by 16 once-big sellers of long-term-care insurance. The proposed increases affected hundreds of thousands of policyholders. Many of the approved requests topped 50%.

Another flawed assumption was that about 5% of policies on average would lapse annually. The actual results: Just 1% or so of policies lapsed in the average year, actuaries and executives say.

Actuaries now say they realize they didn't bake into their original estimates the possibility that many people buying the policies were unusually meticulous planners who intended to always pay their premiums. Those buyers

cognitive impairment requiring "substantial supervision." Dementia and Alzheimer's diseases are especially common causes of policy claims.

Advisers who answer phones at A Place for Mom, which provides referrals and is paid by senior-living communities, hear the despair of many families who lack insurance coverage.

"I would listen to families in chaos, families trying to find the money...and all the money is gone or not enough," says Carole Starr, who worked there from 2013 to 2015. She put down her headset and sobbed after some calls.

Debra Wilber applied for a long-term care policy in November. Her parents didn't have one because it was too expensive. She helps her father, a retired funeral-home director in New Jersey, care for her mother, a former executive assistant who has Parkinson's disease and dementia.

Her parents, both 79, "worked hard and live in a nice house in a nice town, and now we are facing the application for Medicaid," says Ms. Wilber, 55. "I'll be damned if I will go through what they are having to go through."

When the business was being launched, actuaries mined data that included the federal government's National Nursing Home Survey. The information was used to create tables with projections of the rates at which people would become infirm and how long they would require care, says Vincent Bodnar, an actuary in the 1990s at a consulting firm.

The Society of Actuaries, a professional group, ran educa-

tion sessions about the intricacies of pricing long-term-care policies. Insurance executives recall being prod-

ded by their own sales forces to keep rates low. State regulators have said they didn't inspect assumptions behind the prices rigorously enough.

It turned out that nearly everyone underestimated how long policyholders would live and claims would last. For example, actuaries, insurers and regulators didn't anticipate a proliferation of assisted-living facilities. And they assumed families would do whatever they could to avoid moving loved ones into nursing homes, holding down claims.

Long-term-care insurers spent \$9.2 billion on 295,000 policyholders in 2017.

By the late 1990s, assisted-living facilities were widely popular. Especially at well-run ones, policyholders lived years longer than projected.

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Harriet Fisher, a former teacher and real-estate agent in Maryland, decided to reduce the maximum payout from her John Hancock policy. After the insurer said it would increase her premium by a double-digit percentage, she

"stewed over" what to do but decided she didn't want to pay more, she says.

She says she doesn't recall the agent warning her when she was buying the policy about a decade ago that a large increase could occur. John Hancock declined to comment.

Most states reluctantly allow at least some portion of the rate increases sought by insurers to go through. Former Pennsylvania insurance commissioner Teresa Miller says regulators try to balance the financial health of insurers against struggling policyholders who often are "just trying to figure out how to pay their bills every month."

When insurers fail

Last year, a state-court judge in Pennsylvania approved the liquidation of two long-term-care insurance units of Penn Treaty American Corp., known for its relatively low rates.

The judge blasted regulators for not granting rate increases sought by Penn Treaty years before its collapse. The two long-term-care insurance units had a projected gap of \$3.4 billion between their assets and claims liabilities.

Penn Treaty has about 67,000 long-term-care policies across the U.S. Most states limit payments to policyholders of failed long-term-care insurers to \$300,000.

Leaton Williams III and his wife, Jane, have paid \$90,000 in premiums on the Penn Treaty policies they bought about 20 years ago while in their 50s. The coverage included lifetime benefits.

Now they will get no more than \$300,000 a person, the cap by North Carolina's guaranty association. Mr. Williams, a retired federal employee, says his wife was recently diagnosed with dementia.

Fear of such an illness was "the absolute reason that we went with long-term care, and now we're kind of stuck," he says.

Few companies were hit as hard as Genworth. Long a top seller of long-term-care policies, its life-insurance units were downgraded below investment grade in 2016. Its losses on long-term-care policies total about \$2 billion and are a reason why Genworth agreed in late 2016 to sell itself to a Chinese conglomerate. The deal is still pending.

As the industry reels, some policyholders complain it has nothing to lose by denying legitimate claims. Last year, Mary "Mollie" White's family filed a breach-of-contract lawsuit against Senior Health Insurance Co. of Pennsylvania in an Ohio state court.

The insurer, which isn't selling new policies, rejected a claim to pay in-home aides for Ms. White, 89, who has memory loss. The company questioned if she was incapacitated enough to draw on the benefits and followed procedures correctly when applying.

In an August settlement, Ms. White received \$77,600, or about \$10,000 less than she sought but more than four times as large as the company's offer, court filings show. A lawyer for the company declined to comment.

"It was very stressful," says Ms. White's daughter, Ruth White. "I wouldn't encourage others to buy."

claim, release and relinquish any and all claims, actions and lawsuits."

Mr. Wilson won't eat it. "I'm really fearful of that one," he said.

Connie Martinez, manager of Chunky's Burger & More in San Antonio, said distressed customers call ambulances to the restaurant a few times a year after trying its 4 Horsemen burger, made with four kinds of peppers.

There's usually little paramedics can do other than check diners' vital signs and soothe them, she said. Some are given antacids.

Some come down with nosebleeds and hiccups, she said. One started doing push-ups to distract himself from the pain.

Nick Gambardella, owner of Burger Off in the British seaside town of Hove, said he lost track of the times customers panicked and called ambulances after trying his burger, slathered in a chile concentrate that he said is many hundreds of times hotter than a jalapeño.

Asking customers to sign a waiver, he said, is "just common sense."



MICKEY'S LATE NIGHT SLICE

Jason Biundo adds chile peppers to the 'Fiery Death with Hate Sausage' pizza at Mikey's Late Night Slice in Columbus, Ohio.

trying the extra-spicy wings at Jake Melnick's Corner Tap in Chicago sign away their "right to whine."

Attorneys say the waivers could potentially be useful if a customer took legal action, to show diners were warned and knew what they were getting into. A couple sued the owners of a restaurant, a waiter and a sauce maker on behalf of their son, after he ended up in a hospital in 2009 when allegedly served an ultra-spicy sauce without warning in Cleveland, Tenn. The parties settled out of court.

Scott Wilson, of Angier, N.C., created the "Exit Wound" flavor after customers at his Sunnyside Homemade Ice Cream asked for a spicy option. It's made with three types of chile peppers, hot sauces and capsicum oil resin.

He won't serve it to the elderly, children, pregnant women and anyone with a pre-existing medical condition. Customers can only try it once they've signed a three-page waiver outlining dangers and safety precautions, like how to wash skin and eyes, and agreeing to "dis-

expecting that."

Mr. Baker was able to finish two of a six-wing serving. The heat scorched his mouth. His stomach turned. It took him about an hour to recover. Two colleagues who sampled the wings rushed off to find water and a restroom, he said.

Some intend the waivers to be lighthearted. Along with agreeing to not sue the restaurant and its affiliates, customers

GREATER NEW YORK

Businessman Will Make a Second Bid for Governor

Democrat says fixing Connecticut's fiscal, economic problems will top his agenda

BY JOSEPH DE AVILA

Greenwich businessman Ned Lamont, a Democrat who led an insurgent U.S. Senate campaign against Joe Lieberman in 2006, announced Wednesday that he is running for governor in Connecticut.

Mr. Lamont said his agenda would focus on turning around Connecticut's fiscal and economic problems.

"It's an amazing state with extraordinary assets and a

smart educated workforce, and a government that has let us down over many decades," said Mr. Lamont, 64 years old. "I think we can turn this around."

Mr. Lamont, a cable-television entrepreneur who opposed the war in Iraq, became a national figure when he beat Mr. Lieberman, a staunch supporter of the war, in the divisive 2006 Democratic primary for U.S. Senate. Mr. Lieberman subsequently ran as an independent in the general election and retained his seat in the Senate.

Mr. Lamont is perhaps the most well-known Democratic candidate in the race. Others include Bridgeport Mayor Joe Ganim, Hartford Mayor Luke Bronin and former state Sen.

Jonathan Harris. The state Democratic primary will be held on Aug. 14.

Mr. Lamont stayed involved in politics and served as Connecticut campaign co-chairman for Barack Obama's presidential campaign in 2008. In 2010, he ran for governor and was beaten in the Democratic primary by then-Stamford Mayor Dannel Malloy, who served two terms as governor.

Mr. Malloy said last year that he won't run for a third term.

Mr. Lamont said he would focus on improving Connecticut's reputation among the business community. He said the state's struggles stem from an underfunded pension system that is now straining Connecticut's fi-

nances, a failure to invest enough in transportation and lackluster job creation.

He also said he would push for legislation addressing pay equity, paid family leave and raising the minimum wage. Mr. Lamont also supports legalizing and taxing recreational marijuana and said he would soon release a tax reform plan that will produce a more stable income stream for Connecticut.

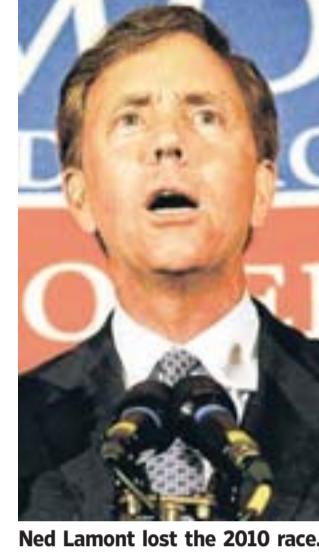
Mr. Lamont said he wouldn't participate in the state's public-financial system, where qualifying candidates can access \$1.35 million for primary campaigns and an additional \$6.5 million for the general election. Instead, he will focus on raising small donations to build grass-roots

support for the campaign and will supplement that amount with his own money to run a competitive race, he said.

He said he hasn't determined how much of his own money he will spend on the campaign. Mr. Lamont spent about \$17 million of his own money on the 2006 race.

Republicans say Mr. Lamont's agenda would only lead to more problems for the state.

"After nearly eight years of failed tax-and-spend policies, Connecticut needs a fresh start," said John Burke, a spokesman for the Republican Governors Association. "All Ned Lamont offers is more of the same failed Malloy policies that have wrecked the state's future."



Ned Lamont lost the 2010 race.

BOB CHILD/ASSOCIATED PRESS



Camden residents and social workers credit a revamped police department, and an emphasis on community policing, with helping lower crime.

Camden Sees Hope as Murders Drop

BY KATE KING

Killings in Camden, N.J., have fallen to the lowest level in more than three decades, sparking hope that change is finally on the horizon for a city long plagued by violent crime.

There were 23 murders in the city of 74,000 last year, down 66% from 2012, when 67 people were killed and elected officials moved to reorganize the city's troubled police department. There are now more than 400 police officers in Camden, a city spanning about 9 square miles, with cops told to approach the job "as guardians and not warriors," Police Chief J. Scott Thomson said.

"We're changing the dynamics of neighborhoods, not by trying to arrest our way out of the problem but by trying to empower people in the city," Mr. Thomson said. "We view our service weapon and our handcuffs as tools of last resort."

Residents and social-service providers credit the revamped police force, and its new emphasis on community policing, with helping lower crime in the city. But improvements in Camden's schools and the economy have also helped, local leaders said.

Once a thriving industrial city, Camden fell into economic decline when manufacturing jobs began disappearing in the 1960s. Race riots and worsening crime prompted many residents to leave the following decade.

New Jersey Gov. Chris Christie, who left office after two terms Tuesday, encouraged investment in Camden. His administration approved more than a billion dollars in tax incentives to lure companies to

Public Safety

Camden's crime rate



the city, and a major project is now under construction on the city's waterfront.

The approach appears to be paying dividends. In April, the U.S. Bureau of Labor Statistics said employment in Camden grew 3.7% over the previous year, tied for the highest percentage increase in the country. Camden's poverty rate, which topped 40% in 2015, fell to about 30% in 2016, according to the U.S. Census.

"The rebirth of Camden is happening—not with government giveaways or tanks in the street—but with a bipartisan spirit and a can-do attitude," Mr. Christie said last week.

Technology has also changed the drug market, with sales today more often arranged by phone or online instead of on the street corner, leading to fewer turf wars.

"Most of our kids are feeling

Progress in Schools A Key to Turnaround

Gains in education have been critical to helping reduce violence in Camden, according to officials, residents and social workers. Citing poor performance, New Jersey Gov. Chris Christie's administration took over Camden's school district in 2013.

The dropout rate has been cut in half since 2012, and graduations are up 17 percentage points, with 66% of students graduating last year compared with 49% in 2012, according to the school district.

a sense of safety that they haven't felt in years," said Tim Gallagher, who counsels teens with the local nonprofit Guadalupe Family Services and serves on the police department's gang intervention task force. "Five years ago, it was a war zone."

Although improved, violent crime remains a problem. Camden's murder rate is higher than Chicago's and Philadelphia's.

Darnell Hardwick, president of the Camden County NAACP, pointed out that while homicides fell, nonfatal shootings increased slightly last year from 2016. "That's telling me two things, primarily: they're saving lives better and there were poor shooters," Mr. Hardwick said.

Chief Thomson agreed medical intervention has saved lives, particularly after the police department implemented a new "scoop and go" policy that instructs officers to load

This is especially important for the city where about half of the people killed last year were 30 years old or younger.

"You really do see signs of progress," said Superintendent of Schools Paymon Rouhanifard. "We still have a lot of work to do."

Mr. Rouhanifard said he was hesitant to play down the severity of violent crime that lingers in Camden.

He has attended nine student funerals since he started work in Camden five years ago and said it takes time to overcome problems that in many cases "are rooted in poverty born out of institutional racism."

gunshot victims into their cars and speed to the hospital instead of waiting for ambulances. Officers made 31 such deliveries in 2017, according to department statistics.

But other factors are also at play, Mr. Thomson said. Some victims appeared to have been intentionally shot in the legs, suggesting to police that in some cases shooters are trying to send a message rather than kill.

Maria Haberfeld, a professor of police science at John Jay College of Criminal Justice, said it isn't clear whether Camden's recent success can be sustained. The police department has struggled with high turnover since the reorganization, forcing it to spend \$2 million on overtime last year. If the high staffing levels of boots on the ground can't be maintained, crime may return, she said.

Medallion Auctions Suggest Market Has 'Bottomed Out'

BY PAUL BERGER

In a sign of how far New York City's taxi-medallion market has tumbled, the sale this week of seven medallions for under \$200,000 each was hailed as a win.

In 2013, prices averaged five times as much for the medallions, the metal shields that give drivers the right to pick up street hails across New York City. Then came Uber, and an influx of tens of thousands of competing drivers from ride-sharing services, upending the yellow-taxi industry.

Banks stopped lending to most medallion buyers a couple of years ago. Tuesday's auction of medallions foreclosed upon by Aspire Federal Credit Union was for cash bidders only.

One medallion sold for \$189,000, another \$199,000, and a bulk sale of five shields went for an average of \$175,000 each.

Matthew Daus, of law firm Windels Marx Lane & Mitten-dorf, which arranged the auction, said the prices were "evidence of a steady and organic comeback through the medallion foreclosure marketplace."

The sale follows a Jan 11 auction when six medallions sold for \$185,000 a piece and a bankruptcy sale in the fall when an investment fund, MGPE Inc., bought 46 medallions for \$186,000 each.

Mr. Daus, whose firm has several banking clients with large medallion portfolios, said that taken together the sales show that "the market has already bottomed out."

The city tightly controls the issuance of medallions, which number around 13,600.

Medallions once powered a New York twist on the Ameri-

can dream. A driver who bought a medallion for a low six-figure sum could borrow against its rising value, using the proceeds to put children through college or buy a home. Some family-run fleet operators own hundreds of medallions.

The dream turned into a nightmare a few years ago when the market plummeted, leaving many medallion owners owing more than the value of their medallions.

Last summer, Signature Bank wrote down the value of its New York medallion loans to \$325 million from \$600 million.

13,600

Number of medallions New York City has issued for yellow taxis.

About one-third of medallion loans in New York City were made by credit unions. Today, seven credit unions carry about \$1.9 billion in such loans, according to the National Credit Union Administration, a federal regulator. Three of the credit unions—Montauk, Melrose and LOMTO Federal Credit—were placed into conservatorship because of their exposure to those loans. Montauk since has merged with another credit union.

David Beier, president of the Committee for Taxi Safety, a leasing association based in Long Island City, Queens, cautioned not to read too much into recent sale prices. Mr. Beier said many yellow-taxi drivers can still make decent, high five-figure incomes.



Medallions allow drivers to pick up street hails across New York City.

KATHY WILLENS/ASSOCIATED PRESS

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GREATER NEW YORK

Rare Wine Stolen From Wall Street Executive

By CORINNE RAMÉY

Federal prosecutors on Wednesday accused the personal assistant of a **Goldman Sachs Group Inc.** executive of stealing more than \$1.2 million of wine from his boss.

A spokesman for Goldman Sachs identified the executive as David Solomon, the firm's president and co-chief operating officer. The spokesman said the theft of the wine, which includes some of the world's rarest, was discovered and reported to authorities in 2016.

The indictment charges Nicolas De-Meyer, 40 years old, with interstate transportation of stolen property. He was arrested Tuesday night in Los Angeles. A lawyer for Mr. De-Meyer couldn't be reached.

Court papers identify Mr. De-Meyer as the personal assistant "to an individual who collects rare and expensive wine," whom prosecutors call "the victim."

From 2014 through October 2016, Mr. De-Meyer stole hundreds of bottles of wine, the indictment said. Using the alias Mark Miller, Mr. De-Meyer sold the wine to a North Carolina wine dealer he found on the internet, prosecutors said.

The wine includes bottles from Domaine de la Romanée-Conti, an estate in Burgundy, France, court documents said. These wines are "among the best, most expensive and rarest wines in the world," according to prosecutors.

In October 2016, Mr. De-Meyer stole seven bottles of the wine, which Mr. Solomon had purchased for \$133,650, prosecutors said.

Domaine de la Romanée-Conti's wines are considered the pinnacle of the wine world, said Ian Dorin, Heritage Auctions' director of fine wine in New York. The best vintages can last for a hundred years, he said.

—Liz Hoffman contributed to this article.

Brooklyn Apartment Market Cools Off

Landlords resort to concessions and lower rents to lure tenants as new rental units become available

By JOSH BARBANEL

Brooklyn's apartment market is cooling faster than a cup of green matcha on a winter morning.

A building binge in recent years has swelled supplies of new apartments for rent, forcing landlords to offer steep concessions such as months of free rent to convince potential tenants to sign leases.

That, in turn, is hurting owners of older, smaller buildings, where inventory is lingering and rents are declining outright.

The median rent across the borough has declined by more than 9% since the peak in 2014, according to a market report by Douglas Elliman Real Estate. Another report, by brokerage MNS, shows average rents, which are more influenced by the higher rents in new residential towers with amenities, have remained essentially flat over the same three-year period.

"There is definitely weakness; you are seeing a lot of flexibility by everyone," said Paul Johansen, a broker at CORE who works with Brooklyn renters and landlords.

"The ones down the chain, the ones that don't have the amenities, are hurting the most."

The latest report by Douglas Elliman put the median market rent across Brooklyn at \$2,613 a month, after accounting for owner concessions such as one or more months of free rent.

That was down from the peak median rent of \$2,936 a month in November 2014, according to the Elliman data, prepared by appraiser Jonathan Miller of Miller Samuel Inc.

Rents declined 2% in December 2017 compared with the same month a year earlier.



The median apartment rent across Brooklyn has fallen by more than 9% since its 2014 peak, according to Douglas Elliman Real Estate.

lier, after taking into account concessions, according to the report.

The share of listings with concessions rose to the highest levels since the report began tracking such data in 2010. Some 46% of rental-unit listings had concessions, up from about 14% in December 2016.

In all, roughly 27,000 new rental units in Brooklyn have hit the market since 2008 in about 680 buildings, according to Nancy Packes Data Services.

Roughly 5,700 units opened last year alone.

Nancy Packes forecasts as many as 5,000 additional units in the borough in 2018 and as many as 9,000 in

2019.

Rory Bolger, a broker at Citi Habitats, said prices were coming down, but large landlords were coping with this through concessions "straight across the board, something you didn't see consistently" before.

Some building owners are offering brokers oversize commissions of 15%, or nearly two months of rent, to help bring in potential renters, he said. Some renters are even asking for free parking.

"Concessions are through the roof," said Mr. Bolger.

In downtown Brooklyn, where more than 6,000 apartments were added since 2015, many in high-rise tow-

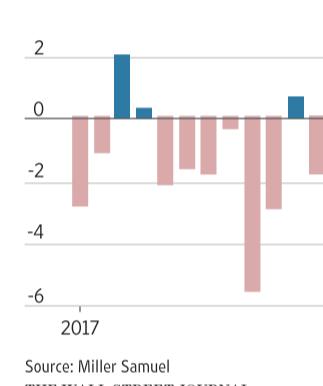
ers with views of the Manhattan skyline, developers said they have been renting out their buildings at a steady pace.

The initial lease-up is nearly complete at the Ashland, a 53-story building in Fort Greene on the edge of downtown Brooklyn that opened in 2016, said Matthew Berenson, a vice president at Gotham Organization, which built the tower.

At 300 Ashland, another new building opposite the Brooklyn Academy of Music, the landlord cut prices in December and January between 2% and 5%, respectively, on a number of apartments, according to listings on Streeteasy.com.

Sliding Rents

Brooklyn's monthly median rent after concessions, change from a year earlier



Source: Miller Samuel
THE WALL STREET JOURNAL.

Court Backs School Funding

By JOSEPH DE AVILA

The Connecticut Supreme Court on Wednesday struck down a lower-court ruling that deemed the state's method for public-education funding unconstitutional, a blow to advocates who argued the funding was inequitable depending on students' socioeconomic backgrounds.

In its ruling, the Supreme Court said the lower court improperly applied "a constitutional standard of its own devising" and had violated the separation-of-powers principle by weighing in on a legislative responsibility.

"It is not the function of the courts, however, to create educational policy or to attempt by judicial fiat to eliminate all of the societal deficiencies that continue to frustrate the state's educational efforts," Chief Justice Chase Rogers wrote on behalf of the majority. The ruling

was a split 4-3 decision.

The ruling stems from a lawsuit filed in 2005 by a coalition of cities, school boards, parents and their children that claimed Connecticut didn't give students from all backgrounds a minimally adequate and equal education.

"It is not the function of the courts...to create educational policy."

In 2016, Superior Court Judge Thomas Moukawsher said Connecticut violated the state's constitutional duty to provide public education because the way it distributed educational funds didn't take into account the circumstances in the state's poorest commu-

nities. He ordered the state to develop a new funding formula and to overhaul several other aspects of the system including special education and teacher evaluations.

The state appealed.

Connecticut Attorney General George Jepsen said the state Supreme Court correctly ruled that the lower court exceeded its authority.

"That said, the trial court's ruling in this case did identify profound educational challenges that deserve continuing significant and sustained action," Mr. Jepsen said. "Nothing about today's ruling should alleviate any urgency on the part of state lawmakers to address these challenges."

The Connecticut Coalition for Justice in Education Funding, the lead plaintiff in the case, said it will pursue all legal remedies to have the Connecticut Supreme Court decision reconsidered.

GREATER NEW YORK WATCH

CRIME

Eleven Are Indicted On Drug Charges

Eleven people were indicted Wednesday on charges of trafficking heroin and fentanyl in the New York City area, prosecutors said.

The suspects are accused of distributing heroin laced with fentanyl, a deadly synthetic opioid driving fatal overdoses, in Staten Island, Brooklyn, Manhattan and New Jersey from 2015 to this month, according to the indictment.

Medin Koscic, or "Dino," who is 30 years old, was accused of supplying other members of the operation with the drugs from Brooklyn. The suspects then stored the narcotics in stash houses in Brooklyn and Staten Island before selling throughout the area, the government alleged. The operation made about \$200,000 a week, a spokeswoman for the Drug Enforcement Administration said.

Sabrina Shroff, an attorney for Mr. Koscic, declined to comment.

—Zolan Kanno-Youngs



Officials said the drug operation made about \$200,000 a week.

CONNECTICUT

Budget Crisis Delays Body-Camera Panel

A Connecticut task force on police body cameras that was created last year amid calls for more accountability in law enforcement has yet to meet because lawmakers have only appointed five of the 26 members.

The task force was supposed to issue a report to the Legisla-

ture by Feb. 1 on ways to increase police body camera use and other issues, but lawmakers say the panel's work may be delayed a year.

Legislative leaders say last year's state budget crisis put the task force and other matters on hold.

State NAACP President Scot X. Eadsdale is calling for an investigation into why the task force hasn't been set up.

—Associated Press



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LIFE & ARTS



ALLISON CONWAY

THE MIDDLE SEAT | By Scott McCartney

Why Your Bags Can Stay Stuck for Days

The recent fiasco at JFK Airport reveals how airlines have little incentive to deliver your delayed luggage as quickly as possible

LINES WERE LONG and baggage was piled high. A Swiss International Air Lines agent told Jim Modlin that a conveyor belt was broken, but assured him that his clothes and ski equipment would be on his flight to Zurich on the first Saturday in January.

They weren't. Instead, Mr. Modlin's luggage joined the tens of thousands of bags from dozens of airlines piled up at New York's Kennedy Airport. It took Swiss five days to get his two bags to him, just as his one-week vacation wrapped up.

"The notion that they feel it's OK to leave hundreds or thousands of bags sitting in New York, and not reunite them, is an outrage," the New York attorney said from Zurich last week. "At some point they should spend the money to fix it."

The baggage-handling melt-down at JFK after the Jan. 4 storm unpacked some harsh reality for all travelers: Airlines have little incentive to spend to expedite delayed luggage, and travel-

ers have little protection and few rights. Nothing compels airlines to pay to ship bags by cargo carrier or rival airline. Regulations generally cover airline requirements for lost luggage, not delayed bags.

The Port Authority of New York and New Jersey, which operates JFK, publicly implored airlines to expedite bags and get them delivered by the end of Monday, Jan. 8. That call had little impact: The Port Authority says the baggage backlog didn't clear until Friday, for the most part. That was eight days after the storm. On Tuesday, nearly two weeks after the snow, about 100 Air China bags were still on the ground at JFK, many without local delivery addresses for passengers.

Swiss says it had about 400 bags left behind at JFK and shipped as many as possible on the airline's three daily flights from there. But it took more than five days. The carrier "did everything possible to keep the unpleasantness for our passengers

as low as possible," spokesman Stefan Vasic says.

Other airlines were overloaded and a cargo plane wasn't an option, Mr. Vasic says. "There were no other options or possibilities of shipping these left-behind bags earlier," he says.

On top of the inconvenience, getting airlines to pay for tempo-

Delta flew in 50 baggage workers from around the U.S. to help deal with the luggage backlog.

rary clothes, equipment and essentials can be a hassle. Typically airlines require receipts or prior approval for expenses and impose tight spending limits, not wanting to pay for new Armani suits. Sometimes airlines reimburse at reduced amounts based on future use and depreciated

values. Spirit Airlines even has a policy that customers may be forced to send swimsuits, flip flops and other clothes purchased to the airline before it will reimburse interim expenses. (The airline says it rarely enforces that rule.)

Because the JFK mess was so bad, one carrier says it waived receipt requirements up to \$500. The carrier asked not to be identified.

The U.S. Transportation Department caps airline liability for lost or damaged bags at \$3,500 per passenger. For delays, airlines are expected to pay "reasonable expenses." European Union rules and the Montreal Convention, a treaty that governs most international flights, both limit airline responsibility to about \$1,600 per passenger.

"The only way that we'll truly see airlines move faster and provide compensation for delayed luggage is stronger regulations that hold airlines accountable," says Henrik Zillmer, chief executive of AirHelp, a service that col-

lects airline compensation for passengers.

World-wide baggage handling has improved dramatically as airlines have implemented more tracking, according to SITA, an aviation technology firm. SITA says the world-wide rate of mishandled bags reached a record low in 2016 of 5.73 per thousand passengers, or about one mishandled bag for every 175 passengers. That's down 70% from the 2007 rate.

Airlines say the JFK mess resulted from a string of problems that scrambled schedules. Some terminals had planes waiting hours for gates, and arriving passengers went home or to connecting flights without baggage. Outgoing planes didn't get their baggage loaded in many cases, leaving bags like Mr. Modlin's behind. On Sunday, a water pipe flooded parts of Terminal 4, including key areas for baggage.

By Monday and Tuesday, local New York television showed video

Please see BAGGAGE page A12

TELEVISION

A VETERAN ACTOR LANDS TWO LEADING ROLES IN ONE

BY JOHN JURGENSEN

OVER A CAREER spanning more than 30 years, J.K. Simmons has become one of the most recognized supporting actors in show business, playing dozens of gruff or kindly men. He drew even more attention and job offers after winning an Oscar for his portrayal of a tyrannical conductor in the 2014 movie "Whiplash."

Now, riding a career surge at age 63, he is not only starring in one of his first leading roles, he's doing double duty.

Mr. Simmons plays two versions of the same character in the science-fiction cloak-and-dagger series "Counterpart," premiering Jan. 21 on cable network Starz. In it, parallel worlds are connected at a secret portal in Berlin, and most people don't know that there are copies of themselves living on the other side.

Mr. Simmons is Howard

Silk, an unassuming, low-level employee in the bureaucracy overseeing the portal. A cross-world incursion brings him into contact with his "other," a steely Howard Silk who is handy with a gun.

In a scene consisting of Mr. Simmons talking to Mr. Simmons, intense Howard says to mild Howard: "So, 30 years toiling in obscurity, and now you're suddenly moving up in the world."

The actor chuckled about that line during a recent interview, given its resonance with his own life. Born in the Detroit area, Mr. Simmons entered the entertainment world through musical theater, first at the University of Montana, then in Seattle and New York. Roles in "Guys and Dolls" and other Broadway musicals led to TV parts in "Law & Order" and "Oz," the violent HBO series set in a prison.

Mr. Simmons has been a familiar face in multiple genres. He played the cigar-chomping newspaperman J.



J.K. Simmons, an Oscar winner for 'Whiplash,' plays two different men named Howard Silk in the new TV series 'Counterpart.'

Jonah Jameson in several "Spider-Man" films, a sympathetic father to a pregnant teen in "Juno" and a professional spokesman in Farmers Insurance commercials.

In edited excerpts from an interview, he spoke with the Journal about his dual role in "Counterpart," the back story of his Farmers Insur-

ance pitchman and why he doesn't consider himself a leading man in a character actor's body.

Your name is Jonathan Kimble Simmons. When did you become J.K.?

Growing up, I was any variation of Jonathan and/or Kim.

Please see ROLES page A13

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LIFE & ARTS

HEALTH

Weight Watchers Wants You for Life

Company dangles more zero-point foods and online resources in recasting itself as a long-term wellness service

BY ELLEN BYRON

SICK OF DIETING? Weight Watchers International Inc. wants you to stick around forever.

Chief Executive Mindy Grossman is transforming Weight Watchers into a long-term life coach rather than a short-term buddy while shedding pounds. "We're moving beyond a diet to a holistic way of helping people have better habits," she says. "You should think of us as your daily partner to inspire you to be healthier."

Ahead of the New Year's resolution season—Weight Watchers' biggest recruitment period—the company revamped its eating plan to make it easier to follow. In a major shift, members now have more than 200 foods that they can eat in unlimited quantities, including eggs, skinless chicken breast and shellfish. Other foods and drinks are assigned points, which members track to remain beneath an assigned daily maximum. Having more zero-point foods means less measuring and less tracking, which Weight Watchers believes will keep members on the plan longer, executives say.

"To be the antithesis of dieting, we needed to create a plan that nudges positive changes in behavior, but in a way that feels like you can do it for a long time," says Gary Foster, Weight Watchers' chief scientific officer. "This doesn't have that dieter's prison mentality that I just have to leave my life for X number of weeks or months, and then I can get back to what I used to do."

Weight Watchers says longer subscriptions mean members lose more pounds and shareholders gain more returns. It is more lucrative for Weight Watchers to keep members on a plan longer because the costs of attracting new members are so high, analysts say. "Weight Watchers has to go find a whole new set of subscribers almost every year, so it's very hard to grow," says John Tomlinson, head of consumer research at M Science, an investment research firm. "Lower churn is extremely important and leads to long-term growth for the company because you have less of a burden to continually spend to attract new members."

The changes at Weight Watch-



CLOCKWISE FROM TOP: LINZIE HUNTER; AP/WEIGHT WATCHERS; FILMAGIC/GETTY IMAGES

Weight Watchers enlisted a simpler eating plan with more zero-point foods, pep talks from Oprah Winfrey, left, and an app, below, to hold on to members.



ers build on its "Beyond the Scale" program, started about two years ago. To recast itself as a wellness service, the company scrapped the word "diet" from marketing materials and began promoting ways to boost mental well-being.

Oprah Winfrey owns a stake in Weight Watchers, sits on its board and acts as its spokeswoman. She films inspirational videos in her kitchen for members, focusing on topics like gratitude, forgiveness and mindfulness. "Let's look at all the other benefits this program, this new way of being in the world, this lifestyle change, is bringing into your life," Ms. Winfrey says in one video. "This is not a marathon, it is not a sprint, it is a way of being in life, forever."

The entire industry has shifted in the past two years, says Linda Bolton Weiser, senior analyst at D.A. Davidson & Co. Even companies that market quick weight loss, including Nutrisystem Inc., Jenny Craig and Medifast Inc.,

now are emphasizing well-being. "It's now about healthiness rather than vanity, and that provides a big driver for the business," Ms. Weiser says. "Wanting to be healthy for your family, instead of just looking great in a swimsuit, gives women—that's the main customer here—permission to take some of their family's disposable income and spend it on these plans."

Weight Watchers aims to hook users with more extensive mental well-being resources.

In its most recent quarterly results, Weight Watchers reported that the average length of member's subscription surpassed nine months, up from an average of eight to nine months. The company chalks up some of the gain to its improved social-media plat-

form, Connect. Members turn to Connect to swap personal stories and advice on subjects that range beyond weight loss. Once attached to the Connect community, they tend to remain Weight Watchers members longer.

Weight Watchers reported 3.4 million end-of-period subscribers in the quarter ended September 30, 2017, up 18% over the year-earlier period. More members and longer tenures have boosted Weight Watchers' sales and profit after years of declines.

Patty Wedge, a retired information-technology specialist in Tulsa, Okla., joined Weight Watchers this month—her fourth time on the plan. Ms. Wedge was drawn to having more zero-point foods, which will make eating at restaurants with her husband much eas-

ier, she says. Before, Ms. Wedge would give herself about six months to reach a weight-loss goal and then quit, but this time she's not committing to a time frame to lose the 63 pounds she wants to shed. "I'm going to stay on forever," she says. "I need this structure because I now know I can't do this on my own."

Ms. Wedge pays \$19.95 a month for her digital membership but is considering upgrading to the plan that includes in-person meetings, which costs \$44.95 a month. "I'm turning 50 this year and want to get healthy and stay healthy," she says.

Marion Nestle, professor emerita of nutrition, food studies and public health at New York University, says keeping people on long-term weight-loss programs has benefits. "It's easy to get weight off, but what's really hard is keeping it off because you have to change lifetime eating habits, and that's very difficult," she says. Weight Watchers' longer list of zero-point foods isn't a blank check, however. "If you eat too much, you can gain weight on anything," Dr. Nestle says. "It's so difficult to get across the concept that larger portions mean more calories."

"It has been demonstrated that the longer that people stay in contact with a weight-loss program, the better the results," says Donald Hensrud, medical director of the Mayo Clinic Healthy Living Program and editor of the Mayo Clinic Diet, which also encourages adherents to follow its plan indefinitely. "The same habits that help people lose weight help them keep it off."

Regina Schroer, a church secretary in Fairfield, Ohio, paid the monthly meeting membership for the past year as she shed 22 pounds and plans to pay for all of 2018, hoping to lose 20 more.

Currently, Weight Watchers offers free "lifetime" membership to people who meet their target weight within a healthy range and maintain it for at least six weeks, as long as they weigh in at a Weight Watchers meeting center every month and stay at least two pounds within their target weight. The company is exploring whether to add membership options for longtime members who might not meet lifetime-membership requirements but still want access to Weight Watchers' recipes, inspiration and its social-media community.

Weight Watchers formed a task force to rethink all its terminology, including labels for lifetime members, in-person meetings and even the name Weight Watchers. The group's decisions should be implemented this year, the company says.

BAGGAGE

Continued from page A11
of giant baggage piles from dozens of airlines at JFK.

Delta, which has part of its operation in Terminal 4, says it juggled 8,000 bags left behind at the peak of the problem, but got all its bags delivered by that Wednesday.

Delta set up a separate hotline for JFK customers to tell the airline where to deliver bags. It used three delivery services in New York instead of just one. It replaced two Airbus A320 flights to Atlanta with wide-body Boeing 777s to move bags faster out of New York, and ran two extra flights, one to the Dominican Republic, to move stranded passengers and bags out.

Delta also flew in 50 baggage workers from Minneapolis, Detroit and Los Angeles to help clear the backlog.

and trucked some bags to LaGuardia so workers there who weren't as busy could get them out on delivery vans or onto planes.

Delta says problems began early the day of the storm, when some morning flights the airline hoped to launch were canceled—after bags had already been accepted for transport. By Thursday night, Delta had about 3,000 bags backed up.

The pile grew Friday, when JFK closed a runway to repair lights damaged by plows. Airlines had been counting on that runway being open at the busiest traffic time—4 p.m. to 6 p.m. Still, Delta thought it could clear the 5,000 or so bags by the end of the weekend.

The water-pipe break in Terminal 4 Sunday afternoon flooded the Customs baggage screening area. Delta—



A broken water pipe at John F. Kennedy Airport on Jan. 8 added to the delays there.

one of about 30 airlines in T4—had 11 international flights on the ground but no way to deliver bags to passengers. Passengers scattered, leaving bags behind.

When Mr. Modlin arrived in Zurich, his heart sank as only a handful of bags showed up on the Swiss carousel. Had the agent in New York told him there was a good chance his bags wouldn't make it, he would have pulled out his ski boots and carried them aboard. All he carried on was a briefcase.

Swiss told him to buy some clothes and rent ski equipment. The airline would reimburse him for what it considered appropriate. The skiing wasn't as en-

joyable without his gear. What really marred the vacation was spending hours calling Swiss baggage offices in Zurich and New York and waiting on hold. He couldn't get New York to return messages. In Zurich, agents told him New York wasn't responding to their calls and emails, either.

Bags weren't scanned in New York until they went on a plane, so Zurich wouldn't have any information on his bags until they showed up. An agent told him some flights were coming in with only about 10 extra bags.

"They've all been very polite," he says of Swiss agents, "but completely unhelpful."

Pack Your Patience

What to do when your luggage is delayed

- Never ever pack medicine, valuables or other critical items in checked luggage.
- When your bag doesn't show up, make sure you complete paperwork at the baggage office or give delivery instructions through the airline app if that's an option. Make sure the airline has your hotel, cruise ports and schedule.
- Tell the airline you are going to purchase necessary clothes, toiletries and vacation gear and expect full reimbursement. Get the airline policy in writing. Are receipts required? Is there a spending limit? Must you return purchased items to the airline? Airlines are also required to inform you of your rights under applicable domestic or international regulations.
- Don't leave the airport without the local phone number at the baggage office, as well as the airline's central phone center for baggage issues.
- Make a list of all items in the missing bag while it's still fresh in your mind, along with when you bought items and the original cost, if possible, just in case the bag never shows up.

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LIFE & ARTS



EXHIBITION REVIEW

Detailed Portrait of a People

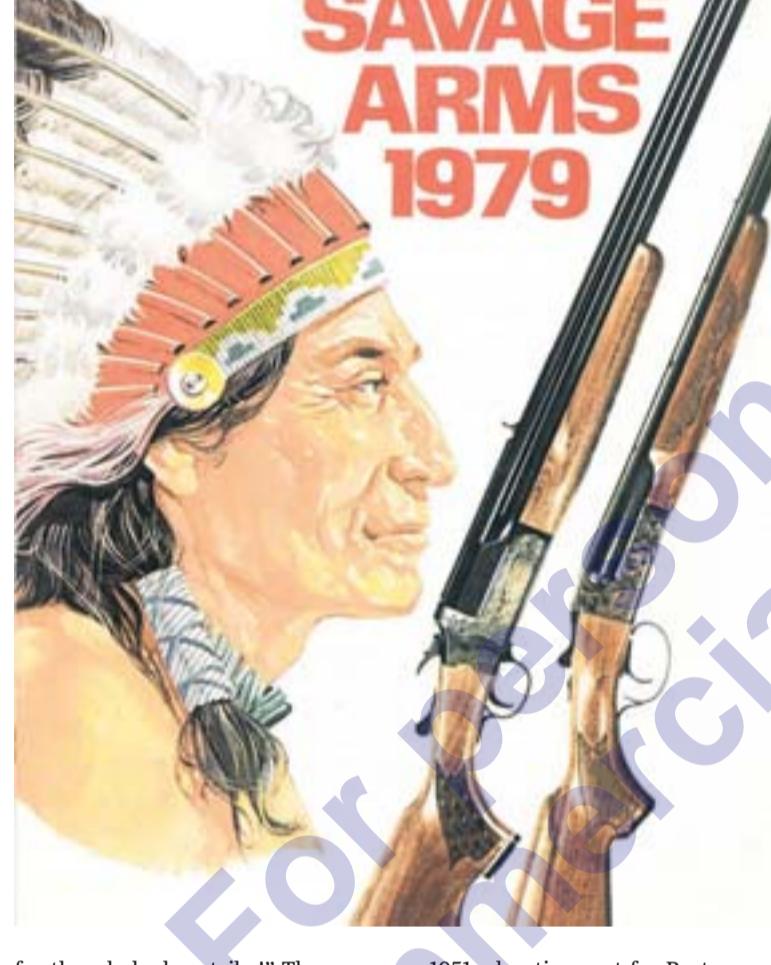
A new exhibition asks, 'How can Indians be so present and so absent in American life?'

BY EDWARD ROTHSTEIN

Washington UNTIL YOU ENTER the fine new exhibition, "Americans," at the National Museum of the American Indian, you might not realize what afterward seems obvious. American Indians have lost territorial battles and suffered the fate of the vanquished, but they have emerged triumphant in an unusual way. We see the results here, among nearly 300 reproductions, artifacts, illustrations and video clips, arrayed floor to ceiling in an enormous main gallery.

We know the controversies over sports team names and we see some souvenirs. We know, too, of American places that invoke an Indian past (Miami, Seattle). But something more sweeping is evident here. A chief in feathered headdress appears on a bottle of True American bourbon, a can of "Indian Head Hydraulic Brake Oil," a box of Savage Arms 32-caliber bullets, and in 1950s television test patterns. On Land O'Lakes butter, an Indian maid proffers another box of Land O'Lakes. Argo Corn Starch containers portray the maid herself as an ear of corn. The exhibition notes that "nearly all that can be named or sold" has been touched by such associations.

Not everything, of course, is as seductive as intended. An advertisement for the 1958 De Soto station wagon (named after the Spanish conquistador) says it has "Room



A 1948 Indian Chief yellow motorcycle, above, and the 1979 Savage Arms catalog, with a drawing of an Indian in eagle headdress, left.

sents someone to be emulated, even envied. One wears a chrome headdress as the ornament on a yellow 1948 Indian Chief motorcycle (other colors included Mohawk Green, Seminole Cream, Navajo Blue and Apache Gray). Another Indian's head seems sculpted from amber, his mane swept back by wind: the hood ornament of a 1951 Pontiac (named after an Ottawa chief). Some images allude to secret knowledge. The Boy Scouts have an elite "Order of the Arrow" whose members, we are told, dress in Indian attire for initiations. One fraternal organization that once limited membership to white men and traces its history back to the Revolutionary War is the "Improved Order of Red Men." American figures regularly appear in headdresses: Calvin Coolidge, Franklin Delano Roosevelt, Richard Nixon, Albert Einstein, Elvis Presley.

But why? "How is it," the exhibition asks, "that Indians can be so present and so absent in American life?" Some suggestions that they proved "worthy foes" appear in annotations for these objects (though aside from comments shown at eye level, they are awkwardly relegated to touch screens). And adjacent galleries give focused surveys of image and controversy in Custer's Last Stand, the Trail of Tears and Pocahontas's reputation.

In its approach, the show is a breakthrough for this museum, which under its current director, Kevin Gover, has been reinventing itself. When first opened in 2004, it was declared a "museum different" in which tribes would tell their own stories. This was one of the first major identity museums made by and for a people. The result was a formulaic cartoon.

But "Americans" is the third open-ended exhibition created in just over three years. One explores the Inka Road in South America; another surveys the violation of treaties between the U.S. and Indian "nations." In both, aspects of the identity genre remain intact, blurring a full perspective, but understanding takes a leap forward.

This exhibition goes further. It uses "we" not to refer to the museum's "community" but to all Americans, including Indians. The curators—Paul Chaat Smith (Comanche) and Cécile R. Ganteaume—do not preach; they demonstrate, often with good humor. Their goal is not to dismiss but to examine a complex relationship, asserting that we are "a country forever fascinated, conflicted, and shaped by its relationship with American Indians."

An example of its puzzling character is Pocahontas, whose story was considered so important to Virginia's history that the oldest families boasted of her ancestry. When the state passed the Racial Integrity Act in 1924, to prevent miscegenation and maintain "Caucasian" blood, a "Pocahontas Exception" left that heritage unsupplied. Another example: A 1923 postage stamp portrays Chief Hollow Horn Bear, who rode in Theodore Roosevelt's inaugural parade in 1905. But he also helped defeat Gen. George Custer. Even the U.S. Army—the Indians' nemesis—celebrates those they once vanquished. A 1969 Pentagon directive specified that aircraft were to carry "Native American terms and names" and should "suggest an aggressive spirit and confidence." We see a Tomahawk Missile and models of Apache, Comanche and Iroquois helicopters.

What a strange phenomenon! Perhaps out of guilt, idealization arises. Indian virtues are heralded: speed, cleverness, pastoral wisdom and strength. This is the classic romance of the American Indian—and the phenomenon has been repeated in other contexts. I wish the exhibition had explored this mythology, and also paid more attention to government images. But try to see this show. It reveals an aspect of American culture that perseveres. In a strange twist, the Indian romance, with its idealized vision of a masterful, pastoral people, was embraced by the early incarnation of this museum as well.

Americans
National Museum of the American Indian

Mr. Rothstein is the Journal's Critic at Large.

ROLES

Continued from page A11
ble and/or Simmons. I started being a Jonathan because that was the version of my name that was available when I joined [theater union] Actors Equity. Then when I joined the Screen Actors Guild, that version of my name was taken, so J.K. was the closest I could come.

Playing identical twins, or in this case dual versions of one character, is a big feat for an actor. Was that the main incentive to do this show?

The way I go about appraising an offer is to read the script and not let anyone tell me about it until I do. I don't look at the synopsis or check out the IMDb page of the writer. I was in love with the first Howard we meet before getting to page 20, where the whole concept of the parallel universe is dropped. Unfortunately that's an experience that audiences will not have because of the way the show is being promoted.

Besides finding outward differences like posture and speaking voice, how did you prepare to play these two Howards?

There are interior differences—psychological, emotional—that manifest themselves in hopefully subtle ways on the exterior. It happened pretty much organically because...I'm sorry, man. Honestly, I've always found talking about the acting process to be both tedious to hear and difficult to describe.

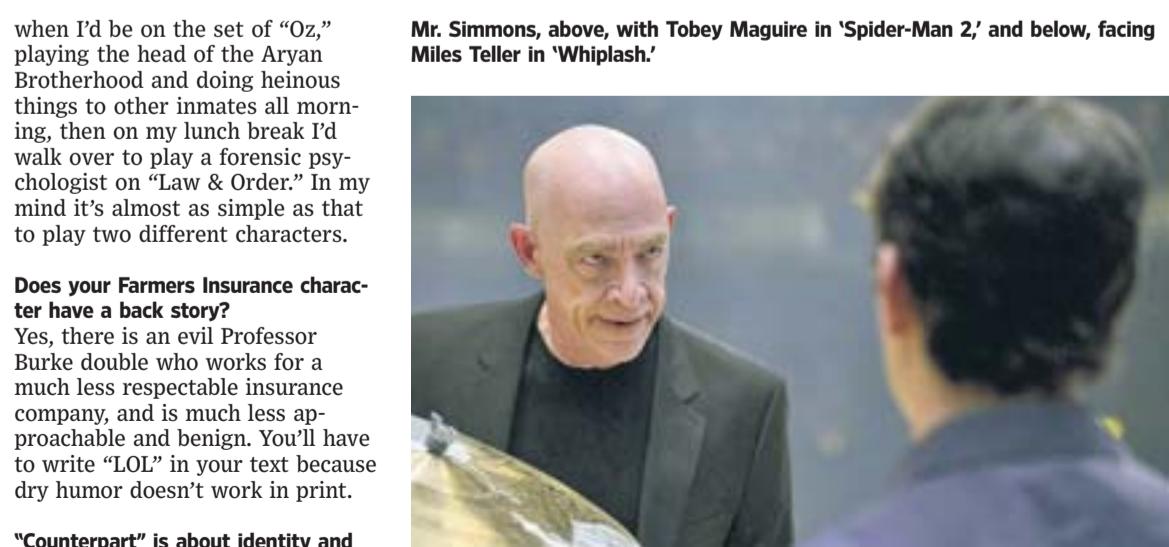
There's a level of self-consciousness that it creates that I try to avoid.

So it's like playing any character, but there happens to be two of them.

It reminds me of when I first started acting on camera. I was one of the ridiculously fortunate New York actors to be on two shows at once. There were days



Mr. Simmons, above, with Tobey Maguire in 'Spider-Man 2,' and below, facing Miles Teller in 'Whiplash.'



"*Whiplash*" confirm that you were made to be a supporting actor or that it was finally time to pivot to leading roles?
I've never been a frustrated leading man in a character actor's body. When I started doing this in college in Montana at the Bigfork Summer Playhouse—and when I still had hair—I was the leading man in "Brigadoon," played a character role in "Bye Bye Birdie," and was in the chorus of another show the next night. I got to be all of the above. The distinction between leading man and supporting actor hasn't really been a major factor to me. In fact, I was leery about "Counterpart" at first. My kids are in high school. My wife and I are facing the empty nest. I like having a nice balance of work life and home life. I was looking at the script thinking, "This looks like some long weeks, man. I'm honestly not sure if I'm ready to sign up for that." In many ways I've preferred to be the hired gun who works for a week or two.

What effect did the Oscar win have on your career?

The two main things are the sheer volume of offers coming in and the fact that now I'm talking to you. I'm part of the whole promotional mechanism, compared to most of my career when I was under the radar and they weren't asking me to do the press conferences and talk shows. Is there also more money attached? Yes, and I have no problem taking a bigger paycheck.

You just turned 63. Are you still discovering new ways to do your job?

It's easy at my stage to settle into the journeyman thing: show up for work, do the work, go home. I fall into that rhythm at times, but I also try to stay open to learning. One thing "Counterpart" has helped me focus on, hopefully, is a real specificity of character. Going back and forth between Howard and other Howard, it kept me on my feet.

next opportunity that came along was to play Captain Hook in a [1991] Broadway revival of "Peter Pan." A couple of months after I joined, a lovely young lady named Michelle Schumacher joined the cast to play Tiger Lily. We're now 21 years married with two kids.

What if I had gotten what I wanted from that situation? My life wouldn't be nearly as full as it is now, and our children would not exist. It's bizarre to start going through those possible outcomes.

In your mind, did the awards for

SPORTS

NBA

The Warriors' Unstoppable Play

BY BEN COHEN

THE GOLDEN STATE Warriors call the play Cyclone because they stole it from the Iowa State Cyclones, who called it Cougar because they stole it from the BYU Cougars, who called it Dribble High because they stole it from Utah State. It was called Dribble at Utah State because that's what it was called at Colorado State and Montana, and the guy who called it Dribble would know its name better than anyone.

"That was something I drew up a long, long time ago," said Stew Morrill.

The clever play that Morrill doodled on a chalkboard in the Montana coach's office more than 30 years ago soon began to spread, and it was such a good idea that it was adopted by rival coaches and local high schools wherever Morrill coached.

But how did something drawn up a long, long time ago eventually make its way to the Warriors? It took an unlikely series of seemingly unrelated heists for this one play to be perfected by one of the best teams in the history of basketball. And not even the people involved fully understood their pivotal roles in the chain that links Morrill to a potential NBA dynasty.

One summer day in 2015, Steve Kerr was having lunch with Fred Hoiberg. Kerr had recently coached Golden State to a championship, and Hoiberg had recently left his college job for the Chicago Bulls. They were chatting about basketball strategy when Hoiberg said he'd noticed that the Warriors used one of his plays. Kerr told him they actually named it Cyclone in honor of Iowa State.

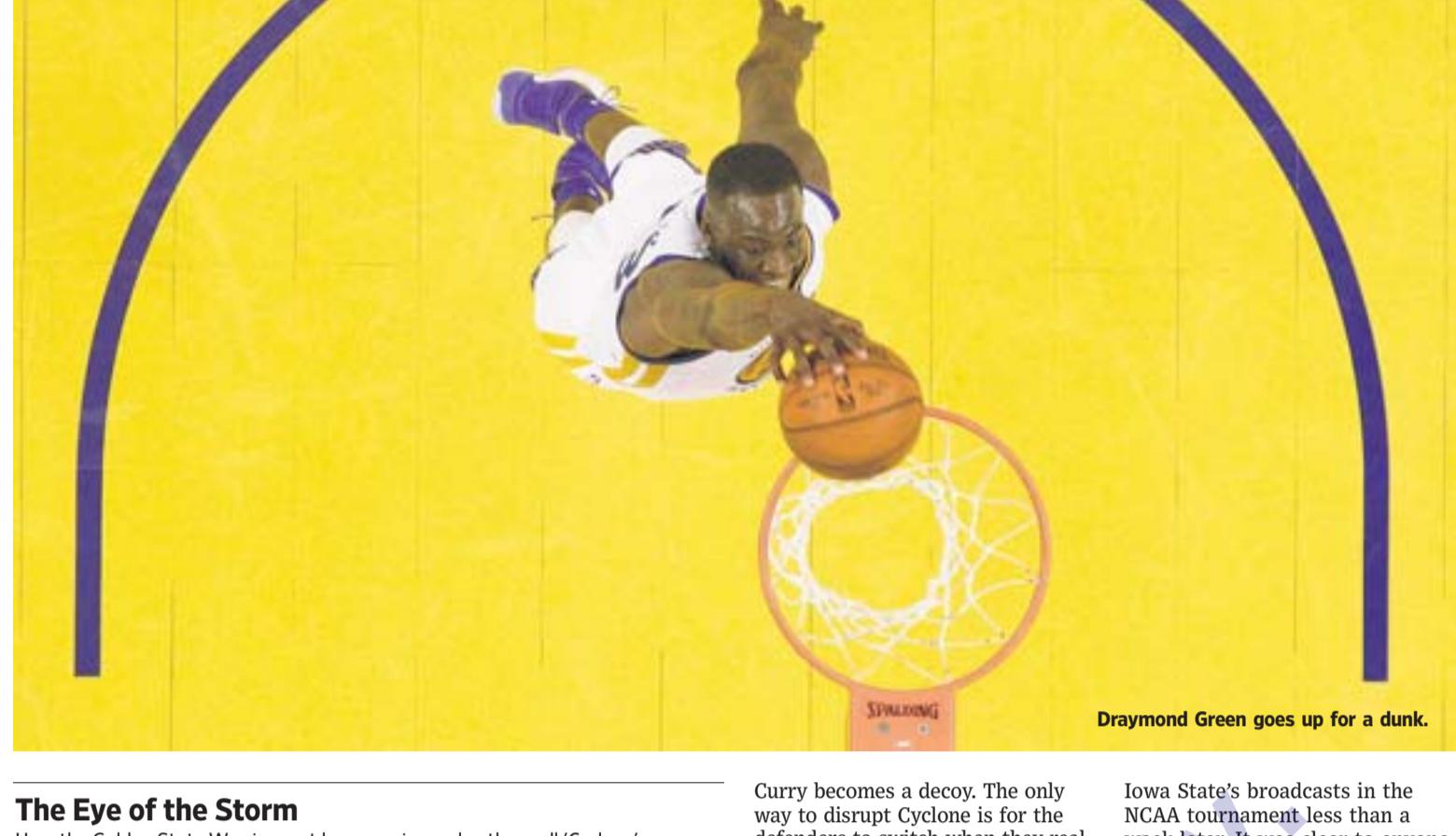
That's when Hoiberg confessed. It wasn't his play. He'd taken it from BYU coach Dave Rose. And it wasn't his play, either. "We're all thieves in this business," Hoiberg said.

But someone at some point had to come up with something original. As it turns out, when you trace the play back to its origins, that someone was Stew Morrill.

Morrill, who retired in 2015 after more than 600 wins at three schools, had a reputation among his peers for this sort of X's and O's wizardry. "I love Stew's stuff," Hoiberg said. Morrill was a widely respected tactician. There was nothing he enjoyed more than being in his office late at night eating pizza, drinking beer and diagramming plays.

"Sometimes it was really good, and sometimes it was really bad," Morrill said. "Dribble was one of those that was really good."

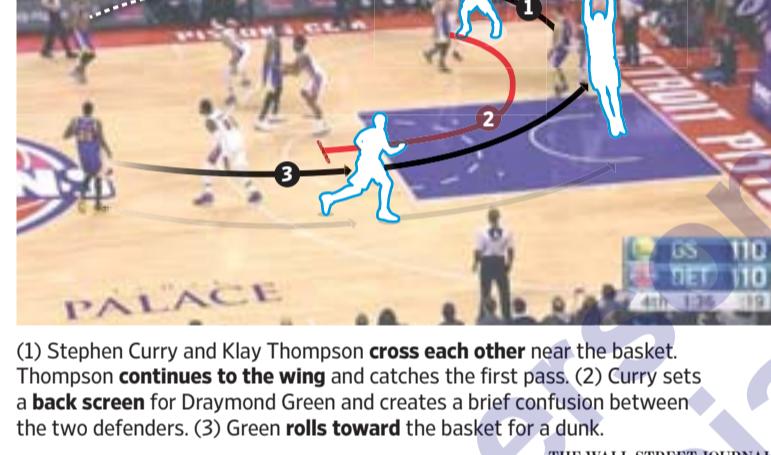
He came up with Dribble in 1986, while tinkering with his trusty assistant Blaine Taylor. It had everything they wanted in a set play. It was quick. It was deceptive. And it



Draymond Green goes up for a dunk.

The Eye of the Storm

How the Golden State Warriors get layups using a play they call 'Cyclone'



(1) Stephen Curry and Klay Thompson **cross each other** near the basket. Thompson **continues to the wing** and catches the first pass. (2) Curry sets a **back screen** for Draymond Green and creates a brief confusion between the two defenders. (3) Green **rolls toward** the basket for a dunk.

THE WALL STREET JOURNAL.

was almost impossible to defend.

The play begins with the misdirection of two guards whooshing past each other underneath the basket. One guard (say Klay Thompson) continues to the wing and catches the first pass as the other guard (Stephen Curry) curls upward and sets a back-screen for a big man (Draymond Green). "There is no play if the guy doesn't set a bone-crusher," Morrill said. Then comes a pass from Thompson to Green rolling off the Curry pick. If everything goes to plan—the cross, the first pass, the screen and the second precisely timed pass—the finish should be the easiest part.

Morrill's teams ran this play so many times for so many layups that eventually they had to get creative with it. He disguised his calls using an elaborate system of cards—"we weren't yelling Dribble," he said—and took his precautionary measures to the extreme in league games against the opponents they played every year.

"We saved it for the second half when the offense was in front of our bench," Morrill said, "so the other coaches couldn't call it out."

There is a paradox at the heart of Morrill's play: It turns a shooter into a screener. The play is devastating for the Warriors because

Curry becomes a decoy. The only way to disrupt Cyclone is for the defenders to switch when they realize they're in the eye of the storm. But the problem is that every basketball player on the planet's instinct is to stick with Curry, and his gravity creates a brief opening for Green to sneak toward the basket after the back-screen for a shot.

"If you have a good shooter setting that screen, you get layups," Hoiberg said.

And if you have the greatest shooter ever?

"I'll say this," he said. "It's *really* good when Steph Curry sets it."

The Warriors aren't known for running set plays. Their offense is a blur of cuts and constant motion. This one is so unusual, and so obviously successful, that it has become a source of curiosity itself.

The blog Golden State of Mind published an explainer about the play in November and said it was called Cyclone because of the way "players end up going in a whirling pattern." Kerr, who declined to comment for this article because he prefers not to discuss the details of his team's plays, revealed on The Bill Simmons Podcast that it was called Cyclone because of he took it from Iowa State.

Hoiberg recently asked Bulls assistant Nate Loenser if he could remember any notable examples of the Cyclones running the play they called Cougar. Loenser barely had to think about it. The second half of their Big 12 Tournament game against Kansas in 2014, he said.

Kerr was in television at the time and happened to be assigned

Iowa State's broadcasts in the NCAA tournament less than a week later. It was clear to anyone who listened to his commentary that Kerr was ready to be a coach, and he'd been quietly building a library of cool plays that he liked.

Kerr was hired by Golden State not long after his Iowa State calls. The Warriors have been running the cool play he liked ever since.

Kerr wasn't the only coach who admired Hoiberg's play. Rose also found himself intrigued—but for another reason. The play looked awfully familiar to him. "I had no idea where he got it," Rose said.

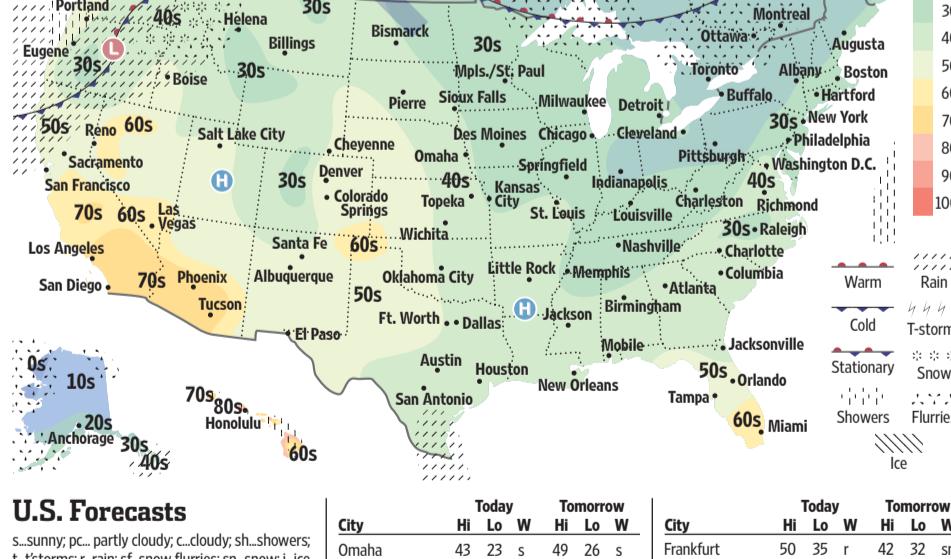
He got it from Rose. Hoiberg hadn't bothered telling him that he was so envious of a certain play while scouting BYU before their games in 2012 and 2013 that he swindled it. Which was appropriate. Rose hadn't bothered telling Morrill that he inherited Dribble when he poached assistant coach Dave Rice from Utah State in 2005.

Morrill takes a deep satisfaction in the way his invention has endured. "There's Dribble," he tells his wife when they watch basketball on the couch. It's more charming now than when he was still coaching and other teams used his own creation against him.

Hoiberg can relate. The Warriors were playing the Bulls earlier this season when they decided it was time. They had to run Cyclone. As soon as the play was over—Golden State got a dunk out of it—Hoiberg looked down the sideline only to find Kerr already looking for him.

They both understood why the Warriors' coach was cracking up.

Weather



U.S. Forecasts

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

Today Tomorrow

City Hi Lo W Hi Lo W

Anchorage 23 14 pc 19 11 pc

Atlanta 43 26 s 51 28 s

Austin 43 31 pc 51 42 r

Baltimore 38 20 s 46 26 s

Boise 55 37 c 45 27 sf

Boston 33 22 pc 34 27 pc

Burlington 28 18 c 32 26 c

Charlotte 43 21 s 50 20 s

Chicago 32 22 s 40 31 pc

Cleveland 30 22 s 36 31 s

Dallas 48 31 s 56 46 s

Denver 58 33 pc 61 32 pc

Detroit 31 21 pc 35 31 pc

Honolulu 83 71 pc 84 71 s

Houston 43 34 pc 52 50 c

Indianapolis 29 18 s 36 28 s

Kansas City 39 25 s 47 34 s

Las Vegas 66 49 pc 66 44 c

Little Rock 41 23 s 49 36 pc

Los Angeles 76 55 pc 64 47 c

Miami 64 52 pc 70 61 c

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OPINION

The Trump Paradox



What's the difference between Mark Zuckerberg and Donald Trump?

Mr. Zuckerberg saw that the destructive political forces set loose by social media

were threatening the core of Facebook and made adjustments last week to protect his crown jewel.

A Twitter account and the tides of media are undermining Mr. Trump's presidency, but he'll never adjust.

Which leads us to the Trump Paradox: Donald Trump may be the most disliked president in the postwar era, even as he presides over one of the most solid first-year policy performances of that era, most notably a strengthening economy.

(A colleague asked if by "postwar," I meant World War II or the American Revolution.)

For most of the first year, the Trump paradox didn't matter much beyond the altered psychological state of his audience. Reacting to "Trump" became, like uncontrollable weather, a daily routine.

But in Year Two, the story line is about to change. Everything in 2018 will be defined in terms of its effect on the November midterm election. Including any meeting with Dick Durbin.

The phrase "political animal" was invented for people like Sen. Durbin. Lost down

the circles of empathy between themselves and the public. The empathy may be fake, but it's necessary. Mr. Trump is uniquely content to limit his personal appeal.

The Democratic "resistance," which looked pathetic and irresponsible in Year One, suddenly makes sense in Year Two. The generic-ballot numbers, which

This era's most disliked president has produced a successful first year in office.

show the public preferring a Democratic Congress by an astounding 11-point average, are suddenly relevant. Suddenly it matters that Mr. Trump's approval in Georgia, which he carried in 2016 with 51.3%, is now 38%.

This one-man meltdown is occurring almost entirely among women, driven by a relentlessly smirking, I-could-care-less demeanor. The beer-and-shot base loves it. Women? They just don't. Women came out of the woodwork to vote against Mr. Trump in the Virginia gubernatorial election that Ed Gillespie lost.

The bedrock Trump base, always around 35%, carried him through the presidential competition. But the 2016 victory was made possible by adding the topsoil of wealthier suburban voters. The Trump topsoil is eroding. Men who voted for Mr. Trump in these

suburban towns won't bother trying to talk their wives out of turning their 2018 vote into an anti-Trump statement. Donald Trump never had a bad day in his life. His supporters have one every week.

It will be a remarkable accomplishment if the Democrats pull this off—a victory not linked to an opposition's major policy failure, an unpopular war or economic downturn. Beyond the Trump persona, the policy substance of the Democratic case is approximately zero. But running every candidate on the ballot against Donald Trump relieves them of having to think much.

Post-2018, the Pelosi-resented House would use the threat of impeachment, however baseless, to make Mr. Trump do deals with them on issues like infrastructure, while poking him just enough to keep him in a snarling rage until a professional empathizer like Joe Biden arrives in 2020. Tempting and taunting Donald Trump will be the capstone to Nancy Pelosi's career.

The Democrats, now dominated by street-theater progressives, could blow it by making their return to public view more annoying than Mr. Trump's tweets. They are planning to attend the president's State of the Union address Tuesday dressed in black, like Hollywood stars, and carrying #HandsOff signs. That would be the people whose eight years of hands on the American economy put Donald Trump in the White House.

Write henninger@wsj.com.

Killing Nafta Would Ruin American Farmers

By Karl Rove

In a Wall Street Journal interview last week, President Trump said if he were to "terminate" the North American Free Trade Agreement, it "would be frankly a positive for our country."

This bluster could be a negotiating ploy before the next trilateral Nafta talks, set for Jan. 28 in Montreal. If not, Mr. Trump should stop threatening. Withdrawing from Nafta would immediately kill American jobs, while handing Democrats the midterm elections on a silver platter.

In 1980 President Carter demolished farm counties with his embargo on grain sales to the Soviet Union. This was bad politics and bad policy, but at least he was trying to punish an adversary. If Mr. Trump kills Nafta, he'd be damaging red states to undermine allies.

Nafta is especially important to American farmers and ranchers. U.S. agricultural exports to Mexico and Canada were \$8.9 billion in 1993, before the agreement kicked in. Today, they are \$39 billion, accounting for 30% of America's farm exports.

These exports are critical in many states with key elections this year. In North Dakota, which Mr. Trump won by 36 points, Republicans want to flip the Senate seat held by Democrat Heidi Heitkamp. But the state's commerce commissioner, Jay Schuler, says North Dakota exports 84% of its crops—worth \$3.5 billion—to

Mexico and Canada. Withdrawing from Nafta would subject those products to high foreign tariffs in force before the deal took effect, leaving farm families very unhappy.

Republicans also hope to flip Senate seats in Missouri and Indiana, both of which Mr. Trump carried by 19 points.

And given how many live in red states, it would doom the GOP in the 2018 elections.

The GOP is fighting to keep governorships in Iowa and Kansas, which the president won by 9 points and 21 points, respectively.

These campaigns will be much more difficult if farm economies are ruined by Nafta termination. Missouri is a major producer of corn, soybeans, beef and turkey; Indiana of corn and soybeans; Iowa of corn, soybeans and pork; and Kansas of wheat, corn and beef. Much of this is exported to Mexico. If the U.S. pulled out of Nafta, Mexican tariffs would snap back to 75% on American chickens, high-fructose corn syrup and potatoes, 45% on turkey, and 25% on beef.

As former North Dakota Gov. Jack Dalrymple, himself a farmer, points out, it takes a long time to develop foreign customer relationships. Once disrupted, those agricultural markets wouldn't come

back quickly. People in farming would know who to blame.

Then there are the car-making states. In the almost quarter-century since Nafta went into effect, the U.S. auto industry has built a hemispheric supply chain to help it compete with European and Asian auto makers.

Indiana, Michigan, Ohio and Tennessee each have important Senate races, and all but Indiana have governor's contests, too. In each of those states, at least 9% of the workforce is tied to autos, and in Michigan the figure is 20%. Their exports of cars and auto parts range from \$5.9 billion in Tennessee to \$26 billion in Michigan.

If Mr. Trump made good on his Nafta threat, he would disrupt the auto industry's supply chain, making American-made cars more expensive at home and less competitive abroad.

Does he really want to blow up these states' economies—along with those of roughly a dozen other states with auto production (including Missouri, Pennsylvania and West Virginia)?

I haven't even gotten to the crucial elections in border states like Texas and Arizona, which are important way stations for trade with Mexico and whose economies would face major difficulties if Nafta disappears.

In discussing Nafta, Mr. Trump keeps getting his numbers wrong. Last week he declared that the U.S. has a \$71 billion trade deficit with Mexico and "we lose \$17 billion

with Canada." Actually, after counting sales of goods and services, the trade deficit with Mexico in 2016 was just \$55.6 billion. With Canada, the U.S. ran a \$12.5 billion surplus.

Does Mr. Trump ignore the U.S. advantage in services—everything from insurance to banking to logistics—because it undermines his anti-Nafta case? Or, despite coming from the service industry himself, does he think service jobs are less worthy than manufacturing ones? Try defending that proposition to employees at Travelers (a big insurance player in Canada) or FedEx and UPS (which provide logistics and shipping there) or Wal-Mart (Mexico's largest retailer) or MetLife (which insures 78% of Mexican government employees) or Citibank (which owns Mexico's second-biggest bank).

Any trade agreement that is two decades old needs updating. Nafta is no exception, especially given the growth of e-commerce and the digital economy. But bad policy is bad politics. Killing Nafta would damage Republicans in agricultural, auto and border states and help elect more Democrats in 2018, strengthening the party's impeachment efforts. Mr. President, it isn't worth it.

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

The CBO Is the Tail Wagging the Dog

By J.T. Young

Last year began with Republicans bent on fulfilling a promise to repeal and replace ObamaCare. For eight months they tried every permutation—repeal, repeal and replace, repeal and then replace later. Nothing worked. Their backs to the wall, they regrouped around tax reform. This time they succeeded.

The only obvious common thread was the participants. But there was another: unelected estimators and their projections of the impact of ObamaCare's individual mandate. Attempting to undo ObamaCare, Republicans found themselves blocked by estimates from the Congressional Budget Office and Joint Committee on Taxation that tens of millions of Americans would "lose health care." Under tax reform, those estimates translated into hundreds of billions in budget "savings" from repealing the mandate.

Last January the CBO released an estimate for an earlier Republican ObamaCare reform bill. "In the first full plan year following enactment . . . about 18 million people would

become uninsured. . . . Most of those reductions in coverage would stem from repealing the penalties associated with the individual mandate."

By December, the CBO was acknowledging how far off its earlier ObamaCare estimates had been: "In May 2013, CBO and JCT projected the average monthly subsidized enrollment in the marketplaces and the Basic Health Program would grow from 11 million people in 2015 to 19 million in 2016. However, the estimated average number of subsidized enrollees

increased only modestly—from 8 million people in 2015 to 9 million in 2016." In short, less than half the projected number of enrollees.

The CBO acknowledged that "such estimates are inherently imprecise." But it didn't explain why they have been consistently wrong in the same direction. A Galen Institute report has an answer: "One reason CBO gets it so wrong so consistently is its fervent belief that the individual mandate has motivated millions to enroll in coverage."

Thus when Republicans sought to repeal the mandate the first time, the estimators projected it as taking away insurance. When they repealed it as part of tax reform, it scored it as "saving" billions—\$314 billion over 10 years—but by not subsidizing all that insurance. Initially, the scores greatly restricted Republicans' policy options. Then, the scores greatly expanded the options.

Why do policy debates of

such magnitude—reshaping America's health care and tax systems—hinge on the enormously erroneous analysis of unelected officials?

It is easy to liken them off-handedly to referees—participants on one hand, neutral on the other. But this isn't a game, and referees aren't supposed to dictate outcomes. If the refs are noticed, it usually means they've done a bad job. While the occasional bad call may be inevitable, a consistent error would ruin the sport.

Estimators and their estimates recall the old adage "For want of a nail the shoe was lost . . ." Obscure and seemingly innocuous events can have consequential results—especially when members of Congress let unelected estimators make the rules.

Mr. Young served under George W. Bush in the Office of Management and Budget and Treasury. He was a congressional staffer from 1987-2000.

BOOKSHELF | By Laura Landro

In Search Of Easeful Death

With the End in Mind

By Kathryn Mannix

(Little, Brown, 341 pages, \$27)

Death is the last thing most people want to think about, yet nothing could be more important—especially with advancing age or after a bleak diagnosis—than preparing for the end and understanding how it can happen. These days, such thinking is likely to include learning about palliative care, a specialty that began with the hospice movement in Britain in the 1960s and has become a growing branch of Western medicine.

In "With the End in Mind," Kathryn Mannix, a British physician, chronicles her career spent in the field. She has cared for patients ranging from toddlers with congenital diseases to adults with fatal cancers and the frailest of the elderly. With sometimes unsettling detail, admirable

empathy and a sprinkling of humor, Dr. Mannix imparts valuable lessons for anyone who faces the loss of a family member or a personal reckoning with impending demise.

As it happens, the U.S. health-care system is embracing palliative care more and more as an alternative to the relentless and costly treatment that is so common toward the end of life. In a growing number of states, health-care providers

are helping patients codify how they would like to be treated when the end is near, and various groups, including the nonprofit Conversation Project, offer guidance on how to have difficult discussions with family members about one's final wishes. Such discussions, Dr. Mannix writes, allow us "to be honest with each other at a time when pretense and well-intentioned lies can separate us, wasting time that is very precious."

Like midwives who usher newborns into the world, palliative-care experts can be seen as "deathwives." Dr. Mannix says—people who help their patients exit this world in relative comfort. She notes that, even as medications reduce pain and relieve symptoms such as breathlessness and nausea, patients can be educated about how their thoughts and actions trigger emotional distress or help prevent it. A cognitive-behavioral therapist as well as a medical doctor, Dr. Mannix tries to guide her own patients toward rediscovering "their inner resilience" and challenging their "unhelpful thoughts."

Palliative care is an alternative to the relentless and costly treatment that is so common toward the end of life.

Dr. Mannix often must walk a tightrope with suffering, agitated patients and their families, who start out in denial of their situation and avoid the very things that could help them. There is the husband who thinks, mistakenly, that his wife doesn't know that she is dying and so decides that the subject of death can never be broached. There is the beautiful young mother who believes that she must squeeze into the skintight pants that define her style, though they exacerbate the pain she experiences from the swelling and fluid buildup caused by her spreading cancer. In such cases, Dr. Mannix says, she tries to show her patients how to face facts and pull down barriers both to comfort and time with loved ones before it is too late.

Sometimes decisions have to be made for patients who can't speak for themselves. In one case that Dr. Mannix describes, two sons brush off their increasingly ill father's attempts to talk about his wishes; then they find themselves agonizing over what to do as he lies unconscious after another heart attack and a stroke. When their mother speaks up to reveal that her husband didn't want to have his death protracted by medical treatment, Dr. Mannix and the palliative-care team have the opening they need to gently explain what is going on and allow the sons to respect their father's wishes: His heart is not strong enough to circulate his blood, and he is sick enough to die. "The dreadful reality, told with honesty and compassion, allows patients and their families to make choices based on truth," she writes, "instead of encouraging the misleading, hopeless quest for a medical miracle that promotes futile treatment, protracts dying and disallows goodbyes."

Dr. Mannix makes it clear that the aim of palliative care is to ease the natural process of dying, not to do the patient in. There is a clear difference, she notes, between giving a drug at a dose that will relieve the agony of breathlessness and giving the same drug at a dose that will suppress breathing altogether. She works with one young male cancer patient who transfers to the U.K. from the Netherlands, where euthanasia is legal. His situation could not be more dire: His body is ravaged after abdominal surgery with gruesome, non-healing wounds. But he feels that the Dutch doctors are pushing him to choose euthanasia, assuming that, with his prognosis, "many people would not wish to live in that state."

He does, however, want to live as long as he can, to be with his wife and daughter a brief time more. The hospice team in Britain devises ways to improve his well-being, numb his pain and treat his wounds before death arrives naturally two months later—that is, without the "help" of medical doctors. Dr. Mannix acknowledges that the Dutch system provides a legal escape route from unbearable suffering toward the end of life, but she warns that, given what can happen once the euthanasia genie is out of the bottle, "you must be careful what you wish for."

Knowledge that death is approaching can spur a spiritual transformation, Dr. Mannix finds, whether theistic or otherwise. It enables patients to review their lives and recognize the gifts they have received, even if there is sadness, fear or anger about their fate. They become, she says, "beacons of compassion, living in the moment, looking backwards with gratitude and forgiveness, and focused on the simple things that really matter." Since no one here gets out alive, we all need to think about an exit strategy. A good place to start is "With the End in Mind."

Ms. Landro, a former Journal assistant managing editor and health columnist, is the author of "Survivor: Taking Control of Your Fight Against Cancer."

OPINION

REVIEW & OUTLOOK

The Rule of Shutdown Politics

Washington is going through one of its hoary melodramas with the threat of a partial government shutdown at 12:01 Saturday morning if Congress doesn't pass a funding bill. These are usually worth ignoring, but in this election year we are likely to see more such show-downs. So it's important to understand the rule of shutdown politics: Democrats want a shutdown but Republicans will get blamed for it.

This has been roughly true in every shutdown brawl we've watched going back to the 1980s. It doesn't matter if a Republican is President with a Democratic Congress, or vice versa, or if Republicans run both ends of Pennsylvania Avenue. Sometimes Republicans deserve the blame, as they did with Ted Cruz's kamikaze run for ObamaCare repeal in 2013. But even if they work in good faith to avoid a shutdown, the media blame Republicans, and many voters figure the GOP must be at fault because it's the party that prefers smaller government.

Democrats understand this and they use it as political leverage. That's what's going on this week behind the scenes as Republicans struggle to put together a budget that can get past the Freedom Caucus in the House but also get at least nine Senate Democrats to overcome a filibuster in the Senate.

Democrats don't want to take yes for an answer. GOP leaders want to negotiate a two-year budget deal separate of negotiations over immigration. But Democrats are refusing, though the date when new work permits will no longer be issued to the so-called Dreamer immigrants is the first week of March.

Democrats are refusing even though the tentative budget deal being hashed out behind the scenes would also give them a big increase in new domestic non-entitlement spending over two years. Republicans would get more defense spending. Such a deal will give more Republicans heartburn on the policy merits, but Democrats still won't accept.

Democrats oppose a bill that reauthorizes children's health care.

On Wednesday Democrats were even refusing to accept a short-time spending bill to fund the government for a month that includes reauthorization of the CHIP program for children's health care. Democrats have spent weeks attacking Republicans for not reauthorizing CHIP, implying that children will be denied care.

"This is a program that was created in a bipartisan way, that has always been bipartisan," said Sen. Sherrod Brown of Ohio in December. "It's ready to go. And if Republican leaders put it on the floor today, it would pass. There is no excuse for this delay that is hurting families." He was still tweeting about the urgency of passing CHIP on Tuesday. But now that Republicans are offering to reauthorize CHIP in return for almost nothing, the Brown Democrats refuse.

The reason is simple: Democrats think a shutdown will improve their chances of retaking the House and Senate in November. Everything they do, every decision they make, is a political calculation with that in mind. Thus supposedly grave moral choices like children's health care and legal status for immigrants are more important as political battering rams than as policy accomplishments. Dysfunction is desirable because Republicans are nominally in charge and will get the blame.

We've editorialized in favor of a generous immigration deal for Dreamers and more money that is urgently needed for defense. A bipartisan deal is better for both than a shutdown. But the more Democrats refuse to accept half a political victory, the more obvious it will be that they want a shutdown.

In that case maybe Republicans should be equally as bloody-minded and call their bluff. Pass a budget with more money for defense and some domestic spending through the House, and dare Senate Democrats to filibuster a bill that contains CHIP. Most of the media will still blame Republicans, but there might be some chance that voters will notice what the Democrats are really up to.

The Corbyn Revolution Advances

Intramural political feuds rarely warrant much attention, but developments within Britain's Labour Party this week are a special case. The country's main opposition that may be the next governing party extended its march to the left.

Party members on Monday elected three loyalists of left-wing leader Jeremy Corbyn to the party's National Executive Committee, cementing Mr. Corbyn's grip. One is Jon Lansman, a self-described "radical socialist" who founded Momentum, the group formed to support Mr. Corbyn against party moderates. The other two are also with Momentum.

Mr. Corbyn's loyalists now hold more than half of the 39 seats on the council, which is comprised of grass-roots members, union representatives and elected politicians. One of the left's early goals is to change party rules to make it easier to unseat moderate Labour members of parliament in primary-style elections.

In a sign of how Mr. Corbyn will use this new control, this week he made Christine Shawcroft the head of the party's internal-discipline committee. Ms. Shawcroft had been suspended from Labour in 2015 for her vocal support of a local politician in London's Tower Hamlets area con-

victed of electoral fraud. Her committee promptly weakened sanctions or shelved several investigations of anti-Semitism among party members at her first meeting.

All of this matters because as Mr. Corbyn drags his party further left, the ruling Conservative Party is falling deeper into disarray. Prime Minister

Theresa May was rocked this week by the bankruptcy filing of Carillion, a construction company awarded dozens of government contracts over many years. On top of faltering Brexit negotiations with Brussels, and against the backdrop of last year's election fiasco in which Mrs. May lost parliamentary seats to Labour, there's a real danger Mrs. May's government could run aground.

That would clear the way for Mr. Corbyn. Voters and pundits may still believe Labour's moderate members would temper Mr. Corbyn's desire to nationalize industries such as railroads, pile on tax increases and entitlement expansions, and withdraw Britain from NATO. This week's leadership changes say otherwise. Mr. Corbyn's revolution is purging Labour moderates, making the party less fit for power exactly when there is more danger it can win.

Iran's Internet Imperative

No one knows how Iran's political protests will evolve, and perhaps the current moment is more like Poland in 1981 than 1988. That's all the more reason for the U.S. to assist Iran's political opposition as it seeks to use the internet to evade regime censors and build a larger movement.

We do know that demand for information inside Iran is skyrocketing. Iranians are flocking by the millions to use circumvention software like Psiphon and Lantern to hide their identities from Tehran's cyber authorities and access social media, messaging apps and trustworthy news sites. Silicon Valley tech company Ultrareach Internet Corp., which invented the Ultrasurf circumvention software, reported its servers failed this month as Iranians flooded their systems. More than half of the Iranian population owns a smart phone.

The authorities in Tehran are reluctant to order a wholesale internet shutdown lest it damage Iran's already-weak domestic economy and anger more Iranians. But they also want to control the flow of news and information into and throughout Iran. Toward that end they've blocked Twitter, Facebook and in particular Telegram, a messaging app with more than 40 million Iranian users. Meanwhile, President Hassan Rouhani uses government TV and social media to offer lip service to the right of Iranians to express themselves.

This is an opportunity for the Trump Administration to learn from the Reagan Administration, which used the telecommunications tools of the 1980s to spread information behind the Iron Curtain. The tools then were short wave radio, satellite news and fax machines. Today's

dissenters need software to evade the regime's internet firewalls.

Yet the U.S. government seems remarkably slow and backward in spreading the freedom message, starting with the taxpayer-backed Broadcasting Board of Governors. The BBG's mission is to "inform, engage, and connect people around the world in support of freedom and democracy," which should put it in the center of Iran's online battle.

But the presidentially appointed BBG board has become a political sinecure, rather than a home for foreign-policy experts who want to fight oppression. Its current CEO, former cable industry executive John Lansing, was appointed by President Obama. President Trump hasn't nominated a replacement.

While Iranians are desperate for reliable circumvention technology, the BBG leadership has spent only \$15 million of its \$787 million 2017 budget on internet freedom and anti-censorship projects, and the agency is telling vendors it'll take weeks to direct more funding to these projects. The place needs a thorough rethinking for the internet age. Is President Trump aware that he could dismiss the BBG's current board and nominate a CEO who's more attuned to foreign policy and the fight for freedom?

Ronald Reagan once observed that truth is "the ultimate weapon in the arsenal of democracy." That belief animated U.S. policy during the 1980s and, along with a U.S. economic revival and military buildup, sowed the seeds of revolution across the Soviet bloc. The Trump Administration needs a similar strategy toward Iran, North Korea, and for that matter Cuba, Venezuela and China.

The U.S. can do far more to help Iranians defeat the regime's firewall.

LETTERS TO THE EDITOR

Fed Should Unwind Its Asset Portfolio Quickly

The Wall Street Journal editorial page has always been appropriately skeptical of the claims of former Federal Reserve Chair Ben Bernanke during the quantitative-easing era. So there's no reason, today, to let his dubious rationales for QE be a basis for worry about stock prices now that these programs are finally being unwound.

In your (Jan. 17) editorial "The Tax-Reform Stock Rally," you say Ben Bernanke sold QE "as a tool to drive investors into riskier assets, including stocks." But it isn't true just because he said it. When the Fed buys bonds or mortgage-backed securities, it gives the seller, in payment, a cash deposit on the Fed's balance sheet. In such a transaction, all that happens is that the duration-risk of long-term Treasurys and the prepayment risk of MBS is taken out of the market by the Fed, replaced with a riskless overnight deposit that earns the prevailing fed-funds rate. Whatever rationales Mr. Bernanke may have offered, the true boon of QE was simply to de-risk a market that was reeling from the worst financial panic in generations.

Nobody was driven into stocks, or into anything else. If for some reason

an investor, who had sold his Treasury bonds to the Fed, decided to use the cash proceeds to buy stocks, then some other investor would have to sell those stocks. There is, of necessity, no change at all in the net ownership of stocks.

De-risking was important after the global financial crisis, so the Fed's buying several billion dollars of Treasurys and MBS may have actually made a difference, if only by calming things down a little bit. But the crisis has long been resolved, and markets don't need to be de-risked any longer. In today's more risk-tolerant environment, the Fed's glacial runoff of its bond and MBS portfolio, through natural maturation, not outright sales, will drip a little risk back into the market one day at a time. Today's market won't even notice.

By unwinding its asset portfolio now, when the market can easily tolerate a little more risk, the Fed is not imperiling the economic expansion and the bull market in stocks, but prolonging them by returning to a more normal and predictable policy posture.

DONALD L. LUSKIN
CIO, Trend Macrolytics LLC
Chicago

U.S. Should Notice China Provoking Taiwan

"Left and Right Agree: Get Tough on China" (op-ed, Jan. 9), Walter Russell Mead points out that both sides of the political spectrum in the U.S. are increasingly in agreement that an aggressive China should be countered, and that the Indo-Pacific region is the most important world theater to the U.S. This realization points to the perennial issue of security threats faced by the world today. Yet in the midst of all this, the U.S. would do well to heed China's creeping coercion of its neighbors, though it is far less reported.

Chinese warplanes have conducted "island encirclement patrols" around Taiwan and flown over international waters off Taiwan's east coast numerous times in the past year, and have continued to do so already this year. Just last week Beijing unilaterally launched the northbound M503 flight route in the Taiwan Strait and other east-west extension routes.

Beijing launched these routes without any prior consultation with Taipei. Such an act runs counter to international civil aviation regulations and poses serious threats to aviation safety. This situation should concern not only Taiwan, but any country that claims to promote and maintain peace and stability in the region.

Taiwan and the U.S. are important strategic partners—this is an empirical fact. Moreover, the island democracy has proved itself to be a responsible and cooperative ally, not just for shared geopolitical aims but for shared values. No one wants to see any unilateral action that could destabilize the Indo-Pacific region. As the situation on the Korean Peninsula has shown, the world is far closer than people imagine.

BRIAN SU
Taipei Economic and Cultural Office in New York
New York

Jane Austen on Sexual Harassment, Vol. II

I very much enjoyed Paula Mantz Cohen's spirited discussion of Mr. Collins's proposal in Jane Austen's novel "Pride and Prejudice" ("What Jane Austen Can Teach Us About Sexual Harassment," Jan. 2) and Michal Mainwaring's letter of Jan. 5. However, I would like to point out that Elizabeth also turns down Darcy's proposal, which is even more hostile and pressuring than Mr. Collins's. Alone in Mr. Collins's house with no family hovering, Elizabeth must confront Darcy, who has fought against his attraction to her and expresses disdain for her family. If only money were involved, Elizabeth would have taken the chance and run all the way to the bank.

Mr. Collins's proposal is a caricature of power over women. Darcy's proposal is the one which really exemplifies sexual harassment: power and extreme wealth held over a (fi-

nancially) vulnerable woman who, despite his prejudices, has stirred within him some sexual feelings. Elizabeth knows that Darcy has already ruined her sister's possibility of marrying—what courage then to speak against him. His anger at Elizabeth's refusal is palpable. He turns pale, he struggles to appear composed. A daunting silence "was to Elizabeth's feelings dreadful" and when he retreats after her calm and reasoned refusal, she doesn't know "how to support herself, and from actual weakness sat down and cried for half an hour." For a man to bring fiery Lizzy to that result—now that is sexual harassment. The lesson Jane Austen teaches us? Be brave and stand up for what you know is right.

EM. PROF. PAULINE BEARD
Pacific University
Portland, Ore.

Don't Forget Thule in the Land of the Midnight Sun

In "A Cold War in the Arctic Circle" (op-ed, Jan. 2), Paula Dobriansky asserts that there is "not a single Western military facility in the Arctic." In fact, the U.S. Air Force has operated continuously from Thule AFB, Greenland, some 750 miles north of the Arctic Circle, since its construction in the early 1950s under the direction of the legendary Arctic aviator Col. Bernt Balchen. Air Force B-52 bombers also conducted operations from ice runways in Greenland in the 1960s during the actual Cold War.

COL. JOHN L. CONWAY III, USAF (RET.)
Prattville, Ala.

Pepper ... And Salt

THE WALL STREET JOURNAL



"Whoa! In my day I've read some hare-brained, preposterous proposals . . . so I guess one more won't hurt."

ERIC MEANS
Portland, Ore.

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OPINION

The U.S. Navy Lowers Its Sights

By Seth Cropsey

The U.S. Navy announced Tuesday that it will court-martial the officers who commanded the USS Fitzgerald and the USS John S. McCain last summer when they collided with other craft in the Pacific Ocean. They will face charges of negligent homicide, dereliction of duty and hazarding a vessel. In response to the collisions Navy Secretary Richard Spencer ordered a fleet-wide review of strategic readiness. An independent team of civilian executives and former senior military officers delivered their sobering report last month.

Has Trump given up on expanding the size of the fleet? If so, there's still time to reverse course.

The episode should serve as a wake-up call to military and civilian leaders alike. The U.S. has entered a new age of peer and near-peer competition for which the Navy is unprepared, according to the review's findings. A much diminished fleet has been overloaded with tasks in recent years, yet the number of ships deployed around the world has remained constant. The Navy has managed this by increasing the time that

ships and their crews spend at sea. "The net result has been a dramatic increase in the operating tempo of individual ships, and accompanying reductions in the time available to perform maintenance, training, and readiness certification," according to the review's authors. "The growing mismatch between the supply and demand of ships taxed fleet personnel and consumed material readiness at unsustainable rates."

Accidents are inevitable under these circumstances. While enlisted sailors are spending more time away from their home ports, junior officers are spending less time at sea than is necessary to develop what the review calls "deep maritime operating skills." Sailing a desk on a headquarters staff has become a path to timely career advancement. The review recommends freeing up officers from staff requirements so they can spend more time honing their war-fighting skills. It also urges a better fiscal balance among the operation of ships, equipment maintenance and personnel training—all vital, all expensive.

The most problematic recommendation requires acknowledging a difficult political reality. The Navy must communicate to political leaders "that the higher cost and time to achieve established readiness standards will mean less Navy presence worldwide."

In September, the Government Accountability Office told the House Armed Services Committee that more than a third of the ships in the Navy's



MASS COMMUNICATION SPECIALIST 2ND CLASS RIDGE LEON/US NAVY/GTY IMAGES

The future USS Gerald R. Ford at Newport News, Va., April 8, 2017.

Japan-based Seventh Fleet had expired warfare-training certifications. The review calls this a "normalization of deviation," a problem that will persist so long as the Navy lacks the resources to fulfill its obligations.

If implemented, the review's recommendations would restore the Navy's readiness to respond to threats and flare-ups as they present themselves. But how, and at what price?

One option—a bad one—is for the Navy to reduce its global presence. As the review's first sentence acknowledges, the Navy's global primacy "is being challenged as it sails

into a security environment not seen since before the collapse of the Soviet Union." If achieving naval readiness requires ceding control of the seas to aggressive rising powers like China, Russia or Iran, it won't be worth it.

A better alternative is to increase the size of the fleet so that necessary maintenance, repairs and training can ensure America's ability to project naval power from the Western Pacific to the Eastern Mediterranean, from the Arctic to the Arabian Gulf, and to other areas of current—and future—competition with rivals. At the top of this list must be the

Baltic and Black seas, where Russian influence is expanding.

As a candidate, Donald Trump pledged to increase the size of the Navy from approximately 275 combat vessels to 350 or more. But in December the administration's national security strategy document signaled a shift in the president's thinking. While the document claims the Trump administration supports modernization, acquisition reform, improved readiness and a "full spectrum force," it does not call for a 350-ship fleet. When it comes to sea power, the U.S. is lowering its sights.

A flexible Navy that retains the ability to respond to threats as they emerge and a fleet large enough to defend vital U.S. interests are not mutually exclusive. But the Trump administration appears to have concluded that since lawmakers are unlikely to pay for construction of a large number of new warships, it won't even ask them to. It's a different vision for America's naval future from the one Mr. Trump outlined on the campaign trail. He was right then; he is wrong now. There's still time to reverse course.

Mr. Cropsey is a senior fellow at the Hudson Institute, where he directs the Center for American Seapower. He served as an officer in the Navy and as deputy undersecretary in the Reagan and George H.W. Bush administrations, and is author of "Seablindness" (Encounter, 2017).

If the Oslo Accords Are Over, the Real Work of Peace Can Begin

By Oded Revivi

Today is the day that the Oslo Accords end," Palestinian Authority President Mahmoud Abbas declared Sunday. "We will not accept for the U.S. to be a mediator, because after what they have done to us"—namely, recognize Jerusalem as Israel's capital—"a believer shall not be stung twice in the same place."

The 82-year-old Palestinian leader cursed President Trump: "Yekhreb beitak!" (literally, "May your house be demolished"). He called Ambassadors Nikki Haley and David Friedman "a disgrace." He denounced the British for enabling the establishment of a Jewish State, and he described Zionism as "a colonial enterprise that has nothing to do with Jewishness," and whose real purpose is to "wipe out Palestinians from Palestine."

Two weeks ago President Trump threatened to stop funding the United Nations Relief and Works Agency, which subsidizes the descendants of

Palestinians who left their homes 70 years ago, to which Mr. Abbas replied: "Damn your money!" On Tuesday the administration announced it would withhold \$65 million of the planned \$125 million.

Mr. Abbas's tirade shocked the diplomatic world, especially those who regarded him as a statesman. One thing that did not seem to occur to Mr. Abbas was that if Oslo has failed, so has the Palestinian Authority, a corrupt fief that subsists solely on international aid and can barely pay its own personnel. The Palestinian Authority has monopolized peace negotiations for a quarter-century with no progress. Instead, it has taken its place in the multibillion-dollar "peace" industry, made up of bureaucrats, diplomats and pundits whose perspectives haven't changed since the early 1990s.

Elected Palestinian president in 2005, Mr. Abbas has just begun the 14th year of a four-year term. The authority hasn't held an election in over a decade because its leaders can't

guarantee they will be re-elected. What right, then, do they have to be treated as the sole representatives of the Palestinian people?

Meanwhile Israelis and Palestinians are holding clandestine meetings across Judea and Samaria to reconcile their differences. These meetings

Palestinians who work for Israeli companies or socialize with Israelis should not live in fear.

are secret because the Palestinian Authority believes it owns the rights to peace talks and sees any outside interaction between Israelis and Palestinians as a threat—and thereby criminal.

Peace activists are regularly arrested and interrogated for having coffee with Jews in Judea. By empowering Mr. Abbas and his cronies,

the international community has silenced the true voices of peace on the ground.

Palestinians who want to live alongside their Israeli neighbors in peace cannot freely express their opinions. In the past year alone, I have been approached by a dozens of local Palestinian leaders who are looking for a lifeline but are shackled by their government. I dare not reveal their identities or locations for their own safety.

In his declaration on Jerusalem, Mr. Trump cited his promise "to look at the world's challenges with open eyes and very fresh thinking." he added: "We cannot solve our problems by making the same failed assumptions and repeating the same failed strategies of the past."

So far he is making good on these words. His special envoy, Jason Greenblatt, broke with decades of U.S. policy by meeting with all types of Israeli and Palestinian thinkers far beyond the usual suspects. Next week Vice President Mike Pence will address the

Knesset in Jerusalem and ignore the Palestinian Authority.

Palestinians who want to work for Israeli companies or meet socially with Israelis should not fear for their lives. Local Israeli and Palestinian leaders who want to collaborate on education, road safety, health care and infrastructure should be celebrated and embraced, not threatened and intimidated.

As Mr. Pence visits the Middle East next week, it is time to apply the idea "think globally, act locally" to the Middle East. It is unlikely to lead to a Nobel Peace Prize, a White House signing ceremony, or much support at the U.N. Yet the best hope for the region lies in neighborly relations, informal cooperation, and ultimately agreements between responsible Israeli and Palestinian leaders who are accountable to their constituents.

Mr. Revivi is chief foreign envoy of the Yesha Council, which represents the 450,000 Israeli residents of Judea and Samaria.

No Wall Will Keep Visitors From Overstaying Their Visas

By Dave Seminara

President Trump's big idea to reduce illegal immigration is a wall on the southern border. A wall would help restore integrity to the border, but it won't solve a larger problem: widespread abuse of U.S. visas. The Department of Homeland Security estimated last year that 739,000 foreigners who arrived in the U.S. via air or sea in fiscal 2016 did not leave when they were supposed to. Some exited late, but as of Jan. 10, 2017, about 545,000 were suspected to be still in the country.

Visa overstays have outnumbered illegal border crossings since 2008, according to a 2014 paper by the Center for Migration Studies of New York. Proposed fixes include streamlining deportation of criminal aliens and mandating that employers use the E-Verify system when hiring workers. These would be good steps. Still, deporting illegal immigrants or trying to stop them from getting a job is more difficult and costly than preventing them from obtaining or overstaying visas in the first place.

In 2016 the U.S. tallied 46 million admissions for business or tourism on temporary B-1/B-2 visas. Another 22 million visits were made by people

from wealthy countries under the visa-waiver program. Most of these people come here for legitimate reasons, and they are important to the economy. But they are allowed to linger too long. Usually visitors with visas are granted an initial stay of 180 days,

To stop illegal immigration will require more thorough screening by consular officers overseas.

and they can apply for six-month extensions. In other words, a "tourist" can sometimes remain for a year or more—plenty of time to find an informal job that wouldn't be vetted by E-Verify. Moreover, many B-1/B-2 visas are valid for multiple entries over as long as a decade, so visitors can legally spend years in the U.S.

An untold number of foreign visitors work as babysitters, housekeepers, caretakers, day laborers and so on. Some visit the U.S. to give birth to children, who automatically become American citizens. Others claim asylum. Even if their applications are denied, a lengthy backlog ensures that

they can live and work legally for several years while their cases wind through the system.

Eventually, many foreigners who arrive on temporary visas are able to gain permanent status. They may marry Americans. They may find employers to sponsor them for green cards. In 2016 the U.S. gave out 1.2 million green cards, roughly half of which went to people already in the country. The bottom line is that convincing an American foreign-service officer that you are a bona fide tourist is often the first step toward living in the U.S. forever.

When I worked as a foreign-service officer from 2002-07, I screened more than 10,000 visa applications. My former colleagues do their best to try to prevent would-be terrorists and others who intend to game the system from entering the country. Under the 1952 Immigration and Nationality Act, consular officers are supposed to assume that applicants

for most short-term visas (tourist, student, etc.) intend to become immigrants unless they can prove otherwise. But on the ground at embassies, visa applicants tend to be given the benefit of the doubt. Figures for 2017 show surprisingly high issuance rates for visitor visas: Russia (88%), Brazil (88%), China (85%), Mexico (77%), India (77%), the Philippines (74%), Ecuador (72%), Honduras (60%), and Guatemala (53%).

Part of the problem is that visa screening is typically done by entry-level staff who joined the foreign service to be diplomats, not law-enforcement officers. Embassies with limited personnel struggle to process millions of applicants. Those who are refused often keep coming back to apply again, and they frequently enlist American relatives—and their representatives in Congress—to send letters of complaint.

Embassy staff rarely have to justify issuing a visa, but they routinely

have to explain, typically in writing, why one was denied. A customer-service mentality prevails. Providing serious scrutiny is a good way to generate complaints, maybe even critical performance reviews. The State Department has long viewed lax visa screening as a stealthy way to grease relations with countries whose economies rely on remittances.

The solutions to this problem wouldn't cost taxpayers a dime. Consular officers should enforce the law rigorously. Their performance should be evaluated, at least in part, by their record of visa issuance. Ports of entry should limit visitors to 90 days, and extensions should be granted in only very rare cases. So-called tourists shouldn't be able to enjoy an endless holiday. If they want to stay in the U.S. permanently, they first should be required to return home.

Mr. Seminara is a journalist and former diplomat.

Sanders Proposes Medicare for None

By Chris Jacobs

Sen. Bernie Sanders will hold an online town-hall meeting next Tuesday regarding his single-payer health-care legislation. Mr. Sanders calls it "Medicare for All." But the text of the bill itself reveals a more accurate name: Medicare for None. The Orwellian way in which Mr. Sanders characterizes his plan speaks to the larger problem facing the left, whose plans for health care remain so radical that speaking of them honestly would prompt instant repulsion from most voters.

Last September, the socialist Mr. Sanders and 16 Democratic colleagues introduced what they style the Medicare for All Act. Section 901(a) of the bill explicitly states that "no benefits shall be available under Title XVIII of the Social Security Act"—that is, Medicare—"for any item or service furnished beginning on or after the effective date" of the new single-payer program.

While Mr. Sanders claims that his bill would extend Medicare to all, it

would instead create an entirely new program while borrowing the Medicare name. Case in point: Section 701(d) of the Sanders bill would liquidate the existing Medicare trust funds, transferring their entire proceeds into a new "Universal Medicare Trust Fund."

His bill would abolish all forms of private insurance and almost all existing public programs.

If the roughly 59 million Medicare enrollees have qualms about giving up their current coverage, at least they'll have company. The bill would also end Medicaid (except for long-term care), the State Children's Health Insurance Program, federal employee coverage, and Tricare for the military. And it would prohibit any insurer, including any employer, from covering benefits and services

provided through the government system.

Out of nearly 330 million Americans, the only ones who would retain their current coverage are the 2.2 million who receive services from the Indian Health Service and the 9.3 million who get it from the Veterans Administration. Is Mr. Sanders's decision to preserve VA coverage—in which, as we learned in 2014, veterans died while waiting months for treatment—suggestive of the type of care he has in mind for all Americans?

Selling a bill that would abolish Medicare as "Medicare for All" takes some chutzpah—akin to the promise that if you like your health-care plan, you can keep it. Here's hoping that the American people, having been subjected once to the disastrous consequences of the left's reassuring but deceitful rhetoric on health care, don't get fooled again.

Mr. Jacobs is Founder and CEO of Juniper Research Group, a policy consulting firm based in Washington.

THE WALL STREET JOURNAL.

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'Melt-Up' Powers Dow Past 26000

Mood shifts to greed from fear, as investors don't want to miss out on continuing rally

The Dow Jones Industrial Average closed above 26000 for the first time on Wednesday, sprinting to a 1,000-point milestone just eight trading days after toppling the previous one, its fastest run ever.

The most recent gains have been propelled in part by a sudden hunger for stocks among certain money managers and

individual investors who have long been wary of the nearly nine-year bull market.

Some market observers have dubbed this phenomenon

*By Corrie Driebusch,
Michael Wursthorn
and Chris Dieterich*

"Fear of Missing Out," as stock-market records fall on an almost weekly basis. Others refer to a "melt-up" market, where the prevailing mood is shifting to greed from fear and investors stampede in without worrying much about valua-

tion or fundamentals.

Whatever it is called, many analysts say the recent change in ethos is transforming what has been considered one of the most unloved rallies into a newly beloved one. Some acknowledge it is hard to justify staying out of the market when stocks rise regularly.

"I heard the word 'melt-up' twice on the radio today," John Briggs, head of strategy in the Americas at NatWest Markets, wrote in a Tuesday client note. "It wouldn't surprise me to see the current risk-on mood continue, even as it does honestly

worry me to some degree."

The Dow industrials rose 322.79 points, or 1.3%, to 26115.65, on Wednesday, as gains in aerospace giant **Boeing** pushed the blue-chip index higher.

The Nasdaq Composite Index closed at an inflation-adjusted record for the first time in nearly two decades, surpassing its peak closing level from March 2000 at the height of the tech boom. Adjusting for inflation offers a sense of how the purchasing power of money invested in the Nasdaq changes.

A recent Bank of America

Merrill Lynch survey concluded fund managers are increasingly bullish. Average cash balances among portfolio managers also fell to 4.4% this month, a five-year low, the survey found. The majority of investors who participated in a January poll said they expect the stock market to peak in 2019 or beyond. A month ago, the majority expected a top in the second quarter of 2018.

Investors joining the party late at least have history on their side. On average, roughly 40% of a bull market's gains acc-

Please see STOCKS page B2

Sky High

Boeing continues to contribute the most points to the Dow's rise, as evidenced during the index's climb from 25000 to 26000.

Boeing

374 points

UnitedHealth

96

3M

65

Home Depot

64

Caterpillar

62

Note: Measures period between Jan. 4 and Wednesday.

Source: WSJ Market Data Group

THE WALL STREET JOURNAL.

Tax Law To Drive Savings, Buybacks

BY THEO FRANCIS

Some of the biggest U.S. companies are promising sizable annual savings, bigger pension contributions, higher dividend payments and more extensive stock buybacks as executives discuss the impact of the federal tax overhaul.

The announcements come as companies begin to report what are expected to be strong fourth-quarter financial results. A focus will be executives' expectations for how their operations and results this year will be affected by the tax law, which lowered the corporate rate to 21% from 35% and ended U.S. taxes on most future foreign income.

"The macro environment is as positive as we've seen in many years," **Citigroup** Inc. Chief Executive Michael Corbat told investors Tuesday morning. "Tax reform could change the sentiment among those making investment decisions from optimism to confidence and become the boost the U.S. economy needs to drive growth higher."

UnitedHealth Group Inc. and **FedEx** Corp. have raised profit targets for 2018, citing the tax law. Companies including laboratory operator **Quest Diagnostics** Inc. have predicted sharply lower effective tax rates starting this year. For a few companies, including Citigroup and **General Motors** Co., the legislation will result in big accounting charges in the current quarter.

Overall, analysts expect S&P 500 companies to mark their sixth straight quarter of earnings and revenue growth. Profits are expected to jump 11.9% over the final quarter of 2016, while revenues are expected to rise 7%, according to Thomson Reuters.

Corporate profits have been

Please see TAXES page B2



A tool from Google that matches selfies with historical artworks was used on Wall Street Journal portraits of, clockwise from top left, Warren Buffett, Facebook's Sheryl Sandberg, Google's Sergey Brin, and PepsiCo's Indra Nooyi. For matches, go to on.wsj.com/faceoff.

Shari Redstone Renews Push for CBS Deal

BY KEACH HAGEY AND JOE FLINT

Shari Redstone is advocating for new blood on the board of **CBS** Corp. as she renews her push to merge the company with **Viacom** Inc., according to people familiar with the matter.

CBS is planning to propose replacing several of its board members at its annual meeting in May, and Ms. Redstone is already gathering names of possible candidates, people familiar with the matter said.

Ms. Redstone, vice chairman of CBS and Viacom, is also dissatisfied with current succession planning at CBS and has suggested there is a general lack of long-range strategic planning at the company, these people said.

Earlier this month, Ms. Redstone reached out to CBS Chief Executive Leslie Moonves to jump-start talks about merging CBS and Viacom—potentially as soon as this quarter, the people said.

Mr. Moonves has resisted the idea in the past and still has concerns, people familiar with the matter said.

Ms. Redstone and her father, Sumner Redstone, the 94-year-old media mogul, control CBS and Viacom, with a roughly 80% voting stake in each, through their National Amusements Inc. holding company.

Ms. Redstone reluctantly pulled the plug on an earlier exploration of a CBS-Viacom combination in late 2016, but she has never stopped believing that the deal made sense, the people said. CBS and Viacom had been part of the same company until Mr. Redstone split them in 2006.

Ms. Redstone saw consolidation in the media industry—par-

Please see CBS page B5

Portrait of a Privacy Problem

BY JACK NICAS

app in Illinois and Texas because of the privacy laws, according to a person familiar with the company.

Google Arts & Culture, which became the No. 1 free app on the Apple Inc. and Google Play app stores over the weekend, is among a growing wave of tech products using software that can recognize faces—from doorbells that identify guests to security cameras that recognize shoplifters to iPhones that unlock with a glance.

Biometric laws pose a challenge to those technologies. In Illinois, dozens of lawsuits

related to the biometric law have been filed since it passed in 2008, including one against Google that challenges its Google Photos service, which allows users to search photos by a person's face. Facebook Inc. and Snap Inc. have faced similar lawsuits.

A Google spokesman said the Arts & Culture app uses selfies "only for art matching and nothing else."

The company said 12.8 million people had downloaded the app as of Monday night, with the vast majority occurring over the weekend, when

users were taking 450,000 selfies an hour. About 30 Google employees in Paris who built the app were surprised by its sudden success and worked through the weekend to keep it running smoothly, the spokesman said.

Suits have spiked in Illinois because its law lets individuals sue, said Julia Jacobson, a partner at law firm K&L Gates LLP.

Texas and Washington state, which passed a less-strict biometric law last year, limit that power to their attorneys general.

Please see GOOGLE page B4

For GE, Huge Disassembly Required

BY THOMAS GRYTA

General Electric Co. was born from a merger of electric companies 125 years ago—and may not be so easy to dismantle.

The industrial giant said it was examining spinning off its biggest businesses as it looks to solve its financial struggles and simplify its sprawling structure. While GE's core Aviation, Power and Healthcare divisions would be among the biggest players in their markets, separating them would require unraveling intertwined operations, pensions and debts.

Analysts and investors are crunching the numbers around whether a breakup would make the parts more valuable than the whole. The stock fell 4.7% on Tuesday to \$17.35, leaving GE with a market

HEARD ON THE STREET | BY DAN GALLAGHER

Facebook Bends but Can't Afford to Break

People Skills

Facebook's average active users by year's end

3.0 billion

■ Daily ■ Monthly

2.5

2.0

1.5

1.0

0.5

0

2010 '12 '14 '16 '18 '20

Note: 2017 estimate, 2018-2020 projections

Sources: the company; FactSet

THE WALL STREET JOURNAL

advertising business. Analysts believe Facebook ended 2017 with advertising revenue at nearly \$40 billion—up 47% from the previous year—and operating profit surging 55% to \$19.3 billion.

All that has made Facebook the fifth-most-valuable company on the U.S. market. But its success and now massive scale also exposes the company to lawmakers, regulators and practically anyone else concerned about the role technology now plays in both global politics as well as users' personal lives. Facebook in particular has been getting flogged for more than a year over its role in the contentious 2016 U.S. presidential election and the spread of fake news and other unsavory content on its site.

Mr. Zuckerberg rightfully wants to change that story, hence, his New Year's resolution. But, unlike his earlier promise to boost spending on

security to keep objectionable content off the network, Mr. Zuckerberg's proposition to "make time spent on Facebook well spent" runs the risk of hurting user growth in the long term if enough users don't appreciate the company's paternalistic approach. Wall Street has been counting on Facebook's user base to keep growing at double-digit-percentage rates through 2020.

That is why investors who largely shrugged off last year's growing raft of negative headlines are officially worried now. Facebook's share price has slipped 5% since Mr. Zuckerberg announced his latest plans last week. That is after doubling the Nasdaq Composite Index's impressive gains for 2017. Hosting more than two billion users is a very different thing from knowing what is best for them.

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crue in the first 12 months and
an additional 32% pile on dur-
ing the final 12, according to
Longview Economics.

And stocks appear to be
gaining steam. One-third of the
S&P 500 ended Friday at their
highest prices in at least a year,
the strongest "breadth" reading
since 2013, according to MKM
Partners. At least nine out of 10
stocks within six S&P 500 sec-
tors last week coasted above
their 50-day moving averages,
another rare show of strength,
according to Bespoke Invest-
ment Group.

Even small investors are
showing new faith. About 60%
of individual investors said this
month they think the stock
market will go higher over the
next six months, the highest
percentage since 2010, accord-
ing to a recent American Asso-
ciation of Individual Investors
survey.

"I'm more aggressive than I
have been," said Maurice Mar-
tin, a 62-year-old software
sales retiree who lives outside
of Atlanta. He has been buying
financial stocks because he
thinks they will benefit from
any rise in interest rates and
eventually from lower taxes.

The main engine propelling
stocks higher has been record-
low interest rates, many invest-
ors believe, and an exorbitant
amount of stimulus from the
world's major central banks.
These forces encouraged risk,
pushing big institutional invest-
ors into stocks when bond
yields were too low to get
needed returns.

Now, the new bulls say, stock
prices are rising for more fun-
damentally sound reasons. U.S.
economic growth was better
than 3% in the third quarter, its
fastest pace in more than two
years.

The new U.S. tax law that
cuts corporate rates to 21%
from 35% is likely to give earn-
ings another lift. Goldman
Sachs analysts estimate the
new law will boost per-share
earnings growth in the S&P 500
by 5% in 2018.

Some say the quick rise is a
little too reminiscent of the
tech-heavy Nasdaq Composite's
run in late 1999 and early 2000.

Andrew Slimmon, senior
portfolio manager with Morgan
Stanley Investment Manage-
ment, said he is concerned that
recent stock-market converts
could bail out as quickly as they
got in, exacerbating the next
downturn.

"My fear is the market goes
down and people run away," he
said.

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BUSINESS & FINANCE

Rolls-Royce Considers Spinoff

By ROBERT WALL

LONDON—British aircraft-engine maker **Rolls-Royce Holdings** PLC on Wednesday said it may sell its commercial-marine business, joining rival industrial giants such as **General Electric** Co. in taking steps to reinvent themselves under pressure from activist investors.

Rolls-Royce, a major supplier to **Boeing** Co. and **Airbus** SE, said it would focus on commercial aerospace—which generates most of its sales and profit—as well as its defense and power-systems businesses. The company is no longer affiliated with the luxury-car maker of the same name.

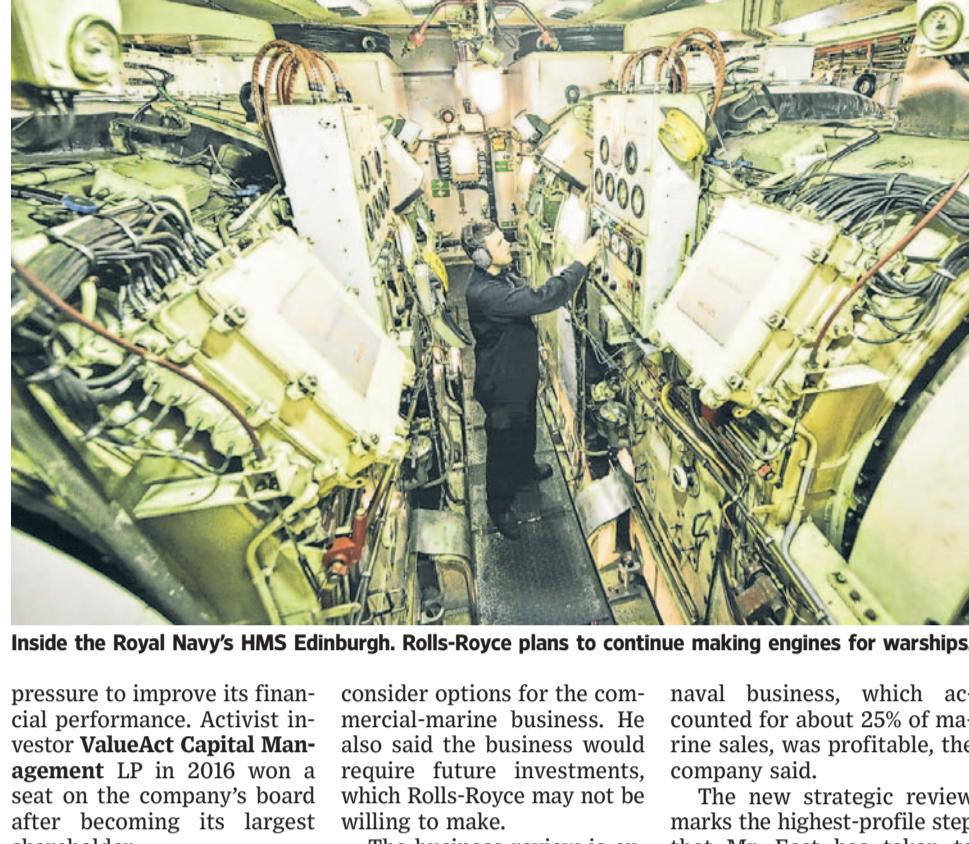
The company has launched a strategic review of its commercial-marine business, which has cut staff levels by 30% in recent years amid slack demand. The division, which sells ship engines and designs vessels, generated sales of £1.1 billion (\$1.52 billion) in 2016 but made a £27 million loss.

Wednesday's announcement, which pointed to other streamlining steps and possible layoffs, surprised investors, with the company's stock surging 5.4% to £9 in London.

Rolls-Royce announced the move a day after larger rival GE said it was considering breaking itself apart.

Last year, **Honeywell International** Inc. said it would spin off its home and transportation businesses, winning over activist investor Third Point.

Rolls-Royce is also under



Inside the Royal Navy's HMS Edinburgh. Rolls-Royce plans to continue making engines for warships.

pressure to improve its financial performance. Activist investor **ValueAct Capital Management** LP in 2016 won a seat on the company's board after becoming its largest shareholder.

As part of the deal to gain board representation, ValueAct agreed not to push for changes in Rolls-Royce's strategy or publicly challenge management for about two years.

That agreement runs until the next shareholder meeting, which is expected in May.

Chief Executive Warren East said a need to simplify the company's structure, rather than pressure from ValueAct, drove the decision to

consider options for the commercial-marine business. He also said the business would require future investments, which Rolls-Royce may not be willing to make.

The business review is expected to run into the second half of the year, Chief Financial Officer Stephen Daintith said. "We are aware there are those that are interested in our commercial-marine business," he said, without identifying potential buyers.

Rolls-Royce makes engines to power warships, including Britain's new aircraft carriers, and that part of its marine division would remain in company hands, Mr. East said. The

naval business, which accounted for about 25% of marine sales, was profitable, the company said.

The new strategic review marks the highest-profile step that Mr. East has taken to boost Rolls-Royce's profitability since he took the helm in 2015 following several profit warnings from the London-based company. Also, last week it said it was considering strategic options for L'Orange, a part of its power-systems operations.

Mr. East said that after several years of trying to put Rolls-Royce on firmer financial footing, 2018 could be a breakthrough year.

liabilities retained." GE Capital also replaced its president in recent weeks.

Mr. Khanna also says a breakup would make GE less valuable, putting a sum-of-the-parts value at \$11 to \$15, partly because he subtracts value for debt-like items including the underfunded pensions and GE Capital's net debt.

"We see no economic argument for a full-scale break-up of the company, and thus no quick fix for the stock," Mr. Khanna said late last year.

Deutsche Bank analyst John Inch contends that a breakup isn't feasible, citing GE's pledge to back GE Capital's almost \$100 billion in debt, the pension obligations, taxes, and the possibility of future unknown liabilities.

Mr. Inch also said GE's cash needs make such a separation difficult. While Aviation and Healthcare generate cash, the Power business will need "substantial cash" to restructure itself, he said.

"Notions of GE breaking up ultimately carry low probability and serve as a deflection from GE's significant underlying problems," he said.

Mr. Davis of Melius Research said he doesn't think the process would be complicated as the liabilities could be assigned to the spinoffs.

Mr. Davis believes the separate businesses would perform well as GE is typically amid the top three companies in any given sector where it has a presence.

"Short term, it could have an impact in terms of lessening the borrowing need," Curtis Farmer, the

BUSINESS NEWS

Verizon Expands Video Deal With NBA

Streaming rights for games broaden; two will also work on original programming

By JOE FLINT

Verizon Communications Inc. has struck a wide-ranging deal with the **National Basketball Association** that extends the telecommunications firm's relationship with the league beyond streaming games and into content creation as well as virtual- and augmented-reality fan experiences.

As part of the deal, Verizon will now be able to offer the NBA's League Pass subscription package of more than 1,100 regular-season games on all its platforms through its Yahoo Sports.

Verizon's price tag for the package is \$99 a season, 50% less than what it costs if bought through a traditional pay-television distributor or from the league itself. Verizon also receives some ad inventory to sell.

Currently Verizon distributes League Pass only on its go90 platform. As part of the deal, Verizon will gain mobile-carrier exclusivity, meaning that no other carrier will be able to offer League Pass subscriptions. Non-Verizon users who have League Pass subscriptions will be able to access through Yahoo Sports.

The deal includes tablet and computer rights, as well as mobile rights, to games.

Terms of the new agreement weren't disclosed but a person familiar with the situation said it is in the \$400 million range, which is similar to the previous deal between the two. Verizon and Yahoo are also investing \$25 million in a



Verizon will be able to offer the NBA's League Pass subscription package of regular season games on all its platforms.

Telecom to Post Tax Gain, Lifting Quarter Results

Verizon Communications

Inc. said it expects to book a nearly \$17 billion gain in its fourth-quarter profit due to the new tax law.

Reducing the corporate income-tax rate will slash Verizon's \$48.3 billion deferred tax liabilities by \$16.8 billion, the company said in a securities filing Wednesday. Verizon will record the reduction as a one-time gain boosting earnings.

Similar bookkeeping moves are expected from other U.S. firms as they report results, even if the numbers won't be as large. For the most part, investors and analysts will look past these paper gains as they don't result in money that companies can spend.

Most of Verizon's deferred-tax liabilities came from buying airwaves licenses and investing in network infrastructure, a company spokesman said. Verizon said it only had to pay this tax liability if the company was sold, and even then, the taxes would have to be paid over the course of several years.

In other words, deferred taxes aren't something Verizon was planning to pay anytime soon, so the savings won't translate into cash. Because deferred tax liabilities are taxes payable in the future, the tax law's reduction in the corporate tax rate to 21% from 35% reduces those liabilities, leading to a gain.

—Ryan Knutson

technology fund to develop new fan experiences for watching games.

Besides streaming games, Verizon and the NBA will develop original programming to complement coverage. The first such effort, NBA Daily Run, is expected to make its debut later this season.

Verizon and the league will look to take advantage of the carrier's advanced 5G wireless technology to deliver new high-bandwidth services such as enhanced augmented and virtual reality. For example,

the NBA will use Verizon's artificial-intelligence technology to create an assistant general manager to help fantasy-team owners select and manage their rosters.

"We are granting them greater rights to do more and we're working with them to create a greater variety of content said Bill Koenig, the NBA's president of global content and media distribution. "This is a very important deal for us from a content, innovation and financial perspective," he added.

For Verizon, the new NBA partnership is part of its broader push into acquiring digital rights to sports content to broaden the reach of its Yahoo portal.

In December, Verizon reached a deal valued at more than \$2 billion with the National Football League to show games on its mobile network, go90 and Yahoo.

"It's our mission to be the first screen that customers go to for sports. We believe that sports is the aggregator for audiences," said Brian Angio-

let, Verizon's senior vice president and global chief media and content officer.

The NBA's League Pass is also available through the league itself. NBA rights holders ESPN and TNT also stream their coverage to customers who have pay-TV subscriptions, as do regional sports networks.

While ratings for other sports have sagged, national viewership for the NBA is up 21% this season following last year's finals, which were the most-watched since 1998.

NASA Pushes SpaceX On Rocket

By ANDY PASZTOR

NASA is working with Elon Musk's **SpaceX** to redesign part of the fuel system for the company's Falcon 9 rockets and then will demand at least seven successful unmanned flights before allowing astronauts on board.

Those requirements, spelled out during a House space subcommittee hearing Wednesday, highlight safety and schedule challenges confronting the **National Aeronautics and Space Administration's** commercial crew-transportation program.

With routine flights ferrying U.S. astronauts to the orbiting international space station slated to begin in the fall of 2019, the agency's top outside safety watchdog has raised new questions about potential hazards in testimony to the House panel. The safety of internal helium tanks, needed to keep fuel flowing properly during ascent, has been identified as one of the most prominent unresolved risks for SpaceX.

Space Exploration Technologies Corp., as Mr. Musk's company is called, and **Boeing Co.**, which is separately developing what are intended to be privately operated spacecraft, both face the "very real possibility of future schedule slips," said Patricia Sanders, who heads NASA's independent Aerospace Safety Advisory Panel.

Commenting on the likelihood that neither company will be able to fully comply with all of NASA's longstanding safety standards, Ms. Sanders said ending current U.S. reliance on Russian capsules for crew transportation may "require decisions to accept a higher risk" on next-generation U.S. systems than anticipated.

The hearing also disclosed that the statistical limit for a "failed mission" remains approximately one in 55 launches, despite several years of intense development, NASA expenditures of about \$5 billion and significant additional investment by the two companies. That limit applies to mission failures in which the vehicle doesn't reach the space station but the crew uses emergency procedures to survive.

Starboard Seeks to Oust All Mellanox Directors

By DAVID BENOIT

Starboard Value LP is launching a fight to remove the entire sitting board at semiconductor company **Mellanox Technologies** Ltd., the latest attempt by the New York activist to take over a whole boardroom.

Starboard will nominate two of its own partners, co-founders Jeffrey Smith and Peter Feld, and seven others largely from the semiconduc-

tor world, according to a letter to investors Starboard sent Wednesday. The activist took a 10.7% stake in the company in November and has pressured it to boost margins or explore a potential sale.

After the company boosted its 2018 margin targets in a public presentation last month, Starboard this month criticized the predictions as failing to be enough and still lagging behind peers. That has been the factor leading

Starboard to seek the entire board, the letter said. The fund said it would consider adding back two current directors "to ensure a degree of continuity," if all nine nominees are elected.

A spokesman for Mellanox wasn't immediately able to comment Wednesday. When Starboard had originally announced its stake, Mellanox said its board reviews operational and strategic priorities regularly.

Mellanox, with a \$3.3 billion market value as of Wednesday's close, specializes in technologies for high-speed computing and is a leader in the InfiniBand systems that help power supercomputers, as well as Ethernet products. Its high-powered products are used in the giant data centers that make cloud-computing possible. Chief Executive Eyal Waldman was a co-founder of the company in 1999.

Fighting for an entire board is rare for activists, but Starboard has made a name for itself with dramatic shake-ups, sweeping the entire board at Olive Garden parent Darden Restaurants Inc.

Mellanox's Mr. Waldman said his company has become "much more diversified" and that the targets for 2018 were "very good." He touted the idea that the company was getting back to more growth and was in strong markets.

Energy Pipeline Projects Follow Familiar Path

By CHRISTOPHER M. MATTHEWS
AND LYNN COOK

Some of North America's biggest new pipeline projects are already in the ground.

As environmentalists and local activists make it extraordinarily difficult to build new oil and gas lines, energy companies are working around the opposition by supersizing old pipes that already crisscross parts of the continent.

Executives at some of the biggest pipeline operators in the U.S. and Canada, including **Enbridge Inc.** and **Kinder Morgan Inc.**, say they pivoted to the strategy as plans for new pipelines came under attack.

For decades, new pipeline projects rarely drew attention, much less ire. "We used to just show up with a map," said Al Monaco, president and chief executive of Enbridge. "Now we engage with the local communities and indigenous groups early and often."

In recent years, groups with a goal of keeping fossil fuels in the ground have forced forces with Native American activists, landowners and other local opponents to stall numerous projects. Most notable among these was **TransCanada Corp.**'s much-debated Keystone XL pipeline for transporting Canadian crude southward.

Skipping new lines—and the environmental reviews and taking of land by eminent domain that they often require—and instead working under existing permits and rights of way is just common sense, pipeline executives say. Mr. Monaco said the expansions also minimize impacts to land and the environment in addition to being cheaper.

"Once the pipe is in the



Construction on Energy Transfer Partners' Mariner East 2 project near Morgantown, Pa., in August.

Use of Existing Routes Has Limits

The strategy of supersizing existing pipelines has obvious limitations. It is a boon to companies with assets in the right places, boosting their value, but of little use to those without. And some parts of the country simply need more pipelines, including areas that didn't previously produce much oil and gas but where fracking has unlocked new supplies.

Meanwhile, expansions haven't eliminated gas shortages,

at least in New England. This year's winter weather has been so frigid that a spike in heating demand caused wholesale gas prices in Boston to soar to more than \$400 per million BTUs during some peak hours. By comparison, the benchmark U.S. gas price at the time in Louisiana was less than \$3 per million BTUs.

Also, pipeline expansions are hardly controversy-free. Enbridge Inc.'s shale-gas project now runs under New York state but only after overcoming concerns raised by state and federal elected officials. And earlier this month, Pennsylvania

regulators halted construction of Energy Transfer Partners LP's Mariner East 2 expansion amid stiff local resistance.

Plans for the bigger line call for shipping more natural-gas byproducts to an export facility outside Philadelphia. Part of the fight against the project centers on where the fuel is going—overseas instead of helping meet U.S. demand.

Of course, some arguments against expansion projects are the same as those used against new pipelines—from the need to wean America off fossil fuels to perceived threats to water quality.

TransCanada rival Enbridge quietly cobbled together two existing oil lines to create the first sizable spigot to bring Canadian crude to Texas. Its retooled network can move

ground, you can do a lot of things: reverse flows, expand it, optimize it," he added.

Pipeline expansions may help explain why, despite the Trump administration's recent

approval of the Keystone XL pipeline, TransCanada has yet to make a final decision about moving forward.

While Keystone XL sat in regulatory limbo for a decade,

nearly 600,000 barrels of oil a day to Gulf Coast refineries and foreign buyers.

Enbridge is also pursuing a combination of other pipeline expansions that together could add another 800,000 barrels a day of capacity to bring Canadian crude south at a cost of \$1.3 billion. That is roughly the same volume Keystone XL would carry—at less than 20% the price.

Further east, Enbridge is also supersizing its natural-gas network across the northeastern U.S. from the shale fields of Pennsylvania to Boston to Halifax, in Canada. Where once a 26-inch-diameter pipeline carried shale gas into New England, there is now a new 42-inch pipeline in a right of way the company secured by buying out pipeline operator Spectra Energy Corp. last year.

Kinder Morgan had to abandon its \$3.3 billion Northeast Energy Direct gas project in 2016 after environmentalists and elected officials opposed it and regulatory hurdles prevented the company from lining up funding. Instead, the company completed several expansion projects in the region last year, adding 532,000 million British thermal units of gas delivery.

Getting creative with old pipes makes economic sense, even if building brand new ones might be safer, said Justin Carlson, managing director at East Daley Capital Advisors. After years of taking on heavy debt loads to pay for new pipes, investors want companies to shun high borrowing costs and live within their means.

"This is a market that is beaten up," he said. "Quite frankly it's not cheap to build new stuff."

TECHNOLOGY

WSJ.com/Tech

China Has Foreign Firms on String

Tighter restrictions on data transmission stir concerns about state surveillance

China's clampdown on the cyber tunnels used to burrow through its Great Firewall may do more than further restrict internet access—it also threat-

By Liza Lin in Shanghai and Yoko Kubota in Beijing

ens to make emails and data transmissions by foreign companies more vulnerable to government surveillance, security analysts say.

Companies, institutions and individuals use virtual private networks, or VPNs, to send secure emails, transmit data and access websites blocked in China. The country's Ministry of Industry and Information Technology served notice last year that access to non-licensed VPNs will be blocked as of March 31.

That will force companies and others to choose from a limited number of approved VPN providers, including ones run by China's state-owned telecom companies—making it easier for the government to target and monitor VPN communications, according to the analysts.

"Telecom companies, not just those in China, have the capability to see their information flowing through their lines," said Carly Ramsey, an associate director at consulting firm Control Risks Group, underscoring the need for data encryption before such transfers.

Since it was first announced last year, the VPN clampdown has been seen largely as a campaign to patch holes in China's Great Firewall, the figurative term used to describe Beijing's efforts to restrict access to Internet content such as pornography, certain foreign news outlets and social networks including



A new rule for the internet requires the use of only government-approved VPNs. Workers repair communication cable in China.

Facebook.

But forcing companies to use state-approved VPNs may also serve to strengthen China's state surveillance, which uses sophisticated technology such as facial recognition and cloud computing to monitor what people and companies say and do online.

"If someone wants to access your data, be it a state actor or otherwise, it makes it easier to do so," Randy Phillips, Asia managing partner at Mintz Group in Beijing, said Wednesday.

The ministry didn't reply to a request for comment.

Internet access in China is tightening in advance of the March 31 cutoff. Last year, Apple Inc. said it removed nearly 700 VPN applications from its App Store in China in response to the new restrictions.

More recently, telecom providers have begun sending letters to foreign customers, ad-

vising them that data transmission ports—communication points that allow computers to manage internet traffic—will also be blocked without a proper license. Late last year, China Telecom Corp.'s Shanghai office sent letters to customers asking them to register for access to certain ports used for email and file sharing, according to a copy reviewed by The Wall Street Journal.

Forcing firms to register these ports would allow Chinese authorities to monitor and identify the sources of data traffic, said Han Lai, who oversees China for tech services firm KLDIcovery. That allows the government to spot unauthorized encrypted traffic, he said.

Foreign embassies are also feeling the squeeze. France and Portugal experienced disruptions to their VPN services used to communicate with

outside companies they contract with for visa services, according to a letter the European Union sent last month to Chinese authorities, said diplomats who saw a copy.

French and Portuguese officials didn't immediately respond to requests for comment.

Several in Greater China's foreign diplomatic corps say they have become resigned to the Chinese government peering over their shoulders.

"Nothing is really confidential," said one diplomat. "Our hypothesis is that everything can be read when we are in China." All declined to be named due to the sensitivity of the situation.

U.S. and other foreign companies and institutions doing business in China are increasingly concerned about the clampdown. They have reached out to trade groups including the U.S.-China Busi-

ness Council and European Chamber of Commerce as they try to gauge the impact of the new restrictions, which will force many VPN users to switch to new providers.

"Access to the world wide web has become a major frustration for companies operating in China," said Mats Harborn, president of the European Chamber.

Some members at the U.S.-China Business Council have also reported disruptions to cross-border file sharing and attempts to access email servers from outside the U.S., Jake Parker, vice president at the council, said Wednesday.

One foreign industry group said its monthly communications bill is set to double as it plans to switch from its current VPN service to a dedicated line that goes through an international gateway provided by state-run telecom operators.

Broadcom Contracts Worry Regulators

The Federal Trade Commission is investigating whether semiconductor company Broadcom Ltd. engaged in anticompetitive tactics in negotia-

By Dana Cimilluca, Brent Kendall and David Benoit

tions with customers, people familiar with the matter said.

The probe, which has been going on for several months, gathered steam lately with subpoenas that seek an extensive amount of information, the people said. Broadcom has changed some of its contracts so that they now call for customers to buy a percentage of its output of a certain item rather than an absolute number, some of the people said. That could raise concern among antitrust enforcers that the approach might limit other customers' access to the product, the people said.

The investigation may not lead anywhere. The FTC conducts an array of probes and it isn't uncommon for the commission to decide that no enforcement action is warranted.

The antitrust probe of the chipmaker comes as it is trying to gain control of Qualcomm.

Broadcom, which is pursuing a hostile bid for rival smartphone-chip maker Qualcomm Inc., said in a statement after The Wall Street Journal reported on the inquiry: "This FTC review is immaterial to our business, does not relate to wireless and has no impact on our proposal to acquire Qualcomm."

If the FTC were to bring a case, it likely would be focused on forcing changes in Broadcom's conduct since the commission generally doesn't have the authority to fine.

Regardless of where it might lead, the probe is an unwelcome distraction for Broadcom as it pursues its bid for Qualcomm. Broadcom and its deal-hungry chief executive, Hock Tan, launched an effort to replace Qualcomm's board after Qualcomm rebuffed the \$105 billion bid in November. A vote is scheduled for March.

Should Broadcom succeed in overcoming Qualcomm's resistance—a big if—it would need to win approval from antitrust enforcers around the world, as well as the U.S., where the FTC likely would be the agency to review the deal.

The deal already was expected to be a difficult sell to regulators and the probe could heighten concerns some Qualcomm customers have raised about a Broadcom takeover of the company.

Broadcom makes a variety of components used in smartphones and network systems. Combined with Qualcomm, it would form the world's third-biggest chip maker by revenue behind Intel Corp. and Samsung Electronics Co. It would have a dominant position in parts critical to smartphones and span markets from consumer devices to data centers.

Authorities in the U.S. and other countries already have had Qualcomm's patent-licensing business in their crosshairs. The FTC sued Qualcomm in January of last year alleging it engaged in unlawful tactics to maintain a monopoly on cellular-communications chips. Qualcomm has said the suit is based on flawed legal theory and misconceptions about its business.

Two big Chinese smartphone makers, Oppo Electronics Corp. and Vivo Electronics Corp. which together generate more than 10% of Qualcomm's \$22 billion in annual revenue, are against the possible deal, fearing it could lead to price increases. The Journal reported last week. A third, Xiaomi Corp., also has reservations. Such opposition could make it more difficult for Broadcom to win over Chinese regulators.

Broadcom was formed when Avago Technologies Ltd. bought Broadcom Corp. in 2016 for \$37 billion and kept the name.

Facebook Deepens Russia-Brexit Investigation

BY JENNY GROSS

LONDON—Facebook Inc. said that it was broadening its investigation into whether Russia attempted to meddle in the 2016 referendum on Britain's membership in the European Union, after its earlier probe found only a minimal amount of activity.

In response to a request from a committee of U.K. lawmakers, Facebook said Wednesday that it was looking

to see whether there were coordinated attempts at interference that it hadn't previously identified.

"We are committed to making all reasonable efforts to establish whether or not there was coordinated activity similar to which was found in the U.S. and will report back to you as soon as the work has been completed," Simon Milner, Facebook's U.K. policy director, wrote in a letter to U.K. lawmaker Damian Collins. He

asked Britain to provide any relevant intelligence assessment to Facebook.

Mr. Collins, a Conservative lawmaker who chairs a parliamentary committee on media and culture, said he welcomed Facebook's response after the company had previously resisted the committee's calls to deepen its investigation. "Facebook has a responsibility. They recognize the seriousness of the problem and that lots of people, Parliaments and

governments are really concerned about it," he said.

He added Facebook suggested its research will take a few weeks.

The government has said it has found no evidence that Russia successfully interfered in its democratic processes, including the Brexit vote, and Russia denies any allegations. But British lawmakers have called for the government to report on the extent to which Moscow might have sought to

influence the Brexit vote.

Mr. Collins said he believes there is a growing body of evidence that Russia interfered in the referendum. His committee in October asked Facebook, Twitter Inc. and other internet companies to provide information about how the Russian government used social-media accounts to influence the Brexit vote and the 2017 election. The request was part of an inquiry the committee is conducting on fake news.

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Continued from page B1

The pace of litigation in Illinois has quickened with tech companies' adoption of facial-recognition technology, Ms. Jacobson said. More than 50 such lawsuits have been filed in Illinois since June last year, according to a K&L analysis.

"It's simply because the technology is getting better and more commercialized," she said. "It used to be just government technology."

Still, Google's decision to block the art look-alike tool in Illinois and Texas is mystifying because the app requires users' consent just as the states' laws require, said Alvaro Bedoya, executive director of the Center for Privacy & Technology at Georgetown University. It "is a very strange decision," he said.

Before users take a selfie, the Google app requires them to accept its terms, which say that the app matches the user's photo with artwork and that "Google won't use data from your photo for any other purpose and will only store your photo for the time it takes to search for matches."

Google hasn't blocked its Google Photos service in Illinois, although it uses facial recognition and is subject to a lawsuit there. Google also doesn't appear to have blocked the Arts & Culture app's selfie function in Washington.

The selfie function also isn't available outside the U.S. European privacy laws have

prompted Facebook and Google to block facial recognition there in some cases. Google said in a tweet Monday that users in areas where the selfie tool isn't available should "Stay tuned as we try to improve and expand!"

Tech firms have argued such biometric laws are overly restrictive. Others say the growing use of biometric data—which can also include things like fingerprints and iris scans—pose a risk for consumers.

Adam Schwartz, a staff attorney at the digital-privacy group the Electronic Frontier Foundation, said "biometrics are a menace to privacy" because "it's very easy for strangers to capture your biometrics and it's very hard for us to do anything about it." Credit-card numbers can be changed, but faces and fingerprints can't, he noted.

China uses facial recogni-

tion in security cameras to track its citizens, and an app in Russia enables users to find the social-media profiles of strangers they photograph.

For now, some users in Illinois, Texas and abroad are trying to get around the barrier to the app. Videos posted on YouTube instruct users to use a VPN, or virtual private network, that makes it appear as if their web traffic is coming from somewhere else.

Megan Vo, a 26-year-old mobile-app designer in Chicago, said she downloaded the app over the weekend after friends in New York posted their art doppelgängers. But when she opened it, she said she found art-related articles and interactive programs, but not the art look-alike tool.

"I kept scrolling," she said. "It's a great app with a lot of great resources, but I wanted to take a selfie."

Broadcom was formed when Avago Technologies Ltd. bought Broadcom Corp. in 2016 for \$37 billion and kept the name.



Oprah Winfrey matched with a contemporary portrait in Paris.

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MANAGEMENT

Planning for the Unthinkable

As workplace suicides rise, more companies train employees to spot warning signs and help colleagues cope

By RACHEL FEINTZEIG

As suicide rates have climbed in recent years, so have instances of employees ending their lives at the workplace.

It happened at a **Bank of America** Corp. call center in New Mexico in November, at a **Ford Motor** Co. plant outside Detroit in October and at **Apple** Inc.'s Cupertino, Calif., headquarters in April 2016.

Nationwide, the numbers are small but striking. According to the Bureau of Labor Statistics, suicides at workplaces totaled 291 in 2016, the most recent year of data and the highest number since the government began tallying such events 25 years ago. U.S. suicides overall totaled nearly 45,000 in 2016, a 35% increase compared with 10 years earlier, according to the Centers for Disease Control and Prevention's National Center for Health Statistics.

Sudden and traumatic for colleagues, a workplace suicide can prompt ripples of anger and guilt across an organization, potentially damaging productivity.

Corporate managers are increasingly preparing for the possibility. Employers are bringing in counselors to teach managers to spot some of the potential warning signs: Someone planning suicide might exhibit a sharp decline in personal hygiene or a significant change in personality. He or she might say things like, "The world would be better off without me," said Larry Barton, who advises Fortune 500 companies on workplace violence and crisis management.

After a suicide, companies usually tap an employee-assistance program to help traumatized colleagues, including those who might have witnessed the event.



tempt to send a message.

In November 2016, an **Amazon**.com Inc. employee jumped from a building on the company's Seattle campus. He claimed he had been put on a performance-improvement plan and sent an email to Chief Executive Jeff Bezos and colleagues criticizing the company. He survived the fall.

Colleagues were upset by the incident and talked about it in hushed tones, said Adam Park, an Amazon software engineer who was working at the building next to the one where the attempt took place.

Employees received a note about mental-health issues and counseling services, Mr. Park said. It was a reminder that Amazon is a high-stress place to work, he said. "It made me double down on my resolve to do well at my job so I wouldn't end up in a situation like that," he said, referring to performance-improvement plans.

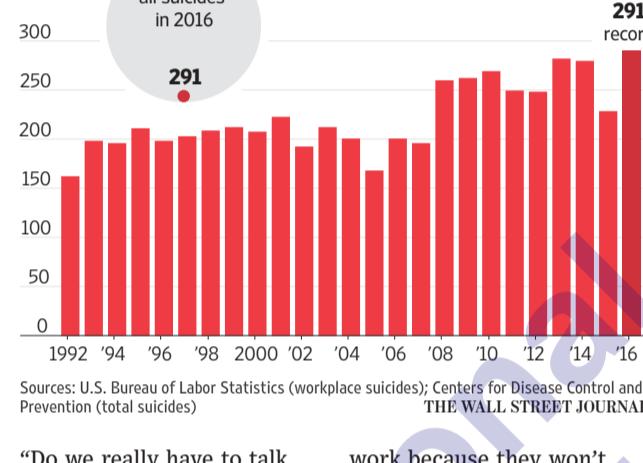
A spokesman for Amazon declined to comment on the incident.

Jobs where people have access to a means of ending life can heighten the risk, experts say. Sheriff Lott's deputy, Derek Fish, shot himself with his service weapon in a patrol car while parked at one of the department's regional headquarters.

The Richland County Sheriff's Department this month started suicide-prevention training for employees. The department has a counselor on staff and mandatory post-traumatic stress syndrome training.

Sheriff Lott—who has experienced four employee suicides in roughly two decades on the job—said he feels like a failure every time. This time, he said, he made sure to talk about the tragedy publicly. "The worst thing you can do is ignore it," he said.

Suicides in the Workplace



"Do we really have to talk about this?" Now, many clients request the training.

Mr. Barton said distressed employees who don't care much about their jobs might choose to commit suicide at a cause of death.

Mr. Barton said clients used to push back on including the topic of suicide in employee training. A common response, he said, was,

work because they won't have to worry about loved ones finding the body. On the other hand, workers consumed with their work also might end their lives while on the job, perhaps in an at-

How Two Firms Responded After Staffers' Deaths

PricewaterhouseCoopers and **Bank of America** Corp. are among the companies that have contended with employee suicides.

At PwC in the U.K., colleagues and passersby witnessed as an accounting employee jumped from the firm's offices in a London building one evening in August 2015.

The company brought in counselors for two weeks in an effort to calm employees, said Sarah Churchman, a PwC human-resources executive. Others stayed away from work for days. "Some people couldn't come into the office because they couldn't get it out of their minds," Ms. Churchman said.

After the death, PwC helped employees share stories about anxiety and depression with one another and created a mobile app with information on mental-health resources.

The company is aiming this year to train some 5,000 managers in signs that a co-worker is at risk and how to approach them about getting help.

Bank of America closed its Rio Rancho, N.M., call center for a week in November, after an employee shot and killed himself in a break room, said Lori Henkel, a human-resources executive.

Afterward, bank executives traveled to New Mexico and met with managers, workers and counselors. Employees requested the bank repurpose the space where the incident occurred. "Right now, it's just an extra room in the front of the call center," Ms. Henkel said, adding the company is still deciding what to do with the space.

WORKAROUND

Help Wanted From Retirees In Accounting

Mandatory retirement might seem like a relic but it remains common at accounting firms. Most top firms require partners to exit between the ages of 60 and 66.

One firm in the top 100, **PKF O'Connor Davies** LLP, turns the practice upside down, seeking out and hiring senior accountants who have aged out at other firms.

The New York-based firm, which employs about 750 people, has more than 24 accountants and advisers on staff who arrived after hitting retirement ages at other accountancy firms. The majority work three or four days a week.

"We think being flexible is a goal," says Christopher Petermann, a partner who sits on PKF's management team and human-resources committee. "There are a lot of people at other organizations who 'time out' based on age that still have tremendous value," he adds.

Research shows many older Americans hope to continue working, either out of financial need or a feeling they have productive years ahead of them. A 2017 paper published by the National Bureau of Economic Research finds that 60% of retirees would return to the workforce if they could find jobs with a flexible schedule.

Bringing on senior accountants has helped PKF expand into new practice areas and improve training and mentoring, Mr. Petermann says. Its older hires bring with them a lifetime of contacts and expertise.

A few years ago, PKF brought in an accountant, now 77 years old, who had strong experience with international tax issues at a large firm. It was an area "we needed to be better in," says Mr. Petermann. Thanks to that hire, "it's now one of our rapidly growing markets," he adds.

—Lauren Weber

Room for Improvement

CBS and Viacom shares underperformed the market last year.

Change in 2017 share price

■ CBS ■ VIAB ■ S&P Media ■ S&P 500



CBS

Continued from page B1

ticularly 21st Century Fox's agreement to sell most of its assets to Walt Disney Co.—as a sign that bulking up is more urgent than ever, the people said.

CBS hasn't formally named a successor to the 68-year-old Mr. Moonves, whose contract runs to June 2021. However, Chief Operating Officer Joe Ianniello has a clause in his contract that allows him to exit at the end of this year if he isn't named president, or if someone else is named president or chief executive, according to a regulatory filing.

Every September, CBS management makes a two-day presentation to the board on its long-term outlook.

Ms. Redstone led an overhaul of Viacom's board in the wake of a power struggle in 2016 that raised questions about Mr. Redstone's mental capacity and led to the ouster of Viacom CEO Philippe Dauman.

National Amusements asked CBS and Viacom to explore a merger, only to call off talks a few months later as the two sides couldn't agree on a valuation for Viacom. Ms. Redstone said she had confidence in newly installed Viacom CEO Bob Bakish and his strategic plan for the company as a stand-alone entity.

Since then, Mr. Bakish, who has a close working relationship with Ms. Redstone, has tried to stabilize Viacom. He has signed

distribution deals, overhauled management of Paramount Pictures film studio, invested in digital content and focused on six core cable networks, which led to some early ratings gains.

Nevertheless, Viacom's stock has continued to decline, its credit rating is hovering above junk status and Wall Street remains concerned about whether its cable channels are must-have for pay-TV distributors.

Last time, CBS was reluctant to recombine with Viacom because it didn't want to pay a premium for a deal that might hurt shareholders. It may now be more willing, if the declines in Viacom's shares mean more favorable terms, people familiar with CBS's thinking say.

"I don't think CBS would actively court this deal, but there is a price for everything," said RBC Capital Markets analyst Steven Cahall. A deal without Mr. Moonves's support could lead the management team to exit, which risks hurting the combined company's market value, he added.

Under Mr. Moonves's current contract, he can leave for "good reason" if a nonexecutive chairman is appointed, or if the board "ceases to consist of original independent directors" and "qualified replacement directors." People familiar with Ms. Redstone's thinking believe that, if the two companies recombine, she would want Mr. Bakish to be Mr. Moonves's eventual successor at the merged entity.

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MARKETS DIGEST

EQUITIES

Dow Jones Industrial Average

26115.65 ▲ 322.79, or 1.25%
 High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 24.07 20.84
 P/E estimate * 20.36 18.62
 Dividend yield 2.00 2.39
 All-time high 26115.65, 01/17/18

Current divisor 0.14523396877348



Bars measure the point change from session's open
 Oct. Nov. Dec. Jan.
 Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

S&P 500 Index

2802.56 ▲ 26.14, or 0.94%
 High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 22.37 24.97
 P/E estimate * 18.82 17.55
 Dividend yield 1.84 2.06
 All-time high 2802.56, 01/17/18



Oct. Nov. Dec. Jan.
 65-day moving average

Nasdaq Composite Index

7298.28 ▲ 74.59, or 1.03%
 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 7298.28, 01/17/18



Oct. Nov. Dec. Jan.
 65-day moving average

Major U.S. Stock-Market Indexes

	Dow Jones		S&P		Nasdaq Stock Market					
	High	Low	Latest Close	Net chg	% chg	High	Low	52-Week % chg	YTD % chg	3-yr. ann.
Industrial Average	26130.45	25865.02	26115.65	322.79	1.25	26115.65	19732.40	31.9	5.6	14.3
Transportation Avg	11280.30	11198.51	11258.47	31.16	0.28	11373.38	8783.74	23.2	6.1	8.7
Utility Average	689.86	683.32	687.67	4.48	0.66	774.47	654.98	3.6	-4.9	2.4
Total Stock Market	28984.92	28699.46	28938.07	264.57	0.92	28938.07	23526.88	22.5	4.6	11.3
Barron's 400	747.37	739.91	745.95	6.74	0.91	745.95	600.24	23.3	4.9	12.2

S&P

	500 Index	MidCap 400	SmallCap 600
	2807.04	2778.38	2802.56
	26.14	0.94	2802.56

Other Indexes

	Russell 2000	NYSE Composite	Value Line	NYSE Arca Biotech	NYSE Arca Pharma	KBW Bank	PHLX® Gold/Silver	PHLX® Oil Service	PHLX® Semiconductor	Cboe Volatility
	1589.13	1573.73	1586.66	13.69	0.87	1591.97	1345.24	16.8	3.3	10.5
	13376.80	13255.38	13352.39	105.53	0.80	13352.39	11148.85	19.3	4.2	7.8
	582.68	577.60	581.43	3.83	0.66	582.93	503.24	13.6	3.4	6.0
	4505.06	4452.51	4490.44	98.89	2.25	4490.44	3134.03	39.6	6.4	7.4
	572.32	567.91	570.71	4.02	0.71	570.71	469.13	18.2	4.7	1.0
	113.43	111.42	113.18	0.58	0.51	113.18	88.02	24.9	6.1	18.9
	90.94	89.00	89.12	-1.15	-1.27	96.72	76.42	1.3	4.5	3.9
	162.62	160.05	161.48	0.79	0.49	191.34	117.79	-13.5	8.0	-5.6
	1366.10	1336.97	1364.29	38.32	2.89	1364.29	918.03	47.9	8.9	27.1
	12.81	11.18	11.91	0.25	2.14	16.04	9.14	-4.6	7.9	-17.2

\$ Nasdaq PHLX

Sources: SIX Financial Information; WSJ Market Data Group

Late Trading

Most-active and biggest movers among NYSE, NYSE Arca, NYSE Amer. and Nasdaq issues from 4 p.m. to 6:30 p.m. ET as reported by electronic trading services, securities dealers and regional exchanges. Minimum share price of \$2 and minimum after-hours volume of 5,000 shares.

Most-active issues in late trading

Company	Symbol	Volume (000)	Last	Net chg	After Hours % chg	High	Low
SPDR S&P 500	SPY	23,889.5	279.55	-0.06	-0.02	279.69	276.97
General Motors	GM	3,858.1	44.13	0.10	0.23	44.19	44.03
Ford Motor	F	3,500.4	12.21	0.03	0.25	13.10	12.15
Intel	INTC	3,475.9	44.49	0.10	0.23	44.49	43.14
General Electric	GE	3,276.0	17.27	-0.08	-0.46	18.21	17.27
PwrShrs QQQ Tr Series 1	QQQ	2,833.1	165.77	-0.02	-0.01	165.88	164.71
Bank of America	BAC	2,746.8	31.20	0.02	0.06	31.24	30.82
Hess Corp	HES	2,522.6	54.35	0.33	0.61	54.36	53.54

Percentage gainers...

Company	Symbol	Volume (000)	Last	Net chg	After Hours % chg	High	Low
Electro Scientific Inds	ESIO	225.3	27.00	4.99	22.67	28.00	21.73
PTC Inc.	PTC	72.8	70.75	4.05	6.07	72.60	66.28
DPW Holdings	DPW	140.6	2.39	0.12	5.29	2.41	2.21
IAC/InterActive	IAC	169.0	141.99	6.59	4.87	141.99	134.82
II-VI	IVI	193.6	53.00	1.55	3.01	53.00	51.45

...And losers

Company	Symbol	Volume (000)	Last	Net chg	After Hours % chg	High	Low
Arrowhead Pharmaceuticals	ARWR	61.0	5.15	-0.57	-9.97	5.72	5.01
Paratek Pharmaceuticals	PRTK	48.1	16.20	-1.48	-8.35	17.68	15.05
Plexus	PLXS	15.5	60.06	-4.30	-6.68	64.36	57.92
Alcoa	AA	682.9	53.44	-3.55	-6.23	57.00	53.30
Innovative Ind Properties	IIPR	22.9	29.50	-1.80	-5.75	30.99	28.25

Trading Diary

Volume, Advancers, Decliners

NYSE NYSE Amer.

Total volume*

COMMODITIES

WSJ.com/commodities

Futures Contracts

Metal & Petroleum Futures

	Contract	Open	High	Low	Settle	Chg	Open interest
Copper-High (CMX)	-25,000 lbs.; \$ per lb.						
Jan	3,1700	3,1715	3,1600	3,1665	-0.0325	1,213	
March	3,2190	3,2210	3,1785	3,1890	-0.0305	152,562	
Gold (CMX)	-100 troy oz.; \$ per troy oz.						
Jan	1334.40	1334.40	1326.80	1338.00	.26	40	
Feb	1339.00	1344.50	1326.60	1339.20	.210	319,889	
April	1344.40	1349.20	1331.30	1344.00	.200	150,606	
June	1348.80	1352.40	1337.90	1349.10	.190	51,874	
Aug	1356.10	1358.00	1342.60	1354.30	.190	20,079	
Dec	1367.00	1367.00	1353.60	1365.20	.220	28,064	
Palladium (NYM)	-50 troy oz.; \$ per troy oz.						
Jan	1112.35	1112.35	21.55	3			
March	1089.25	1113.95	1089.20	1109.70	.2155	36,127	
June	1092.10	1105.00	1086.85	1101.65	.2105	2,702	
Platinum (NYM)	-50 troy oz.; \$ per troy oz.						
Jan	1004.70	1005.40	1002.50	1006.20	.60	68	
April	1004.20	1012.90	1002.20	1010.90	.60	79,501	
Silver (CMX)	-5,000 troy oz.; \$ per troy oz.						
Jan	17.095	17.120	16.970	17.105	-.017	63	
March	17.210	17.310	16.980	17.166	-.023	140,169	
Crude Oil, Light Sweet (NYM)	-1,000 bbls.; \$ per bbl.						
Feb	63.89	64.17	63.31	63.97	.024	178,620	
March	63.82	64.14	63.25	63.92	.025	573,642	
April	63.68	63.95	63.07	63.74	.025	192,832	
May	63.35	63.72	62.86	63.52	.025	145,340	
June	63.08	63.40	62.55	63.21	.024	302,291	
Dec	60.76	60.98	60.28	60.82	.021	244,231	
NY Harbor LSD (NYM)	-42,000 gal.; \$ per gal.						
Feb	2.0660	2.0797	2.0453	2.0691	.0057	95,485	
March	2.0630	2.0736	2.0413	2.0631	.0045	138,767	
Gasoline-NY RBOB (NYM)	-42,000 gal.; \$ per gal.						
Feb	1.8411	1.8713	1.8269	1.8584	.0200	69,290	
March	1.8566	1.8793	1.8405	1.8691	.0162	137,992	
Natural Gas (NYM)	-10,000 MMBtu; \$ per MMBtu.						
Feb	3.125	3.288	.098	3.232	.103	147,816	
March	2.964	3.038	.092	2.929	.024	356,493	
April	2.785	2.822	.073	2.753	.024	177,648	
May	2.769	2.806	.074	2.742	.032	155,564	
July	2.849	2.875	.074	2.821	.026	75,598	
Oct	2.820	2.868	.074	2.862	.022	101,834	

	Contract	Open	High	Low	Settle	Chg	Open interest	
Agriculture Futures								
Corn (CBT)	-5,000 bu.; cents per bu.							
March	348.50	353.25	348.25	353.00	.475	828,153		
May	356.75	361.25	356.25	361.00	.425	263,470		
Oats (CBT)	-5,000 bu.; cents per bu.							
March	250.25	256.00	250.25	254.25	.425	4,323		
May	252.25	257.00	252.5	255.50	.400	1,982		
Soybeans (CBT)	-5,000 bu.; cents per bu.							
March	966.25	969.25	961.25	968.75	.75	356,768		
May	977.75	980.50	972.75	980.00	.50	178,871		
Soybean Meal (CBT)	-100 tons; \$ per ton.							
March	321.50	324.60	.30	320.30	.324	30	1,72,753	
May	325.20	328.10	.30	323.90	.327	90	1,60,893	
Soybean Oil (CBT)	-60,000 lbs.; cents per lb.							
March	32.77	32.83	.30	32.41	.32	51	214,803	
May	32.97	33.01	.30	32.61	.32	70	105,710	
Rough Rice (CBT)	-2,000 cwt.; \$ per cwt.							
March	1209.50	1227.00	.30	1208.50	.1215	00	.50	8,482
May	1235.00	1253.00	.30	1235.00	.1241	00	.30	770
Wheat (CBT)	-5,000 bu.; cents per bu.							
March	416.75	423.25	.30	415.50	.421	50	296,022	
May	430.50	436.00	.30	428.75	.434	50	101,345	
Wheat (KCO)	-5,000 bu.; cents per bu.							
March	422.25	429.50	.30	421.00	.427	00	50	168,330
May	436.00	443.00	.30	434.75	.440	50	63,570	
Wheat (MPLS)	-5,000 bu.; cents per bu.							
March	612.00	615.25	.30	611.25	.611	75	25,480	
May	621.00	624.50	.30	620.25	.621	00	25,13,726	
Cattle-Feeder (CME)	-50,000 lbs.; cents per lb.							
Jan	145.250	148.950	.30	147.750	.147	85	2,725	
March	143.600	147.400	.30	143.00	.145	975	2,050	
Cattle-Live (CME)	-40,000 lbs.; cents per lb.							
Feb	117.825	121.100	.30	117.700	.120	975	2,875	
April	120.075	123.175	.30	119.975	.122	775	2,400	
Hogs-Lean (CME)	-40,000 lbs.; cents per lb.							
Feb	73.650	73.700	.30	72.525	.72	725	1,175	
April	75.900	76.000	.30	75.200	.75	525	974,415	
Lumber (CME)	-110,000 bd ft.; \$ per 1,000 bd ft.							
March	473.40	479.50	.30	471.40	.476	40	1,70,400	
May	465.80	471.50	.30	465.00	.469	90	3,50,971	

	Contract	Open	High	hilo	Low	Settle	Chg	Open interest
Interest Rate Futures								
Treasury Bonds (CBT)	\$100,000; pts 32nds of 100%							
Jan	150-280	151-060	150-030	150-100		.160	785,104	
Feb	149-250	150-050	149-060	149-090		.150	443	
Treasury Notes (CBT)	\$100,000; pts 32nds of 100%							
March	122-313	123-020	122-175	122-210		.105	3,351,950	
June	122-192	122-190	122-065	122-080		.110	21,819	
5 Yr. Treasury Notes (CBT)	\$100,000; pts 32nds of 100%							
March	115-162	115-175	115-082	115-100		.60	3,188,750	
June	115-055	115-055</						

BANKING & FINANCE



The bank expects its effective tax rate for 2018 to be 20%, down from an expected 29% before the new tax law.

U.S. Bancorp's Net Climbs 13%

By CHRISTINA REXRODE

U.S. Bancorp, the biggest regional bank in the country, said the new tax law helped boost fourth-quarter earnings.

The bank also disclosed that it had set aside money for a potential settlement related to its anti-money-laundering program.

Profit at the Minneapolis-based bank rose 13% to \$1.69 billion, or 97 cents a share, from \$1.49 billion, or 82 cents, a year earlier.

On an adjusted basis, which strips out the tax-related gain and the legal accruals, earnings were 88 cents a share. That beat the 87 cents expected by analysts polled by Thomson Reuters. However, shares closed down 1.45% at \$56.34 on a day when the market climbed.

One development that seemed to rattle investors: U.S. Bank executives said in a call with analysts that they expected to reinvest about 25% of the bank's tax savings in business initiatives such as technology, automation and higher wages for entry-level employees.

They didn't specify how much of the tax savings they expected to return to shareholders.

Chief Financial Officer **Terry Dolan** said in an interview that he expected long-term shareholders to view the bank's spending as a favorable development that would eventually build profits. It is the short-term investors, he said, who were selling the shares Wednesday. "We're thinking longer term about the changes that are impacting the banking business," Mr. Dolan said.

Mr. Dolan also said in the interview that he expected the other 75% of the bank's tax savings to flow through to the bottom line and be returned to investors through dividends and buybacks.

Earnings were hurt by the potential anti-money-laundering settlement. The bank said it set aside \$608 million for "regulatory and legal matters." The Office of the Comptroller of the Currency has previously flagged U.S. Bank's anti-money-laundering program for deficiencies, and the bank said it expects to pay civil monetary penalties to resolve this.

The bank had also previously disclosed that it was being investigated by the Manhattan U.S. attorney's office for its relationship with a former customer, race-car driver Scott Tucker, who was convicted of fraud related to payday loans.

The bank said it is working on a settlement, which it expects to include a deferred prosecution agreement and payment of a penalty.

Revenue rose 4% to \$5.64 billion, helped by rising interest rates and increased lending. Like its peers, U.S. Bank has benefited from higher interest rates, which allow it to charge more on loans. The bank's net interest income grew by 6%. The Federal Reserve raised short-term rates three times last year.

Average loans grew by 2.6% over the year, driven by consumer lending.

\$608M

Amount set aside for potential antimoney-laundering settlement

In a call with analysts, U.S. Bank Chief Executive Andy Cecere said the new tax law was "a very positive development." U.S. Bank already announced that it, like some of its peers, will raise wages for lower-paid employees and donate to charity with some of its tax savings.

Mr. Cecere was upbeat, saying that the new tax law could create jobs and encourage consumers to spend and hinting at how regulators were looking more favorably on the banking industry. "The economy appears to be on firm footing," Mr. Cecere said. "The regulatory environment is becoming more supportive of growth."

The new tax law is expected to help banks over the long term, by lowering the corporate tax rate from 35% to 21%. But the new law is having a disparate impact across bank earnings this quarter.

U.S. Bank and PNC Financial Services Group Inc., for example, received a short-term earnings boost. But Citigroup Inc., which reported results Tuesday, had its quarterly earnings wiped out by the new tax law. The tax law hurt Citigroup's earnings because of that bank's deferred tax assets, which are past losses that the company can use to defray future tax bills. With a lower tax rate, those assets are no longer as valuable. U.S. Bank, however, has deferred tax liabilities, or taxes it expects to pay in the future. The new lower tax rate is a boon for those future earnings. U.S. Bank's net deferred tax liability was \$588 million at the end of the third quarter.

BofA Profit Feels Tax Sting

Net fell 48% in latest quarter on large write-down but bank offers an upbeat outlook

By RACHEL LOUISE ENSIGN

Bank of America Corp. said a charge from the new U.S. tax law caused quarterly profit to fall 48%, even as the bank ended 2017 with its crisis-era issues firmly in the past.

The Charlotte, N.C.-based bank on Wednesday reported fourth-quarter profit of \$2.37 billion, or 20 cents a share. That was down from \$4.54 billion a year earlier. The bank's executives said the 2018 outlook is bright, because the one-time hit from the tax bill is expected to be outweighed by the law's longer-term benefits.

Without the \$2.9 billion tax charge, the bank's profit would have risen to \$5.3 billion, or 47 cents a share. Analysts polled by Thomson Reuters had expected earnings of 44 cents a share on an adjusted basis.

The benefits from the tax bill are expected to accelerate the progress Bank of America has made rebuilding its business after the financial crisis. As recently as 2014, the lender's results were dogged by tens of billions of dollars in penalties over financial-crisis-era issues. Since then, the company's legal problems have eased.

The boost from the tax bill will expedite the bank's timeline for meeting long-held performance goals of a 1% return on assets and a 12% return on tangible common equity, Mr. Moynihan said. Excluding the effect of the tax bill, those metrics stood at 0.9% and 10.9% in the fourth quarter.

The bank has recently had the help of rising interest rates, which are boosting profits. Bank of America's net interest income was \$11.46 billion, up about 11% from a year earlier.

It also cut expenses to \$54.74 billion on the year, coming closer to a \$53 billion target the bank has set for 2018. Revenue for the year

The bank expects its effec-

Borrowing Cost Rises In Asia

By MANJU DALAL

Asian companies are continuing a rush of dollar-bond issuance they started last year. But for some, borrowing is getting more expensive.

Three Asian industrial companies raised a combined \$700 million in junk bonds on Tuesday at interest rates higher than they originally planned.

Hong Kong-listed solar-energy producer **Concord New Energy Group** and Indonesian palm-oil producer **Sawit Sumbermas Sarana** had pulled their dollar deals in November, blaming weak market conditions. Concord and Sawit Sumbermas returned to the bond market Tuesday, offering juicier yields than their first attempts. Concord will pay 7.9% interest a year on its new \$200 million three-year bonds, compared with 7.125% at which it wanted to sell them in mid-November.

It was a rosier picture for Sawit Sumbermas than in mid-November, when it tried selling its five-year bonds at 7% but canceled the \$300 million deal. The Indonesian company's new bonds were priced to yield 8% annually.

Chinese aluminum-alloy and edible-corn-oil maker Shandong Sanxing Group Co. paid 8.5% for its \$200 million three-year bonds rated BB- by S&P, nearly one percentage point higher than its plans in December. Despite the high pricing, its deal received only over \$400 million in orders.

A notice circulated to em-

Wells's Risk-Management Chief to Retire

By EMILY GLAZER

Wells Fargo & Co.'s chief risk officer, Mike Loughlin, is retiring as the bank continues to face heightened regulatory scrutiny, especially over its risk-management practices.

The San Francisco-based bank said it would name a successor in "the next few months" and Mr. Loughlin would remain in his role through the transition.

The Wall Street Journal reported earlier in January that banking regulators downgraded one part of a secret assessment of the bank's health and strength that focuses on Wells Fargo's management and its ability to manage risk.

The downgrade of the assessment, known as a CAMELS score, occurred over the summer of 2017, as Wells Fargo continued to grapple with issues related to how it treats customers. In September 2016,

the bank settled allegations that it had years of improper sales practices that resulted in potentially 3.5 million accounts being opened without customers' knowledge.

Elsewhere in the bank, more than 550,000 auto-loan and mortgage customers were potentially overcharged for products for years as well. Regulators' most recent concerns focus on the bank's overall approach to catching and preventing problems that can harm customers, a major part of risk management.

The Office of the Comptroller of the Currency has been weighing a new enforcement action against the bank related to such risk controls, the Journal reported earlier this month.

A Wells Fargo spokeswoman at the time declined to comment on the bank's CAMELS rating or any potential OCC actions. The spokeswoman then said the bank is



People in 2016 protested Wells's unauthorized creation of accounts.

"very focused on prudent and effective risk management" and continues to enhance those matters.

Mr. Loughlin, 62 years old,

has been with the bank or its predecessors for 36 years and has been chief risk officer since 2008. He reports directly to Wells Fargo Chief Executive

Timothy Sloan and has served on the bank's operating committee of its top executives.

Mr. Sloan said in a statement that Mr. Loughlin has served during "some of the most critical times in our company's history," including the financial crisis and the bank's acquisition of Wachovia Corp.

Since then, Mr. Loughlin has overseen risk matters related to credit, markets, operations, compliance and cybersecurity, according to the bank.

Over the past two years, Mr. Loughlin also led a plan to centralize many of the company's risk functions. But Wells Fargo didn't always specify employees' new roles and responsibilities, current and former executives said.

Regulators noticed the problems, and Mr. Loughlin had to submit a new risk framework to them in the first half of 2017, these executives said.

HNA Group Pitches High-Yield Investment to Employees

By YIFAN XIE AND ANJANI TRIVEDI

Chinese conglomerate **HNA Group** Co., which needs to pay off billions of dollars in debt this year, has come up with another way to raise money from its employees.

HNA recently pitched its employees a new investment product that promises a minimum annualized return of 9.5% and that could potentially yield as much as 39%, according to documents reviewed by The Wall Street Journal.

A notice circulated to em-

ployees said Yanshan Investment Management Co., a Tianjin-based investment firm partially owned by HNA's investment unit, is seeking to raise 300 million yuan (\$46.6 million) from sales of the product, which uses leverage to achieve its returns. HNA has more than 410,000 employees.

The returns, the documents said, would be based on the value of shares in a Hong Kong-listed logistics company called CWT International, a subsidiary of HNA.

Employees were told the

minimum investment amount was 100,000 yuan and that they would be able to withdraw their money after six, 12 or 18 months.

HNA has borrowed from its employees in the past using other investment plans that have in effect helped the company obtain short-term funding. Prospectuses for some past investment products said the money raised would help fund some of HNA Group's hotels and other assets.

Individuals have also loaned HNA short-term money by purchasing high-yielding in-

vestment products from one of the group's Internet lending platforms called JBH.com. Late last year, a unit of HNA delayed payments to some employees and investors on such products, the Journal previously reported.

Some employees recently received the funds they were owed, according to people familiar with the matter. On Wednesday, the chairman of JBH.com told Chinese media that the platform is operating normally and no losses have been incurred.

HNA Group, which has

around \$100 billion in debt, has been scrambling for months to raise cash following an overseas acquisition spree that saw it scoop up stakes in companies all over the world, including Deutsche Bank and the Hilton hotel chain.

The company has come under scrutiny from regulators, creditors and investors, forcing it to curb its global expansion plans.

The group has said it has support from large Chinese banks and has told investors it can meet its financial obligations.

MARKETS

Bout of Volatility Afflicts Bitcoin

Cryptocurrency sinks below \$10,000 but later recovers some in a wild trading day

BY PAUL VIGNA
AND GREGOR STUART HUNTER

Bitcoin prices fell below \$10,000, marking a stunning round-trip journey in which the cryptocurrency climbed more than 90% and fell more than 50% in less than two months.

The sell-off on Wednesday was one of the steepest in bitcoin's nine-year history and provides a vivid illustration of the degree to which it remains a highly illiquid and volatile investment.

Bitcoin topped the \$10,000 mark for the first time in late November and hit a high of \$19,783.21 on Dec. 17, according to data from CoinDesk. It has steadily fallen this year. Bitcoin dropped as low as \$9,199.59 on Wednesday, but later bounced back and by late afternoon was trading at \$11,378.02.

"We have very fast-moving weather systems in the crypto world," said Charles Hayter,

chief executive officer of research firm CryptoCompare. "One moment it's absolute exuberance, and then it's pure fear and panic, running for the exits."

Bitcoin's falling price shook other digital currencies. Established currencies like ether, XRP and litecoin were all down more than 25% at one point on Wednesday, as were newer tokens like Cardano, EOS and Monero.

The plunge introduced a dose of market reality into an area that was described by some as an investing mania. As prices of bitcoin and other cryptocurrencies skyrocketed last year, Main Street investors jumped on board and even Wall Street began contemplating how to get involved.

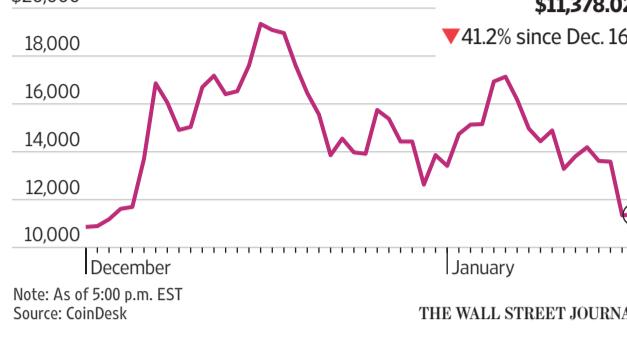
The newfound enthusiasm will be tested. But some recent investors are taking the volatility in stride. "I don't care, I'm not worried," said James Kinslow, 35 years old, a Tucson, Ariz., resident who bought his first bitcoin in April. He was trying to buy this week and isn't selling either. "It's still up for me," he said.

Extreme volatility has tended to be the rule in nascent cryptocurrency markets.

Rise and Fall

Bitcoin prices are down considerably from their late 2017 highs.

How many U.S. dollars one bitcoin buys



Bitcoin, for example, fell 70% in April 2013, 68% in early 2014, and more than 35% in both the summer and fall of 2017.

"Honestly, this is moving normally for bitcoin," said Cedric Jeanson, CEO and founder at BitSpread, a cryptocurrency hedge fund that runs market-making strategies.

Despite bitcoin's stunning rise and fall, its price remains in a general upward trend. Bitcoin increased more than 13-fold in 2017, even after the price began falling late in the year from its high point. "Suggestions that this is the start of the demise of cryptos is very premature," said Fawad Razaqzada, a market analyst at Forex.com.

Supporters point out that, over the past year, bitcoin and other cryptocurrencies have gained traction in some major markets like Japan and have also gained legitimacy on Wall Street.

Late last year, two major U.S. exchanges, CME Group Inc. and Cboe Global Markets Inc., launched bitcoin futures contracts. The first of Cboe's futures contracts expired on Wednesday, prompting a flurry of trading as market makers rushed to settle transactions and roll over some contracts into next month. Futures traders make a profit (or

a loss) if the value of prices and futures diverge when they expire.

But the assumption that opening a path for bitcoin to institutional buyers would accelerate upward price moves hasn't happened. In fact, the ability to short bitcoin, or bet its price will fall, appears so far to be a winning wager.

Meanwhile, some countries have been moving to curtail cryptocurrencies. The Chinese government ordered the closing of bitcoin mining operations, in which new bitcoin are minted. In South Korea, which has become one of the top five markets for bitcoin trading, the government has said it may enact legislation to tamp it down or ban cryptocurrency exchanges.

Besides trading losses, bitcoin's sell-off began to inflict wider damage. U.K.-based BitConnect, an exchange that had come under fire from state regulators in the U.S., said late Tuesday that it was closing its lending and trading platforms.

The firm said in a blog post that several factors forced the shutdown, including pressure from regulators in Texas and North Carolina. "These actions have become a hindrance for the legal continuation of the platform," the firm said.

Treasurys Weaken as Stocks Hit Records

BY AKANE OTANI

U.S. government-bond prices slipped on Wednesday as major stock indexes climbed toward records.

The yield on the benchmark 10-year U.S. Treasury note settled at 2.579%, compared with 2.544% Tuesday.

CREDIT MARKETS Yields rise as bond prices fall.

Bonds with shorter maturities also weakened, with the yield on the two-year U.S. Treasury note rising to 2.043% from 2.018% Tuesday.

Government-bond yields have ticked higher throughout January, something analysts have attributed to the rallying U.S. stock market and growing bets that the Federal Reserve will raise interest rates multiple times in 2018.

The S&P 500 capped off its best first 10 trading days of the year since 2003 on Tuesday and continued plowing toward a fresh record Wednesday. The rally in stocks put pressure on assets seen as safer stores of value, like gold and Treasurys.

Government-bond yields also rose after an upbeat view of the economy from the Fed, which released its so-called beige book report Wednesday. The roundup of anecdotal information about regional economic conditions showed most of the Fed's regional districts reported modest-to-moderate economic gains and that wages were increasing "at a modest pace" in most districts.

Strong economic data tend to dampen investors' appetite for Treasurys, which tend to do better when investors are seeking less risky assets.

Still, selling of bonds with longer maturities could ultimately be capped by a lack of inflationary pressure, said Tom di Galoma, managing director of Treasurys trading at Seaport Global Securities.

While Mr. di Galoma expects the recently passed U.S. tax bill to boost corporate earnings growth and send U.S. stocks higher, he is skeptical of it stoking inflation—considered by analysts to be one of the biggest threats to the 10-year note.

"I do believe that the stock market is going to continue to rise, mainly because this tax bill is very stimulative—but I don't think rates are going to rise all that much," he said, adding that he would be surprised if the yield on the 10-year note rises above 3.5% in 2018.



A Japanese music group, Virtual Currency Girls, dons cryptocurrency-themed masks last week. The frothy market has captured the imagination and investor money of many looking to strike it rich.

Wednesday, according to online tracker Coinmarketcap.com, moving in lockstep with other cryptocurrencies.

According to data provider Autonomous Research, in 2017 more than \$4 billion was raised in initial coin offerings, or ICOs, in which tech startups raise money in exchange for freshly created digital coins, or tokens.

UET's offering appeared generous in the amount of worthless assets it was willing to exchange. Investors were required to buy the tokens using the virtual currency ether—now trading at roughly \$1,045—and got 100 UET for each, as well as an additional UET an ether as long as more than one UET was bought.

Currently, 254 different

holders own the four million UET tokens, data from online tracker Etherscan show.

"If [UET] does get picked up by any of the major exchanges, I promise to use some of the ICO proceeds to constantly and incessantly manipulate the market," the token's creator says on its website. UET didn't return requests to comment.

Some Promoters Cash In on Joke

BY JON SINDREU

Even when a cryptocurrency calls itself "useless," the money floods in.

Regulators have warned that investors who rush to buy freshly created digital tokens could end up holding worthless tokens. The creators of a cryptocurrency launched in July pretty much promise that.

"Seriously, don't buy these tokens," Useless Ethereum Token, or UET, announces on its website. "You're going to give some random person on the internet money, and they're going to take it and go buy stuff with it."

Though it has been a volatile ride, investors have jumped into a host of virtual currencies, including bitcoin and ether. Last year, bitcoin soared more than 1,300%, and exchange companies Cboe Global Markets Inc. and CME Group Inc. launched futures contracts on the cryptocurrency, stoking hopes among its fans of a lasting, institutional following. That has sponsored a side industry in joke cryptocurrencies.

In its online logo, UET literally shows the middle finger to its buyers. Yet, despite the myriad warnings issued by its own promoters, the total value of UET rose as high as \$350,000 this month as buyers jumped in. At 38 cents apiece as of late Wednesday, UET has risen more than 240% in the past three months, according to CoinDesk.

Its market capitalization declined to about \$151,000 on

KIM KYUNG-HOON/REUTERS

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MARKETS

Optimism Spreads Across Stock Sectors

Dollar advances; recent uptick in Treasury yields lifts financial sector

By RIVA GOLD
AND AMRITH RAMKUMAR

A spate of bank earnings and corporate updates sent U.S. stocks to fresh records and the Dow Jones Industrial Average to its first close above 26,000 on Wednesday.

Bond yields and the dollar climbed as the Dow industrials and S&P 500 had their largest percentage gains since late November, notching

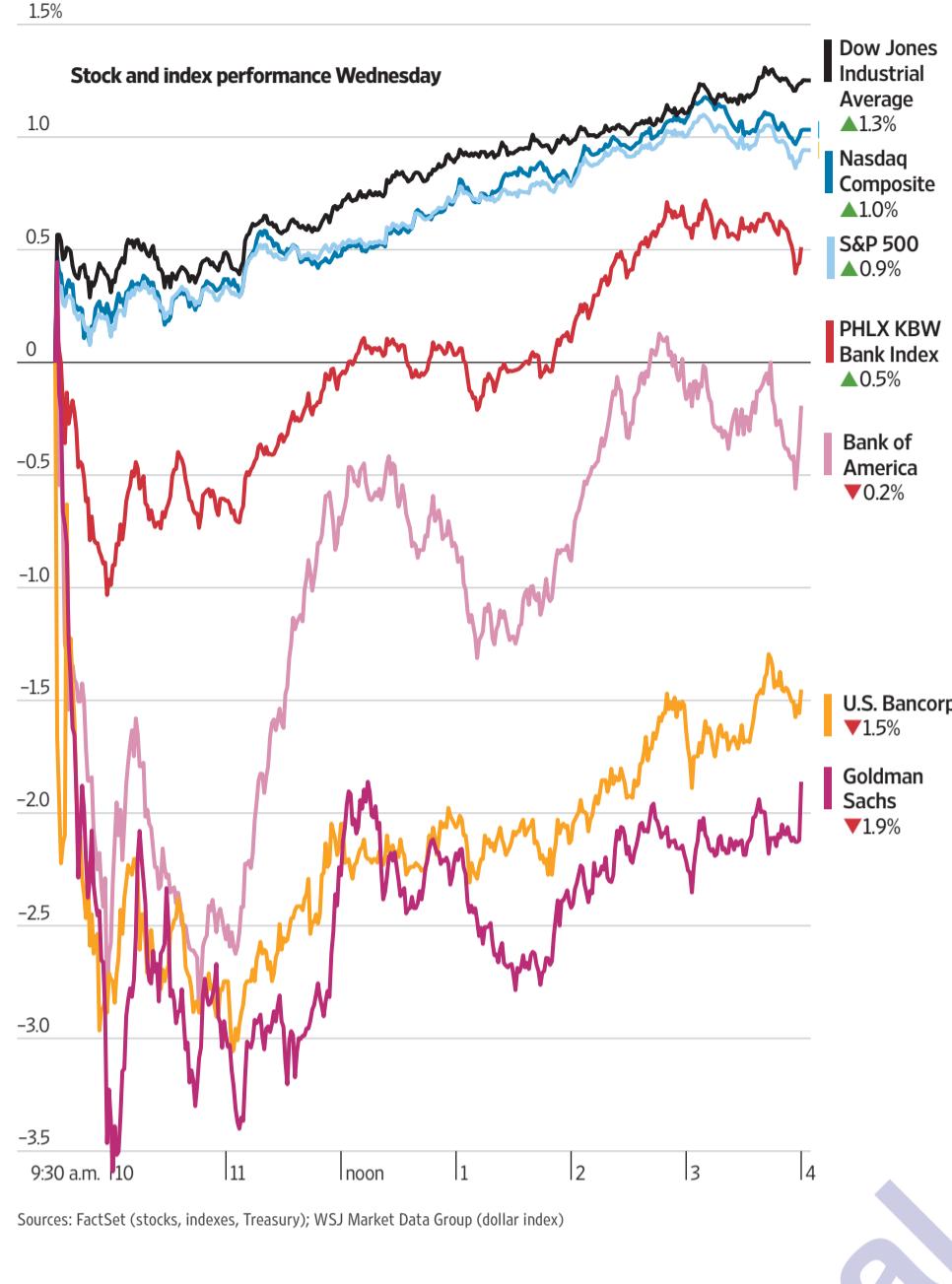
WEDNESDAY'S MARKETS
percentage gains since late November, notching their best 11-session start to a year since 1987. Some investors have said they expect an accelerating global economy and favorable earnings backdrop to continue lifting stocks.

"It's a growth-driven story. As long as the data is good, nobody is selling—and the data is still good," said Roelof Salomons, chief strategist at Kempen Capital Management.

Still, "there are hardly any bears left," and that is a cause for concern, he added.

The Dow industrials climbed 322.79 points, or 1.3%, to 26,115.65. The S&P 500 advanced 26.14 points, or 0.9%, to 2802.56, with all 11 sectors posting gains. The tech-heavy Nasdaq Composite rose 74.59 points, or 1%, to 7298.28.

Investors were watching results from major lenders, expected to be among the biggest beneficiaries of the recently passed tax overhaul. The tax overhaul has hit many firms with large one-time costs and investors have been parsing commentary from company executives about what the tax changes mean for lenders in the longer term and hints on how they might spend any windfall later in 2018.



Sources: FactSet (stocks, indexes, Treasury); WSJ Market Data Group (dollar index)

Bank of America shares fell 6 cents, or 0.2%, to \$31.18 after the bank said fourth-quarter profit was hurt by a \$2.9 billion charge tied to the tax law.

Shares of **Goldman Sachs** declined 4.81, or 1.9%, to 253.65 after it reported its first quarterly loss in six years, although excluding a charge from the new

tax policy, its profit was better than analysts had expected.

U.S. Bancorp, the biggest regional bank in the country, shed 83 cents, or 1.5%, to 56.34 even after its earnings beat analysts' forecasts.

A recent uptick in Treasury yields has supported the S&P 500 financial sector, which

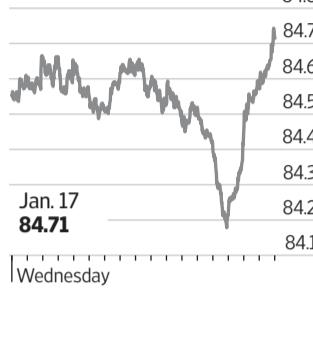
pared early losses Wednesday and closed up 0.8%. Higher yields tend to boost lending profitability. The yield on the benchmark 10-year U.S. Treasury note rose to 2.579% from 2.544% Tuesday. Yields rise as prices fall.

Some investors are betting that an uptick in economic

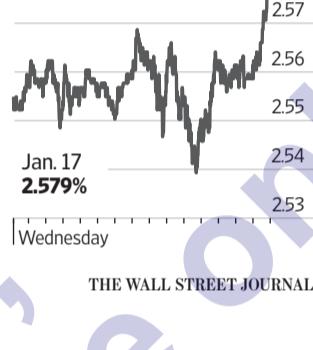
Best-performing S&P 500 sectors



WSJ Dollar Index



Yield on 10-year Treasury note



THE WALL STREET JOURNAL.

"Investors are getting their heads around a significant increase in earnings going forward," said Erik Davidson, chief investment officer at Wells Fargo Private Bank. "A lot of money that's been on the sidelines is coming in," he added.

Mr. Davidson said the firm has been overweight financial stocks given the prospect for stronger economic growth and higher interest rates.

In other corporate news, shares of **Apple** added 2.91, or 1.7%, to 179.10 after the iPhone maker said it plans to pay \$38 billion in repatriation taxes on profits and cash held overseas following the enactment of the new tax law.

The WSJ Dollar Index, which tracks the U.S. currency against a basket of 16 others, rose 0.3%, with some analysts saying Apple's announcement signaled a substantial source of demand for the dollar.

Ford shares fell 92 cents, or 7%, to 12.18 after the auto maker said it expects lower operating profit on an earnings-per-share basis in 2018.

Boeing was up 15.85, or 4.7%, to 351.01, boosting the Dow industrials by 109 points following the aerospace giant's announcement that it will establish an exclusive supplier of high-end aircraft seats with automotive seating supplier **Adient**.

Juno Therapeutics surged 23.65, or 52%, to 69.25 after The Wall Street Journal reported **Celgene** is in talks to buy the biotechnology firm, just days after announcing another major deal to bolster its portfolio of blood-cancer drugs.

Elsewhere, the Stoxx Europe 600 closed down 0.1%.

Japan's Nikkei Stock Average fell 0.3% from a 26-year high, while Hong Kong's Hang Seng Index rose 0.2%, lifted by Chinese bank stocks. At midday in Tokyo Thursday, the Nikkei was up 0.5% and the Hang Seng was up 0.6%.

—Kenan Machado contributed to this article.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

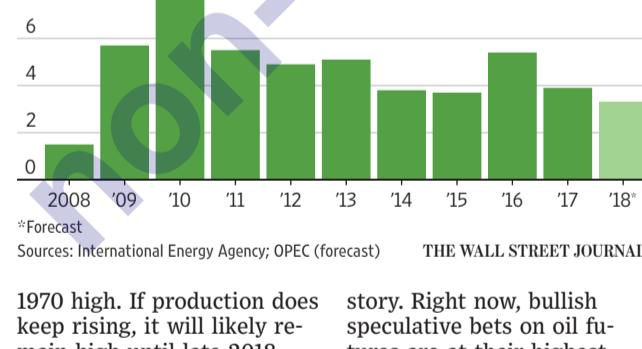
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Trouble Is in Store for Oil Prices

Shanghai Express

Annual change in Chinese oil demand



1970 high. If production does keep rising, it will likely remain high until late 2018, whatever the price does.

The other supply factor is the output deal between the Organization of the Petroleum Exporting Countries and Russia. The participants extended their deal through 2018, but the \$70 crude price makes an early end to the agreement more likely.

The other side of the equation tells a different

story. Right now, bullish speculative bets on oil futures are at their highest level ever. Typically that is a sign of overconfidence and the market tends to fall.

There are some potential geopolitical triggers for a sharp rally such as political instability in Saudi Arabia or Iran, an open conflict between the regional rivals or a spillover from their proxy contest in Yemen to nearby crude transport waterways.

It fell to 5.8% at the end of 2017 from 6.1% three months earlier as a result of the charge.

That is still well above the Federal Reserve's 3% mini-

Finally, Venezuela's deteriorating output could turn into an outright collapse given unrest there.

Consumption growth would seem obvious given the booming global economy. Yet much of the recent gains can be pinned on China, which has been aggressively filling commercial and government inventories. Analysts wonder if a lack of storage space will lead to a sharp slowdown. OPEC itself sees Chinese demand growth this year being the slowest since the crisis year of 2008.

End-user demand could slip, too. Passenger-car sales in China rose at their slowest pace in well over a decade in 2017, according to official statistics, and two-thirds of that growth came from electric vehicles. An economic slowdown in China would be far worse with a potentially 2014-like effect on crude prices.

The physical oil market may have reached some sort of equilibrium, but don't assume prices have.

—Spencer Jakab

OVERHEARD

Trust **BMW** to find a tech investment rooted in the tradition of car ownership.

The auto maker announced its latest acquisition Tuesday: Parkmobile, whose apps allow drivers to prebook and pay for parking spots.

BMW was a pioneer of electric vehicles with its i3 model, which hit showrooms in 2013.

But lately it has seemed more reluctant than German peers **Daimler** and **Volks-wagen** to chase **Tesla**, a reluctance sometimes attributed to the scars of the money-losing i3 experiment.

Its latest deal arguably also betrays ambivalence toward new technology. Parkmobile is based on the established model of car owners driving into town and needing somewhere to park.

Increasingly, investors are betting on a disruptive new world of "mobility as a service," in which car ownership will decline in favor of Uber-inspired fleets of self-driving taxis. These probably won't be needing Parkmobile.

Nestlé Unit Sale Mints a Sweets Giant

Selling candy bars isn't such a bad business after all.

Swiss food giant **Nestlé** on Tuesday announced the sale of Butterfinger, Baby Ruth and other American sweet treats to **Ferrero**.

Group. The closely held Italian company behind Nutella hazelnut spread and Tic Tac mints is paying 2.8 billion Swiss francs (\$2.9 billion) for a business that generated roughly 900 million francs of sales in 2016.

The companies didn't disclose the unit's profits, but based on the profitability of Nestlé's wider confectionery business, the deal price would work out at roughly 19 times earnings before interest, taxes, depreciation and amortization, calculates brokerage Bernstein.

That is almost twice the multiple Anglo-Dutch consumer giant Unilever got last month for its margarine unit.

Both businesses have been shrinking as consumers, particularly in the U.S., turn to healthier, more natural products.

The difference is that Unilever sold to KKR, a private-equity company. Private-equity companies can't justify deals in terms of synergies and long-term market position in the way a so-called strategic buyer from the industry can.

The lure of the huge U.S. market is such that some European groups are still willing to take their chances.

Ferrero will now become the third-largest U.S. player after Mars and Hershey.

Aggressively expanding in the U.S. at a time of rapid market change is a daring strategy.

Ferrero may need the long-term perspective for which the best family businesses are known.

—Stephen Wilmot

Goldman Sachs's Tax Wobble Is a Buying Opportunity

Leverage Watch

Supplementary leverage ratio under the Federal Reserve's severe scenario



Note: Results as of June 2017

Source: Federal Reserve

capital the bank holds. Citi said the write-down won't affect its plans to return \$60 billion of capital to shareholders through 2020.

Goldman is taking a

smaller write-down of just \$4.4 billion, but the impact on shareholder payouts will be bigger thanks to its smaller balance sheet and leaner capital position. On Wednesday, Goldman warned that its pace of buybacks would be slower than normal through the first half of 2018 and its shares fell.

The critical regulatory gauge appears to be the bank's supplementary leverage ratio, a measure of total leverage.

It fell to 5.8% at the end of 2017 from 6.1% three months earlier as a result of the charge.

That is still well above the Federal Reserve's 3% mini-

mum, but what matters is how it fares under the Fed's hypothetical scenarios in annual stress tests simulating a sharp global downturn.

Last spring, Goldman got through with a still-comfortable 4.1%. It apparently didn't want to take chances during the next round of tests, though.

Chief Financial Officer Martin Chavez said Goldman typically aims to buy back around \$5 billion to \$6 billion per annual stress test period, which runs through June. That will slow in the first half of 2018.

Back in October, Goldman said it had been authorized by the Fed to buy back up to

\$8.7 billion over the 12 months through June 2018. So far, it has done just \$3.8 billion.

Shareholders didn't like that, but as Mr. Chavez pointed out, Goldman still stands to benefit from tax reform. That isn't only from a lower tax rate itself but also from indirect effects.

Mergers and acquisitions, for instance, began rebounding when the details of tax cuts emerged. This probably benefits Goldman more than any other major bank thanks to their strong M&A franchise. Near-term weakness could prove to be a buying opportunity.

—Aaron Back

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Special Advertising Feature

Sustainability Plays Larger Part in New York Real Estate

MILLENNIALS ENTERING THE WORKFORCE ARE DRIVING CHANGES TO ORGANIZATIONS' ENVIRONMENTS

By Joseph Dobrian

REBNY members have a history of taking leadership positions on environmental issues. REBNY's Sustainability Committee recently joined Mayor Bill de Blasio's NYC Carbon Challenge, with a goal of reducing citywide greenhouse-gas emissions 80% by 2050. Initiatives of this type are good business practices in the immediate term, as well as 30-plus years from now. Millennials are streaming into the workforce, and sustainability is important to them. In a low-unemployment environment, where recruitment drives corporate success, employers need to show a strong record on sustainability.

WORKPLACE DESIGN

Robert Ward, president and CEO, Skanska USA Commercial Development, points to the increasing interest in the WELL Building Standard as one of the ways in which developers can address employee concerns about sustainable and healthful workplace design. Today's workers, he says, demand an environment that nurtures their health and wellbeing.

"The WELL standard is a win for both the building owner and the workforce," he says. "Employers can see real savings by lowering absenteeism. WELL is also a way of smart building that attracts employees who want

to work in spaces and buildings that have a 'cool' factor and play a role in improving on the green-built foundation. Some of the WELL standard concepts include minimizing sources of indoor air pollution, implementing proper filtration techniques and regular testing, and making fresh, wholesome foods available to support mindful eating."

MILLENNIAL IMPACT

"The Millennial generation has had a profound impact on workplace design," Mr. Ward continues, "leading to more efficient, open office environments, rich with amenity spaces. Sustainability is driving beyond the standard of LEED certification. The focus today is no longer solely on the carbon footprint of a building, or its energy efficiency. It's about the health and wellness factor of the occupants."

"When you consider that 90% of our time is spent in buildings, how these environments can contribute to workplace

productivity, health and wellness is, in my mind, the next step in the smart building movement."

RISING PRIORITY

Blaise Cresciullo, senior vice president and head of asset services for Rockefeller Group, which owns or manages some six million square feet of class-A office space in Manhattan, notes that sustainability continues to rise in priority among the city's owners and property managers. "One of the big steps forward in 2017 was taken by the City of New York with the introduction and mobilization of its NYC Carbon Challenge, which has set a goal to reduce greenhouse-gas emissions 80%—below 2005 levels—over the next 30 years," he says.

"In addition, sustainability is top-of-mind for developers and owners undertaking new construction or major renovations. One example is our redevelopment of 1271 Avenue of the Americas, a major component of which is the replacement of the 450,000-square-foot glass curtain wall with high-efficiency double-glazing.

"That alone will significantly reduce energy consumption in the building, but it's only one of several energy-efficiency initiatives that are planned as part of the project," he concludes.

Robert Alexander, chairman of the New York Tri-State Region of CBRE, says innovative developments like The House, the residential building on the 12-acre Cornell Tech campus on Roosevelt



Renovations at 1271 Ave. of the Americas aim to cut energy consumption.

Island, exemplify what today's working environments, as well as residential buildings, could look like. The trend toward more densely populated workplaces also drives demand for more attention to sustainability.

"Workspaces in general tend to be more open, save for the legal industry and some accounting firms," he says. "This means that rentable space has dropped to 130-180 square feet per person, including collaborative space, pantries, etc. With more people in less space, you need to improve the HVAC to meet new standards. You have to modernize the vertical transportation to effectuate people movement."

"Everyone wants their building to be LEED gold, and the air in some of the old buildings is okay but not good. The big companies that drive the New York market are recruiting against other companies—you'll see recruiting

battles. If you have older space, [and are in competition with] someone else who has new space with outdoor amenities, you'll be disadvantaged," he adds.

"When the economy was down, lease renewals outweighed relocations because of the desire to conserve capital. But in the past couple of years, the ability to offer your employees a modern, sustainable building has become more of a factor."

"THE FOCUS IS NO LONGER SOLELY ON A BUILDING'S CARBON FOOTPRINT; IT'S ABOUT OCCUPANTS' HEALTH AND WELLNESS TOO."

ROCKEFELLER GROUP/CHRIS MARKSBURY



Blaise Cresciullo.

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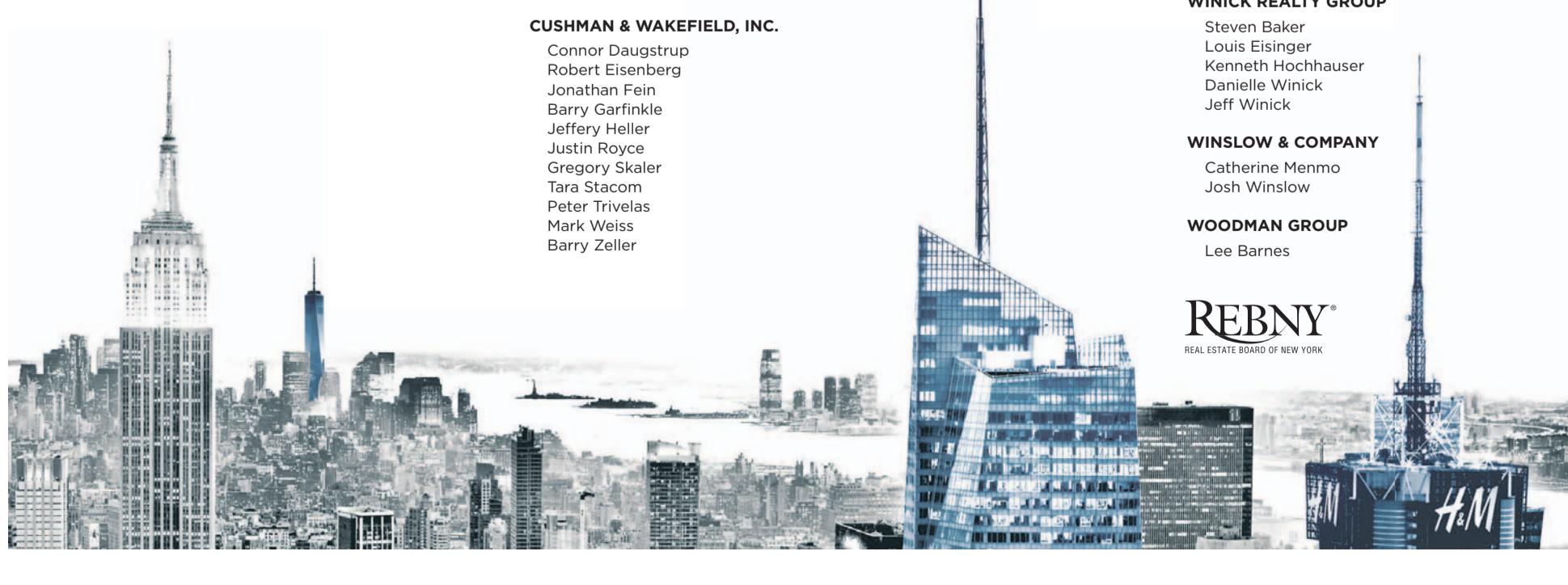
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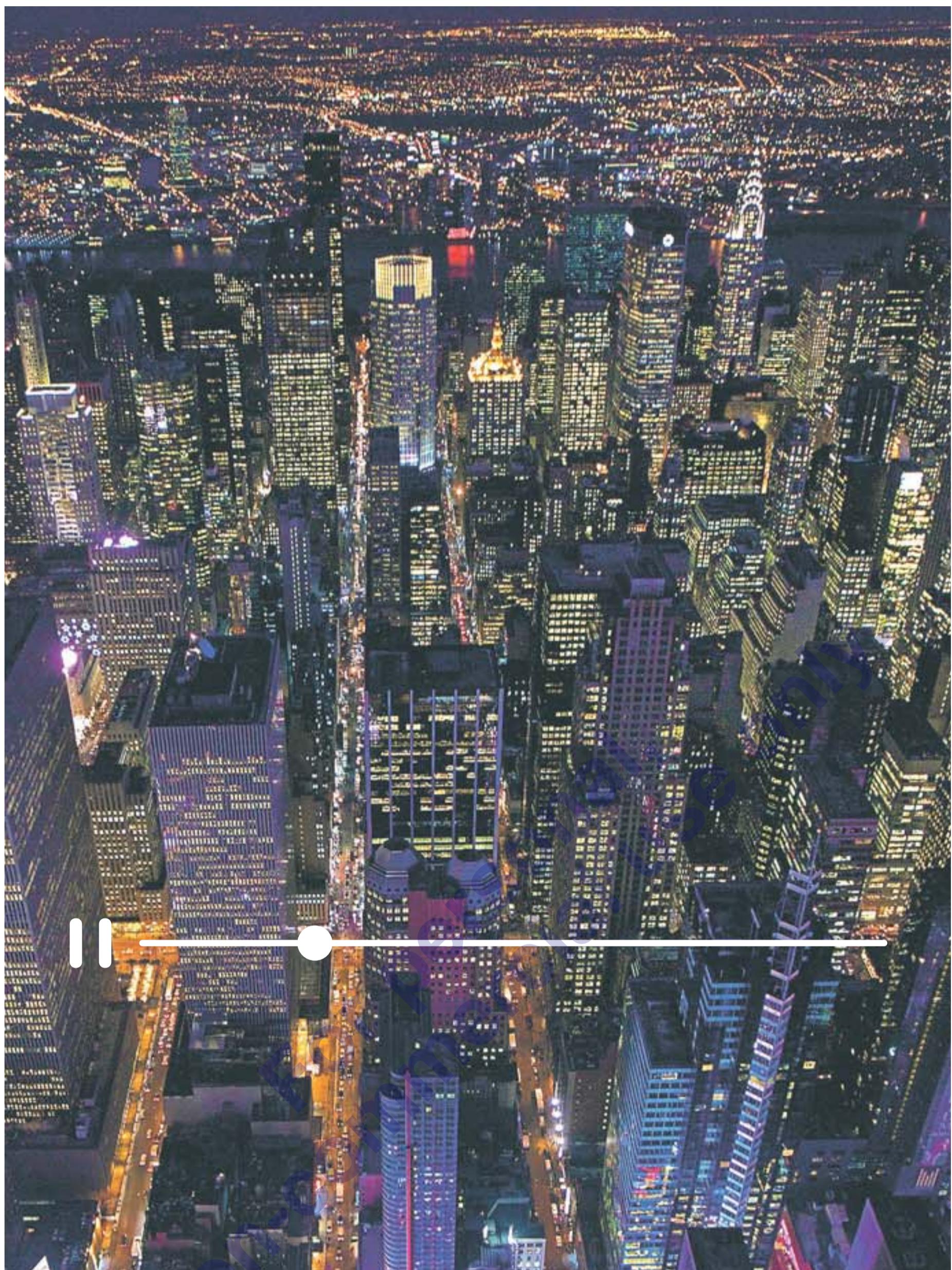
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Tech, Quality of Life Will Drive Job Growth

CONNECTING WITH TECHNOLOGICAL TALENT IS CRUCIAL FOR CUTTING-EDGE INDUSTRY SOLUTIONS

By Joseph Dobrian

Technological advances continue to drive infrastructure improvement, commercial development, and employment in New York. Both the public and private sectors—including the Real Estate Board of New York (REBNY) and for-profit real estate companies—have recently sharpened their focus on technological improvements.

SPUR TO INVESTMENT

The New York City Council recently approved the Greater East Midtown rezoning plan, which will spur critical private-sector investment in modern offices, mass transit, new and enhanced public spaces, and important New York landmarks. The rezoning will be a crucial tool for the enhancement of East Midtown and to ensure that it remains one of the world's leading office districts.

Meanwhile, driven by the increasing demand for real-estate technology innovation, REBNY members have formed the REBNYTech Committee, to help members connect with emerging technological talent to create cutting-edge solutions and new tools designed to improve efficiency.

Ken McCarthy, principal economist at Cushman & Wakefield, believes that job growth in New York will come mainly from the financial services sector—which depends, more and more, on advances in information technology.

"We're going to find," he predicts, "that many of the newly created financial services jobs

COURTESY OF SL GREEN



One Vanderbilt Place will improve local connectivity when completed.

will actually be technology jobs. New York will continue to develop as a technology hub."

Brian Waterman, vice chairman of Newmark Knight Frank (an office brokerage firm that represents landlords and tenants), notes that One Vanderbilt Place, a 58-story skyscraper currently under construction next to Grand Central Terminal, will bring dramatically improved connectivity to that neighborhood. This, he says, will provide greater connectivity to the north, south, and west sides of Grand Central. Meanwhile, an improved 7 subway line will provide a stronger link to Hudson Yards and other developments on Manhattan's West Side.

TRANSFORMATION

"Add to that Vornado's redevelopment of its properties and streetscape in the Penn Station corridor, their transformation of the James A. Farley Post Office into office space and a new train hall, with the western connection

of all that to the Hudson Yards district, and you've created exceptional vibrancy," he adds.

"Meanwhile, Long Island City is continuing to emerge as a back-office hub to Midtown tenants. This commitment to infrastructure is important to move the city forward."

On Roosevelt Island, between Manhattan and Queens, the Cornell Tech campus is in development. This 12-acre project will turn New York into a major player in the world's biotechnology industry.

The proliferation of redeveloped office spaces, which provide improved connectivity and quality of life to suit the tastes of the younger worker, are driving office-leasing velocity, Mr. Waterman says. He notes that the most recent leasing figures are down a little, compared to the end of 2016, but, "We're getting there. The availability rate is about the same as last year," he elaborates, "and rents are roughly the same.

"We expect the recent tax

reform to spur job growth. If you're a business owner you'll either reinvest in your company, or in your employees. Job attraction is in everyone's mind."

"MANY NEWLY CREATED FINANCIAL SERVICES JOBS WILL ACTUALLY BE TECHNOLOGY JOBS"

Robert Alexander, chairman of the New York Tri-State Region of CBRE, says he saw slight growth in office leasing in 2017, compared to 2016, and he anticipates an uptick in the market thanks to the new federal tax bill.

"The bright spots lie in new construction," he says. "Hudson Yards has been a boon for the entire market. Brookfield's new building, One Manhattan West, is 85% to 90% committed; Related's new buildings at Hudson Yards are 90% full or more. Downtown,

One World Trade and Three World Trade are doing very well. One Vanderbilt is the single premier building in Manhattan: 1.6 million square feet, with 300,000 already committed—and it's still years away from being topped out.

BUILDINGS GET UPDATES

"New York is a new city, in a way," he adds. "We'll see an uptick in the retrofit market, because landlords want to upgrade their buildings to 21st-century standards—for example at 1271 and 1100 Avenue of the Americas, or 280 Park Avenue a couple years ago."

New York still has trouble housing the homeless, and the city government is putting pressure on developers to provide more affordable housing. Mr. Waterman says he's confident of the real estate community's ability to provide more and better housing.

"The city has to stay pro-business," he says, "and that means addressing quality-of-life issues."



Cornell Tech Campus is in development between Manhattan and Queens.

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Special Advertising Feature

New York's Real Estate Pros See Strong Year Ahead

ECONOMIC EXPANSION COULD SPUR INVESTMENT IN OFFICE BUILDINGS, RETAIL AND TRANSIT

By Joseph Dobrian

Both office and retail real estate are expected to perform well in New York in 2018. While supply of office space is high, observers generally believe that demand will meet it. New York has traditionally been under-retailed, according to industry experts, so the current trend to online retail will probably not harm demand for brick-and-mortar space here.

A major positive development in 2017 was the City Council's approval of the Greater East Midtown rezoning plan, which should spur private-sector investment in modern offices, mass transit, new and enhanced public spaces, and various municipal landmarks. The rezoning is likely to ensure that Midtown East remains one of the world's leading office districts.

ECONOMY DRIVERS

"Several factors will drive the New York economy in 2018," says Ken McCarthy, principal economist at Cushman Wakefield. "First is what's going on nationally. This could be one of best years of the economic expansion so far. If that happens, New York will participate in the growth. So far, the city has outpaced the national economy. I don't know if that will continue, but we will have solid growth if the country does well."

"Second, the financial markets. Financial-sector employment has been one of the stronger sectors. Office growth is strongest in the



With consumer sales up, experts say the time is right to buy retail properties.

financial sector, mainly driven by changes in financial technology. Third, changes in tax laws could impact the city's economy. The cap on state and local deductions could cause people to move to lower-tax locations, and/or local governments might be more constrained in their spending if people say they don't want their taxes raised. Structural changes in the economy, brought on by technology, will have an effect. In retail, we've seen a movement toward online shopping, and that has been a factor."

The printing and publishing industry has seen major consolidation, and jobs in that sector are

trending lower. Changes in the economy have changed the way people use office space, where they want their offices to be, what the offices look like. This has led to several strong years for Midtown South, relative to the rest of the market, and Mr. McCarthy says that's likely to continue.

"IT'S ONLY A MATTER OF TIME BEFORE TRIBECA BECOMES THE NEW SOHO."

"We're seeing a significant uptick in supply, driven by tenants wanting new space, and they're willing to pay for it," he adds. "We've seen a dramatic move to the West Side, near Hudson Yards, due to a desire to occupy new buildings with greater efficiencies. The new West Side is a master-planned community, and people want to partake of it."

This westward shift won't be a disaster for Midtown, Mr. McCarthy says, but demand will have to be maintained. He's hopeful that enough jobs will be created to fill vacancies caused by that migration. The political issues affecting commercial real estate, he adds, have largely been dealt with.

STRONGER RETAIL

Adelaide Polsinelli, senior managing director and principal at Eastern Consolidated, who specializes in retail real estate, notes that retail sales took a dip in 2016, but came back stronger in 2017. According to Real Capital Analytics, retail properties sold in the third quarter in New York had an average cap rate of 4.5%, and pricing averaged \$1,496 per square foot.

"It's clear that many investors aren't buying into the 'gloom and doom' about the demise of brick-and-mortar stores, and see this as an opportunistic time to buy retail assets," she says. "My experience supports this view, especially concerning the owner-users who are entering the market. Many retailers see ownership as a way to gain flexibility and control."

Ms. Polsinelli recently found a mixed-use building in the Flatiron District for a restaurateur to buy, and a retail condo in TriBeCa for an art gallery.

RENTAL POTENTIAL

"Retail properties in TriBeCa are hot," she reports, "because investors recognize their tremendous potential rental upside and believe it's only a matter of time before TriBeCa becomes the new SoHo. Asking retail rents for ground-floor space on Broadway in TriBeCa range from \$100 to \$200 per square foot, compared to asking retail rents that have historically ranged from \$550 to \$800 per square foot on Broadway from Houston Street to Broome Street just a few blocks north."

"It's no surprise that owner-users are rediscovering retail. Manhattan was developed by families who operated their small businesses out of buildings they owned. It's refreshing to see the city returning to its retail roots."



Adelaide Polsinelli.

THE WALL STREET JOURNAL.

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Special Advertising Feature

REBNY Announces Annual Awards

By Joseph Dobrian

The Real Estate Board of New York (REBNY) has announced the following awards for distinguished service to New York's real estate industry, bestowed at its 122nd Annual Banquet on Jan. 18, at the New York Hilton Midtown:



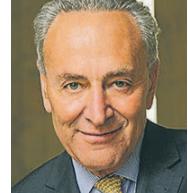
George M. Brooker Management Executive of the Year Award
Gene Boniberger, senior vice president and director of building operations, Rudin Management Co.

Mr. Boniberger is co-inventor of the Digital Building Operating System (DiBOSS) and NANTUM, a real-time building operating system/integration platform for building owners and operators developing sustainability strategies.



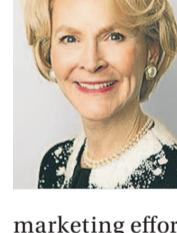
Young Real Estate Professional of the Year Award
Ron Lo Russo, president, Cushman & Wakefield Agency Consulting Group

Mr. Lo Russo's leadership experience and background in agency leasing drives new business opportunities for the firm by creating and executing strategies for leasing campaigns.



John E. Zuccotti Public Service Award
U.S. Sen. Charles Schumer (D-N.Y.)

Much of New York's recent development can be traced to Sen. Schumer's 2001 "Group of 35" report, which urged the city to use its zoning, taxing and condemnation powers to speed office construction.



Bernard H. Mendik Lifetime Leadership in Real Estate Award
Elizabeth Stribling, chairman, Stribling & Associates

Ms. Stribling founded her company, which specializes in sales and marketing efforts for luxury condominiums, in 1980. She is an officer of the Legion of Honor France.



Kenneth R. Gerrey Humanitarian Award
Richard LeFrak, chairman and CEO, the LeFrak Organization

Mr. LeFrak's company is one of the few remaining traditional builder/owner/managers. The LeFrak Organization owns more than 40 million square feet of real property across the U.S.



Louis Smadbeck Broker Recognition Award
Joanne Podell, executive vice chairman, Cushman & Wakefield

A three-time recipient of the REBNY Retail Deal of the Year Award, Ms. Podell was declared Cushman & Wakefield's 2016 global top broker, the first time a retail broker has been the sole recipient of that award.



Harry B. Helmsley Distinguished New Yorker Award
Rob Speyer, president and CEO, Tishman Speyer

Under Mr. Speyer's leadership, Tishman Speyer has grown its portfolio to more than \$45 billion in assets under management. Mr. Speyer recently completed the fifth year of his term as REBNY chairman.



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REBNY's RLS List Continues To Develop

A GAME-CHANGING PROPERTY DATABASE FOR REAL ESTATE PROFESSIONALS IS THE AIM

By Joseph Dobrian

One of REBNY's ongoing missions is to create efficiencies for its members—such as reducing the repetitiveness inherent in certain routine real estate-related tasks. On Aug. 1, 2017, the Real Estate Board of New York's (REBNY) Residential Brokerage Division launched Syndication through its REBNY Residential Listing Service (RLS), which allows salespersons and brokers to easily send residential real estate listings to a powerful network of real estate listing Web sites through one centralized feed. This new service is available to REBNY member firms at no additional cost. As of year's end, the service contains about 19,000 listings of residential properties for sale or rent, representing 91% of all REBNY members' listings, according to REBNY senior vice president Sandhya Espitia. She predicts that in 2018 the RLS Syndication network will continue to expand and the information they contain will be more complete.

BEATING EXPECTATIONS

"Our advisors, the Residential Brokerage Board of Directors and RLS Board of Directors, who played an integral role in the launch of Syndication, expected achieving 80% of syndicated listings through the RLS," she says. "We've already beaten that number by reaching 91%."

At present, more than 320 residential brokerage firms are participating in syndication, and the total value of the listings now exceeds \$32 billion. Historically, Ms. Espitia explains, brokerage

*REBNY is working on a number of new digital products, the cornerstone of which is its real estate database.*

firms have used aggregators, sending residential listing information to each of them. "Our new syndicated service provides a streamlined approach, which means that companies will send their listings to the RLS and we will distribute them across the consumer-facing Web sites of their choice.

EFFICIENT DISTRIBUTION

"Companies send their listings to the RLS and they are efficiently distributed. Operationally, it's a less cumbersome and time-consuming process, and strategically, we ensure data accuracy and timeliness. Every firm participating in the RLS and Syndication is expected to comply with the governance we have in place.

"We're working on expanding Syndication to include single-family properties, introducing

new digital products, and developing a game-changing property database," Ms. Espitia concludes.

REBNY's director of product management and innovation, Stefan Martinovic, notes that REBNY is developing several new digital products, transforming the ways in which REBNY will deliver services to its members. The cornerstone of REBNY's RETech work this year, he says, will be a comprehensive property database.

"The successful launch of Syndication through the RLS in 2017 was the result of over two years of development by committed real estate and technology professionals," says John H. Banks, REBNY's president.

"Syndication enables residential real estate brokers and agents to more efficiently serve their clients and reach more potential

buyers and renters, while providing consumers with the most accurate and up-to-date listings available through our growing network of partners."

"WE ENSURE DATA ACCURACY AND TIMELINESS, WHICH IS ESSENTIAL TO THE INDUSTRY."

REBNY explains that opting into syndication enables real estate professionals to reach thousands more potential buyers and renters, and provides consumers with the most accurate

and up-to-date listings available.

By streamlining the simultaneous sharing of listings, Syndication aims to enhance listing visibility, ensure data accuracy, and provide participating brokers and agents with one point of contact (REBNY) as the support hub for centralized issue resolution. It's free to use for RLS participants. REBNY is looking into expanding data capabilities, with new growth expected across all five boroughs into single-family homes.

EXCLUSIVE LISTINGS

The opt-in process takes only a few minutes to implement, according to REBNY. Conceivably, the system could provide a model for other real estate associations in other major cities, globally. Industry observers say that it could lead to greater efficiencies—as well as more transparency—for buyers and sellers, landlords and renters.

REBNY's RLS is available to all REBNY firms that are members of the Residential Brokerage Division, in addition to non-member firms that participate in the RLS for a fee, and receive revenue from the residential sale or rental of residential property located in the jurisdictions authorized by the Residential Board of Directors.

This system mandates that within 24 hours of being engaged as an Exclusive Agent, every RLS member must initiate an offer of co-brokerage of all exclusive sale or rental listings located in the said jurisdictions to every other member of the RLS system who has expressed in writing an interest in receiving such listings, unless directed not to do so by the seller.

Special Advertising Feature

A Few Words With Rob Speyer

THE PRESIDENT AND CEO OF TISHMAN SPEYER REFLECTS ON HIS TERM AS CHAIRMAN OF REBNY

By Joseph Dobrian

How has REBNY evolved during your tenure?

REBNY has undergone one of the most significant periods of change in its history over the past five years. First and foremost was the selection of John H. Banks to replace Steven Spinola, who retired after three decades as REBNY president. We have recruited the next generation of leaders to serve on both the Executive Committee and Board of Governors, while focusing increasingly on initiatives that embrace technology, creativity and innovation. We pushed for the enactment of the Affordable New York Housing Program, formerly known as 421a. These efforts, along with continued growth in membership, have left REBNY in a strong position.

How have the real estate industry and the city economy changed?

In early 2013 New York was just getting past the last effects of the Great Recession, and the pace of development since that time has been remarkable. Over the past five years, our industry has produced 125,000 units of new housing, over 15 million square feet of modern office space and 21,000 hotel rooms. Traditional neighborhoods like Long Island City and Downtown Brooklyn have been reborn as 24/7, live-work-play communities, while a new neighborhood on Manhattan's far West Side has risen seemingly overnight. I am incredibly proud of the role our industry has played in the city's ongoing renaissance.

How do you see New York's real estate evolving?

Absent major disruptions in the global economy, conditions are right for further economic growth. New York continues to attract new businesses, workers, tourists and private capital from around the world.

*Long Island City offers a view of Manhattan.*

We are going to see acceleration of the momentum that has been gathering in transit-rich communities in Queens, Brooklyn and the Bronx, which are rapidly emerging as highly connected, dynamic, and authentic complements to Manhattan.

What's next for you?

Fortunately my day job is keeping me plenty busy. We own and manage properties on four continents and are undertaking new development projects in multiple countries. We've never been more active in New York than today, with more than eight million square feet of residential and commercial projects currently in the pipeline. I also continue my civic work, including the Mayor's Fund to Advance NYC, St. Patrick's Cathedral and New York-Presbyterian Hospital.

Joseph Dobrian is a freelance writer specializing in real estate.

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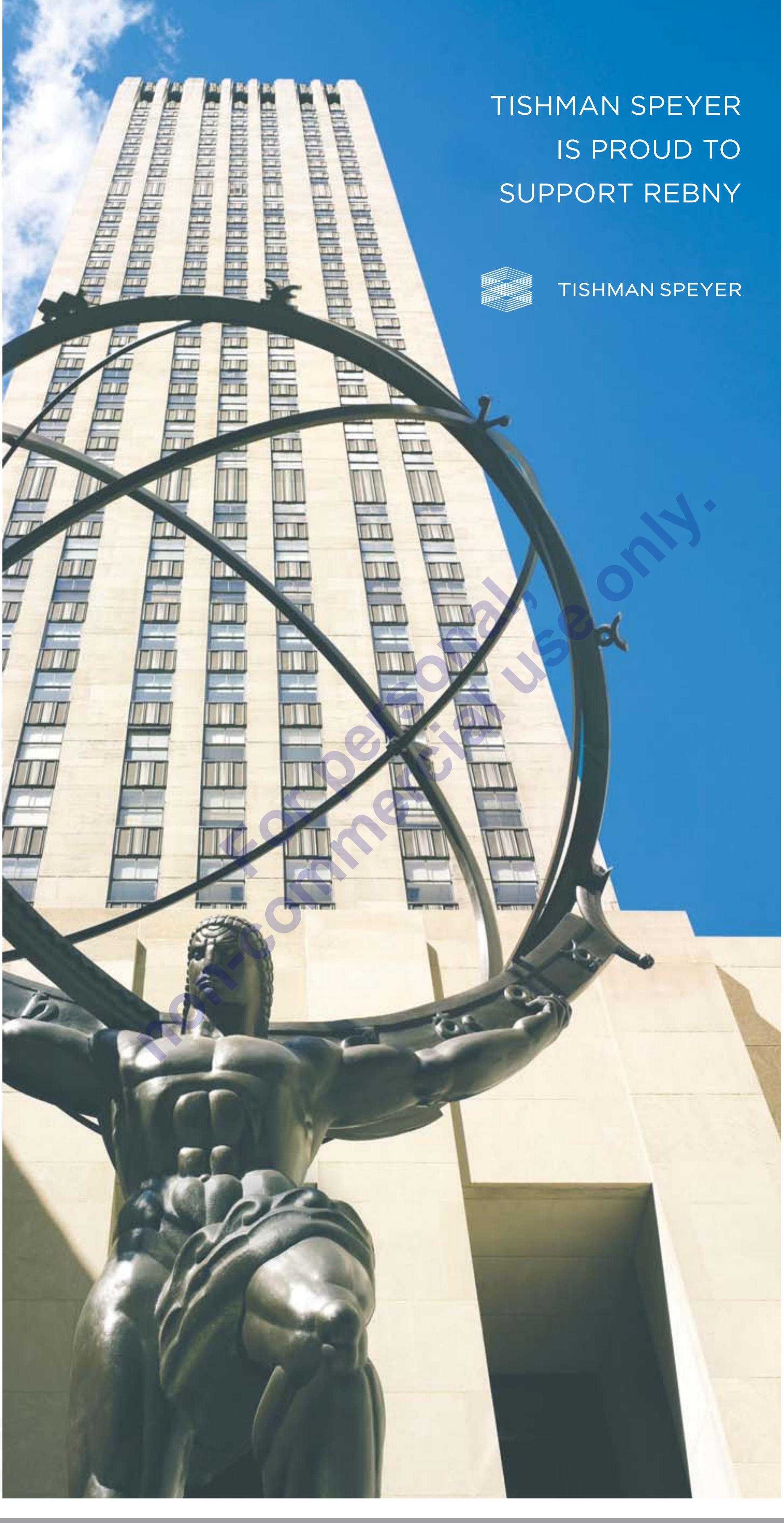
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